

Welcome to Module 2 of the Elliott Wave Vertical. This is on Impulsive Patterns.

## Learning Objects

Impulsive Wave Structures

Impulse and Diagonal Wave Characteristics

Rules and Guidelines of Impulsive Waves

© 2012 FX Trader's EDGE™ All Rights Reserved



By now, we have completed Module 1 Elliott Basics and learned about:  
Foundation of Elliott Wave Theory  
Basic Wave Patterns  
Wave Characteristics  
Introduction to Mathematical Applications  
Three Essential Rules, and the  
Labeling of Waves

In this learning object, we will now break down the basics and focus on more specifics of the wave structures, starting with:  
Impulsive Wave Structures  
Impulse and Diagonal Wave Characteristics, and the  
Rules and Guidelines of Impulsive Waves



"I never did a day's work in my life.  
It was all fun."

Thomas A. Edison

© 2012 FX Trader's EDGE™ All Rights Reserved



"I never did a day's work in my life. It was all fun," says Thomas A. Edison, inventor. Picture yourself learning all there is to know about impulsive patterns so that high probability trades become apparent. And have fun at the same time, just like Thomas Edison did!

# IMPULSIVE WAVE STRUCTURE

*The FXTE TT uses tools to play pullbacks, breakouts and breakdowns during trend moves*

*The FXTE TT uses 3 types of strategies:*

- 3. Trend Strategies for waves 1, 3, 5, A, & C*
- 1. Momentum trades*
- 2. Breakout and Breakdown trades*
- 3. Retracement trades*



*Momentum trades capture segments of the trend. Retracement trades enable the trader to buy on the pullback or sell on the rally in the direction of the trend. Breakout or breakdown trades are for sideways corrections or a pause in the trend.*

*Follow the trend and get back on the train when you fall off*

# IMPULSIVE WAVE STRUCTURE

## Toolbox – Trend Confirmations

Support and Resistance:

- Manual Barriers and 00 Prices
- Pivot Points for Entries and Exits
- Fibonacci Retracements for Entries

Channel Tops and Bottoms

Trend Indicators:

- Moving Averages
- Bollinger Bands

Continuation Chart Patterns:

- Triangles, Flags and Rectangles

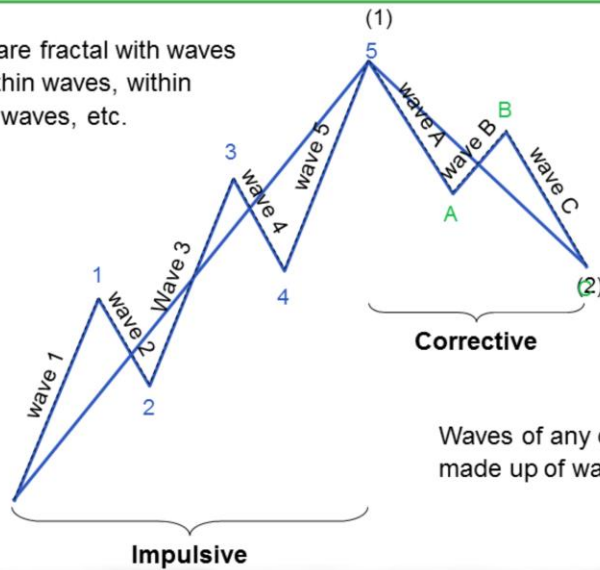
Candlestick Patterns

Internal 123's

Fibonacci Projections

# IMPULSIVE WAVE STRUCTURE

Elliott Waves are fractal with waves embedded within waves, within waves, within waves, etc.



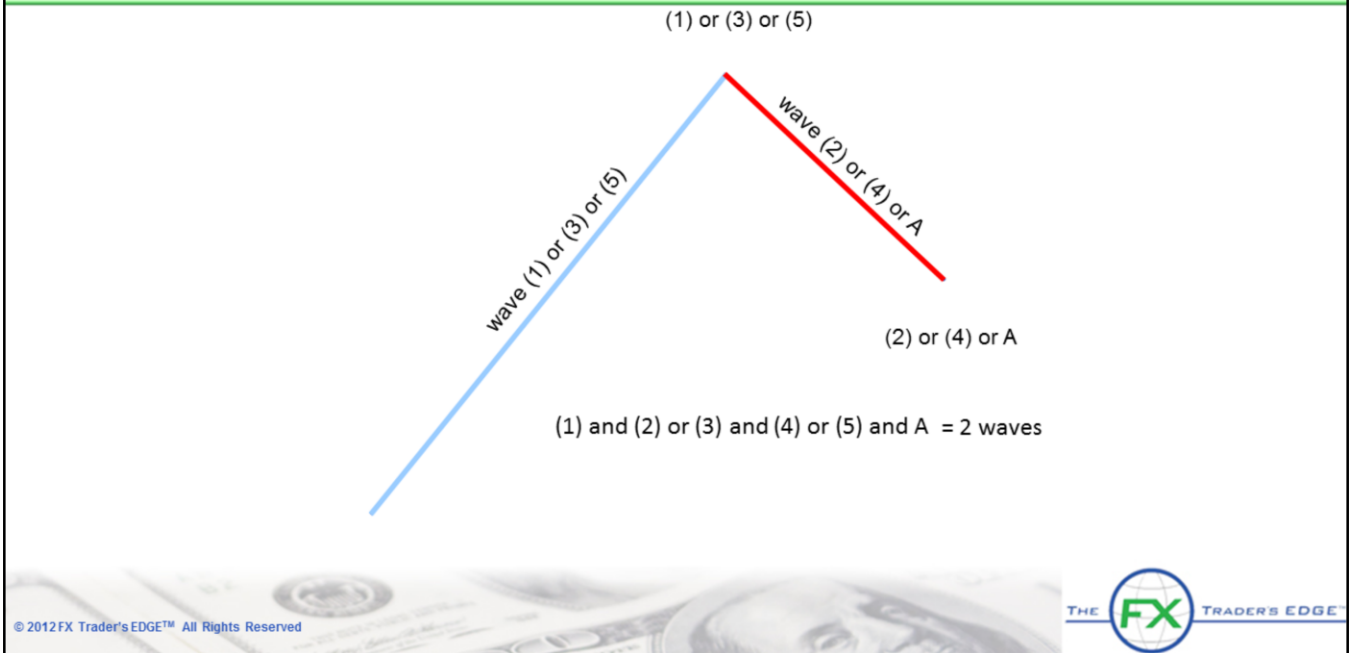
Waves of any degree in any series are made up of waves of a lesser degree.

Elliott Waves are fractal with waves embedded within waves, within waves, within waves, etc.

Waves of any degree in any series are made up of waves of a lesser degree.

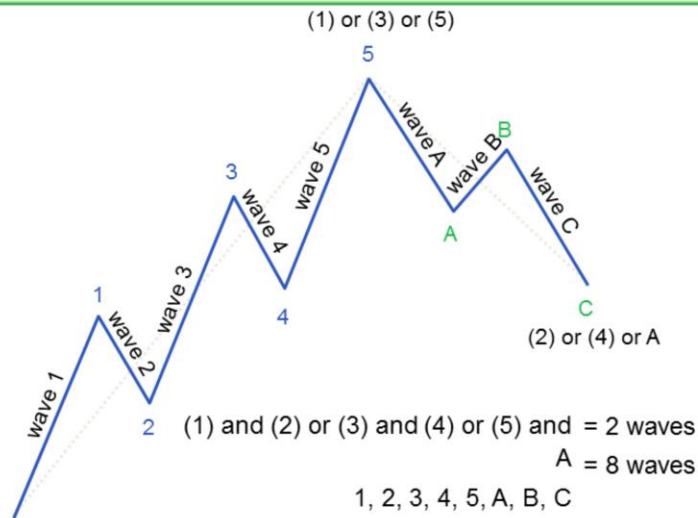
As such, this impulsive wave structure could easily be a 15-minute, hourly, daily, or weekly chart. The structure is the same in any time frame.

# IMPULSIVE WAVE STRUCTURE



Since waves are self-similar, this rising wave can be a wave 1, 3 or 5 in a 5-wave sequence. These are the impulsive waves which move in the direction of the trend. Each impulsive wave, once complete is followed by a corrective wave.

# IMPULSIVE WAVE STRUCTURE



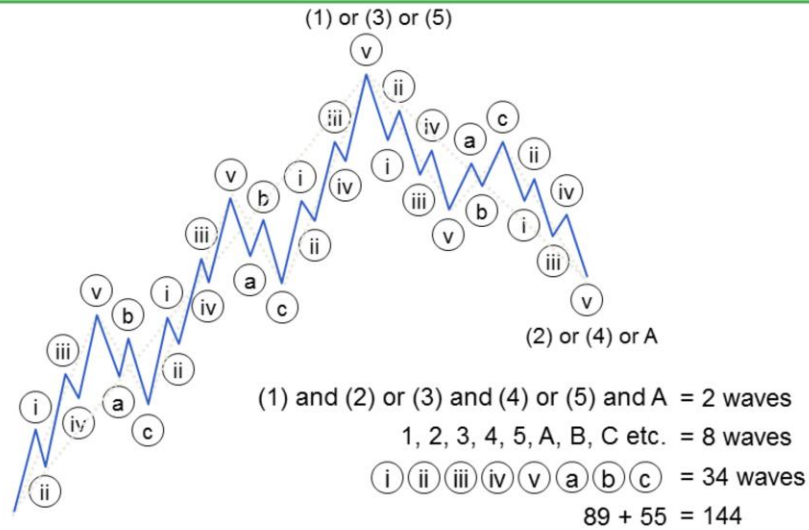
© 2012 FX Trader's EDGE™ All Rights Reserved



Now, you are beginning to see the repetitive nature of the waves that Elliott first described, when he looked at the stock market as a fractal. The complete 8-wave cycle, 1-2-3-4-5-A-B-C, is really 2 waves of a larger degree. We can look at it another way as well. Looking at this sequence as waves 1 and 2, we can say that waves of any degree in any series always subdivide into waves of a lesser degree. Specifically, waves 1 and 2 of the daily chart will subdivide into waves of a lesser degree which can be seen on the hourly chart.



# IMPULSIVE WAVE STRUCTURE



© 2012 FX Trader's EDGE™ All Rights Reserved

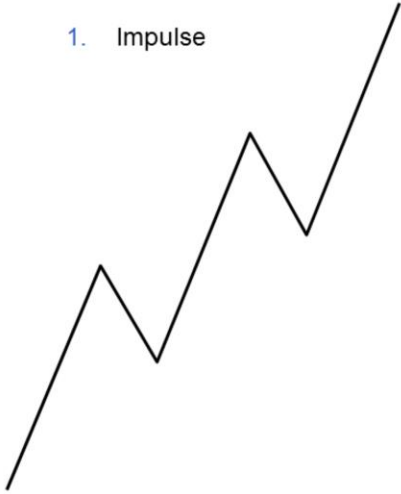


In wave theory, this impulsive wave structure is called wave form. Whenever we look at wave form, we start with the larger time frame and count the basic 5-wave impulse move followed by a 3-wave corrective move, totaling 8 waves. Moving to a shorter time frame, 5 waves turn into 21 waves and 3 waves into 13 waves. One complete cycle has 8 waves, and subdividing further, the next cycle has 34 waves, followed by 144 waves.

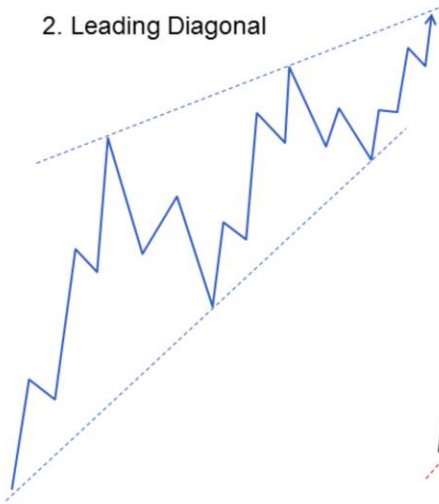
# IMPULSIVE WAVE STRUCTURE

Three types of impulsive waves:

1. Impulse



2. Leading Diagonal



3. Ending Diagonal



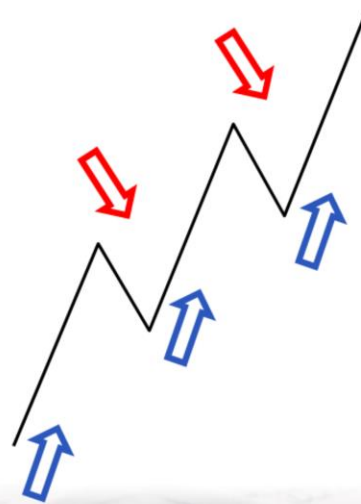
© 2012 FX Trader's EDGE™ All Rights Reserved



There are three types of impulsive waves:  
Impulse  
Leading Diagonal, and  
Ending Diagonal

## IMPULSE WAVE CHARACTERISTICS

- ❖ Most common
- ❖ Consists of 5 separate movements
  - + 1 in direction of predominant trend
  - + 2 as a retracement
  - + 3 as a strong movement in direction of predominant trend
  - + 4 as a retracement
  - + 5 as a final move toward direction of predominant trend
- ❖ Moves strongly in direction of trend



© 2012 FX Trader's EDGE™ All Rights Reserved



Impulses are the fundamental element of Elliott wave patterns and the most common of the impulsive wave structures.

Impulses consist of 5 separate movements:

Wave 1 in the direction of the predominant trend.

Wave 2 as a retracement.

Wave 3 as a strong movement in the direction of the predominant trend.

Wave 4 as a retracement, and

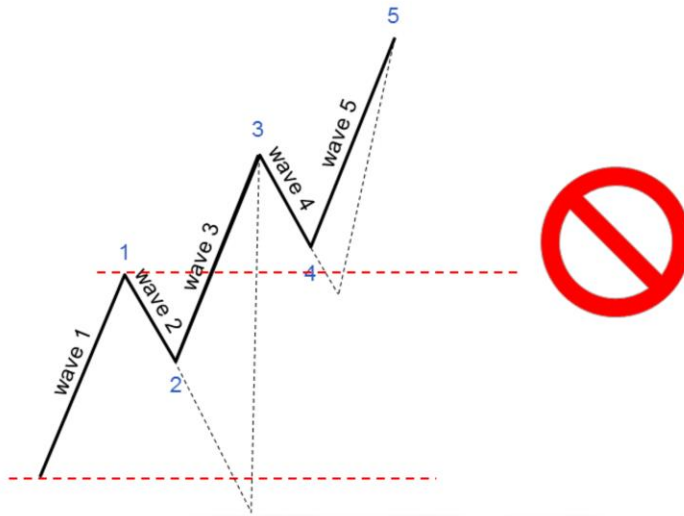
Wave 5 as a final move toward the direction of the predominant trend.

Impulses move strongly in direction of trend.

As a guideline, a rising impulse will start at, or just after, a major low.

In a falling market, an inverted impulse will start at, or just after, a major high.

## IMPULSE WAVE CHARACTERISTICS



© 2012 FX Trader's EDGE™ All Rights Reserved



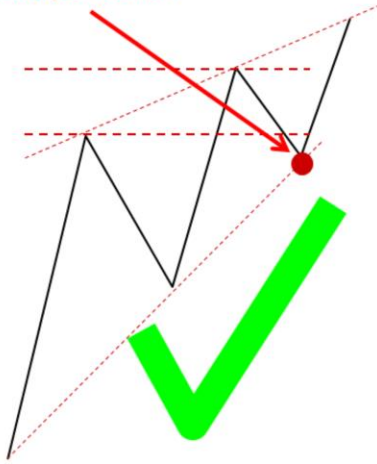
This is an example of an impulse wave, the fundamental 5-wave pattern.

Note the three rules which cannot be broken which we learned so far:

- 1) Wave 2 never retraces more than 100% of wave 1.
- 2) Wave 3 is never the shortest wave, and
- 3) Wave 4 does not enter into the same price territory as wave 1.

## DIAGONAL WAVE CHARACTERISTICS

*Wave 4 overlaps wave 1*



- ❖ Two other impulsive patterns
  - + Leading Diagonals
  - + Ending Diagonals
- ❖ Diagonals move weakly in the direction of the trend.
- ❖ Diagonals move within converging trend (or channel) lines.
- ❖ Diagonals are a 5-wave structure where wave 4 always moves into the price territory of wave 1.

© 2012 FX Trader's EDGE™ All Rights Reserved



There are two other impulsive Elliott Wave patterns which move with the larger trend.

They're called Leading Diagonals and Ending Diagonals.

The Diagonal wave structure is different from the impulse wave structure.

While impulse patterns strongly move in the direction of the trend, diagonals move more weakly in the direction of the trend.

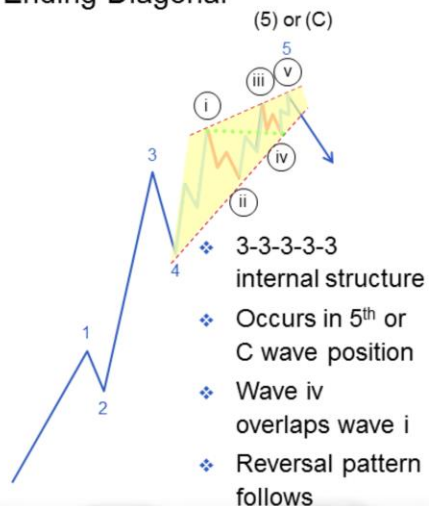
Diagonals move within converging trend (or channel) lines.

In impulse structures, one of the rules is that wave 4 can never move into the price territory of wave 1. Diagonals, in contrast, are a 5-wave structure where wave 4 always moves into the price territory of wave 1.

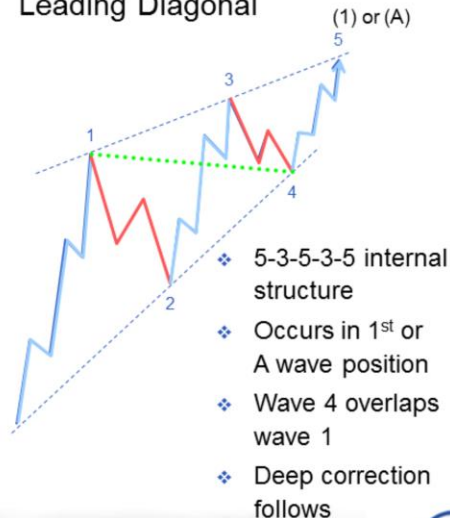
These diagonals are most common in highly leveraged markets such as Forex and Commodities. Diagonal structures are also called Diagonal Triangles. Although similar, Diagonal Triangles are different from Corrective Triangles, which we will cover in Module 3: Corrective Patterns.

# DIAGONAL WAVE CHARACTERISTICS

## Ending Diagonal



## Leading Diagonal



© 2012 FX Trader's EDGE™ All Rights Reserved



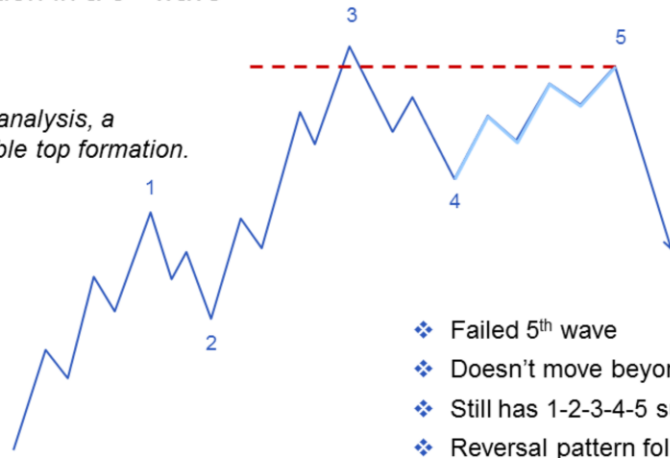
Ending Diagonals and Leading Diagonals have different characteristics and internal structures.

- Ending diagonals are more common than leading diagonals
- The internal structure of an ending diagonal is comprised of all 3-wave or corrective patterns
  - That means that all of the waves of the 5<sup>th</sup> wave subdivide into 3 waves.
- Ending diagonals occur in the 5<sup>th</sup> wave position or the C position in an ABC correction.
- In ending diagonals, wave 4 overlaps wave 1.
- Ending diagonals typically occur when the market is about to change direction.
  - When it occurs in the wave 5 position, in higher degrees, a major reversal is about to take place.(it slows down in anticipation of a change in direction)
  - According to Elliott, it often occurs when the preceding move has gone “too far too fast.”
  - And in classical technical analysis, an ending diagonal is known as a rising wedge. In the case of a downtrend, it is a falling wedge.
- The internal structure of a leading diagonal is comprised of 5-3-5-3-5 subwaves.
  - The five sub-waves that make up a leading diagonal are a combination of impulse and corrective wave patterns.
- Leading diagonals occur in the 1<sup>st</sup> wave position or in the A position in an ABC correction.
- In leading diagonals, wave 4 also overlaps wave 1.
- Leading diagonals usually precede a deep correction or retracement.
- Sometimes the diagonal triangle takes on an expanding shape, rather than a wedge shape, where the boundary lines diverge. In a wedge shape, the boundary lines converge.

## DIAGONAL WAVE CHARACTERISTICS

### Truncation in a 5<sup>th</sup> wave

*In classical technical analysis, a truncated 5<sup>th</sup> is a double top formation.*



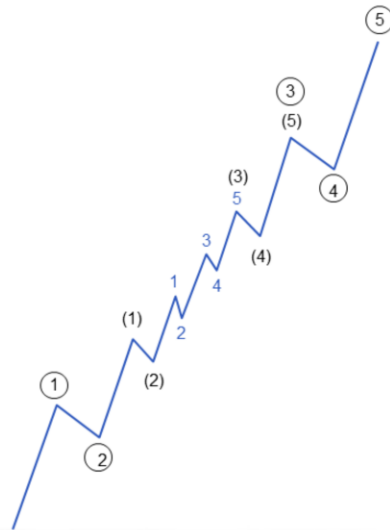
© 2012 FX Trader's EDGE™ All Rights Reserved



In addition to a diagonal 5th wave, the 5th wave may end in what is called a truncated wave 5. It is otherwise known as a failed 5th wave. This means that wave 5 fails to move beyond wave 3. The 5th wave still has the necessary 1-2-3-4-5 subwaves with a 5-3-5-3-5 internal structure and the rules still apply. However, it is a short wave and usually signals a reversal pattern or a change in direction. In classical technical analysis, a truncated 5th is a double top formation.

# WAVE EXTENSIONS

- ❖ Extensions are elongated impulses with exaggerated subdivisions.
- ❖ Extensions can appear in any one of the three impulse waves (1, 3 or 5).
- ❖ Wave 3 extensions are most common.



© 2012 FX Trader's EDGE™ All Rights Reserved



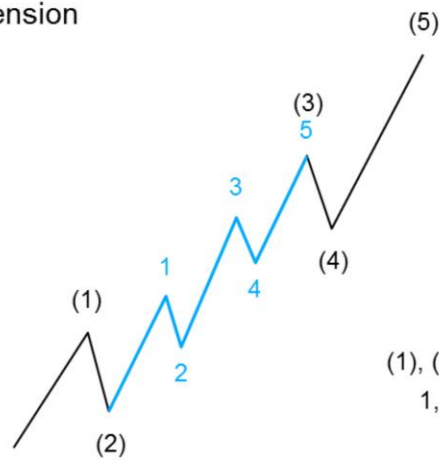
When the impulse wave seems to go on and on and on, it is called an extension.

Extensions are elongated impulses with exaggerated subdivisions. Extensions can appear in any one of the three impulse waves—1, 3, or 5. However, wave 3 extensions are the most common, since it is usually the strongest and the longest impulse wave of the three.



# WAVE EXTENSIONS

3<sup>rd</sup> wave extension

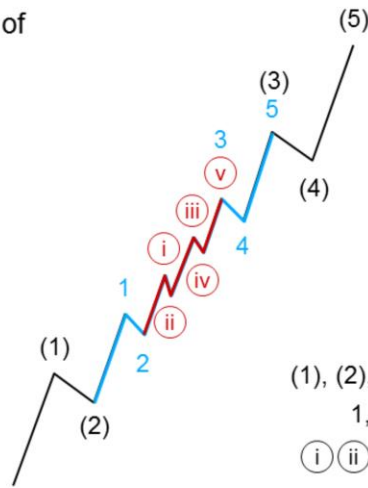


(1), (2), (4) and (5) = 4 waves  
1, 2, 3, 4, and 5 = 5 waves  
Total = 9 waves

In this example, the 3<sup>rd</sup> wave extension is a 9 wave sequence. Within this 5-wave sequence, wave 3 extends into another 5-wave sequence.

# WAVE EXTENSIONS

3<sup>rd</sup> wave extension of  
3<sup>rd</sup> wave extension



(1), (2), (4) and (5) = 4 waves  
1, 2, 4, and 5 = 4 waves  
i ii iii iv v = 5 waves  
Total = 13 waves

© 2012 FX Trader's EDGE™ All Rights Reserved



In this example, the 3<sup>rd</sup> wave has two extensions. This is known as a 3<sup>rd</sup> wave extension of a 3<sup>rd</sup> wave extension. In other words, the extension occurs within an extension. This extension is a 13-wave sequence. Within the initial 5-wave sequence, wave 3 extends twice.

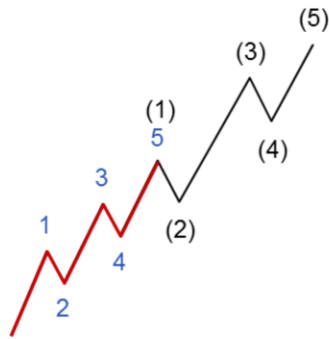
Notice that none of the 3 Elliott wave rules have been broken. Notice too, that in the 13-wave sequence, we have a series of 1-2 patterns. Specifically, we have a 1-2-1-2-1-2 pattern before continuing on.

Now the next question is, if wave 3 is extended, what does that tell you about the length of wave 5? I can hear you saying, that it won't be extended, and that is the correct answer!

# WAVE EXTENSIONS

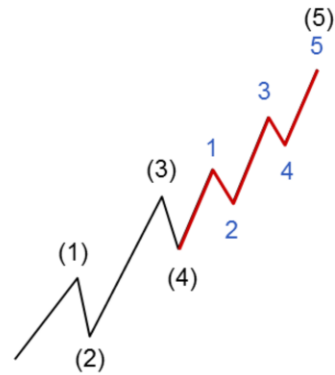
1<sup>st</sup> wave extension

❖ 9-wave sequence



5<sup>th</sup> wave extension

❖ 9-wave sequence



© 2012 FX Trader's EDGE™ All Rights Reserved

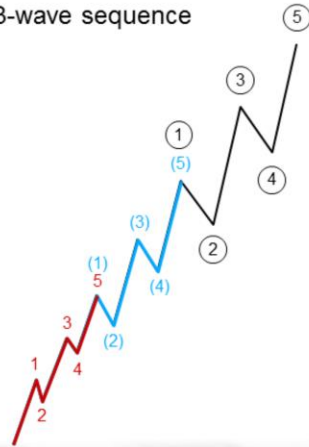


Now let's look at wave 1 and wave 5 extensions. Waves 1 and 5 extensions also occur in the form of 9-wave and 13-wave sequences as well. This example shows 9-wave sequences for the wave 1 and wave 5 extension. If wave 1 is extended, it is likely that waves 3 and 5 will not be extended. And if wave 5 is extended, it is likely that waves 1 and 3 were not extended.

# WAVE EXTENSIONS

1<sup>st</sup> wave extension of  
1<sup>st</sup> wave extension

❖ 13-wave sequence



5<sup>th</sup> wave extension of  
5<sup>th</sup> wave extension

❖ 13-wave sequence

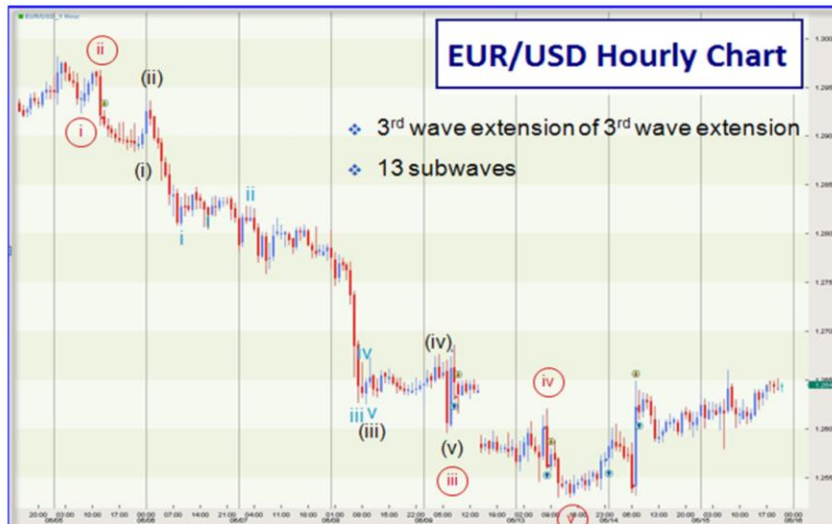


© 2012 FX Trader's EDGE™ All Rights Reserved



In this example, waves 1 and 5 extensions occur as 13-wave sequences. The first example is a 1<sup>st</sup> wave extension of a 1<sup>st</sup> wave extension. Note how the 5-wave sequence seems to go on and on. The second example is a 5<sup>th</sup> wave extension of a 5<sup>th</sup> wave extension. Wave 5 seems to go on and on. It is important to understand extensions so as not to call the end of a 5-wave sequence prematurely.

# WAVE EXTENSIONS

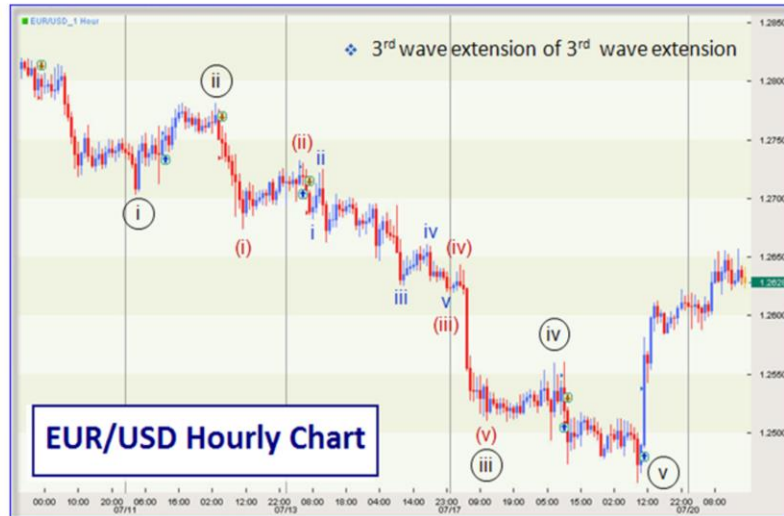


© 2012 FX Trader's EDGE™ All Rights Reserved



This is an example of a wave extension in the EUR/USD hourly chart from June 5, 2006 to June 14, 2006. This is a 5-wave sequence that appears to go on and on. When we look at it more closely, we see it as a series of extensions. In fact, we notice that it is a third wave extension of a third wave extension, with 13 subwaves. While one is trading this sequence, it is difficult to recognize the end of a 5-wave sequence, especially if we are in extension mode. We will learn ways to recognize the end of a trend further on in this course.

# WAVE EXTENSIONS



© 2012 FX Trader's EDGE™ All Rights Reserved



In this EUR/USD hourly chart from July 7, 2006 to July 19, 2006, you can see this third wave extension of the third wave extension.

# DIAGONAL WAVE STRUCTURE



© 2012 FX Trader's EDGE™ All Rights Reserved



This is an example of a diagonal wave structure in the EUR/USD daily chart in 2006. This is an example of a leading diagonal triangle, an expanding triangle as well. You can see the boundary lines diverge and you can see the overlap between the wave 1 top and wave 4 bottom.

# DIAGONAL WAVE STRUCTURE



© 2012 FX Trader's EDGE™ All Rights Reserved



Here is an example of an ending diagonal triangle in the weekly USD/CAD from August 2002 to May 2007. Notice that all of the legs appear to be 3 waves. Wave 3 is not the shortest wave. Wave 4 overlaps the end of wave 1. The ending diagonal, although not complete at this time, will likely signal the trend reversal in the USD/CAD. Notice the boundary lines converge as well.



# RULES AND GUIDELINES OF IMPULSIVE WAVES

Rules	Guidelines
❖ Impulse waves 1, 3, and 5 always subdivide into five waves.	❖ Sometimes wave 5 does not move beyond the end of wave 3 – called truncation.
❖ Wave 1 must be an impulse or a leading diagonal pattern.	❖ Wave 5 often ends or slightly exceeds a trend line drawn off wave 3 parallel to a trend line drawn connecting the ends of waves 2 and 4.
❖ Wave 2 never goes beyond the start of wave 1.	❖ Wave 1,3 or 5 is usually extended where the corrective waves are small compared to the impulse waves.
❖ Wave 3 is never the shortest impulse wave.	❖ Wave 3 is usually the steepest and longest wave.
❖ Wave 3 must be an impulse.	❖ Usually either wave 3 or 5 is extended.
❖ Wave 4 never moves beyond the end of wave 1.	❖ Wave 4 usually ends in the vicinity of sub-wave 4 of wave 3.
❖ Wave 5 must be an impulse or an ending diagonal pattern.	❖ Fibonacci percentages are used to calculate retracements for waves 2 and 4.
❖ Waves 1,3 and 5 can never all be extended.	❖ Fibonacci ratios are used to target the end of waves 3 and 5.

© 2012 FX Trader's EDGE™ All Rights Reserved



And now for some rules and guidelines of impulse wave structures. There are rules and there are guidelines.

First the rules:

1. Impulse waves 1, 3, and 5 always subdivide into five waves.
2. Wave 1 must be an impulse or a leading diagonal pattern.
3. Wave 2 never goes beyond the start of wave 1.
4. Wave 3 is never the shortest impulse wave.
5. Wave 3 must be an impulse.
6. Wave 4 never moves beyond the end of wave 1.
7. Wave 5 must be an impulse or an ending diagonal pattern, and
8. Waves 1, 3 and 5 can never all be extended.

And now for some guidelines:

1. Sometimes wave 5 does not move beyond the end of wave 3; this is called truncation.
2. Wave 5 often ends or slightly exceeds a trend line drawn off wave 3 parallel to a trend line drawn connecting the ends of waves 2 and 4.
3. Wave 1, 3 or 5 is usually extended where the corrective waves are small compared to the impulse waves.
4. Wave 3 is usually the steepest and longest wave.
5. Usually either wave 3 or 5 is extended.
6. Wave 4 usually ends in the vicinity of sub-wave 4 of wave 3.
7. Fibonacci percentages are used to calculate retracements for waves 2 and 4, and
8. Fibonacci ratios are used to target the end of waves 3 and 5.

# RULES AND GUIDELINES OF DIAGONAL WAVES

Rules	Guidelines
<ul style="list-style-type: none"> <li>❖ A diagonal triangle subdivides into 5 waves.</li> <li>❖ A leading diagonal occurs in wave 1 of an impulse or wave A of an A-B-C correction.</li> <li>❖ An ending diagonal always subdivides into 3-waves for each leg of the 5-wave sequence.</li> <li>❖ An ending diagonal occurs in wave 5 of an impulse or wave C of an A-B-C correction.</li> <li>❖ Wave 2 never goes beyond the origin of wave 1.</li> <li>❖ Wave 3 always goes beyond the end of wave 1.</li> <li>❖ Waves 4 and 1 overlap.</li> <li>❖ Wave 5 always ends beyond the end of wave 3 in a leading diagonal.</li> <li>❖ In a contracting diagonal, waves 1, 3, and 5 and waves 2 and 4 decrease in size consecutively.</li> <li>❖ In an expanding diagonal, waves 1, 3, and 5 and waves 2 and 4 increase in size consecutively.</li> </ul>	<ul style="list-style-type: none"> <li>❖ A leading diagonal usually subdivides into 5-3-5-3-5 for waves 1, 2, 3, 4, and 5, and sometimes subdivides into 3-3-3-3-3 corrective patterns.</li> <li>❖ If wave 1 is a leading diagonal triangle, then wave 3 is usually extended.</li> <li>❖ If wave 5 is an ending diagonal triangle, then wave 3 is usually extended.</li> <li>❖ A contracting diagonal can have a failed 5<sup>th</sup> wave.</li> <li>❖ In a contracting diagonal, wave 5 usually ends at or slightly beyond (throw over) a trend line that connects the ends of waves 1 and 3.</li> <li>❖ In an expanding diagonal, wave 5 usually ends slightly before the trend line that connects the ends of waves 1 and 3.</li> </ul>

© 2012 FX Trader's EDGE™ All Rights Reserved



And now for the rules and guidelines for diagonal waves.

First the rules:

1. A diagonal triangle subdivides into 5 waves.
2. A leading diagonal occurs in wave 1 of an impulse or wave A of an A-B-C correction.
3. An ending diagonal always subdivides into 3-waves for each leg of the 5-wave sequence.
4. An ending diagonal occurs in wave 5 of an impulse or wave C of an A-B-C correction.
5. Wave 2 never goes beyond the origin of wave 1.
6. Wave 3 always goes beyond the end of wave 1.
7. Waves 4 and 1 overlap.
8. Wave 5 always ends beyond the end of wave 3 in a leading diagonal.
9. In a contracting diagonal, waves 1, 3, and 5 and waves 2 and 4 decrease in size consecutively, and
10. In an expanding diagonal, waves 1, 3, and 5 and waves 2 and 4 increase in size consecutively.

And now for the guidelines.

1. A leading diagonal usually subdivides into 5-3-5-3-5 for waves 1, 2, 3, 4, and 5, and sometimes subdivides into 3-3-3-3-3 corrective patterns.
2. If wave 1 is a leading diagonal triangle, then wave 3 is usually extended.
3. If wave 5 is an ending diagonal triangle, then wave 3 is usually extended.
4. A contracting diagonal can have a failed 5<sup>th</sup> wave.
5. In a contracting diagonal, wave 5 usually ends at or slightly beyond (throw over) a trend line that connects the ends of waves 1 and 3, and
6. In an expanding diagonal, wave 5 usually ends slightly before the trend line that connects the ends of waves 1 and 3.

---

---

End of Learning Object  
**Continue on to the Quiz**

© 2012 FX Trader's EDGE™ All Rights Reserved



This is the conclusion of the learning object. Please continue on to the quiz.