

The Wave Principle Applied

How to Spot a Pattern You Recognize and Put Your Trading Plan Into Action

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Why Do People Have Difficulty Trading the Wave Principle?

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Answer: “The primary value of the Wave Principle is that it provides a *context* for market analysis.”

—*Elliott Wave Principle*, pg. 19

The Wave Principle, as it stands, is *not* a trading methodology.

Key Components of a Trading Methodology

Entry – A defined approach for entering trading positions

Exit – A defined approach for exiting trading positions

Trade Management – A disciplined way to manage open positions using trade targets and protective stops

What You Need To Know Before You Begin Trading with the Wave Principle

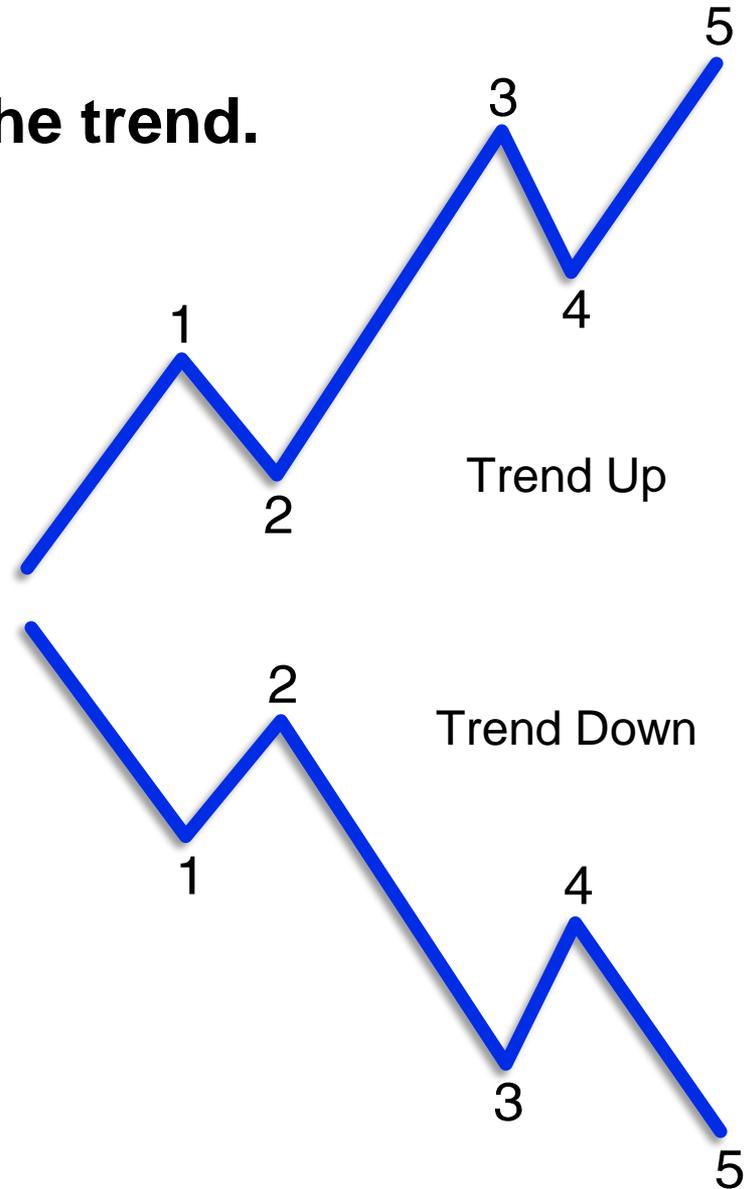
- How the Wave Principle improves trading
- Which waves to trade
- Elliott Wave trade setups
- Elliott Wave entry points and protective stops
- Trade targets
- Putting it all together

How the Wave Principle Improves Trading

1. Wave analysis identifies the trend.
2. It identifies countertrend moves within the trend.
3. It signals the resumption of the trend.
4. It identifies the termination of the trend.
5. It provides high-probability objectives.
6. It provides specific points of ruin.

1. Wave analysis identifies the trend.

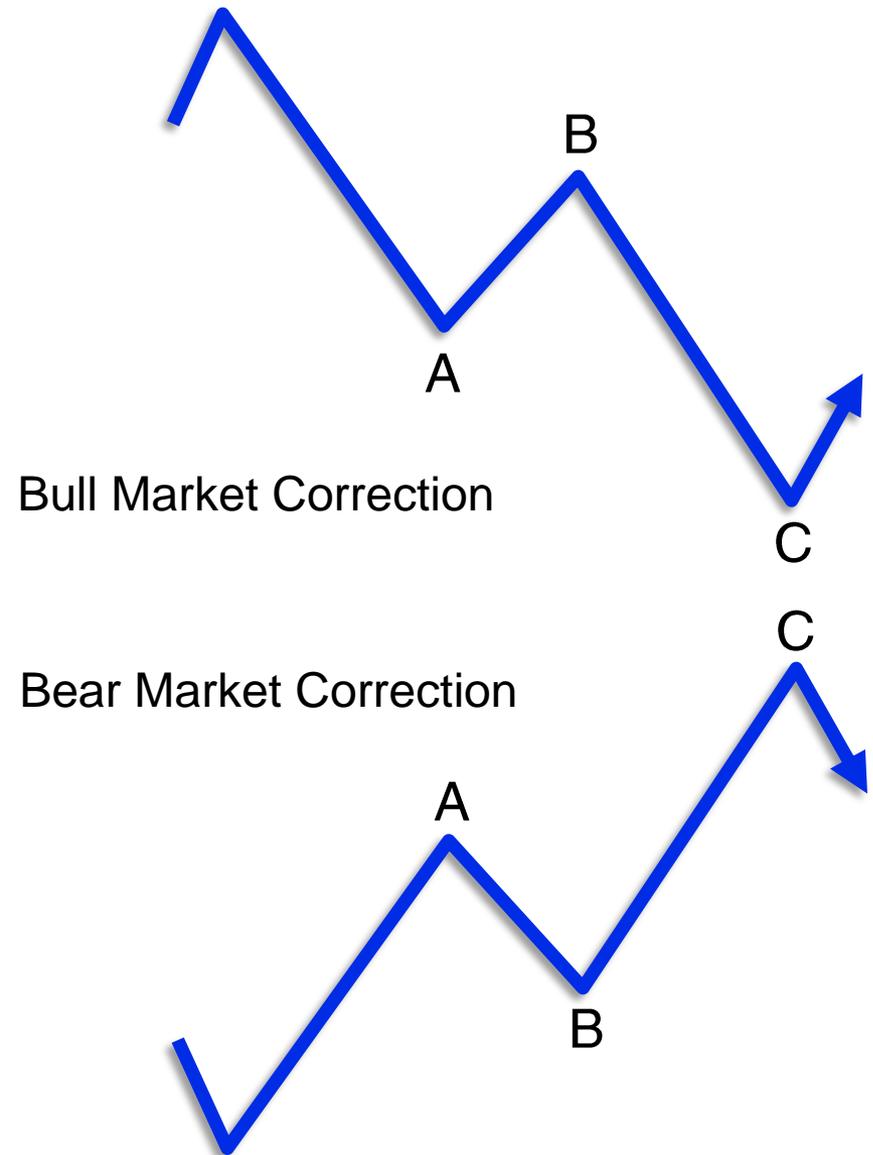
“... *action in the same direction as the one larger trend develops in five waves.*”
—*Elliott Wave Principle*, pg. 25



2. Wave analysis identifies countertrend moves within the trend.

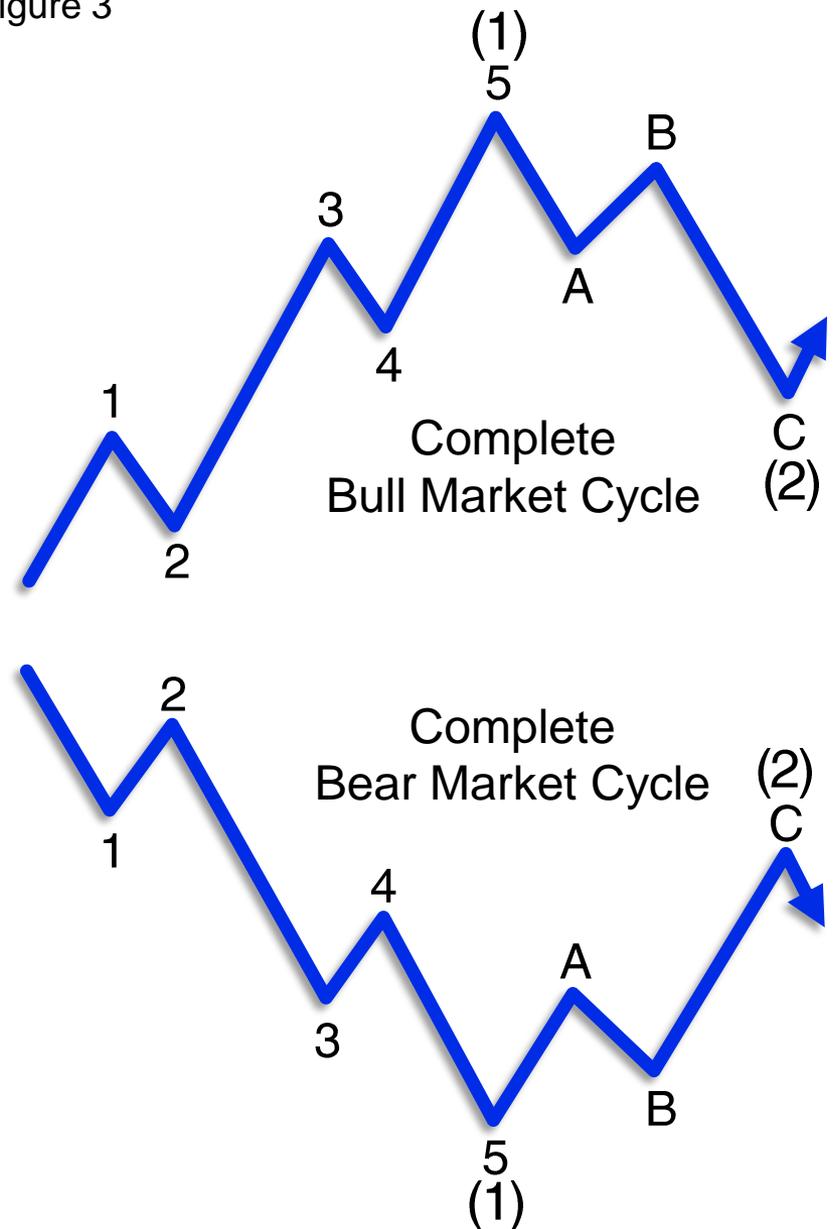
“... reaction against the one larger trend develops in three waves.”

—*Elliott Wave Principle*, pg. 25



3. Wave analysis signals the resumption of the trend.

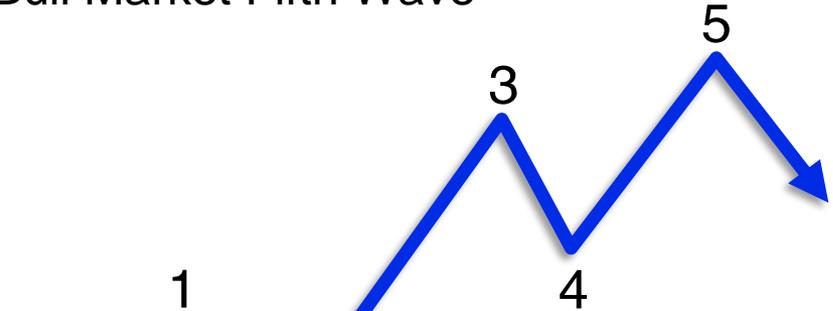
A complete Elliott wave cycle consists of eight waves. Upon its completion, a similar cycle ensues in wave three or C.



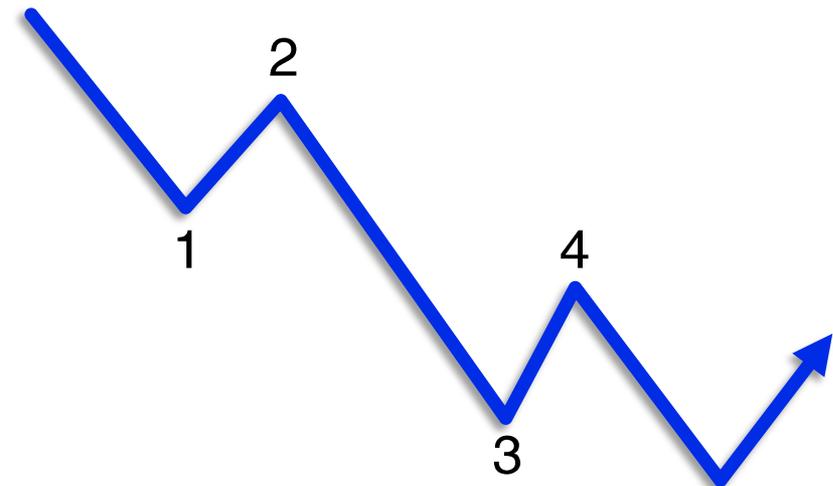
4. Wave analysis identifies the termination of the trend.

The fifth wave of a motive wave, which is the final wave within the sequence, forewarns of an impending correction or change in trend.

Bull Market Fifth Wave



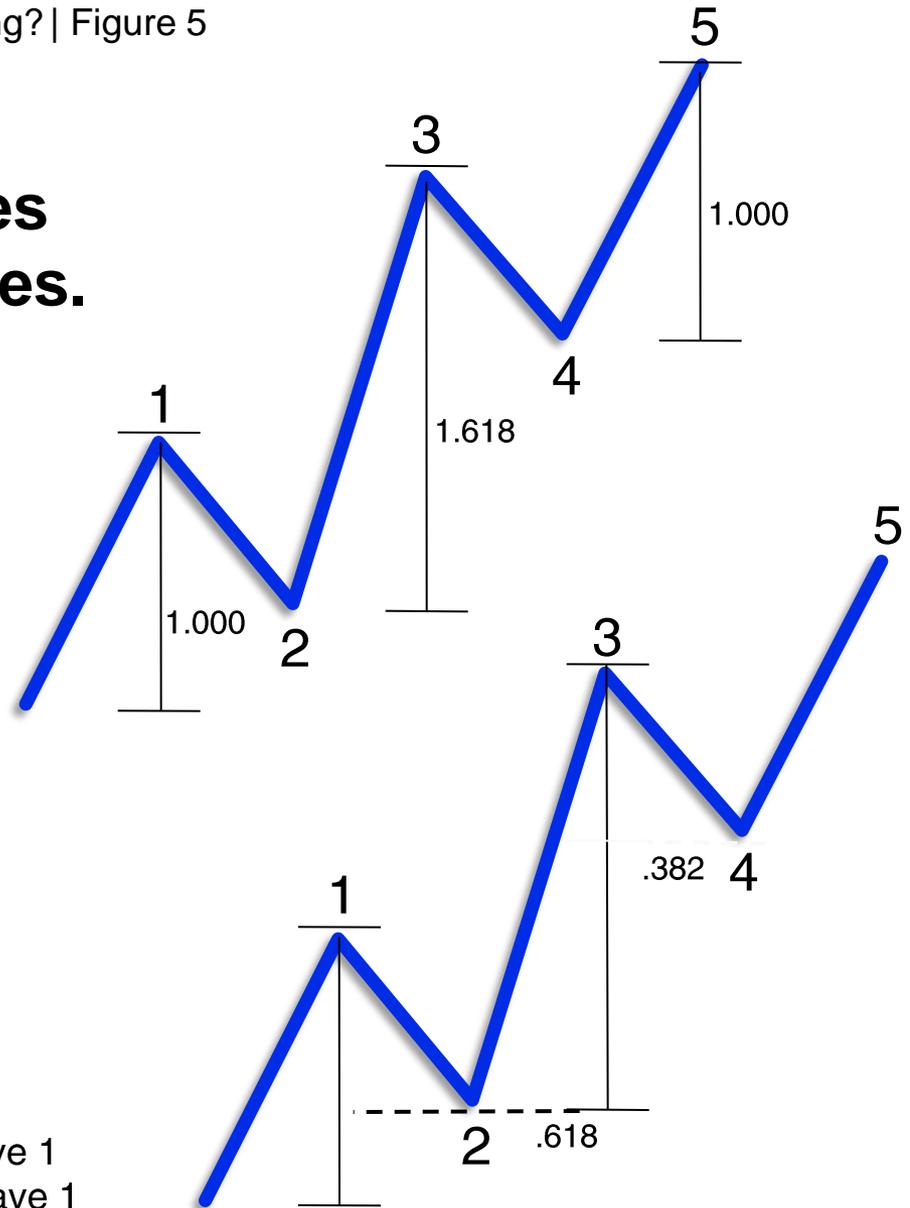
Bear Market Fifth Wave



5. Wave analysis provides high-probability objectives.

“When Elliott wrote *Nature’s Law*, he explained that the Fibonacci sequence provides the mathematical basis of the Wave Principle.”

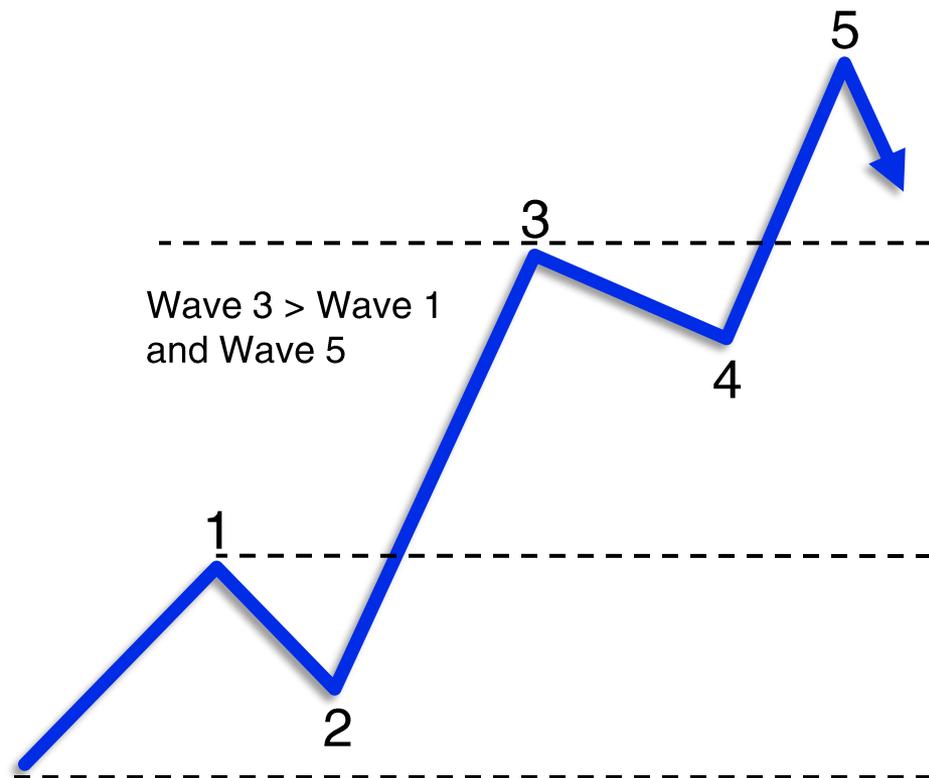
—*Elliott Wave Principle*, pg. 91



Wave 2 = .618 x Wave 1
Wave 3 = 1.618 x Wave 1

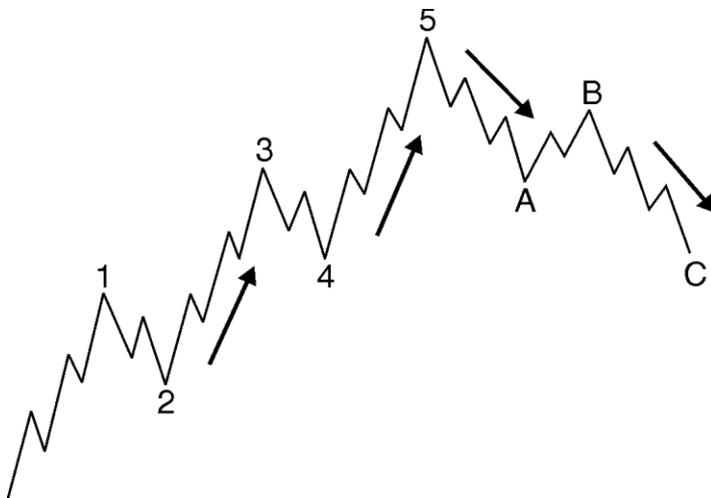
6. Wave analysis provides specific points of ruin.

- Wave two cannot retrace more than 100% of wave one.
- Of waves one, three and five, wave three can never be the shortest impulse wave.
- Wave four can never end in the price territory of wave one.

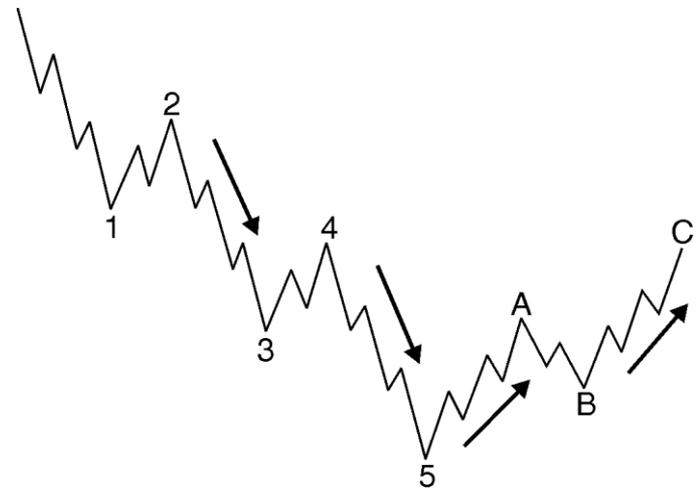


Elliott Wave Trading Opportunities

- Wave Three
- Wave Five
- Wave A
- Wave C



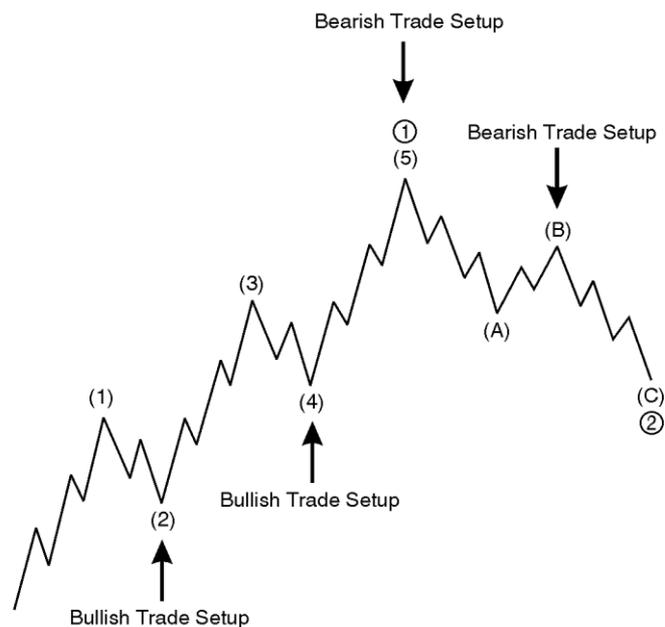
Bull Market Trading Opportunities



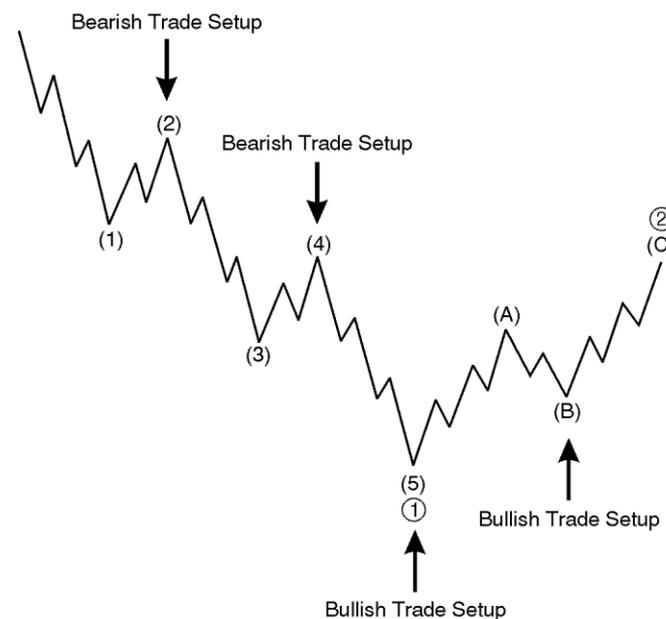
Bear Market Trading Opportunities

Elliott Wave Trade Setups

- Wave Two
- Wave Four
- Wave Five
- Wave B



Bull Market Trade Setups

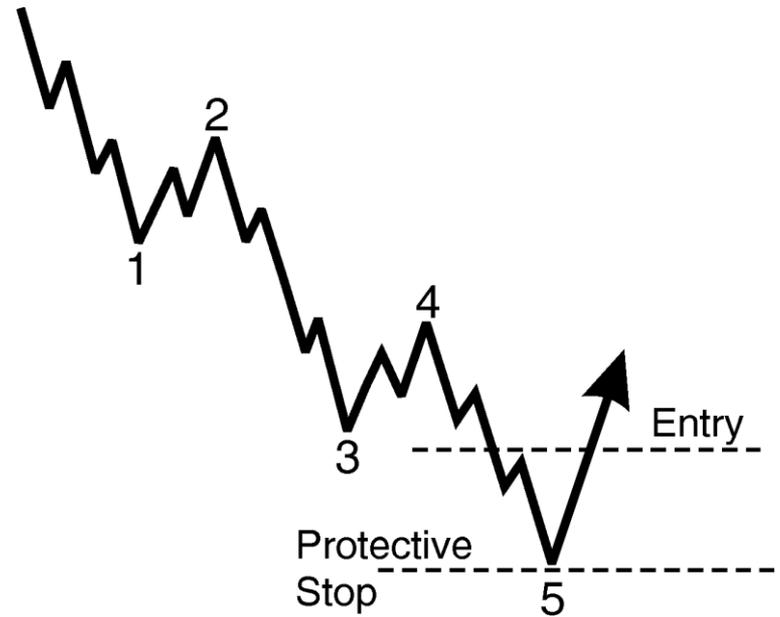
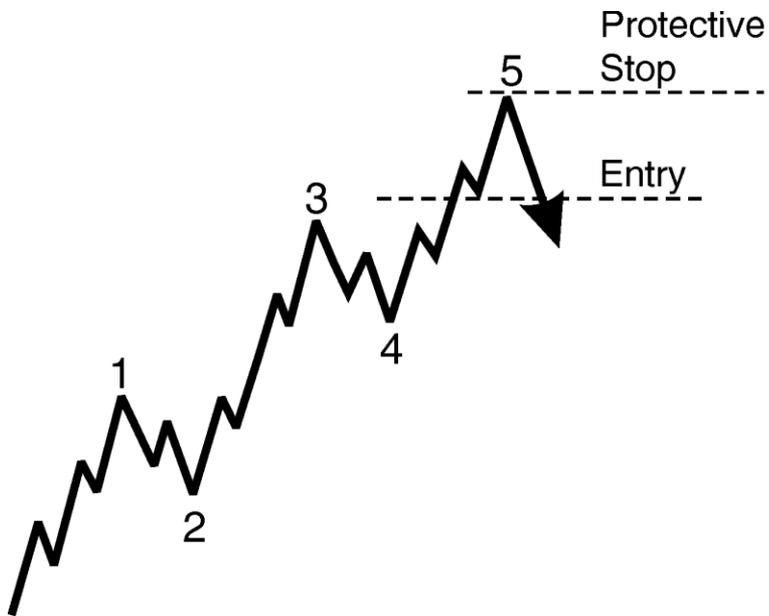


Bear Market Trade Setups

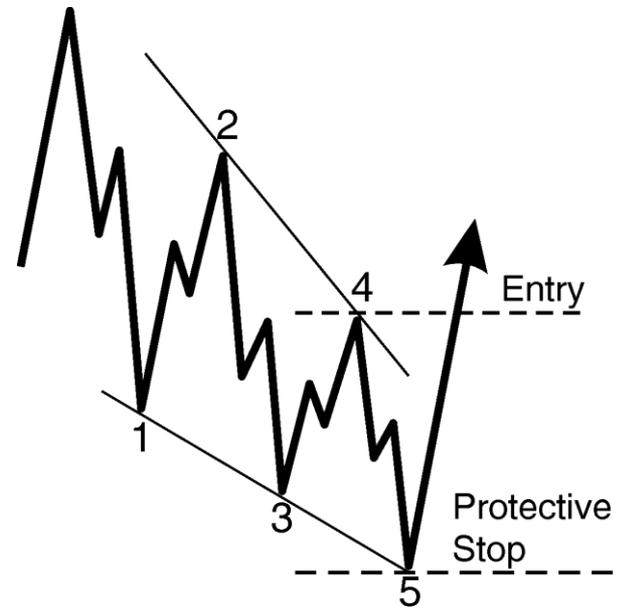
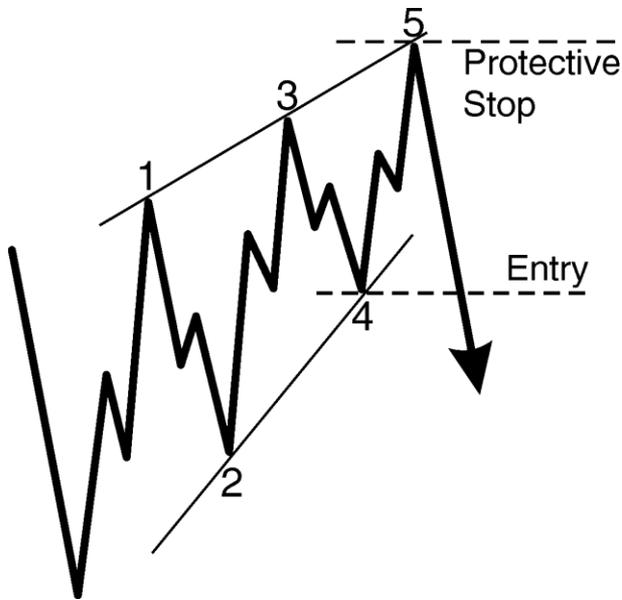
Elliott Wave Entry Points and Protective Stop Placement Guidelines

1. Impulse Wave
2. Ending Diagonal
3. Zigzag
4. Flat
5. Triangle

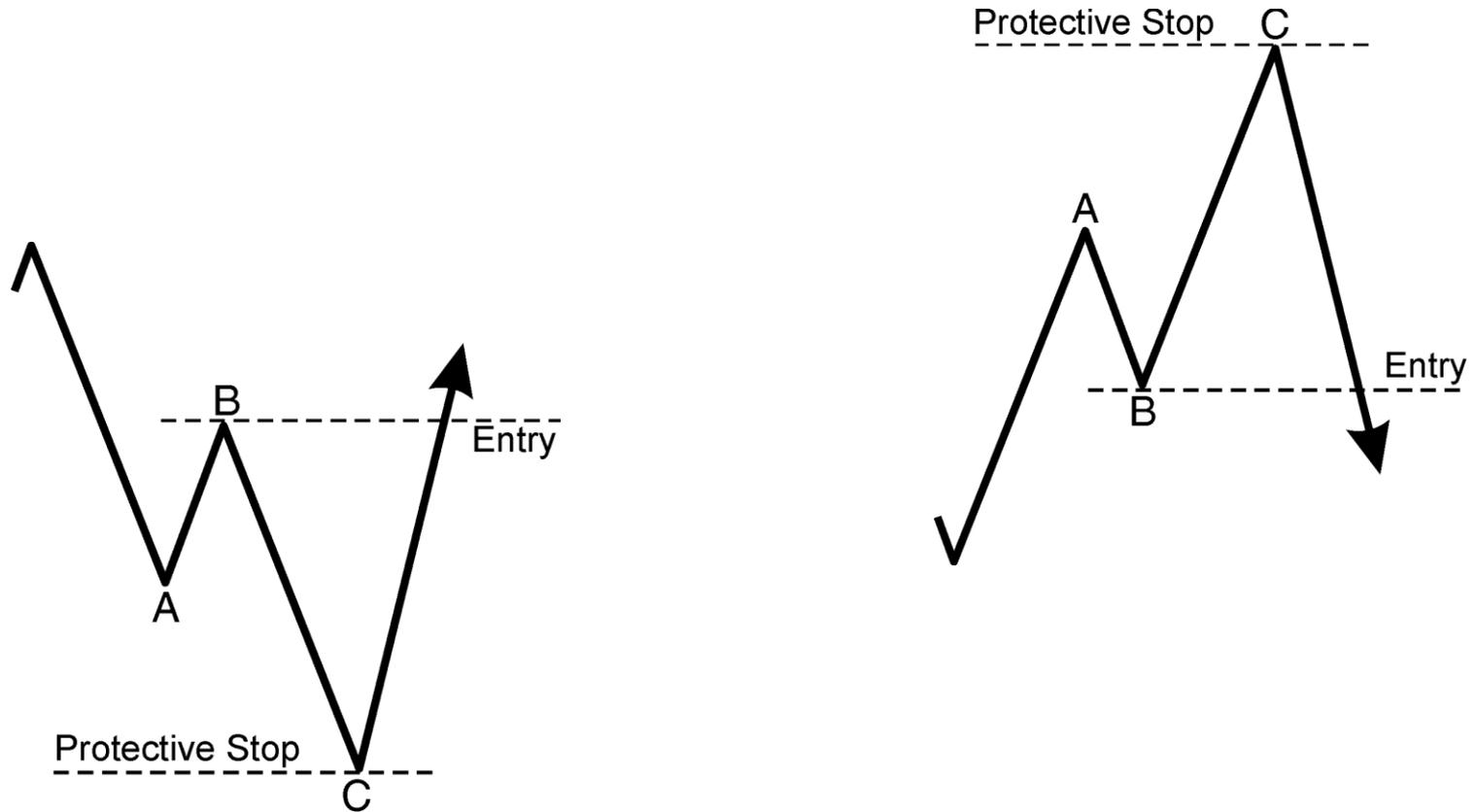
Impulse Wave



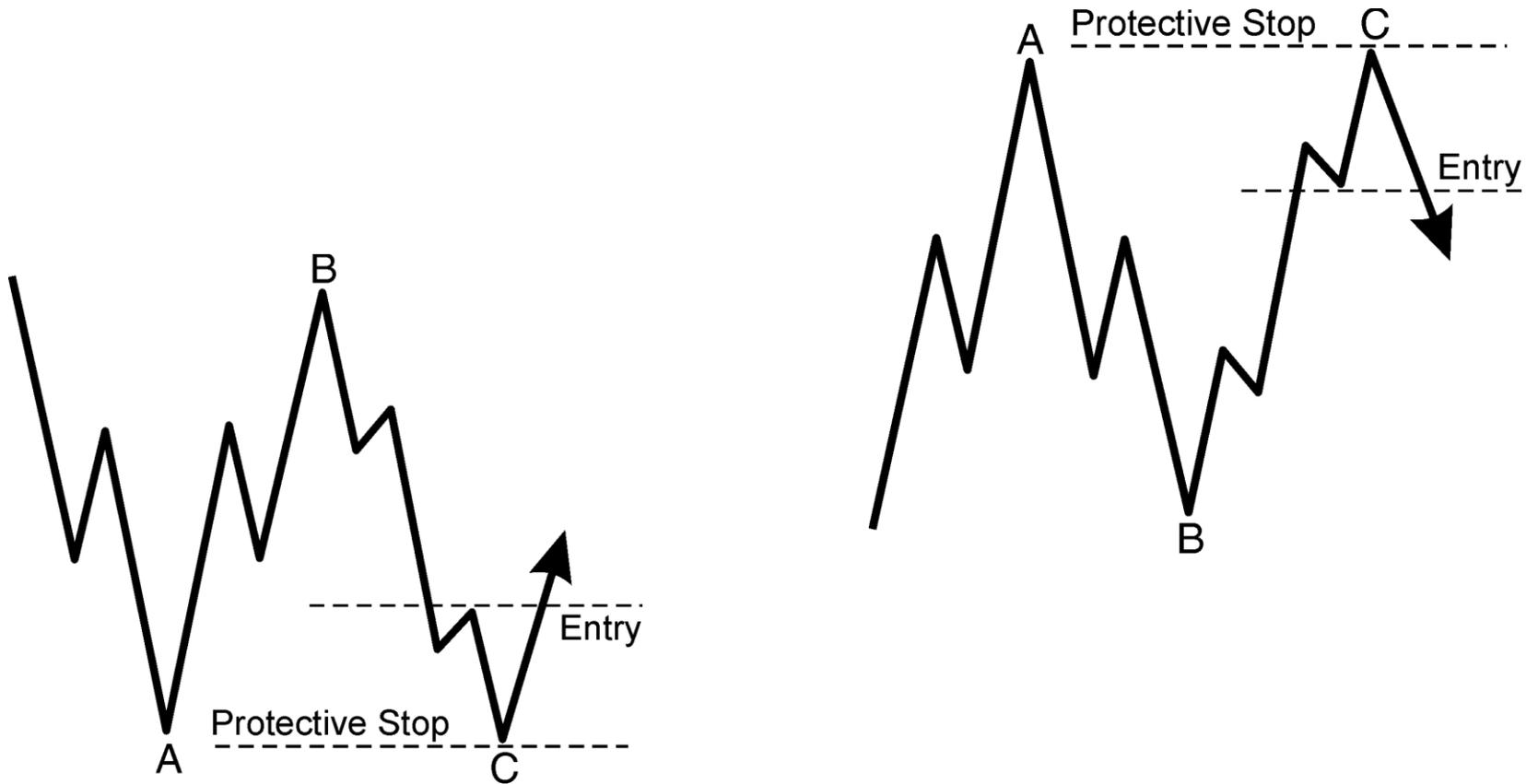
Ending Diagonal



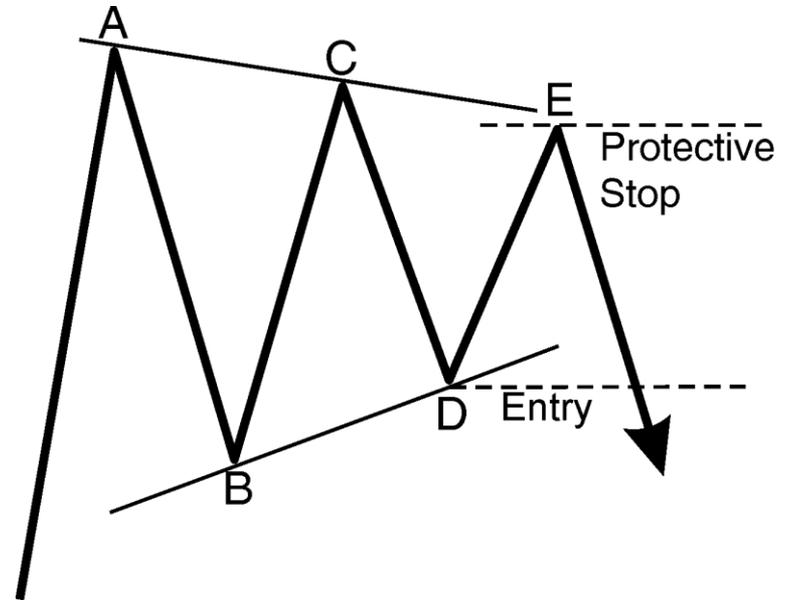
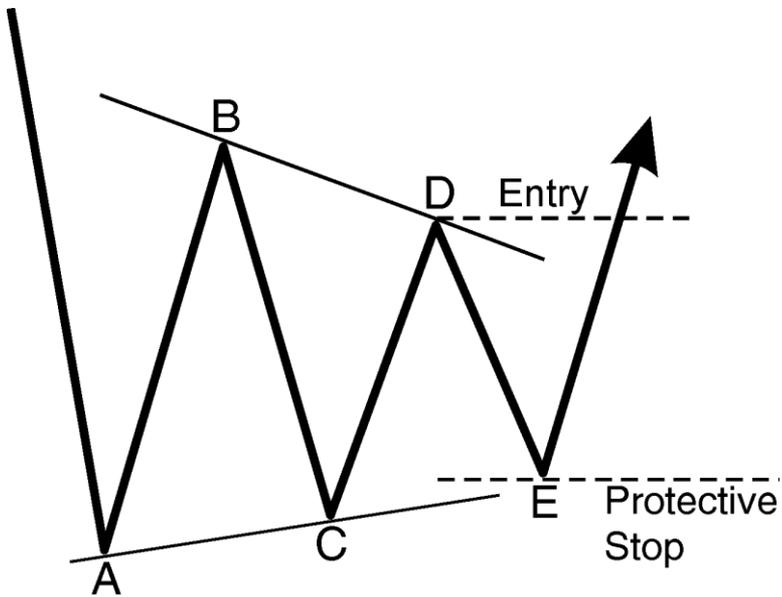
Zigzag



Flat

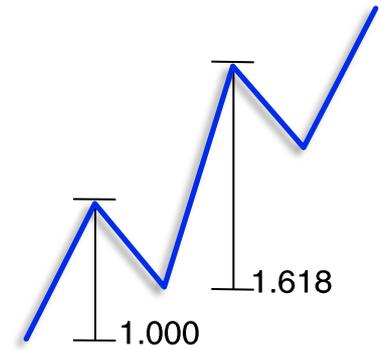


Triangle



Trade Targets

Wave Three — Wave three typically travels a 1.618, 2.618 or 4.236 multiple of wave one. Within waves one, three and five, wave three is the impulse wave most likely to extend.

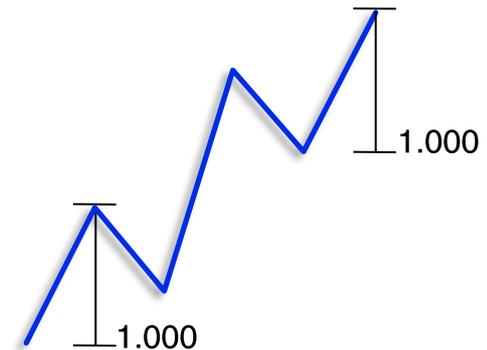


Wave Five — Wave five is the final wave within an impulse wave and should clearly subdivide into five waves. Fifth waves take the shape of a Diagonal Triangle approximately 20% of the time. Fibonacci relationships most often found in fifth waves are as follows:

Wave 5 = Wave 1

Wave 5 = 1.618 x Wave 1

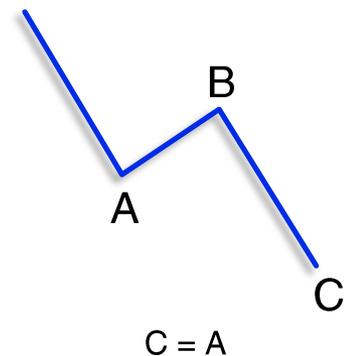
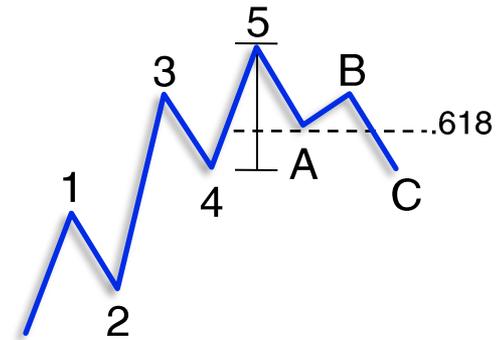
Wave 5 = .618 x Waves 1 through 3



Trade Targets

Wave A — Typically ends near the .618 retracement of wave five. If wave A unfolds in five waves, the operative corrective pattern is a Zigzag. A three-wave wave A implies that a Flat or Expanded Flat correction is taking shape. Depending on degree, a wave A that subdivides into three waves could mean that a Triangle is taking shape.

Wave C — If wave C is part of a fourth-wave correction, it will most often end within the span of the previous fourth wave, likely near its terminus. The most common Fibonacci retracement for fourth-wave corrections is a .382 multiple of wave three. If wave C is part of a second-wave correction, it will most often end within the span of the previous second wave, likely near its terminus. The most common Fibonacci retracement for second-wave corrections is a .618 multiple of wave one. The most common relationship between waves C and A is equality.



Putting the Wave Principle To Work

1. Do I see a wave pattern I recognize?
2. What evidence supports my assessment?
3. What is the most likely course prices will travel?
4. What is the best alternate labeling?
5. Where am I wrong?
6. Does the analysis warrant taking a position?
7. Where do I enter a position?
8. Where do I place a protective stop?
9. Where do I take profits?
10. How will I manage the position once it is open?

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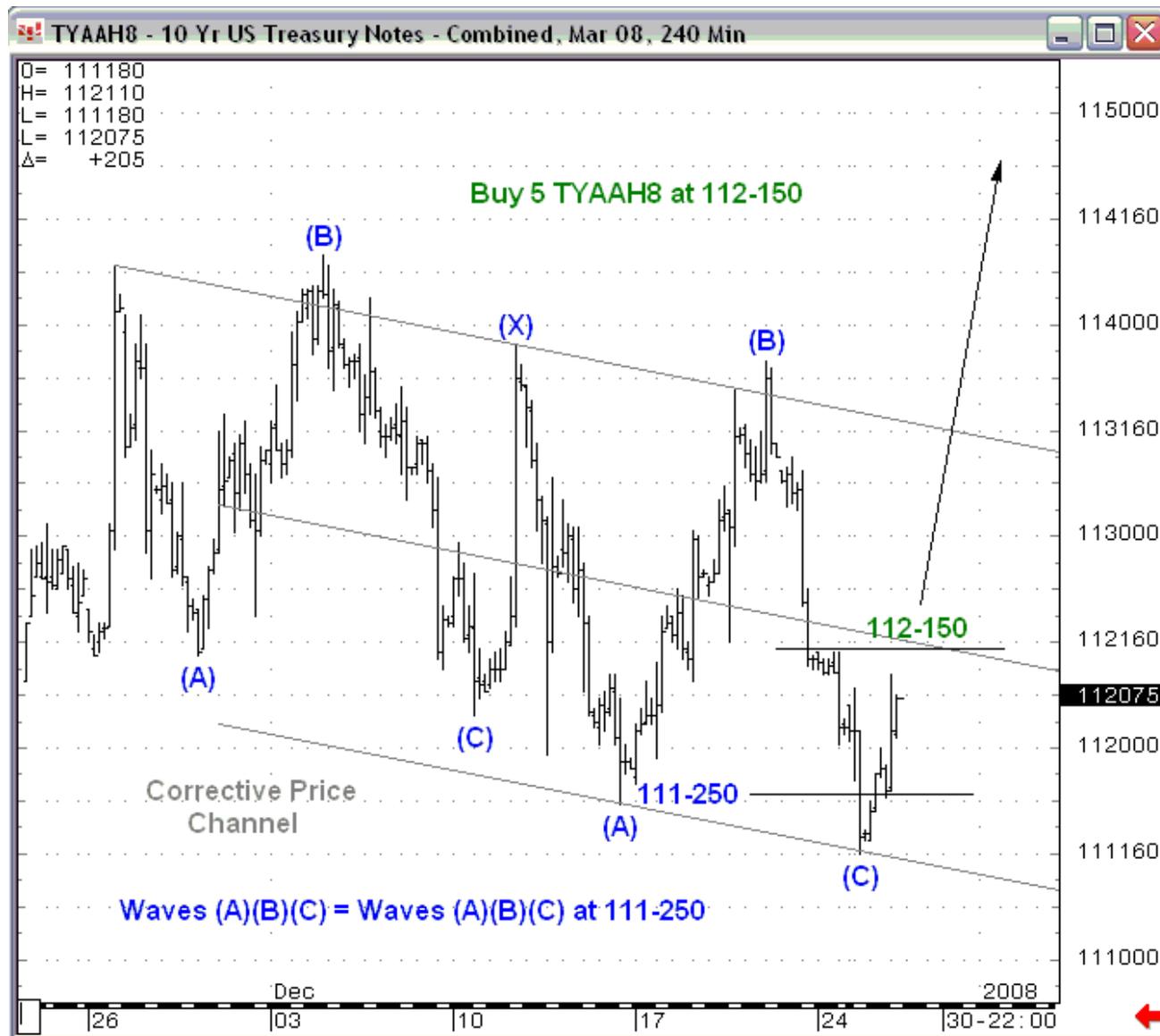
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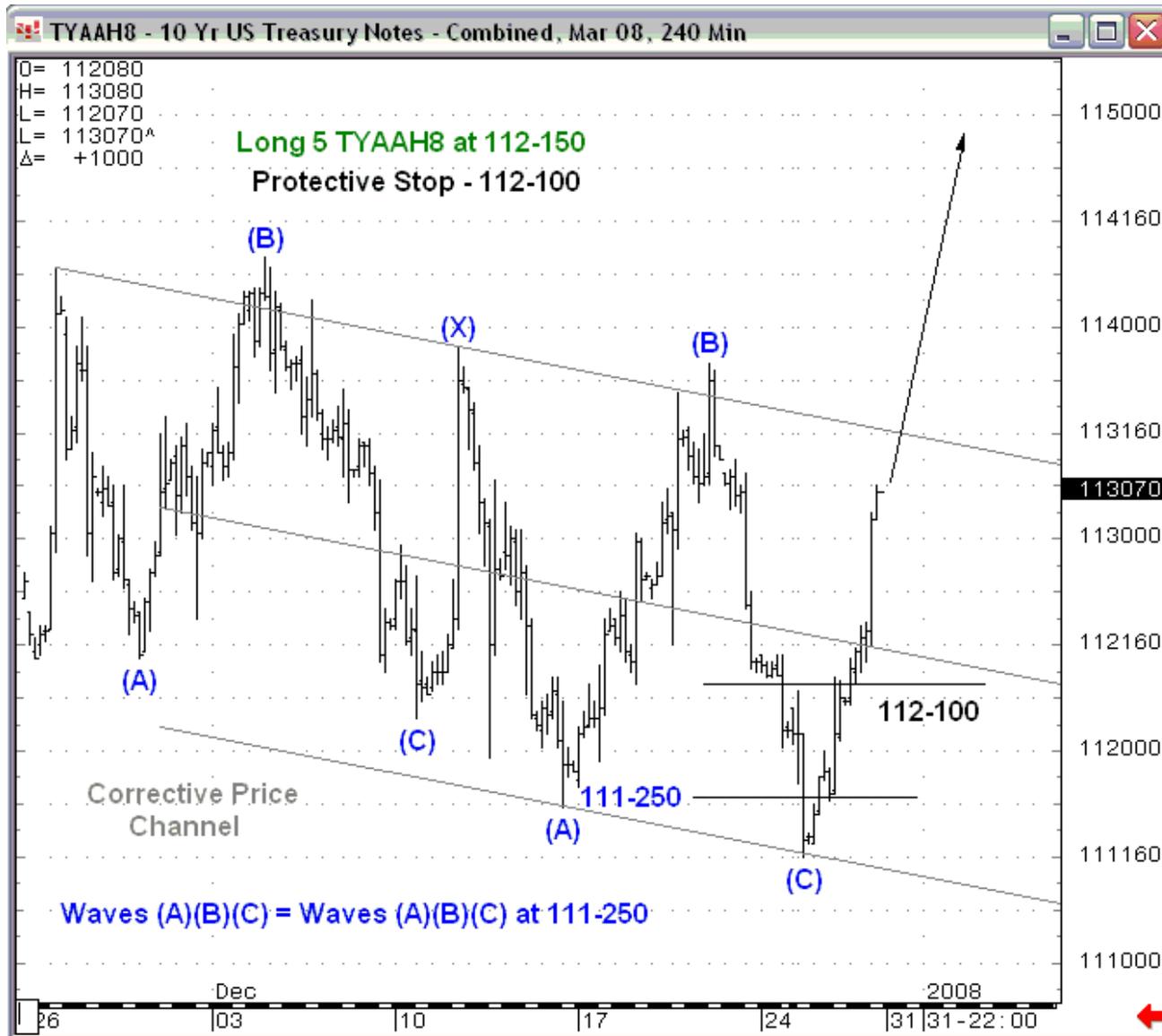
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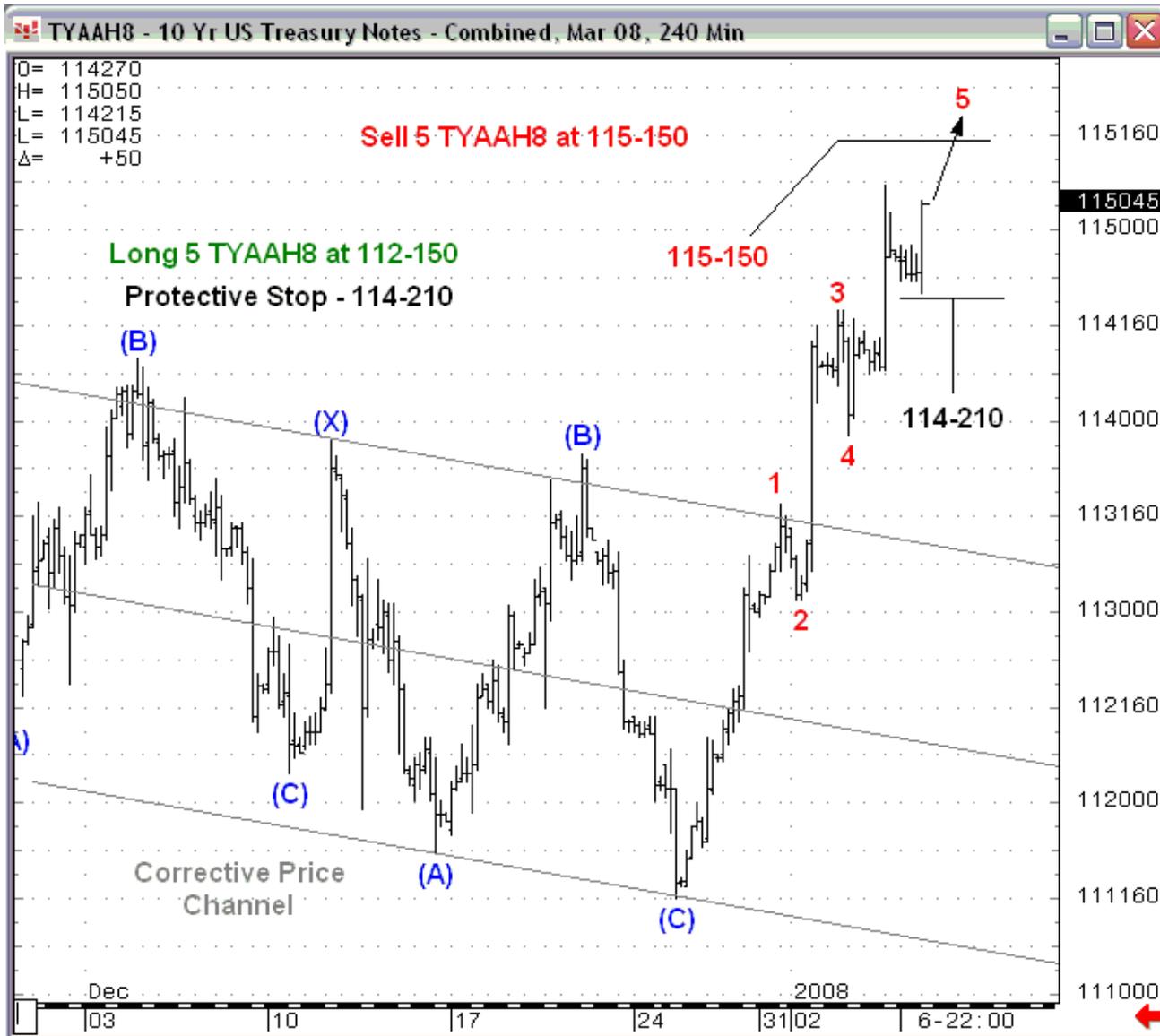
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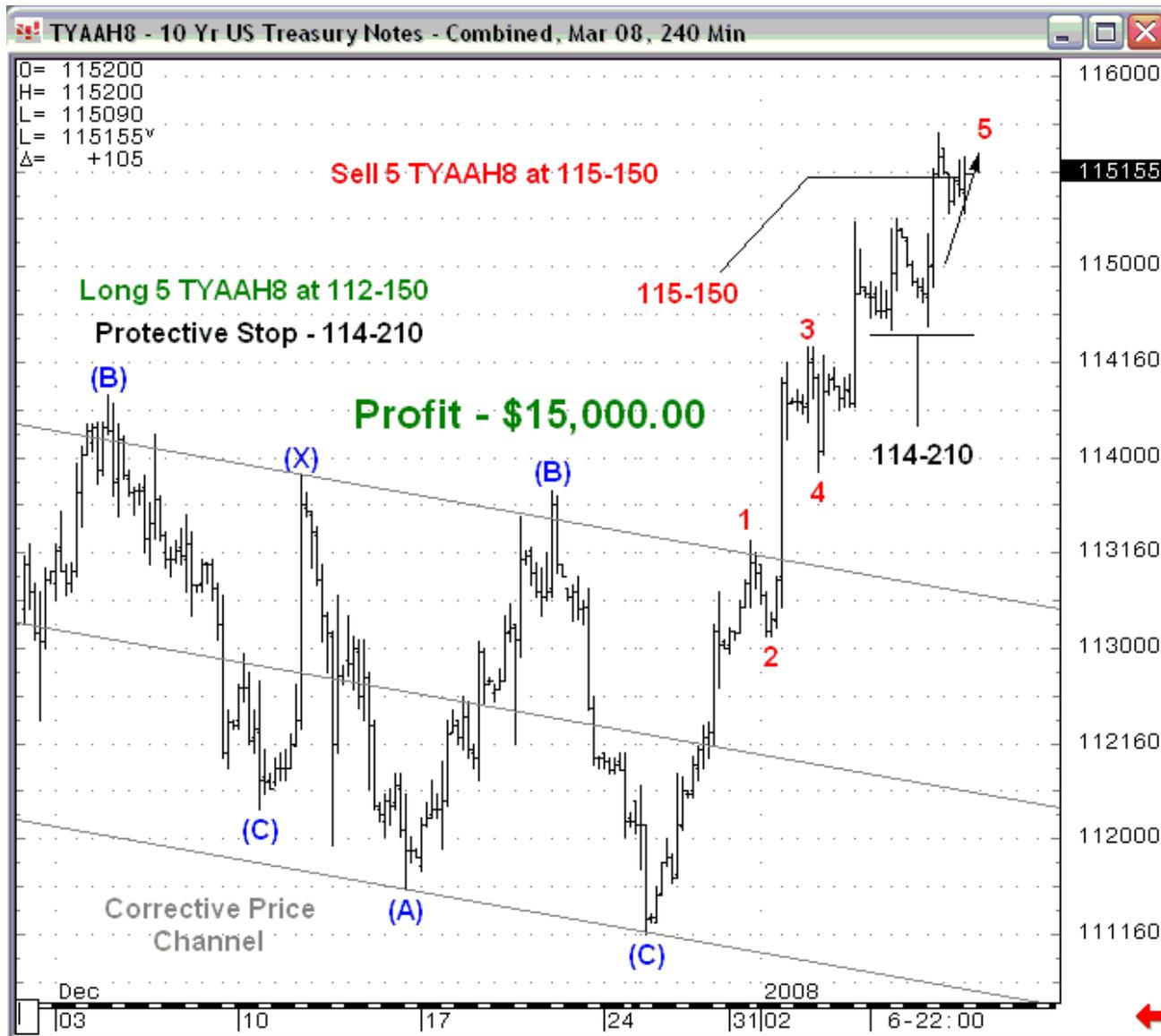
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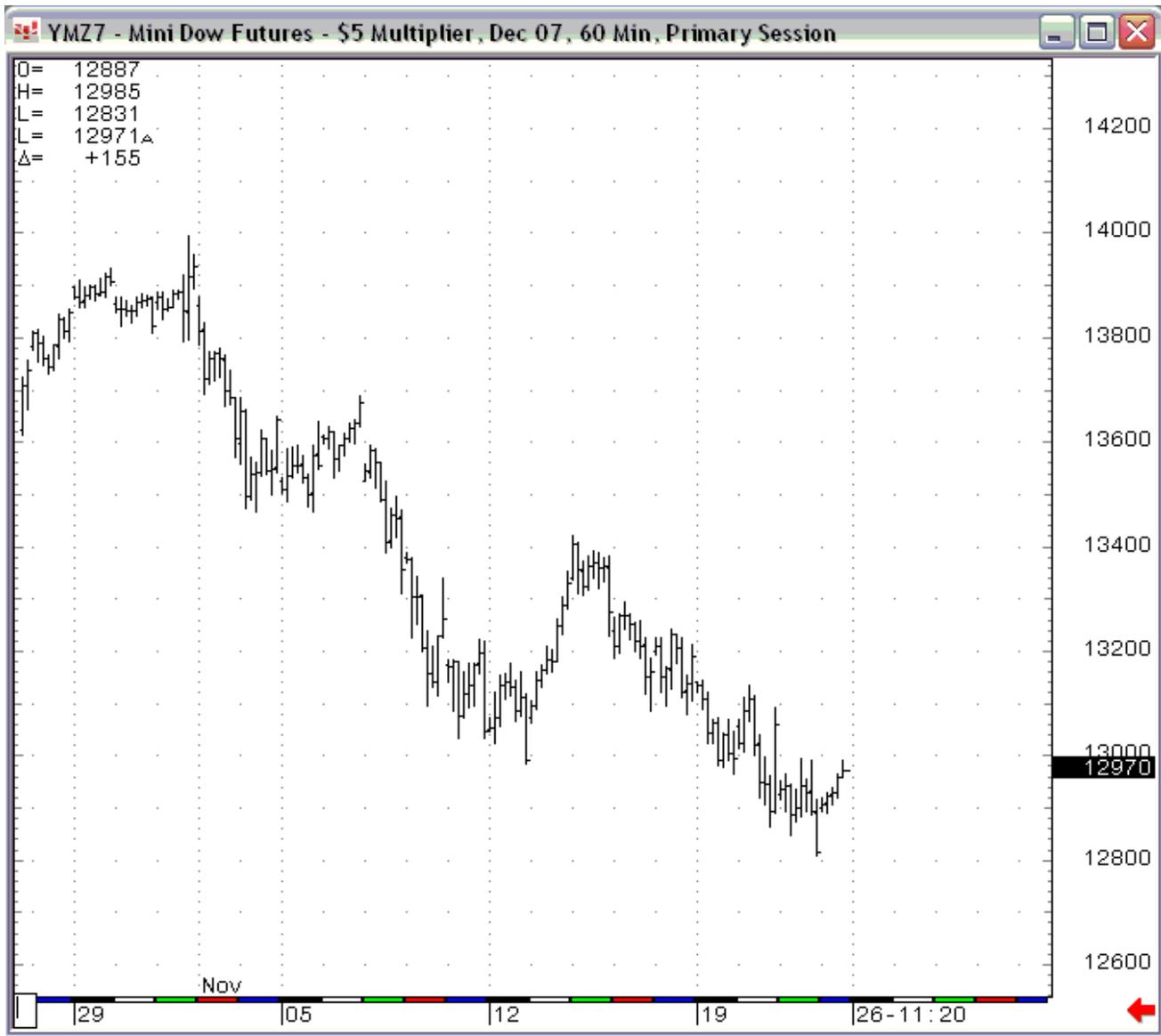


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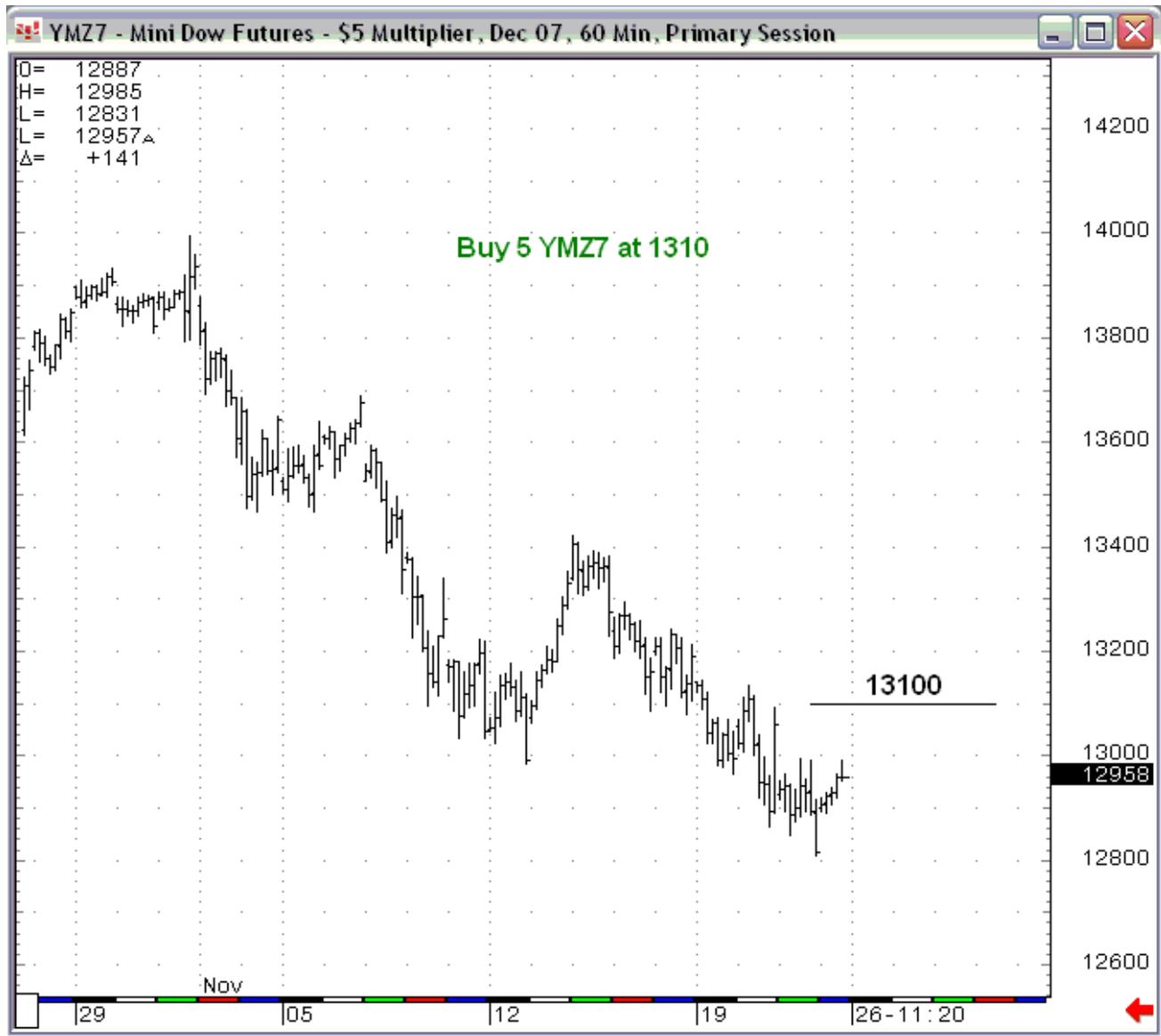
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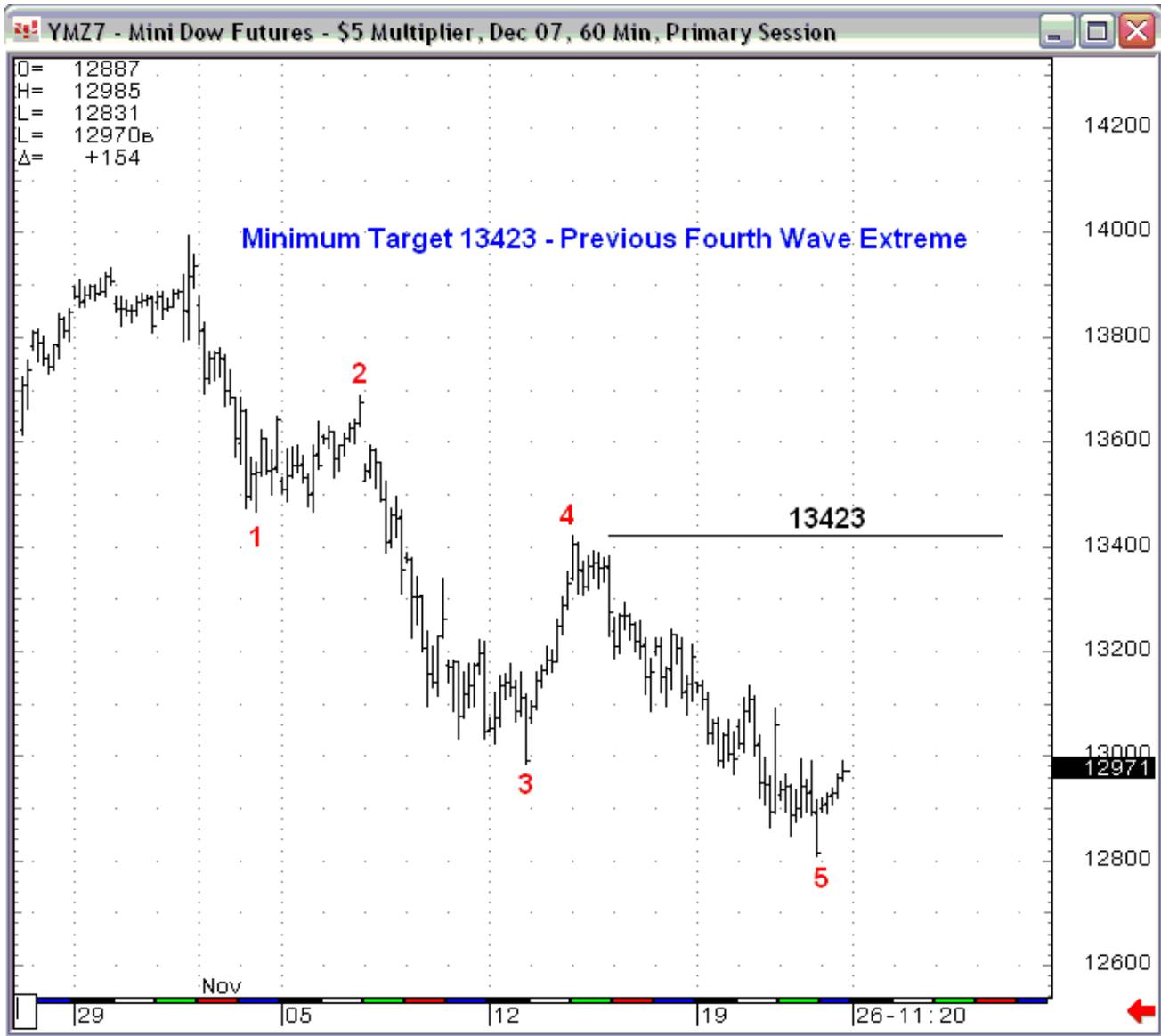
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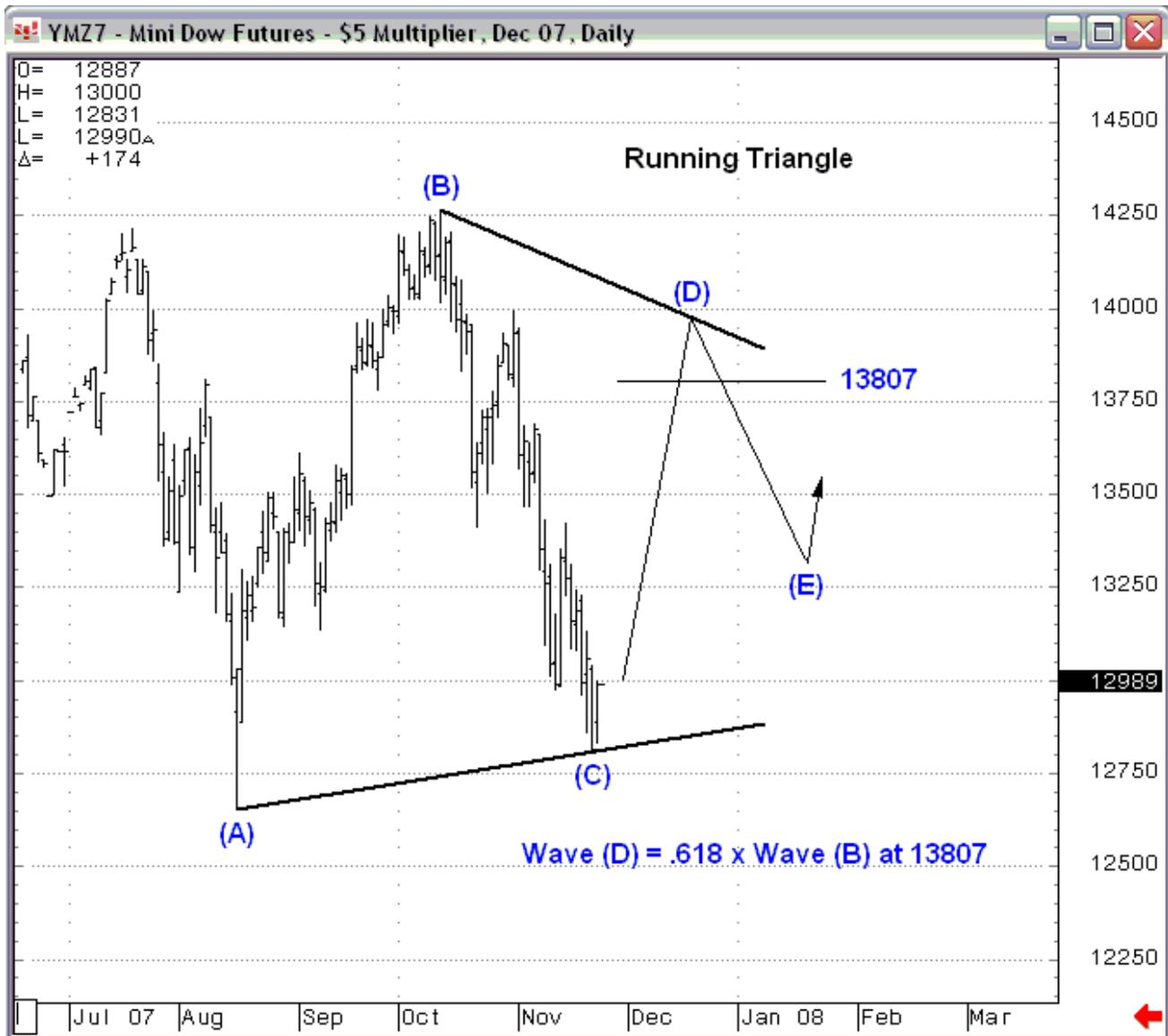
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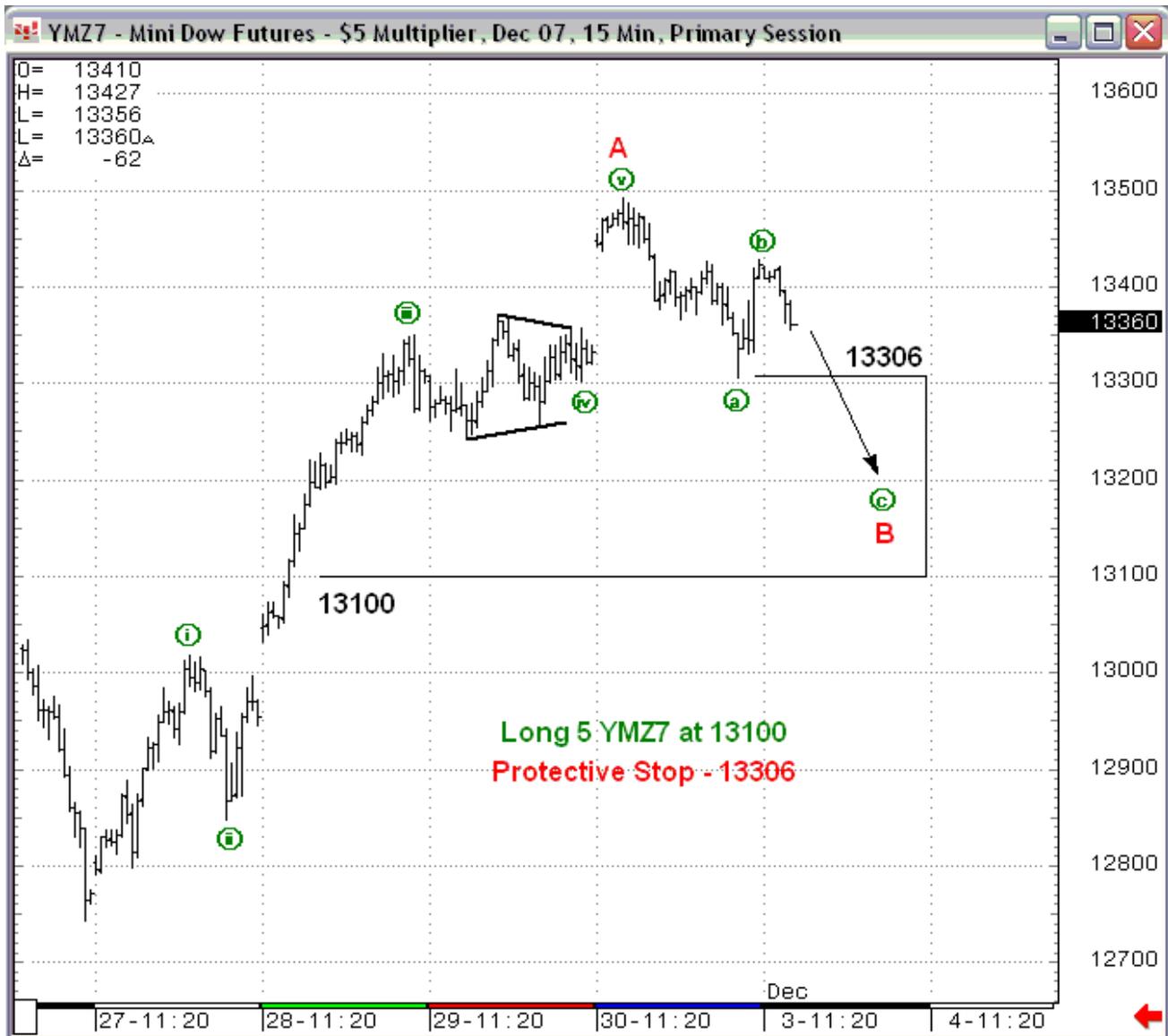
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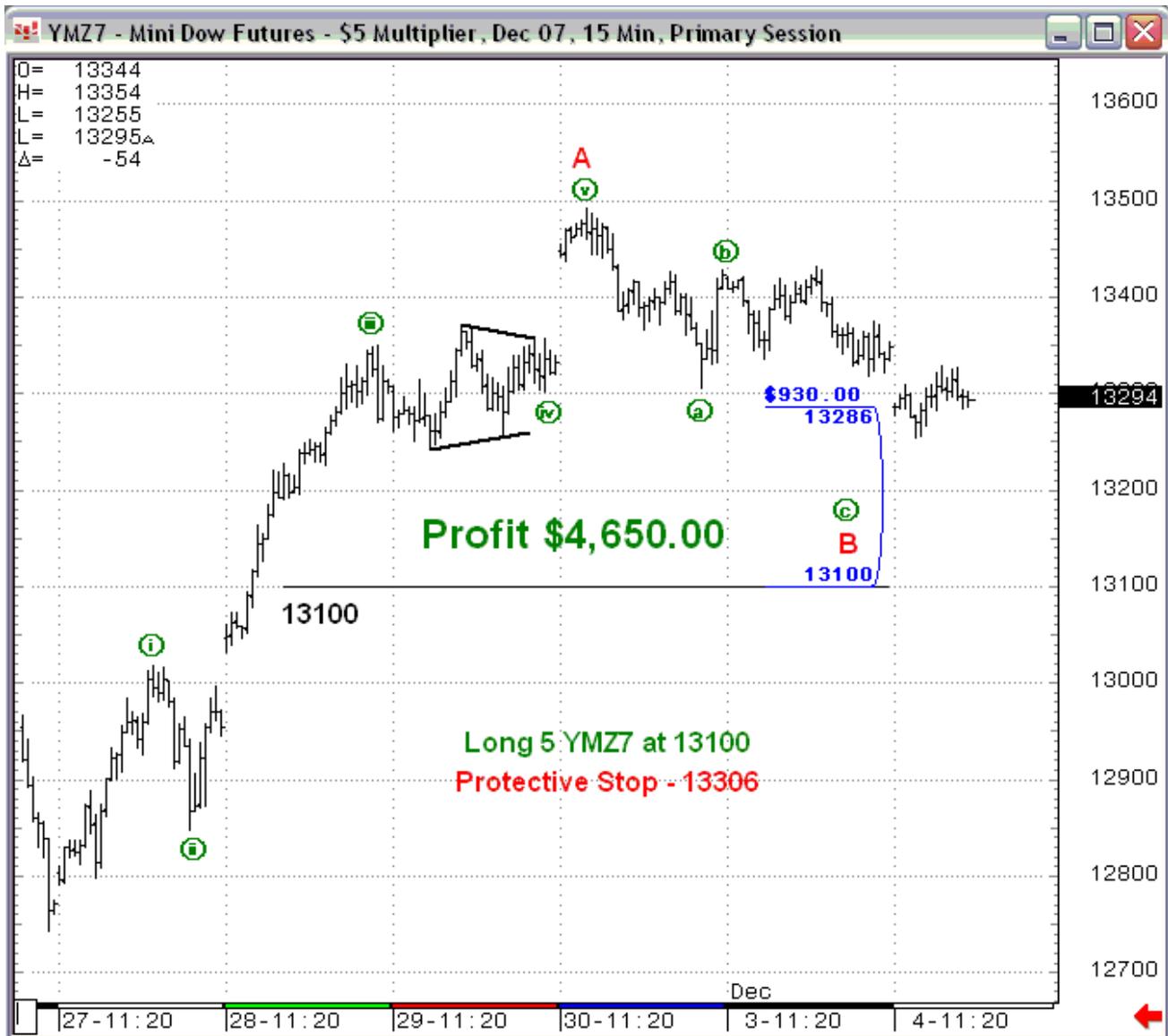
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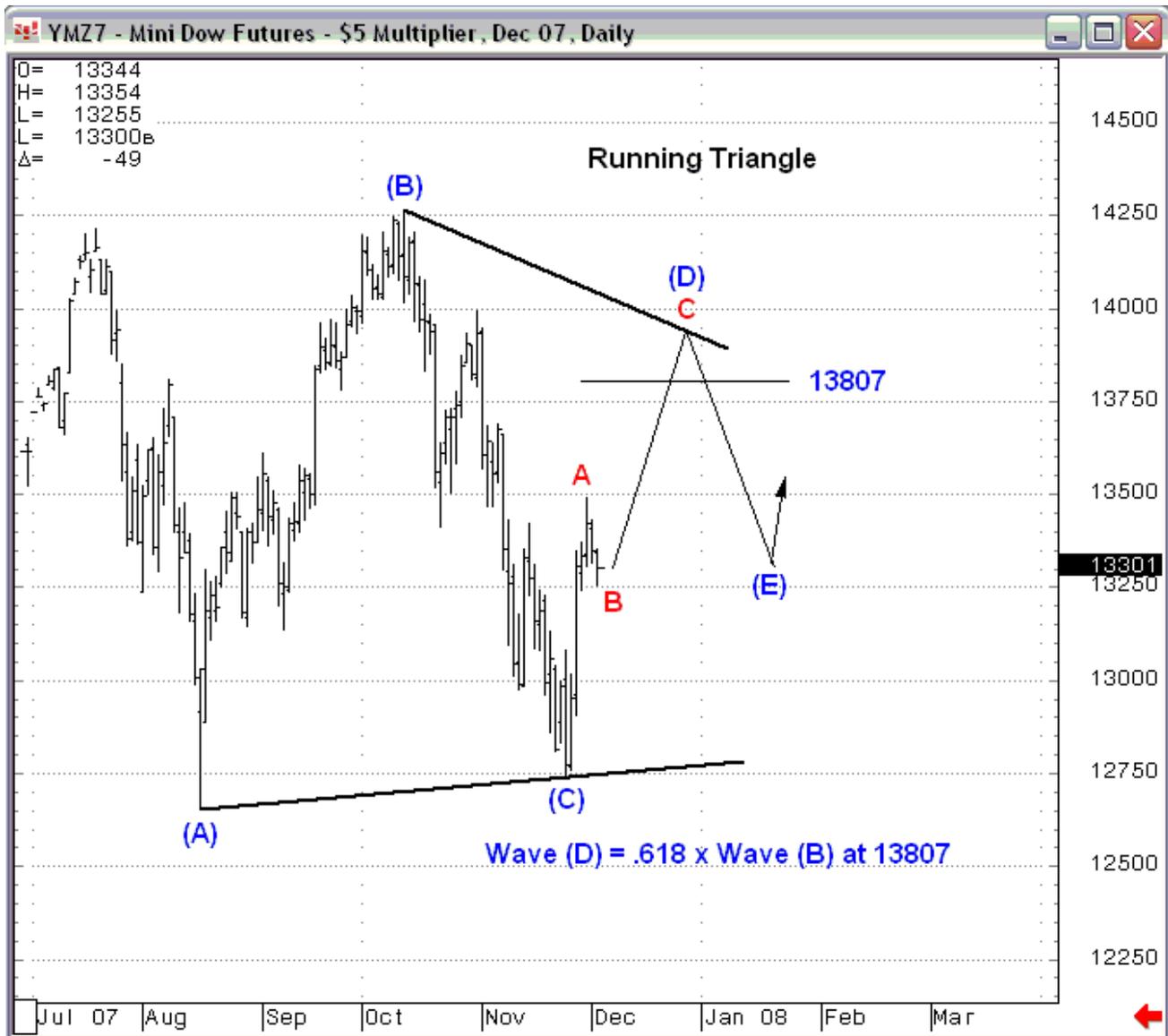
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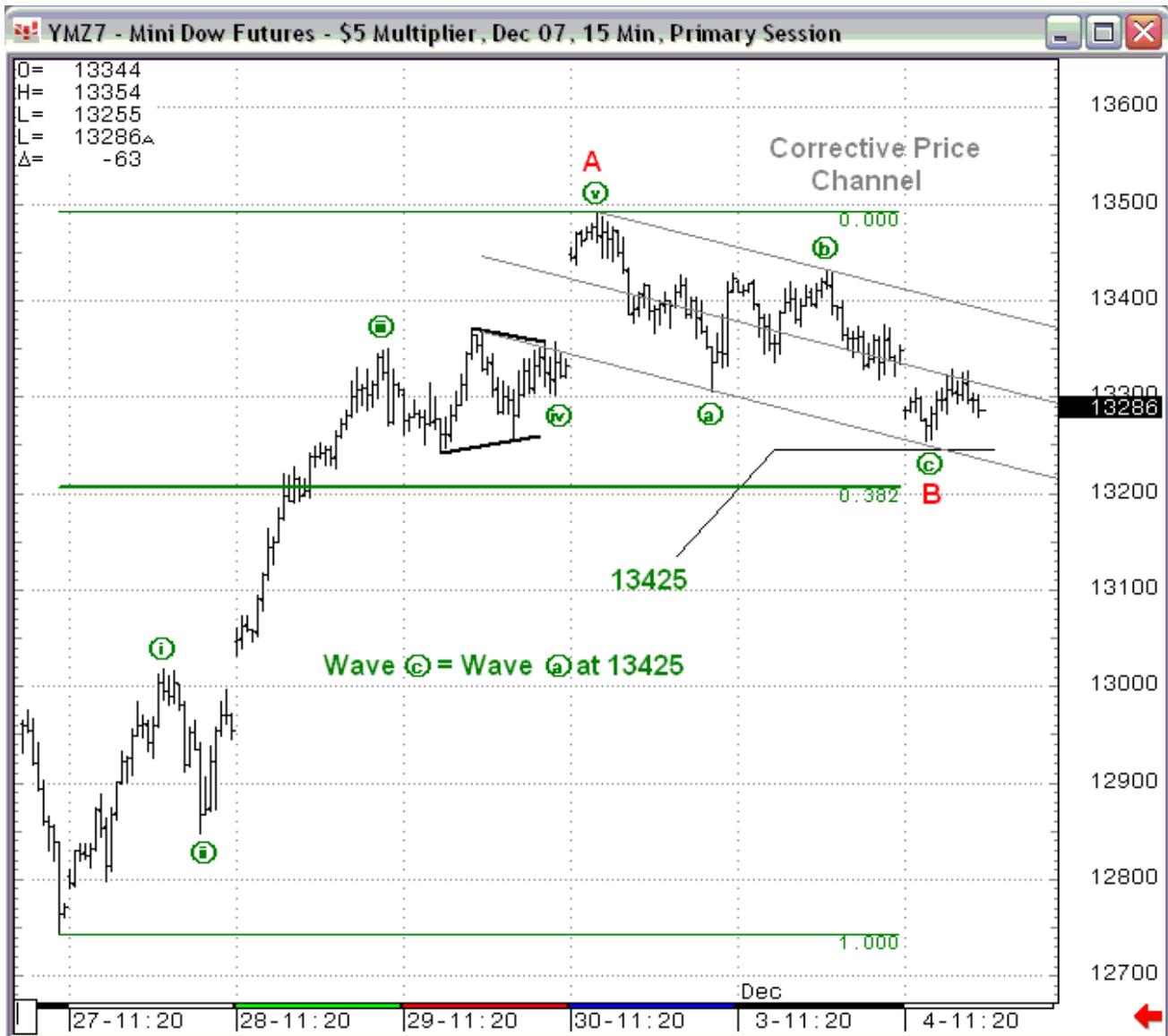
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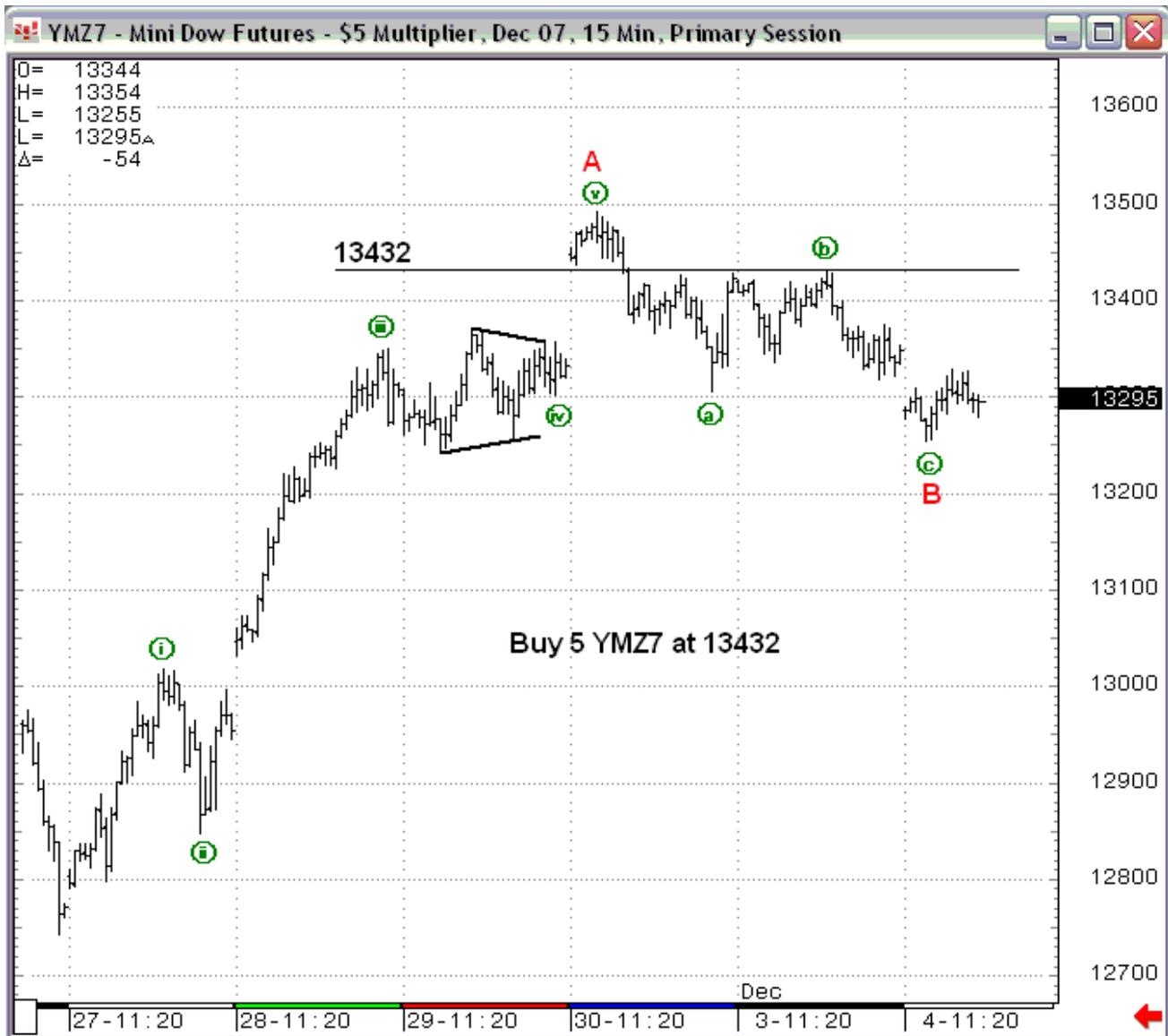
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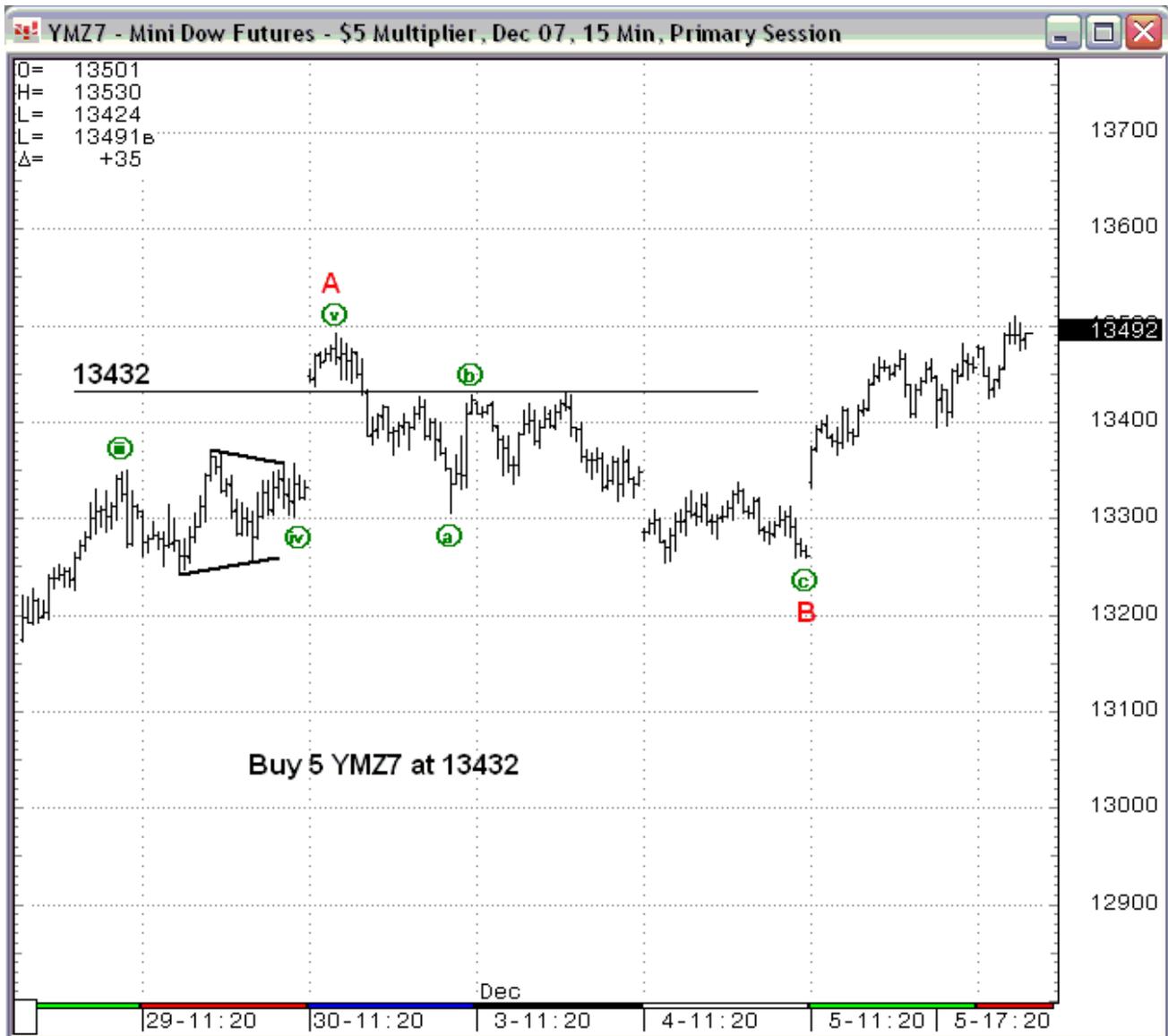
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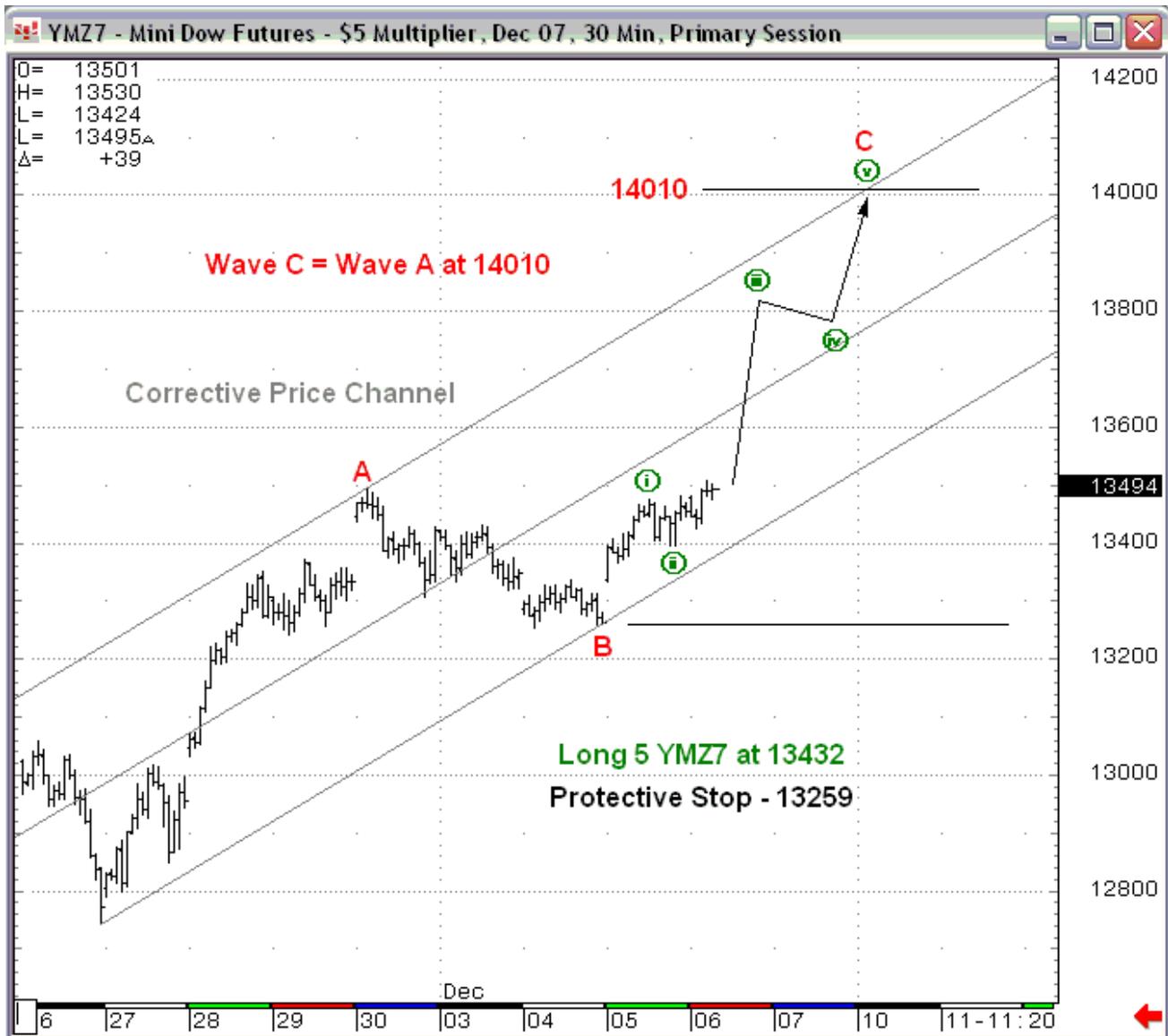
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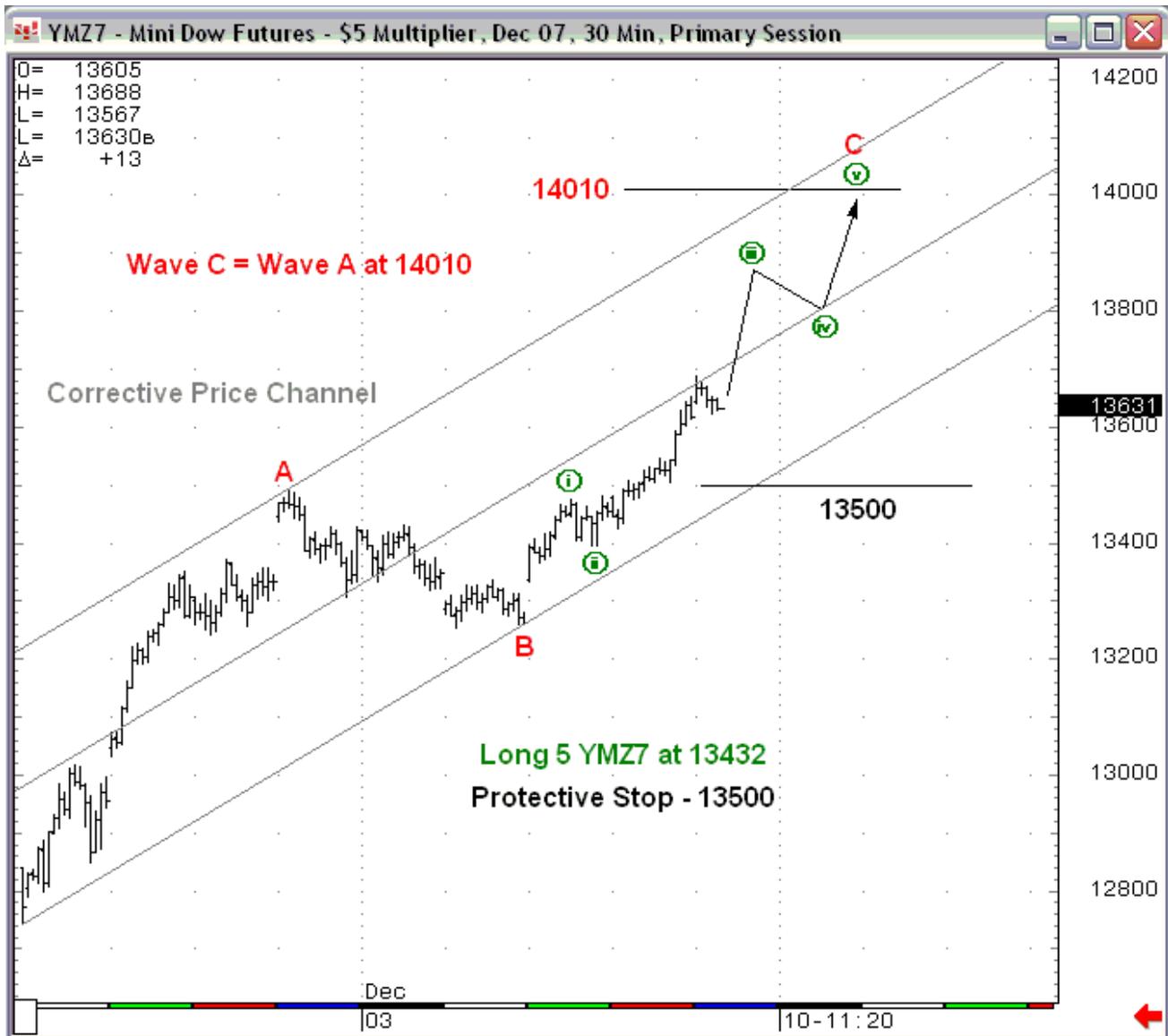
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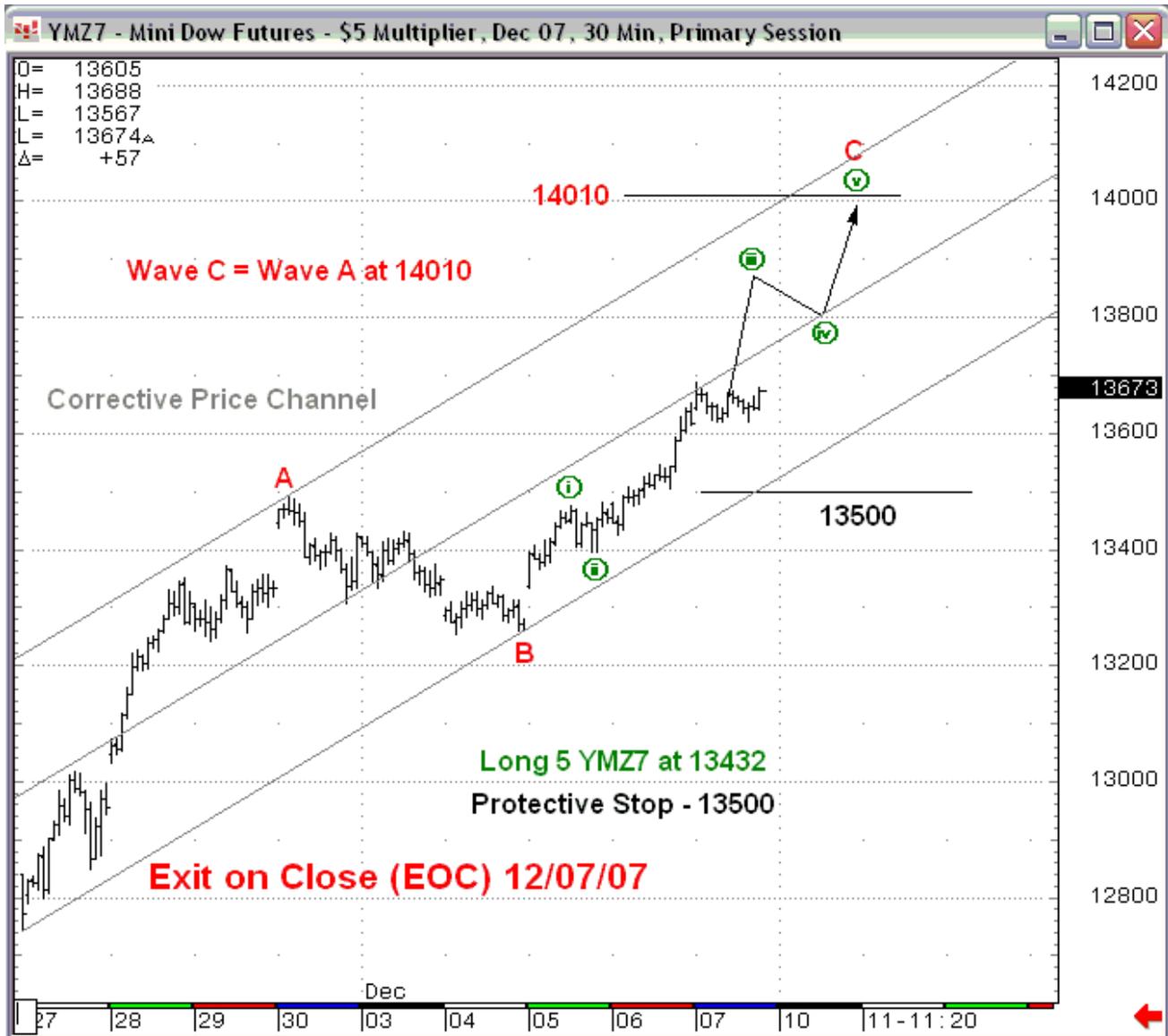
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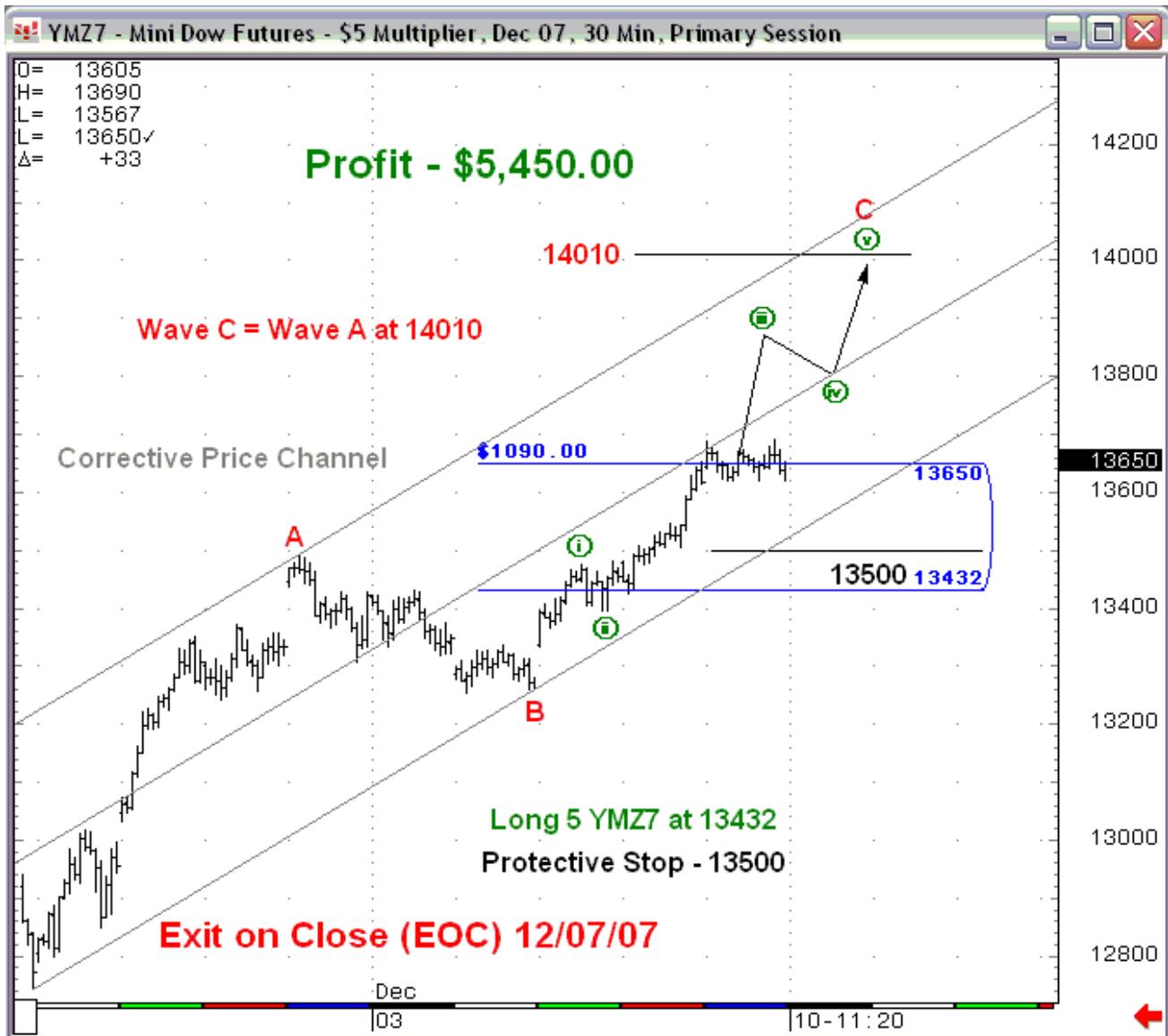
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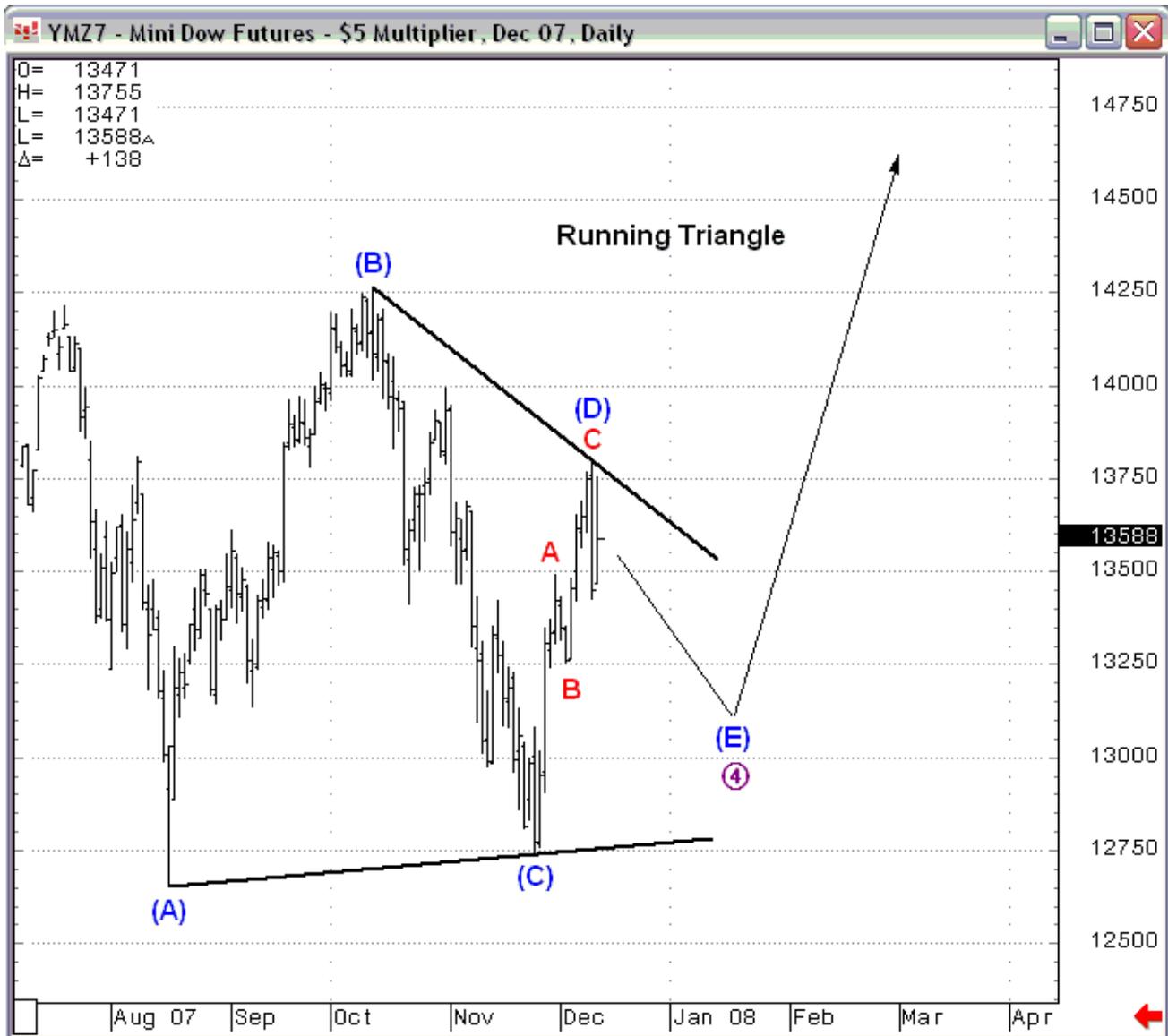
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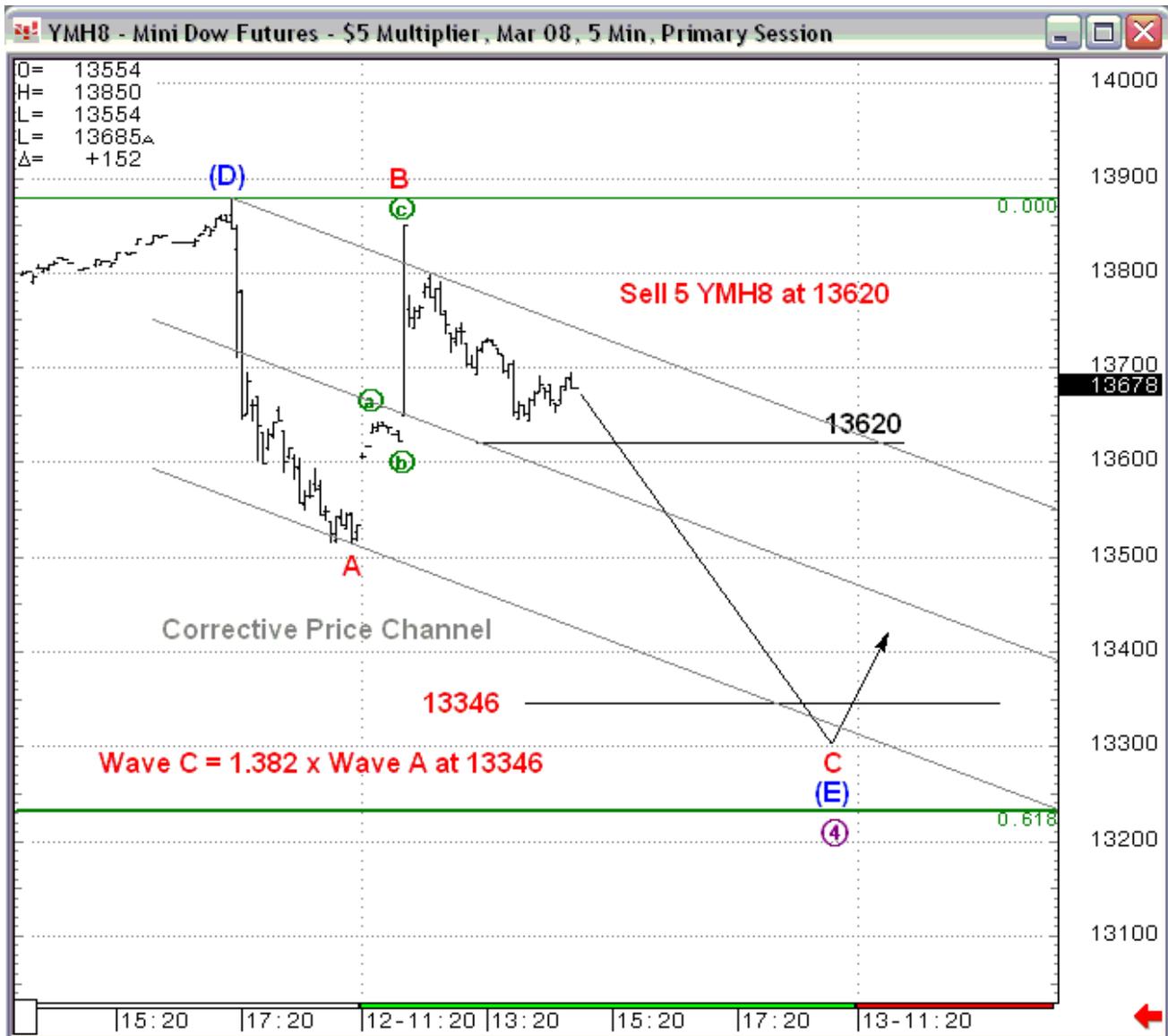
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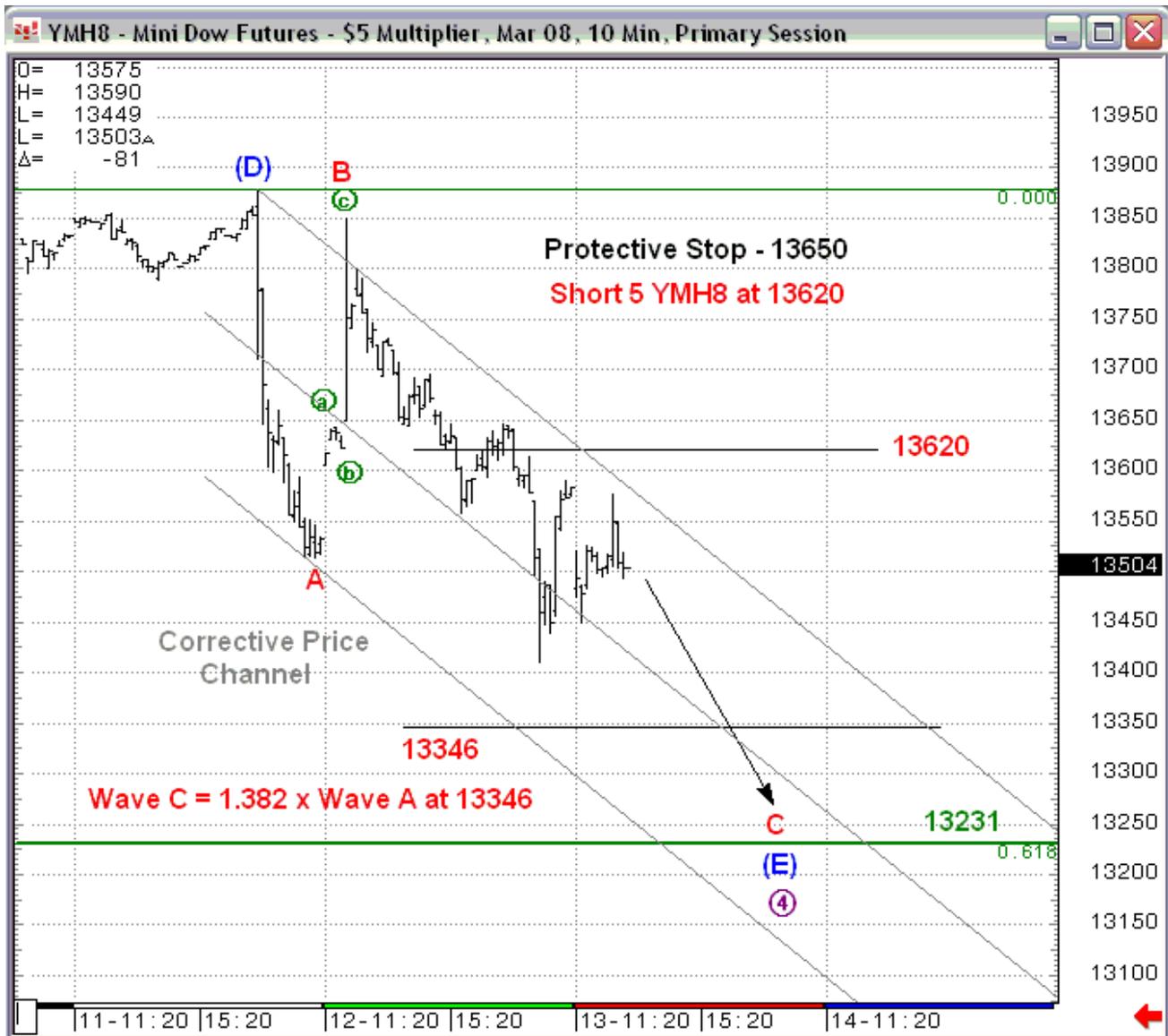
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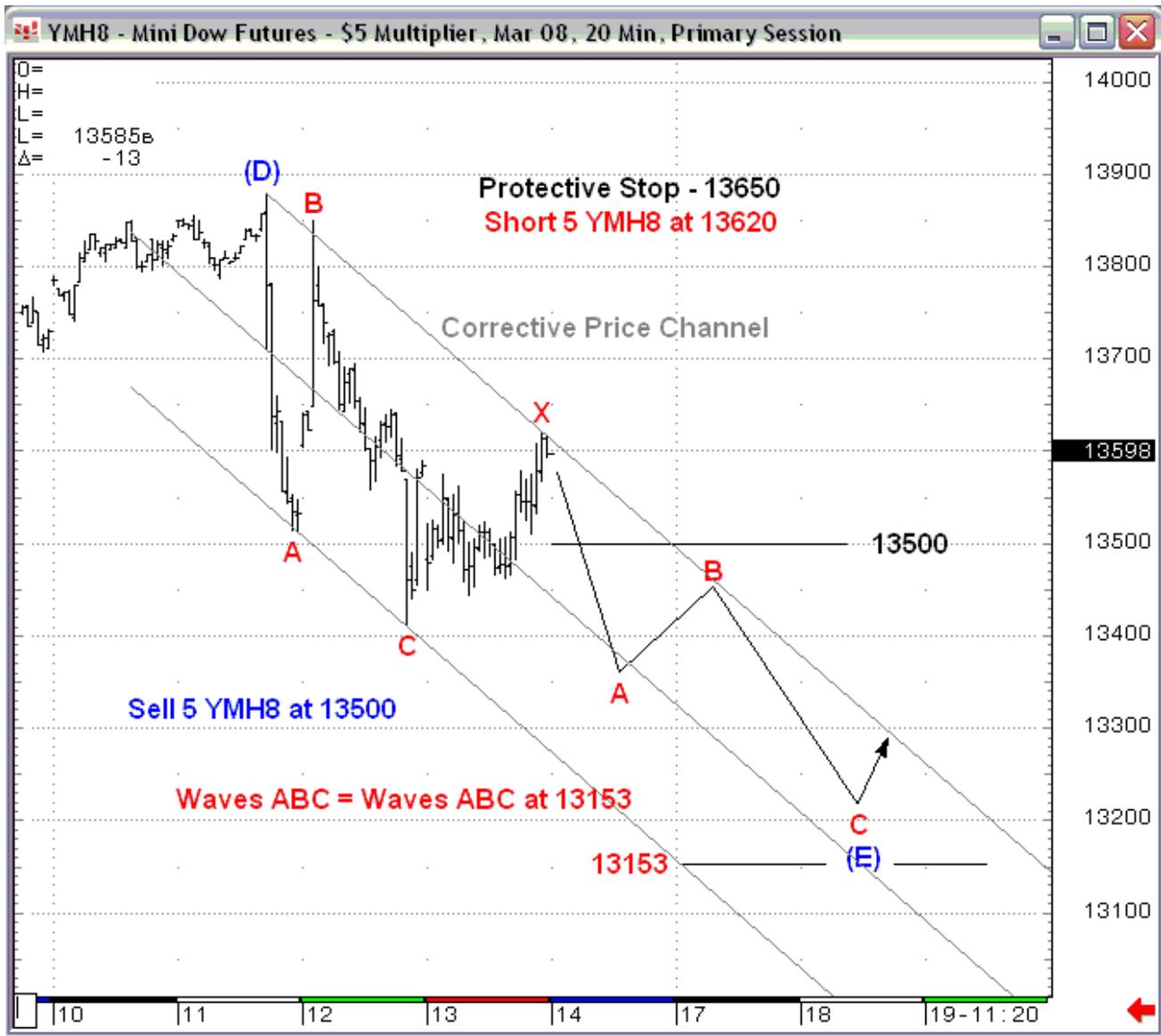
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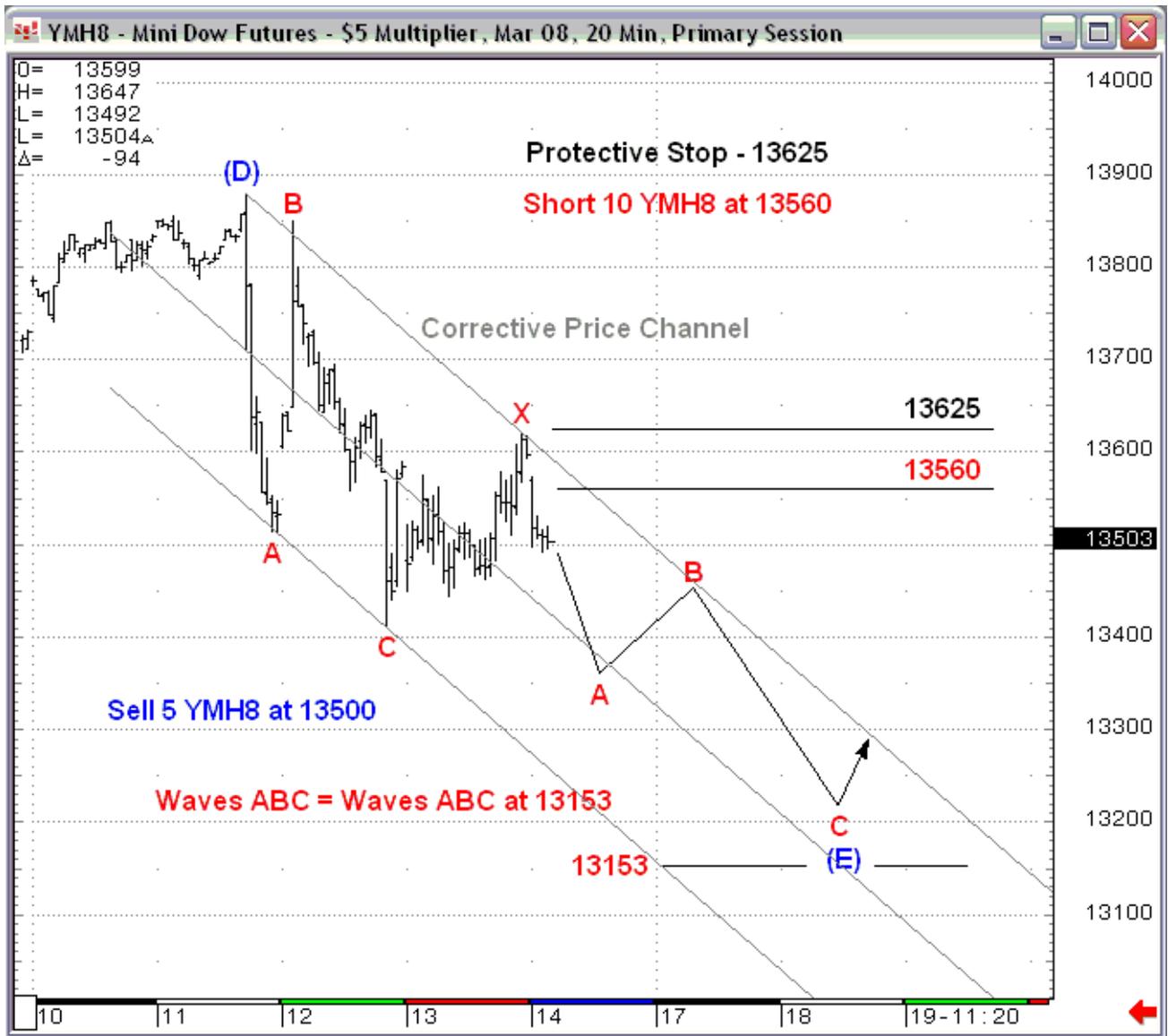
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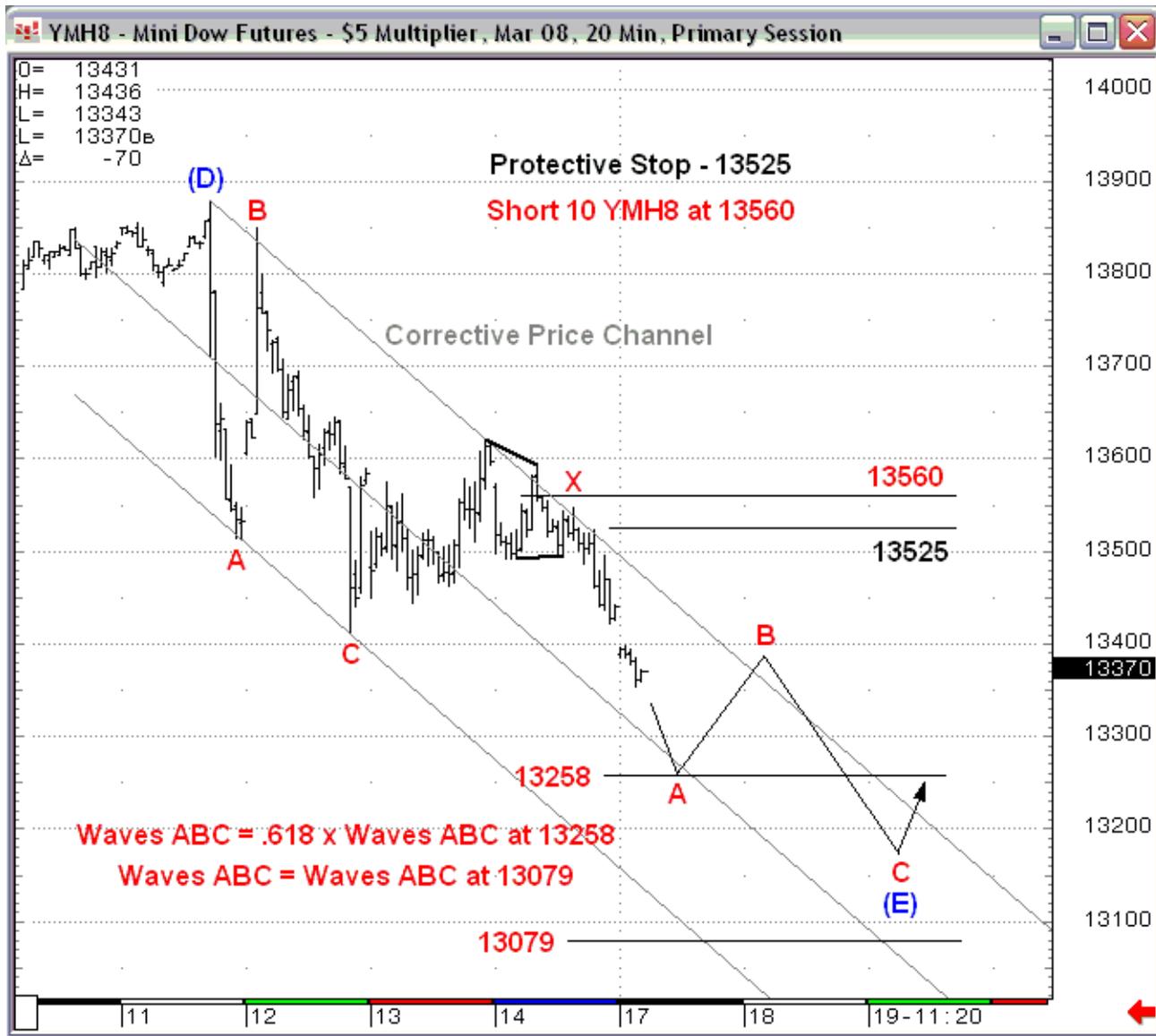
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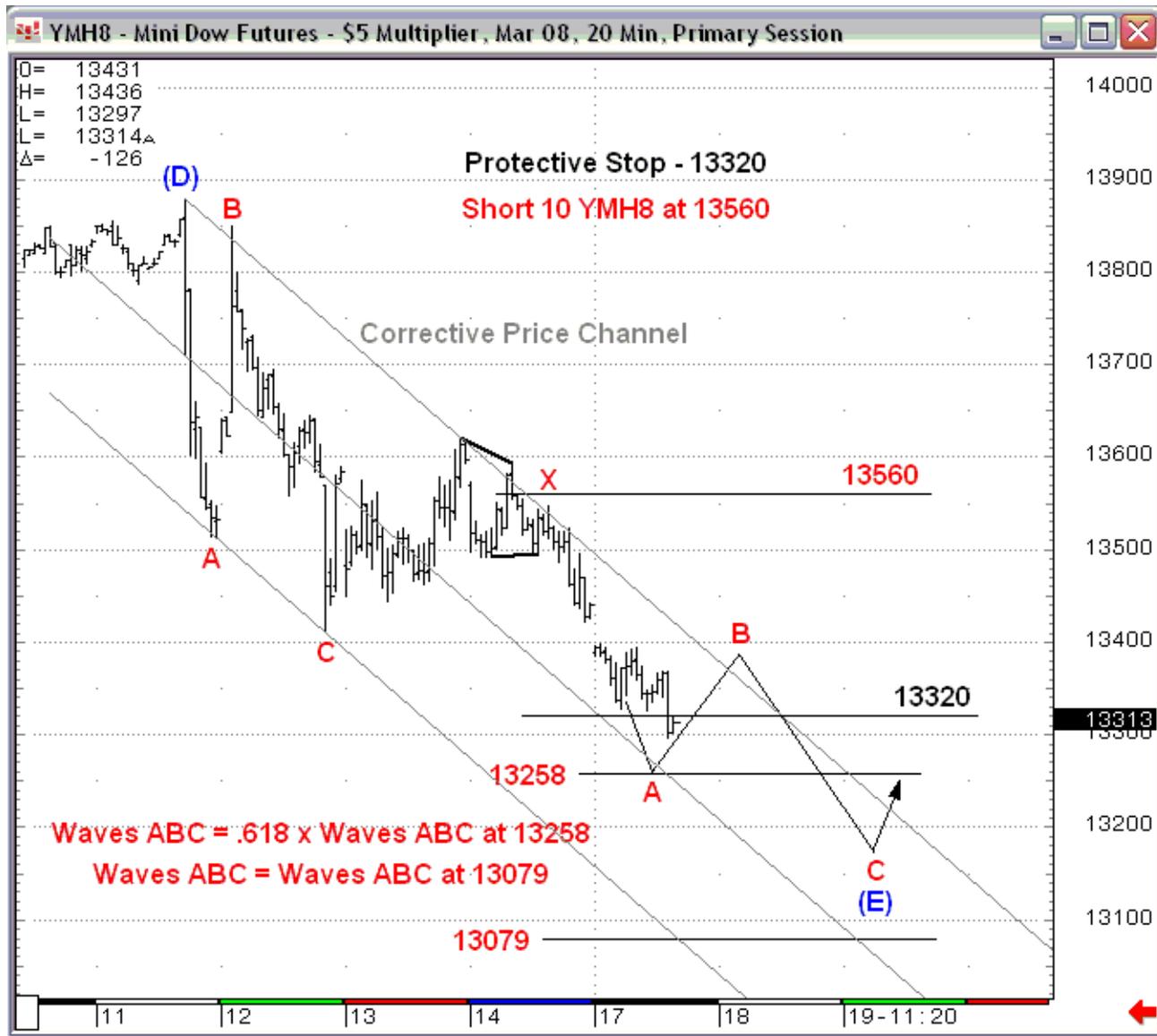
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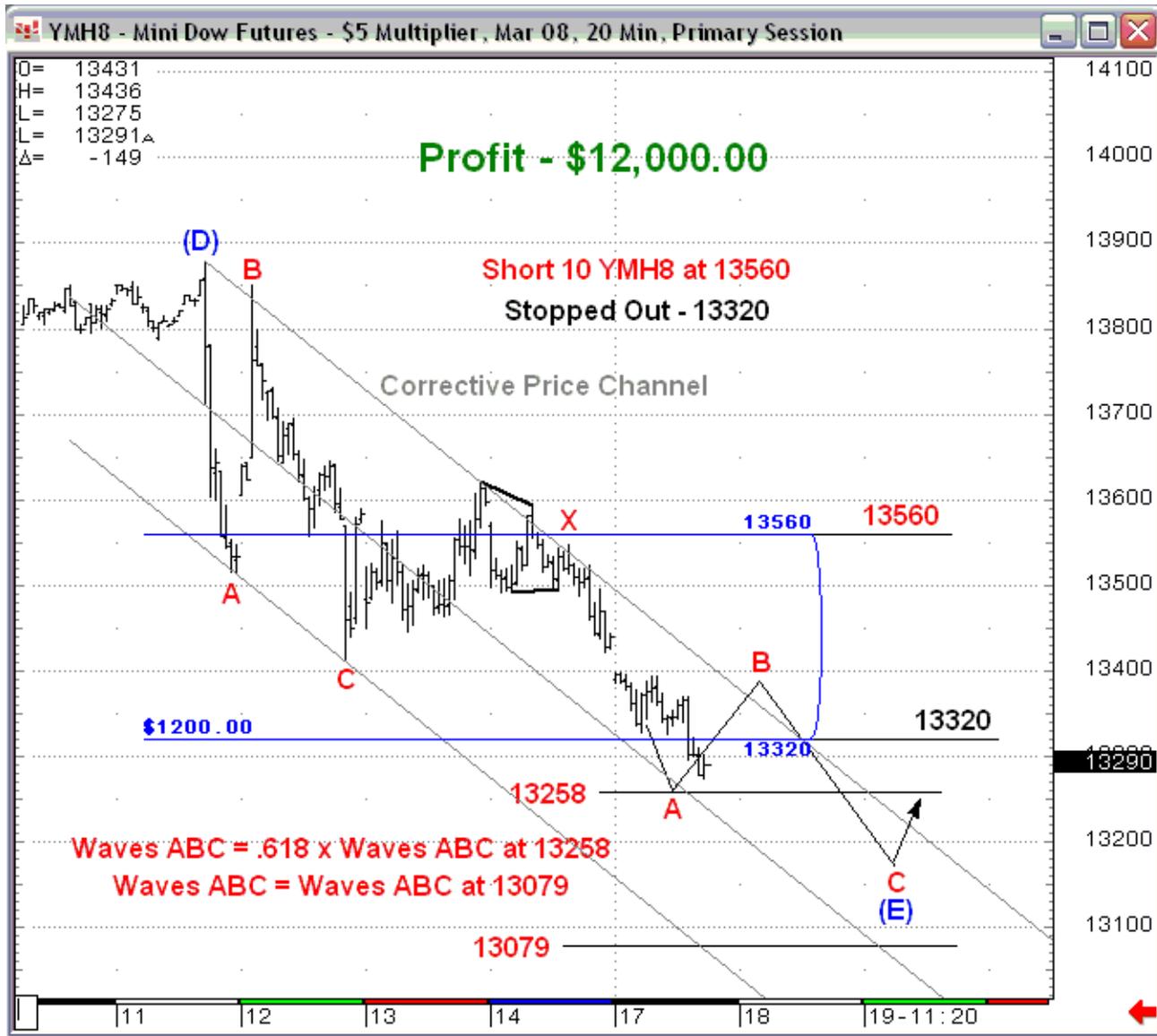
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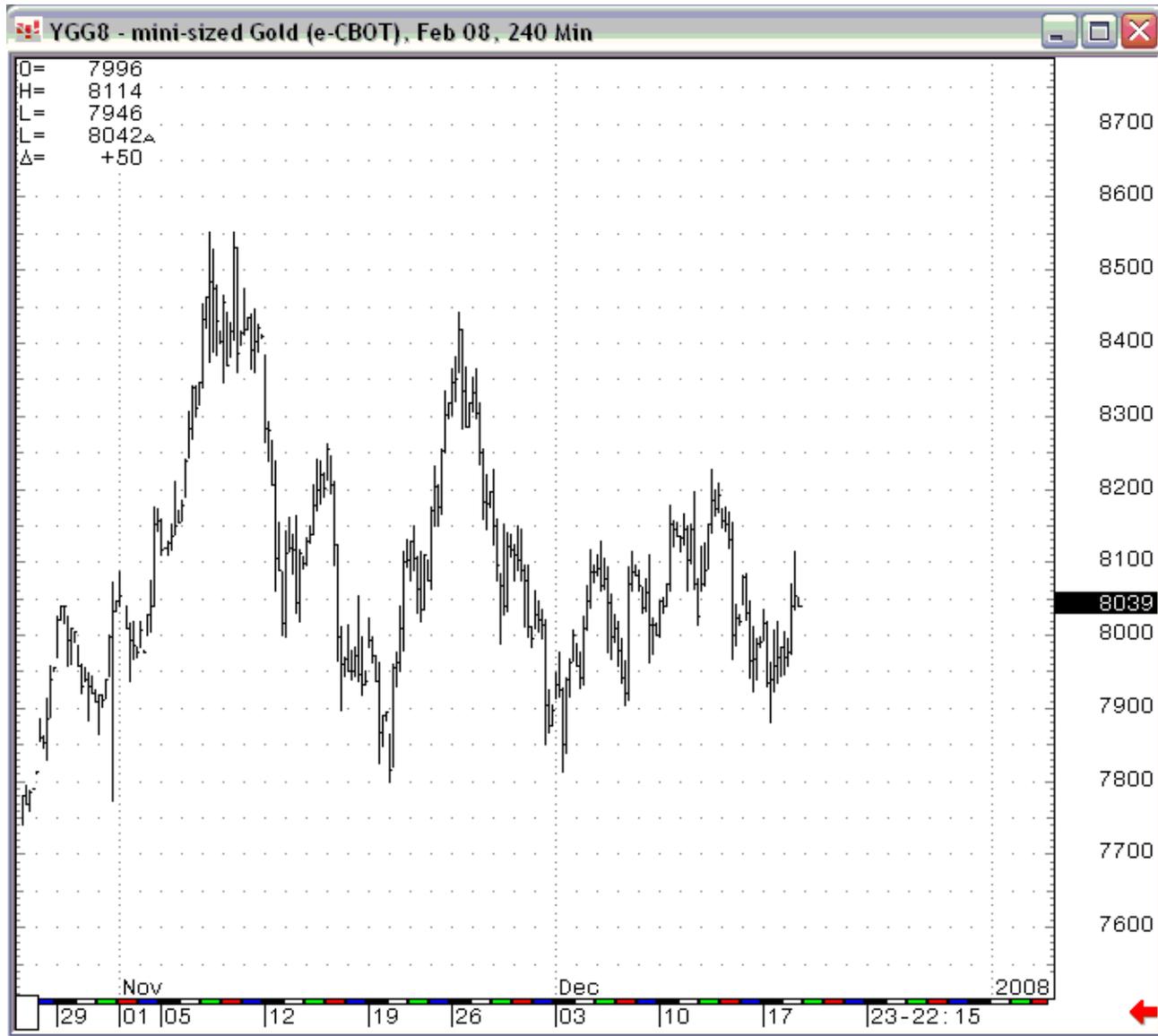
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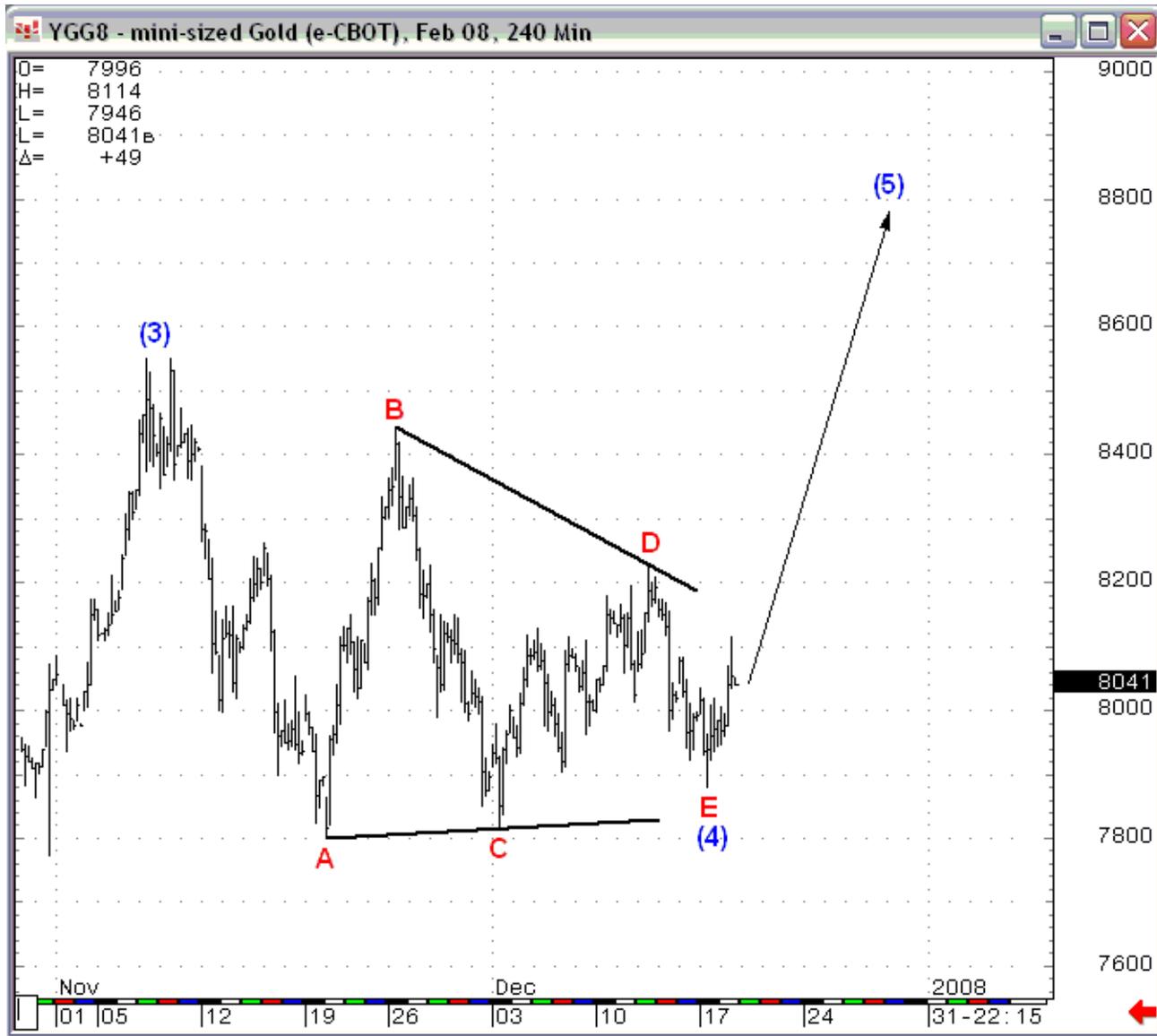
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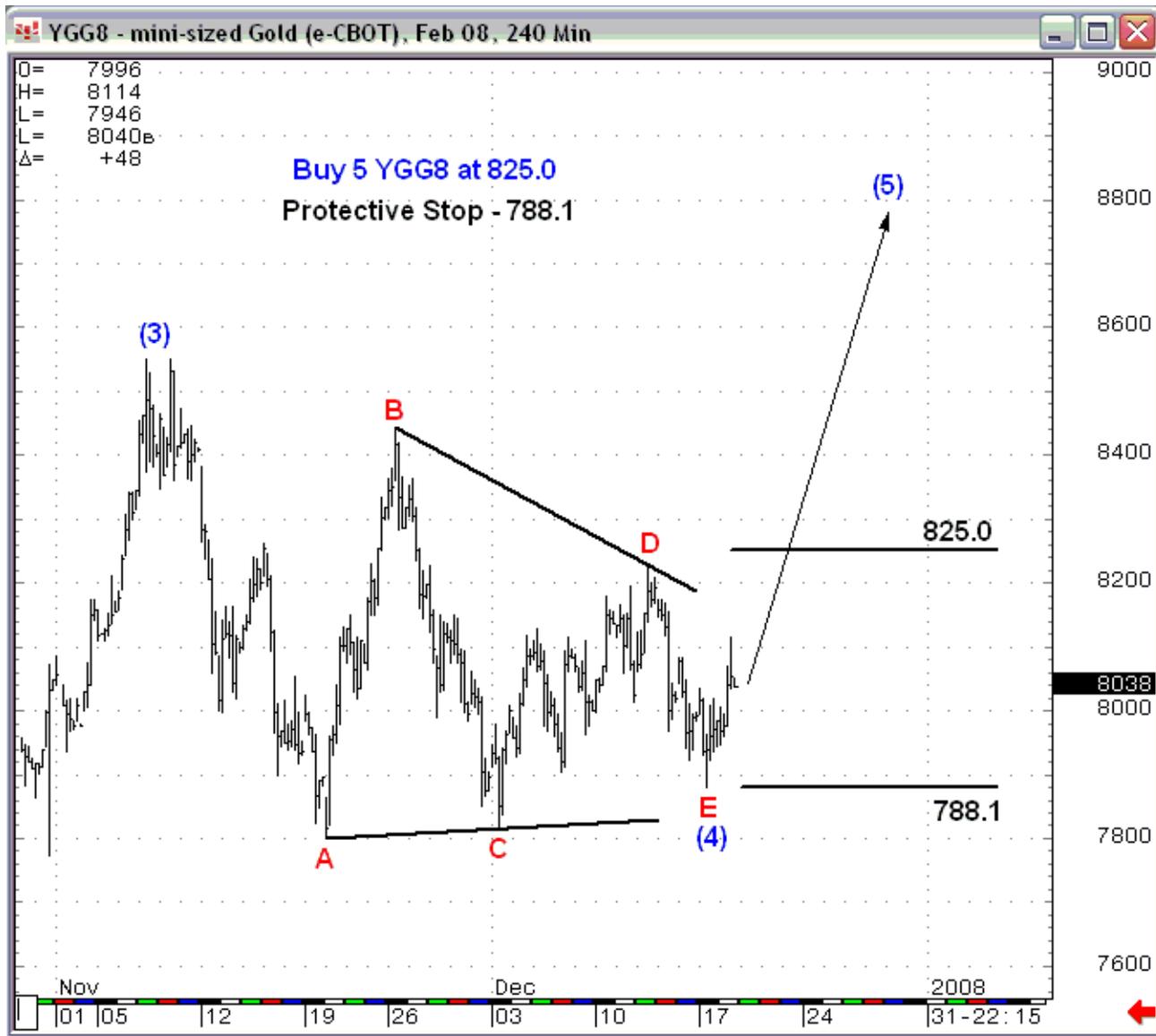
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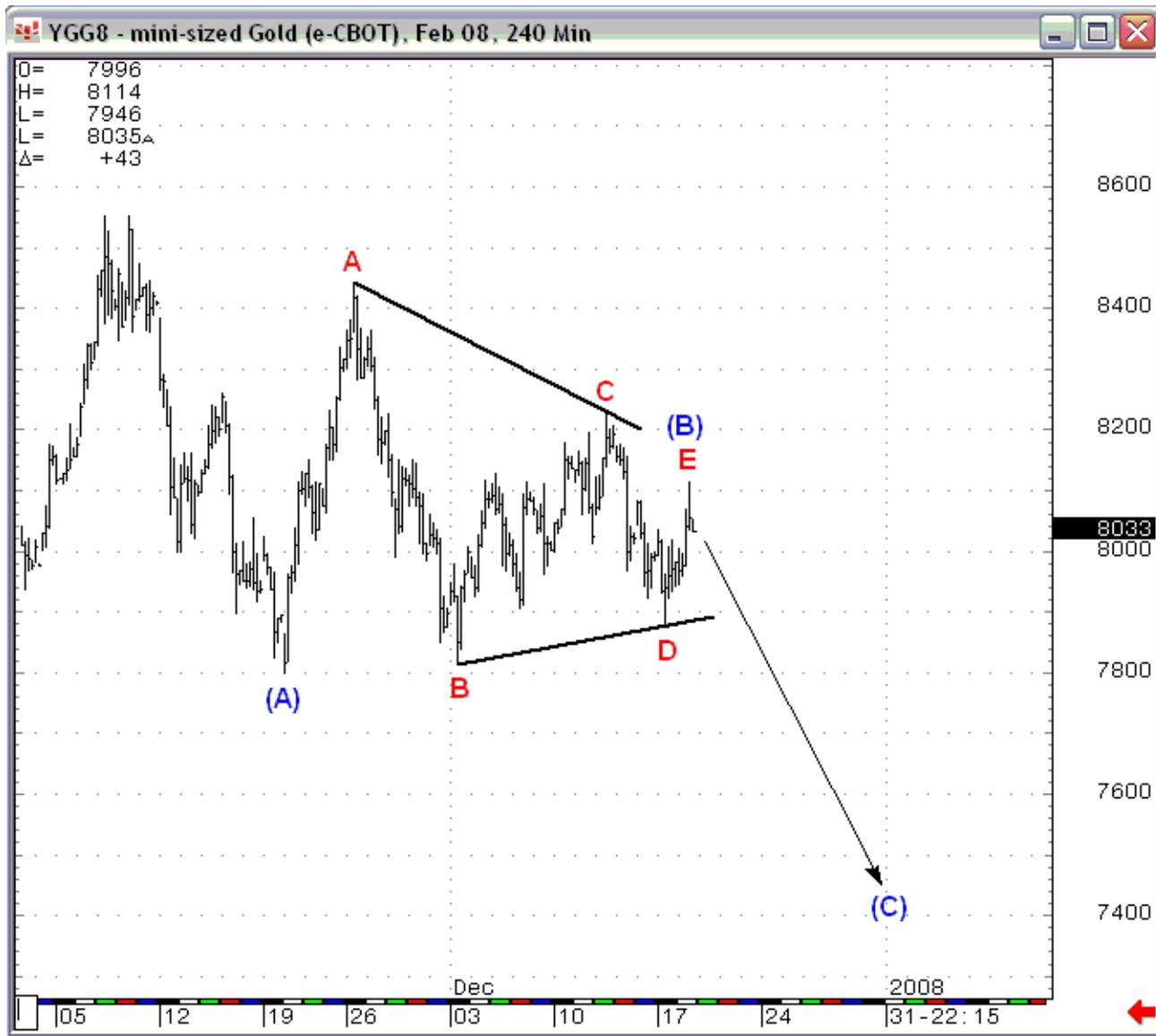
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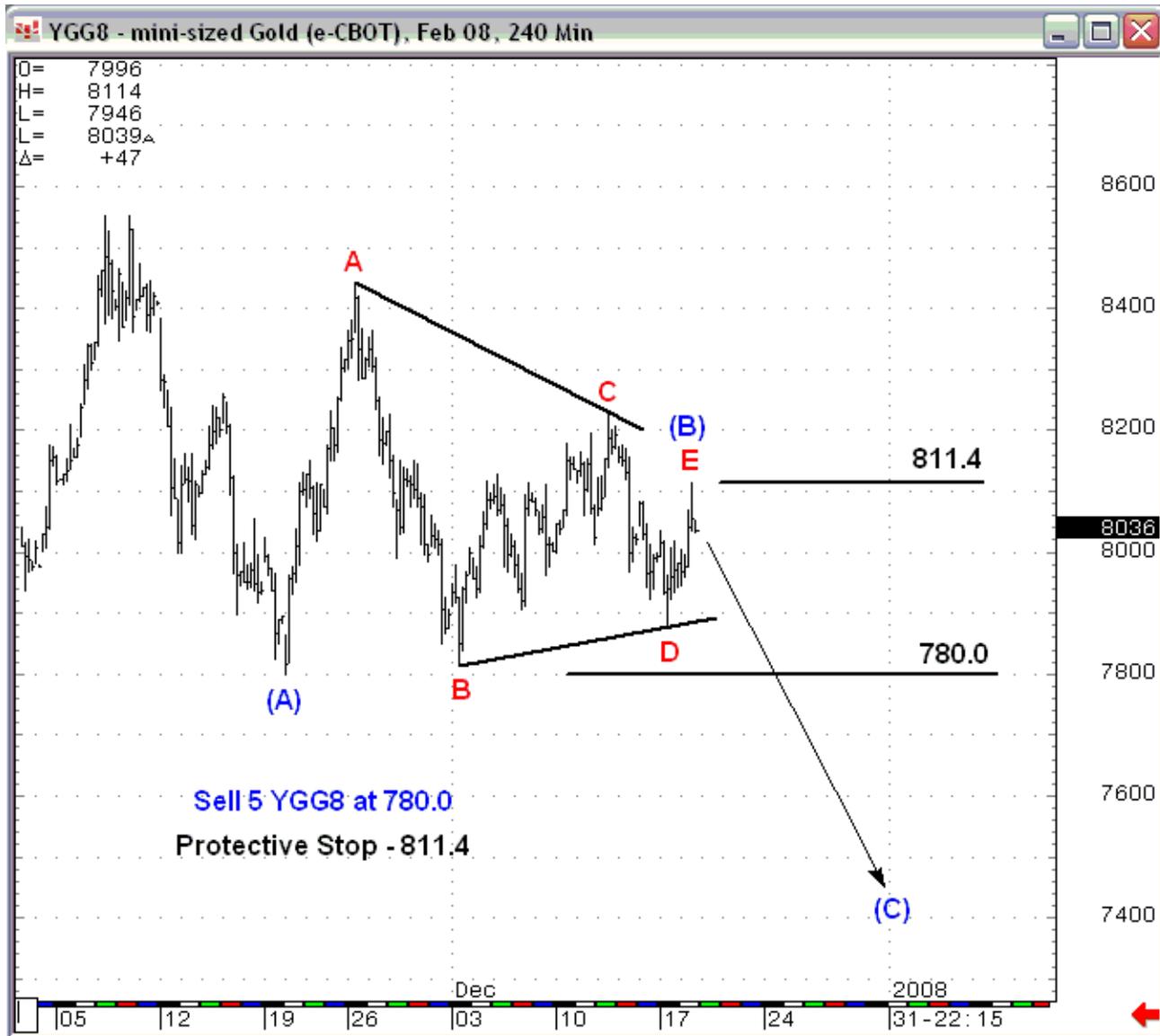
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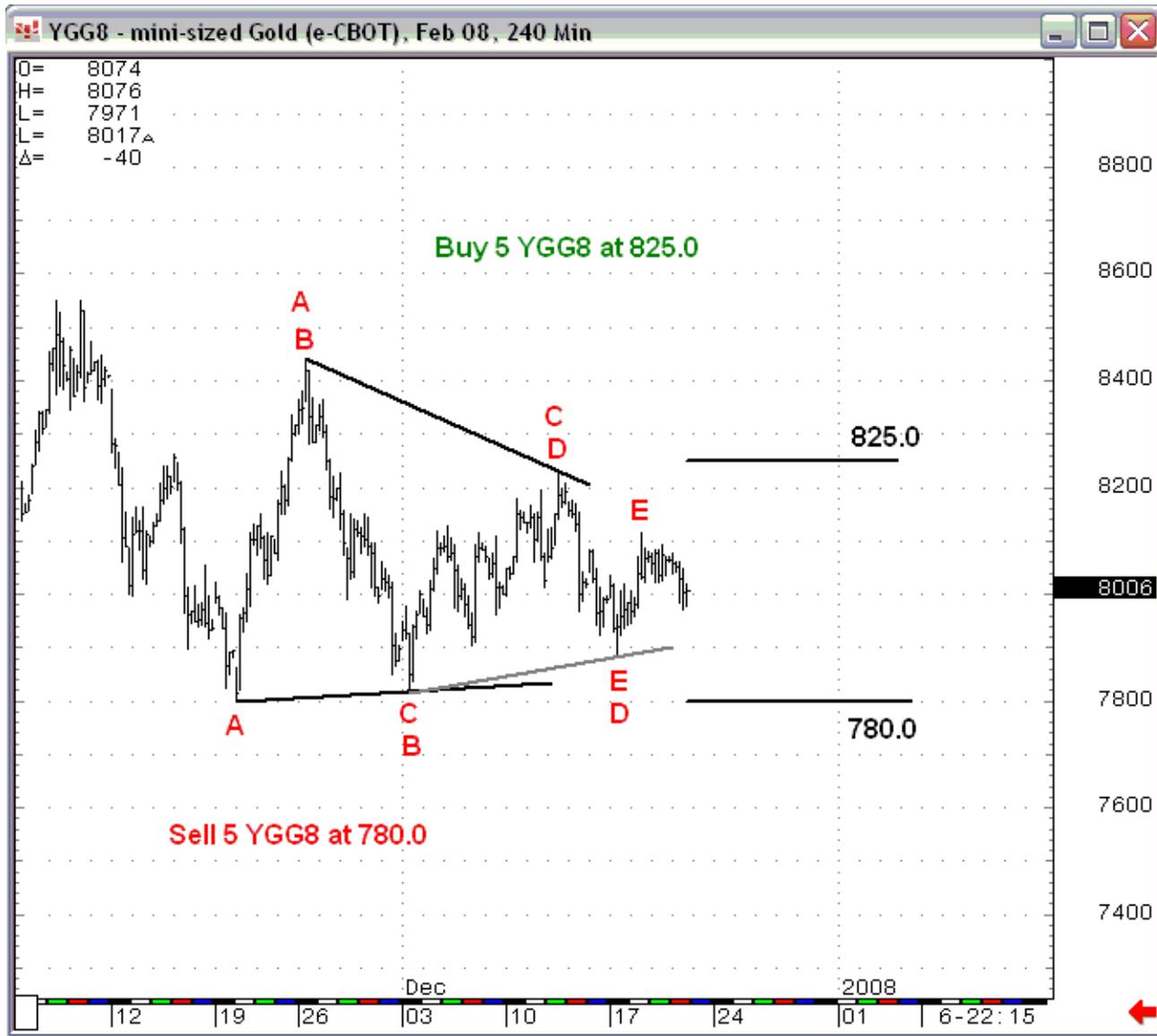
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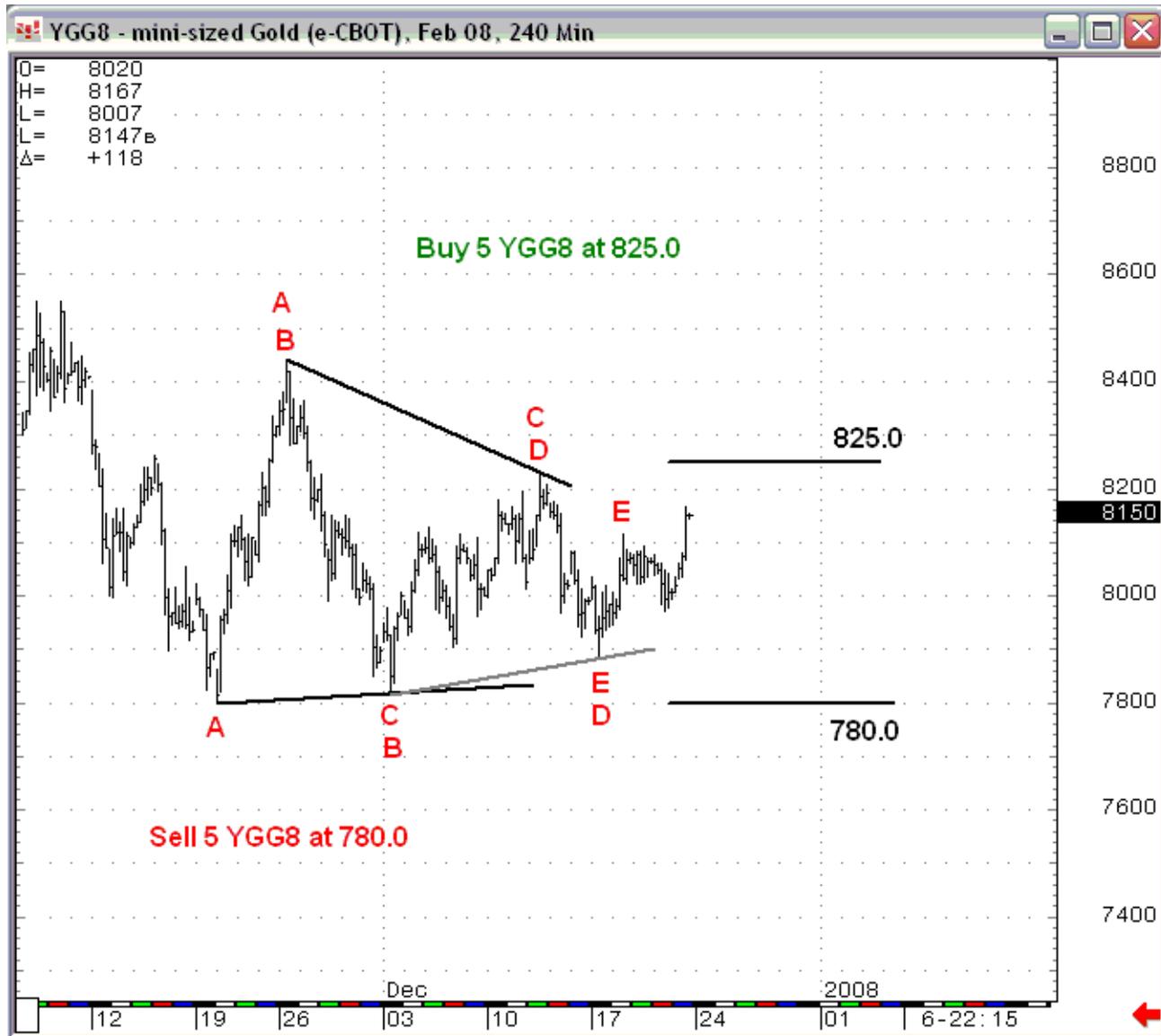
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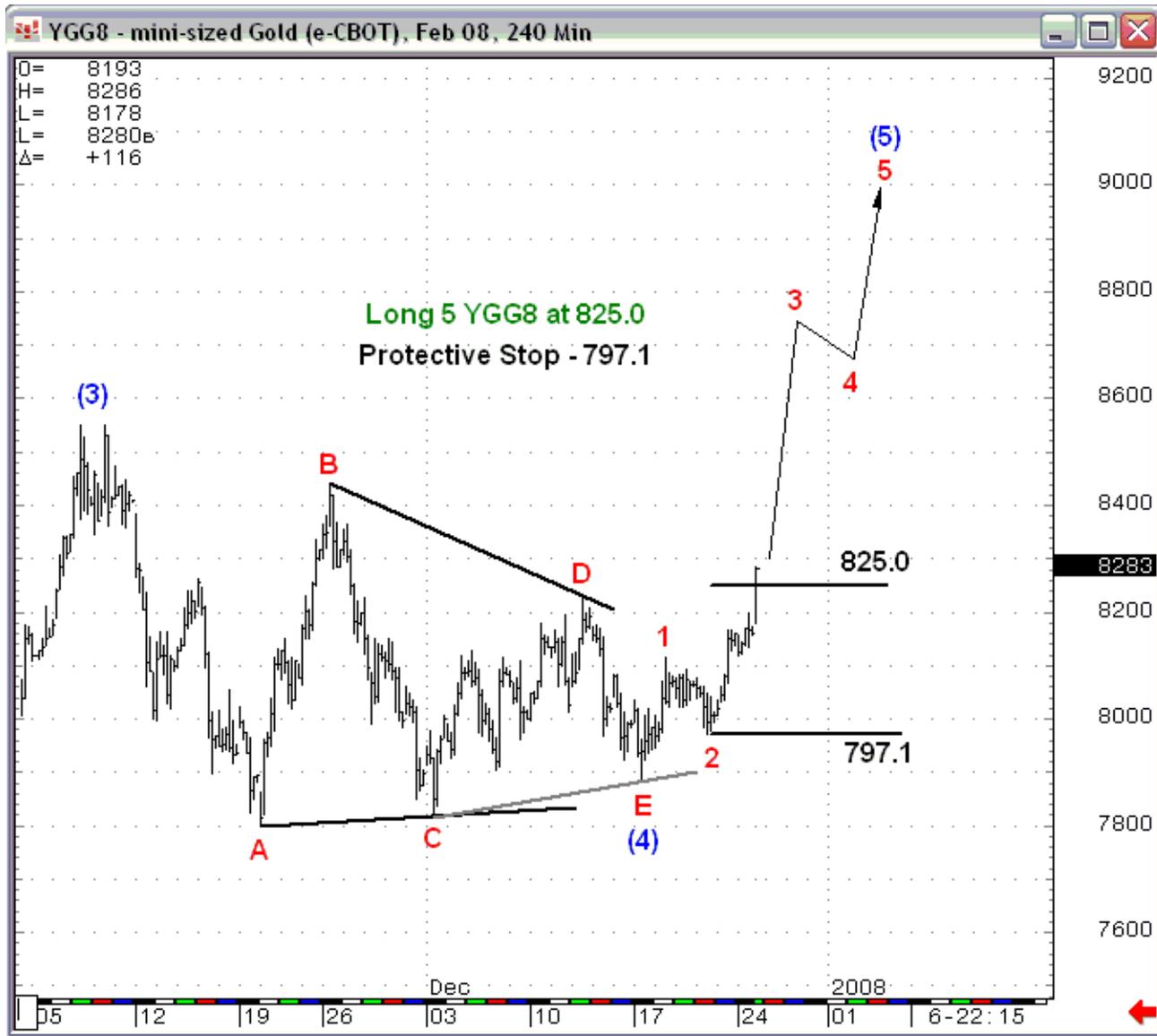
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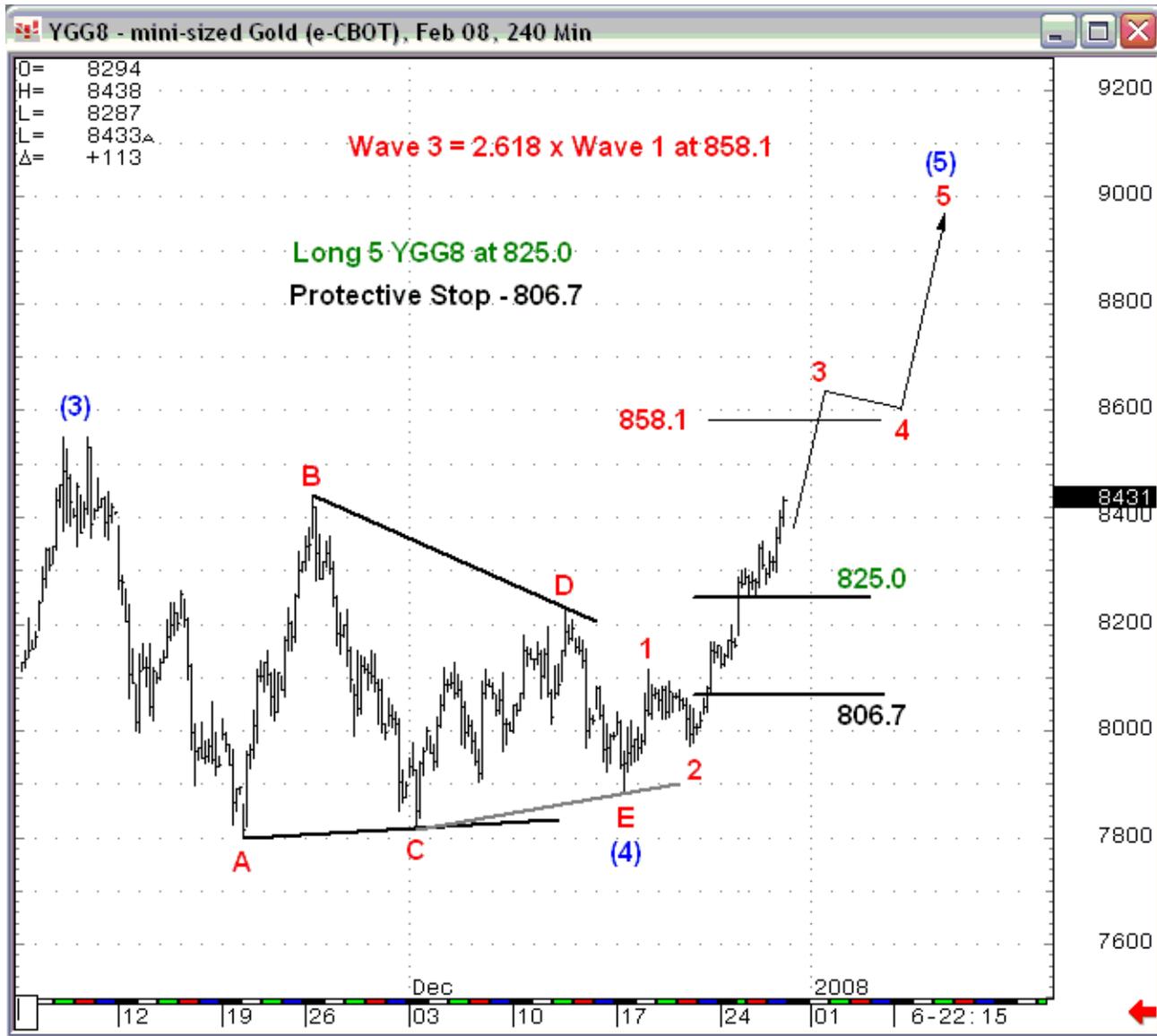
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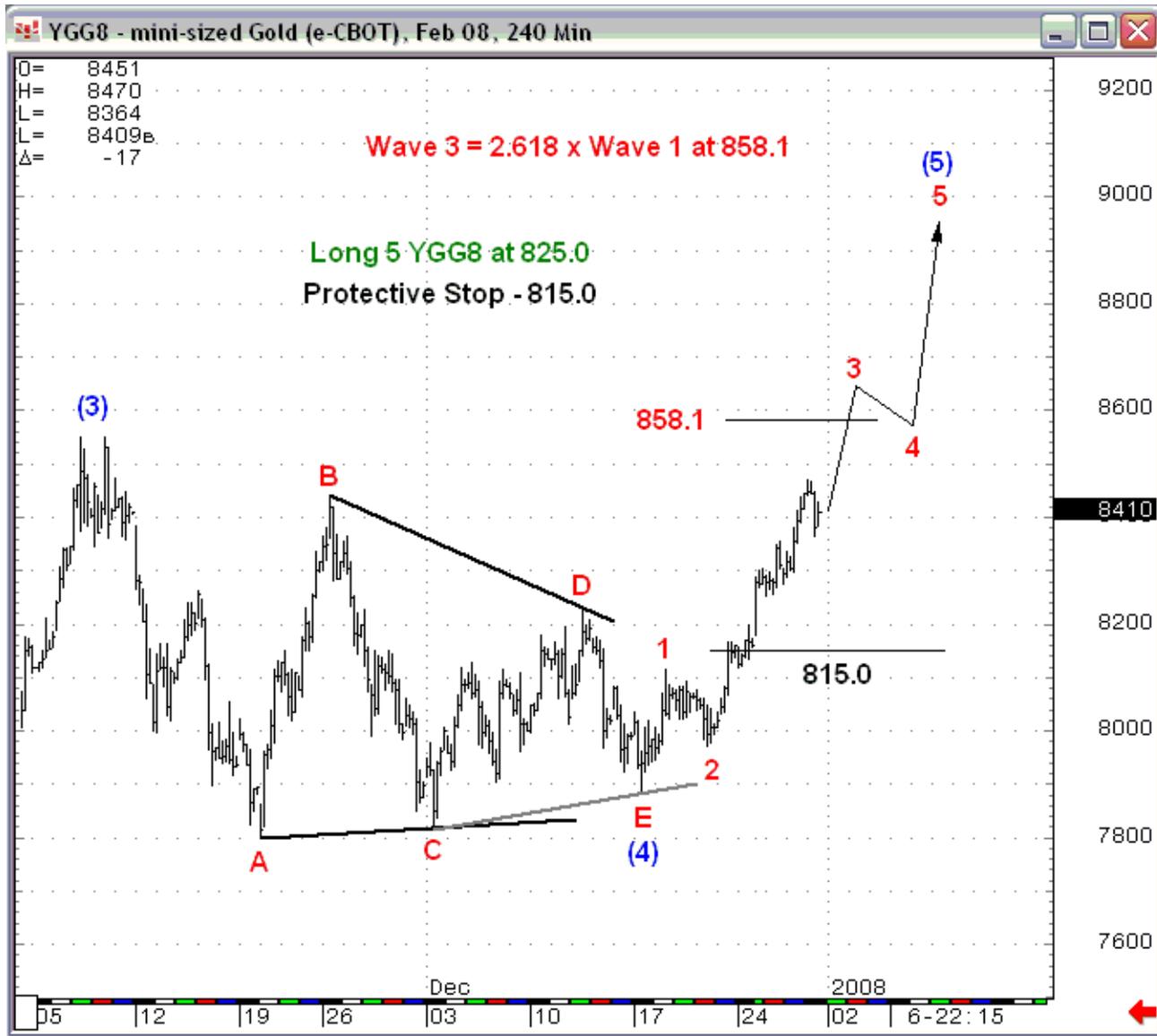
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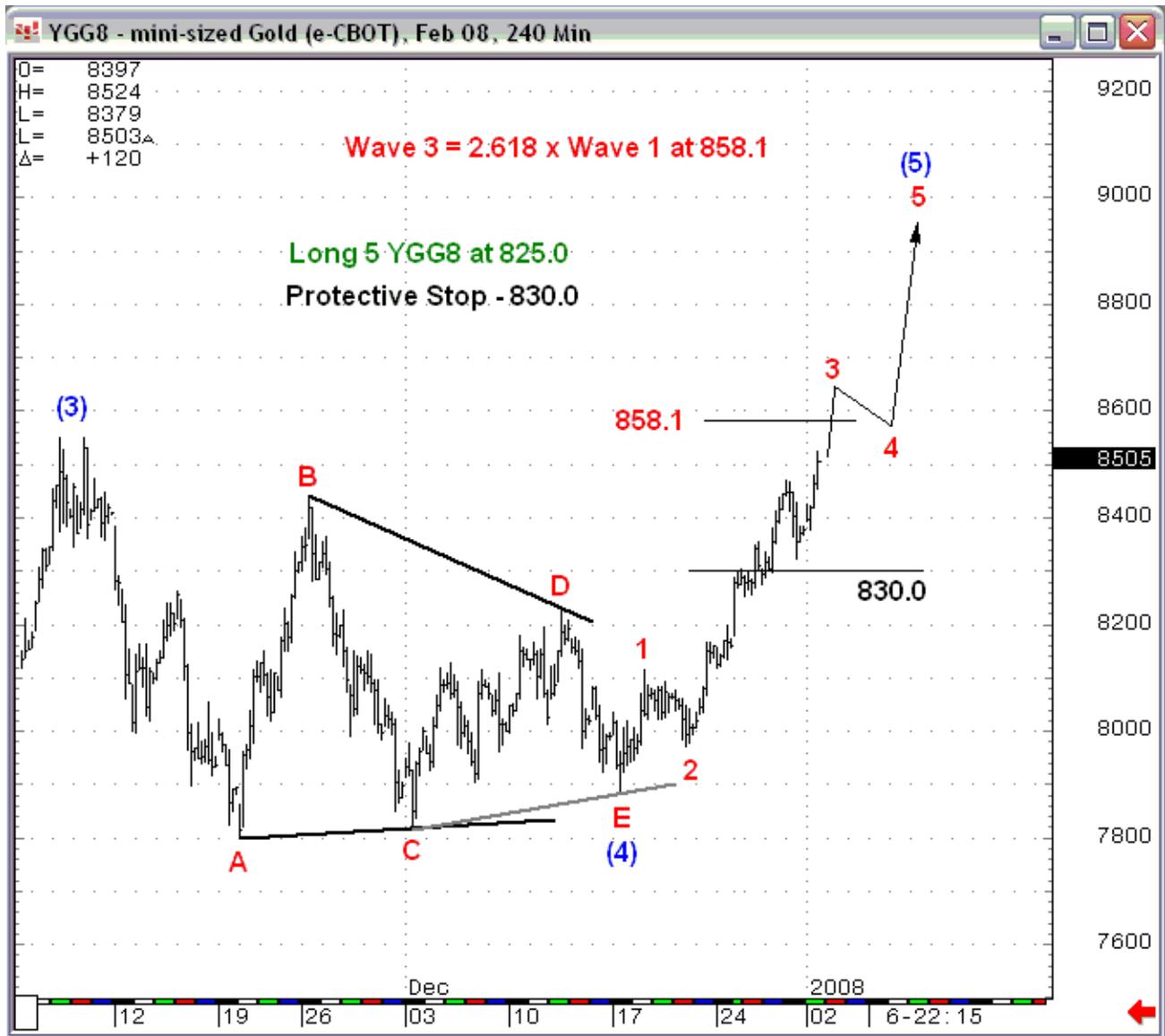
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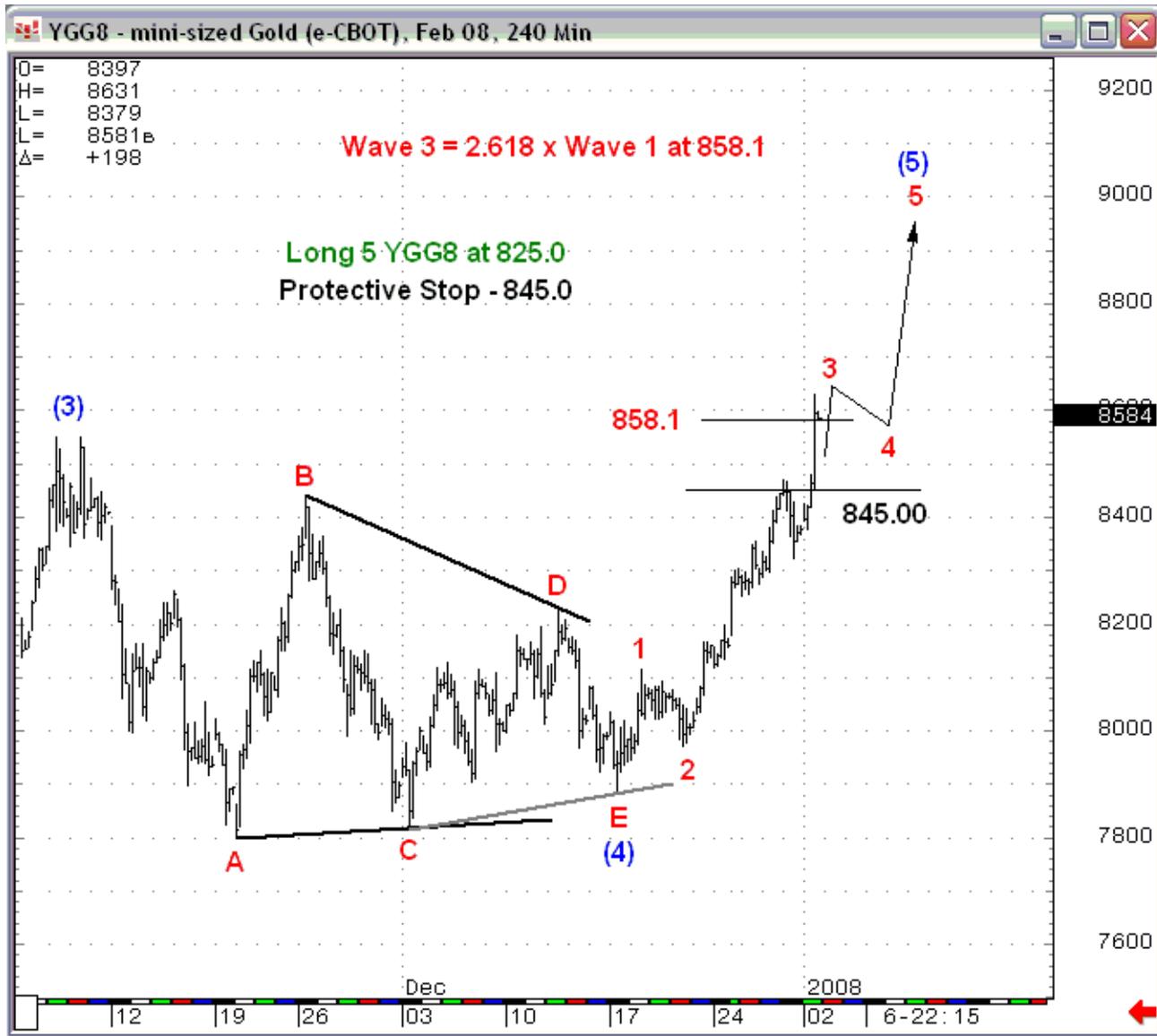
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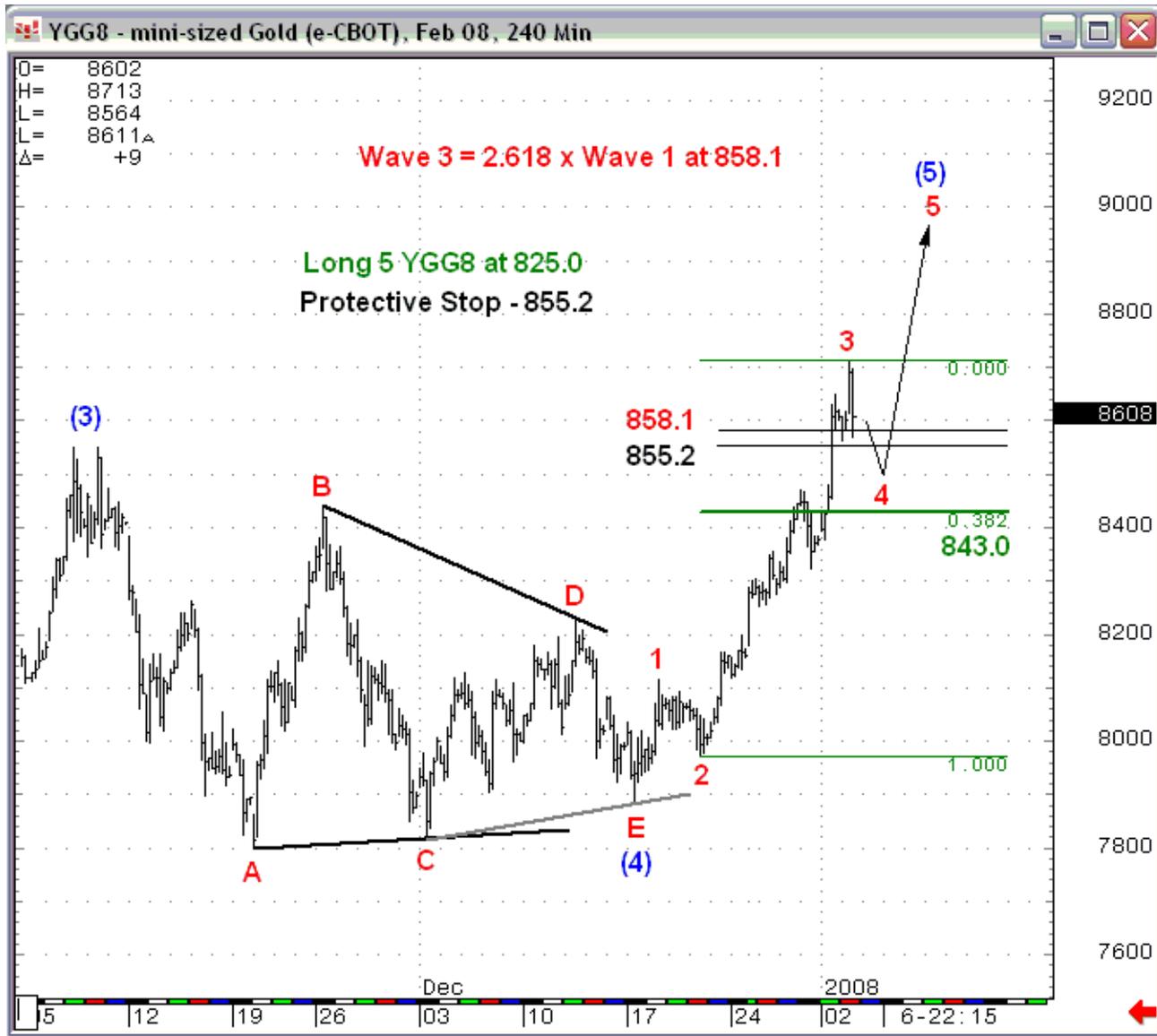
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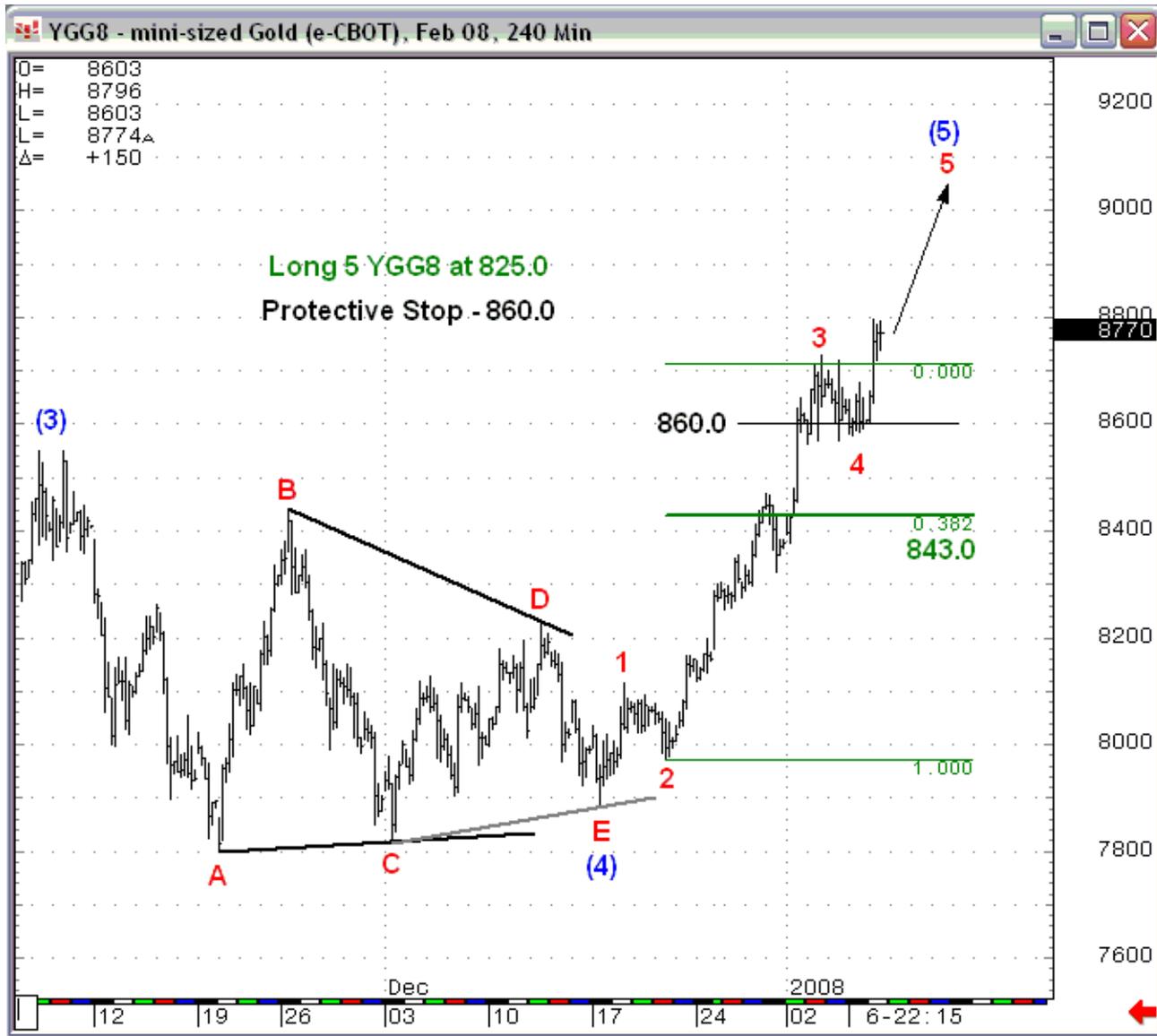
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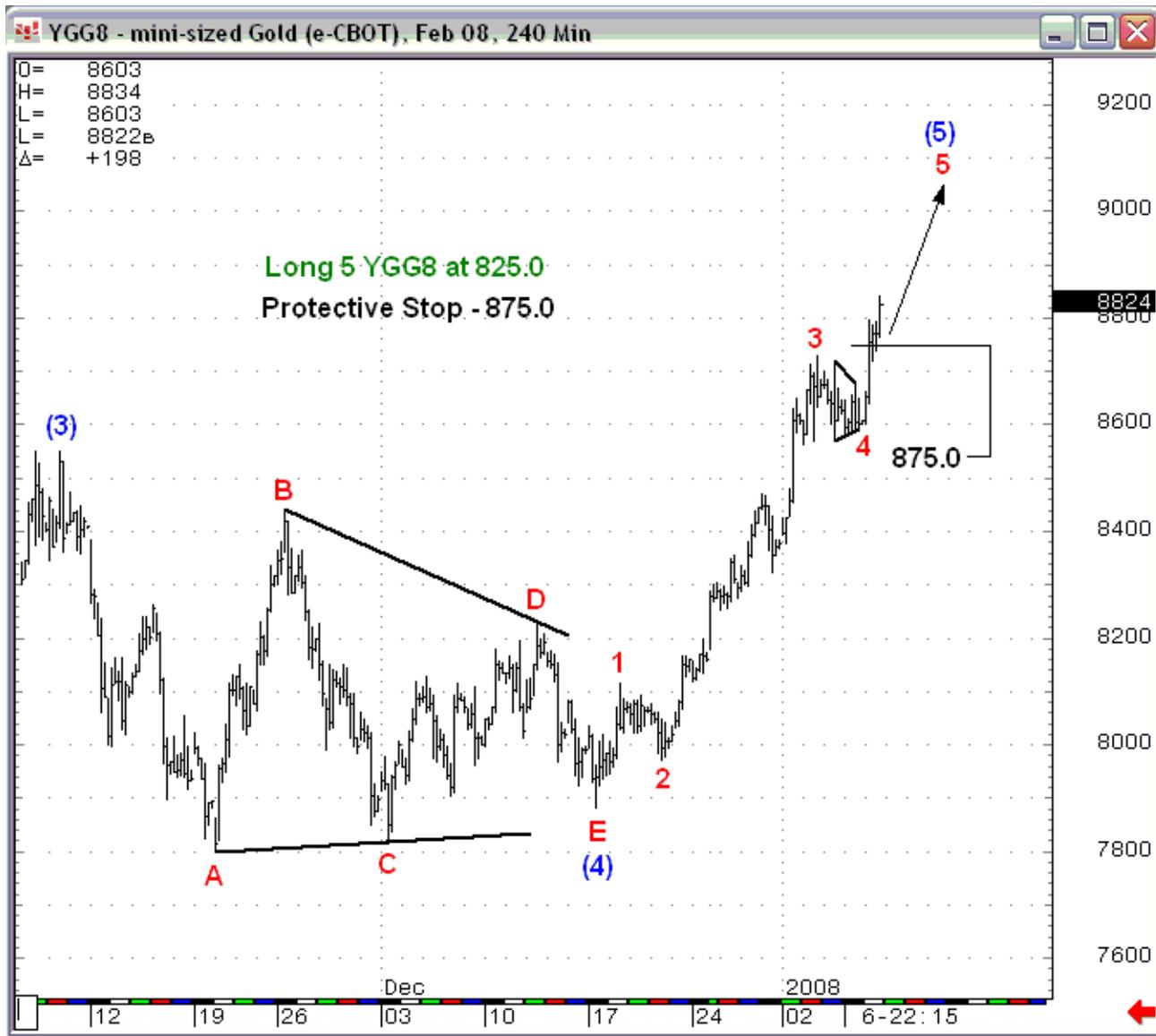
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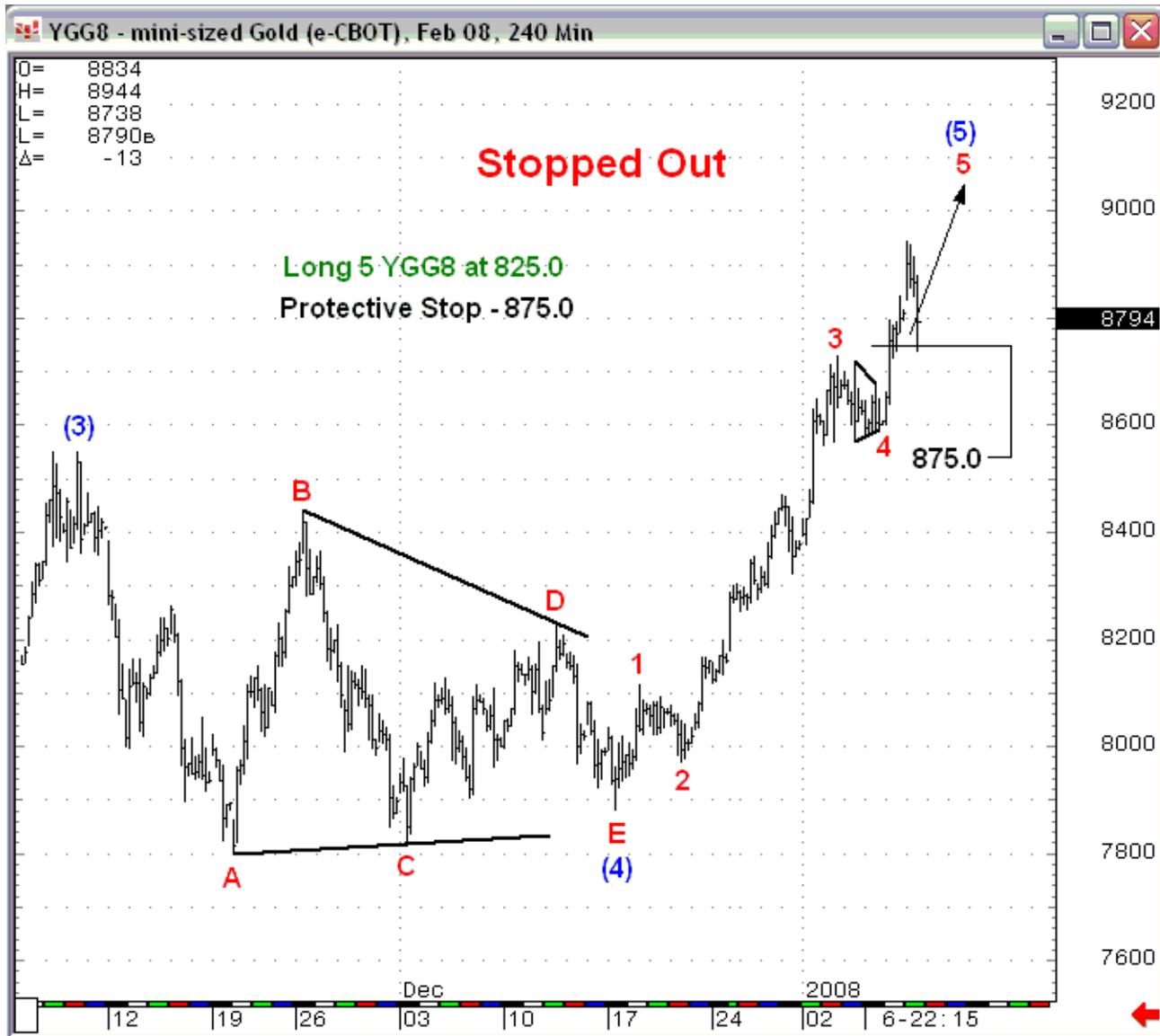
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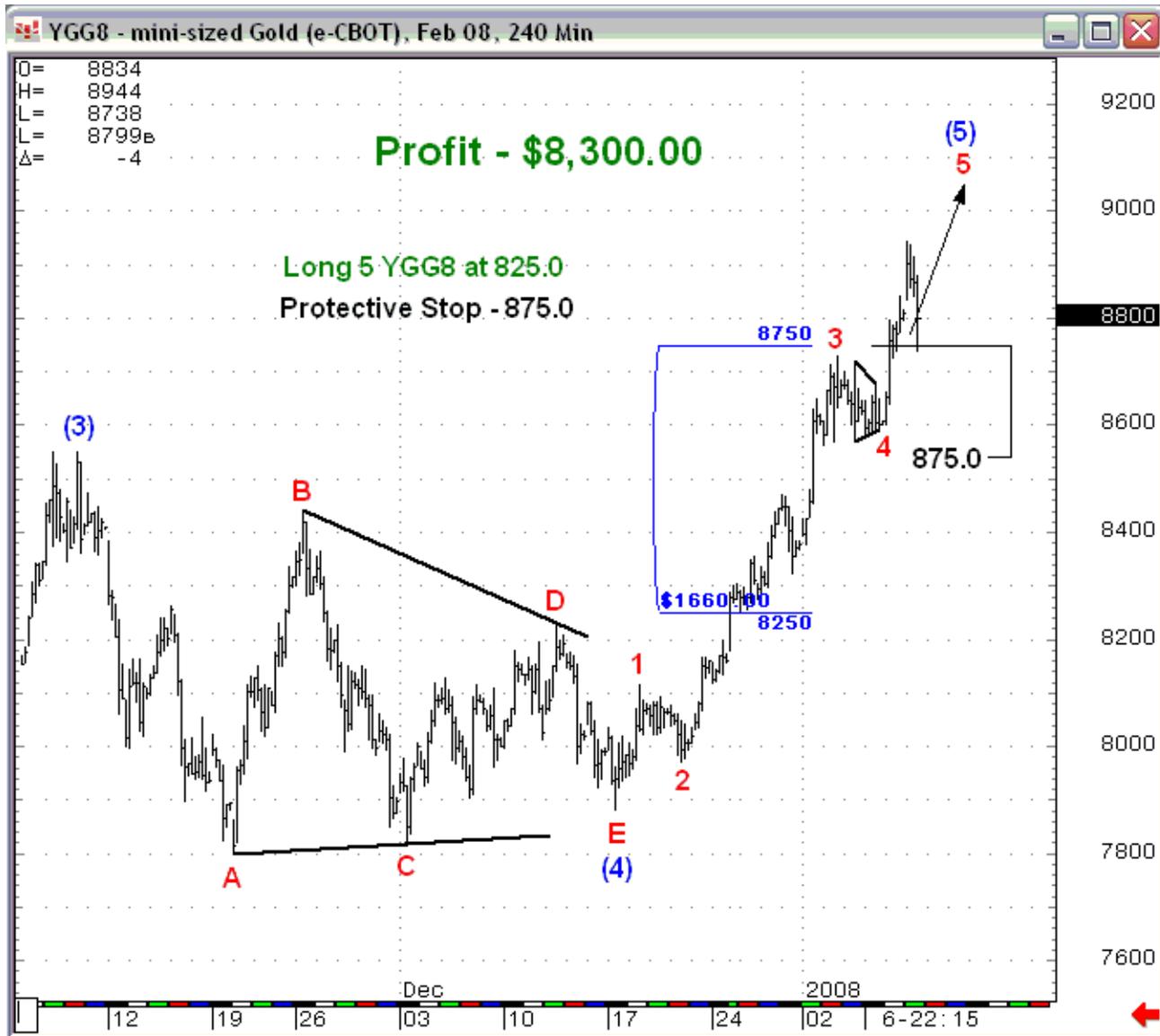
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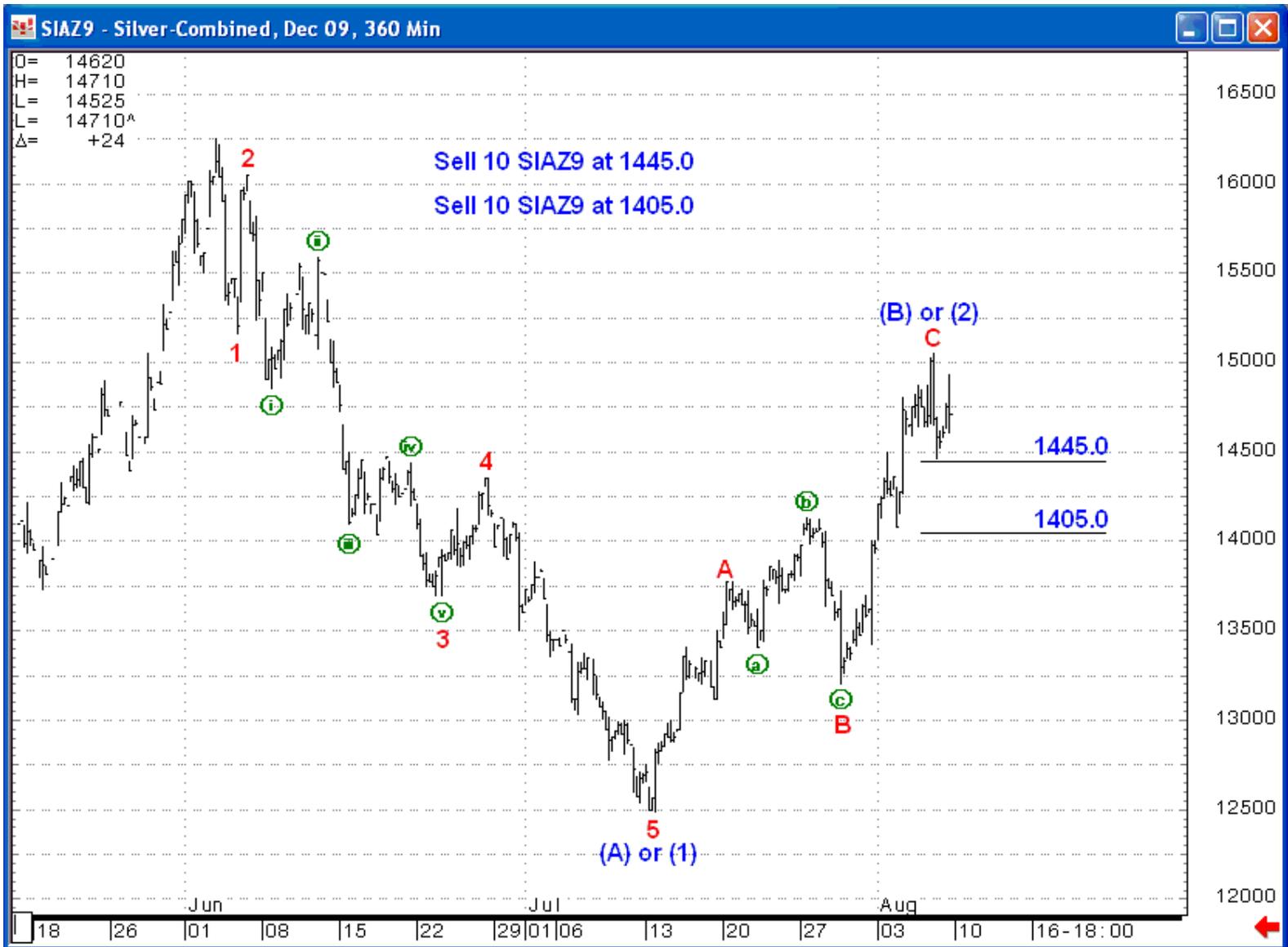
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SILVER



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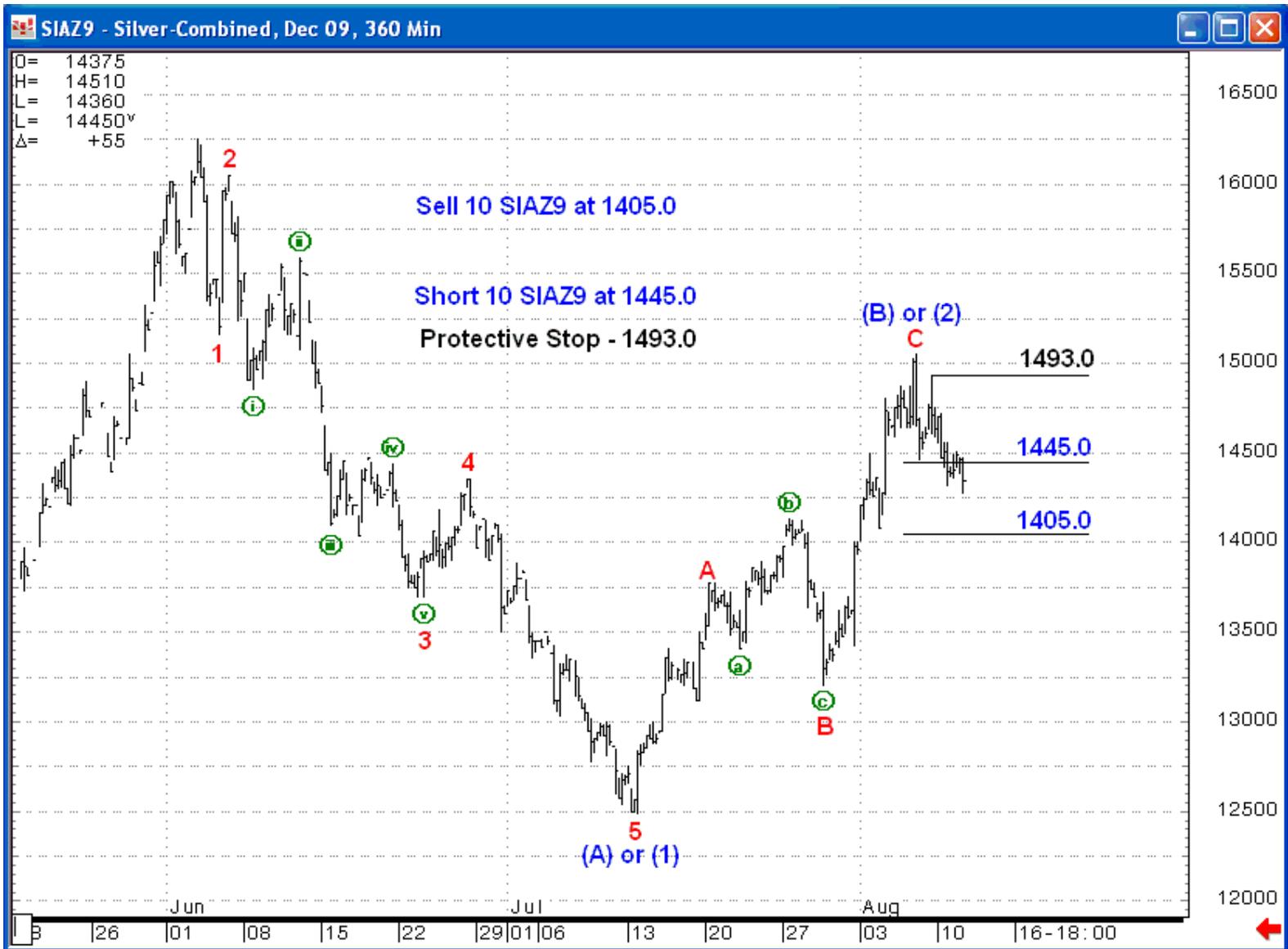
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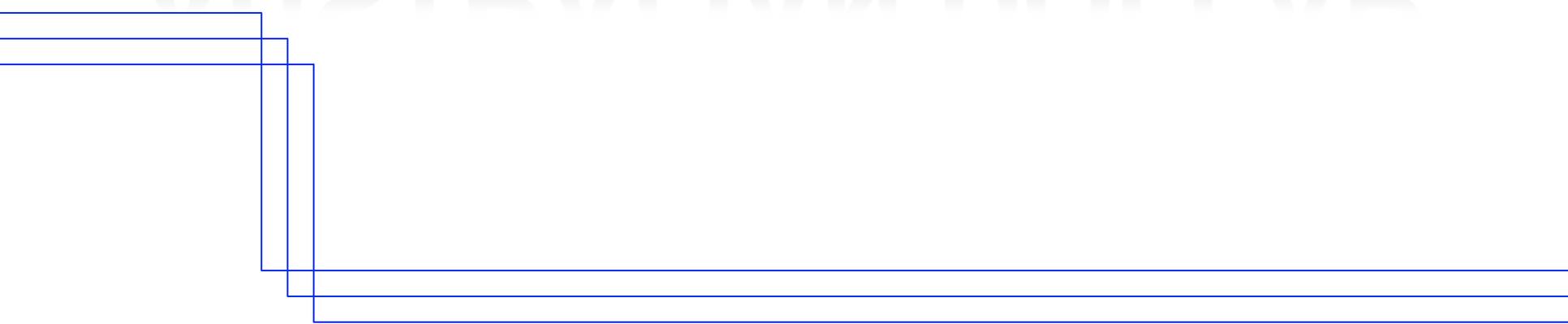
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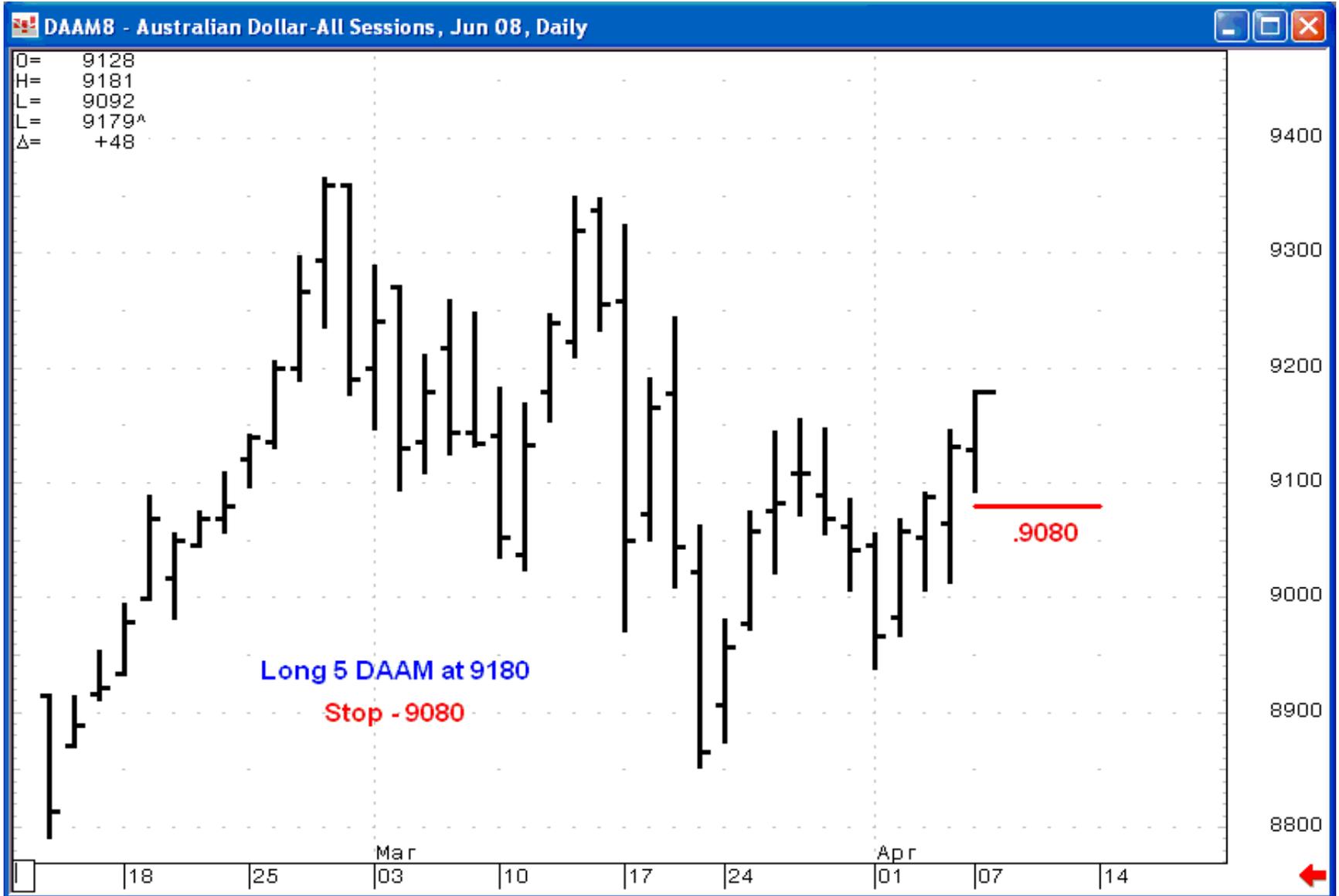
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AUSTRALIAN DOLLAR

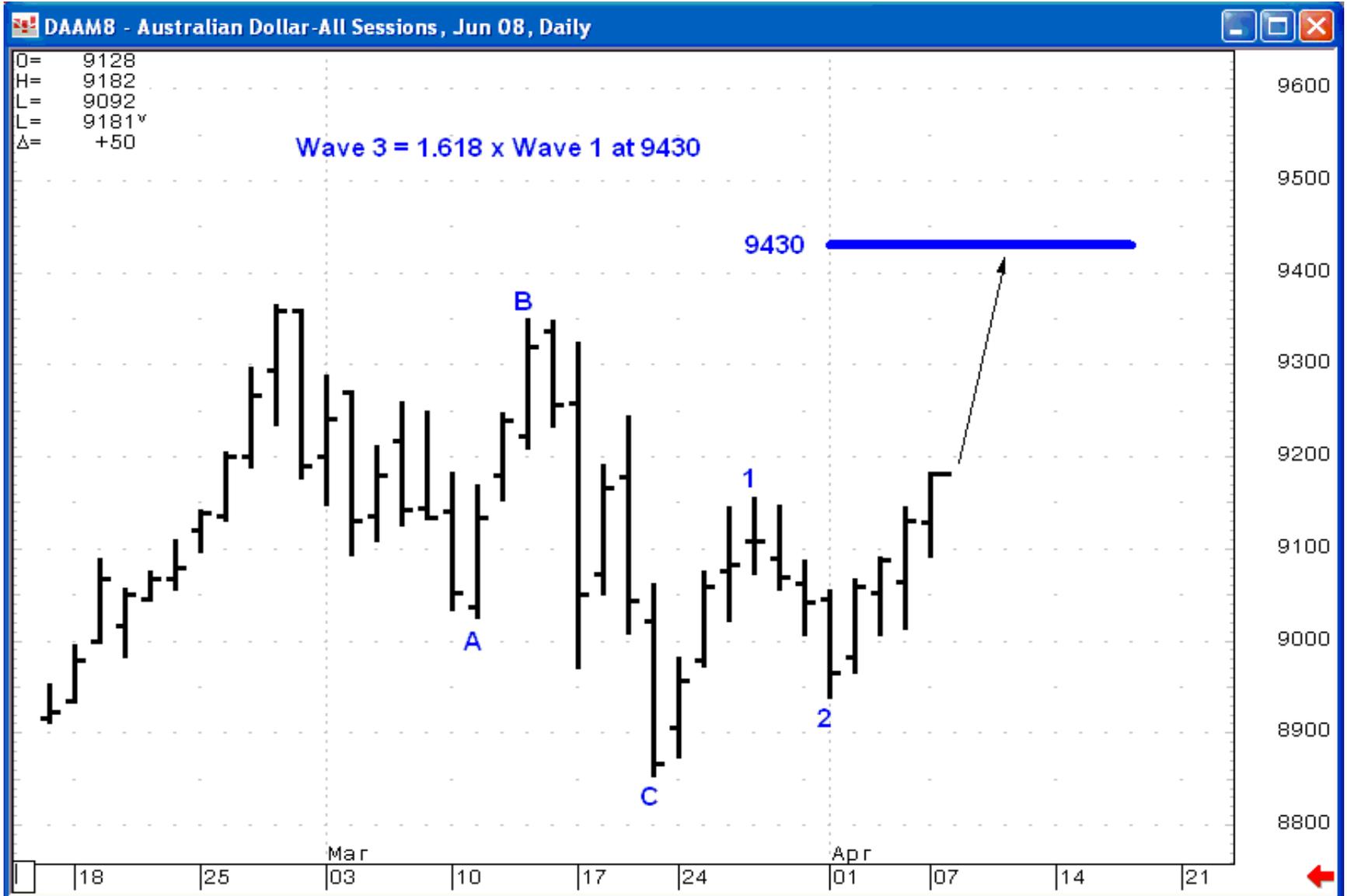
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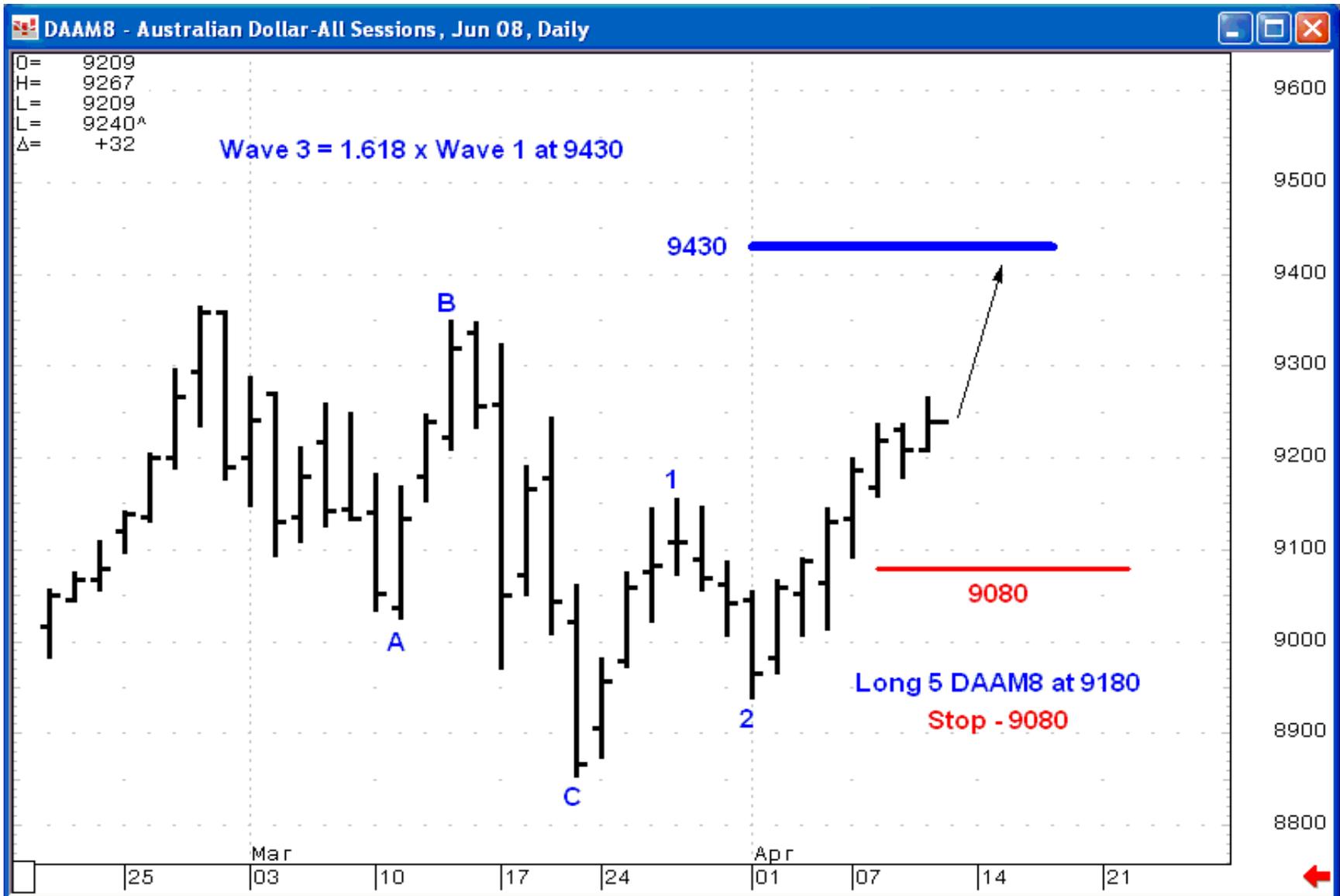
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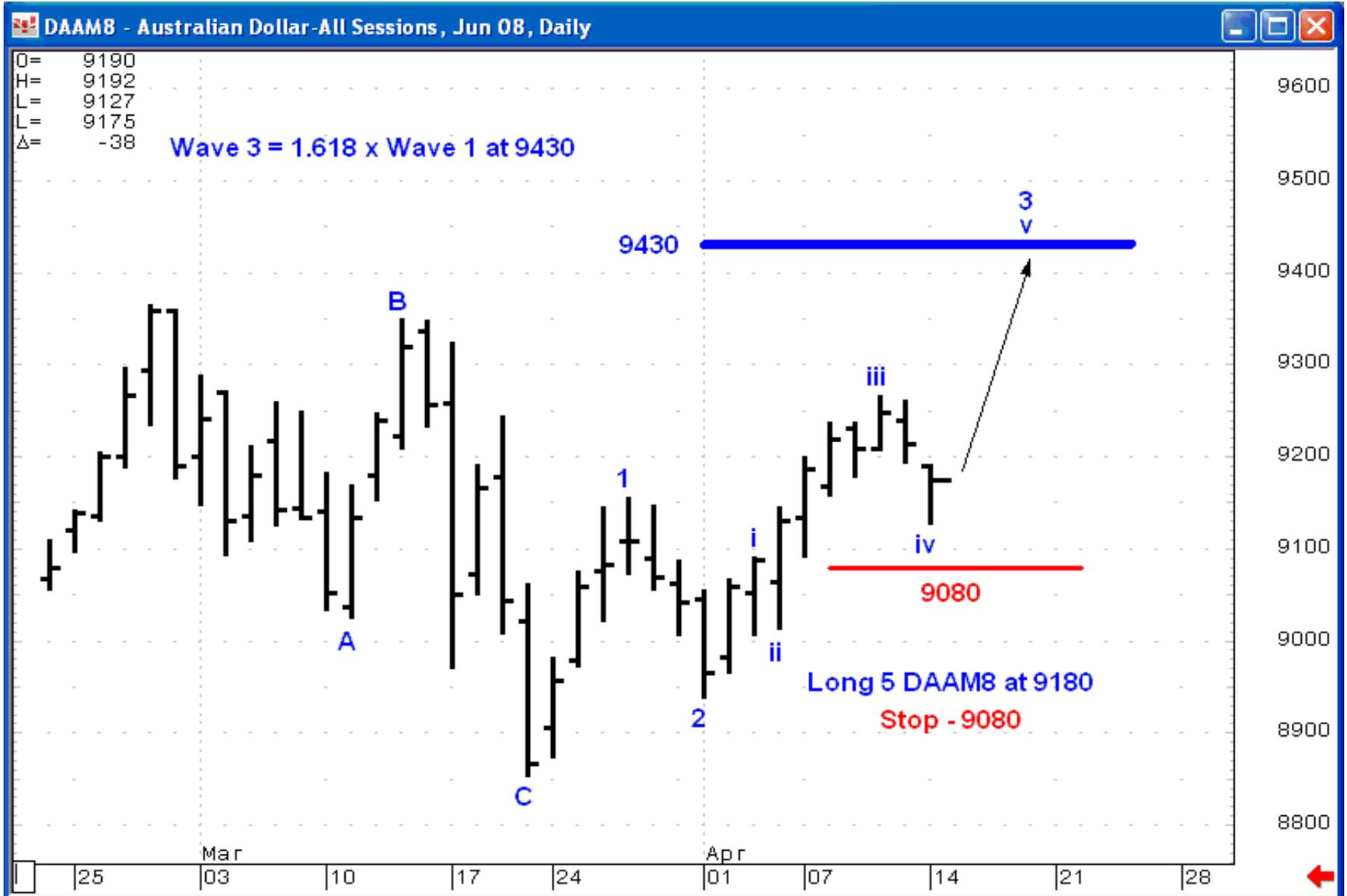
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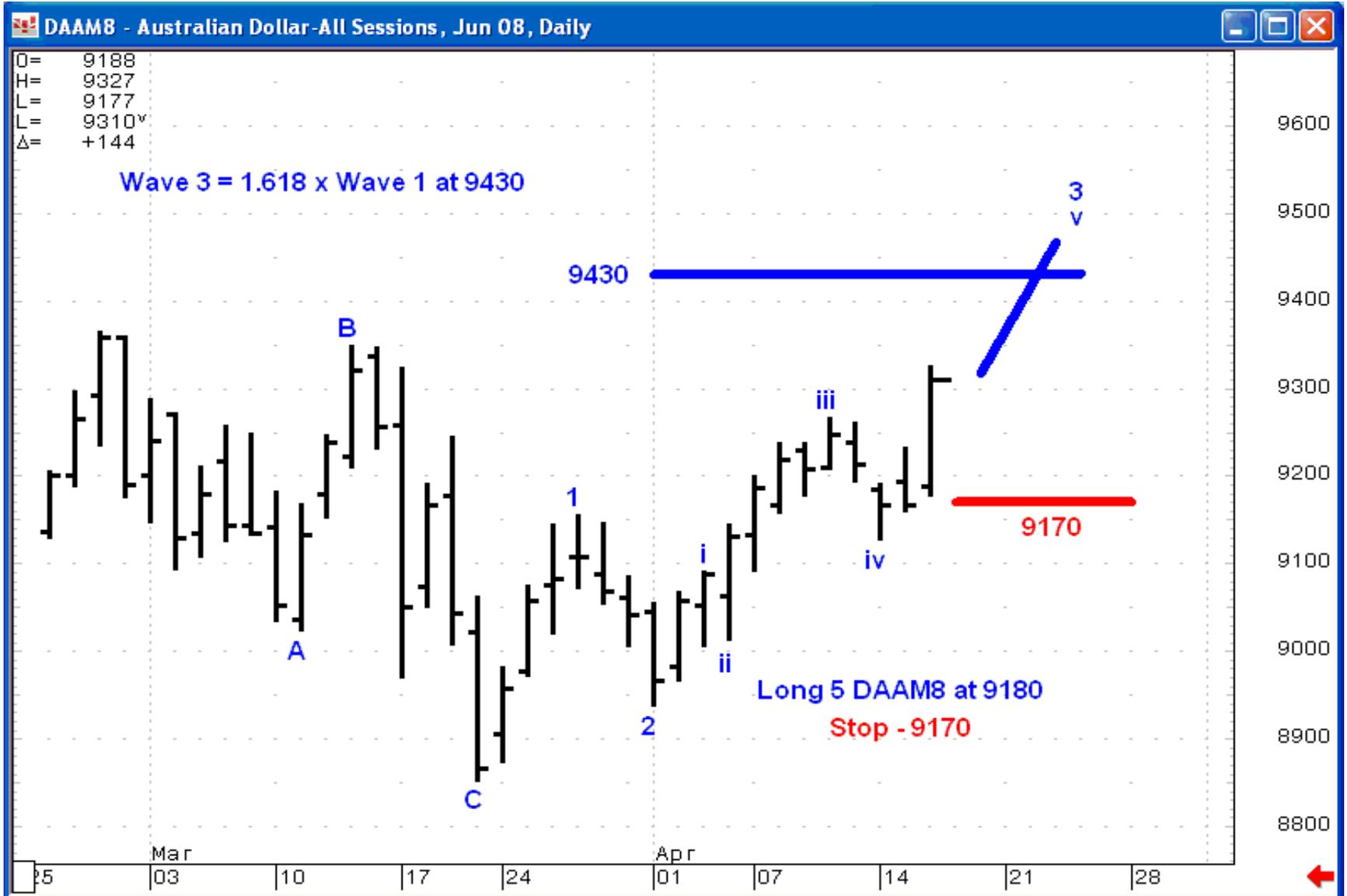
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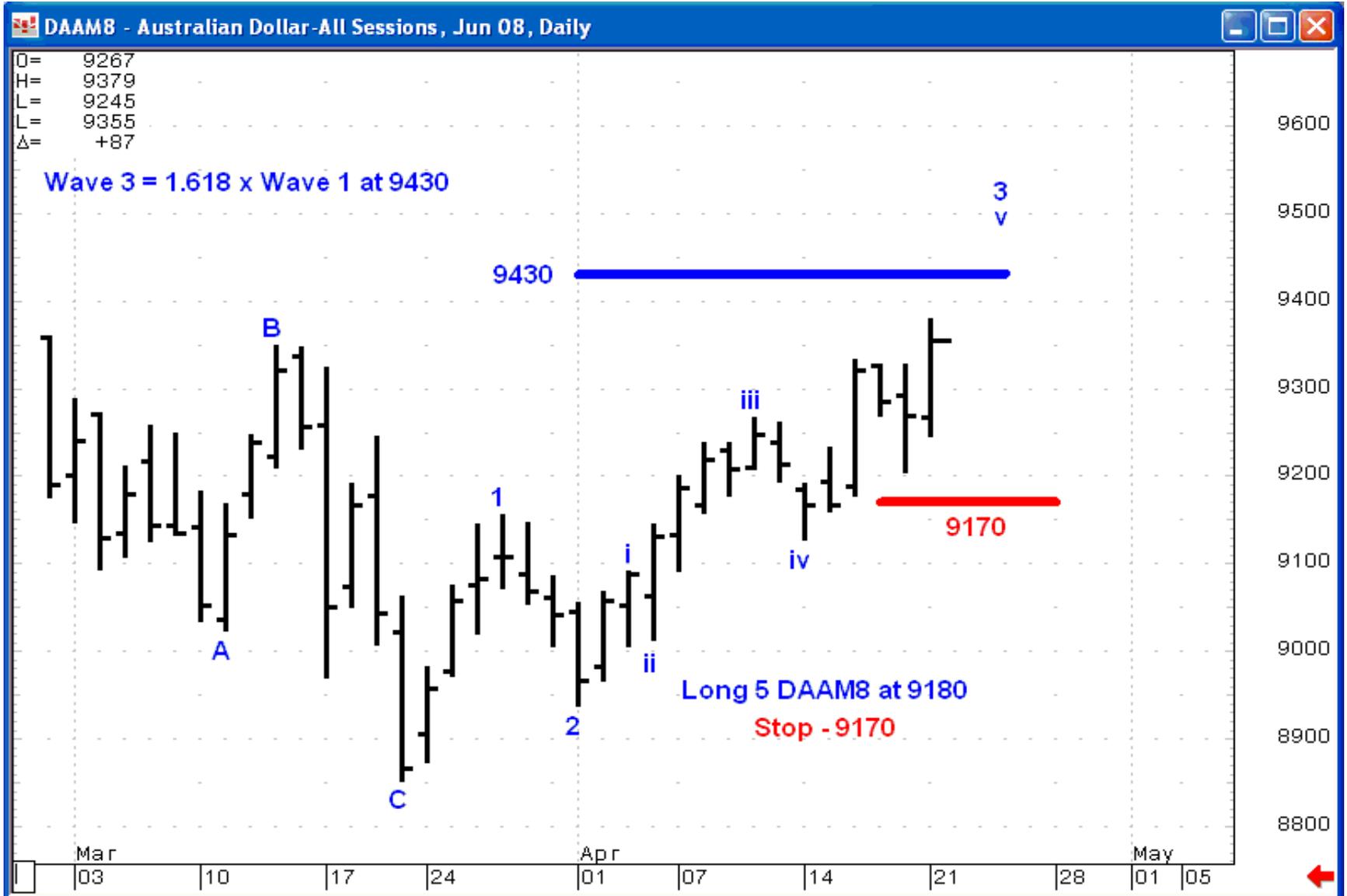
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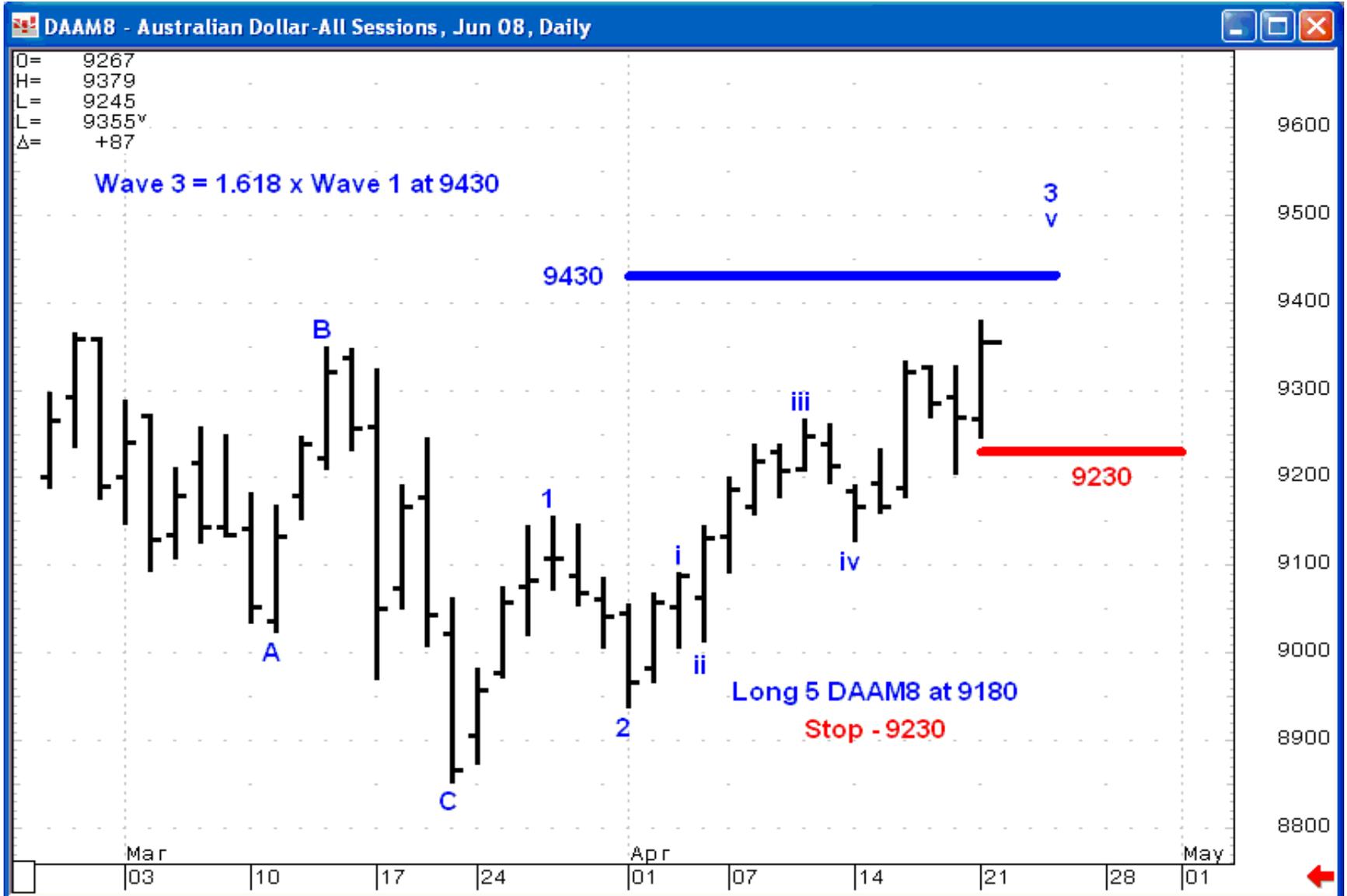
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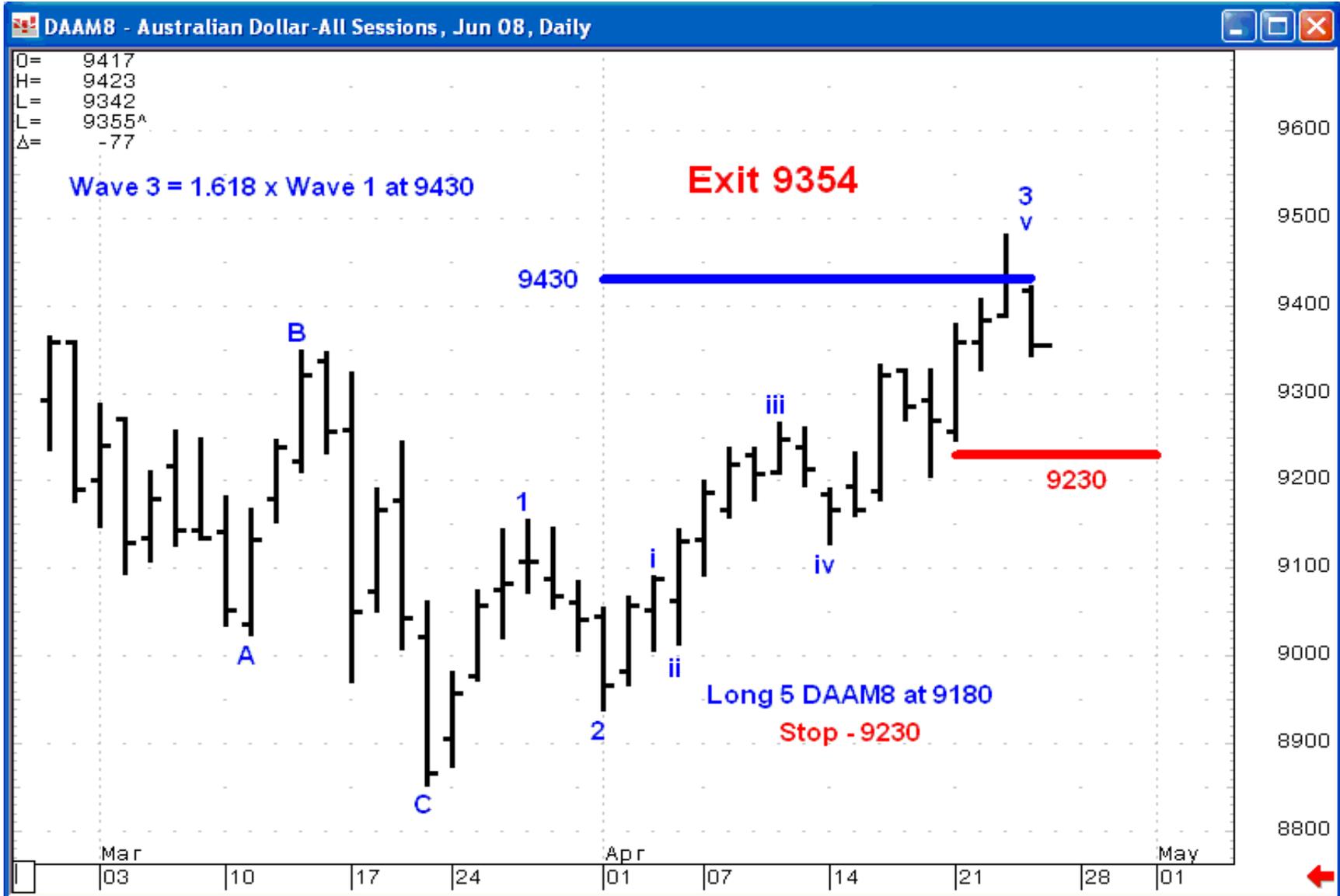
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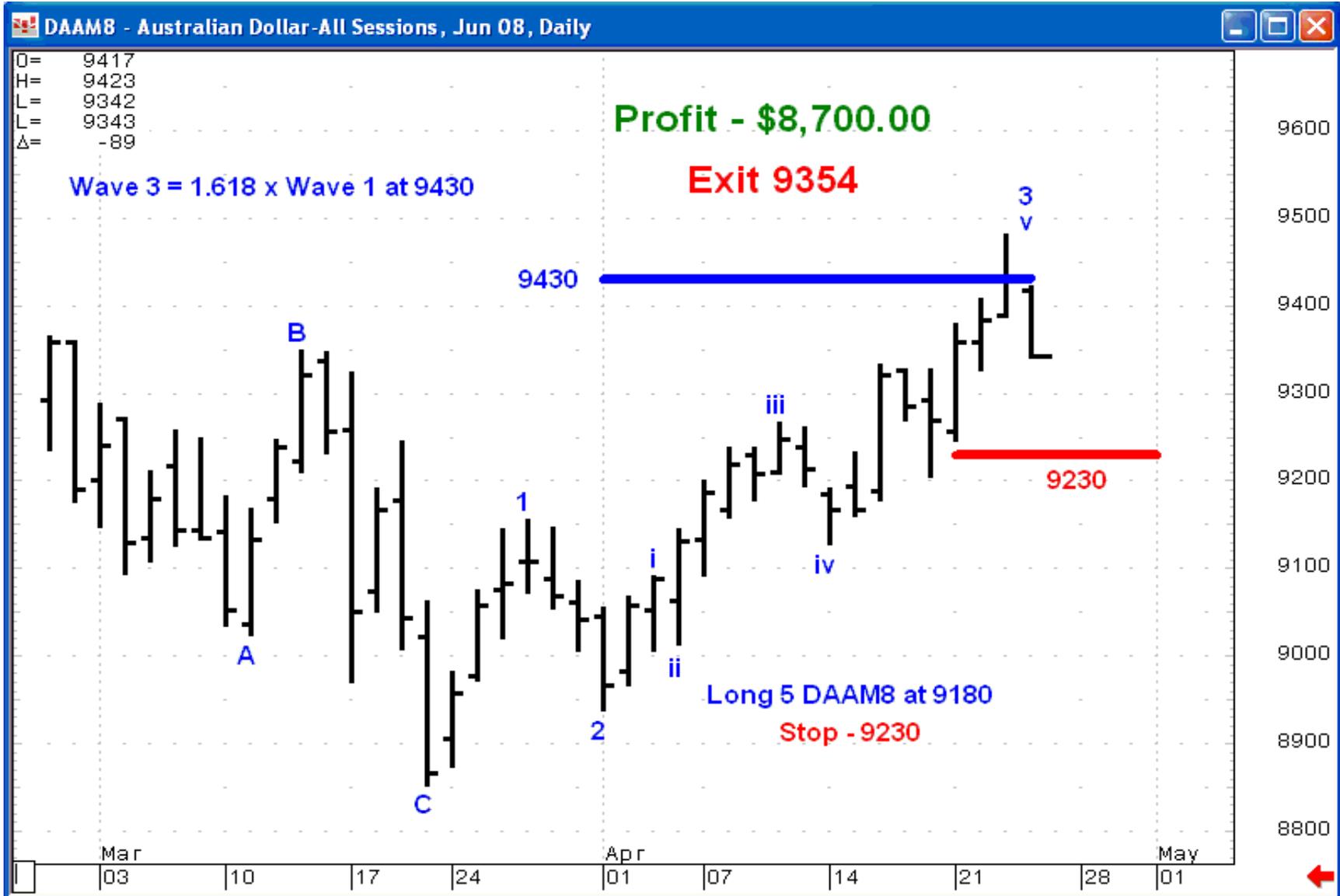
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