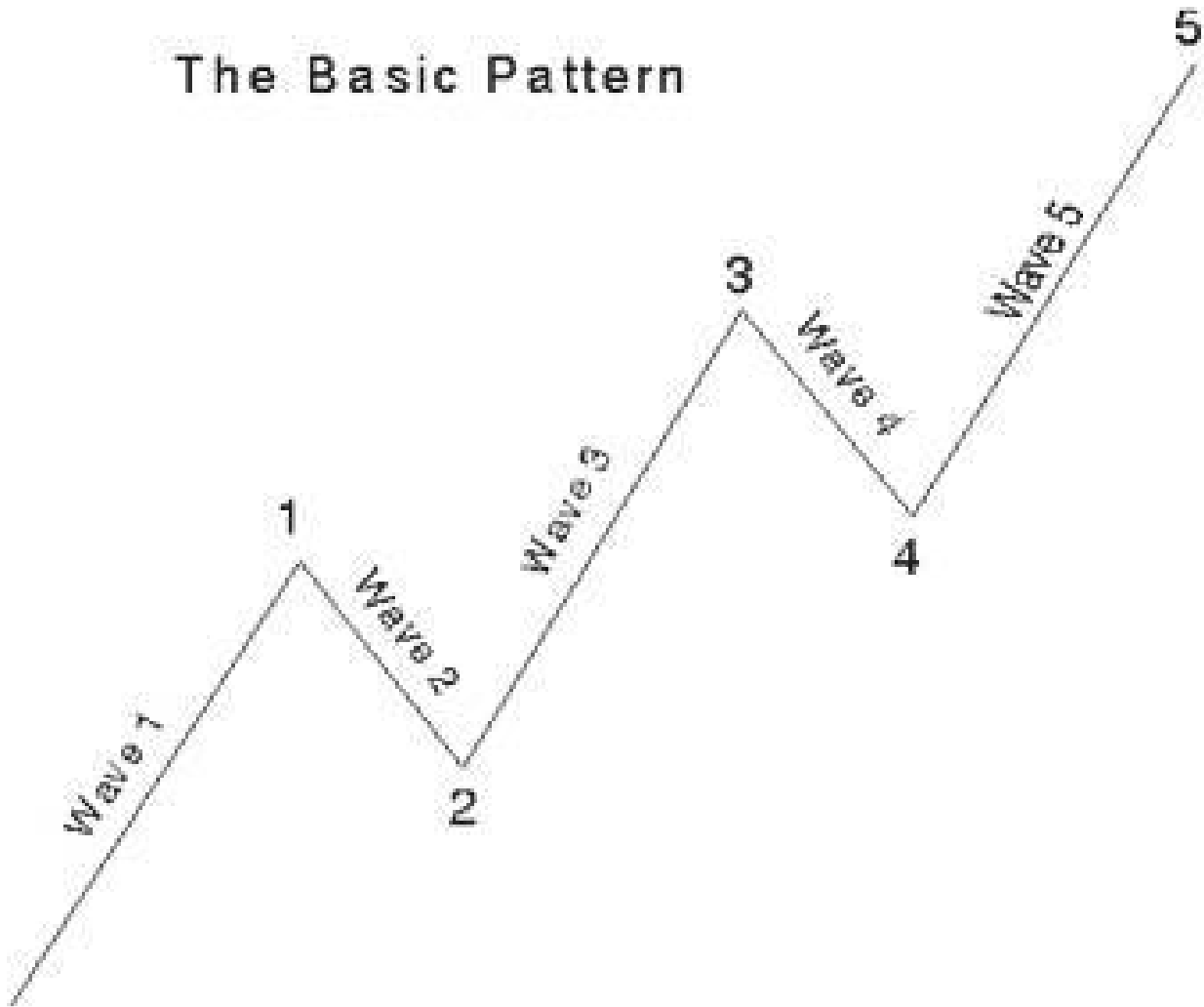
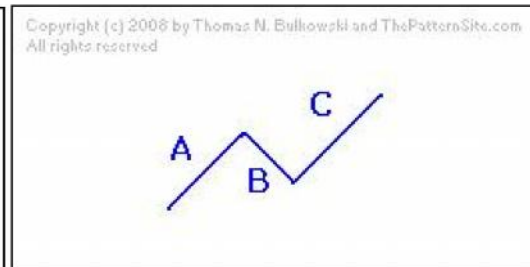
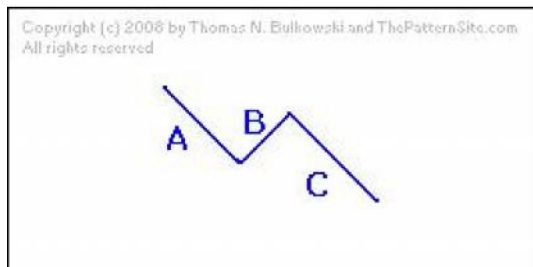


The Basic Pattern

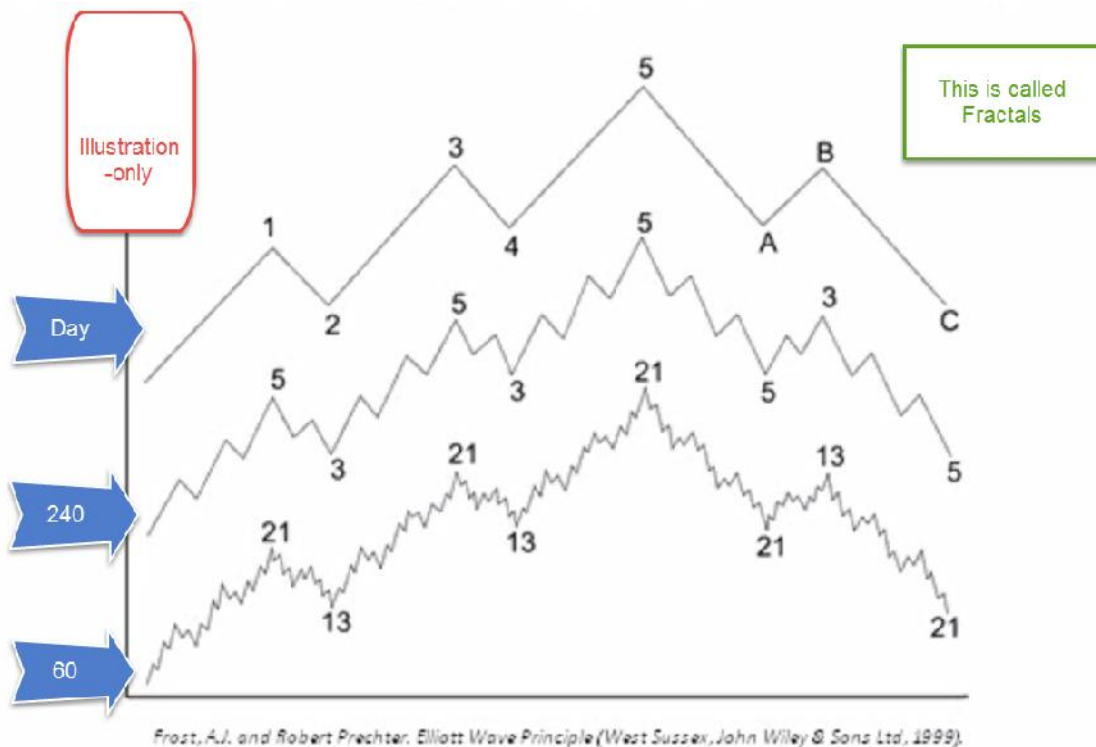


Corrective Waves



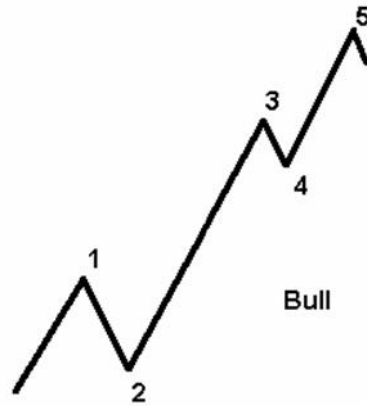
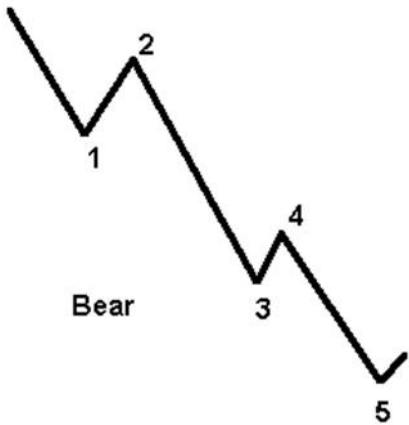
The Science of Chaos - Complex shapes that look the same at different orders of magnitude.

Fractals (frāk'tōls) *Noun.* Self-similar patterns composed of smaller copies of themselves ad infinitum.

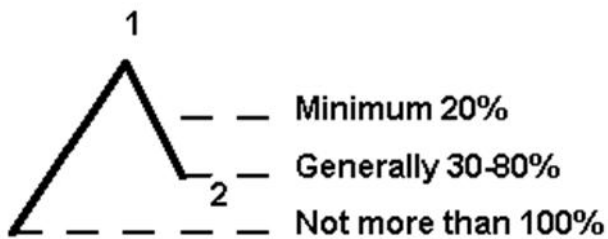


Motive Phase

The motive phase contains five waves. The five waves may move up or down i.e. a bull or bear market. The first wave is generally a tentative rally with only a small percentage of the traders participating. Because of this, the second wave can be very sharp since traders from the previous move are still trying to push it in that (wrong) direction.



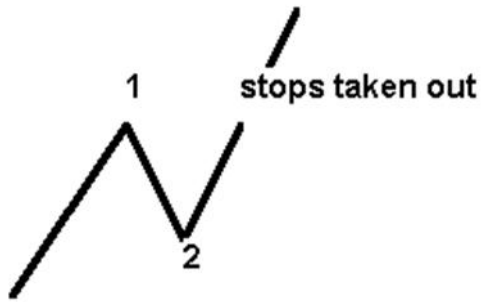
Elliott rules state that Wave 2 must retrace Wave 1 by at least 20% but it generally is a deep retracement between 30-80%. It must not retrace more than 100% or it is not a valid Elliott pattern. Volume and volatility generally decline in Wave 2.



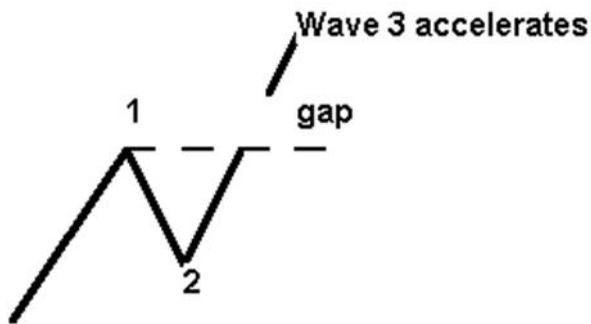
Wave 3 begins slowly with light to average volume and it finally pushes toward the end of previous Wave 1. Many traders have placed stops at this level thinking that the move is unsustainable. If Wave 3 moves past the end of Wave 1 these stops will be taken out creating a gap and an increase in volume

Traders who are skeptical of the move are adding shorts (in a bull move) or going long (in a bear move). This is the fuel that ignites the Wave 3 impulse.

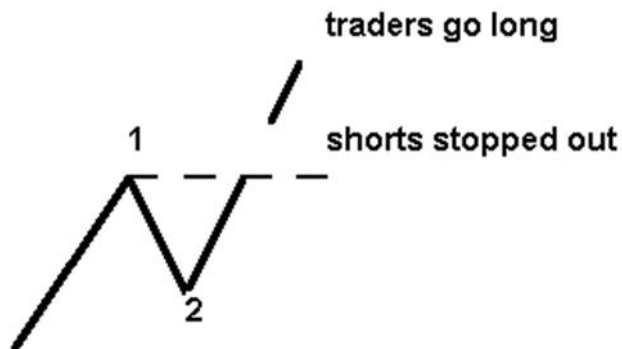
Stops placed above Wave 1 are taken out creating a gap and a surge in volume. Gaps and volume are indicative of a third wave in progress.



As the Wave 3 move gathers momentum and exceeds the previous wave 1 top (or bottom in a bear move) the stops are taken out and gaps are generally left open. More traders are now ready to jump in and join the trend. Wave 3 accelerates and volume increases.

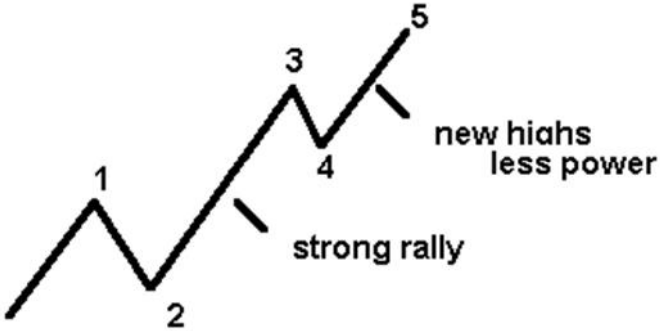
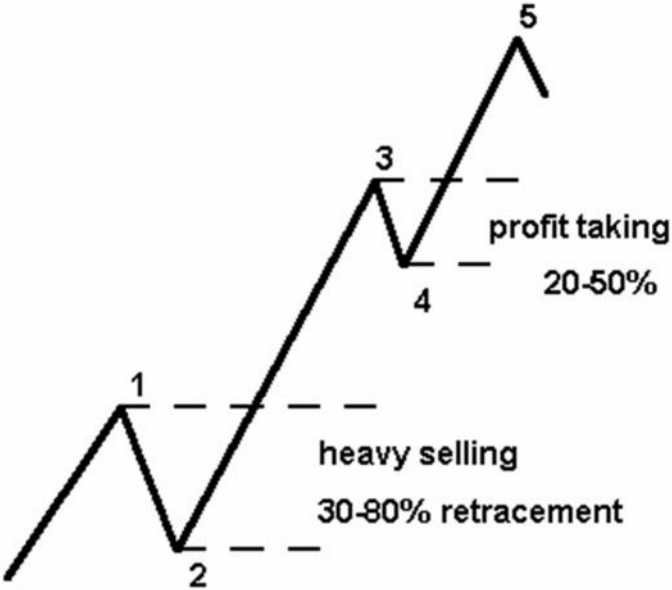


Traders who got stopped out join the trend and add positions which further accelerates the Wave 3 impulse. The herd has now decided that the move is genuine and adds positions. As profit taking sets in, Wave 4 begins.



Wave 2 usually exhibits massive selling with a deep retracement. Elliott rules state that Wave 2 can't retrace more than 100% of Impulse Wave 1. Wave 4 exhibits an orderly profit taking decline. Traders who are still convinced that the trend has not changed begin "buying the dip" to get in on the next move and Wave 5 begins. The Wave 5 rally is weaker and generally has less volume than the Wave 3

rally. New highs are made in Impulse Wave 5 but with less strength. As the buying interest fades, the motive phase ends and the corrective phase ensues.



- Newcomers to Elliott initially like it
- Then realise the existence of “alternative” wave counts
- Most leave
- The ones who stay struggle with how to actually use (trade) it
- Then the light bulb moment
- **ELLIOTT IS NOT A TRADING SYSTEM** ←
- **ELLIOTT DESCRIBES THE EVOLUTION OF MARKET PRICE**
- **IT IS AN EXERCISE IN PROBABILITY** ←
- **ELLIOTT SETS THE CONTEXT FOR THE PROBABLE NEXT MOVE**



Source: istockphoto