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PRACTICAL APPLICATION OF ELLIOTT WAVE PRINCIPLE

2ND EDITION

Written and Audited by Deepak Kumar

Elliott Wave Cycle

Fibonacci Calculations

Elliott Wave Patterns

Elliott Wave Personalities

Sweeglu Elliott Waves

Words from Author

This book “Practical Application of Elliott Wave Principles” is result of my deep research and vast experience in Elliott Wave Theory. I am not only studying waves but applying EW principles in my regular trading/investment on every time frame let be for long term, medium term, short term or Intraday. And I shared my research and experience in this book to explain how EWT can be applied on real charts.

Elliott Wave Theory is not a miracle to predict stock market with 100% accuracy but it will definitely help you to find an edge, it will surely help you to identify low risk entry levels for handsome rewards. You will be able to feel where market is heading in future, it will help you to take confident and accurate trading decisions and it will be the first one to warn 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 this principle in your real time trading after practicing it for a couple of months. And I am confident that you will never enter trade without seeing waves on chart after grasping knowledge of EWT.

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 on real charts. Every single chapter and topic is important, so I advise you to read every part of it in the way I suggested. I tried to explain everything in simple language with lots of imaginary and real examples, 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 applying EWT 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.

Very limited numbers of Indian analysts are able to catch Elliott Wave Patterns on charts successfully and you can be the next after reading this book. Analysts believe that EWT is most difficult and confusing method of analyzing stock market but let me show how simple and easy it is.

Thank you,

Deepak Kumar

2nd Edition of "Practical Application of Elliott Wave Theory"

It has been more that 3 years I wrote my first book on Elliott Wave Theory "Practical Application of Elliott Wave Principles by Deepak Kumar" and it was a huge success. The Book was appreciated by almost every of my book subscriber with almost negligible negative reviews.

But this book is 2nd Edition with 3 years of added experience. I interacted with many of my followers and my book subscribers during the period of last 3 years and screened out the difficulties and problems faced by practitioner.

On the other hand, I was actively involved in Elliott Wave Analysis during this period because I had to prepare analysis report of Nifty every day for my subscribers. So, this regular practice on Nifty charts also enhanced my practical experience and I used this enhanced experience in this latest update.

This 2nd edition was finished in March 2017 but I was not satisfied with content and arrangement because there was a scope for more improvement. So, I added more chapters, visual explanations and re-arranged the content to make it easier to understand.

Now, I am confident that this 2nd Edition of "Practical Application of Elliott Wave Principles by Deepak Kumar" is best, elaborated and most practical book on this Complex subject. Even a layman with average intelligence will be able to understand it easily.

I added a special chapter "Practicing Elliott Wave Theory" explaining how a learner can practice it for easier and faster learning. So, enjoy reading this book, practice as I suggested and you will be amazed with the result.

Elliott Wave Theory is a complex subject and I tried to organize the content in best possible way. The doubts you face in earlier chapter may be cleared in later chapter. So, I advise you to read full book roughly first time and keep reading even if you have doubts just to get familiar with the content and then read carefully 2nd time. You can ask me directly in case of any doubt or difficulty.

I solely wrote and edited this book, so you will definitely find some typos or grammatical errors. Please accept my apologies in advance.

Regards and Best Wishes….

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CHAPTER 1

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

This chapter covers only basics of Elliott Wave Theory which you need to understand thoroughly before going forward. These are just simple wave's rules but applicable in every pattern and in every condition. I tried to explain these simple rules with imaginary figures and real charts for easy understanding. Don't try to think hard and compare these imaginary figures with real time chart, just try to understand the concept. Everything will be explained in later chapters with lots Imaginary Images and examples on real charts. So let's start from simple end.

RN Elliott (The father of Elliott Wave Theory) observed that every financial market, stocks or financial instrument moves in zigzag formation and called it wave's cycles. And this 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, 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 for a particular wave 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"

Rule for Numbering/Marking the waves,

- All the 5 waves move (Impulsive or main trend) can be marked as wave 1, 2, 3, 4, 5 or (i), (ii), (iii), (iv), (v)
- And 3 waves move (Corrective or correction) can be marked as A, B, C or a, b, c.

And further we can use different variations of these numbers and letters to distinguish inner/lower degree waves. Suppose we marked an Impulsive wave as (1), then its inner 5 waves can be marked as (i), (ii), (iii), (iv), (v) or [1], [2], [3], [4], [5] or anything of your choice. The aim of using different variations of numbers/letters is to distinguish different levels of waves otherwise there is no hard rule to use a particular format of number for a particular wave.

Inner/Lower Degree Waves: - Every wave consists of a set of small inner waves or we can say that a set of small waves combines to form a big wave. So, the small inner waves are called as Inner or Lower Degree Waves and biggest waves are called as Main or Higher Degree waves.

All the rules are same for a particular wave let it be main wave or inner waves. Suppose I am explaining the rules of wave 3, then the same rules will be applicable to every wave 3, let it be major wave 3 or inner/lower degree waves (3), (iii), [3] or [iii].

You will understand this numbering and marking easily as we proceed further.

Let me explain it on imaginary Image for easy understanding: -

Just look at image (1.1) 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) where,

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)

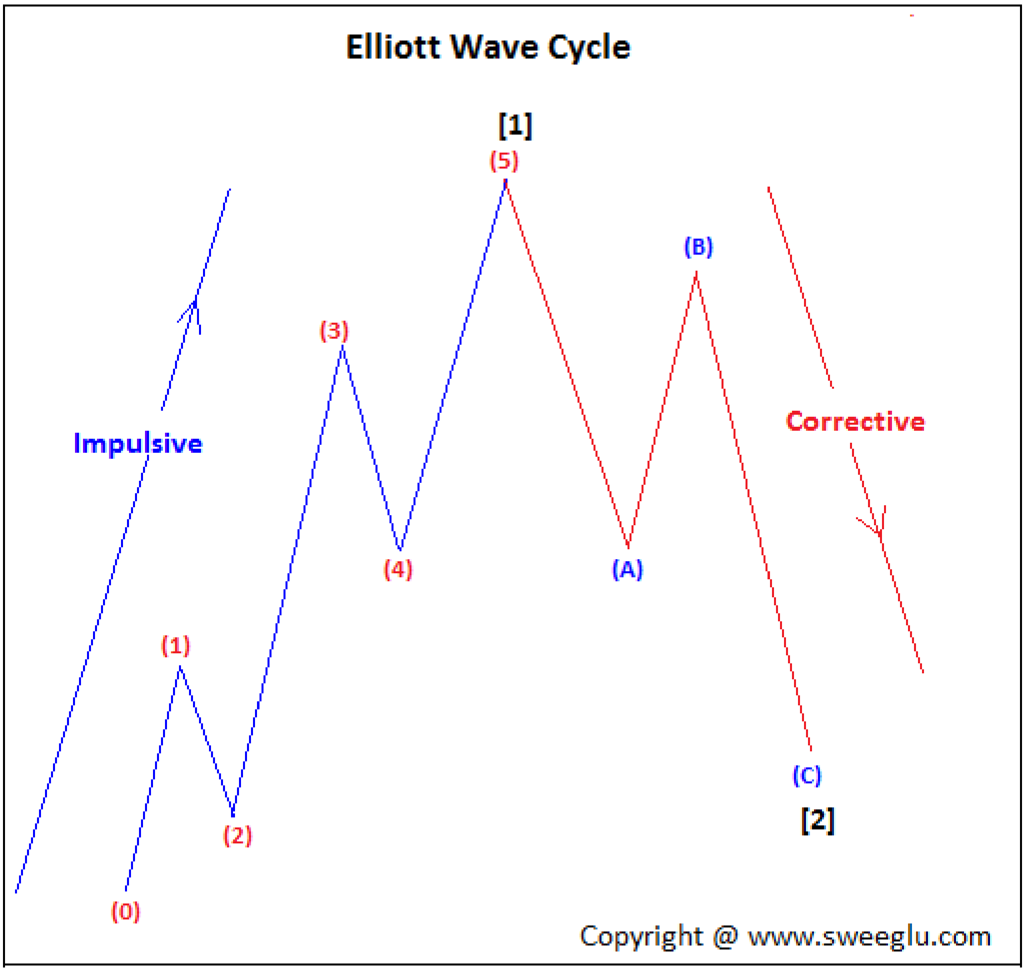


Image (1.1)

Thus, a whole impulsive is completed from point (0) to (5.) Now, after completion of Impulsive move, Three waves move (corrective) started from point (5) (end of impulsive) and completed at point (C) where: -

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)

This is the basic idea of “Impulsive” and “Corrective” now we can go bit deeper into the concept for better understanding.

As I already explained, Impulsive wave is consists of Five inner Waves 1,2,3,4 and 5 in the direction of main trend and corrective wave consists of Three Waves A, B and C opposite to the direction of main trend.

But if you observe the formation of Impulse (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.

Here you need to understand,

Within Impulsive wave,

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

Wave 2 and 4 are corrective waves of lower degree. Means, inner waves 2 and 4 are opposite to the direction of main trend and 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 is impulse of lowest degree which consists of 5 inner waves whereas wave B is corrective of lowest degree and consists of 3 inner waves (abc).

Have a careful look at image (1.2) and try to identify Impulsive and correctives.

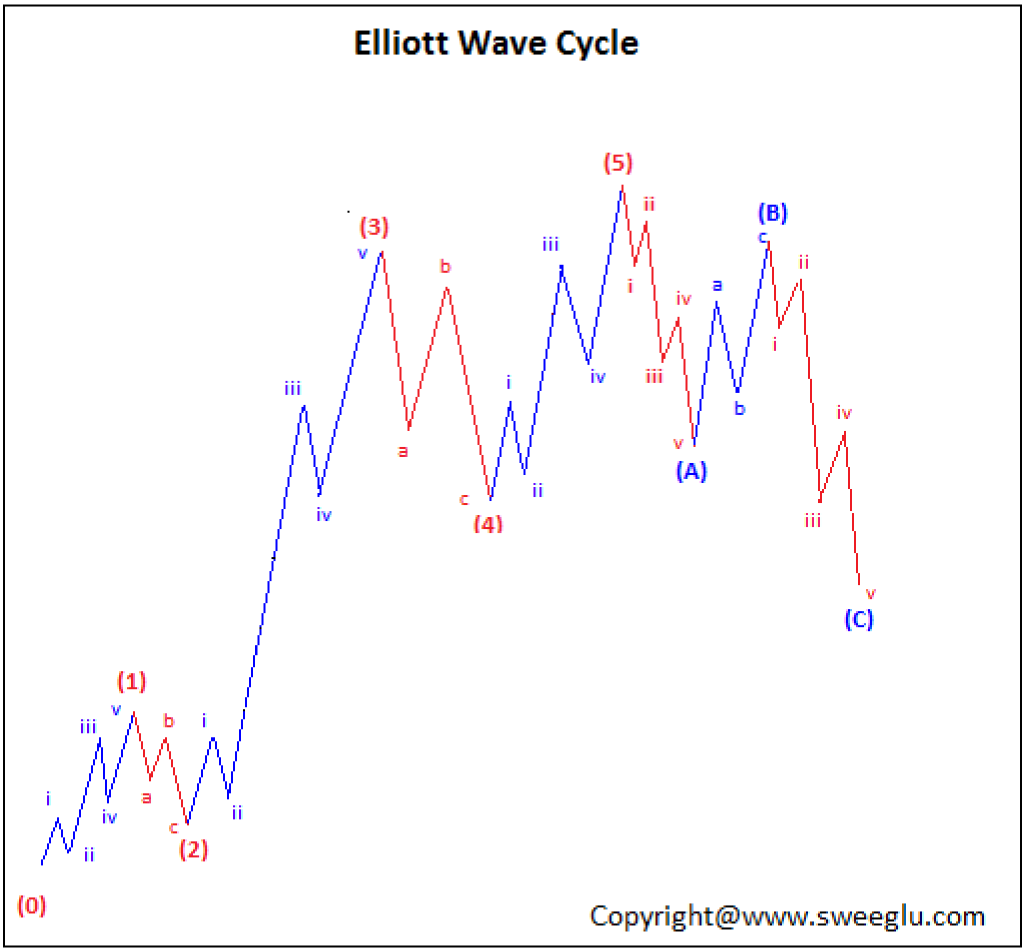


Image (1.2)

In image (1.2), I just broke down bigger waves into smaller/lower degree wave. Bigger wave are marked with 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).

Read this 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 Impulse followed by the start of bigger correction. Let me explain the same graphically on image (1.3).

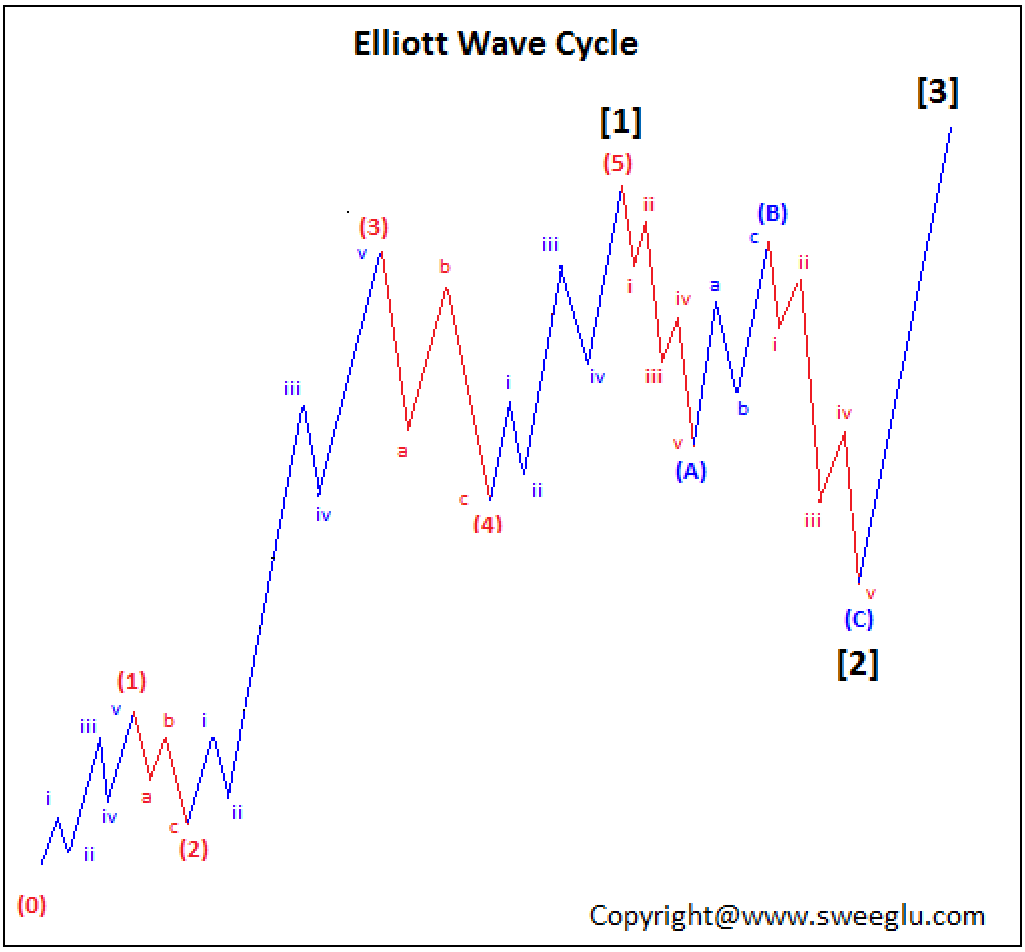


Image (1.3)

Look carefully at image (1.3),

- Small set of 5 inner waves (i, ii, iii, iv, and v) completed a wave cycle and formed bigger wave (1) and (a, b, c) correction formed wave (2).
- Wave (1) and (2) started a bigger wave cycle which will be completed after completion of wave (3), (4) and (5) [set of 5 waves].
- Further, set of 5 waves [(1), (2), (3), (4), (5)] completed a higher degree wave [1] and further [(A), (B), (C)] correction formed higher degree wave [2]. Now, this higher degree cycle will get completed after completion of waves [3], [4], [5] to form another higher degree wave {1} and same pattern will repeat again and again. This is never ending cycle.

Stock Market moves in this formation only, completing bigger impulsive followed by bigger correction. The up move till the completion of bigger impulse 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. Most of the major indices corrected almost 60-70-% from life time high and started new bull trend for new cycle. Have a careful look at chart on (Image 1.4) below.

(Image 1.4)

On image (1.4), Nifty completed its major wave cycle at 6357 in 2008 followed by major correction. Nifty corrected whole life move by more than 70%. The bounce till 6357 was bull phase and correction till 2252 was bearish phase or crash.

I marked major wave Cycle completed at 6357 as major wave (1) and correction as major till 2252 as wave (2) and major wave (3) is in progress from 2252. I also marked inner waves of (3) on this chart but it will be difficult for you to understand at this point of time, so just take it as example of wave cycle and read it thoroughly after completing the book.

Now, Nifty needs to complete wave (3), (4) and (5) to complete next major wave cycle before any further crash like 2008. Let's me give a visual example on same Nifty chart by drawing imaginary lines to show how this ongoing major wave cycle would complete.

Have a careful look at (Image 1.5)

(Image 1.5) Imaginary road map of Nifty based on Elliott Wave Cycle

Have a careful look at Chart on Image (1.5), it is general road map of Nifty to complete ongoing wave cycle until the completion of major wave (5).

Here, I tried to explain that,

- Major wave (1) and (2) is completed and (3) in progress and Nifty needs to complete wave (3), (4) and (5) to complete this ongoing major wave cycle.

- Completion of inner waves (i), (ii), (iii), (iv) and (v) will complete major wave (3). But only wave (i), (ii) is completed and (iii) in progress.

- Completion of inner waves [1], [2], [3], [4] and [5] will complete inner wave (iii) of major (3). But only wave [1], [2] is completed and [3] in progress.

- Completion of inner wave [i], [ii], [iii], [iv] and [v] will complete inner wave [3] or (iii) of major (3). But waves [i], [ii], [iii], [iv] are completed and [v] of [3] in progress.

- Completion of inner wave 1, 2, 3, 4 and 5 will complete inner wave [v] of [3] of (iii) of major (3). But waves 1, 2, 3 is completed and 4 or 4 in progress.

I marked different levels of waves using different number formats to distinguish. I tried to explain how a set of lower degree waves completes a higher degree waves and how we can use different number formats to mark waves of different degree.

Please read the chart carefully and try to understand the formation of wave cycle. Read step by step and focus on waves marked with similar format to understand its inner composition. Don't focus on logic because it will be difficult for you to understand reasons and rules behind counting right now, you will be able to understand every wave after completing this book. Just focus on understanding wave cycle right now.

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

- Wave 1 is impulse which a set of 5 inner waves.
- Wave 2 is corrective for wave 1 which corrects wave 1 and is a set of 3 inner waves
- Wave 3 is again impulsive after completion of wave 2 and a set of 5 inner waves.
- Wave 4 is corrective for wave 3 which corrects wave 3 and is a set of 3 inner waves.
- Wave 5 is again impulsive after completion of wave 4 and 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" Where: -

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

And this process repeats again and again and never ends. Turn back and read once more if you are not clear of the concept and then step forward to next topic, "Basic Rules of Elliott Wave Theory".

Basic Rules of Elliott Wave Theory: -

The basic concept of wave's cycles of EWT is already explained and now is 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. These rules 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 1, i.e wave 4 cannot go below the end of wave 1. There are exceptions in this rule and will be explained in later chapters.

Isn't it easy to remember?

Though these three rules are not everything about Elliott Wave's Theory but these three simple rules are backbone of EWT at the same time, these 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 in depth how to use these rules for profitable trading. For now, just remember these 3 rules.

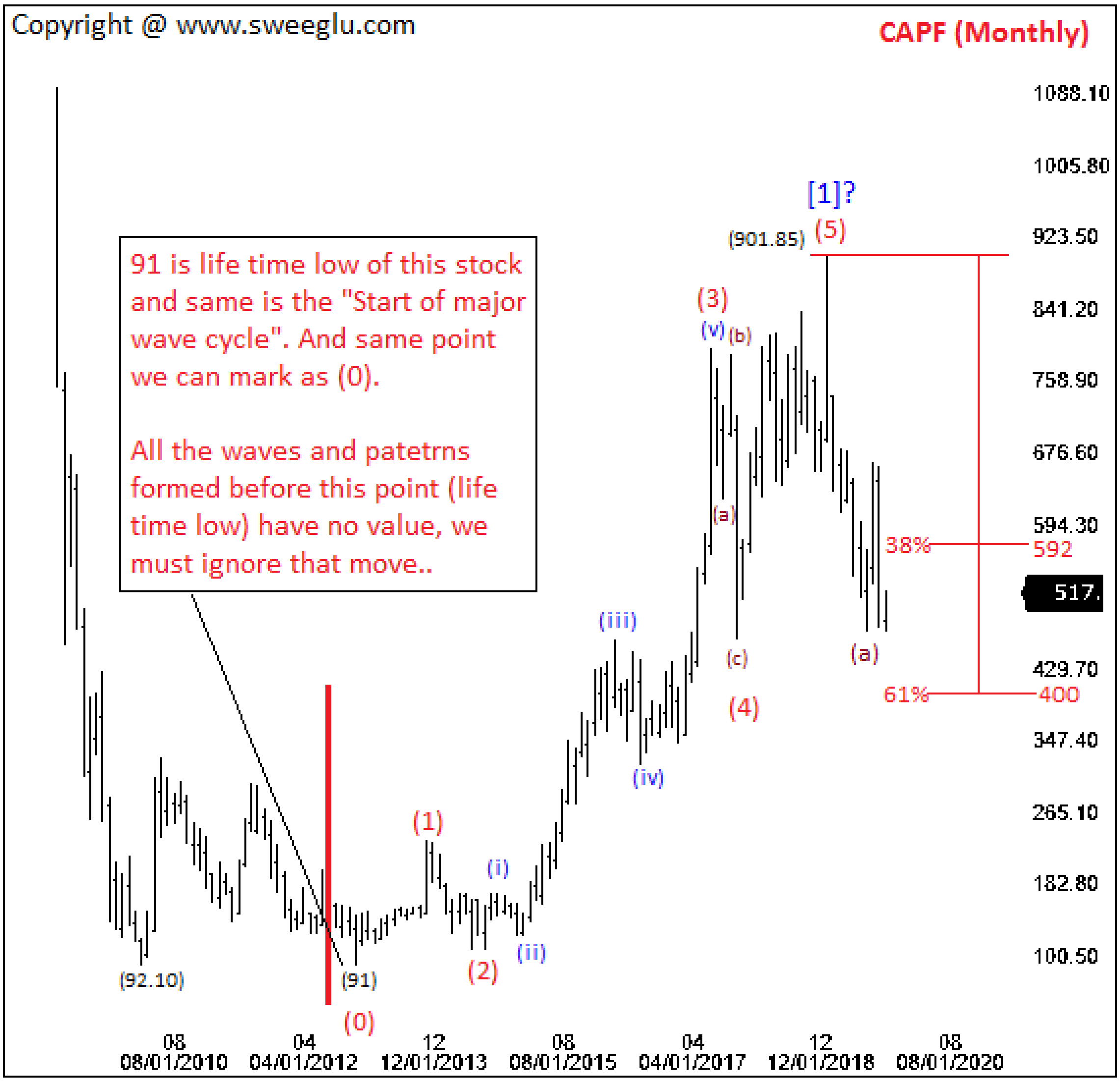
Where to take Point '0" or "the start of a wave cycle": -

I started wave counting from point '0' in most of the imaginary examples in this book. Point '0' indicates the "start of a wave cycle" in imaginary examples because we don't have a particular price point, otherwise "All Time Low" of any script is "start of wave cycle".

So, life time low of any particular stock or index can only marked as '0'. Otherwise every inner wave starts with the end of previous wave.

Some stocks crashes after completing a wave cycle to register new life time low. So, when a stock registers its fresh life time low then all its previous waves becomes invalid and new major wave cycle starts from new life time low.

Let me explain the same on chart. Please refer (Image 1.6) below.



(Image 1.6) Start of a major wave cycle

This is monthly chart of Capital First (CAPF) covering its life time of move. This stock listed above 1000 but declined to register its life time low 91 in 2012-2013. Later, it completed one major wave cycle from 91 to 901 as marked on chart.

So, its major wave cycle started from 91 and same we can mark as point (0). And all the wave formations and patterns formed before this life time low are of no use.

Because all previous journey of a stock becomes invalid after breaking below its life time low and new wave cycle starts from fresh low with new perspective and new personality.

CHAPTER 2

Fibonacci Ratios

Fibonacci Ratios is very important part of Elliott Wave Theory. All the calculation including length of waves, retracements, calculating levels, predicting targets etc are done with the help of Fibonacci Ratios and you are going to witness that these ratios (percentages) repeats again and again in EWT patterns. That's 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, so I covered the only part of "Fibonacci Ratios" which 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, 8+5 = 13 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%

These ratios are repeated again and again in financial market and we use most repeated ratios in Elliott Wave Theory.

The most repeated ratios in corrections/retracements are 23.6%, 38.2%, 50%, 61.8%, 78.6% and 100%. Elliott 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 also observed that it repeats again and again.

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% and so on. Ratios from 100%-461% and above are used for wave 3 and ratios from 38.2%-100% and above are used for wave 5. I will explain it in depth in chapter "Fibonacci Calculation of Waves".

You need to remember these ratios. Just remember 5 ratios of corrections and keep on adding 100 for extensions and projections. Otherwise, I am providing you an Excel Calculator with this book which I prepared for easy and fast Fibonacci Calculations.

This is all about "Fibonacci Ratios" you need to know for using in "Elliott's Wave Theory". I am going to explain that how these ratios can be used for low risk and high profit trades and investments in later chapters.

CHAPTER 3

Breakdown of Elliott Wave Theory

We already know, there are only 8 waves in Elliott's wave theory which repeats again and again (1,2,3,4,5 and A,B,C) either on smaller time frame or on bigger time frame, either these are lower degree waves or higher degree waves but at last, there are only 8 wave's in EW 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, Fibonacci Calculation and Pattern.

So, Elliott Wave Theory is not just a Wave Cycle consist of 8 waves but is a combination of: -

1. Wave Cycle
2. Wave's Personalities
3. Fibonacci Calculations
4. Wave patterns

And you need to have knowledge of all these 4 factors of Elliott Wave Theory to use it practically. Otherwise missing of any one these factors will make this awesome analysis method confusing for you.

First you need to understand every expect of Wave Cycles, Wave Personalities, Fibonacci Calculation and Wave Patterns and then you can use the combination of these 4 factors to find market movements with ease.

I had explained "Wave's Cycle" in chapter 1. And now I will explain Wave's Personalities, Fibonacci Calculations and Wave Patterns in next Chapter.

CHAPTER 3.1

Personalities of Waves

Personalities of waves don't carry very serious importance in Elliott Wave Theory but it can help to confirm the wave counts in tough conditions. Knowledge of Personality or behavior of waves can help to get out of confusion of Alternate wave counts some times. Out of 8 waves, understanding of personality of wave (3) is very important for every analyst. But I am writing short notes on personalities of every wave one by one this chapter.

Wave 1

Wave 1 generally doesn't carry any particular personality and characteristics and we don't need to give much importance to it. Wave (1) is just like a new born child and we can't understand its behavior. Wave (1) of main cycle can take months and even years to form sometimes.
We must wait for the completion of wave (1) and (2) to take any Investment/Trading decision.

Wave 2

Wave 2 starts with the end of wave 1 when investors and traders start booking profit. Wave 2 is generally a period of bear phase/recession/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.

Wave (2) is a corrective wave and corrective waves are mostly confusing. So, it is advised to avoid trading during progress of wave (2). Reason for the same will be explained in "Wave Patterns".

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 with 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 is normally steeper, sharper, faster and largest 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.

3. 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 to get maximum profit. The trader who tries to chase (trade against the direction) wave 3 often get penalized. The sharp and fast move of wave 3 makes it difficult to identify its inner wave formation some times, which further makes it impossible to calculate its top.

Trading Volume increases and most of short term chart, technical indicator, RSI etc shows market in overbought/oversold state during the progress of wave 3 but it doesn't stop even in highly overbought/oversold state.

I explained personality of wave (3) later also after explaining all the rules of EWT for better understanding.

Wave 4

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

So wave (4) is also a time of consolidation after a very Sharp and Big move of Wave (3) because profit booking at higher levels and buying at lower levels continues for some time.

Wave 5

Wave 5 is a last leg of main trend which is often confusing and can ends diagonally sometimes. It is almost difficult to predict the top of 5th unless you are experienced because it either ends diagonally or its inner waves follow rare calculations.

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.

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.

Wave A

Wave A is an impulse 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 wave A can also be sharp if it is after a highly extended wave 5.

Wave B

Wave B also carries same characteristics as wave 2. It is a period of consolidation when there is 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 and most confusing wave because wave (B) have no minimum/maximum retracement limit (will be explained later).

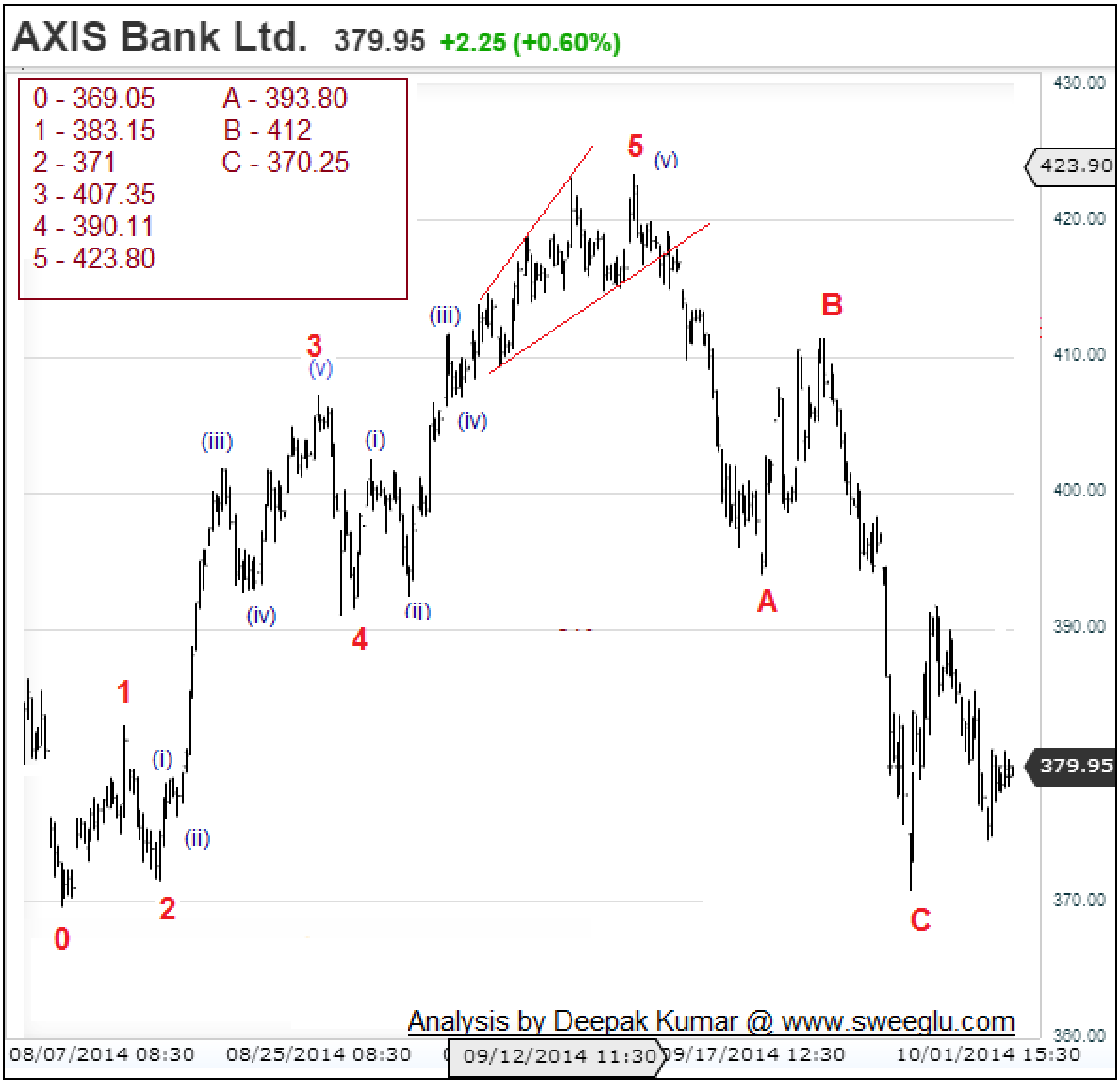


Image 3.1.1

Wave C

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

Wave C is always an impulsive in every type of correction and is a last leg of correction. Wave C is normally faster than A and B as it is the time when majority of traders/ investors are 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 is actually an end of ongoing trend followed by reversal. So, it is faster most of the time and scares traders before reversal.

Please look carefully at (Image 3.1.1) and try to compare of personalities of waves.

CHAPTER 3.2

Fibonacci Calculation of Waves

Calculation of Waves is all about Fibonacci Retracements and Projection of Waves. I had explained about Fibonacci Ratios in Chapter 2 and this chapter is all about the use of these Fibonacci Ratios for waves. Every Wave has particular Fibonacci Projection or retracement and I am explaining this chapter before “Wave’s Patterns” because you must have understanding of wave’s calculations before understanding the patterns.

Let me explain the concept of “Projection” and “Retracement” first before explaining Wave’s Calculations.

Projections: Projections we can resemble with Extensions. It is the extension after completion of Correction. Projections are used for wave (3), (5) and (C).

1. Wave (3) projects with respect to (1)
2. Wave (5) projects with respect to total move till wave (3)
3. Wave (C) projects with respect to wave (A).

Retracements: Retracement we can resemble to corrections. It is correction after completion of an Impulse. Retracements are used for wave (2), (4) and (B).

1. Wave (2) retrace wave (1)
2. Wave (4) retrace wave (3)
3. Wave (B) retrace wave (A)

Now, let me explain the Fibonacci calculation of Waves one by one: -

Calculation of Wave 1

There is no calculation for wave (1). We need some reference to calculate projections and retracements but wave (1) is the base of wave cycle and it is base of a wave cycle. So, we need to wait for formation of wave (1) to start counting and calculating further waves.

Fibonacci Retracement for Wave 2

Wave (2) retraces wave (1) by 38%-61% in most of the cases and 61% retracement also called as Golden Ratio. But there is no minimum limit of retracement for wave (2), it can be less than 38% also in some case.

There is Maximum limit for retracement for wave (2). Wave (2) can retrace maximum 100% of (1), means wave (2) can never break the start of (1). That is why we call 61% retracement as Golden ratio because it gives best Risk Reward. If we buy at 61% retracement of wave (1) then stoploss will be just 38% (start of wave 1) and minimum Targets will be 61% (end of wave 1).

So, 38%-61% is normal retracement for wave (2) which we generally see, 61% is golden retracement ratio, 100% is maximum limit of retracement for wave (2). But there is no minimum limit of retracement.

Have a careful look at Image 3.2.1 to understand it visually.

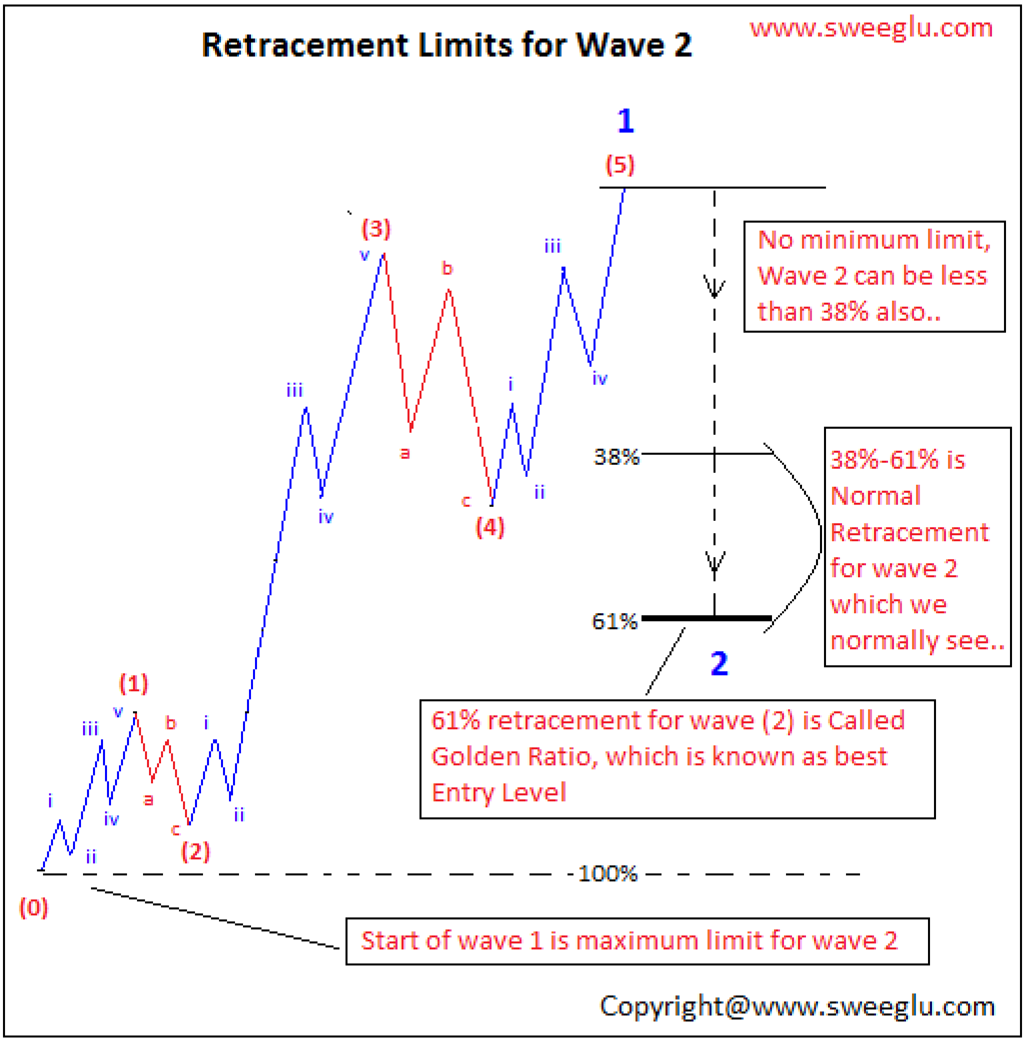


Image 3.2.1 (Retracement Limits for wave 2)

Projection for Wave (3)

1. Wave (3) projects minimum 100% of (1).
2. 100%-161% is called as Normal Projection for wave (3).
3. Wave (3) is called as extended wave when project more than 161% and wave (3) is extended (more than 161%) most of the time.
4. There is no maximum limit for projection of wave (3). Wave (3) normally project 161%-461% but it can go even higher.

So, there is minimum projection limit for wave (3) which is 100% but there is no maximum limit. That's why analysts says, wave (3) can make you rich if you manage to catch it.

Have a careful look at Image 3.2.2 to understand it visually.

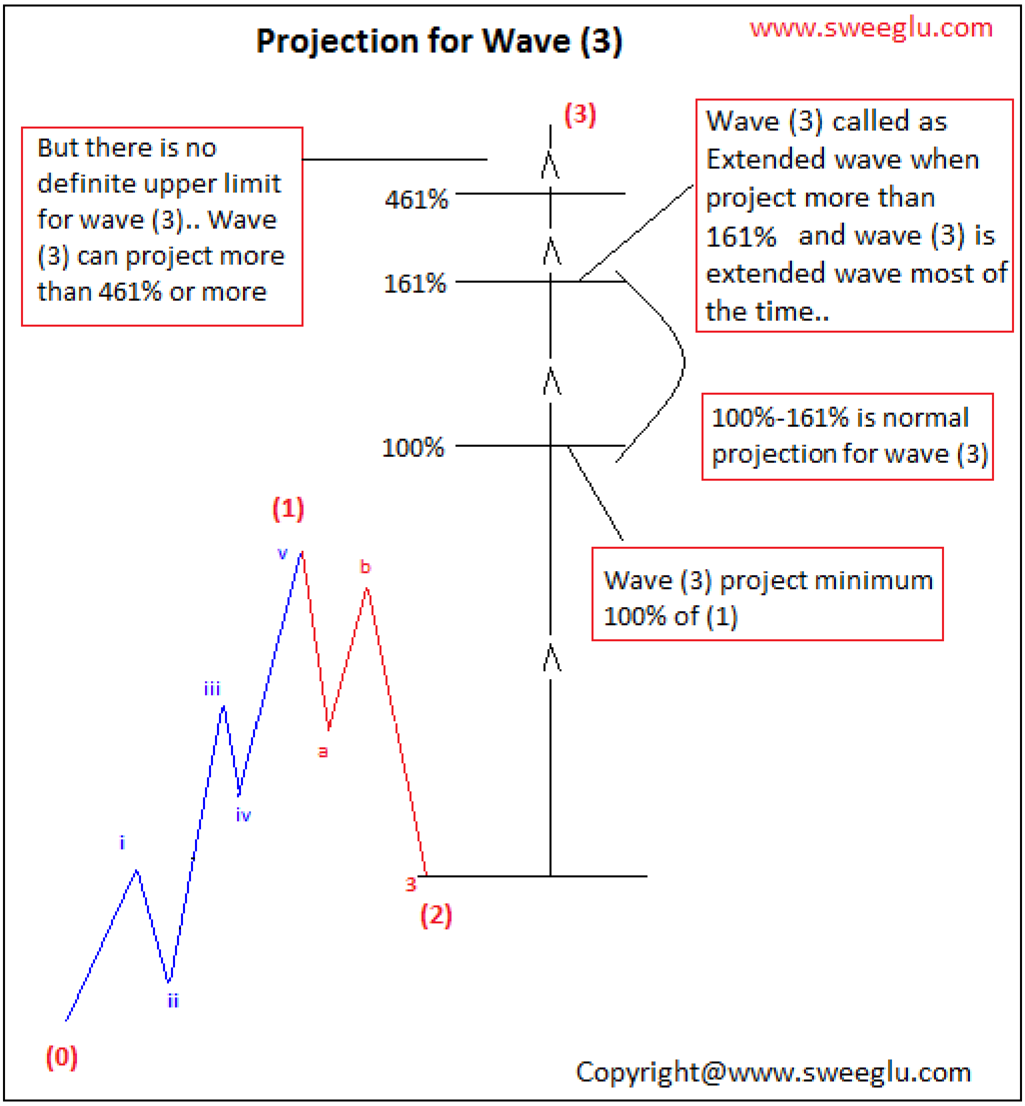


Image 3.2.2 (Projection Limits for wave 3)

<u>Retracement for Wave 4</u>

1. Wave (4) retraces wave (3) normally by 23%-38%. Means wave (4) is 23%-38% of wave (3) most of the time. And we normally expect wave (4) to retrace 23%-38%.
2. There is no minimum limit of retracement of wave (3), it can be lower than 23% and can even be as low as 10%.
3. Wave (4) can retrace more than 38% also in some cases but maximum limit of retracement for wave (4) is the end of wave (1). Means wave (4) can never break beyond the end of wave (1) or wave (4) can never overlap wave (1) within Impulse.

Note: Wave (4) can overlap wave (1) within “Diagonal Triangles” but this is separate case and I explained it separately in “Diagonal Triangles” Chapter.

Have a careful look at Image 3.2.3 to understand it visually.

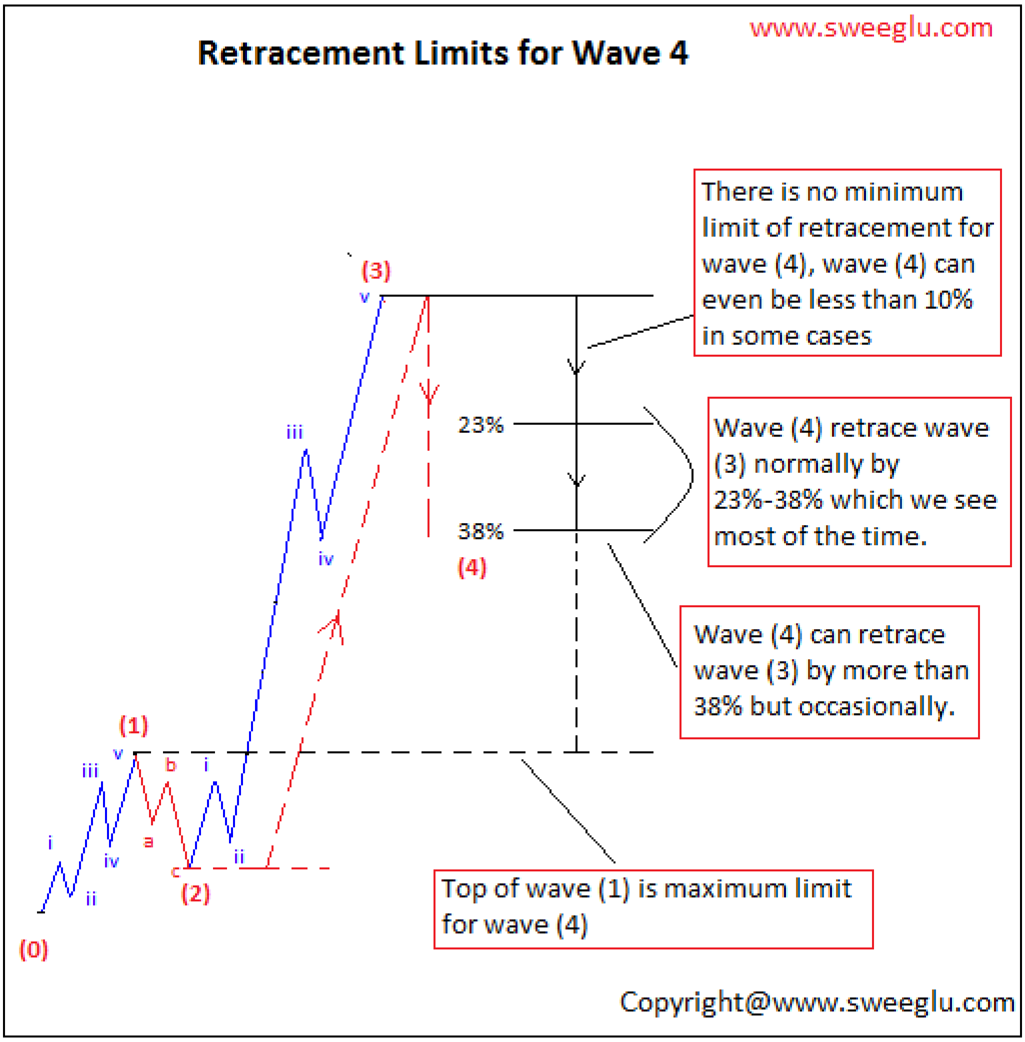


Image 3.2.3 (Retracement limits for wave 4)

<u>Projection for wave (5)</u>

Projection for wave (5) is to be calculated with respect of total move from start of wave (1) to end of wave (3). Means we take total move from (0) to (3) to calculate projection of wave (5).

1. Wave (5) projects “minimum 38%” and must “complete after the end of wave (3)”. This is the minimum requirement for completion of wave (5) and both the conditions must meet.
2. Wave (5) projects 38%-61% in most of the cases which we generally see.
3. Wave (5) called as extended wave after projecting above 61%.
4. There is no exact maximum limit of projection for wave (5) but we rarely see wave (5) projecting more than 100%-123%.

Have a careful look at Image 3.2.4 to understand it visually.

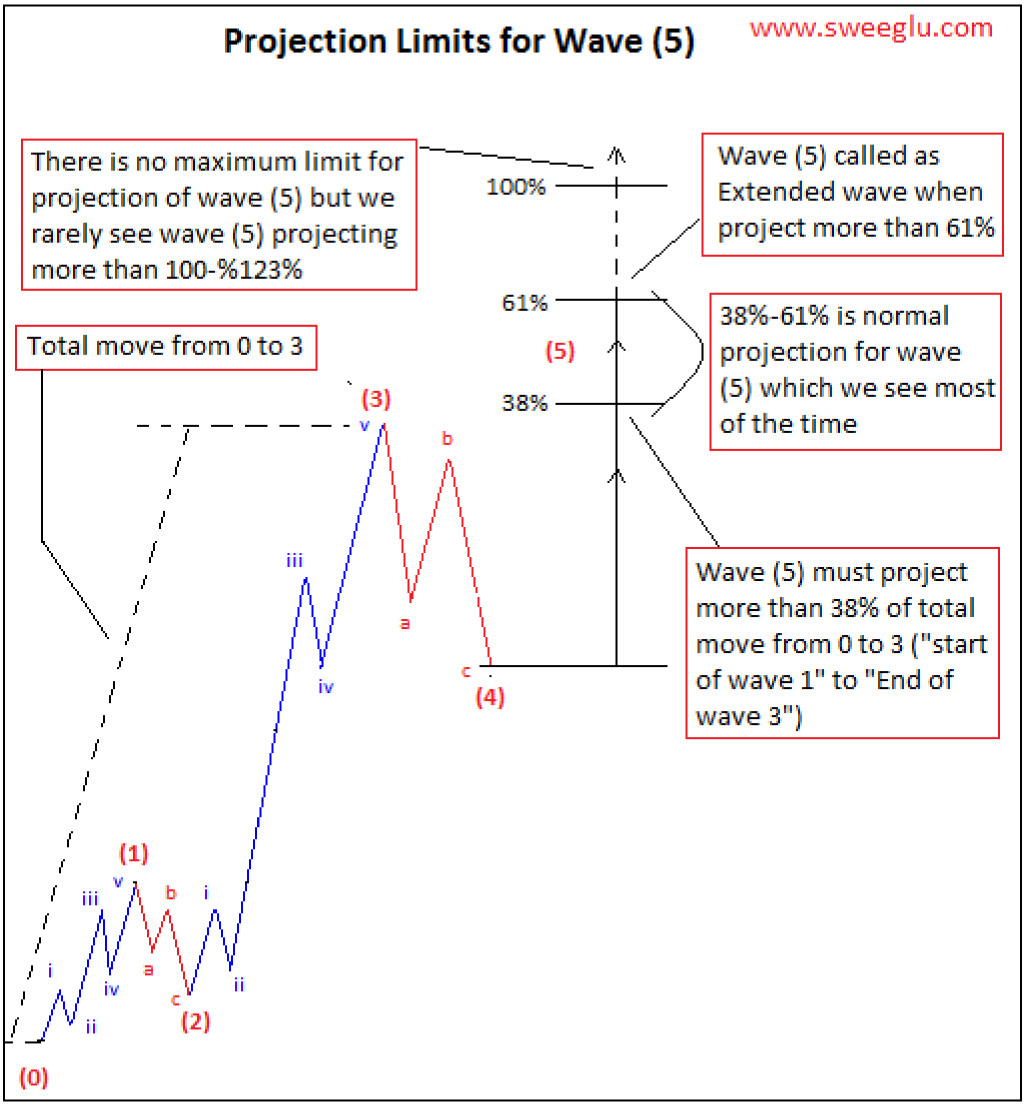


Image 3.2.4 (Projection limits for wave 5)

Calculation of Wave (A)

There is no particular retracement or projection for wave (A) like wave (1). We need to wait for wave (A) to form to calculate next waves. But idea of retracement for wave (A) can be taken from previous waves.

Suppose wave (3) is completed, then wave (4) normally retraces 23%-38% of (3). So, (A) of (4) can be assumed to retrace 23%. We can just get idea but we should not trade it.

Have a careful look at Image 3.2.5 to understand it visually.

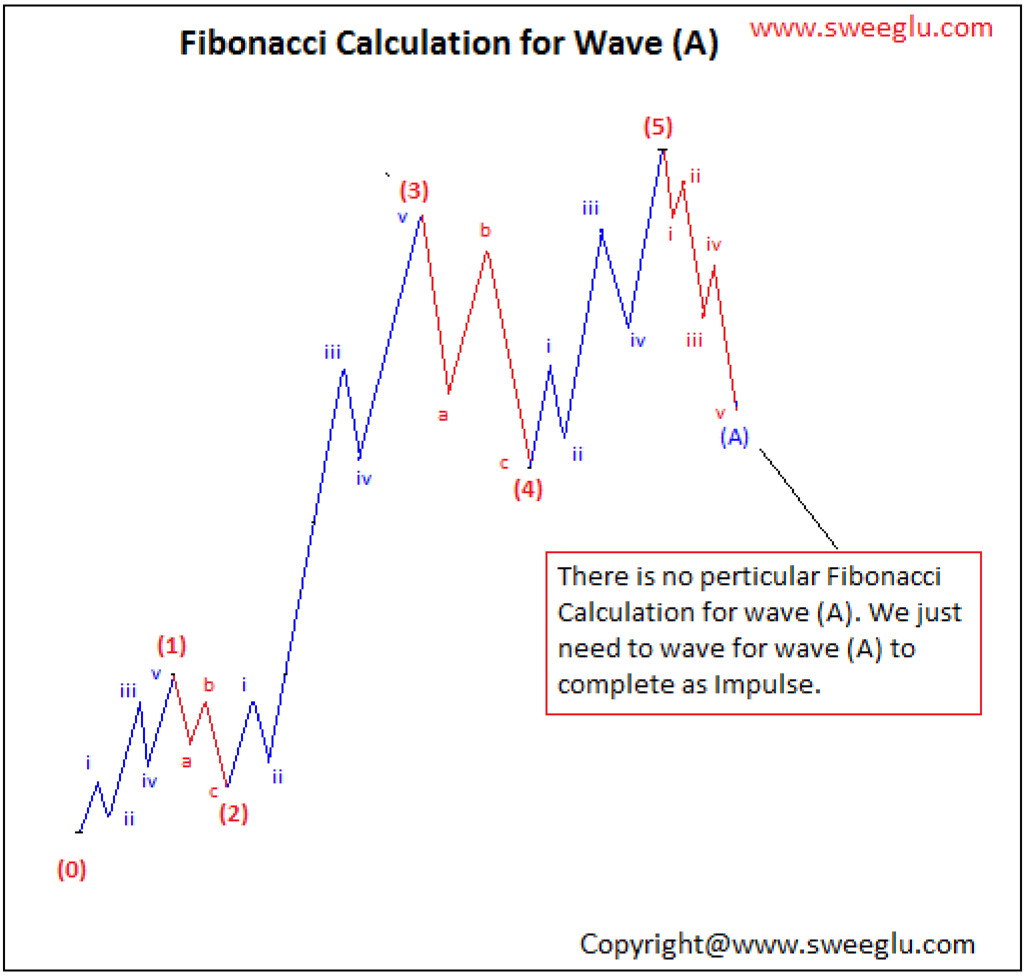


Image 3.2.5 (Calculations for wave A)

<u>Retracement for wave (B)</u>

Wave (B) is most confusing wave of Elliott Wave Cycle because there is no minimum or maximum limit of retracement for wave (B). Wave (B) retraces its previous wave (A), means retracements for wave (B) are calculated with respect to wave (A)

1. 38%-61% is general/normal limit of retracement for wave (B).
2. Wave (B) retraced wave (A) exactly by 100% in “3-3-5 Flat Correction”, it is explained separately in next chapters.
3. Wave (B) retraces wave (A) by more than 100% in “Irregular Correction”, it is also explained separately in next chapters.
4. But there is no minimum or maximum limit of retracement for wave (B). Wave (B) can retrace lower than 23% or higher than 123%, that’s why it is most confusing wave of Elliott Wave Theory.

Have a careful look at Image 3.2.6 to understand it visually.

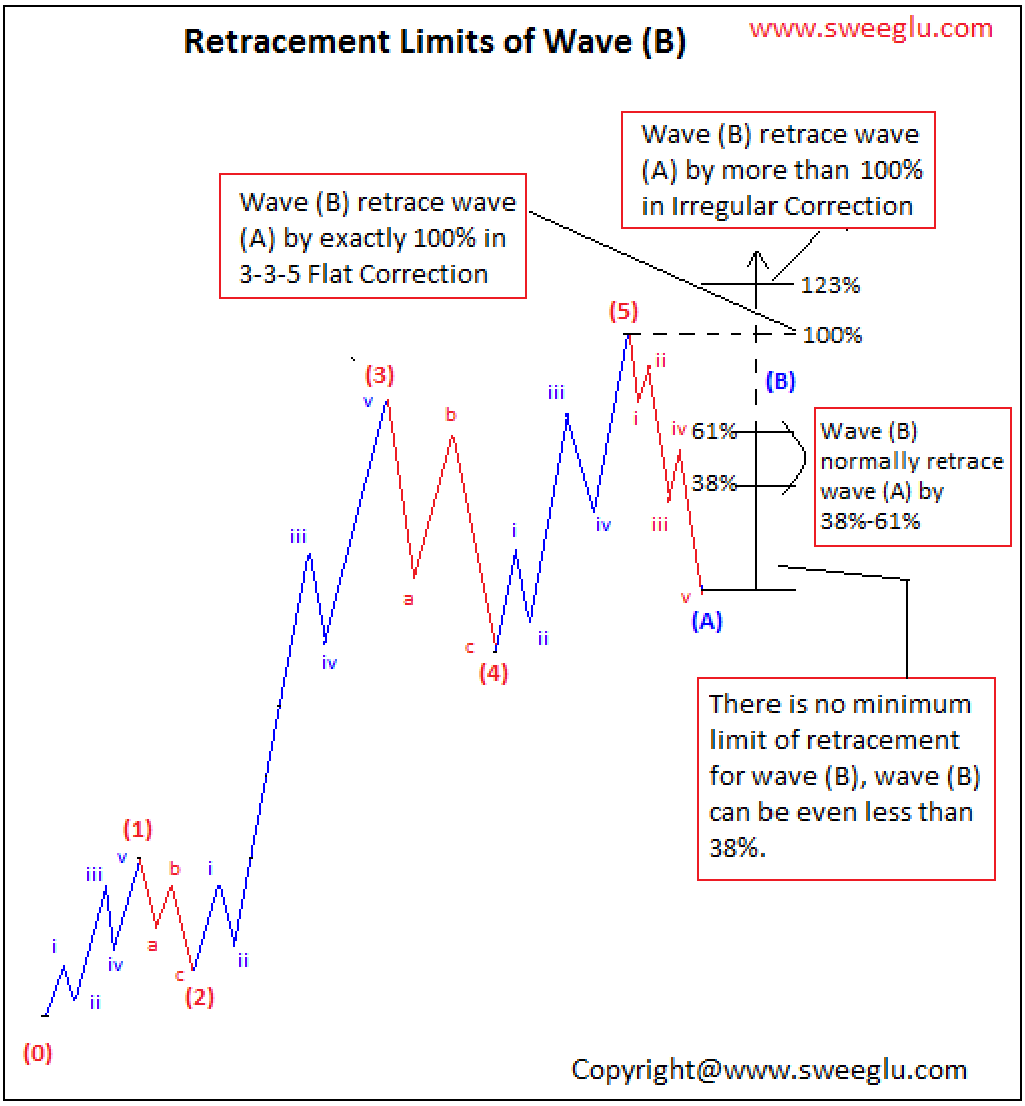


Image 3.2.6 (Retracement Limits for wave B)

<u>Projection for wave (C)</u>

Projection for wave (C) is calculated with respect to wave (A).

1. Wave (C) normally projects 100%-123% of (A).
2. Minimum projection limit of projection for wave (C) is 61%, means wave (C) must be 61% in any case.
3. Wave (C) rarely project more than 161% but there is no exact upper limit for projection. Wave (C) can even be 261%-461% in some cased when wave (A) is smaller. But we can get maximum limit of wave (C) from previous wave. Suppose, if wave (C) is of wave (4) then maximum limit of wave (C) is end of wave (1) because wave (4) can not overlap (1).
4. Wave (C) always completes beyond the end of (A) in Simple Zigzag. But (C) can complete before the end of (A) in Flat or Irregular Correction (explained in next chapters)

Have a careful look at Image 3.2.7 to understand it visually.

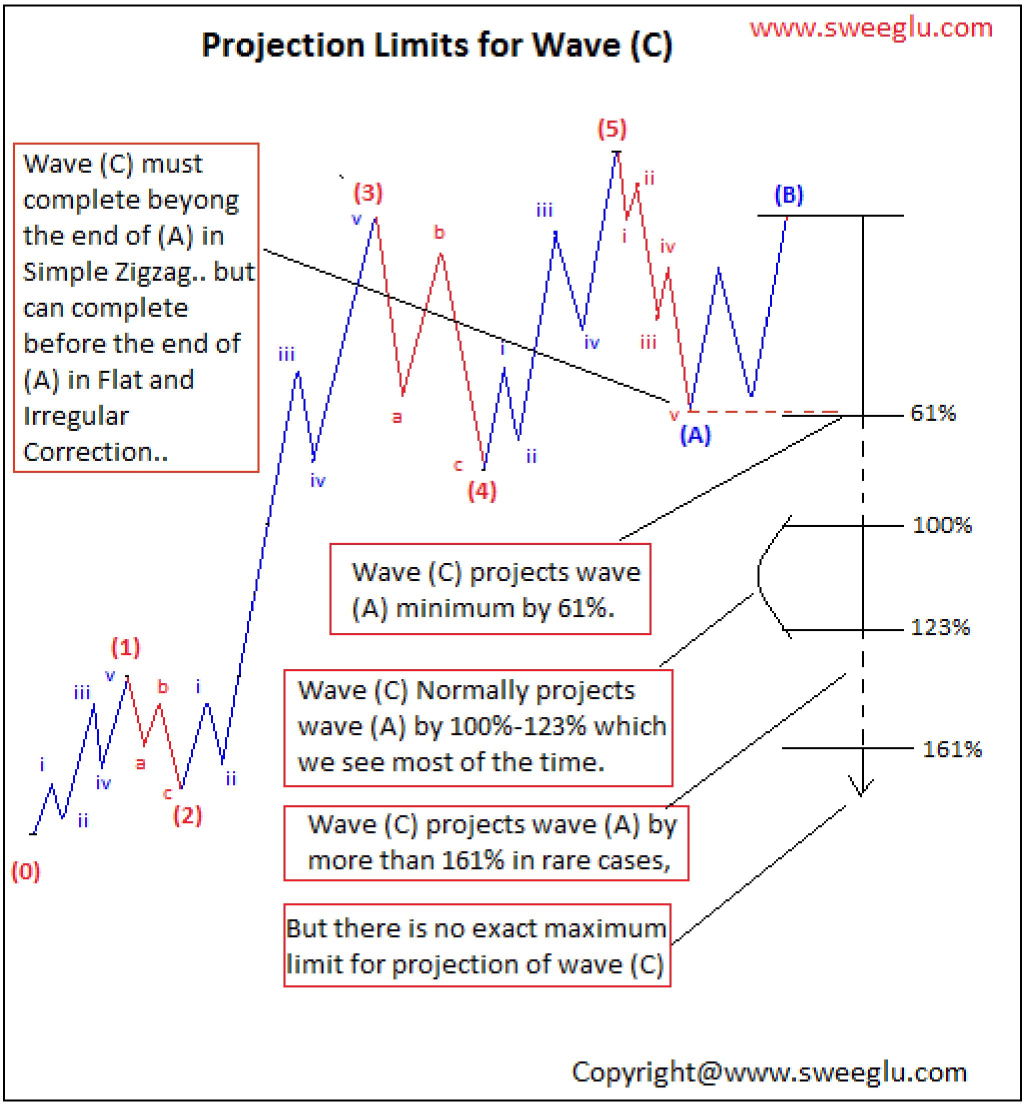


Image 3.2.7 (Projection limits for wave C)

One important thing you must have observed in this chapter that there is "no minimum limit for Retracement" and "No maximum limit for Projection" of wave. But there is always "maximum limit for Retracement" and "Minimum Limit for Projection".

So, we always take retracements as Stoploss because stoploss we always place at maximum limit and Projections we use for Targets because we always use minimum limits for targets.

And Fibonacci ratios can be used best only with combination of Elliott Waves because Every wave has its particular Fibonacci Calculations limits and you can use it better if you can identify the wave in progress. Using Fibonacci Ratios without Elliott Wave is just a Guess.

Fibonacci Calculations is Just a Helping Tool:

“Fibonacci Calculations” we use just as helping tool or guideline but “Elliott Wave Patterns” has more importance in Elliott Wave Theory Analysis because there is no fixed Fibonacci Calculation for any wave. We use Fibonacci Calculation only when we don’t have pattern of any wave. I will explain this point separately in later chapter “Combining Wave Patterns with Fibonacci Calculations”.

So, we need to know the pattern of every waves to be able to check if wave is completed or not, and next chapter is all about patterns of wave explaining all patterns separately.

CHAPTER 3.3

Elliott Wave Patterns

This chapter is most important part of this book because Elliott Wave Theory is nothing without Elliott Wave Patterns. Elliott wave cycle consists of 8 waves but every wave has its own Elliott Wave Patterns. And we must have picture of every pattern in our mind to identify waves accurately and to confirm if waves you are marking are correct or not.

There are only 7 Patterns of Elliott Wave Theory which further divided into 3 categories. And 3 categories are, Impulse, Diagonal Triangle and Corrections:-

1. **Impulse** : Impulse is an Independent Pattern

2. **Diagonal Triangles:** There are 02 type of Diagonal Triangle
   (i) Ending Diagonal Triangle
   (ii) Leading Diagonal Triangle

3. **Corrections or Correctives:** There are 04 type of Corrections/Corrective Patterns:
   (i) Simple Zigzag Correction
   (ii) Irregular Correction
   (iii) 3-3-5 Flat Correction
   (iv) Complex Correction
      a. Double Zigzag
      b. Triple Zigzag

So, there are total 07 Elliott Wave Patterns: -

(i) Impulse
(ii) Ending Diagonal Triangle (ED)
(iii) Leading Diagonal Triangle (LD)
(iv) Simple Zigzag Correction
(v) Irregular Correction
(vi) 3-3-5 Flat Correction
(vii) Complex Correction

And I am going to explain every pattern in details later in this chapter but let me explain which wave can have what pattern before going further.

Patterns of Wave 1: Wave 1 can have 02 patterns:
(i) Impulse
(ii) Leading Diagonal Triangle

Means, whenever you are marking any move as wave 1, you must ensure that the move you are marking as wave 1 is either “Impulse” or “Leading Diagonal Triangle”.

Patterns of Wave 2: Wave 2 can have 04 patterns:
- (i) Simple Zigzag Correction
- (ii) Irregular Correction
- (iii) 3-3-5 Flat Correction
- (iv) Complex Correction

Patterns of Wave 3: Wave 3 can have only 01 pattern:
- (i) Impulse

Means wave 3 is always an "Impulse". Wave 3 can never have any other pattern.

Patterns of Wave 4: Wave 4 can have 04 patterns:
- (i) Simple Zigzag Correction
- (ii) Irregular Correction
- (iii) 3-3-5 Flat Correction
- (iv) Complex Correction

Patterns of Wave 5: Wave 5 can have 02 patterns:
- (i) Impulse
- (ii) Ending Diagonal Triangle (ED)

Patterns of Wave A: Wave A can have 02 patterns:
- (i) Impulse in Simple Zigzag
- (ii) Any Corrective Pattern (Simple, Irregular or Flat) in case of Irregular and Flat Correction.

Patterns of Wave B: Wave B can have 04 patterns:
- (i) Simple Zigzag Correction
- (ii) Irregular Correction
- (iii) 3-3-5 Flat Correction
- (iv) Complex Correction

Patterns of Wave C: Wave C can have only 01 pattern:
- (i) Impulse

Means wave C is always an "Impulse". Wave C can never have any other pattern.

Please look carefully at (Image 3.3.1) to understand it visually.

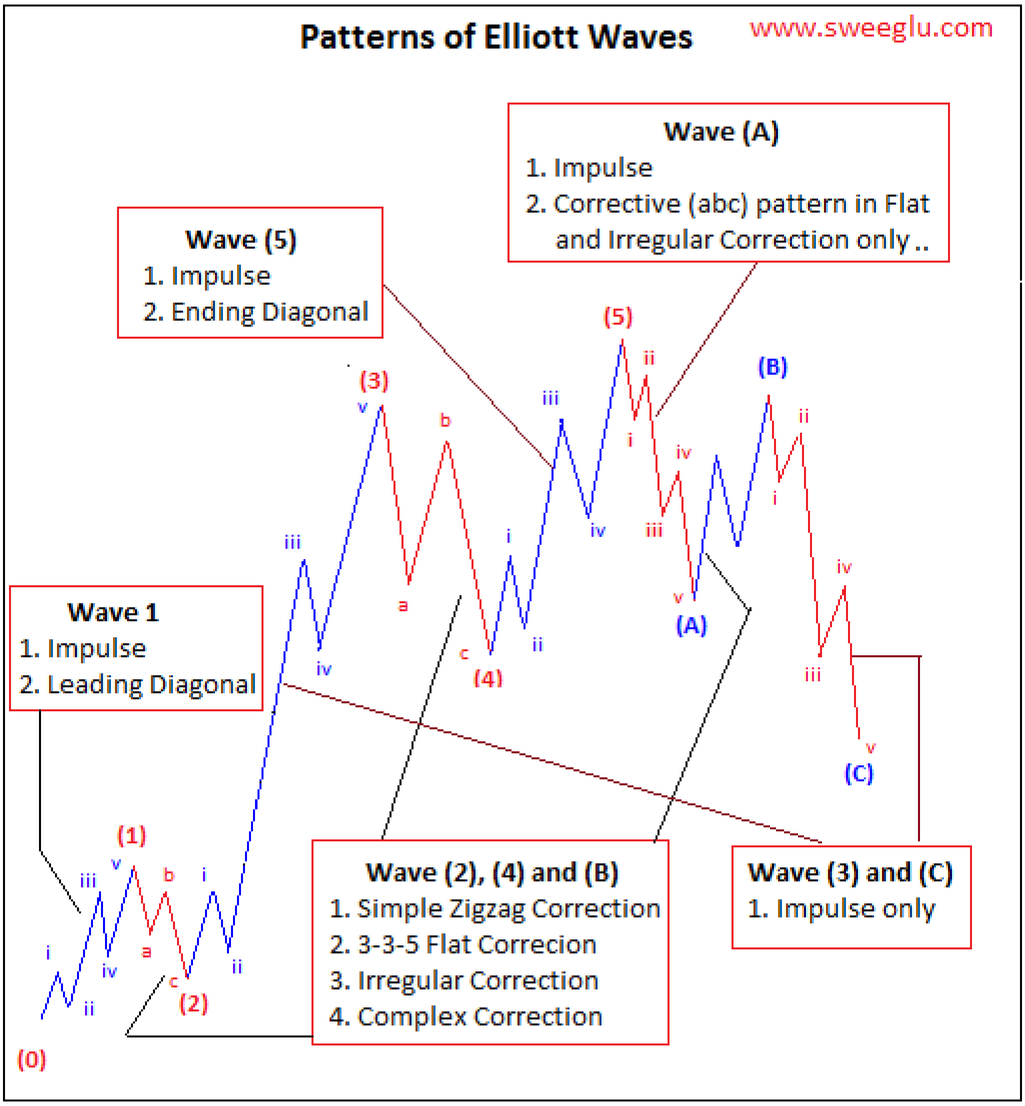


Image 3.3.1 (Patterns of Elliott Waves)

I hope the concept of “which wave can have what pattern” is clear. Now, I am going to explain every pattern of Elliott Wave Theory one by one.

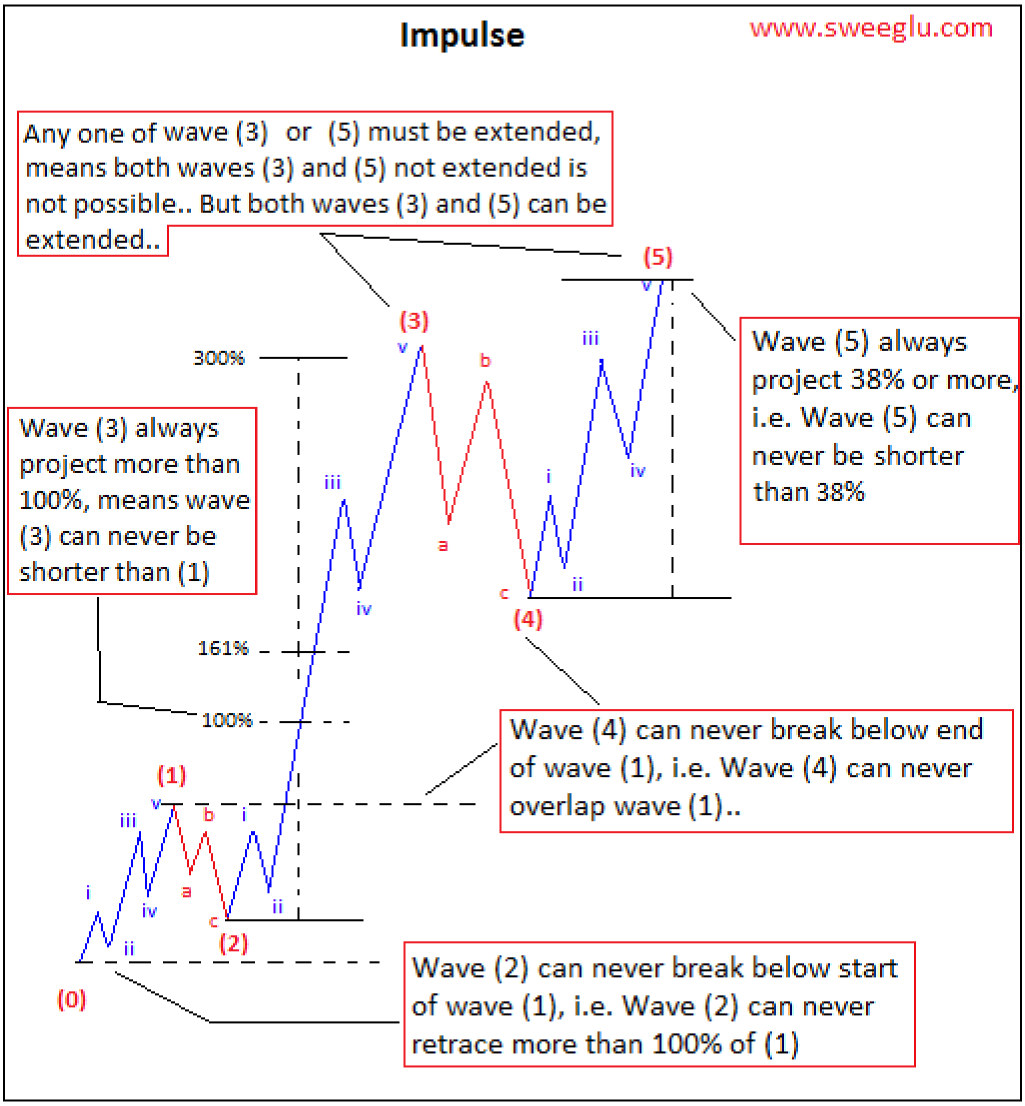
CHAPTER 3.3.1

Impulse

“Impulse” is a basic pattern of Elliott Wave Theory or we can say Impulse is base of Elliott Wave Theory. The whole Elliott Wave Cycle is identified as an Impulse which includes all other patterns.

When I say that “wave (3) and (C) is always an Impulse”, you must know what the Impulse actually is and what are the rules and guidelines to identify or to confirm it. So, let me explain the pattern Impulse with all its rules and guidelines.

Read all the rules and guidelines carefully and also have a careful look at the Image 3.3.1.1 to understand it visually.



(Image 3.3.1.1) Impulse

"Impulse" is always a 5 wave's move and we mark it as 12345 or (i) (ii) (iii) (iv) (v) or by one other number format. Means an Impulse is consist of five waves, Wave 1, 2, 3, 4 and 5.

If you looks at any real time chart of any stock and index then you will see the formation of many up-down waves, but you cannot select any set of 5 waves as Impulse, rather there are definite rules and guidelines which justify a set of 5 waves as Impulse Pattern. So, let's know the rules and guidelines of an Impulse: -

The mandatory rules and guidelines of Pattern Impulse: -

1. Inner Wave (2) of an Impulse can never retrace more than 100% of previous wave (1), means wave (2) can never be larger than wave (1), means wave (2) can never breach the start point of wave (1) within impulse.

2. Wave (3) always project more than 100% of wave (1), means wave (3) is always larger then wave (1) within Impulse. There is no upper limit for projection of wave (3), means wave (3) can project 161%-461% or even 1000% of wave (1) but it can never be less than wave (1). Wave (3) don't have any such relation with wave (5), means wave (3) can be either smaller or larger than wave (5).

3. Wave (4) can never overlap wave (1), means wave (4) cannot breach the end point of wave (1). End point of wave (1) or start point of wave (2) is the maximum limit for wave (4) to retrace.

4. Wave (5) always project minimum 38% or more, means wave (5) can never be shorter than 38% in any case, means 38% is minimum limit for projection of wave (5). (If wave (3) is not extended then minimum projection for wave (5) is 61%, "Rules of extensions"). But there is no upper limit for projection of wave (5). Calculation for wave (5) projections is explained earlier chapter.

5. Any one of wave (3) or (5) must be extended, means "both waves (3) and (5) not extended" is not possible within Impulse. Otherwise, both waves (3) and (5) can be extended. Eg. if you are seeing that wave (3) is not extended then you must expect wave (5) to be extended (project more than 61%).

These are the five basic and mandatory rules for identification of an Impulse. If the counts you are marking or expecting are breaching any of these rules then you are wrong somewhere at identifying.

Example: Suppose you are expecting a move on chart as wave (C) and you know that wave (C) is always an Impulse or have Impulse Pattern. So, you must make sure that wave (C) is consist of 5 waves and this set of 5 waves is following all the rules explained above. And if the set of 5 waves is not following any of these rules then either it is not wave (C) or you are wrong at marking the wave counts.

Please look at (Image 3.3.1.1) and read the explanation carefully for visual understanding.

CHAPTER 3.3.2

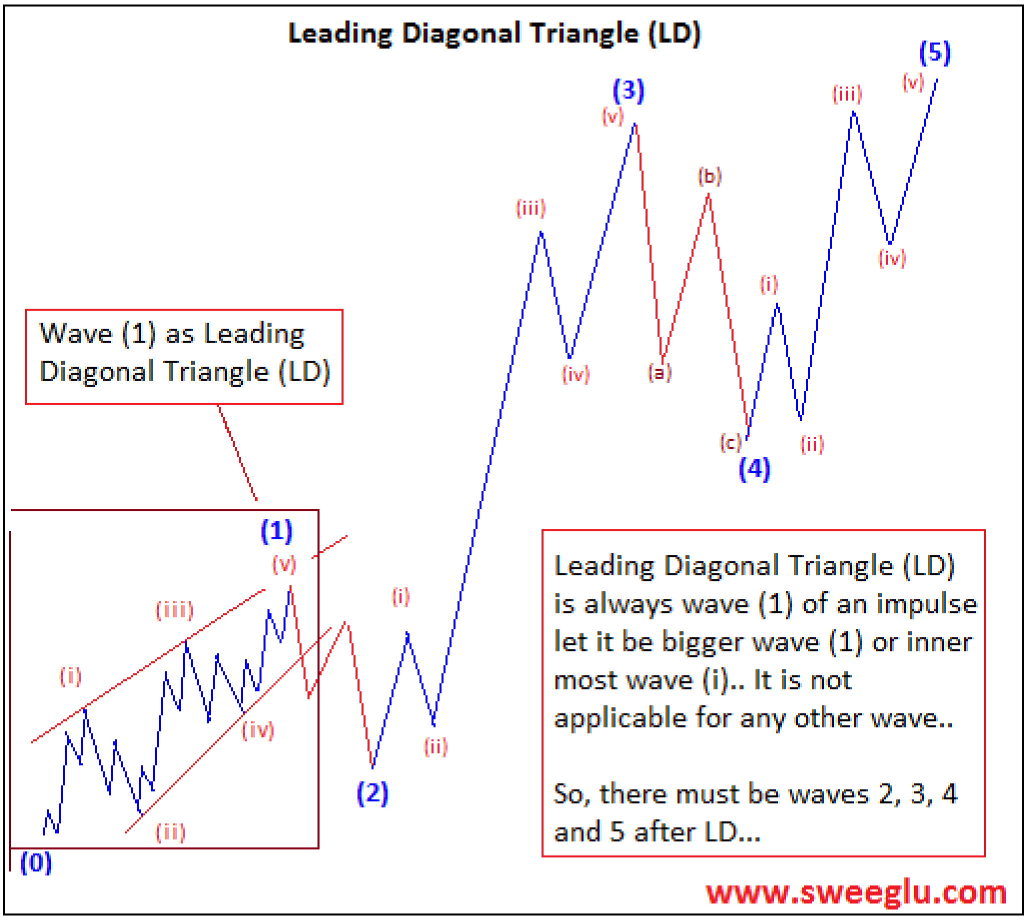
Leading Diagonal Triangle (LD)

Leading Diagonal Triangle also called as LD (short form) is one of the complex patterns of Elliott Wave Theory which is the part of main proceeding trend. Many analysts and learners find it difficult to identify this pattern accurately because of ignorance or lack of knowledge about the rules and its inner wave calculations.

So this chapter is going to explain "Leading Diagonal Triangle" pattern in details with its structure, rules and inner wave calculation, and I am going to make sure that whenever you observe this pattern, you identify it perfectly and accurately.

Leading Diagonal Triangle:

First and most important thing to remember is that "Leading Diagonal Triangle pattern occurs only in wave (1)" of an impulse let it be a major wave (1) or inner wave (i) of an impulse. So whenever you are observing something like LD, you need to remember that it is wave (1) and there will be wave (2), (3), (4) and (5) later to complete impulse because LD cannot happen anywhere, it is always a wave (1). Remember, inner wave (1) of any Impulse can only be LD, but inner wave (1) of LD cannot be LD. Look carefully at Image 3.3.2.1)



(Image 3.3.2.1) Leading Diagonal Triangle Pattern

Pattern of Leading Diagonal Triangle:

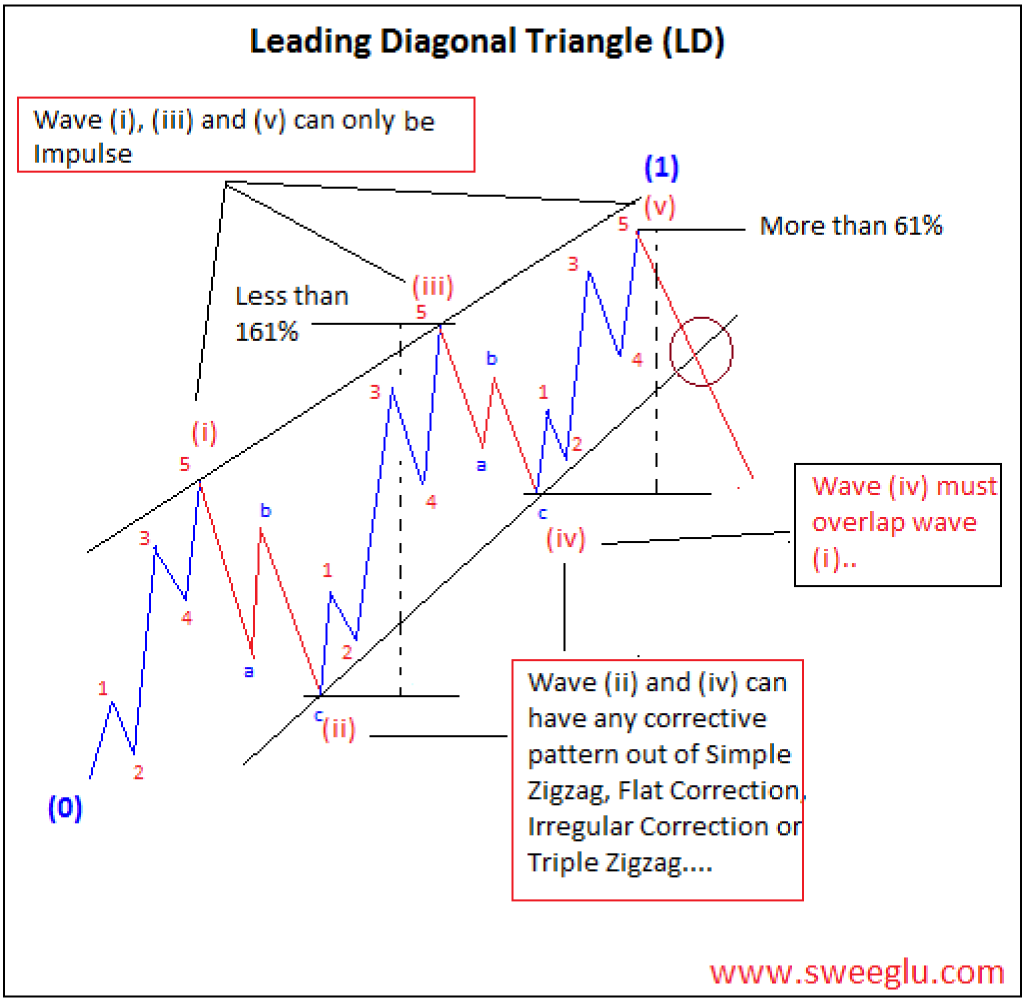
1. Leading Diagonal Triangle (LD) comprises of 5 inner waves with 5-3-5-3-5 pattern. Inner wave (i), (iii) and (v) of LD are Impulse (5 waves) and inner wave (ii) and (iv) are corrective (3 waves) that's why we call it 5-3-5-3-5. And within those 5 waves,

    (i) Waves (i), (iii) and (v) is always a clean Impulse.
    (ii) Wave (ii) and (iv) can have any corrective pattern out of Simple Zigzag, Flat Correction, Irregular Correction and Triple Zigzag (combination of 'abc' patterns).

2. Wave (iv) always overlap wave (i) in Leading Diagonal Pattern. Normally wave (iv) can never overlap (i) in a five wave's impulsive move but Wave (iv) must overlap wave (i) in LD. Actually overlapping of wave (iv) with (i) only makes it Diagonal otherwise it would be impulse. Though wave (iv) always enters the range of wave (i) but wave (iv) can never break below the end of (ii).

3. Inner wave (iii) of Leading Diagonal can never be extended wave, means it can never project more than 161%. Whereas, wave (v) of LD is extended most of the time, means it project more than 61% most of the times. Its inner waves follows the same rule of alternation that either one of wave (iii) and (v) needs to be extended. Because wave (iii) cannot be extended in LD, so wave (v) is always extended in LD.

Have a careful look at (Image 3.3.2.2)



(Image 3.3.2.2) Pattern of Leading Diagonal Triangle

Drawing the pattern of Leading Diagonal Triangle (LD)

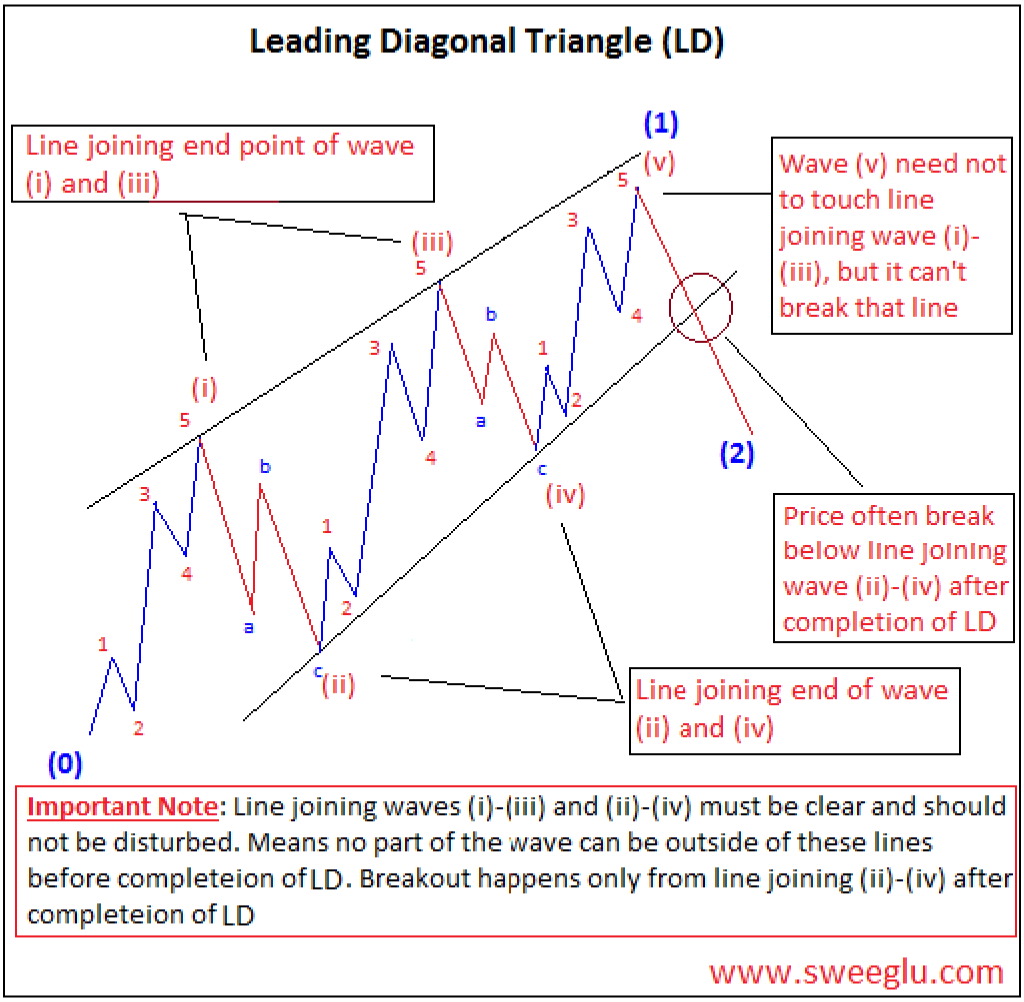
LD is always a closed pattern which forms a Wedge or Channel that's why we call it a Leading Diagonal "Triangle" because it always form a closed triangle pattern (Expanding or converging) or parallel wedge. And there is a definite way to draw the lines of pattern. Most of the analysts and learners make mistakes in drawing the lines of LD and mark it in a wrong way. So let me explain the only perfect way to draw the lines and importance of these lines.

First thing to remember is, LD is always a closed pattern and can never be an open pattern. So, always draw the lines whenever you are expecting or observing a Leading Diagonal. Even drawing the line will solve maximum of your confusions. And the rules to drawing lines are: -

1. There are 02 lines in Leading Diagonal Triangle pattern (upper and lower) and one line must be drawn by joining end point (tip) of wave (i) and (iii) and other line must be drawn by joining end point of wave (ii) and (iv). Many analysts draw line from start of wave (i) which is not the correct way.

2. Both the lines joining wave (i)-(iii) and (ii)-(iv) can never be disturbed. Means no part of any wave can be out of these lines until the LD is completed. If you are expecting a

Leading Diagonal but these lines are disturbed or broken then either you are marking it wrong or it is not Leading Diagonal.



(Image 3.3.2.3) Drawing the pattern of Leading Diagonal Triangle

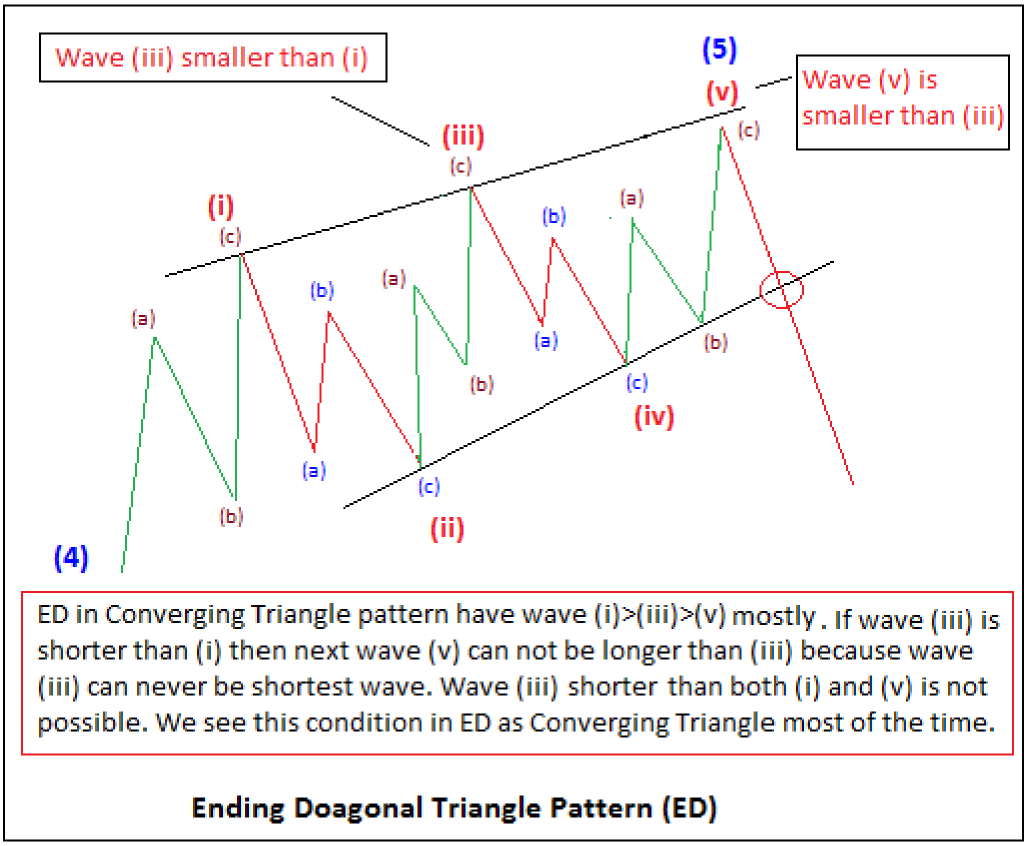
3. Last wave (v) of LD need not to touch the line joining (i)-(iii). Wave (v) of LD just needs to break the end of wave (iii) and to achieve its minimum Fibonacci projection. The minimum limit of inner wave (v) of LD is end point of wave (iii) and maximum limit is the line joining wave (i)-(iii). Wave (v) can never break out of the line joining (i)-(iii).

4. Breakout always happens from the line joining wave (ii) and (iv) after completion of LD. Means you can always expect price to break below/above the line joining waves (ii)-(iv) after completion of wave (v) of LD. Means, Leading Diagonal is always wave (1), so next wave (2) will always break and complete below line joining inner wave (ii)-(iv) of LD. Please pay attention carefully at (Image 3.3.2.3).

Structure of Leading Diagonal Triangle:

Many analysts argue that Leading Diagonal can be Converging Triangle only and some says it can be Expanding Triangle only but I observed this Leading Diagonal Triangle in all forms. LD can either be in Expanding Triangle, Converging Triangle or in Parallel Wedge form. There is no such definite rule about types of triangle, only rules and calculation must match. But, I have observed Leading Diagonal as "Converging Triangle" or "Parallel Wedge" in most of the cases and Expanding Triangle in very limited cases.

Leading Diagonal Triangle with wave (i)>(iii)>(v)



(Image 3.3.2.4) Leading Diagonal as Converging Triangle

Inner wave (iii) of ED is larger than wave (i) most of the time, means wave (iii) of LD project 100%-161% in most of the cases. But wave (iii) can also be shorter than (i) in some cases but not less than 61%, means wave (iii) project 61%-100% of (i) in some cases. But in such cases when wave (iii) is shorter than (i), next wave (v) must be less than (iii).

There is one mandatory rule of Elliott Wave Theory that wave (3) or (iii) can never be shortest wave, means wave (3) can never be shortest waves among (1), (3), (5). So, when wave (iii) is already shorter than (i) then wave (v) must be shorter than (iii) because wave (iii) can never be shorter than both (i) and (v).

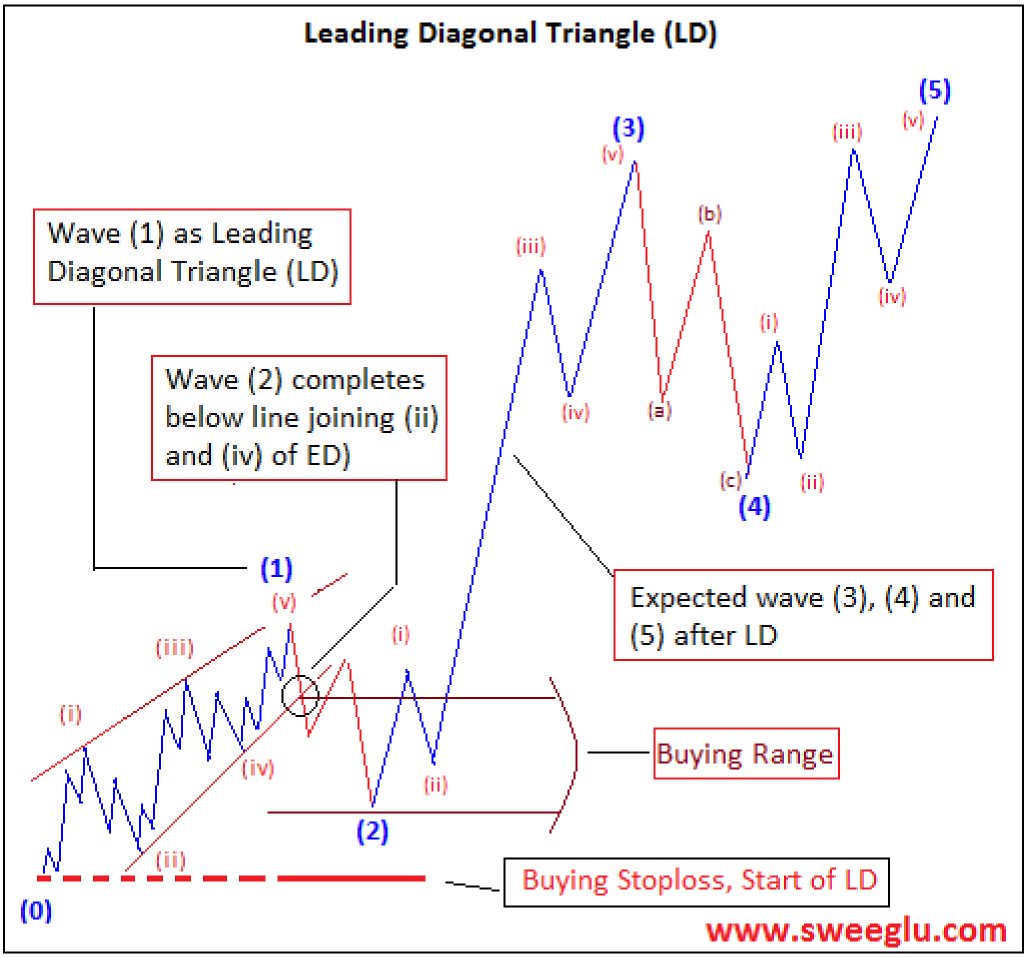
So, wave (i)>(iii)>(v) in such Leading Diagonal Triangles. Please look at (Image 3.3.2.4) carefully.

Important facts about Leading Diagonal Triangle:

Generally Leading Diagonal Triangle should not be assumed in advance. We must wait for the completion of this pattern as it is very easy to identify when it is completed. Wait for formation of wave (2) after completion of LD and then take entry confidently for great Risk Reward.

Leading Diagonal Triangle as Jackpot Trading Opportunity:

Leading Diagonal (LD) gives a Jackpot Trading Opportunity if managed to identify at its completion. Because LD is always wave (1), means we will have (2), (3), (4) and (5) after that. After completion wave (1) as Leading Diagonal Triangle, next wave (2) will complete below/above the line joining inner waves (ii)-(iv) of LD where we can take entry with stoploss of start of LD for very fast and furious wave (3). Look at (Image 3.3.2.5) carefully.



(Image 3.3.2.5) Trading Strategy after identifying Leading Diagonal

Summary of Leading Diagonal Triangle:

1. LD is always an inner wave (1) of an Impulse and there will be waves (2), (3), (4) and (5) later to complete the impulse.
2. LD always have 5-3-5-3-5 pattern
3. Wave (4) or (iv) always overlaps wave (1) or (i) in LD.
4. Inner wave (3) or (iii) can never be extended and inner wave (5) or (v) is extended most of the time.
5. LD always moves in a closed pattern either as Expanding Triangle, Converging Triangle or Parallel Wedge but mostly as Converging Triangle or Parallel Wedge.

6. Lines of LD always drawn by joining waves (i)-(iii) and (ii)-(iv) and these lines should not be disturbed until ED is completed.
7. Breakout always happens from the line joining waves (ii)-(iv) after completion of LD.
8. We often see a sharp move in the direction of LD after completion of LD.

Overall, Leading Diagonal Triangle is just like an Impulse having 5-3-5-3-5 pattern but there are only 3 differences: -

Inner wave (iv) of LD always overlaps inner wave (i)
Inner wave (iii) of LD can never be extended and wave (v) is always extended
LD is a closed pattern and forms a wedge.

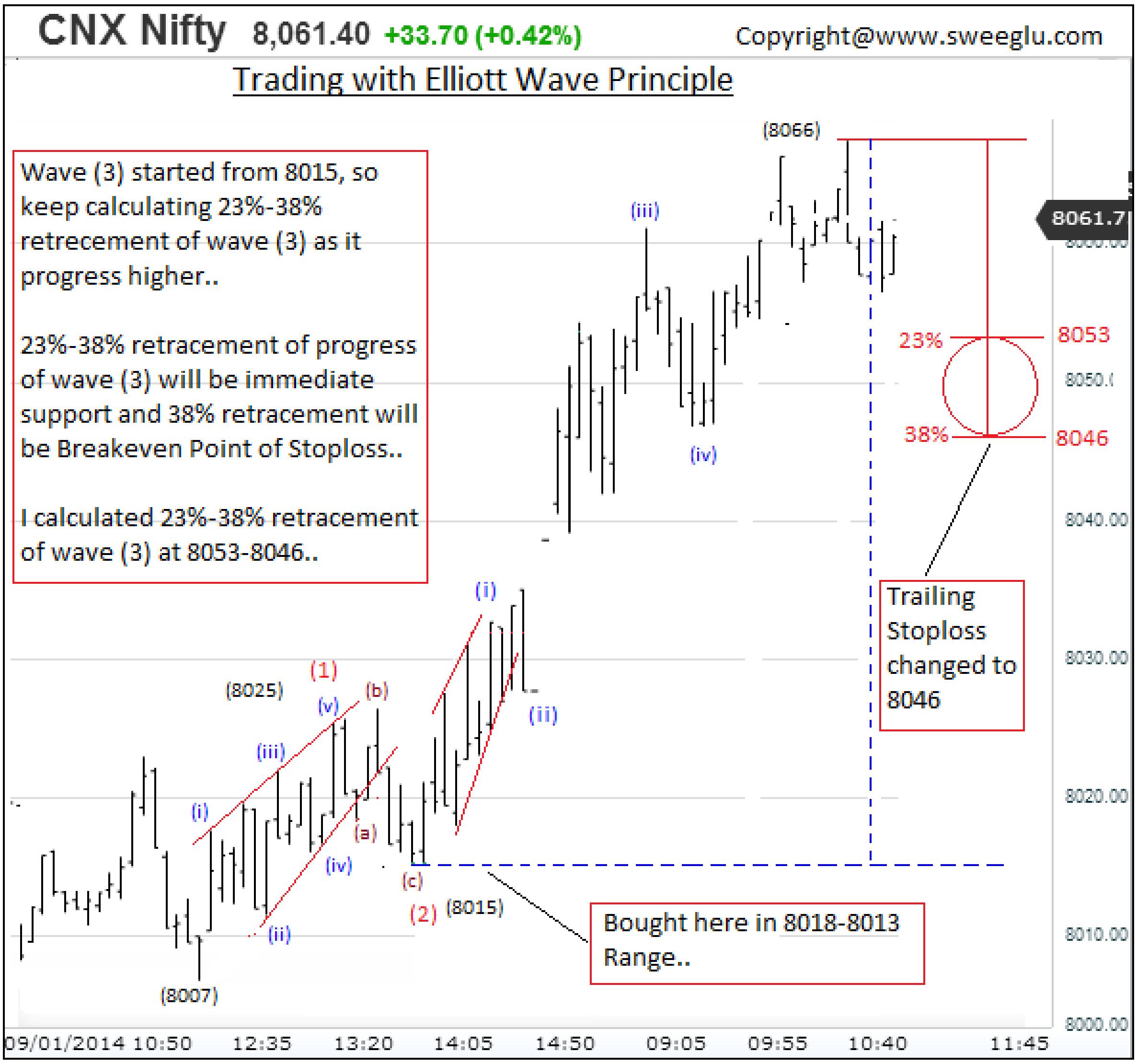
Have a careful look at (Image 3.3.2.6) to understand Leading Diagonal Triangle (LD) on real chart.

(Image 3.3.2.6) Leading Diagonal Triangle (LD)

This is 5 minutes time bar chart of Nifty where a Leading Diagonal Triangle formed from 8008-8025 followed by (abc) Correction.

I know that LD is always wave (1), So I assumed next (abc) correction as wave (2) and initiated longs with stoploss below 8008 (below the start of LD) expecting big sharp bounce.

Now, let me show the personality of move after LD on next chart shown in (Images 3.3.2.7).



(Image 3.3.2.7) Move after Leading Diagonal Triangle

Look carefully at chart and observe the move after 8015, the bounce is faster and larger. We expect a good sharp move after completion of LD not because of the pattern but because of wave (3).

When LD is wave (1), then we wait for wave (2) and trade for wave (3) expecting a sharp and large move [personality of wave (3)].

CHAPTER 3.3.3

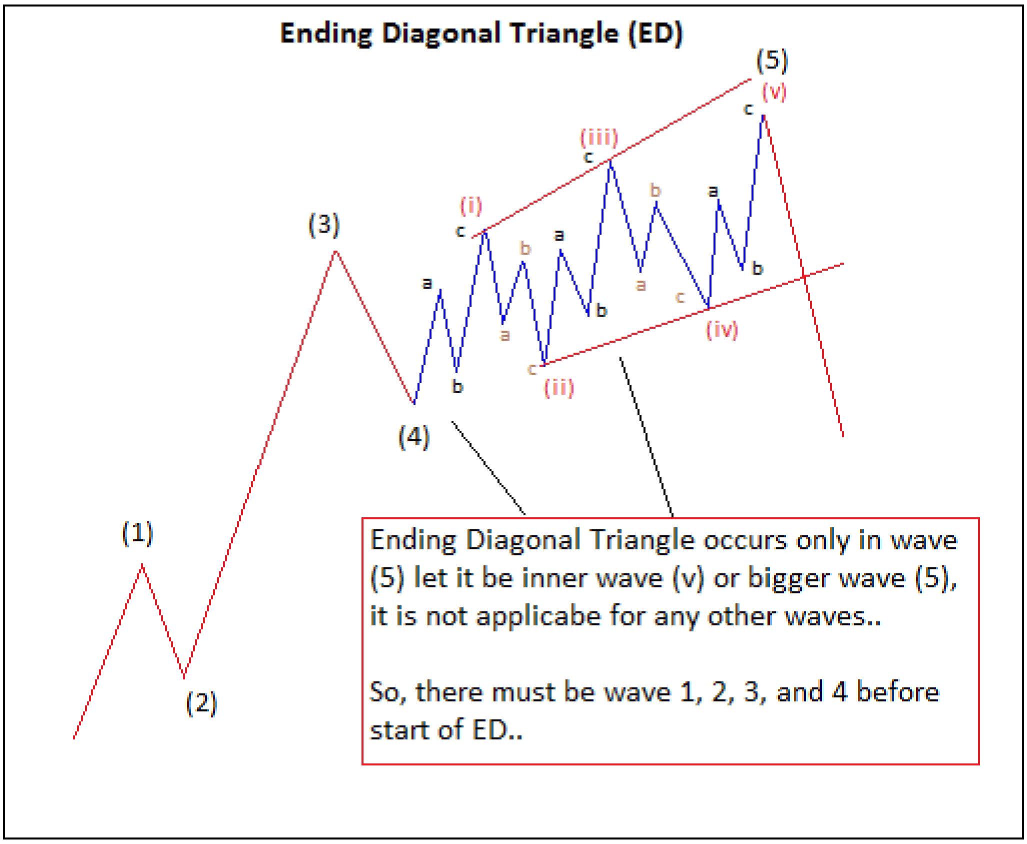
Ending Diagonal Triangle (ED)

Ending Diagonal Triangle also called as ED (short form) is another complex patterns of Elliott Wave Theory like LD and is the part of main proceeding trend. This chapter is going to explain "Ending Diagonal Triangle (ED)" pattern in details with its structure, rules and inner wave calculation and I tried my best to make sure that whenever you observe this pattern, you identify it perfectly and accurately.

Ending Diagonal pattern resembles Leading Diagonal Triangle, but the only difference is that ED has 3-3-3-3-3 pattern rather than 5-3-5-3-5 and ED happens for wave (5) only. Let me explain in details.

Ending Diagonal Triangle:

First and most important is to remember that Ending Diagonal Triangle pattern occurs only in wave (5) of any impulse let it be a wave bigger wave (5) or inner wave (v) of any degree. So whenever you are observing something like ED, you need to make sure that there is wave (1), (2), (3) and (4) before the start of this pattern because ED cannot happen anywhere, it is always a wave (5). Remember that Inner wave (5) of Impulse can only be ED, but inner wave (v) of ED cannot be ED. See (Image 3.3.3.1).



(Image 3.3.3.1) Ending Diagonal Triangle Pattern

Pattern of Ending Diagonal Triangle:

1. Ending Diagonal Triangle (ED) comprises of 5 inner waves with 3-3-3-3-3 pattern. All the 5 waves of ED have 3 wave's (abc) pattern that's why we call it 3-3-3-3-3. And within those 5 waves,

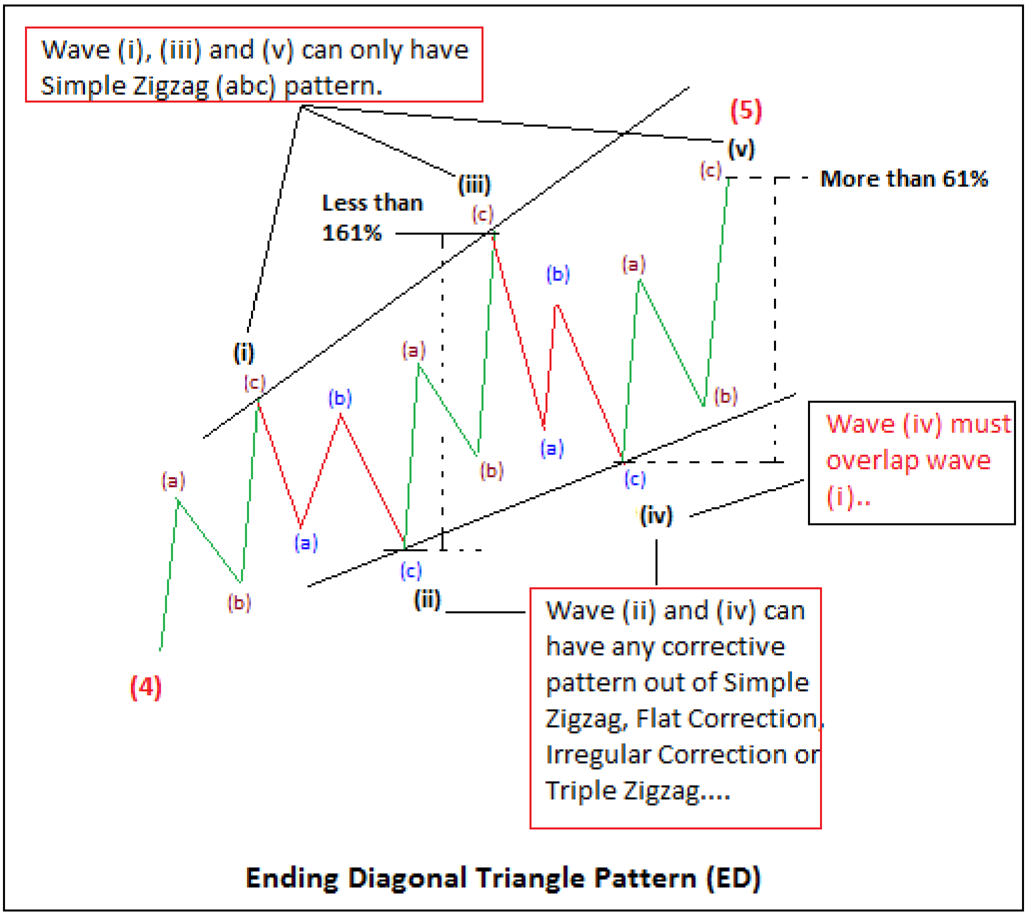
    a. Waves (i), (iii) and (v) is always a Simple Zigzag (abc).

    b. Wave (ii) and (iv) can have any corrective pattern out of Simple Zigzag, Flat Correction, Irregular Correction and Triple Zigzag (combination of 'abc' patterns).

2. Like in LD, Wave (iv) always overlap wave (i) in Ending Diagonal Pattern. Normally wave (iv) can never overlap (i) in a five wave's impulsive move but Wave (iv) must overlap wave (i) in ED. Actually overlapping of wave (iv) with (i) only makes it Diagonal otherwise it would be impulse. Though wave (iv) always enters the range of wave (i) but wave (iv) can never break below the end of (ii).

3. Like LD, Inner wave (iii) of Ending Diagonal (ED) can never be extended wave, means it can never project more than 161%. And wave (v) is always extended, means wave (v) projects more than 61% every time. Its inner waves follows the same rule of alternation that "either one of wave (iii) and (v) needs to be extended". Because wave (iii) cannot be extended in ED, so wave (v) needs to be extended.

Please pay attention to (Image 3.3.3.2) carefully.



(Image 3.3.3.2) Pattern of Ending Diagonal Triangle

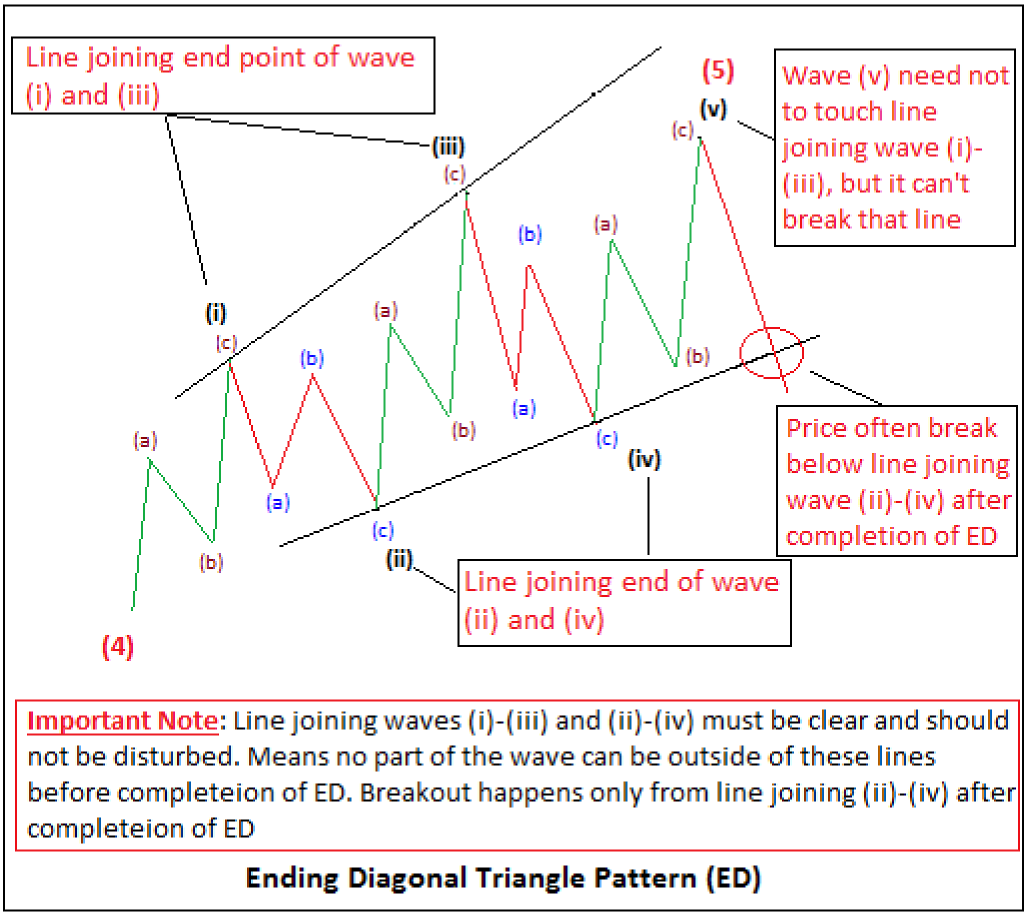
<u>Drawing the lines of Ending Diagonal Triangle (ED)</u>

Rules for drawing line of ED are same as LD. ED is also a closed pattern which forms a Wedge or Channel that's why we call it a Ending Diagonal "Triangle" because it always form a closed triangle pattern (Expanding or converging) or parallel wedge. And there is a definite way to draw the lines of pattern. Most of the analysts and learners make mistakes in drawing the lines of ED and mark it in a wrong way. So let me explain the only perfect way to draw the lines and importance of these lines.

First thing to remember is, ED is always a closed pattern and can never be an open pattern. So, always draw the lines whenever you are expecting or observing an Ending Diagonal. Even drawing the line will solve maximum of your confusions. The rules to drawing lines are:

1. There are 02 lines in ED pattern (upper and lower) and one line must be drawn by joining end point (tip) of wave (i) and (iii) and other line must be drawn by joining end point of wave (ii) and (iv). Many analysts draw line from start of wave (i) which is not the correct way.

2. Both the lines joining wave (i)-(iii) and (ii)-(iv) can never be disturbed. Means no part of any wave can be out of these lines until the ED is completed. If you are expecting an ED but these lines are disturbed or broken then either you are marking it wrong or it is not Ending Diagonal.



(Image 3.3.3.3) Drawing the lines of Ending Diagonal Triangle

3. Last wave (v) of ED need not to touch the line joining (i)-(iii). Wave (v) of ED just needs to break the end of wave (iii) and to achieve its minimum 61% Fibonacci projection. The minimum limit of inner wave (v) of ED is end point of wave (iii) and 61% projection (both conditions must fulfill) and maximum limit is the line joining wave (i)-(iii). Wave (v) can never break out of the line joining (i)-(iii).

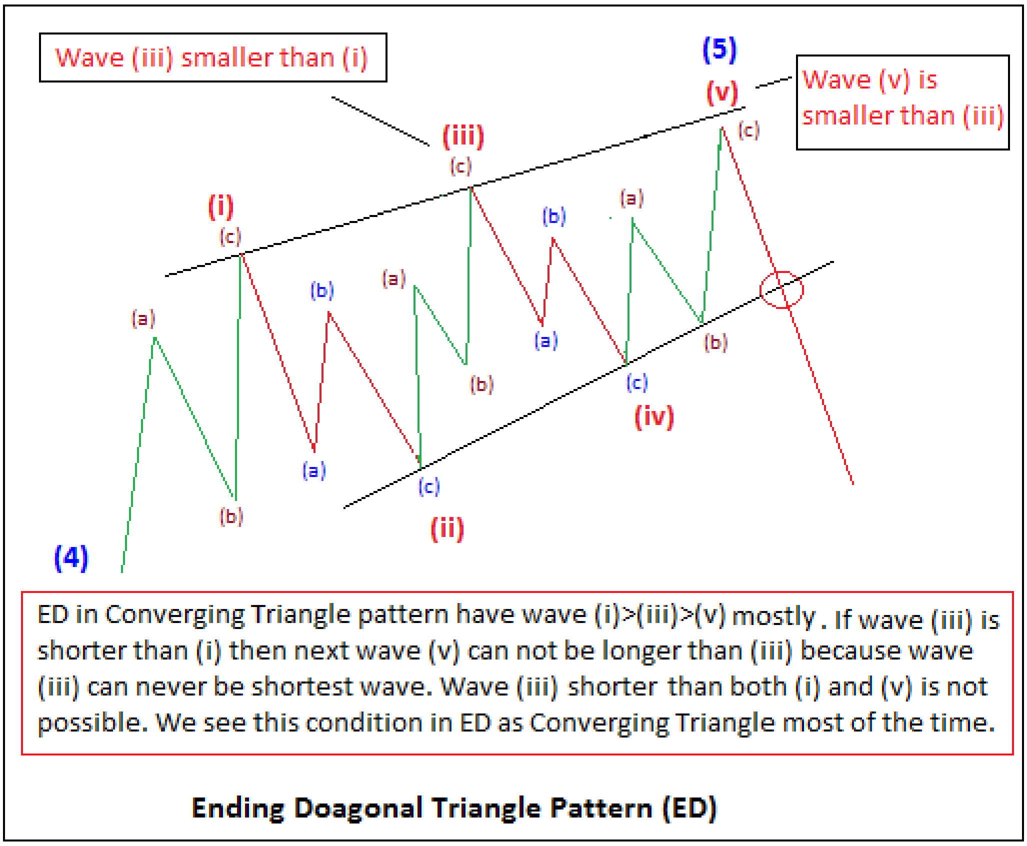
4. Breakout happens from the line joining wave (ii) and (iv) after completion of ED. Means you can always expect price to break below/above the line joining waves (ii)-(iv) after completion of wave (v) of ED. The price may not break out of the line joining (ii)-(iv) and next correction may complete without breaking this line in rare cases if the ED is a part of inner wave (3), but it is a very rare case.

Please pay attention carefully at (Image 3.3.3.3).

<u>Structure of Ending Diagonal Triangle:</u>

Many analysts argue that Ending Diagonal can be Converging Triangle only and some says it can be Expanding Triangle only but I observed this Ending Diagonal Triangle in all forms. ED can either be in Expanding Triangle, Converging Triangle or in Parallel Wedge form. There is no such definite rule about types of triangle, only rules and calculation must match. But, I have observed Ending Diagonal as Expanding Triangle in most of the cases and Converging Triangle or Parallel wedge in very limited cases.

I have shown ED as Expanding Triangle in the example given above, so let me give an example of ED as Converging Triangle.



(Image 3.3.3.4) Ending Diagonal as Converging Triangle

Ending Diagonal can be converging triangle also as shown on (Image 3.3.3.4), please pay attention carefully. In ED as Converging Triangle, wave (i)>(iii)>(v) most of the times. Means wave (iii) is shorter than (i) and then next wave (v) is shorter than (iii).

Whenever you are seeing wave (iii) is shorter than (i), you must expect wave (v) short than (iii). Because it is a definite rule of Elliott wave theory that wave (iii) can never be shortest wave. So, when wave (iii) is already shorter than (i) then it can never be shorter than (v). Rule of extensions or alternations is not applicable in this condition.

This condition of wave (i)>(iii)>(v) can happen in any form of Triangle (Expanding, converging or parallel) depending upon the speed of inner waves but it is mostly seen in ED as Converging Triangle.

<u>Important facts about Ending Diagonal Triangle:</u>

Generally an analyst should not try to imagine Ending Diagonal Triangle in advance unless he is experienced as it is a complex pattern and can take any shape. You must wait for the completion of this pattern, because it is very easy to identify when it is completed or is very near to completion. You can plan a very good low risk high reward trading plan for reversal after identifying the completion.

Experienced analysts can succeed in Identifying this pattern when it is within wave (iii) after seeing repeated (abc) patterns and can catch wave (iv) and (v) very accurately (point to point) with the help of lines and calculations as ED is a definite pattern. The same I had proved many times earlier and will continue to show in future.

We often see a very sharp reversal after completion of Ending Diagonal Pattern especially when ED is a bigger wave (5) of main trend. The effect may not be so strong if ED is an inner wave (v) of bigger (3).

Summary of Ending Diagonal Triangle:

1. ED is always a wave (5)
2. ED always have 3-3-3-3-3 pattern
3. Wave (4) or (iv) always overlaps wave (1) or (i) in ED.
4. Inner wave (3) or (iii) can never be extended and inner wave (5) or (v) is extended all the times.
5. ED always completes in a closed pattern either as Expanding Triangle, Converging Triangle or Parallel Wedge.
6. Lines of ED always drawn by joining waves (i)-(iii) and (ii)-(iv) and these lines should not be disturbed until ED is completed.
7. Breakout always happens from the line joining waves (ii)-(iv) after completion of ED.
8. We often see a sharp reversal after completion of ED.

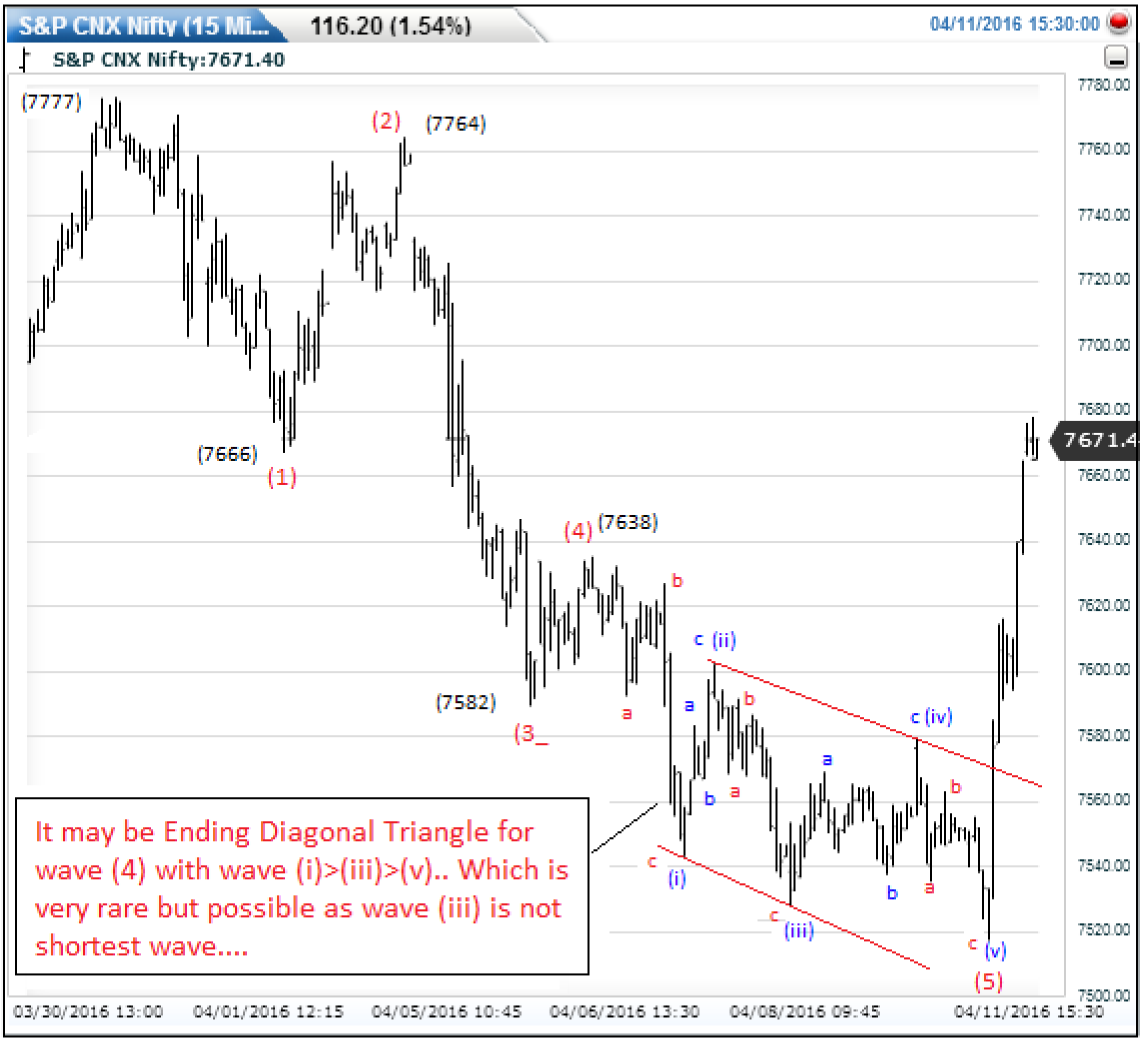
I have explained this chapter using imaginary images because my main aim is to make the readers to understand the concept thoroughly. Otherwise, I had explained this pattern practically on real charts in many of my analysis reports and will continue to explain in my further analysis reports. So keeps paying attention to my analysis reports as it will be a great learning experience when you will see this pattern forming live on real chart. It is very easy to show examples on old chart but it doesn't give learning experience. Still I am including some previous charts with Ending Diagonal Pattern to show how it looks like on real charts.

Examples of Ending Diagonal Pattern on real charts:

This Ending Diagonal Triangle shown on (Image 3.3.3.5) happened in Nifty from 7118-9119 which took 11 months to complete and I managed to catch many great rallies by identifying inner waves within this ED. You can read this analysis report of 27 Jan 2015 to know how it looked like and how I identified it http://sweeglu.com/latest-elliott-wave-counts-of-nifty-as-on-27-jan-2015/

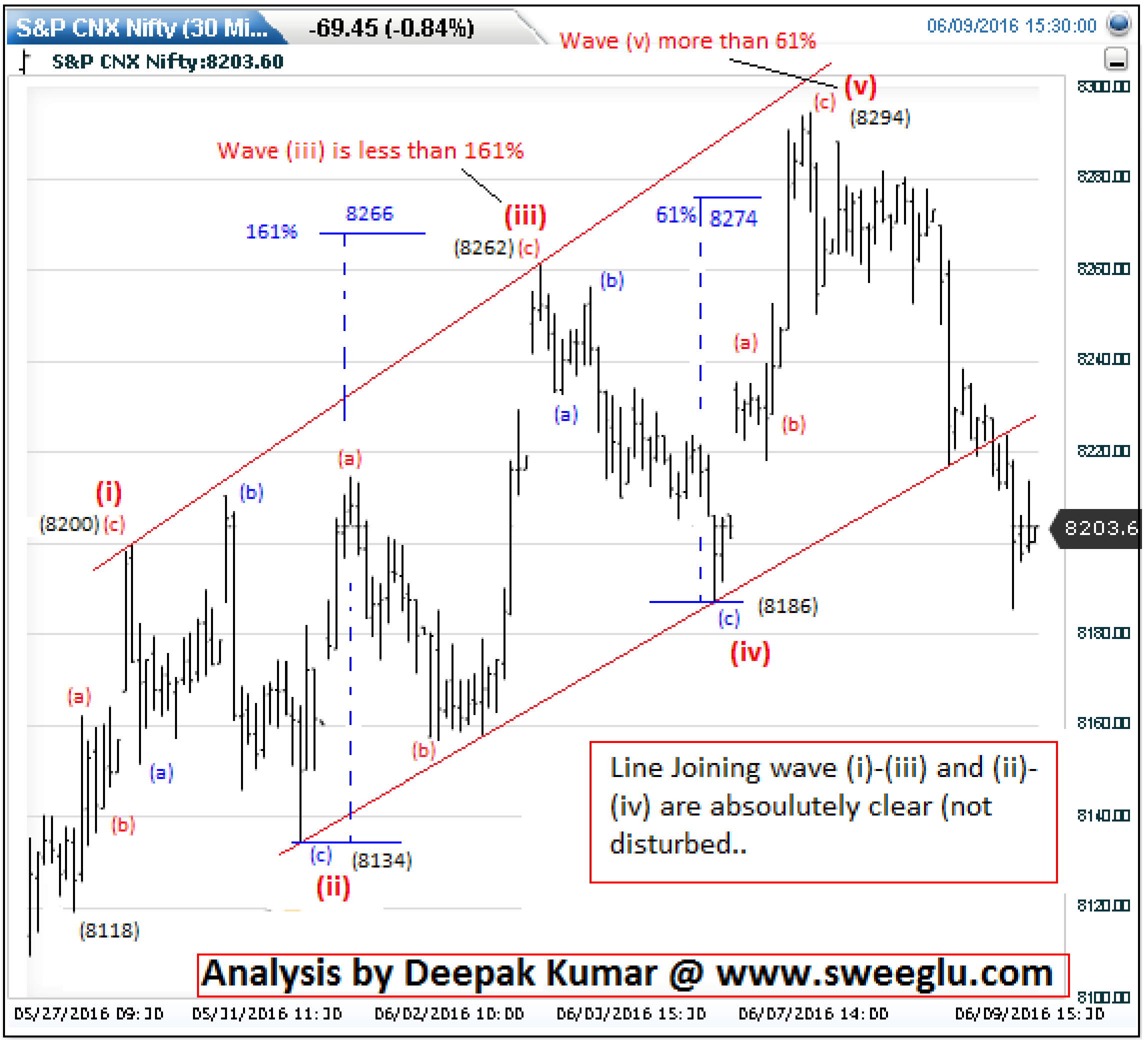
(Image 3.3.3.5) Ending Diagonal on Real Chart

The Ending Diagonal Triangle shown in (image 3.3.3.6) completed on small time frame on 11 April 2016. This ED have wave (i)>(iii)>(v) followed by great reversal. Though, I didn't post the same analysis report on my blog.



(Image 3.3.3.6) Ending Diagonal on Real Chart

There is one more ED like pattern completed in June 2016 (shown on Image 3.3.3.7) which is following all the rules and same I had explained in my analysis report http://sweeglu.com/example-of-ending-diagonal-triangle-pattern-on-nifty-chart/ . Please see the chart below.



(Image 3.3.3.7) Ending Diagonal Triangle

There are many more examples on old chart but you will get real experience only when you see forming it live. That is the reason I don't give much importance to old examples. This pattern forms frequently, so wait for its formation in future to observe it forming live. I will definitely explain it in my analysis reports whenever I see any indications of Ending Diagonal Triangle Pattern.

CHAPTER 3.3.4

Simple Zigzag Correction

Simple Zigzag Correction is simple basic corrective pattern of Elliott Wave Theory and all other patterns are derived from this simple pattern only. As we already know, a corrective pattern is a set of 3 waves and we mark it using alphabets (A), (B) and (C). So, Simple Zigzag is also a 3 wave pattern having inner wave (A), (B) and (C).

Rules of Simple Zigzag Correction: -

- Wave (A) of Simple Zigzag Correction always have Impulse Pattern, means wave (A) of Simple Zigzag can never have any other pattern than Impulse.

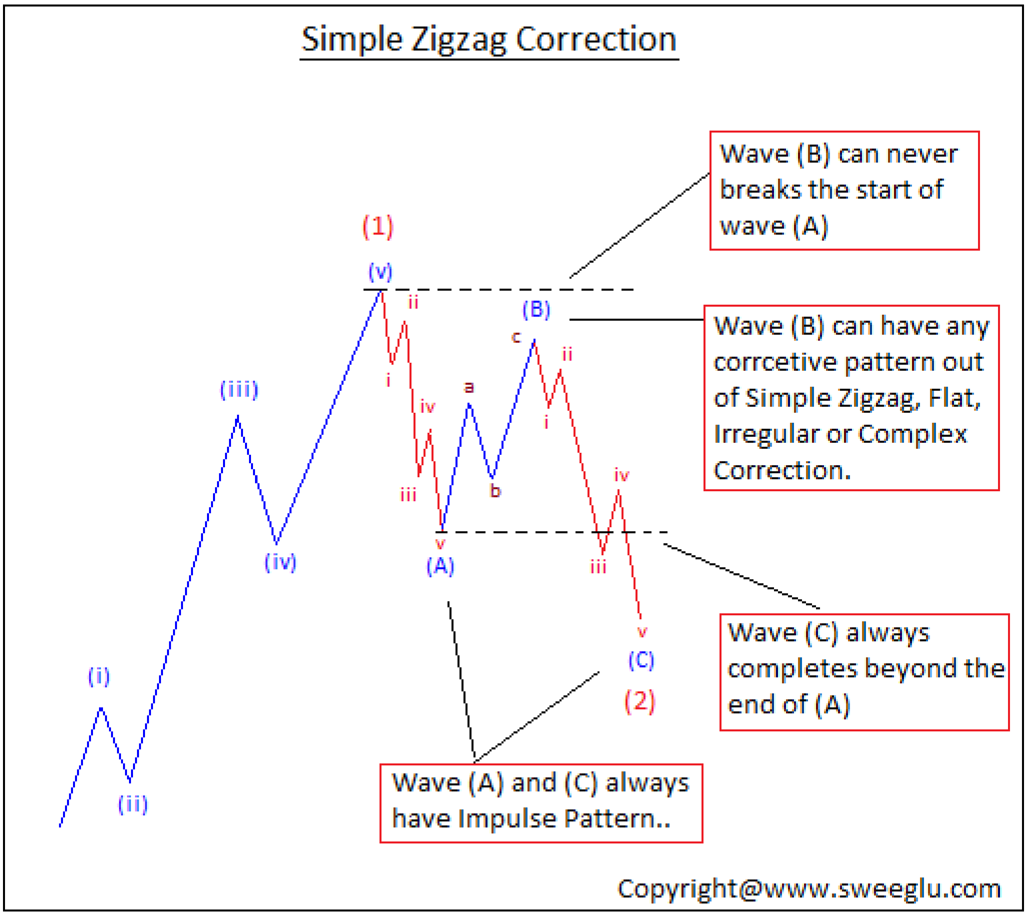


Image 3.3.4.1 Simple Zigzag Correction

- Wave (B) of Simple Zigzag Correction can have any type of corrective pattern out of Simple Zigzag, 3-3-5 Flat Correction, Irregular Correction or Complex Correction. Wave (B) retraces/corrects wave (A) normally by 38%-61%, otherwise it can retrace less than 38% or more than 61% also in some cases but it cannot retrace 100%, means wave (B) of Simple Zigzag Correction can never touch or break the start of wave (A).

- Wave (C) of Simple Zigzag Correction always have Impulse pattern, means wave (C) can never have any other pattern than impulse.
  Wave (C) of Simple Zigzag projects 100%-123% of wave A most of the times, otherwise it can be as low as 61% and there is no definite upper limit. But Wave (C) can never be less than 61% and always completes beyond the end of wave (A) in Simple Zigzag Correction, means wave (C) cannot complete before the end of wave (A) and always projects more than 61% in this Simple Zigzag correction.

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

Please look carefully at (Image 3.3.4.1) to understand Simple Zigzag Correction Visually.

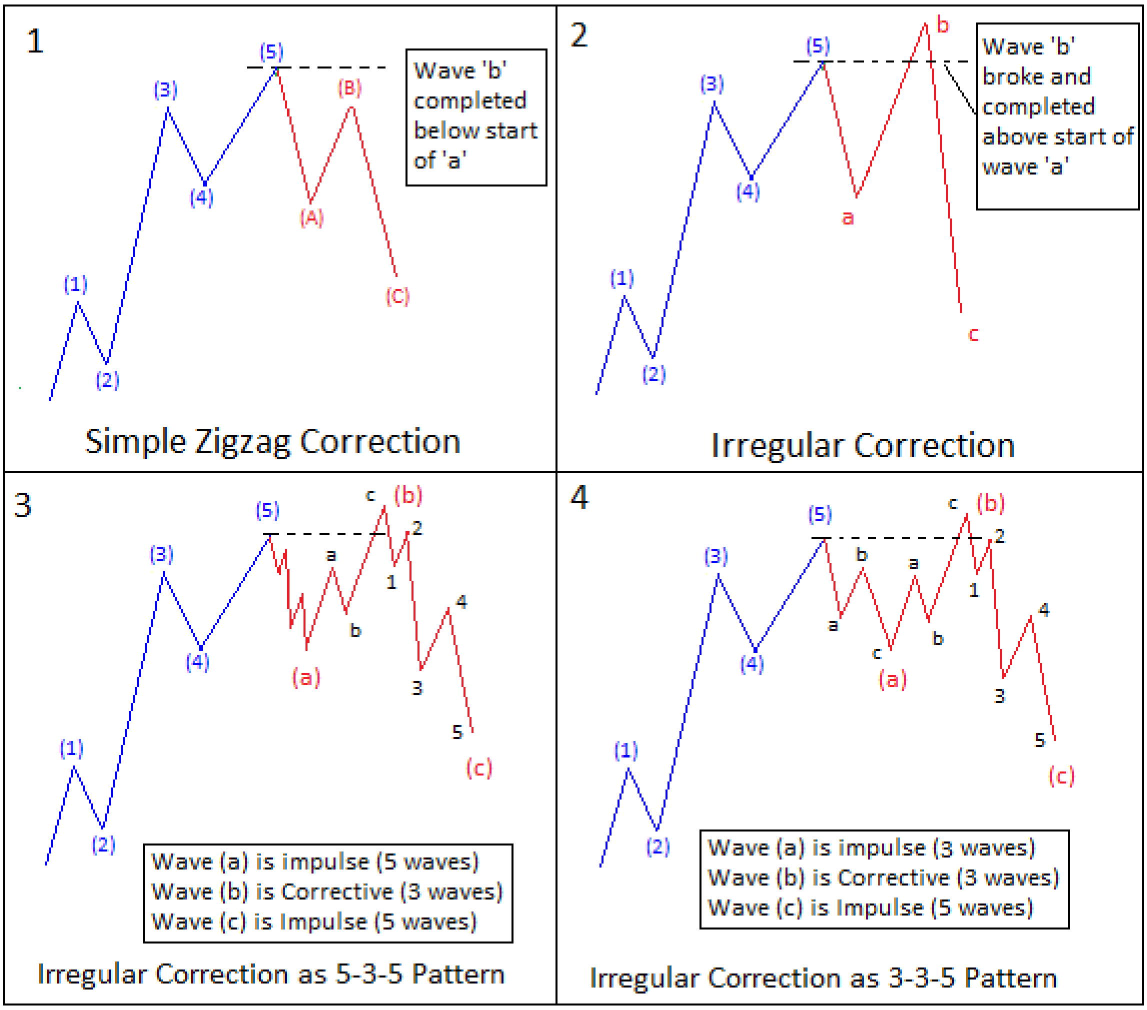
CHAPTER 3.3.5

Irregular Correction

Irregular correction is most frequently seen pattern of Elliott Wave Theory which witnessed even more than Simple Zigzag Correction. But it is less understood by majority of Elliott Wave Theory analysts and practitioners, even very few EWT analysts knows about this word "Irregular Correction".

A correction or corrective wave is comprises of 3 inner waves called (A), (B) and (C). Where wave (A) is impulse, wave (B) is corrective and is shorter than (A) or you can say wave (B) doesn't break start of (A), and next wave (C) is always an impulse generally equal or larger than (A). Please look at (Fig. 1 in Images 3.3.5.1).

But in some cases, wave (B) goes larger than (A) or wave (B) breaks the start point of (A). And when wave (B) breaks the start of (A) or wave (B) retraces more than 100% within a correction, we call it Irregular Correction. See (Fig. 2 in Image 3.3.5.1). This is the simple presentation of an "Irregular Correction". We call it Irregular Correction because wave (B) is "Irregular" in this correction.



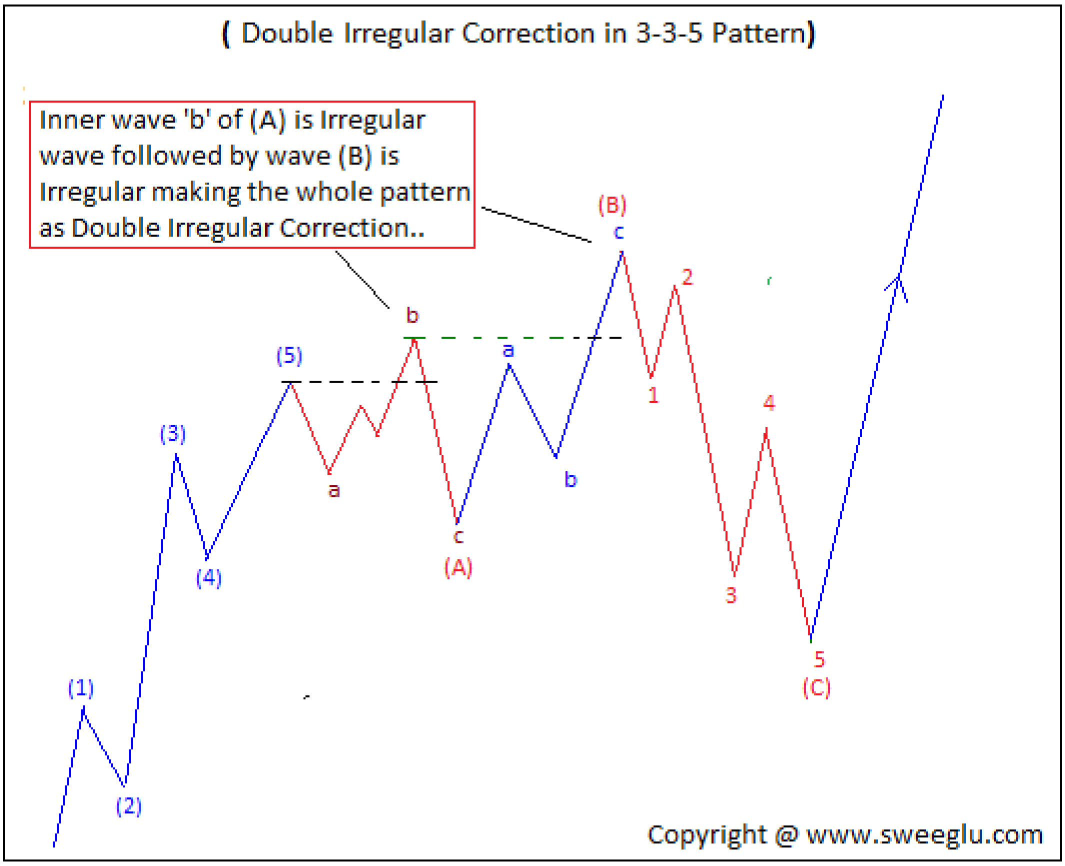
(Image 3.3.5.1) Irregular Correction

Now, an "Irregular Correction" can be of different sub pattern like 5-3-5, 3-3-5 or Double Irregular and the same are explained below.

(1) **Irregular Correction as 5-3-5 Pattern:** When wave (A) of a correction is impulse (5 waves move), we call it 5-3-5 pattern. Wave (B) is always a corrective (3 waves move) and wave (C) is always an impulse (5 waves move) in every case but wave (A) can be either impulse or corrective within "Irregular Correction". So when (A) is impulse (5 waves), the pattern become 5-3-5. Look at (Fig. 3 of Image 3.3.5.1) for visual explanation of 5-3-5 pattern.

(2) **Irregular Correction as 3-3-5 Pattern :** When wave (A) is corrective (3 waves move, 'abc'), then Irregular Correction forms 3-3-5 pattern. Wave (A) is corrective (3 waves), wave (B) is corrective (3 waves) and wave (C) is impulse (5 waves), so the pattern become 3-3-5. Look at (Fig. 4 of Image 3.3.5.1) for visual explanation of 3-3-5 Pattern.

(3) **Double Irregular Correction:** In 3-3-5 Irregular Correction pattern, sometime I observed that both wave (A) and (B) is Irregular. Means inner wave 'b' of (A) is irregular followed by (B) is also irregular which form double Irregular Correction. Look as (Image 3.3.5.2) for visual explanation. It was not mentioned in any book or rule or EWT but I have observed it sometime, so it is still in observation and part of my research.

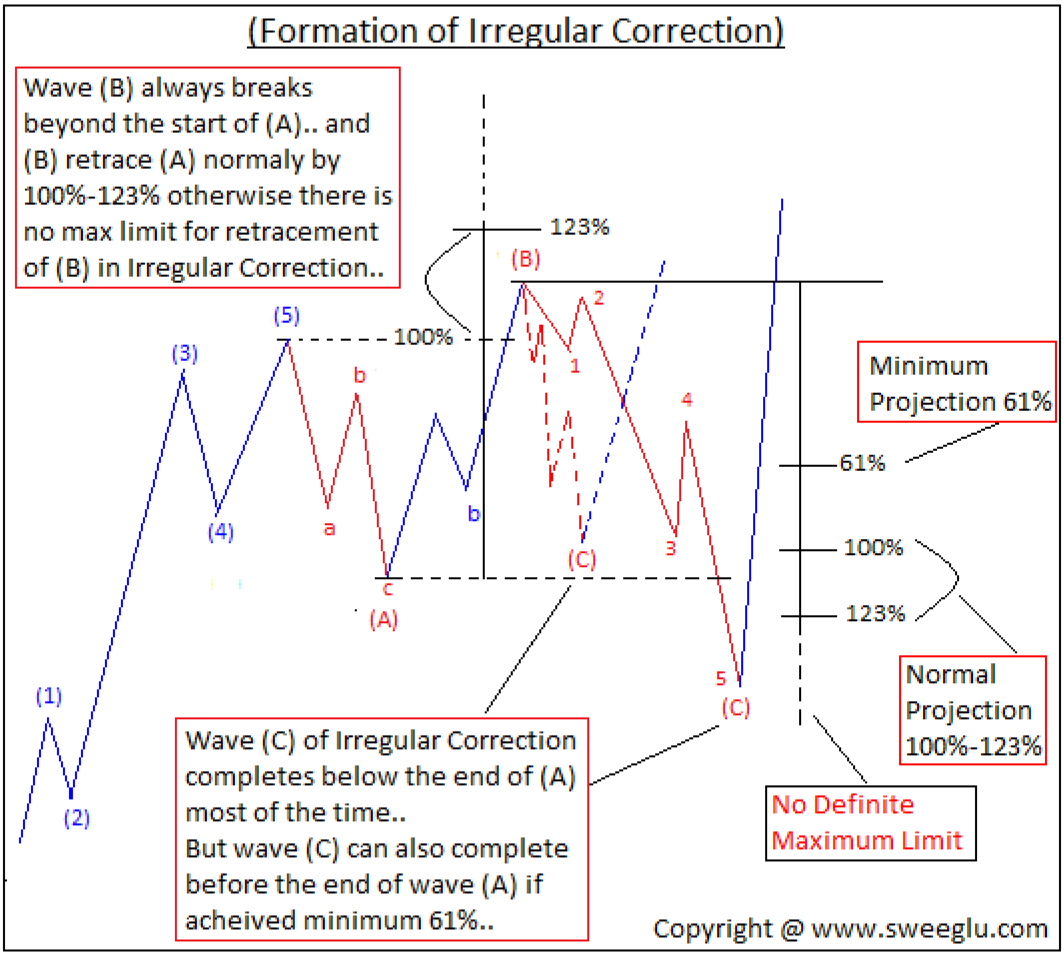


(Image 3.3.5.2) Double Irregular Correction

Rules of Fibonacci Calculations for Irregular Correction:

Any correction becomes Irregular Correction when its inner wave (B) breaks the start of previous wave (A). So, the first and only mandatory requirement for Irregular Correction is that, "wave (B) must cross the start of wave (A)". Other optional rules are as follows: -

- Wave (A) of Irregular Correction can have either Impulse (12345) or Corrective (abc) pattern.
- Wave (B) retrace wave (A) by 100%-123% in most of the cases but there is no exact upper limit. Wave (B) can retrace more than 123% also in some cases, it can move as higher as 200% or more without any upper limit.
- Wave (B) can never have Complex Correction pattern, it can have Simple Zigzag, Irregular Correction or Flat Correction pattern but not Complex Correction.



(Image 3.3.5.3) Formation of Irregular Correction

- Wave (C) can have only Impulse Pattern in every type of Correction. 61% is minimum projection limit for wave (C), 100%-123% is normal projection limit which we see in most of the cases but there is no maximum limit, it can be more than 123% depending upon previous wave.

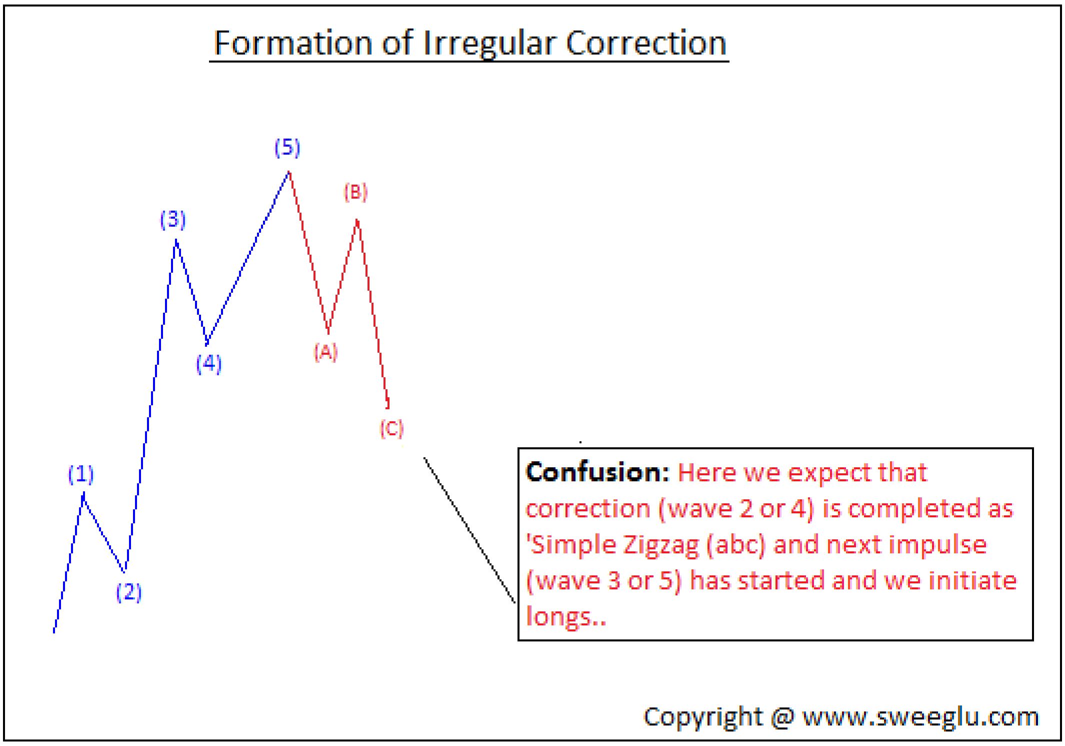
- We generally see and we always expect wave (C) of Irregular Correction to complete at or beyond the end of (A). But wave (C) of Irregular Correction can also complete before the end of (A) in Irregular Correction provided the Impulse pattern is complete and minimum 61% projection is achieved.

- Wave (C) of Irregular Correction is often sharp and fast which scare traders just before reversal, and the next move after completion of Irregular Correction is also quick and sharp most of the times.

Formation of an Irregular Correction Step by Step:

Now let me explain the formation of an Irregular Correction step by step to make you understand how this Irregular Correction confuses and how we can trade it.

Step 1

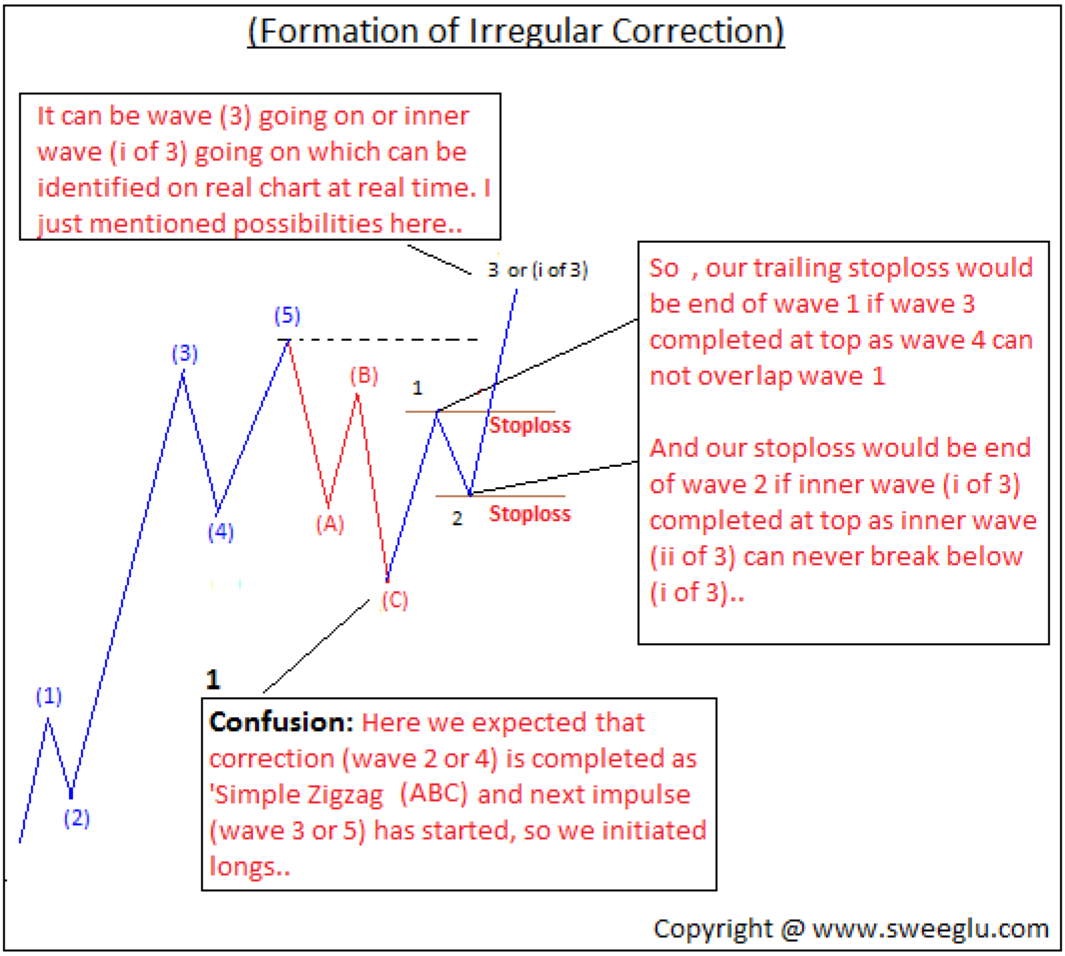


(Image 3.3.5.4) Formation of Irregular Correction

When we see an upside impulse (12345) is completed follwed by downward Simple Zigzag Correction (ABC). At is point, we don't know if it is going to be Irregular Correction or something else, we just see that a (abc) correction is completed and we initiate longs or buy with stoploss expecting next upside impulse for new high. Look at (*Image 3.3.5.4*) for visual explaination.

(*because, even if this 'ABC' correction is inner wave (A) of an Irregular Correction, then also next wave (B) needs to break previous high*).

Step 2



(Image 3.3.5.5) Formation of Irregular Correction

We bought after seeing the completion of downward (ABC) correction expecting next impulse for new high, so our next step is to analyze the pattern of next upside impulse to manage the trade. As we know, next impulse will also have 5 inner waves (12345), we will wait for the completion of inner wave 1 and 2, and progress of 3. We are not expecting an Irregular Correction till this point.

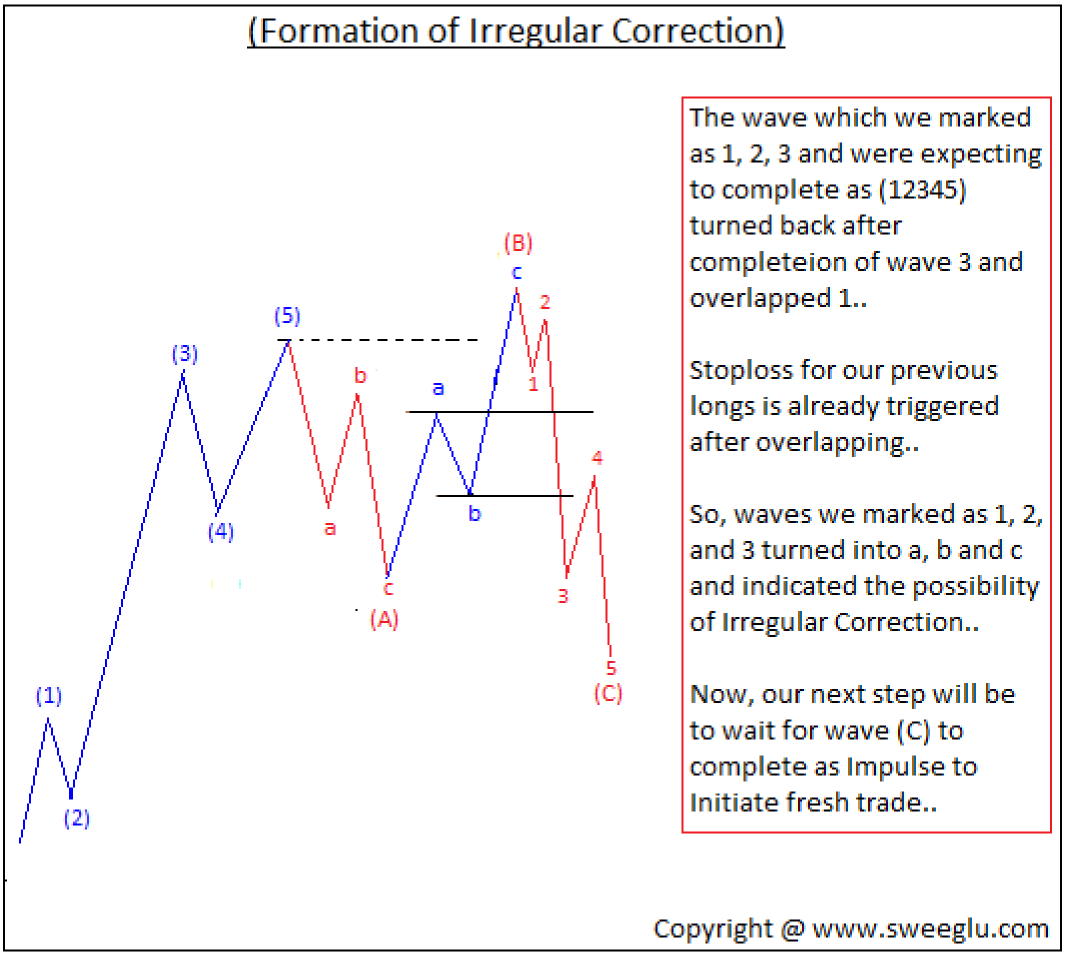
After identify the completion of inner wave 1 and 2 of next upside impulse followed by 100% projection of wave 3 (because wave 3 project minimum 100%), we needs to modify our stoploss to end point of wave 1 because next wave 4 cannot overlap wave 1 after completion of wave 3.

Or we can place stoploss bit lower at end point of wave 2 (start of wave 3) in case it is just inner wave (i of 3) completed at top because inner wave (ii of 3) can never break below (i of 3).

So in both the cases, we will be either in “Small profit” or “No Loss” even if our stoploss for longs triggers. Means, we will be safe against odds and will be in great rewards if our expectation goes right.

Look at (Image 3.3.5.5) for visual explanation.

Step 3



(Image 3.3.5.6) Formation of Irregular Correction

Now, if our stoploss triggers without completing upside impulse (5 waves), then we can expect the possibility for irregular correction. Our first step is to exit from longs and then wait for completion of a downward impulse for confirmation or Irregular Correction because wave (c) is always an impulse.

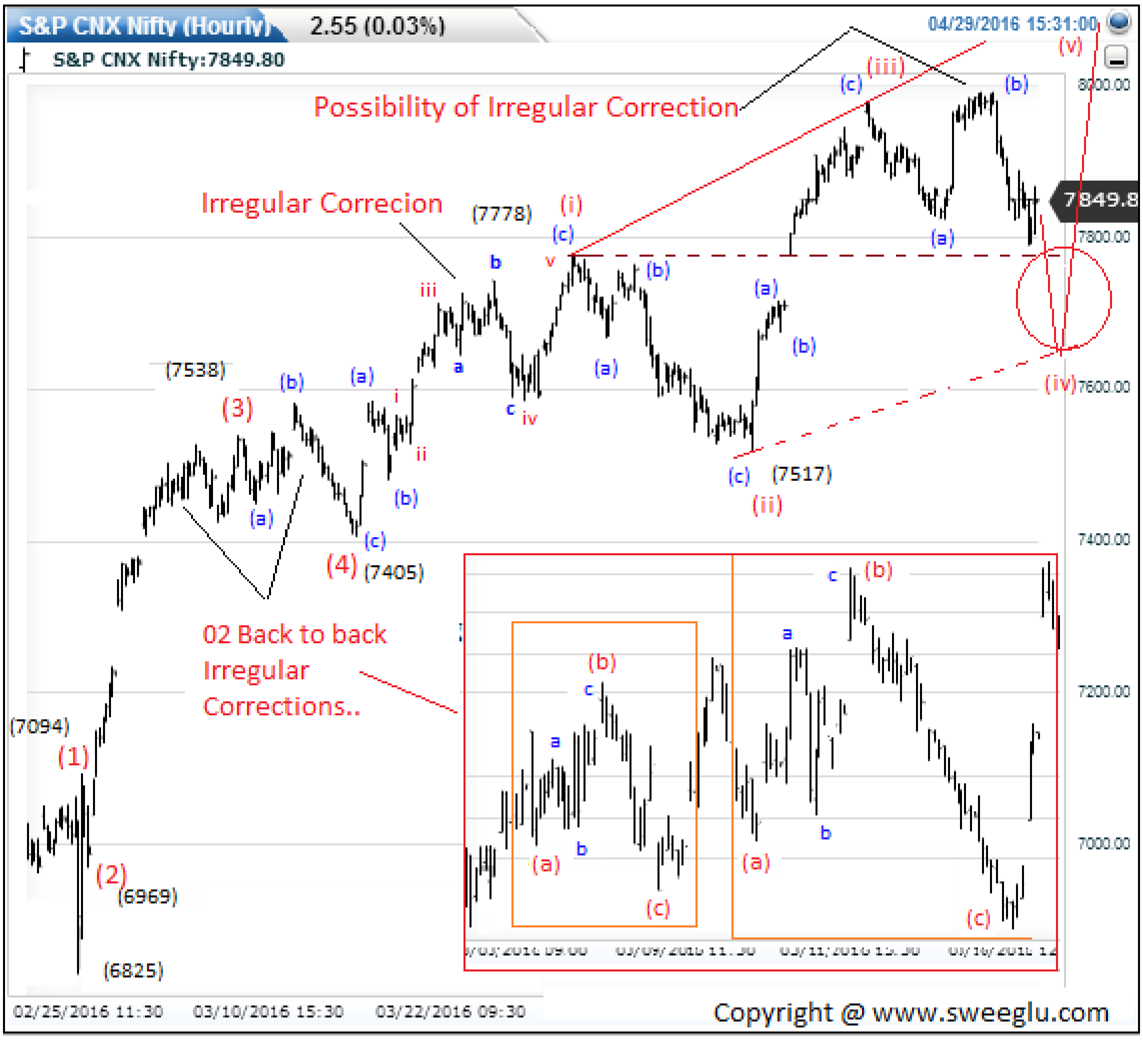
We can plan a low risk trade again after confirming the formation of Irregular Correction if it completes as we expected. We can also calculate the completion range of wave (C) of Irregular Correction by calculating its inner waves.

Please look carefully at (image 3.3.5.6) for visual explanation.

This is the whole scenario how the new wave we were expecting as upside/downside Impulse turns into Irregular correction but we can protect our previous trade with trailing stoploss and catch new opportunity with more confidence.

Confusion and Disadvantage: There is no particular way to identify an Irregular Correction in advance. We can identify the possibility only after overlapping of waves and can confirm the same after completion of this pattern.

It confuses in trading because we expect an Impulse and calculate its minimum targets but wave turns back without achieving minimum target. But the loss can be protected using trailing stoploss based on inner waves. The move in Nifty from 6825 to 7992 after 29 Feb 2016 onwards is perfect example of such scenario, please look at (Image 3.3.5.7) taken from my old analysis report of Nifty.



(Image 3.3.5.7) Disadvantage of Irregular Correction

There are repeated Irregular Corrections within this move and it was tough time for me, whenever I calculated upside targets expecting a new impulse upside, it turns into Irregular Correction and retraced without achieving targets. Though, our targets missed many times but we didn't lose because of stoploss calculation.

Advantage of Irregular Correction:

Irregular Correction has great advantage and can give huge profit if we manage to identify it at completion because it is indication of strong main trend and reversal after completion of Irregular Corrections is often sharp and strong.

Irregular Correction is very common and I predicted many quick moves after identifying Irregular Correction. Indian traders/investor can't forget the single day crash of 24 Aug 2015 when Nifty fell 600 points in a single day and about 900 points in 2-3 sessions. This decline was already predicted a month back because of Big Irregular Correction on charts. The link to the analysis report and chart taken from that report is given below for example.

Link to Analysis Report of 28 July 2015 where I predicted fall from 8655 to 7940 is Nifty can Decline below 7940 in August Expiry – EW Analysis on 28 July 2015 and (Image 3.3.5.8) given below is main chart of that report.

(Image 3.3.5.8) Advantage of Irregular Correction

I explained this Irregular Correction in depth and also explained how it actually forms, how it confuses and how we can get advantage out of it. I explained it deeply because it is common pattern and forms repeatedly, it confuses us for a time being but gives great profit opportunity later and we can get benefited from this pattern only if we know about it.

<u>Personality of inner wave (C) of Irregular</u>: - Inner wave (C) of an Irregular Correction is often sharp and destructive and it often shakes the confidence weak traders/investors before reversal. But the reversal after completion of wave (C) of Irregular Correction is often sharp and doesn't give chance to trade.

There analysts and traders who are familiar with the personality of Irregular Correction and it inner wave (C) try to cash opportunity and majority is scared.

CHAPTER 3.3.6

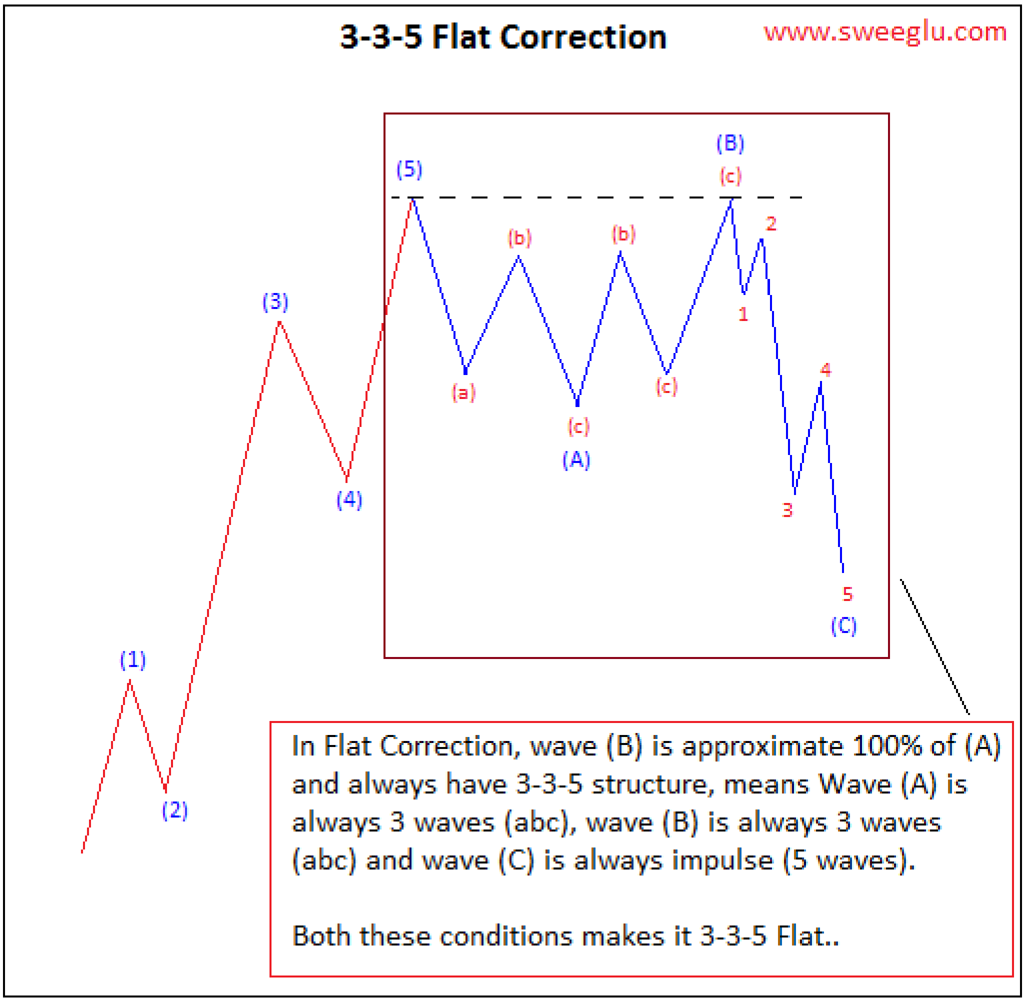
3-3-5 Flat Correction

Flat correction is occasionally seen pattern of Elliott Wave Theory which is witnessed less when compared to other type of correction, means 3-3-5 Flat occurs very occasionally. It is very less understood by majority of Elliott Wave Theory analysts and practitioners but is very simple to understand. I tried to explain it in details in best possible way revealing all my research and experience till date.

3-3-3 Flat Correction:

We already know that a correction or corrective wave is comprises of 3 inner waves called (A), (B) and (C). And when wave (B) completes before the start of (A), we call it Simple Zigzag and when wave (B) completes above the start of (A), we call it Irregular Correction.

But in some cases, wave (B) goes exactly equal to (A) or wave (B) corrects (A) exactly by 100%, we call it Flat Correction**.** See (Image 3.3.6.1)**.** This is the simple presentation of a "Flat Correction". We call it Flat Correction because wave (B) equal to (A) is making it flat at top.



(Image 3.3.6.1) 3-3-5 Flat Correction

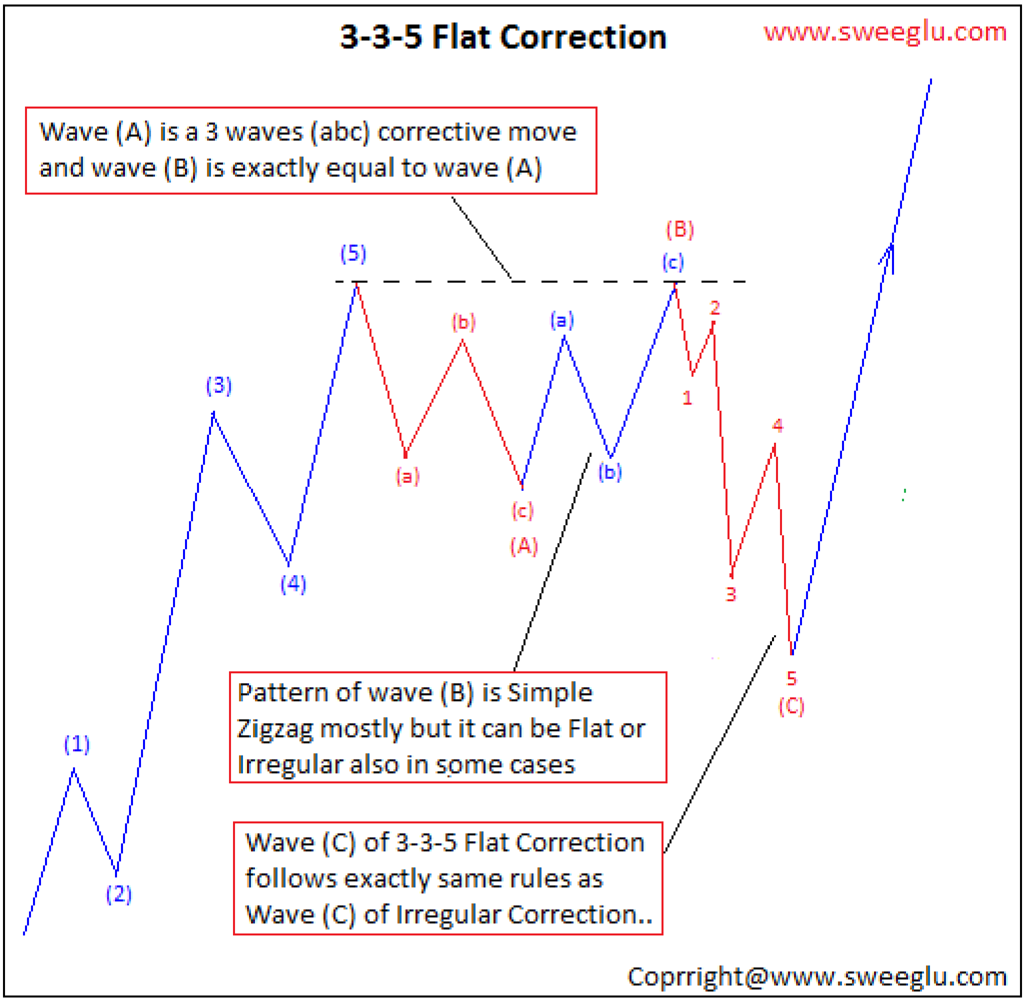
Flat Correction as 3-3-5 Sub Pattern : "Flat Correction" can have only 1 sub pattern which is *3-3-5*. Inner Wave (A) is always corrective (3 waves, abc) in Flat Correction, wave (B) is always corrective (3 waves, abc) in any case and wave (C) is always impulse (5 waves) in any case.

So, (A) with 3 inner waves, (B) with 3 inner waves and (C) with 5 inner waves makes it 3-3-5 sub pattern, that's why we call it 3-3-5 Flat Correction.

Important Point to Remember: Wave (A) is an impulse in Simple Zigzag Correction and it can be corrective only in "Irregular Correction" and "Flat Correction". Means whenever you mark or observing wave (A) as corrective (3 waves move) then always expect or make sure that next wave (B) is either touching or breaking above start of (A) because wave (B) must be Flat or Irregular if wave (A) is corrective. It is just a small point but is very important point of observation for confirming the pattern.

Identification and Trading 3-3-5 Flat Correction:

3-3-5 Flat correction can be identified only after seeing Wave (A)=(B) followed by Impulsive wave (C). Wave (A) must be (abc), wave (B) must be (abc) and completing exactly near the start of (A) and Final wave (C) is always impulse. Look carefully at (Image 3.3.6.2) below.



(Image 3.3.6.2) 3-3-5 Flat Correction

Flat Correction is sign of strong main trend, and there is always a strong reversal after completion of Flat Correction. So, trade can be taken near the completion of wave (C) expecting very sharp reversal because Price mostly breaks the start of Flat Correction with speed.

Important Rules and Guidelines about 3-3-5 Flat Correction:

1. Flat Correction always have 3-3-5 sub pattern where wave (A) is 3 waves, wave (B) is 3 waves and wave (C) is 5 waves (Impulse). Wave (A) is always a corrective wave (abc) in Flat Correction, means wave (A) can never be Impulse in Flat Correction.

2. Wave (B) of Flat Correction retrace wave (A) approx. by 100%, means the start of wave (A) and the end of wave (B) is almost in same line.

3. Pattern of wave (B) is observed as Simple Zigzag in most of the cases, but it can be Flat or Irregular also in some exceptional cases.

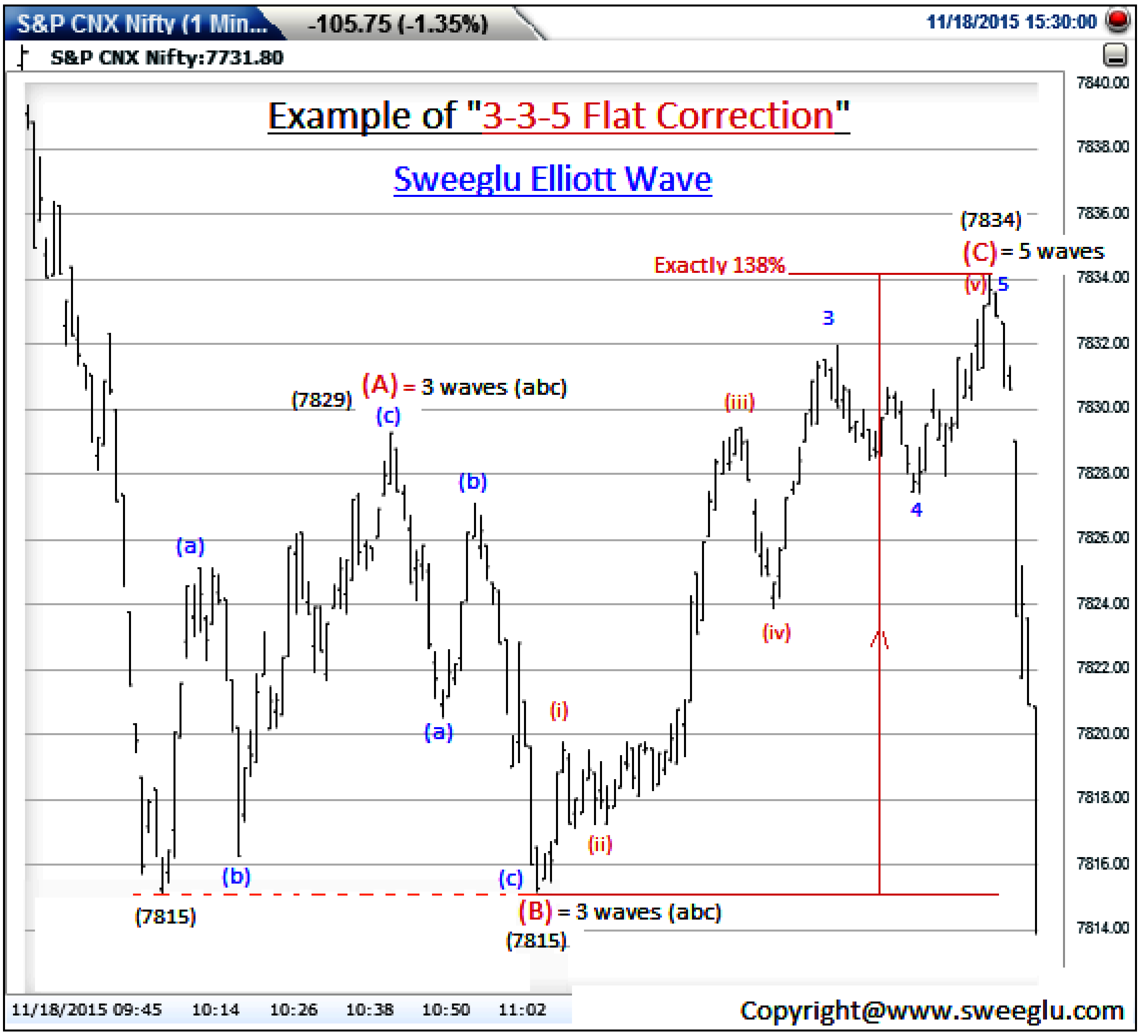
4. Inner wave (C) of Flat Correction is sharp and fast most of the times which create panic before reversal.

5. Same as Irregular Correction, Wave (C) of Flat Correction must be minimum 61% of (A). Wave (C) is normally 100%-123% of wave (A) but there is no upper limit. Wave (C) can even be more than 461% of (A) in some cases. Wave (C) can also end before wave (A) in some cases when (C) is less than 100%.

6. 3-3-5 Flat correction is a sign of strong main trend and there is always a strong reversal after completion of Flat Correction.

Example of 3-3-5 Correction on real Nifty Chart: -

Please look at chart on (Image 3.3.6.3), this is the chart I taken from my analysis report of 19 Nov 2015 and link to that report is Nifty EW Analysis for 19 Nov 2015 – Perfect Example of 3-3-5 Flat Correction



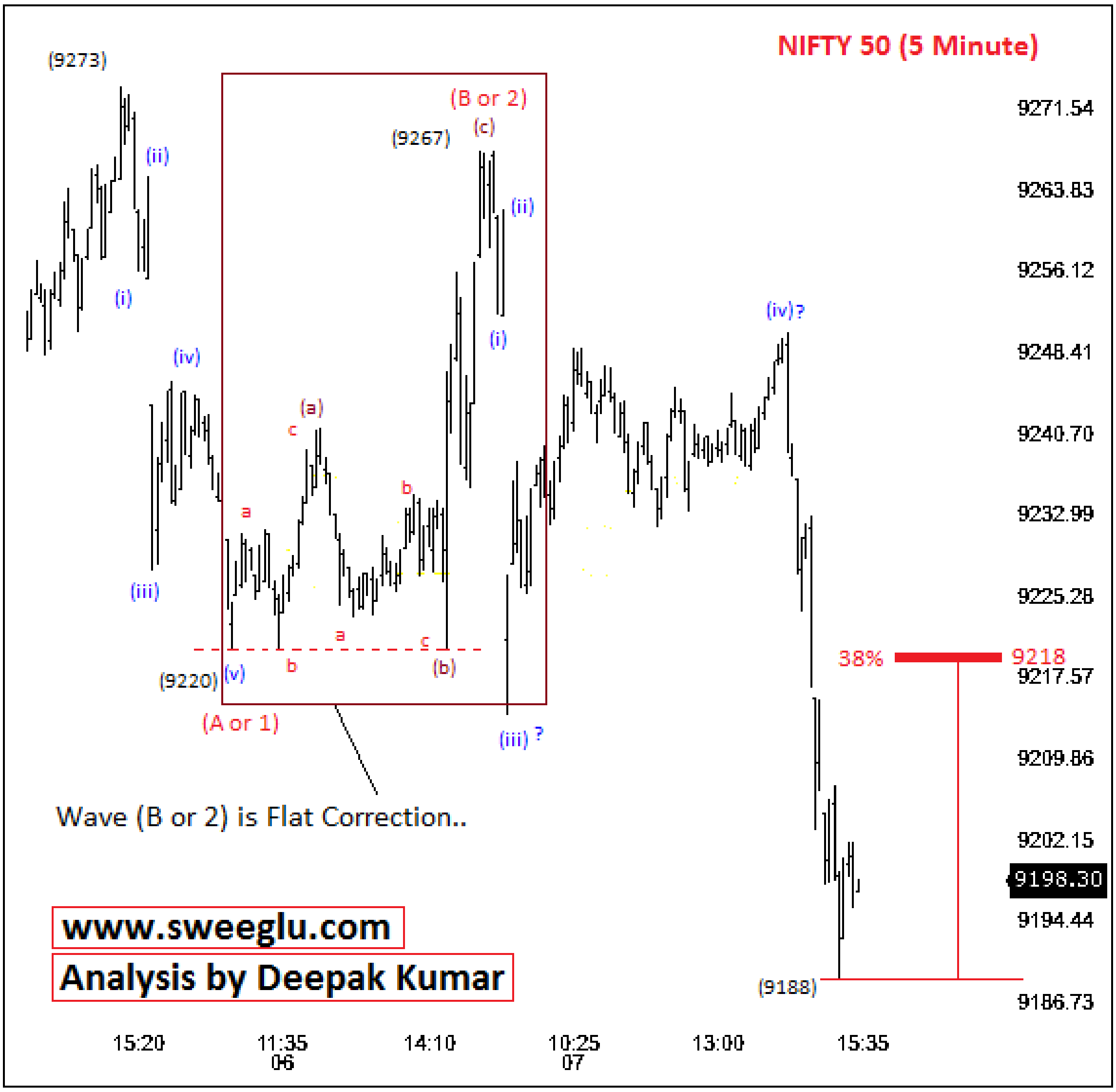
(Image 3.3.6.3) Example of 3-3-5 Flat Correction

We can see that,

- Wave (A) completed from 7815-7829 as (abc).
- Wave (B) completed from 7829-7815 as (abc) and it completed exactly at starting point of wave (A).
- Wave (C) completed from 7815-7834 as Impulse which projected exactly 138%.
- And next reversal after completion of Irregular Correction is sharp and strong.

Example 2: -

Please look at (Image 3.3.6.4), this is one more chart I taken from my old analysis report Elliott Wave Analysis and Outlook of Nifty for 10 April 2017 Onward



(Image 3.3.6.4) Example of 3-3-5 Flat Correction

Here also, wave (B or 2) is 3-3-5 Flat Correction and even inner wave (a) is Flat Correction. Observe the personality of wave (C) of Irregular Correction followed by the personality of reversal after completion of this Irregular Correction.

These are couple of Examples of 3-3-5 Flat Correction, otherwise the same will be explained live whenever I find such pattern.

CHAPTER 3.3.7

Complex Correction

We already read about Simple Zigzag Correction, Irregular Correction and 3-3-5 Flat correction in earlier chapter and all these corrections consist of 3 waves or one (abc) cycle. But sometimes, 2 or 3 (abc) cycles repeats to form a Complex Correction. Or you can also call it Combination Correction.

So, a Complex Correction is a combination of 2 or 3 set of (abc) cycles and every (abc) cycles connects next wave cycle with a link wave (x). Wave (x) is also a corrective wave most of the time but it is very difficult to identify the inner wave pattern of (x) some times. Complex Correction is of two types: -

1. **Double Zigzag Correction**: - Combination of 2 sets of (abc) cycles connected with 1 (X) wave is called as “Double Zigzag” correction. And the pattern of this correction is (abc-X-abc).

2. **Triple Zigzag Correction**: - Combination of 3 sets of (abc) cycles connected by 2 (x) waves is called as “Triple Zigzag” Correction. And the pattern of this correction is (abc-X-abc-X-abc).

I am going to explain “Triple Zigzag” correction first, because if you understand Triple Zigzag then Double Zigzag is auto understood.

Triple Zigzag Correction

Triple Zigzag correction is combination or series of three zigzag corrections [three (abc) cycles] connected by link waves (X) between every (abc) cycle and its internal structure is (abc-X-abc-X-abc).

Triple Zigzag correction is also a closed pattern like Diagonal Triangle and can have triangle or parallel Wedge shape.

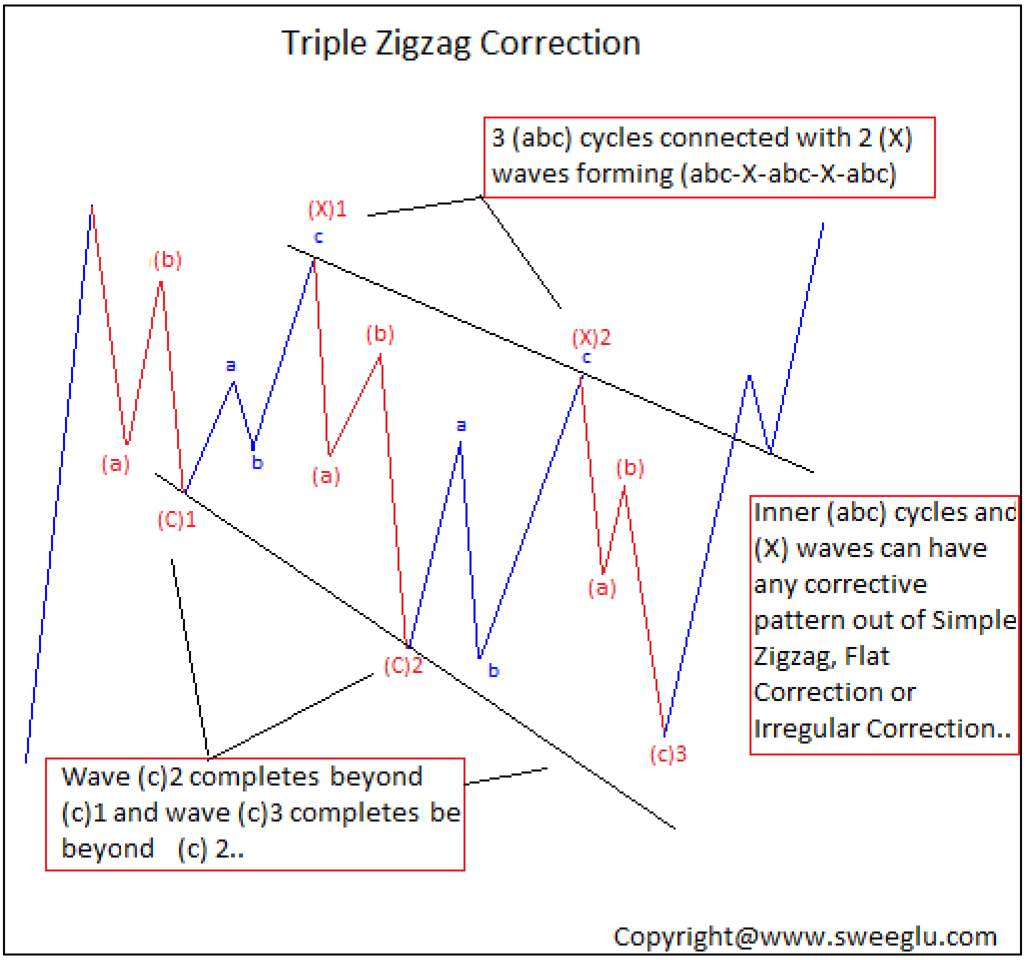
The individual internal (abc) cycle of Triple Zigzag can have any of Simple Zigzag Correction, 3-3-5 Flat Correction or Irregular Correction Pattern.

Link wave (X) generally has Corrective Pattern but it also has unidentifiable pattern some times.

There is no particular Fibonacci projection/retracement limit for inner (abc) cycles of Triple Zigzag but Every next (abc) cycles must complete beyond the end of previous (abc) cycle. Means 2nd (abc) cycles must complete beyond the end point of 1st (abc) cycle and 3rd (abc) cycle must complete beyond the end point of 2nd (abc) cycle.

Wave (X)1 can breaks beyond the start point of 1st (abc) cycle, means wave (X)1 can be Irregular or we can say that wave (X)1 can retrace 1st (abc) cycle by more than 100% but it is a rare case. Otherwise wave (X)1 completes before the start of 1st (abc) cycle most of the time. But wave (X)2 cannot break beyond the start point of (X)1.

Have a careful look at Image (3.3.7.1) to understand Triple Zigzag Correction Visually.



(Image 3.3.7.1) Triple Zigzag Correction

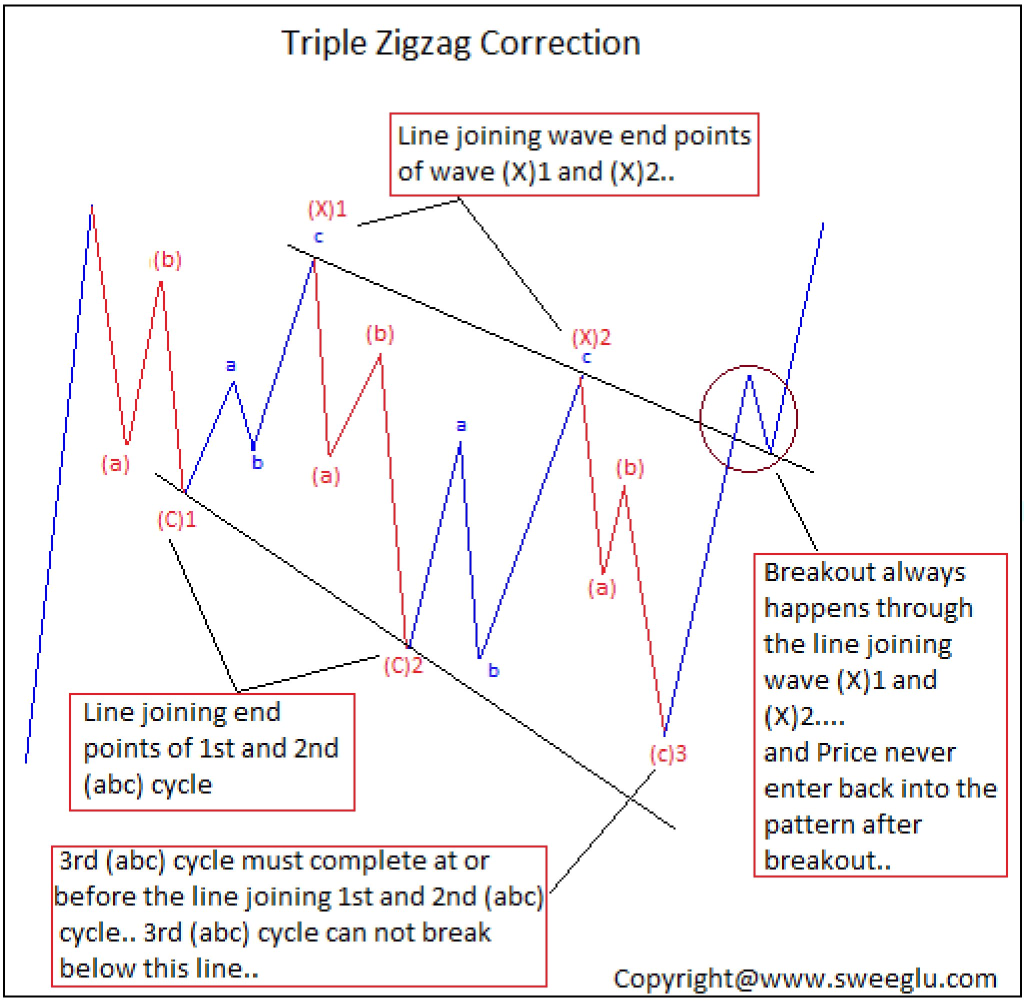
Drawing the line of Wedge/Pattern:

Drawing correct lines is most important to confirm this pattern and to identify its completion and breakout. The process of drawing line of Triple Zigzag Correction is exactly same as Leading Diagonal Triangle and Ending Diagonal Triangle.

- 1st line must be drawn joining the end points of 1st (abc) cycle and 2nd (abc) cycle.
- 2nd line must be drawn joining the end points of both (X) waves.
- 3rd (abc) cycle (last) need not to touch the line joining end points of 1st and 2nd (abc) waves. 3rd (abc) cycle can complete at or before the line joining end point of 1st and 2nd (abc) cycles but can breaks out of this line.
- Breakout always happens through the line joining wave (X)1 and (X2) and price never enter back into the pattern again after breakout.
- Most important, lines joining the end points of wave (abc) cycles and (X) waves should not be broken or disturbed. Means, no part of any wave can be out of these

lines unless the pattern is completed. Breakout happens only through extended line joining wave (X1)-(X2) after completion of whole pattern.

Have a careful look at (Image 3.3.7.2) to understand it visually: -



(Image 3.3.7.2) Drawing lines of Triple Zigzag Correction

<u>Personality of Triple Zigzag Correction: -</u>

Triple Zigzag correction is most confusing pattern of Elliott Wave Theory because it repeats correction after correction and we can't identify which pattern its inner waves will have.

We can never expect in advance if a Simple (abc) correction will turn into Double Zigzag or a Double Zigzag Correction into Triple Zigzag Correction. We can confirm it after its completion only. So, there is no confident way to predict a Triple Zigzag Correction in advance and we should not.

Triple Zigzag Correction is most confusing but breakout after completion of Triple Zigzag is always aggressive and we generally see a great aggressive move after breakout from the pattern. This correction is a tug of war between buyers and sellers that make price to move up and down within a range for long time. But breakout from this range bound pattern makes mass traders/investors confident about the trend and they start taking action in the direction of breakout aggressively after a long wait.

Importance of Triple Zigzag:

I am always excited after identifying the formation of Triple Zigzag as I feel it as jackpot opportunity after its completion. The most important factors of this correction are: -

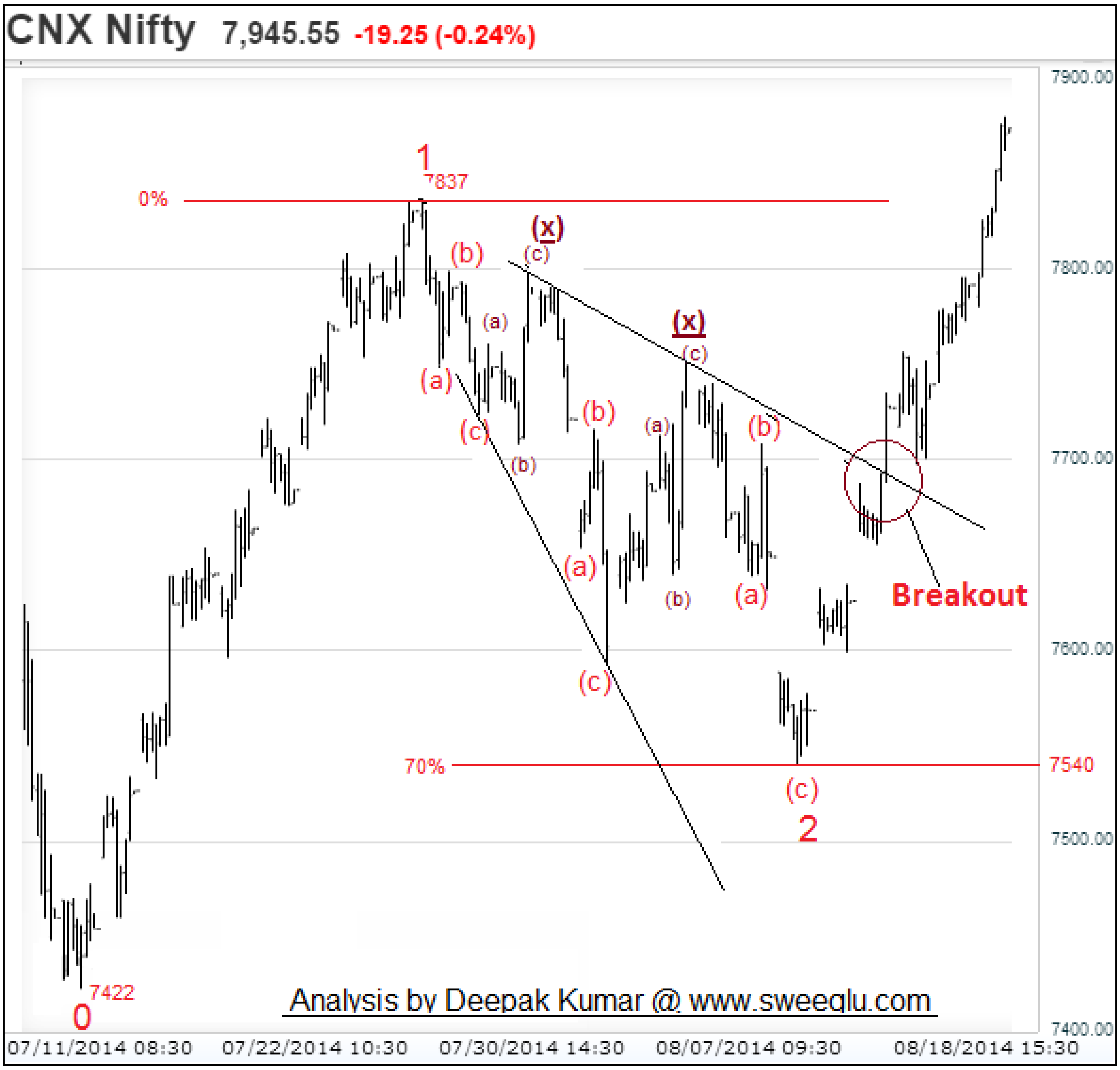
- Reversal after completion of this correction is aggressive most of the time which is good for quick profits and it is best suitable for buying options.
- Price rarely enters the pattern again after breakout which gives very low stop loss for very high profit probability.

Examples of Triple Zigzag Correction on Real Charts: -

(Image 3.3.7.3) Triple Zigzag Correction on Real Chart

The chart shown in (Image 3.3.7.3) is taken from my old Analysis Report of Aug 2014 and link to that report is Nifty can Show 8380 before breaking below 7723. The Triple Zigzag correction marked on this chart started on 25 July 2014 and completed on 08 Aug 2014 and Nifty gave 800 points move within 8-10 sessions after giving breakout from this Triple Zigzag Correction. This Triple Zigzag Correction was completed as Converging Triangle.

There is another example of Triple Zigzag correction as Expanding Triangle Pattern shown on (Image 3.3.7.4). This pattern started on 08 Sept 2014 and completed on 17 Oct 2014. Please have a careful look at chart.



(Image 3.3.7.4) Triple Zigzag Correction on Real Chart

Observe the move after breakout from this Triple Zigzag Correction. Price didn't enter back into the pattern after breakout. Observe the personality of inner waves of this pattern. There were huge volatile swings with gap openings.

Observe the drawing of lines of this Triple Zigzag Correction. None of the line is disturbed during the pattern, only breakout from lines joining (X) waves happened after completion of correction.

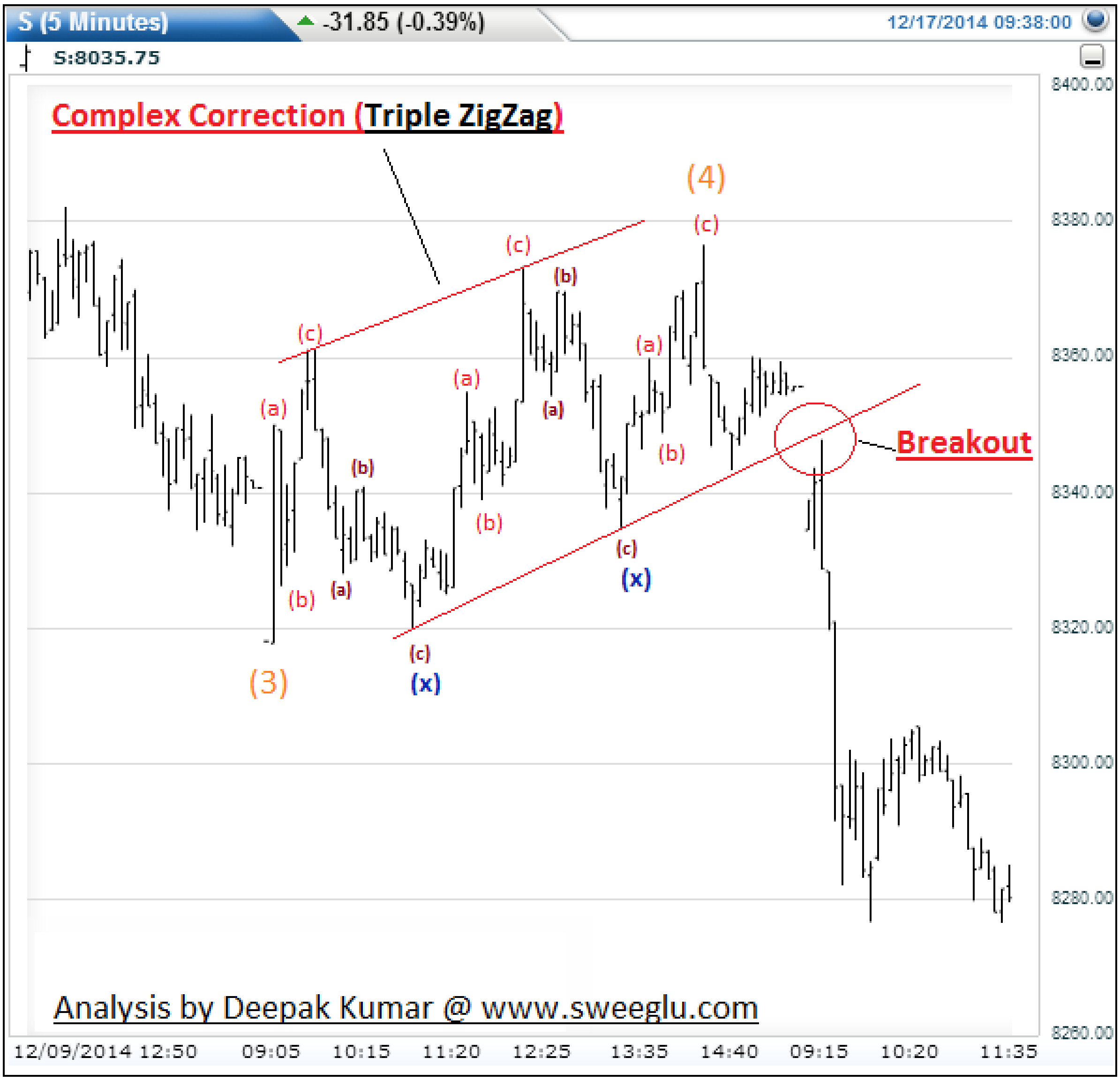
Let me show the after effect of these Triple Zigzag corrections on Bigger Time Frame Chart (Image 3.3.7.5):

(Image 3.3.7.5) Nature of move after Breakout from Triple Zigzag Correction

This is daily time bar chart of Nifty showing move after 14 July 2014. The corrections I explained on previous charts (Image 3.3.7.3 and 3.3.7.4) are marked here in this bigger time frame chart. Just observe the personality of move after Breakout from pattern and Price didn't enter within pattern again after breakout.

You have seen Triple Zigzag Correction as Expanding Triangle and Converging Triangle, now let me show you the same pattern as parallel wedge. Please look at (Image 3.3.7.6) carefully.

This triple zigzag correction was in upward direction in downward trend and was formed in a single session on 5 minutes time bar chart. This Triple Zigzag Correction was identified on 09 Dec 2014 and taken from my old analysis report Elliott Wave Analysis Report of Nifty for 11 Dec 2014.



(Image 3.3.7.6) Triple Zigzag Correction on 5 Minute Chart

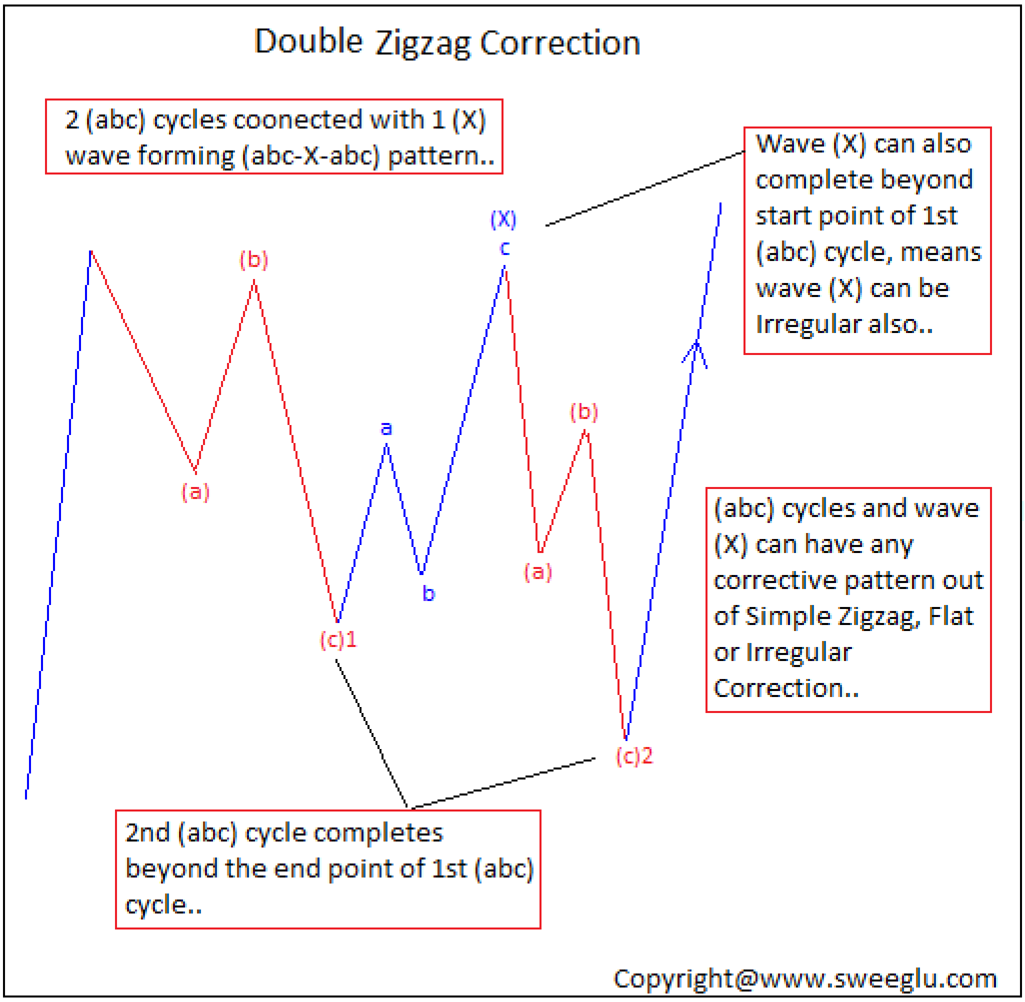
These are some practical examples of Triple Zigzag Corrections I had shown from my old analysis reports. I will explain this pattern live through my analysis reports whenever I identify the same in future.

Double Zigzag Correction

Double Zigzag correction is also same as Triple Zigzag but it has only 2 (abc) cycle connect by a link wave (X) and structure is (abc-X-abc). And other difference is that Double Zigzag is open pattern and we need not to draw line, it can be identified by calculating inner wave only.

Same as in Triple Zigzag Correction, 2nd (abc) must complete must complete beyond the end point of 1st (abc) cycle and wave (X) can be Irregular in some cases.

Please look at (Image 3.3.7.7) to understand it visually.



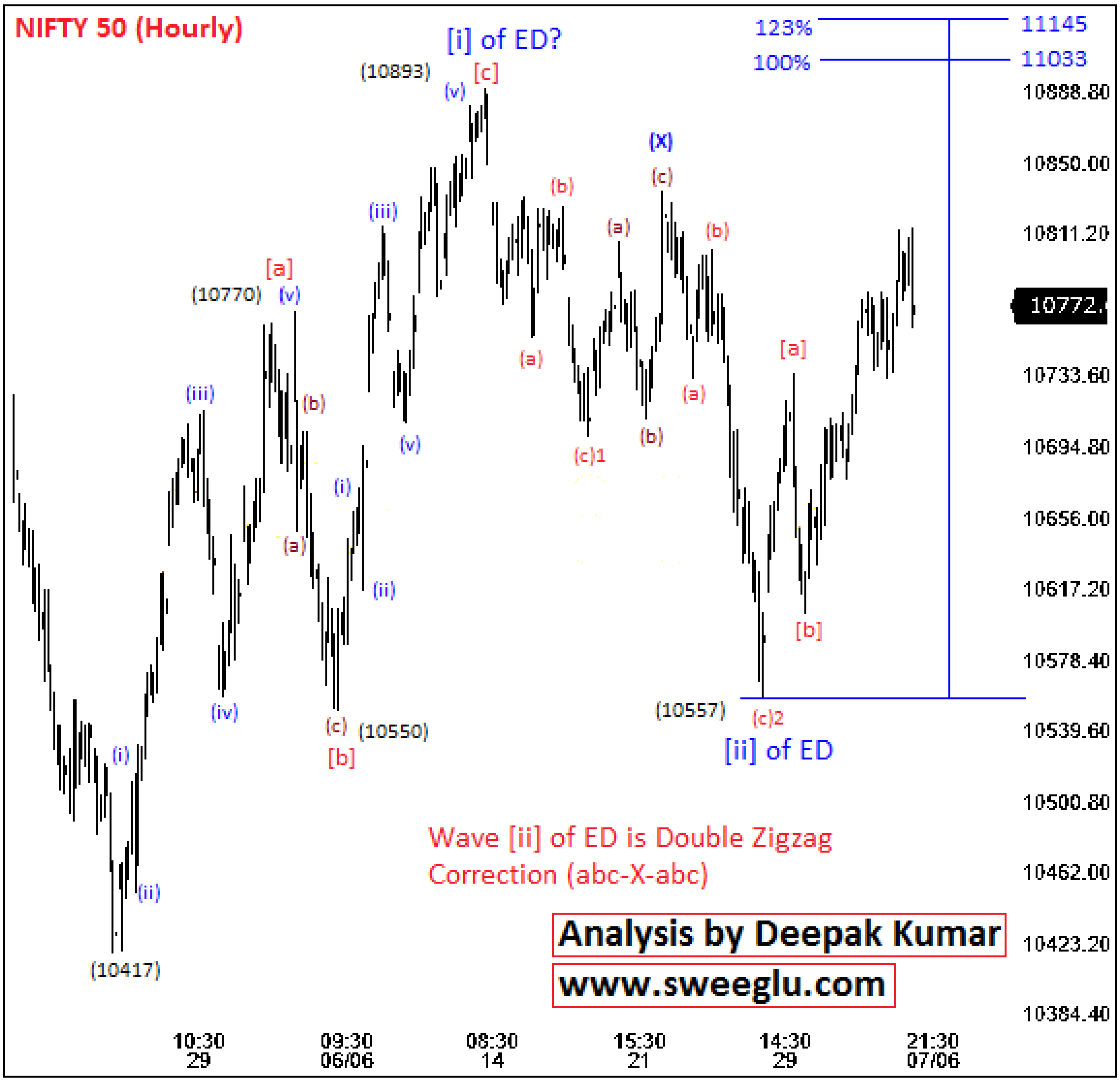
(Image 3.3.7.7) Double Zigzag Correction

Inner (abc) cycles and (X) wave can have any corrective pattern out of Simple Zigzag, Flat Correction or Irregular Correction. But, these waves cannot have complex correction pattern.

Examples of Double Zigzag Correction on Real Charts: -

There is recent example of Double Zigzag on Nifty chart. The chart shown in (Image 3.3.7.8) is taken from my past analysis report and link to that analysis report is [Fresh EW Counts and Outlook of Nifty for 09 July 2018 Onward]

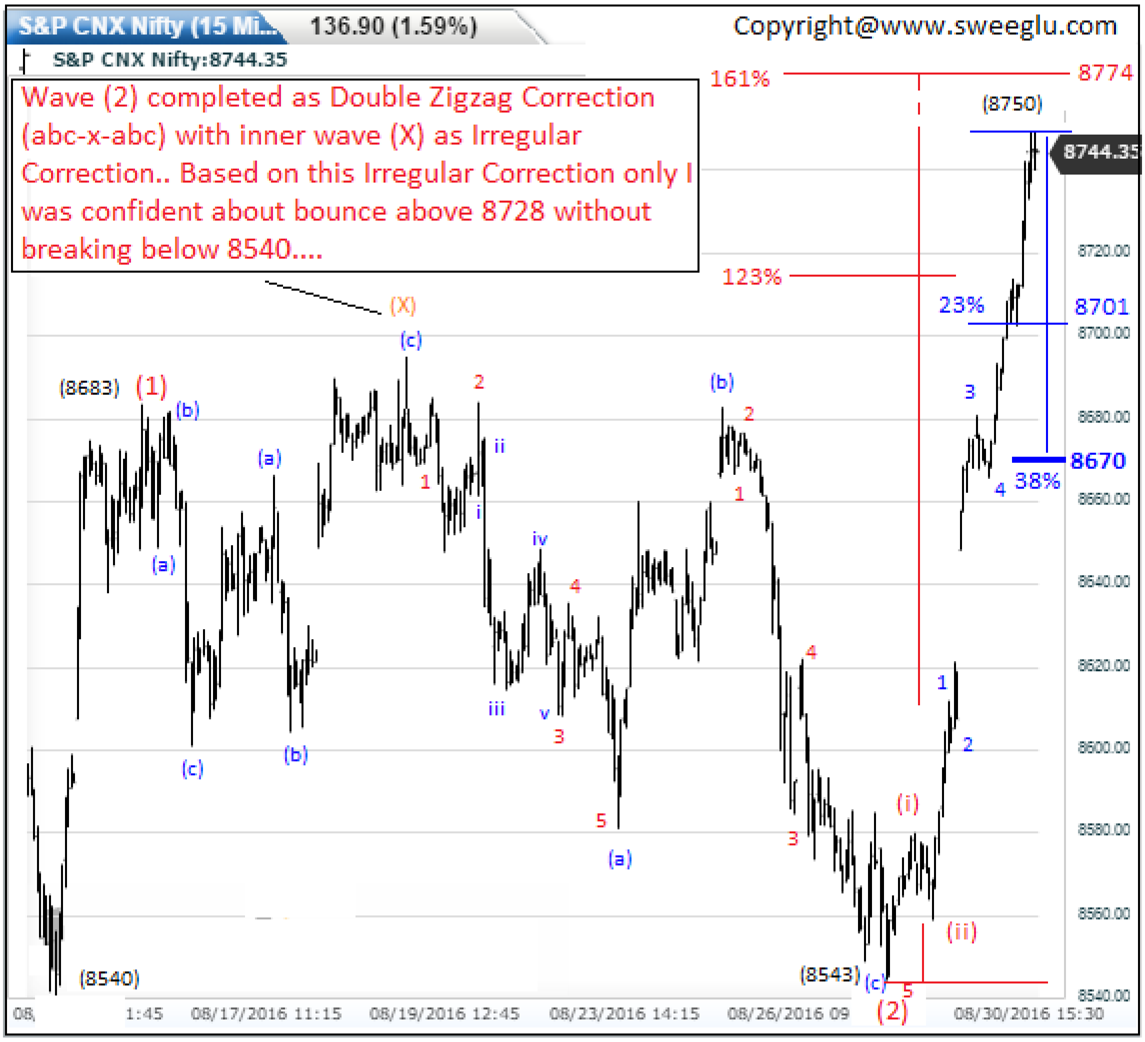
The correction completed from 10893-10557 is perfect example of Double Zigzag Correction with normal wave (X). Please have a careful look at the chart: -



(Image 3.3.7.8) Example of Double Zigzag Correction

There is one more example of Double Zigzag Correction with Irregular (X) wave on Nifty chart. This chart is taken from my old analysis report and link to that report is Finally Nifty Achieved 8728 – Perfect Example of Double Zigzag Correction

Have a careful look at (Image 3.3.7.9): -



(Image 3.3.7.9) Example of Double Zigzag Correction

This Double Zigzag Correction with Irregular Wave (X) was formed in Aug 2016 and is a perfect example.

Wave (X) of this Double Zigzag Correction have Simple Zigzag pattern and completed beyond 1st (abc) cycle.

Again, these are just couple of examples I had shown from my old work. Otherwise I will explain the same pattern live whenever I identify its formation on live chart.

So, all the 7 patterns of Elliott Wave Theory are explained in details and every single move on any chart can be calculated with these patterns. Please read carefully, try to understand and memorize their structure and rules, you can identify the formation of these pattern within seconds if you have their picture in your mind. It is easy to understand these pattern if you approach correctly because the all patterns are interconnected to each other.

Most of the pattern I had explained in upward direction but they forms exactly same in downwards direction also. Suppose, I mentioned Impulse as Main/Bullish/Upward trend but wave (C) forms in downward direction and wave (C) is also an Impulse. Wave (C) also have

12345 as inner waves and these 12345 waves in downwards direction will have all of these patterns.

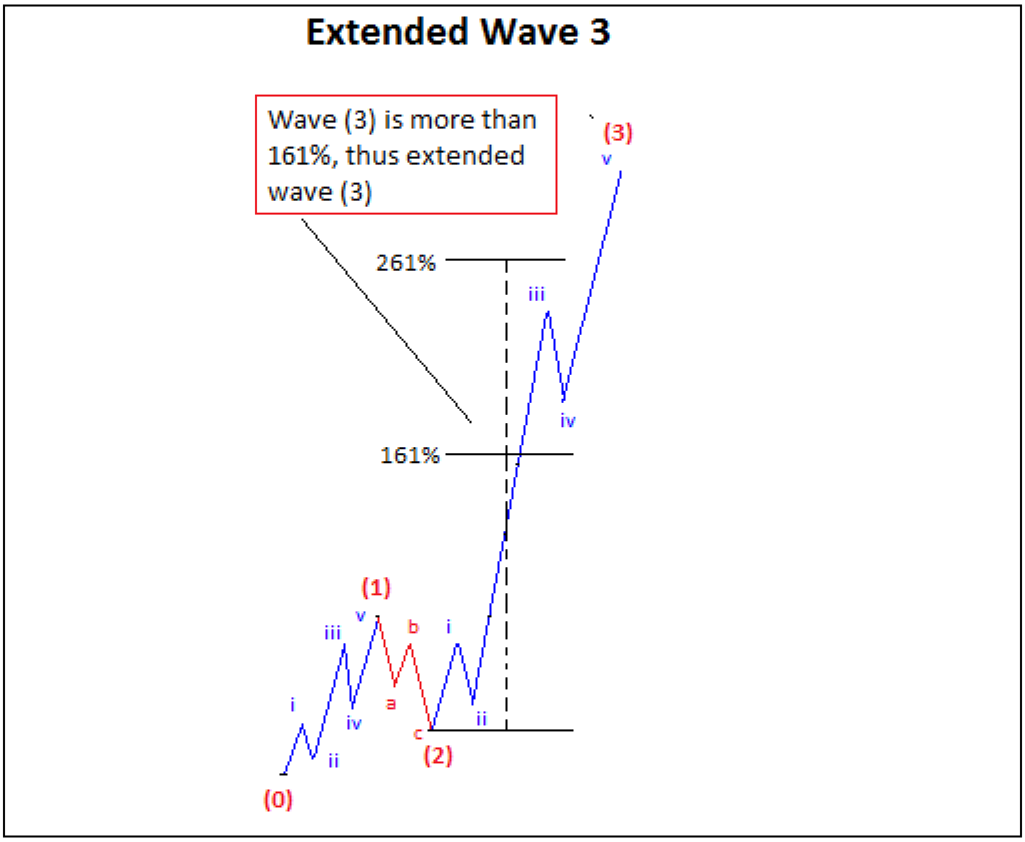
CHAPTER 4

Extended and Failure Waves

A wave that extends beyond its normal projection is called as extended wave. We need to know the criteria for extended waves because every wave reflects the probabilities and personality of next wave. Elliott mentioned that wave 5 is main candidate for extended wave but I observed wave 3 extended in present markets (especially Indian Markets).

RN Elliott mentioned in his theory that any one impulse 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 3



(Image 4.1) 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 or even higher because there is no maximum definite limit for projections.

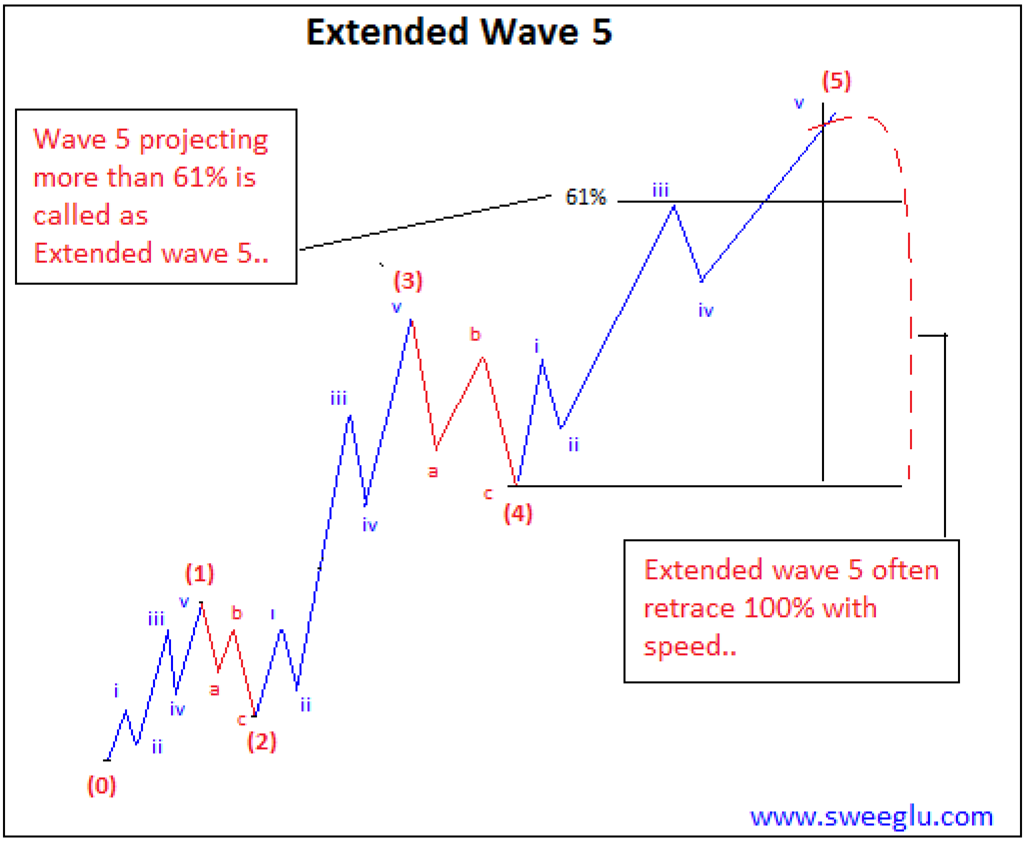
Wave 3 till 161% of wave 1 considered as normal wave but when wave 3 projects more than 161% of wave 1, it comes in extended category and we call it "Extended Wave 3".

Please have a carefully look at Image (4.1) to understand Extended wave 3 visually.

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) but it can also be 100%-123% in some cases.

Wave 5 up to 61% projection is considered as normal wave but when wave 5 extends more than 61%, it comes in extended category and we call it "Extended Wave 5".



(Image 4.2) Extended wave 5

Please look at Image (4.2) to understand extended wave 5 visually.

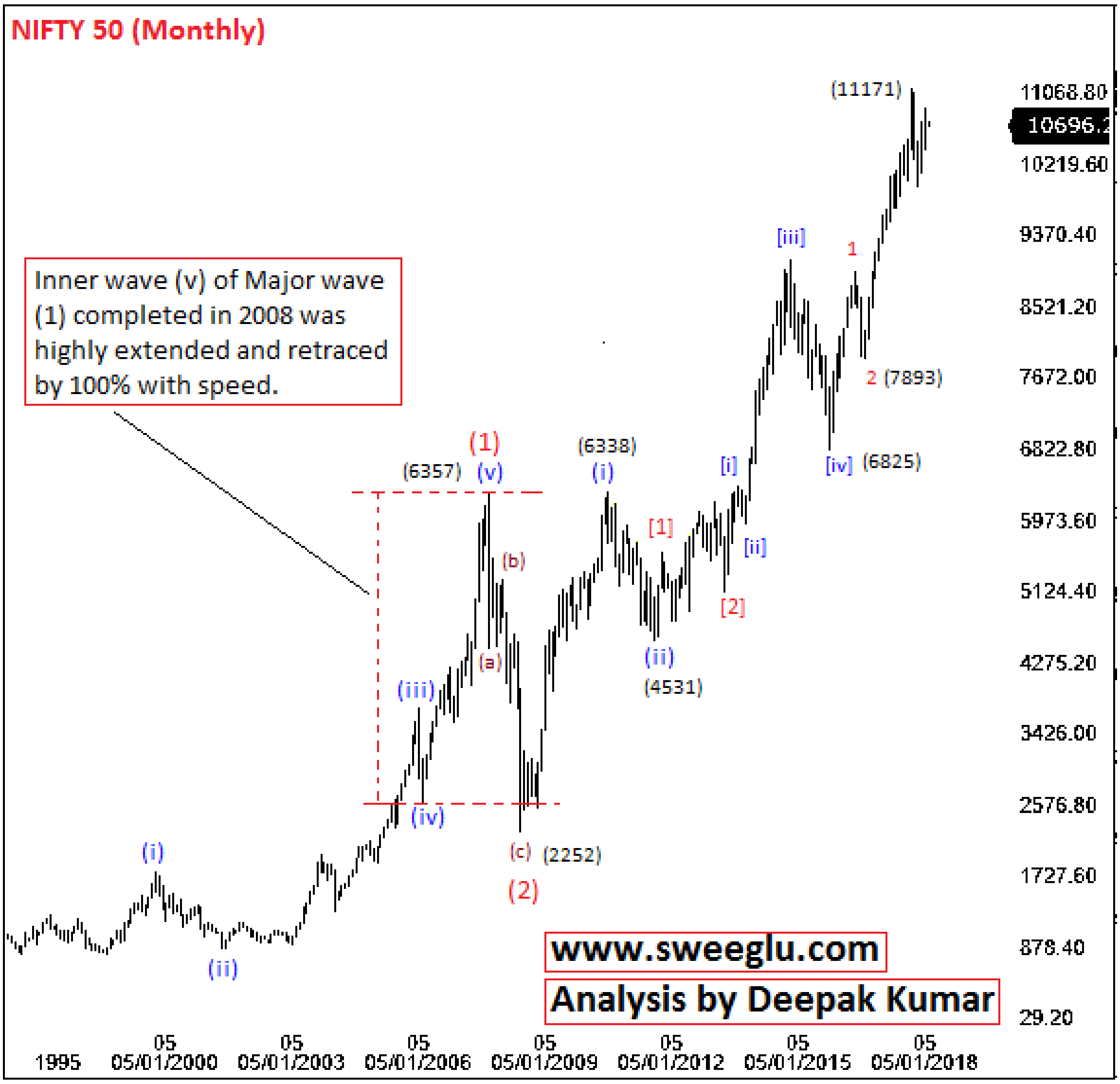
We must be cautious after seeing more than 61% extension of wave 5 because we often see sharp and fast reversal after completion of extended wave 5 which corrects whole wave 5 in faster time. Extended wave 5 can make you rich if you manage to find its top.

But, you may not see full wave correction if extended 5^{th} is inner/smaller/lower degree wave within bigger wave (3). The rule of 100% retracement of extended wave 5 is applicable for main wave 5 or inner wave (v) of (1) or (3) only.

I am not giving any example of extended wave 3 or 5 on real chart because I am going to show it live every day through my analysis report. Extended wave 3 and 5 is a common event which happens daily.

But I am going to show the example of sharp reversal after extended major wave 5 on real chart. Although, most of the stocks and indexes has major extended wave (5) in 2008 and the whole bull rally of last 8-13 years was retraced in just 1 years. So, I am showing the example on Nifty chart.

Please look at life time chart of Nifty on (Image 4.3)



(Image 4.3) Personality of Reversal after extended wave 5

Please have a careful look at chart. The inner wave (v) of major wave (1) was highly extended in 2008 (projected almost 100%). Same extended wave (v) was retraced 100% within a year to complete wave (2).

This is just a simple example, otherwise you will witness it frequently through my daily analysis report.

Failure Wave

I never had seen any convincing failure wave in my whole Elliott Wave Carrier. But still I am explaining about failure wave because RN Elliott's mentioned it in his research. So, the topic "Failure Wave" I am just explaining theoretically with an example but I didn't observe it.

RN Elliott said, 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 reversal.

Generally, if we are expecting wave (5) but an Impulsive move completes below the end of wave 3, then we consider that Impulse as inner wave (i) of (5) and expect an extended wave 5th. But, it can 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.

(Image 4.5) Failure Wave

Have a look at chart on (Image 4.5) 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.

I am showing this example just to show how a Failure wave looks like if it happens otherwise I personally am not convinced with it.

CHAPTER 5

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. Some of these rules are only exceptional and some are mandatory.

We learned in earlier chapters that 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 Impulsive and wave 2 and 4 are correction for wave 1 and 3 respectively. But completion of wave 5 completes a new bigger impulsive (1). Next correction will be for bigger wave (1) forming wave (2).

Beside this, there are some rules of alternation in EWT. These rules can be used as guide during practical application of Elliott wave principles.

Rule of Alternation for Corrections

Wave 2 and 4 are two main corrective waves within an Impulse and there are four types of Corrective Patterns i.e Simple Zigzag, Irregular Correction, 3-3-5 Flat Correction and Complex Correction.

Rule of Alternation for Correction says that "wave 2 and wave 4 of same impulse cannot have same type of Corrective pattern"

Means, if wave 2 is Simple Zigzag then you can expect wave 4 as Flat, Irregular or Complex but not the same Simple Zigzag.

And if wave 2 is Complex Correction then you can expect wave 4 as Simple, Flat or Irregular but not the same Complex Correction.

So, if you see wave 2 was Simple Zigzag, you must avoid trading wave 4 as it may unfold as some Complex type of Correction which is really difficult to identify.

Rule of Alternation for Extensions (Mandatory)

Wave 1, 3 and 5 are three Impulsive waves within an Impulse. Rule of Alternation for extensions says that any one Impulse out of 1, 3 or 5 must be extended. We ignore wave 1 as extended because it is a base, so we expect only wave 3 or 5 as extended. This is a mandatory rule and must be followed.

So, if you see wave 3 was normal wave (less than 161%), you can expect wave 5 as extended wave. In the same way, if you see wave 3 is extended (above 161%) you can expect wave 5 as normal wave (below 61%).

Here, if you are seeing normal wave 3, then 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.

<u>Note:</u> Many EW practitioners get confused with this rule of alternation for extensions. Many analysts understand this rule as “Only one out of wave 3 or 5 can be extended” which is wrong. The actual rule is “One out of wave 3 or 5 must be extended”.

Means, any one out of wave 3 and 5 within same Impulse must be extended but both wave 3 and 5 can also be extended. Both the waves 3 and 5 not extended is Impossible, any one must be extended. But that doesn’t mean that both waves 3 and 5 cannot be extended.

Practical examples on real charts for “Rules of Alternations” will be explained through my analysis reports because it is the daily activity on real charts.

CHAPTER 6

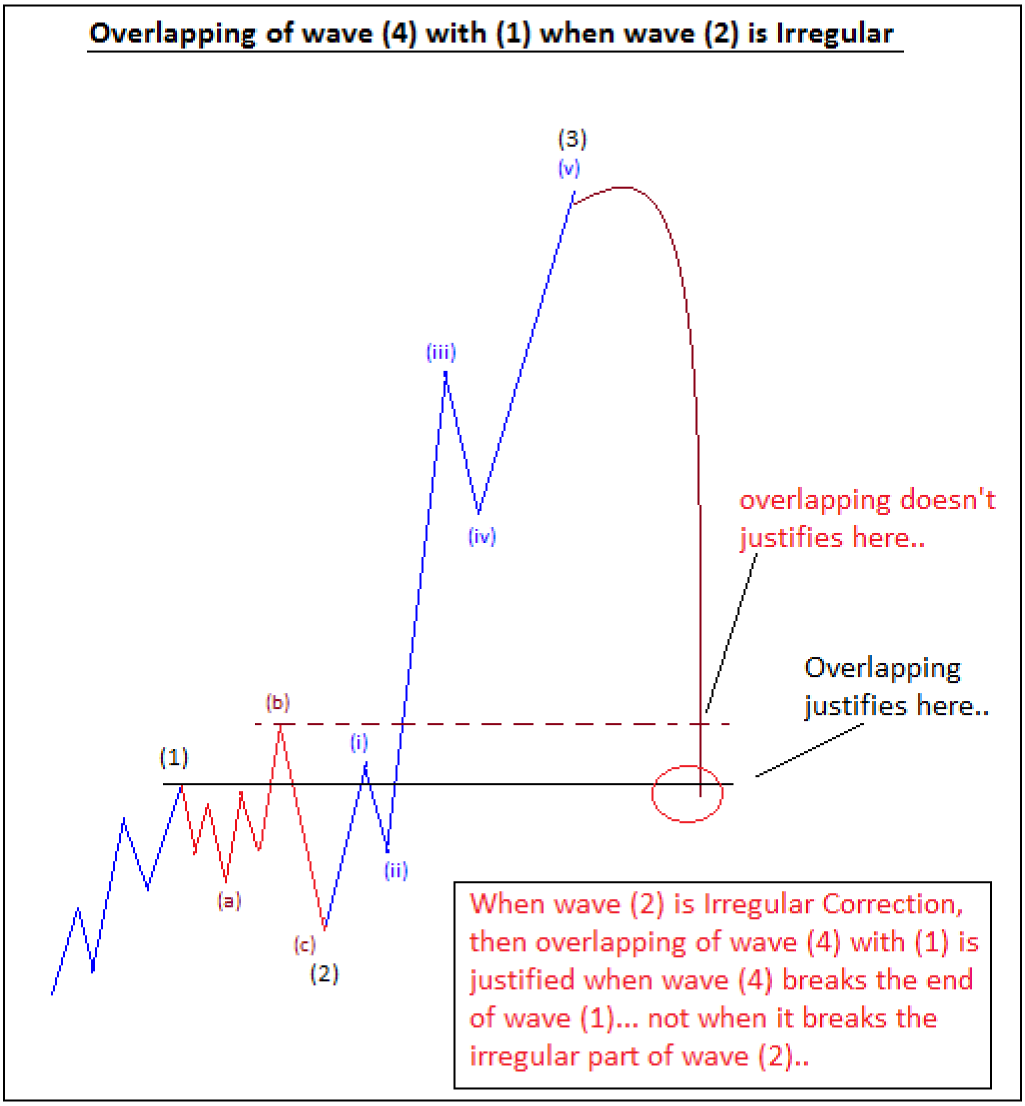
Rule of overlapping of wave (4) with (1) when wave (2) is Irregular Correction

I explained in earlier Chapter about a mandatory rule that “Wave (4) cannot break the end of wave (1)” or we also say the same as “Wave (4) can not overlap wave (2)”. We have two statement of same meaning: -

1. Wave (4) can not overlap (1)
2. Wave (4) can not overlap (2).

Both these statement are absolutely same in normal conditions because end of wave (1) is start of wave (2). If wave (4) is overlapping wave (1) means it is also overlapping wave (2).

But both these statements make difference when wave (2) is Irregular Correction. Please look carefully at (Image 6.1) to understand it visually.



(Image 6.1) Overlapping of wave (4) with (1) when wave (2) is Irregular Correction

When wave (2) is Irregular Correction then “Overlapping of wave (4) with (1)” and “Overlapping of wave (4) with (2)” is not same. Because, wave (2) breaks beyond the end of wave (1) in case of Irregular Correction.

In this case,

1. Wave (4) overlapping with wave (2) will be considered when wave (4) breaches the end of wave (b) of (2) because wave (b) is a part of wave (2).

2. But wave (4) overlapping wave (1) will be considered when wave (4) breaks the end of wave (1).

Earlier I was not clear about actual rule because I didn’t have much examples and evidences. But after seeing many patterns and conditions in last three years, I decided to go with the rules that “Wave (4) can not overlap wave (1).

Wave (2) as Irregular Correction confused me many times in my earlier days but later I observed that there is a convincing impulsive pattern if I consider end of wave (1) as overlapping point rather than assuming part of wave (2) of Irregular Correction as overlapping point.

So, in case of wave (2) as Irregular Correction: -

Wave (4) breaching the end of wave (1) is considered as overlapping and not the end of wave (b) of (2).

PART – 2

PRACTICAL APPLICATION OF ELLIOTT'S WAVE THEORY

I had explained about entire rules and principle of Elliott's Wave Theory in previous chapters and now it's the time to discuss about practical application of these rules to identify patterns, doing calculations and to use them for profitable trading/investment.

It is easy to plot charts, counting waves and identifying patterns which 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 and pattern that are already completed but we are here to use EWT to make money and money can be made only by identify the future moves well in advance by analyzing previous waves.

I assume that you are already familiar with the concepts of Elliott Wave Theory explained till now. Basically there are four different pillars of Elliott Wave Theory and these are: -

Wave Cycle
Wave Personalities
Fibonacci Ratios
Wave Patterns

And we need to combine all these four factors for applying Elliott Wave Analysis practically on real charts. EWT is confusing and incomplete if you ignore even any one of these factor, and market movements can never be identified without combining these four different studies.

I already explained everything about it in earlier chapters but let me explain a bit about the purpose of these diffident studies: -

Wave Cycle is a base of Elliott Wave Theory or we can say it is the map of this analysis method. You cannot counts waves without having understanding of Elliott Wave Cycle. EW cycle helps you to identify the current position of price within a wave cycle to get the idea of next wave.

Wave's Personalities actually means the general behavior of the waves. Every wave has its own personalities and understanding of these personalities can help us to confirm our wave counts. These personalities also give us the idea about the nature of next move. Wave's Personalities are already explained in earlier chapters.

Wave Pattern represents the structure of a wave and it shows the position of price within the wave. Every wave has its own definite patterns which help us to identify if a waves is completed or not. It also gives an idea about general trend and indicates where a particular wave is going to complete. It gives the idea of trend reversal and same is explained in earlier chapter.

Fibonacci Ratios helps to calculate minimum/maximum limit of the waves. Every wave has its own set of Fibonacci Projections and Retracement limits which help us to calculate estimated completion of waves. We can calculate minimum targets and stoploss because of Fibonacci Ratios only.

As we see, every of this study/part has different purpose but if we learn the tricks to analyze a chart by combining these four studies then every single move of market can be calculated and understood.

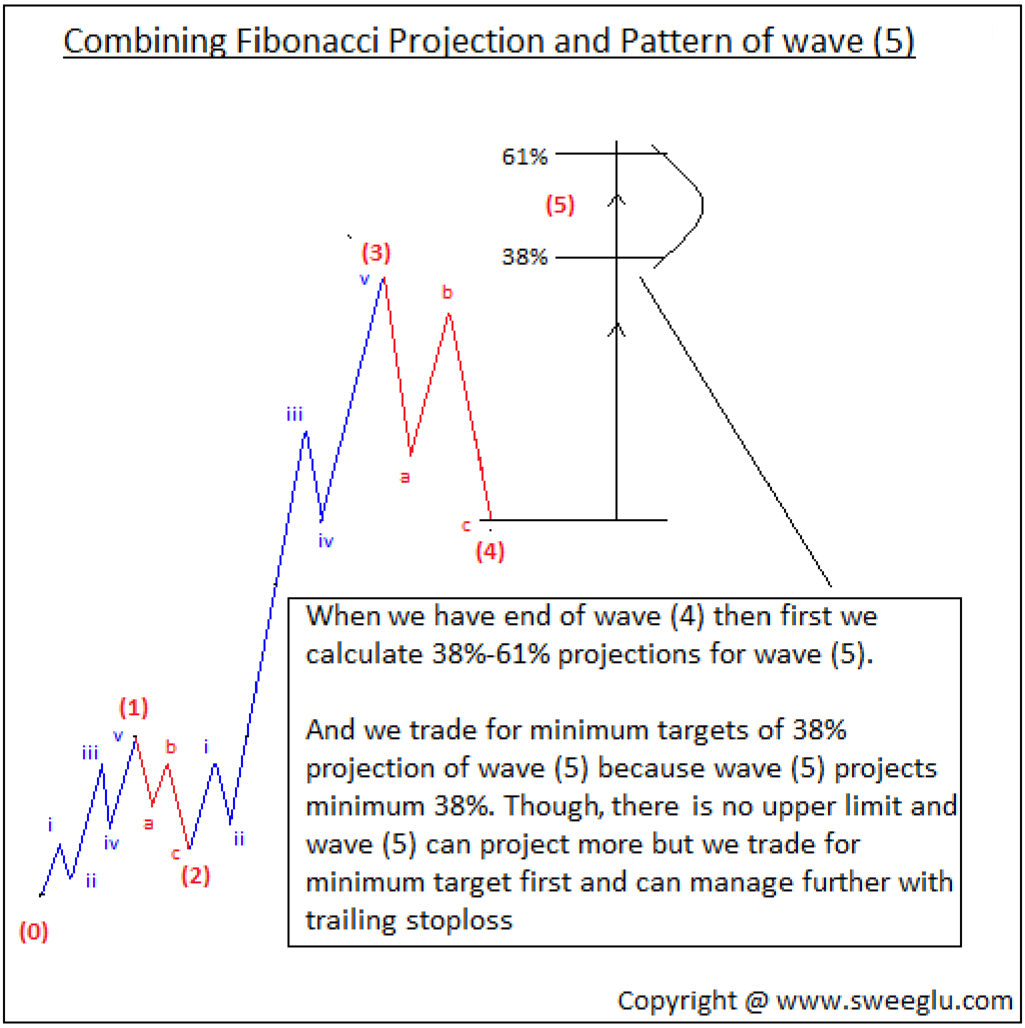
EW Cycle is a base of EWT without which you can't even imagine analyzing a chart. But when you understood EW Cycle and starts counting waves then Wave Patterns and Fibonacci Ratio are two most important tools to identify market moves and to calculate low risk Entry Levels, Exact stoploss and Minimum Targets.

So, let me explain how we can combine Wave Patterns and Fibonacci Ratios to calculate market move and preparing low risk/high reward trading strategies.

CHAPTER 7

Combining Elliott Wave Patterns and Fibonacci Calculations

Let me assume a condition where we are expecting an impulse in progress, and we already have estimated end of wave (4) and expecting next wave (5) to start. Please have a careful look at (Image 7.1)



(Image 7.1) Combining Fibonacci projection and Pattern of wave (5)

Wave cycle shows that there will be wave (5) after wave (4). So, our first requirement is to know about the patterns and Fibonacci Projections of wave (5). We already know that:-

1. Wave (5) can have only two patterns, either "Impulse" of "Ending Diagonal Triangle". So, we already have idea that next wave (5) is going to be either "Impulse" of Ending Diagonal Triangle (ED)".

2. Wave (5) projects minimum 38% in any case. 38%-61% is normal projection for wave (5). But there is no particular upper limit for projection of wave (5), it can project even higher towards 100%-123% or 200%. But wave (5) projecting more than 61% called as Extended Wave (5).

Now, according to the patterns and Fibonacci Ratios of wave (5), it is either going to be Impulse of ED and it will project minimum 38%.

At this point of time, we don't know if wave (5) is going to be Impulse or ED because it is just started and we need some structure on chart to identify its pattern. But we know that wave (5) will project minimum 38%.

So, first we need to calculate normal 38%-61% projection of wave (5) and we will concentrate on its pattern later when it reaches minimum 38% because there will be a formation of some wave structure within wave (5) at that time.

Now, 38% projection of wave (5) is our minimum target for the trade which can extend to 61% or even higher. And if we are trading then we will trade for the minimum target range of 38%-61% of wave (5) using stoploss just before the start of wave (5).

Further, we will look at the pattern of wave (5) to calculate further targets and trailing stoploss when (5) reaches 38%.

Please look at the (Image 7.1) carefully where I explained the whole process visually.

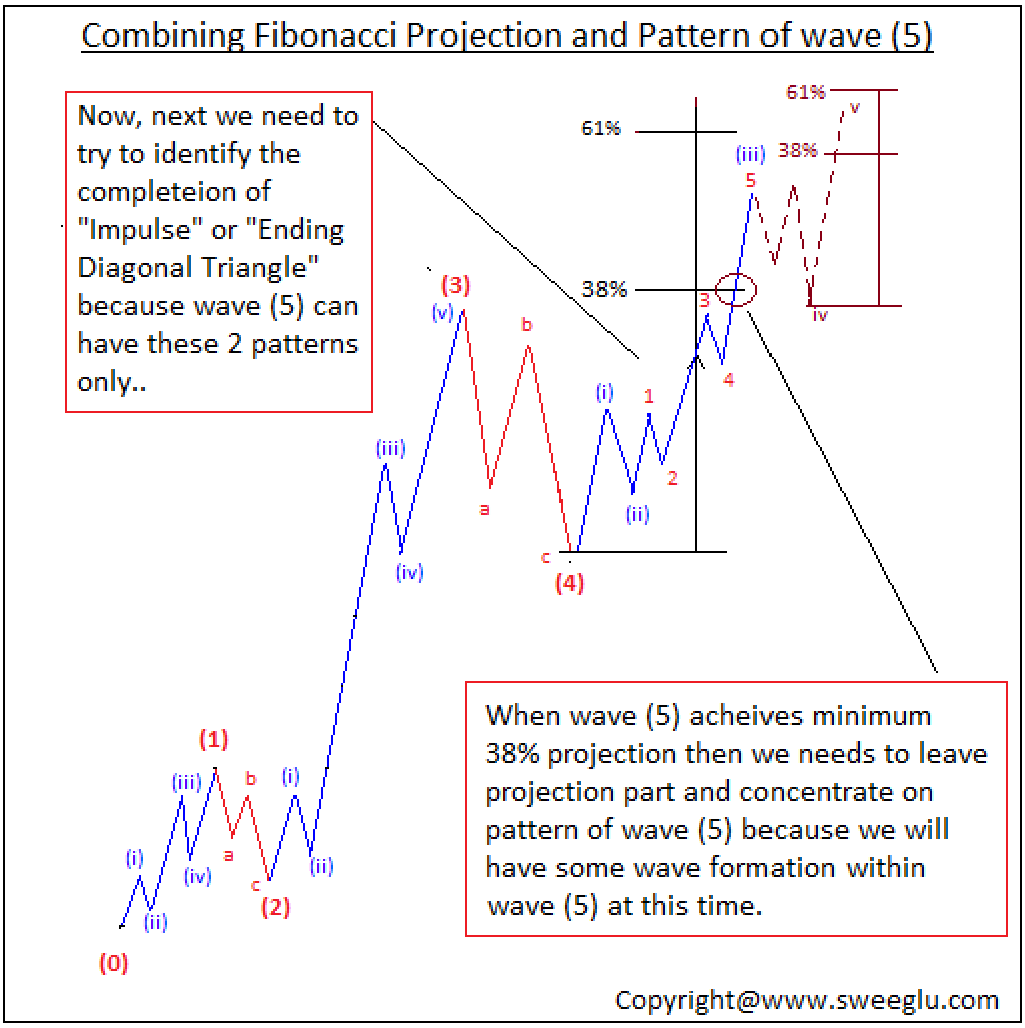
Next Step: -

Suppose wave (5) achieved minimum 38% projection. Now, we need to leave Fibonacci Ratios part and concentrate on pattern only because Fibonacci has done its job. Minimum projection is achieved but there is no maximum limit, we will keep next 61%-100% projection in mind but just for awareness.

Wave (5) achieved its minimum projection, so now we need to see if the pattern of wave (5) is also completed or not. If pattern is not yet completed then it can project even higher. Both pattern and minimum 38% projection need to be completed for completion of wave (5).

So now, we will concentrate on formation of pattern within wave (5).

Suppose wave (5) is indicating the signs of impulse. We already know that Impulse is a 5 wave's move with some definite rules and guideline (I explained it deeply in earlier chapters).



(Image 7.2) Combining Fibonacci projection and Pattern of wave (5)

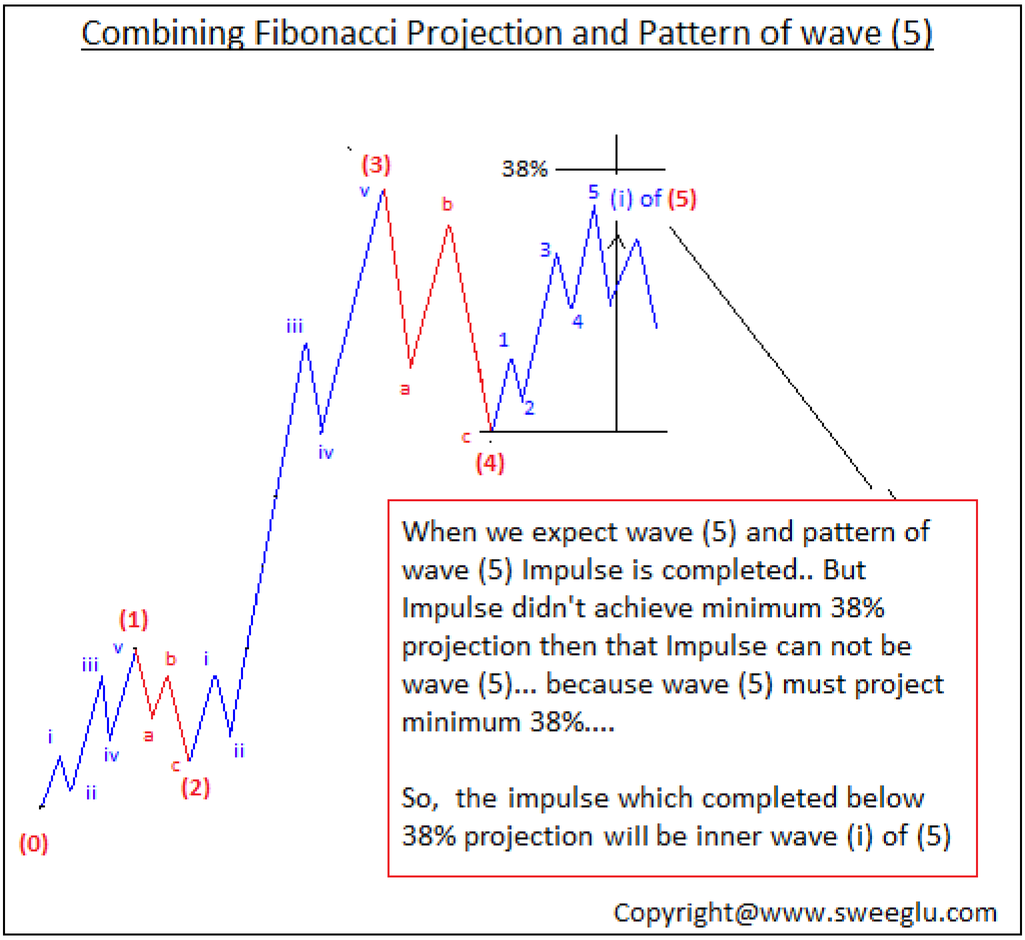
Please look carefully at (Image 7.2). I had shown that wave (5) achieved 38% projection but pattern is not completed yet. Wave (5) is progressing as Impulse pattern which is within inner wave (iii) [shown by blue lines], so we can expect wave (iv) downwards followed by wave (v) upwards for completion of wave (5) [shown by dotted brown lines].

And we can calculate levels of inner wave (iv) and (v) of (5) the same way we calculated for main wave (4) and (5). Or once we have end of wave (4) and some progress of wave (5) then we can analyze the progress of wave (5) separately on other chart using same rules and guidelines.

Now, there are some different conditions you are going to face again and again, and I am going to explain every such condition separately.

When pattern of a wave is completed but minimum projection is not achieved:

Suppose, wave counts are suggesting that wave (4) is completed and (5) is in progress. And within wave (5), an Impulse pattern is completed but minimum 38% projection is not completed. Please look carefully at (Image 7.3).



(Image 7.3) Combining Fibonacci projection and Pattern of wave (5)

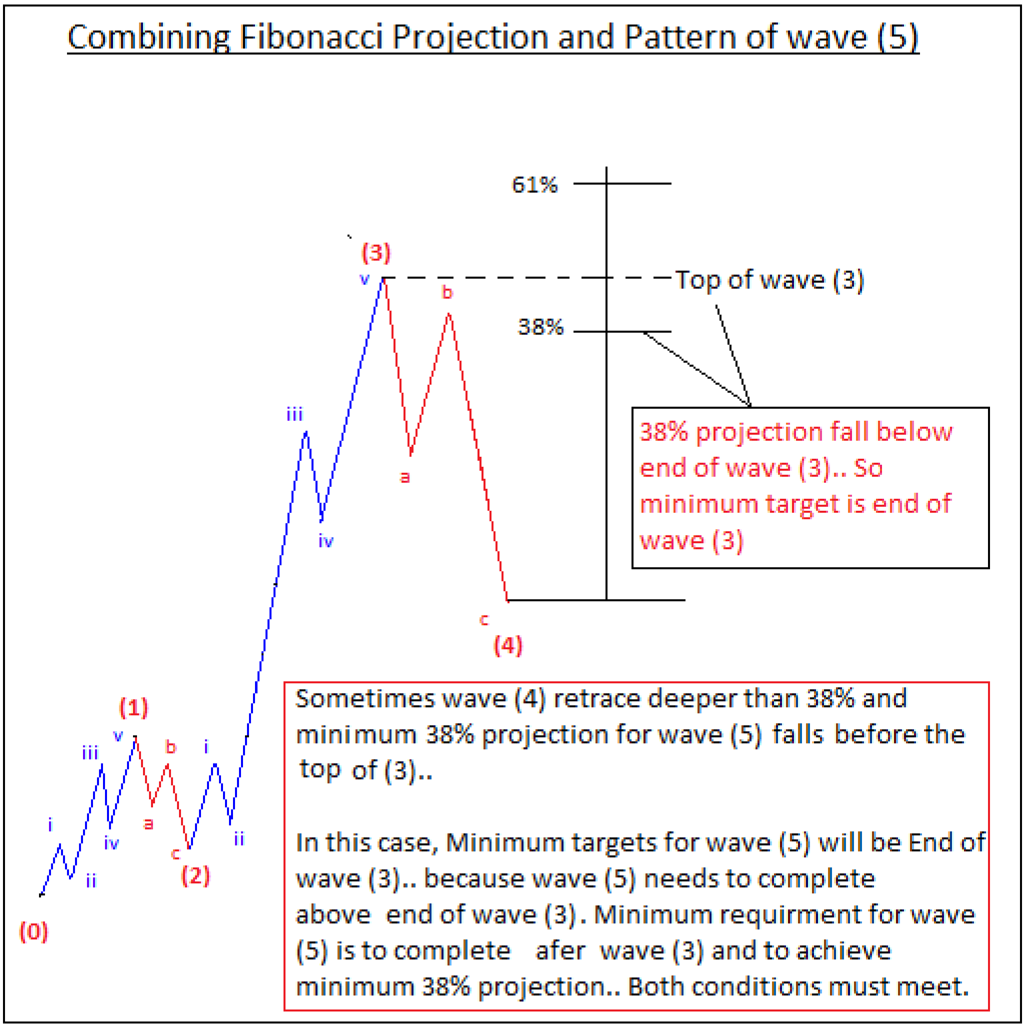
In this case, when Impulse [pattern of wave (5)] is already completed but wave (5) is still below minimum 38% projection, you can't assume wave (5) as completed because wave (5) needs to project minimum 38%.

This impulse completed before 38% projection can be taken as inner wave (i) of (5) where (ii), (iii), (iv) and (v) are still pending. And you can also expect highly extended wave (5) in this case because when inner wave (i) of wave (5) [impulse] is near to 38% then whole wave (5) can extend much higher.

When minimum 38% projection of wave (5) fall below end of wave (3)

Wave (4) retraces more the normal 38% sometimes, so minimum 38% projection for wave (5) falls below end of wave (3) in this case. Please look at (image 7.4) carefully to understand this condition.

In such cases, when minimum 38% projection of wave (5) falls before the end of wave (3) then minimum target for wave (5) will be end of wave (3), not 38% projection. Because, wave (5) will be qualified only after breaking the end of wave (3).



(Image 7.4) Combining Fibonacci projection and Pattern of wave (5)

So, the minimum requirements for the completion of wave (5) are: -

Wave (5) must complete after the end of wave (3).
Wave (5) must project minimum 38%.
Wave (5) must be completed as "Impulse" or "Ending Diagonal Pattern".

The aim of this chapter was to give you an idea how we can use/combine different rule of Elliott Wave Theory to apply it practically on real charts. I explained this example of "combining Pattern with Fibonacci Calculations" with respect to wave (5) but there will be 100s of such conditions for different waves and every single situation can be solved by combining wave cycles, Fibonacci ratios, patterns and personalities.

Nothing is new in this chapter, we just used our common sense to apply already known rules. You will see me doing the same every day through my analysis reports and this is only way.

CHAPTER 8

Importance of 38% Retracement

38% retracement ratio is very important in practical application of Elliott Wave Theory.

1. 38% retracement helps in calculating trailing stoploss for our trades and carrying positional traders for maximum profit.
2. It gives most reliable breakeven point in trendy market.
3. It helps to calculate low risk entry levels and small stoploss even in tough conditions.
4. It helps in confirming the pattern in confusing conditions.

So in this chapter, I am going to explain the importance of 38% retracement in different conditions.

Basic Logic behind 38% retracement: -

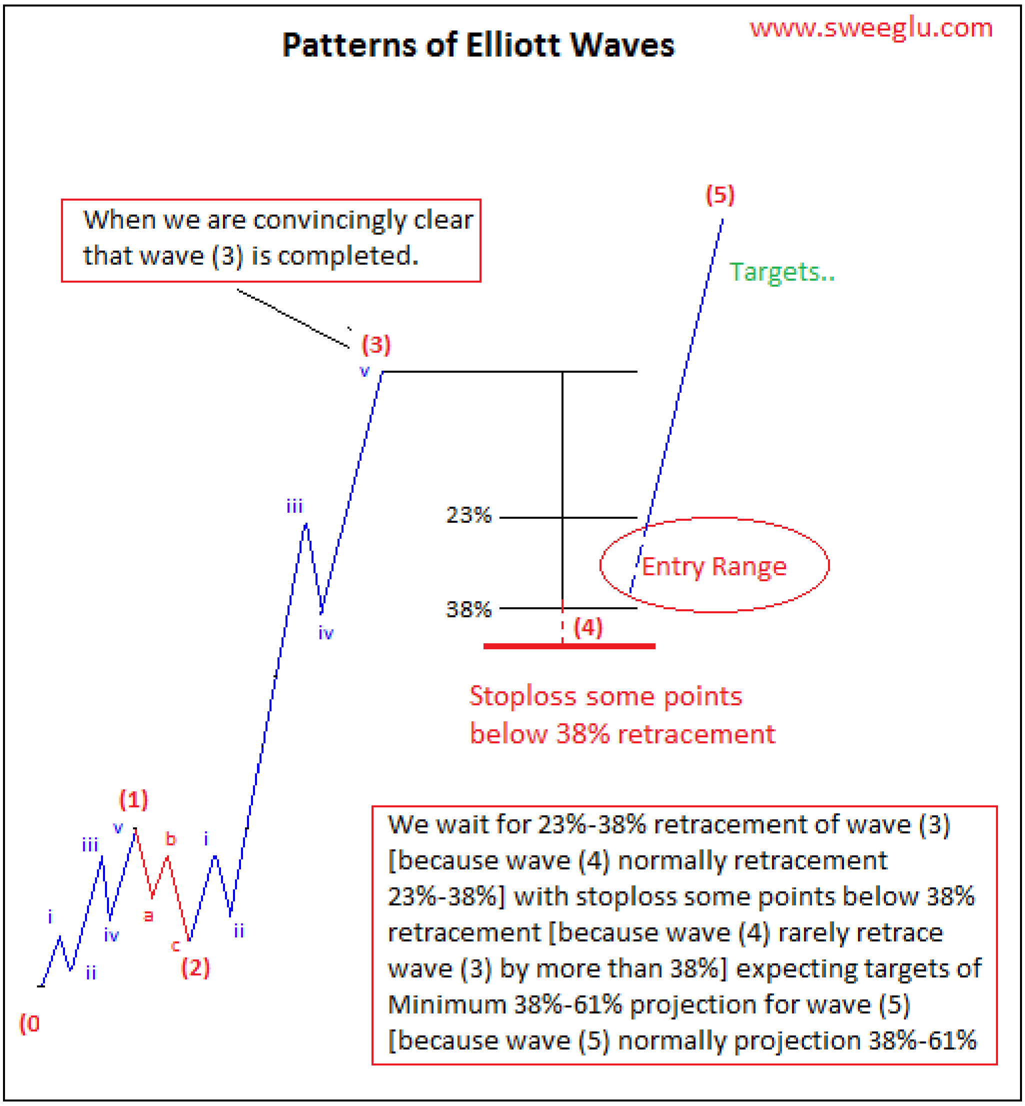
38% retracement ratio is mainly applicable for wave (4). I had explained in earlier chapters that 23%-38% is normal retracement ratio for wave (4), means 38% retracement is maximum retracement ratio for wave (4) in most of the cases.

{Please note that wave (4) doesn't retrace more than 38% in normal cases (most of the cases), but maximum limit for wave (4) is end of wave (1) because wave (4) can never overlap wave (1). And there is no minimum limit for retracement for wave (4), it can be less than 23% also. But we assume normal conditions while analyzing rather than rare conditions unless we are fully convinced about rare conditions, so normal conditions says that wave (4) rarely retrace more than 38%.}

When we say 38% retracement for wave (4), means 38% retracement of wave (3) because wave (4) retraces wave (3) and retracement for wave (4) is calculated with respect to wave (3).

So, when we are expecting that wave (3) is completed or is in progress, we always place "stoploss below 38% retracement of wave (3) for existing trade" and "wait for normal 23%-38% retracement of wave (3) to enter fresh trade with stoploss below 38%". Because there will be wave (4) after completion of wave (3) and wave (4) normally retrace 23%-38% and rarely retrace more than 38%.

Please have a careful look at (image 8.1) to understand it visually.



(Image 8.1) Importance of 38% Retracement

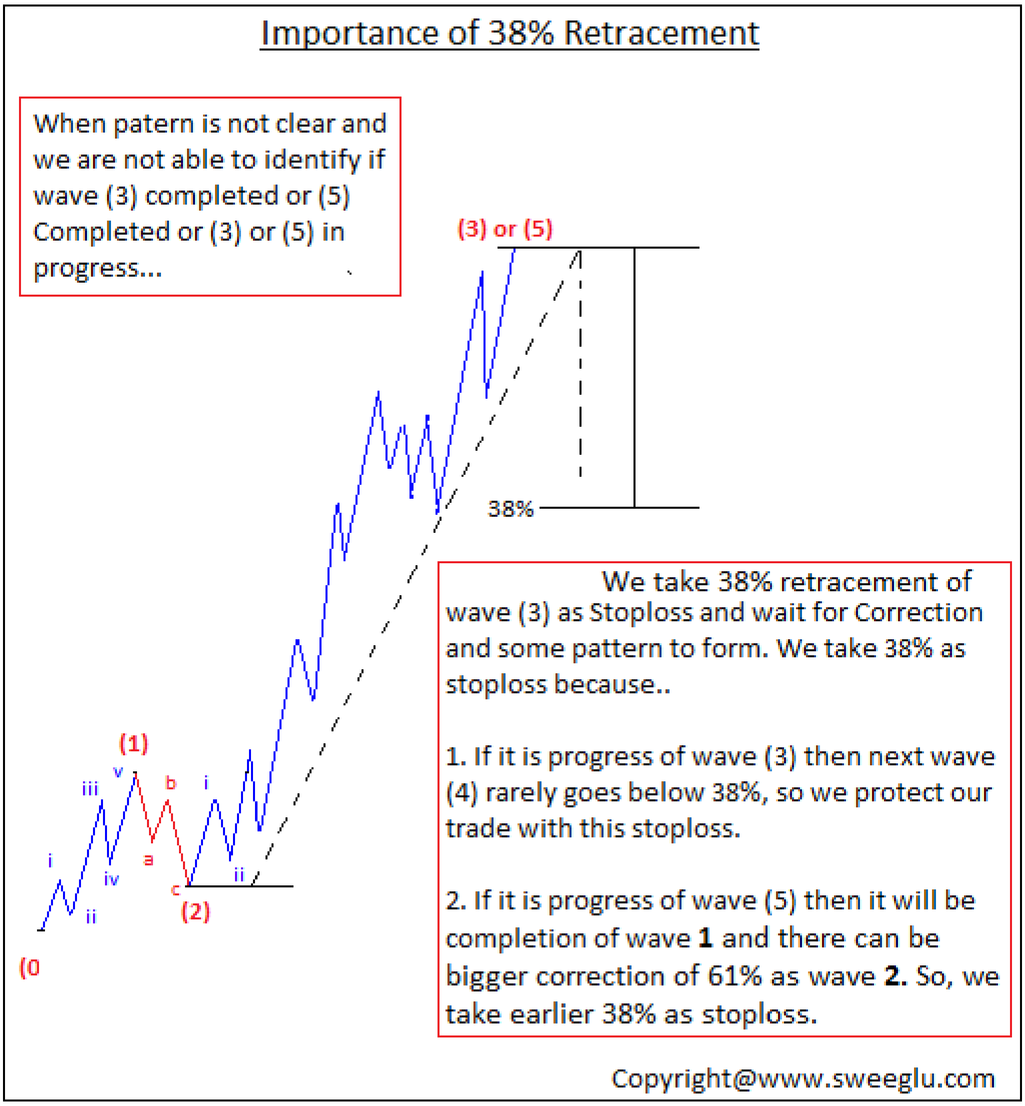
But identification of waves is not as easy as I have shown on these imaginary images. Many times the patterns are in such positions where you can't identify the exact wave in progress. So, now we are going to learn how we can use 38% retracement in such conditions.

There will be some cases when: -

1. The structure of wave (3) is making it difficult to identify its inner waves and you are not confident if wave (3) is already completed or still in progress.

2. Wave (4) is so small or negligible that you are confused if wave (5) is in progress or it is still (3) in progress.

3. Sometimes it is difficult to identify inner waves of (3) and you will be confused if small correction at the end is actually wave (4) or inner wave (iv of 3).



(Image 8.2) Importance of 38% Retracement

Please look at (Image 8.2) carefully where I created a condition that we can't conclude if it is wave (3) or (5) completed or in progress.

In this case, we will just calculate 38% retracement of the total move started from end of wave (2) (start of wave 3). We will keep this 38% levels for the following purposes: -

1. If we are already holding the trade then this 38% retracement levels we will keep in mind as stoploss for our trade.

2. If we want to plan next trade then we will wait for 38% correction or some clear corrective pattern to form. If we see any clear confident pattern within 38% correction then we will plan next trade based on that clear pattern, otherwise 38% will be assumed as breakeven point.

Reasons behind taking 38% retracement as breakeven point are as follows: -

1. If wave (3) is completed or in progress than next wave (4) rarely breaks 38% retracement.

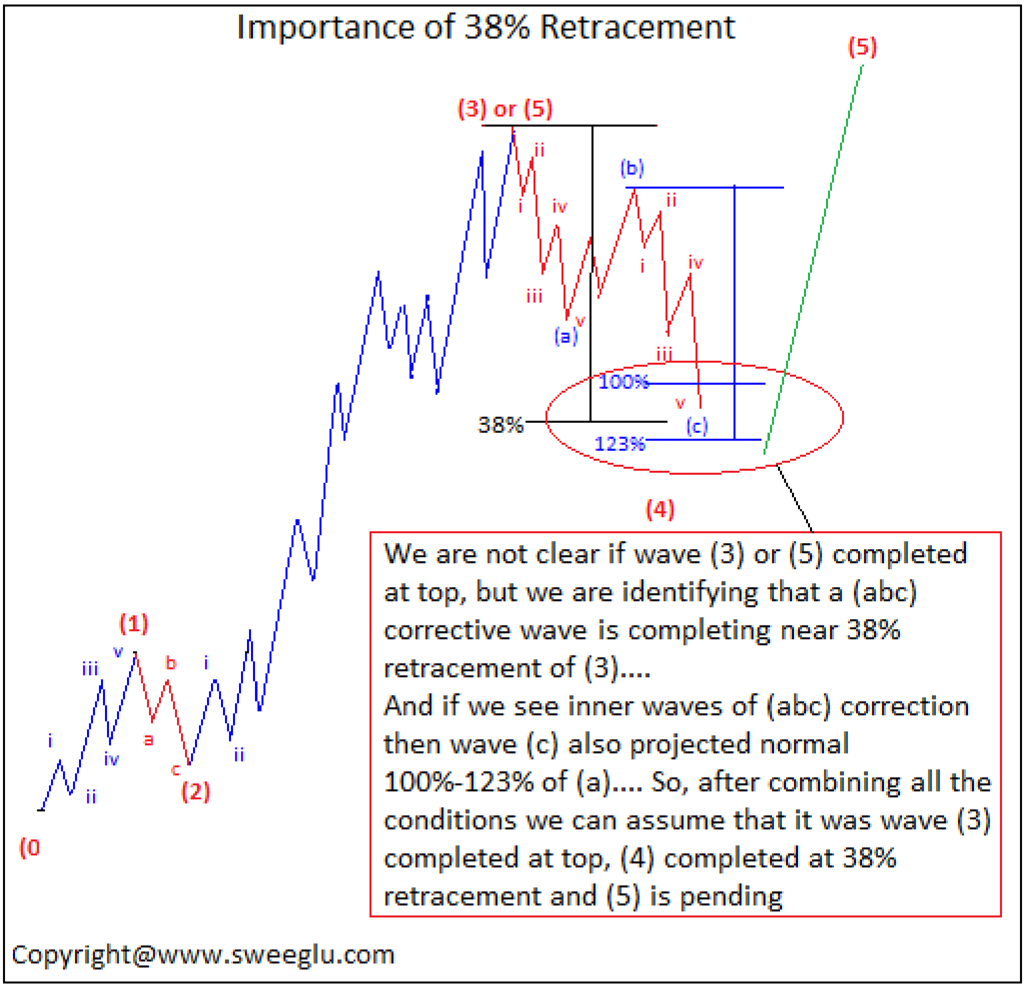
2. If expected (3) retraces much deeper than 38% then we can assume that it is not wave (4) but something else, i.e. may be wave (5) is already completed and the retracement is some other wave of higher degree.

3. If retracement is more than 38%, then there will be some wave formation within that 38% move and this wave formation will give some clues of the pattern according to which we can plan next trade.

4. If retracement is more than 38% and we are not able to identify the pattern formed within retracement then we will exit the holding trade and will wait for next opportunity.

Let me explain the same with some imaginary conditions: -

Suppose we are not sure if wave (3) of (5) completed at top and there is almost 38% retracement from top. Then we need to look at the pattern formed. Please have a careful look at (Image 8.3).



(Image 8.3) Importance of 38% Retracement

Suppose, there is clear Simple Zigzag Correction pattern formed within 38% retracement, then we can also analyze the pattern formed within 38% retracement on separate lowest time frame.

We already had 38% retracement levels and now we will also calculate inner waves of corrective pattern formed with that 38% retracement.

So within (abc) Simple Zigzag correction, we will calculate normal 100%-123% projection for wave (c) because wave (c) projects 100%-123% in most of the cases.

Now, if the 38% retracement from top and 100%-123% projection for wave (c) is falling in same range then we can assume that wave completed at top as wave (3), corrective pattern formed near 38% retracement as wave (4) and we can decide trade for wave (5) with stoploss some points below 38% retracement. This trade will give a very good risk reward, and there will be negligible loss if we get wrong but will be good profit if we are right.

NOTE: {38% retracement is normally calculated with respect to the total move started from the end of wave (2). BUT we can also calculate 38% retracement of the total move started from start of wave (1) in following conditions: -

1. Wave (2) is not identifiable
2. End of wave (2) is very near to start of wave (1)

CHAPTER 9

Alternate Wave Counts and Reflex Point

There are some cases when it is difficult to identify which wave is completed at top or bottom. And if you are not able to conclude which wave is completed then you will not have idea about the nature and pattern of next move.

Because if you know that wave (3) is completed then only you will be aware that next move will be wave (4) having any corrective pattern with normal 23%-38% retracement of wave (3).

But, when you don't have idea if the wave completed at top is either wave (3) or (5) or something else then there is no way to get idea of next wave. We can use alternate wave counts to some extent in such situations until we get clarity.

Before going further, let me give some basic ideas behind taking alternate wave counts. If you understand Elliott Wave Cycle then any wave or move can have two basic patterns, a wave can either be Corrective or Impulse pattern.

Generally, a corrective pattern has 3 Inner Waves we mark as (ABC) and Impulse has 5 inner waves we mark as (12345). But waves (A) (B) (C) and (1) (2) (3) has almost same rules and personalities respectively.

So let it be a any wave, it will have either 3 waves pattern or 5 waves pattern and personality of first 3 waves of both the patterns is almost same. So it doesn't matter if wave is progressing as (ABC) or (12345), we can analyze first 3 waves in the same way.

We can assume first 3 waves as wave (A) or (1), (B) or (2) and (C) or (3) which will be the same till the completion of wave (C or 3).

Now, there will be two conditions after completion of wave (C) or (3): -

1. If it is wave (C), means (ABC) correction is already completed and there will be reversal for new high/low.

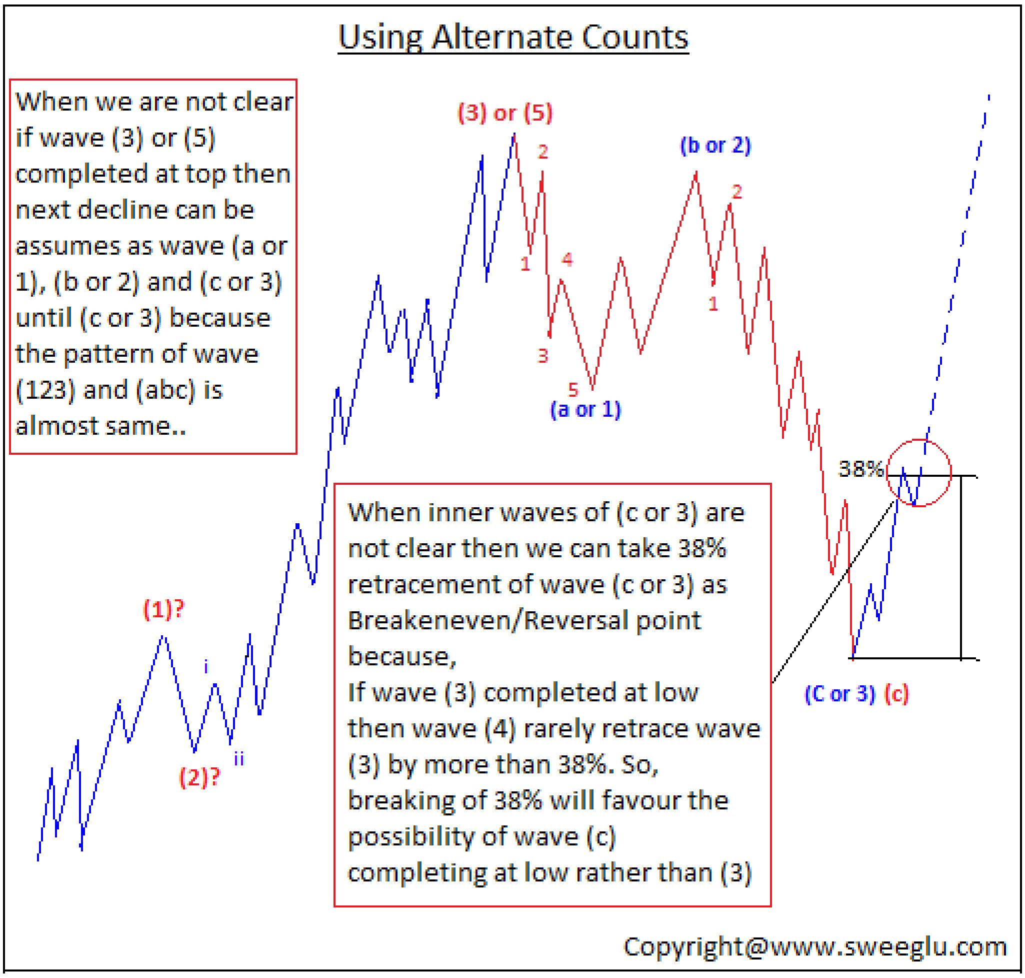
2. If it is wave (3), means there will be wave (4) and wave (5) after that. And we know that wave (4) retraces normally 23%-38% and rarely higher than 38%.

So after completion of wave (C or 3), we need to wait for 23%-38% retracement of wave (C or 3) and try to identify the pattern of this retracement. Wave (C or 3) means, it is either wave (3) or wave (C) in progress. Now, after seeing 23%-38% retracement of wave (C or 3): -

1. If we are identifying a clear Corrective pattern within 23%-38% range then we can assume that it was wave (3) completed, this 23%-38% retracement is wave (4) and we can calculate minimum targets for wave (5) and trade accordingly.

2. If 38% retracement of wave (C or 3) is broken and we are identifying an Impulsive pattern after completion of wave (C or 3), then we can assume that it was wave (C) completed and new impulse for new high/low is started.

Please have a careful look at (Image 9.1) for visual explanation.



(Image 9.1) Alternate Wave Counts

I explained about "Alternate Wave Counts" using imaginary image because aim was to explain basic concept. I am not giving any example on real chart because you will get it frequently through my analysis reports.

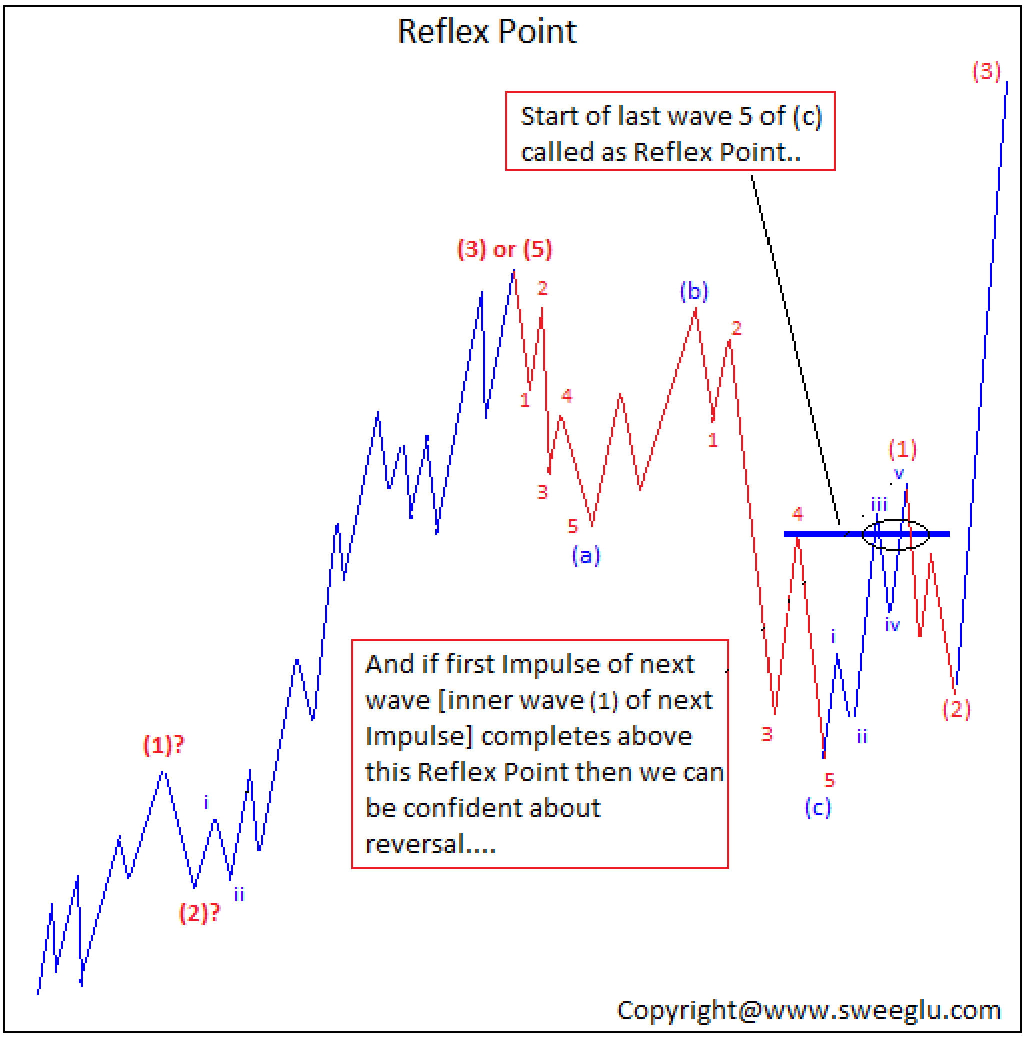
Reflex Point:

Idea of a reflex point is just general and not a sure shot, but it can help in identifying reversals in most of the tough conditions. "Reflex Point" means a particular point above/below we can expect reversal or a "breakeven point". Although, we take 38% of wave (C or 3) as breakeven point but Reflex Point is not based on Fibonacci Ratios.

The start of inner wave (5) of (C) in (ABC) correction I called as Reflex Point. Please note, it is only the start of inner wave (5) of (C), it is not applicable for any other wave.

I observed most of the times that, if the first opposite impulse after completion of wave (C or 3) completes beyond the start of Reflex Point then most probably there is a reversal for new high/low.

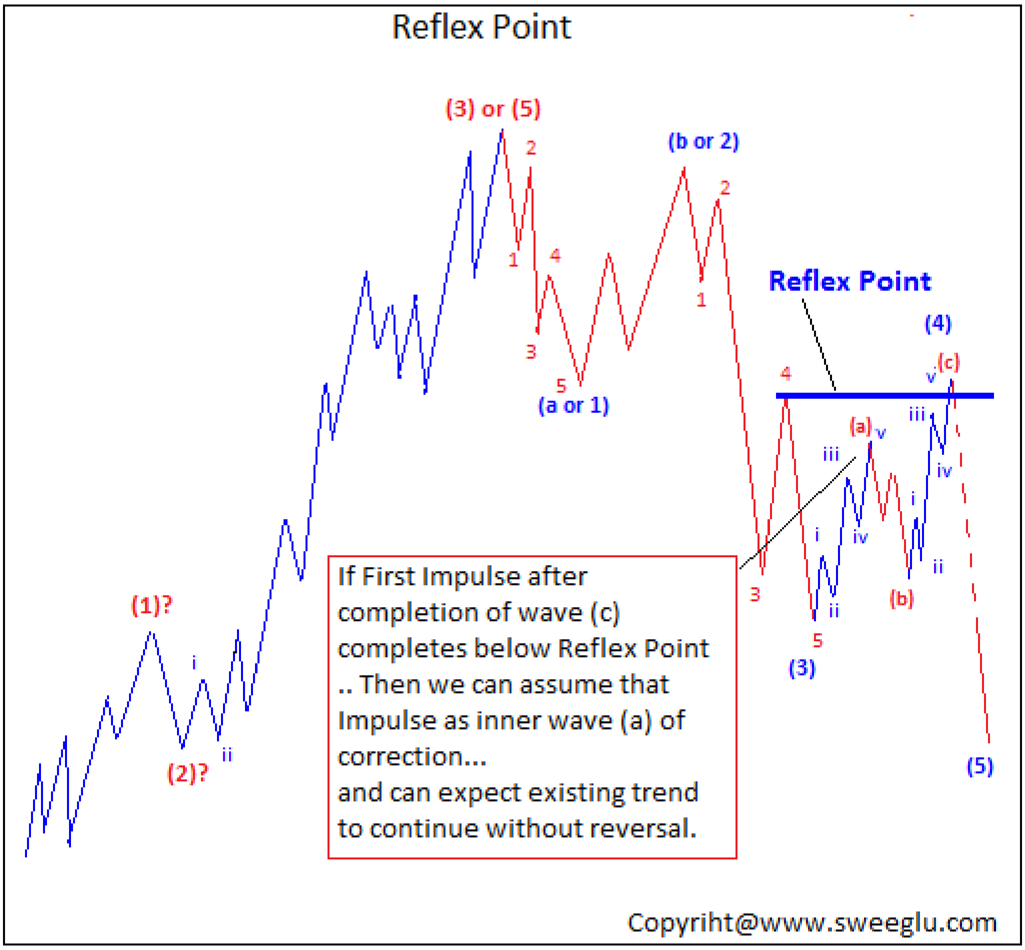
Please have a look at (Image 9.2) to understand it visually.



(Image 9.2) Reflex Point

And if first opposite impulse after completion of wave (C) completes before Reflex Point then either the correction turns into "Complex Correction" or we are wrong at identifying the pattern.

Please look carefully at (Image 9.3) for visual explanation.



(Image 9.2) Reflex Point

Reflex Point is just a general idea to confirm trend reversals in tough conditions. It is useful when we are not confirmed if a Corrective or Impulsive pattern is in progress.

Suppose we are expecting wave (C) of (3) in progress. Now if first opposite Impulse after completion of wave (C) of (3) completes after Reflex Point then we can assume wave (C) completed and reversal started.

But if first opposite Impulse after completion of wave (C) of (3) completes before Reflex Point then we can assume wave (3) is completed and wave (4) or (5) is still pending.

It is just a guide in tough market conditions but may not work every time. I explained it under chapter "Alternate Wave Counts" because it is useful when we have to use alternate wave counts.

CHAPTER – 10

Some Important Techniques to Count Waves in Difficult Conditions

Elliott Wave theory is not as difficult to understand theoretically but it is not easy when we apply it practically on real charts. Many times a wave structure on chart leave us confused, so I am writing short notes on such conditions and also sharing idea to tackle such difficult situations.

Counting Gaps and Steep Bars

Identifying waves with Gaps and Steep bars (sharp moves) is always difficult for EWT analyst because it is almost impossible to identify inner wave of such moves.

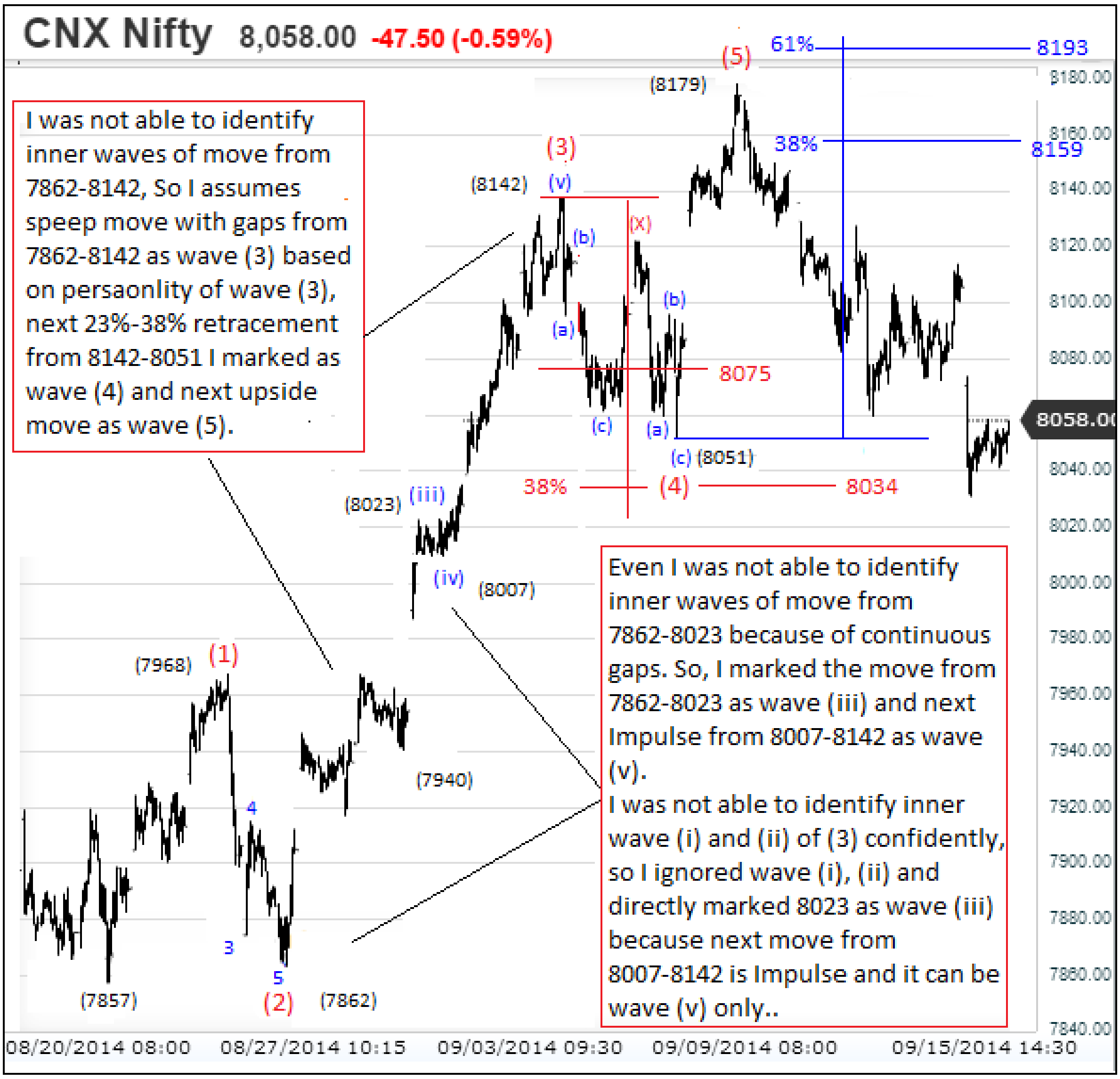
But we know that "Gaps and sharp moves" is a personality of wave (3), either it can be inner wave (iii) or a major wave (3). So, whenever you see a gap or sharp bar just assume it as progress of wave (3). This personality of wave (3) can help in wave counting in following ways: -

1. If you are not able to identify waves within a move, just search for a portion with gap and sharp waves within that move. Mark that sharp wave with gap as wave (iii) or (3) and adjust the (1), (2), (4) and (5) accordingly keeping Fibonacci retracements and patterns in mind.

2. You can assume any speedy move with gaps as progress of wave (3) until there is 23%-38% correction. Even if you are identifying that the pattern of wave (3) is completed but is still maintaining its speed, you can assume that wave (3) is still in progress because wave (3) can have highly extended inner waves and it is always risky to assume the top of wave (3).

3. This observation will help you to hold profitable trade with confidence. Suppose we traded for wave (3) which bounced sharply with gaps/steepness and our position is in good profit but there is no break in steepness. We can hold that trade with stoploss of 38% retracement expecting more upside. This observation helps to ride big moves without exiting in hurry.

4. This observation also prevents us to take wrong trades against the trend. Normal tendency of traders is to take a trade in opposite direction after seeing a big one sided move expecting pull back but many traders lose big because trend never reverse. But the trader who understands the personality of wave (3) will never take such trade blindly.



(Image 10.1) Reading gaps and steep bars

Have a careful look at chart on (Image 10.1) above. It was difficult to identify inner wave (i) and (ii) of bigger wave (3). So I marked the move from 7862-8023 as end of wave (iii) ignoring wave (i) and (ii). Overall big wave (3) is steep with Gaps.

Counting repeated Overlapping: -

Repeated overlapping is most difficult structure to read. We know that wave (4) can not overlap (1) but waves overlap repeatedly sometimes to form consolidation type of pattern and leave us confused.

We know that overlapping happens only in Leading Diagonal Triangle, Ending Diagonal Triangle and in Complex Correction. Sometimes, repeated Impulsive followed by corrective waves sets the base for a big move (explained in "Identifying Multi-bagger Stocks" chapter).

So, we can expect the formation of any complex pattern (LD, ED or Complex Correction) whenever observes repeated overlapping of waves. But there is no way to identify an exact Complex Pattern in advance, so we must wait for some time to get hint of exact pattern.
LD, ED and Complex Correction has different set of rules, so we must wait for some time to get idea of exact pattern based on the rules and personality of previous waves.

Generally, we can only wait when there is overlapping or possibility of Complex Pattern because there is no way to identify it in advance. But you can trade inner/smaller waves if you are experienced enough.

LD and ED still can be identified in advance if we are experienced because we know that it occurs only for wave (1) and (5) respectively but it is Impossible to identify a Complex Correction because minimum 5 corrective waves repeats in Complex Correction and these 5 corrective waves can have any corrective pattern.

I am not giving any particular example for these conditions because this idea is based on common sense but you will get many such examples in my analysis reports, because market is never easy and we often see such tough conditions.

The Aim of this chapter: -

The aim of this chapter is to explain how we can face tough/confused conditions while analyzing and how we can use Rules, Personalities and our common sense to tackle such conditions.

But these tough conditions are not limited to “Gaps and Overlapping” only. You can face 1000s of different confusing conditions because of different factors but you can mange every such conditions using your common sense provided you are familiar with all the rules, patterns and calculations of Elliott Wave Theory.

Getting confused about a pattern is a daily business in stock market analysis, let it be any analysis method. My analysis reports will give you ideas and techniques to manage many of such tough conditions.

CHAPTER - 11

Failure of Elliott Wave Analysis

Being failed in Elliott wave analysis or predictions is not a surprising thing. Failed analysis or predictions doesn't mean that you are wrong or Elliott Wave Theory failed. We fail because of our own ignorance and mistakes sometimes which we can control with experience, but change in patterns is another main reason for failed analysis which can never be controlled.

Complex patterns like LD, ED, Complex Correction and Irregular Correction are such patterns which even a top expert can't identify in advance. There are cons in every analysis method and these patterns are cons in Elliott Wave Theory. No one can identify stock market 100% accurately and these are pattern which restrict an Elliott Wave Theory analyst to be 100% accurate.

These patterns are not actually cons of Elliott Wave Theory but these patterns balance the law of nature, otherwise one can identify stock market with 100% accuracy. Every complex pattern starts with a simple pattern and then turns into complex (you have must experienced it in early chapters), we always expect simple pattern and calculate moves accordingly but simple pattern when turns into complex pattern prove us wrong and we must accept it because it is law of nature.

Although, we can't control the formation of complex pattern and failed analysis but we can always protect our loss again these failures. "Personalities of waves" and "Fibonacci Calculations" gives early signs of changing in patterns and trades can be protected with trailing stoploss. And our common sense and techniques like "38% retracement, alternate wave counts, Reflex Point" can protect us from wrong/losing trades.

On the other hand, a complex pattern confuses for a time being but always gives low risk/jackpot opportunity later. So, never lose hope when you get failed in analysis, it is law of nature and you can't control it. Just protect your trades with stoploss or avoid trades in tough conditions, you will definitely get a best opportunity later.

CHAPTER 12

Trading with Elliott's Wave Principle

I had explained almost everything about Elliott's Wave Theory and also shared practical observations useful for applying EWT in your trades. As I said earlier, it is easy to identify already completed counts and patterns but predicting the moves in advance is challenging and we should not just guess. The safe way to get maximum profit from EWT is to wait for a formation of small pattern, trade on it taking small risk and continuing with the flow of waves until that flow breaks or disturbs.

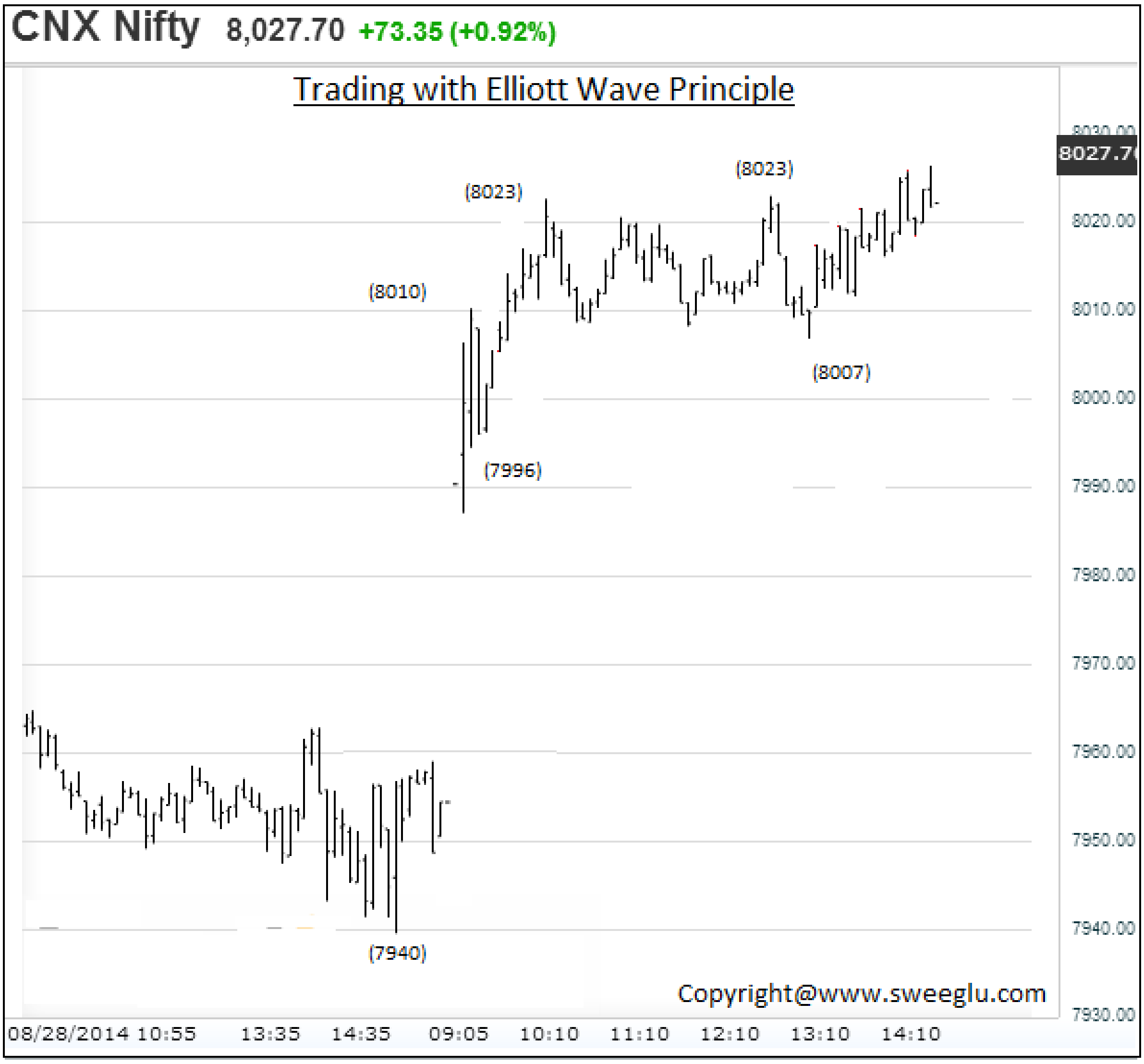
This chapter is going to show how you can apply Elliott's Wave Principle practically in your trades step by step from start to end. Here I'm going to apply every rule and guideline (you learned in previous chapters) on charts to initiate trade, modify stoploss, carry trade and exit. Just try to understand how I am applying same rules and observation on charts to initiate and manage trade.

This chapter will also explain every rule, guideline, calculation of entry levels, stoploss, targets, counting waves, identifying pattern etc. Read it carefully and try to observe the conditions you learned in previous chapters.

This chapter covers lots of charts and explanations so don't be overwhelmed and read step by step. Don't be in hurry and just have patience to understand. I explained everything step by step and in simple language; don't miss any step as every point is useful.

I am using NSE India Index NIFTY charts to explain this chapter as Nifty is most traded index in India and almost every one of you is familiar about Nifty. I had broken down the charts in steps to highlight the concept. Let's start with a blank live chart as you normally see on the screen.

Just have a look at chart on (Image 12.1) and read what I am trying to say;



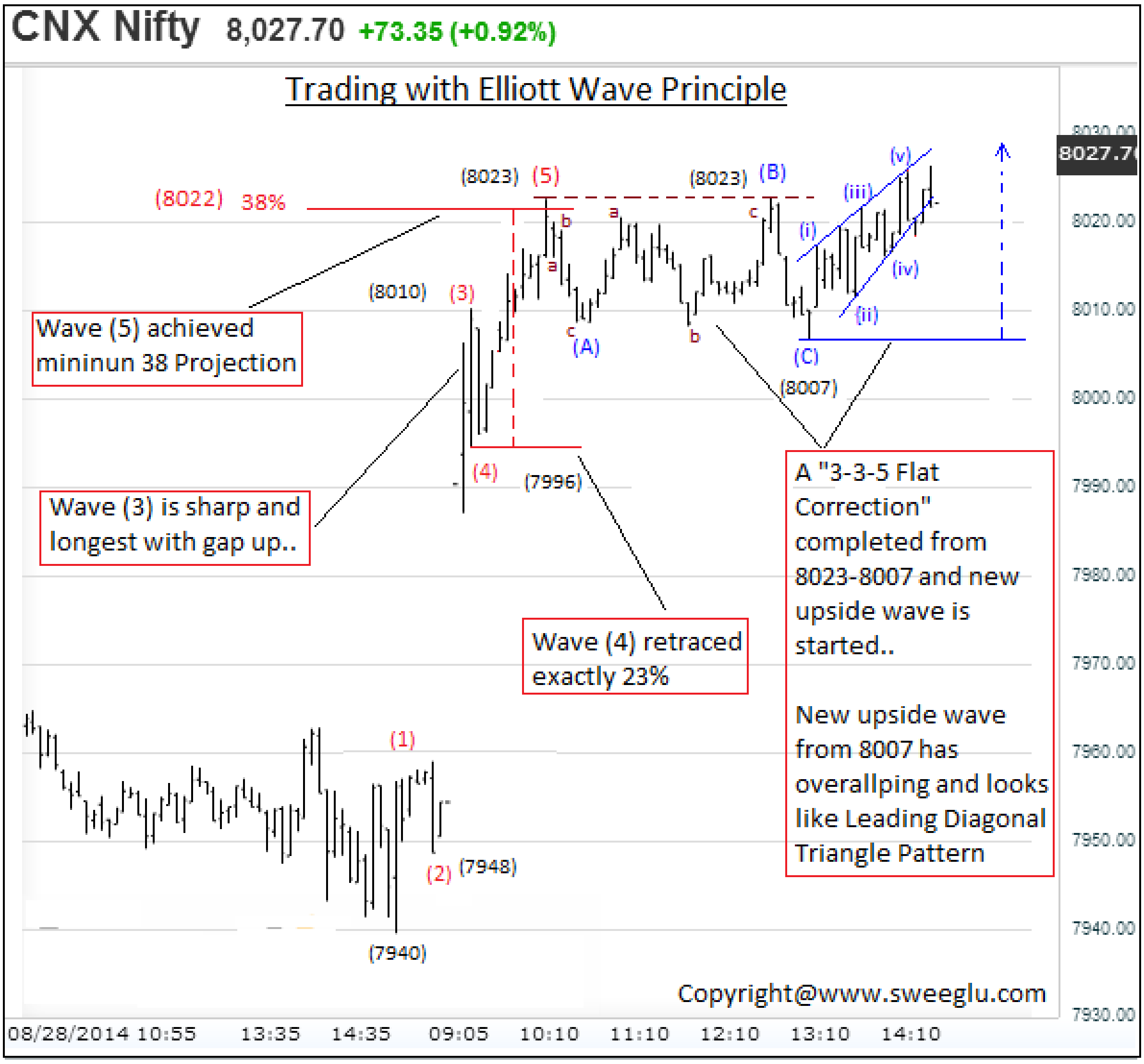
(Image 12.1) Trading with Elliott Wave Principle

It is just a random chart of Nifty. I can see that there is a sharp bounce from 7940 followed by consolidation at top but I don't have any idea about previous waves (wave formed before 7940).

Note: - We must have idea of the previous waves because having idea about previous waves will give us more clarity about next wave. This charts is just taken as example because it fit better for the purpose of this chapter

So, I can see a sharp bounce with gap up after 7940 and consolidation at top. Now, I need to identify the pattern of this move by counting waves based on Elliott Wave Rules.

Let me show the probable counts I can mark for this move on (Image 12.2): -



(Image 12.2) Trading with Elliott Wave Principle

This is same 5 minute time chart of Nifty covering move from 7940 to 8023 with my wave counts. There is lots of marking and text on this chart for explanation, so please read the chart carefully step by step.

I can identify that an Impulse pattern completed from 7940 to 8023 with,

- Inner wave (1) completed as small Impulse.
- Wave (2) completed at 7948 (may be Irregular Correction) which retraced (1) by 38%-61%.
- Wave (3) is sharpest wave with gap and is more than 300% (approx.) of (1).
- Wave (4) retraced exactly 23% but pattern is not identifiable on this chart.
- Wave (5) completed at 8023 and looks like a straight Impulse and achieved minimum 38% projection.

Please look at inner wave counts of Impulse carefully and observe if every wave is following the rules and Fibonacci calculations you read in earlier chapter. I marked the end points of waves on this chart, so you can use Fibonacci Calculator and calculate Fibonacci Retracements/projections for practice.

Next, there is 3-3-5 Flat Correction from 8023-8007 with,

- Inner wave (A) completed as (abc),
- (B) is also (abc) wave completed at 8023 [exactly at the starting point of (A)].
- Wave (C) completed at 8007 as sharp Impulse and projected about 100%-123% of (A).

This is one more perfect example of 3-3-5 Flat Correction, please compare with the rules you read in earlier chapter.

Now, we know that an Impulse completed from 7940-8023 but we don't know which wave it is, so I can't get idea about next wave. But one thing I know, if an upside impulse completed from 7940-8023 followed by corrective wave completed from 8023-8007 then next wave started from 8023 must be impulse.

So, my next step is look at bounce after 8007 if I can get any opportunity to trade for this upside Impulsive move. I can see a slow bounce after 8007 with overlapping which looks like a Leading Diagonal Triangle, so my next step is to have a closer look at it on separate chart.

Have a careful look at chart on Image (12.3) to observe bounce after 8007.

The chart shown on (Inage 12.3) is a 5 minute time bar chart covering move after 8007 and is a continuation of previous chart shown in image (12.2). I deleted some move from this chart to explain the purpose clearly.

(Image 12.3) Trading with Elliott Wave Principle

I observed that the bounce from 8007-8025 looks like a Leading Diagonal Triangle Pattern. This a lowest time frame chart so you can't see inner waves very clearly but if you observe carefully then bounce from 8007-8025 is carrying all the rules and guidelines of Leading Diagonal Triangle pattern with,

- A sharp inner wave (i) looks like an Impulse, inner wave (ii) looks like an Irregular Correction, wave (iii) is again sharp and looks like an impulse, wave (iv) is Simple Zigzag Correction and sharp wave (v) looks like an Impulse. It is making 5-3-5-3-5 pattern.

- Calculations wise, inner wave (iii) is not extended and wave (v) is extended. And lines joining inner wave (i)-(iii) and (ii)-(iv) are clear without any disruption and wave (v) didn't break line joining wave (i) and (iii).

Overall, this bounce from 8007-8025 is just 18 points but carrying all the rules of a very complex Leading Diagonal Pattern. This is a perfect example of LD, you can compare this move with the rules explained in "Leading Diagonal Triangle" Chapter.

Now, we know that Leading Diagonal Triangle is always wave (1) of an Impulse and we can expect wave (2), (3), (4) and (5) later. And if this wave (1) is of 18 points then the bounce till completion of wave (5) can be of 55-100 points at least. (We can always expect whole Impulse as minimum 3 times of its inner wave 1).

So, I waited for formation of wave (2) which unfolded as Irregular Correction. We can’t identify inner waves of (2) clearly as it’s on smallest time frame but structure and personality of move indicating this wave as Irregular Correction because wave (b) completed above the start of (a).

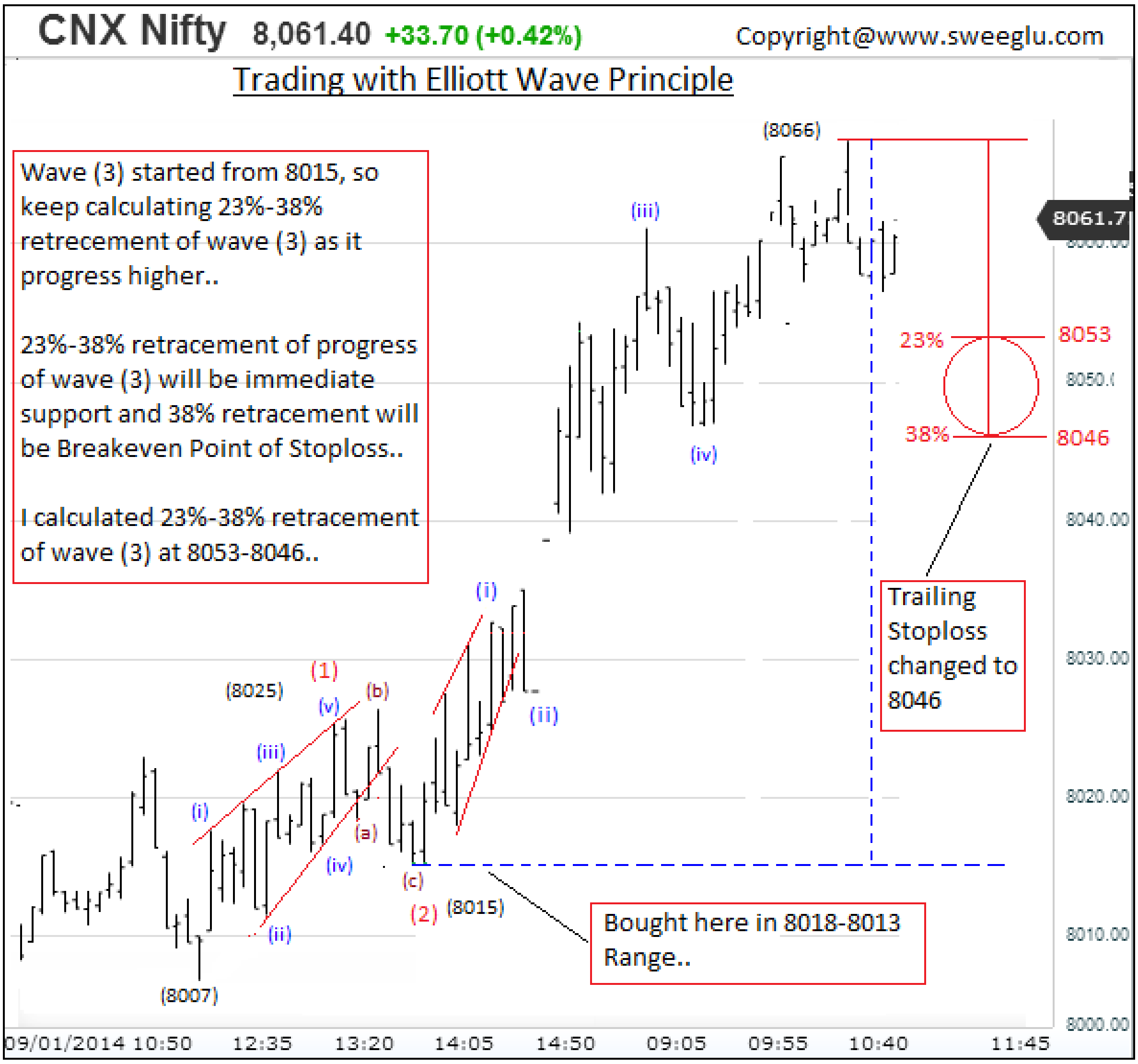
I calculated normal 38%-61% retracement for wave (2) which is placed at 8018-8013 and wave (2) already entered in this range whereas start of wave (1) is 8007.

Entering a Low Risk Trade with Small Stoploss: -

Now, if wave (1) started from 8007 then wave (2) can never break below 8007. So, 8018-8013 is perfect range to Buy Nifty with stoploss of 8006. My stoploss is just 7-12 points and I am expecting minimum 50 points bounce as wave (3), (4) and (5). The trade is giving 1:4 risk rewards with confidence.

So, I bought Nifty in 8018-1013 range using small stoploss of 8006 and will wait for further move. Let’s see further move on next chart shown on Image (12.4).

The chart shown on (Image 12.4) is again 5 minute time bar chart of Nifty covering bounce after 8007 and is continuation of chart shown on (Image 12.3).



(Image 12.4) Trading with Elliott Wave Principle

In this chart, wave (1) completed from 8007-8025 as LD, wave (2) completed from 8025-8015 as Irregular Correction and wave (3) or (4) may be in progress.

I bought in 8018-8013 range with stoploss of 8006 and Nifty registered high 8066 till now. I am already getting 40-50 points profit with risk of 12 points. But, we must try to hold this trade until the end of wave (5) to get maximum benefits. We can book half profit if trading in multi lot and hold rest with trailing stoploss.

So, my next step is to analyze the pattern of further bounce after 8015 to check if wave (3), (4), (5) is completed or still in progress.

Now, if I look at bounce after 8015, it seems wave (3) is still in progress and inner wave (i) of (3) also looks like Leading Diagonal Triangle. So, the bounce must be big if there is LD after LD.

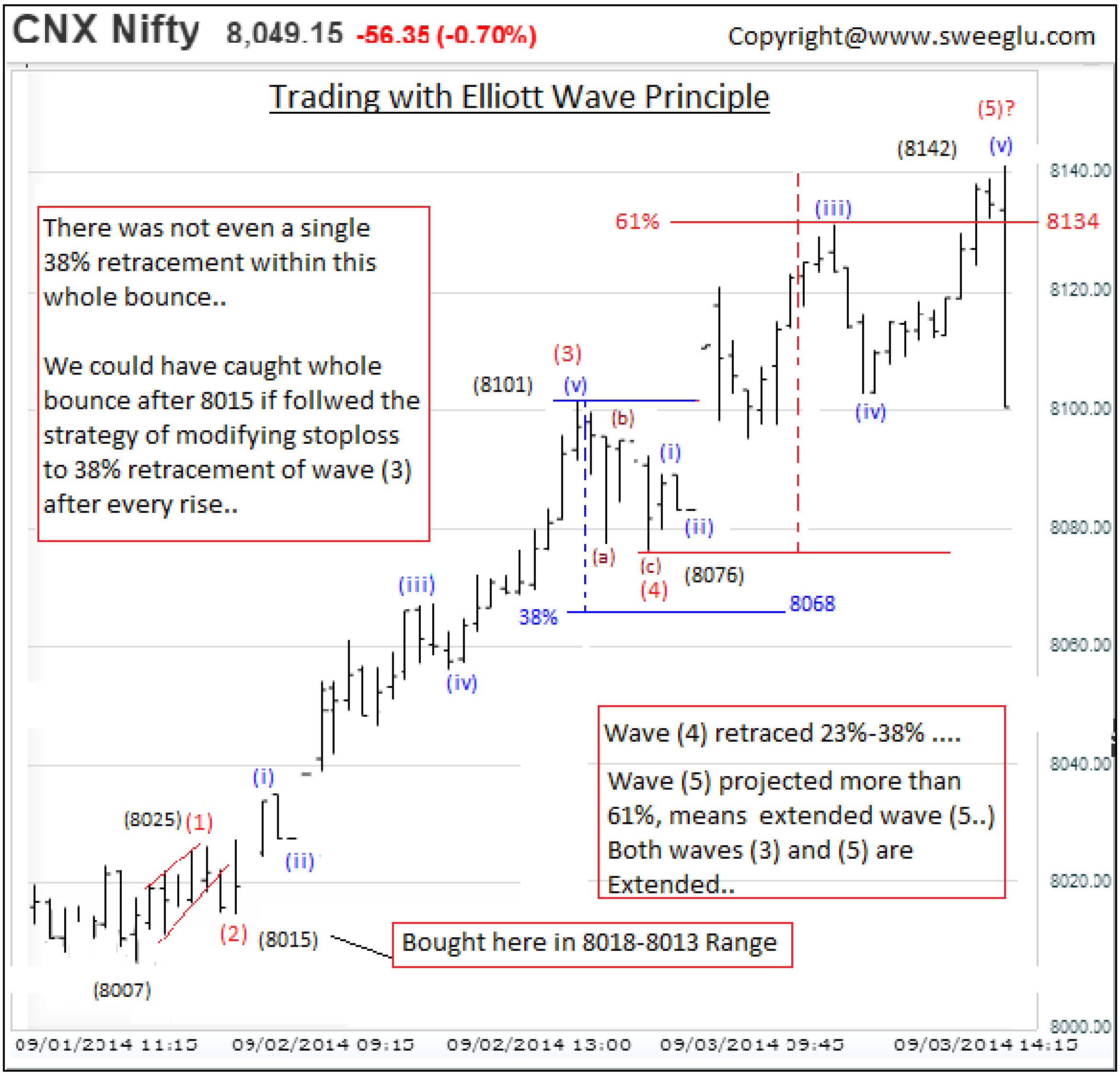
My next step is to calculate 23%-38% retracement of progress for wave (3) because wave (4) can retrace 23%-38% after completion of wave (3). Now, 23%-38% will be fresh support range and 38% retracement will be breakeven point and stoploss for longs. I explained about "Importance of 38% retracement" in earlier chapters.

Here, 8053-8046 is support range which we can use to initiate fresh buying. 8046 is breakeven point and stoploss for longs can be placed some points below 8046.

So, we have immediate support range and trailing stoploss for buying trade taken in 8018-8013 range. I will hold my longs with trailing stoploss of 8039 (7 points below 8046) expecting more bounce. My trade will end in 20 points profit even if trailing stoploss triggers.

I will trail stoploss for our longs at 38% retracement after every rise and will hold until the pattern (impulse) seems completed or until our trailing stoploss triggers.

Now, let's see how our trade goes if we carry forward existing longs with trailing stoploss of 38% after every rise. Have a careful look at Image (12.5)



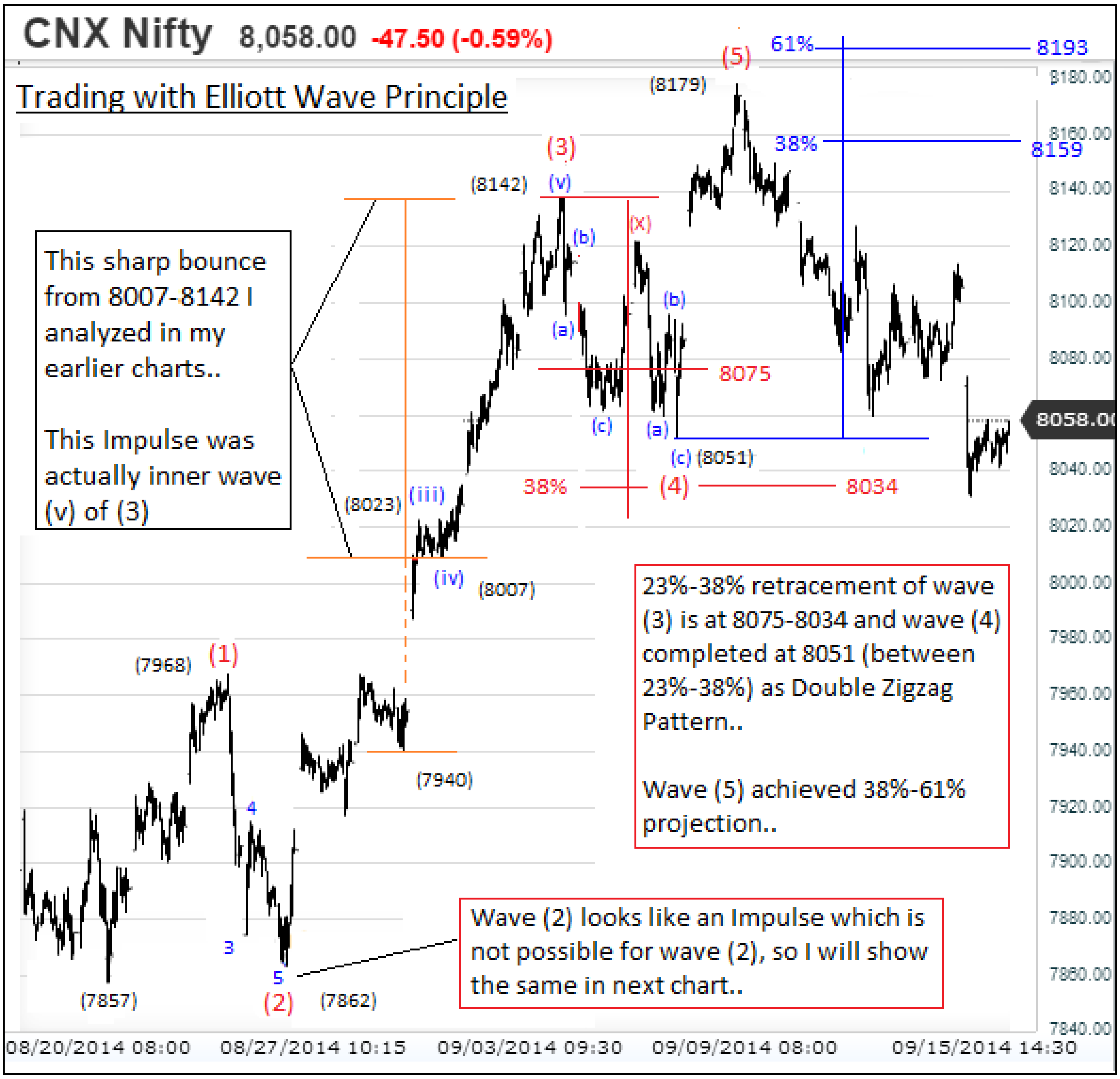
(Image 12.5) Trading with Elliott Wave Principle

This is 15 minutes time bar chart of Nifty covering move after 8007 and is continuation of previous chart shown on Image (12.4).

The Impulsive wave which started from 8007 with Leading Diagonal Triangle completed at 8142 and there is not even a single 38% correction in between. We could have gained minimum 85-120 points with risk of 7-12 points if managed trade with trailing stoploss of 38%. Even we could have done 2 fresh trades within this move by buying fresh at every 23%-38% retracements. There were two 23%-38% retracement within this whole Impulse.

The same concept I tried to explain in my earlier topic “Importance of 38% retracement” that wave (3) rarely retrace by more than 38% and same can help us to ride whole Impulsive move. We need not to exit from a profitable trade in hurry because 38% retracement of wave (3) gives confidence to ride the whole Impulse for maximum profit.

Now, let me show you the position of this Impulse (from 8007-8142) on bigger time frame, look at Image (12.6): -



(Image 12.6) Trading with Elliott Wave Principle

This is hourly time bar chart of Nifty covering move from 7857-8179. It is also an Impulse pattern from 7857-8179 with (1), (2), (3), (4) and (5) as inner waves.

You can observe wave counts, patterns, personalities of calculations of this Impulse yourself and can take it as your homework.

Look carefully at inner wave (v) of (3) from 8007-8142. It is the same move which we traded earlier in this chapter (refer Image 12.5). It is just a straight line move if we see it on this hourly chart but the same move consist of many inner waves and pattern if we look at it on lower time frames, even there were two Leading Diagonal Pattern within this move.

And the move from 7940-8023 is the same wave which I had explained on first two charts on (Image 12.1 and 12.2) of this chapter.

Important Observation: -

Just look at inner waves of main wave (3) on this chart. I just marked wave (iii) at 8023, (iv) at 8007 and (v) at 8142 but I didn't mark inner wave (i) and (ii).

Actually, this wave is sharp with continuous Gap Up openings [it is the personality of wave (3)] which is making it difficult to identify its inner waves. So, I am not able to identify its inner waves confidently.

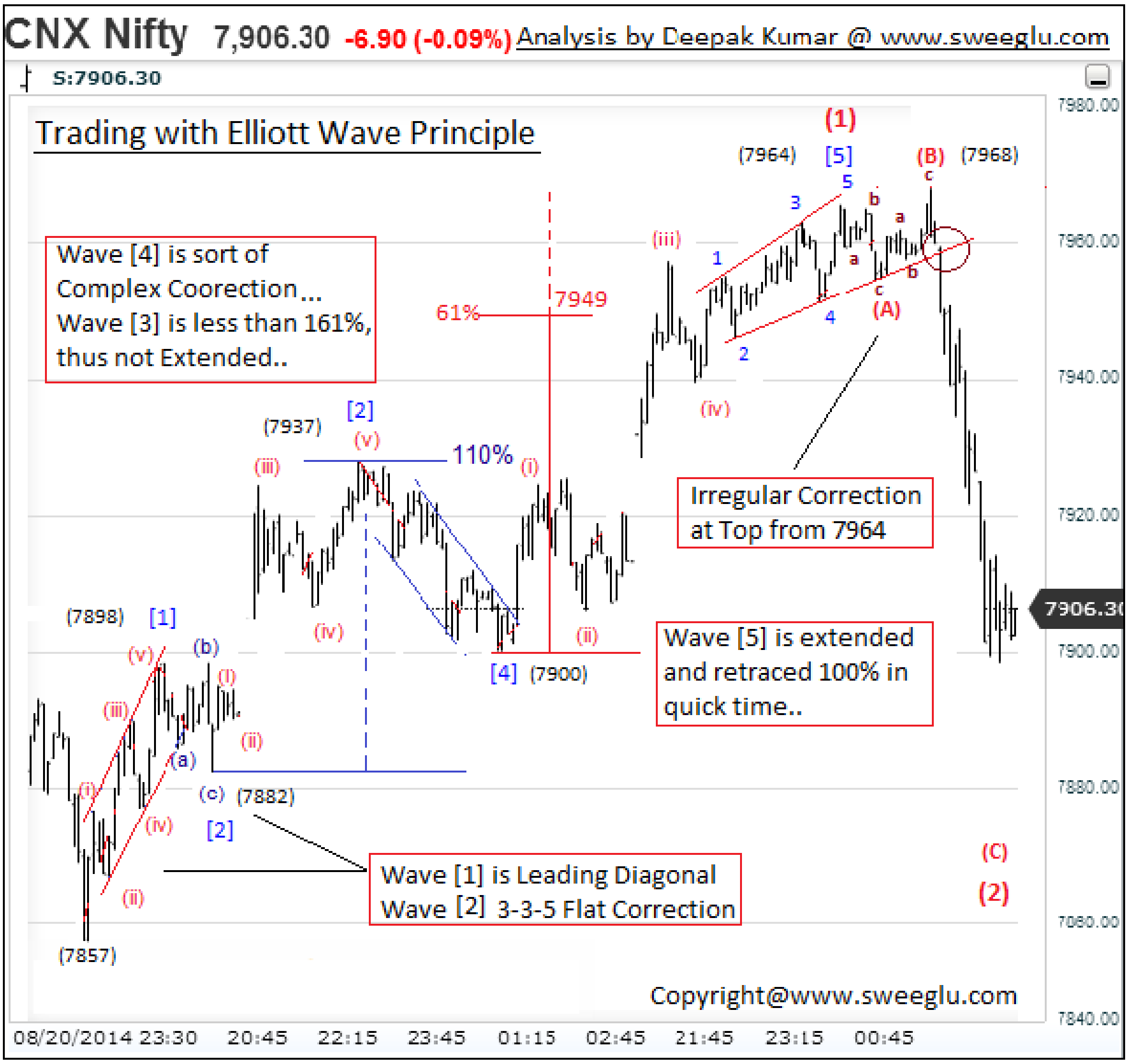
But one thing I can identify that the wave from 8007-8142 is Impulse and it is last Impulse of wave (3), and last Impulse of wave (3) is always its inner wave (v). So, I marked this wave as started from 8007 as (v), small correction from 8023-8007 as wave (iv) and 8023 as end of wave (iii) but I didn't mark inner wave (i) and (ii) because I am confident where it actually completed.

So in such situations, when you see a sharp straight line move and inner wave are not identifiable, you can mark the straight move directly as end of wave (3) without marking inner wave (1) and (2).

This is not written in books or is not a rule but just a common sense. You need to apply this commonsense many time during Elliott wave analysis because counting waves on real charts is not as simple as it looks on Imaginary images.

The main aim of adding this chart is inner wave (1) and (2) on this chart. You can observe that inner wave (2) on this chart is Impulse but we know that wave (2) is always a corrective wave, it can never be Impulse. But at the same time, the decline from 7968-7862 can be fitted as wave (2) only. So, let's observe the formation of wave (1) and (2) closely on next lowest possible time frame.

Please have a careful look at (Image 12.7)



(Image 12.7) Trading with Elliott Wave Principle

This is 15 minutes time bar chart of Nifty covering bounce after 20 Aug 2014 low 7857 which I had marked as wave (1) and (2) on previous chart shown on Image (12.6).

I am explaining this chart because it carries maximum patterns, calculations and rules we read in previous chapters and the move on this chart carries best examples of most of the patterns and rules of Elliott Wave Theory. We also need to clarify the confusion of wave (2) as Impulse.

There is cluster of markings on this chart but don't get confused. Try to read the chart step by step as I am going to explain.

Overall, wave (1) completed from 7857-7964 with inner wave [1], [2], [3], [4], [5] and wave (2) in progress as Irregular Correction. Now, let me explain every wave step by step.

- Inner Wave [1] is Leading Diagonal Triangle in (5-3-5-3-5) pattern with inner wave (iv) overlapping wave (i) and line of pattern are not disturbed.

- Wave [2] looks like a 3-3-5 Flat Correction with inner wave (b) retracing exactly equal to (a) followed by sharp wave (c). Wave [2] retraced wave [1] by 38%-61%.

- Wave [3] have Impulse pattern and is a normal wave [3]. Wave (3) is not extended because it projected less than 161%, thus wave [5] must be extended (project more than 61%). Inner wave (iii) of [3] is sharpest wave with Gap Opening.

- Wave [4] looks like a Complex Correction (Double Zigzag or Triple Zigzag) but it is not possible to count inner waves because it is on lower time frame. Wave [4] retraced deeper than 38% but didn't overlap wave [1].

- Wave [5] is an Impulsive move and projected more than 61%. Thus, wave [5] is extended. Inner wave (iii) of [5] is sharpest and longest wave with gap in between. Inner wave (v) of [5] looks like an Ending Diagonal Triangle but it is difficult to exactly count inner wave of ED.

Completion of 5 waves made a bigger wave (1) from 7856-7964 and there must be a bigger correction as wave (2).

Inner wave [5] of (1) is highly extended and corrected 100% with speed. Look at the personality of decline after completion of extended wave [5].

Pattern of wave (2),

Now, let's have a focus on pattern of wave (2). This wave (2) started from 7964 looked like an Impulse on higher time frame chart as we saw on (Image 12.6). But actually it is Irregular Correction rather than Impulse as I marked on (Image 12.7).

There is formation of small wave (a) and Irregular (b) at top. Wave (a) started from 7964 is a 3 waves (abc) move, wave (b) completed as (abc) move at 7968 [above the start of (a)] and the sharp Impulsive decline after 7968 was wave (c) of Irregular Correction.

Wave (c) of this Irregular Correction projected more than 700%-800%, this is the practical example that there is no particular maximum projection limit for wave (c).

The pattern of wave (2) also justify that lowest time frames gives more details of pattern of a waves. Wave (2) which looked like an Impulse on hourly chart is actually an Irregular Correction on 15 minutes chart. But it is not that wave (2) have different pattern on different time frame, wave (2) is Irregular Correction on every time frame but it was not visible on higher time frame.

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

1. Leading Diagonal Triangle
2. 3-3-5 Simple Flat Correction
3. Complex Correction
4. Ending Diagonal Triangle

5. Irregular Correction
6. Impulse
7. Normal wave 3 which projected less than 161%
8. Extended Wave 5 projected more than 61%
9. 100% correction of extended wave 5 with speed.
10. Wave 3 retracing more than 38%.
11. Wave (c) projecting more than 700-800%.
12. Both wave (3) and (5) extended.
13. Fibonacci Calculations of different waves.
14. Personality of wave (iii) of (3)
15. Rules of alternation for extensions.

The Aim of this Chapter

The aim of this whole chapter "Trading with Elliott Wave Principle" was to explain the following: -

- How to trade using EW Principles
- How pattern forms on real charts
- Personalities and characteristics of different waves
- Counting and labeling waves
- Calculation of Impulse and Corrective using Fibonacci Ratios
- All type of corrections
- Extended waves
- Diagonal Triangle
- Wave's Cycles

Please revise every Rules, Patterns, personalities and calculations of wave you read in earlier chapters and observe if the same is justified here.

This chapter is just for the general idea about actual formation of Elliott Wave Patterns on real chart and how we can analyze market, predict moves and trade using these Elliott Wave Rules. Otherwise, I personally don't believe in giving example on old chart as it is easy to count waves and identify patterns on old chart.

Identifying the running patterns on live chart and predicting next waves is only what make sense. So, I will provide detailed "Elliott Wave Analysis Report of Nifty" daily with this book for minimum 02 months explaining how I counts waves in different conditions, how I get outlook of next move based on wave counts and how I decide low risk trades based on this outlook. My Analysis reports will give great practical experience if used correctly.

CHAPTER 13

Suitable Time Frame for Elliott Wave Analysis

Question about using best/suitable time frame for Elliott Wave Analysis was asked many times by my followers and students. I didn't explain it in my first edition of Book because I didn't feel the need of it. In my understanding, anybody who understood Elliott Wave Theory automatically understands which time frame to use in different conditions. But I am explaining the same in my 1st update because many learners failed to understand it.

On the other hand, many debates are going on about using time frames for EWT analysis. Many EW analysts claim that respected RN Elliott (father of this wave theory) mentioned in his writing that Hourly or Daily Time frames are best to use for EW Analysis and it doesn't works on lower time frames.

We need to understand that RN Elliott was practicing his wave theory in 1930-1940s. Charts were prepared manually at those times and only hourly, daily or monthly chart could be prepared. And charts were available to brokers only.

But today, charts are available on our finger tips and we have access to even 1 minute or 1 second chart. Intelligence of RN Elliott could have searched it to deeper levels if he had access to the technology of today.

So, claiming that lower time frame chart doesn't works for EW Analysis based on 70-80 years old writing may not be applicable in today's world. Hourly chart was the lowest time frame at that time. I have immense respect for RN Elliott but you have access to lower time frames, let's try and conclude if it works or not.

Best Time Frame for Elliott Wave Analysis: -

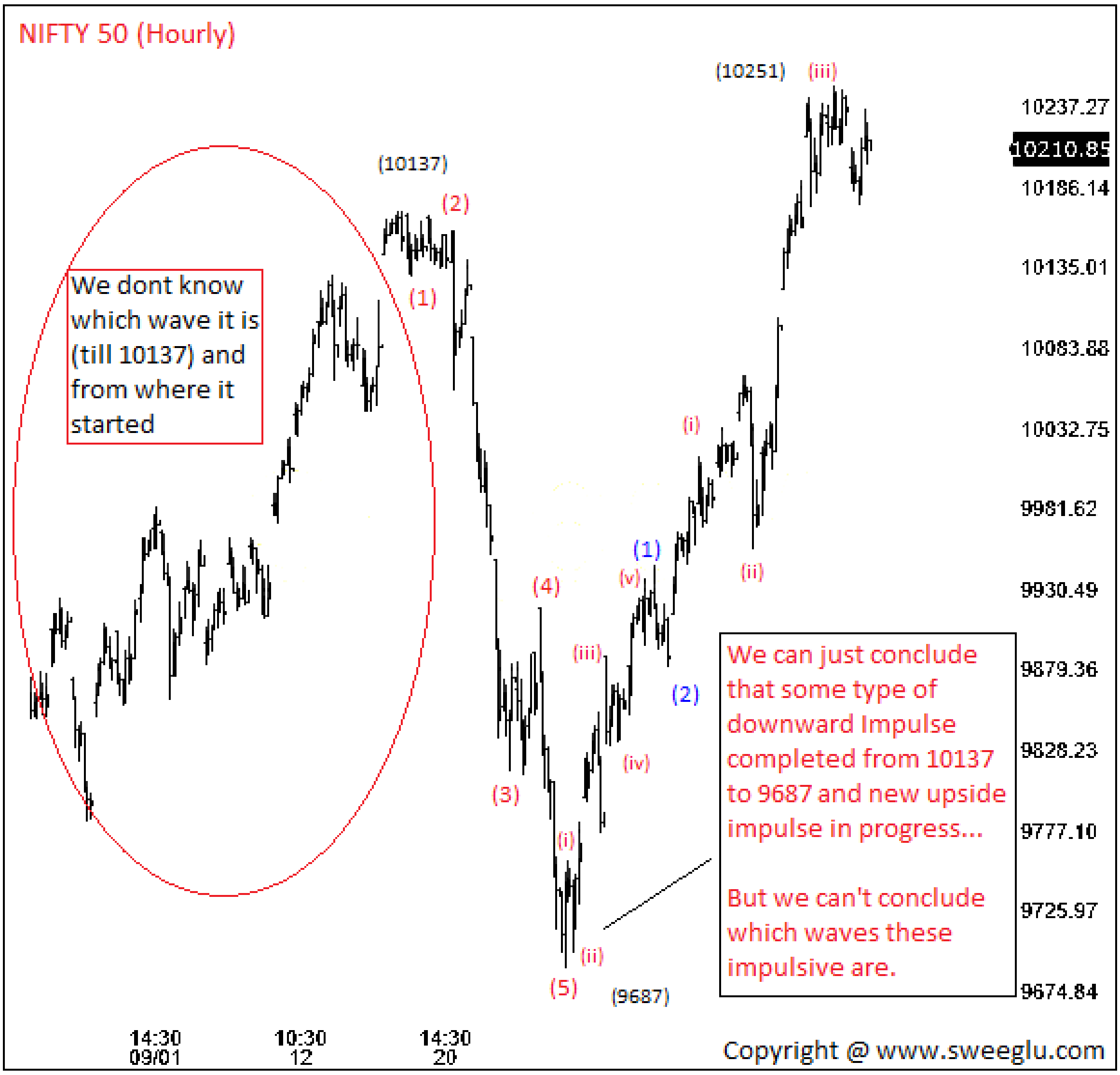
In my understanding and experience, we must use "Lowest Possible time frame for a particular wave". It might be difficult for you to understand but everything will be clear as we progress to the end of this chapter.

Before understanding time frames, we must understand that we can't start wave counting or EW analysis from any point of your choice on the chart. First you need to identify exact wave in progress and then you need to analyze that wave on lowest possible time frame to identify its pattern and estimated completion, and then only we can predict the move for next wave.

Now, I am going to explain the same by giving examples on Nifty charts step by step. This chapter will be lengthy as I need to use minimum 6-7 charts for explanation but everything is well organized and it will be easy to understand.

Focus of this chapter is not analysis but to understand the concept of using time frame.

Let me start the explanation with a random chart of Nifty on Hourly time frame. Please look carefully at chart on (Image 13.1).



(Image 13.1) Using Time Frame for Elliott Wave Analysis

This is hourly time frame chart of Nifty with random move. This is the maximum move of Nifty I can see on Hourly chart in my Charting Application.

On this chart:-

1. I don't know about upside move till 10137 because I can't see from where it started and which pattern it has. It is an incomplete move.

2. Further I can conclude that there is downward impulse completed from 10137 to 9687 followed by new upside impulsive wave started from 9687.

Here, we can identify that an Impulse wave completed from 10137 to 9687 and another upside impulse is in progress from 9687 but we can't conclude which wave this downward Impulse and upside impulse is on Major Wave Cycle.

Suppose, if we have idea that it is wave (4) completed at 9687 and wave (5) started from same point then we simply calculate minimum 38%-61% projections for wave (5) for minimum targets and we will have Idea that this wave (5) will have either Impulse of Ending Diagonal (ED) Pattern. We even need start of wave (1) and end of wave (3) to calculation projections for wave (5) which is not available on this chart.

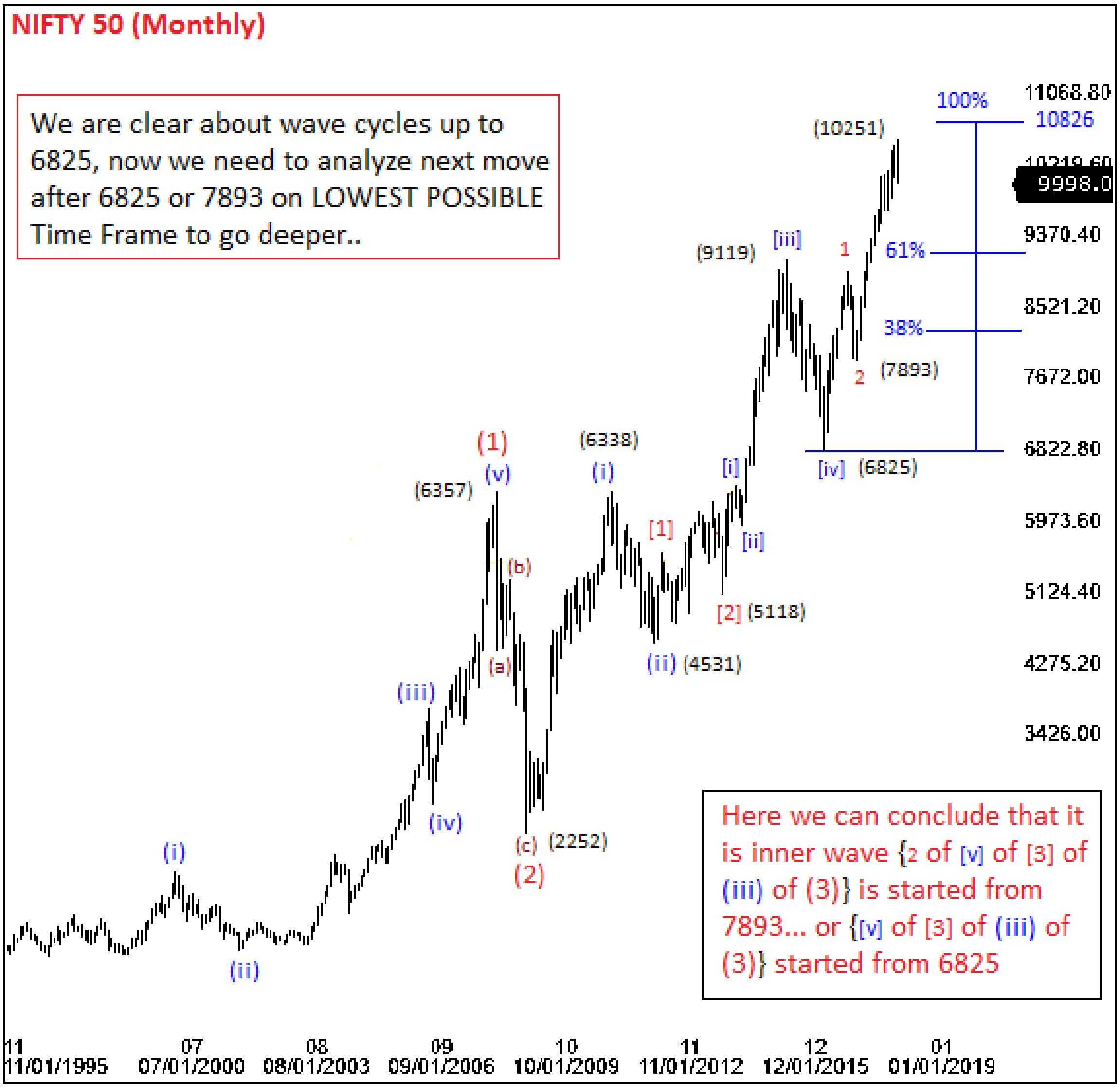
I can't conclude which wave completed at 9687, it can be either wave (A) or (C of 2 or 4). So, I can't conclude anything about next wave because I don't know which wave completed at 9687.

So, we can't take any random hourly chart of our choice and starts analyzing. This practice can give you some idea but will not give you complete idea. It will leave you confused at some point.

So, our first step is to identify the position of a stock/index (inner waves) in major wave cycle. Having idea about the position of inner waves within bigger wave cycle will give more clarity. So, first we need to have a look at whole life time move of a script to get the idea of its position on major wave cycle.

Nifty born in 1995 and we can see its life time move of 22 years on Monthly Chart only. It is not possible to see 22 years of Nifty move in Weekly or Daily chart on my Charting Application. So, I am seeing it on Monthly chart.

Please have a careful look at chart on (Image 13.2).



(Image 13.2) Using Time Frame for Elliott Wave Analysis

This is monthly time bar chart covering life time move of Nifty. It seems Major wave (1) is completed at 6357, (2) completed at 2252 and (3) may be in progress from 2252.

Within wave (3) started from 2252, it seems inner wave (i), (ii) is complete and (iii) in progress from 4531.

Within wave (iii) started from 4531, it seems inner wave [1], [2] is complete and [3] in progress from 5118.

And within wave [3] started from 5118, it seems inner wave [i], [ii], [iii], [iv] is complete and [v] in progress from 6825.

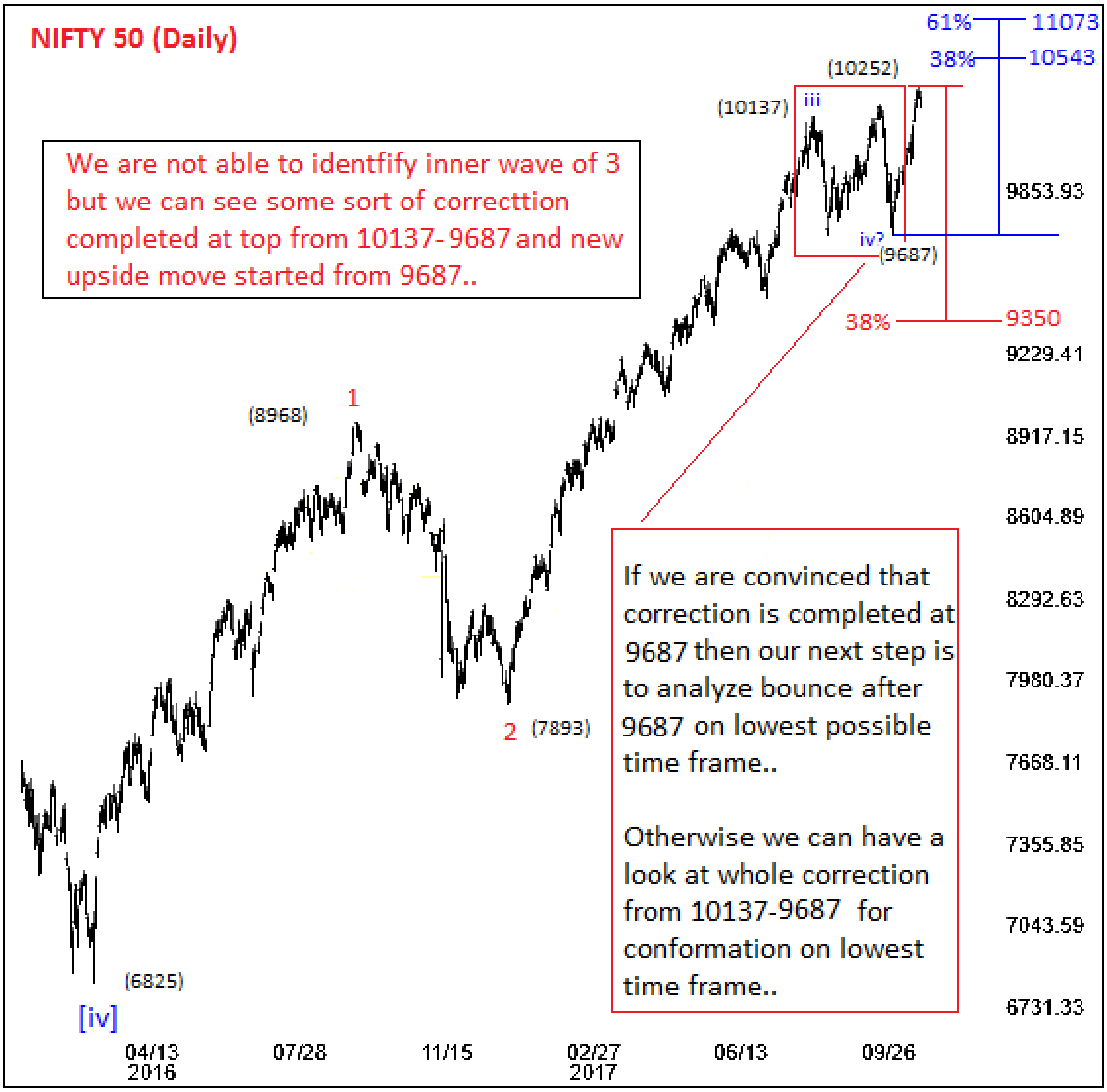
Overall on this monthly chart, we can conclude that it is inner wave {[v] of [3] of (iii) of (3)} in progress from 6825 within major/main wave cycle.

Now, when we concluded that wave [v] in progress from 6825 then we already know that wave [v] projects minimum 38% (no upper limit) and can have Impulse or ED pattern.

We calculated Fibonacci projections for wave [v] and found that it achieved minimum 38%-61% projection and next 100% projection is at 10826. Minimum Fibonacci projections are already achieved, now we need to see if Impulse or Ending Diagonal pattern is also completed or not.

So, we will analyze this wave [v] started from 6825 on separate lowest possible time frame chart to check its pattern closely. <u>Remember, we are not concentrating on time frame, we just need to see/analyze the move after 6825 (wave [v]) on our screen and we will chose the lowest possible to analyze it because lowest time frame will have more details. Lets' proceed: -</u>

Have a careful look at chart on (Image 13.3).



(Image 13.3) Using Time Frame for Elliott Wave Analysis

This is daily time bar chart of Nifty covering bounce after 6825 which I am expecting as start of wave {[v] of [3] of (iii)} of larger (3) on monthly chart. I tried seeing this move on hourly chart but the same cannot be seen on hourly chart in my charting application. So, daily is the lowest possible time frame on which I can see this complete move.

It seems inner wave 1 of [v] completed from 6825-8968, 2 completed at 7893 and wave 3 may be in progress.

Within wave 3 started from 7893, the bounce is sharp making it difficult to identify inner waves but there is small but identifiable correction from 10137-9687. So we can assume 10137 as end of inner wave (iii) of 3 followed by (abc) Irregular correction from 10137-9687 as wave (iv) and wave (v) of 3 may be in progress.

Now we know that wave (v) projects minimum 38% and will have either Impulse of Ending Diagonal Pattern. Minimum 38% projection for wave (v) we calculated at 10544 and next 61% projection is placed at 11073. So, 10544 is minimum target for wave (v), 10544-11073 is normal target range.

Targets for wave (v) are calculated, now we need to look at the pattern of wave (v) and it must be either impulse or Ending Diagonal Triangle. So, we need to analyze the progress of wave (v) started from 9687 on lowest possible time frame to check its pattern.

Further, we can also check the pattern of wave (iv) [from 10137-9687] on lowest possible time frame chart to confirm if we are right at identifying Irregular Correction Pattern. So, first I am going to check the move from 10137-9687 on lowest time frame to confirm if I am right at identifying Irregular Correction Pattern.

Remember again, we are not concentrating on time frame, we just need to see/analyze the move from 10137-9687 [wave (iv)] on our screen and we will chose the lowest possible to analyze it because lowest time frame will have more details. Lets' proceed: -

Please have a careful look at chart on (Image 13.4)

(Image 13.4) Using Time Frame for Elliott Wave Analysis

This is again a daily time frame chart of Nifty covering move after 10137 which I am expecting as wave (iv) completed as Irregular Correction.

I tried to see this move on Hourly or lower time frame but it was not possible on my Charting Application. So, I am analyzing it again on Daily Time frame but with zoom so that I can see better details. You can observe the difference of same move on both the daily chart.

We can observe that this move is following all the rules and personalities of Irregular Correction (3-3-5 pattern) with wave (A) from 10137-9685 as (abc) wave, Irregular wave (B) from 9685-10178 as (abc) wave and wave (C) from 10178-9687 as sharp Impulse.

So, we are convinced that wave (iv) already completed from 10137-9687 as Irregular Correction and wave (v) in progress. Now, we will analyze the progress of wave (v) started from 9687 on lowest possible time frame to check its pattern.

Remember again, we are not concentrating on time frame, we just need to see/analyze the move after 9687 [progress of wave (v)] on our screen and we will chose the lowest possible to analyze it because lowest time frame has more details. Lets' proceed: -

Please have a careful look at chart on (Image 13.5).

(Image 13.5) Using Time Frame for Elliott Wave Analysis

This is 30 minutes time bar chart of Nifty covering bounce after 9687 which I am expecting as start of wave (v) and minimum target for this wave (v) is 10544-11073 calculated on Daily Chart (Image 13.3). 30 Minutes is the lowest possible time frame at which I can see this move in my charting application.

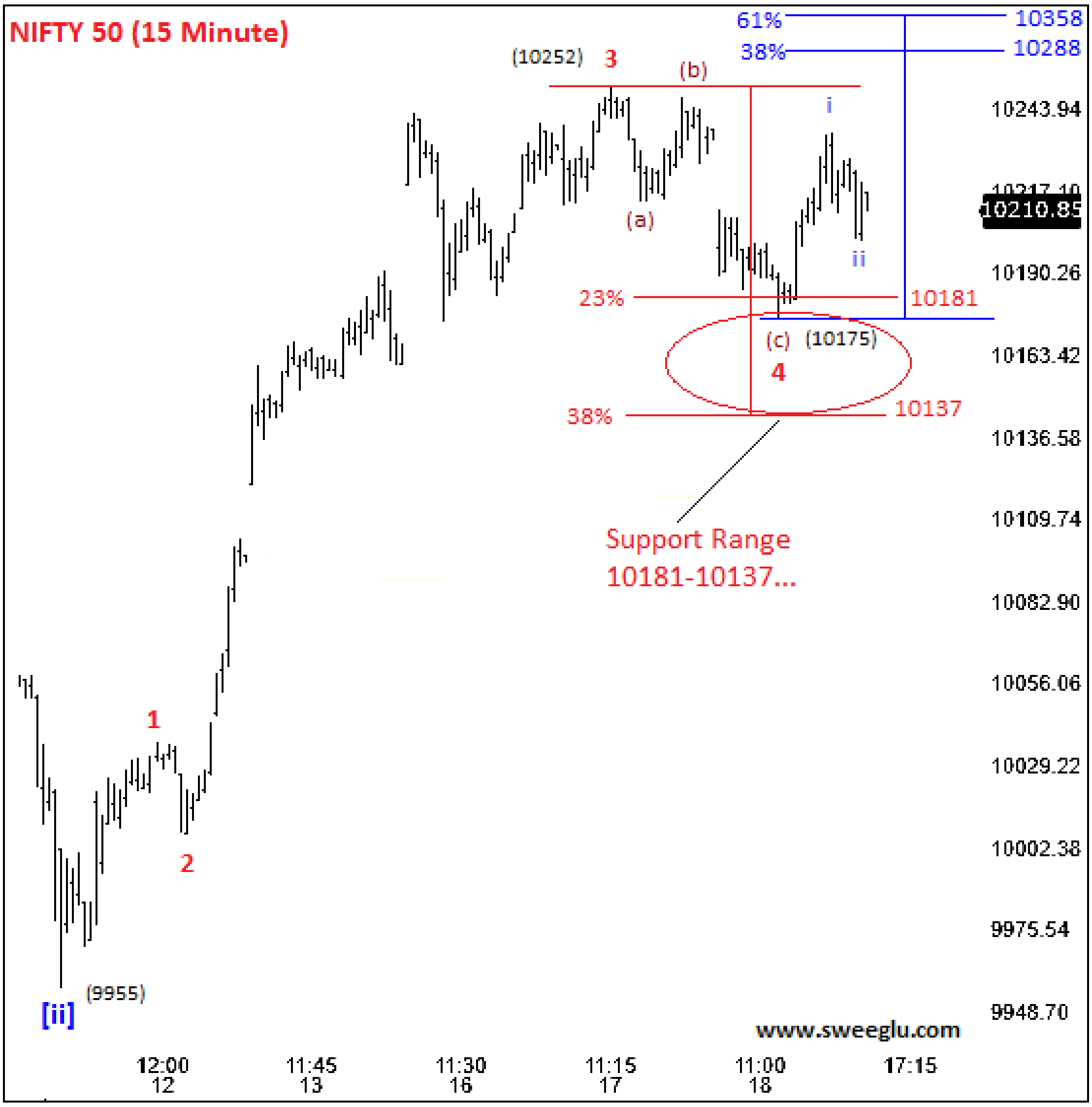
The pattern of wave (v) seems impulsive with inner wave [1], [2] already completed and [3] may be in progress.

Within wave [3], inner wave [i], [ii] seems completed and wave [iii] may be in progress from 9955 and wave [iii] seems within its inner wave 4 or 5. Please read the counts marked on the chart carefully.

We can analyze progress of wave [iii] of [3] of (v) started from 9955 on this chart also but there will be cluster of lines on this chart. So, our next step is to analyze the progress of wave [iii] started from 9955 on separate lowest possible time frame.

Again, we are not concentrating on time frame, we just need to see/analyze the move after 9955 (progress of wave [iii]) on our screen and we will chose the lowest possible to analyze it because lowest time frame has more details. Lets' proceed: -

Please have a careful look at chart on Image (13.6)



(Image 13.6) Using Time Frame for Elliott Wave Analysis

This is 15 minute time bar chart of Nifty covering bounce after 9955 which I am expecting as end of wave [ii] and start of wave [iii] on 30 minute chart (Image 13.5). 15 minutes is the lowest possible time frame to see this move on my charting application.

This chart shows that inner wave 1, 2, 3, 4 is already completed and wave 5 may be in progress. Wave 4 retraced by 23%-38% and completed as Simple Zigzag. We have end of wave 4, so we can calculate minimum target range for wave 5.

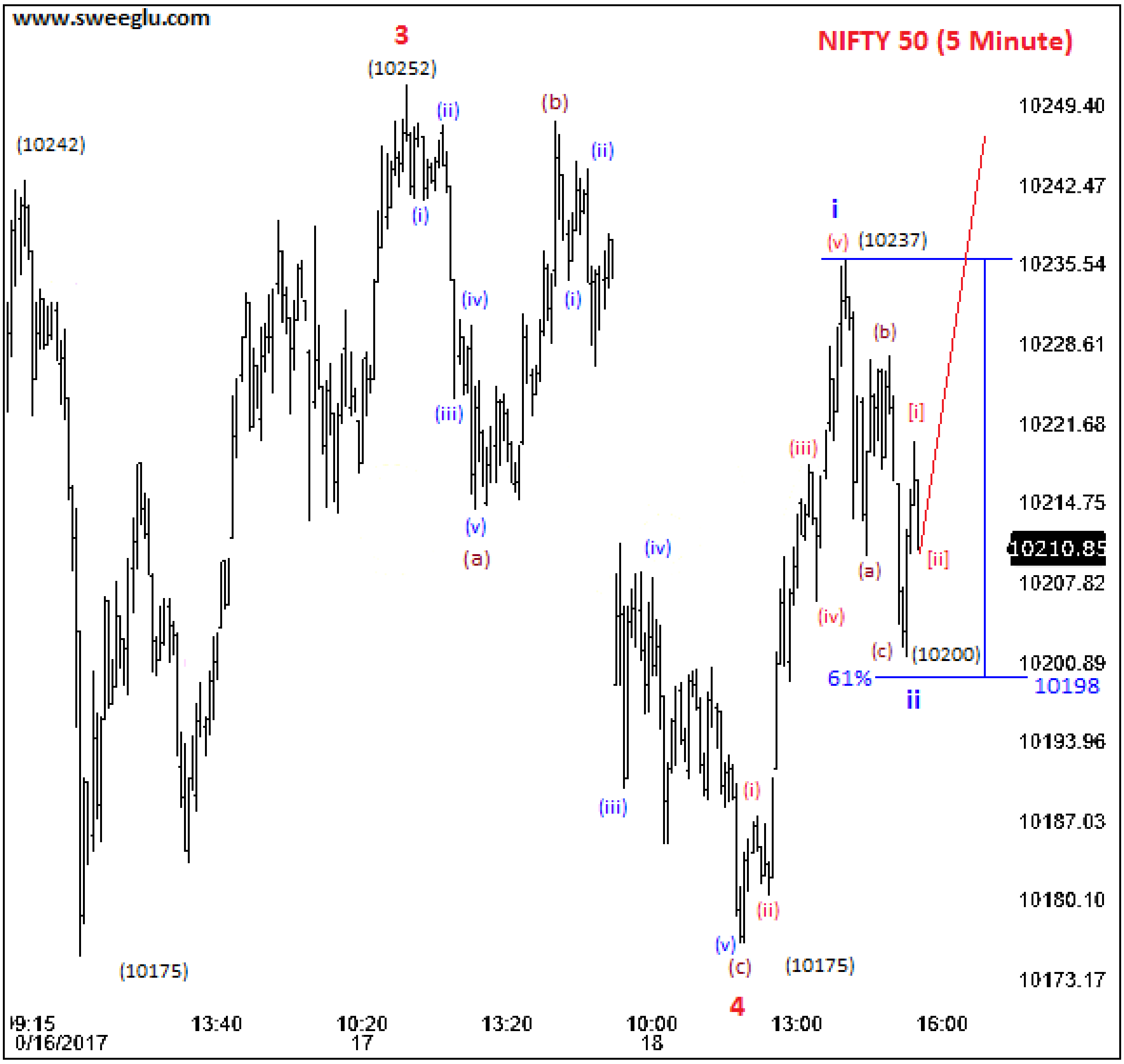
Minimum 38%-61% projection for wave 5 of [iii] is placed at 10288-10358. So, 10288 is the minimum target for wave 5 which can extend further towards 10358 or above.

And if we look at progress of wave 5 from 10175 then there is an upside impulse followed by downward Simple Zigzag Correction. We can assume this move as inner wave ‘i’ and ‘ii’ of 5.

Nifty is around 10210 at this point and start of wave ‘i’ is 10175, so we can take risk to buy Nifty in 10210-10175 range with stoploss of 10174 (Below the start of wave ‘i’ because wave ‘ii’ cannot break this point). Maximum stoploss is 36 points and minimum target is 10288. So, our stoploss is 36 points and profit possibility is 78 points which is good risk reward of 1:2.

We can even check the move after 10252 on separate lowest possible time frame to confirm the pattern of wave 4 and progress of wave 5 with more clarity. Let’s see it on 5 minute chart:

Please have a careful look at chart on (Image 13.7).



(Image 13.7) Using Time Frame for Elliott Wave Analysis

This is 5 minutes time bar chart of Nifty covering the decline after 10252 which I am expecting as completion of wave 4 and start of wave 5 on 15 minutes chart.

This chart is showing more clarity with details that wave 4 completed from 10252-10175 as Simple Zigzag Correction (abc move). Further inner wave 'i' of 5 is completed as impulse from 10175-10237 and 'ii' completed from 10237-10200 as Simple Zigzag, 'wave ii' corrected by almost by 61%. We can even identify the formation of inner wave [i] and [ii] of 'iii'.

According to this chart, we can even buy in 10210-10200 range with stoploss of 10199 for same target 10288. Further, we can expect gap up opening and sharp move because wave 'iii' in progress which is known to be sharp and fast.

Conclusion:

You must have observed that we analyzed the whole history of Nifty but Time Frame was not an important factor in this analysis and there is nothing like best time frame we used. The main focus is to see the structure of a particular wave on your screen and we preferred lowest possible time frame to see it because lowest time frame has more details.

What you can see on 5 minute chart is not even identifiable on daily chart and whatever you can see on daily can never be covered by 15 minutes or hourly chart. We use most suitable time frames on different conditions but every time frame is equally important.

Monthly and Daily charts are indicating 10543-11073 as minimum target on upside but didn't gave entry levels and even stoploss is 9687 which is way big. But 30 Minute and 15 minute chart gave us narrow entry range of 35 points and stoploss of just 36 point with minimum target of 78 points. The targets can extend further towards 10358 and even 10543-11073, we can manage the trade by analyzing the progress of further waves.

So, there is no special best or perfect time frame to use for Elliott Wave Analysis. First you need to identify the position of waves and then you need to analyze those waves on lowest possible time frame. Our focus is to see clear inner structure of a particular wave.

I started this analysis with Monthly chart and ended up with very last wave on 5 minute chart step by step. Every next chart was the continuation of previous chart and every wave was a part of previous larger degree wave. No wave is independent here, even the wave [i] of 5 on last 5 minute chart is part of largest wave cycle explained on Monthly Chart.

Or simply I can say, Lowest Possible time Frame for a particular wave is perfect time frame to use for Elliott Wave Theory Analysis.

CHAPTER 14

Identifying Multi-Bagger Stocks

The scope of a multi-bagger return in a stock means a possibility of big move. And big move is directly associated with major wave (3) in Elliott Wave Theory. So, the stock in which major wave (3) is not started yet had scope to be multi bagger.

Wave (3) is known to be steepest and longest wave with gap up openings. Wave (3) gains its speed just after completion of wave (2) most of the time but wave (3) also consolidates before gaining speed in some cases. And major wave (3) which consolidates before gaining speed becomes fastest, furious and longest later.

In this chapter, I am going to explain about the conditions when wave (3) consolidates before gaining speed because an investor can multiply his/her investment multi-fold if manage to identify such stock.

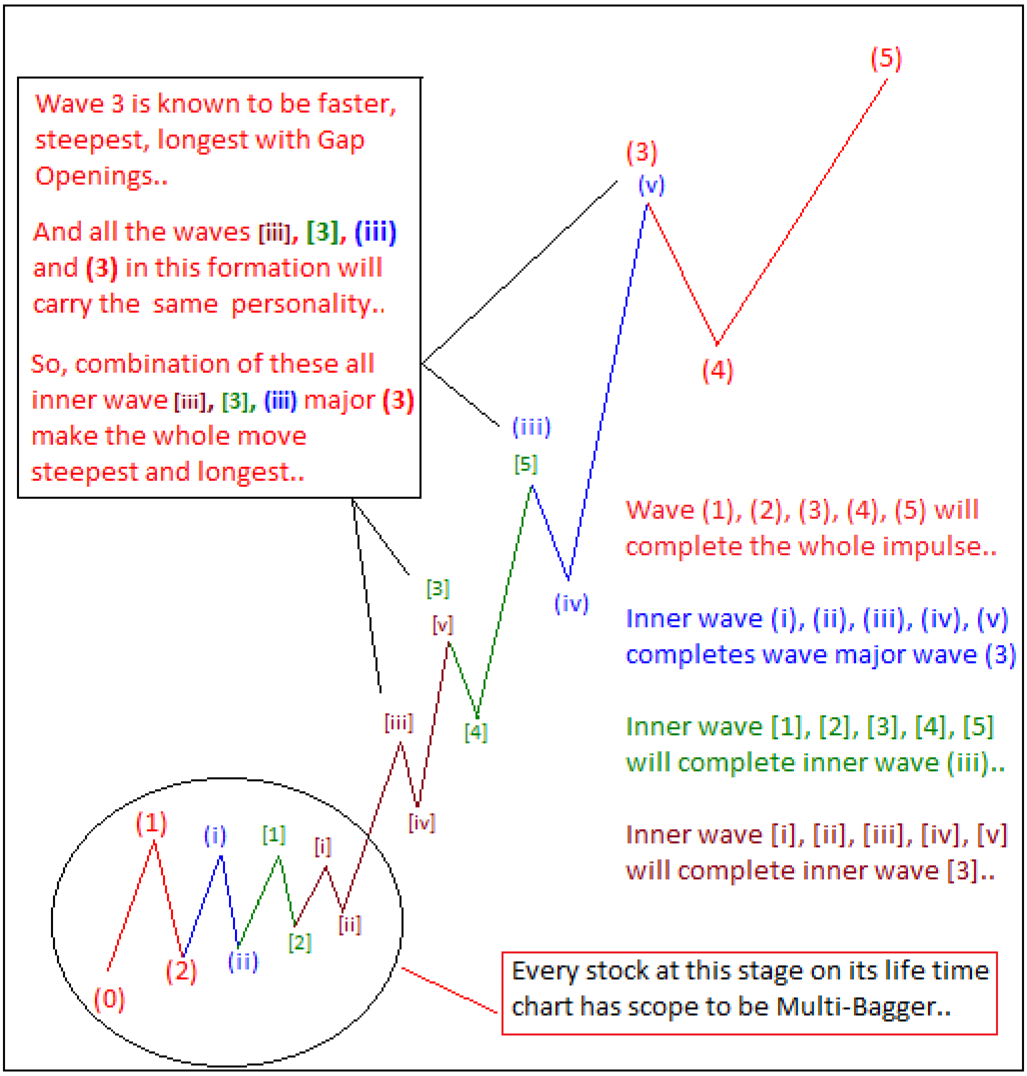
So, let me explain the basic formation of pattern with reasons which initiates such big move. I used an imaginary image to explain these conditions but will also show practical examples on real charts later in this chapter. But you must have a basic understanding of Elliott Wave Cycle to understand this chapter.

We know that wave (3) starts after completion of wave (2) and it always project more than 100% of (1). Means wave (3) is always longer than wave (1). And the pattern of wave (3) is always impulse, means inner wave (iv) of (3) can never overlap (i) of (3).

In some cases, when an impulsive pattern completes within wave (3) but it completes before 100% projection of (1). Or if wave (3) achieves minimum 100% projection but the later correction overlaps wave (1). The next impulsive wave after wave (2) becomes inner/lower degree wave (i) of (3) in this case.

When this pattern repeats 3 or more times makes overall pattern as Major wave (1) and (2) followed by 1st lower degree wave (i) and (ii) of Major (3), followed by 2nd lower degree wave [1] and [2] of 1st lower degree wave (iii) and so on.

So, have a look at (Image 14.1).



(Image 14.1) Identifying Multi-Bagger Stocks

This is the imaginary chart where I explained the formation of pattern we generally observe before the start of a big move. Please look carefully at chart.

The structure shows that: -

Major wave (1) and (2) is completed and (3) in progress followed by,

1st lower degree/inner wave (i) and (ii) of major (3) is completed and (iii) in progress followed by,

2nd lower degree wave [1] and [2] of 1st degree wave (iii) is completed and [3] in progress followed by,

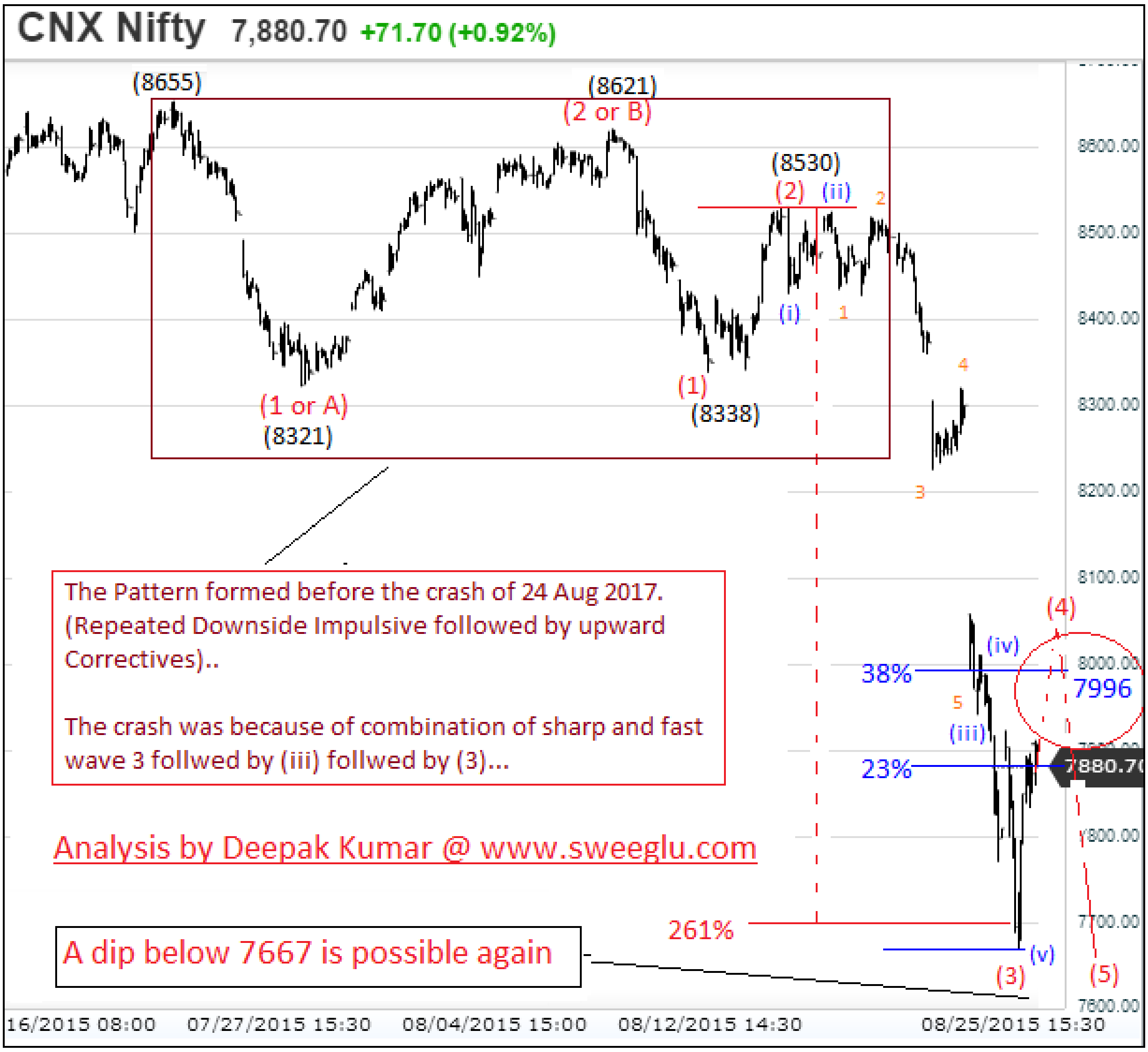
3rd lower degree waves [i] and [ii] of 2nd lower degree wave [3] is completed and [iii] is in progress.

In this overall pattern, the major wave cycle will complete after completion of major waves (3), (4) and (5) and all the lower degree waves needs to complete for completion of this major wave cycle. So,

- The 2nd lower degree wave [3] will get completed after completion of 3rd lower degree wave [i], [ii], [iii], [iv] and [v].
- The 1st lower degree wave (iii) will get completed after completion of 2nd lower degree wave [1], [2], [3], [4] and [5].
- The major wave (3) will get completed after completion of 1st lower degree wave (i), (ii), (iii), (iv) and (v).

We already know that wave (3) is known to be faster, steeper and longest and it is applicable all major and lower degree wave (3), (iii), [3] and [iii]. So, the combination of these lower degree waves [iii], [3] and (iii) will result in faster and longest major wave (3).

Let me show some real examples on Nifty Charts: -



(Image 14.2) Identifying Multi-bagger Stocks

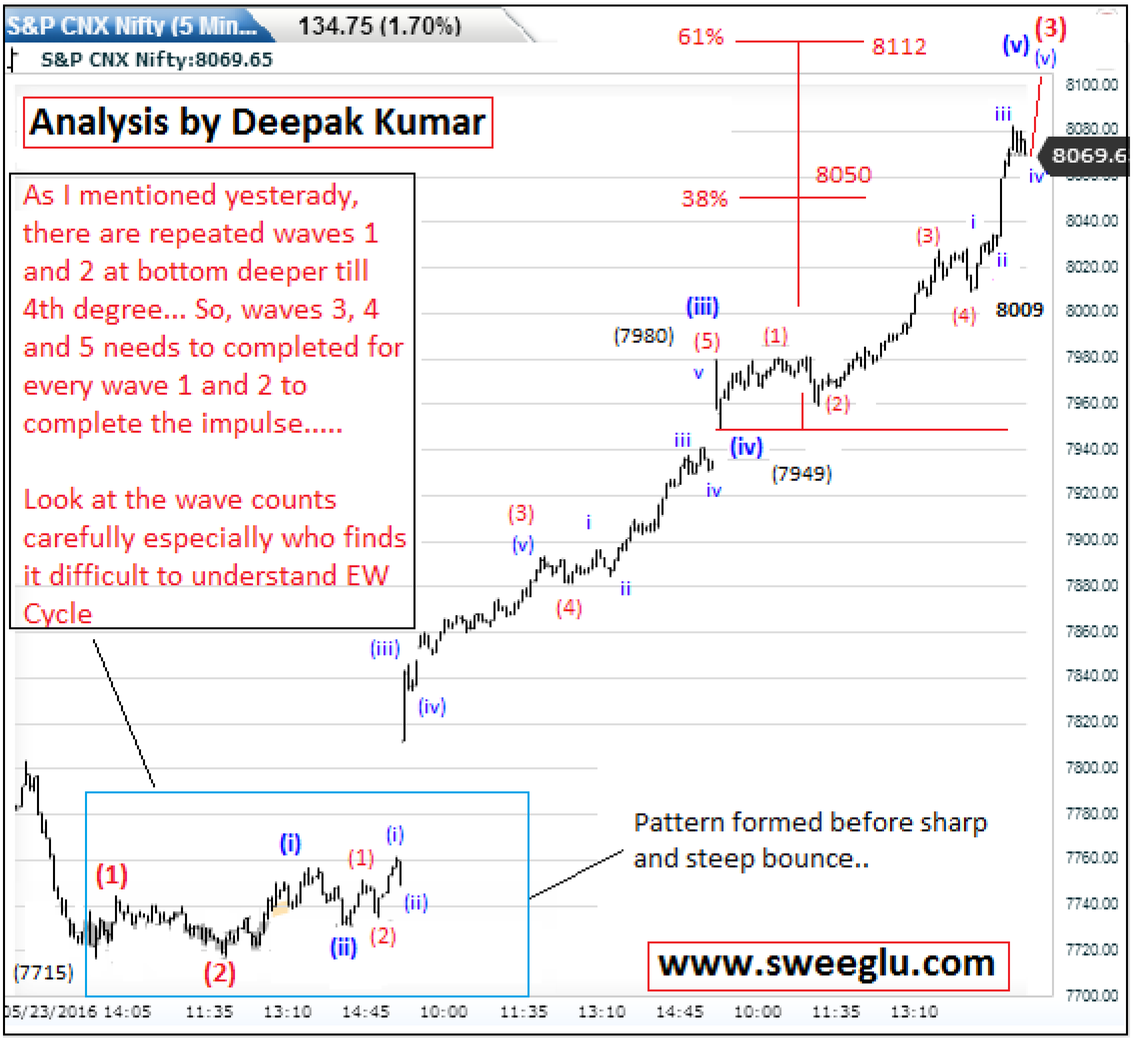
Please look carefully at Nifty chart on Image (14.2) above. We witnessed the biggest single day fall in Nifty on 24 Aug 2015 and the pattern formed before this crash is marked within brown box.

There was formation of repeated downward impulsive waves followed by upward corrective wave which formed wave (a or 1) and (b or 2) followed by inner waves (1) and (2) of (c or 3) followed by inner wave (i) and (ii) of (3) followed by inner wave 1 and 2 of (iii).

And later, combination of wave 3, (iii), (3) and (C or 3) resulted in 900 points fall in just 2-3 days

And let's have a look at one more chart of Nifty: -

Have a careful look at chart on (Image 14.3) below. This is the 5 minutes chart and formation of repeated upside impulsive followed by downward correctives resulted in 400 points straight line bounce in just 4 sessions.



(Image 14.3) Identifying Multi-Bagger Stocks

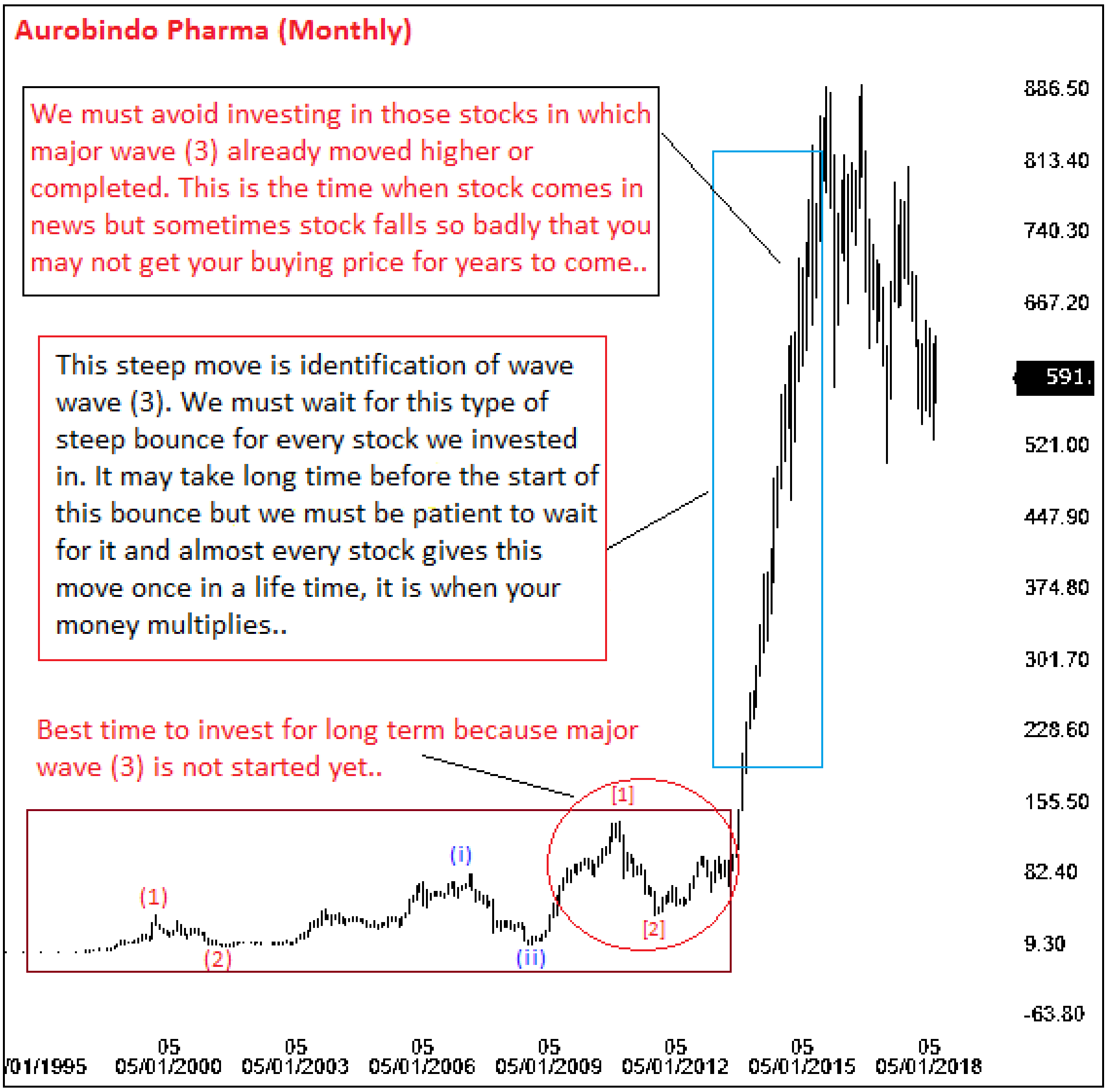
This is one of the main reasons behind any big move and I explained it giving examples on small time frame charts of Nifty. Formation of same type of pattern at bottom on life time chart of any stock indicates the possibility of big bounce in that stock or makes that stock a suitable candidate to be multi-bagger.

Identifying a stock with mutli-bagger capabilities: -

Almost every stock give a biggest bull rally at least once in a lifetime and most of the stock show this type of rise after a long consolidation. Longer the consolidation is, Bigger the move would be.

The longer consolidation at bottom is generally the pattern which I had explained above, "repeated upside impulsive waves followed by downward corrective waves".

I am going to show some examples of such patterns on real chart as it will help learners to understand it easily and clearly.



(Image 14.4) Identifying Multi-Bagger Stocks

Please have a careful look at chart on (Image 14.4) above. This is a life time chart of "Aurobindo Pharma" stock on Monthly time frame. We can observe that this stock bounced from 80 to 880 (1000%) in just 2 year but there was a long consolidation of 15-16 years before the start of that bounce. Overall this stock bounced about 8000% in 20-22 years.

The longer consolidation is wave 1s and 2s (repeated upside impulsive followed by downward corrective waves), and the sharp and big bounce is combination of major and lower degree wave 3s.

Just look at life time charts of some stocks, you will observe that almost all the stock had given such sharp, big and straight line rise at least once in a life time.

So, stock which consolidated at bottom on its life time chart without showing such sharp rise had possibility to be multi-bagger in long term because we can expect at least one sharp and big rise in its lifetime. We need to ensure following important points before making investment: -

1. Stock must be consolidating above its life time low with repeated up down waves (with overlapping) for at least 5-8 years. Because my observations identified that most of the stock give such big bull rally at least once in 8 years, so the stock which is consolidating for 5-8 years had possibility to show such sharp and multi-fold rise within 0-3 years. Stock which is trading at life time low or registered its life time low recently must be avoided.

2. The stock which already bounced sharply by 100%-200% above its earlier all time high must be avoided because the profit probability will decrease and risk will increase as the stock move higher.

We can observe on this Aurobindi Pharma chart that an investment made in 130-40 range during consolidation gave 800%-2000% return with lower risk. But those who invested at middle of wave (3) around the price of 300-400 have gained just 100%-200% with more risk. So, the stock which is still in consolidation is best to invest for multi-fold returns.

But most of the inexperienced traders/investors buy stock at the middle or top of wave (3) because it is the time when almost every broker, media channel and advisors talks about that stock after seeing a sharp move. Nobody talks about the stock when it as bottom, every technical or fundamental expects improves only when a stocks starts rising.

The investors who buy stock at middle or top of waves (3) or (5) after getting advice for brokers or media often get their money trapped because the stock which decline after completion of wave (3) or (5) may not register new life time high for years again. Crash of 2008 is best example, many of the great stocks of that time failed to bounce again, even many good stocks of that time are dead now and trading at its all time low now.

Let observe the pattern of Aurobindo Pharma formed on its past life time chart before starting biggest move of its life. Have a careful look at Image (14.5).

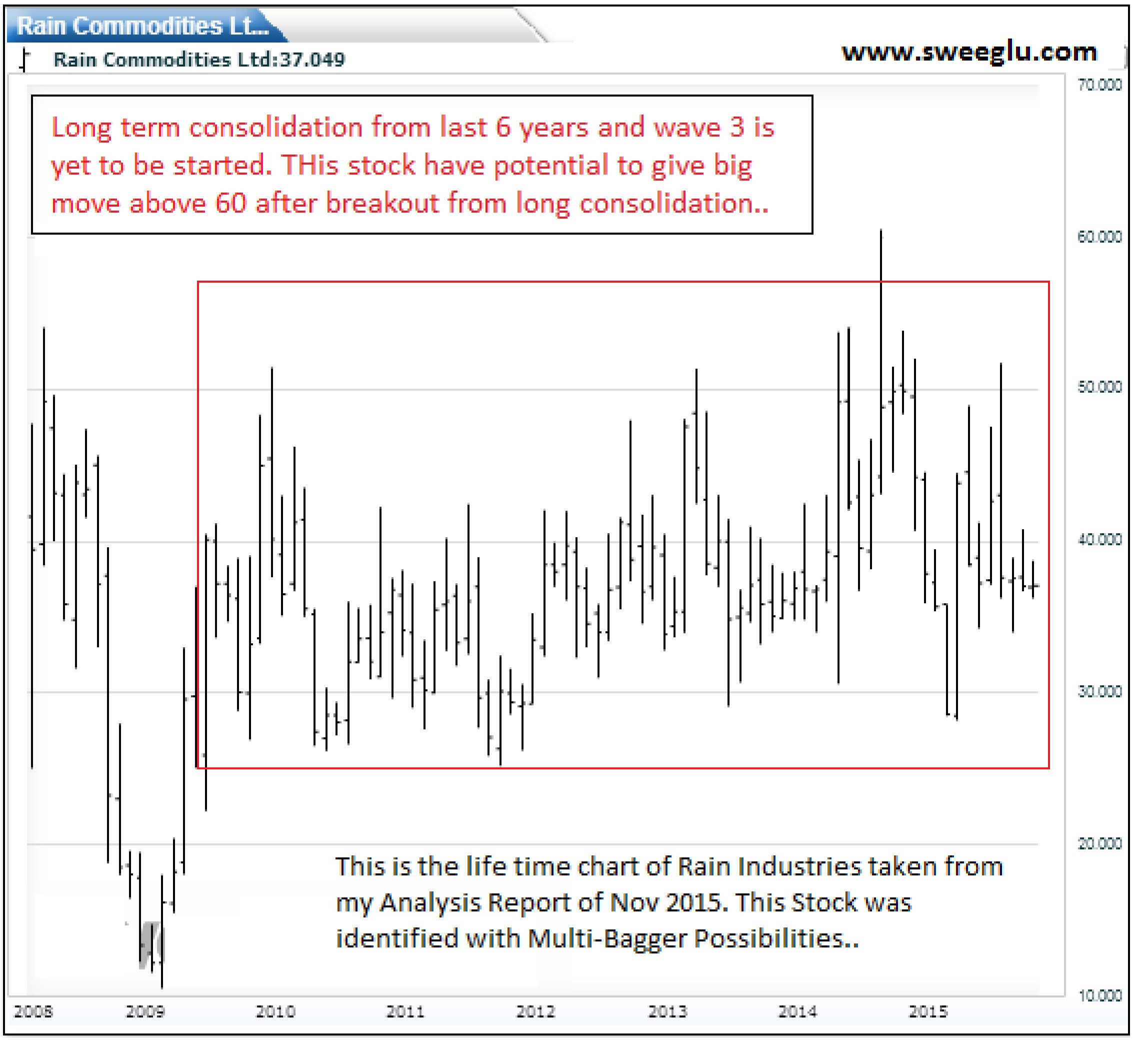
(Image 14.5) Identifying Multi-Bagger Stocks

This is again monthly time bar chart of Aurobindo Pharma covering its life time move till 2013-2014. This was the pattern of this stock in 2013-2014 formed just before the start of biggest move.

This stock gave 3 bull rallies of 800-1000% within the time period from 1996-2014 but crashed back by about 70%-80% every time. Waves overlapped every time and formed wave (1) and (2), followed by inner wave (i) and (ii) of (3), followed by inner wave [1] and [2] of (iii), and combination of wave [3], (iii) and (3) made a sharpest and fastest bull rally.

Let me shown one more chart which I actually identified in 2015 having possibilities to be multi-bagger and also posted the same on my website before Diwali of 2015

Please have a careful look at chart on (image 14.6) below. This is the chart of Rain Industries I had taken from my old analysis report of 2015. Link to the analysis report is [3 Low Priced Stocks I Would Like To Buy This Diwali Expecting Multifold Returns]()

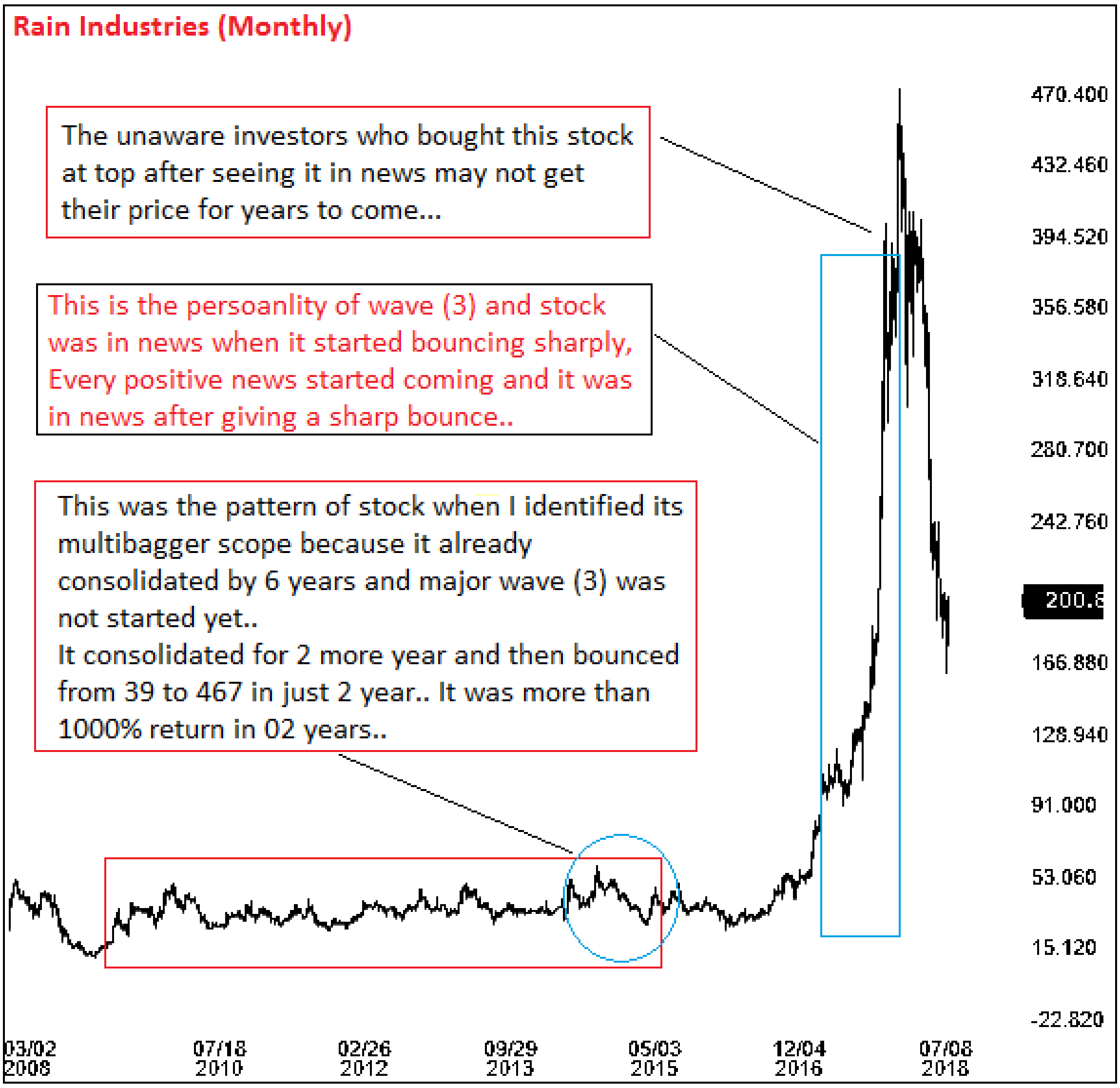


(Image 14.6) Identifying Multi-Bagger Stocks

This is monthly Chart of "Rain Industries" taken in 2015. Stock was trading at 37 at that time and I expected this stock to rise multi-fold in 3-5 years. And the reason was: -

This stock registered life time low in 2009 and was consolidating above life time low for last 6 years. So, I expected this stock to bounce multi-fold in 3-5 years. This stock had very beautiful consolidation pattern.

Now, let's have a look at current position of this stock, have a careful look at image (14.7) below: -



(Image 14.7) Identifying Multi-Bagger Stocks

This is again monthly chart of “Rain Industries” taken in Jul 2018. This stock started bouncing in 2016-2017 and registered it life time high 467 in 2018.

I identified this stock when it was in 6 years of consolidation and I expected a multi-fold bull rally within 3-5 years because most of the stocks give such sharp move once within 8 years at least. No one was even talking about this stock at that time and it had lower than average fundamentals.

This stock started best move of its life exactly after 02 years in 2017 and bounce from 37 to 467 within a year. Overall, it was more than 1300% return within 3 years and one could have gained 600% at least even if booked systematically in installments.

But just think of those who bought this stock at highs in 350-450 range after seeing this stock in news. Many of them may not get their buying price in coming years.

Now, let me show 02 stocks having same type of pattern in July 2018. It will give some idea about identifying those stocks: -

Look at (Image 14.8) below. This is monthly time bar chart of “Nectar Lifescience” covering its life time move. This chart was taken in July 2018.

(Image 14.8) Identifying Multi-Bagger Stocks

This stock also has long 12-13 years of consolidation at bottom and has not completed its major wave (3), and it is available at very cheap price of 18-21. This stock also has possibility to be multi-bagger in coming 3-5 years because major wave (3) is within inner wave (ii) yet. Otherwise, bounce towards 50-60 is expected at least even if it doesn’t be multi-bagger. The possibility can be negated only if it registers new life time low again.

And other stock in same pattern is Blue Chip ICICI Bank. Please look at (Image 14.9) below.

(Image 14.9) Identifying Multi-Bagger Stocks

This is monthly chart of ICICI Bank covering its life time of move from 1997-2018. This stock completed major wave (1) and (2) in 2008-2009 but later waves overlapped. The overlapping indicated that this stock has not completed its major wave (3) yet because wave (4) can never overlap wave (1).

Major wave (1) of this stock is of 260 points, so the full wave 5 wave’s cycle {completion of wave (1), (2), (3), (4) and (5)} can be expected as minimum 3 times of wave (1). So, full wave cycle may complete somewhere above 780 (3 x 260 = 780).

So overall, this stock can be accumulated systematically in 256-160 range [till wave (ii)] expecting minimum 780 in long term.

Summary:

The stock with following conditions has maximum capabilities to be Multi-Bagger in longs term: -

1. Stock must be consolidating above its all time low for minimum 5-8 years with overlapping of waves. The stock with upward slope/parallel consolidation has more scope to bounce quickly.

2. Stock must not have shown sharp and straight line bounce [Major wave (3)] after consolidation. The stock which didn't show sharp and big bounce even once after its listing has more scope.

3. Any stock which already moved by more than 100%-200% above its earlier life time high must be avoided because profit probabilities is less and risk is more in those stocks. Even the stock which is declining after completion of wave (3) must be avoided for long term investment.

It is not important to count inner waves if the stock is following above mention rules. The main factor to ensure is that major wave (3) is not started yet or just started.

<u>For Getting More Practical Experience: -</u>

Just have a look at life time chart of 10-15 stocks daily. You will observe that most of the stock had shown at least one big and sharp bull rally once in a life time (like Aurobindo Pharma and Rain Industiries).

Just zoom-in the chart and observe the pattern formed till the start of that Big Bull Rally. And also observe the personality of fall after completion of such big bull rallies. You will get good practical experience and get a new vision after seeing 100 of such chart. The more you observe, the more you get experienced.

<u>Fundamental expects to see in such stocks: -</u>

Actually there is no need to see any other fundamental or technical expect if you are using above mention methods to identify mutli-bagger stocks because these stock are cheap only because fundamentals are not great and these stock has possibility to be multi-bagger because fundamentals have scope to improve. Almost all the fundamentally strong stocks are already in major wave (3). This method is 100% psychological and less fundamental.

But still we needs to check some simple and basic fundamental expect. Any stock you are choosing must have Market Cap of minimum 300 Crore (3 Billion) and stock must be trading actively with average volume.

Success Ratio and Investment Strategy: -

Most of the stocks are going to perform if you check all the rules mentioned above carefully. These stocks may give at least 70-100% returns in 5 years even if failed to be mutli-bagger. On the other hand, this type of stocks has very low risk to be dead and can recover quickly even after declining by 61-78%. This idea is based on decade of experience gained by observing 1000s of charts, but still nothing is permanent and anything is possible in stock market.

For Investment, we should not invest our full capital in a single stock because there is always a possibility to be wrong and it will be a huge loss if the stock we choose fails to deliver.

So, we must search 5-10 such stocks and invest in all the stocks with equal money distribution. Suppose you have Rs. 50,000 to invest then choose 5 stocks and invest Rs. 10,000 in every stock and hold for 3-5 years without any stoploss.

Your money will recover even if 1 such stock performs and other 4 becomes zero. This is the worst scenario, otherwise 4 stocks will not become zero. Any 1 may become zero, 1 may give small loss, 1 may not give any profit or loss, 1 may perform average and 1 may give huge returns. Overall, there are negligible probabilities for loss if you hold for 3-5 years and there is possibility of huge returns even if 30-50% of your stocks perform.

In 2015, I identified 3 such stocks: - Rain Industries, South India Bank and Magma Finecorp and advised to invest equally in all these 3 stocks. Rain Industries gave 1000% returns, South Indian Bank gave 60% returns and Magma Finecorp gave 100%-120% returns.

Combination of all these stocks gave average 300%-400% returns in 3 years.

CHAPTER 15

Practicing Elliott Wave Theory

Practice makes man perfect, and there is always a best way to practice for better and faster result. Wrong approach in practicing always results in loss of energy, time and confidence. And Elliott Wave Theory is an Analysis and reasoning methods which needs a systematic approach otherwise it can leave you confused for whole life. You must have observed that even best analysts with decade of experience fail to understand Elliott Wave Theory and find it confusing.

So, let me guide the best and most systematic way of practicing Elliott Wave Theory to master it easily and faster. A human with average intelligence must be able apply Elliott Wave Theory practically within 02 months if he/she practice it in the way I am going to explain. I am not going to explain any guidelines which I read from any book, but I am sharing the way I learned Elliott Wave Theory myself in just 2-3 months.

Approach for Practicing Elliott Wave Theory: -

Elliott Wave Theory is combination of Wave Cycle, Wave Patterns, Fibonacci Calculations and Wave Personalities and everything about these factors is explained briefly in this book. But there is big difference in Knowing every rules theoretically and applying it practically. It looks easy and satisfying when you a see a chart with counts marked on it but it is not as easy to counts waves on a blank chart, many new practitioners just left blank thinking where to start.

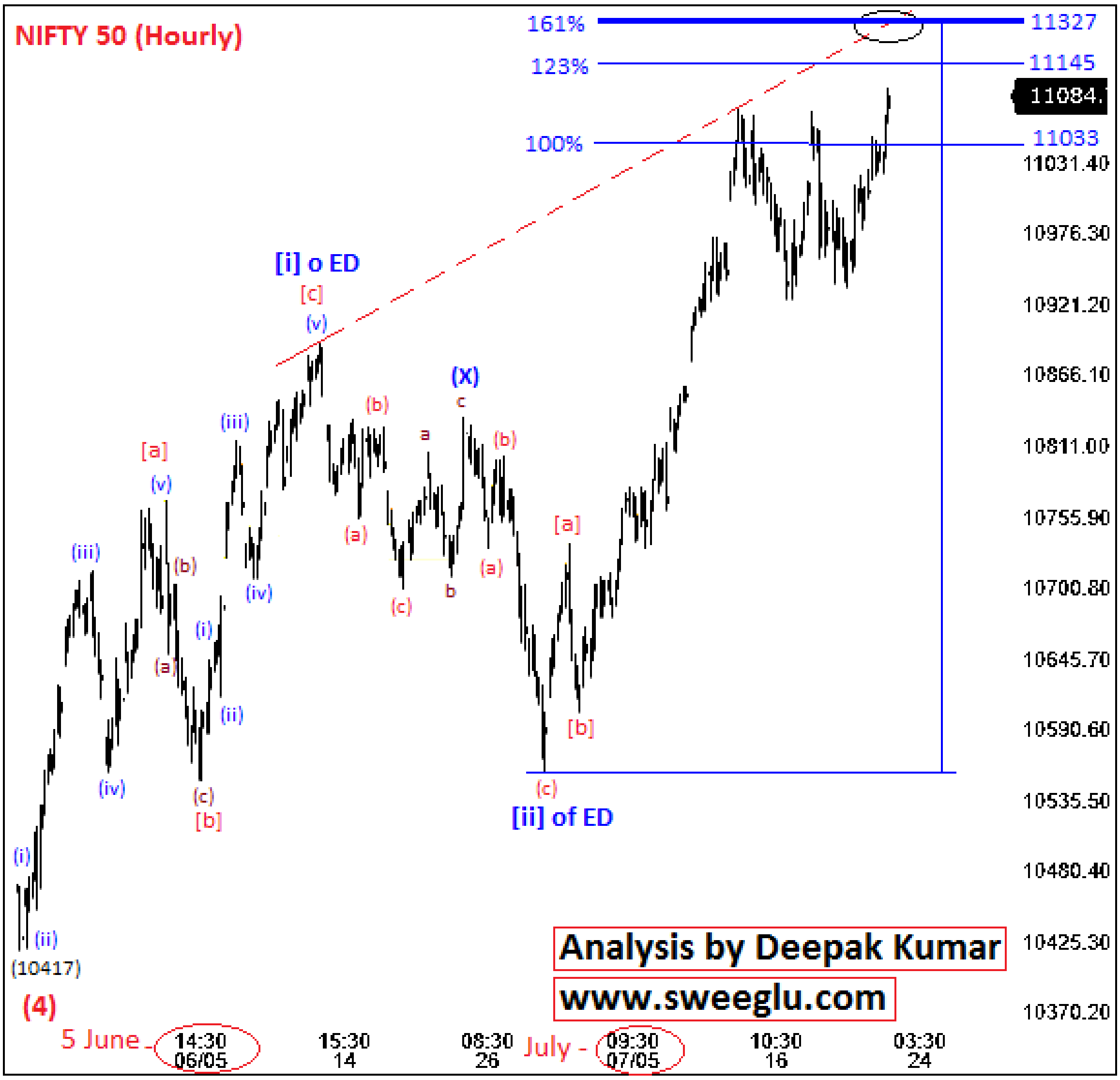
So, there are 02 important points we need to keep in mind while Practicing Elliott Wave Theory: -

1. We must practice in such a way so that we can see and observe the formation of all type of waves, patterns, Fibonacci Retracements/Projections practically on chart at least 5-10 times within 02 months. You know every rule of Elliott Wave Theory but observing it happening live and practically on chart gives huge practical experience. You need to do mild calculations in the beginning but observing the patterns repeatedly several times will train your mind to identify every pattern just by a look within seconds. Your speed and accuracy of analysis will increase after every single observation.

2. The 2nd most important is Trial, Error and Result Factor. If you analyze a chart and mark your wave counts or expecting any pattern then you also need to know/confirm if the analysis you are doing is right or wrong. Every of your analysis is an exam and you must have result immediately within a day or two to get experience. There are 7 different patterns in Elliott wave theory with 100s of other rules, so it will take whole life to learn Elliott wave Theory if you are expecting a pattern today but it takes month to know if you were right or wrong at identifying the pattern.

By keeping these 02 points in mind, the best and fastest way to master Elliott Wave Theory is to practice it on a particular High Volume Script using lowest time frame. And the best script to practice EWT is Nifty/Bank Nifty Index using 5 and 15 minutes charts continuously for 2-6 months. I am going to explain it briefly by giving examples on real chart for better understanding.

Let me start with an hourly chart first. So, have a careful look at chart on (Image 15.1)



(Image 15.1) Elliott Wave counts on hourly chart of Nifty

This is hourly chart of Nifty indicating a possibility of Ending Diagonal Triangle (ED) pattern started from 10417 and this pattern is within its wave [iii].

This pattern started in May 2018 and reached the middle till 20 July. This pattern is running since 2 months and may take another couple of months to complete. I identified the possibility of this Ending Diagonal pattern in mid of Jun but still don't know if I was right at identifying this ED pattern or not.

Possibility of this ED pattern can be confirmed only when it complete or when it gets negated. Means I am already waiting for one month to know if I was right or wrong at identifying this pattern and I need to wait more.

The point is, pattern formed on higher time frames take longer time to complete. If I practice on higher time frame and identify the possibility of any pattern, then I need to wait for months to confirm if I was right or wrong at identifying the pattern so that I can mark my achievements or mistakes. But if it takes 2 months for a single pattern then it will take years to understand all the patterns and formations.

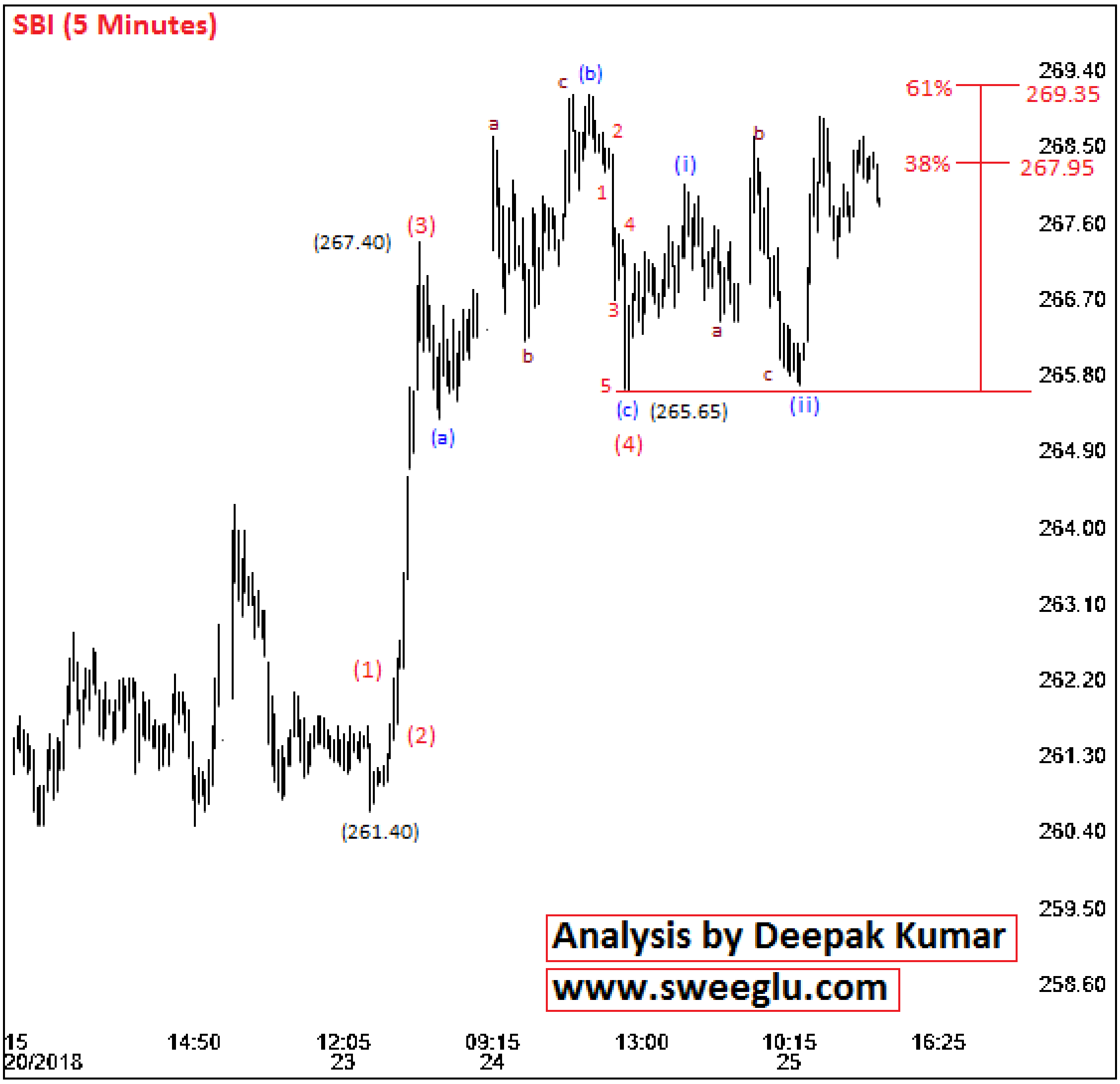
So, the fastest way to understand and master Elliott Wave Theory is to practice it on lowest possible time frames so that we can observe the formation of pattern in quick time. If we are counting waves on 5 minute chart and expecting any pattern, then market will tell instantly within couple of days if we are right or wrong at identifying the pattern.

I think the point, “why to use lowest time frame charts for practicing Elliott Wave Theory” is cleared. Now, let me explain why to prefer Nifty or Bank Nifty Chart instead of individual stocks.

So, let’s compare the details of waves on 5 minutes chart of a high volume stock with 5 minutes chart of Nifty. I am comparing Nifty chart with SBI (State Bank of India) because it has high trading volume.

So, let’s have a careful look at 5 minute chart of SBI.

The chart shown on (Image 15.2) is 5 minutes time bar chart of Nifty covering last 3-4 days of move. I am not giving importance to analysis on this chart because we need to check all time frames charts for that, the aim of this chart to see that how much details of wave patterns we can identify on this chart.



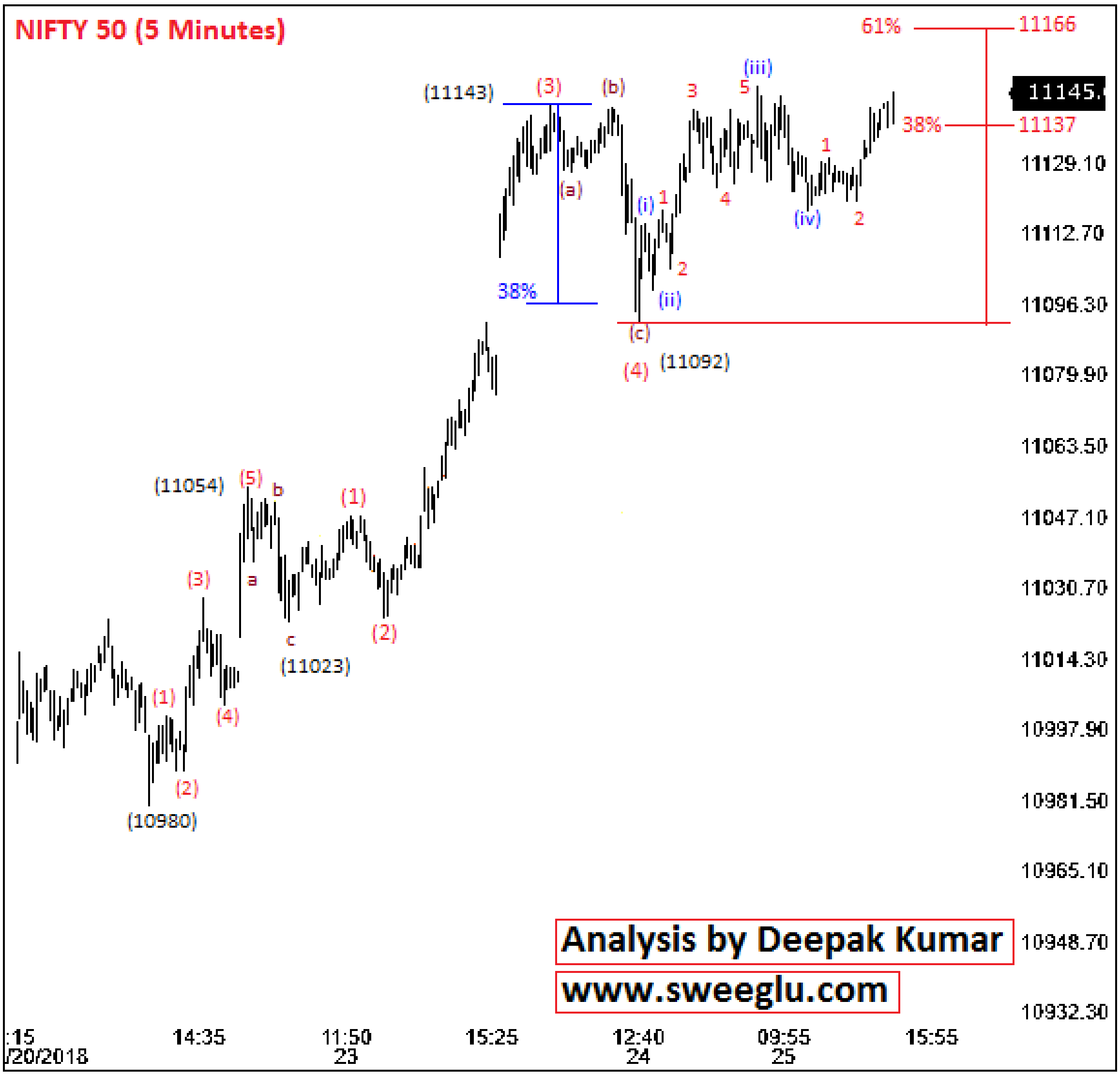
(Image 15.2) Details of Elliott Wave Patterns on SBI 05 Minutes chart

Just have a look at wave structure formed after 261.40 because we don't have any idea about the waves formed before 261.40.

From 261.40, we can see that some sort of wave (1), (2), (3), (4) is completed and (5) in progress. We can't identify wave (1) and (2) clearly because of steepness whereas wave (4) is irregular.

We can identify an impulsive move with satisfactory details but wave (1) and (2) is not identifiable, we also identified an Irregular Correction on this 5 minutes chart.

Now, let's have a look at 5 minutes chart of Nifty for the same period. Please refer chart on (Image 15.3).



(Image 15.3) Details of Elliott Wave Patterns on Nifty 5 Minutes Chart

This is 5 minute time bar chart of Nifty covering last 3-4 days of move. I am analyzing the move after 10980 because I don't have idea about the waves formed before 10980.

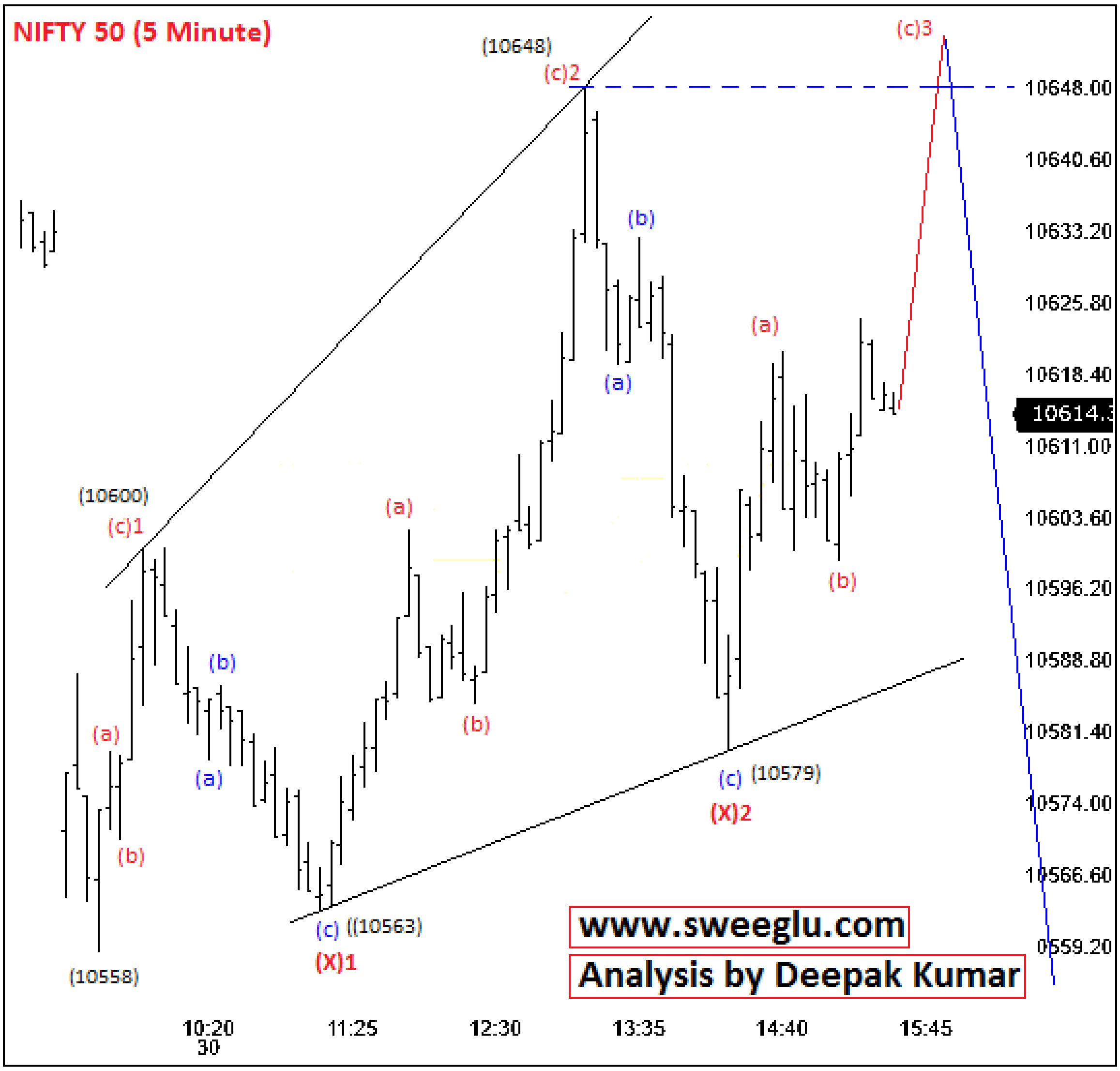
From 10980, we can identify an impulse completed from 10980-11054 with clear identification of inner waves and further simple zigzag correction from 11054-11023 is also identifiable.

Further from 11023, we can identify that wave (1), (2), (3), (4) is completed and (5) in progress. And within wave (5), inner wave (i), (ii), (iii), (iv) completed and (v) in progress. We can even identify the inner most wave with more details.

The aim of comparing 5 minutes charts of SBI and NIFTY is to show that Nifty chart provides more details of waves comparing to the chart of any high volume stock. I compared Nifty with highest volume stock, otherwise low volume stocks doesn't even show the formation of waves on 5 minutes chart.

We already observed that Nifty 5 minutes chart has move details of wave formations comparing to the 5 minutes chart of any high volume stock. Means, Nifty 5 minutes chart provide more details and opportunities to learn/understand Elliott Wave Theory in quick time comparing to the chart of any other stock.

Let me show the formation of even complex patterns on 5 minutes time bar chart of Nifty. Please refer chart on (Image 15.4) below.



(Image 15.4) Complex Pattern on Nifty 5 minutes chart

This is 5 minute chart of Nifty covering random move from 10558-10648. This is a Nifty move of a single session only.

A Double Zigzag Correction (Complex Corrective Pattern) [abc-X-abc] is completed from 10558-10648 and there is possibility of Triple Zigzag Correction [abc-X-abc-X-abc] on the same chart. There are following observations on this chart: -

1. A complex correction is completed in just a single session on Nifty 5 minutes chart and even inner waves are clearly identifiable. Whereas, it is almost impossible to

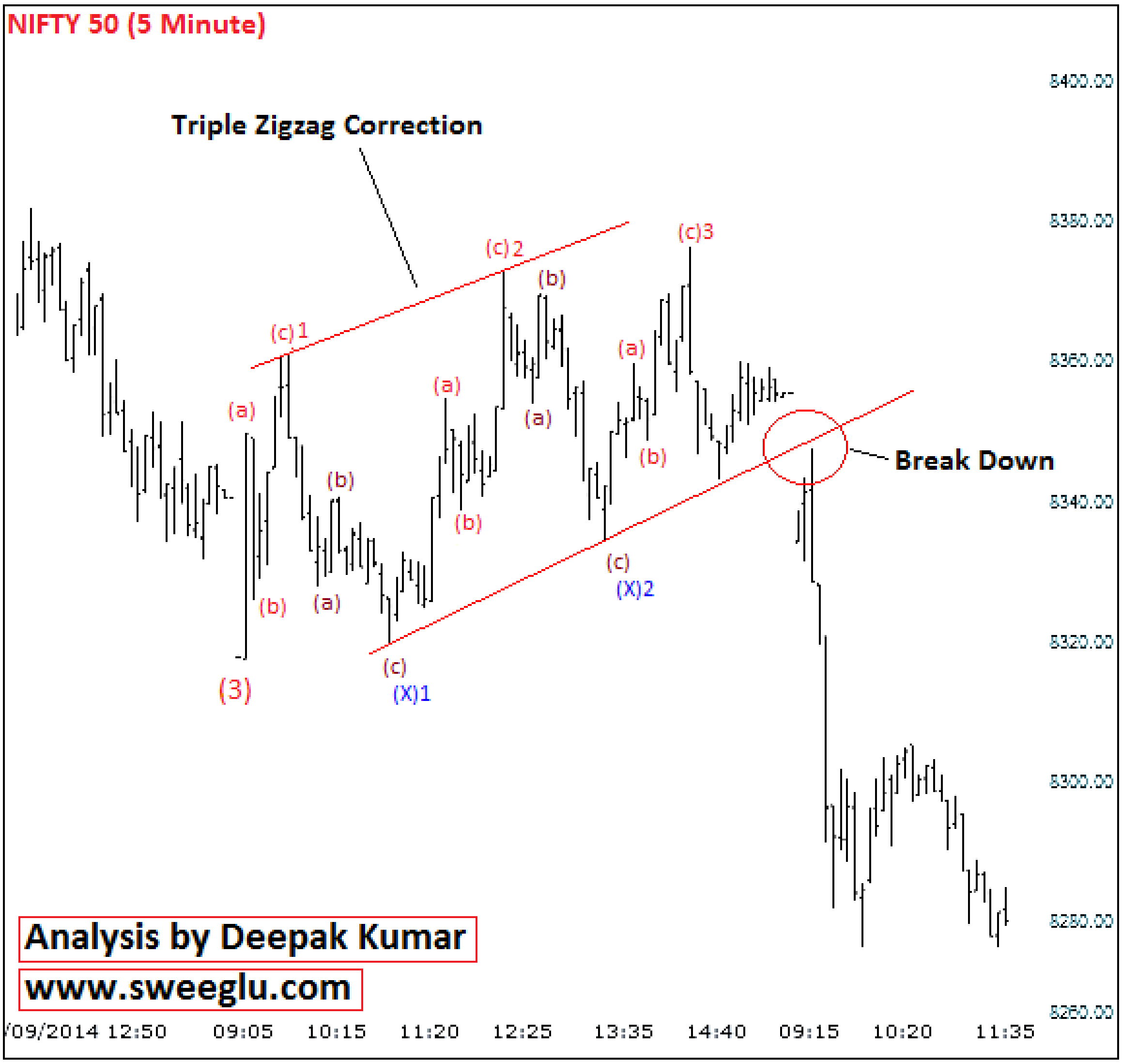
identify such complex pattern on 5-15 minute charts of stocks. This type of identifiable complex patterns takes months or even years to complete on charts of stocks. So, lowest time frame chart of Nifty gives opportunity to understand even complex patterns in quick time.

2. I am expecting a Triple Zigzag Correction on this chart and there is no way to know if I am right or wrong at identifying the formation of Triple Zigzag right now. Only market is the judge here and only market will show in future if I am right or wrong in analysis.

   This pattern formed in a single session and is about to complete, so we can get confirmation in next session only. Means we don't need to wait for weeks or months to know if I was right or wrong at identifying this complex pattern, we will get the result next day only.

So, we can see that even complex pattern forms on Nifty 5 minutes chart in a single session which gives best opportunity to understand these pattern in quick time. We can confirm immediately in next sessions if our analysis was right or wrong and can mark our mistake and achievements.

Now, let me show one more example of complex pattern on lowest time frame chart. Please have a careful look at chart on (Image 15.5)



(Image 15.5) Triple Zigzag Correction on 5 minutes chart

This is again 5 minutes time bar chart of Nifty covering a random move of single session. A Triple Zigzag Correction (most complex patter of EWT) is completed in a single session on this 5 minute chart and we can also observe the personality of breakout and next move after completion of Triple Zigzag Correction.

We have lots to learn and get practical experience in a single session on this 5 minutes chart which is not possible on charts of individual stocks.

So, the overall analysis in this chapter proves that Nifty lowest time frame charts are best to practice Elliott Wave Theory for mastering it in quick time because: -

1. Pattern forms frequently on Nifty lowest time frame chart and we can identify the pattern with maximum details and depth. Practicing on Nifty lowest time frame charts will give practical experience of patterns, rules and calculations of Elliott Wave Theory faster than any other script.

2. We can confirm the accuracy of our analysis immediately in next couple of sessions if we practice on lowest time frame chart. If we are expecting the formation of any pattern or wave counts today, then next day we can confirm if we were right at identifying the pattern or wave counts or not.

   It will give us confidence and practical experience if we prove right and it will help us to identify our mistake if we prove wrong at the same. The more you know about your mistakes, the less you repeat it.

Practicing EWT on lowest time frames charts of Nifty helped me to understand this Elliott Wave Theory faster and helped me to apply it practically.

Practicing Elliott Wave Theory with the help of my Analysis Report of Nifty: -

I am aware that it's easy to understand Elliott Wave Theory theoretically but many new practitioners feel it difficult to apply on blank chart. Many of the new learners even fail to understand from where to start.

That's is the reason I am providing my detailed Analysis Report of Nifty for minimum 02 months with my book to help new practitioner practically. The practitioner can see practically how I am applying the same rules of Elliott Wave Theory to analyze Nifty so that they can get their starting push.

Observing my analysis report and practicing for 02 months give enough opportunities to understand Elliott Wave Theory Practically and the best way to use my analysis report for learning is : -

I provide my analysis report of Nifty with my probable wave counts every day at around 10:30 PM. So, I am already providing an idea about the wave counts till date. So, practitioners can analyze the move of next session after closing (between 3:30-10:30 PM) on 5 minutes chart of Nifty based on their understanding and wait for my analysis report.

Compare your analysis with my analysis report and observe if there is any difference. Try to understand the reason behind the difference and try to find out yourself by referring the book because you will never forget your mistake if you identify it yourself, otherwise you can ask me any case of any complexity.

You will have your analysis and my analysis report, now don't do anything and wait for next session. Next session will show if your or my analysis was right or not. It is not necessary that you are wrong or I am always right, Even I never know if my wave counts are right or wrong at the time of analysis, only market shows next day if was right or wrong.

This is the best way to practice Elliott Wave Theory for faster learning. I am already providing you the idea of previous wave counts and you just need to analyze the progress of last move. Every right analysis will give you the confidence and practical experience and every wrong analysis will help your to identify your mistakes so that you can avoid it later.

Overall, you will add something to your practical knowledge every next day and your experience, accuracy, speed and confidence will increase day by day.

Most Important requirement is to understand Elliott Wave Theory Practically, and practicing it on Nifty lowest time frames charts is best way to achieve that. You can apply it on any other script, stocks, index, commodities, or currencies later after learning it.

CHAPTER 16

Short Summary on Elliott Wave Rules and Principles

Let’s revise some of the important points to keep in mind when applying EW principles on chart. The same points are already explained in earlier chapter with deep details, but I am just writing short notes for easy reference.

1. Wave 1 can have Impulse of Leading Diagonal Triangle Pattern
2. Wave 2 can have Corrective Pattern only.
3. Wave 2 can never break the start of wave 1.
4. Wave 3 can never be shortest wave.
5. Wave 3 always have Impulse pattern.
6. Wave 3 is usually the steepest and faster wave with Gaps.
7. Wave 3 up to 161% projection is normal wave and more than 161% projection is called as extended wave 3.
8. Wave 4 can have only corrective pattern.
9. Wave 4 can never overlap wave 1 within impulse pattern. Wave 4 always overlap wave 1 in Diagonal Triangles.
10. Wave 5 can have Impulse or Ending Diagonal Triangle Pattern.
11. Wave 5 must project minimum 38% and must complete after the end of wave 3.
12. Wave 5 up to 61% projection is normal wave more than 61% projection is called extended wave 5.
13. Extended wave 5 corrects 100% most of the time. But extended wave 5 may not correct 100% if it is inner wave 5^{th} of wave bigger 3.
14. Wave A always have Impulse pattern in Simple Zigzag Correction. Wave A can be corrective only in case of Irregular Correction and 3-3-5 Flat Correction.
15. Wave (B) always have Corrective pattern and it is the only corrective wave which is allowed to retrace more than 100%.
16. Wave C always have Impulse pattern and carries same personalities as wave 3.
17. Any one wave out of wave (3) and (5) must be extended, but both wave (3) and (5) can also be extended.
18. Leading Diagonal Triangle is always an inner wave (1) of an Impulse.
19. Ending Diagonal Triangle (ED) is always an inner wave (5) of an Impulse.

CHAPTER - 17

Author's Advise

No matter how high the level of your knowledge is, it is 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 to irritate you with lengthy lecture but just suggesting some simple points to keep in mind while applying EWT.

Accuracy of Elliott Wave Theory: There is no doubt that that every stock, index, currency or commodity follows Elliott Waves Pattern 100%, but it is not necessary that you will identify patterns 100% accurately every time. Accuracy of any method depends on analyzing skills of analyst. Elliott Wave Theory is useless if you fail to identify pattern accurately. So, don't try to judge the accuracy of Elliott Wave Theory because it is 100% accurate, just concentrate on developing your analyzing skills so that you can identify wave patterns accurately most of the times (at least 50% of the times).

Though, waves always follow rules but we are human and we are meant to make mistakes. Never be overconfident and avoid trading heavily on your predictions, no matter how much convinced you are because there is always a scope to be wrong. So, always have a protection plan before you put money in market.

Marking End Point of any Wave: Please remember that end point of any wave in EWT is always price basis, it is never closing and staying basis. Suppose start of wave (1) is 100, so wave (2) even if touch 99.99 (fraction below 100) will negate the pattern, wave (2) doesn't need to stay below 100 for pattern negation.

Other example: - Suppose minimum 38.2% projection for wave (5) is 120 then wave (5) needs touch 120 to qualify, but if it touch 199.99 (fraction below 120) then wave (5) must be assumed to be incomplete.

That's why, Elliott wave theory is the only analysis method which gives exact stoploss and exact minimum target when we are right at identifying the pattern.

Same move can never have different patterns: Just keep in mind that a particular move can have only one pattern let it be on any time frame.

Suppose, you are analyzing the move of last 10 days and seeing it on different time frames like hourly, and 15 minutes. But you are identifying/marking this move as Impulse on hourly chart and Corrective on 15 minutes chart. Then, any one of these two patterns must be wrong because a particular move have only one pattern.

Always accept that you are wrong in identifying pattern if you are seeing two different patterns for a particular move, analyze it again and assume a pattern with more convincement or wait in case of confusions. Use lowest possible time frame chart to count inner waves because lower time frames carries more details.

Leave it when you are confused: You will find it difficult to identify pattern sometimes. Just leave that pattern for time being and wait, you will definitely get the hint of exact pattern later.

A stock or Index never forms simpler pattern every day, you will often witness many complex and confusing patterns. Ignoring a confusing pattern for time being and waiting for clarity will increase your accuracy. Never try to create a pattern, just wait for pattern to form.

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.

Just keep in mind that there is no such analyzing method to predict market with 100% accuracy. Even the biggest experts gives their views on probabilities and possibility, nothing is 100% sure in stock market.

So, you are no less than experts, believe in your analysis because personality of a wave on chart reflects everything in advance if you manage to identify it. Even, you will feel the effect of any important news in advance after getting experience.

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 the pattern. Suppose you are trading expecting wave (3) but it is taking more time than normal, so you must protect yourself because wave (3) is known for speed and steepness.

Don't be in love with stocks: - Don't try to waste your time and effort on stocks where you are not able to identify pattern. There are times when a particular stock is in confusing or complex pattern. Just leave those stocks and search for other, you will find many stocks already waiting to give you handsome profit.

Some traders love a particular stock and always like to trade in that stock. But risking money in confusing conditions doesn't make sense. Leave such stock for time being and trade where there is confident low risk opportunity.

Make your own strategy: No two human can trade in same way. You have knowledge and you can predict future move. Just make your own trading strategy according to your capital, risk tolerance and nature. Never hesitate to try something new if you identified it. There are many observations I identified myself which you will never find anywhere else. May be, you find something worthy which no one had discovered yet.

Keep EWT as your main weapon: Every analyzing method works in some ways and no method is 100% accurate, there are cons everywhere. My personal advice is to use other analyzing methods as supporting tools and keep EWT as your main weapon because Elliott wave theory is the first one to warn in case the behavior of market is changing. You will realize it after getting experience.

Important Links and Websites

Let's me provide some important links and websites where you can get old and fresh analysis reports of Nifty and Bank Nifty based on Elliott Wave Theory for reference and examples: -

http://sweeglu.com/category/nifty/ (This is my personal Blog where I am posting my occasional analysis reports since 2015)

http://ewanalyst.com/category/banknifty/ (This Blog is maintained by my personally trained student Vinod Sharma. He is posting Elliott Wave Analysis report of Bank Nifty frequently in this Blog since 2017).

These blogs can be visited to get best practical examples and illustrations of Elliott Wave Analysis based on the method explained in this book.

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