

GF Markets Academy

ELLIOTT WAVE THEORY

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“Never depend on a single income. **Make an investment** to create a second income.”

Warren Buffet



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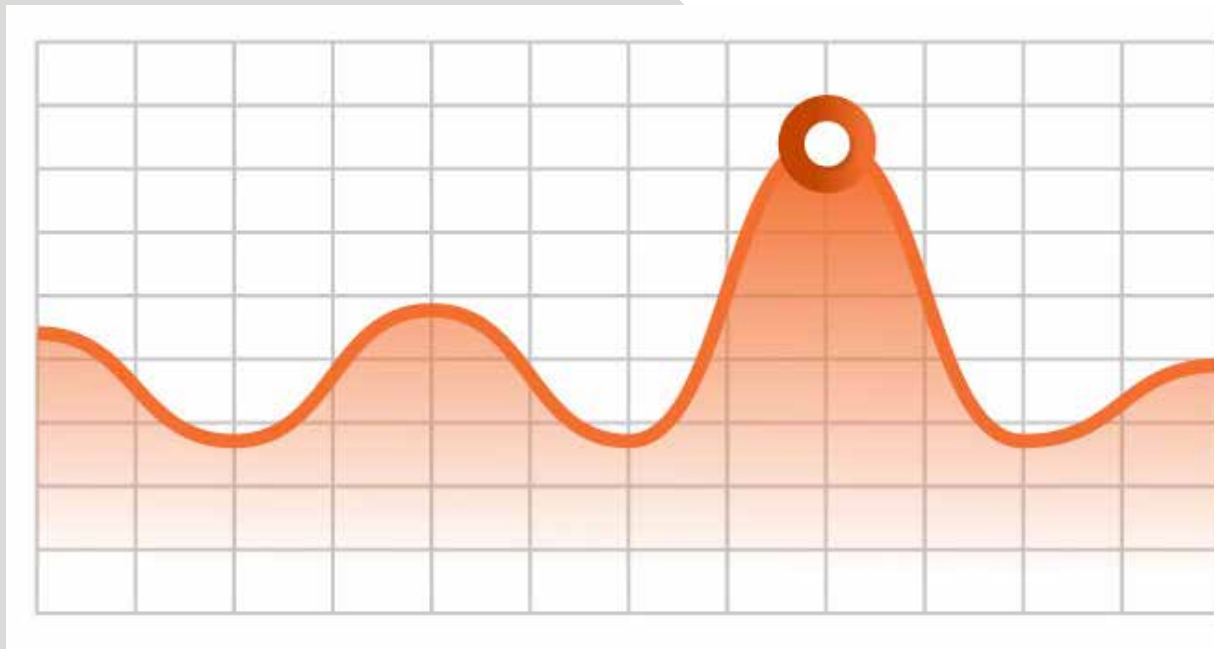
Chapter 1

Introduction to Elliott Wave Theory

- Ralph Nelson Elliott developed the Elliott Theory back in the 1930s. After analyzing stock data worth of closely 75 years, he identified recurring, fractal wave patterns.
- These waves can be seen in stocks and are created from the crowd's psychology.

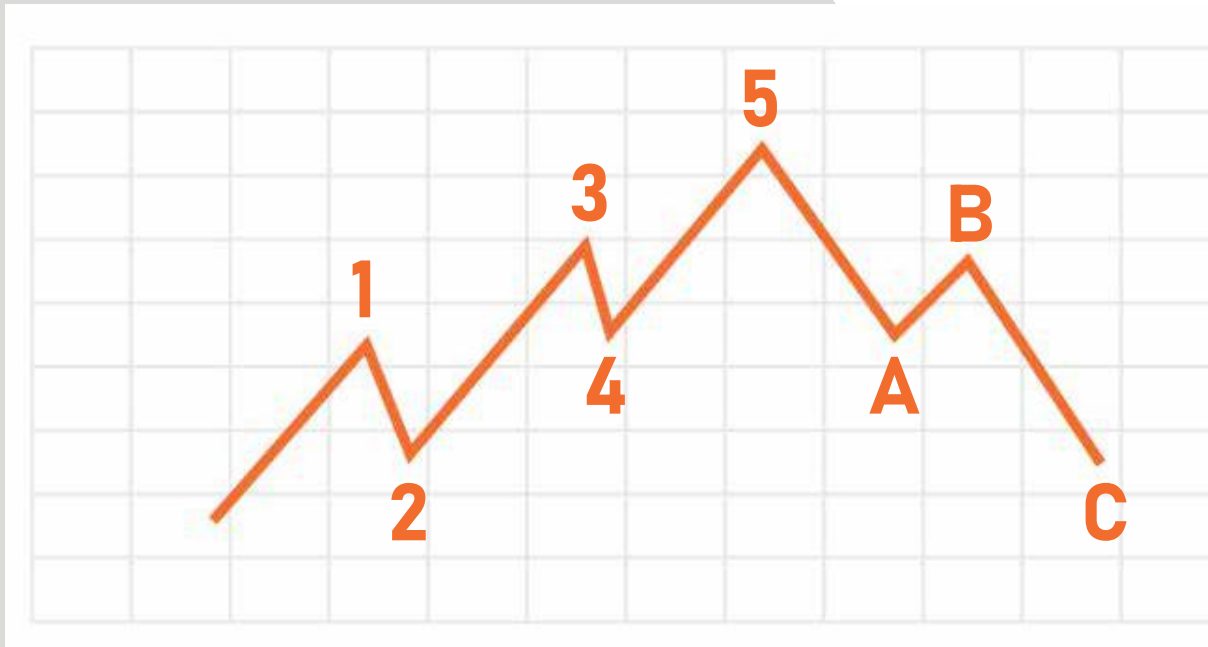
Elliott Wave

The Elliott Wave Theory is an extended theory of technical analysis for the price movements and cycles of assets.



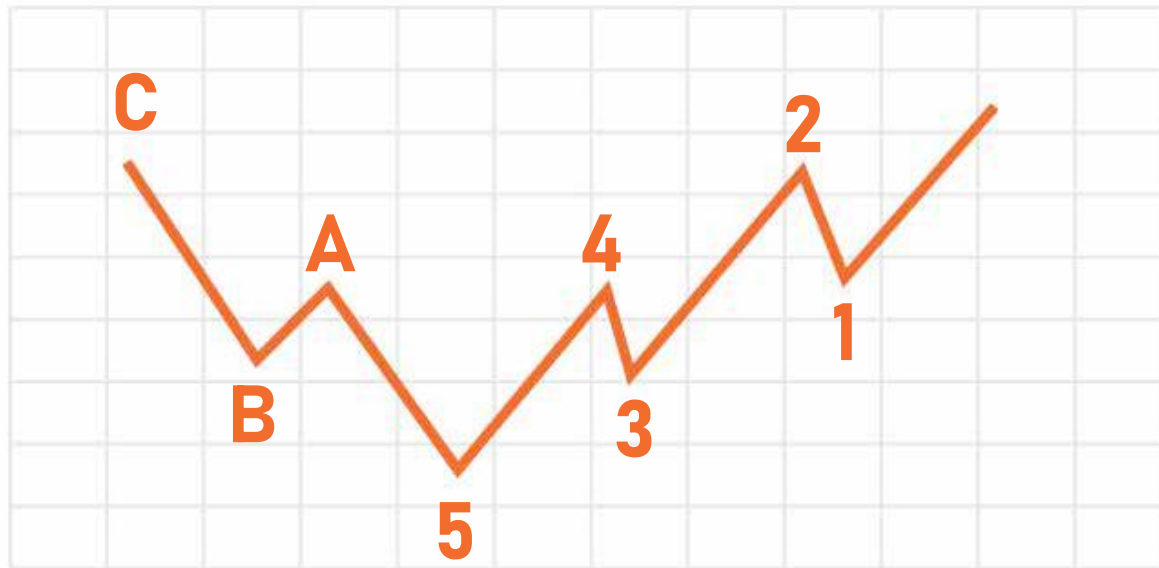
Elliott Wave

- An Elliott wave pattern starts with an impulse wave and is followed by a corrective wave.
- It has 5 waves that always follow the trend and then the corrective waves consist of 3 smaller waves which travel in the opposite direction of the primary trend.



Elliott Wave

- This pattern can both appear in an uptrend and in a downtrend.





What are fractals

- Waves are structured in such way that waves 1,3, and 5 are made up of a smaller 5-wave impulse pattern. Moreover, waves 2 and 4 are made up of smaller 3-wave corrective patterns.
- These are called fractals
- Fractals are structures that can be split into parts, each of which is a very similar copy of the whole.

Note:

Unlike most other price formations, the whole idea of wave analysis itself does not equate to a regular blueprint formation where you simply follow the instructions. Wave analysis offers insights into trend dynamics and helps you understand price movements in a much deeper way.



Chapter 2

Waves - Corrective and Impulsive

The theory identifies two different types of waves: impulsive waves and corrective waves. It is subjective, meaning not all traders interpret the theory the same way or agree that it is a successful trading strategy.

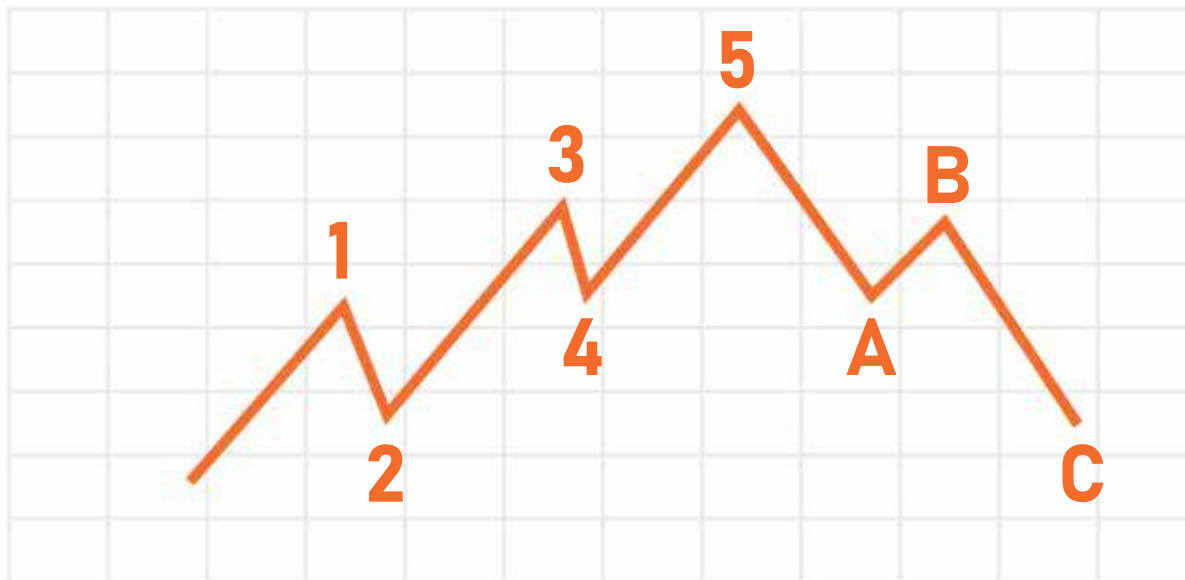
Impulsive Waves

Waves are structured in such way that waves 1,3, and 5 are made up of a smaller 5-wave impulse pattern.

It has three unbreakable rules that define its formation:

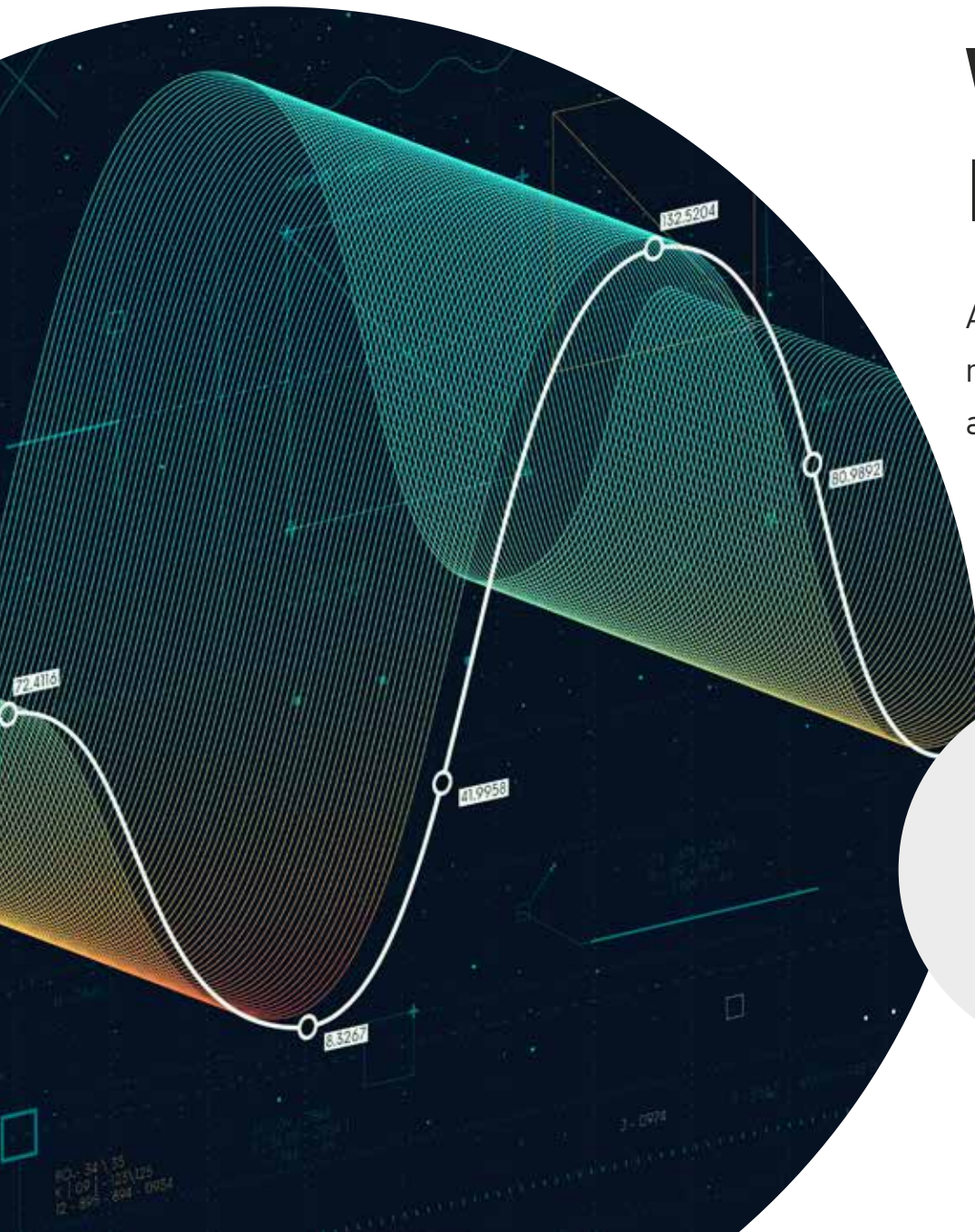
- Wave two cannot retrace more than 100% of the first wave
- The third wave can never be the shortest of waves one, three, and five
- Wave four can't go beyond the third wave at any time

If one of these rules is violated, the structure is not an impulse wave.



What is an Impulsive Wave Pattern in the Market?

An impulsive wave pattern is an indication of a strong price movement in the market. It can be an upward movement in an uptrend or downward movement in a downtrend.





Corrective Waves

Corrective waves, which are sometimes called diagonal waves, consist of three—or a combination of three—sub-waves that make net movement in the direction opposite to the trend of the nextlargest degree. Like all motive waves, its goal is to move the market in the direction of the trend.



How to trade Elliott Wave Theory

- Let's assume that you as a trader have identified that a stock is moving on an uptrend with impulsive waves. You will want to go long (open a buy) on the stock until it completes its 5th wave. After the 5th wave is formed, you might decide to go short (sell position) since a reversal is about to be formed.
- Underlying this trading theory is the idea that fractal patterns recur in financial markets. In mathematics, fractal patterns repeat themselves on an infinite scale.

Does Elliott Wave theory work?

- Every theory has two sides, and Elliott Wave Theory does too. Several studies do support that the theory is reliable and accurate tool for a profitable trading. However, some other studies can be controversial.
- Overall, when you have an in-depth understanding of patterns and how to label the waves correctly you can make a more informed decision before opening a position.

Always Trade Smart

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