

**PRODUCT REVIEW**

# ELWAVE 9

**PROGNOSIS SOFTWARE DEVELOPMENT**

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**Internet:** [www.elwave.com](http://www.elwave.com)  
**Product:** Automated Elliott wave analysis charting software.  
**Requirements:** Windows 2000/XP/Vista  
**Price:** Modular pricing from \$80 to \$2,175.

by *Dennis D. Peterson*

The latest release of ELWAVE incorporates some new features that make it a stronger product. The user now has the flexibility to choose between C# and VB to encode analysis techniques into indicators so you can see how Elliott wave analysis either confirms or diverges from your indicator. The editor comes complete with syntax highlighting, keyword/function/variable name completion, parameter information tool tips — in short, a professional-level code editor.

But before examining more Elwave software features, let's talk about Elliott wave analysis for a moment. Many of you have probably picked up a book on Elliott wave analysis and scanned the pages. When you see the price chart examples, the theory looks enticing. And after all, what any technician is trying to do is understand market behavior — that

is, human trading behavior — and Elliott wave analysis is just that. Unfortunately, with some markets being traded with computer driven algorithms, it is almost problematic to find the human behavior-driven market.

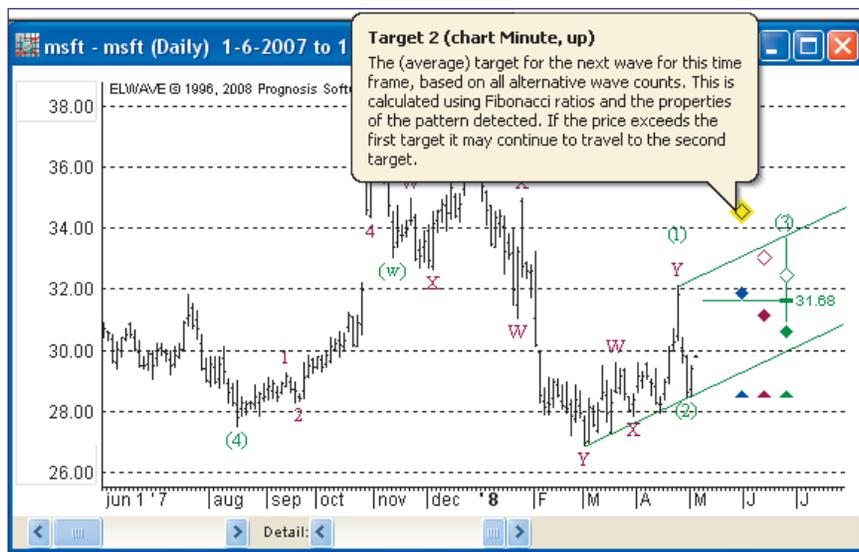
To compound the problem of finding the best market, there are Elliott wave experts who give different wave counts for the same price data. ELWAVE takes several steps in addressing those problems: first, it offers numerous data sources, thus opening analysis for a range of markets as well as analysis at the intraday data level, and second, offering a summary of alternative wave counts. The rationale is to find some consensus

or agreement among valid wave counts instead of trying to find the one perfect wave count and ignoring all others.

**CHARTS**

Charts are automatically annotated with a number of calculations, including targets (Figure 1). The targets are a presentation of the summary calculation: a projected price is calculated for each of the alternatives of one wave level, such as intermediate, and then a weighted average becomes the summary that is presented.

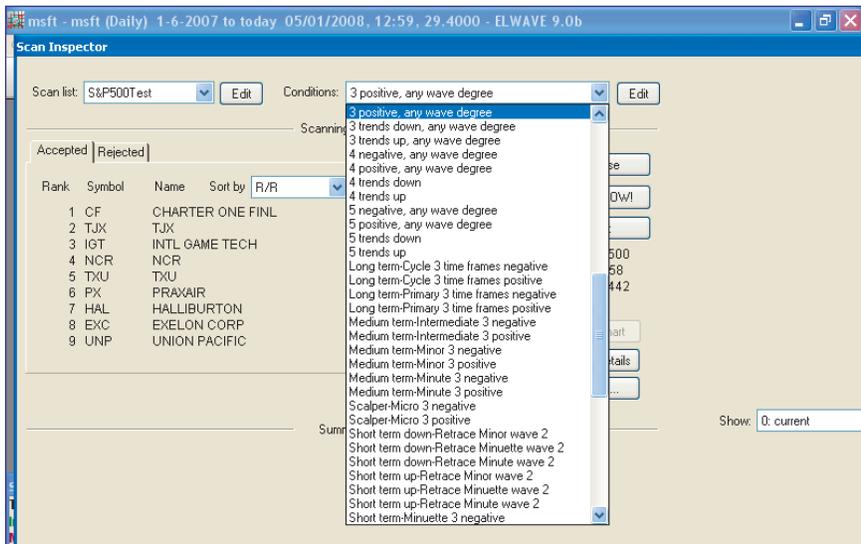
As you can see, the trendlines on the charts are drawn by ELWAVE and appear to be correct. ELWAVE also uses Fibonacci retracements for its projections. But as a trader, what you are most interested in is the answer to the question of "Is this a good setup or not?" To find the answer, you can select the Summary Inspector screen (Figure 2).



**FIGURE 1: ELLIOTT WAVE ANALYSIS OF DAILY MICROSOFT (MSFT).** The solid diamonds are the primary price targets based on intermediate (green), minor (brown), and minute (blue) wave counts, while the half diamonds are exits. The diamonds with just an outline are secondary targets. Trendlines and vertical line are drawn automatically, which is the target range for the intermediate wave.

Summary Inspector (msft (Daily) 1-6-2007 to today - 05/01/2008, 12:59, 29.4000)										
Time frame	EASI	Trend	Wave	Target 1	Target 2	abs.%	Exit	Reward	Risk	R/R
Intermediate	positive	up	3 (100%)	30.57	32.38	4	28.45	1.1734	0.9500	1.24
Minor	positive	up	3 (57%)	31.00	32.90	5	28.45	1.5983	0.9500	1.68
Minute	positive	up	3 (100%)	31.86	34.56	8	28.45	2.4609	0.9500	2.59

**FIGURE 2: SUMMARY INSPECTOR TABLE.** Prices are shown for target 1 and target 2 for each of the wave levels: intermediate, minor, and minute. The two critical columns are EASI, which tells you whether all of the alternative wave counts are in agreement, and the R/R column. Based on these two columns, you now consider, preferably with other indicators as well, whether this is a trade to be taken.



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**FIGURE 3: SCAN INSPECTOR RESULTS.** The dropdown list shows how many different conditions you might choose for a scan condition. You can then sort based on the results. For this screen capture, the entire S&P 500 was scanned. The resulting list on the left starting with CF (Charter Financial) is the result of scanning for “3 positive, any wave degree” and then sorting based on R/R (reward/risk).

**ANALYSIS**

What you would like to see is all of the alternative wave counts in agreement in terms of direction, which is given by the EASI (Elliott advanced signals indicator) column, and that the R/R (reward/risk) is greater than one, but preferably two or better (Figure 2). You might have noticed there is terminology for each of the wave levels.

ELWAVE has a range of levels starting with super cycle, then cycle, primary, and intermediate, and ending with terminology for five-minute intraday trading. In addition, the default wave level analysis is dependent on the span of time you supply. If it’s several years, you will automatically get analysis at the top levels, namely super cycle, cycle, and primary. In order to force the lower-level analysis, you can select a specific time frame to be analyzed from a dropdown list in the toolbar.

One way to get some insight into how to benefit from ELWAVE can be done by scanning a set of price data that is a bit older in time. Because of ELWAVE’s flexibility to interface with a range of datafeeds, I can use MetaStock-formatted files, and in fact have all of the Standard & Poor’s 500 data going back several years but ended on March 11, 2008. Let’s take a look.



**FIGURE 4: RESULTING CHARTS AFTER SELECTING VIEW CHART IN SCANNING INSPECTOR.** Using the “View Chart” option from the Scanning Inspector presents both the annotated price chart as well as the Summary Inspector data. Three sets of parallel lines depict price channels. The targets indicate a long position, with protective exits (colored half diamonds) at the most recent lowest low.

Choosing “three positive, any wave degree” as a scan condition (Figure 3) and then sorting on R/R, the results show 56 stocks, starting with CF (Charter Financial), which has an R/R of 60.13. As a datapoint, it took eight hours, using a single-processor desktop, to analyze the 500 equities, almost all of which started in 1995. Before we see how CF did, let’s first look at the chart produced by ELWAVE (Figure 4).

The formats you’ve seen before are shown when you click View Chart while in the Scanning Inspector. What you see (Figure 5) is that after four weeks, price

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**FIGURE 5: CF PRICE DATA.** Here, March 11, 2008 is the last date for daily price data analyzed by ELWAVE. From Figure 4 you see the targets indicate a long, with the lowest level wave, an Intermediate wave, suggesting a several-week time frame. Prices move slightly down but then move up for profit in late April. ELWAVE also suggests exits and some adjustment is necessary to not get stopped out before reaching the target.

starts up, and you can take profit in the last week in April. If you look at the intermediate wave target of 146.39 it results in a profit, while the exit (stop-loss) of 105.05 was unfortunately hit on March 20 with a low of 99 and close of 104.99. When you examine Figure 4, you can see that the exits are close to the current lows so some adjustment is likely. Watching daily is obviously a requirement.

Let's look at one last example. The second-best choice from the Scan Inspector is TJX (Figure 6). As you can see, the primary target was never reached, but there was a double top that should have signaled an exit on or about April 7, presumably for a breakeven or a relatively small loss if you waited until the close on April 7.

**GENERAL**

If you're looking at an Elliott wave analysis tool, you would be hard-pressed to find one that is better. But if you spent time looking at Elliott wave theory and then tried to apply it, it can be a bit problematic, except for the fact that ELWAVE can help significantly.

The two examples are illustrative of the caution you need to take relative to using Elliott wave theory on its own. You can utilize the "AND" condition for the results of your scan because ELWAVE automatically saves the last five scans. This allows you to ask, "For the current data do I see a change in a condition from the last time I scanned for that condition?" There is no constraint that scans use the same condition and you can use "OR" or "NOT" as well.

ELWAVE interfaces with datafeeds, including one to Yahoo! Finance, which is free. With a one-time cost, this makes ELWAVE an attractive tool for your arsenal.

Also worth mentioning is the ability to scan in real time for trading opportunities with a new Summary Alerts function. Alerts are based on changes in the Summary and can be an email (including a screenshot of the chart), a sound from your computer, or a message popup. It's even possible to run an external program in response to changes in the Summary. It can work with both EOD or real-time data.

Finally, this version of ELWAVE no longer requires a dongle (a hardware device that connects to your computer) as previous versions did. Instead, ELWAVE uses a flexible online activation system that allows use of the software on multiple computers (although not simultaneously) and also allows the transfer to a new computer without ever having to call Prognosis.

**SUPPORT**

Prognosis, the developer of ELWAVE, has a toll-free US phone number and I was able to talk to someone to find some answers for some issues I was having. In addition, ELWAVE has an online manual you can access. There are many data objects on a chart that will display an information balloon when you place your cursor over a number such as target price in the Summary Inspector results.

**SUMMARY**

ELWAVE 9 is sophisticated enough that it can be a significant adjunct to the tools you are currently using, and with the capability of using C# or VB scripts to encode indicators, ELWAVE is an attractive addition. ELWAVE is sold in modules and the best buy can be had by choosing the MetaStock add-on at \$425, which gives you basic abilities (Scanning, for example, is not available) to analyze.

*Dennis Peterson is a Staff Writer for STOCKS & COMMODITIES.*



**FIGURE 6: DAILY TJX.** Long entry at the close of 3/11 at 32.64 would have resulted in a breakeven if on 4/7 a double-top pattern was recognized exiting the trade at the close 32.14 for a relatively small loss.

