



Learn To Trade The Most Dynamic of All Wave Patterns

A Q&A with Elliott Wave International's Jeffrey Kennedy

By Gary Grimes

For those of you who regularly read *Futures Focus*, you already know that *Futures Junctures* Editor Jeffrey Kennedy likes to play the diagonal triangle – in fact, sometimes he becomes downright giddy when he spots one.

No, I'm not talking about the lame musical instrument melodically *un-inclined* kids like me were stuck with in elementary school music class. I'm talking about the Elliott wave pattern that occurs in every financial market – the pattern that allows Jeffrey to alert traders as to when and where a major move in a financial market may unfold.

In Jeffrey's own words, “The diagonal triangle is hands down my favorite Elliott wave pattern above all others. That is because it's a pattern that lends itself very easily to trading.”

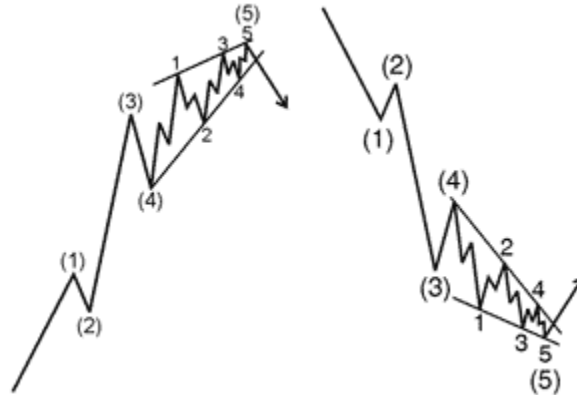
But there are several things you need to know about the diagonal triangle before you can use it in your trading. First, what is a diagonal triangle? Then, how can you identify such a telling pattern? Next, what happens when a diagonal triangle ends? And finally, how in the heck do you trade this exciting Elliott wave pattern?

We address all these questions and more in this Club EWI article adapted from a series of *Futures Focus* articles where diagonal triangles sit first chair. From the comfort of his desk chair – with four flashing computer screens vying for his attention – Jeffrey sits down with *Futures Focus* to answer these questions about trading his favorite Elliott wave pattern.

Futures Focus: Tell me, Jeff, what is a diagonal triangle?

Jeffrey Kennedy: A diagonal triangle is a terminal or ending wave pattern. It is found at the end of impulsive waves, at the end of wave 5 or at the C position of an A-B-C formation. It's a five-wave overlapping move most of the time found with converging trendlines. Each wave of the pattern subdivides into three smaller waves. Whenever a diagonal triangle ends, it typically leads to a very sharp or swift movement to the origin of the price and then some.

[Here's what Jeffrey is talking about.]



FF: From reading your *Daily Futures Junctions* updates, it's obvious you get excited about diagonal triangles. But why should traders be as excited as you are about this pattern?

JK: It's a very easy wave pattern to identify. It's a very high-probability trading pattern. And what I mean is, it's a wave pattern that – when it forms – a sharp reversal of price typically occurs. Plus, the parameters of the pattern lend themselves well to formulating a trading plan, i.e. protective stops, risk and targets.

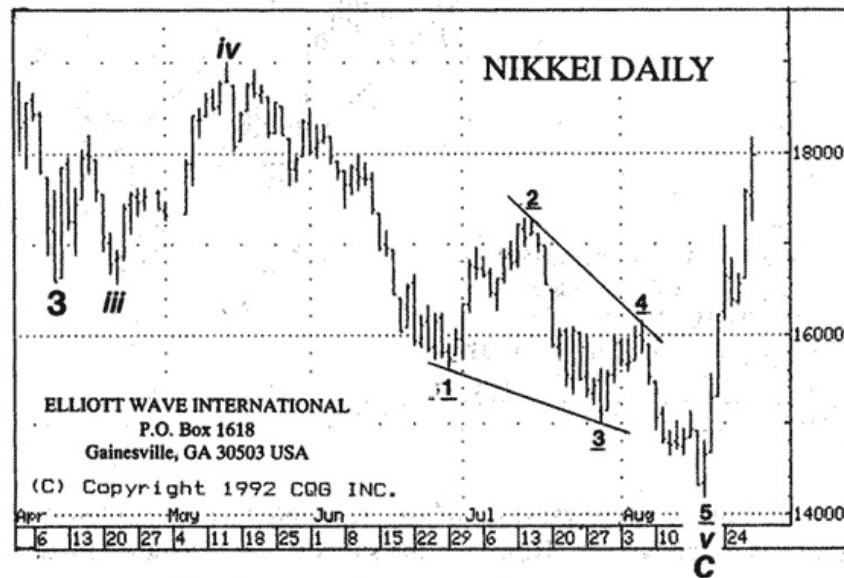
FF: In your *Futures Junctions* publications, I know you often spot diagonal triangles in commodities markets. But in your new two-part online trading courses, *How to Trade Diagonal Triangles – Superior Risk/Reward Trade Setups* [[free video lesson](#)], you also talk about spotting diagonals in other markets. Is there any difference between a diagonal in, let's say, cocoa as opposed to a diagonal in a stock?

JK: No, not at all. The Wave Principle works in any freely traded financial market in the world. It is a principle, therefore, you will see the pattern develop in any market: interest rates, foreign currencies, metals, individual stocks and stock indices. It occurs in any vehicle you're examining as well as in any timeframe.

Here, let me show you. This is a diagonal triangle in cocoa.



And here's a good example of a diagonal EWI published several years ago.



I share many more real charts such as these in my new online trading courses.

FF: Speaking of your new trading courses, will you tell me why you created them and what your goals are for the courses?

JK: Well, the diagonal triangle is such a high-probability trading pattern and it's so easy to identify that I believe if there's a single trade setup that traders need to know about, this is it. So I want to share everything I've learned in 15 years about the diagonal triangle with anyone interested in trading.

FF: Can you tell me about any diagonal triangle patterns you've spotted recently?

JK: Yes, just to show you how reliable it is, we had a diagonal triangle in December Cocoa that formed in early August that I alerted *Futures Junctions* readers about. And in July there was a diagonal triangle in October Lean Hogs that led to a successful sample trade strategy for *Futures Junctions* readers.

FF: OK, Jeff, let me switch gears a little. Now that we know what a diagonal triangle is, it's time to learn how to spot one. How exactly do *you* identify a diagonal triangle?

JK: Well, first of all, as I said before, it's a very easy wave pattern to identify. Having said that, the essential key to diagonal triangles is a five-wave, overlapping structure. Not in all cases, but more often than not, it will be a diagonal triangle – either the terminal or leading variety. In my online trading courses, I focus specifically on the terminal or ending variety, specifically the one that is found in the fifth wave of an impulse wave or the C-wave position of the an A-B-C formation. And the key characteristic I look for is the five-wave, overlapping pattern bound by converging trendlines.

FF: I noticed in Part One of your new online trading courses that you go into detail on four steps for identifying a diagonal triangle in real time. Will you review these steps?

JK: First and most importantly, the diagonal triangle has a unique appearance so I begin by asking myself, “**Does price action exhibit the right look?**” Is it a five-wave structure bound by converging trendlines?

Step two is, **Does each wave of the pattern subdivide into three waves?** This is a key aspect of the pattern itself. It’s what gives away the pattern as a diagonal triangle.

FF: So with steps one and two, you essentially determine whether the pattern has the right look of a diagonal triangle and whether the substructure supports the labeling of the pattern as a diagonal triangle?

JK: Exactly. So the next step – which is very important – is, **Does the placement of the pattern make sense?** As I said previously, the ending variety occurs in the fifth wave. So does the larger operative wave pattern suggest being a diagonal triangle at that point in time?

And the final step – if you’ve done steps one through three properly – is, **Where are prices going?** And the expectation of a diagonal triangle is for the price to go back to the origin and then some.

FF: I’m glad you brought that up, Jeff, because that’s the exciting part. Will you tell me more about that exciting reversal in price that analysts like yourself [Gary, I don’t think we ever want to say that our analysts also trade, particularly in the futures markets. S.] look for?

JK: Of course. That’s the aspect of the diagonal that traders absolutely love. In my experience, whenever you see a diagonal triangle form, I’d say it will travel back to the origin of the price and then some at least 80 percent of the time. But, even more exciting and just as predictable, the move following the reversal will usually take 1/2 to 1/3 of the time that it took the diagonal triangle to form.

For example: if it takes 10 days for a diagonal triangle to form, then, upon reversal, you can expect the price to retrace to its origin in three to five days.

FF: Using the same March 2001 Cocoa chart as you did above, will you describe what has happened here?



JK: Basically what we have here is a diagonal triangle that unfolded in March Cocoa. It had the characteristics of a diagonal triangle: five overlapping waves within converging trendlines. And when it ended, the reversal was fully retraced, which is why the pattern is indeed so exciting. Simply put, this is an excellent example of how a diagonal triangle unfolds. That's why I talk more about this very chart and others like it in my new online trading courses.

FF: Ok, just to be absolutely clear, tell readers what would have most likely happened if the diagonal triangle in cocoa had taken the inverse shape of a rising wedge, such as this example in the Dow.

JK: It's just the nature of the pattern. If you have a diagonal triangle within converging trendlines to the upside, which some call a rising wedge, then, upon reversal, there will be a sharp move to the downside.

FF: All right, Jeff, so assume we have spotted a diagonal triangle by correctly implementing all of the guidelines we've discussed thus far. Obviously, our next course of action is to formulate a trading plan, so where do we start in that regard?



JK: The way I formulate a trading plan is basically dependent on the direction in which the diagonal triangle develops. So my initial expectation is to see the move more than fully retrace the origin of the price. For example, if the diagonal triangle unfolds upward – also known as a rising wedge – I expect it to reverse drastically downward. If the diagonal triangle unfolds downward – known as a falling wedge – I expect it to retrace to the price origin in an upward manner.

FF: I know your two online trading courses on *How to Trade Diagonal Triangles* [[free video lesson](#)], address everything from your basic tips to advanced guidelines for trading diagonal triangles. Will you share some of these guidelines with us?

JK: Sure, I'll be happy to share some of the basic guidelines. One of the points I've presented in a previous edition of this series as well as in the courses on *How to Trade Diagonal Triangles* is that the parameters of a diagonal triangle lend themselves well to trading. Within a Diagonal Triangle, more often than not, wave three is shorter than wave one. When this happens, wave five cannot be longer than wave three. Why? Because as many of you know, one of the cardinal rules of the Wave Principle is that of waves one, three and five, wave three can never be the shortest impulse wave. Wave three doesn't always have to be the longest impulse wave of waves one, three and five, but it can never be the shortest. So a simple entry level that I like to utilize is the break of the extreme of wave 4. My basic guideline for placing a protective stop is one tick past the extreme of wave 5. And I set my target and exit at the origin of the pattern.

[Here's what Jeffrey is talking about.]



FF: Is there anything else you'd like to share before we end this Q&A session?

JK: Yes, just one more thing. As I say in my online trading courses, the diagonal triangle is my favorite Elliott wave pattern. It is always an exciting pattern. And what I've done in the two parts of *How to Trade Diagonal Triangles – Superior Risk/Reward Trade Setups* [[free video lesson](#)], is put in everything I've learned about this pattern in my 15 years of experience. I go into more detail than I can here, and I even include some real-time trading scenarios to demonstrate my techniques.

Editor's Notes:

Go to www.elliottwave.com/wave/diagonalsclub to watch a **free sample lesson** of *How to Trade Diagonal Triangles – Superior Risk/Reward Trade Setups*. Jeffrey uses real examples to teach you when a diagonal triangle is most likely to form and how to know when it is complete.

Jeffrey Kennedy will share a wealth of valuable tips, tools and techniques at the **Elliott Wave Refresher Course & Intermediate Tutorial**, which runs Nov. 8 - Nov. 11, at the beautiful Emerald Pointe Resort at Lake Lanier Islands near Atlanta, GA. Other featured speakers include Dave Allman and Wayne Gorman. Reserve your seat now and get EWI's 10-DVD education set, online access to 6+ hours of supplemental instruction and a full year of access to EWI's Online Education Q&A Forum.

Go to www.elliottwave.com/wave/EWtutorialclub.