Title:
Elliott Wave Theory – The Myth and Reality

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Summary:
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Let’s look at Elliott wave theory in more detail and then look at sensible market analysis.

The theory was named after Ralph Nelson Elliott, who concluded in his book “natures law” that the movement of financial markets could be predicted by observing, and identifying a repetitive pattern of waves.

Elliott’s Profound Observation

Elliott came to the stunning conclusion that all natural phenomena are cyclical - and this includes the financial markets. This is true, but we know that anyway - we know that at some time in our lives, we will feel rain when we venture outside, the question is when exactly?

So, markets are cyclical - big deal! What we want from an investment theory, is the probability of the event - i.e. when is it most likely to occur.

Elliott wave theory is an objective investment theory - but there isn't any objectivity in it at all!

It's all a subjective interpretation of peaks and troughs, in any time frame you like!

Does this sound a logical predictive theory to you?

The Theory

Based on rhythms found in nature, the theory suggests that the market moves up in a series of five waves and down in a series of three waves.

The difference between the Elliott wave principle and other cyclical theories is that the theory suggests no absolute time requirements for a cycle to complete - well that’s a lot of help!

The subjectivity is so great in Elliott wave, that like most theories, everything is explainable in hindsight - but the difficulty is actually predicting the future.

There are so many interpretations of the actual peaks and troughs in various time frames, that everyone will see them differently, this is hardly the basis of a predictive theory.

Elliott wave theory claims to be able to predict the market - but gives no objective way of doing it in practice.

Who uses Elliott Wave Theory?

1. Investors who want an easy way to make money, and are attracted to the mysticism of such tools as the Fibonacci number sequence, to predict market retracements.

2. Investors who believe in the false assumption that you can predict market behavior in advance - and want an easy way to make money.

How Markets Really Move

Market prices are a reflection of the following:

Supply and demand fundamentals + human psychology = price action

This looks simple, but is in reality, complicated equation - which is impossible to predict in advance.

Trading markets via technical analysis is all about putting the odds and probability in your favor, and no more than that. It is NOT a way of predicting the future.

Are there better theories than Elliott wave around, for making money from the markets? - A good exercise would be to poll the entire top performing fund managers in the world and see how many of them take the theory seriously.

Predictive and subjectivity don’t mix!

The Elliott wave theory is a predictive theory that leaves everything to subjective analysis.

If Elliott had worked out a predictive theory, why didn’t he give an objective way to make money from it? - Like most predictive theories it doesn’t work.

If all investors could predict the market in advance, we would all know what was going to happen - and there would actually be no market at all, as we would all know the market price in advance!

Elliott wave theory is supposed to be a predictive theory, but the only thing you can predict with it, is you will lose your money.