

reaffirmation (see Fig. 7.4, below). These simple patterns not only help to identify trend deceleration and the onset of trading ranges but can also lead to potential terminal conditions.

If the terminal pre-conditions are in place and a non-reaffirmation appears, I begin to assess the prevailing psychological environment. (This I do as dispassionately as I can, since obviously it wouldn't help if I were caught up in the prevailing psychology myself.) At the same time, I watch for the emergence of any of four terminal patterns. In an imbalanced psychological environment, these patterns are evidence, to me, of potential trend exhaustion.

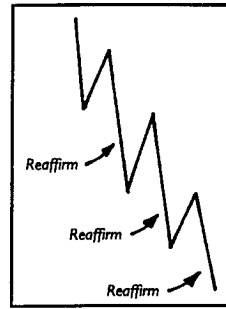


Fig. 7.2  
Trend reaffirmation

[ FOUR TERMINAL PATTERNS ]

These four terminal patterns are specific trading range structures. They are named for and distinguished from one another by specific relationships between swing tops and bottoms, patterns that unfold as each trading range ages. Their structures follow one of two signs of trend deceleration depicted in Figs 7.3 and 7.4, below. I call these patterns *horizontal*, *diagonal*, *complex*, and *expanding terminals*. Each involves a final swing that has caused a spring or upthrust; in accordance with the Fourth Law, this is the “test of extreme” that usually terminates a trading range and precedes a tradable line movement.

The initial deceleration suggested by a higher or double bottom in a downtrend (or a lower top in an uptrend) can quickly transform into either the horizontal terminal or the complex terminal. Similarly, a single spring or upthrust can transform into either the diagonal or the expanding terminal.

These patterns occur in various stages of trend and price action. *Only* when they occur within the context of the pre-conditions set out above should they be interpreted as terminal potentials.

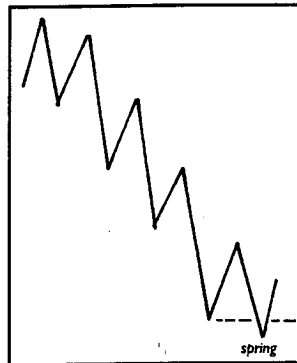
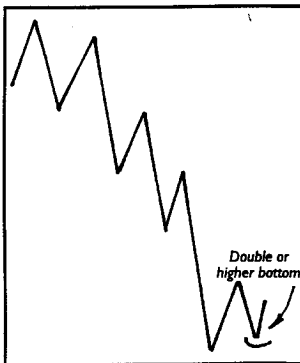


Fig. 7.3, left & 7.4, right  
Examples of decelerating  
trend momentum