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Market Turning Points

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INTERMEDIATE TREND STILL STRONG

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

"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

SPX: Very Long-term trend – The very-long-term cycles are down and, if they make their lows when expected, there will be another steep and prolonged decline (which appears to have already started) into 2014.

SPX: Intermediate trend – A very strong uptrend typical of bear market rallies has begun with no top in sight just yet.

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

Market Overview

The pause in the uptrend was much briefer than I had expected and it is possible that we've already completed the A-B portion of the anticipated A-B-C bear market rally.

By overcoming the previous early September high of 1330 (not just once but twice) with a higher close this week, we can assume that the intermediate trend of the SPX is still healthy. The index has also poked its head above its 200-DMA and closed about 5 points above on Friday. There is no sign that we have slowed our upside momentum. In fact we may be starting to accelerate upward once again, though it is just a little too soon to tell.

Another sign of market health is the much improved performance of the weekly breadth indicator.
It had a little difficulty getting off the ground, but is now coming on strong. However, a warning that we could soon get a near-term pull-back comes from my daily A/D indicator which is showing some negative divergence.

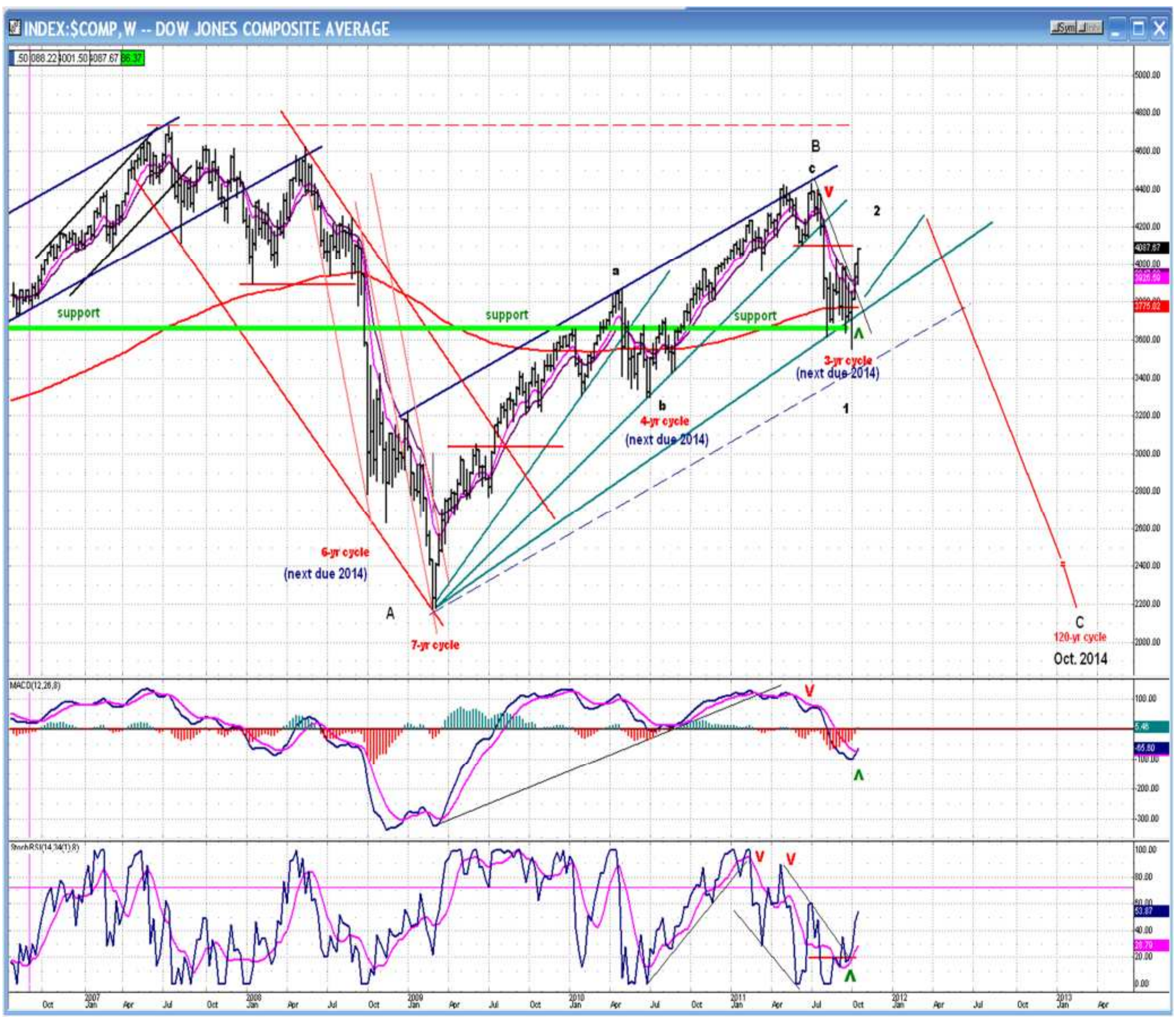
The QQQ, which had been relatively stronger than the SPX throughout the whole correction from the 1371 level has started to lag since Apple's earnings have come out but, It probably does not mean anything just now.

The leading indicator is lagging on a weekly basis, but is keeping up with the SPX on a daily and hourly basis suggesting that a serious reversal is not yet in sight. This is also reflected in the weekly chart indicators, as we will see later on.

Another index worth noting is the Global Dow (GDOW). At the top, you can hardly tell the difference between the chart patterns made by that index and the SPX, but if you look closely, you will see that it had some relative deceleration starting with the May 2010 high. Its relative weakness becomes far more flagrant when you compare the October lows. While the SPX remained well above its July 2010 low, (and is consequently still in a longer-term higher/high, higher/low pattern), the GDOW broke below its July 2010 low, and is thus no longer in a long-term uptrend. This would tend to substantiate the fact that -- the current market strength not withstanding -- we have started a bear market decline.

Chart analysis

We'll take a quick look at the **Weekly Chart**. For that, I have chosen the DJIA Composite. It will not only serve our current purpose, but remind us of the long-term market cyclic structure as well. Note the notation "next due in 2014" under all the shorter components of the 120-yr cycle.



This chart gives us a good perspective of the intermediate market trends. You can tell that we have started one because the price has broken its downtrend line, and the MSO has started a strong uptrend. Also, the MACD is crossing over, a confirmation for the MSO. There is no sign that we are nearing the top of the move. The index is reaching a resistance level which should cause it to pause, but it is probable that it will penetrate it further before finding a top. It may even make a new high, something which is also possible for the QQQ.

On the **Daily Chart**, we can see how obvious the positive divergence was at the low of the move -- in all the indicators. Since the decline was caused by the bottoming of a 3-yr cycle, we might expect that a good rally should ensue. That's exactly what is happening. In three weeks, the SPX has risen 163 points, and does not show any sign of weakening judging by the MACD and by the MSO which returned to 100% on Friday. This is the reason why we should not expect an immediate reversal of the trend, even though it is most likely a bear market rally. A fly in the ointment is the A/D indicator. It is now sporting some distinct negative divergence, which may be an indication that a short-term correction is coming.

That would not be surprising, considering all the overhead resistance that the index is encountering at this level, including its 200-DMA. It is true that it closed above it on Friday, but it often takes more than one try to get through it decisively, especially after such a prolonged move. There is also a P&F count to about 1242-45 which coincides with the resistance.

We'll discuss the potential structure when we analyze the **Hourly Chart**, (next).

Let's start by "counting the waves"! At first glance, it looks like a straight 1-2-3-4-5, followed by a-b-c, and up we go again. That means that after completing the "A" wave, we would have had a very short "B" wave. This would be more consistent with a bull market move than a bear market rally (do you suppose …? Nah! Not a chance). The negative divergence in the daily A/D may be suggesting an alternate pattern. That, or a deep-retrace wave 2 of the next uptrend.

I have marked some P&F projections on the chart. The higher ones are drawn from some potential counts in the base formation. If and when the SPX gets up to those levels, we might start looking for an end to the bear market rally. We'll probably get some confirmation from a short-term consolidation pattern that forms near the top.

The lower ones are drawn from the little reverse H&S pattern which formed on Thursday and Friday. Since there are several valid points from which the count can be taken, there is a definite "about" which accompanies these projections. I will alert my subscribers when I get indications that a near-term top is forming. With everything closing in an uptrend on Friday, there could be a little carry over to about 1243 before we start correcting.

I don't know how the rally will continue to unfold from here, but I do know that if we break 1191, we might get a deeper "B" wave, or the end of the rally altogether. I don't see any sign that this is about to happen, but a failure of the Brussels meeting to come up with a specific solution to the Eurozone problem they are addressing could certainly pose a challenge to the market.

Cycles

Because of the two spikes down, one on the 18th and the other on the 20th, it was difficult to judge which of these two was the low of the 17-wk cycle. But either one will do, and the spikes followed by a rally, confirm its bottoming on time. This cycle, now being in an uptrend, is most likely adding its upward pressure to that of the 3-yr cycle.

The next cycle that I follow is the 13-wk cycle, and its low is scheduled for the second or third week in November. It's impact on the market will depend on the formation – especially on the P&F chart – that is made by price activity.

Breadth

The NYSE Summation Index (courtesy of *StockCharts.com)* is now in a good uptrend. In the past week, it even went positive. This is a good sign for the bulls and it is not showing any intention of topping. It is, however, approaching its 200-DMA which could cause at least some temporary resistance. That would correspond with the resistance offered by the 200-DMA of the SPX.

Sentiment

I have not totally discarded the *SentimenTrader* (above, courtesy of same). As I mentioned before, its primary value is when the long-term indicator approaches an extreme reading. It is not there yet, but we are finally seeing some movement in the direction of "Extreme Optimism". When it gets within a

1/4" from the bottom, it will be time to seriously consider that the bear market rally is over, especially if we have also reached the stated P&F projection.

NDX:SPX

The updated chart of this index shows how much the QQQ has weakened in relationship to the SPX. We are finally getting the condition which normally exists at the top of a bull market, except that this time, it will signal the end of the bear market rally instead of the market top.

The Dollar

The above is a daily chart of UUP, the dollar ETF. After an extended decline and a four-month period of base building, UUP finally broke out of its downtrend, even (temporarily) overcoming its 200-DMA. However, the move could not even retrace .382 of the previous decline before turning down again.

This means one of two things: either the index is getting ready to extend its downtrend and break to a new low (which is unlikely), or it needs to do more base-building activity which will result in expanding the current base. It will turn up and start an uptrend as soon as the market has reached the top of its bear market rally and is ready to continue its decline. In the meantime, its pull-back is supporting the price of gold which looks as if it is at the beginning of an important correction.

Summary

The anticipated correction of the SPX after the first wave of the bear market rally was far shorter than expected. From a structural standpoint, it looks as if the "B" wave of the rally only consisted of a 3-day, 34-point correction.

Last Thursday, the index started another move which has already tacked on 41-points, and looks as if it is off to the races again. If that's the case, there should be some follow-through over the next week or so, during which the SPX could reach as high as 1256, and perhaps even higher.

This scenario would require that the negative divergence which has materialized in the daily A/D oscillator be nullified. If it is not, another pattern is forming which will take the next few days to clarify.

Andre

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.