



Elliot Wave Theory

EW Wedges

EW Consolidation

EW and Fibs?

The Rules

The Waves

What is Elliot Wave Theory?

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Elliot Wave Theory

Elliot Wave theory is one of the most accepted and widely used forms of technical analysis. It describes the natural rhythm of crowd psychology in the market, which manifests itself in waves. The essence of Elliott waves is that prices alternate between impulsive phases that establish the trend and corrective phases that retrace the trend. In their most basic and straightforward form, impulses contain 5 lower degree waves and corrections contain 3 lower degree waves.

Elliot Wave Theory is named after Ralph Nelson Elliott. He was an American accountant and author. Elliott found that the movement of the market could be predicted by observing and identifying a repetitive pattern of waves.

Elliott was able to analyze markets in greater depth, identifying the specific characteristics of wave patterns and making detailed market predictions based on the patterns. Elliott based part his work on the Dow Theory, which also defines price movement in terms of waves, but Elliott discovered the fractal nature of market action. Elliott first published his theory of the market patterns in the book titled The Wave Principle in 1938.

Simply put, movement in the direction of the trend is unfolding in 5 waves (called impulse wave) while any correction against the trend is in three waves (called corrective wave).

The movement in the direction of the trend is labelled as 1, 2, 3, 4, and 5. The three wave correction is labelled as a, b, and c. These patterns can be seen in long term as well as short term charts.

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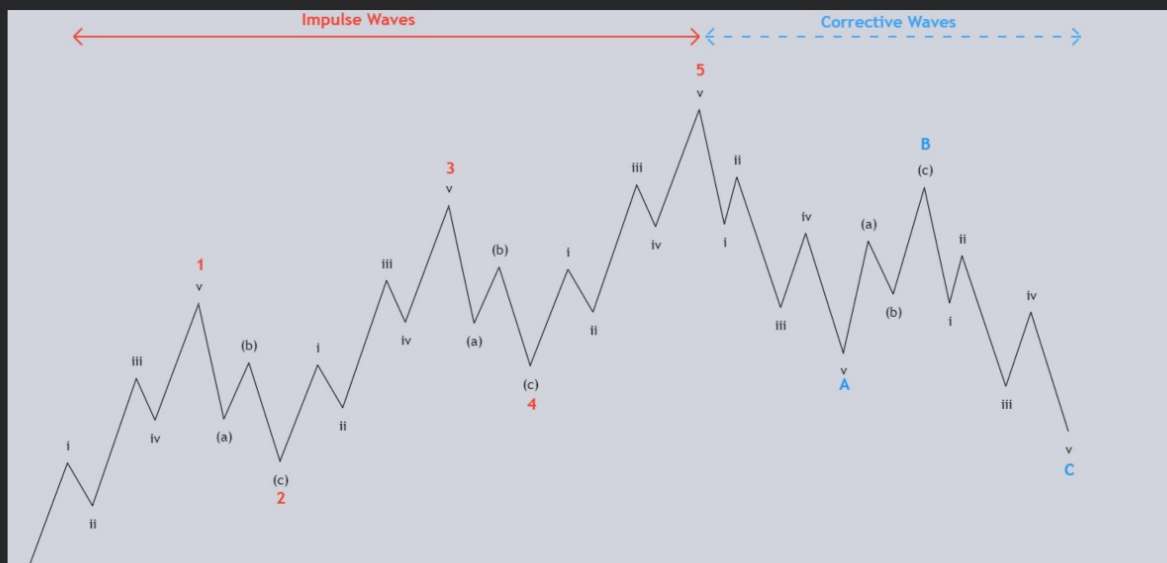


The Waves

In Elliott's model, market prices alternate between an impulsive and a corrective phase on all time scales of trend. Impulses are always subdivided into a set of 5 lower-degree waves, alternating again between impulse 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.

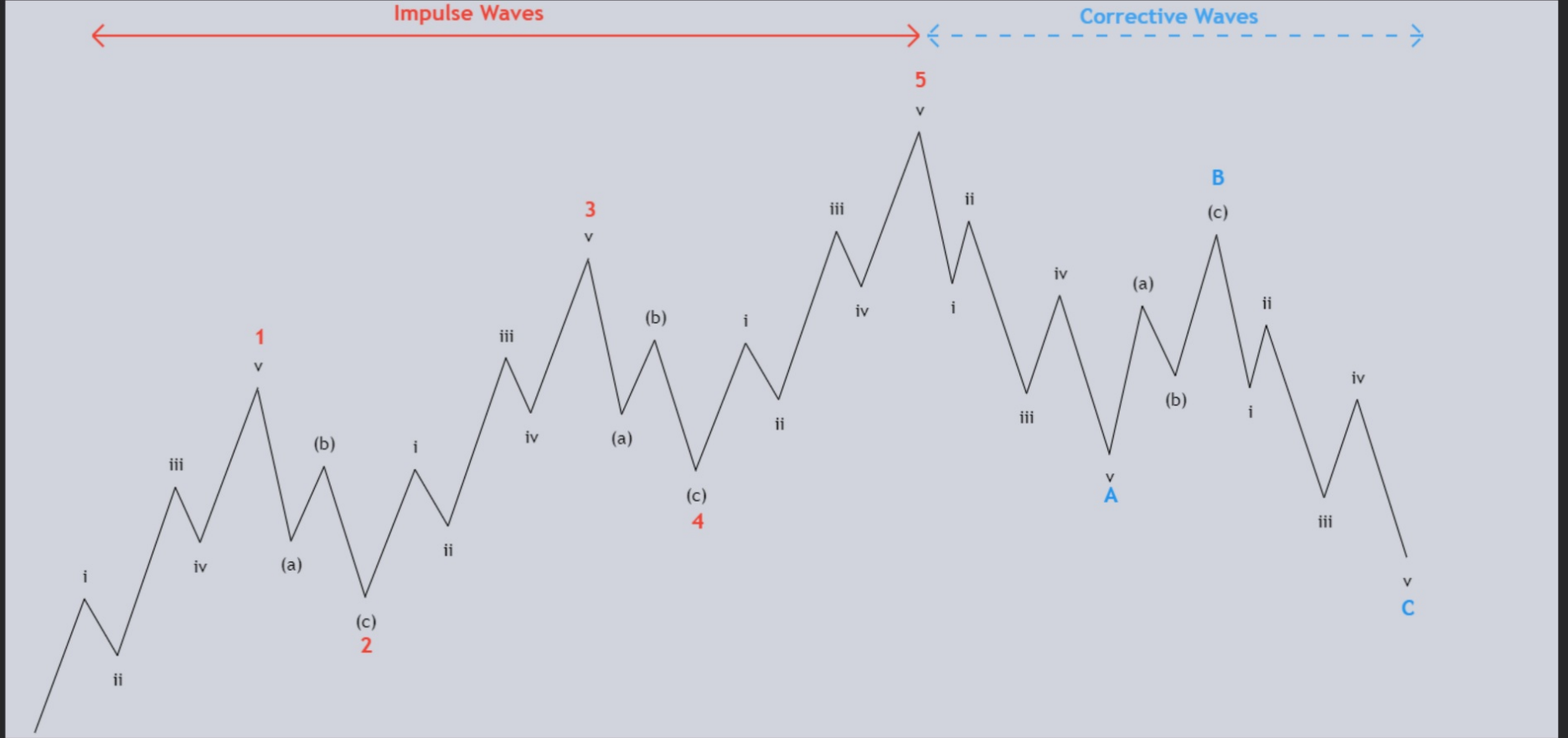
In the image below, wave 1, 3 and 5 are impulse waves and they are subdivided into 5 smaller degree impulses labelled as ((i)), ((ii)), ((iii)), ((iv)), and ((v)). Wave 2 and 4 are corrective waves and they are subdivided into 3 smaller degree waves labelled as ((a)), ((b)), and ((c)). The 5 waves move in wave 1, 2, 3, 4, and 5 make up a larger degree impulse wave (1)

Corrective waves subdivide into 3 smaller-degree waves, as ABC. Corrective waves start with a five-wave counter-trend impulse (wave A), a retrace (wave B), and another impulse (wave C). The 3 waves A, B, and C make up a larger degree corrective wave (2)



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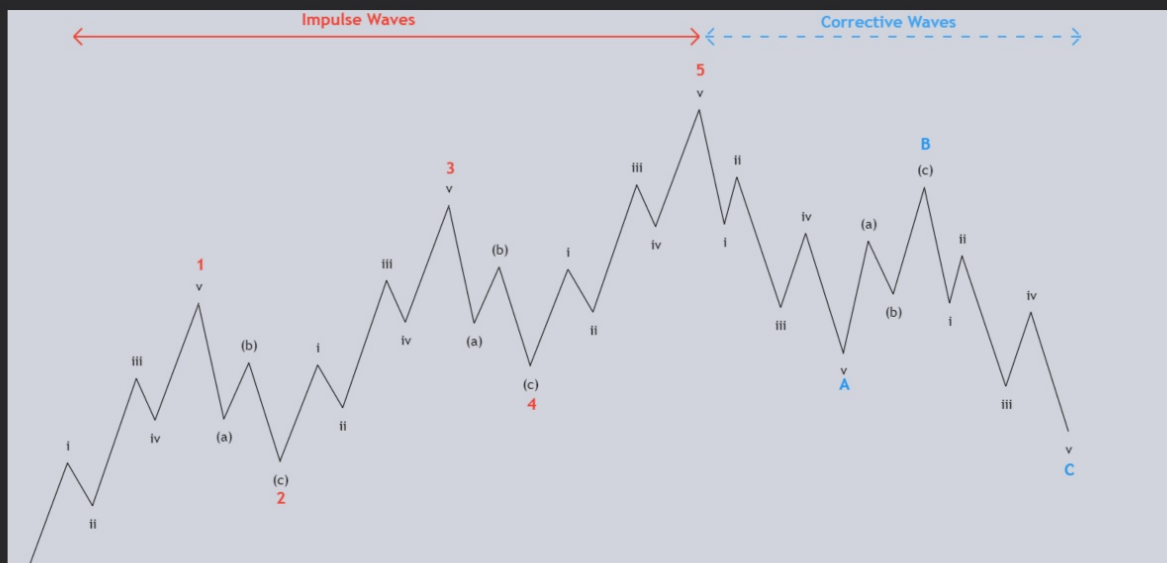


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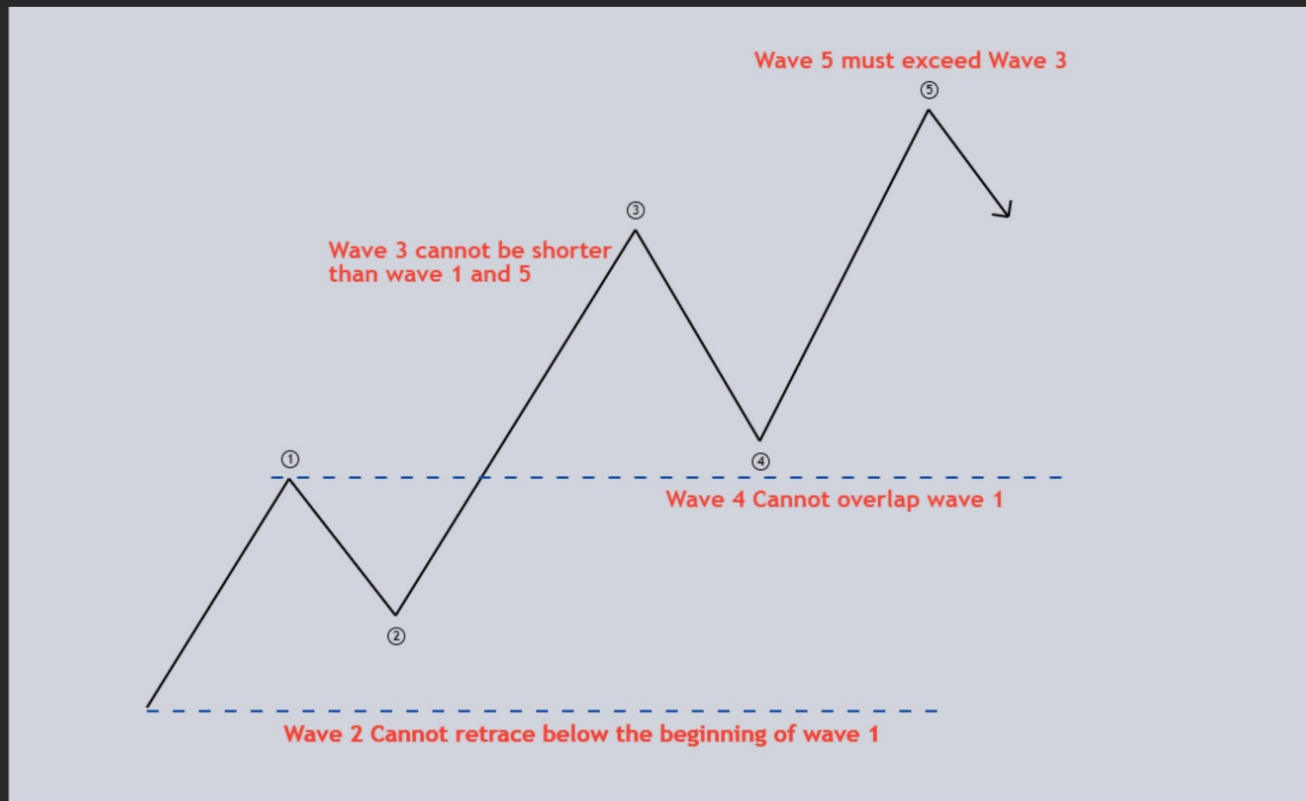
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The Rules of Impulse Waves



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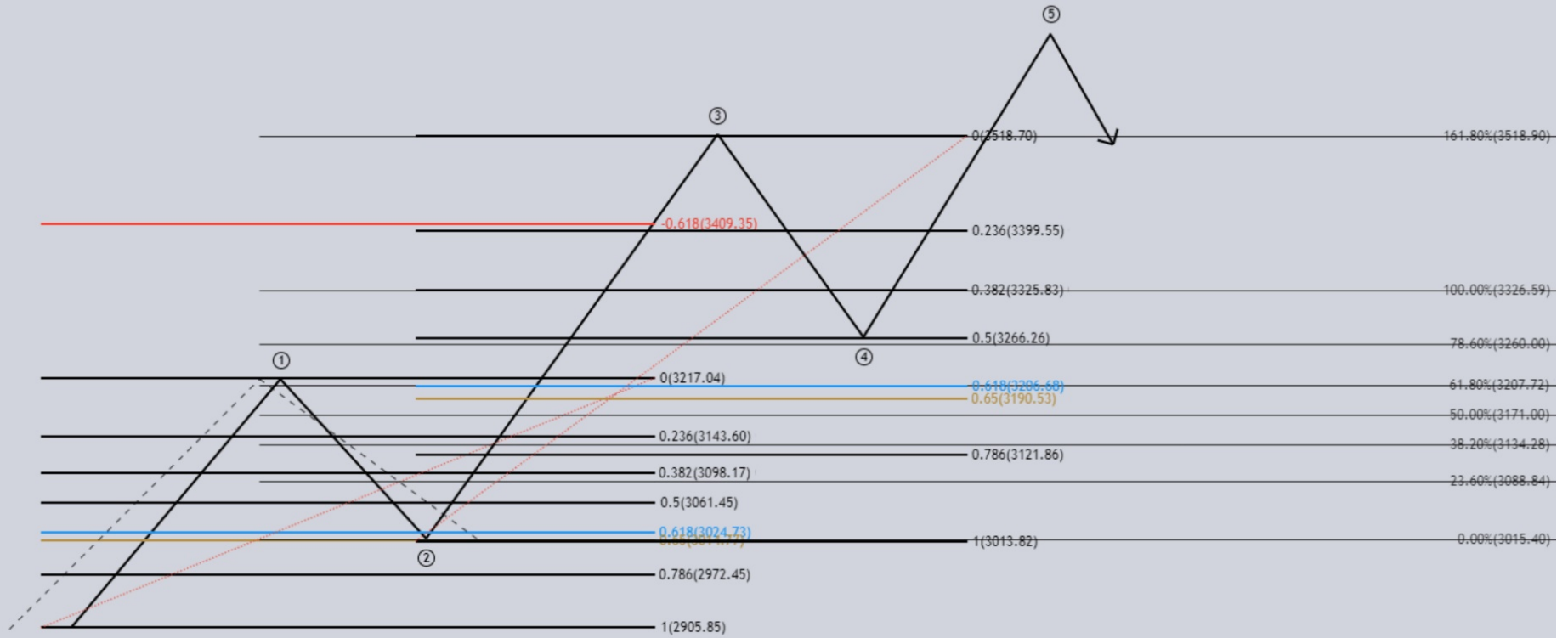
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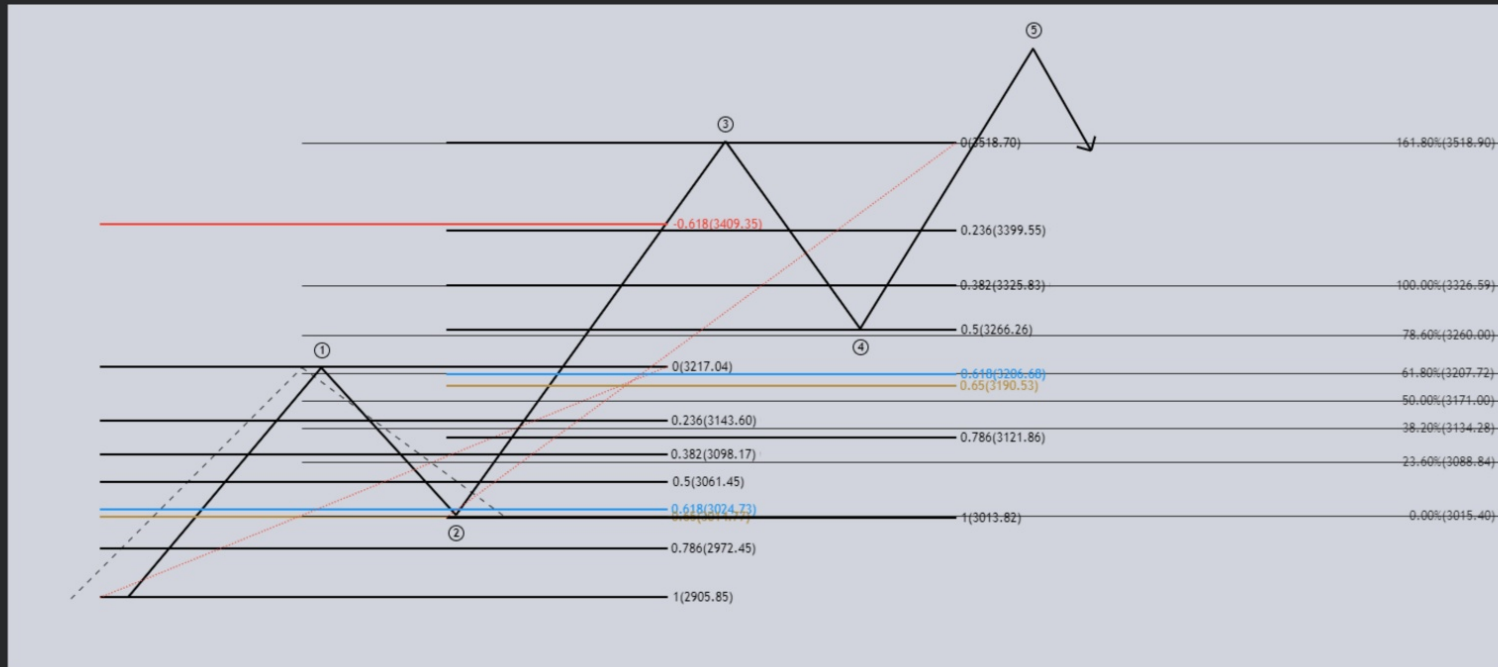
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Elliot Wave & Fibonacci Relationship

- Wave 2 will generally find support on 50%, 61.8% of wave 1 using a Fib Retracement Tool
- Wave 3 is calculated using a Fib Extension Tool and is generally 161.8% wave 1
- Wave 4 will generally retrace to around 38.2% of wave 3 but no more than 50% Fib Retracement Tool
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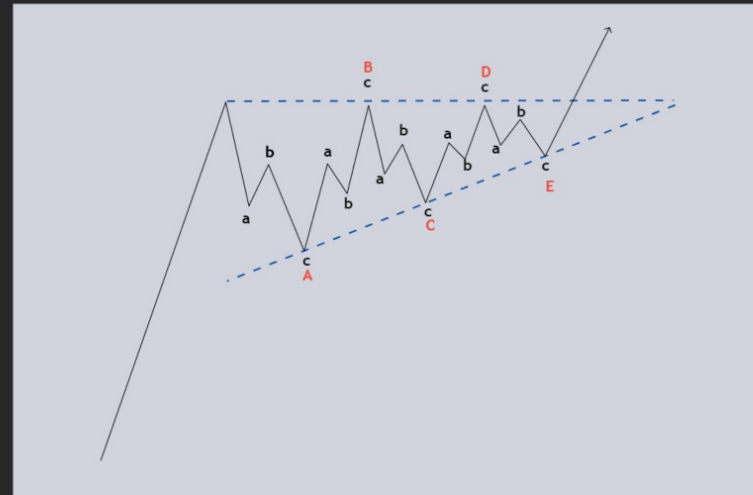
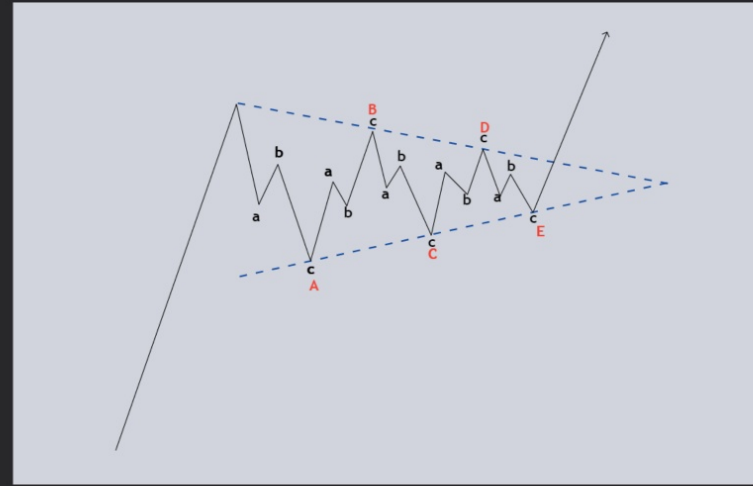
EW Consolidating Triangle

The horizontal triangle is a pattern that consists of five sub-waves that form a 3-3-3-3-3 structure, labeled as A-B-C-D-E. Unlike the impulse waves, which also has five waves, this pattern reflects a balance of forces and travels in a sideways pattern.

The sub-waves are corrective and form patterns of threes.

The horizontal triangle can either be expanding, where each following sub-wave gets bigger, or contracting, forming a wedge.

The triangles may also be categorized as symmetrical, descending or ascending, depending on whether they seem to be pointing sideways, up with a flat top and rising bottoms (ascending) or down with descending tops and a flat bottom.



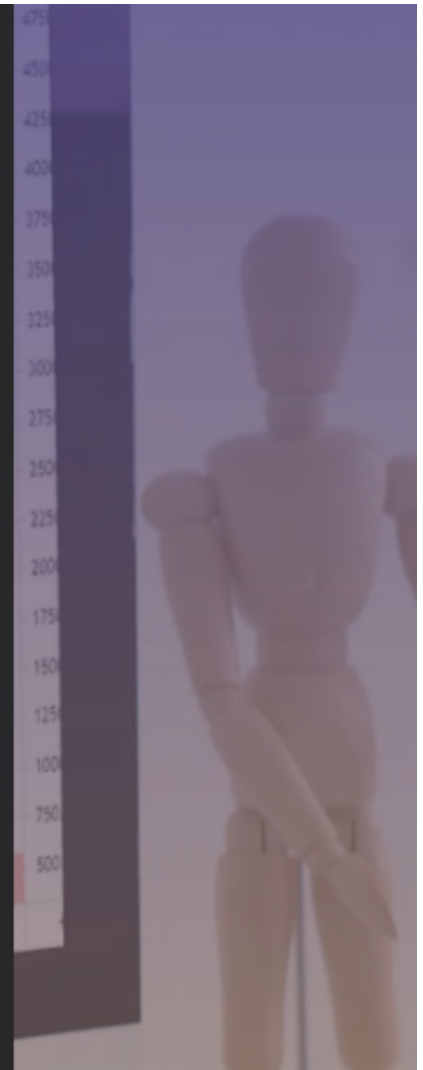
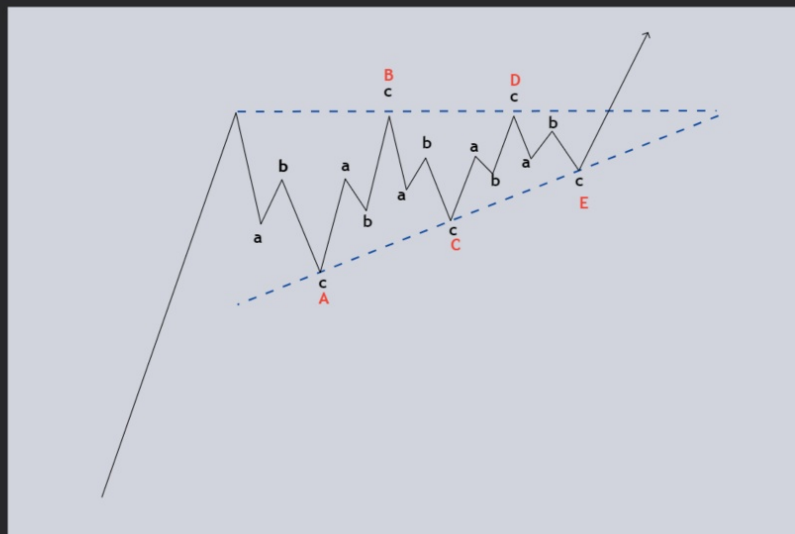
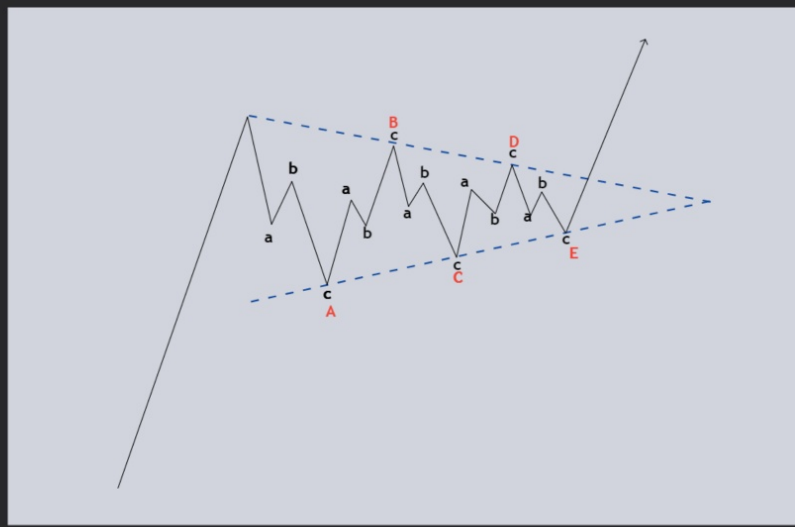
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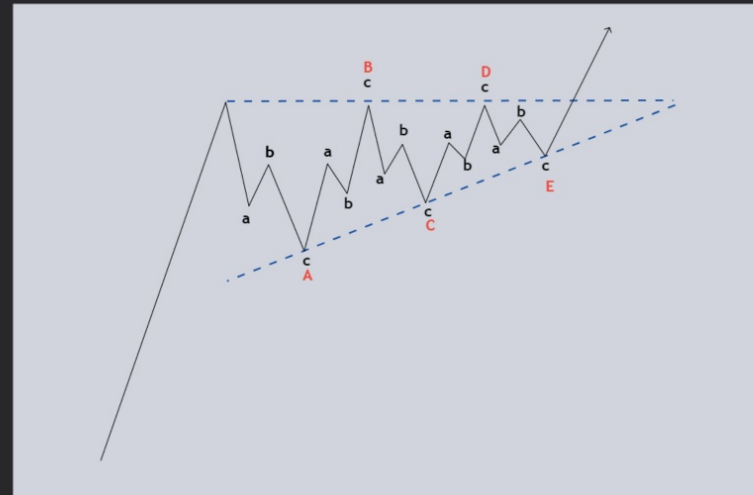
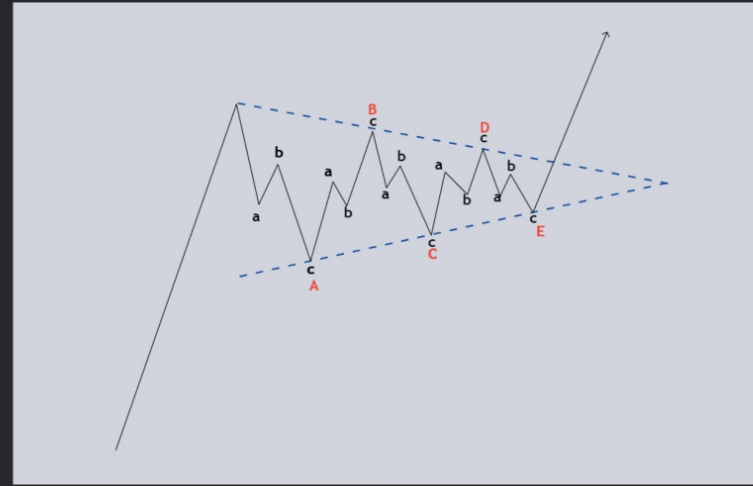
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EW In wedges

Just like our consolidation patterns our Elliot waves withing rising and falling wedges consists of five sub-waves that form a 3-3-3-3-3 structure, labeled as A-B-C-D-E.

While not commonly used this can help you decide when the wedge pattern is drawing closer to completion therefore helping to determine and entry for LONG or SHORT positions

