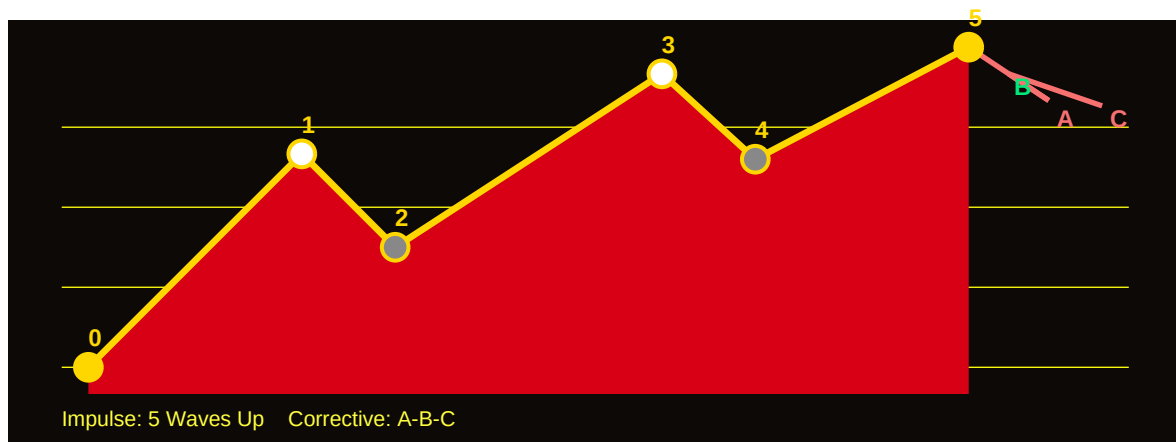


FREE EDUCATIONAL GUIDE

Elliott Wave Decoded

A Complete Guide to Market Structure,
Fibonacci & Wave Counting

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Who Was Elliott & Why the Wave Principle Works

Markets do not move randomly. Behind every price chart is the collective behavior of thousands of participants — their fear, greed, hope and regret — all unfolding in measurable, repeating patterns. Ralph Nelson Elliott discovered this. Everything in this guide builds on what he found.

The Man Behind the Theory

Ralph Nelson Elliott was not a professional trader. He was an accountant who spent decades working in Mexico and Central America before illness forced him into early retirement in the late 1920s. With time on his hands and a disciplined analytical mind, he turned to studying the stock market — and specifically, to understanding whether the movement of prices followed any discernible order.

After examining 75 years of stock market data — from yearly charts down to 30-minute intervals — Elliott reached a conclusion that would change technical analysis permanently. Markets move in structured, repeating wave patterns that directly reflect the natural rhythm of human crowd psychology. By November 1934 he had developed enough confidence in his findings to begin presenting them publicly, and in 1938 he published "The Wave Principle" with the help of financial writer Charles Collins.

Why It Works — The Psychology Behind the Waves

Elliott Wave theory is not a technical indicator in the conventional sense. It is a model of how collective human sentiment expresses itself through price. When market participants are broadly optimistic, they buy — and that buying produces the five-wave impulse structure Elliott described. When sentiment shifts, the crowd corrects — producing the three-wave A-B-C structure that follows every completed impulse.

What makes this durable is that human psychology does not change. The same fear-and-greed cycle that drove stock markets in the 1930s drives cryptocurrency markets today, Forex pairs, commodity futures and bond yields. The asset class changes. The crowd psychology does not — and so the wave patterns persist across every market and every timeframe.

Key Insight

Elliott Wave is not a prediction tool in the strict sense. It is a probabilistic framework — one that identifies the most likely next move based on where price currently sits within a repeating structural sequence. Used correctly, it gives you an objective way to define your targets, your entry zones and the exact price level that proves your read wrong.

The Fractal Nature of Markets

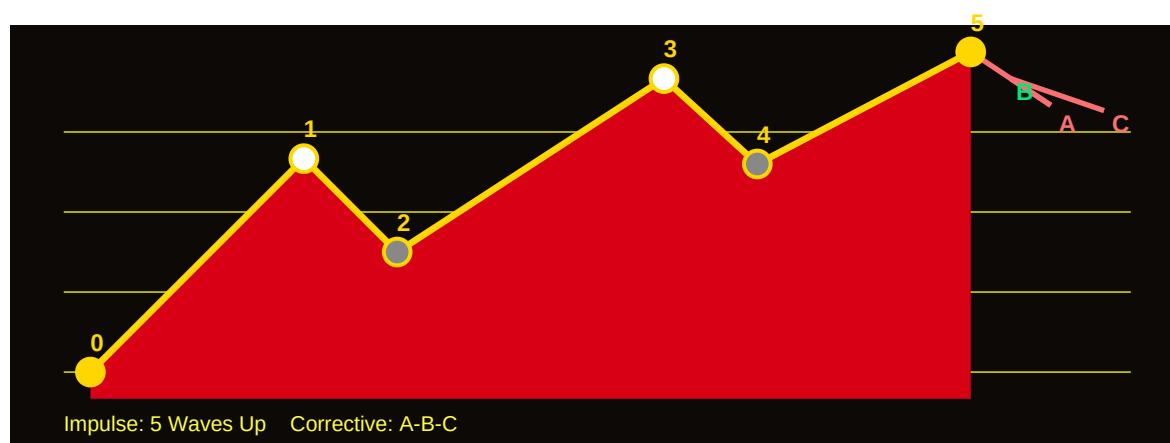
One of Elliott's most important observations was that the same 5-3 wave structure appears at every scale. A five-wave impulse on a monthly chart contains five-wave impulses within it on the weekly chart, which in turn contain them on the daily chart, and so on down to the smallest tradeable timeframe. This self-similar, or fractal, property means the Wave Principle applies equally to a one-minute scalping chart and a decade-long macro investment thesis.

This is also what makes Elliott Wave analysis uniquely powerful when used correctly — and uniquely demanding when used carelessly. Every timeframe is a sub-wave of something larger. Knowing which degree you are analyzing is as important as the count itself.

CHAPTER 02

The 5-3 Wave Structure Explained

Every Elliott Wave pattern — regardless of degree, asset class or timeframe — is built from two basic building blocks: the five-wave impulse and the three-wave correction. These two structures combine and nest inside each other to form every wave pattern a trader will ever encounter.



The Five-Wave Impulse

An impulse moves in the direction of the larger trend. It consists of five sub-waves — labeled 1 through 5 — alternating between motive waves (1, 3 and 5) and corrective waves (2 and 4). The motive waves move in the direction of the impulse. The corrective waves pull back against it.

- **Wave 1** — The initial move. Often the hardest to identify in real time because the preceding trend is still fresh in participants' minds. Volume is typically modest.
- **Wave 2** — A correction that retraces part of Wave 1. It cannot retrace more than 100% of Wave 1. The 50% to 61.8% Fibonacci retracement level is the most common target.
- **Wave 3** — The strongest and longest wave in the sequence. Momentum is highest here. Volume expands. Wave 3 can never be the shortest of Waves 1, 3 and 5. It commonly extends to 1.618x or 2.618x the length of Wave 1.
- **Wave 4** — A corrective pause after Wave 3. It typically retraces 23.6% to 38.2% of Wave 3. Crucially, Wave 4 cannot enter the price territory of Wave 1 in a standard impulse.
- **Wave 5** — The final push in the direction of the trend. Often shows momentum divergence relative to Wave 3 — an important early warning that the impulse is approaching

completion.

The Three-Wave Correction

After every completed five-wave impulse, a three-wave correction follows — labeled A, B and C. The correction moves against the direction of the preceding impulse and typically retraces a significant portion of it before the next impulse begins. The most common corrective targets are the 38.2%, 50% and 61.8% Fibonacci retracement levels of the completed impulse.

The Complete Cycle

One complete Elliott Wave cycle consists of eight waves: five waves in the direction of the larger trend followed by three waves correcting it ($5 + 3 = 8$). This eight-wave cycle then becomes a single wave within the next larger degree — and the pattern repeats indefinitely at every scale.

CHAPTER 03

The Three Unbreakable Rules

Elliott Wave has guidelines — and it has rules. Guidelines describe what waves typically do. Rules define what a valid impulse must do. These three rules are not suggestions. A wave count that violates any one of them is structurally invalid, regardless of how compelling it looks on a chart.

Wave 2 Cannot Retrace More Than 100% of Wave 1

Rule 1

If Wave 2 falls below the starting point of Wave 1, the count is wrong. This is the most reliable structural filter in Elliott Wave analysis — a correction that exceeds 100% of the preceding wave means the move was corrective, not impulsive, and the entire count needs reassessment.

Wave 3 Can Never Be the Shortest Impulse Wave

Rule 2

Wave 3 cannot be shorter than both Wave 1 and Wave 5. It does not have to be the longest — but it cannot be the shortest. In practice, Wave 3 is almost always the longest, driven by expanding participation and accelerating momentum as the trend becomes undeniable to the broader market.

Wave 4 Cannot Overlap Wave 1 Price Territory

Rule 3

In a standard impulse, Wave 4's low cannot enter the same price range as Wave 1's high. This rule maintains the structural integrity of the impulse pattern. Violations of this rule typically indicate that the analyst is looking at a corrective structure, not a motive impulse.

How to Use the Rules in Practice

The three rules serve one primary purpose: they give you an objective test for every wave count you draw. Before acting on any Elliott Wave setup, run through the checklist. Does Wave 2 stay above the Wave 1 start? Is Wave 3 not the shortest? Does Wave 4 stay out of Wave 1 territory? If any answer is no, the count is wrong and a recount is required.

This discipline — checking rules before acting on a count — is what separates analysts who use Elliott Wave effectively from those who use it to confirm trades they have already decided to make. The rules are protective. Use them.

CHAPTER 04

Fibonacci — The Math Behind the Waves

Fibonacci ratios are not an add-on to Elliott Wave theory. They are its mathematical foundation. Elliott himself recognized that the wave patterns he documented align with the proportions described by Leonardo Fibonacci in the 13th century — proportions that appear throughout nature and, as Elliott showed, throughout human market behavior.

The Key Fibonacci Ratios

The primary Fibonacci ratio is 0.618 — known as the Golden Ratio. It emerges from the Fibonacci sequence (1, 1, 2, 3, 5, 8, 13, 21...) where each number divided by the next approaches 0.618. Its inverse is 1.618, often called Phi. These two numbers and their derivatives define the mathematical relationships between Elliott Wave structures at every degree.

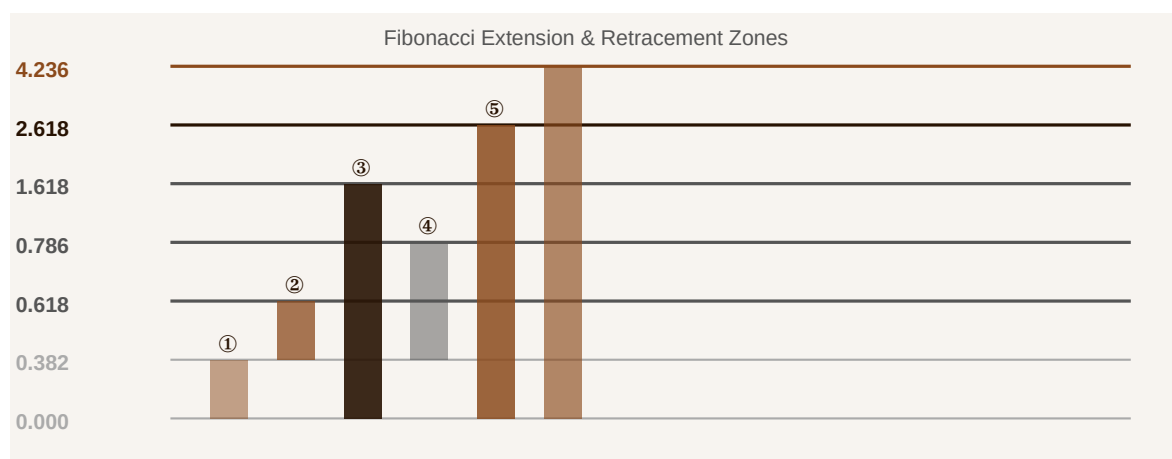
Ratio	Wave Context	Zone
0.236	Wave 4 shallow retracement	Support
0.382	Wave 4 primary retracement	Support
0.500	Psychological midpoint — Wave 2 & 4	Support
0.618	Golden Ratio — Wave 2 primary target	Key Level
0.786	Deep Wave 2 — near invalidation	Key Level
1.618	Wave 3 minimum extension	Target
2.618	Wave 3 standard extension	Target
4.236	Wave 3 maximum — high beta assets	Target

How to Apply Fibonacci to Wave Counts

Retracements measure how far a corrective wave pulls back against the preceding motive wave. Draw the Fibonacci retracement tool from the start of Wave 1 to the end of Wave 1. The

resulting levels at 38.2%, 50% and 61.8% mark the most likely zones where Wave 2 will find support and reverse. The deeper the retracement, the stronger the subsequent Wave 3 tends to be.

Extensions measure how far an impulsive wave travels beyond the start of its measurement point. To project Wave 3 targets, draw the Fibonacci extension from the Wave 1 low, through the Wave 1 high, and extend to the 161.8% and 261.8% levels. These mark the two most common Wave 3 completion zones across all asset classes.



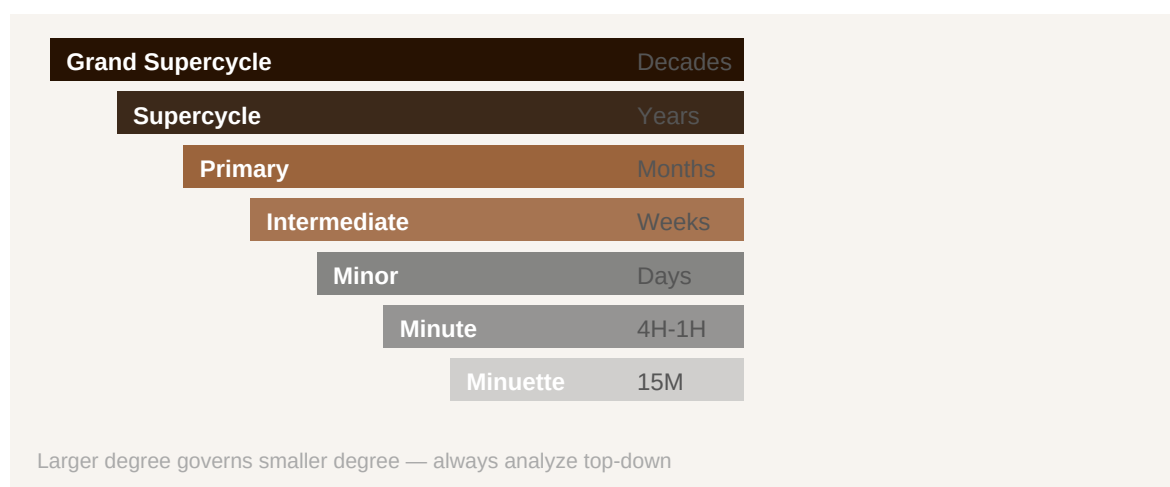
Fibonacci Confirmation Rule

Every wave label should align with at least one Fibonacci retracement or extension level. A wave count where Wave 2 stops at an arbitrary level with no Fibonacci confluence is a lower-confidence count. The more Fibonacci levels that confirm a wave turning point, the higher the probability that the count is correct.

CHAPTER 05

Wave Degrees — From 1 Minute to Monthly

One of the most important and most misunderstood aspects of Elliott Wave theory is the concept of degree. Every wave exists within a larger wave of higher degree, and itself contains smaller waves of lower degree. Knowing which degree you are analyzing determines everything about how you interpret the chart.



The Standard Wave Degree Hierarchy

- **Grand Supercycle:** Decades to centuries — major civilization-scale market cycles
- **Supercycle:** Years to decades — secular bull and bear markets
- **Primary:** Months to a few years — the degree most investors should identify first
- **Intermediate:** Weeks to months — where most swing trading setups are found
- **Minor:** Days to weeks — entries refined at this degree
- **Minute:** Hours — 4H and 1H chart structures
- **Minuette:** Minutes — 15M and below for precision entries

The Top-Down Analysis Framework

Professional Elliott Wave analysts never begin on the intraday chart. They begin on the monthly or weekly chart to identify the Grand Supercycle or Supercycle position first. Only once the macro degree is established do they move down through Primary, Intermediate and

Minor degrees to find specific trade setups.

This top-down discipline prevents the most expensive mistake in Elliott Wave analysis: trading a Minor degree impulse against the direction of a Primary degree correction. No matter how clean the intraday count looks, if the weekly chart is in a Wave A correction, a long trade based on a 1H Wave 3 will eventually fail.

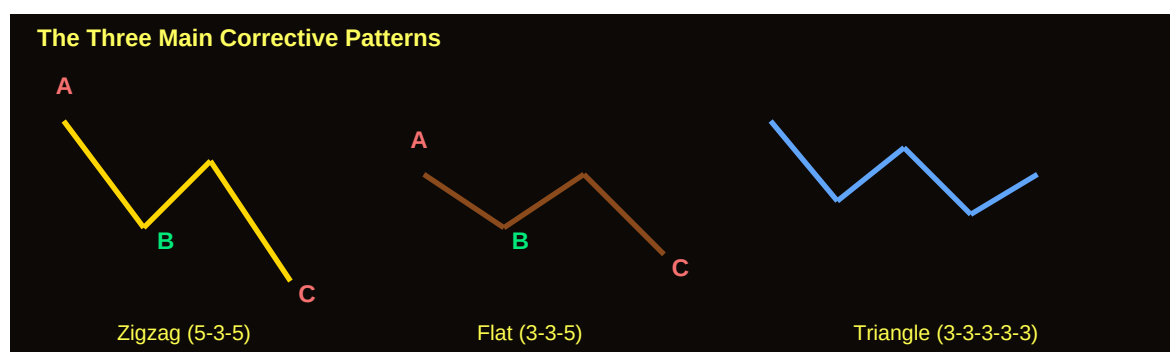
The Non-Negotiable Rule of Degree

Always establish the Primary degree wave position first — before counting anything smaller. The Weekly chart shows the Primary degree clearly. The Daily chart shows the Intermediate degree. The 4H chart shows the Minor degree. The 1H chart is for entry timing only — never for directional bias. This sequence is non-negotiable.

CHAPTER 06

Corrective Patterns — A, B and C

Every impulse is followed by a correction. Understanding corrective patterns is what separates analysts who can read a complete wave structure from those who only recognize the easy impulse moves. Corrections come in three main forms — and each behaves differently in terms of depth, duration and internal structure.



The Three Main Corrective Patterns

1. Zigzag (5-3-5)

A zigzag is the sharpest and most direct corrective pattern. Wave A unfolds in five sub-waves, Wave B retraces 38.2% to 61.8% of Wave A in three sub-waves, and Wave C unfolds in five sub-waves extending well below Wave A's low. Zigzags are most commonly found as Wave 2 corrections. Their depth — often reaching 61.8% to 78.6% retracement of the preceding impulse — creates the high-quality Wave 3 entry zones that Elliott Wave traders specifically seek.

2. Flat (3-3-5)

A flat correction has a shallower, sideways character. Wave A unfolds in three sub-waves, Wave B also moves in three sub-waves — often retracing close to or beyond Wave A's origin — and Wave C unfolds in five sub-waves. Flats are most commonly found as Wave 4 corrections and during complex consolidation periods. They signal that the underlying trend remains strong because the correction lacks the depth of a zigzag.

3. Triangle (3-3-3-3-3)

A triangle consists of five overlapping corrective waves, each labeled A through E and each unfolding in three sub-waves. Price contracts between converging trendlines as each wave travels less distance than the previous. Triangles most commonly appear in Wave 4 or Wave B positions. They are typically followed by a sharp, final thrust — often the entire width of the triangle — in the direction of the larger trend. This thrust completes Wave 5.

Alternation Principle

When Wave 2 is a sharp correction (zigzag), expect Wave 4 to be a shallow, sideways correction (flat or triangle) — and vice versa. This principle of alternation is one of the most reliable guidelines in Elliott Wave theory. When you know the character of Wave 2, it gives you a strong probabilistic guide to what Wave 4 will look like.

CHAPTER 07

How to Count Waves — Step by Step

Wave counting is a skill that improves with practice. The most important thing to understand at the start is that it is a top-down, systematic process — not a freeform labeling exercise. Following this sequence consistently is what separates reliable counts from wishful ones.

Step 1**Open the Weekly Chart First**

Before touching any lower timeframe, open the weekly chart of your instrument. Identify the most significant swing high and swing low visible on the chart. This sets the degree context for everything below. You are looking for the Primary degree wave position — whether price is in an impulse or a correction at the macro level.

Step 2**Identify the Largest Clear Structure**

Find the most recent completed five-wave move visible on the weekly chart. That completed impulse, plus the correction that followed, forms your reference count. Label the high of the impulse as Wave 5 of the Primary degree and the correction low as Wave A or Wave 2 of the next degree.

Step 3**Move to the Daily Chart**

Drop to the daily chart to count the Intermediate degree waves within the Primary degree structure you identified on the weekly. Each Primary wave contains five Intermediate waves if it is an impulse, or three if it is corrective. Label these carefully — they define where you are in the current cycle.

Step 4**Draw Fibonacci Levels**

Once you have labeled a wave high and low, draw the Fibonacci retracement and extension levels from those points. Retracements identify where the next corrective wave is likely to find support or resistance. Extensions project the likely completion zones for the next impulsive wave. Confirm that existing wave turning points align with these levels.

Step 5**Drop to 4H for Confirmation**

Move to the 4-hour chart to count the Minor degree sub-waves within the Intermediate degree wave you identified on the daily. If the count on the 4H is internally consistent — five sub-waves in each impulse, three in each correction — it confirms the higher-degree count.

Step 6**Define Your Invalidation Level**

Before acting on any setup, identify the specific price level that would make your preferred count structurally impossible. Mark it on the chart. This is your invalidation level — the point at which you stop trading the current count and start counting from scratch.

CHAPTER 08

Invalidation Levels — Never Trade Without One

Every Elliott Wave count is a hypothesis — not a certainty. The invalidation level is the price that falsifies that hypothesis. It is the single most important thing to define before placing any trade based on a wave count, and it is the discipline that separates traders who survive market surprises from those who do not.

What Is an Invalidation Level?

An invalidation level is the specific price at which your preferred Elliott Wave count becomes structurally impossible. It is defined by the rules of the Wave Principle — not by a percentage stop or an arbitrary price level. When price reaches the invalidation level, the count is wrong. There is no qualified or partial wrong — the count is wrong, the trade is closed, and a full recount begins from the most recent significant structural low or high.

How to Define Invalidation Levels for Each Wave

Scenario	Invalidation Level	Rule Behind It
Trading Wave 3 Up	Weekly close below Wave 2 low (Wave 1 start)	Wave 3 cannot begin below Wave 1 start
Trading Wave 5 Up	Weekly close below Wave 4 low	Wave 5 must stay above Wave 4 territory
Trading Wave C Down	Daily close above Wave B high	Wave C cannot exceed the Wave B high in most patterns
Buying a Wave 2 Low	Daily close below Wave 1 starting point	Wave 2 cannot retrace more than 100% of Wave 1

The Psychology of Invalidation

The hardest part of using invalidation levels is not identifying them — it is respecting them when price hits them. Every trader who has used Elliott Wave for any meaningful period of time has experienced the temptation to redefine an invalidation level as price approaches it.

This is the single most reliable way to turn a manageable loss into a catastrophic one.

Treat invalidation levels as binary. Price is either above the level — count valid, trade on. Or price is at or below the level — count invalid, position closed, start over. There is no third state. No "give it a little room." No "it might still work." Binary. Every time.

The Professional Standard

No professional Elliott Wave analyst publishes a count without an invalidation level alongside it. If you read a wave analysis that says "BTC is in Wave 3" without specifying the exact price that proves that wrong, the analysis is incomplete. An Elliott Wave count without an invalidation level is an opinion, not an analysis.

CHAPTER 09

Elliott Wave Across Different Markets

The Wave Principle works because it models human psychology — and human psychology drives every liquid financial market. However, different markets have different structural characteristics that cause their Elliott Wave patterns to manifest with distinct proportions and timing. Understanding these differences prevents the most common cross-market analytical errors.

■ Cryptocurrency

Crypto markets trade 24/7 without overnight gaps, which means wave structures develop fully and proportionally. Bitcoin produces some of the cleanest Elliott Wave counts available — its emotional character creates sharp, measurable wave turns with consistent Fibonacci alignment.

- Wave 2 retracements of 50%–61.8% are most common for Bitcoin
- Altcoins run deeper Wave 2 corrections — often 61.8% to 88.6%
- Wave 3 extensions of 2.618x and 4.236x are documented across multiple cycles
- FTX-era supply dynamics and institutional ETF inflows create unique wave timing for some assets
- Always check Bitcoin's Primary degree before acting on any altcoin wave count

■ Forex

Forex major pairs have decades of documented wave cycles with high Fibonacci alignment. The absence of a central exchange means price reflects pure collective sentiment without distortion from single large players.

- EUR/USD and GBP/USD show the clearest wave structures among major pairs
- The US Dollar Index (DXY) wave structure directly inverts into USD pairs
- Completed Wave 5 in DXY often marks the start of a significant move in EUR/USD and GBP/USD
- Central bank meeting dates can accelerate or interrupt wave timing at the Minor degree
- Weekly chart analysis is essential — daily volatility in Forex can obscure wave structure

■ Stocks & Indices

Individual stocks and broad market indices both follow Elliott Wave principles, but with important differences. Indices — being composites of many stocks — tend to produce cleaner wave structures than individual equities.

- The S&P; 500 has one of the longest documented Elliott Wave records of any financial instrument
- Individual stocks are subject to company-specific events that can truncate or extend waves
- Sector rotation affects how different stocks track the index wave count
- Earnings reports and corporate events can cause Minor degree irregularities within clean Intermediate structures
- Market open and close creates daily gaps — always use weekly closes as primary structural reference

■ Commodities

Commodities — particularly Gold, Silver and Crude Oil — produce well-documented Elliott Wave cycles that align with macro liquidity conditions and risk sentiment shifts.

- Gold's Wave 3 impulses frequently coincide with periods of monetary easing or systemic risk events
- Crude Oil is heavily influenced by geopolitical events that can create irregular corrective patterns
- Agricultural commodities (Wheat, Corn) follow seasonal demand cycles that interact with wave timing
- Gold and the US Dollar typically move in opposite Primary degree directions — cross-confirming each count
- Commodities often provide the macro wave context that confirms or challenges equity and crypto counts

Cross-Market Wave Confirmation

When two correlated markets show consistent Elliott Wave positioning — for example, Bitcoin in a Primary Wave 3 while the S&P; 500 is also in a Primary Wave 3 — confidence in both counts increases significantly. Cross-market confirmation is one of the most powerful tools an Elliott Wave analyst has, and it is only possible when you track multiple markets simultaneously.

CHAPTER 10

Common Mistakes & How to Fix Them

Every trader who studies Elliott Wave goes through a predictable sequence of errors. Knowing what they are before you encounter them is the most efficient way to shorten the learning curve. These are the mistakes that cost traders the most — and the direct corrections that prevent them.

Mistake 1	Forcing the Count
Problem	Starting with a directional bias and then labeling the chart to fit it. This is the single most common error and produces the most damage. It turns Elliott Wave from an objective analytical framework into a confirmation bias machine.
Fix	Always let the count emerge from price structure. If you cannot find a clean count without adjusting the labels to fit your existing view, the market is telling you something. Listen.
Mistake 2	Ignoring the Three Rules
Problem	Accepting wave counts that violate the fundamental rules — particularly allowing Wave 4 to enter Wave 1 territory or counting a Wave 2 that retraces more than 100% of Wave 1. These violations are often rationalized as "close enough."
Fix	There is no "close enough" in Elliott Wave rules. A rule violation means the count is wrong. Run the three-rule checklist on every count before acting on it.
Mistake 3	Analyzing a Single Timeframe
Problem	Counting waves only on the 1H or 4H chart and trading based on that count without confirming the higher-degree structure. This leads to trading Minor degree moves against the direction of the Primary degree trend.
Fix	Always establish the Primary degree on the Weekly chart first. Confirm on the Daily. Use the 4H for entry timing. The 1H is a last-mile tool, not an analysis tool.
Mistake 4	No Invalidation Level

Problem	Entering trades based on a wave count without defining the structural level that would prove the count wrong. When the trade moves against them, there is no objective decision point — just hope and expanding losses.
Fix	Define the invalidation level before entering every trade. Write it down. When price hits it, close the position immediately without exception.
Mistake 5	Skipping Fibonacci Confirmation
Problem	Labeling wave turning points at arbitrary price levels with no Fibonacci confluence. This produces low-confidence counts that frequently fail at the moment of execution.
Fix	Every wave turning point should align with at least one Fibonacci retracement or extension level. If it does not, lower the confidence on that count and look for an alternative.
Mistake 6	Treating Counts as Certainties
Problem	Over-committing to a single wave count — sizing positions too large and holding through invalidation because of high conviction. Elliott Wave is probabilistic. Every count has an alternative.
Fix	Always have an alternative count ready. Size positions based on the distance to your invalidation level, not on your confidence in the count. Probability does not mean certainty.

DISCLAIMER

This eBook is published by SmartWave Analysis (smartwaveanalysis.com) for educational and informational purposes only. Nothing in this guide constitutes financial advice, investment advice, or a recommendation to buy or sell any financial instrument. Elliott Wave analysis is a probabilistic analytical framework — it identifies the highest-probability scenario based on price structure, not a guaranteed market outcome.

All trading involves risk. Past wave structures and Fibonacci alignments do not guarantee future results. You should not trade with money you cannot afford to lose, and you should consider consulting a qualified financial professional before making any trading decisions.

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