

HARMONIC ELLIOTT WAVE part 2

By Ian Copsey

A number of readers have asked about the harmonic Elliott Wave concept developed by Ian Copsey. We reprint Ians original articles. Editor.

Elliott Wave, love it or hate it, has been around for a long time. Can it forecast market movements? Can it forecast precise stalling points? It's a debate that has been around for as long as the Principle has been used and seems to have drawn both as many critics as it has followers.

My own bug-bear from over 20 years of experience practicing Elliott Wave is the apparent concentration on just labelling what is seen irrespective of whether (say) whether Wave 5 is 23.6% of the entire move from the start of Wave 1 to the end of Wave 3 or 138.2%. Just where is the ability to be able to anticipate and forecast?

The normal Fibonacci projections which are widely quoted don't work all that often and impulsive waves all too often stall early and missed out a wave. Looking at leading Elliotticians' analyses their counts rarely any adhered to any relationship.

APPLICATION OF FIBONCCI AND HARMONIC RATIOS

Fibonacci is widely used but not with any precise and logical manner. Harmonic ratios are hardly used at all. Let me briefly introduce how Fibonacci derived these ratios:

In the Fibonacci sequence of numbers, each number is the sum of the previous two numbers, starting with 0 and 1. Thus the sequence begins:

0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610 etc

At first glance it seems an innocuous sequence but as we will see it holds quite extraordinary properties. By dividing one number in the sequence by the next the resultant ratio begins with common fractions: 1, 1/2, 2/3, 3/5... but after a while the result remains at 61.80%.

By dividing one number in the sequence by the preceding number we have similar developments which see the result remaining at 161.8%. This is the golden ratio which is found in nature, in classical architecture including the Egyptian pyramids, some Greek structures such as the Acropolis and Parthenon.

This can be developed further by dividing numbers two apart, three apart and so on in the sequence: Thus ratios a series of ratios can be generated both below 100% and also above:

Below zero:

5.6%, 9.0%, 14.6%, 23.6%, 33.3%, 38.2%, 50%, 61.8%, 66.6%, 76.4%, 85.4%, 90.0% 95.4%

Above zero:

161.8%, 261.8%, 423.6%, 685.4%, 1109.0% 1794.4%

The Square Root of Two

The square root of 2, also known as Pythagoras' constant, is the positive real number that, when multiplied by itself, gives the number 2. Geometrically the square root of 2 is the length of a diagonal across a square with sides of one unit of length; this follows from the Pythagorean Theorem. It was probably the first number known to be irrational. Its numerical value truncated to 5 decimal places is: 1.41421

I do not profess to be a skilled mathematician and will go no further than this brief explanation. I was introduced to the use of the square root of two by an acquaintance in the market who described the ratio as commonly occurring within musical notes.

At first I wasn't quite sure how to use this until I began to sit down and study wave relationships and noted that two derivations of the number frequently occurred: 41.4% and its "opposite" 58.6% being 100 - 41.4.

Alternative Wave Relationships

From the many hours of research into the common relationships between waves I noted those that are generated directly from both Fibonacci and the square root of two. However, I found more commonly in the trending wave sequence other ratios that can be derived from Fibonacci ratios.

What I noted was that specifically Wave (iii) it is possible to take the ratios less than 100% and add them to 100%, 200% and occasionally 300% and 400% etc. Earlier I listed these ratios below as:

5.6%, 9.0%, 14.6%, 23.6%, 33.3%, 38.2%, 50%, 61.8%, 66.6%, 76.4%, 85.4%, 91.0% 94.4%

To this list we can add 41.4% and 58.6%.

Mostly commonly extensions in Wave (iii) I find on a very frequent basis are: 176.4%, 185.4%, 195.4%, 223.6%, 261.8%, 276.4%, 285.4% and 295.4%

Mostly commonly extensions in Wave (c) I find on a very frequent basis are: 85.4%, 95.4%, 100%, 105.6%, 109%, 114.6%, 123.6%, 138.2% and 161.8%

APPLYING WAVE RELATIONSHIPS TO THE HARMONIC WAVE STRUCTURE

The key to the harmonic wave structure is the requirement for all degrees of the wave structure to develop with relationships that confirm each other. For example, very clearly Wave (c) must be related to Wave (a), Wave (iii) must be related to Wave (i) and the Wave (c) of Wave (iii) must have the same target areas. Within the Wave (c) of Wave (iii) the Wave v must also develop with a ratio that confirms the same targets as the projection of Wave (i) and the projection in Wave (c). This type of harmonious development is key to confirming the structure.



A five-wave decline in the 10-minute USDCHF market

Now, referring back to the chart of USDCHF in the first part of this article the following relationships were noted:

Wave (c)		Ratio	Projection	Actual
Wave -a-	1.0661			1.0661
Wave -b-	1.0661 +	Wave -a- * 100% =	1.0683	1.0682
Wave -c-	1.0682 -	Wave -a- * 194.43% =	1.0639	1.0638
Wave -i-	1.0638			1.0638
Wave -ii-	1.0638 +	Wave -i- * 23.6% =	1.0649	1.0650
Wave -a-	1.0557			1.0557
Wave -b-	1.0557 +	Wave -a- * 33.3% =	1.0588	1.0587
Wave -c-	1.0587 -	Wave -a- * 109.02% =	1.0486	1.0488
Wave -iii-	1.0650 -	Wave -i- * 361.8% =	1.0487	1.0488
Wave -a-	1.0543			1.0543
Wave -b-	1.0543 -	Wave -a- * 85.4% =	1.0496	1.0498
Wave -c-	1.0498 +	Wave -a- * 114.6% =	1.0561	1.0561
Wave -iv-	1.0488 +	Wave -iii- * 41.4% =	1.0555	1.0561
Wave -a-	1.0498			1.0498
Wave -b-	1.0498 +	Wave -a- * 61.8% =	1.0537	1.0537
Wave -c-	1.0537 -	Wave -a- * 161.8% =	1.0435	1.0434
Wave -v-	1.0561 -	Wave -i- > -iii- * 66.7% =	1.0431	1.0434

In this example the wave relationships are exceptionally accurate. It is very important to note how the internal ABC relationships confirm the projections of Waves -i- through Wave -v-. In addition, while not shown the end of Wave (c) at 1.0434 should also be a close relationship with that of Wave (a).

In the next part of this article I shall explain more about the Harmonic Structure and how these are applied to wave structures.

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