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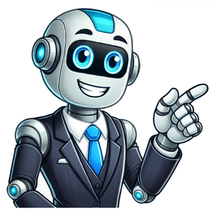

Dear Traders, Did you ever wonder if there is an indicator that helps simplify Elliott Wave analysis? How does a “wave trend indicator” work or is it better to trade waves without it? The short answer is yes, a wave trend oscillator is a critical tool for analysing and trading waves. This article reveals what is considered the best wave trend indicator or wave trend oscillator. We also explain how to use indicators for improved price swing recognition and Elliott Wave analysis. Plus we show traders a simple method that drastically improves your accuracy when determining price swings and wave patterns. By the way, if you become a member today, then we will show you a simple trend strategy by using Moving Averages, Fibonacci, Fractals and the wave indicator in our SWAT (Simple Wave Analysis & Trading) course. Can Wave Trend Indicators Help with Elliott Wave Theory? Yes, they can. According Chris Svorcik, our chief wave analyst at Elite CurrenSea, both price action and the oscillator indicator can be of enormous help in understanding the Elliott Wave structure. Based on our own experience, we highly recommend analysing Elliott waves based on price action in combination with an oscillator. The best indicators are the AO (Awesome Oscillator) and macd.PRO (we explain why later on). The main benefit of using an oscillator for understanding waves is because it offers a standard method for spotting price swings. Often traders face a simple yet tough problem: what is the definition of a price swing and wave? Traders must have a clear and logical system of identifying one price swing because without a rules based approach, traders will misinterpret the chart and always be unsure about their analysis. In fact, most traders fail in trading, mastering the waves, and trading the waves because they do not use a systematic method for understanding and reading price swings. With a systematic approach, traders will quickly feel lost in the chart. What price action belongs to which price swing? When does the price swing start and end? In this article Elite CurrenSea will share its methods (based on our SWAT course) how we use the oscillator for a better understanding, interpretation, analysis, and trade setups based on the wave patterns. In our view, traders improve their the Elliott Wave count with the Awesome Oscillator and/or ecs.MACD – this article explains why. So now, you might be wondering how do you use the Elliott Wave indicator for analysing and trading waves? What is the Best Wave Trend Indicator or Wave Trend Oscillator? Elite CurrenSea uses the Awesome Oscillator (Elliott Wave) as a wave trend indicator – available for free via MetaTrader 4/5 (MT4). The AO (Awesome Oscillator), which is created by the Elliott Wave expert, legendary trader, and Fractal creator Bill Williams, is in our view the best oscillator for analyzing the waves of the Forex, CFD, and other financial markets. A good second place, however, is reserved for our own proprietary MACD indicator called the macd.PRO. Although there a wide range of wave trend indicators that are mentioned online, the AO and the macd.PRO are two of the most accurate wave trend indicators and wave trend oscillators for the MT4 platform. They are also key indicators for any trend wave strategy. We will now explain why. Identifying the Correct Price Swing There are multiple solid methods of applying a rules based approach for identifying the correct price swing. But we will continue our focus on the AO (Awesome Oscillator) and macd.PRO. Once again, both indicators are excellent ave trend oscillators for MT4. Here are the key factors to analyse: The zero (0) line: the key point part of the oscillator is the “zero” line. Every time the AO or macd.PRO bars cross the zero line, a new price swing is in process. Blue or red bars: blue bars indicate bullishness whereas red bars indicate bearishness. Bars versus zero line: now let’s combine the above information: Blue bars above the zero line indicates bullish momentum or impulse. Red bars above the zero line indicates a bullish correction. Red bars below the zero line indicates bearish momentum or impulse. Blue bars below the zero line indicates a bullish correction. With this in mind, we can make the following conclusions: 1. Price is not hitting the zero line recently: Price is in momentum: when the Awesome Oscillator Elliott Wave bars move away from the zero line. Bullish: bars are above the zero line. Bearish: bars are below the zero line. Price is in a retracement: when the Awesome Oscillator Elliott Wave bars are moving back to the zero line. 2. Price is near the zero line: When the Awesome Oscillator Elliott Wave bars are back at the zero line, price has completed an old price swing and is building a new price swing. This means that it has reached an indecision spot: Price is in a reversal: if the Awesome Oscillator Elliott Wave bars are moving away from the zero line after recently crossing the zero line. Price is in a retracement or range: if the Awesome Oscillator Elliott Wave bars go sideways. Price is in a trend continuation: if the Awesome Oscillator Elliott Wave bars continue in the same direction (as the previous swing). How to Find the Price Swing Using Wave Trend Oscillator MT4 How do you recognize on the price chart what is the correct price swing when analysing the zero line of our wave trend indicator, the Awesome Oscillator Elliott Wave or macd.PRO,? As you now know, a new price swing is valid every time the Awesome Oscillator Elliott Wave indicator bar crosses the zero line. Once this occurs on the Awesome Oscillator Elliott Wave indicator, traders must analyse the price charts at the same moment as the Awesome Oscillator Elliott Wave bars are crossing the zero line. Then look for the most recent top or bottom which is the end of the previous price swing and the start of the new price swing. As indicated above, the cross of the zero line is key for understanding price swings and wave patterns. Here is an example of how traders can understand the process in more detail. The above image is an example where we zooming to one spot of the chart. Let’s now show a chart now which shows a larger piece of the price action. The above chart shows purple arrows, which indicate each time the Awesome Oscillator Elliott Wave bars cross the zero line. Each crossing of that zero line indicates the end of a price swing and wave pattern too. The purple boxes on the chart indicate the turning spot of each swing whereas the arrows in between the purple boxes show whether the price swing is a: Bearish impulse: red arrow Bullish impulse: blue arrow Bearish correction: green arrow Bullish correction: orange arrow Compare the above chart to a naked chart that you can see here below. Would you be able to achieve the same consistency with the Awesome Oscillator Elliott Wave as without the AO? Would you truly be able to recognise the price swings as quick and with the same consistency? That is possible for traders who have more experience but is much more difficult for traders that are beginning or intermediate. They are much better by using a rules based approach. All the rules connected to this and much, much more is what we fully explain in our ecs.SWAT methodology, which offers a clear wave trend strategy. Identifying Momentum & Correction with Wavetrend Oscillator Now that you know how you can find, measure, and analyse the correct price swing on any chart, we wanted to provide you with more examples on how to identify momentum and correction. This chart shows how strong Awesome Oscillator Elliott Wave bars moving away from the zero line. As a confirmation on the price chart, you can also see how price is moving away from the moving averages. The strong impulse is likely to see a bearish continuation once price makes a pullback, which occurs a little later. The Awesome Oscillator Elliott Wave bars go back to the zero line and complete a bullish correction and retracement. A strong breakout candle and ecs.SWAT candles start the downtrend again. Strong AO bars again emerge as they move away from the zero line, which signals a bearish continuation as expected. Here is a summary: A bigger retracement is taking place on the 1 hour chart because the 4 hour world is making a pullback. But we can see early signs of a trend continuation when price is close to the zero line and then falls below it. Both price and the AO bars fall dramatically after that before a larger pullback takes place and a final last push which creates a divergence pattern. Labelling Wave Patterns with Wavetrend Indicator Once you know how 1) to spot the correct price swing, 2) know its direction (bullish or bearish), and 3) know its behavior (impulsive or corrective), then you are well on your way to becoming an Elliott Wave analyst. Wave analysis is nothing more or less than analysing price swings from the past and analysing what the current and next price swing is likely to be. Analysing swings is like putting together a puzzle and you are using the pieces from the past to understand what piece might fit next. Although wave analysis might sound or seem complicated, its complexity is massively reduced when using a wave trend indicator or wave trend oscillator to understand price swings. But keep in mind that knowing how to do wave analysis is not necessary if you trade our ecs.SWAT method because we trade the waves without labeling them and you can do the same. Although we will not dive into all the facets of wave analysis in this sub paragraph of today’s article, we did want to provide an overview of how the the Awesome Oscillator (AO) works together with wave analysis. Once again, the AO is a great wave trend oscillator for the MT4 and works well for any trend wave strategy. Wave 1 The AO bars are showing a first stronger push away from the zero line, often into the opposite direction of the previous swing. Wave 2 A shallow retracement back to the zero line occurs, but the Awesome Oscillator Elliott Wave bars do not go much into the opposite direction. Wave 3 Strong Awesome Oscillator Elliott Wave bars push away from the zero line. Keep in mind that the wave 3 might become extended and hence you might see several strong pushes away from the zero line. Some of these pushes could all be part of a larger wave 3. Wave 4 Eventually the strong wave 3 will finish and a larger retracement will take place back to the zero line, which could easily occur on a higher time frame as well because waves 4 are often lengthy. Wave 5 The last push in the trend. The Awesome Oscillator Elliott Wave bars move away from the 0 line but not as much as the wave 3, which creates divergence because price does often make a higher high but the Awesome Oscillator Elliott Wave does not. Wave A The Awesome Oscillator Elliott Wave bars were closer to the zero line usually because the trend is becoming slower. The first counter trend move shows impulse as the AO bars cross the zero line and keep their speed, moving into the opposite direction. Wave B A last push with the previous trend but the Awesome Oscillator Elliott Wave bars hardly cross the zero line any more. Wave C The larger correction continues as a large push creates a 3rd counter trend wave. ABCDE triangle When a triangle or wedge chart pattern takes place, the Awesome Oscillator Elliott Wave bars will be mostly hanging around the zero line. Benefits of AO and macd.PRO for Trend Wave Strategy There are many benefits for using the correct price swings: Placing the Fibonacci tool on the right swing: the swing is the key concept for placing the Fib on the correct starting and ending spot. Knowing if a price swing is still in motion: is the price swing still ongoing. Knowing if a price swing has ended and a new one is starting: at one moment the old swing finishes and a new one starts. Understanding in more depth how the price swings connect within the Elliott Wave Theory: price swings are in fact that waves that we see on the price chart. Knowing the price swings makes it easier to spot and connect the waves. Understanding and spotting chart patterns easier: price swings Using all this info for trading decisions: knowing the direction and pace of the price swing helps us focus on the right trades. Simply said, a rules based approach for price swings is a must to understand the charts in more depth – in general. In specific, the AO and macd.PRO are both extremely valuable for identifying the correct price swings with a rules based approach. This in turn allows traders to make more sophisticated, quick, and educated analysis about Fibs, chart patterns, and momentum and correction. They are equally valuable in determining wave patterns because wave analysis is simply an analysis of price swings. Once you understand price swing, you will understand wave patterns too. In the field of Elliott Wave analysis both oscillators provide key information about the exact price swing, wave count, and wave pattern outlook. Here are the three major benefits of using the AO or the ecs.MACD as a wave trend indicator: Helps identify the correct price swings. Indicates and confirms momentum and correction. Labels the wave patterns. Problems Without Using Any Wavetrend Indicator If you do not use the AO or macd.PRO, the problem occur when applying a discretionary (and not a rules based method based on oscillators) approach to your wave analysis: Your analysis will be less accurate: identifying a wave without a wave trend oscillator is difficult and also time consuming. Most traders will not have the required experience to analysis waves without fixed rules. There are many waves and waves within waves. What is one price swing or wave? Can you repeat the same logic on each and every chart? In most cases, traders cannot manage this level of consistency. You will not have sufficient confidence when trading: although analysing the charts might work out fine, trading your wave analysis with actual capital always requires more confidence. The key to success in analysing and trading price swings and the Elliott Wave Theory is by applying a systematic way of identifying one single wave. This can be done via the AO and macd.PRO. Both are excellent wavetrend oscillators and wavetrend indicators. Our SWAT course explains exactly how to see and trade price swings and waves in a precise method with various trading systems and a clear wave trend strategy. SWAT is an excellent trend wave strategy. Are There Counter Opinions Against Using the Wavetrend Indicator for Elliott Waves? But there is a “dispute” among wave analysts and some believe that indicators do not play any significant role. The problem of spotting price swings and waves without any indicator help is that it quickly becomes confusing. Traders get lost in a sea of options: does this swing belong to this or that swing? This is especially true to beginning and intermediate traders. By using a wave trend oscillator and moving averages, the trader breaks down the learning process into more doable steps. They can build up experience and translate that into more specific trading ideas. If traders only look at price action, then the learning curve is much steeper, it is more difficult to gain confidence, and the trade ideas are often more confusing. Not using the wave trend oscillators at first is similar to driving a Formula 1 car at max speed without any training. The wave trend oscillators give you that well deserved training. Summary All in all, the Elliott Wave count with the Awesome Oscillator is a major asset when analysing the charts, price swings, and wave patterns as it helps you: Identify the correct price swing: Use the crossing of the Awesome Oscillator Elliott Wave bars below and above the zero line to know what is the price swing. You then know the start and end of each price swing on the chart as well (see above). You can also use the ecs.MACD. Both indicators work well as a wave trend oscillator for MT4. Understand the direction of the price swing: When Awesome Oscillator Elliott Wave bars are above the zero line, this mean that price is either showing bullish momentum or a strong bullish correction which depends on the context of the other price swing. In both cases though, the bulls are in control of the current price swing. Same is true of course when the Awesome Oscillator Elliott Wave bars are below the zero line, which means that the bears are in control. A wave trend oscillator is key for this step. To understand the behavior (impulse or correction) of the price swing: Traders can also understand the behavior of the price swing and estimate whether its impulsive or corrective. If price is showing a strong push (momentum / impulse) above the zero line, then a move back to and even below the zero line is often a retracement. But if the Awesome Oscillator Elliott Wave bars are crossing the zero line after a divergence pattern (Awesome Oscillator Elliott Wave bars showing a failure to make a higher high or lower low), then the chance of a reversal is increasing. A trend continuation is often impulsive, a retracement is often corrective whereas a reversal will most likely become impulsive. To determine the wave patterns of each swing: Once traders can find the correct price swing, can analyse whether its bullish or bearish, and can understand whether its corrective or impulsive, traders can then use that information to analyse, judge and evaluate the most likely wave patterns. Analysing wave patterns is nothing more or less than understanding the sequence of price swings. Mastering wave analysis is now within your reach. What Next? If you are interested in learning how to apply a wave trend indicator such as the macd.PRO and AO for analysing and trading waves, then we recommend becoming a SWAT 2.0 member. You will learn a wave trend strategy and benefit from the educational course with 22+ hours of recording, 74 videos, 10 systems, 3 methods, and dozen plus indicators. Keep in mind that knowing how to do wave analysis is absolutely unnecessary if you trade our ecs.SWAT method. The beauty of SWAT (Simple Wave Analysis & Trading) is that you can: trade the waves without knowing the waves. We built our SWAT methodology in such a way that you can benefit from the waves without needing to use the wave patterns themselves. Join our World of Trading by starting with ecs.SWAT ! Or feel free to also try our automated trading solutions as well. Good trading, Chris Svorcik Elite CurrenSea WaveTrend Divergences, Candle Colouring and TP Signal [LuciTech]WaveTrend is a momentum-based oscillator designed to track trend strength, detect divergences, and highlight potential take-profit zones using Bollinger Bands. It provides a clear visualization of market conditions to help traders identify trend shifts and exhaustion points. The WaveTrend Oscillator consists of a smoothed momentum line (WT Line) and a signal line, which work together to indicate trend direction and possible reversals. When the WT Line crosses above the signal line, it suggests bullish momentum, while crossing below signals bearish momentum. Candle colouring changes dynamically based on WaveTrend crossovers. If the WT Line crosses above the signal line, candles turn bullish. If the WT Line crosses below the signal line, candles turn bearish. This provides an immediate visual cue for trend direction. Divergence Detection identifies when price action contradicts the WaveTrend movement. Bullish Divergence appears when price makes a lower low, but the WT Line forms a higher low, suggesting weakening bearish pressure. Bearish Divergence appears when price makes a higher high, but the WT Line forms a lower high, indicating weakening bullish pressure. Plus (+) Divergences are stronger signals that occur when the first pivot of the divergence happens at an extreme level—above +60 for bearish divergence or below -60 for bullish divergence. These levels suggest the market is overbought or oversold, making the divergence more significant. Bollinger Band Signals highlight potential take-profit zones by detecting when the WT Line moves beyond its upper or lower Bollinger Band. If the WT Line crosses above the upper band, it signals stretched bullish momentum, suggesting a possible pullback or reversal. If the WT Line crosses below the lower band, it indicates stretched bearish momentum, warning of a potential bounce. How It Works The WaveTrend momentum calculation is based on an EMA-smoothed moving average to filter out noise and provide a more reliable trend indication. The WT Line (momentum line) fluctuates based on market momentum. The signal line smooths out the WT Line to help identify trend shifts. When the WT Line crosses above the signal line, it suggests buying pressure, and when it crosses below, it indicates selling pressure. Divergences are detected by comparing pivot highs and lows in price with pivot highs and lows in the WT Line. A pivot forms when a local high or low is confirmed after a certain number of bars. The indicator tracks whether price action and the WT Line are making opposite movements. If a divergence occurs and the first pivot was beyond ±60, it is marked as a Plus Divergence, making it a stronger reversal signal. Bollinger Bands are applied directly to the WT Line instead of price, identifying when the WT Line moves outside its volatility range. This helps traders recognize when momentum is overstretched and a potential reversal or retracement is likely. Settings Channel Length (default: 8) controls the period used to calculate the WT Line. Average Length (default: 16) smooths the WT Line for better trend detection. Divergences (on/off) enables or disables divergence plotting. Candle colouring (on/off) applies or removes trend-based candle colour changes. Bollinger Band Signals (on/off) toggles take-profit signals when the WT Line crosses the bands. Bullish/Bearish colours allow customization of divergence and signal colours. Interpretation The WaveTrend Oscillator helps traders assess market momentum and trend strength. Crossovers between the WT Line and signal line indicate potential trend reversals. Divergences warn of weakening momentum and possible reversals, with Plus Divergences acting as stronger signals. Bollinger Band Crosses highlight areas where momentum is overstretched, signaling potential profit-taking opportunities. One of the things which you’re told as a trader from Day 1 is not to try and call tops and bottoms. It’s impossible really to predict when selling and buying pressure are fading. However, some clever use of indicators, we can get pretty damn close.This is why I love using Lazybear’s Wave Trend with Crosses. The indicator raises my probabilities of catching the top. I primarily use for entry, waiting for extreme numbers and then placing a few small trades to try and catch a reversal.WTwC is a bit like RSI, but it’s slower and provides good results on the 12h and daily. It is prone to more noise at lower time frames.In this post I want to go through the code and dive into what makes this indicator work. Hopefully by the end you will know what you can do to adjust WTwC and use it for your own personal benefit. I’ve included the code in its entirety.Let’s begin.study(title=”WaveTrend with Crosses [LazyBear]”, shorttitle=”WT_CROSS_LB”)Study name and title, also shout out to Lazybear for his great work.n1 = input(10, “Channel Length”)n2 = input(21, “Average Length”)The first set of objects covers two inputs, 10 and 21, which are used later as the input lengths for EMAs. Making the numbers lower results in more signals, increasing them provides less signals.obLevel1 = input(60, “Over Bought Level 1”)obLevel2 = input(53, “Over Bought Level 2”)osLevel1 = input(-60, “Over Sold Level 1”)osLevel2 = input(-53, “Over Sold Level 2”)These are the levels which will define the extremes of the indicator. It works similar to RSI, where a level above 60 is considered overbought and a level below -60 is oversold. Unlike RSI, at least on the daily or 12, its rare that the readings would stay above or below these extremes for any extended period of time. We will discuss why later.ap = hlc3Sets ap equal to average of the high low and close. Open is not included in this as its extraneous. It’s contained in the close of the previous candle. In relation to price ap will match closely.esa = ema(ap, n1)Sets esa as equal to the exponential moving average of the average taken above of prices. In this case the EMA is based on the previous ten candles. Will also trend closely to price.d = ema(abs(ap — esa), n1)Sets d as equal to the EMA of the absolute value of the average minus the EMA of the average, with a length of the past 21 candles. This number is always going to be positive and will serve its purpose in the next part. It will be a fraction of the price.ci = (ap — esa) / (0.015 * d)This is the equation that sets up the rest of the indicator. It takes the average of HLC and subtracts the EMA of the past 10 (n1) bars. The result is divded by 1.5% of d. The top number can either be positive or negative, however d will always be positive, which allows the indicator to trend back and forth between the two overbought/sold levels. This number also limits how far tci, listed below, can range within the levels. Of the top of my head, the max which it can range should be around 90.tci = ema(ci, n2)A 21 period EMA of the previous formula. It’s a smoothing function.wt1 = tciwt2 = sma(wt1,4)Sets wt1 as equal to tci and wt2 as equal to the 4 period SMA of wt2. These two objects will be used to plot the indicator on the previously introduced Overbought and Oversold levels. I was wondering why he didn’t just use tci from above, but I think he wanted ease of coding when he was writing the plot functions.plot(0, color=gray)plot(obLevel1, color=red)plot(osLevel1, color=green)plot(obLevel2, color=red)plot(osLevel2, color=green)plot(wt1, color=green)plot(wt2, color=red)plot(wt1-wt2, color=blue, style=area, transp=80)plot(cross(wt1, wt2) ? wt2 : na, color = black , style = circles, linewidth = 3)plot(cross(wt1, wt2) ? wt2 : na, color = (wt2 — wt1 > 0 ? red : lime) , style = circles, linewidth = 2)barcolor(cross(wt1, wt2) ? (wt2 — wt1 > 0 ? aqua : yellow) : na)Most of the above are plot() functions to define the objects which need to be drawn. The main function here is the plot(cross()) which highlights when when wt1 crosses wt2.In effect WTwC takes the difference between the EMAs, divided its by its absolute value and then plots it.The questions I would have for lazybear would be the following:Why did you choose 1.5%? What’s the reasoning behind that.Why are the inputs defaulted at 10 and 21. For stocks its great. For Crypto, which runs 24/7, it still provides good results, but it may be better to slow it down.What are the changes to make for certain time frames?In another post I’m going to cover how I use WTwCross and go over how it can be impelented with other indicators. WaveTrend (WT) is an oscillator that follows the price swings and indicates when the market conditions are overbought/oversold. The WT plots two waves with highs (appear as a line) and lows (appear as dots) oscillating below/above the zero level. The oscillator also provides overbought/oversold levels (-60 and +60) and additional signal levels (-50 and +50) that appear as dots. When one of the oscillator's wave is above the overbought level and crosses down the signal level, it is considered a sell signal. Similarly, when one of the oscillator's wave is below the oversold level and crosses above the signal level, it is considered a buy signal. Additionally, WT plots the Wave Difference plot that shows the relationship between the high and low prices over specified period.WT = (10 * EMA((High + Low + 2Close)/4) - 21 * EMA((High + Low + 2Close)/4)) / sqrt(2 * 30 * Var((High + Low + 2*Close)/4))where:EMA – Exponential Moving AverageWaveTrendInputDescriptionChannelLengthThe number of bars used to calculate both WaveTrend1 and WaveTrend2 plotsAverageLengthThe number of bars used to calculate EMA that is applied to the WaveTrend1 and WaveTrend2 plotsOverBoughtLevel1The price to fix the overbought level atOverBoughtLevel2The price to fix the signal line for the overbought levelOverSoldLevel1The price to fix the oversold level atOverSoldLevel2The price to fix the signal line for the oversold levelThe plot renders the data you are working with on the chart. You can show/hide a plot by clicking the corresponding item in the settings. Every plot has a set of basic settings that you can change: color, weight, and type.PlotDescriptionZeroThe zero levelOverBought Level1The overbought levelOverBoughtLevel2The signal level for the overbought levelOverSoldLevel1The oversold levelOverSoldLevel2The signal level for the oversold levelWaveTrend1The plot going through the high pricesWaveTrend2The plot indicating the low pricesWaveDifferenceThe plot that visualizes the difference between WaveTrend1 and WaveTrend2ColorClick the color rectangle under the plot's name to open the palette. Use the slider at the bottom to set the opacity of the color.PaletteTo create a custom color:Clickto open the color pickerBy using the slider at the bottom, adjust the main colorThen, set a shade for the main color on the paletteThe custom-created colors are added to your palette. To remove a custom color, drag it out of the palette.WeightChange the value (in px) to adjust the thickness of the plot.TypeThe following plot types are available:Linear. The plot is displayed as a line.Column. The plot is displayed as a histogram.Difference. The plot is displayed as a line which represents the difference between High and Low prices of the bar.Points. The plot is displayed as points.Text above candle. The plot is displayed as the price labels above candles on the chart.Text below candle. The plot is displayed as the price labels below candles on the chart.Triangle above candle. The plot is displayed as triangles above candles on the chart.Color candle. The candles on candle-type charts are highlighted with specified colors.OVERLAYINGCheck Overlaying to display the indicator on the chart. Otherwise, the indicator is shown in a study pane down below.Note: To reset the settings, click Restore to Default next to the SETTINGS: INDICATOR'S TITLEWhat's Next In the world of financial markets and trading, technical analysis plays a pivotal role in helping traders make informed decisions. The WaveTrend Oscillator is one of the numerous technical indicators available that is used to identify trends and potential entry and exit points in the market. In this comprehensive guide, we will delve into the WaveTrend Oscillator, understanding its underlying principles, its calculations, interpretation, and practical application in trading strategies.What is the WaveTrend Oscillator?The WaveTrend Oscillator is a popular technical analysis indicator developed by LazyBear, a prominent trader and software developer in the financial markets. It aims to provide traders with insights into the market’s current trend strength and potential reversals. This indicator combines two essential components: a trend-following tool and an overbought/oversold oscillator. By blending these elements, the WaveTrend Oscillator offers traders a comprehensive view of price momentum and trend direction.WaveTrend OscillatorThe Calculation of WaveTrend OscillatorUnderstanding how an indicator is calculated is fundamental to grasping its implications. The WaveTrend Oscillator is no exception. To calculate the WaveTrend Oscillator, several steps are involved: Calculate the True Range (TR): The True Range is the maximum of three values: the current high minus the current low, the absolute value of the current high minus the previous close, and the absolute value of the current low minus the previous close.Calculate Average True Range (ATR): The ATR is the moving average of the True Range over a specified period. Typically, a 10-day ATR is commonly used.Calculate the WaveTrend Value (WT): The WaveTrend Value is the difference between the short-term EMA (Exponential Moving Average) and the long-term EMA. The short-term EMA is based on the average of the last n/2 TR values, while the long-term EMA is based on the average of the last n TR values. “n” represents the user-defined WaveTrend period.Calculate the WaveTrend Average (WTA): The WaveTrend Average smoothens the WaveTrend Value using an EMA with a specified smoothing period. Commonly, a 9-day EMA is used.Calculate the Overbought/Oversold Levels: The WaveTrend Oscillator generates overbought and oversold levels, which are user-defined and often set at +/-1. When the indicator crosses above the overbought level, it suggests a potential sell signal. Conversely, when it crosses below the oversold level, it indicates a possible buy signal.Interpreting the WaveTrend OscillatorNow that we understand how the WaveTrend Oscillator is calculated let’s explore how to interpret it:Trend Identification: The WaveTrend Oscillator helps identify the market trend. When the indicator values are positive, it indicates a bullish trend, suggesting that prices are likely to move higher. Conversely, negative values imply a bearish trend, indicating potential price declines. The magnitude of the values represents the strength of the trend.Overbought and Oversold Conditions: The WaveTrend Oscillator’s overbought and oversold levels (usually at +/-1) provide insights into potential reversal points in the market. When the indicator rises above the overbought level, it suggests that the asset may be overvalued, and a bearish reversal could occur. On the other hand, when it drops below the oversold level, it indicates that the asset may be undervalued, and a bullish reversal could be imminent.Divergence: Divergence occurs when the price of an asset and the WaveTrend Oscillator move in opposite directions. Bullish divergence happens when the price makes a lower low while the oscillator forms a higher low, indicating a possible bullish reversal. Bearish divergence occurs when the price creates a higher high, but the oscillator forms a lower high, implying a potential bearish reversal.Crossovers: Traders often look for crossovers between the WaveTrend Oscillator and its signal line (the WaveTrend Average). A bullish crossover happens when the oscillator crosses above its signal line, suggesting a potential buy signal. Conversely, a bearish crossover occurs when the oscillator crosses below its signal line, indicating a potential sell signal. Integrating the WaveTrend Oscillator into Trading StrategiesThe WaveTrend Oscillator is a versatile tool that can be utilized in various trading strategies. Here are some common ways traders integrate this indicator into their approaches:Trend Following: Traders can use the WaveTrend Oscillator to confirm trends in the market. When the oscillator maintains positive values, it suggests a strong bullish trend, and traders may consider entering or holding long positions. Conversely, when the oscillator holds negative values, a strong bearish trend is indicated, and traders may consider short positions.Reversal Trading: The WaveTrend Oscillator’s overbought and oversold levels offer potential reversal signals. Traders may look for overbought conditions as opportunities to sell or take profits, expecting a bearish reversal. Similarly, oversold conditions may present buying opportunities, anticipating a bullish reversal.Confirmation with Price Patterns: Traders can combine the WaveTrend Oscillator with traditional price patterns, such as double tops and bottoms or head and shoulders patterns, to validate potential entry or exit points.Divergence Strategy: Divergence between the WaveTrend Oscillator and price action can be a strong signal for a potential trend reversal. Traders may use this setup to enter counter-trend positions. Advantages and Limitations of the WaveTrend OscillatorLike any technical indicator, the WaveTrend Oscillator has its strengths and limitations:AdvantagesComprehensive Trend Analysis: The WaveTrend Oscillator combines trend-following and overbought/oversold analysis, providing traders with a holistic view of market conditions.Clear Entry and Exit Signals: The indicator’s overbought and oversold levels offer clear signals for potential entry and exit points.Versatility: The WaveTrend Oscillator can be used in various trading strategies and across different timeframes.Confirmation Tool: Traders often use this indicator in conjunction with other technical tools to confirm trading decisions.LimitationsWhipsaw in Choppy Markets: In choppy or sideways markets, the WaveTrend Oscillator may generate false signals, leading to whipsaw trading.Lagging Indicator: Like many other technical indicators, the WaveTrend Oscillator is a lagging indicator, meaning it reacts to past price action.Dependence on User Settings: The effectiveness of the indicator is influenced by the user-defined settings (e.g., WaveTrend period, overbought/oversold levels), which may require optimization for different assets and timeframes. ConclusionThe WaveTrend Oscillator is a nice technical analysis tool that provides valuable insights into trend identification, momentum, and potential reversal points. Traders can utilize this indicator to make more informed decisions when executing their trading strategies. However, it is crucial to remember that no single indicator can guarantee consistent profits in the financial markets. Therefore, combining the WaveTrend Oscillator with other technical and fundamental analysis tools can enhance trading performance and risk management.As with any trading tool, practice, backtesting, and continuous learning are essential to mastering the WaveTrend Oscillator and making it a valuable addition to a trader’s arsenal. Whether you are a novice or an experienced trader, the WaveTrend Oscillator can help you gain a better understanding of market dynamics and improve your overall trading proficiency. Self-confessed Forex Geek spending my days researching and testing everything forex related. I have many years of experience in the forex industry having reviewed thousands of forex robots, brokers, strategies, courses and more. I share my knowledge with you for free to help you learn more about the crazy world of forex trading! Read more about me. The WaveTrend Oscillator is a comprehensive technical indicator merging the Average True Range and Simple Moving Average indicators to assist traders in gauging market momentum, predicting potential trend reversals, and determining optimal entry and exit points Want to predict market shifts before they happen? The Wave Trend Oscillator is your go-to tool for identifying trend reversals and gauging momentum, giving you a sharp edge in your trading strategy. Discover how the Wave Trend Oscillator combines the ATR and SMA to offer sharp insights into market trends, momentum, and optimal entry/exit points for traders and investors. In the world of trading and investing, identifying trends and predicting potential reversals are essential for making informed decisions. One such tool that can significantly enhance your market analysis is the Wave Trend Oscillator. This momentum indicator, developed by the anonymous trader LazyBear, helps traders gauge the strength and direction of market trends. By merging two powerful indicators — Average True Range (ATR) and Simple Moving Average (SMA) — the Wave Trend Oscillator provides valuable insights into price action and volatility. Traders rely on this tool to spot trends, reversals, and potential buy/sell signals, making it an essential part of any technical analysis toolkit. Looking for information on Wave Trend Oscillator stock screener? Click here. The Wave Trend Oscillator gives traders an edge by providing clearer signals about market momentum. It works as a trend-following tool that, when interpreted correctly, can highlight the market’s direction and strength. The oscillator consists of two lines: The Wave Trend line (the actual indicator). The Signal line, which acts as a baseline. If the Wave Trend line crosses above the signal line, it’s seen as a bullish signal (uptrend), while a crossover below indicates a bearish trend (downtrend). Divergences between the oscillator and price action can also point to potential trend reversals. For example, if prices reach new highs but the Wave Trend fails to do so, this may signal a weakening trend and a possible reversal. This simple yet effective indicator makes it easier to spot the prevailing trend and get ahead of potential market shifts. Wave Trend Oscillator plotted along with MA(34) LazyBear, the creator of this tool, offers key recommendations for using the Wave Trend Oscillator effectively in your trading strategy: Identify Trend Direction: When the Wave Trend line is above the signal line, it suggests an uptrend, signaling that the price is likely to rise. Conversely, when the Wave Trend line is below the signal line, it indicates a downtrend, suggesting that prices may continue to fall. Utilize Multiple Timeframes: LazyBear emphasizes the importance of analyzing the Wave Trend Oscillator across different timeframes to get a comprehensive view of market trends. For instance, use a daily chart for an overall trend and a 1-hour chart for entry/exit points. Choose the Right Timeframe for Your Strategy: Tailor your timeframe to match your trading style. Swing traders may prefer daily charts, while short-term traders (scalpers) may use 5-minute charts. Combine with Other Indicators: For more accurate predictions, combine the Wave Trend Oscillator with other tools like moving averages, RSI, or MACD. This multi-indicator approach strengthens trade signals and enhances decision-making. Watch for Divergences: Divergences—when the price forms new highs or lows, but the Wave Trend Oscillator does not—can point to a reversal. Be alert to both bullish and bearish divergences. Risk Management is Key: Like any technical tool, the Wave Trend Oscillator is not foolproof. Combine it with proper risk management strategies like stop-loss orders to protect your capital. Also see: Stop Loss . . . and its importance in trading – Some ways of setting up stop loss levels Advantages Clear Trend Identification: Helps easily recognize the market’s momentum and direction, enhancing trade timing. Adaptability Across Timeframes: Useful across different timeframes, making it flexible for various trading strategies. Effective with Other Indicators: Works well with other tools like moving averages to confirm trade signals. Divergence Insights: Helps spot potential reversals through divergence analysis. Limitations May Produce False Signals: The Wave Trend Oscillator, like any indicator, can give misleading signals in certain market conditions. Lagging Indicator: As a lagging tool, it reacts to price changes, meaning it may not always predict trends ahead of time. Less Effective in Low-Volatility Markets: The oscillator works best in trending markets and may struggle during periods of consolidation or low volatility. Requires Interpretation: Its effectiveness depends on the trader’s ability to correctly interpret signals and use them in conjunction with other analysis techniques. The Wave Trend Oscillator is a powerful tool that can significantly enhance your ability to spot trends and market reversals. By combining it with other indicators and using it across multiple timeframes, you can develop a robust trading strategy that improves decision-making and risk management. Want to take your technical analysis to the next level? Sign up for a 4-week paid evaluation trial of ChartAlert, and see how our end-of-day scanning and real-time features can supercharge your market analysis. Don’t miss out—start today! For examples of customizable Wave Trend Oscillator factory scans that can be edited, modified, or revised, and subsequently scanned through ChartAlert’s native stock screener or technical analysis scanner, click here. The WaveTrend [+] based on “Enhanced WaveTrend” of EliCobra. The WaveTrend Oscillator is a popular technical analysis tool used to identify overbought and oversold conditions in the market and generate trading signals. This indicator introduces additional features for improved analysis and comparison across assets.WaveTrend:The original WaveTrend indicator calculates two lines based on exponential moving averages and their relationship to the asset's price. The first line measures the distance between the asset's price and its EMA, while the second line smooths the first line over a specific period. The result is divided by 0.015 multiplied by the smoothed difference ('d' for reference). The indicator aims to identify overbought and oversold conditions by analyzing the relationship between the two lines.In the original formula, the rudimentary estimation factor 0.015 times 'd' fails to accomodate for approximately a quarter of the data, preventing the indicator from reaching the traditional stationary levels of +-100. This limitation renders the indicator quantitatively biased, as it relies on the user's subjective adjustment of the levels. The enhanced version replaces this factor with the standard deviation of the asset's price, resulting in improved estimation accuracy and provides a more dynamic and robust outcome, we thereafter multiply the result by 100 to achieve a more traditional oscillation.Enhancements and Features: Dynamic Estimation: The original indicator uses an arbitrary estimation factor, while the enhanced version replaces it with the standard deviation of the asset's price. This modification provides a more dynamic and accurate estimation, adapting to the specific price characteristics of each asset. Stationary Support and Resistance Levels: The enhanced version provides stationary key support and resistance levels that range from -150 to 150. These levels are determined based on the analysis of the indicator's data and encompass more than 95% of the indicator's values. These levels offer important reference points for traders to identify potential price reversals or significant price movements. Comparison Across Assets: The enhanced version allows for better comparison and analysis across different assets. By incorporating the standard deviation of the asset's price, the indicator provides a more consistent and comparable interpretation of the market conditions across multiple assets.Z-Score Analysis:The Z-Score is a statistical measurement that quantifies how far a particular data point deviates from the mean in terms of standard deviations. In the enhanced version, the calculation involves determining the basis (mean) and deviation (standard deviation) of the asset's price to calculate its Z-Score, thereafter applying a smoothing technique to generate the final WaveTrend value.Utility:The offers traders and investors valuable insights into overbought and oversold conditions in the market. By analyzing the indicator's values and referencing the stationary support and resistance levels, traders can identify potential trend reversals, evaluate market strength, and make better informed analysis.The following indicators were added: Squeeze Momentum Indicator Elliott Wave Oscillator Expert Trend Locator [XTL]Small update : Use Black Background (option)Now you can change the type of moving average of the "WaveTrend Oscillator". If you change the moving average type then you have to change the "Reversion Threshold" value.Added "Ultimate Smoother" which is an implementation of the digital smoothing filter introduced by John Ehlers in his article "The Ultimate Smoother".Pine Script v6 Update.The way of displaying divergences has been changed, now they are marked according to the DoctaBot author's algorithm. The DMI (Directional Movement Index) indicator has been added, which is mainly used to identify the direction and strength of a market trend. The ADX can be observed together with the other indicators, as it works as a good filter. The default key level is 23 but you can modify it to your liking.ADX measures the strength of the trend, without indicating its direction. Values above 23 suggest a strong trend, while values below 23 indicate weakness or sideways range.DMI consists of two lines:+DI (green line): measures the strength of the uptrend.-DI (orange line): Measures the strength of the downtrend