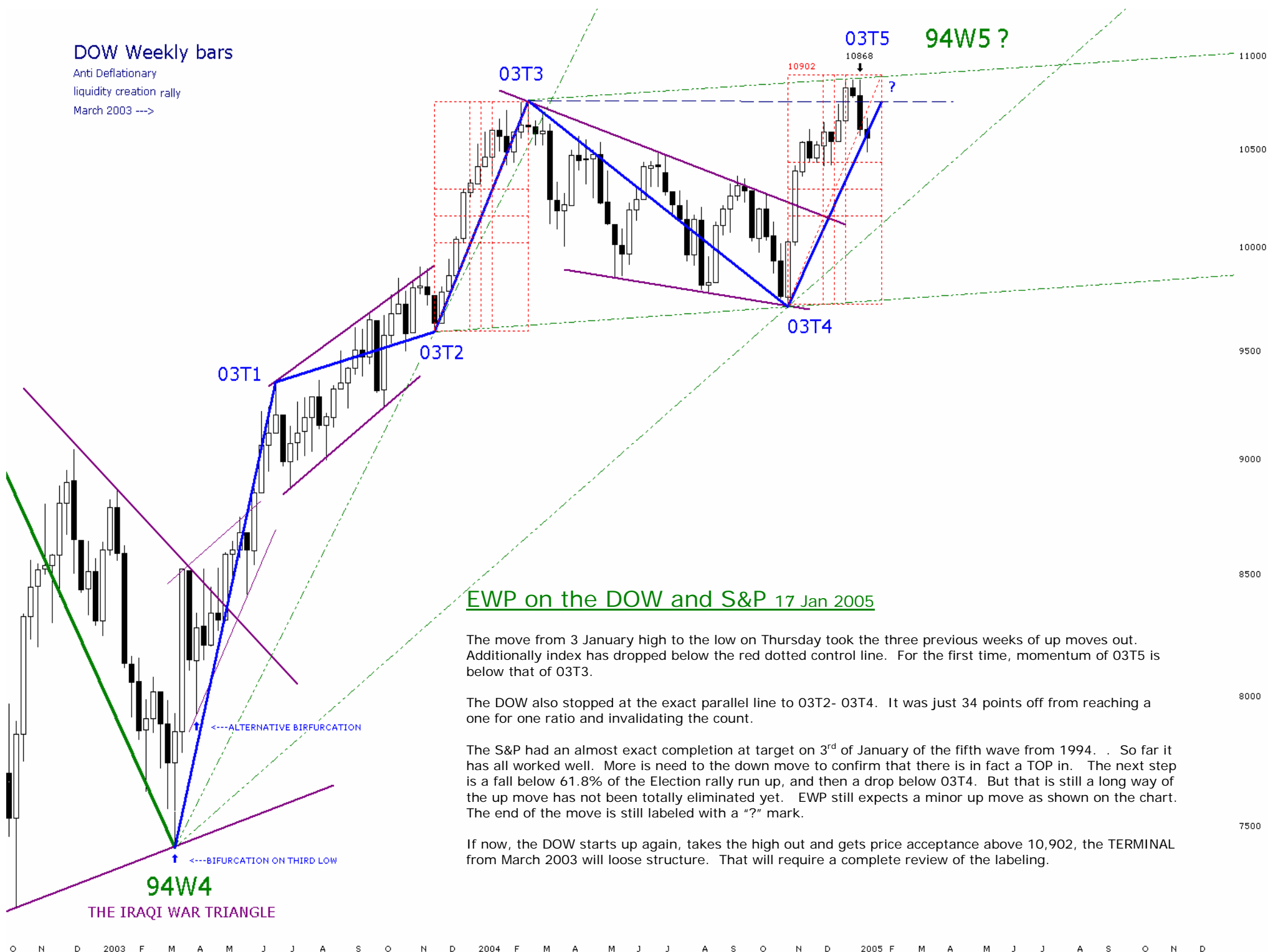


# DOW Weekly bars

Anti Deflationary  
liquidity creation rally  
March 2003 --->



## EWP on the DOW and S&P 17 Jan 2005

The move from 3 January high to the low on Thursday took the three previous weeks of up moves out. Additionally index has dropped below the red dotted control line. For the first time, momentum of 03T5 is below that of 03T3.

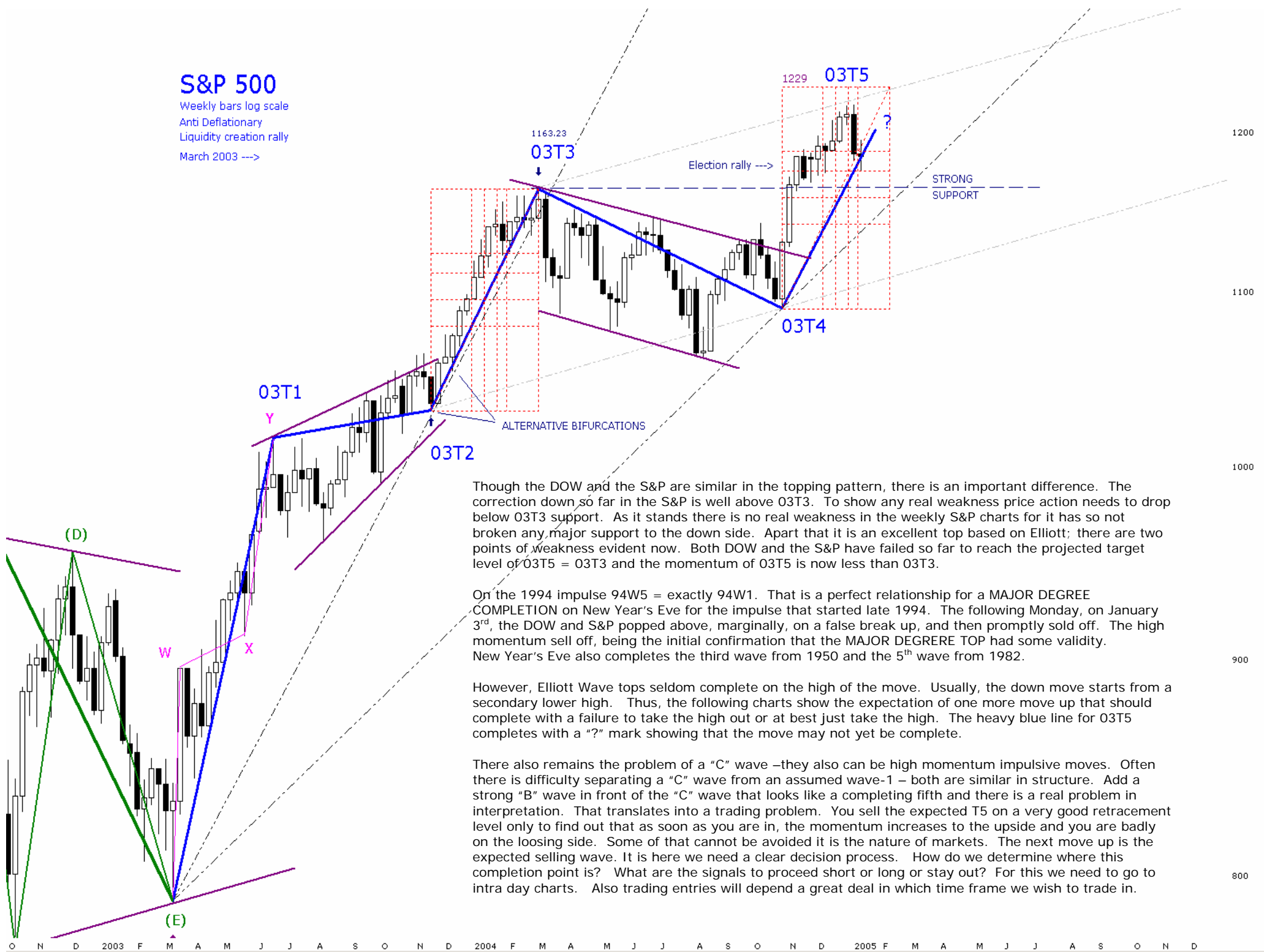
The DOW also stopped at the exact parallel line to 03T2- 03T4. It was just 34 points off from reaching a one for one ratio and invalidating the count.

The S&P had an almost exact completion at target on 3<sup>rd</sup> of January of the fifth wave from 1994. . . So far it has all worked well. More is need to the down move to confirm that there is in fact a TOP in. The next step is a fall below 61.8% of the Election rally run up, and then a drop below 03T4. But that is still a long way of the up move has not been totally eliminated yet. EWP still expects a minor up move as shown on the chart. The end of the move is still labeled with a "?" mark.

If now, the DOW starts up again, takes the high out and gets price acceptance above 10,902, the TERMINAL from March 2003 will loose structure. That will require a complete review of the labeling.

# S&P 500

Weekly bars log scale  
 Anti Deflationary  
 Liquidity creation rally  
 March 2003 ---->



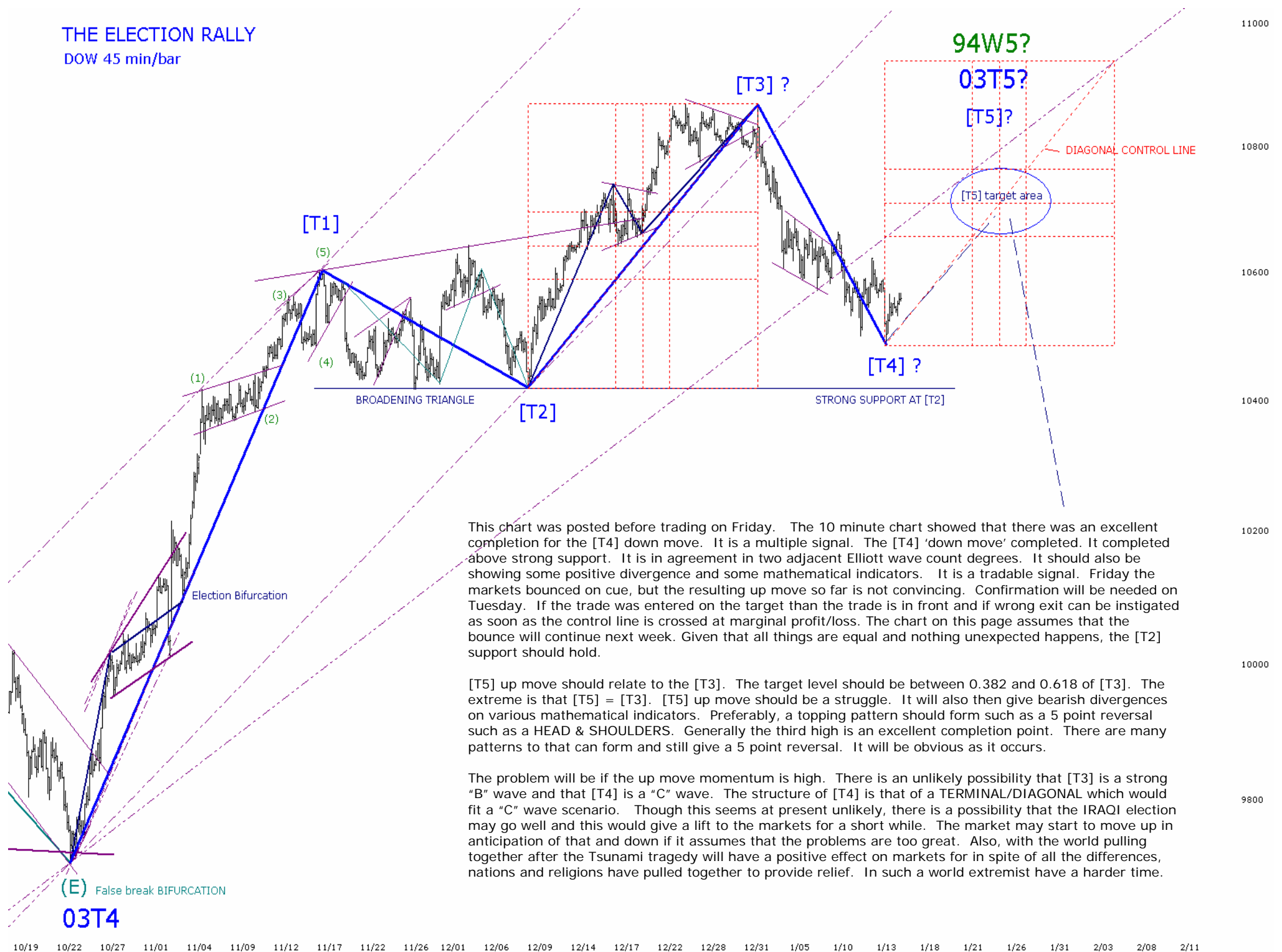
Though the DOW and the S&P are similar in the topping pattern, there is an important difference. The correction down so far in the S&P is well above O3T3. To show any real weakness price action needs to drop below O3T3 support. As it stands there is no real weakness in the weekly S&P charts for it has not broken any major support to the down side. Apart that it is an excellent top based on Elliott; there are two points of weakness evident now. Both DOW and the S&P have failed so far to reach the projected target level of O3T5 = O3T3 and the momentum of O3T5 is now less than O3T3.

On the 1994 impulse 94W5 = exactly 94W1. That is a perfect relationship for a MAJOR DEGREE COMPLETION on New Year's Eve for the impulse that started late 1994. The following Monday, on January 3<sup>rd</sup>, the DOW and S&P popped above, marginally, on a false break up, and then promptly sold off. The high momentum sell off, being the initial confirmation that the MAJOR DEGREE TOP had some validity. New Year's Eve also completes the third wave from 1950 and the 5<sup>th</sup> wave from 1982.

However, Elliott Wave tops seldom complete on the high of the move. Usually, the down move starts from a secondary lower high. Thus, the following charts show the expectation of one more move up that should complete with a failure to take the high out or at best just take the high. The heavy blue line for O3T5 completes with a "?" mark showing that the move may not yet be complete.

There also remains the problem of a "C" wave –they also can be high momentum impulsive moves. Often there is difficulty separating a "C" wave from an assumed wave-1 – both are similar in structure. Add a strong "B" wave in front of the "C" wave that looks like a completing fifth and there is a real problem in interpretation. That translates into a trading problem. You sell the expected T5 on a very good retracement level only to find out that as soon as you are in, the momentum increases to the upside and you are badly on the losing side. Some of that cannot be avoided it is the nature of markets. The next move up is the expected selling wave. It is here we need a clear decision process. How do we determine where this completion point is? What are the signals to proceed short or long or stay out? For this we need to go to intra day charts. Also trading entries will depend a great deal in which time frame we wish to trade in.

THE ELECTION RALLY  
DOW 45 min/bar



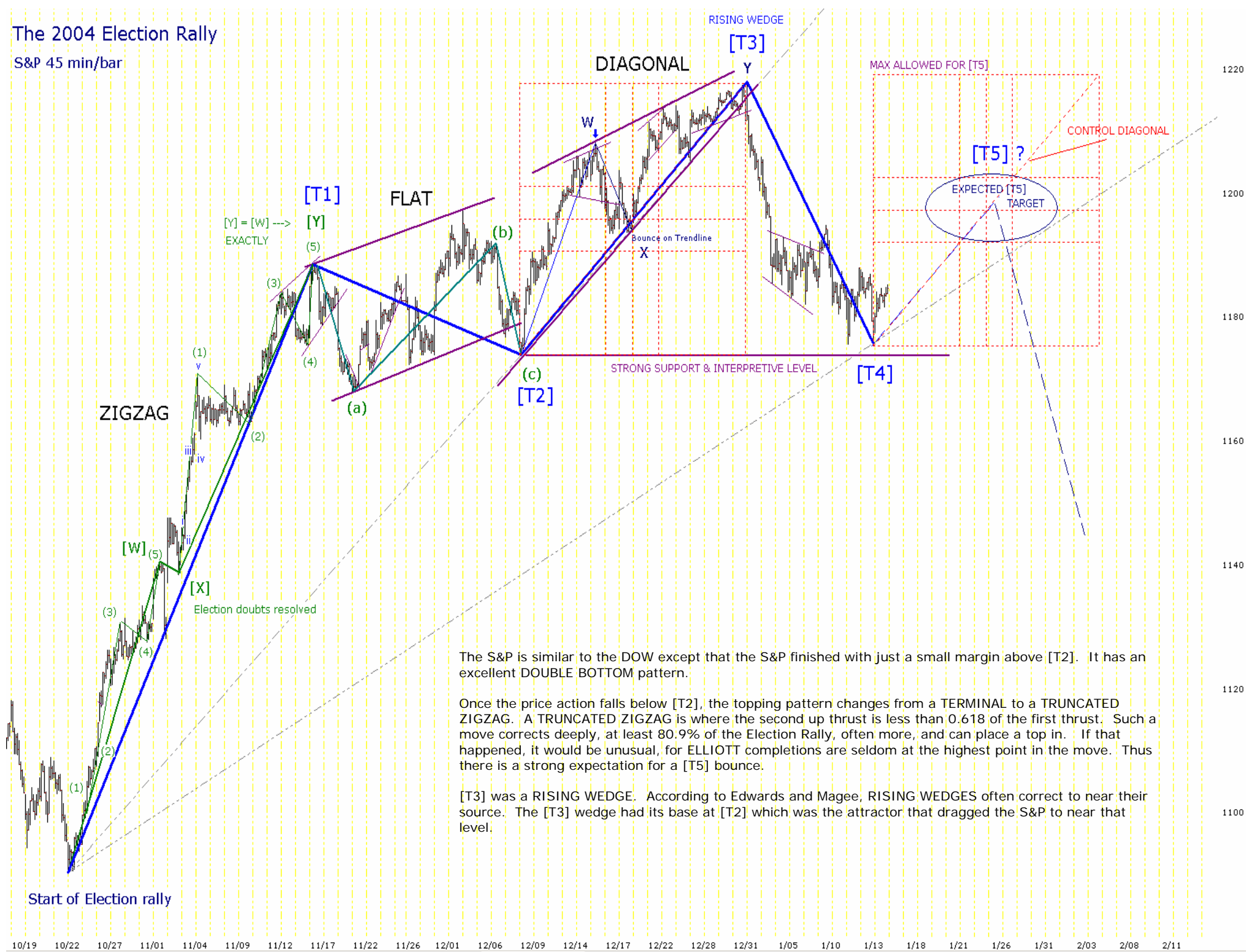
This chart was posted before trading on Friday. The 10 minute chart showed that there was an excellent completion for the [T4] down move. It is a multiple signal. The [T4] 'down move' completed. It completed above strong support. It is in agreement in two adjacent Elliott wave count degrees. It should also be showing some positive divergence and some mathematical indicators. It is a tradable signal. Friday the markets bounced on cue, but the resulting up move so far is not convincing. Confirmation will be needed on Tuesday. If the trade was entered on the target then the trade is in front and if wrong exit can be instigated as soon as the control line is crossed at marginal profit/loss. The chart on this page assumes that the bounce will continue next week. Given that all things are equal and nothing unexpected happens, the [T2] support should hold.

[T5] up move should relate to the [T3]. The target level should be between 0.382 and 0.618 of [T3]. The extreme is that [T5] = [T3]. [T5] up move should be a struggle. It will also then give bearish divergences on various mathematical indicators. Preferably, a topping pattern should form such as a 5 point reversal such as a HEAD & SHOULDERS. Generally the third high is an excellent completion point. There are many patterns to that can form and still give a 5 point reversal. It will be obvious as it occurs.

The problem will be if the up move momentum is high. There is an unlikely possibility that [T3] is a strong "B" wave and that [T4] is a "C" wave. The structure of [T4] is that of a TERMINAL/DIAGONAL which would fit a "C" wave scenario. Though this seems at present unlikely, there is a possibility that the IRAQI election may go well and this would give a lift to the markets for a short while. The market may start to move up in anticipation of that and down if it assumes that the problems are too great. Also, with the world pulling together after the Tsunami tragedy will have a positive effect on markets for in spite of all the differences, nations and religions have pulled together to provide relief. In such a world extremist have a harder time.

# The 2004 Election Rally

S&P 45 min/bar



The S&P is similar to the DOW except that the S&P finished with just a small margin above [T2]. It has an excellent DOUBLE BOTTOM pattern.

Once the price action falls below [T2], the topping pattern changes from a TERMINAL to a TRUNCATED ZIGZAG. A TRUNCATED ZIGZAG is where the second up thrust is less than 0.618 of the first thrust. Such a move corrects deeply, at least 80.9% of the Election Rally, often more, and can place a top in. If that happened, it would be unusual, for ELLIOTT completions are seldom at the highest point in the move. Thus there is a strong expectation for a [T5] bounce.

[T3] was a RISING WEDGE. According to Edwards and Magee, RISING WEDGES often correct to near their source. The [T3] wedge had its base at [T2] which was the attractor that dragged the S&P to near that level.

Start of Election rally





This update does not suggest nor recommend that any trading position to be taken. **This is NOT financial trading advice.** If you trade, and need assistance or advice, it is suggested that you seek qualified financial advice in accordance to the rules and regulations in your country.

Zoran