Practical Applications Of

A Mechanical Trading System

Using Simplified Elliott Wave Analysis

Examples Using

Advanced GET

Examples Using Futures and Stocks

60 Minute, Daily, Weekly, and Monthly

By Tom Joseph

Developer Of The World's Only Objective Elliott Wave Analysis Software "Advanced GET".

Trading Techniques, Inc.

689 W. Turkeyfoot Lake Rd.

Akron, Ohio 44319

Voice: 330-645-0077

Fax: 330-645-1230

TRADING TECHNIQUES, INC.
DISCLOSURE AND DISCLAIMER

The material presented in this report is confidential and proprietary to Tom Joseph and Trading Techniques Inc. This information cannot be used, disclosed, or duplicated, without the prior written consent from Tom Joseph or Trading Techniques Inc. This work is protected by the Federal Copyright laws and no unauthorized copying, adaptation, or distribution is permitted.

The material presented in this report is believed to be accurately presented. However, it is not guaranteed as to accuracy or completeness, and is subject to change without notice, at any time. There is no guarantee that the systems, trading techniques, trading methods, indicators, and/or other information presented in this report will result in profits, or that they will not result in losses.

It should not be assumed, or is any representation made, that the methods presented in this report can guarantee profits in the Options and Future Markets or any other financial or Stock markets, or that future performance will equal that of the past.

Past performance is not a guarantee of future results. Only risk capital should be invested in the Options and Futures Markets or any other financial or Stock market. Neither Trading Techniques Inc., nor Tom Joseph, nor anyone else representing Trading Techniques Inc. or Tom Joseph, take or assume any responsibility or make any guarantees or make any specific trading recommendations. All investments and trades carry risk, and all trading decisions of an individual remain the responsibility of that individual.

The hypothetical computer simulated performance results provided are believed to be accurately presented. However, it is not guaranteed as to accuracy or completeness and is subject to change without any notice. Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Since, also, the trades have not actually been executed, the results may have been under or over compensated for the impact, if any, of certain market factors such as liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will, or is likely to achieve profits or losses similar to those shown. All investments and trades carry risks.

Introduction

Nine out of ten traders balk at Elliott Wave Analysis and claim that it never works. At first I agreed and even sympathized with this opinion.

However, after researching simple approaches to Elliott Wave analysis and using it to trade my own personal funds over the past 17 years, I strongly feel that a Trader is cheating himself by simply discarding Elliott Wave analysis. Elliott Wave analysis is the only tool that I know that consistently identifies the strength of the move and how far it will trade. Knowing the direction and price target is essential because traders do not seek to buck the trend, but trade in the direction of the major trend of the market.

One of the main reasons cited by traders who think less of Elliott Wave analysis is its subjectivity and complexity. This is absolutely true. About 65% of Elliott Wave analysis is made up of complex rules which can be dissected in numerous ways. Ten analysts can easily come up with 10 different answers.

After struggling for a solution, I was finally able to build a simple model using the other 35% of Elliott Wave Analysis that is very clear. Further research showed that the 35% of the rules that **are** clear, contributed to almost 80% of the profits that can be achieved by using Elliott Wave analysis.

This made it very clear to me. Concentrate on the portions of Elliott Wave analysis that work, and leave the rest for newsletter writers and self proclaimed gurus. Most of them never have and probably never will trade or risk their own funds.

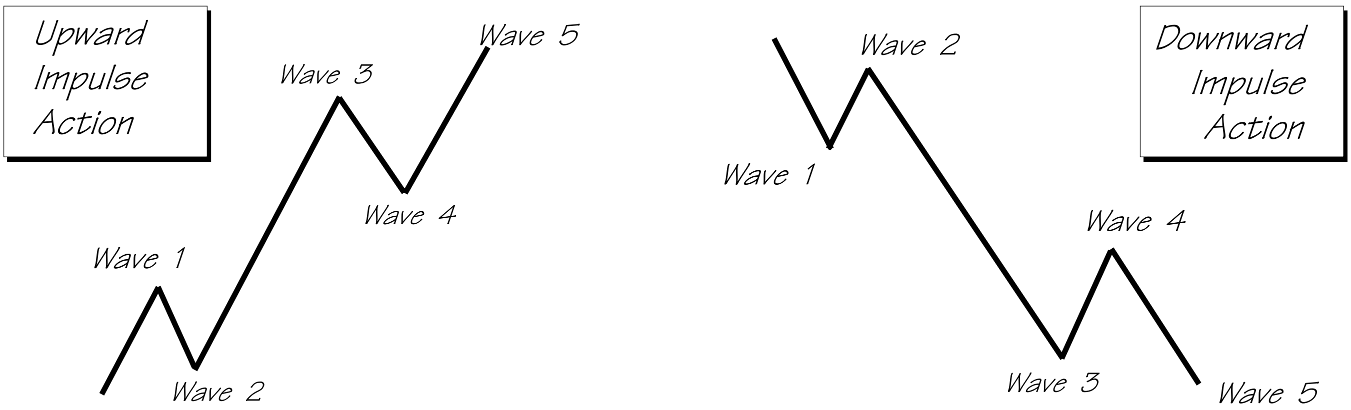
In this manual, I will outline a simple model and discuss hundreds of examples. In addition, I will present some important research that complements Elliott Wave analysis. I cannot guarantee you will trade better with this knowledge. However, I am 99% sure you will think twice before condemning Elliott Wave analysis in the future. I am also 70% sure that once you study the examples in this manual, you will be able to count Elliott Waves in any market without anyone's help with a high degree of accuracy.

So lets get started!

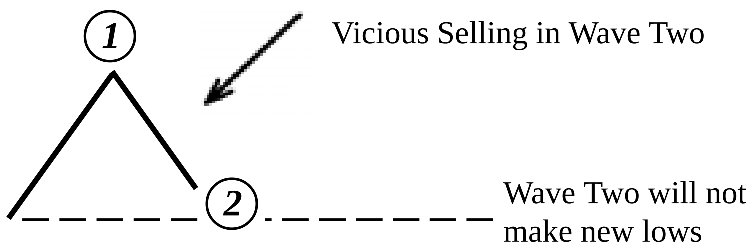
Table Of Contents

Impulse Patterns (How They Develop)

The impulse pattern consists of five waves. The five waves can be in either direction, up or down. Some examples are shown below.



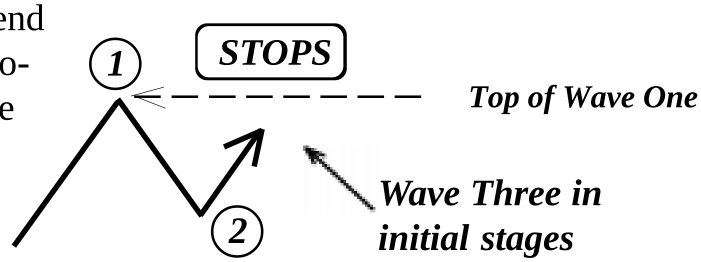
The first wave is usually a weak rally with only a small percentage of the traders participating. Once Wave 1 is over, they sell the market on Wave 2. The sell off in Wave 2 is very vicious. Wave 2 will finally end without making new lows and the market will start to turn around for another rally.



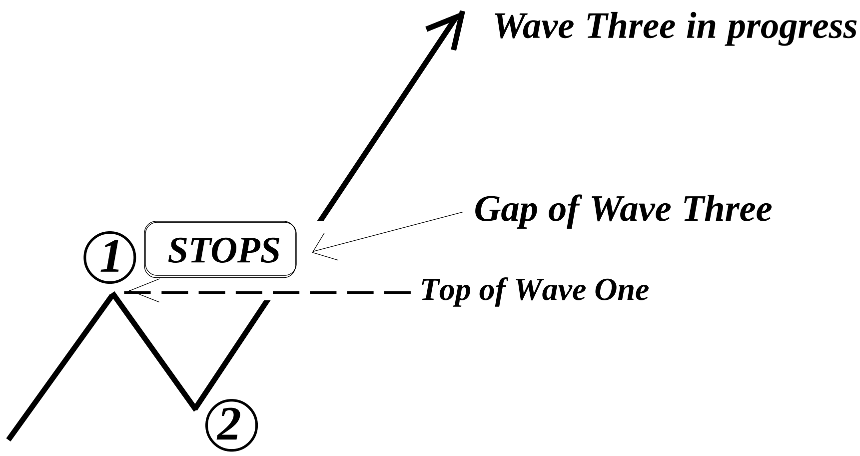
The initial stages of the Wave 3 rally is slow and it finally makes it to the top of the previous rally *(the top of Wave 1).* At this time, there are a lot of stops above the top of Wave 1.

Traders are not convinced of the upward trend and are using this rally to add more short positions. For their analysis to be correct, the market should not take the top of the previous rally.

Therefore, a large amount of stops are placed above the top of Wave 1.



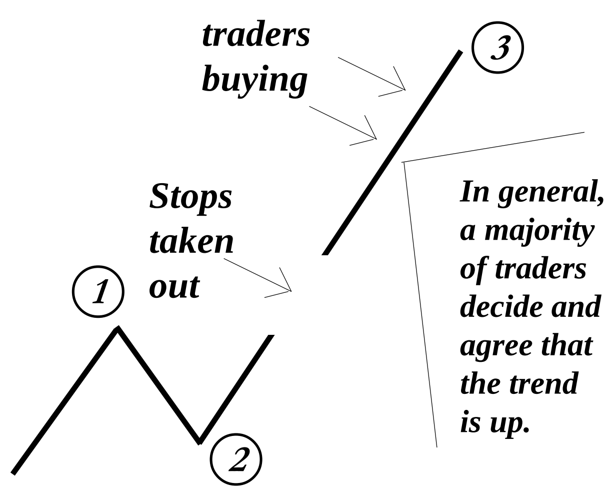
The Wave 3 rally picks up steam and takes the top of Wave 1. As soon as the Wave 1 high is exceeded, the stops are taken out. Depending on the amount of stops, gaps are left open. **Gaps are a good indication of a Wave 3 in progress.** After taking the stops out, the Wave 3 rally has caught the attention of traders.



The next sequence of events are as follows: traders who were initially long from the bottom finally have something to cheer about. They might even decide to add positions.

The traders who were stopped out *(after being upset for a while)* decide the trend is up and they decide to buy into the rally. All this sudden interest fuels the Wave 3 rally.

This is the time when the majority of the traders have decided that the trend is up.



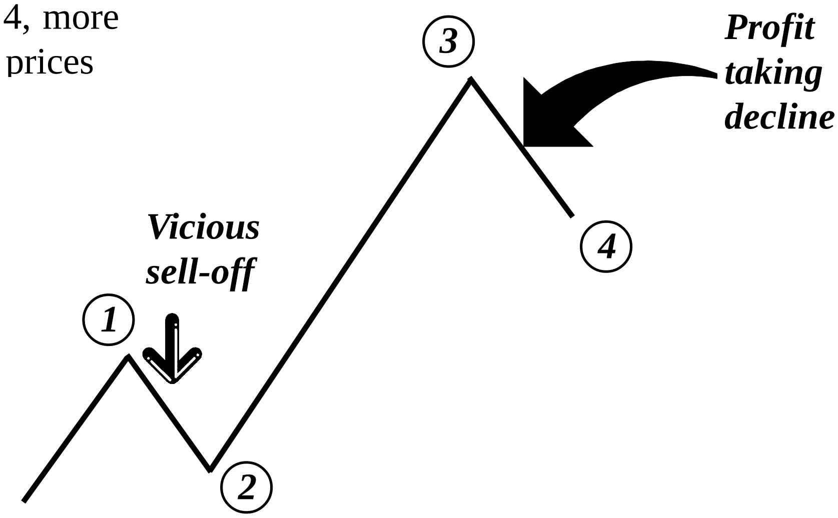
Finally, all the buying frenzy dies down and Wave 3 comes to a halt.

Profit taking now begins to set in. Traders who were long from the lows decide to take profits. Other traders start to protect profits.

This causes a pullback in the prices and this pullback is called: Wave 4. **While Wave 2 was a vicious sell-off, Wave 4 is an orderly profit taking decline.**

While the profit taking is in progress, the majority of traders are still convinced the trend is up. They were either late in getting in on this rally, or they have been on the sideline. **They consider this** profit taking decline as an excellent place to buy-in **and get even.**

On the end of Wave 4, more buying sets in and the prices start to rally agai

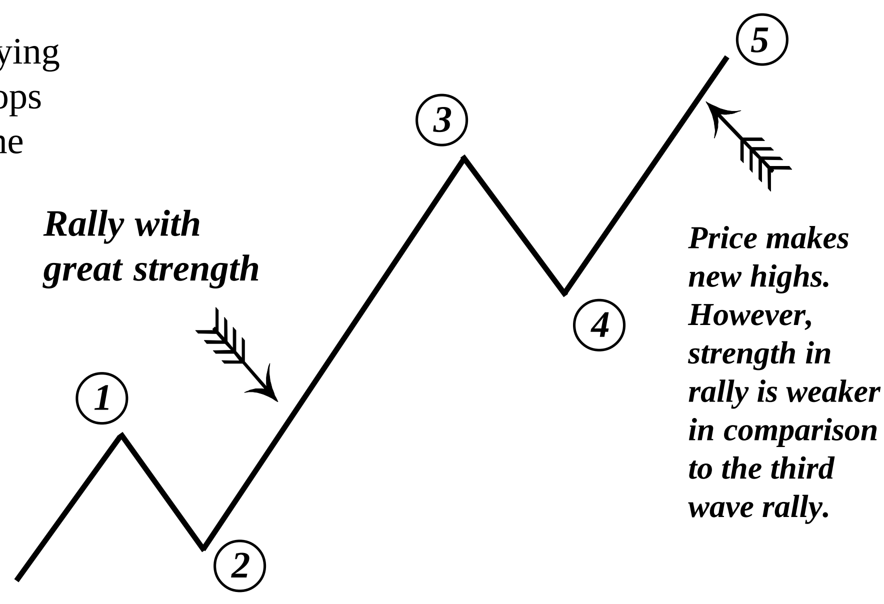


The Wave 5 rally lacks the huge enthusiasm and strength found in the Wave 3 rally. The Wave 5 advance is caused by a smaller group of traders.

While the prices make a new high above the top of Wave 3, the rate of power or strength inside the Wave 5 advance is very small when compared to the Wave 3 advance.

Finally, when this lackluster buying interest dies out, the market tops out and begins a new phase in the opposite direction.

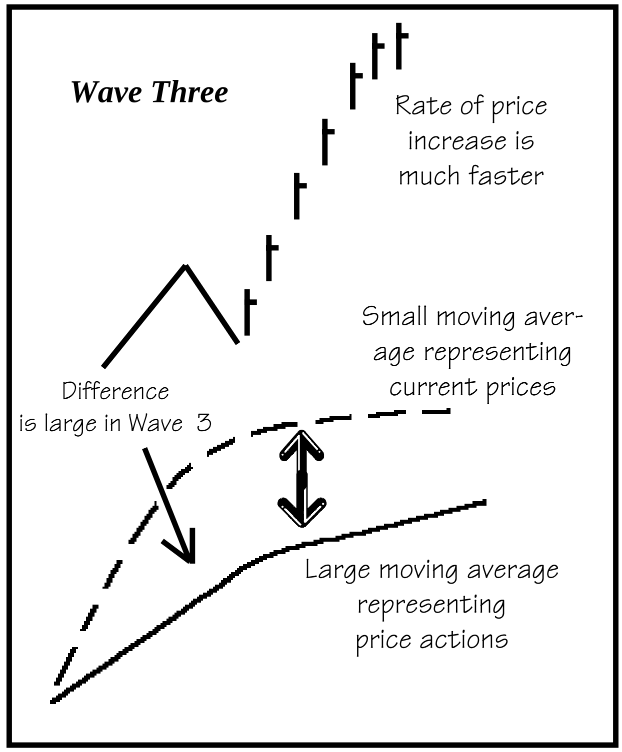
When five waves are complete, the market changes trend.



Indicator To Provide Elliott Wave Counts

To keep tab of the Elliott Wave logic, we require an indicator that measures the rate of price change in one wave against the rate of price change in another wave. Standard indicators fail to perform this comparison. They merely compare price against price and fail to compare the rate of price action. **After years of research, the Elliott Oscillator was developed.** The idea of the oscillator is described below.

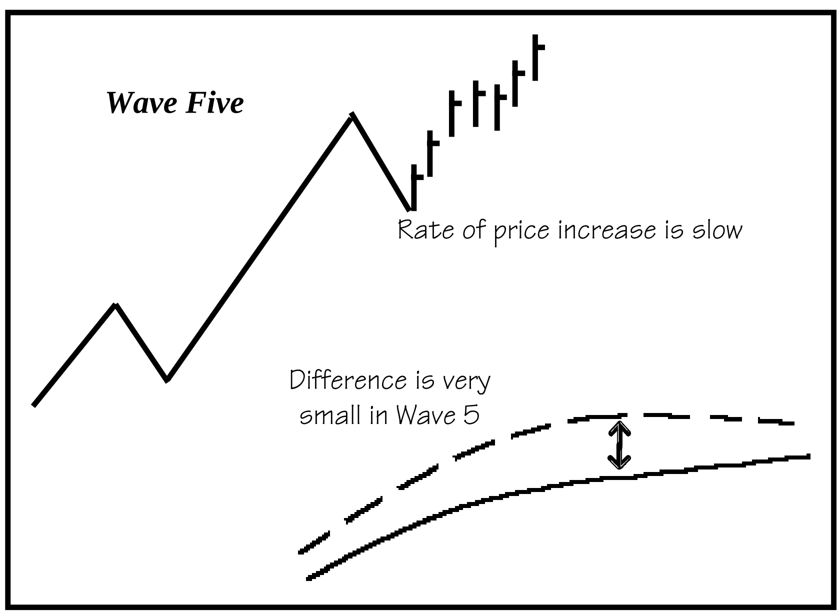
An Elliott Oscillator is basically calculated from finding the difference between two moving averages. If we were to use a small moving average and a large moving average, **the difference between the two** will show the rate of increase in prices.



The small moving average represents the current price action, while the larger moving average represents the overall price action.

When the prices are gapping up inside a Wave 3 the current prices are surging; the difference between the small and large moving averages is great and produces a large oscillator value.

However, in a Wave 5 the current prices are not moving up at a fast rate and, therefore, the difference between the small and large moving averages is minimal. This produces a smaller oscillator value.

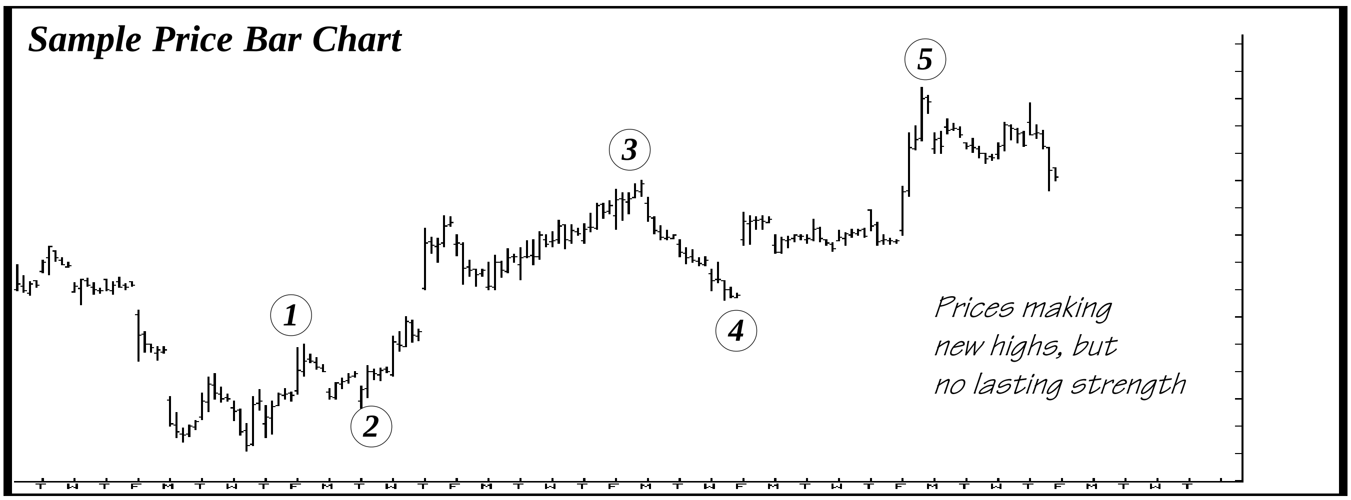


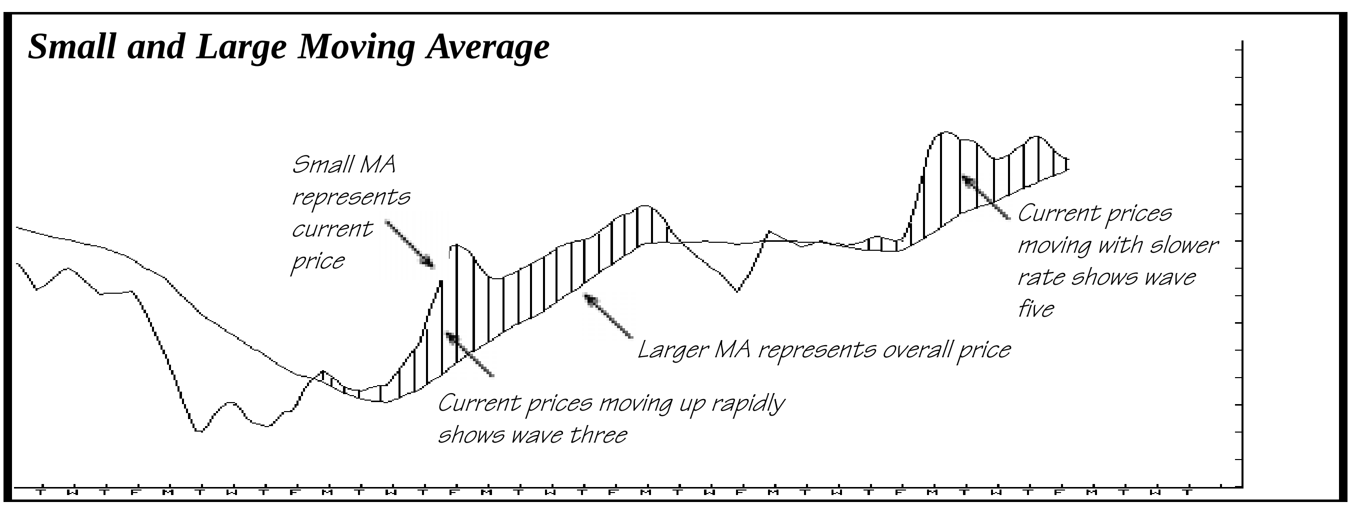
By comparing the oscillator peaks, one can distinguish between a Wave 3 phase and a Wave 5 phase.

Elliott Oscillator: Step-By-Step Illustration —

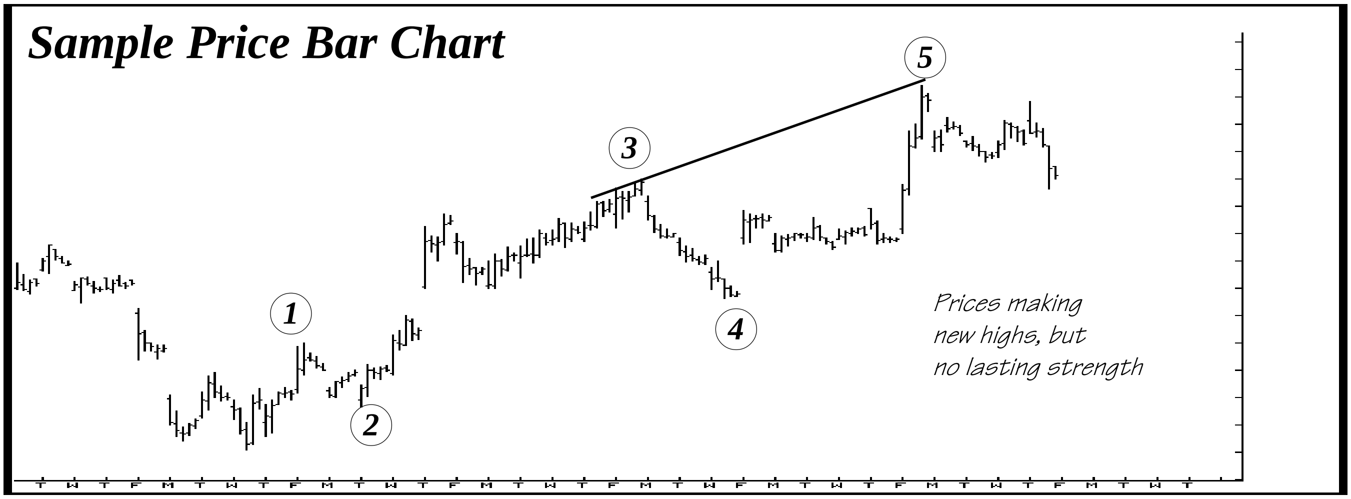
When the prices rally above the top of Wave 1, the Elliott Oscillator is making new highs. Notice also the gapping action. The current rally is labeled Wave 3.

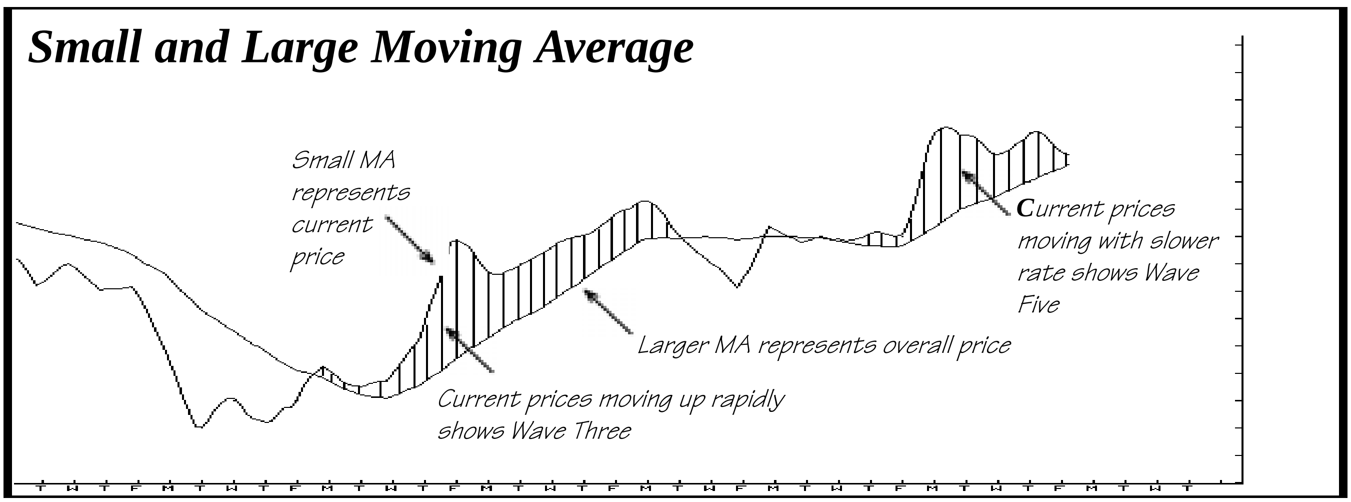
Finally, the buying subsides in Wave 3. Traders begin to take profits. However, the general public is eagerly waiting for a neutral area to buy into this market. When the Elliott Oscillator pulls back to the zero level, or below, the market is entering a neutral area.

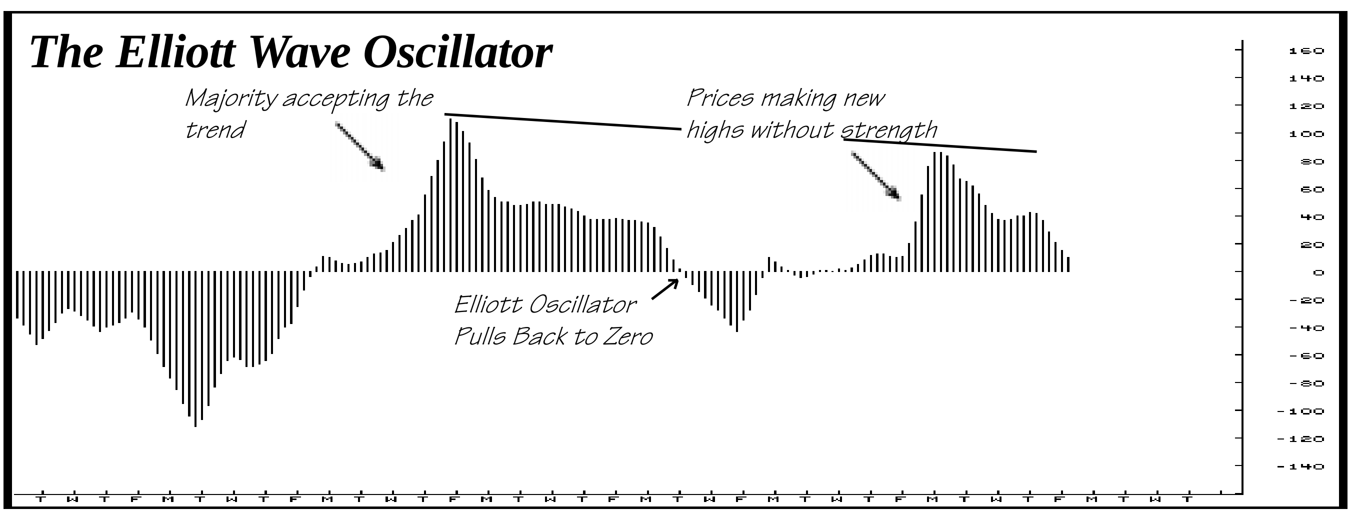




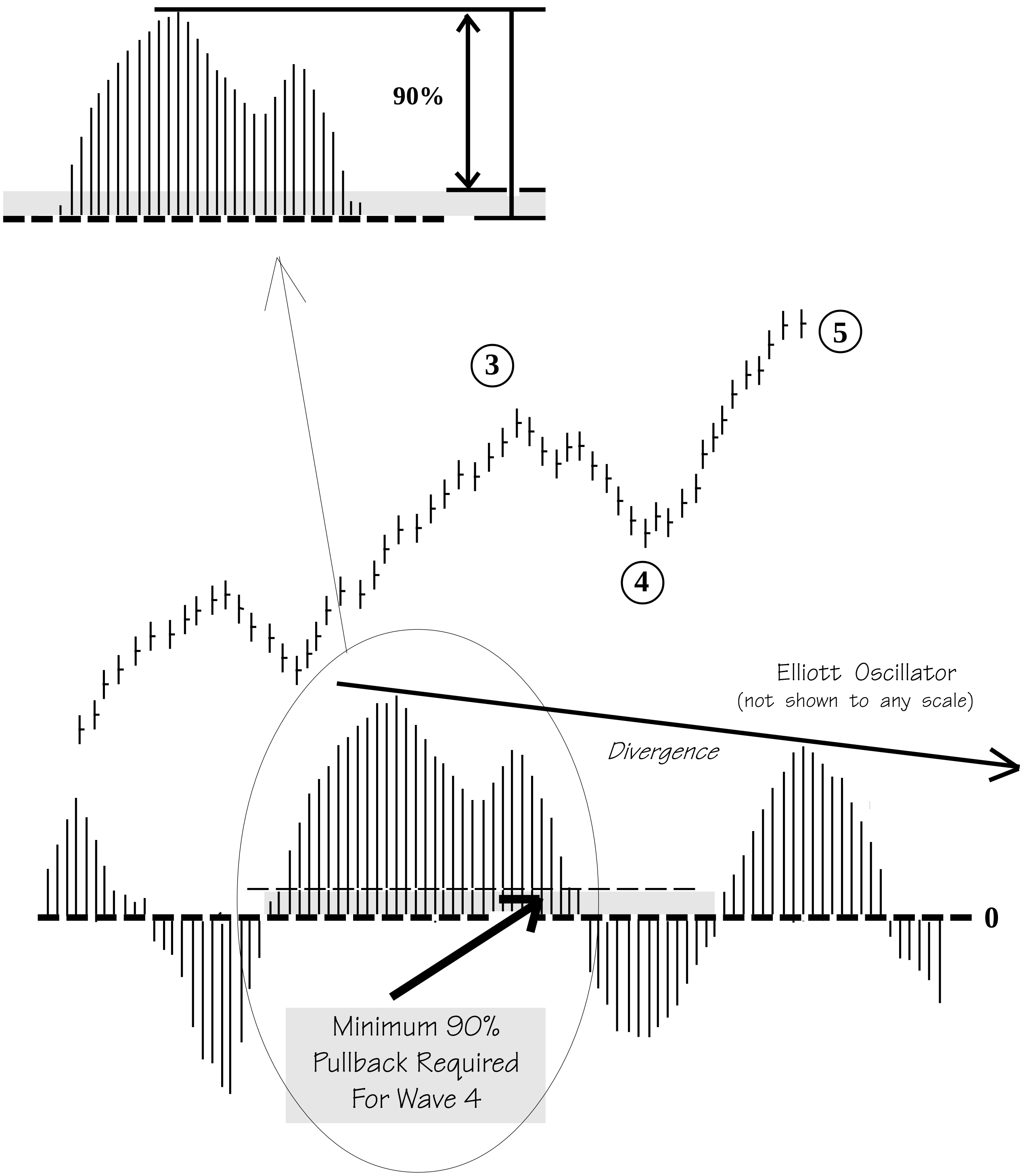
Once Wave 4 is over, buying comes in from traders who missed the entire Wave 3 rally. The prices move to new highs. However, the rally does not have the fast rate of price increase that was seen in Wave 3. This difference in the rate of price is picked up by the oscillator and can be easily identified. ***MORAL OF THE STORY*:** Always let the Elliott Oscillator track Elliott Wave counts.





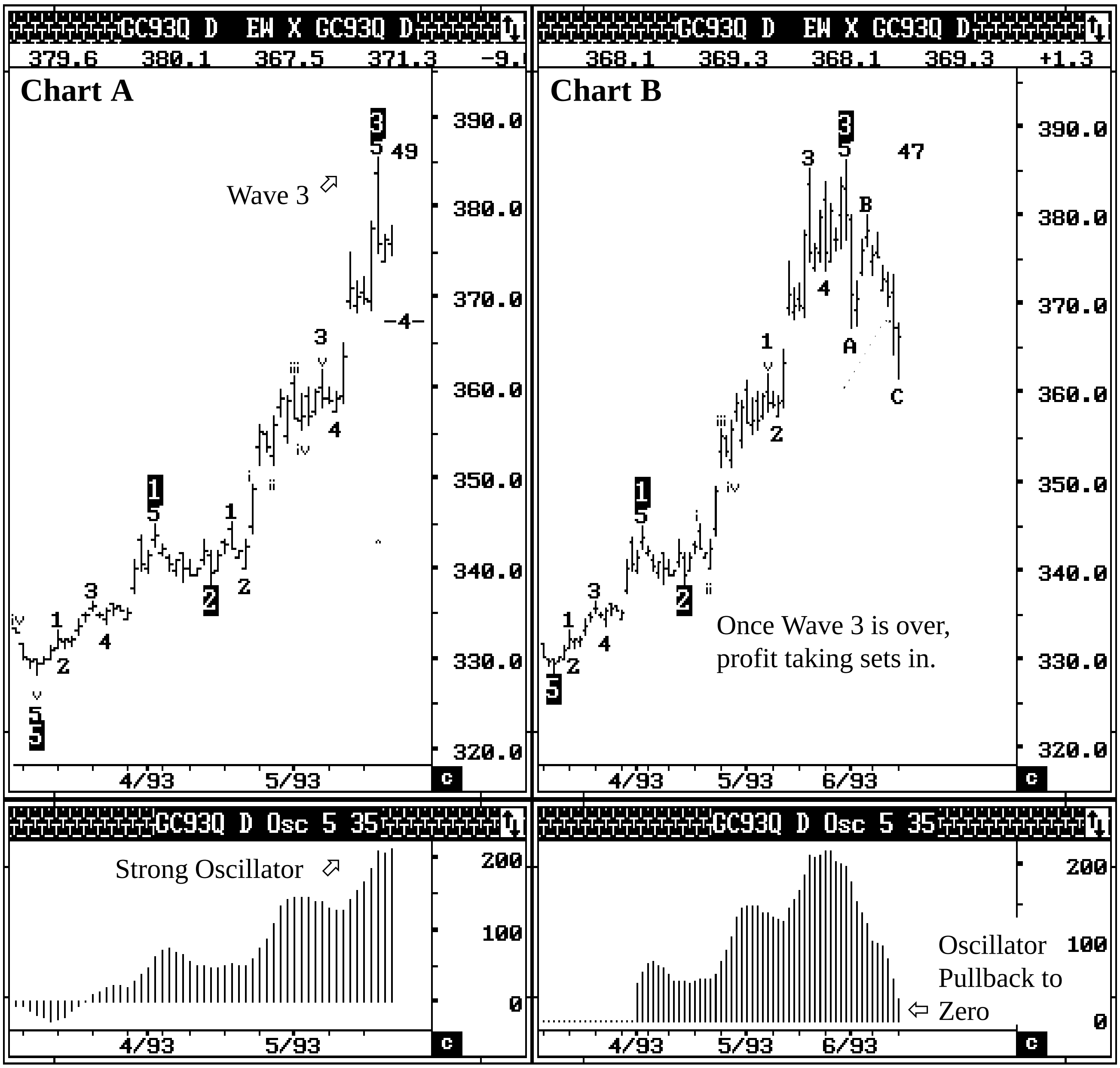


The Elliott Oscillator



Using The Elliott Oscillator in *(Wave Three)*

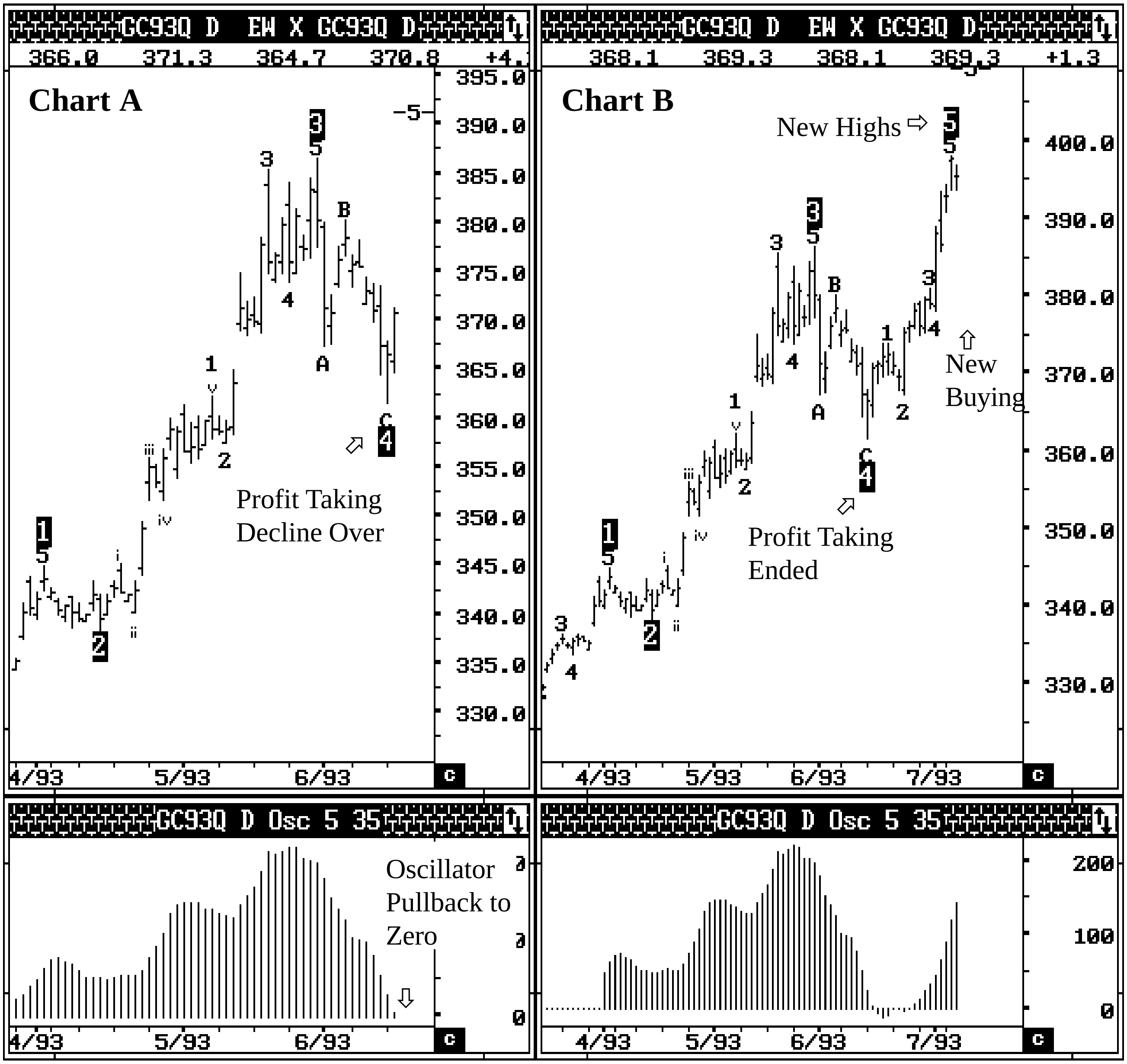
⊙ When a market rallies with a strong Elliott Oscillator as in Chart A, the rally is classified as a Wave Three.



⊙ Once Wave Three is over, the market will pull back on a profit taking decline. During the profit taking decline, the Elliott Oscillator should pull back to zero *(as shown in Chart B).*

Using The Elliott Oscillator in *(Wave Four)*

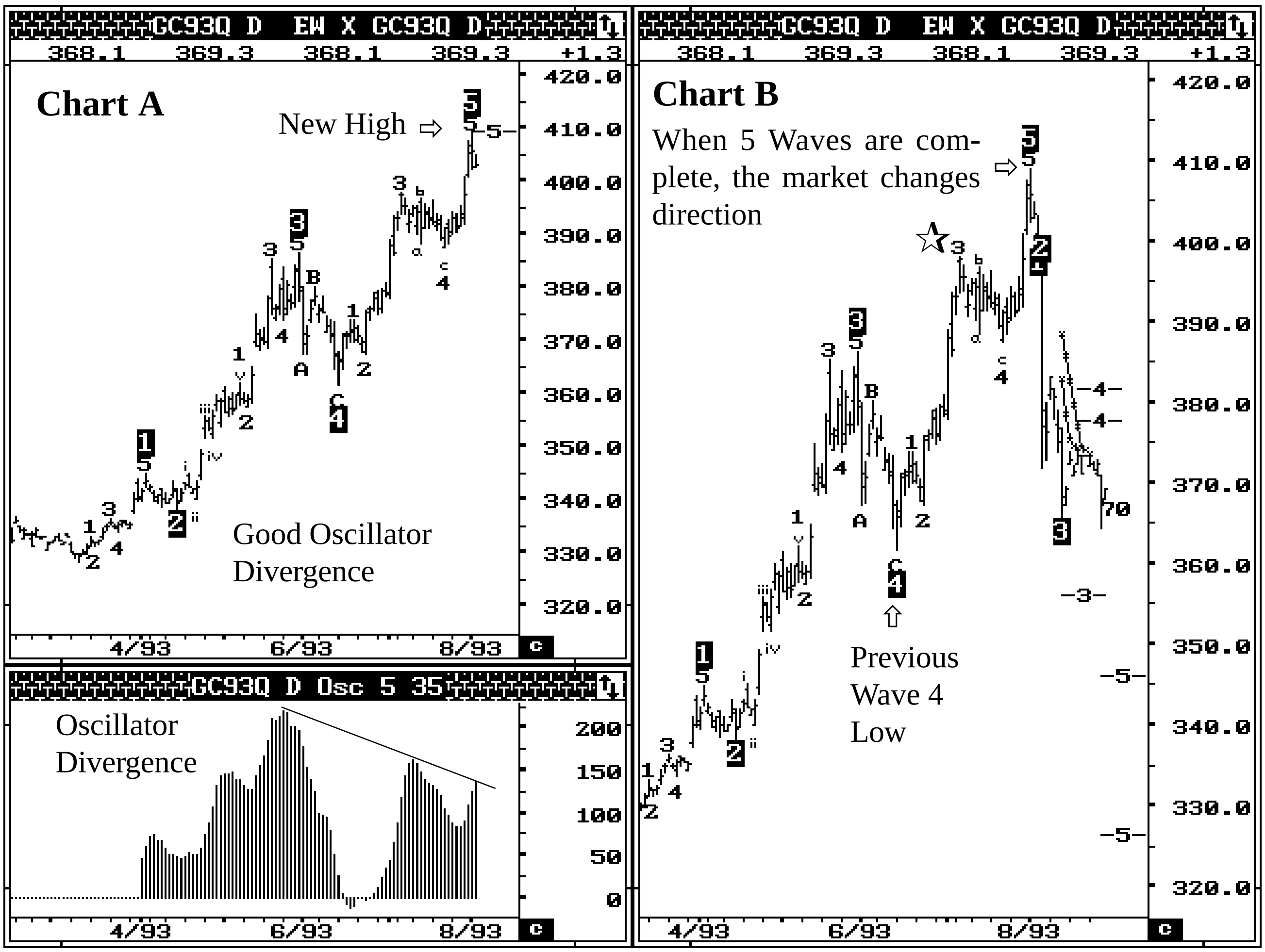
⊙ Once the Elliott Oscillator pulls back to zero, it signals the end of a potential Wave Four profit taking decline as shown in Chart A.



⊙ New buying comes in and the market makes new highs *(as shown in Chart B)*.

Using The Elliott Oscillator in *(Wave Five)*

- The market is making a new high with less strength in the Elliott Oscillator as shown in Chart A.
- This indicates that the current rally is a Wave Five and once the Fifth Wave is over, the market should change direction.

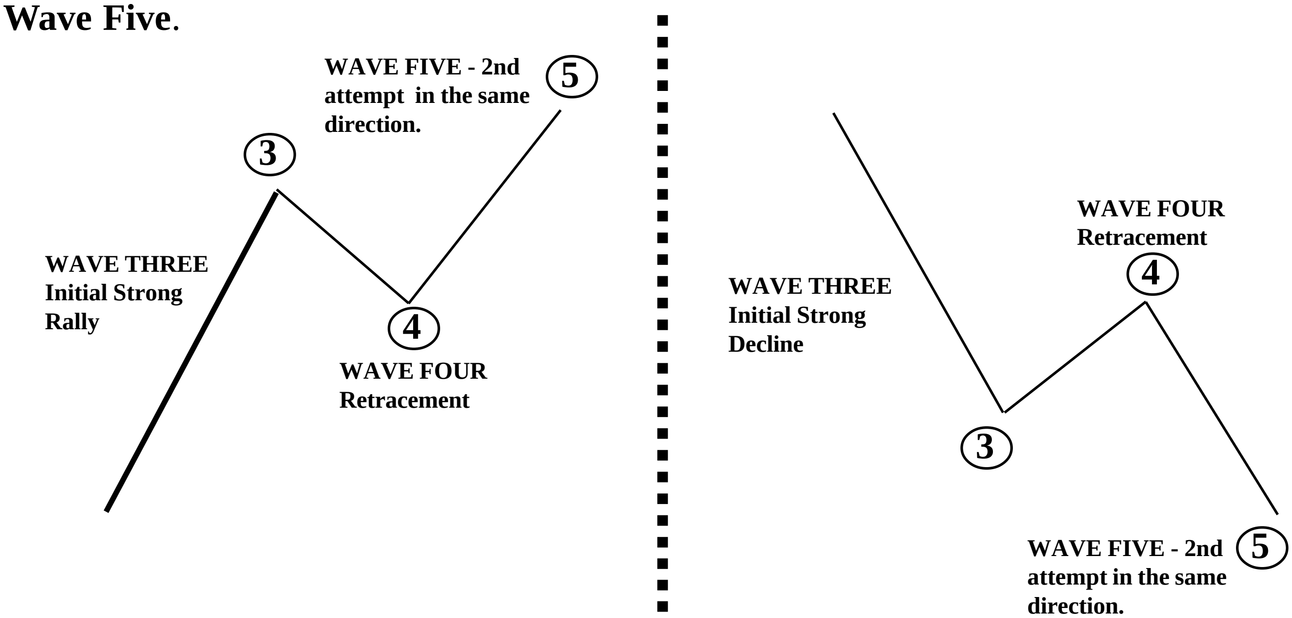


- When the market changes direction after completing a Five Wave sequence, the previous Wave Four will become the first target. In Chart B, the market changed direction and is trying to test the previous Wave Four low near 3630.

☆ See page 44 on how to handle extentions *(Sub Divisions)* in Wave Five.

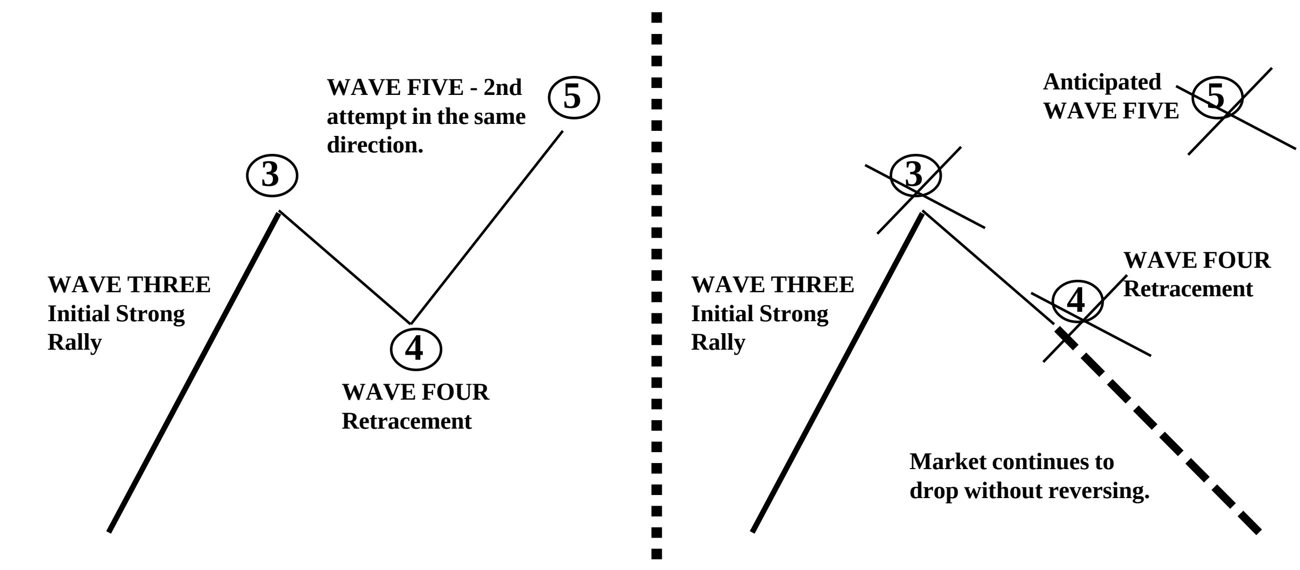
Adding PTI *(Profit Taking Index)* - Theory

Using Elliott Wave analysis, any major rally or decline can be classified as a **Wave Three**. Once a **Wave Three** is in place, Elliott Wave theory continues to look for a **Wave Four Retracement** followed by second attempt in the same direction. This last phase is called **Wave Five**.



RALLY PHASE **DECLINE PHASE**

The above patterns are completed Five Wave sequences and are great after the fact. However, while the pattern is in progress, the Trader is left with a major dilemma at the end of the WAVE FOUR Retracement. **This dilemma is because many times the 2nd attempt fails to materialize.**

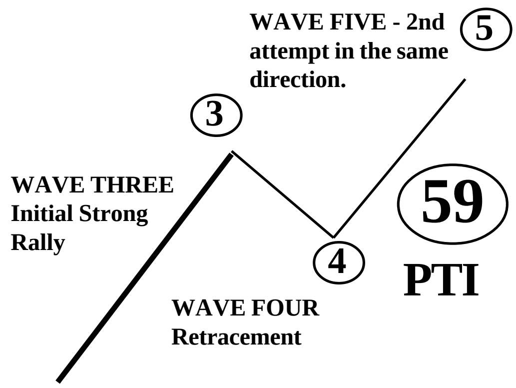


Normal Five Wave Pattern **False Five Wave Pattern**

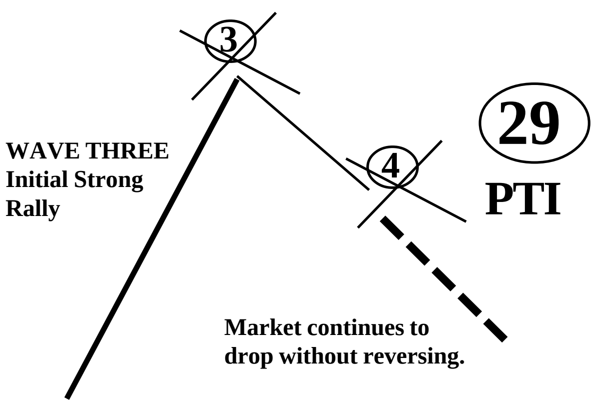
From our years of research and development, we designed the **Profit Taking Index *(PTI)*.** The Profit Taking Index compares the Buying/Selling momentum in Wave Three with the Buying/Selling momentum in Wave Four. This comparison is then passed to an algorithm that calculates the PROFIT TAKING INDEX VALUE.

CASE 1 - Normal Five Wave Pattern

Statistically, if the Profit Taking Index is **Greater than 35,** the market exhibits a greater tendency to **initiate a Fifth Wave or a 2nd Attempt Phase.**



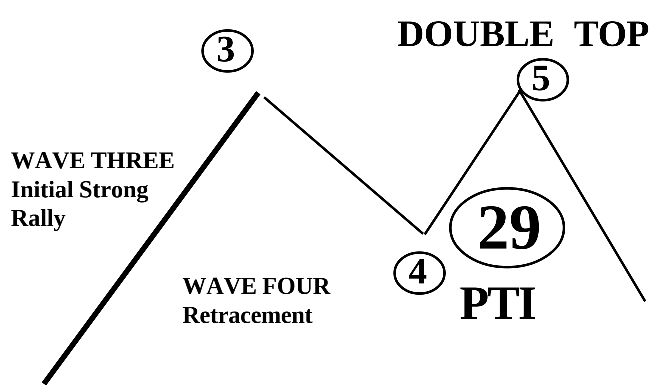
CASE 2- False Five Wave Pattern



Statistically, if the Profit Taking Index is **LESS than 35,** the market generally **FAILS** to initiate a Fifth Wave or 2nd Attempt Phase.

CASE 3 -Failed Five Wave Pattern - Double Top

If the Profit Taking Index is **LESS than 35,** and the market still initiates a Fifth Wave Phase, the potential for a **DOUBLE TOP** becomes very high.

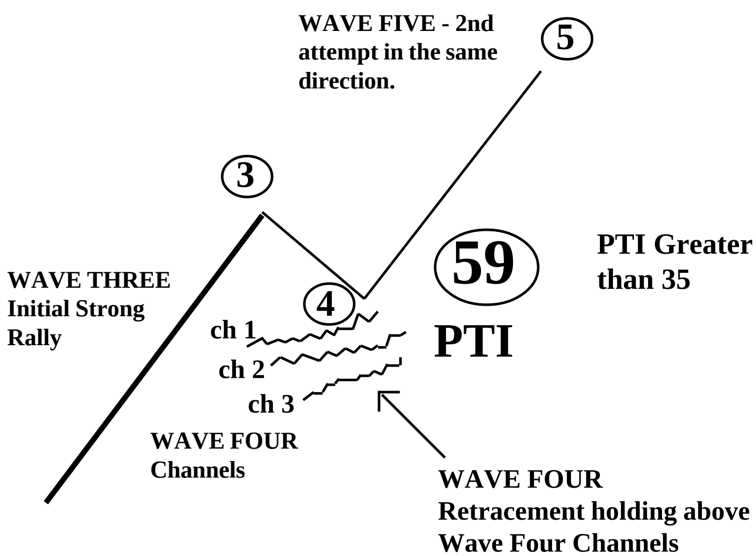


Adding Wave Four Channels

Wave Four Channels are another proprietary study developed along with the Profit Taking Index. The Profit Taking Index mainly deals with Buying/Selling momentum at different stages. The Wave Four Channels deal with time. After a strong rally, the retracement phase is allowed a certain amount of time prior to initiating the 2nd attempt *(Wave Five)* Phase.

Statistical studies show that if the retracement phase consumes too much time, the 2nd attempt phase diminishes its full effect. The Wave Four Channels are three time/price lines.

If the Wave Four Retracement holds above the Wave Four channels, the odds for a strong 2nd attempt are greater. If the Wave Four Retracement breaks below the Wave Four channels, the odds for a strong 2nd attempt is very low.



The Significance of Wave Four Channels

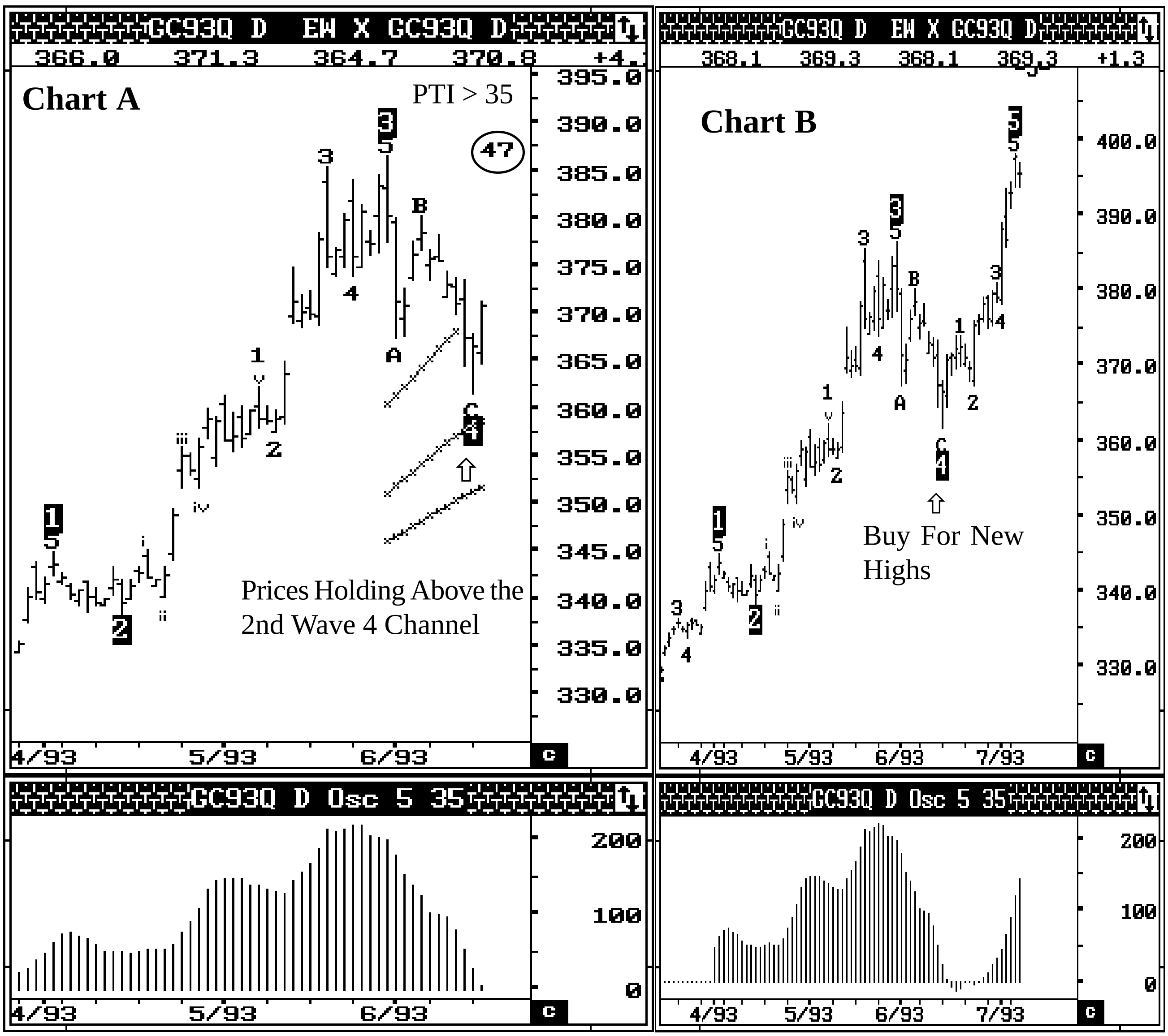
1) If the wave four retracement holds above the first channel *(displayed in BLUE)*, the statistical odds are better than 80% for a strong wave five rally.

2) If the wave four retracement holds above the second channel *(displayed in GREEN)*, the statistical odds for a strong wave five rally is only 60%.

3) The third channel *(displayed in RED)* is a final stop, because once this channel is broken the odds for a new high in wave five is very low. The very few times a fifth wave is generated after breaking the RED channel, the rally becomes a tedious, slow and drawn out process which literally eats out your patience and option premiums.

Profit Taking Index & Wave 4 Channels

⊙ In Chart A, when the Elliott Oscillator pulls back to zero, the Profit Taking Index (PTI) should be greater than 35. In this case the PTI is at 47 which indicates normal profit taking in the Wave Four Decline.



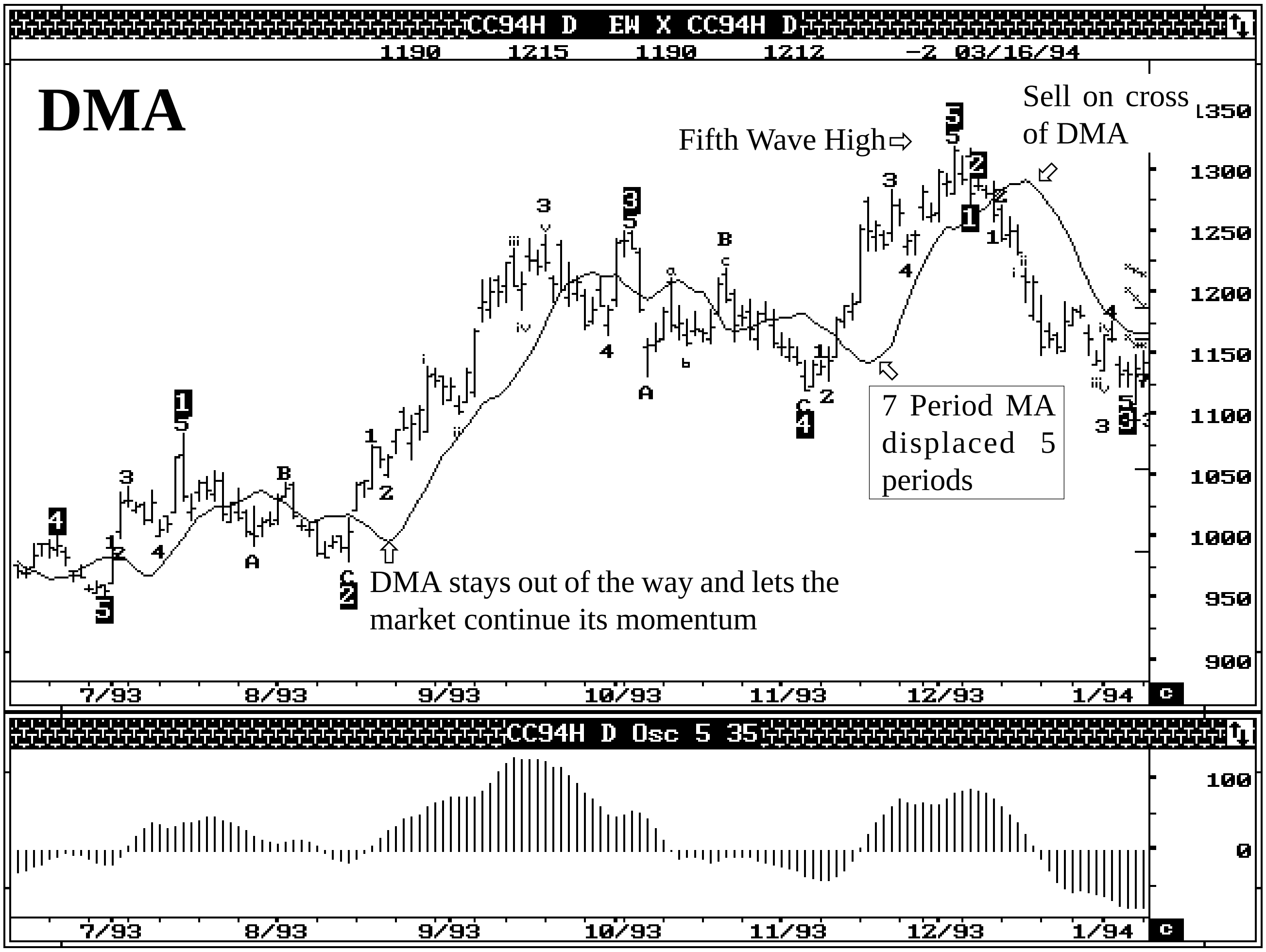
⊙ In addition, the prices should hold above the Wave Four Channels which indicate the ideal length of time for normal profit taking. In Chart A, the prices are holding above the Wave Four Channels.

⊙ Everything here looks good for a buy.

Adding Displaced Moving Average *(DMA)*

- We introduced the DMA concept in 1988. The DMA is a normal moving average shifted to the right. The purpose behind the DMA is to allow the market to continue its momentum.

- When the market finally completes a Five Wave sequence, prices will cross the DMA.



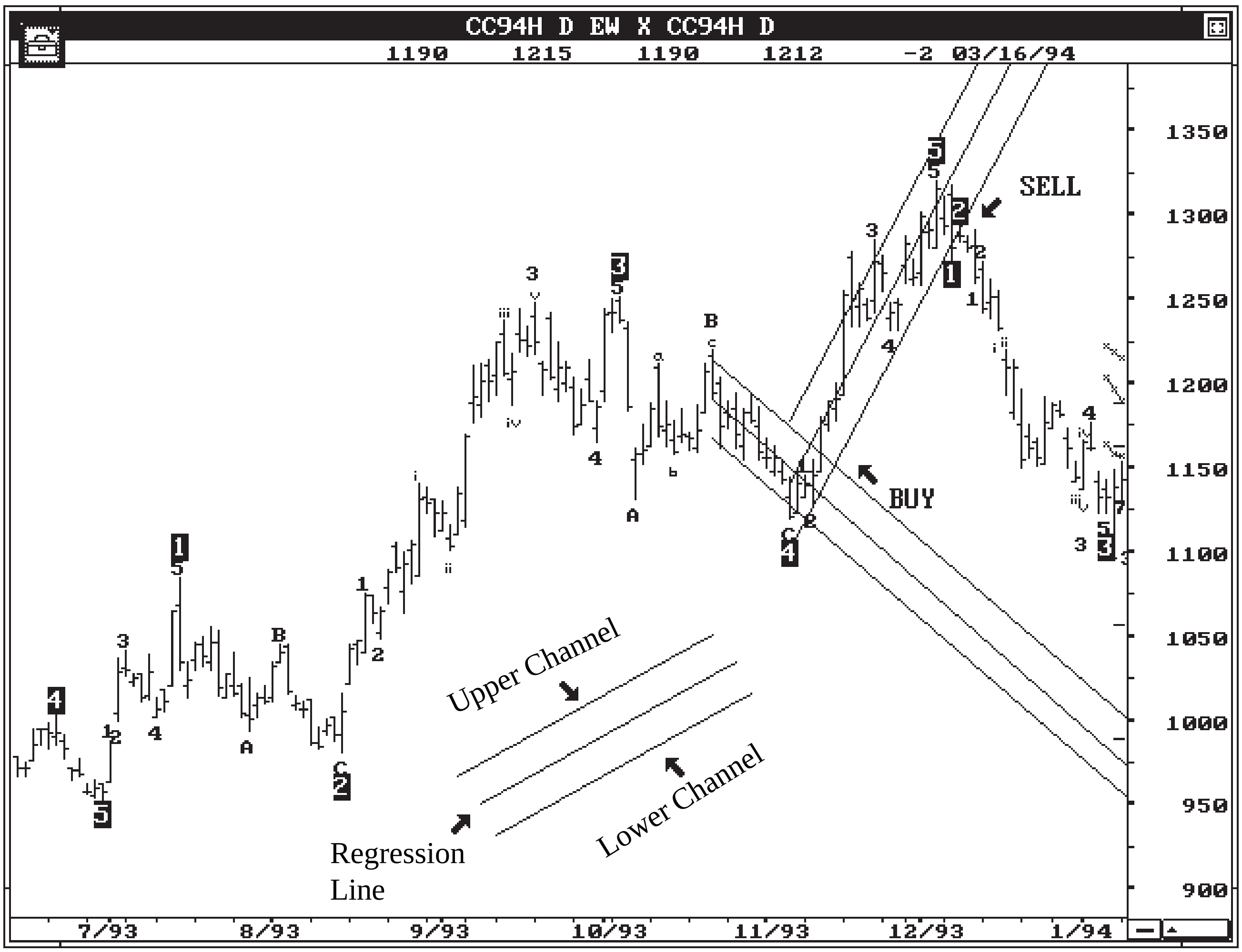
- At the end of Wave Five, use the DMA to enter the trade. We suggest a 6 or 7 period moving average shifted *(displaced)* to the right by five periods.

- **WARNING:** The DMA is designed to enter positions at the end of a Fifth Wave and on certain patterns at the end of Wave Four. **DO NOT USE** the DMA as a tool to buy or sell at other places. The accuracy for the DMA as a tool by itself is less than 21%.

Using The Regression Trend Channels

While the DMA discussed on the previous page continues to assist in locating entry and exits, we have developed a new tool called the Trend Regression Channels. The idea is to find the best fit linear regression of data between any two points. The standard deviation of the data from that regression line is used to display the upper and lower channels.

While the trend continues, the market trades in the channels. Once the price breaks the Trend Regression Channels, a change of trend *(bias)* is indicated.



Both at the end of Wave Four and Wave Five, the Trend Regression Channels can be used to provide entries in the direction of the trade.

Many of our users combine both the DMA and the Trend Regression Channels to enter their positions.

Rules: Type 1 Trade

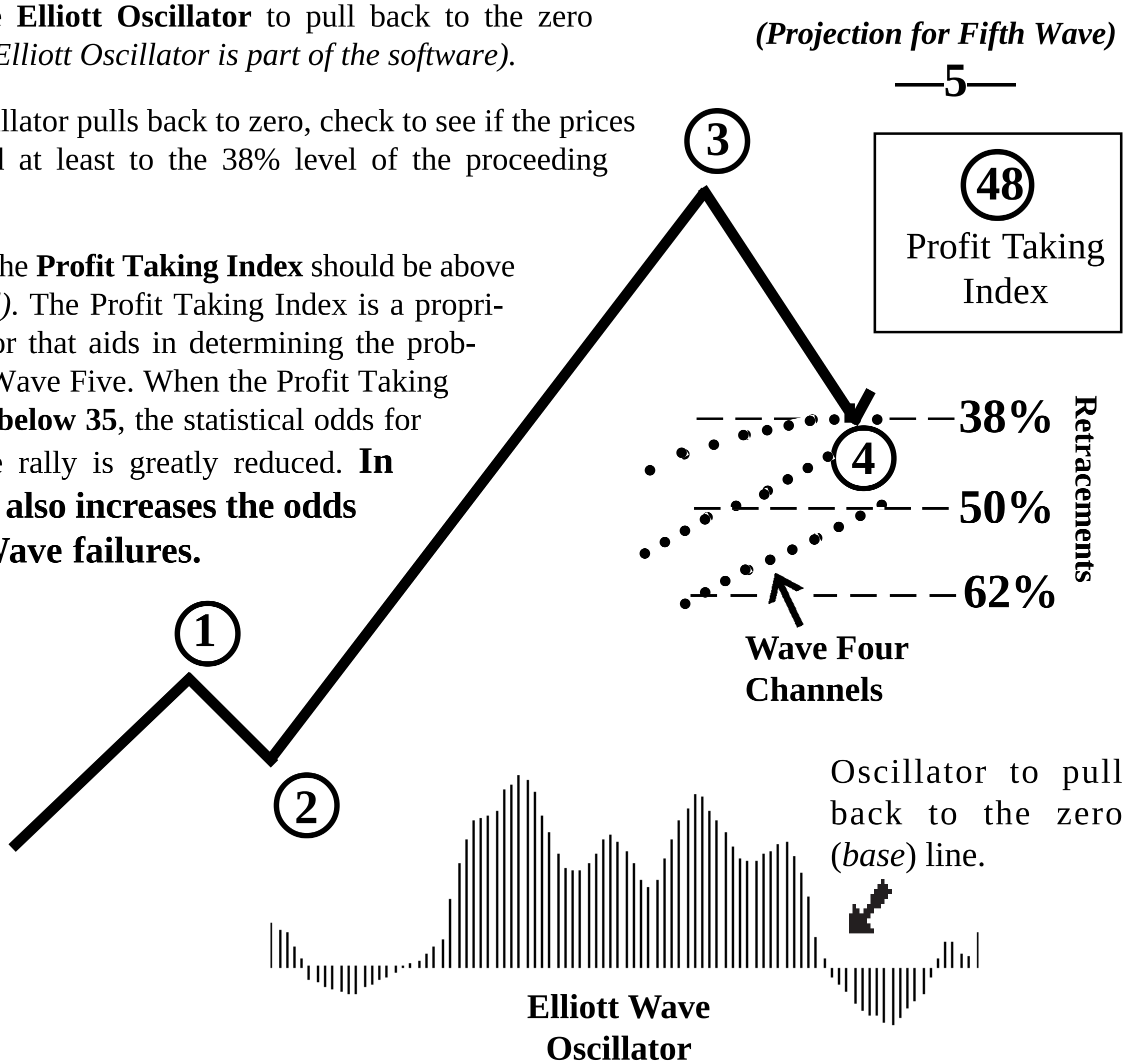
(Buying at the end of a Fourth Wave retracement)

Once the software confirms a Wave Three rally, look for the following conditions:

A. Look for the **Elliott Oscillator** to pull back to the zero *(base)* line. *(Elliott Oscillator is part of the software).*

B. Once the oscillator pulls back to zero, check to see if the prices have retraced at least to the 38% level of the proceeding Wave Three.

C. At this time, the **Profit Taking Index** should be above 35 *(preferred)*. The Profit Taking Index is a proprietary indicator that aids in determining the probability for a Wave Five. When the Profit Taking Index **drops below 35**, the statistical odds for a Wave Five rally is greatly reduced. **In addition, it also increases the odds for Fifth Wave failures.**



D. Retracements should hold above the Wave Four channels. Wave Four channels are proprietary channels that provide the much needed timing element for Elliott Wave analysis. An ideal Wave Four should complete above these channels. Containment of the retracement levels above the top two channels provide a higher probability for a stronger rally in Wave Five. **This step is not as critical as the Profit Taking Index in Step C.**

E. Calculate the stop two Fibonacci levels under the entry level. For example: if your entry is at the 38% level, the stop should be placed two levels under *(which is below the 62% retracement area)*.

F. Look for the fifth wave projection target given by the software. Calculate the potential profit/stop ratio. **If this ratio is greater than 1.5, the trade is worth considering.**

The Reverse Logic Applies For A Declining Five Wave Sequence.

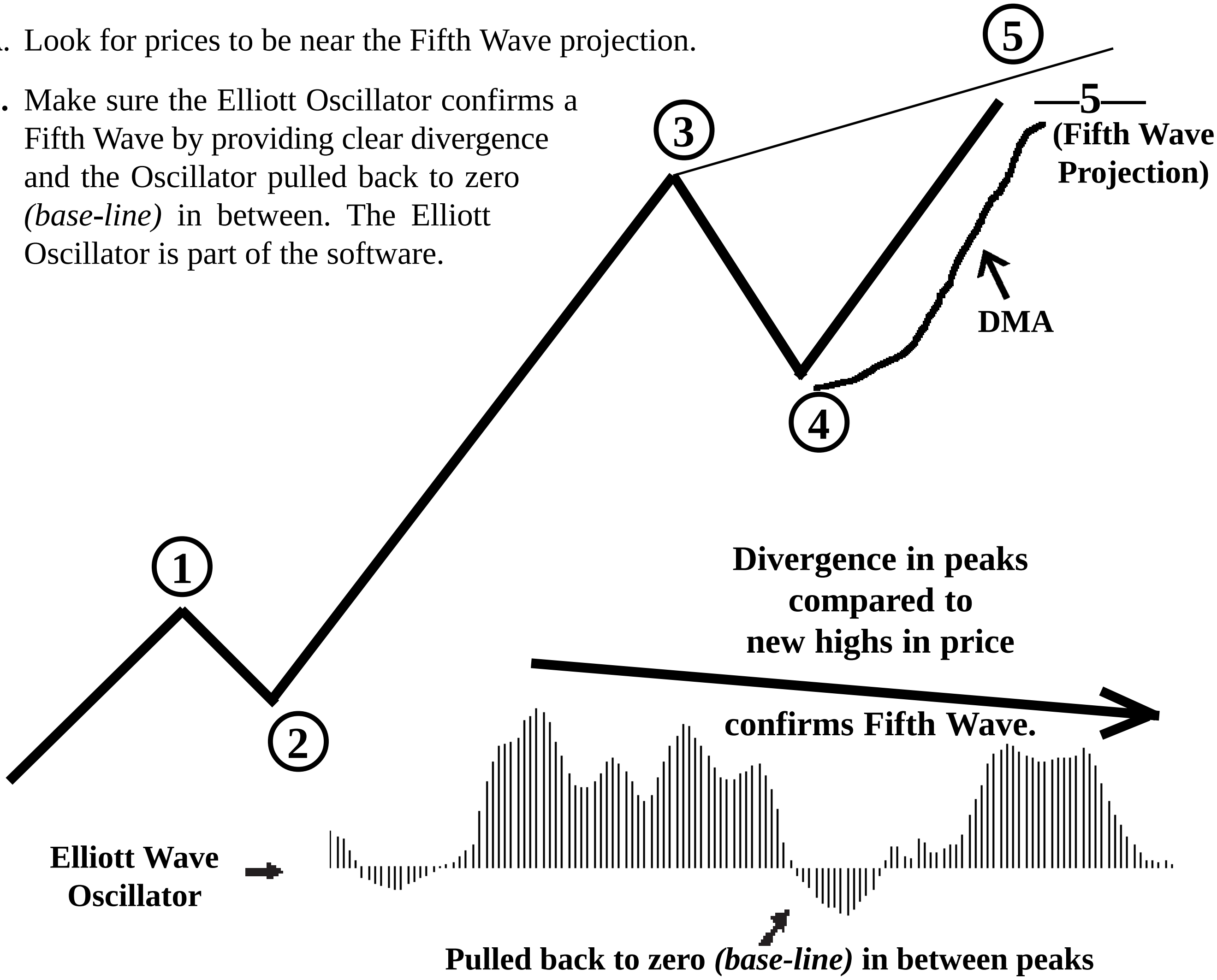
Rules: Type 2 Trade

(Selling at the end of a Fifth Wave rally)

Once the software confirms a Wave Five rally, look for the following conditions:

A. Look for prices to be near the Fifth Wave projection.

B. Make sure the Elliott Oscillator confirms a Fifth Wave by providing clear divergence and the Oscillator pulled back to zero *(base-line)* in between. The Elliott Oscillator is part of the software.



C. Use a DMA *(Displaced Moving Average)* to sell on a crossover. The DMA is a simple moving average displaced or shifted to the right. As long as the momentum in the market continues, the DMA stays out of the way. When the price tops out in Wave Five, it eventually breaks *(crosses)* the DMA. This provides a confirmation to enter a position. This also provides a defined stop above the highs.

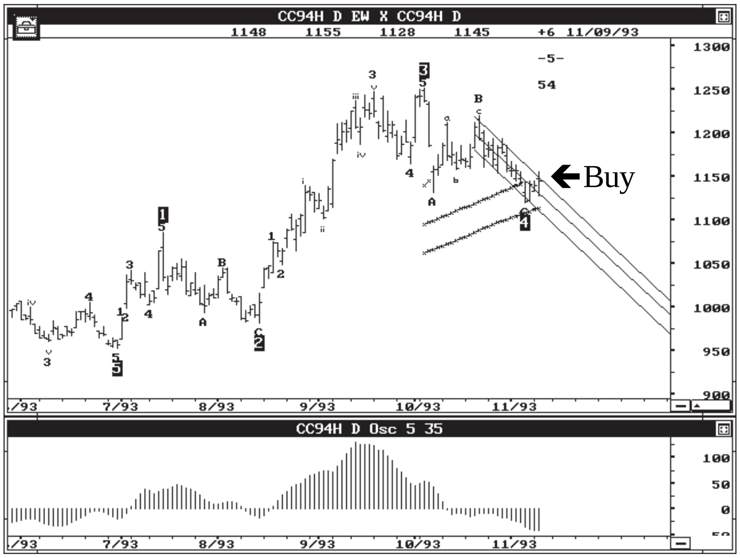
D. Place stop above previous high.

(DMA) *stands for* ***D****isplaced* ***M****oving* ***A****verage. Our software automatically calculates this for you.*

The Reverse Logic Applies For A Declining Five Wave Sequence.

Mechanical Trade Setup

The Advanced GET computerized Elliott Wave model can be used to set up a mechanical trading approach.



MECHANICAL TRADE #1

The Type 1 Trade is used for buying at the end of a fourth wave retracement.

◎ Wait for the oscillator to pull back to zero. Historically, this happens 94% of the time in wave four retracements.

◎ Make sure the Profit Taking Index *(PTI)* is greater than 35. A PTI greater than 35 indicates a high probability of new highs in Wave Five.

◎ When prices break the Trend Regression channel or the DMA, buy the market for a wave five rally.

MECHANICAL TRADE #2

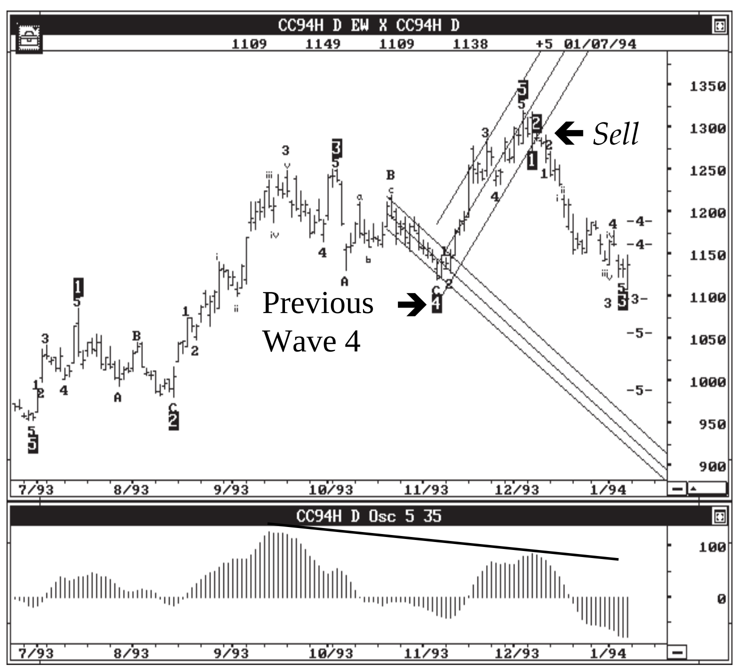
The Type 2 Trade is used for selling at the end of a fifth wave rally.

◎ When Wave Five makes new highs, make sure the Elliott Oscillator shows divergence with its Wave Three peak.

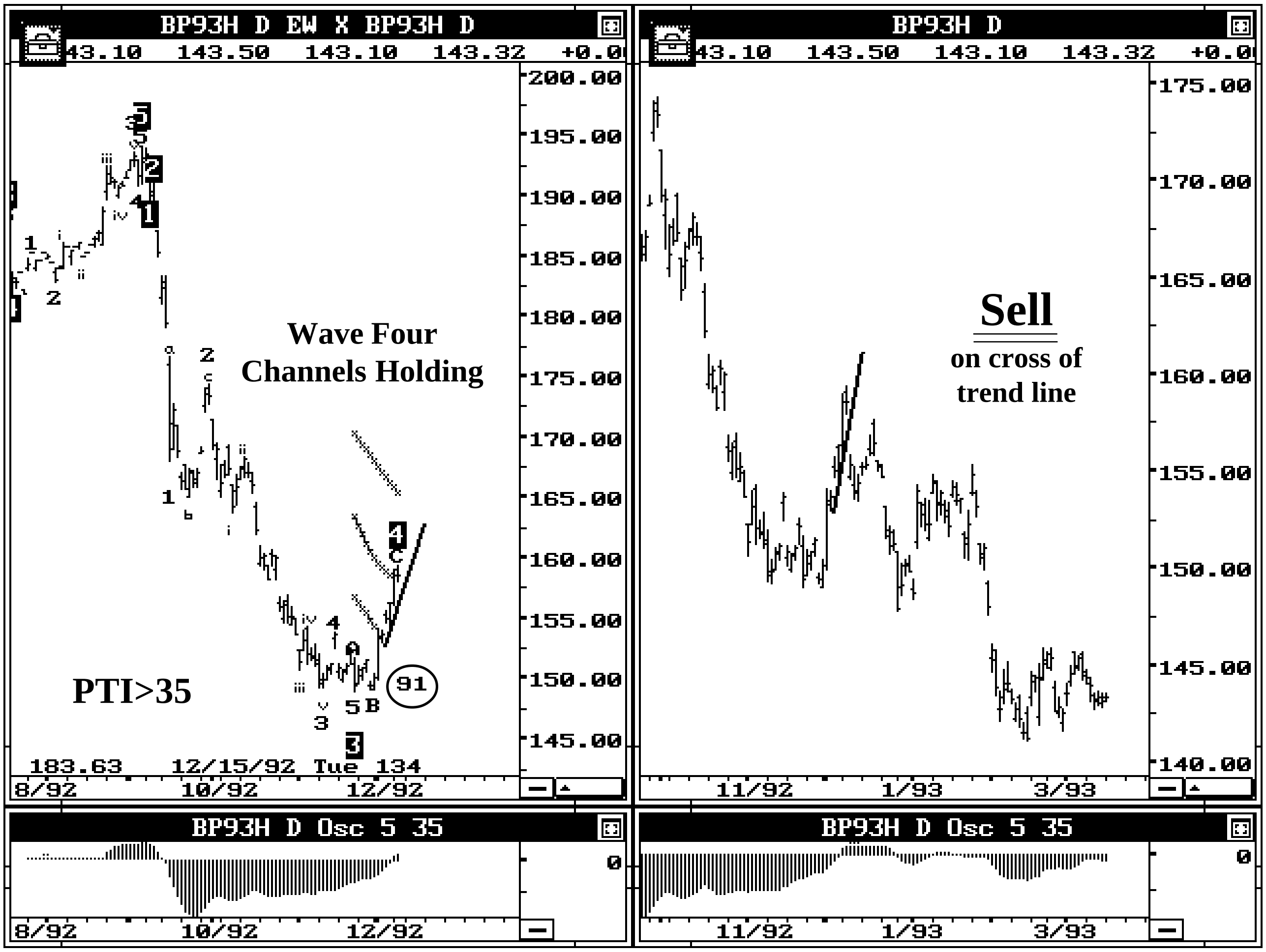
◎ When five waves are complete, the market changes trend. Wait for the price to cross the channels.

◎ When prices break the Trend Regression channels or the DMA, sell the market.

◎ The initial target is the previous Wave Four.



Type One Sell - March 93 British Pound



① The software labels the rally as a Wave 4 Retracement and the Elliott oscillator has pulled back to zero.

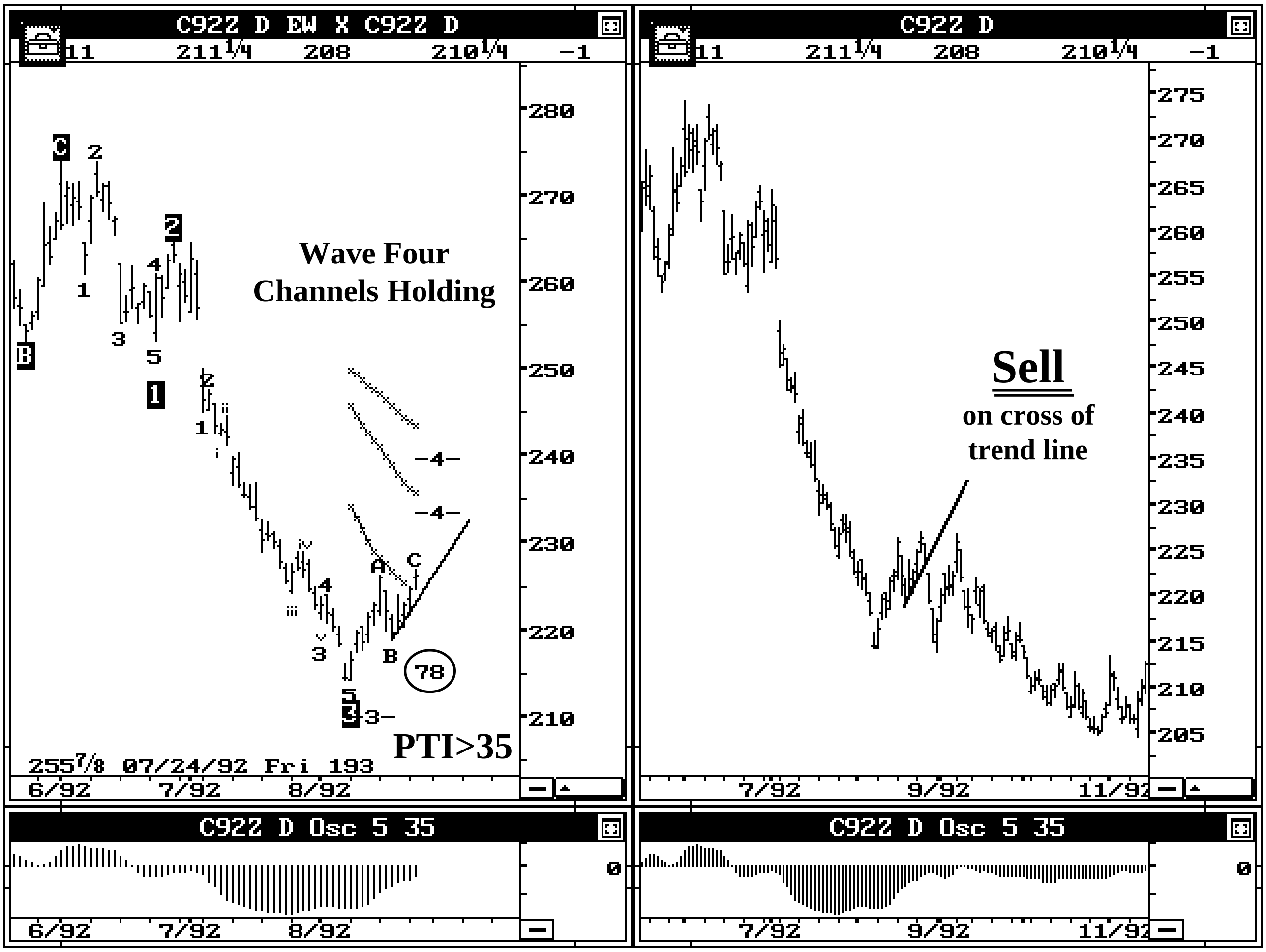
② Profit Taking Index (**PTI**) is at 91 *(greater than 35)*.

③ Wave Four *(Time)* Channels are holding prices.

④ Statistical tendency for market to decline to new lows is very great.

⑤ **Conclusion: SELL on cross of trend line**.

Type One Sell - December 92 Corn



① The software labels the rally as a Wave 4 Retracement and the Elliott oscillator has pulled back to zero.

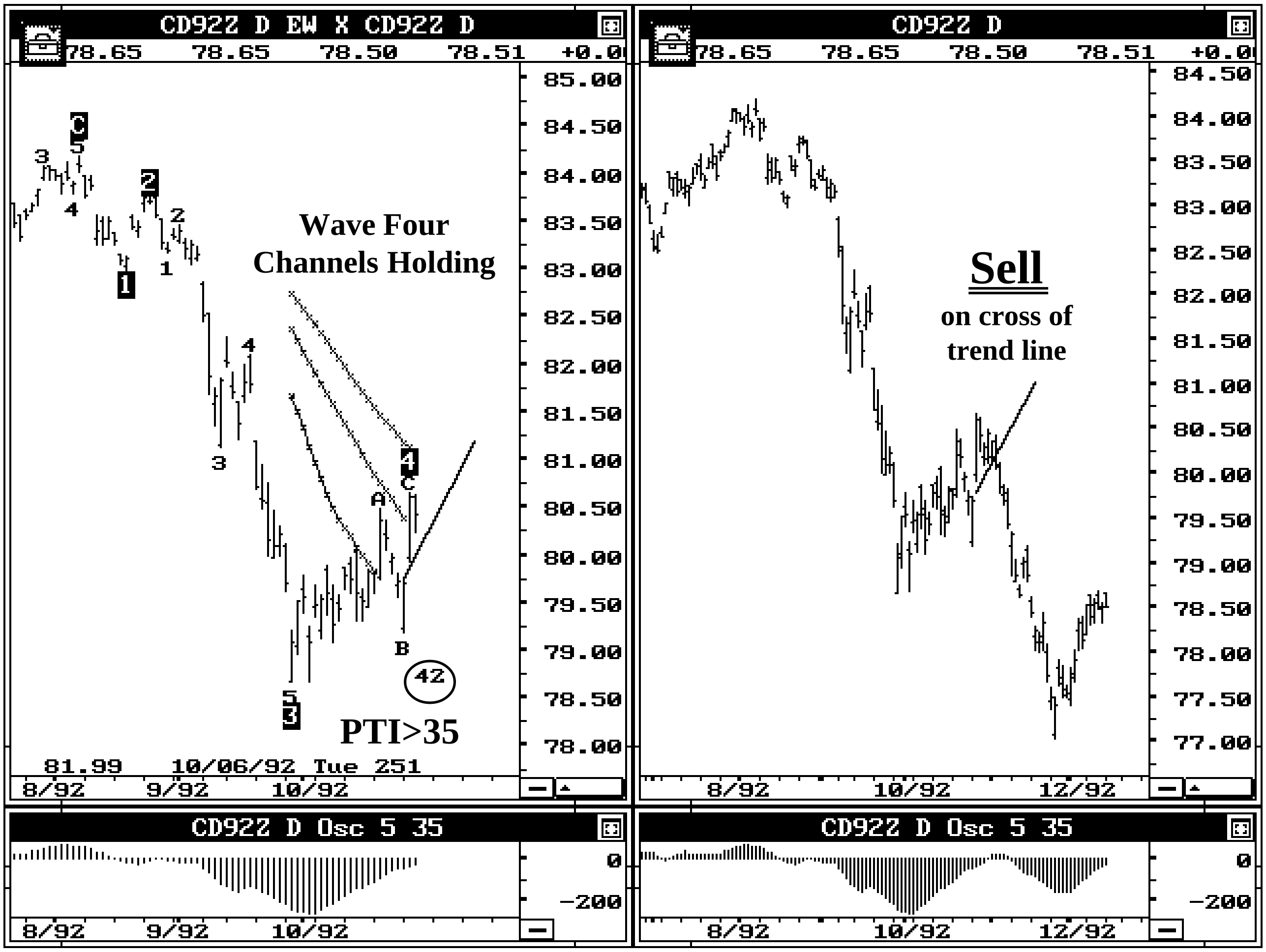
② Profit Taking Index (**PTI**) is at 78 *(greater than 35)*.

③ Wave Four *(Time)* Channels are holding prices.

④ Statistical tendency for market to decline to new lows is very great.

⑤ **Conclusion: SELL on cross of trend line.**

Type One Sell - December 92 Canadian Dollar



① The software labels the rally as a Wave 4 Retracement and the Elliott oscillator has pulled back to zero.

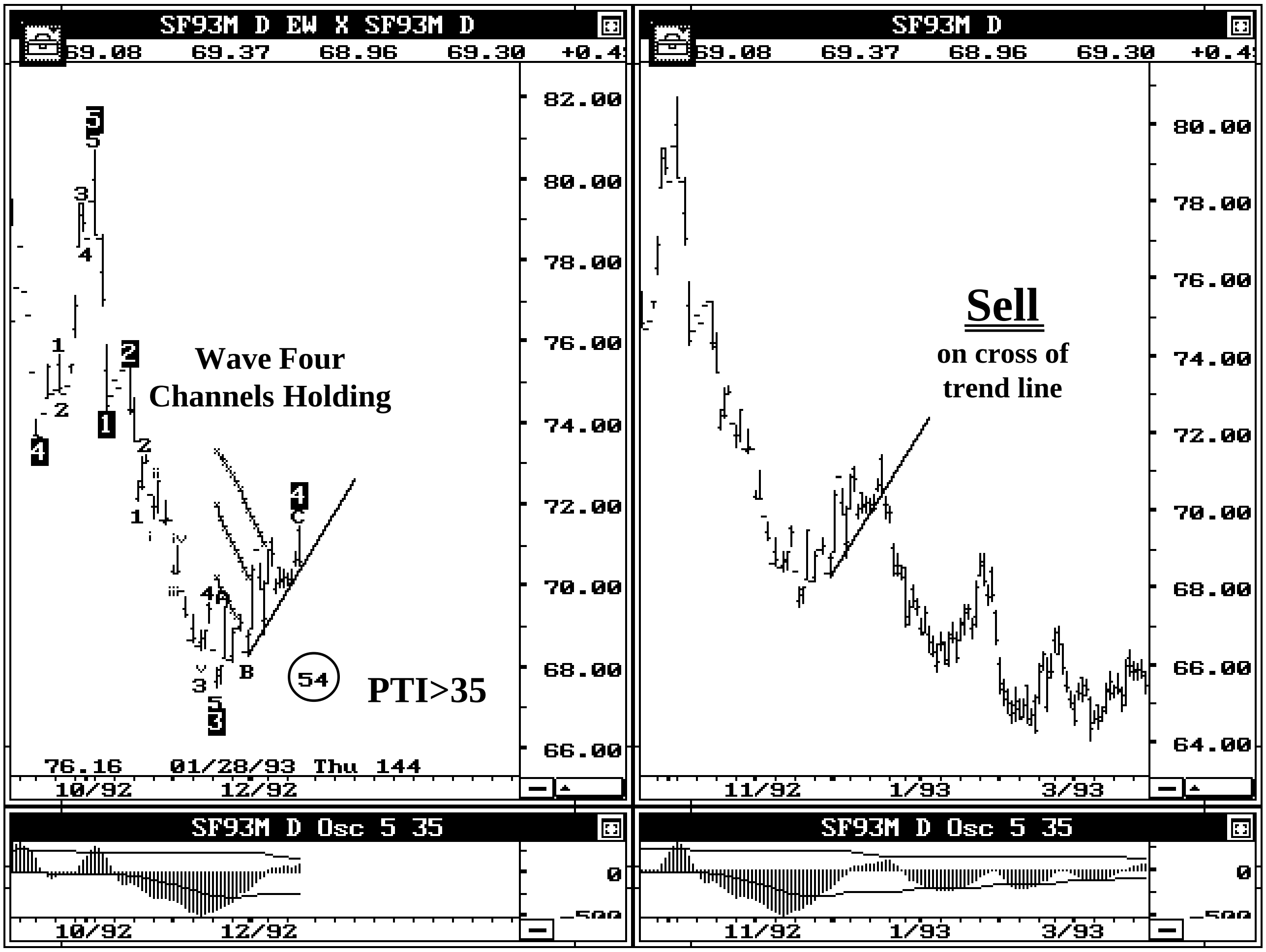
② Profit Taking Index (**PTI**) is at 42 *(greater than 35)*.

③ Wave Four *(Time)* Channels are holding prices.

④ Statistical tendency for market to decline to new lows is very great.

⑤ **Conclusion: SELL on cross of trend line.**

Type One Sell - June 93 Swiss Franc



① The software labels the rally as a Wave 4 Retracement and the Elliott oscillator has pulled back to zero.

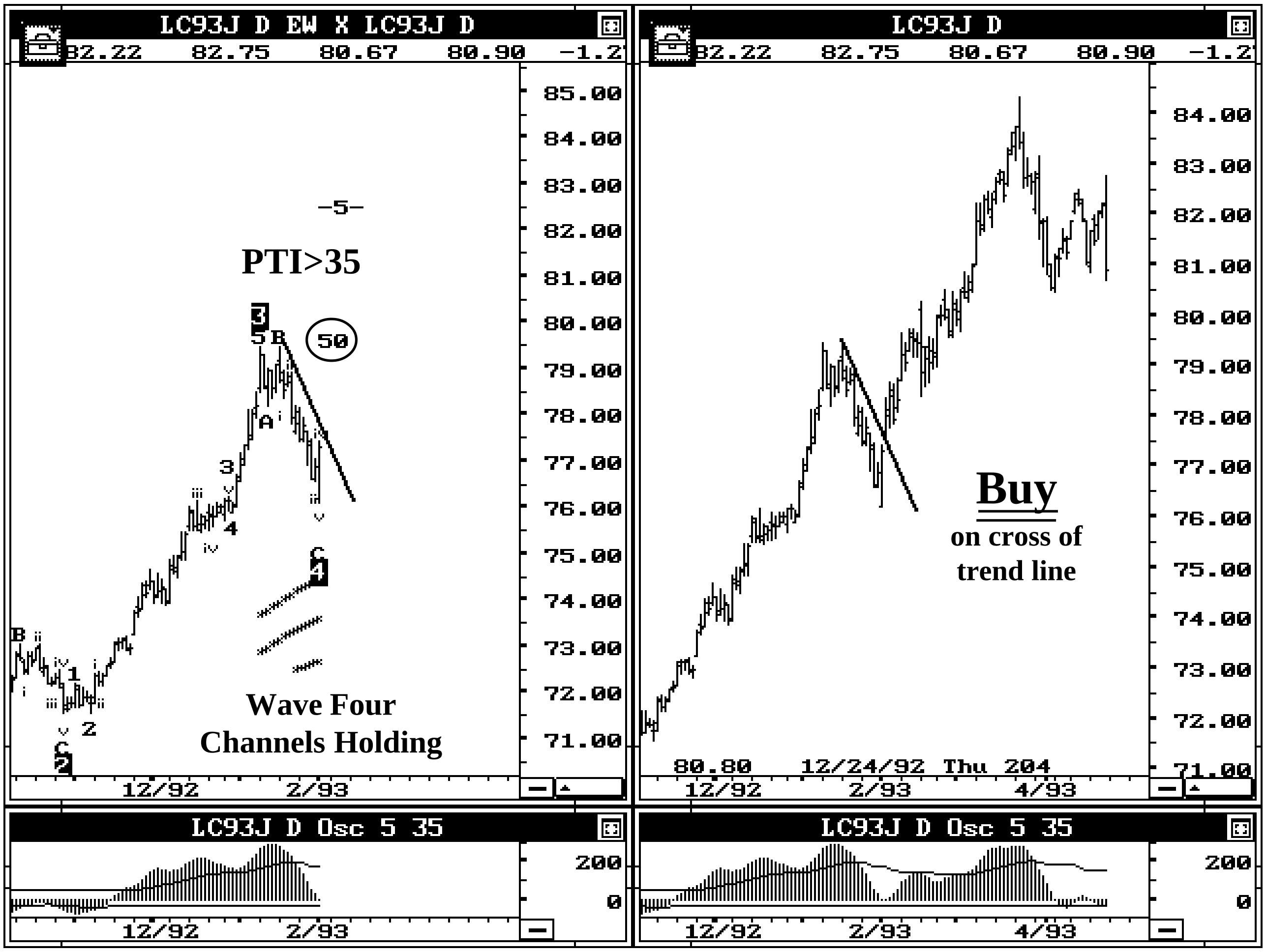
② Profit Taking Index (**PTI**) is at 54 *(greater than 35)*.

③ Wave Four *(Time)* Channels are holding prices.

④ Statistical tendency for market to decline to new lows is very great.

⑤ **Conclusion: SELL on cross of trend line.**

Type One Buy - April 93 Live Cattle



① The software labels the rally as a Wave 4 Retracement and the Elliott oscillator has pulled back to zero.

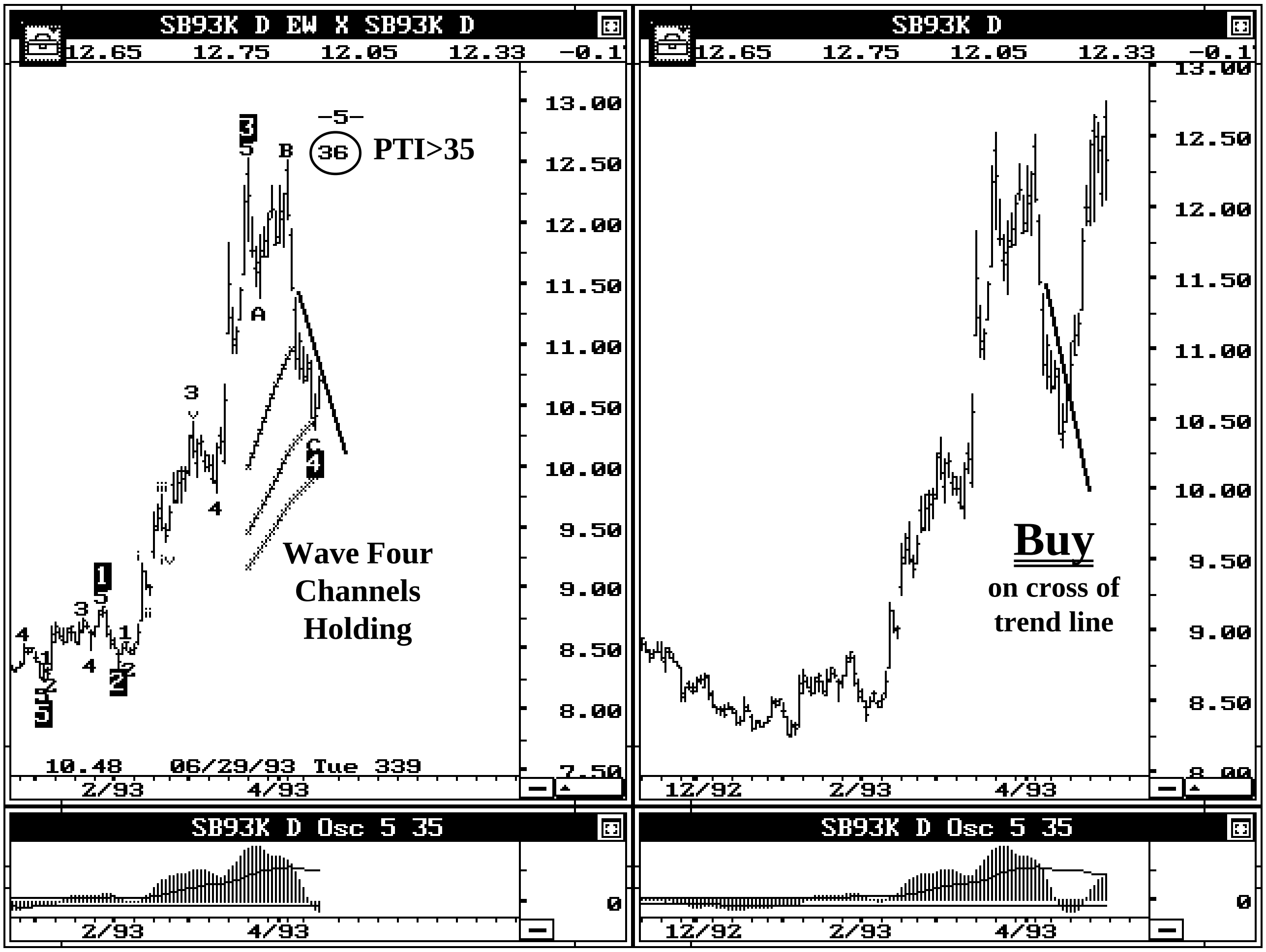
② Profit Taking Index (**PTI**) is at 50 *(greater than 35)*.

③ Wave Four *(Time)* Channels are holding prices.

④ Statistical tendency for market to rally to new highs is very great.

⑤ **Conclusion: BUY on cross of trend line.**

Type One Buy - May 93 Sugar



① The software labels the rally as a Wave 4 Retracement and the Elliott oscillator has pulled back to zero.

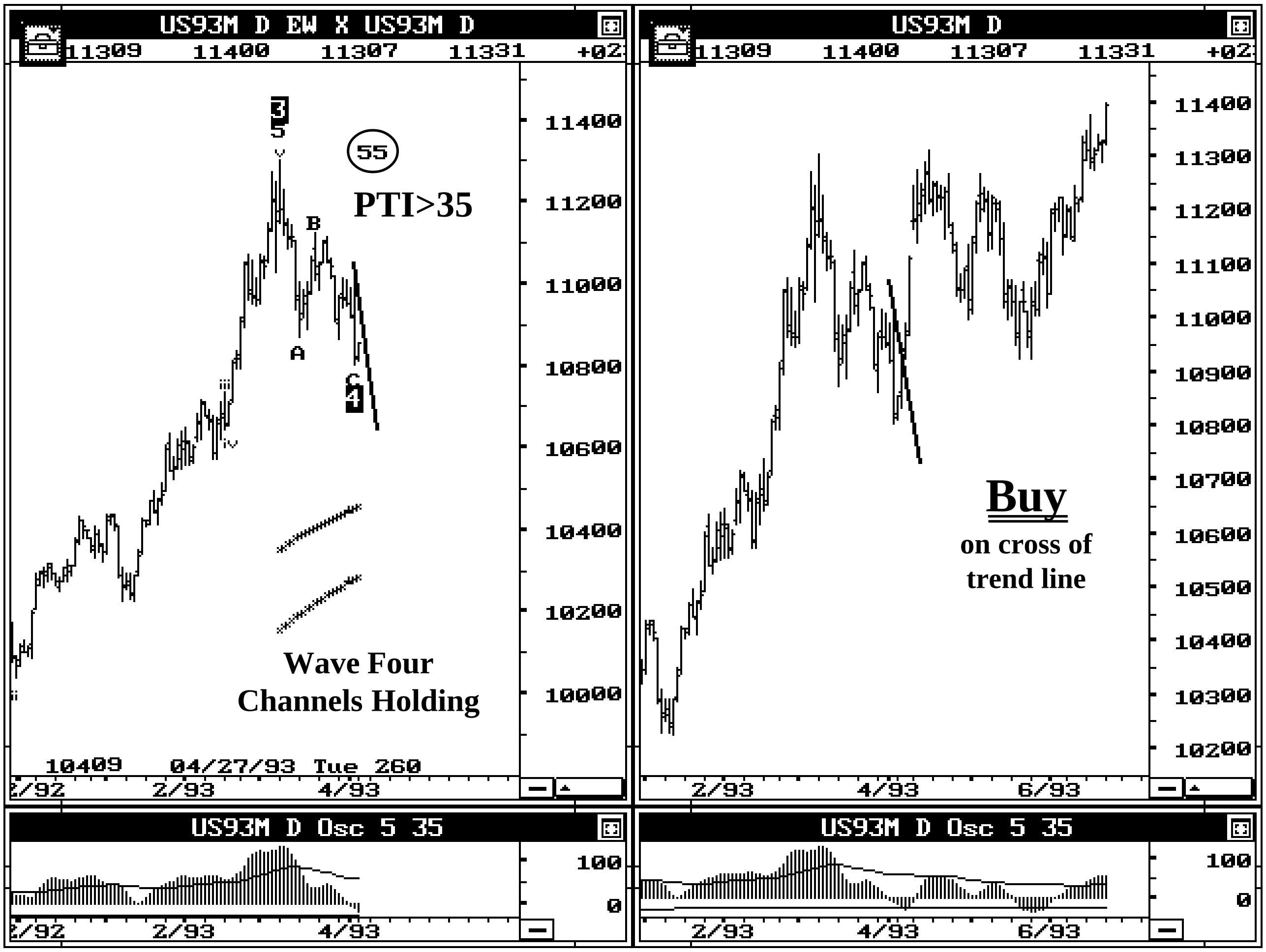
② Profit Taking Index (**PTI**) is at 36 *(greater than 35)*.

③ Wave Four *(Time)* Channels are holding prices.

④ Statistical tendency for market to rally to new highs is very great.

⑤ **Conclusion: BUY on cross of trend line.**

Type One Buy - June 93 T Bonds



① The software labels the rally as a Wave 4 Retracement and the Elliott oscillator has pulled back to zero.

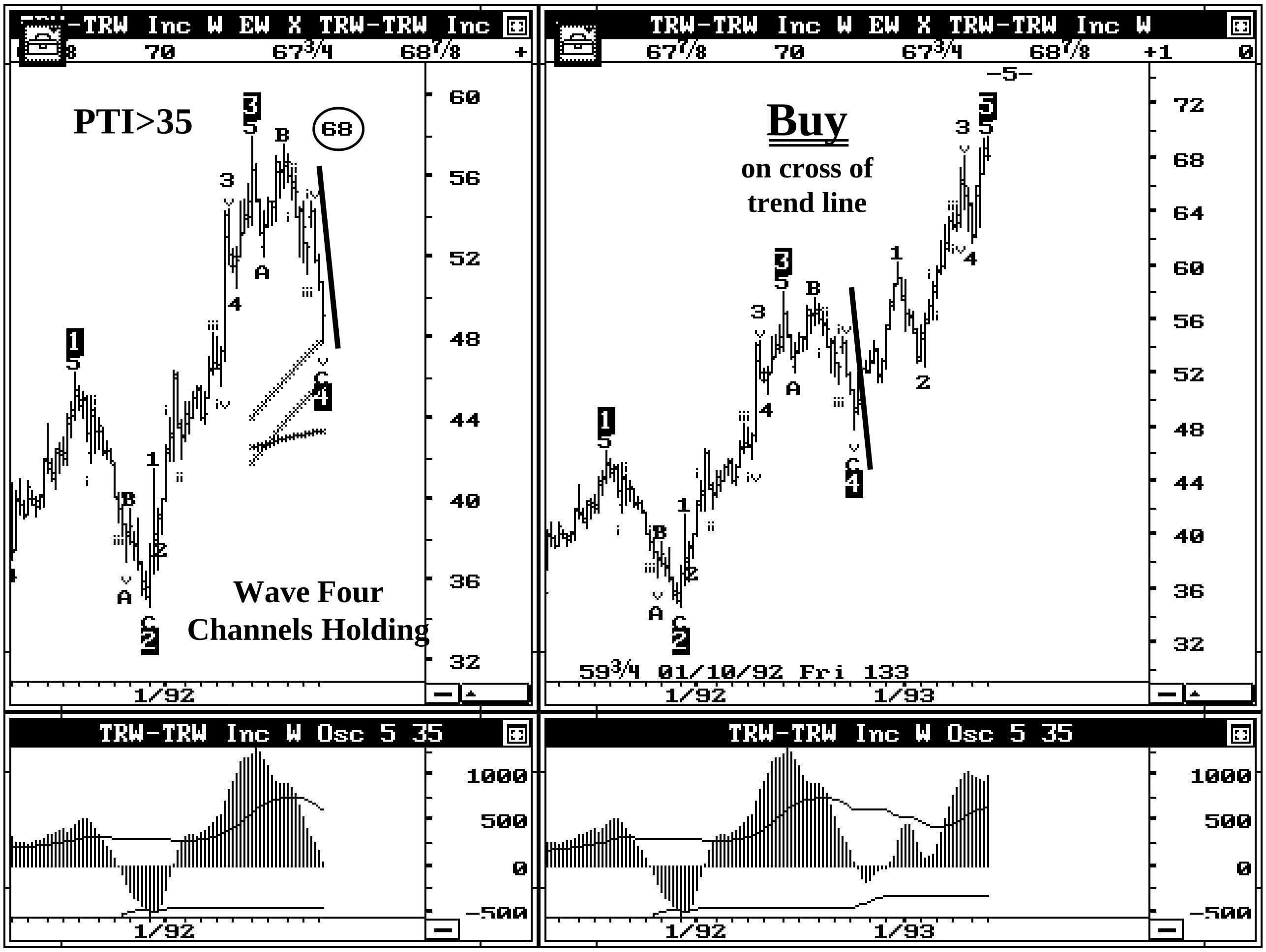
② Profit Taking Index (**PTI**) is at 55 *(greater than 35)*.

③ Wave Four *(Time)* Channels are holding prices.

④ Statistical tendency for market to rally to new highs is very great.

⑤ **Conclusion: BUY on cross of trend line.**

Type One Buy - TRW Stock *(Weekly Chart)*



① The software labels the rally as a Wave 4 Retracement and the Elliott oscillator has pulled back to zero.

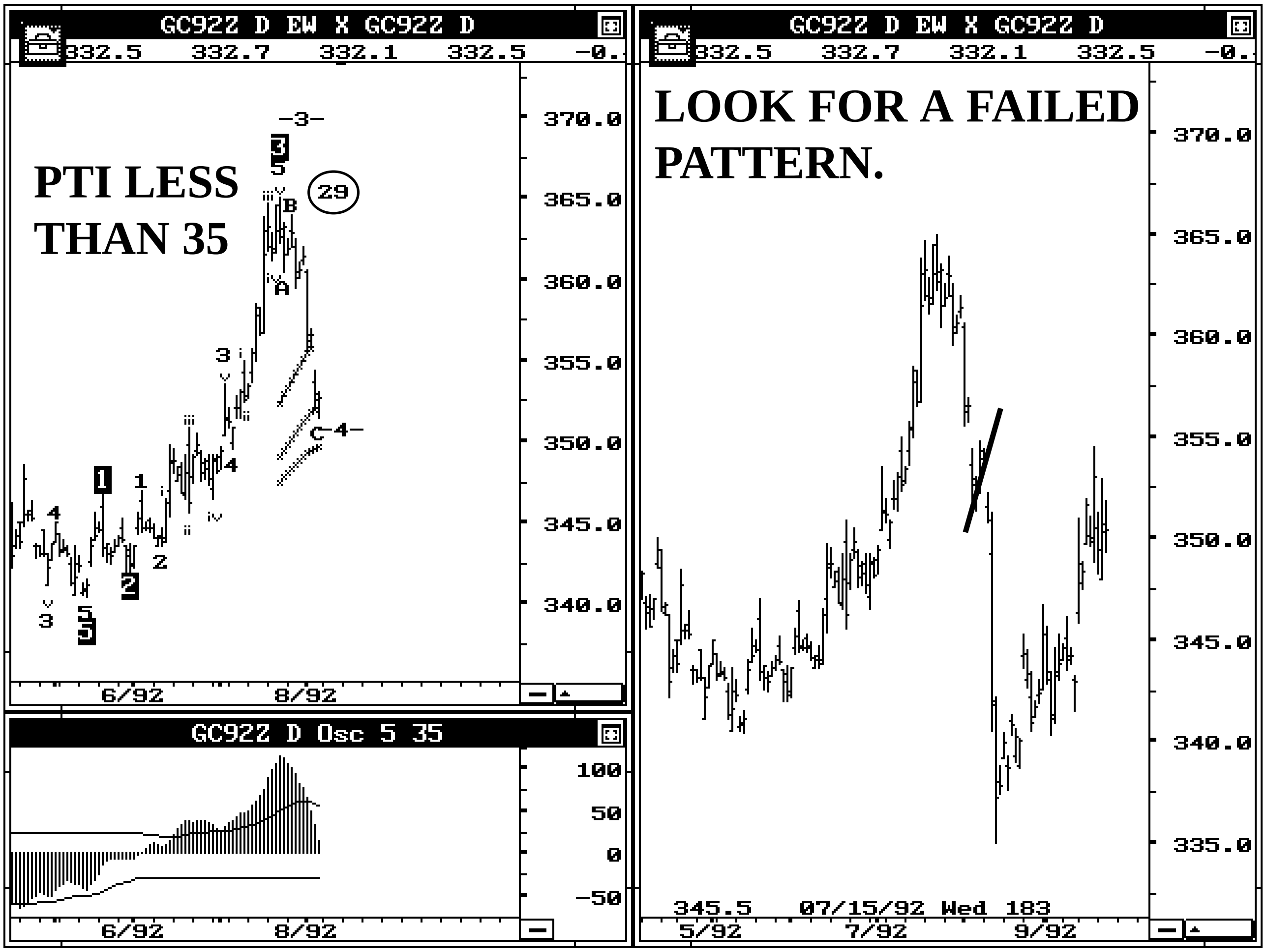
② Profit Taking Index (**PTI**) is at 68 *(greater than 35)*.

③ Wave Four *(Time)* Channels are holding prices.

④ Statistical tendency for market to rally to new highs is very great.

⑤ **Conclusion: BUY on cross of trend line.**

December 92 Gold - FAILED PATTERN



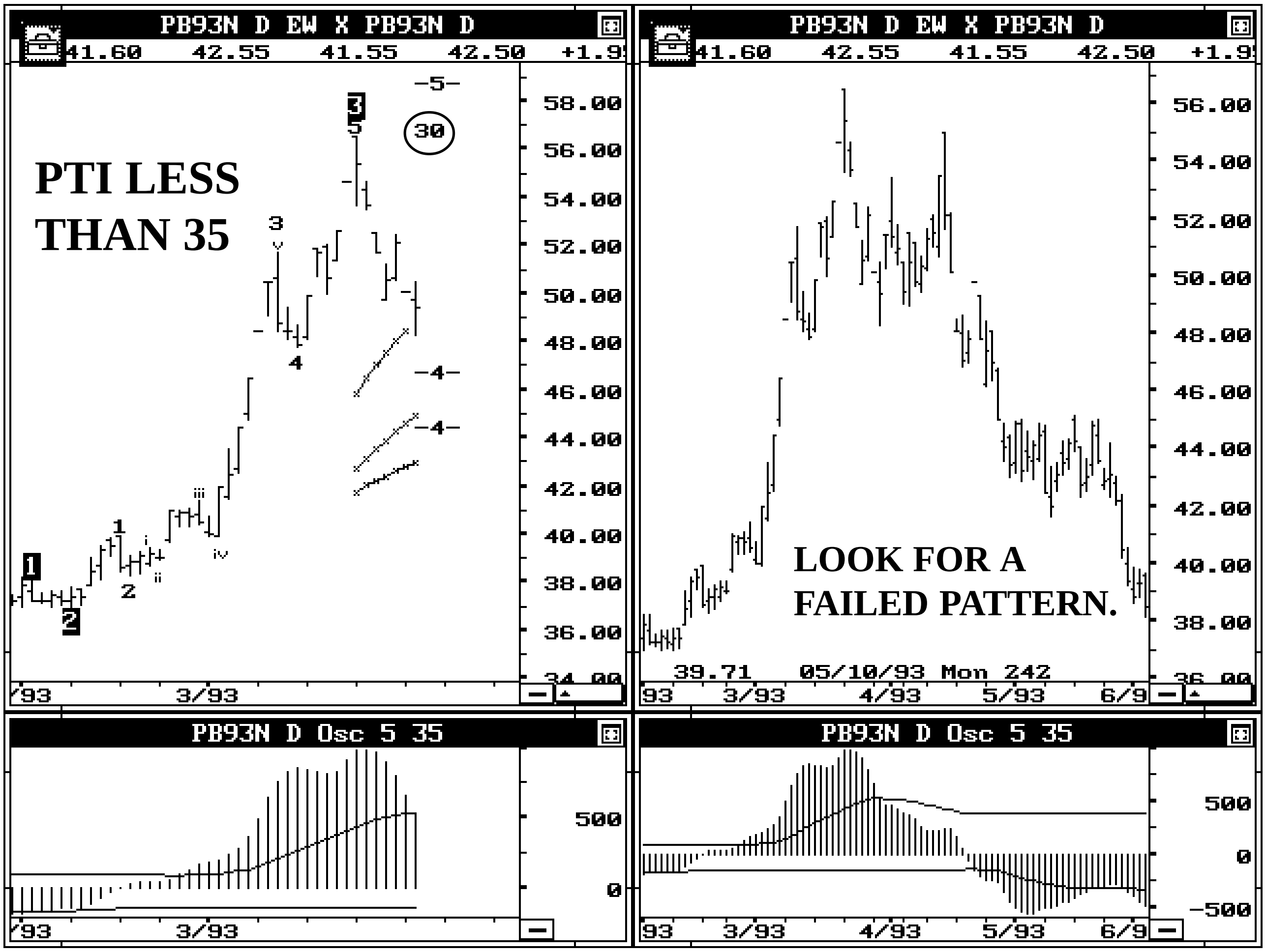
① The software labels the pattern as a Wave 4 Retracement and the Elliott oscillator has pulled back to zero.

② However, the Profit Taking Index (**PTI**) is at **29 (less than 35)**

③ Statistical tendency is for the current Wave Pattern to develop incorrectly as the market progresses.

④ **Conclusion: Do not BUY. Market will either Double Top or continue to decline.**

July 93 PORK BELLIES - FAILED PATTERN



① The software labels the rally as a Wave 4 Retracement.

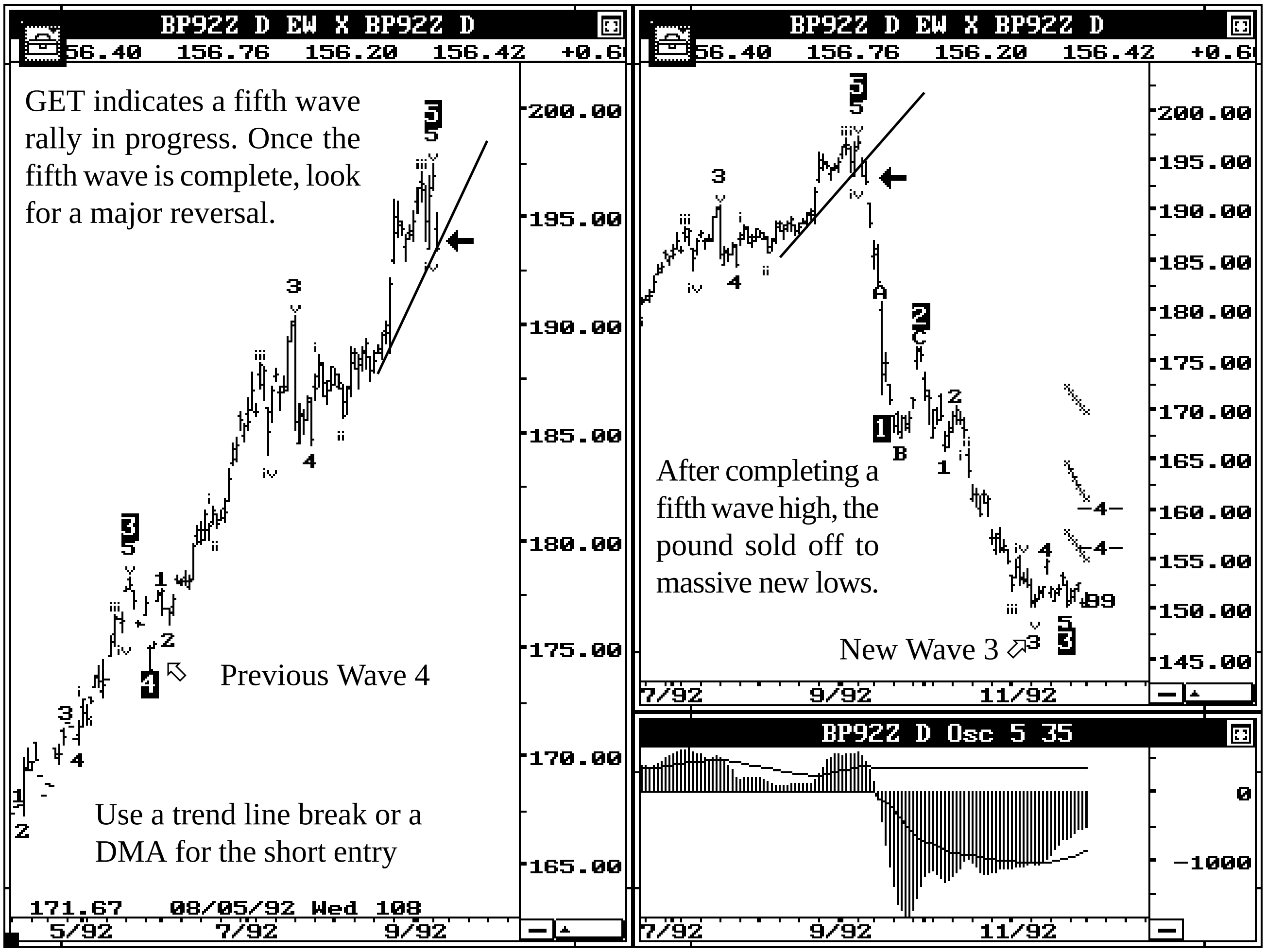
② However, the Profit Taking Index (**PTI**) is at **30** **(less than 35)**

③ Statistical tendency is for the current Wave Pattern to develop incorrectly as the market progresses.

④ **Conclusion: Do not BUY. Market will either Double Top or continue to decline.**

Type Two Sell in Dec 92 British Pound

- The software identifies an extended Fifth Wave Rally.
- Use the break of a trend line or a Displaced Moving Average ***(DMA)*** to enter a short position with a stop above the high.

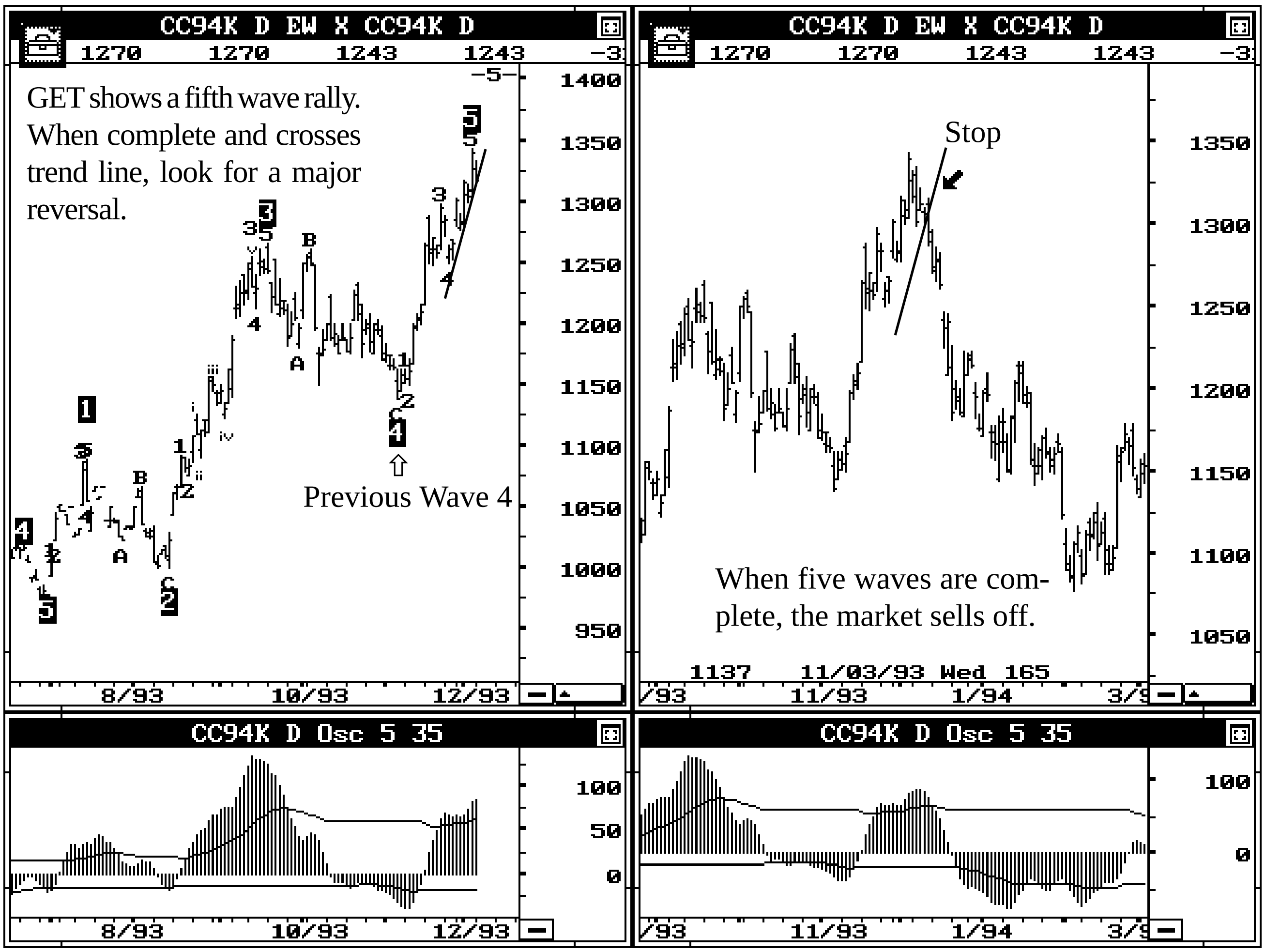


- The first target is the previous Wave Four low at 175.00.
- When prices trade to the previous Wave Four, the stops need to be tightened.
- From this point on, one should monitor the software generated Elliott Wave count for a new Wave Three in the same direction.

Type Two Sell in May 94 Cocoa

- The software identifies a Fifth Wave High.

- Use the break of a trend line or a Displaced Moving Average ***(DMA)*** to enter a short position with a stop above the high.



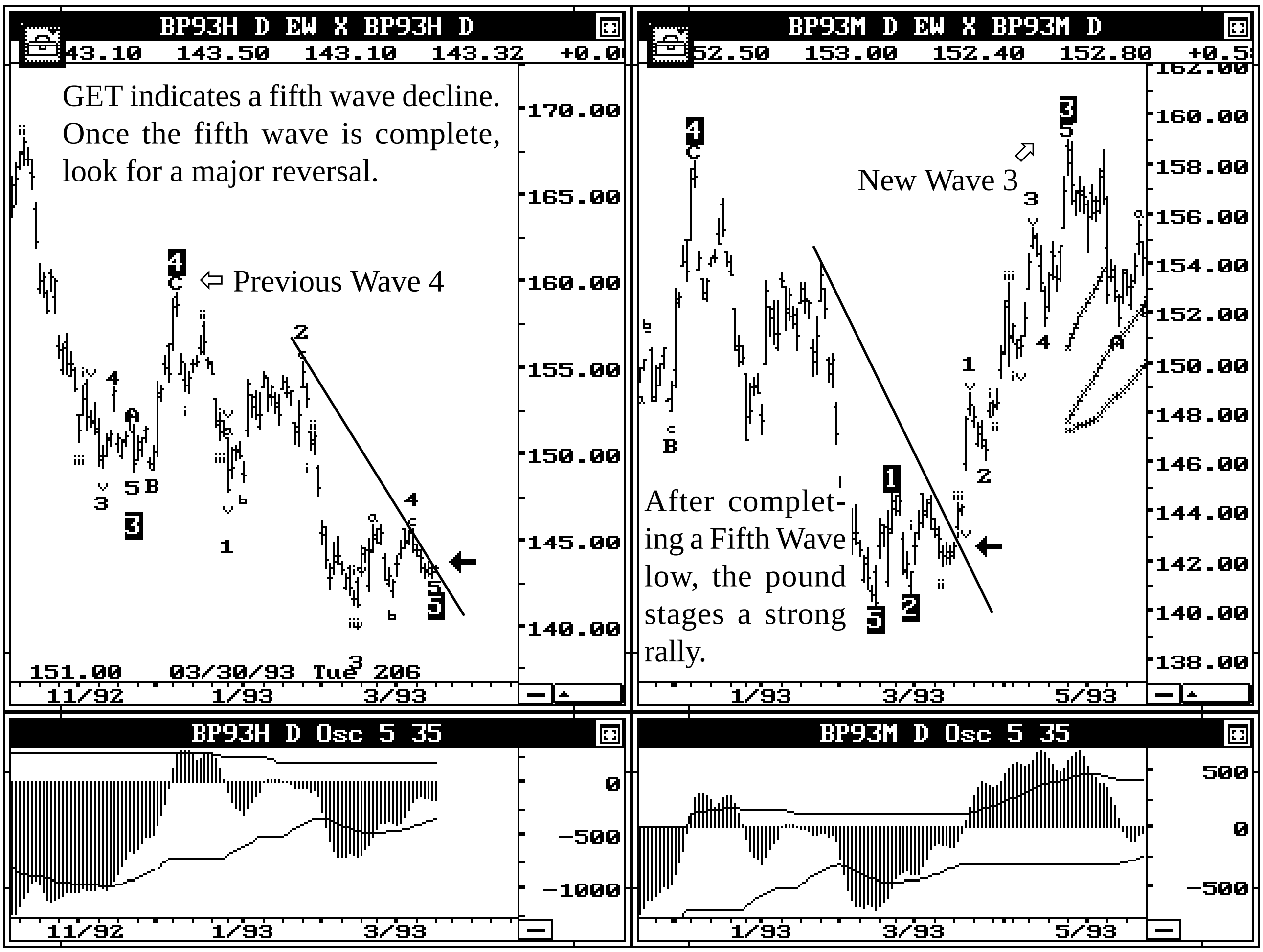
- The first target is the previous Wave Four low near 1150.

- When prices trade to the previous Wave Four, the stops need to be tightened.

Type Two Buy in Mar 93 British Pound

⊙ The software identifies a Fifth Wave low.

⊙ Use the break of a trend line or a Displaced Moving Average ***(DMA)*** to enter a long position with a stop below the low.



⊙ The first target is the previous Wave Four high at 160.00.

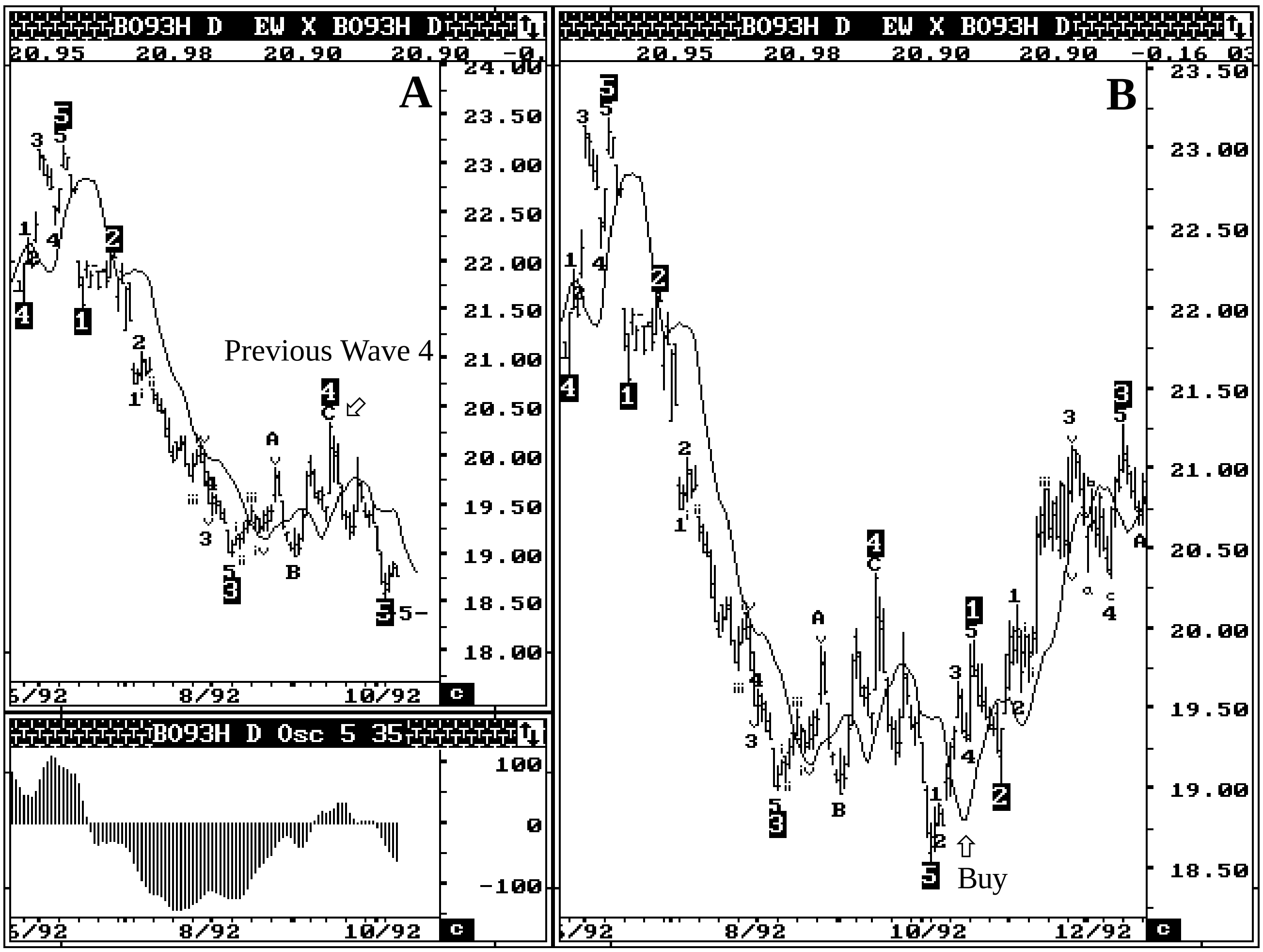
⊙ When prices trade to the previous Wave Four, the stops need to be tightened.

⊙ From this point on, one should monitor the software generated Elliott Wave count for a new Wave Three in the same direction.

Type Two Buy in March 93 Bean Oil

- Chart A shows the software generated Wave count. A Five Wave sequence is complete in the March 93 Bean Oil.

- Buy on the cross of the DMA with a stop under the lows.



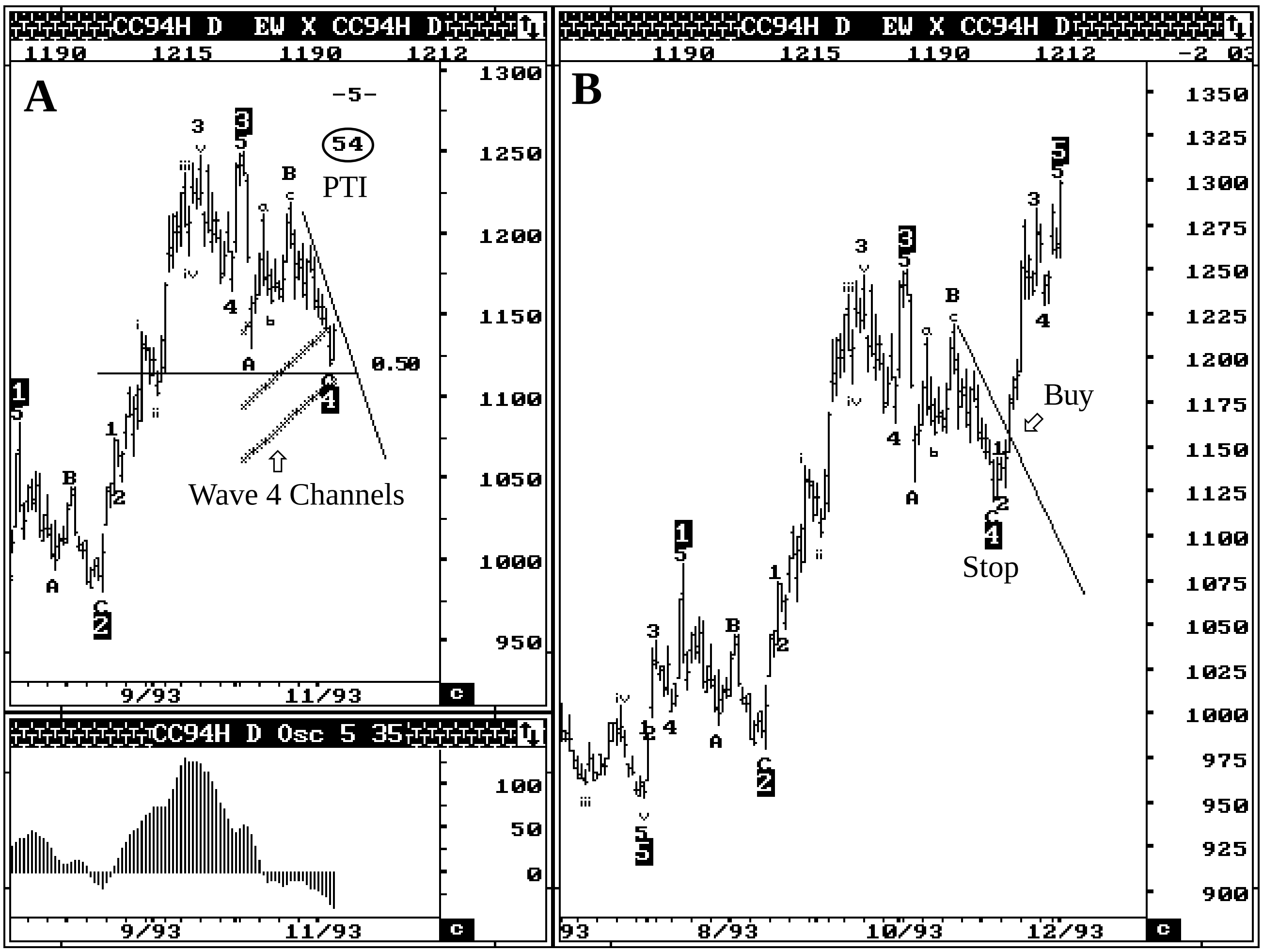
- The first target is the previous Wave Four high near 20.50.

- When prices trade to this target, one should tighten stops or monitor the software generated Elliott Wave counts for a new Wave Three in the same direction.

Type One Buy in March 94 Cocoa

- Chart A shows the end of a Wave Four decline. The Elliott Oscillator has pulled back to zero confirming this.

- The Profit Taking Index is greater than 35 *(at 54)* showing good potential for a rally to a new high.



- The Wave Four channels are holding, confirming a good potential for a new rally.

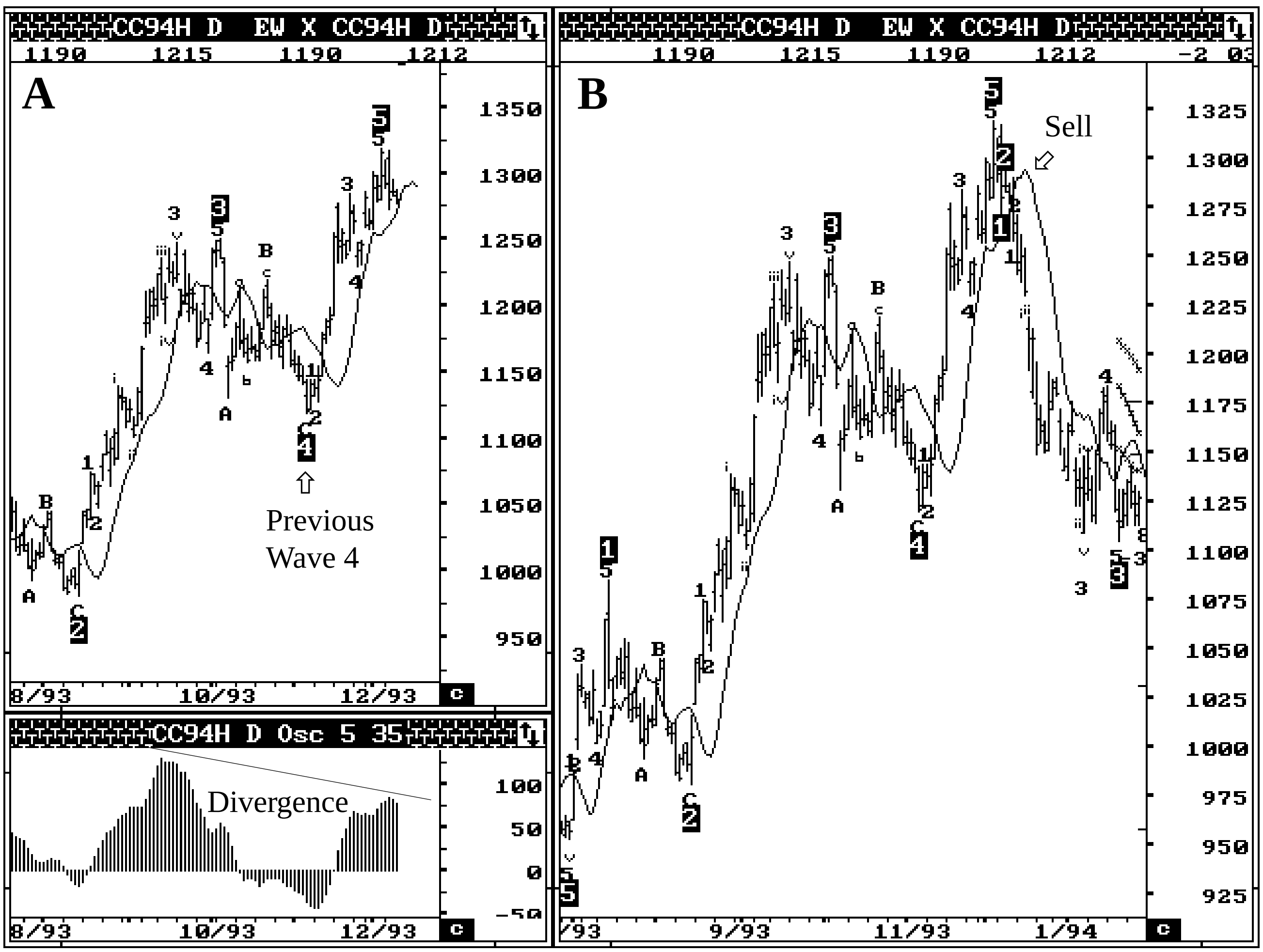
- Buy on the cross of a trend line or DMA *(Displaced Moving Average)* with a stop below the Wave Four low. The target is to new highs above 1250. Software projections are shown with a -5- *(with dashes on either side)*.

- This also sets up a Type Two sell *(seen on next page)*.

Type Two Sell in March 94 Cocoa

⊙ Chart A shows the end of a completed Wave Five Rally.

⊙ The Elliott Oscillator shows clear divergence



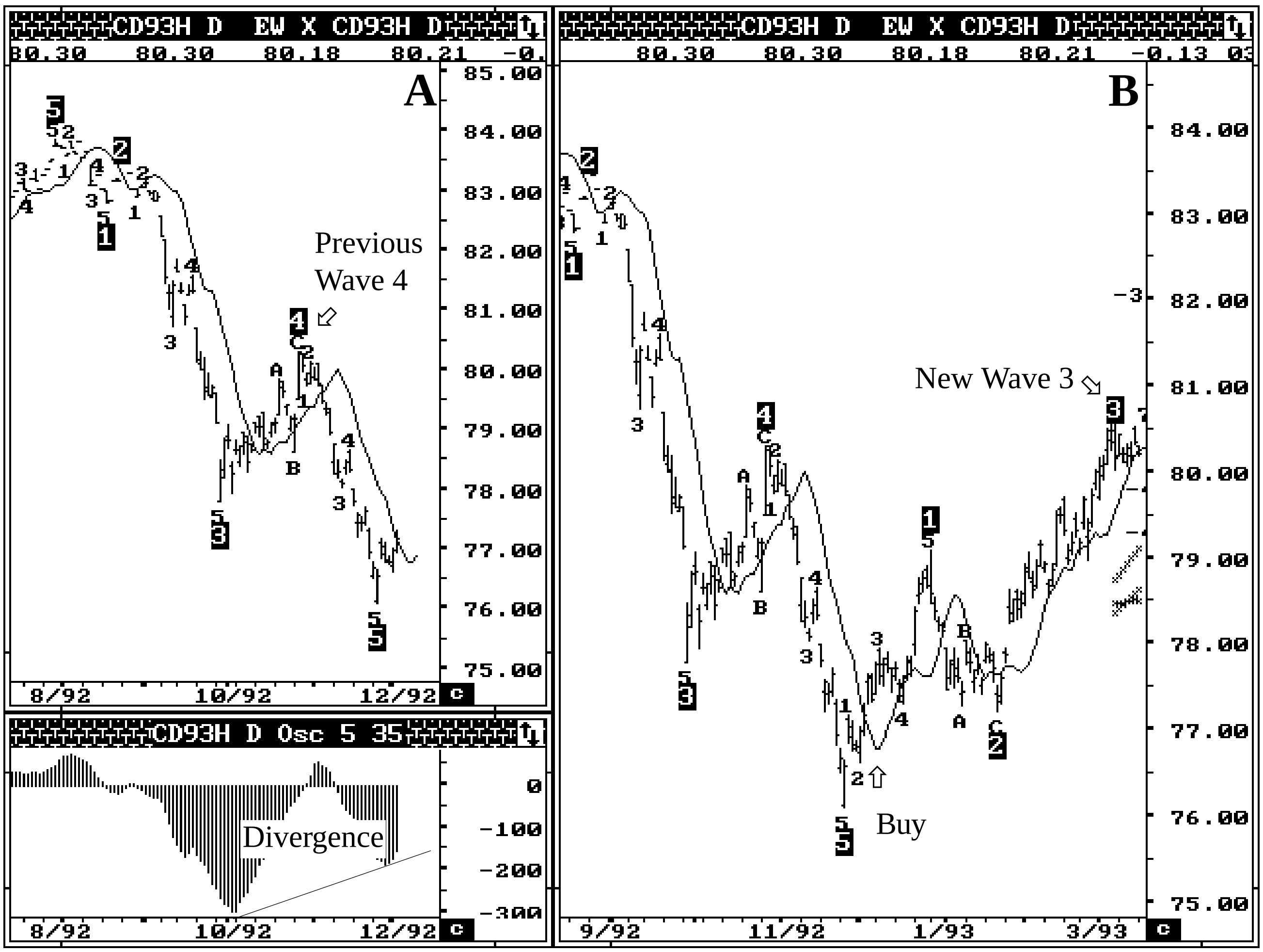
⊙ Sell on the cross of a trend line or DMA *(Displaced Moving Average)* with a stop above the high.

⊙ The first target is the previous Wave Four near the 1110 area.

⊙ Chart B shows the sell point and subsequent action.

Type Two Buy in March 93 Canadian Dollar

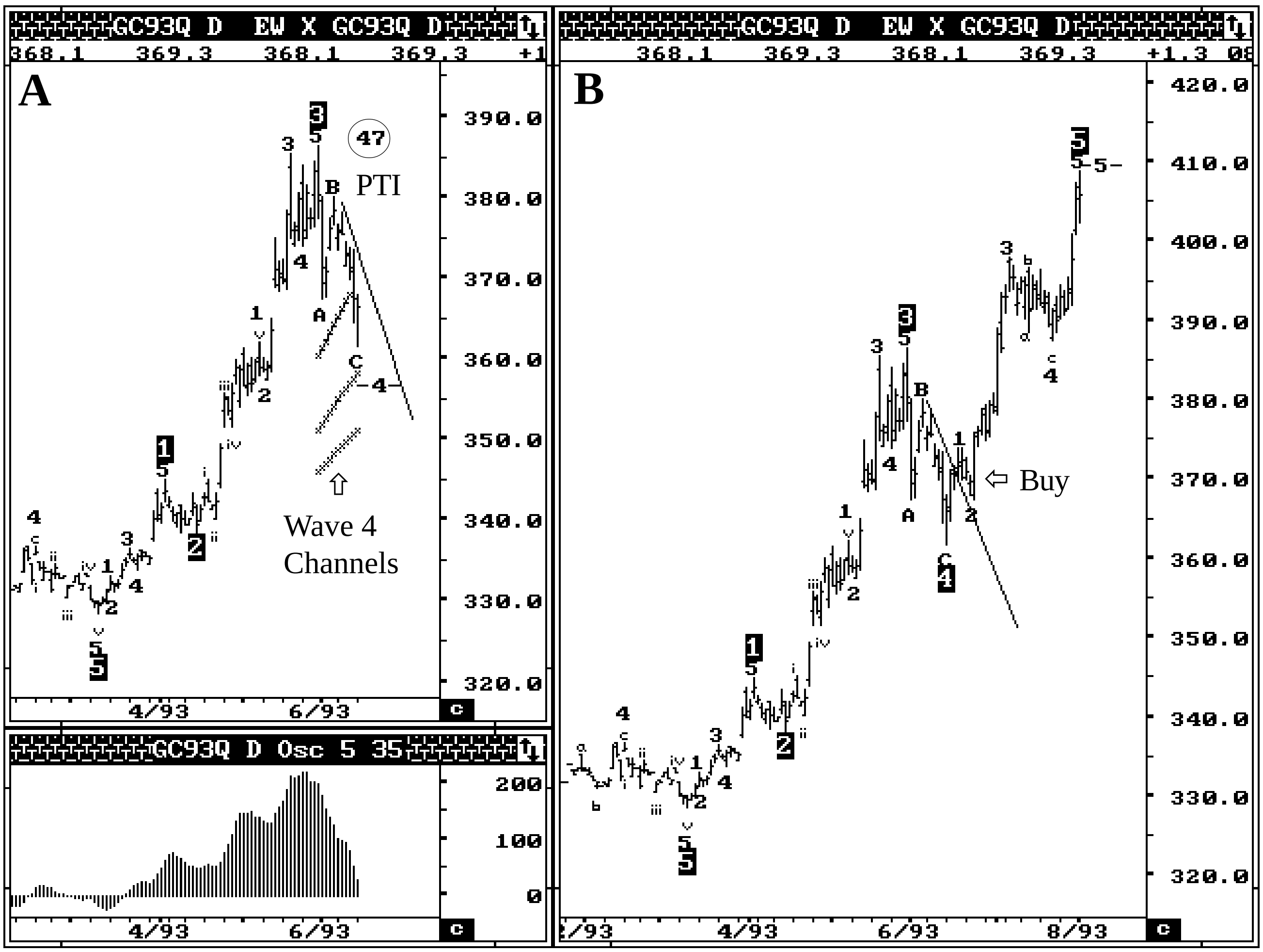
- In chart A, the March 93 Canadian Dollar is completing a Five Wave Decline.
- The Elliott Oscillator shows clean divergence.



- Buy on the cross of a trend line or DMA *(Displaced Moving Average)* with a stop under the lows.
- The first target is the previous Wave Four high near the 80.00 level.
- When prices trade to this level, one can tighten stops and monitor the software generated Elliott Wave counts for a new Wave Three in the same direction.

Type One Buy in August 93 Gold

- ⊙ Chart A shows a completed Wave Four. The Elliott Oscillator confirms this.
- ⊙ The Profit Taking Index is greater than 35 *(at 47)* which indicates a potential for a rally to new highs.



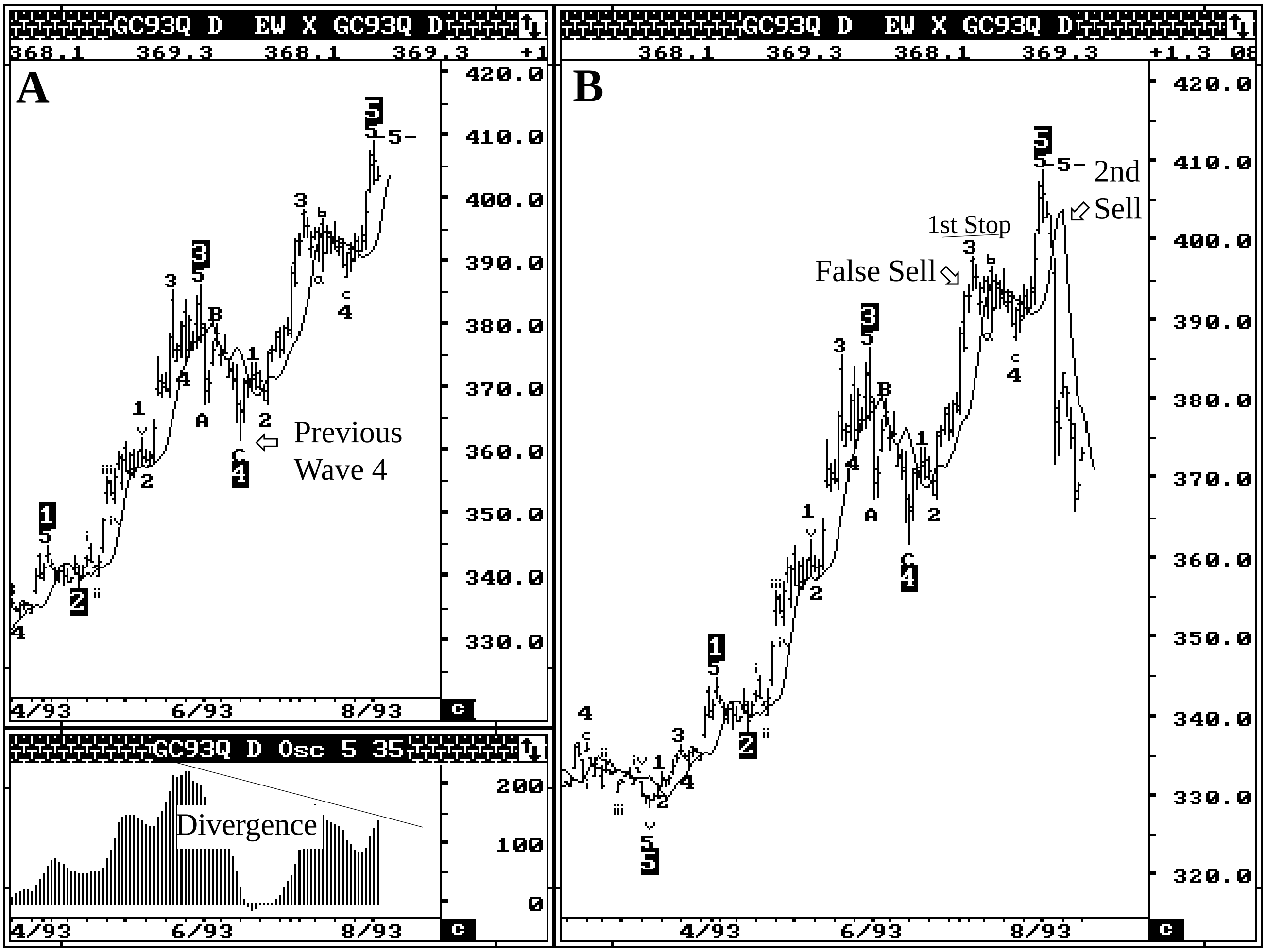
- ⊙ The Wave Four channels are holding prices which further supports the rally potential.
- ⊙ Buy on the cross of a trend line or DMA *(Displaced Moving Average)* with a stop under the Wave Four low. The target is for new highs above the 390.00 level.
- ⊙ This usually sets up a Type Two sell situation *(seen on next page)*.

Type Two Sell in August 93 Gold

(with one FALSE signal)

- Chart A shows a completed Wave Five sequence with the Elliott Oscillator confirming with clean divergence.

- Sell on the cross of the DMA *(Displaced Moving Average)* with a stop above the Wave Five High. The first signal was a false one, and the position was stopped.



- The second sell signal caught the entire decline. Look for the previous Wave Four low near the 360.00 level as the first target.

- The first sell signal was a false signal. This was due to a sub-division or extension in the Fifth Wave.

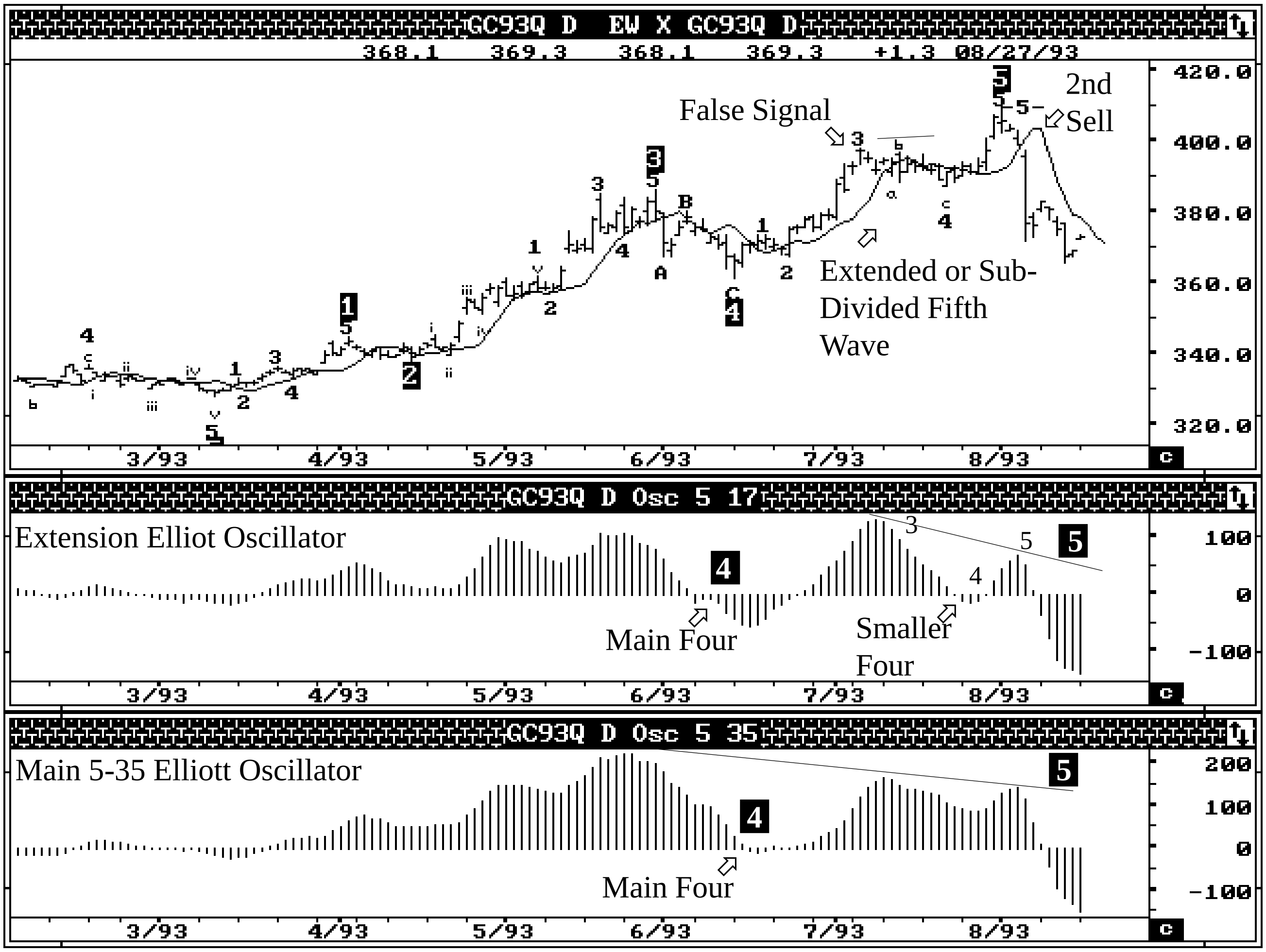
- See the next page on how to handle false signals caused by sub-divisions.

Handling False Type Two Signals

(Caused by sub-divisions or extension in the Fifth Wave)

- The main or normal Elliott Oscillator *(Tom's 5-35)* provides confirmation on the larger degree Five Waves.

- Since the Fifth Wave extended and sub-divided, a false signal was generated on the first sell signal.



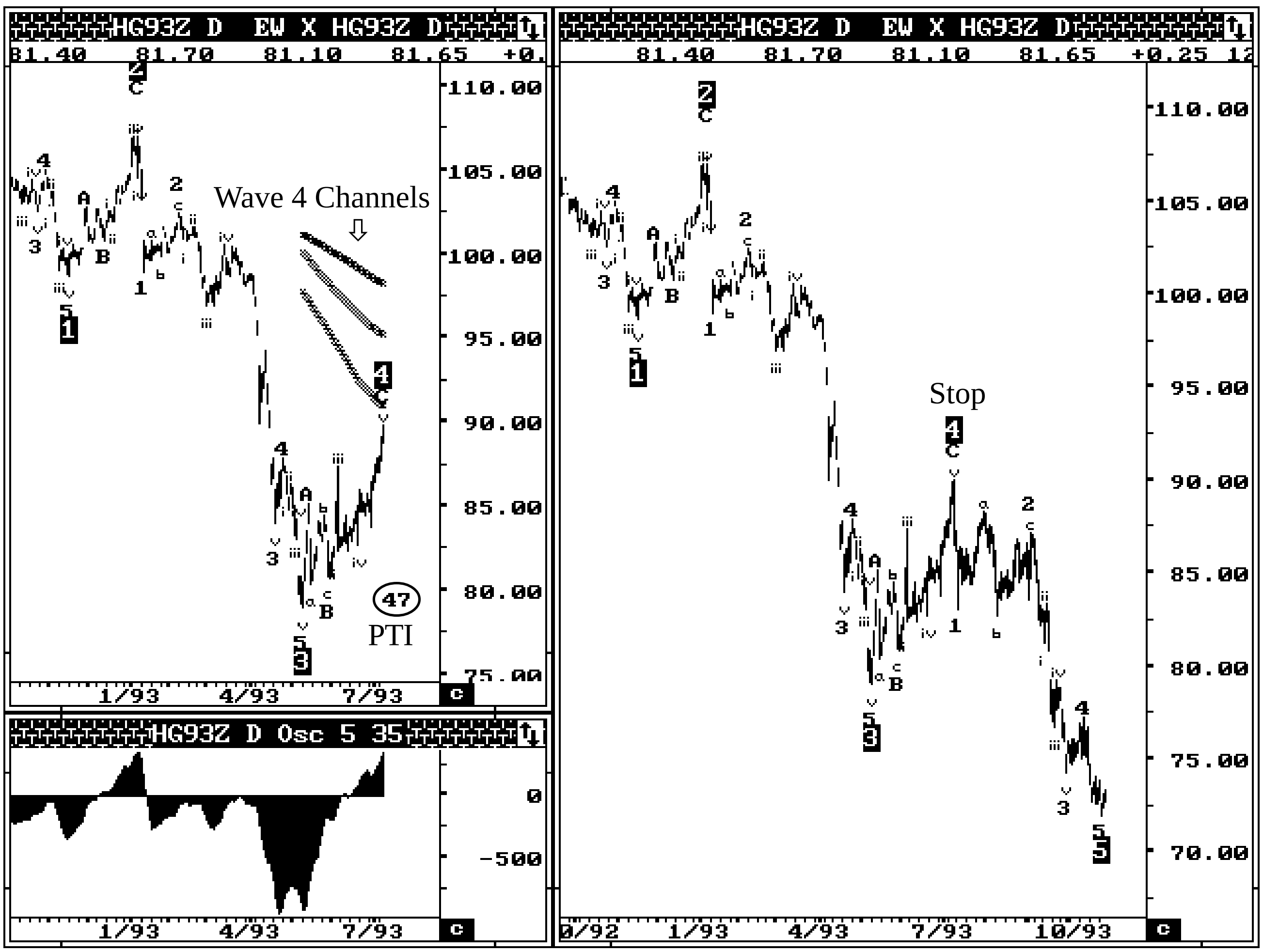
- When you see false signals caused by extended or sub-divided Five Waves, use an Extension Elliott Oscillator *(Tom's Extended Oscillator 5-17)* to see the divergence inside the sub-divided waves.

- The other way is to wait for the software provided price projection before entering the short. The price projection is shown as **-5-** *(a number with a dash on either side)*.

Type One Sell in December 93 Copper

- Chart A shows the December 93 Copper completing a Wave Four rally and the Elliott Oscillator confirms this by trading to zero.

- The Profit Taking Index is greater than 35 *(at 47)* indicating a new low in Wave Five.



- The Wave Four channels are holding prices confirming a new low.

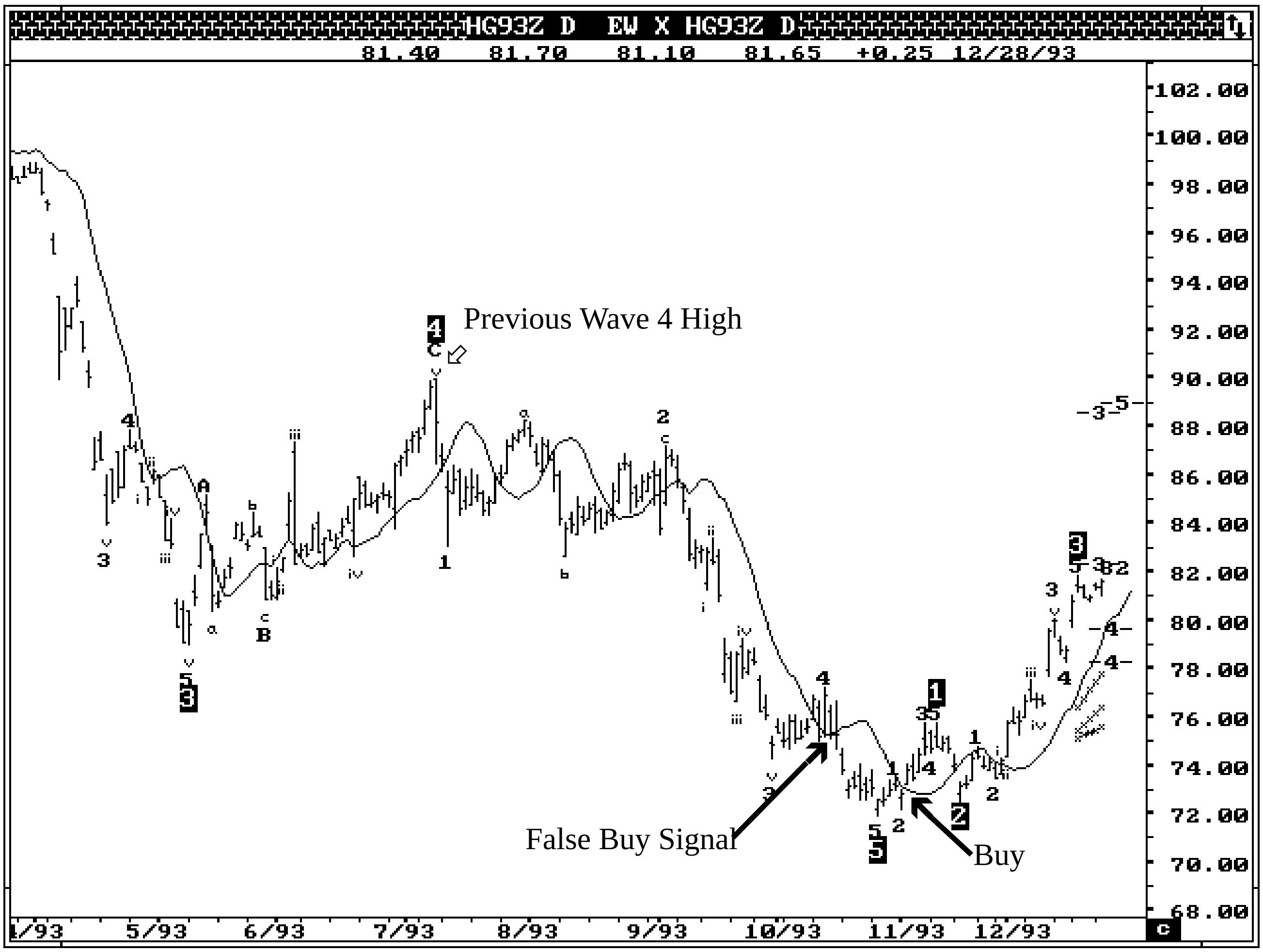
- Sell on the cross of a trend line or a DMA *(Displaced Moving Average)* with a stop above the Wave Four high. The target is for new lows below the 78.00 level.

- This usually sets up a Type Two Buy *(seen on next page)*.

Type Two Buy In Dec 93 Copper

(With FALSE signal caused by sub-division or extension in the Fifth Wave)

- The software shows Dec 93 Copper completing a Five Wave sequence.
- Buy on the cross of the DMA *(Displaced Moving Average)* with a stop under the lows.



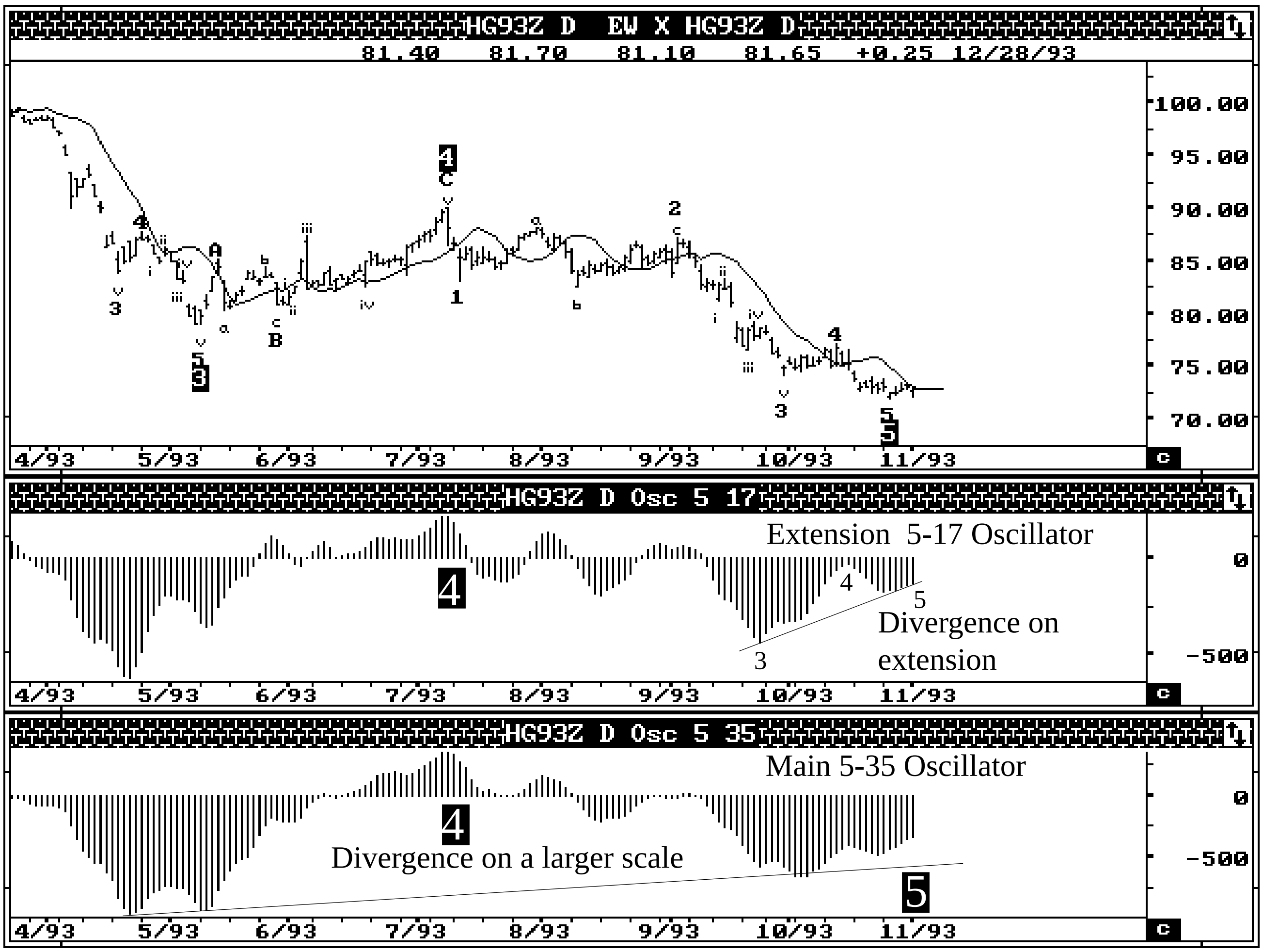
- The first buy signal was a false one and the position was stopped.
- The second buy signal caught the rally. Now look for the previous Four high as the first target.
- The first buy signal was a false signal. This was due to a sub-division or extension in the Fifth Wave.
- See next page on how to handle false signals caused by sub-division.

Handling False Type Two Buy Signals

(*Caused by sub-division or extension of the Fifth Wave)*

- The main or normal Elliott Oscillator *(Tom's 5-35)* provides confirmation on the larger degree Five Waves.

- Since the Fifth Wave extended and sub-divided, a false signal was generated.

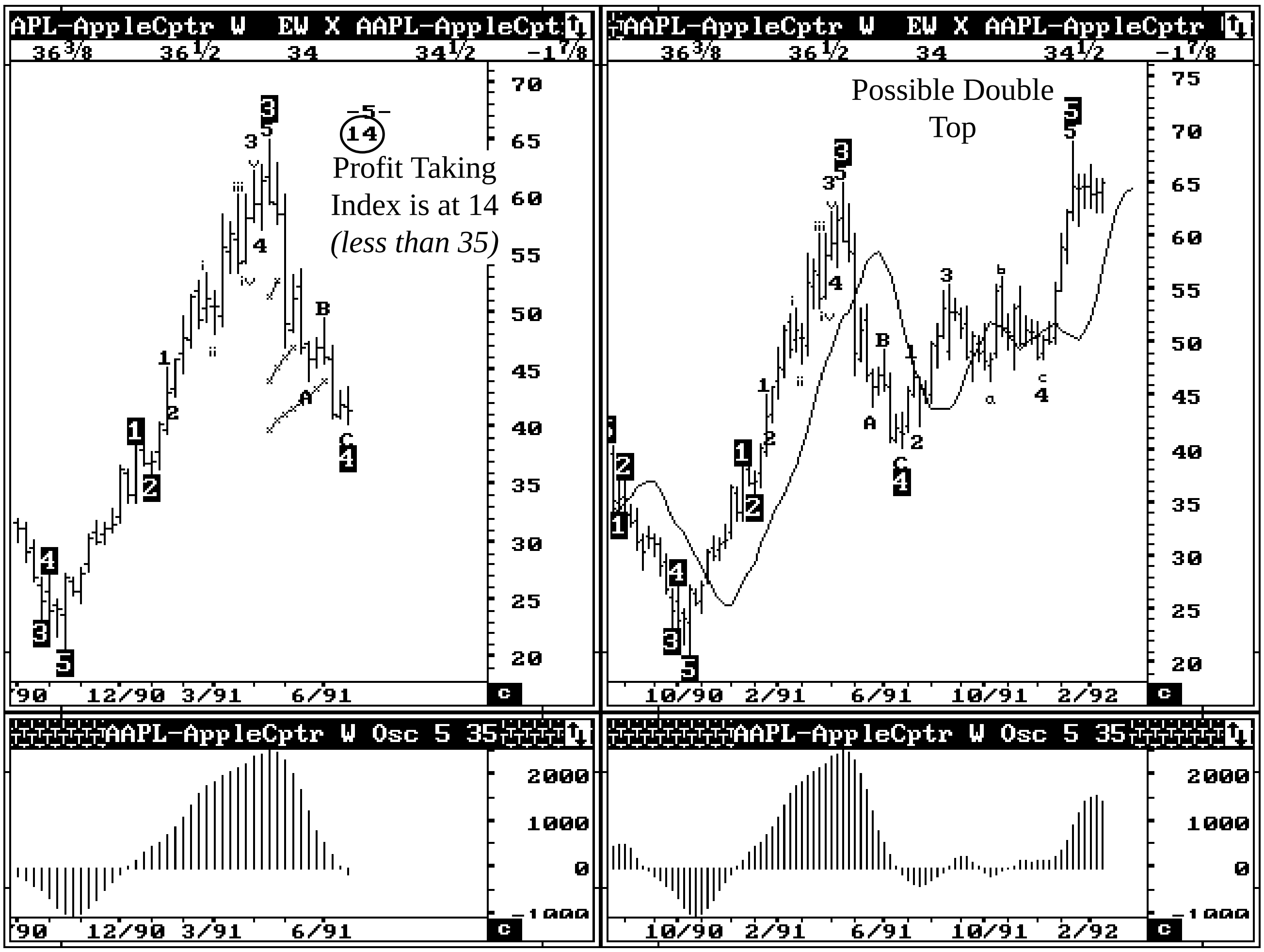


- When you see false signals or extended or sub-divided Five Waves, use an Extension Elliott Oscillator *(Tom's Extended Oscillator 5-17)* to see the divergence inside the sub-divided waves.

- The Extension Oscillator *(5-17)* allows the user to handle sub-division or extensions within the Fifth Wave.

Identify Failed Fifth Waves *(Double Top)*

The weekly chart of Apple Computer is shown below with software generated Elliott Wave Counts. Notice the Profit Taking Index ***(PTI)*** is at 14 *(below 35)*. This indicates a potential for a Failed Fifth Wave, also known as a Double Top.

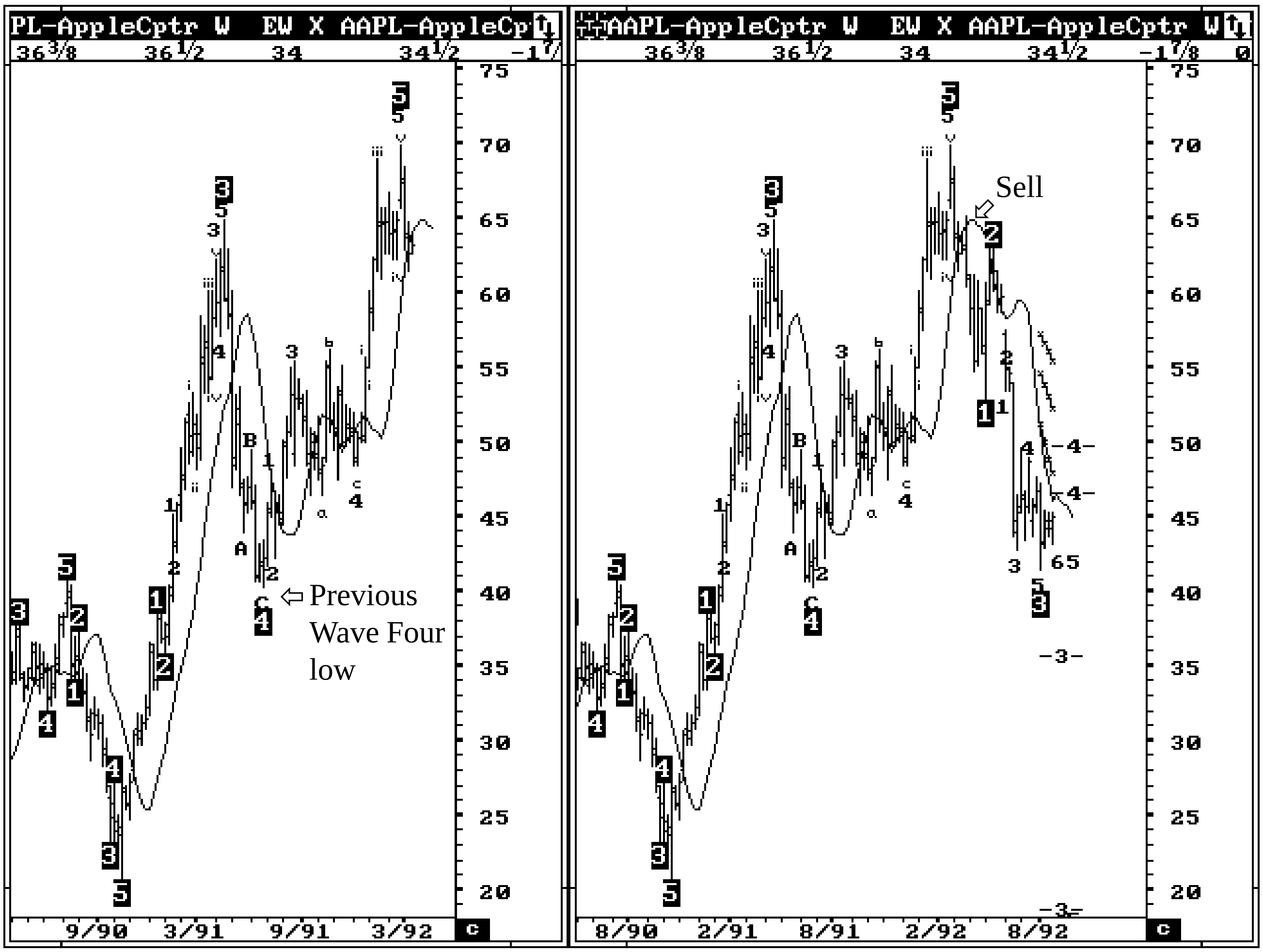


⊙ When the Profit Taking Index ***(PTI)*** is less than 35, greater than normal profit taking is seen in the Wave Four. This leads to failed Fifth Waves and Double Tops *(see next page)*.

Double Tops *(Failed Fifth Waves)*

Apple Computer *(Weekly)*

- Once the market trades to the previous high *(with the Profit Taking Index less than 35, as seen on the previous page)*, the odds increase for a Double Top or Failed Fifth Wave.

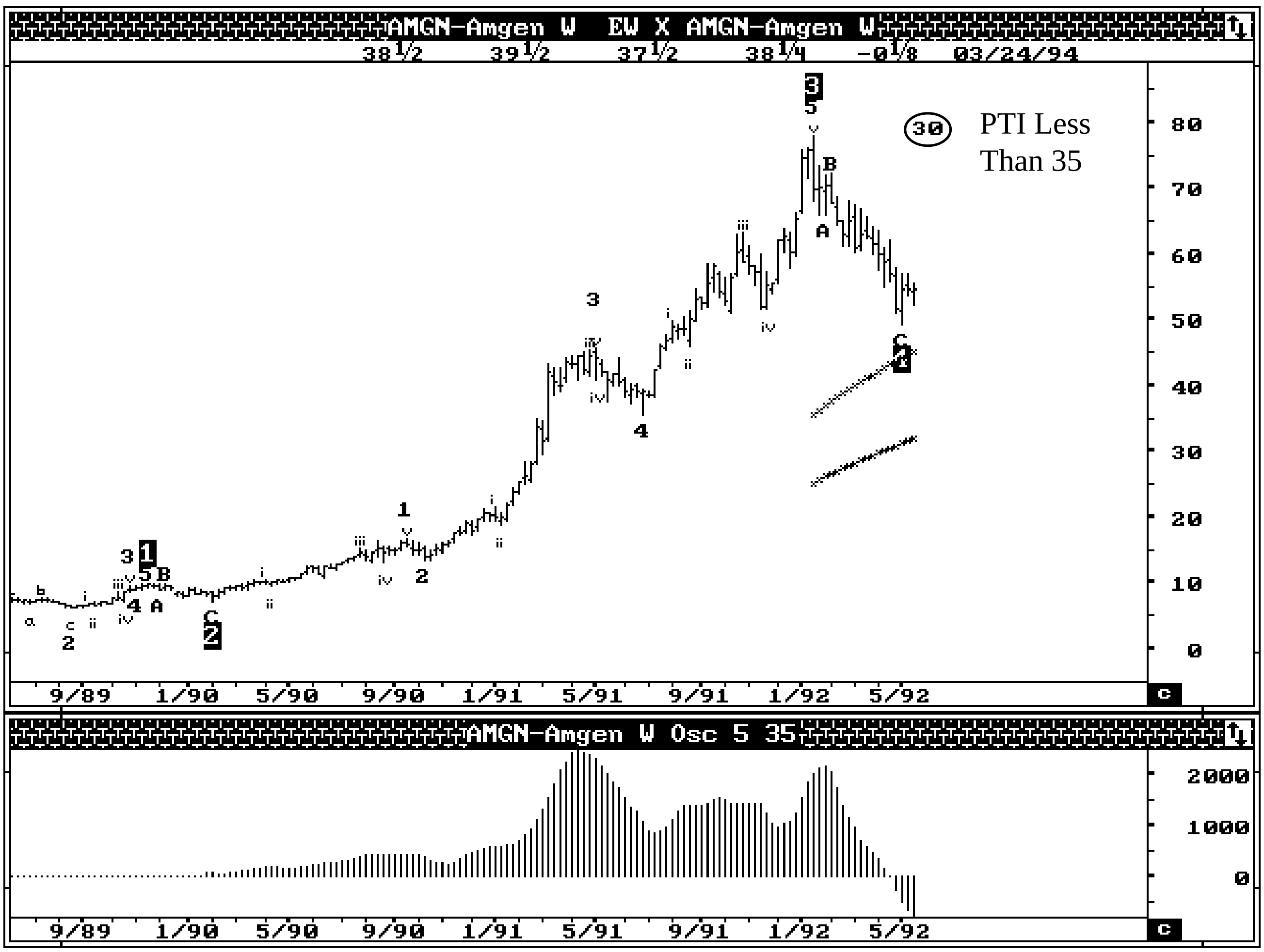


- Use the Displaced Moving Average ***(DMA)*** to enter a short position with a stop above the high.

- Again, the first target is the previous Wave Four low near 43.

Another Double Top *(Failed Fifth)*

The weekly chart of AMGEN is shown below with software generated Elliott Wave Counts. The current Wave Four decline has a Profit Taking Index ***(PTI)*** of 30 *(which is below the minimum requirement of 35)*. This again indicates greater than normal profit taking in the current decline.

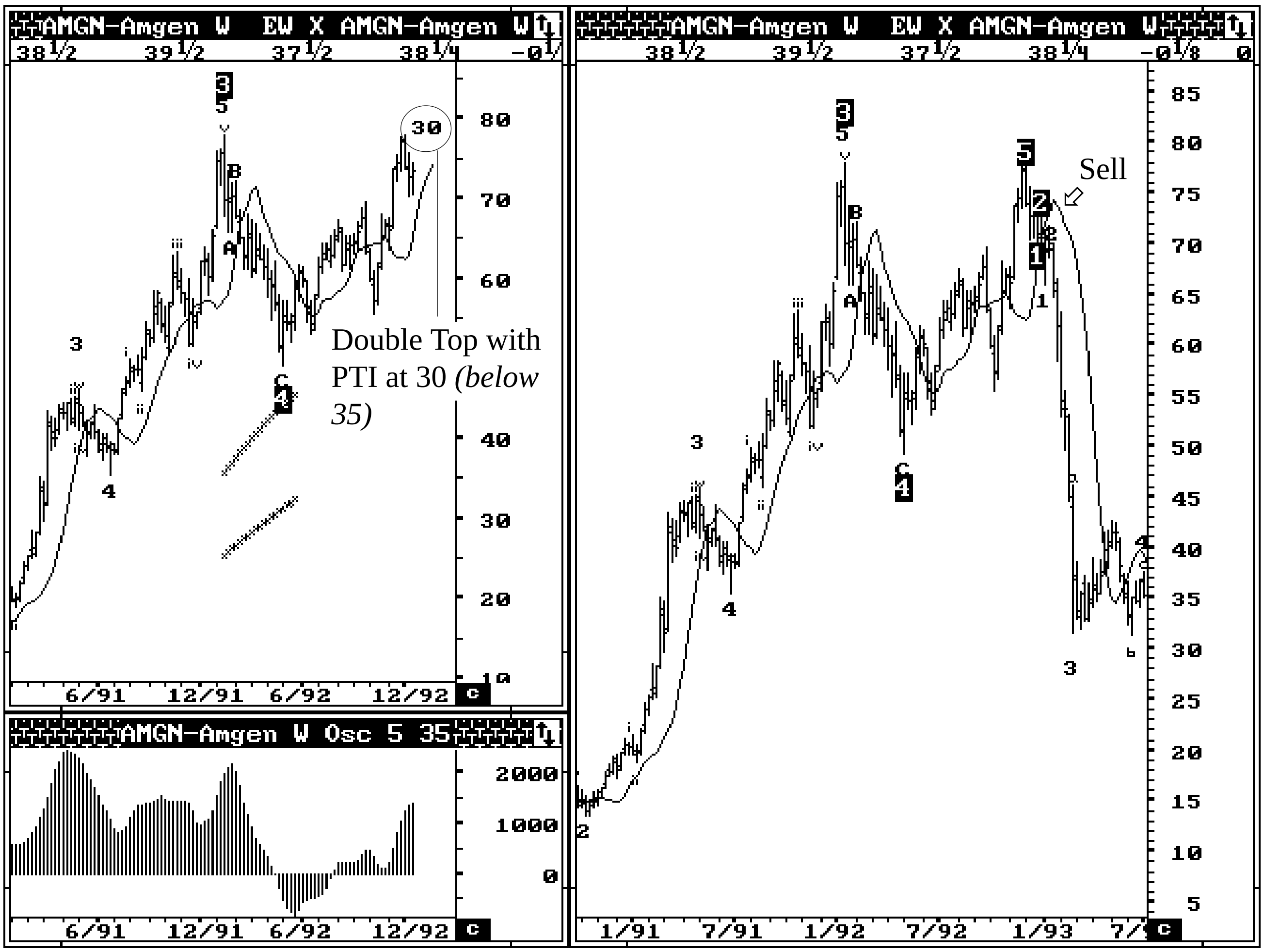


⊙ This usually leads to a Double Top or failed Fifth Wave high *(see next page)*.

Double Tops *(Failed Fifth Wave High)*

AMGEN *(Weekly)*

⊙ With the Profit Taking Index at 30, when the market approaches the Wave Three high, the odds increase for a Failed Fifth Wave or a Double Top.



⊙ Use the Displaced Moving Average ***(DMA)*** to enter a short position with a stop above the high.

⊙ The previous Wave Four low near 50.00 is the first target. At this time, one can tighten stops or monitor the software generated Elliott Wave count for a new Wave 3 in the same direction.

The 60 Minute Factor *(Hourly)*

The 60 minute chart adds three valuable inputs to the decision making process.

① **Enhances Daily Resolution:** Since the daily bar chart only represents the high and low for each day, it fails to provide any insight on how the market traded during the day. The 60 minute *(hourly)* charts provide a footprint of the market action during the day. This enhances the resolution of the market and helps the Trader in analyzing the daily chart with higher accuracy.

② **Stand Alone Wave Counts:** Since the 60 minute *(hourly)* charts provide a footprint of the entire market action during the day, one can use it by itself to enter trades. The Elliott Wave theory, Elliott Oscillator, Profit Taking Index, Wave Four Channels, DMA, and all of the other ideas we have used so far can be utilized on the 60 minute charts directly.

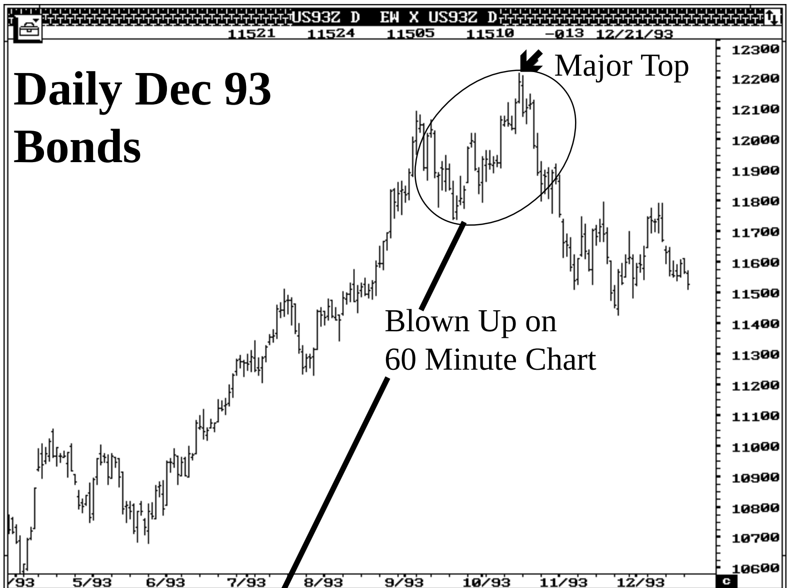
③ **Better Entry & Exits:** Once a Wave Count is determined on the daily chart, the 60 minute chart can be used to get a better entry or exit. For Example: A Five Wave sequence is complete on the daily chart. If the 60 minute chart also shows the completion of a Five Wave sequence, then use the 60 minute DMA crossover for a better entry location.

The following pages contain examples of the above discussion.

Trading Techniques Inc. provides hourly *(60 minute)* data on all futures through a data download service.

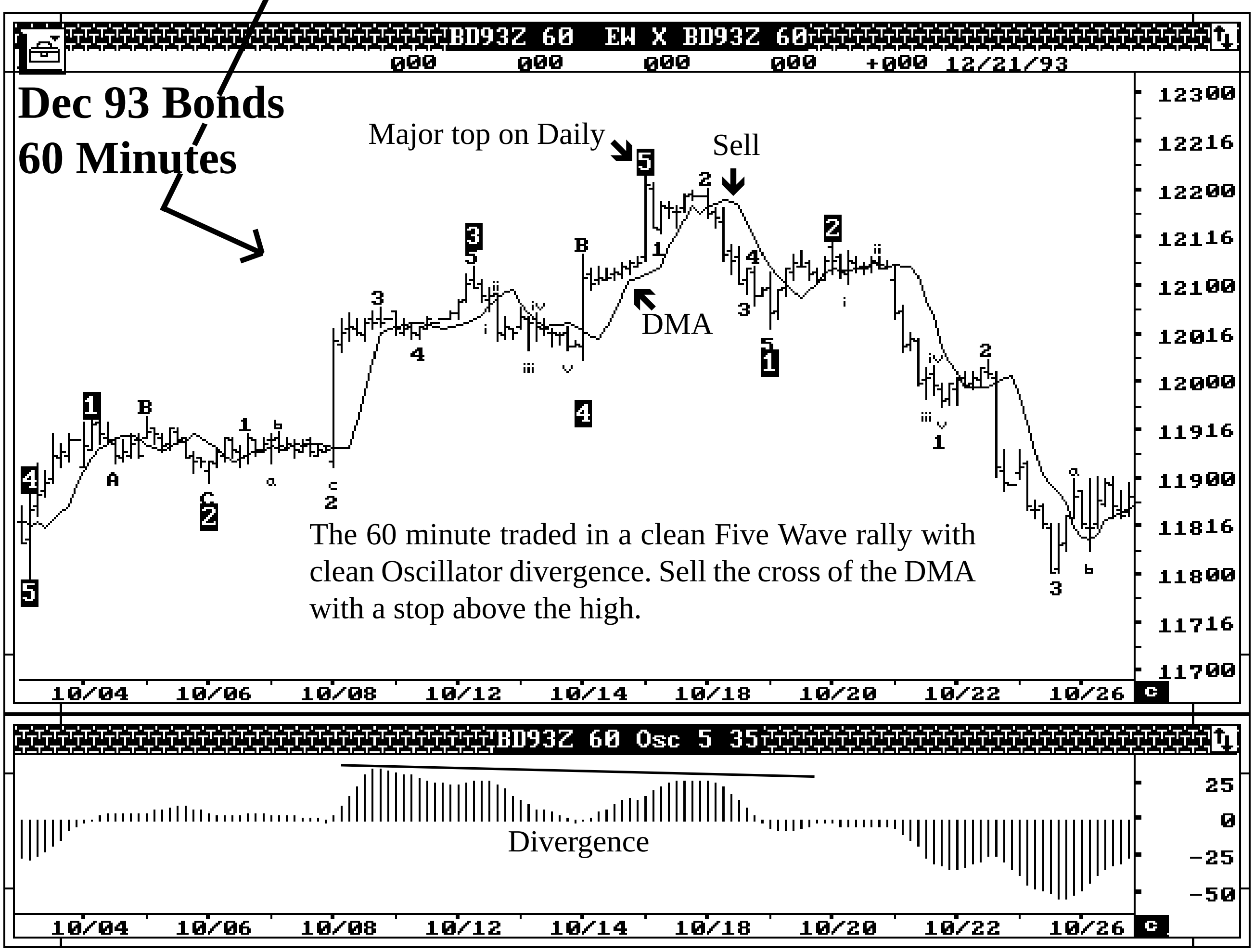
Dec 93 Bonds - Power of 60 Minute Charts

The Daily Dec 93 Bonds completed a major top around 12210. The 60 minute chart is shown below for the same day.

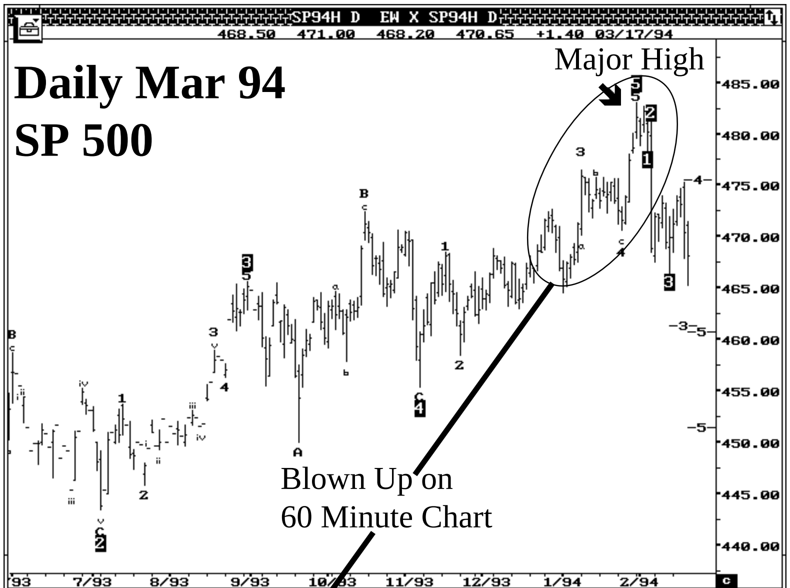


Using the 60 minute chart, one could have entered a short position at 12124 **within a few ticks** of the all time high.

When the Elliott Wave count is not clear on the daily, the 60 minute offers a better resolution and provides excellent entry and exit points.



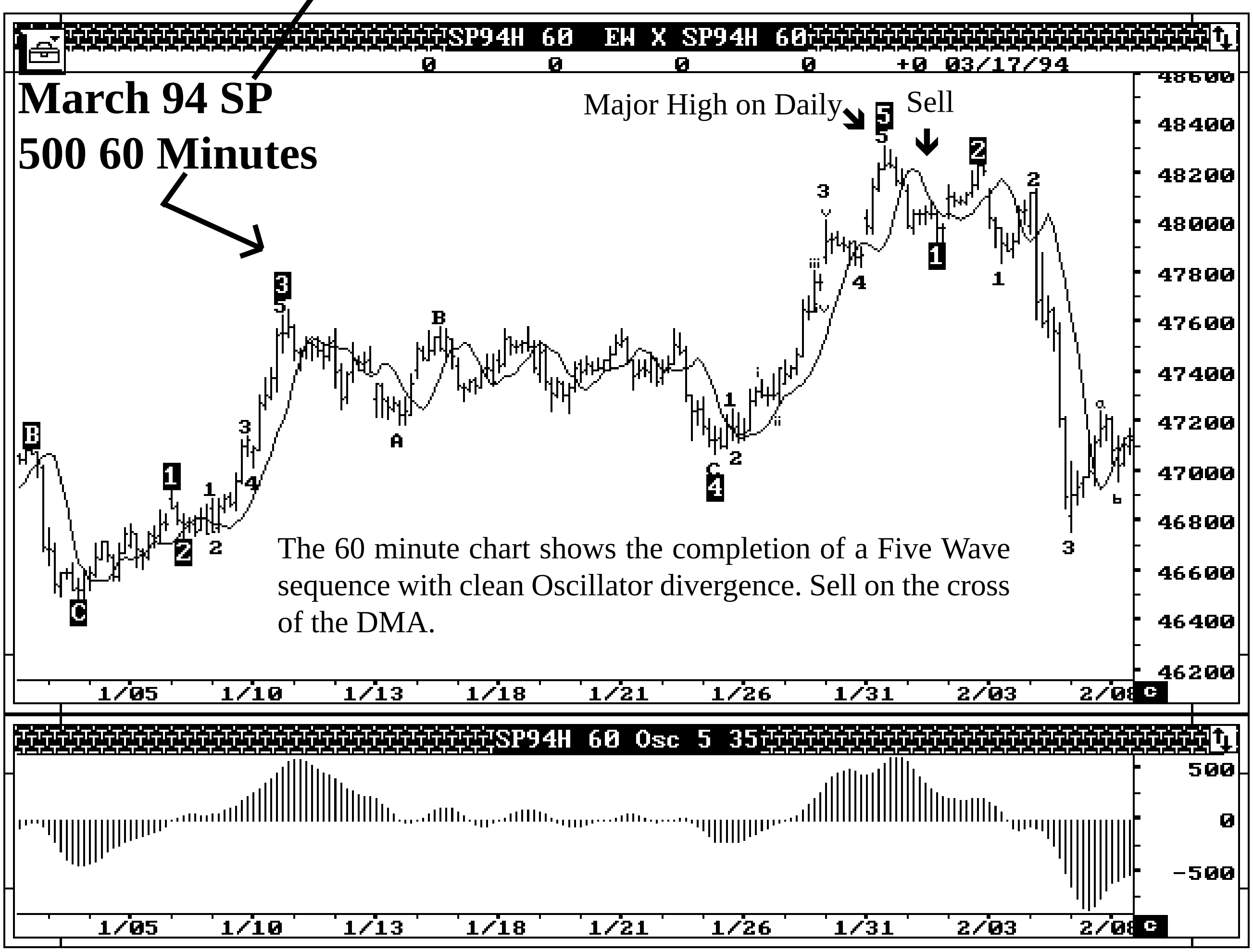
March 94 SP 500 - Power of 60 Minute Charts



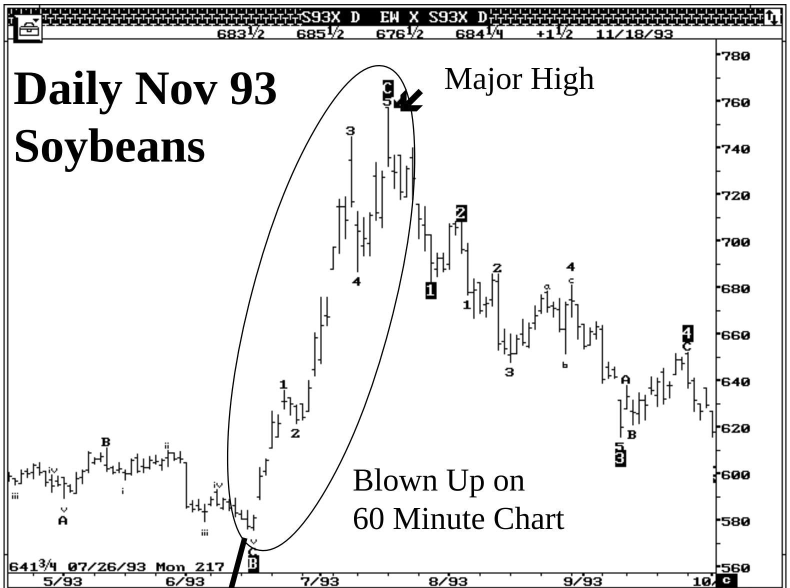
The Daily March 94 SP 500 is shown completing a Wave Five high.

The 60 minute chart shows a Fifth Wave also being completed.

One could have entered a short position at 48080 just a few points off the all time high.

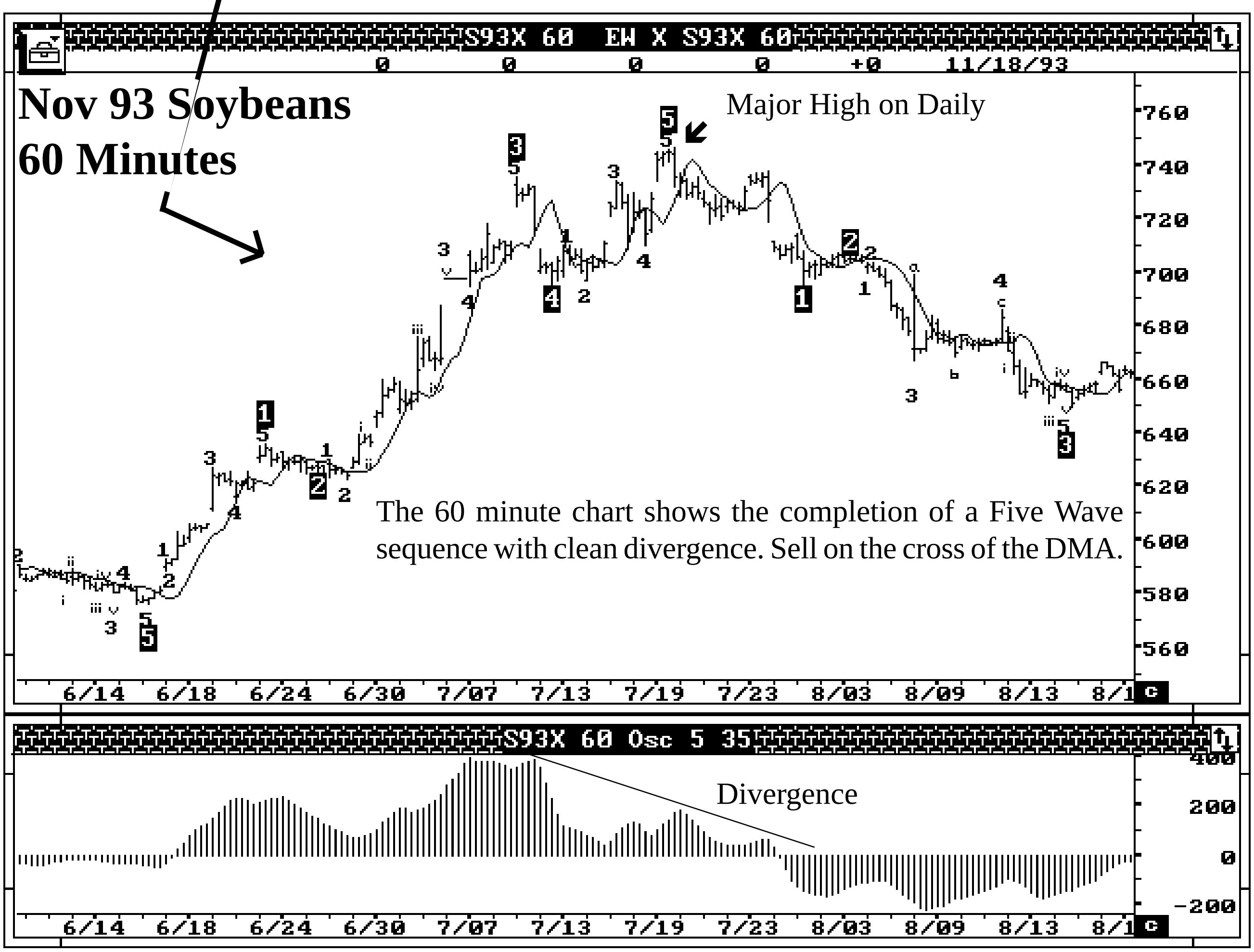


Nov 93 Soybeans - Power of 60 Minute Charts

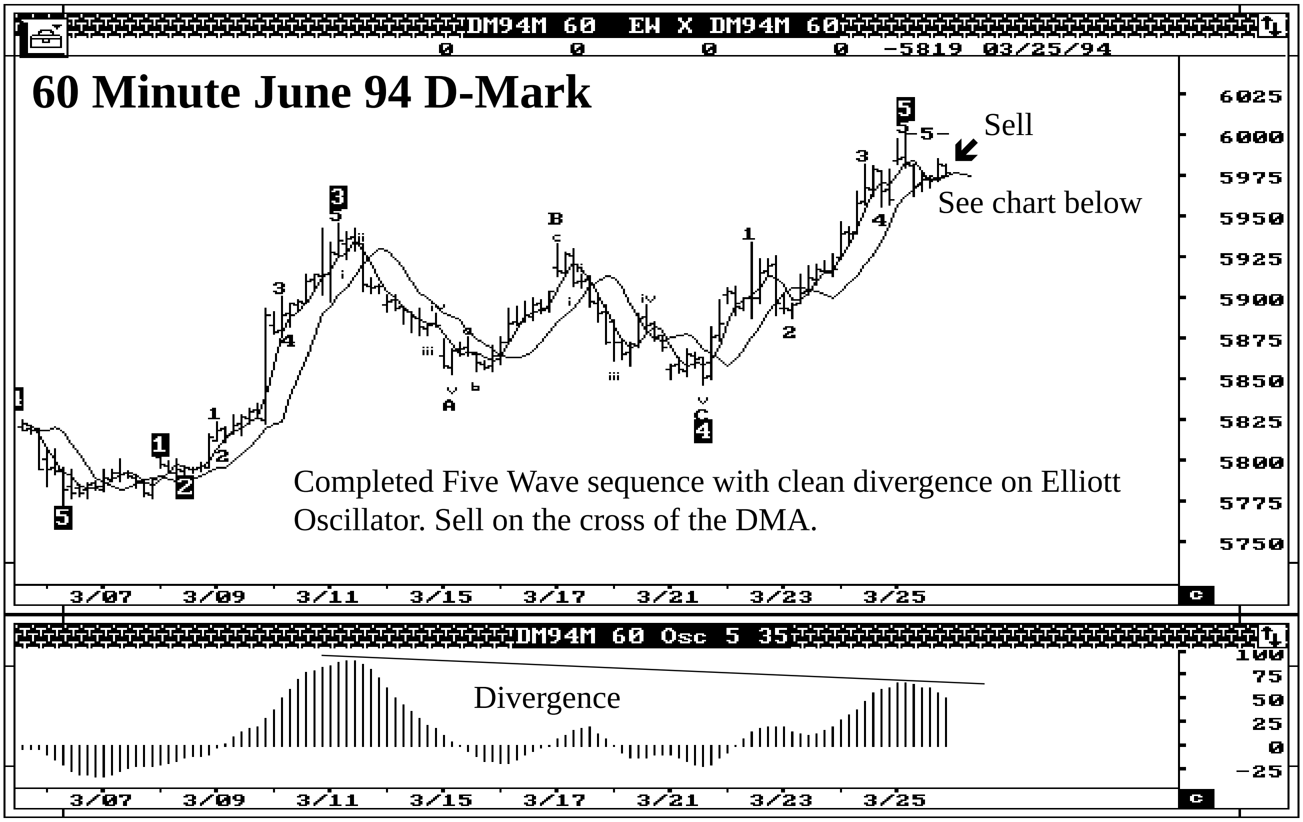


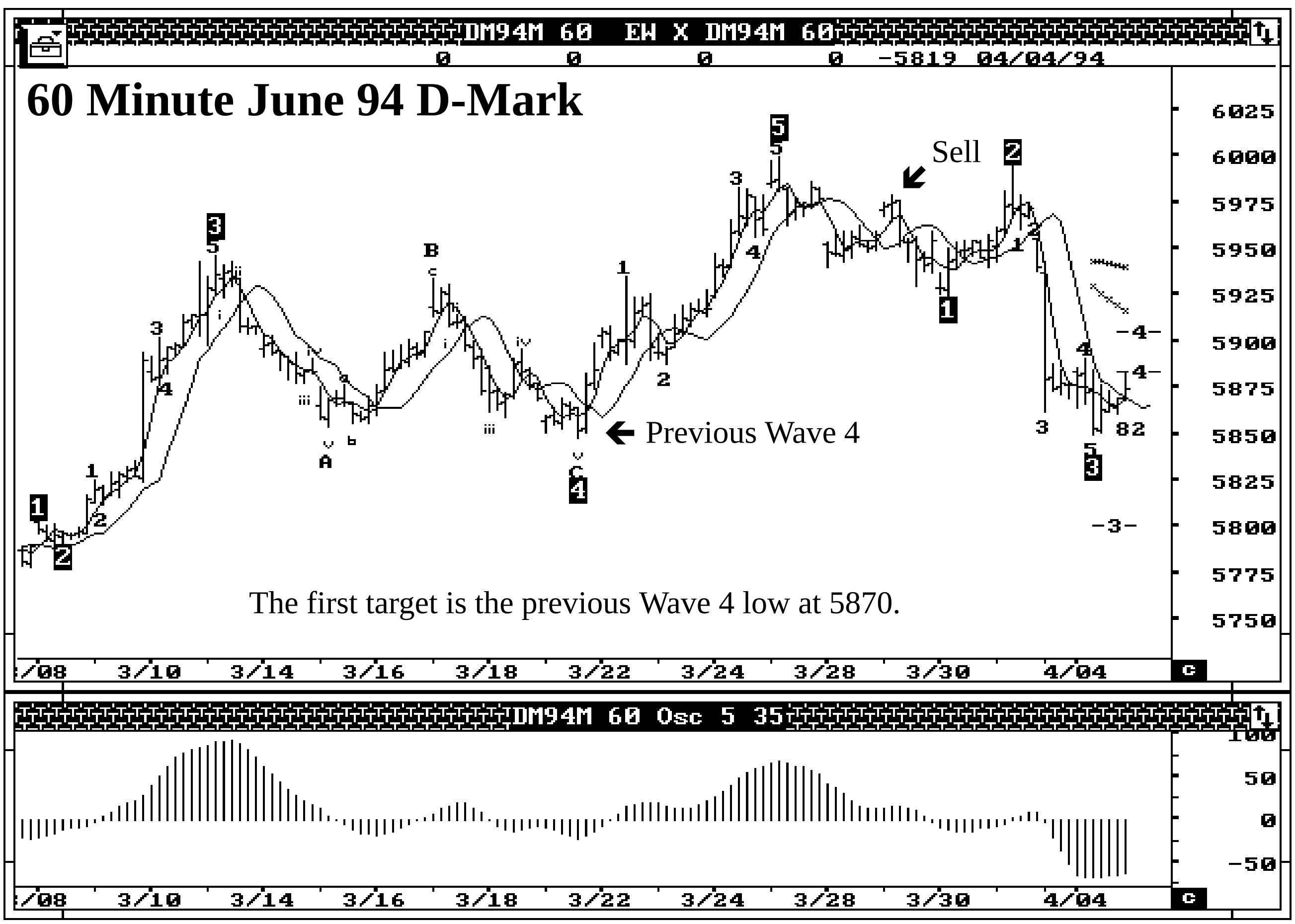
The daily chart made a major high.

The 60 minute chart showed the completion of a Five Wave sequence. One could have entered a short position at 730 within a few cents of the major high.

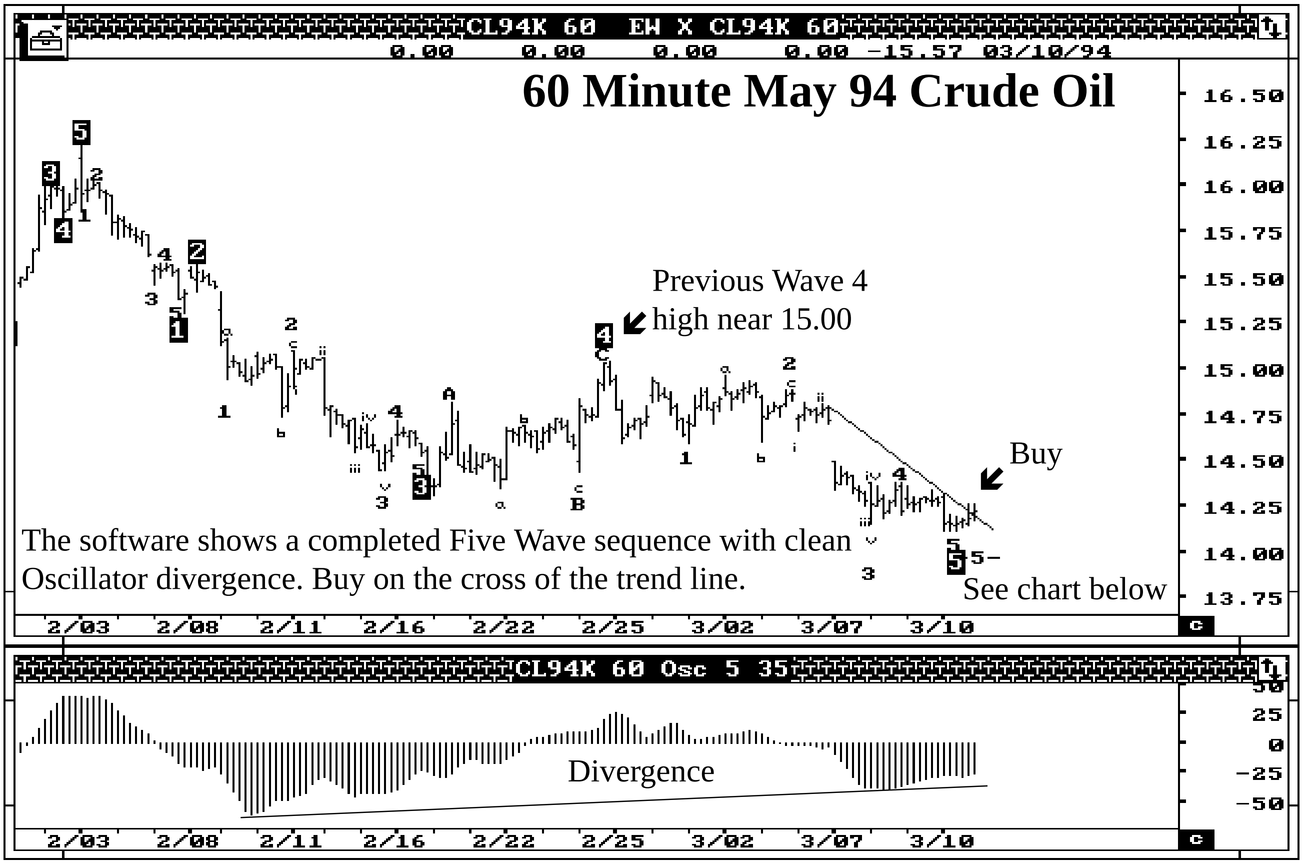


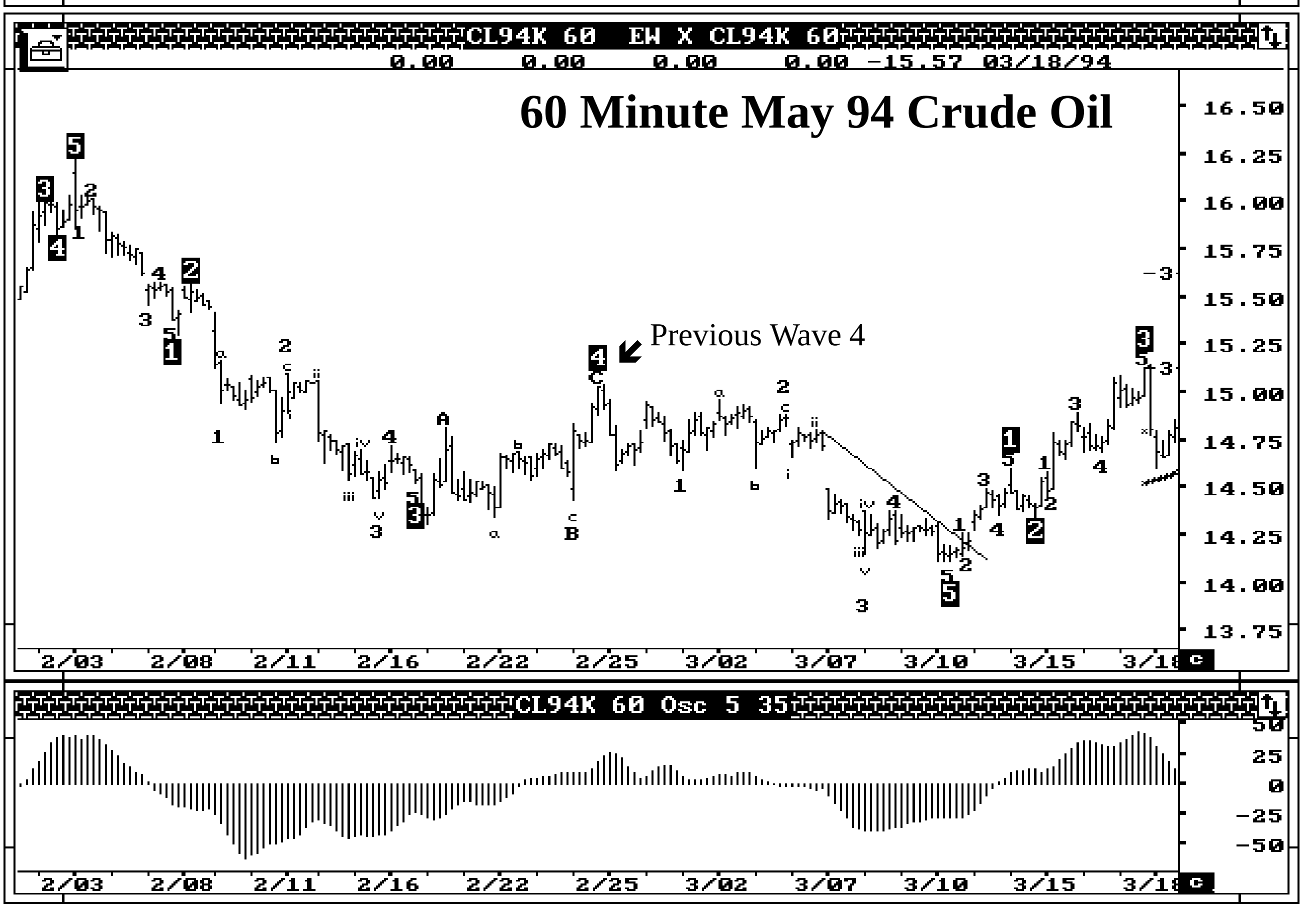
Type Two June 94 DM - 60 Minute Chart





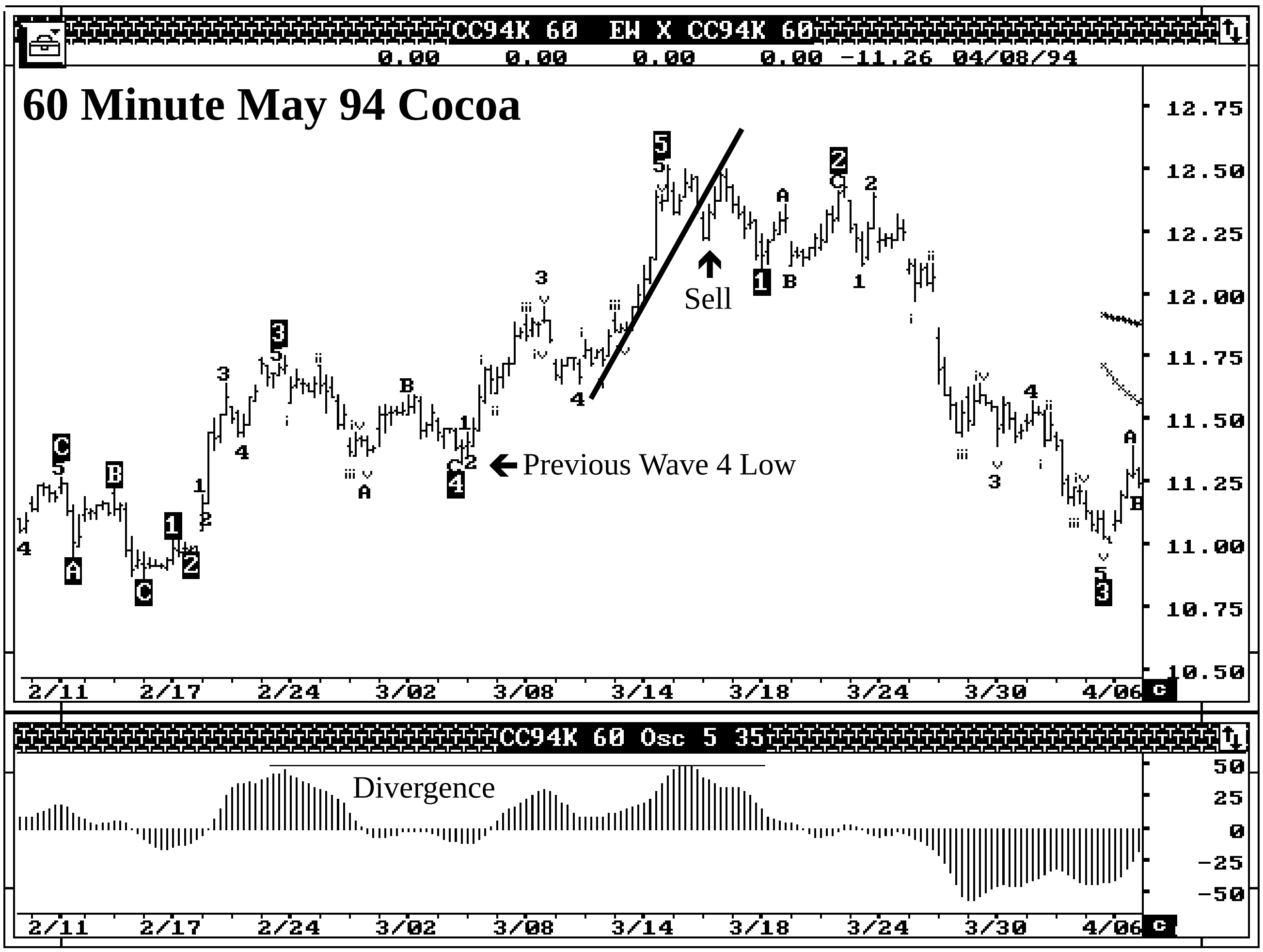
Type Two May 94 Crude Oil - 60 Minute Chart





May 94 60 Minute Chart of Cocoa

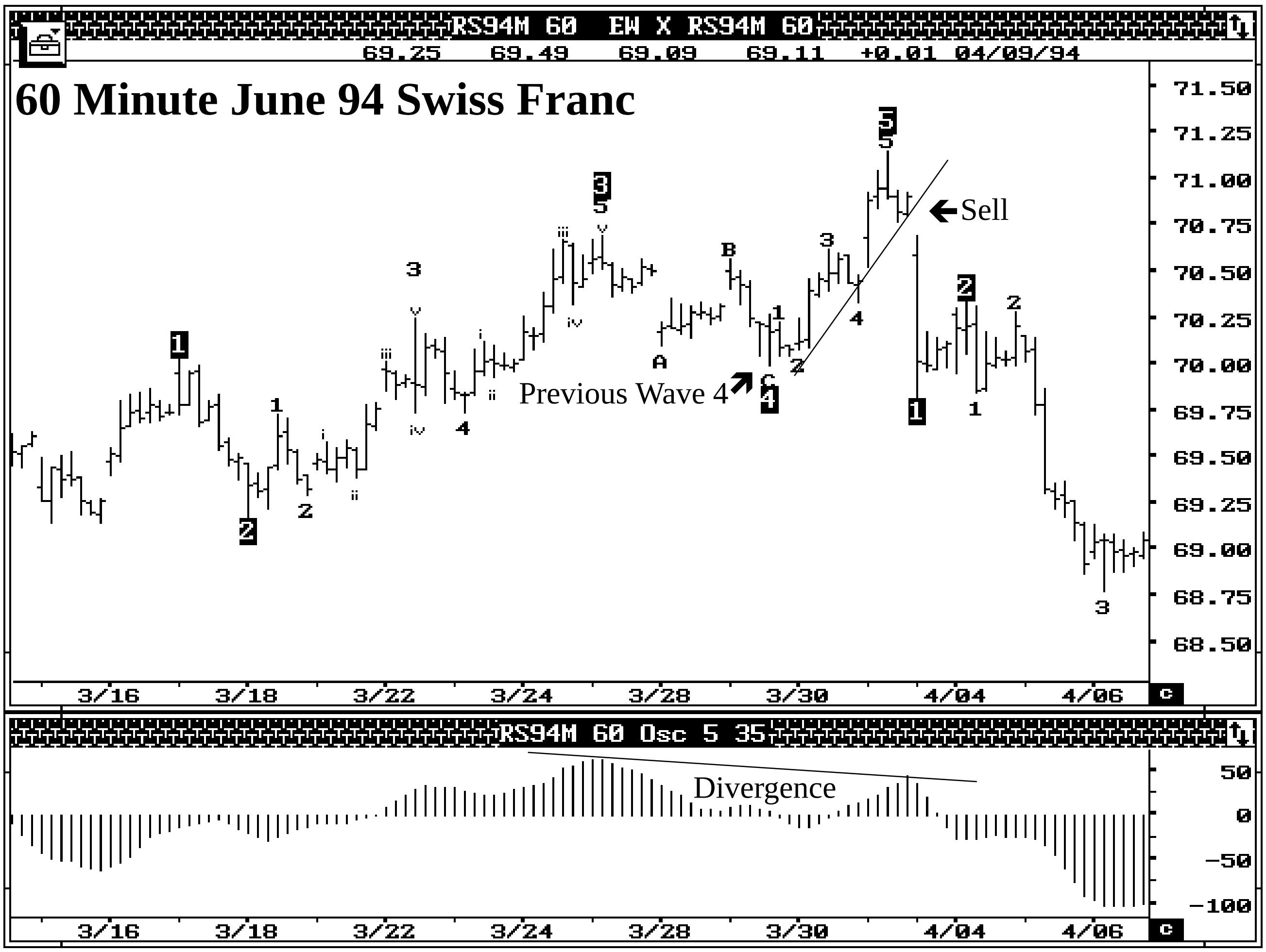
- The software shows May 94 Cocoa completing a Five Wave sequence.
- The Elliott Oscillator shows divergence between the Wave Three peak and the Wave Five peak.



- Sell on the cross of the Trend Line with a stop above the high.
- The previous Wave Four low at 11.50 is the first target.
- Once the prices trade to this target, tighten stops and monitor the software for a new Wave Three in the same direction.

June 94 Swiss Franc - 60 Minutes

- The software labels the 60 minute Swiss completing a Five Wave Sequence.
- The Elliott Oscillator shows clean divergence between the Wave Three and the Wave Five peaks.



- Sell on the cross of a Trend Line with a stop above the highs.
- Now look for the previous Wave Four low near the 6990 level as the first target.

Using Weekly Data

Using Elliott Wave analysis on weekly data provides two major advantages.

① Long Term Signals:

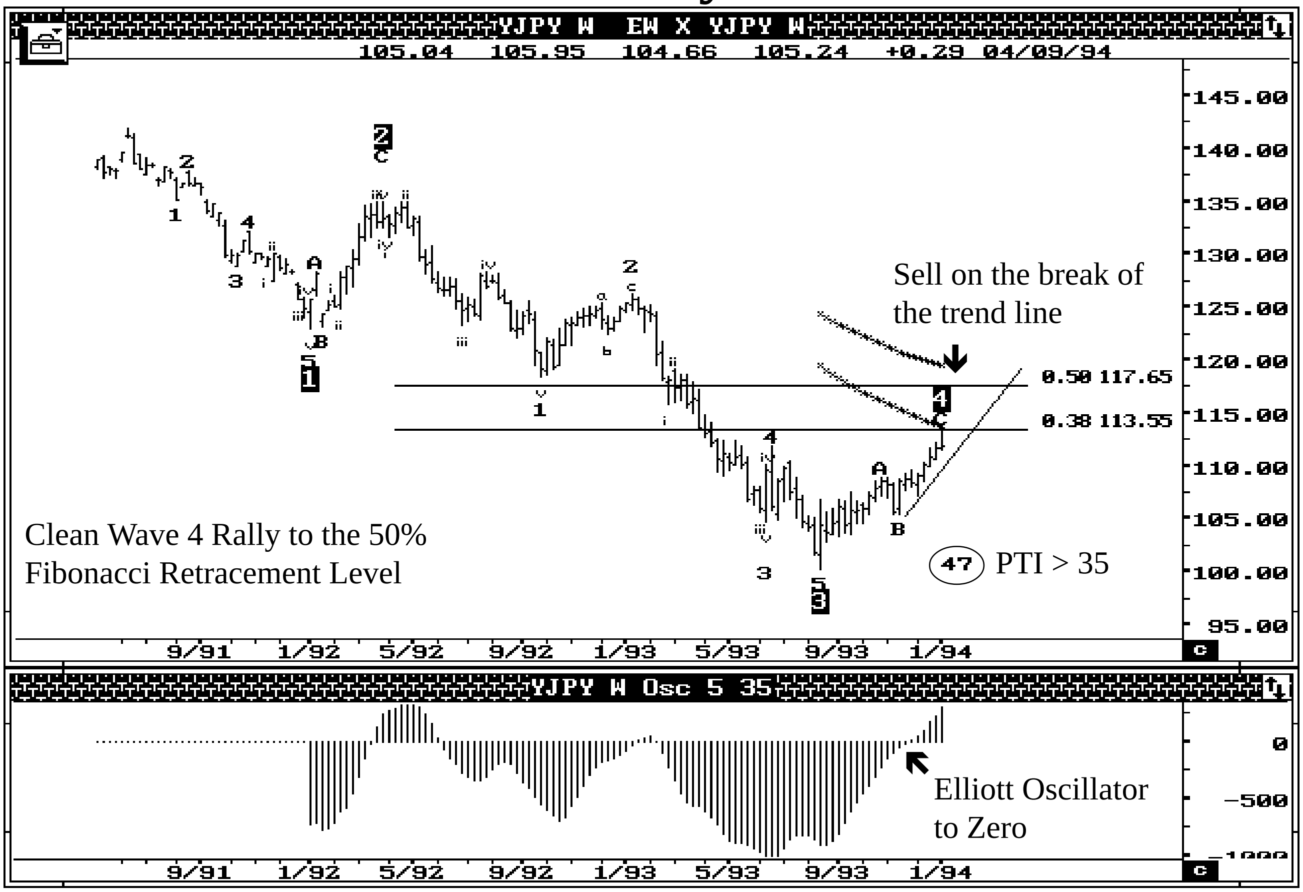
For long term traders, the Elliott Wave analysis generates long term signals from weekly charts. This is an excellent way to capitalize on markets that have extended trends in one direction such as stocks, currencies, and financials.

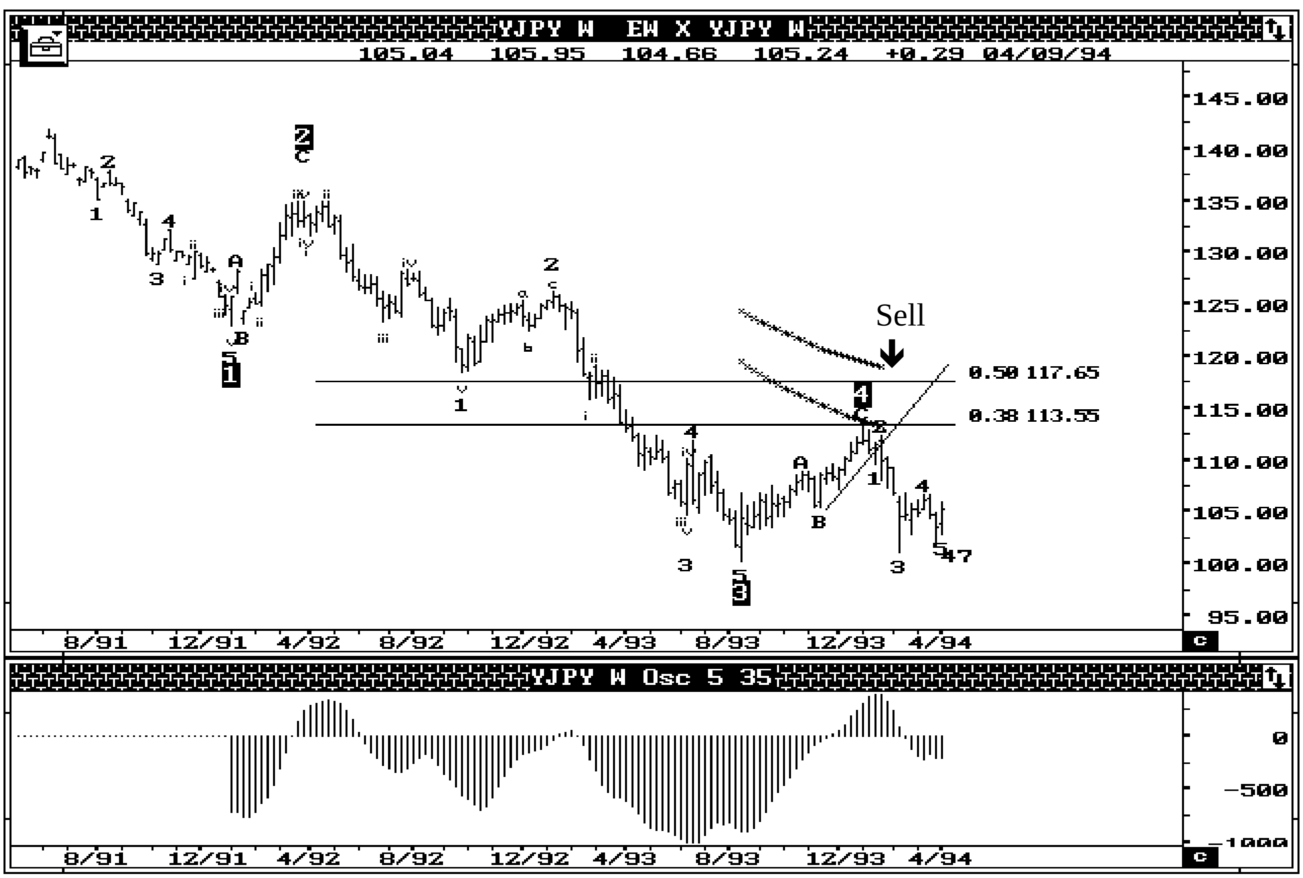
② Cross-Referencing Weekly to Daily:

For most traders the daily charts are ideal. However, there are times when the weekly charts take over the market action. By cross-referencing the weekly to the daily, the trader can better control the outcome of his or her analysis.

Examples of using weekly data is shown on the following pages.

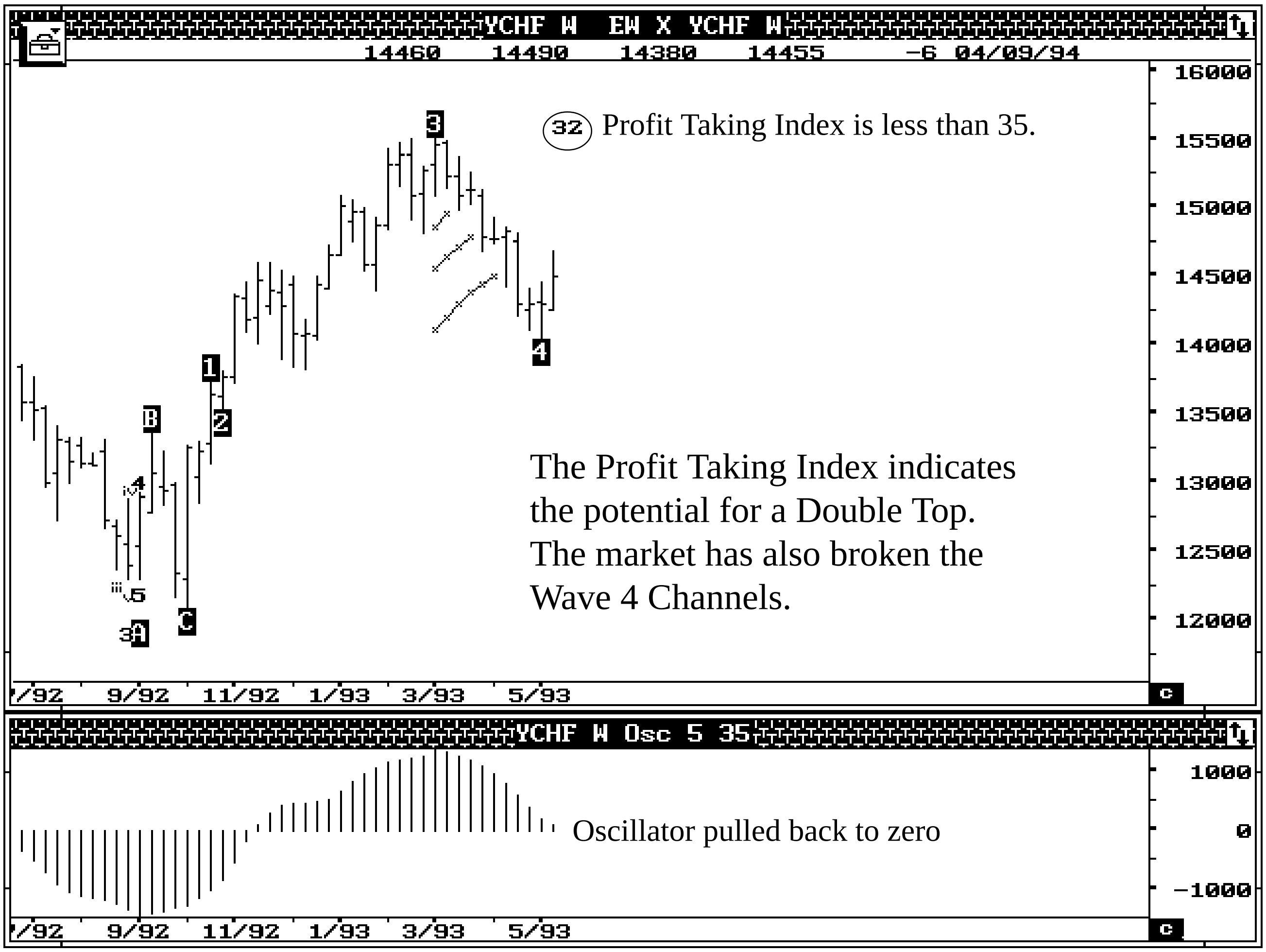
Yen Cash - Weekly Wave Count





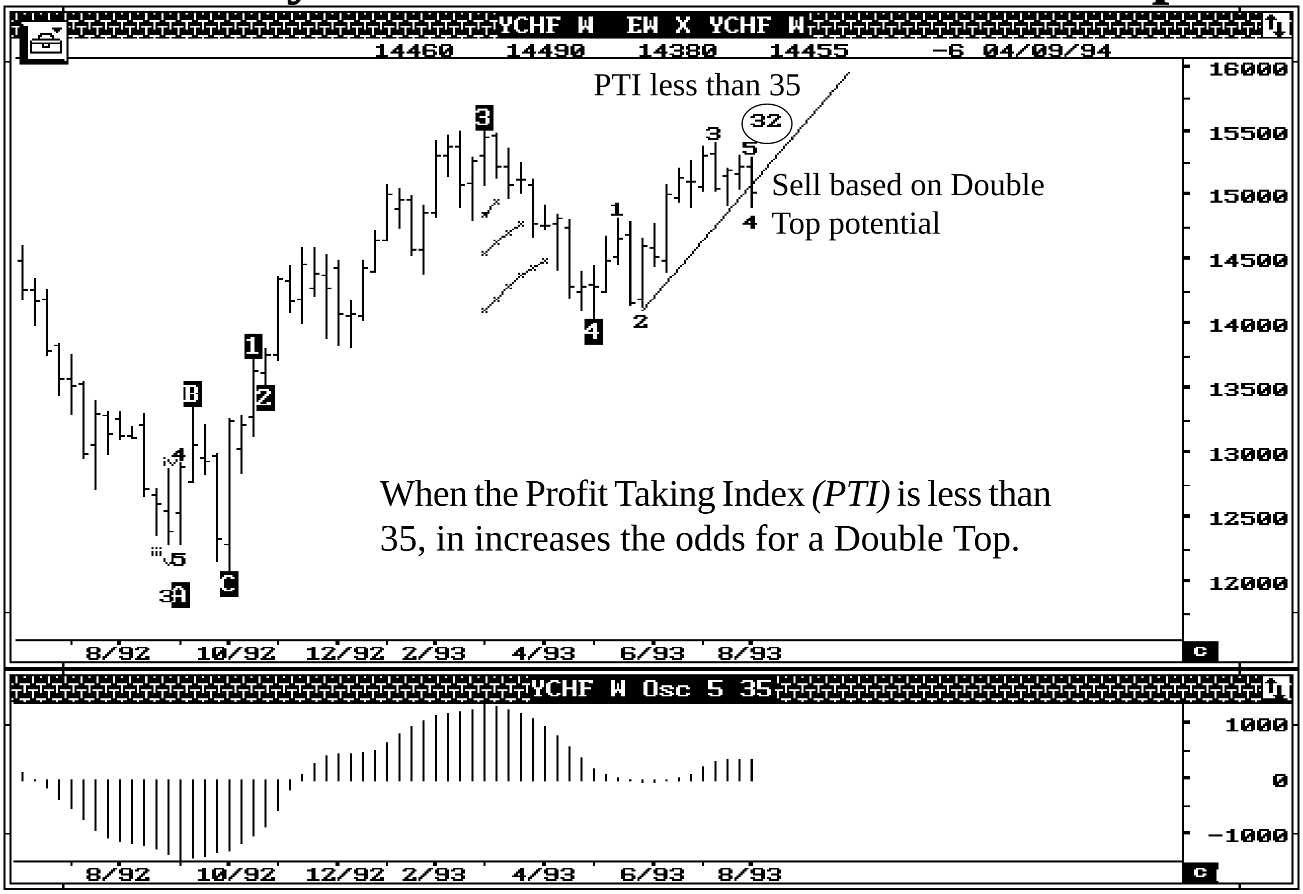
Weekly Swiss Franc Cash - Double Top

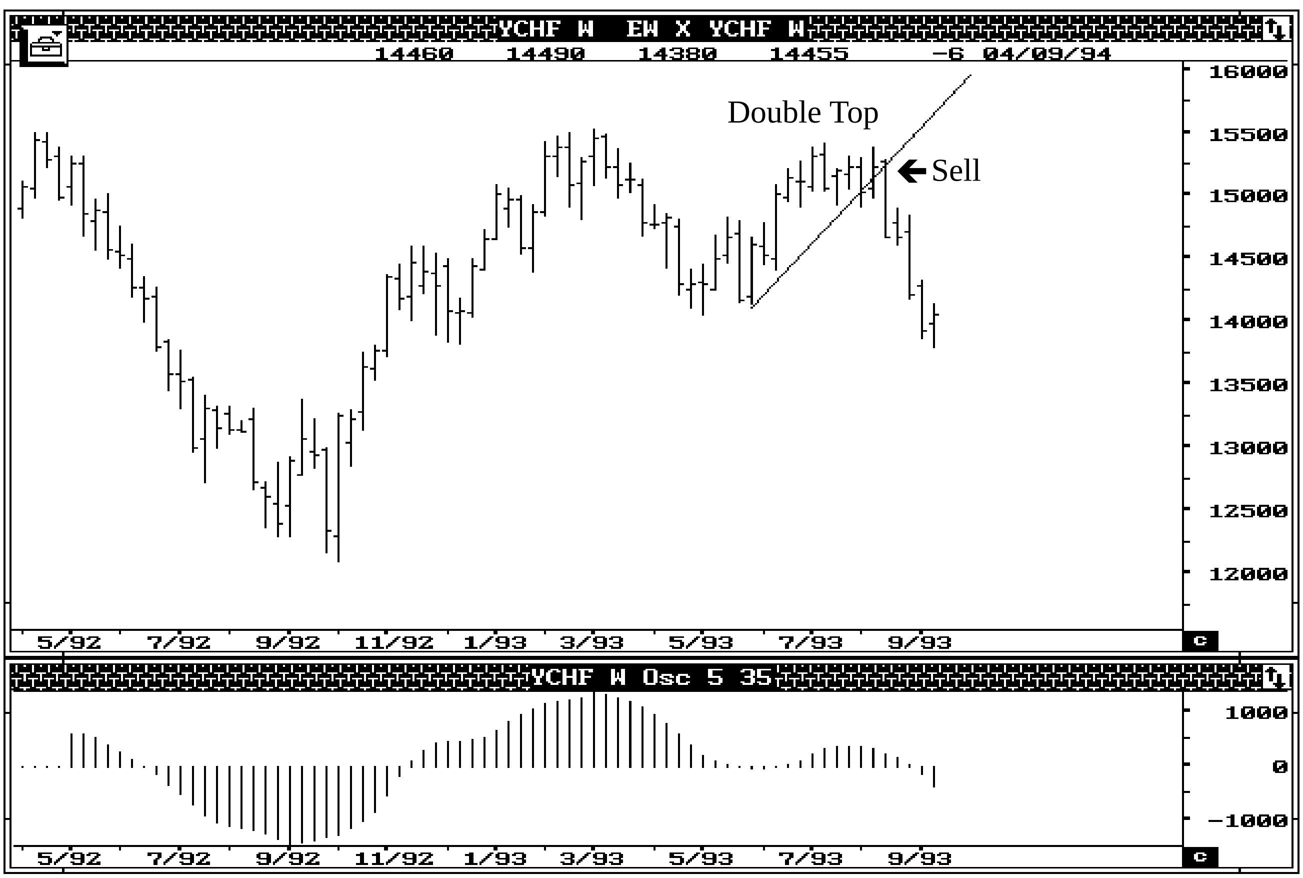
This is a perfect looking Wave Four except for the Profit Taking Index. When the Profit Taking Index falls below 35, it increases the odds for a Double Top.



See the next page for subsequent action.

Weekly Swiss Franc Cash - Double Top

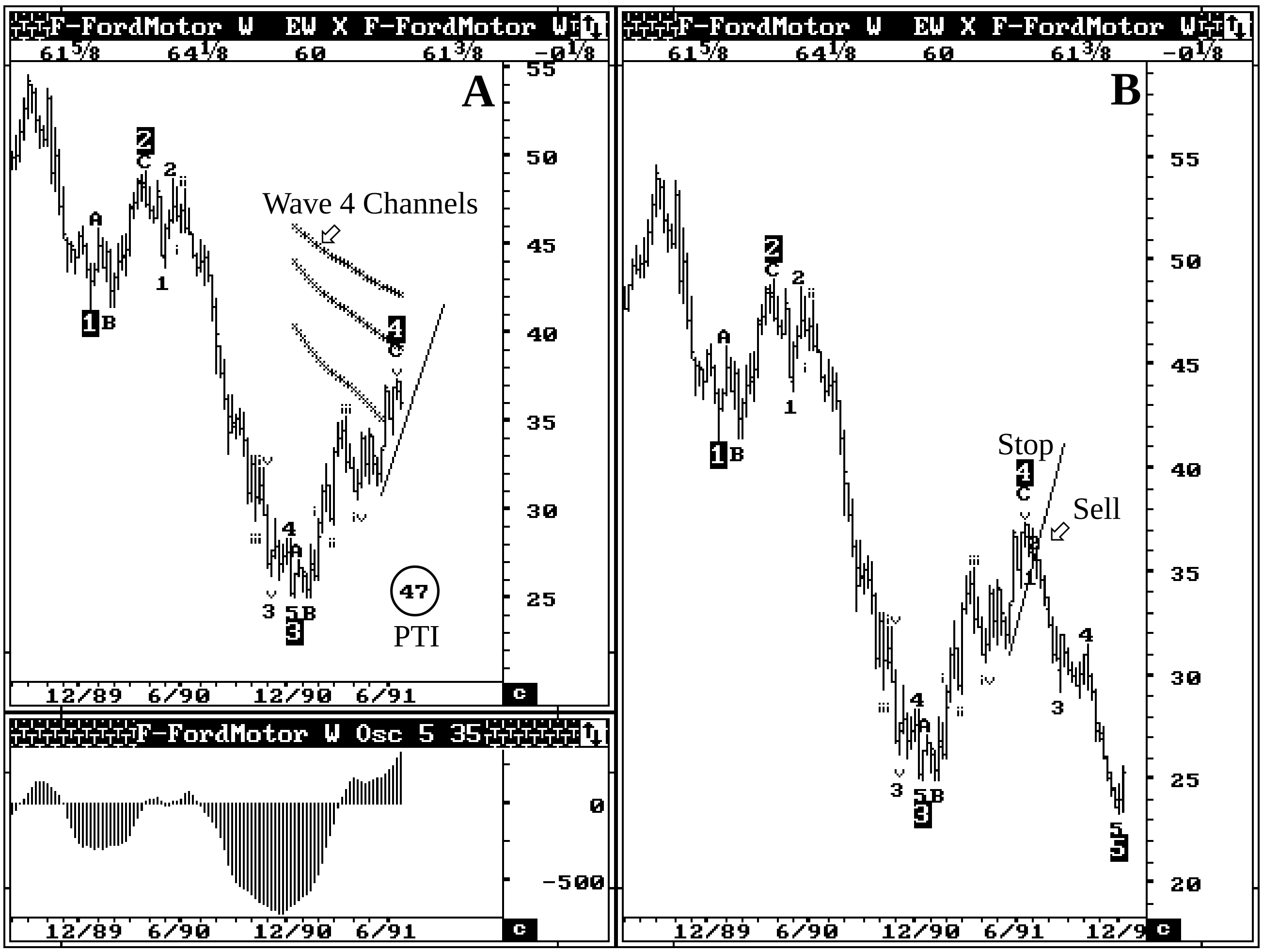




Type One Sell in Weekly Ford Motor

- Chart A shows a completed Wave Four. The Profit Taking Index is greater than the minimum requirement of 35 *(it is at 47)*. This indicates a new low in Wave 5.

- The Wave Four channels are holding prices showing a large potential for a fast decline in Wave Five.



- Sell on the cross of the Trend line with stops above the Wave Four high. The target is to new lows below 25.00

- Chart B shows the subsequent sell off in Wave Five.

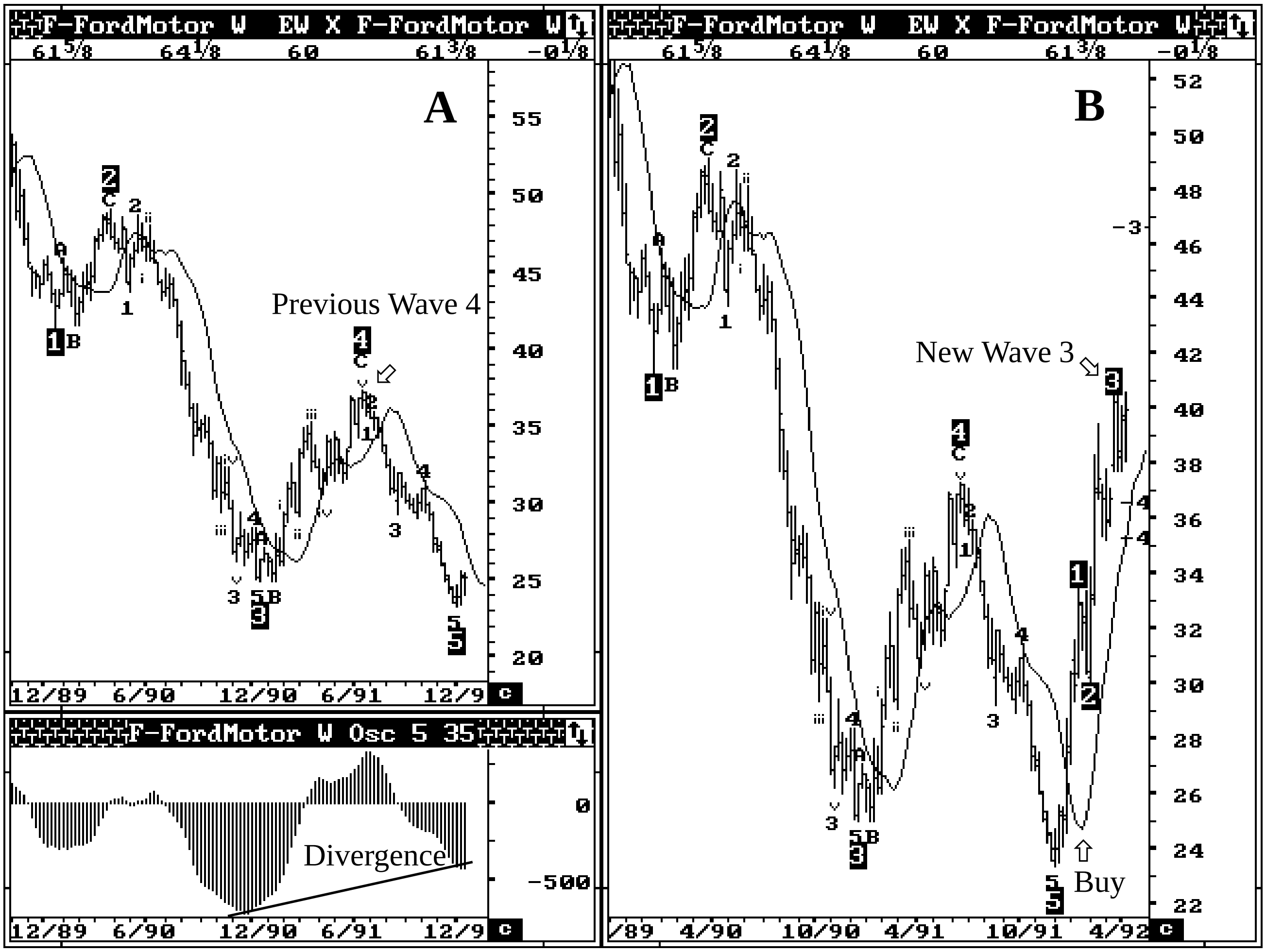
- This usually sets up a Type Two Buy. See next page for subsequent price action.

Type Two Buy in Weekly Ford Motor

Following a Type One Sell *(As seen on the previous page)*

- Chart A shows the software generated Wave count. A Five Wave sequence is completing plus the Elliott Oscillator is showing good divergence.

- Buy on the cross of the DMA with a stop under the lows.



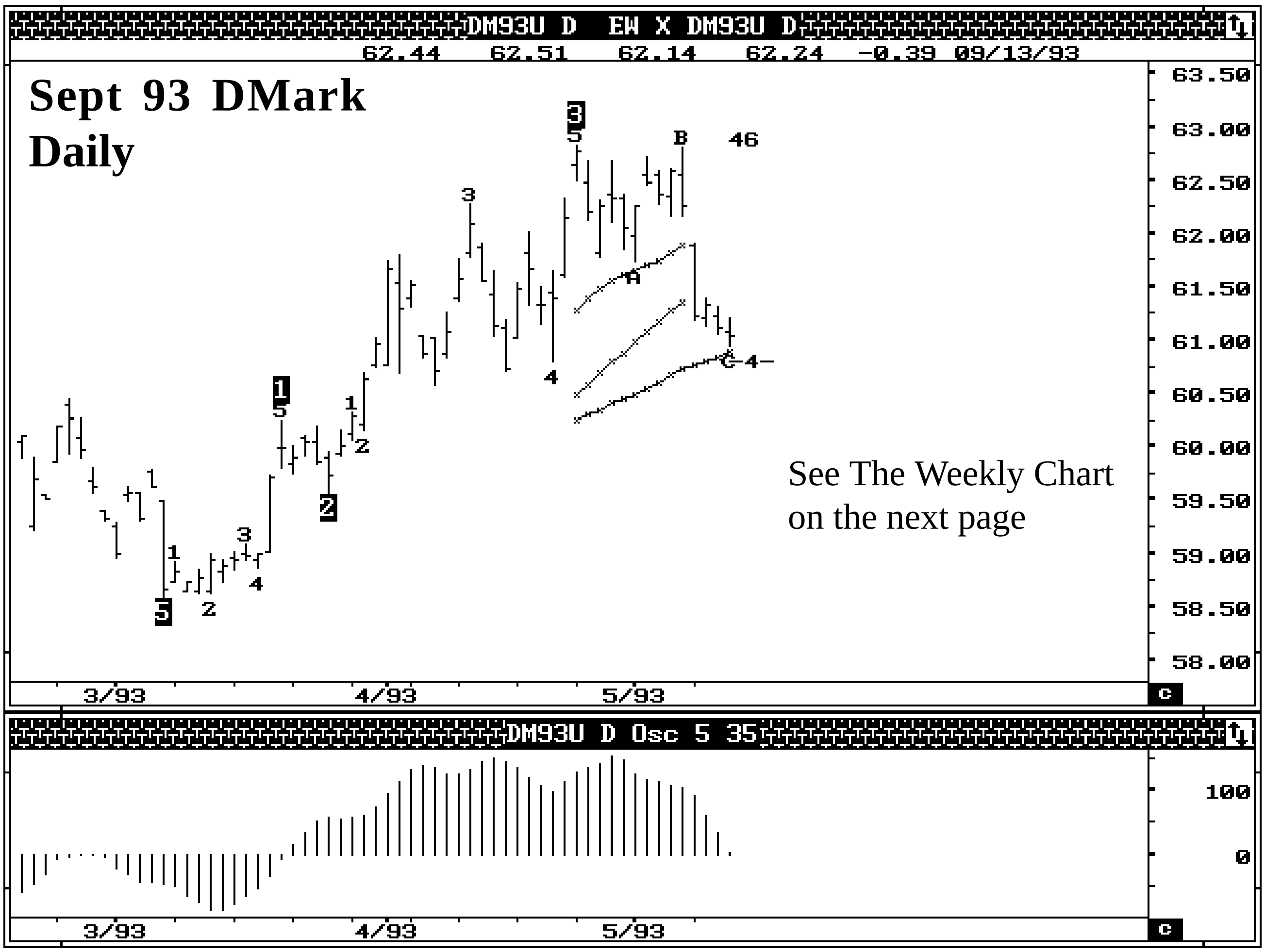
- The first target is the previous Wave Four high near 37.00.

- When prices trade to the target, one can tighten stops and monitor the software generated Elliott Wave counts for a new Wave Three in the same direction.

Cross-Referencing to Weekly Data

- The following chart shows the September 93 DMark completing a clear Wave Four profit taking decline.

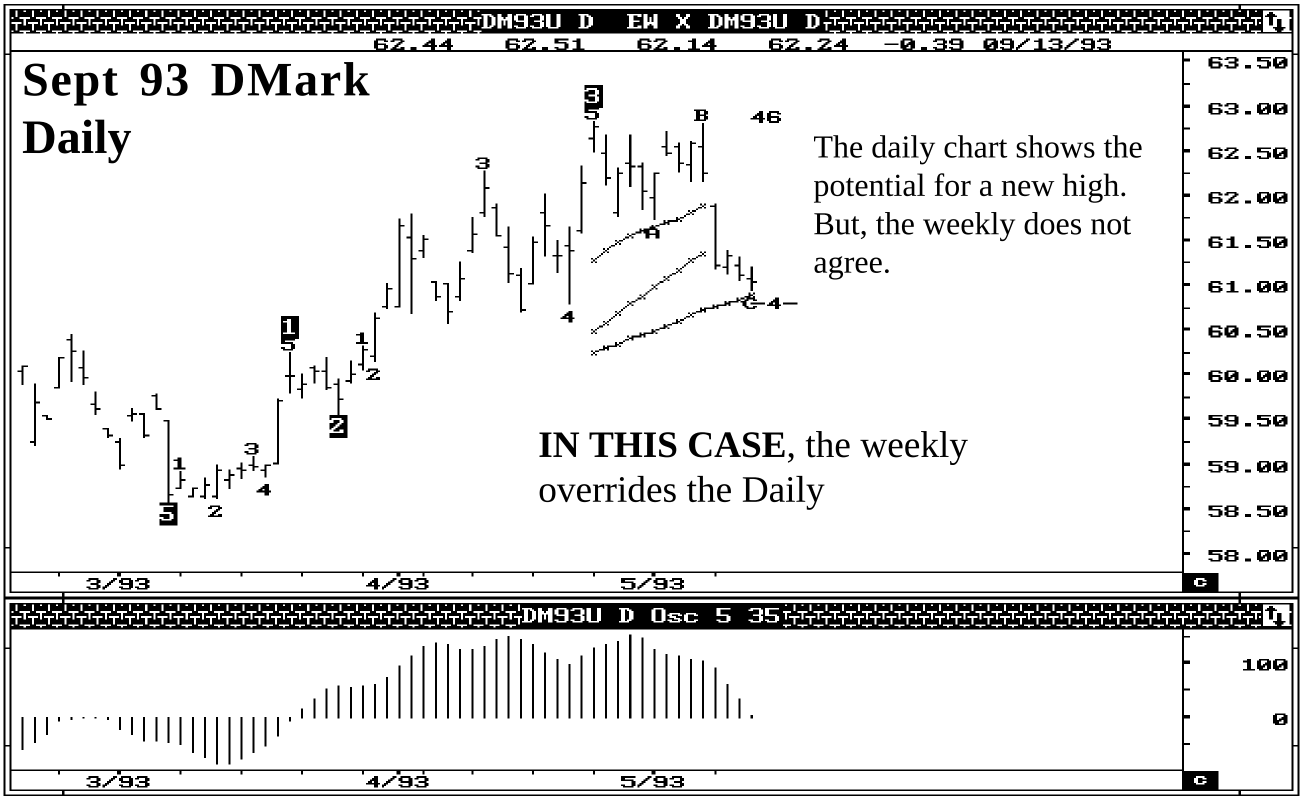
- The Elliott Oscillator is to zero and the Profit Taking Index is greater than 35 (at 46). The Wave Four channels are also holding.

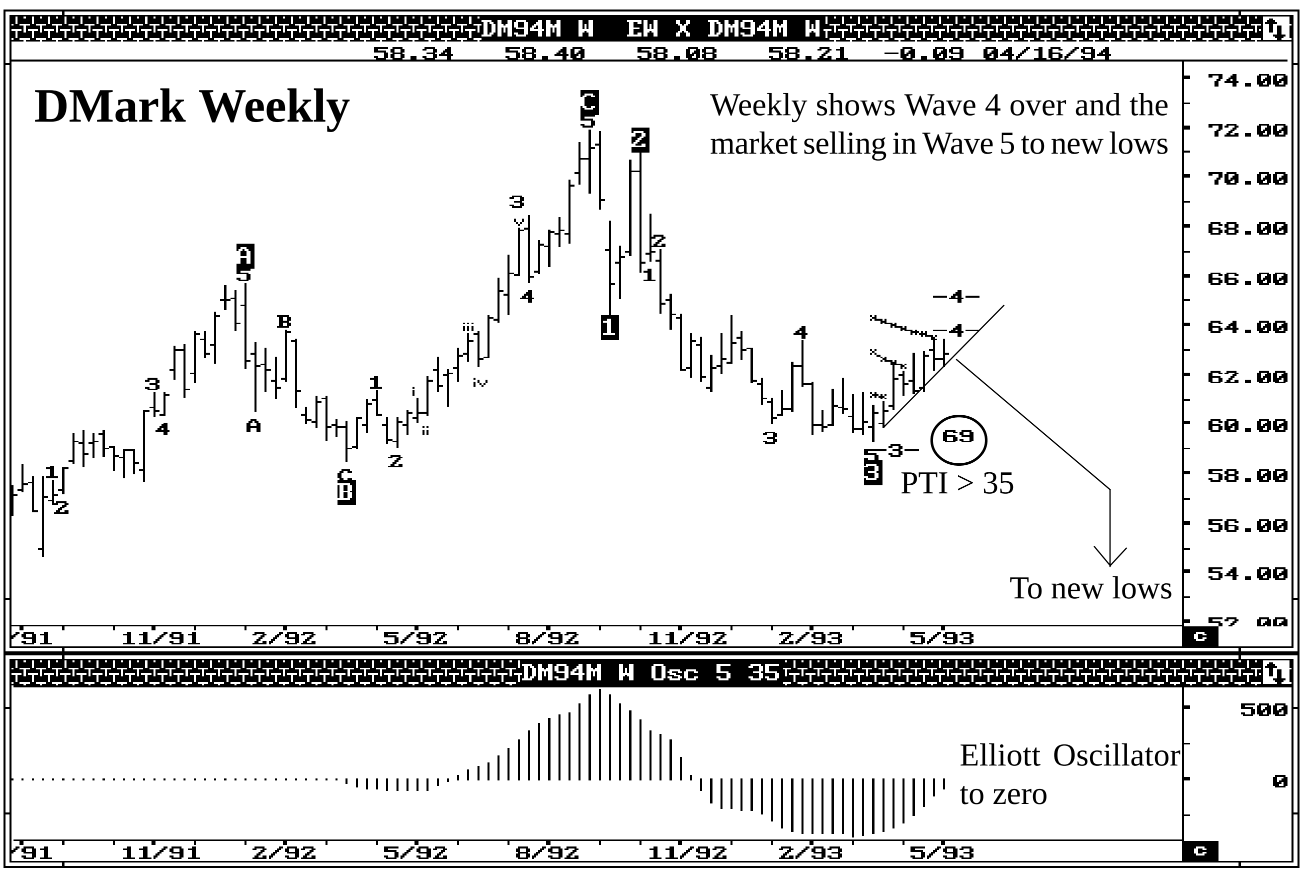


- All of this should set the stage for a rally to new highs.

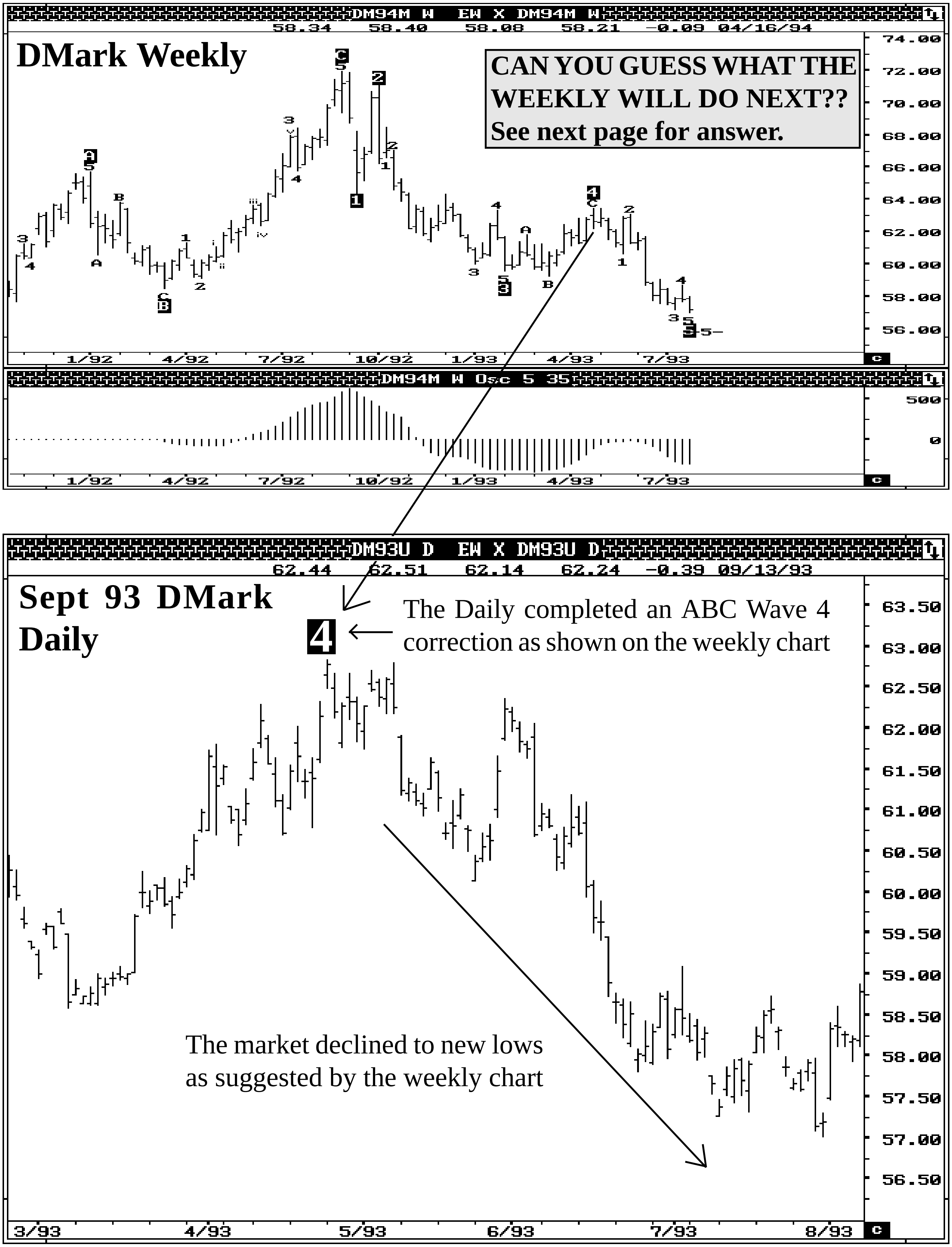
- Now lets check the weekly on the next page.

Cross-Referencing to Weekly to Daily

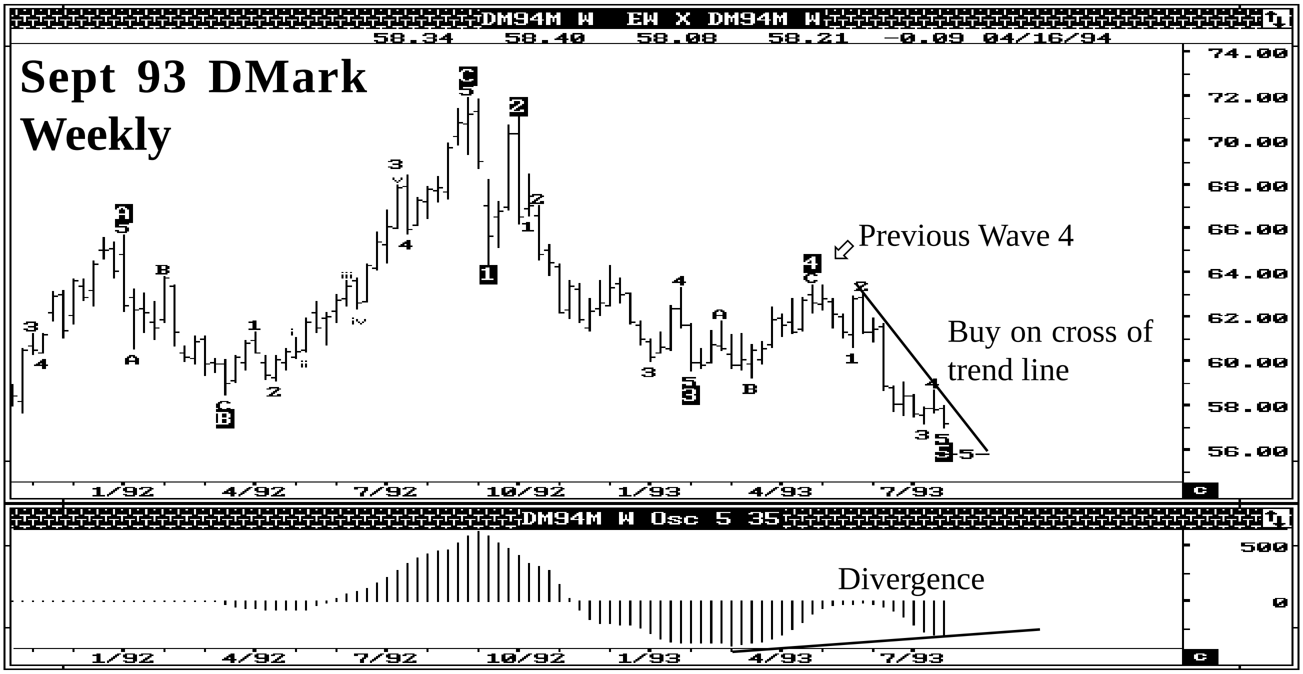


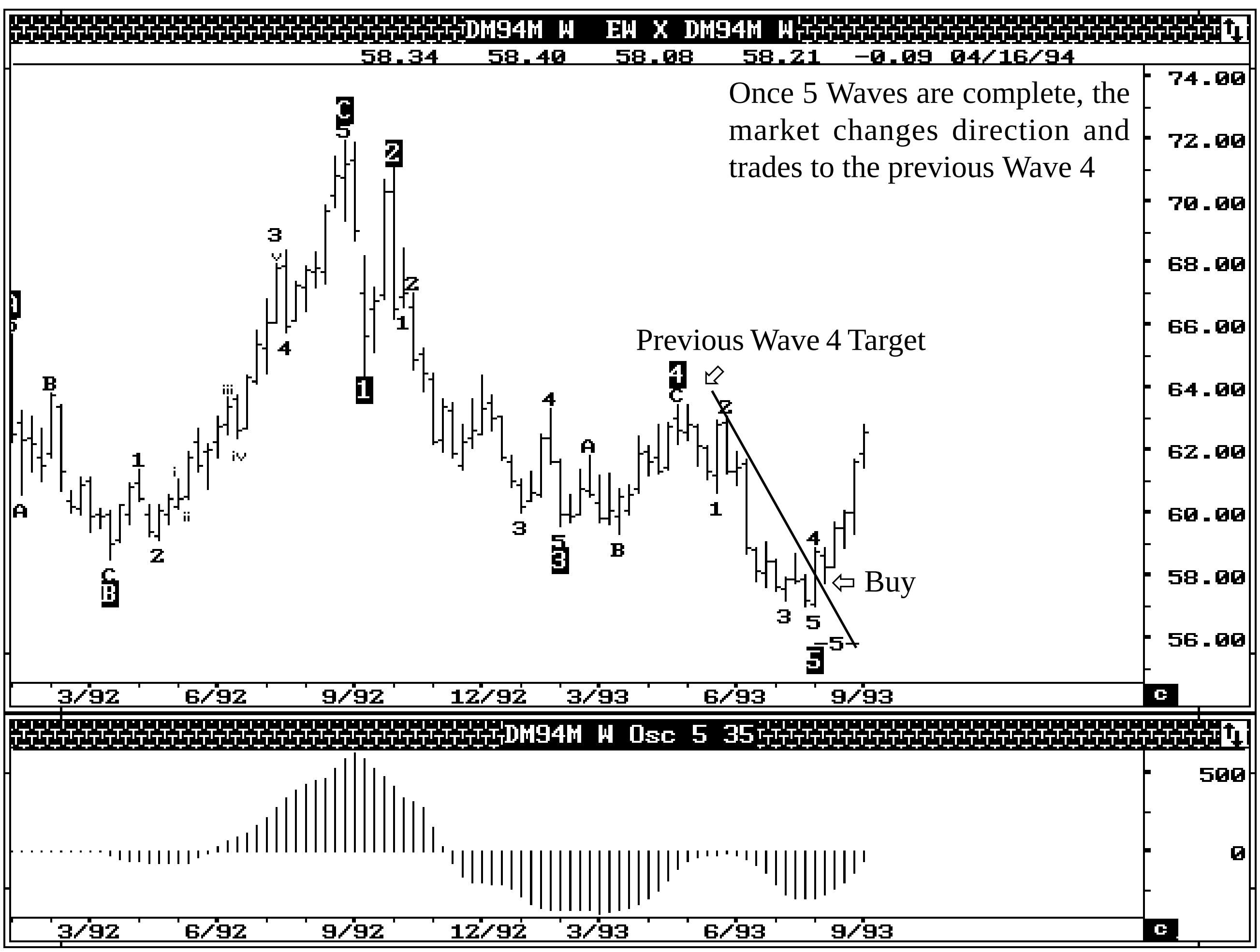


Cross-Referencing Pays Off



Subsequent Action on Weekly DMark





Adding Seasonal Patterns

Most commodities and stocks exhibit Seasonal Tendencies. Example: During the winter months, Heating Oil demand picks up. During the summer months, the grains tend to rally based on fear of no rain or too much rain. Prices of companies making toys generally are strong during major holidays and so forth.

By adding up years (generally 10 or more years) of price action on a log scale, you can eliminate trends and isolate just the Seasonal Tendency of each commodity or stock. One can use this Seasonal Tendency in conjunction with Elliott Wave analysis to help with timing the various segments of the Wave Counts.

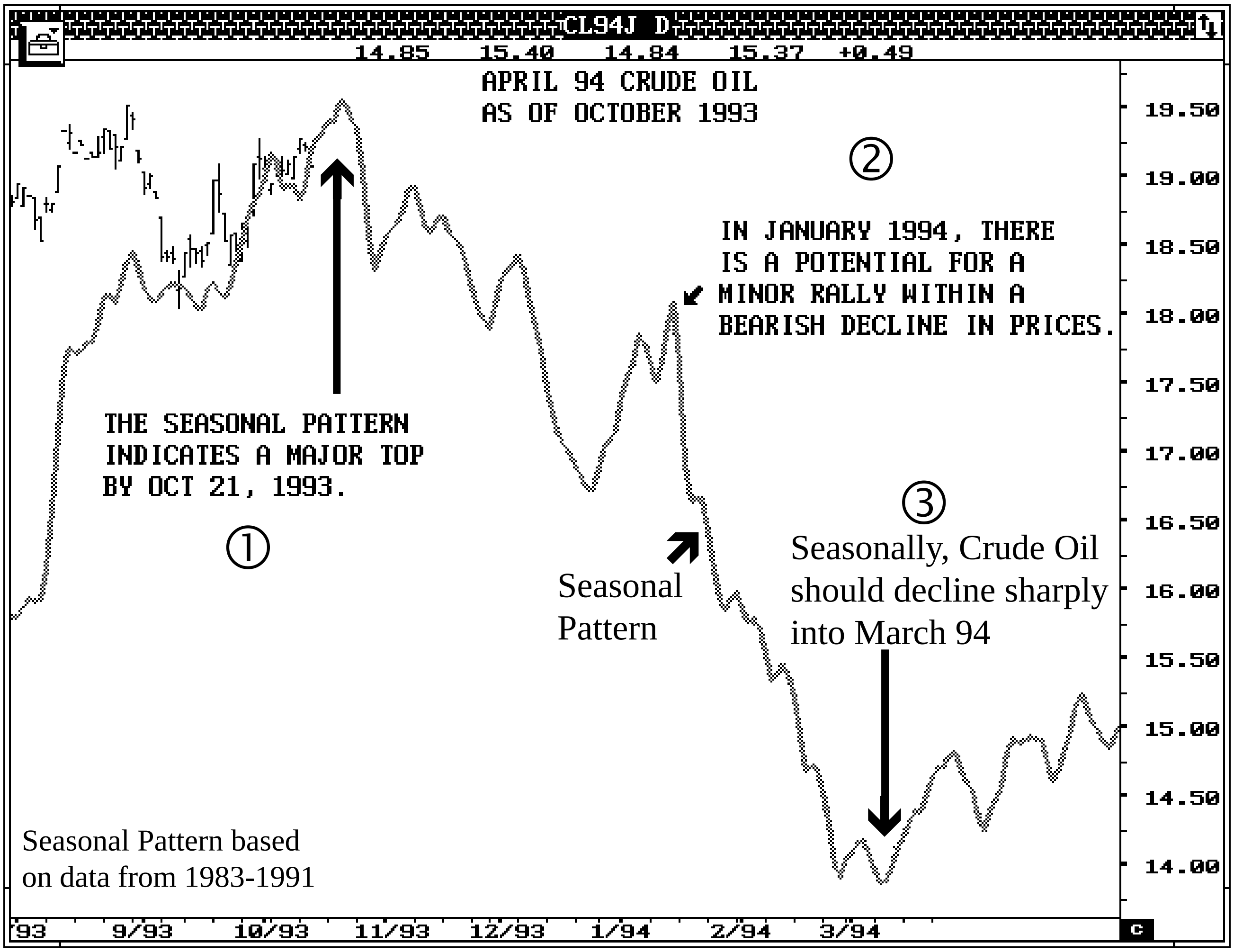
You can also use the Seasonal Tendency as a stand alone trading system. This is discussed in the GET manuals and on the seminar videos.

Here, we will concentrate on using Seasonal Tendencies with Elliott Wave analysis.

Seasonal Patterns

The April 94 chart of Crude Oil is shown as of October 1993.

The Seasonal Pattern is displayed through May 1994 *(almost seven months into the future)*. We have used the April contract to show continuity. In actual trading, one would use the current contact month.



The Seasonal analysis provides the following:

① Seasonally, Crude Oil should complete a major top by October 21, 1993.

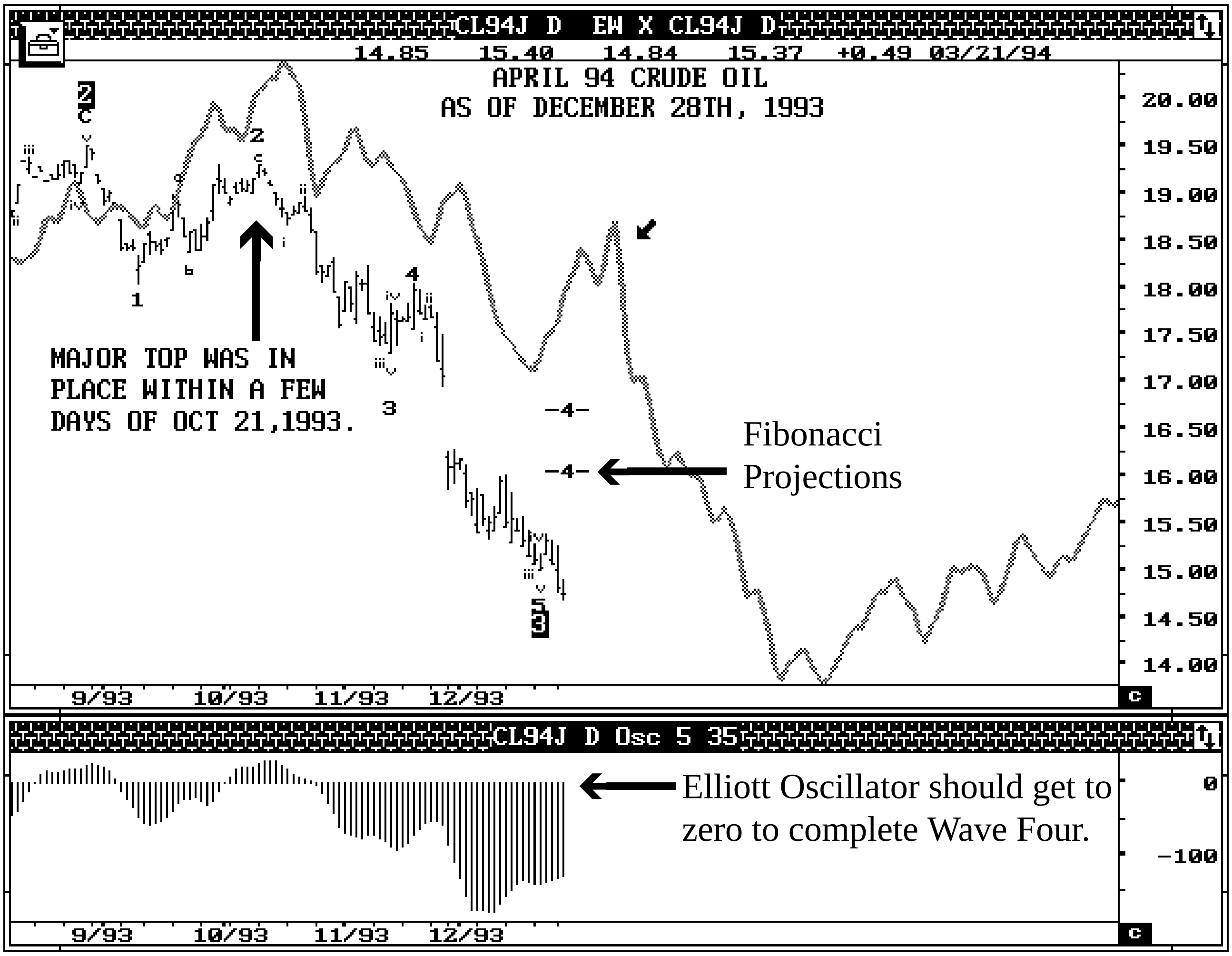
② The Seasonal Pattern indicates a bearish outlook for Crude Oil into the first quarter of 1994. During this period, Crude Oil should stage a rally *(within a bearish decline)* into early January 1994.

③ The Seasonal Pattern indicates a sharp decline into March 94.

Seasonal Patterns

The April 94 chart of Crude Oil is shown as of Dec 28, 1993.

As indicated by the Seasonal Pattern, the April 94 Crude Oil made a major top within days of October 21, 1993.



The Elliott Wave counts are shown:

April Crude is in a Wave Three decline. The next sequence should be a Wave Four rally. The Seasonal Pattern also confirms this outlook.

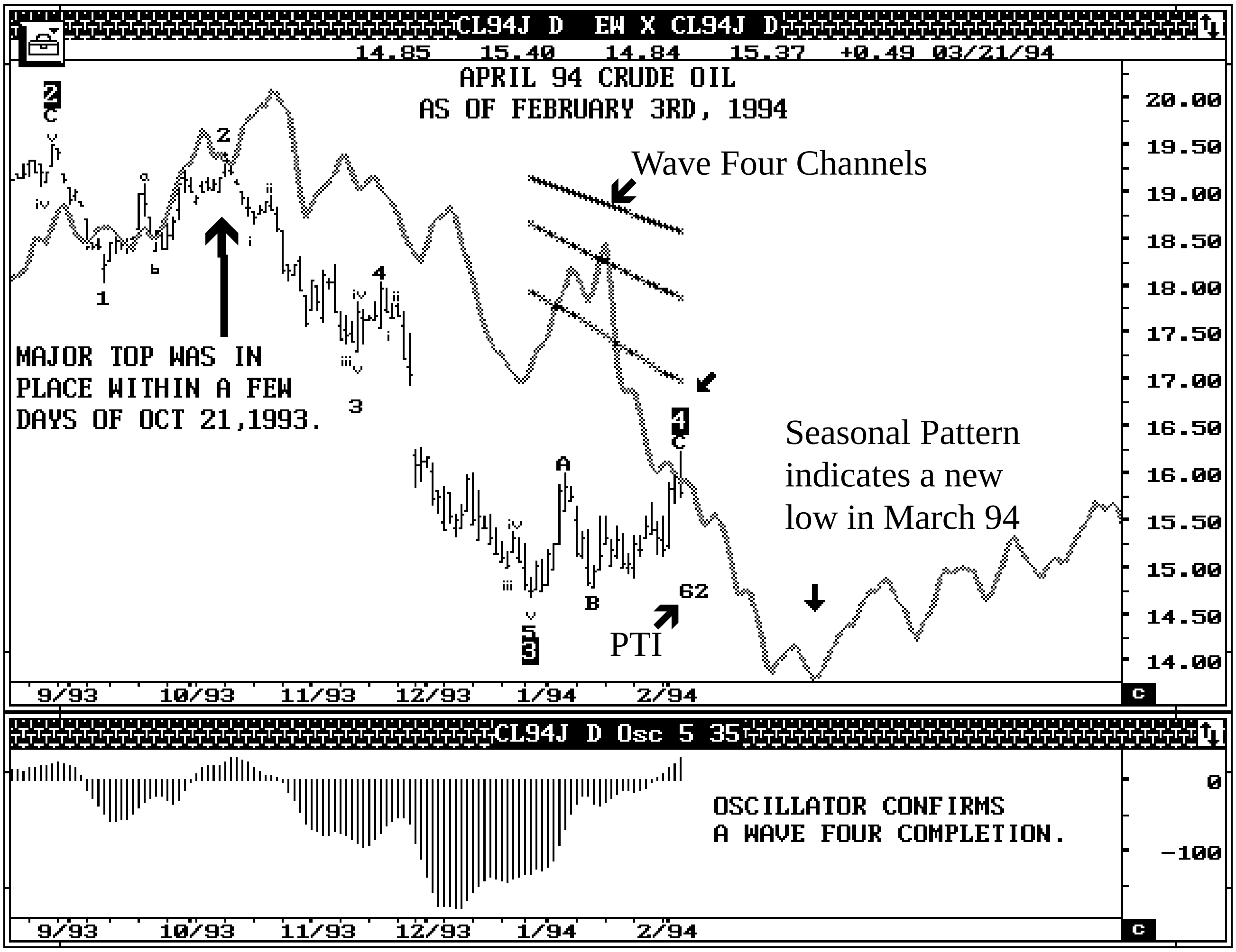
Based on the Seasonal Pattern, the Wave Four rally should come in during January 1994. Fibonacci targets range between 1607 to 1650.

Seasonal Patterns

The April 94 chart of Crude Oil is shown as of Feb 3, 1994.

The Wave Four rally showed up on target at the projected Fibonacci prices.

⎈ The Fibonacci ratios have been met. The Elliott Oscillator has pulled back to zero, confirming a Wave Four. The Profit Taking Index (**PTI**) is at 62. PTI value over 35 indicates strong odds for a Fifth Wave Decline.



⎈ The prices are under the Wave Four Channels. Statistically, this provides a better than 80% chance for a new low.

FORECAST BASED ON SEASONAL PATTERNS & ELLIOTT WAVE

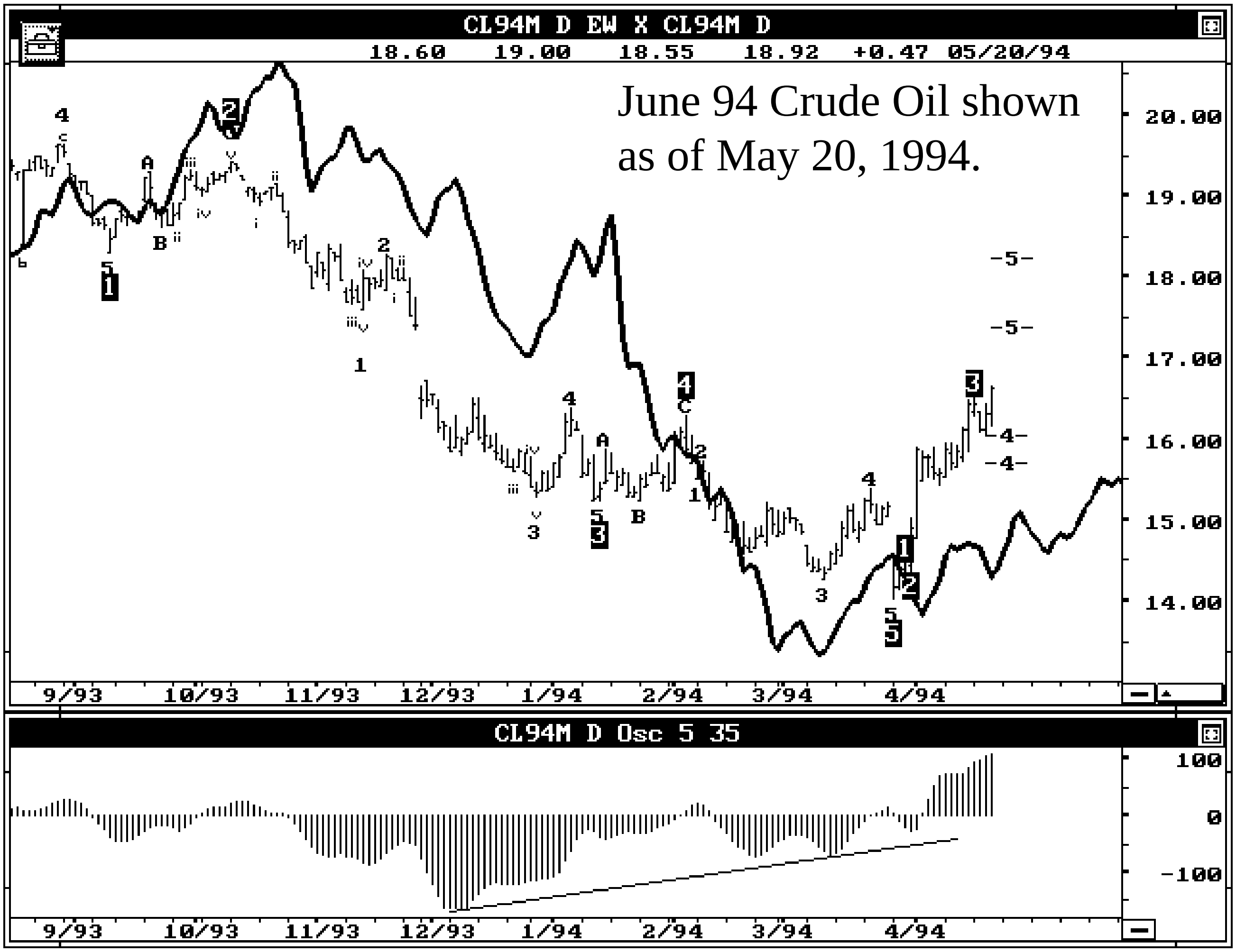
The Seasonal Pattern confirms the outlook for a new low in March 1994. This low should be a Wave Five low. Once the low is in place, the Seasonal Pattern shows the potential for a rally to the $16.00 level which is the previous Wave Four.

Seasonal Patterns

The June 94 chart of Crude Oil is shown as of May 20, 1994.

As projected by the Seasonal Pattern, the Wave Five low came in on target.

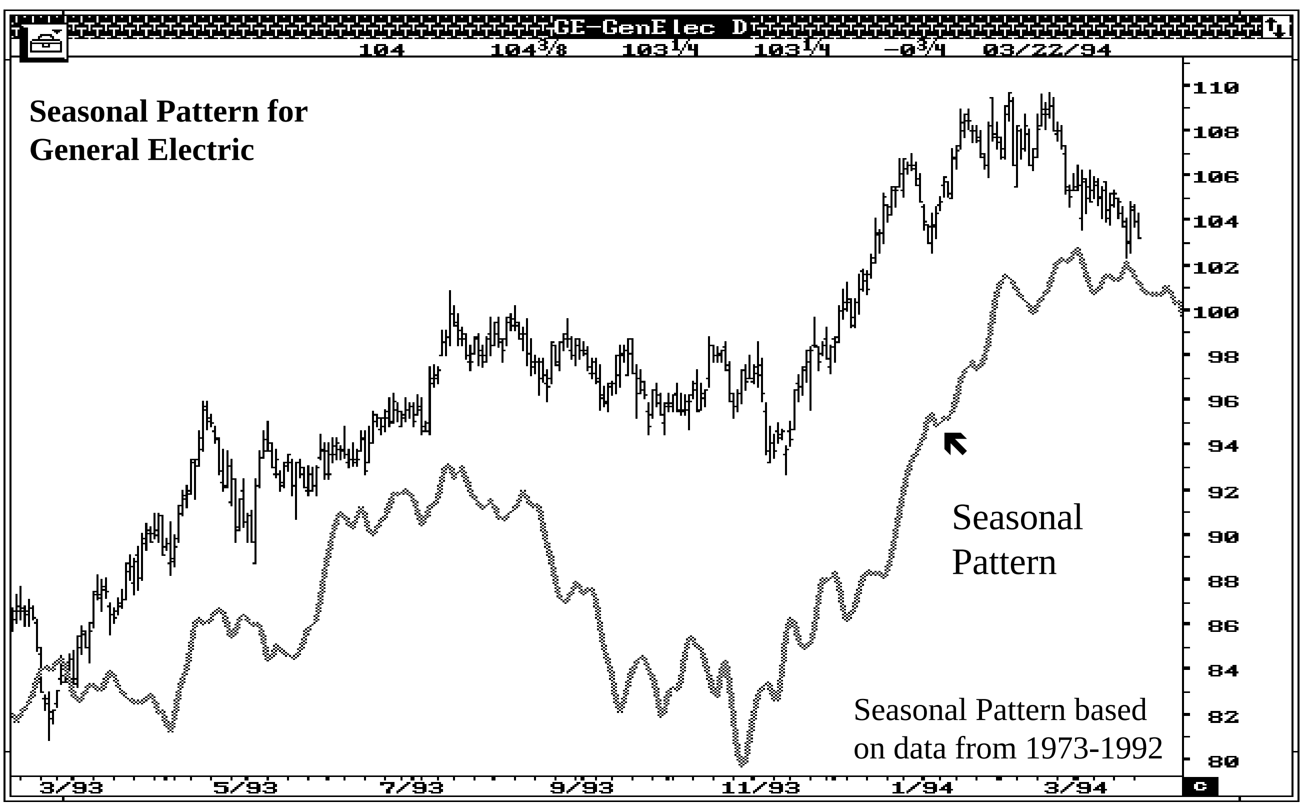
- Once Five Waves are over, the market changes trend.
- The Seasonal Pattern also projects a rally off the lows.



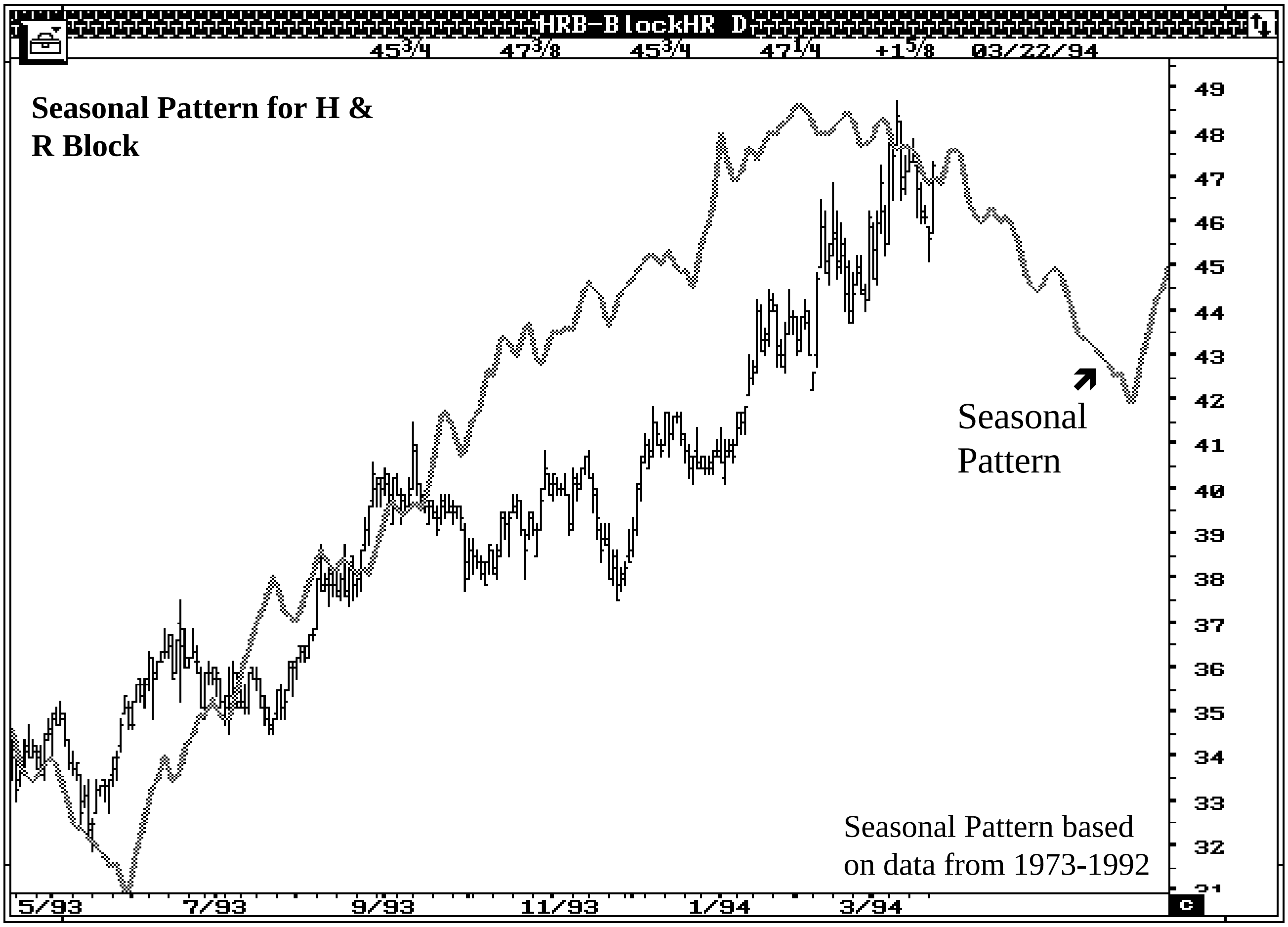
SEASONAL PATTERNS & ELLIOTT WAVE

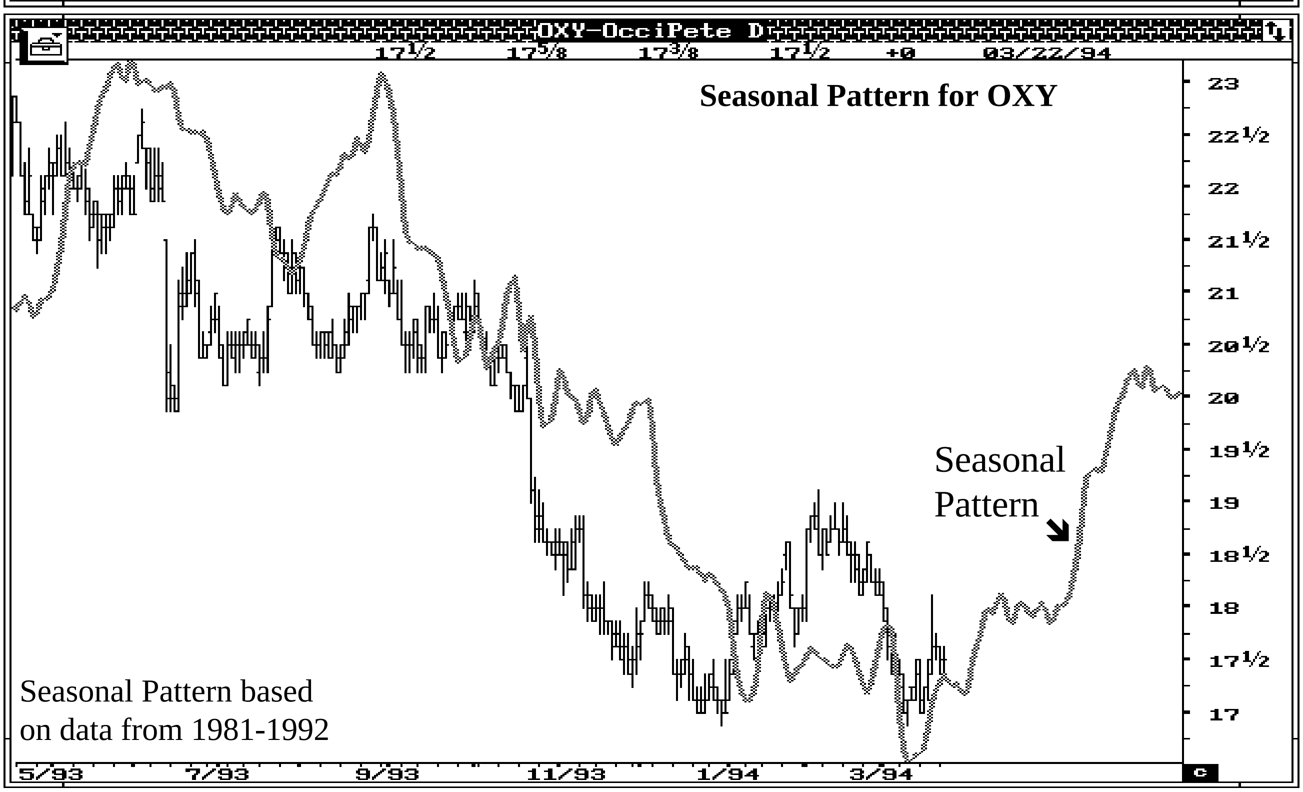
The Seasonal Patterns are a great addition to Elliott Wave analysis. You can easily create Seasonal Patterns by combining 10 years of data and getting an average for the pattern. Our software Advanced GET provides built in Seasonal Patterns for both Futures and Stocks.

Seasonal Tendencies are also found in Stocks



More examples of Seasonal Patterns for Stocks.

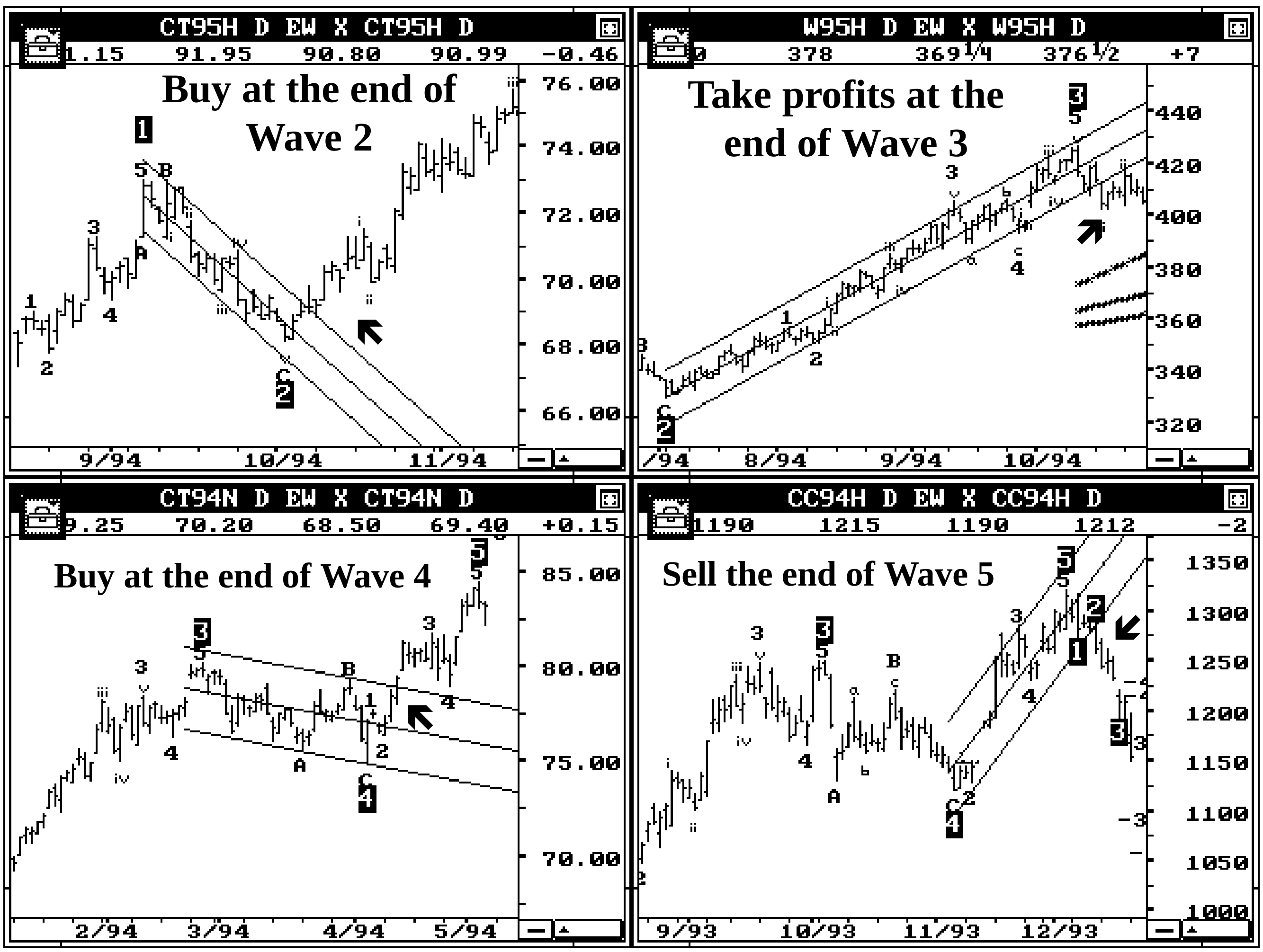




Further examples using Regression Trend Channels

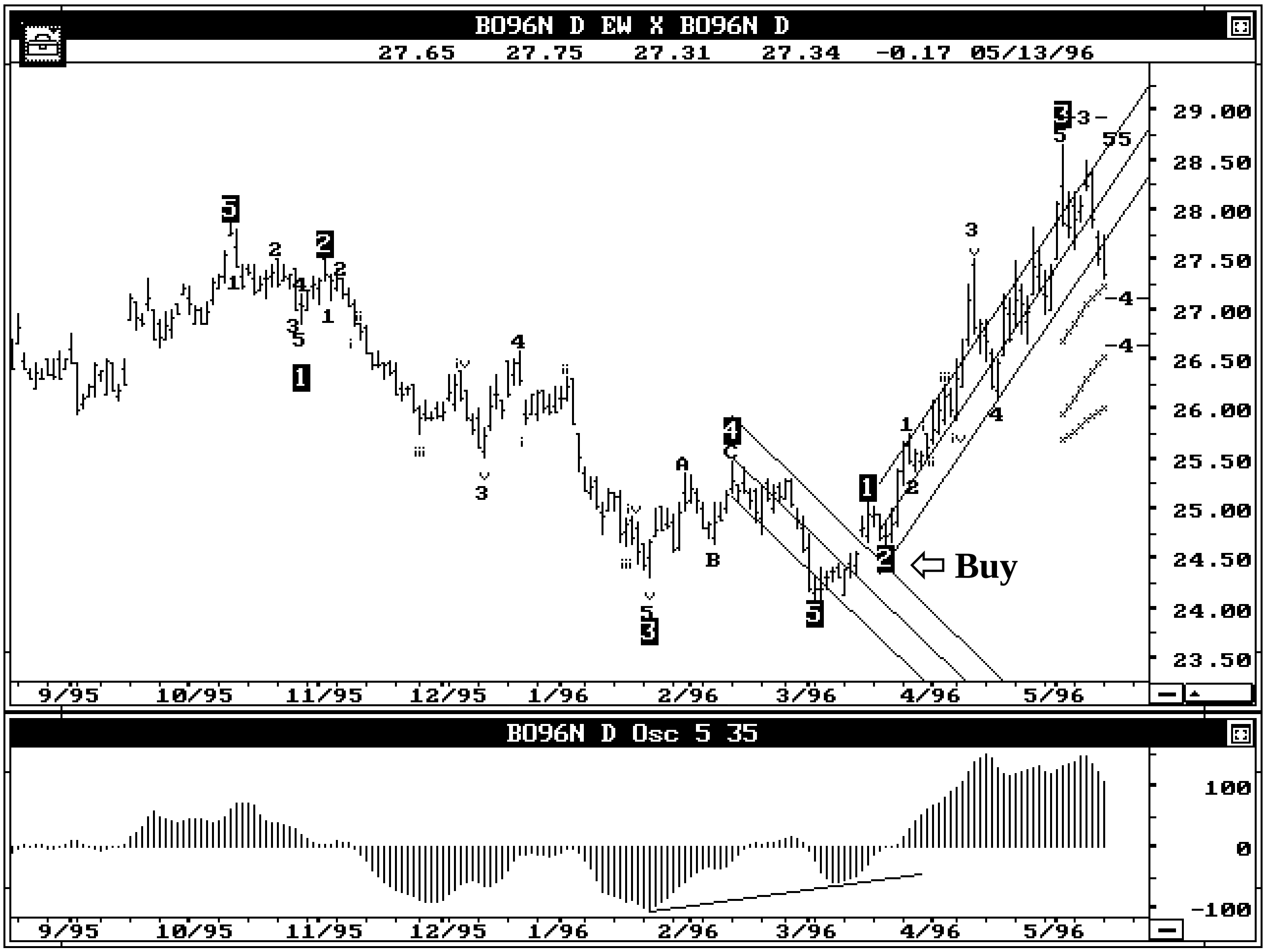
When the Market is trending or just trading with a bias in one direction, the Regression Trend Channels can be used to define the upper and lower boundaries of the market. As long as the momentum stays in the same direction, the market tends to stay within the channels. As soon as the market changes bias, the prices break the channel signalling the end of the move.

The primary functions of the Regression Trend Channels are **A)** catching the end of a Wave Two to trade the Wave Three phase **B)** Protecting profits inside a Wave Three **C)** Entering at the end of a Wave Four for the Fifth Wave sequence **D) Protecting** profits in a Fifth Wave and entering a trade in the opposite direction at the end of a Fifth Wave. The following examples will make this very clear.



Combining Elliott Wave Analysis with the Regression Trend Channels

July 96 Bean Oil. Type Two Buy
DAILY CHART



Once five waves are complete, the market changes direction.

Use the Regression Trend Channels for an entry point.

Once profits are generated, use the Regression Trend Channels to protect profits.

Combining Elliott Wave Analysis with the Regression Trend Channels

May 96 Cocoa. Type Two Buy
Daily Chart

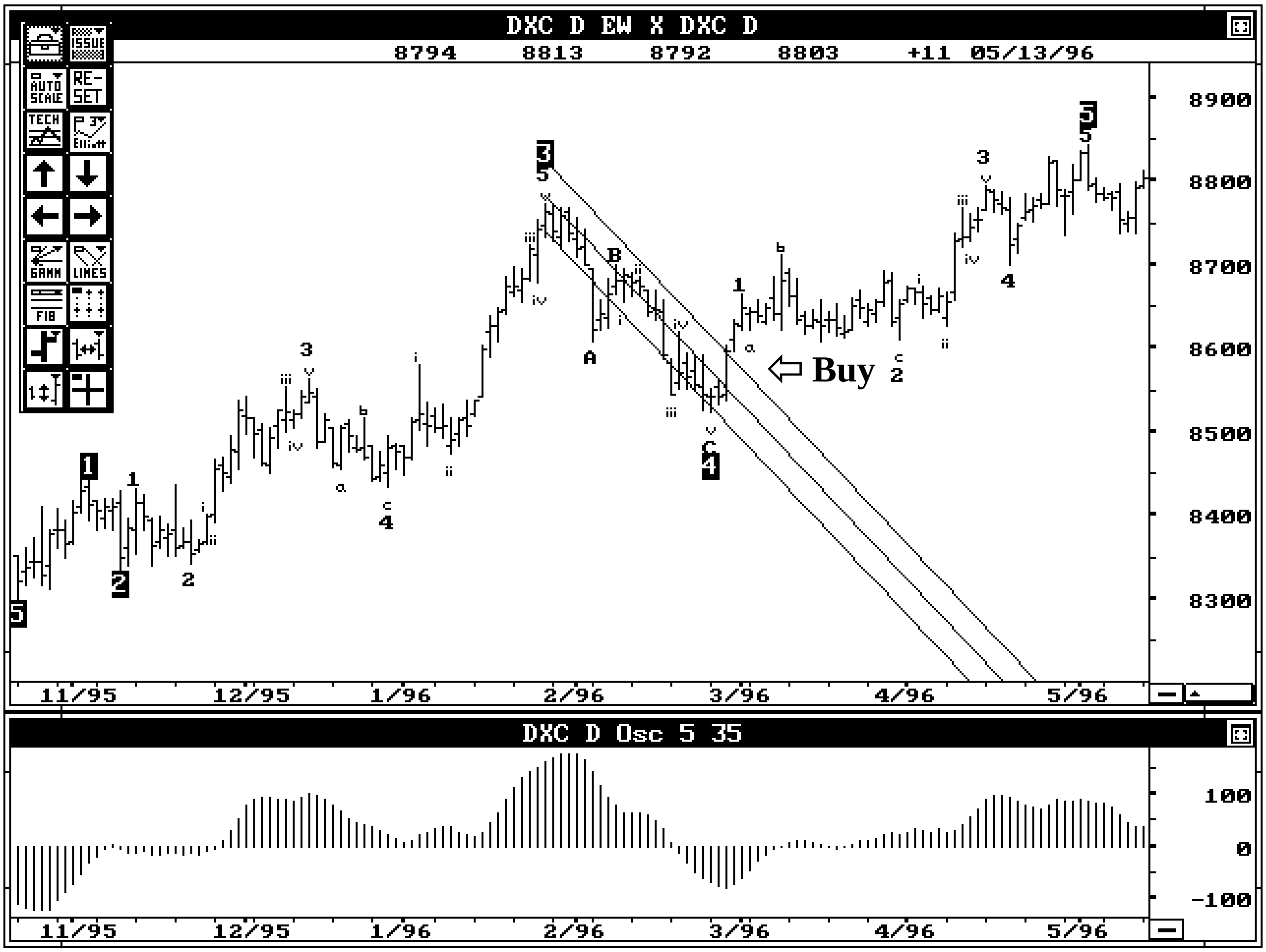
Once five waves are complete, the market changes direction.

Use the Regression Trend Channels for an entry point.

Once profits are generated, use the Regression Trend Channels to protect profits.

Combining Elliott Wave Analysis with the Regression Trend Channels

Dollar Index Cash. Type One Buy
Daily Chart



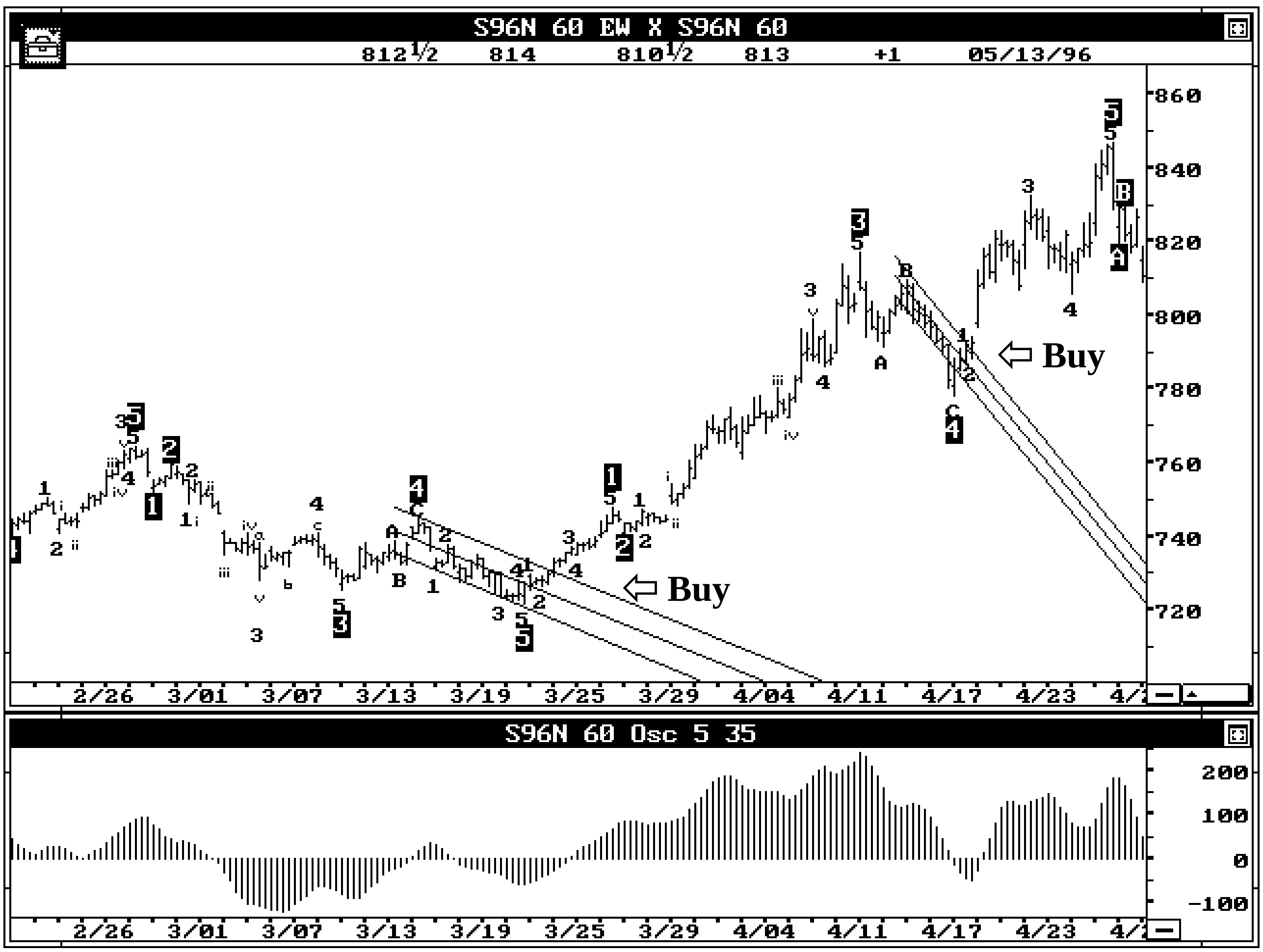
Once the Elliott Oscillator pulls back to zero, a rally attempt to new highs in Wave Five is usually the next pattern..

Use the Regression Trend Channels for an entry point.

Once profits are generated, use the Regression Trend Channels to protect profits.

Combining Elliott Wave Analysis with the Regression Trend Channels

July 96 Soybeans. Type Two & Type One Buy
60 min (hourly) chart



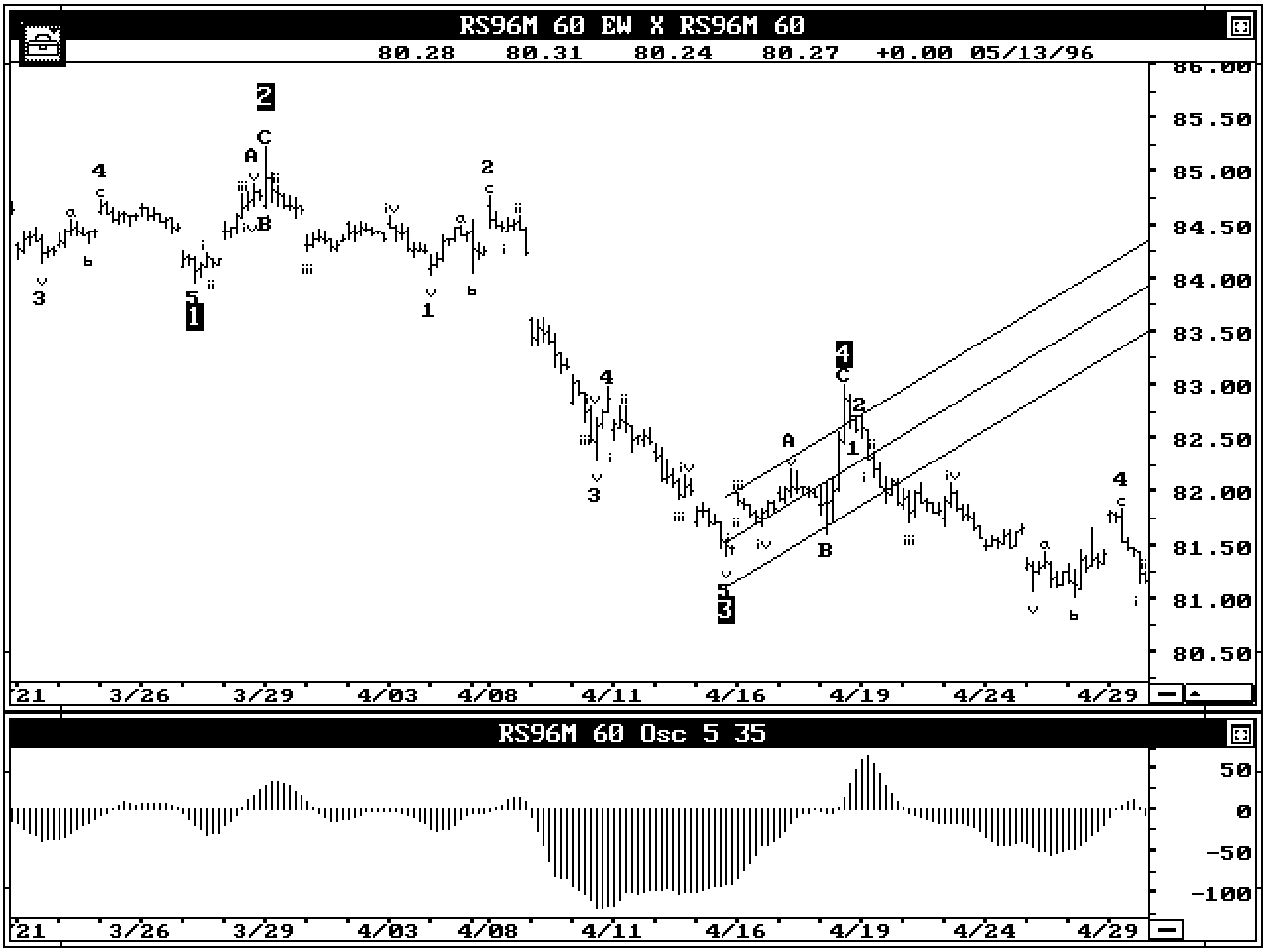
Once five waves are complete, the market changes direction. Use the Regression Trend Channels for an entry point.

60 min (Hourly) charts provide numerous trade opportunities that are not available from just a Daily chart. The same rules and techniques to the hourly charts.

Trading Techniques, Inc., provides a daily download for 60 min (hourly) data.

Combining Elliott Wave Analysis with the Regression Trend Channels

June 96 Swiss Franc (Pit only). Type One SELL
60 min (hourly) chart



Once the Elliott Oscillator pulls to zero, Wave Four is over and a decline to new lows in Wave Five begins. Use the Regression Trend Channels for an entry point.

60 min (Hourly) charts provide numerous trade opportunities that are not available from just a Daily chart. The same rules and techniques to the hourly charts.

Trading Techniques, Inc., provides a daily download for 60 min (hourly) data.

Conclusion

This concludes the discussion on using Elliott Wave Analysis to design a mechanical trading system.

As a technical analyst with an engineering background, I have developed and examined various analytical approaches to the market. Most have been discarded while a workable few have been saved and improved upon. I have discussed these studies in this report. When you combine these studies with Elliott Wave analysis, the performance on the whole produces exceptional results.

We can compare this approach of trading to a Christmas tree. The bare tree by itself is not very desirable. It is the lights, bulbs, ornaments, and beautifully wrapped gifts that give it that certain appeal.

Similarly, Elliott Wave Analysis in its raw form is like the bare tree. But when you start adding the other valuable tools and models to complement Elliott Wave analysis, you end up with a practical and workable trading system. As the ambiguous and subjective Wave structure becomes crisp and tradeable, you will discover how to make the markets render up Christmas gifts every day of the year.

Good luck trading.

Tom Joseph
Owner, Trading Techniques, Inc.
Active Full Time Trader