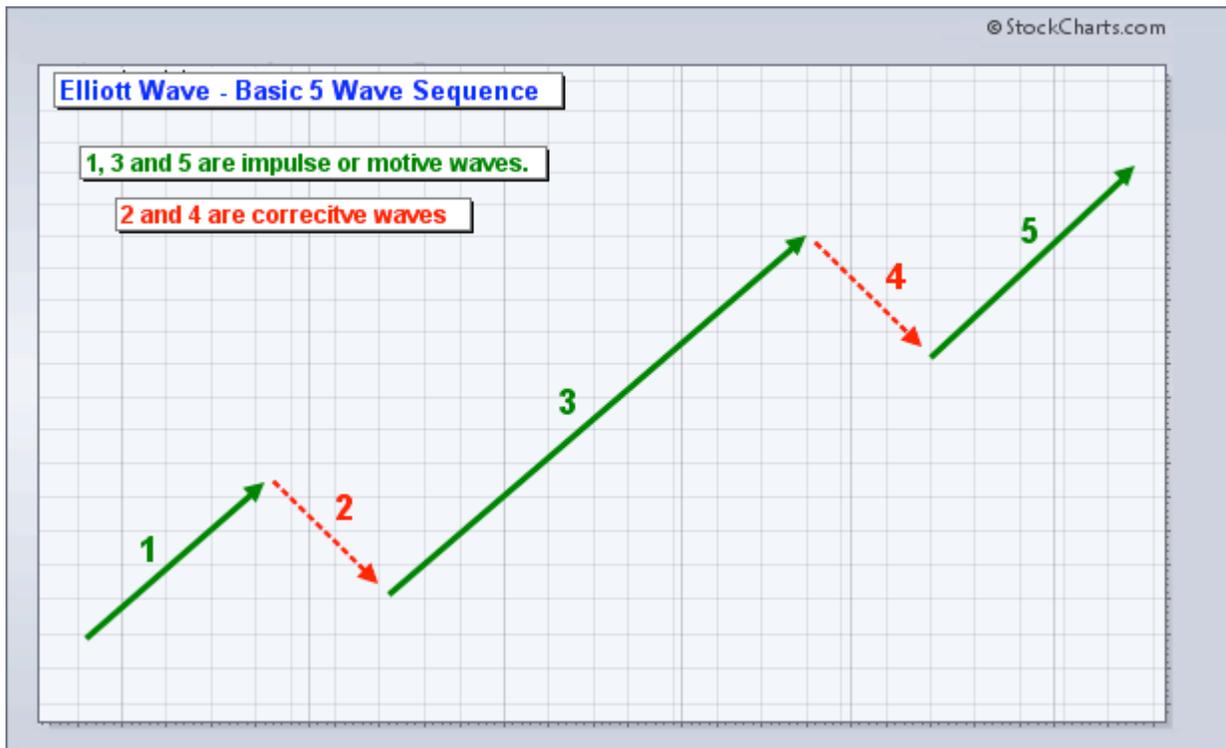


Basic Elliott Wave Theory

Elliott Wave Theory describes a predictable pattern of chart movement. EW is an excellent way to predict the price movement on a chart as it cycles from its low to high points.

Elliott Wave Theory was developed by R.N. Elliott in the 1930's. Elliott identified a certain structure to price movements in the financial markets based on human emotions related to fear and greed. He found that humans tend to repeat emotional based behavior in patterns and these patterns are translated into waves on a financial chart.

There are two types of waves: impulse and corrective. Impulse waves move in the direction of the larger degree wave. When the larger degree wave is up, advancing waves are impulsive and declining waves are corrective. When the larger degree wave is down, impulse waves are down and corrective waves are up. Impulse waves move with the bigger trend or larger degree wave. Corrective waves move against the larger degree wave.



The chart above shows a rising 5-wave sequence. The entire wave is up as it moves from the lower left to the upper right of the chart. Waves 1,3 and 5 are impulse waves because they move with the trend. Waves 2 and 4 are corrective waves because they move against this bigger trend. A basic impulse advance forms a 5-wave sequence.

Elliott Wave - Basic 3 Wave Correction

Waves a and c are impulse waves.

Wave b is a corrective wave.

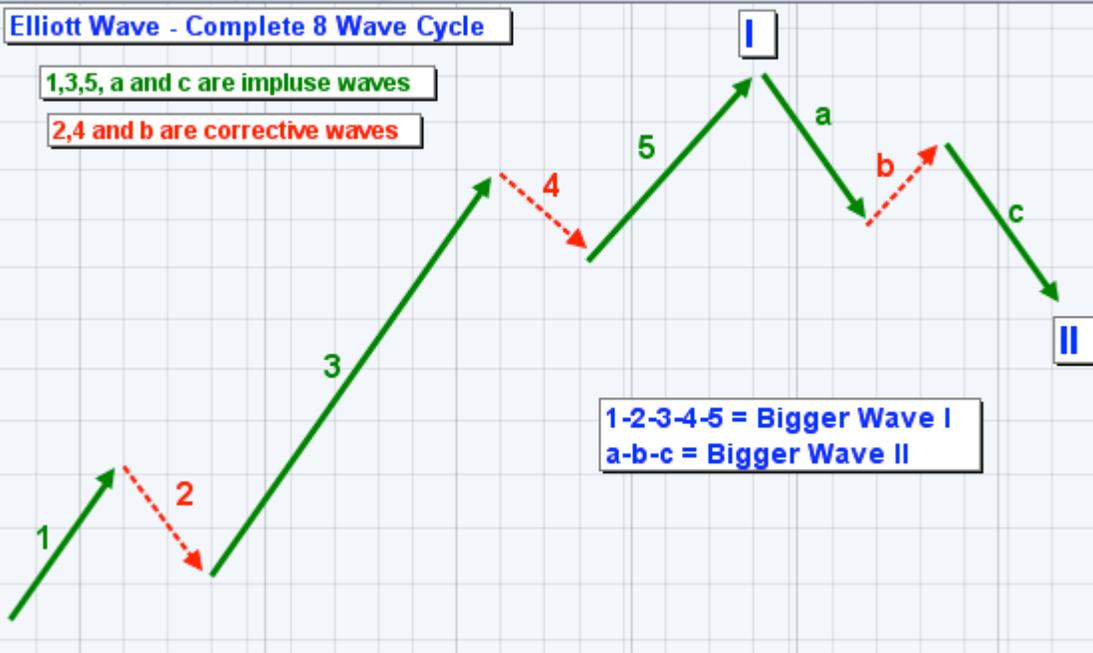


A basic corrective wave forms with three waves, typically a, b and c. The chart below shows an a b c corrective sequence. Notice that waves a and c are impulse waves (green). This is because they are in the direction of the larger degree wave. This entire move is clearly down, which represents the larger degree wave. Waves a and c move with the larger degree wave and are therefore impulse waves. Wave b, on the other hand, moves against the larger degree wave and is a corrective wave (red).

Elliott Wave - Complete 8 Wave Cycle

1,3,5, a and c are impulse waves

2,4 and b are corrective waves



Combining a basic 5 wave impulse sequence with a basic 3 wave corrective sequence yields a complete Elliott Wave sequence, which is a total of 8 waves. According to Elliott, this complete sequence is divided into two distinct phases: the impulse phase and the corrective phase. The a b c corrective phase represents a correction of the larger impulse phase.

