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PERSATUAN REMISIER BUMIPUTERA MALAYSIA  
(PRIBUMI)

# DIPLOMA IN TECHNICAL ANALYSIS (MSTA)

## ELLIOT WAVE & FIBONACCI

PRIBUMI-MSTA Batch 12,  
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PRIBUMI TRAINING CENTRE  
Bandar Kinrara, Puchong



## INTRODUCTION

- In the 1930s, Ralph Nelson Elliot discovered that stock market prices trend and reverse in recognizable patterns. The patterns he discerned are repetitive in form but not necessarily in time or amplitude.
- Elliot isolated five such patterns or waves, that recur in market price data. He named, defined and illustrated these patterns and their variations.
- He described how they link together to form larger versions of themselves; how they link together to form the same patterns of the next larger size and producing a structured progression.
- He called this phenomenon The Wave Principle

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- Although it is the best forecasting tool in existing, the Wave Principle is not primarily a forecasting tool; it is a detailed description of how market behave.
- The primary value of the Wave Principle is that it provides a context for market analysis.
- This context provides both a basis for disciplined thinking and a perspective on the market's general position and outlook.
- At times, its accuracy in identifying, and even anticipating, changes in direction is almost unbelievable
- Elliot noted that many areas of mass human activity display the Wave Principle; and all are cycles in nature, whether of the tide, the planets, day and night, or even life and death, had the capability for repeating themselves indefinitely
- Those cyclical movements were characterized by two forces; one building up and the other tearing down

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## HISTORY OF ELLIOT WAVE

- Ralph Nelson Elliot was heavily influenced by Dow Theory
- Learned Dow Theory from Robert Rhea in 1930's
- His theory is a strong much needed complement to Dow Theory
- Wrote "Nature's Law : The Secret Of the Universe" in 1946
- Works continued by Hamilton Bolton who published Elliot Wave report to banks credit analyst in 1960's
- Popularized by AJ Frost and Robert Prechter published "Elliott's Wave Principle" and "The Major Works Of RN Elliot" in 1980's

## What is the Elliott Wave Principle?

- The Elliott Wave Principle is a detailed description of how groups of people behave. It reveals that mass psychology swings from pessimism to optimism and back in a natural sequence, creating specific and measurable patterns.
- One of the easiest places to see the Elliott Wave Principle at work is in the financial markets, where changing investor psychology is recorded in the form of price movements. If you can identify repeating patterns in prices, and figure out where we are in those repeating patterns today, you can predict where we are going.
- Elliott Wave Principle measures *investor psychology*, which is the *real* engine behind the stock markets. When people are optimistic about the future of a given issue, they bid the price up.

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- Two observations will help you grasp this: First, for hundreds of years, investors have noticed that events external to the stock markets seem to have no consistent effect on their progress. The same news that today seems to drive the markets *up* are as likely to drive them *down* tomorrow. The only reasonable conclusion is that the markets simply do not react consistently to outside events. Second, when you study historical charts, you see that the markets continuously unfold in waves.
- Using the Elliott Wave Principle is an exercise in probability. An Elliottian is someone who is able to identify the markets structure and anticipate the most likely next move based on our position within those structures. By knowing the wave patterns, you'll know what the markets are likely to do next and (sometimes most importantly) what they will *not* do next. By using the Elliott Wave Principle, you identify the highest probable moves with the least risk.

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## Where Did the Wave Theory Come From?

- Ralph Nelson Elliott is the father of the Wave Theory, which is commonly called and more accurately described as the Elliott Wave Principle. Born on July 28, 1871 in Marysville, Kansas, Elliott reached his ultimate achievement late in life by a circuitous route.
- After a long career in various accounting and business practices, R.N. Elliott was forced into an unwanted retirement at the age of 58 due to an illness contracted while living in Central America. Needing something to occupy his mind while recuperating, he turned his full attention to studying the behavior of the stock market.
- Elliott examined yearly, monthly, weekly, daily, hourly and half-hourly charts of the various indexes covering 75 years of stock market behavior. By November 1934, R.N. Elliott's confidence in his ideas of what is sometimes called the Wave Theory had developed to the point that he presented them to Charles J. Collins of Investment Counsel, Inc. in Detroit.

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- Collins had traditionally put off the numerous correspondents who offered him systems for beating the market. Not surprisingly, the vast majority of these systems proved to be dismal failures. Elliott's Wave Theory, however, was another story.
- The Dow Jones averages had declined throughout early 1935, and advisors were turning negative with the memories of the 1929–32 crash fresh in their minds. On Wednesday, March 13, 1935, just after the close of trading — with the Dow Jones averages finishing near the lows for the day — Elliott, citing his Wave Theory analysis, sent a telegram to Collins and flatly stated:

**"NOTWITHSTANDING BEARISH (DOW) IMPLICATIONS ALL AVERAGES ARE MAKING FINAL BOTTOM."**

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- The next day, Thursday, March 14, 1935, was the day of the closing low for the Dow Industrials that year. The 13-month "correction" was over, and the market immediately turned to the upside. Two months later, as the market continued its upward climb, Collins agreed to collaborate on a book on the Wave Theory. *The Wave Principle* was published on August 31, 1938.
- During the early 1940s, the Wave Theory continued to develop. Elliott tied the patterns of collective human behavior to the Fibonacci, or "golden" ratio, a mathematical phenomenon known for millennia as one of nature's ubiquitous laws of form and progress.
- Elliott then put together what he considered his definitive work, *Nature's Law — The Secret of the Universe*. This volume includes almost every thought he had concerning his Wave Theory.



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- As a result of Elliott's pioneering research, today, thousands of institutional portfolio managers, traders and private investors use the Wave Theory in their investment decision-making.
- *This article on the history of the Wave Theory was excerpted from a detailed 64-page biography in R.N. Elliott's Masterworks*
- \*\* Jim Martens, "For me [the fact that] you [often] see trends begin before the news is another reason **not** to rely on the news and 'fundamentals' to forecast the trend. It's not the news that moves the markets, it's how the crowd *interprets* the news."

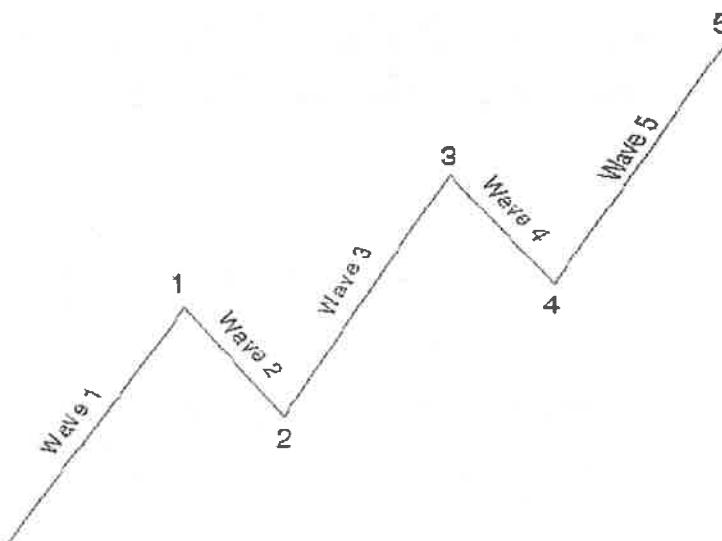
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## **UNDERSTANDING THE ELLIOT WAVE PRINCIPLE**

- Elliot Wave Theory was originally applied to the major stock market averages; i.e. the DJ Industrial
- The wave principle theory says that the stock market averages follows a repetitive rhythm of a five wave advance followed by a three wave decline to complete the eight cycle wave.
- In the Five-Wave Pattern, three of these waves which labeled 1,3,5 effect the directional movement. These 1,3,5 are rising wave or impulsive wave while waves 2 and 4 are countertrend move that go against the prevailing trend. Waves 2 and 4 are also called corrective waves because they correct waves 1 and 3.

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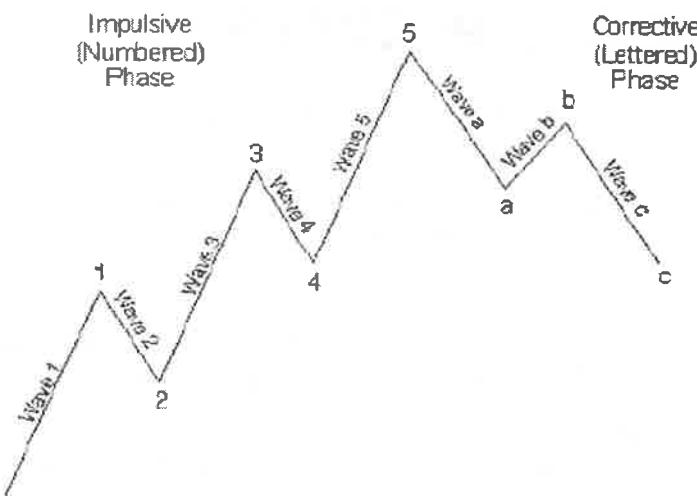
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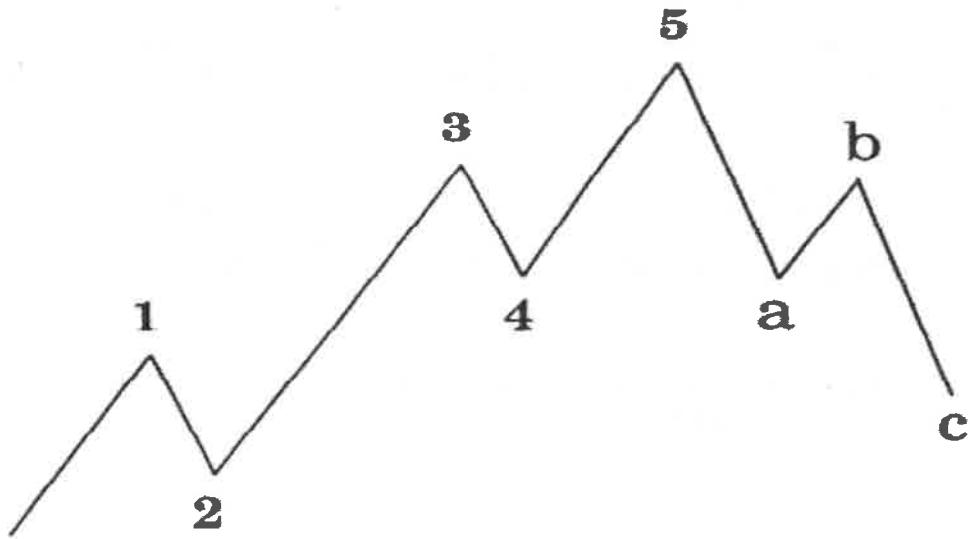
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- After the five wave numbered advance has been completed, the three wave correction begins which are identified by the letters a,b,c.
- One complete cycle of Elliot Wave consisting of eight waves, and are made up of two distinct phases; the five-wave motive phase whose subwaves are denoted by numbers and three-wave corrective phase whose subwaves are denoted by letters.
- The sequence a,b,c corrects the sequence 1,2,3,4,5 within the complete cycle of EW

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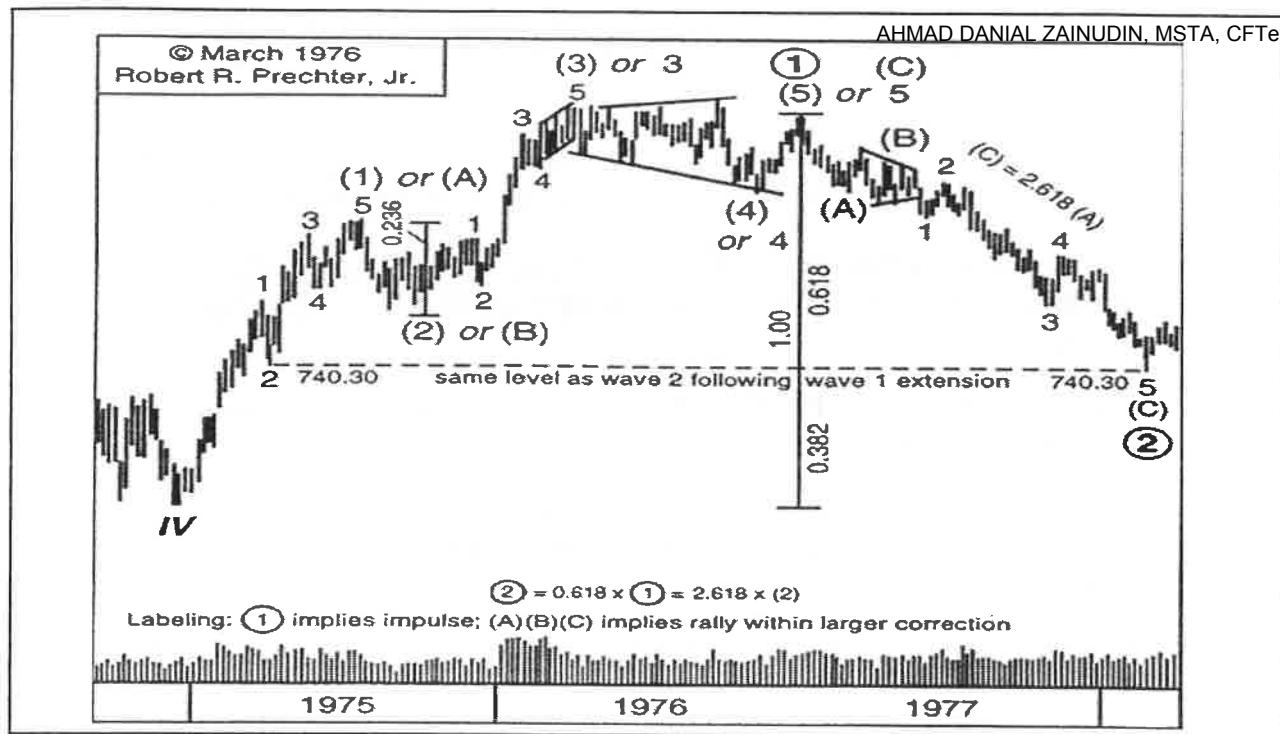
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## BASIC TENETS OF THE ELLIOT WAVE PRINCIPLE

There are three important aspects of wave theory

- (i) Pattern;  
Which refers to the wave patterns or formations that comprise the most important element of the theory
- (ii) Ratio;  
Is useful in determining retracement points and price objectives by measuring the relationship between the different waves
- (iii) Time; (less reliable)  
Can be used to confirm the wave patterns and ratios, but are considered by some ellioticians to be less reliable in market forecasting

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## WAVE DEGREE

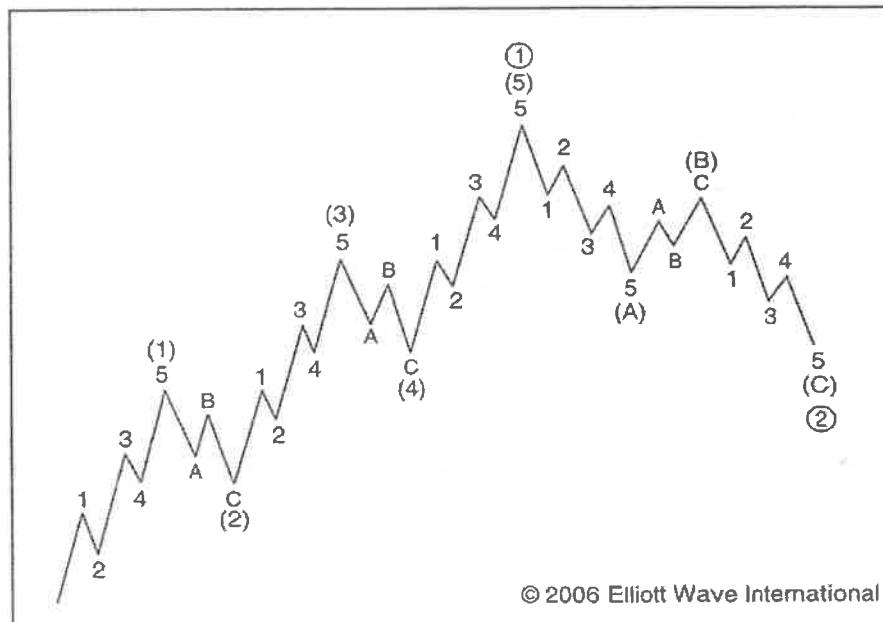
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- All waves may be categorized by relative size, or degree. Elliott discerned nine degrees of waves, from the smallest wiggle on an hourly chart to the largest wave he could assume existed from the data then available. He chose the names listed below to label these degrees, from largest to smallest:

- Supermillennium
- Millennium
- Submillennium
- Grand Supercycle
- Supercycle
- Cycle
- Primary
- Intermediate
- Minor
- Minute
- Minuette
- Subminuette

- As Elliot observed, wave patterns form larger and smaller versions of themselves. This repetition in form means that price activity is fractal.
- Each wave subdivides into waves of one lesser degree that, in turn, can also be subdivided into waves of even lesser degree
- The point to remember is that the basic eight wave cycle remains constant no matter what degree of trend is being studied
- It also follows then that each wave itself is part of the wave of the next higher degree
- The largest two waves 1 and 2 can be subdivided into eight lesser waves that, in turn can be subdivided into 34 even lesser waves
- The two largest waves 1 and 2 are only the first two waves in an even larger five wave advance

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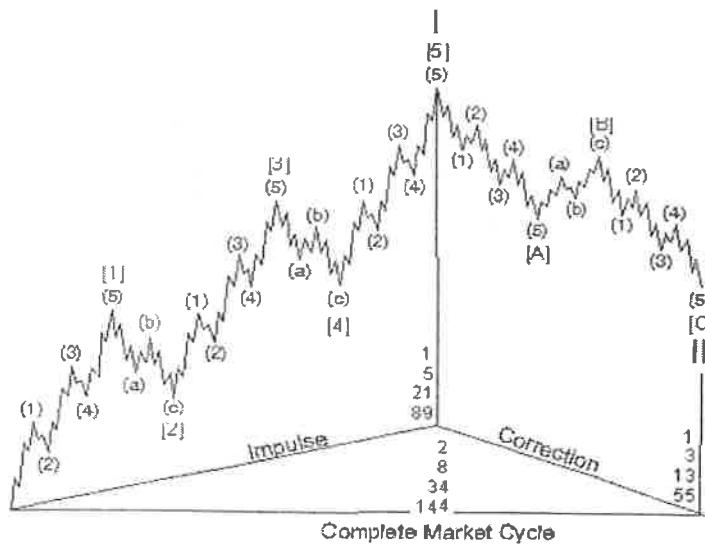
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- Wave 3 of that next higher degree is about to begin
- The 34 waves in figure are subdivided further to the next smaller degree in the next figure resulting in 144 waves
- The numbers shown so far 1,2,3,5,8,13,21,34,55,89,144 are not just random numbers. They are part of the fibonacci number sequence, which forms the mathematical basis for the Elliott Wave Theory
- Look at the figure and notice a very significant characteristic of the waves
- Whether a given wave divides into five waves or three waves is determined by the direction of the next larger wave of which they are part and wave 1 is an advancing wave
- Because wave 2 and 4 are moving against the trend, they subdivide into only three waves

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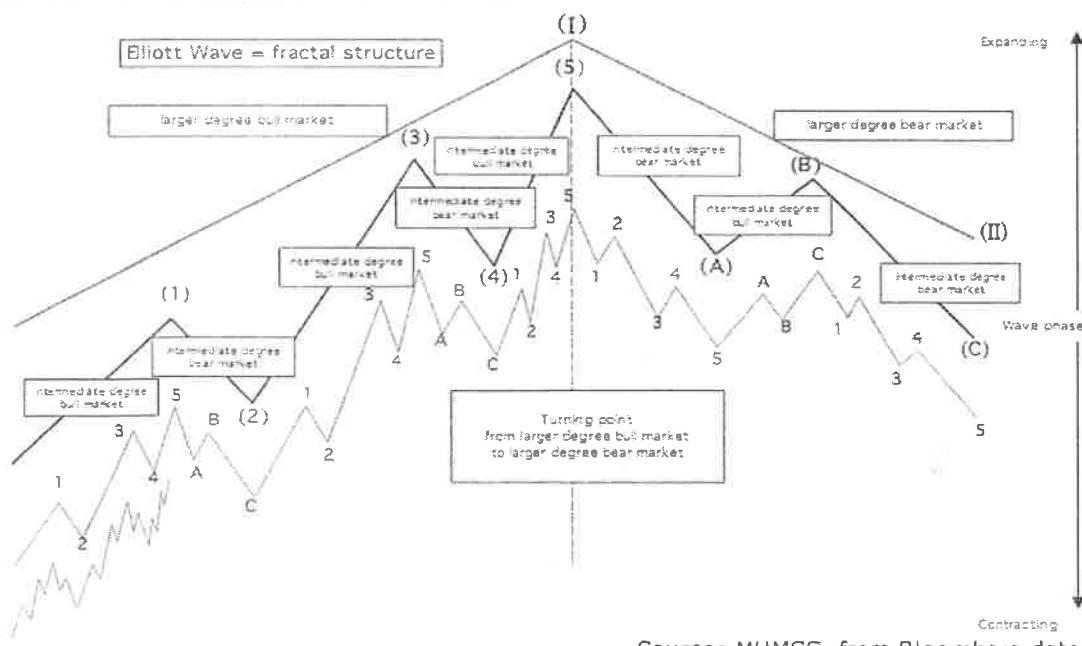


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- Look more closely at corrective waves (a), (b) and (c), which comprise the larger corrective wave 2
- Notice that the two declining waves (a) and (c) each break down into five waves
- This is because they are moving in the same direction as the next larger wave 2
- Wave (b) by contrast only has three waves, because it is moving against the next larger wave 2
- Being able to determine between threes and fives is obviously of tremendous importance in the application of this approach
- A completed five wave move for example usually means that only part of a larger wave has been completed and that there's more to come to counter trend
- The most important rules to remember is that a correction can never take place in five waves

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Chart 1: Basic patterns of the Elliott Wave



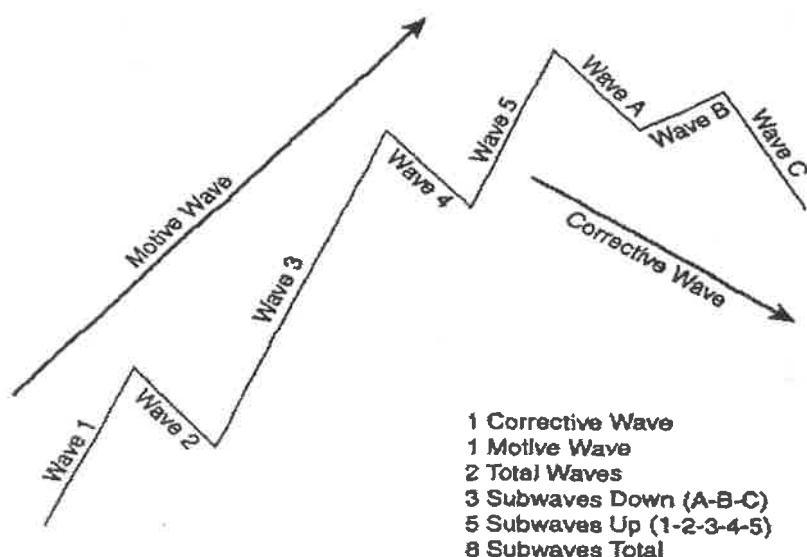
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## WAVE MODE

- There are two modes of wave development; Motive and Corrective. Motive Wave have a five-wave structure while Corrective wave have a three-wave structure or a variation thereof.
- Motive waves subdivide into five waves and always move in the same direction as the trend of one larger degree. They are straightforward and relatively easy to recognize and interpret.
- Their structures are called "motive" because they powerfully impel the market. The goal of a motive wave is to make progress, and these rules of formation assure that it will.
- It is worth noting that within motive waves, wave 3 is often the longest and never the shortest among the three actionary waves of a motive wave.
- Impulse is one among other types of motive waves.

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### Elliot Wave



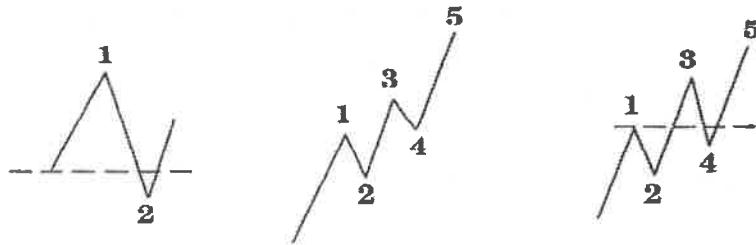
## IMPULSE

### A STRONG RISING WAVE/A STRONG DOWNWARD MOVEMENT

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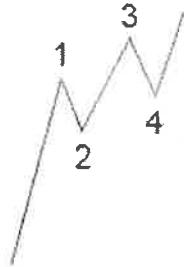
- Some rules of Impulse wave that have to be follow are:

- ❖ Wave 2 never moves beyond the start of the wave 1
- ❖ Wave 3 is never the shortest wave (always travels beyond the end of wave 1)
- ❖ Wave 4 never enters the price territory of waves 1

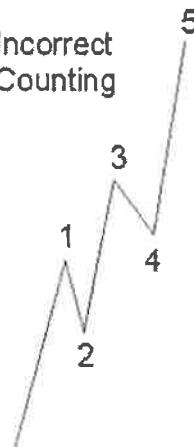


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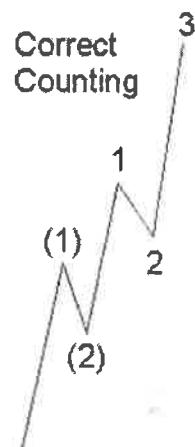
Incorrect Counting



Incorrect Counting



Correct Counting



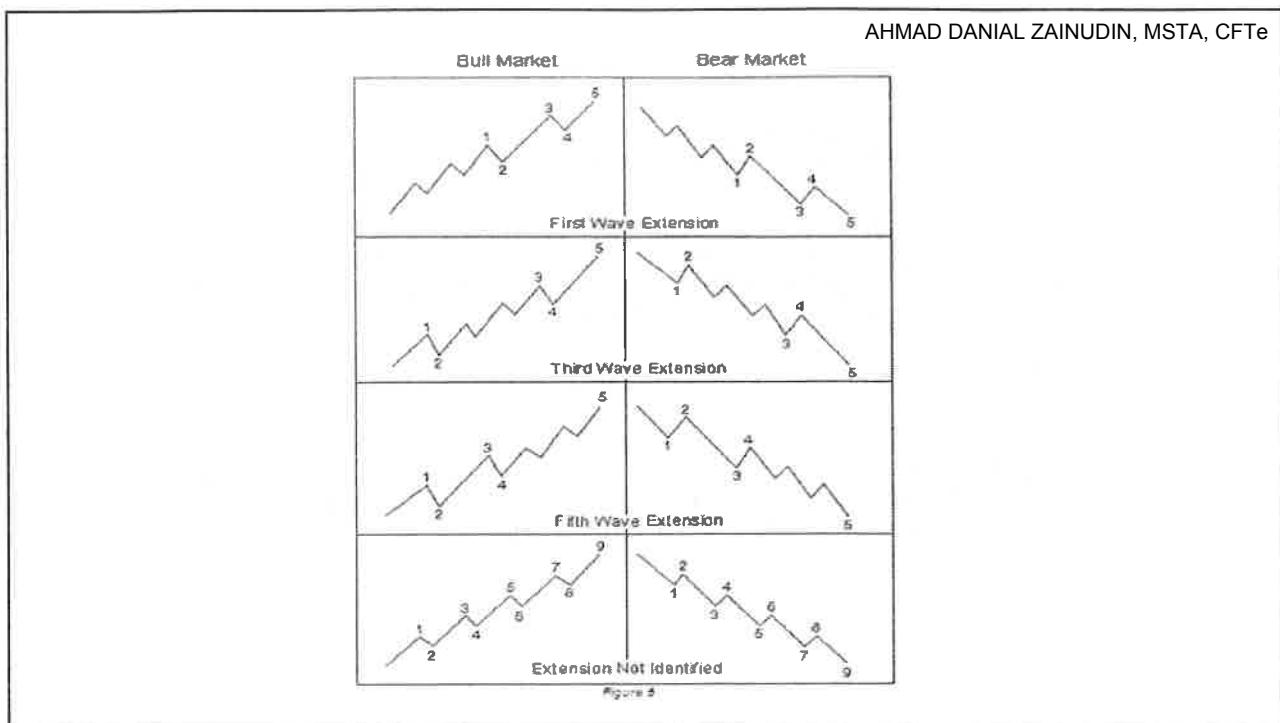
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- The most common motive wave is an impulse. In an impulse wave, Wave 4 never enters the price territory of waves 1.
- However this rule was not as rigid in commodities or futures markets. Where with their extreme leverage, it can induce short term price extremes where overlapping is usually confined to daily and intraday price fluctuations and even then is rare.
- In one complete cycle of 8 waves, 1,3,5, A & C wave positions are an impulse.
- Characteristics of waves are called Guidelines. In impulse wave formation, the guidelines includes extension, truncation, alternation, channeling and ratio relationships.

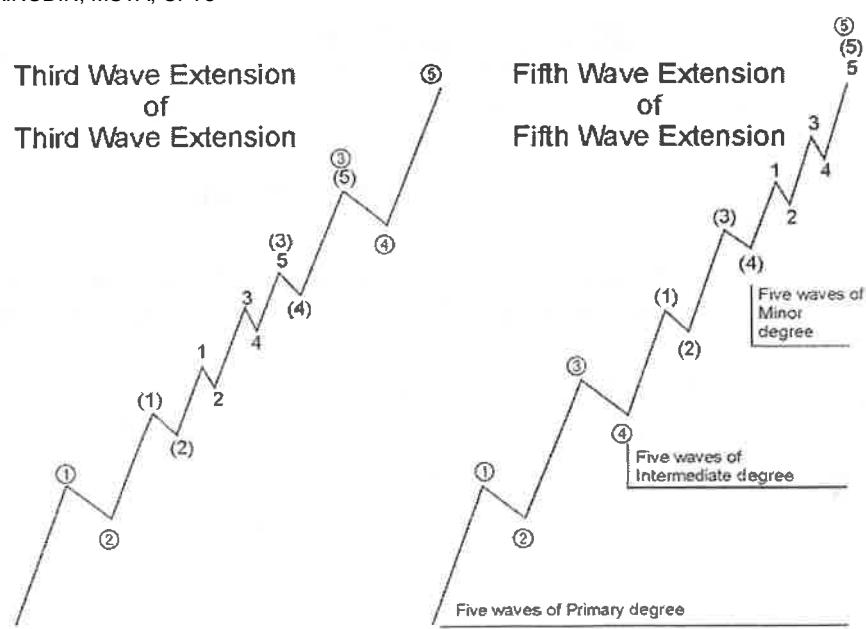
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## **EXTENSION**

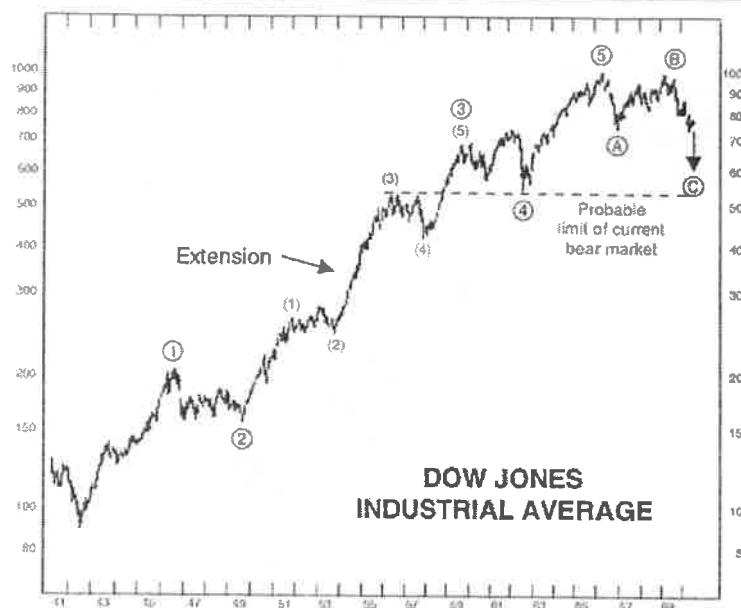
- Most impulses contain extension. An extension is an elongated impulse with exaggerated subdivisions.
- The vast majority of impulses contain an extension in one and only one of their three actionary subwaves.
- The fact that an extension typically occurs in only one actionary subwave provides a useful guide to the expected lengths of upcoming waves.
- For instance, if the first and third waves are of about equal length, the fifth wave is expected to extend. In stock market however the most commonly extended wave is wave 3.
- In a nine-wave sequence it is occasionally difficult to say which wave extended.
- Extensions may also occur within extensions. (3rd wave extension of 3rd wave extensions or 5th wave extension of 5th wave extension)



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DJIA, monthly data  
*log scale*

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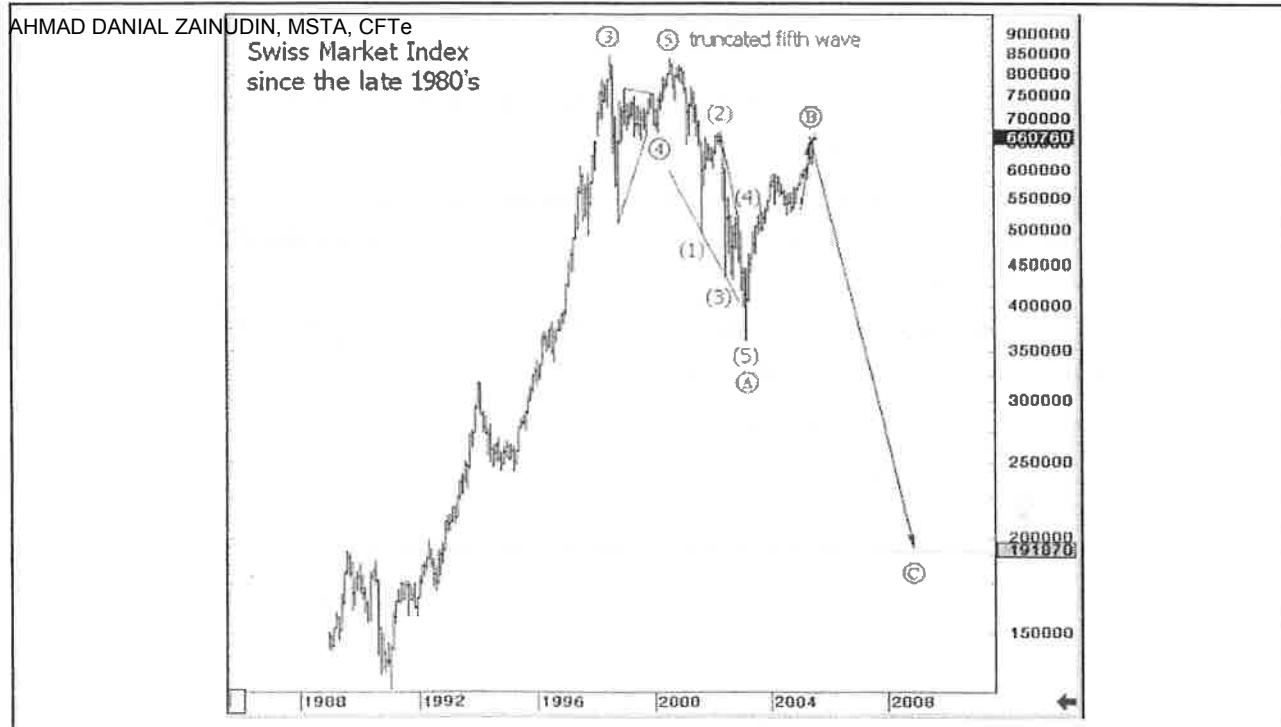
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## TRUNCATION

- Failure to describe a situation in which the 5th wave does not move beyond the end of the 3rd wave is what Elliot called Truncation. A truncation can usually be verified by noting that the presumed fifth wave contains the necessary five subwaves as shown below. A Truncation often occurs following a particularly strong 3rd wave.

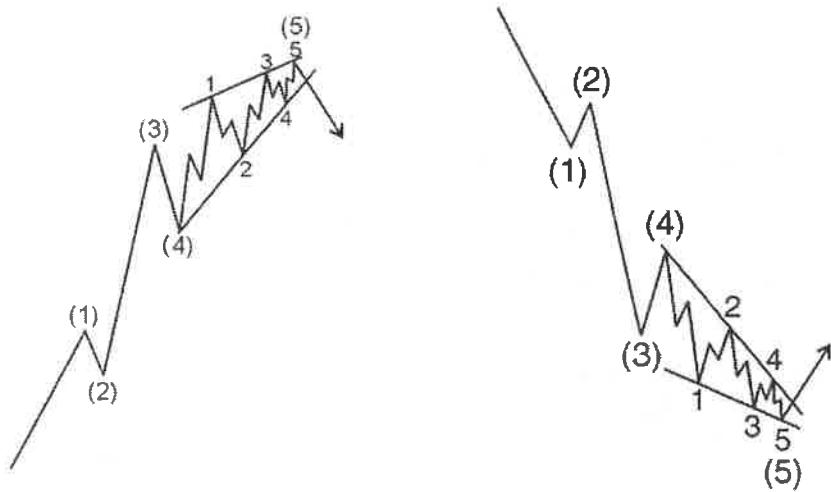




## DIAGONAL

- A diagonal is a motive pattern yet not an impulse, as it has two corrective characteristics.
- A diagonal is the only five-wave structure in the direction of the main trend within which wave four almost always moves into the price territory of wave one.
- It is almost always that in diagonal, all the sub-waves are “threes” producing an overall count of 3,3,3,3,3.
- Two types of diagonal pattern
  - (i) expanding diagonal
  - (ii) contracting diagonal

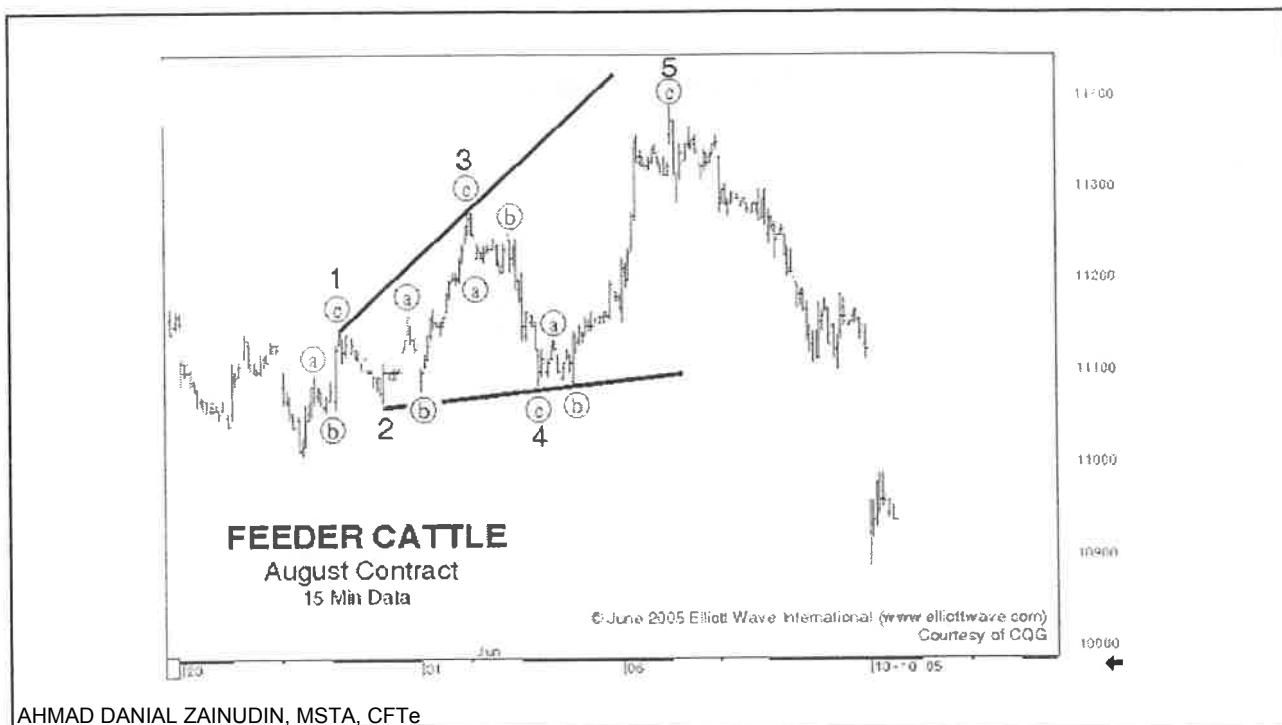
## Diagonal Triangles



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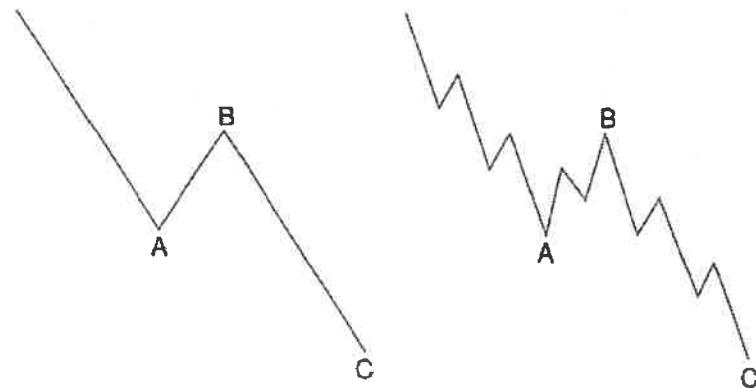
## CORRECTIVE WAVES

- In general, corrective waves are less clearly defined and tend to be more difficult to identify and predict.
- One point that is clearly defined, however, is that corrective waves can never take place in five waves.
- Corrective waves are threes, never fives (with the exception of triangles). Only motive waves are fives.
- For this reason, an initial five-wave movement against the larger trend is never the end of a correction, only part of it.
- Corrective processes come into two styles; sharp, sideways corrections and triangle.

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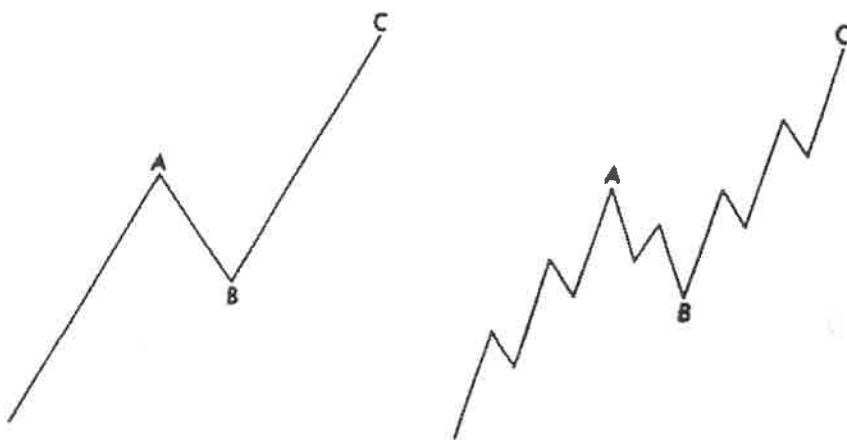
## ZIG ZAG (5,3,5)

- Zig-zag is a three wave corrective pattern, against the major trend, which breaks down into a 5-3-5 sequence
- Figure show a “single” bull market zig-zag correction



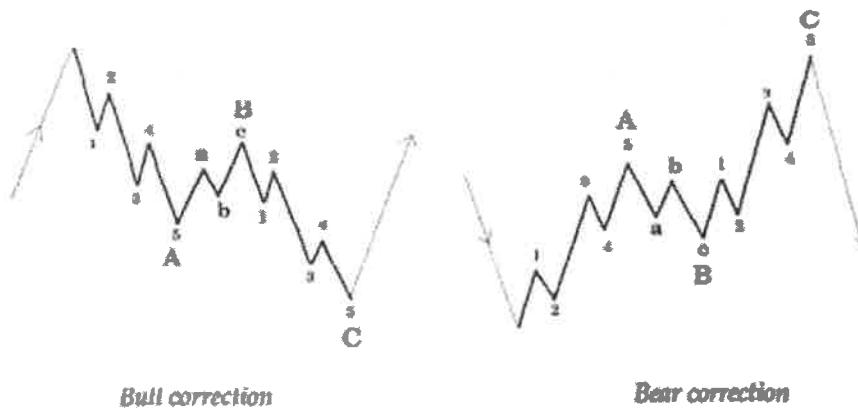
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- Figure show a “single” bear market zig zag rally



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- A "single" bull and bear market zig zag

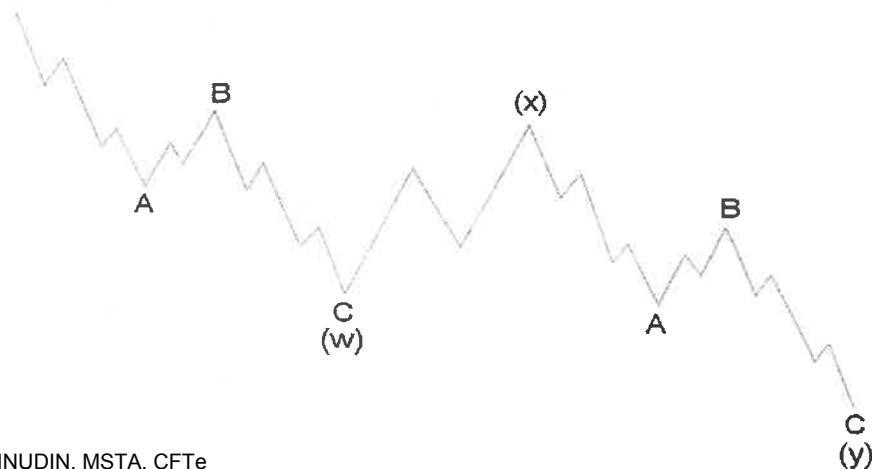


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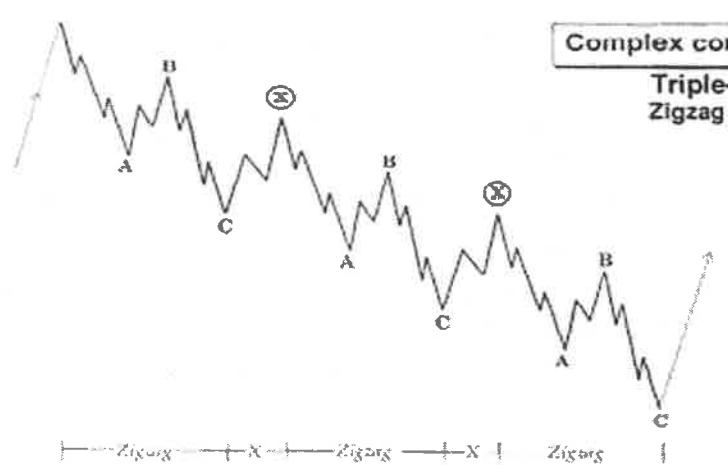


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- A zigzag correction can occur as a more complex double or triple zigzag pattern. The second correction pictured below shows the more complex double zigzag. The double zigzag, for example, is two simple zigzags joined by a wave X.

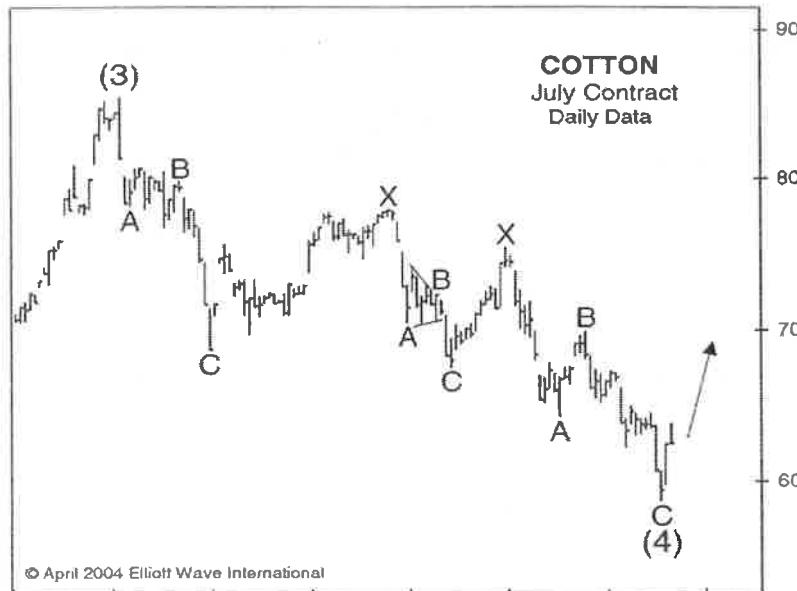


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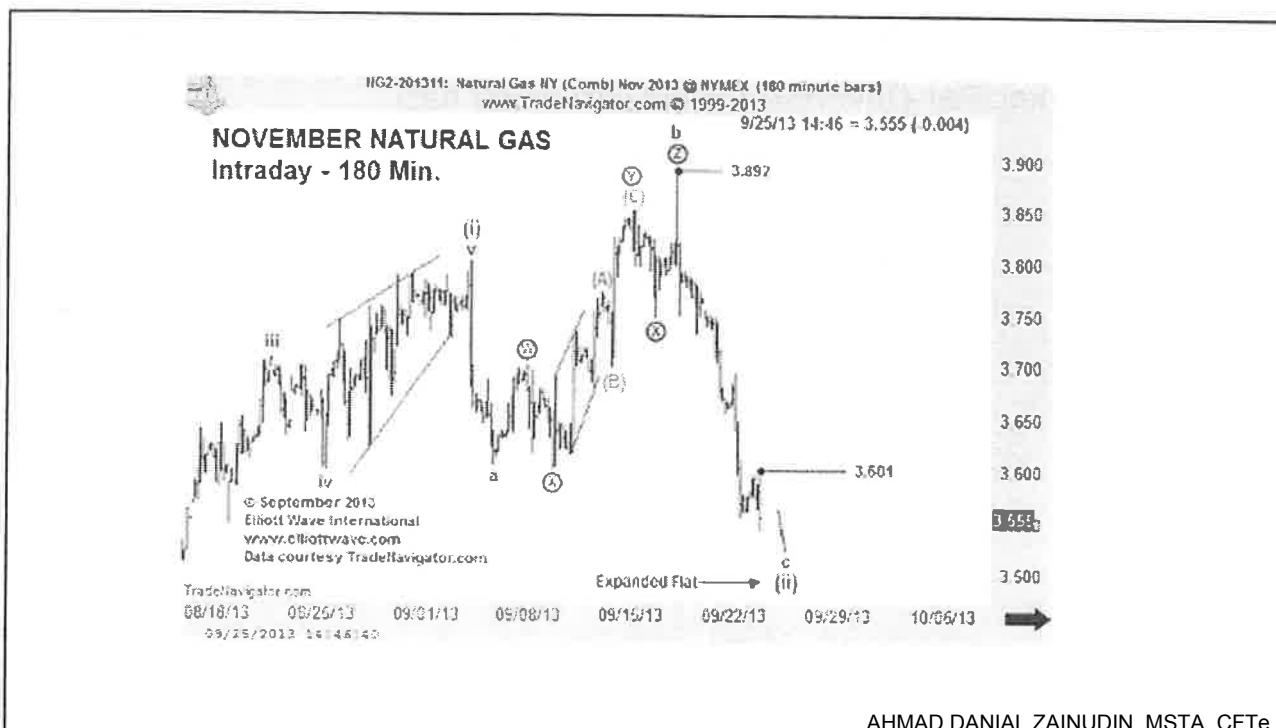
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## FLAT (REGULAR) 3,3,5

- A flat correction usually retraces less of the preceding impulse wave than does a zig-zag.
- It tends to occur when the larger trend is strong, so it virtually always precedes or follows an extension.
- Within an impulse, the fourth wave frequently spots a flat, while the 2<sup>nd</sup> wave rarely does.
- The flat is more of a consolidation than a correction and is considered a sign of strength in a bull market
- In regular flat correction, wave B terminates about at the level of the beginning of wave A, and wave C terminates a slight bit past the end of wave A

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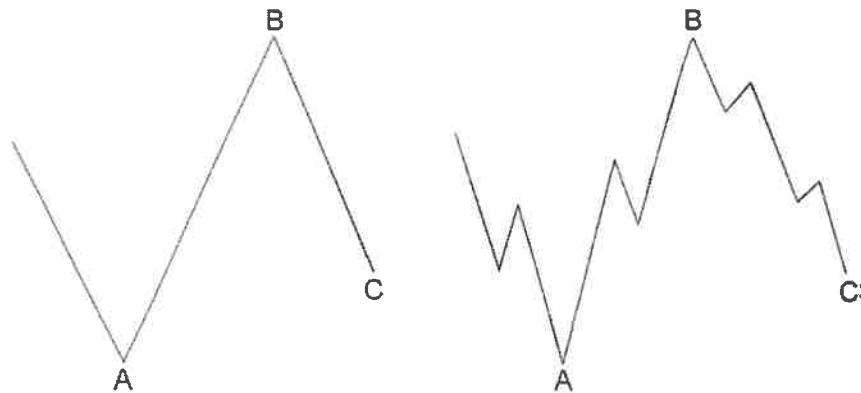
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## FLAT (INVERTED IRREGULAR) 3,3,5

- In a rare variation on the 3,3,5 pattern, which we call a running flat, wave B terminates well beyond the beginning of wave A, but wave C however fails to travel its full distance, falling short of the level at which wave A ended.
- Apparently in this case, the forces in the direction of the larger trend are so powerful that the pattern is skewed in that direction.
- However, there are hardly any examples of this type of correction in the price record.
- Inverted irregular also be known as running flat

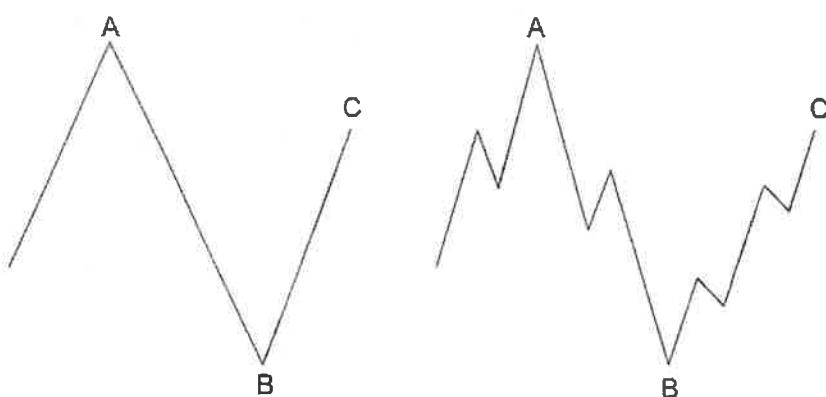
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- Bull Market Flat (Inverted Irregular/running flat)



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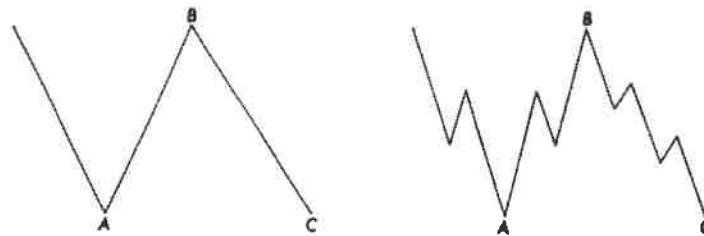
- Bear Market Flat (Inverted Irregular/running flat)



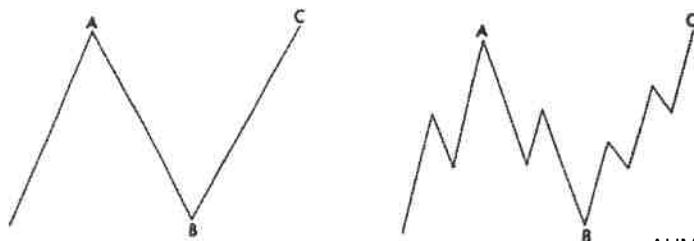
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- Bull Market Flats



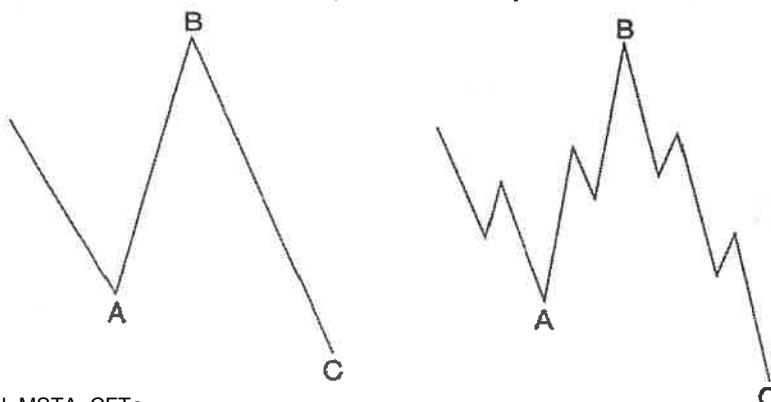
- Bear Market Flats



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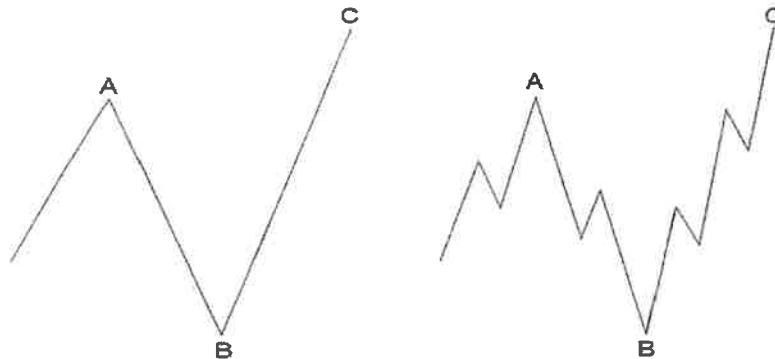
## **FLAT (IRREGULAR) 3,3,5**

- In irregular flat formations, wave B terminates beyond the starting level of wave A, and wave C ends more substantially beyond the ending level of wave A
- Bull market flat (irregular/expanded flat)



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- Bear market flat (irregular/expanded flat)



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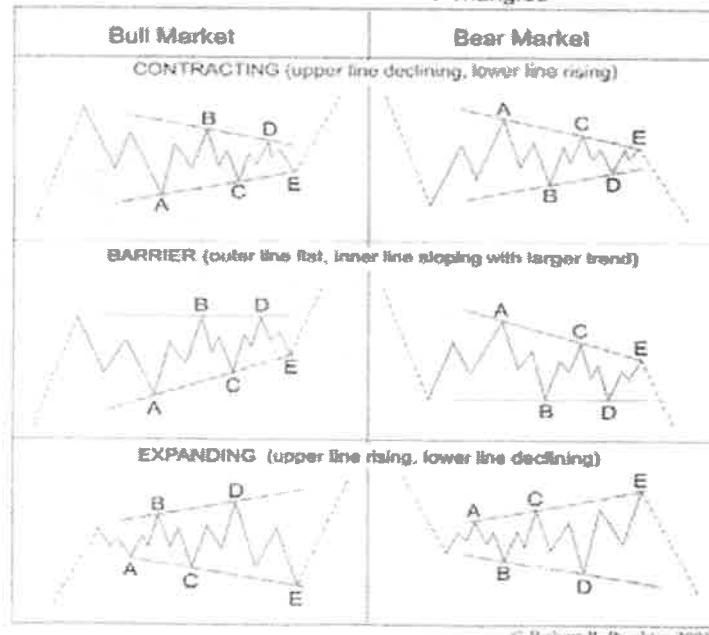
## TRIANGLES

- Triangles usually occur in the fourth wave and precede the final move in the direction of the major trend
- There can also appear in the b wave of an a-b-c correction
- In an uptrend, therefore it can be said that triangles are both bullish and bearish
- They are bullish in the sense that they also indicate that after one more wave up, prices will also will probably peak

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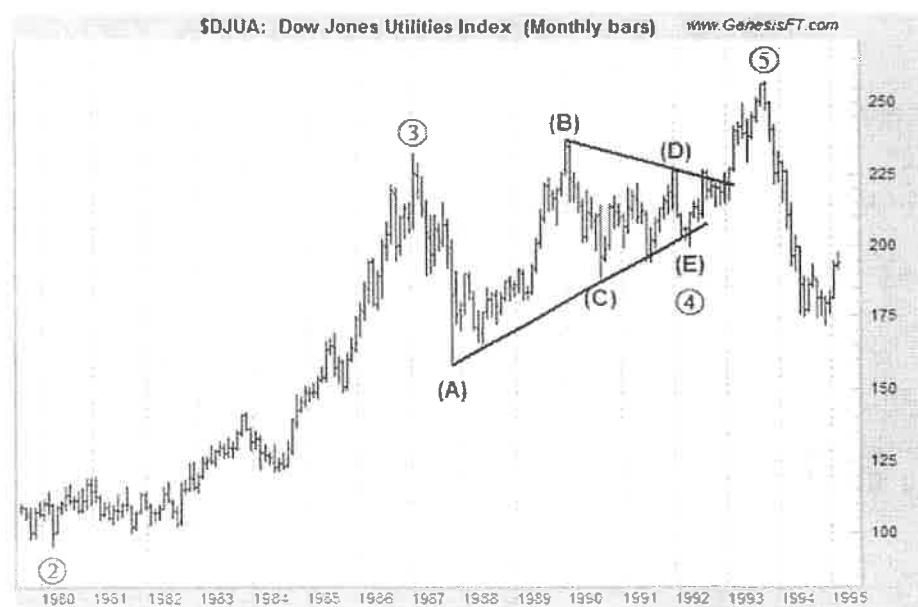
Variations of Elliott Wave Triangles



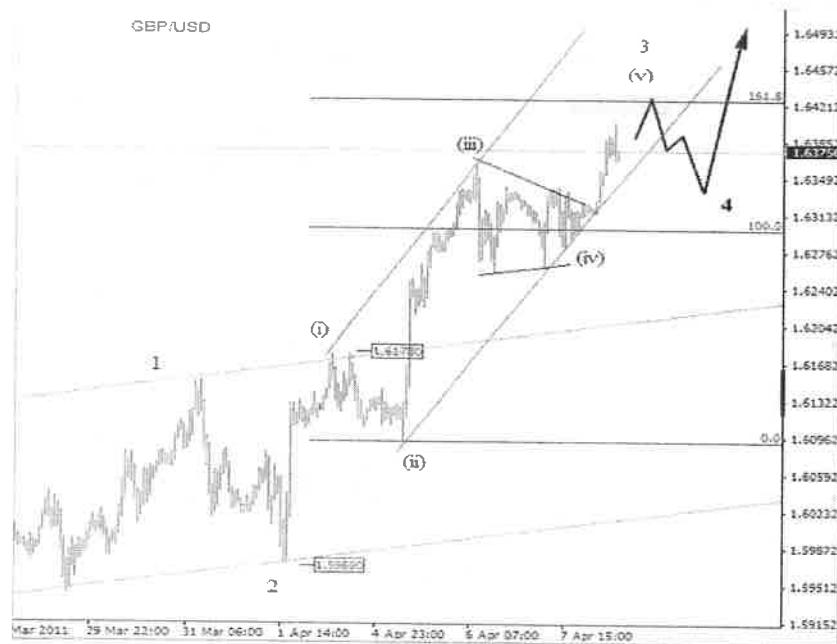
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- Triangles appear to reflect a balance of forces, causing a sideways movement that is usually associated with decreasing volume and volatility.
- Triangles contain five overlapping waves that subdivide 3-3-3-3-3 and are labeled a-b-c-d-e.
- However chart patterns in commodity futures contracts sometimes do not form as fully as they do in the stock market
- It is not unusual for triangles in the futures markets to have only three waves instead of five
- Elliott wave theory also holds that the fifth and last wave within the triangle sometimes breaks its trendline, giving a false signal, before beginning its "thrust" in the original direction

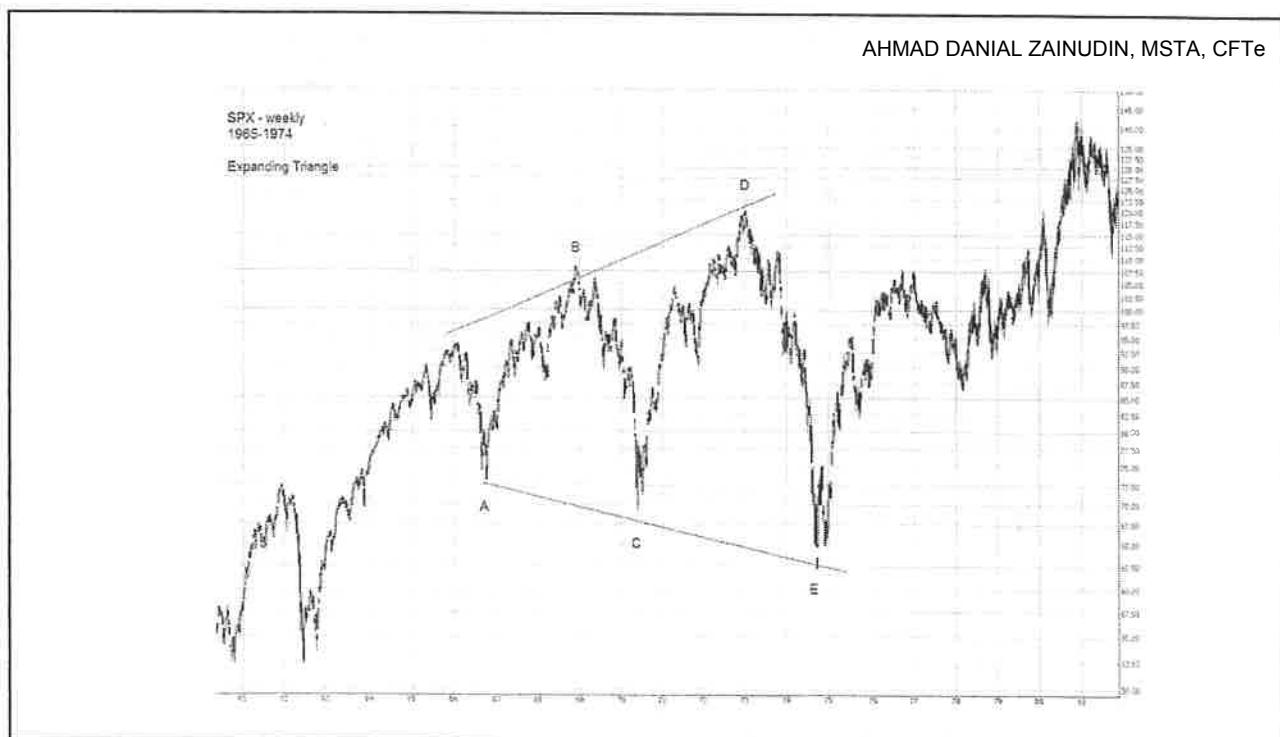
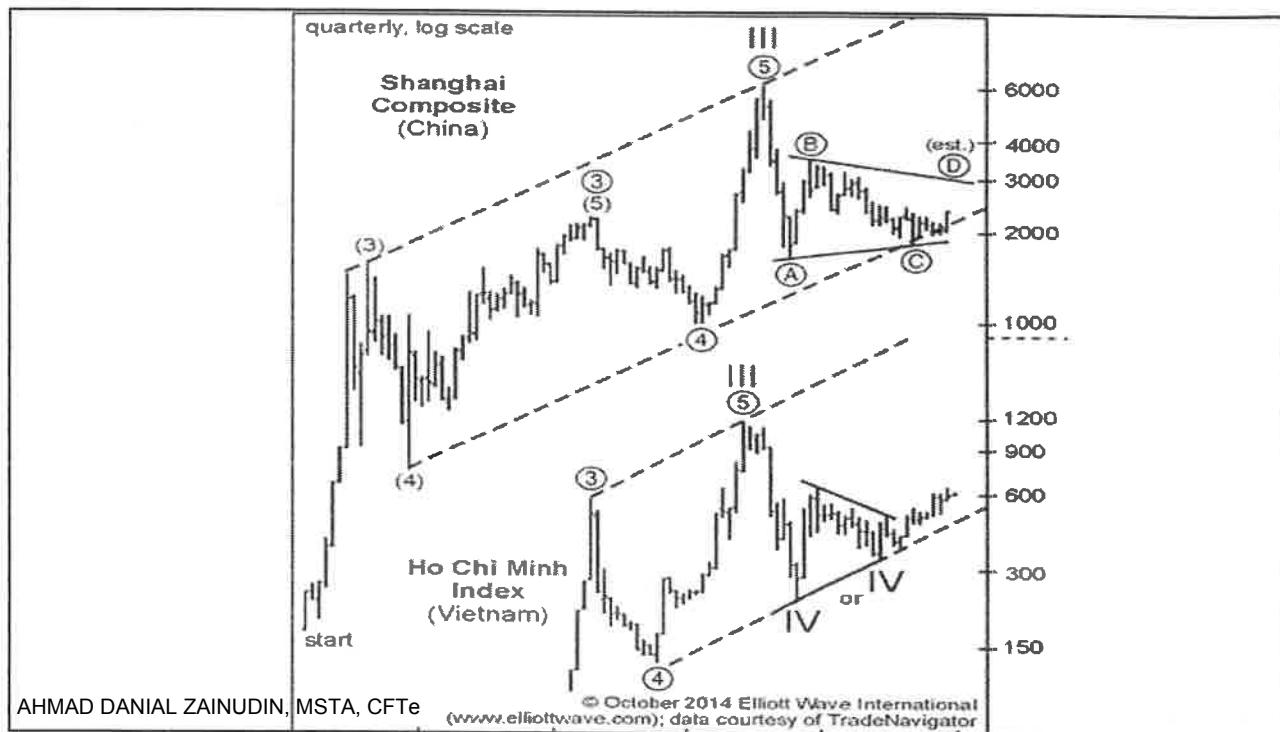
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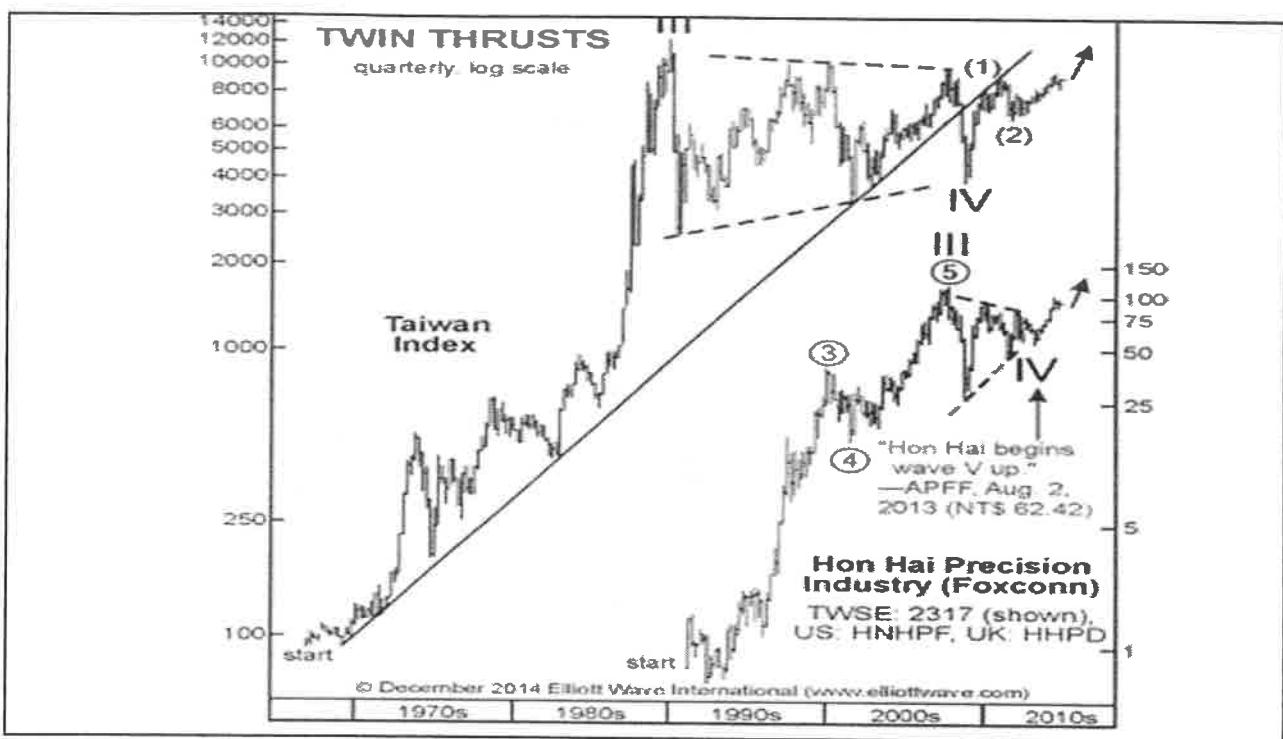


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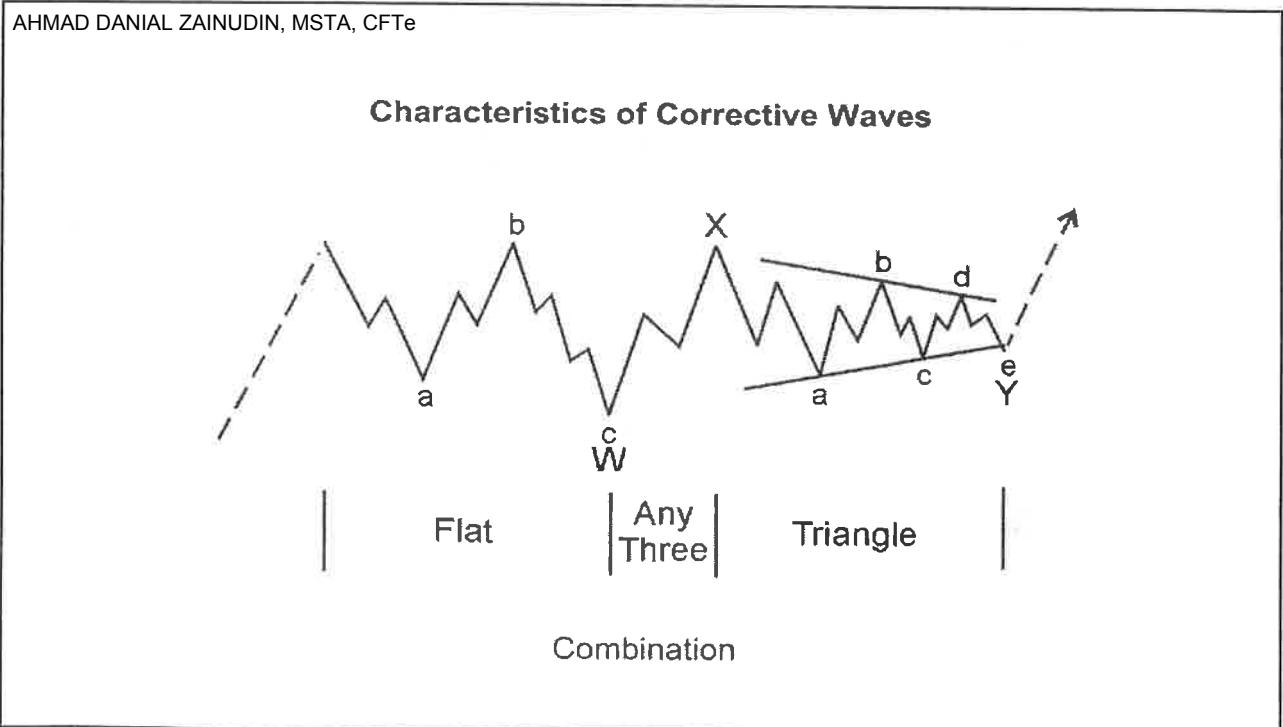


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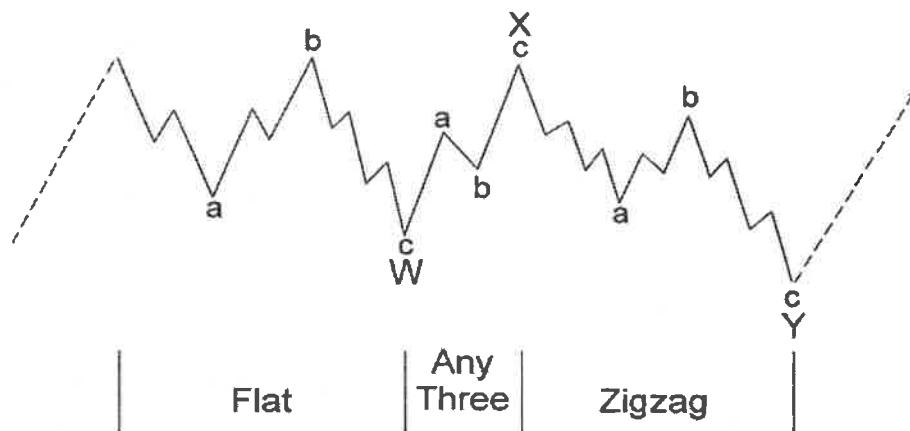




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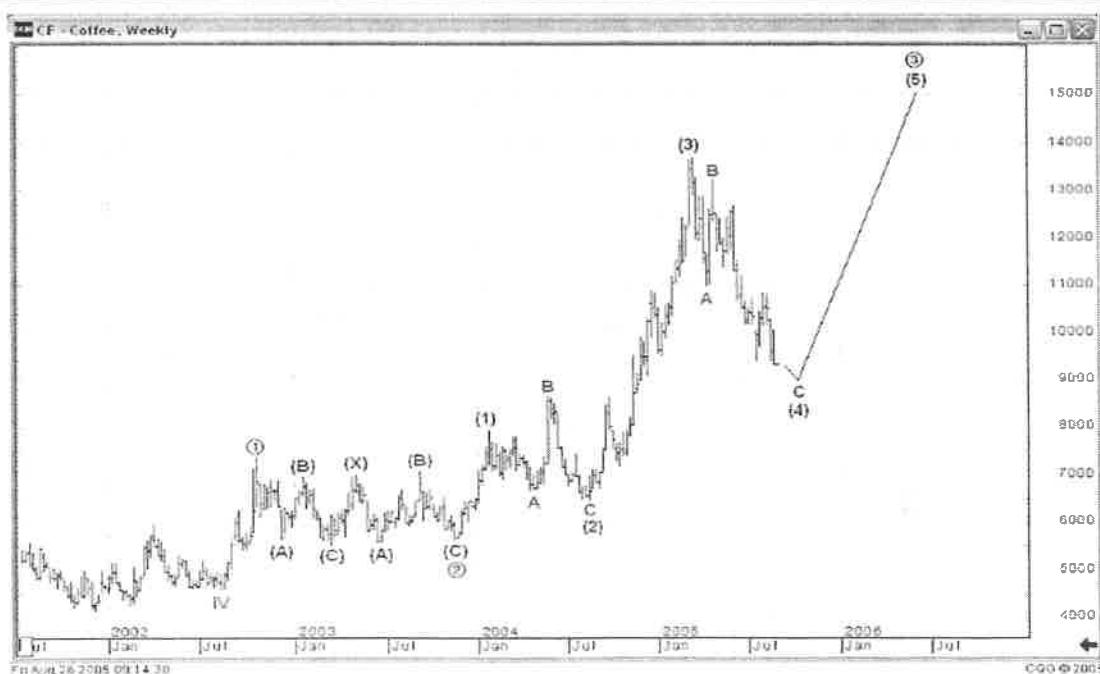
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**Combination**

Flat

Any  
Three

Zigzag



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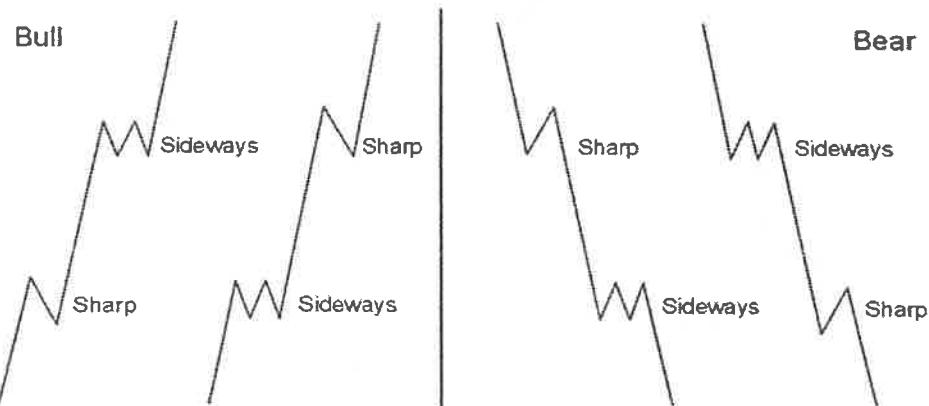


## THE RULE OF ALTERNATION

- The rule of alternation doesn't tell us exactly what will happen, but tells us what probably won't
- In its more specific application, it is most generally used to tell us what type of corrective pattern to expect
- Corrective pattern tend to alternate, in other words if corrective wave 2 was a simple a-b-c pattern, wave 4 will probably be a complex pattern, such as a triangle
- If wave 2 is complex, wave 4 will probably be simple

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### Alternation within Impulse Waves



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- The correct method for tracking the stock market is to use semi logarithmic chart paper, since the market's history is sensibly related only on a percentage basis. The investor is concerned with percentage gain or loss, not the number of points traveled in a market average.
- For instance, ten points in the DJIA in 1980 meant nothing, a one percent move. In the early 1920s, ten points meant a ten percent move, quite a bit more important.
- For ease of charting, however, we suggest using semilog scale only for long term plots, where the difference is especially noticeable. Arithmetic scale is quite acceptable for tracking hourly waves since a 300 point rally with the DJIA at 5000 is not much different in percentage terms from a 300 point rally with the DJIA at 6000. Thus, channeling techniques work acceptably well on arithmetic scale with shorter term moves.

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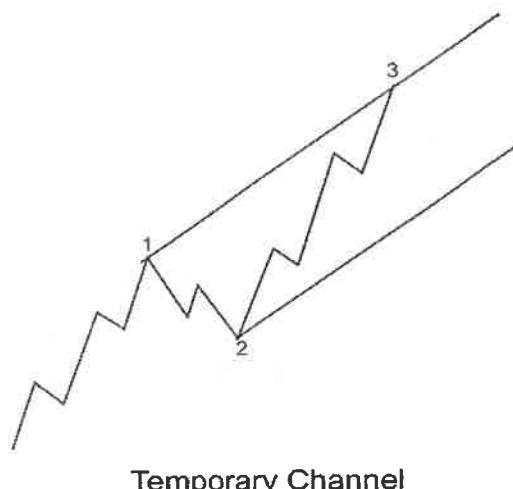


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## CHANNELING

- Elliott used price channels as a method of arriving at price objectives and also to help confirm the completion of wave counts.
- The initial channeling technique for an impulse requires at least three reference points.
- When wave three ends, connect the points labeled "1" and "3," then draw a parallel line touching the point labeled "2," as shown below.
- This construction provides an estimated boundary for wave four.

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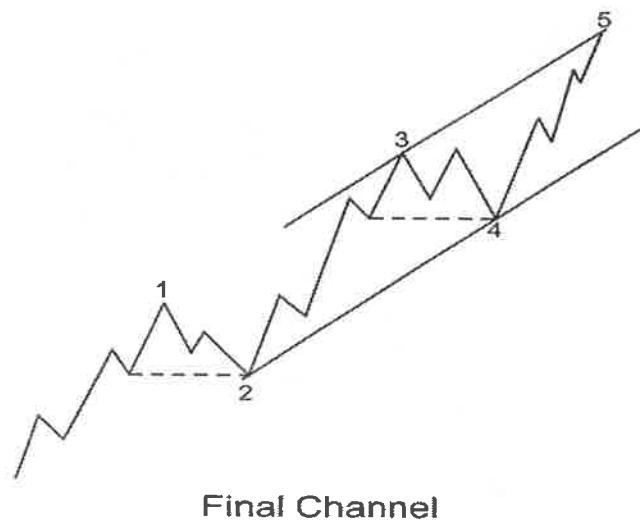


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- If the fourth wave ends at a point not touching the parallel, you must reconstruct the channel in order to estimate the boundary for wave five.
- First connect the ends of waves two and four. If waves one and three are normal, the upper parallel most accurately forecasts the end of wave five when drawn touching the peak of wave three, as shown below.

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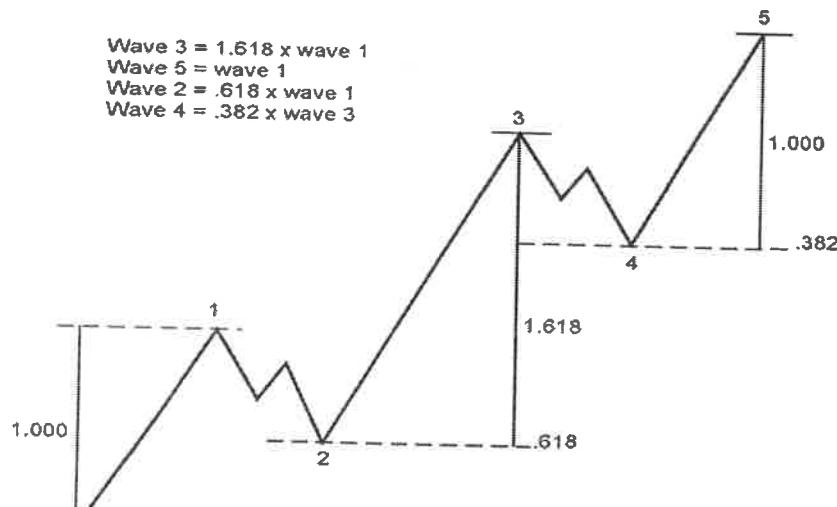
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## WAVE 4 AS A SUPPORT AREA

- One important point remains to be mentioned; is the significance of wave 4 as a support area in subsequent bear markets.
- Once five up waves have been completed and a bear trend has begun, that bear market will usually not move below the previous fourth wave of one lesser degree; that is the last fourth wave that was formed during the previous bull advance.
- Usually the bottom of the fourth wave contains the bear market.
- This information can prove very useful in arriving at a maximum downside price objective

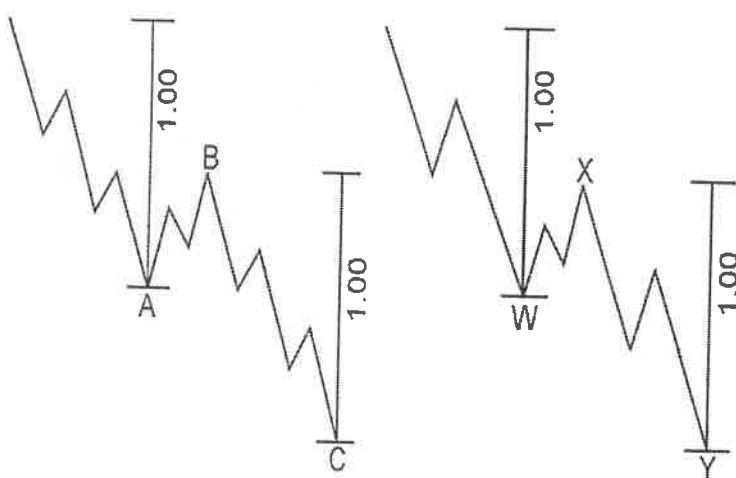
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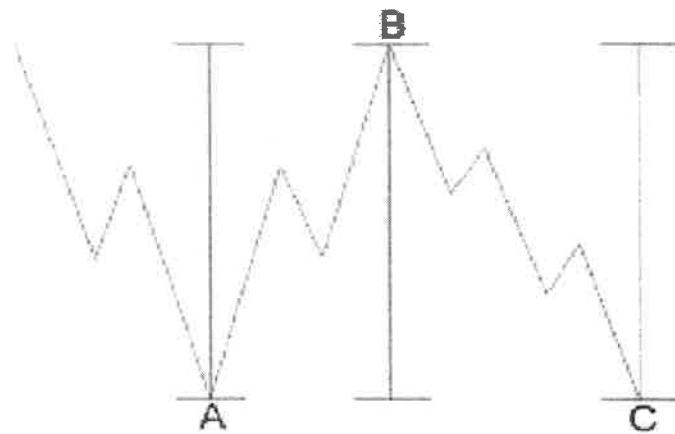


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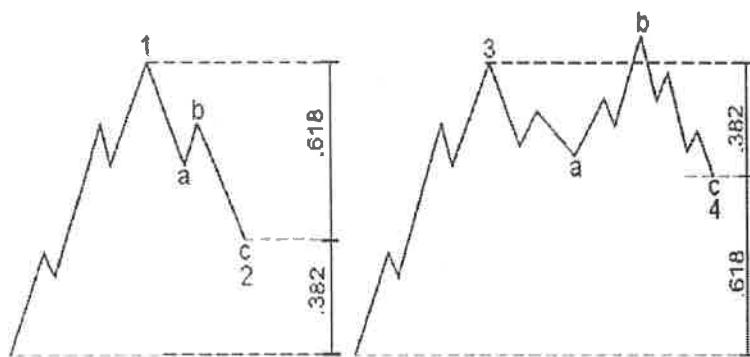
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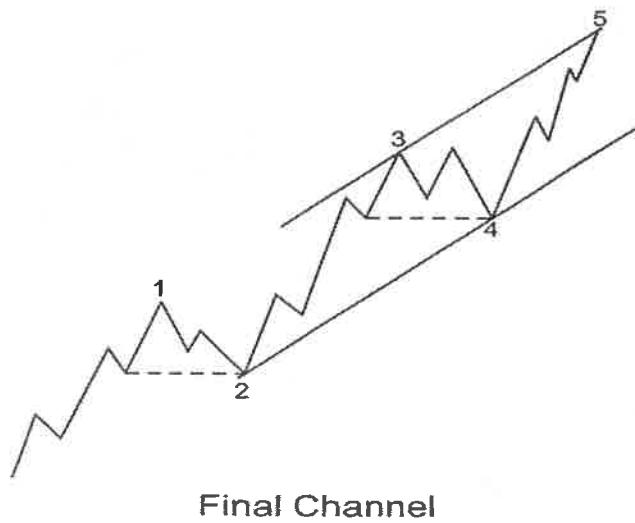
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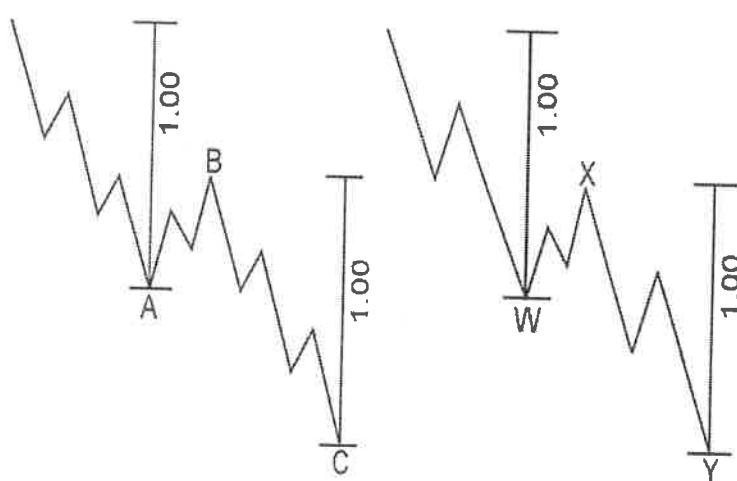
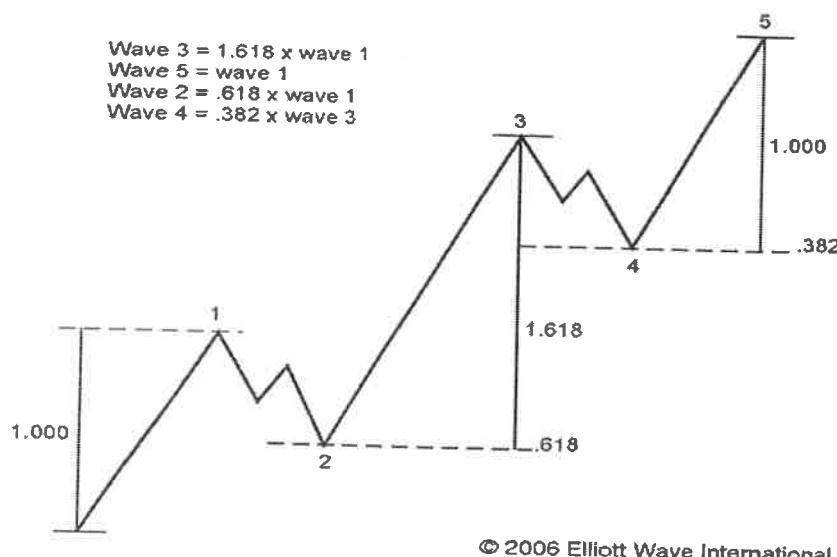
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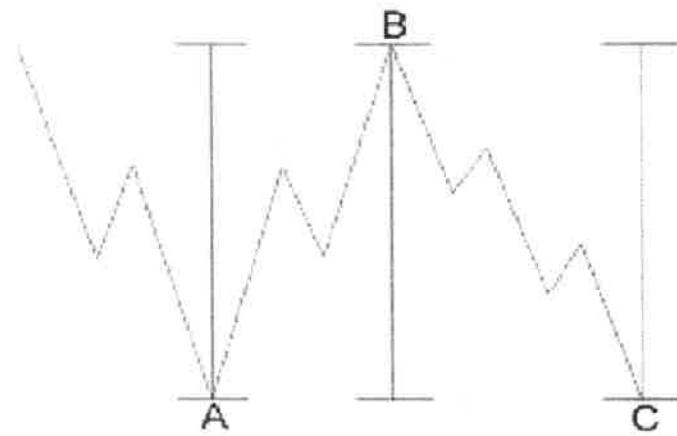
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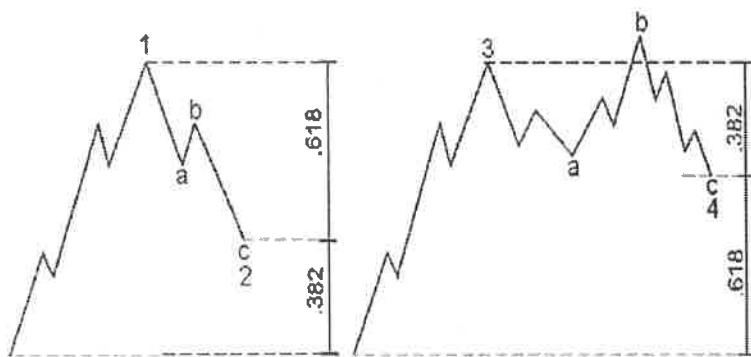
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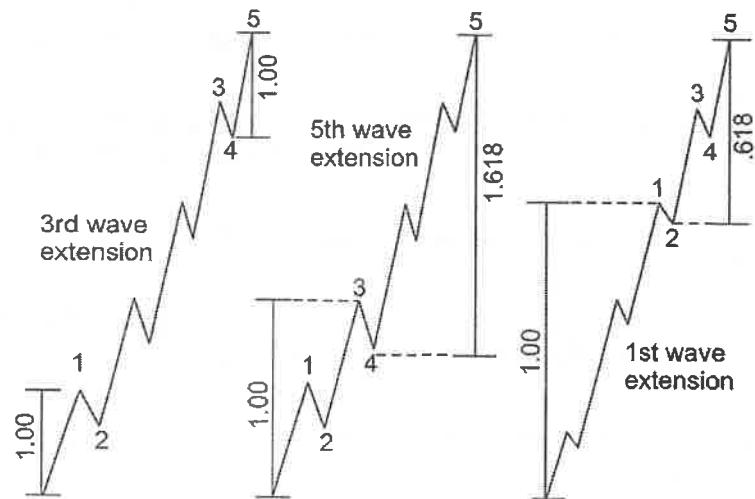




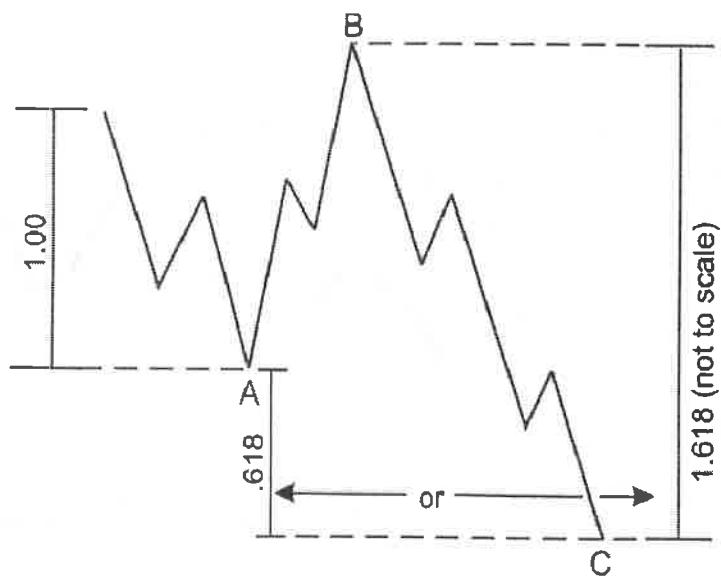
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## CONNECTION BETWEEN ELLIOT WAVE AND DOW THEORY

- Charles Dow's theory, the bedrock of western technical analysis, had a major influence on Elliott's thinking
- Where the idea of Elliott's three up waves, with two intervening corrections, fits nicely with the Dow three advancing phases of a bull market
- The chart below show the similarities in the cycle that Dow described and Elliott observed.
- Dow described three phases to the directional part of a trend (accumulation, participation and distribution)
- However the only difference to what he described and what Elliott observed is that Dow did not mention the interim periods in between these phases.
- Elliott called them waves 2 and 4. So, really, Elliott observed the **three** phases of trend that Dow had described.

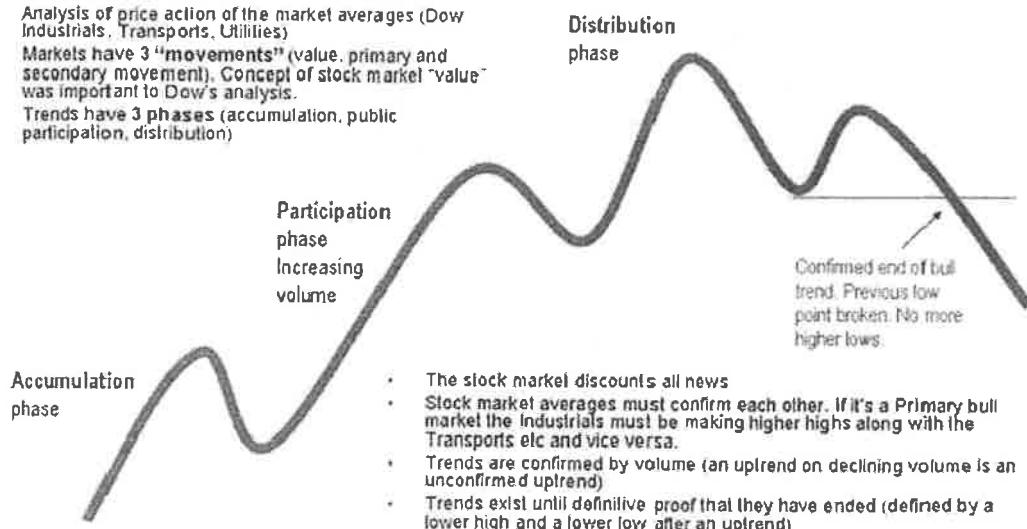
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Figure 2:

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### Dow Theory

- Charles Dow's editorials in his Wall Street Journal around 1900
- Analysis of price action of the market averages (Dow Industrials, Transports, Utilities)
- Markets have 3 "movements" (value, primary and secondary movement). Concept of stock market "value" was important to Dow's analysis.
- Trends have 3 phases (accumulation, public participation, distribution)

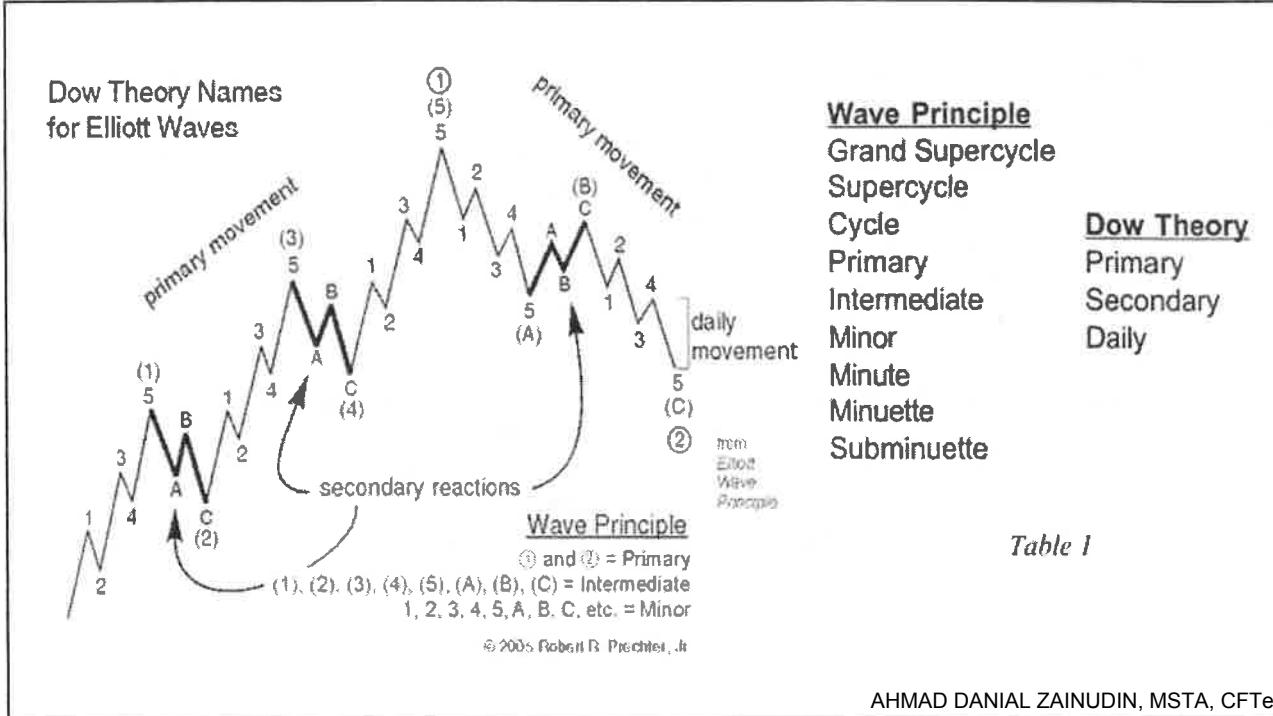


- The Elliott Wave Principle has points in common with Dow Theory. During advancing impulse waves, the market should be a "healthy" one, with breadth and the other averages confirming the action. When corrective and ending waves are in progress, divergences, or non-confirmations, are likely. Dow's followers also recognized three psychological "phases" of a market advance. Naturally, since both methods describe reality, the descriptions of these phases are similar to the personalities of Elliott's waves 1, 3 and 5 as we outlined earlier.
- The Market Has Three Trends  
Dow considered a trend to have three parts, primary, secondary and minor which he compared to the tide, waves and ripple of the sea. The primary trend represents the tide, the secondary or intermediate trend represents the waves that make up the tide and the minor trends behave like ripples on the waves.

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- However, the Dow Theory's primary, secondary and daily trends are rough expressions of Elliott's more specifically delineated Primary, Intermediate and Minor degrees. Dow made his observations during a period when "bull markets" lasted only about two years on average, not decades, so the idea of even larger degrees apparently did not occur to him.

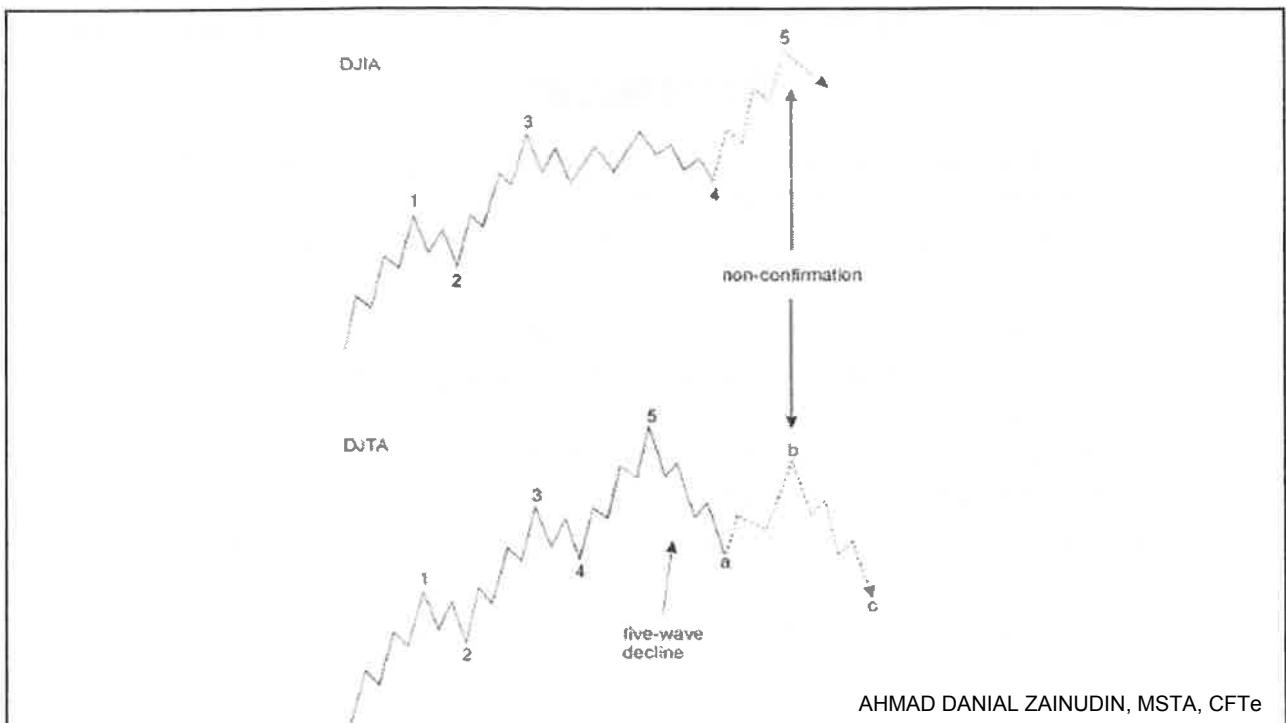
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- The Wave Principle validates much of Dow Theory, but of course Dow Theory does not validate the Wave Principle since Elliott's concept of wave action has a mathematical base, needs only one market average for interpretation, and unfolds according to a specific structure.
- Both approaches, however, are based on empirical observations and complement each other in theory and practice.
- Often, for instance, the Elliott count can forewarn the Dow Theorist of an upcoming non-confirmation. As shown in the diagram below, the Industrial Average has completed four waves of a primary swing and part of a fifth, while the Transportation Average is rallying in wave B of a zigzag correction, a non-confirmation is inevitable.
- On the other side of the coin, a Dow Theory non-confirmation can often alert the Elliott analyst to examine his count to see whether or not a reversal should be the expected event. Thus, knowledge of one approach can assist in the application of the other. Since Dow Theory is the grandfather of the Wave Principle, it deserves respect for its historical significance as well as its consistent record of performance over the years.

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## **WAVE THEORY SHOULD BE USED IN CONJUNCTION WITH OTHER TECHNICAL TOOLS**

- There are times when Elliot pictures are clear and other times when they are not.
- Trying to force unclear market action into an Elliot format, and ignoring other technical tools in the process, is a misuse of the theory forecasting
- The key is to view Elliot Wave Theory as a partial answer to the puzzle of market forecasting.
- Using it in conjunction with all of the other technical theories in this book will increase its value and improve our chances for success

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## SUMMARY

- A complete bull market cycle is made up of eight waves, five up waves followed by three down waves
- A trend divides into five waves in the direction of the next longer trend
- Correction always take place in three waves
- The two types of simple corrections are zig-zags (5-3-5) and flats (3-3-5)
- Triangles are usually fourth waves, and always precede the final wave, triangles can also be a B corrective waves
- Waves can be expanded into longer waves and subdivided into shorter waves
- Sometimes one of the impulse waves extends

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- The other two should then be equal in time and magnitude
- The Fibonacci sequence is the mathematical basis of the Elliott Wave Theory
- The number of waves follows the fibonacci sequence
- Fibonacci ratios and retracements are used to determine price objectives, the most common retracements are 62%, 50% and 38%
- The rule of alternation warns not to expect the same thing twice in succession
- Bear markets should not fall below the bottom of the previous fourth wave
- Wave 4 should not overlap wave
- The Elliott Wave Theory is comprised of wave forms, ratios and time in order of importance



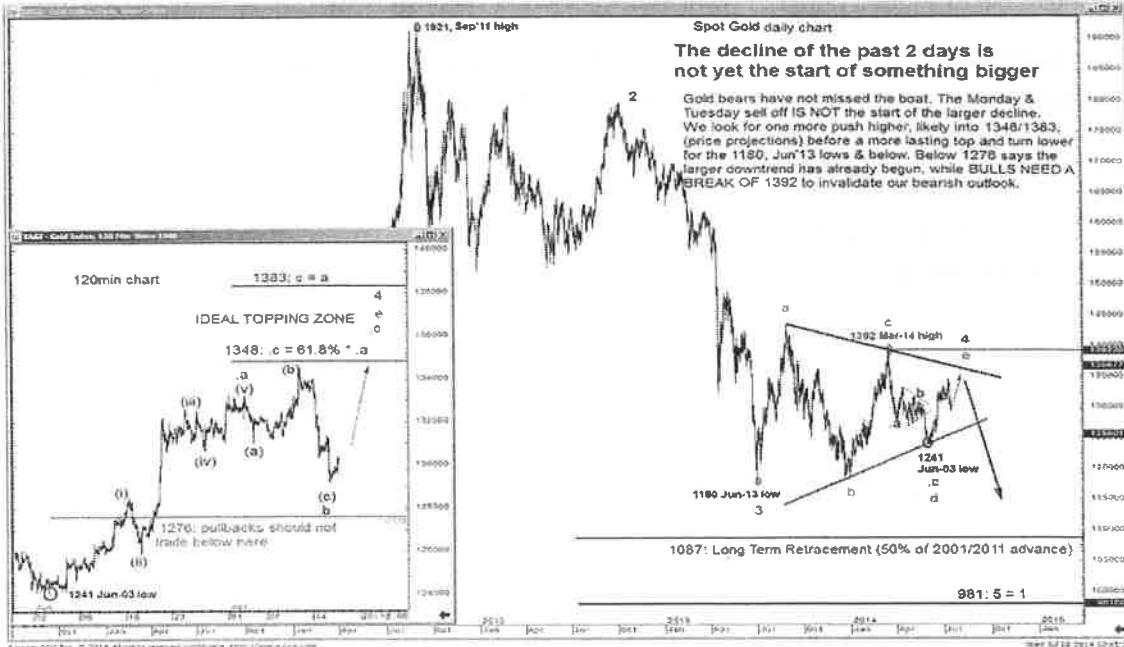
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- The theory was originally applied to stock market averages and does not work as well on individual stocks
- The theory works best in those commodity markets with the largest public following, such as gold
- The principle difference in commodities is the existence of a contained bull markets



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1. A complete Elliott Wave cycle is composed of how many subwaves?

- a. 3
- b. 5
- c. 8
- d. 13

2. In a normal 5-wave Elliott upward motive impulse wave, which wave is most likely the longest and most dynamic?

- a. First
- b. Fifth
- c. Third

3. When analyzing long-term price movements with considerable volatility it is most appropriate to use a chart with which type of scale?

- a. Arithmetic
- b. Geometric
- c. Logarithmic

4. Which of the following is a Fibonacci ratio used in retracement?
- 33%
  - 50%
  - 66%
  - 75%
5. Which of the following is characteristic of a logarithmic scale for a chart?
- They are typically used in intraday charts.
  - They are preferred over arithmetic scaling for long-term trend analysis.
  - The vertical price scale shows an equal distance for each dollar price change.
6. Which of the following are the three basic tenets of Elliott Wave Theory, in the CORRECT order of importance?
- Price, momentum and volume
  - Price, pattern and volume
  - Waves, alternation and reversals
  - Pattern, ratio and time

7. Which of the following BEST describes the rule of alternation?
- Downtrends follow uptrends
  - Complex patterns follow simple patterns
  - Price follows volume
  - Prices alternate in Fibonacci sequences
8. Which of the following is a true statement according to Elliott Wave Theory?
- A complete bull market cycle is made up of eight waves, three waves up followed by five waves down
  - A trend divides into three waves in the direction of the next longer trend
  - Corrections always take place in five wave patterns
  - The two types of simple corrections are zigzags and flats
9. Which of the following is a true statement according to Elliott Wave Theory?
- Triangles are usually second waves preceding a longer third wave
  - Waves can be expanded into longer waves and subdivided into shorter waves
  - In the stock market, wave 5 is the most common to extend
  - The Pythagorean theorem is the mathematical basis for Elliott Wave Theory

10. Which of the following is a true statement according to Elliott Wave Theory?

- a. The number of waves follows the Pythagorean theorem
- b. Ratios are used to define price objectives
- c. The rule of alternation states that up waves follow down waves
- d. Bear markets do not fall below the top of the prior fourth wave

11. Which of the following best represents a single A-B-C structure?

- a. W-X-Y structure
- b. W-X-Y-X-Z structure
- c. X wave
- d. ZigZag

12. Which of the following statements is true?

- a. Extension can occur in impulse waves and diagonal triangles.
- b. If there's no extension within an impulse wave, subwave 5 must be truncated
- c. Extensions are elongated impulse waves and can occur in waves 1, 3 or 5, although extensions in wave 1 are least common
- d. If wave 3 is extended, then a wave 5 extension of wave 3 would be the most likely scenario

13. Which of the following statements is true about the expanded flats?

- a. Wave B terminates beyond the origin of wave A
- b. Wave A is sometimes a triangle
- c. Wave C can be a double zigzag
- d. Wave C can sometimes be a triangle



14. Which of the following is a true statement according to Elliott Wave Theory?

- a. Wave four should not overlap wave one
- b. The theory is composed of time, ratios and wave forms, in that order of importance
- c. The theory was originally applied to individual stocks and does not work as well for indices
- d. The theory works best in commodity markets traded primarily by professional traders such agricultural futures

15. Which of the following statements is true?

- a. Triangles are motive waves where all subdivisions have three waves
- b. Triangles have a sideways shape and occur mostly in second waves
- c. Triangles are corrective structures, consisting of waves A,B,C, D and E, which all subdivide into three waves
- d. Triangles may occur in either wave A, B or C of a zigzag correction



Draw and label the following:

- a. The basic Elliott Wave pattern
- b. A variation in which a sub-wave impulse extends
- c. A variation in which instead another sub-wave impulse extends
- d. A variation where the corrective part is a flat
- e. A variation where the corrective part is irregular

RN Elliot Wave principle was originally intended as a tool for stock market analysis. But a significant number of technical analysts apply the EW principle to currencies (the forex markets). Do you think that they are right to do this? (You should offer a full and detailed explanation of whichever view you take)

