

December 25, 2011

Market Turning Points

By Andre Gratian

TIME FOR A PAUSE

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 into 2014.

SPX: Intermediate trend – The current action suggests that a wave "C" from 1075 is underway and, after a short consolidation, has resumed its uptrend.

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

In the last newsletter, I looked for a resumption of the rally and, once again, the market obliged! After a final dip to 1203 last Monday (my projection for a low on the SPX was 1200-1205), the index took off and closed the week at the high of the move, rallying 62 points!

My Point & Figure analysis had indicated an initial pause at 1251, but when it became obvious that the index wanted to go higher, 1263-1265 came into play. Since the SPX closed at 1265 on Friday, we have to assume that the move is probably done, although the momentum may cause it to spill over into some weak count up to 1270. This will be determined when the market resumes trading.

What normally follows the realization of a projection, is a wave of profit-taking which causes temporary supply and a pullback in prices. I expect a near-term peak to be reached, perhaps as early as Tuesday. Correction from that level should be short-lived, but could last a few days. If I tried to forecast a retracement level at this time, I would be guessing. I will not be able to give a correct estimate until the move has been completed.

Of all the indices, the DJIA has had the strongest rally. It overcome its October 28 close by thirty points and its December close by nearly a hundred points. This may encourage some additional buying after the holiday. If so, the SPX would follow suit and rise above its December intra-day high of 1267. This is why we need to wait until Tuesday to put a price on the rally top.

Last week's market action is bullish in itself, but possibly even more bullish is that, by overcoming its October and December tops, the DJIA is giving some credibility to the potential inverse Head & Shoulders pattern which formed over that time frame. (We'll analyze this and other technical factors next, in the **Daily Chart** of the DJIA.) My projection for the entire rally from 1075 is at least 1293. If this turns out to be the top of minor wave 2, as is expected by many EW analysts, it should be followed by a serious decline. If it is not, the appraisal of the longer-term structure will have to be revised.

Chart analysis

We'll start by focusing on two important channels which will be vital in determining the sustainability of the DJIA uptrend.

First, is the green channel, which delineates the trend from March 2009. In the decline from the April high, the index briefly violated the bottom line of that channel, but subsequently had a good rally which took it up to the channel median. After pulling back from that level, the DJIA collected itself and is now attempting another move beyond the median resistance. At best, the entire pattern from the low remains neutral until it can do this successfully.



There is another (red) intermediate channel which will be even more important in determining the fate of the DJIA over both the short and longer terms. The most bullish interpretation of that channel is that it represents a prolonged sideways consolidation of the index after its run from March 2009 to May 2011. And the price action within that channel is bullish. After breaking below the median in August, and consolidating for several weeks, the Industrials came roaring back substantially above it, and has maintained its position in the upper half of the channel.

Last Friday, the index closed at its highest level since the October low, and looks as if it intends to challenge both the top of the red channel, and the median of the green channel. Should it be successful at punching through both of these trend lines, it would be a very bullish development.

Because it is currently overbought near-term and because a top is likely to form next week, its chances of accomplishing this feat right away are small but, if the ensuing correction is not severe, it will have another chance to do it early in the new year.

Turning to the indicators: there is plenty of momentum showing in the MSO, but the MACD is lagging and showing some negative divergence. If it has not made a new high by the time that the MSO is ready to give a sell signal, an intermediate top will probably have formed.

The market is at an important juncture, and its short-term performance could alter the negative verdict that many analysts have already rendered.

We'll now look at the **SPX 60m Chart**. Since the 1203 bottom, the index has been in a powerful short-term move which, as of Friday, still did not show any deceleration in the price momentum. But the A/D indicator, which has not kept up with the price, is telling a different story. Divergence in the A/D combined with an overbought momentum index will have a limited upward life span, especially since the lower projection has already been met.



The SPX formed a nice basing pattern just before it ended its decline and, on Friday, the minimum 1265 target projected from the base was reached. The index could still try to go to the upper range of that projection and get nearer to 1270 early next week, but the entire base count of 1292 is not likely to be met until sometime in mid-January.

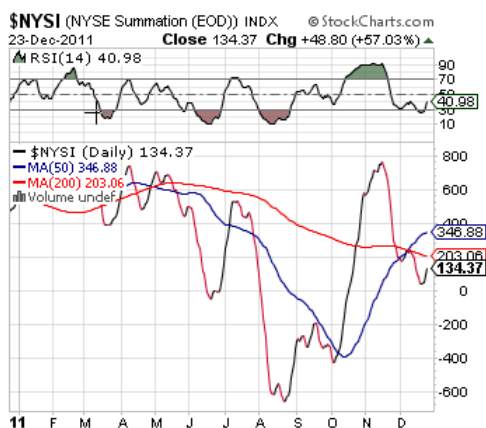
I have drawn channels which encompass the price progression. They may require some fine-tuning as we go forward, but it's unlikely that the lower channel line will be challenged until after 1294 has been reached.

Cycles

There are minor cycles bottoming in January, but the one which could keep the correction going after the 1294 count is filled is the 14-15-wk cycle due at the beginning of March.

Breadth

The Summation Index (courtesy StockCharts.com) has turned up for a second time before going negative -- as well as its RSI. It's likely that it will not challenge the former index high of about 780, but there could be enough upside momentum to drive the RSI into overbought territory.



Sentiment

The *SentimenTrader* (courtesy of same) has changed little from the last long-term reading, but there was a substantial drop in the short-term index, suggesting that a near-term top is probably at hand.



The VIX

This is a **Weekly Chart** of the VIX. It is making a pattern that can only be interpreted as intermediate term bullish for the stock market. The price pattern that it is currently making is very similar to the two earlier ones, both of which signaled the beginning of an intermediate correction.

The current intermediate sell signal is confirmed by the MACD which is not only accelerating on the downside, but is also about to go negative and breaks its long-term uptrend line.

Assuming that nothing changes in the current trend, the bottom oscillator may give us a clue about the time required for the VIX to get back into an uptrend. For the first down-phase, it took about a year for the MSO to show some positive divergence from the time that it first became oversold (green area). The second time took about nine months.

The MSO became oversold once again a week ago. It is not unreasonable to assume that in this third phase, it will take the indicator about six months to get back into a buy position. That would mean that the current bullish trend of the stock market could continue until about June, 2012.

When I first took a P&F count of the VIX, I took the most conservative one and came up with a projection down to 21. This was filled last week. However, considering that there is still no sign of impending recovery in the indicators, it is likely that it will go lower. There are two more counts that are valid: one down to 18, and one to 12. Since the index has a solid base at 15, the third count looks excessive. But, considering the current chart pattern, 18 looks very reasonable and, when reached, could be followed by a long basing period as it has done in the past.



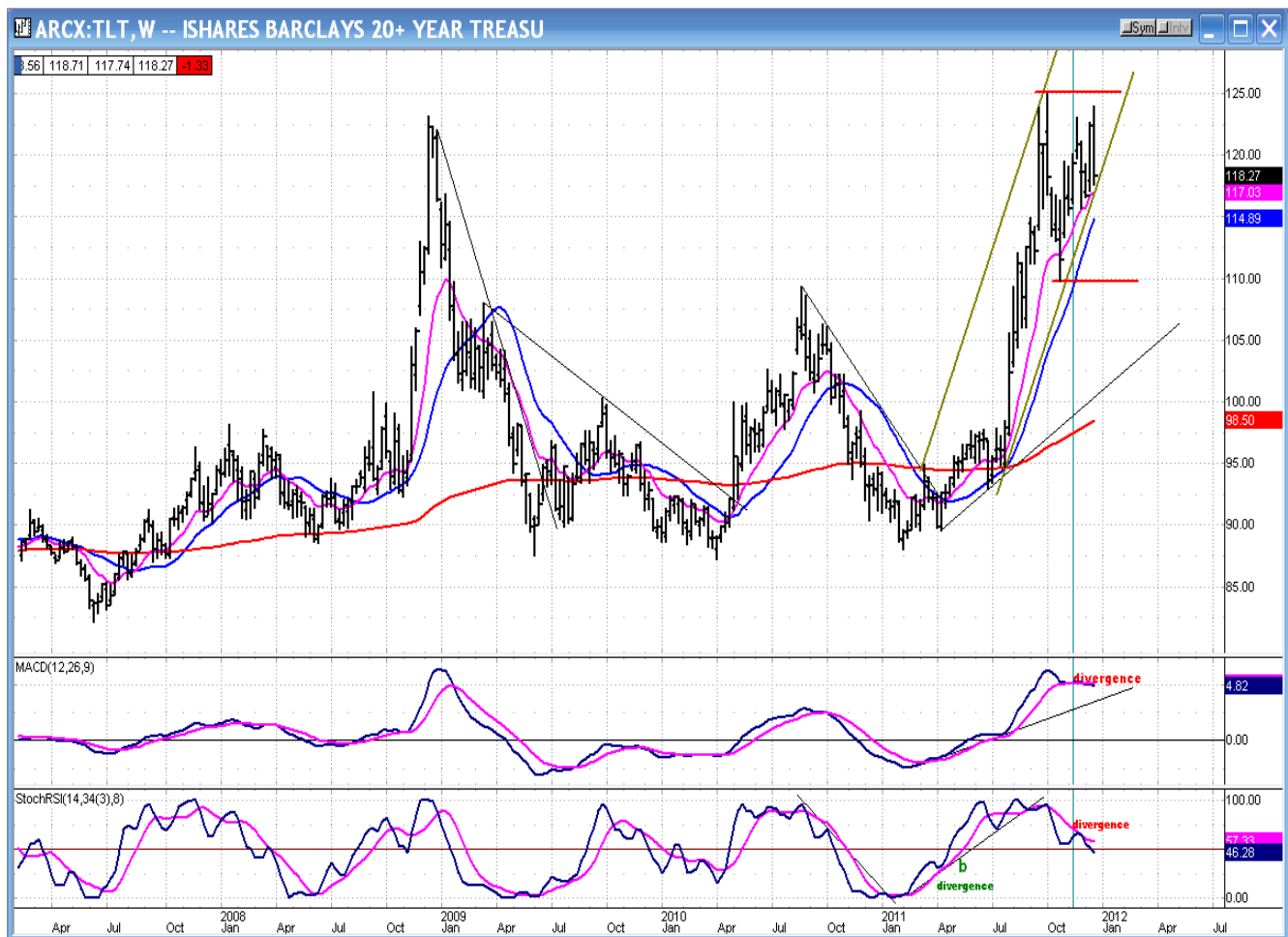
BONDS (TLT)

The assumption that the VIX has given an intermediate sell signal -- which suggests that the bullish trend of the market could continue for about another six months -- would have more validity if it were confirmed by other indices.

The next chart is a **Weekly Chart** of TLT which is reproduced on the same time scale as the VIX above. There is no question that TLT is much stronger than the VIX, but its entire chart pattern has a strong similarity to that of the VIX. If the move which started in July 2011 (at the same time as the final uptrend of the VIX) is over, and TLT were about to give a sell signal, the similarity of patterns would continue as TLT starts an intermediate correction.

In fact, this correction has probably already begun! Both indicators say so, starting with negative divergence in the indicators before they turned down. The MSO always precedes the MACD, so we can assume the latter is also ready to start a downtrend. As for the price pattern, it looks as if TLT has just tested its recent high successfully, and is beginning to roll over. The MAs have not yet given a sell signal, and the price is still trading within the up-channel, but it's probably only a matter of time before it moves out of it.

Should this happen, and should TLT begin an intermediate correction in tandem with VIX, we would have the confirmation that we need to suggest a continuation of the bullish advance in the stock market.



UUP (Dollar ETF)

Two of the three contrary indicators are possibly suggesting that the market will see more strength

before it makes a top. What about the third indicator, the dollar? Below is a **Weekly Chart** of UUP. Once again, the peaks and troughs come at approximately the same time (in an inverse manner to the equity indices), which makes this chart similar to -- if not exactly with -- the other two.

In order to confirm the VIX pattern, UUP would now have to roll over in preparation to forming a base for the next few months. Is this possible?

Certainly possible! The index is in a long-term downtrend channel and recently bounced off the lower trend line. It has gone as far as the (dashed) median where it is apparently running into resistance. Note that the second short-term peak stopped at the intersection of the median and a smaller down-channel which has formed within the larger one. The weekly MSO became overbought, corrected, and is now beginning to show divergence. The MACD is still in an uptrend.

In order for UUP to confirm what the other two appear to be saying, it will have to stop its advance and begin to roll over. If the MSO drops below the small horizontal red line and breaks its uptrend line, it will give a sell signal. If it does and TLT declines further, both indices will be in sync with the VIX. Let's see if this happens!



Summary

The SPX, as anticipated, has resumed its uptrend and, presumably, what is currently acknowledged to be wave "C" of minor 2. Although a near-term top should be reached in the next couple of days, the eventual target for this move is about 1294.

The type of correction which takes place after 1294 is reached will be very important. If the VIX pattern has been interpreted correctly, and if it is eventually substantiated by the other two contrary indicators, 1294 will only turn out to be a temporary stop on the way to higher prices, and this may

force us to re-evaluate the validity of the theorized A-B-C corrective pattern.

Andre

FREE TRIAL SUBSCRIPTION

If **precision in market timing for all time frames** is something that you find important, you should consider taking a trial subscription to my service. It is free, and you will have four weeks to evaluate its worth. It embodies many years of research with the eventual goal of understanding as perfectly as possible how the market functions. I believe that I have achieved this goal.

I can't resist sharing these two subscriber emails that I received recently:

"Hi Andre. I just wanted to thank you for providing the "best" quality service I have ever experienced. I have experienced them all and yours is a "10". You are a great inspiration."

"Dear Andre,

I wanted to let you know that I think your service is excellent and want to keep my subscription going. However, I am not sure of its status. Do I owe you any money - if so how much? I don't want to let it lapse."

For 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.marketturningpoints.com. It contains summaries of my background, my investment and trading strategies, and my unique method of intra-day communication with subscribers. I have also started an archive of former newsletters so that you can not only evaluate past performance, but also be aware of the increasing accuracy of forecasts.

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.