

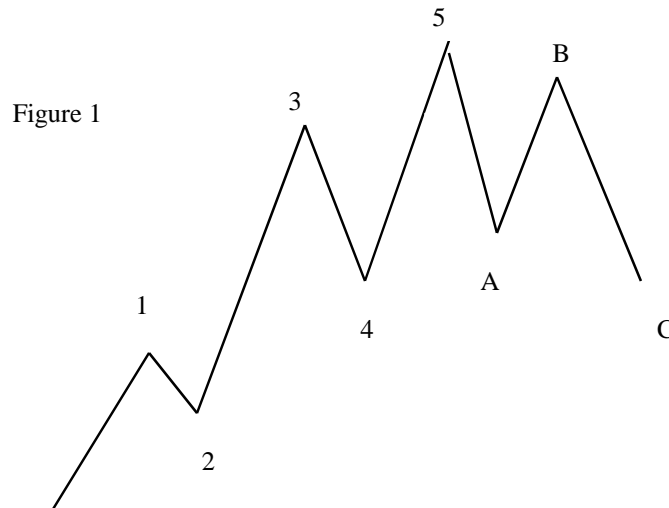
Shepwave Elliott Wave Tutorial

I am writing this tutorial to show the basics of Elliott Wave Theory. I will not show all the different variations of corrective waves and some other more advanced charting of Elliott Wave Theory. I recommend reading more complete Elliott Wave Theory material that will show all the intricacies involved in the Theory. I have listed other resources in my Information and Link page of shepwave.com.

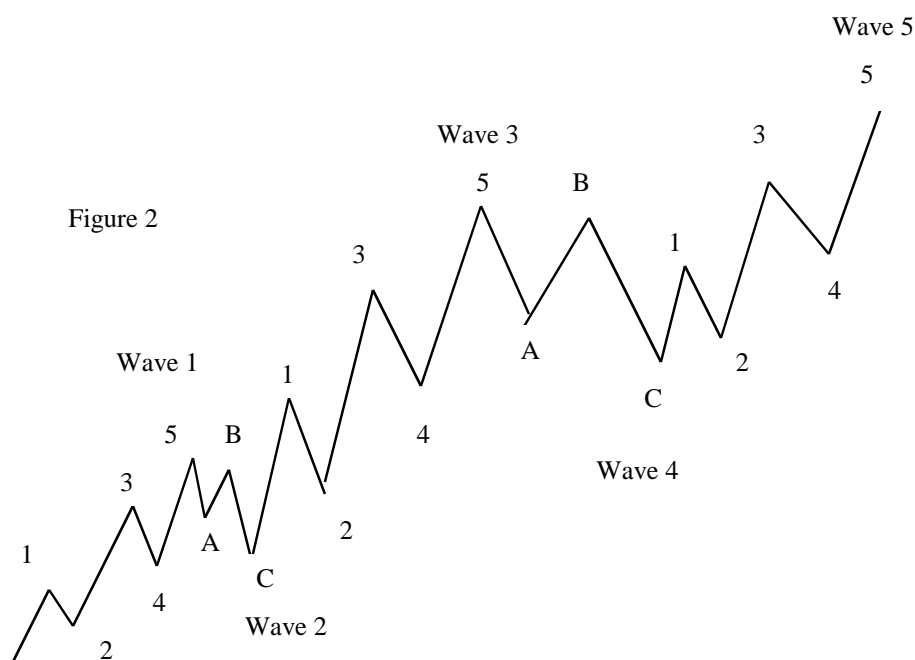
Elliott Wave Theory was discovered by Ralph Nelson Elliott in the 1930's. He came to the conclusion that the markets don't move in random movements and that directional changes have a correlative relationship with other directional movements in many different time frames. His methods can explain all the movements of any market in history. This gives the Elliottician a better understanding of the future direction of the market.

Basically markets move five waves in the impulsive or motive direction and three waves in the corrective direction. The drawing below shows how this basically looks. **I have written this tutorial as an example for a bullish market scenario. For bearish market simply invert drawings.**

Note that waves 1,3 and 5 are motive. Moving in the direction of the trend for the entire five wave move.. Waves 2 and 4 are corrective and usually don't violate the starting point of the previous motive wave.



The view of the chart above can be used to describe any time frame. (figure 1) Basically a one minute chart of a market will display the same characteristics of a weekly chart of the same market. The motive or impulse directional waves will be able to subdivide into five waves of a smaller or larger degree. In a corrective wave the wave could have impulsive/motive waves that can be broken down into a five wave move within the three wave corrective move of a larger degree



The drawing above (figure 2) shows how a five wave move subdivides. One can keep going to a smaller or larger degree and get the same wave look.

Corrective patterns are what give most Elliotticians the most problem. They can have complex patterns that sometimes are difficult to identify until they are finished. There are basically three types of corrective wave formations. The Zig Zag is a 5-3-5 wave formation. A Flat correction is a 3-3-5 wave formation and a Triangle is a 3-3-3-3-3 formation. Figures 3,4 and 5 will show simple examples of these types of corrections. There are also corrective patterns that will unfold as a combinations of one or more corrective patterns.

Simple Corrective Patterns

Figure 3

Simple Zag Zag (5-3-5 correction)

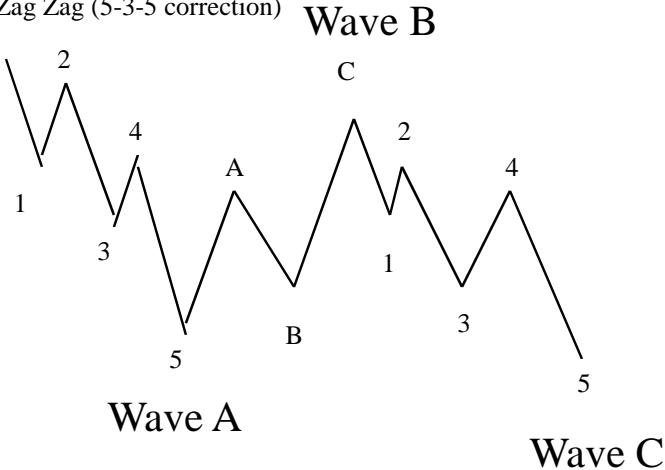


Figure 4

Simple Flat (3-3-5 correction)

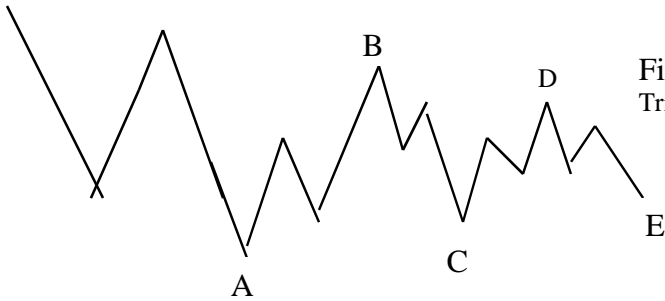
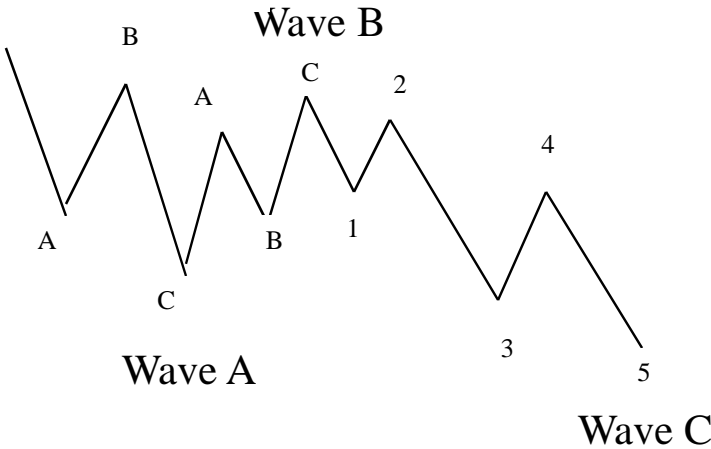


Figure 5
Triangle (3-3-3-3-3 correction)

The corrective patterns shown in Figures 3,4 and 5 occur in waves 2 or 4 of corrective wave formations of varying degrees. The drawings show the basic patterns for each simple correction. Corrections can have combinations of simple corrective patterns. I will not get into that in this Elliott Wave Tutorial. I suggest further study of these patterns and other complex Elliott wave formations. I will refer to these patterns often in my updates.

Elliott Wave “Rules”

There are a few basic rules that wave counts need to follow to be considered Impulsive Waves. The basic rule is that wave 4 cannot violate wave 1. That is; wave 4 cannot go into the territory of wave 1. That would make it a motive wave and not an impulsive wave. Also, wave 3's of an impulse pattern are usually the longest wave and never the shortest. There are numerous variations of wave extensions. But those are the basic rules.

For further study one needs to keep in mind that waves usually have a relationship in length and even time. I use fibonacci ratios to compare relative wave lengths and retracements in my updates. Go to shepwave.com Educational and Research Link to get further information of these ratios.

As mentioned in various sections of Shepwave.com there are plenty of resources to gain knowledge of Elliott Wave theory. I mention Robert Prechter Jr. frequently and suggest every one read his book “Elliott Wave Principle” along with his other publications. The website elliottwave.com is a great site to find information. Another website that I suggest is Wavespeak.com. They also have a free Elliott Wave Tutorial. I recommend reading it as well.

Good luck in your trading and investments

Shep