

Artist Statement Stock Project

Elliot Wave

This new series of multimedia artworks visually interpret and map our participation in the New York Stock Exchange utilizing Ralph Nelson Elliott's Elliot Wave Theory. The goal of the project was to address the current financial environment, create a series of works that test an economic theory, and provide a methodology that could financially benefit the viewer.

Ralph Nelson Elliott proposed that crowd psychology, not economic fundamentals, was the key factor that moved the stock market. Elliott showed that the degree of crowd psychology was observable on a subminute level up to a multi-century Grand Supercycle. Elliott proposed that these "waves" of optimism or pessimism could be measured and predicted through a series of five dominant waves and three corrective waves reflected in the Fibonacci number sequence.

In Elliott's system of five dominant waves, waves 1, 3, and 5 are advancement waves and waves 2 and 4 are corrective waves. In wave 1, the market has been oversold, so the only investors left are buyers that move the prices higher. In wave 2, market sentiment is still negative, profits are taken, and the price typically retraces 61.8% of wave 1. News and market sentiment begins to turn positive, and analysts raise estimates causing a quick rise in prices signaling wave 3. Soon the crowd "jumps aboard" driving prices higher past the top of wave 1 typically by 1.618:1. Buying begins to slow and wave 4 corrects the quick rise of prices in wave 3 on average by -38.2%. The last of the dominant waves is wave five. During this time, market sentiment is universally positive and the "average" investor begins to buy in at the top, but soon volume slows as it reaches resistance from previous highs. Aware that the advancement is beginning to slow, large investors begin to sell driving the prices lower.

Elliott stated that once a stock finished the five wave progressive movement it would be followed by a large A-B-C correction of the previous gain. These large corrections would typically retrace 61.8% of the previous 1-2-3-4-5 progressive waves. During this time, volume slows, investors take profits, and prices begin to fall dramatically. Once selling from wave A begins to slow, prices rise and sentiment again turns positive for a brief moment. These "B" waves are typically called a "sucker's rally". These rallies are short lived and the stock enters into wave C, which ultimately cause a seller's panic followed by a further drop in price. Once the stock becomes oversold, the pattern begins again.

Methodology

To begin this project, it was decided to see if an "average" investor could profit financially by trading stocks on the New York Stock Exchange utilizing Elliott's Wave Theory. The minimum requirement for a day trading account is twenty-five thousand dollars. We did not feel this sum represented an "average" investor in today's financial market, so we allocated an average investment pool of four thousand five hundred dollars for this project. Over a period of one year, we bought and sold 20+ stocks at varying times based upon their wave position and chart analysis. The length of time each stock was held depended upon how quickly the stock hit the target price or if the stock got "stopped out" below a previous resistance level on a dip in price. These times ranged anywhere from several days to a couple of months. Each stock's price movement was recorded on a fifteen-minute basis for the duration of the time that we owned those shares.

Once the project period ended, each stock's price and time range was averaged so that it would fit into a brick grid structure that consisted of one hundred and five bricks. The grid consists of seven layers of fifteen bricks. Each layer has five bricks across and three bricks deep. The five horizontal bricks represent the five days in a trading week, the seven vertical bricks represent the seven hours in a trading day, and the three bricks deep represent three twenty minute intervals in a trading hour. If the average price was higher than the previous price average, a solid brick was placed within that time period on the grid. If it was lower, then that space was left blank. Once the structure was completed, a die was rolled for the solid bricks. Even number bricks were painted and the odd number brick were left as photographs. The mix of photographed and painted bricks emphasized the game like feel of the market.

Conclusion

Throughout the project, we were amazed at the accuracy of Elliot's Theory in a real time market place. Overall, we averaged an 80% gain between the 21 stocks. We did note that it wasn't a significant gain for an investor of limited resources considering the amount of time necessary to monitor these movements. One problem that we continually ran into was a Security Exchange Commission rule called a "Free Ride". Anytime an investor with less than \$25,000 in their account purchased a stock they would have to let the stock settle. This settling process took three days even though the trades took place in a real time digital environment. If an investor broke the free ride rule and sold before the three days they would get a warning. Three warnings and your account would be frozen for 90 days. On several occasions we were stuck in a stock that broke Elliott's rules but could not sell because of this rule. The SEC instituted this rule to protect investor with limited resources from making poor investment decisions.