

Practical Elliott Wave Trading Strategies

Part 1

Robert Miner, Dynamic Traders Group, Inc.

This tutorial begins a series of how to apply Elliott wave analysis for practical trading strategies. All subscribers have some Elliott wave background from my Dynamic Trading book. Because that book goes through the pattern structures in detail, there is no need to repeat that information in this tutorial series.

It is assumed for this series, that subscribers are familiar with Chapter 3 of Dynamic Trading and how the most frequent pattern subdivide.

Besides teaching you the practical application of Elliott wave trading strategies, an objective of this series will also be to dispel some Elliott wave myths and bad practices fostered by Elliott wave academics.

Everything taught in this tutorial series will apply to any actively traded market included futures, stocks, indexes and mutual funds and any time frame whether five-minute or monthly.

What You Should Know Before Beginning This Tutorial Series

From your study of Elliott wave in Chapter 3 of Dynamic Trading, you should be familiar with these concepts.

Impulse Trend – Usually unfolds in five-waves. Five-wave impulse trends are usually made in the direction of the larger degree trend.

Counter-Trend – Usually unfolds in three-waves. A counter-trend is a correction to the prior impulse trend.

Waves of Similar Degree – Also called swings of similar degree. Waves of similar degree represent the subdivisions that make up a completed structure. In an impulse trend, waves one-five are the waves of similar degree. The subdivisions of each wave are waves of a smaller degree.

Subdivisions of a Wave – Any given wave may subdivide into smaller degree waves to complete the structure of the wave. For instance, Wave-1 of a five-wave impulse trend usually subdivides into five waves of lesser

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degree. You should be familiar with how each wave of a trend or counter-trend usually subdivides.

Multiple Time Frames - Multiple Time Frames has become a buzz-phrase recently. It is nothing more than R.N. Elliott's approach to considering multiple degrees of wave structure. When the subdivisions of a wave are complete, the larger degree wave is complete.

Trend or Counter-Trend?

What is Elliott Wave Analysis?

Elliott's Wave Principle is a catalogue of defined chart patterns. These patterns are helpful to indicate if the market is in a trend or counter-trend. Knowing the trend or counter-trend position, we also know the main trend direction. Each pattern has implications regarding the position of the market and the most likely outcome of the current position.

Most pattern positions will have an outcome that will validate or invalidate the assumed pattern position. This is extremely important. It also helps us to determine the maximum distance away from the market to place the protective stop-loss.

Elliott Wave Pattern Basics – 5's and 3's

The basis of Elliott's Wave Principle is that most trends unfold in *five waves* in the direction of the trend and *three waves* or combinations of three waves in the direction counter to the main trend. It's that simple. Markets usually unfold in three's and five's. Five wave patterns are *impulsive* or trend structures. Three wave patterns are *corrective* or counter-trend structures.

A five-wave impulse trend and three wave or more complex counter-trend each has a characteristic structure which we will talk about continually throughout this tutorial series. One important objective of Elliott wave analysis is to recognize in the early stages of the wave structure whether it is more likely to be an impulse or a counter-trend.

The Three Elliott Wave Rules

These three rules are most relevant to daily closing data.

1. Wave-2 should not exceed the beginning of Wave-1. In other words, Wave-2 should not make greater than a 100% retracement of Wave-1.
2. Wave-3 should not be the shortest of the three impulse waves in a five-wave impulse trend (waves 1, 3 and 5).
3. Wave-4 should not make a daily close into the closing range of the Wave-1.

These rules are extremely helpful to confirm or invalidate a potential pattern. Even when using intraday data, be aware of the pattern and guidelines relative to the daily closing data.

Why is pattern analysis an important part of the Dynamic Trading approach to technical analysis?

1. Pattern analysis helps us to determine if a market is in a trend or counter-trend.
2. Pattern analysis helps us to determine the position of the market within a trend or counter-trend.
3. Pattern analysis helps us to project the time and price objectives of the current trend or counter-trend.

Think Pattern

Below we will go through several pattern examples. The objective is to learn to think in terms of pattern position and what a market must do to confirm or invalidate a particular pattern structure. Every potential pattern position cannot be illustrated, but if you keep the basic pattern concepts and guidelines in mind, you will be able to identify the potential pattern position for most market situations.

Here is a quick review of what we are trying to accomplish with pattern analysis.

The Three Pattern Questions

1. What is the most probable pattern position? Why? The answer to this question may only be “impulsive” or “corrective.” The answer may also be, “don’t know.”
2. What market activity will confirm the assumed pattern position? What is the pattern guideline that is relevant?
3. What market activity will invalidate the assumed pattern position? What is the pattern guideline that is relevant?

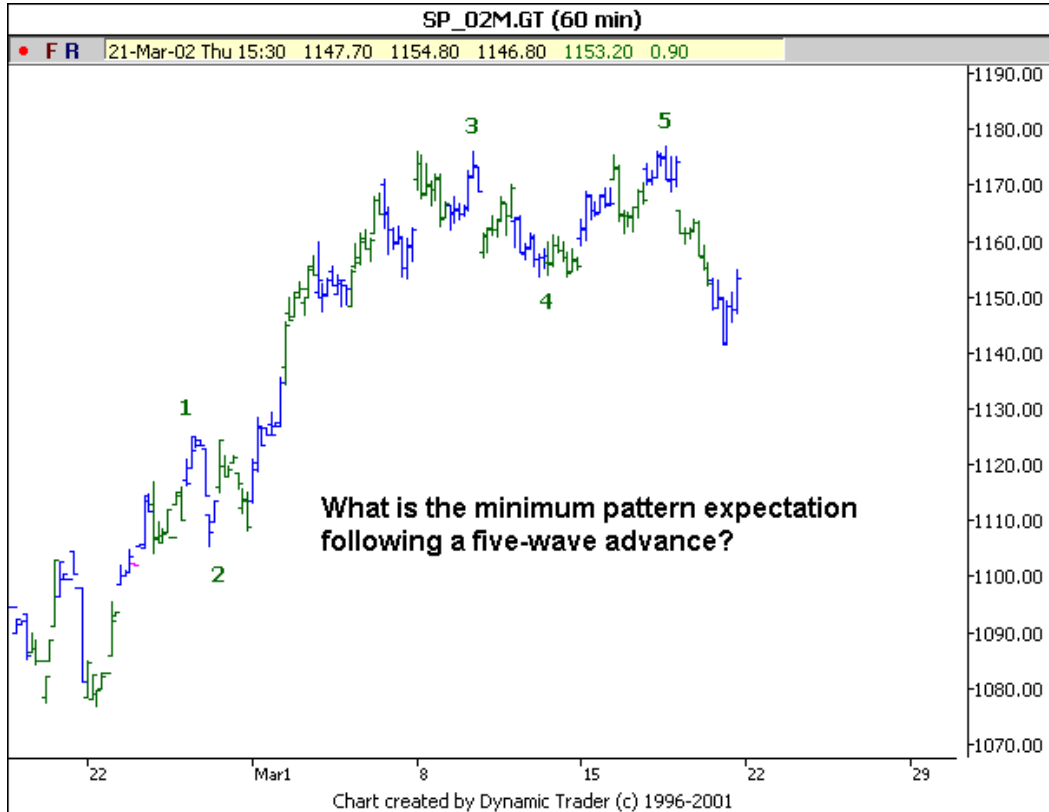
The Three Important Pattern Considerations

1. Be quick to admit when there is no discernable or relevant pattern! Do not force an Elliott Wave count when there is no count that meets the guidelines or a clearly defined five or three wave structure.
2. If there is no discernable wave count, does the pattern appear to be in an impulse or corrective structure?
3. As new data is made, the market will continually confirm or invalidate the pattern position assumption. *Trade the market, not the forecast.* Be quick to change your assumption of the pattern position if the market activity invalidates the current assumption.

Continued on the next page.

What's Next?

If a five-wave trend is complete as shown below, what is the minimum pattern we should expect?



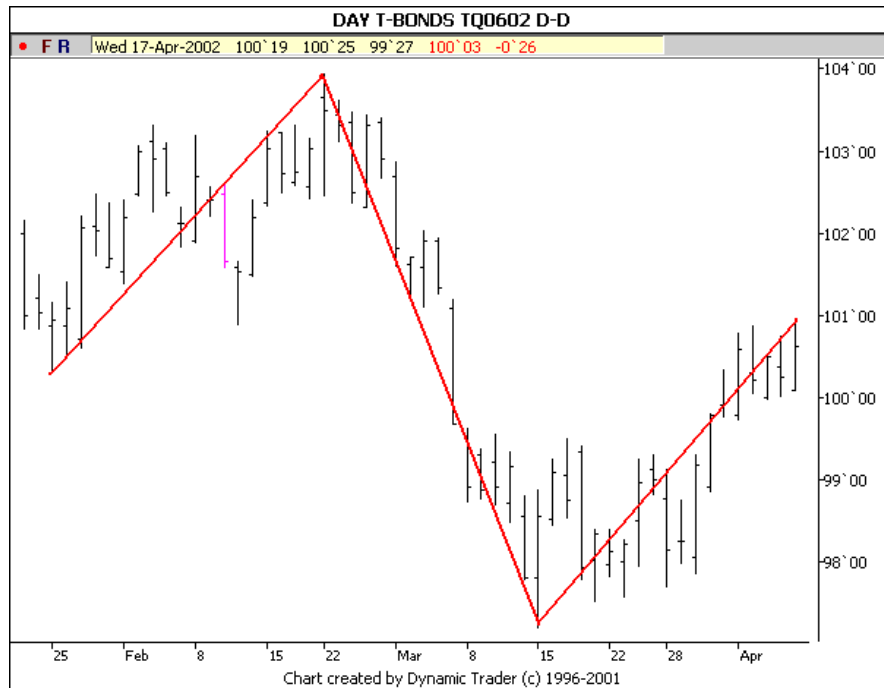
Regardless of how this five-wave pattern fits into the larger degree pattern position, at least a three wave decline should be expected. The minimum expectation is for a three-wave ABC correction. This may not unfold but if pattern is to be useful, we must begin with a high-probability assumption and let the market confirm or invalidate that assumption.

If this five-wave trend completed a larger degree five-wave trend, a five-wave decline may follow but the minimum expectation would still be a three-wave.

We always assume a correction will be a three-wave, ABC even though it may take many shapes.

Trend or Counter-Trend?

What should we anticipate after the low in mid-March below – a counter-trend rally or an impulse trend eventually to a new high?



There is not enough data to give a high-probability answer. The decline shown above is clearly an impulse trend. The position of that impulse trend within the larger degree trend will help determine what next to expect.

If the decline is a W.1, A or 3, we would expect a counter-trend rally (W.2 or B or 4) followed by the continuation of the bear trend to a new low.

If the decline is a W.C, we would expect a continuation of the bull trend to a new high.

If the decline is a W.5, we would expect a larger degree counter-trend rally. The first rally would typically subdivide into five-waves since a W.A is typically five-waves.

Whether the rally is a trend or a counter-trend, we would anticipate at least a three-wave rally (ABC or 123). The position within the larger degree trend will help to determine what to ultimately expect.

Count Backwards

What's the pattern of this advance? It definitely doesn't fit a typical five or three wave pattern. To help determine what a pattern may be, it is helpful to have a firm idea of what is the pattern position of the last major pivot.



If the low in March is a Wave 1 or A, then the rally should be a correction. We initially assume any correction is going to be an ABC until proven otherwise. This data is up through the date of this tutorial. Nowhere along the way of this correction did it unfold as a typical ABC.

Just today, bonds declined below the prior swing low which signaled the impulsive part of the rally from the late March low (labeled W.B) should be a completed pattern structure, probably a Wave-C that subdivided into five-waves. If that is the case, count backward to see if any wave count will fit. The one above is an acceptable fit within all of the guidelines of Elliott wave.

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Wave-A is an impulse. Wave-B is three waves and the W.b:B is also three waves. Wave-C is five-waves. All the subdivisions fit well even though the Wave-C is out-of-balance (much greater in time and price) than Wave-A.

Some times the pattern position does not clearly reveal itself until after it has signaled that it should be complete. Then we need to count backwards to see if the pieces seem to fit together within the rules and guidelines. If so, we have a basis to make an informed and high-probability trading decision with well defined and acceptable capital exposure.

Trend or Counter-Trend?

Is a 1-2-3 count the best potential for the data below? Why or why not?



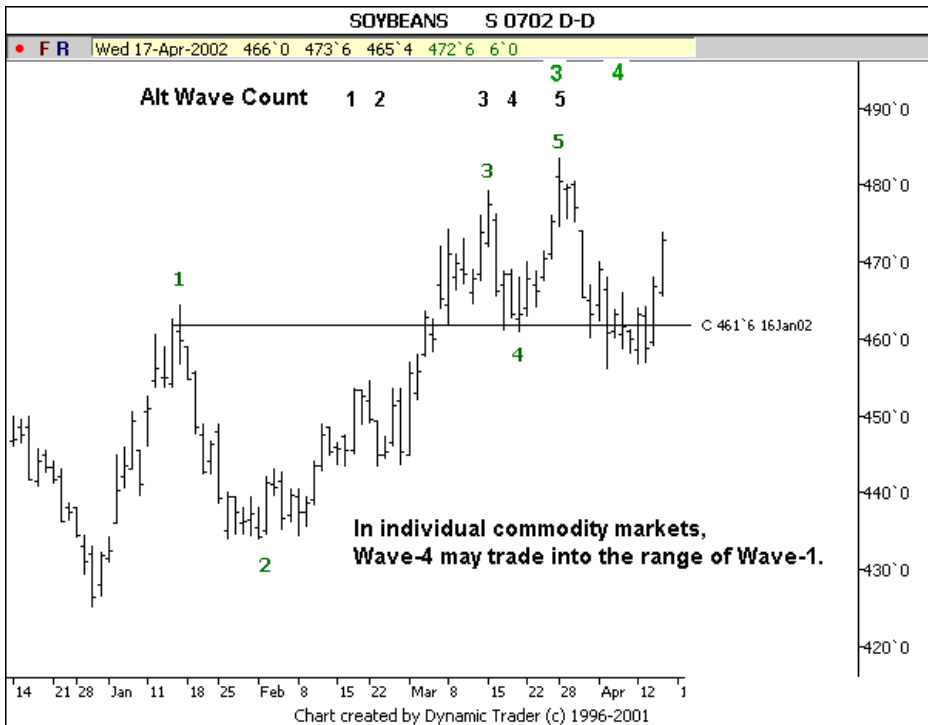
The rule that was formed by for the stock indexes is Wave-4 should not make a daily close into the closing range of the Wave-3. For the data

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above, the potential Wave-4 has made several daily closes into the Wave-1 closing range although the decline below the Wave-1 high is small in price. It is acceptable for a Wave-4 to close and trade slightly into the range of Wave-1 for commodities and individual stocks.

A better wave count may at first seem to be the high on the chart is a completed five-wave trend as shown below. The main drawback here is the Wave-4 is much shorter in time and price than the Wave-2 – it is out-of-balance with Wave-2. While this doesn't rule out a five-wave count, the alternate wave count shown below where the high is a Wave-3 that cleanly subdivided into five-waves is just as good a count.



At this point in time, neither of the two wave counts is overwhelmingly favored. According to the rules and guidelines, either is acceptable. It will require more data to determine which may be best. The trader must also look to other factors such as the time, price or seasonal position to get a better idea of which wave count may be more probable.

If the five-wave count to the March high shown above is correct, beans should continue the bull trend after completing a correction to the five-wave trend.

If the alternate count is correct, beans should be in the process of completing a Wave-4 low which should be followed by a continued advance to a new high.

Which count becomes the most evident as more data is included will help to determine the extent of the next bull trend – A Wave-5 or entirely new five-wave trend.

Lessons Learned

The Three Elliott Wave Rules

These three rules are most relevant to daily closing data. *They should be committed to memory.*

1. Wave-2 should not exceed the beginning of Wave-1. In other words, Wave-2 should not make greater than a 100% retracement of Wave-1.
2. Wave-3 should not be the shortest of the three impulse waves in a five-wave impulse trend (waves 1, 3 and 5).
3. Wave-4 should not make a daily close into the closing range of the Wave-1.

The Three Pattern Questions

Whenever considering an Elliott wave pattern, you should ask yourself these three questions and not consider an Elliott wave count unless you can answer all three.

1. What is the most probable pattern position? Why? The answer to this question may only be “impulsive” or “corrective.” The answer may also be, “don’t know.”
2. What market activity will confirm the assumed pattern position? What is the pattern guideline that is relevant?
3. What market activity will invalidate the assumed pattern position? What is the pattern guideline that is relevant?

The Three Important Pattern Considerations

If you are using Elliott wave for practical and logical trading strategies and decisions, these three considerations will always be in mind.

1. Be quick to admit when there is no discernable or relevant pattern! Do not force an Elliott Wave count when there is no count that meets the guidelines or a clearly defined five or three wave structure.
2. If there is no discernable wave count, does the pattern appear to be in an impulse or corrective structure?
3. As new data is made, the market will continually confirm or invalidate the pattern position assumption. *Trade the market, not the forecast.* Be quick to change your assumption of the pattern position if the market activity invalidates the current assumption.

More To Come

Each week, a new tutorial will build on what we have learned. Also, in the regular report, I will expand on the pattern comments to relate to what is being taught in the tutorials. The pattern descriptions in the report will help you to learn how pattern is considered to be part of a trading decision as a market unfolds.

Over the next few weeks, I believe you will have had the most comprehensive and practical Elliott wave pattern education available from any source. You will clearly understand how pattern can be an important factor of your trading decisions. You will also understand and how to apply Elliott wave pattern to make the high-probability time and price projections that are a key to trend targets, reversals, continuations and other trading strategies.

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Part 2

Robert Miner, Dynamic Traders Group, Inc.

Part one of this tutorial series taught the most important question related to Elliott wave analysis – ***Is It An Impulse Trend Or A Correction?*** The assumption for this tutorial series is that all subscribers have a basic Elliott wave background as taught in chapter three in the Dynamic Trading book. The next few tutorials will look at the recent and current position of a number of markets to see what we can learn about the trend position and potential reversals based on the pattern position.

Each tutorial will dissect just one market and the recent data to see how the pattern position has unfolded in recent weeks and days. The best learn experience is always with current examples as we can then see how the market unfolds related to how we view the current pattern position and what should be the outcome.

As you will see, the pattern and trend position is not always clearly defined, but, we can usually use the EW pattern analysis to identify the specific market activity that will confirm or invalidate the probable pattern position.

This Week's Lesson

It's Either One or the Other

The pattern position is not always clearly defined. Sometimes a market reaches a juncture where the sub-divisions of the pattern position indicate it is either a correction or an impulse. When this is the case, Elliott wave pattern analysis will usually provide the specific market action that will confirm which of the potential patterns is most probable and how the market should follow through.

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What's Next?

From the Nov. high, bonds clearly made an impulsive decline into the Dec. low. From the Dec. low, bonds clearly made a corrective rally into the Feb. high. From the Feb. high, the decline to the March low was clearly impulsive. What type of pattern should the rally from the March 21 low be? It depends.

Impulse-correction-impulse could be an ABC correction or part of a more complex correction. It could also be waves 1-2-1:3 of a larger degree bearish impulse trend. It depends on what we would label the Nov. high.



If we considered the Nov. high the end of a multi-year bull trend, March should not be the end of an ABC correction. If we thought the Nov. high was only temporary, March could be the completion of an ABC correction.

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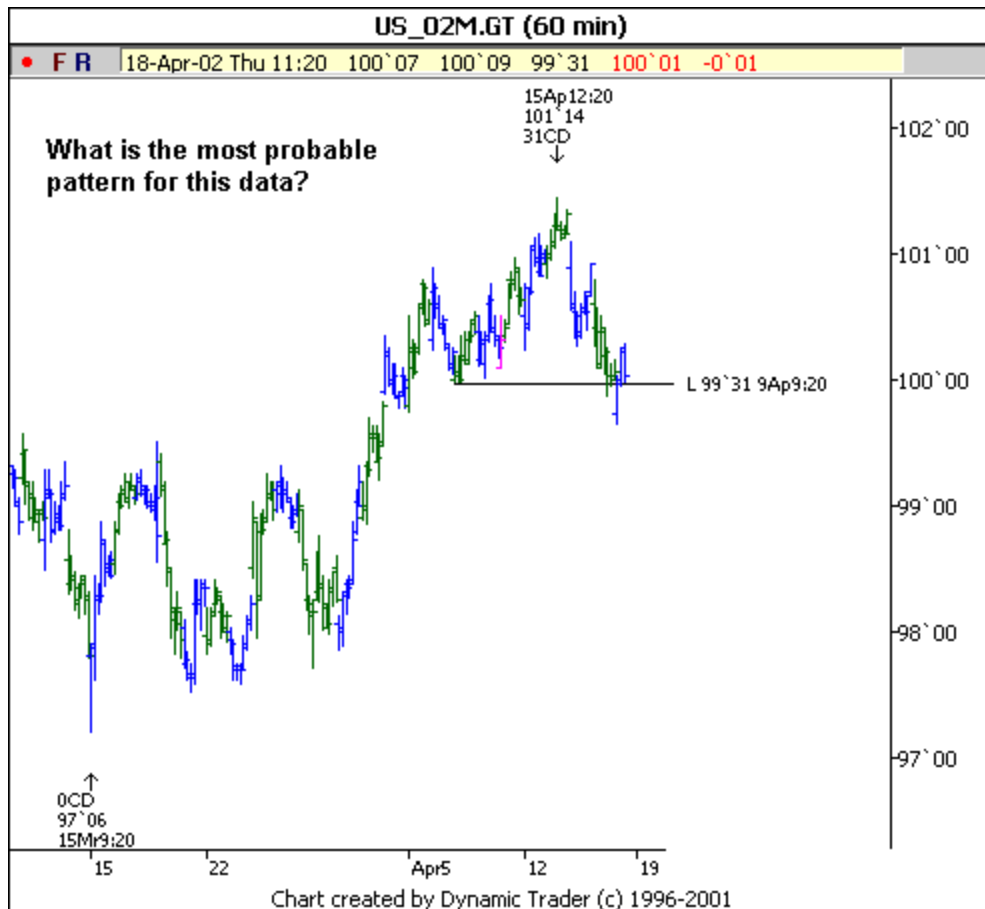
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If we have no strong opinion one way or the other about the Nov. high, how could the pattern of the advance from the March low help us to identify the larger degree pattern/trend position?

If the rally clearly unfolds in an ABC or other more complex corrective pattern, the larger degree trend is probably bearish and will eventually make new lows well below the March low.

If the rally clearly unfolds in an impulse trend, March should be the end of an ABC corrective decline from the Nov. high or the impulse may be a Wave-A which is part of a larger degree correction.

Let's take a look at the 60-minute data from the March low into mid-April.

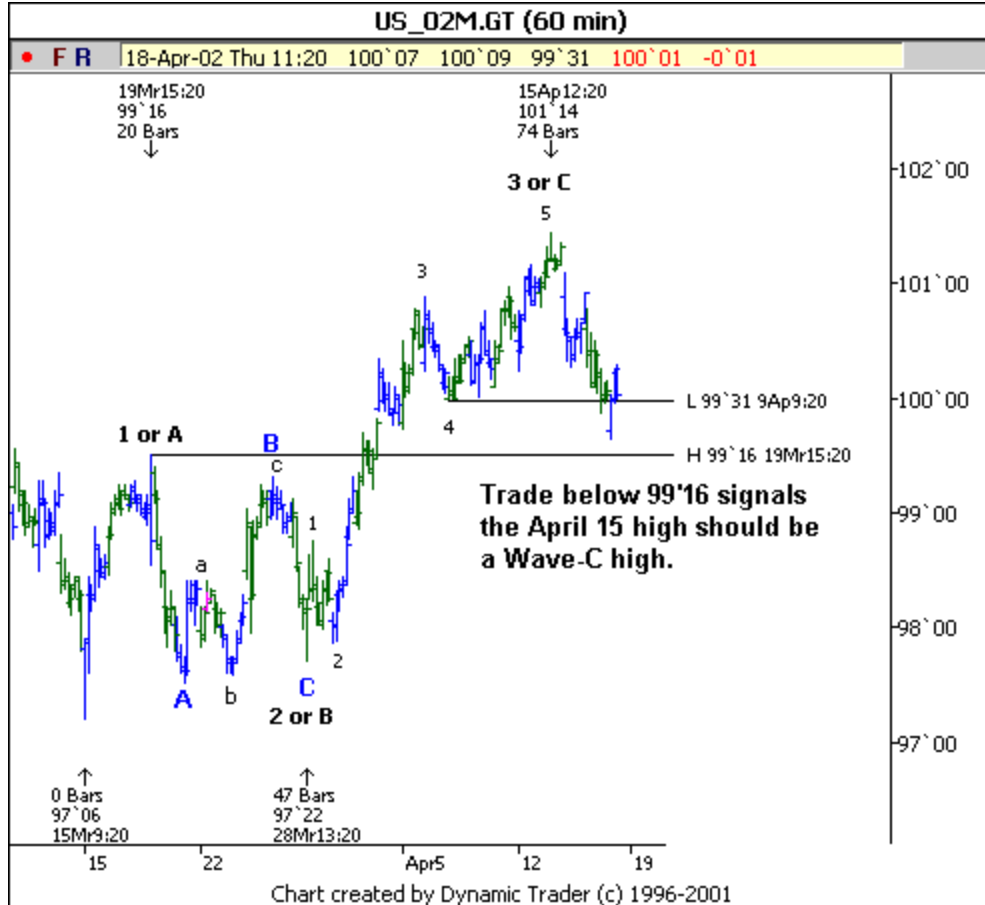


Is the pattern of the data above clearly impulsive or corrective? From my point of view, it is not *clearly* one or the other. Let's put the most

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obvious labels on, those that would meet all of the EW rules and guidelines and see what are the potentials.



Once bonds traded below the 99'31 swing low, we could assume the April 15 high completed some section of the trend. If we count backwards from the April 15 high, there is a clear five-wave impulse from the March 28 low. The ABC from the March 19 high to the March 28 low meets all of the guidelines for an ABC. Waves A and C are clearly impulsive as they should be. Wave-B is an ABC itself.

What could bonds do to signal if the April 15 high is a Wave 3 or a Wave C? A Wave-4 should not trade into the range of the W.1. If bonds traded below 99'16, the potential W.1 high, we would assume April 15 is a W.C high. If this were to occur, bonds may still trade to a new high but the continued rally would have to be considered a complex correction, not an

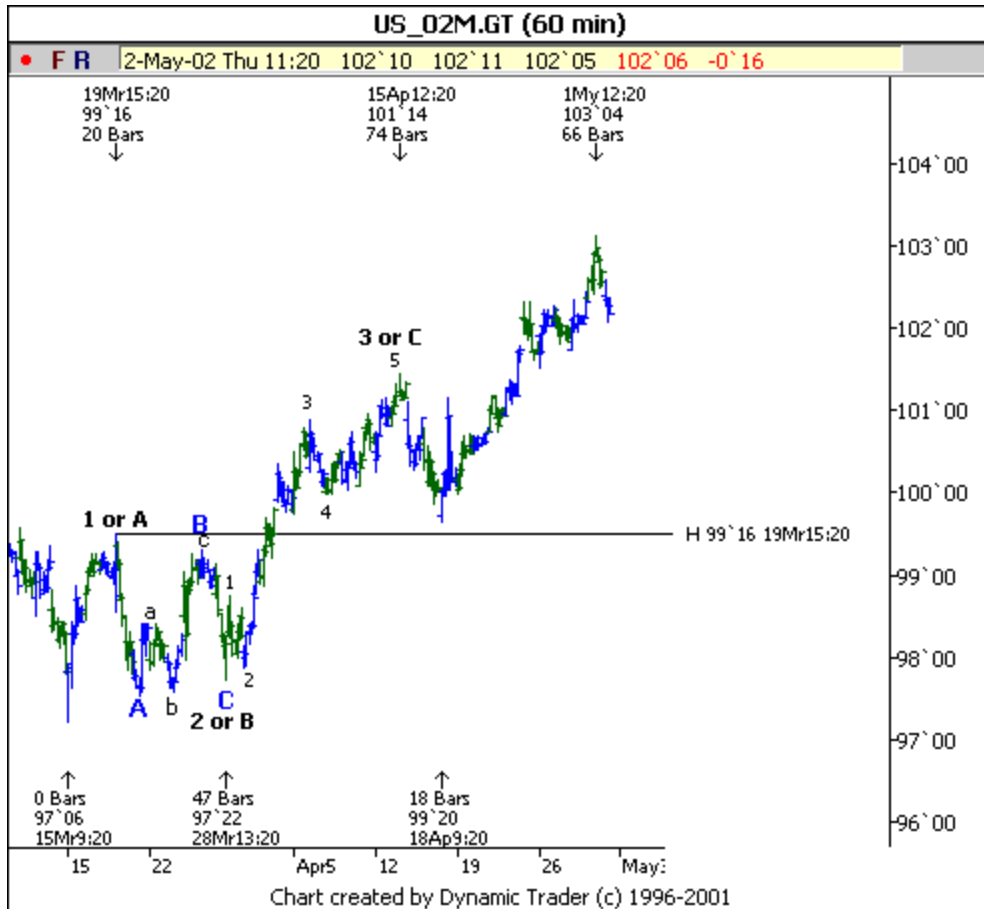
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impulse trend. Waves overlap in corrections, not in impulse trends except in a W.5 diagonal.

So far, we have not even considered if March 15 is a Wave-C or W.1:3 low. We have only considered the pattern possibilities of the data from the March 15 low. If we were confident the March 15 low was a W.1:3, we would consider the April 15 high had probably completed an ABC correction (W.2:3) since bonds took out the probable W.4:C low.

Let's add more data. The chart below is the 60-minute data through this morning. I haven't added any labels. What do you think is the probable pattern position?

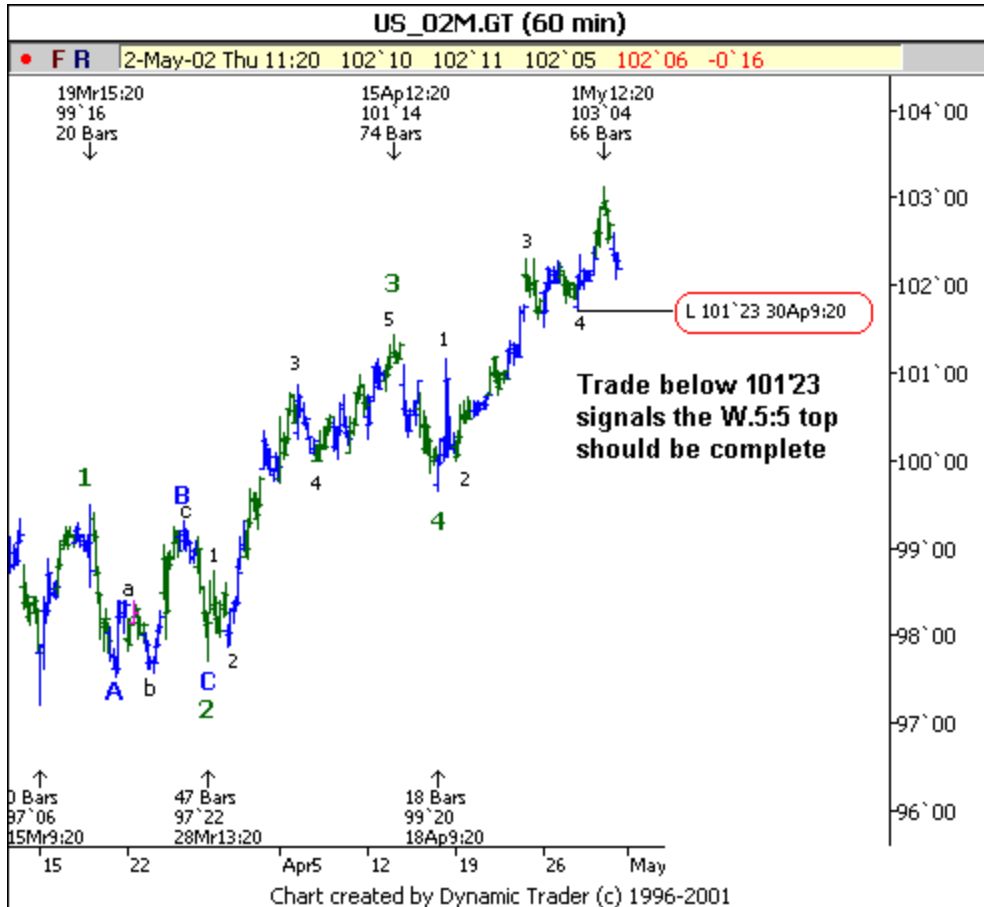


Should we now consider the rally from the March 15 low an impulse trend or correction based solely on the pattern?

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It is clearly an impulse trend. Bonds did not trade into the range of Wave-1 and the rally from the April 18 low is clearly impulsive which should be the Wave-5. The Wave-5 appears to have clearly subdivided into five-waves which is typical of a Wave-5.



A trade below the W.4:5 low at 101'23 signals the W.5:5 high should be complete.

What would we anticipate once the W.5 high is complete? At a minimum, a correction that is greater in time and price than any of the corrections within the five-wave trend.

Another important question would be – how does the five-wave impulse trend from the March 15 low to the May high fit into the larger pattern/trend position? We will consider that in the next tutorial.

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For now, the most important lesson from a pattern perspective is we have identified the most probable pattern and its alternative as the market progressed and have used pattern to identify the signal that will indicate the end of the trend. From a trading perspective, that is the critical information.

Lessons Learned

The pattern position is not always clearly defined. Even when it is not, we can usually identify the market activity that will confirm or invalidate a potential position. We can also look to the larger or smaller degree to help identify the probable position. It is important to be sure that each of the sub-divisions of the pattern meet the basic Elliott Wave rules and guidelines described in lesson one before we consider assume to have a confident opinion of the pattern/trend position.

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Part 3

Robert Miner, Dynamic Traders Group, Inc.

This Week's Lesson

What Confirms A Trend Change?

In this tutorial, we will look at the recent pattern of the S&P and bonds in detail to see what trading opportunities may be at hand and what the pattern may be revealing about the larger degree trend position.

Since both of these markets may be near significant reversals, we will see what the market can do to confirm a reversal is complete.

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Bonds

From the March 15 low to the May 1 high, there is only one logical way to view the Elliott wave pattern which is as a five-wave impulse. May 1 may or may not be the completion of a W.5 high.

What would be the initial signal W.5 is complete? A trade below the W.4:5 low. This is a reliable and consistent pattern strategy that should be used to make trading entry and protective stop decisions. A wave-5 typically sub-divides into five-waves. This is not always clearly evident but when it is, a trade beyond the W.4 extreme is the signal the W.5 should be complete.



Bonds have made five-distinct sections up since the March 15 low. None of them overlapped (W.4 did not trade into the range of W.1) which implies the five-waves are an impulse trend. What is the pattern signal a W.5 high complete? A trade beyond the W.4:5 extreme. What should we anticipate following the completion of a W.5? It depends on the how the

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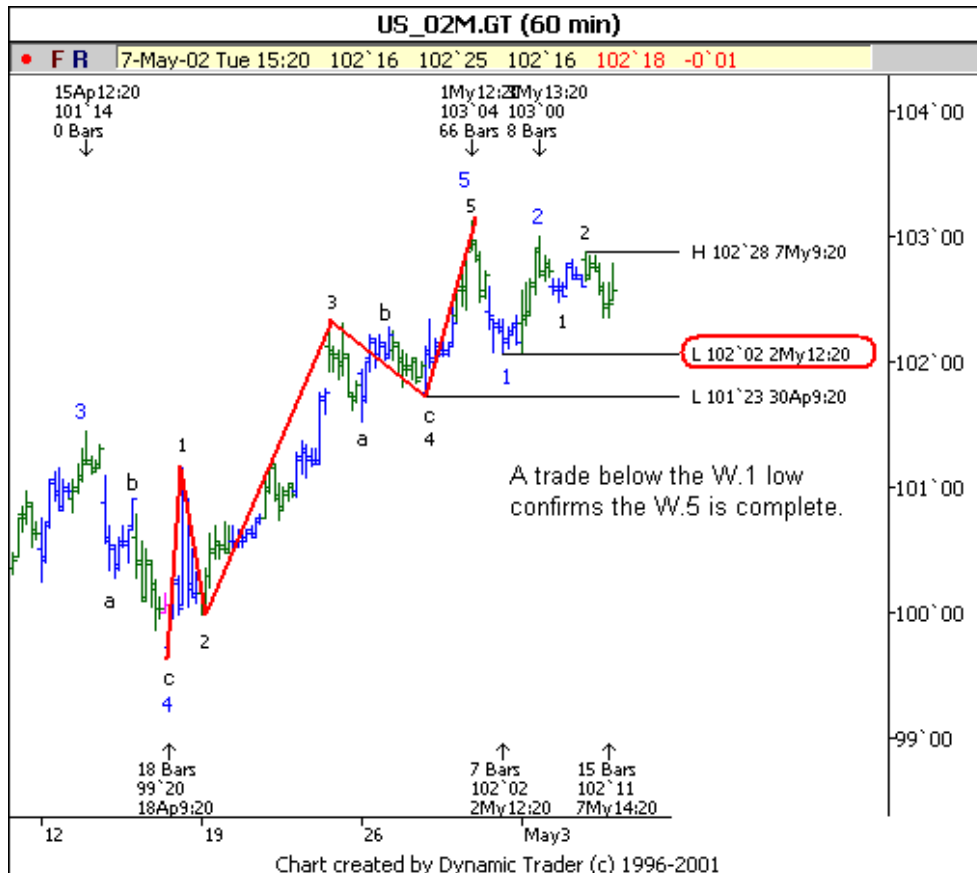
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five-wave trend fits into the larger degree pattern position. The minimum expectation is for a correction against the five-wave trend greater in time and price than any correction within the five-wave trend. If the W.5 high completed a corrective high of larger degree, a new impulsive trend may begin instead of just a correction to the five-wave trend.

Which ever the case may be, the job of the trader is to identify the completion of the five-wave trend and prepare for a trend reversal trade for either a correction or new impulse trend in the opposite direction.

The smaller degree data may provide an earlier signal a W.5 high is complete. It depends on how clearly defined is the pattern. Let's take a look at the 60-minute date from the April 18, W.4 low to see how it breaks down.

When we move down to a lower time frame with short-term data, it is usually only necessary to view the data from the last confirmed pivot. In this case, from the probable W.4 low on April 18.



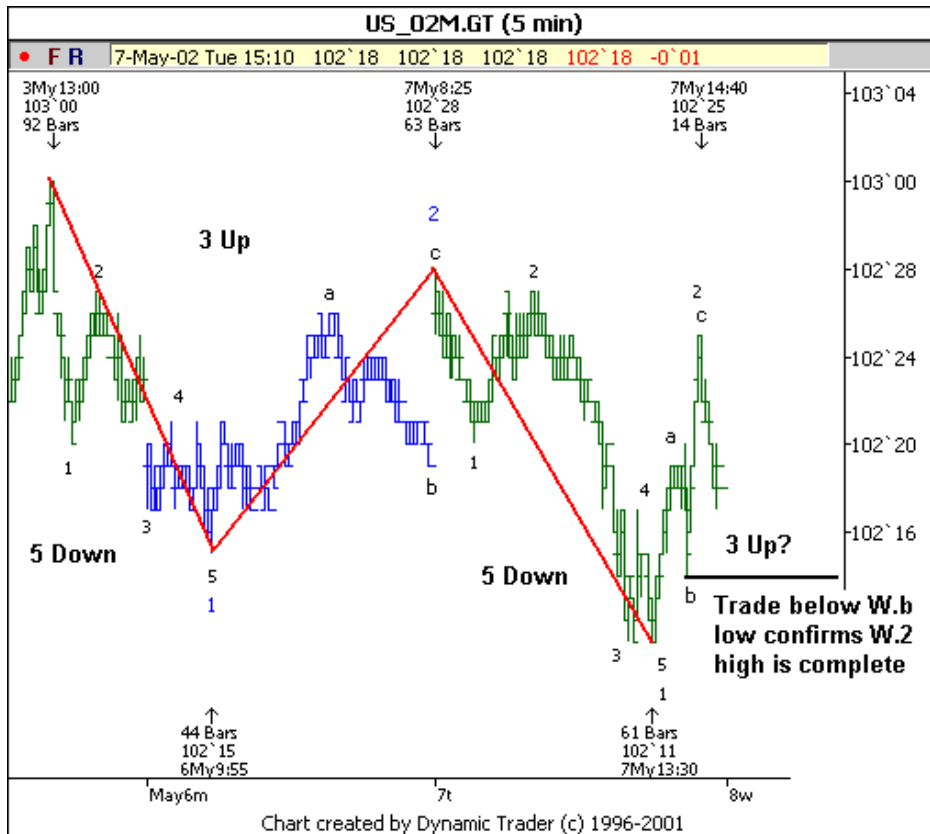
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A five-wave rally from the April 18 low appears fairly distinct. If May 1 is the W.5 high, we can assume May 2-3 completed the initial waves 1-2 down. If this is the case, what would be the signal that confirms W.5 is complete? A trade below the W.1 low. Since the W.1 low is above the W.4:5 low, a trade below the W.1 low would be an earlier signal the W.5 is complete than a trade below the W.4 low.

What would be the *maximum* protective stop against a short position taken one tick below the W.1 low? One tick above the W.2 high. It is that simple and logical. We may be able to break down the data into smaller degrees for even more timely information and potentially a trade strategy with even less capital exposure.

The next chart is the bond five-minute data from the May 3 high.



Five-wave trends should be in the direction of the larger degree trend, unless it is the last five-wave subdivision of the larger degree trend such as the W.5 or W.C. Three wave trends should be corrections against the

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larger degree trend which should be followed by the resumption of the larger degree trend in the opposite direction to the correction.

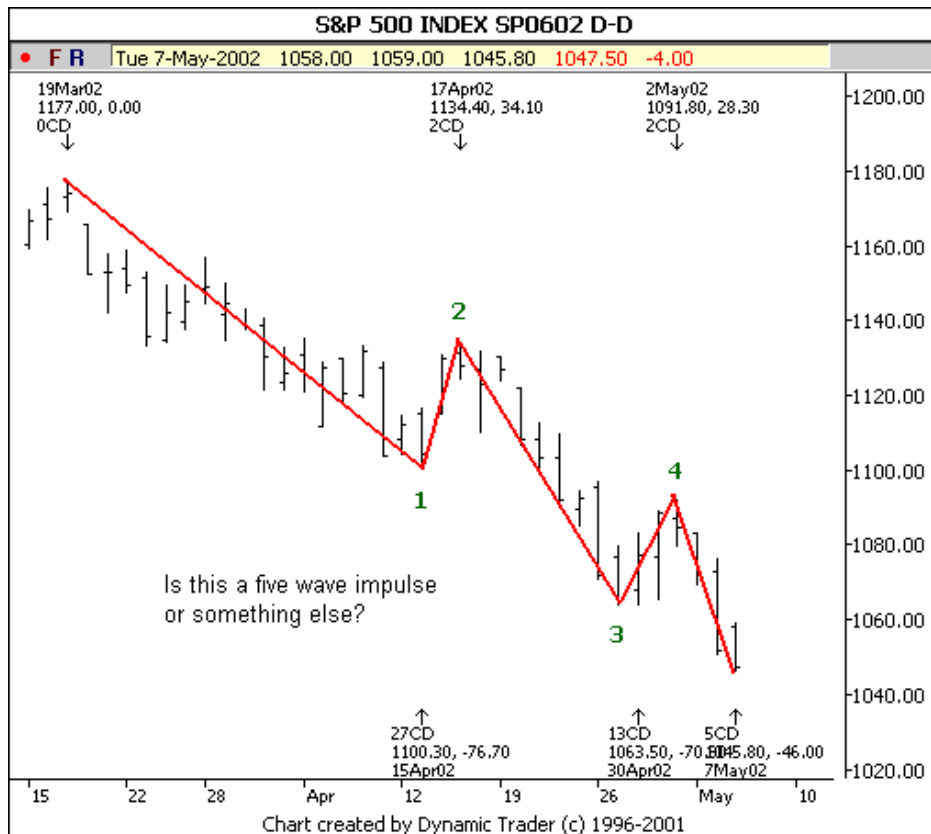
Very short-term 5 and 3 wave patterns will often help to identify the direction of the larger degree trend and how the market fits into the immediate position. These very minor subdivisions will often help identify trading strategies with less capital exposure.

In the 5-minute chart above, the market appears bearish since the five-wave trends are down and the three wave trends are up. If this is the case, a trade below the potential W.b:2 low signals the W.2 high is complete.

Let's take a look at another current example to see how pattern may help us determine the position of a market.

S&P

The chart below is the June S&P from the March 19 high to today's low, May 7. There are five-distinct sections. The fifth may not be complete.

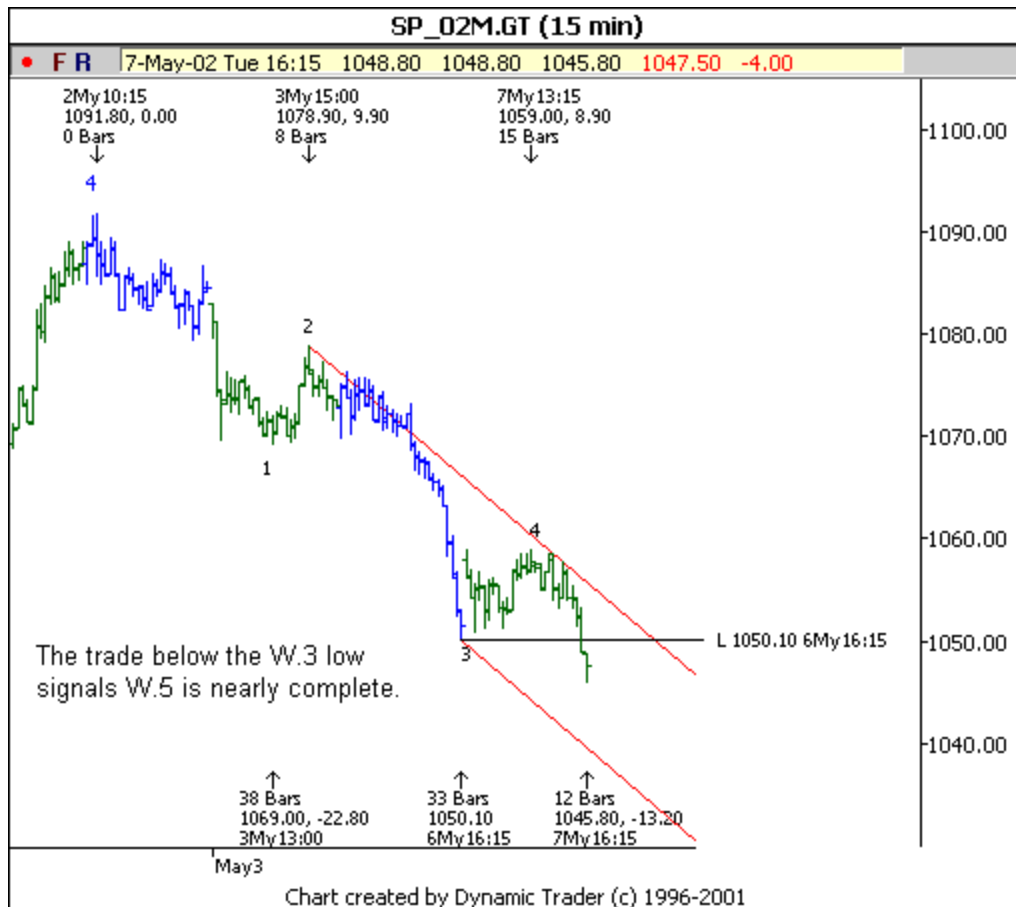


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The intraday data fits the wave count fairly well but not perfectly. The best wave count for the data to date is shown on the chart above. At the very least, the clearly defined ABC correction made into the May 2 high and the probable five-wave decline from the May 2 high is the most recent pattern information to work with. It clearly appears W.5 (of 5) is nearly complete.

Now let's break it down further and just look at the short term 15-minute data from the last defined pivot, the May 2, W.4 high.



It appears this is an ideal five-wave trend from the May 2 high. If so, W.5:5 has already traded below the W.3:5 low which indicates the W.5:5 is in a position to be complete. Could this be something other than a five-wave trend? Of course it could. We have to make decisions based on the best available evidence. Unless the market proves otherwise, the

assumption is the W.4:5 high is complete and a W.5:5 low is close at hand.

The completion of a W.5:5 low would also signal the completion of the entire five-wave decline from the March 19 high if May 2 is the W.4 high as shown on the charts above. How would a five-wave decline from the March 19 high fit into the larger degree pattern? That is a subject we will take up in the regular reports this week.

Lessons Learned

Elliott wave patterns are not always clearly defined. Only use them as part of your trading strategy if they are clearly defined.

One way to help identify if a pattern is correct is if it subdivides as it should. This usually requires a breakdown to the shorter term data.

It is most important to identify if there are clearly defined fives and threes and which direction they trend. This will help to identify the larger degree trend. Unless a five-wave trend is the final trend of a larger degree pattern such as a W.5 or W.C, the assumption is it is in the direction of the larger degree trend.

If a market appears to be in a Wave-5, a reliable signal the W.5 is complete is a trade beyond the W.4:5 extreme. An entry one tick beyond the W.4:5 extreme would be followed by a protective stop one tick beyond the W.5:5 extreme.

If a Wave-5 appears complete, and waves 1 and 2 in the opposite direction appear complete, a trade beyond the W.1 extreme confirms the W.5 should be complete. This signal may be made before the W.4:5 extreme is exceeded. An entry one tick beyond the extreme of W.1 would be followed by a protective stop just one tick beyond the extreme of W.2.

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Part 4

Robert Miner, Dynamic Traders Group, Inc.

This Week's Lesson

Don't forget the EW rules and guidelines.

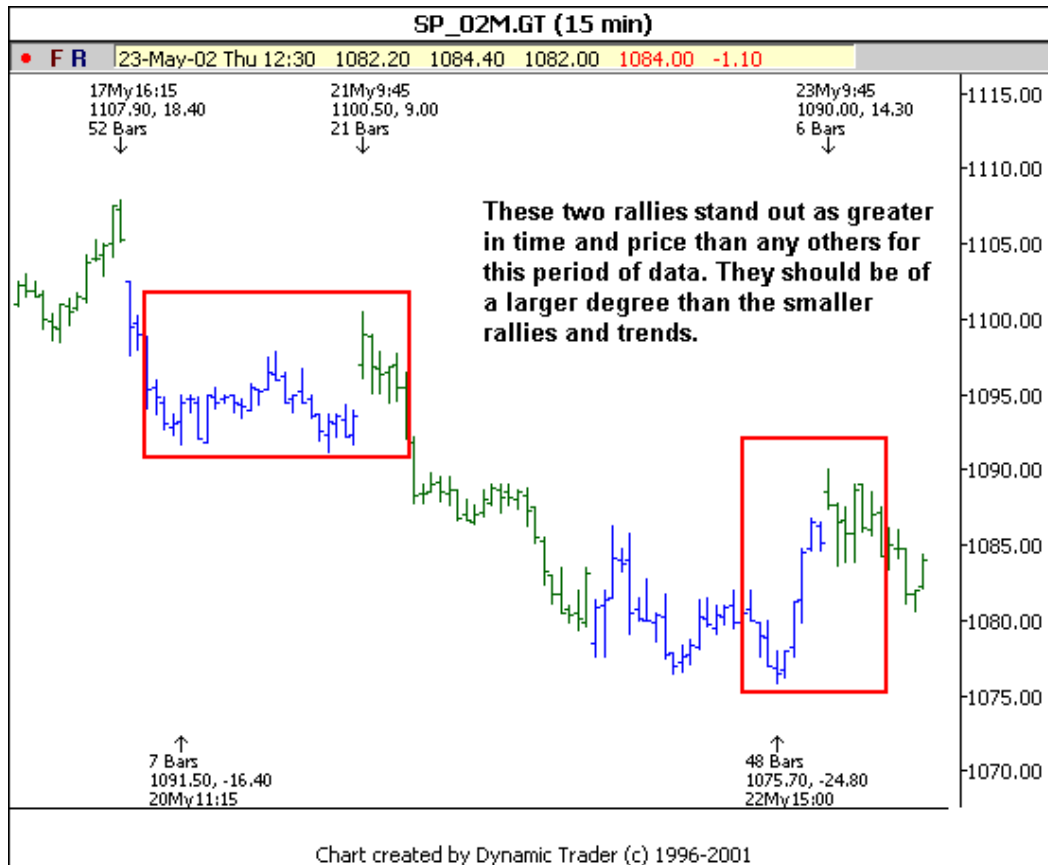
You must constantly keep in mind the Elliott wave rules and guidelines as a market unfolds in order to be alert to if a pattern is a correction or an impulse and where it should be within the correction or impulse. The rules and guidelines are few and simple. Be alert to the subdivisions (smaller degree) of each wave to help identify when a wave is at or near its termination. The EW rules and guidelines will also give you what pattern structure will confirm and invalidate a wave pattern.

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Identify The Main Divisions

Take a look at the data below. For just this data, can we determine if the market is making an impulsive trend or a correction? What would be the definitive signal that would confirm which it is?



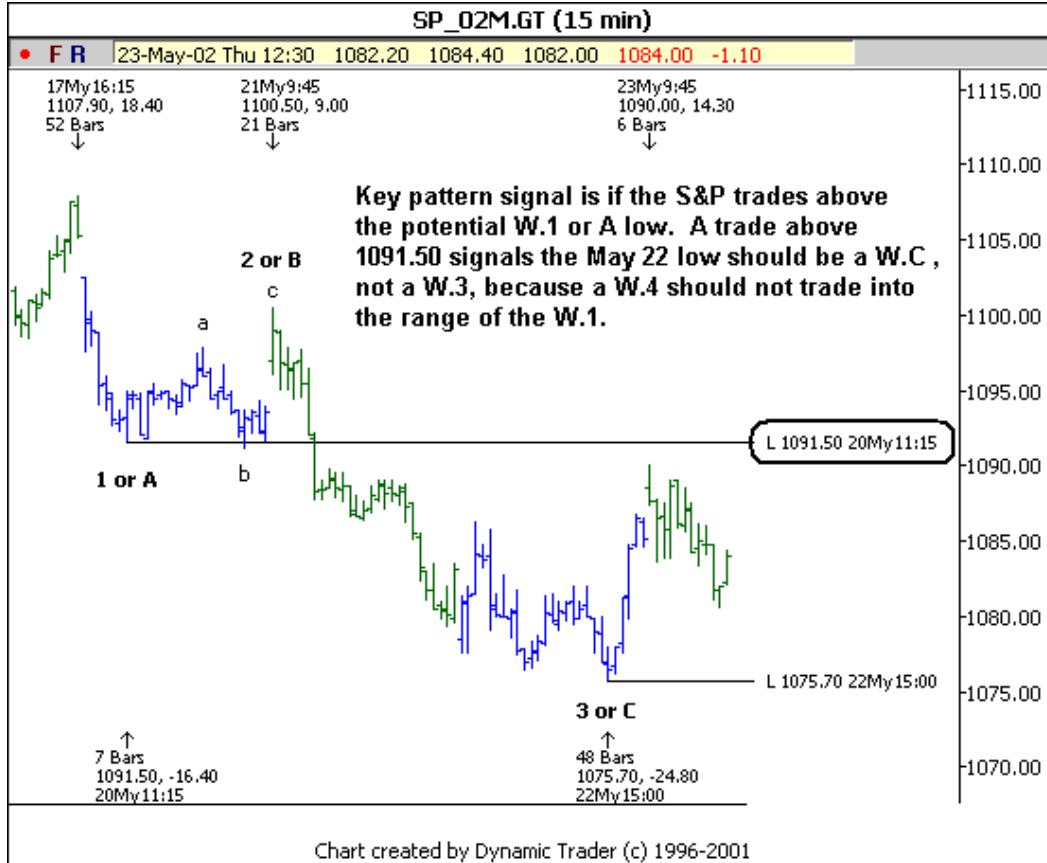
Rather than immediately begin to put labels on the chart, the first thing to do is identify different degrees of change. For the bearish period of this data, there are two rallies that stand out as greater in time and/or price than the others. They are probably of the same degree and a larger degree than the minor corrections.

Very simply, we have a declining section, sideways correction, another declining section and a rally. Is the last rally that began at the May 22 low a correction or the beginning of a bull trend? Can we tell which it should be from this data alone?

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The next chart includes the obvious labels for the trends and counter-trends of similar degree we have identified so far.



The three completed pivots of similar degree should be W.1 or A, W.2 or B and W.3 or C. From just this data, there is no way to tell if it is a 1-2-3 or A-B-C. We may be biased one way or the other depending on how confident we are of the potential wave pattern up to the May 17 high, but let's assume we do not have a confident opinion. What can the market do from a pattern perspective to signal if the May 22 low completed an ABC or if it is just a W.3 in a bear trend?

A W.4 should not trade into the range of the W.1. If the S&P traded above 1091.50, the potential W.1 low, it would indicate May 22 is a W.C low, not a W.3. If this should happen, the larger degree trend should be up and the S&P should continue to advance to above the May 17 high.

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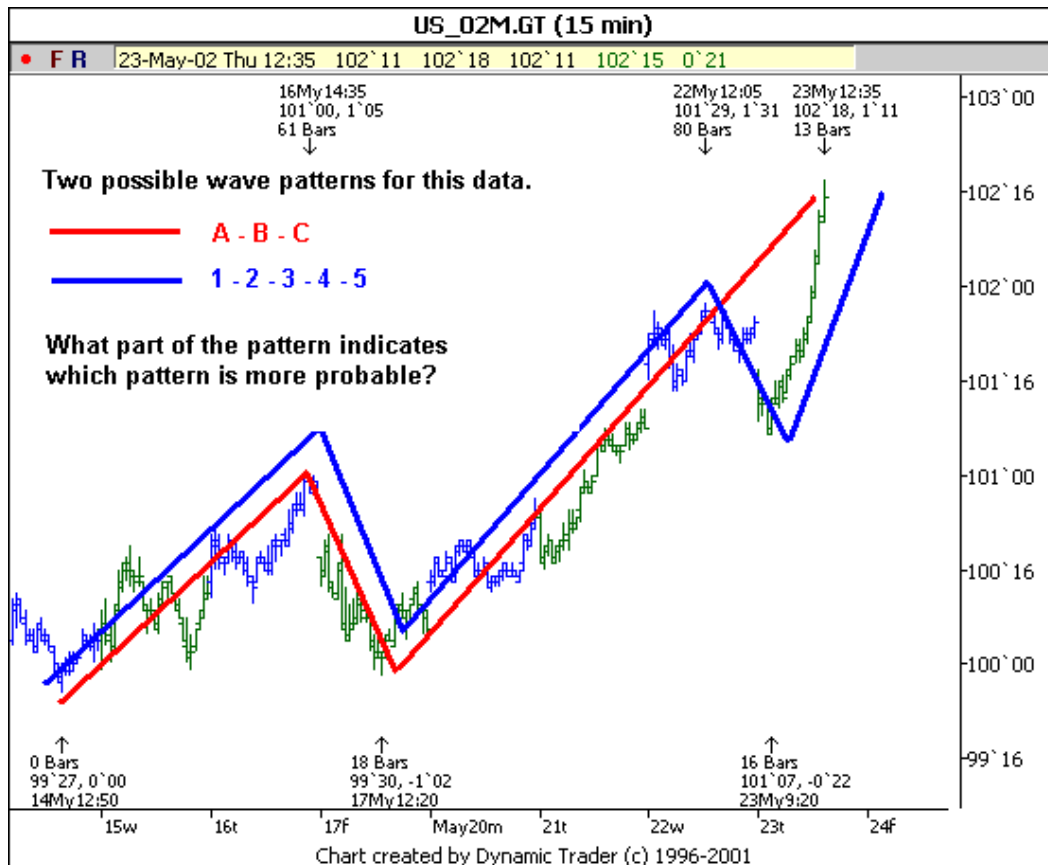
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If the S&P first traded below 1075.70, the potential W.3 low, we must assume it is making an impulsive five-wave trend and the larger degree trend is down.

We could get very creative with labeling the small subdivisions and minor swings on this data. The clear fact is – there is no clearly defined sub-division pattern for the data above. We could make the subdivision labels almost anything we want to fit any one outlook. That is what many Elliott wave analysts do. Force a wave count to fit the forecast. For this data, the 1-2-3 or A-B-C count is the only reliable one at this time.

Always Keep In Mind The EW Rules and Guidelines

Which pattern is more likely for the data shown on the chart below – A-B-C or 1-2-3-4-5? There is enough information from this data to put the odds strongly in favor of one or the other pattern.



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Note the pattern of the first section up from the May 14 low to the May 16 high. Does the first section appear to subdivide into a five or a three? That will be the key to the larger degree pattern position.



The first section has three clearly defined swings of similar degree. If this is the case, it is labeled an ABC. A Wave-A may subdivide into either three or five waves. A Wave-1 should never subdivide into three waves. The three-wave rally from the May 14 low to the May 16 high can only be considered an A-wave.

If this is the case, the May 17 low should be the Wave-(B) and bonds should be completing a Wave-(C) and the end of a corrective rally from the May 14 low. Most traders would become very bullish with bonds making a new high on a wide-range outside-day. But EW pattern traders would be alert that the odds are bonds are in the very final stage of a corrective rally from the May 14 low.

What could bonds do to confirm a W.(C) top is complete? A trade below 101'00, the probable W.(A) high confirms the rally is a correction and the W.(C) high should be complete. A trade below 101'00 confirms May 16 could not be a W.1 high as the W.4 should not trade into the range of a W.1.

Lessons Learned

Elliott wave traders often get hung up trying to label every zig and zag on a chart. If the minor swings are not in an obvious structure, the tendency is to force a wave count to fit the prejudice of the forecast. We have all seen this over and over again. Trying to pretend that every bump on an intraday chart always fits into an Elliott wave pattern structure may be very costly. At the least, it is simply foolish. It just doesn't work that way.

Begin a wave count by separating the obvious divisions of similar degree. Place the probable count and the alternate if there is one on these obvious divisions. Then identify what the market can do to confirm or invalidate the most probable count.

Two key questions to consider once you have decided on the labels for the obvious divisions –

Have the main swings basically sub-divided according to the EW rules and guidelines for the labels I have given it?

What pattern structure should unfold from the last confirmed pivot if it is the label I have given it?

By working in a relatively simple and logical manner, Elliott wave pattern analysis can be the key to identify the main trend direction and when trends are at or near their reversals.

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Part 5

Robert Miner, Dynamic Traders Group, Inc.

This Week's Lesson

Every zip and zag is not a perfect EW.

We always begin with the assumption that a market will unfold according to the EW rules and guidelines. However, this is not always the case. Rather than try to fit a convoluted wave count after-the-fact to make the market conform to the rules and guidelines, move on. We are traders, not EW academics. We are interested in making money, not in being right.

I can show you lots of examples of five wave corrections that fit all of the rules and guidelines of an impulse wave structure. EW academics will relabel them with all sorts of complex labels with Xs, Ws, Ys and more when the reality is – it was a five wave correction.

Prepare for the most probable, but adapt to the improbable.

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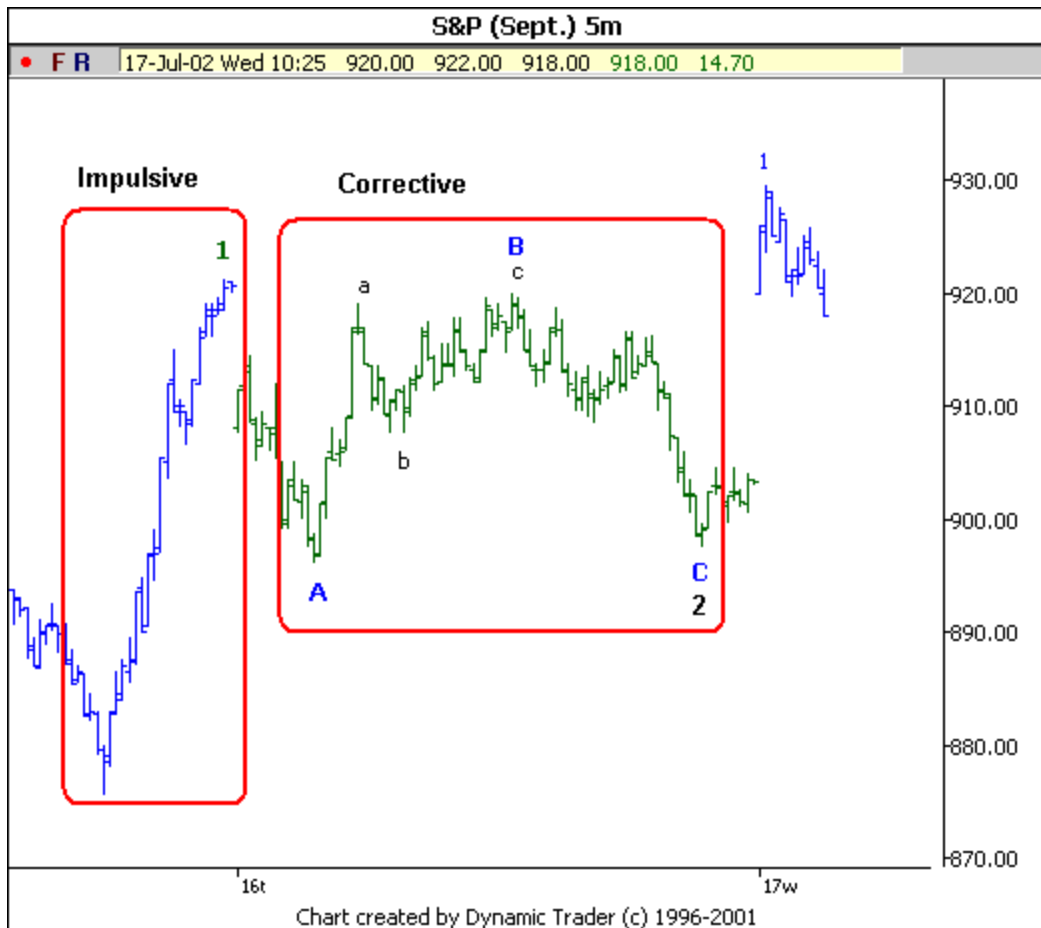
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Trend or Counter-Trend?

From the first low on the left of the chart below, the S&P clearly made an impulsive rally which is labeled a W.1. A sideways flat ABC followed with a gap up to a new high signaling the correction should be over.

If we consider the gap up rally a W.1 of a new impulsive trend, what could the market do to void that idea?

A trade below the W.C:2 low would signal a larger degree correction was being made, not a new impulse trend, and the bear trend should then decline to a new low.



If the market traded below the W.C:2 low, how would the pattern be relabeled and what would we then anticipate?

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We would then relabel the rally as an ABC and expect the market to decline in an impulse trend to well below the extreme low on the chart.

Several bars later, the market declined below what was labeled the W.c:2 low. Now we consider the rally an ABC as shown below and anticipate the continuation of the bear trend to a new low.



We now know which side of the market to trade for some time – short. A trading strategy would be to wait to identify a W.2 correction in order to position short.

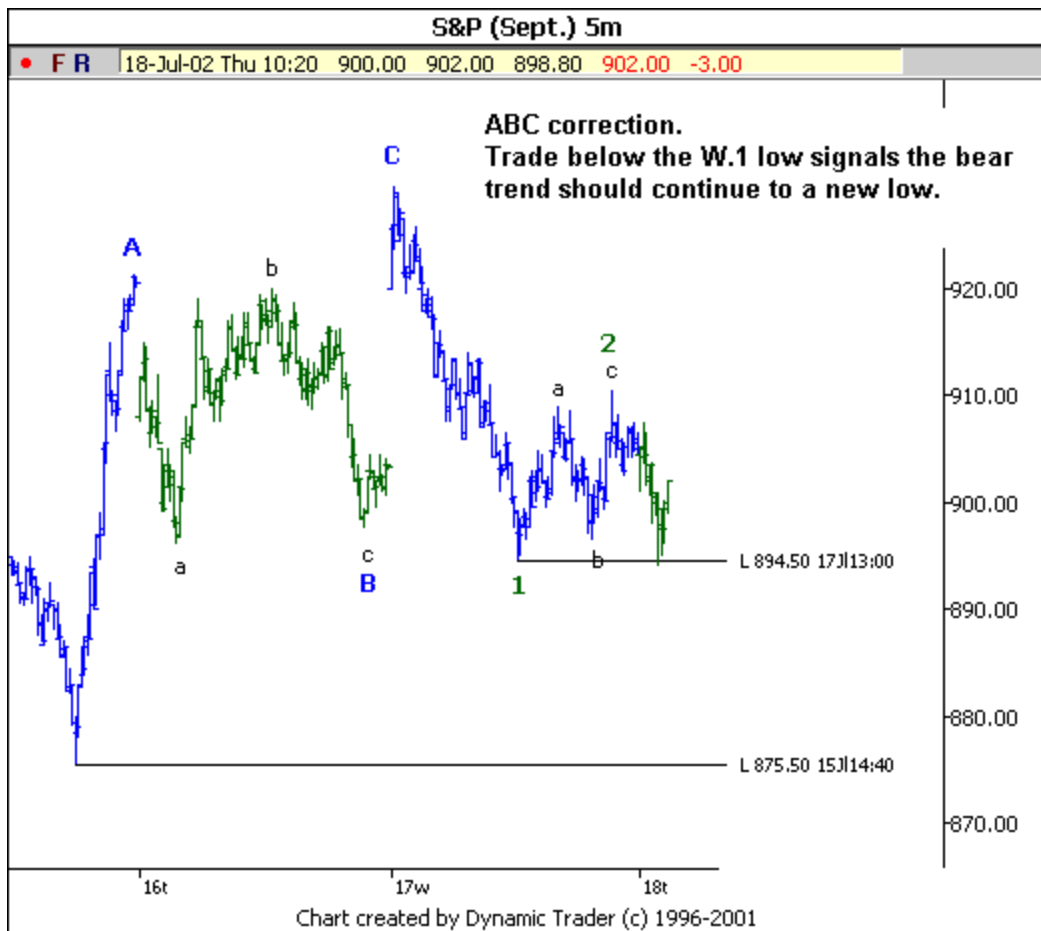
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How Long To Be Short?

If a correction is complete at the W.C high, we would want to only consider short trades until it appears a five-wave decline is complete. The five-wave decline should be lower than the beginning of the corrective rally which is the low point on the chart below.

The market made an almost ideal ABC which probably completed a W.2 high. The trade below the W.1 low signals W.2 should be complete and the market should decline to well below the 875.50 low to complete waves 3-5.



What form should the W.3 take? A W.3 should sub-divide into five waves. Typically, a W.3 is greater in time and price than the W.1 so the market should have a long way to decline before the W.3 is complete.

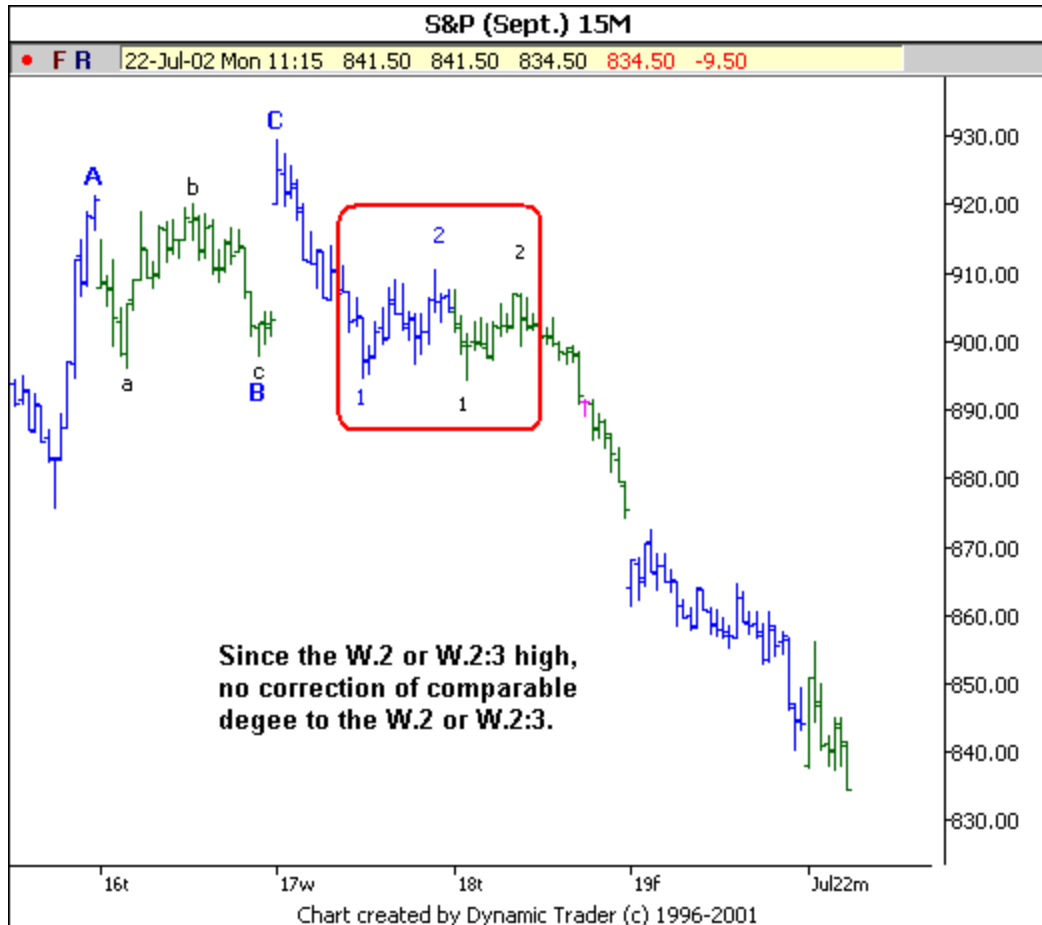
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As long as the market does not trade above the W.2 high, short trades should be taken with a stop no higher than one tick above the W.2 high.

There are a lot of points between where the market is as of the last bar on the chart below and the probable next low well below the 875.50 low and not many points to above the W.2 high, the maximum stop on a short trade. You don't need to make complicated risk/reward ratios do know this is a great pattern position for a short trade.

The market declined sharply. As of the last bar on the chart below, a correction of the same degree as the W.2 or W.2:3 does not appear to have been made which means W.4 is still to come.

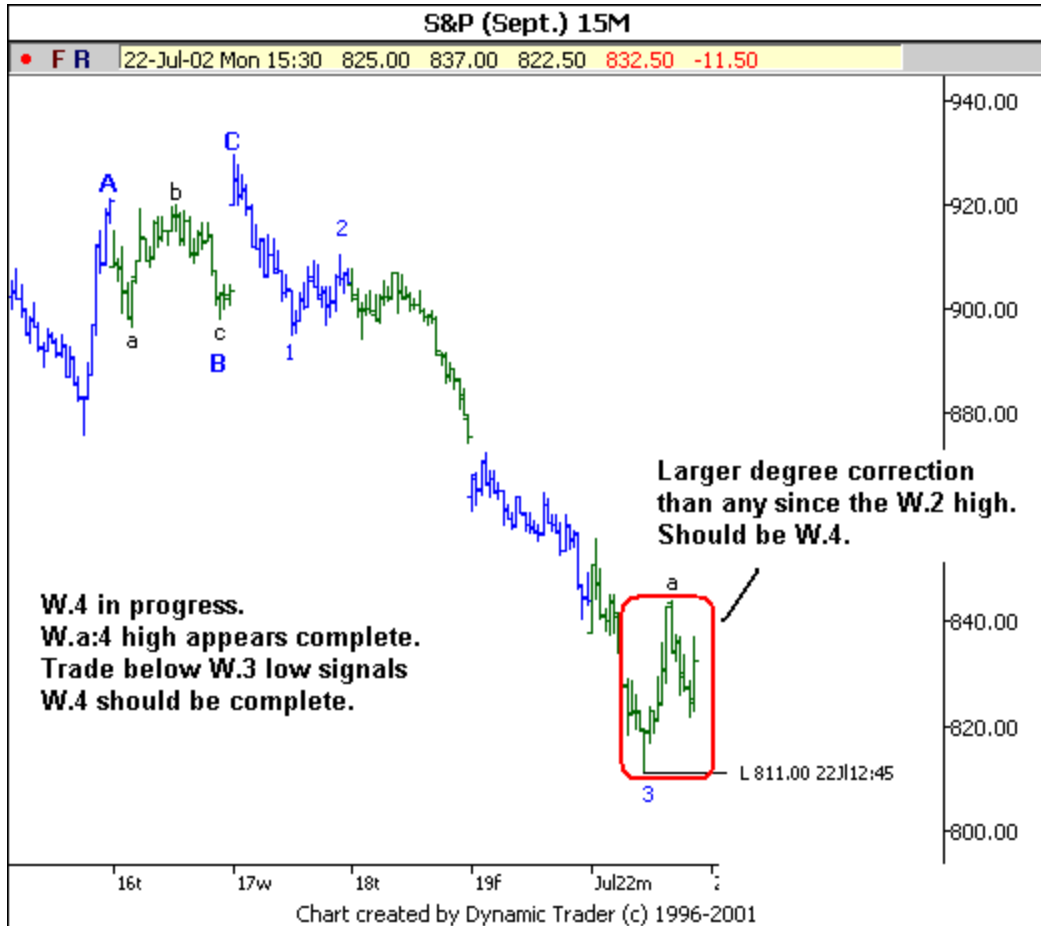


The next chart show the market eventually made a rally at least greater in price than any since the W.2 high. The assumption is the W.3 is complete and a W.4 is in progress. The assumption is a W.4 should be at

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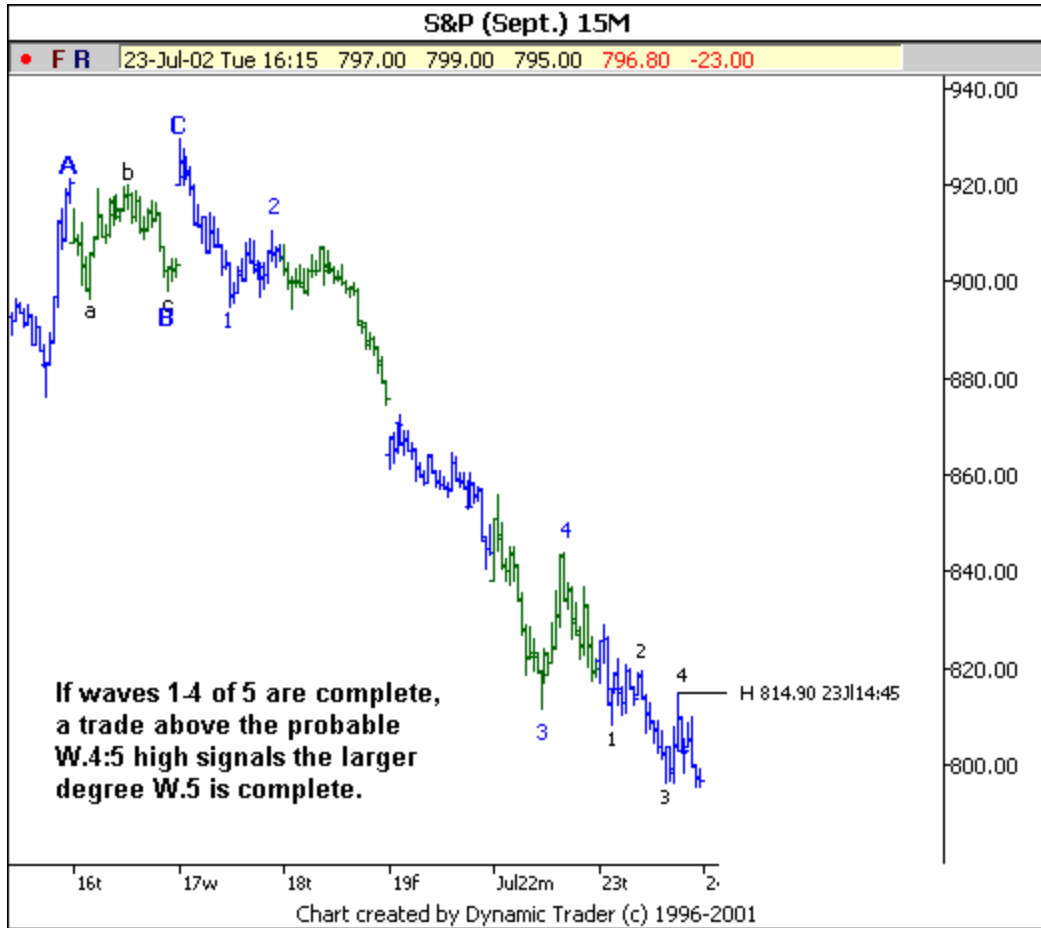
least a three wave correction. As of the last bar on the chart below, it appears a W.a of 4 is complete and a W.b and W.c will finish off W.4. A trade below the W.3 low indicates the W.4 is complete.



The market does not make a typical ABC-W.4 correction but declines straight below the W.3 low signaling W.4 is complete. From a trading perspective, we should always anticipate a market will make a typical wave pattern until proven otherwise. The W.4 rally shown below is not a typical correction since it is a single wave up. But, it only fits into the larger degree pattern position as a W.4 so that is how we label it, Elliott wave obsessives notwithstanding.

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W.5 appears to be subdividing into five waves as it should. If 814.90 is the W.4:5 high, a trade above it signals the W.5:5 is complete and the entire decline from the W.C high is also complete.

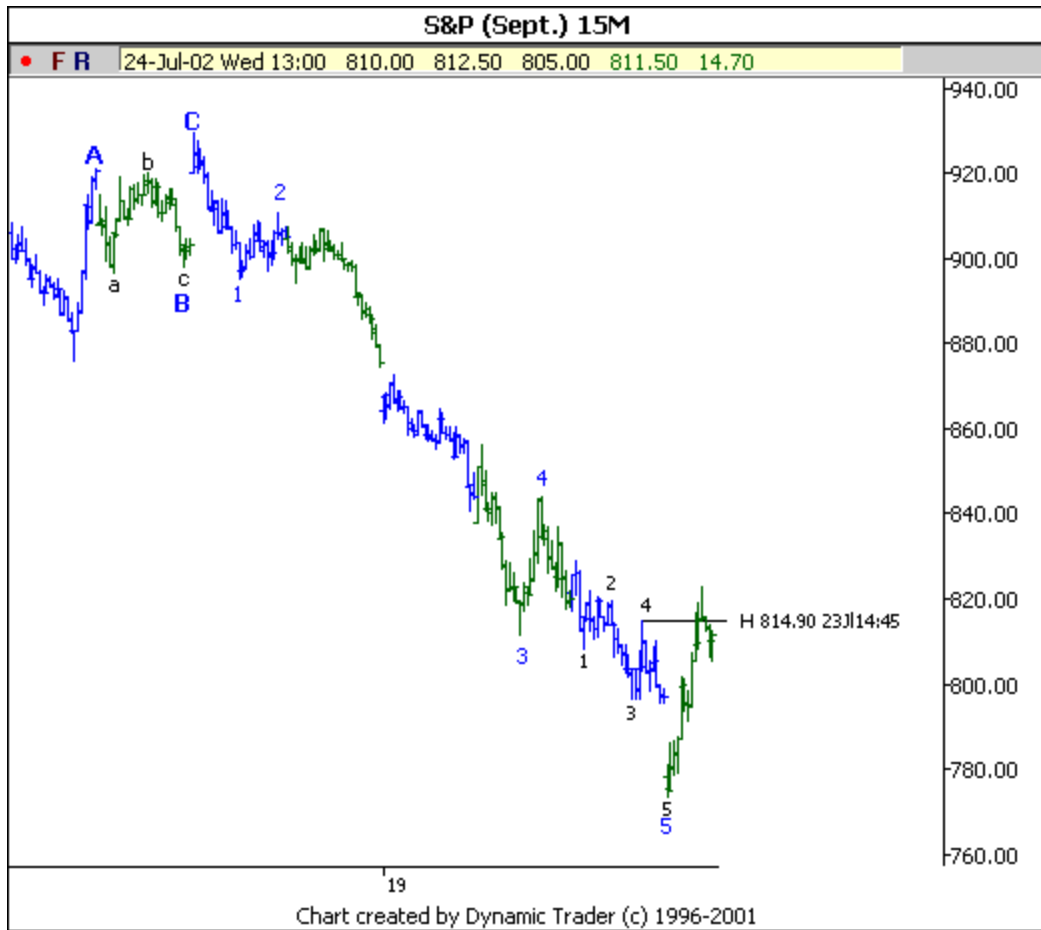
The pattern position is now telling us the entire decline from the W.C high is almost complete. The pattern position gives us a tremendous trading advantage. If short, we are aware that the downside is relatively limited and a significant rally is likely to be made soon. We should also prepare to consider a long trade.

At a minimum, once the W.5:5 low is complete, we would anticipate a correction of the entire decline shown above. If the low is a larger degree, we would anticipate an even greater advance.

The following day, the market gaps lower and later in the day trades above the W.4:5 high signaling a W.5:5 low is complete.

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The pattern position suggests we should now only consider long trades as long as the market does not trade below the W.5:5 low.

If the W.5:5 low was not made at the ideal time and price targets for a W.5:5 low, we do not have to buy the bottom for a long trade. One of W. D. Gann's most useful trading advice was – *"The safest trade is to buy (sell) the first correction to the new trend."* In other words, wait to go long on the first correction to the new trend.

The Elliott wave pattern position gives us the tools to help identify very early if a new trend is being made. In this case, the pattern position has signaled a W.5:5 low should be complete and the trend should be up for some time.

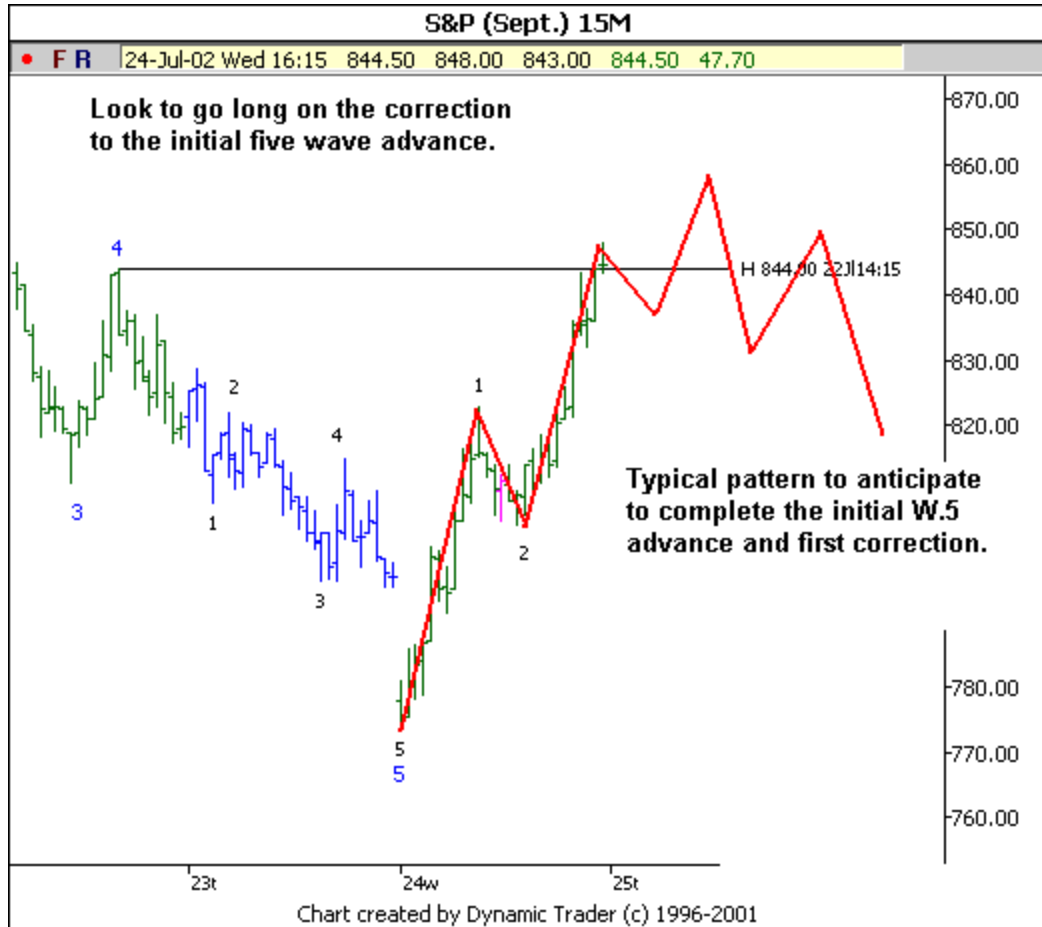
The initial advance should be a Wave 1 or A which typically subdivides into five waves. If a five-wave advance is made, it is often followed by an ABC correction. We would be alert to the pattern of the advance and initial

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decline to help identify if a W.C of 2 or B low is being made to position long.

The chart below shows the idealized pattern. The market may or not unfold in the idealized pattern but we do have a framework to work with to prepare for a low risk, high probability long trade.



How Long To Be Long?

If the rally is only a correction, the minimum expectation is for an ABC which typically subdivides 5-3-5. As long as the market has not traded below the probable W.5:5 low, we would expect at least a three wave rally that would be a correction to the advance from the W.C high where the five-wave decline began.

Lessons Learned

Elliott wave gives us a framework to make a trading decision although it does not guarantee any particular wave structure will unfold. Remember, all trading is probabilities. We use Elliott wave pattern analysis to help put the probabilities on our side.

We use the Elliott wave position to help identify the main trend direction, the maximum stop loss and what the market must do to be in a position to complete a trend or counter-trend.

If we don't expect more from Elliott wave analysis than it can provide, it will be one of the most important trading tools you use.

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Part 6

Robert Miner, Dynamic Traders Group, Inc.

This Week's Lesson

Always Be Aware of the Big Picture

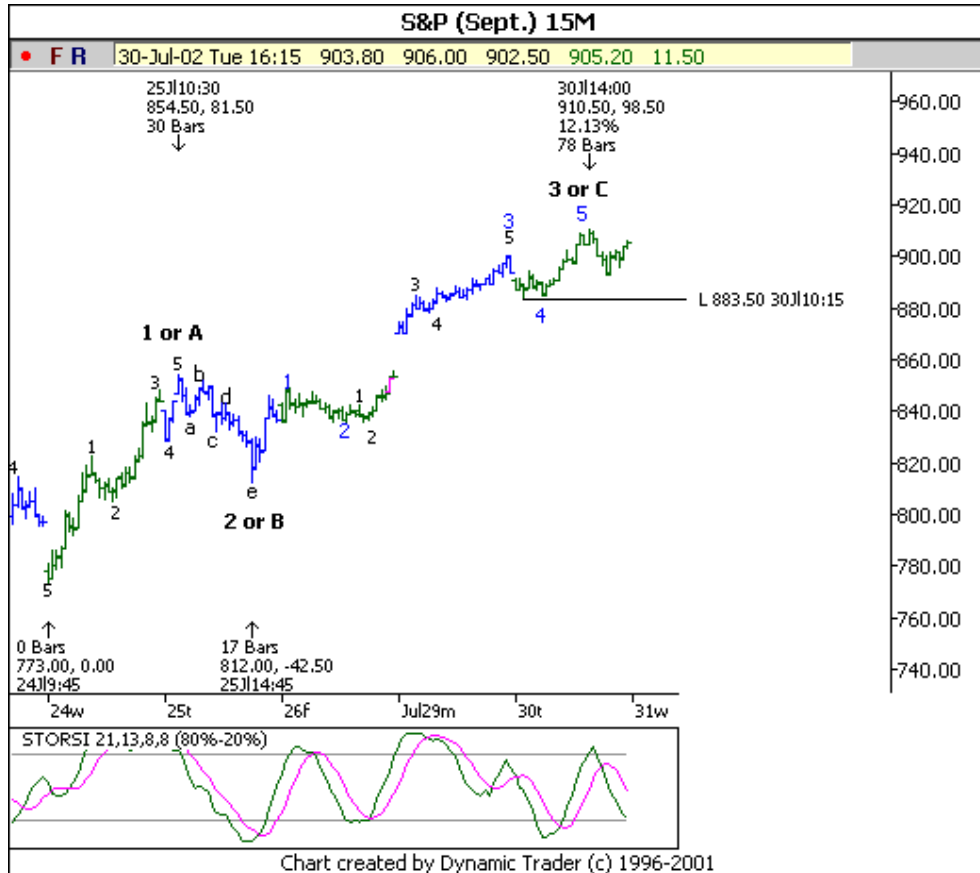
We must continually be aware of the probable larger degree pattern position to keep the short term in perspective.

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S&P – Is a corrective rally over?

The current position of the S&P as of the end of today (July 30) is in a position for an important Elliott wave lesson. First, let's take a look at the 15-minute chart from the July 24 low.



Today's high appears to have completed a text book three wave advance from the July 24 low. Is it a 1-2-3 or A-B-C? From just the data shown above, there is no way to tell. We don't have to guess. We can use the simple EW guidelines and let the market let us know. What could the market do to signal which it is?

A W.4 should not trade into the range of the W.1. If the S&P declines below 854.50, the W.1 or A high, it signals the high should be a W.C. Does that mean a corrective ABC rally high is complete and the trend should continue to new lows? What do you think?

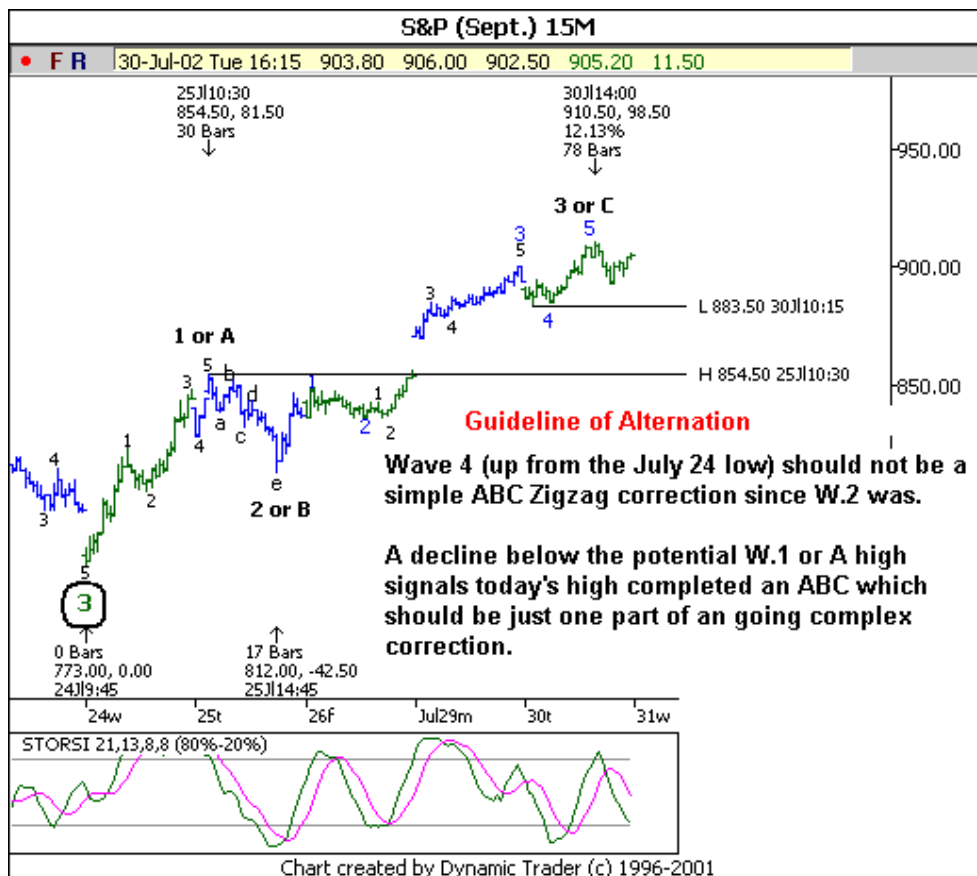
There is an important Elliott wave guideline that will help us answer this question. First, we have to move back and review how this potential ABC fits into the larger degree picture.

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A W.4 should not trade into the range of the W.1. If the S&P declines below 854.50, the W.1 or A high, it signals the high should be a W.C. Even if this were to unfold, it is unlikely the W.4 correction is complete for two important reasons.

Firstly, Wave-2 (May 7-17) was a simple ABC (see the daily chart above). If we consider the guideline of *alternation*, if W.2 is a simple ABC W.4 will typically be something other than a simple ABC. A decline below 854.50 would indicate the decline should be either an X-Wave, or today's high completed an abc:A of larger degree. A Wave-A may be an ABC itself. In either case, the S&P would continue the correction for at least several more days and probably test or exceed today's high. The Elliott wave guideline of *alternation* clearly warns that a Wave-4 high should not be complete today.



Secondly, W.4 should have at least several more days to go to equal or exceed the time range of the W.2. While this is not an Elliott wave "rule" or "guideline" it is a high-probability time relationship with W.4 and W.2. A

W.4 is rarely shorter in time than a W.2 so we always anticipate it will equal or exceed the time range of W.2.

Short term traders should be aware that today's high appears to have completed a five-wave advance from the July 24 (W.2 or B) low. As long as the S&P has not taken out today's high, short term traders should be prepared for a day or two of sideways to down trading.

If the S&P declines below the potential W.1 or A high at 854.50, it should not signal the end of an ABC.W.4 which should then continue in some form of complex correction.

Lessons Learned

The Elliott wave rules and guidelines help us to not only determine the high-probability pattern position of a market, but what the market can do to confirm or invalidate the most probable position.

It is very important to keep aware of the big picture and how the short-term pattern may fit into the big picture. Simple price and time factors will often help to clarify the pattern position.

While no thing is for certain in the markets, the pattern position at least gives us the high-probability position and what to anticipated for any potential market activity.