

In Figure 49, the record of the five triangular waves is upward. The market bottomed at M and is hesitating after the upward movement M-N, prior to resuming the advance.

In Figure 50, wave two of the upward diagonal triangle is downward. The market will reverse its direction at the end of this diagonal (that is, when the fifth triangular wave has terminated) and will return to about the base of the triangle, as illustrated.

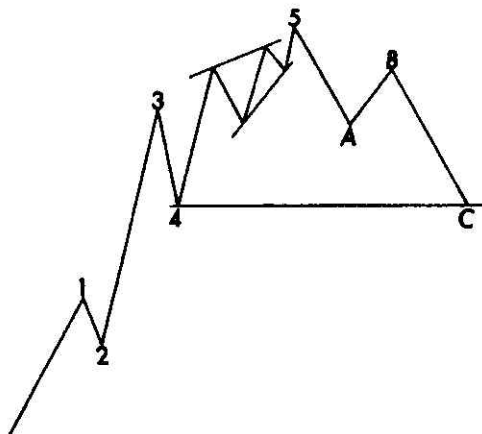


Figure 50

The fifth wave of all but reverse triangles frequently falls short of its channel or triangle line. Occasionally, however, as shown in the illustration above, the fifth wave will penetrate its triangle line.

If the last wave (the fifth Intermediate) of a Primary movement develops a triangle,¹⁶ be prepared for a rapid reversal.

All waves in a triangle must be part of a movement in one direction. Otherwise no triangle is present, only a coincidence.

A diagonal triangle occurs only as a fifth wave; that is, it should have four waves back of it of the same degree as it will be.

When the range (weekly or daily) in a triangle embraces the entire width of the triangle, the end has about arrived. Confirmation should be required in wave number five. A throw-over is not essential.

Usually triangles are quite small, and all waves are not developed in detail. For the first time, between October 1937 and

The Wave Principle

February 1938, one occurred of sufficiently large proportions to demonstrate that all five waves should be composed of three Minors. Each of these five waves formed a different pattern.¹⁷

The Dow-Jones Industrial Average does not show this period as a triangle, but the Standard Statistics, 348 stocks, weekly range, makes a perfect picture as shown in Figure 51, a perfect triangle and the largest on record. Being a weekly range, the chart does not show the composition of each of the five waves, but another average daily range displays them as shown in Figure 66, Chapter IX.

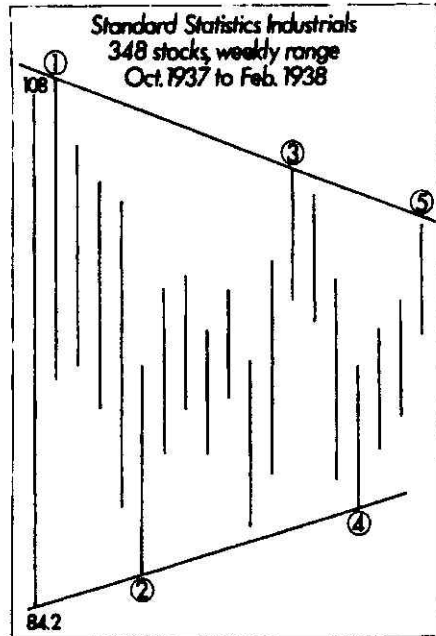


Figure 51

ENDNOTES

¹ Elliott adopted a loose form of illustration in order to make more economical use of vertical space in his books. I have changed proportions occasionally to adhere more closely to normal wave characteristics. Exceptions are the figures in the *Financial World* articles, which I left intact as Elliott had them.

² This type of comment helps moderate charges of Elliott's dogmatism.

³ Unless they are triangles. Later Elliott discovered double threes and triple threes. These latter variations, along with double zigzags, were later added in *Nature's Law*.

⁴ See Endnote 2 above.

⁵ Despite Elliott's contention, experience shows that wave three is most often the extended wave. Elliott's experience with the 1921-1929 and 1932-1937 bull markets, both of which contained extended fifth waves, surely influenced his thinking on this point.

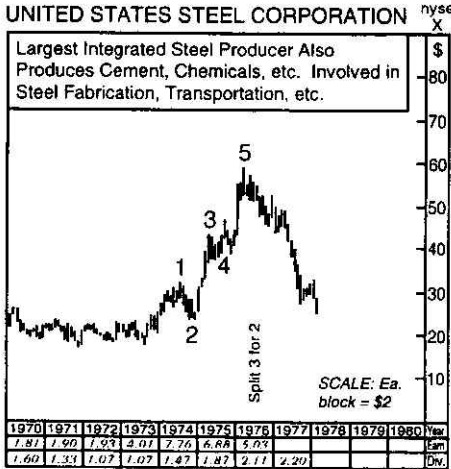


Figure 6-1

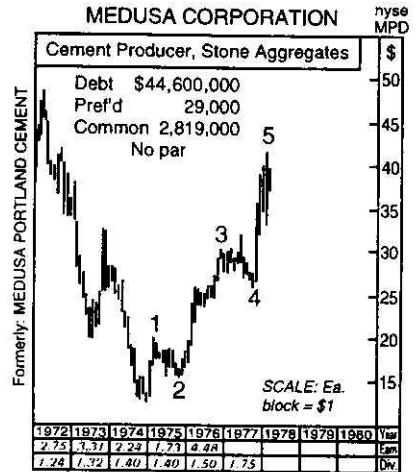


Figure 6-2

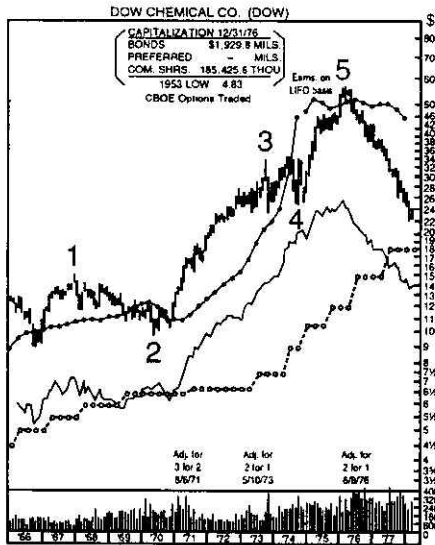


Figure 6-3

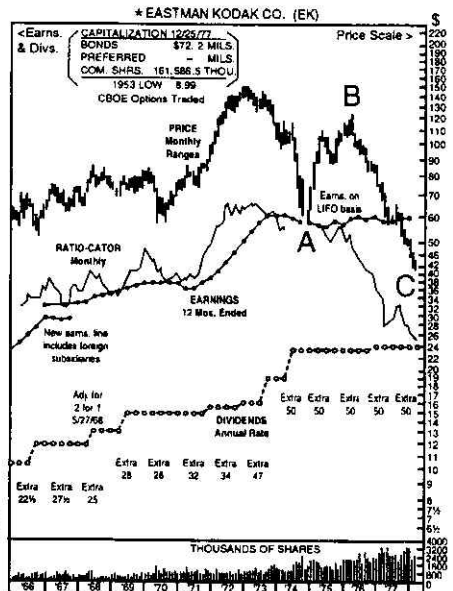


Figure 6-4

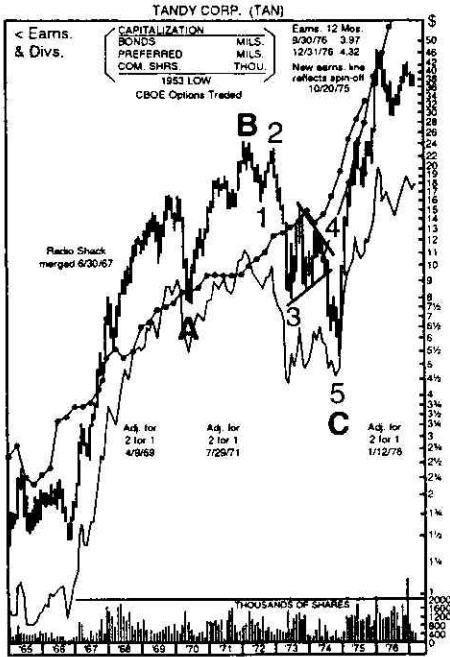


Figure 6-5

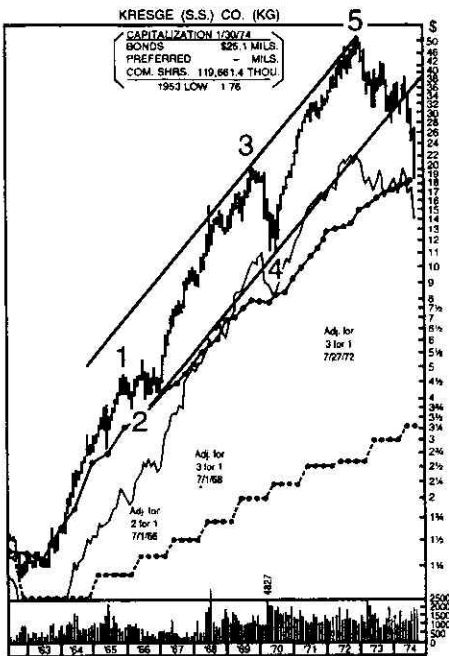


Figure 6-7

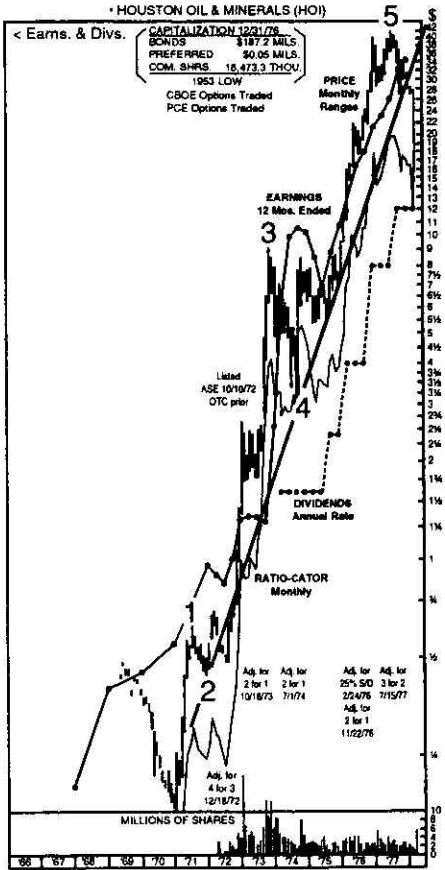


Figure 6-6

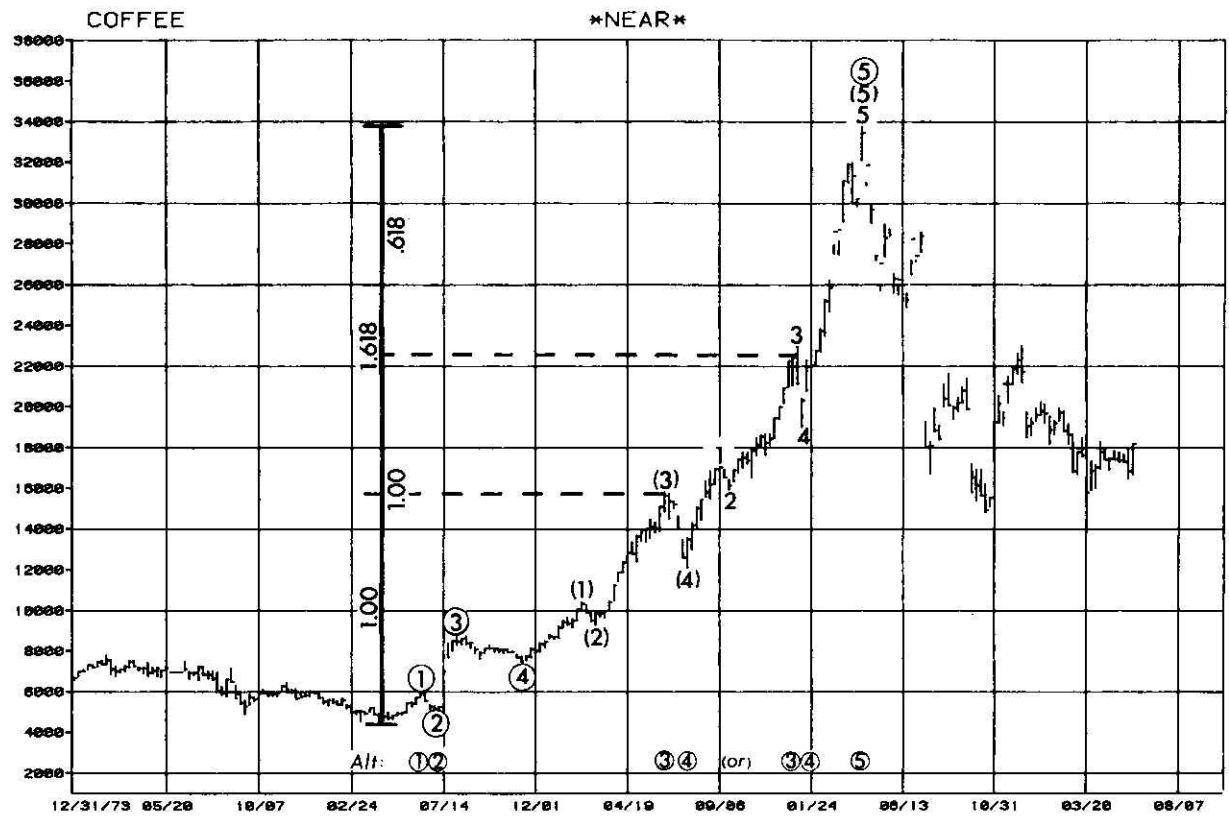


Figure 6-8



Figure 6-10

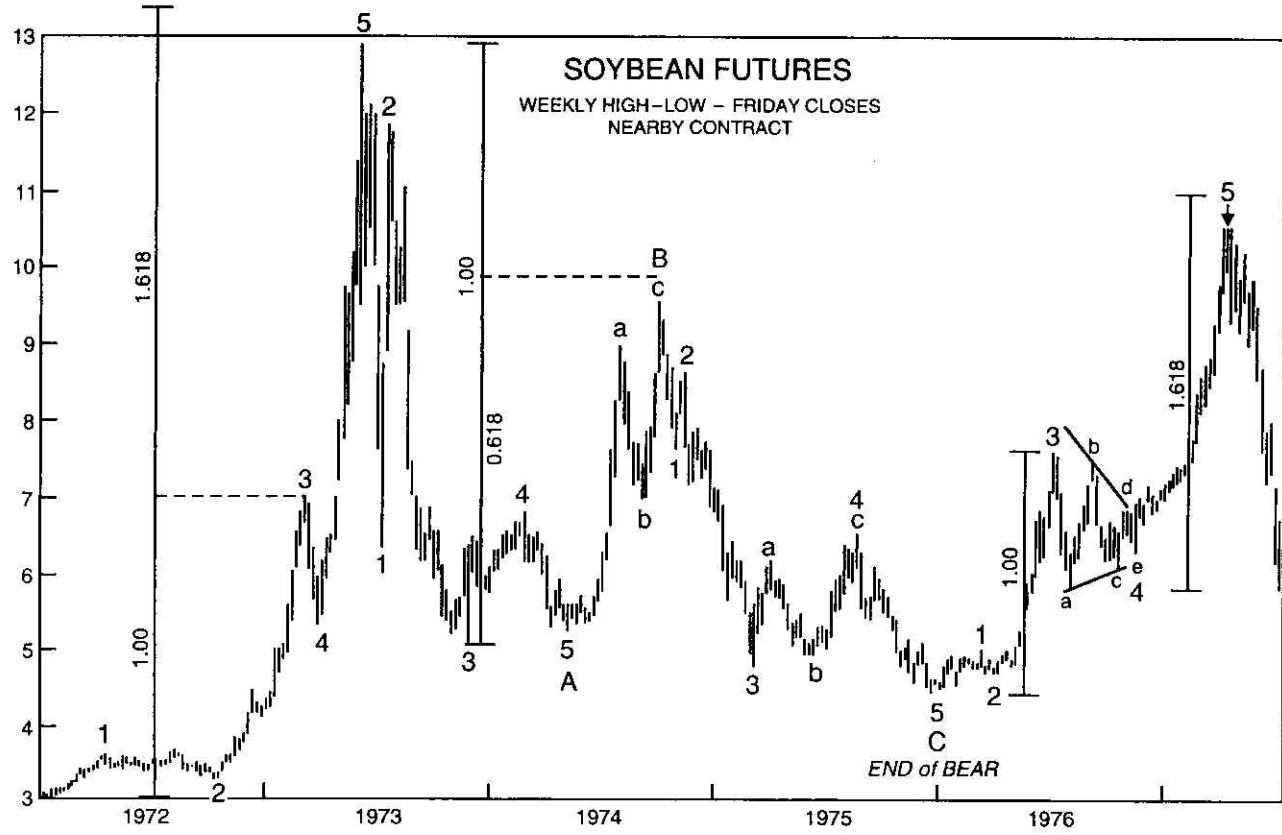


Figure 6-9

Despite the efforts of the U.S. Treasury to diminish gold's monetary role and the highly charged emotional factors affecting gold as a store of value and a medium of exchange, its price has traced out an inescapably clear Elliott pattern. Figure 6-11 is a graph of London gold, and on it we have indicated the correct wave labels. Note that the rise from the free-market liftoff to the peak at \$179.50 an ounce on April 3rd, 1974 is a complete five-wave sequence. The officially maintained price of \$35 an ounce before 1970 prevented wave formation prior to that time and thus helped create the necessary long-term base. The dynamic breakout from that base fits well the criterion for the clearest Elliott count for a commodity, and clear it is.

The rocketing five-wave advance forms a nearly perfect wave, with the fifth terminating well against the upper boundary of the trend channel (not shown). The Fibonacci target

London Gold Bullion

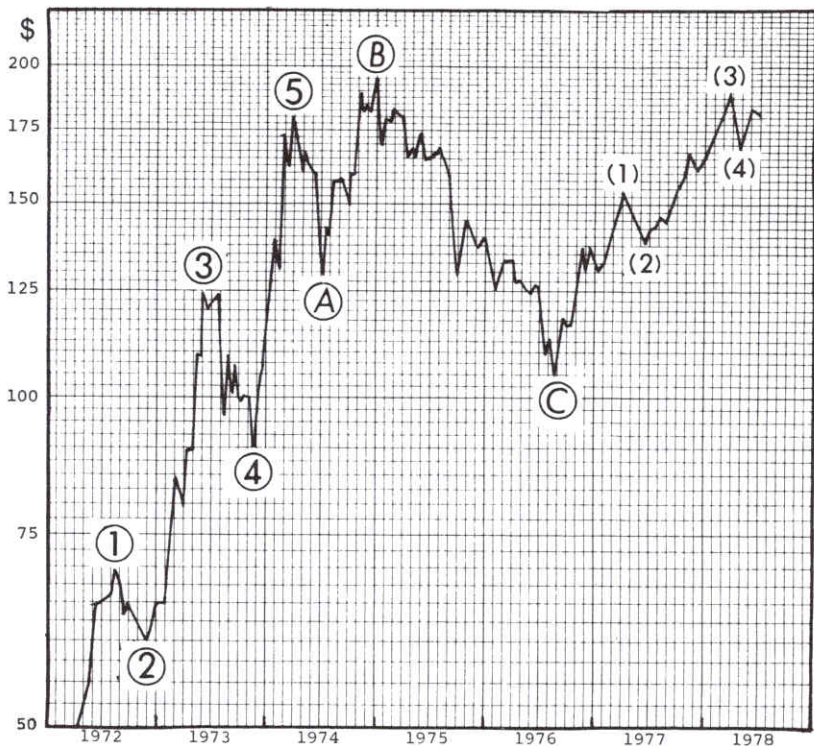


Figure 6-11

explosion following years of price control. The current rise seems mostly to be reflecting the decline in the value of the dollar since in terms of other currencies, gold is not nearly as close to its all-time high.

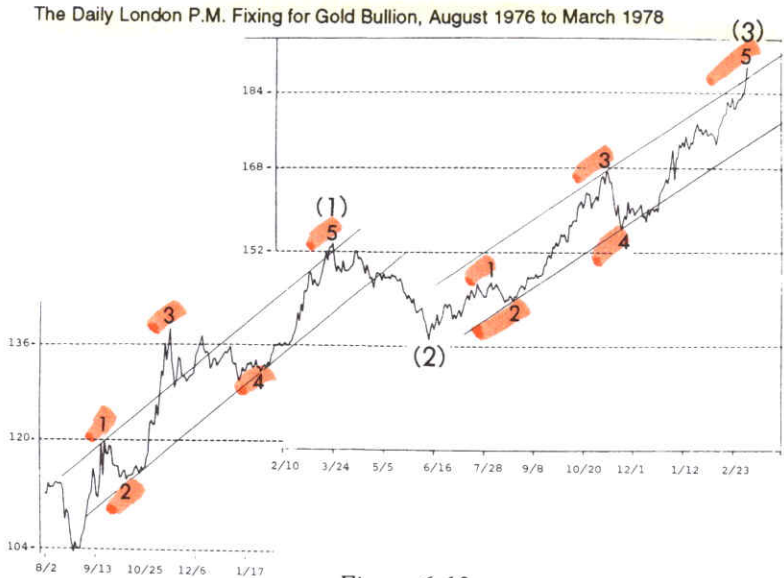


Figure 6-12

Since the price of gold has held the previous fourth wave level on a normal pullback, the count could be a nearly completed five-wave sequence or a developing third wave extension, suggesting coming hyperinflationary conditions under which both the stock market and commodities climb together, although we offer no definite opinions on the subject. However, the (A)-(B)-(C) expanded flat correction implies great thrust in the next wave into new high ground. It should be remembered, though, that commodities can form contained bull markets, ones that need not develop into waves of higher and higher degree. Therefore, one cannot necessarily assume that gold has entered a giant third wave from the low at \$35. If the advance forms a distinct five-wave sequence from the low at \$103.50 adhering to all Elliott rules, it should be regarded as at least an interim sell signal. Under all cases, the \$98 level still should be the maximum extent of any important decline.

Trends) recognizes the “triangle” formation as generally an intra-trend phenomenon. The concept of a “wedge” is the same as that for Elliott’s diagonal triangle and has the same implications. Flags and pennants are zigzags and triangles. “Rectangles” are usually double or triple threes. “Double tops” are generally caused by flats, “double bottoms” by truncated fifths.

The famous “head and shoulders” pattern can be discerned in a normal Elliott top (see Figure 7-3), while a head and shoulders pattern that “doesn’t work out” might involve an expanded flat correction under Elliott (see Figure 7-4). Note that in both patterns, the decreasing volume that usually accompanies a head and shoulders formation is a characteristic fully compatible with the Wave Principle. In Figure 7-3, wave 3 will have the heaviest volume, wave 5 somewhat lighter, and wave B usually lighter still when the wave is of Intermediate degree or lower. In Figure 7-4, the impulse wave will have the highest volume, wave B usually somewhat less, and wave four of C the least.

Trendlines and trend channels are used similarly in both approaches. Support and resistance phenomena are evident in normal wave progression and in the limits of bear markets (the congestion of wave four is support for a subsequent decline). High volume and volatility (gaps) are recognized characteris-

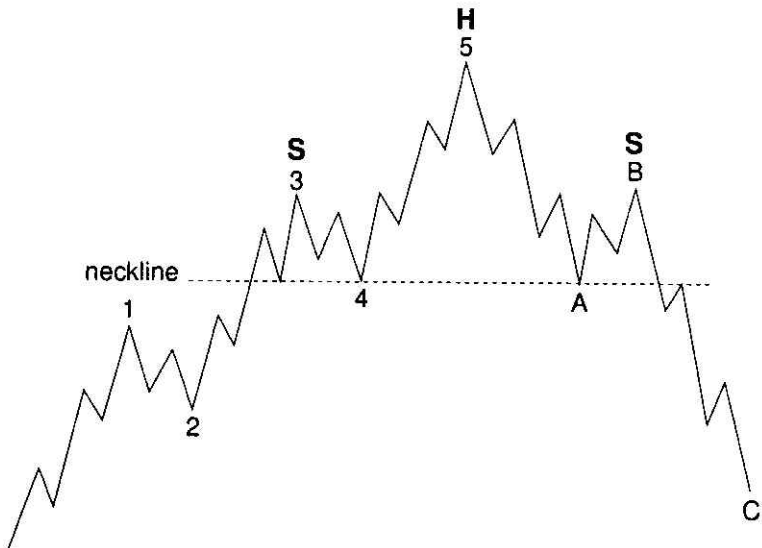


Figure 7-3

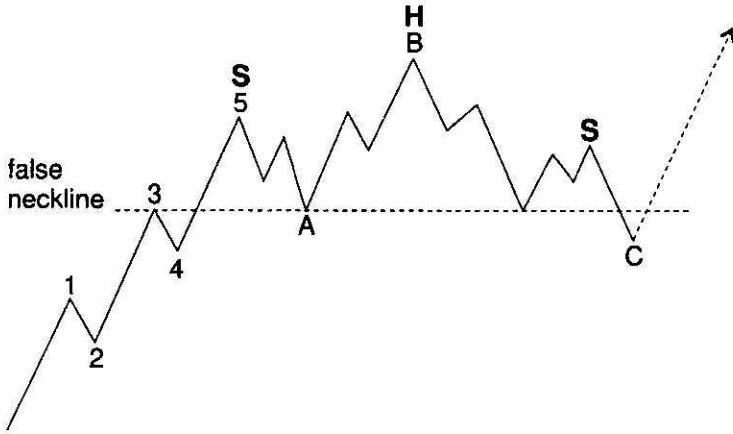


Figure 7-4

tics of “breakouts,” which generally accompany third waves, whose personality, as discussed in Chapter 2, fills the bill.

Despite this compatibility, after years of working with the Wave Principle we find that applying classical technical analysis to stock market averages gives us the feeling that we are restricting ourselves to the use of stone tools in an age of modern technology.

The technical analytic tools known as “indicators” are often extremely useful in judging and confirming the momentum status of the market or the psychological background that usually accompanies waves of each type. Indicators of investor psychology, such as those that track short selling, option transactions and market opinion polls, reach extreme levels at the end of C waves, second waves and fifth waves. Momentum indicators reveal an ebbing of the market’s power (i.e., speed of price change, breadth and in lower degrees, volume) in fifth waves and in B waves in expanded flats, creating “momentum divergences.” Since the utility of an individual indicator can change or evaporate over time due to changes in market mechanics, we strongly suggest their use as tools to aid in correctly counting Elliott waves but would not rely on them so strongly as to ignore wave counts of obvious portent. Indeed, the associated guidelines within the Wave Principle at times have suggested a market environment that made the temporary alteration or impotence of some market indicators predictable.

Elliott Wave concepts are useful in the determination of turning points in many different series of economic data. For instance, net free banking reserves, which White said "tend to precede turning points in the stock market," were essentially negative for about eight years from 1966 to 1974. The termination of a five-wave decline in late 1974 suggested a major buying point.

As testimony to the utility of wave analysis in the money markets, we present in Figure 7-5 a wave count for the price of a long term U.S. Treasury bond, the 8 and 3/8 of the year 2000. Even in this brief nine-month price pattern, we see a reflection of the Elliott process. On this chart, we have three examples of alternation, as each second wave alternates with each fourth, one being a zigzag, the other a flat. The upper trendline contains all rallies. The fifth wave constitutes an extension, which itself is contained within a trend channel. At the current stage of interpretation, the best bond market rally in almost a year is due quite soon.

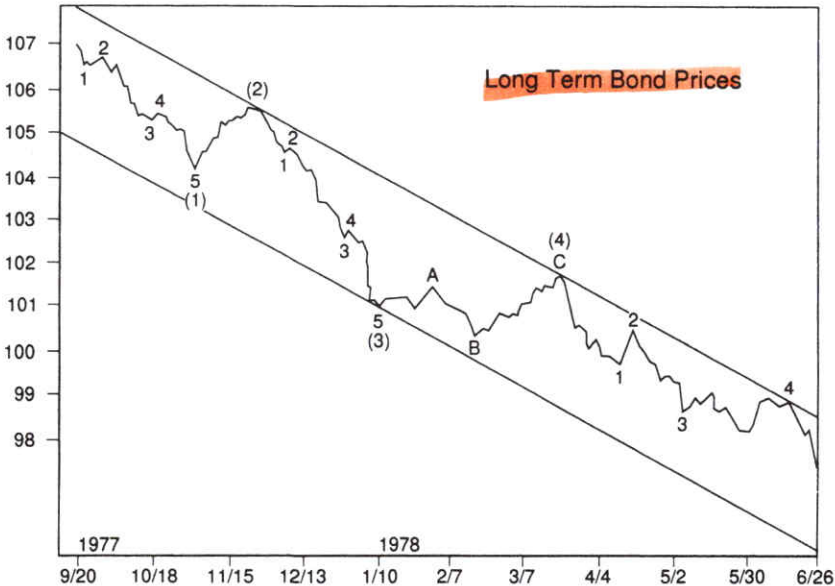


Figure 7-5

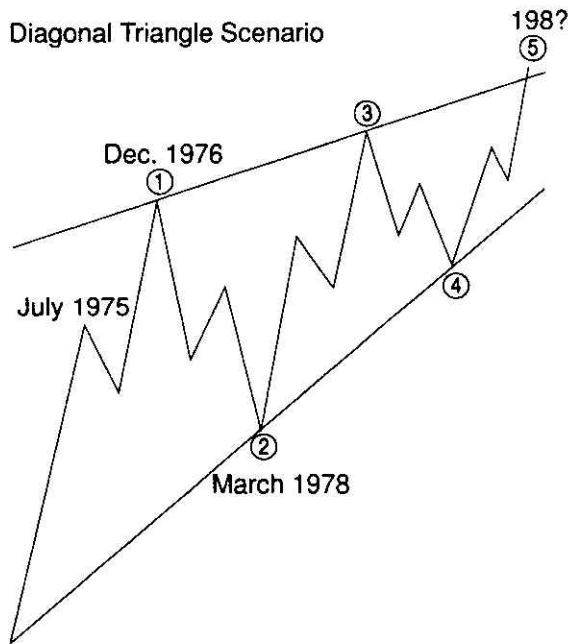


Figure 8-1

The most convincing alternative to the diagonal triangle scenario is that all of the action from July 1975 to March 1978 is a large A-B-C expanded flat correction similar to the 1959-62 market pattern. This interpretation is illustrated in Figure 8-2 and suggests a very strong upward thrust to follow. Our target should be easily met if this interpretation turns out to be correct.

Our price projection for the Dow comes from the tenet that two of the impulse waves in a five-wave sequence, especially when the third is the extended wave, tend toward equality in length. For the current Cycle wave, semilogarithmic (percentage) equality to wave I from 1932 to 1937 puts the orthodox high of the market close to 2860 [2724 using an exactly equivalent 371.6% gain], which is quite a reasonable target, since trendline projections suggest highs in the 2500 to 3000 area. For those who think these numbers are ridiculously high, a check of history will verify that such percentage moves in the market are not uncommon.

Expanded Flat Correction for Wave ②

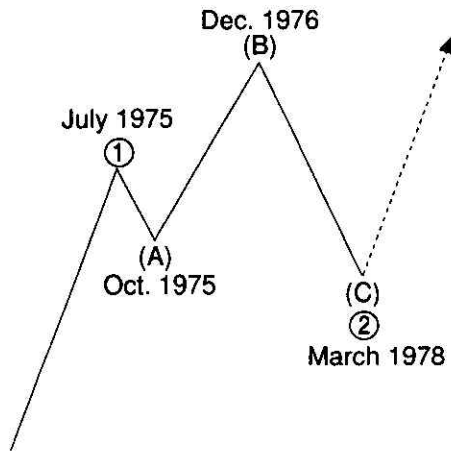


Figure 8-2

It is a fascinating comparison that like the nine years of “work” under the 100 level prior to the bull market of the 1920s, the last fifth Cycle wave, the Dow has currently concluded thirteen years of work under the 1000 level. And, as the Dow’s orthodox peak in 1928 occurred at 296 according to Elliott’s interpretation, the next peak is estimated at about the same relative level, although an expanded flat correction could carry the averages into even higher ground temporarily. We expect the terminal point to be close to the upper Supercycle channel line. If there is a throw-over, the ensuing reaction could be breathtakingly fast.

If the interpretation of the current market status presented in Figure 8-2 is correct, a reasonable picture of the 1974-87 market progression could be constructed by attaching a reverse inverted image of the 1929-37 period onto the recent March 1978 low at 740, as we have done in Figure 8-3. This picture is only a suggestion of the profile, but it does provide five Primary waves with the fifth extending. The rule of alternation is satisfied, as wave ② is a flat and wave ④ is a zigzag. Remarkably, the rally that would be scheduled for 1986 would halt exactly on the dotted line at 740, a level whose importance already has been established (see Chapter 4). Since the 1932-37 Cycle bull mar-

The U.S. Market, 1789 to 1981, Plotted Yearly on a Constant Dollar Basis

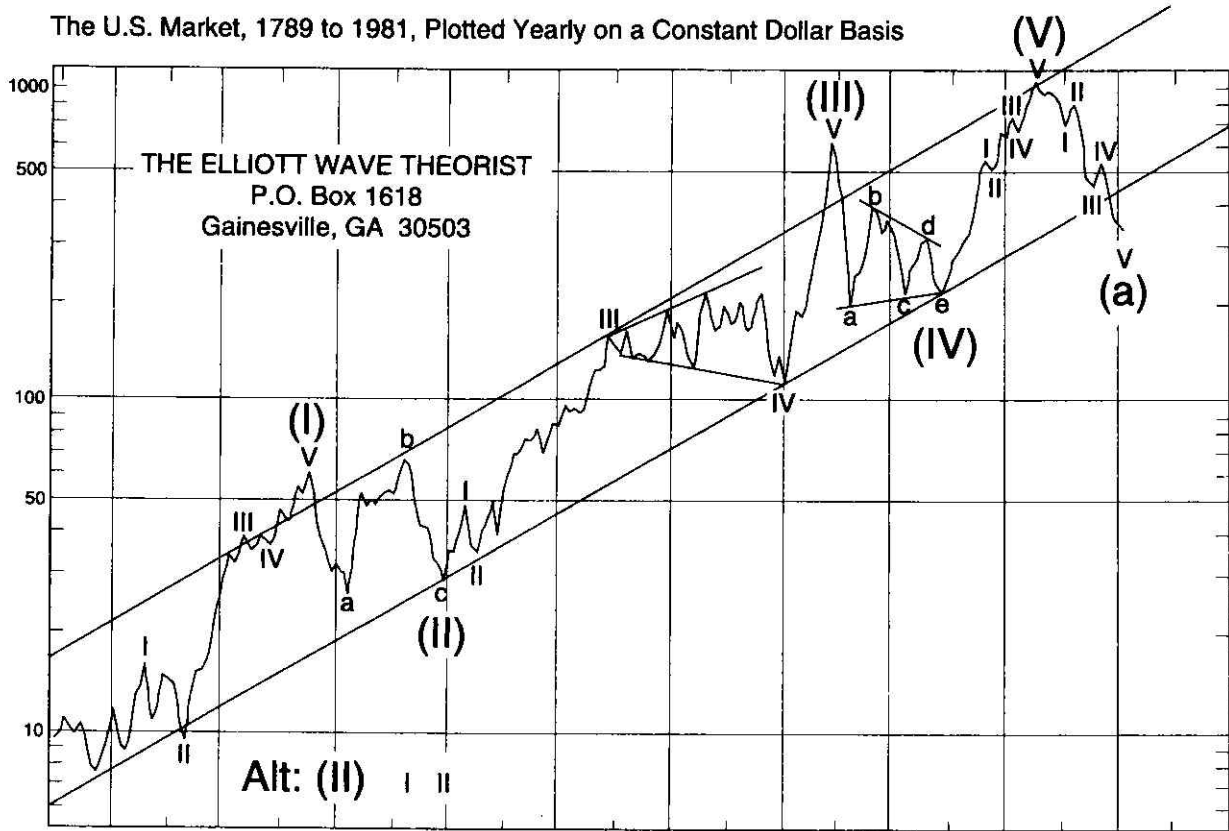


Figure A-1

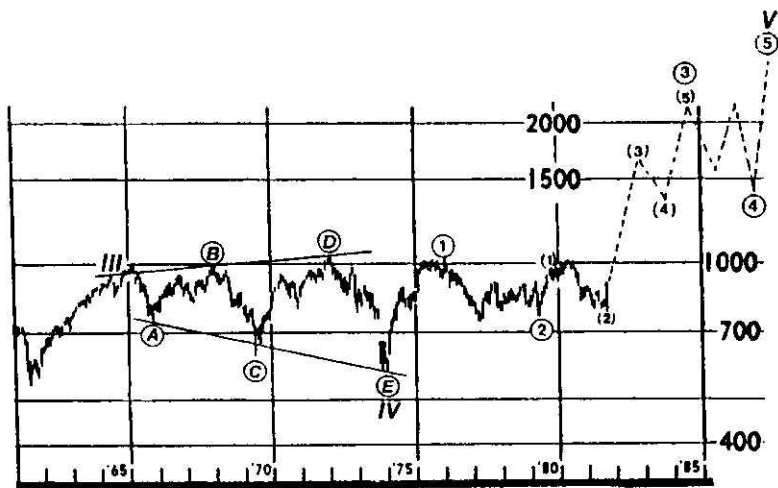


Figure A-2

Series of 1s and 2s in Progress

This count [see Figure A-2] has been my ongoing hypothesis for most of the time since 1974, although the uncertainty in the 1974-1976 wave count and the severity of the second wave corrections have caused me a good deal of grief in dealing with the market under this interpretation.

This wave count argues that the Cycle degree correction from 1966 ended in 1974 and that Cycle wave V began with the huge breadth surge in 1975-1976. The technical name for wave IV is an expanding triangle. The complicated subdivision so far in wave V suggests a *very long bull market*, perhaps lasting another ten years, with long corrective phases, waves (4) and ④, interrupting its progress. Wave V will contain a clearly defined extension within wave ③, subdividing (1)-(2)-(3)-(4)-(5), of which waves (1) and (2) have been completed. The peak would ideally occur at 2860, the original target calculated in 1978. [The main] disadvantage of this count is that it suggests too long a period for the entire wave V, as per the guideline of equality.

Advantages

- 1) Satisfies all rules under the Wave Principle.

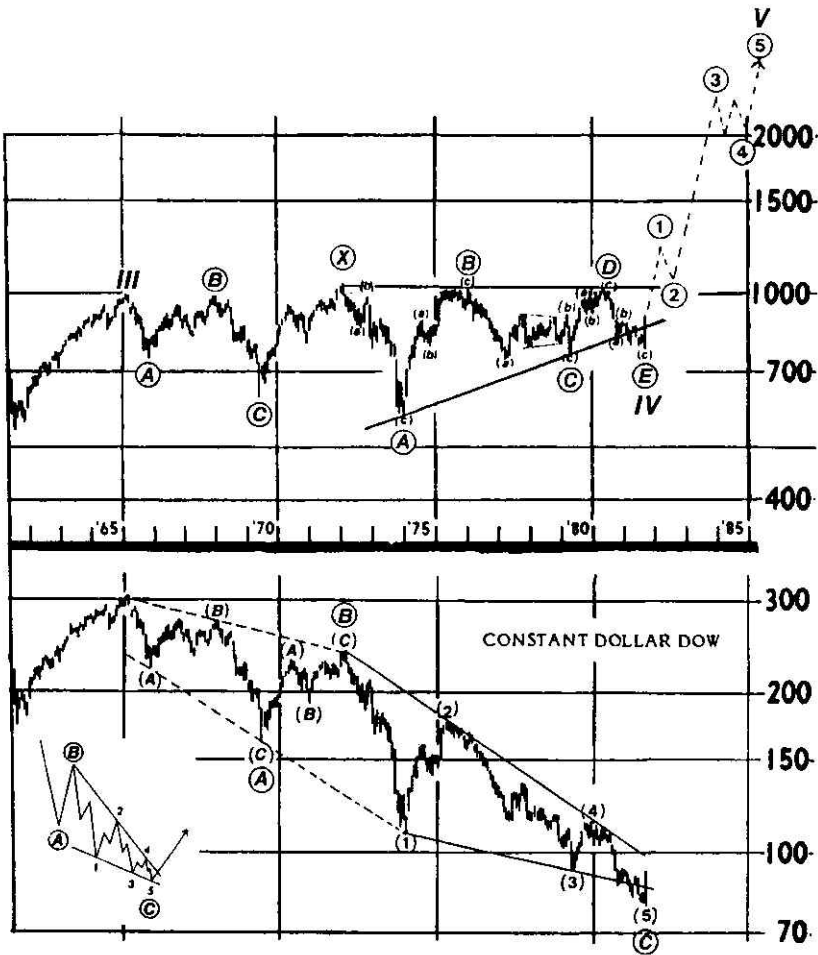
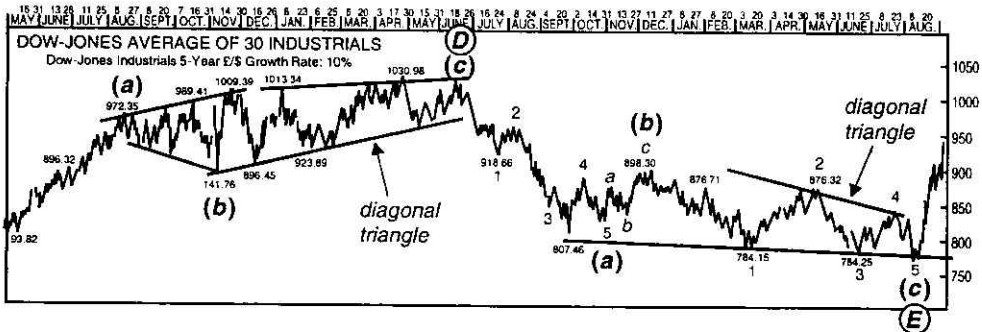
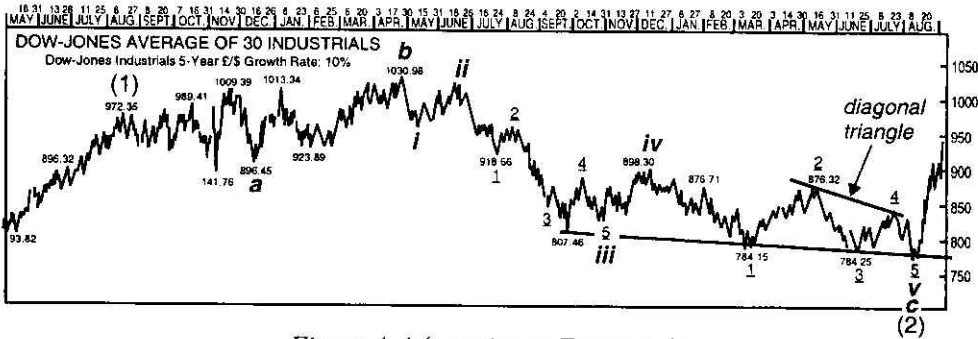


Figure A-3

A surprising element of time symmetry is also present. The 1932-1937 bull market lasted 5 years and was corrected by a 5-year bear market from 1937 to 1942. The 3½-year bull market from 1942 to 1946 was corrected by a 3½-year bear market from 1946 to 1949. The 16½-year bull market from 1949 to 1966 has now been corrected by a 16½-year bear market from 1966 to 1982!



October 6, 1982

This bull market should be the first "buy-and-hold" market since the 1960s. The experience of the last 16 years has turned us all into traders, and it's a habit that will have to be abandoned. The market may have 200 points behind it, but it's got over 2000 left to go! The Dow should hit an ultimate target of **3880**, with interim stops at **1300*** (an estimate for the peak of wave ①, based on post-triangle thrust) and **2860*** (an estimate for the peak of wave ③, based on the target measuring from the 1974 low).

* Wave ① topped at 1286.64 (about 1300 intraday) in 1983-1984. EWT later reduced the rough estimate of 2860 for wave ③, as precise figures came out to 2724 (see bracket on page 193). Wave ③ topped at 2722.42 in 1987. Wave ⑤ reached and well surpassed Prechter's "pie-in-the-sky" target of 3880.

The confirmed status of the long-term trend of the stock market has tremendous implications. It means: (1) no new lows in the averages on the next reactions, (2) no crash or depression in 1983 (although a "mini-crisis" could develop soon), and (3) for those who fear one, *no international war for at least ten years.*

November 8, 1982

From the perspective of Elliott Wave analysis, the stock market is in sharp focus. Surveying all the market's action over the past 200 years, it is comforting to know exactly where you are in the wave count. [Figure A-6] is Securities Research Company's yearly range chart. Note that waves II and IV in the DJIA accurately reflect the guideline of alternation, since wave II is a short sharp zigzag, while wave IV is a long sideways combination. As unusual as the Dow's structure was from 1966 to

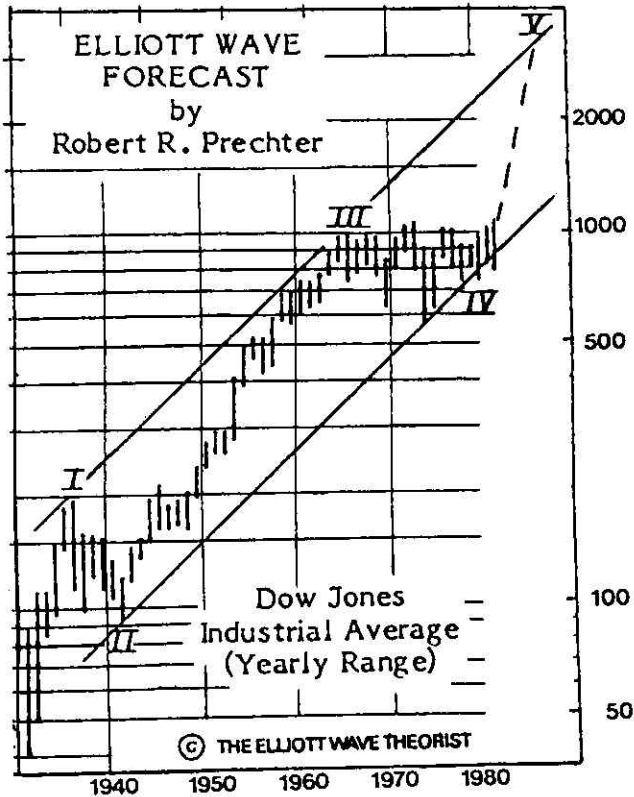


Figure A-6

1982, it was perfect Elliott, showing that no matter how difficult the pattern is to read sometimes, it always resolves satisfactorily into a classic pattern.

Make no mistake about it. The next few years will be profitable beyond your wildest imagination. *Make sure you make it while the making is good.* Tune your mind to 1924. Plan during these five years to make your fortune. Then be prepared to lock it up safely for the bad years that are sure to follow.

November 29, 1982

A PICTURE IS WORTH A THOUSAND WORDS

The arrow on the chart below [see Figure A-7] illustrates my interpretation of the position of the Dow within the current bull market. Now if an Elliotter tells you that the Dow is in

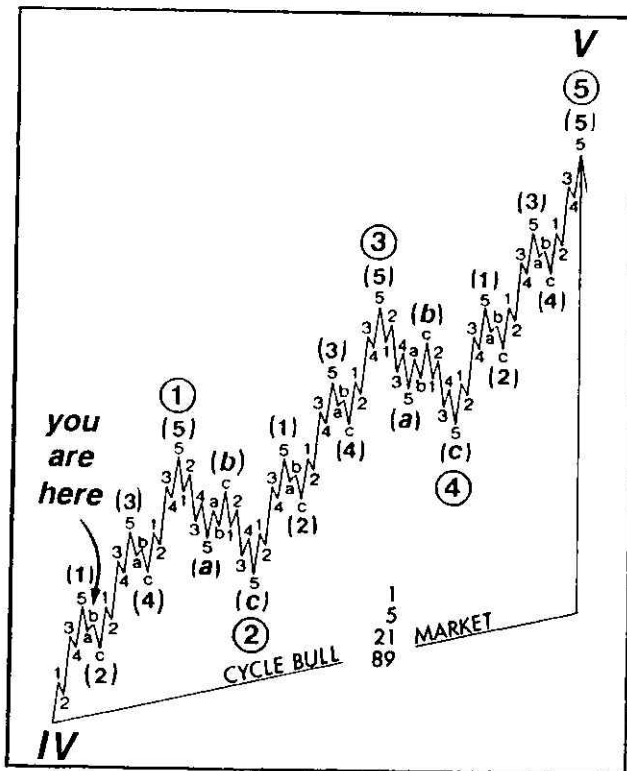
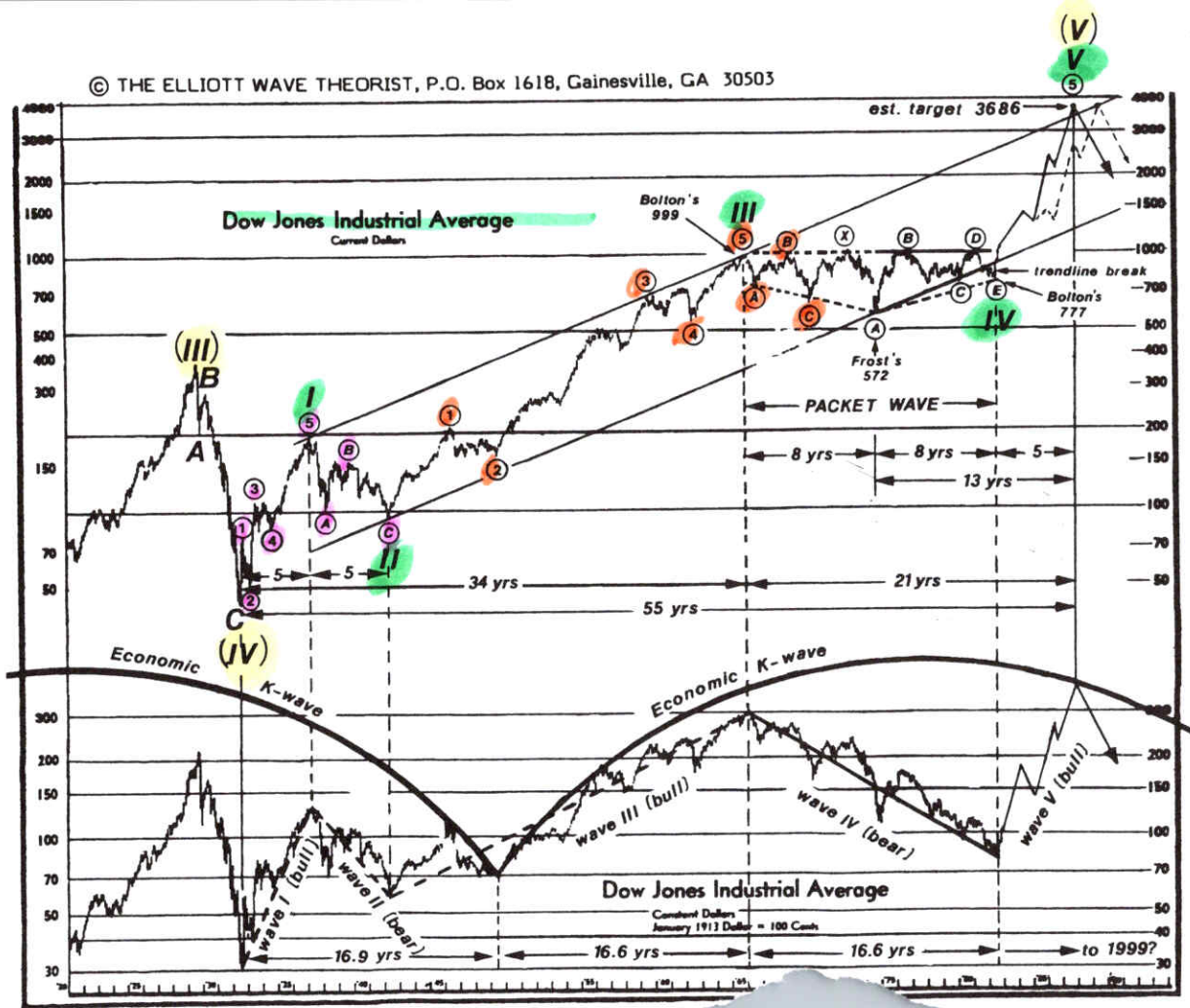


Figure A-7

Figure A-8



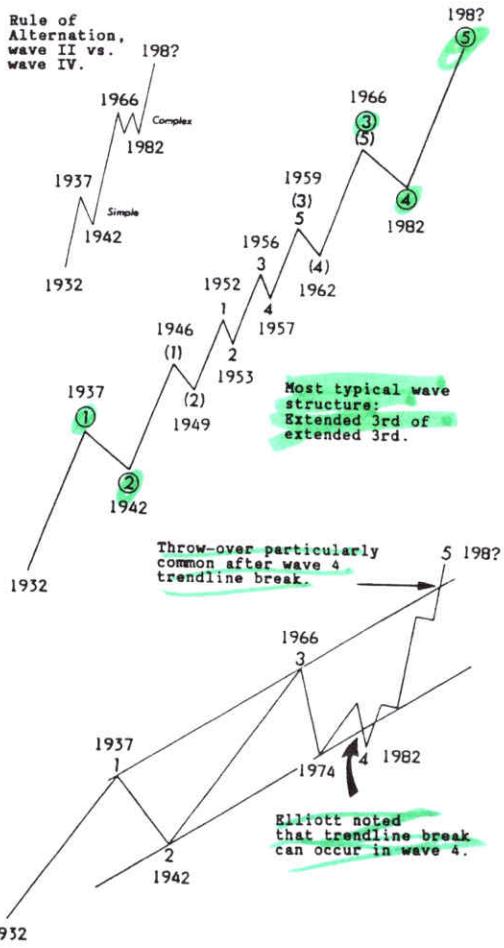
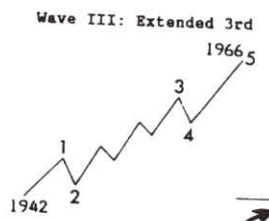
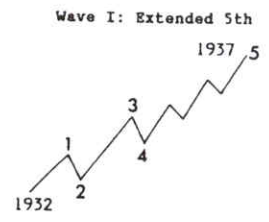
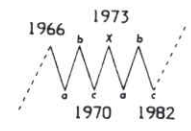


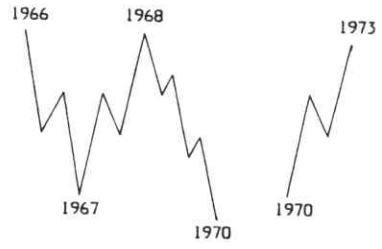
Figure A-9



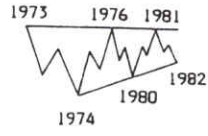
Wave IV: Double correction (Symbolic representation)



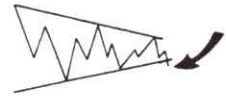
First part of wave IV (flat) Intervening "X" wave



Second part of wave IV (ascending triangle)



Elliott recognized occasional occurrence of trendline break by final wave in triangles



Advance-decline performance in fifth waves

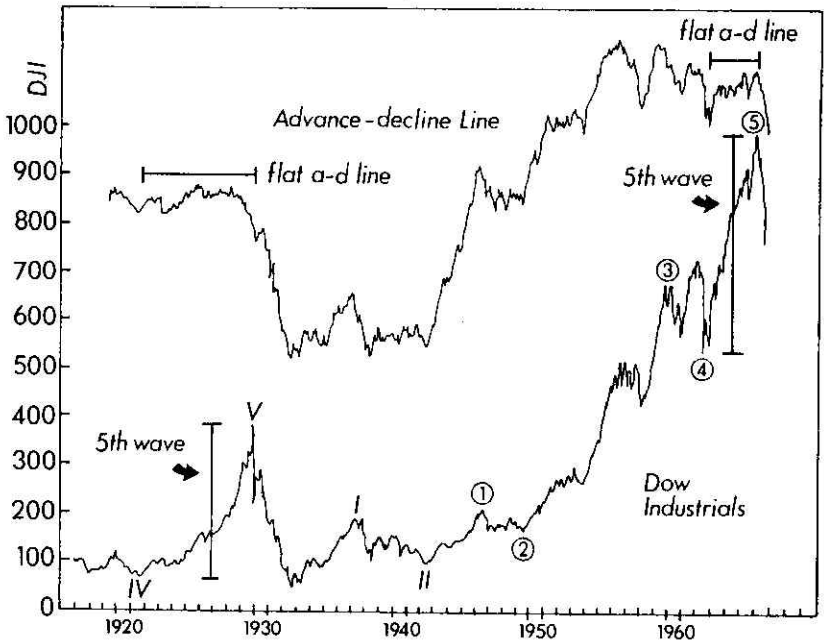


Figure A-11

selective, as reflected by an underperforming advance-decline line and fewer days of abundant "new highs" in stocks. Have you noticed how, since the 1974 low, stocks have rarely gone up all at once, but prefer to advance selectively, a few groups at a time?

All degrees of non-extended (and even most extended) fifth waves act this way, which is exactly what causes standard "sell signals" based on divergence. The problem is that most analysts apply this concept only to the *near or intermediate term swings*. However, *it is just as true of Supercycle swings as the smaller ones*. In effect, the flat a-d line of the 1920s [see Figure A-11] was a "sell signal" for the entire advance from 1857. Similarly, the flat a-d line in the mid-'60s was a "sell signal" for the 1942-1966 bull market. A relatively poorly performing a-d line from 1982 to (I expect) 1987 will be a "sell signal" for the entire Supercycle from 1932. The lesson for now is, *don't use that underperformance as a reason to sell too early* and miss out on what promises to be one of the most profitable uplegs in the history of the stock market.

COUNT BASED ON 1978 INTERPRETATION
(Still probable for broad indexes)

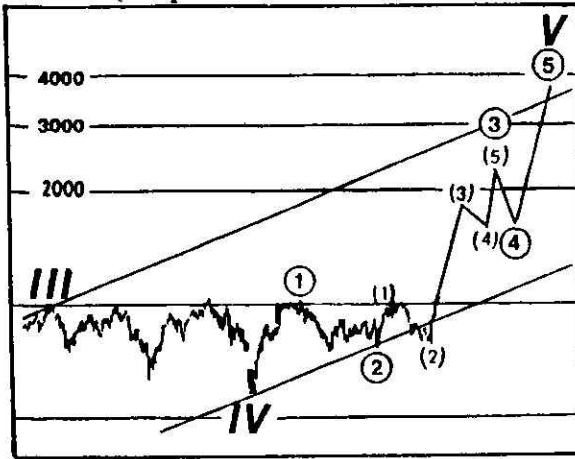


Figure A-12

Second, this bull market should be a simple structure, more akin to 1932-1937 than to 1942-1966. In other words, *expect a swift and persistent advance, with short corrections*, as opposed to long rolling advances with evenly spaced corrective phases. *Large institutions will probably do best by avoiding a market timing strategy and concentrating on stock selection, remaining heavily invested until a full five Primary waves can be counted.*

Third, the wave structure of the Dow and that of the broader indexes should fit together. If the count based on our 1978 interpretation [see Figure A-12] is still the correct one, then it is the same as that for the broad indexes, and their waves will coincide. If the preferred count is the correct one, then I would expect the third wave in the broad indexes to end when the Dow finishes its *first* wave, and the fifth wave in the broad indexes to end when the Dow finishes its *third* wave. That would mean that during the Dow's fifth wave, it would be virtually alone in making new highs, as market breadth begins to thin out more obviously. At the ultimate top, then, I would not be surprised to see the Dow Industrials in new high ground, unconfirmed by both the broad indexes and the advance-decline line, creating a classic technical divergence.

intervals [see Figure A-8, bottom] projects 1999 for the next turning point. Finally, with the Kondratieff economic cycle due to bottom in 2003 (+ or - 5 years), a stock market low a few years prior to that time would fit the historical pattern.

August 18, 1983

**THE SUPERBULL MARKET OF THE '80s
— THE LAST WILD RIDE**

Indicators of stock market momentum almost always “announce” the beginning of a huge bull market. They do so by creating a tremendously overbought condition in the initial stage

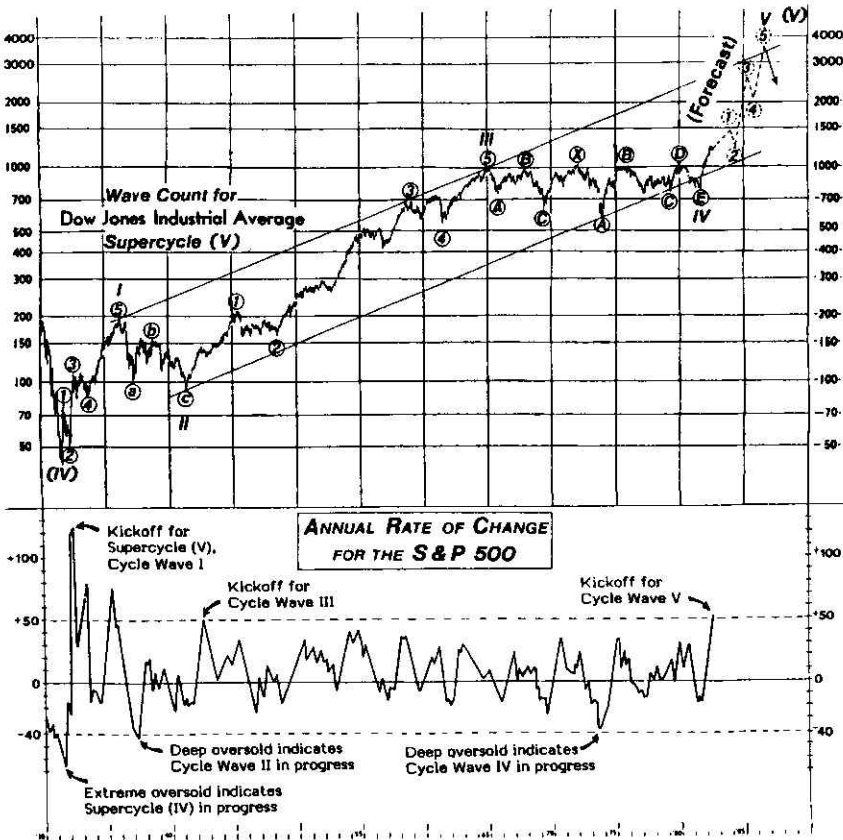


Figure A-13