

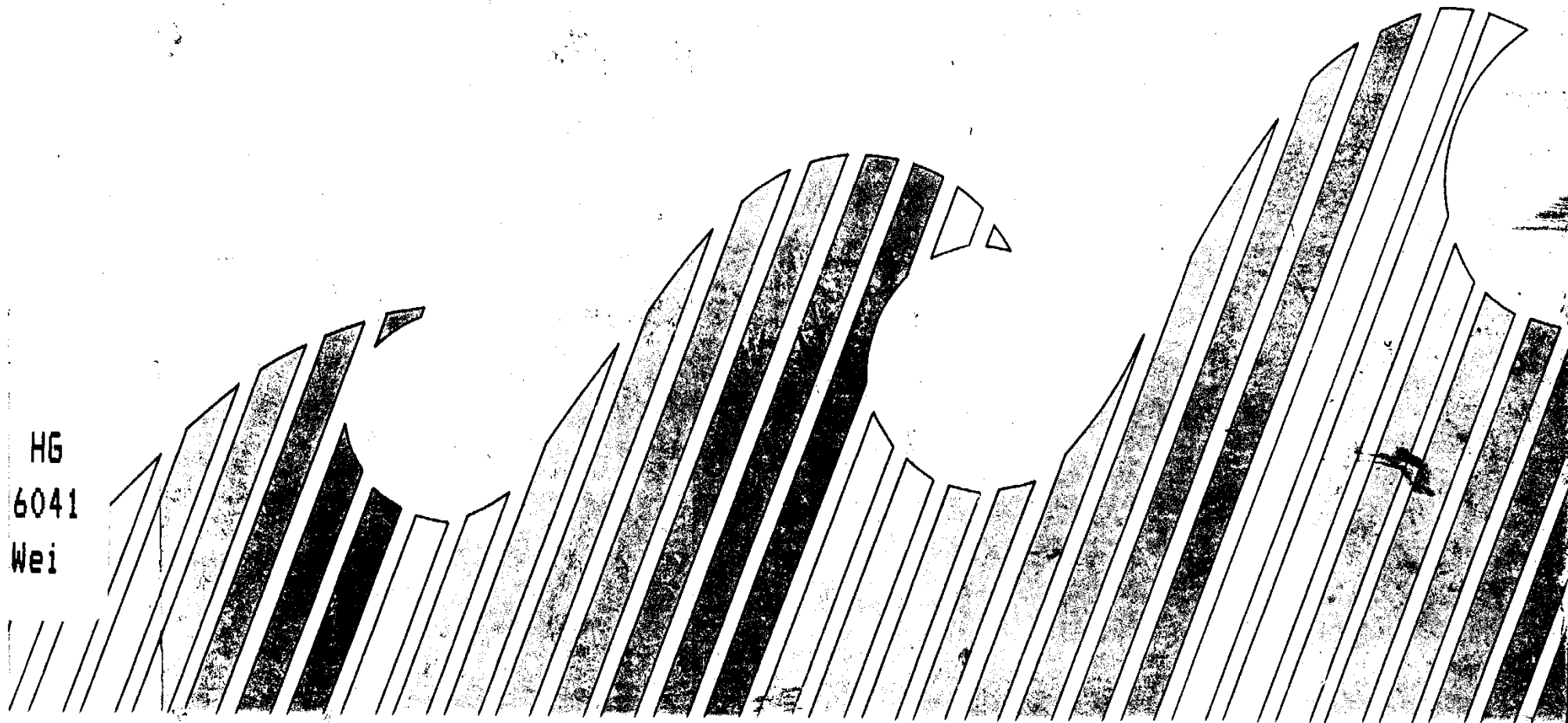
TRADING WITH THE ELLIOTT WAVE PRINCIPLE

A PRACTICAL GUIDE

BY DAVID H. WEIS

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Acknowledgments

My debts for this book go back almost twenty years to my first reading of R. N. Elliott's articles in *Financial World*. I want to thank my long-time friend and colleague, Stuart Pahn, for having introduced them to me. I must also thank Maury Strauss, who opened the door on the world of technical analysis for me.

I have been writing about markets for a wide audience of readers since 1978. Their support of my analytical work is deeply appreciated. I am especially grateful to the readers of my market letter, *Technical Forces*, who have enabled me to publish this book.

My wife, Karen, has been a full-time partner in this endeavor. I am forever indebted to her for the book's entire layout, design, and editing.

The price charts in this text were created with *Profits!* from Button•down Software, 172 Donegal Avenue, Newbury Park, California 91320.

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Table of Contents

Introduction	2
How Did This Book Come About	2
How Is This Book Arranged	3
Who Should Read	3
Part One: Preliminary Information	4
Guidelines for Wave Counting	4
Formulas for Projecting Tops and Bottoms	5
The Given	6
Elliott Wave Notation	6
Part Two: Analyzing the Trading Range	8
Part Three: The Exercise	16
Part Four: Recap	158
Summary of Trading	158
Review of the Exercise	158
Alternate Counts	159
En Passant	159



Introduction

Trading with the Elliott Wave Principle is like playing a game of chess. Successful chess players devise a logical combination of moves and counter-moves in advance of the actual play. As the opponent makes defensive maneuvers, the line of attack is altered. The same is true in applying the Wave Principle to price movement, however, in this instance, the opponent is the market. As prices unfold on a chart, traders who use Elliott Wave must be aware of the possible wave counts at every turn in a market. Success hinges on one's ability to maintain an unbiased readiness to make necessary revisions in the count. The logic of the Wave Principle enables traders to anticipate the most probable course of events. This sense of logical anticipation is the essence of trading with the Wave Principle. As in chess, *it is learned only through practice.*

The purpose of this book is to provide an avenue for practicing wave counting and trading with the Elliott Wave Principle. Many texts explain the rules of the Wave Principle, but studies in its practical application have been neglected. This work is the first of its kind to focus on the practical side of Elliott.

How Did This Book Come About?

Trading with the Elliott Wave Principle was written in response to the two most frequent complaints about the Wave Principle: "I've read all the books and Elliott makes sense on paper, but I can't count the waves on my charts" and "There are always so many alternate wave counts, I don't know when to make a trade!"

*I learned not to fear infinity,
The far field, the windy cliffs of forever,
The dying of time in the white light of tomorrow,
The wheel turning away from itself,
The sprawl of the wave,
The on-coming water.*

—Theodore Roethke, *The Far Field*

Many traders read Elliott's work or a secondary source expecting to use the Wave Principle immediately to make money in the markets. Such unrealistic expectations are the first steps toward financial suicide. You must have a solid grasp of the rules and sufficient *experience* to make an incisive analysis. This book will give you added experience and an opportunity to compare your analytical and trading skills with those of a leading Elliott Wave technician.

How Is This Book Arranged?

Part One reviews the basics of wave counting and the Fibonacci ratios used in projecting price movement. In this section, you are shown a chart of a six-month trading range. It is the starting point of a lengthy Elliott Wave exercise which continues in Part Three. An indepth analysis of the trading range is presented in Part Two. Less experienced Elliott Wave students should read this analysis thoroughly. The exercise in Part Three consists of seventy days of price action unfolding one day at a time. *It is important that you progress through Part Three one page at a time and not look ahead. This is the only way to preserve real-time trading/analytical conditions.* Commentaries accompany the charts in the seventy-page exercise. They describe the thought process behind a real-time wave analysis and include a discussion of wave form, alternate wave counts, reference to specific rules of the Wave Principle, retracement guidelines, and mathematical projections. As the market approaches logical turning points, trading strategies are presented in the commentaries.

Part Four is a recap of the trading, a review of the preferred wave count, and a discussion of other ways the chart could have been analyzed.

Who Should Read *Trading with the Elliott Wave Principle*?

During the last fifteen years, the Wave Principle has grown in popularity because of its proven usefulness in forecasting stock, bond, and commodity prices. The number of books, articles, and market letters that focus on the Wave Principle has increased over fifty fold. This book is directed toward those newcomers to the Wave Principle who know the basics but need more experience and guidance. It will also appeal to the more experienced traders or investors who want to sharpen their wave-counting and trading skills. Even the most sophisticated Elliott Wave practitioners will find the real-time exercise included here an entertaining and challenging one.

PART ONE

Preliminary Information

Many Elliott students believe that "correct" wave counts can be made only from hourly readings. I prefer working with intraday and daily bar charts. Hourly line charts often filter out the precise highs and lows in an impulse or correction. Mathematical projections that are calculated using exact highs and lows are more apt to pinpoint future turning points in an impulse or corrective wave. Also, most traders do not have access to hourly data; instead, they rely on daily, weekly, and monthly bar charts. The Wave Principle can be applied to bar charts with excellent results. The exercise in this text centers around a daily bar chart.

Figure 1 is an example of how to make wave counts on a daily bar chart. They are constructed from the high, low, and closing prices. I rarely consider the opening price. Figure 1 depicts a simple five-wave impulse. In this upmove, minor wave 1 subdivides into five waves of minute degree. From the top of wave 1, an irregular correction developed. The mid-range closing after wave 1 peaked is labeled the a-wave in this pattern. The rest of the wave structure is visible without integrating the closing prices into the pattern.

Guidelines for Wave Counting

The list below summarizes the basics of wave counting. You should keep these guidelines in mind while working through the exercise.

- Wave three should not be the shortest wave in an impulse.

*To see a World in a Grain of Sand
And a Heaven in a Wild Flower
Hold Infinity in the palm of your hand
And Eternity in an hour*
—William Blake, *Auguries of Innocence*

5, 9, 13 - Impulse wave
 3, 7, 11 - corrective wave

- Wave four of one degree should not overlap with wave one of the same degree (at least on a closing basis).
- Wave two cannot bottom below the beginning of wave one (of the same degree).
 At pt O
- Make wave counts that contain alternation between corrective waves of the same degree.
- Extensions often occur in wave three which makes it the impulse of greatest gain and acceleration. Tailor your count so that wave three is the largest impulse. Revise if necessary.
- In wave five, watch for a diagonal triangle in which waves one and four overlap. Each wave in a diagonal triangle subdivides into three parts. Wave "c" (of any degree) can evolve into a diagonal triangle also.
- Never rule out the possibility of a fifth wave failure. Failures are most common on intraday charts.
- Triangles can occur in fourth waves, "b" waves, and "x" waves of any degree.
- When looking over a move on the chart, count the broadest swings first. If they total 5, 9, or 13, the pattern is an impulse wave. Dissect the waves to see if a fit can be made.

- If the broad swings total 3, 7, or 11, they form a corrective wave.
- Remember that wave counts usually have to be adjusted as a move unfolds.

Formulas for Projecting Tops and Bottoms

In a five-wave pattern, calculate the end of wave three by multiplying 1.618 x the length of wave one. Wave five is projected by multiplying .618 x the distance from the beginning of wave one to the end of wave three. There are occasions when wave five is 1.618 x the above distance. Another relationship for wave five is that it may equal the distance from the beginning of wave one to the end of wave three. When wave three is extended, wave five may equal the length of wave one.

In a zig-zag correction, wave "c" is often 1.618 x the length of wave "a". In larger zig-zags, wave "c" may be 2.618 x the length of wave "a". There are occasions when wave "c" equals the length of wave "a".

In an irregular correction, the length of wave "c" is often 1.618 x the length of wave "a". Wave "c" in an irregular correction should retest or exceed the end of wave "a". When working with bar charts, the **closing** at the end of wave "c" should be equal to or below the closing at the end of the "a" wave.

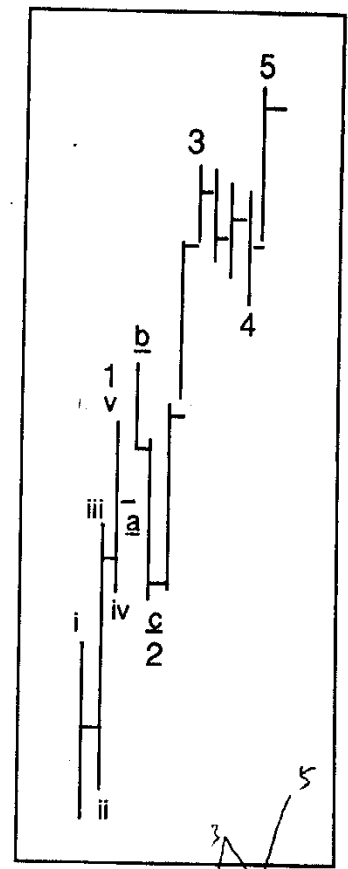
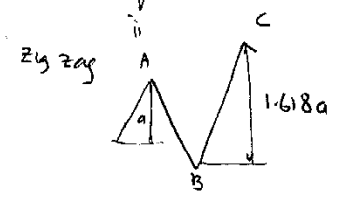
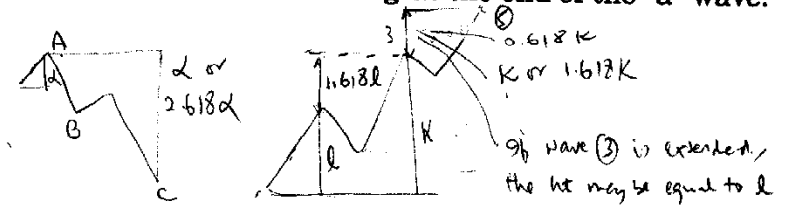


Fig. 1



The Given

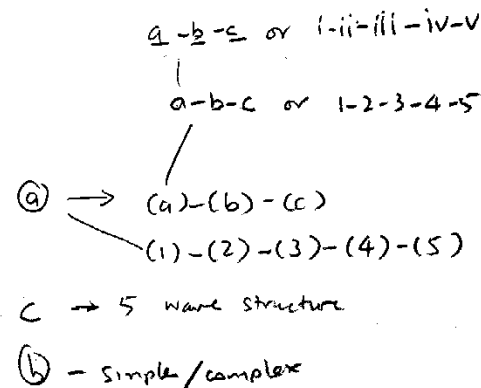
The real-time study begins with the daily bar chart on page 7. The price action is taken from a real market situation. The market is not identified so there can be no preconceived notions about its course. You should analyze the chart and determine whether a long, short, or neutral position is warranted. *The low in the lower left corner is the bottom of cycle wave I or III within a larger downtrend.* No other background information is provided.

To facilitate your study of the trading range, prices have been placed on the chart at the turning points. Construct at least one wave count that will help you determine whether to buy, sell, or stand aside. If you need help in analyzing this trading range, read Part Two carefully. Otherwise, move directly to Part Three on page 16 where the market will begin to unfold one day at a time.

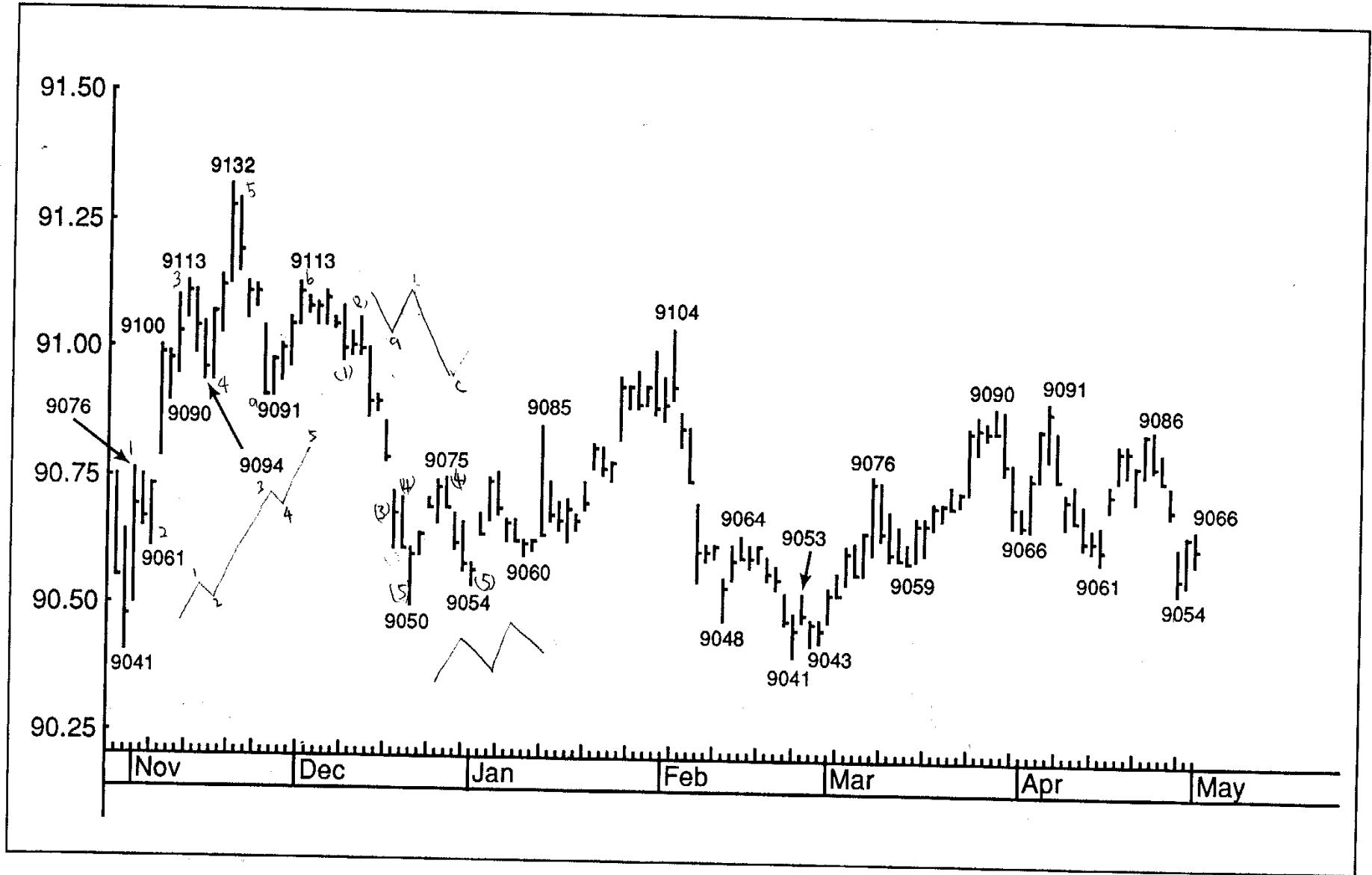
Elliott Wave Notation

Elliott devised a system of symbols, or notation, for labeling waves of different degrees. The basic guideline in labeling is that the components of an impulse or a correction are always of a smaller degree. In the section above, it is stated that cycle wave I or III has bottomed. This means that a cycle-wave correction is underway. It will be composed of at least three primary waves which are labeled as an (a)-(b)-(c) formation. Wave (a) can subdivide into intermediate waves (a)-(b)-(c) or (1)-(2)-(3)-(4)-(5). Every "c" wave, regardless of its degree, contains a five-wave structure. Wave (b) can be simple or complex, but its basic components

are labeled (a)-(b)-(c). Within an intermediate (a)-(b)-(c) formation, the (a)-wave subdivides into a minor a-b-c or 1-2-3-4-5 pattern. The basic components of a (b)-wave are the same a-b-c pattern. In minor a-b-c patterns, the a-wave may break down into minute waves a-b-c or i-ii-iii-iv-v. The b-wave is composed of the basic a-b-c pattern. On daily charts, I do not include a notation for the components of wave b; however, the symbols .1-.2-.3-.4-.5 are used to denote the five-wave structure in waves a and c whenever they are visible. Where it is necessary for clarity, minor waves are shown inside quotation marks in the text (i.e., "a", "b", "c"). Quotation marks may also be used in the text to refer generally to waves a, b, and c of any degree as in the statement above regarding "c" waves.



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PART TWO

Analyzing the Trading Range

To determine a wave count that encompasses almost six months of price data (see Figure 2), we begin with its broader elements and work down to the smaller details. A cycle-wave correction began from the October low. It is either wave II or wave IV. The larger elements in this correction will be labeled as an (a)-(b)-(c) pattern. Since the purpose of wave counting is to locate low risk trading opportunities, try to identify a *plausible* wave count that appears to be near completion. There may be several interpretations. Looking at this chart for the first time, we can make the following observations about its general appearance:

- The rally from 90.41 to 91.32 can be counted as an (a)-wave with a five-wave structure.
- From the high at 91.32, a series of three-wave swings have unfolded. This price action is at least part of a (b)-wave that corrects the impulse from 90.41 to 91.32.
- After the decline from 91.32 to 90.50, the amplitude of the price swings has narrowed. This suggests the presence of a contracting triangle within the (b)-wave.
- There is a possible fifth wave failure on the second decline to 90.41 (February).

The next step is to examine the details of the rally from 90.41 to 91.32. You should look for correct form and any mathematical relationships that corroborate the wave count. There are two valid interpretations; both are diagramed in Figure 3.

*In a minute there is time
For decisions and revisions which a minute
will reverse.*

—T. S. Eliot, *The Love Song of J. Alfred Prufrock*

Fig. 2 The Broader Elements

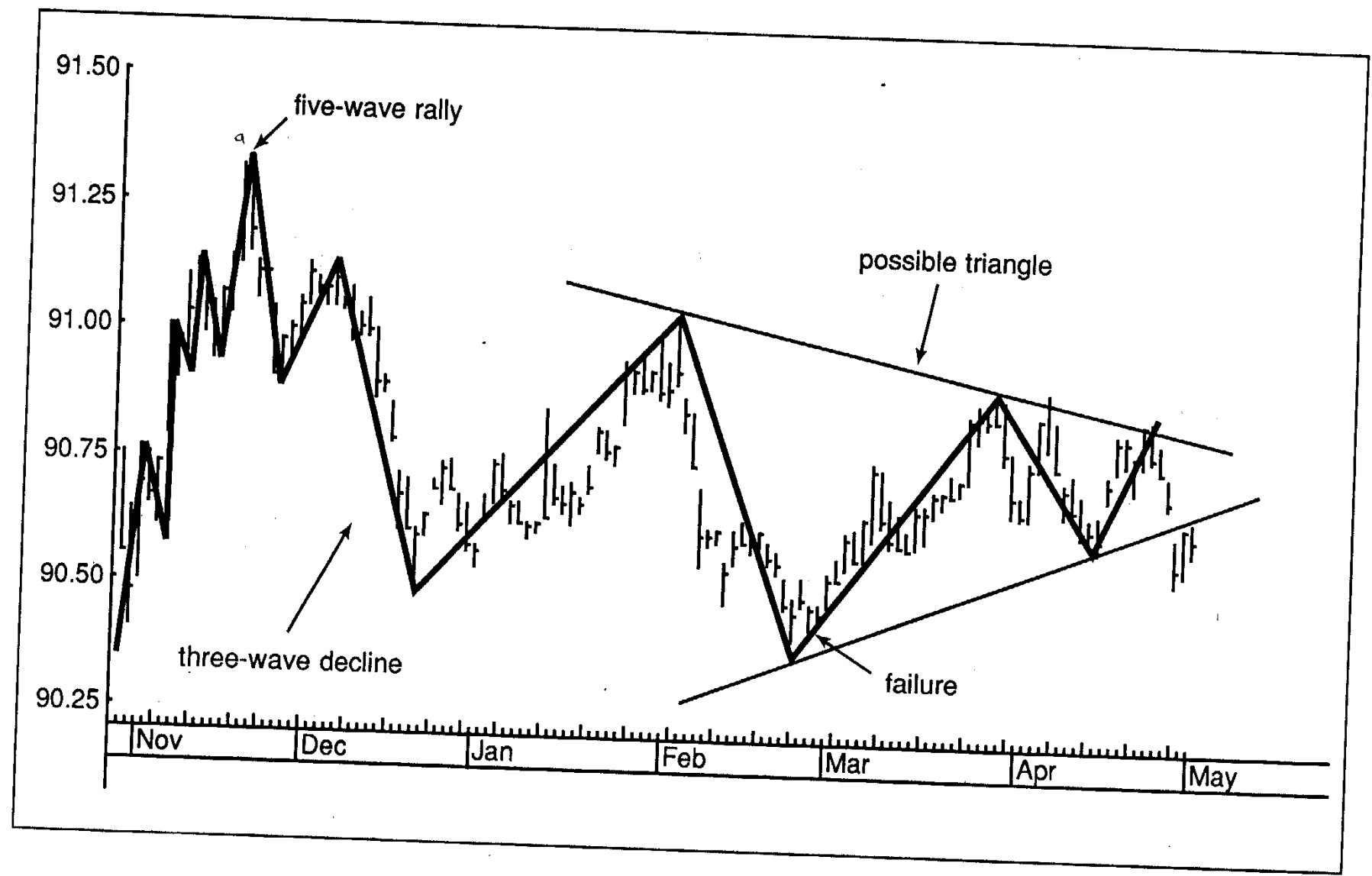
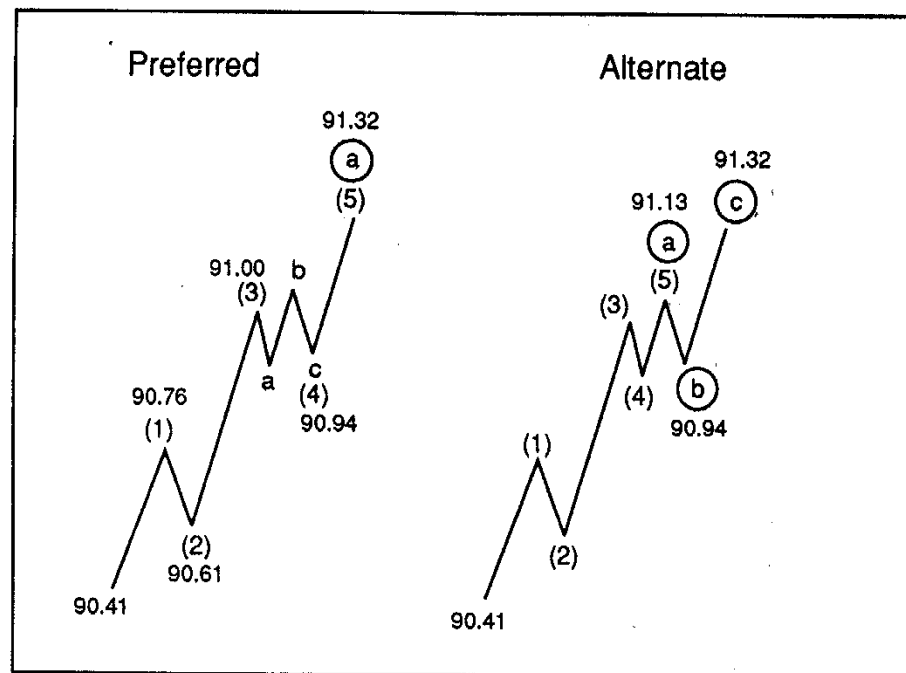




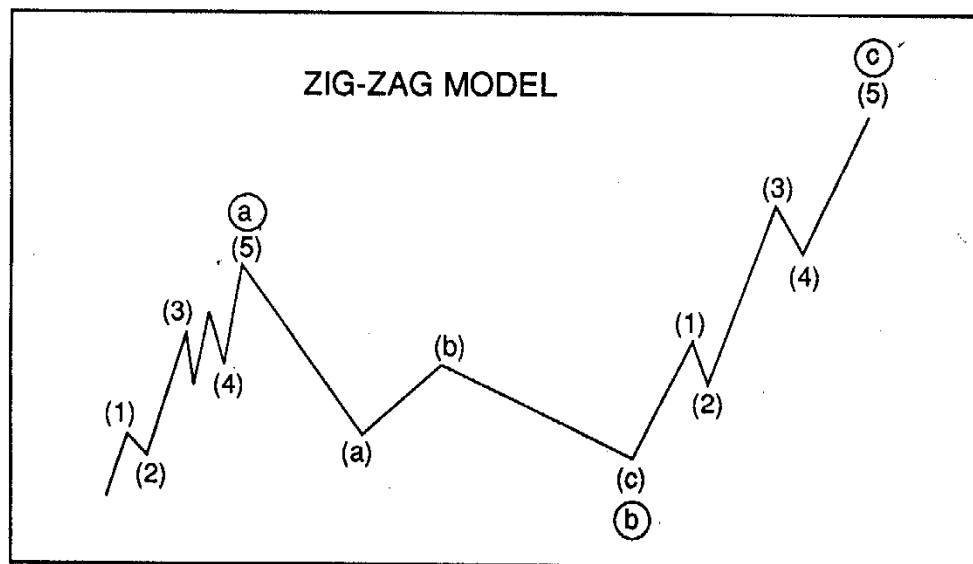
Fig. 3



The five-wave pattern in the preferred count offers greater bullish potential as it indicates a zig-zag is unfolding from the October low. In this rally, wave (3) is the largest, waves (1) and (5) are equal in length, and waves (2) and (4) satisfy the Rule of Alternation. This rule states that corrective waves of the same degree should ideally have different wave patterns. Wave (2) is a simple zig-zag; wave (4) is an irregular flat. The closing price at the bottom of the "c" wave in the irregular correction is below the closing price at the bottom of the "a" wave. The Fibonacci target for the top of wave (5) is 91.30. It is calculated by multiplying .618 x the distance from the bottom of wave (1) to the top of wave (3).

As illustrated here, the rally from 90.41 to 91.32 can be counted as a complete zig-zag. The difference between the two interpretations lies in the labeling of the correction from 91.00. Since they are both valid, the deciding factor is the mathematical symmetry within the preferred count. In a zig-zag, wave "c" is often equal to the length of wave "a". Wave "c" can be 1.618 or 2.618 x the length of wave "a". None of these relationships exist within the alternate count.

Fig. 4



Based on the preferred count in Figure 3, we believe a zig-zag is unfolding. The (c)-wave will also have a five-wave structure. Once the bottom of wave (b) is determined we can make projections for the top of wave (c) with the 1.618 and 2.618 ratios. This zig-zag may become part of a more complex formation, but we should begin the analysis and trading with the basic pattern shown in Figure 4.

Next, we must identify the wave pattern unfolding in the (b)-wave so that we can find a low-risk entry point for going long. A (b)-wave in a zig-zag can be simple or complex. Almost any corrective formation or combination of formations can occur in this position. We have already observed a possible contracting triangle that contained the price movement from December (90.50) to April (90.86). This may be one element of wave (b). Let's examine the triangle to see if it adheres to the rules of the Wave Principle.

As outlined in Figure 5, this triangle has the necessary five legs and each subdivides into a three-wave pattern. (The diagrams in this text

are not drawn to scale. They depict basic form and do not include the more minute details.) The e-leg is allowed to extend beyond the boundaries of the triangle; however, it should not exceed the top of the c-leg. The d-leg is an irregular flat in which its b-wave exceeds the top of the c-leg. This does not break the rules because it is the *turning points of the triangle that must remain inside the trend lines*. The alternating legs of a triangle are ideally related by the .618 ratio. In the triangle diagrammed below, the d-leg and e-leg come closest to adhering to this relationship. Using the triangle as a component in a complex (b)-wave, we now have to identify the total formation unfolding from 91.32.

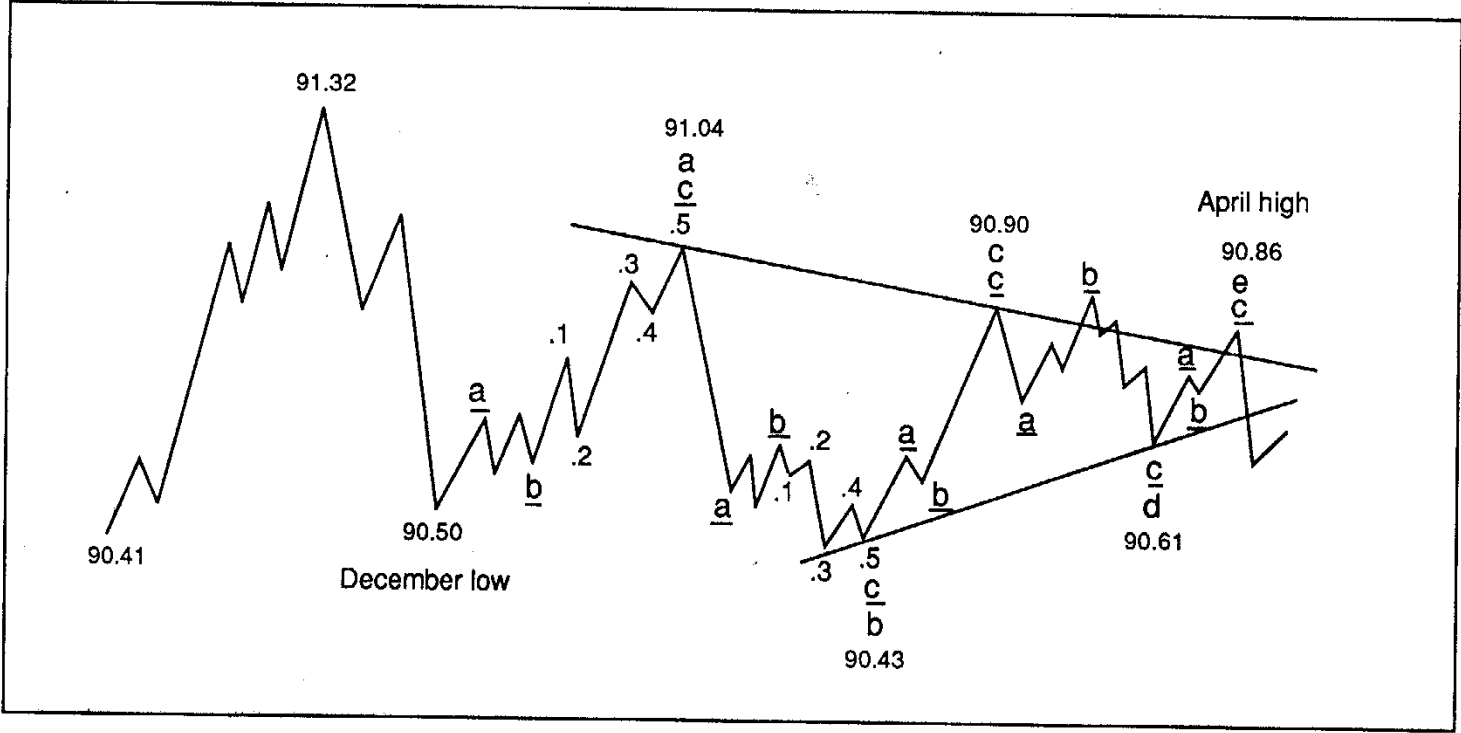


Fig. 5 The Triangle

COMPLEX (b)-WAVE CORRECTIONS

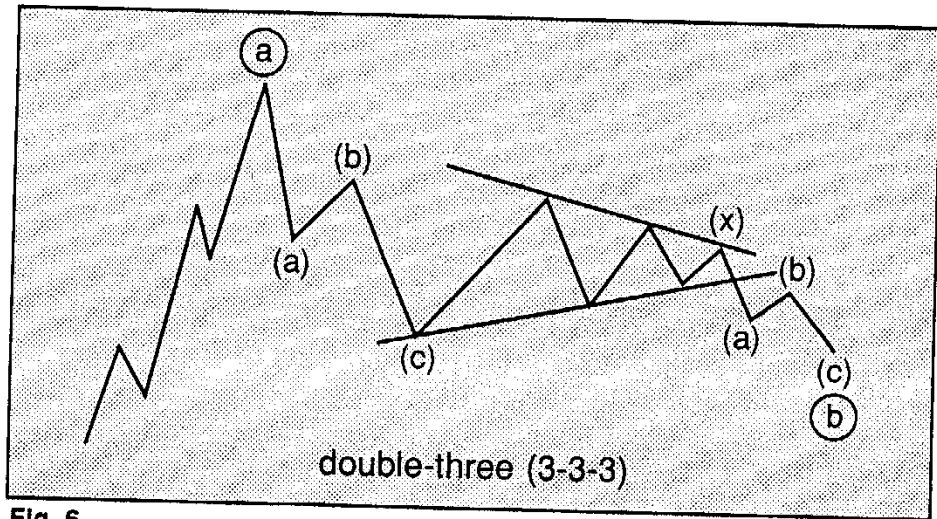


Fig. 6

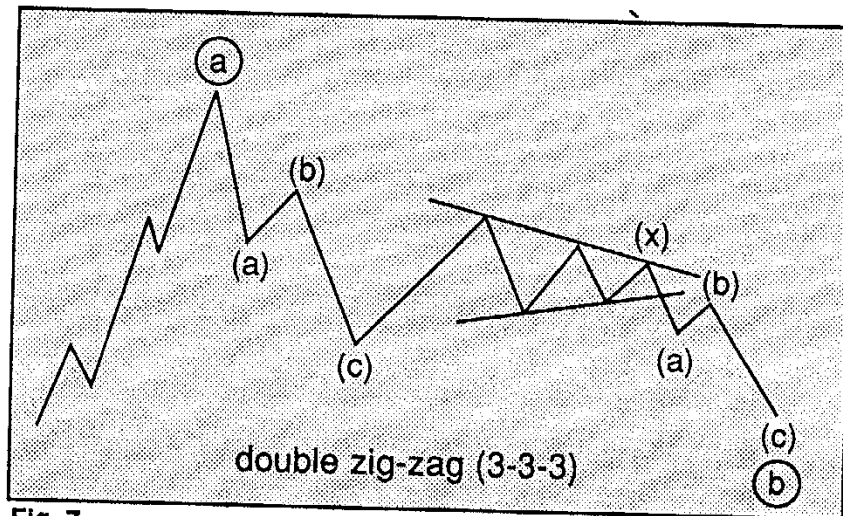


Fig. 7

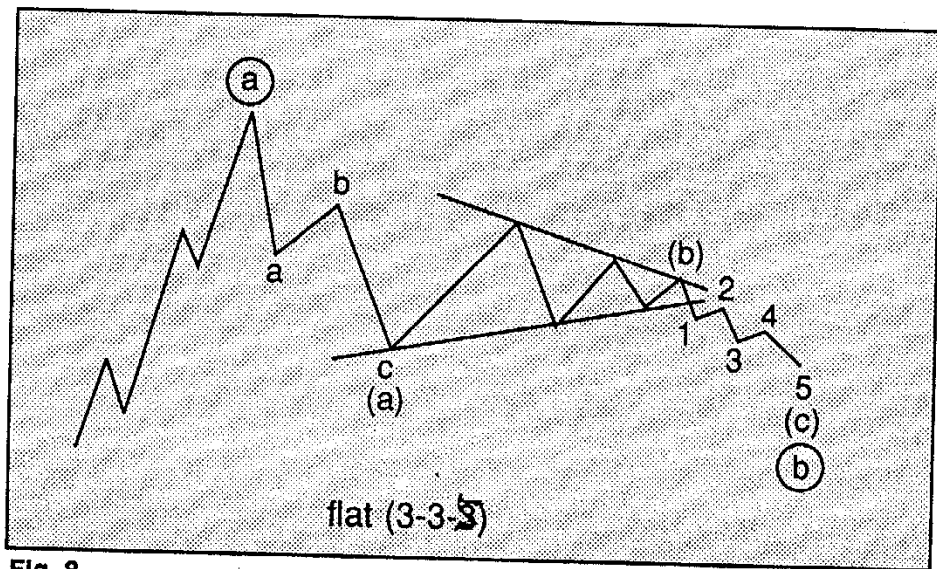


Fig. 8

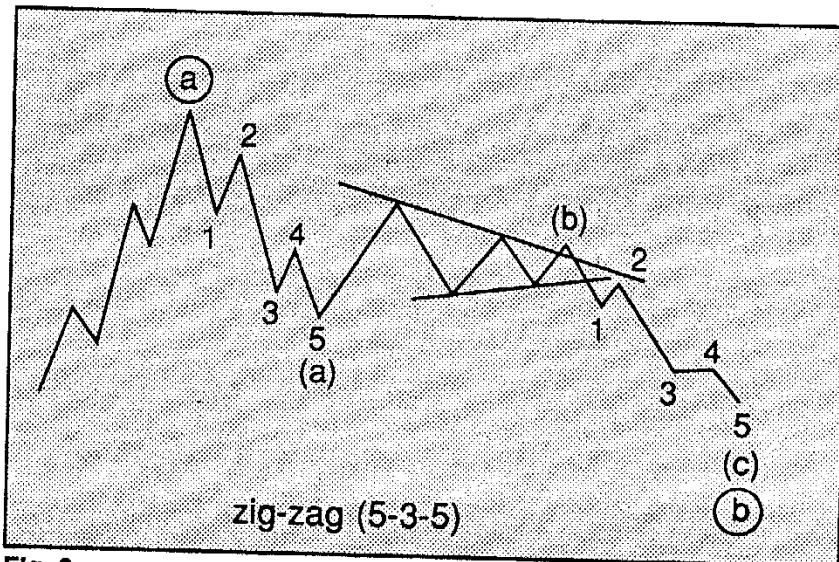


Fig. 9

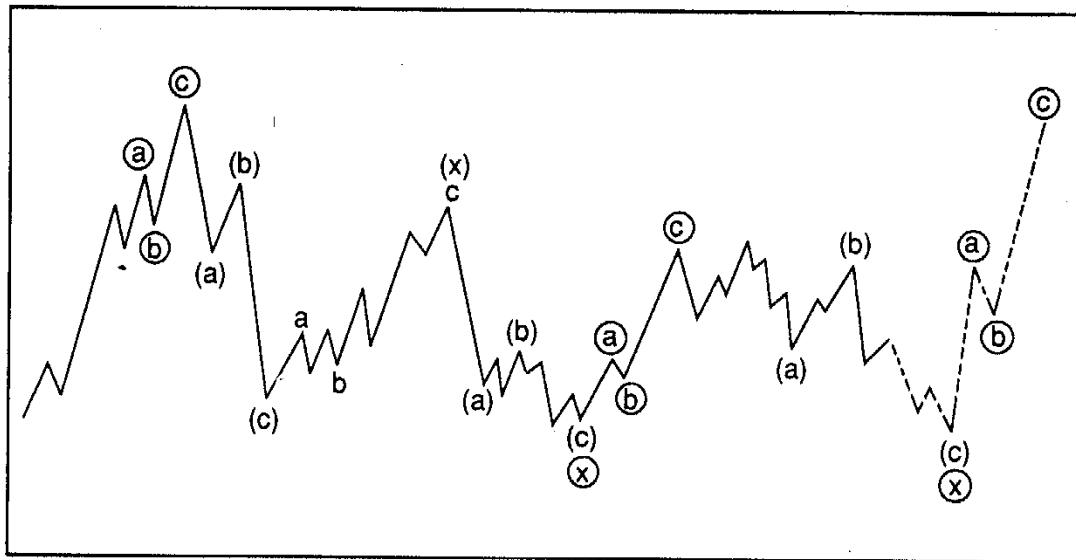


Fig. 11
Triple-Three Correction

In Figure 12, I have presented the details of the wave count for the trading range. As already discussed, the entire corrective pattern is expected to be an (a)-(b)-(c) zig-zag. The (a)-wave is counted as a five-wave move. The (b)-wave is a complex formation that has evolved over the course of five months. If we had been studying this market during the decline from 91.32, we might have viewed the low in December (90.50) as the bottom of the (b)-wave. The Fibonacci target for the bottom of this decline is 90.47 in which wave (c) is 1.618 greater than the length of wave (a). At the failure low in late February, we might have deduced that wave (b) was a double zig-zag. The wave structure within the February-March rally to 90.90 would have warned us that the correction was incomplete. At that point, the idea of a triangle would have emerged as a possibility.

The first down-swing from 91.32 to 90.50 was an easy move to dissect. The subsequent rally from 90.50 to 91.04 would have been more difficult because of the aberrant price action on January 12. This upmove can be counted as a double zig-zag, but its mathematical symmetry better supports the interpretation that a simple zig-zag occurred. In this formation, wave c peaked four points above the Fibonacci target derived by multiplying 1.618 x the length of wave a and adding the product to the bottom of wave b. The decline from 91.04 to the failure low (90.43) is self-explanatory. If minuette waves .1 and .2 are excluded from the wave count, the downmove from 91.04 to 90.41 is a double zig-zag. (The first a-b-c would bottom at 90.48.) This would remove the need to include a fifth-wave failure. If we had been counting the downmove from 91.04 on a day-to-day basis, we might have considered the double zig-zag; however, the subsequent price action would have forced a revision. If we rule out the failure, the rally from 90.41 to 90.90 looks like a five-wave impulse. As I see it, the difficulty lies in the upmove from 90.43 to 90.76. If we include all the waves in this phase of the rally, it subdivides into a seven-wave move which does not fit an impulse. The c-leg of the triangle is best counted as a double zig-zag. Notice that the two zig-zags in this structure are almost equal in length. Wave c in the d-leg bottomed eight points above the Fibonacci target of 90.53. It is calculated by multiplying 1.618 x the length of wave a and subtracting the product from the top of wave b. As mentioned on page 11, the alternating legs of a triangle are related by the .618 ratio. The lengths of the last two legs closely adhered to this relationship.

According to the rules of the Wave Principle, a triangle *within* a corrective formation is either a (b)-wave or an (x)-wave. These are illustrated in Figures 6 through 9.

We can immediately rule out the zig-zag shown in Figure 9 because the decline from 91.32 to 90.50 is *not* a five wave structure. Among the remaining three possibilities, the flat in Figure 8 is a less likely choice because the (b)-wave has not ended near the top of wave (a). This leaves us with two choices: a double three and a double zig-zag shown in Figures 6 and 7 respectively. Both have a 3-3-3 structure (a triangle is composed of three's and is referred to as a three-wave correction). The only difference in these structures is that one is horizontal and the other is slanted. If the decline from 90.86 penetrates 90.50 [the bottom of the first (a)-(b)-(c)], the correction from 91.32 is a double zig-zag. If the decline does not penetrate 90.50, the correction is a double three. If the decline penetrates 90.41, we will have to consider an alternate wave count. The rules of the Wave Principle indicate that the correction from 91.32 is approaching a point where a low-risk trade can be made. From 90.86, this market has declined to 90.54 and rallied to 90.66. The next decline may exceed 90.50, but not 90.41. We should go long on a penetration of 90.54 and protect at 90.40. I would purchase two contracts and try to establish a trading unit when we have more evidence that the (b)-wave has bottomed.

Before we begin tracking each day's developments, we should have some idea of the alternate counts. The bearish alternative treats the entire price

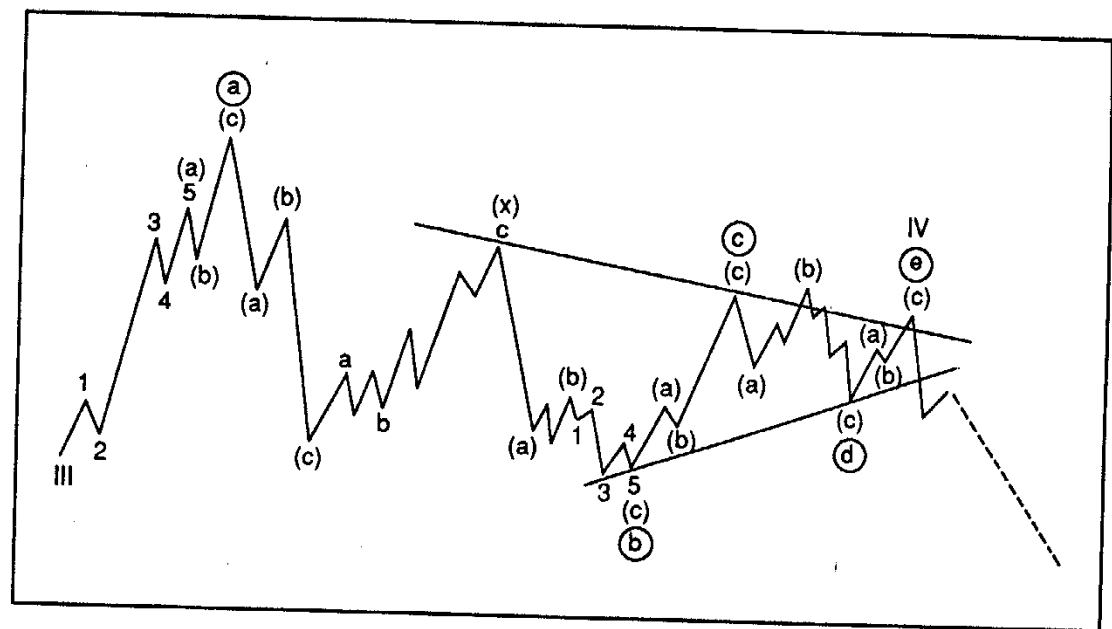
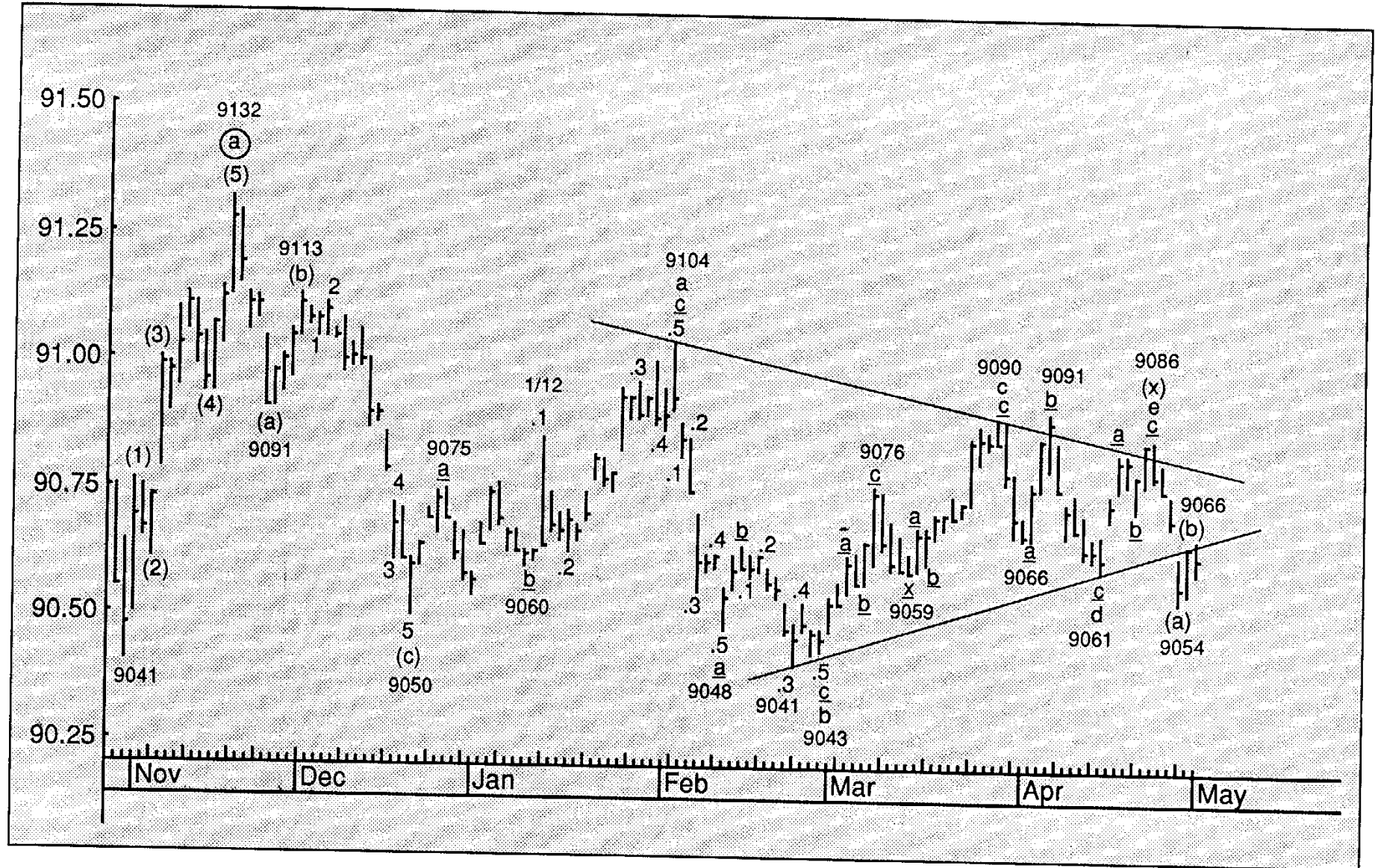


Fig. 10 Wave IV Triangle

movement from the October low as a contracting triangle. (Since triangles occur in fourth waves, this count implies that wave III bottomed in October.) To make this fit, we have to re-label the rally from 90.41 to 91.32 as a three-wave pattern. This count is shown in Figure 10. A break below 90.41 would confirm the bearish count.

It is also possible that the correction from the October low will form a broad horizontal formation as represented by the triple three in Figure 11. While this count allows for another rally, it will not cause a large move above 91.32. If the decline from 90.86 holds above 90.50, we may have to consider this less bullish possibility once a three-wave rally is complete.

Fig. 12 The Trading Range Analyzed



PART THREE

The Exercise

*Learn, lads, that Time has cycles and that
Fate has wheels and that the mind of man
sits high and twirls them round...*

—Nikos Kazantzakis, *The Odyssey, A Modern Sequel*

While working through this exercise, you should sketch a diagram of the wave pattern on a separate piece of paper. On this drawing, jot down dates and prices at the turning points, and keep track of your mathematical projections and wave counts. Every experienced Elliott Wave trader makes such diagrams. Time spent searching for prices, reconstructing wave counts and recalculating projections is shortened through the practice of diagraming. On each page, you will encounter the same chart but with one more day's price action included. That day's open, high, low, and close are printed on the chart. Nothing else is given. The last day of each week is plotted on a dotted, vertical line. Only trading days are plotted; holidays are omitted.

When a paper trade is warranted by the wave analysis, you may choose to go long or short on the opening of the next day. The opening prices are included so that you will know the price at which you entered the market. You may want to enter a position with a stop or M.I.T. (market if touched) order. All positions should be protected with a stop-loss order. Raise or lower stops at your own discretion. The value of a single point (or "tick") is not given. Trade as many contracts as you normally do and keep a record of the number of points gained or lost on each trade. Allow two points commission per contract.

Notes:



5/2 As discussed in Part Two, we will go long two contracts on a move below 90.54 and protect at 90.40. This trading strategy is based on the interpretation that a zig-zag correction of primary degree is unfolding from the October low. The October–November rally is the (a)-wave in this correction, and a complex (b)-wave has developed from the November high. It is either a double zig-zag or a double three formation. To complete either of these structures, a final three-wave decline is required. It began from the recent high at 90.86. If the downmove penetrates 90.50, but holds at or above 90.41, the (b)-wave will be counted as a double zig-zag. If the sell-off holds at or above 90.50, the (b)-wave is a double three. A decline below 90.41 will invalidate both wave counts; therefore, the protective sell stop is placed at 90.40. This strategy allows us to go long on weakness and risk only a few points.

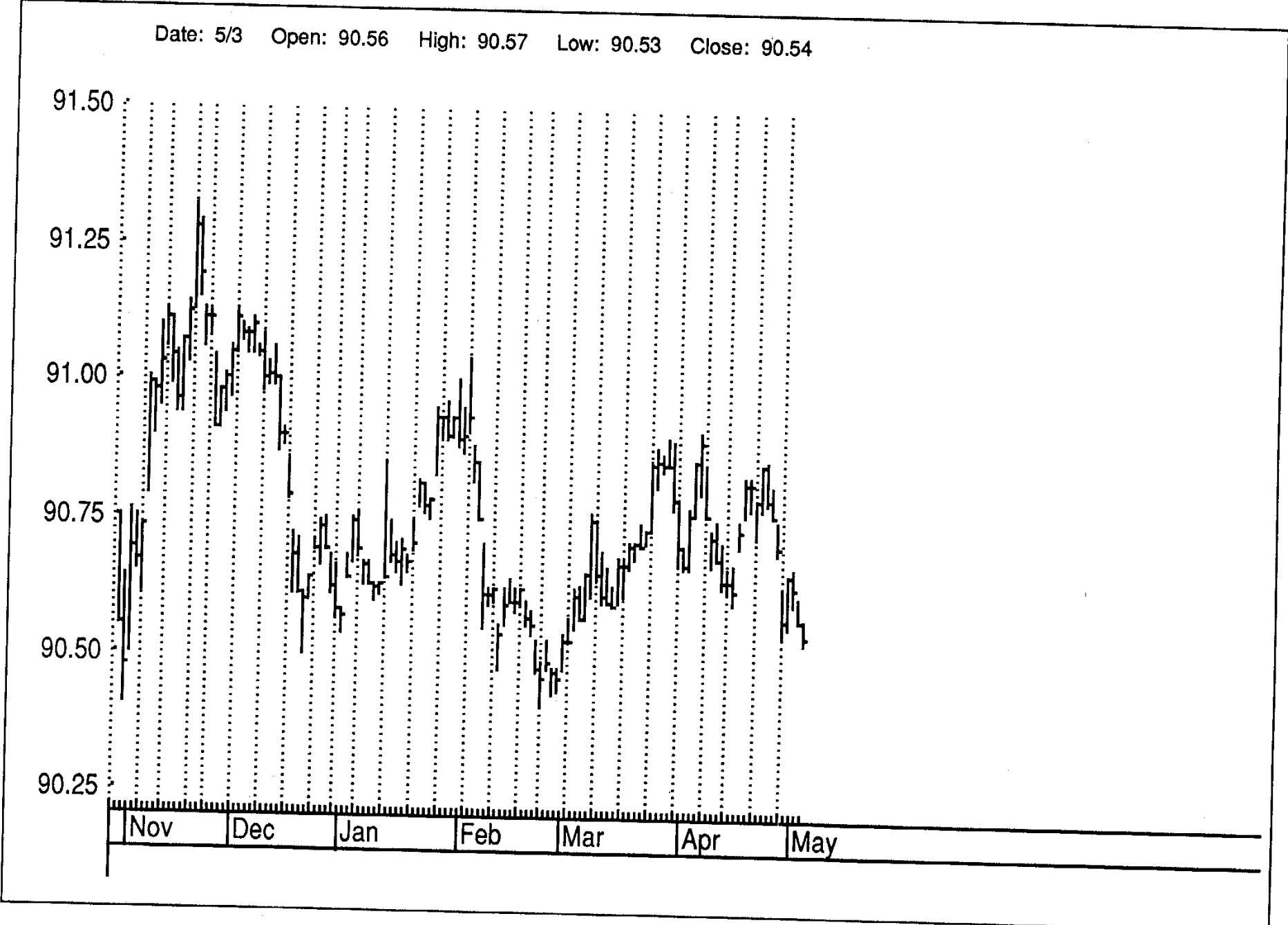
Date: 5/2 Open: 90.61 High: 90.61 Low: 90.56 Close: 90.57



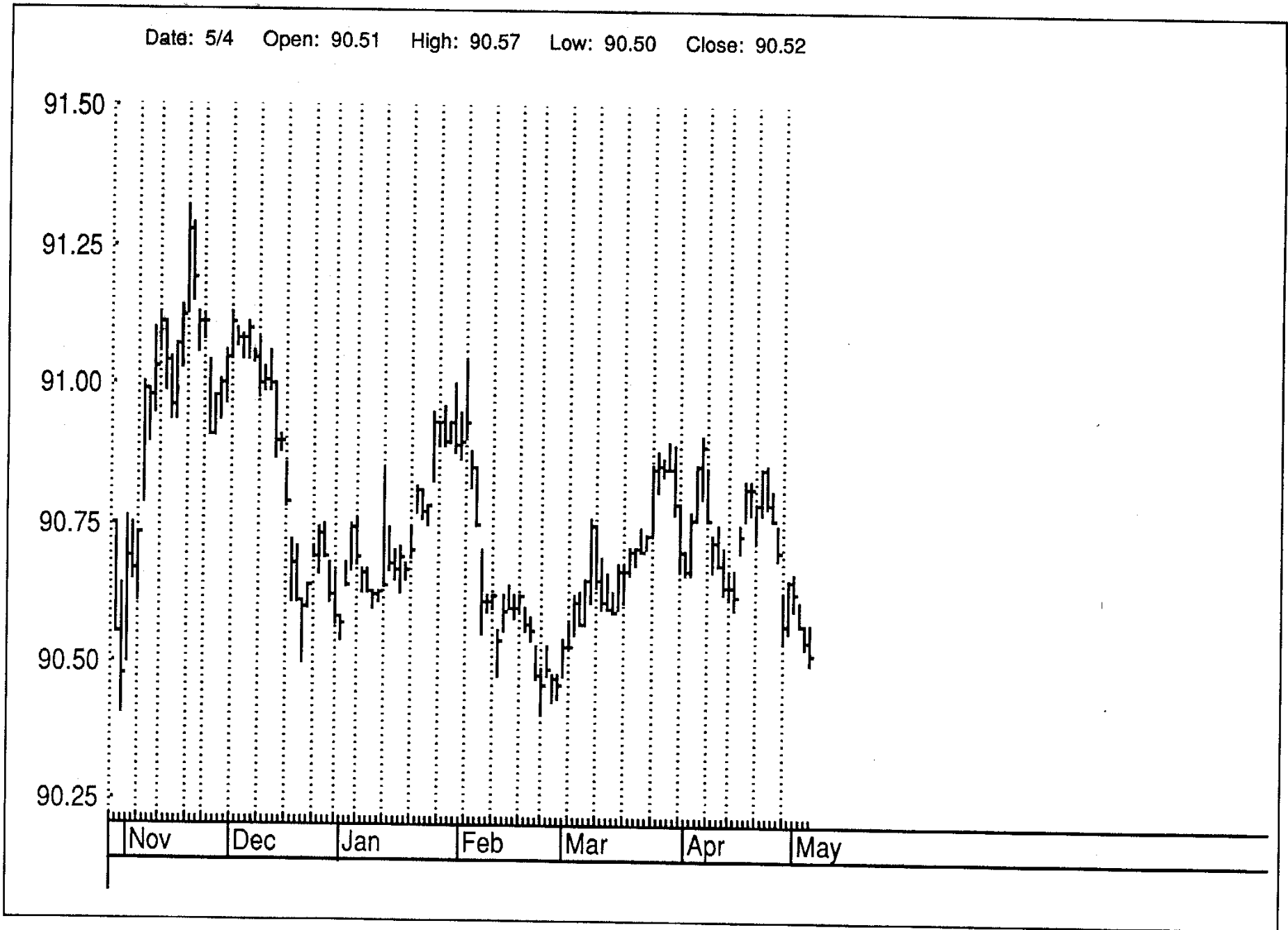
Nov	Dec	Jan	Feb	Mar	Apr	May
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5/3 The market penetrated 90.54 which puts us long two contracts at 90.53 with a sell stop at 90.40. The downwave from 90.86 has fulfilled the minimum requirements for a complete (a)-(b)-(c) zig-zag. This is the second three-wave decline within a potential double-three formation that began from the high at 91.32.

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5/4 The market declined to 90.50 today. If the downmove continues, the double zig-zag will become the preferred count.



5/7 Today's rally recovered the ground lost during the last two trading sessions. Based on the interpretation that the (b)-wave ended at 90.50, we should purchase an additional contract on the next day's opening and protect at 90.49. We will be adding near the breakdown point where risk is the least.

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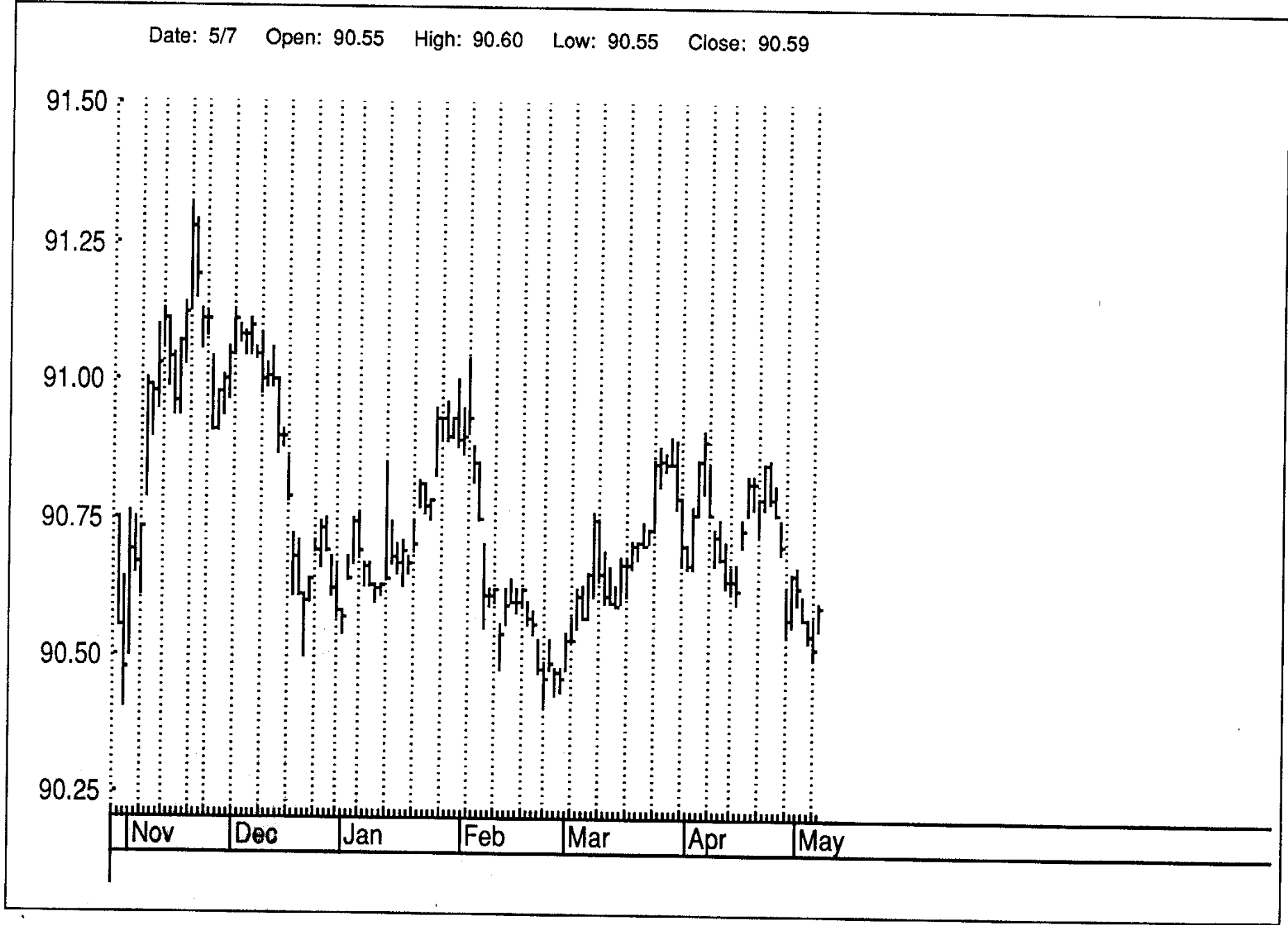
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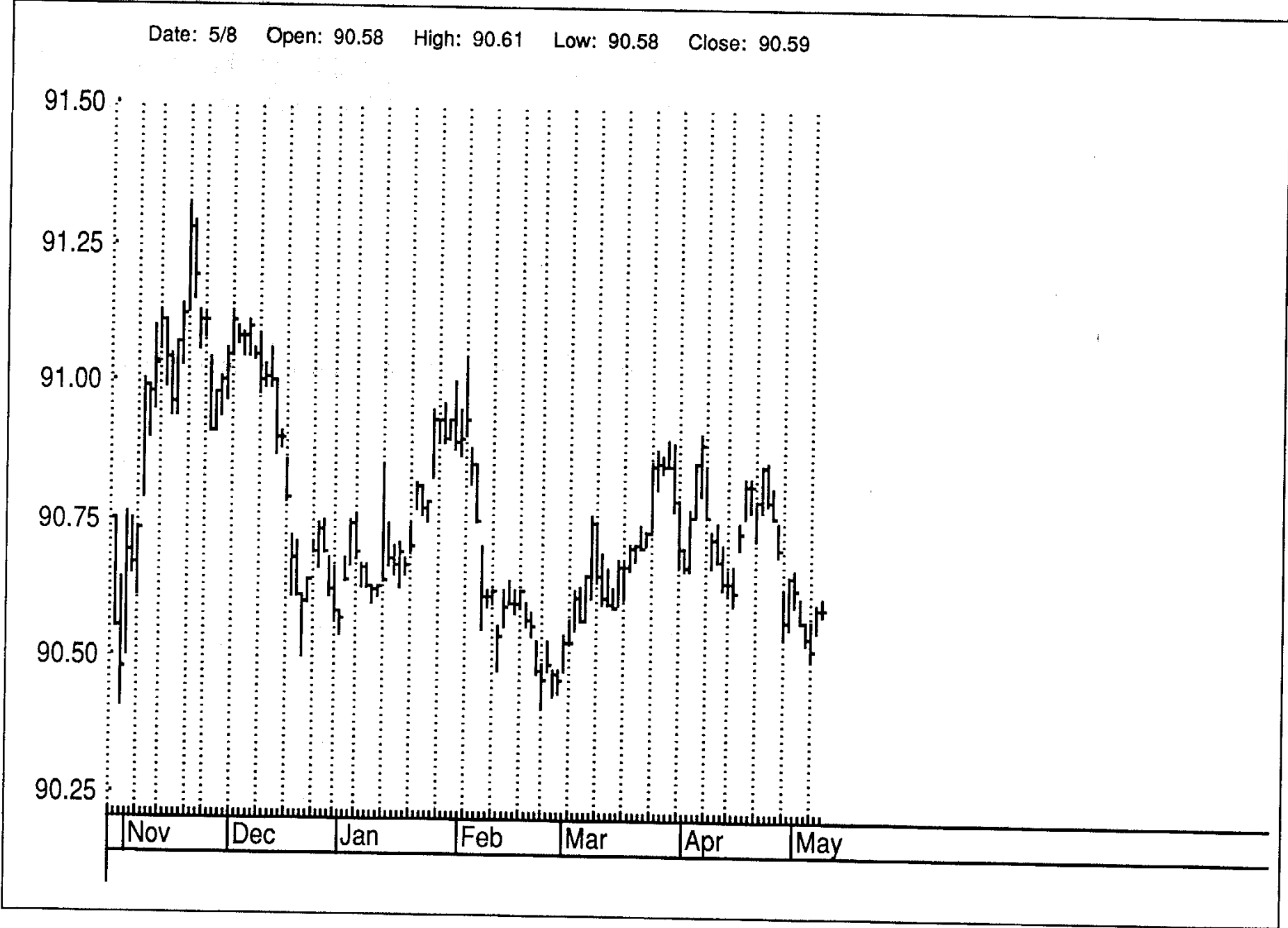
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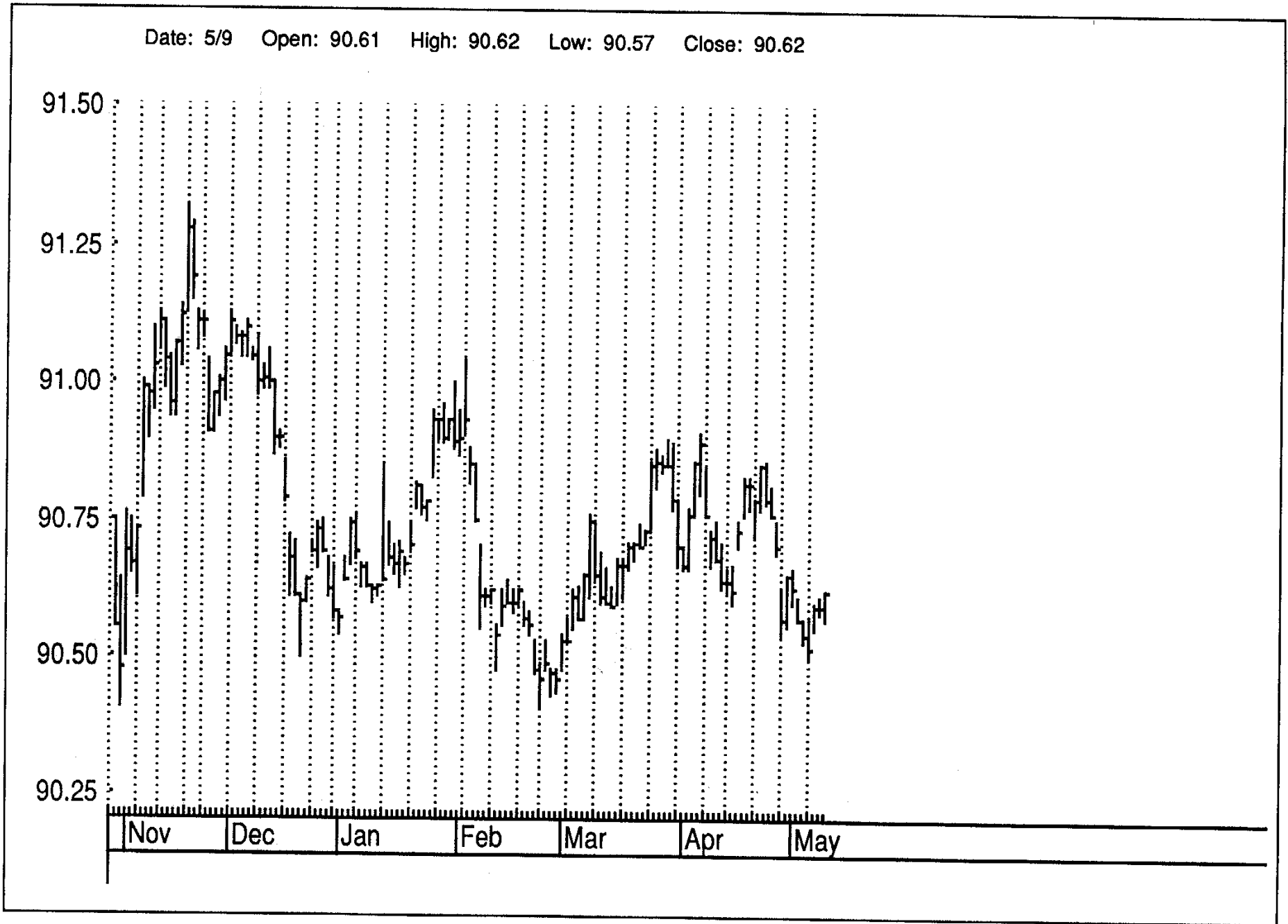


5/8 We purchased a third contract at 90.58. There was no follow-through after yesterday's rally, but the market remained steady. Prices now need to rally away from the danger point (90.50).



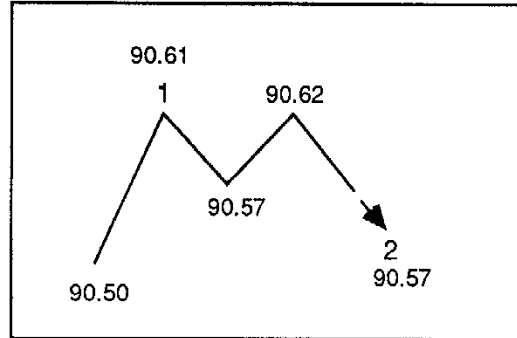
✓

5/9 Excellent price action. The market tried to sell off but reversed to close on a firm note. Assuming that wave (b) has bottomed, we have two targets for the top of wave (c). If wave (c) equals 1.618 x the length of wave (a), the rally will peak at 91.97. If wave (c) equals 2.618 x the length of wave (a), the larger target is 92.88. The average of these targets is 92.43.





5/10 Again there is no upside follow-through. The market is at the "do or die" point. If an impulse has begun from 90.50, we can label the rally to 90.61 (5/8) as wave 1 of (1). An irregular wave 2 may be unfolding from 90.61.



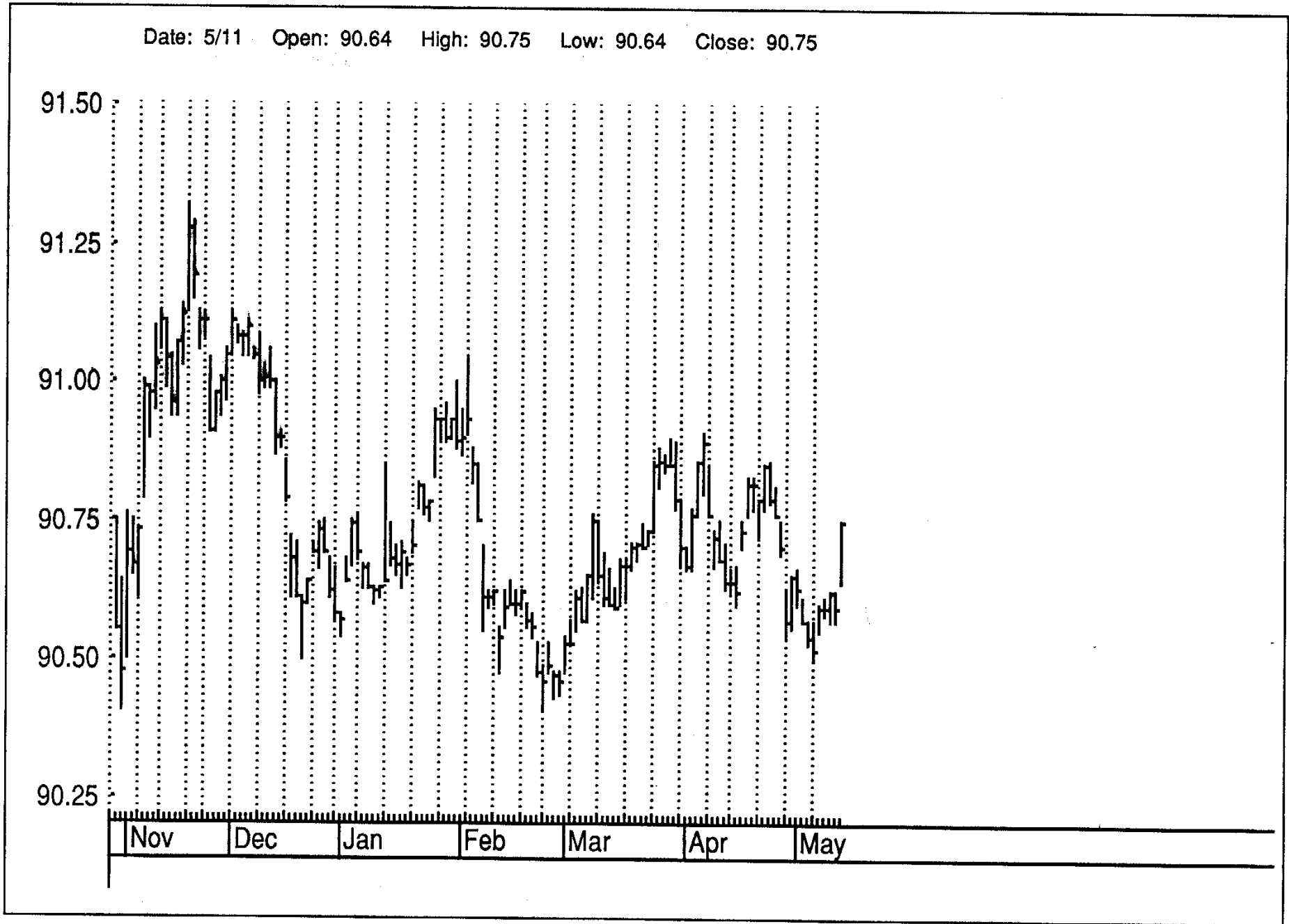


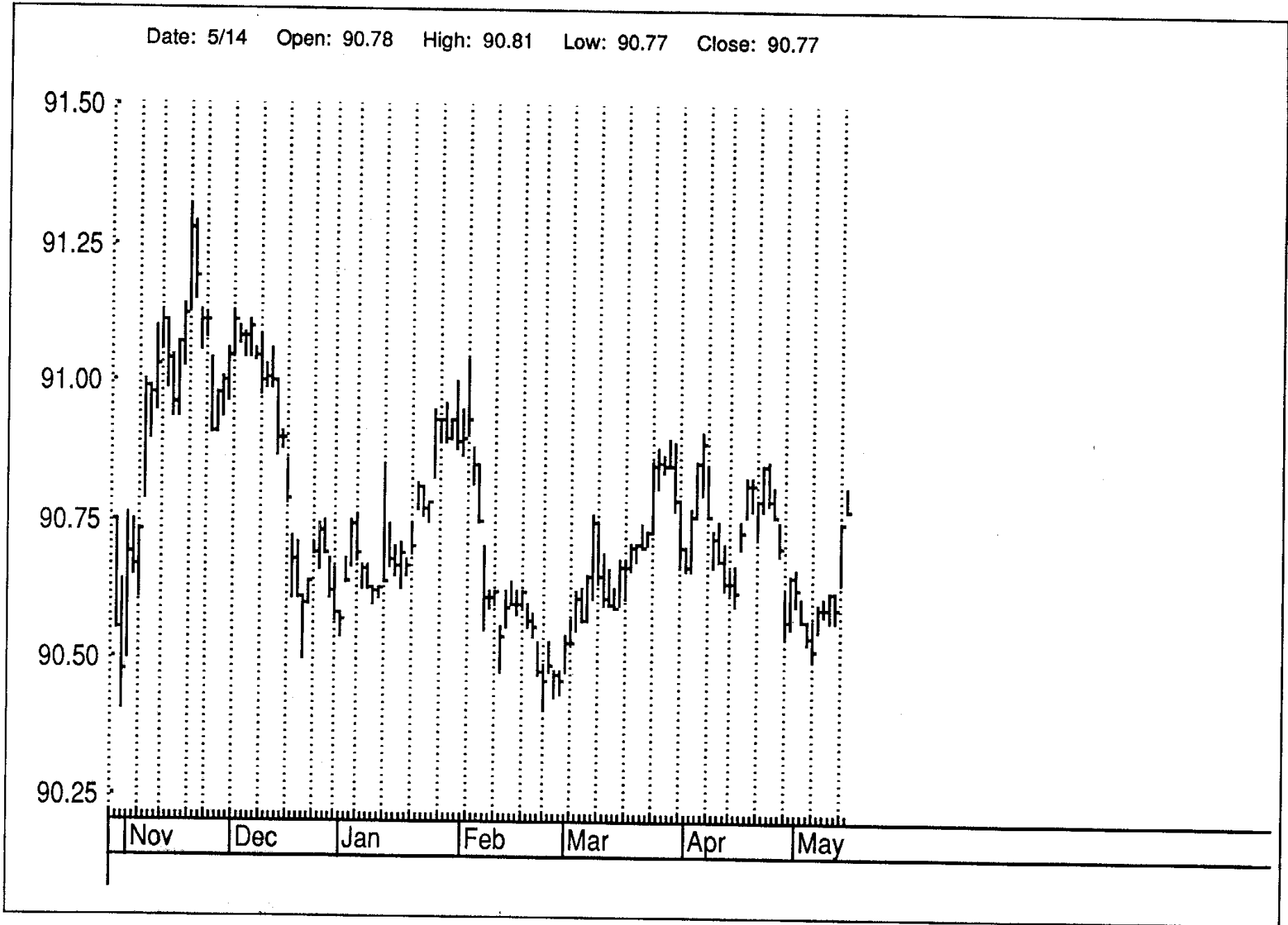
5/11 Today's vigorous rally is typical of the thrust out of a flat correction. Wave 3 of (1) is underway. The stop on the purchase of 5/8 can now be raised to 90.57. Raise the stop on the other two positions to 90.49. We have used the wave analysis to get an edge on the market with minimal risk. Since wave 1 equaled 11 points, we can project the top of wave 3 by multiplying 1.618×11 and adding the product (17 points) to 90.57 for a target of 90.74. This price level was reached today, suggesting that wave 3 will be larger. A logical target is the previous high of 90.86. At 90.86, wave 3 will be $2.618 \times$ the length of wave 1.



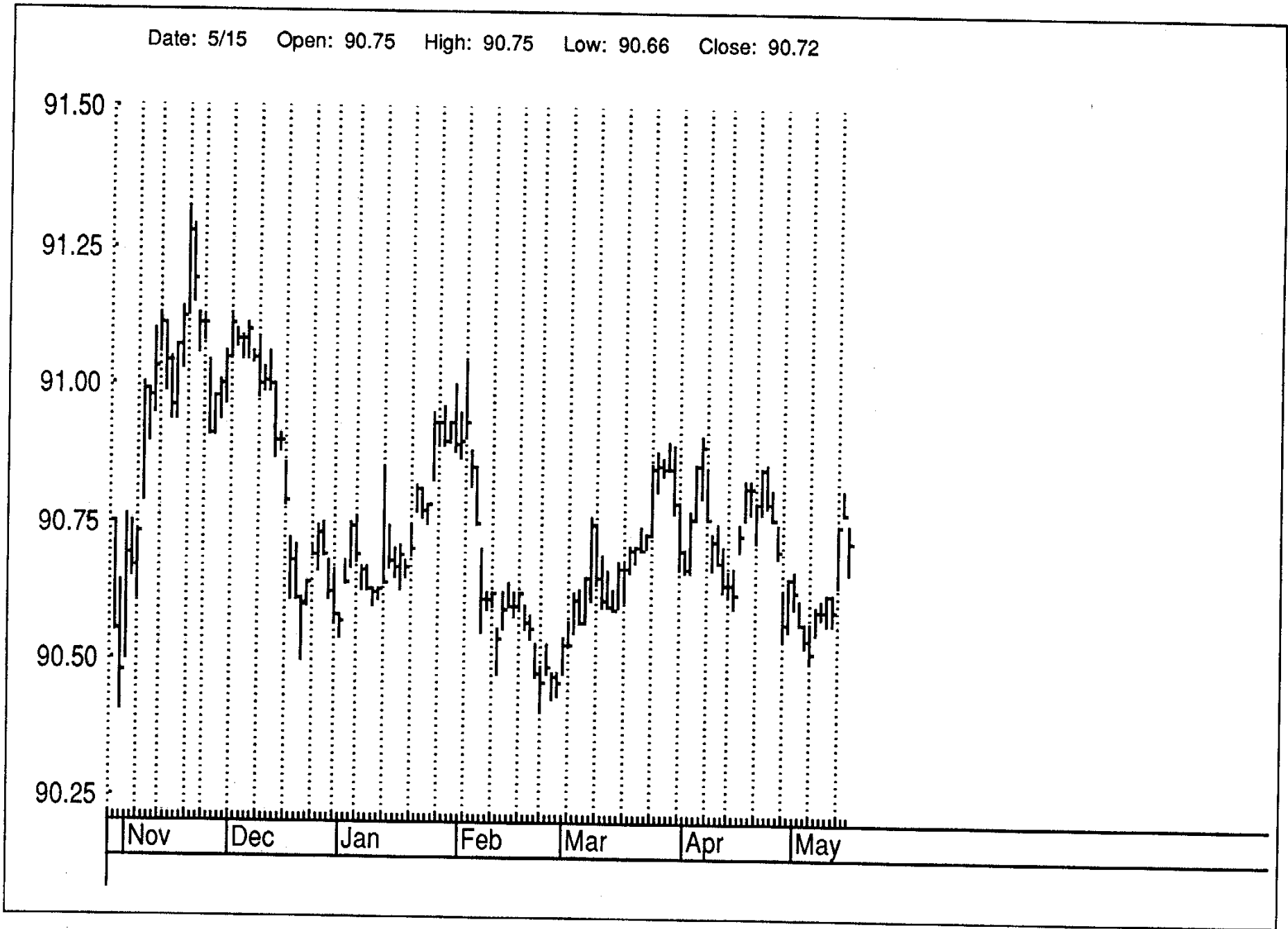
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5/14 The market rallied to 90.81, but gave back most of its gains on the close. This price action could signal the end of wave 3. Some traders may want to label the rally from 90.57 to 90.81 as wave i of 3, but I believe in beginning with a conservative interpretation. If wave 3 has peaked, we should expect a 38.2% retracement to 90.72. A decline to 90.69 would equal a 50% retracement. Wave 4 should not overlap the top of wave 1 at 90.61.





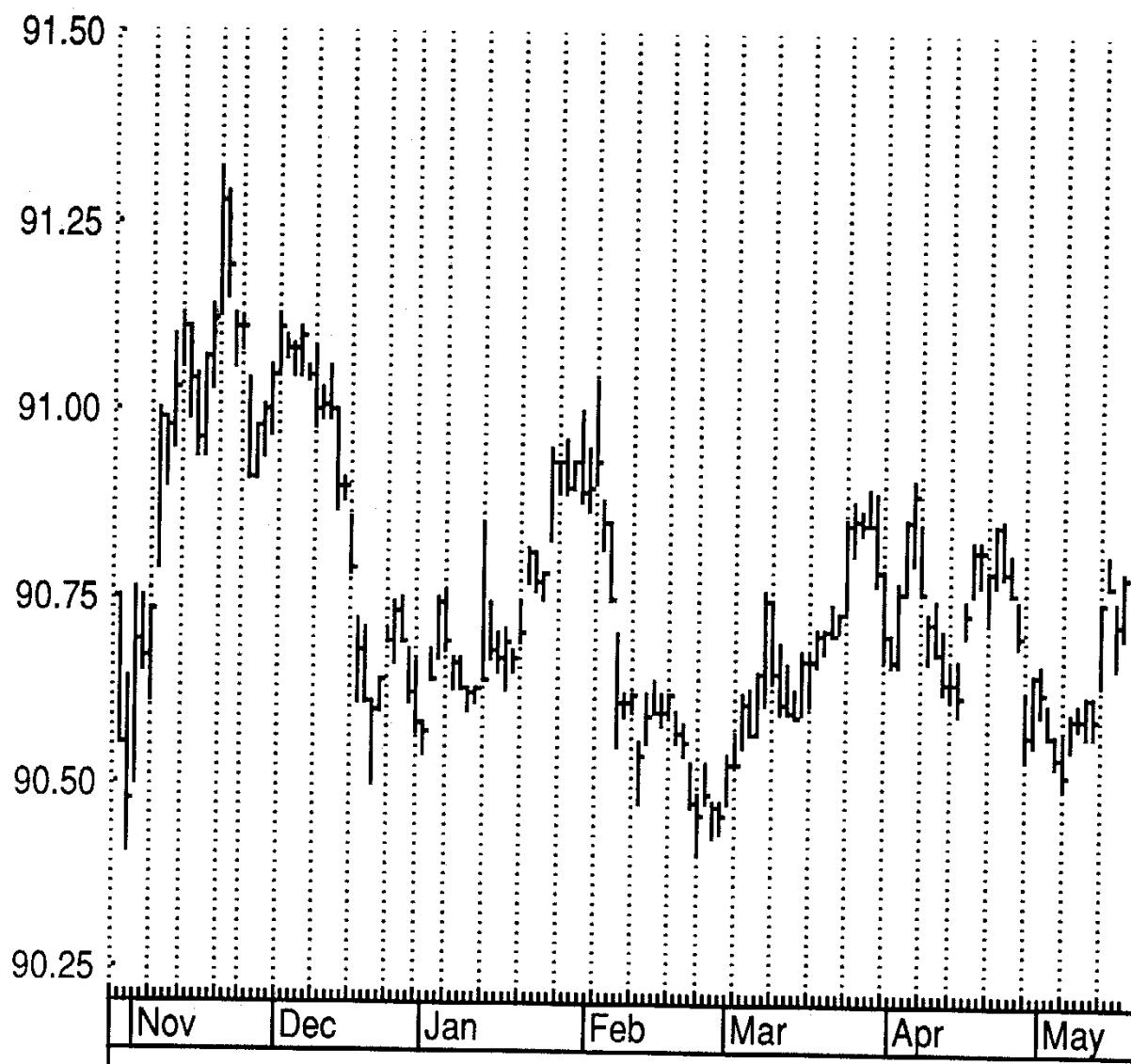
5/15 Today's sell-off to 90.66 is either wave 4 or wave "a" of 4. If wave 4 has bottomed, it is a simple zig-zag that alternates with the irregular flat in wave 2. We can project the top of wave 5 by multiplying .618 x the distance from the bottom of wave 1 to the top of wave 3. Add the product (19 points) to 90.66 for a target of 90.85. Keep in mind that the previous high at 90.86 is a logical resistance level.



✓

5/16 Because of the alternation between waves 2 and 4, we are more confident that wave 5 is underway. Our target is 90.85. Let's take partial profits near the top of wave (1) by selling one contract at 90.84 M.I.T. If the sell order is executed, we will offset it against the position established on 5/8 at 90.58. By taking this partial profit, we are protected from a net loss on the total long position. The rally will complete a five-wave impulse. Since a five-wave pattern is not a correction, we know that another five-wave impulse will occur. In the meantime, a substantial correction could develop. Second waves are often deep because of lingering bearish sentiments.

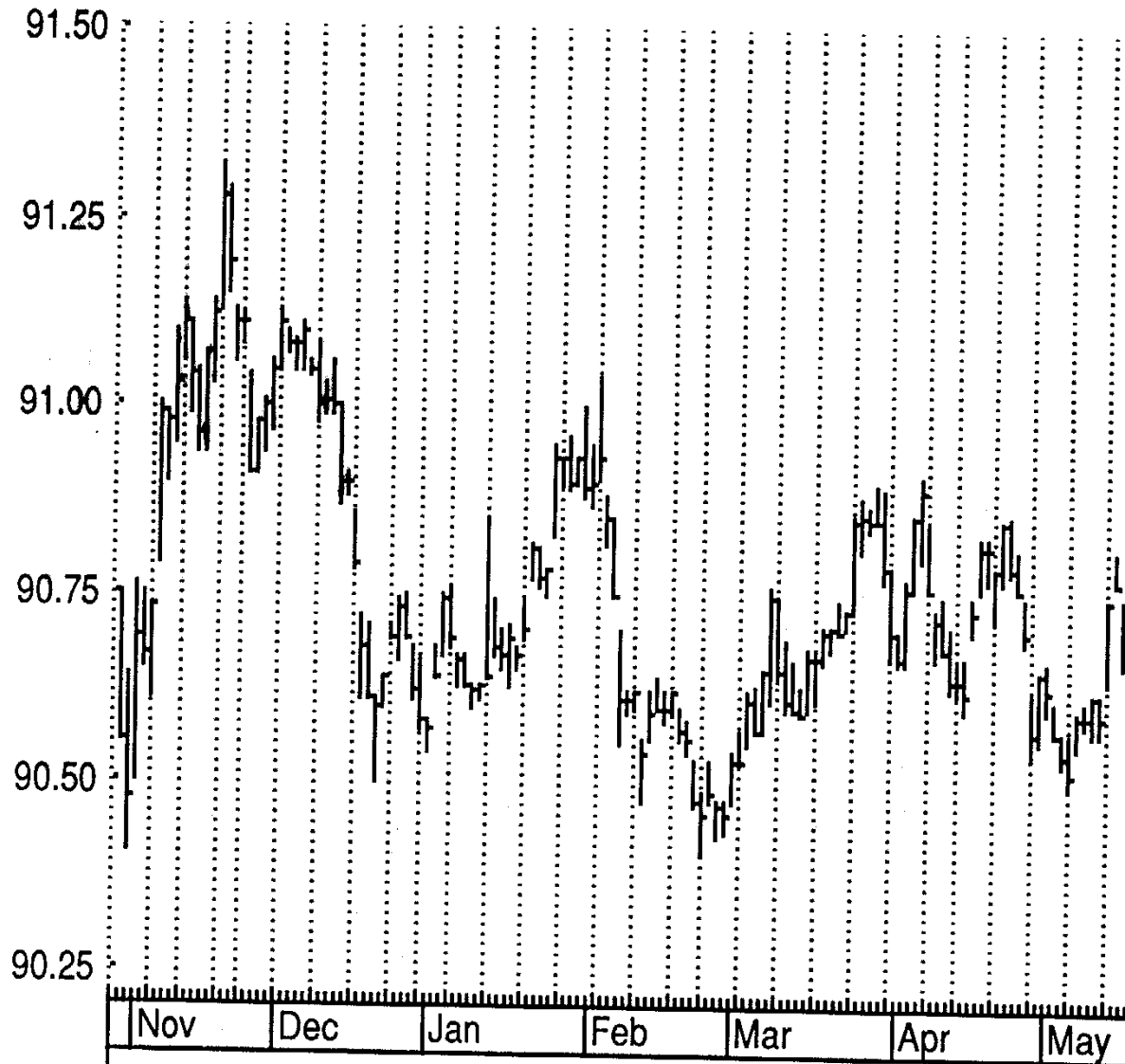
Date: 5/16 Open: 90.70 High: 90.79 Low: 90.70 Close: 90.78



✓

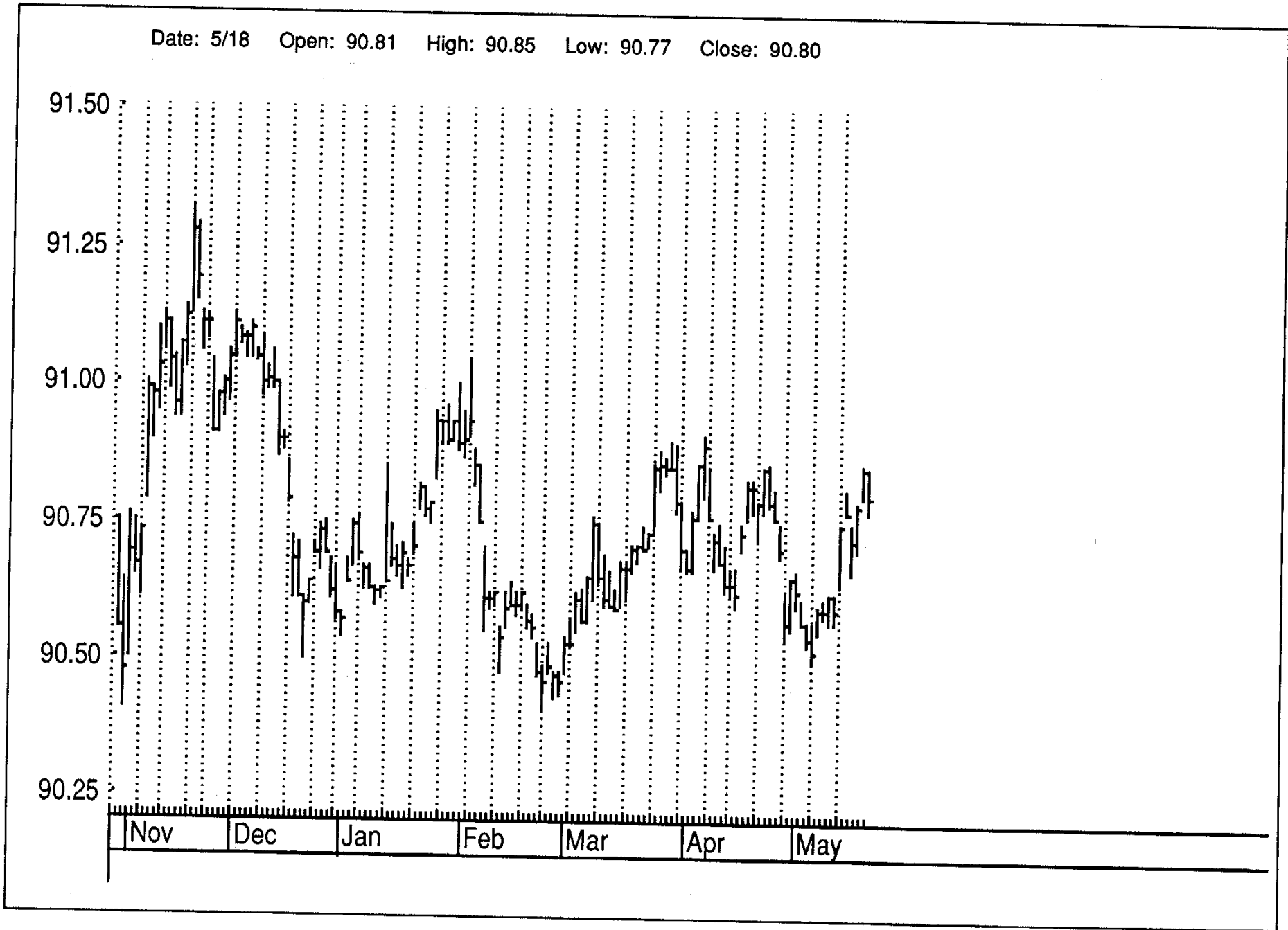
5/17 The rally reached 90.86 and prices closed on a firm note. Further gains are possible. The upmove from 90.50 to 90.86 has satisfied the minimum requirements for a complete five-wave impulse. We took a 24 point profit (26 points less 2 points for commission) and will leave the sell stop on the remaining two long positions at 90.49. A nimble trader might consider a short position, but we know there is at least one more impulse wave coming; we will trade with the trend.

Date: 5/17 Open: 90.81 High: 90.86 Low: 90.80 Close: 90.85

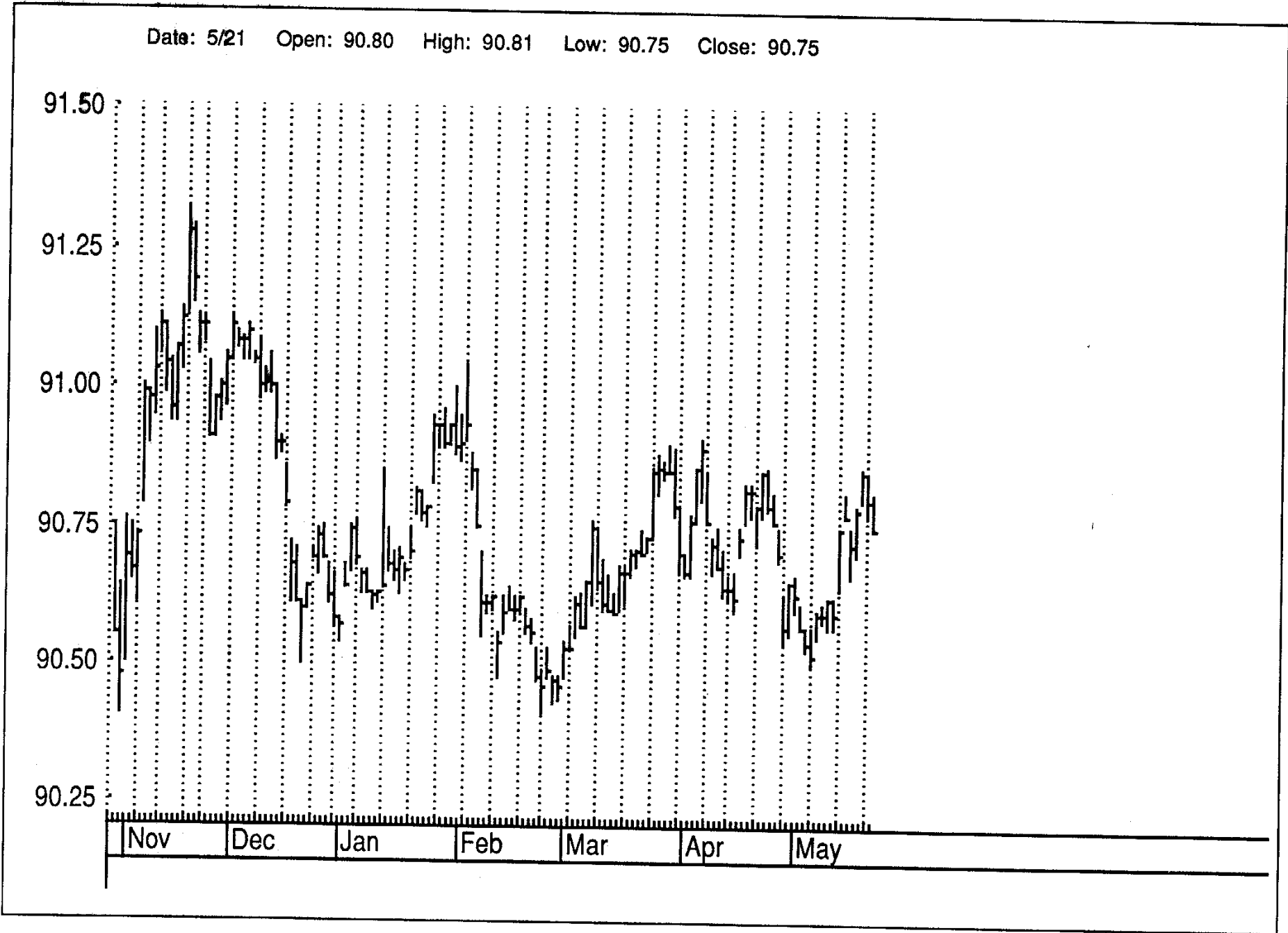




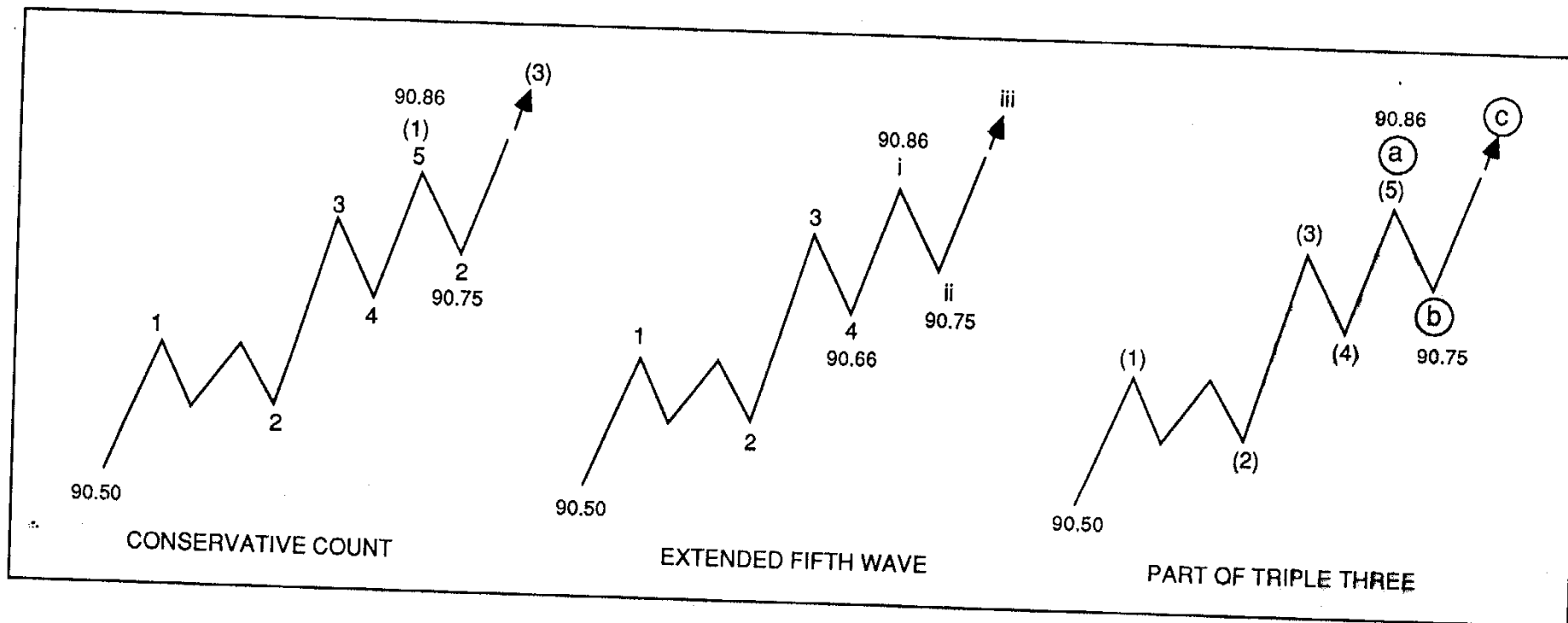
5/18 The market closed at 90.80, the low of the previous day. This suggests that wave 5 has peaked. If the rally from 90.50 is going to subdivide into five intermediate waves, then the high at 90.86 is probably the top of intermediate wave (1). Notice that the 36 points gained in wave (1) coincides with the Fibonacci number 34. It is still possible that the rally from 90.66 to 90.86 is wave i of 5, but I prefer the more conservative interpretation. Ideally, wave (2) should retrace 61.8% of wave (1) and bottom at 90.64.

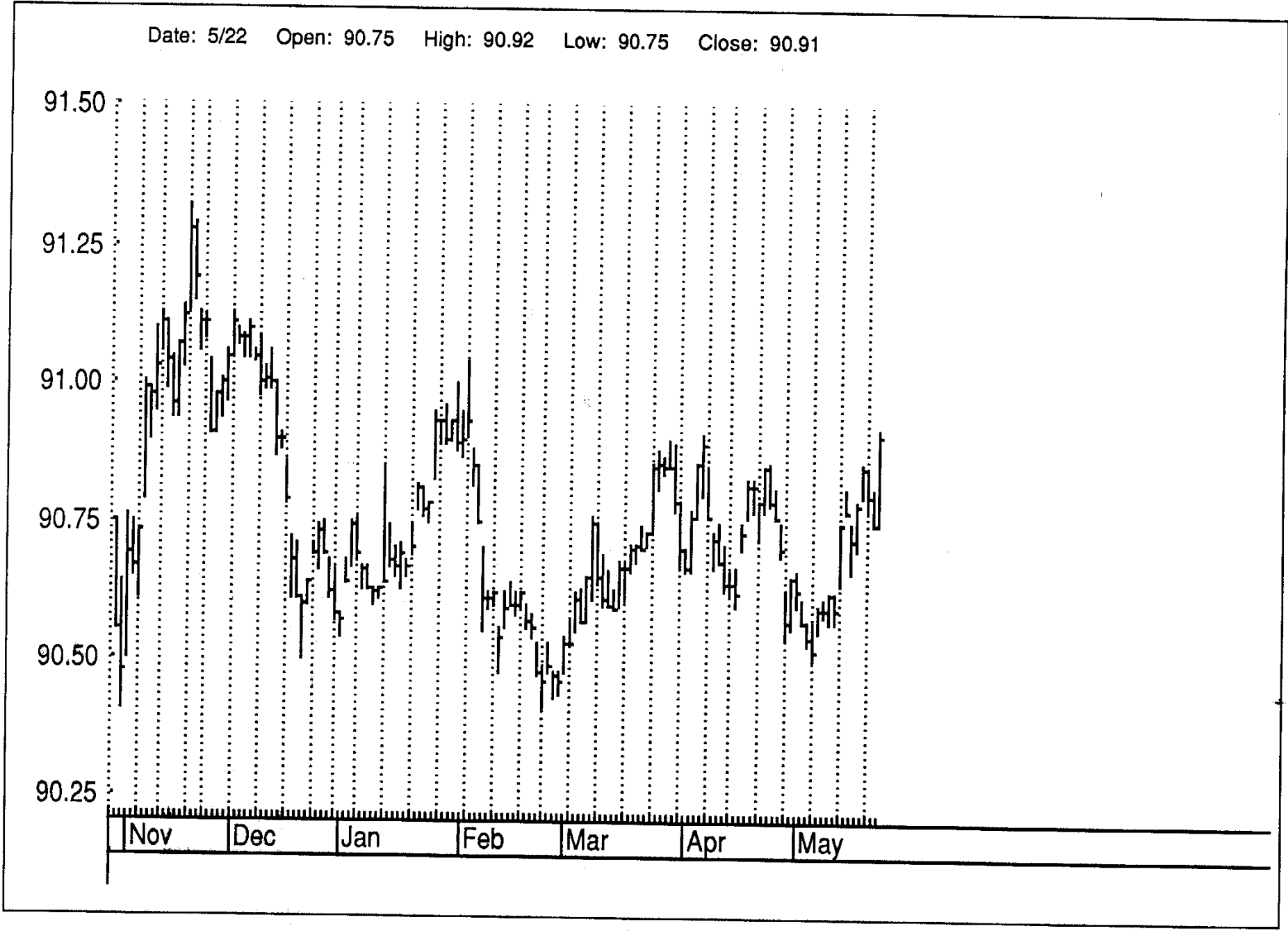


5/21 The correction from 90.86 continues. So far, it has retraced almost 38.2% of wave (1). We are long two contracts with a stop at 90.49.

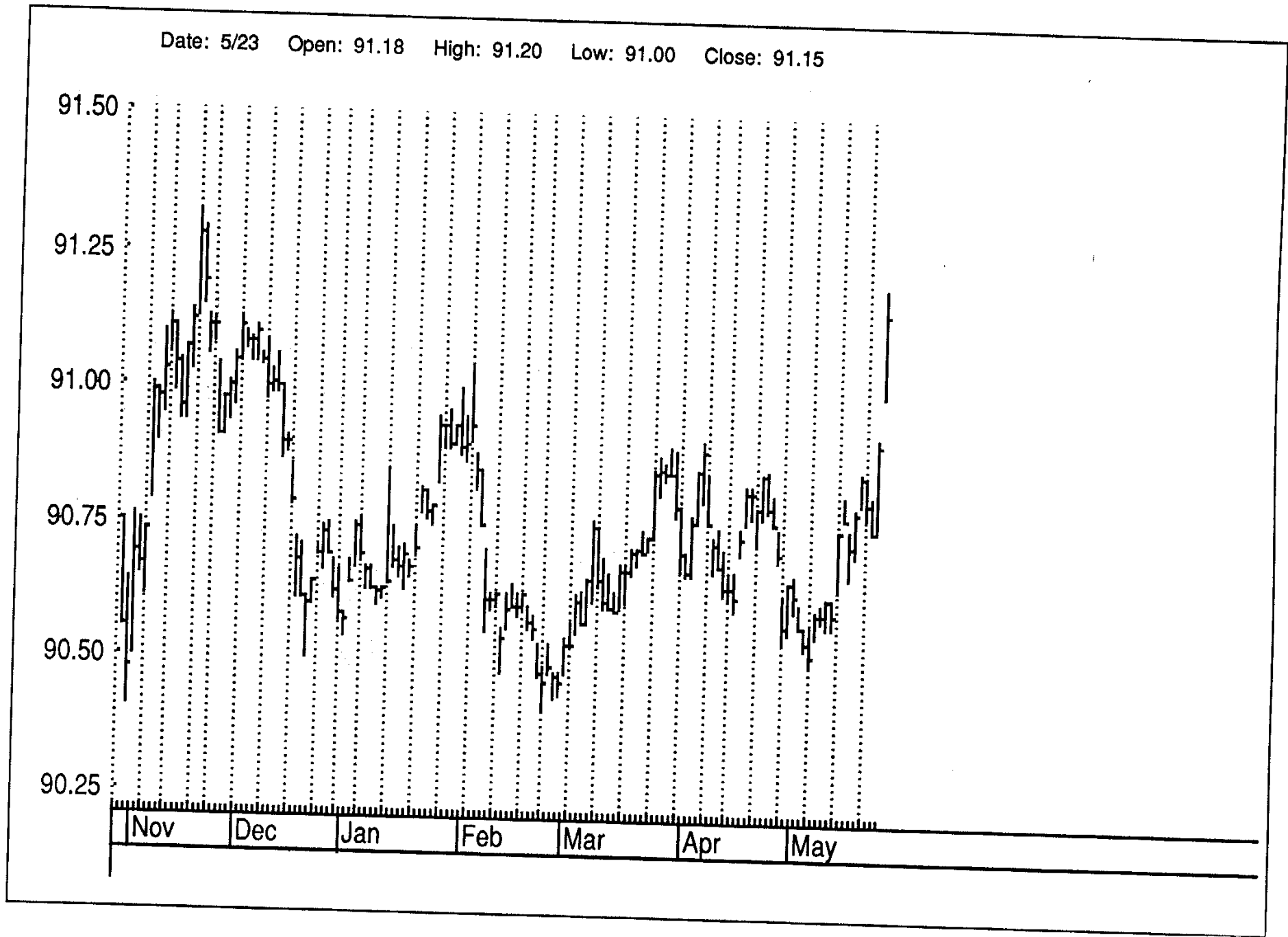


5/22 Today's rally is the beginning of another impulse wave. It is too strong for an irregular b-wave. We are faced with a more bullish possibility—that the rally from 90.66 to 90.86 is wave i in an extended fifth wave. For now though, let's stick with the conservative wave count. We must not overlook the alternate count (see page 14) which suggested a triple-three formation could develop from the October low. Using that interpretation, we would label the five-wave rally to 90.86 as wave (a) and the low at 90.75 as the (b)-wave. Under this alternate count, the current rally is a (c)-wave that could top in the 91.00 to 91.32 area. The Fibonacci target for the top of wave (3) in the conservative count or wave (c) in the zig-zag is computed by multiplying 1.618 x the length of the 90.50-90.86 impulse. Add the product (58 points) to 90.75 for a target of 91.33.

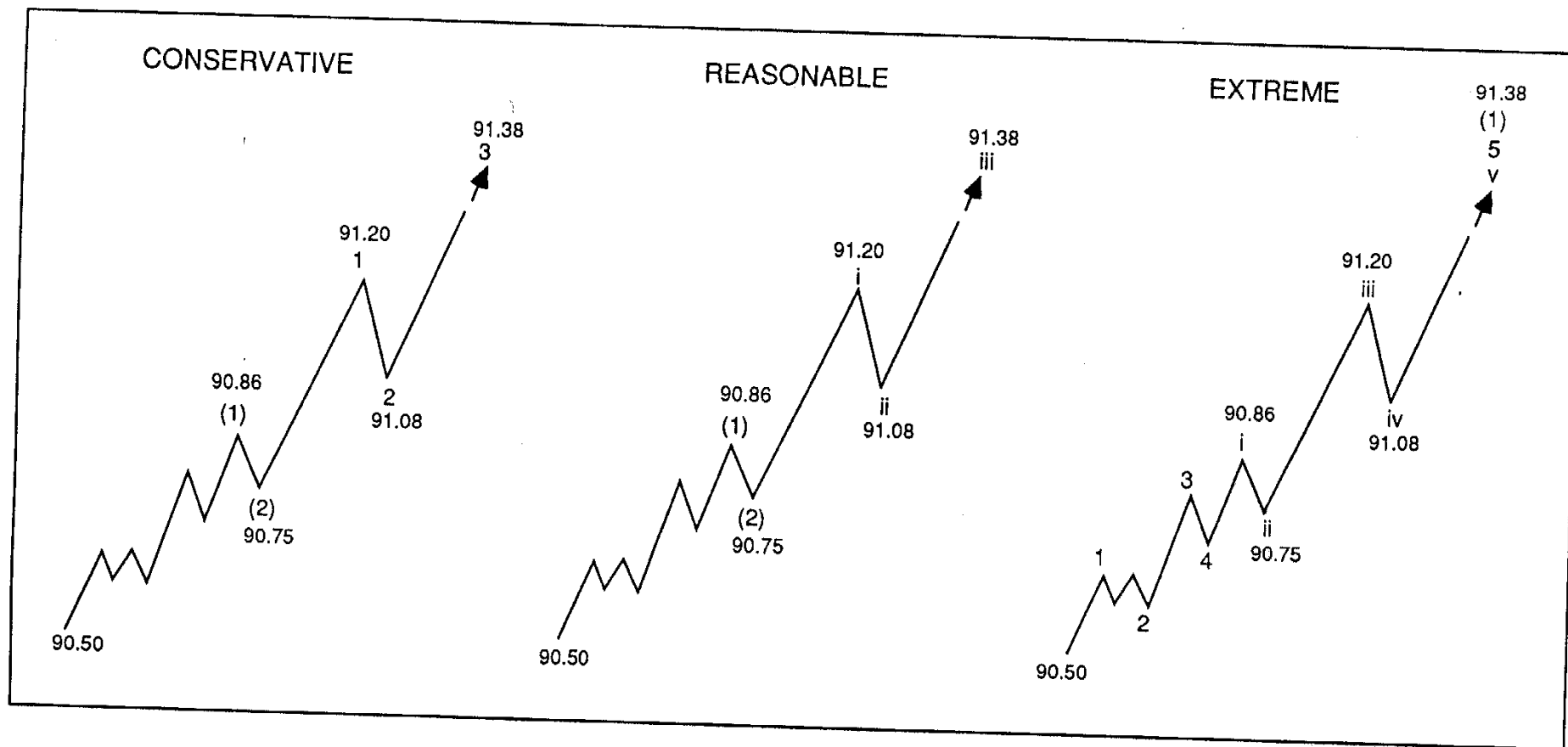


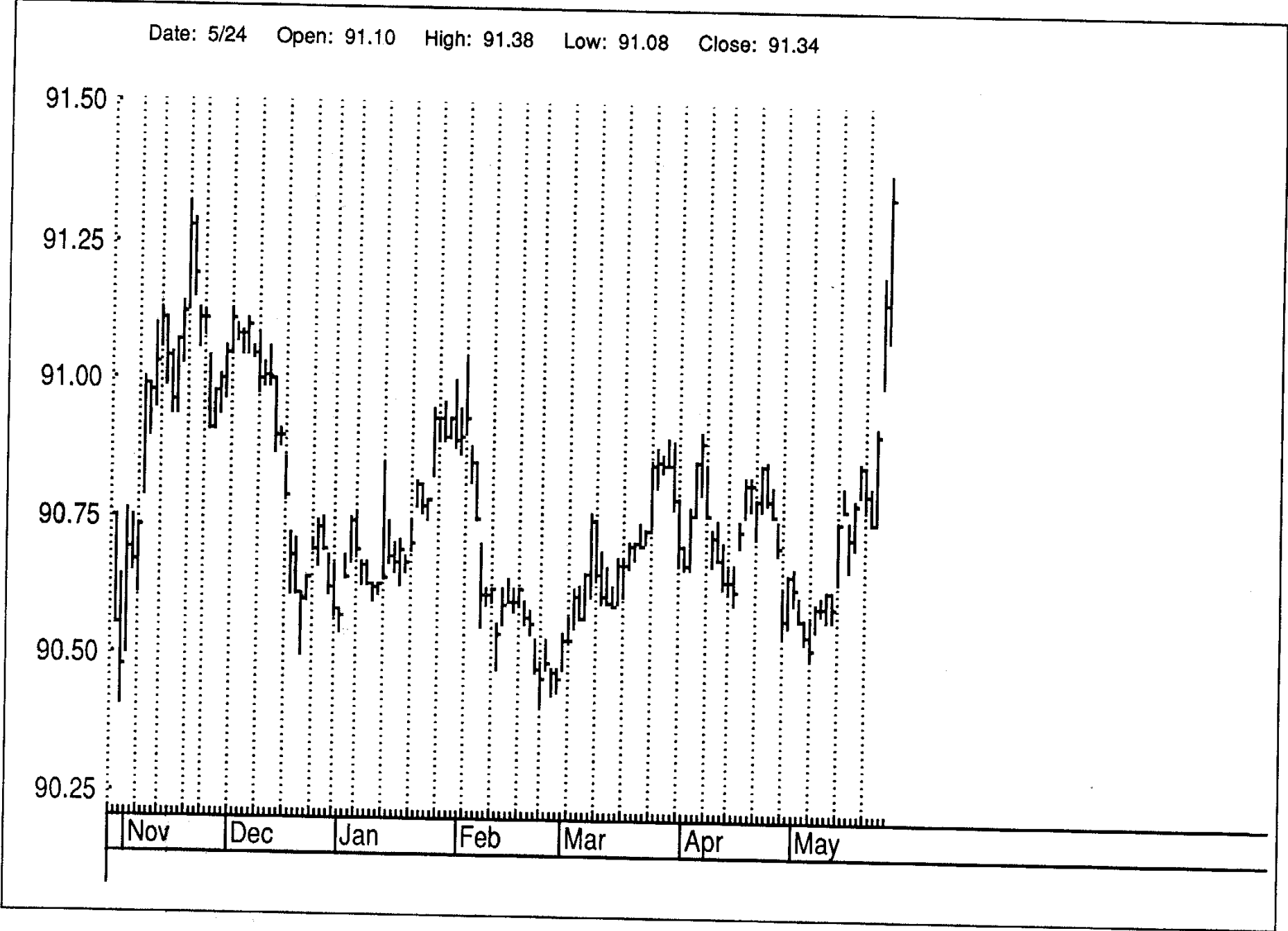


5/23 The market has soared above the 91.04 resistance level. The easy upward movement is typical behavior of a third wave. The next resistance level is 91.32, the top of wave (a). Let's raise the stop on our two long positions to 90.74.



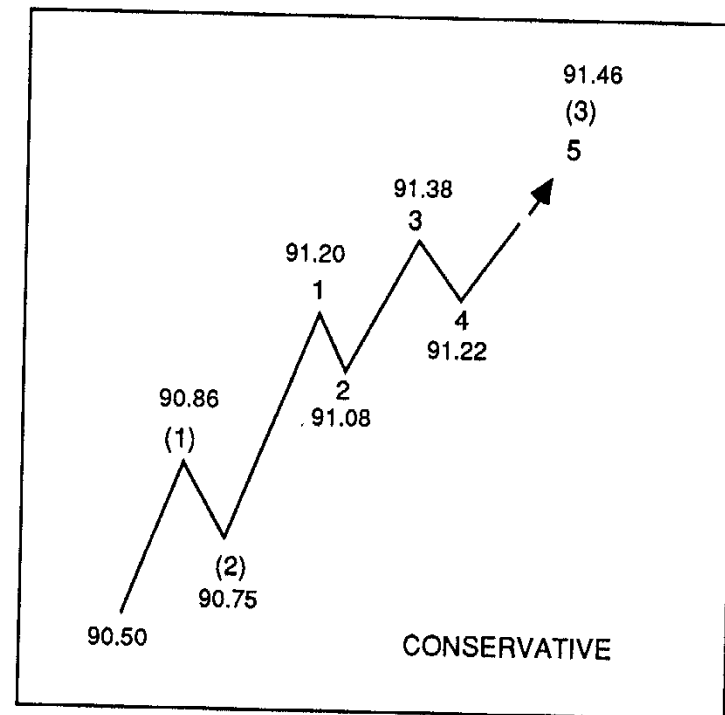
5/24 Another big gain as the upmove reached a new high of 91.38, fulfilling the Fibonacci target of 91.33 for wave (3). According to our conservative count, wave (3) has not ended. (The strength of the rally from 90.75 rules out the triple three diagramed on pages 14 and 46.) Notice that prices pulled back to 91.08 today from the high of 91.20 (5/23). Using 91.20 as the top of wave 1, this sell-off can be labeled as wave 2 of (3). Another interpretation is that wave i of 1 of (3) peaked at 91.20. Since third waves are often extended, the latter count must be taken seriously. A more extreme count treats the rally from 91.08 to 91.38 as wave v of 5 of (1); however, this interpretation has a low probability. These counts are illustrated below:

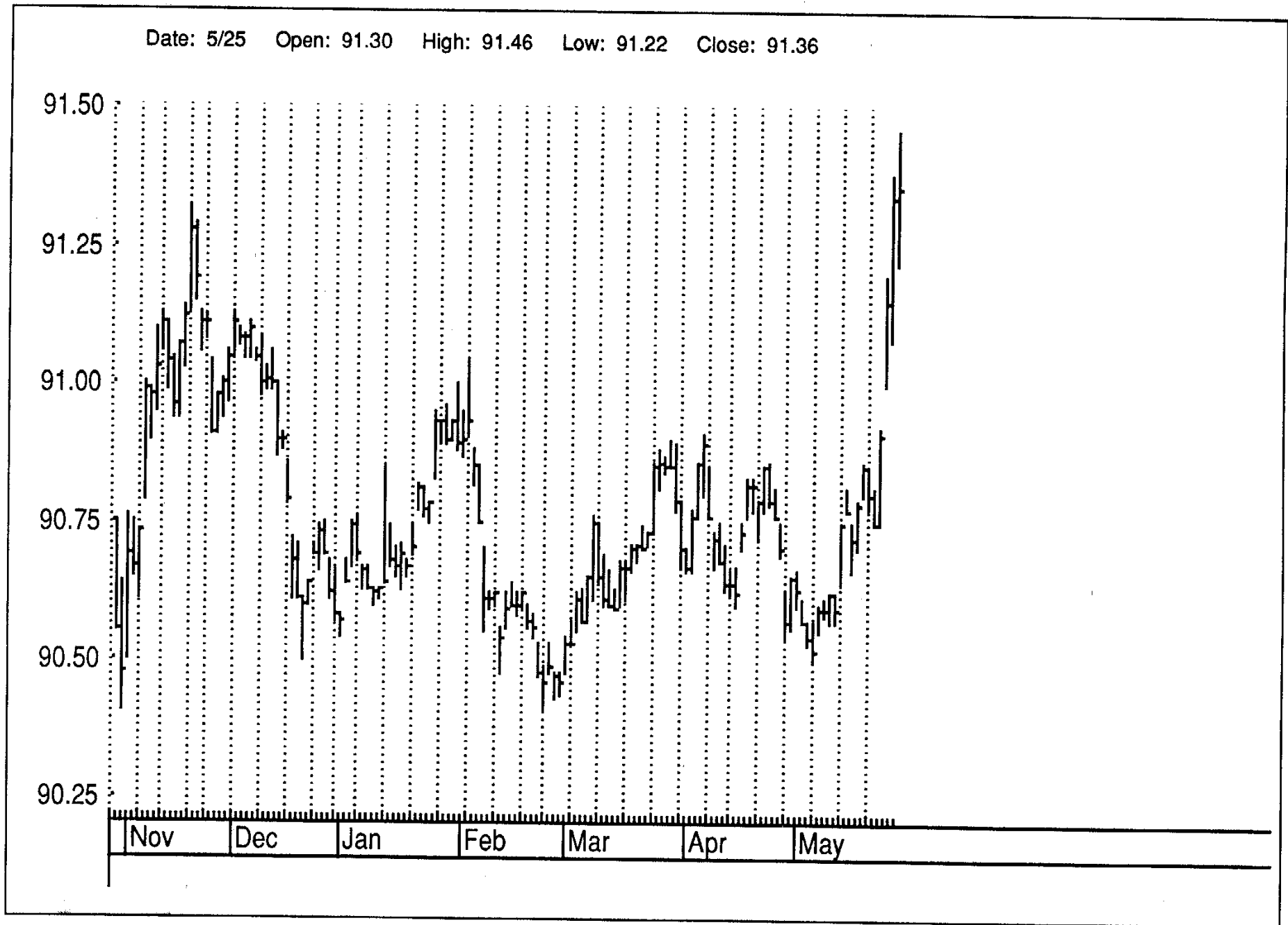




5/25 From yesterday's high at 91.38, the market pulled back to 91.22 and rallied to a new high of 91.46. This price action makes the extreme wave count (5/24) implausible. If 91.38 is labeled as the top of wave 3, then wave 4 bottomed at 91.22 and the rebound to 91.46 is at least part of wave 5. The Fibonacci target for the top of wave 5 is calculated by multiplying $.618 \times (91.38 - 90.75)$. This projects a potential move to 91.60.

This wave pattern meets the minimum requirements for a complete wave (3). A more bullish interpretation would treat the rally from 90.75 to 91.46 as wave 1 of (3). *If the correction from 91.46 does not alternate with the zig-zag in wave (2), we will count the rally from 90.75 to 91.46 as wave 1 of (3). This is an important Elliott Wave interpretation.*

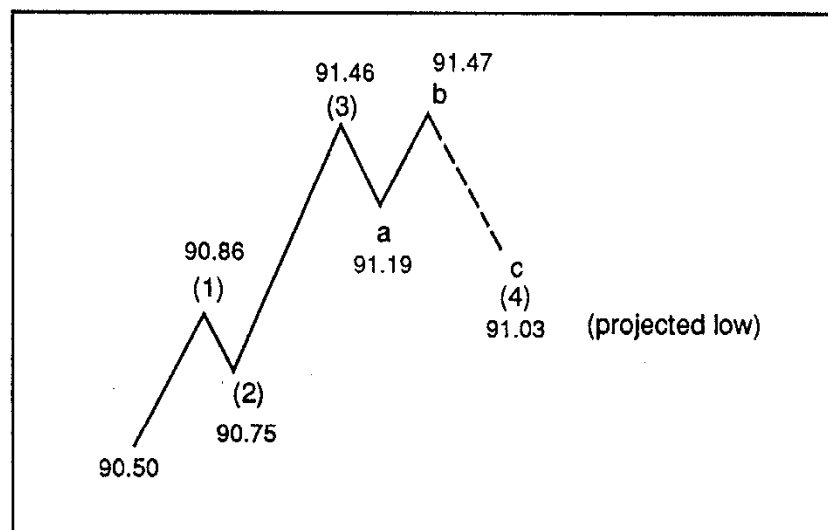






5/29 After the holiday on 5/28, the market declined to 91.19 and rallied to a new high. It is possible that wave "a" of (4) bottomed at 91.19 and the rally to 91.47 is wave "b" in an irregular flat. This would give us the desired alternation with wave (2). In an irregular flat, wave "c" should equal $1.618 \times$ the length of wave "a" meaning that a decline to 91.03 is possible.

Without another decline to 91.19 or lower, we will assume that wave 1 of (3) peaked at 91.46 and wave 2 bottomed at 91.19. In this event, today's high might be wave i of 1 of (3). As you can see, the alternate count paints a very bullish picture.



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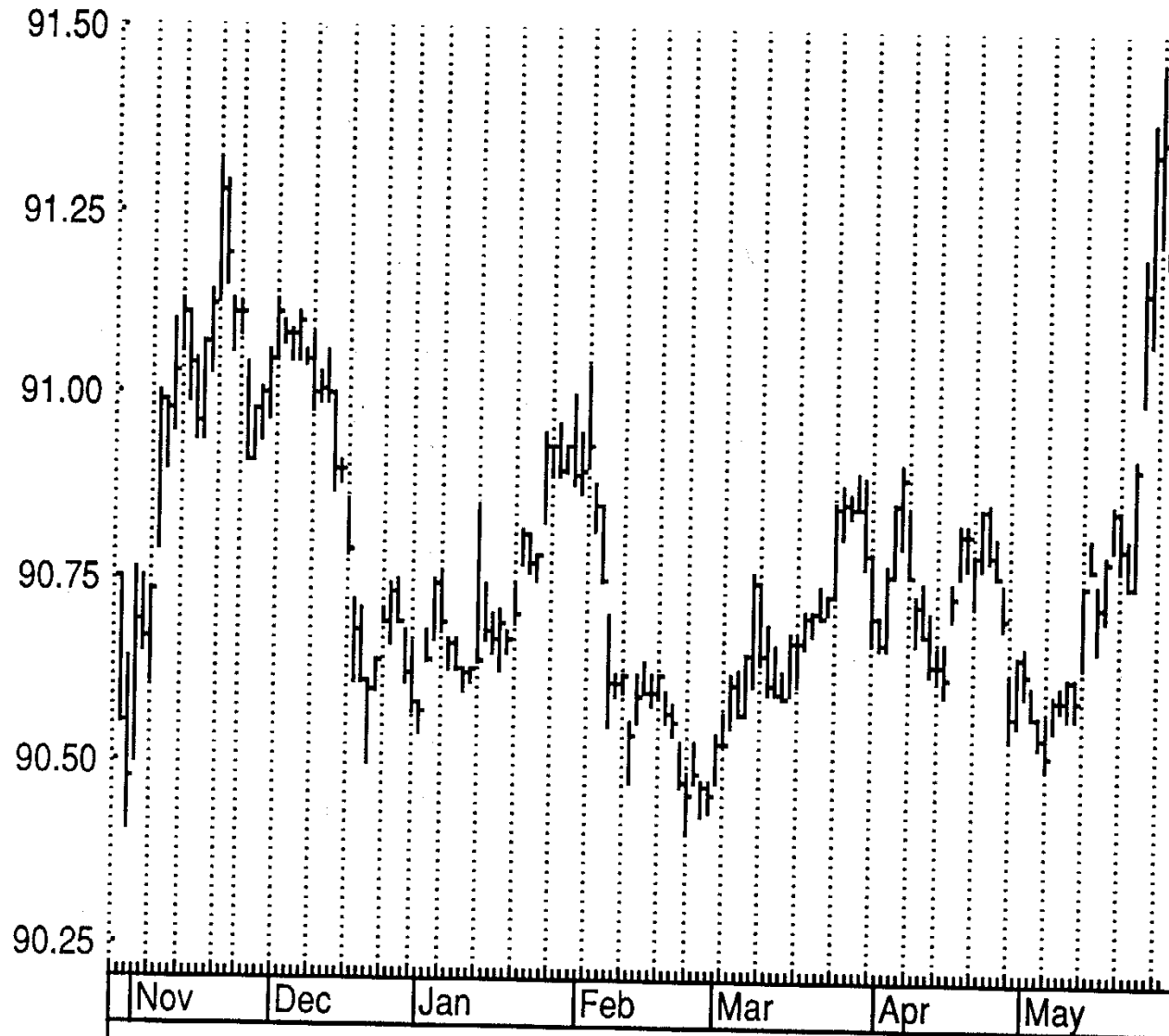
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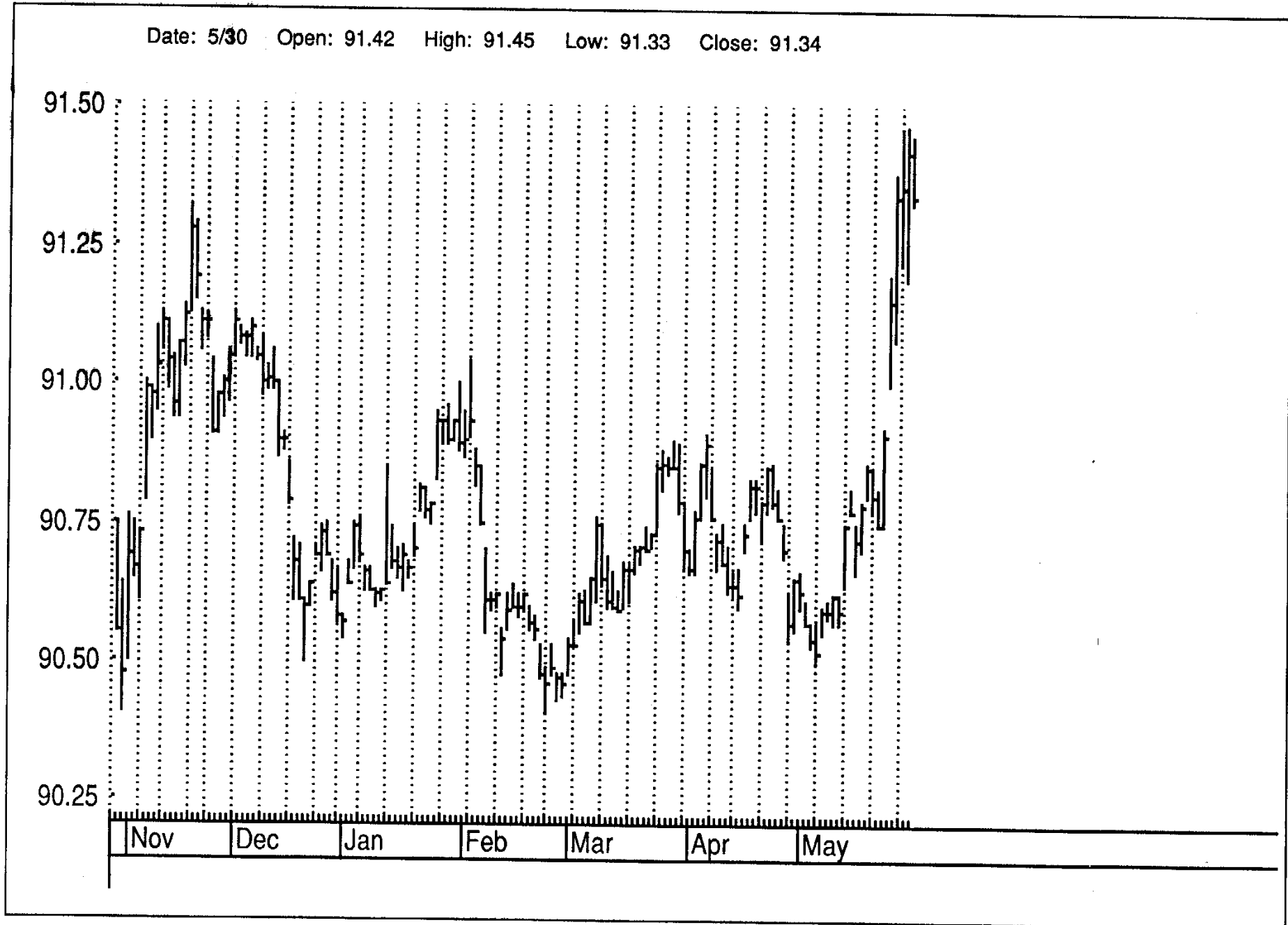
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Date: 5/29 Open: 91.33 High: 91.47 Low: 91.19 Close: 91.42

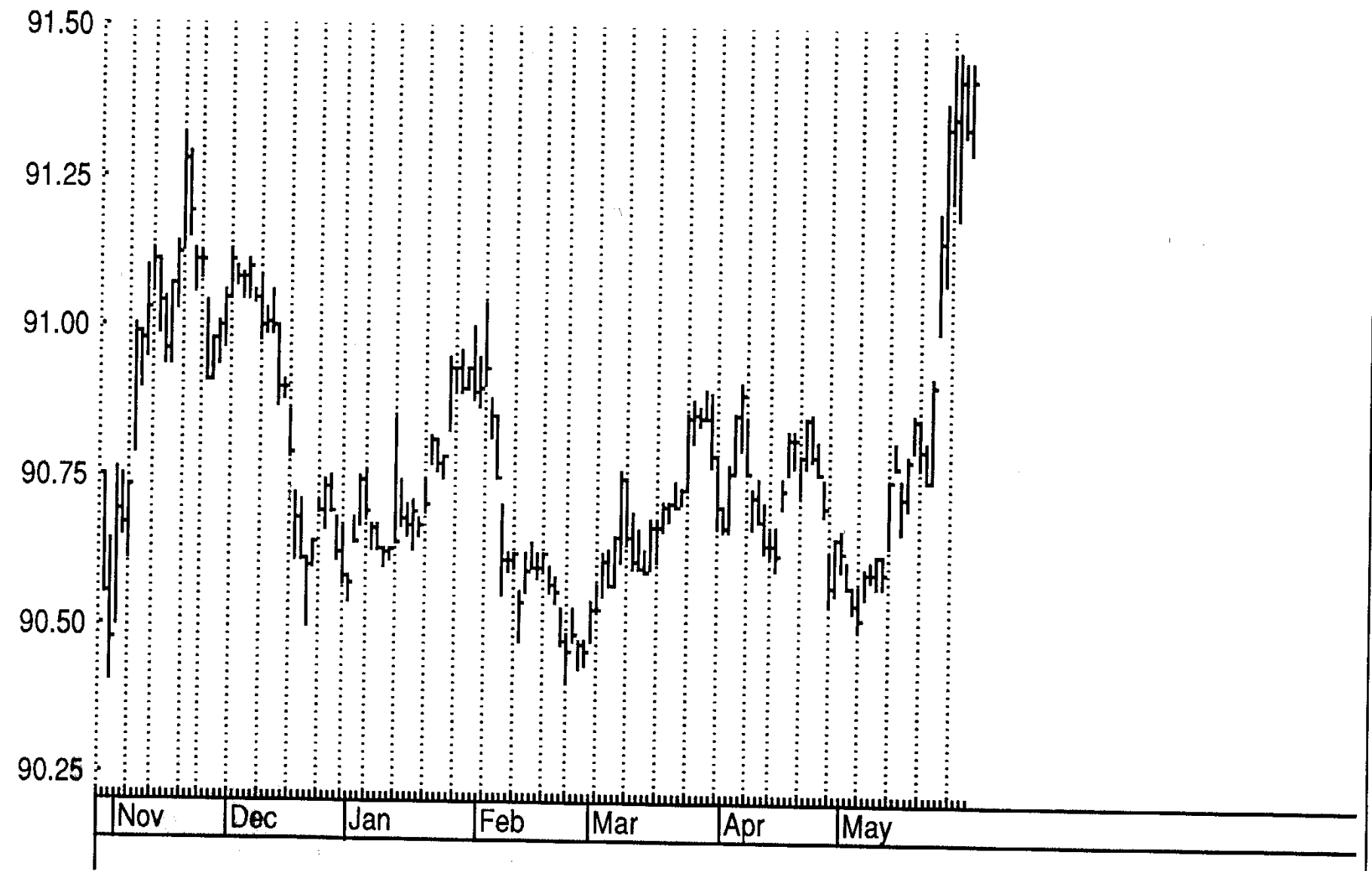


5/30 Today's price action does not resolve the wave count; however, it increases the likelihood of an irregular wave (4). We have to await more information. The stop on our long positions remains at 90.74.

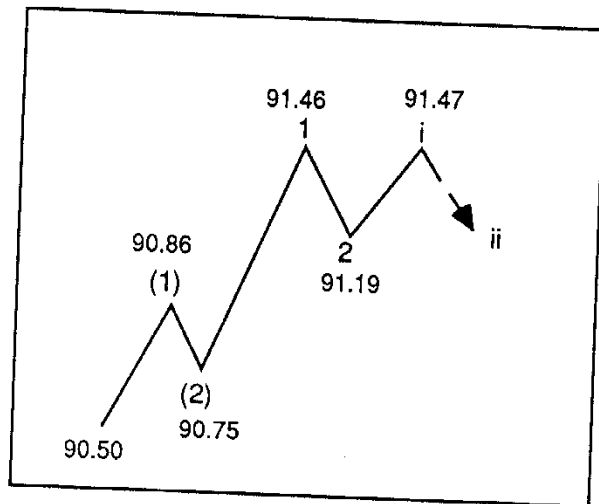


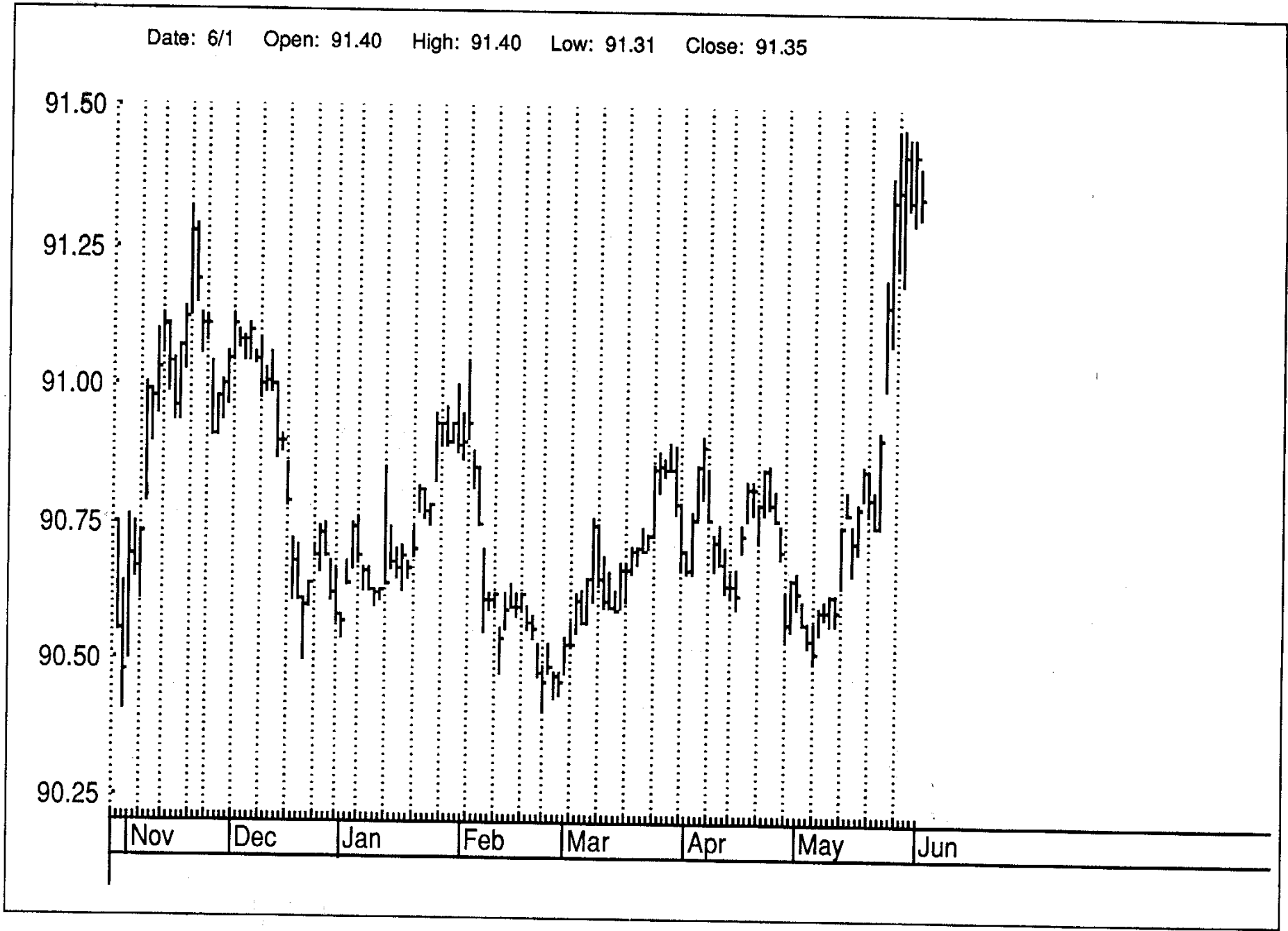
5/31 The inability of the market to correct significantly after its run-up from 90.75 to 91.46 supports the more bullish alternate count. It is possible that wave (4) will evolve into a triangle.

Date: 5/31 Open: 91.33 High: 91.45 Low: 91.30 Close: 91.42



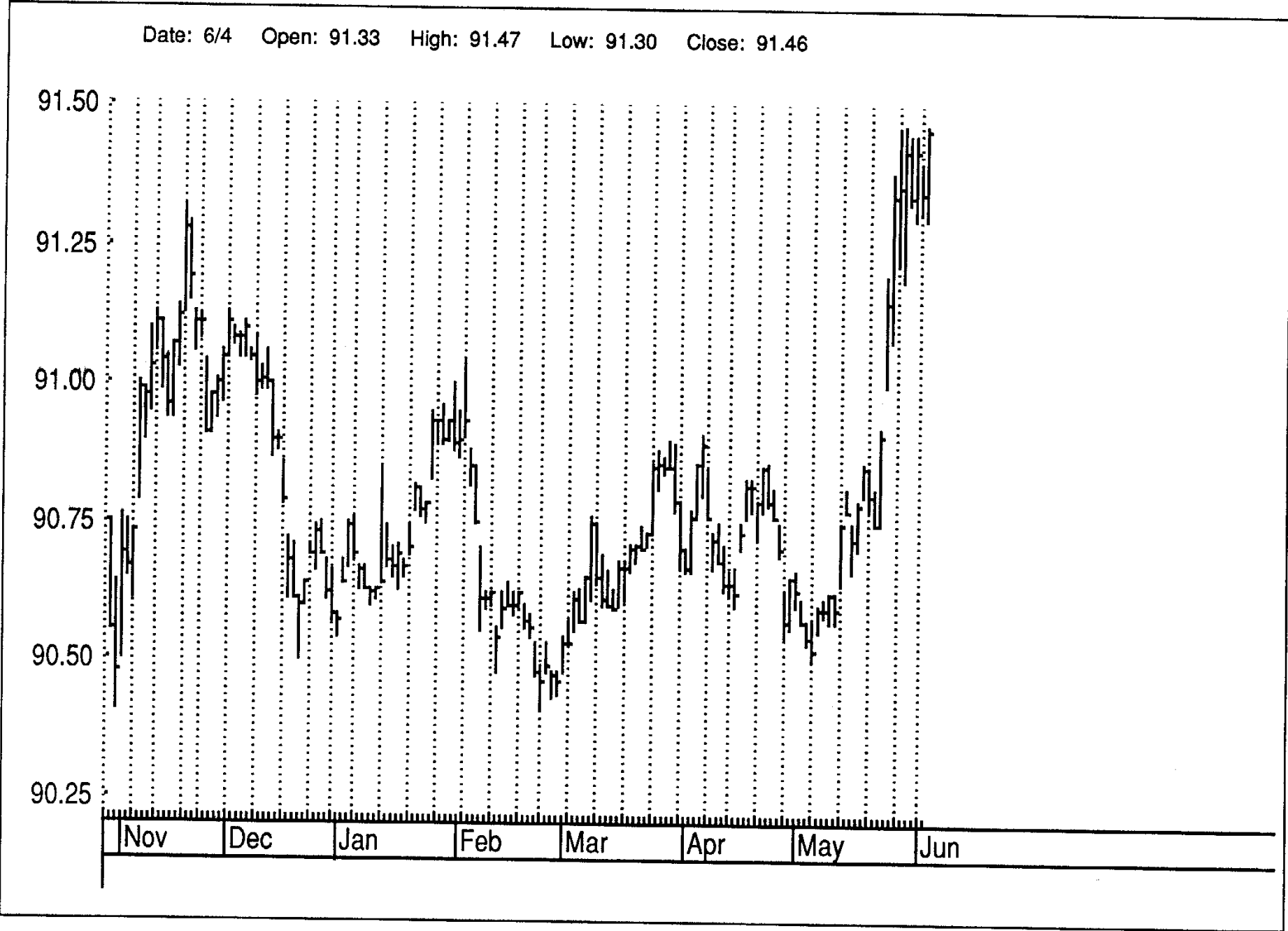
6/1 More holding action. The market's firmness continues to support the view that wave iii of 3 of (3) is imminent. We may be entering the most accelerated phase in the uptrend.





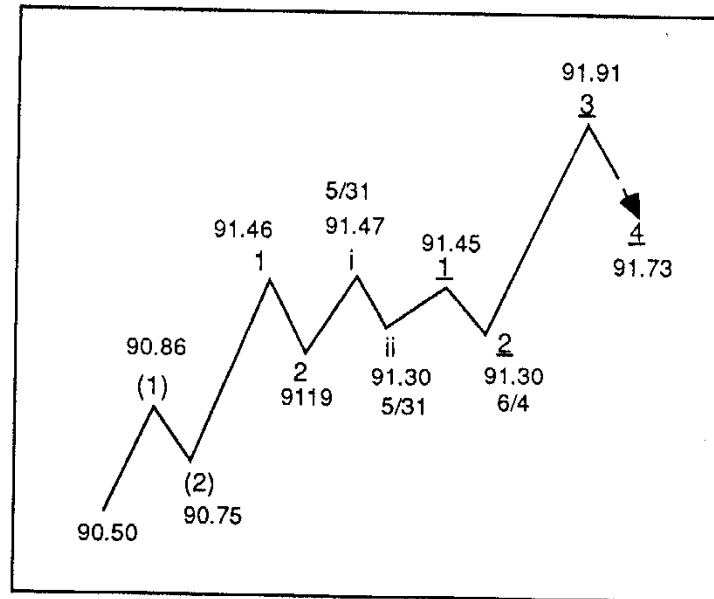


6/4 The market is poised to move higher. Wave (2) was a simple zig-zag. Because the decline from 91.46 to 91.19 was also a simple zig-zag, alternation is lacking. The "reasonable" wave count diagramed on 5/24 and mentioned on 5/29 has to be given preference unless a quick reversal below 91.30 occurs. With the potential for wave iii of 3 of (3) to begin soon, we must go long a third contract on the opening tomorrow and protect at 91.29. Leave the sell stop on the other two positions at 90.74.

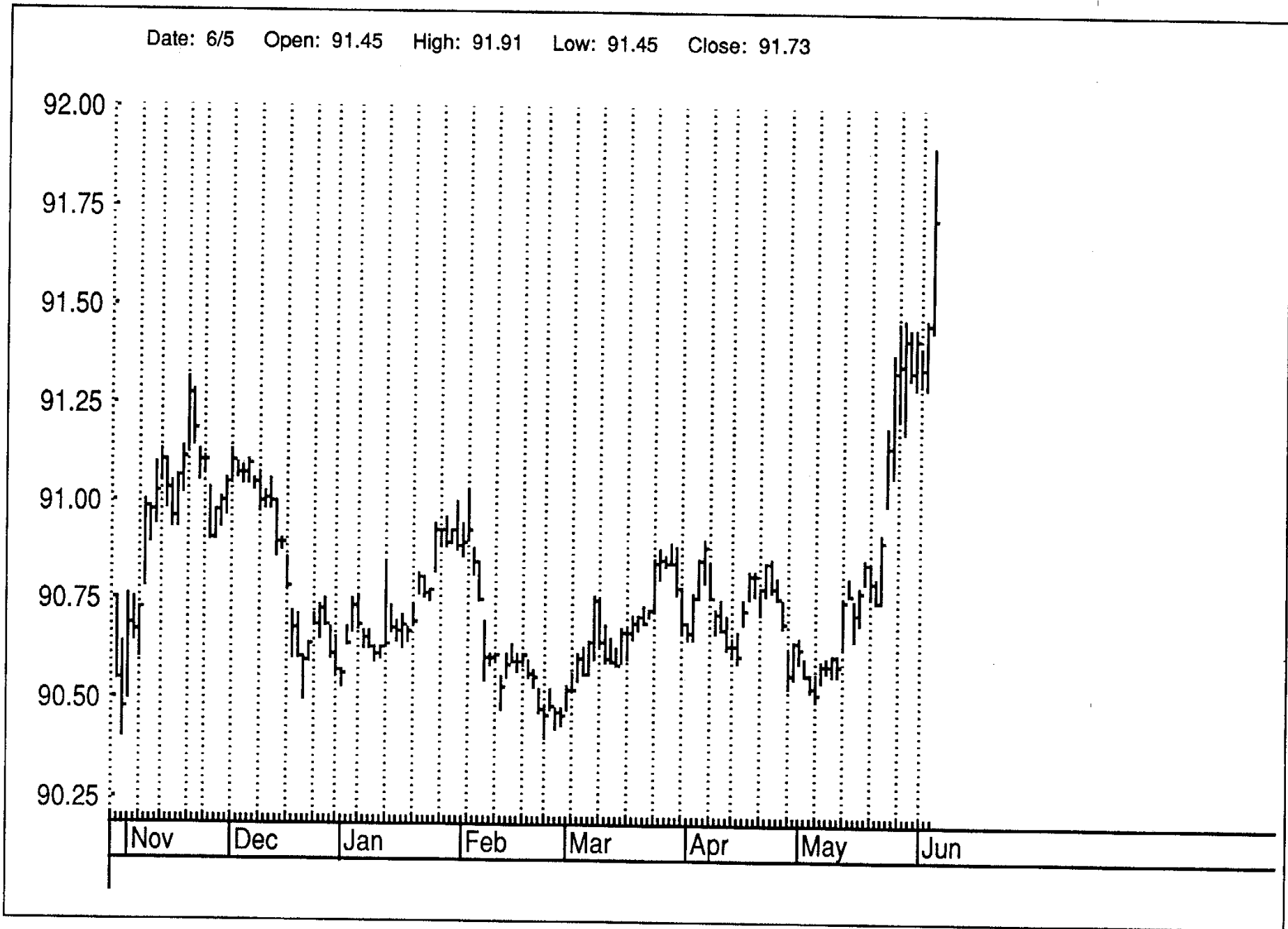




6/5 On today's opening (91.45), we purchased a third contract and were immediately rewarded. If the market reverses and falls below 91.30, the upmove is over. Wave (4) would have to be counted as a triangle. Notice that a correction began today from 91.91. This correction may be minuette wave 4 of iii. Starting from the 5/31 low, we can now construct the following wave count :

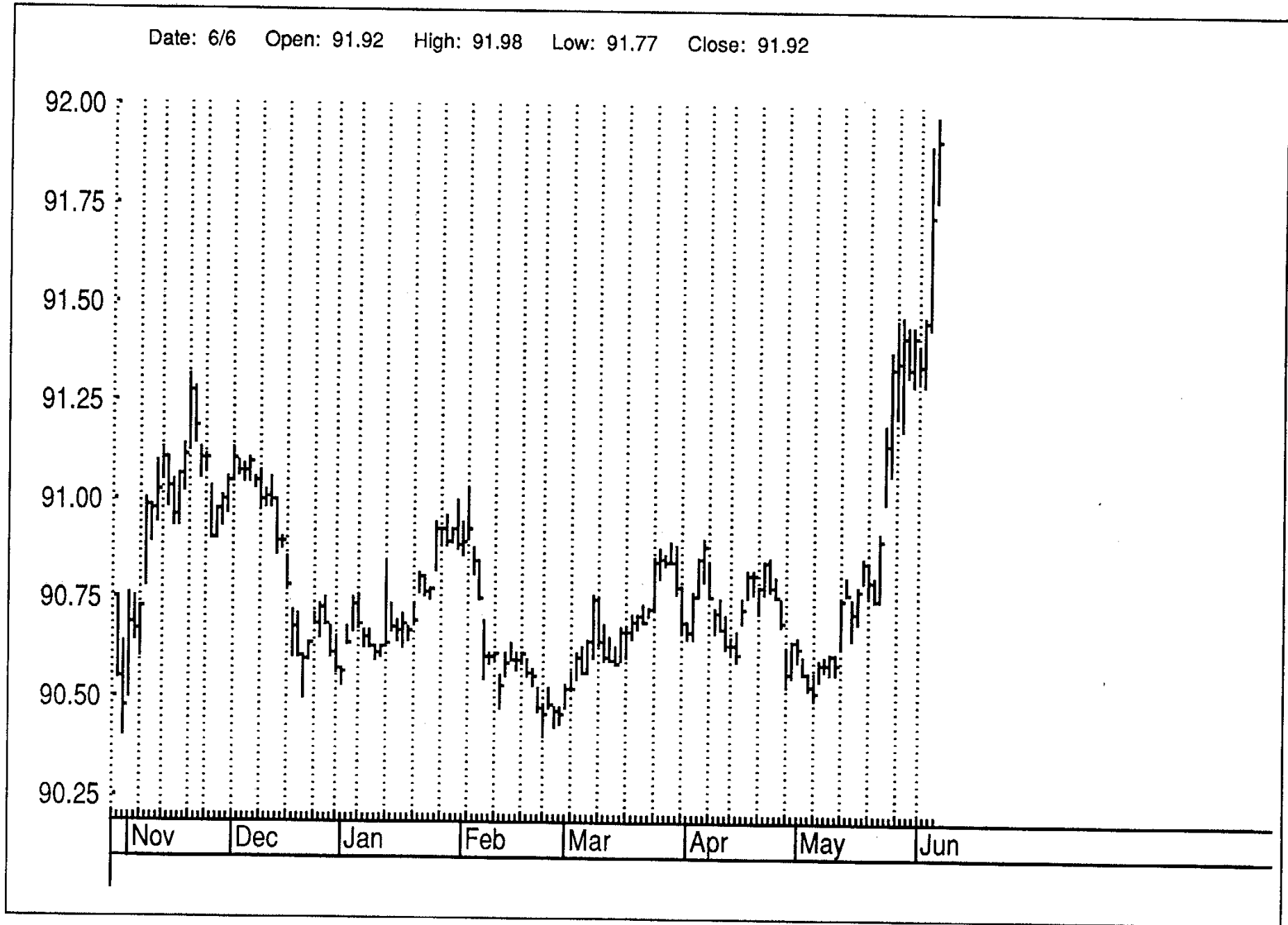


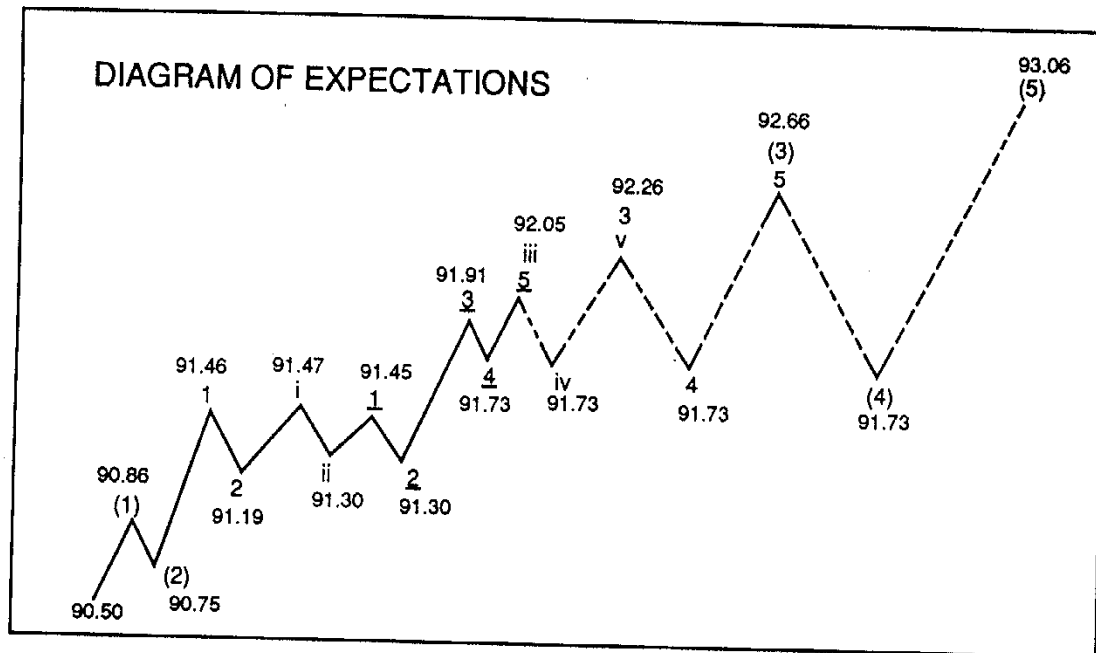
The 91.30 low on 5/31 completed wave ii and the rebound to 91.45 on the same day is wave 1 of iii. If the 91.30 low on 6/4 is counted as wave 2 of iii, then the rally to 91.91 is the top of wave 3 of iii. We can assume that wave 4 bottomed today at 91.73. If wave 5 is $.618 \times$ the distance from the bottom of wave 1 to the top of wave 3 (91.30 to 91.91), wave iii will peak at 92.10. Wave iii is already larger than wave (1). This is typical behavior for wave iii of 3 of (3). Raise the stop on today's purchase to 91.47. Raise the stop on the other two long positions to 91.29.





6/6 The market is now in wave 5 of iii. We purchased a third contract yesterday to capitalize on the expected acceleration in wave iii of 3 of (3). Since the target is 92.10, let's take this fast profit on the opening tomorrow. From this high, the corrections may become more volatile. Keep the stop on the remaining two long positions at 91.29.



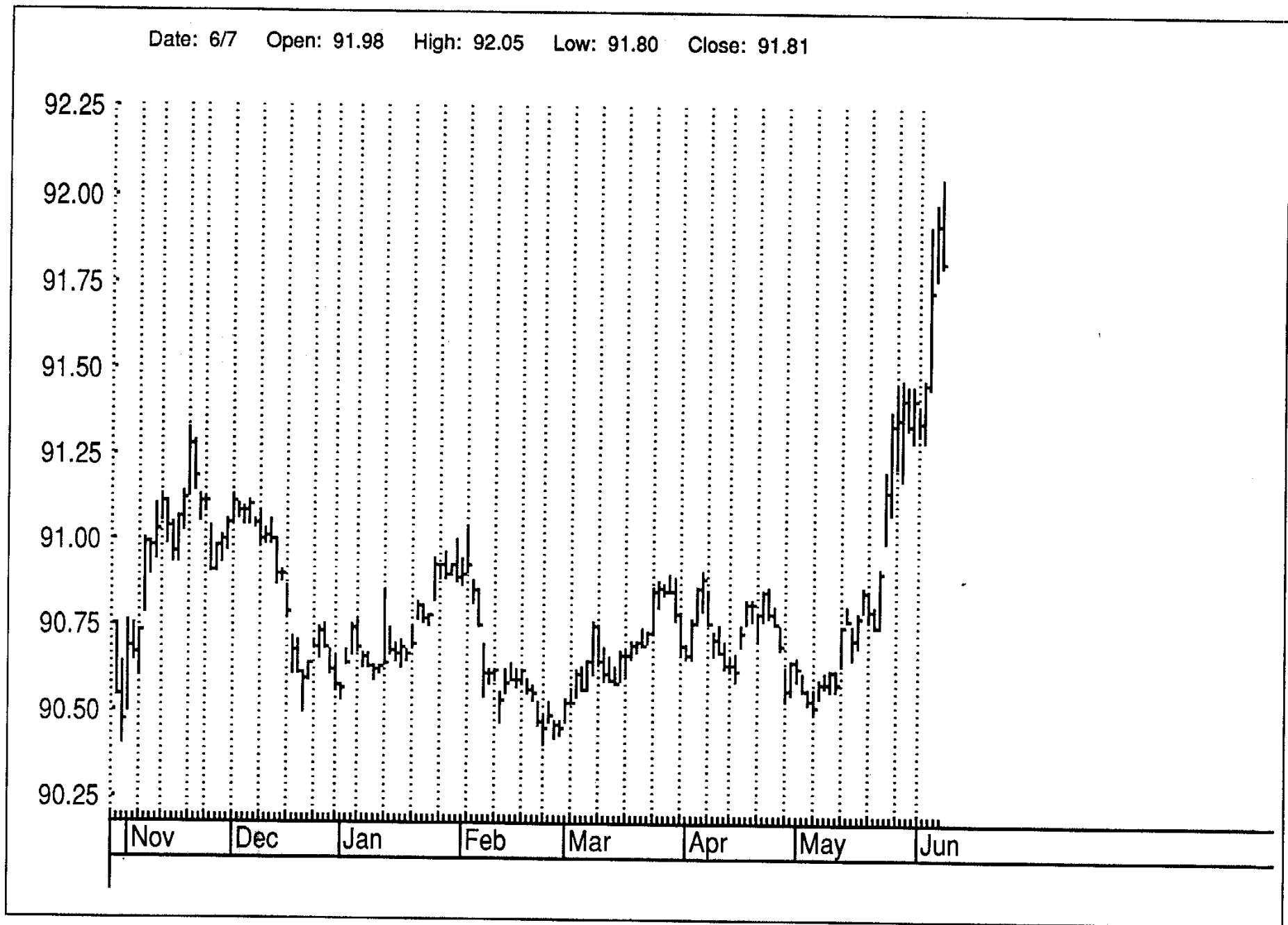


6/7 The long position was closed out at 91.98 with a profit of 51 points (53 less 2 points for commission). This quick trading opportunity could only have been recognized with the Elliott Wave Principle. Today's rally to 92.05 is near the mathematical target for wave 5 of iii (92.10). The weak closing suggests a wave iii has topped. If wave iv corrects to the previous fourth wave of one lesser degree, the market should bottom around 91.73 (the low of wave 4 of iii). If wave v equals $.618 \times$ the distance from the bottom of wave i to the top of wave iii (91.19 to 92.05) and wave iv bottoms at 91.73, wave v will peak at 92.26.

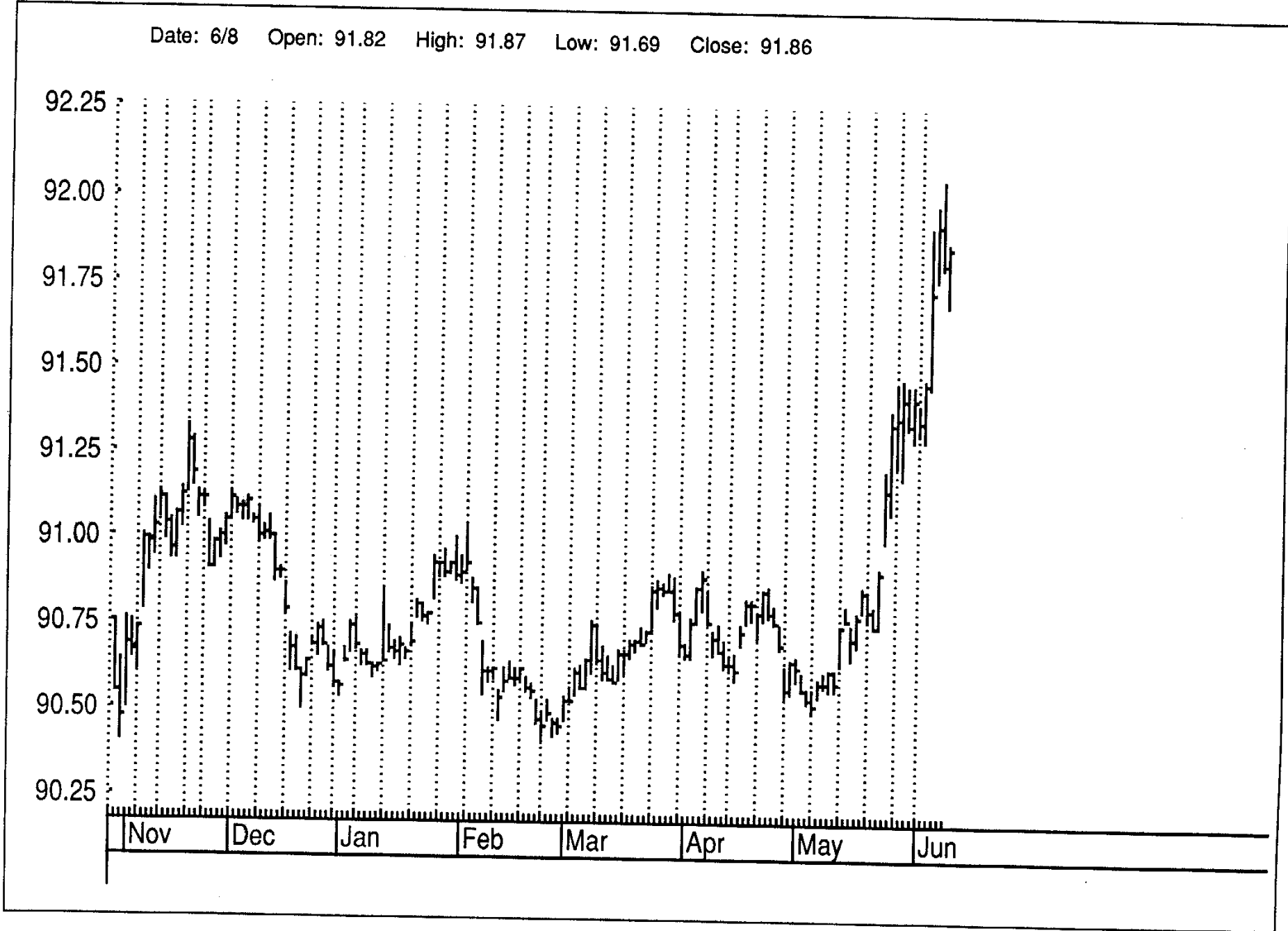
We can project a logical series of turning points that will complete the impulse from the 90.50 low. The calculations are as follows:

- If wave 3 of (3) peaks at 92.26 and wave 4 retraces to the previous fourth wave at 91.73, then wave 5 will peak at 92.66. This is based on wave 5 equaling $.618 \times$ the distance from the bottom of 1 (90.75) to the top of wave 3 (92.26).
- If wave (4) corrects to the previous fourth wave at 91.73, then wave (5) will top at 93.06. This is calculated by multiplying $.618 \times$ the distance from the bottom of wave (1) [90.50] to the top of wave (3) [92.66].
- A wave (c) peak at 93.06 is near our 92.88 target based on wave (c) equaling $2.618 \times$ the length of wave (a).

As the upmove progresses, our projections may have to be adjusted. However, they do provide a benchmark for conceptualizing how the drama will unfold.

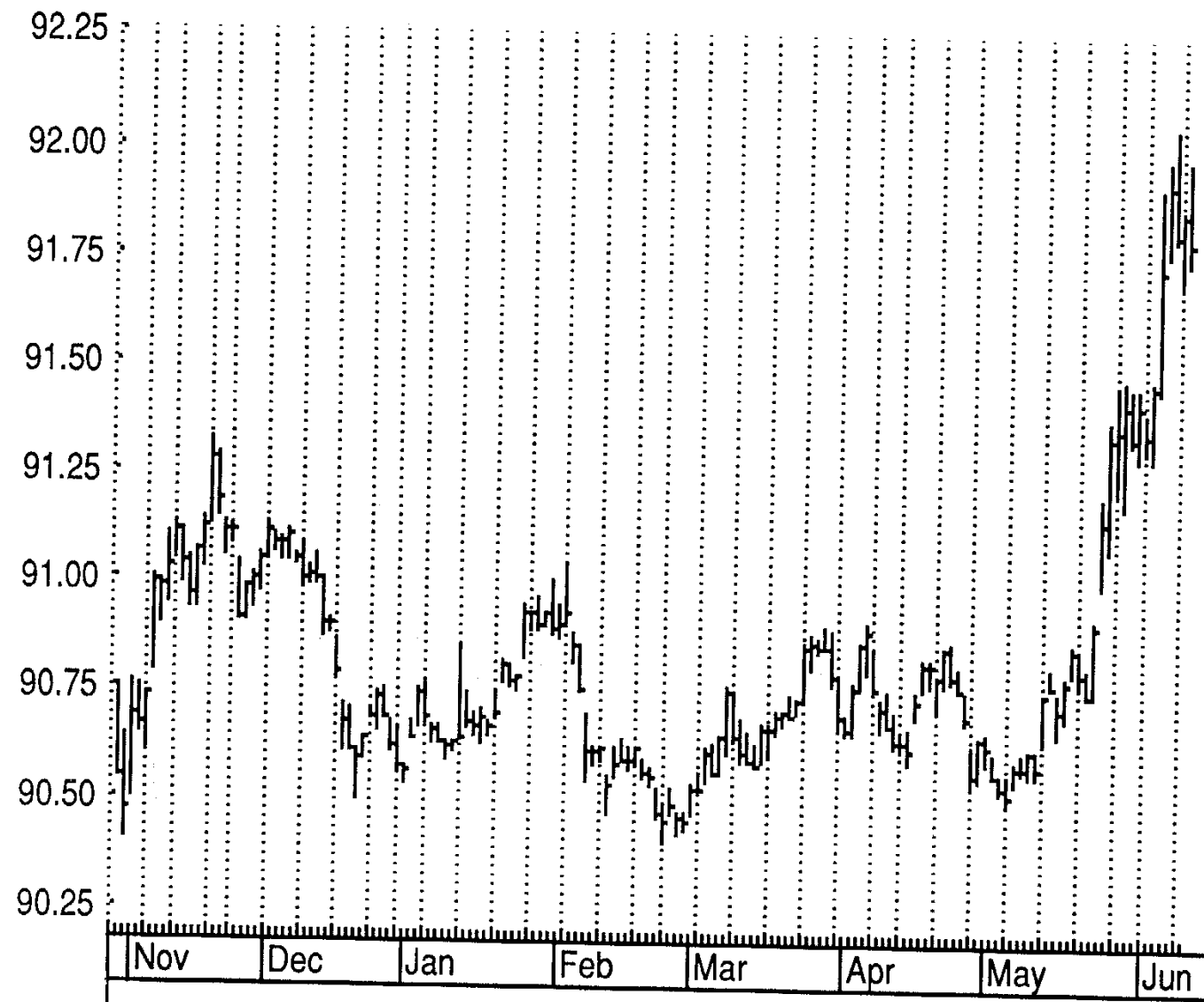


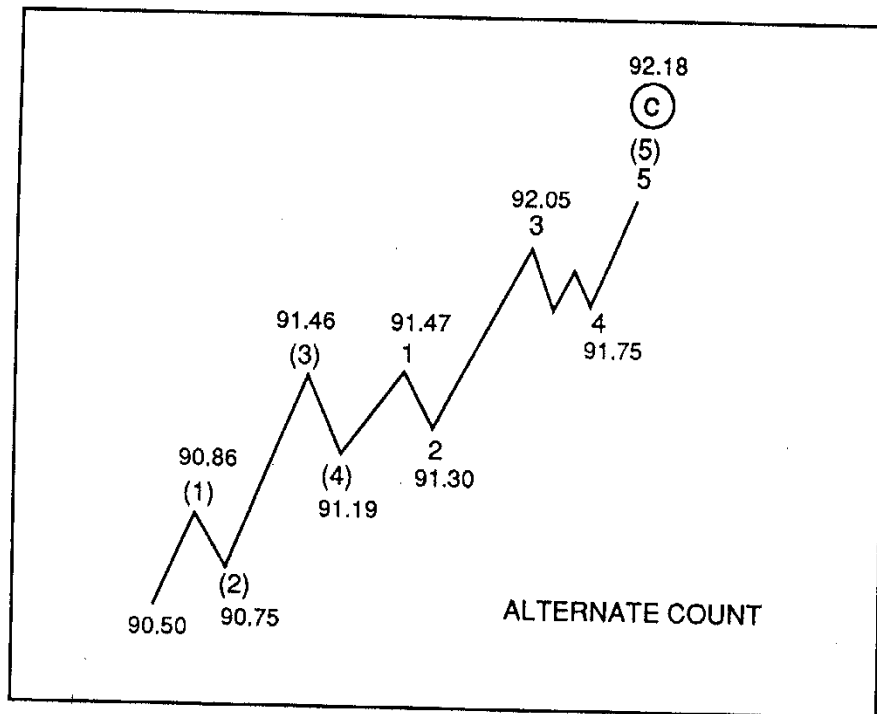
6/8 Wave iv of 3 of (3) is in progress. Today's decline may constitute wave a in this correction. Notice that the market exceeded the projected low of 91.73 by only 4 points and reversed to close on a strong note. Since wave ii was a simple zig-zag, a flat or triangle may develop in wave iv.



6/11 Today's rally to 91.98 came close enough to the previous high (92.05) to label it as a b wave. In a regular flat, wave c does not always retest the bottom of wave a. The pull-back on the close is at least part of the c-wave.

Date: 6/11 Open: 91.86 High: 91.98 Low: 91.75 Close: 91.79



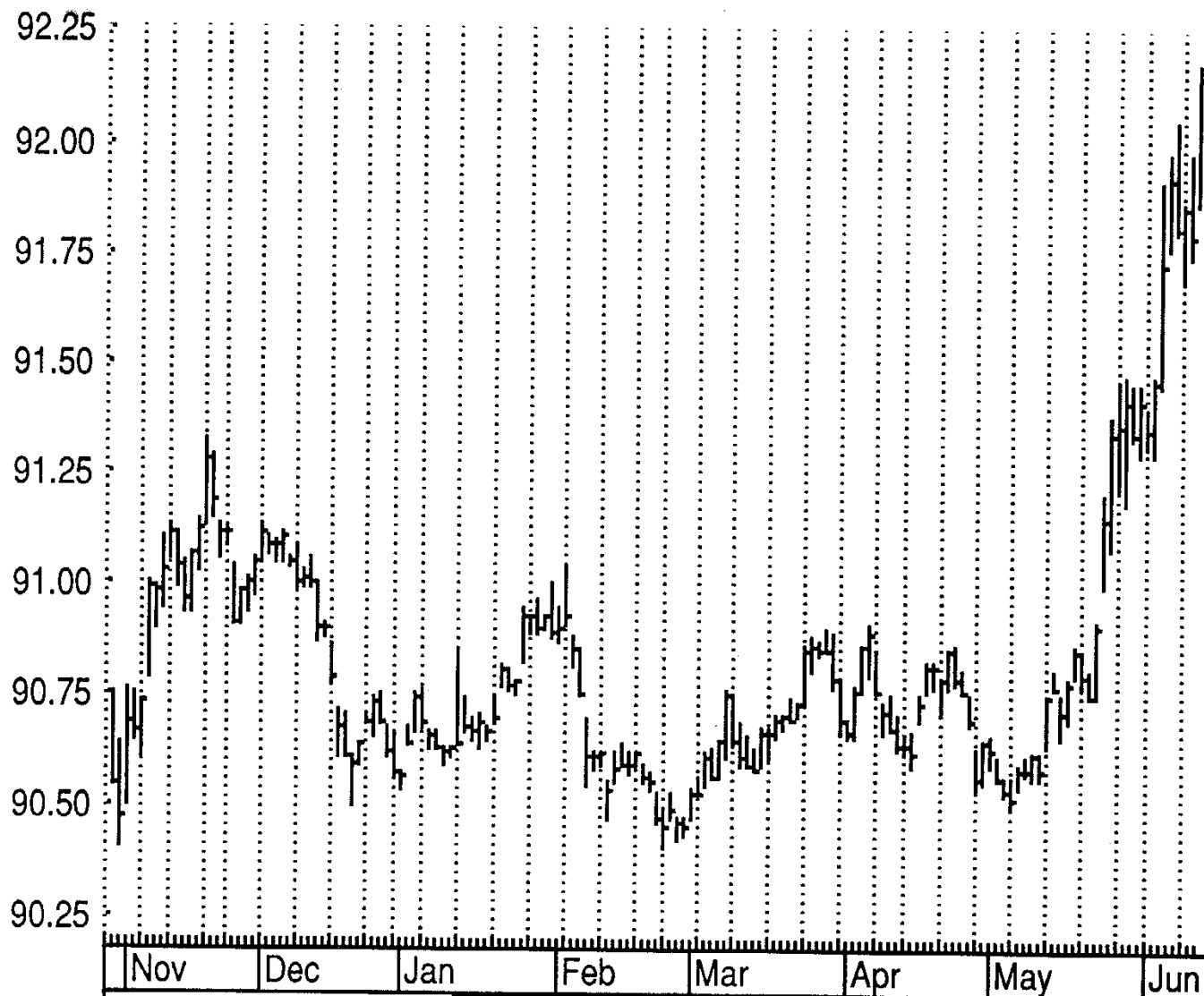


high at 92.18 as wave (5) of ©. There is some mathematical evidence in support of this bearish alternate count. First, the conservative target for the top of wave © was computed by multiplying the length of wave (a) x 1.618. This projected a target of 91.97 for wave ©. It has been fulfilled by the rally to 92.18. Second, the length of wave (5) [99 points] is almost equal to the 96 points gained in the rally from the bottom of wave (1) to the top of wave (3). Such a relationship is not uncommon. Given the strength of this alternate interpretation, we should reduce our exposure in the market. On tomorrow's opening, take profits on one of the two long positions established at 90.53 (5/3). Keep the stop at 91.29 on the remaining long position.

6/12 Yesterday's pull-back to 91.75 marked the bottom of wave iv of 3 of (3). This flat correction alternates with the simple zig-zag in wave ii. It is still possible that wave iv is forming an irregular correction. Today's high at 92.18 is only 8 points below the projected target of 92.26 shown on the "diagram of expectations" (see 6/7). Since wave iv bottomed at 91.75, the adjusted target for wave v of 5 of (3) would be 92.28.

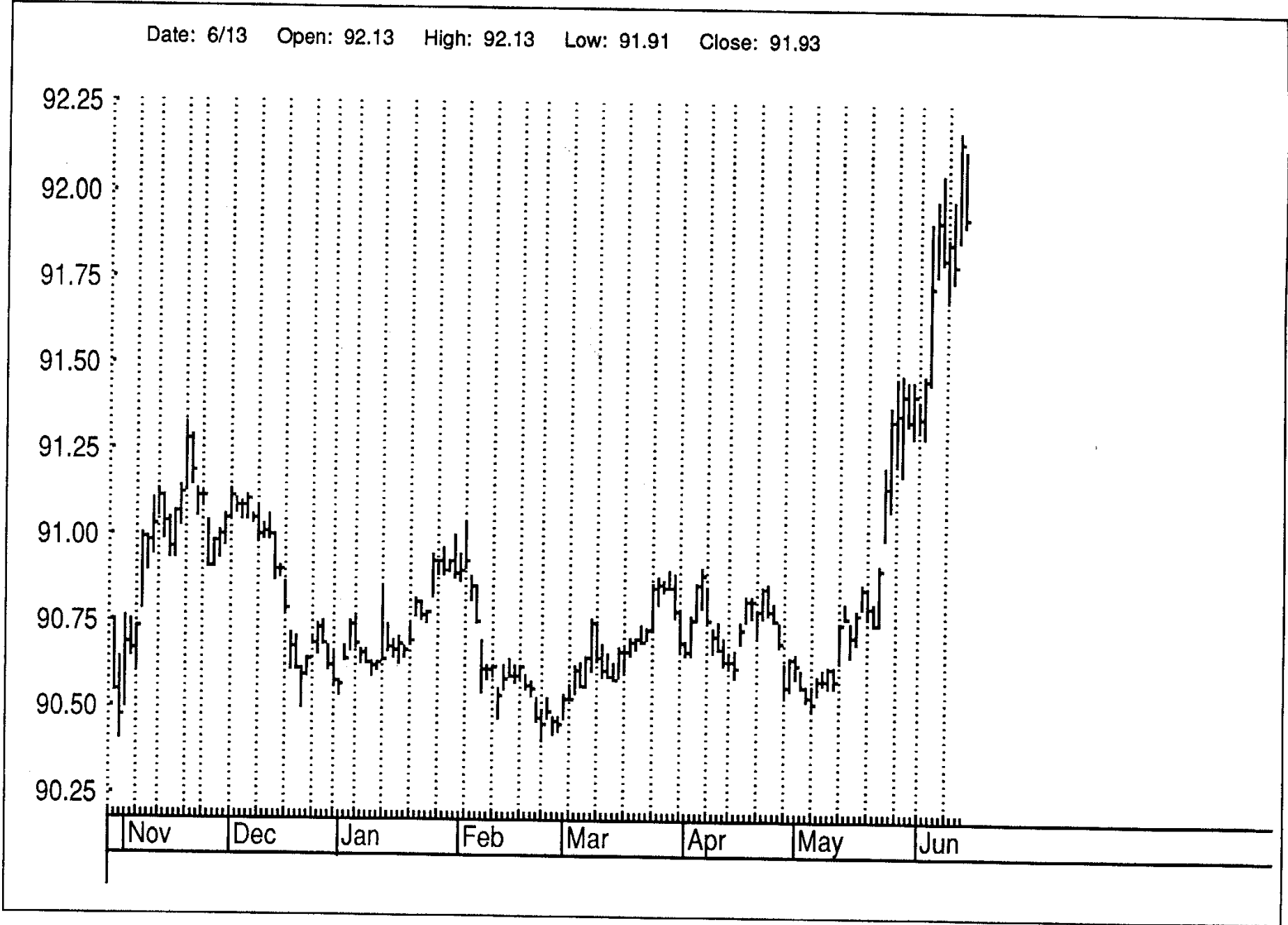
In the preferred count shown on 6/7, we labeled the decline from 91.46 to 91.19 (5/25 to 5/29) as wave 2 of (3) because it did not alternate with the previous correction from 90.86 to 90.75. Both corrections are simple zig-zags. While alternation does not always occur, I try to make wave counts that incorporate this feature because they better adhere to the dynamics of the Wave Principle. If the Rule of Alternation is not considered in the wave count, the sell-off from 91.46 to 91.19 can be labeled as wave (4), and the upmove from 91.19 to today's

Date: 6/12 Open: 91.92 High: 92.18 Low: 91.87 Close: 92.15



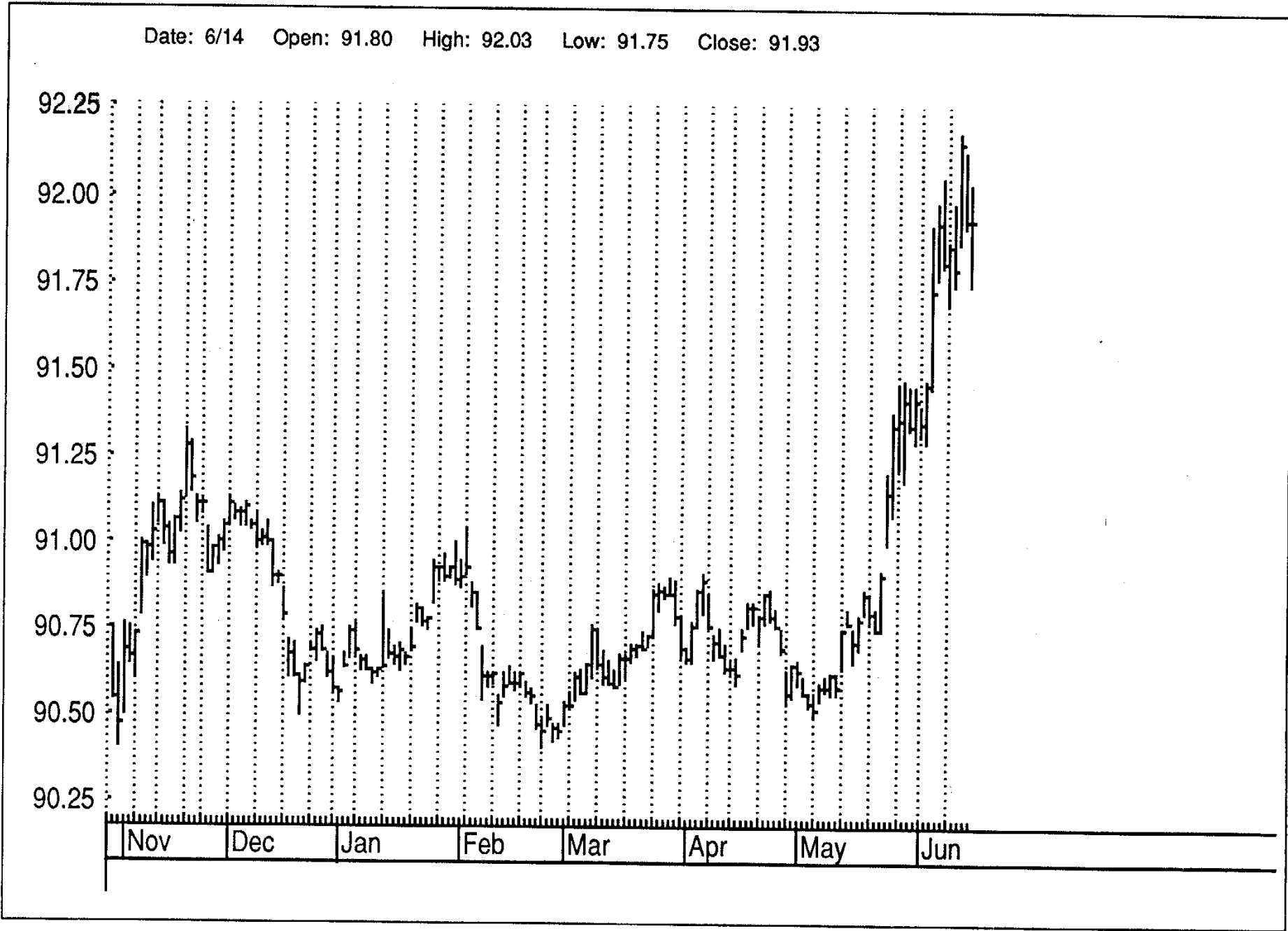


6/13 We took a 158 point profit (160 less 2 points for commission) on the opening today (92.13). Based on the preferred count, wave 4 of (3) should bottom in the 91.75-91.69 area where the fourth wave of one lesser degree ended. If the decline from 92.18 (6/12) subdivides into a five-wave pattern, we must give more consideration to the idea that wave © has topped. A more unlikely interpretation treats the decline from 92.05 (6/7) as an incomplete, irregular flat.

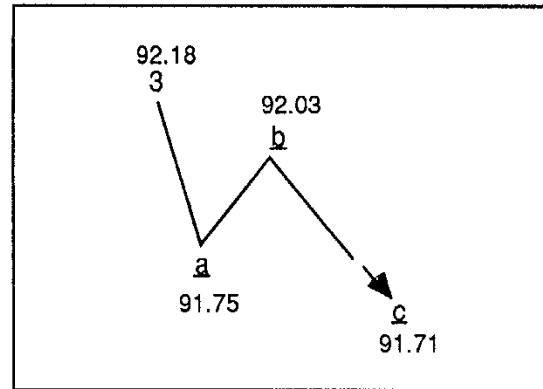


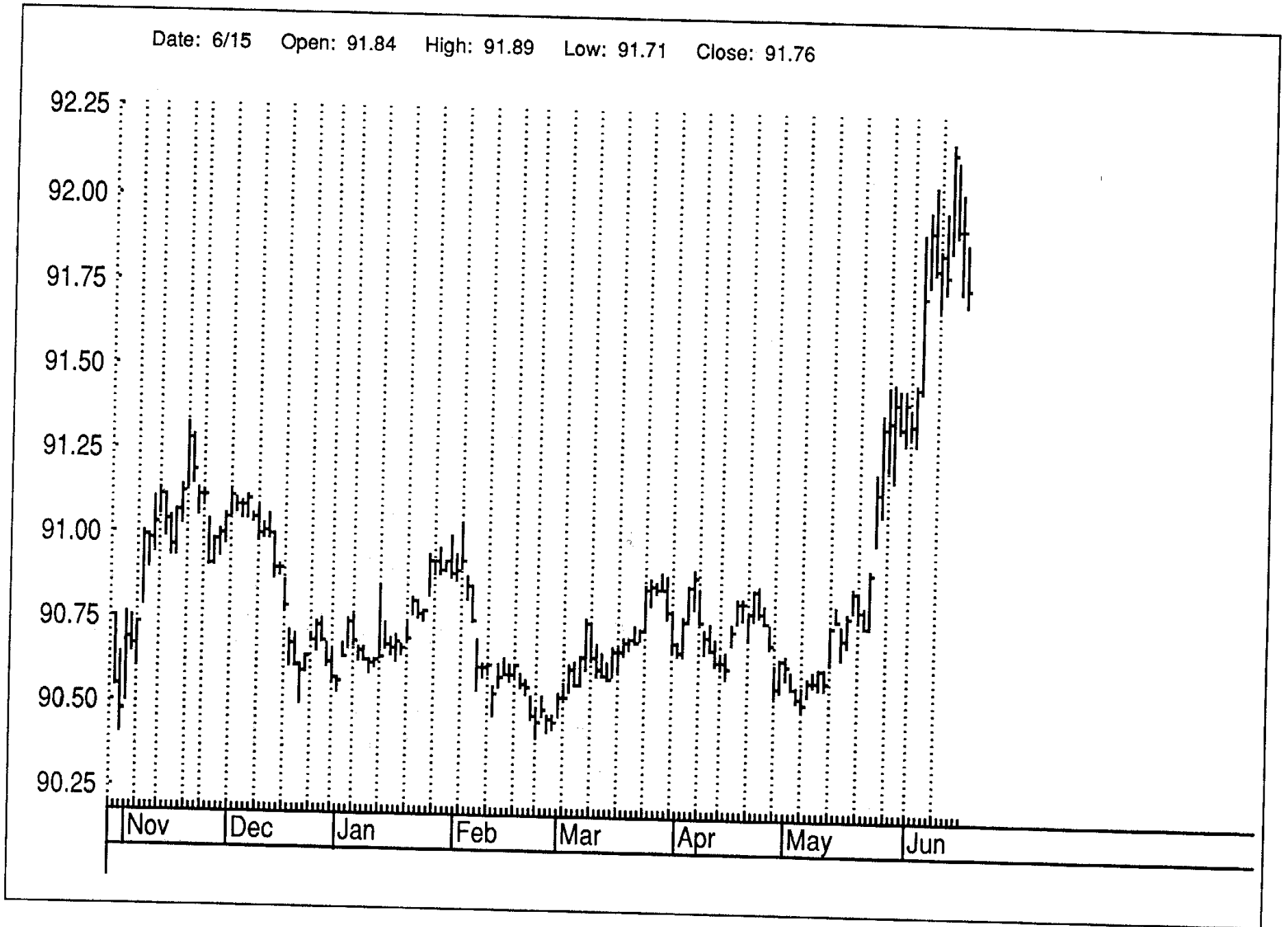
6/14 Based on the preferred count, today's low completed wave a of 4 of (3). The run-up into the 92.00 area on the close looks like a fast b wave. So far the correction is a zig-zag. We are long one contract with a stop at 91.29.

Date: 6/14 Open: 91.80 High: 92.03 Low: 91.75 Close: 91.93



6/15 The lack of follow-through after yesterday's reversal warns that the correction may be deeper than expected. From the high at 92.18 (6/12) the wave diagram shows that wave *c* is in progress. Notice that today's low (91.71) is within the previously mentioned target area of 91.75–91.69.

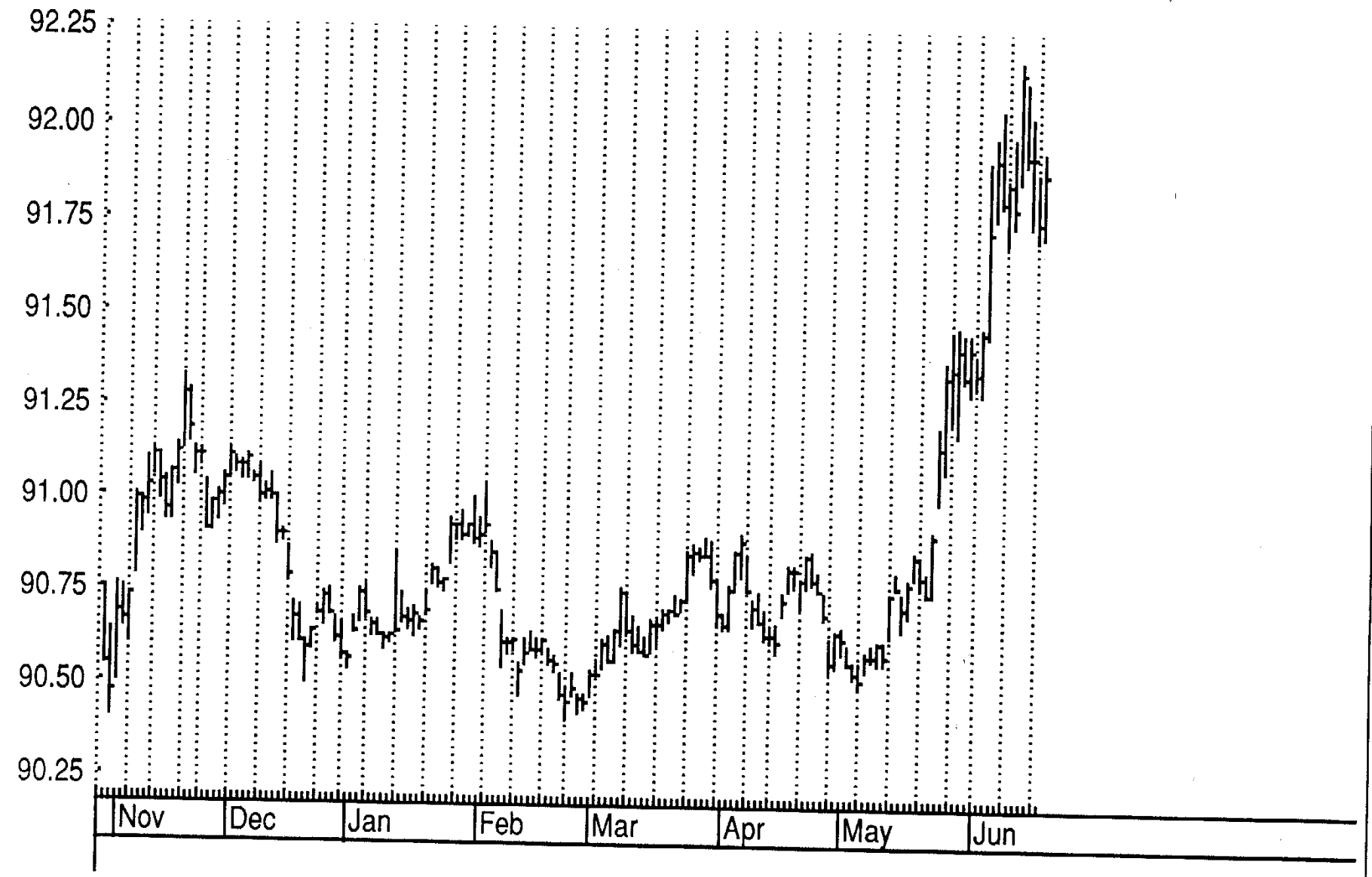




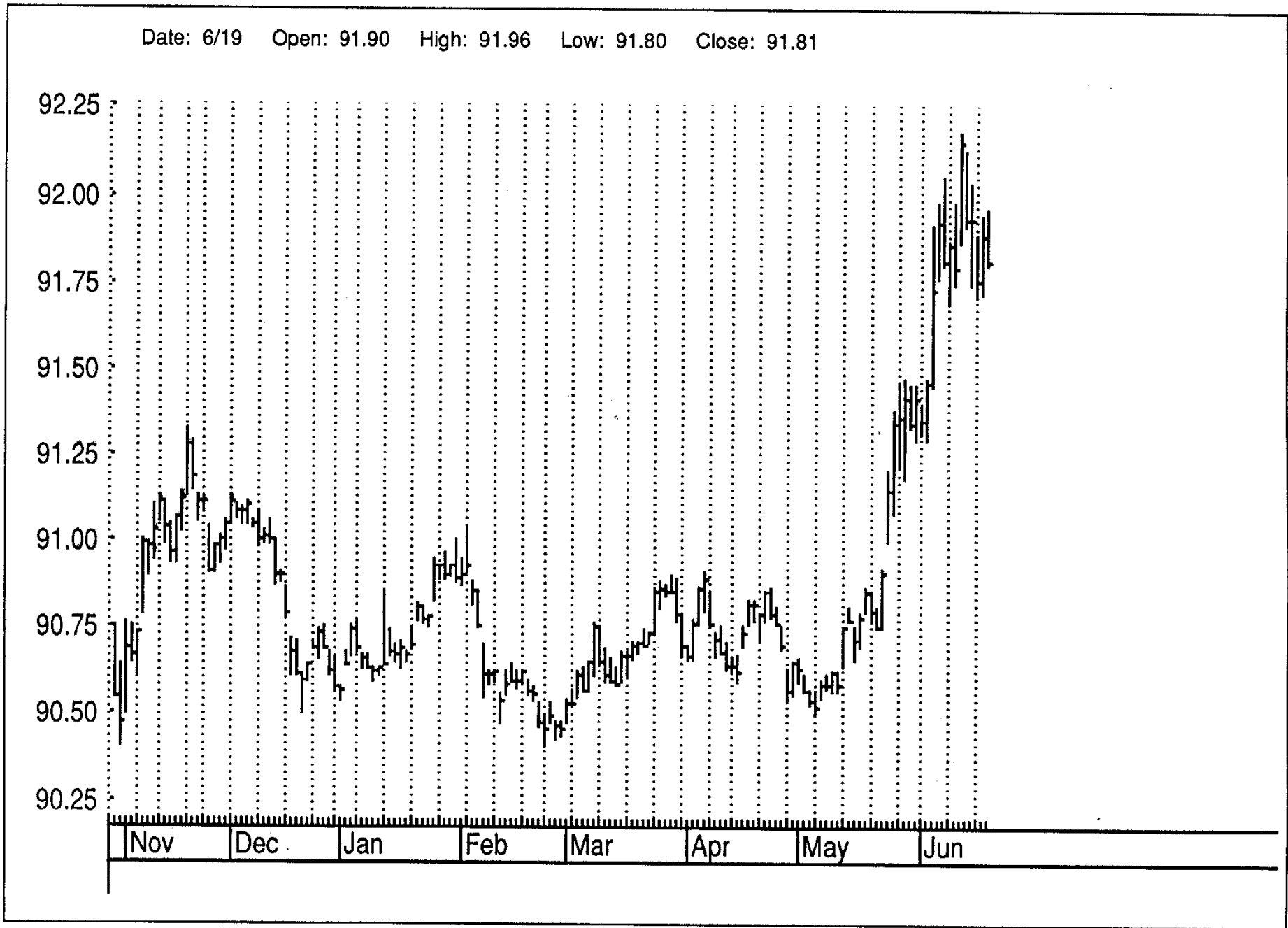


6/18 At yesterday's close, the market was in position to move lower. Instead, prices rallied above the previous day's high (91.89). The correction may be over. Let's go long on the opening tomorrow and protect with a close stop at 91.70. We are buying on minimal evidence and should risk only a few points. Our other long position is protected with a stop at 91.29.

Date: 6/18 Open: 91.73 High: 91.94 Low: 91.72 Close: 91.89

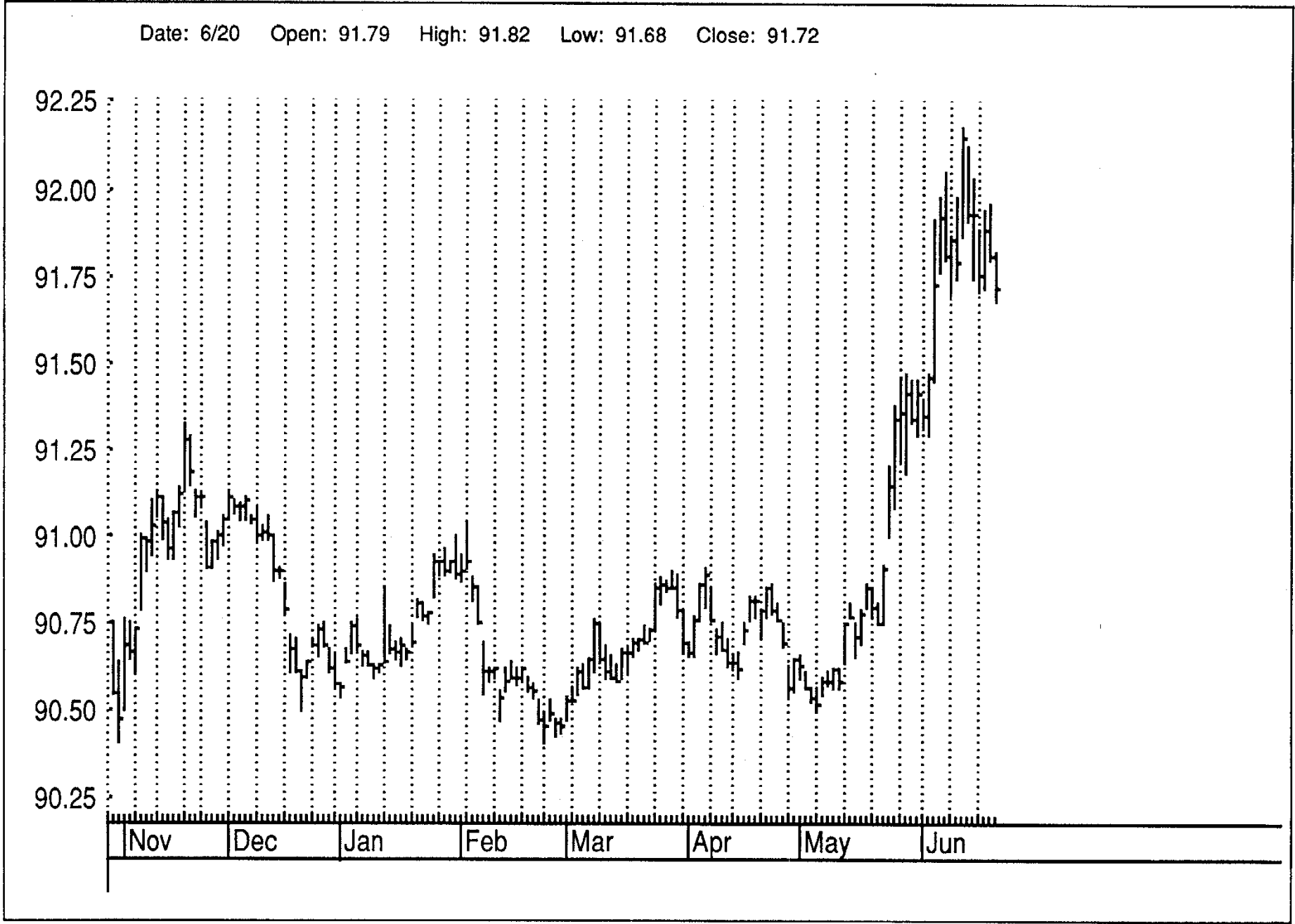


6/19 We went long today at 91.90. The intraday rally to 91.96 and correction to 91.80 may have completed waves i and ii of 5 of (3). A break below 91.71 will mean that the correction did not bottom on 6/15.



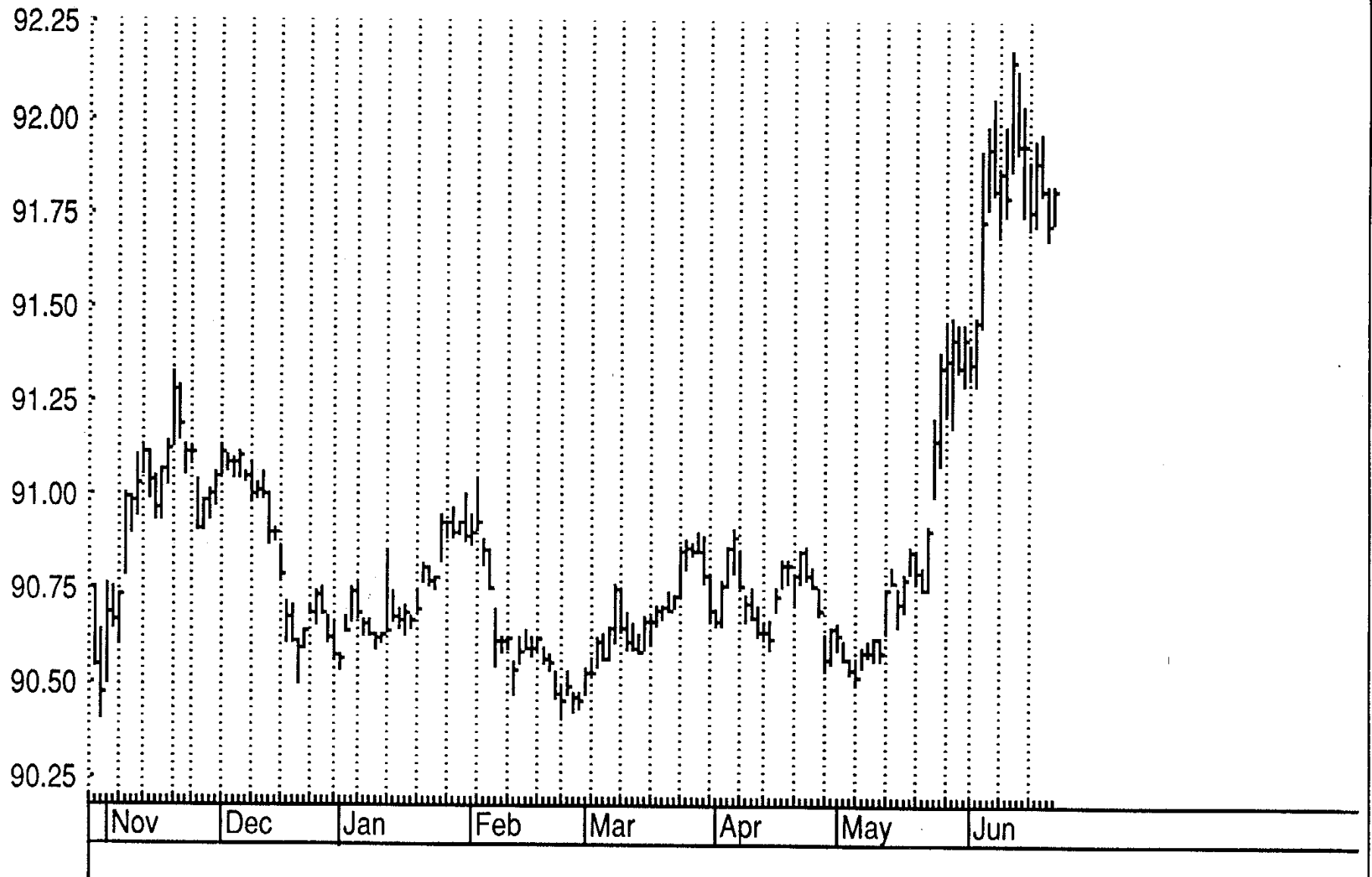


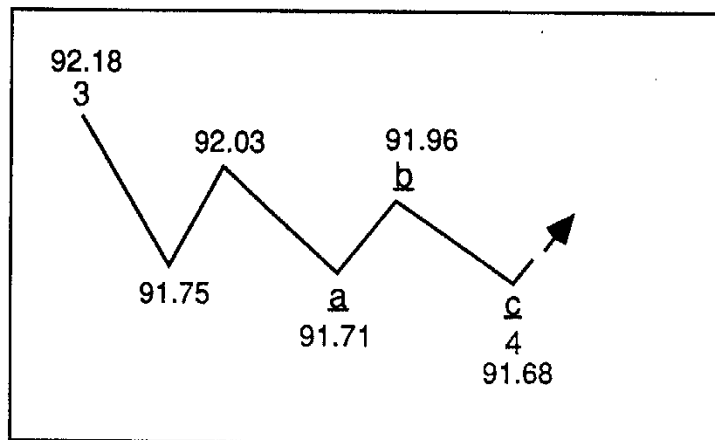
6/20 The recent long position was stopped out with a 22 point loss (including 2 points for commission), and the weak close puts the market in a precarious position. Today's low (91.68) is within the area where wave 4 of (3) should ideally bottom. With the market on the ropes, more weakness is expected. A move below 91.50 will give additional weight to the bearish interpretation that wave © has topped. Let's raise the stop on the remaining long position to 91.49.



6/21 No follow-through today. The market reversed upward as occurred on 6/18. This price action gives our bullish analysis new life. Because the decline from 92.18 to 91.68 is not a five-wave impulse, we can rule out the idea that an irregular flat has developed from 92.05 (6/7).

Date: 6/21 Open: 91.77 High: 91.82 Low: 91.73 Close: 91.81



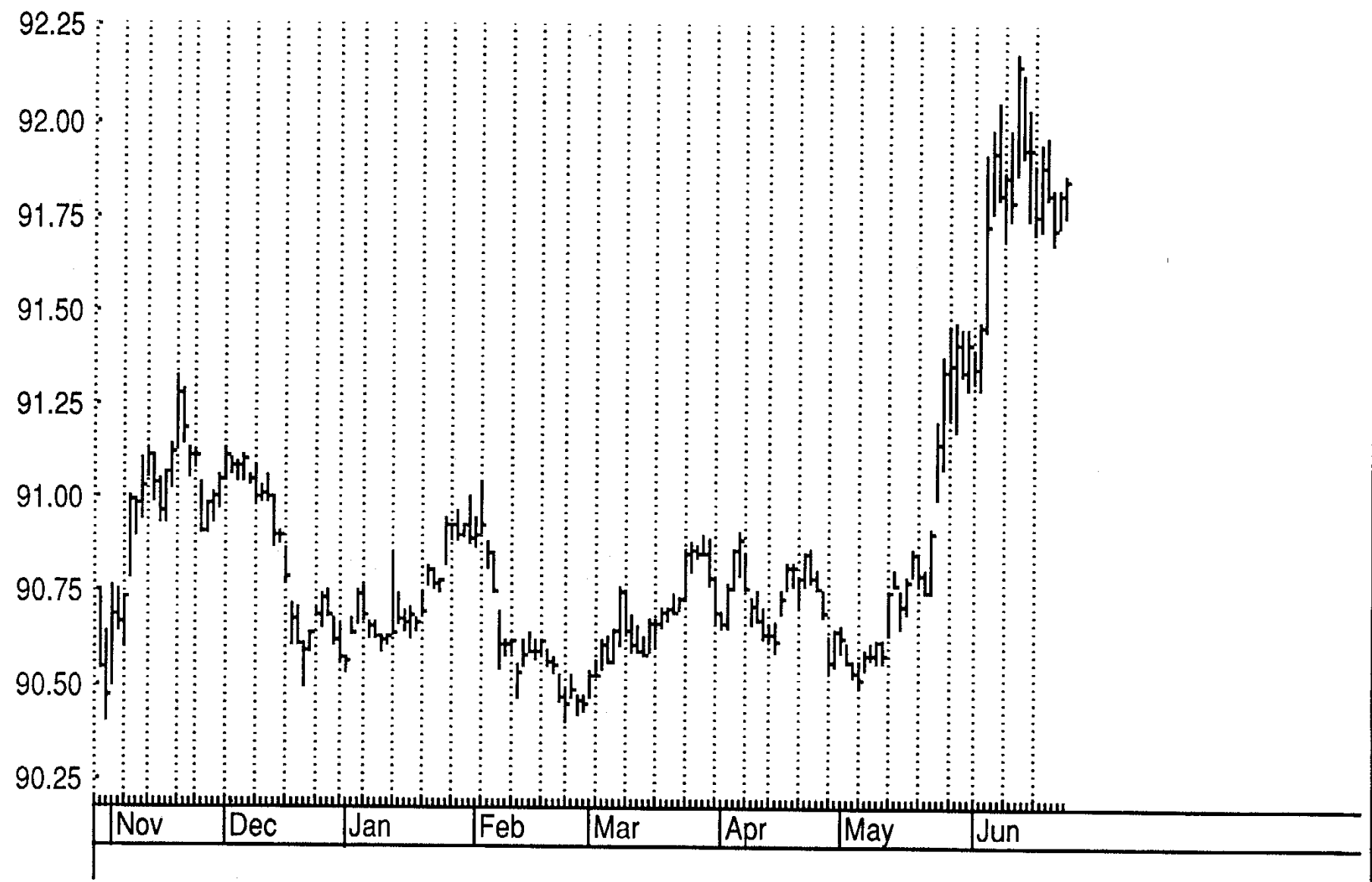


6/22 At this juncture, we have the following pattern on the daily chart from the 92.18 high to the 91.68 low. We need to determine if the correction is complete.

Because the sell-off from 91.96 (6/19) to 91.68 did not subdivide into a three-wave pattern, we know the decline from 92.18 is not a double zig-zag. The lower highs and lows from 92.18 rule out the possibility of a triangle. The simplest interpretation is that the decline from 92.18 (6/12) to 91.71 (6/15) was wave *a* in a flat. Wave *b* topped at 91.96 and wave *c* bottomed at 91.68. Generally, in a

regular flat the c-wave should not exceed the bottom of the a-wave. Even though our construction is not perfect Elliott, the correction itself has held in the area of the previous fourth wave bottom (91.75-91.69). Also, the reversals on 6/18 and 6/21 indicate the market is well-supported. If we stand back and look at the chart, we see that the decline from 92.18 has been orderly and shallow. Although our last probe on the long side was stopped out with a loss, we should not hesitate to buy again. Let's go long on the opening tomorrow and protect at 91.67. If wave 4 of (3) bottomed at 91.68, the mathematical target for wave 5 is 92.56. This is based on wave 5 equaling $.618 \times$ the distance from the bottom of wave 1 to the top of wave 3 (90.75 to 92.18). If wave 5 equals the length of wave 1 (90.75 to 91.46), then the target is 92.39. We are maintaining another long position with a stop at 91.49.

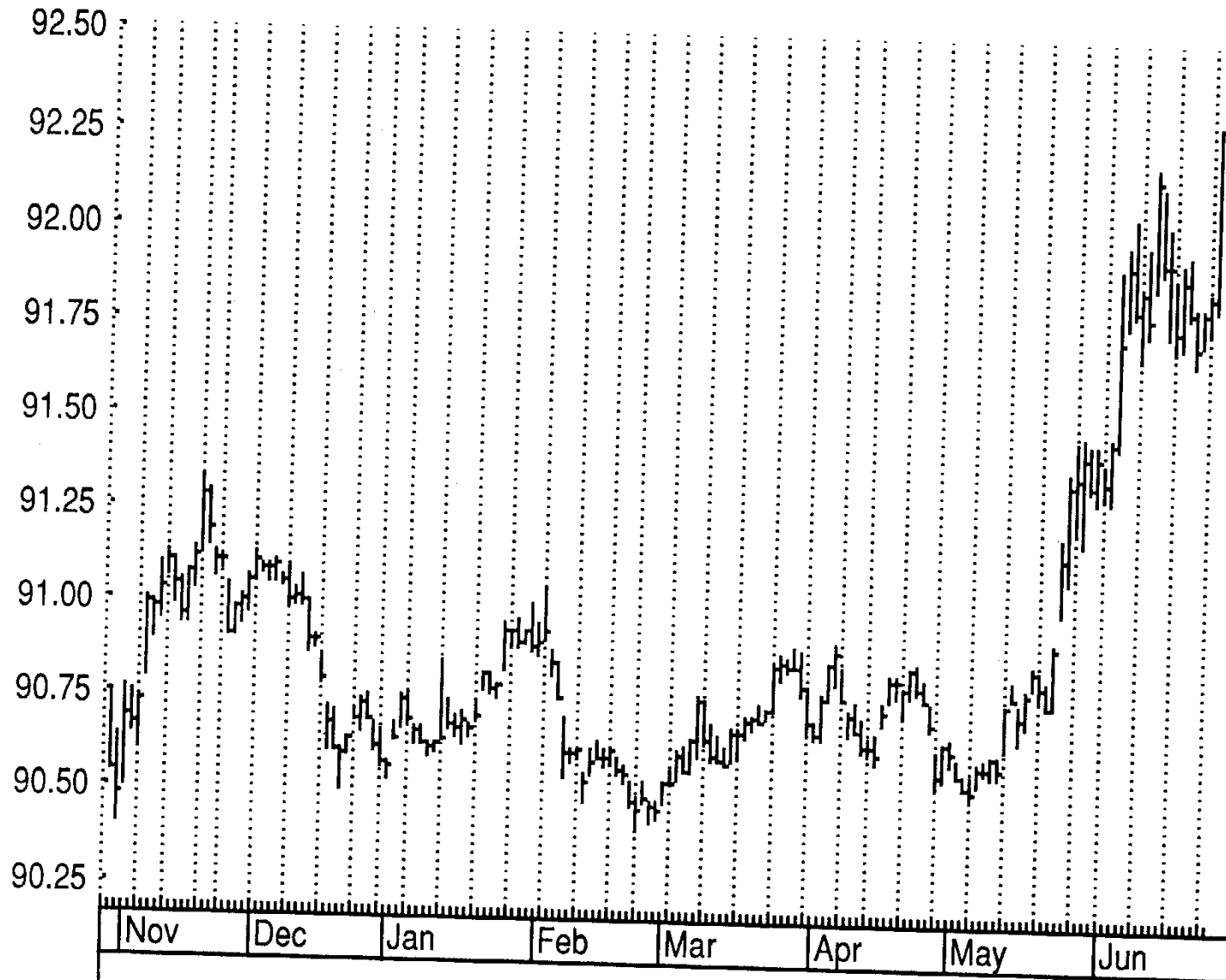
Date: 6/22 Open: 91.85 High: 91.86 Low: 91.76 Close: 91.85





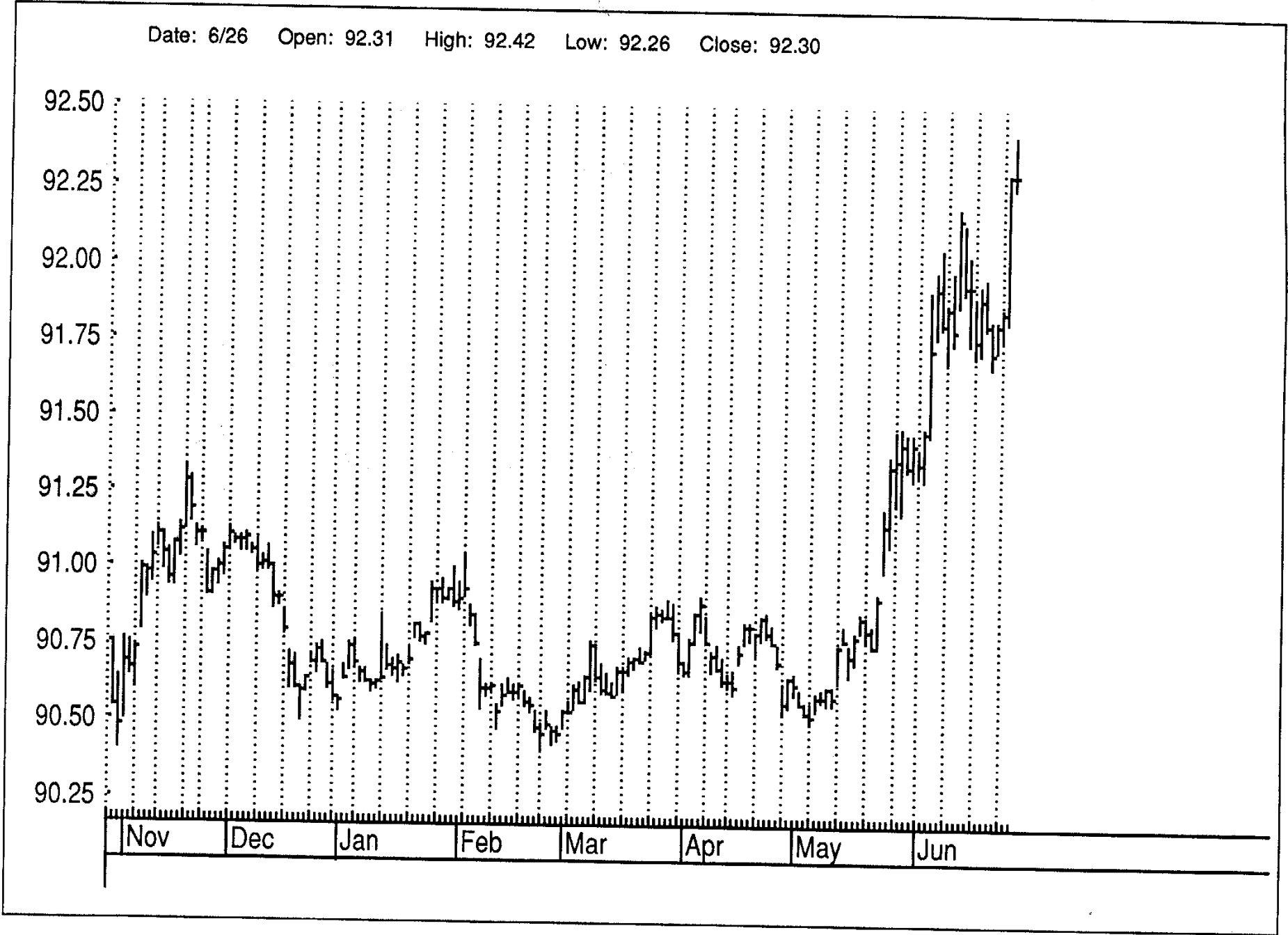
6/25 We went long today at 91.84 and should immediately raise all stops to 91.84. Wave 5 of (3) has exploded through 92.18. This rules out the alternate count that wave ③ has topped. From the low at 91.68, wave i of 5 peaked on 6/22 at 91.86. Wave ii bottomed on the same day at 91.76. (This can be deduced by checking the close on 6/21 and the opening on 6/22.) Today's rally is part of wave iii of 5.

Date: 6/25 Open: 91.84 High: 92.30 Low: 91.82 Close: 92.30





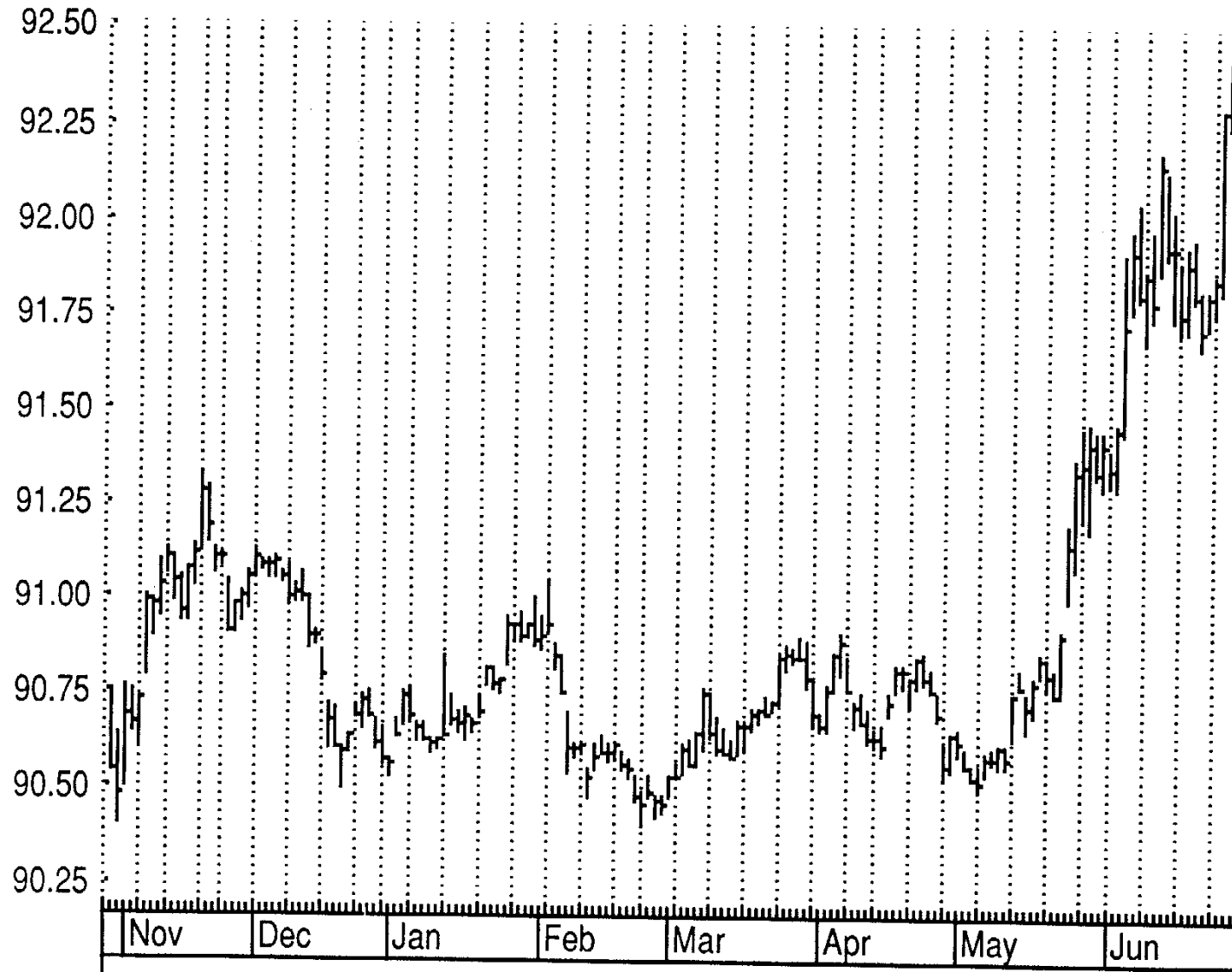
6/26 Wave iii peaked today at 92.42 fulfilling the minimum target of 92.39 for the top of wave 5 of (3). If wave iv bottomed on the intraday pull-back to 92.26, wave v of 5 of (3) could top at 92.71. This is based on wave v equaling $.618 \times$ the distance from the bottom of wave i to the top of wave iii (91.68 to 92.42). Since wave iii is so large, it is possible that wave v will equal the length of wave i (91.68 to 91.86). This would cause a move to 92.44 ($18 + 92.26 = 92.44$). We now have three targets: 92.44, 92.56, and 92.71. Let's take profits on both long positions on a rally above 92.42. An aggressive trader would go short on this rally and protect a few points above the highest target. Let's go short one contract above 92.42 and protect at 92.81. Wave (4) should return to 91.68, the previous fourth wave of one lesser degree. We are using the Wave Principle to take profits on strength. With our realized profits, we are able to go short at the point where the most rabid bear has run for cover.





6/27 Even without intraday data we can tell from today's price range that the market experienced a great deal of volatility. There were probably a couple of 20 point swings during the session. This kind of behavior suggests that wave 5 of (3) has topped. Wave iv of 5 of (3) bottomed at 92.20 prior to the final surge to 92.50. It is possible, however, that an irregular wave iv has occurred from yesterday's high (92.42). In this case, the market should rally to a new high. We took profits at 92.43 on the long positions established at 90.53 and 91.84. The total profit is 245 points (249 less 4 points for commission). We are now short one contract at 92.43 with a stop at 92.81.

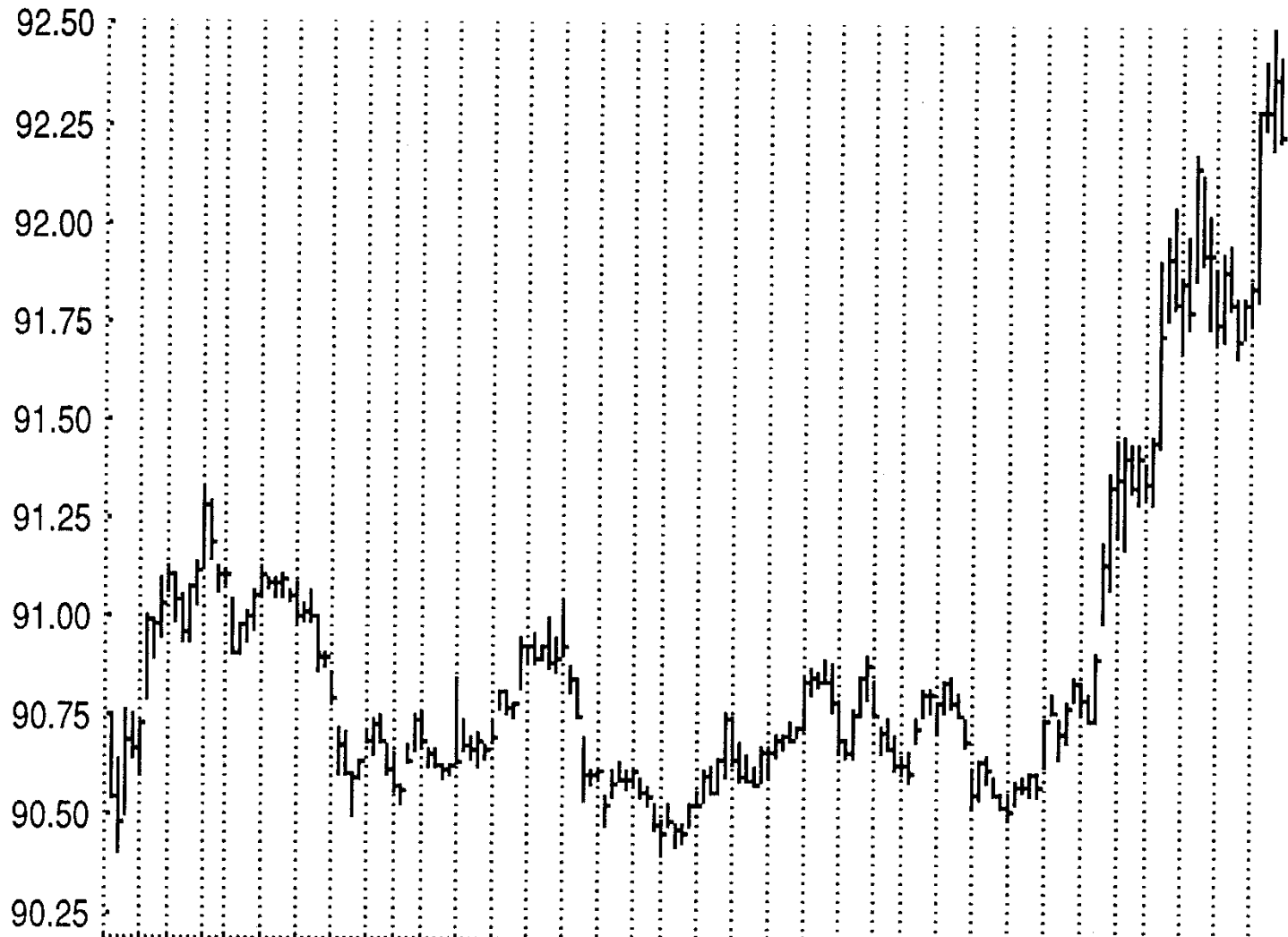
Date: 6/27 Open: 92.30 High: 92.50 Low: 92.20 Close: 92.38



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6/28 The most straight-forward examination of this chart indicates that wave v of 5 of (3) topped yesterday at 92.50. This top was squarely in the middle of our mathematical targets. Stay short and keep the stop at 92.81. Since wave (2) was a simple zig-zag, it is possible that wave (4) will form an irregular correction in which the b-wave will exceed 92.50.

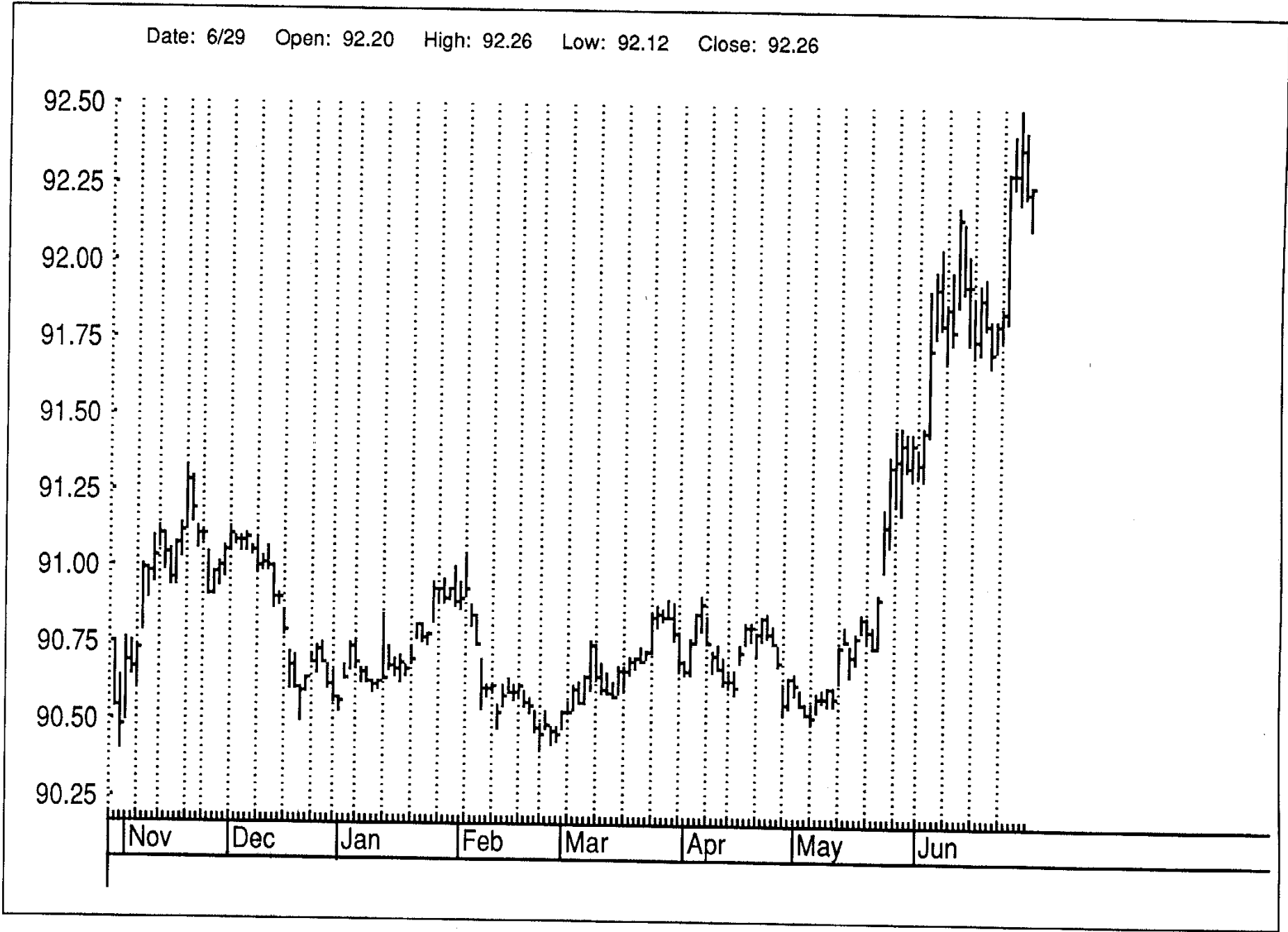
Date: 6/28 Open: 92.33 High: 92.43 Low: 92.23 Close: 92.24



Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
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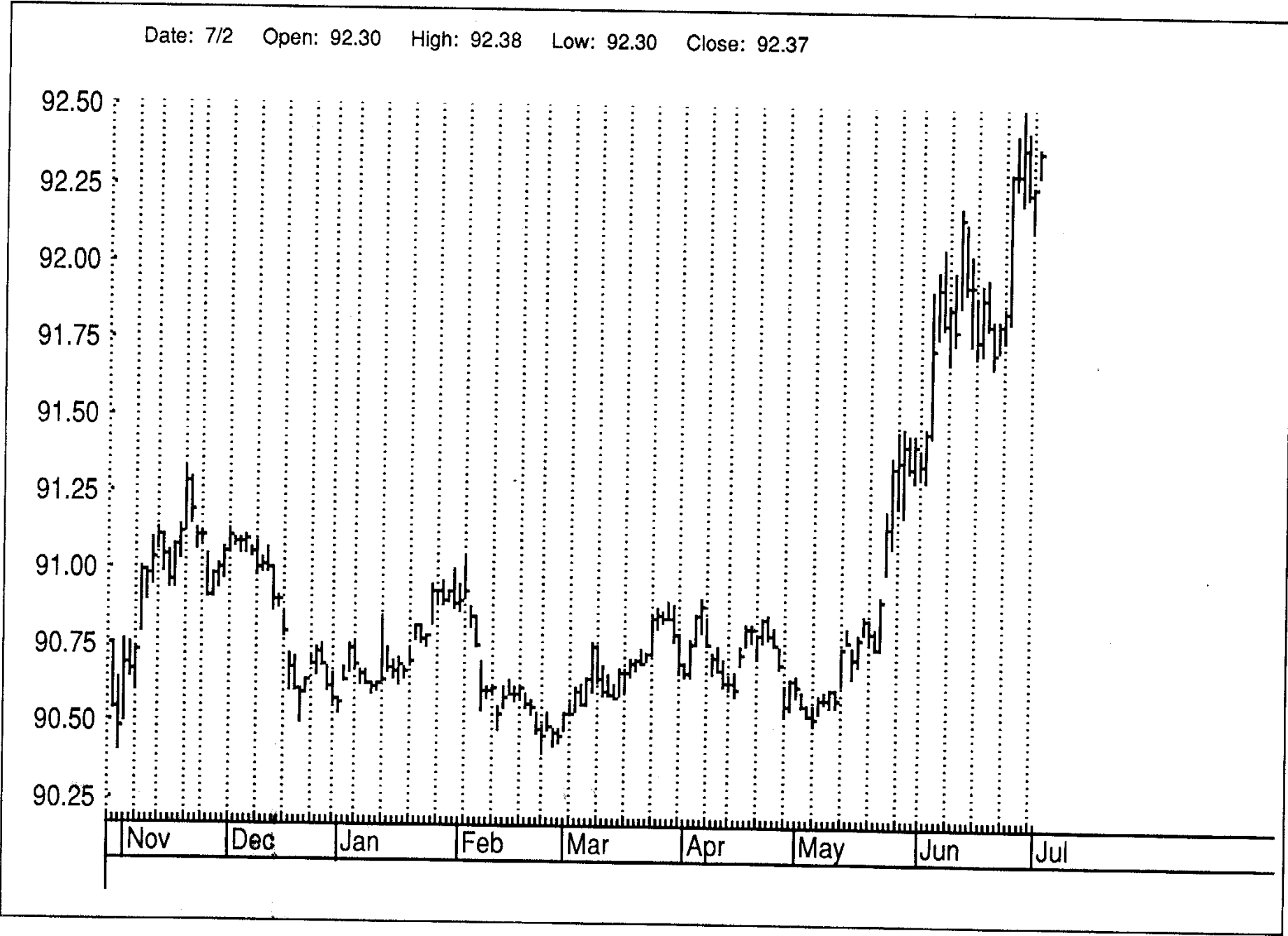


6/29 Today's break completes either wave "a" of (4) or wave i of "a". The reversal on the close indicates a rally is coming. You know the news surrounding this market must be extremely bullish. It is interesting to note that this week's high occurred 34 weeks from the low of October 31. The number "34" is part of the Fibonacci summation series. Stay short.

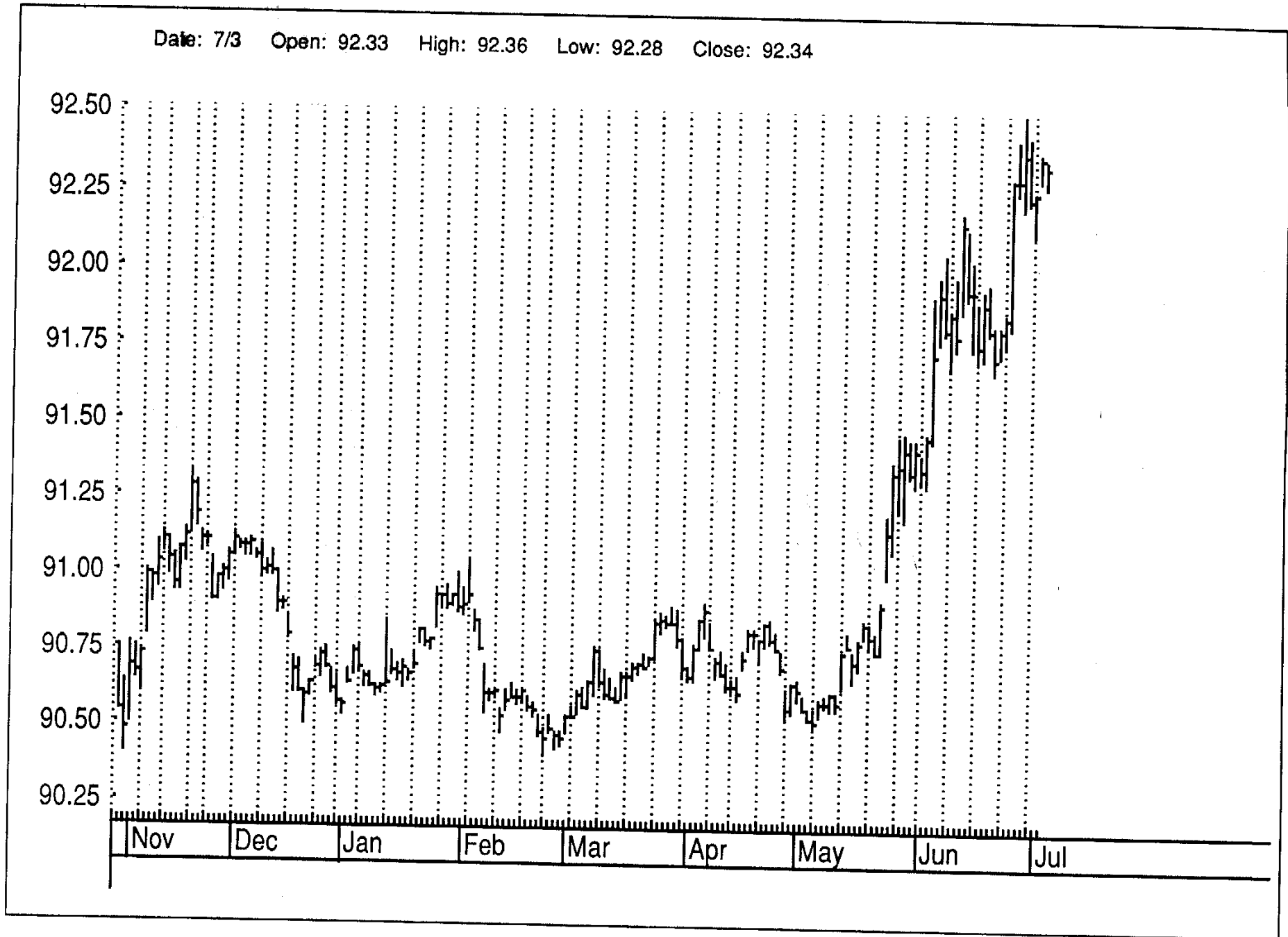




7/2 Today's rally is at least part of wave "b" of (4) or wave ii of "a". I suppose we should consider the possibility that wave 5 of (3) will be extended. However, the peak at 92.50 was pinpointed from three directions. If a new high is made, I am betting on it being a b-wave. We are short one contract with a stop at 92.81.

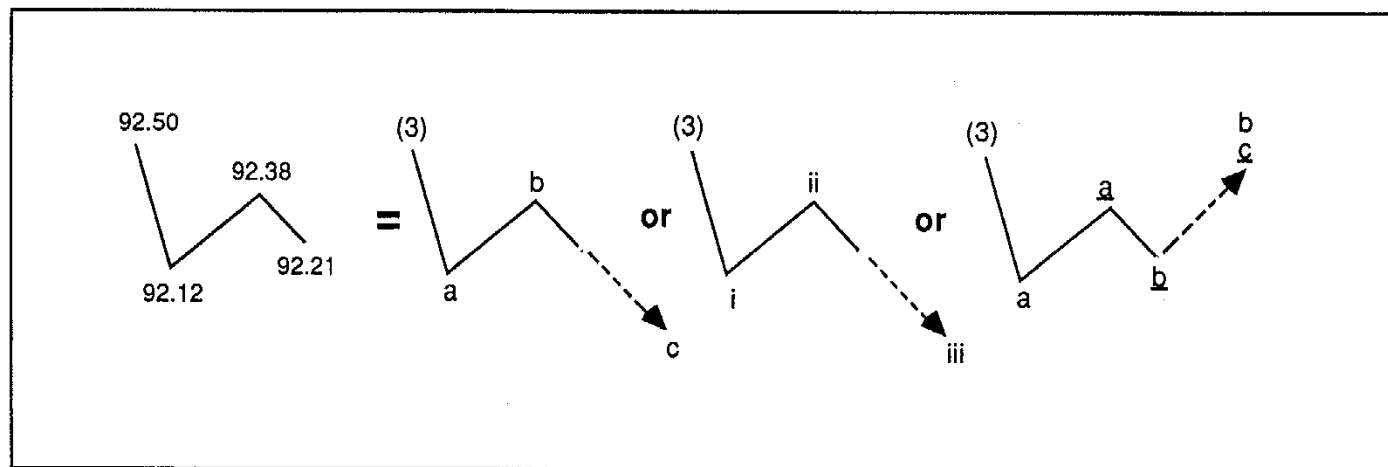


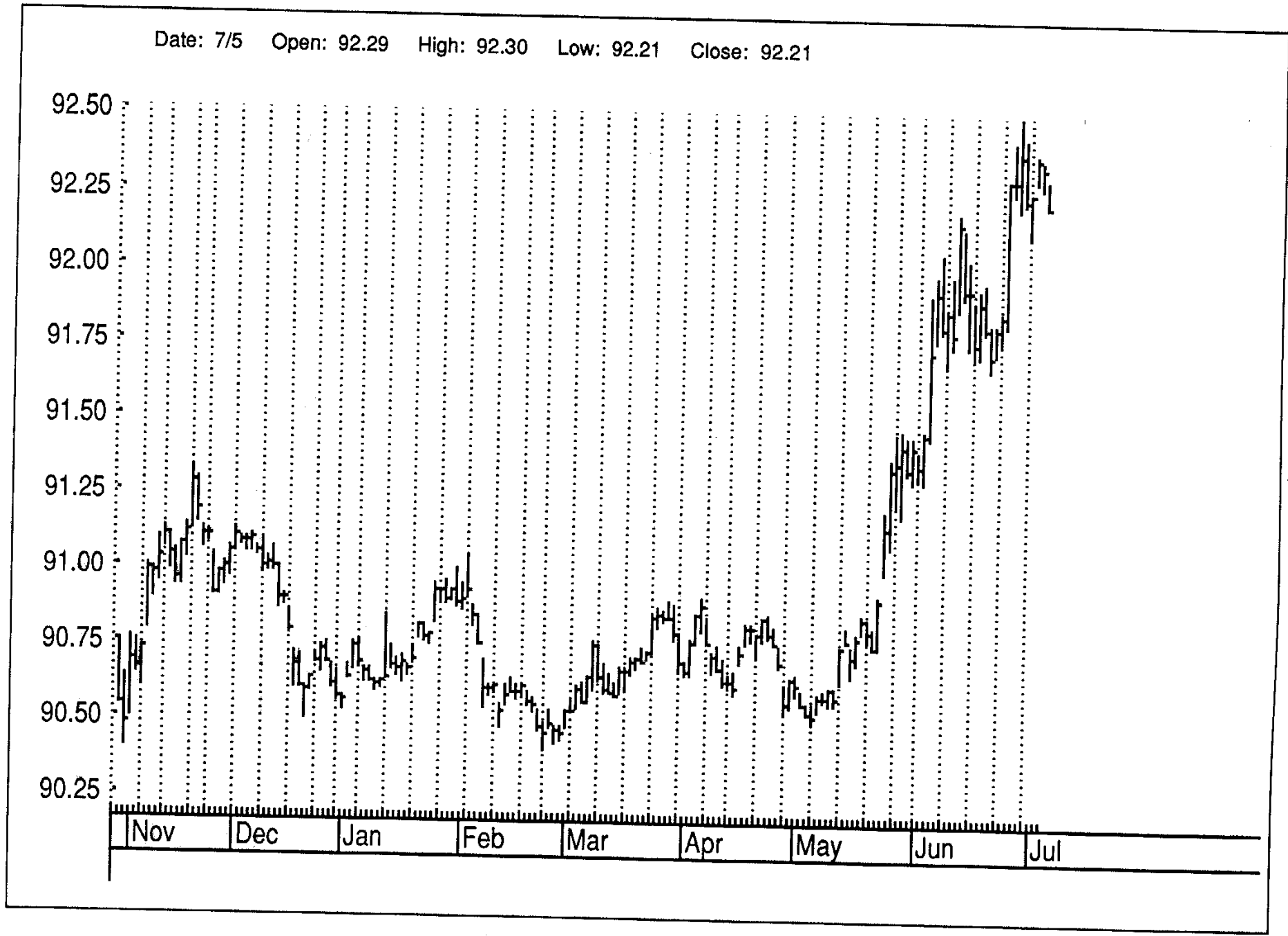
7/3 The market was supported today as prices closed well off the low. Yesterday's high at 92.38 may have completed wave a of "b". We have to await more information.



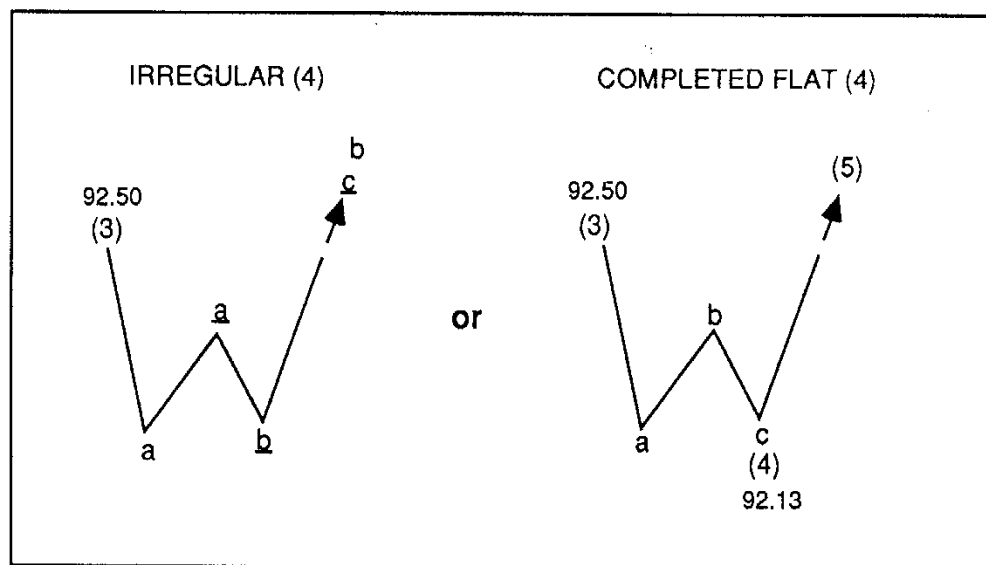


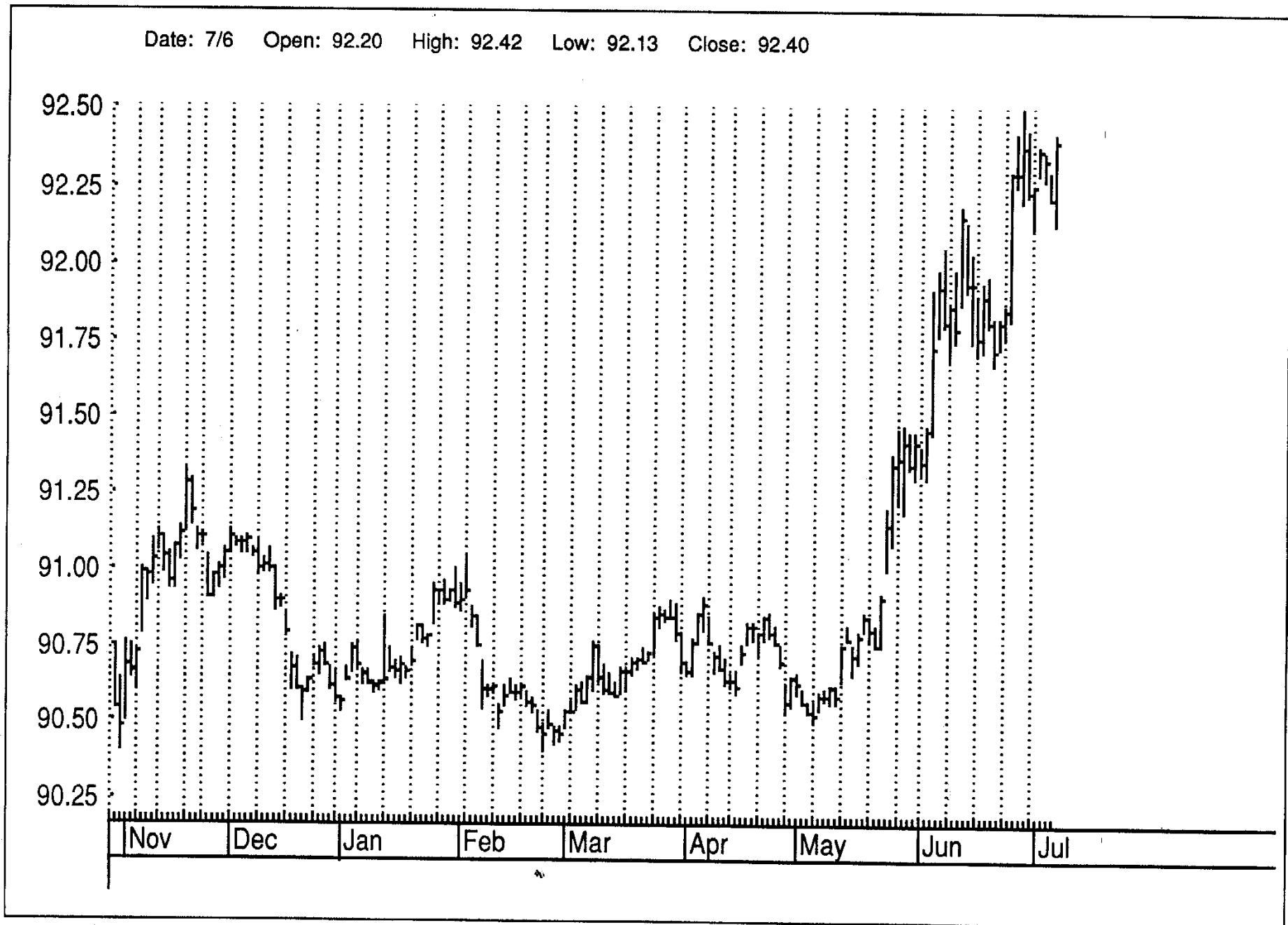
7/5 As diagramed below, the sell-off from 92.50 can be counted in three ways: wave "c" of (4), wave iii of "a" of (4), or wave b of "b" of (4).





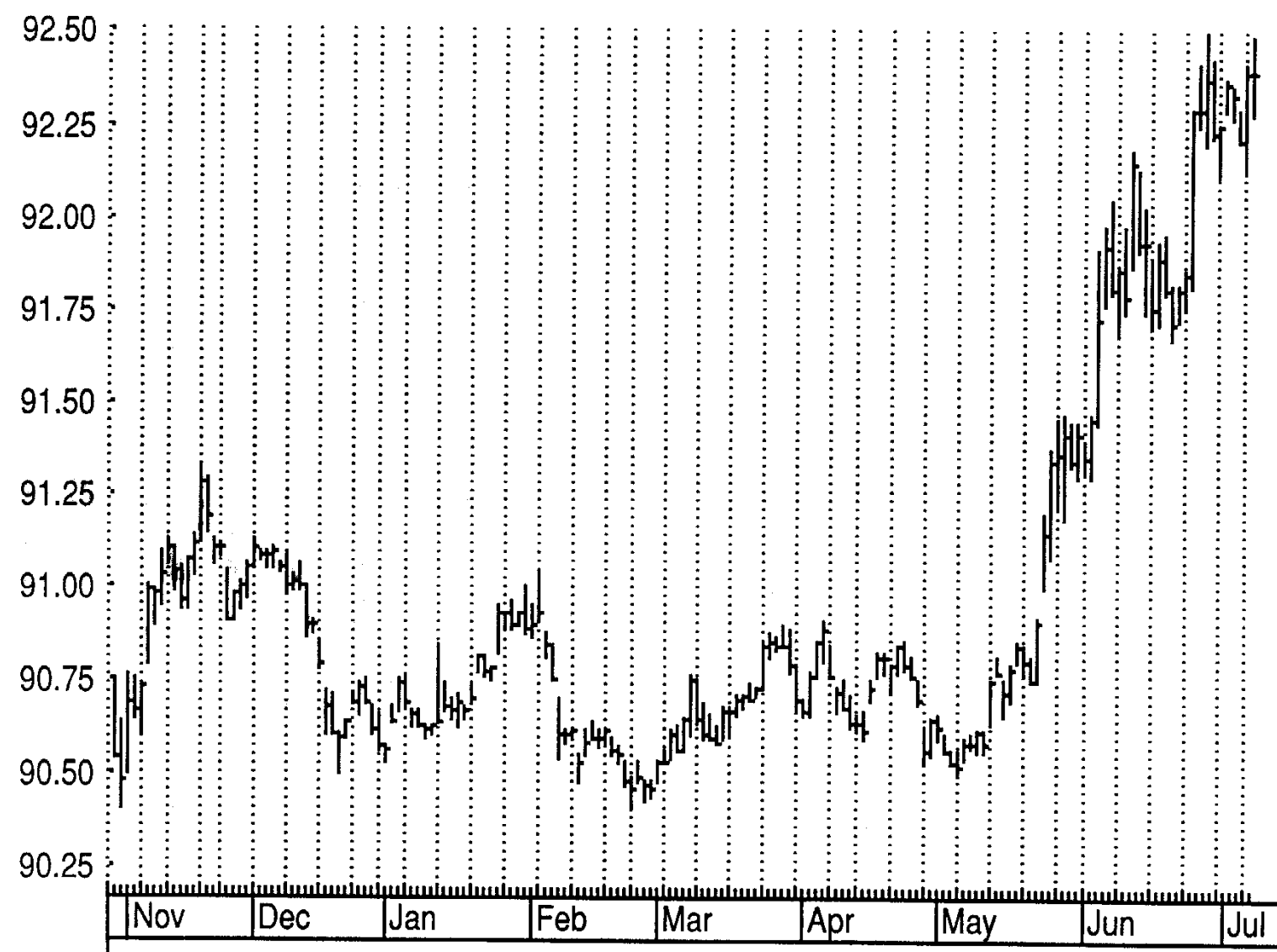
7/6 As already noted, if the market moves above 92.50, we will have to consider that an irregular (4)th wave is underway. But we are now faced with another possibility: wave (4) may have formed a simple flat that bottomed today at 92.13. Since wave (2) was a simple zig-zag, a flat in wave (4) would satisfy the Rule of Alternation. Using this count, the projection for the top of wave (5) is 93.36, based on $.618 \times$ the distance from 90.50 to 92.50. Another target, 92.49, is derived from the phenomenon that waves (1) and (5) are often equal in length when wave (3) is extended. (In the upmove from 90.50, wave 3 of (3) was extended.) If wave (5) equals the length of wave (1) [90.50 to 90.86], the rally from 92.13 will peak at 92.49. Since wave (3) topped at 92.50, a rally to 92.49 would constitute a wave (5) failure. Stay short and keep the stop at 92.81.





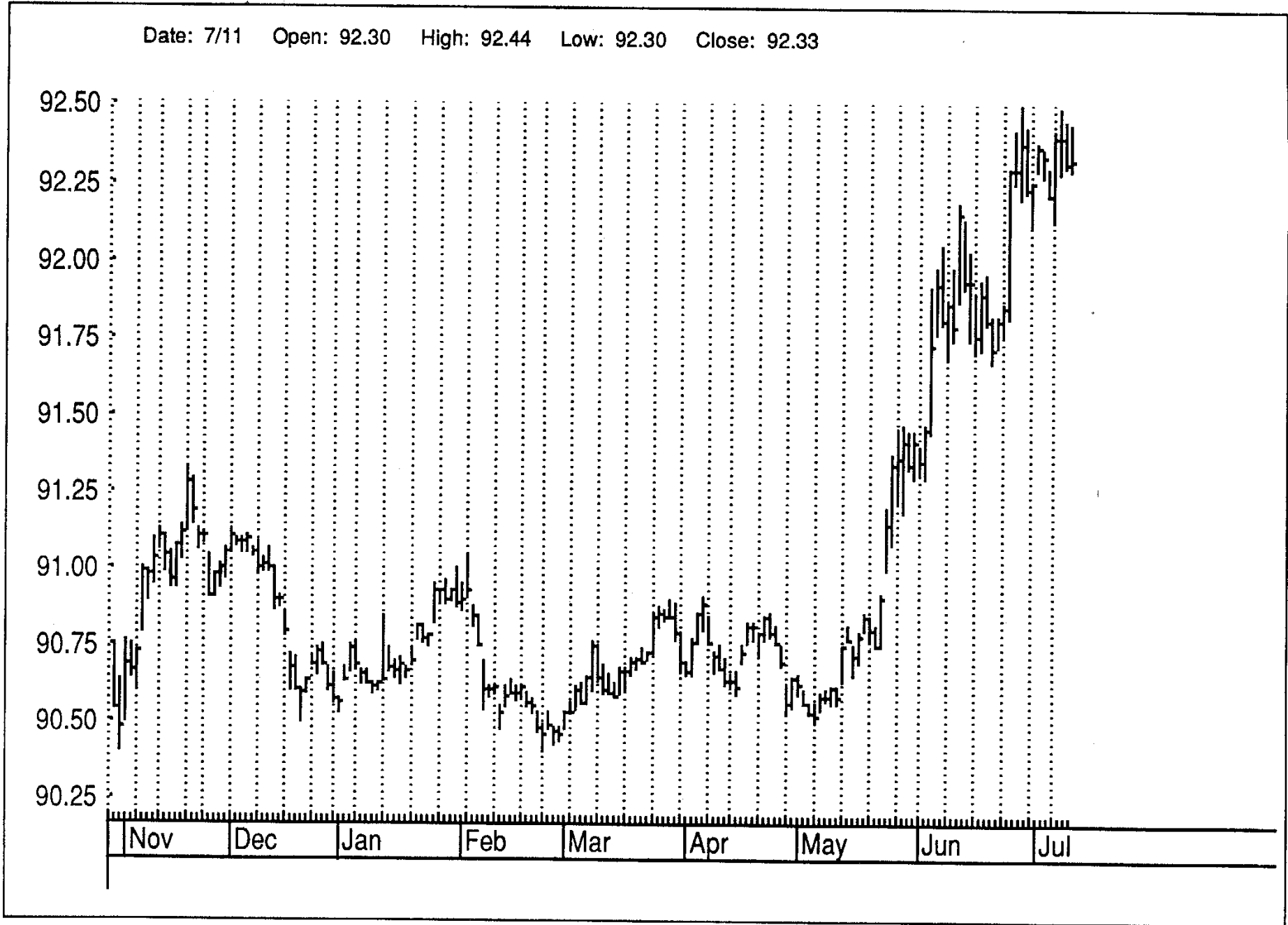
7/9 The upmove halted today at 92.49, the target mentioned in the previous commentary. It is still possible that wave (5) has not ended or that wave (4) from 92.50 is incomplete. On the other hand, there is minimal evidence that wave (5) of © ended with a failure. Failures occur in fifth waves and indicate an impulse has been exhausted. This argument is made more compelling by the equality between the lengths of wave (1) and (5). Another supportive factor is the ratio between waves (a) and (c). The length of wave (c) is 2.236 greater than the length of wave (a) [$.91 \times 2.236 = 2.03$; $2.03 + 90.50 = 92.53$]. You may remember that 2.236 is the square root of five. Therefore, we can say that the five-wave impulse in wave (a) and the five-wave impulse in wave (c) are related by the square root of five! Finally, the average of the mathematical targets for the top of wave (c) was 92.43. Stay short.

Date: 7/9 Open: 92.35 High: 92.49 Low: 92.29 Close: 92.40



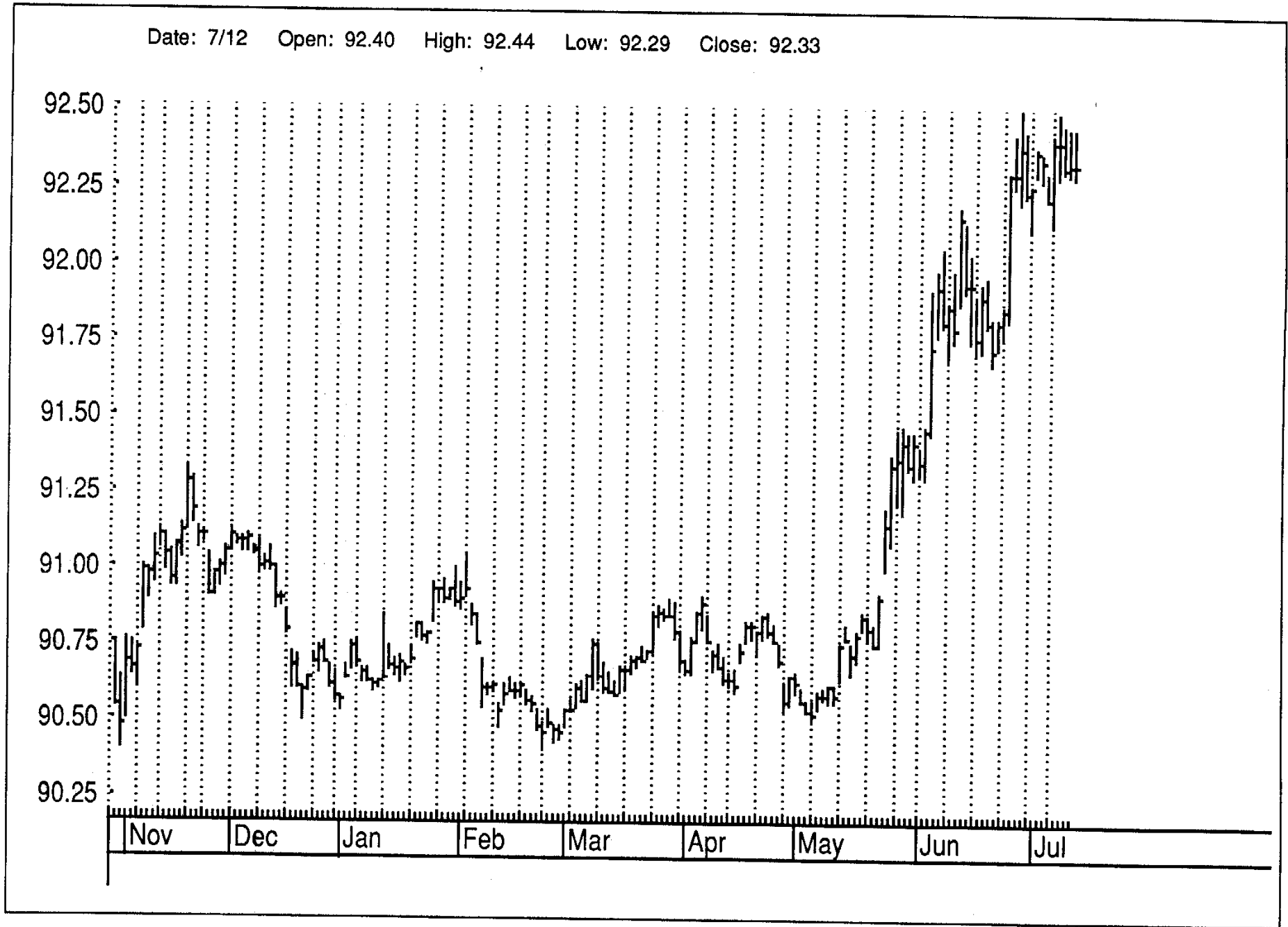
7/10 We are short one contract with a stop at 92.81. We are waiting for more information about the pattern from the high at 92.50. There is no doubt that wave (3) peaked at 92.50.

7/11 The market tried to rally but closed near the low of the day. There is persistent resistance above 92.40. Stay short.



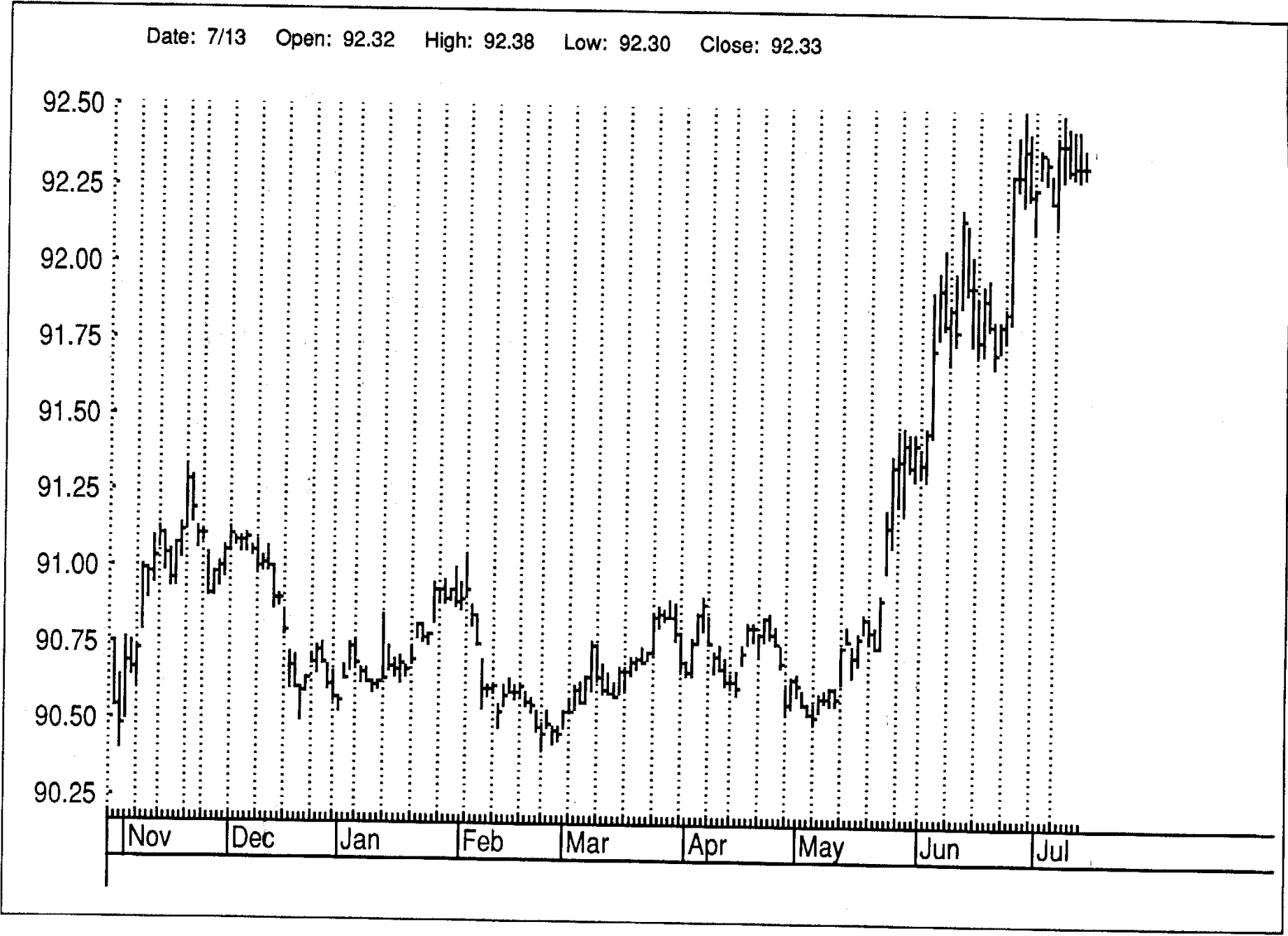
✓

7/12 For the third consecutive day, the market has attempted to rally and failed. The idea that prices are in wave 2 of (5) is less and less likely. It is possible that wave "b" of (4) peaked at 92.49 and a c-wave decline will occur. The most bearish count is that wave (5) was a failure. In either case, the market will experience a five-wave decline. Let's sell two more contracts on the opening tomorrow and protect at 92.51. Wave (4) should bottom at 91.68, the previous fourth wave of one lesser degree.



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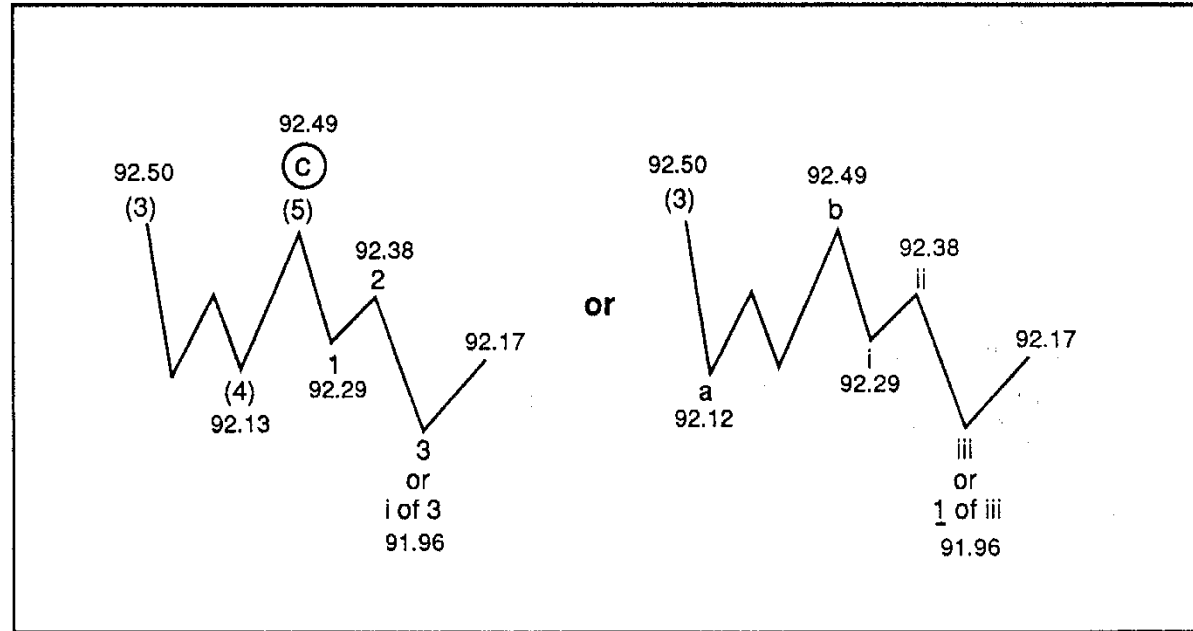
7/13 We went short two contracts at 92.32 today and have a stop at 92.51. The other short position is protected with a stop at 92.81. From the high at 92.49 (7/9), wave one probably bottomed yesterday at 92.29. (The "wave one" is not identified. It is either wave i of c of (4) or minor wave 1 in a new bear market.) Multiply 1.618 x the length of wave one to project the length of wave three.

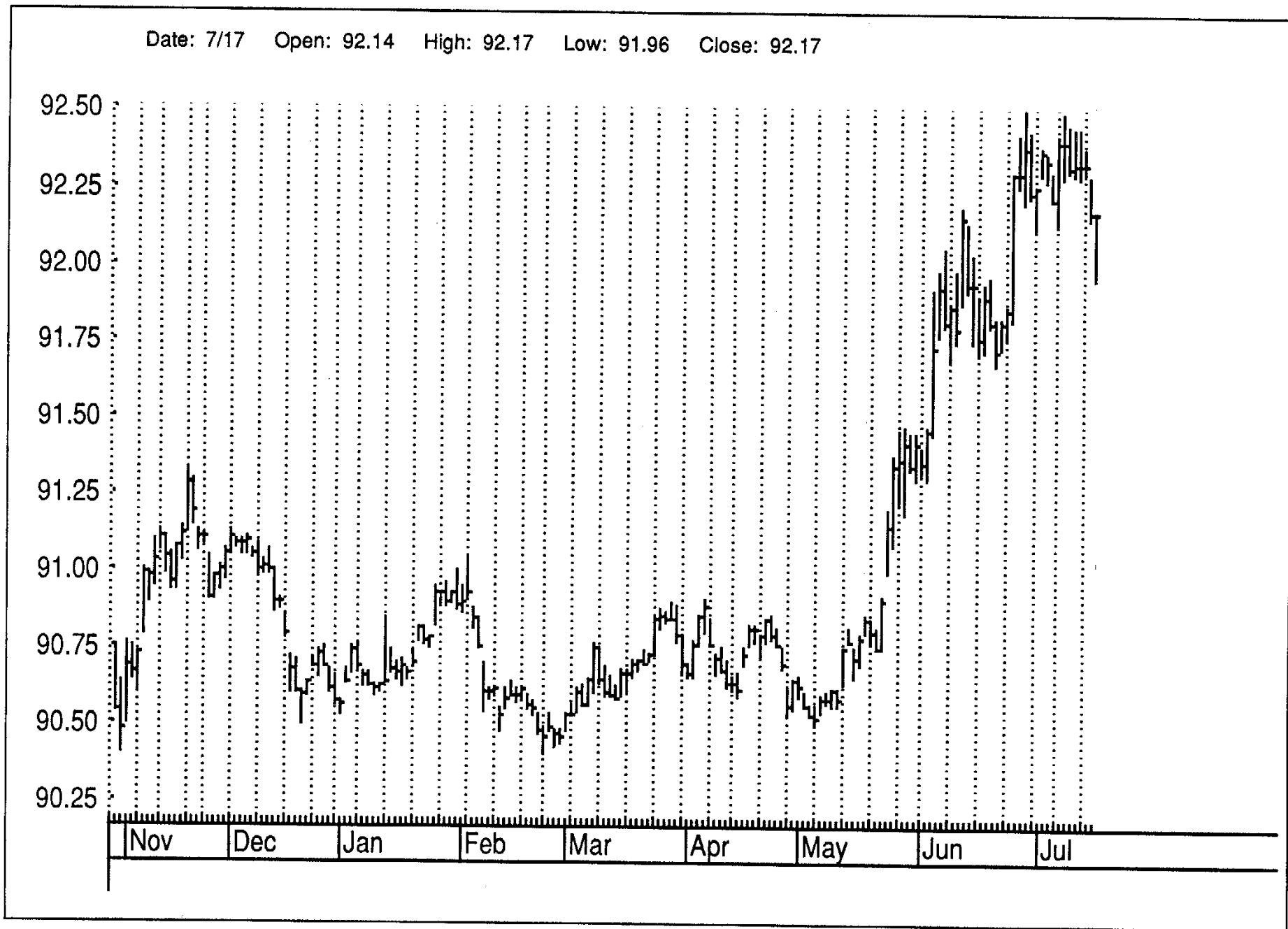


7/16 Wave two ended yesterday at 92.38; therefore, wave three should decline to at least 92.06. Either wave iii of c of (4) or wave 3 of (1) in a new bear market is underway. Lower the stop on the last two short positions to 92.39. Keep the other stop at 92.81.



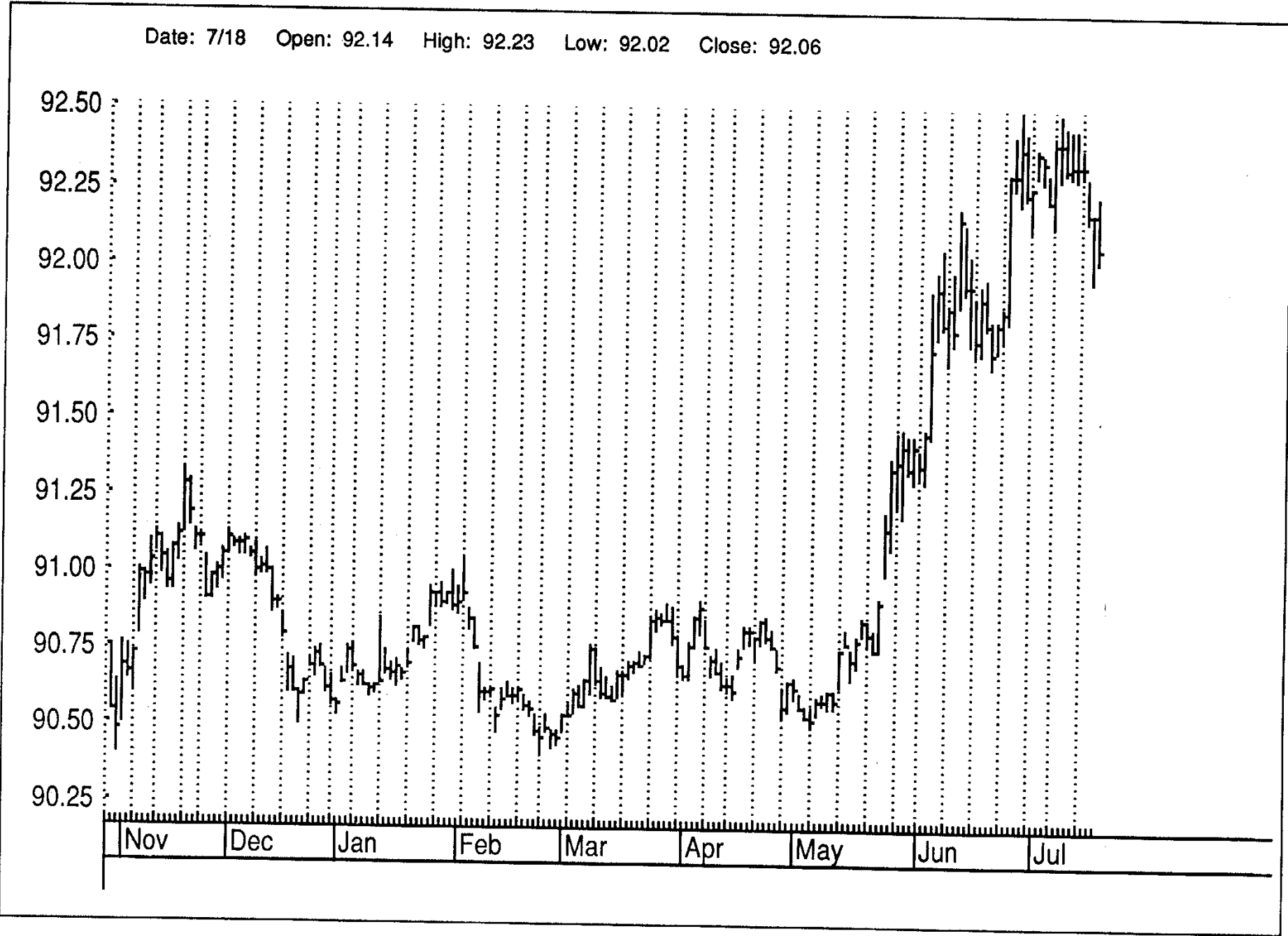
7/17 Unless there is a third wave extension, we can assume that wave iii of c of (4) or wave 3 of (1) bottomed today at 91.96. If the corrective rally from 91.96 overlaps 92.29, then the idea of an extended third wave will have greater probability. Maintain all three short positions.





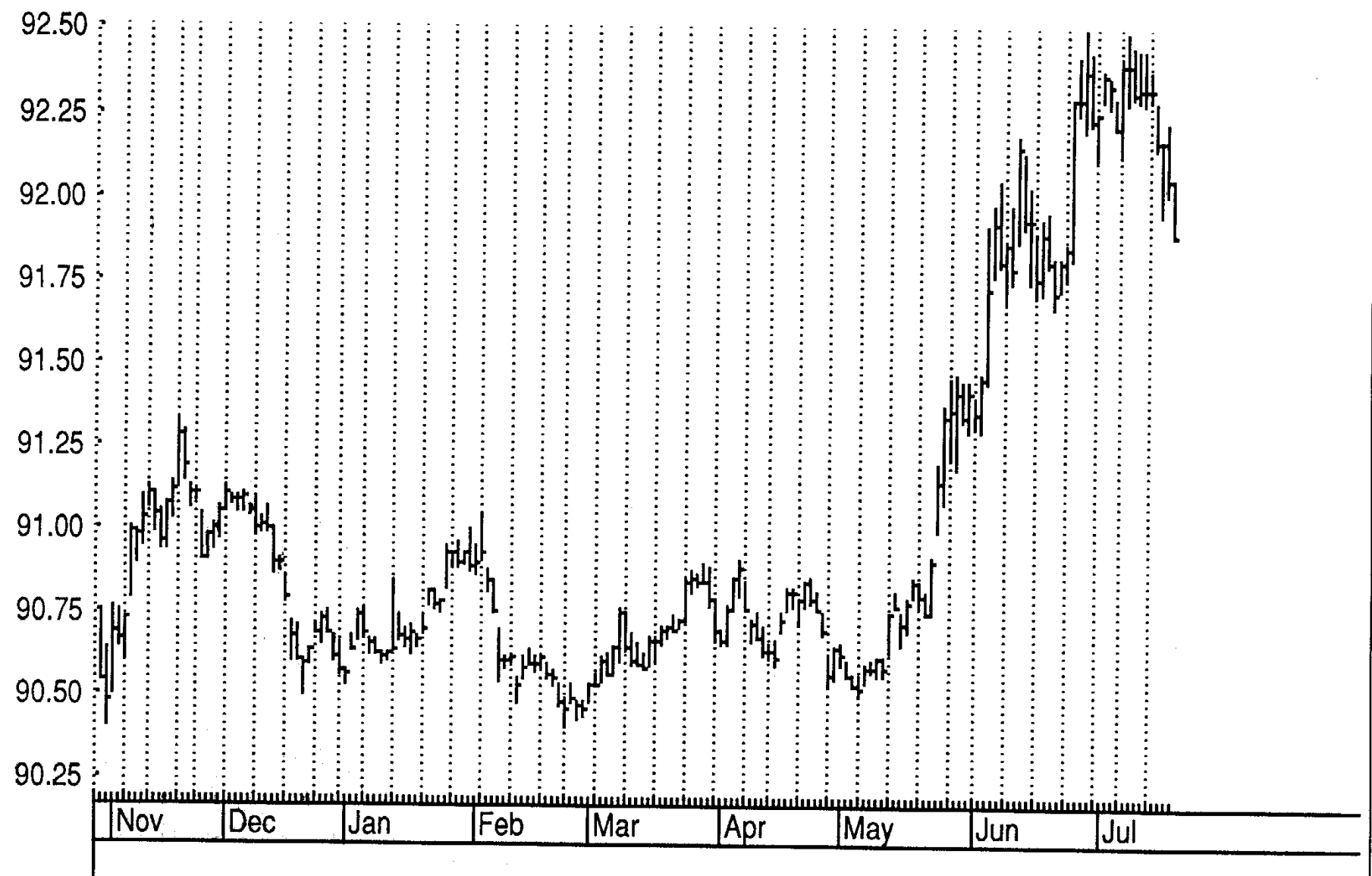
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7/18 Today's rally did not overlap the low at 92.29. This, along with the weak closing, suggests wave iv of c of 4 or wave 4 of (1) peaked at 92.23. The target for wave five is 91.91. As before, this is calculated by multiplying .618 x the distance from the top of wave one to the bottom of wave three (92.49 to 91.96). If wave five equals the net distance from the top of wave one to the bottom of wave three (53 points), the decline will bottom at 91.70. (This target equals the previous wave four low at 91.68.) In either case, a corrective rally should occur after the market completes one more downmove below 91.96. If the market declines to 91.76, let's take profits on the two short positions established at 92.32 (7/13). Lower the stop on the remaining short position to 92.51.



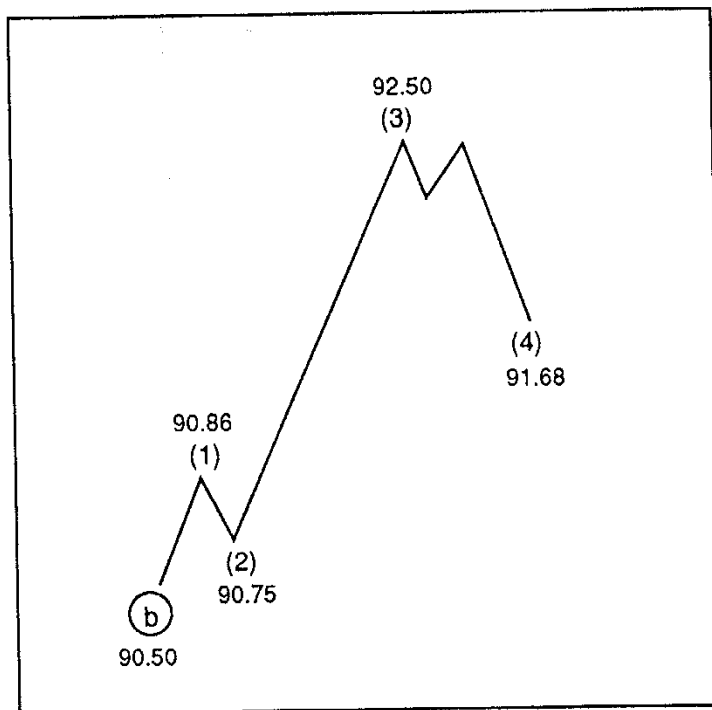
7/19 Wave five has exceeded the 91.91 target mentioned in the previous commentary. The weak closing suggests the downmove will continue. The next target area is 91.70–91.68. Take profits on two of the short positions at 91.76.

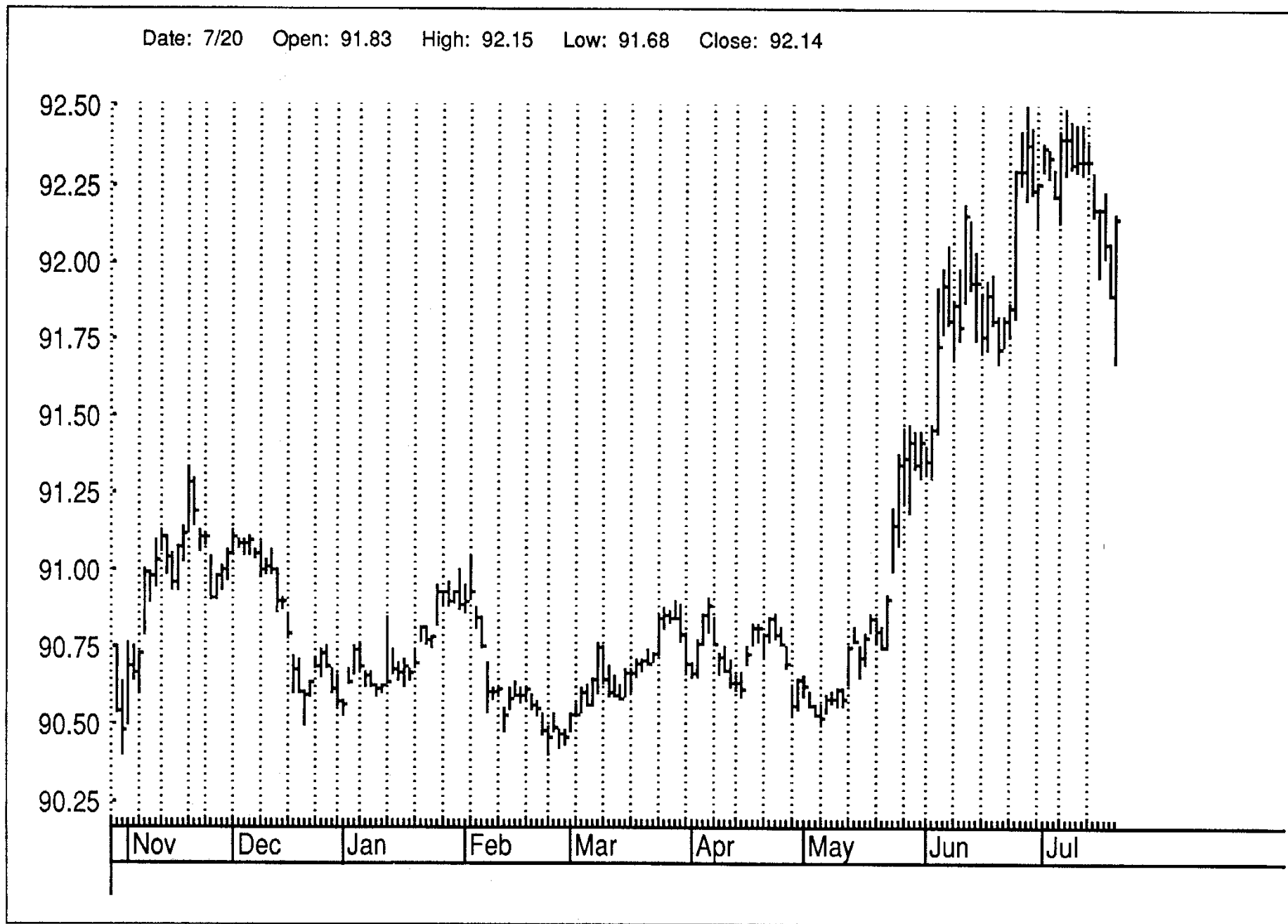
Date: 7/19 Open: 92.06 High: 92.06 Low: 91.89 Close: 91.89



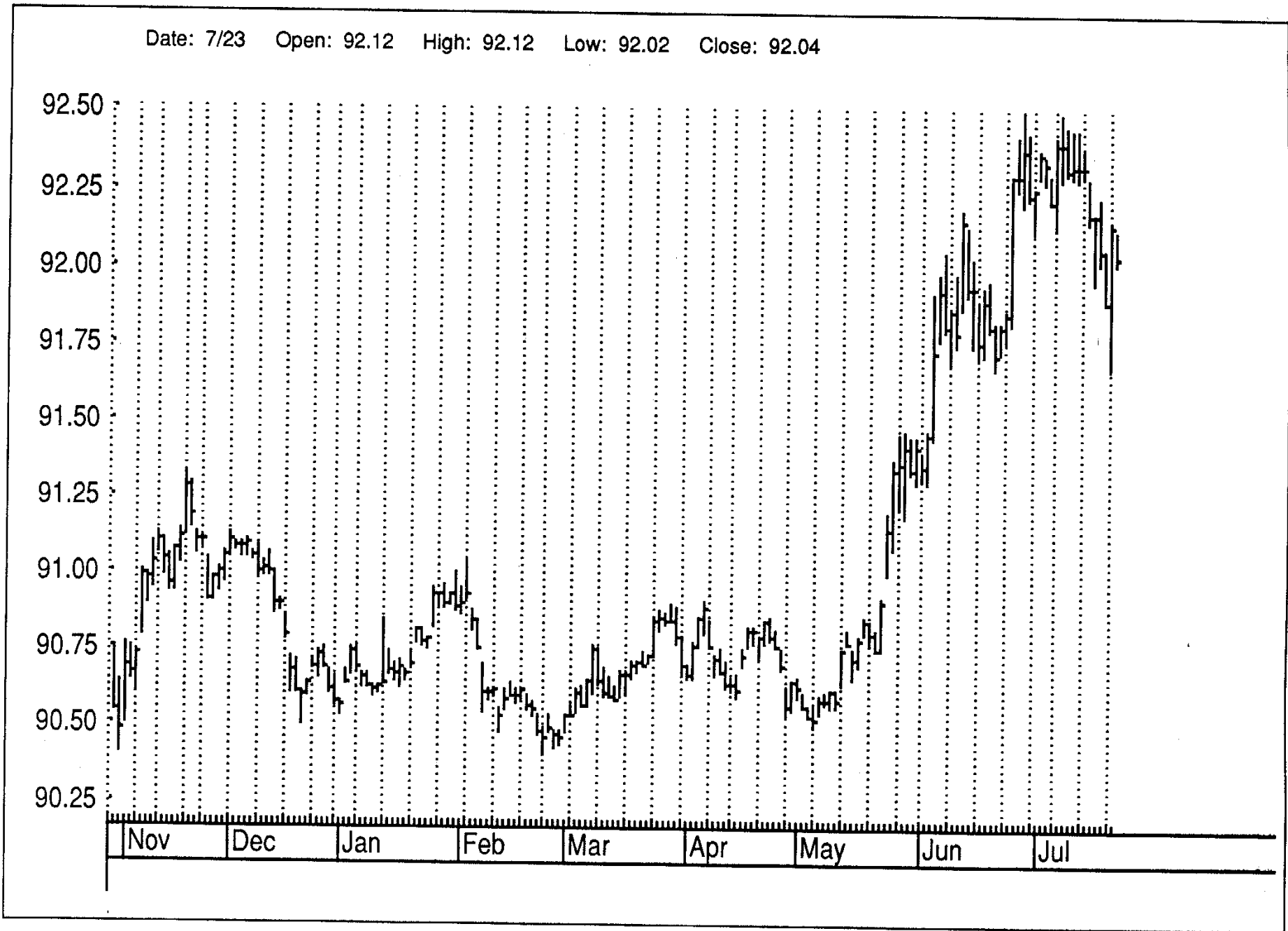
7/20 We took profits at 91.76 on the two short positions established at 92.32. The total profit is 108 points (112 less 4 points for commission). The magnitude of today's reversal increases the likelihood of another rally to new highs. The correction from 92.50 to 91.68 is a complex zig-zag which alternates with the simple zig-zag in wave (2). The decline to 91.68 is also only 12 points beyond 38.2% of wave (3). For these reasons, the probabilities favor that wave (4) bottomed at 91.68. From the bottom of wave (b), the broad wave pattern is drawn below.

Because wave (3) was extended, wave (5) could equal the length of wave (1). A 36 point rally from 91.68 would represent a fifth-wave failure. If today's rally from 91.68 to 92.15 is wave 1 of (5), wave 2 should retrace at least 50%. On a decline to 91.92 let's take profits on the short position established at 92.43 (6/27).



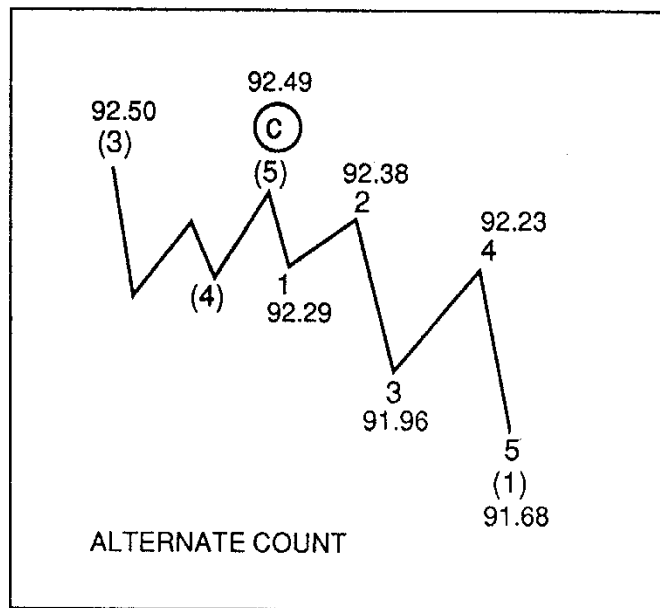


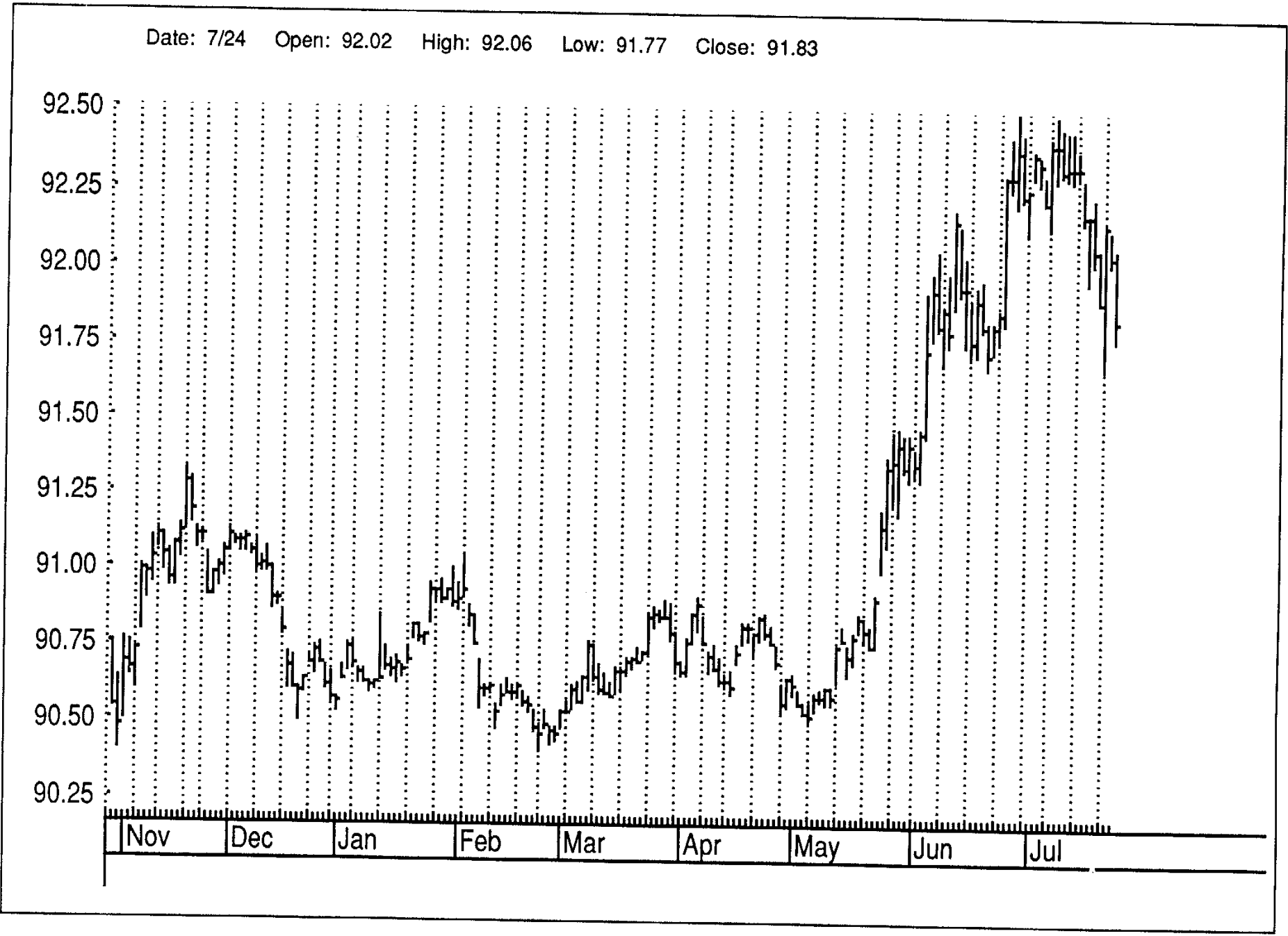
7/23 The small pull-back today does not give us any new clues. Cover the short position at 91.92. Lower the buy stop to 92.16 for further protection.





7/24 We took a 49 point profit on the remaining short position today (51 points less 2 points for commission). Although unlikely, the bearish alternative still warns us that wave (5) of © peaked at 92.49. Under this count, the low at 91.68 is wave (1) in a larger downmove, and the rally to 92.15 is part of wave (2). Let's place an order to go short at 91.66 stop. This will ensure us of a position in the event of a breakdown. The protective buy stop would have to be placed at 92.16.

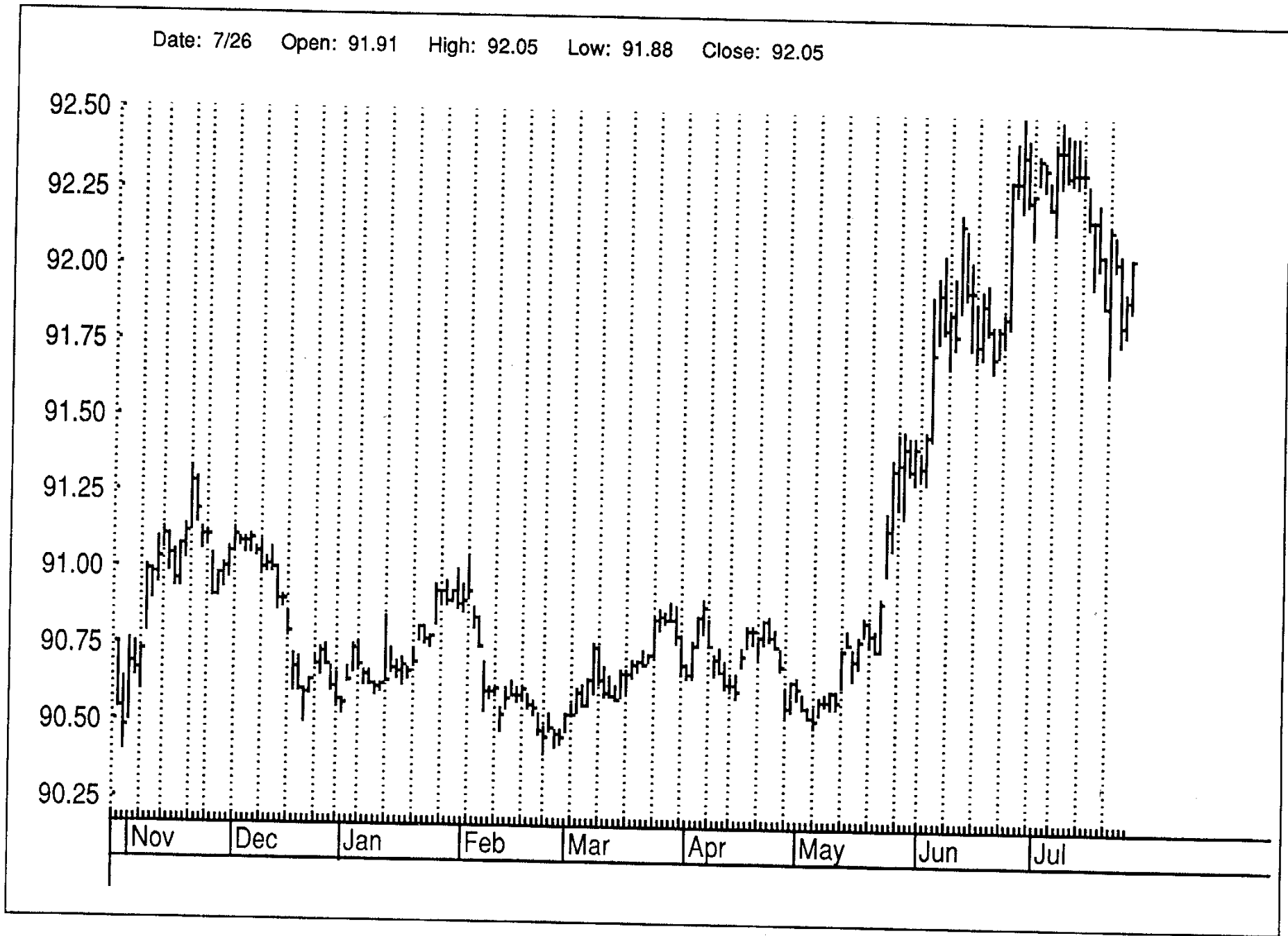




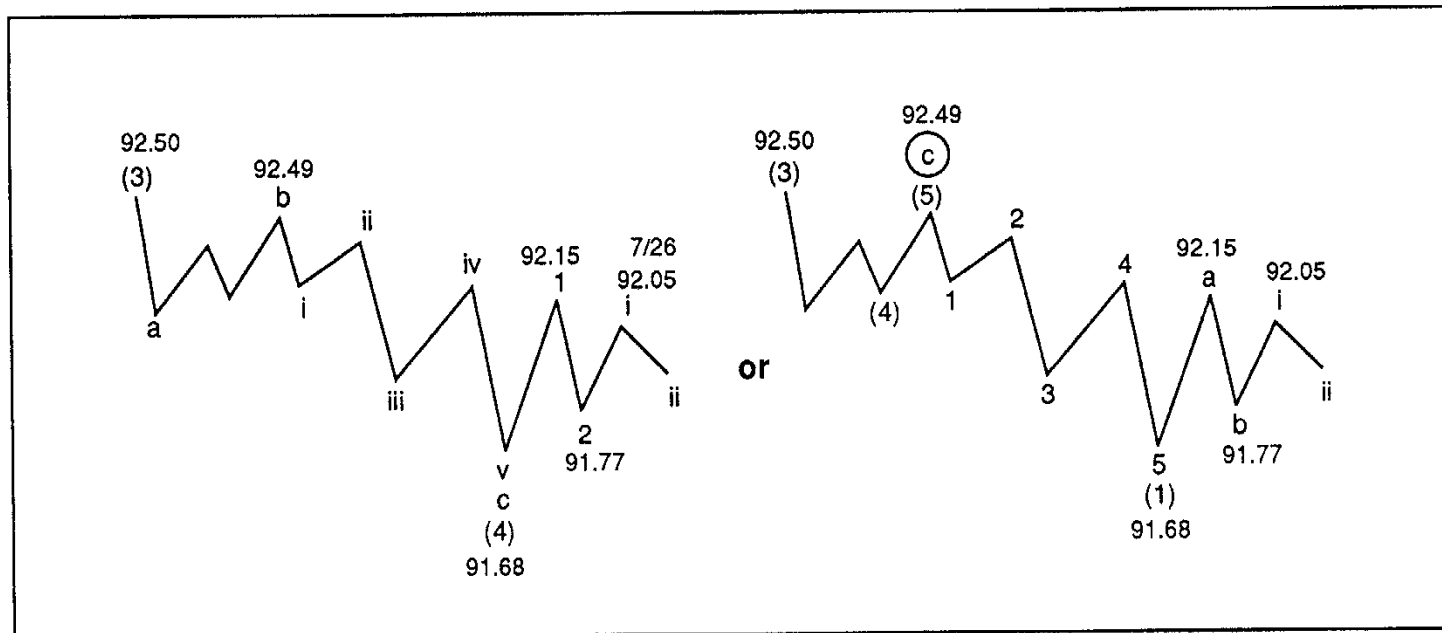
7/25 There is nothing conclusive in today's price action. We have to await more information. An aggressive trader might go long and protect at 91.67 to take advantage of a wave (5) rally, but the risk is too great at this point.

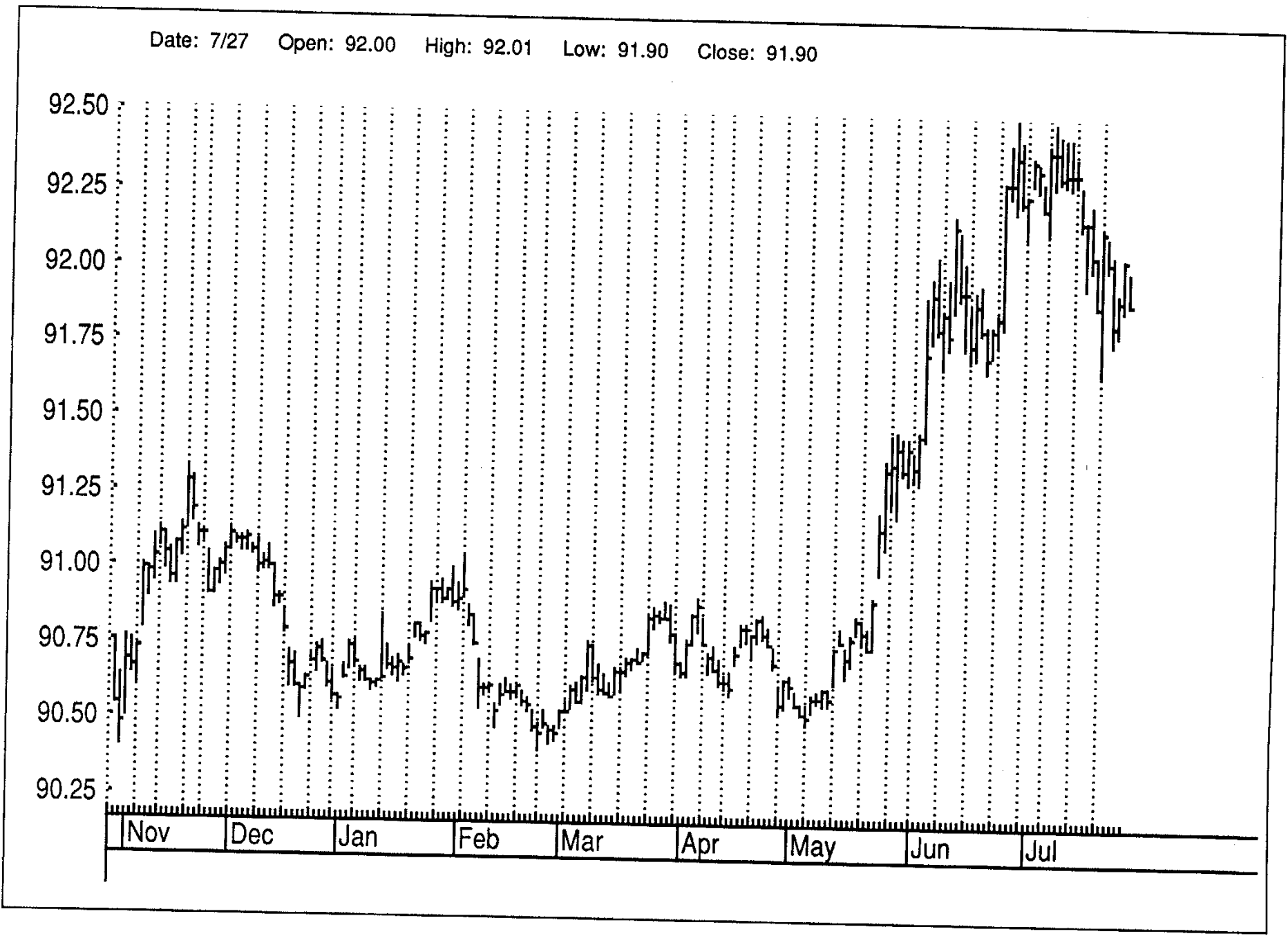


7/26 The rally continues. There should be resistance at 92.15. Patience is important at this stage. We are looking for any five-wave pattern from the 91.68 low that will signal the end of wave (5).



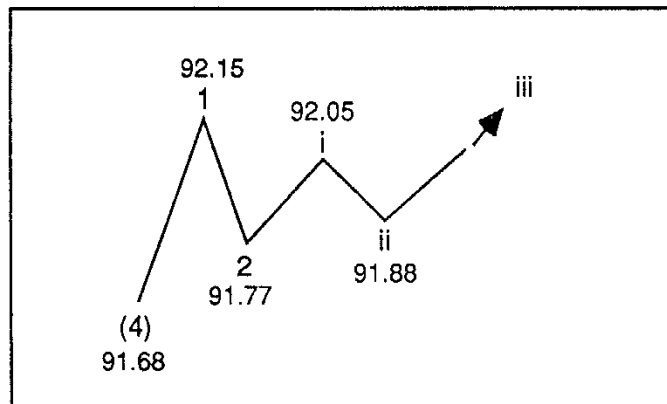
7/27 The market is either in wave ii of 3 of (5) or in wave (2) of a larger decline. The odds still favor that wave (5) is in progress. Leave the order to go short at 91.66 on a stop.

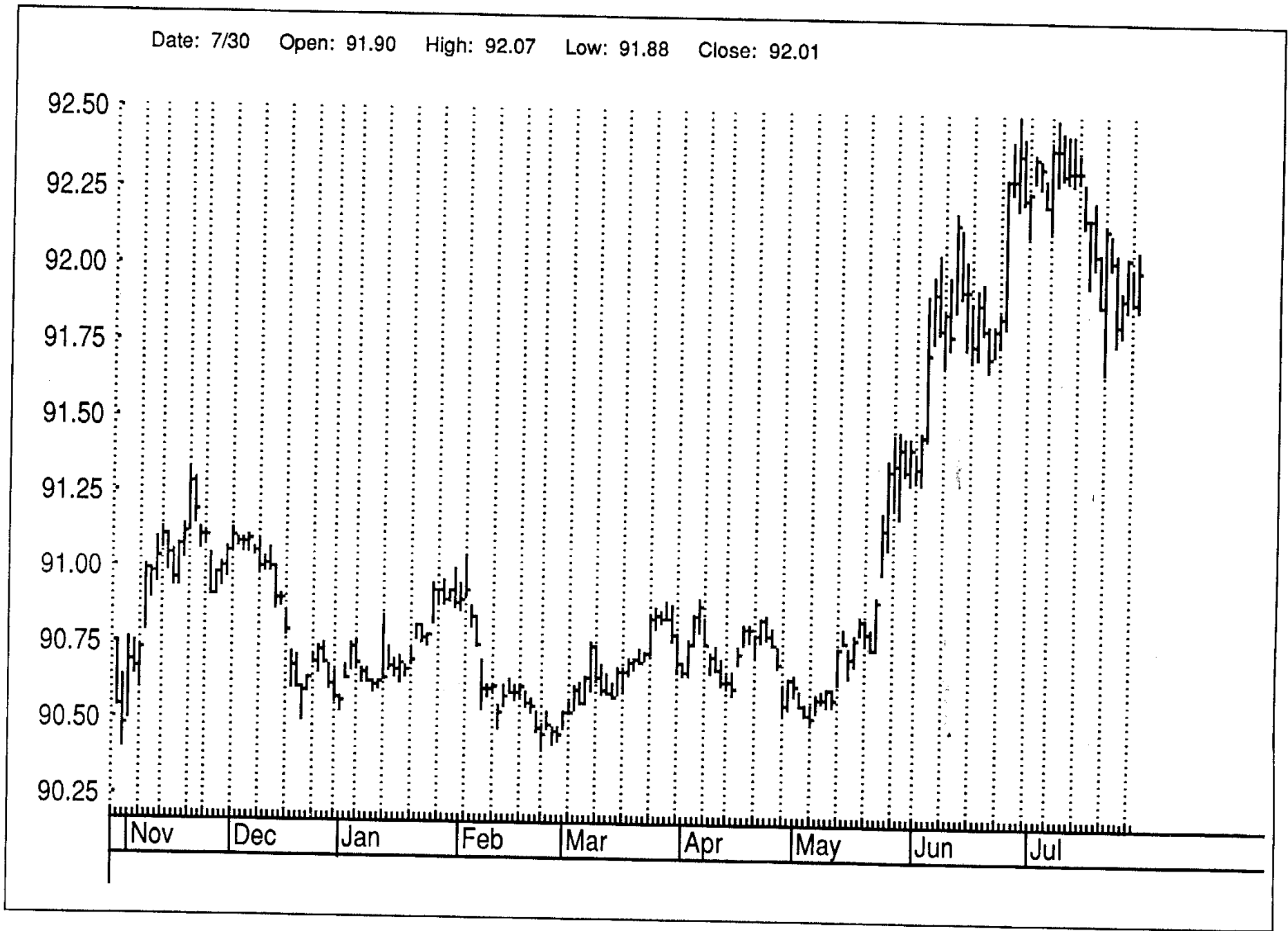






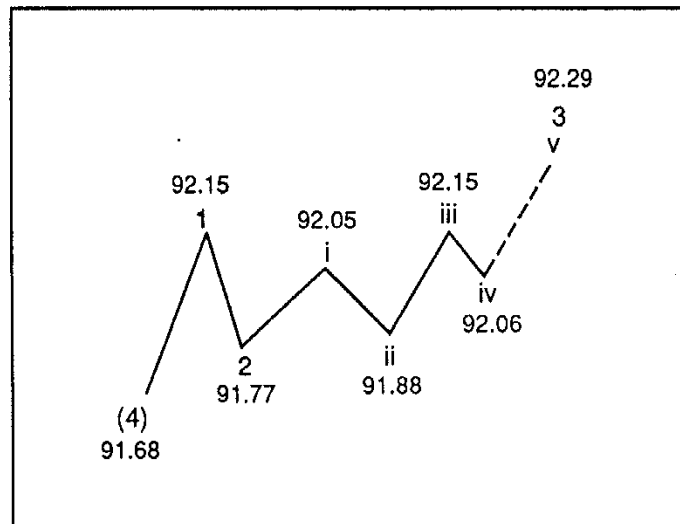
7/30 According to the bullish count, wave iii of 3 of (5) is underway. Today's low is counted as the bottom of wave ii. If wave iii equals $1.618 \times$ the length of wave i, it will peak at 92.33.

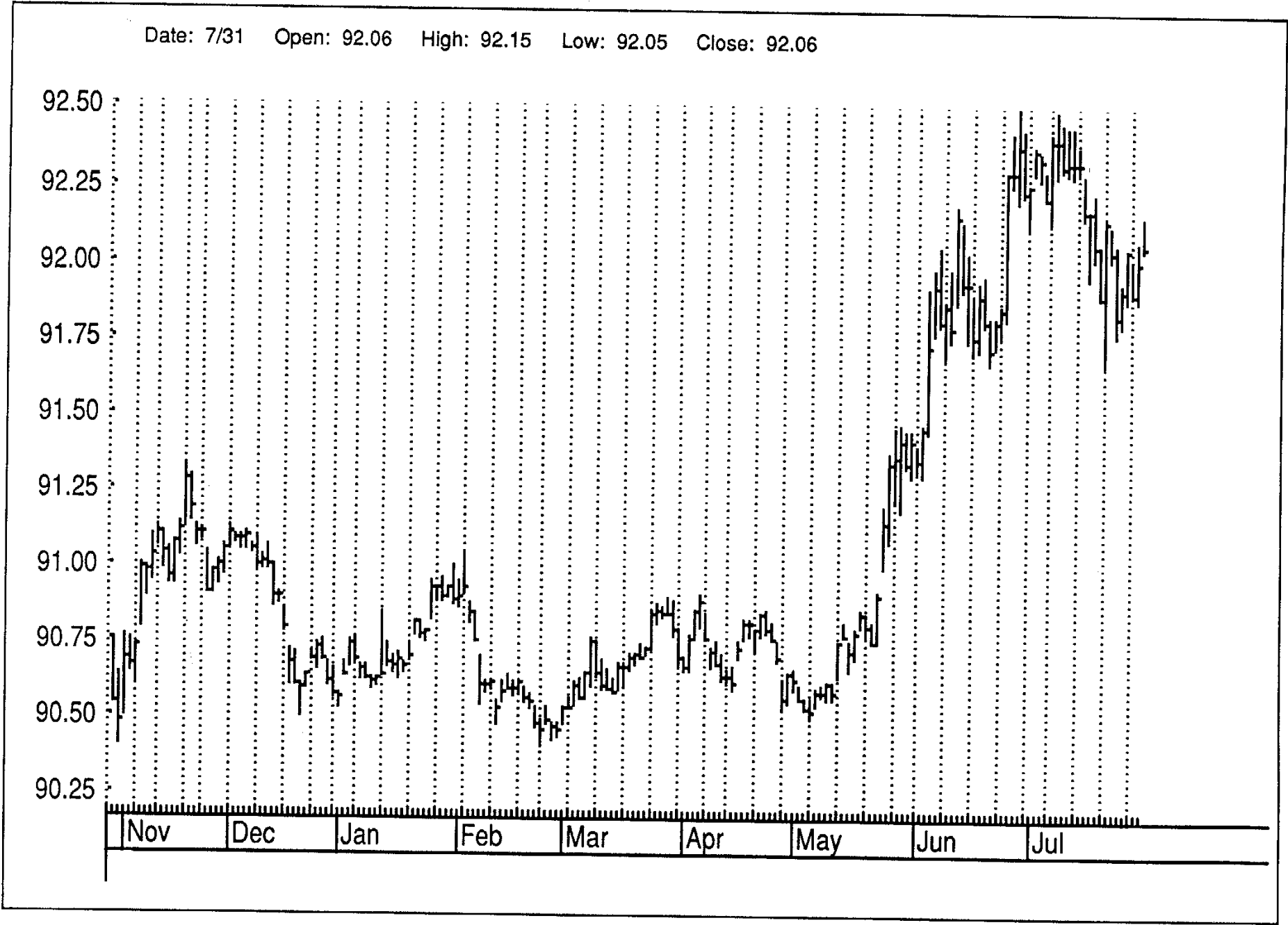




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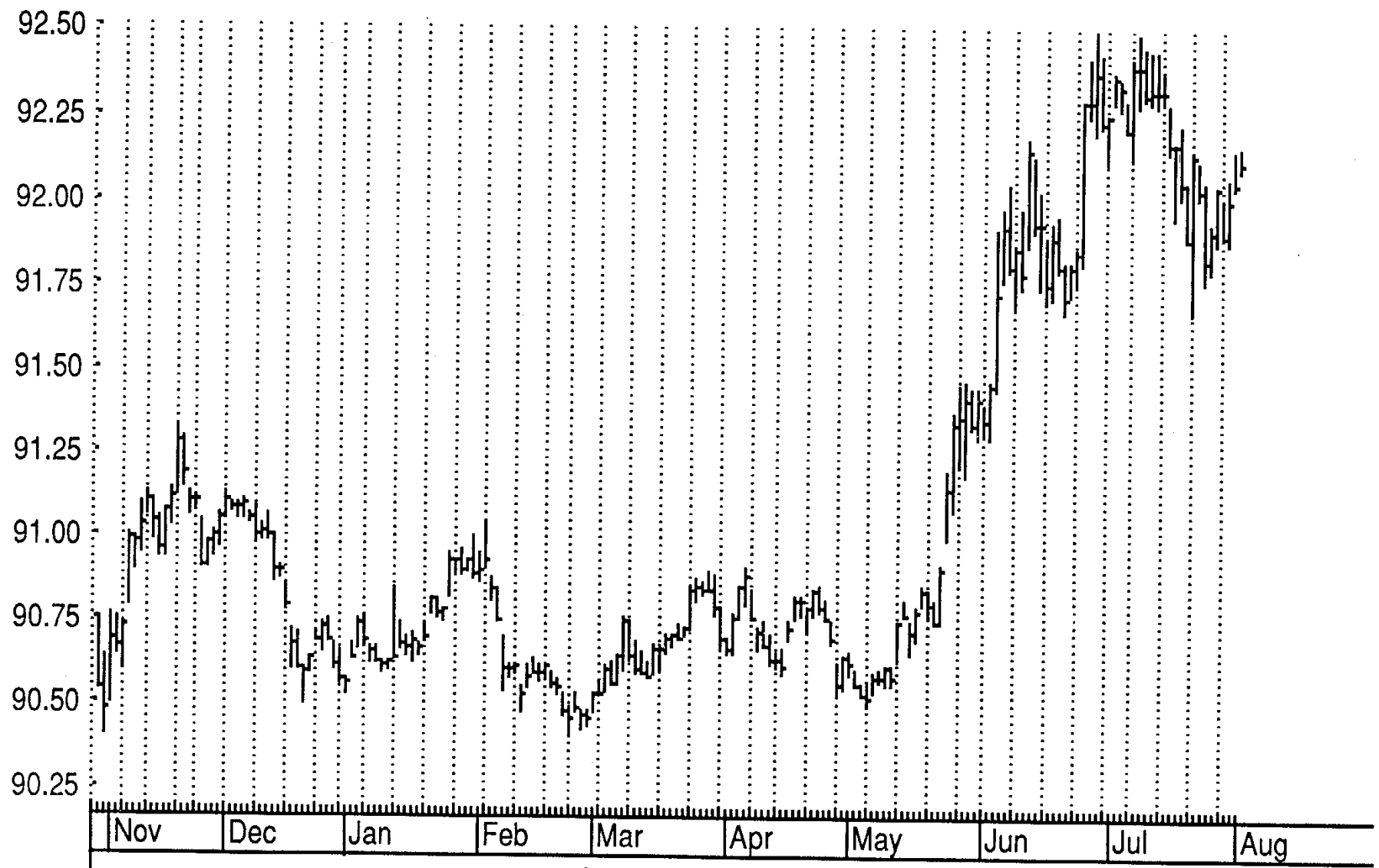
7/31 Today's high (92.15) may have completed wave iii of 3. If wave iv bottomed on the intraday correction to 92.06, the target for wave v is calculated by multiplying .618 x the distance from 91.77 to 92.15. Add the product (23 points) to 92.06 for a target of 92.29.



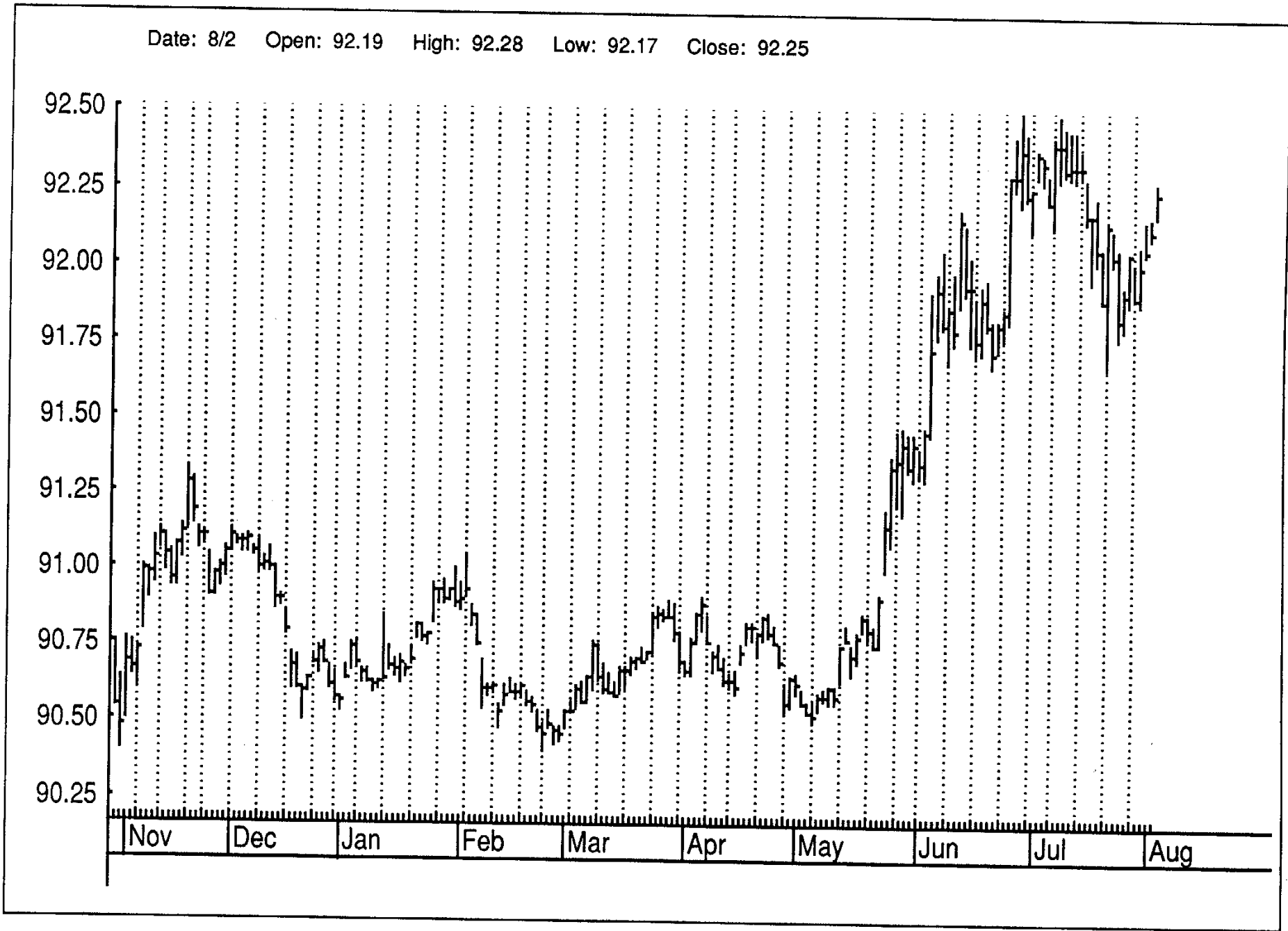


8/1 Wave v of 3 is underway. Cancel the order to sell on a stop at 91.66. The minute correction (4 points) from today's high is part of wave v of 3.

Date: 8/1 Open: 92.14 High: 92.16 Low: 92.10 Close: 92.12

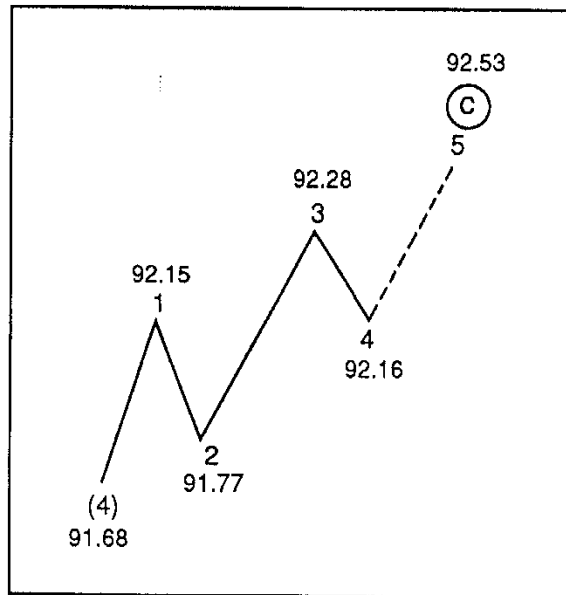


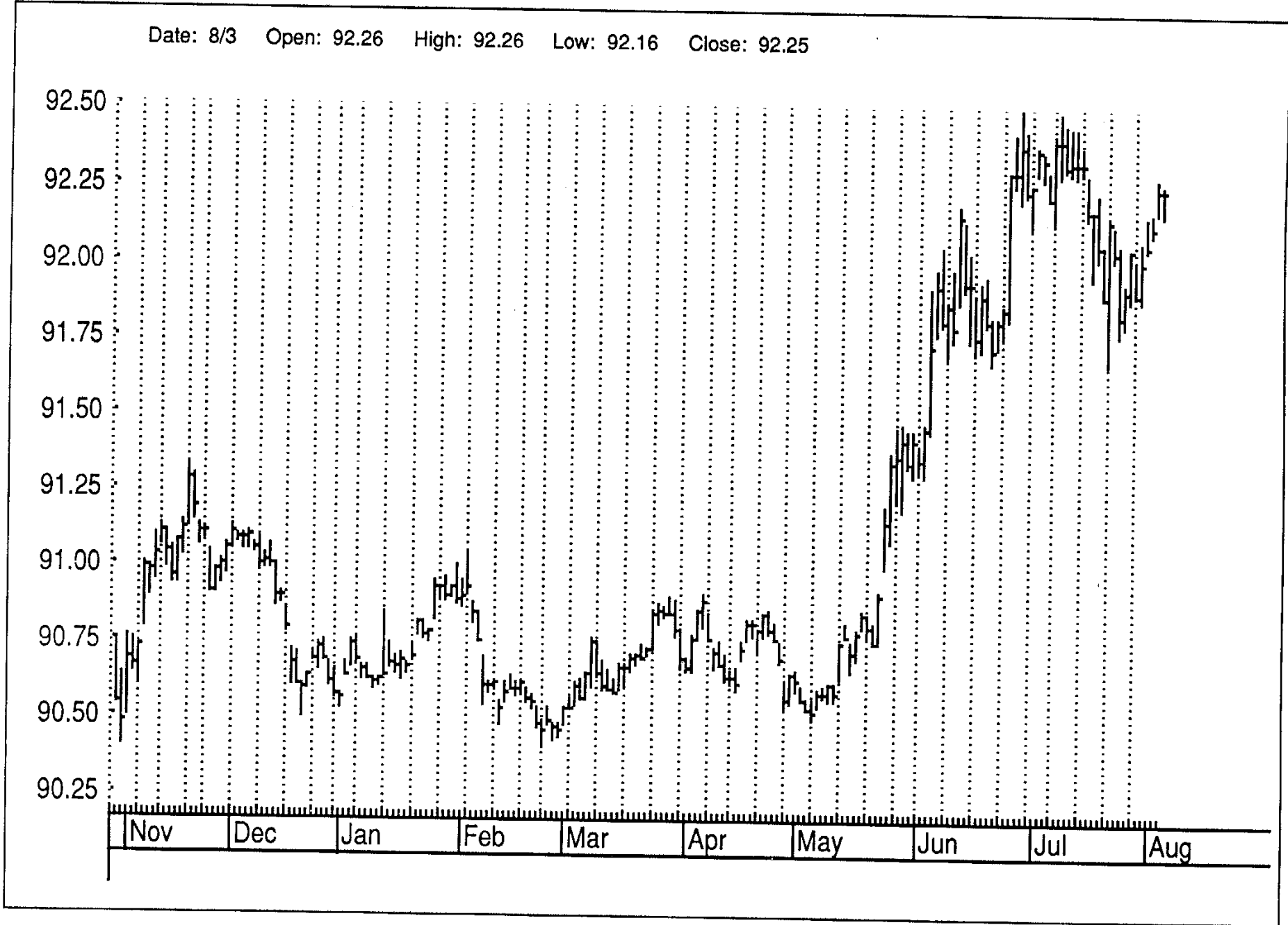
8/2 Today's rally to 92.28 met the mathematical target for wave v of 3. Waves 1 and 3 are almost equal in length (47 and 51 points respectively). If the upmove continues, wave 3 will probably extend.





8/3 According to the Wave Principle, a fourth-wave correction must not overlap the top of wave one of the same degree. Today's correction bottomed at 92.16 and did not overlap the top of wave 1 (92.15). This 12-point correction retraced 23.6% of wave 3 suggesting it is a fourth-wave. Not all Elliott Wave technicians use this relationship, but it works perfectly here. If wave (c) equals 2.236 x the length of wave (a) [see discussion on 7/9], the target is 92.53. If wave 5 equals .618 x the distance from the bottom of wave 1 to the top of wave 3, this rally will peak at 92.53. If the rally does peak at 92.53, the distance from the bottom of wave 3 to the top of wave 5 will equal 1.618 x the length of wave 1.



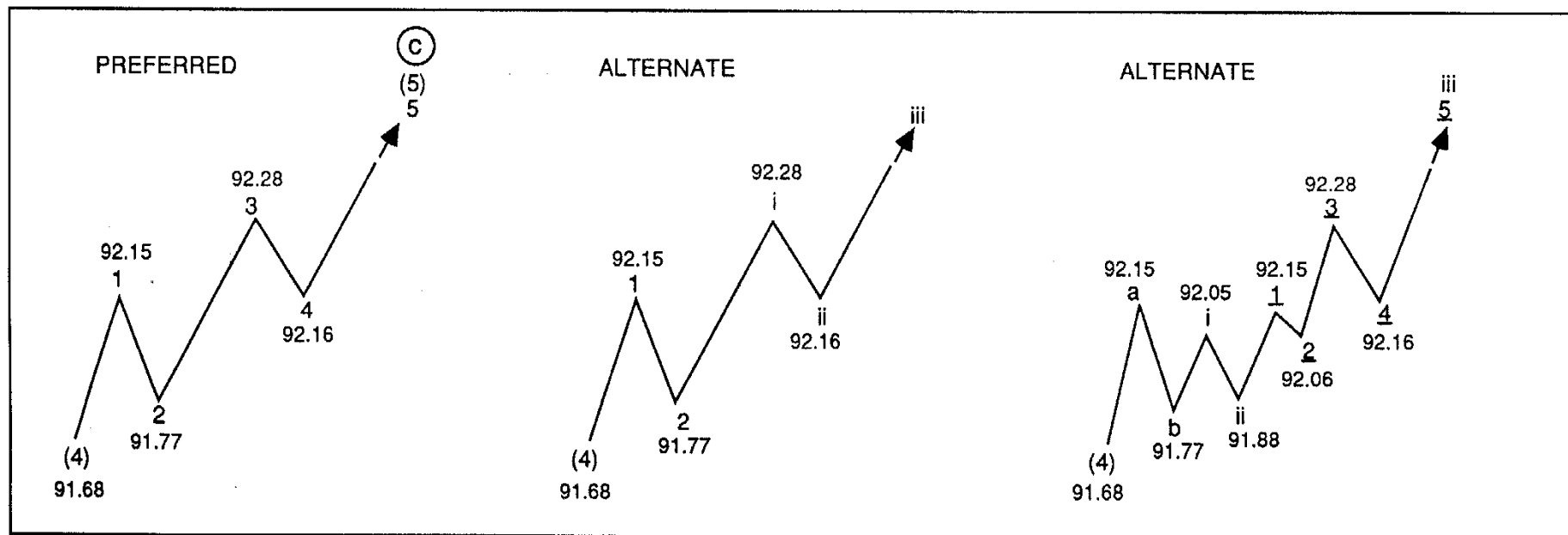


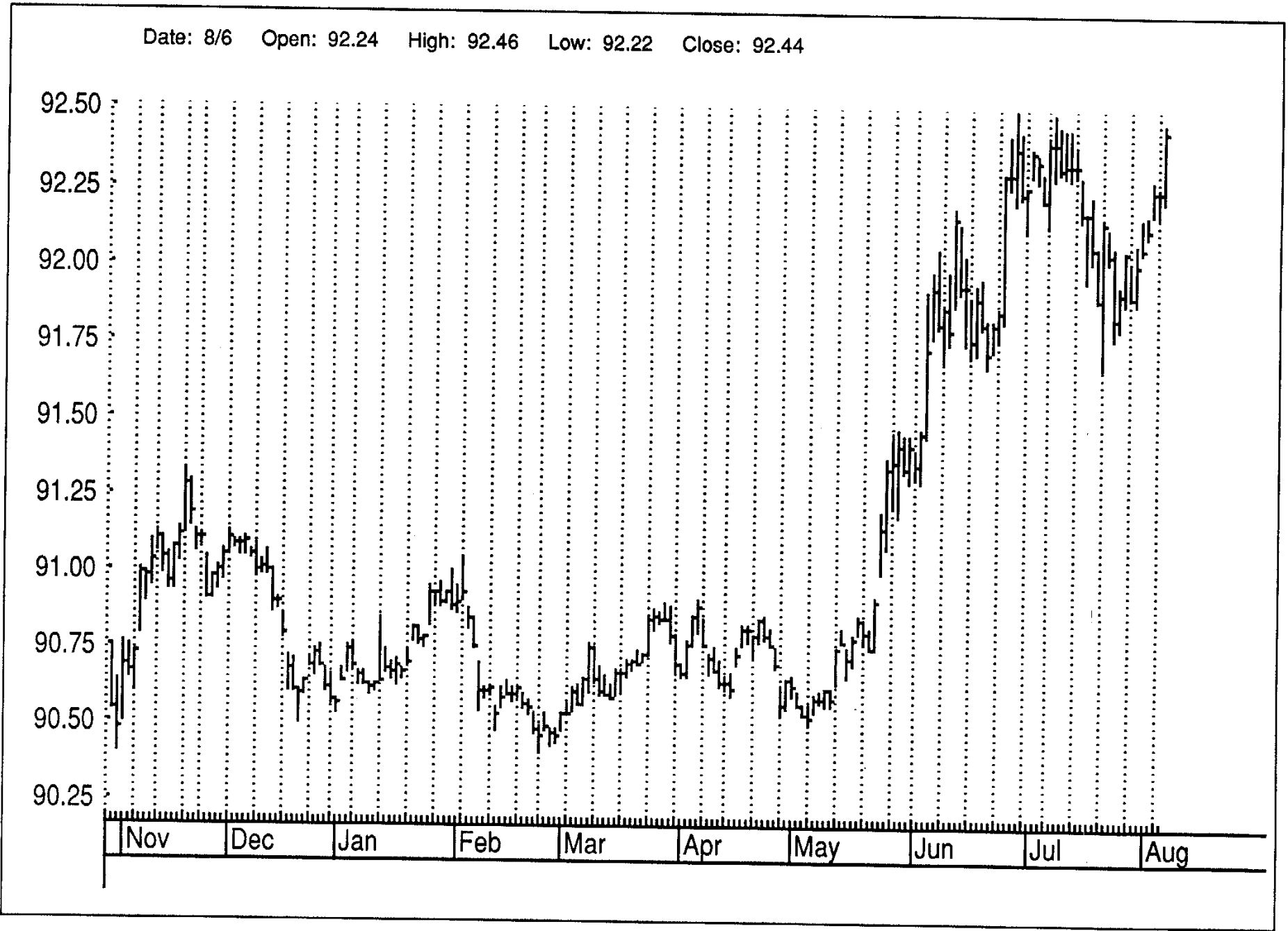
8/6 We have counted the wave pattern from the low at 91.68 so that it will meet the minimum requirements of an impulse. Today's accelerated price rise is viewed as part of wave 5 of (5). Admittedly, this pattern does not have the classic look of an impulse wave. When we stand back and count the broad strokes, the rally from 91.68 can be counted as part of a three-wave move.

Although the mathematical relationships present a compelling argument for a fifth-wave top at 92.53, we have to consider the alternate counts. One count treats the impulse from 91.77 as an incomplete wave 3. This would mean that today's sharp upmove is wave iii of 3 of (5) and the rally will exceed 92.53.

We also have to consider that a zig-zag is unfolding from 91.68. In this case, the rally from 91.77 is a c-wave that must subdivide into at least five waves. To make a proper fit, we have to count wave iii as an extension. With the extension, wave "c" will contain nine waves. What price action will support the preferred count and negate the two alternate possibilities diagramed here?

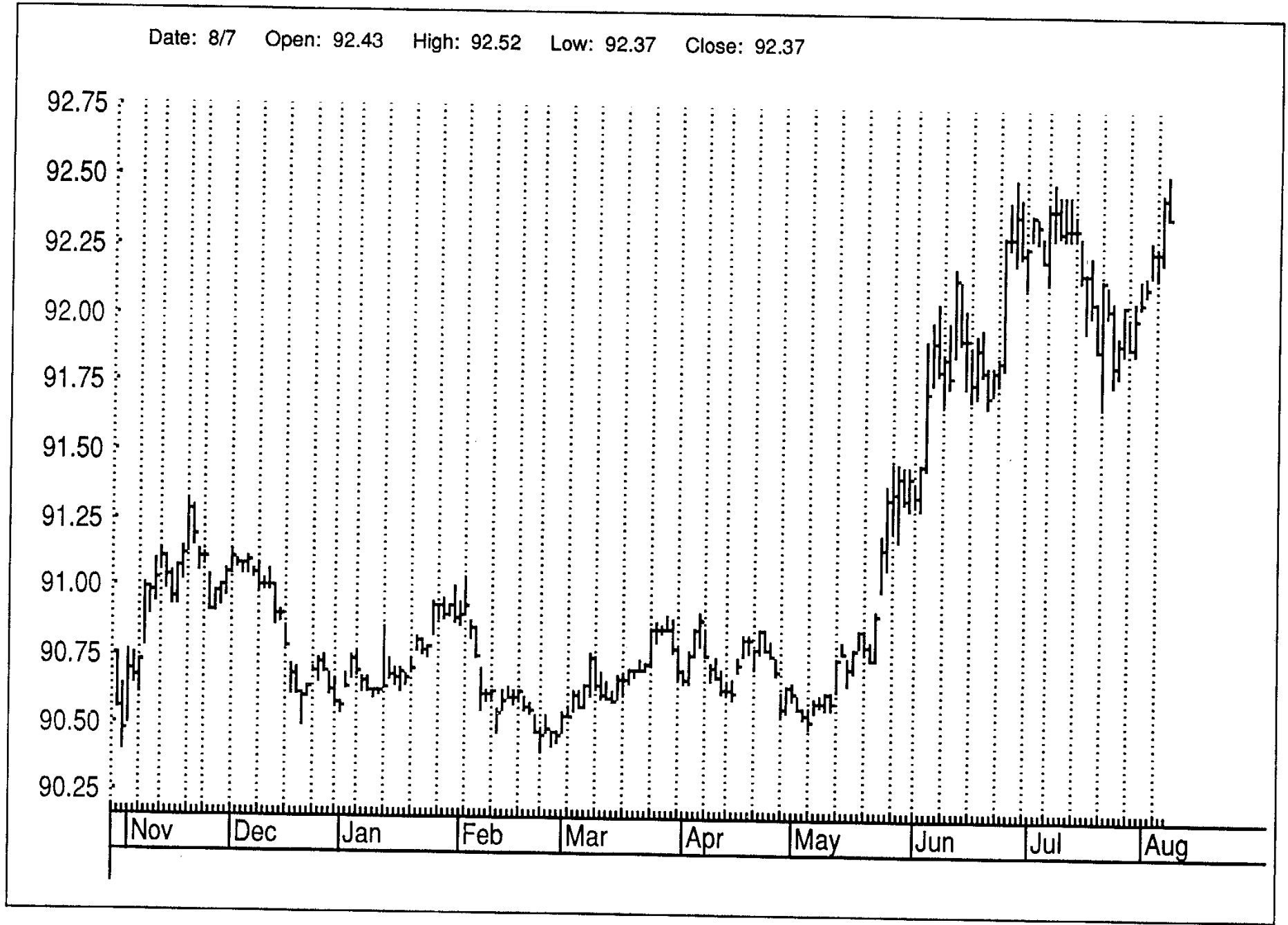
Wave 4 in a five-wave impulse must not exceed the top of wave 1 (92.15). A break to 92.15 in wave iv of "c" would be beyond the normal limits of a fourth-wave correction (50%). Therefore, a decline below 92.15 would increase the likelihood that the rally from 91.68 has topped and that the larger downtrend is resuming.



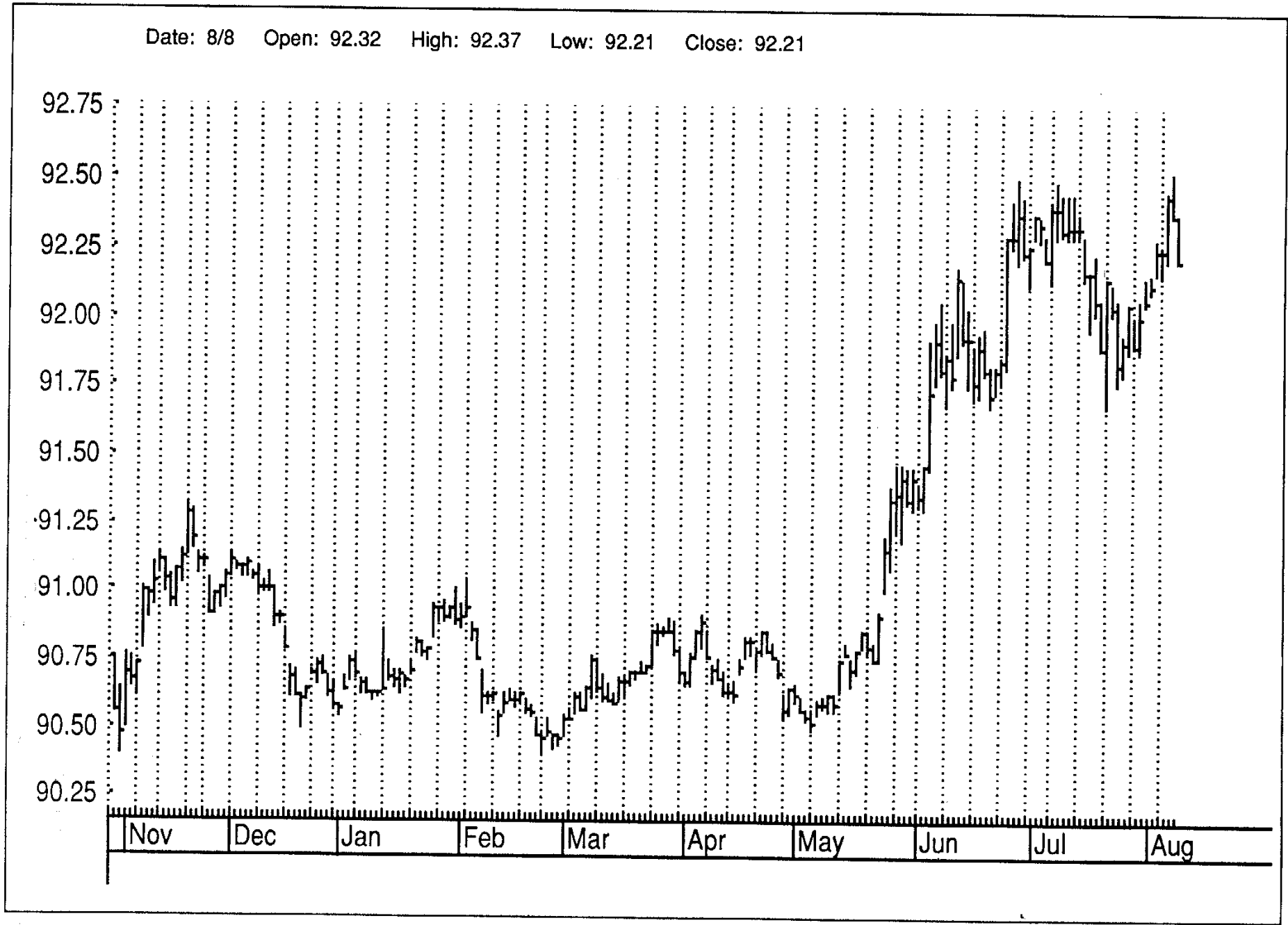


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8/7 The market hit a high of 92.52, one point below the target discussed on August 3. Today's reversal action suggests a large double top has formed around 92.50. Based on the fulfilled mathematical targets and the minimum requirements for a complete five-wave rally from 91.68, let's go short on the opening tomorrow and protect at 92.60. We are going short at the point where the market will quickly prove us right or wrong. This is where we have the least risk. If prices decline below 92.15, we will go short a second contract and protect at 92.54.



8/8 The market continues to give ground. Our short position was initiated at 92.32. Prices have closed on their low for two consecutive days. Establish a second short position on a penetration of 92.15. Protect both short positions at 92.54.

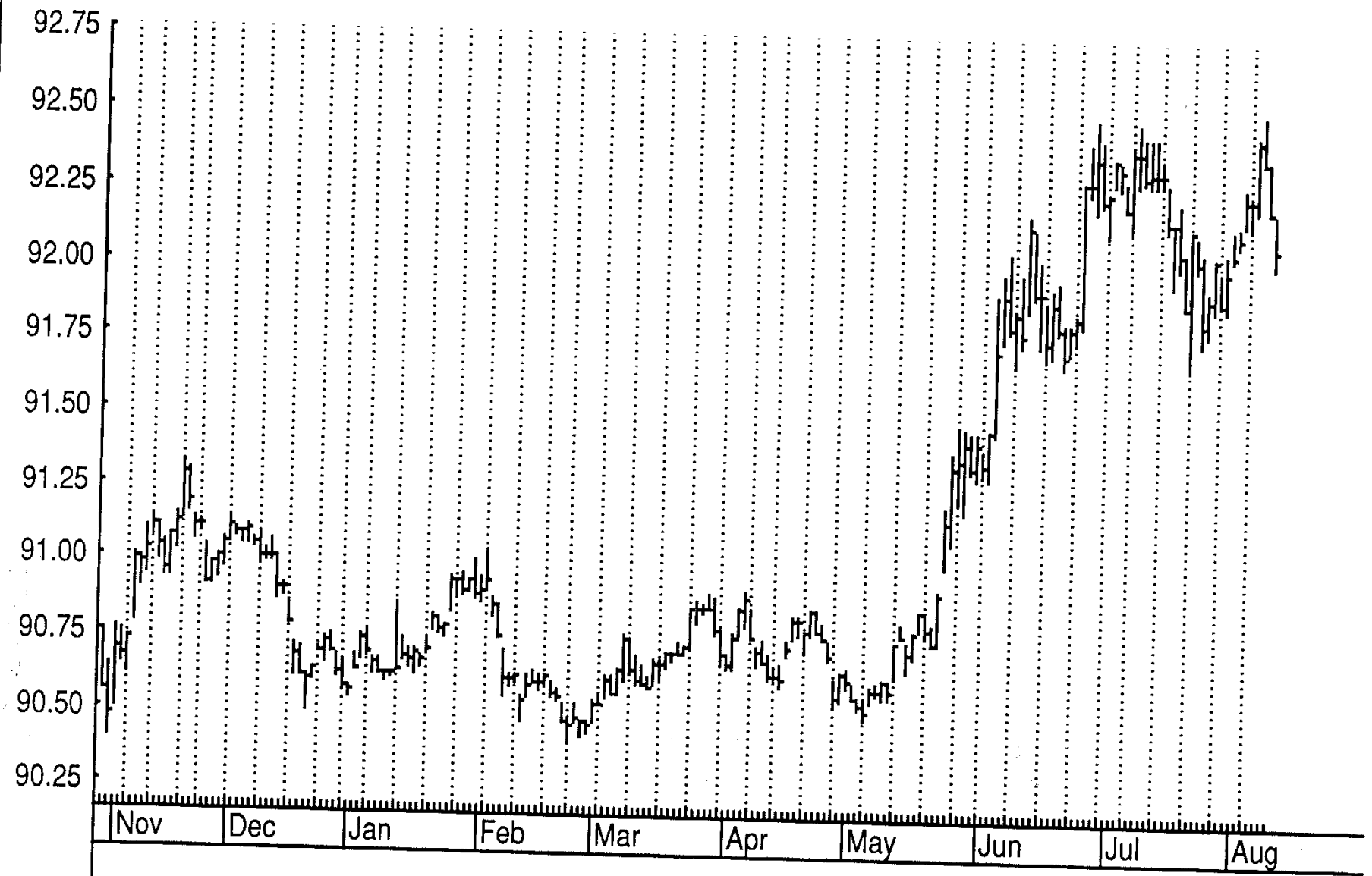




8/9 We went short a second position today at 92.14. Since peaking at 92.52, the market has fallen 49 points in two days. The move below 92.15 rules out the alternate counts discussed on August 6. One remotely bullish count still exists. It treats the decline from 92.50 to 91.68 as wave "a" in an irregular fourth-wave. This count has a 20% probability. Even if it is correct, the downmove from 92.52 should at least retest 91.68. Stay short.

The exercise ends at this point. Prices never rallied above the close of August 9. Wave 1 bottomed on September 7 at 90.65. From this low, the market initially rallied into the resistance (i.e., previous support) at 91.68. Wave 2 ended with a final thrust to 91.88 completing a 61.8% retracement of the first downmove. The market then dropped to 88.96 in only nineteen trading days to complete wave 3. The Fibonacci target for the bottom of wave 3 was 88.86.

Date: 8/9 Open: 92.19 High: 92.20 Low: 92.03 Close: 92.09



PART FOUR

Recap

*...and no one asks
Who or what they have been,
More than he asks what waves
In the moonlit solitudes mild
Of the midmost Ocean, have swell'd,
Foam'd for a moment, and gone.*

—Matthew Arnold, *Rugby Chapel*

Summary of Trading

Nine paper trades were initiated. Six were profitable, one was a loss, and at the end of the exercise two short positions remained open and were in a profit. A breakdown of the individual trades is listed below. The net profit/loss per trade includes two points for commission.

5/3	+1	@ 90.53	6/13	-1	@ 92.13 = 158 pts
5/3	+1	90.53	6/27	-1	92.43 = 188
5/8	+1	90.58	5/17	-1	90.84 = 24
6/5	+1	91.45	6/7	-1	91.98 = 51
6/19	+1	91.90	6/20	-1	91.70 = (22)
6/25	+1	91.84	6/27	-1	92.43 = 57
6/27	-1	92.43	7/24	+1	91.92 = 49
7/13	-2	92.32	7/20	+2	91.76 = 108
8/8	-1	92.32	open		
8/9	-1	92.14	open		

Our net closed out profit was 613 points. These trading results are realistic. We did not buy the absolute bottom or take profits at the top tick. We used the Wave Principle to define risk. For example, after the close of June 26, we knew that prices were in wave v of 5 of (3). Our targets for the top of wave 5 were 92.44, 92.56, and 92.71. Instead of waiting to liquidate at a specific target price, we chose to take profits on a move above 92.42, the high of June 26. Staying long for the last few points could have jeopardized our profits.

Review of the Exercise

Looking over the cycle wave correction in this exercise, two elements may have created confusion. The February–March rally from 90.41 to 90.90 can

be counted as a five- or seven-wave move. I labeled this upmove as the c-leg of a contracting triangle. Because I treated the first pull-back after the February low as a fifth-wave failure, the rally to 90.90 was counted as a seven-wave move (a double zig-zag). The July–August rally does not have the classic look of an impulse wave. It looks more like a correction. In the commentaries, I showed how this rally could be counted as a complete five-wave pattern. The accuracy of the mathematical projections made the top at 92.52 even more compelling. In Figure 13, my complete wave count is presented. The details of the (b)-wave were shown on page 15.

Alternate Counts

The wave count shown in Figure 14 is based on the interpretation that the rally from 90.41 to 90.90 was a five-wave impulse. In general, this wave count is acceptable; however, the placement of wave ii of 3 of (3) does not include all of the elements in that phase of the upmove. When wave ii is placed at the 91.19 low, the subsequent rally to the June high only completes wave 3 of (3). To treat the July–August rally to 92.52 as a three-wave pattern that ended the cycle wave correction, the formation has to be labeled as a triple zig-zag. Based on this rare formation (see Figure 15), the October–November rally is the first of three zig-zags. The second caused the large upwave from February to June, and the final zig-zag was the short-lived July–August rally. There is symmetry between the zig-zags in this wave pattern. The first and third zig-zags are almost equal in length while the first and second are related by the 2.236 ratio.

En Passant

In this book, you have observed how one Elliott Wave technician "thinks Elliott". The process is repetitive. A minute five-wave impulse is analyzed in the same manner as a wave of intermediate degree. The mathematical projections are applied over and over. While unraveling the minute details of a wave formation, attention is never diverted from the larger interpretation and the alternate wave counts. Every aspect of the puzzle is examined for a fit that clarifies the wave analysis.

As this way of thinking becomes natural, you will look at price charts and quickly see the whole picture of structural and mathematical relationships that create a reasonable hypothesis about the future. This is the vision of the Wave Principle. It is acquired through practice.



Fig. 13 Preferred Count

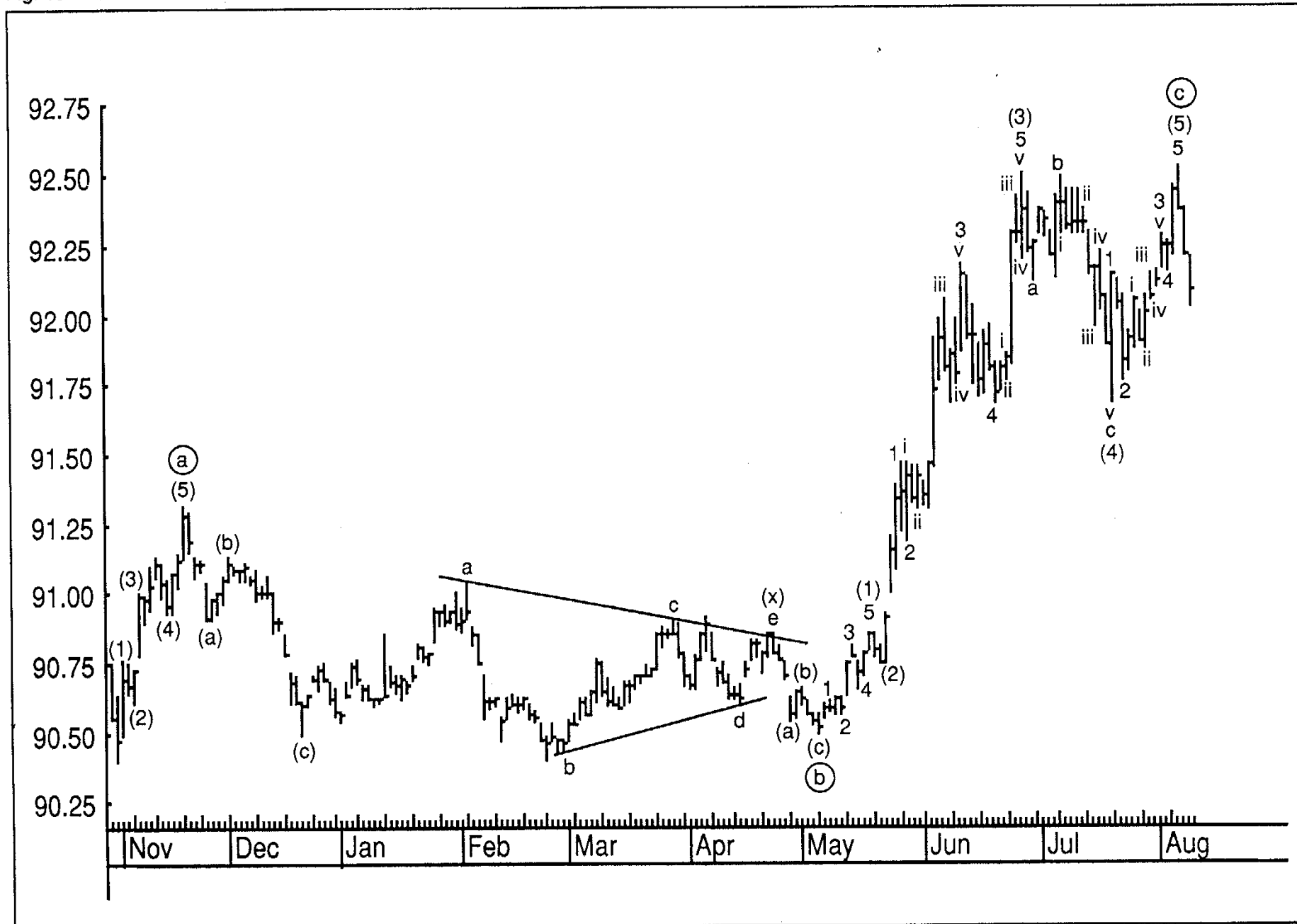


Fig. 14 Alternate Count

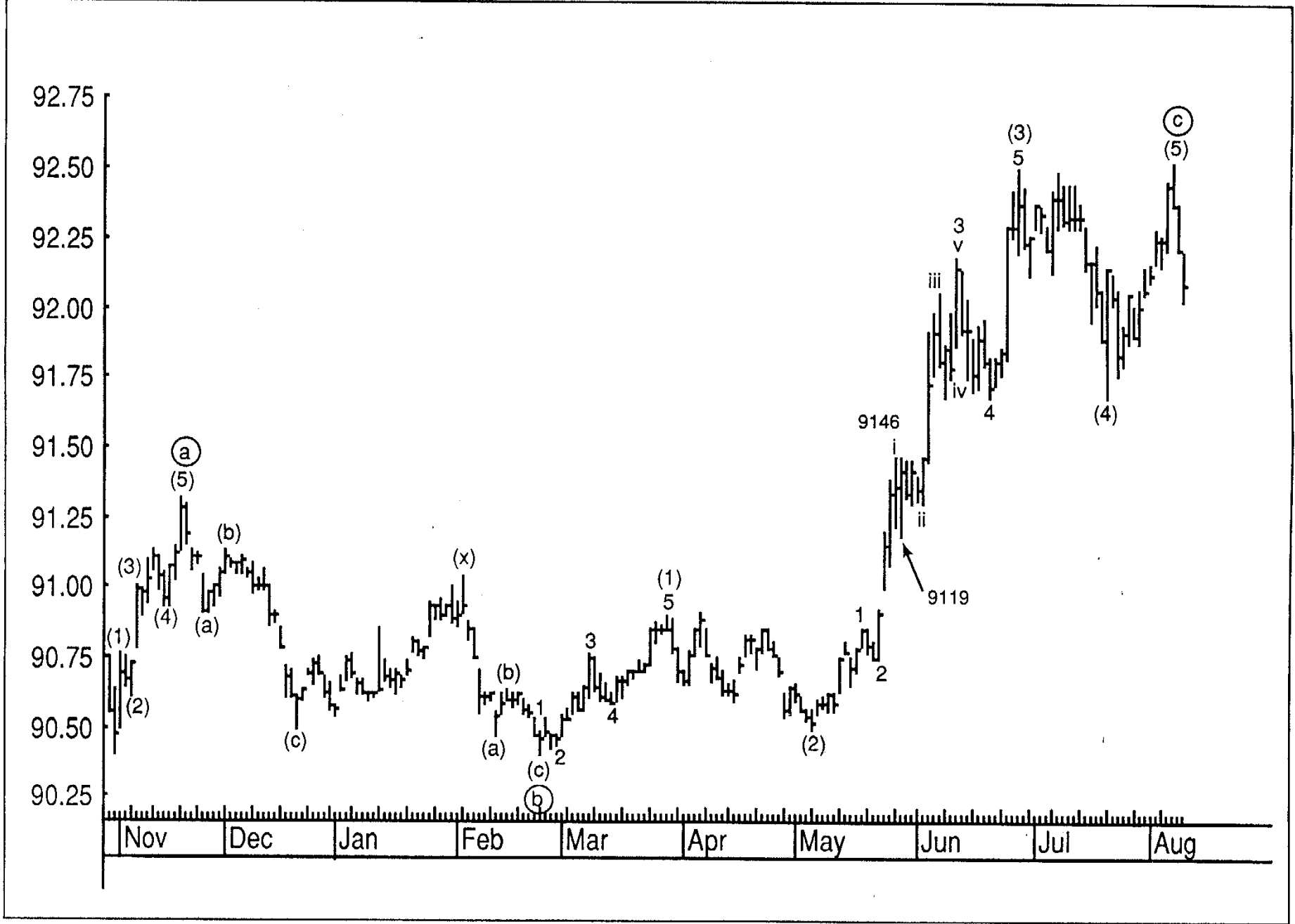
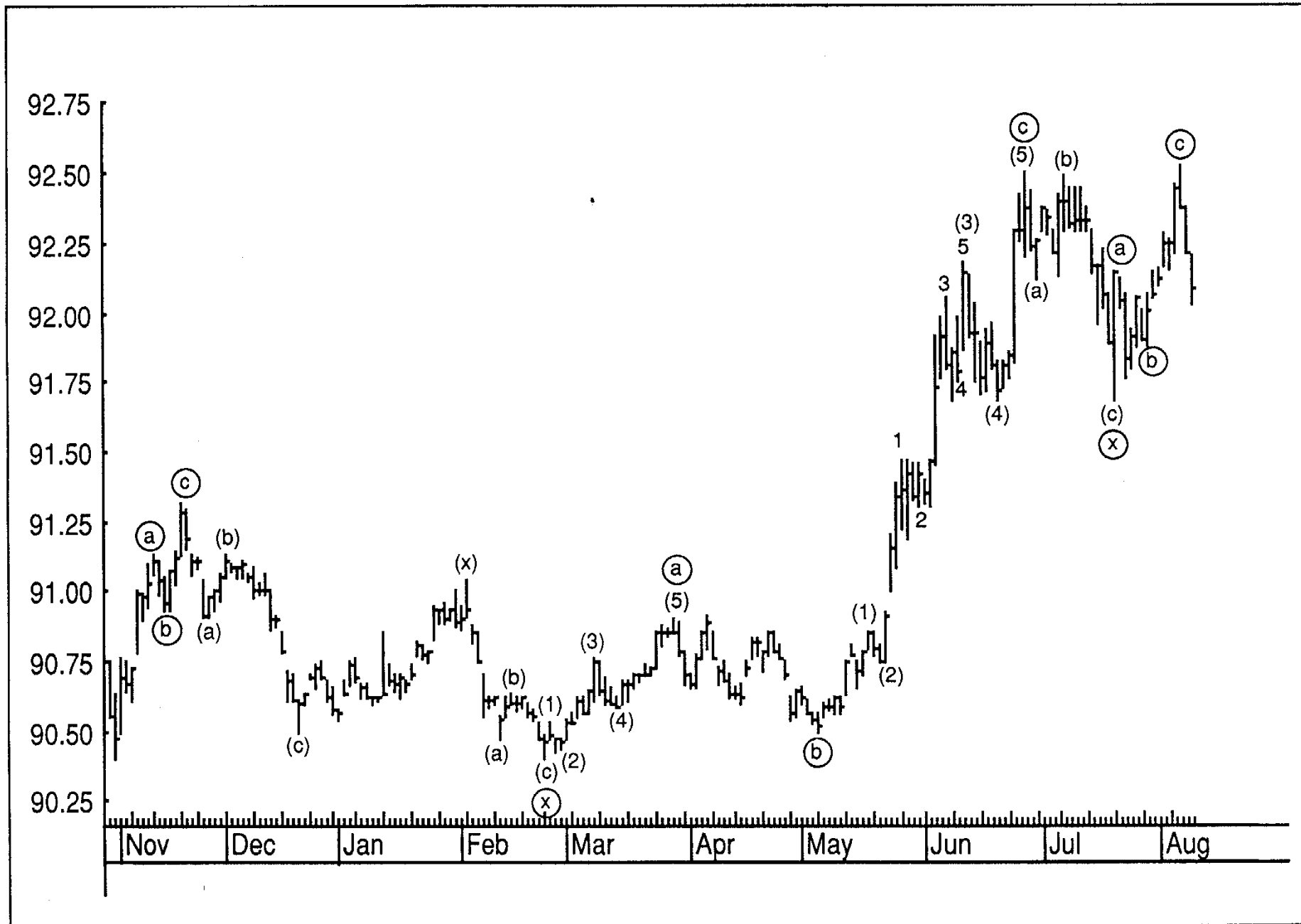




Fig. 15 Alternate Count



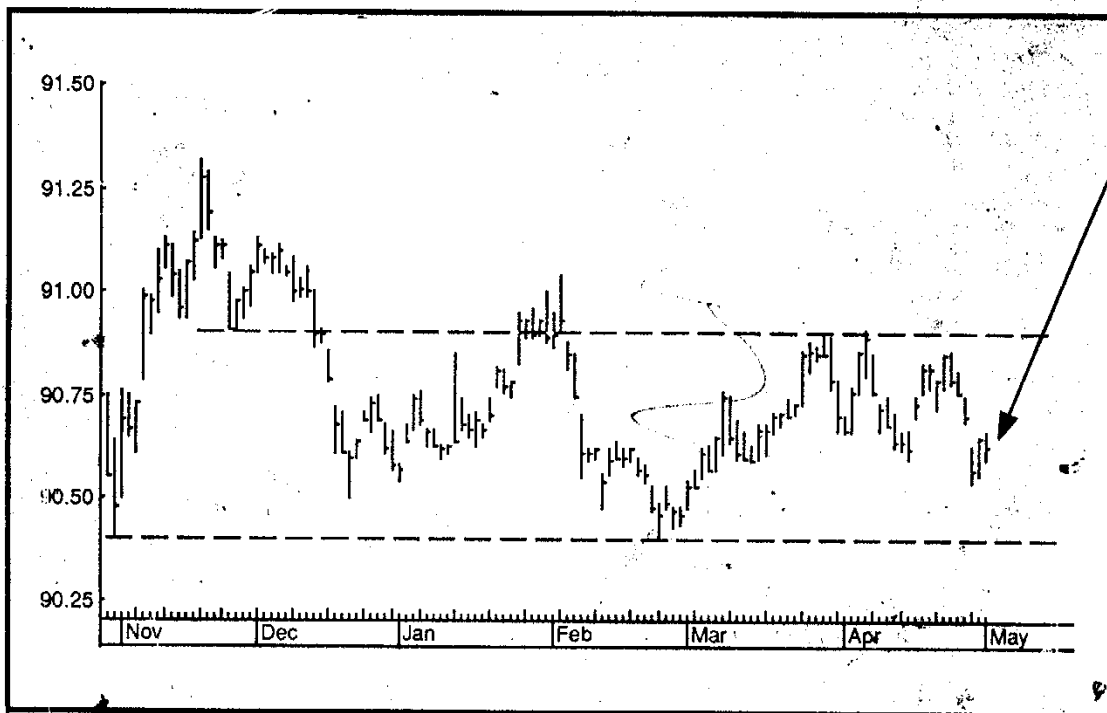
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For the first time, a "hands on" approach to the Elliott Wave Principle!



Using this chart of an actual market situation, would you buy, sell, or stand aside?

Proficiency with Elliott requires practice. This book provides such practice through a lengthy exercise with seventy days of price action unfolding one day at a time. The chart shown here is the starting point in this exercise. As the chart builds from day to day, you will have the opportunity to analyze and trade on a "real-time" basis. A detailed wave analysis accompanies each day's price movement so that you can compare your wave counts and trading results with those of the author.

David Weis is a leading Elliott Wave technician. He is the editor and publisher of *Technical Forces*, a monthly financial newsletter. For over four years, Weis edited the *Elliott Wave Commodity Letter* published by Bob Prechter. Weis also served as Director of Technical Research for ContiCommodities and has written numerous articles on Elliott Wave analysis. He is regularly interviewed and quoted by the financial media and can be heard every week on the Financial News Network.

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