

It's not until after the structure is complete do we understand it. As Elliott Wave technicians we are trying to preempt the unfolding wave structure.

Even when Robert Prechter, considered one of the Elliott Wave gurus, won the US trading competition with 444% profit, half of his trades were incorrect. But because there are only three rules with Elliott Wave you will know when you are wrong and if you have a clear exit strategy, along with good money management, it can become one of the greatest trading tools.

With Elliott Wave there are a good dozen degrees, that is, cycles within cycles (you can email me for these) and as a professional Elliott analyst you need to be able to label these cycles of degrees as they will let you know where the market is at any time.

The Advance Get operates on three levels. It doesn't label them with the official Elliott labeling. Profit Source is a little like Advance Get but much more user friendly. Both Advance Get and Profit Source are designed for particular strategies such as the Wave 4 Buy. This strategy has a reasonable outcome because these software programs find a higher probability in identifying the later part of the wave count once wave one, two and three are in place. So along with good money management and using the three Elliott rules (see Trade Review June 06) you have a practical trading method.

As we know not all things are perfect, so we need to identify the weaknesses and strengths in all trading tools we use. Understanding these subtleties can make the difference between receiving income or incurring an expense.

Let's take a look at a few aspects, first, the Wave Four Buy in Advance Get or Profit Source. The first thing to understand with Elliott Wave is that there are eleven different types of corrections, this is the difficult part of using Elliott, because a correction could be any one of these types of corrections.

The good news is there are also 'guidelines' that are helpful to use when applying Elliott Wave. One of these is the guideline on 'Alternation', that is, if wave two is simple then we can expect wave four to be complex, also if wave two is sharp we can expect wave four to be sideways.

Understanding the internal structures of corrections is also very helpful in understanding what type of correction the market is in. For example, Expanding Flat, Regular Flat, Running Flat or a Zigzag, Triangle or a combination of all of these patterns.

Essentially because wave four is normally the complicated correction and the most difficult to navigate through, as a guideline wave four normally retraces 38.2% the distance of wave three, or for a more accurate indication wave four retraces to wave four of one lesser degree.

A few ways to strengthen the wave four buy is to use the Trading Levels which I wrote about in an earlier article (Feb 06 Trade Review), that is buying above a Trading Level, eg buying above a market constructional support level.

In summing up the range of Elliott software, the Profit Source software seems much more user friendly and the cost is lower, they are a great way to learn the Elliott Wave theory.

The CMC 2 Day Pro CFD course looks at how to further strengthen these Elliott Wave entries and offers a more detailed look into Elliott Wave Analysis. Contact Bradley Field at CMC b.field@cmcmarkets.com for course details.

Also as mentioned last month we have developed an Excel spreadsheet for CMC Markets share CFDs that updates every 15 minutes. It includes risk management, portfolio, multiple R, expectancy and a trade plan. This is a free product and it is for educational purposes only. For a free copy email info@kaching.com.au

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