

EWP on the S&P 500 index 2 February 2003

Very little has changed for the Elliott position of last week. The price action has dropped below the HEAD & SHOULDERS and is consolidating below the neckline with one retest of the neckline so far. This pattern is similar to the larger HEAD & SHOULDERS that is on the weekly chart. There the retest occurred twice.

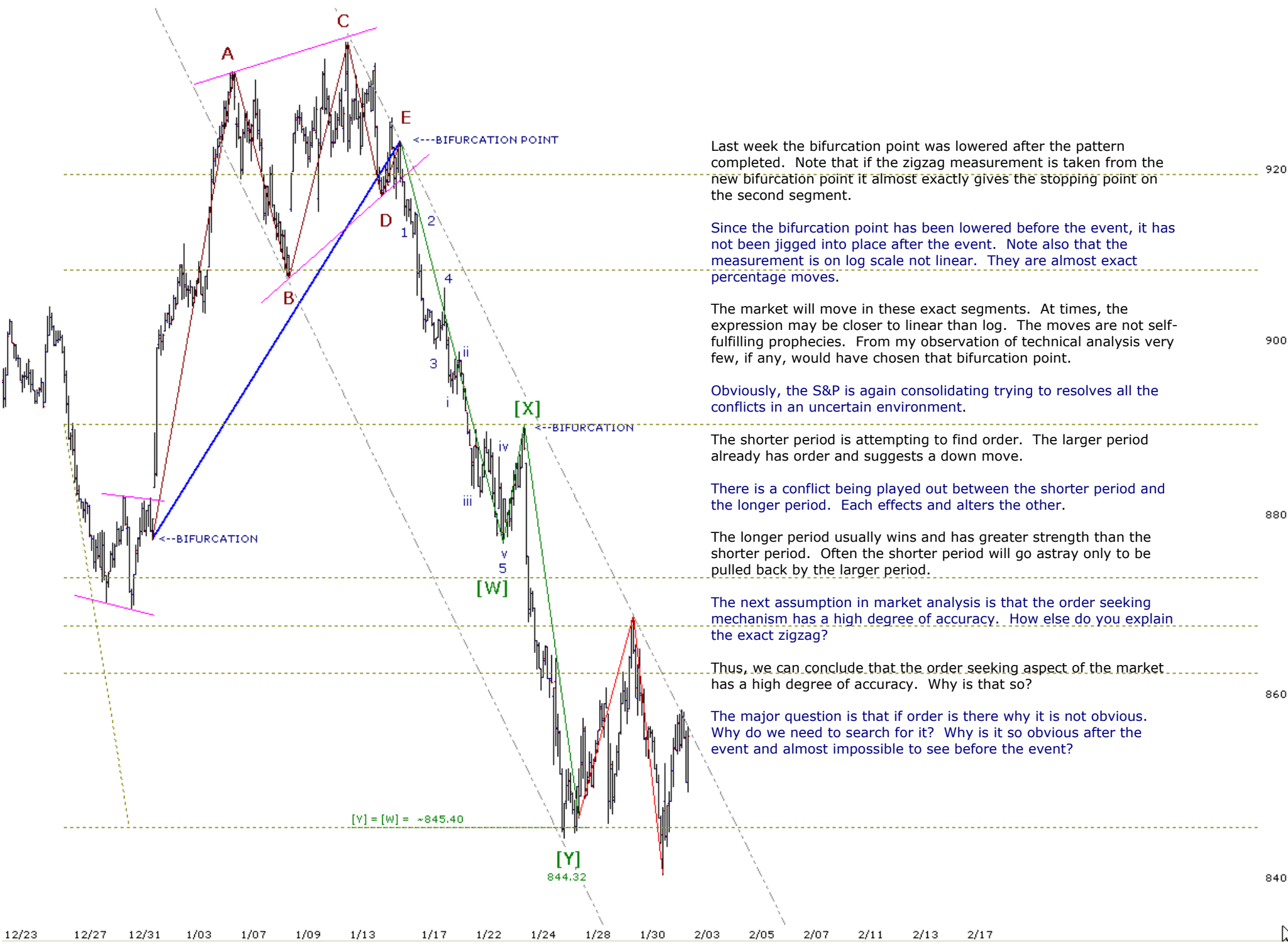
The neckline is now the control and breaking above the neckline will be short term positive. Breaking below this pattern would be bearish particularly so if the breaking move is of a high momentum. It would signify that the bifurcation point is in place and the next move has started. From the larger weekly pattern, a downside break is expected.

The S&P has come down in two exact segments. Thus, it is a zigzag or waves one and two, which are of equal length. If it is an impulse wave, we can expect the fifth wave to extend. In that case, the extended fifth should equal waves one and three combined. If that is so, the level will be very close to the October low. At the October low, one would expect some sort of consolidation before proceeding further. It should be a larger consolidation than the present one occurring now. Again, the way price-action approaches toys with the October low will determine and confirm what is to follow.

From the discussions, so far we can draw a fundamental view of market behavior on which analysis can be based as follows.

"A free market seeks to place 'ORDER" on an environment that is constantly changing and altering. It is thus both random and not random in its behavior. The order is perpetually destroyed and reordered again in repeating cycles."

This assumption is open to discussion. There are many aspects of market analysis that flow from this. For example, why does the market express itself in phi/PHI relationships of the additive series of which the Fibonacci series is the most commonly used. Why is this all so!



Last week the bifurcation point was lowered after the pattern completed. Note that if the zigzag measurement is taken from the new bifurcation point it almost exactly gives the stopping point on the second segment.

Since the bifurcation point has been lowered before the event, it has not been jiggled into place after the event. Note also that the measurement is on log scale not linear. They are almost exact percentage moves.

The market will move in these exact segments. At times, the expression may be closer to linear than log. The moves are not self-fulfilling prophecies. From my observation of technical analysis very few, if any, would have chosen that bifurcation point.

Obviously, the S&P is again consolidating trying to resolve all the conflicts in an uncertain environment.

The shorter period is attempting to find order. The larger period already has order and suggests a down move.

There is a conflict being played out between the shorter period and the longer period. Each effects and alters the other.

The longer period usually wins and has greater strength than the shorter period. Often the shorter period will go astray only to be pulled back by the larger period.

The next assumption in market analysis is that the order seeking mechanism has a high degree of accuracy. How else do you explain the exact zigzag?

Thus, we can conclude that the order seeking aspect of the market has a high degree of accuracy. Why is that so?

The major question is that if order is there why it is not obvious. Why do we need to search for it? Why is it so obvious after the event and almost impossible to see before the event?

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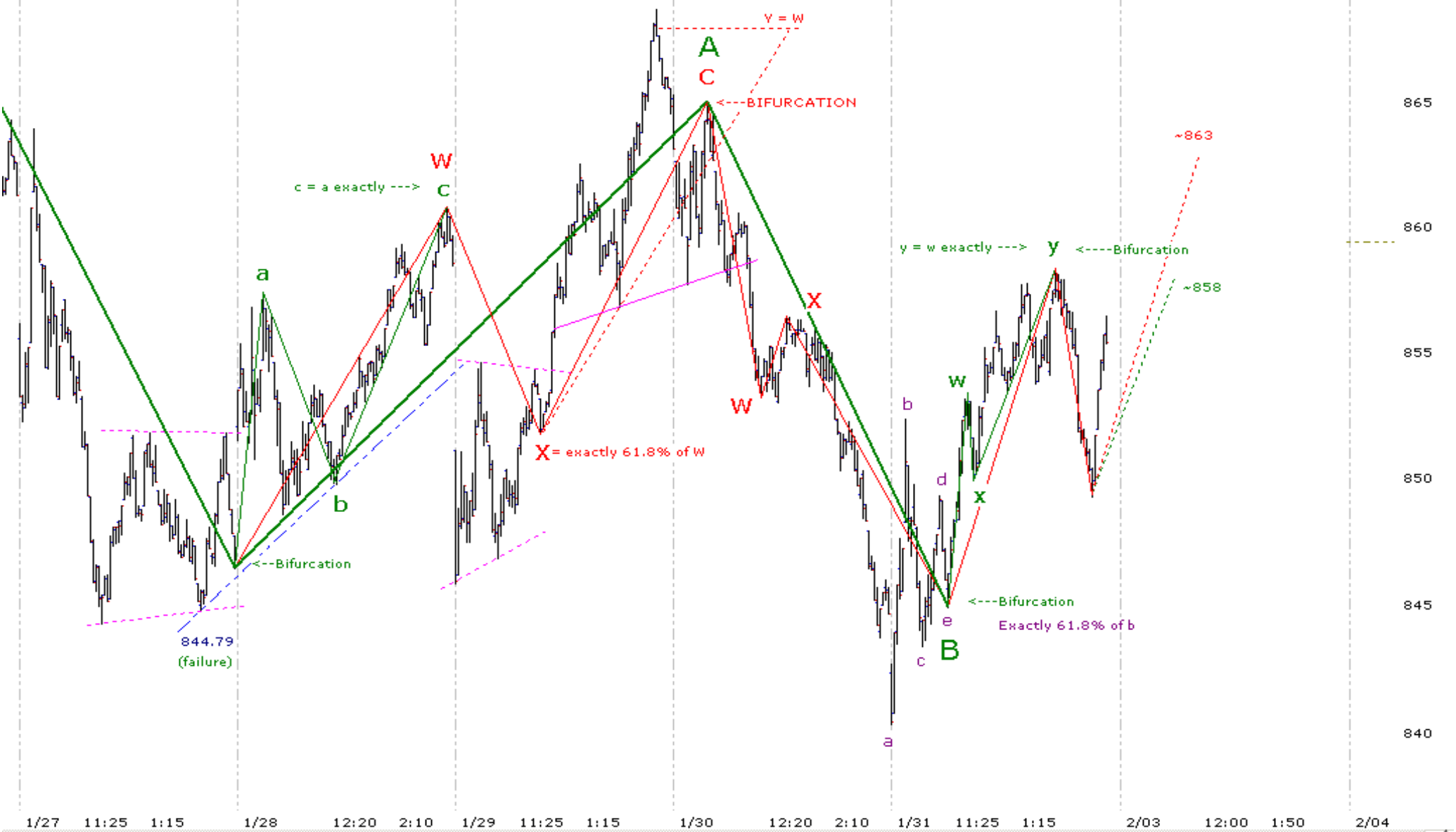
12/23 12/27 12/31 1/03 1/07 1/09 1/13 1/17 1/22 1/24 1/28 1/30 2/03 2/05 2/07 2/11 2/13 2/17



This is an attempt to resolve the consolidation pattern. As stated by Edwards and Magee, trader should not trade in a consolidation. (He was referring to a triangle consolidation but it holds true for any consolidation. However, we do have a ruling larger time frame that is negative and suggests that the pattern will resolve into a down move.

As can be seen there are many bifurcation points and precise moves in the pattern below. A good knowledge will open many trades for day traders. For a longer term, trade we would be looking for the pattern resolution. It will be in three, five or eight swings. If it is a bottom, it will be a five-swing reversal (five-point reversal). The larger time frame ruling of bearishness suggests that the present upswing is the third and a possible bifurcation point for the pattern.

The last swing is an exact zigzag. It either is forming a larger double zigzag to ~ 863 or is completing at the present level. It may top near ~858 with a 5-swing reversal. When the position is there, we will have a fair idea that it is the bifurcation for the next down move or that some alternative view is required.



Conclusions

1. The S&P is in consolidation. It is uncertain as to the break direction in the shortest time. However, the larger controlling time frames remain bearish thus the expectation is that it will resolve itself into the negative.
2. I have posed a number of technical analysis issues. I welcome any discussion on the matter.
3. If the S&P resolves into the negative, the next expected move is the test of October lows.
4. The weekly time frames also suggests that the consolidation that will occur around the October lows will most likely also resolve itself into an even larger down move. However, we need to wait first for the break out of the present consolidation and then if it is to the negative examine how the S&P approaches the October lows.
5. The present down move being a TERMINAL BREAK suggests that the October lows will be reached. This is textbook prediction and can be obtained by just reading G. Nelly's Mastering Elliott Wave on what is expected after a TERMINAL. Obviously, if the TERMINAL is correct, the down move needs high momentum. Neely states the TERMINAL negative target should be reached in half of the time the TERMINAL took to form. This if there is any slowing down it would negate the TERMINAL and the assumptions. In addition, one would not expect a retracement of the down move greater than 61.8%.

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