

VOLUME

1

HARMONIC TRADING

PROFITING FROM THE NATURAL ORDER
OF THE FINANCIAL MARKETS



0.382 0.50 0.618 0.707 0.786 0.886 1.00 1.13 1.27 1.41 1.61 1.78 1.91 2.09 2.24 2.41 2.62 2.81 3.02 3.24 3.47 3.71 3.96 4.21 4.47 4.74 5.02 5.31 5.61 5.92 6.24 6.57 6.91 7.26 7.62 7.99 8.37 8.76 9.16 9.57 9.99 10.42 10.86 11.31 1

Harmonic Trading: Volume One

Chapter 5

The Bat Pattern

The Bat pattern is a precise harmonic pattern that I discovered in 2001. The Bat pattern is probably the most accurate pattern in the entire Harmonic Trading arsenal. The pattern possesses many distinct elements that define an excellent Potential Reversal Zone (PRZ). The pattern typically represents a deep retest of support or resistance that can frequently be quite sharp. Quick reversals from Bat pattern PRZs are common. In fact, valid reversals from Bat patterns frequently possess price action that is quite extreme.

The pattern incorporates the powerful 0.886 XA retracement, as the defining element in the PRZ. The B point retracement must be less than a 0.618, preferably a 0.50 or 0.382 of the XA leg. The most ideal B point alignment is the 50% retracement of the XA leg. The B point is one of the primary ways to differentiate a Bat from a Gartley pattern. If a pattern is forming and the B point aligns at a 0.50 of the XA leg, it is likely to be a Bat.

The Bat utilizes a BC projection that is at least 1.618. The BC projection can be as much as 2.618. However, the most ideal BC projections in a Bat pattern are a 1.618 or a 2.0. It is important to note that the BC projection must not be a 1.27, as anything less than a 1.618 BC projection invalidates the structure. Furthermore, the 1.27 BC projections are usually found in Gartley structures.

The AB=CD pattern within the Bat distinguishes the structure, as well. This pattern is usually extended and ideally possesses a 1.27 AB=CD calculation in the Bat structure. However, the equivalent AB=CD pattern does serve as a minimum requirement for any Bat to be a valid setup.

The Bat is an incredibly accurate pattern and requires a smaller stop loss than most patterns. The 0.886 retracement is the most important number in the PRZ, but it is common for the other harmonic numbers within the structure to converge closely, defining in a precise range.

Bat Pattern Elements:

- B point at a less than a 0.618 retracement of XA, preferably a distinct 50% or 38.2% retracement.
- BC projection must be at least 1.618.
- AB=CD pattern is usually extended.
- 0.886 XA retracement.
- C point with range between 0.382 and 0.886.

The Bullish Bat Pattern

A B point that is less than a 0.618 retracement, preferably a 0.50 or 0.382 of the XA leg, defines the Bullish Bat pattern (see Figure 5.1). The bullish 0.886 retracement is critical in this setup. Typically, Bullish Bat patterns are excellent 5-point corrective structures found in well-established support levels.

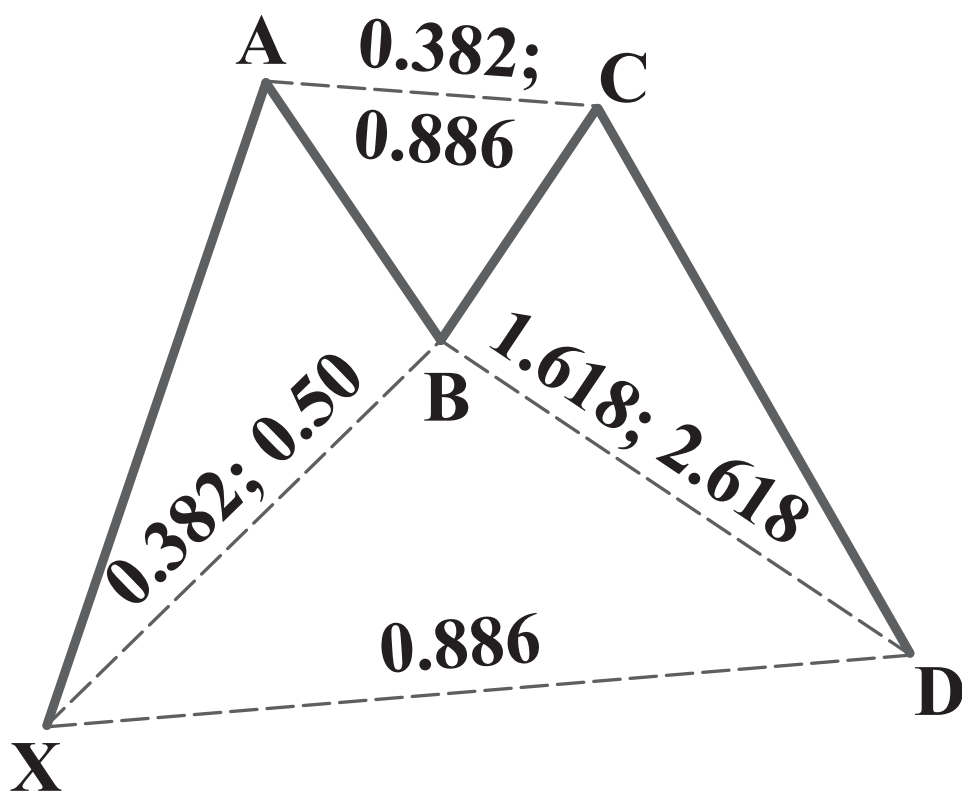


Figure 5.1

British Pound (GBP_A0-FX): 15-Minute

This first example of the British Pound shows a distinct Bullish Bat pattern with a precise PRZ (see Figure 5.2). The ratio alignment was quite precise, especially the 50% B point and extended BC projection. The three numbers of the PRZ defined a tight zone between 1.6242–1.6218 to get long. Specifically, the setup possessed a 1.618 AB=CD pattern at 1.6232, a 1.618 BC projection at 1.6218, and the 0.886 retracement at 1.6242.



Figure 5.2

In addition to an ideal alignment of Fibonacci numbers at the pattern's completion, the price structure possessed distinct symmetry that formed on this intra-day chart and provided a clear short-term trading opportunity. The chart in Figure 5.3 of the price action in the PRZ shows the near-perfect reversal on the first test of this support. After the price action tested the entire PRZ, the Pound bounced sharply from this area. The GBP bottomed 2 pips below the entire PRZ and reversed nicely for the next several hours, confirming the new intra-day up trend.



Figure 5.3

This example is an ideal scenario. A distinct Bullish Bat pattern with a sharp reversal from the PRZ is exactly the type of price action to expect in a valid harmonic setup. This pattern possessed all of the ideal elements for a valid buy signal. Again, the key technical event occurs immediately after the entire zone is tested. In this case, the Pound was clearly stabilizing at the numbers and decisively changed direction after the pattern was complete. Not to mention, the tight alignment of numbers in the PRZ and distinctively symmetrical pattern structure were further confirmation of an extremely harmonic setup.

Dow Jones Industrial Average (^DJI): Weekly

Figure 5.4 shows a Bullish Bat that was incredibly significant, as the reversal from this pattern marked the beginning of the 2003 bull market (see Figure 5.4). This weekly chart shows three numbers that defined a tight zone in the 7400–7500 area. The pattern possessed a 1.618 AB=CD pattern at 7500, while the 2.24 BC projection and the 0.886 retracement converged just under the 7400 mark.



Figure 5.4

As a side note, this pattern was extremely significant, and it was the deciding factor for my switch from a 2½ year bearish position on the index for my website advisory service. The sharp reversal from this PRZ and the distinct structure clearly indicated the strength of this pattern.

This chart of the price action in the PRZ (see Figure 5.5) shows the sharp reversal from the completion of this pattern. It is important to note that the 0.886 retracement at 7400 was the defining limit in the PRZ. In fact, the Dow Jones Industrial Average reversed almost exactly from this retracement.



Figure 5.5

The Alternate 1.618 AB=CD complemented the other numbers in the PRZ. This situation underscores the ability of the Bullish Bat to serve as a powerful 5-point corrective structure and define precise technical levels within the overall trend.