

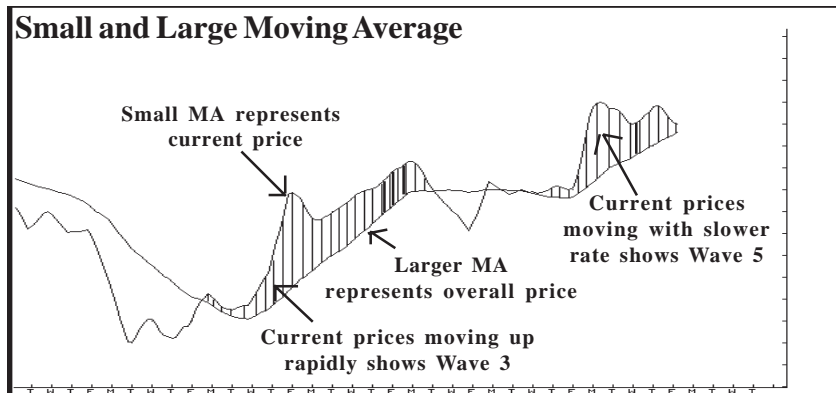
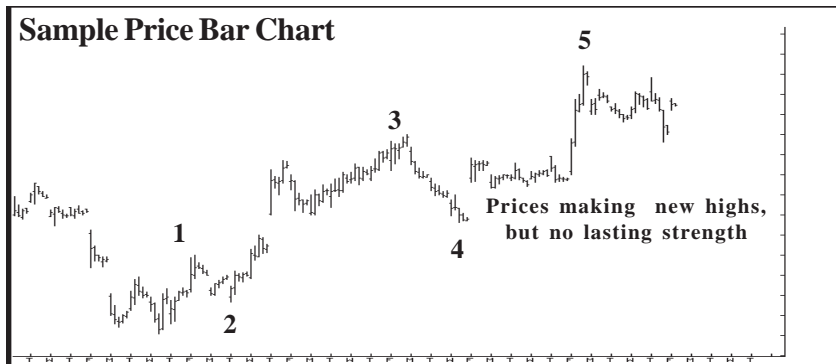
CHAPTER 7

Elliott Oscillator

Step-By-Step Illustration

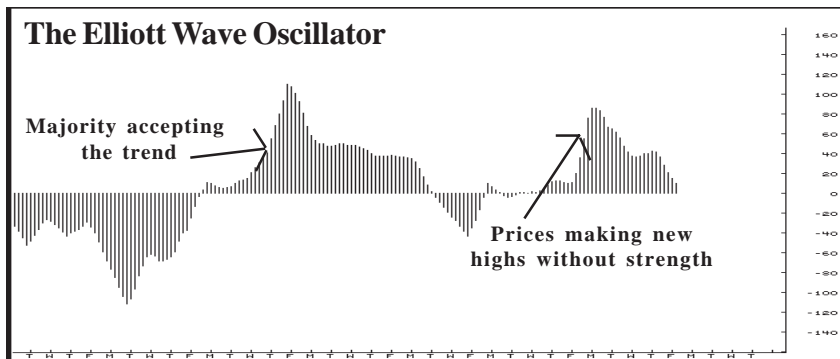
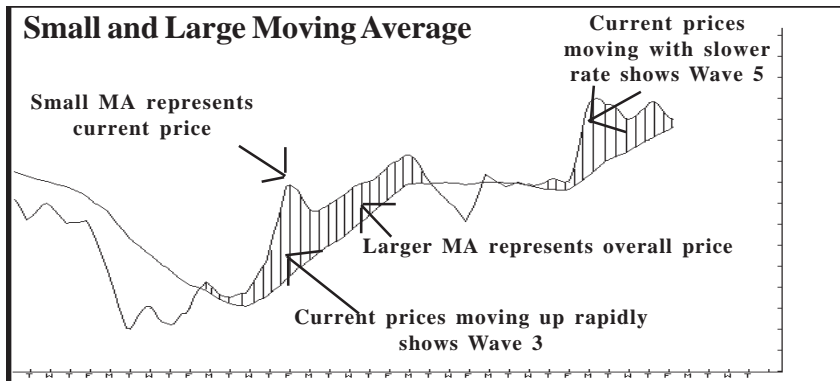
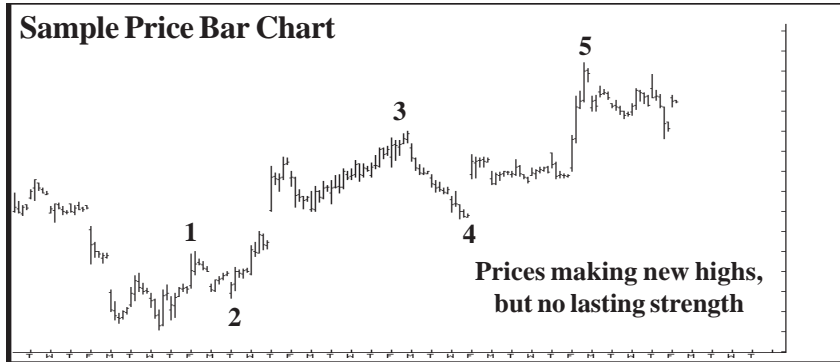
When the prices rally above the top of Wave 1, the Elliott Oscillator is making new highs. Notice also the gapping action. The current rally is labeled Wave 3.

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 or slightly below the zero level (when the small Moving Average comes back to or crosses the larger Moving Average), 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.

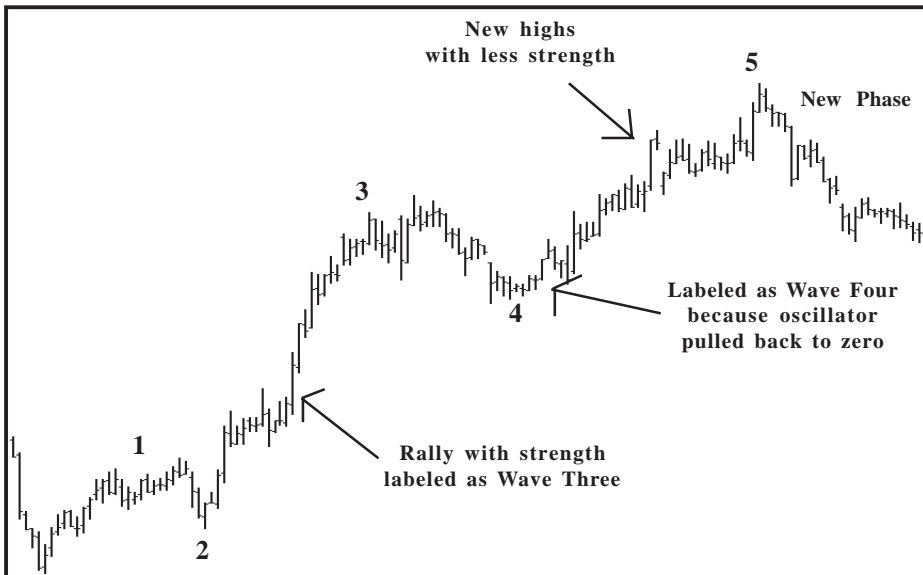
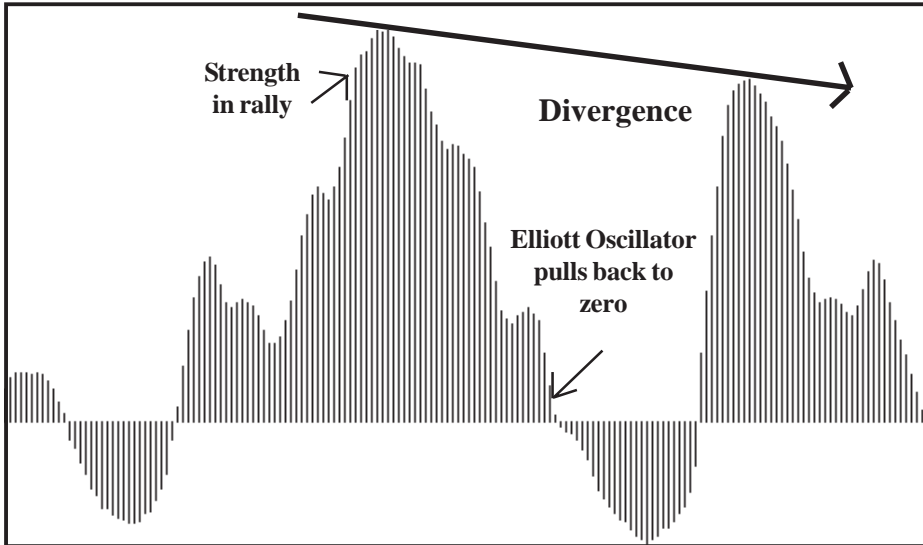
Moral of the story: Always let the Elliott Oscillator track Elliott Wave counts.



Five-Wave Impulses

Up

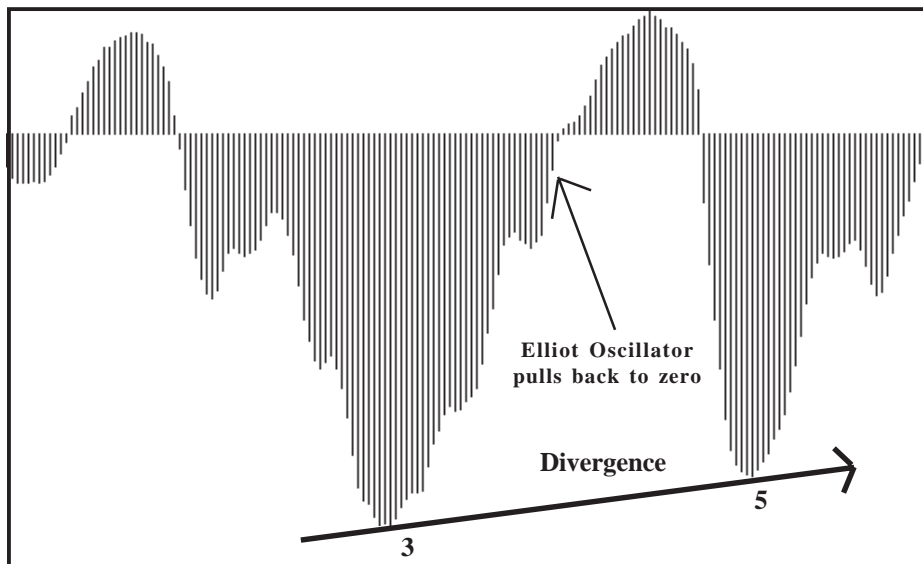
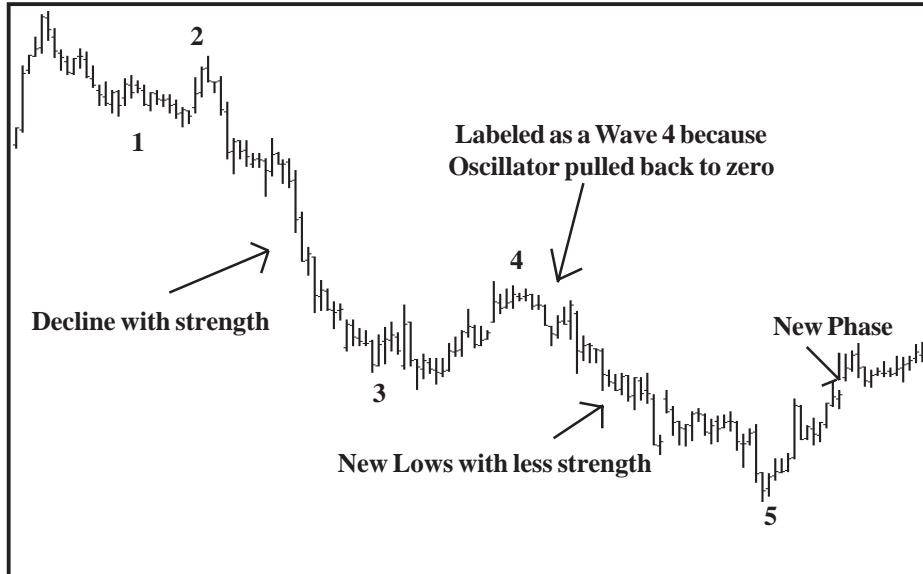
Identifying a 5-Wave impulse (up) using the Elliott Oscillator, which is part of the software.



Five-Wave Impulses

Down

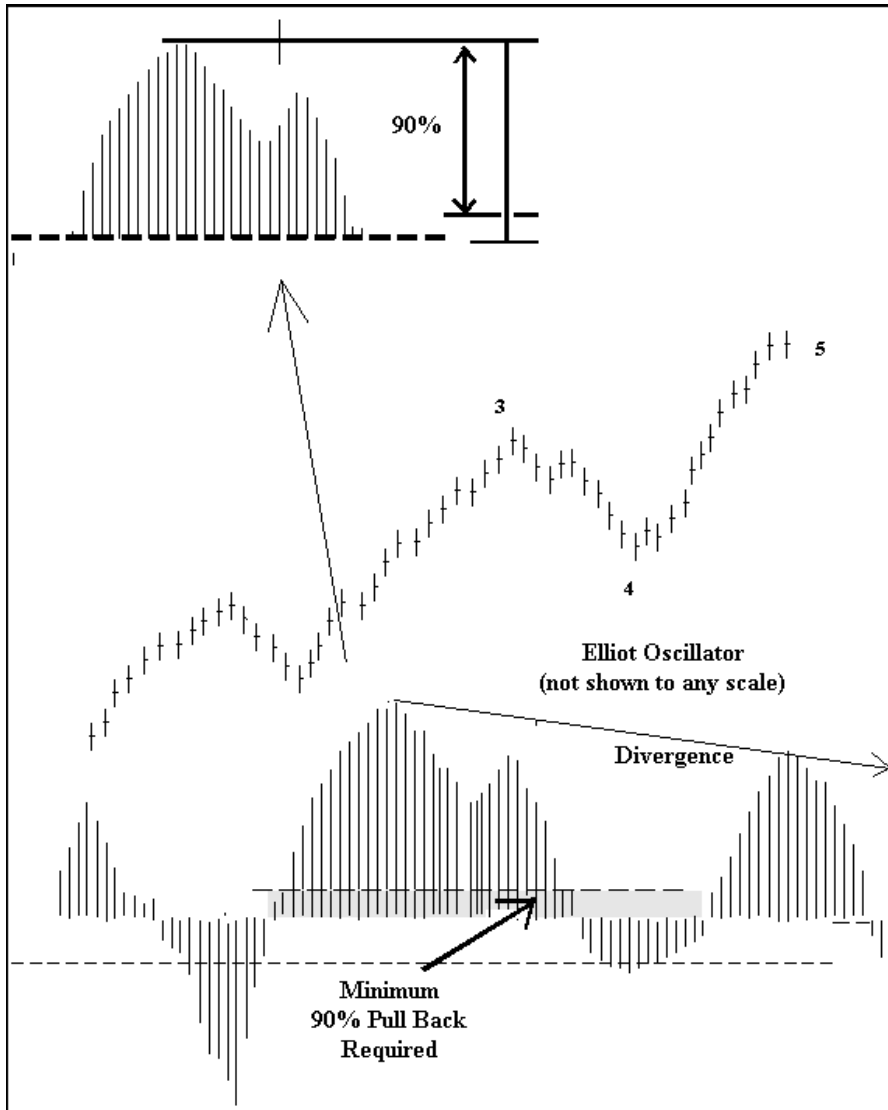
Identifying a 5-Wave impulse (down) using the Elliot Oscillator, which is part of the software.



The Elliott Oscillator

Minimum Pullback Required

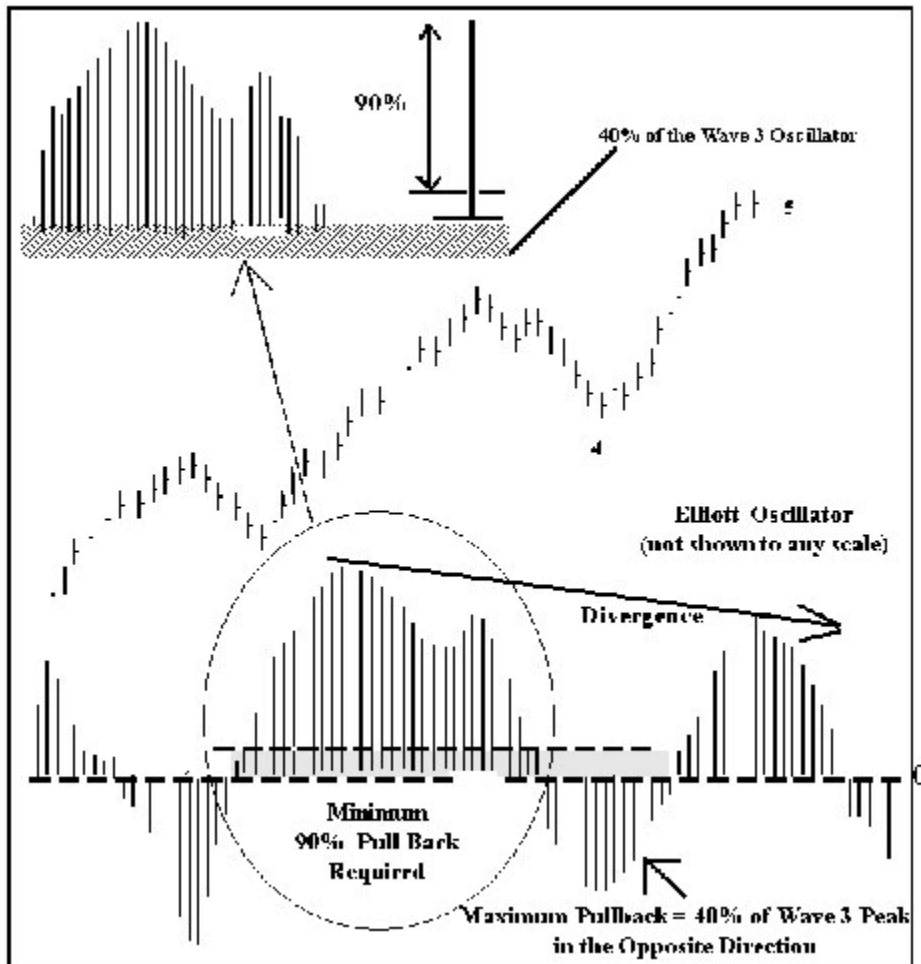
Historically, 94% of all Wave 4 sequences that have ended with a Wave 5 making a new high or a new low had the Elliott Oscillator pull back at least 90% from the Wave 3 peak.



The Elliott Oscillator

Maximum Oscillator Pullback

Just as it is important for the Oscillator to pull back to the zero line (or at least 90% of the Wave 3 Oscillator, as discussed on the previous page) it is just as important that the Oscillator does NOT pull back more than 40% of the Wave 3 Oscillator on the other side of the zero line.



Using the Elliott Oscillator

Wave 3

- When a market rallies with a strong Elliott Oscillator, as in Figure 7-1, the rally is classified as a Wave 3.
- Once Wave 3 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 Figure 7-2.

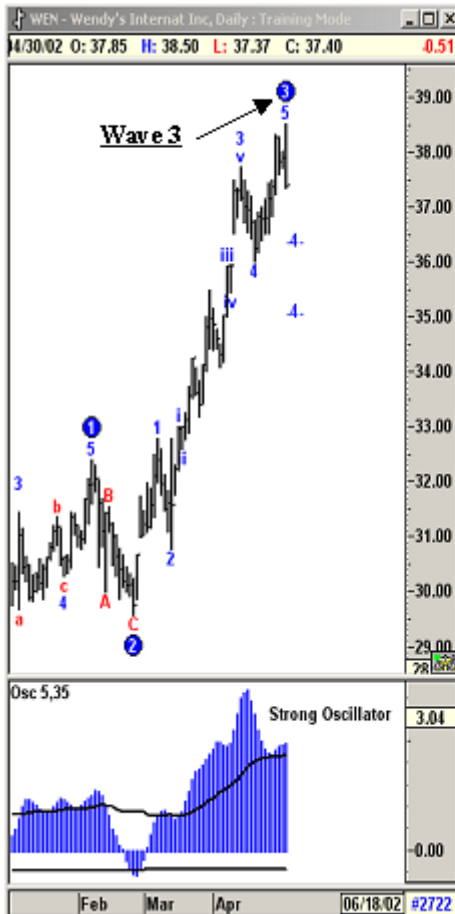


Figure 7-1: Elliot Oscillator, Wave 3



Figure 7-2: Pulls back to zero

- Once the Elliott Oscillator pulls back to zero, it signals the end of a potential Wave 4 profit-taking decline, as shown in Figure 7-3.
- New buying comes in and the market makes new highs, as shown in Figure 7-4.

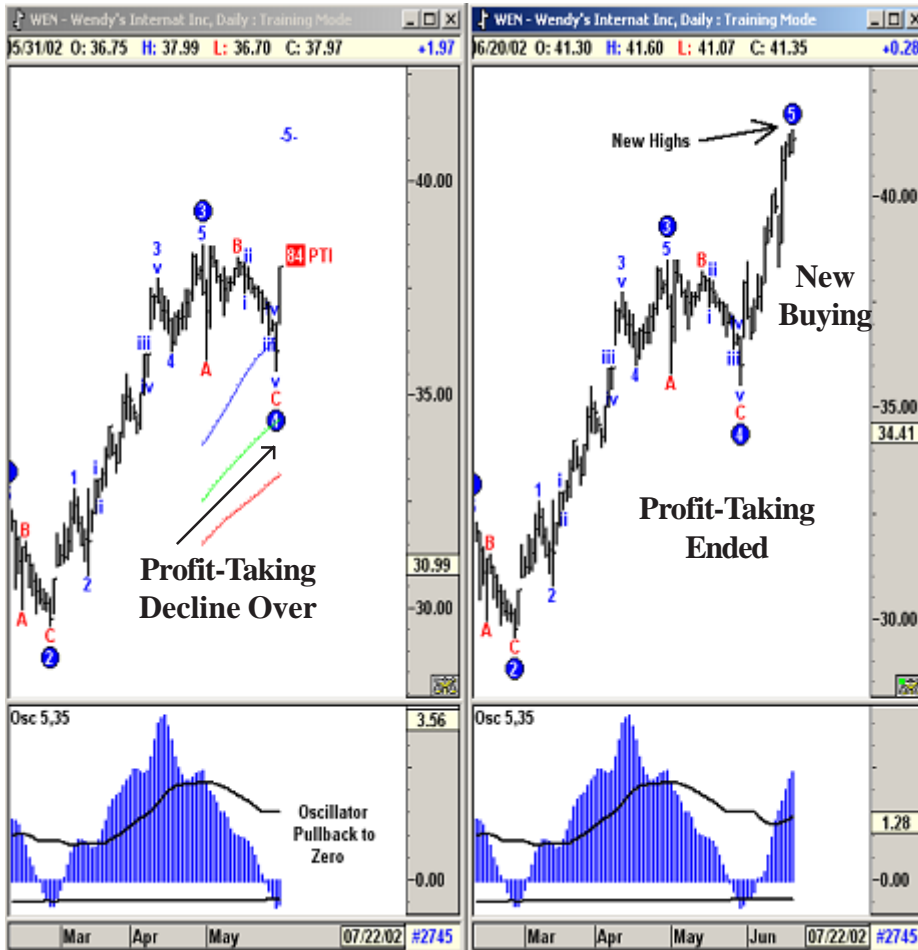


Figure 7-3: End of Potential Wave 4

Figure 7-4: New Highs

- In Figure 7-5, the market is making a new high in price with less strength in the Elliott Oscillator. This indicates that the current rally is a Wave 5.
- 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 4 will become the first target. Figure 7-6 shows that the market changed direction and is trying to test the previous Wave 4 low near \$35.50.

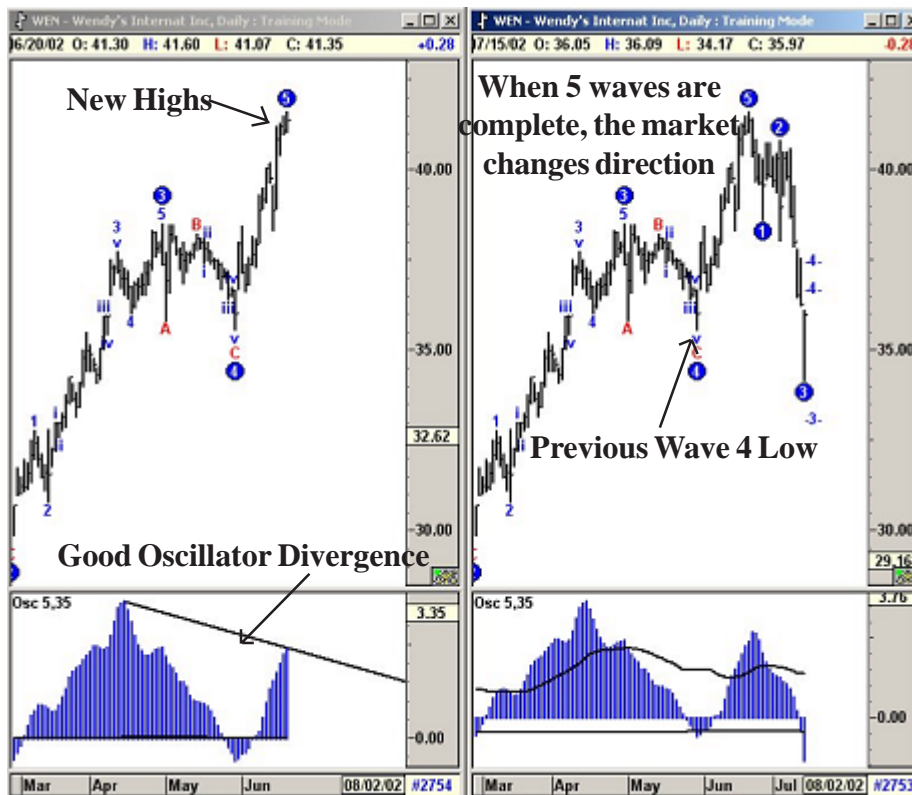


Figure 7-5: Wave 5

Figure 7-6: Wave 4

Oscillator Breakout Bands

A major task in using Elliott Wave Analysis is to identify Wave Threes accompanied with a strong Oscillator. In the past we have done this by visually comparing the size of the current Oscillator with that of the past. The Oscillator Breakout Bands provide an UP Band and a LOW Band. *Anytime the software labels a Wave Three, the Oscillator needs to be comfortably above the Breakout Band.* We recommend a setting of 100% for these bands.

Figure 7-7 is a 60-minute chart of HP (Helmerich & Payne Inc). Here, the software labels a Wave 3 Rally, which is accompanied by a strong Oscillator that is breaking above the Breakout Bands. Therefore, this Wave Count can be used for this market at this time.

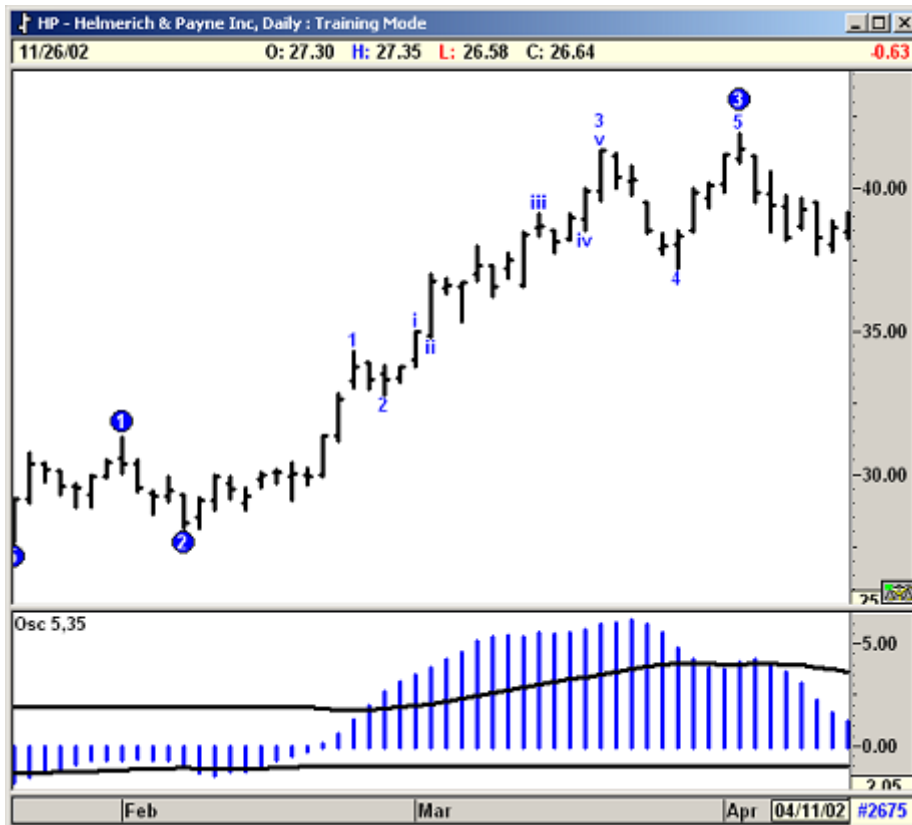


Figure 7-7: 60-Minute Chart, Helmerich & Payne