ELLIOTT WAVE and FIBONACCI BASICS - TOOLS TO USE.

The Elliott Wave Principle was developed by **Ralph Nelson Elliott** (1871-1948).

He was a professional accountant with a keen interest in the stock market. Due to his personal health circumstance he was pretty much house-bound for 10 years, which provided him ample time to exhaustively study price movement in the stock market.

Obviously he did not create the waves, but building on information provided by markets experts such as Charles Dow, he proposed that market prices unfold in specific patterns which we call Elliott waves.

Elliott's published works:

Elliott published his theory of market behavior in the book 'The Wave Principle' in 1938 and summarized it in a series of articles in Financial World magazine in 1939. His most major work on the subject was presented in 'Nature's Laws: The Secret of the Universe', in 1946.

THE ELLIOTT MODEL

In Elliott's model, market prices alternate between an *impulsive*, or *motive* phase, and a *corrective* phase. This can be seen on all scales of trend (ie various time frames as can be seen on bar and candlestick price charts).

Impulses are always divided into a set of five waves, alternating between impulsive and corrective waves, so that waves 1, 3, and 5 are impulses, while wave 2 and 4 are of lesser size corrections to the impulses.

Corrective waves subdivide into 3 smaller degree waves.

That describes a bull market. In a bear market the dominant trend is downward, so the pattern is reversed – five impulsive waves down, and 3 corrective waves up.

It is expected that following the completion of 5 directional waves (trend), three lettered countertrend waves, A, B and C will follow (the correction to the five waves).

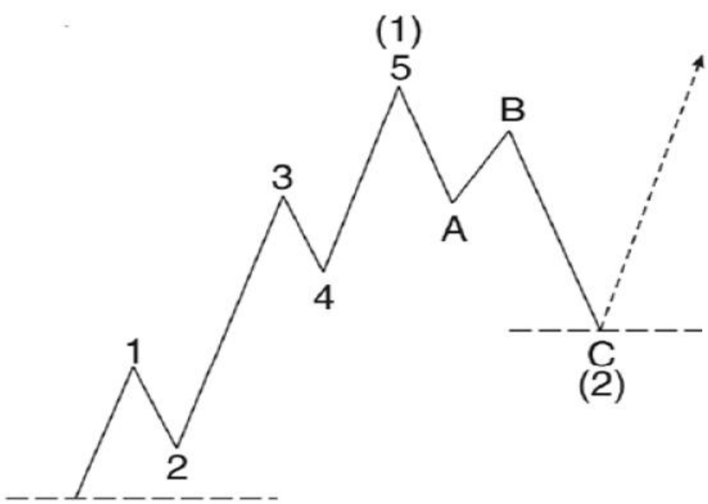
ELLIOTT WAVE RULES

A correct Elliott Wave count must observe three rules:

1) Wave 2 never retraces more than 100% of wave 1.
2) Wave 3 cannot be the shortest of the three impulse waves – waves 1, 3 and 5.
3) Wave 4 does not overlap the price range of wave 1, except in the case of price triangles.

The idealized graph below depicts the waves following the three rules described above.

SIMPLE MARKET CYCLE



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Corrective waves (2 and 4, and A,B,C) are generally more complex than impulsive waves. They take the shape of so-called ‘flats’, zigzags and triangles, and various combinations of the same.

The above 60 minute chart of the Gold market, is a real market example of how price moves develop into the waves described by RN Elliott.

FIBONACCIS

The other great contribution to market structure provided by Mr. Elliott, concerns his use of Fibonacci ratios.

Fibonacci ratios are used to “measure” the waves, often with uncanny accuracy.

In our own trading we use various Fibonacci ratios daily, primarily **.382, .50 .618, .786, 1.618, 1.272, 2.618.** Used correctly these waves provide confirmation as to where a particular wave is most likely to end.

We teach the Elliott Wave and Fibonacci combination extensively in our live seminars and online classes. We easily demonstrate how even the basic use of these tools provides a significant trading advantage to traders and investors.