

Barrie Hetirachi's Five Point Pattern

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Product: Wave59 drawing tool

Requirements: Intel Quad-Core CPU, 2.66Ghz or higher; 3GB RAM; Windows XP/Vista/7; high-speed Internet connection

Price: Pro, \$99/month; Advanced Five Point Pattern Workshop, \$1,295

by *Dennis D. Peterson*

The Five Point Pattern is part of the Wave59 drawing tools. This drawing tool was developed under the guidance of Barrie Hetirachi, who has 20-some years of experience with the markets, and worked with Earik Beann, the Wave59 designer/creator/developer, to create something that likely will expand your trading horizons. This particular drawing tool set, which used to be part of the Wave59 price/time tool set, is one you might pass over if it weren't for Hetirachi's comprehensive explanation of the use of the tool, and once you hear it, you can't help but be impressed.

The name "Five Point Pattern" comes from an adaptation of a technique first published in H.M. Gartley's 1935 book *Profits In the Stock Market*. A bullish or bearish Gartley pattern is sometimes referred to as the "222" pattern.

You can find a number of explanations of the Gartley pattern on the Internet (as well as software that incorporates some aspects of or specializes in Gartley's work). Larry Pesavento was the first trader to popularize the pattern, and he has written numerous books on the subject.

The patterns are typically annotated with dashed lines depicting the relation-

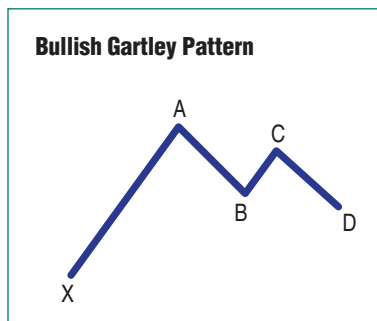


FIGURE 1: BULLISH GARTLEY PATTERN. This pattern is also referred to as the "222" pattern after the page number of Gartley's book where it is located. Numerous Internet sources and books will annotate the pattern with suggested price changes expressed in terms of Fibonacci ratios. For example, a common theme is that the AB length is determined by taking 0.618 of the price change from X to A. In appearance a bullish Gartley is similar to a slanted topping M pattern — but the expectation is for prices to continue up from point D.

ship between the swings. I decided to draw the bullish Gartley pattern on my own (Figure 1), and here are the criteria you need to keep in mind when doing so. The first wave is the largest and I drew it at about 45 degrees, although that is not required. Just avoid price changes that are exhaustion or sideways movements.

This is the wave from X to A. The wave from A to B is an impulse wave that is the beginning of a retracement. If you remember from Advanced GET or the point system in the Pristine trading method, if the retracement is too large, it is likely that the impulse wave is not strong enough. You'll see annotations on the web showing a 0.618 retracement.

The use of Fibonacci ratios as criteria for price change is the other part of the Gartley pattern. I made my A to B retracement around 38.2%. Thus, the price change of A to B should be something in the range of 38.2% to 61.8% of the price change from X to A, and some would argue that it shouldn't be more than 50%.

When I drew the BC line, I made it parallel to the XA line, shorter than the AB line and had C less than A. The parallel part is not a requirement, but it just looks

more like what you find on the Internet. The CD move is shown parallel to AB (again, parallelism is not a requirement) and point D is determined by taking the A to B price change and adding it to C. You'll see the term $AB=CD$, and this is where that comes from. The use of Fibonacci ratios to determine optimal price changes is prevalent.

Here's a more formal definition of bullish and bearish Gartley patterns:

Bullish Gartley Pattern Rules:

1. The swing down from point A to D ideally will be a 61.8% or 78.6% retracement of XA
 - A valid ABCD pattern must be observed in the move from A to D
2. The time from XA and AD ideally should be in ratio and proportion
 - Time of AD is typically between 61.8% and 161.8% of XA
3. In limited instances, the ABCD move may complete at 100% of XA (double bottom)
 - In this case, the time of XA and AD should be equal for a "true" double bottom
4. Pattern failure (for example, the price moves beyond point X) indicates a strong bearish continuation may be in progress
 - Prices may move down to at least 127.2% or 161.8% of XA

Bearish Gartley Pattern Rules:

1. The swing from A to D ideally will be a 61.8% or 78.6% retracement of XA
 - A valid ABCD pattern must be observed in the move from A to D

2. Ideally, the time from point XA and AD should be in ratio and proportion
 - Time of AD is typically between 61.8% and 161.8% of XA
3. In limited instances, the ABCD move may complete at 100% of XA (double top)
 - In this case, the time of XA and AD should be equal for a "true" double
4. Pattern failure (for example, the price moves beyond point X) indicates a strong bearish continuation may be in progress
 - In this case, the price may move up to at least 127.2% or 161.8% of X



FIGURE 2: DAILY QQQ WITH BEARISH GARTLEY. Using the Five Point Pattern from the drawing tool group, the price chart is annotated with X, A, B, C and targets for D (shown here as a series of horizontal lines just above the May peak). To use the tool, click on the peaks/valleys you want as X, A, B, and C. Note the text, in yellow with a red background, next to X. It reads 99.3%, meaning that the way this bearish Gartley has been drawn is within 99.3% of a set of prescribed ratios for the retracement of AB of XA.

Hetirachi found that the geometrical relationships within the pattern gave us a better understanding of the structure than mere ratios. Ratios are just one facet of the pattern characteristics. The methodology presented by Hetirachi doesn't reject ratios. As a matter of fact, they have added automatic calibration to the basic Gartley tool within Wave59 so that it will calculate the relationship between the first four points. It also shows you the family of ratios present within the pattern and how well that compares to exact ratios by a simple % fit indicator. Wave59 chooses from among four types of ratio families: Fibonacci, geometric, arithmetic, and roots.

Let's see a Gartley pattern in action. A bearish Gartley is just the flip side to the bullish (Figure 2: peaks/valleys annotated with X, A, B, and C). As you can see, the prediction for D, shown in Figure 2 as a small target box above the May peak, works well. But it gets even better.

If you were asked to predict future price turnings based on only the prices captured by the bearish Gartley in Figure 2, you might turn to some sort of scheme that assumes repeated behavior based on peaks and valleys, such as support and resistance, but you might fall short of finding more than three or possibly four possible price turning points (ignoring time for the moment).

Now take a look at Figure 3, which I



FIGURE 3: DAILY QQQ WITH A BEARISH GARTLEY AND EQUILIBRIUM LINES. The equilibrium lines (dashed purple) are a type of Andrews pitchfork, except rather than have a median line with two parallel lines, there are four. The median line goes from X to B, while the distance from B to C and its mirror image create the first pair of parallel lines, and the second set of parallel lines is created using B to A and its mirror image.

have selected to show the equilibrium lines (Figure 3: dashed purple lines). After the reasonably close prediction of point D of the Gartley, you can see that approximately eight additional future price turning points were correctly predicted. Now you begin to see Hetirachi's influence.

Barrie Hetirachi has had an interest in Alan Andrews's parallel line work, and you can see the benefit when it is used with the appropriate peak and valley pattern. But Hetirachi has extended its

use to even the basic ABCD patterns, as you will see later in this review.

A GEOMETRIC POINT OF VIEW

The traditional wisdom for technical analysis is to use indicators. John Bollinger of Bollinger Bands fame points out that when you do use indicators they need be independent of one another — that is, some based on price versus volume or neural nets. They can work, but there is another approach that is purely visual, and for that you need the

PRODUCT REVIEW



FIGURE 4: DAILY QQQ WITH GARTLEY PATTERN AND ANGLE HARMONIC. Using a squared chart, the angle harmonic drawing tool was applied to the Gartley pattern (XABC). The result are the silver lines emanating from point X. Besides correctly predicting the price turning point D, which is the main use, the angle harmonic also predicted turning points 1, 2, and 3.



FIGURE 5: DAILY QQQ WITH GARTLEY AND SLOPE GRID. The Gartley pattern is shown as connected red line segments going from X to A to B and C. The slope grid is shown as olive lines. The grid behaves in a Gann-like fashion. The heavy red horizontal line is drawn from the corner of one grid, located at point X of Gartley pattern to another grid vertex. This is termed the 1x2 line, and as you see, it also predicted turning point D as well as another turning point. However, 1x2 is just a sample of the type of line that can work.

right patterns.

Gartley’s work was where Hetirachi started and has expanded from. Traditional Gartley uses Fibonacci ratios to determine quality of the pattern and the target area for D, but Wave59 incorporates three additional sets of numbers. Hetirachi emphasizes it is about understanding the relationship right between each of the segments, X to B and A to C.

There’s another aspect that is sometimes critical if geometry is going to be used, and that is the ability to set the relationship between the x-axis (time) and y-axis (price). In this respect, Wave59 is unique because you can specify that relationship.

The phrase used is “squaring the chart.” It comes from the time when price bars (probably without the open as part of the bar) were plotted using gridded paper. Some of the geometry drawn only works with a “squared” chart. (Nick Ehrenberg of Ehrenberg Analytics reportedly charts the Standard & Poor’s 500 on a six-foot-high piece of paper up on the wall, and his historical performance is over 66%.) Angle harmonics is a tool that performs better with a squared chart (Figure 4).

In case you are curious, the pitchfork-like extension shown in Figure 3 does not require a squared chart. You can zoom in and out, altering the physical relationship between time and price dramatically, and you will still see the same predictions. Except for angle harmonics, all of the geometry tools are under the Advanced tab, which is part of the formatting screen.

There are seven drawing tools. Three of them — slope grid, XA diagonal square, and XA rectangle and zero lines — are the three that Hetirachi considers to be the primary tools to locate the end of the ABCD and isolate the future unfolding of the initial pattern, days, weeks, or even months after point D is reached.

Using these drawing tools is a way of getting confirmation that a particular price is at a significant support or resistance, thus indicating a high-probability turning point. Using slope grid from the Advanced tab items, and drawing a 1x2 line from one vertex of the grid to another (Figure 5), you get another confirmation of where D should find resistance in the Gartley pattern.



“We all agree, excessive executive bonuses are our top priority. Yes, we made mistakes and our stock tanked. But fortunately, for now, this is the new normal.”



After I spoke to Barrie Hetirachi, I got the sense that he was sharing a lifetime of analysis.

If you've been keeping track, this is the third time that point D in the Gartley pattern has been correctly predicted. While in Figure 2 the horizontal lines give the right target area, in Figure 4 the angle harmonic also hits point D, and finally the slope grid hits it as well. But there's more. Using one of Hetirachi's secondary drawing tools from the Advanced tab, the XA mirror, will allow you to obtain the diameter of a circle which, if moved to the appropriate mirror crossing, might yield another confirmation for D (Figure 6) or other turnings.

I previously mentioned the extended use of the Andrews pitchfork. Alan Andrews had a student named Schiff who experimented with changing the origin of the midline. Figure 7 shows an example of a Schiff pitchfork. The Advanced tab also allows you to choose modified Schiff as well. As you can see, turning point D is again hit, plus a few others. Various methods of placing the fork are explained by Hetirachi in his video.

According to Hetirachi, using the Five Point Pattern with squared charts allows you to analyze the patterns in unique ways that is not possible with normal charts. This approach allows you to profit in a more robust fashion as opposed to only using Gartley patterns that meet the ratio-based criteria. Tools were programmed with an open and fluid feel so you could use the tools not only on the classical Five Point Pattern but also on other three- or four-point patterns as well.

There are also techniques within the ensemble of Five Point Pattern tools to predict when a price may turn, using purely time-related tools.

SUMMARY

There is a four-DVD course (\$1,295) conducted by Hetirachi that delves into all these subjects and that uses the entire tool set via Wave59. After I spoke to Hetirachi, I got the sense that he was shar-



FIGURE 6: DAILY QQQ WITH XA MIRROR AND CIRCLE. The circle diameter is obtained by using the distance between mirror crossings, drawn here as a bold vertical line, and then moving the circle to various mirror crossings to see confirmation point D obtained.

ing a lifetime of remarkable analysis. Besides the disks, there is a chat room (<http://forum.wave59.com>) available through Wave59 where you can look at chart examples that Hetirachi has commented on to get further insight. If you haven't seen this before, it's probably a bit overwhelming. Hetirachi, fortunately, has done the homework, and Earik Beann has added his considerable skills and intellect. Wave59 has a training mode where you pick a bar on your chart and then use the space bar to advance time one bar at a time. This gives you a chance to practice before you risk your money.

Dennis D. Peterson is a Staff Writer for STOCKS & COMMODITIES.

SUGGESTED READING

Gartley, H.M. [1981]. *Profits In The Stock Market*, Traders' Press (reprint from 1935 original).

Pesavento, Larry, and Leslie Joufflas [2007]. *Trade What You See*, John Wiley & Sons.

‡Five Point Pattern

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FIGURE 7: DAILY QQQ WITH SCHIFF PITCHFORK. Shown as a red grid system, the Schiff pitchfork pattern correctly identifies turning point D as well as a few others. The Five Point tool also allows you to use the modified Schiff pitchfork.