

The Technical Trader

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TTT 316

In our 22nd Year!

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The Features

FTSE 100	1-2
The Dow - Full Elliott Analysis.....	2-7
Back to 1900	2-3
A Peak is Upon Us?	3-4
A Dichotomy	4-5
Dow Theory.....	5-6
The Shorter-Term Action.....	6-7
The Action Since 10729.....	7

The Month Ahead



1. Introduction

The chart on this page is of FTSE, otherwise this issue is devoted to the Dow. FTSE has seen five waves down, see chart opposite, as has the Dow. The writing is on the wall, all we need now is a corrective rally and it will confirm a major SELL signal. We are already SHORT of FTSE and went short at around 5450 on 19th January. At the lows were around 300 points up! But we are after bigger fish on this occasion.

As I have said it looks like the first leg down is complete. Only one caveat to this count and this is that the rally seen over the last two days may have been wave 4 on the way down and if so wave 5 is still to come. In fact, given the size of the rally, this now looks unlikely and the only reason I suggest this is because wave 2 rather dwarfs wave 4. This is one reason why it often pays not to try and be too clever. However I did waver a bit in the weekend video clip and have taken

Trading Summary

	LONG	TREND MEDIUM	SHORT (TRADING)	RECOMMENDA- TIONS
FTSE 100	DOWN	UP*	DOWN	SHORT
DOW	DOWN	UP*	DOWN	SHORT
DAX	DOWN	UP*	DOWN	SHORT
US T-BONDS	DOWN	DOWN*	UP	LONG
NIKKEI DOW	DOWN	UP?	UP?	No Action
GOLD	UP	UP	UP	LONG
* Trend change maybe imminent ?May be corrective action #Monitor Hotline				

partial profits. So officially we are now 50% SHORT with a view to moving to 200% SHORT into this rally. There remains the potential for a substantial fall at this time. Obvious resistance points for the wave two rally are around 5350/5400 (resistance on the way up - see again chart) with the 200 hour moving average just above 5400 and the 50% retracement level around 5375.

If the lows of “one” are behind us. The next step is to look for the peak of the corrective rally and add to our short positions. So we want to look at time and price parameters. Above we looked at price parameters on FTSE and concluded that key resistance lies between 5375 - 5425. But time parameters can be more important and the decline on FTSE lasted almost three weeks. A ratio of between one third and two thirds would be “normal” leading us to expect a rally lasting between one and two weeks. However if we look at the Dow, see charts on pages 6 and 7, we can see that the fall on the Dow lasted around

2 weeks suggesting a shorter move. In fact it is possible to count the low labelled as 3 on the chart on page 7 as 5 with an irregular correction already near completion. We also have resistance on the Dow right at hand in the form of the 50% retracement level. So the shorting opportunity may be very close.

2 The DOW - back to 1900

We can go back much further with the Dow thanks to Max Andronichuk (check out his videos on You Tube) and the chart on page 3 shows the Dow going back to 1900! Incidentally I am trying to access back data back as far as possible if any reader is able to assist. The implications of this chart, writing in February 2010, are profound. But first let me classify the waves:

- First I am treating the entire move from the low at 40.56 in 1932 to the high in 2007 at 14198 as a move of Grand Super Cycle degree - quite some move!
- I have then subdivided this entire move into waves of Super Cycle





degree and labelled these 1, 2, 3, 4 and 5.

- Finally I have subdivided wave 5 of Super Cycle degree into waves of Cycle degree labelled i, ii, iii, iv and v.

- You will note that the 1987 Crash almost disappears in this chart although it wiped 40%+ off markets in a very short space of time – days in fact.

A peak is upon us?

Now I will turn to the implications:

- First Elliott himself stated that the 1928/1929 highs marked the third GSC peak. If correct then the highs seen by the Dow in 2007 mark the fifth such peak – meaning a move spanning one hundred and fifth years is over (1857 – 2007). If so the expected decline following this peak should be BIGGER than that seen in 1928 – 1932.

- This decline has clearly started and in January 2010 we are, I believe, at the end of the corrective rally following the latest falls into March 2009. But look where we are on the chart – right back on the upper trendline – exactly where you would expect the rally to fail.

At this point let's not forget that we do not expect 100% reliability from Elliott. What we want, as Bob Beckman said so well in SUPERTIMING, is high probability trades. When we look at the very long term charts such as the one above it is very easy to fall into the trap that we are looking at the inevitable. That a huge peak is upon and Armageddon beckons.

Maybe it does but it is not certain. But what we do see above are grounds for a good trade and that trade may go



way beyond the short term. We may decide to totally revamp our portfolio, perhaps bailing out of most shares and most property investments. As I have said before it is a question of weighing the balance of probabilities and positioning yourself to profit if your conclusions prove correct whilst ensuring your financial survival if they prove false. This chart certainly questions the financial survival of very many people.

In fact it is difficult to escape the conclusion that we have more downside to come if we consider the waves we have seen and their characters.

A Dichotomy

First let me deal with a dichotomy between the two key markets I follow

myself. The UK FTSE 100 index saw it's all time high at 6950 on 30th December 1999, the final trading session of that year, it then fell back sharply to a low at 3277 on 12th March 2003 – see Chart above:

You will see on the chart that I have counted these moves as of Primary degree but this is open to some debate. If the 1929 Crash was a GSC move all of its own between 1929 - 1932 then the Super Cycle and Cycle moves within that three year period would have been very truncated. However although this is an important issue we have no more to go on just yet.

Of course on the Dow we have a very different picture, see chart on page 5:



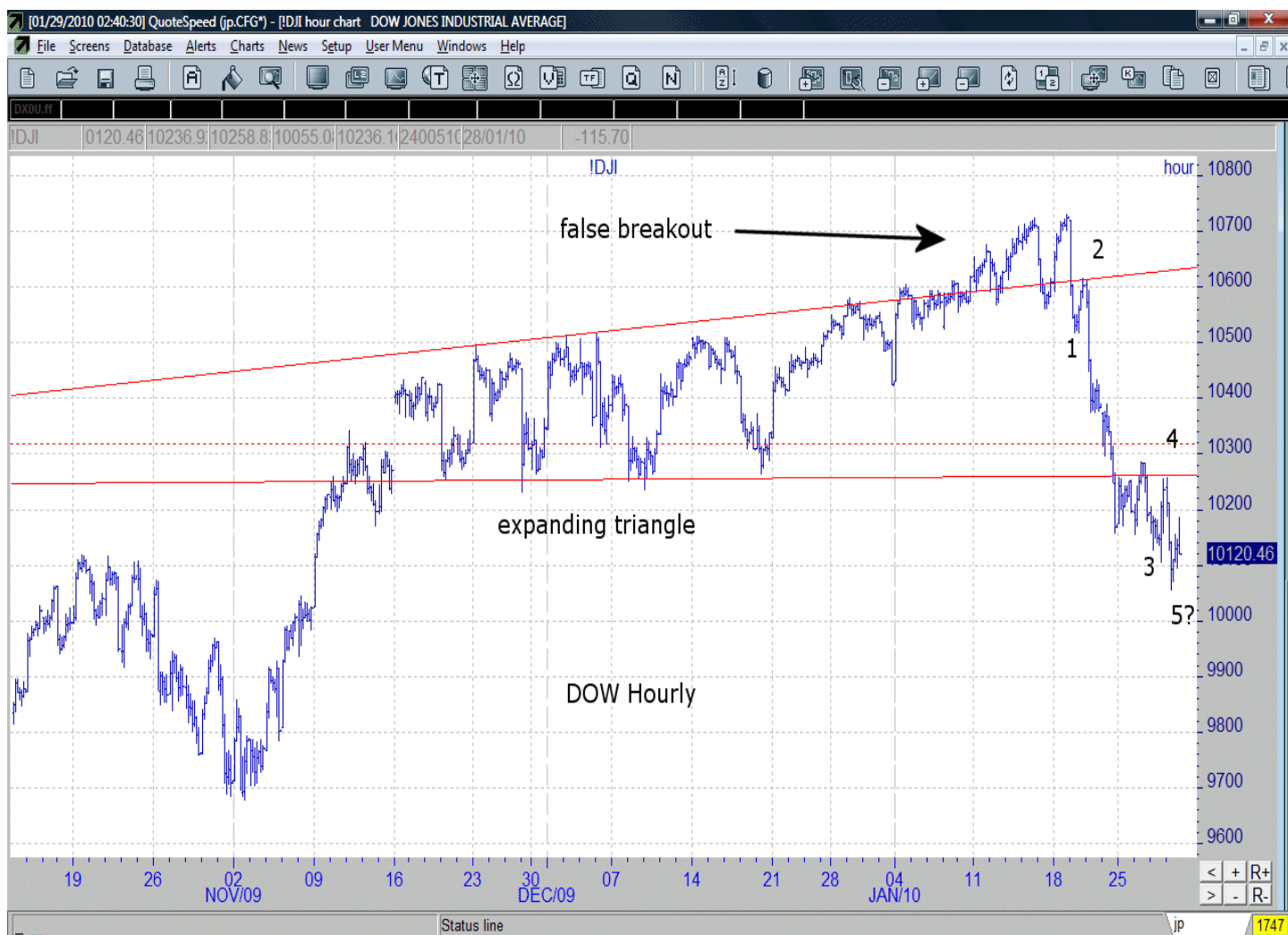
You may recall that I have discussed the “global trend” in previous issues and how markets will do broadly the same thing but in their own way and I think this is a good example of that – we have broadly the same pattern, peaks and troughs at around the same time, but with marked differences. Having lived and traded through these peaks and troughs I can say with some certainty that the true manic high was in 1999/2000 (albeit maybe living through these things is a not an aid to objectivity). As such we may have see the same situation as recorded by Elliott back in 1928/1929 in the US whereby the orthodox top was seen in 1928 but we then saw a higher unorthodox top in 1929. If so the peak on the Dow in 2000

was the orthodox top and the subsequent and higher peak in 2007 was the unorthodox top. This is certainly the interpretation I will use when discussing the characteristics of these waves. You will of course notice in the chart on page 2 that my wave count ignores this interpretation and this is a factor I will deal with in detail once we get to examine these moves.

Dow Theory

Before we look at the characteristics of the waves we must quickly look at how Dow Theory describes any major market move and it is as follows...

- The first move in the direction of the new trend will be a reaction to the excesses of the previous move.
- The second move in the direction of the new trend will be news driven



as it becomes clear the market should be moving in that direction.

- The third move in the direction of the new trend will be a move of excess setting the scene for the start of a new trend in the other direction. Before I go any further let me say this is my understanding of Dow theory and I have set this out in my words, so if I have mangled it the good stuff is Dow's and the rest mine.

Now we can look at the action we have seen over the last two decades...

- The peaks in 1999/2000 were the end of the third move of Dow theory on the way up creating the froth which had to be corrected. Notice how the three moves in the direction of the new trend of Dow theory correspond with the five Elliott waves, the three moves in the direction of the trend plus the two corrections between those

moves.

- The sharp falls seen subsequent to those peaks wiped away the froth – the first move in the direction of the new trend.
- The rally from the lows in 2003 was a bear market rally, an irregular move on the Dow as it made new highs.
- The peaks in 2007 marked the start of the second move in the direction of the trend under Dow theory – the bad news started to come out in droves and, in particular, it became clear that a lot of assets were well over-valued. This move has a lot further to go in my opinion.
- The rally which started in March 2009 was merely a bear market correction and has now terminated.

The Shorter Term Action

The chart above shows the hourly



action and the key point is the failure of the Dow to make anything of the breakout from the expanding triangle. Failure are a very important part of any trading approach and often the best signals come in when a signal in the opposite direction fails - as we see here. This is one of the reasons why I think the Dow saw its peak at 10729 on January 19th 2009.

The other reason came in a little later but you can see how the decline off 10729 has traced out a five wave form. If we now see a corrective rally a major shorting opportunity will be presented to us which might yield some thousands of points on the Dow - albeit you would need to ride some pretty strong rallies to stay with the move all the way.

The Action since 10729

The chart at the top of this page shows the detailed action off the top at 10729 and you will see that this counts as a fairly clear five wave form. However there is one point to make which I referred to earlier. Simply that the wave 3 low as marked can be counted as wave 5. If we do that then wave 5 may be wave B of an irregular correction which may now be virtually over. As I also said earlier it is time to look to going SHORT on the Dow.

As I said at the end of last month's issue it should be a very interesting year - Good Luck or Chok Dee as they say over here!

Next issue due out on Friday 5th March 2010



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George Sheehan

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