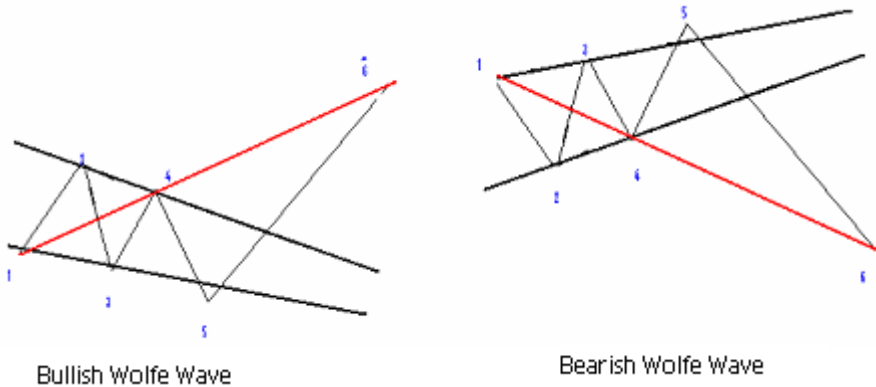


Wolfe Wave



I was introduced to this setup back when [Linda Raschke](#) mentioned the pattern in a market call. Being the ever curious one, I found some additional references and examples in her book *StreetSmarts*, saying that "this particular methodology is perhaps the most unique, effective trading technique I've (Linda) ever come across! It was developed and shared by a good friend, Bill Wolfe, who for the last 10 years has made a living trading the S&P." The next jump lead to <http://wolfewave.com/>, an excellent source of information which was read, absorbed, and served as inspiration for use in the real world markets. Being very interested in reversal sequences, this approach appeals very much to my risk profile and trading style based on chart patterns (classic Edwards and Magee).

The key to recognizing the setup is symmetry. Ideally, waves 1-3-5 are established with very regular timing intervals between moves. The other key ingredient is that the wave 4 should revisit the price range established by waves 1-2 for the best results. Another way to describe the pattern is that it comes as a rising wedge / channel in an uptrend, or falling wedge / channel in a downtrend. Wave 5 is often a false breakout move beyond the bounds of the pattern. Unlike either bull or bear flags, the movement is in the *same direction* as the overall trend, with the overlapping waves giving signals that an impending reversal is taking shape. This pattern has different names, depending on the source - Larry Pesavento describes the pattern as "3 pushes to a top/bottom" and uses Fibonacci relationships to confirm the setup (waves 3 and 5 are 127% or 162% extensions of the previous pullback.) Jeff Cooper uses "Cooper 1-2-3 swing" nomenclature, and Linda Raschke likes to call this setup "3 indians". The unique quality about wolfewaves, however, is the objective target projection from waves 1 -> 4.

Despite the great explanation and examples provided on Bill Wolfe's site, I continue to get questions about how much I *trust* this setup. Very much so. The

following are setups encountered over the years - most were called as wolfewaves right as the pattern was found, trade taken, and real money put to work to measure the risk and reward in real world cash. Realize that what I have outlined here is *my approach* to recognizing and trading this effective pattern setup. Mr. Wolfe is certainly the expert in this field and has no doubtedly further refined his methodology. This article was written without the benefit of his course, but rather born from a desire to more effectively trade reversal sequences - in particular, rising and falling wedges. Although many charts (especially some early examples) are not *perfect* wolfewaves, they document much of my own learning process. I hope they serve as inspiration for further study and successful trading.

For the most current setups and examples of daytrading Emini futures contract using wolfewave pattern setups, please see my [voodoo trading blog](#). It provides realtime highlights of this pattern setup through the financial meltdown starting in October 2008.

Who needs bulls and bears when you can run with the wolves?

[ES /Emini S&P Futures Contract](#)

Setup This gem was evolving into a rather frothy afternoon session in S&P trading. Note that is it very helpful to combine the setup evolution with other key support and resistance levels. In this case, a "measured move" completes around 902 and price action falls to test the lower bound of rising channel. The bounce sets up waves 1-4, and it is only a matter of patience to wait for the full pattern completion of wave #5 - a final stop/limit clearing move into close gives us the wolfewave setup.



Target Market opens up next morning at target juncture, and immediately reverses to retest the previous day's highs.



Setup This is now November 14, 2003 and the markets have experienced the most astonishing bull cycle run following a 3 year old structural bear correction. Many daily charts are exhibiting overlapping wave structures in a push to new highs on waning momentum. This setup is very similar to the wolfewave found one year earlier on the December emini contract. A slew of good news is released right at 9:40am into the run up.



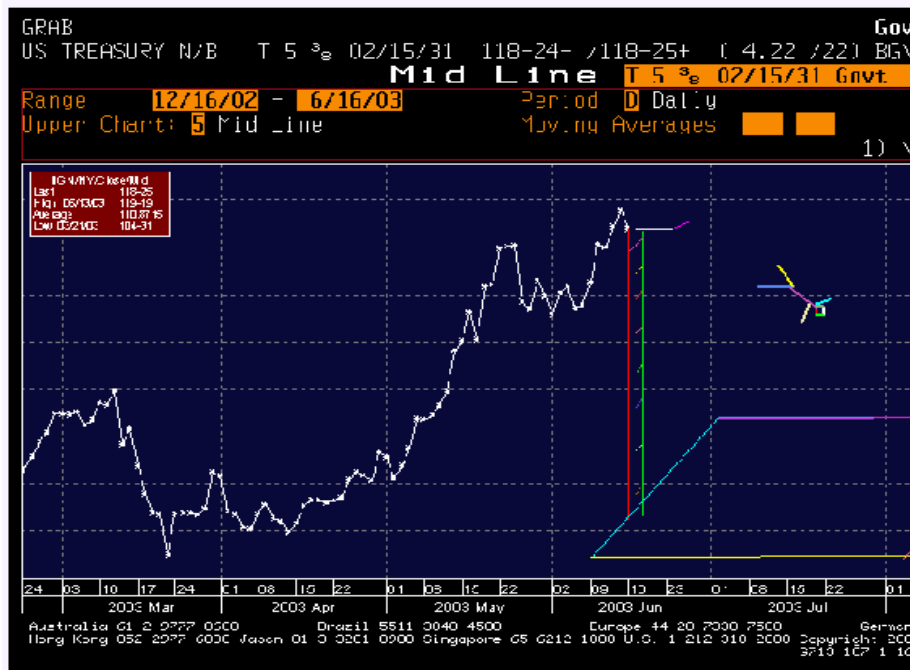
Target Within 30 minutes the target projection is met. A second retest of this impulse pushes .75 lower, and sets low mark for the morning session.



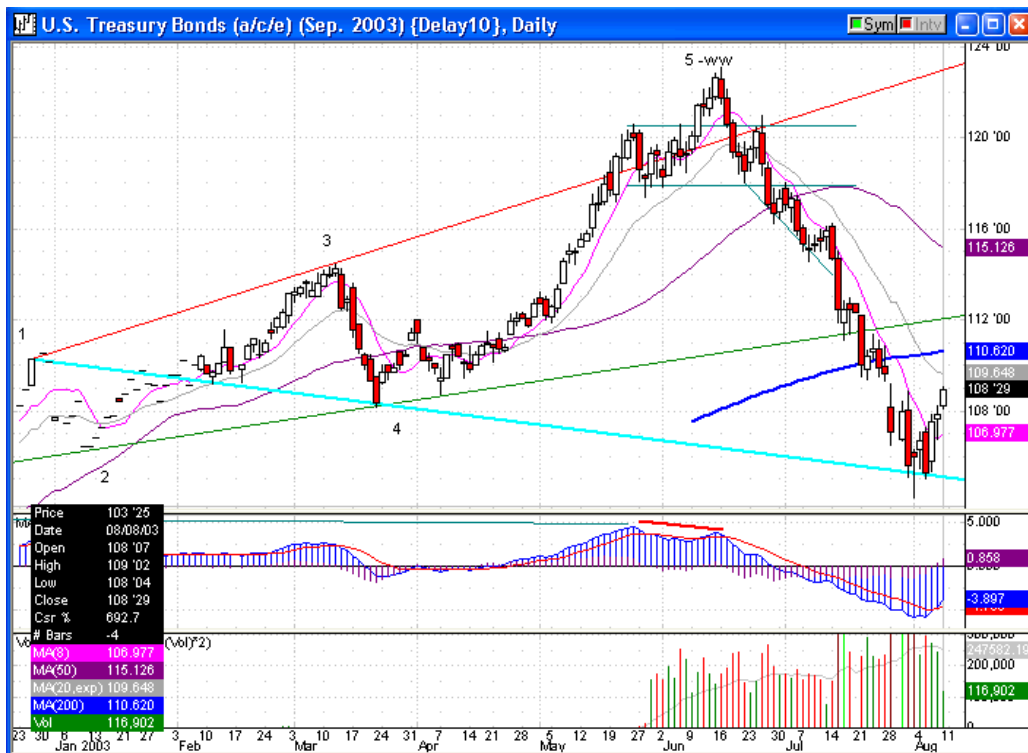
Bonds

Setup It all started with a hilarious, but amazingly accurate call by new market wizard Linda Raschke. The larger perspective reveals wolfewave pattern.

Bond Symmetry Forecast



Technical outlook for the bond market...



Various Stock Examples







XAU /Gold and Silver Index

Setup A longtime favorite sector of mine, gold exhibits wolfwave patterns at major junctures. Note the two lead-ins (cyan and magenta) are smaller wolfwave setups before this final move in November 2001. There was also a compelling similarity to the previous inflection lows established in June 2001. Take a good look at this chart - it is the first higher-low trendline test in a 14-year bear market.



Confirm Within the scope of larger pattern setups, a 3x knock breakout of trendline is registered on a monthly basis.



Target, Setup The results were outstanding. You should note that despite the first target measure around 59 in January 2002, the pullback was mild and did not setup a reversal sequence back down. Why? Because instead of retracing back and printing prices below the previous inflection high, the 20 day exponential moving average (gray) was used as support thru the entire uptrend

move. A conscious decision was made to wait until a 141.4% extension was achieved, reciprocal of 70.7% retracement experience in previous pullbacks. It is also interesting to note the symmetry in the first set of impulse November-January moves, compared to those that followed from January into May 2002. Positions were exited, and the pullback sequence monitored for a move very similar to waves 1 - 2.



Reversal Shifting down to intraday action, a reversal top showed on smaller granularity. Another key element can also be seen here - wave #5 is often made on a divergent signal versus the MACD (moving average convergence divergence) technical indicator readings in the form of higher prices, lower high in oscillator. Once again, pattern is shown as the initial target objective is achieved.



Target On larger timescale, the hourly reversal proved to be part of larger setup that was monitored on a daily basis. Once again, here is the objective target being met. Given the striking similarity to waves 1-2 in structure, shorts covered and longs were once again to be accumulated. Yet another wolfwave pattern count begins.



Follow Thru Fibonacci retraces were once again used to ensure a valid scalp entry point presented itself. Price action centered around XAU 60 as the churn continued to unfold around the 70.7% retrace of the huge move upward. A very nice bounce ensued, which was once again capped by negative divergence on hourly chart and a 141.2% extension of a bull flag lift. This proved a correct signal, and the saga continues below with the clearer illustration of how the pattern evolved in gold prices themselves (miners, XAU components followed a similar pullback).



GC /Gold Futures

Setup Picking up where the story left off above, the actual price of gold was turned away at previous spike highs. Once again, the wolfewave presented itself, although numbering isn't present, the cyan target line shows a definitive retrace back to the levels of 200 day moving average would be in the cards, around 310.



Target The wave 1->4 projection is hit perfectly less than 2 weeks later. A similar basing action happens in the GOX and HUI (unhedged miner index), along with a basing action below 200 dma (200 day moving average) in the XAU index.



Reversal Wolfewave target line proves to be a low print, and prices reverse off the lows once again. Who says you can't pick bottoms and tops? To this day I still watch this pattern evolution with amazement. It is also interesting to note

the similarity in the price structure following August-September 2002 sequence. This is the most current update after having experienced a huge one day surge in gold price and breakout above the key \$325 Maginot Line. Stay tuned as the evolution continues - there are currently no patterns to watch except the strong similarity to A-B pullback wave here.



Top The breakout proves to be the real stuff. Gold makes a solid run, yet is halted in its tracks on 2/5/03. New York Times is full of gold schemes, CNBC is featuring "Ship of Gold" ads, and greed is once again running rampant. "9 gold bulls for every bear." The technical underpinning is a target measurement using a tool called Andrew's pitchfork off the November 2001 lows and June-August 2002 as midpoint consolidation. GOX, HUI, and XAU index are failing to confirm the technical breakout in commodity.



Confirm Since gold moves inverse to the dollar, a technical channel breakout in February forces metal lower



Royal Gold More fun with Wolfewaves. The news is driven by a negative article in Barron's from some short seller calling for a target at 9. Don't get bitten by the wolfe trap - cover and move on.



Setup The spike high resolves itself and gold pulls back over the next 3 months. As April approaches, another wolfewave sequence starts building, reinforced by a repeat of the "Gartley 222" pattern at 78% retrace level. The key signature is the overlapping structure and 3 pushes lower with a divergence signal showing on 5/35 MACD indicator. The [\\$325 Maginot Line](#) is now being tested as a support level in the delicate metamorphosis of past resistance into future support. It may be the most important price in this now confirmed bull market in gold.



Setup Linda Raschke also likes the trade. Confirms the great setup one day later. Of key note is now this is the first higher-low attempt following a rather severe draught. Swing distance up is greater than the retrace lower.



329 is the key pivot.

Target Bingo.



Setup A pullback ensues which brings prices back to retest the 200 dma, the thick blue line. The wolfwave is setting up, with a key pivot on August 1, 2003 - note the use of timing intervals on the MACD oscillator above volume. The interesting thing about this setup was that the labelling proved incorrect and could have actually be considered a completed pattern on the test of 200dma.



Reversal Setup Once more the patterns are redrawn as a contract rollover needs to be accommodated. In this situation, the correct impulse spacing shows on the MACD oscillator and is corrected. August 1, 2003 proves to be a swift pullback to retest 200dma before marching higher. Given the success with using Andrew's pitchfork to time previous spike high from February, a similar set of projection lines are drawn, overlapping wave structure starts to show and next wolfwave is ready to unfold.

Ok .. you get the idea. Indian wedding season has now ended also. You may want to review how gold generally reacts in the late September - October timeframe, where this essay on gold futures began.



Target Another clean, sharp pullback to relieve the negative divergence that was giving warning signals in the 5/35 macd oscillator. You may even notice the smaller three push structure on the daily chart as it hit wave 'b' lows. Following the pullback to target, gold is attempting a breakout similar to a year earlier, flirting with a move above \$400. Pattern players would now consider this a cup and handle setup on a weekly basis.



Setup The breakout above cup&handle rim proceeds nicely. In typical pattern evolution, prices often retrace to the breakout point before resuming their trend.

In this case, we are about to retest the rim around 390+change, and the pullback starts to once again resemble an a-b-c sequence (see previous March sequences above.) On the hourly chart, a wolfwave sequence is taking shape - note how you can use the previous spike lows to time the final push in the series, the overlapping structure and oscillator divergence giving notice a reversal is preparing. The divergence is seen on both the intraday and daily charts.

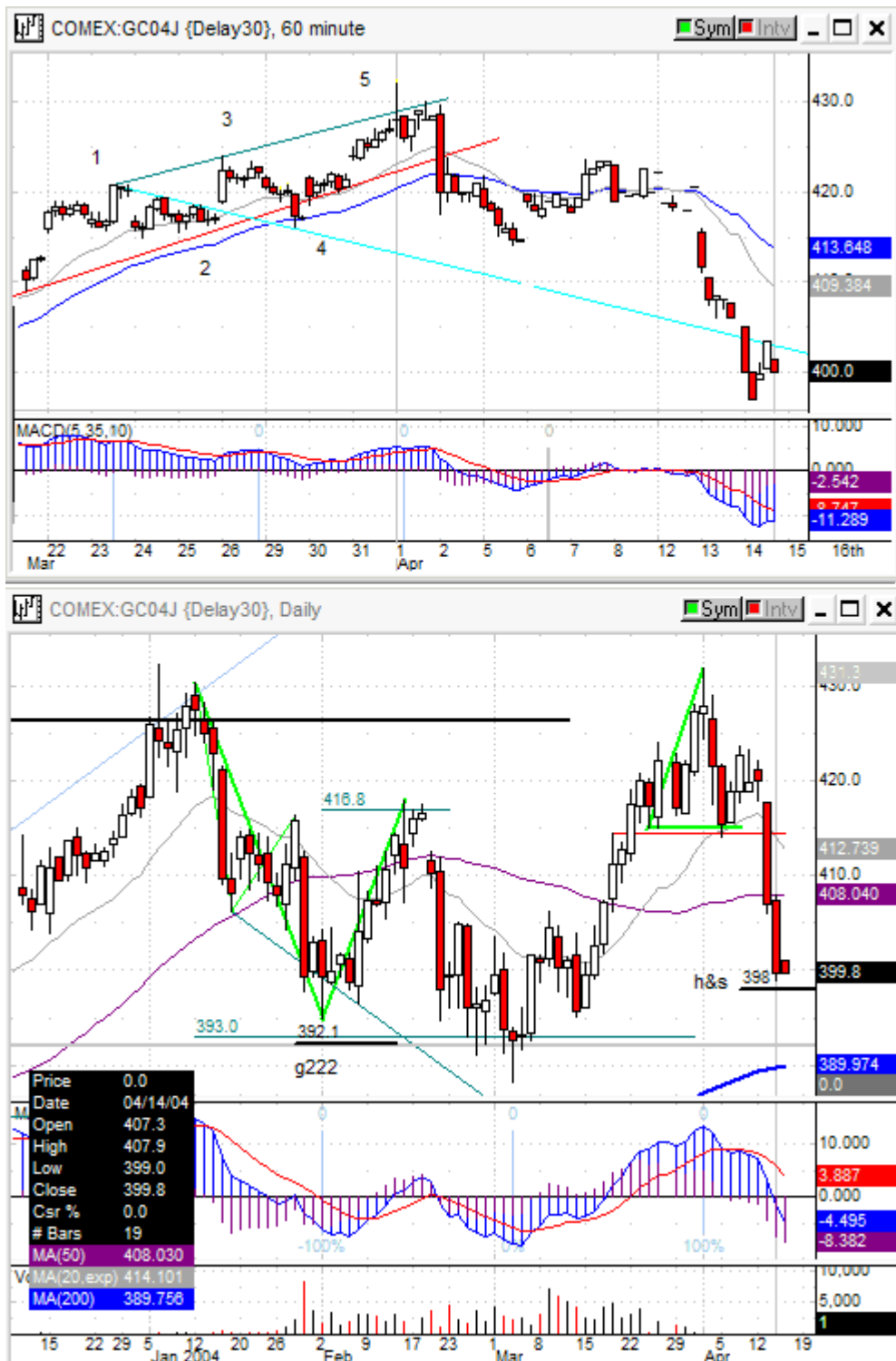


Target, Setup A nice rebound ensues from the previous setup into a retest of the January spike highs. Looking at the smaller timescale of hourly chart, you begin to notice the wave overlap. A "3 push higher" sequence is visible on the

daily chart, combined with bearish divergence on 5/35 macd (equal prices, lower-high in oscillator.). This mirrors the previous setup above, but at a spike high juncture.



Target A 5% selloff in 2 days yields the hourly target price. Notice how nicely the target corresponds with the head and shouldlers (h&s) pattern visible on the daily chart. Wolfewaves are often most powerful when used in conjunction with other technical setups - e.g. the previous spike lows from early March were present at the same level a [Gartley](#) (g222) pattern established itself.



Elliott Context Another interesting aspect of wolfwaves is that they overlap nicely with Elliott wave theory, which breaks wave counts into impulses (trend movement) and corrections. Since wolfwaves are considered reversal patterns, the Elliott count should match the iii - iv - v3 - 4 - 5 sequence. This is the final count that is encountered before a trend changes. The expected Elliott count is drawn on the hourly chart, while we ready ourselves for the equivalent wolfwave pattern on daily. This also corresponds nicely with a test of the 200dma as support, while the US dollar has experienced a similar bounce to test the 200dma as resistance.



Setup Same bat channel, same bat time.



Current gold futures, updated as of yesterday's close. Note the ring low in May, 2004 corresponds with the last reversal sequence show in the chart above.



Setup This is the first cautionary signal and update in more than 3 years - lo and behold, another wolfwave has appeared in the daily charts. Most notable is the overlapping price structure, combined with "3 crows" candlestick patterns at three different junctures. This all combines to a strong signal = **TAKE PROFITS HERE**. This rising wedge will not be pretty if there is a breakdown - the lower trendline of this rising channel cannot be tested many more times.



Ahh-wooo.. Who needs bulls or bears when you can run with the wolves?



7:00pm update - Wow. The Fed announcement that they would be buying up to \$300 billion in long-term government bonds sends the dollar into a hard tail spin, ending much lower than the projected wolfewave target. At this juncture, it has pulled back exactly 59% of the previous swing high on the daily chart. Interestingly enough, this is the same percentage at which the swing low was recorded on the weekly chart in mid-December retracement.



A follow-up to the [March 12](#) setup - markets have now retraced to the January spike lows around 800. The Advanced GET software is suggesting that a 5-wave advance has completed on the hourly charts.

The Japanese yen has shown a lot of strength, however, at this juncture a 'pocket trade' is asserting itself. At a smaller scale, a head & shoulders pattern is also visible, which should take it back to a retest of the 1.06 level. This is a short candidate in any cross trade for the next week or so.



I also realized that the currencies futures are better served by using the continuous contract symbols, since they will illustrate overnight and intraday price ranges more clearly. Below is an example of the yen continuous contract (J6H9 compared to above JYH9) and the improved detail.



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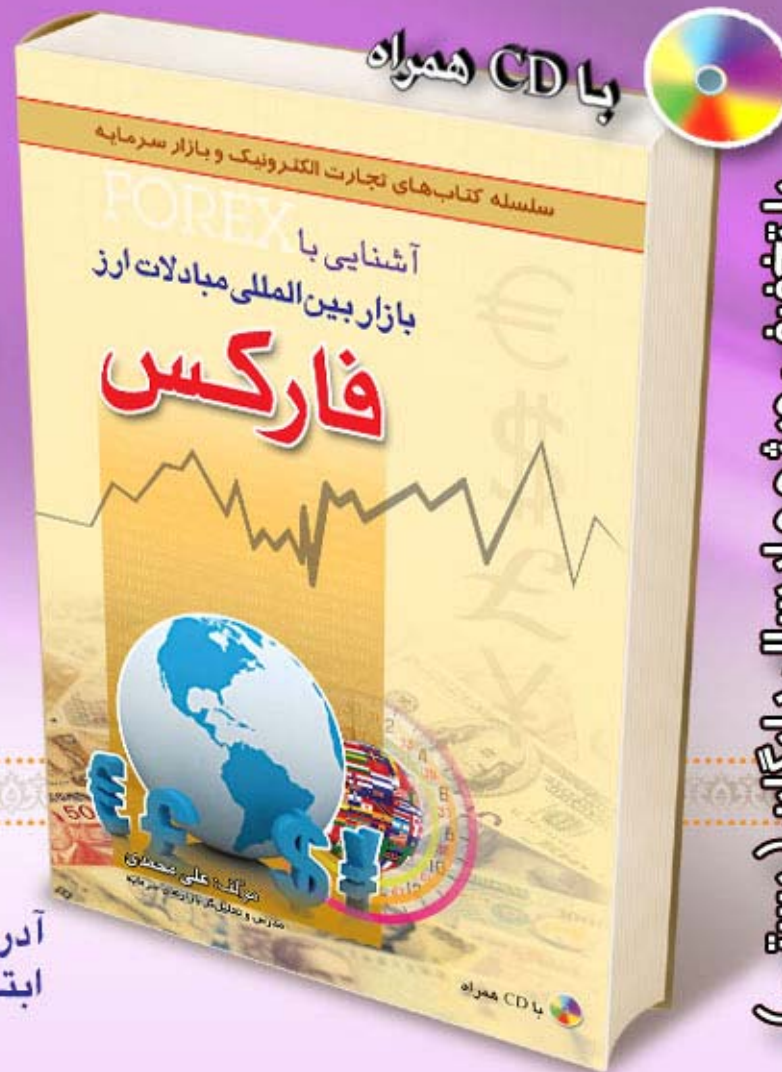
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