**December 19, 2010**
*Market Turning Points*
**By Andre Gratian**

**Precision timing for *all* time frames through a 3-dimensional approach to technical analysis: Cycles - Breadth - P&F and Fibonacci price projections**

*"By the Law of Periodical Repetition, everything which has happened once must happen again, and again, and again -- and not capriciously, but at regular periods, and each thing in its own period, not another's, and each obeying its own law … The same Nature which delights in periodical repetition in the sky is the Nature which orders the affairs of the earth. Let us not underrate the value of that hint."* -- Mark Twain

## Current position of the market

**Very Long-term trend** - The very-long-term cycles are down and if they make their lows when expected, the secular bear market which started in October 2007 should continue until about 2014-2015.

**Long-term trend -** In March 2009, equity markets began an upward *corrective* move in the form of a mini bull market. Cycles point to a continuation of this trend into 2011.

**SPX: Intermediate trend** - Technical observations point to a potential top in mid to late December, but this will most likely turn out to be only a short-term correction.

Analysis of the **short-term trend** is done on a daily basis with the help of hourly charts. It is an important adjunct to the analysis of daily and weekly charts which discusses the course of longer market trends.



## Overview:

The SPX is making a top which could come as early as Monday or Tuesday. If this occurs, not enough distribution has taken place to label it as intermediate, and the odds favor only a short-term top.

I am posting a new projection graph which I am using as a substitute for a Point & Figure chart that I keep by hand and am unable to reproduce. It shows the accumulation pattern which was created prior to the start of the current rally and, by breaking it down into separate phases, several potential price projections which can be derived from it.

I mentioned last week that my preferred target was 1248. Since then, the index has moved up to a high of 1246+, had a small correction and moved back up to reach 1245+ on Friday. In doing so, it has formed two confirming counts, one at the 1226 level, and one at the 1240 level which both also project 1248. With such a strong projection to 1248, and with multiple indications that the rally is coming to an end, we should be prepared for an imminent reversal.

For all intents and purposes, the count was filled when the SPX reached 1246.46 on 12/14, and the current move may only be a test of the high, which means that we could start with a decline on

Monday morning.  On the other hand, the index could decide to go for perfection and reach the preferred level.  We'll find out tomorrow.

If a top does form in this area, enough distribution has taken place to bring about a correction to about 1206.  I will adjust the projection after the decline has started.

Note also that I have identified the top as a potential Head & Shoulder pattern.  We'll see if it holds up as such over the next few days.


## Analysis

The weekly MACD is showing some mild divergence, but the momentum indicator is only overbought. This, in itself, tells us that there has probably been too much strength in the advance from 1011 for this top to be of intermediate proportion.  In order to create an intermediate reversal, the SPX would have to trade below 1173.  There has not been enough distribution to suggest that that level will be challenged.

On the **Daily SPX Chart** which appears below, I have identified the main bull channel in green, and what I consider to be the intermediate trend channel in blue.  Neither one appears to be in immediate danger of being broken.  The bull market has subdivided in several trends. Identifying and keeping them separate can be helpful in following the progress of the index in the future.

I have already suggested that, based on the distribution pattern at the 1246 level, the next reversal is only likely to bring about a short-term correction.   Channeling confirms it.  Until prices move out of the intermediate channel, the move which started at 1011 is intact.

The indicators display the characteristics of an impending top. If the index turns down from this level, they will give a sell signal. Putting this together with the fact that the price is reaching the pre-determined target, a reversal of the trend appears to be imminent.


To clarify the market position even more, let's look at the **Hourly Chart.** The trend deceleration which

normally precedes a reversal is obvious. Until 12/14, the SPX was trading in the upper half of its blue channel. On that date, it started to decline, reached the bottom trend line, and is now crawling along that line. When it reaches its 1248 target, it should reverse, break through the trend line, and continue to decline until it finds temporary support on the purple channel line. There, additional support from other trend lines should create an interim rally of a few points before reversing again. Then, the SPX should continue its decline until it reaches the projection target around 1206.

The weakness which appears in the chart pattern is also reflected in the indicators. As in the case of the daily indicators, it would not take much to get a sell signal, and trading below 1232 could set off the next declining trend.

## Cycles

There are some short-term cycle lows due in early January.

Long-term cycles (7-yr, 60yr, 4-yr, 2-yr) are up until 2012, but could turn down earlier as a result of the pressure exerted by the very long cycles. From a cyclic perspective, we should start to expect the end of the bull market after mid-2011.

The very long cycles (120-yr, 40-yr) are down and due to bottom in 2014-15.

## Projections

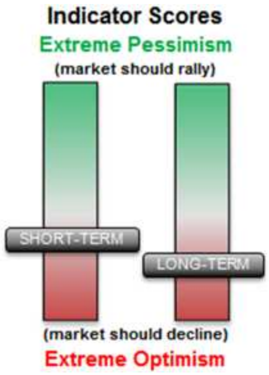
1248 continues to be the preferred target for the end of the rally which started at the end of November, but this projection was essentially reached when the SPX made a high of 1246+.

## Breadth

The NYSE Summation Index (courtesy of *StockCharts.com*) remained practically unchanged over the past two weeks. This, in spite of an oversold RSI (and while the SPX had a 70-point rally) points out the inherent breadth weakness.

## Sentiment

The *SentimenTrader* (courtesy of same) long-term index has grown a little more negative, but is still not at a level consistent with a market which has reached a top of intermediate nature.




In April, the VIX had a low of 15.23 which was followed by a substantial market decline. On Friday, it traded as low as 15.46 and although this is not expected to forecast a top of the same significance as that of April, it does confirm the negative readings that I pointed out in other indicators.


## Dollar index

After an initial rally from its November low, the Dollar index had a short correction and is now attempting to resume its uptrend. A strong move is not anticipated, but there may be just enough follow-through to affect the equity indices adversely and bring about the anticipated short-term decline.

## Gold

After reaching its 139 projection, GLD corrected, double-topped, and is now extending its correction. It should move back down to 129 before an attempt at extending its uptrend.


## Summary

The SPX is trying, once again, to reach its 1248 target. Whether it does or not, all signs point to the need for a short-term correction, possibly starting as early as Monday or Tuesday.

FREE TRIAL SUBSCRIPTON

**If precision in market timing *for all time frames*** is something which is important to you, you should consider a trial subscription to my service. It is free, and you will have four weeks to ponder the opinion of Ariel, creator of "*Chartlines*",

*"One technician we're sure to follow is Andre Gratian who focuses primarily on the S&P 500 index ($SPX) but also reviews gold as well.*

*Andre deploys a full array of technical analysis methods including technical indicators, breath and strength, trend lines, cycles, Fibonacci and P&F projections… his stock market views are invaluable and we really appreciate being able to share his weekly updates here. Of course his subscribers receive it over the weekend, as well as getting his intraday updates via several emails each trading day. You can get more info at Andre's website http://www.marketurningpoints.com/"*

as well as that of other subscribers:

*"Thanks for all your help. You have done a superb job in what is obviously a difficult market to gauge." J.D.*

*"Unbelievable call. U nailed it, and never backed off." C.S.*

*"I hope you can teach me about the market and the cycles. I want to be like you and be the best at it." F.J.*

**See if you agree by subscribing to a FREE 4-week trial. Send an email to:** Ajg@cybertrails.com
For further subscription options, payment plans, and for important general information, I encourage you to visit my website at www.marketurningpoints.com. It contains summaries of my background, my investment and trading strategies and my unique method of intra-day communication to Market Turning Points subscribers.



Andre