

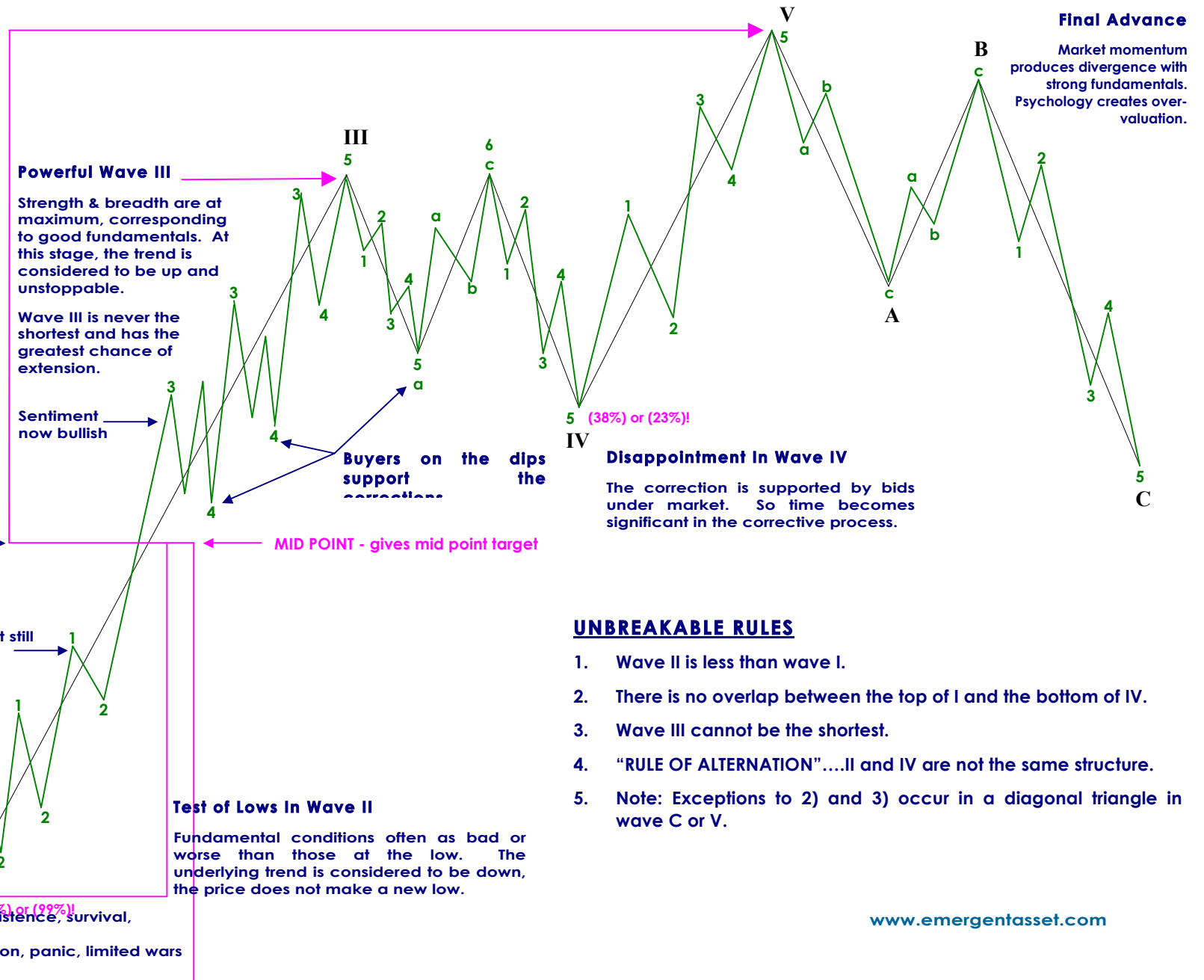
The Application of Elliot

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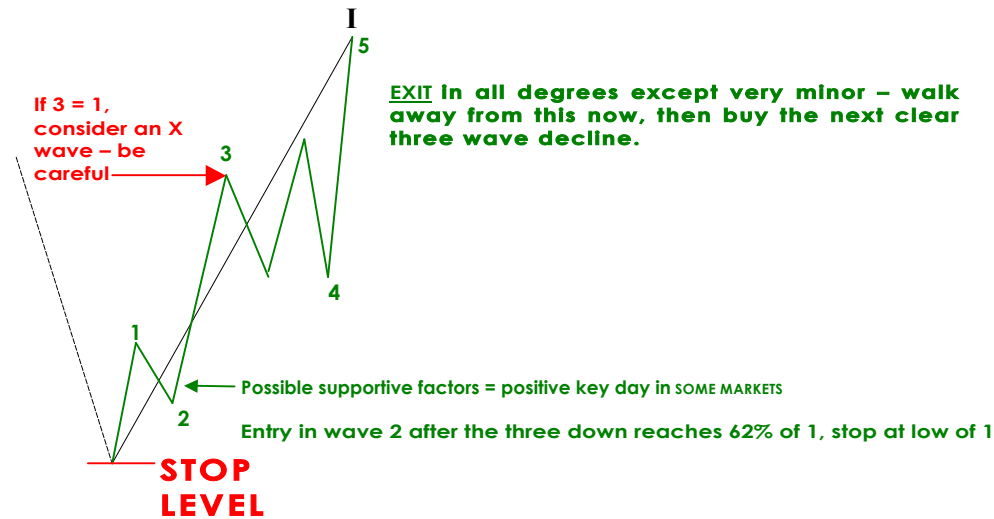
General Wave Structure

ALL DIAGRAMS SHOW POSITIVE PHASES BUT CAN BE REVERSED FOR NEGATIVE PHASES. I.E BEAR MARKETS

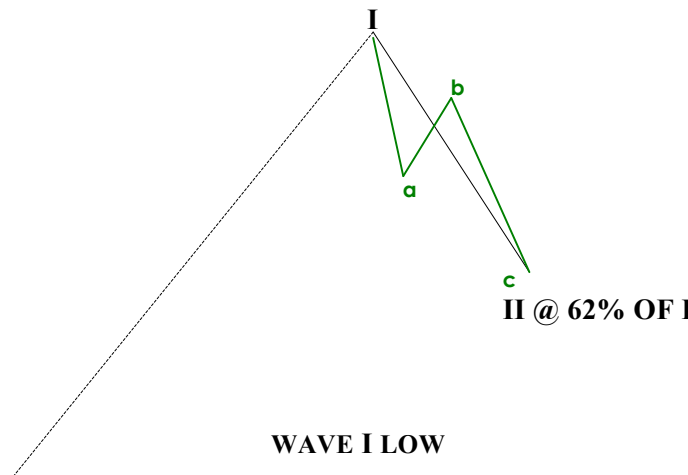


Cross check this with Trading C waves.

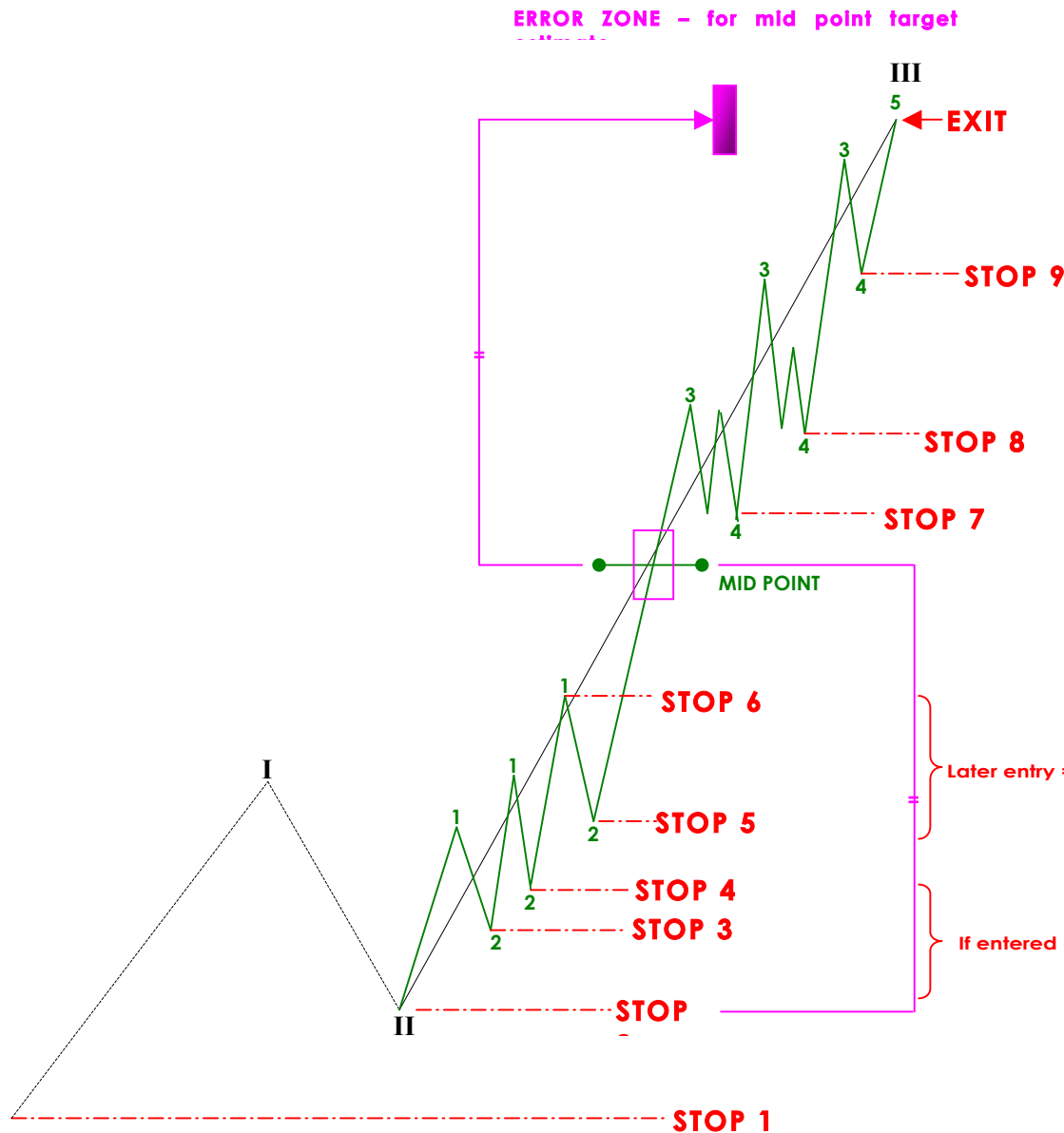
1. At the beginning of a wave I there is a predominantly bearish sentiment. The first moves up are viewed as a counter trend.
2. The only sign that a wave I is beginning is the clear completion of either a prior 5th wave down or a C wave completing a three legged correction.
3. The first possible entry level is at the end of 2 of I, with a stop at the beginning of I.
4. Remember to exit at the end of 5 of I, as wave II could produce a significant correction.



1. Sentiment in wave II is very bearish – do not trade this wave. You only need understanding of where it ends!
2. NOTE: The only exception is if wave II is of a very large degree, then the C wave of II worth trading!



Some corrections go to 99% of I, which can provide a good risk reward structure against the start of I.



1. Enter the beginning of wave III in the coils of 1, 2's using the stops 1 – 6.
2. Once passed the mid point, sentiment will become more bullish and progress slower in the wave 4's.
3. Must EXIT at the end of wave III, as given by the mid point target and completed internal counts.

ALWAYS USE THE NEXT BUT ONE LOW AS A STOP TO AVOID BEING TAKEN OUT BY AN IRREGULAR CORRECTION

Later entry = faster ride!

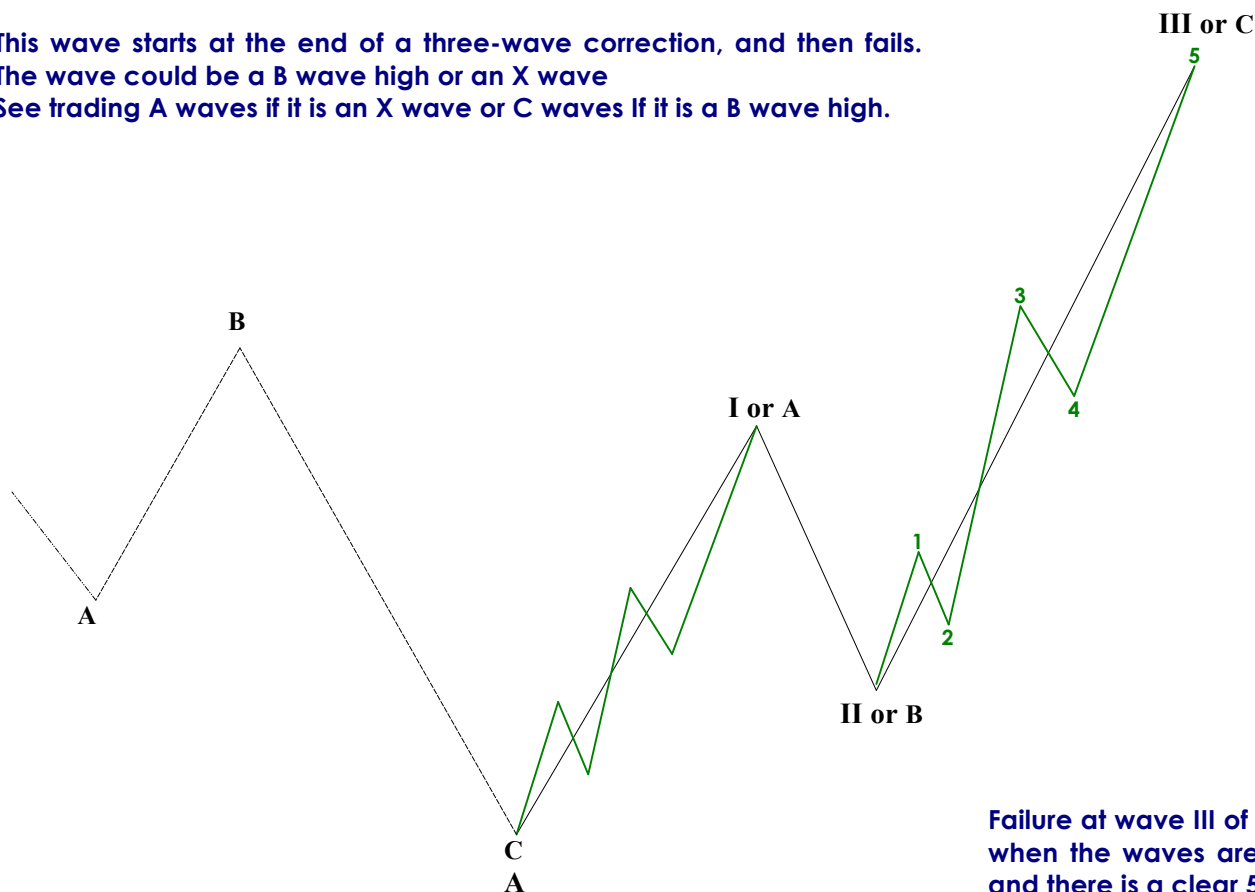
If entered early, beware of having to wait out the 1, 2 sequence – Be Patient.

Failure of Wave III Suggests Completion of an A, B, C

(B OR X WAVE?)

CONSIDER IF A = C OR I = III

This wave starts at the end of a three-wave correction, and then fails.
The wave could be a B wave high or an X wave
See trading A waves if it is an X wave or C waves if it is a B wave high.



Failure at wave III of a possible V occurs when $I = III$ or $A = C$, or when the waves are related by a fibonacci ratio of 1.62/0.62, and there is a clear 5 in (III or C) and strong bullish sentiment.

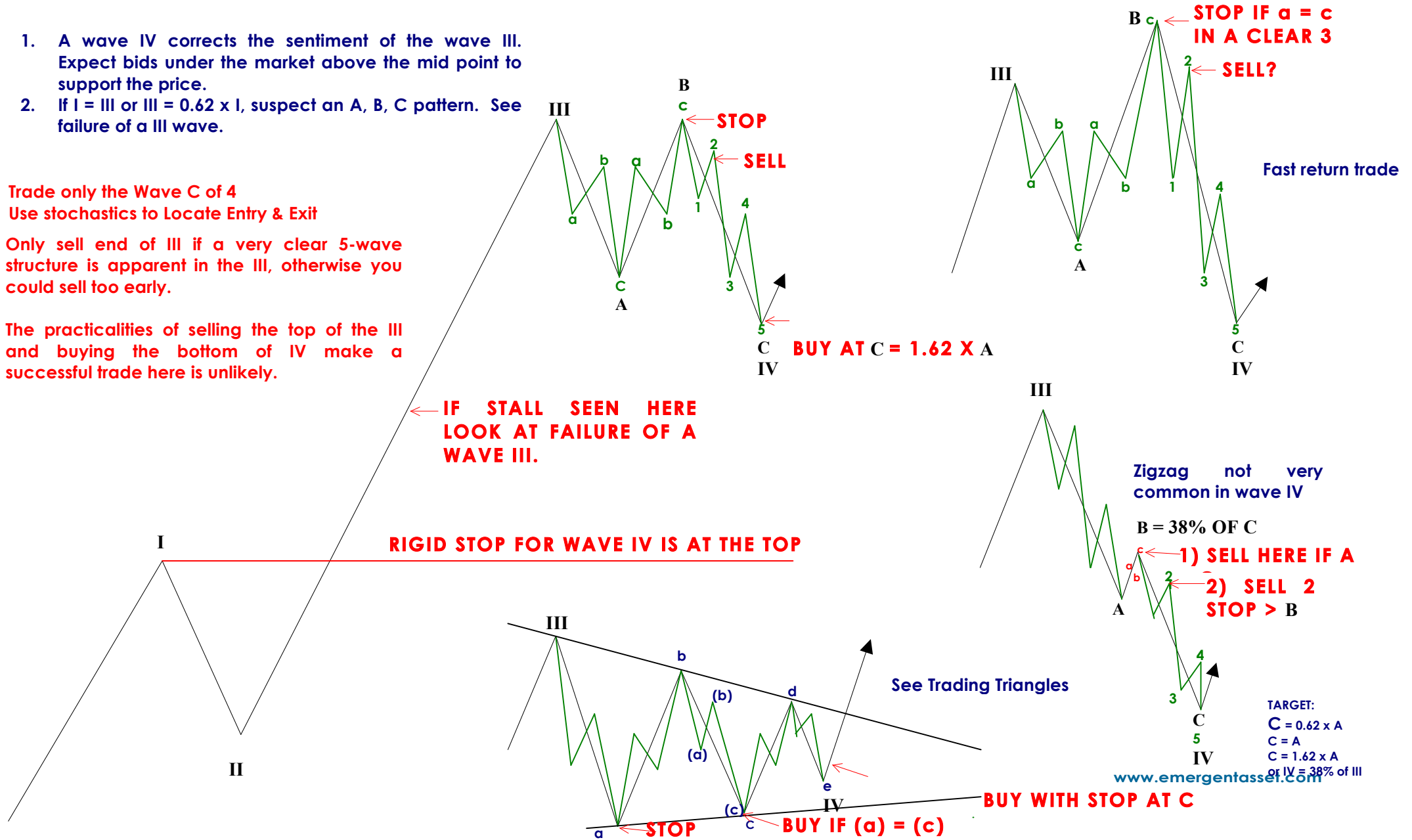
Beware that this may only be a correction.
Possibly sell into the top and wait for more information.

1. A wave IV corrects the sentiment of the wave III. Expect bids under the market above the mid point to support the price.
2. If $I = III$ or $III = 0.62 \times I$, suspect an A, B, C pattern. See failure of a III wave.

Trade only the Wave C of 4
Use stochastics to Locate Entry & Exit

Only sell end of III if a very clear 5-wave structure is apparent in the III, otherwise you could sell too early.

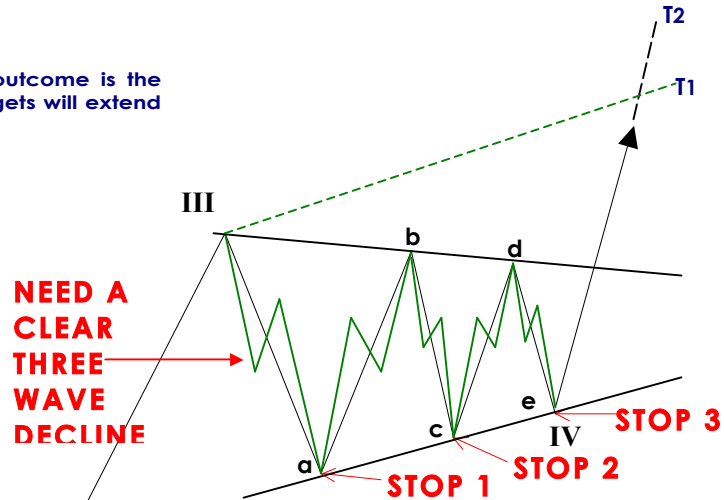
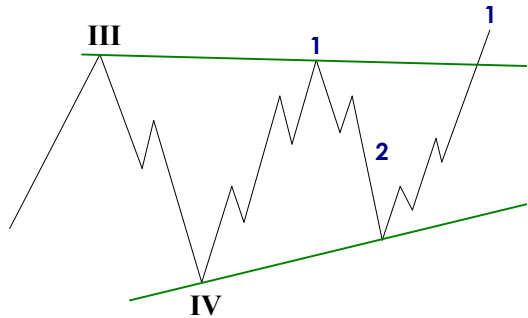
The practicalities of selling the top of the III and buying the bottom of IV make a successful trade here is unlikely.



Trading a Triangle in both wave IV and B wave positions

Consider this Alternative to a Triangle: I.e. A Coll

It looks like a triangle but it is not. Practically, the outcome is the same as a triangle but there is no e wave, and the targets will extend well beyond those of a triangle.



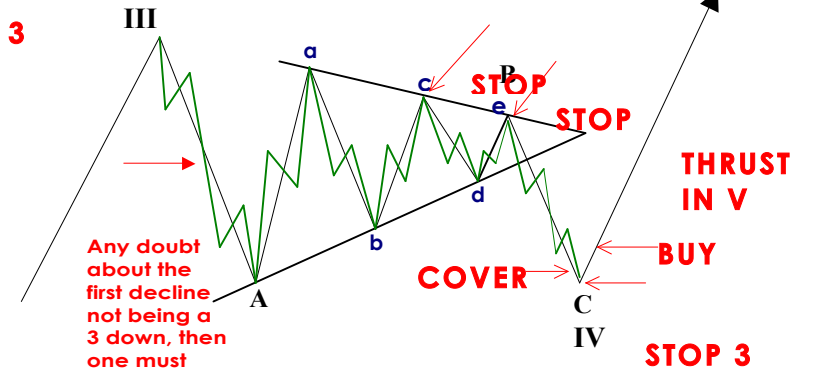
A Triangle In a Wave IV Location

Triangles can be symmetric, ascending or descending, but all have an internal structure of a, b, c, d and e waves in threes. The target is T1 achieved with a thrust in a 5-wave move.

However, complications in the form of a multiple degree rally can produce targets in excess of T1 to T2.

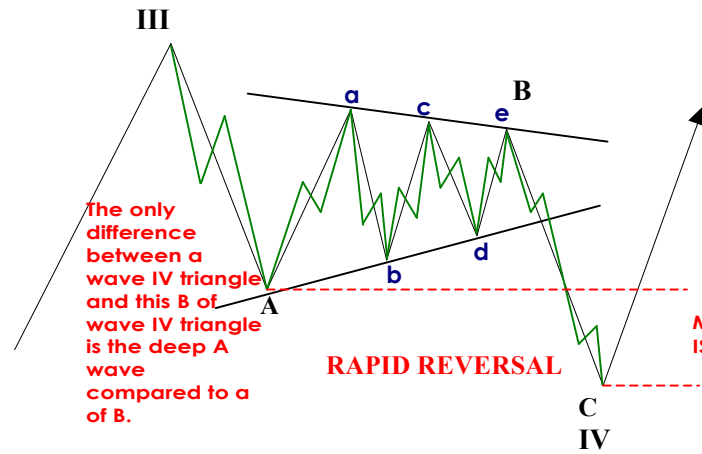
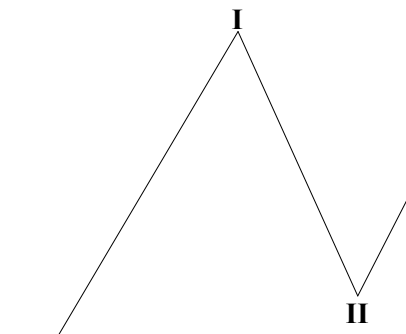
Complications (B wave Triangle)

Only trade these when the pattern is very large ...small degree patterns are out of the question.



Any doubt about the first decline not being a 3 down, then one must consider this.

VERY SHORT THRUST TO (C = 0.62% OF A) OCCURS 99% OF



MINIMUM TARGET FOR C IS A MARGINAL NEW LOW

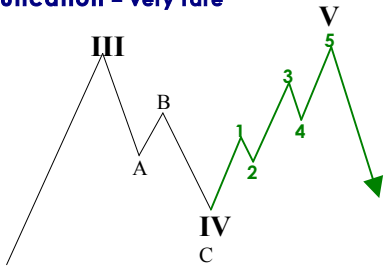
VERY SHORT THRUST TO 62% MORE THAN A

Extension



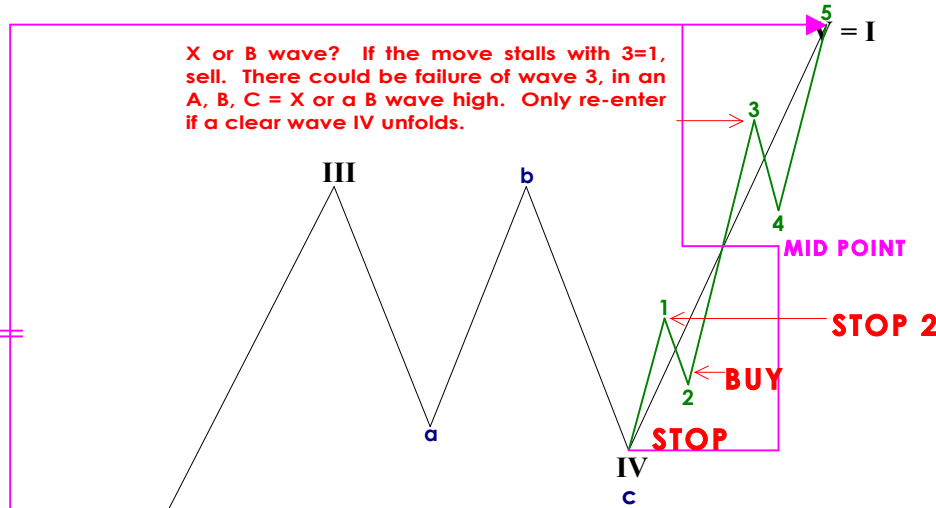
In this case, when wave 5 extends, the subsequent correction (A, B, C) should return to the starting point of the extension, i.e. the end of 4.

Truncation - very rare



This shows significant weakness - expect a deep decline. Definitely a good trading opportunity.

X or B wave? If the move stalls with 3=1, sell. There could be failure of wave 3, in an A, B, C = X or a B wave high. Only re-enter if a clear wave IV unfolds.



Normal Wave V

The end of wave 5 occurs at the end of a full investment cycle and coincident with maximum bullishness, RSI divergence and appears indestructible.

Watch for an increase in volatility and a major reversal day.

Consider the chances of an extension in 5 before selling short.

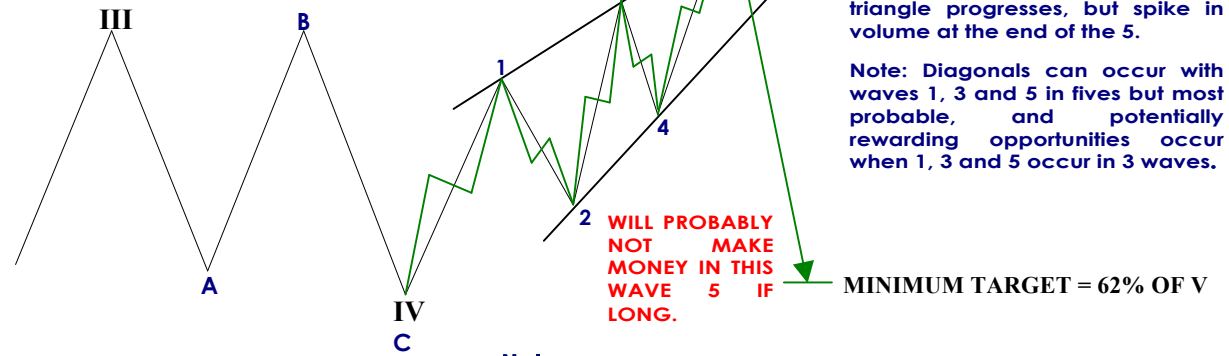
Diagonal Wave V

Full investment, bullish sentiment, massive R.S.I divergence.

The break is very sudden and violent.

Volume diminishes as diagonal triangle progresses, but spike in volume at the end of the 5.

Note: Diagonals can occur with waves 1, 3 and 5 in fives but most probable, and potentially rewarding opportunities occur when 1, 3 and 5 occur in 3 waves.



Notes

- 1) Additional targets given by a triangle thrust.
- 2) Watch out for a 5th wave failure...rare but excellent.
- 3) 5th wave extension:- rapid reversal www.emergentasset.com

Trading The A Wave

Refer to Trading the C wave for overall A, B, C structures

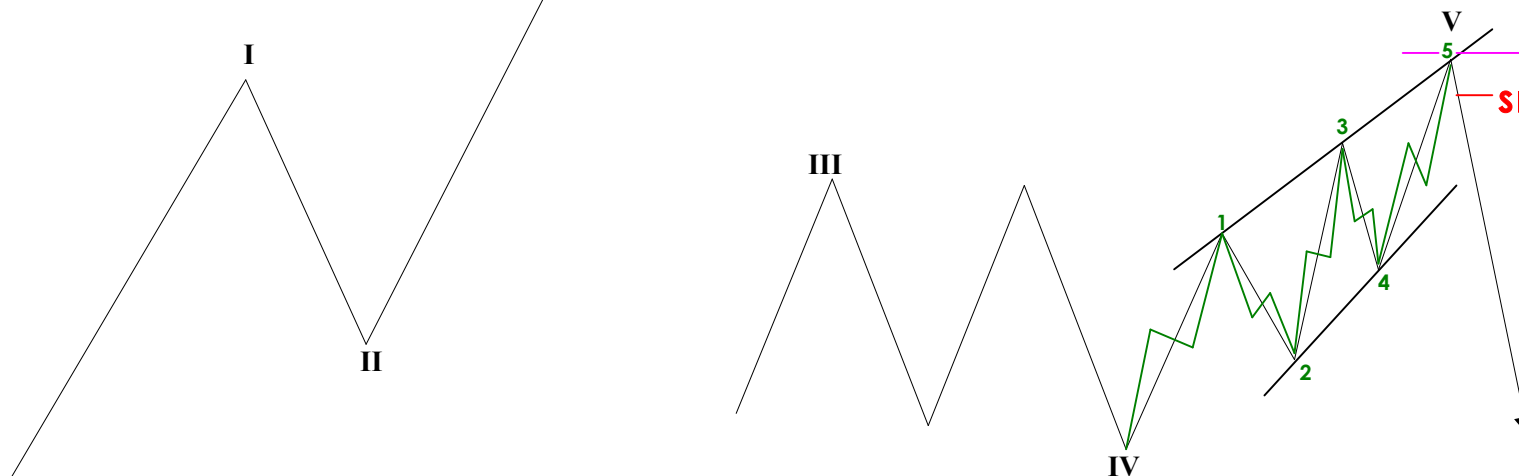
Standard Endings to Wave 5 of V are:

- 1) When wave V has reached the target of I=V
- 2) When 5=1 if 3 is longest
- 3) R.S.I , stoicastic support
- 4) The 3rd gap up in waves I=V or in waves 1, 2, 3, 4 and 5.
- 5) All midpoints targets have been met.
- 6) A key day reversal is likely, i.e., previous night's close was the high and there was a gap up on the opening.

SELLING A WAVE V IS LIKE STANDING IN FRONT OF A TRAIN, SO ONLY DO THIS TRADE WHEN ALL OF THE ABOVE HAVE BEEN MET.

AND THEN ONLY DO IT WITH A SMALL SIZE AND WIDE STOP.

Note: it is better to do this trade late rather than early. Be sure, not rash!



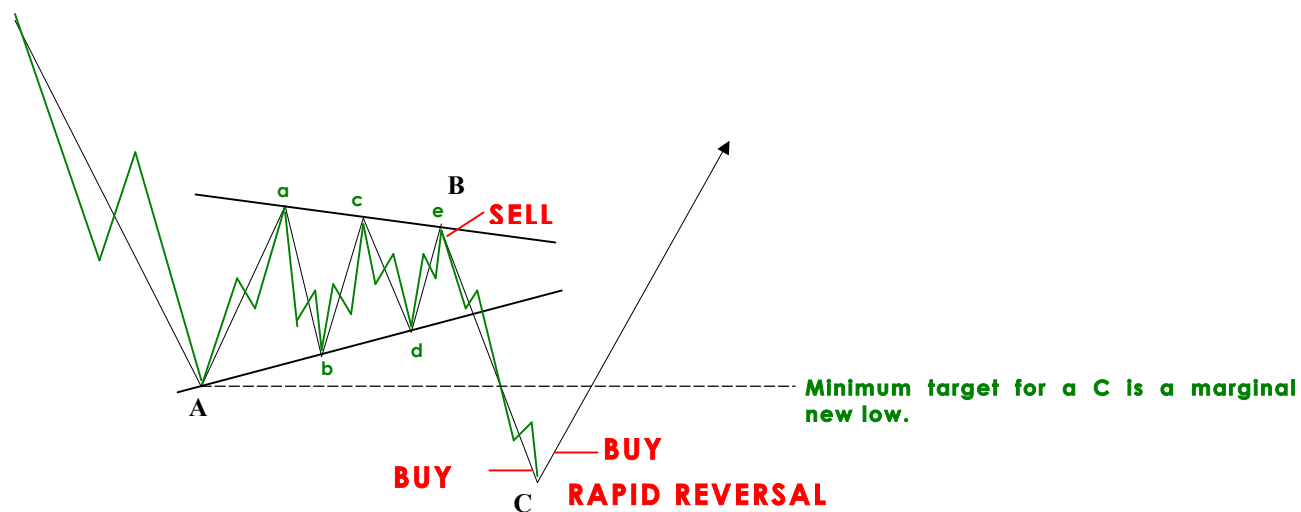
Exceptional Ends to Wave 5 of V are:

Diagonal Triangle End to Wave V

- 1) When V could fall short of all normal targets
- 2) Use stop of 5=3 if 3<1
- 3) With the stop above can sell at point 1, but if late sell at point 2.
- 4) If in a bull market, a diagonal triangle has a target of 62% of its height. In a large degree bear market, run it for longer.
- 5) 5th Wave Failure - very rare very good! - See 5th Wave.
- 6) The A wave can either trade as a five or a three wave structure.

1. DO NOT EVEN THINK ABOUT IT!

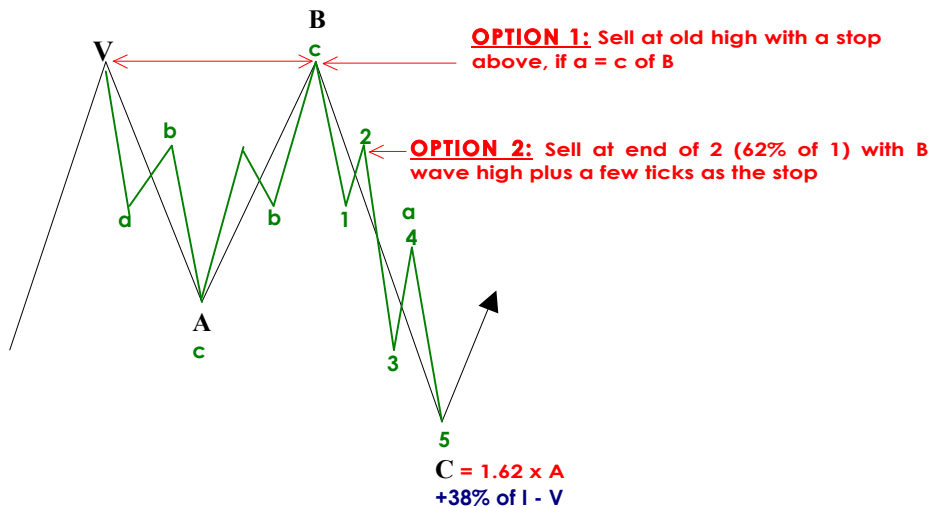
- Unless the wave is of large degree
2. Expect the internal structure of the B wave to unfold in a 3-wave form.
 3. Note: one special pattern is the B wave triangle shown below. Details of entry points are given in 'Trading a Triangle'. As the thrust will be short and fast, the exit from the trade must be crisp.
 4. The end of the thrust from the triangle should provide an excellent entry for the next impulsive move.



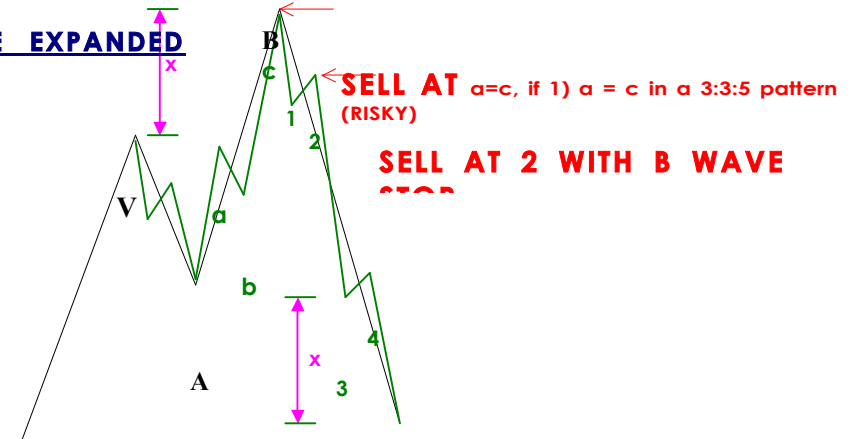
Short thrust in a five wave down with a rapid reversal. This offers a fantastic entry point into the next rally.

Trading The C Wave

C - WAVE



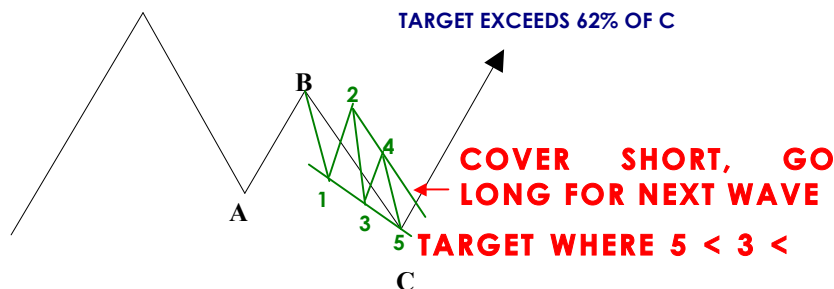
C - WAVE EXPANDED



$C = (1.62 \times A + x)$ AS A TARGET
ALSO 38% OF I - V

EXCELLENT POTENTIAL RISK RETURNS IN THIS TRADE

DIAGONAL TRIANGLE IN C WAVE LOCATION



These are great opportunities to trade and, if short when recognised, cover and wait to go long on the break, as the upside will be excellent. See wave I trade.

ZIGZAG

