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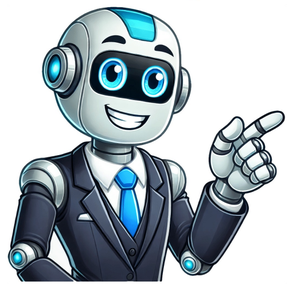

Elliott Wave Pattern- Do you know that these patterns can help you in understanding market behaviour? Yes! It’s absolutely true! But before driving into patterns lets us actually understand what is the Elliott wave principle:The Elliott wave principle is a form of technical analysis that helps traders in analyzing financial market cycles. With the help of this Elliott wave theory, traders can forecast market trends by identifying extremes in prices and investor psychology.Elliott Wave Theory suggests that movements of the market follow a sequence of crowd psychology cycles. The Elliott Wave Patterns are formed according to the ongoing market sentiment, which alternates between bullish and bearish cycles.However, the Elliott Wave should not be considered as a technical indicator but a theory that helps in predicting the behaviour of the market. In this blog we will discuss the 5 main types of Elliott Wave Pattern which will help the traders in predicting the market behaviour:The Elliott Wave Theory suggests that the stock prices move continuously up and down in the same pattern known as waves that are formed by the traders’ psychology.The theory holds as these are recurring patterns, the movements of the stock prices can be easily predicted. Investors can get an insight into ongoing trend dynamics when observing these waves and also helps in deeply analyzing the price movements.But traders should take note that interpretation of the Elliot wave is subjective as investors interpret it in different ways.Before discussing the patterns, let us discuss Motives and Corrective Waves:The Elliott Wave can be categorized into Motives and Corrective Waves:Motive waves move in the direction of the main trend and consist of 5 waves that are labelled as Wave 1, Wave 2, Wave 3, Wave 4 and Wave 5.Wave 1, 2 and 3 move in the direction of the main direction whereas Wave 2 and 4 move in the opposite direction.There are usually two types of Motive Waves- Impulse and Diagonal Waves.Waves that counter the main trend are known as the corrective waves.Corrective waves are more complex and time-consuming than motive waves. Correction patterns are made up of three waves and are labelled as A, B and C.The three main types of corrective waves are Zig-Zag, Diagonal and Triangle Waves.Now let us come to Elliott Wave Patterns: Impulse is the most common motive wave and also easiest to spot in a market.Like all motive waves, the impulse wave has five sub-waves: three motive waves and two corrective waves which are labelled as a 5-3-5-3-5 structure.However, the formation of the wave is based on a set of rules.If any of these rules are violated, then the impulse wave is not formed and we have to re-label the suspected impulse wave.The three rules for impulse wave formation are:Wave 2 cannot retrace more than 100% of Wave 1.Wave 3 can never be the shortest of waves 1, 3, and 5.Wave 4 can never overlap Wave 1.The main goal of a motive wave is to move the market and impulse waves are the best at accomplishing this.Another type of motive wave is the diagonal wave which, like all motive waves, consists of five sub-waves and moves in the direction of the trend.The diagonal looks like a wedge that may be either expanding or contracting. Also, the sub-waves of the diagonal may not have a count of five, depending on what type of diagonal is being observed.Like other motive waves, each sub-wave of the diagonal wave does not fully retrace the previous sub-wave. Also, sub-wave 3 of the diagonal is not the shortest wave.Diagonals can be further divided into the ending and leading diagonals.The ending diagonal usually occurs in Wave 5 of an impulse wave or the last wave of corrective waves whereas the leading diagonal is found in either the Wave 1 of an impulse wave or the Wave A position of a zigzag correction.The Zig-Zag is a corrective wave that is made up of 3 waves labelled as A, B and C that move strongly up or down.The A and C waves are motive waves whereas the B wave is corrective (often with 3 sub-waves).Zigzag patterns are sharp declines in a bull rally or advances in a bear rally that substantially correct the price level of the previous Impulse patterns.Zigzags may also be formed in a combination which is known as the double or triple zigzag, where two or three zigzags are connected by another corrective wave between them.The flat is another three-wave correction in which the sub-waves are formed in a 3-3-5 structure which is labelled as an A-B-C structure.In the flat structure, both Waves A and B are corrective and Wave C is motive having 5 sub-waves.This pattern is known as the flat as it moves sideways. Generally, within an impulse wave, the fourth wave has a flat whereas the second wave rarely does.On the technical charts, most flats usually don’t look clear as there are variations on this structure.A flat may have wave B terminate beyond the beginning of the A wave and the C wave may terminate beyond the start of the B wave. This type of flat is known as the expanded flat.The expanded flat is more common in markets as compared to the normal flats as discussed above.You can also join our course on MASTERCLASS TO ELLIOT WAVEThe triangle is a pattern consisting of five sub-waves in the form of a 3-3-3-3-3 structure, that is labelled as A-B-C-D-E. This corrective pattern shows a balance of forces and it travels sideways.The triangle can either be expanding, in which each of the following sub-waves gets bigger or contracting, that is in the form of a wedge.The triangles can also be categorized as symmetrical, descending or ascending, based on whether they are pointing sideways, up with a flat top or down with a flat bottom.The sub-waves can be formed in complex combinations. It may theoretically look easy for spotting a triangle, it may take a little practice for identifying them in the market.You can watch our video on Elliott Wave Theory:As we have discussed above Elliott wave theory is open to interpretations in different ways by different traders, so are their patterns. Thus, traders should ensure that when they identify the patterns. You can understand in detail about Elliot waves through our Elliot wave course in India.Get more Market Insights through StockEdgeTags: advanceElliott Wave PatternElliott wave theorytechnical analysis Elliott Wave Theory is a scientifically unproven technical analysis indicator used to attempt to predict price movements in financial markets. Based on my testing, I highly recommend avoiding using this indicator for stock trading. Elliott Wave has an avid following among technical traders, but it has serious reliability limitations in trading. This means it is unproven and cannot be backtested for accuracy. Exercise caution before adopting it as part of any trading strategy. This article and videos will explain Elliott Waves and share the harsh realities about its efficacy and reliability. Elliott Wave is difficult to backtest for efficacy or reliability. Modern pattern detection charting software cannot test Elliott waves. Elliot wave should not be used for buy and sell signals. There are no documented systematic ways to prove its profitability. Who Created Elliott Wave Theory? The Elliott Wave Theory was created by Ralph Nelson Elliott (1871-1948). He found that stock market prices moved in repeating patterns, which he called waves. After years of research, he published his findings in The Wave Principle in 1938. The Elliott Wave Theory is based on the notion that stock prices move in repeating patterns or waves. These waves can be classified into two distinct categories – impulse and corrective waves. Impulse waves are the major price movements in a particular direction, while corrective waves move against them. The theory also states that market trends are composed of five waves in the direction of the main trend, followed by three corrective waves. Therefore, according to the Elliott Wave Theory, stock prices move in a series of up and down movements, or ‘waves,’ which repeat themselves over time. This theory can identify potential turning points in a particular stock’s price, allowing traders to make better-informed decisions when entering or exiting a position. To successfully use the Elliott Wave Theory, it is important to understand the different types of waves and how they interact. What Is The Elliott Wave Principle? The Elliott Wave Principle states that financial markets are dynamic systems composed of repeating and evolving patterns that can be identified and used for effective trading strategies. According to the principle, market prices move in waves reflecting the security’s underlying sentiment and direction. The Elliott Wave Theory provides traders an insight into the potential highs and two corrective waves (numbered 2 and 4). Impulse waves move in the direction of the larger trend, while corrective waves move against it. Analyzing these wave patterns can provide valuable information about when to enter or exit a position. What Is Elliott Wave Theory? In Elliott’s wave theory, the hypothesis suggests that any major market move is a cycle, and there are 8 Waves inside every cycle. The cycle is the first leg of a primary bull market or bear market. It proposes that market trends move in a five-wave sequence in the direction of the main trend, followed by a three-wave counter-trend. These wave patterns are fractal, meaning they can repeat at different scales or degrees of trend. My thorough testing awarded TradingView a stellar 4.8 stars! With powerful stock chart analysis, pattern recognition, screening, backtesting, and a 20+ million user community, it’s a game-changer for traders. TradingView Features: Charts, Indicators, Backtesting, Screening & Live Trading Globally. Whether you're trading in the US or internationally, TradingView is my top pick for its unmatched features and ease of use. Explore TradingView – Your Gateway to Smarter Trading! Elliott Cycles As with the business cycle, there are times of growth and decline, largely attributed to the macroeconomic situation, specifically monetary and fiscal policy. For example, an Elliott Wave cycle could be the first bull market in an economy emerging from a recession. Or it could be the second bull market after a market retracement during a strong overall economic revival. Elliott Waves The basic five-wave pattern consists of three impulse waves (numbered 1, 3, and 5) and two corrective waves (numbered 2 and 4). Each wave has specific characteristics that help Elliott Wave practitioners identify where a current trend is heading. For instance, impulse waves typically move in the same direction as the overall trend, while corrective waves tend to retrace some of the prior gains. Elliott Wave theorists believe that markets usually move in five-wave patterns and then correct themselves in three-wave patterns, which gives us an idea of how the markets may move in the future. The Elliott Wave theory is based on the assumption that prices move according to certain identifiable trends and that these trends can be used to predict future price movements. The theory suggests that once a trend has been identified, traders can use it as a guide to make more informed trading decisions. The theory also states that prices move in five-wave patterns, with three waves moving in the direction of the trend and two waves retracing against it. How to Remember Elliott Wave Patterns The easy way to remember Elliott Wave Patterns is 1,2,3,4,5 and ABC. The 1 2 3 4 5 is the primary impulse wave up, and the A B C is the market pullback or corrective wave. There is a cycle in any market move, with 8 waves inside the cycle. (See chart below) Example: Elliott Wave Chart In this Elliott Wave chart example, each wave is labeled with a number (1-5) and either an “A,” “B,” or a “C.” This helps to identify the different phases of the market cycle easily. In addition, traders can use the Elliott Wave Theory to anticipate future market direction based on the current wave structure. Elliott Wave Principle: Corrective & Impulse Waves Try TradingView’s Automatic Elliott Wave Indicator Free Understanding how these waves interact makes it easier to anticipate the next move, allowing traders to take advantage of any potential opportunities. The theory can also be used as a tool for risk management, helping traders stay on top of their trades and protect against losses. How Does Elliott Wave Theory Work? Elliott Wave theory works on the principle that market prices move in predictable patterns, which traders can identify and use as an indicator for future price movements. By counting the number of waves, a trader can anticipate the future market direction and make informed decisions about when to buy and sell. 3 Phases of Elliott Waves Elliott Wave Theory is based on the idea that markets move in three phases: an impulse phase, a corrective phase, and a terminal phase. The impulse phase includes five waves of price movement – three of which move in the direction of the trend and two of which move against it. The corrective phase consists of three waves that move opposite the direction of the trend, followed by a terminal phase with five more waves that follow the original trend. By recognizing these patterns, traders can identify and trade with trends to maximize profits and minimize losses. Example: Elliott Wave Patterns in Bull & Bear Markets The most important element is that Elliott’s impulse waves (1-2-3-4-5) move up in a bull market, and the corrective waves (1-2-3) move down. In a Bear market, the impulse waves (1-2-3-4-5) move down, and the corrective waves (1-2-3) move up. How to Apply Elliott Wave Principles to Bull & Bear Markets Try TradingView’s Elliott Wave Pattern Recognition The 5 Elliott Wave Rules: Wave 3 is never the shortest. Wave 2 never extends further than wave 1. Wave 4 cannot enter the price territory of wave 1. An Impulse Wave always divides into 5 impulse sub-waves. Wave 3 always ends higher than wave 1. These rules can be applied to bull and bear markets to help traders identify possible entry points during the trend. Additionally, traders should pay attention to Fibonacci Retracements levels and chart patterns, such as Double Bottoms, Head & Shoulder formations, for additional support in trading decisions. What are A B C Elliott Waves? The A B C Elliott Wave is a corrective wave pattern consisting of three sub-waves: A, B, and C. The A-wave typically retraces the previous impulse wave, while the B-wave corrects the A-wave, and finally, the C-wave completes the correction by continuing the original trend. This wave pattern can appear in both bull and bear markets, and it is used to identify possible entry points for traders and potential objectives for closing positions. Example: Elliott Wave Bull & Bear Markets 3 Golden Rules of Elliott Wave Theory How to Automatically Detect Elliott Wave Patterns You can automatically detect Elliott Wave patterns using specialized software. I recommend TradingView’s automated chart pattern recognition; it’s free and available for all registered users. You can also use the popular MT4 platform to analyze Elliott Wave patterns. TradingView’s Elliott Wave Indicator TradingView has automated the detection of Elliott Waves into its innovative pattern recognition system. Best of all, the Elliott Wave indicator is available on TradingView’s free plan. Here’s how to enable it: Visit TradingView and register for a free account. Click Indicators Type Elliott into the search box Select Elliott Wave Chart Pattern How to Automatically Detect Elliott Wave Patterns Enable Automatic Elliott Wave Patterns Now 4 Practical Examples 1. Elliott Waves in a New Bull Market 2009 In this example, we apply Elliott Wave Theory to the emergence of one of history’s best all-time bull markets – 2009 to 2018. The chart below is the bottom of the 2007 to 2009 financial crisis bear market. Elliott Wave Pattern after the 2007/8 Crash As you can see here, this S&P move is a classic textbook Elliott Wave. Wave 1: Impulse Wave – the initial start of a new bull run. In a bear market recession, it is the initial push downwards from an all-time high. Wave 2: Corrective Wave – this is the correction from Wave 1 when stocks pull back from the new high. Wave 3: 2nd Impulse Wave – now we have a strong bullish move upwards Wave 4: 2nd Corrective Wave – another move down in stock prices as sellers cash in on their profits. Wave 5: 3rd and often longest Impulse Wave – the market is strong, and the bulls decide it is time to buy. Wave A: 1st wave of correction of the primary cycle – the market participants become nervous at the new highs and begin to cash in their profits; however, buyers are not keen on these prices, so the stock prices start to fall. Wave B: 2nd wave of correction (pullback of corrective move) – as stock prices begin to fall, buyers outnumber sellers, and the stock price rises. Wave C: Correction of primary wave completed – now the bears win, the market participants are nervous, everyone starts to sell, and there are few buyers. This completes the cycle, and we start from Wave 1 again. Using Elliott’s theory is not an exact science, and one does need to use a little imagination (squint your eyes, tilt your head); however, it does prove useful for reference. 2. End of a Bear Market & Start of Bull Market 2008 In 2013, the US markets hit new all-time highs and seemed to advance despite lackluster economic data. This example shows how to apply Elliott Wave theory to the end of a bull market and the beginning of a new baby bull market. Chart 2 – Elliott Wave Theory Detailed Example SP-500 Stock Index 2007 to 2013 I have mapped approximately the three main waves of Elliott Wave Theory in this chart. The first impulse wave started in March 2009 and ended in May 2010. The second impulse wave started in July 2010 and ended in May 2011. The third impulse wave started in October 2011 and continued until May 2013. Elliott wave theory suggests that major bull markets propel upwards in 3 primary waves. After the third impulse wave, we see a primary downward trend bear market to set us up for the next round of impulse waves. 3. Elliott Wave Grand Supercycle Example 1983 to 2009 Example: 30-Year Elliott Wave Principle Supercycle Elliott Wave Grand Supercycle Chart: 1984 – 1987 saw a strong Bull move 1987 – 1989 saw a sharp correction 1989 – 1994 saw a long Bull market 1994 – 1995 saw a shallow correction 1995 – 2000 saw a massive Bull market 2000 – 2003 saw a large three-year Bear market 2000 – 2007 saw a long, slow advance 2007 – 2009 saw a huge, volatile Bear market The key here is the ability to zoom in and out on different timeframes to spot the waves. The waves are usually perceivable in intra-day minute-by-minute charts or long-term multi-decade charts. 4. Elliott Wave COVID-19 Crash 2020 The start of the COVID-19 pandemic kicked off a volatile time in the stock market, with a 34% market decline in 24 days. This marked a new market leg and allowed one to start an Elliott Wave mapping. In this chart, I begin with the classic A-B-C correction wave as the market declines and follow it up with the 1-2-3-4-5 impulse wave of the new Bull market that emerged from the ashes of the crash. The market then experienced another corrective A-B-C wave from September to November 2020. Still, it emerged again with the promise of massive government stimulus into a new 1-2-3-4-5 impulse wave supporting the major Bull market move. Elliott Waves During the Corona Crash 2021 – Using Stock Chart Indicators (Click to View Chart Live in TradingView With Discussion) The chart above shows that it helps plot Elliott waves and uses supporting indicators; I have used Cumulative Money Flow and Relative Strength Index to confirm the moves. In technical analysis, a price-based indicator like rate of change with a price/volume indicator (OBV or CMF) is always a good practice to give you two different perspectives on the same chart. By mapping a 9-day moving average (MA) on the RSI and CMF indicators, we can see a strong confirmation when the indicators cross down or up through the MA. This helps with recognizing a new wave pattern sooner rather than retrospectively. Video: How To Practically Use Elliott Wave Theory – Examples Video From The Liberated Stock Trader Pro Masterclass Course The 9 Types of Elliott Wave Grand Supercycle: An entire multi-decade bull or bear market from boom to bust consisting of many 1 2 3 4 5 ABC sub-cycles Supercycle: A large multi-year bull or bear market rally or decline consisting of multiple 1 2 3 4 5 ABC waves Cycle: A large bull/bear market run consisting of a 3 or more 1 2 3 4 5 ABC sub-cycles Primary: A primary move upwards or downwards consisting of complete 1 2 3 4 5 ABC cycle Intermediate: Zooming in on a primary cycle to reveal a sub-cycle of many months Minor: Shorter timeframe waves ranging from weeks to months Minute: Waves of weeks Minuette: Waves of days to weeks Sub-Minuette: Intra-day waves Why Elliott Waves Fail One of the biggest problems with Elliott Wave Theory is that it relies on subjective analysis and interpretation of waves, leading to analysts’ disagreement. Another issue is that Elliott Waves often overlap, making it difficult for traders to identify a complete wave cycle accurately. Finally, predicting future market movements based on past trends is not always reliable due to the unpredictable nature of the markets. Elliott Wave Theory can be a powerful tool for helping traders identify market trends and opportunities. However, due to its subjective nature, it should always be used cautiously. The problem with Elliott Wave theory is that the mapping is always open to broad interpretation; ask ten Elliott Wave theorists the same question, and you will get ten different answers. Elliott Wave theory is unusable for short-term stock market movement prediction because it is imprecise, and large macroeconomic events can impact the market externally. Elliott wave theory has some caveats. The first is that it is only proven accurate and statistically relevant on highly liquid stocks or markets, where there is less likelihood of price manipulation by a “few strong hands.” Elliott himself warns us of this. This means that the not-so-liquid elements of the market are not applicable, which means approximately 65% of the total market. Backtesting Elliott Waves Backtesting Elliott Wave Theory is difficult due to the subjective nature of the principle, which means the results are not repeatable or reliable. The impreciseness of the Elliott Wave means that it doesn’t conform to the scientific method, which requires a hypothesis and testing with measurable results. In conclusion, Elliott Wave Theory can help determine the current price trend and likely future direction of highly liquid stocks or markets. However, due to its subjective nature, it isn’t easy to backtest or use reliably in trading. You must use caution when relying on Elliott Wave to trade any asset. Does Elliott Wave Theory Work? It is impossible to prove that Elliott Wave theory works more than 50% of the time because its principles are subjective and cannot be mathematically tested. Reliable chart patterns such as the triple bottom or inverse cup and handle are proven reliable in testing, but Elliott Waves has not. In my opinion, you should not trade using Elliott Waves. Critics of the Elliott Wave Critics of the Elliott Wave Theory also point out that it doesn’t explain what causes particular wave patterns, meaning that its predictive power is limited. It’s also difficult to identify Elliott Wave patterns in real time. Furthermore, the repeating nature of these patterns may create self-filling prophecies, meaning investors act on a belief in the accuracy of Elliott Wave Theory and, in doing so, unintentionally create the results they expect. Benoit Mandelbrot Benoit Mandelbrot has questioned whether Elliott Waves can predict financial markets: “But Wave prediction is a very uncertain business. It is an art in which the subjective judgment of the chartists matters more than the objective, replicable verdict of the numbers. The record of this, as of most technical analysis, is at best mixed.” Source David Aronson Technical analyst David Aronson wrote: “The Elliott Wave Principle, as popularly practiced, is not a legitimate theory, but a story, and a compelling one that is eloquently told by Robert Prechter. The account is especially persuasive because EWP has the seemingly remarkable ability to fit any segment of market history down to its most minute fluctuations. I contend this is made possible by the method’s loosely defined rules and the ability to postulate a large number of nested waves of varying magnitude. This gives the Elliott analyst the same freedom and flexibility that allowed pre-Copernican astronomers to explain all observed planet movements even though their underlying theory of an Earth-centered universe was wrong.” Source Ultimately, choosing to use Elliott Wave Theory is up to you. It can be a useful tool for traders, but it should be used cautiously and always combined with other forms of technical analysis. Remember that there are no guarantees when it comes to predicting price movements. If you try to critique Elliott Wave online, you will get many detractors suggesting you do not truly understand the principles. Elliott Wave enthusiasts are a passionate group of fanatics. FAQ The success rate of Elliott Wave trading is not proven to be more than a 50/50 chance of a profitable trade. The subjective nature of the principles means any mathematical testing is impossible. While wave theory is elegant, it is not proven to be successful as a set of systematic rules. Yes and No. While professional traders and market analysts like myself are required to learn Elliott Wave theory as part of our industry certification, the evidence of Elliott Wave being used as a widely adopted trading strategy in the finance industry is limited. The best free tool for plotting Elliott Waves is TradingView. Go to TradingView, click on Indicators, and select Elliott Wave; you will then have the waves plotted on a chart for you automatically. The main disadvantage of the Elliott Wave is its subjectivity. Since there is no definitive method to determine which wave a given market cycle is in, traders relying heavily on this theory have to judge what they believe will happen next. This can lead to wrong predictions and losses if the trader isn't careful. Due to a lack of empirical testing on short-term intraday charts, the best timeframe to trade Elliott Wave is daily, weekly, or even monthly. A longer timeframe will mean macroeconomic, political, and financial news can be considered in context with the Elliott Wave principles. Yes, it is worth learning Elliott Wave theory to understand market principles and cycles. This knowledge helps a trader get perspective into the current market phase. If you want to trade profitably, I suggest studying reliable, proven chart patterns instead. Elliott Wave 5 marks the end of a market cycle. The market then corrects or moves in the opposite direction. After the correction is complete, Elliott Wave 1 starts again and marks the beginning of another cycle. This process can repeat multiple times, depending on how long-term cycles play out. The golden rule of the Elliott Wave is to trade in the direction of the wave count. If you expect a certain wavelength and believe it is still unfolding, you should buy or sell according to your predictions. The goal is to maximize profits by riding short-term waves while understanding larger market movements and trend reversals. The golden ratio in the Elliott Wave is 0.618 and is found by dividing any number in the Fibonacci sequence by its immediate predecessor. For example, if you divide 8 (the eighth Fibonacci number) by 13 (the seventh), then you get 0.618. This ratio can distinguish between corrective and impulsive waves and help traders identify the general trend of a security. Yes, Paul Tudor Jones is well known for using the Elliott Wave Principle in his trading. He began studying it in the early 1980s and has become one of its most successful adherents. However, evidence suggests in later life, he disowned the theory as a contributor to his success. There is no proven study or mathematical backtest to prove that Elliott Wave is accurate. This means we must assume Elliott Waves are no more than 50 percent accurate, which is the equivalent of flipping a coin. Yes, the Elliott Wave Principle is a legitimate theory. Although not scientifically proven to outperform the market or to make traders profitable directly, Elliott Wave combines business cycle analysis and the nature of markets into a legitimate explanation of how markets move. The basic principle of trading with the Elliott Wave is to identify the direction of the trend and trade with that momentum. You can do this by looking for strong signals in the wave patterns, such as breakouts, pullbacks, and retracements. Once you identify a potential entry point, it's important to consider stop loss orders and taking a profit. Drawing Elliott Wave patterns is a difficult task. Fortunately, TradingView has an automated feature that makes this process easier. To use it, navigate to the top of your chart and select 'Indicators' followed by 'Elliott Wave Indicator.' This will draw the waves on your chart to easily see the trend. The Elliott Wave theory is based on eight waves, five waves that move in the direction of a trend, followed by three corrective waves. This pattern can occur in any time frame and is ongoing until complete. No, Elliott Waves are not reliable. It is challenging to ascertain the reliability of the Elliott Wave beyond 50 percent, given the subjective nature of its principles cannot be subjected to mathematical testing. Successful chart patterns, for instance, the triple bottom or inverse head and shoulders, have proven reliability in testing, but the same cannot be claimed for Elliott Waves. Elliott Wave can be applied to crypto markets, although some traders find it hard to detect patterns in assets with such high levels of volatility. It is important for any trader attempting to use Elliott Wave in the crypto markets to understand the risks involved and ensure they have appropriate strategies and risk management in place. No, Elliot Wave is far from easy to learn. It requires a deep understanding of chart patterns and a strong background in technical analysis. Some traders also argue that experience in trading is necessary for correctly interpreting Elliott Wave signals. Summary Elliott Wave Theory is a useful tool for traders, but it should be used carefully and always combined with other forms of technical analysis. While it can explain observed price movements, there are no guarantees when using this theory to predict future price movements. Furthermore, Elliott Wave enthusiasts form a spirited group of fanatics who will challenge anyone who attempts to criticize the theory online. Therefore, it is important to approach Elliott Wave Theory with an open mind and consider all sides of the debate. Whether you incorporate this theory into your trading strategy will depend on your preference and risk tolerance. You want to be a successful stock investor but don’t know where to start. Learning stock market investing on your own can be overwhelming. There’s so much information out there, and it’s hard to know what’s true and what’s not. Liberated Stock Trader Pro Investing Course Our pro investing classes are the perfect way to learn stock investing. You will learn everything you need to know about financial analysis, charts, stock screening, and portfolio building so you can start building wealth today. ★ 16 Hours of Video Lessons + eBook ★ ★ Complete Financial Analysis Lessons ★ ★ 6 Proven Investing Strategies ★ ★ Professional Grade Stock Chart Analysis Classes ★ Elliott Wave Cheat Sheet explains all Elliott Waves theory patterns including rules, guidelines, internal structure and Fibonacci ratios. Elliott wave cheat sheet shortens the time and helps you to understand Elliott theory in a very simple way, Elliott Wave cheat sheet is made to be your only reference. What Is The Elliott Wave Theory? Elliott Wave Theory, Elliott Wave Principle, or Elliott Waves was discovered by Ralph Nelson Elliott. He developed the analytical tools in the 1930s, and utilized understanding of crowd psychology and social trends to chart. Elliott developed a rational system of market analysis. He proposed that market prices unfold in specific patterns, and isolated 13 patterns of movements that recur in the market price and are repetitive but not necessarily in time or altitude. He named, defined and illustrated the patterns and linked them together to form a larger version of those same patterns. These patterns, in turn, link to form identical patterns of the next larger size. According to Elliott wave theory, after conducting technical and behavioral analysis, several models can be built at extreme points, according to which price movement of the underlying asset shortly is determined. The theory suggests that any major market move is a cyclical in nature, 5 cycles in the direction of the dominant trend and 3 against the trend. The 5 waves are called Motive cycles and the other 3 are Corrective. This modeling significantly increase the probability of an accurate forecast with timely entry and exit from the market trend. That is why the Elliott wave theory is considered as an effective tool for technical analysis of markets. Motive Waves In Elliott Wave Cheat Sheet Motive wave in Elliott Wave theory is the wave that does the action, while the corrective wave is the reaction of the first wave. The motive wave pushes the price in the same direction of the main trend. Motive wave patterns can’t be in the form of 3 waves. Impulse Wave The Impulse wave in Elliott Wave Theory is the wave that pushes the prices in the same direction as the trend at one larger degree. It’s the action wave. While the corrective wave is the reaction to the first wave. Therefore, the corrective wave moves in the opposite direction of the main trend. Diagonal Waves Diagonal Waves In Elliott Wave Cheat Sheet is a Motive Pattern, but not an impulse. It replaces the impulse waves at a specific location in the wave structure. However, the diagonal triangle is the only five wave structure in the direction of the main trend in which wave 4 almost always overlaps wave 1. Leading Diagonal Ending Diagonal Contracting Diagonal Expanding Diagonal Corrective Waves In Elliott Wave Cheat Sheet Corrective wave in Elliott Wave Theory is a reaction wave, while motive wave is the action wave. In fact, the corrective wave pushes the price in the opposite direction of the main trend. However, the correction pattern can never be subdivided into 5 waves, this feature is for motive waves only. Zigzag Waves A zigzag wave in In Elliott Wave Theory is the simplest corrective wave. Often it looks like an impulsive wave because it starts with 5. Zigzag wave moves against the trend and can take the form of Zigzag, Double Zigzag, or Triple Zigzag. Zigzag Double Zigzag Triple Zigzag Flat Waves A flat Wave in In Elliott Wave Cheat Sheet differs from a zigzag wave in that the sub-wave sequence is 3-3-5, where wave A is made up of 3 sub-waves labeled as A-B-C and not a 5 full waves as it does in zigzag. Wave A of zigzag can be impulsive or leading diagonal, while wave A of flat could be any corrective pattern except triangles. Flats are 3 wave corrective pattern labeled A-B- C but it moves in a sideways manner. There are essentially 3 types of flat corrections: regular, expanded and running. However, the most common type is the expanded, while running is rare. Regular Flat Irregular Flat Running Flat Triangle Waves Triangle pattern In Elliott Wave Cheat Sheet is a consolidation pattern that connotes the continuation of the existing trend, & it’s considered the most important sideways action. This pattern indicates that buyers and sellers are equal in strength. Triangles are formed when the market activity is reduced because the direction of the movement is not clear. During this sideways movement, the volatility also comes down. Since triangles are formed, the volume also falls during this period. Triangles move within 2 channel lines, first line is from waves A to C, the second line is from B to D. so a triangle is either contracting or expanding depending on the channel lines if they are converging or expanding. Triangles occur in waves 4 or B, but they can’t be wave 2 There are 2 types of triangles: contracting & expanding. Contracting Triangle Expanding Triangle How To Trade Wave 3 Elliott Wave Cheat Sheet explains all Elliott Waves theory patterns including rules, guidelines, internal structure and Fibonacci ratios. Elliott wave cheat sheet shortens the time and helps you to understand Elliott theory in a very simple way, Elliott Wave cheat sheet is made to be your only reference. What Is The Elliott Wave Theory? Elliott Wave Theory, Elliott Wave Principle, or Elliott Waves was discovered by Ralph Nelson Elliott. He developed the analytical tools in the 1930s, and utilized understanding of crowd psychology and social trends to chart. Elliott developed a rational system of market analysis. He proposed that market prices unfold in specific patterns, and isolated 13 patterns of movements that recur in the market price and are repetitive but not necessarily in time or altitude. He named, defined and illustrated the patterns and linked them together to form a larger version of those same patterns. These patterns, in turn, link to form identical patterns of the next larger size. According to Elliott wave theory, after conducting technical and behavioral analysis, several models can be built at extreme points, according to which price movement of the underlying asset shortly is determined. The theory suggests that any major market move is a cyclical in nature, 5 cycles in the direction of the dominant trend and 3 against the trend. The 5 waves are called Motive cycles and the other 3 are Corrective. This modeling significantly increase the probability of an accurate forecast with timely entry and exit from the market trend. That is why the Elliott wave theory is considered as an effective tool for technical analysis of markets. Motive Waves In Elliott Wave Cheat Sheet Motive wave in Elliott Wave theory is the wave that does the action, while the corrective wave is the reaction of the first wave. The motive wave pushes the price in the same direction of the main trend. Motive wave patterns can’t be in the form of 3 waves. Impulse Wave The Impulse wave in Elliott Wave Theory is the wave that pushes the prices in the same direction as the trend at one larger degree. It’s the action wave. While the corrective wave is the reaction to the first wave. Therefore, the corrective wave moves in the opposite direction of the main trend. Diagonal Waves Diagonal Waves In Elliott Wave Cheat Sheet is a Motive Pattern, but not an impulse. It replaces the impulse waves at a specific location in the wave structure. However, the diagonal triangle is the only five wave structure in the direction of the main trend in which wave 4 almost always overlaps wave 1. Leading Diagonal Ending Diagonal Contracting Diagonal Expanding Diagonal Corrective Waves In Elliott Wave Cheat Sheet Corrective wave in Elliott Wave Theory is a reaction wave, while motive wave is the action wave. In fact, the corrective wave pushes the price in the opposite direction of the main trend. However, the correction pattern can never be subdivided into 5 waves, this feature is for motive waves only. Zigzag Waves A zigzag wave in In Elliott Wave Theory is the simplest corrective wave. Often it looks like an impulsive wave because it starts with 5. Zigzag wave moves against the trend and can take the form of Zigzag, Double Zigzag, or Triple Zigzag. Zigzag Double Zigzag Triple Zigzag Flat Waves A flat Wave in In Elliott Wave Cheat Sheet differs from a zigzag wave in that the sub-wave sequence is 3-3-5, where wave A is made up of 3 sub-waves labeled as A-B-C and not a 5 full waves as it does in zigzag. Wave A of zigzag can be impulsive or leading diagonal, while wave A of flat could be any corrective pattern except triangles. Flats are 3 wave corrective pattern labeled A-B- C but it moves in a sideways manner. There are essentially 3 types of flat corrections: regular, expanded and running. However, the most common type is the expanded, while running is rare. Regular Flat Irregular Flat Running Flat Triangle Waves Triangle pattern In Elliott Wave Cheat Sheet is a consolidation pattern that connotes the continuation of the existing trend, & it’s considered the most important sideways action. This pattern indicates that buyers and sellers are equal in strength. Triangles are formed when the market activity is reduced because the direction of the movement is not clear. During this sideways movement, the volatility also comes down. Since triangles are formed, the volume also falls during this period. Triangles move within 2 channel lines, first line is from waves A to C, the second line is from B to D. so a triangle is either contracting or expanding depending on the channel lines if they are converging or expanding. Triangles occur in waves 4 or B, but they can’t be wave 2 There are 2 types of triangles: contracting & expanding. Contracting Triangle Expanding Triangle How To Trade Wave 3 1) Elliott Wave Theory: Modern Theory for 21st Century Market1.1 What is Elliott Wave Theory?Elliott Wave Theory is named after Ralph Nelson Elliott (28 July 1871 – 15 January 1948). He was an American accountant and author. Inspired by the Dow Theory and by observations found throughout nature, Elliott concluded that the movement of the stock market could be predicted by observing and identifying a repetitive pattern of waves.Elliott was able to analyze markets in greater depth, identifying the specific characteristics of wave patterns and making detailed market predictions based on the patterns. Elliott based part his work on the Dow Theory, which also defines price movement in terms of waves, but Elliott discovered the fractal nature of market action. Elliott first published his theory of the market patterns in the book titled The Wave Principle in 1938.1.2 Basic Principle of the 1930’s Elliott Wave TheorySimply put, movement in the direction of the trend is unfolding in 5 waves (called motive wave) while any correction against the trend is in three waves (called corrective wave). The movement in the direction of the trend is labelled as 1, 2, 3, 4, and 5. The three wave correction is labelled as a, b, and c. These patterns can be seen in long term as well as short term charts.Ideally, smaller patterns can be identified within bigger patterns. In this sense, Elliott Waves are like a piece of broccoli, where the smaller piece, if broken off from the bigger piece, does, in fact, look like the big piece. This information (about smaller patterns fitting into bigger patterns), coupled with the Fibonacci relationships between the waves, offers the trader a level of anticipation and/or prediction when searching for and identifying trading opportunities with solid reward/risk ratios.1.3 The Five Waves Pattern (Motive and Corrective)In Elliott’s model, market prices alternate between an impulsive, or motive phase, and a corrective phase on all time scales of trend. Impulses are always subdivided into a set of 5 lower-degree waves, alternating again between motive and corrective character, so that waves 1, 3, and 5 are impulses, and waves 2 and 4 are smaller retraces of waves 1 and 3.In Figure 1, wave 1, 3 and 5 are motive waves and they are subdivided into 5 smaller degree impulses labelled as ((i)), ((ii)), ((iii)), ((iv)), and ((v)). Wave 2 and 4 are corrective waves and they are subdivided into 3 smaller degree waves labelled as ((a)), ((b)), and ((c)). The 5 waves move in wave 1, 2, 3, 4, and 5 make up a larger degree motive wave (1)Corrective waves subdivide into 3 smaller-degree waves, denoted as ABC. Corrective waves start with a five-wave counter-trend impulse (wave A), a retrace (wave B), and another impulse (wave C). The 3 waves A, B, and C make up a larger degree corrective wave (2)In a bear market the dominant trend is downward, so the pattern is reversed—five waves down and three up1.4 Wave DegreeElliott Wave degree is an Elliott Wave language to identify cycles so that analyst can identify position of a wave within overall progress of the market. Elliott acknowledged 9 degrees of waves from the Grand Super Cycle degree which is usually found in weekly and monthly time frame to Subminuette degree which is found in the hourly time frame. The scheme above is used in all of EWF’s charts.1.5 The Rise of Algorithmic / Computer-based TradingThe development of computer technology and Internet is perhaps the most important progress that shape and characterize the 21st century. The proliferation of computer-based and algorithmic trading breed a new category of traders who trade purely based on technicals, probabilities, and statistics without the human emotional aspect. In addition, these machines trade ultra fast in seconds or even milliseconds buying and selling based on proprietary algos.No doubt the trading environment that we face today is completely different than the one in the 1930’s when Elliott first developed his wave principle. Legitimate questions arise whether Elliott Wave Principle can be applied in today’s new trading environment. After all, if it’s considered to be common sense to expect today’s cars to be different than the one in the 1930’s, why should we assume that a trading technique from 1930 can be applied to today’s trading environment?1.6 The New Elliott Wave Principle – What is Changing in Today’s MarketThe biggest change in today’s market compared to the one in 1930s is in the definition of a trend and counter-trend move. We have four major classes of market: Stock market, forex, commodities, and bonds. The Elliott Wave Theory was originally derived from the observation of the stock market (i.e. Dow Theory), but certain markets such as forex exhibit more of a ranging market.In today’s market, 5 waves move still happen in the market, but our years of observation suggest that a 3 waves move happens more frequently in the market than a 5 waves move. In addition, market can keep moving in a corrective structure in the same direction. In other words, the market can trend in a corrective structure; it keeps moving in the sequence of 3 waves, getting a pullback, then continue the same direction again in a 3 waves corrective move. Thus, we believe in today’s market, trends do not have to be in 5 waves and trends can unfold in 3 waves. It’s therefore important not to force everything in 5 waves when trying to find the trend and label the chart.2) Fibonacci2.1 IntroductionLeonardo Fibonacci da Pisa is a thirteenth century mathematician who discovered the Fibonacci sequence.

wave A• Wave C = 61.8% – 100% of wave AB5.3 TrianglesA triangle is a sideways movement that is associated with decreasing volume and volatility. Triangles have 5 sides and each side is subdivided in 3 waves hence forming 3-3-3-3-3 structure. There are 4 types of triangles in Elliott Wave Theory: Ascending, descending, contracting, and expanding. They are illustrated in the graphic belowGuidelines• Corrective structure labelled as ABCDE• Usually happens in wave B or wave 4• Subdivided into three (3-3-3-3-3)• RSI also needs to support the triangle in every time frame• Subdivision of ABCDE can be either abc, wxy, or flat5.4 Double ThreeDouble three is a sideways combination of two corrective patterns. We've already looked at several corrective patterns including zigzag, flat, and triangle. When two of these corrective patterns are combined together, we get a double three. In addition,Guidelines• A combination of two corrective structures labelled as WXY• Wave W and wave Y subdivision can be zigzag, flat, double three of smaller degree, or triple three of smaller degree• Wave X can be any corrective structure• WXY is a 7 swing structureFibonacci Ratio Relationship• Wave X = 50%, 61.8%, 76.4%, or 85.4% of wave W• Wave Y = 61.8%, 100%, or 123.6% of wave W• Wave Y can not pass 161.8% of wave WBelow are examples of different combinations of two corrective structures which form the double threes:Above figure is a combination of a flat and a zigzagAbove figure is a combination of a flat and a triangleAbove figure is a combination of two double threes of lesser degree5.5 Triple ThreeTriple three is a sideways combination of three corrective patterns in Elliott Wave TheoryGuidelines• A combination of three corrective structures labelled as WXYXZ• Wave W, wave Y, and wave Z subdivision can be zigzag, flat, double three of smaller degree, or triple three of smaller degree• Wave X can be any corrective structure• WXYZ is an 11 swing structureFibonacci Ratio Relationship in Elliott Wave Theory• Wave X = 50%, 61.8%, 76.4%, or 85.4% of wave W• Wave Z = 61.8%, 100%, or 123.6% of wave W• Wave Y can not pass 161.8% of wave W or it can become an impulsive wave 3Below are examples of different combinations of three corrective structures which form the triple threes:Above figure is a combination of a flat, double three, and zigzagAbove figure is a combination of three double threesYou may also like reading: Stock market movements that seemed random to most analysts revealed a hidden order to Ralph Nelson Elliott. In the 1930s, during the depths of the Great Depression, the professional accountant set out the basis of one of technical analysis's most controversial ideas—the idea that market prices move in predictable, repeating waves driven by investor psychology. Elliott's breakthrough came from observing that financial markets follow patterns that repeat themselves on multiple scales, much like patterns found in nature. These recurring structures, which would later be called fractals, offered a new way to understand and potentially forecast market movements. The theory suggests that market trends move in a series of five waves in one direction followed by three waves in the opposite direction, forming patterns that can be seen across different periods—whether minutes or decades. The Elliott Wave Theory identifies predictable patterns in market prices driven by investor psychology and sentiment cycles.Market movements consist of five-wave patterns ("impulse waves") in the main trend direction, followed by three-wave corrections in the opposite direction.Each wave pattern contains smaller versions of the same pattern within it, creating a fractal-like structure that can be analyzed across different time scales.When investing, the theory works best when combined with other forms of technical analysis, as wave patterns can be subject to different interpretations. Elliott proposed that financial price trends result from investors' predominant psychology. He found that swings in mass psychology always showed up in the same recurring fractal patterns, or "waves," in financial markets. Elliott's theory resembles Dow's in that both recognized that stock prices move in waves. Because Elliott also recognized the "fractal" nature of markets, he was able to break them down and analyze them in much greater detail. According to Elliott Wave Theory, when investors are optimistic, prices rise in a five-wave pattern. When fear takes over, prices fall in a three-wave pattern. Fractals are mathematical structures that infinitely repeat themselves at larger and smaller scales. Elliott argued that stock index price patterns were structured similarly. He then began to look at how these repeating patterns could be used to predict market moves. Elliott Wave Theory. Image by Julie Bang © Investopedia 2020 Elliott's key claim involved identifying two types of waves. An impulse wave, which travels in the same direction as the larger trend, always comprises five waves in its pattern. A corrective wave, on the other hand, travels in the opposite direction of the main trend. Like Russian nesting dolls, each of these waves contains even smaller versions of the same patterns. For example, during an upward impulse wave, you'll find five smaller waves moving up, and within each of those, you'll find five even smaller waves. Elliott claimed this pattern helped him identify where prices were heading. For instance, if he spotted four waves completed in an impulse pattern, he would expect one more wave up before a reversal occurred. Many traders misuse Elliott Wave Theory by trying to force markets into perfect patterns. The real value comes from seeing it as illustrating how markets move in certain cycles driven by market sentiment. To use the theory in everyday trading, a trader might identify an upward-trending impulse wave, go long, and then sell or short the position as the pattern completes five waves and a reversal is imminent. Here's how the general shape of Elliott's waves break down: Five waves move in the direction of the main trend, followed by three waves in a correction. Within this five to three move, two subdivisions of the next higher wave then move. The underlying five-three pattern remains constant, he claimed, though the time span of each wave may vary. Let's have a look at the following chart made up of eight waves (five heading up and three trending downward) labeled 1, 2, 3, 4, 5, A, B, and C. Image by Julie Bang © Investopedia 2019 Waves one, two, three, four, and five form an impulse, and waves A, B, and C form a correction. The five-wave impulse, in turn, forms wave one at the next-largest degree, and the three-wave correction forms wave two at the next-largest degree. The corrective wave normally has three distinct price movements—two in the direction of the main correction (A and C) and one against it (B). In the figure above, waves two and four are corrections. These waves typically have the following structure: Image by Julie Bang © Investopedia 2019 In this figure, waves A and C move toward the trend at a degree one larger. They are, therefore, impulsive and composed of five waves. Wave B, by contrast, is countertrend. Thus, it's corrective and consists of three waves. An impulse-wave formation, followed by a corrective wave, forms an Elliott wave degree consisting of trends and countertrends. As you can see from the patterns in these figures, the five waves do not always travel wholly upward, and the three waves do not always travel fully downward. For instance, when the larger-degree trend is down, so is the five-wave sequence. Elliott wave oscillators, as customized and imported into various trading platforms (see the example below from TradingView), provide a way to support wave pattern identification. Essentially, these oscillators act as a momentum indicator that help confirm wave counts. These tools calculates the difference between two moving averages—typically a five-period and a 35-period simple moving average of closing prices—and displays the result as a histogram below the price chart. When the histogram bars are above zero, they indicate bullish momentum that often corresponds to impulse waves up, while bars below zero suggest the bearish momentum often seen in corrective waves down. A chart from TradingView of an Elliott wave oscillator for the crude oil market from 1998 to 2023. Elliott identified nine degrees of waves, which he labeled as the following, from largest to smallest: Grand super cycleSuper cycleCyclePrimaryIntermediateMinorMinuteMinuetteSub-minuette Since Elliott waves are a fractal, wave degrees theoretically expand ever larger and ever smaller beyond those listed above. In the 1970s, the theory became far more popular through the work of A.J. Frost and Robert Prechter. In the "Elliott Wave Principle: Key to Market Behavior," the authors are said to have predicted the bull market of the 1980s. Today, much of Elliott's theory is intuitive to most traders. In the financial markets, many trade based on the dictum that "what goes up, must come down," as a price movement up or down is often followed by a contrary movement. Technical analysts following price action also know it's divided into trends and corrections. Thus, a zigzag-like pattern fits much of what we see every day on the charts of various assets, from stocks to cryptocurrencies, in all time frames. When considering trading with Elliott waves, it's good to keep in mind that the French word for wave is la vague. As a signal, it's not very specific, and five adherents of the theory might have five different interpretations or different counts of the waves in the same price chart. Yet the seductive simplicity of Elliott Wave Theory makes it easy to miss significant challenges that both critics and practitioners acknowledge. Applying the theory in real time proves far more difficult than analyzing it in hindsight. Subjectivity plagues wave counting, the theory's fundamental tool. Two experienced analysts often disagree about where one wave ends and another begins, making consistent application challenging. In addition, as with most things, time is its biggest challenge. Elliott Wave Theory says nothing about how long each wave should take, leaving traders guessing whether a pattern might be completed in days or years. A wave pattern you think will take months could stretch out for years, wreaking havoc with your trading and risk management plans. A supposed major advantage of the theory—its flexibility at different scales or periods—is instead a substantial drawback: it can explain any market move after the fact but struggles with enabling reliable predictions. When a forecast fails, practitioners can always claim they miscounted the waves rather than acknowledge potential flaws in the theory itself. Elliott claimed to find that corrective waves retrace impulse waves in Fibonacci proportions of 38%, 50%, and 62%. He also claimed that impulse waves within a larger impulse sequence relate to each other in Fibonacci proportion. While it's possible to identify patterns in the movement of stock prices, that certainly is no guarantee that anyone can predict where a stock price will land tomorrow, next week, or next month. Elliott Wave Theory is more about human psychology than it is learning to interpret specific market data. Bob Prechter, who founded Elliott Wave International, said it is about studying the way crowds behave as it relates to buying and selling stocks. The Dow Theory, which predates the Elliott Wave Theory, claims that markets move in primary and secondary trends, though without Elliott's complex wave structure.Fibonacci retracement tools often complement Elliott Wave analysis since both examine how markets tend to pull back to predictable levels. Traders frequently use these in combination, as Elliott himself argued that his wave patterns often reversed at Fibonacci ratios. Elliott Wave Theory offers one of the first major frameworks to try to get a chart-based understanding of market psychology through recurring patterns. However, it requires careful application. While its fractal approach provides some insight into how investor sentiment drives price movements, the theory's subjective nature makes it more suitable as an added tool on the side. More experienced practitioners use Elliott wave analysis with technical indicators and fundamental analysis, treating wave patterns as one of many inputs into their trading decisions rather than relying on them exclusively.