

Top of a major rally?

Counter-trend Trade Nasdaq Futures, Jan-Feb 2024

The conversation preserved below is between Stephen Simmons and one of his colleagues and took place over a period of roughly 3 weeks beginning on **Jan 22, 2024**. So, keep in mind that sometimes several days elapses between messages in the conversation.

Stephen's colleague has entered the world of day trading and is working to improve his Elliott Wave analysis skills, so it was a great opportunity to work together to apply WaveBasis to a real-world day trading scenario.

This exercise is a great example of trading against the trend when you have reason to think that a rally is complete or almost complete. This demonstration also shows how you can be initially wrong about the top of a rally, but still make profitable counter-trend trades using the rules and guidelines of Elliott Wave pattern formation to effectively manage trades and improve your probability of success.

Hopefully, it's also helpful to see behind the scenes some of the ongoing and evolving thinking that typically takes place while tracking and trading an Elliott Wave count over time.

The document includes links to most of the actual charts that Stephen shared with his colleague. You can click these links to view the charts and load them into your WaveBasis workspace for closer examination.

Importantly, this demonstration uses very small timeframes (2 and 5-minute charts), however, all of the same principles can be applied to larger timeframes. This is one of the beauties of Elliott Wave analysis itself.

→ **Determine Larger Timeframe Context**

Near The Top of Wave 5 of Wave 3?

<https://app.wavebasis.com/chartimg/91WX36YBHXjZtLtM>

<https://app.wavebasis.com/chartimg/j7QeqTs7mdDbEHb4>

...which reminds me: if you're looking for the top of a w5, one of the most helpful things I've come across is the basic Elliott Channel from w4



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For example...unless we have a mania on our hands, which we might, this w5 is getting a bit long in the tooth - statistically speaking.



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With RSI/MACD divergence on a daily chart...

...and the rally over the last week coincides with *declining* volume



Make that the last 3 months

- Sketch out a Plan
- Focus on Probability

<https://app.wavebasis.com/charting/rBdc7Oibyrkgpj09>
<https://app.wavebasis.com/charting/6PRjdhYGOMJS7Dgw>



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it appears we're in a raging w3, so selling into it would seem to be a bad idea probability-speaking, at least until we get into the target zone overhead

So, rather than looking for the w4 as in your first chart, I'd tend toward looking for the top of w3



And trading into a w3, in my opinion because of the nature of the probabilities, is best done with some strong downside confirmation...like on the pullback after 5 waves down on a 60-minute to 1 day chart or somesuch, for example

Looking up. Trying to digest that last comment. Thanks.

Mon, Jan 22, 3:28 PM



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I was just saying that you don't really get any probability working in your favor if you're trying to sell into a w3 until you see a solid 5-waves down (on bigger than a 1 minute chart)

The pullback from that 5 waves down is presumably sellable

ie, catching a flying knife could get bloody



And doing it this way provides the benefit of being able to know exactly where your stop should be without sacrificing much in terms of entry price

- Plan Your Trade!
- Establish Pattern-based Expectations
- Focus on Probability!
- Let the market come to you

Initial Downside Confirmation?

<https://app.wavebasis.com/charting/3pkshim9xX3PJUwB>



Speaking of 5-min charts...this look a little more like a viable candidate

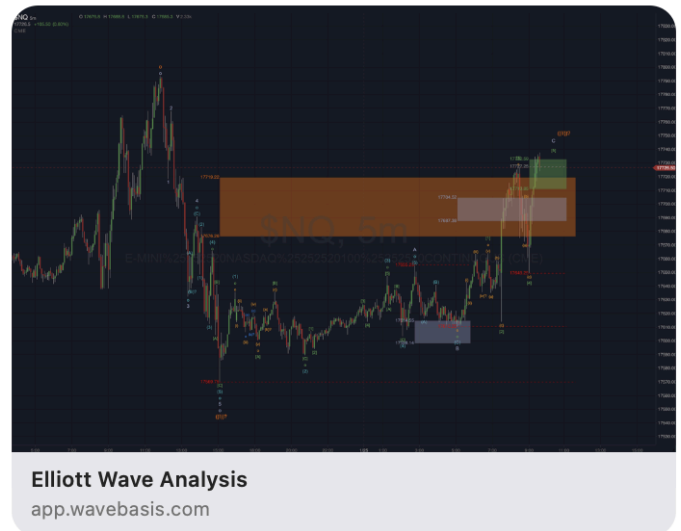
(But even on the well-structured 5-min chart, it's wise to wait to see the same thing on a 15, 30, or 60-min chart)

- Track The Wave Count
- Confirm (or refute) Your Expectations
- Follow The Plan

Is the market coming to you?

<https://app.wavebasis.com/chartimg/TLyGEyCnUrJsJC6o>

Thu, Jan 25, 9:42 AM



This has the makings of the setup we've been talking about

Could still rally, of course, but the probability of a drop looks pretty good

Strong, clear, impulsive move, followed by a jacked up overlapping move in the opposite direction = EW = the whole game.

→ Trade Your Plan!

Your exit strategy should be a part of your plan.

<https://app.wavebasis.com/charting/Utw4MRHka3pb2Srt>

Thu, Jan 25, 1:03 PM



The tale of the tape, the chart speaks for itself

(And in real time, wave 3/C has been confirmed)

- **Use Elliott Wave Probabilities to Your Advantage**
- **Assess Upcoming Pattern Formation**
- **Evolve your expectations as the pattern fills in - or doesn't**
- **Keep Larger Timeframe Context in Focus - Situational Awareness!!**
- **Plan The Next Trade**

<https://app.wavebasis.com/chartimg/luyb7hGniVQhXFW1>

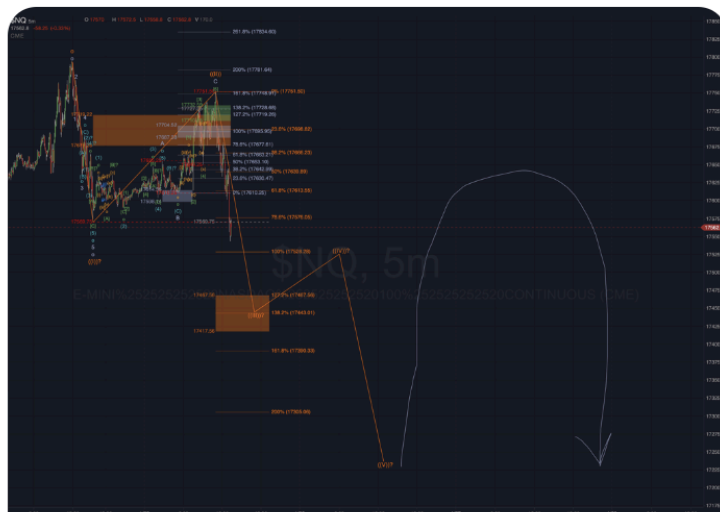
Yes, and I'm all amped up right now wanting to get on that 3rd wave. Waiting since I don't have a plan for how to enter here. FOMO... Greed...

2 Replies

Too late

The trade was up above, now it would be time to take profits around the A=C on the downside - don't forget the context - we are in a raging w3 to the upside

we will need more proof to the downside before it gets juicy



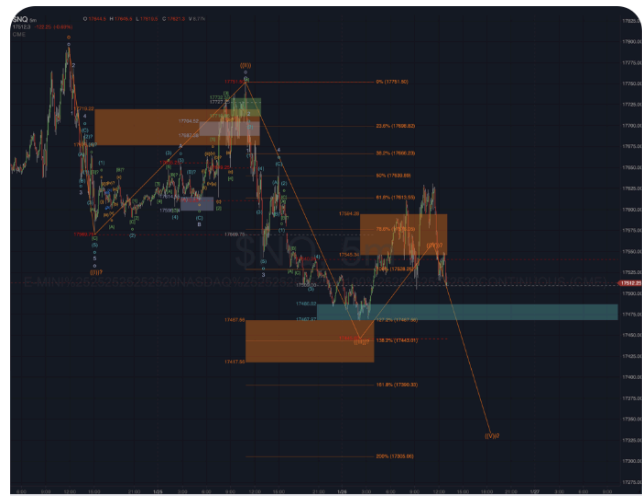
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Yes. I'm happy to have locked profits before I went to work 😊.



As you can see, if this is a w3, then it's almost finished...and if the bears mean business it won't get good until we see that chart

NOTE: As the market approached the orange target support area shown in the chart above, we exited our profitable short trades in anticipation of a bounce or potential reversal. The orange support area let us know that the probability of a bounce/reversal was high.

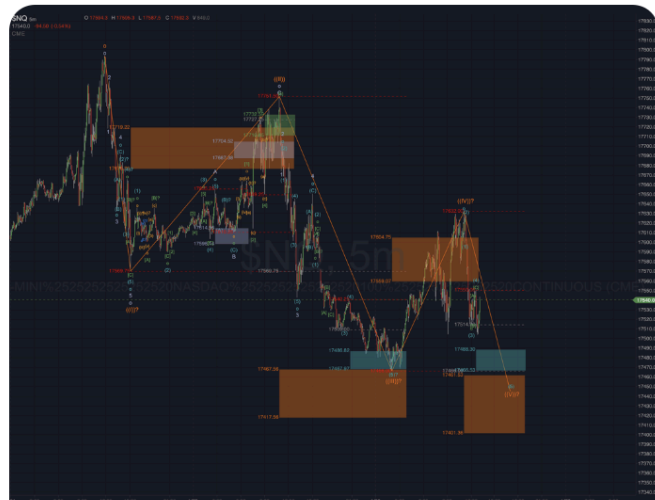


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And in this case, we're dealing with this...I haven't touched this chart since yesterday...

Either we drop for the orange 5th wave to setup the next 1-2 setup, or it rallies from here to let us know that the larger w3 isn't done yet

And judging by the structure of today's bounce...a fairly clear ABC of the Late B variety, I looks like we're going to drop for the w5



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And unless we get a bounce right now that would count as a subdivision (likely leading to an extended w5), it would appear we're going to just barely take out the prior low to complete w5

Non-EW people tend to refer to a situation like this as a "double bottom"...but some of us know better

Lol...I wouldn't be surprised if it bounced hard and fast once it gets down there (assuming it gets down there)...so better be nimble...trading the tail end of a w5 is not my cup of tea 😊



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Refer to my comments from a couple days ago regarding a "double bottom"

I haven't touched this chart since I said that.

The only thing that has changed is that the last bounce was actually the w4, which is what I had figured while it was happening, based on the (shallow) height of the bounce

Still might drop further, but that's enough to call the 5 waves down done.

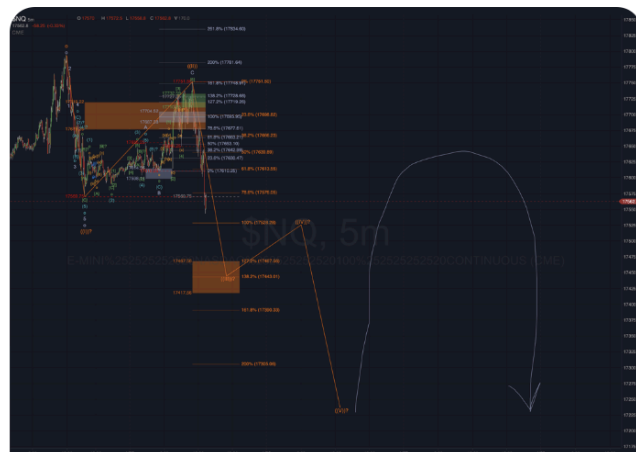
Isn't EW fun? 😊



Take me seriously when I say it's the most amazing thing I've been fortunate to see in my life.



Yes, we haven't budged the needle yet, but it's moving in the right direction...5 down generally leads to 5 more...so now we look to rinse/repeat - assuming this 5 down is finished and doesn't morph into something more complex on the downside, we look for a 3 wave bounce to setup another 5 waves down...I think I sent a chart a few days ago



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Presumably we're at the bottom of that 5 waves, but we'll see

In any case, this is a [redacted] up place to trade...we get the probabilities back on our side if we get that bounce as sketched out in that chart

<https://app.wavebasis.com/charting/ylkv4IWgiVQP1PTb>



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So, like I said at the beginning - when we can see a 5 waves down on a 60-min+ chart, then we have something interesting on our hands...and here we are.

I'm personally looking to get busy with this on a bounce that will set up a 1-2, 1-2.

There are only 2 things on the radar right now:



1. Is NQ going to run up to threaten our w2 thesis at 17735?

2. Is NQ going to complete a clean 5 down that stops around the 100% (A=C) extension, thereby leading us to lean toward this whole move just being a correction?

Tue, Jan 30, 1:49 PM

NOTE: At this point, once the market completed the decline to the Jan 31, 2024 low at 17221.50, it then rallied in a strong impulsive structure that did not offer a clear high-probability short entry. So, we reset the analysis and began looking for the next potential entry after the market continued to rally to new highs. That part of the discussion follows below...

→ Zoom out as needed - review market context!

→ Let Elliott Wave rules guide you

I haven't gone through your charts yet, but the daily chart I've been following has my attention...



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? Hard to call that last drop we traded anything but 3-down, and remember the hard limit on w5 up here is about 9.1% or around 17825

4 Replies

👍 I wouldn't consider another short until we see another clear 5 waves down on a 5-min+ chart. Preferably 15-60-min

Looks like the last 5-wave move we traded was a WC

👍 In any case though, it would appear that the end is nigh...looks like it can break at any time whether or not it caps off this little w5 higher

Note: QQQ has made another high

Tuesday 10:20 AM

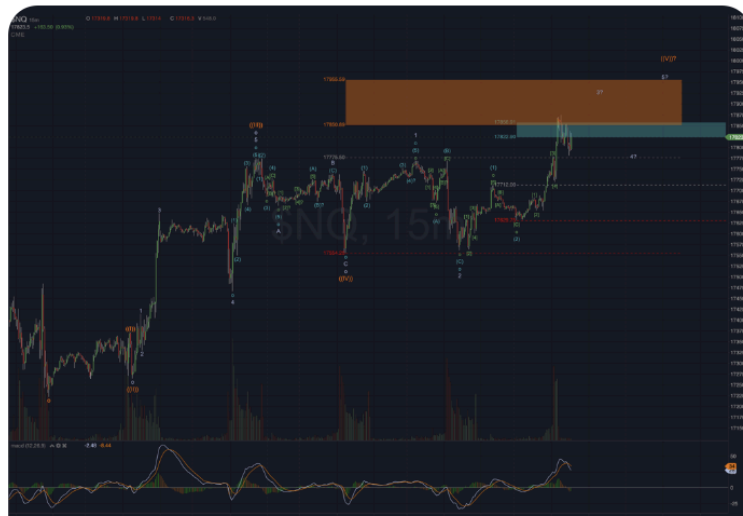
w3 cannot be the shortest of 1,3,5...If w5 goes over 9.2% it would make w3 the shortest, which would call for a re-count of at least the rally from the oct low

- Establish New Expectations
- Project Patterns Forward
- Probability-based roadmap

How High Will it Go?

Recount!

Yup...but I'd tend to be focusing on identifying the "last 5 up"



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Just sitting back waiting for the next setup :-).

Makes sense

So, my rationale/process...

Although the larger degree wave indeed needs to be reconsidered/ recounted, what's happening up here is currently higher priority - and - it's so far unfolding in a pretty clean, well-behaved apparent 5 waves...so...

When it completes, it's going to be the top of *something*, and that what would trigger me to then look more closely at the larger degrees to see which wave it's most likely the top of...

This is also in the context of the fact that I'm short on time for chart analysis right now...



If something weird happens, like a sudden drop that breaks this apparent neatly-nested 5 wave move (as in my chart), or a massive rally...that would tend to trigger me to zoom out sooner rather than later...for the time being, I'll just be keeping an eye on these 5 waves



Wednesday 5:01 PM

So, if I understand you correctly, I'm still looking for five down from what looks like a new wave five high.

I'm currently looking for the 5 of 5 of 5 on my chart to play out up in the 18k area

Seeing a meaningful 5 down from here seems pretty unlikely - it's a very unfinished-looking upside pattern



Make sense?

→ Monitor / Track the Wave Count

<https://app.wavebasis.com/chartimg/IREPizMJKKMFP0BU>



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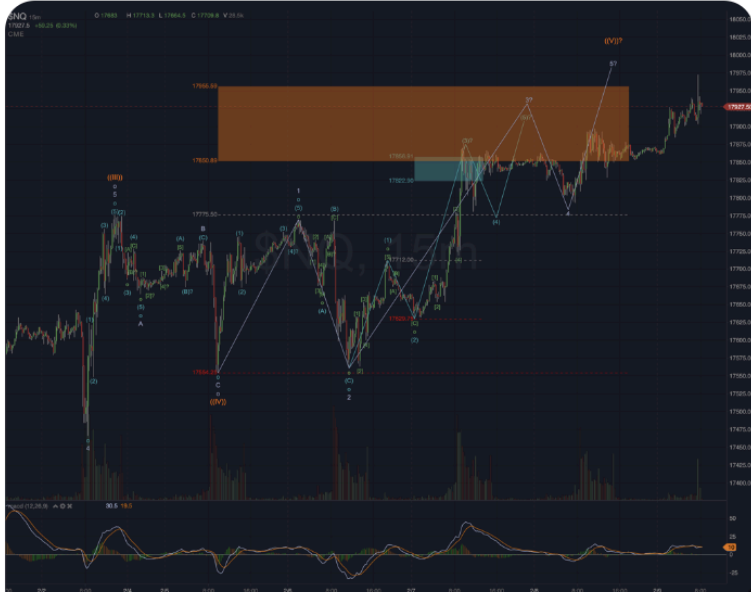
I'm thinking we're doing something like that

a setup like that has some potential for a blowoff top (due to an extended 5th wave or 2)

<https://app.wavebasis.com/chartimg/fP64gEa2xcKV3Eqi>
<https://app.wavebasis.com/chartimg/r1ndol43FZD6WYmb>

Mania

Could be...



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Or maybe it's just this...that's the "before" picture...



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"After"...so based on the movement since the first time I posted this chart, I don't see any reason to change my perspective



it's playing by the rules

It's probably possible to count this last rally as finishing w3, but I on; t have one eye on this at the moment

Your count. Right on the money.

18000 should be a 🔄

Yeah, it will depend on that last w5...that's the best opportunity for a blowoff mania, so it probably will either be a strong impulse or an ending diagonal, we'll be able to tell the different based on how "overlappy" it is

And keeping it rooted in the real-world phenomenon that we're measuring: we're entering the "late-comers" vs "big boys" phase...

So the structure of the pattern will reflect how excited the latecomers are to keep this rally going as weighed against how intent the big boys are in taking profits and/or shifting their portfolios to the short side.

I like 18125

But anywhere between 18k and there will do 😊

→ Keep Larger Timeframe Context in Focus

Right...remember we're still tracking the same thesis: we're finishing orange w3

Check your fib levels and colored boxes for orientation

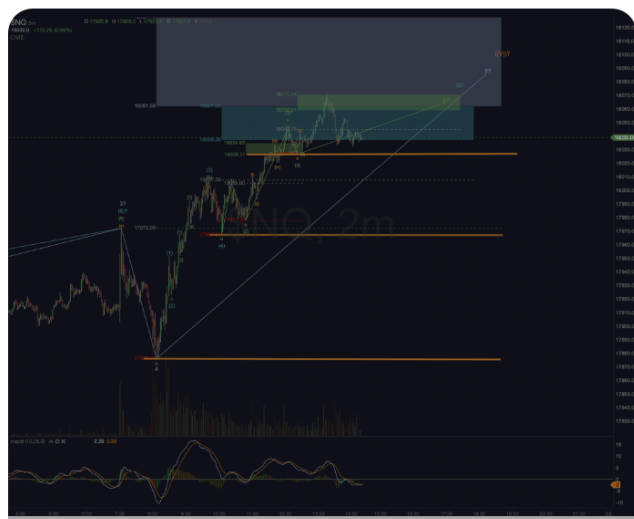
Like, hover that white w4



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Put that chart in the first tab of you workspace and stop looking at or running any long term counts until that one breaks

We're overstretched for orange w3 (but typical for a subdivided w3), in the zone for white w5, and at the top of the white channel...what else do you need to know about the longer term count?



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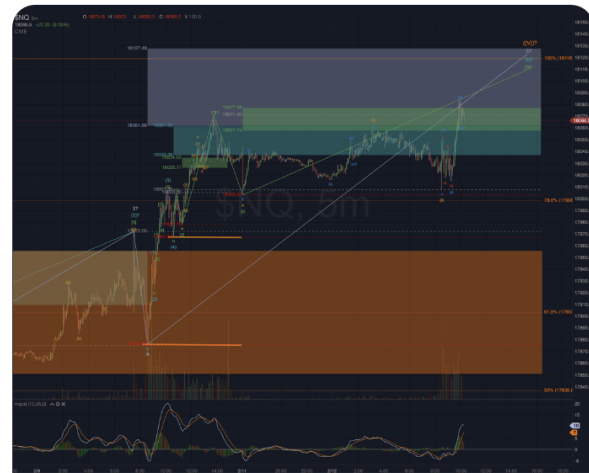
What you're looking for in a spot like this is confirmation that the w3 is done, just like we did before.

You get that by waiting for a 5->3 on a 5-min+ chart

And...every time we break below one of those w4's (orange lines) you get more confidence that it's not going to reverse higher for an extended w5

- Evolve the wave count
- Evolve your thesis

<https://app.wavebasis.com/chartimg/hXhnocjViBXnfaun>



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No perspective change, and I still like 18125

Today 12:02 PM



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No surprises so far, and I can name about 5 reasons it should stop where indicated...I guess we'll see

Looks like 18121.50 might have been enough

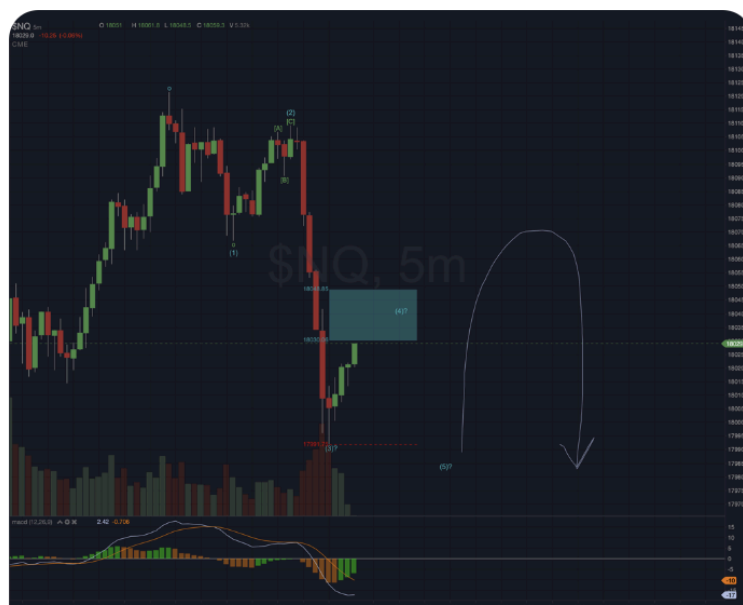


And hopefully I don't have to remind you at this point that what you're looking for is a bounce AFTER a clean 5 down if you're looking to get short

→ Rinse / Repeat

Yup. Clean 5 down on a 15 higher. I think we used 15 last time and it worked out pretty nicely.

121.50 is pretty damn close!



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