Elliot Wave "Cheat Sheet"

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Ralph Nelson Elliott (1871-1948) revealed his theory to the world in the year 1938. It states that there are 5-Waves in a major trend. Waves 1, 3, and 5 are impulsive waves moving in the direction of the trend. Waves 2 and 4 are corrective waves in the trend. Elliott Wave has been enhancing my trading profits for years and my hope is that it will do the same for you. Enjoy this "Cheat Sheet" and enjoy counting waves!

WAVE 1

Impulsive Wave - Wave 1 will begin after Wave 5 of the preceding trend ends. Wave 1 will usually be steep and short. Depending on market conditions, Wave 1 may break out of a narrowing channel.

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WAVE 2

Corrective Wave – Wave 2 can be either simple or complex. It corrects Wave 1 but can never extend beyond the starting point of Wave 1. Volume should be lower during Wave 2 than during Wave 1.

WAVE 3

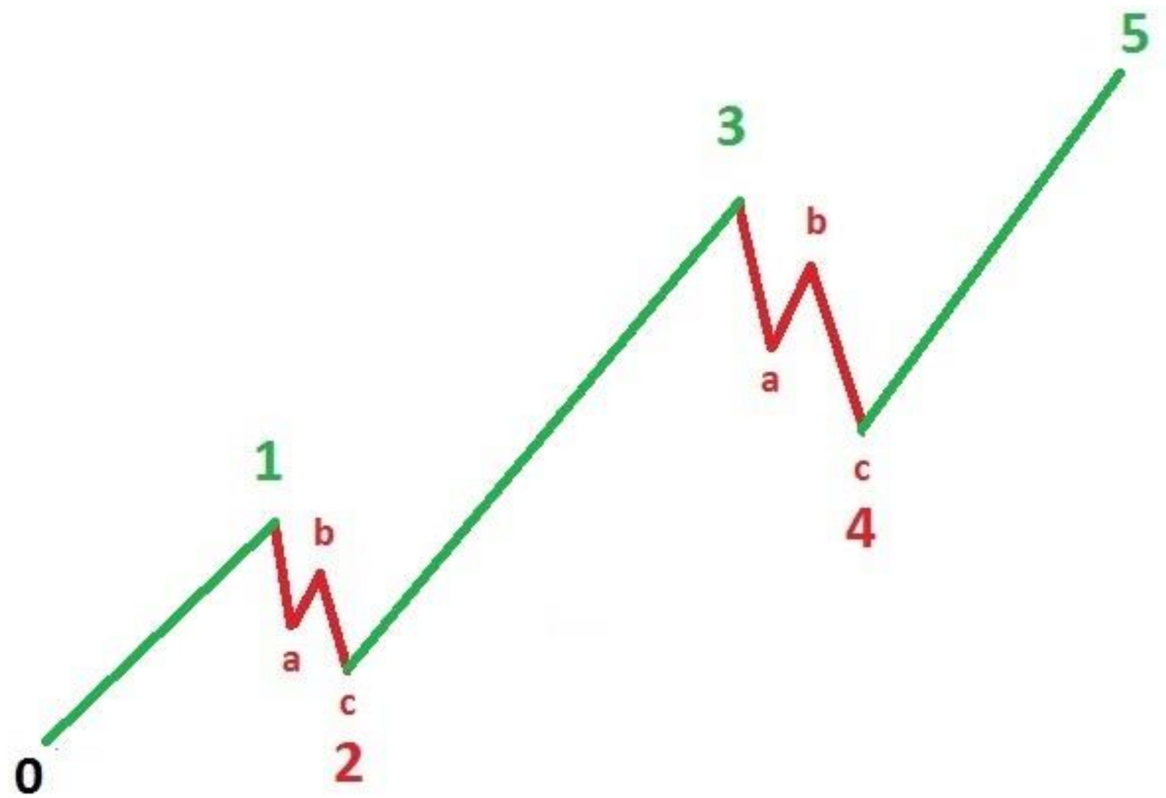
Impulsive Wave – Wave 3 is the steepest and strongest of all five waves. It has the highest volume. While it can, it is not always the longest wave in terms of time. You must wait for Wave 3 to exceed the final price level of Wave 1. That's your signal that Wave 2 is over. Any price bar going beyond the final price level of Wave 1 must be Wave 3. Wave 3 is the largest, most powerful wave in a trend.

WAVE 4

Corrective Wave – Wave 4 can be either simple or complex. If Wave 2 was simple, then Wave 4 will be complex, and vice versa. Prices may create a simple a-b-c zigzag corrective pattern, which can easily be seen. This is the most common. Or, instead prices may meander sideways for an extended period, forming a complex correction.

WAVE 5

Impulsive Wave – Wave 5 moves in the direction of the overall trend but is usually sluggish and not nearly as dynamic as the third wave of an Elliott Wave cycle. Wave 5 marks the last burst of buying (in a bull trend) or selling (in a bear trend) before a new trend starts.



Bullish 5-Wave pattern with a-b-c patterns in Wave 2 and Wave 4.

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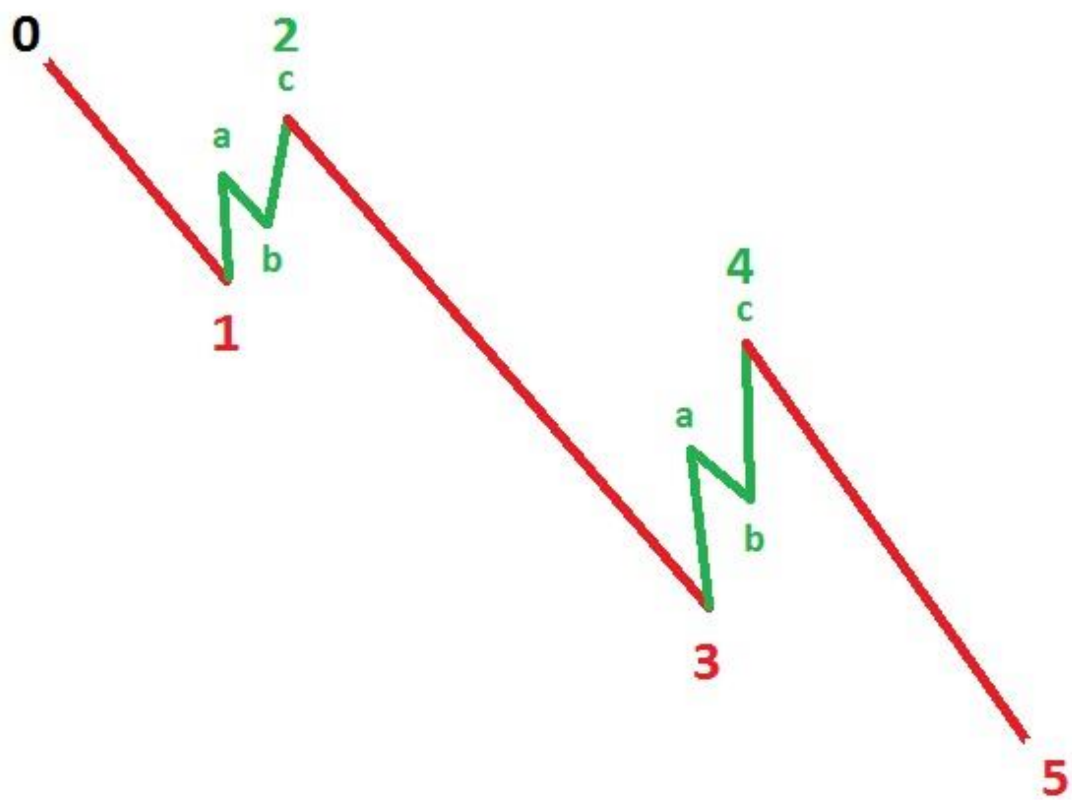

Bearish 5-Wave pattern with a-b-c patterns in Wave 2 and Wave 4.

	FIBONACCI TARGET ZONES	% PROBABILITY (APPROXIMATE)
WAVE 2 Price Retracement	23.6% - 38.2% of Wave 1 length	15%
	38.2% - 61.8% of Wave 1 length	70%
	61.8% - 100% of Wave 1 length	15%
WAVE 3 Price Extension	100% - 161.8% of Wave 1 length	15%
	161.8% - 175% of Wave 1 length	45%
	175% - 261.8% of Wave 1 length	30%
	Greater than 261.8% of Wave 1 length	10%
WAVE 4 Price Retracement	23.6% - 38.2% of Wave 3 length	15%
	38.2% - 61.8% of Wave 3 length	70%
	61.8% - 76.40% of Wave 3 length	15%
WAVE 5 Price Extension	38.2% - 61.8% (see anchor guidelines)	15%
	61.8% - 100% (see anchor guidelines)	70%
	100% - 161.8% (see anchor guidelines)	15%

NOTE: Most charting platforms have "Fibonacci" drawing software tools that when properly used will show these target zones on your charts. It is important you understand where to place the multiple anchoring points when using the Fibonacci software drawing tools. (See table on following page.)

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	GUIDELINES FOR ANCHORS WHEN USING FIBONACCI DRAWING TOOLS
WAVE 2 Price Retracement	Anchor the drawing tool at the beginning of Wave 1 and at the end of Wave1.
WAVE 3 Price Extension	Anchor the drawing tool at the beginning Wave 1 and the end of Wave 1. (To use three anchors, anchor the drawing tool at the end of Sub-Wave 2, the end of Sub-Wave 3 and the end of Sub-Wave 4.)
WAVE 4 Price Retracement	Anchor the drawing tool at the end of Wave 2 and at the end of Wave 3.
WAVE 5 Price Extension	Anchor the drawing tool at the end of Wave 2, the end of Wave 3 and the end of Wave 4.