

January 16, 2011

Market Turning Points

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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, the SPX 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 – The intermediate trend is still up and does not look in immediate danger of reversing. A potential reversal when the SPX reaches about 1310 may turn out to be only for the short-term.

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.

Daily market analysis of the short term trend is reserved for subscribers. If you would like to sign up for a FREE 4-week trial period of daily comments, please let me know at ajg@cybertrails.com

Long-term analysis:

Since March 9, 2009, equity indices have been in a bull market which shows no intention of topping. All trends are up with no sign of an important reversal directly ahead. A potential short-term top in late December brought about only a brief sideways movement which was followed by another minor consolidation in early January. The January consolidation formed a Point & Figure re-accumulation pattern with projections which confirm the 1041 base target to about 1310. We'll look over the projection chart a little later on, but let's start by analyzing the **Weekly SPX Chart**.

The long-term trend bull market is clearly defined by the green channel which begins when the October 2007 bear market came to an end in March 2009 in conjunction with the 6-year cycle low. The first phase of the up-trend consisted of a long intermediate move (first blue channel) which lasted over a year and consisted of three well-defined up-waves. This was followed by an intermediate correction of only ten weeks which formed a head & shoulder bottom. The index then started on its second intermediate uptrend (second blue channel), which is ongoing and shows no sign of weakening. In fact, if it goes through the top line of the channel, we can say that it is actually accelerating. Because of this evident strength and the lack of intermediate deceleration, it is likely that the next top will turn out to be only a short-term reversal.



The indicators confirm the lack of weakness. The lower indicator is overbought, but that does not mean that it will reverse immediately. Look at what it did the last time it was in that position. It stayed there for three full months before pulling back. Also, the MACD normally gives advance warning by showing some significant negative divergence before prices reverse. At this point, it's still moving up and in the process of making a higher top.

Short-term projections and analysis

The two important aspects of projecting reversals are price and time. Fairly accurate time projections can be made with the help of cycles and Fibonacci ratios. Much more specific price projections come from Point & Figure charting. This technique is only concerned with price and does not take into consideration either time or volume. The following chart substitutes for the P&F chart of the SPX which I keep by hand and am not able to reproduce here.

The blue channel is a blown-up version of the second intermediate channel that you see on the weekly chart. The segment of the SPX which is shown is the second short-term phase of the second intermediate trend. The first one made a top at 1227 and this was followed by a four-week correction. During this time, the index made the re-accumulation pattern which is shown on the chart below. On the Point & Figure chart, that pattern gives us several interim projections (which are derived from the various phases within the base) and a total base count is 1312.



It is normal for a consolidation or correction to occur after a valid projection is reached. You can see this clearly on the chart.

All the interim projections, except 1301, have been met by the rising prices. After reaching the 1275 projection, there was a three-day correction which, on the P&F chart, gives us targets which pretty much re-confirm those established at the 1173 base.

The 1287 count was filled, followed by a small consolidation, and then surpassed. The next interim target is 1294. On Friday, the SPX closed on its high of the day at 1193.24, just shy of the projection.

This is probably sufficient to end the phase which started at 1262. As you will see on the next chart, the hourly indicators are screaming “sell”! Considering the strength of the advance and the fact that the SPX has not yet reached its ultimate projection of 1310-1312, the most likely scenario that follows will be only another near-term consolidation in preparation for a move to the final destination.

Before we move on to the hourly chart, I want to make a couple more observations about the present one. The blue short-term channel is divided into two spheres. The index is currently trading near the top of the entire channel. This is a sign of strength. In order to put an end to the short-term trend, the SPX would have to have more than a hundred-point decline. Before this can happen, the index would probably have to manufacture some sort of distribution pattern which carries this potential. Until this happens, it is unlikely that even the short-term trend will be threatened – even less, the intermediate one!

The green trend line is the trend line of the short-term advance from 1273. Breaking this trend line would be the first sign that we may be ready for a short-term correction.

Let’s now look at **the Hourly Chart**.

Here, you see the same blue channel and its median, and the green short-term trend line discussed in the previous chart. In addition, because of the market strength, it is possible to draw another “channel within the channel”, and this one is outlined in purple. Note how the index found support at the 1262 level in conjunction with this channel’s lower trend line.

Let’s now focus on the last small uptrend segment which started at 1262. It only made a small consolidation at 1288, and then moved beyond and has essentially reached the next target of 1294. The whole move consisted of 5 waves which, as we know, normally brings about a correction when complete.



If reaching a projection in a 5-wave pattern were not enough to suggest a top, look at the indicators. The top one is reaching an overbought condition for the second time in the same uptrend, and there is negative divergence in all three indicators with the lowest one being by far the worst.

EW analysts see this as the end of the move which started at 1273. They may be right, but that would mean that the SPX would have to forego its projection to 1310-12. This is certainly possible, but the market will have to show me that this is what it has in mind. For a significant reversal to take place which would threaten the short-term uptrend, the index would have to retrace below the 1262 level, break below the green short-trend line, and move below the 200-hr MA. This would then have to be followed by an eventual break of the lower blue channel trend line which is currently over 100 points lower. That's a pretty tall order for a market which is displaying so much strength.

Cycles

The only conventional cycle scheduled to bottom in the near future is a 60 calendar day cycle due in the last week of January. The next 17-wk cycle is not due until mid-February.

It is always possible that Fibonacci CITs can influence prices.

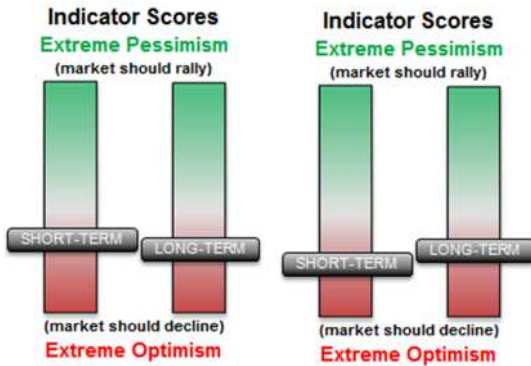
Breadth

I have kept the NYSE Summation Index (courtesy of *StockCharts.com*) of two weeks ago to show the small amount of change which has taken place in this index. The RSI has crept a little higher, but has not yet reversed. The poor showing of the former index did not prevent the SPX from making a new high. One could say that the picture has worsened, but until there is an actual reversal of the trend, no sell signal is given.



Sentiment

The *SentimenTrader* (courtesy of same) long-term index remains only moderately negative with little change from two weeks ago. The short-term index is slightly more negative, but the long-term has, if anything, grown a tad more positive. This is perhaps another reason not to expect a significant top to develop at this level.



Two weeks ago, I showed a chart of the NDX/SPX relative strength. At the time, it had started a downtrend but since then has had a substantial rally.

The VIX

This is a monthly chart of the VIX for the last bull/bear market phases starting in 2002. It shows that the VIX dropped to about 10 and had a long basing period, turning up nearly a year before the next market top. We can't expect an exact replica of this behavior, but this past history tells us that we can probably expect a basing period of some sort, followed by a significant rise in this index before the bull market top is in place.



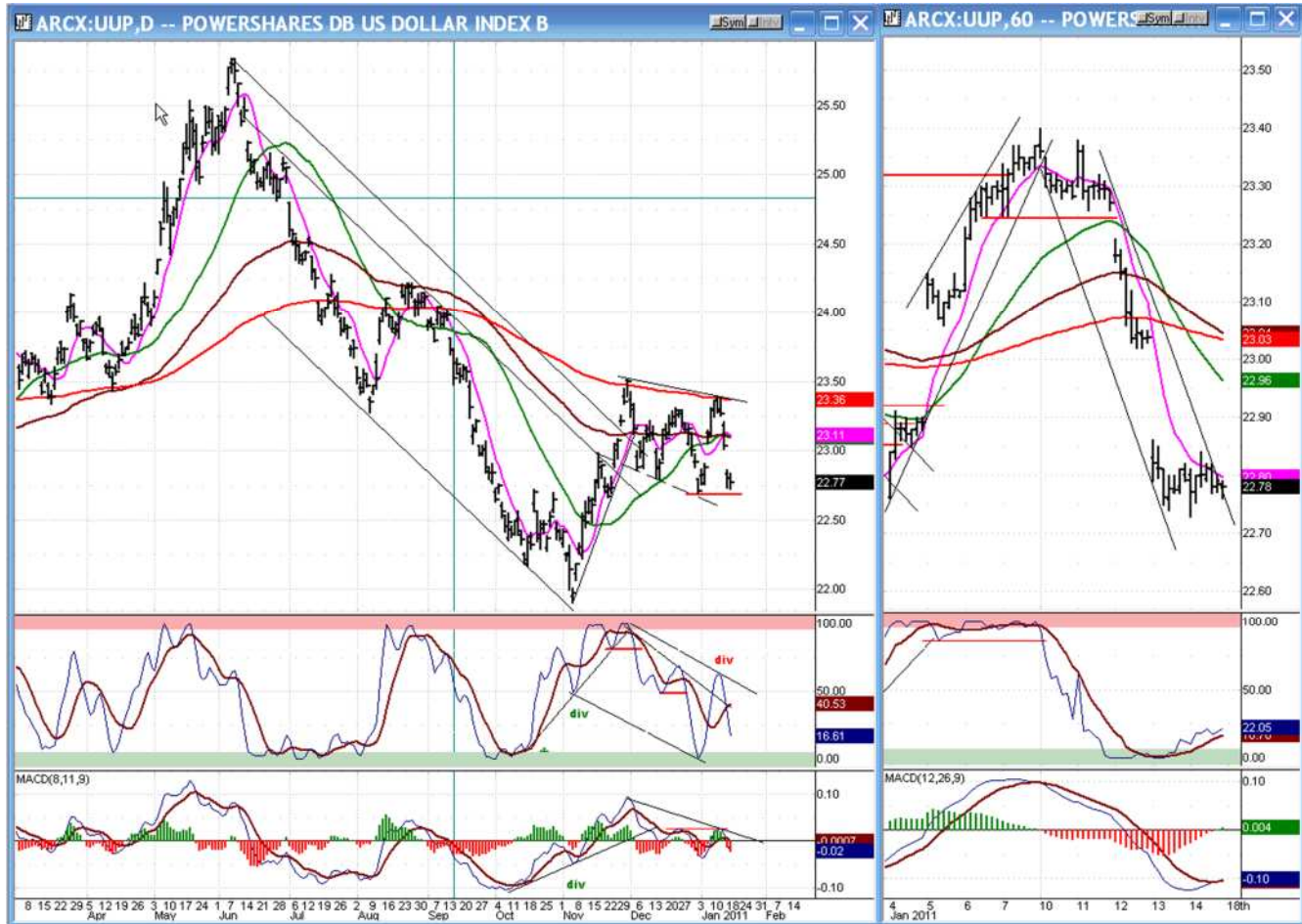
Dollar index

For now, the dollar and equity indices have an inverse relationship. The dollar has been in a corrective or base-building mode since late November after making what appears to be a significant low earlier that month. When that base and correction is over, it could be followed by an important

uptrend, and this would probably have a negative effect on the SPX.

The charts below show the daily dollar ETF (UUP) on the left, and the hourly one on the right. The daily indicators are still declining, suggesting that more work -- and perhaps a lower short-term low -- may be needed before the index completes its consolidation. The hourly chart is a little more bullish, perhaps indicating that a short-term bounce is near.

The P&F chart pattern could be interpreted as a base under construction. It will require more time to clarify itself.



Gold

Below is a daily chart of the gold ETF, **GLD**. Ever since it reached its Point & Figure projection of 139, gold has been consolidating in a six-point range. Now, the consolidation pattern appears to be evolving into a corrective one. The first support level at 133 is being challenged and has already been violated. Considering the condition of the indicators, it is likely that the ETF is ready to move lower and to challenge the more important 130 level.

The lower indicator has shown negative divergence ever since the first 139 top was made. It is still dropping, suggesting that a low is not yet in place.

The MACD paints a picture of even greater weakness. It is entering its third month of steady decline, making a pattern of lower highs and lower lows, and it has just gone negative.

A conservative assessment of the P&F distribution pattern gives us a minimum projection to 128 for the first phase. The next phase would take the price down to 121, and if the entire top is considered, a maximum projection of 110 is possible. Another way to count would yield 123 and 116 as the most likely retracements. It is also possible that the distribution pattern is not complete. We will re-visit the topping action over the next few weeks.



Summary

The SPX, as a representative for the equity indices, is in a strong bull market which started in March 2009 and shows no sign of coming to an end.

The intermediate phase which began in early September 2010 is also very strong with no indication of topping.

Within the intermediate phase, the short-term trend which originated in late December 2010 has been given a Point & Figure projection of about 1310 before it reverses. On Friday, the index essentially reached an interim projection of 1294, and hourly indicators are signaling that a near-term reversal is imminent.

It is possible that this level will turn out to be the end of the short-term phase but, considering the underlying strength of the market, a full extent of the move to 1310 cannot be discounted.

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The above comments about the financial markets are based purely on what I consider to be sound technical analysis principles. They represent my own opinion and are not meant to be construed as trading or investment advice, but are offered as an analytical point of view which might be of interest to those who follow stock market cycles and technical analysis.

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