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## *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 continuing strength in the indices is causing me to question whether we are in a secular bear market or two consecutive cyclical bull/bear cycles. In any case, the very-long-term cycles are down and, if they make their lows when expected, there will be another steep and prolonged decline into 2014-15.

**Long-term trend** - In March 2009, the SPX began an upward move in the form of a bull market. Cycles point to a continuation of this trend for several more months.

**SPX: Intermediate trend** – The intermediate trend is still up and does not look in immediate danger of reversing. A short-term correction appears to be complete, but there could be a pull-back before moving higher.

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 <a href="mailto:ajg@cybertrails.com">ajg@cybertrails.com</a>
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### Market Overview

Since its low of 1249.05, the SPX has come roaring back with a virtually uninterrupted 70-point move, and new highs are right around the corner! Or are they?

On Friday, in my Morning Comment, I wrote the following:

**Subject:** Morning Comment

*It does not always happen, but often, when the market makes a low, it is tested before the uptrend continues. You might say that it's the first correction of the initial move up from the bottom. I think there is a chance that we might do this before moving higher and the market will soon tell us if this is what it intends to do. If we are going to do it, we are in a good position to start this retracement. The SPX is describing a wedge pattern, and it has reached a P&F projection which also corresponds to two (three?) Fibonacci measurements. The hourly indicators are suggesting that we are making a*

near-term top, and the daily ones may be as well. In other words, there are some pretty good reasons to expect a reversal from here, and it could be the beginning of a test of the low which may take us back down to about 1268-1270.

Just a possibility to consider! Let's let the market decide.

Even though, on Friday, the SPX pushed a little higher to the next P&F phase projection of 1319 this action has not alleviated the concerns that I expressed above. They are based on a number of factors:

- There are some not so obvious trend lines on both the SPX and QQQ which indicate that, although they have probably made their correction lows, both indices may encounter serious resistance at these levels and need to pull back before moving higher.
- I am also concerned about the mediocre performance of the A/D while the index rose from 1284 to 1319. It suggests less than full participation by traders and investors in the second leg of the rally.
- Another reason is the less than stellar performance of the **Financial Index** (whose chart appears below) in this rally. How far can a move go without the contribution of financial stocks?
- Finally (I could go on, but this is probably enough), as you will see later, “*the SentimenTrader*” is not giving favorable odds to a strong continuation of the short-term trend.

That being said, as I mentioned in my Morning Comment, the market is the only “one” that really knows what it will do next, and we will have to determine its future course by its action. For sure, we have made at least a minor top which should require some consolidation. We should know over the next few days if that’s all it is.

## Chart Analysis

Let’s start with the **Dow Financial Index**.



Since the beginning of the second intermediate trend in July 2010, the Financial index has

underperformed the major indices. This became apparent when it failed to rise substantially above its April 2010 high, and it has re-confirmed this relative weakness in the recent rally by failing to come out of its short-term downtrend and giving a buy signal. Perhaps more importantly, in the previous correction, it did not find support until it had retraced all the way down to its long-term trend line.

On the P&F chart, the base translates into two valid counts which are both illustrated on the chart. The first was to 307, exactly where the advance stopped. The second is to 315, suggesting that the index could eventually find its way higher to reach that projection, and that neither it, nor the overall market, appears to be serious trouble at this time.

Now, let's look at the **Daily Chart of the SPX**. After making its low, the SPX had a strong rally which took it out of its steepest downtrend line, followed by a move out of it's a-b-c channel. It has now reached a resistance level which is composed of the top of a larger down-channel, the median of the intermediate channel, and the extension of the small green trend line which is drawn from "a". Additional consolidation may be required before moving through these. The rally may also be forming a wedge pattern which is more visible on the hourly chart.



But the hidden weakness in the move appears more clearly in the MACD which, after severely breaking its intermediate trend line, has barely recovered from a steep drop. Even though the lines have just crossed, I think that it may not be in a position to support a continuation of the short-term trend without further consolidation.

Let's see if we can derive some additional information from the **SPX Hourly Chart**.

In fact, this chart contains *plenty* of potentially vital information, so please bear with me while I go through it.

Following up on the resistance lines discussed in the daily chart, you can see that Friday's move stopped exactly on the mid-channel line of the intermediate channel. This was also just below the red extension of the green support line which starts at "a". The larger down-channel is outlined in purple. On Friday, prices hit a parallel to the main channel line drawn across the secondary peak and started to back off.

One more thing not mentioned earlier, is that Friday's move also stopped on the mid-channel line of the green channel which outlines the move since the 1249.05 low.

Let's move on to the projections. 1319 was a phase count across the base which was formed at the 1268 level. By scrutinizing the P&F chart over the week-end, I found two other confirming counts to 1319. This count is reinforced by some Fibonacci relationships between wave "a", "b" and "c" which are not exact, but perhaps close enough to be relevant.

My knowledge of the EW theory is rudimentary, and perhaps what I am about to suggest is going to make Elliott shudder in his grave, but we could be forming a flat formation which needs one more wave down for completion. (Also, wave "a" does not look impulsive to me, and making an impulse wave out of the current uptrend may be incorrect labeling.)



Now let's look at the indicators, starting with the bottom one. There is massive negative divergence between that indicator and the price action of wave "c" from the low. This type of divergence reflects strong relative weakness of breadth to price. The other indicators, by having broken their coincident uptrend lines are warning that the SPX could go below its lower green channel line.

My "early bird" indicator and the MSO (above it) have already given preliminary sell signals. The A/D indicator, at the bottom, is about to do the same. When that indicator turns down, it usually means that a correction is starting, and it does not turn back up immediately. If we open down on Monday, it will give a sell signal, suggesting that we will have made at least a minor top – which could grow into something more significant.

On the price chart, I have drawn the green channel of the current up-trend and a potential red channel which rises at a lesser angle. The top line of the red channel and the bottom line of the green one are forming a wedge pattern. If the SPX breaks its green trend line, it will then give priority to the red channel with the possibility of retracing its entire width, and perhaps even go lower.

Note that Friday's move stopped at the top of the red channel which has now been touched 3 times by the price action (small red asterisks). I have drawn the median of that red channel which also connects 3 lows (green asterisks). This kind of price action gives the red channel validity.

I am not concerned about the SPX making a new low, but I think that there is a good possibility that we could see some additional consolidation before moving higher.

## Projections

The Point & Figure distribution pattern which was formed at the recent top can be interpreted in several ways. The first logical consideration was the phase which gave a projection down to about 1340. It looks like this was the SPX's primary concern, because it stopped its decline just shy of that level and has rallied strongly.

The bottoming process of the decline has formed a base which has the potential of eventually taking the current rally to about 1365, confirming what previous counts have been projecting. For this reason, I believe that the decline has found a low at 1249 and that we are in the process of re-establishing an uptrend. That does not mean that the move will be straight up. I think that, for the reasons stated above, we are at an inflexion point in the uptrend which could cause a retracement before moving higher.

There is no valid way to establish a downside P&F count at this time, but a pattern may form in the near future which will provide this opportunity. Using Fibonacci projections, a retracement of the current rally could range from a (revised) .382 pull-back of 1292 to a .618 level of 1275.

## Cycles

I am not aware of any cycle which could be responsible for the additional consolidation that I am suggesting. Based on cycles alone, it's probably too soon for making an important top.

## Breadth

I have been showing you a three-year span of the NYSE Summation Index (courtesy of *StockCharts.com*). I have narrowed it to a one year span, because I want to demonstrate more clearly how this index has been performing over the near term relative to the SPX.



Bottom line: some meaningful negative divergence to price is beginning to occur, and it may be time to start paying attention to this fact. This time span shows how the July low in the SPX was clearly anticipated by **positive** divergence in the Summation Index. Now we are getting the opposite. The

February high of the index remained below the November high, and the recent low dropped down to the level of its December low. Clearly, some deceleration is taking place in market breadth, which is something to keep in the front of our minds from now on.

## Sentiment

I mentioned at the beginning that the reading of the *SentimenTrader* (below, courtesy of same) was one of my concerns. You can see why! The long-term reading does not worry me, but the short-term reflects what I see in my indicators: that the market is ready for a pull-back of some sort.



## Dollar index

This is a weekly chart of UUP, the dollar ETF. It shows that the index has just broken its low of early 2008. The dollar chart shows that it made a low of 71.50 in 2008, and its recent low was at 75.50. I don't have an explanation for the discrepancy, but it is important to know that today's price does not represent a new low for the dollar.



This index is obviously in a long term consolidation pattern and, if the indicators can be trusted, this may be about to end. What we don't know is whether or not a reversal will evolve in an important uptrend, or just another blip. We should get a clue from the P&F chart when the base has been completed.

From the dollar P&F chart, I can deduce that 75.50 could turn out to be an important low, although touching 75.00 is also a possibility. Time will tell.

## Gold

This is a weekly chart of GLD, the gold ETF.

At first glance, this is a very bullish chart. Upon closer examination, it looks as if the index may be making an important top.

Since last November, a potentially large distribution pattern could be in the process of forming. The warning comes from the indicators, both of which are showing significant negative divergence. The next time the price turns down, so will the indicators, and this will be a sell signal if the index goes on to break its green trend line which is over two years long. The green 34-wk MA runs parallel to the green trend line and has been supporting prices. When it is penetrated, price will probably find support on the brown 89-wk MA, or it may decline all the way to the red 200-wk MA.

When the index has given a sell signal, we can use the P&F chart to get a count and get an idea of the extent of the decline. For now, there is a chance that 141 may be all that is possible on the upside.

Since there tends to be an inverse relationship between gold and the dollar, if the latter is about to rally (as was pointed out above) it would make sense for gold to go in the opposite direction.

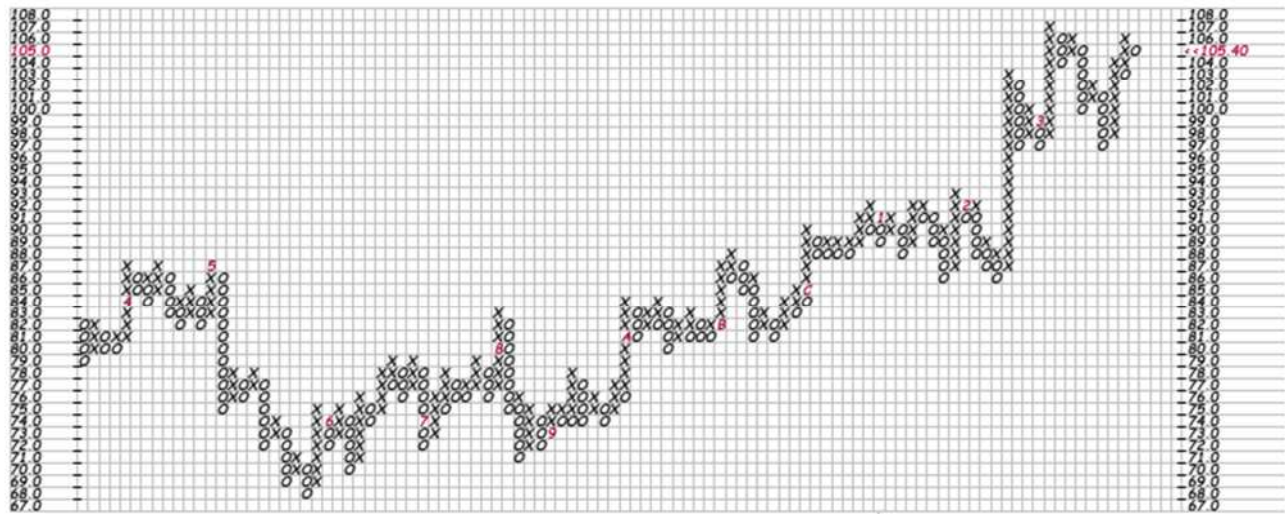


# OIL

From the re-accumulation Point & Figure chart pattern of WTIC we had derived a conservative count to 107-109. This is where the index went before finding sellers which took it down ten points. It has since rallied and may be ready to move higher, or do some additional consolidation first. There is a more liberal count to 115 which could be reached eventually.

**Oil - Light Crude - Continuous Contract (EOD) (\$WTIC) INDX**  
 25-Mar-2011, 16:00 ET, daily, O: 105.46, H: 105.95, L: 104.50, C: 105.40, Chg: -0.20 (-0.19%)  
 No New P&F Pattern  
 User-Defined, 1.0 pts/box 1 box reversal chart

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USO (below) also met with selling when it reached its first projection of 43. Since the price has rallied back to its resistance lines and the indicators are not especially bullish, it may undergo additional consolidation before trying for the 46 projection (which corresponds to 115 in WTIC).



## Summary

I believe that the low of the decline will stand at 1249.05, but I have attempted to show that there is plenty of technical evidence that additional accumulation may be needed before the SPX can make new highs.

Andre

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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.