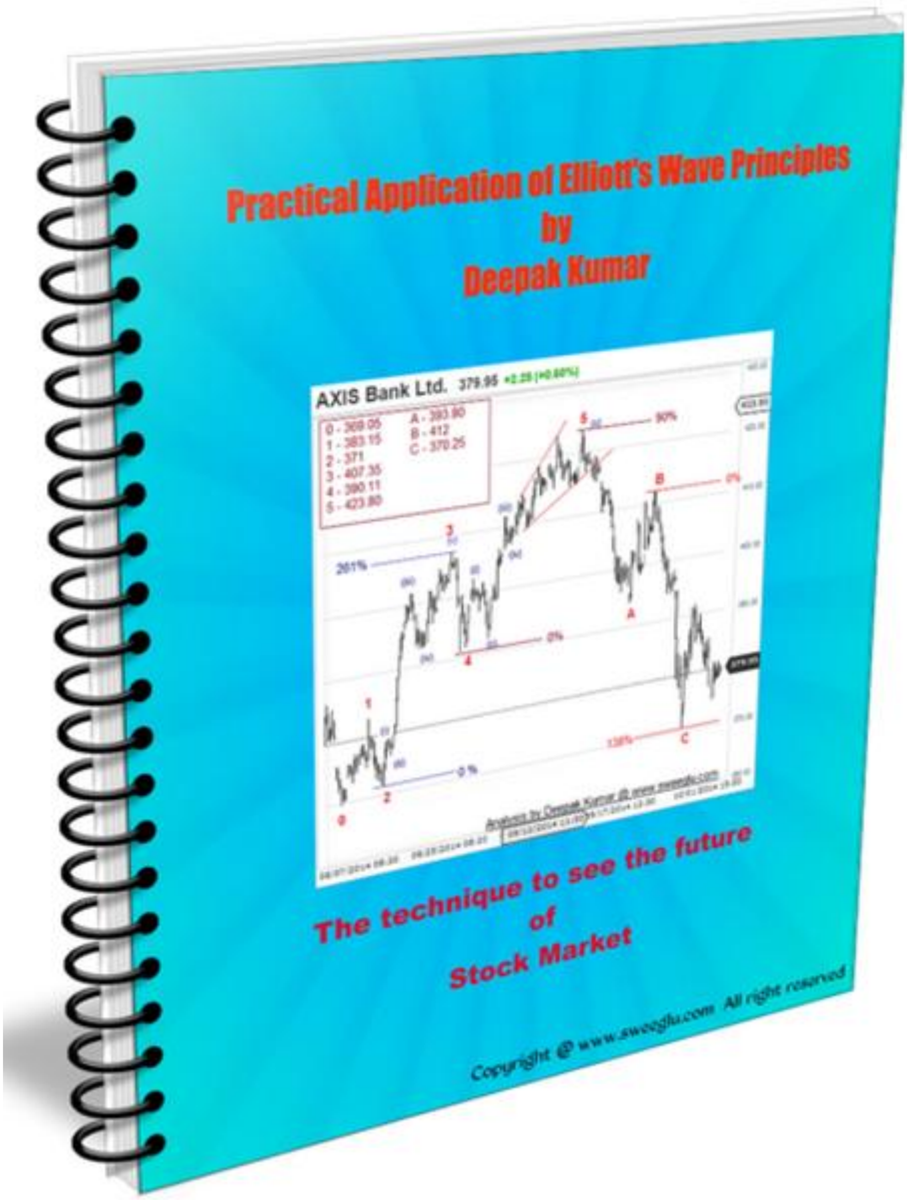
PRACTICAL APPLICATION OF ELLIOTT’S WAVE PRINCIPLES

BY

DEEPAK KUMAR



The Secret to see the Future of Stock Market……

TABLE OF CONTENT

Words from Author

This book "Practical Application of Elliott Wave Principles" is result of my deep knowledge and vast experience in this analyzing method. I am not only studying waves but applying EW principles in my regular trading for every time frame let be for long term, medium term, short term and Intraday. And I shared my knowledge and experience in this book to make you able to apply these principles in real life trading that can transform your trading experience in most confident and profitable way.

Elliott Wave Principles are not going to do miracles and not going fill your trading account with unlimited profits but it will definitely help you to find an edge, it will surely help you to identify low risk entry levels that can give you handsome rewards, it will surely make you able to feel where market is heading in future, it will surely help you to take confident and accurate trading decisions and it will definitely be the first one to warn you if you are wrong.

I am not promising that you will be the master of Elliott Wave Theory after reading this book but I can promise that you will be able to apply these principles in your real time trading instantly. And I can bet, you will never enter the trade without seeing waves on chart after grasping knowledge of EWT and you will feel why I believe EWT as a best ever market analyzing method.

I organized this whole book in two parts, first parts covers all basic rule, principles, patterns and theory whereas second part covers the Practical application of EWP in real life trading. Ever single chapter and topic is important and I advise you to read every part of it in the way I suggested inside. I tried to explain everything in simple way with lots of example, just follow the instruction and you will enjoy reading it and getting confidence.

EWT can be applied on any financial instruments like Indexes, Stocks, Currencies and commodities etc. But avoid EWT to apply on derivatives (Futures and Options) as it may have less accuracy due to premium fluctuation. Apply EWT on spot price and trade in futures with respect of it.

Only 5% of Indian analysts are able to catch Elliott Wave Patterns on charts successfully and you are the next after reading this book. You must have heard that EWT is most difficult and confusing method of analyzing stock market but let me show how simple and easy it is. Let start the journey from easy end.

Thank you,

Deepak Kumar
www.sweeglu.com

CHAPTER 1

Wave's Cycle and Principles of Elliott's Wave Theory

This chapter covers only basics of EWT that you need keep in your mind before going forward. These are just simple wave's rules but applicable in every pattern and in every conditions. I am not adding any real time chart in first chapter as it may confuse you in the start and tried to explain these simple rules with imaginary graphs and figure to make you understand easily. Don't try to think hard and compare these imaginary figures with real time chart but, just try to understand the concept. Everything will be explained in later chapters with lots of examples on real time charts. So let's start from simple end.

Elliott observed that every financial market, stocks or financial instrument moves in zigzag formation and called it wave's cycles. And that zigzag formation consists of a set of 5 waves in the direction of Primary/Main/Bigger trend followed by a set of 3 waves opposite to direction of main trend.

Note: - If we see the history of market from start, the main/primary trend is always up as the market cannot go below zero. In this book, most of the examples I covered with uptrend (bullish trend) as main trend and down trend (bearish trend) and as corrections. But the rules are applicable same on both bullish and bearish market.

- The set of 5 waves in the direction of main trend he called "Impulsive" or "Impulse".
- And the set of 3 waves opposite to the direction of main trend he called "Corrective" of "Correction"

In this book,

- All the inner/lower degree waves of "Impulsive" (set of 5 waves) will be marked as 1,2,3,4 and 5.
- All the inner/lower degree waves of "Corrective" (set of 3 waves) will be marked as A, B and C.

Let me show you the imaginary figure to make you understand visually: -

Just see the image (1.1) given below, it is just a simple imaginary representation of movement of market based on Elliot Waves Theory. Just read the points and try to identify it on image.

Five waves move (impulsive) started from point "0" and completed at point "5" were'

1. Inner wave 1 started from points "0" and completed at point "1"
2. Inner wave 2 started from points "1" and completed at point "2"
3. Inner wave 3 started from points "2" and completed at point "3"
4. Inner wave 4 started from points "3" and completed at point "4"
5. Inner wave 5 started from points "4" and completed at point "5"

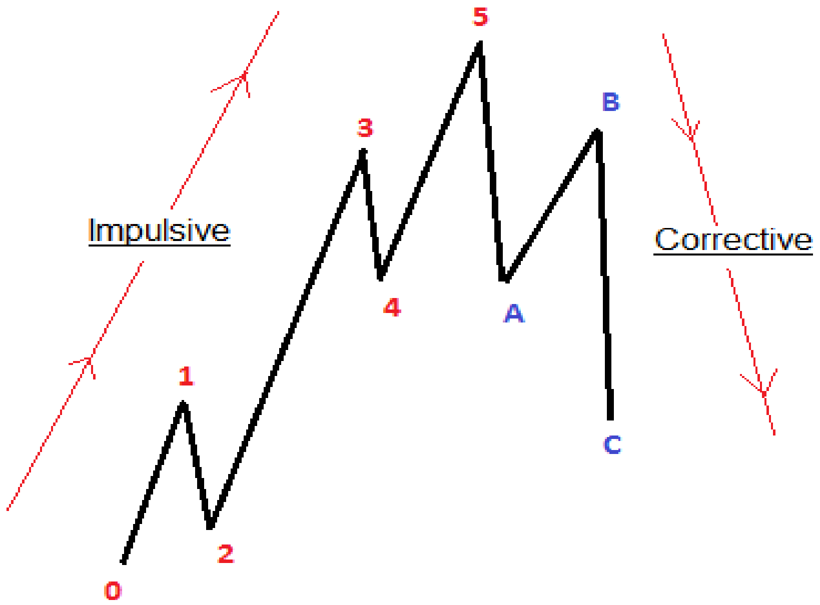


Image (1.1)

Thus, a whole impulsive is completed from point 0 to 5. Now, after completion of Impulsive;

Three waves move (corrective) started from point “5” (end of impulsive) and completed at point “C” were: -

1. Inner wave A started from points “5” (end of impulsive) and completed at point “A”
2. Inner wave B started from points “A” and completed at point “B”
3. Inner wave C started from points “B” and completed at point “C”

Now, I assume that points of “Impulsive” and “Corrective” is clear to you and now we can go little deeper to understand it better.

As you learned above, Impulsive is consisting of Five Waves 1,2,3,4 and 5 in the direction of main trend and corrective consist of Three Waves A, B and C opposite to the direction of main trend.

But if you see deeply within Impulsive (set of 5 waves up move marked as 1,2,3,4 and 5), Inner/lower degree wave 1, 3 and 5 are in the direction of main trend but wave 2 and 4 are opposite to the direction of main trend.

<u>Here you need to learn</u>,

Within Impulsive,

Every inner wave 1, 3 and 5 of is also small/inner impulsive of lower degree. Means, inner wave 1, 3 and 5 that are in the direction of main trend are also consist of 5 smaller waves.

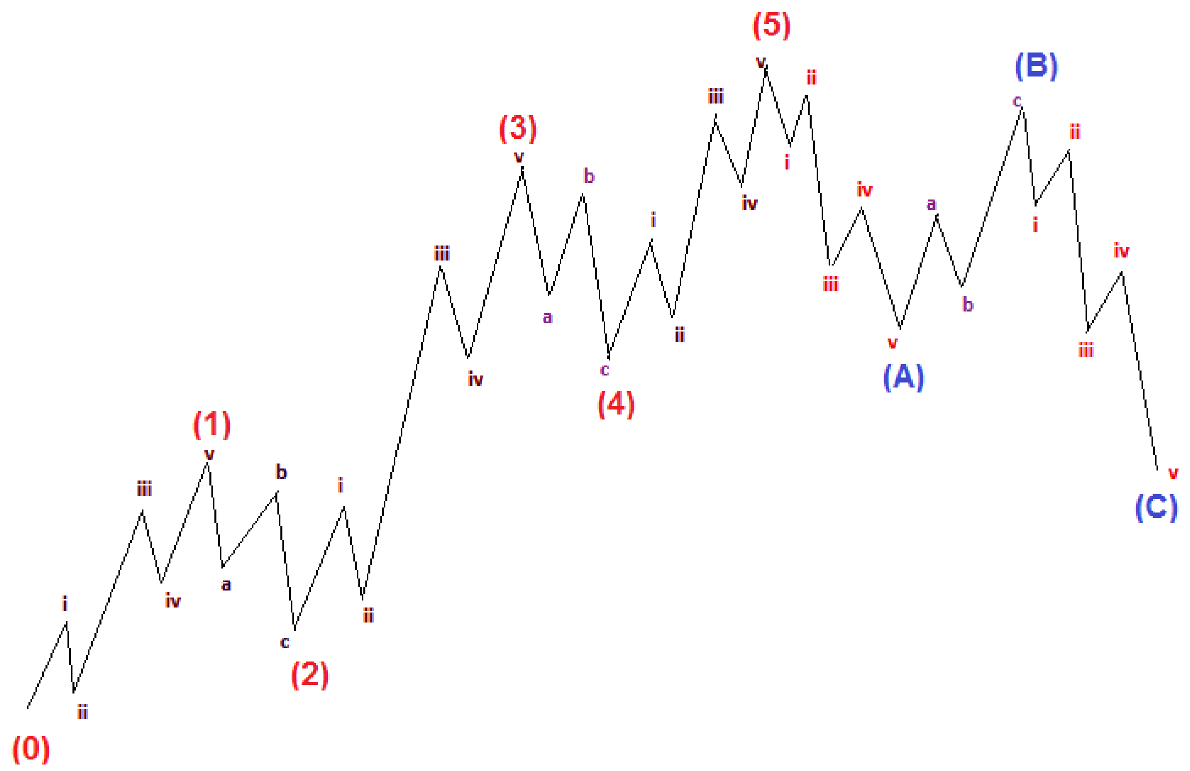
And wave 2 and 4 of are corrective waves of lower degree. Means, inner waves 2 and 4 that are opposite to the direction of main trend are consist of 3 smaller waves (a,b and c).

Thus, a combination of 3 Impulsive and 2 corrective forms a Bigger impulsive.

And Within Correctives,

Inner/Lower Degree wave A and C are impulsive of lowest degree which consists of 5 inner waves where as B is corrective of smallest degree and consist of 3 inner waves (abc).

Just see the image (1.2) and try to identify Impulsives and correctives.



<u>Image (1.2)</u>

In this image, I just break down bigger waves into smaller/lower degree wave. Here bigger wave are marked as big characters 12345 and ABC where as lower degree inner waves are marked as small characters (I, ii, iii, iv and v) and (a, b and c).

Just read the image carefully and try to identify how I represented waves 1, 3, 5, A and C as impulsive (5 waves moves) and wave 2, 4 and B as corrective (3 waves move).

In the same way,

Completion of smaller set of 5 waves move is a completion of bigger Impulsive and the start of bigger correction that will correct that full bigger impulsive and the cycle goes on. Let me show you on image (1.3).

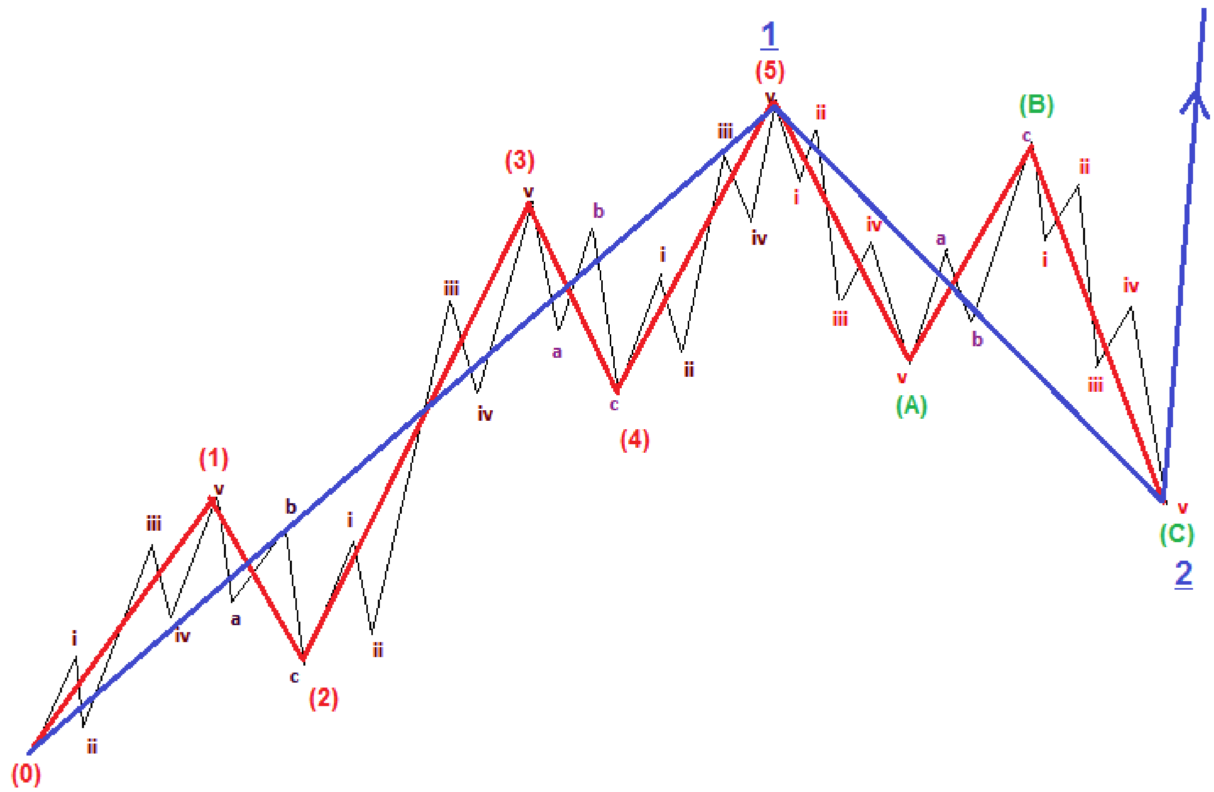


Image (1.3)

And market moves in this formation only, Completing bigger impulsive followed by bigger correction. The up move till the bigger impulsive is Bull Market and later correction is Bear Market followed by the start of new Bull Phase that goes well above previous high again. And the cycle goes on.

Example: - The completion of bigger impulsive in 2008, most of the world's market completed bigger Bull cycle in 2008 followed by bigger correction that fell almost 60-70-% of total upside of history followed by start of new bull trend for new cycle. See the chart (1.4) below.

Chart (1.4)

I hope you are familiar with basic cycles of Elliott Wave Theory now, which says every impulsive is consist of a set of 5 waves followed by a correction which is a set of 3 waves.

- Wave 1 is impulsive which a set of 5 inner waves.
- Wave 2 is corrective for wave 1 that corrects wave 1 which is a set of 3 inner waves
- Wave 3 is again impulsive after completion of wave 2 which a set of 5 inner waves.
- Wave 4 is corrective for wave 3 that corrects only wave 3 which is a set of 3 inner waves.
- Wave 5 is again impulsive after completion of wave 4 which a set of 5 inner waves.

Completion of a set of 5 waves forms a bigger wave 1 and there is a start of bigger corrective wave 2 which is again a set of 3 waves "ABC" that corrects whole set of 5 waves (bigger wave 1). Where: -

- Wave A is impulsive which a set of 5 inner waves.
- Wave B is corrective for wave A that corrects wave A which is a set of 3 inner waves
- Wave C is again impulsive after completion of wave B which a set of 5 inner waves.

Turn back and read once more if you are not clear of the concept and the step forward to next topic of "Basic Rules of Elliott Wave Theory".

Basic Rules of Elliott Wave Theory: -

You already learned about the wave's cycles of EWT and now, it's the time to know 3 basic rules applicable on waves. I am not explaining every rule and condition here in this topic but just stating three basic principles to remember that are the back bone of EWT. All the predictions, calculations of entry levels, stoploss and targets are based on these 3 primary rules only. These are: -

1. Wave 2 can never correct more than 100% of wave 1, i.e. Wave 2 can never go below the start of wave 1.
2. Wave 3 can never be the shortest wave in full 5 wave's cycle. Means, wave 3 can never be shorter than both 1 and 5.
3. Wave 4 cannot overlap wave 2, i.e wave 4 cannot go below the end of wave 1 or start of wave 2. There are exceptions in this rule that will be explained later.

Isn't it easy to remember?

Though these three rules are not everything about Elliott Wave's Theory but these three simple rules will help you a lot in identifying patterns, predicting levels and taking low risk entries in market for high profit. And I will explain everything in next chapters how to use these rules for profitable trading. For now, just remember these 3 rules.

CHAPTER 2

Fibonacci Ratios

Fibonacci Ratios are very important part if you want to use Elliott Wave Theory. All the calculation including length of waves, retracements, calculating levels, predicting targets etc are done with the help of Fibonacci Ratios only and you will find that these ratios (percentages) are repeated again and again in EWT patterns. That is the reason why I am covering this chapter about "Fibonacci Ratios" before going any deeper into Elliott Wave Theory.

I am not going deeply into History and other aspects of "Fibonacci Numbers" here to avoid distraction and lengthy chapter, but will cover the part of "Fibonacci Ratios" that is important in respect of Elliott's Wave Theory.

Basically, 1, 2, 3, 5, 8, 13, 21, 34, 55 …., are Fibonacci Numbers where you can start from 1 and get next number by adding previous two numbers. i.e. 1+2 = 3, 2+3 = 5, 5+3 = 8 and so on.

And by dividing these numbers randomly we get some ratios/percentages. i.e.

8/34 = 0.236 = 23.6%
13/34 = 0.382 = 38.2%
1/2 = 0.50 = 50%
21/34 = 0.618 = 61.8%

Elliott observed that these ratios are repeated again and again in financial market and he selected most repeated ratios in his theory. He mentioned: -

The most repeated ratios in corrections/retracements are 23.6%, 38.2%, 50%, 61.8%, 78.6% and 100%. He mentioned 61.8% as important ratio and also called it "Golden Ratio". I will explain later why 61.8% is important. I also use 70% ratio in retracements, I read somewhere in article from a EWT expert about 70% ratio and it also observed that it is repeated again and again.

And the most repeated ratios in projections/extensions/impulsive are 38.2%, 61.8%, 50%, 78.6%, 100%, 138.2%, 150%, 161.8%, 178.6%, 200%, 238.2%, 250%, 261.8%, 278.6%, 300%, 338.2%, 350%, 361.8%, 378.6%, 400%, 438.2%, 450%, and 461.8%. Ratios from 100%-461% are used for wave 3 and ratios from 38.2%-138.2% are used for wave 5. Any ratio beyond that is a rare possibility but possible.

You need to remember these rations which is easy. Just remember 5 ratios of corrections and keep on adding 100 for extensions and projections. Otherwise, I am providing you a tool for easy calculations with readymade Fibonacci Ratios.

That is all about "Fibonacci Ratios" you need to know with respect "Elliott's Wave Theory" and I am going to explain later how to use these ratios for low risk and high profit trades and investments.

CHAPTER 3

Personality and Calculation of Waves

You learned in 1st chapter , there are only 8 waves in Elliott's wave theory that comes to play again and again 1,2,3,4,5 and A,B,C either it is on smaller time frame of bigger time frame, either these are lower degree waves or higher degree waves but at last you find only 8 waves cycle which consist of a set of 5 waves upward/main direction (1,2,3,4,and 5) followed by a set of 3 waves downwards/opposite direction (A, B and C). And waves 1, 3, 5, A and C are lower degree impulsive whereas waves 2, 4 and B are correctives.

But, knowing the wave's cycle and principles will not help you to take trading and investment decisions. Every single wave carries different personality and has different calculation. And personality and calculation of every wave is related to the personality of previous waves. It is the personality of waves which is going to help you in identify patterns, calculating targets and predicting tops and bottoms of market.

Just read carefully and try to remember the personality of waves, especially the personality of wave 3, wave 5 and wave C. I will explain how to use this personality of waves in real time trading in later part of this book.

So, in this chapter I am explaining personality and calculation of each wave one by one in sequence starting from wave 1.

Wave 1

Remember, any wave 1 or impulsive may be a part of any higher degree or highest degree impulsive or corrective wave. It may be a part of wave 1 or 3 or 5 or A or C or any lower degree wave of it. We take point "0" from turning/trend reversal point which is a start of an impulsive.

1. Wave 1 generally doesn't carry any particular personality and characteristics and we don't need to give much importance about its calculations.
2. Wave 1 is an impulsive and consists of 5 inner waves which can also progress as "Leading Diagonal Triangle" (explained later about Leading Diagonal Triangle).
3. Wave 1 is usually smaller than 3 and 5 unless wave 5 is failure
4. Wave 1 usually slower if it is after a long bearish trend. It progress slowly and steadily and try to make base as majority of traders/investor are not so confident to take positions. It grows in confusion and may take weeks or months sometimes in case it is after a long down trend.
5. Wave 1 may be faster if it is after a long sudden spike especially when it is a lower degree wave 1 of bigger wave 3. But wave 1 is mostly slower than its proceeding wave 3
6. There is no particular way to calculate wave 1 in advance but you can estimate it by counting its inner waves (explained later).

Just see the chart (3.1) of "Axis Bank" given below and observe that wave 1 is smaller and slower than wave 3. Don't try to see other presentation on chart, it may confuse you. Just see the personality of wave 1 how it progressed slowly and it is the smaller wave as compare to wave 3 and 5. I shown this chart because it has many conditions on single chart and I will explain them one by one. Now, just concentrate on wave 1 marked as red digit 1 from point 0-1 (369.05-383.15)

Overall,
Elliott didn't give much importance to wave 1 and we must wait till its completion as it carries variable characteristics.

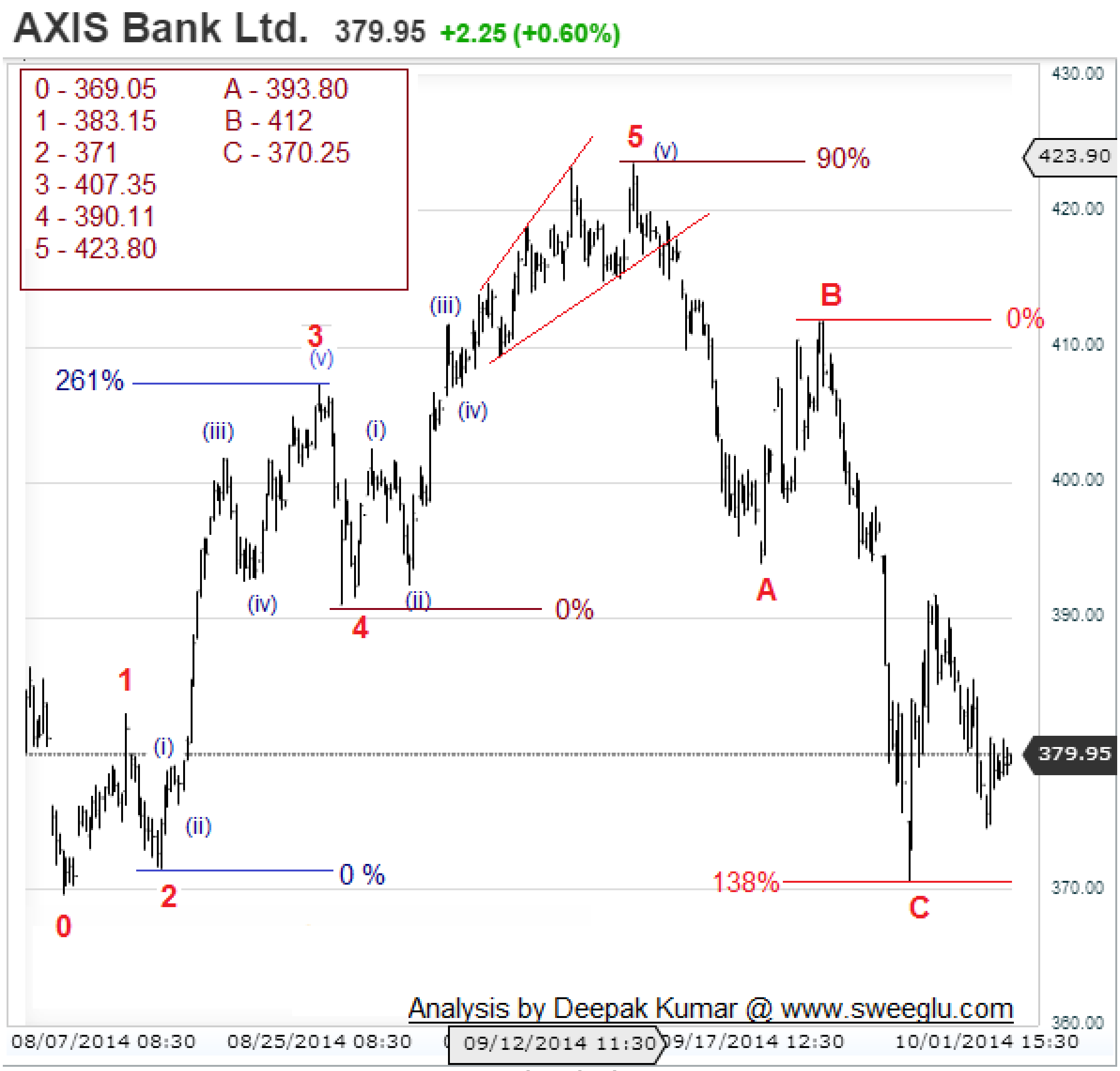


Chart (3.1)

Wave 2

Wave 2 starts after end of wave 1 when the investors/traders start booking profit who bought at start of wave 1. Actually, when Elliott discovered this principle that time markets were not so aggressive, there was only simple phenomena, “Buying at lower price and selling at higher price” there limited number of investors and traders. So he explained only Buying at lower levels at Selling at higher levels. As selling was only profit booking at that time.
But in present Stock Market, Profit booking is also accompanied by Heavy Short Selling so waves are now faster and aggressive as compared to old stock market but waves follows same rules.

So wave 2 usually starts at end of wave 1 when investors and traders starts booking profit and it corrects almost 61% percent of wave 1 in normal cases but not go below start of wave 1 (wave 2 never corrects more than 100% of wave 1). 61% correction I said in normal cases but the correction of wave 2 can be as small as 23%-38% of wave 1 and as long as 99% of wave in some cases.

1. Wave 2 corrects 50%-70% of 1 in most of the cases because majority of investors and traders are still not confident about the change of bigger trend. So, they book profit of most of their holding bought during progress of wave 1.
2. Wave 2 is a set of 3 wave’s correction A, B and C (Characteristics of waves A, B, C and types of corrections are explained in later chapters).
3. Wave 2 is generally a period of consolidation when profit booking at higher levels followed by accumulation at lower levels is going on and it is the time when market decides where it wants to go in near term.

Calculation of Wave 2: - When you are sure that wave 1 is completed. Just calculated 50%-70% of wave 1 and subtract from the end of wave 1. Suppose wave 1 is from 300 to 400 which is of 100 points. 50%-70% of 100 points is 50-70 points. Just subtract 50-70 points from end of wave 1 (400) and you will get the levels of 330-350 as expected targets of wave 2. 50%-70% is most usually possibilities but sometimes you may see more than 70% correction of wave 2 and sometimes less than 50% especially if it is inner wave 2 of bigger wave 3.
You can predict more accurate levels for wave 2 by identifying inner waves (abc) of wave 2 that will be explained later.

Just see the **chart (3.1)** above to observe the personality of wave 2 (from point 1-2, 383.15-371, marked in red digits). There you will observe wave 2 corrected more than 70% of wave 1 but not more than 100%. Wave 2 ended above the start of wave 1.

Wave 3

Wave 3 is most important and most focused wave among the entire waves. Elliott Said, “Wave 3 can make you rich if you manage to catch it” and you are going to know in later chapters that why he stated so and why wave 3 is most important.

1. Wave 3 starts at the end of wave 2 when correction for wave 1 is completed. Start of wave 3 is the time when majority of investors and traders are convinced that previous (Short term or long term) has changed and now is the start of new bigger trend.

2. Wave 3 can never be shorter wave as compare to 1 and 5. Usually wave 3 must be more than 100% of wave 1. Wave 3 is shorter than wave 1 only in “Contracting Leading Diagonal”.

3. Wave 3 is normally steeper, sharper and faster of all waves with formation of gaps in between because investors and traders are fully confident of the trend and they want to buy/sell at any levels especially when wave 3 crosses above the end of wave 1 (start of wave 2). Wave 3 is always faster and creates gaps because buyers don’t wait and want to buy at any price and stop losses of seller’s hits.

4. Wave 3 can extend anywhere between 100%-461% of wave 1 starting from the end of wave 2. The experience says, we should not estimate the top of wave 3 and we should not book profit during the progress of wave 3, trailing stoploss at upper levels is best strategy for maximum profit. The trader who tries to chase wave 3 often get penalized.

Trading Volume increases and most of short term chart, technical indicator, RSI etc shows market in overbought state during the progress of wave 3 but it continuous the journey in same trend even in highly overbought/oversold state.

Calculation of Wave 3: When you are confirmed that wave 1 and 2 are completed. Just calculate 100%, 138% and 161% of wave 1 and add at the end of wave 2. Suppose wave 1 is from 300-400 of 100 points and wave 2 completed at 340. 100%, 138% and 161% of 100 is 100, 138 and 161. Just add these number at the end of wave 2 (340) and you will get 440, 478 and 501. These numbers are minimum expected targets for wave 3. Remember, I said minimum targets and wave 3 can go all the way to 461%-561% also. You can predict bigger targets by counting internal waves that is explained in next chapters. Here you just need to understand basics.

Again, just see the chart (3.1) above and try to observe the personality of wave 3 (from point 2-3, red digits, 371-407.35). You can see wave 3 is steeper and faster than all waves and extended exactly 261% of wave 1. Just identify thin blue horizontal lines touching bottom and top of wave 3 representing 0% and 261%.
In that chart, if you see closely, inner waves of wave 3 are also marked as (i), (ii), (iii), (iv) and (v). Again observe that inner wave (iii) of 3 is also steepest and fastest of all. You can also observe, within wave 3, inner wave (ii) of 3 corrected just 38% of (i).

Wave 4

Wave 4 carries the same personality and characteristics as wave 2. Smart investors who bought at low of wave 3, starts booking maximum profit. But those who missed or were not confident at lower levels starts buying at wave 4 because they are now convinced that price will move higher.

So wave 4 also a three wave move (abc) as profit booking at higher levels and buying at lower levels continues for some time.

Wave 4 generally corrects 23%-38% of extended wave 3. But, it may end before 23% also in case of highly extended 3rd wave (separate chapter for extended waves). If wave 3 is not extended, Wave 4 can correct to 50% of wave 3 also but wave 4 shouldn't overlap wave 2 in normal cases.

Calculation of Wave 4: Just calculate the 23%, 38% and 50% of wave 3 and subtract from the end of wave 3 for expected targets of wave 4. Wave 3 can only correct to 23-38% of wave 3 if wave 3 is extended more than 200% of 1. If wave 3 is just below 161% of 1 then wave 4 can also correct till 50% of wave 3. More accurate levels can be calculated by counting inner waves of 4 that will be explained in later chapter.

In above given chart (3.1), you can see wave 4 corrected just above 38% of wave 3 as wave 3 is extended. Though, here wave 4 is faster.

Wave 5

Wave 5 is a last leg of main trend which is often confusing and ends diagonally sometimes. It is almost difficult to predict the top of 5th unless you are experienced because you don't know what shape it is going take.

Wave 5 mostly driven by new/weak/common traders and investors who are now convinced that the stock is in extreme Bull Run and going to rise higher after seeing a previous sharp run of wave 3. Most of the new investors/traders buy at top of wave 5 and often get penalized.

Wave 5 usually extends 38% -61% of total move from start of wave 1 to end of wave 3 added at the end of wave 4. If wave 3 is not extended then wave 5 can also extend till 70%-100%, wave 5 can also rise till 200% in very rare cases.

Wave 5 or inner wave 5th of 5 often end as "Ending Diagonal" that is the indication that top is near. During wave 5, price of stocks/instrument rise sharply but with very low volumes, (lower than average volume) this is also the indication of trend reversal.

Extended wave 5 (more than 70% extension) usually corrects 100% sharply by next correction. Means, if wave 5 extends more than 70%, you can expect a sharp decline till the start of wave 5 again.

<u>Calculation of Wave 5</u>: To calculate expected targets of wave 5, just count total move from start of wave 1 to end of wave 3 (i.e. total move till wave 3) and add 38% and 61% at the end of wave 4. The resulted levels will be your expected targets. Extended 5th wave can go above 70% till 200%.

Just see the chart (3.1), I calculated total move from start of wave 1 to end of wave 3, thus from point 0 to point 3, i.e. 369.05 – 407.35 which is almost 38 points and end of wave 4 is 390.11. And wave 5 extended till 423.80 which is 34 points from start of wave 4. Thus, wave 5 extended almost 90% of total move from 0-3 and is extended. And also see the sharp correction till start of wave 5 after its completion.

I also marked inner waves of wave 5 as (i), (ii), (iii), (iv) and (v), just observe the inner wave (v) of 5 I marked by red lines indicating expanding triangle sahpe. That (v) and 5 is Ending Diagonal Triangle that will be explained later in separate chapter.

Wave A

Wave A is an impulsive which carries the same characteristics and personality of wave 1, it is often slow as traders/investors are not yet fully convinced of trend and starts booking profit slowly seeing a break after a good rally. But if wave A is after a highly extended wave 5 then it may be sharper and faster correcting sharply till inner wave 1st of 5.

There is no calculation for wave A but it corrects till inner wave 1st of 5 in most cases. WE must wait for A to complete.

In chart (3.1), Wave A (from points 5 to point A) is faster because of extended 5th wave and it corrected till the vicinity of inner wave (i) of 5.

Wave B

Wave B also carries same characteristics as wave 2. It is a period of consolidation when there tug of war between buyers and sellers. Investors/Traders who are still in hope of further upside keep on buying on dips and those who bought at lower levels keep booking profit.

Wave B plays very important role in predicting how much correction may be and how much next up move may be.

Wave B is a corrective wave for wave A, that can correct wave A by anywhere from 38% to 138% but normally wave B corrects 61% of wave A. Yes, B can go above the start of wave A (is explained separately in “Type of Corrections”).

In Chart (3.1), Wave B (from point A to B) corrected exactly 61% of A and is a set of three waves (abc).

Wave C

Wave C is plays very important role in EWT (Elliott's Wave Theory) analysis as there is always a start of new impulsive after completion of C. So, if you are able to identify wave C, you can catch next impulsive for Big-Big profit.

- Wave C is always an impulsive in every type of correction and last leg of correction. Wave C is normally faster than A and B as it is the time when majority traders/ investors convinced that last rally has ended. So they start booking profit immediately as soon as wave B completes.

- Wave C is sharper and faster because majority of traders starts booking profit on bounce of wave B and stop losses of buyer's hits. Wave C somewhere resembles wave 3. Wave C can be destructive sometimes to hit many stop losses and results in heavy quick losses. But C can be slower in some cases if wave A was sharper and faster.

- Wave C usually extends 100-123% of A. But C can also extend till 261% of A in some cases and sometimes it is as lower as 61% of A in extremely bull market (will be explained separately in "Type of Correction Chapter").

Calculation of Wave C: To calculate the target for wave C, just calculate 100%, 138% and 161% of wave A and Add/Subtract the same at the end of wave B. Resulted numbers will be your expected targets for wave C. But sometimes wave C is so destructive that it falls sharply till 261% of A. Counting inner waves of C may give more accurate levels (explained in next chapter).

In chart (3.1), wave C extended almost 138% of A as wave B was also normal of 61%. Also see that wave C is sharper and steeper than wave A which resembles the personalities of wave 3.

CHAPTER 4

Extended Waves

A wave that extends beyond its normal projection is extended wave. We need to know the criteria for extended waves as every wave reflect the probabilities and personality of next wave. Elliott mentioned that wave 5 is main candidate for extended wave but we usually see wave 3 extended in present markets.

Elliott mentioned in his theory that any one impulsive among 3 impulsive (wave 1 or 3 or 5) must be extended but we generally see wave 3 or wave 5 as extended and wave 1 is the smaller one in most of the cases. In today's market we also see both wave 3 and 5 as extended. So, I am going to explain the criteria for extended waves: -

Extended Wave 1

I am not explaining much about extended wave 1 as I never experienced it in real life. But Elliott said, wave 1 is extended if any of its inner/lower degree impulsive waves is extended. i.e. if any of inner wave (1 or 3 or 5) of bigger wave 1 is extended than whole wave 1 must be taken as extended.

Note: I am not giving much value to extended wave 1 because I experienced it shorter than wave 3 and 5 in most of the cases and I find wave 1 as the base of whole impulse. But I am giving the criteria just for theoretical knowledge that Elliott mentioned in his theory.

Extended Wave 3

The normal projection of wave 3 is 100%-161% of wave 1 but it can extend anywhere till 461% of wave 1. You will also observe wave 3 extended more than 461% of wave 1 in some cases but in rare cases.

Wave 3 till 161% of wave 1 considered as normal wave but when wave 3 extends more than 200% of wave 1, it comes in extended category and we call it "Extended Wave 3". Area between 161%-200% can be considered as margin of confusion, it can be either extended or normal wave.

See the Chart (4.1), I marked there a downward impulsive which actually is wave A of correction on bigger time frame. I am showing downward impulsive here to show those rules are same for impulsive as well corrections either it is downward or upward. Just observe wave 3 extended exactly 423% of wave 1. Thus, it's an extended wave 3.

Just for remembrance of personality and calculation of waves: If we look more and calculate, you will find that wave 4 corrected wave 3 by exactly 38% and wave 5 also projected almost 38% of total move from 0-3. Also observe that wave 1 is smaller and slower, and wave 3 is steepest and fastest of all.

Chart (4.1)

Extended Wave 5

The normal projection of wave 5 is 38%-61% of total move till wave 3 (from start of wave 1 to end of wave 3) and it can also extend till 100% of total move from 0-3. You will also observe more than 100% extension of wave 5 in some cases.

Wave 5 till 61% of 0-3 considered as normal wave but when wave 3 extends more than 70%, it comes in extended category and we call it “Extended Wave 5”. Area between 61%-70% can be considered as margin of confusion, it can be either extended or normal wave.

You must be cautious when you see more than 70% extension of wave 5. We often see sharp and fast fall/correction after completion of extended wave 5 that corrects whole wave 5 in faster time. Extended wave 5 can make you rich if you manage to find its top. But, you may not see full wave correction if extended 5th is inner/smaller/lower degree wave within bigger wave 3.

Overall, you must be cautious after seeing 70% extension of wave 5.

See chart (4.2) below, you can see wave 5 extended above 200% here. Usually we see extended wave 5th of 70%-100% but it can go till 200% in some cases. It was fast swing of 250 points in NSE India index NIFTY within 3 hours after announcement of 2014-2015 budgets by Finance Minister on 10 July 2014. Budget deceleration was cause of this massive up swing and hugely extended 5th wave. Though, market bounced sharply but waves follow rules. The whole extended wave 5th corrected 100% within next 90 minutes.

Chart (4.2)

Failure Wave

Failure wave is only applicable for wave 5. Wave 5 called as failure when it fails to go above end of wave 3. 5th wave failure is very rare case and happens mostly in case of sudden drastic news/event and it often results in sharp fall after that.

Generally, if we see a five wave move completed (started from the end of wave 4) below the end of wave 3 we consider it as inner wave 1st of 5 and expect an extended wave 5th. But, it may be a failure wave 5 (in rare cases) and the next correction may be faster and bigger. So, we must have a strict stoploss just below end of wave 4 if we are trading wave 5 to prevent huge loss. Failure 5th wave often confuses and you may not be able to identify it quickly, it results in heavy losses if trading without stoploss.

Chart (4.3)

See chart (4.3) above for example of failure 5th wave. Wave 3 completed at 8160.39 but wave 5 reversed from 8159.29 only. It is 5 minutes time bar chart of NIFTY covering the move of 16-17 Sept 2014. Nifty declined sharply after failed 5^{th} wave. I was waiting for higher levels to sell for correction but I bought after correction expecting wave 5 to go above 8160 at least and stopped out. See the sharp correction after 5^{th} failure. I came to know about it when Nifty traded below 7925 (start of impulsive) and traded long twice in between which resulted in losses. Failure waves are rare but when it happens, it disturbs the whole pattern and confuses you for some time.

There are some conditions that still confuses if it was failure 5^{th} or something else but I didn't find any good example of failure 5^{th} than this chart.

CHAPTER 5

Corrections – Types of Corrections

Before starting the chapters of corrections, I want say that this is most difficult and confusing part of Elliott's wave theory. But it is most important past as well as these corrections (corrective wave) only gives you the hint form where the next move would start and how much it can go. And you will be able to identify corrections easily after reading later chapters. If you are able to find end of corrective wave, it will be easier for you to catch the next bigger up move with comparatively minimum risk.

There is saying about financial market that "Market take 80-90% time to decide where it has to go, but reach there in 10-20% of time". These corrections (corrective waves 2 and 4) and wave 1 is that 80-90% time when market decides where it has to go, and next impulsive is the 10-20% time when market moves to the destination. So, you need to identify these corrections to catch next bigger move for quicker profit.

Elliott advised not to trade Corrective Waves as it is almost impossible to identify what shape it is going to take but you can trade bigger correction by identifying its inner impulsive (A and C) which needs experience. And I will provide you everything to identify these inner waves later in this book.

There are 4 types of correction/corrective waves you will find on charts.

Simple Zig-Zag Correction

Simple Zig-Zag Correction is simple ABC correction where;

- Wave A is an impulsive and corrects to some extent of previous impulsive
- Wave B is a corrective wave (abc) that corrects wave A by 38%-78%.
- Wave C is also an impulsive that extends generally 100%-138% of wave A. But it can be as low as 61% and as high as 161-200% of wave A in some cases.

There is no complexion in this type of Zig-Zag correction, that's why we call it "Simple Zig-Zag Correction".

Just see Image (5.1) below, which is an imaginary image to show the structure of Simple zigzag correction. Zigzag correction is shown as ABC correction for wave 2 with red lines.

Also see the chart (5.2), just observe that both corrective waves 2 and 4 are Simple zigzag where B is only 38%-78% of A. In corrective wave 2, wave (c) is just 61% of (a).

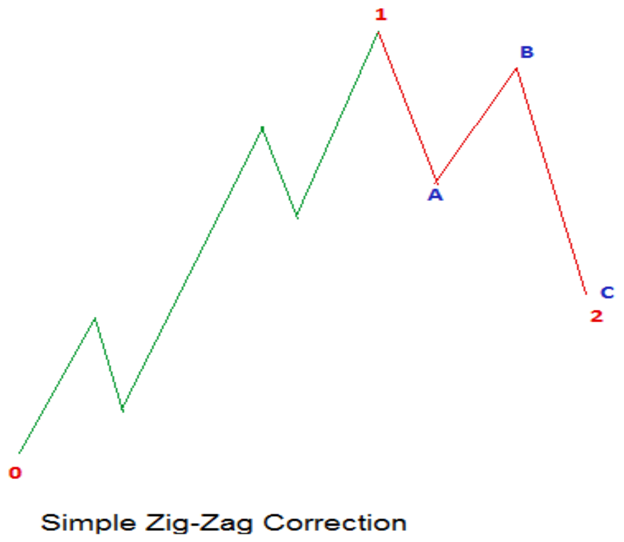


Image (5.1)

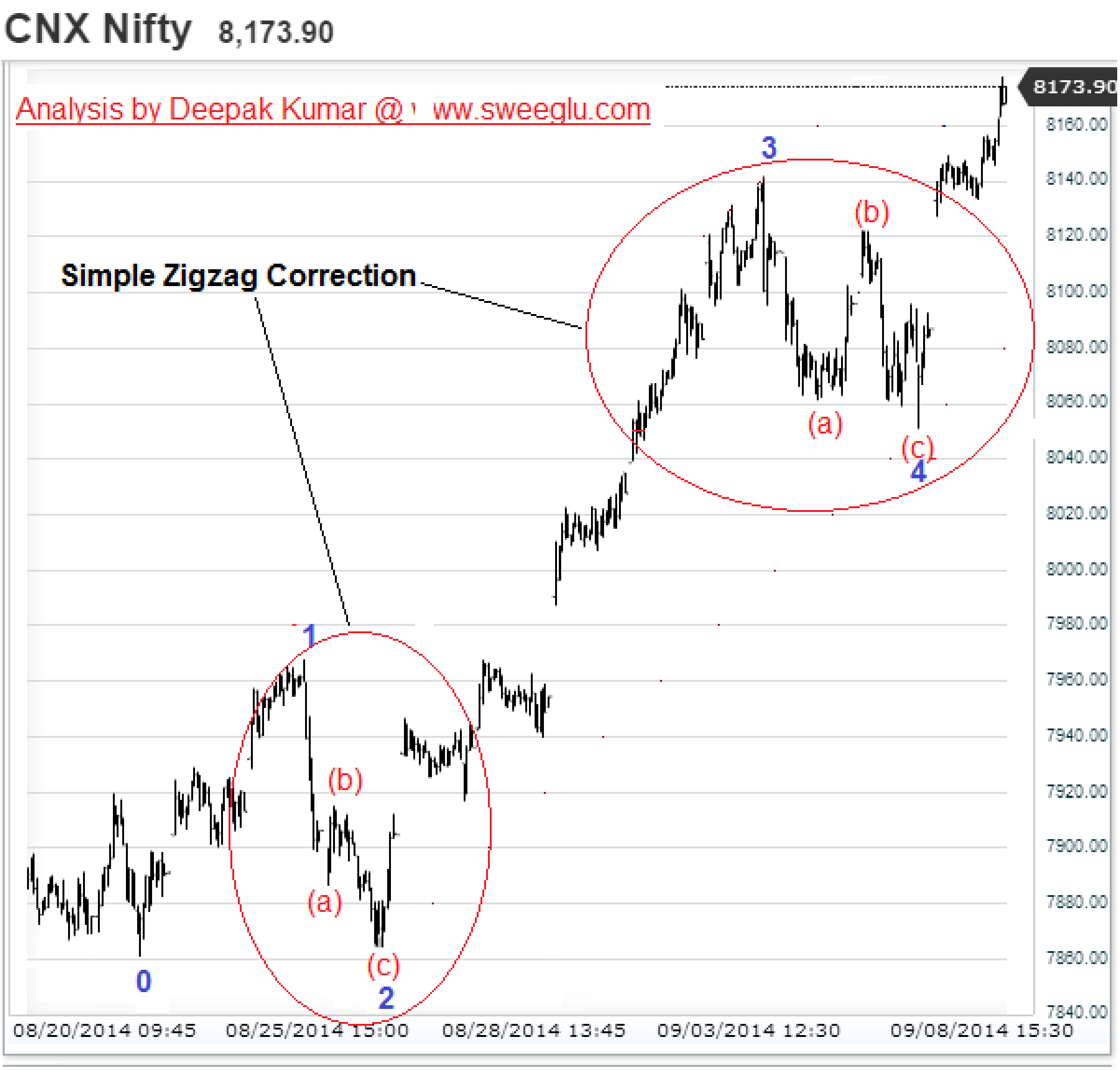
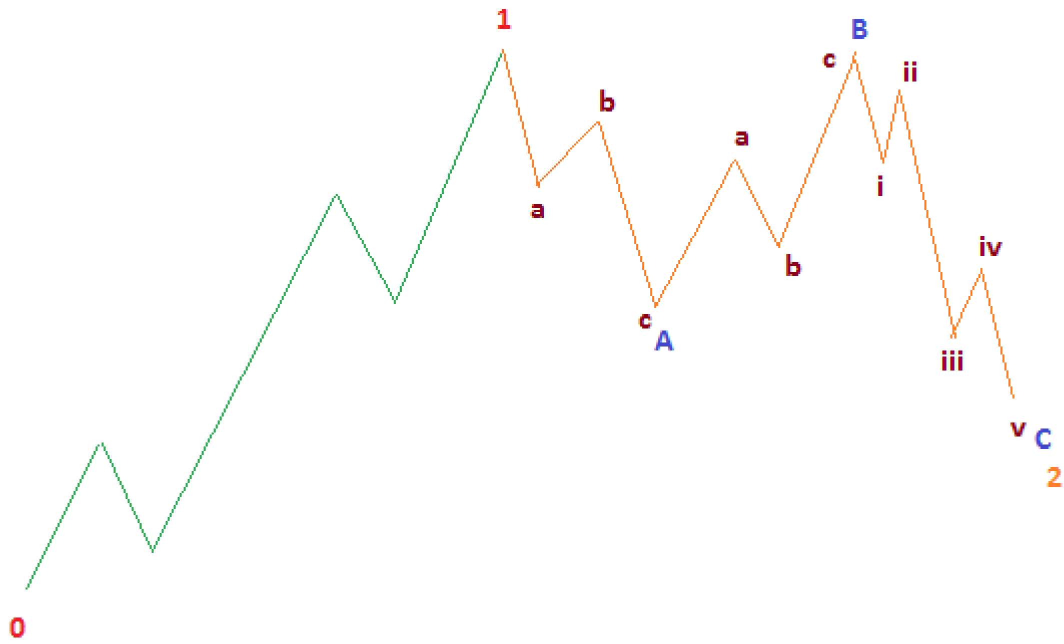


Chart (5.2)

3-3-5 Simple Flat Correction



3-3-5 Flat Correction

3-3-5 Flat correction is very profitable if you are able to identify it. This type of correction is stronger for next move and you can expect 90% profitable trade if you manage to identify it.

We call 3-3-5 Flat correction because it is set of 3 waves down, 3 waves up and impulsive down. In this Flat correction: -

- Wave A consists of only 3 waves correct less than 23 percent of previous wave.
- Wave B is also consists 3 waves that corrects wave A by 90-110%. i.e. wave B goes near the start of A again.
- Wave C is always consisting of 5 waves (impulsive) in every type of correction. Wave C is mostly sharper and faster in Flat Correction. If wave A and B have taken 5 hours to complete, you can expect wave C to complete in 30-60 minutes. Wave "C" generally extends 123-138% of wave A but sometimes it is so drastic that it can extend 200%-261% of "A". I explained how to expect length of wave "C" in next chapters. See the image (5.3) above.

Identifying Flat Correction in Advance:- It is difficult to identify 3-3-5 Flat correction in advance as first set of "abc" of wave "A" can confuse you with full "ABC" correction. There are some points you should remember to identify "Flat Correction"

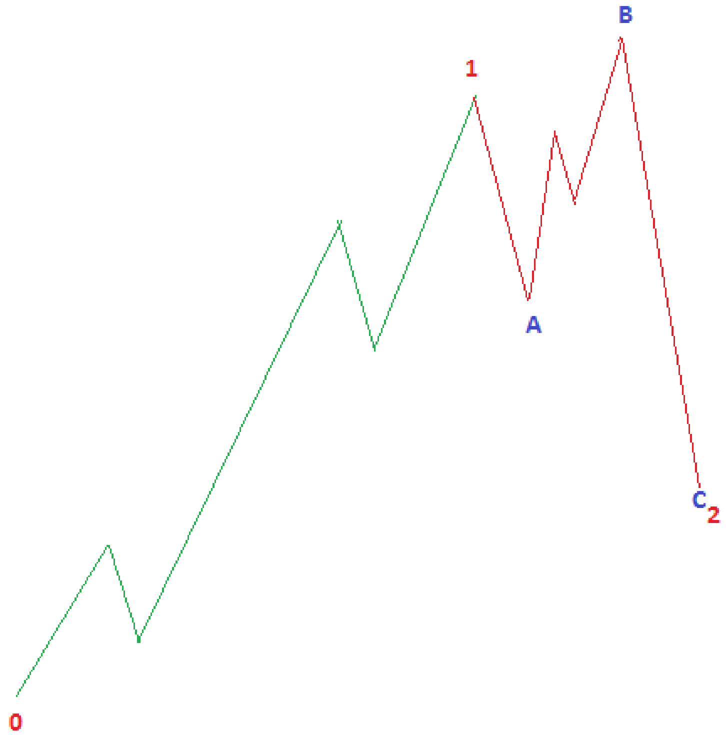
As you know, a correction is always for a previous impulsive (5 waves move). So, if you see that "abc" completed before 23% of previous impulsive and price started

moving up again in three wave with almost same speed as previous "ABC" then you can expect it as 3-3-5 correction.
It is not advised to expect corrections in advance and we should avoid trading corrections. If ever see 3-3-5 Flat Correction and identified it, just don't hesitate to buy/sell for next impulsive. You can get very handsome reward.

See chart (5.2) below, the corrective wave 2 (marked in red circle) is 3-3-5 Flat Correction. Wave A, B and C are marked with blue capital letter A, B and C and inner waves of A and B are marked with red small capital letter in bracket (a), (b) and (c). Just observe that both waves A and B consist of three waves and wave B goes exactly till the start of A.
This correction is often stronger for next move, because wave B goes till the start of wave A indicates that Buyers don't want the price to be lower. So, you can expect next stronger move.

Chart (5.4)

Irregular Correction:



Irregular Correction

Image (5.5)

There are some cases when wave B of ABC correction goes above the start of wave A (or break above high again). We call it "Irregular Correction" because wave B don't cross the start of A in general cases. See image (5.5)
This "Irregular Correction" is highly bullish in nature as it shows the bullish psychology of mass traders/traders in bullish trend. And it is highly bearish in bearish trend the same way.

When wave B cross the start of wave A shows that mass traders/investors wants price to go higher and they are highly bullish and aggressive buying can be expected on next dip. So, whenever you see "Irregular correction" in upside trend you must buy with confidence and whenever you see it on downside you must sell it.

Irregular Correction can be either 3-3-5 or 5-3-5 where;

Wave A can be consisting of 3 waves (abc) or 5 waves (12345, impulsive). When wave B corrects wave A by more than 110% called as "Irregular Correction".
Wave B is always a 3 wave's move "abc" but breaks more than 110% above start of A (previous high).
Wave C is always impulsive and can extend till 123%-261% of A, but generally we see C goes 138% of A. But wave C goes below wave A again (start of B) in most of the cases.

Identification of Irregular Correction:

It is difficult to identify “Irregular Correction in advance. Generally we must wait for its completion. But, if you are seeing that Wave “A” of correction is impulsive but wave “B” broke above the start of wave “A” in three wave, you can expect it to unfold as “Irregular Correction”.

See Chart (5.6), corrections marked in red circle and rectangle are “Irregular Corrections” where wave (b) breached the start of (a). Also see the next move after “Irregular Correction”.

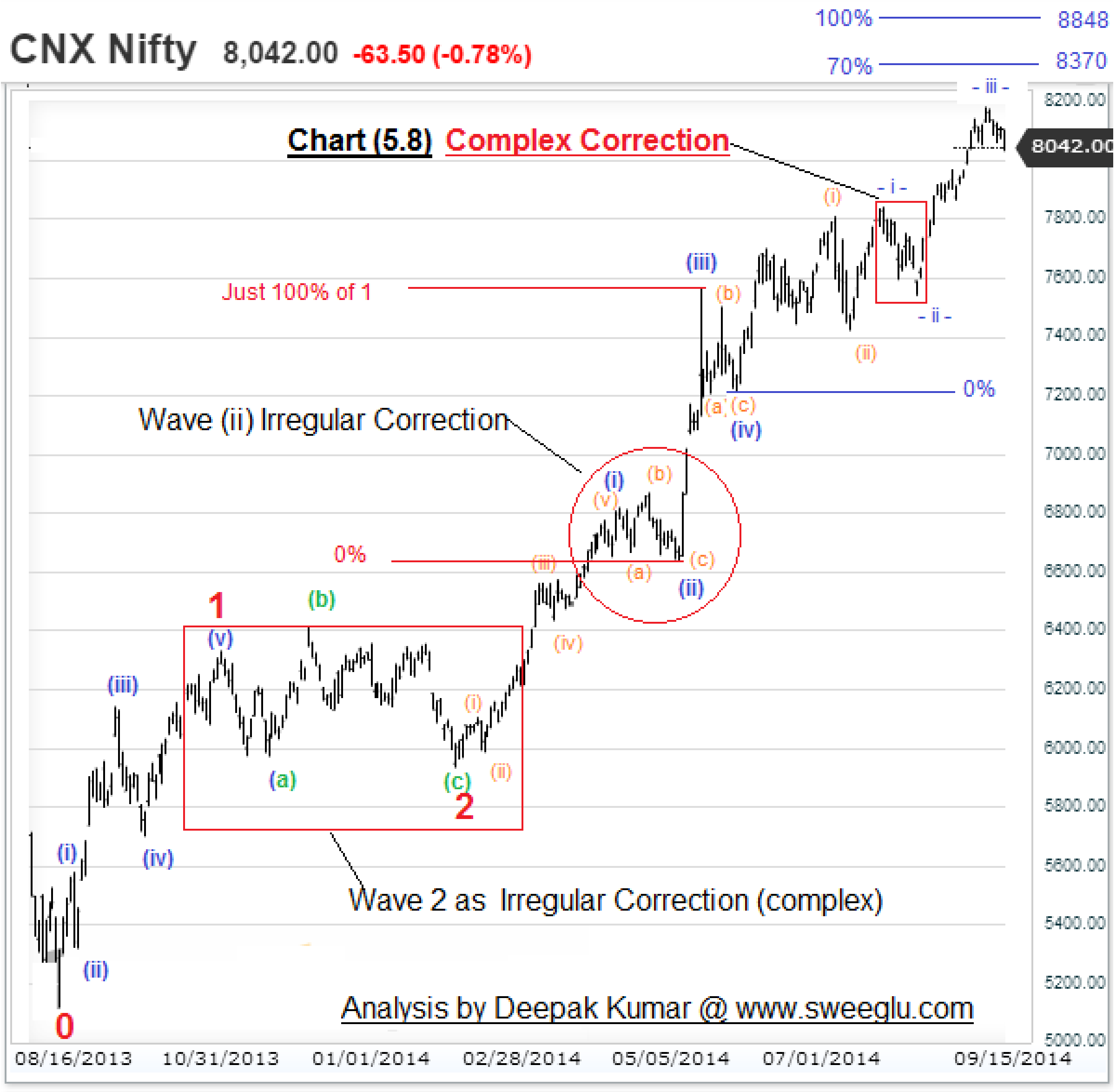
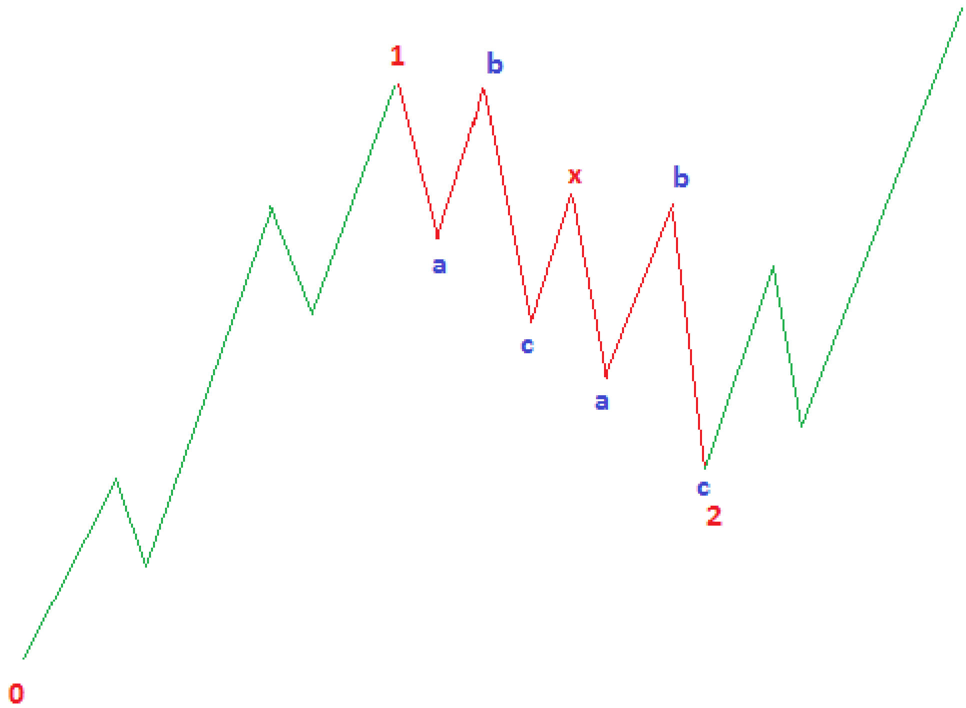


Chart (5.6)

Complex Correction:



Complex Correction

Image (5.7)

Complex correction is actually a combination or series of corrections that take long time to complete. Price consolidates in range for long time in this correction. You will see at least 2 or more than 2 sets of "abc" cycles linked by a Link Wave "x" connecting every cycle.

This correction is in the shape of "abc-x-abc" or "abc-x-abc-x-abc" where all "abc" set may be same "Simple Zig-Zag Correction" or combination of "Simple Zig-Zag" with "Flat Correction" or "Irregular Correction". This correction is very difficult to predict/identify and we must avoid trading it.

Identifying Completion of "Complex Correction" and trading the next move: -
As you know, in downward corrections wave A is downwards, Wave B is upwards and wave C is again downwards. And in this ABC correction, B upwards is always a 3 waves move "abc".

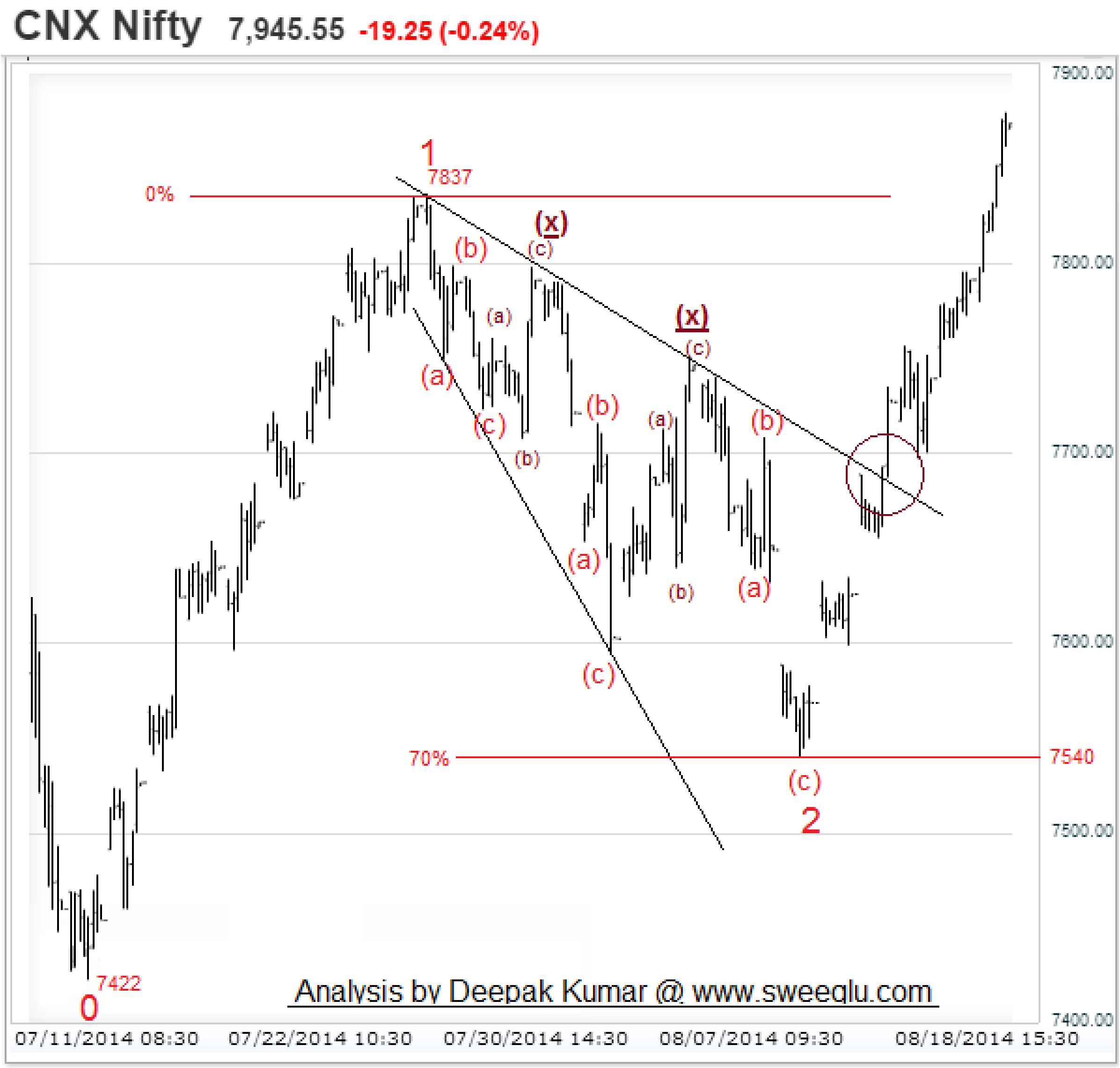
So, whenever you see a set of ABC cycle is completed, followed by an upward impulsive (5 waves move) upwards rather than 3 waves move "abc" and that upwards impulsive is almost equal or larger than last downwards "C". Then you can expect that correction is completed and next impulsive is started. Expect that upward impulsive as inner wave 1 of next bigger impulsive and be ready to buy after correction (wave 2) with stoploss below low.

A complex correction usually takes the shape of "Triangle" that may be expanding or converging. You must have heard about "Triangle Pattern" or "Breakout from

Triangle Pattern" if you are already involved in Stock Market, those triangles are nothing but "Complex Correction" or you can say "Long Consolidation" in simple words.

And you will observe that some financial instrument is always range bound (especially currencies) and it is difficult to identify any EWT pattern. Those financially instruments are in complex correction for years. But you can trade those instruments with EWT by using 5 minutes and 15 minutes charts for short term.

See Chart (5.8) of Nifty, wave 2 in this chart is complex which is a combination of 3 'abc' cycles linked by link wave 'x'. Observe that link wave 'x' is also a 3 waves move. Whole correction progressed in shape of expanding Triangle and there is aggressive more after completion of this whole correction. This complex correction was actually wave 2 that corrected exactly 70% of wave 1.
<u>See Chart (5.6) again, this correction is a closure look of complex correction marked in red rectangle there</u>.



<u>Chart (5.8)</u>

CHAPTER 6

Diagonal Triangles

If you remember, I mentioned a rule of EWT that says “Wave 4 cannot overlap wave 2” but there is an exception. Wave 4 is allowed to overlap if it moves in a wedge, let it be “Parallel Wedge” or “Triangle”. And we call these waves as “Diagonal Triangles” because these wave forms a Triangle Pattern in the direction of trend. These Diagonal Triangles can either be expanding or converging.

In expanding Triangle wave 1<3<5 and boundaries are expanding as it grows.
In Converging Triangles wave 1>3>5 and boundaries are getting closed as it grows.

Diagonal Triangle is allowed only in wave 1 and wave 5 and is not applicable for wave 3. Wave 3 is always a clean Impulse but inner wave of 3 can be a Diagonal. We can also see wave A as Diagonal Triangles in some cases.

Wave 1 as Diagonal Triangle is called as “Leading Diagonal Triangle (LD)” as it leads the new impulse and Wave 5 as “Ending Diagonal Triangle (ED)” and it ends an impulse. But both these Diagonals (LD and ED) have different characteristics that I am going to explain one by one.

Leading Diagonal Triangle (LD)

Leading Diagonal only occurs in wave 1 and consists of 5 waves like impulse and its internal wave’s structure is 5-3-5-3-5 with internal wave 1 impulse, wave 2 corrective, wave 3 impulse, wave 4 corrective and wave 5 impulse but unlike a clean impulse, wave 4 overlaps wave 2 in “Leading Diagonal Triangle”. But wave 4 only goes in the territory of wave 2 in this case, can’t go below the wave 2. i.e. wave 4 cannot go below end of wave 2 (start of wave 3).

“Leading Diagonal” can either be Converging Triangle, Expanding Triangle or Parallel but you will observe “LD” as converging and parallel triangle in most of the cases. LD as expanding is a rare case but it occurs.

Drawing of Wedge (lines) of Leading Diagonal Triangle: - You need to join end of wave 1 and 3 for upper line of wedge and end of wave 2 and 4 to draw the lower line wedge. You can expect it or identify it only after completion of internal wave 4. After wave 4, last wave 5 can go and touch the upper line (joining wave 1 and 3), it may not touch upper line sometime and decline back.

And after competition of “LD” which is always wave 1, next wave 2 must breaks below the lower line of Triangle. Wave 2 never ends inside the wedge. So, after completion of LD you need to identify a corrective wave 2 that has to break the lower line of Triangle to take long positions for quicker and faster wave 3.

See Image (6.1) below

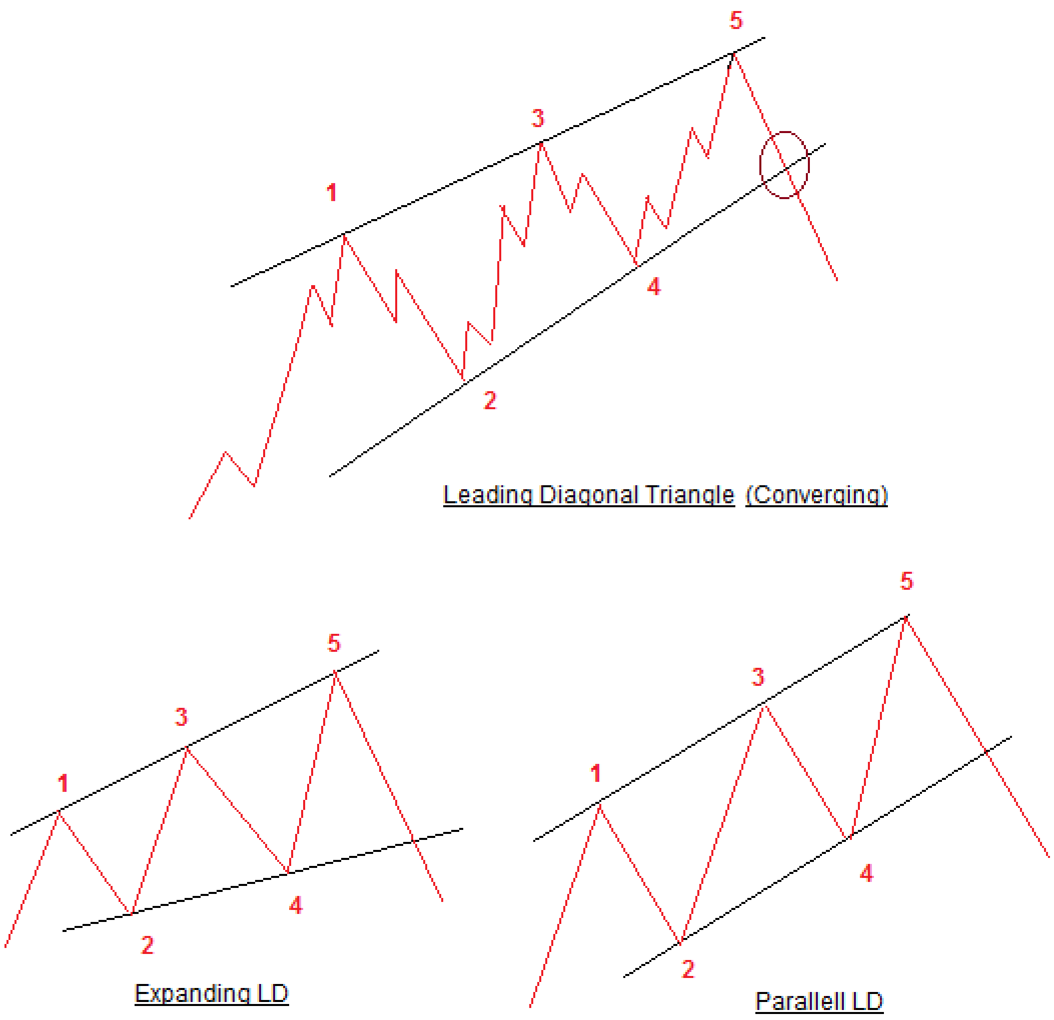


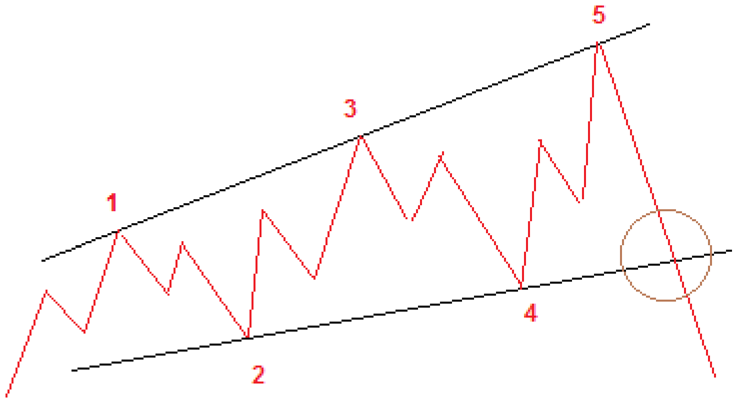
Image (6.1)

Leading Diagonal Triangle can give to handsome reward if you manage to identify. Because LD only occurs in wave 1 (rare in wave A), so whenever you see a LD just expect a big impulse after that. Just wait for correction and trade/invest with stoploss below start of LD, you will definitely get wave 3 extended more than 100% of wave 1, Most of the time it wave 3 goes 161%-461% of wave 1. Explained on real chart (6.3) below.

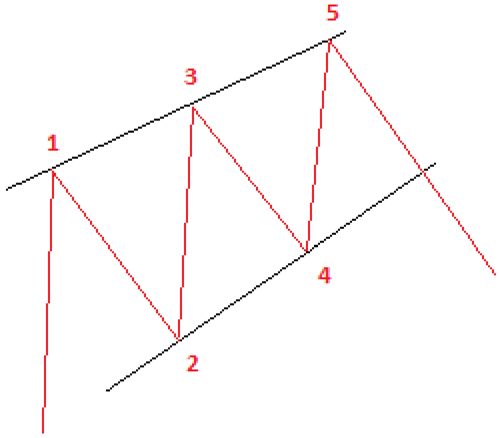
Ending Diagonal Triangle (ED)

Ending Diagonal only occurs in wave 5 and consists of 5 inner waves but its internal wave's structure is 3-3-3-3-3 as "abc-abc-abc-abc-abc" and wave 4 overlaps wave 2. But wave 4 only goes in the territory of wave 2 in this case, can't go below the wave 2. i.e. wave 4 cannot go below end of wave 2 (start of wave 3). Though, Elliott mentioned that ED always have 3-3-3-3-3 structure but you may not be able to identify this structure most of the time. Sometimes, you just have to guess by drawing wedge and seeing the formation of Expanding Triangle.

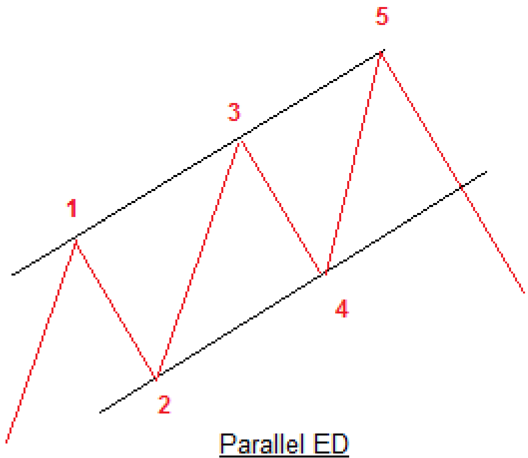
Like LD “Ending Diagonal” also can either be Converging Triangle, Expanding Triangle or Parallel but you will observe “ED” as expanding triangle in most of the cases. ED as contracting is a rare case but it occurs.



Ending Diagonal Triangle (Expanding)



Conversing ED



Parallel ED

Image (6.2)

Drawing of Wedge (lines) of “Ending Diagonal Triangle”: - You need to join end of wave 1 and 3 for upper line of wedge and end of wave 2 and 4 to draw the lower line wedge. You can expect it or identify it only after completion of internal wave 4. After wave 4, last wave 5 can go and touch the upper line (joining wave 1 and 3), it may not touch upper line sometime and decline back and sometimes it may cross marginally above upper line. See I image (6.2)

And after competition of “ED” which is always wave 5, next corrective wave may be sharper and faster downwards as completion of 5^{th} wave is also a completion of full impulsive 0-5 and next correction will be for whole/bigger impulse started from zero, not only for wave 5.

Price fall sharply after Ending Diagonal Triangle because ED is a sign of buying with hesitation, it is actually a upward consolidation when common traders/investors buy and smart hands just wait for higher levels to sell. After completion of ED, when price breaks below lower line of triangle (joining wave 2 and 4), price may give some bounce followed be sharp fall that penalize common traders who bought at higher levels. Explained on real chart (6.3) below.

“Ending Diagonal Triangle” can also give you quick profits if you manage to predict its top. But ED is most difficult to identify and you never know where it will end, it usually change its pattern frequently and often shows sign of bullishness. Your stoploss on short side mar hit repeatedly if you enter early.

Safe and best strategy is to wait for lower line of Triangle to break after completing of 5 waves (5 “abc” waves) and then short on bounce back with stoploss above high.

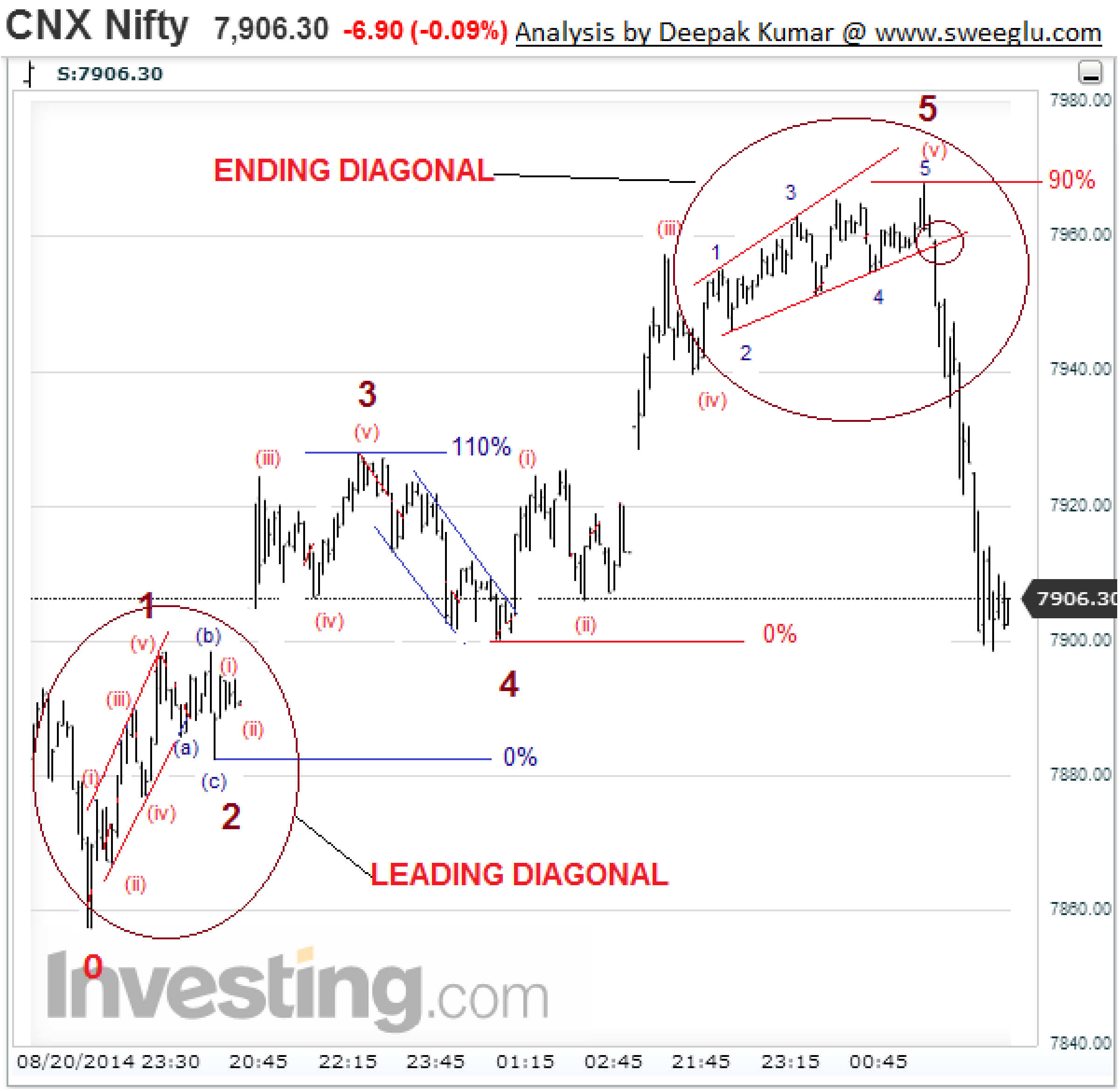


Chart (6.3)

In the Nifty Chart (6.3) above, there is real example of both “Leading Diagonal” and “Ending Diagonal”. Wave 1 in above chart is “Leading Diagonal” which is parallel with 5 inside waves but it is almost impossible to identify 5-3-5-3-5 structure on 5 minutes time bar chart. You can see wave 2 completed below the lower line of Leading Diagonal and there is 200% move after the completion of wave 2.

Now see, last wave (v) of 5 is Ending Diagonal which is expanding. Again it is almost impossible to identify 3-3-3-3-3 structure but we can identify by drawing lines and seeing the formation of expanding triangle. If you see its structure, it is almost impossible to identify where it will complete during its progress but it can be estimated by calculations. As wave (iii) of 5 is extended, we can expect wave (v) of 5 as normal wave between 38%-61%. If you calculate, wave (v) projected exactly 50%. Or we can predict top only after break below the lower line of wedge. Also see the sharp fall after break below the lower line of wedge. Ending Diagonal often followed by a sharp and sudden fall.

CHAPTER 7

Alternations

Elliott has mentioned some exceptional rules of alternation in his wave's theory. These rules are observed and somewhere helpful in practical application of EWT but these rules are only exceptional and not mandatory.

As you learned till now, every wave has its reaction. After wave 1 there is wave 2 opposite to it, after wave 2 there is wave 3 opposite to it, after wave 3 again wave 4 and then 5. In these whole process waves 1, 3 and 5 are direction of main trend and wave 2 and 4 are correction for wave 1 and 3. But after completion of wave 5 there is a completion of new bigger impulsive 1 and next correction will not be for only smaller wave 5 but for whole impulse 1 (0-5) that also will be a ABC correction where A is opposite to 1, B will ne opposite to A and C will be opposite to B.

Beside this, there are some rules of alternation in EWT. These rules can be used as guide during practical application of Elliott wave principles but cannot be taken as mandatory.

Corrections

If wave 2 is Simple Correction then you can expect wave 4 as Complex Correction and if wave 2 is Complex Correction then you can expect wave 4 as Simple Correction. So, when you see wave 2 was Simple Correction, you must avoid trading wave 4 as it may unfold as Complex Correction which is really difficult to identify. And if you see wave 2 was Complex/Irregular, you can take position for wave 5 after identifying first "abc" cycle expecting it as simple correction.

See Chart (6.3) and try to identify that wave 2 is a Simple Flat Correction 3-3-5 and wave 4 is a Complex Correction. It is impossible to identify inner waves of wave 4 but you can it doesn't looks like a Simple 'abc' correction.

Extensions

Elliott said, any one of three impulsive must be extended. We ignore wave 1 as extended and expect only wave 3 or 5 as extended. Here if you see wave 3 was normal wave (up to 161% only) you can expect wave 5 as extended wave. In the same way, if you see wave 3 is highly extended (above 200%) you can expect wave 5 as normal wave (below 61%).

Here, if you are seeing normal wave 3 you can trade for next wave 5^{th} in hope of handsome profit expecting it extended. Especially if you see wave 4 as Irregular Correction or Flat Correction after normal wave 3, you can buy aggressively for 5^{th} wave.

In chart (6.3), you can see that wave 3 is just above 100% of wave 1, thus a normal wave 3 and you can expect extended wave 5. And after that, wave 5 extended more than 70%, thus extended 5th wave.

Note: There are some cases when both wave 3 and 5 are observed as extended. Especially smaller waves 3 and 5 within bigger wave 3 can be extended. In Chart (3.1) of Axis Bank, you can see both waves 3 and 5 are extended.

Channeling: -

Chart (8.1)

CHAPTER – 8

Channeling

Before starting the chapter of channeling, I just to say that you can take channeling as guide but you must consider rhythm/pace of waves and identify inner waves to predict tops and bottoms.

If you are not sure in identifying end of waves or want to predict expected end point of wave 4 and wave 5 then you can take help of channeling. Channeling can be used to predict expected end point of wave 4 and 5 only.

When you see waves 1, 2 and 3 are completed and 4rth is started. Just draw a line joining end point of wave 1 and 3 and draw a parallel line touching end point of wave 2. You can expect end point of wave 4 somewhere near the parallel line that you drawn touching end point of wave 2.

And for wave 5, just draw a line joining end point of wave 2 and 4 and draw a parallel line touching end point of wave 3. You can expect end point of wave 5 somewhere near the parallel line that you drawn touching end point of wave 3.

Just see the Chart (8.1) above, I drew red line by joining tops of wave 1 and 3. Then I drew one more blue line parallel to red line from the end of wave 2. When I extend parallel blue line upwards, it also touches end of wave 4. Sometimes it happens that waves move in parallel wedge but not always.

We can use channeling to confirm tops or bottoms of waves if we are confused and not sure but it is not always accurate. We must identify the rhythm and inner waves to calculate expected tops and bottom. I personally don't use channeling in normal circumstances but try to find relation between waves by channeling when I have confusion.

I am not going into depth of this topic but just covering basics as Elliott mentioned it in his theory.

PART – 2

PRACTICAL APPLICATION OF ELLIOTT'S WAVE THEORY

You learned the rules and principles of Elliott's Wave Theory in previous chapters and now is the time to discuss about practical application of these rules to identify patterns, calculations and to use them for profitable trading/investment.

It is easy to plot charts, counting waves and identifying patterns that are already completed but it is not as easy to identify and predict the moves before it happens. Remember, we are not here to identifying counts that are already completed but we are here to use EWT to make money and money can be made only by identify the move well in advance by analyzing previous waves.

CHAPTER – 9

Mandatory Rules, Exceptional Rules and Observations

So, there are some practical rules and my personal observations given below that will help you to identify patterns use Elliott's wave's principles for profitable trading.

Wave 2 can never go below start of wave 1

This is mandatory rule of EWT and is the secret of profitable trades. As you know, wave 2 can never go below start of wave 1, you can buy with confidence when you see wave 2 corrected 50%-70% of wave 1 with stoploss just a point below start of wave 1. This rule gives you a perfect/exact stoploss without any confusion.

When you initiate trade at wave 2, there is always a great risk reward ratio. You will get 3-10 times profit comparing to your stoploss when your trade goes perfect. If you have patience and always wait for wave 2 to initiate trade, you will be in profit even after hitting 7 stoplosses out of 10 trades.

If you are identifying a wave as wave 2 but it breached below start of wave 1 then exit the trade same time and review the counts again because that wave can never be wave 2 and you were counting wrong, and there may be some other Pattern. I am not showing any separate chart for this topic as you will find it in every chart given in this book.

Leading Diagonal is converging/contracting or Parallel most of the time:

Though this rule is not a mandatory rule but you will rarely see LD as expanding and most of the time you will observe it contracting or parallel with 5-3-5-3-5 structure but you may not be able to identify clear 5-3-5-3-5 structure most of the times. Even if

LD is expanding, it is just marginally expanding. This observation will help you a lot in identifying a great profitable opportunity.

As you know a Leading Diagonal is always wave 1 means it is a first and smallest leg of big impulsive. So, whenever you a converging/contracting Diagonal Triangle after an ABC correction just try to identify its internal waves and be ready to buy with confidence after a dip.

Remember: After completion of LD as wave 1, next corrective wave 2 always breaks below lower line of diagonal triangle. If you are seeing “abc” correction after LD is completed but it is still above lower line of wedge then wait for some time, may be correction is not completed yet.

See Chart (9.1), Wave 1 is a Leading Diagonal which is almost parallel. Wave 2 broken the lower line of wedge and there is more than 200% move after completion of wave 2. You will see LD as expanding in some charts in this book, but that expanding LDs are just marginally expanded that resembles parallel wedge.

Chart (9.2)

Ending Diagonal is expanding most of the time

Again this rule is not a mandatory rule but you will rarely see ED as contracting and most of the time you will observe it expanding with 3-3-3-3-3 structure. This observation may also help you a lot in identifying a great profitable opportunity.

As you know an Ending Diagonal is always wave 5 means it is 5^{th} and last leg of big impulsive and you can expect a sharp correction after completion of ED as it grows slowly with up/downs, confusions and instability. Finally a sharp selloff happen when majority believes that there is no upside left and books sudden profit. Decline may be more severe if that ED is a part of extended 5^{th} wave.

But ED is not as simple to trade like LD, it is most difficult wave to identify and it often changes its structure and confuses most of the time. Common trader often gets his stoploss triggered who try to trade it early.

Usually we should not expect the top of Ending Diagonal in advance and we must wait for lower line of ED to break after completion of 5 inner wave as 3-3-3-3-3 (abc-abc-abc-abc-abc) and sell only after a bounce with high as stoploss.

See Chart (9.1), wave (v) of 5 is Ending Diagonal Triangle which is expanding. Also see the nature of fall after break below the lower line of wedge. If you see the internal structure of LD in this chart, it is almost difficult to identify internal waves for a newbie.

Wave 3 is steeper, faster and with gaps most of the time

You will observe wave 3 steepest and faster than wave 1 and 5 leaving gaps especially inner wave 3 within big wave 3 is a gap or a steep bar. And it is difficult to count inner waves of 3 sometimes because of its steepness and sharpness.

This observation will help you to identify a wrong trade. Suppose, if you bought a stock at wave 2 and expecting wave big wave 3 upward. But if you are seeing that wave 2 is completed and wave 3 is taking more time than wave 1, you must be cautious and get out of trade smelling something wrong. May be you are counting wrong or wave 2 is not yet completed and forming complex pattern or there is start of new move downwards. This observation will also help you to identify previous patterns that are already completed.

You will find this observation in every chart given in this book but it is briefly explained in next chapter.

Wave 4 corrects extended wave 3 by only 23%-38% most of the time

Elliott said, "Wave 4 cannot overlap wave 2 in clean impulse (wave 4 is always allowed to go near wave 1"). But if wave 3 is extended (more than 161% of wave 1), you will observe that next corrective wave 4 corrected only 23%-38% of extended wave 3 most of the time. Again, this is not a mandatory rule but just observation and probabilities.

This observation with help you in trailing stoploss when you are trading wave 3. Suppose you initiated trade at end of wave 2 or start of wave 3, when you see next wave 3 is already 138% of wave 1, keep trailing stoploss just below 50% of total move of wave 3.

As I said earlier, wave 3 can extend even 461% wave 1 and it is difficult to identifying inner waves and predict top of wave 3 most of the times. But you know wave 4 usually corrects only 23%-38% of wave 3 and corrects very rare below 50%. So, the best strategy is to keep modifying stoploss just below 50% of wave 3 till you find convincing wave 4. You can hit jackpot sometimes if wave 3 extend more than 261% of wave 1.

Just remember this observation, it is briefly explained with examples in next chapter.

Counting Gaps and Steep Bars

Identifying waves with Gaps and Sharp bars (sharp moves) is always difficult for a EWT analyst and it is also a most tough part of EWT. But if you refer the personality of waves, you will find that Gaps and sharp moves often occur in wave 3 either it can be a inner wave 3 of an impulse or a bigger wave 3.

So, whenever you see a gap or sharp bar just assume it as wave 3 and always expect one more wave (wave 5) in the direction of main trend after a correction.

If you are seeing wave progressing with regular gap or steep bars, keep on assuming it wave 3 till you see a reasonable correction. And always expect one more wave upside (wave 5 as impulsive or ending Diagonal) after correction.

Here you also need to identify that wave 3 with gaps/steepness is a inner wave 3 or bigger wave 3. If it is an inner wave 3 then you can expect two more waves upside with corrections, first wave upside as 5th wave after inner wave 3 and 2nd wave upside as wave 5th after bigger wave 3.

This observation will help you to hold your trade in profit and to take low risk position. Suppose you traded for wave 3 that bounced sharply with gaps/steepness and you position is in good profit. But you are seeing that there is no break in steepness and there is no reasonable correction yet. You can hold that trade with stoploss expecting more upside. If you are seeing wave 3 ends with regular steepness before closing then you can expect Gap Up in next session.

Again this observation is not a mandatory rule but we observe it in most of the cases. It can help us in good way when we are trading on Elliott's Wave Principles.

See the chart (9.2) below. It was difficult to identify inner wave (i) and (ii) and bigger wave 3. So I took it as waves 0 to 3 till gaps continue and next steep wave as wave (v) of 3. Overall big wave 3 is with gaps and steepness.

Chart (9.2)

Extended wave 5 corrects 100% most of the time

We will observe that extended wave 5 corrects 100% most of the time. You need to be cautious whenever you see wave 5 is extended above 70% and try to identify its inner waves. Actually we must be cautious after 61% extension of wave 5 as 61%-70% is also an area of confusion between normal wave 5 and extended wave 5. There is mostly a sharp fall after completion of extended wave 5 that corrects sharply till the start of wave 5.

But extended wave 5 is most difficult to identify. We see extended wave 5 extends normally 70%-100% but you will also see wave 5 extending drastically till 161%-200% in extreme bull or bear cases. So it is almost difficult to predict the top of extended wave 5. Your one or two stoploss may hit if you try to sell after extended 5th upwards but the risk/reward ratio is really high. You can trade extended wave 5 after gaining experience.

Note: Extended wave 5 may not correct 100% if it is part of wave 3. So, whenever you see extended wave 5 just looks at the bigger time frame if that extended 5^{th} wave is actually a part of bigger wave 3. It can save you from long trade.

See Chart (9.1), wave 5 is extended wave which projected till 90%. See the nature of fall after completion of extended 5^{th} wave, next fall corrected whole 5th sharply within no time. You will see many examples of 100% correction of extended wave 5^{th} in this book and real time chart.

Wave 3 can never be a shorter wave

Wave 3 can never be a shortest wave. This rule suggests that wave 3 is larger than wave 1 in most of the cases. Wave 3 is shorter than wave 1 in converging/contracting diagonals especially in "Leading Diagonals" but is larger than wave 5. But, wave 3 is always larger than wave 1 in clean impulse (except contracting LD and ED).

So, always except wave 3 to extend more than 100% of wave 1. If you see that wave 3 completed below 100% of wave 1, just assume that wave as inner wave "1" of 3 and expect a highly extended wave 3.

But if wave 3 projected even 101% of wave 1, it is qualified as wave 3 and you can expect next wave 5^{th} as extended. (You will see this condition mostly within wave 1).

See Chart (9.1), wave 3 is just 110% of wave 1 and next wave 5 is extended. The whole set of 5 waves in chart (9.1) is closer look of wave 1 in Chart (9.2). Just compare both the charts.

Length and Time Period of a Correction

The correction for an impulsive is mostly bigger and takes more time than its internal corrections. Suppose wave 2 of an impulsive corrected 40 points took 4 hours and wave 4 corrected 30 points took 6 hours, then you can expect correction for that whole impulse bigger than 40 points that can take more than 6 hours to complete.

This observation will help you identify premature/complex correction. Again, suppose wave 2 of an impulsive corrected 40 points took 4 hours and wave 4 corrected 30 points took 6 hours and you are seeing "abc" correction after that whole impulsive completed in just 4 hours or completed with just 35 points, you just need to wait and review the counts expecting it as Complex or Flat Correction. You need to wait for at least 40 points and 6 hours to complete for that correction.

Note: - This is just an observation for guidance in identifying correction but not a mandatory rule. There are some (very less) cases where you will see faster corrections but this observation based on most probable conditions.

It is explained with examples of real charts in next chapter.

CHAPTER – 10

Trading with Elliott's Wave Principles

I explained almost everything about Elliott's Wave Theory and also shared practical observation that can help you to apply EWT in your trades. As I said earlier, it is easy to identify counts and patterns after completion but predicting the moves in advance is challenging and we should not try to predict. The way to get maximum profit from EWT is to wait for a formation small pattern, trade on it taking small risk and be continuing with the flow of waves until that flow breaks or disturbs.

This chapter is going to show you the practical application of Elliott's Wave Principle in your trades with breakdown of your trade from starting to end. Here I'm going to apply every rule and observations (you learned in previous chapters) on chart to initiate trade, trailing stoploss, carrying trade and exit. Just try to understand how I am applying rules and observation on charts.

This chapter will also explain every rule, observation, calculations of entry levels, stoplosses, targets, counting waves, identifying pattern etc. Just read it carefully and try to observe the conditions you learned in previous chapter.

You are going to find lots of charts with explanation in this chapter. Don't be overwhelmed and read and try to observe point to point. Don't be in hurry and just have patience to understand and I can bet that you will never have any doubt in EWT after understanding it. I explained everything by step by step and simple language; don't miss any step as every point is useful.

I am using NSE India Index NIFTY chart to explain this chapter as Nifty is most traded index in India and worlds and almost every one of you is familiar about Nifty. I have broken down charts in steps to make you understand better. Let's start with a blank live chart you just seen on the screen.

Just See the chart (10.1) given below and read what I am trying to say;

Chart (10.1)

I was just watching chart of Nifty and a consolidation/correction followed a wave progressing upwards that looks like a diagonal (shown in red circle), that last upside wave looks like a diagonal because the inner waves are overlapping. The whole pattern looks like "abc" correction followed by next wave upwards.

Now, let me show what the counts were and picture in mind after seeing this chart remembering EW Principles. See the chart (10.2) below;

Chart (10.2)

This was the picture in my mind after seeing this chart, wave 1,2,3,4,5,a,b and " 'c' ware completed as shown. Just remember what you learned about EWT in previous chapter and try to apply here. Some observations are:

1. Wave 3 (from point 2-3) is sharper and faster than wave 1 with huge Gap. Just remember the personality of wave 3. And wave 3 extended almost 338% of wave 1. I didn't mark projections on chart for the sake of clarity.

2. After steep and fast wave 3 with gap, there is a small correction (point 3-4) followed by 1 more slow wave upside (point 4-5). Just remember the observation about "Reading Gaps and Steep Bars".

3. Wave 5 (from point 4-5) is almost 38% of total move from 0-3. The move from point 0 to 3 is 7940-8010, 70 points. And wave 5 is from 7996-8023, 27 points which is exactly 38% of 70 points. Just remember the calculation of wave 5.

4. After completion of wave 5, there is “abc” correction marked by blue letters. Here you can see wave “a” is normal, wave “b” is again a 3 waves (abc) move marked in small green letters [(a), (b) and (c)]. Then wave “c “is also an impulsive which is faster, bigger and steeper than wave “a” and “b”. Overall it is a Flat Correction as wave “b” went exactly till the start of wave “a” which is bullish in nature. Just remember the personality of waves A, B and C.

5. And again just see, “abc” correction after completion of full impulsive (0-5) is bigger than biggest inner correction within previous impulsive (wave 2 and 4) and took more time to complete than time taken by previous inner corrections. Just remember the observation “Length and time period of correction”.

All these observations given above in that chart are just to remind you some rules and observation you studies till now. Now let me come to the points and show you practically how you should apply EW principles in trading.

Now, just focus on the last wave upside after “abc” correction, If you see it carefully it looks like a contracting/converging Triangle because the lines are contracting as wave progress ahead. Now just remember the observation “Leading Diagonal Triangle is contracting most of the time” and also remember that “Leading Diagonal” is always wave 1 and wave 2 after completion of LD must break lower line of triangle.

So now, I am seeing that expected LD closely and waiting for breakout below lower line with identification of “abc” correction. As you know wave 2 corrects 61% of wave 1 most of the time, so, I am also waiting for 50%-70% correction.

Let’s see on Chart (10.3) what happened next….

Chart (10.3)

After some time I seen a breakout below lower line of LD and I also identified five small waves inside LD (marked by blue roman numbers) followed by "abc" correction. But it was difficult to identify small wave in 5 minutes time bar and I was not sure that correction is completed.

So, I just calculate 50%-70% of wave 1 and made decision of buying in that range. Wave 1 was 8007-8025 = 18 points. So, 50%- 70% correction is placed at 8016-8012 range. Finally I bought Nifty at 8016 (50%) with stoploss of 8006.

Remember again, waves 2 can never go below start of wave 1. Wave 1 started from 8007 so I placed stoploss at 8006 just 1 point below start of wave 1 and it was low risk opportunity with risk of just 10 points. And there was no confusion in placing stoploss, as if wave 2 break even micro-points below start of wave 1 then this pattern is not wave 1 and 2, it may be some other pattern. Means, I will lose 10 points if I am wrong in identifying waves and we can never be 100% accurate, trading is all about taking risks and I took risk of 10 points because I expecting handsome reward.

Frankly speaking, I was not aware of targets that time and I initiated trade by seeing low risk opportunity with just 10 points stoploss. Roughly we can expect full impulse at least 3 times of its inner wave 1. So wave 1 was 18 points and I was expecting at least 3x18 = 54 points. Means I was expecting minimum levels of 8007+56 = 8061 at that time.

I bought at 8016 with the risk of 10 points and my minimum expected a target was 8061. So, 45 points against 10 points loss is a good risk reward of more than 1:4.

Just Note: If you see closely, wave 2 is an "Irregular Correction" there as wave (b) of 2 broke above start of (a), and (c) is almost 200% of (a).

Now let us see what happened next on Chart (10.4) below: -

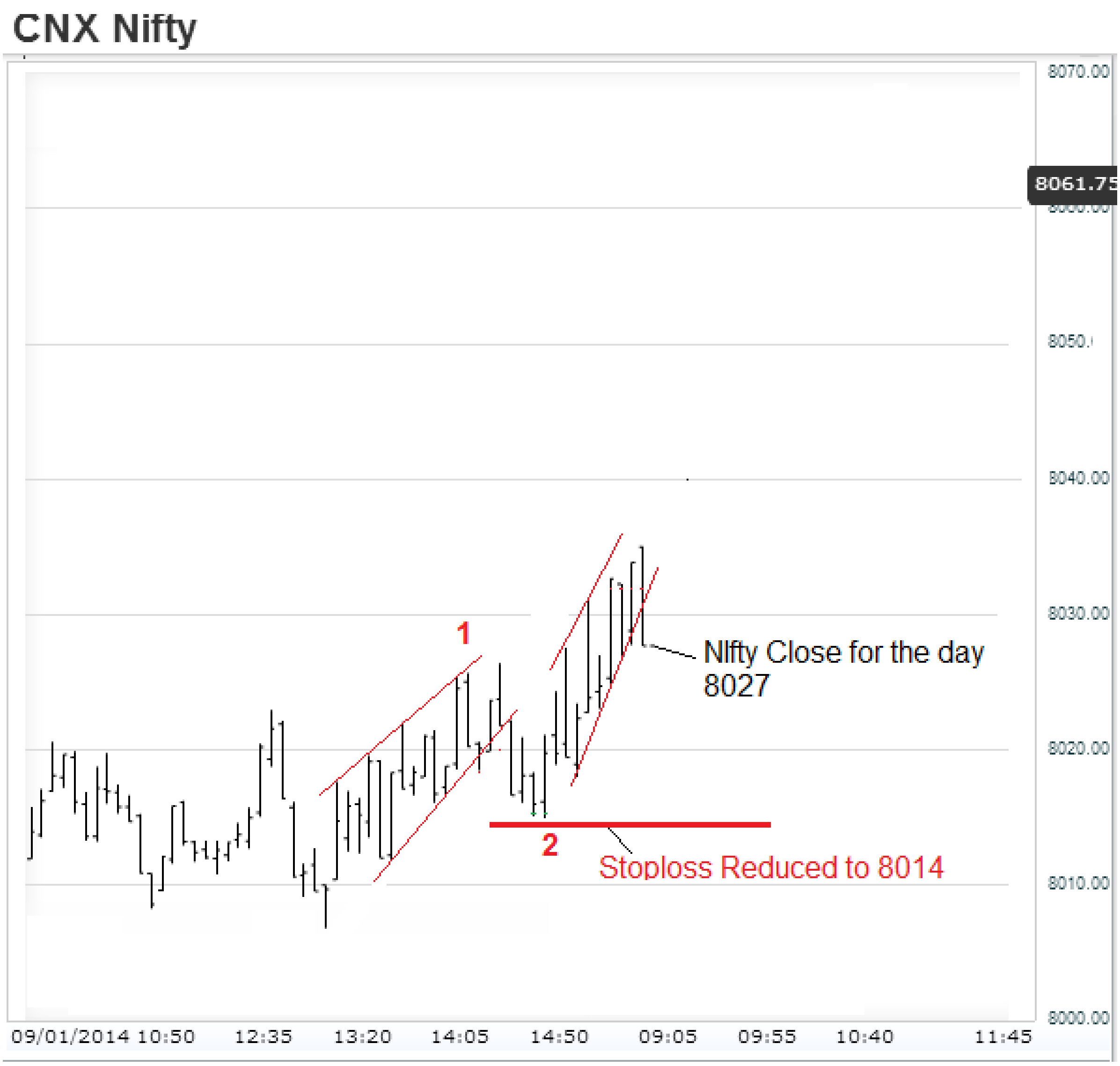


Chart (10.4)

After that, wave 2 ended at 8015 and Nifty started next move upwards given high 8035 and closed at 8027 for the day.

Here we can see next move after 8015 also looks like a Leading Diagonal but wave 3 can never be a Diagonal Triangle, wave 3 must be a clean impulse (Remember personality of wave 3). So, move from 8015-8035 is either inner wave (1) of 3 as Leading Diagonal or it is something else. But I am expecting it inner wave 1 of 3 till now and reduced my stoploss to 8014, just 2 points below my entry levels. And I am expecting Gap Up opening for next session as wave 3 is known for steepness and gaps and here I am expecting start of inner wave 3 of bigger 3.

Note: I reduced my stoploss to 8014 because if next up move after 8015 is inner wave 1 of 3 then inner wave 2 of 3 should not go below 8015 (Wave 2 can never go below the start of wave 1). Again if I am wrong somewhere in identifying waves, I will lose 2 points.

Now let us see what happened next day on Chart (10.5)

Chart (10.5)

Next day Nifty opened Gap up and bounced to 8055 in first 15 minutes after opening and I was already in 40 points profit at that time. (Again see the Gap and steepness in inner wave (iii) of 3).

Again remember my words “We should not book profit in wave 3”. Here at 8055 when we are 40 points profit, we can book 50% profit if we traded in Multi Lots and modify stoploss for rest below 50% move of wave 3. Or we can hold whole position with modified stoploss just below 50% of wave 3 as still we will be in profit. I modified stoploss to 8033 just after opening when high was 8055. Wave 3 started from 8015 and high was 8055, 50% of total move of wave 3 (8015-8055) was 8035 and I placed stoploss just 2 points below 8035.

Why I modified stoploss below 50% of wave 3?

If you remember the observation and characteristics of wave 4, “Extended wave 3 corrects by 23%-38% most of the time”. I always expect wave 3 as extended wave so I am expecting just 23%-38% correction of wave 4 and not more than 50%. So I will keep modifying stoploss below 50% after every high till I identify wave 4. And as of now I was counting wave as labeled on chart. I was still seeing wave 3 in progress. That day Nifty closed at 8084 after giving high of 8101 shown in below given chart (10.6).

And very next day I posted this Chart (10.6) to my clients, given below: -

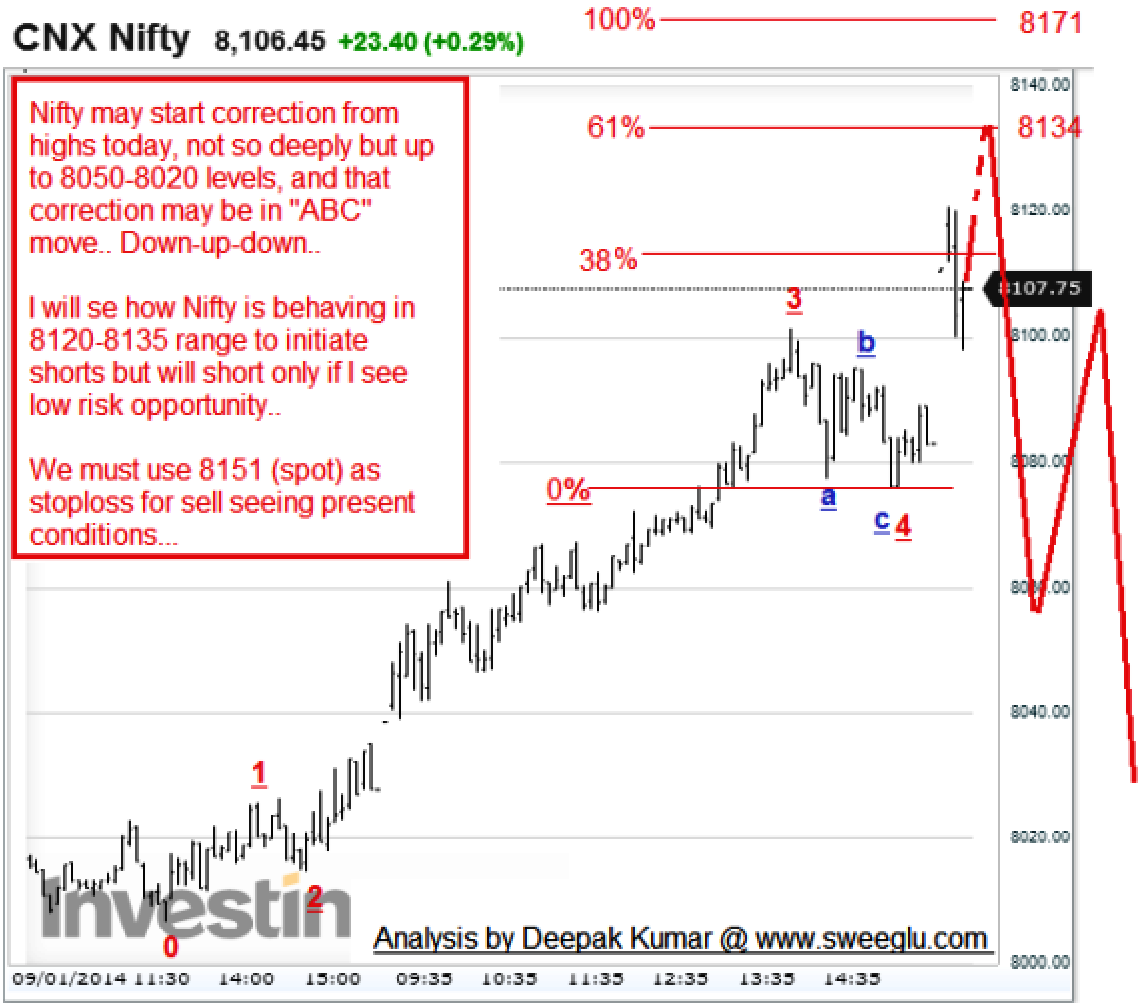


Chart (10.6)

See how I calculated the expected target range. I identified wave 3 completed at 8101 and wave 4 completed at 8076. Then I calculate total move from 0-3 which is 8007-8101 = 94 points. Then I added 38%, 60% and 100% of 94 at the end of wave 4 (8076). So I get 38% at 8110, 61% at 8134, 70% at 8143 and 100% at 8171. I was not expecting extended 5th wave (more than 70%) here as wave 3 was already highly extended. That's why I was not expecting much higher levels than 8134 and suggested selling stoploss above at 8051 (above 70%).

And next "abc" correction I expected (marked by red line) was not of this impulse (started from 8007) but was 23%-38% of bigger wave 3 started from 7862 (will show you in next charts).

Let me show where this wave actually went with counts on Chart (10.7) : -

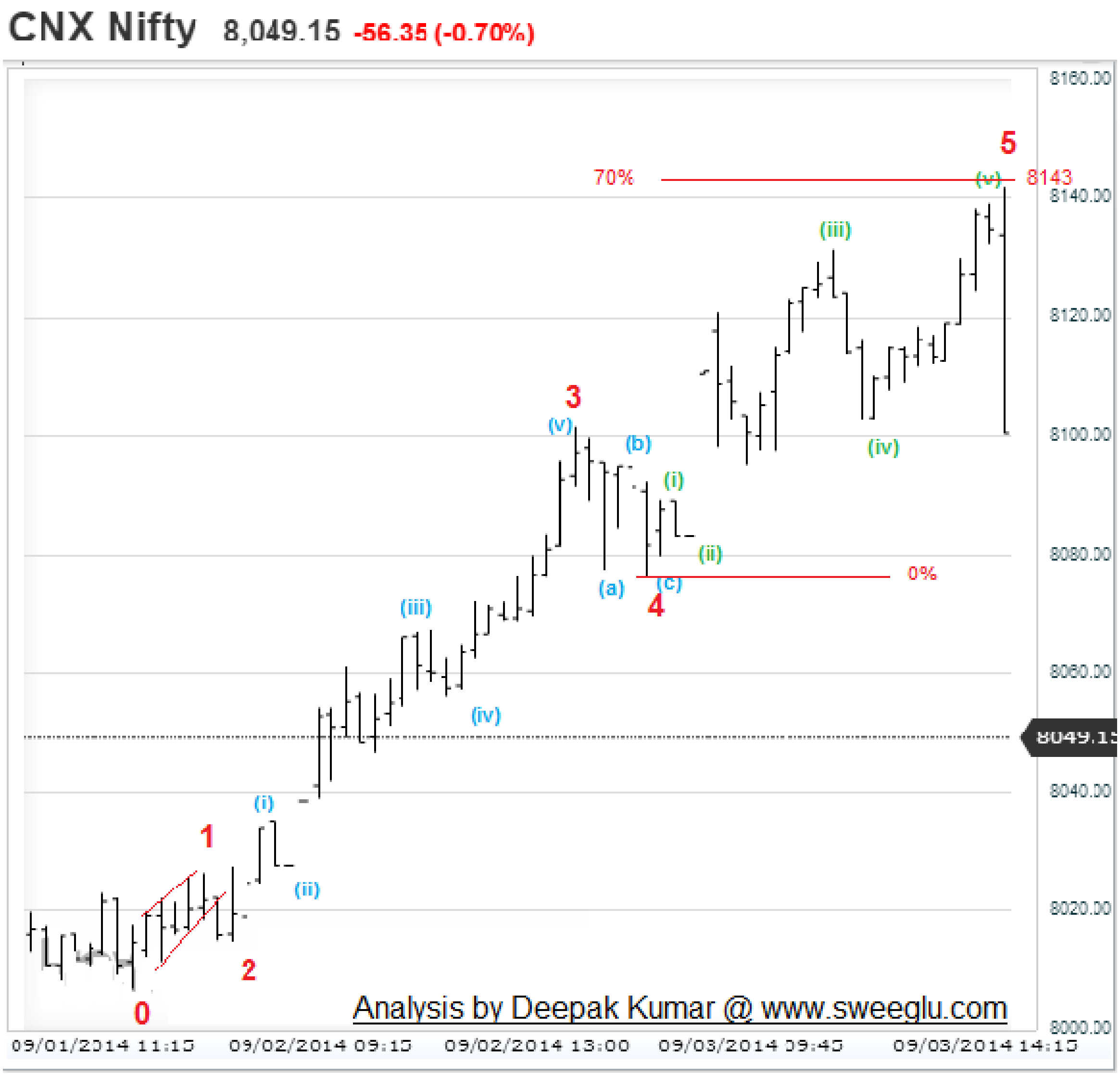


Chart (10.7)

That whole impulsive wave that was started from 8007 went to 8141. If we continued hold our previous longs bought at 8015 with trailing stoploss of 50% of wave 3 then we could have booked profit easily around 8120 after identifying wave 4. It is 100 points profit for the risk of 10 points we taken which is 1:10 risk reward.

Here also you can see,

- Wave 1 was of 18 points from 8007-8025
- Wave 2 was 8025-8015, corrected 50%-70% of wave 1
- Wave 3 was 8025-8101, extended massively 461% of wave 1
- Wave 4 was 8101-8076, corrected 38% of wave 3.
- Wave 5 was 8076-8142, extended just below 70% of total move from 0-3.

Now, just remember what you learned in previous chapters, does it follow rules? And also observe that every impulsive wave 1, 3 and 5 have five inner waves and every correction has 3 inner waves. Though wave 1 was diagonal but it also has five inner waves, Diagonals are also impulsive but are not clean impulsive. This chart shows the wave's cycles of EWT.

Also see only wave 3 and 4 (8015-8101 and 8101-8076). Just observe that wave 4 which is corrections for wave 3 is bigger and took longer time than every internal correction of wave 3 (wave 4 is bigger and took longer time than wave (ii) and (iv) of wave 3). Just remember the observation "Length and time period of correction".

Now, let me show you bigger picture and what happened next on charts (10.8);

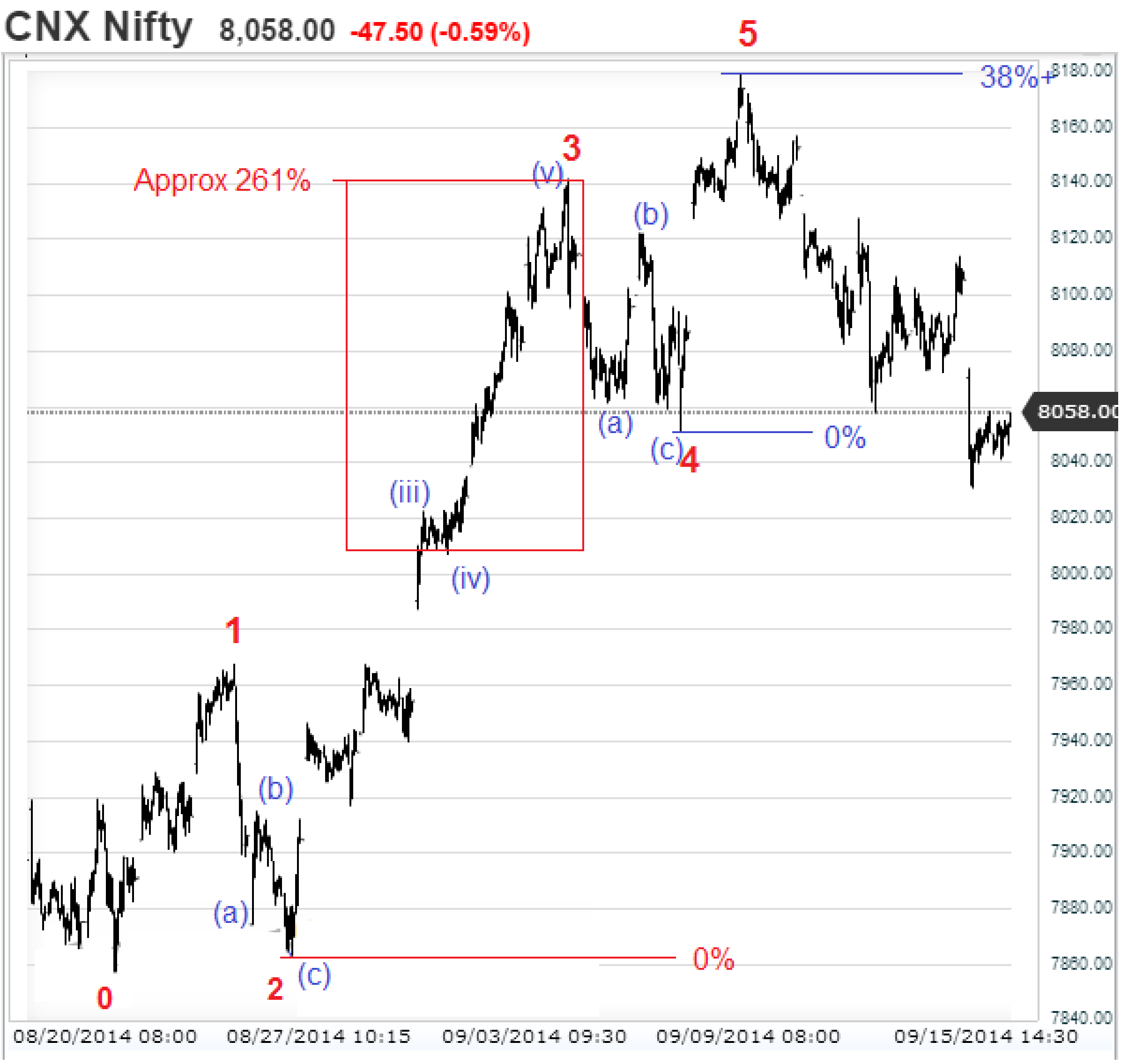


Chart (10.8)

This chart is bigger picture of what we seen earlier in this chapter. The wave marked in red rectangle in chart (10.8) {point (iv) to (v)} from 8007-8142 is the wave that I explained in this chapter, Chart (10.7). That impulse from 8007-8141 is inner wave 5th (v) of 3 in bigger pictures which is extended [projected more than 70% of total move from 2 to (iii)].

Observation in this chart (10.8):

1. Wave 1 is from 7857-7968 of 111 points.

2. Wave 2 is from 7968-7862. Wave 2 corrected here almost 96% of wave 1 with faster (a) and smaller (c). Wave (c) was smaller because wave (a) was steeper and already corrected 70%. And wave 2 is longer and took more time than any inner correction of wave 1.

3. Wave 3 from 7862-8141 extended 261% of wave 1 and is steeper and faster than wave 1 with gaps. And also see inner wave (iii) of 3 with continues gaps and thereafter 1 more wave upside. Remember observation "Reading Gaps and steep bars".

4. Wave 4 corrected almost 38% of extended wave 3. And also observe that inner wave (v) of three was extended but wave 4 not corrected it 100%. If you remember somewhere I mentioned that wave 5 may not corrected by 100% if that 5th wave is a part of bigger wave 3 and here that 5th wave (v) is a part of wave 3.

5. Wave 5 projected just above 38% extension. Move from 0-3 is 7857-8141 = 284 points. 38% of 284 points is 108 points. When I add 38% at the end of wave 4 the levels comes 8051+108 = 8159. The high was 8179, just above 38%. (Refer the calculation of wave 5).

Observe: Every Gap and Steep Bar is a part of wave 3, either is a Big wave three or small inner wave 3 or smaller inner wave 3.

Now let me show you the Chart (10.9) below which is a close/inner structure of Wave 1 given in Chart (10.8)

Below given Chart (10.9) on next page is the internal structure of bigger wave 1 shown in bigger time frame chart (10.8). I am showing this chart here because it carries maximum patterns and principle that we learned in previous chapters and it is best practical example of most of the conditions observed by R N Elliott.

There is cluster of marking on this chart but I assume you are in position to concentrate on this as you are already in advance stage of learning now. But if still you are confused I am explaining it step by step making it simpler for you to understand.

Wave 1

Just concentrate on wave 1 first marked as big brown number '1'. Just see, wave 1 is "Leading Diagonal" with five inner waves marked as small red roman numbers {(i), (ii), (iii), (iv) and (v)}. That Leading Diagonal is Parallel type and is of 43 points from 7855-7898. Also observe that slope of this LD is steeper which is more than 60%.

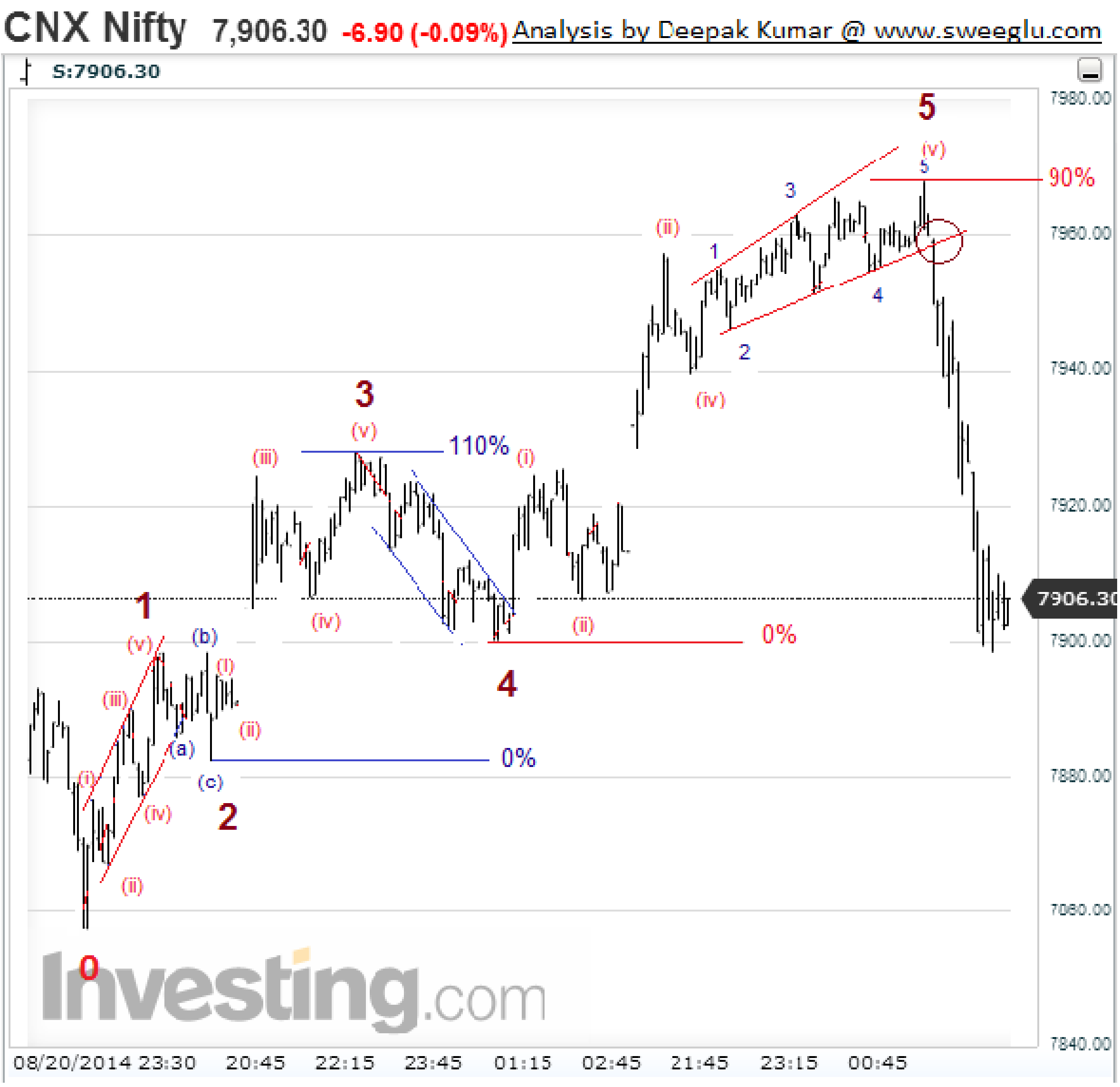


Chart (10.9)

Wave 2

Now, just concentrate on wave 2 from 7898-7882 marked as big brown number '2'. Wave 2 corrected wave 1 only by 38% but it broken the lower line of wedge. As the slope of wave 1 was steeper and lower line of slope was also rising higher, it was normal for wave 2 correct less than its usual retracement of 61%.

Just see the internal waves of wave 2 which is a clear 3-3-5 Flat Correction. If you can identify, you can see both wave (a) and (b) of wave 2 are consisting of three waves and wave (b) went exactly till the start of wave (a). And next wave (c) of 2 was steeper and faster and extended 123%-138% of (a). It is a clear example of "3-3-5 Flat Correction".

Wave 3

Wave 3 from 7882-7937 extended just 110% of wave 1. As 5 waves move (impulse) after wave 2 completed above 100% of wave 1, it qualifies for wave 3 (Refer the Personality and Calculation of wave 3). Wave 3 and internal wave (iii) of 3 is steeper and faster with Gap. As wave 3 is not extended, we can expect extended wave 5 (Refer the chapter "Alternations").

Wave 4

Wave 4 from 7927-7900 corrected wave three by more than 50%. As wave 3 is not extended, it is normal of wave 4 to correct more than 38% but wave 4 didn't overlap wave 2, thus it is a clean impulse. Start of wave 2 was 7898 and end of wave 4 is 7900.

Also see wave 4 is not a simple zig-zag (abc) correction. After Simple Flat correction in wave 2 we can expect complex wave 4 (Alternation). It is almost impossible to identify internal structure of wave 4 in smaller time frame but it doesn't looks like simple correction.

Wave 5

Wave 5 is extended here as we expected after normal wave 3. Wave 5 projected more than 90% of total move from 0-3 (well above 70%). Inner wave (iii) of 5 is steeper and with gap (Personality of wave 3).
And last smaller wave (v) of 5 is Ending Diagonal with five inner waves.

As I mentioned in Personality of wave 5 and Ending Diagonal, it is very difficult to identify the internal waves of Ending Diagonal and it always confuse and take many stop losses of seller before completing.
Elliott Said, Ending Diagonal always have 3-3-3-3-3 structure but you may not find it sometimes. We can assume/expect it by seeing its Expanding Nature "Ending Diagonal is Expanding most of the times". And we should wait for break below lower line of slope before entering shorts.

Again just remember the personality of extended wave 5, "Extended wave 5 corrects 100% most of the time". In this chart, you can see a sharp fall after completion of extended wave 5 that corrected whole 5th wave. Extended wave 5th corrected 100% because it is a part of wave 1 on larger time frame.

I explained this chart because it covered most of the EW patterns which includes: -

1. Leading Diagonal Triangle
2. 3-3-5 Simple Flat Correction
3. Normal wave 3 which is just above 100% of wave 1
4. Complex Correction
5. Ending Diagonal Triangle
6. Extended Wave 5
7. 100% correction of extended wave 5
8. Alternations in extensions and corrections

Reading Corrections

You learned how to counts, identify and calculate impulsive and their practical application in trading. Now I am going to show you how to read corrections. I am showing Chart (10.10) which is an internal structure of wave 4 marked on Medium Term Chart (10.8).

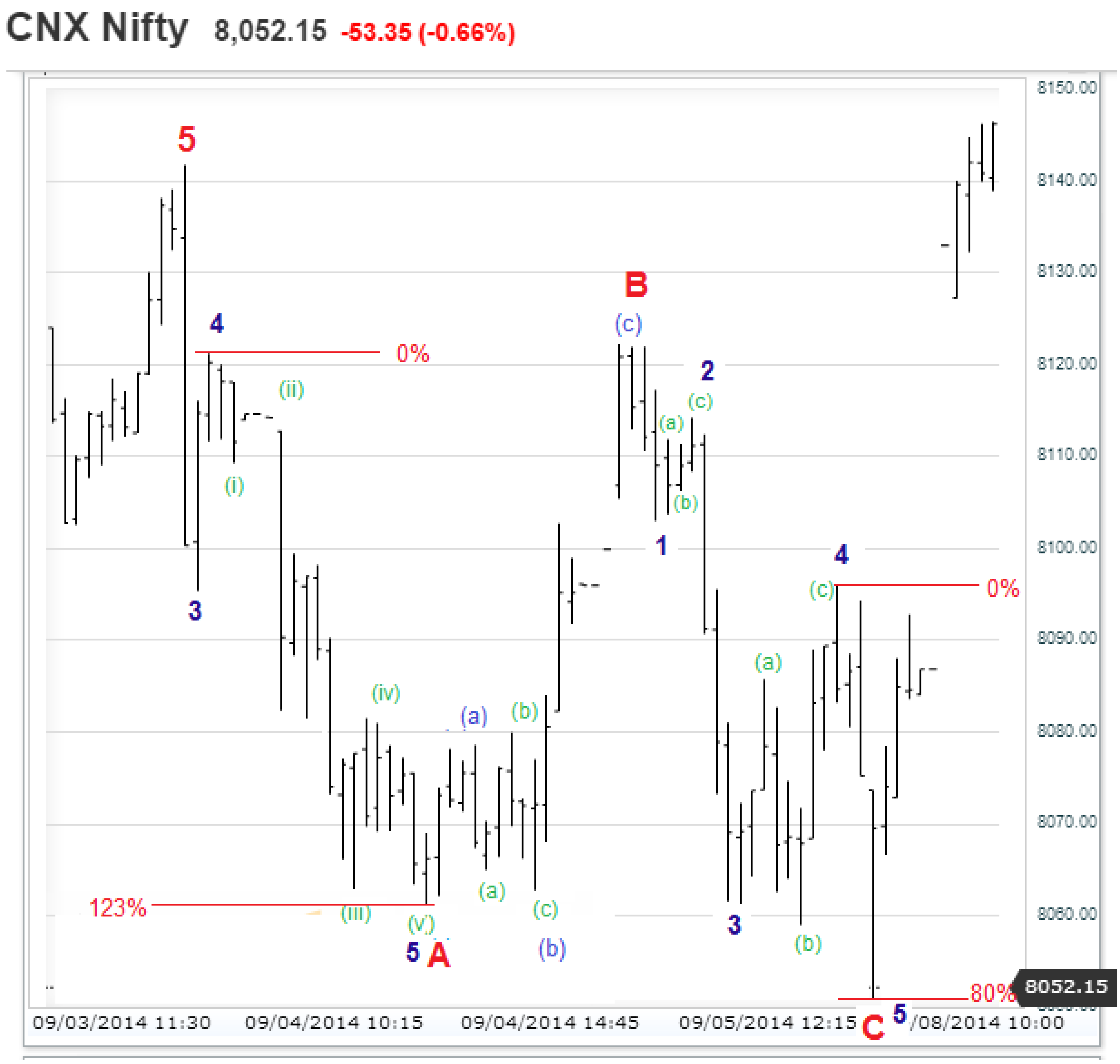


Chart (10.10)

This chart (10.10) is displaying the internal structure of corrective wave 4 marked on chart (10.8) from 8141-8051. Again there is a cluster of markings on chart but it is just simple when you see it step by step. We will read Wave A, B and C one-by-one to make it simple and to understand it better.

You already studies in first chapter that correction (corrective wave) is always a 3 waves move as “abc” where wave ‘a’ is an impulsive, wave ‘b’ is corrective wave for ‘a’ which is also of ‘abc’ structure and final wave ‘c’ is always an impulsive which is projective wave of ‘a’. You are going to witness the same in this chart.

Wave A

Just Take a looks at wave A, Marked as big red letter 'A' from point 5 to A (8141-8062)

In wave A, just try to see the blue marking as numbers and small green markings as roman numbers in bracket.

First steep single bar from 8141 to 8095 I taken as wave 0-3 of A keeping in mind the observations I mentioned in "Reading Gaps and Steep Bars" topic. The bounce from 8095 to 8121 is wave 4 and next down wave from 8121 to low of 8061 is wave 5 of A which is highly extended more that 123%.

Now concentrate on just Inner waves of 5 of A are marked as small green roman numbers in bracket.
Wave (ii) corrected almost 50-70% of (i)
Wave (iii) extended massively by 461% of 1
Wave (iv) corrected 23%-38% of highly extended wave (iii)
Wave (v) projected exactly 38% of total move till (iii)

This wave A could easily be assumed at "abc" with inner wave 3 as sharper wave 'a' and wave 5 as slower wave 'c'. But just remember the topic "Length and Time Period of Correction" and see it on bigger picture, Chart (10.8).

This whole correction [chart (10.10)] is actually a wave 4 on bigger time frame shown on Chart (10.8) which is a corrective wave of wave 3. And try to identify that time taken by wave A (that could be assumed as full 'abc' correction) is less than the time take by internal corrections of big wave 3. So, by seeing the time period of internal correction of wave 3, we could expect wave 4 to take more time.

Wave B

Now shift the concentration on Wave 'B' from points A to B (8062-8122)

You can see internal waves (a) and (b) of 'B' [marked as blue letter (a) and (b)] are almost equal.
Internal wave (b) of 'B' is an Irregular correction. Just try to see internal waves of (b) marked as small green letters (a), (b) and (c).
Wave (c) of 'B' extended drastically by 338% of (a) and completed in just four 5 minute bars.

Most Interesting thing to observe here is: -

Internal wave 5 of wave A was highly extended by 123% and wave B corrected that extended 5th exactly by 100%. Again that observation came into play "Extended wave 5 corrects by 100% most of the time". This was also the reason for faster and longer wave (c) of B.

Wave C

Now again shift the concentrate on C from 8122-8051

Wave (ii) corrected almost 50-70% of (ii)
Wave (iii) extended massively by 261% of 1
But wave (iv) corrected here 61% of extended wave (iii) but didn't overlap wave 2
Wave (v) projected exactly 80% of total move from 0-3.Thus again an extended 5th wave.

Just observe that both waves 3 and 5 of C are well extended. It shows that both 3 and 5 can be extended. As wave 4 corrected wave 3 by 61% and next wave 5 has to trade below end of wave 3 (start of wave 4) to avoid 5th failure, wave 5 made new low again to avoid 5th failure and entered in extended zone.

My personal failure experience on this corrective wave, Chart (10.10)

I personally bought Nifty at the end of wave C for next impulsive upside but got my stoploss hit. When I was seeing this wave C live and was waiting for buy at low. It seemed Nifty already completed wave 'C' at 8058 (end of wave (b) of 4 of C shown on chart) as Wave C was following all rules of EWT that time and it looked like a complete impulse at 8058.

I entered trade on bounce at 8068 and Nifty bounced sharply to 8096. I was confident that wave C completed at 8058 and wave 1 of next impulse is started. I was happy that I caught perfect entry at low levels and was expecting it as a jackpot trade.

As wave 2 can never go below wave 1, I placed stoploss at 8057 just below the low. But after some time Nifty declined sharply till 8051 hitting my stoploss. The fall was so sharp that didn't give me to identify. Later I find that wave C was not completed and that low of 8058 was wave (b) of Irregular Corrective wave 4.

Below is the chart that I actually prepared for buying entry, Chart (10.11): -

Chart (10.11)

Wace C normally goes more than 100% of A. But here I identified that wave C may not go till 100% of wave A by seeing internal waves of C. Wave 3 of C was already completed and wave 4 of C was at 8085 at the time. After calculations, 61% extension of wave 5 of C was placed at 8047 and 100% extensions of Wave A was placed at 8043. Wave C done the same and bounced from 8051. Wave C was just 90% of wave A.

So, you can expect the end of wave C or end of correction by calculating internal waves of C. Remember, Wave C is always impulsive in any type of correction.

The Aim of Chapter 10

The aim of this whole chapter "Practical Application of Elliott Wave Principles" was to show you wave counts, wave's personalities, wave calculations and different wave's patterns practically with real time examples. Just get back and read this chapter again and again to improve your skills in EWT. This chapter covered: -

- Trade using EW Principles
- Personalities and characteristics of waves
- Counting and labeling waves
- Calculation of Impulsive and Corrective using Fibonacci Ratios
- All type of corrections
- Extended waves
- Diagonal Triangle
- Wave's Cycles

Some short points to remember while applying EW Principles

Again I am reminding you some short points to keep in mind when applying EW principles on chart that you already learned and observed till now. Whatever you learned till now, only these points will come to play again and again: -

1. Wave 2 can never correct 100% of wave 1
2. Wave 3 can never be shortest wave
3. Wave 4 cannot overlap wave 2 in clean impulse.
4. Wave 4 is allowed to overlap wave 2 only in Diagonal Triangles.
5. Leading Diagonal Triangle occurs in wave 1 only and is converging / contracting or Parallel most of the time.
6. Ending Diagonal Triangle (ED) occurs in wave 5 only and LD is Expanding / Diverging most of the time.
7. Wave 3 can never be a Diagonal Triangle and is always a clean Impulse.
8. Wave 3 is usually the steepest and faster wave with Gaps.
9. Wave 3 less than 161% projection is normal wave and more than 200% projection is extended wave 3. Area between 161%-200% can be considered as both sides.
10. Wave 5 less than 61% projection is normal wave more than 70% projection is extended wave 5. Area between 61%-70% can be considered as both sides.
11. Extended wave 5 corrects 100% most of the time. But extended wave 5 may not correct 100% if it is 5^{th} of wave 3 of higher degree.
12. Wace 'C' is always an impulse and is usually faster than wave 'A'. But C can be slower and smaller if A is bigger and faster in some cases.
13. If wave 3 is not extended, you can expect next extended 5^{th} wave.
14. Correction after an Impulse is usually bigger and takes more time than internal corrections of its previous impulse.

CHAPTER - 11

Author's Advise

No matter how high the level of your knowledge is, it's of no use if you can't use it for your benefit. Same is with EWT, no matter how deeply you know of Elliott's wave theory or how efficiently you can find pattern; there is no use if you can't make money with it. I am not going irritate you with lengthy lecture but just suggesting some simple points to keep in mind while applying EWT.

EWT is not a Miracle: There is no doubt that EWT is one of the best methods to analyze market and predict future move but it is not a miracle. Though, waves always follow rules but we are human and we are meant to make mistakes. Never be overconfident and trade heavily on your predictions, there is always a scope that you are wrong in identifying, always have a protection plan before you put money in market.

There are no two patterns on same chart: Just remember that, there are no two separate patterns on same chart of different time frame. Suppose you are analyzing the chart from 01 January to 10 January of 10 days and seeing it on different time frame like hourly, 30 minutes and 15 minutes but seeing one pattern on hourly chart but other pattern on 15 minutes chart. One of two patterns must be wrong and there is only and only one pattern on same chart. Always use small time frame chart to count inner waves and hourly chart for bigger trends. Your analysis will be more accurate if you learned to counts wave on 5 minutes chart.

Leave it when you are confused: You will find it difficult to find pattern sometimes. Just leave that stock if you are not able to count it and search some other stocks where you see perfect opportunity. Never try to create pattern, just wait for some time and you will definitely see a formation of pattern later. No single stock or index gives perfect opportunity every day. You have knowledge and spare some time to research. You will definitely find some good stocks that are about to break out.

Never follow news or others: Never follow news or other's view when you are using EWT. Human is a slave of emotions, listening others and news will definitely divert you to take wrong decisions. Believe on EWT and your analysis, personality of a wave on chart reflects everything in advance if you manage to identify it. After getting experience, you will feel the effect of any important news in advance.

Get out when things are not in favor: Never hold your trade when you see the things are not going according to your expectations. Every wave has personality and it reacts according to that. When a wave is not behaving properly, just protect yourself as you might be wrong in identifying. Suppose you are trading for wave 3 but it is taking more time than normal, you must protect yourself as you know wave 3 is known for speed and steepness.

Never Share your Trader and Analysis with Public: You may not believe but it is truth. Sharing your analysis with mass traders may affect your accuracy. It affect in two ways. First, when large number of traders starts following same trade, it often reacts opposite. Second, if your prediction goes wrong, it will affect your emotions and confidence that further affect your skills. A human can face his own loss but it is difficult to face failure in front of others. You are learning to make money, so just concentrate on making your own money, be selfish, and don't try to be expert among others. I am sharing my analysis just because I need to prove that it works and my aim is to teach, but I know how it is affecting my accuracy.

Don't be in love with stocks, just flirt: - Don't try to waste your time and effort on stocks where you are not able to identify. There are some stocks that don't follow EW principles. Just leave those stocks and search others that already waiting to give you handsome profit.

Make your own strategy: No two human can trade in same way. You have knowledge and you can predict future move. Just make a trading strategy according to your risk management, your capital and your ability to predict. And never hesitate to try something new if you identified it. There are many observations I identified myself and no one is going to tell you. May be you find something interesting that no one had discovered yet.

Keep EWT as your main weapon: Every analyzing method works in some ways and no method is 100% accurate, these are cons everywhere. I advise you to use other analyzing methods as supporting tools and keep EWT as your main weapon as EWT is the first one to warn you if the behavior of market is changing. You will realize it after getting experience.

At last, I wish you profits and success in trading business.