

# Elliott Wave — Trading Strategies

*Combining predictive Elliott Wave analysis with reactive TA (divergence, volume, market structure, Fibonacci) to find high-probability entries, place intelligent stop losses, and set precise profit targets.*

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## Stop Loss Placement Using Invalidation Levels

Elliott Wave's three cardinal rules give you exact prices where your wave count is **WRONG**. Use these as stop loss levels — not arbitrary percentages or arbitrary pivots.

### Wave 2 Stop Loss

**Place below the start of wave 1.** Wave 2 cannot retrace more than 100% of wave 1. If price goes below wave 1's origin, the count is invalidated — exit.

Why not just below the wave 2 pivot? Because wave 2 might not be finished. You could get a bounce, think wave 3 has started, then price drops back for an expanded flat or deeper retracement before the **REAL** wave 3. By placing the stop at the wave 1 origin, you give the trade breathing room while protecting against full invalidation.

**South32 example:** Wave 1 completed, ABC correction for wave 2, change of market structure → entry. Stop loss goes below the wave 1 origin, not below the wave 2 pivot. If wave 2 extends into an expanded flat before wave 3, you're still in the trade.

### Wave 4 Stop Loss

**Place just below the top of wave 1.** Wave 4 cannot overlap wave 1's price territory (in an impulse). The moment it does, the impulse count is invalidated.

**Bitcoin example:** Wave 1, 2, 3 identified. Wave 4 pulls back. Entry taken on change of market structure. Stop loss placed just into wave 1 territory — not below the wave 4 pivot. This gives breathing room for the correction to complete while knowing that if wave 4 enters wave 1 territory, it's corrective (ABC), not an impulse wave 4-5.

## Wave 5 Stop Loss

**Place below wave 4.** Once wave 5 breaks above wave 3, price shouldn't return below wave 4. If it does, the structure is invalid.

## ABC Correction Stop Loss (Shorting)

**Place above wave B.** After change of market structure to the downside (lower low, lower high, lower low), enter short with stop above B.

**Only two ways this stop gets hit:**

1. Expanded flat — wave B of the larger correction exceeds wave A's start
2. Expanded triangle — rare

Everything else (zigzags, running flats, regular flats, normal triangles) won't reach above B. So the odds are heavily stacked in your favour.

## Trailing Stops as Waves Develop

- After wave 3 completes → move stop to below the end of wave 2 (locking in gains)
- After wave 4 completes and wave 5 breaks above wave 3 → move stop to below wave 4
- Keep raising the stop to below each major pivot point as the trend progresses

**Give breathing room:** Don't place stops exactly at the invalidation level — add a small buffer for wicks and market noise.

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## Entry Strategies

### Entry After Wave 2 (Best Risk:Reward)

This is the highest-value entry — you capture wave 3 (strongest) and wave 5.

### How:

1. Identify wave 1 completion and wave 2 retracement (typically deep: 50-61.8%, sometimes 78.6%)
2. Look for wave 2 to reach the golden pocket (382-618 Fib retracement of wave 1)
3. Wait for **change of market structure** out of the wave 2 low — don't buy blindly at a Fib level
4. Optional: drop to a lower timeframe for a more precise entry on the change of market structure
5. Stop loss below wave 1 origin (invalidation) or below wave 2 pivot (tighter, riskier)

**Great Depression example:** Leading diagonal for wave 1 → deep wave 2 retracement to the 786 → change of market structure back through support/resistance → entry → stop below wave 2 → ride wave 3.

## Entry During Wave 4 (Moderate)

Captures wave 5 — not as strong as wave 3 but still profitable.

### How:

1. Wave 3 completed, wave 4 pulling back
2. Wave 4 typically retraces 38.2-50% of wave 3 (shallower than wave 2)
3. Wait for change of market structure off the zag zone
4. Stop loss below wave 4 pivot, or partial stop there + full stop below wave 1 territory (full invalidation)
5. If wave 4 enters wave 1 territory → 100% invalidated for an impulse, exit everything

## Entry at the End of an ABC Correction (The Complete Setup)

Captures the next impulse wave after the correction ends. This is the "bread and butter" trade.

### How:

1. Five waves up completed (1-2-3-4-5)
2. ABC correction underway — project wave C target using trend-based Fib extension (1:1 most common, 1.618 for stronger corrections)
3. Combine C wave target with Fib retracement of the entire impulse → look for **Fib cluster** (e.g. Fib 500 retracement + Fib 1:1 extension at the same price)
4. Add channel support if applicable
5. Wait for **reversal signals** at the cluster zone: double bottom, bullish divergence on RSI, bullish divergence on OBV, volume declining into the low

- 6. Wait for **change of market structure** — don't buy before the reversal confirms
- 7. Stop loss below the Fib cluster zone

**Apple example:** Five waves up → ABC correction → Fib 500 retracement aligned with Fib 1:1 extension = Fib cluster → double bottom at the cluster → bullish divergence on RSI and OBV → change of market structure → entry at ~\$1,690 with stop below → rode the entire next impulse wave.

**Key principle:** At the end of an ABC, you don't know if it's the start of a new impulse (wave 1-2-3-4-5) or just a zigzag (wave C completing). Take partial profits at the 1:1 extension level — if it's wave C it ends there, if it's wave 3 you still have exposure for the rest.

# Profit Targets Using Fibonacci Extensions

## Wave 3 Target

**From:** Start of wave 1 → end of wave 1 → end of wave 2 (trend-based Fib extension, three clicks)

| Target | When                                                                 |
|--------|----------------------------------------------------------------------|
| 1.618  | Most common (~60-70%). First target to watch                         |
| 2.618  | Strong trends. Second target if 1.618 breaks                         |
| 1.0    | If wave 1 and 3 are equal — implies wave 5 will be the extended wave |

**Confirmation at target:** Look for bearish divergence, rising wedge, and volume declining as price approaches the 1.618. If weakness appears at the target zone, take profit.

**Apple example:** Wave 3 hit the 1.618 with bearish divergence and a rising wedge into the target. Textbook profit-taking zone.

## Wave 5 Target

**Method 1 — 618 of waves 1+3 combined:** Fib extension from start of wave 1 → end of wave 3 → end of wave 4. The 618 level is the most common wave 5 target.

**Method 2 — Wave 5 = Wave 1:** Use the measuring tool to copy wave 1's length and project from wave 4. Most common when wave 3 was extended.

**Method 3 — 1.618 of waves 1+3:** For extended wave 5s (commodities blow-off tops).

If wave 3 was already very extended, wave 5 is typically short (382 or even just a small thrust). If wave 3 was not extended, wave 5 might be the blow-off.

## Wave C Target (Corrections)

**From:** Start of wave A → end of wave A → end of wave B (trend-based Fib extension)

| Target | When                                               |
|--------|----------------------------------------------------|
| 1:1    | Most common — wave C equals wave A ("partner leg") |
| 1.618  | Stronger corrections                               |
| 0.618  | When wave B was shallow (triangle)                 |
| 2.618  | Extreme bear markets (tech bubble)                 |

**Combine with:** Fib retracement of the entire impulse + channel support for Fib clusters.

**Ethereum example:** ABC correction → Fib 1:1 extension aligned with channel support at ~\$900 → projected target hit, signs of life appeared, reversal followed.

## Triangle Breakout Target

**Critical:** Measure from the **end of the impulse** (where the trend ended before the triangle) to the **end of the correction** (where wave E ends) — NOT from wave A of the triangle.

This is the biggest mistake people make — they take the Fib extension from wave A instead of from where the preceding impulse ended. Because they don't understand Elliott Wave structure, their levels are wrong.

**From:** End of preceding impulse → start of triangle (wave 3 top) → end of wave E. Project 382, 618, or 1.0.

If wave 3 was already extended, the triangle breakout (wave 5) is often shallow — just the 382 Fib. These are the quick "thrust" moves that get immediately sold.

**BNB example:** Ascending triangle in wave 4 → breakout → only reached the 382 before reversing → then corrected the entire impulse.

**Bitcoin bear market example:** Descending triangle in wave B (with triangle-within-triangle for wave E) → C wave projected from impulse end through correction end → hit the 618 to the dollar.

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# The Complete Trade Process

1. **Identify where you are** in the wave count (predictive TA)
2. **Project targets** using Fibonacci extensions (where should the next wave go?)
3. **Wait for reactive TA confirmation** at the target zone (divergence, volume, weakness signals)
4. **Wait for change of market structure** (the actual trigger — don't trade signals, trade triggers)
5. **Enter** with stop loss at the invalidation level (not an arbitrary level)
6. **Trail stops** as waves complete, raising them to each new invalidation level
7. **Take partial profits** at the first target (1:1 or 1.618), let the rest run with a trailing stop

**"It's always about trying to get that ultimate confluency for where to buy or where to sell. Predictive TA gives you the roadmap. Reactive TA gives you the confirmation. Combine them together."**

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Revision #1

Created 10 May 2026 11:58:07 by Conor

Updated 10 May 2026 12:28:55 by Conor