

## Elliott Wave 10 Lessons

### 3.1 - 3.5

#### 3.1 Diagonal Triangles

A diagonal triangle is a motive pattern yet not an impulse, as it has one or two corrective characteristics. Diagonal triangles substitute for impulses at specific locations in the wave structure. As with impulses, no reactionary subwave fully retraces the preceding actionary subwave, and the third subwave is never the shortest. However, diagonal triangles are the only five-wave structures in the direction of the main trend within which wave four almost always moves into the price territory of (i.e., overlaps) wave one. On rare occasions, a diagonal triangle may end in a truncation, although in our experience such truncations occur only by the slimmest of margins.

##### *Ending Diagonal*

An ending diagonal is a special type of wave that occurs primarily in the fifth wave position at times when the preceding move has gone "too far too fast," as Elliott put it. A very small percentage of ending diagonals appear in the C wave position of A-B-C formations. In double or triple threes (to be covered in Lesson 9), they appear only as the *final* "C" wave. In all cases, they are found at the *termination points of larger patterns*, indicating exhaustion of the larger movement.

Ending diagonals take a wedge shape within two converging lines, with each subwave, including waves 1, 3 and 5, subdividing into a "three," which is otherwise a corrective wave phenomenon. The ending diagonal is illustrated in Figures 1-15 and 1-16 and shown in its typical position in larger impulse waves.

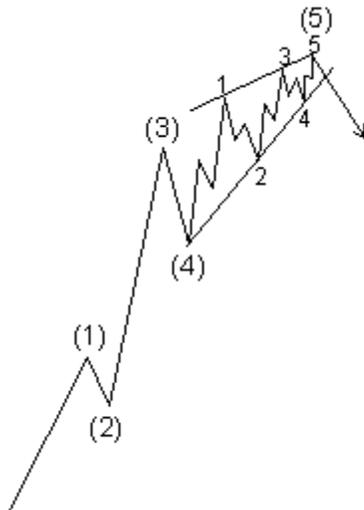


Figure 1-15



Figure 1-16

We have found one case in which the pattern's boundary lines *diverged*, creating an expanding wedge rather than a contracting one. However, it is unsatisfying analytically in that its third wave was the shortest actionary wave, the entire formation was larger than normal, and another interpretation was *possible*, if not attractive. For these reasons, we do not include it as a valid variation

### 3.2 Diagonals

Ending diagonals have occurred recently in Minor degree as in early 1978, in Minute degree as in February-March 1976, and in Subminute degree as in June 1976. Figures 1-17 and 1-18 show two of these periods, illustrating one upward and one downward "real-life" formation. Figure 1-19 shows our real-life possible expanding diagonal triangle.

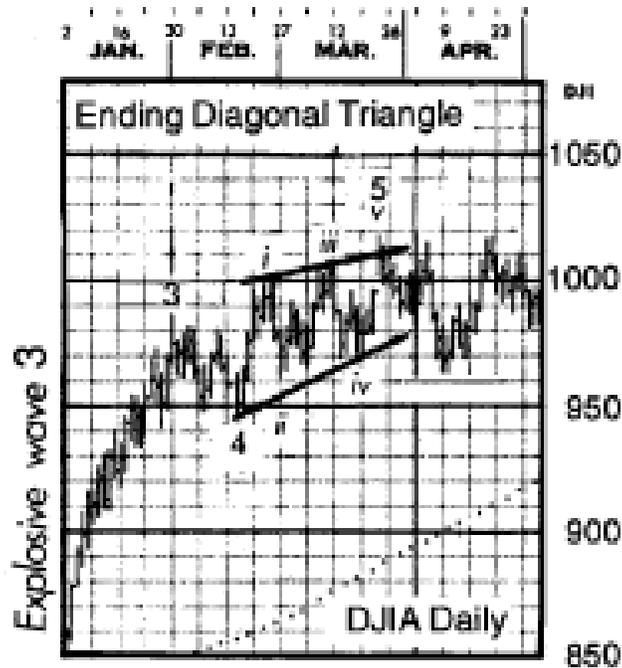


Figure 1-17

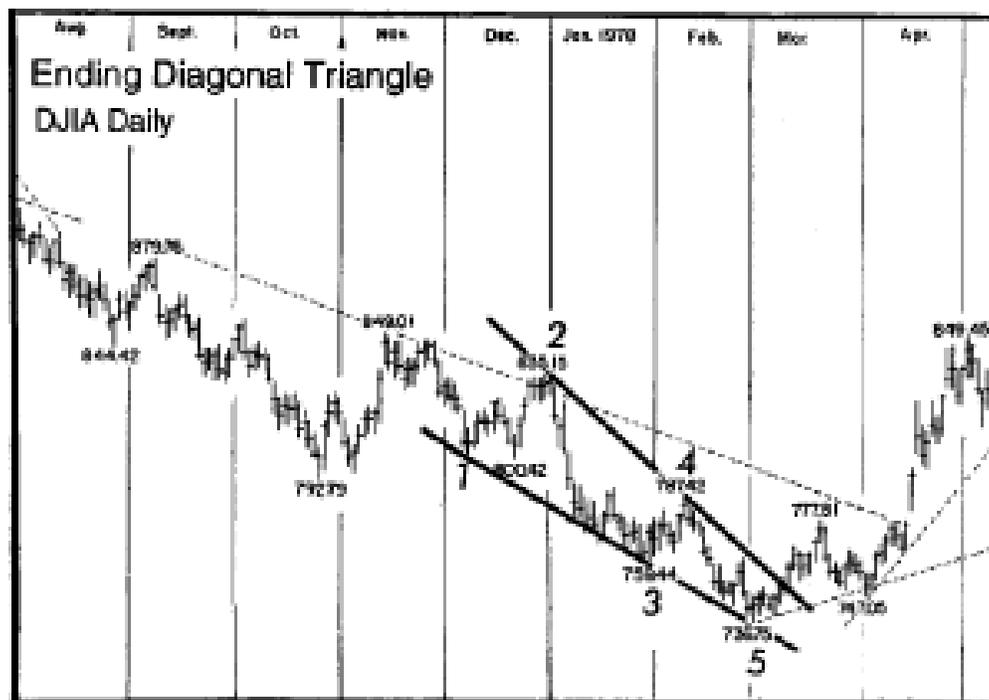


Figure 1-18

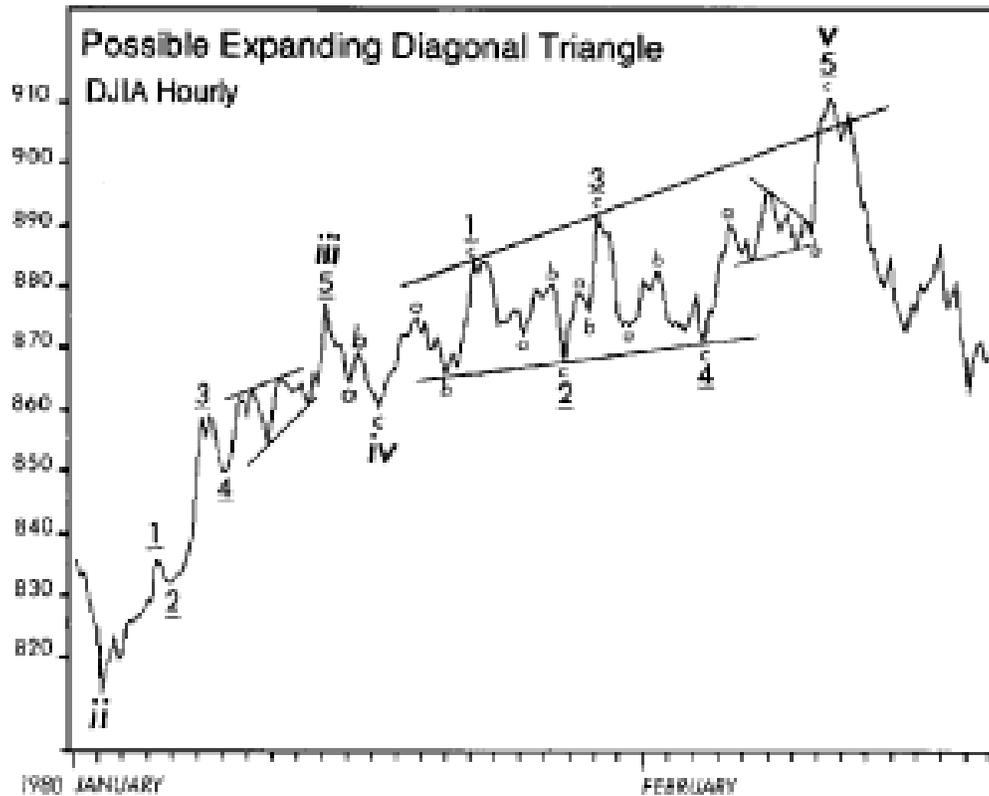


Figure 1-19

Although not so illustrated in Figures 1-15 and 1-16, fifth waves of diagonal triangles often end in a "throw-over," i.e., a brief break of the trendline connecting the end points of waves one and three. Figures 1-17 and 1-19 show real life examples. While volume tends to diminish as a diagonal triangle of small degree progresses, the pattern always ends with a spike of relatively high volume when a throw-over occurs. On rare occasions, the fifth subwave will fall short of its resistance trendline.

A rising diagonal is bearish and is usually followed by a sharp decline retracing at least back to the level where it began. A falling diagonal by the same token is bullish, usually giving rise to an upward thrust.

Fifth wave extensions, truncated fifths and ending diagonal triangles all imply the same thing: *dramatic reversal ahead*. At some turning points, *two* of these phenomena have occurred together at different degrees, compounding the violence of the next move in the opposite direction.

### 3.3 Leading Diagonals

When diagonal triangles occur in the wave 5 or C position, they take the 3-3-3-3-3 shape that Elliott described. However, it has recently come to light that a variation on this pattern occasionally appears in the wave 1 position of impulses and in the wave A position of zigzags. The characteristic overlapping of waves 1 and 4 and the convergence of boundary lines into a wedge shape remain as in the ending diagonal triangle. However, the subdivisions are different, tracing out a 5-3-5-3-5 pattern. The structure of this formation (see Figure 1-20) fits the spirit of the Wave Principle in that the five-wave subdivisions in the direction of the larger trend communicate a "continuation" message as opposed to the "termination" implication of the three-wave subdivisions in the ending diagonal. Analysts must be aware of this pattern to avoid mistaking it for a far more common development, a series of first and second waves. The main key to recognizing this pattern is the

decided slowing of price change in the fifth subwave relative to the third. By contrast, in developing first and second waves, short term speed typically increases, and breadth (i.e., the number of stocks or subindexes participating) often expands.

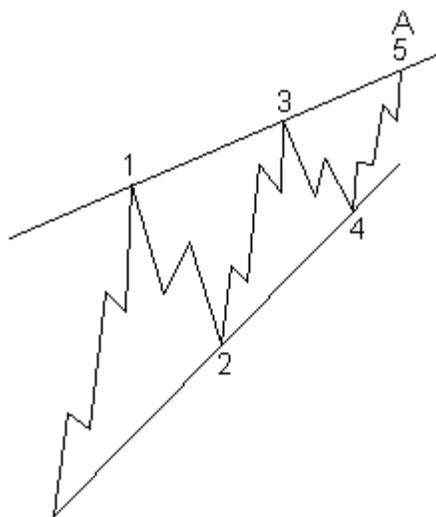


Figure 1-20

Figure 1-21 shows a real life example of a leading diagonal triangle. This pattern was not originally discovered by R.N. Elliott but has appeared enough times and over a long enough period that we are convinced of its validity.

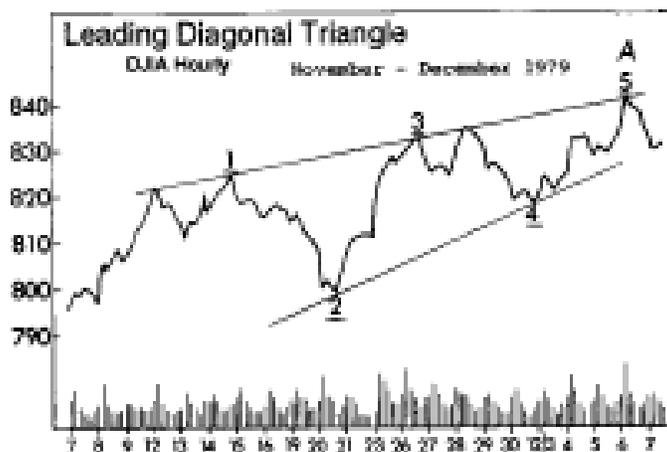


Figure 1-21

### 3.4 Corrective Waves

Markets move *against* the trend of one greater degree only with a seeming struggle. Resistance from the larger trend appears to prevent a correction from developing a full motive structure. This struggle between the two oppositely trending degrees generally makes corrective waves less clearly identifiable than motive waves, which always flow with comparative ease in the direction of the one larger trend. As another result of this conflict between trends, corrective waves are quite a bit more varied than motive waves. Further, they occasionally increase or decrease in complexity as they unfold so that what are technically subwaves of the same degree can by their complexity or time length appear to be of different degree. For all these reasons, it can be difficult at times to fit corrective waves into recognizable patterns until they are completed and behind

us. As the terminations of corrective waves are less predictable than those for motive waves, the Elliott analyst must exercise more caution in his analysis when the market is in a meandering corrective mood than when prices are in a persistently motive trend.

The single most important rule that can be gleaned from a study of the various corrective patterns is that *corrections are never fives*. Only motive waves are fives. For this reason, an initial five-wave movement against the larger trend is never the end of a correction, only part of it. The figures that follow through Lesson 9 of this course should serve to illustrate this point.

Corrective processes come in two styles. *Sharp* corrections angle steeply against the larger trend. *Sideways* corrections, while always producing a net retracement of the preceding wave, typically contain a movement that carries back to or beyond its starting level, thus producing an overall sideways appearance. The discussion of the guideline of alternation in Lesson 10 will explain the reason for noting these two styles.

Specific corrective patterns fall into four main categories:

*Zigzags* (5-3-5; includes three types: single, double, and triple);

*Flats* (3-3-5; includes three types: regular, expanded, and running);

*Triangles* (3-3-3-3-3; four types: three of the contracting variety (ascending, descending, and symmetrical) and one of the expanding variety (reverse symmetrical);

*Double threes* and *triple threes* (combined structures).

### 3.5 Zigzags

A *single zigzag* in a bull market is a simple three-wave declining pattern labeled A-B-C. The subwave sequence is 5-3-5, and the top of wave B is noticeably lower than the start of wave A, as illustrated in Figures 1-22 and 1-23.

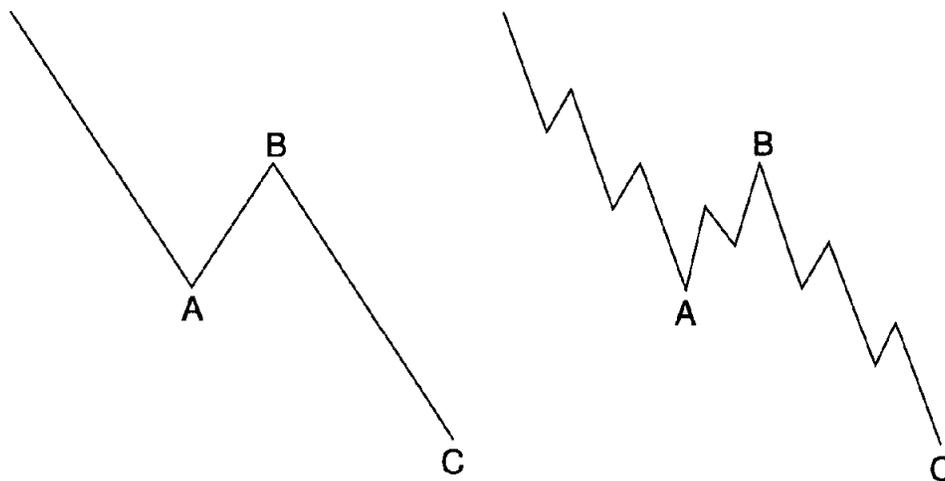


Figure 1-22 Figure 1-23

In a bear market, a zigzag correction takes place in the opposite direction, as shown in Figures 1-24 and 1-25. For this reason, a zigzag in a bear market is often referred to as an inverted zigzag.

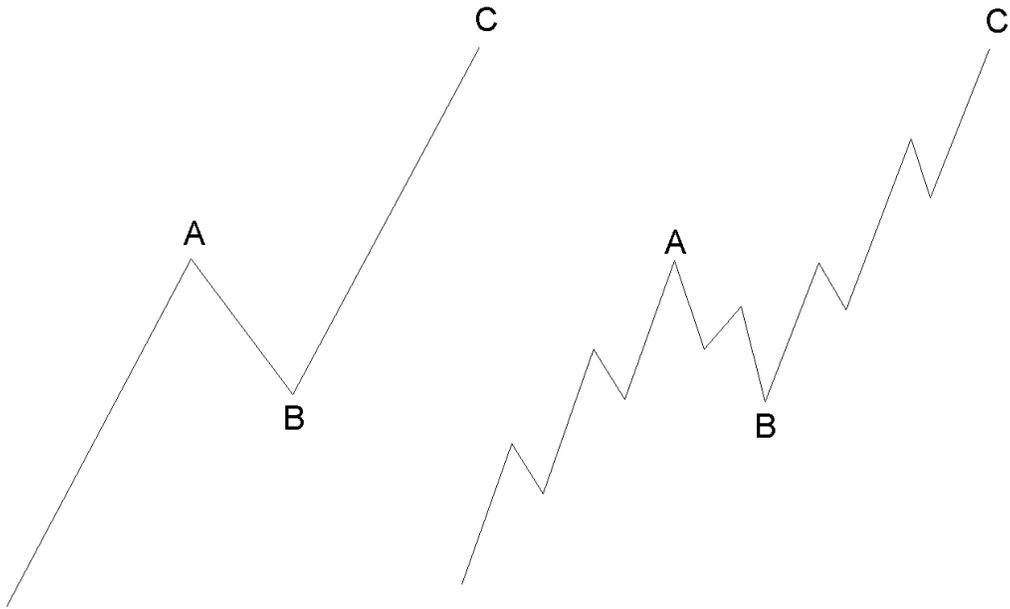


Figure 1-24 Figure 1-25

Occasionally zigzags will occur twice, or at most, three times in succession, particularly when the first zigzag falls short of a normal target. In these cases, each zigzag is separated by an intervening "three," producing what is called a *double zigzag* (see Figure 1-26) or *triple zigzag*. These formations are analogous to the extension of an impulse wave but are less common.

The correction in the Standard and Poor's 500 stock index from

January 1977 to March 1978 (see Figure 1-27) can be labeled as a double zigzag, as can the correction in the Dow from July to October 1975 (see Figure 1-28). Within impulses, second waves frequently sport zigzags, while fourth waves rarely do.

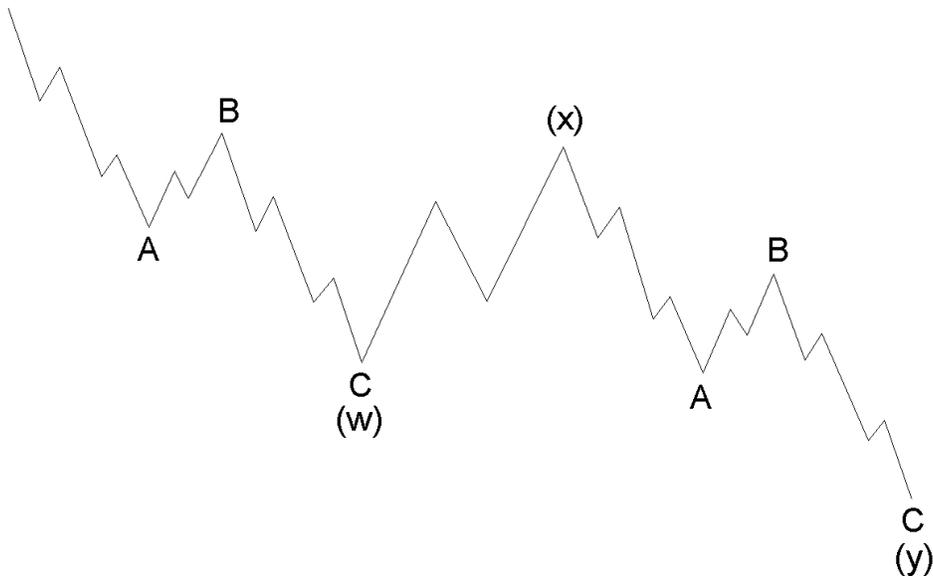


Figure 1-26

