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An Elliott and Gann Efficient Time / Price Tool, Part 1 of 2

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The ellipse patterns were unknown to traders for many years until 1983, when Robert Fisher – a great teacher and trader (of www.fibotrader.com) – presented a series of seminars that introduced the PHI ellipse (Golden Ratio) concept, based on an oval pattern built via a height / width Fibonacci ratio relation. The term "length" was also used with this type of ellipse instead of "width".

We attempt, in this Part 1 article, to describe other types of ellipses, born-out-of-a-circle, which may or may not be dependent on the PHI Golden Ratio.

One should remember that, in the case of slant ellipses, a trade is always performed in a trending environment. The horizontal ellipses are somewhat specific because they usually shelter the restoration of the exhausted trend's kinetic energy, ready to burst, and may be traded in both directions.

Ellipses and Market Flow Description

Ellipses are chart patterns that embed market flow. Most of the born-out-of-a-circle ellipses presented here are horizontal and have the same functional principles as the slant-oriented ellipses.

Like pitchforks, they are time / price tools, which can improve their visibility, and thus, aid in market flow analysis, whatever the market bias is. Moreover, both tools are dynamically related to price movement in their fluid environment. If we go further and analyze the similarities between the two tools, we can see that there is an intricacy that optimally assists the trader in his or her decision process (refer to Figure 1).

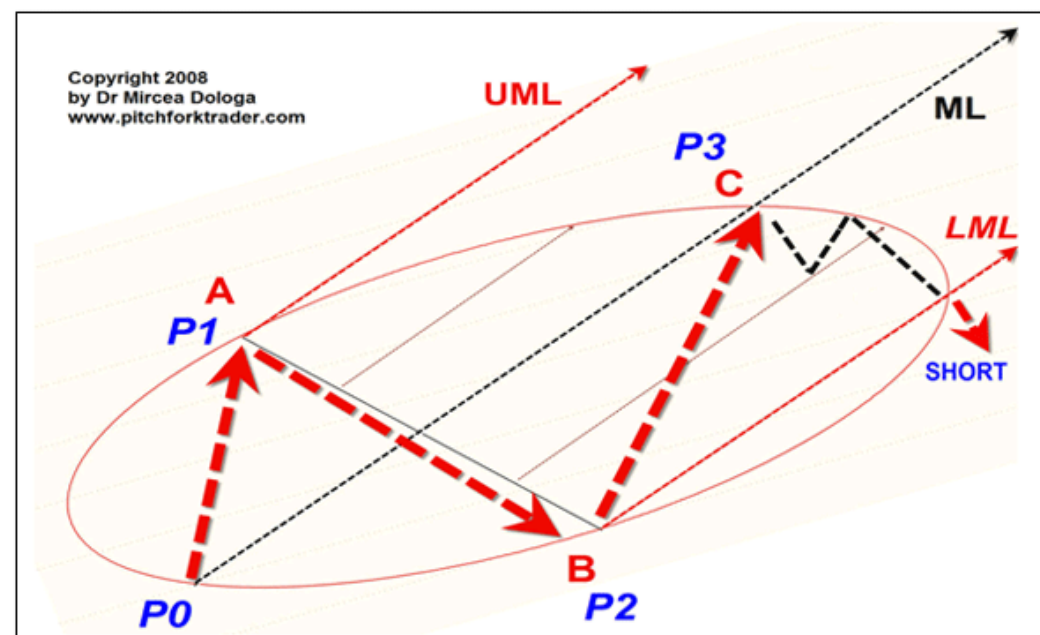


Figure 1. An Illustration of the Similitude That Sometimes Occurs between the Pitchfork and Its Corresponding Ellipse. The multiple arrows represent the market zigzag swings.

There are many similarities between, on the one hand, the P0-P1-P2-P3 pivots of the pitchfork drawn on the chart in Figure 1, and, on the other, the ABC pattern-related ellipse:

- Both are built on the pivots of a three-wave pattern. It is important to mention that only the first three pivots (P0, P1 and P2) are indispensable for drawing the ellipse.
- Both represent the time / price relationship, which dynamically evolves within the Cartesian space.
- Both follow market flow direction – even if their slopes are different, and they rarely overlap.
- The confluences between the pitchfork's median line (and its acolytes) and the ellipse's circumference may form very strong reversal levels or, to the contrary, can create various price bar continuation phenomena (zooming, piercing and test and retest).
- There is a perfect mapping of the ellipse's body by the constituents of the pitchfork: median line, upper / lower median lines and the 50% Fibonacci ratio lines. Ideally, they will assist you in visualizing price

bursting out from the ellipse, thus better preparing the trade.

The trader should be patient while waiting for a trend to continue its development inside the ellipse. A short trade will be triggered as soon as the market flow breaks down, off the ellipse. On the other hand, a long trade is signaled when a down-sloping market reaches the lower ellipse's limit, and it reverses the trend.

This trade is entered when the price breaks out of the ellipse's upper limit. These counter-trend techniques are efficient for slant ellipses, but not necessarily horizontal ellipses. We will provide some further examples.

As for the necessary multitude of ellipses, we can draw either a single, large ellipse, embedding the whole contextual market or multiple smaller-sized ellipses, which when put all together, will make visible, in detail, the slightest move in the process of market development.

Morphology and Dynamics of Ellipses

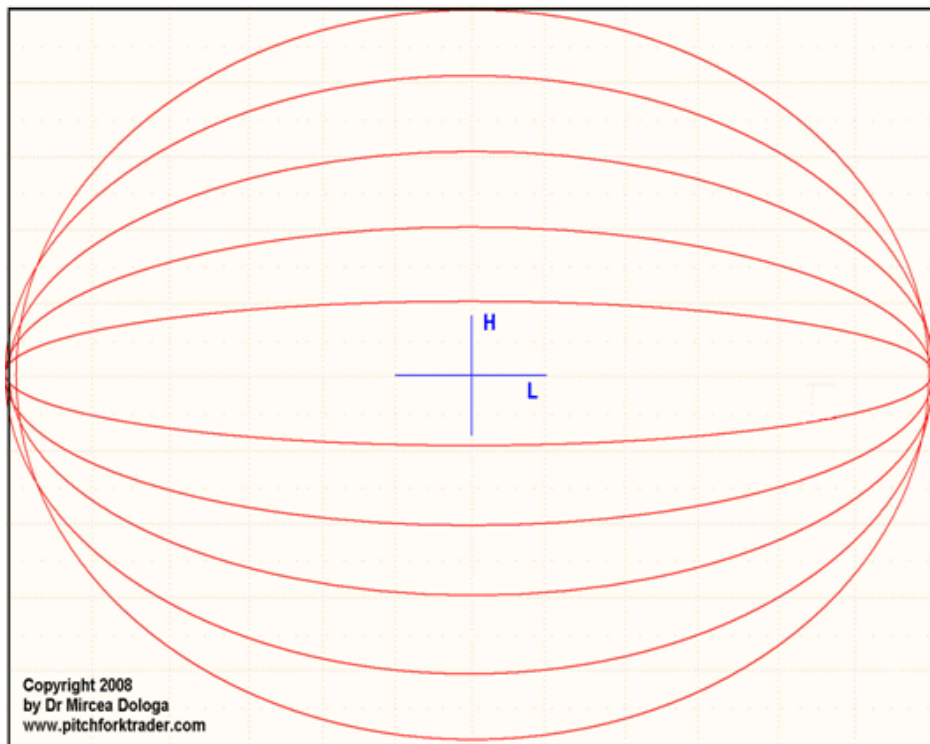


Figure 2. An Illustration of a Horizontal Multi-Ellipse Set-Up Drawn out of a Circle

In Figure 2, we consider H the ellipse's height and L its length (or width). We will see further that their Fibonacci ratios will create PHI ellipses.

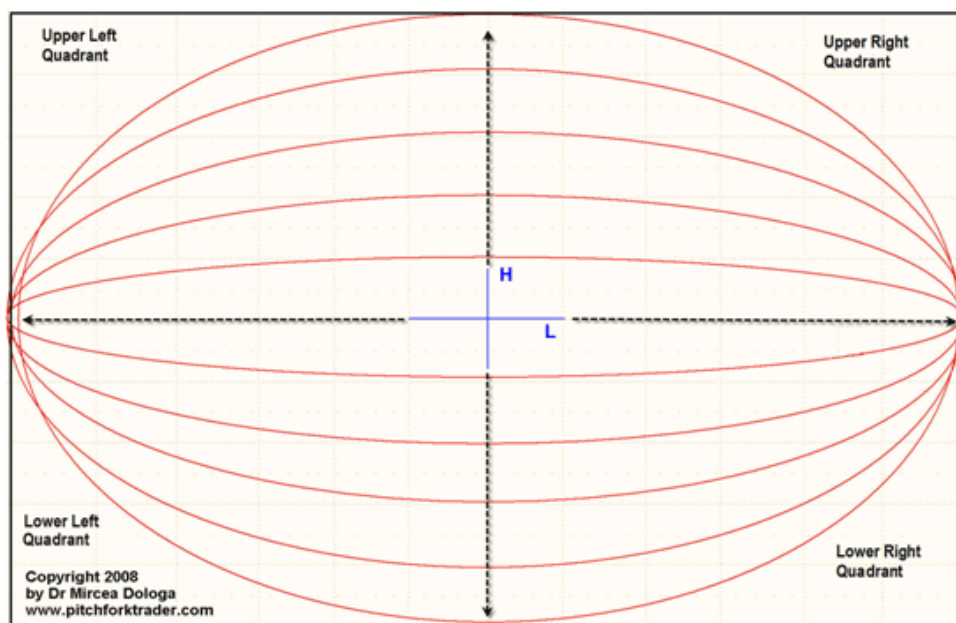


Figure 3. An Illustration of the Same Horizontal Multi-Ellipse Set-Up, Drawn Out of a Circle, Showing the Four Quadrants

In Figure 3, the H and L are already drawn, and the Cartesian space is divided into four regions, or "quadrants". Each is identified with respect to the center of the ellipse. This spatial orientation is vital because we can then draw an ellipse in advance of market activity, with all quadrants being used, instead of just the common upper

right and lower right quadrants.

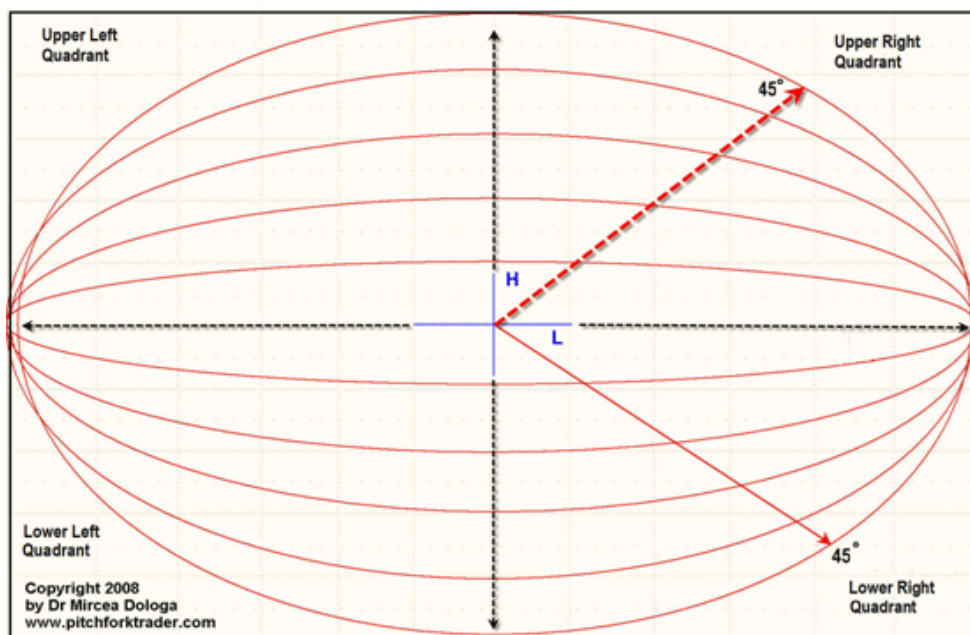


Figure 4. A Chart That Shows the Right Half of the Ellipse Having Two 45° Angles

In Figure 4, this market slope angle is one of the most frequently met. It goes without saying that this direction is where time meets price most often. The same angle, taken in symmetry above the ellipse's horizontal axis, is valid for a trend originating in the lower left quadrant.

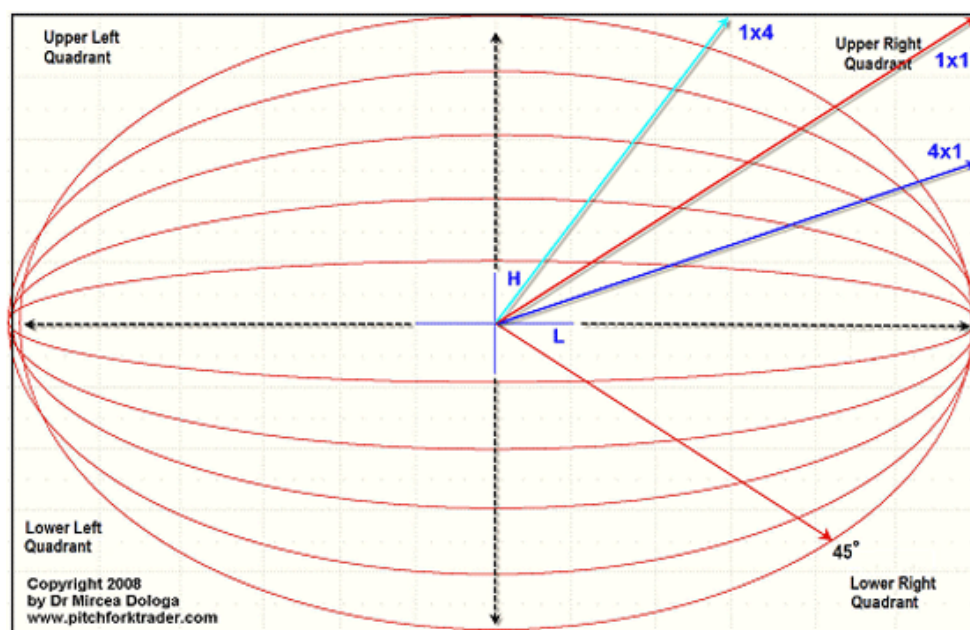


Figure 5. A Chart That Shows the Ellipse's Right Side with the Upper Quadrant Having the Gann Angles and the Lower Quadrant a 45° Angle

The purpose of the chart in Figure 5 is to show that a 45° angle is mostly not the same as the 1x1 Gann angle – when they are drawn from the center of an ellipse.

As the width of the ellipse approaches the value of its height, the 45° angle will be overlapping the 1x1 Gann angle. When their equality is reached (width = height), the ellipse will become a circle. As one can see, the difference between these two types of angles depends on the form of the geometric quadrilateral drawn from the ellipse's center (rectangle or square) and also on the scaling of the chart. Briefly presented, we can say:

- A 1x1 Gann angle, drawn from the center of an ellipse (its width is not equal to its height), occurs most of the time.
- A 45° angle, drawn from the center of an ellipse, occurs only if its width is equal to its height. In that case, the ellipse is converted into a circle, having a radius equal to the width, which in turn, is equal to the height of the ellipse.



Figure 6. A Chart That Shows a 1.236 Ratio PHI Ellipse

In Figure 6, we can see that market flow tested four times its horizontal axis, and it finally decided, right out of the pattern, to climb a 45° angle. In order to follow the market closely, we should have drawn an adjacent PHI ellipse – to the right – in such a way that the outburst zone is completely covered.

As for the PHI ellipse ratios, the following values occur frequently: 1.236, 1.272, 1.382, 1.618, 2.00, 2.618 and 4.236.

The higher values (6.857, 11.090, 17.944 and 29.034) may occur, but very seldom.

Ellipses: Another Manner of Measuring the Breaking-Down Thrust



Figure 7. A Chart That Shows a Symmetrical Triangle Ready to Break Down until the 100- to-127.2% Threshold of the Thrust

In Figure 7, on the terminal portion of the chart, the last swing represents the development of the w5:W5 Elliott sub-wave. We will explain the precise projection of the triangle's thrust further, using ellipses drawn out of a circle, where the height (H) equals the length (L).



Figure 8. A Chart That Illustrates the Ellipsoidal Mapping of the Current Market Forming the Symmetrical Triangle, Ready to Drop

In Figure 8, we drew an ellipse out of a circle, which encloses the current market. The 45° opposite angles are known to eventually guide the market for a predominant down-turn development.

In order to draw the $n^\circ 1$ ellipse, we used three landmarks: the lower right arc, which was just tested 6 times, the last bar and the coincident close and open of the 180° volatile bars (top of the ellipse).



Figure 9. A Chart That Continues the Prior Chart, One Hour Later

In Figure 9, we have also drawn the $n^\circ 2$ ellipse using the three labeled landmarks. We will try to draw progressively bigger ellipses, in such a way that we will reach the drawing of a full circle. The last two huge volatile bars plead for a continuation of the down trend.



Figure 10. A Chart That Continues the Movements of the Prior Chart, Three Hours Later

In Figure 10, we have drawn the n° 3 ellipse, which not only coincides with a circle (H height and L length are equal to the radius), but will efficiently embed the current market flow.

Moreover, we can say that the circle has a halting power because the market flow has currently been stopped at its lower right arc, and the bars are getting progressively smaller.

As we have seen in this Part 1 of 2 article, the ellipses play an important role in performing an optimal trade decision process. The benefits of this technique assist the trader in being a step ahead of the crowd, thus preparing for efficient money and risk management, through the use of the Three Pawn Technique, which we will describe in Part 2 of this article.

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