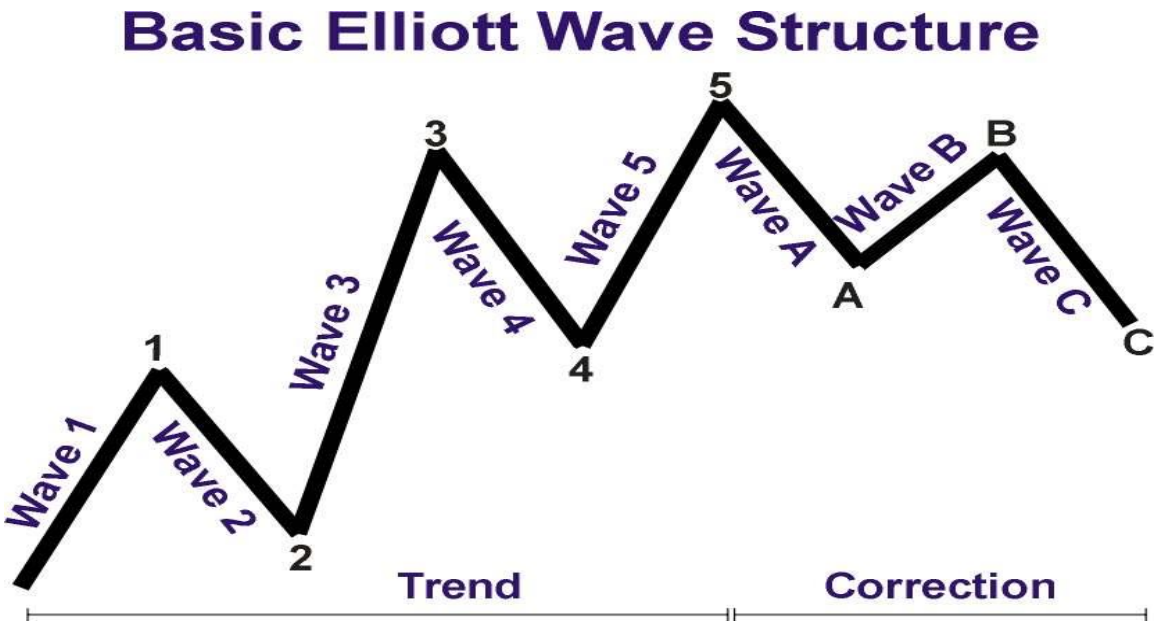
Elliott Waves

The Elliott Wave Theory is named after Ralph Nelson Elliott. Inspired by the Dow Theory and by observations found throughout nature, Elliott concluded that the movement of the stock market could be predicted by observing and identifying a repetitive pattern of waves. – ElliottWave.com

Each Elliott Wave is composed of smaller sub-waves. The basic structure is one wave of 5 sub-waves with the trend, for example the sub-waves are labeled Waves 1-5, then another of 3 sub-waves against the trend, sub-Waves A-C.



Waves 1, 3, 5, A, C & E are usually *Impulse* waves that move ***with*** *the trend or correction, and usually* contain 5 sub-waves labeled i-ii-iii-iv-v.

Waves 2, 4, B & D are usually *Corrective* waves that move ***against*** *the trend, correction* or sometimes sideways, and *usually* contain 3 sub-waves labeled a-b-c. Waves 2 and 4 often alternate in complexity, so that one may have 5 sub-waves a-b-c-d-e.

The hierarchy of wave labels is ((I)), (I), I, ((1)), (1), 1, ((i)), (i), i, for impulse waves and [[A]], [A], a, ((A)), (A), A, ((a)), (a), a for corrective waves. ((..)) and [[..]] represent the *circled* notation such as ©, since not able to do circles easily on charts, in text or here. ***One possible set*** of notation could be :

Chart	Trend (Impulse Waves)	Correction (Corrective Waves)	Line Weight, Color
Yearly	(I)	[[A]]	**Heavy Purple**
Monthly	I	[A]	**Heavy Red**
Weekly	((1))	((A))	**Heavy Blue**
Daily	(1)	(A)	**Heavy Black**
4-Hour	1	A	**Thick Red**
Hourly	((i))	((a))	**Thick Blue**
15-Minute	(i)	(a)	**Thick Black**
5-Minute	i	a	Medium Black

Basic Elliott Wave Pattern Guidelines (adapted from Prechter and websites)

Fibonacci percentage sizes and retracements are typical, not absolute, are based on the price levels not length of the Wave 3 line, and the decimals are rounded to the nearest whole %, such as 61.8% to 62%. Here we use impulse Waves 1-5 and corrective Waves A-C.

1. Wave 1 is the first impulse (with the trend), and is 38%-62% of the previous correction
2. Wave 2 travels 38% to usually 62%, but never more 100% of Wave 1
3. Wave 3 is never the shortest when compared to Waves 1 and 5. As a guideline Wave 3 shows the greatest momentum, except when Wave 5 is an extended wave. As the longest, it travels 162%-262% of Wave 1.
4. Wave 4 generally does not overlap Wave 1, but never overlaps in a third (higher) Wave. Goal: 14% (strong trend), 23% to generally 38% into the territory of the 4th wave of Wave 3.
5. Wave 5 must exceed the end of Wave 3. Goal: 62%-100% of Wave 1, 62% of Wave 1+3, or if extended, as much as 162% of Wave 3 or Wave 1+3.
6. Wave A generally retraces 3 sub-waves (flat) to 38% of Waves 1-5 into the territory of the Wave 4, or 5 sub-waves (zig-zag) to 62% of Wave 5
7. Wave B retraces 62% of a 5-sub-wave Wave A (zig-zag), or 100% of a 3-sub-wave Wave A (flat)
8. Wave C is at least 100% of Wave A, and goes beyond the end of a 5-sub-wave Wave A or shouldn't go beyond the end of a 3-sub-wave Wave A

As a guideline the internal corrective wave structure should show alternation, which means different kind of corrective structures in Wave 2 and 4.

Note – you can label your wave **lines** on the ProCharts with a right-click *on the line* and 'Set Name' vs 'Add Text' from various menus, though the text size can't be modified for Set Name.

Trading Strategies

See References, especially Elliott-Wave-Theory.com

References

Much more at ElliottWave.com,.
To print out the 'book' starting at *General Information*, highlight the text (excluding the navigation) then File | Print (or ctrl-p) with the 'Selection' option. OR download and print Elliott Wave Crash Course "Book" from that site, compiled from an OTR participant.

ElliottWave.com - see *Education* then *Basic Tutorial*. Registration required, but bi-daily newsletter worth it.

Robert Prechter Books – his 1978 and 1998 *Elliott Wave Principle: Key to Market Behavior are the basic texts*. *The Wave Principle of Human Social Behavior and the New Science of Socionomics* is interesting reading for a broader perspective.

Stored at ElliottWaves.pskhj.com