

CHAPTER 12

Elliot Wave Counts

Localized Elliott Wave Counts

This option allows the user to force the software to start an Elliott Wave count from any point on the chart. In certain cases, the market tends to make a low and rally off this low with great momentum. However, since the software uses the entire data set in determining the Wave count, it may be a while before the software logic fits the current market action into the Wave Count.

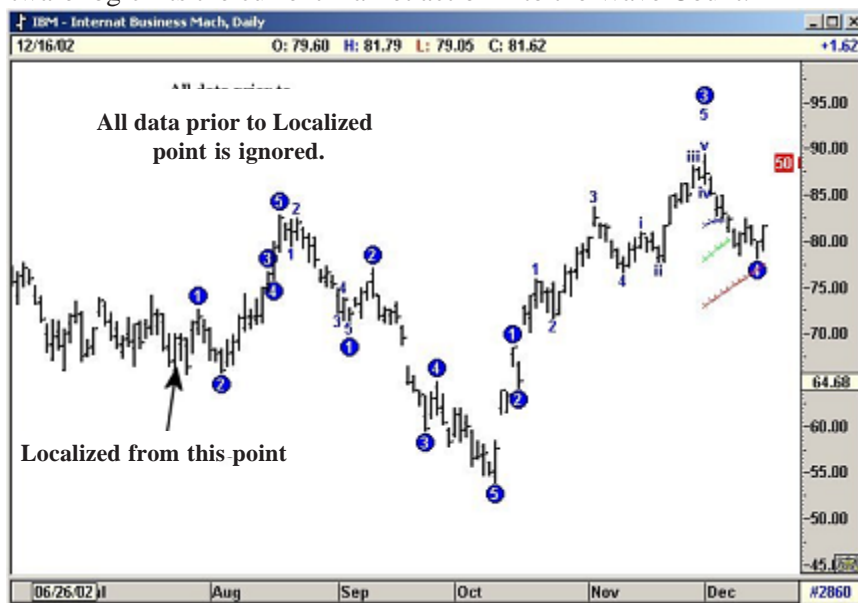


Figure 12-1: Localized Wave Count

By Localizing the Elliott Wave Count, the software can be set to ignore any past data and only use data from the current pivot selected by the user to derive the Elliott Wave counts.

Alternate Counts

The Alternate Elliott Wave Count sequence allows the user to have the software display various alternate wave counts. Three different Alternate Wave Counts are offered. We will discuss these various alternate Wave counts in detail.

The major purpose of the Alternate Wave counts are to provide the user with a second opinion at crucial junctures.



Figure 12-3: ALT 3 Long Term Wave Count

Listed below are our recommendations of when to use the ALT 3 Long Term Wave Count.

- A) If the rally from the end of a 5-Wave (low/high) Sequence fails to generate a Wave 3 in the opposite direction, we recommend you display the Alternate 3 (Long Term) Wave count
- B) If the market momentum meets the parameters of the ALT 3 routines, then the software provides an Alternate Wave count which represents a longer-term view. When such an Alternate Count is displayed, the user should be very cautious and anticipate the potential for another new low.
- C) **There are many cases when the parameters are not met and the ALT 3 (Long Term) Wave count is the same as the Default Wave Count.** Under this scenario, the user should stay with the original default count.



Figure 12-4: ALT 3 Long Term Wave Count

Alternate 2: Short Term

This provides the user a short-term break down of the Original Default count. For example, when the default count tracks a major Wave 3 rally, the ALT 2 (Short Term) wave count provides the 5 waves inside the major 3. This is used in taking profits at the end of a major Wave 3.



Figure 12-5: Alternate 2—Short Term

Alternate 1: Aggressive

The Original (default) Wave analysis continues to stay in a Wave 4 until the Wave 4 overlaps Wave 1 by 17% in commodities (0% overlap in stocks and indexes). Many times, even when the Profit Taking Index drops to a very low number and the Oscillator has retraced more than 40% in the opposite direction of the Wave 3 Oscillator peak, the software still delays switching the Wave Count.

The Alternate 1 (Aggressive) Wave count was designed to end this long drawn-out Wave 4 count and aggressively switch to a Wave 3 count in the opposite direction. The ALT 1 (Aggressive) Wave Count is recommended when the following occurs:

- A) Any rally that is labeled as a Wave 4 by the Original (default) Wave count becomes a suspect wave count when it breaks the Wave 4 channels and the Oscillator exceeds 40% in the opposite direction of the Wave 3 Oscillator Peak.
- B) About 65% of the time, such conditions are also accompanied by a Profit Taking Index below 35.

Under such conditions, we recommend you use the ALT 1 (Aggressive) Wave count to view an alternate wave count or a second opinion.



Figure 12-6: Original (Default) Wave Count

Alternate 1: Aggressive

Figure 12-8 shows the same Aetna Inc. with the ALT 1 (Aggressive) Wave count. Here, the software relabels the decline as an ABC. The software logic drops the idea for a 5-Wave decline and instead concentrates on the new rally phase.

Please keep in mind that the ALT 1 (Aggressive) count should only be used when the Oscillator retraces more than 40% in the opposite direction from the Major Wave 3 peak. In this example, the Wave 3 Oscillator peak was minus 5. The 40% in the opposite direction is +3.8. The Oscillator exceeds the 40% retracement.

The 40% level where the oscillator exceeds can be drawn by using the Retracement tool in the Drawing Tools.

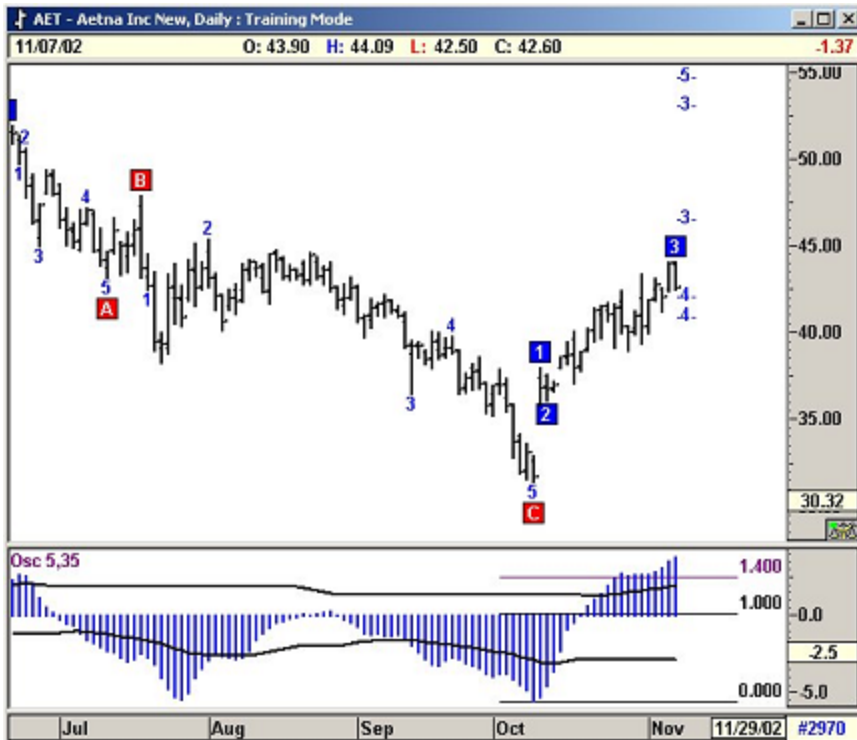


Figure 12-7: Alt 1 Aggressive Wave Count

Overlap Percentage (Option)

By default, the software automatically allows a 17% price overlap between Wave 4 and Wave 1 for commodities. For stocks and indexes, the software switches to a 0% overlap.

The traditional Elliott rules do not allow any overlaps at all. However, from our extensive research, we have found that many commodity contracts tend to overlap and still configure to clean 5-Wave sequences. However, you can change this overlap percentage based on your beliefs. Once you have changed the overlap, eSignal treats the Elliott Wave counts as Alternate counts.

Alternate Wave Counts are displayed in green by default to distinguish it from the default count displayed in blue.

1–3 % Option

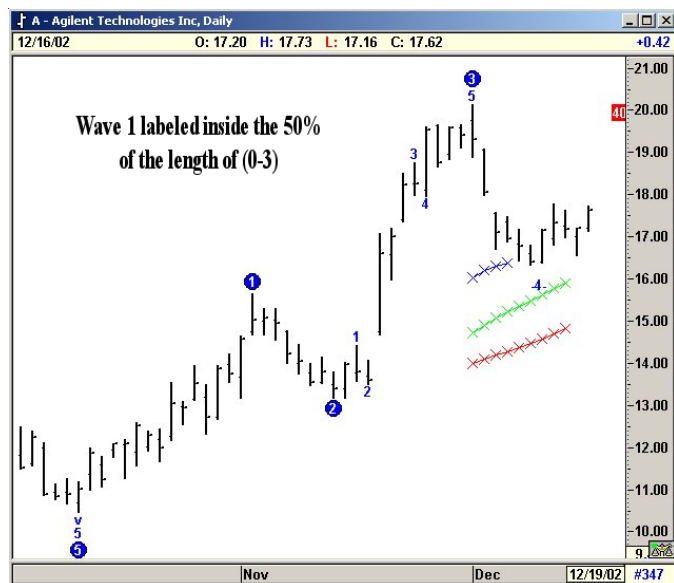


Figure 12-8: Default

While labeling Elliott Wave counts, the default count allows the software to label Wave 1 anywhere between the start of the 5-Wave Sequence and 50% of the length (0–3).

In some cases the software picks a pivot that is at the higher range and Wave 1 is labeled well into Wave 3. The user can override this and limit where Wave 1 is labeled, as shown in Figure 12-9.



Figure 12-9: Option Set to 20%