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Elliott Wave

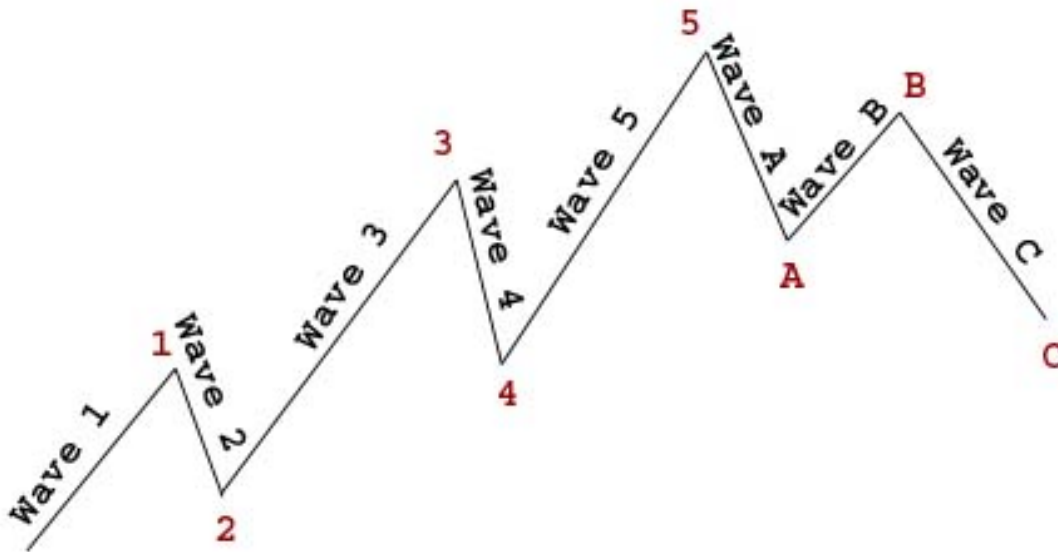
In the world of technical analysis Elliott Wave theory is one of the most popular theory's for forecasting market direction.

You will find that when you mention Elliott Wave to someone who has been trading for a while, they will either love it or hate it.

Everyone who follows Elliott Waves fancies himself as an expert. So to keep things nice and simple I am only going to cover the basics of Elliott Wave in this lesson.

The father of the Elliott Wave was a man called Ralph Nelson Elliott. Around 1930 Elliott came to the conclusion that stock market prices trend and reverse in identifiable patterns. As you may have guessed he called his observation "The Wave Principal".

The main components of The Wave Principal are that there are 5 waves that make up the progression of the market followed by 3 corrective waves to give a cycle of 8 waves. These cycles are in themselves cycles of a larger picture.



The rules that apply to wave principal are as follows:

1. Wave 2 should never pull back beyond the start of wave 1.
2. Wave 3 should never be the shortest wave.
3. Wave 4 should never enter the range of wave 1.

As I mentioned earlier Elliott Wave is a big subject and you do need to learn and practice the counting of waves before you can gain any proficiency with this method. Not only do you have the basic wave pattern that I showed above - each of the patterns is then subdivided into a smaller or larger version of the wave depending on the size or degree of the pattern.

You might end up with something like

Grand Supercycle
Supercycle
Cycle
Primary
Intermediate
Minor
Minute
Minuette
Subminuette

Now as you should know by now I like to meddle with the way things are normally done. So this is how I use Elliott Wave.

As I am following the market. I mark the swing points the same way I showed you in lesson 62 - <http://www.surefire-trading.com/fl/162.html> .

The two things I always bear in mind are - does this look like an Elliott Wave pattern? If it does, which wave am I in right now.



In the chart of the Euro/Dollar you can see the 5 wave pattern. I already new I was in a confirmed up trend so I wanted to jump in as early as possible. Once the peak of wave 1 was taken I got in and rode it all the way up wave 5.

If you want to learn more about Elliott Wave theory you can check out http://www.wizardoftrading.com/elliott_wave.html

This lesson is part of the 'Traders Secret Library' which you can see at <http://www.tradingforbeginners.com>

Good Trading

Mark McRae

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