Harmonic Elliott Wave

The Case for Modification of R. N. Elliott’s Impulsive Wave Structure
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# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>vii</td>
</tr>
<tr>
<td>CHAPTER 1 R. N. Elliott’s Findings: Impulsive Waves</td>
<td>1</td>
</tr>
<tr>
<td>CHAPTER 2 R. N. Elliott’s Findings: Corrective Waves</td>
<td>15</td>
</tr>
<tr>
<td>CHAPTER 3 Impulsive Wave Modification</td>
<td>37</td>
</tr>
<tr>
<td>CHAPTER 4 Projection and Retracement Ratios</td>
<td>71</td>
</tr>
<tr>
<td>CHAPTER 5 Working with the Modified Wave Structure in Forecasting</td>
<td>119</td>
</tr>
<tr>
<td>CHAPTER 6 A Case Study in EURUSD</td>
<td>159</td>
</tr>
<tr>
<td>CHAPTER 7 The Modified Structure in Other Markets</td>
<td>181</td>
</tr>
<tr>
<td>Index</td>
<td>225</td>
</tr>
</tbody>
</table>
Introduction

It has been 20 years since I began to learn and apply the Elliott Wave Principle to the markets. I bought two books on the topic, read them thoroughly, and thought I could begin to predict price movements more effectively. Of course, as anyone will tell you, it’s not as simple as that.

I studiously attempted to apply the principle to daily forex movements, but finding no success I gave it up . . . several times. What drove me forward was that of all analysts, it was those who utilized this principle that produced the most accurate forecasts. Other analysts simply had no clue, and this prompted me to continue the quest to conquer the challenge.

It took me a full 18 months before I felt that I had mastered the technique to an extent where I could generally provide more accuracy to my forecasts, but I was not yet at the stage where there was a high level of consistency. This led me to believe that it was a technique that demanded a great deal of dedication and practical experience to achieve success. Strangely enough, even then others still seemed to appreciate my attempts.

Around 16 years ago, I left trading to join the second largest real-time data vendor, Dow Jones Telerate, to provide specialist analytical support for their clients. I began to hold seminars for traders in Tokyo, which of course included Elliott Wave. It was a marvelous experience that deepened my knowledge of technical analysis in general, but it also took me away from the front line of having to analyze and forecast every day.
It wasn’t until around 2004 that I returned to full-time analysis, writing a daily report which has now developed into The Daily Forecaster, subscribers coming from retail traders, corporate treasurers handling forex exposures, bank traders, and hedge funds. Being independent, the need for accuracy was pressing. Subscribers paid up their bucks and wanted profits. The days of having the backing of a large bank’s name, a good salary, and less risk had passed.

Utilizing R. N. Elliott’s wave structure, I became aware that things were not quite right. The same anomalies in the wave structure repeated themselves over and over again. The normal Fibonacci projections that are widely quoted didn’t work all that often. Impulsive waves all too often stalled early and missed out a wave. So I began to adapt the way in which impulsive wave structures develop and to research the common ratios in projections. After a few months, it was clear that my adaptations produced far more accurate results in both the projection ratios and the manner in which impulsive wave structures develop.

It was at this point that the number of subscribers who kindly wrote to compliment the accuracy of both my forecasts and the daily support and resistance rose considerably. Another quite common comment was how other market analysts seemed to have no idea of what will happen next. As one subscriber wrote:

I am also extremely happy that I stuck with you. At the time, you twisted my rubber arm to continue with the original subscription I had been suffering from a string of advisors, many of whom were well-intentioned but could not unfortunately, for me, chew gum and walk straight at the same time—I mean from an analysis point of view. It was a bit like dining “al fresco” in the middle of a hurricane . . .

By no means am I perfect and I still have varying degrees of success in forecasting, but the consistency is higher with my approach, and one factor I have noted is that the “derivatives” of both Fibonacci and harmonic ratios I employ do often provide
powerful reversal signals if my forecasts prove incorrect. The mere fact that support and resistance levels are more accurate provides more focused points in price action that identify both trade entry and stop loss/reversal levels that can assist in reducing the size of losses and thus provide more effective maintenance of capital.

In writing this book to describe my findings I do not wish to imply that R. N. Elliott failed. In my opinion he was brilliant to make such observations in the first place. I do not for one moment believe I could have identified and quantified the Wave Principle if I had no prior foundation on which to work. The ability for me to identify this different structure of impulsive waves could really only have been managed with the benefit of modern calculators and charting software. With a few touches of the keyboard I am able to generate a full range of retracement levels and projections in my spreadsheet. While Elliott did have access to hourly charts, his ability to scrutinize wave relationships was limited due to the fact that he would have had to calculate a range of ratios long hand. Spreadsheets allow these to be available almost instantaneously. All that is needed is to tap in a few highs and lows. Therefore I prefer to label my findings as a modification only. R. N. Elliott’s work still remains a remarkable feat of observation and diligence.

Having mentioned to other market professionals that I feel Elliott’s structure is incorrect I have encountered a significant degree of resistance. It’s like I have touched a raw nerve, almost challenging a religious dogma! Therefore, in suggesting this reappraisal of the impulsive wave structure I realize that I need to offer suitable substantiated evidence to support my claim, and this I do through the use of wave relationships. The key to this evidence comes from the fact that the Fibonacci or harmonic ratios must be present not only within each wave but also within the entire fractal sequence of waves, so that the waves of lower degrees must generate projection targets that fit harmoniously into the larger degrees. Each in turn contributes to the next larger degree.

I have provided a great number of actual examples of analysis and of the different methods of wave development, and substantiated
them all through wave relationships so there can be no doubt that the modification to the harmonic structure is valid.

Clearly with a new modified harmonic structure some of the rules that have been used with Elliott’s structure have changed and the methodology of recognizing a correct structure needs a shift in perception and application to forecasting. I have therefore included a chapter dedicated to providing practical guidance in using the harmonic structure, how to recognize certain common wave developments, and hints and tips on how to approach the task of deciphering wave recognition.

I have also included a section on confirming the retracement and projection levels when reached. While Elliott’s observations on alternation and degree are still mainly valid, very clearly there are multiple potential retracement ratios or projection targets. Often they can be identified by matching projections from the wave structure of lower degree, but there can often be situations where two areas can be potential targets, both garnered from different wave degrees. Use of momentum can clarify these in the majority of instances.

It is still not the “Holy Grail.” I even doubt that there is such a thing. There are still enough occasions where it is very difficult to identify the individual waves either due to exceptionally erratic price development or a rapid move in one direction that makes the identification of waves nigh on impossible. Extended trending moves are still a big challenge so there is still more work to do.

In Chapter 5, I have attempted to provide a practical approach to working with Harmonic Elliott Wave, highlighting some of the problems that arise and how to cope with or understand methods of recognizing when the analysis is going astray. This is extended in Chapter 6, which covers what I feel were a sequence of unfortunate calls in EURUSD. It may sound unusual to point out one’s own pitfalls but analysis and forecasting is not a straightforward or simple matter. During much of the development in price I held the correct direction, but I made reversal calls at the wrong moments. One can try to ignore such events, but the manner in which these occurrences are handled is important in order to quickly get back
onto the right track. Chapter 6 is an attempt to provide some guidelines on how this may be done.

In this book I therefore offer my own observations; others more capable than I can add to the evidence I will present. I am convinced that changes need to be made and that they provide a much more reliable structural framework in which to forecast future price movements. Having worked with this approach for several years and slowly realized what adjustments need to be made in both price structure and wave relationships, I have found the changes invaluable in providing forecasts.

One final point I should make is that since I am a foreign exchange analyst, necessarily the working examples are from the foreign exchange market. However, I have been asked by subscribers to comment on other markets on occasion. On the first occasion I was uncertain whether my changes would actually apply in other markets. However, I have been pleasantly surprised with the results, and have dedicated a chapter to providing evidence from a range of markets that substantiates my methodology. The first non—foreign exchange markets to which I applied Harmonic Elliott Wave were the Dow Jones Industrial Index and gold. The initial wave counts were generated at the commencement of writing the book. By the time I came to completion these markets had progressed a long way and followed the anticipated structural progress implied by the original analysis. I have therefore extended the original analysis to demonstrate the accuracy of the adaptations made to Elliott’s original principle.

Ian Copsey

www.harmonic-ewave.com
Ralph Nelson Elliott was a distinguished businessman, an accountant whose career began at the age of 25 in 1896. He was a renowned organizer, fastidious in his approach, and over the following 25 years he rescued a number of distressed companies and brought them back into profitability. In 1924 he was appointed by the U.S. State Department as chief accountant for Nicaragua—then under the control of the United States—to reorganize the finances of the entire country.

However, in 1929 he became seriously ill with pernicious anemia, which kept him confined to his bed. It was at this time, while recuperating, that he studied stock market charts, examining price behavior across all time frames. It took over five years for him to draw his conclusions. In March 1935, as the Dow Jones Average closed almost at its lows, he published his findings by declaring that the index was making its final bottom. The accuracy of his findings was impressive, and they were published in his first book *The Wave Principle*. He followed up in the early 1940s with an addendum on