

WindowWatch

The Windows Magazine of the Internet

A Review of Elwave v. 7

Refined Elliott Wave Analysis

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Given that I have been trading stocks for a couple of years, like many, I continue to search for a system that works for my trading style and risk tolerance. No surprise, I decided to test out the new Elwave 7.0 Scanning Standard Edition. The version number of the software indicates that Elwave has been around the block a few years. Elwave specializes in applying the Elliott Wave principle using a systematic approach to perform technical analysis on stocks. This version can analyze both intra-day and end of day data.

This latest version takes a small step forward by adding some new functionality but relies heavily on the core functionality of the 6.2 release. The analysis engine has been improved to provide a higher quality analysis. Tenfore/Quotespeed has also been integrated as a new data vendor. Other improvements are extra user-friendly buttons and improved scenario management.

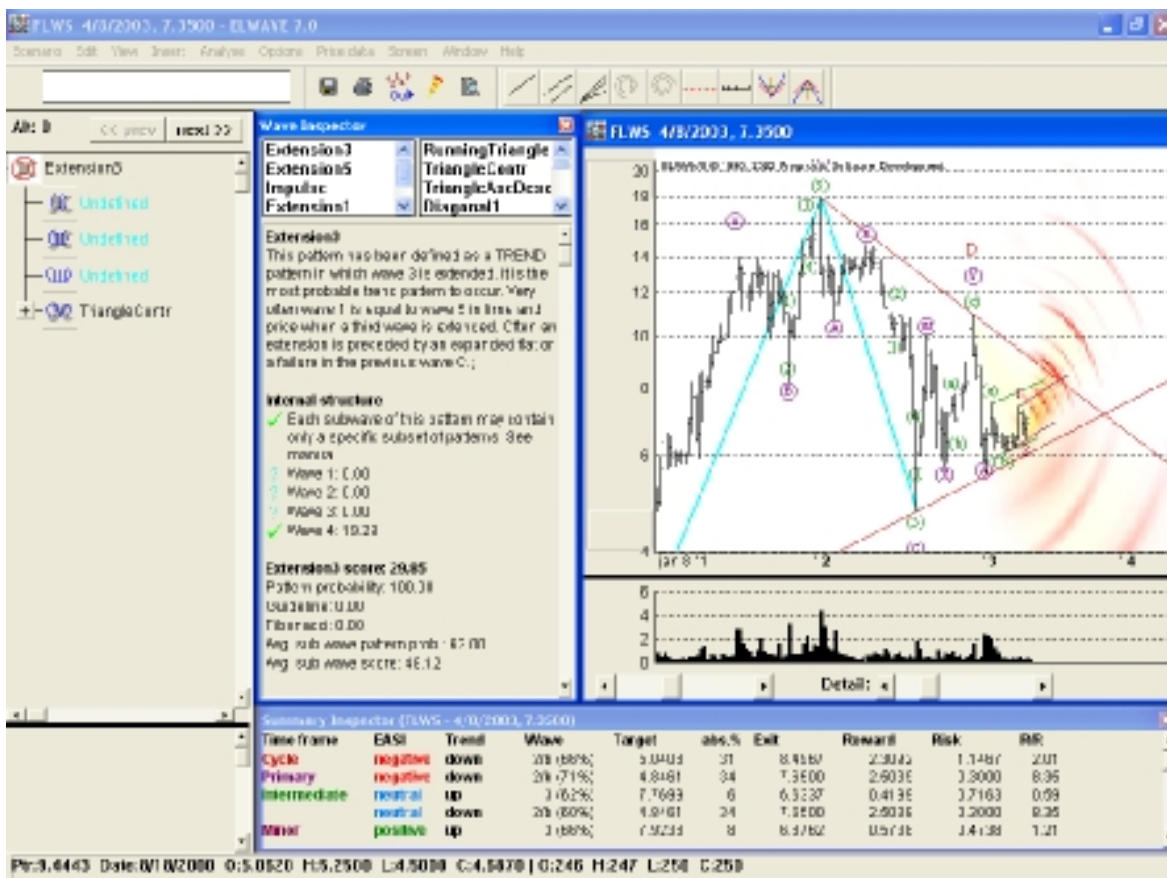
Like many technical analysis software products in this price range, a hardware key is provided for attachment to the parallel port. A USB key is also available. I had no problems installing the parallel port key or complications with printing. I was a little stunned during the installation when I discovered no apparent way to install Elwave in to the /Program Files directory. It appeared to accept only a valid DOS directory so no spaces and only 8 characters. There is also no option to change the location of the default scenario file directory. However, these are small issues, and in fact, there were no other problems.

The supplied manual is quite detailed with 221 pages. It covers all of the functionality of the core Elwave and each of the add-ons. The manual supplied with my copy was for a previous version as an updated manual was not available. Given that most of the inter-faces haven't changed, that omission didn't pose a real problem when conducting this review.

The manual is well written and easy to understand. There are 30 pages covering the basics of the Elliott Wave and another 11 pages that discuss trading strategies. A more in depth section on trading strategies would be helpful even though there are many books written on this topic.

Elwave is really intended for two different types of users, those familiar with the intricacies of Elliott Wave analysis and those who are not. Although I understand the basic concepts, I would put myself in the inexperienced category. For those users who “know”, detailed information can be looked at for the current wave count and then for alternate wave counts. The Wave Inspector window provides information like: internal wave structure analysis, probability scores and Fibonacci analysis, rules and guidelines that should be met as well as the status of whether or not they have been met. For the inexperienced user, this information can be overlooked, though a complete understanding would of course allow for a better interpretation of the resulting analysis and therefore a higher probability of success for trades. For the most part, I will be focusing on the portion of the software for inexperienced users, as I do not possess the experience to pick apart the details of the Elliott Wave analysis engine used.

The main interface is easy to follow and fairly simple. Although something can be said for simplicity, I'd like to see better use of the available space. The size of the toolbar buttons is too big and there is at least a ½ inch of wasted space on the left hand side of the price window. Also, controls used to zoom along the x-axis and adjust the detail of the target clusters belong on a toolbar, not the price chart. By default the price window takes the majority of space. However, after an analysis is done additional frames can be shown. In the screen capture below you will notice the wave tree on the left and the wave inspector to its right. The price chart and volume chart are on the right and the summary inspector is on the bottom. This view would be used by users understanding the Elliott Wave or those who are bringing themselves up the learning curve. When I use the software, I do not have the wave tree or the wave inspector showing.



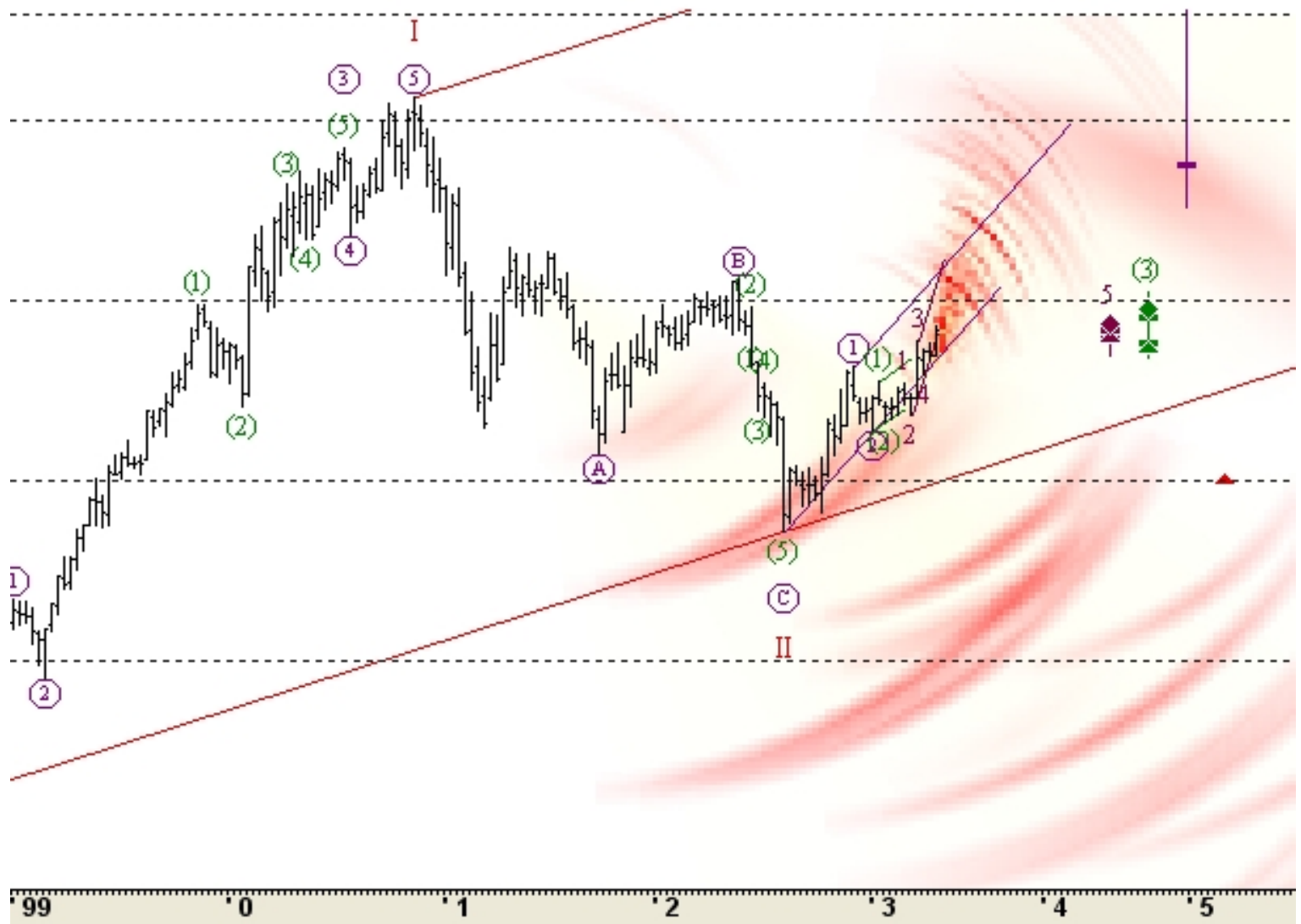
For some reason, not all of the windows are dockable, specifically the summary inspector and the wave inspector. This means that the user has to manually resize windows to avoid overlapping the windows on top of the price chart. There is also an annoying 3-second delay every time the price window is adjusted while the target clusters are being redrawn. Once you have everything in its right space, all other scenarios will open up with the same window sizes so no further tweaking should be necessary.

Creating scenario files, which are native Elwave format files, is an easy process. A window allows the selection of multiple stock files in various formats including Metastock, ASCII and Tradestation. Once a scenario file has been set up, an Elliott Wave analysis can be performed. Elwave really does seem to take Elliott Wave analysis beyond many available products. The Managing Director of Prognosis indicated, "...the correct wave count should be based on the patterns found, according to their definitions."

There are dozens of criteria specified for each of the dozen of patterns that Elwave looks for. Although not required after an analysis is completed, the currently shown wave criteria can be reviewed in the Wave Inspector to see which have been met. I believe that one of the main reasons that investors do not use the Elliott Wave is that it is difficult to systemize, or create specific rules using indicators like the Elliott Wave Oscillator to determine trading positions. Elwave reduces this to specific and transparent rules.

There are different types and different depths of analysis options. A simple automatic analysis or an update to a previous analysis takes approximately 20-45 seconds on my system. A more detailed analysis that looks for complex triangle patterns and waves with a higher degree takes 5-7 minutes. Elwave also allows for manual wave counts with the caveat that only experts would want to attempt this. Elwave includes several technical indicators that can be shown above the price chart. The list of indicators include moving average, rate of change, Elliott oscillator and stochastic. Line studies like Gann Fan and speed lines can also be manually added to the price chart. There are a limited number of indicators and line studies compared with other software like Metastock.

There are multiple outputs from an analysis that vary by detail and purpose. The first and most visible output is the labels and shading done to the price chart. As is typical with Elliott Wave analysis, peaks and valleys on the chart are labeled with letters that signify the wave and wave degree. Elwave also automatically draws trend channels where appropriate. The last and perhaps most unique feature is the color shading or "Target Zone" that is added in the late stages of the price curve and into the future. The colors yellow and red are used to signify highly probably areas of future price locations. The last addition to the price chart is vertical bars indicating the range of forecasted value with the median value shown.



The other interesting output is the projected buy/sell options for each time frame. The values appear in the Summary Inspector and include the EASI (buy/hold/sell), trend direction, current wave number, target price, exit price and then the risk reward analysis based on those prices. It's quite concise and nicely complements the visual representation on the price chart. Other outputs relate to the details of the structure of the current wave and shows what characteristics Elwave is looking for and which of them have been met. Reviewing this is not required in order to make trading decisions, but it does help to gain a better understanding of Elliott Wave analysis and how Elwave implements it.

Of course, no matter how accurate the program is, how does it really stand up in predicting stocks? Elwave does have a nice walk-forward simulation feature that allows going back in time, performing an analysis, making a fictional buy or sell decision, and then moving forward tick by tick to see how well things performed.

Scan list: Conditions:

Scanning results

Accepted | Rejected

Rank	Symbol	Name	Sort by	on	up
1	FLWS	1800FLOWERS.COM	Name	Cycle	up
2	TCHC	21ST CENT HLDG			

Analyse
SCAN NOW!
Print

Scanned: 3
Accepted: 2
Rejected: 1

Open chart
< Hide details

Summary Show

4/23/2003, 7.4000

Time frame	EASI	Trend	Wave	Target	abs.%	Exit	Reward	Risk	R/R
Cycle	negative	down	2/b (100%)	4.2053	43	10.9000	3.1947	3.5000	0.91
Primary	negative	down	2/b (94%)	5.2066	30	7.7900	2.1934	0.3900	5.62
Intermediate	neutral	up	3 (74%)	7.9256	7	7.3090	0.5256	0.0910	5.78
	neutral	down	2/b (55%)	5.1246	31	7.7900	2.2754	0.3900	5.83
Minor	positive	up	3 (64%)	7.9931	8	7.3090	0.5931	0.0910	6.52

The only problem is that you “see” the future before going back in time, and are therefore consciously or unconsciously are biased to the right answer. As for my personal view on the accuracy of Elwave I would have to say that I am cautiously optimistic. I have been impressed with some of the forecasts on the stocks that I track regularly, but not all. The performance has been good enough that I plan to further evaluate the tool, and perhaps use it as a second opinion to my main trading system.

This edition also includes a batch analysis and scanning feature. After setting up a list of your commonly tracked stocks, a batch analysis can be performed. The scanning feature then allows for filtering out stocks that only meet certain criteria. As the manual mentions, one of the easiest options is to look for stocks that are in wave 3 in multiple time frames. The scan can be manually refined to exclude stocks based on their probabilities, risk/reward ratios or other factors.

Conclusions

Elwave 7.0 Scanning Edition is a nice “white-box” system. It by no means comes close to the usability and custom analysis of Metastock, but it isn’t trying to. It is a fairly transparent system that is based upon a very old trading concept, the Elliott Wave. There are a number of interface issues that I found with Elwave, but overall it does clearly convey trading opportunities based on a

detailed, rule based analysis. A demo is available through the Prognosis website that I encourage you to try if you're interested in using Elliott Wave analysis.

Product Review Information

Product Name(s):	Elwave 7.0 Scanning Standard Edition
Software Company:	Prognosis Software Development Jesseplaats 14 2611 GZ DELFT The Netherlands
URLs of Interest:	www.prognosis.nl www.elwave.com
Minimum PC System requirements:	IBM Compatible 486 or higher Windows 95 or higher 8 MB Ram 30 MB hard disk space Stock data in various forms
Price:	\$1,260 (new license)
Tested PC(s):	Dell Pentium 4 1.7 GHz Windows XP Home Edition 256 MB Ram 80 GB Hard Drive Metastock Professional 8.0

Nathan Maycher is an independent consultant and a regular contributor to WindoWatch.

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