

NATURE'S LAW

THE SECRET OF THE UNIVERSE

By R. N. ELLIOTT



Vitally Important for

Traders in Securities, Commodities, etc.; Investors; Customers' Brokers; Market Technicians; Bankers; Business Managers; Economists; Trusts.



Of Interest to

Artists, see page 9; Botanists, see pages 9, 51; Egyptologists, see pages 7, 8, 51; Inventors, see pages 38, 39; Mathematicians, see pages 7, 9, 29, 31, 51; Philosophers, see page 4; Physicians, see page 55; Psychologists, see pages 7, 24; Pyramidists, see pages 7, 8, 29, 51, 59; Pythagoreans, see pages 7, 8, 56, 57, 58; Students of Dynamic Symmetry, see pages 8, 9, 10, 11.

N A T U R E ' S L A W

by

R. N. Elliott

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Reference to chapters, pages, diagrams, etc.
will be indicated as follows:

- (C) Chapter. For example "C 24" means Chapter No. 24.
- (D) Diagram. For example "D 4" means diagram No. 4.
- (F S S) Numbers of the Fibonacci Summation Series.
- (O T) Orthodox top.
- (G) "G X" means "Graph X"
- (P) "P 5" means Page 5
- (P D) "P 2 D 4" means page 2 diagram 4.
- (P G) "P 3 G 6" means page 3 graph 6.
- (P P D) "P 4 P 6 D 8" means page 4 paragraph 6 diagram 8.
- (R) Ruling ratio of the Fibonacci Summation Series,
such as 62% or Reciprocal 1.62

INTRODUCTION

RHYTHM IN NATURE

1. No truth meets more general acceptance than that the universe is ruled by law. Without law it is self-evident there would be chaos, and where chaos is, nothing is. Navigation, chemistry, aeronautics, architecture, radio transmission, surgery, music -- the gamut, indeed, of art and science -- all work, in dealing with things animate and things inanimate, under law because nature herself works in this way. Since the very character of law is order, or constancy, it follows that all that happens will repeat and can be predicted if we know the law.
2. Columbus, maintaining that the world was round, predicted that a westward course from Europe must eventually bring his ships to land and despite scoffers, even among his own crew, saw his prediction realized. Halley, calculating the orbit of the 1682 comet, predicted its return which was strikingly verified in 1759. Marconi, after his studies in electrical transmission, predicted that sound could be conveyed without wires, and today we can sit in our homes and listen to musical and other programs from across the ocean. These men, as have countless more in other fields, learned the law. After becoming thus posted, prediction was easy because it became mathematical.
3. Even though we may not understand the cause underlying a particular phenomenon, we can, by observation, predict that phenomenon's recurrence. The sun was expected to recurrently rise at a fixed time thousands of years before the cause operating to produce this result was known. Indians fix their month by each new moon, but even today cannot tell why regular intervals characterize this heavenly sign. Spring plantings are witnessed the world over because summer is expected as next in order; yet how many planters understand why they are afforded this constancy of the seasons? In each instance the rhythm of the particular phenomenon was mastered.
4. Man is no less a natural object than the sun, or the moon, and his actions, too, in their metrical occurrence, are subject to analysis. Human activities, while amazing in character, if approached from the rhythmical bias, contain a precise and natural answer to some of our most perplexing problems. Furthermore, because man is subject to rhythmical procedure, calculations having to do with his activities can be projected far into the future with a justification and certainty heretofore unattainable.
5. Very extensive research in connection with what may be termed human activities indicates that practically all developments which result from our social-economic processes follow a law that causes them to repeat themselves in similar and constantly recurring serials of waves or impulses of definite number and pattern. It is likewise indicated that in their intensity, these waves or impulses bear a consistent relation to one another and to the passage of time. In order to best illustrate and expound this phenomenon it is necessary to take, in the field of man's activities, some example which furnishes an abundance of reliable data and for such purpose there is nothing better than the stock exchange.

1. Particular attention has been given to the stock market for two reasons.

In the first place, there is no other field in which prediction has been essayed with such great intensity and with so little result. Economists, statisticians, technicians, business leaders, and bankers, all have had a try at foretelling the future of prices over the New York Stock Exchange. Indeed, there has developed a definite profession with market forecasting as its objective. Yet 1929 came and went and the turn from the greatest bull market on record to the greatest bear market on record caught almost every investor off guard. Leading investment institutions, spending hundreds of thousands of dollars yearly on market research, were caught by surprise and suffered millions of dollars loss because of price shrinkage in stock holdings that were carried too long.

2. A second reason for choosing the stock market as an illustration of the wave impulse common to social-economic activity is the great reward attendant on successful stock market prediction. Even accidental success in some single market forecast has yielded riches little short of the fabulous. In the market advance from July 1932 to March 1937, for illustration, an average of thirty leading and representative stocks advanced by 373 %. During the course of this five-year movement, however, there were individual stocks whose per cent advance was much larger. Lastly, the broad advance cited above was not in a straight upward line, but rather by a series of upward and downward steps, or zigzag movements of a number of months' duration. These lesser swings afforded even greater opportunity for profit.

3. Despite the attention given the stock market, success, both in the accuracy of prediction and the bounties attendant thereto, has necessarily been haphazard because those who have attempted to deal with the market's movements have failed to recognize the extent to which the market is a psychological phenomenon. They have not grasped the fact that there is regularity underlying the fluctuations of the market, or, stated otherwise, that price movements in stocks are subject to rhythms, or an ordered sequence. Thus market predictions, as those who have had any experience in the subject well know, have lacked certainty or value of any but an accidental kind.

4. But the market has its law, just as is true of other things throughout the universe. Were there no law, there could be no center about which prices could revolve and, therefore no market. Instead, there would be a daily series of disorganized, confused price fluctuations without reason or order anywhere apparent. A close study of the market, however, as will be subsequently disclosed, proves that this is not the case. Rhythm, or regular, measured, and harmonious movement, is to be discerned. This law behind the market can be discovered only when the market is viewed in its proper light, and then is analyzed from this approach. Simply put, the stock market is a creation of man and therefore reflects human idiosyncrasy. In the pages which follow, the law, or rhythm, to which man responds will be disclosed as registered by market movements, that fluctuate in accordance with a definite wave principle.

5. Nature's Law has always functioned in every human activity. Waves of different degrees occur whether or not recording machinery is present. When the machinery described on page 6 is present, the patterns of waves are perfected and become visible to the experienced eye. This machinery is: -

- A. Extensive commercial activity represented by corporations whose ownership is widely distributed.
 - B. A general market-place where buyer and seller may contact quickly through representatives.
 - C. Reliable record and publications of transactions.
 - D. Adequate statistics available on all matters relating to corporations.
 - E. Daily high and low range charted in such a manner as will disclose the waves of all degrees as they occur.
1. The daily range of stock transactions was inaugurated in 1928 and the hourly record in 1932. These are necessary in order to observe the minor and minute waves, especially in fast markets.
 2. Contrary to teachings of the Dow Theory - a popular device for gauging stock market movements, "Nature's Law" does not require confirmation by two averages. Each average, group, stock or any human activity is interpreted by its own waves.

THE GREAT PYRAMID GIZEH

Chapter No. 1

1. Many years ago I endeavored to ascertain the meaning of the word "Cycle" but no one could define it. Curiosity led to a study of graphs and I discovered rhythm in fluctuations which were disclosed in my Treatise published in 1938.
2. Later I found that the basis of my discoveries was a Law of Nature known to the designers of the Great Pyramid "Gizeh" which may have been constructed 5,000 years ago.
3. There are several pyramids in Egypt and elsewhere but Gizeh is the original, and the only one that discloses symbols. Other pyramids were subsequently built to serve as crypts for the bodies of Kings and their families.
4. As early as 820 B. C. Al Mamoun, a Turkish Caliph, erroneously supposed that Gizeh housed the bodies of former pharaohs and that hoards of gold might be found. This proves that even at that early date the symbols of Gizeh were unknown.
5. The period of Gizeh's construction was not only pre-literary but pre-hieroglyphic. Hieroglyphics are present in other pyramids but not in Gizeh.
6. Immense sums of money have been expended to learn the symbols of Gizeh, especially during the past 50 years. Their definitions are remarkably correct insofar as today's knowledge permits of an understanding. Much of this knowledge is comparatively recent and indicates that the scientific symbols embodied in Gizeh must have been super-natural or that previous civilizations existed which equalled or exceeded today's development. It is possible that a high degree of civilization previously existed on the Western Hemisphere, especially from Mexico to Argentina. The bible mentions giants and quite recently jaws of giants have been found that may have weighed 400 or 500 lbs.
7. Insofar as I have been able to learn, Egyptologists overlooked certain important symbols contained in the Great Pyramid, such as:
 - The Ratio of the elevation to the base of the pyramid which is 61.8 %.
 - The number of inches of the elevation which is 5,813. Note the numbers 5, 8 and 13, mentioned below in the Summation Series.
 - The outlines of a side view is that of a cycle, that is, 3 lines.
 - In a pyramid there are 5 surfaces, - 4 above ground and 1 at the bottom.
 - From the apex 8 lines are visible.
 - Total surfaces and lines, 13.

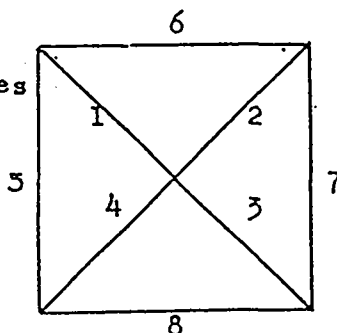
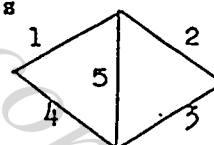
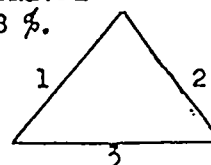
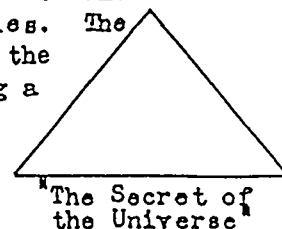
The unit of measurement in Egypt was, and is the "inch" as we know it today.
8. Fibonacci, an Italian mathematician of the 13th century, visited Egypt and on his return disclosed a Summation Series, as follows:
 - 1 2 3 5 8 13 21 34 55 89 144.

Any two adjoining numbers equal the next higher, - for example, 5 plus 8 equal 13. The ratio of any number to the next higher is 61.8. (The lower numbers produce a ratio slightly at variance). Therefore the elevation to the base of the pyramid provides a ratio that rules the entire series.
9. The seeds of a sun flower are located in curved rows that intersect each other. The highest number of intersections is 144. This is also the number of Minor waves in a complete cycle of the stock market. (Bull and Bear Markets)
10. Numbers of the series are present in the human body, Botany, Production, Animals, Music and waves of Human Activities including the stock market.
11. Pythagoras, a Greek philosopher of the 6th century, B. C. visited Egypt and on his return disclosed the diagram and title shown in chapter No. 2.

NATURE'S LAW

Chapter No. 2

1. Nature's Law was known at least 5,000 years ago. Egypt was "in flower" at least 1,500 B. C. and is the oldest of today's list of nations. It is not known when the Egyptian pyramids were built. The Great Pyramid Gizeh was constructed at least 5 thousand years ago. Some students advance evidence that it existed before the threat of floods that prompted Noah to build the ark. Other students believe that it may be 30,000 years old.
2. The marvelous ingenuity, skill, time and labor expended by the designers and builders of the pyramids to erect a perpetual symbol, demonstrates the supreme importance of the messages they desired to convey to posterity. That era was pre-literary and pre-hieroglyphic therefore symbols were the only means of recording.
3. For centuries the pyramids have been exhaustively investigated, especially during recent years. Insofar as I have observed, Egyptologists overlooked an important, perhaps the most important symbol. I refer to the outer lines of the pyramid Gizeh.
4. Pythagoras was a renowned Greek philosopher of the 5th century, B. C. The older cyclopedias give a very detailed description of his activities. The Encyclopedia Britannica shows a diagram and cryptic title which may be the only record he left. It was made after he returned to Greece following a prolonged visit to Egypt. The diagram and title appear at the right.
5. It is fair to assume that the Pythagoras diagram refers to a pyramid. The original measurements of the Great pyramid Gizeh are estimated to have been: Base 783.3 feet. Elevation 484.4 feet. Ratio 61.8 %. The elevation, 484.4 feet equals 5,813 inches. (5-8-13 FSS).
6. Looking at a pyramid from any one of the four sides, 3 lines are visible. The diagram is a complete cycle.
7. Viewing the pyramid from any one of the four corners; 5 lines are visible. A pyramid has 5 surfaces. - 4 above ground, and the bottom.



8. From the apex a pyramid shows 8 lines

9. Fibonacci was an Italian mathematician of the 13th century, A. D. He was better known in his day as Leonardo de Piza. He visited Egypt and Greece and on his return to Italy disclosed what is known as a Summation Series. This series of numbers follows:

1 - 2 - 3 - 5 - 8 - 13 - 21 - 34 - 55 - 89 - 144

1. Any two adjoining numbers equal the next higher number, - for example $5 + 8 = 13$. Any number divided by the next higher number gives a ratio of .618, - for example: $8 \div 13 = .618$. Any number divided by the next lower number gives a reciprocal of 1.618. In the lower numbers the ratios are not exact but close enough for practical purposes. To simplify reading I will hereafter refer to the former as 62 % and the latter as 1.62 %.
2. Note that the first 5 numbers of the Summation Series, - 1, 2, 3, 5 and 8 are shown in the complete diagram of a pyramid.
3. The late Jay Hambidge, an American artist, visited Egypt, Greece and Italy and wrote several very important and interesting books. By permission of Yale University Press, I quote pages 27 and 28 of his book entitled "Practical Applications of Dynamic Symmetry".

"Botanists use the disk of the sunflower as a sort of general illustration of the law of leaf arrangement. It exhibits the phenomenon in nearly two-dimensional form.

"The seeds are distributed over the sunflower disk in rhomboidal shaped sockets and the complex of these sockets forms a design of intersecting curves, the pattern being something like the old-fashioned chasing on watchcases.

"This pattern of curves is the interesting feature of the sunflower seed arrangement.

"First. The curve itself is a definite kind of curve. As a matter of fact it is quite like the curve of shell growth. It is regular and possesses certain mathematical properties. These properties are a necessary consequence of uniform growth as will be explained presently.

"Second. When these curves are counted it will be found that a normal sunflower disk of five or six inches in diameter has 89. Winding in one direction there are 55 and in the other direction there are 34. That is to say, the normal head exhibits 55 curves crossing 34. The two numbers are written $34 + 55$. Below the apex flower of the stalk there are usually secondary flowers, smaller in size. The curve-crossing numbers for these are generally $21 + 34$. Lower on the stalk may be tertiary flowers of late development. The curve-crossing numbers of these are $13 + 21$.

"At Oxford, in England, sunflowers have been nourished to produce abnormal disks and the curve-crossing numbers have increased from $34 + 55$ to $55 + 89$. Professor Arthur H. Church, a leading modern authority on this fascinating subject, tells us of a gigantic disk raised at Oxford whereon the curve-crossing numbers were $89 + 144$.

"Around the seed complex of the flower disk there is an arrangement of florets. Like the seeds these exhibit curve-crossing numbers. They are usually $5 + 8$.

"If we begin at the bottom of the plant stalk and count the actual number of leaves up to the flower disk, we are likely to find, as we wind our progress around the stalk, that we pass a certain number of leaves before we find one imposed directly over the one first counted and that this number and the number of revolutions about the stalk, are constant between each leaf imposition. These will represent curve-crossing numbers belonging to the same series of numbers exhibited by the seeds and florets.

"The numbers we have mentioned belong to what is called a summation series, so called because each number represents a sum of preceding numbers of the series, in this case 2.

"This series of numbers is: 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144 etc.

"Each member of this series is obtained by adding together two preceding numbers.

"If we take any two members of this series and divide one into the other as, say 34 into 55, we obtain a ratio and this ratio is constant throughout the series; that is to say, any lesser number divided into any greater number which immediately succeeds it produces the same ratio.

"This ratio is 1.618 plus; a number with a never ending fraction.

"If we reverse the operation and divide 55 into 34 we obtain the number .618 plus.

"It will be noticed that the difference between these two results is 1 or unity.

"It will also be noticed that when we make these two divisional operations that there is a slight error. This is due to the fact that the series is not quite accurate when expressed in whole numbers. There should be a very small fraction. But as the error is within that of observation in the growing plant, the whole number is retained to facilitate checking.

"It is an extraordinary coincidence that this ratio of 1.618 or .618 is a ratio which fascinated the ancient Greeks exceedingly. Extraordinary, because they could have had no suspicion that it was connected with the architecture of plants.

"It was called by them extreme and mean ratio.

"During the middle ages it was given the name Divine Section and in fairly recent time, Golden Section."

1. From experience I have learned that 144 is the highest number of practical value. In a complete cycle of the stock market, the number of Minor waves is 144, as shown in the following table and diagramed on page 14:

	<u>Bull Market</u>	<u>Bear Market</u>	<u>Total</u>		
Number of Major Waves,	5	3	8	complete cycle	
" " Intermediate Waves,	21	13	34	" "	" "
" " Minor Waves,	89	55	144	" "	" "

All are Fibonacci numbers and the entire series is employed. The length of waves may vary but not the number. Note the FSS numbers in the following.

2. The bodies of humans follow the numbers 3 and 5. From the torso there are 5 projections, - head, 2 arms and 2 legs. Each leg and arm is subdivided into 3 sections. Legs and arms terminate in 5 toes and fingers. The toes and fingers (except the big toe) are subdivided into 3 sections. We have 5 senses. The monkey is the same as a human except that his feet are the same as his hands, that is, his big toe is the same as his thumb. Most animals have 5 projections from the torso, - head and 4 legs, total 5. Birds have 5 projections from the torso, head, 2 feet and 2 wings.

3. Music: The best example is the piano keyboard. "Octave" means 8. Each octave is composed of 8 white keys and 5 black keys, total 13.

Chemical Elements: There are approximately 89 primary elements.

Colors: There are 3 primary colors. Blending produces all other colors.

Miscellaneous Observations:

2. The Western Hemisphere is composed of 3 sub-divisions, North, Central and South America.
3. In the Western Hemisphere there are 21 Republics, all of which are members of the Pan-American Union. North America is composed of 3 countries, Canada, Mexico and the United States. South America is composed of 10 Republics and 3 European Colonies, total 13. Central America was, previous to the Panama Canal, composed of 5 Republics.
4. The United States was originally composed of 13 States. Today there are 55 subdivisions as follows: 48 States, Dis. of Columbia, Philippines, Panama Canal Zone, Puerto Rico, Alaska, Hawaiian Islands and the Virgin Islands.
5. On the Declaration of Independence there are 56 signatures. The original number was 55. The last was added later.

Main branches of the Federal Government,	3,
Highest salute of the Army,	21 guns,
Voting age,	21 years,
The Bill of Rights contains	13 points,
The colors of the National flag are	3.

The Washington Monument in Washington, D. C.

The corner stone was laid July 4, 1848.

Total cost, \$1,300,000.	13,
Height of shaft, 500 feet,	5,
Height of capstone, 55 feet,	55,
Base of shaft, 55 feet square,	55,
Top rim of shaft, 34 feet,	34,
Steps of foundation,	8,
Windows (2 on each side)	8,

The capstone is in the form of a pyramid.	Base 34 feet square,
	Height 55 feet.
	Ratio, .618

6. The Axis was composed of 3 partners. Germany dominated 13 countries in rapid succession but stalled on the 14th, Russia. Mussolini served as dictator 21 years.
7. In 1852 Commodore Perry paid a courtesy visit to Japan and invited the "Son of Heaven" to abandon absolute isolationism. In 1907, 55 years later, Japan seriously threatened the United States. In 1941, 34 years later, and 89 years from 1852, Japan attacked Pearl Harbor.

THE WAVE PRINCIPLE

by

R. N. ELLIOTT,

Discoverer.

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Warning: When a newly discovered phenomenon is disclosed,
self-appointed "experts" immediately appear.

Considerable experience is required to interpret
correctly waves which are in process of formation.

Long distance forecasting requires thorough
familiarity with historical precedent. During
the next few years the market will not follow
the pattern observed between 1932 and 1937.

No interpretation of the Wave Principle should be
accepted as valid unless made by me or by a student
directly licensed by me.

R. N. Elliott.

New York.

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RHYTHM IN NATURE

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5. Very extensive research in connection with what may be termed human activities indicates that practically all developments which result from our social-economic processes follow a law that causes them to repeat themselves in similar and constantly recurring serials of waves or impulses of definite number and pattern. It is likewise indicated that in their intensity, these waves or impulses bear a consistent relation to one another and to the passage of time. In order to best illustrate and expound this phenomenon it is necessary to take, in the field of man's activities, some example which furnishes an abundance of reliable data and for such purpose there is nothing better than the stock exchange.

1. Particular attention has been given to the stock market for two reasons. In the first place, there is no other field in which prediction has been essayed with such great intensity and with so little result. Economists, statisticians, technicians, business leaders, and bankers, all have had a try at foretelling the future of prices over the New York Stock Exchange. Indeed, there has developed a definite profession with market forecasting as its objective. Yet 1929 came and went and the turn from the greatest bull market on record to the greatest bear market on record caught almost every investor off guard. Leading investment institutions, spending hundreds of thousands of dollars yearly on market research, were caught by surprise and suffered millions of dollars loss because of price shrinkage in stock holdings that were carried too long.

2. A second reason for choosing the stock market as an illustration of the wave impulse common to social-economic activity is the great reward attendant on successful stock market prediction. Even accidental success in some single market forecast has yielded riches little short of the fabulous. In the market advance from July 1932 to March 1937, for illustration, an average of thirty leading and representative stocks advanced by 373%. During the course of this five-year movement, however, there were individual stocks whose per cent advance was much larger. Lastly, the broad advance cited above was not in a straight upward line, but rather by a series of upward and downward steps, or zig-zag movements of a number of months' duration. These lesser swings afforded even greater opportunity for profit.

3. Despite the attention given the stock market, success, both in the accuracy of prediction and the bounties attendant thereto, has necessarily been haphazard because those who have attempted to deal with the market's movements have failed to recognize the extent to which the market is a psychological phenomenon. They have not grasped the fact that there is regularity underlying the fluctuations of the market, or, stated otherwise, that price movements in stocks are subject to rhythms, or an ordered sequence. Thus market predictions, as those who have had any experience in the subject well know, have lacked certainty or value of any but an accidental kind.

4. But the market has its law, just as is true of other things throughout the universe. Were there no law, there could be no center about which prices could revolve and, therefore, no market. Instead, there would be a daily series of disorganized, confused price fluctuations without reason or order anywhere apparent. A close study of the market, however, as will be subsequently disclosed, proves that this is not the case. Rhythm, or regular, measured, and harmonic movement, is to be discerned. This law behind the market can be discovered only when the market is viewed in its proper light, and then is analyzed from this approach. Simply put, the stock market is a creation of man and therefore reflects human idiosyncrasy. In the pages which follow, the law, or rhythm, to which man responds will be disclosed as registered by market movements, that fluctuate in accordance with a definite wave principle.

5. The Wave Principle is a phenomenon that has always functioned in every human activity. Waves of different degrees occur whether or not recording machinery is present. When the machinery described below is present, the patterns of waves are perfected and become visible to the experienced eye.

Extensive commercial activity represented by corporations whose ownership is widely distributed.

- B. A general market-place where buyer and seller may contact quickly through representatives.
- C. Reliable record and publications of transactions.
- D. Adequate statistics available on all matters relating to corporations.
- E. Daily high and low range charted in such a manner as will disclose the waves of all degrees as they occur.

1. The daily range of stock transactions was inaugurated in 1928 and the hourly record in 1932. These are necessary in order to observe the minor and minute waves, especially in fast markets.

2. The Wave Principle does not require confirmation by two averages. Each average, group, stock or any human activity is interpreted by its own waves. Behavior of Waves has been fairly well explored but application is in its infancy.

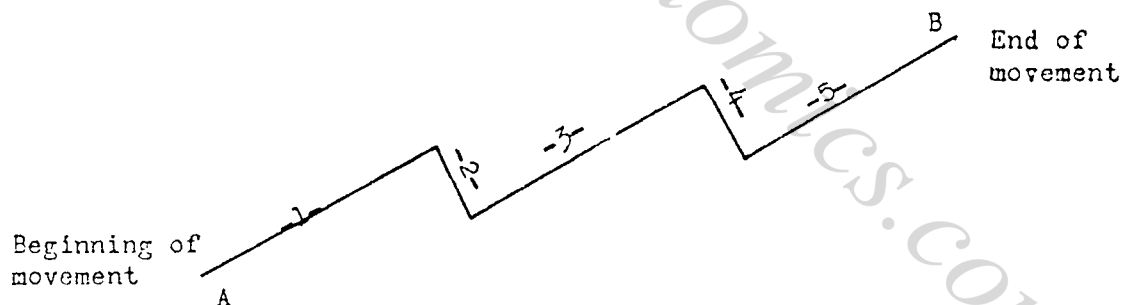
II

STOCK MARKET WAVES

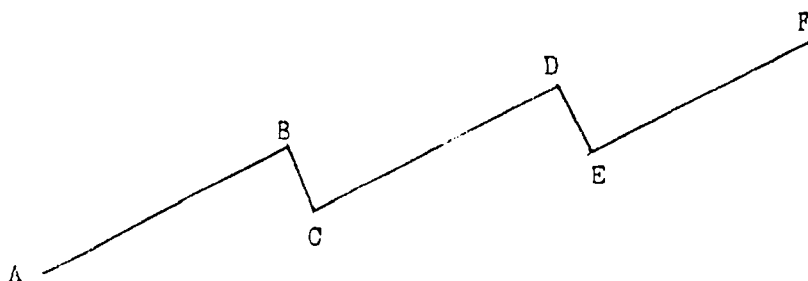
1. Human emotions, as mentioned in the preceding discussion, are rhythmical. They move in waves of a definite number and direction. The phenomenon occurs in all human activities, whether it is business, politics, or the pursuit of pleasure. It is particularly evident in those free markets where public participation in price movements is extensive. Bond, stock and commodity price trends are therefore especially subject to examination and demonstration of the wave movement. This treatise had made use of price movements in stocks to illustrate the phenomenon, but all the principles laid down herein are equally applicable to the wave movement in every field where human endeavor—is registered.

2. A completed movement consists of five waves. Why this should be five rather than some other number is one of the secrets of the universe. No attempt will be made to explain it, although, in passing, it might be observed that the figure five is prominent in other basic patterns of nature. Taking the human body, for example, there are five extensions from the torso - head, two legs, two arms; five extensions from head - two ears, two eyes, the nose; five extensions in the form of fingers, from each arm, and in the form of toes, from each leg; five physical senses - taste, smell, sight, touch, hearing; and so the story might be repeated elsewhere. In any event, five waves are basic to a completed social movement and can be accepted without necessity of reasoning the matter out.

3. Three of the five waves that form any completed movement will be in the direction of the movement, two of the waves will be in a contrary direction. The first, third and fifth waves represent the forward impulse; the second and fourth waves, the contrary, or corrective. Stated otherwise, the odd numbered waves are in the main direction; the even numbered waves, against the main direction. This is illustrated in the following diagram:



4. Five waves of one dimension or degree become the first wave of the next greater dimension or degree. As an example of this, the five waves in the preceding illustration progressed from point A to point B. In the following diagram, however, representing a next higher degree of movement than the one just illustrated, it will be seen that the movement from A to B is but one wave of the five-wave movement A to F. The movement A to F, in turn, becomes but the first wave of a movement of a still higher degree.



“The Wave Principle”



R. N. Elliott

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BANK CREDIT ANALYST



R. N. Elliott

—Falcufoto

DURING the past seven or eight years, publishers of financial magazines and organizations in the investment advisory field have been virtually flooded with "systems" for which their proponents have claimed great accuracy in forecasting stock market movements. Some of them appeared to work for a while. It was immediately obvious that others had no value whatever. All have been looked upon by THE FINANCIAL WORLD with great scepticism. But after investigation of Mr. R. N. Elliott's Wave Principle THE FINANCIAL WORLD became convinced that a series of articles on this subject would be interesting and instructive to its readers. To the individual reader is left the determination of the value of the Wave Principle as a working tool in market forecasting, but it is believed that it should prove at least a useful check upon conclusions based on economic considerations.

—The Editors.

SINCE the beginning of time, rhythmic regularity has been the law of creation. Gradually man has acquired knowledge and power from studying the various manifestations of this law. The effects of the law are discernible in the behavior of the tides, the heavenly bodies, cyclones, day and night, even life and death! This rhythmic regularity is called a cycle.

Historical Significance

The first great advance in the scientific application of the law was made in the time of Columbus by Leonardo da Vinci in his illuminating study of the behavior of waves. Other great men followed with special applications: Halley with his comet, Bell with sound waves, Edison with

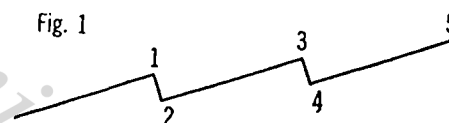
Because of this phenomenon of repetition or rhythmic recurrence, it is possible to apply the lesson learned from other manifestations of the law in a very practical and profitable way. The trade cycle and the bull and bear movements of the stock market are also governed by the same natural law. Some fifty years ago Charles Dow through his observations of the important changes in the stock market gradually built up the Dow Theory, which now is accepted in many quarters as having special forecasting significance. Since Dow's studies, the store of information regarding market transactions has been greatly multiplied, and important and valuable new forecasting inferences can be drawn from certain behavior.

Through a long illness the writer had the opportunity to study the avail-

able information concerning stock market behavior. Gradually the wild, senseless and apparently uncontrollable changes in prices from year to year, from month to month, or from day to day, linked themselves into a law-abiding rhythmic pattern of waves. This pattern seems to repeat itself over and over again. With knowledge of this law or phenomenon (that I have called the Wave Principle) it is possible to measure and forecast the various trends and corrections (minor, intermediate, major and even movements of a still greater degree) that go to complete a great cycle.

electrical waves, Marconi with radio waves, and still others with waves of psychology, cosmic waves, television, etc. One thing in common that all these waves or forms of energy have is their cyclical behavior or ability to repeat themselves indefinitely. This cyclical behavior is characterized by two forces—one building up and the other tearing down. Today Hitler is said to be timing his conquests in accordance with this natural law as interpreted in the movements of the stars—but the destructive forces are accumulating and at the proper time will become dominant—completing the cycle.

Fig. 1



This phenomenon is disclosed in Figure 1. The full wave or progressive phase of the cycle consists of five impulses: three moving forward and two moving downward. Waves 1, 3 and 5 are in the direction of the main trend. Wave 2 corrects Wave 1—and Wave 4 corrects Wave 3. Usually the three forward movements are in approximately parallel planes; this may also be true of Waves 2 and 4.

Fig. 2

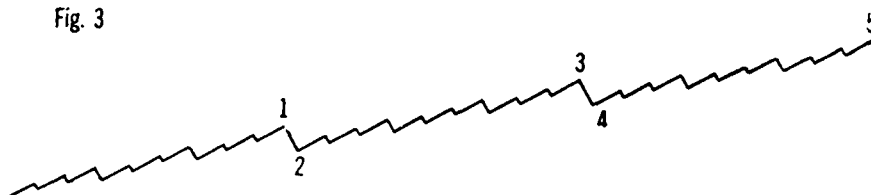


Each of the three primary waves that together make a completed movement is divided into five waves of the next smaller or intermediate degree. This subdivision is shown in Figure 2. Note carefully that there are five smaller or intermediate waves making

up the Primary Wave 1, five in Primary Wave 3, and five in Primary Wave 5. The Primary Wave 2 corrects the completed Primary Wave 1 consisting of five intermediate waves; Wave 4 in turn corrects the five intermediate waves that make up Primary Wave 3.

Each intermediate forward wave is in turn divided into five minor waves as shown in Figure 3. When the fifth minor wave of the fifth intermediate phase of the fifth primary movement has spent its force, a

Fig. 3



formidable top has been constructed. Upon completion of a movement of this magnitude, the destructive forces become dominant; the primary trend turns downward and a bear market is in progress long before the economic,

political or financial reasons for the change in outlook are clearly apparent.

★ ★ ★

This is the first of a series of articles in which Mr. Elliott will explain the working details of his Wave Principle.

For Plotting

