WORKBOOK
for the
ELLIOTT WAVE EDUCATIONAL VIDEO SERIES

WORKBOOK 2
COUNTING WAVES CORRECTLY

Copyright © 1990 by
Robert R. Prechter, Jr.

Printed in the United States of America
January 1990

For information, address the publishers:
Elliott Wave International
P.O. Box 1618
Gainesville, Georgia  30503

NOTICE

All charts are copyright © Robert R. Prechter, Jr. 1990 or have been previously copyrighted by Elliott Wave International, Robert R. Prechter, Jr., or other entities. All rights are reserved. The material in this volume may not be reprinted or reproduced in any manner whatsoever without the written permission of the copyright holder. Violators will be prosecuted to the fullest extent of the law.

ISBN: 0-932750-25-7
Elliott Wave Educational Video Series
10 Volume videotape set including workbooks

Elliott Wave Educational Video Series
Tape 2 and Workbook 2:
Counting Waves Correctly

ACKNOWLEDGEMENTS

Background charts for some of the illustrations were provided courtesy of the following sources:

Trendline (Standard & Poor’s Corp.), 25 Broadway, New York, NY 10004
Daily Graphs (William O’Neil & Co., Inc.), P.O. Box 24933, Los Angeles, CA  90024
Commodity Research Bureau, 75 Wall St., 22nd Fl., New York, NY  10005
Ned Davis Research, P.O. Box 1278, Nokomis, FL 34274
Foundation for the Study of Cycles, 3333 Michelson Dr., Irvine, CA  92715
Commodity Perspective, 30 S. Wacker Dr., Chicago, IL  60606
Securities Research Company, 208 Newbury St., Boston, MA  02116
What's wrong with this picture?
CALLING A BOTTOM

It has long been recognized that wave analysis explains the past very well. Of course, that ability in itself reveals that the Wave Principle is a valid theory. After all, many constructs cannot even describe the past accurately. However, what most people want to know is whether wave structures can be analyzed in current time to provide a knowledge of when a turning point is likely at hand. The excerpt below is taken directly from the November 29, 1982 issue of The Elliott Wave Theorist. It shows how an analyst can use the Wave principle in “real time” to make profitable decisions on markets, even markets as exotic as futures contracts in Cocoa.

(The comments below are reprinted from the November 29, 1982 EWT.)

COMMODITY CORNER

Here are some charts that are worth their weight in candy bars. Cocoa is falling into what appears to be at least an intermediate low, if not a major bottom. Just look at these three charts: the long term picture, the breakdown for wave C, and the daily chart showing the final “fifth of a fifth.”

Here’s the history: After a tremendous 12-year bull market lasting from 1965 to 1977, Cocoa dropped in five waves, then recovered in three, forming what appears to be waves “A” and “B” of an A-B-C bear market. Since then, a clear five-wave decline has taken Cocoa to its lowest levels since 1975, deeply into the area of the previous fourth wave of lesser degree, a normal bear market limit. What’s more, the fifth wave has occurred at the same time that Coffee has pulled back into its Primary wave ② dating from June 1981. Coffee looks ready to move up sharply, and the two markets often move in the same direction.

The minimum upside potential for Cocoa is around the 2100 level from the recent low at 1300. The shape of that rise should reveal whether Cocoa has indeed begun a new large bull phase, or is just tracing out the fourth wave up in a five-wave decline. In the meantime, it’s a bullish chart.

(Note: The ensuing upswing took Cocoa to $2800.)
DEC. 82 COCOA
Each Horizontal Line = 30 cokes

Copyright © 1990 or previously
by Robert R. Prechter, Jr.
HOW PSYCHOLOGY WORKS
I no longer comment on commodities, but the development of psychology in Cocoa is extremely instructive. Remember after the close of November 26, 1982, when Elliott analysis recognized the bottom of a five-year bear market in Cocoa? The July contract ended that week at $1495/ton, as bearish articles filled the pages of financial publications. As an example, on the week of the low, an article entitled “Stocks Build Bearish Scenarios for Coffee, Sugar, Cocoa,” quoted analysts who gave all sorts of reasons why Cocoa was going to go lower. In June of last year, the same month that the first issue of David Weis’ Elliott Wave Commodity Letter (Box 1618, Gainesville, GA 30503) forecasted $3000/ton for Cocoa, I mentioned in EWT that I had read “nothing but bearish and skeptical articles on Cocoa. It closed Friday at $2110, and is still only in the middle of its third Intermediate wave.”

Last week Cocoa met Dave’s wave 3 target of $2766 basis March, and we agree that it is now peaking in wave 3 of its second, and perhaps final, five-wave advance. In other words, although there is one more rise ahead following a correction, the most reliable profits in Cocoa are now behind us. A December 26 article in Barron's correctly comments that “High prices are remarkable, since total cocoa stocks are huge, an imposing 600,000 tons.” The fact that stocks have been huge since the bottom highlights the role of market psychology as a crucial factor in determining prices. Then the article presents the latest commodity analysts’ opinions. Forget the fact that forecasting $2800 or $3000 when the price is already $2700 and going up vertically is no feat of prescience. The main point is that, in stark contrast to the opinion at the lows 13 months ago, no one (see bottom) is suggesting selling it! These are classic quotes. As we’ve seen over and over again, human beings will never change, and that’s why the Elliott Wave Principle will always work.
QUIZ CHART