



ROBERT PRECHTER
The Elliott Wave
THEORIST

A publication of Elliott Wave International

www.elliottwave.com

July 2005 issue
© July 15, 2005
(data through July 15)

Excerpted from the July 2005 Elliott Wave Theorist

A SUMMARY OF RULES AND GUIDELINES FOR WAVES

I have spent some time collecting and formulating all of the rules and guidelines for Elliott waves given current knowledge. Below is a summary of them (excepting Fibonacci relationships) for the five main wave patterns, variations and combinations. It should serve as a reference list for you to use when doing your own work.

From a theoretical standpoint, we must be careful not to confuse Elliott waves with their measures, which are as a thermometer is to heat. A thermometer is not designed to gauge rapid short-term fluctuations in air temperature and neither is an index of 30 stocks constructed so as to be able to record every short-term fluctuation in social mood. While we fully believe that the listed rules govern Elliott waves as a collective mental phenomenon, recordings of actions that Elliott waves induce — such as buying and selling certain lists of stocks — may not perfectly reflect those waves. Therefore recordings of such actions could deviate from a perfect expression of the rules simply because of the imperfection of the chosen gauge. That being said, I have found that the Dow Jones Industrial Average has followed Elliott's rules impeccably at Minor degree and above and usually at lesser degrees as well. If you do your own wave counting, keep this list tacked to the wall.

MOTIVE WAVES

Impulse

Rules

- An impulse always subdivides into five waves.
- Wave 1 always subdivides into an impulse or (rarely) a diagonal triangle.
- Wave 3 always subdivides into an impulse.
- Wave 5 always subdivides into an impulse or a diagonal triangle.
- Wave 2 always subdivides into a zigzag, flat or combination.
- Wave 4 always subdivides into a zigzag, flat, triangle or combination.
- Wave 2 never moves beyond the start of wave 1.
- Wave 3 always moves beyond the end of wave 1.
- Wave 3 is never the shortest wave.
- Wave 4 never moves beyond the end of wave 1.
- Never are waves 1, 3 and 5 all extended.

Guidelines

- Wave 4 will almost always be a different corrective pattern than wave 2.
- Wave 2 is usually a zigzag or zigzag combination.
- Wave 4 is usually a flat, triangle or flat combination.
- Sometimes wave 5 does not move beyond the end of wave 3 (in which case it is called a truncation).
- Wave 5 often ends when meeting or slightly exceeding a line drawn from the end of wave 3 that is parallel to the line connecting the ends of waves 2 and 4, on either arithmetic or semilog scale.
- The center of wave 3 almost always has the steepest slope of any equal period within the parent impulse

This issue was posted July 15.

Avoid mail delay: get *The Elliott Wave Theorist* instantly on-line; call customer service at 800-336-1618.

except that sometimes an early portion of wave 1 (the “kickoff”) will be steeper.

- Wave 1, 3 or 5 is usually extended. (An extension appears “stretched” because its corrective waves are small compared to its impulse waves. It is substantially longer, and contains larger subdivisions, than the non-extended waves).
- Often, the extended subwave is the same number (1, 3 or 5) as the parent wave.
- Rarely do two subwaves extend, although it is typical for waves 3 and 5 both to extend when they are of Cycle or Supercycle degree and within a fifth wave of one degree higher.
- Wave 1 is the least commonly extended wave.
- When wave 3 is extended, waves 1 and 5 tend to have gains related by equality or the Fibonacci ratio.
- When wave 5 is extended, it is often in Fibonacci proportion to the net travel of waves 1 through 3.
- When wave 1 is extended, it is often in Fibonacci proportion to the net travel of waves 3 through 5.
- Wave 4 typically ends when it is within the price range of subwave four of 3.
- Wave 4 often subdivides the entire impulse into Fibonacci proportion in time and/or price.

Diagonal Triangle

Rules

- A diagonal triangle always subdivides into five waves.
- An ending diagonal always appears as wave 5 of an impulse or wave C of a zigzag or flat.
- A leading diagonal always appears as wave 1 of an impulse or wave A of a zigzag.
- Waves 1, 2, 3, 4 and 5 of an ending diagonal, and waves 2 and 4 of a leading diagonal, always subdivide into zigzags.
- Wave 2 never goes beyond the start of wave 1.
- Wave 3 always goes beyond the end of wave 1.
- Wave 4 never moves beyond the start of wave 3.
- Wave 4 always ends within the price territory of wave 1.
- Going forward in time, a line connecting the ends of waves 2 and 4 converges towards (in the contracting variety) or diverges from (in the expanding variety) a line connecting the ends of waves 1 and 3.
- In a leading diagonal, wave 5 always ends beyond the end of wave 3.
- In the contracting variety, wave 3 is always shorter than wave 1, wave 4 is always shorter than wave 2, and wave 5 is always shorter than wave 3.
- In the expanding variety, wave 3 is always longer than wave 1, wave 4 is always longer than wave 2, and wave 5 is always longer than wave 3.
- In the expanding variety, wave 5 always ends beyond the end of wave 3.

Guidelines

- Waves 2 and 4 each usually retrace .66 to .81 of the preceding wave.
- Waves 1, 3 and 5 of a leading diagonal usually subdivide into zigzags but sometimes appear to be impulses.
- Within an impulse, if wave 1 is a diagonal triangle, wave 3 is likely to be extended.
- Within an impulse, wave 5 is unlikely to be a diagonal triangle if wave 3 is not extended.
- In the contracting variety, wave 5 usually ends beyond the end of wave 3. (Failure to do so is called a truncation.)
- In the contracting variety, wave 5 usually ends at or slightly beyond a line that connects the ends of waves 1 and 3. (Ending beyond that line is called a throw-over.)
- In the expanding variety, wave 5 usually ends slightly before reaching a line that connects the ends of waves 1 and 3.

* Note: We have found one diagonal triangle in the Dow in which wave four did not reach the price territory of wave one. See Figure 1-18 in *Elliott Wave Principle*.

CORRECTIVE WAVES

Zigzag

Rules

- A zigzag always subdivides into three waves.
- Wave A always subdivides into an impulse or leading diagonal.
- Wave C always subdivides into an impulse or diagonal triangle.
- Wave B always subdivides into a zigzag, flat, triangle or combination thereof.
- Wave B never moves beyond the start of wave A.

Guidelines

- Wave A almost always subdivides into an impulse.
- Wave C almost always subdivides into an impulse.
- Wave C is often about the same length as wave A.
- Wave C almost always ends beyond the end of wave A.
- Wave B typically retraces 38 to 79 percent of wave A.
- If wave B is a running triangle, it will typically retrace between 10 and 40 percent of wave A.
- If wave B is a zigzag, it will typically retrace 50 to 79 percent of wave A.
- If wave B is a triangle, it will typically retrace 38 to 50 percent of wave A.
- A line connecting the ends of waves A and C is often parallel to a line connecting the end of wave B and the start of wave A. (Forecasting guideline: Wave C often ends upon reaching a line drawn from the end of wave A that is parallel to a line connecting the start of wave A and the end of wave B.)

Flat

Rules

- A flat always subdivides into three waves.
- Wave A is never a triangle.
- Wave C is always an impulse or a diagonal triangle.
- Wave B always retraces at least 90 percent of wave A.

Guidelines

- Wave B usually retraces between 100 and 138 percent of wave A.
- Wave C is usually between 100 and 165 percent as long as wave A.
- Wave C usually ends beyond the end of wave A.

Notes

- When wave B is more than 105 percent as long as wave A and wave C ends beyond the end of wave A, the entire formation is called an expanded flat.
- When wave B is more than 100 percent as long as wave A and wave C does not end beyond the end of wave A, the entire formation is called a running flat.

Contracting Triangle

Rules

- A triangle always subdivides into five waves.
- At least four waves among waves A, B, C, D and E each subdivide into a zigzag or zigzag combination.
- Wave C never moves beyond the end of wave B, wave D never moves beyond the end of wave C, and wave E never moves beyond the end of wave D (at least within the constraints of the sociometer being used; sometimes the Dow reading at the end of a triangle subwave can exceed a previous subwave's ending value by a small amount as the market approximates an equal level, as it does in ascending and descending triangles; see below). (The result is that going forward in time, a line connecting the ends of waves B and D converges with a line connecting the ends of waves A and C.)
- A triangle never has more than one complex subwave, in which case it is always a zigzag combination or a triangle.

Guidelines

- Usually, wave C subdivides into a zigzag combination that is longer lasting and contains deeper percentage retracements than each of the other subwaves.
- Sometimes, wave D subdivides into a zigzag combination that is longer lasting and contains deeper percentage retracements than each of the other subwaves.
- Sometimes one of the waves, usually wave C, D or E, subdivides into a contracting triangle. Often the effect is as if the entire triangle consisted of nine zigzags.
- About 60 percent of the time, wave B does not end beyond the start of wave A. When it does, the triangle is called a running triangle.
- Sometimes, either waves A and C, or B and D, will end at almost exactly the same level. When the flat line is on the top, it is called an ascending triangle; when it is on the bottom, it is called a descending triangle.
- When wave 5 follows a triangle, it is typically either a brief, rapid movement or an exceptionally long extension.

Expanding Triangle

Rules

Most rules are the same as for contracting triangles, with these differences:

- Wave C, D and E each moves beyond the end of the preceding same-directional subwave. (The result is that going forward in time, a line connecting the ends of waves B and D diverges from a line connecting the ends of waves A and C.)
- Subwaves B, C and D each retrace at least 100 percent but no more than 150 percent of the preceding subwave.

Guidelines

- Most guidelines are the same, with these differences:
- Subwaves B, C and D usually retrace 105 to 125 percent of the preceding subwave.
- No subwave has yet been observed to subdivide into a triangle.

Combinations

Rules

- Combinations comprise two (or three) corrective patterns separated by one (or two) corrective pattern(s) in the opposite direction, labeled X. (The first corrective pattern is labeled W, the second Y, and the third, if there is one, Z.)
- A zigzag combination comprises two or three zigzags (in which case it is called a double or triple zigzag).
- A “double three” flat combination comprises (in order) a zigzag and a flat, a flat and a zigzag, a flat and a flat, a zigzag and a triangle or a flat and a triangle.
- A rare “triple three” flat combination comprises three flats.
- Double and triple zigzags take the place of zigzags, and double and triple threes take the place of flats and triangles.
- An expanding triangle has yet to be observed as a component of a combination.

Guidelines

- When a zigzag or flat appears too small to be the entire wave with respect to the preceding wave (or, if it is to be wave 4, the preceding wave 2), a combination is likely.



THE ELLIOTT WAVE THEORIST is published by Elliott Wave International, Inc. Mailing address: P.O. Box 1618, Gainesville, Georgia 30503, U.S.A. Phone: 770-536-0309. All contents copyright ©2005 Elliott Wave International, Inc. Reproduction, retransmission or redistribution in any form is illegal and strictly forbidden, as is continuous and regular dissemination of specific forecasts or strategies. Otherwise, feel free to quote, cite or review if full credit is given.



EWT is published irregularly, one or more times per month. All contents are written by Robert Prechter. Correspondence is welcome, but volume of mail often precludes a reply. For best results, send concise e-mail to one of the addresses listed on the bulletin board of our website (www.elliottwave.com).

SUBSCRIPTION RATES: \$20 per month (add \$1.50 per month for overseas airmail). Subscriptions paid via credit card automatically renew each month. Visa, MasterCard, Discover and American Express accepted; call our office for other payment options. Delivery available via Internet, first class mail and fax, (Call for fax pricing.) Telephone 770-536-0309 or 800-336-1618, or send credit card number and expiration date with your order. Georgia residents must add sales tax.

We offer monthly and 3-times-a-week commentary on U.S. stocks, bonds, metals and the dollar in *The Financial Forecast Service*; daily and monthly commentary on futures in *Futures Junctures Service*; and monthly commentary on all the world's major markets in *Global Market Perspective*. Rates vary by market and frequency. For information, call us at 770-536-0309 or (within the U.S.) 800-336-1618. Or better yet, visit our website for special deals at www.elliottwave.com.

We also deliver intraday coverage of all major interest rate, stock, cash and commodities markets around the world. If you would benefit from this coverage, call us at 770-534-6680 or (within the U.S.) 800-472-9283. Or visit our institutional website at www.elliottwave.net.

Send for our **FREE CATALOG** listing Elliott Wave BOOKS, SPECIAL REPORTS, PRECISION RATIO COMPASS, and our EDUCATIONAL VIDEO SERIES.

The Elliott Wave Principle is a detailed description of how markets behave. The description reveals that mass investor psychology swings from pessimism to optimism and back in a natural sequence, creating specific patterns in price movement. Each pattern has implications regarding the position of the market within its overall progression, past, present and future. The purpose of this publication and its associated services is to outline the progress of markets in terms of the Elliott Wave Principle and to educate interested parties in the successful application of the Elliott Wave Principle. While a reasonable course of conduct regarding investments may be formulated from such application, at no time will specific security recommendations or customized actionable advice be given, and at no time may a reader or caller be justified in inferring that any such advice is intended. Readers must be advised that while the information herein is expressed in good faith, it is not guaranteed. Be advised that the market service that never makes mistakes does not exist. Long-term success in the market demands recognition of the fact that error and uncertainty are part of any effort to assess future probabilities.