

# **Essential Information To Accurately Forecast Future Market Movement With**



**From the Author of the Elliott Wave Analyzer 3,  
Richard Swannell**

**- The World's Most Accurate Market Forecasting System for Stocks and Commodities.**

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Author of The Elliott Wave Analyzer, Richard Swannell and his wife of 20 years - Amanda

**Two critical questions must weigh heavily on every astute investor's mind:**

- (1) Do the world's stock markets display any regular price movements?
- (2) And if they do, can this regularity be consistently exploited to my benefit?

Fig. 3 (found in the pages that follow) demonstrates indisputable proof that **prices DO NOT move at random** and that the Random Walk Theory of markets is absolutely incorrect.

***Reoccurring patterns do happening regularly in liquid markets.***

If liquid markets moved at random, Fig. 3 (found in the pages that follow) would show a smooth normalized bell curve centred at the 50% mark. Instead it shows a heavily skewed bell curve with peaks at common Fibonacci ratios.

*This is far from random!*

Based on eight years of extensive research and the world's largest database of Elliott Wave Patterns, we can demonstrate unequivocally that the Elliott Wave Principle is an outstanding market forecasting tool. Our real-world analysis of tens of thousands of market patterns obtained from the computers of active traders worldwide, proves that the Elliott Wave Theory can and does exploit hidden patterns imbedded in market movements and can accurately forecast a market's next move.

The frequency distribution histograms that follow incontrovertibly prove that the **new** Elliott Wave Principle can be a most profitable forecasting tool for any serious trader or investor.

## **MAKING MONEY WITH THE NEW ELLIOTT WAVE ANALYZER**

*If you are serious about consistently taking money out of the market, then it is most important that you carefully read this document through -- from beginning to end.*

In the sections that follow, I will show you how to use the Elliott Wave Analyzer 3 to forecast the markets more accurately than you ever thought possible.

You are about to use the most sophisticated market-forecasting tool available to any investor – anywhere! The technology at your fingertips is the very best money can buy. And as you are about to discover, the technology is years ahead of any comparable technical analysis package currently available.

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The Elliott Wave Analyzer 3 is the Ferrari of market forecasting packages. If you are serious about trading at absolute maximum profitability, then come along for the ride. I promise you, driving the Elliott Wave Analyzer 3 will be exhilarating.

Learn to control its power and it will serve you well. Neglect this instruction manual at your own peril. Just as with a Ferrari, unless you know how to operate the gearshift and other controls, all the technology at your fingertips will take you absolutely nowhere.

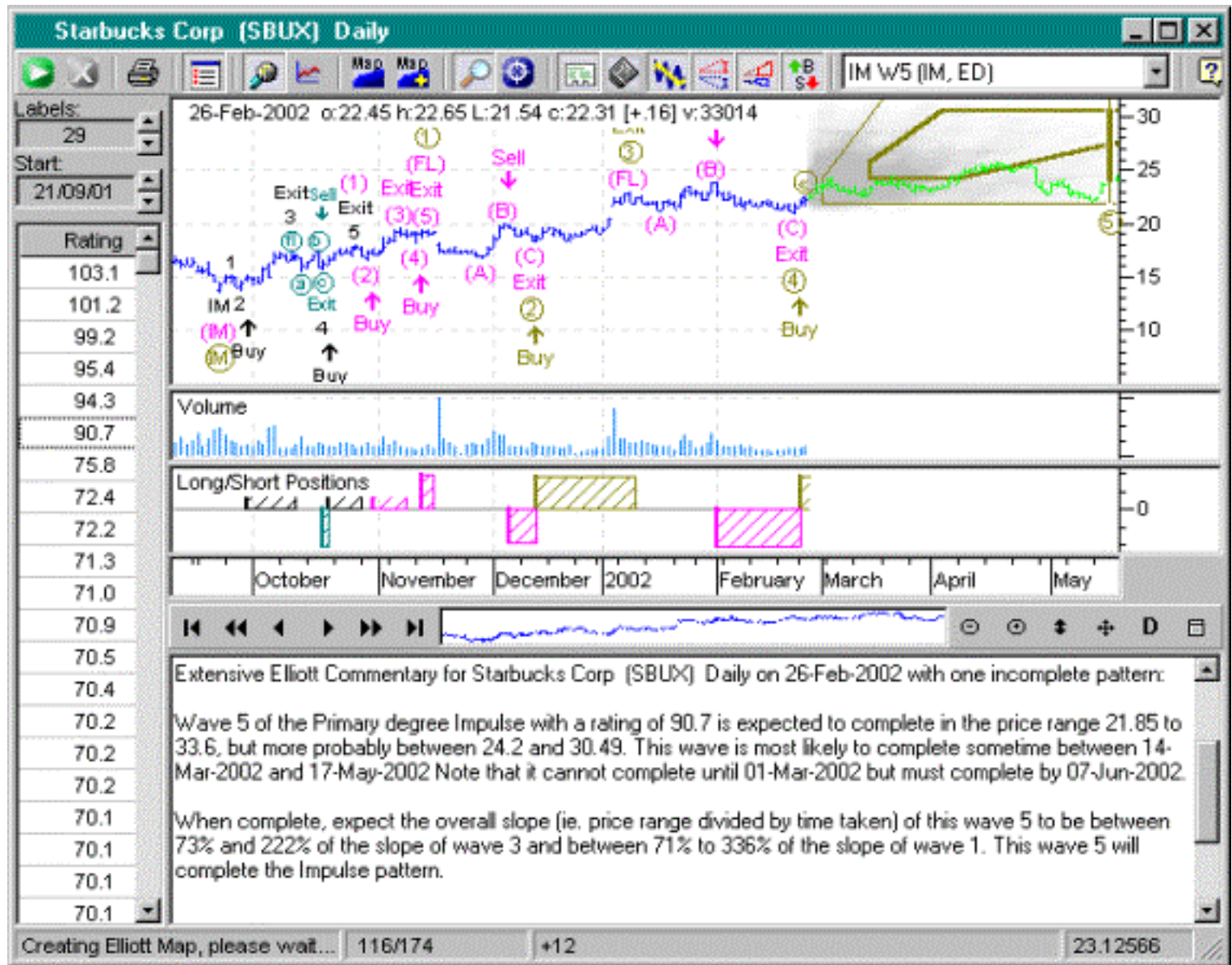


Fig. 1: Example output of The Elliott Wave Analyzer 3

And just as the Ferrari is a “work in progress” so is the Elliott Wave Analyzer 3. Behind the scenes our team use the technology every day to forecast and trade the markets. The technology is continually being tested, honed and improved. Periodically we take our latest and most effective new technologies and incorporate them into the latest version of the Elliott Wave Analyzer.

Most importantly, the Elliott Wave Analyzer 3 uses statistical analysis of real-world market data to identify patterns and to forecast the markets. This sets it worlds apart from all other forecasting systems and gives it an incontrovertible edge over all others.

Specifically, we have thousands of traders throughout the world donating computing power via our high-tech screen saver that analyzes tens of thousands of current market charts every day that includes U.S. and world equities, commodities and indexes. Using the Internet, these results are continually added to what is now the largest growing database ever compiled of Elliott wave patterns. The Elliott Wave Analyzer 3 directly accesses the statistical analysis of our exclusive database to determine the most probable pattern labelling. And most importantly, the statistical analysis of this massive database is updated every month, therefore dynamically adapting to current market trends.

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The Elliott Wave Analyzer 3 identifies known patterns by referencing patterns within this vast database. It compares the type of security, time span, price movement, relative slope, internal wave structure, volume and dozens of other factors -- 119 key elements in total -- all to provide you with the most accurate forecast possible. Reliable forecasting is achieved with the Elliott Wave Analyzer 3, by identifying incomplete patterns and using our statistical analysis of the Elliott Wave database to determine where and when the pattern is most likely to complete. As more patterns are added to our exclusive database, the Elliott Wave Analyzer 3 can only become even more accurate.

As a consequence, the Elliott Wave Analyzer 3 provides you with a rare trading advantage - a trading advantage that gets more accurate month by month as the technology behind the software improves, and the Elliott database increases in size.

The most critical difference between the Elliott Wave Analyzer 3 and any other Elliott Wave software package is that the Analyzer works with field-test probabilities not simple theoretical models and untested concepts. As such, when driven correctly, the Analyzer yields signals more accurate than any other software package can match.

Watch your trades turn into successful ones. You also can have the confidence that you are supported not only by the best market-analysis software on the planet but also by a dedicated team of market and technical specialists. So journey with us as we continually improve this technology beyond what currently seems possible.

With the Analyzer as your guide, this is surely not only an exciting time to be trading the markets but also a safer one.

## **PURPOSE OF THE ELLIOTT WAVE ANALYZER 3 SOFTWARE**

For me personally, finding a more profitable method of trading was not about trying to find a way of making money – it was an **absolute** necessity. This driving force is the result of my passion for charities. My wife and I finance an orphanage in India and develop projects that will soon make it self-sufficient for the first time in its 30 year history. For more information go to [www.hebronorphanage.org](http://www.hebronorphanage.org).

This work saves the lives of many children and gives them a real chance of breaking out of the poverty cycle. Charity work gives me more satisfaction and fulfilment than anything I have done, or could ever do. But it all takes money. Many years ago, I decided that in order to create the necessary wealth, I needed to be able to trade, and trade more profitably than the average successful trader. So, back in 1987, I started on a lifetime quest – to develop the world's most profitable trading system.

Over the years I have purchased, dissected and studied every trading system obtainable. I have spent large amounts of money purchasing trading systems, then years of computer programming to determine their profitability. I have traded the best, and found that very few, if any, work consistently in real-world markets. Many trading systems can show consistent theoretical profits but because of slippage and gaps in thinly traded markets, profit margins tend to drop dramatically when trading real

money.

The Elliott Wave Principle has always made sense to me as a reliable forecasting tool for predicting trader psychology. Liquid markets are, by definition, traded by a large crowd of traders. Although it is nearly impossible to determine what a single trader will do, it is statistically possible to determine the probability of what a large crowd will do. Mass crowd psychology comes into play, the result of mass human emotion. As a result, when the Elliott Wave Principle is applied to highly liquid markets, it is uncannily accurate.

Liquidity is essential for consistent Elliott behavior. It is a prerequisite. Stocks such as those on the S&P or Nasdaq and currencies, for example, show strong and dependable Elliott Wave patterns.

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These markets are driven by mass psychology or human emotion. No one trader, institution, or government can manipulate these markets. They are truly liquid, driven by supply and demand - the result of the "state of mind" of the crowd, as it moves from fear to hope and back again.

Conversely thinly traded markets, such as speculative stocks or commodities, do not show consistent Elliott behavior. This is also the reason why markets that are manipulated by a few large traders, institutions, or governments, such as Gold futures, are usually poor candidates for Elliott analysis.

Despite the consistent behavior of liquid markets, I was dismayed to discover how frequently the Elliott Wave Principle was out-and-out wrong! Noting Elliott's forecasting failures established my ongoing goal and the genesis of Elliott Wave Analyzer 3; to study real market data and to find the most accurate forecasting Elliott system possible.

Repeatedly I would find verifiable Elliott Wave patterns within real market data. Yet, it seemed that very few of them were similar to what most Elliott technicians would regard as "typical" Elliott patterns. It has always bothered me that "common" Elliott patterns are not commonly found in real price data.

The other aspect of the Elliott Wave Principle that has always concerned me is that the entire market analysis and forecasting system is based on and developed entirely by "personal" observation alone and not by objective analysis. As we all know, the observer determines the results of the observation. Any human observer is going to be affected to some degree by his or her preconceived beliefs about what they are looking for.

This, I believe, is the primary reason different expert Elliott technicians have such radically different beliefs about the Wave Principle. It is also the reason, I believe, that the Elliott Wave Principle receives such criticism from many traders.

Armed with this knowledge, I determined it was time to develop the wave principle from a theory based on personal observation to one based on verifiable science; on consistent, incontrovertible statistical and mathematical analysis.

## **HOW COULD THAT BE ACHIEVED?**

Over the previous eight years, I had developed and marketed the Elliott Wave Analyzer, which included an Elliott Analysis engine that was essentially bug free. It was the most accurate Elliott Analysis engine in the world and was being used daily by many thousands of traders. It occurred to me that I had the perfect and unique tool to achieve my quest.

My Elliott engine was designed to find Elliott Wave patterns within chart data, and to sort them according to predefined "Guidelines" to identify the most "common" Elliott patterns. The greater the "fit" of real market patterns with identifiable "common" Elliott patterns the more likely these "fits" will complete in predictable ways and therefore, serve to forecast future market movement with the greatest probability of being correct.

However, in many cases, these "Guidelines" completely relied on and were wholly determined by untested observation. Remarkably, they rarely were field-tested. Essentially, these untested subjective "Guidelines" were elevated to "mythical" status by Elliott proponents and underlay the entire foundation of Elliott Wave forecasting. To transcend this fundamental failure and to take Elliott from the realm of myth to the realm of science, we needed a scientific method of testing Elliott Guidelines against real-world data and of generating a new list of field-tested and proven objective "Guidelines".

Using the Elliott Engine as a base, I created a screen saver that included a new Elliott Engine designed to find any pattern that obeyed the basic tenets of the Elliott Wave Principle – no matter

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how obscure or unlikely. This screen saver would gather up any such pattern and send me the details over the Internet. Every pattern would be added to an Elliott database. Then, for the first time in history, by using this database, I would be able to redefine what a common Elliott pattern really looked like based on statistical analysis of current real-world market data.

The amount of computing power needed to create a large database is enormous, so I invited my customers and their friends to join with me in this study by installing my screen saver. We currently have thousands of people contributing their unused computer time to this study, and the results have been astonishing.

Although we have verified many Elliott Guidelines, we have found it necessary to discard some and redefine many others.

The result is the Elliott Wave Analyzer 3, the first Elliott software based entirely on field-proven patterns based on real market data.

Elliott Wave Analyzer 3 is the missing link between the Elliott Wave Principle of the past and the new verifiable statistically based Elliott Wave Principle of today.

It is important to note that we have worked entirely within the basic tenets of the Wave Principle. All we have done is accurately redefined the most common shapes of Elliott Patterns. We have not changed the Wave Principle, but simply made it statistically testable, objective and ultimately more accurate.

In time, I believe traders will rediscover the Elliott Wave Principle and view it in an entirely new light. As we publish our research in the coming months and years, we will be able to prove and disprove every facet of the Elliott Wave Principle – based on solid verifiable statistical data and analysis. No more opinions. No more conjectures. No more arguments. Just facts.

## **GOING EVEN FURTHER**

Now that we have a scientific way of determining every facet of the Elliott Wave Principle, it makes sense to allow the new Elliott Wave Analyzer 3 to determine its own Elliott Guidelines by direct access to this growing Elliott database. As the database grows, the Analyzer will become more accurate by sheer fact that it is able to access statistics based increasingly on real-world patterns. The Guidelines and every probability and ratio is determined dynamically from real market data that grows more accurate with every passing day. And just as importantly, the Elliott Wave Analyzer 3 for the first time adds **“time forecasting”** to Elliott’s arsenal of tools – something the traditional Elliott Wave Principle was woefully inadequate in doing.

This is a world first. Never before has a computer software market forecasting tool had access to so much critical real-market information. It is only a matter of time before this software package becomes known as the most accurate market-forecasting tool of all time. And even better yet, it is continually getting more accurate!

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Now, let me give you an example of how this works:

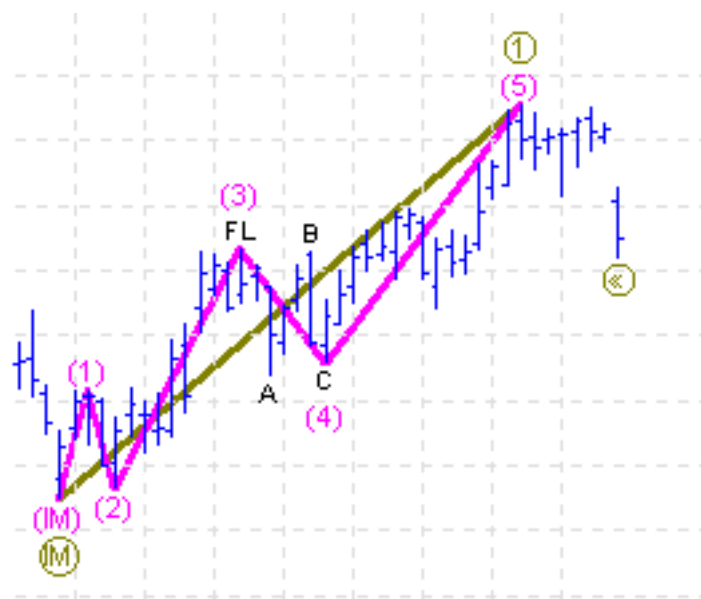


Fig. 2

Fig. 2 shows a 5 wave ascending Impulse pattern (highlighted in magenta). This is a fundamental Elliott pattern – the basis for all Elliott forecasting and integral to all Impulsive actions. The Elliott Wave Principle states that once this 5 wave pattern is complete, the market will retrace (drop back in price) somewhere between 1% and 100% of its climb. As you can see such a retracement is evident at the far right of the chart. For a more detailed explanation of the Elliott Wave Principle see the section titled A Brief Elliott Wave Primer.

Traditional Elliott Guidelines state that the most likely retracement will be usually a common Fibonacci ratio -- 38%, 50% or 62%. Traditional Elliott experts will also assert that the Elliott Wave Principle is much better at predicting price movement than time movement – so it will not have an opinion on time (or when) this retracement is likely to complete.

For the first time in history, however, it is now possible to determine both the actual price and time probabilities based on statistical evidence.

When we examine every 5-step Impulsive pattern of this type found among the tens of thousands of real-life charts, and graph the frequency of retracement between 1% and 100%, we find results that look like this:

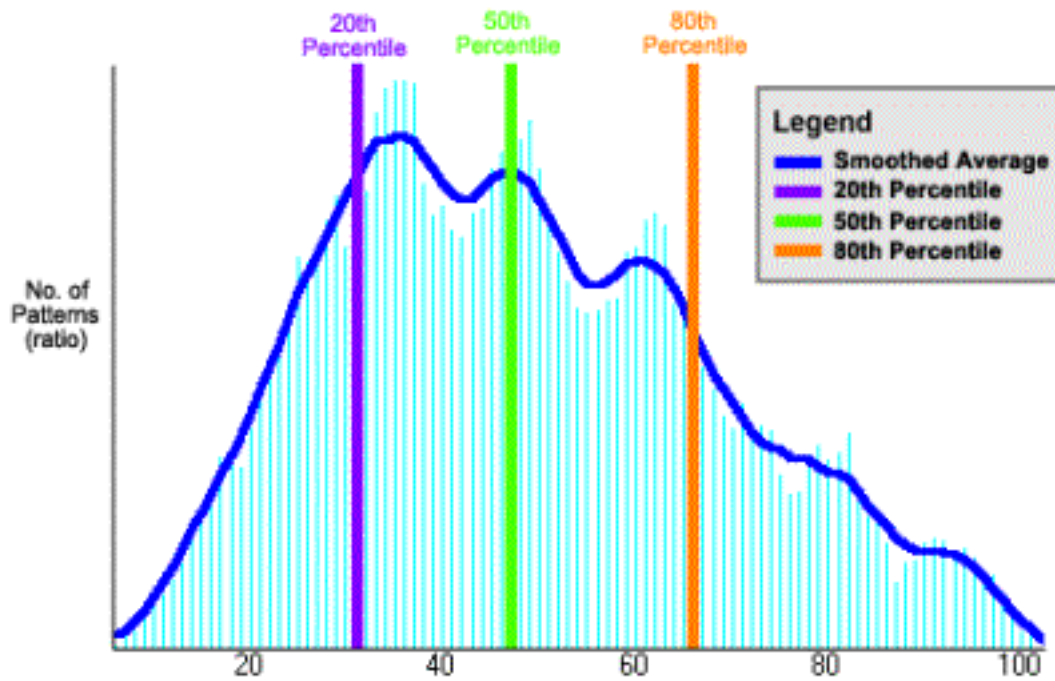


Fig. 3: Retracement of Impulse Wave 2 on Wave 1 by Price

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Note that although there are small peaks at the traditional Fibonacci ratios of 38%, 50% and 62%, the vast majority of patterns retrace between 32% and 65% of the initial 5-wave price movement.

A retracement of less than 32% occurs only 20% of the time (as seen from the very left of the graph up to the purple line), and another 20% of the time retracements are greater than 65% are observed (as seen from the orange line to the very right of the graph). The middle vertical green line divides the area under the curve by 50%.

## RANDOM WALK THEORY DISPROVEN

As a by-product of our statistical analysis, we have disproven once and for all the Random Walk Theory of market movement. Advocates of this theory believe the price movement of charts is entirely random. As you can see, these results are anything but random. In addition, we analyzed several thousand charts that were created using random movement algorithms, and as expected the results showed normal bell shaped distribution histograms – very different from the results from real-market charts.

Significantly different from any previous Elliott analysis, we also run a time analysis, using the same type of methodology as above. In this case, rather than looking at price, we look the relative time taken to complete the retracement in relation to the time taken for completion of the initial five-wave Impulsive pattern:

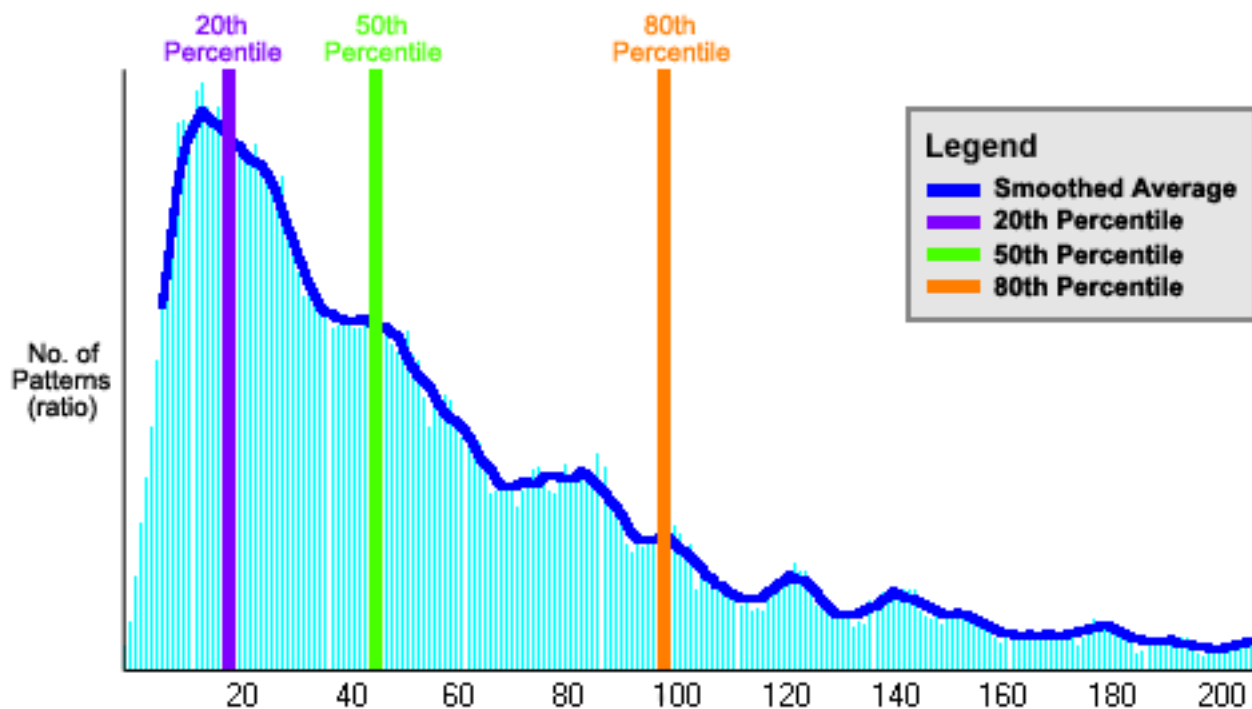


Fig. 4: Retracement of Impulse Wave 2 on Wave 1 by Time

Notice that in about 80% of the examples found within the database, the retracement took less time than it took the initial five-wave impulse to reach maturity.

Another important factor is relative slope. When only the end points of the patterns are considered, the ratio of the slope (price movement divided by time taken) of the initial five-wave pattern compared with the slope of the retracement looks like this:

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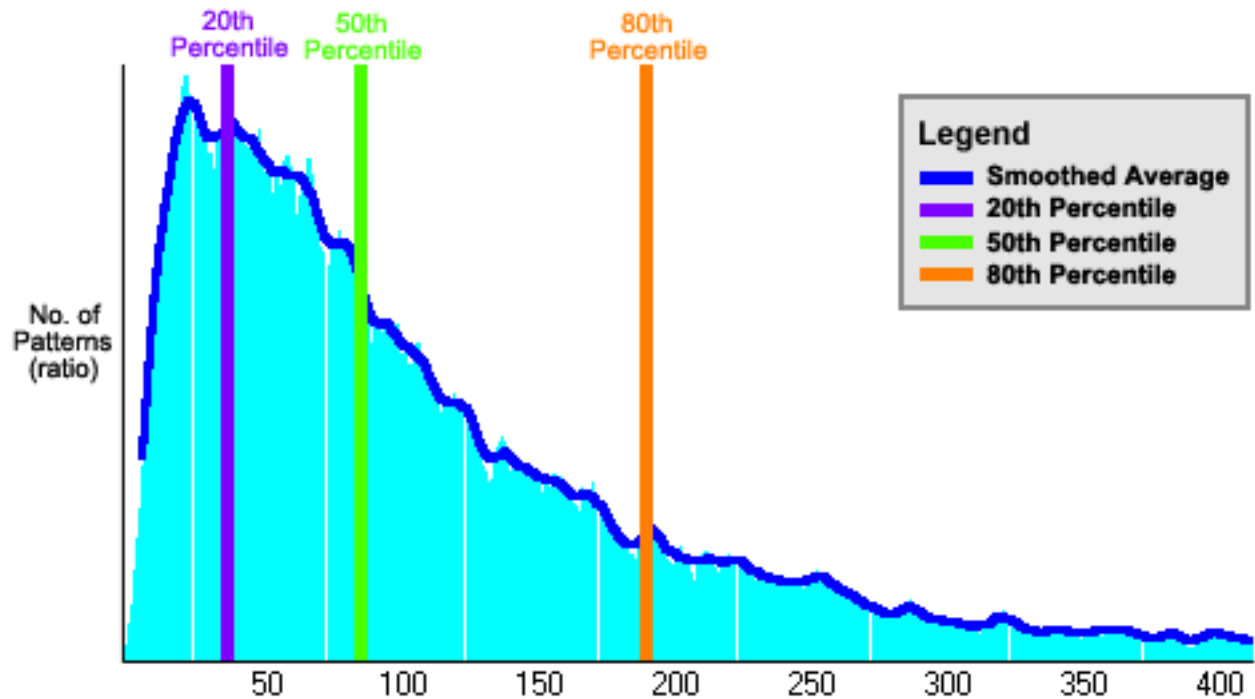


Fig 5. Retracement of Impulse Wave 2 on Wave 1 by Slope

The slope of Wave 2 is generally a little less than the slope of Wave 1.

In summary you can have considerable confidence that after the initial 5 wave movement is complete, the retracement will usually be:

1. Less than 50% by price.
2. Complete in less than half the time.
3. Less steep.

## TARGET AREAS CALCULATED

Taking into account all the above data applying specifically to charts of a similar type and with a similar pattern structure, the Elliott Wave Analyzer 3 calculates a 2-D target area for the forecasted end of the retracement – the forecasted region where the price is expected to move.

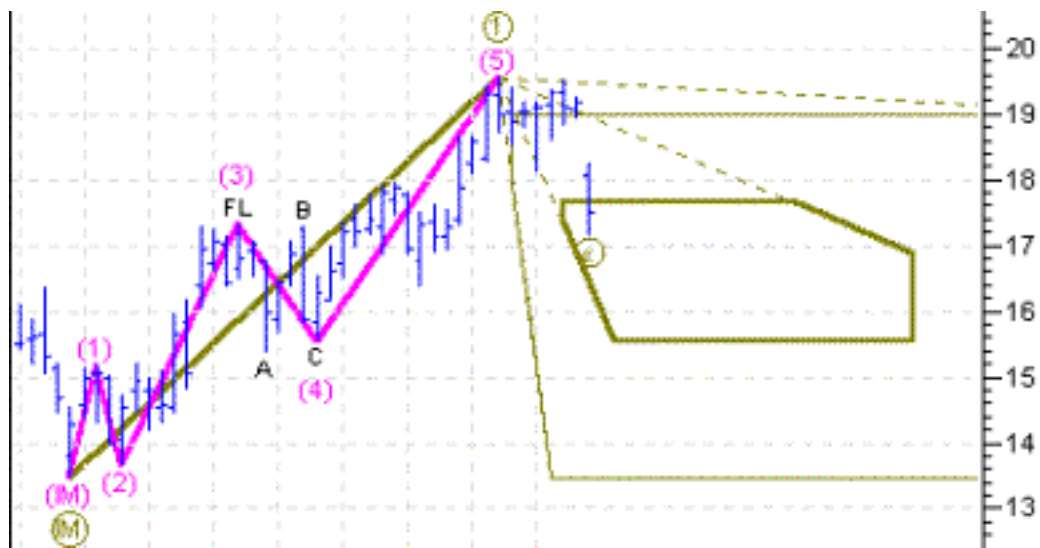


Fig. 6

Note the two odd shaped brown areas, one drawn with a thin line, and the other inside it, drawn with a thick line.

The thin line encompasses the area where the retracement could possibly end; both in price and time before the market turns and starts to ascend. In this particular case, this area runs off the far right of the chart into the future. The thick brown line encompasses the area that represents the most likely play out of the corrective wave. You can expect that about 60% of the time the market will move into this higher-probability area before changing direction.

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Note that without the relative slope information, both the possible and high probability areas would be normal four sided rectangles. Utilizing our vast database and field-tested patterns, the Elliott Wave Analyzer 3 can trim the possible price movement into a narrower band of probability. In fact, it is the calculation of relative slope limitations that slices irrelevant sections off both rectangles. Also note that in Fig. 6, the Elliott forecast was on target and that the market gapped down and moved right into the high probability area.

The Analyzer 3's effective target area information is obviously highly valuable to any trader. The area shows plainly where the current move is most likely to end in both price and time.

In addition to these calculations, the Elliott Wave Analyzer 3 also takes into account gross price movement, internal wave structure, peak volume information and dozens of other key factors to label and forecast markets as accurately as possible. All this information is drawn directly from our growing and exclusive Elliott Wave database.

No other trading system gives you this sophistication, ability, reliability or accuracy. With Elliott Wave Analyzer 3, you can have increased confidence that you are executing the right trade.

## MULTIPLE WAYS OF LABELING A CHART

Due to the fractal nature of markets (similar patterns within patterns), there is nearly always more than one way to label an Elliott chart. Put ten Elliott technicians in a room with a single chart, and they will typically come up with more than ten opinions. This results from every Elliott technician having his own opinion on the most common Elliott patterns.

For the first time in the history of the Elliott Wave Principle, we can now determine the most common pattern shapes objectively and statistically: not by mere opinion. For example, the chart in Fig. 2 above also could have been correctly labelled as follows:



Fig. 7

The critical question for any Elliottician, therefore, is which labelling is correct? Sometimes the choice

could mean the difference between a successful or unsuccessful trade. Between making money or losing it!

When the Elliott Wave Analyzer 3 objectively researched our exclusive Elliott Database, it found that the pattern construction resulting from the labelling of Fig. 2 was significantly more common in the database than the pattern construction resulting for the labelling of Fig 7. Although the software lists both "counts" as legitimate, it rates the "count" of Fig. 2 above that of Fig. 7 precisely because it is more probable in the real world -- in those very markets you trade! Clearly, labelling correctly gives the forecast a greater probability of being correct.

In addition to price movement, the software also uses peak volume information (where available) to determine the most probable correct "count" or labelling.

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In the example below, the histogram shows the ratio of peak volume (highest volume for the period) of Wave 2 divided by Wave 1. Note that more than half of Wave 2 retracements have a lower peak volume than of Wave 1 – not many percentage points, but still a significant deviation away from a normal distribution bell curve.

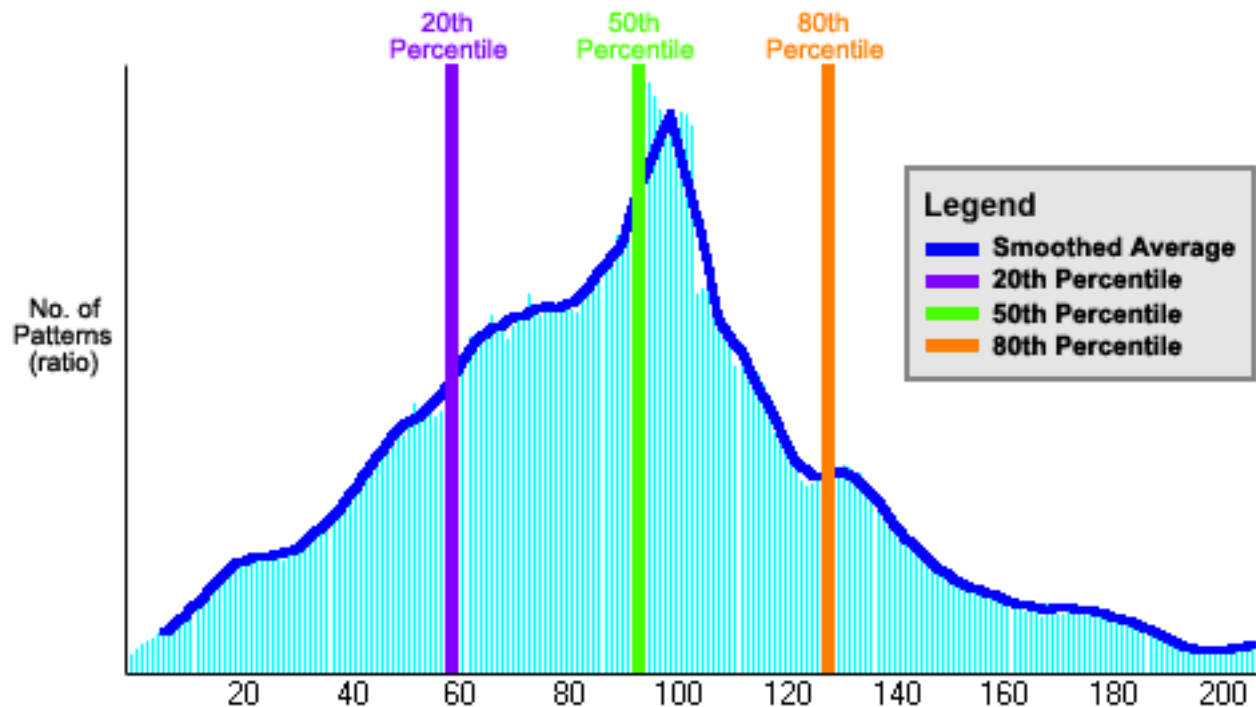


Fig. 8: Retracement of Impulse Wave 2 on Wave 1 by Peak Volume

By incorporating peak volume ratios into the equation, Elliott Wave Analyzer 3 can even more precisely determine the most probable correct labelling. (Try doing all this manually – by hand – with a calculator!)

Accurate labelling is no longer simply a matter of “opinion.” The “Preferred Count” is determined by direct, unbiased statistical analysis. That Preferred Count is the labelling configuration that occurs more frequently in real-life charts.

## THE MOST ACCURATE MARKET FORECASTING TOOL IN HISTORY

Follow this simple logic:

We have on hand and continue to analyze tens of thousands of charts representing the price, time and volume movement of liquid stocks, commodities and indexes. All valid Elliott based patterns are recorded in our massive and growing Elliott database.

The Elliott Wave Analyzer 3 looks for similar patterns in your charts, specifically in those markets you trade. Once you tell the software whether your chart is equity or commodity based, it determines statistically the most probable and accurate way of labelling your chart based on an incredible 119 key

factors recorded in the Elliott database.

Forecasting market direction is then a simple matter of determining the most common movement of similar patterns in recent real-life market history, working out the relative probabilities, and then drawing the possible and most probable price target areas on your chart.

“But”, you may say, “previous market movement is irrelevant to future market movement.”

Not so!

Whether or not you accept the Elliott Wave Principle, one fact remains: These frequency distribution histograms, such as those above, prove conclusively that prices do not move at random.

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Recurring patterns happen all the time in liquid markets. If liquid markets moved at random, Fig. 3 above would show a smooth normalized bell-shaped curve centred at the 50% mark. Instead it shows a heavily skewed bell curve with peaks at common Fibonacci ratios. This is far from random!

Let the advocates of Random Walk Theory and those who refuse to embrace new technologies continue to pick entry and exit points based on out-dated and ineffective indicators.

In contrast, with the Elliott Wave Analyzer 3, you now have a far superior way of increasing the probability of correctly forecasting the markets; using statistical analysis of actual mass behavior as it flows from hope to fear and back again.

Not surprising to Elliotticians, the consequences of these emotions and behaviors are far from random. They are consistently predictable.

As you can see, the Elliott Wave analyzer 3 gives you a high-tech trading edge available to no one else. Used alone it or with other indicators.

Best of all, you can use our powerful market-forecasting tool in conjunction with your own favorite indicators or as a stand-alone analysis tool. Your choice. In either case, your chances of success will increase dramatically.

Keep in mind, at the end of the day, that we are working with probability, not certainty. No market forecasting system is correct all the time. It can only increase the odds of success. The Elliott Wave Analyzer 3 increases your odds like no other trading system.

## **WHAT'S COMING SOON**

1. We are only weeks away from including the real-time module that will allow the Elliott Wave Analyzer 3 to read and update charts in real time. We have nearly finished the interface routines for eSignal and DTN.
2. The Elliott Wave Analyzer 3 does not yet include a trading system. It is still an analysis tool that predicts likely future market direction. A full trading system will tell you exactly when to enter the market, and where to place stops. Note that we use this system to trade the markets ourselves and in due course we will release the details of our Elliott-based trading system . We expect to include it in the software by year-end.
3. Fine Tuning. As you know, the Elliott Wave Analyzer 3 uses end-point price movement, gross price movement, time, relative slope, peak volume, and other probability calculations to label

and forecast market movement. What we don't yet know is the optimum relative weighting of these factors. At the present time, the Analyzer weights them equally. Although this is giving excellent results, it is more than likely that there is an optimum set of values that gives even better overall results. This analysis should be finished within the next few months, and when available, you will be able to download a free upgrade of the software that will include these improved analysis algorithms.

4. We are currently developing a useful utility that will examine a given price chart and determine how well it conforms to Elliott Wave behavior. Surprisingly, there are some liquid markets that, for no apparent reason, do not display Elliott behavior. It would be useful to have a function that would rate a given chart accordingly. Low rating charts could then easily be identified, and avoided. At the current time, when analyzing a chart, we recommend that you don't trade any incomplete pattern that has a rating value of less than 90. This new feature will make it a little easier to identify non-Elliott behaving charts.

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As you can see, the Elliott Wave Analyzer 3 is a work in progress. Although it currently stands high above any other trading system we know of, the groundbreaking technology continues to advance at an ever-increasing rate. Most features are included in our free upgrades. Major upgrades (that usually occur about once per year) have a nominal upgrade fee attached.

Journey with us and stay on the cutting edge. If you are not getting the results from the software that you deserve, please contact us immediately. We trade the new Elliott, and we are committed to help you in any way possible.

## **A VERY BRIEF ELLIOTT WAVE PRIMER**

*All you need to know about Elliott to drive the Ferrari of Elliott software packages:*

The Elliott Wave Principle was discovered by its founder, Ralph Elliott, in the 1930's and 1940's. It has since gained wide acceptance as a legitimate market analysis and forecasting tool. The "Wave Principle", as it is sometimes called, essentially finds patterns within patterns within price data.

The 11 Elliott Wave Patterns can be categorized into two groups -

1) Motive Waves

2) Corrective Waves

Motive waves move in the direction of the larger trend and are labelled with numbers. They are also known as "Impulsive" waves.

Corrective waves move against the larger trend and are labelled with letters. When a market retraces from a strong (Motive or Impulsive) move, it will generally move in a corrective pattern.

Labels can be plain, circled, bracketed, or in Roman Numerals. Each style of labelling distinguishes the "degree" of the pattern. Note that "Degree" is an Elliott term that indicates the time frame of the pattern. Each degree has a specific name. For example, a "Grand Supercycle" degree refers to Elliott patterns that span hundreds of years, while a "Submicro" degree may only span a few minutes of trading. For more information, see the Help Files within the software.

An Elliott pattern is made up of "waves" or moves within the pattern between swing points (changes in market direction). The pattern type is defined and labelled at the very beginning. Wave labels are placed at the end of each wave, or price move, within the pattern. Impulsive patterns always contain 5 waves, while corrective patterns can contain either 3 or 5 waves.

**IMPULSIVE (or Motive) WAVES (moving with the larger trend):**

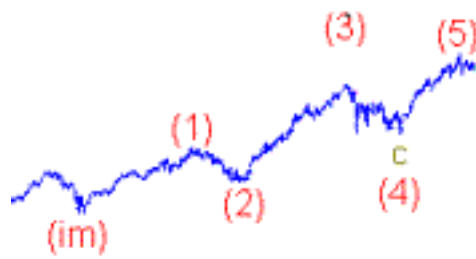
Always containing 5 wave patterns, labelled with numbers, moving with the larger trend.

**Impulse (IM):**

Below are the very many complex definitions and rules that Analyzer 3 must remember and apply, but you don't. With Analyzer 3, you can leave the driving to us.

An Impulse is a five-wave pattern labelled 1-2-3-4-5 moving in the direction of the larger trend.

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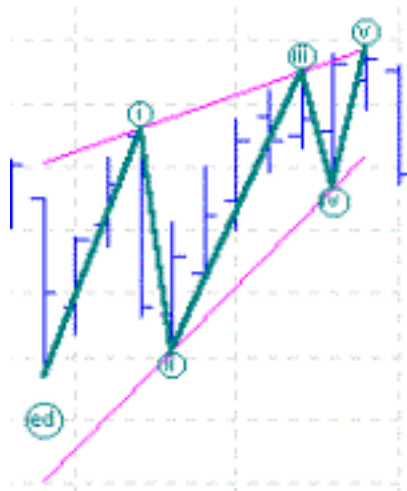


### Rules

- 1) Wave 1 must itself be an Impulse or a Leading Diagonal pattern.
- 2) Wave 2 can be any corrective pattern except a Triangle.
- 3) No part of wave 2 can retrace more than 100% of wave 1.
- 4) Wave 3 must be an Impulse.
- 5) Wave 3 must be longer than wave 2 by price.
- 6) Wave 4 can be any corrective pattern.
- 7) Waves 2 and 4 cannot overlap.
- 8) Wave 5 must be an Impulse or an Ending Diagonal.
- 9) Wave 5 must be  $\geq 70\%$  of wave 4 by price.
- 10) Wave 3 must never be the shortest by price when compared to waves 1 & 5.

### Diagonal (Leading LD and Ending ED):

A Diagonal is a common 5-wave motive pattern labelled 1-2-3-4-5 that moves with the larger trend. Diagonals move within two channel lines drawn from waves 1 to 3, and from waves 2 to 4. A Diagonal must be contracting. There exist two types of Diagonals: Leading Diagonals (LD) and Ending Diagonals (ED). They have a different internal structure and are seen in different positions within the larger degree pattern. Ending Diagonals are much more common than Leading Diagonals.



### Rules

- 1) Diagonals must move within two channel lines.
- 2) The intersection of channel lines must be beyond end of wave 5.

- 3) Channel lines must converge, slope in the same direction and neither be horizontal.
- 4) Wave 1 of a LD is either an IM or a LD.
- 5) Wave 1 of an ED is either a Zigzag, Double or Triple Zigzag.
- 6) Wave 2 may be any corrective pattern except a Triangle.
- 7) Wave 2 is never longer than Wave 1 by price.
- 8) Wave 3 of a LD must be an IM.
- 9) Wave 3 of an ED is either a Zigzag, Double or Triple Zigzag.
- 10) Wave 3 is always greater than Wave 2 by price.
- 11) Wave 4 may be any corrective pattern.
- 12) Waves 2 and 4 must overlap.
- 13) Wave 5 of an ED is either a Zigzag, Double or Triple Zigzag.
- 14) Wave 5 of a LD is either an IM or ED.
- 15) Wave 3 must not be shorter by price than both Waves 1 and 5.
- 16) Wave 5 must be more than 50% of Wave 4 by price.
- 17) Wave 5 is never the longest by price when compared with Wave 1 and Wave 3.
- 18) Wave 5 is never longer than Wave 3 by price.

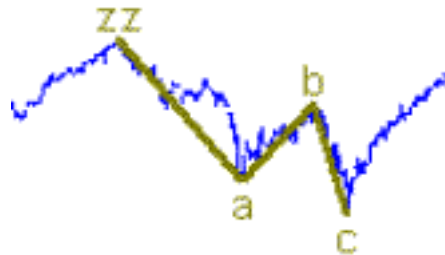
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## CORRECTIVE WAVES (moving with the larger trend):

Either containing 3 or 5 wave patterns, labelled with letters, moving against the larger trend.

### ZigZag (ZZ):

A Zigzag is a 3-wave structure labelled A-B-C, generally moving counter to the larger trend. It is the most common corrective Elliott pattern. Zigzags are corrective in nature.

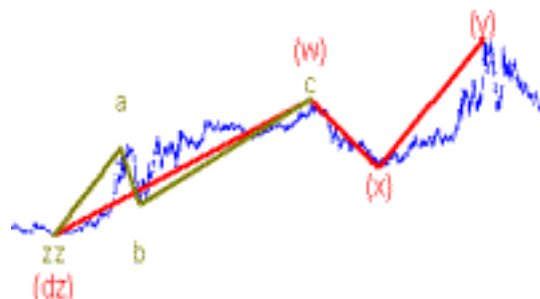


### Rules

- 1) Wave A must be an IM or a LD.
- 2) Wave B can only be a corrective pattern.
- 3) Wave B must be shorter than wave A by price distance.
- 4) Wave C must be an IM or an ED.
- 5) Wave C must be at least 70% of Wave B by price

### Double and Triple Zigzag (DZ and TZ):

Double and Triple Zigzags are similar to Zigzags. These patterns are typically two or three Zigzag patterns strung together with a joining wave called an x wave and are corrective in nature. Triples are uncommon. Zigzags, Double Zigzags and Triple Zigzags are also known as Zigzag family patterns, or 'Sharp' patterns. Double Zigzags are labelled w-x-y, while Triple Zigzags are labelled w-x-y-xx-z. Both these patterns are included in the list of rules and guidelines below. Only a Double Zigzag is illustrated below.



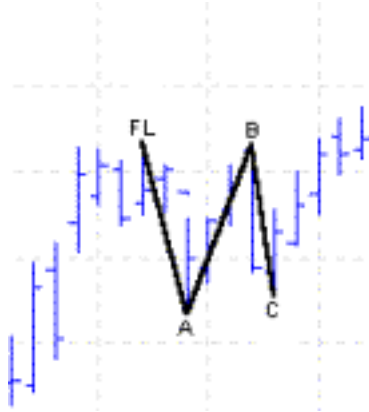
## Rules

- 1) Wave W must be a Zigzag.
- 2) Wave X can be any corrective pattern except an ET.
- 3) Wave X must be smaller than wave W by price.
- 4) Wave Y must be a Zigzag.
- 5) Wave Y must be greater or equal to Wave X by price.
- 6) Wave XX can be any corrective pattern except an ET.
- 7) Wave XX must be smaller than wave Y by price.
- 8) Wave Z must be a Zigzag.
- 9) Wave Z must be greater than or equal to Wave XX by price.

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## Flat (FL):

A Flat is a three-wave pattern labelled A-B-C that moves generally sideways. It is corrective and counter-trend and is a very common Elliott pattern.

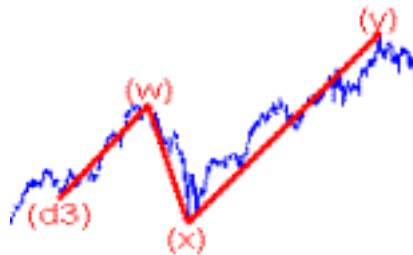


## Rules

- 1) Wave A can be any corrective pattern.
- 2) Wave B can be any corrective pattern except a Triangle.
- 3) Wave B must retrace at least 50% of A by price.
- 4) Wave B must be less than 200% of Wave A by price.
- 5) Wave C must be either an IM or ED.
- 6) Wave C must share some common price territory with Wave A.

## Double and Triple Sideways:

Double and Triple Sideways patterns are similar to Flats. These are typically two or three corrective patterns strung together with a joining wave called an x wave and are all corrective in nature. Triples are rare. Doubles are labelled w-x-y, while Triples are labelled w-x-y-xx-z. Both these patterns are included in the list of rules and guidelines below. Only a Double 3 is illustrated below.



## Rules

- 1) Wave W may be any corrective pattern except a Triangle, Double (or Triple) Zigzag or Sideways pattern.
- 2) Wave X may be any corrective pattern except a Triangle, Double (or Triple) Zigzag or Sideways

pattern.

3) Wave X must retrace Wave W by at least 50%.

4) Wave Y may be any corrective pattern except a Double (or Triple) Zigzag or Sideways pattern.

5) Wave Y cannot be a Zigzag if W is a Zigzag.

6) Wave Y must be less than 200% of Wave W by price.

7) Wave Y must be at least as long as Wave X by price except if it is a Triangle.

8) Wave XX may be any corrective pattern except a Triangle, Double (or Triple) Zigzag or Sideways pattern.

9) The minimum XX wave retracement is 50% of Y.

10) Wave Z may be any corrective pattern except a Double (or Triple) Zigzag or Sideways pattern.

11) Wave Z cannot be a Zigzag if Wave Y is a Zigzag.

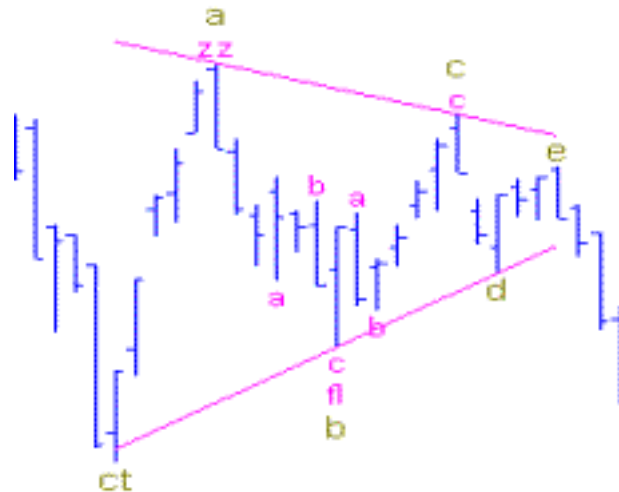
12) Wave Z must be longer than Wave XX by price.

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## Triangle (CT and ET):

A Triangle is a common 5-wave pattern labelled A-B-C-D-E that moves counter-trend and is corrective in nature. Triangles move within two channel lines drawn from waves A to C, and from waves B to D. A Triangle is either Contracting (CT) or Expanding (ET) depending on whether the channel lines are converging or expanding. Expanding Triangles are rare. Only a Contracting Triangle is illustrated below:



### Rules

- 1) All waves in an ET must be ZZ, DZ, or TZ.
- 2) In a CT:
  - a. Wave A is restricted to a ZZ, DZ, TZ or FL.
  - b. Wave B is restricted to a ZZ, DZ, or TZ.
  - c. Wave C is any corrective pattern except a Triangle.
  - d. Wave D is any corrective pattern except a Triangle.
  - e. Wave E is restricted to a CT, ZZ, DZ, or TZ.
- 3) The intersection of the channel lines must occur beyond the end of a CT, and before the beginning of an ET.
- 4) The channel lines must either converge or diverge. They cannot be parallel.
- 5) Only one channel line in a CT may be horizontal.
- 6) Neither channel line of an ET can be horizontal.
- 7) Wave E must end in the price territory of A.

## ACCURATELY FORECAST THE MARKETS USING THE ELLIOTT WAVE ANALYZER 3

With Elliott Wave Analyzer 3, you are in the driver's seat and have complete control of a number of critical options that determine how the software will perform based on your individual needs and

trading style.

And although using the Elliott Wave Analyzer 3 is relatively simple, you should gain some familiarity with several of its critical user-selected options and settings before running an analysis. There are a number of Critical Elements to understand – otherwise you will most certainly forecast the market incorrectly.

**Please don't skip over this information. It is absolutely critical to your success in the market using the Elliott Wave Analyzer 3.**

The following Critical Elements must be addressed before analyzing a chart. The following critical elements are important after you open a chart, but before you analyze the chart. Note that multiple charts may be opened at one time:

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## CRITICAL ELEMENT #1: Where on the Chart to Start an Analysis

It is most important that an analysis start on or just after a major high or low. Never start an analysis part way through a major move up or down – such results are most likely to be incorrect.

Although the Elliott Wave Analyzer 3 will attempt to find patterns on or just after a major high or low, it is still very important that you manually view enough historical data on the security you are about to analyze so that you can be sure that the start point is a major high or low.

For example, note in the chart below that the Impulse pattern that started in January 2000 completed in April 2002. Specifically, wave 5 failed to decline past the end of wave 3. Here, the pattern finished just beyond the end of a major low. So if you wanted to get the most reliable result by analyzing the 2002 data in detail, you would have to start the analysis from April 2002, not the low of January 2002.



Fig 9

When the final wave of a pattern does not move beyond the end of the previous wave, it is known in Elliott circles as a “Failure” and usually indicates a change of market direction in the next larger degree (or larger time frame).

In summary, it is always best to start your analysis on a major high or low in the data -- although, a minor high or low just after a major high or low works just fine too.

## **CRITICAL ELEMENT #2:**

### **Understanding Swing Points and Label Range**

Elliott waves move from one "Swing Point" (or wave) to another. A Swing Point is defined by a change in market direction.

A short-term trader may be watching the market from minute to minute and identifying Elliott Waves moving from swing points only minutes or hours apart. A long-term trader usually will not be interested in such small swing points but rather major changes in direction that may only happen months or even many years apart.

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With The Elliott Wave Analyzer 3, essentially it is possible to match your trading strategy to the number of swing points the software incorporates into its calculations. You select the range of Swing Points you are interested in analyzing. The software designates this range as Label Points, because it utilizes the selected number of Swing Points as the basis for labelling waves.

In general, the more swing points you select, the shorter the possible “time interval” incorporated into the analysis. Thus selecting a range of Label Points allows you to determine the level of complexity you wish to see in the final analysis.

For example, the analysis in Fig 9 above has 26 label points. Note the “Labels” input box near the top left corner. This means that the analysis was limited to finding no more than 26 Swing Points or potential places to label a wave or pattern. Note that not all swing points end up being labelled on every chart. If price movements are smooth enough, a market may be amply labelled with fewer than 26 Swing Points.

In general, the software assumes a straight line between swing points. This simplifies the calculations, and allows the software to complete the analysis as quickly as possible.

In the chart below, only 7 label points were selected. As you can see, the analysis is much simpler, and the forecast entirely different than in Fig 9 with four times as many Swing Points.



Fig 10

As a general rule, the more detailed the analysis (the more Swing Points), the more reliable the analysis. But there is a trade off. As you increase detail, the time the software takes to complete the

analysis will increase exponentially. For example, selecting a label range from 7 to 30 can take twice as long as a 7 to 26.

On the other hand, simply increasing the number of Swing Points doesn't necessarily lead to finer and finer analysis. In fact, it is not practical to expect every wave of every smaller degree pattern falling within a larger pattern to obey every Elliott rule. Occasionally adding complexity also will add ambiguity. Some Elliott practitioners expect such perfection in the markets, but we have not found it to be so. We have found that fewer legitimate counts are uncovered when data is analyzed with more than about 5 degree levels deep – as is the case in Fig 9.

Whenever you analyze a chart, select a label range that results in an analysis of 3 to 5 degree levels deep. You may need to experiment with each chart to find the optimum number of label points (swing points) to achieve this. This will be discussed in detail later.

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You can select the label range (or swing points) by using the “Elliott Analysis Preferences” window.

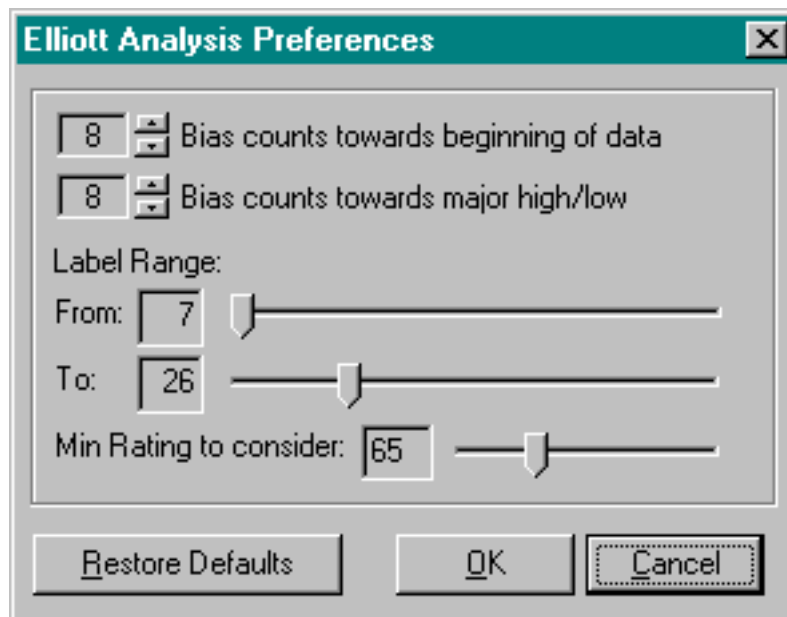


Fig 11

Note the Label Rating, Bias, and Min Rating to Consider options above. These three options can generally be left set to their default values. For more information, refer to the Help Files. Also note that in Fig 11 above, the label range is set to 7 – 26. In this case, when an analysis is carried out, all possible ways of labelling the chart are considered, starting with 7 label points, then 8, then 9, all the way up to and including 26.

### **CRITICAL ELEMENT #3: Selecting Stock or Commodity**

Before analyzing a chart, it is absolutely imperative to toggle the “Stock” or “Commodity” icon appropriately. The Elliott Wave Analyzer 3 is not yet intelligent enough to determine this automatically.

If the chart to be analyzed is an equity or a stock index, then select “Stock”. If it is a commodity, a futures contract (or any leveraged contract), or an index based on commodities or leveraged contracts, then select “Commodity”.

This selection will enable the Elliott Wave Analyzer 3 to select the appropriate statistical data from our huge Elliott database. Stock-based Elliott patterns are significantly different to commodity-based patterns and unless you select this option correctly, the results are likely to be incorrect.

For example:

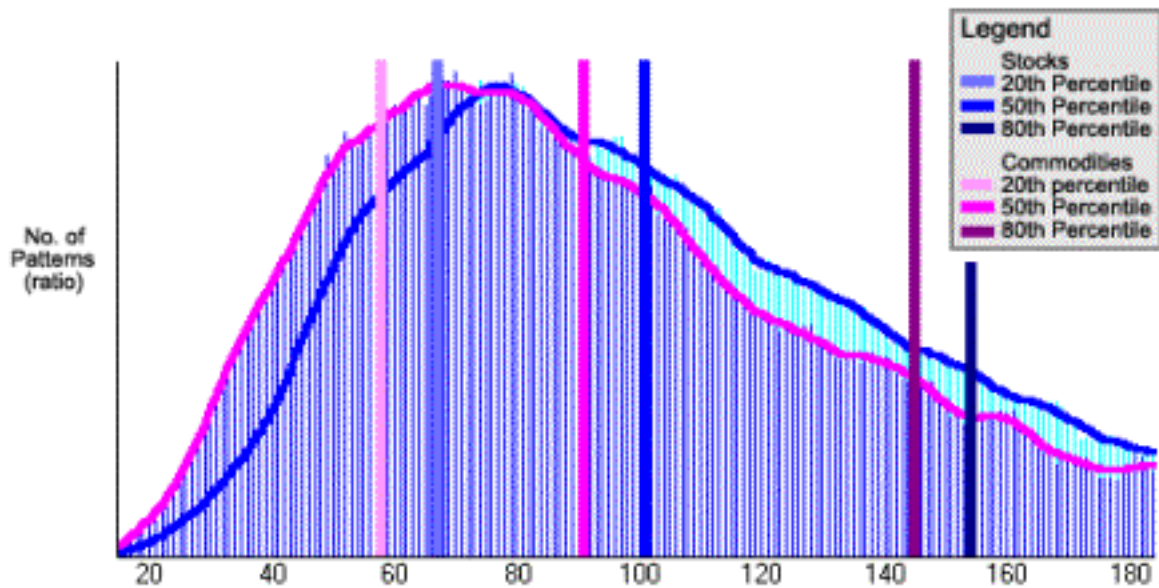


Fig 12. Retracement of Zigzag Wave B on Wave A by Price

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This is a frequency histogram showing the retracement of Wave B over Wave A for Zigzag patterns. **Blue** is stocks, while **magenta** is commodities. Values are percents. Note how stocks generally retrace further than commodities (by price). In other words, in a Zigzag pattern wave B (2<sup>nd</sup> wave), a stock will generally retrace further than a futures/commodity contract by approximately 10%.

Although it may appear a minor difference, selecting the incorrect Stock/Commodity option can easily change the order of the Preferred and Alternate counts, and result in an incorrect Preferred Count being selected. This could ultimately give you an incorrect forecast.

So, remember to select this option correctly before analyzing – every time.

#### **CRITICAL ELEMENT #4: Selecting the Start Pattern Filter**

Before analyzing a chart, it is very important to consider the larger degree behavior of the market so you know which wave you are in, of the larger degree pattern.

For example, consider the chart below (Fig. 13):



Fig. 13

From looking only at this chart, there is no way to know if this move is the beginning of an impulsive or corrective pattern. The only way to know this is to consider a larger time frame.

Let's now consider the larger degree chart of the same market (Fig. 14):

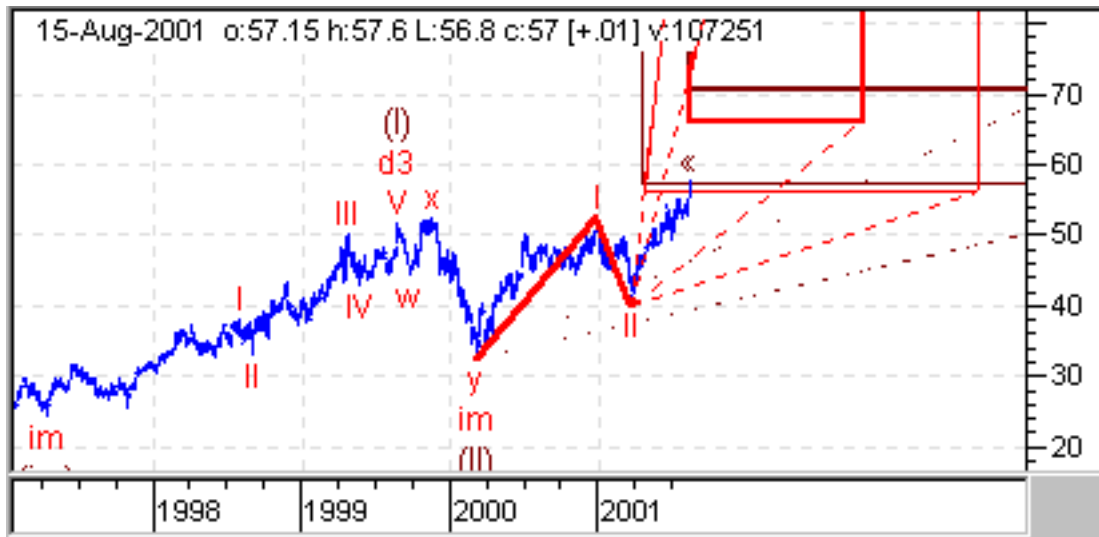


Fig. 14

Here the same market has been analyzed from the low of 1997, and we can now clearly see that the low of May 2000 was the beginning of an Impulse Wave 3. Knowing this, when we analyze the chart

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in Fig 13, we now know that this is an incomplete Impulse Wave 3. If you refer back to the Elliott Wave Primer, you will note that an Impulse Wave 3 can only be an Impulse.

The Elliott Wave Analyzer 3 has a new special feature at the top of the chart to specify the larger degree pattern, and will therefore only display relevant patterns when considering the larger degree. This drop down combo box called Largest Degree Pattern Filter, can be found at the top of the chart:

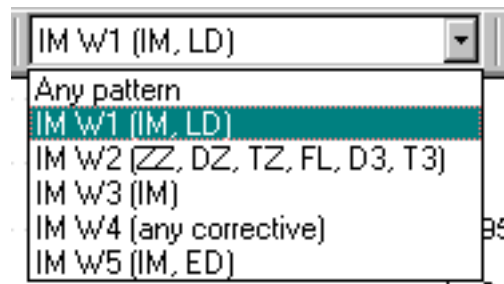


Fig.15

In the case above, you would select “IM W3 (IM)”, which is an Impulse Wave 3, which can only be an Impulse.

If the larger degree had been an Impulse Wave 4 for example, you would have selected “IM W4 (any corrective)”. If you refer back to the Elliott Wave Primer, you will note that an Impulse Wave 4 can be any corrective pattern.

**In this way, by knowing where the current chart fits into the overall larger degree pattern, you can specify the correct class of patterns for the analysis engine to consider. If this selection is made incorrectly, the resultant analysis is quite likely to be incorrect, so it is most important to make this selection correctly.**

We have found that a large percentage of incorrect analysis is the direct result of not knowing where the current pattern fits into the larger picture. You will greatly improve your chances of correctly analyzing the market when you go to the trouble of checking the larger degree pattern. It is well worth the effort.

The following Critical Elements need to be addressed after analyzing a chart:

Now that all applicable user options have been selected, analyze the chart by pressing the green arrow icon. Analysis may take some time, depending on the label range and data complexity. Multiple charts can be analyzed concurrently.

#### **CRITICAL ELEMENT #5:**

## Hidden Waves

You have clicked the analysis button and now the Analyzer 3 has done its magic and produced an analysis. But suppose, for the moment, the calculation yields no labelled patterns.

Don't panic.

As mentioned above, markets are fractal in nature and display Elliott patterns within Elliott patterns. Sometimes if the number of Swing Points selected is too few, perfectly valid additional Swing Points may be hidden within a single large wave or single bars. The Elliott Wave Analyzer 3 will miss these, since it has no way of determining when this is the case – when the selected Swing Points value is set too low. So if an analysis yields no useable wave patterns, it may be worthwhile selecting the Hidden Wave icon, and re-analyzing. You will find this button at the top of the chart.

When selected, the Analyzer will assume that additional swing points may be hidden within single bars. The result will be more patterns, although they are subject to error – particularly if there are no valid hidden swing points.

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Analyzing with this option on will also increase the time your computer needs to complete an analysis. **Use this option with care. It is safer to leave it off.**

### CRITICAL ELEMENT #6: Understanding Preferred and Alternate Counts

As mentioned earlier, there is often more than one legitimate way to label a chart. Let's revisit Fig. 2 and 7 again.

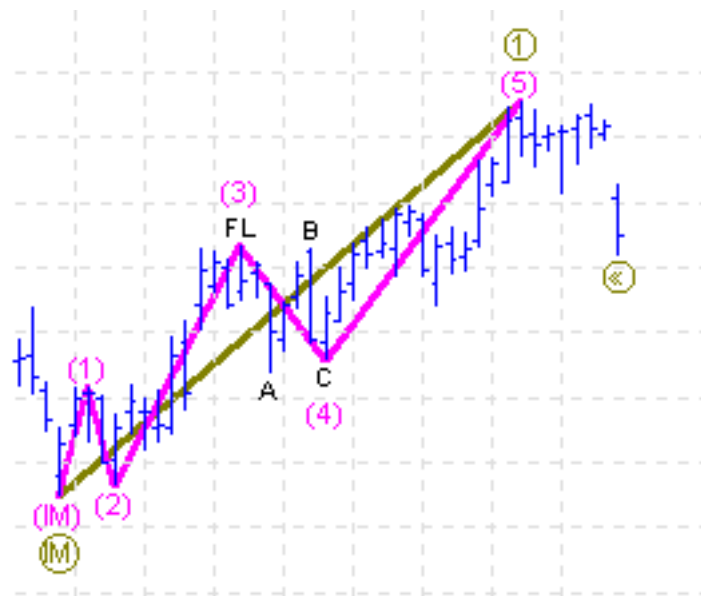


Fig. 2 (repeated)

Here the magenta outline shows an Impulse wave, which is in itself wave 1 of a larger incomplete Impulse. The red "<<" character over the right-most bar simply indicates that this is the last data bar to be included in the analysis.



Fig. 7 (repeated)

As an alternative labelling, wave 1 of the **magenta** Impulse pattern in Fig 7 is displayed here as a 5-step Impulse in black. Although this Impulse pattern “shape” is legitimate, analysis of the Elliott database shows that it is less common than the Impulse pattern shape in Fig 2. The most common or most probable way of labelling a chart is known as the “Preferred Count”. The Elliott Wave Analyzer 3 rates each count according to how closely the pattern shape resembles the most common pattern shapes in the Elliott database. The highest rated pattern becomes the Preferred Count, while all other patterns are referred to as Alternate Counts.

A pattern rating of 100 is average. High rating patterns may have a rating of 150 or more, while low rating patterns would have a rating value of less than 60. Obviously, the higher the rating, the higher the probability that the forecast will be correct.

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After a chart is analyzed, check the ratings list. If the top rated count has a rating value well above any other count, you can safely use it.

However, if there is more than one count with similar rating values to the preferred count, then it is important to investigate further. Select each count in turn, and determine how much difference there is between them. Take particular notice of the forecast. Quite often, entirely different counts can give very similar forecasts.

If most of the top rating counts give a similar forecast, then you can be reasonably sure about the market outlook. However, if there are multiple counts with similar high ratings and they give conflicting forecasts, then proceed with caution. This means that there is more than one way to accurately interpret the chart each giving a different outlook. Therefore, there is no clear outcome and no clear market forecast.

In the case of Fig. 2 and Fig. 7 above, both counts give exactly the same market forecast so it would not matter which had the higher rating.



Fig. 9 (repeated)

*Ratings List. Click on the rating value at the left to display the count.*

Remember that an average rating is about 100, while an excellent rating is over 150.

**Any pattern with an overall rating less than about 80 should be discarded as unreliable.**

The values in the ratings list refer to the rating of the largest degree incomplete pattern. Each lower degree pattern has its own rating value, which may be displayed by selecting the Pattern Tip icon, then holding the mouse over the pattern label.

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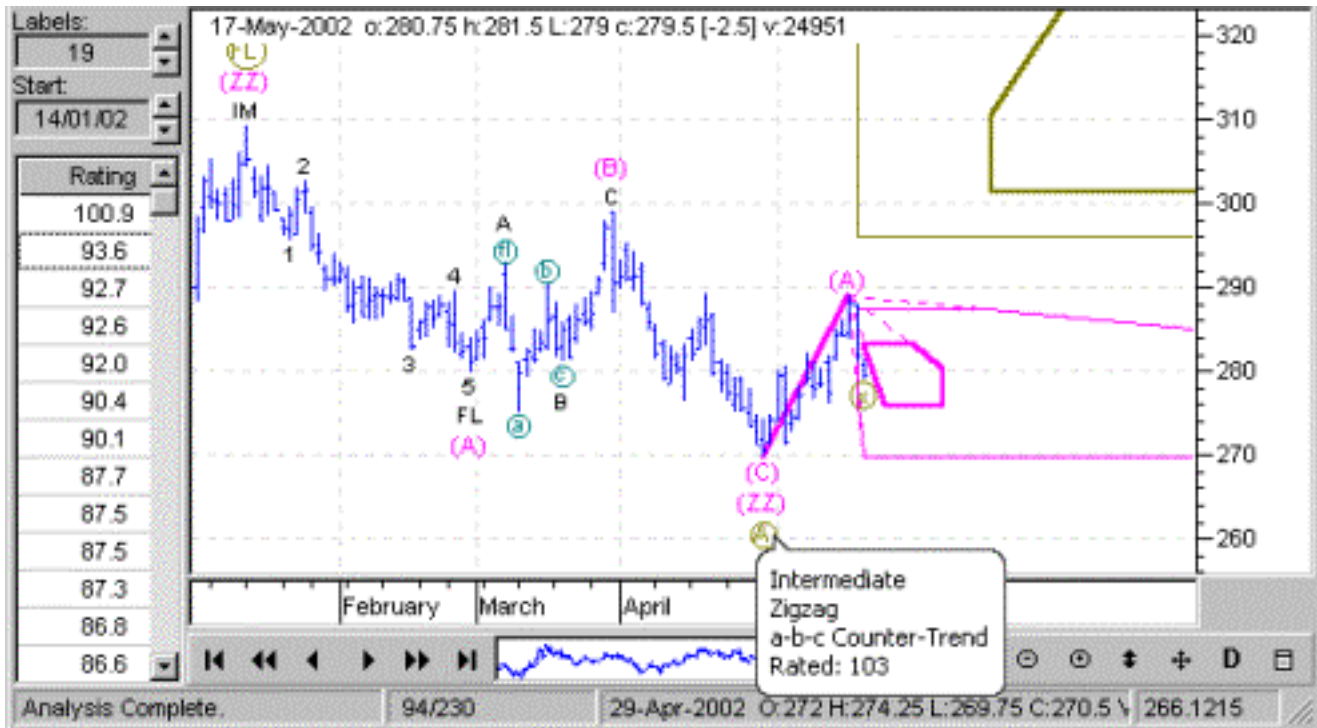


Fig. 16

### CRITICAL ELEMENT #7:

#### Selecting the Count, Labels, and Start Point

After completing an analysis, the Elliott Wave Analyzer 3 will display the highest rated pattern as close as possible to a major high or low. This is the labelling that satisfied the most Elliott guidelines and has the highest probability of being the correct count. The software will also attempt to find patterns beginning at the far left of the data – the most historical or earliest data.

The pattern displayed will be based on a particular number of swing points, and a given start point. If you have the “List Preferred and Alternate Counts” icon toggled on, this information is displayed in a column at the left of the chart. However, if no reasonably high-rated patterns can be found starting near the left of the chart, then the next best pattern (that is, the next highest rated pattern) is displayed.

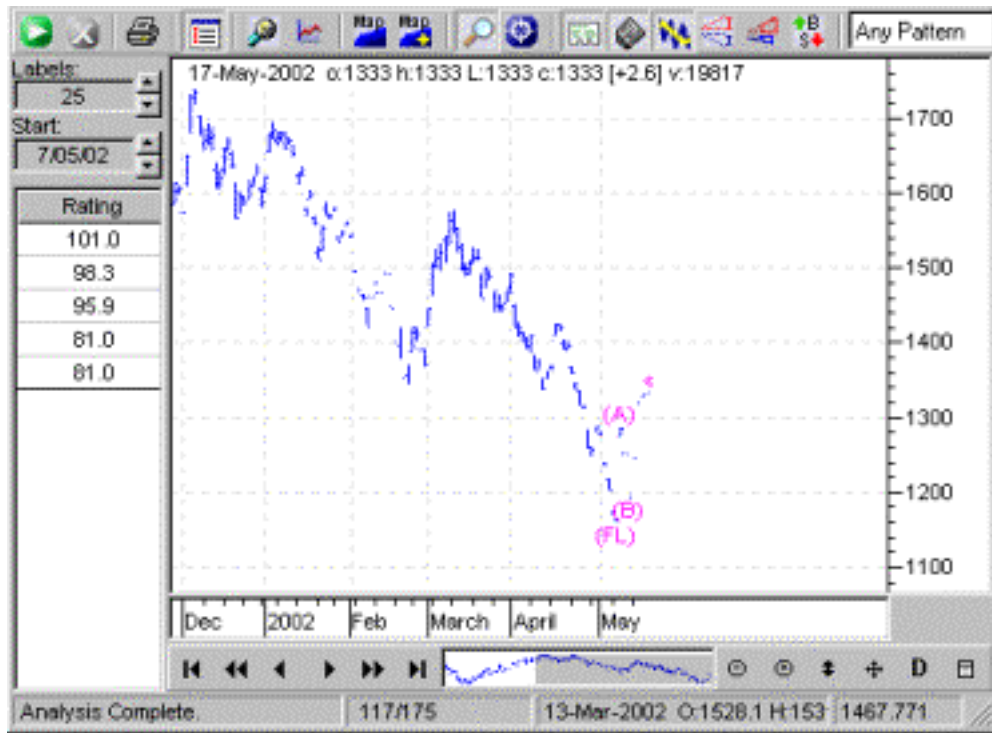


Fig. 17

Fig. 17 above shows a typical result when the Elliott Wave Analyzer 3 cannot find a legitimate incomplete Elliott pattern starting near the left of the chart (at the major high). The best pattern it can find starts at the right of the chart.

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Note that under the Rating heading at the left of the chart is a list of “counts”. Counts for the highest rated patterns are listed here. For example the Preferred Count, which is automatically displayed first, has a rating of 101.0. The next highest rated count has a value of 98.3. Labelling for this count may be displayed by simply clicking on this rating value of 98.3.

Up to 50 of the best rated counts can be displayed in this list – if available.

You may manually change the “Start” point and/or the “Labels” setting to search for other patterns yourself.

### CRITICAL ELEMENT #8: Interpreting Target Bars and Target Areas

The concepts behind the Target Areas were touched on earlier in this document. Let’s revisit this concept for a moment.

The Elliott Wave Analyzer 3 will only display a count where the largest displayed degree pattern is incomplete. After all, as a trader, you are more interested in determining how the market will play out. Market forecasting can only be achieved with incomplete patterns – by predicting where the pattern will complete.

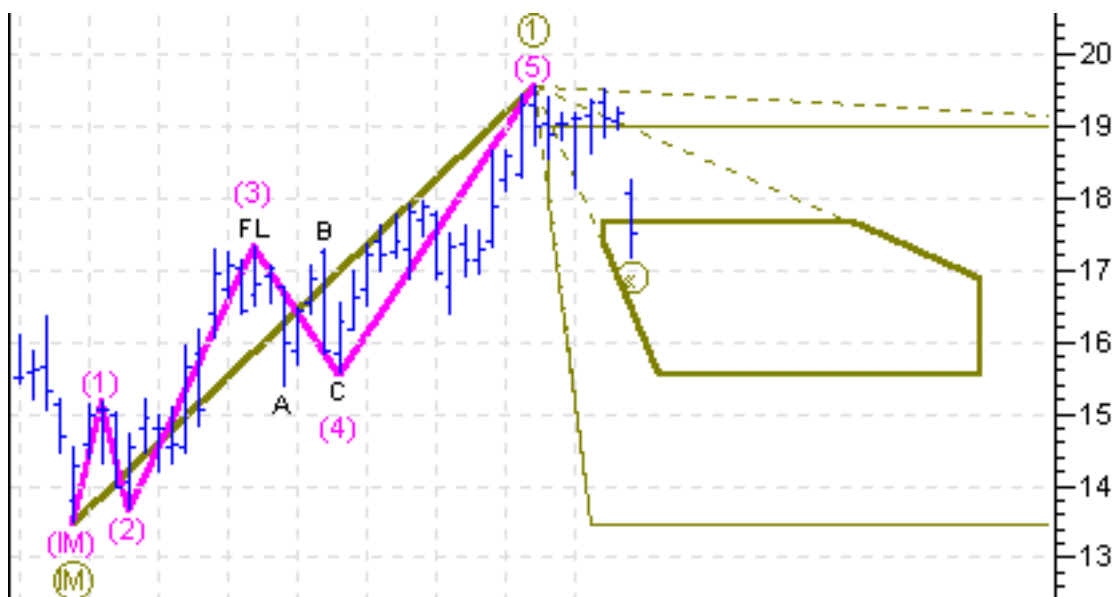


Fig. 6 (repeated)

Note Wave 1 (highlighted in magenta) above in Fig. 6 is complete. Only the brown corrective Impulse is incomplete. Wave 1 itself consists of a completed 5-step Impulse. The market is now in the process of completing Wave 2.

The Target area shows where to expect Wave 2 to complete. Note the two odd shaped brown areas, one drawn with a thin line, and the other inside it, drawn with a thick line. The thin line encompasses

the possible area that the corrective retracement (Wave 2) could possibly end, before the market reversed direction and starts to ascend. In this particular case, the area runs off the far right of the chart into the future. The thick brown line encompasses the area that represents the middle 60% probability. You can expect that about 60% of the time the market will move into this higher-probability area before changing direction.

As discussed earlier, without the relative slope information, both the possible and high probability areas would be normal four sided rectangles. It is the relative slope limitations that remove improbable sections from the rectangles. Note that for this chart, the market has already moved into the high probability area.

Obviously, you will need to be familiar with the expected shape of an Impulse pattern to understand where the market will go after it has completed Wave 2.

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We will now examine a chart that has two incomplete patterns: waves B and C of a correction.

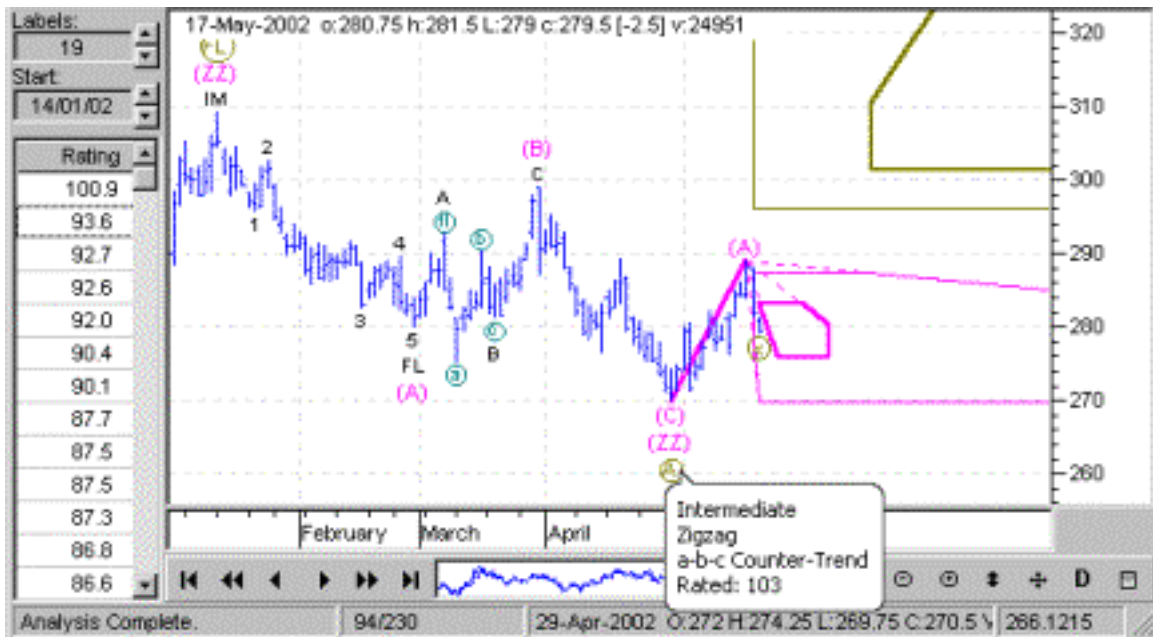


Fig 16 (repeated)

Note that the highlighted **magenta** colored incomplete Zigzag depicts an incomplete wave B. The **magenta** colored target areas indicate the possible and probable Wave B termination areas. Remember that a Zigzag is a three wave corrective pattern, so when wave B completes, the market will change direction and move up to the end of wave C, which will also be the end of the Zigzag pattern.

To highlight a pattern, simply move the mouse either over the pattern label or target area.



As you can see, it is helpful to know the basics of each displayed pattern. However, as another user aid, an automatically generated commentary explains each displayed pattern in detail.

When a detailed analysis is displayed, with several degrees of incomplete patterns, the resulting overlaid target areas may become somewhat confusing:

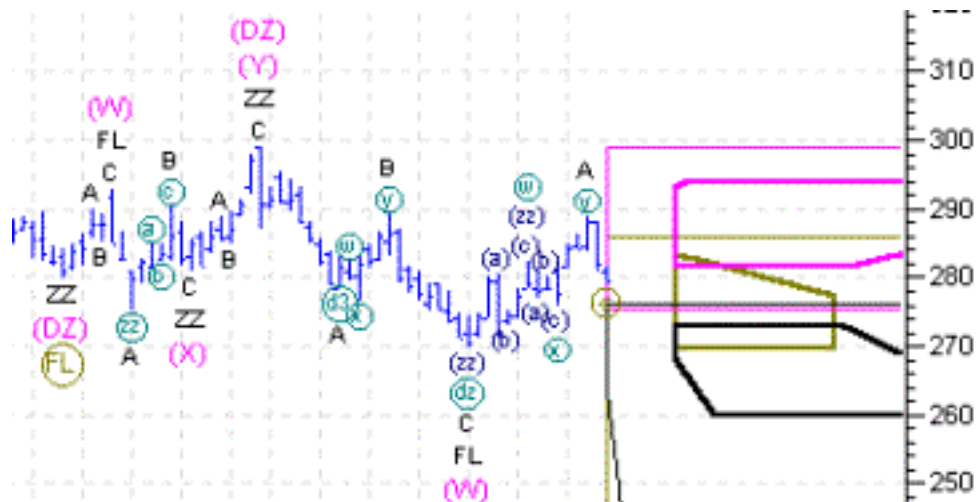


Fig. 19: Multiple overlapping Target Areas can appear confusing.

To make both the labelling and target areas more understandable, you can choose to restrict the number of degrees displayed at any one time by selecting Chart Display Properties.

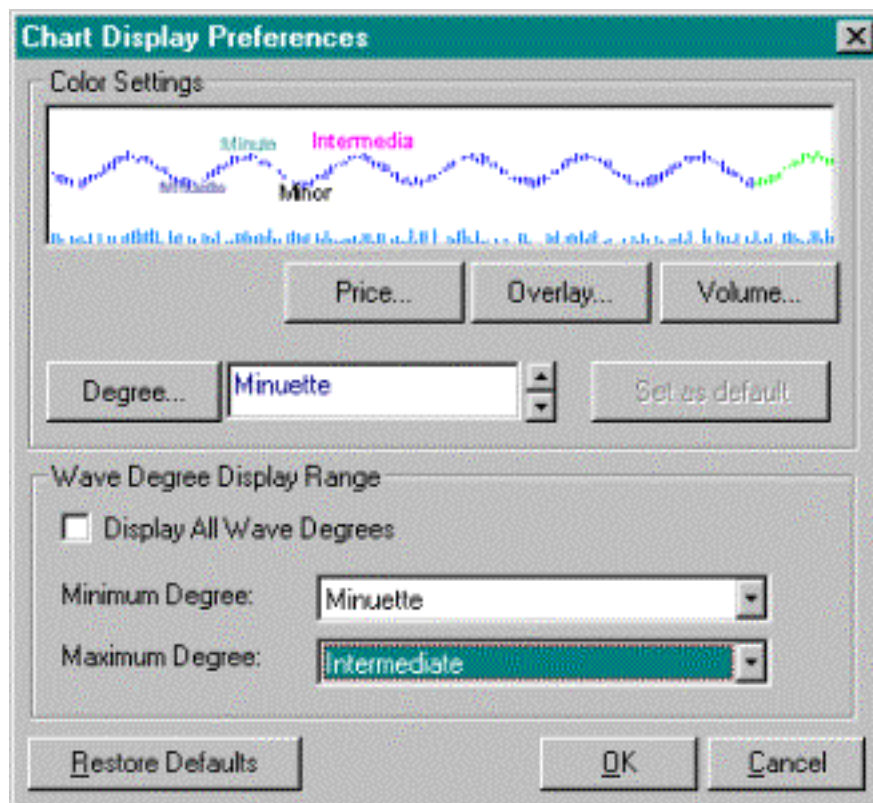


Fig 20 – Restricting the number of displayed degrees.

Notice how much easier it is to read the chart and read the Target Areas once the chart in Fig. 19 has been thinned out a little.

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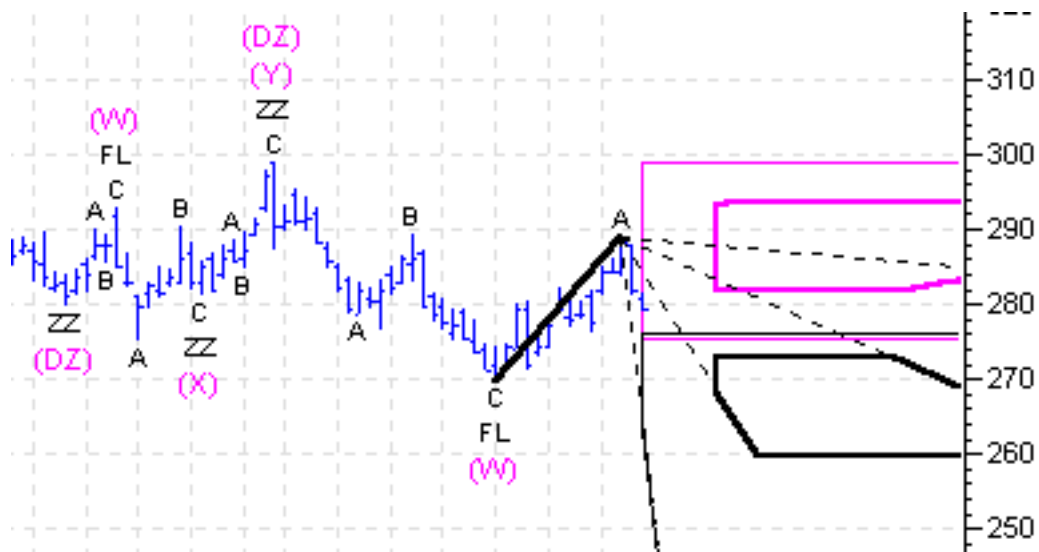


Fig. 21: Same as Fig 19 with fewer degrees displayed.

Remember to reset your Wave Degree Display Range back to “Display All Wave Degree” when you are finished, otherwise you may be left wondering why your Target Areas are not being displayed.

It is important to remember that this option only restricts the number of displayed patterns and target areas. It does not change the analysis in any way.

In all, the Elliott Wave Analyzer 3 delineates 11 different degrees, from Submicro (patterns spanning minutes to hours) through to Grand Supercycle (patterns spanning decades). Each degree is identified with a specific color by the software. You may change the color if you wish by using the options in the Chart Display Preferences window.

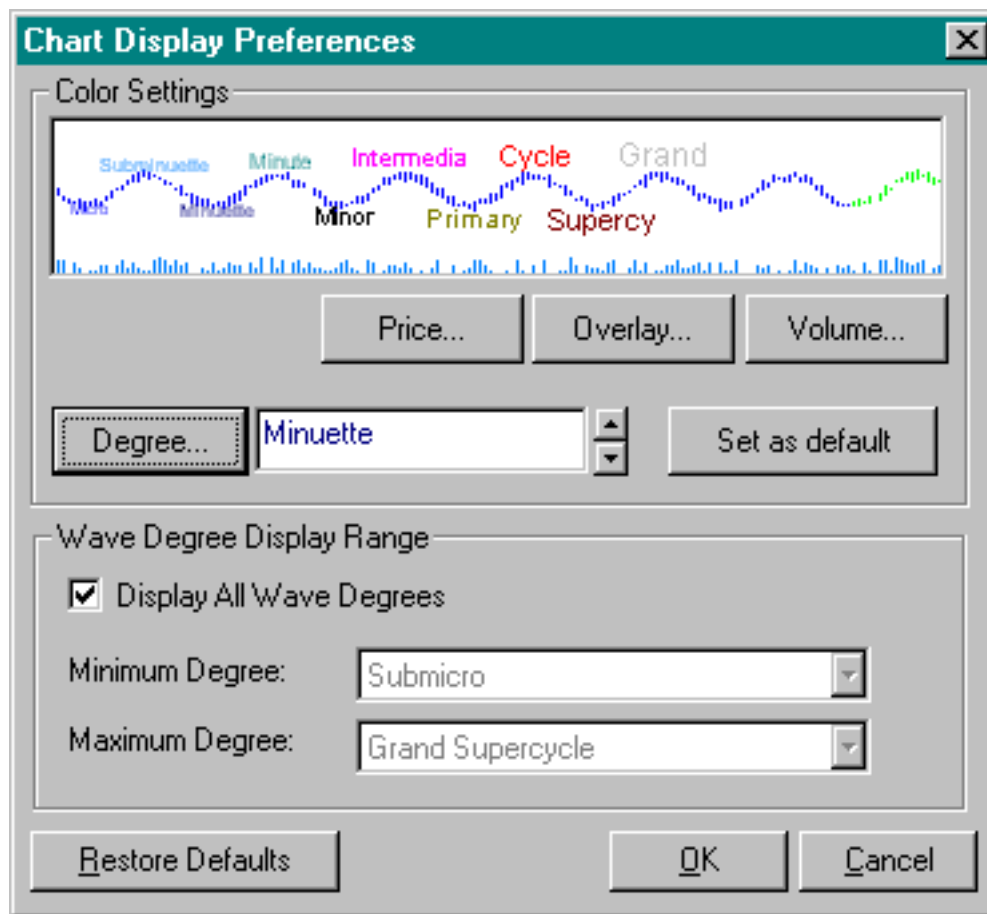


Fig. 22

Note that the names of the degrees are as follows:

- |                |                      |
|----------------|----------------------|
| 1) Submicro    | 7) Intermediate      |
| 2) Micro       | 8) Primary           |
| 3) Subminuette | 9) Cycle             |
| 4) Minuette    | 10) Supercycle       |
| 5) Minute      | 11) Grand Supercycle |
| 6) Minor       |                      |

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At times, two Target Areas will overlap exactly, as in Fig. 23 below:



Fig. 23

In this case we have a lower degree **brown** incomplete Zigzag Wave C and a higher degree **red** incomplete Ending Diagonal Wave 5. The incomplete wave 5 is the incomplete Zigzag. Once Wave C is complete, it will also complete wave 5 of the Ending Diagonal.

Here we have two target areas with exactly the same price and time bounds. Only the slope information is different, so the rectangles have different shaped "slices" taken off their corners.

The lower degree **brown** overlaps the larger degree **red** target area. The lower degree is always placed by the software over the top of the higher degree.

As mentioned above, when several Target Areas are overlapped, the result may be visually confusing. See Fig. 24 below.



Fig. 24

A simplified alternate method of displaying future price movement is using Target Bars rather than Target Areas. See Fig. 25 below:

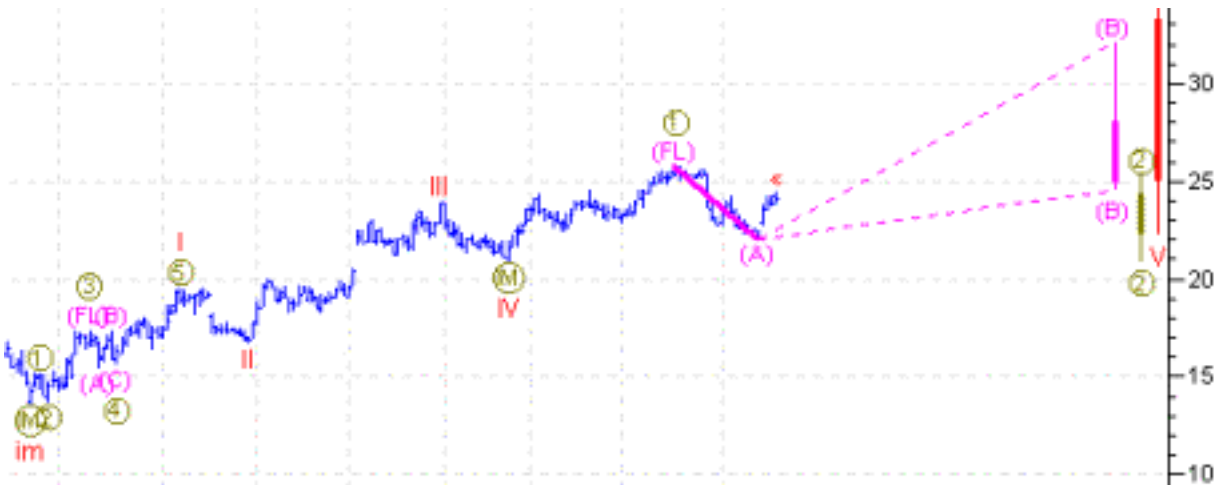


Fig. 25

Unlike Target Areas, Target Bars only display price forecasts. The horizontal position of the Target Bars has no bearing on when the price forecast is expected to complete. Note that the Target Bars have a thin and thick section. The thick section represents the high probability price range, while the thin section represents the entire possible price range. Although Target Areas do not display as much useful information as Target Bars, they can be useful when multiple targets are being displayed and this simplified targeting system is preferred.

Target Areas and Target Bars can be turned on and off using their toggle icons at the top of the chart. You can even select both to be on at the same time.

Note that if you are only displaying Target Bars, you may wish to reduce the Right Margin (horizontal distance between the right of the data and the target bars).

Selecting Chart Properties from the Edit menu will allow you to change the Right Margin.

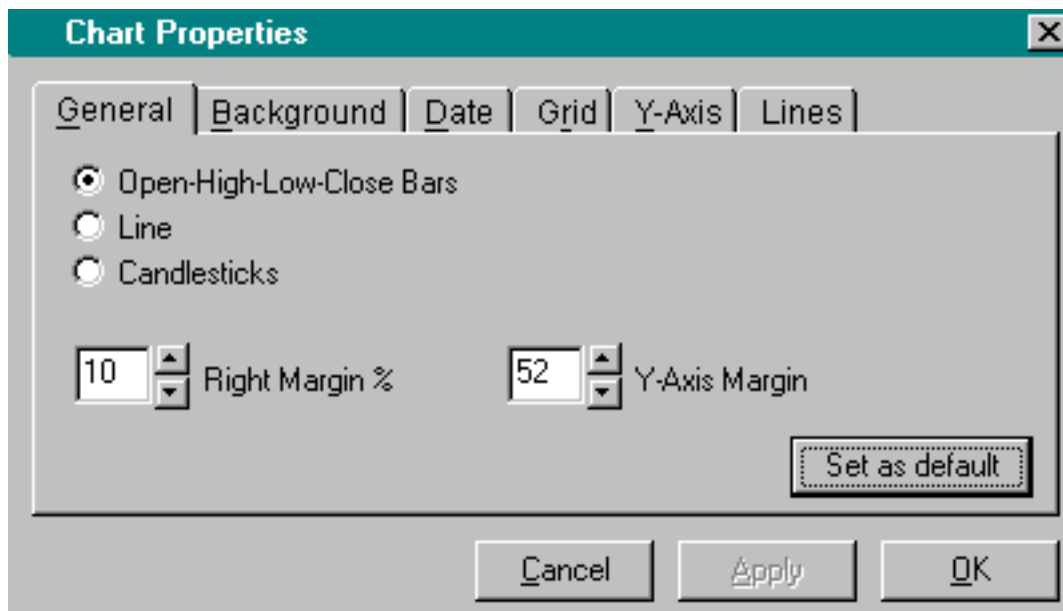


Fig. 26

In Fig. 26 above, the Right Margin has been reduced to 10%. The effect on the chart layout can be seen below in Fig. 27 (compare with Fig. 25):

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Fig. 27

### CRITICAL ELEMENT #9: Interpreting the Commentary and Stats Pack

Target Area information can also be displayed in a spreadsheet form by selecting the Elliott Statistics icon at the top of the chart. See below:

Legend	Pattern	Incomplete Wave	Degree	Rating	Highest Likely Price	Lowest Likely Price	Farthest Likely Time	Nearest Likely Time	Highest Possible Price	Lowest Possible Price	Farthest Possible Time	Nearest Possible Time
	Flat	2 of 3	Intermediate	102	27.91	25.1	18-Jul-2002	28-May-2002	32.08	24.51	04-Nov-2002	17-May-2002
	Impulse	2 of 5	Primary	80.5	24.18	22.47	31-May-2002	28-May-2002	25.26	20.82	13-Nov-2002	17-May-2002
	Impulse	5 of 5	Cycle	81.6	33.18	25.19	28-May-2002	28-May-2002	48.83	22.28	12-Aug-2002	17-May-2002

Fig. 28: The Stats Pack

Note the color-coding in the Legend relates directly to the degree level.

Finally, this information can also be displayed in expository form by selecting the Commentary icon.

The Commentary for the examples above is as follows:

### Current Trading Positions for Starbucks Corp (SBUX) Daily on 17-May-2002

\* A Cycle degree trader (hold positions from quarters to years), would currently be trading long in this market.

### Extensive Elliott Commentary for Starbucks Corp (SBUX) Daily on 17-May-2002 with three

**incomplete patterns:**

Wave (B) of the Intermediate degree Flat with a rating of 102 is expected to complete in the price range 24.51 to 32.08, but more probably between 25.1 and 27.91. This wave could complete anytime between now and 04-Nov-2002, but is most likely to complete sometime between 28-May-2002 and 18-Jul-2002.

After wave (B) is complete, expect the market to continue down into wave (C), which should be a five wave Impulsive pattern. Expect wave (C) to retrace wave (B) by 95% - 177%. Wave (C) can also be expected to be 110% - 177% of the price length of wave (A). The expected time for wave (C) to complete is 61% - 254% of the time taken for wave (B) to complete and 121% - 388% of the time taken for wave (A) to complete.

Wave 2 of the Primary degree Impulse with a rating of 80.5 is expected to complete in the price range 20.82 to 25.26, but more probably between 22.47 and 24.18. This wave could complete anytime between now and 13-Nov-2002, but is most likely to complete sometime between 28-May-2002 and 31-May-2002.

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After this wave 2 is complete, expect the market to continue up into wave 3. Wave 3 should always be an Impulse and should retrace wave 2 completely. Expect wave 3 to retrace wave 2 by 239% - 453%. Wave 3 can also be expected to be 109% - 453% of the price length of wave 1. The expected time for wave 3 to complete is 123% - 505% of the time taken for wave 2 to complete and 59% - 236% of the time taken for wave 1 to complete. The slope (ie. price range divided by time taken) of wave 3 should be between 69% and 214% of the slope of wave 1. Once wave 3 is complete, expect wave 4 to be a sideways corrective movement, then wave 5 to continue in the same direction as wave 3. Wave 5 will complete this Impulse.

Wave V of the Cycle degree Impulse with a rating of 81.6 is expected to complete in the price range 22.28 to 48.83, but more probably between 25.19 and 33.18. This wave could complete anytime between now and 12-Aug-2002, but is most likely to complete sometime around 28-May-2002.

When complete, expect the overall slope (i.e. price range divided by time taken) of this wave V to be between 73% and 222% of the slope of wave III and between 71% to 336% of the slope of wave I. This wave V will complete the Impulse pattern.

### **Current Analysis Settings:**

Analysis Date Range: 04-Sep-2001 to 17-May-2002, Label Range: 8 - 20, Preferred Count Labels: 19, Min Rating: 65, Include Hidden Waves, Stocks toggle ON, Bias Towards Beginning of Data: 8, Bias Towards Major High/Low: 8, Largest Degree Wave Filter: IM W1 (IM, LD)

### **Example of the Elliott Wave Analyzer 3 Commentary**

This commentary provides powerful, relevant, and highly valuable forecasting information for any trader, including what to expect once each wave is completed. For each of these forecasts, including future wave behavior, The Elliott Wave Analyzer 3 searches the Elliott Research database for similar patterns and then reports the expected wave behavior accordingly.

Now that you know what forecasting information is available by this software package, would you ever trade again without it?

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## CRITICAL ELEMENT #10: Interpreting Buy/Sell/Exit Signals and the Long/Short Position Display

If an analysis is completed with the Buy/Sell/Exit icon activated then Buy, Sell and Exit signals are displayed on the chart.

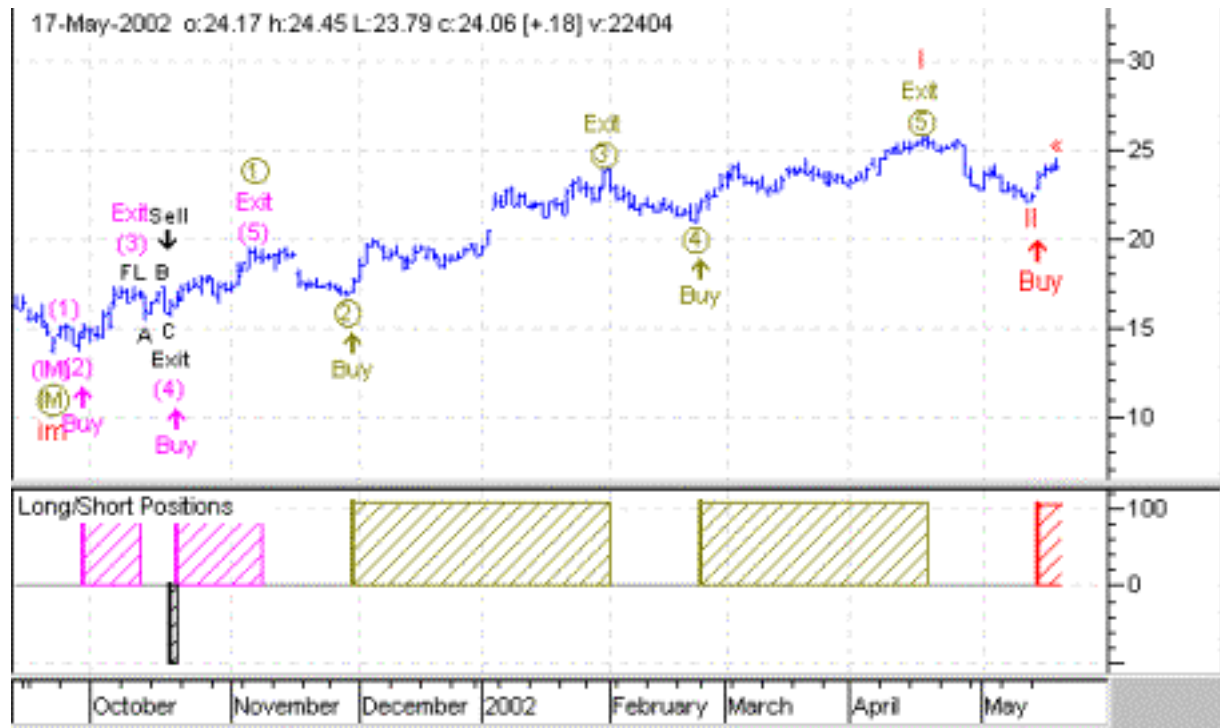


Fig. 29

The buy, sell and exit signals on the chart are included to emphasize which waves to trade. However the Elliott Wave Analyzer 3 does not include a trading system as such. These buy and sell signals are only displayed as a method of showing which waves would normally be traded – usually waves 3 and 5 of an Impulse, and wave C of most three wave corrective patterns.

***This has been a constant area of confusion, so please read this explanation very carefully:***

Each analyzed chart is labeled according to the best-rated Elliott “count”. As new data is included at later times, subsequent analysis may or may not label the chart in the same way. Liquid markets displaying Elliott behavior will typically have few changes in the labeling as new data are incorporated. However as subsequent data are integrated and reanalyzed, non-liquid markets can exhibit atypical or even pathological Elliott behavior and will characteristically show significant and regular divergences in both the labeling and forecasted outlook so caution is advised.

To obtain the clearest indication of the future direction of any equity, commodity or index, run your analysis at several different timeframes, for instance 10 or 30 minute intervals. This allows a broader perspective on the anticipated ebb and flow of the price gyrations. So while analysis of the one-minute might fluctuate wildly, the 10 and 30 minute labels shouldn't. In essence, when used wisely and coupled with experience, the longer-term timeframes can provide invaluable guidance.

The Buy, Sell and Exit labels are superimposed over the chart's labeling to emphasize the generally accepted best Elliott waves to trade – normally a 3rd wave of an Impulse, or a C wave of a Zigzag. **These labels do not indicate, and are not designed to indicate exactly where a trader would have placed a trade.**

Determining where the software would have first identified a trade involves much more analysis. A true trading system will be included in a future release of the Elliott Wave Analyzer.

The **Long/Short Positions** window (once again, see Fig. 29 above) is an alternative visual display of the Buy/Sell signals.

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This “Long/Short Position” inner-window may be minimized at any time by right-mouse clicking on the chart and selecting “Minimize this Inner Window”.

Long positions are displayed as positive, while short positions are displayed as negative. The relative height of the colored “box” indicates the rating value of the pattern – or the relative confidence you can have in each signal.

### CRITICAL ELEMENT #11: Interpreting the Elliott Map

Among the most unique and profound features of the Elliott Wave Analyzer 3 are the Elliott Map and Compound Elliott Map. The Elliott Map shows a probability graph of anticipated price movement in time. See the chart below:

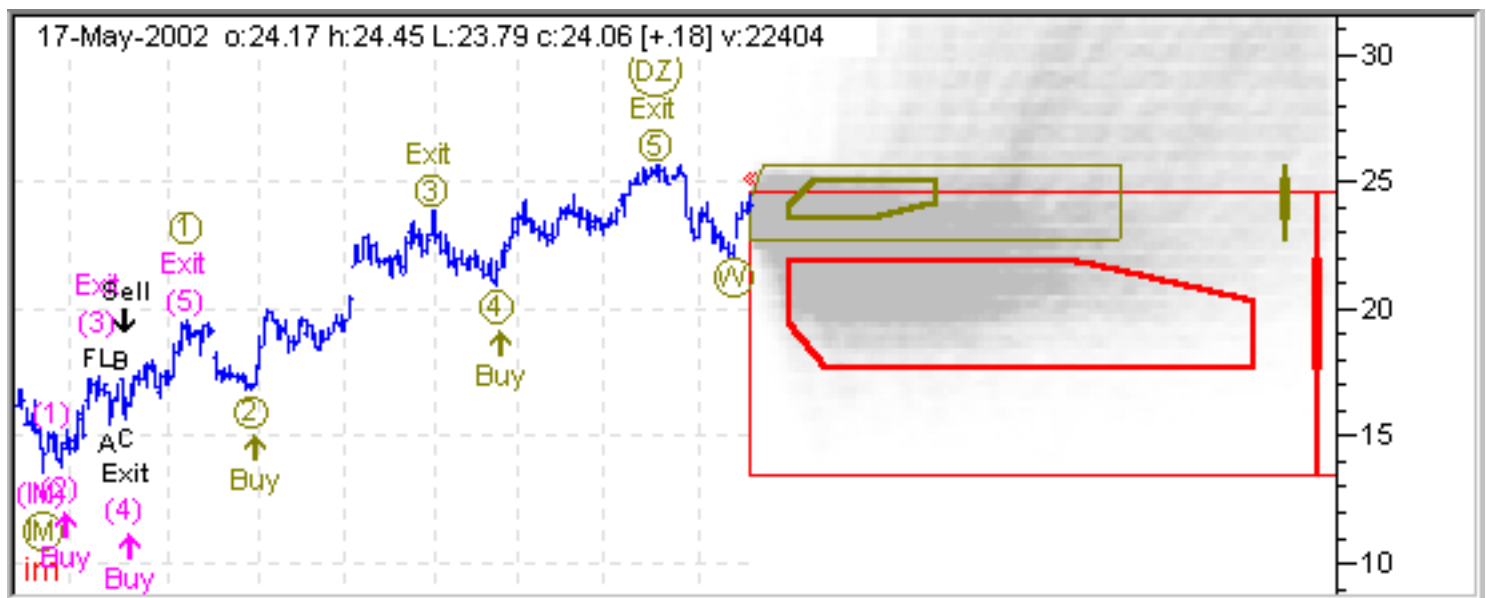


Fig. 30: sThe Elliott Map Probability Graph

The density of the grey indicates the relative probability of the market progressing to any future point on the chart. Darker grey areas indicate higher probability. The lighter the grey, the lower the probability. Note some apparently white areas within the **Cycle degree Wave 2 Impulse** target area. Although this area may appear white, it is, in fact, very, very light grey. The probability of the market moving into the lower area of the **Cycle Target Area** is very low indeed.

Only an Elliott Map can visually display such critical trading information.

In this particular example, the Target Bars are also being displayed for additional reference. Note how the Elliott Map anticipates a market move first up into the target area of **Wave Y of the Primary Double Zigzag**, then down into the Target Area of **Wave 2 of the Cycle Impulse**. It also displays the anticipated continued move up with **Wave 3 of the Cycle Impulse**.

Although an Elliott Map may appear to display much more detailed information than Target Bars, keep in mind that all it is doing is depicting the relative probability of the market achieving a given price/time point in the future. **It does not clearly show where the market is likely to turn, or change direction.** In contrast, Target Bars only show expected turn points.

Elliott Maps are produced using an iterative method of examining the Elliott Research Database to see how similar patterns moved. The method requires considerable calculation and may take some time to complete. The help files contain more information about using this method of forecasting as well as changing the color and other parameters of Elliott Maps.

As you can see, producing an Elliott map will give you a powerful edge in your trading.

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This is the first time ever that a trader has access to such detailed forecasting information produced entirely from statistical analysis of real-market data.

## **CRITICAL ELEMENT #12: Determining the Most Reliable Charts to Analyze**

The only reliable way to determine if a given market should be traded with the Elliott Wave principle is to determine how well it has forecasted in the past.

This is easily achieved with the Elliott Wave Analyzer 3.

First, load in your selected market data and zoom in on an earlier section of the data.



Fig. 31

*Zooming in on a section of the data can be done by simply clicking the Zoom In button at the bottom right of the chart, or depressing the “Zoom Box Mode” icon (top of the chart) and using the right-mouse button to encircle the selected chart area.*

Note that market data **beyond** the section you selected is displayed in **green**, and is **not** included in the analysis. Green bars are only displayed for the purpose of comparing a forecast with what actually happened.

*You can verify that the green bars are not included in an analysis by loading only the selected area at load time, doing an analysis, then comparing the results with loading the entire data set, selecting the same area, and analyzing.*

You can now analyze the blue portion of the data in the normal way (press the green arrow icon), then select Target Areas and Elliott Map:

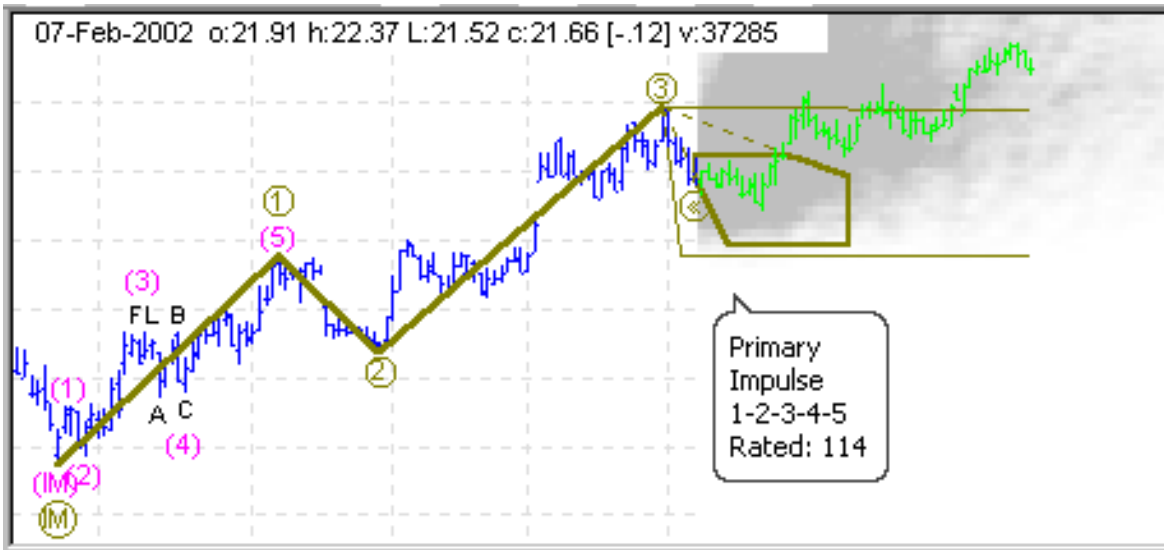


Fig. 32

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The green bars that are overlayed on the Target Area and Elliott Map indicate exactly what the market **really** did after the analysis. This method makes it very easy to compare forecasted with actual market price movement.

Note that in this example, the market moved down into the high-probability area as predicted (Impulse Wave 4) before continuing up to the end of Impulse Wave 5.

As you can see, the forecast above in Fig. 32 was accurate.

Before trading a stock or commodity, it is important to do multiple tests such as this, and determine how often the forecast is absolutely correct, reasonably correct, and incorrect.

If a market has consistently shown Elliott behavior in the past, you can confidently expect the Elliott Wave Analyzer 3 to continue to forecast the market correctly.

It is absolutely imperative to understand that The Elliott Wave Analyzer can and will only accurately forecast markets that show Elliott behavior. If a market is not liquid, it will not show Elliott behavior and no amount of tweaking the Elliott analysis settings will create an accurate forecast.

If a market is liquid is not being manipulated by a small number of traders (or institutions, or governments, etc), and has shown consistent Elliot wave behavior, you can be certain that the Elliott Wave Analyzer will consistently forecast with amazingly accuracy.

In the following example a slightly larger sample of data was selected then analyzed:



Fig. 33

Compare Fig. 33 with Fig. 32 and notice that the previous analysis (the way the blue data was labelled) had not changed. This indicates good Elliott behavior. At times, however, the analysis can change slightly but still give a similar forecast. For example, compare the analysis below in Fig. 34

with the previous analysis in Fig. 33:

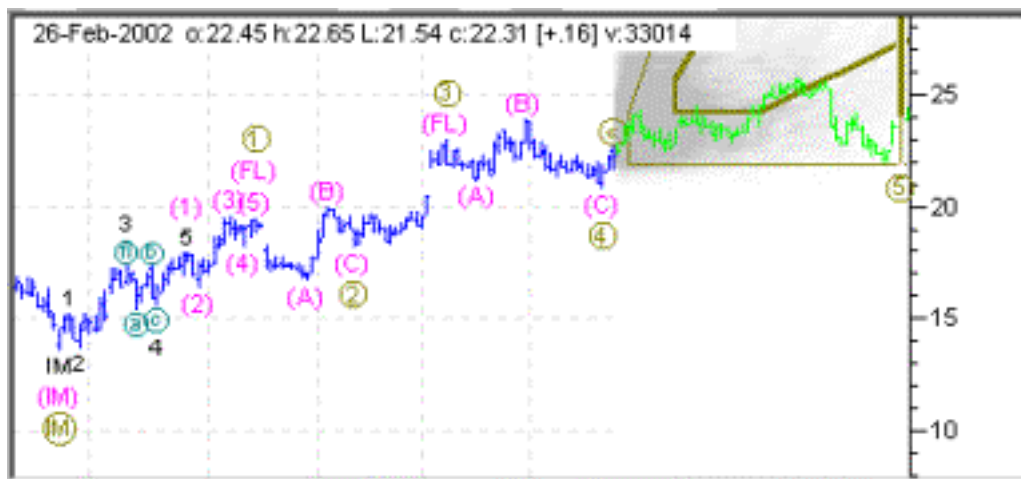


Fig. 34

Notice how the overall count is essentially the same. In both cases, the current forecast is an Impulse Wave 5 however, the labelling of the first four waves of the Impulse is slightly different.

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These subtle labelling differences result in a slightly different forecasts because Impulse patterns of this shape have slightly different Impulse Wave 5 behaviors than the Impulse pattern in Fig. 33.

### Important note

***As you select a different amount of data to analyze, it may be necessary to change the label range to allow the Elliott Wave Analyzer 3 to label the same points as before. For example, if you zoom in on a larger amount of data to analyze without increasing the label range's upper value, then the software is forced to spread the same number of labels over a greater amount of data – therefore changing the resulting count.***

As an example of how the label range can affect the count, compare once again Fig 33. and Fig. 34. The chart in Fig. 33 was analyzed with a label range of 10 to 20, while the chart in Fig. 34 was analyzed with a label range of 20 to 30.

As a general rule, if you double the amount of data to be analyzed, you should also double both the upper and lower limits of the label range.

To change the label range, select the **Elliott Analysis Preferences** icon.

Summary: only trade markets that give reliable results when back-testing with the Elliott Wave Analyzer 3.

## A DETAILED EXAMPLE OF FORECASTING THE MARKET

What follows is a detailed example of analyzing “Starbucks”: an equity on the US exchange with the symbol SBUX.

### Important Note

***Because the Elliott Research Database is dynamically changing as it grows, and because the software accesses that database, you may get slightly different results to those displayed below. As the database grows, the Elliott Wave Analyzer generates increasingly more accurate forecasts.***

Viewing the long-term chart of Starbucks following the 11 September 2001 tragedy, you will note the stock hit a longer term low on 24 September. The market then climbed over the next seven weeks before retracing on 16 November. Wondering if this climb was the start of a long-term Impulse move up (now subject to a wave 2 correction, or ultimately one leg of an ABC continued decline), we set the Elliott Wave Analyzer 3 to the task of providing us with sound statistically based guidance.

To initiate the analysis, we select the Stocks icon, deselect the Hidden Waves icon, and select “IM W1 (IM, LD)” from the drop down combo box of the Largest Degree Pattern Filter. We then choose a label

range of 10 to 40 in the Elliott Analysis Preference window (icon at top of display). With the Elliott Commentary icon, Comprehensive Labels Mode icon and the Target Areas icon activated, we analyze this market by clicking on the green arrow icon. The analysis looks like this:

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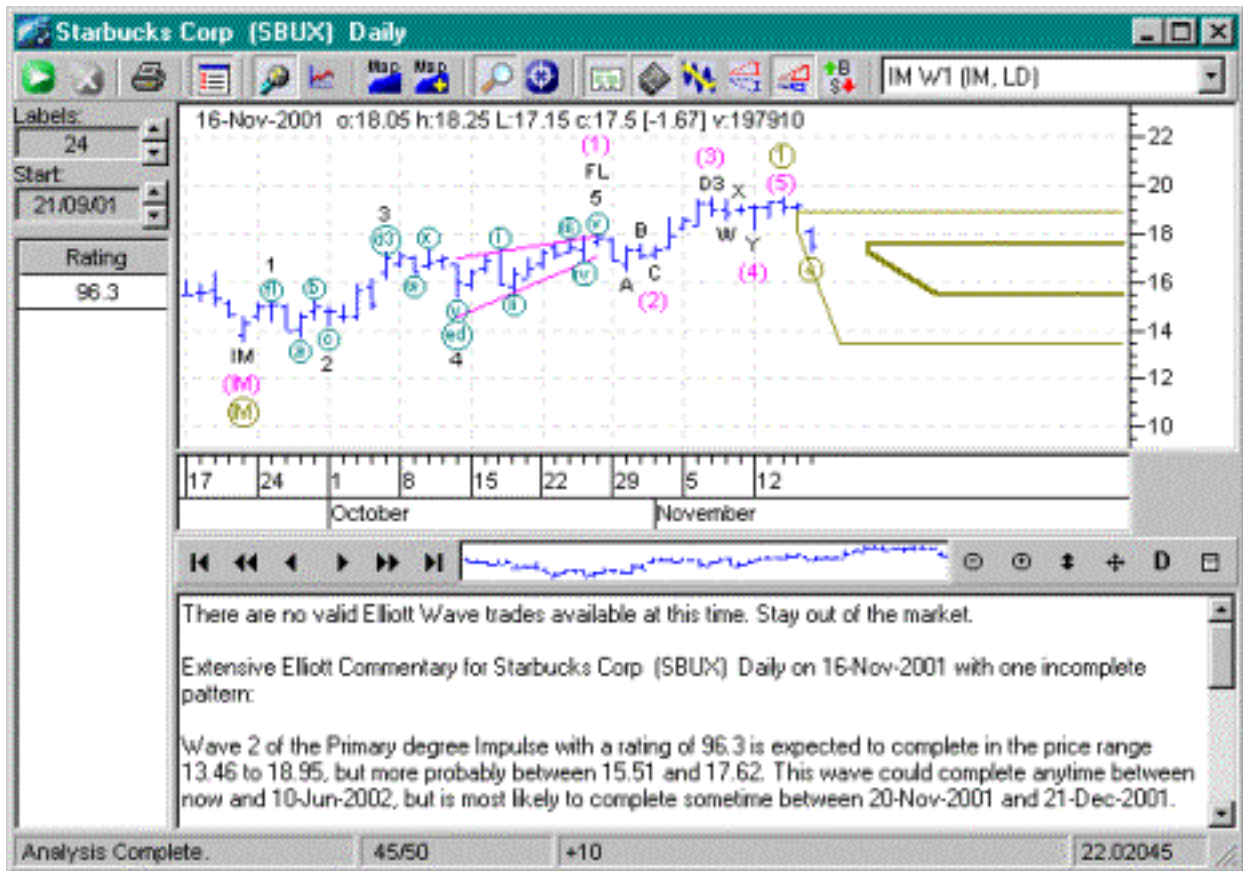


Fig. 35

A reasonable rating value of 96.3 gives us sufficient confidence to believe that the market is moving up. The current short-term retracement down into an Impulse Wave 2 is shown by the Target Area and explained in detail in the Commentary Window.

To test the accuracy of this forecast, we wait for some time to pass and then rerun the analysis on the new data to check if the market moved as expected.

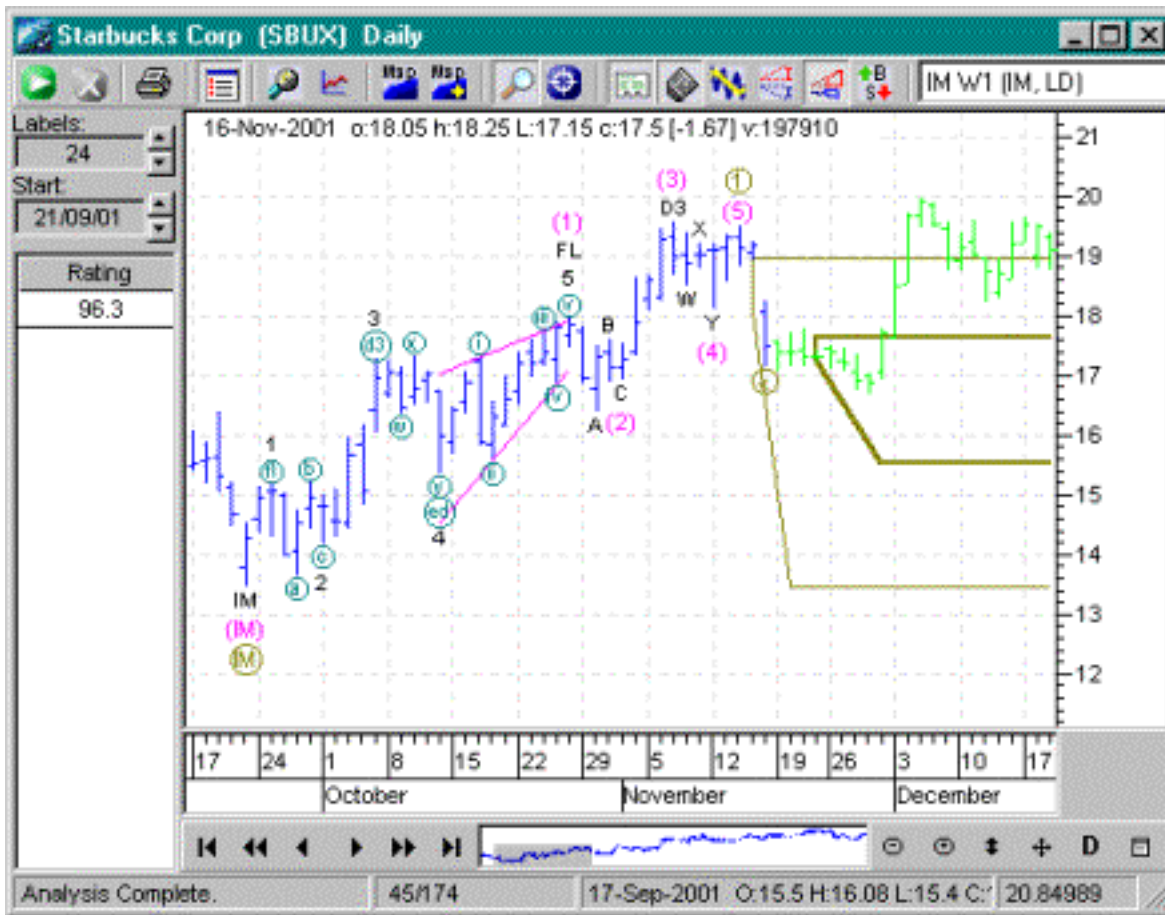


Fig. 36

As you can see from Fig. 36 above, the market did move down into an Impulse Wave 2 as expected, then turned back up while within the high probability Target Area. The market should now be moving up into Wave 3.

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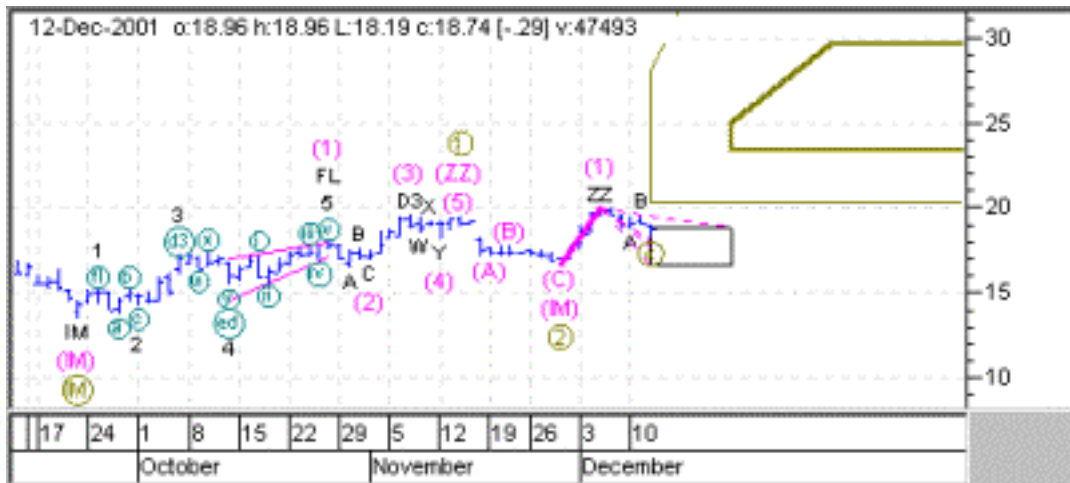


Fig. 37

The analysis results for 12 December 2001 show the market moving in a small degree Impulse Wave 2 of a larger degree Impulse Wave 3.

We now wait for the end of the lower degree Wave 2 to play out and plan to buy stock once Wave 3 starts. A few days later, this is the Elliott analysis (see Fig. 38):

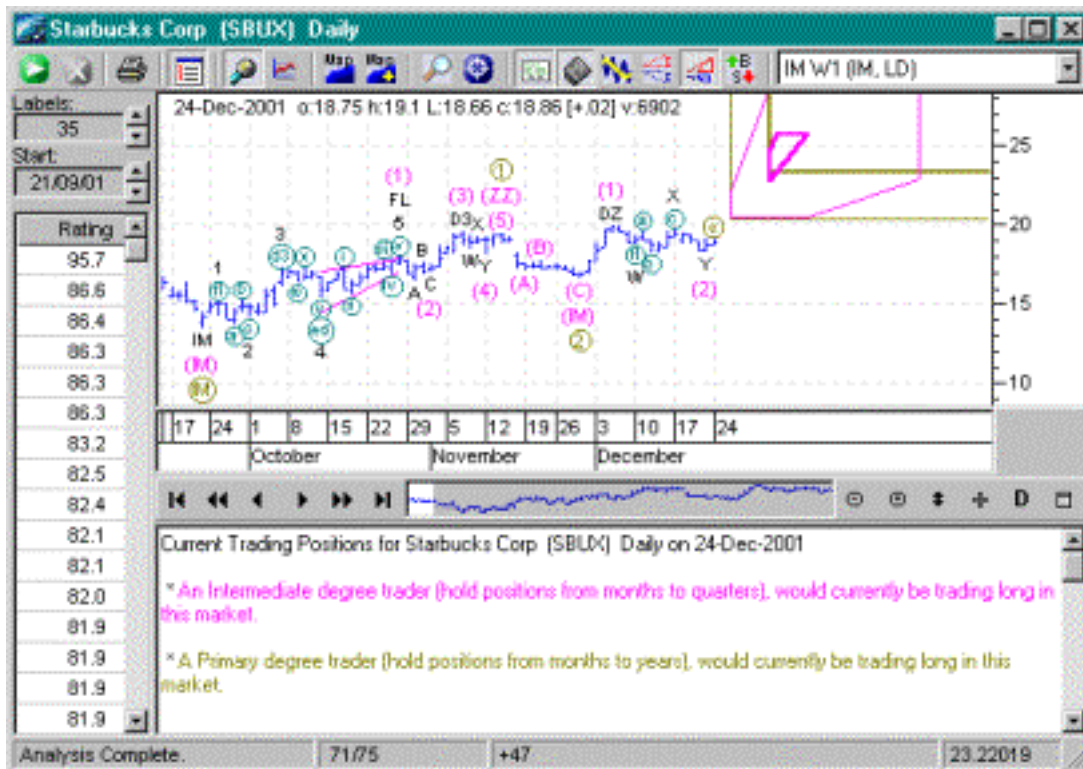


Fig. 38

Both degrees are showing an Impulse Wave 3, which is usually a very strong wave to trade. We purchase stock at open the next trading day at 18.86 and then watch the market ascend as expected.

The count stays the same every day, but then on 10 January 2002 the count looks like this (see Fig.

39):



Fig. 39

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Notice that there is a single best count, labelled 1 to the far right of the chart. This indicates that the Analyzer is unable to find any comprehensive counts starting at the left of the chart, representing earlier data, which in the past showed some structure or Elliott patterns. The absence of comprehensive counts is typically caused by hidden waves so we activate the Hidden Waves icon and re-analyze. This results in a more useful count.

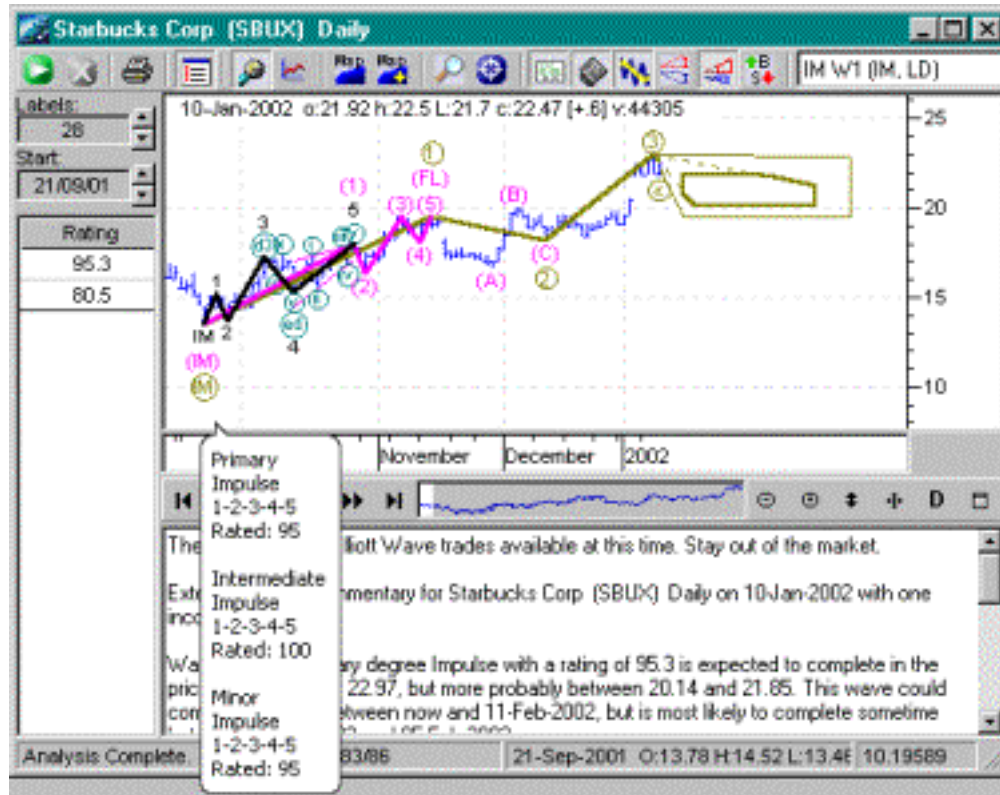


Fig. 40

The preferred count, rated at a reasonable value of 95.3, indicates that the run is over and to expect a retracement down into the Impulse Wave 4.

Although the first Alternate Count, which is the only other count on this list, has a much lower rating of 80.5, we click on the 80.5 value to display it on the chart:



Had the Alternate count a higher rating, it would have confirmed this market forecast even more strongly. If both counts had a similar rating but showed radically different forecasts, then we would not have a reliable forecast at all – and would probably decide to simply exit the market. However, both counts are telling us the same thing – the Intermediate (shorter term) bull run is over and it is time for Intermediate Degree traders to exit. We exit the next morning at open at 22.45, giving us a profit of:

Entered at: 18.86  
 Exited at: 22.45  
**Profit: 3.59**

A primary degree trader (the larger degree) is trading over a longer term, and would not exit. Note that the “Current Trading Position” now only includes a Primary Degree trader in Fig 41 rather than both Primary and Intermediate degree traders as it did in Fig 38.

This explains why it is possible for different-degree traders to have different positions in the same market.



Fig. 42

The market did retrace down, exactly as expected, into the high probability Target Area, before continuing up to the end of the Primary Degree Impulse Wave 5.

In fact, a Primary Degree trader would have ended up holding the position and riding the market up to much higher levels.

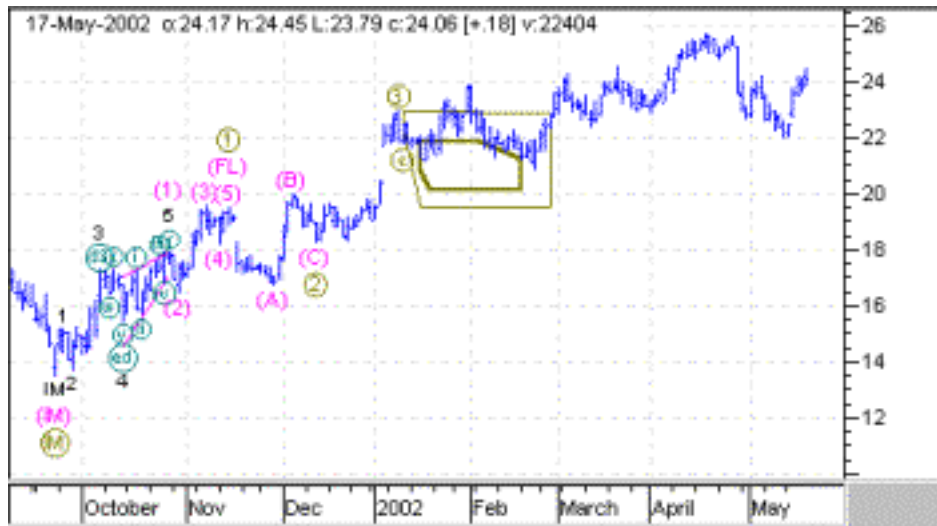


Fig. 43

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Starbucks is an excellent example of a liquid stock that shows consistent Elliott Wave behavior. If you were to continue with this example you would find that the Elliott Wave Analyzer 3 was able to consistently forecast with amazingly accuracy.

There are thousands of examples that could have been picked rather than Starbucks, including dozens of the most liquid commodities and futures.

As you can see from the examples above, amazing results can be obtained from the Elliott Wave Analyzer 3 – if you know the basics of how to drive it correctly.

I congratulate you for having finished reading this document. The very fact that you have reached the end tells me you are serious about trading more profitably.

Knowing what you now know about the forecasting ability of this software package, I am confident that you will never want to trade the market again without it.

Indeed, why would you trade the markets without the guidance of the world's most accurate market forecasting system?

**Trading the markets will never be the same again.**

For further information, please contact us at:

**Elliott Wave Research PL**  
**Perth**  
**Western Australia, 6153**  
**Australia**  
**Ph: + 61 8 9203 6626**  
**Fax: 61 8 9463 6032**  
**Web:www.elliottwaveresearch.com**  
**Email:info@elliottwaveresearch.com**

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