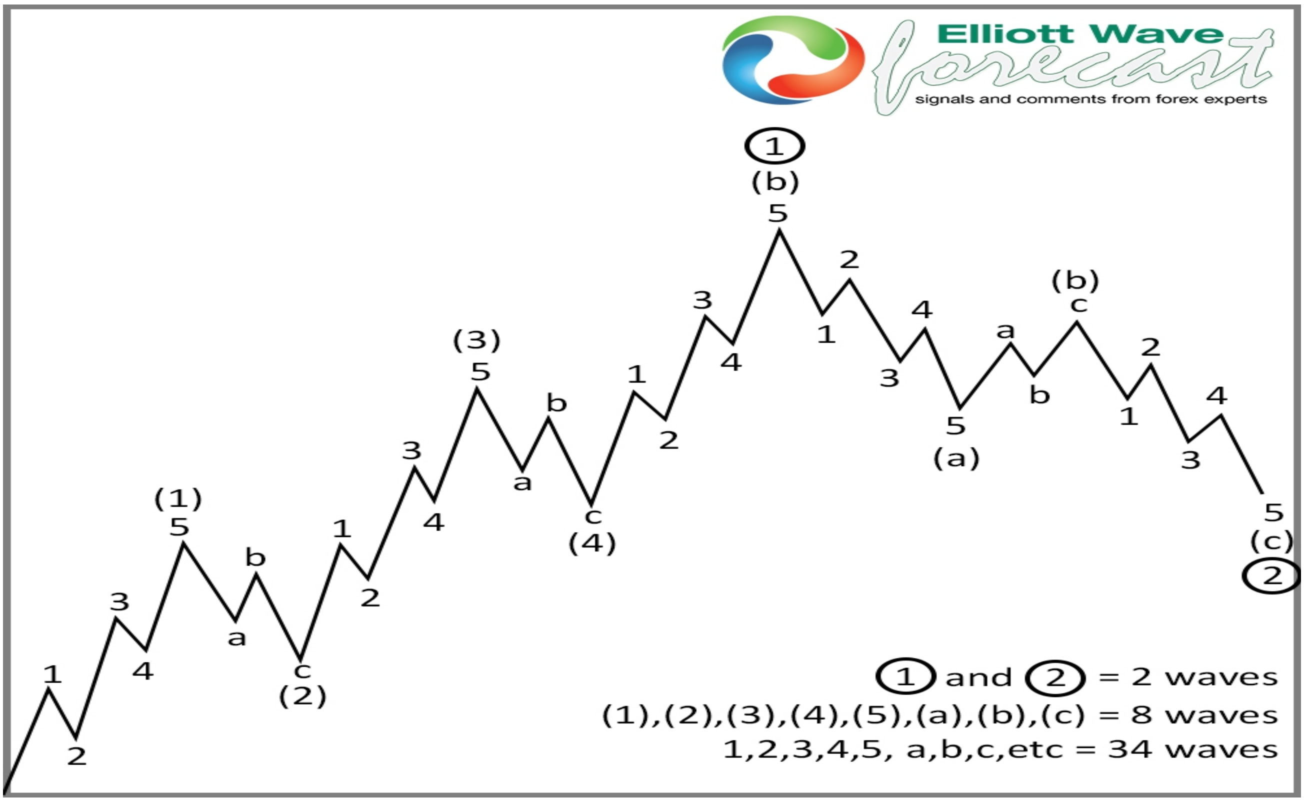
# History

The Elliott Wave Theory is named after Ralph Nelson Elliott. In the 1930s, Ralph Nelson Elliott found that the markets exhibited certain repeated patterns. His primary research was with stock market data for the Dow Jones Industrial Average. This research identified patterns or waves that recur in the markets. Very simply, in the direction of the trend, expect five waves. Any corrections against the trend are in three waves. Three wave corrections are lettered as "a, b, c." These patterns can be seen in long-term as well as in short-term charts.

In Elliott's model, market prices alternate between an impulsive, or *motive* phase, and a corrective phase on all time scales of trend, as the illustration shows. Impulses are always subdivided into a set of 5 lower-degree waves, alternating again between motive and corrective character, so that waves 1, 3, and 5 are impulses, and waves 2 and 4 are smaller retraces of waves 1 and 3.

Corrective waves subdivide into 3 smaller-degree waves. In a bear market the dominant trend is downward, so the pattern is reversed—five waves down and three up. Motive waves always move with the trend, while corrective waves move against it and hence called corrective waves.

Ideally, smaller patterns can be identified within bigger patterns. In this sense, Elliott Waves are like a piece of broccoli, where the smaller piece, if broken off from the bigger piece, does, in fact, look like the big piece. This information (about smaller patterns fitting into bigger patterns), coupled with the Fibonacci relationships between the waves, offers the trader a level of anticipation and/or prediction when searching for and identifying trading opportunities with solid reward/risk ratios.




# Cycles

Grand supercycle: multi-century

Supercycle: multi-decade (about 40–70 years)

Cycle: one year to several years (or even several decades under an Elliott Extension)

Primary: a few months to a couple of years

Intermediate: weeks to months

Minor: weeks

Minute: days

Minuette: hours

Subminuette: minutes

## Elliott Wave Personality & Characteristics

**Wave 1:** Wave one is rarely obvious at its inception. When the first wave of a new bull market begins, the fundamental news is almost universally negative. The previous trend is considered still strongly in force. Fundamental analysts continue to revise their earnings estimates lower; the economy probably does not look strong. Sentiment surveys are decidedly bearish, put options are in vogue, and implied volatility in the options market is high. Volume might increase a bit as prices rise, but not by enough to alert many technical analysts.

**Wave 2:** Wave two corrects wave one, but can never extend beyond the starting point of wave one. Typically, the news is still bad. As prices retest the prior low, bearish sentiment quickly builds, and "the crowd" haughtily reminds all that the bear market is still deeply ensconced. Still, some positive signs appear for those who are looking: volume should be lower during wave two than during wave one, prices usually do not retrace more than 61.8% (see Fibonacci section below) of the wave one gains, and prices should fall in a three wave pattern.

**Wave 3:** Wave three is usually the largest and most powerful wave in a trend (although some research suggests that in commodity markets, wave five is the largest). The news is now positive and fundamental analysts start to raise earnings estimates. Prices rise quickly, corrections are short-lived and shallow. Anyone looking to "get in on a pullback" will likely miss the boat. As wave three starts, the news is probably still bearish, and most market players remain negative; but by wave three's midpoint, "the crowd" will often join the new bullish trend. Wave three often extends wave one by a ratio of 1.618:1 or more.

**Wave 4:** Wave four is typically clearly corrective. Prices may meander sideways for an extended period, and wave four typically retraces less than 38.2% of wave three (see Fibonacci relationships below). Volume is well below than that of wave three. This is a good place to buy a pull back if you understand the potential ahead for wave 5. Still, fourth waves are often frustrating because of their lack of progress in the larger trend.

**Wave 5:** Wave five is the final leg in the direction of the dominant trend. The news is almost universally positive and everyone is bullish. Unfortunately, this is when many average investors finally buy in, right before the top. Volume is often lower in wave five than in wave three, and many momentum indicators start to show divergences (prices reach a new high but the indicators do not reach a new peak).

**Wave A:** Corrections are typically harder to identify than impulse moves. In wave A of a bear market, the fundamental news is usually still positive. Most analysts see the drop as a correction in a still-active bull market.

**Wave B:** Prices reverse higher, which many see as a resumption of the now long-gone bull market. Those familiar with classical technical analysis may see the peak as the right shoulder of a head and shoulders reversal pattern. The volume during wave B should be lower than in wave A. By this point, fundamentals are probably no longer improving, but they most likely have not yet turned negative.

**Wave C:** Prices move impulsively lower in five waves. Volume picks up, and by the third leg of wave C, almost everyone realizes that a bear market is firmly entrenched. Wave C is typically at least as large as wave A and could extend as much as 1.618 times wave A.

## Basic Rules

There is 3 basic rules in 1930's (Old) version of Elliott Wave Principle which are listed below

1) Wave 2 always retraces less than 100% of wave 1.

2) Wave 3 cannot be the shortest of the three impulse waves, namely waves 1, 3 and 5.

3) Wave 4 does not overlap with the price territory of wave 1, except in the rare case of a diagonal triangle.

## Fibonacci ratios

### Extensions

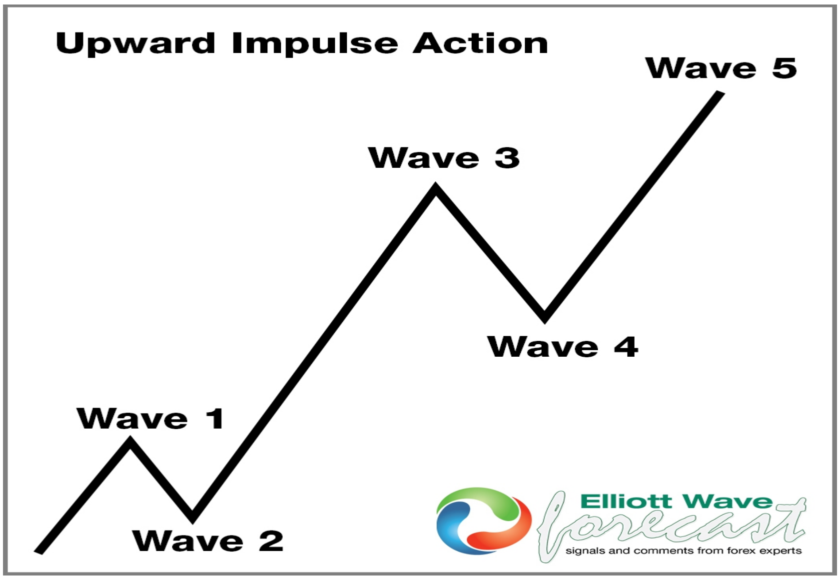
1.00, 1.236, 1.618, 2.00, 2.618, 3.236, 4.236, 6.81

### Retracement

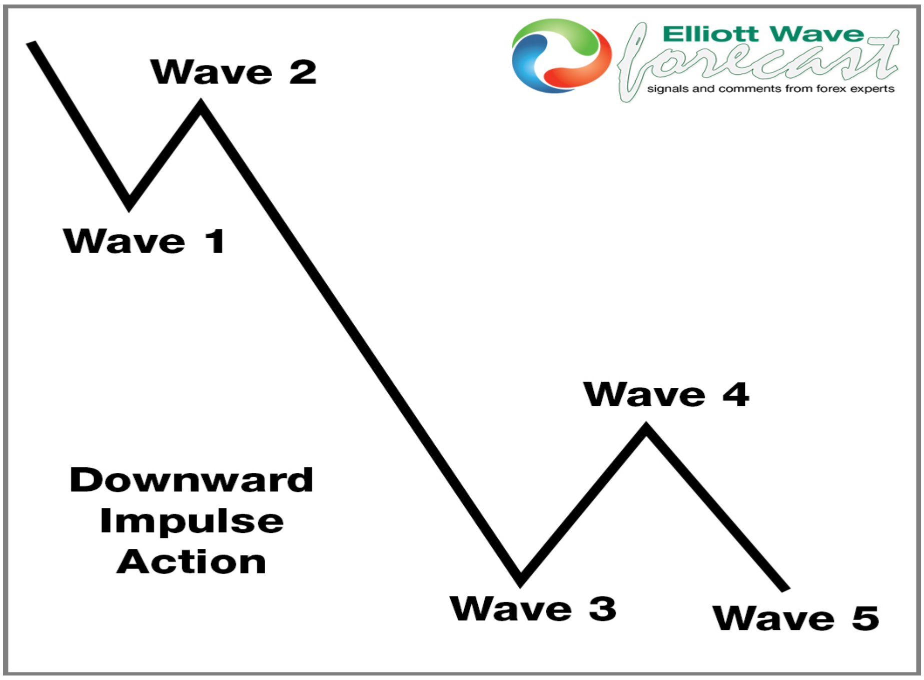
14.6, 23.6, 38.2, 50, 61.8, 76.4, 85.4

## Basic Structures

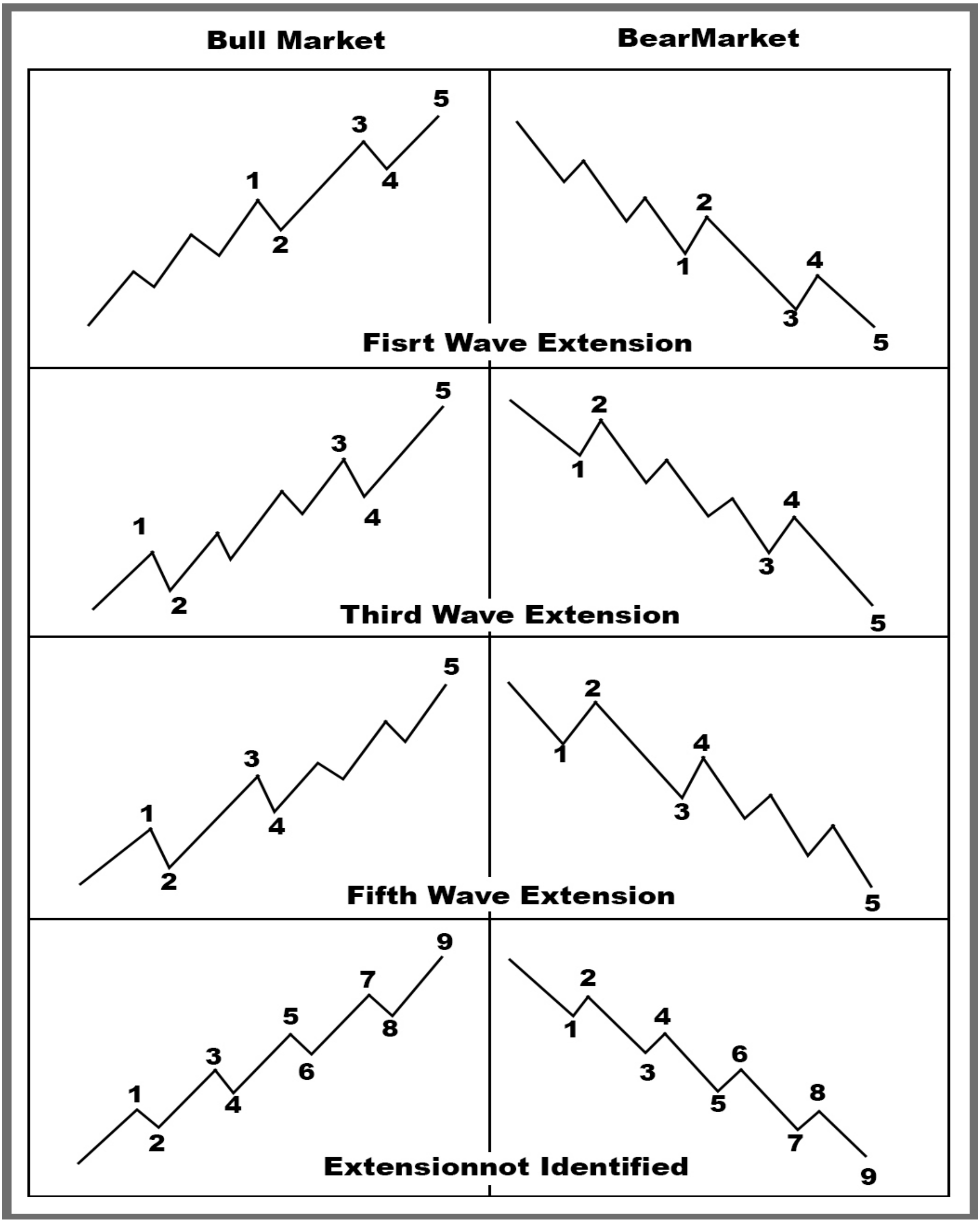
Upward Impulse Action




Downward Impulse Action

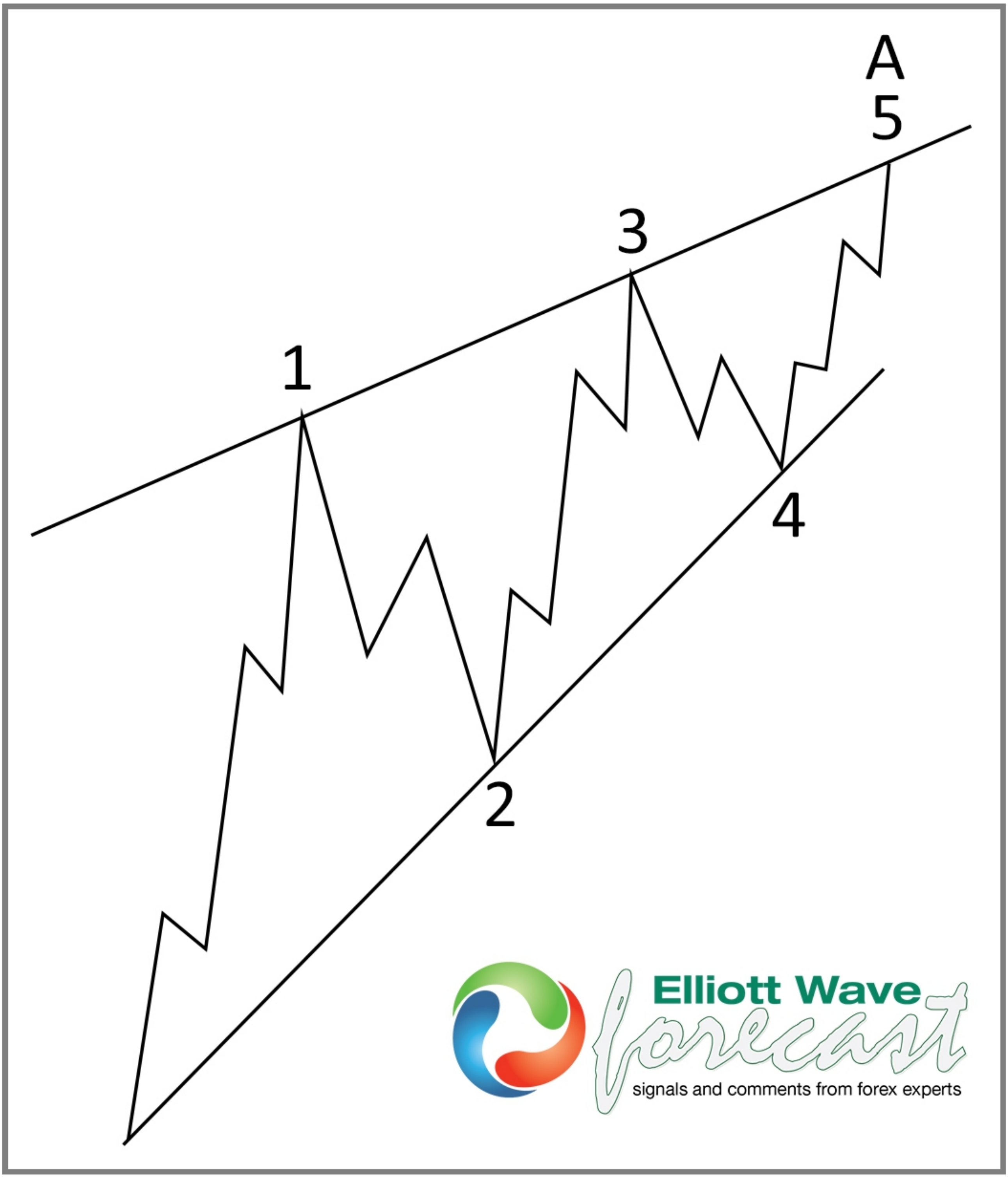


Bull & Beark Market Extensions



Leading & Ending Diagonals

Ending Diagonals are sub-divided as 3-3-3-3-3 whereas Leading Diagonals could be either 5-3-5-3-5 or 3-3-3-3-3. Graphic below shows a Leading Diagonal wave A when waves 1, 3, and 5 are sub-divided in 5 waves and 2 and 4 are sub-divided in 3 waves.



## Corrective Patterns

There is 4 main categories of corrective patterns

*Zigzags* (5-3-5; includes three variations: single, double, triple);

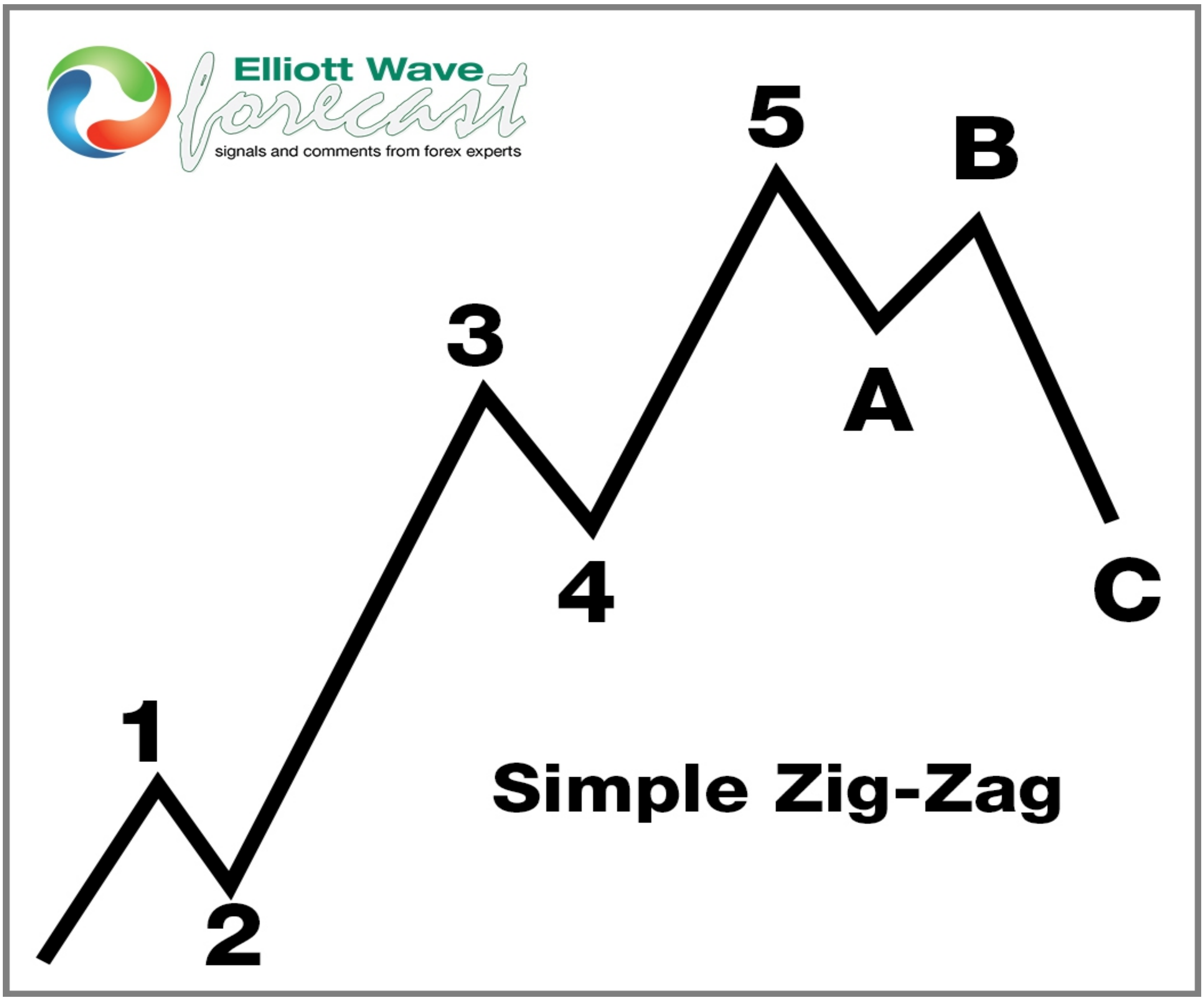
*Flats* (3-3-5; includes three variations: regular, expanded, running);

*Triangles* (3-3-3-3-3; four types: ascending, descending, contracting, expanding);

*Double threes* and *triple threes* (combined structures)

Zigzag

Zigzag is a 5-3-5 structure where both wave A and C are sub-divided in 5 waves



FLATs

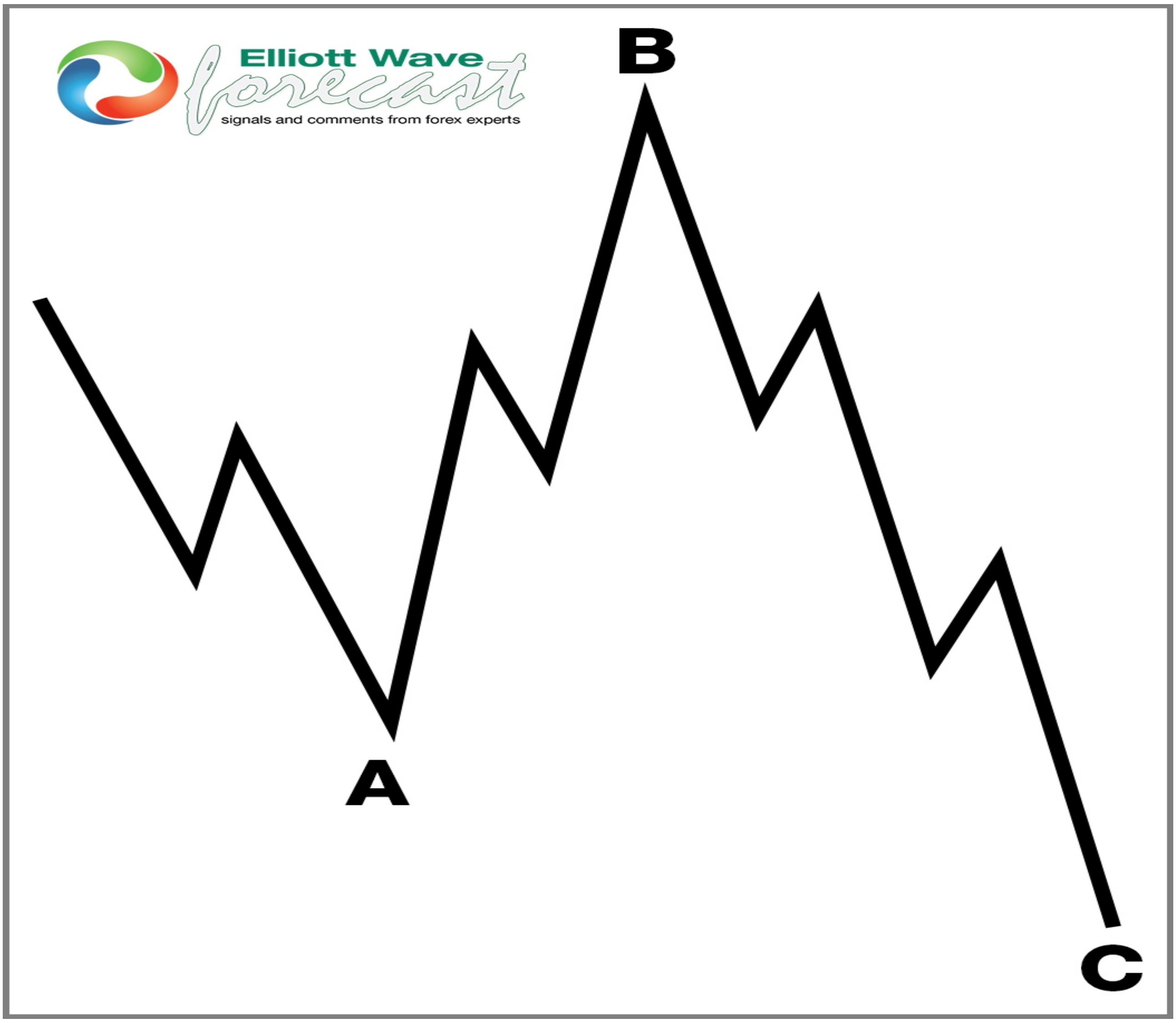
FLAT is a 3-3-5 correction in which wave A and B are in 3 waves and wave C is in 5 waves. There is 3 types of FLAT correction, regular, expanded and running.

*Regular flat* correction: Wave B terminates about at the level of the beginning of wave A, and wave C terminates a slight bit past the end of wave A.

*Expanded flat* correcion: Wave B of the 3-3-5 pattern terminates beyond the starting level of wave A, and wave C ends more substantially beyond the ending level of wave A

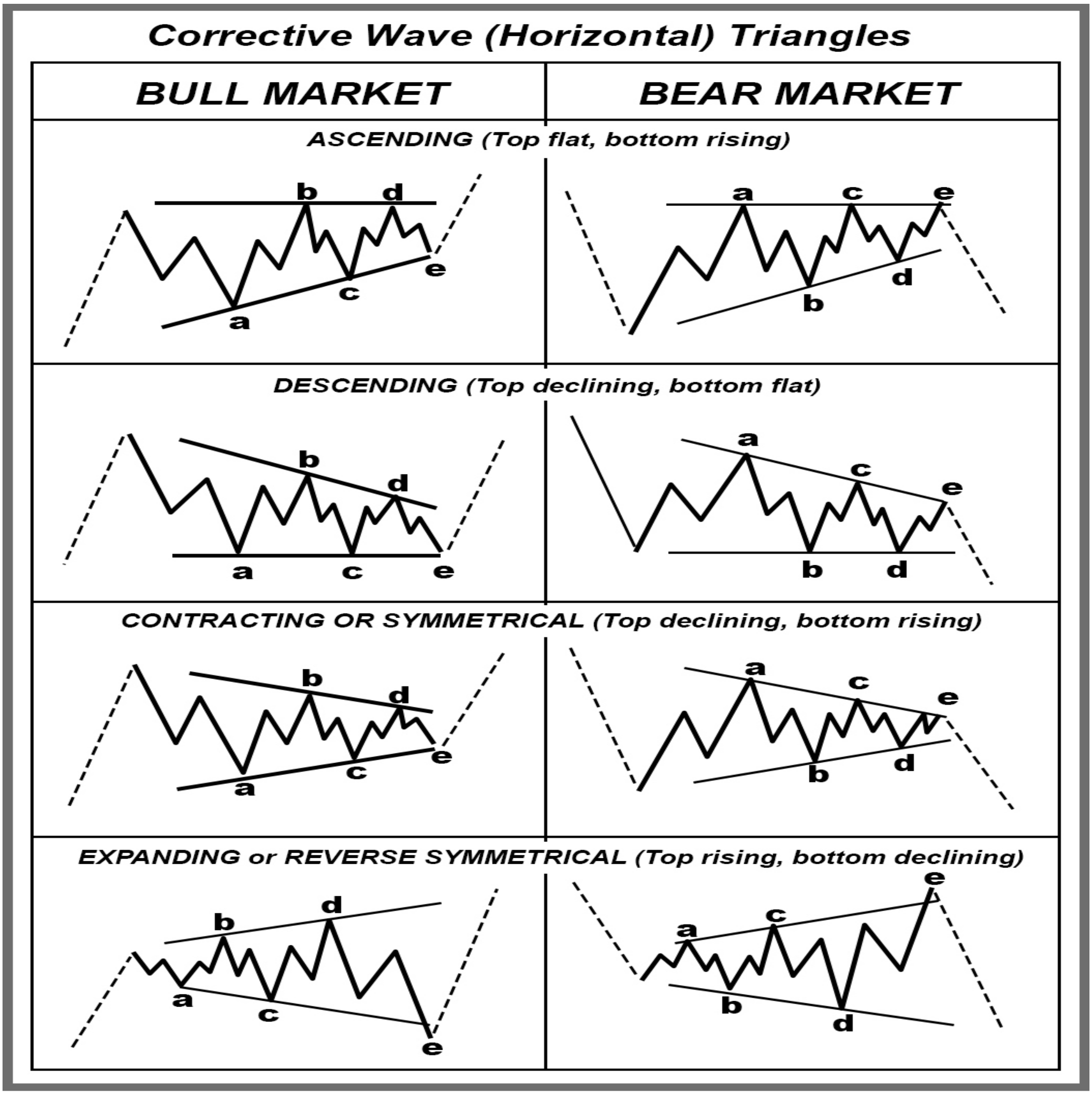
*Running flat* correction: Wave B terminates well beyond the beginning of wave A as in an expanded flat, but wave C fails to travel its full distance, falling short of the level at which wave A ended

Graphic below demonstrates an *Expanded flat* correction

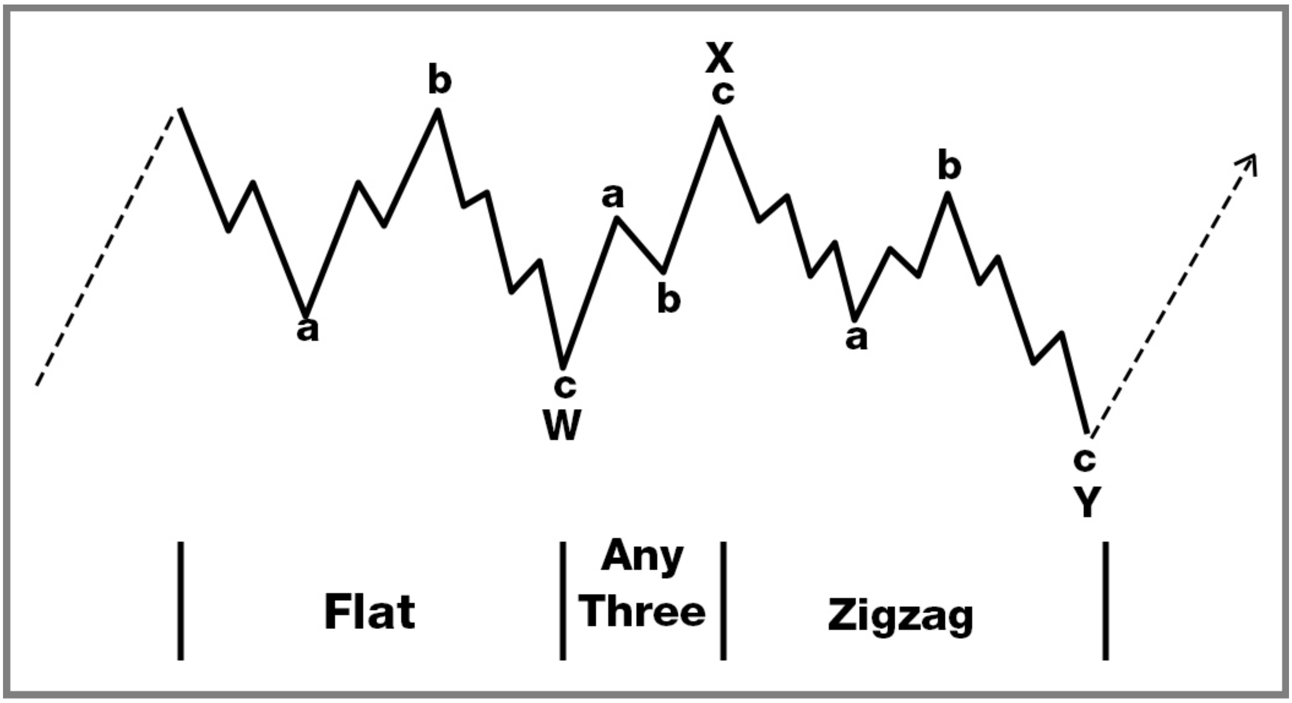


Triangles

Triangles have 5 sides and each side is sub-divided in 3 waves hence forming a 3-3-3-3-3 structure. There is 4 types of triangles i.e ascending, descending, contracting and expanding. They are illustrated in the graphic below



Combined Structures (double threes and triple threes)




## New Elliott Wave Principle

The Elliott Wave Principle posits that collective investor psychology, or crowd psychology, moves between 2 extremes i.e. optimism and pessimism in natural sequences. These mood swings create patterns which can be viewed in the price movements of markets at every degree of trend or time scale. Elliott Wave Principle was discovered in 1930's and human nature has evolved since 1930's. There have been a lot of new developments in the way we live our lives, the way we think and the way we make decisions. It’s not just humans who have changed; markets have changed as well and don’t operate the same way they did back in 1930’s.
In today’s world, market behavior is no longer based on psychology as it used to be in the past. Market is now ruled by computers also known as algo’s or algorithms. Computers don’t have emotions, don’t think or react like humans. They trade based on a code (set of precise rules) and often we see cycles ending at exact 50% Fibonacci retracement or equality targets which means there is either a very high percentage of traders buying or selling at these levels or there is few very powerful buyers / sellers appearing at these levels which results in cycles ending. There are

many different types of technical analysis techniques so it wouldn't take a genius to figure out that it's practically impossible to have a very high percentage of traders buying or selling at the same levels. It is really the few very powerful buyers / sellers who have the capacity to do this. Many call them smart money; we call them the Market marker who has nothing to do with the market psychology, crowd behavior or collective thinking and has more to do with the technicals and code that they follow.

As a trader with a huge back ground in Mathematics, I (Eric Morera, founder and chief analyst) always loved the idea that the Market follows patterns, more like following a map which can be created or drawn using the Elliott Wave Principle. I started using Elliott Wave and fell in love with the Idea of the patterns repeating themselves and how it all made sense when I was able to identify ABC , WXY ,Triangles and Motive waves. After years of practicing Elliott Wave Principle, I figured that Principle was very subjective and there was something missing. For example, when I saw a 5 wave move, I thought a new trend was coming in to later find out that 5 wave move was part of a FLAT correction and I thought there must be something that I could look at validate or invalidate Elliott wave patterns / structures.

I founded www.elliottwave-forecast.com and started updating a lot of instrument in the Daily basis and started observing how the original Principle was lacking an update. We keep changing the operating system in our computers, laptops, tables every 2-3 years because if we don't, we will be left behind. Similarly, cars manufactured today are not the same as the ones built in 1930's. When everything else has been improved / adjusted to the current times, then why no one thought of adjusting the Elliott Wave Principle of 1930's to the way the markets operate today. After years of research and studying the current market behavior, we took the liberty to add 18 new rules on top of the original set of rules. We don't mean no disrespect to the original work done Mr R.N. Elliott and all we have done is updated the Principle to make it more relevant to today's markets to avoid the flaws created by using simple set of 3 rules. For example,

We don't label a triangle unless the momentum indicators also show contraction just like price.

We don't label a motive wave without RSI divergence between wave 3 and 5

We don't label a wave 4 that retraces more than 50% of wave 3

Take a look at some examples here

Mr. Elliott didn't have the luxury to look at RSI or CCI to gather crucial information but we do and it's imperative that we make use of the tools available to us and not keep labeling and trading the way it was done back in 1930's.

Majority wavers believe that markets trend in 5 waves and correct in 3 waves and Elliott Wave Principle is mostly about spotting a 5 wave move and then trading the next leg after 3 waves pull back. Reality is that 90% of the times, the Market moves in 3 waves regardless of whether it is correcting or trending. Majority of the times, a 5 waves move become an ABC (5-3-5) and this is a reality, not an illusion. So how does one differentiate between a trending market and a market which is in a correction if both are going to be in 3 wave sequences. We at www.elliottwave-forecast.com have created a system of pivots through which we identify the ruling cycle and the trend and as far as the ruling pivot remains intact, we treat pull backs to be corrective. We also follow the swing sequence to differentiate between an impulsive (5 wave) and a corrective structure. Knowing the sequence in which the market is moving and the number of swings needed to complete the cycle/structure helps us stay on right side of the market. We have added these sequences to the 18 rules of the New Elliott Wave Principle and it works beautifully to avoid being caught on wrong side of the market, not falling in traps of FLATs etc. Fellow traders understand that the Market has changed and consequently the way we trade and there is need to upgrade the Principle to keep it alive. In general, The Elliott Wave Principle is a great tool but cannot be used by itself or like in 1930's,it needs to be upgraded and be used as part of a system to make it work. We give a lot of respect and credit to Mr. R.N Elliott for a great job and discovery in 1930's but traders and investors of today need to understand the need to improve and upgrade the Principle to get high quality forecasting www.elliottwave-forecast.com ollows the simple path or trend of the Human nature i.e. upgrading and discovering new things, living in the present and not in the past.

We do NEW Elliott Wave Analysis of 26 instruments in 4 times frames (Weekly, Daily, 4 Hour and 1 Hour) with 1 hour charts updated 4 times a day so clients are always in loop for the next move. Twice daily live analysis sessions are a great opportunity for the clients to learn and interact with our analysts. Weekend Seminar provides the strategy and directional forecast for the week ahead.Daily Technical Video helps clients plan their trades for the next 24 hours and there is a 24 Hour Chat Room where clients receive timely updates on current wave structures & price movements and can ask questions to one of our experienced analysts. We invite you to Sign up for 14 day Trial of our services and see what we have to offer.

Want to learn more about Elliott Wave & Advanced techniques used for analysis at Elliottwave-Forecast.Com , check out our 3 Educational Seminar Recordings here

Thank you for reading and Good Luck

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