

*Elliott Wave Rules and Guidelines*

What Constitutes A 'Good' Wave 4 Setup?

(By Marc Rinehart)

NOTE—THIS IS ONLY A VERY ROUGH DRAFT OF A MUCH MORE DETAILED RESPONSE TO THIS QUESTION CURRENTLY BEING WORKED ON... IN A COUPLE WEEKS A MORE COMPLETE ANSWER WILL BE GIVEN. (Mr)

The answer to your question is very hard to answer. What makes a good W4? That is the thousand dollar question. One of the reasons Tom Joseph developed so many tools to help identify what is going on in a wave 4 profit-taking sequence was to help identify is this a good W4? All I know is I go through a series of questions I ask when trying to identify a good wave 4 setup:

1. Is the 5/35, 10/70, or other oscillators to zero and not below 1.40?
2. Are the oscillators acting in unison in the setup?
3. PTI > 35?
4. W4 labeled or looking for a W4?
5. Any Ellipse picking up the time and price? How far away is the closest Ellipse so far?
6. Any key MOB supporting/resisting the setup?
7. Any 6/4 DMA or RTC confirming or setting up to confirm a W4 breakout coming?
8. Is the risk/reward 1.6% or better under the current W4 setup?
9. Any other time frames confirming the setup? Have you first "cross-referenced" the higher time frames, applying basic tools for identifying support and resistance areas, then reissued that chart to the lower, trading time frame for a closer look?
10. Has the W4 corrected enough in relationship to the Fibonacci extension of W3?
11. Is the wave sequence conforming to the "rule of alternation" wave pattern?
12. Are there any other tools or studies supporting/resisting the current W4 setup?
13. Are W1 and W4 close to overlapping, if not, how far away are they?
14. Is the current W4 in progress close to any kind of identifiable, obvious major previous pivot to support/resist current action?
15. Are there any other similar stocks/futures/indices/sectors/ that are in similar patterns at the time to help confirm this individual setup.
16. Is the stochastic, or other studies showing any traditional buy or sell signals too?

These are the general questions I would ask. If I can answer yes to many of these questions then I would say, in general, the odds have increased in my favor we are in a good W4 setup and it may be time to try to manage an entry with some sort of stop loss parameter.