What Is the Elliott Wave Theory: Comprehensive Guide

The Elliott Wave Analysis is a proven way to understand market movements through crowd psychology and fractal patterns. This comprehensive, easy-to-follow guide walks you through wave analysis with detailed examples, explaining every aspect of the theory.

This guide will introduce you to how to spot impulse and corrective waves, apply key rules, and use strategies for accurate charting. You will learn how to make predictions and identify the best entry points. Explore the Elliott Wave Theory to trade Forex, cryptocurrencies, and stocks effectively, with lower risk and higher profits. This is the most detailed and insightful guide available.

The article covers the following subjects:

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Elliott Wave Theory Basics

The Elliott wave analysis is a popular method of analysing financial markets such as commodity markets, stock markets, etc. Having read this article, you will understand the essence of this method and get acquainted with its main notions. Also, you'll learn to understand technical analysts' forecasts, identify wave types in charts and make your own forecasts.

Picture 1.

The author of the wave theory is American accountant **Ralph Nelson Elliott**, who noticed that the market prices alternate following repeated wave patterns. In 1938, after 9 years that Elliot observed and studied continuously the stock market behavior, he published his first work on wave analysis entitled "The Wave Principle". Eighty years have passed since Elliott discovered the wave principle, but the popularity of the Elliott wave theory among traders is continuing to grow worldwide. The most successful traders apply Elliott wave theory analysis, to a certain extent, in their strategies: some use it only in part and some base their trading decisions and financial market analysis fully on this method. What Elliott discovered works not only in the stock market, you can use it to trade all types of financial assets.

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The main idea of this method is the following: the financial market is formed by a crowd of interacting participants. Elliott noticed that the crowd behaves predictably and forms the same wave patterns depending of the price movements, or “waves”, in the price chart. He described and classified all the types of waves one can find in the financial market.

The trader’s task is to understand which type is forming and to which extent it has formed. If the trader succeeds, it will be easy to make the right forecast and make a profitable trading decision.

Advantages of Elliott waves

There are several benefits of the Elliott's wave theory compared to other methods of classical technical analysis.

Market analysis without a time lag

When you analyse a chart’s price movements using many momentum indicators or oscillators there is a time lag. I mean indicators and oscillators reflect the market prices situation with a delay because they are calculated based on historical data.

When a new trend starts in the market, oscillators and momentum indicators start with a sending corresponding signal with a delay. Conversely, the Elliott Wave theory helps to predict a new dominant trend in advance.

This opportunity enables the trader to prepare for a trend change in advance and make the right trading decisions. Due to this feature of the Elliott wave principle, you can enter a trade before a new trend starts and increase the potential profit. Or you can exit a trade with the maximum profit, for example, at the trend low when the moving average is far from the price, signalling a strong trend in the market.

Most traders do not expect that the downtrend in a bear market will change soon, supposing the market players remain negative, but an advanced user of Elliott Wave theory sees that the descending impulse has already formed. Moreover, the fifth wave of the impulse is an ending diagonal, signalling the trend reversal. So, the trader familiar with the Elliott's wave theory exits the trade at the most beneficial level. The market starts moving in the opposite direction, and the trader has made a profit.

Accuracy of wave patterns

Also, among the advantages of the Elliott wave principle, one can single out its detailed description of Elliott wave structures. For example, we have all heard about such a technical

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analysis pattern as a head and shoulders reversal pattern. We can find countless different wave patterns in the price chart that can be called "head and shoulders". Some will be sharp, others will be extended in time, in some price movements pullbacks are deep, in others – shallow, there are also differences in the structure of all the components of the “head and shoulders reversal pattern”. However, no matter how detailed the description of this pattern is in technical analysis, it is still difficult for technical analysts to spot it in the chart.

If we look at this pattern based on the Elliott wave principal analysis, we will see that in one case the head and shoulders pattern extends wave 4 and 5 of the previous impulse and forms waves 1 and 2 of the new opposite impulse waves. In this case, we shall expect the development of wave 3 and make a corresponding trading decision.

However, in another case, we can see that a part of the head and shoulders pattern, based on the Elliott wave international theory, is the linking wave X and zigzag Y, while the other part is the linking wave XX, which hasn’t completed yet. In this case, an Elliott wave analyst will expect the completion of the XX wave, followed by another zigzag Z, unfolding in the same direction as wave Y.

A technical analyst, in this case, could mistake the emerging pattern for a head and shoulders and expect the stock markets to move in the opposite direction supposing that the market players remain negative, while a wave analyst will see that there is the final part of the triple zigzag is forming. There are many such examples. That is because wave structures and wave patterns in this analysis are studied and described in much more detail than technical analysis patterns.

I would also like to give an example of a triangle pattern. In technical analysis, there are only a few points that are said about triangles, and there are no strict restrictions in the rules, there are only approximate recommendations. Technical analysts should determine themselves if the emerging pattern is a triangle. However, if we look at the Elliott wave theory rules regarding triangles, we will see a number of definite and rigid rules that must be followed in 100% of cases. If at least one rule is not fulfilled in the emerging pattern, then it cannot be a triangle. There are no exceptions here.

Such an approach limits the risks of misinterpreting and allows traders more definitely judge whether the pattern emerging is a triangle. In addition to rules, there is a number of guidelines, and observations regarding the structure of waves, their features, which are most commonly present but not always. For example, if the guideline that one of the triangle’s previous sub-wave extends wave of the three wave correction and is not fulfilled for a triangle, then this does not change the matter, this wave can still be a triangle.

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In Elliott wave theory analysis, there are clear rules and guidelines regarding a particular wave pattern, which allows a trader to accurately define a pattern, reducing the risk of an error. In conventional technical analysis, everything is much more vague and fewer observations have been made regarding the patterns and, accordingly, there are fewer formalized rules. Perhaps that is why the Elliott wave international analysis is considered to be a rather complicated method.

How Elliott Waves Work

We all know that market trends are formed due to the interaction of a huge number of participants, from retail traders to market makers and commercial banks. These participants enter trades, based on their goals. Therefore, the price of trading assets is constantly changing, and its change is displayed in the real-time chart. We see these charts in the trading and analytical software, which reflects everything that happens in the financial market.

For example, a country decided to purchase equipment for a large amount of money, so it needs to exchange currency, i.e. sell one currency and buy another one. This will inevitably affect the price chart. Perhaps in the form of an impulse wave. Traders can spot this directed move and join in, creating another impulse wave. Then average investors finally buy, joining the market, and they will profit from the last impulse wave stock price movements, after which a three wave correction will begin.

Elliott carefully watched the price movements of the charts and found that no matter what happens in the market, one of the ten types of waves always forms. He described and classified all types of waves, thanks to which a set of rules and guidelines for Elliott's wave theory appeared.

A trader should learn how to apply these rules and guidelines to the price chart and correctly identify emerging waves to make the price forecast. This forecast is the base for the following trading decision where also the average investors finally buy and profit from the Elliott wave technical analysis. That is how the Elliott wave principle work.

What is a wave?

Let’s start making our first steps in mastering the Elliott wave international analysis.

First, what is a wave? A wave is a basic term of wave principle analysis as the whole market is made of Elliott waves, starting with a tick and 1-minute time frames and ending with 1-month and longer time frames. It means, that wherever in the chart we may look at, we’ll see waves all the same.

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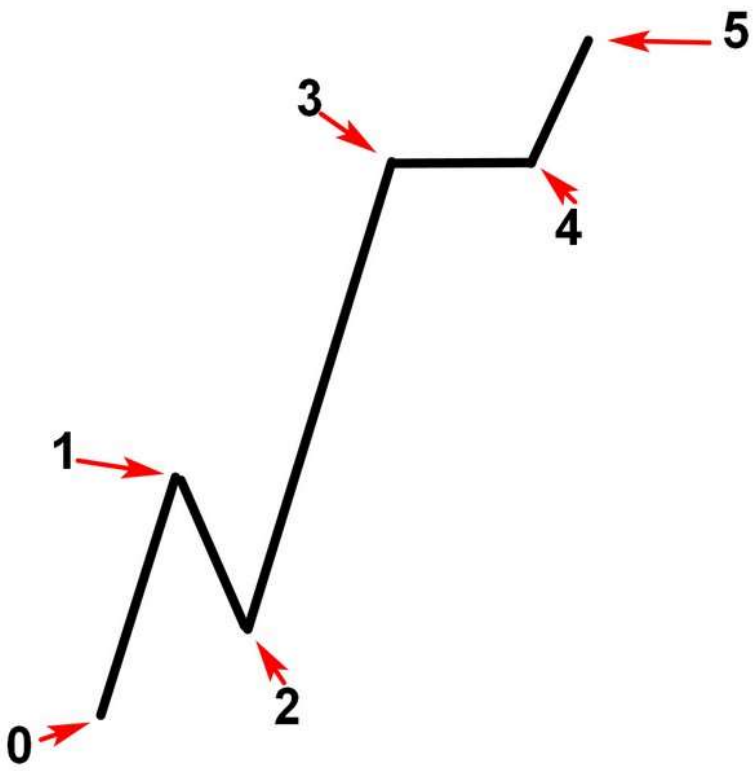
Here’s the definition of a wave: a wave is a section of stock price movements from one change of direction to another. To make it all clearer, let’s draw a part of an upward trend in picture 2.



Picture 2.

This picture shows a bullish trend market where prices rise quicky, an uptrend, composed of five waves with 6 dots: dot 0, dot 1, dot 2, dot 3, dot 4, and dot 5. The first change of direction (from upward to downward) occurred in dot 1, so we may say that the first wave continues from dot 0 to dot 1.

In dot 2, the price changes its direction from downward to upward, and there is still active bull market. It means the second wave is the price movement segment from dot 1 to dot 2. Analogically, a still active bull market can be identified in the third wave situated between dots 2 and then the fourth waves as well as the fifth waves. Let’s mark the Elliott waves in picture 3.

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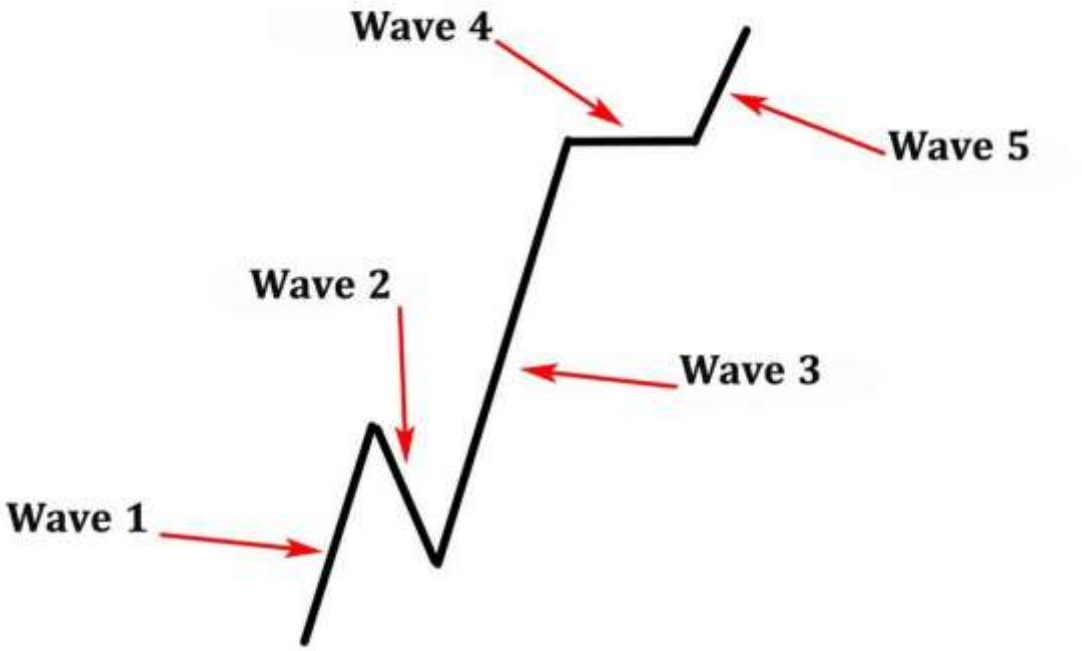

Picture 3.

There’s a very important moment to be remembered here: in the Elliott wave theory analysis, the name of a wave is marked near its ending. So, the right way of marking waves is the one shown in picture 4 (an impulse wave composed of five waves).

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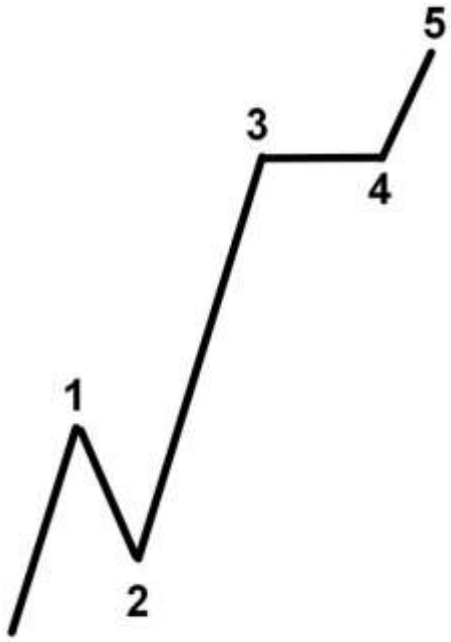
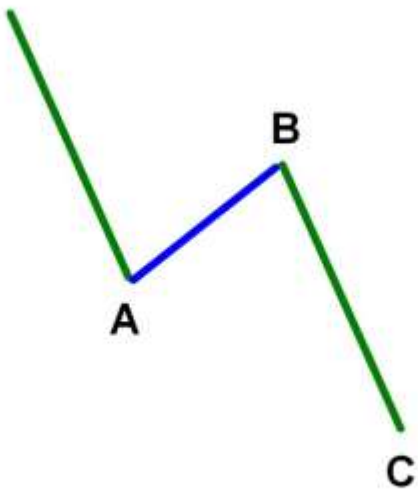


Picture 4.

For a better understanding, let’s examine a downward segment in picture 5 which consists of three waves: A, B, and C.



Picture 5.

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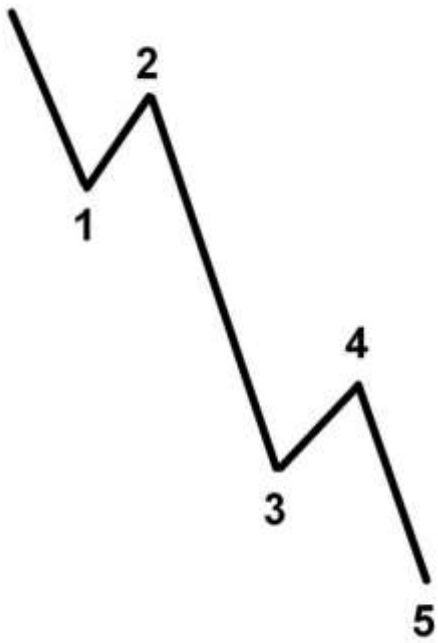
In this three wave pattern, if we mean wave A, we mean the first downward wave marked in green. If we're talking of wave B, we mean the upward wave marked in blue. If we're talking of wave C, we mean the downward of the second wave marked in green. By the way, a complete Elliott wave cycle comprises eight waves, one impulsive wave and one corrective phase wave.

So, we've figured out what a wave is and learnt to mark waves in a chart in the right way. Next, we are going to learn about other basic ideas of the Elliott wave theory at Forex.

Actionary and reactionary waves

Based on their function, all waves are divided into 2 types: actionary and reactionary. To understand the difference between them, let's draw a segment of a downtrend of the beat market in picture 6.



Picture 6.

We see wave 1 moving the market downwards, acting on it, while wave 2 is trying to create a retracement in the opposite direction, i.e. to react against the powerful downward price movements. Next, the third wave (3) is acting on the market again, trying to push it as far down as possible, whereas wave 4 is reacting against this movement by creating an upward retracement. Then, we see wave 5 acting again and pushing the market trends down.

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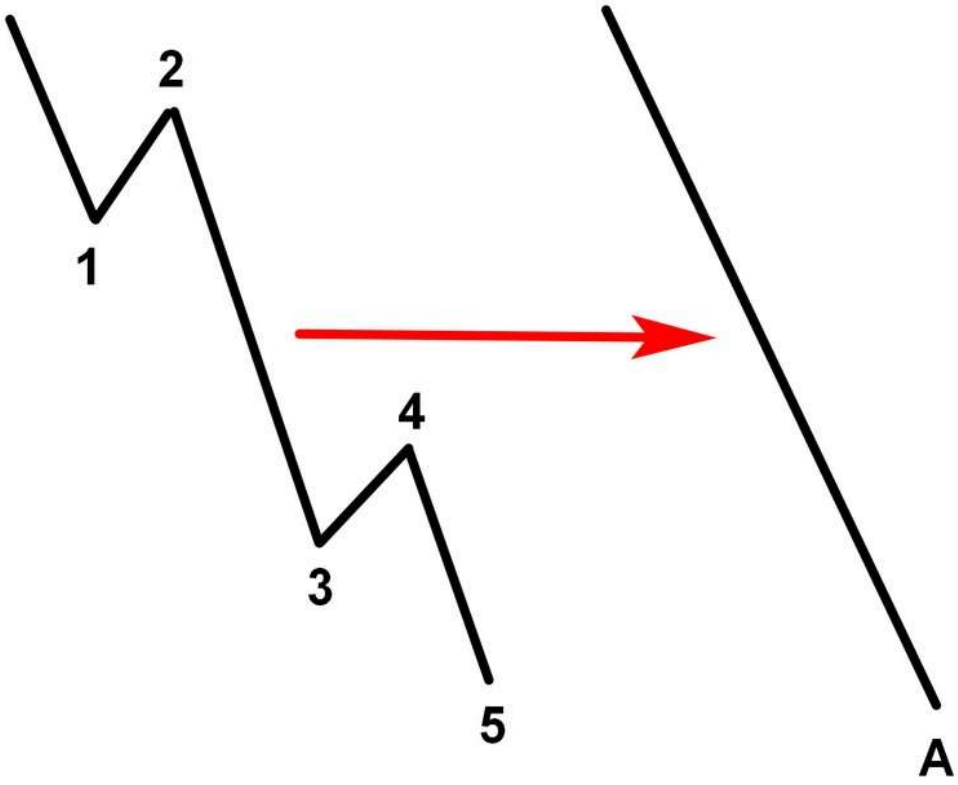
So, in an impulse consisting of five waves, we may single out three actionary waves: 1, 3 and 5, and 2 reactionary waves: 2 and 4.

Now, it's time for a couple of terms. An actionary wave is a wave that develops in the same direction as the wave one degree higher. To understand what "wave one degree higher" is, please have a look at picture 7.



Picture 7.

If we group schematically the five waves, three suspected impulse waves and two corrective ones, in picture 7 into one single wave, we'll have a descending wave marked as wave A on the right. In this case, wave A is the wave of one larger degree, a larger trend. It means that all the actionary five waves in the left part of picture 7 are those which are directed downwards like wave A. The reactionary of the the fve waves are those directed against the main wave, i.e. upwards.

It follows that a reactionary wave can be determined as follows: a reactionary wave is a wave that trends in the direction opposite to the direction of the wave one degree higher. In our example, these are waves 2 and 4.

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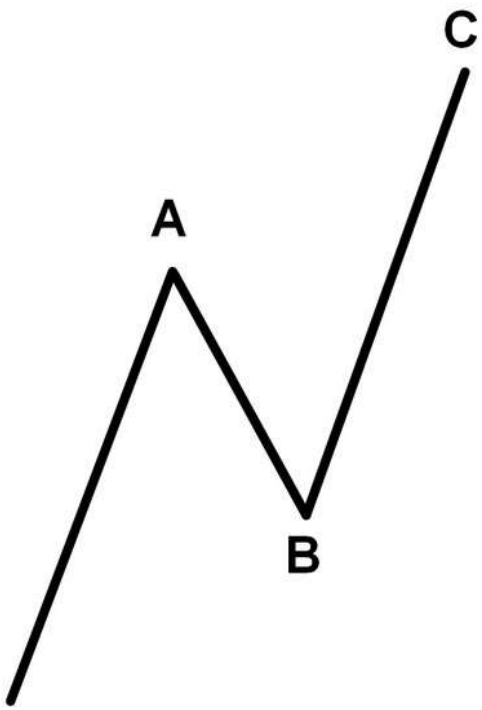
For a better understanding of a five wave scheme, let’s draw a scheme of the A-B-C segment of an uptrend (see pic.8).



Picture 8.

We can easily guess that this segment is made of three waves and the wave of one larger degree is directed upwards since the whole segment is directed upwards. Thus, the actionary corrective waves here are waves A and C, when a major bull market begins, while the reactionary wave is wave B.

It is clear now how to identify actionary and reactionary waves in a bear market with downtrends or i a bullish with uptrends in the framework of market prices analysis. But how should we proceed with flats? Let’s see.

Here’s a scheme of a flat.

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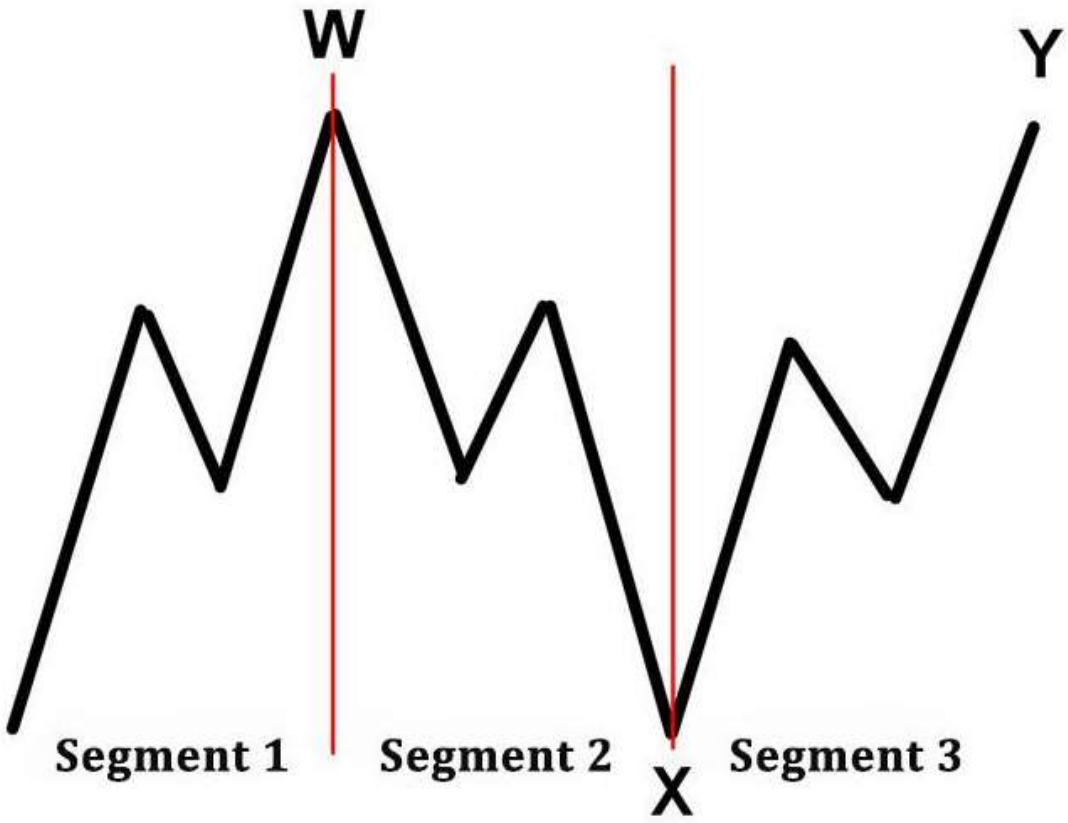

Picture 9.

How do we identify actionary and reactionary waves here? First, any complex flat segment can be divided into simpler parts. We've divided our flat into 3 parts by drawing vertical lines through the tops of waves W and X. Now that we're looking at these 3 parts, we can easily decide which waves are actionary and reactionary here. On the first wave the segment is upward, which means that the waves located inside this segment and directed upwards are actionary while the wave directed downwards is reactionary. In the same manner, we will divide the waves into actionary and reactionary in the second and third segments. The segment of the second wave, the actionary waves are directed downwards whereas the reactionary wave is located in the centre and directed upwards. In the third segment, the actionary waves are ascending and the reactionary wave is descending.

However, if we group the whole segment from picture 9 into one single wave, will it be an actionary or a reactionary wave? As you have already understood, it depends on the direction of the wave of a larger trend. In picture 10, we see the wave from picture 9 and the wave of a larger common motive wave.

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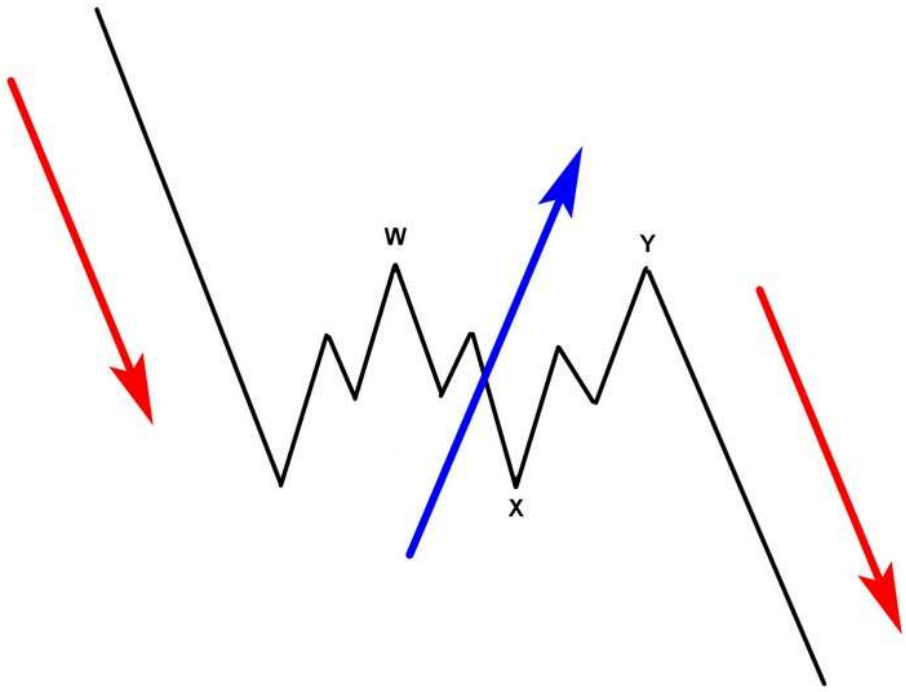

Picture 10.

We see that wave W-X-Y is part of a bigger trend directed downwards (it's marked with red arrows) and it attempts to form a retracement in the opposite direction, i.e. upwards (it's marked with a blue arrow). So, wave W-X-Y is reactionary as compared with the wave of one larger degree.

Based on the above, we learnt that in order to identify an actionary or a reactionary wave, we need to compare its direction with the direction of the larger trend.

Now that we've examined these important ideas, you will easily understand what an analyst means by "Have a look at the reactionary wave of this trend". The notion of actionary and reactionary waves is required for easier identification of certain chart segments.

Full price cycle. Motive and corrective waves

We've already found out that all market waves are divided into actionary and reactionary based on their function. However, waves can be divided based on their character too. There are 2 styles of wave development: motive phase and corrective phase. Each of the motive

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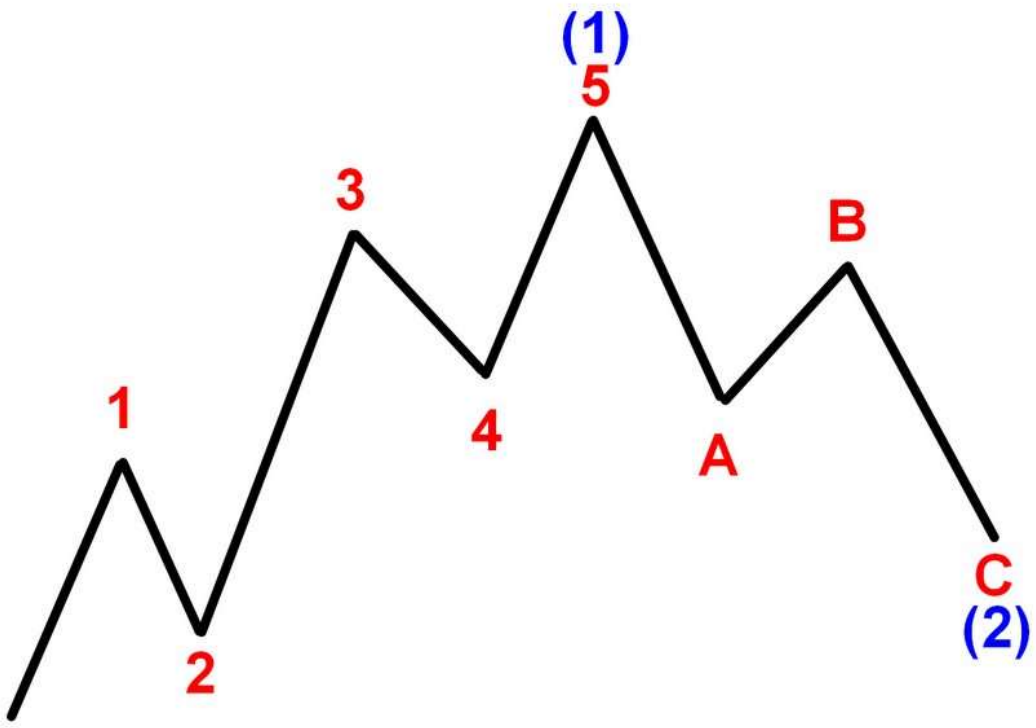
waves always consists of 5 parts. Corrective waves are made up either of three waves or of several parts, each containing three waves, combined by a linking wave. For simplicity, we will show that a corrective wave consists of 3 parts at the current stage.

Let's have a look at the so-called full price cycle. The full price circle is a combination of most common motive waves and corrective waves (see pic. 11).



Picture 11.

We see that the upward wave, which is a common motive wave, consists of 5 sub-waves whereas the downward wave, a corrective wave, is made up of 3 sub-waves. Let's mark the motive wave as wave (1) and the corrective wave as wave (2).

A motive wave is always marked with numbers 1-2-3-4-5 and corrective waves – with letters A-B-C or W-X-Y. Based on the type of a wave, letters XX, Z, D and E may be used as well. Based on the above, the sub-waves of the motive and corrective waves in picture 11 have been marked with red letters and numbers.

Note that the initial part of our pattern – the small waves 1 and 2 – is a smaller copy of the big waves (1) and (2). That's why the small previous sub-wave 1 consists of 5 smaller sub-waves too, like the big wave (1), and needs therefore to be marked with numbers from 1 to 5 as well.

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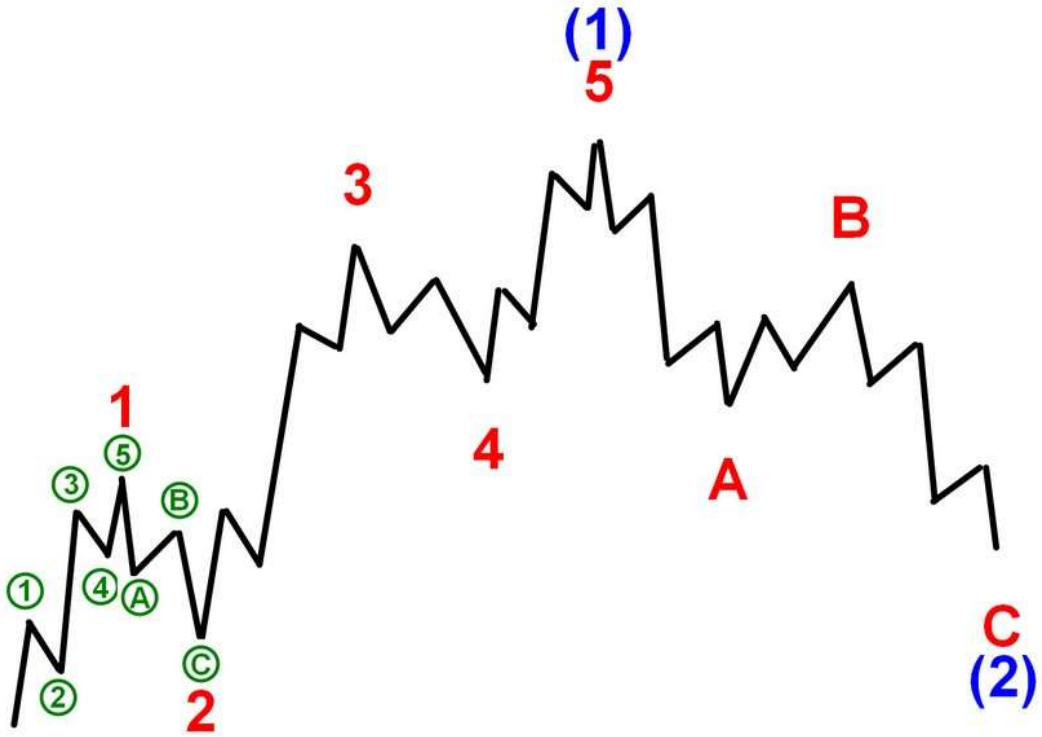
The small wave 2 is a smaller copy of the big wave (2), that's why it is of a corrective wave character as well and is marked with letters A-B-C (see pic. 12).



Picture 12.

Proceeding in the same manner, we may divide the rest of the waves in this pattern into motive and corrective waves. It means the third wave (3) is motive wave and is made up of 5 sub-waves. Wave 4 is one of the corrective waves and is made up of 3 parts, and wave 5 is motive wave and made up of 5 sub-waves.

As for the downward segment A-B-C, which is wave (2), we start wave counts from scratch. Wave A is motive and consists of 5 parts; wave B is corrective and consists of 3 parts; wave C is motive wave (see pic.13).

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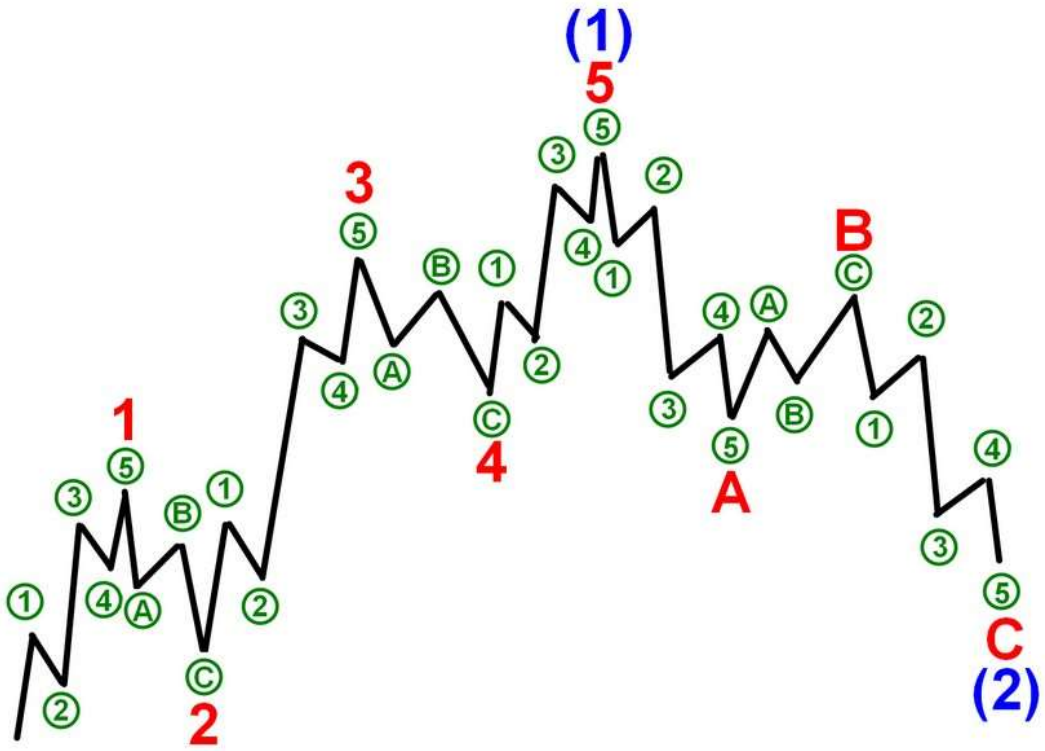

Picture 13.

If we have a look at the structure of the smallest previous sub-wave 1 located in the left lower corner of the chart and marked with green numbers, we will see that this wave is made up of 5 sub-waves too and develops in a most common motive wave style. And the smallest sub wave 2 is made up of 3 sub-waves and is a corrective wave.

The full price cycle pattern shows perfectly well the so-called principle of wave fractal nature. Looking at this pattern, we see the small waves form exactly the same big waves by joining together. And the most interesting thing here is that all these waves are accurate copies of one another, only their sizes being different. So, such waves may be called similar. The pattern shown in picture 13 is fractal as the small waves are like the big waves there, and vice versa.

This principle of fractality shall be understood and remembered as we may have waves of the same wave structure in different time frames, for example, in one-minute and one-day time frames. This principle allows us to analyse charts based on the Elliott wave principle in any time frame. We may make a forecast for the nearest 10 minutes or for 10 years to come.

Now let’s get back to the full price cycle and describe its inner structure in short. All its actionary waves are motive and all its reactionary waves are corrective.

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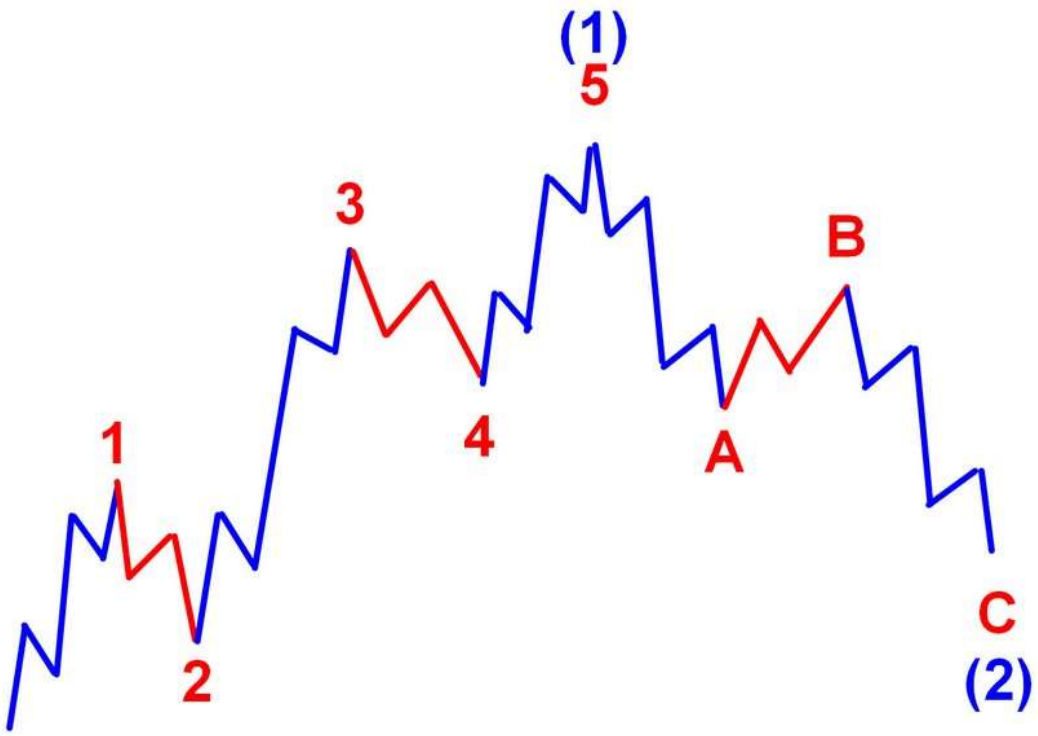
To confirm it, let's look at picture 14.



Picture 14.

Take wave (1). It is made up of 5 parts and is therefore a common motive wave. All the actionary waves inside this wave, i.e. waves 1, 3 and 5 are also motive and consist of 5 parts. They are marked in blue in picture 15.

All the reactionary waves inside the first wave (1) consist of 3 sub-waves. They are marked in red. The same applies to wave (2): the actionary waves are motive and made up of 5 parts (marked in blue) while the reactionary wave is corrective and consists of 3 parts (marked in red).

So, we have just confirmed the above statement that all the actionary waves of this pattern are of the most common motive wave style while the reactionary waves are corrective.

There's one more thing to remember: if actionary waves were always motive and reactionary waves – corrective, there wouldn't be any need in these 4 terms. Two terms would be enough ("motive" and "corrective", for example). However, we need all of these 4 terms because some

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actionary waves may be both motive and corrective. Why it happens is hard to understand at this stage as we haven't examined corrective waves yet.

We've studied the full price cycle, the principle of fractality, and actionary/reactionary waves. Also, we've examined motive and corrective waves.

Now let's start studying wave types. Motive waves include different types of three waves; a corrective wave consists of 7 different types. Thus, there exist 10 wave types in Elliott wave theory. We are going to determine the rules and instructions for each of these wave types.

Wave degrees

We already know that one and the same chart segment may contain waves of different sizes. To differentiate between different wave degrees, a special marking system has been introduced.

We need to remember that there's no strict connection between a time frame and a wave degree. A wave of "Cycle" degree may belong to both weekly and hourly time frames. It depends on what the waves of one larger or smaller degree have been called. The choice of the reference point is up to you. For example, I usually place waves of the "Primary" degree on the H4 time frame and mark the rest of the wave degrees based on the "Primary" degree.

The waves of the "Primary" degree are marked with green letters and numbers in circles (or in square brackets). In descending order, the Primary degree is followed by the Intermediate degree. The latter is marked with blue letters and numbers in brackets. Next, the Minor degree is marked with red letters and numbers. In picture 15, we can see an ascending impulse containing the three wave degrees.

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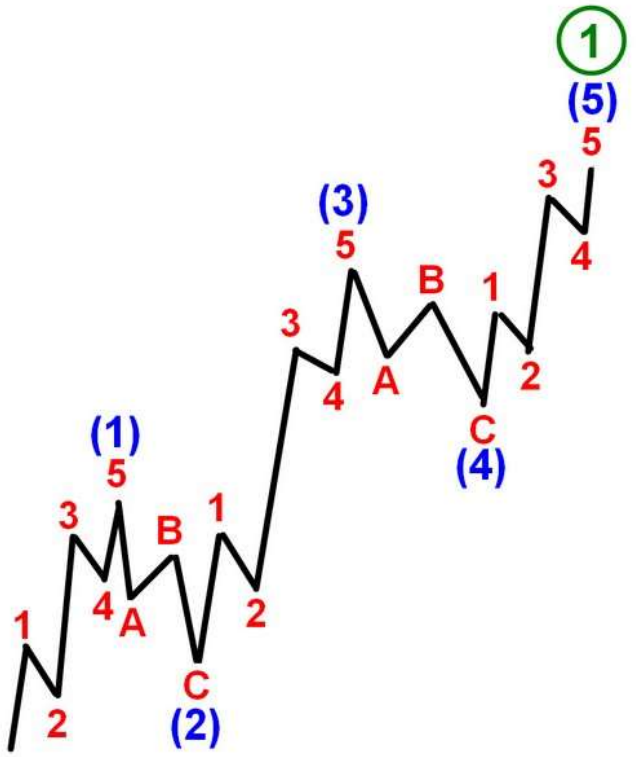

Picture 15.

The use of different colours makes it easier to differentiate between the waves in the chart. We may say that the fourth wave of the Intermediate degree is zigzag A-B-C, for example. However, this colour differentiation requires some time for getting used to it. A full scheme for degree designation is provided in picture 16 below.

Wave degrees	Motive Waves	Corrective waves	Time frame
Millennial waves	1, 2, 3, 4, 5	A, B, C, D, E, W, X, Y, Z	Millennial and longer
Grand Supercycle	[I] [II] [III] [IV] [V]	[a][b][c][d][e][w][x][y][z]	Millennial, century
Supercycle	(I) (II) (III) (IV) (V)	(a)(b)(c)(d)(e)(w)(x)(y)(z)	Century, annual

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Cycle	I, II, III, IV, V	a, b, c, d, e, w, x, y, z	Annual, quarterly,monthly
Primary	[1] [2] [3] [4] [5]	[A][B][C][D][E][W][X][Y][Z]	Quarterly, monthly, weekly, daily
Intermediate	(1) (2) (3) (4) (5)	(A)(B)(C)(D)(E)(W)(X)(Y)(Z)	Monthly, weekly, daily
Minor	1, 2, 3, 4, 5	A, B, C, D, E, W, X, Y, Z	Monthly, weekly, daily, 240 min
Minute	[i] [ii] [iii] [iv] [v]	[a][b][c][d][e][w][x][y][z]	Weekly, daily, 480-60 min
Minuette	(i) (ii) (iii) (iv) (v)	(a)(b)(c)(d)(e)(w)(x)(y)(z)	Daily, 480-60 min
Subminuette	i, ii, iii, iv, v	a, b, c, d, e, w, x, y, z	480-60 min and shorter

Picture 16.

The order of colours shall be always observed. The wave degree marked in red is followed by the degree marked in green. Then comes blue, and the sequence repeats. Red, green, blue. And again: red, green, blue. The waves of green degree are always circled or put in square brackets, blue waves are in brackets and red waves are always designated without brackets. If you memorize what's written above, it will be much easier for you to find your bearings in wave degrees, even at the first stage of learning.

Fibonacci numbers

The Elliott wave principle analysis of the Forex market widely uses the Fibonacci ratios and numbers to predict wave sizes.

The Fibonacci sequence was discovered by Italian mathematician Leonardo Fibonacci who lived in the 13th century. The sequence was first published in "Book on calculations", 1202.

The sequence is based on the solution to the rabbit problem which was formulated as follows: "How many pairs of rabbits may be produced in a year from one pair of rabbits if each pair

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produces one more pair every month, starting from the second month that they are alive”. The solution to this problem is the famous sequence.

We won’t explain now the way the solution was found and will provide it immediately. The answer may be written down as a sequence of numbers:

1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144... and so on.

This sequence has a number of remarkable properties. One of them is that if you take two neighbouring elements in the sequence and divide the smaller element by the bigger one, you’ll have the value of 0.618, known across the globe as “the golden ratio” or “the golden section”. This value is called “phi”. For example, let’s divide the 11th element of the sequence by the 12th element, i.e. 89 by 144. We’ll have 0.61805.

If we divide the bigger element by the smaller one, we’ll have the inverse value of 1.618. For example, 89/55=1.618.

The value of 1.618 (0.618) is the so-called “golden ratio” or “golden section”. Its harmony is pleasant for the eye and is an important notion in music, art, architecture, and biology.

Also, this ratio gives birth to a golden spiral whose shape shows itself in various creations of nature: a fern leaf, a snail shell, and galaxies... (See picture 17).

Picture 17.

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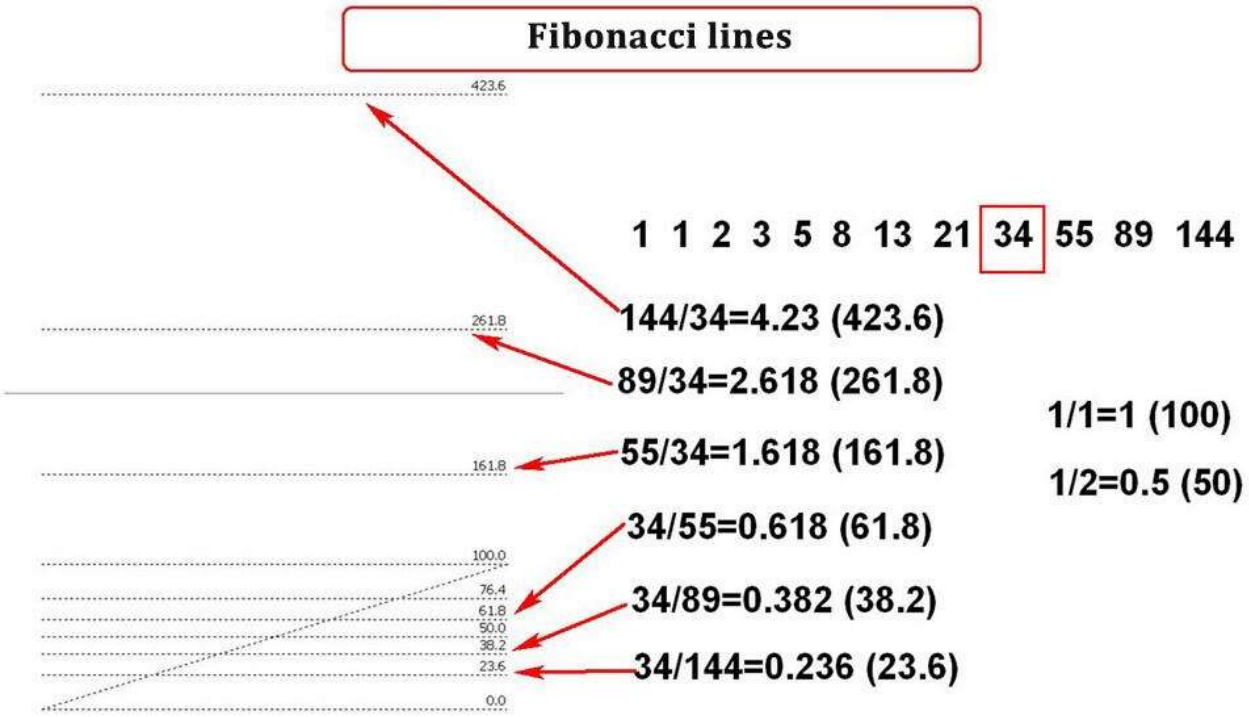
Another important peculiarity of the Fibonacci numbers is that we will have absolutely different values if we divide an element not by the nearest one but by the next nearest. For example: 34/89=0.382 (38.2%), or 55/34=1.618 (161.8%). That's how we get all the 9 values used for building Fibonacci retracements. Fibonacci lines are present in any technical analysis program (see picture 18).



Picture 18.

They help measure the size of a wave relative to another wave in percent. For instance, wave (B) often equals 61.8% of wave (A) in a zigzag. This type of situation is shown in picture 19. The measurements were done using the above-mentioned tool.

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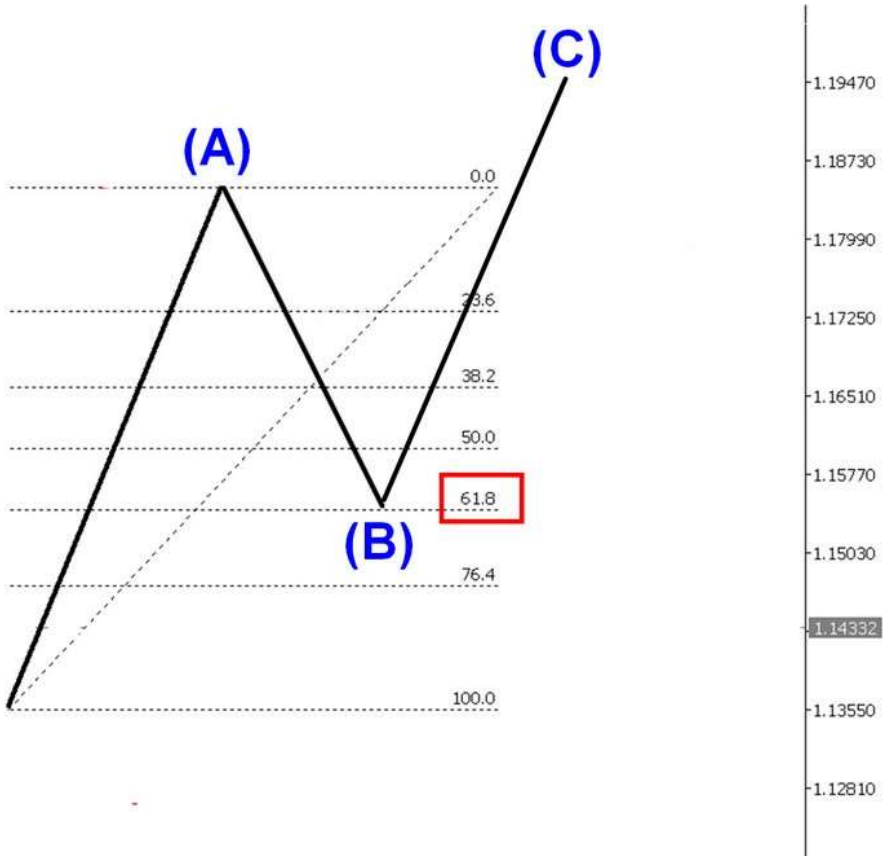

Picture 19.

Now, let's write down in % all the ratios used in wave principle analysis for predicting wave sizes: 23.6%, 38.2%, 50%, 61.8%, 76.4%, 100%, 161.8%, 261.8%, 423.6%. For example, the size of wave 2 normally amounts to 50%, 61.8%, or 76.4% of wave 1. Knowing this statistical regularity and considering the inner structure of wave 2 forming, we may define quite accurately the point of its expected ending. As a result, the trader has a perfect chance to open a trade with profits or to close an earlier trade based on an accurate forecast.

There's quite extensive statistical information on the sizes of motive and corrective waves. However, we'll deal with it at the end of the article as we haven't examined all the types of waves yet.

Motive Waves

As we already know, there exist 10 types of waves in Elliott wave structure analysis: 3 types of motive waves and 7 types of corrective waves. The first type of motive waves that we are going to start examining right now is an impulse.

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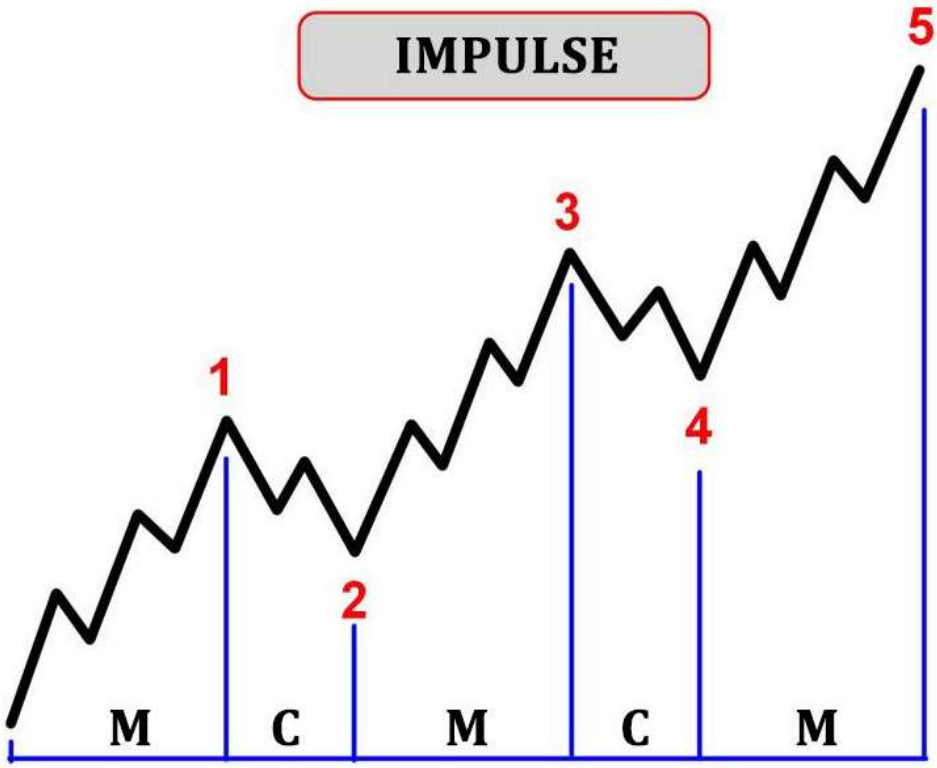
Impulse

An impulse is the most popular and common type of waves in the market. Any complex corrective pattern may be divided into impulses, which means an impulse is an elementary brick. Coming together in various combinations, these bricks form waves of different complexity. In its turn, however complex a corrective wave may be, finally, it may be brought to elementary impulses.

Just like it happens in physics when we talk about atoms. Atoms link to form all kinds of substances in this world. Any matter may be decomposed into atoms. In the same way, an impulse is an elementary atom that forms all market waves.

Before writing down the rules, let's have a look at the scheme of an impulse (see picture 20).



Picture 20.

Now, the rules for impulses.

Impulse Rules:

1. An impulse is composed of five waves.

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2. Wave formula: M-C-M-C-M.
3. Wave 2 < Wave.
4. Wave 3 goes beyond Wave 1's ending.
5. Wave 4's ending is higher than Wave 1's ending.
6. Wave 3 is never the shortest wave compared to waves 1 and 5.

Comments

Comment on rule 1:

- An impulse is always made up of 5 waves and marked with numbers, like any motive wave.

Comment on rule 2:

- An impulse's waves 1, 3 and 5 are motive and waves 2 and 4 – corrective. We may use the M-C-M-C-M formula to show it schematically. First, the scheme shows that the pattern is composed of 5 waves. Second, it shows the character of waves (motive or corrective).

The wave formula usually uses numbers 5 and 3, not letters M and C in wave principle analysis tutorials. I'd rather choose letters as I've found out that many beginners are confused by numbers. If we used numbers for the impulse formula, it would look like 5-3-5-3-5. Looking at this formula, beginners think that number 3 in the second and fourth position means that the second and the fourth wave in an impulse may contain only three-wave counts. However, there may be corrective 5-part waves. For example, an A-B-C-D-E triangle or a triple three W-X-Y-XX-Z. Thus, number 3 in the formula only means that the wave is corrective. It has nothing to do with the quantity of parts in the pattern. That's why I suggest using letter C instead of number 3 to make it clearer that the wave is of a corrective character. Such a change will be useful for people who are just starting to study the Elliott wave structure.

Comment on rule 3:

- The rule no. 3 says that the size of wave 2 is less than the size of wave 1. A wave's size is measured through its projection onto the vertical axis. It means the size of wave 1 is the length of the vertical segment marked in blue in picture 21.

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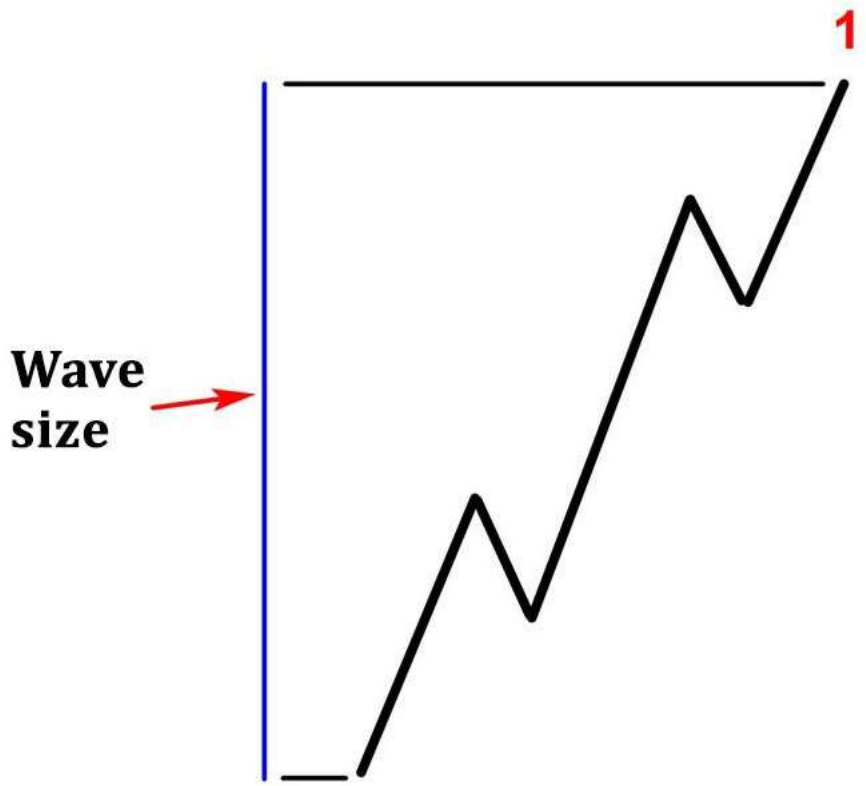

Picture 21.

In a situation where the size of wave 2 is bigger than the size of wave 1 and it is not the shortest wave, we won't have an impulse but a different wave structure, or it will mean we haven't determined the wave structure correctly.

Comment on rule 4:

- Wave 3 always goes beyond Wave 1's ending. This rule means that wave 3 cannot end lower than the level marked with the red horizontal line in picture 22.

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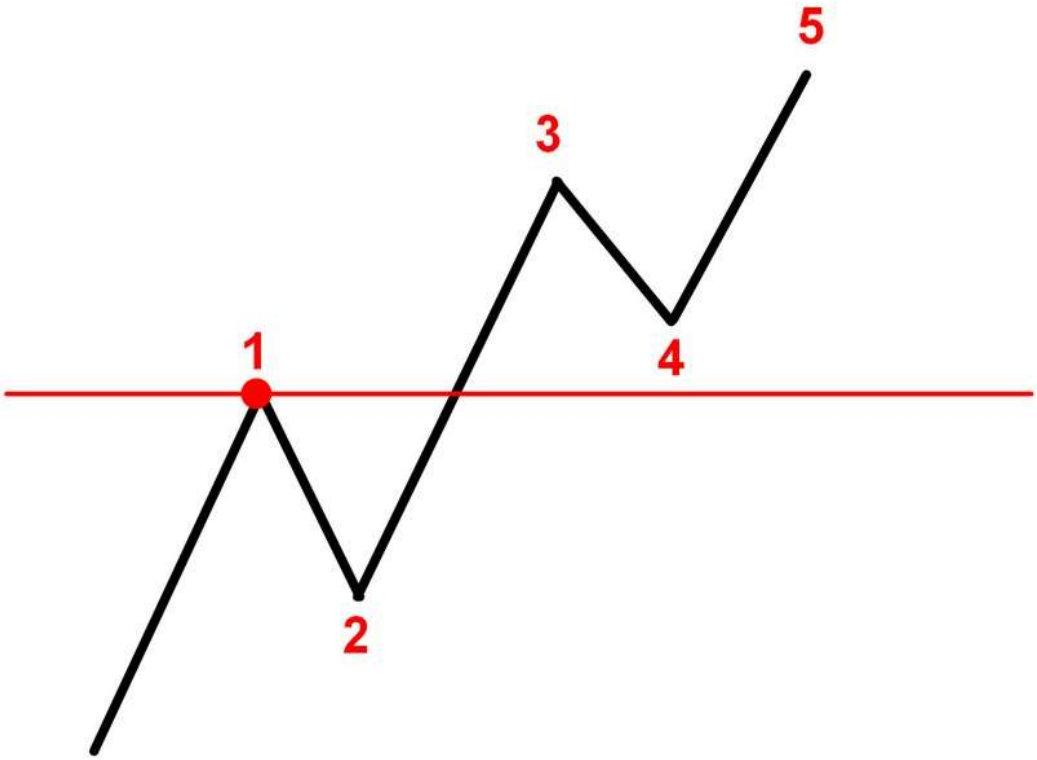

Picture 22.

Comment on rule 5:

- Wave 4’s ending is higher than Wave 1’s ending. It means that wave 4 always ends higher than the end of wave 1 (if we’re talking of an ascending impulse). Also, note that wave 4 may go lower than the end of wave 1 while forming. Please see picture 23 for a better understanding.

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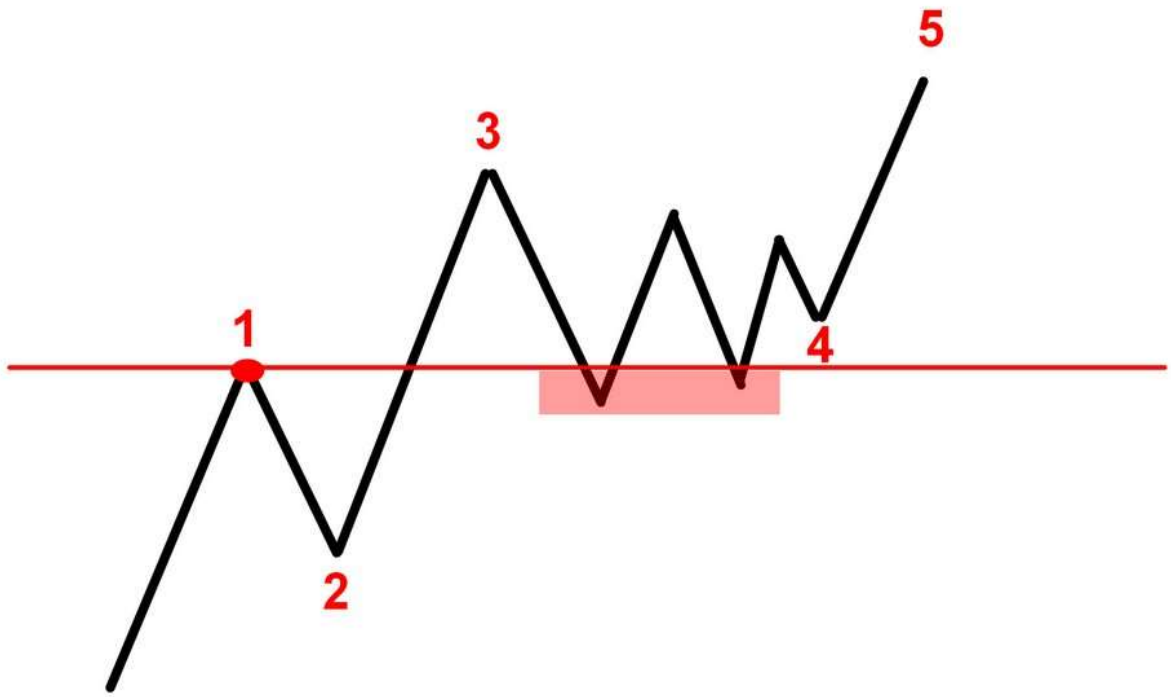

Picture 23.

We see that wave 4 went below the level of the red horizontal line plotted through the top of wave 1, but despite it, wave 4 ended above the red line level. It means the rule was observed. Such situations may occur in the market and they shouldn't be considered erroneous.

Comment on rule 6

- The sixth rule says that wave 3 is never the shortest wave compared to waves 1 and 5. In other words, it can never be the shortest actionary wave of an impulse. This rule, like the rest of them, shall be always observed and mustn't be disregarded. Also, note that statistically, the third wave is often the largest and most powerful actionary wave of an impulse. So, things like a greater volume and a strong price movement usually accompany wave 3. To trade in the third wave is the most profitable and sure-fire strategy. So, if the trader has learnt to identify the third wave in the market and takes advantage of the benefits that accompany wave 3, he or she is very likely to trade with profits.

All of the rules above apply to the descending market as well. Picture 24 shows a descending impulse.

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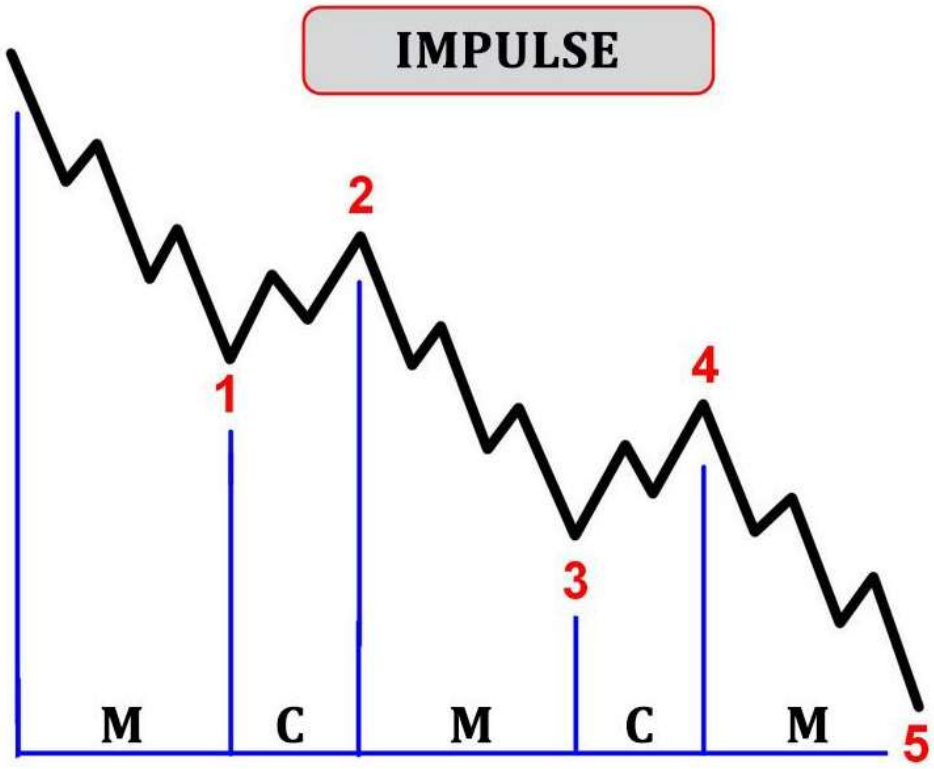

Picture 24.

Rules for a descending impulse

1. An impulse is composed of 5 waves.
2. Wave formula: M-C-M-C-M.
3. Wave 2 corrects Wave 1 by less than 100%.
4. Wave 3 goes beyond Wave 1’s ending.
5. Wave 4’s ending is lower than Wave 1’s ending.
6. Wave 3 is never the shortest wave compared to waves 1 and 5.

The set of rules for an ascending and descending impulse waves is almost the same. The difference lies only in the direction of wave development.

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Leading diagonal

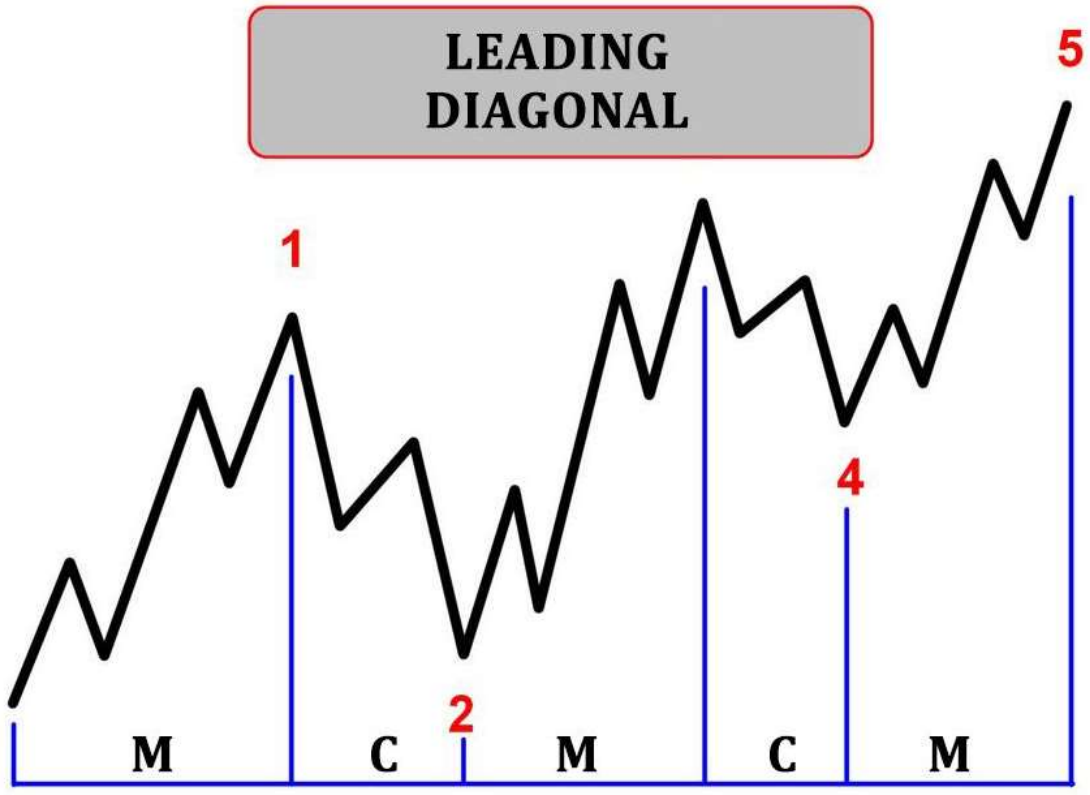
This part of the article will be devoted to diagonal waves. There exist leading diagonals and ending diagonals. Note that these patterns used to be called “diagonal triangles”. Then Robert Prechter, a worldwide specialist in the Elliott wave theory, removed the word “triangle” from the diagonals’ name to end confusion among beginners who would mistakenly put diagonal waves into the category of triangles. I totally agree with this decision as it’s the right thing to do to make the analysis simpler for newbies.

In this part, we will examine a leading diagonal – the second type of waves of a motive character. Another name of a leading diagonal is “wedge”.

So, what does a leading diagonal look like? First, this pattern is usually a forerunner of a powerful movement and always occurs in a position of an impulse’s wave 1 or a zigzag’s wave A.

If you’ve identified a leading diagonal in the chart, it may be a sign of a powerful trend and so it provides a good opportunity to look for an entry point.

Here’s a scheme of a leading diagonal in picture 25.



Picture 25.

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Rules for a leading diagonal:

1. Composed of 5 waves.
2. Wave formula: M-C-M-C-M.
3. Wave 2 < Wave 1.
4. Wave 3 always goes beyond Wave 1’s ending.
5. Wave 4 ends between waves 1 and 2.
6. Wave 5 goes beyond Wave 3’s ending.
7. Wave 3 is never the shortest.
8. A leading diagonal is located in a position of an impulse’s wave 1 or a zigzag’s wave A.

Comments on the rules:

Structurally, a leading diagonal looks like an impulse. Like an impulse, it consists of 5 waves of the same wave formula. Wave 3 always breaks beyond Wave 1’s ending. However, there’s a difference in the fifth rule: wave 4 always ends somewhere between the endings of waves 1 and 2. Have a look at picture 26.

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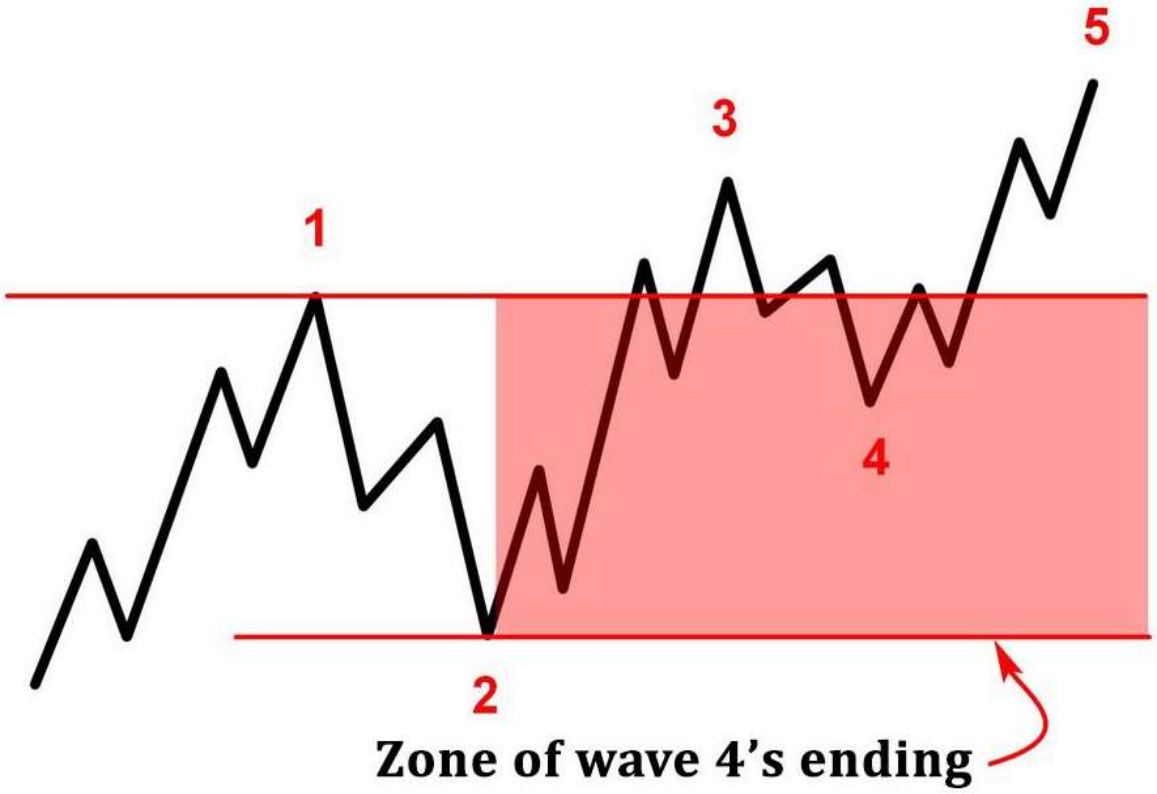

Picture 26.

Picture 26 shows the zone where wave 4 is supposed to end. If wave 4 ends outside the indicated zone, it means we've identified a different pattern or the waves haven't been identified correctly.

Another difference between a leading diagonal and an impulse is that wave 5 is always above the ending of wave 3. It means wave 5 is never truncated. The rules for impulse waves don't contain this point at all as the fifth wave isn't limited in its development there. It may both not reach the ending of wave 3 (and be called "truncated" in such a case) or go beyond the ending of wave 3.

Next, like in an impulse, wave 3 of a leading diagonal is never the shortest. However, in contrast to an impulse, a wedge may be located only in a position of an impulse's wave 1 or a zigzag's wave A and it indicates the coming of a powerful trend, as it was mentioned earlier.

So, a leading diagonal is a wave whose properties and form remind us of an impulse. The main difference is in the pattern's location and the fourth wave's ending zone.

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Now, let’s examine a descending leading diagonal. The set of rules for a descending leading diagonal fully coincides with those for an ascending leading diagonal. A descending leading diagonal is shown in picture 27.

Picture 27.

To conclude, let’s see how we should mark correctly a leading diagonal in a chart. First, draw two lines from the beginning of the pattern to its ending. The upper line is drawn through the tops of waves 1 and 3 while the lower line is drawn through the tops of waves 2 and 4. Picture 28 shows the way the upper and lower lines are drawn in ascending and descending leading diagonals.

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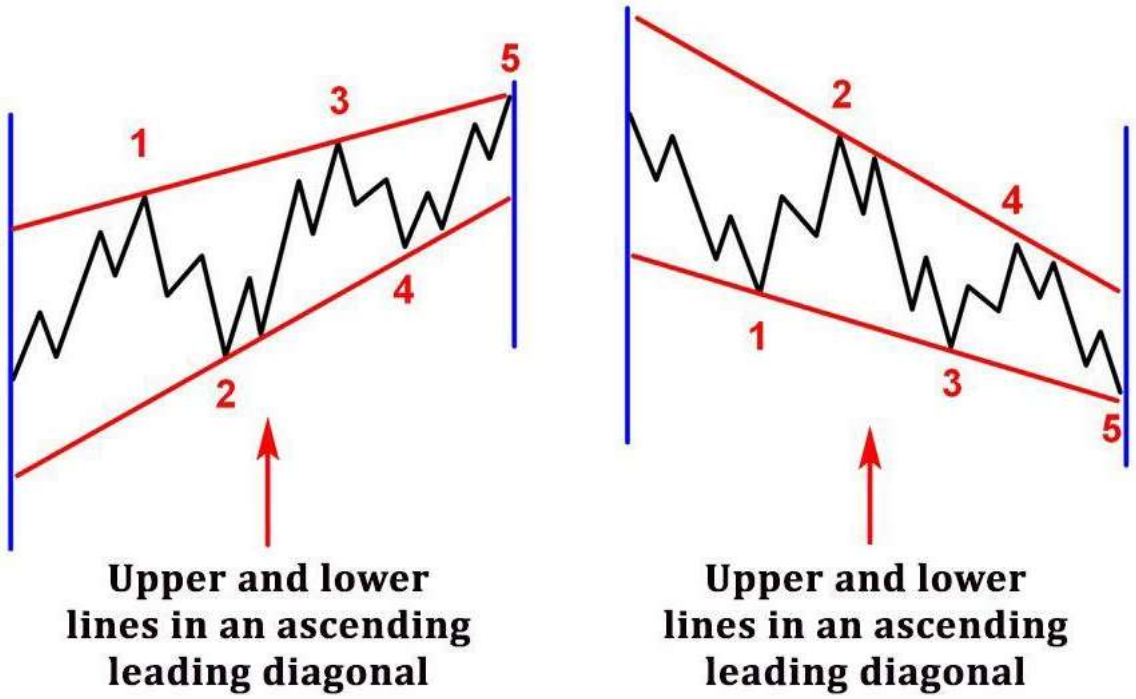

Picture 28.

This way of marking a leading diagonal in a chart is very convenient from a practical point of view. When there are too many numbers and letters in a chart, a diagonal marked with lines is eye-catching and makes a situation clearer.

Ending diagonal

This part of the article is devoted to an ending diagonal. This type is the last of the three wave pattern structures of a motive character.

As we remember, a leading diagonal is located only in a position of an impulse's wave 1 or a zigzag's wave A. It often indicates the coming of a powerful movement.

Unlike leading diagonals, an ending diagonal occurs only at the end of a trend, in the fifth wave position (impulse) or in the wave C position (zigzag). An ending diagonal very rarely occurs in a position of wave C in a flat. We'll deal with these corrective patterns a bit later.

Once you've identified an ending diagonal in the market, you may conclude that the previous trend is coming to an end and either a corrective wave or a counter trend is about to develop. Because ending diagonals are normally easily noticeable in a chart, we may forecast a trend ending point quite accurately, which may and should be used in trading.

Now, have a look at the scheme and write down the set of rules for ending diagonals.

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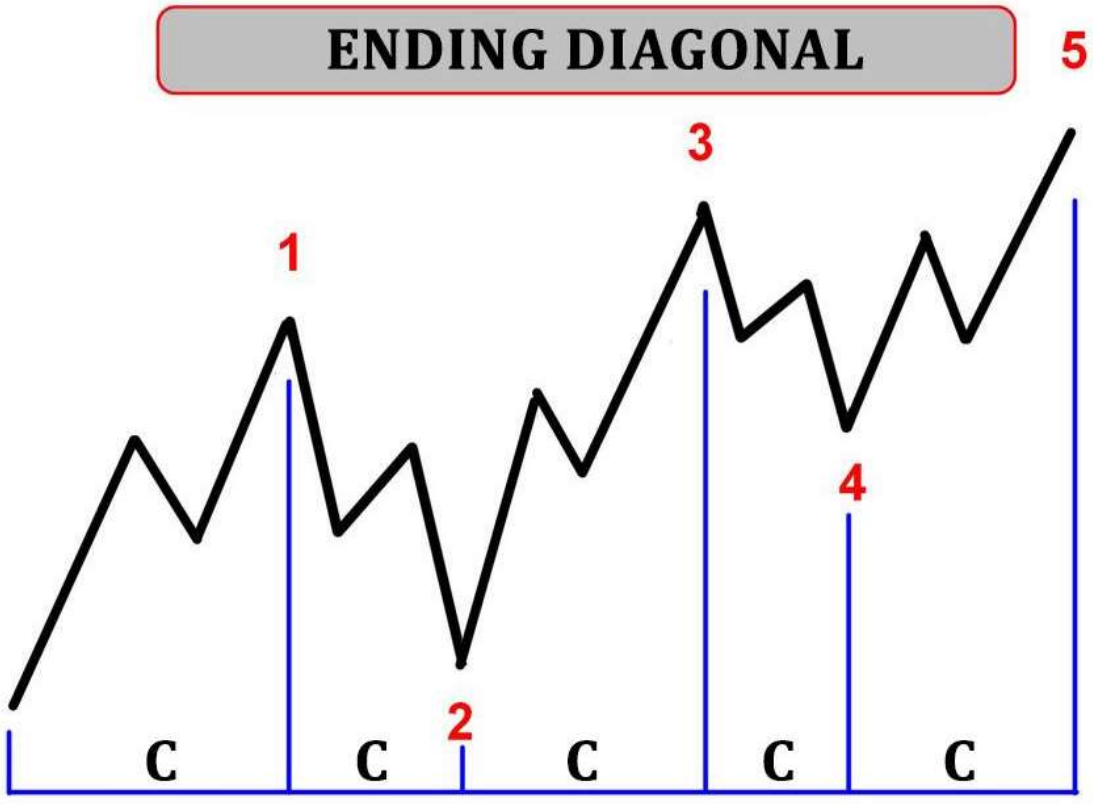

Picture 29.

Ending diagonal rules:

1. Composed of 5 waves.
2. Wave formula: C-C-C-C-C (Waves 1, 3, and 5 are always zigzags).
3. Wave 2 < Wave 1.
4. Wave 3 goes beyond Wave 1's ending.
5. Wave 4 ends between the endings of waves 1 and 2.
6. Wave 3 isn't the shortest.
7. May be located in a position of an impulse's wave 5 or a zigzag's wave C. It may occur in the wave C position in case of a flat (rarely).

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Comments on the rules:

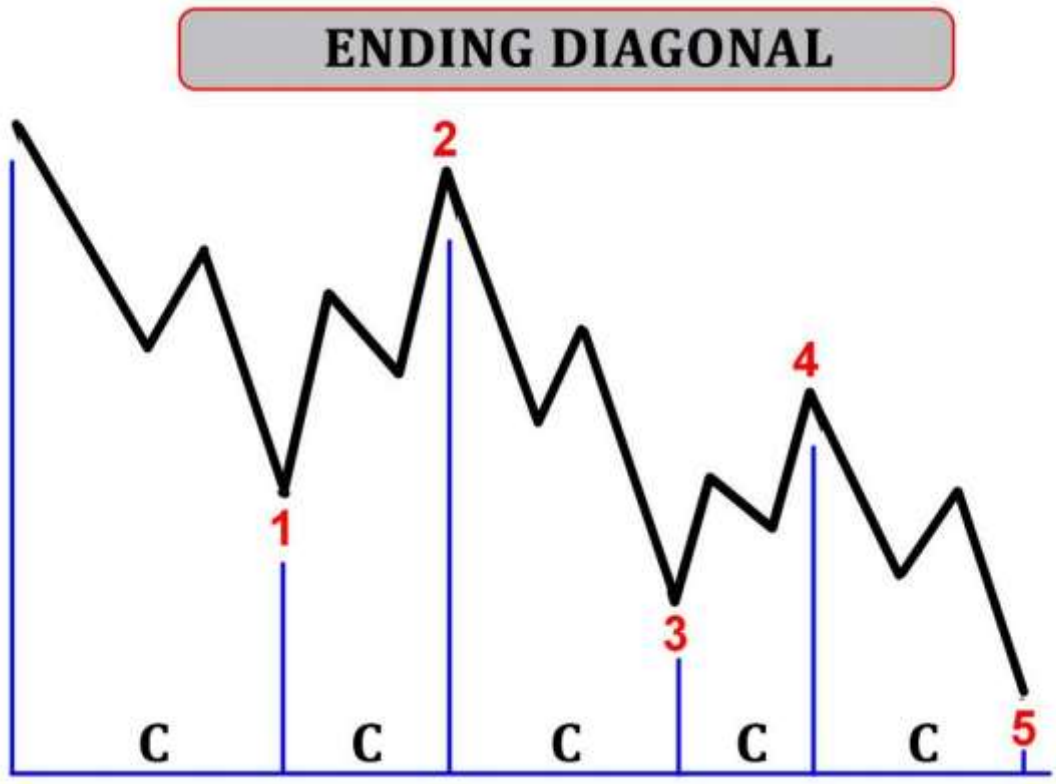
As we see, the set of rules for an ending diagonal looks like those for a leading diagonal. The main difference lies in the wave formula and pattern location. The wave formula of an ending diagonal C-C-C-C-C shows that the pattern is made up of 5 waves of a corrective character. Note that waves 1, 3 and 5 of an ending diagonal are always zigzags. It means all the actionary waves in an ending diagonal are zigzags by structure.

Another difference between an ending and a leading diagonal is in the location of the pattern. Being an ending wave, an ending diagonal may only occur in a position of an impulse's wave 1 or a zigzag's wave C. Also, ending diagonals may sometimes be located in wave C of a flat.

One more difference is that wave 5 of an ending diagonal may be truncated, which means it doesn't always reach the horizontal line drawn through the top of wave 3.

When I see an ending diagonal occur in a price chart, I usually close the positions opened earlier or get ready to open new positions in the direction opposite to the previous trend because I know that once an ending diagonal has formed, the market prices alternate and start rushing in the opposite direction.

The scheme of a descending ending diagonal is shown in picture 30.



Picture 30.

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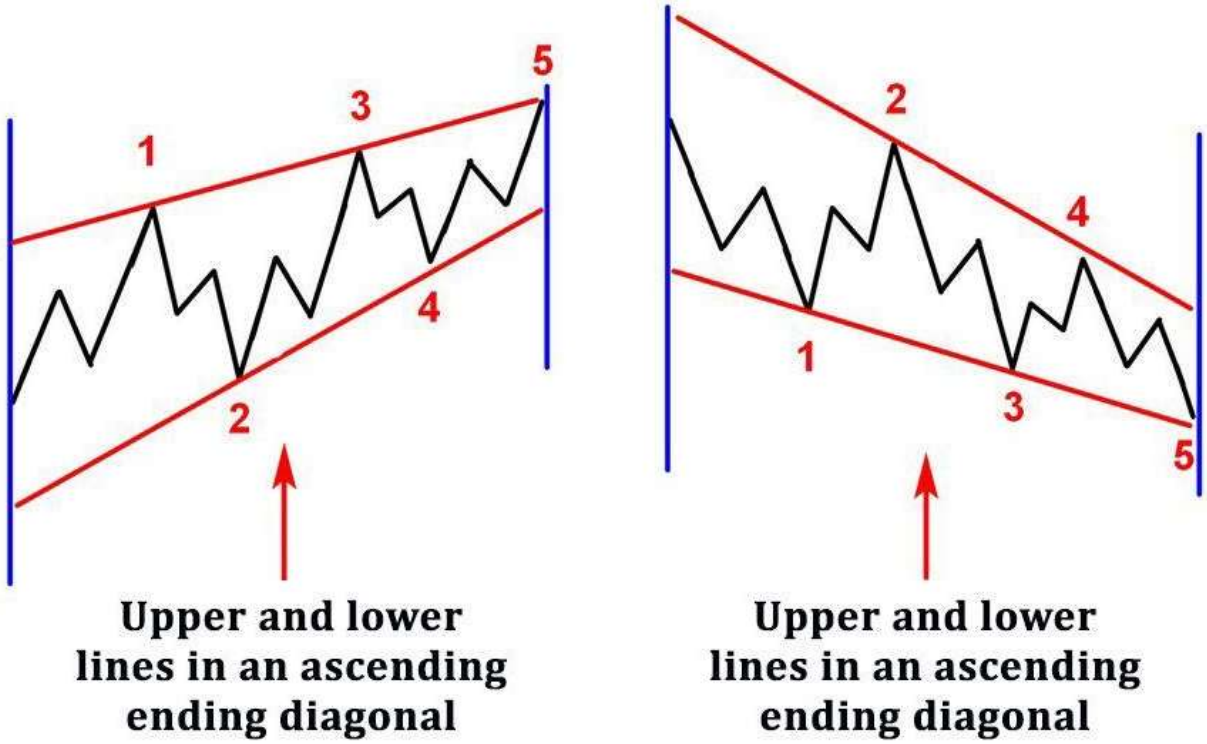
The set of rules for a descending ending diagonal fully coincides with those for an ascending ending diagonal.

As for the way of marking an ending diagonal in a chart, it's identical to the way of marking a leading diagonal. There are two lines drawn through the tops of waves 1 and 3 and waves 2 and 4. The lines are drawn along the wave's length (see picture 31).



Picture 31.

We've examined 3 types of motive waves and it's time for corrective waves now.

Corrective waves

Corrective wave patterns are much more diverse and difficult to study than motive ones. Corrective patterns have a much more complex internal structure, and there are more rules and guidelines for them.

Below, I will describe seven types of corrective waves and explain the rules and guidelines for them.

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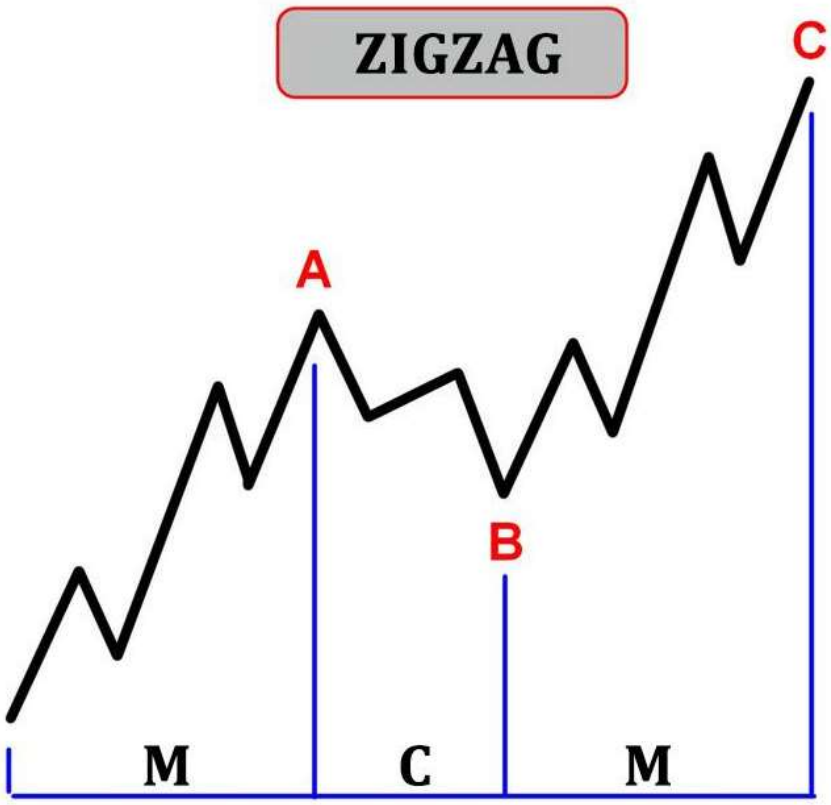
Zigzag

A zigzag in the second most frequent pattern in a chart after an impulse. Almost all corrective waves subdivide into zigzags and then – into impulses. That's why it's important to remember the rules because we're going to deal with the most popular and frequent corrective wave.

First, have a look at picture 32.



Picture 32.

Zigzag rules:

1. A zigzag is composed of 3 waves.
2. Wave formula: M-C-M.
3. Wave B < Wave A.
4. As a rule, wave C goes beyond the ending of Wave A.

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Zigzag instructions:

1. A zigzag is usually a deep three-wave pattern, known also as a three wave correction.
2. Wave A often equals wave C, approximately.
3. A zigzags fits well into a channel.

In what do these instructions differ from the rules? The rules shall be observed in 100% of cases while the instructions are just statistical regularities. We may say that the instructions are true in most cases, but if they aren't in a particular case, it won't mean that the wave structure has been identified incorrectly.

Comments on the rules and instructions:

The first rule says that a zigzag is made up of 3 sub-waves. Like any other corrective wave, zigzags are labelled with letters. Wave A of a zigzag is motive and often forms as an impulse. It may be a leading diagonal too. Wave B is always corrective and wave C usually forms as an impulse and may sometimes be an ending diagonal.

Since wave B is corrective, it may form as a zigzag.

We know from rule 4 that wave C normally goes beyond the ending of wave A. "Normally" means here that wave C goes beyond the ending of wave A in most cases, but it may sometimes be truncated.

Now let's study the instructions. According to the first instruction, a zigzag is a deep correction if compared to a previous trend. A deep correction is a correction that is bigger than 50% of a previous wave. Picture 33 shows an impulsive wave A and the horizontal line drawn through its middle separates the area of deep corrections from the area of shallow corrections.

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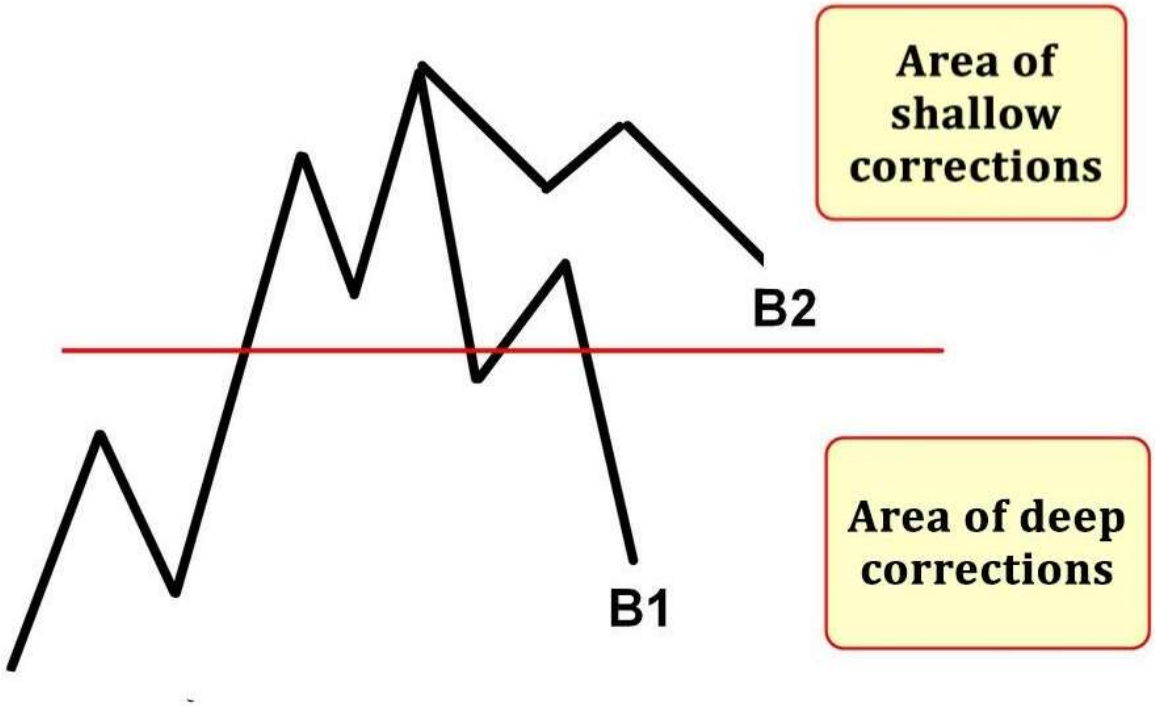

Picture 33.

If a corrective wave ends below the horizontal line, a correction is considered as deep. For example, wave B1 in picture 33 is a deep correction and wave B2 is a shallow correction in relation to the previous ascending wave A.

The next instruction is simple. The size of wave C is very often equal to the size of wave A. These waves are sometimes equal based on the Fibonacci numbers. In other words, wave C may be, for example, 76.4% or 161.8% of wave A or there may be used other numbers from the Fibonacci sequence.

The last instruction says that zigzags usually fit well into a channel. It means that a channel may be built and the ending point of wave C may be forecast while a zigzag is forming. Here's an example.

Assume that we've got waves A and B in an ascending zigzag and wave C has just started forming (see picture 34).

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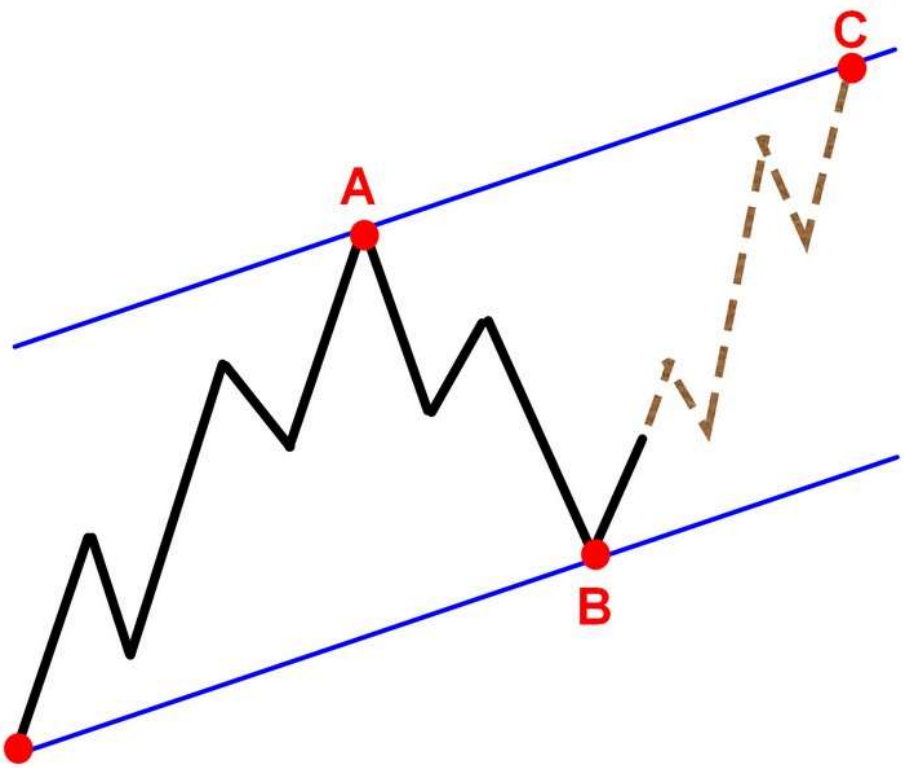

Picture 34.

At this moment, we can trace a line through the starting points of waves A and C (the lower blue line in the picture). Next, this line is copied and drawn through the ending point of wave A (the upper lower line). We've got a blue channel inside which the zigzag is moving. If we continue wave C upwards at the same angle as wave A's until the point where it will cross the upper limit of the blue channel, we'll get a forecast concerning the size of wave C. Wave C very often ends exactly at the border of such a channel. This feature of zigzags may and should be used to make profits from foreign exchange trading.

Picture 35 shows a descending zigzag.

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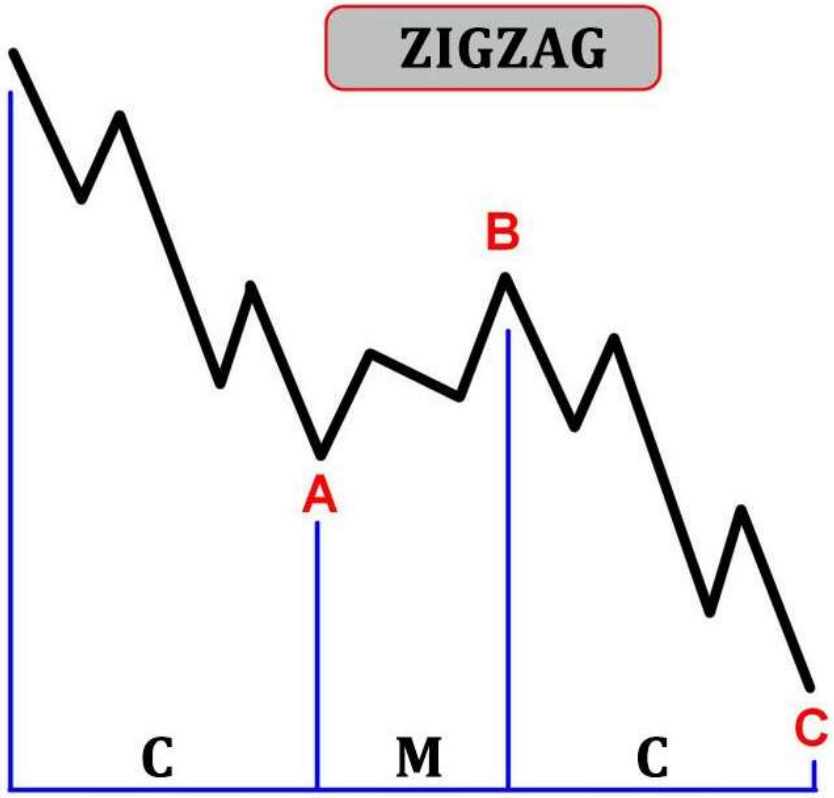

Picture 35.

The set of rules and instructions for a descending zigzag is the same.

Flat

A flat, like a zigzag, is a simple wave pattern composed of 3 sub-waves, that's why it often occurs in price charts.

Let's have a look at a flat in picture 36.

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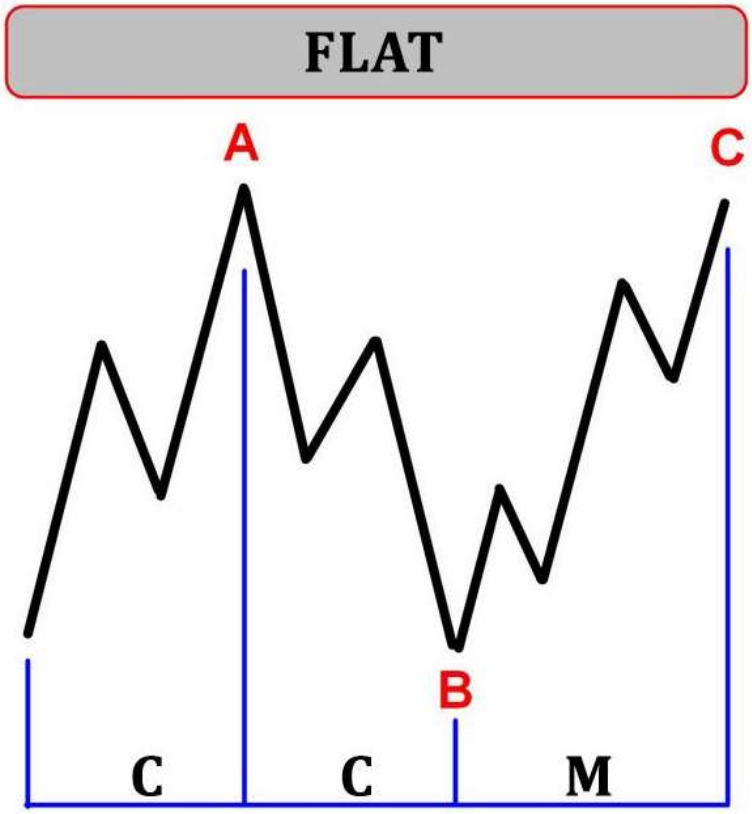

Picture 36.

Flat Rules

1. Composed of 3 waves.
2. Wave formula: C-C-M
3. Wave B equals approximately wave A.

Flat Instructions:

1. A flat is normally a horizontal correction.
2. There exist 3 types of flats: contractions, expanding and running flats.

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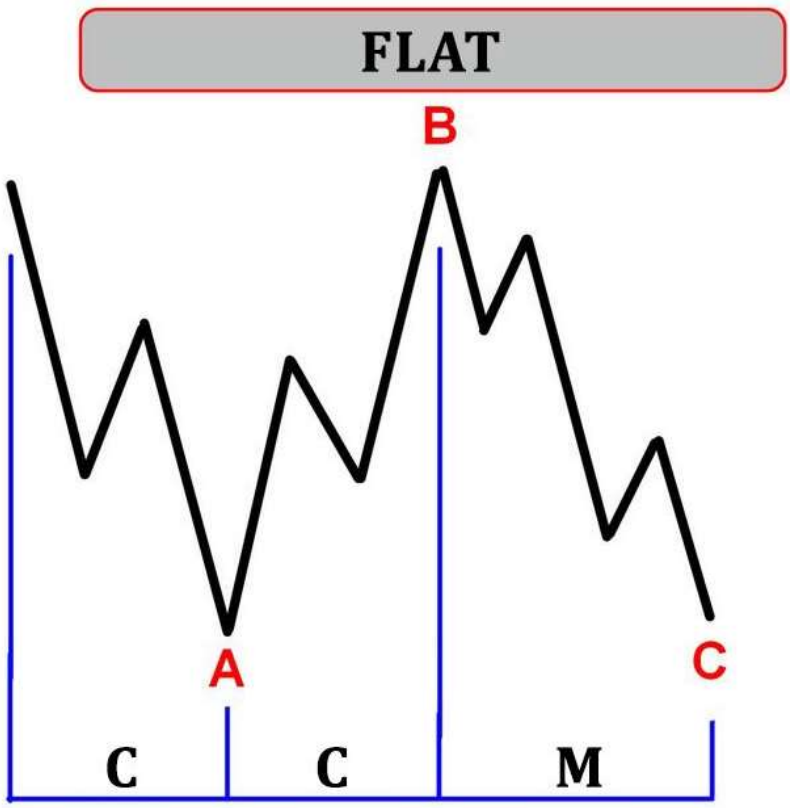
Comments on the rules and instructions:

Wave A of a flat is always corrective, like wave B. Wave C is motive and often forms as a simple impulse. Wave C may rarely form as an ending diagonal. These features of a flat are reflected in its wave formula: C-C-M.

As for the third rule, we should note that wave B may be slightly bigger or shorter than wave A, but in general, wave B forms as approximately equal to wave A because a flat is normally a horizontal correction.

The set of rules and instructions for a descending flat is the same. Let's have a look at a descending flat in picture 37.



Picture 37.

Ralph Nelson Elliott singled out 2 types of a flat: regular flats, where all sub-waves are approximately the same in size, and irregular flats, where sub-waves may run relative one to another.

Later on, Robert Prechter, another researcher in wave principle analysis, singled out 3 types of a flat based on large statistical material. We'll stick to Prechter's classification in this article.

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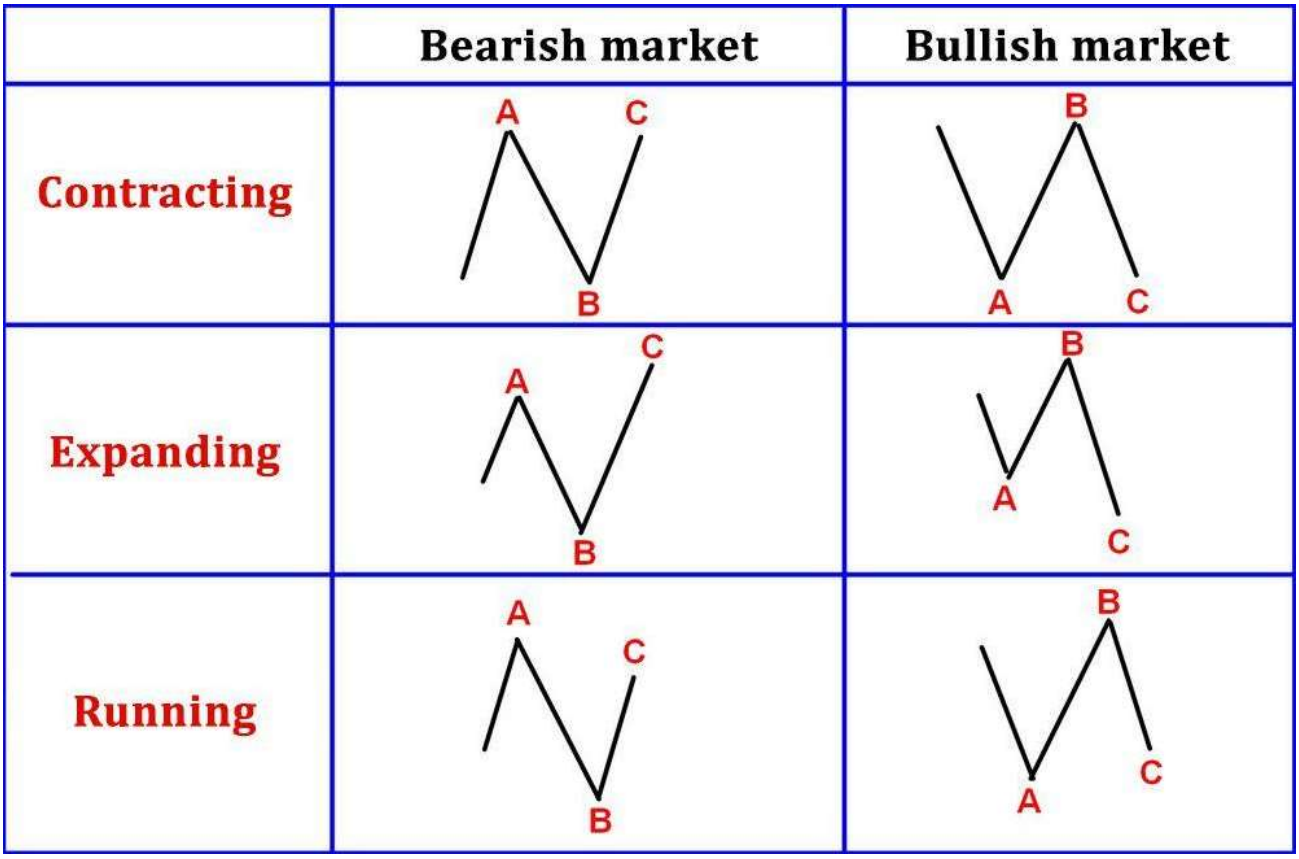
The first type is a contracting flat. It's a flat where all waves are approximately the same in size. Picture 38 shows contracting flats in a bull and a bear market.



Picture 38.

The second type is an expanding flat. An expanding flat is a flat where every subsequent wave is bigger than the previous wave. It means wave B is bigger than wave A and wave C is bigger than wave B. The pattern seems to stretch up and down while forming. This kind of pattern forms when bulls and bears are equally strong and pull the price up and down. Volatility increases and market waves become bigger and bigger. Picture 38 shows expanding flats in a major bull market and a bear market.

The third wave type is a running flat. In this flat, wave B is bigger than wave A and wave C is smaller than wave B, that's why the pattern forms as running. Such a pattern normally forms when either bulls or bears are predominant in the market. The predominant force doesn't allow the wave to form sideways and moves it instead while it's forming. In the lower part of picture 38, we can see running flats in a bullish trend and a bearish trend.

So, there are 3 types of a flat: contracting, expanding and running. That's what is reflected in the second point of the instructions.

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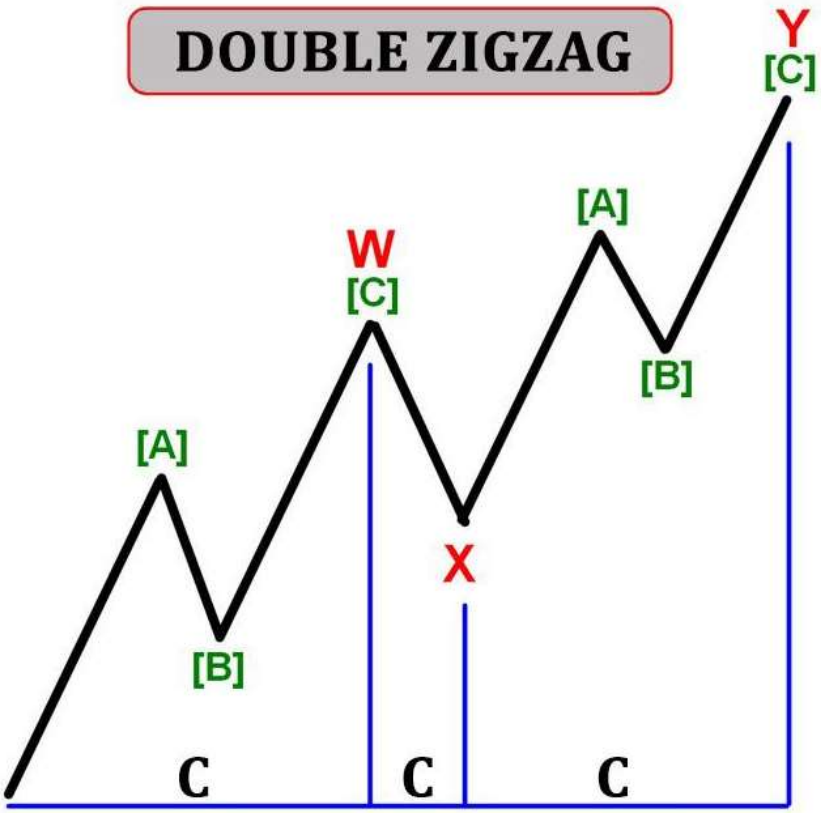
Let’s make it clearer in what a flat is different from a zigzag. Both a zigzag and a flat are corrective waves and consist of 3 sub-waves. The difference is that wave A in a zigzag is motive while wave A in a flat is corrective pattern. Also, a zigzag is usually a deep correction of the previous trend under which the market may soar or collapse. A flat is a sideways pattern and the market moves in a horizontal direction there.

Double zigzag

We have already examined motive waves and started examining corrective waves. We’ve studied simple corrective patterns: a zigzag and a flat. It’s time to have a look at a double zigzag.

As the name suggests, a double zigzag is made up of two zigzags combined with a linking wave (see picture 39).



Picture 39.

The first zigzag is marked with letter W, the second zigzag – with letter Y, and they are linked through linking wave X.

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Letters [A]-[B]-[C] are used for designating waves in zigzags' inner structure. Picture 39 shows that a double zigzag consists of three parts of a corrective character. So, let's write down the main rules for double zigzags.

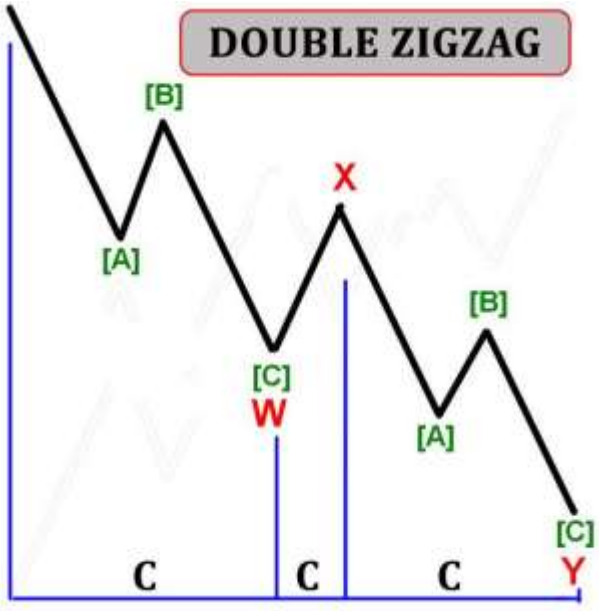
Double zigzag rules:

1. Composed of 3 waves.
2. Wave formula: C-C-C; waves W and Y consist of zigzags.
3. Wave X < wave W.
4. Wave Y is normally bigger than wave X.

Double zigzag instructions:

1. A double zigzag is a deep correction.
2. Channel of linear regression.

The set of rules and instructions for a descending double zigzag is the same (see picture 40).



Picture 40.

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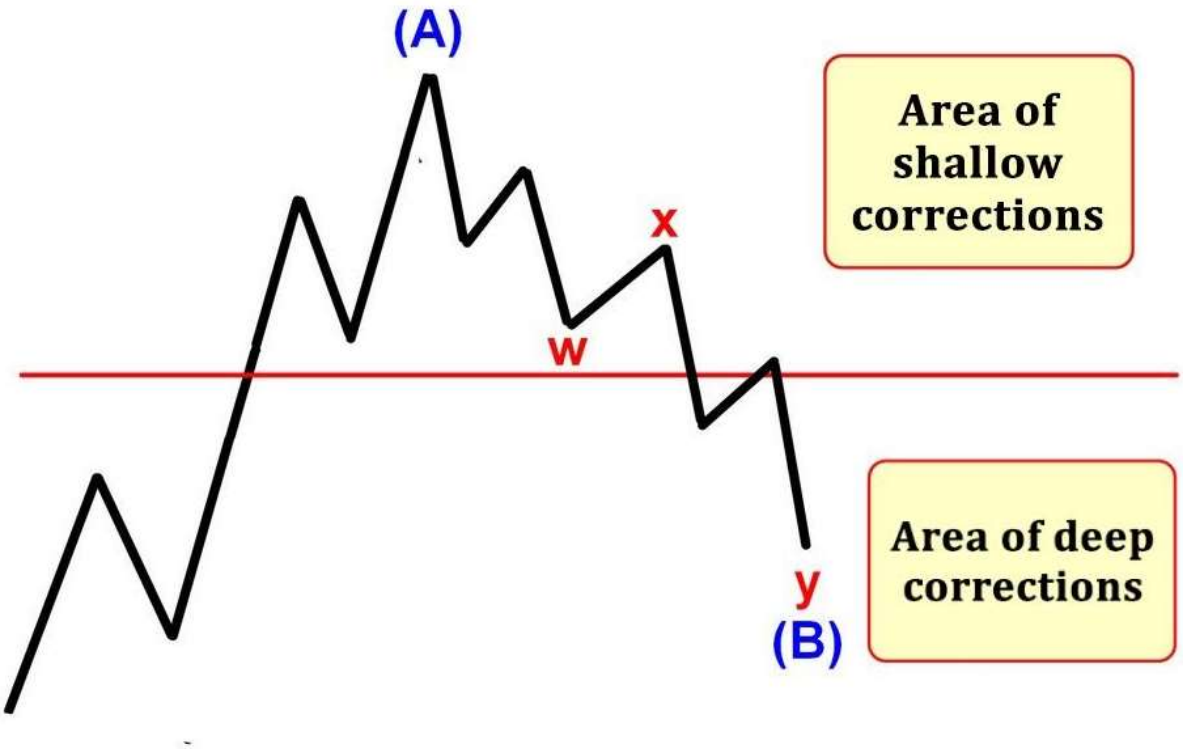
Comments on the rules and instructions

Like a simple zigzag, a double zigzag is made up of three sub-waves, but it's zigzags, not impulses, that occur in the position of the first and the third waves. That's why the wave formula contains only corrective waves. Wave X is always smaller in size than wave W, but wave Y can sometimes be truncated. However, over nine years of my experience in wave principle analysis, I've seen just a few dozens of cases when a double zigzag turned up truncated.

As for the instructions, you know already what a deep correction relative to the previous trend is. According to the first instruction, a double zigzag is a deep correction of the previous trend. Please note that a double zigzag normally occurs in a chart when a simple zigzag cannot form a correction of necessary size. Here's a scheme of such a situation.



Picture 41.

We see that after the ascending trend (A) ended, the market started forming a downward correction (B) whose first part got shaped like zigzag W. However, because that zigzag didn't reach the area of deep corrections and ended above the horizontal line that divides the areas of deep and shallow corrections, the second zigzag occurred. It means, a small ascending linking wave X was formed; then the market built the second zigzag Y and the correction of necessary size formed.

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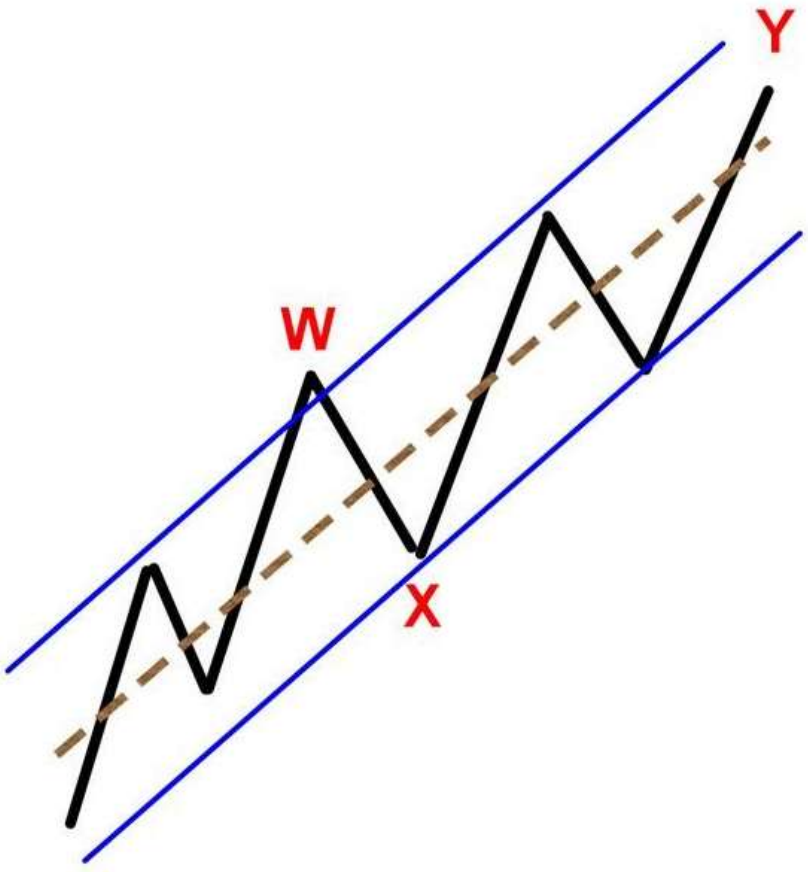
Thus, a double zigzag forms when a simple zigzag cannot form a deep correction. This peculiarity of double zigzags can be used in trading. If we see a correction after a trend which is shaped like a simple zigzag and cannot reach 50% of the previous wave, we may expect that a small linking wave will be built and another zigzag will form.

As for the second instruction, it's my own observation. Double zigzags have been shown to fit well in the channel of linear regression. Such a channel can be built in any technical analysis program as it's quite a popular tool. The channel consists of three lines. The central line, or axis, is calculated using the least squares method. Next, 2 more parallel lines are plotted at the same distance from it. These lines describe a double zigzag's behaviour perfectly well.

If you've identified the first part of a double zigzag in the market, for instance, waves W and X (see picture 42), you can plot a linear regression channel in this segment. And if you extend its lines further, you will be able to forecast the frames of wave Y's movement.



Picture 42.

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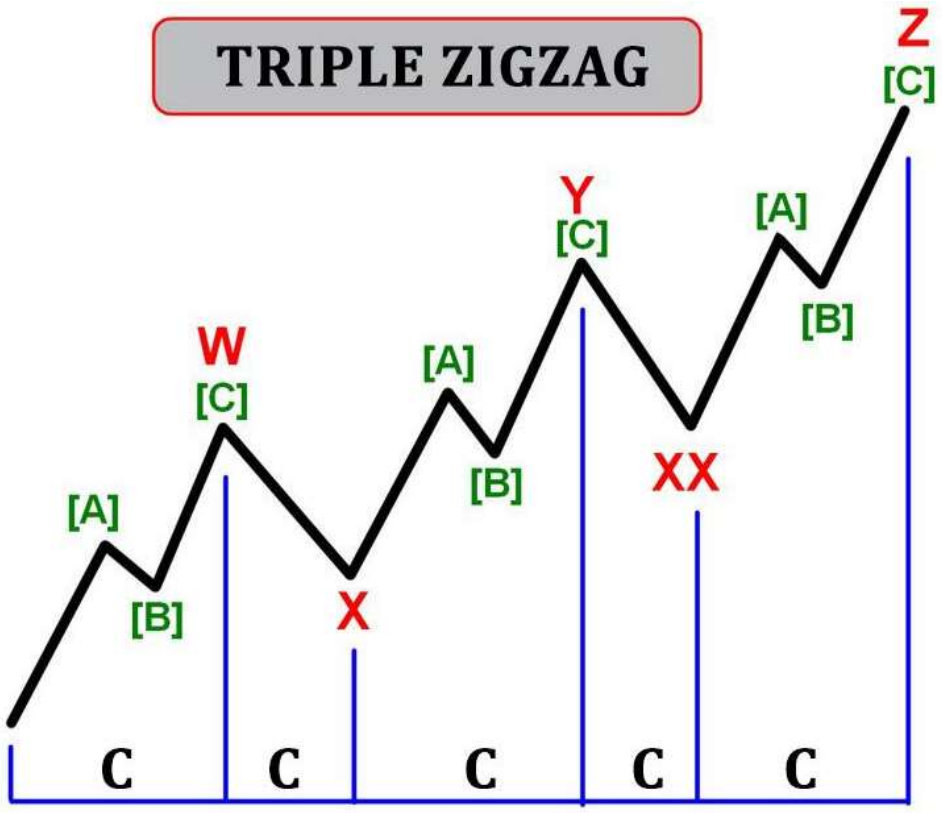
This peculiarity of double zigzags is easy to use while trading. For example, you may open long positions near the lower limit of the linear regression channel and close them near the upper limit of the channel.

Triple zigzag

As the name of this pattern suggests, a triple zigzag is made up of three zigzags linked by linking waves.

Picture 43 shows the scheme of a triple zigzag.



Picture 43.

We see the first zigzag W, the second zigzag Y and the third zigzag Z linked by linking waves X and XX. Linking waves are marked with different letters – X and XX – to avoid confusion. It's very convenient in practice. Waves W, Y and Z are shaped themselves like zigzags, that's why their inner structure is marked with letters [A]-[B]-[C], as we see it in picture 43.

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Triple zigzag rules:

1. Composed of 5 waves.
2. Wave formula: C-C-C-C-C. W, Y, and Z are usually zigzags.
3. Wave X < wave W.
4. Wave Y goes beyond the ending of Wave W.
5. Wave XX < Wave Y.
6. Wave Z is normally bigger than Wave XX.

Triple zigzag instructions:

1. Deep correction.
2. Channel of linear regression.

Comments on the rules and instructions:

The rules for triple zigzags are similar to those for double zigzags, the only difference being that a triple zigzag contains another linking wave XX and one more zigzag Z. Also, remember that waves W, Y and Z of a triple zigzag are usually built in the form of simple zigzags. The word “usually” means that in some cases these waves may be double or triple zigzags too, but they can never be other corrective patterns. In other words, these waves may be only zigzags or combinations of them.

As for the instructions, they are similar to those for double zigzags. Triple zigzags are deep corrections. They form when neither simple nor double zigzags succeed in forming a deep retracement to the previous trend. Then there appears the third zigzag Z linked to the pattern with linking wave XX.

A triple zigzag’s behaviour is described well by use of the channel of linear regression. It’s plotted when waves W, X and Y have already formed. In this case, it’s easy to predict the ending point of linking wave XX and final zigzag Z (see picture 44).

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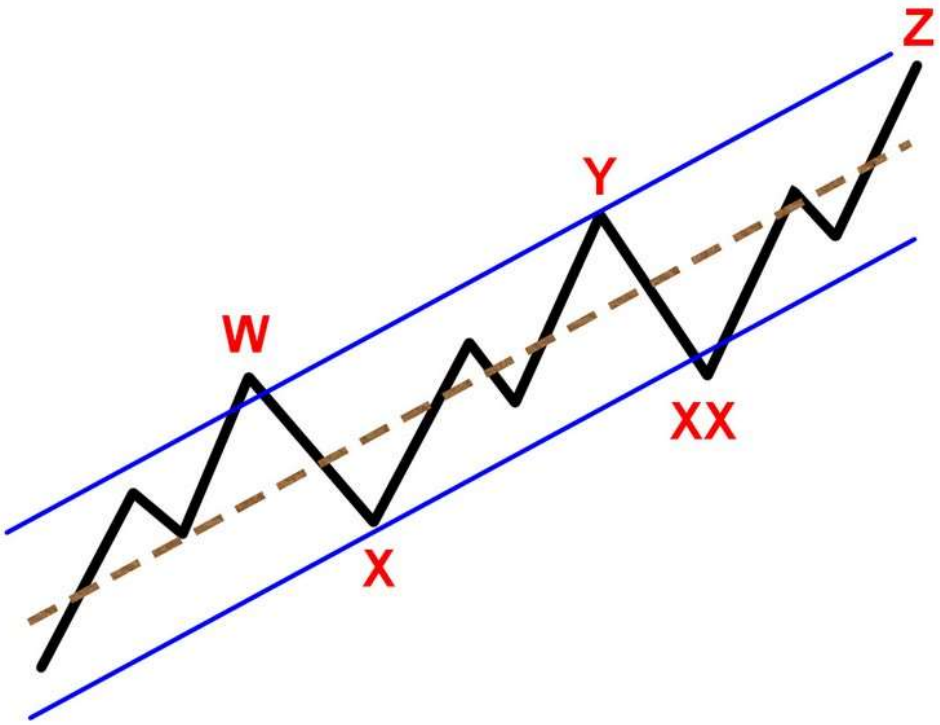

Picture 44.

Or, if it’s unclear which pattern is forming, but we see that it fits well a linear regression channel, we may suppose that the market is building a double or triple zigzag. And then we can make correct conclusions.

The set of rules and instructions for a descending triple zigzag is the same. A descending triple zigzag is shown in picture 45.

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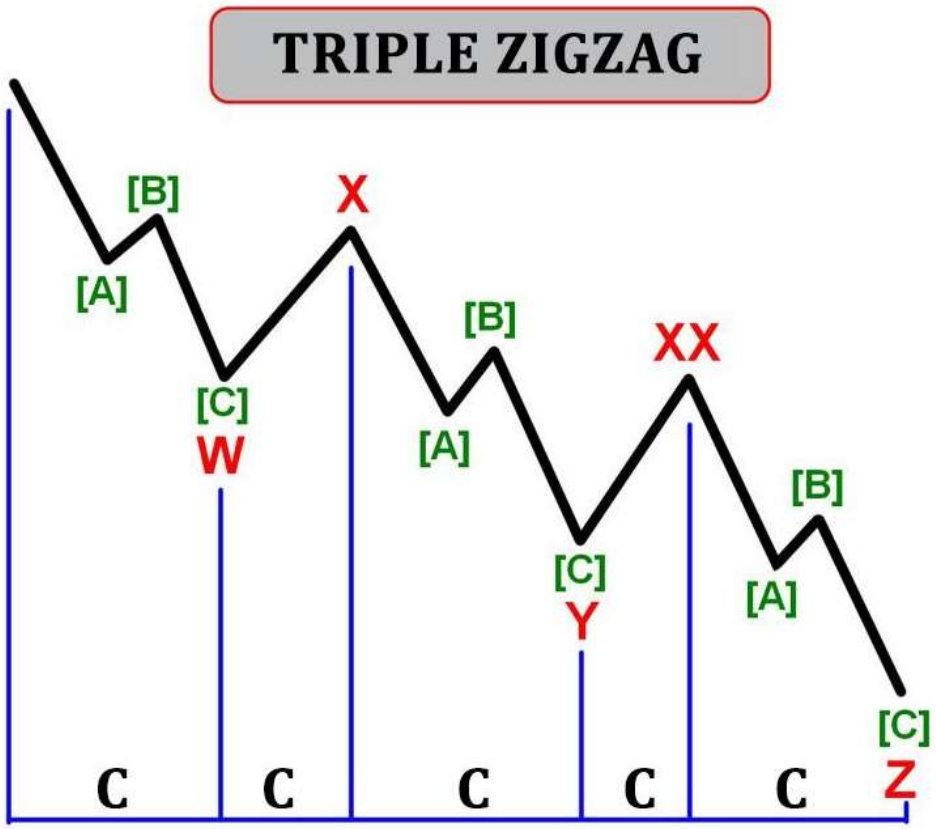

Picture 45.

Double three

This chapter of the article will be devoted to horizontal corrective waves. Let’s start with a double-three pattern.

First, have a look at picture 46.

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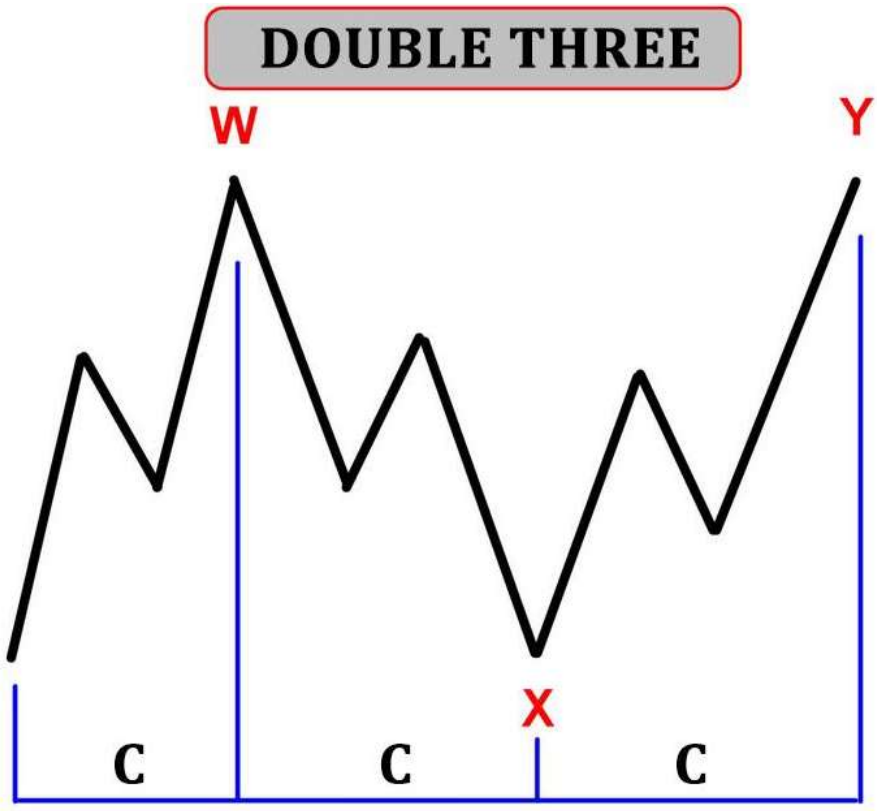

Picture 46.

As the name suggests, the double three consists of two threes combined by a corrective linking wave. “Three” is another name of a wave formed in a corrective pattern. The first three is marked with letter W, the second one – with letter Y, and the linking wave is marked with letter X. As we can see, this marking coincides with a double zigzag’s marking, but we shouldn’t confuse these two waves. Here are the rules for a double-three pattern.

Double three rules:

1. Composed of 3 waves.
2. Wave formula: C-C-C.
3. Wave W isn’t a triangle.

Double three instructions:

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1. Shallow correction.
2. Long correction.
3. Slope against the trend.

Comments on the rules and instructions:

Even if the double three is marked like a double zigzag, the character and properties of these two waves are completely different. The main difference is that a double zigzag is a deep and fast corrective wave while the double three is a shallow and horizontal correction. The double three doesn't usually retrace more than 36% into the previous trend. Also, waves W and Y in a double zigzag are zigzags themselves or their combinations whereas waves W and Y in a double three pattern may be any corrective pattern. The exception is that wave W cannot be a triangle (we'll speak about triangles later).

The double three is a long corrective wave. There exists the following market regularity concerning corrective waves: the less deep a correction is, the longer it lasts. Inversely, the deeper a correction is, the less it lasts. This property is shown in picture 47.

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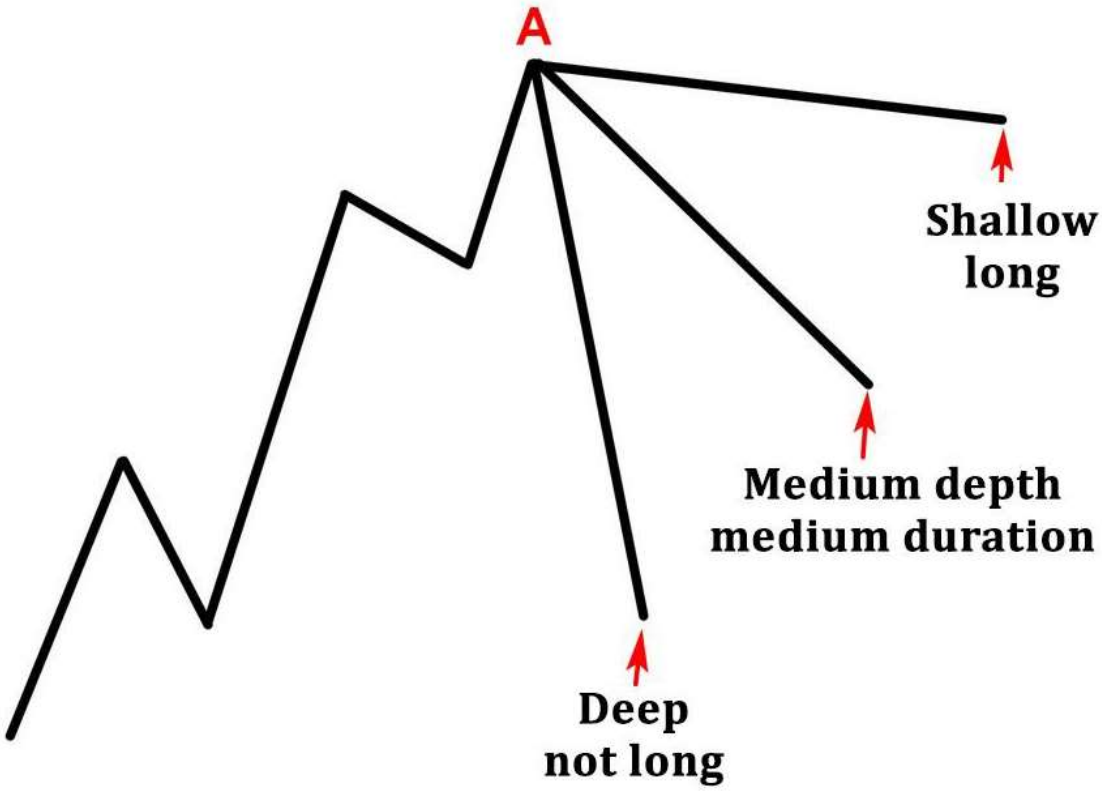

Picture 47.

The picture shows an ascending trend A and its corrective wave. Three versions of a downward correction are shown there. The first wave is deep in size and not long by the time of development. The second wave is of medium size and its development duration is, therefore, longer too. And the uppermost corrective wave is very shallow and very long.

This property can be used in trading for forecasting the size of a corrective wave. If we see a shallow correction forming in the market, it means we may expect that it will be forming for a long time. Inversely, the faster the market corrects in a corrective wave, the shorter the wave will be and the bigger Fibonacci numbers it will reach.

There's another property of the double three I'd like to mention – the direction of its slope. The double three is usually inclined against the previous trend. For example, if the market has been moving in an ascending trend and the double three has started to develop after the trend has been over, the double three will be inclined downwards. This property is shown in picture 48.

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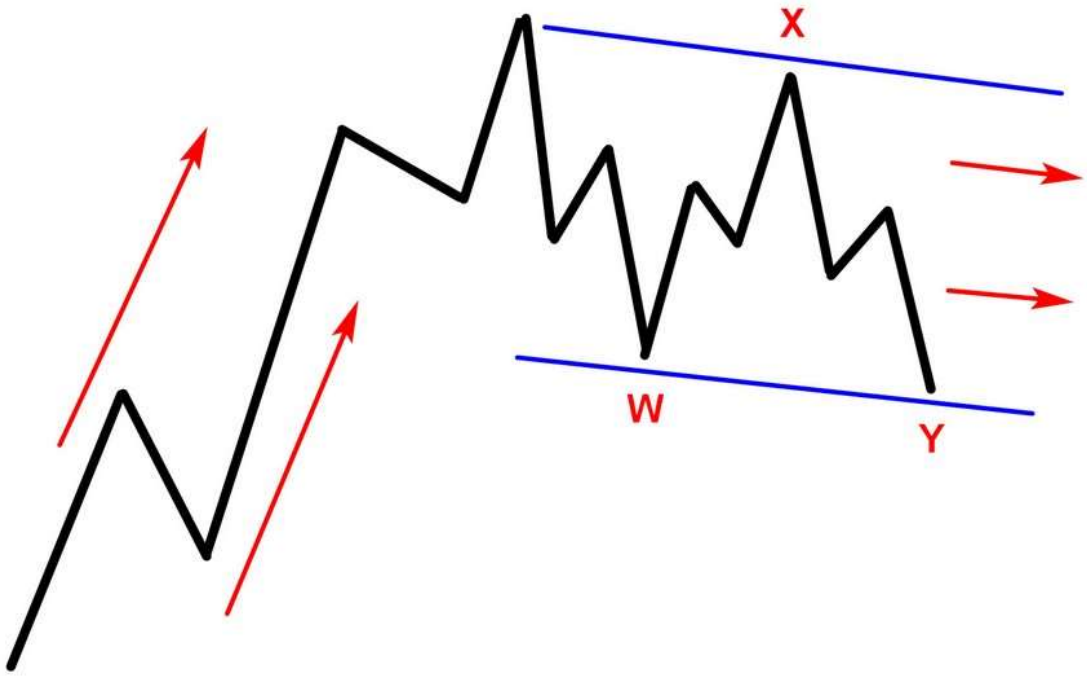

Picture 48.

The slope of the double three is determined using the slope of the generating lines drawn through the tops of the pattern.

If the double three forms after a descending trend, it's usually inclined upwards.

Doubles three patterns often form in a position of the fourth waves – impulses.

When it comes to determining the rules and instructions for a descending double three pattern, they are the same as the rules for an ascending pattern. A scheme of a descending double three pattern is shown in picture 49.

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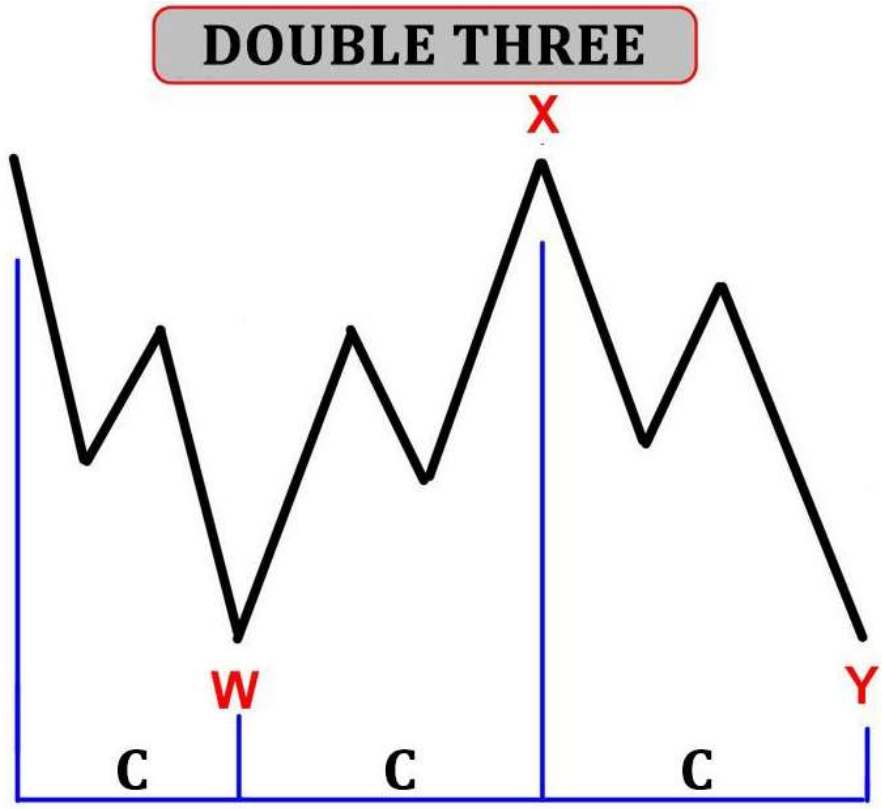

Picture 49.

Next, we are going to examine the triple three, another horizontal corrective pattern.

Triple Three

The main thing that distinguishes the triple three from the double three is that the double three consists of three sub-waves W-X-Y and the triple three is made of 5 sub-waves W-X-Y-XX-Z.

The sub-waves of the triple three are of corrective character and may form as any corrective pattern, except some particular cases. Picture 50 shows a scheme of the triple three.

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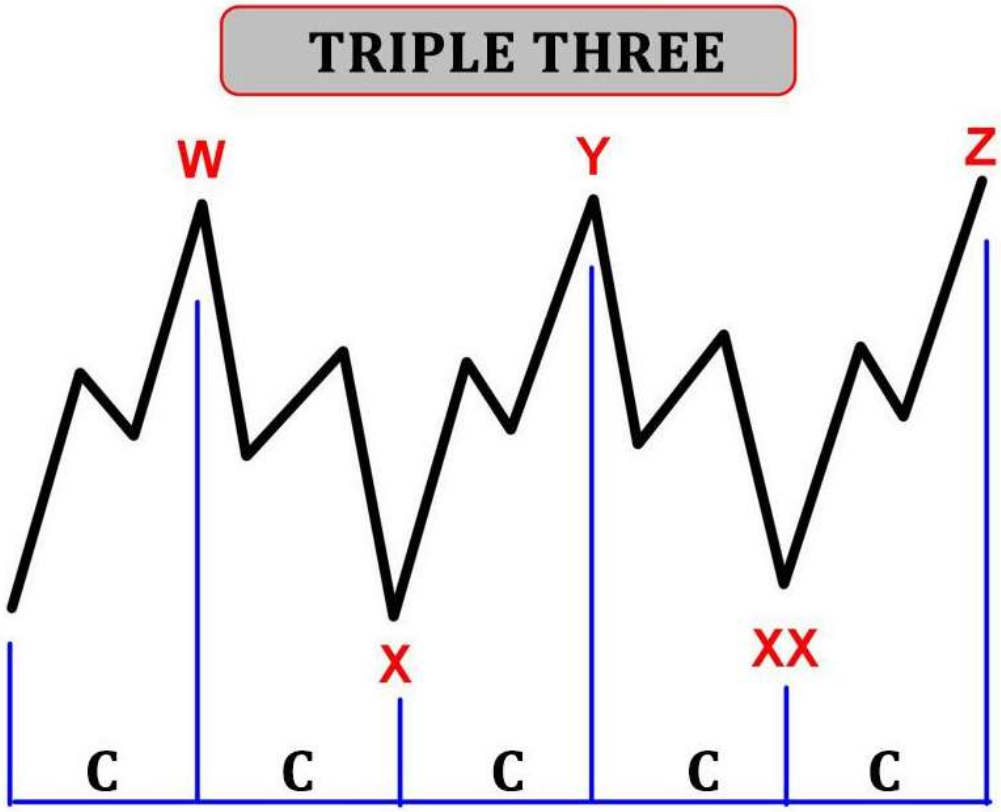

Picture 50.

We see that this wave is made up of three threes: W, Y and Z, which are linked together through corrective linking waves X and XX. Here are the rules and instructions for the triple three.

Triple Three rules:

1. Composed of 5 waves.
2. Wave formula: C-C-C-C-C.
3. Waves W, X, Y are not triangles.

Triple Three instructions:

1. Shallow correction.

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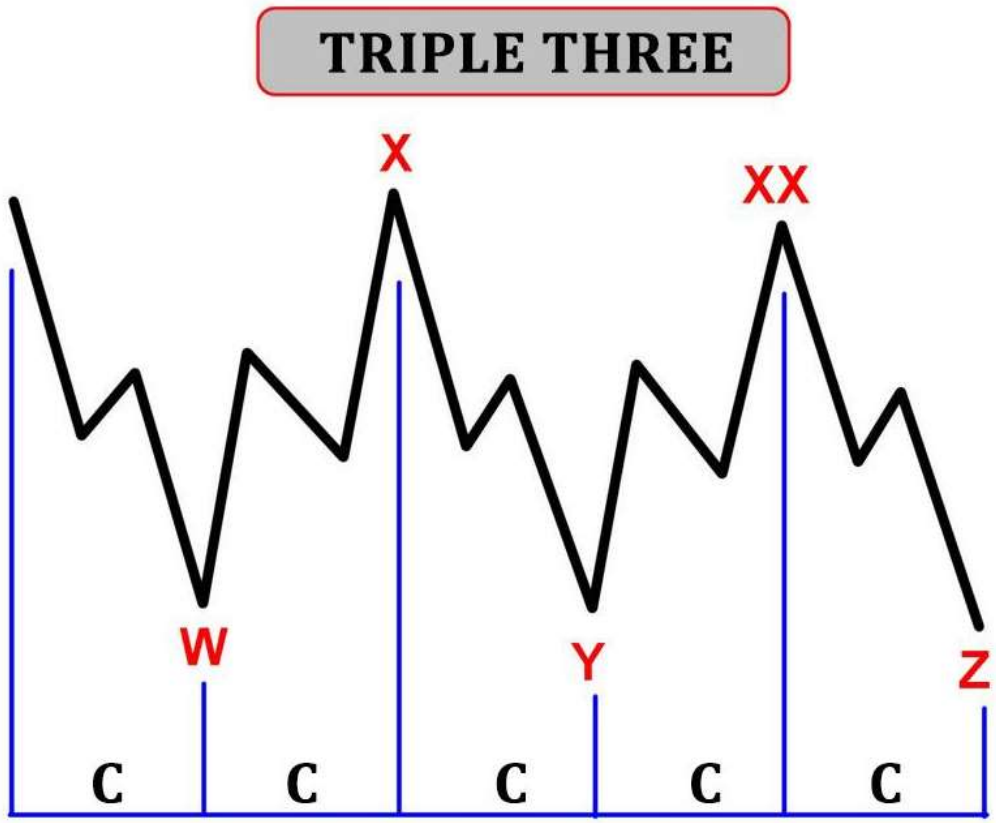
2. Long correction.
3. Slope against the trend.

The set of rules and instructions for a descending triple three pattern shown in picture 51 is the same.



Picture 51.

Comments on the rules and instructions:

The rules and instructions for double three and triple three patterns are almost the same. The difference lies in the quantity of waves and the fact that waves W, X and Y may not be triangles in a triple three pattern. But it's also due to the quantity of waves because triangles always form in a position of the ultimate or penultimate wave in a pattern of senior level.

Like the double three, the triple three is normally a shallow correction of the previous trend and doesn't reach more than 36% of the previous wave.

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The triple three is usually a long correction. It means when this wave is developing, the market strength is used for forming a long side construction and not for making it deep. The market starts forming the triple three when a side correction has formed as the double three but hasn't happened to be long enough. The market still has some strength to build a corrective wave and therefore the third part starts forming. This is how a triple three pattern occurs.

The third instruction says that the triple three has a counter-trend slope. It means if the trend has been ascending, the triple three is very likely to be inclined downwards.

And vice versa. Remember this peculiarity of the triple three because it makes it easier to identify this pattern in the chart.

Also, I'd like to add that the triple three's inner structure is usually complex. Some parts of the triple three can sometimes form as triple threes, that's why trading this pattern is quite difficult as the market is practically unlimited in terms of rules.

Thus, if you've identified this pattern in the chart, you'd better stay outside the market until it has ended or switch to other wave levels (divide the triple three into smaller separate trends or, on the contrary, zoom out the chart to make the triple three look like a small correction in a bigger trend).

Horizontal triangle

Many know what regular triangles look like in technical analysis. However, wave principle analysis provides for a much more detailed description of how these waves are built and where they may occur. The occurrence of a triangle is usually connected with a good trading opportunity because this pattern is easily distinguishable in a price chart and after its completion, the market normally moves by leaps and bounds in the same direction it has been moving before the occurrence of the pattern. This peculiarity is easy to use while trading.

All triangles are made up of 5 sub-waves designated with letters A, B, C, D and E. There exist various types of these patterns. They all differ one from another in the slopes of generating lines. So, before we start examining the triangles we may find in the market, we'll learn to plot generating lines.

To understand the way generating lines are drawn, let's draw a triangle composed of sub-waves A-B-C-D-E (see picture 52) and plot generating lines from the beginning to the end of the pattern through the tops of waves A and C and the tops of waves B and D.

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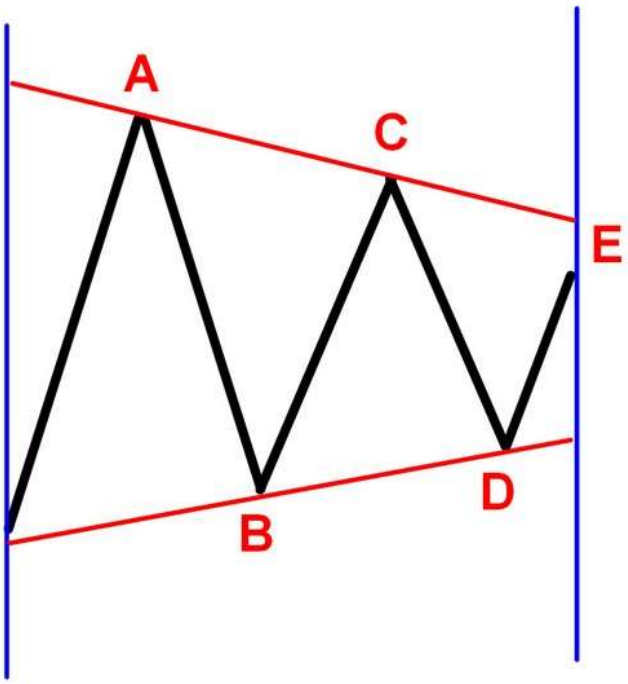

Picture 52.

This algorithm is used for plotting generating lines in all types of triangles.

Now that we've learnt to draw generating lines, we may proceed to the classification of triangles. Triangles can be horizontal or skewed. We are going to examine horizontal triangles in this part of the article.

Horizontal triangles can be contracting or expanding. If we extend generating lines forward in a contracting triangle, they will contract. Picture 53 shows a scheme of a horizontal contracting triangle where a bear and a bull market begins.

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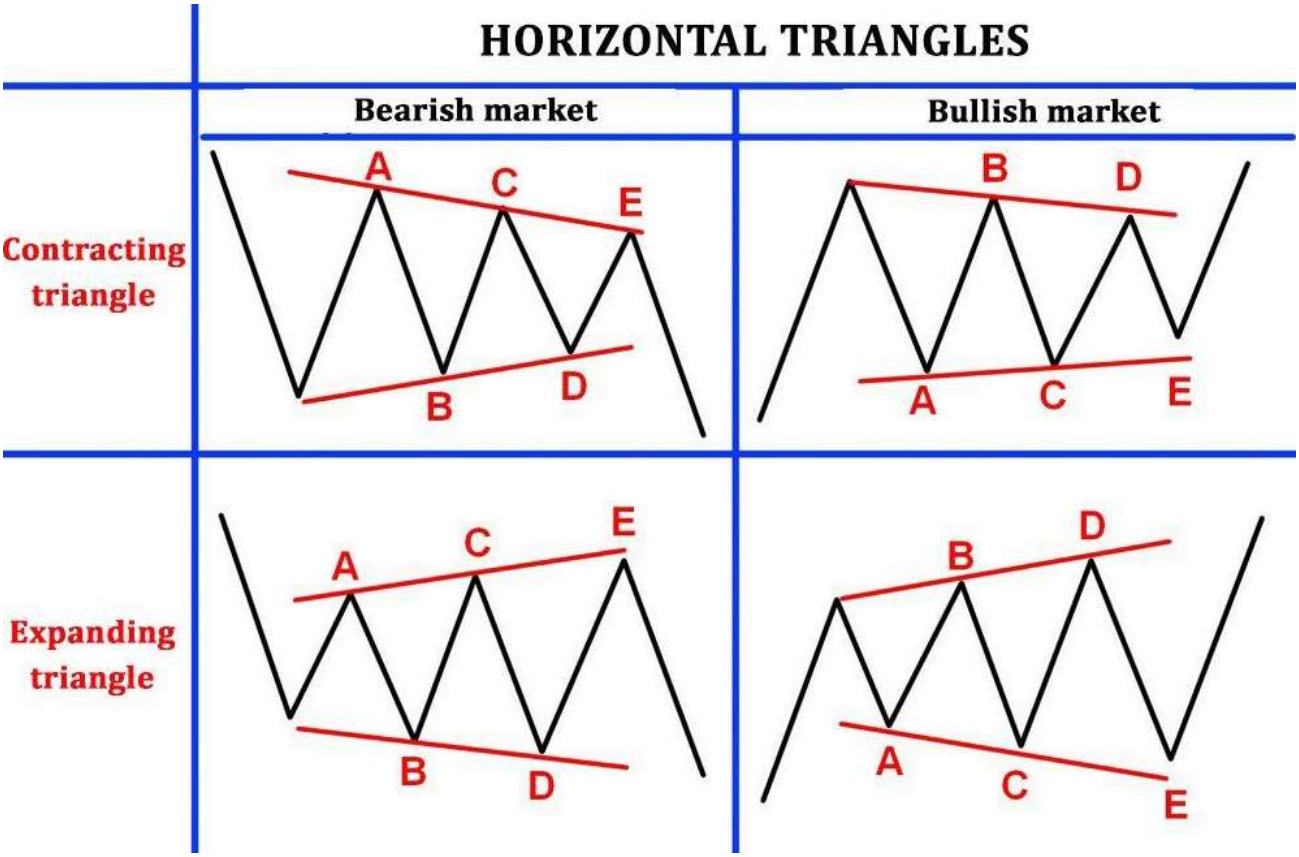

Picture 53.

We see that the upper generating line of such a triangle in inclined downwards while the lower generating line is inclined upwards. These lines contract and such a triangle is therefore called “contracting”.

The lower part in picture 53 shows some examples of an expanding horizontal triangle for a bull and bear market. We see that the upper generating line of such a triangle in inclined upwards while the lower generating line is inclined downwards, which means the lines diverge.

An important moment: one of the generating lines of a contracting or expanding triangle can be horizontal.

Now, let’s examine the rules for horizontal triangles. We’ll start with the most popular type of horizontal triangle – horizontal contracting triangle.

1. Composed of 5 waves.
2. Wave formula: C-C-C-C-C.

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3. Wave B can be any size.
4. Wave C < Wave B.
5. Wave D < Wave C.
6. Wave E < Wave D.
7. Can be found in a position of the penultimate or ultimate wave in a pattern of senior level.

Horizontal contracting triangle instructions:

1. Shallow correction.
2. Long correction.

Comments on the rules and instructions for horizontal contracting triangle:

A horizontal contracting triangle consists of 5 waves of corrective waves character. However, there are some observations regarding the types of these waves. At least 3 out of 5 waves in this triangle are zigzags, i.e. simple wave patterns. At least one of the waves is a complex corrective pattern, like a double or triple three pattern.

The third rule says that wave B may be any size. It means that wave B may be bigger or smaller than wave A. If wave B is bigger than wave A, such a triangle is called “running”. Rules no. 4, 5 and 6 specify the wave sizes relative one to another.

As for the seventh rule that says that a triangle may occur only in a position of the penultimate or ultimate wave in a pattern of senior level, it should be understood as follows: a triangle cannot occur in the second wave’s position in an impulse because wave 2 isn’t the penultimate or ultimate wave in an impulse, but it can occur in the fourth wave’s position in an impulse because wave 4 is penultimate. In a similar way, a triangle may occur in a position of wave B in a zigzag, wave B in a flat, wave X in a double zigzag or waves X and Y in a double three pattern. Also, it can be found in a position of waves XX and Z in a triple three pattern or in a position of waves D or E in a triangle.

As for the instructions, the will be the following comment:

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A triangle is always a shallow correction of the previous trend and its size seldom reaches Fibonacci ratios of 36% of the previous wave. Because a triangle is a shallow correction, the market has much strength left and it needs to be applied somewhere. So, this strength is used for building a long correction, that's why triangles are always long corrective waves.

These are the rules for a horizontal expanding triangle:

1. Composed of 5 waves.
2. Wave formula: C-C-C-C-C.
3. Wave B can be any size.
4. Wave C > Wave B.
5. Wave D > Wave C.
6. Can be found in a position of the penultimate or ultimate wave in threes and triangles.

Instructions for a horizontal expanding triangle:

1. Shallow correction.
2. Long correction.

Basically, the sets of rules for contracting and expanding horizontal triangles are similar. The key difference lies in wave sizes, which is reflected in points 3, 4 and 5. Other rules, instructions, and the positions of these patterns are similar.

Skewed triangle

On a scale of Elliott wave principle analysis history, this pattern was discovered not long ago. Around 10 years ago, Russian experts in wave principle analysis discovered and published this pattern on one of the popular forums. Then Dmitry Vozny, the author of the "Code Elliott" book, published a series of articles devoted to the pattern and corresponded about the subject with Robert Prechter, one of the world's most competent researchers in Elliott wave analysis

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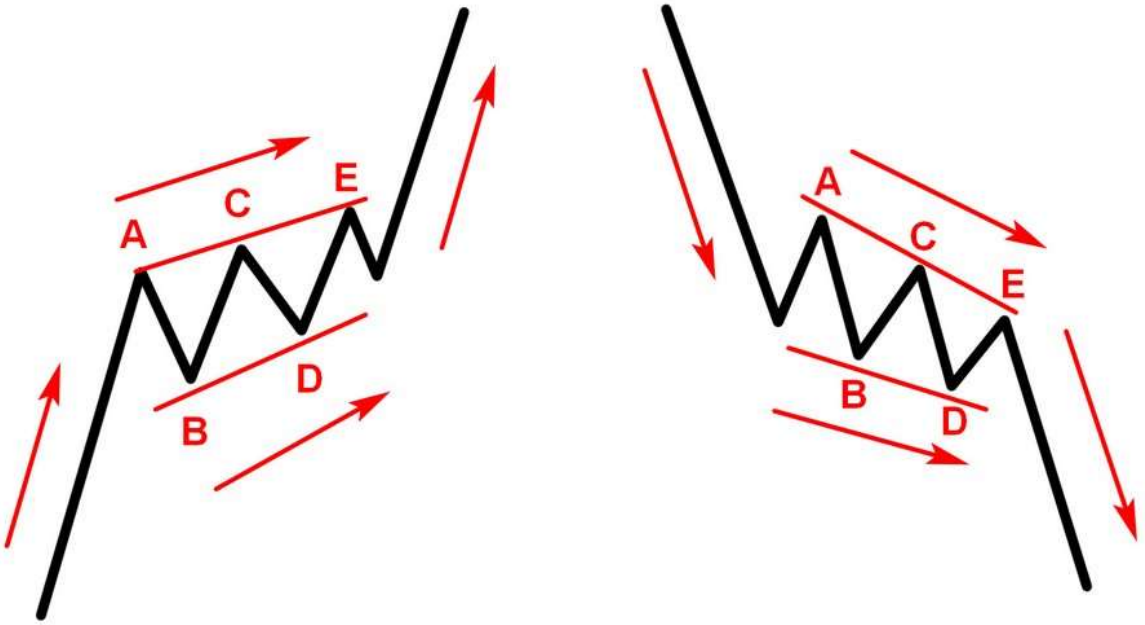
and the author of the book “Elliott Wave Principle”. Prechter accepted the new pattern and it got its name – Skewed triangle.

A skewed triangle differs from a horizontal triangle in the slopes of its generating lines – both of them are inclined in the same direction, either upwards or downwards.

Picture 54 shows skewed triangles in a bearish and bullish trend market.



Picture 54.

There’s a very important moment to remember: a skewed triangle’s generating lines are always inclined in the direction of the dominant trend. If the trend is ascending, the generating lines can’t be inclined downwards, and vice versa, if the trend is descending, the generating lines of a skewed triangle can’t be inclined upwards.

Here’s an example. Let’s draw an ascending zigzag whose wave B looks like a skewed triangle (see picture 55).

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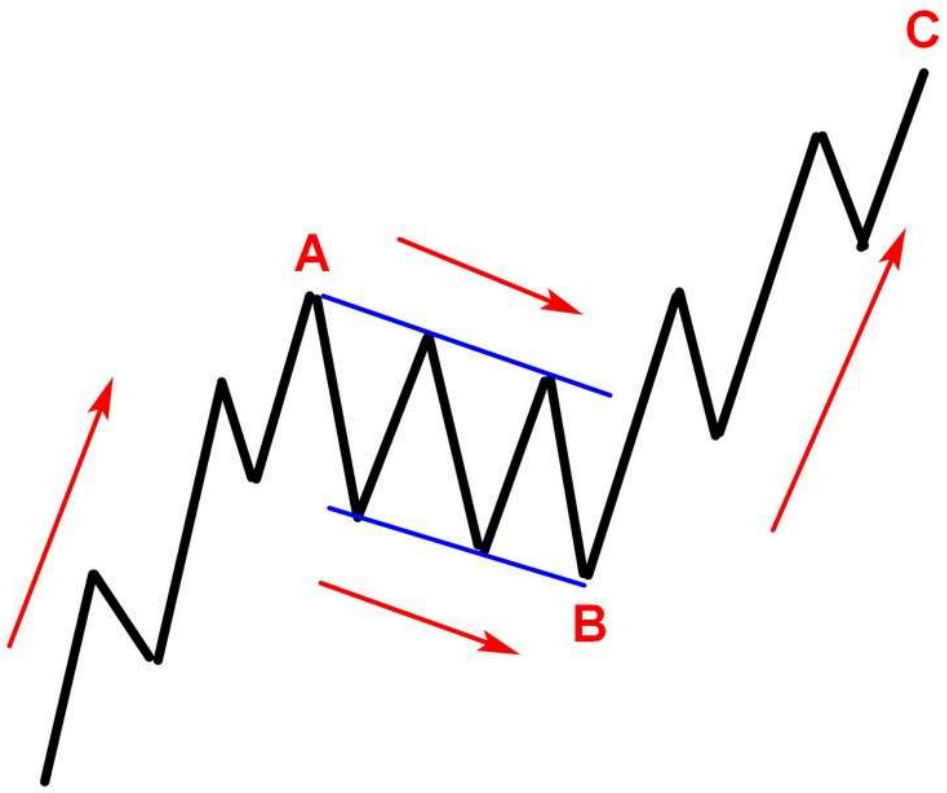

Picture 55.

We see that the trend is ascending while the generating lines are inclined downwards. If we label such a pattern as an A-B-C-D-E triangle, it will be a mistake. Actually, the pattern, which is a flat correction made up of 5 sub-waves and inclined against the trend, is a triple three pattern and should therefore be marked with the letters W-X-Y-XX-Z.

Please remember the above information because many traders often mistakenly mark inclined patterns as triangles.

Next, let's find out why skewed triangles appear in the market. It normally happens when ascending or descending forces are too strong and don't allow a regular horizontal triangle to form; instead, they incline the pattern in the direction of the dominant trend. In those cases, once such a triangle has formed, the market rushes in the same direction it has been moving before the occurrence of the triangle. Naturally, this feature may and should be used in trading.

Now let's examine the rules and instructions for skewed triangles.

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Rules for skewed triangle:

1. Composed of 5 waves.
2. Wave formula: C-C-C-C-C.
3. Wave C < Wave B.
4. Wave D > Wave C.
5. Wave E < Wave D.
6. The generating lines are always inclined in the direction of the trend.
7. Can be found in a position of the penultimate wave in a pattern of senior level.

Comments on the rules for skewed triangle:

The main thing that distinguishes a skewed triangle from a horizontal triangle is wave sizes, which is reflected in rules 3, 4 and 5. Also, the two generating lines in skewed triangles are always inclined in the same direction and the direction is the same as the trend, unlike in horizontal triangles. Another difference is that a skewed triangle may appear only in a position of the penultimate wave in a pattern of the senior level while a horizontal triangle may appear in a position of the ultimate wave in double/triple threes and triangles as well.

We have studied the three types of motive waves character and the seven wave types of corrective waves character. Now you're familiar with the rules for each wave pattern that may occur in Elliott wave principle analysis in Forex.

Elliott waves and Fibonacci numbers relations

As I have already mentioned it in part 5 of this article, the Fibonacci sequence helps predict the size of waves in the Elliott wave principle analysis. Now I'm going to provide some statistical regularities which will help traders make more accurate forecasts for waves' ending points.

When forecasting wave sizes, we should consider the inner structure, length and sizes of waves.

Any wave may be considered as fully complete only when

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1. It contains as many sub-waves of junior level as the wave principle analysis rules suggest.
2. The duration of its formation is visually proportionate to other sub-waves and the size of the pattern. For example, if it's wave 2 that is forming in an impulse, it mustn't be too long or too short relative to wave 1. The deeper a correction is, the less it lasts. A complete understanding of this point comes with experience. The observation of market charts and wave ratios helps develop the skill of making accurate forecasts.
3. A wave size often corresponds to the ratios of the Fibonacci sequence. That's why the Fibonacci lines are a powerful instrument in forecasting wave sizes and determining the levels of orders' placement.

Next, let's examine the main wave proportions based on the Fibonacci sequence.

Motive Waves. Impulse

1. Wave 2 is normally 50%, 61.8%, 76.4% of wave 1.
2. Wave 3 is normally 161.8%, 200%, 261.8%, 323.6%, 423.6% of wave 1.
3. Wave 4 is normally 14.6%, 23.6%, 38.2%, but no more than 50% of wave 3.
4. Wave 5 is normally 61.8%, 76.4%, 100%, 123.6%, 161.8% of wave 1 and 38.2%, 50%, 76.4%, 100% of wave 3.

Motive Waves. Leading diagonal

1. Wave 2 is normally 50%, 61.8%, 76.4% of wave 1.
2. Wave 3 is normally 50%, 61.8%, 76.4%, 100%, 161.8% of wave 1.
3. Wave 4 is normally 38.2%, 50%, 61.8%, 76.4% of wave 3.
4. Wave 5 is normally 38.2%, 50%, 61.8% of wave 1 if wave 3 is smaller than wave 1, and 76.4%, 100%, 161.8% of wave 1 if wave 3 is bigger than wave 1.

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5. Wave 5 is normally 38.2%, 50%, 61.8% of wave 3 if wave 3 is smaller than wave 1, and 76.4%, 100%, 161.8% of wave 3 if wave 3 is bigger than wave 1.

Motive Waves. Ending diagonal

1. Wave 2 is normally 50%, 61.8%, 76.4% of wave 1.
2. Wave 3 is normally 61.8%, 76.4%, 100%, 161.8% of wave 1.
3. Wave 4 is normally 38.2%, 50%, 61.8%, 76.4% of wave 3.
4. Wave 5 is normally 38.2%, 50%, 61.8% of wave 1 if wave 3 is smaller than wave 1, and 76.4%, 100%, 161.8% of wave 1 if wave 3 is bigger than wave 1.
5. Wave 5 is normally 38.2%, 50%, 61.8% of wave 3 if wave 3 is smaller than wave 1, and 76.4%, 100%, 161.8% of wave 3 if wave 3 is bigger than wave 1.

Corrective waves. Zigzag

1. Wave B is normally 50%, 61.8%, 76.4% of wave A.
2. Wave C is normally 61.8%, 76.4%, 100%, 161.8%, 200% of wave A.

Corrective waves. Flat.

1. Wave A is normally almost equal to wave B.
2. Wave C is normally 76.4%, 100%, 161.8% of wave B.

Corrective waves. Double and triple zigzags

1. Wave Y is normally 61.8%, 76.4%, 100%, 161.8% of wave W.
2. Wave Z is normally 61.8%, 76.4%, 100%, 161.8% of waves W and Y.

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3. Waves X and XX are normally 50%, 61.8%, 76.4% of waves W and Y.

Corrective waves. Double and triple threes

Waves usually tend to be of the same size because double and triple threes are flat patterns. The generating lines of a pattern can point to approximate wave sizes.

Corrective waves. Horizontal contracting triangle.

Every subsequent wave is 61.8% or 76.4% of the previous one.

Corrective waves. Horizontal expanding triangle.

Every subsequent wave is 123.6% or 161.8% of the previous one.

Corrective waves. Skewed triangle.

1. Waves B and D are usually 123.6% or 161.8% of waves A and C, respectively.
2. Waves C and E are usually 61.8% or 76.4% of waves B and D.

Algorithm for identifying wave patterns in the chart

Every trader who practises the Elliott wave principle needs to know how to identify waves. The algorithm below will be an aid in this task.

When identifying a wave type, always choose a simpler option. It means if a wave can be identified as a zigzag or a double zigzag, choose a zigzag. Beginners often plot complex wave patterns, which makes it more difficult to make a right forecast and trade with profits. The maximum simplicity is what's required. Just remember to observe the rules and instructions. If you tend to make the plotting simpler but some of the rules aren't respected because of that, it means you've reached a certain limit and cannot make the pattern simpler. You have to find an option which would be the simplest, the most harmonious, and proportional and which would comply with the whole set of rules and instructions.

All chart waves can be subdivided into 2 types:

- trending;

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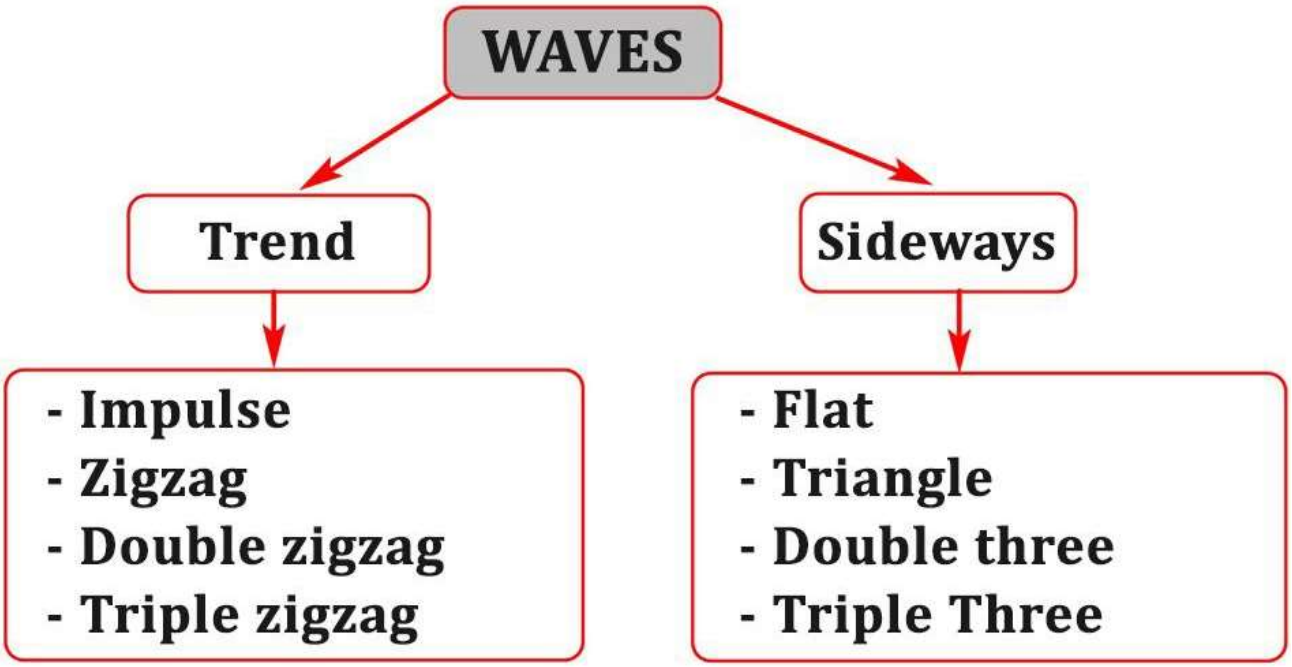
- sideways.

If you see a trend wave forming, which means the market is rushing up or down, you may conclude that an impulse, a zigzag, or a double zigzag is forming.

If a flat wave is forming, it means we're dealing with a flat, a double/triple three pattern, or a triangle.

Once you've identified a wave as a trend or flat one, you need to choose the simplest way of plotting it.

Picture 56 shows the classification of waves based on their development direction (trend or flat) and complexity degree (from simpler to complex).



Picture 56.

Here are 2 examples of how to use the scheme.

Example 1

Suppose we see a trend segment developing. First, looking at the left part of the scheme, we understand it's most probably an impulse, a zigzag or a double/triple zigzag.

Check if the wave may be identified as an impulse. If not, check if it's a zigzag. If not, may it be a double zigzag? Let's suppose it may. So, we've found the right answer.

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Example 2

We see a flat segment developing. It means it may be a flat, a triangle, or a double/triple three pattern. First, check if the wave may be identified as a flat. If not, check if it's a triangle. Suppose it's a contracting triangle in our example. So, we've found the right answer.

Sure, this scheme is somewhat simplified and things may turn out to be more complicated in practice, even more so when there are alternatives. However, mastering the practical part of the Elliott wave principle analysis and learning to identify waves easily would be impossible without knowing the theory and the rules.

Next, let's examine some recommendations on how to study the practical part of the Elliott wave principle analysis.

Recommendations for studying the practical part of the Elliott wave analysis

After having taught the Elliott wave principle to loads of students, the author of this article has acquired some experience and understanding of how the process of training should be organized.

To master the theoretical part of the Elliott wave principle analysis, one needs to understand and memorize the rules. Articles, video courses and books on the Elliot wave structure analysis will be a good help to you here.

However, people who have already learnt the theory may continue experiencing some problems when identifying waves. A person faces a barrier which can be described as "I know the rules but I still feel perplexed when looking at the market charts".

The simplest and fastest way of mastering the practical part of the Elliott wave analysis is to find an expert.

It would be nice if a qualified trainer accompanied you when you're starting to deal with the Elliott Wave analysis. The best way of training would be when you try identifying waves by yourself, with your teacher directing you and asking you prompting questions.

Then, once you've acquired practical skills in the identification of waves, the following way of training would be better: when you identify waves in chart segments proposed by your teacher. When you do this, you should think actively, check the rules and try to find the simplest right answer. In other words, you need to form new neural connections in your brain. Next, which is very important, your analysis should be checked by your teacher. He or she

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needs to tell you which segments have been identified correctly and which – wrongly. Also, your teacher should explain to you directly why your identification is wrong (non-compliance with the rules, instructions or wave ratios) or he/she needs to hint at the right answer.

Working under this algorithm allows studying the Elliott wave principle fully and as fast as possible.

The author of this article has worked out a special program aimed at mastering the Elliott wave principle in practice. A big number of successful traders have been trained in the framework of this program.

If you have any questions or you wish to register for this practical program, feel free to email me or contact me via social media.

Trade Using Elliott Wave Theory

Now, I would like to give an example of trading with the Ralph Nelson Elliott wave analysis. First, we analyse the price chart using the Elliott wave theory. It is clear from the chart below that the market is forming a descending zigzag A]-[B]-[C], with waves [A] and [B] completed inside. Wave [B] is a zigzag, whose structure is quite clear, so the suspected impulse wave [C] must have started forming.

If the presumption of what the Elliott theory suggests is correct, there should be forming a bearish impulse (1), marked with the blue number. Therefore, following the completion of wave (1), there will form the upward correction (2), which should retrace impulse (1) by 50%-76.4%. So, we could set a sell limit at a level of 50% of wave (1). We could also set the pending order a little lower to be on the safe side if the price reaches precisely the indicated level and immediately starts declining in impulse (3).

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The next situation is as follows:

The presumption is confirmed, and we realize the suggested scenario. We set a sell limit at the level where wave (2) is expected to retrace impulse (1) by 50%. A Stop Loss could be set at the level where wave (1) started. The Take Profit level is defined based on the descending impulse [A] using the Fibonacci levels.

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You can see from the above chart that the market continues moving according to the expected scenario forming impulse [C]. We entered a sell trade at level 1.2114, as wave (2) reached the Fibonacci retracement of 50% of wave (1). This is an accurate entry at the best level.

Waves [A] and [C] often tend to equality in zigzags. However, in our case, there is unfolding only wave 3 of the [C] wave, and wave [C] is already 100% of wave [A]. Therefore, the [C] impulse should be larger than the [A] impulse and should reach the Fibonacci level of 123.6% at least, as it is the next ratio. That is why we set the take profit at level 123.6% of wave [A].

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Now, let us see how the situation develops and what pattern eventually forms.

We see that the market accurately realized the expected scenario. Wave [C] has concluded the descending zigzag [A]-[B]-[C], and the suggested trade has yielded profit. A sell trade was entered at the level marked by the upper green line and exited at the lower green line. The profit is quite big, it is marked in the chart (Profit).

Elliott wave trading strategies

There are two major Elliott wave trading strategies, trend following, and reversals trading.

A reversal trading strategy suggests you spot pivot points.

You define pivot points in advance based on the market forecast. In this case, the reversal scale doesn't matter, as the trades could be both short-term and long-term. In simple terms, if we find out that a wave is either finished or close to finish, we enter a trade aiming to make a profit from the future price movements, opposite to the previous trend.

A trend-following strategy, as you see from the name, suggests spotting trends in a bull or bear market and trading in the trend. For example, we have determined that one of the strongest impulsive waves, wave 3, has started developing. And so, we enter a trade following the trend (i.e., a buy trade in an uptrend where prices rice quickly, bull market).

Traders often combine these two strategies according to the market situation.

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Elliott wave for day trading

The technique that Elliott wave theory suggests can perfectly work in day trading in short-term timeframes. Most commonly, traders use timeframes of 5-30 minutes to analyse the price chart within a day. However, you should consider that wave counts in minute timeframes are often complex and distorted waves. That is only advanced technical analysts can successfully explore wave patterns in timeframes shorter than M5. Other than that, day trading has a lot in common with medium- and long-term trading.

Predictions Based on Wave Patterns

Statistically, impulse waves most commonly occur in the market. Considering that impulsive sub-waves are the fastest and most powerful of all Elliott wave patterns, trading within a suspected impulse wave is the most efficient way to make profits from trading.

The second most common waves are zigzags. A zigzag is also good for trading, but it has its own characteristics, since it belongs to the corrective mode of waves, so trading within a zigzag is usually a more difficult process than trading an impulse. However, many traders use this pattern to make a profit.

One can make profits from trading other types of waves, but more experienced Elliott wave practitioners will succeed there.

I write daily Elliott wave forecasts for the cryptocurrency market based on the Elliott waves. My colleague, Alex Geuta publishes a weekly analysis of major currency pairs.

Elliott wave indicators

To mark the Elliott wave structure correctly, one should know the rules and the guidelines of the Elliott wave analysis and be able to apply this knowledge to practical trading in a real price chart. Some traders employ many momentum indicators to confirm the wave patterns defined in the chart.

MACD

The MACD indicator is very popular among traders, but it is usually employed in classical technical analysis. However, the Ralph Nelson Elliott wave analysis adjusted its use to confirm the assumed wave patterns. For example, Bill Williams suggests utilizing the MACD indicator with specific parameters as a supplementary tool to identify wave formations.

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The MACD can help to identify the end of the impulse wave 3. The third wave usually represents the strongest segment of a trend, the price move is the fastest in this wave. That is why an extreme reading of the MACD is often associated with the ending point of wave 3.

In the above figure, you see that the MACD highest value coincides with the price high made by impulse wave 3.

Next, the indicator's bars went down to 0 at the end of wave 4 (the middle red vertical line).

Another interesting moment is marked with the right vertical line. At this point, the price rises higher in wave 5 making a new high, while the MACD bars also signal a high, but it is lower than the one at the end of impulse 3. Therefore, the MACD indicator can help to spot the end of waves 3, 4, and 5 in an impulse.

Elliott Wave Oscillator

The Ralph Nelson Elliott Wave Oscillator is an indicator measuring the difference between two Simple Moving Averages. The EWO is the same as the MACD indicator but has different parameters. Also, there is no signal line in the EWO chart. You know that the MACD is calculated as the difference between two moving averages. The Elliott wave oscillator measures the difference between a 5-period and 35-period simple moving average (SMA) based on the close of each candlestick.

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You see from the above chart that the EWO is similar to the MACD, in fact, they are the same, the difference is that the EWO parameters could not be changed, and the MA periods are always 5 and 35, considered to be the most suitable to confirm the wave layout.

I could add that the five-wave pattern here finishes with a divergence that is marked with black lines in the chart. The technical features of the EWO application are the same as the MACD.

I have described indicators that are traditionally employed to confirm the Elliott wave patterns discovered in the chart. There have been many attempts to develop indicators that can independently draw waves in the chart. However, I have never come across any indicators that can draw wave patterns according to all rules and guidelines themselves. That is why I won’t recommend using such software. It is a good idea to use common technical indicators as supplementary tools to confirm the wave patterns you discover.

Elliott Wave Prophet

The Elliott Wave Prophet indicator is designed to assist in conducting the Elliott wave analysis and, as its authors assure, can to some extent predict future price movements based on already formed waves. I explored this indicator, and my opinion is that it will not help in trading, but on the contrary, it can only confuse the trader.

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WATL

The WATL technical analysis indicator defines highs and lows, which the Fractal indicator perfectly does, and draws trend lines. Neither of the functions is associated with the Elliott wave analysis. I can't recommend using the WALT.

How to read Elliott wave charts

If you want to read the Elliott wave charts, you should learn how to identify and label waves in the chart.

If you want to determine which wave is currently forming, you should mark the waves in the chart. To do this, you can use the following step-by-step guide:

1. It is recommended to start labelling from the longest available timeframe, it is better to study all available historical data and determine which pattern is currently forming in terms of wave analysis and to what extent it has completed.
2. Identify the larger pattern and label it with letters or numbers of a particular wave level. Preference should be given to senior wave levels, such as cycle or supercycle.
3. Switch to a shorter timeframe, and label the sub-waves of the larger pattern with new letters or numbers of the wave degree one level smaller.
4. Likewise, go down to the timeframe you need, for example, H4 or H1. At this point, you will understand the full picture of what is forming in the chart, so that you can make a forecast based on the current wave definition.

Key tips about using Elliott Waves

There are top tips to trade Forex with Elliott waves:

- Start labelling waves with the longest available timeframe;
- Choose the simplest way of labelling;
- Make sure that all rules and guidelines of the wave analysis are fulfilled. If any rules are not followed, the wave pattern may not be defined correctly;
- Most commonly waves tend to finish at the price extremes. There are truncations, but they are less common;

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- Follow the order of labelling and the sequence of wave degrees. Order in labels results in the order in the trading plan, which ensures profitable trading.

Elliott Wave Theory Glossary

Terminology	Definition
Elliott wave theory	Elliott Wave analysis is a popular method used to explore financial markets such as stock markets. The wave analysis was developed by **Ralph Nelson Elliott**. After nine years of continuous research in the financial market, he published his first book *The Wave Principle* in 1938. The Elliott Wave theory suggests that investor sentiment and psychology form market trends. Elliott noticed that most traders behave predictably, and the price chart draws repeated patterns, waves. Elliott described and classified all types of waves occurring in the market. If you know the types of waves and the principles of their development, you can predict future market action and enter a profitable trade.
Wave	A wave is a section of future price movements from one change of direction to another.
Actionary wave	An actionary or motive wave is a wave that moves in the same direction as the wave of one larger degree.
Reactionary wave	A reactionary or countertrend wave is a wave that trends in the direction opposite to that of the wave of one larger degree.
Motive mode	Waves developing in motive mode are always composed of five waves.
Corrective mode	Corrective mode waves are composed of either three waves or several three-wave elements. For example, there could be two or three elements connected by a linking wave.
Impulse	An impulse is the most common type of wave. Any complex corrective pattern could be divided into impulses, so, impulse waves are basic elements. A wave of any complexity is composed of such basic elements, impulses.

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Leading diagonal (wedge)	A leading diagonal is a wave pattern that is often followed by strong stock price movements. Leading diagonals occur in the position of wave 1 within impulse waves or in the position of wave A in a simple zigzag.
Truncation	Truncation occurs when the fifth wave of an impulse does not meet or exceed the end of the third wave.
Ending diagonal	An ending diagonal in the chart means that the ongoing counter trend is exhausting, and there should soon start a correction or an opposite trend. An ending diagonal is found in the position of wave 5 within an impulse or in the position of wave C in a simple zigzag.
Zigzag	Zigzags occur almost as often as impulses. All corrective waves could be broken down into zigzags, which are composed of impulses. A zigzag is made of three waves which are labelled by letters.
Deep correction	A deep correction exceeds 50% of the previous wave.
Shallow correction	A shallow correction retraces the previous wave by less than 50%.
Flat	A flat, like a zigzag, is a simple wave pattern composed of three waves.
Regular flat	All waves are roughly equal in a regular flat.
Expanding flat	In an expanding flat, each following wave is greater than the previous one. This pattern occurs when the forces of bulls and bears are roughly equal, the price goes up and down, and the volatility increases. Therefore, each following wave is bigger than the previous one.
Running flat	In a running flat, wave B is bigger than wave A, and wave C is smaller than wave B. A running flat is usually found in a market where either bulls or bears dominate, and the wave can’t expand sideways.
Double zigzag	A double zigzag is composed of two elements connected by a linking wave. The first zigzag is marked by W, the second zigzag is marked by Y, and these two waves are connected by the linking wave X.

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Triple zigzag	A triple zigzag is composed of three zigzags connected by linking waves.
Double three	A double three is composed of two threes connected by a corrective linking wave. A three is another type of waves developing in the corrective mode. The first three is labelled by the letter W and the second one – by Y. These two waves are connected by the linking wave X. A double three is a sideways correction.
Triple three	The main difference between a triple three and a double three is that a double three consists of three sub-waves W-X-Y, and a triple three consists of five sub-waves W-X-Y-XX-Z.
Horizontal triangles	All horizontal triangles are composed of five sub-waves, labelled with letters A, B, C, D, and E. There are several types of triangles, and they differ from each other by the slope of their forming lines.
Horizontal contracting triangle	In a contracting triangle, the forming lines, if we mentally project them, will converge.
Horizontal expanding triangle	In an expanding triangle, the upper forming line is directed up and the lower one is down. The lines are diverging.
Skewed triangle	In a skewed triangle, unlike in a horizontal triangle, both forming lines are turned in the same direction, either up or down.

Elliott waves criticism

The main disadvantage of the Elliott wave theory is its complexity. There is a great number of different rules and guidelines and it takes much time and effort to study all of them. But the process of studying is not that difficult.

It is widely believed among beginners that wave analysis is a subjective method. This is because different traders identify different wave patterns in the beginning. However, experienced traders can conduct a clearer and more objective analysis, and different analysts will have similar wave structures. I won't say it is a drawback as it is solved when you have enough experience. It is a universal theory that will efficiently work in any financial markets such as the stock market, Forex, commodity markets, or crypto.

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Takeaways: advantages and disadvantages of Elliott Waves

Advantages of Using Elliott Waves	Disadvantages of Using Elliott Waves
Gives a complete understanding of the current market situation, starting from the longer timeframe and ending with the minute chart.	Complicated theory.
No time delays as with using indicators, you can accurately identify the counter trend beginning.	At the initial stages of studying waves, the analysis looks rather subjective.

For a more profound understanding of the topic, I recommend you to read the following books on Elliott wave internationally acknowledged:

- Dmitry Vozny "Elliott Code: wave analysis of the Forex market".
- Alfred Frost, Robert Prechter “Elliott Wave Principle: Key to Market Behavior”.

The Elliott wave analysis is successfully used in trading in the stock market, Forex, cryptocurrencies, or any other type of financial asset.

I hope my detailed guide to Elliot Wave Analysis has been useful to you. If you have any questions, feel free to ask in the comments below! I will be glad to answer and explain!

I wish you successful trading!

Elliott Waves FAQs

How to identify Elliott wave 1?

The first wave always forms at the beginning of new trends or corrections. To identify wave 1, you need to spot the end of the previous wave. It is important to study the internal structure of the potential first wave and make sure that it is a true impulse.

How to use Elliott wave indicator?

So far, I haven’t come across any indicators that can draw Elliott waves in the chart. However, several technical momentum indicators start to help wave analysts to confirm wave patterns in a chart. For example, one could successfully employ the MACD or the Elliott Wave Oscillator (a modification of the MACD). In some cases, traders can employ the RSI or stochastic, combining technical analysis and the Elliott wave analysis. However, it’s crucial to use risk management plan and robust trading strategy that aligns with investor psychology.

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What Is the Elliott Wave Theory: Comprehensive Guide

Why does Elliott wave work?

Price charts display the interaction of market participants. Differently put, the price chart is affected by the majority of traders. One person may behave unexpectedly, but the majority behave stereotypically. That is why the price chart always draws one of the ten types of waves, which were explored and described. Just because the majority always acts according to particular patterns, the Elliott waves work.

How to apply Elliott wave theory?

First, you need to determine the type of wave currently unfolding and to what extent it has been completed. Next, you make a forecast based on the expected ending point of the current wave, using the rules and guidelines of the Elliott wave theory.

What is Elliott wave cycle?

A wave cycle is a pattern composed of a motive wave and a corrective one. Motive waves consist of a five-wave pattern labelled by numbers 1-2-3-4-5, and a corrective wave consists of three waves labelled by the y letters A-B-C. Therefore, a complete cycle of motive and corrective trends will consist of eight waves.

How does Elliott wave analysis work?

The Elliott wave analysis studies different types of waves forming in the price chart. There are ten types of waves that were explored and described. The wave analysis works because the same wave structures appear in different sections of the chart.

How to use Elliott wave indicator?

Elliott wave theory indicators are used to confirm wave labelling. Often, Elliott Wave indicators mean common technical analysis indicators with the parameters optimized to work with the Elliott waves.

What is Elliott wave oscillator?

The Elliott wave oscillator is a technical analysis indicator that is basically the MACD with fixed MA parameters, 5 and 35, and without the signal line. This indicator is used to identify the end of waves 3,4, and 5 in an impulse.

Does Elliott wave work for day trading?

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Elliott wave theory suggests a technical analysis that perfectly works in day trading. Timeframes of five minutes to one hour are used for the analysis.

How to identify Elliott wave in the chart.

To identify Elliott waves in the chart, first, you need to define the wave pattern unfolding in the longest available timeframe. Next, you gradually move to shorter timeframes and label smaller waves.

How do you make an Elliott wave?

You should start making Elliott waves from the longest timeframe and go to shorter timeframes until you reach the one you are going to trade. This is done to have a broader understanding of the market trends situation.

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