At the peak of wave (5) begins a down movement of correspondingly larger degree, composed once again of three waves. These three larger waves down "correct" the entire movement of five larger waves up. The result is another complete, yet larger, cycle, as shown in Figure 1-3. As Figure 1-3 illustrates, then, *each same-direction component of a motive wave, and each full-cycle component* (i.e., waves 1 + 2, or waves 3 + 4) *of a cycle, is a smaller version of itself.*

It is crucial to understand an essential point: Figure 1-3 not only illustrates a *larger* version of Figure 1-2, it also illustrates *Figure 1-2 itself*, in greater detail. In Figure 1-2, each subwave 1, 3 and 5 is a motive wave that will subdivide into a "five," and

each subwave 2 and 4 is a corrective wave that will subdivide into an a, b, c. Waves (1) and (2) in Figure 1-3, if examined under a "microscope," would take the same form as waves [1]* and [2]. All these figures illustrate the phenomenon of constant form within ever-changing degree.

The market's compound construction is such that two waves of a particular degree subdivide into eight waves of the *next* lower degree, and those eight waves subdivide in exactly the same manner into thirty-four waves of the next lower degree. The Wave Principle, then, reflects the fact that waves of any degree in any series always subdivide and re-subdivide into waves of lesser degree and simultaneously are components of waves of higher degree. Thus, we can use Figure 1-3 to illustrate two waves, eight waves or thirty-four waves, depending upon the degree to which we are referring.

The Essential Design

Now observe that within the corrective pattern illustrated as wave [2] in Figure 1-3, waves (a) and (c), which point downward, are composed of five waves: 1, 2, 3, 4 and 5. Similarly, wave (b), which points upward, is composed of three waves: a, b and c. This construction discloses a crucial point: that motive waves do not always point upward, and corrective waves do not always point downward. The mode of a wave is determined not by its absolute direction but primarily by its *relative* direction. Aside from four specific exceptions, which will be discussed later in this course, waves divide in *motive* mode (five waves) when trending in the same direction as the wave of one larger degree of which it is a part, and in *corrective* mode (three waves or a variation) when trending in the opposite direction. Waves (a) and (c) are motive, trending in the *same direction* as wave [2]. Wave (b) is corrective because it corrects wave (a) and is *countertrend* to wave [2]. In summary, the essential underlying tendency of the Wave Principle is that action in the same direction as the one larger trend develops in five waves, while reaction against the one larger trend develops in three waves, *at all degrees of trend*.

*Note: For this course, all Primary degree numbers and letters normally denoted by circles are shown with brackets.

Next Lesson: Essential Concepts

Lesson 3: Essential Concepts

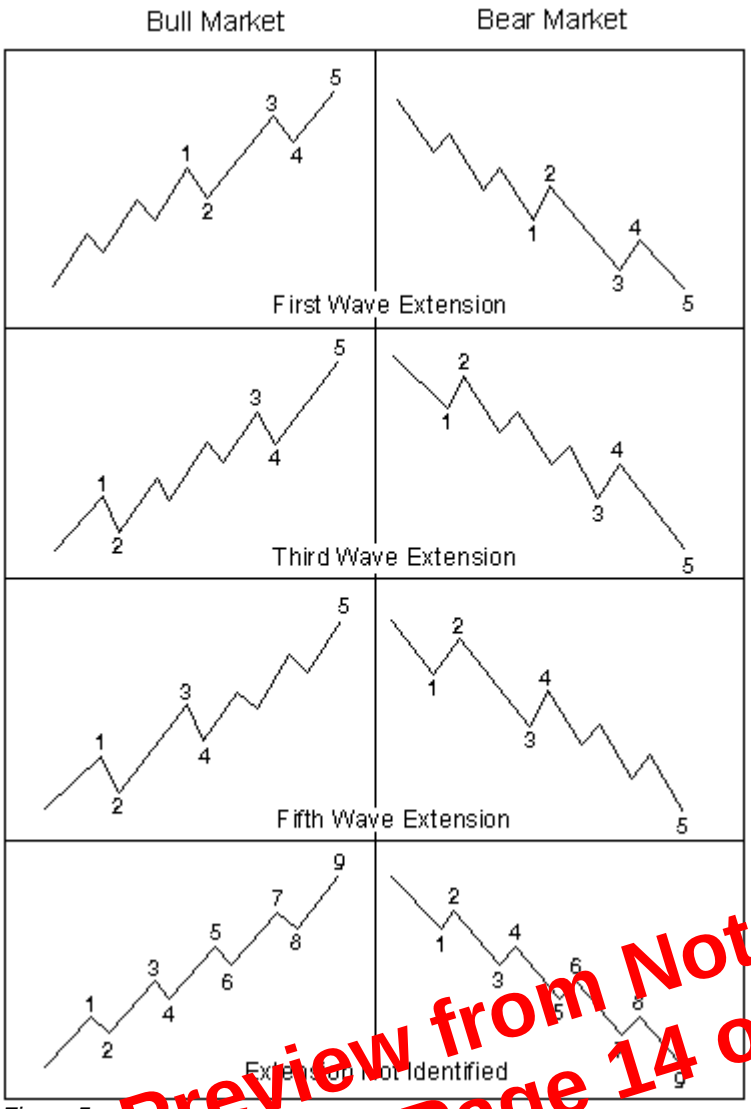


Figure 5

5

The fact that extensions typically occur in only one actionary subwave provides a useful guide to the expected lengths of upcoming waves. For instance, if the first and third waves are of about equal length, the fifth wave will likely be a protracted surge. (In waves below Primary degree, a developing fifth wave extension will be confirmed by new high volume, as described in Lesson 13 under "Volume.") Conversely, if wave three extends, the fifth should be simply constructed and resemble wave one.

In the stock market, *the most commonly extended wave is wave 3.* This fact is of particular importance to real time wave interpretation when considered in conjunction with two of the rules of impulse waves: that wave 3 is never the shortest actionary wave, and that wave 4 may not overlap wave 1. To clarify, let us assume two situations involving an improper middle wave, as illustrated in Figures 1-6 and 1-7.

Figure 1-14

Next Lesson: Diagonal Triangles

Lesson 5: 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 in 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.

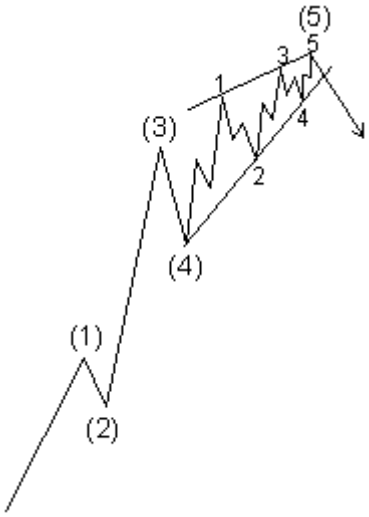


Figure 1-15

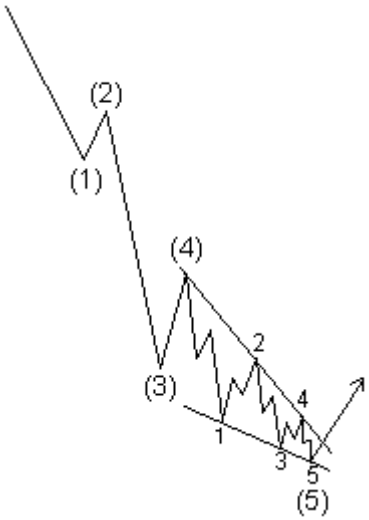
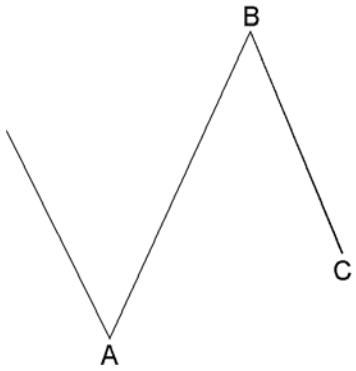


Figure 1-16

We have found one case in which the pattern's boundary lines *diverged*, creating an expanding wedge



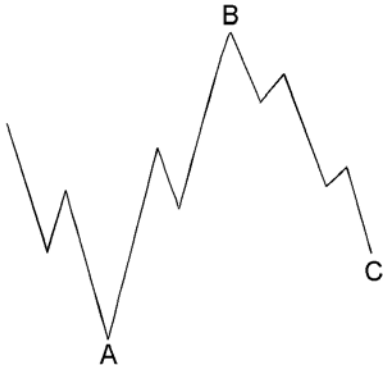
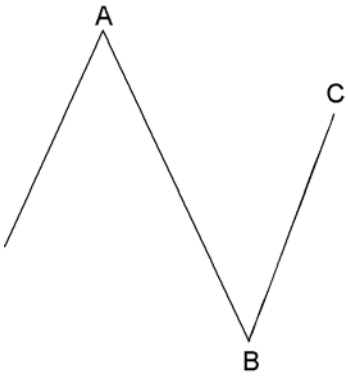


Figure 1-38 Figure 1-39



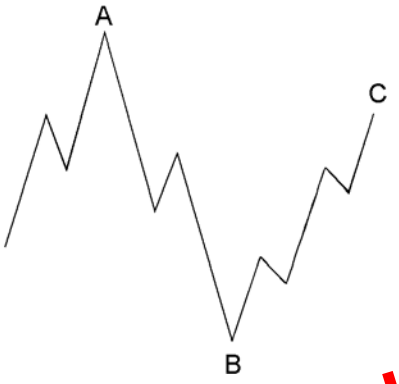


Figure 1-40 Figure 1-41

***Next Lesson*: Triangles**

Lesson 8: Triangles

Triangles appear to reflect a balance of forces, causing a sideways movement that is usually associated with decreasing volume and volatility. Triangles contain five overlapping waves that subdivide 3-3-3-3-3 and are labeled a-b-c-d-e. A triangle is delineated by connecting the termination points of waves a and c, and b and d. Wave e can undershoot or overshoot the a-c line, and in fact, our experience tells us that it happens more often than not.

There are two varieties of triangles: contracting and expanding. Within the contracting variety, there are three types: symmetrical, ascending, and descending, as illustrated in Figure 1-42. There are no variations on the rarer expanding triangle. It always appears as depicted in Figure 1-42, which is why Elliott termed it a "reverse symmetrical" triangle.

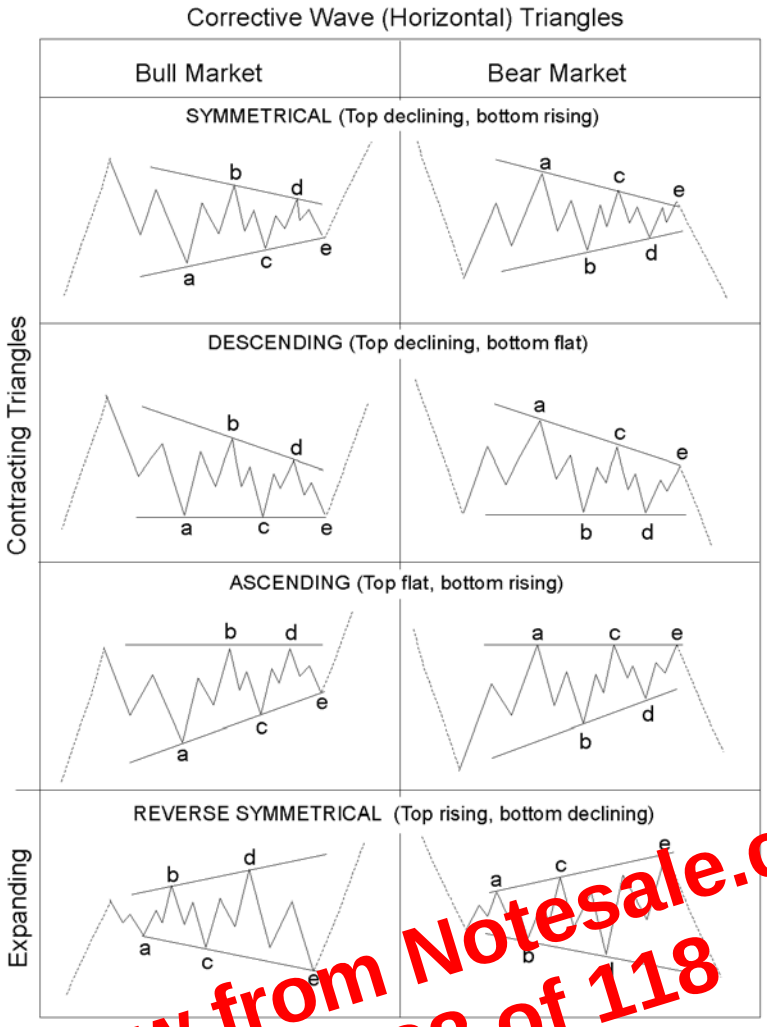


Figure 1-42

Figure 1-42 depicts contracting triangles as taking place within the area of preceding price action, in what may be termed *regular* triangles. However, it is extremely common for wave b of a contracting triangle to exceed the start of wave a in what may be termed a *running* triangle, as shown in Figure 1-43. Despite their sideways appearance, *all* triangles, including running triangles, effect a net retracement of the preceding wave at wave e's end.

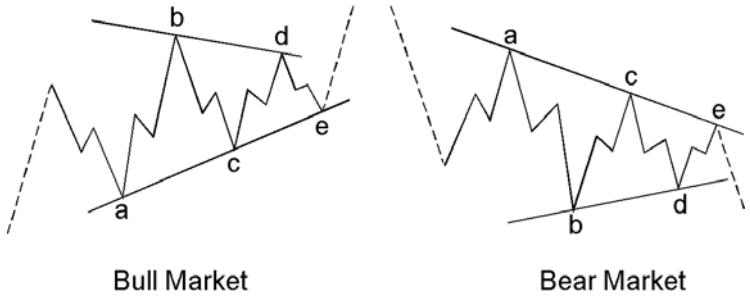


Figure 1-43

There are several real life examples of triangles in the charts in this course. As you will notice, most of the subwaves in a triangle are zigzags, but sometimes one of the subwaves (usually wave c) is more complex than the others and can take the shape of a regular or expanded flat or multiple zigzag. In rare cases, one of the sub-waves (usually wave e) is itself a triangle, so that the entire pattern protracts into nine waves. Thus, triangles, like zigzags, occasionally display a development that is analogous to an extension. One example occurred in silver from 1973 through 1977 (see Figure 1-44).

— wave Z in triple zigzags and triple corrections.

Because the waves listed above are actionary in relative direction yet develop in corrective mode, we term them "actionary corrective" waves.

As far as we know, we have listed all wave formations that can occur in the price movement of the broad stock market averages. Under the Wave Principle, no other formations than those listed here will occur. Indeed, since the hourly readings are a nearly perfectly matched filter for detailing waves of Subminuette degree, the authors can find no examples of waves above the Subminuette degree that cannot be counted satisfactorily by the Elliott method. In fact, Elliott Waves of much smaller degree than Subminuette are revealed by computer generated charts of minute-by-minute transactions. Even the few data points (transactions) per unit of time at this low a degree are enough to reflect accurately the Wave Principle of human behavior by recording the rapid shifts in psychology occurring in the "pits" and on the exchange floor. All rules (which were covered in Lessons 1 through 9) and guidelines (which are covered in Lessons 1 through 15) fundamentally apply to actual market mood, not its recording *per se* or lack thereof. Its clear manifestation requires free market pricing. When prices are fixed by government edict, such as those for gold and silver for half of the twentieth century, waves restricted by the edict are not allowed to register. When the available price record differs from what might have existed in a free market, rules and guidelines must be considered in that light. In the long run, of course, markets always win out over edicts, and edict enforcement is only possible if the mood of the market allows it. All rules and guidelines presented in this course presume that your price record is accurate. Now that we have presented the rules and rudiments of wave formation, we can move on to some of the guidelines for successful analysis under the Wave Principle.

Next Lesson: **The Guideline of Alternation**

Lesson 10: The guideline of alternation

The guidelines presented in Lessons 10-15 are discussed and illustrated in the context of a bull market. Except where specifically excluded, they apply equally in bear markets, in which context the illustrations and implications would be inverted.

Alternation

The guideline of alternation is very broad in its application and warns the analyst always to expect a difference in the next expression of a similar wave. Hamilton Bolton said,

The writer is *not* convinced that alternation is *inevitable* in types of waves in larger formations, but there are frequent enough cases to suggest that one should look for it rather than the contrary.

Although alternation does not say precisely what is going to happen, it gives valuable notice of what *not* to expect and is therefore useful to keep in mind when analyzing wave formations and assessing future possibilities. It primarily instructs the analyst not to assume, as most people tend to do, that because the last market cycle behaved in a certain manner, this one is sure to be the same. As "contrarians" never cease to point out, the day that most investors "catch on" to an apparent habit of the market is the day it will change to one completely different. However, Elliott went further in stating that, in fact, alternation was virtually a law of markets.

Alternation Within Impulses

If wave two of an impulse is a sharp correction, expect wave four to be a sideways correction, and vice versa. Figure 2-1 shows the most characteristic breakdowns of impulse waves, both up and down, as suggested by the guideline of alternation. Sharp corrections never include a new price extreme, i.e., one that lies beyond the orthodox end of the preceding impulse wave. They are almost always zigzags (single, double or triple); occasionally they are double threes that *begin* with a zigzag. Sideways corrections include flats, triangles, and double and triple corrections. They usually include a new price extreme, i.e., one that lies beyond the orthodox end of the preceding impulse wave. In rare cases, a regular triangle (one that does not include a new price extreme) in the fourth wave position will take the place of a sharp correction and alternate with another type of sideways pattern in the second wave position. The idea of alternation within impulses can be summarized by saying that one

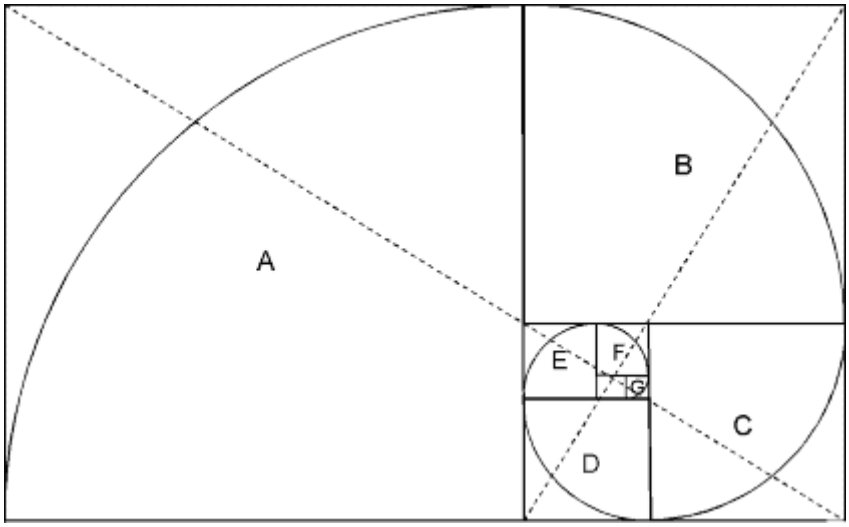
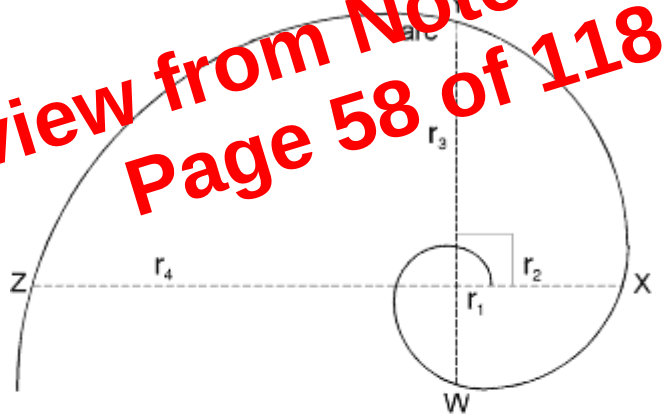


Figure 3-7

The dotted lines, which are themselves in golden proportion to each other, diagonally bisect the rectangles and pinpoint the theoretical center of the whirling squares. From near this central point, we can draw the spiral as shown in Figure 3-7 by connecting the points of intersection for each whirling square, in order of increasing size. As the squares whirl inward and outward, their connecting points trace out a Golden Spiral. The same process, but using a sequence of whirling triangles, also can be used to construct a Golden Spiral.

At any point in the evolution of the Golden Spiral, the ratio of the length of the arc to its diameter is 1.618. The diameter and radius, in turn, are related by 1.618 to the diameter and radius 90° away, as illustrated in Figure 3-8.



$$\frac{r_2}{r_1} = \frac{r_3}{r_2} = \frac{r_4}{r_3} = \ldots = \frac{r_n}{r_{n-1}} = 1.618$$

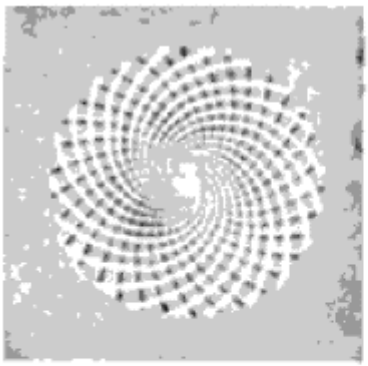
$$\frac{d_2}{d_1} = \frac{d_3}{d_2} = \ldots = \frac{d_n}{d_{n-1}} = 1.618$$

(where $d_1 = r_1 + r_2$, $d_2 = r_2 + r_3$, etc.)

$$\frac{\text{arcXY}}{\text{arcWX}} = \frac{\text{arcYZ}}{\text{arcXY}}, \text{ etc.} = \frac{\text{arcXZ}}{\text{arcWY}} = 1.618$$

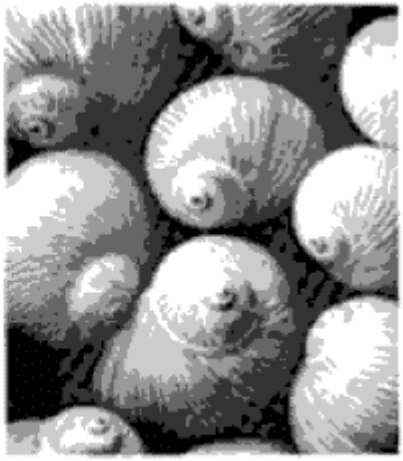
$$\frac{\text{arcWY}}{\text{diam. (WY)}} = \frac{\text{arcXZ}}{\text{diam. (XZ)}}, \text{ etc.} = 1.618$$

Figure 3-8



A SPIRALED FLOWER

The diagram above reveals the double spiraling of the daisy head at right. Two opposing sets of rotating spirals are formed by the arrangement of the individual florets in the head. They are also less perfect equiangular spirals. There are 21 in the clockwise direction and 34 counterclockwise. This 21:34 ratio is composed of two adjacent terms in the mysterious Fibonacci sequence



Shells

Figure 3-9d

While the mere mention of the Great Pyramid may serve as an engraved invitation to skepticism (perhaps for good reason), keep in mind that its form reflects the same fascination held by pillars of Western scientific, mathematical, artistic and philosophic thought, including Plato, Pythagoras, Bernoulli, Kepler, DaVinci and Newton. Those who designed and built the pyramid were likewise demonstrably brilliant scientists, astronomers, mathematicians and engineers. Clearly they wanted to enshrine for millennia the Golden Ratio as something of transcendent importance. That such a caliber of people, who were later joined by some of the greatest minds of Greece and the Enlightenment in their fascination for this ratio, undertook this task is itself important. As for *why*, all we have is conjecture from a few authors. Yet that conjecture, however obtuse, curiously pertains to our own observations. It has been surmised that the Great Pyramid, for centuries after it was built, was used as a temple of initiation for those who proved themselves worthy of understanding the great universal secrets. Only those who could rise above the crude acceptance of things as they seemed to discover what, in actuality, they *were*, could be instructed in "the mysteries," i.e., the complex truths of eternal order and growth. Did such "mysteries" include *phi*? Tompkins explains, "The pharaonic Egyptians, says Schwaller de Lubicz, considered *phi* not as a number, but as a symbol of the creative function, or of reproduction in an endless series. To them it represented `the fire of life, the male action of sperm, the *logos* [referenced in] the gospel of St. John.'" *Logos*, a Greek word, was defined variously by Heraclitus and subsequent pagan, Jewish and Christian philosophers as meaning the rational order of the universe, an immanent natural law, a life-giving force hidden within things, the universal structural force governing and permeating the world.

Consider when reading such deep yet vague descriptions that these people could not clearly *see* what they sensed. They did not have graphs and the Wave Principle to make nature's growth pattern manifest and were doing the best they could to describe an organizational principle that they discerned as shaping the natural world. If these ancient philosophers were right that a universal structural force governs and permeates the world, should it not govern and permeate the world of man? If forms throughout the universe, including man's body, brain and DNA, reflect the form of *phi*, might man's activities reflect it as well? If *phi* is the life-force in the universe, might it be the impulse behind the progress in man's productive capacity? If *phi* is a symbol of the creative function, might it govern the creative activity of man? If man's progress is based upon production and reproduction "in an endless series," is it not reasonable that such progress has the spiraling form of *phi*, and that this form is discernible in the movement of the valuation of its productive capacity, i.e., the stock market? Just as the initiated Egyptians learned the hidden truths of order and growth in the universe behind the apparent randomness and chaos (something that modern "chaos theory" has finally rediscovered in the 1980s), so the stock market is, in our opinion, can be understood properly if it is taken for what it *is* rather than for what it crudely appears to be upon cursory consideration. The stock market is not a random, formless mess reacting to current news events but a remarkably precise recording of the formal structure of the progress of man.

Compare this concept with astronomer William Kingsland's words in *The Great Pyramid in Fact and in Theory* that Egyptian astronomy/astrology was a "profoundly esoteric science connected with the great cycles of man's evolution." The Wave Principle explains the great cycles of man's evolution and reveals how and why they unfold as they do. Moreover, it encompasses micro as well as macro scales, all of which are based upon a paradoxical principle of dynamism and variation within an unaltered form.

It is this form that gives structure and unity to the universe. Nothing in nature suggests that life is disorderly or formless. The word "universe" means "one order." If life has form, then we must not reject the probability that human progress, which is part of the reality of life, also has order and form. By extension, the stock market, which values man's productive enterprise, will have order and form as well. All technical approaches to understanding the stock market depend on the basic principle of order and form. Elliott's theory, however, goes beyond all others. It postulates that no matter how minute or how large the form, *the basic design remains constant.*

Elliott, in his second monograph, used the title *Nature's Law — The Secret of the Universe* in preference to "The Wave Principle" and applied it to all sorts of human activity. Elliott may have gone too far in saying that the Wave Principle was *the* secret of the universe, as nature appears to have created numerous forms and processes, not just one simple design. Nevertheless, some of history's greatest scientists, mentioned earlier, would probably have agreed with Elliott's formulation. At minimum, it is credible to say that the Wave Principle is one of the most important secrets of the universe. Even this grandiose claim at first may appear to be only so much tall talk to practically-

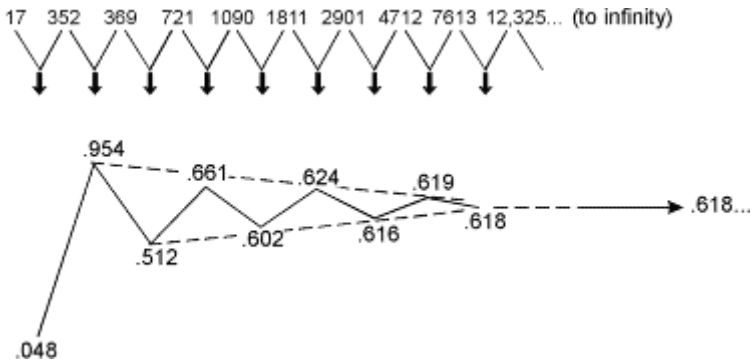


Figure 3-18

In its broadest sense, the Elliott Wave Principle proposes that the same law that shapes living creatures and galaxies is inherent in the spirit and activities of men *en masse*. The Elliott Wave Principle shows up clearly in the market because the stock market is the finest reflector of mass psychology in the world. It is a nearly perfect recording of man's social psychological states and trends, which produce the fluctuating valuation of his own productive enterprise, making manifest its very real patterns of progress and regress. What the Wave Principle says is that mankind's progress (of which the stock market is a popularly determined valuation) does not occur in a straight line, does not occur randomly, and does not occur cyclically. Rather, progress takes shape in a "three steps forward, two steps back" fashion, a form that nature prefers. In our opinion, the parallels between and Wave Principle and other natural phenomena are too great to be dismissed as just so much nonsense. On the balance of probabilities, we have come to the conclusion that there is a principle, everywhere present, giving shape to social affairs, and that Einstein knew what he was talking about when he said, "God does not play dice with the universe." The stock market is no exception as mass behavior is undeniably linked to a law that can be studied and defined. The briefest way to express this principle is a simple mathematical statement: the 1.618 ratio.

The *Desiderata,* by poet Max Ehrmann, reads, "You are a child of the Universe, no less than the trees and the stars; you have a right to be here. And whether or not it is clear to you, no doubt the Universe is unfolding as it should." Order in life? Yes. Order in the stock market? Apparently.

Next Lesson: Introduction to Ratio Analysis

In 1939, *Financial World* magazine published twelve articles by R.N. Elliott entitled "The Wave Principle." The original publisher's note, in the introduction to the articles, stated the following:

> During the past seven or eight years, publishers of financial magazines and organizations in the investment advisory field have been virtually flooded with "systems" for which their proponents have claimed great accuracy in forecasting stock market movements. Some of them appeared to work for a while. It was immediately obvious that others had no value whatever. All have been looked upon by *The Financial World* with great skepticism. But after investigation of Mr. R.N. Elliott's Wave Principle, *The Financial World* became convinced that a series of articles on this subject would be interesting and instructive to its readers. To the individual reader is left the determination of the value of the Wave Principle as a working tool in market forecasting, but it is believed that it should prove at least a useful check upon conclusions based on economic considerations.
>
> — The Editors of *The Financial World*

In the rest of this course, we reverse the editors' suggested procedure and argue that economic considerations at best may be thought of as an ancillary tool in checking market forecasts based entirely upon the Elliott Wave Principle.

Lesson 20: INTRODUCTION TO RATIO ANALYSIS

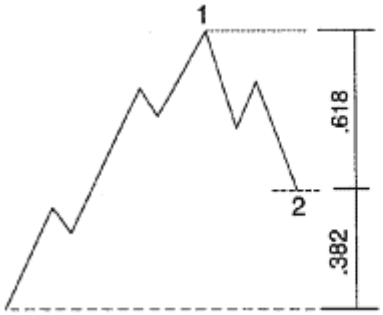
Ratio Analysis

Ratio analysis is the assessment of the proportionate relationship, in time and amplitude, of one wave

Ratio analysis has revealed a number of precise price relationships that occur often among waves. There are two categories of relationships: retracements and multiples.

Retracements

Occasionally, a correction retraces a Fibonacci percentage of the preceding wave. As illustrated in Figure 4-1, sharp corrections tend more often to retrace 61.8% or 50% of the previous wave, particularly when they occur as wave 2 of an impulse wave, wave B of a larger zigzag, or wave X in a multiple zigzag. Sideways corrections tend more often to retrace 38.2% of the previous impulse wave, particularly when they occur as wave 4, as shown in Figure 4-2.



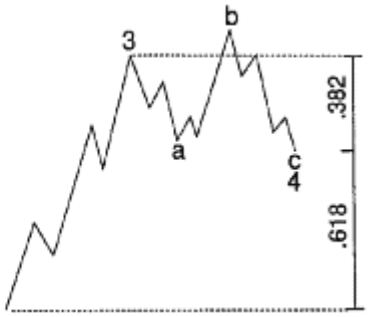


Figure 4-1 *Figure 4-2*

Retracements come in all sizes. The ratios shown in Figures 4-1 and 4-2 are merely tendencies, yet that is where most analysts place an inordinate focus because measuring retracements is easy. Far more precise and reliable, however, are relationships between *alternate* waves, or lengths unfolding in the same direction, as explained in the next section.

Next Lesson: Motive and Corrective Wave Multiples

Lesson 21: Motive and Corrective Wave Multiples

WAVE MULTIPLES

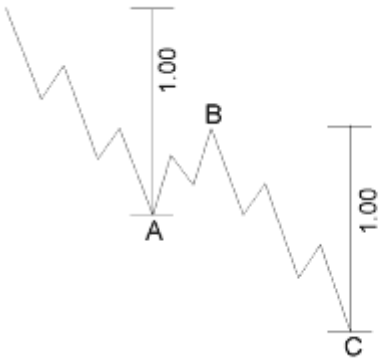
Motive Wave Multiples

Lesson 12 mentioned that when wave 3 is extended, waves 1 and 5 tend towards equality or a .618 relationship, as illustrated in Figure 4-3. Actually, all three motive waves tend to be related by Fibonacci mathematics, whether by equality, 1.618 or 2.618 (whose inverses are .618 and .382). These impulse wave relationships usually occur in *percentage* terms. For instance, wave I from 1932 to 1937 gained 371.6%, while wave III from 1942 to 1966 gained 971.7%, or 2.618 times as much. Semilog scale is required to reveal these relationships. Of course, at small degrees, arithmetic and

Figure 4-6 *Figure 4-7*

Corrective Wave Multiples

In a zigzag, the length of wave C is usually equal to that of wave A, as shown in Figure 4-8, although it is not uncommonly 1.618 or .618 times the length of wave A. This same relationship applies to a second zigzag relative to the first in a double zigzag pattern, as shown in Figure 4-9.



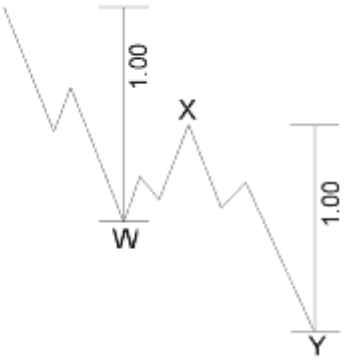


Figure 4-8 *Figure 4-9*

In a regular flat correction, waves A, B and C are, of course, approximately equal, as shown in Figure 4-10. In an expanded flat correction, wave C is often 1.618 times the length of wave A. Sometimes wave C will terminate beyond the end of wave A by .618 times the length of wave A. Both of these tendencies are illustrated in Figure 4-11. In rare cases, wave C is 2.618 times the length of wave A. Wave B in an expanded flat is sometimes 1.236 or 1.382 times the length of wave A.

Figure 4-10

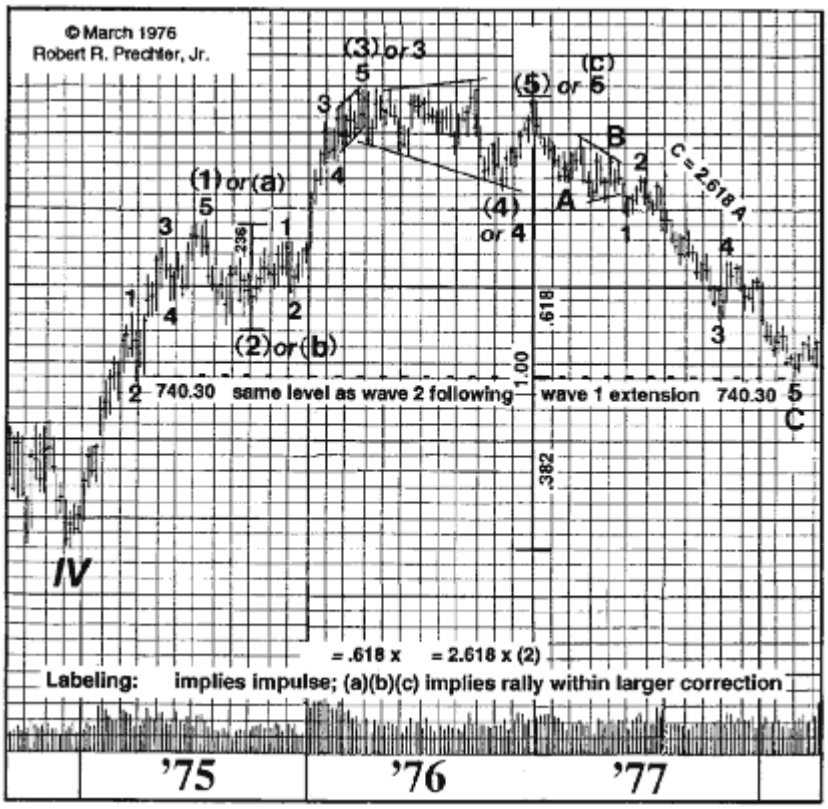


Figure 4-12

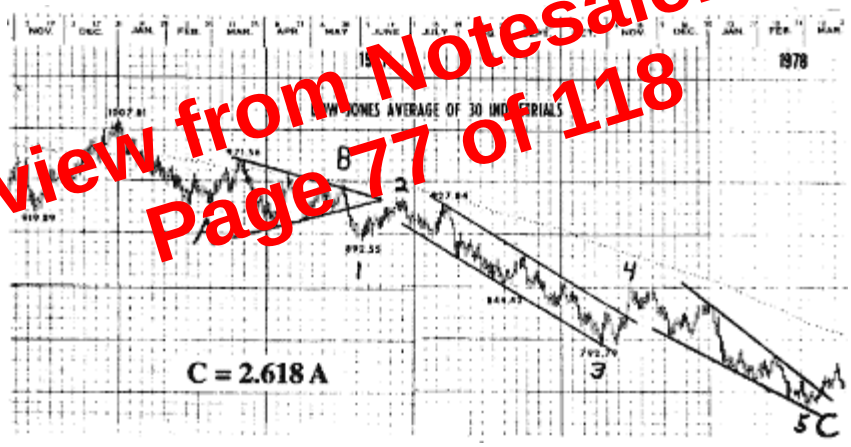


Figure 4-13

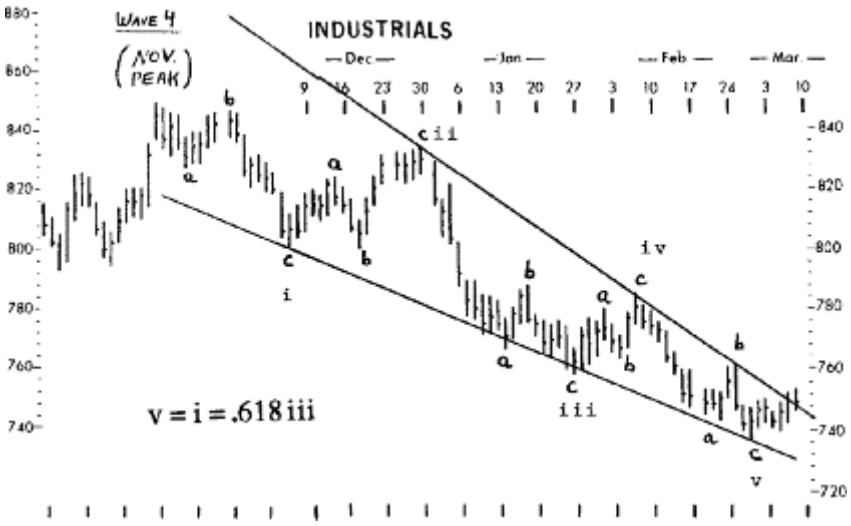


Figure 4-14

Next Lesson: Multiple Wave Relationships

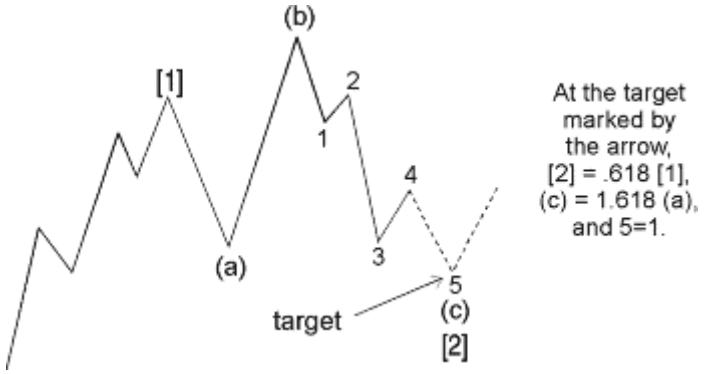
Lesson 23: MULTIPLE WAVE RELATIONSHIPS

We have found that predetermined price objectives are useful in that *if* a reversal occurs at that level and the wave count is acceptable, a doubly significant point has been reached. When the market ignores such a level or gaps through it, you are put on alert to expect the *next* calculated level to be achieved. As the next level is often a good distance away, this can be extremely valuable information. Moreover, targets are based upon the most satisfying wave count. Thus, if they are not met or are exceeded by a significant margin, in many instances you will be forced in a timely manner to reconsider your preferred count and investigate what is now rapidly becoming a more attractive interpretation. This approach helps keep you one step ahead of nasty surprises. It is a good idea to keep all reasonable wave interpretations in mind so you can use ratio analysis to obtain additional clues as to which one is operative.

Multiple Wave Relationships

Keep in mind that *all degrees of trend are always operating on the market at the same time*. Therefore, at any given moment the market will be full of Fibonacci ratio relationships, all occurring with respect to the various wave degrees unfolding. It follows that future levels that create *several* Fibonacci relationships have a greater likelihood of marking a turn than a level that creates only one.

For instance, if a .618 retracement of a Primary wave [1] by a Primary wave [2] gives a particular target, and within it, a 1.618 multiple of Intermediate wave (a) in an irregular correction gives the *same* target for Intermediate wave (c), and within that, a 1.00 multiple of Minor wave 1 gives the *same* target yet again for Minor wave 5, then you have a powerful argument for expecting a turn at that calculated price level. Figure 4-15 illustrates this example.



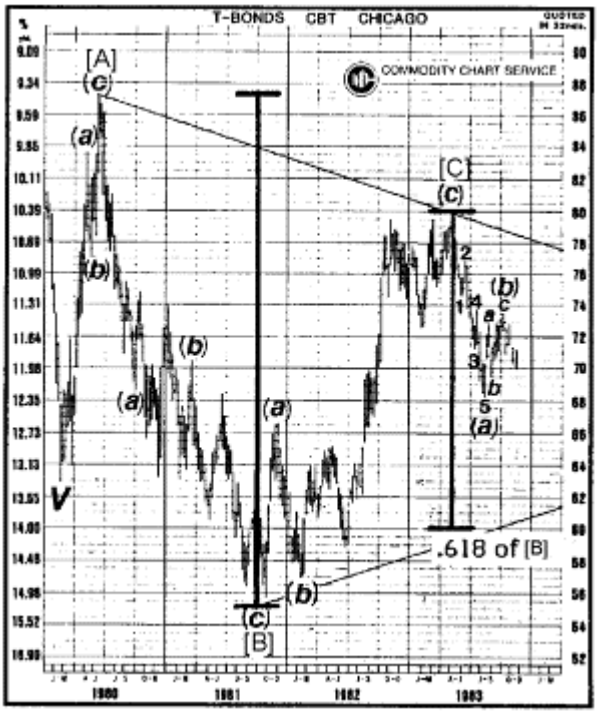


Figure B-14

April 3, 1984 [after (b) ended in a triangle]

The ultimate downside target will probably occur nearer the point at which wave [D] is .618 times as long as wave [B], which took place from June 1980 to September 1981 and traveled 32 points basis the weekly continuation chart. Thus, if wave [D] travels 19¾ points, the nearby contract should bottom at 60¼. In support of this target is the five wave rally, which indicates that a zigzag decline is in force from the May 1983 highs. Within zigzags, waves "A" and "C" are typically of equal length. Basis the June contract, wave (a) fell 11 points. 11 points from the triangle peak at 70¾ projects 59¾, making the **60 zone (+ or** [illegible] **ment of strong support and a potential target. As a final calculation, thrusts following triangles usually fall approximately the distance of the widest part of the triangle (as discussed in Lesson 8). Based on [Figure B-15], that distance is 10½ points, which subtracted from the triangle peak gives 60¼ as a target.

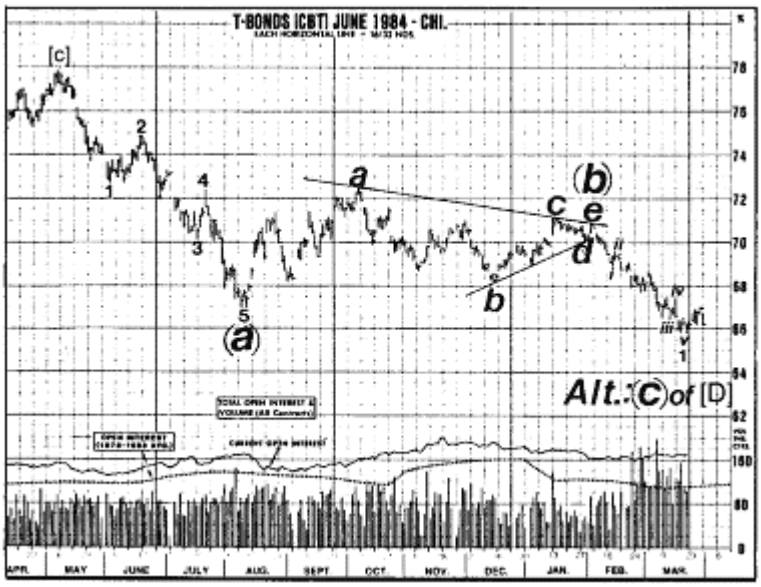


Figure B-15

respecting analyst other than an Elliott man would do such a thing, but then that is the sort of thing this unique theory inspires.

Best to you,

A. J. Frost

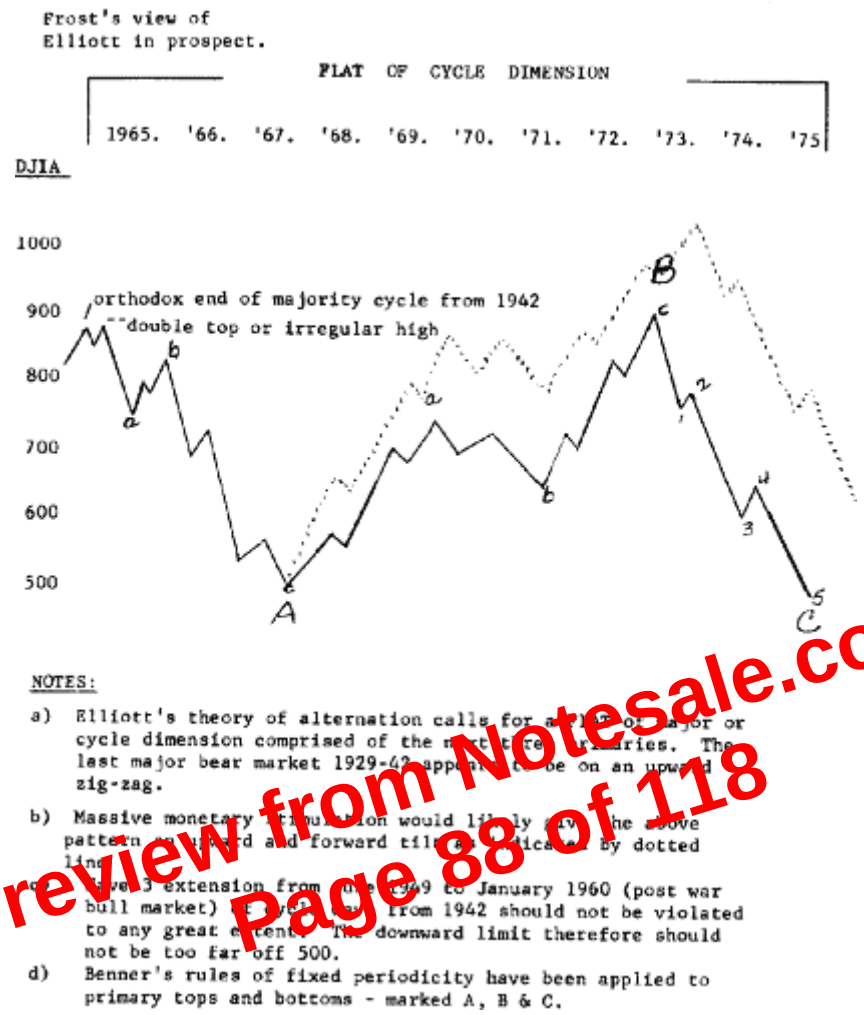


Figure 4-18

Although we have been able to codify ratio analysis substantially as described in the first half of this chapter, there appear to be many ways that the Fibonacci ratio is manifest in the stock market. The approaches suggested here are merely carrots to whet the appetite of prospective analysts and set them on the right track. Parts of the following chapters further explore the use of ratio analysis and give perspective on its complexity, accuracy and applicability. Additional detailed examples are presented in the Lessons 32 through 34. Obviously, the key is there. All that remains is to discover how many doors it will unlock.

Next Lesson: Long Term Waves

Lesson 26: LONG TERM WAVES

In September 1977, *Forbes* published an interesting article on the complexity theory of inflation entitled "The Great Hamburger Paradox," in which the writer, David Warsh, asks, "What really goes into the price of a hamburger? Why do prices explode for a century or more and then level off?" He quotes Professor E.H. Phelps Brown and Sheila V. Hopkins of Oxford University as saying,

Lesson 28: Individual Stocks

The art of managing investments is the art of acquiring and disposing of stocks and other securities so as to maximize gains. When to make a move in the investment field is more important than what issue to choose. Stock selection is of secondary importance compared to timing. It is relatively easy to select sound stocks in essential industries if that is what one is after, but the question always to be weighed is when to buy them. To be a winner in the stock market, one must know the direction of the primary trend and proceed to invest with it, not against it, in stocks that historically have tended to move in unison with the market as a whole. Fundamentals alone are seldom a proper justification for investing in stocks. U.S. Steel in 1929 was selling at $260 a share and was considered a sound investment for widows and orphans. The dividend was $8.00 a share. The Wall Street crash reduced the price to $22 a share, and the company did not pay a dividend for four years. The stock market is usually a bull or a bear, seldom a cow.

Somehow the market averages develop trends which unfold in Elliott Wave patterns regardless of the price movements of individual stocks. As we shall illustrate, while the Wave Principle has some application to individual stocks, the count for many issues is often too fuzzy to be of great practical value. In other words, Elliott will tell you if the track is fast but not which horse is going to win. For the most part, basic technical analysis with regard to individual stocks is probably more rewarding than trying to force the stock's price action into an Elliott count that may or may not exist.

There is reason to this. The Elliott philosophy broadly allows for individual attitudes and circumstances to affect price patterns of any single issue and, to a lesser degree, a narrow group of stocks, simply because what the Elliott Wave Principle reflects is only that part of each man's decision process which is shared by the mass of investors. In the larger reflection of wave form, then, the unique circumstances of individual investors and individual companies cancel each other out, leaving as residue a mirror of the mass mind alone. In other words, the form of the Wave Principle reflects the progress not of each man or company but of mankind as a whole and his enterprise. Companies come and go. Trends, fads, cultures, needs and desires ebb and flow with the human condition. Therefore, the progress of *general* business activity is well reflected by the Wave Principle, while each *individual* area of activity has its own essence, its own life expectancy, and a set of forces which may relate to it alone. Thus, each company, like each man, appears on the scene as part of the whole, plays its part, and eventually returns to the dust from which it came.

If, through a microscope, we were to observe a tiny droplet of water, its individuality might be quite evident in terms of size, color, shape, density, salinity, bacteria count, etc., but when that droplet is part of a wave in the ocean, it becomes swept along with the force of the waves and the tides, despite its individuality. With over twenty million "droplets" owning stocks listed on the New York Stock Exchange, is it any wonder that the market averages are one of the greatest manifestations of mass psychology in the world?

Despite this important distinction, many stocks tend to move more or less in harmony with the general market. It has been shown that on average, seventy-five percent of all stocks move up with the market, and ninety percent of all stocks move down with the market, although price movements of individual stocks are usually more erratic than those of the averages. Closed-end stocks of investment companies and stocks of large cyclical corporations, for obvious reasons, tend to conform to the patterns of the averages more closely than most other stocks. Emerging growth stocks, however, tend to create the clearest individual Elliott Wave patterns because of the strong investor emotion that accompanies their progress. The best approach seems to be to avoid trying to analyze each issue on an Elliott basis unless a clear, unmistakable wave pattern unfolds before your eyes and commands attention. Decisive action is best taken only then, but it should be taken, regardless of the wave count for the market as a whole. Ignoring such a pattern is always more dangerous than paying the insurance premium.

Despite the above detailed caveat, there are numerous examples of times when individual stocks reflect the Wave Principle. The seven individual stocks shown in Figures 6-1 through 6-7 show Elliott Wave patterns representing three types of situations. The bull markets for U.S. Steel, Dow Chemical and Medusa show five-wave advances from their major bear market lows. Eastman Kodak and Tandy show A-B-C bear markets into 1978. The charts of Kmart (formerly Kresge) and Houston Oil and Minerals illustrate long term "growth" type advances that trace out Elliott patterns and break their long term supporting channel lines only after completing satisfactory wave counts.

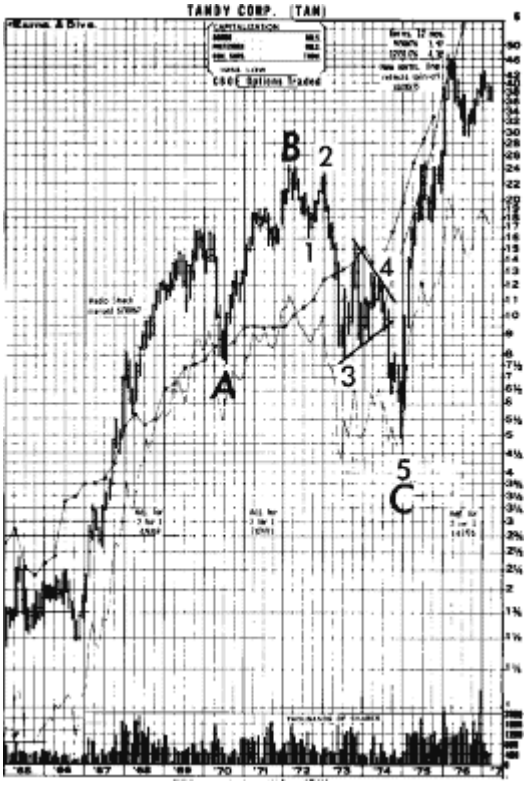


Figure 6-5

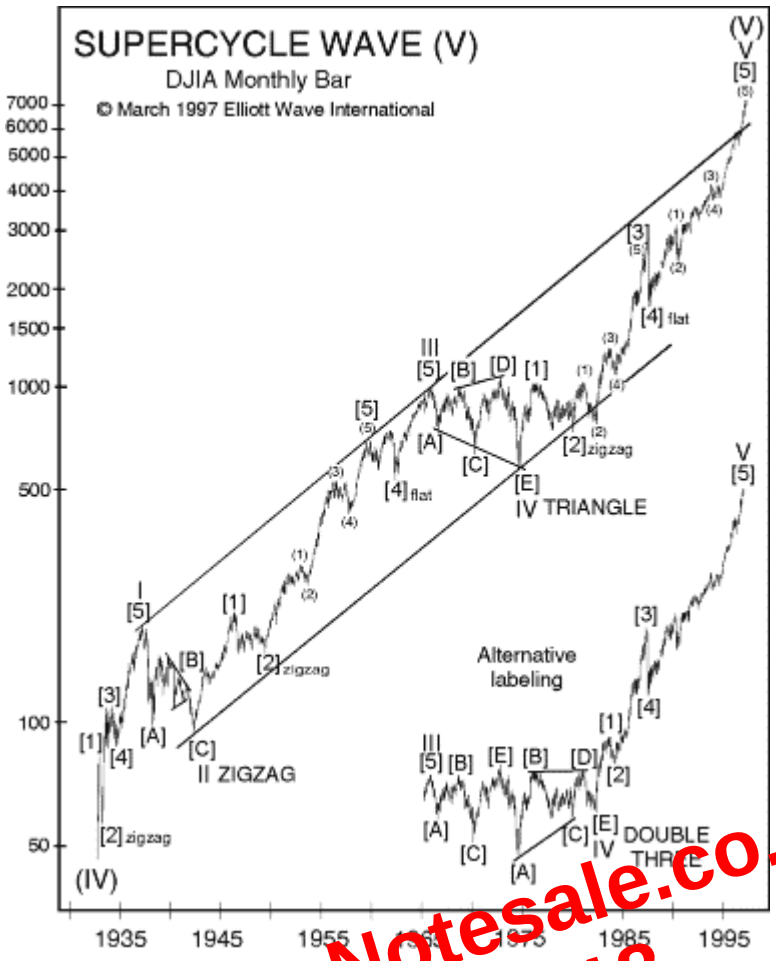


Figure D-2

Take a look at the main chart in Figure D-2. Those familiar with the Wave Principle will see a completed textbook formation that follows all the rules and guidelines from beginning to end. As noted back in 1978, wave IV holds above the price territory of wave I, wave III is the extended wave, as is most commonly the case, and the triangle of wave IV alternates with the zigzag of wave II. With the last two decades' performance behind us, we
can record some additional facts. Subwaves I, III and V all sport alternation, as each Primary wave [2] is a zigzag, and each Primary wave [4] is an expanded flat. Most important, wave V has finally reached the upper line of the parallel trend channel drawn in *Elliott Wave Principle* eighteen years ago. The latest issues of *The Elliott Wave Theorist*, with an excitement equal to that of 1982, focus sharply on the remarkable developments that so strongly suggest that wave V is culminating (see Figure D-3, from the March 14, 1997 Special Report).

This is a stunning snapshot of a market at its pinnacle. Whether or not the market edges higher near term to touch the line again, I truly believe that this juncture will be recognized years hence as a historic time in market history, top tick for U.S. stocks in the worldwide Great Asset Mania of the late twentieth century.