CONCISE DESCRIPTIONS ON ELLIOTT WAVES PERSONALITY/BEHAVIOR

“MOTIVE WAVES (1,2,3,4&5) & CORRECTIVE WAVES (A,B & C)”

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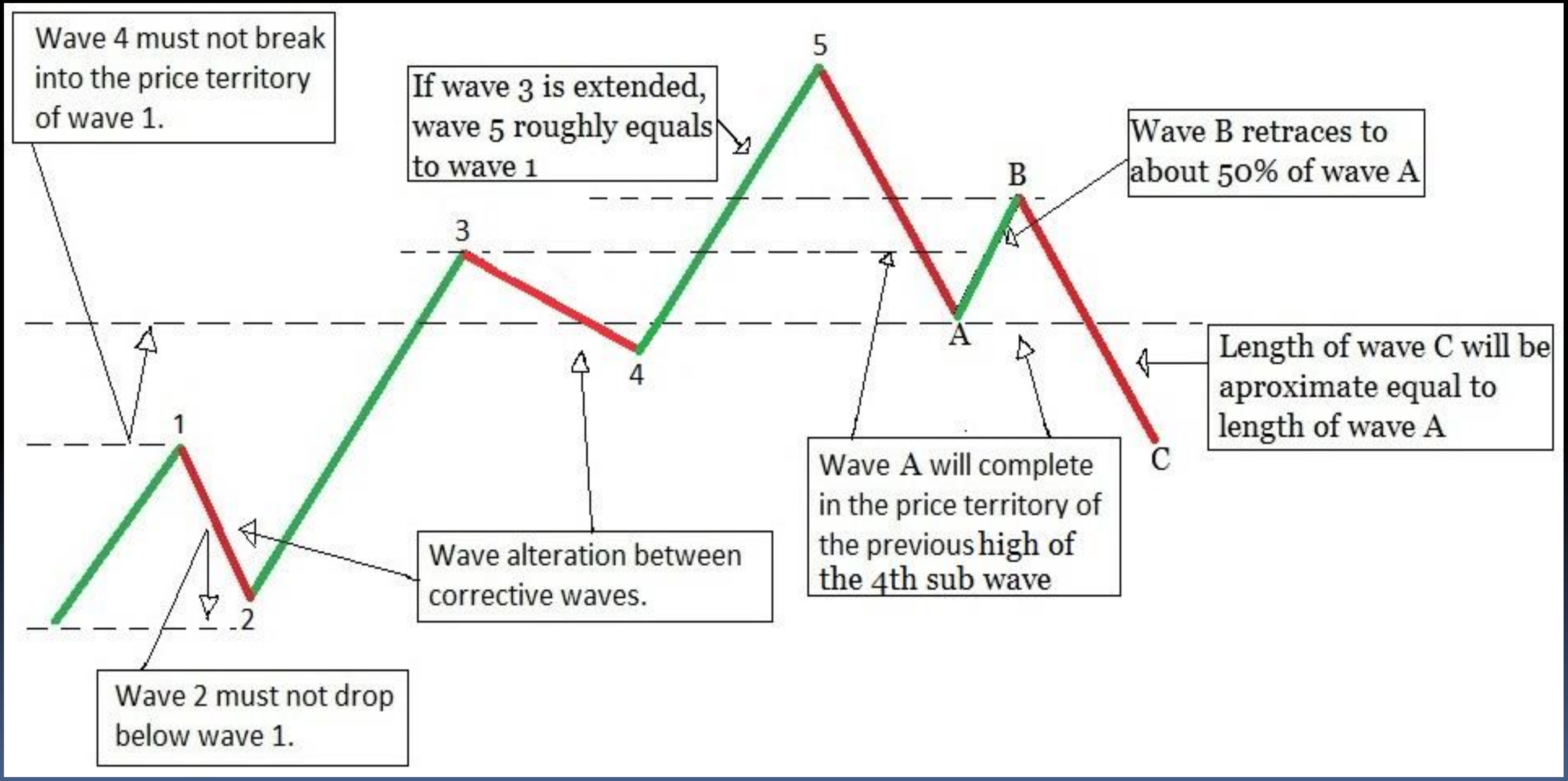
The Elliott Theory

Ralph Nelson Elliott *"The movement of the market could be predicted by observing and identifying a repetitive pattern of waves"*. Wave movement in the direction of the trend is labeled as **1, 2, 3, 4,** and **5,** while three waves against the trend is labeled as **a, b,** and **c**. There are smaller patterns that fit into bigger patterns (***Fractal nature***).



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Wave #1

- **Wave 1** is rarely noticeable at its beginning because last trend is considered to be continues.
- When the first wave of a new bull market begins, the fundamental **news is almost universally negative** because ***previous trend is considered still strongly in force***.
- *Volume might increase a bit as prices rise, but not by enough to alert many technical analysts.*

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Wave #2

- **Wave 2** corrects wave one, but ***can never extend beyond the starting point of wave one***.
- Typically, the **news is still bad**.
- As prices retest the prior low, bearish sentiment quickly builds, and ***"the crowd" haughtily reminds all that the bear market is still deeply ensconced***.

Wave #2 Cont…

- **Volume should be lower** during wave two than during wave one, prices usually extend down beyond the wave one gains i.e. 61% or 76.4% sometimes goes up to 99% in strong bull market, and prices commonly fall in a three wave pattern.

- **Major principle**: "Wave 2 never exceeds the lower of wave 1" if this occurs will lead into re-counting the waves (*invalidation*).

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Wave #3

- **Wave 3** is usually the largest and most powerful wave in a trend.
- Prices rise quickly, ***corrections are short-lived and shallow***.
- As wave three starts, the **news is probably still bearish**, and most **market players remain negative**; but by wave three's midpoint, "the crowd" will often join the new bullish trend.
- Therefore ***news is now positive and fundamental analysts start to raise earnings estimates.***

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Wave #3 Cont…

- Wave 3 rally picks up steam and takes the top of Wave 1 faster exceeding Fibonacci level of wave 1.
- Also it is sharper and gaps are left open, hence g***aps are a good indication of a wave 3 in progress***. After taking the stops out, the Wave 3 rally has caught the attention of traders.
- **Major principle:** Wave 3 is not the shortest of all the impulsive waves i.e. 1 & 5.

Wave #4

- Wave four is typically clearly corrective retracing up to 38.2% or 23.6% of wave 3.
- **Prices may meander sideways for an extended period**.
- ***This is a good place to buy a pull back if you understand the potential ahead for wave 5***.
- Still, fourth waves are often frustrating because of their lack of progress in the larger trend.
- **Major principle**: "Wave 4 do not overlap wave 1 at any point".

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Wave #4 Cont…

- **Alternation rule** "wave 4 and wave 2 did not have the same structure" *if wave 2 retraced price wise, wave 4 will be shallow i.e. will not give price wise correction but time wise correction and vice versa*.

Wave #5

- **Wave 5** is the final leg in the direction of the dominant trend.
- **The news is almost universally positive and everyone is bullish**.
- This is when many average/regular investors finally buy in, right before the top.
- Volume is often lower in wave five than in wave three, and many ***momentum indicators like RSI & MACD start to show divergences i.e.*** *prices reach a new high but the indicators do not reach a new peak*.

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Wave #5 Cont…

- Wave 5 advance is caused by a small group of traders who are convinced that we are in Bull Run.
- Although the prices make a new high above the top of wave 3, ***the rate of power or strength inside wave 5 advances is very small*** when compared to wave 3 advances.
- The major indicator for wave five is formation of ending diagonal in the inner big wave.
- **Major principle**: "If wave 3 is extended, wave 5 will be equal to wave 1 and can be truncated i.e. *do not extend above/below the top of wave 3*".

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Wave A

- Corrections are typically harder to identify than impulse moves.
- In wave A of a bear market, the **fundamental news is usually still positive**.
- Most *analysts see the drop as a correction in a still-active bull market*.
- Wave A normally retrace up to 50% or 61.8% of wave 5.

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Wave B

- Prices reverse higher (*retracement of wave A*), which many see as a *resumption of the now long-gone bull market*.
- **Those familiar with classical technical analysis may see the peak as the right *shoulder of a head* and shoulders reversal pattern.**
- By this point, ***fundamentals are probably no longer improving, but they most likely have not yet turned negative***.

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Wave C

- Prices move impulsively lower in five waves in bear market, it is very important for traders.
- By the third leg of wave C, almost ***everyone realizes that a bear market is firmly entrenched / well established***.
- Wave C is typically at least as large as wave A and often extends to 1.618 times wave A or beyond.

THE END

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