

S&P 500

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



EWP on the DOW and S&P 30 Jan 2005

Last week report pointed out the strong support at 03T3 at 1163.23 as support. The low last week was 1163.75. There were lower ZIGZAGS but these have not been reached. Though a modified ZIGZAG was spot on target in both the DOW and the S&P.

The problem for the down move is that it has slowed down. A fact already observed last week. The interesting change in long term trading patterns is the increase in false breaks over the last 20 years. False breaks have always been part of the trading scene. Part of that is that is due that false breaks are often near BIFURCATIONS. The market at these positions is in balance. It can easily trip either way. From a TECHNICAL ANALYSIS point of view they are ideal entry positions. From a TACTICAL point of view they are ideal positions to raid those entries. In a way Technical Analysis is an ORDER in the markets expressing it self whereas the TACTICAL approach upsets this ORDER and is thus CHAOTIC.

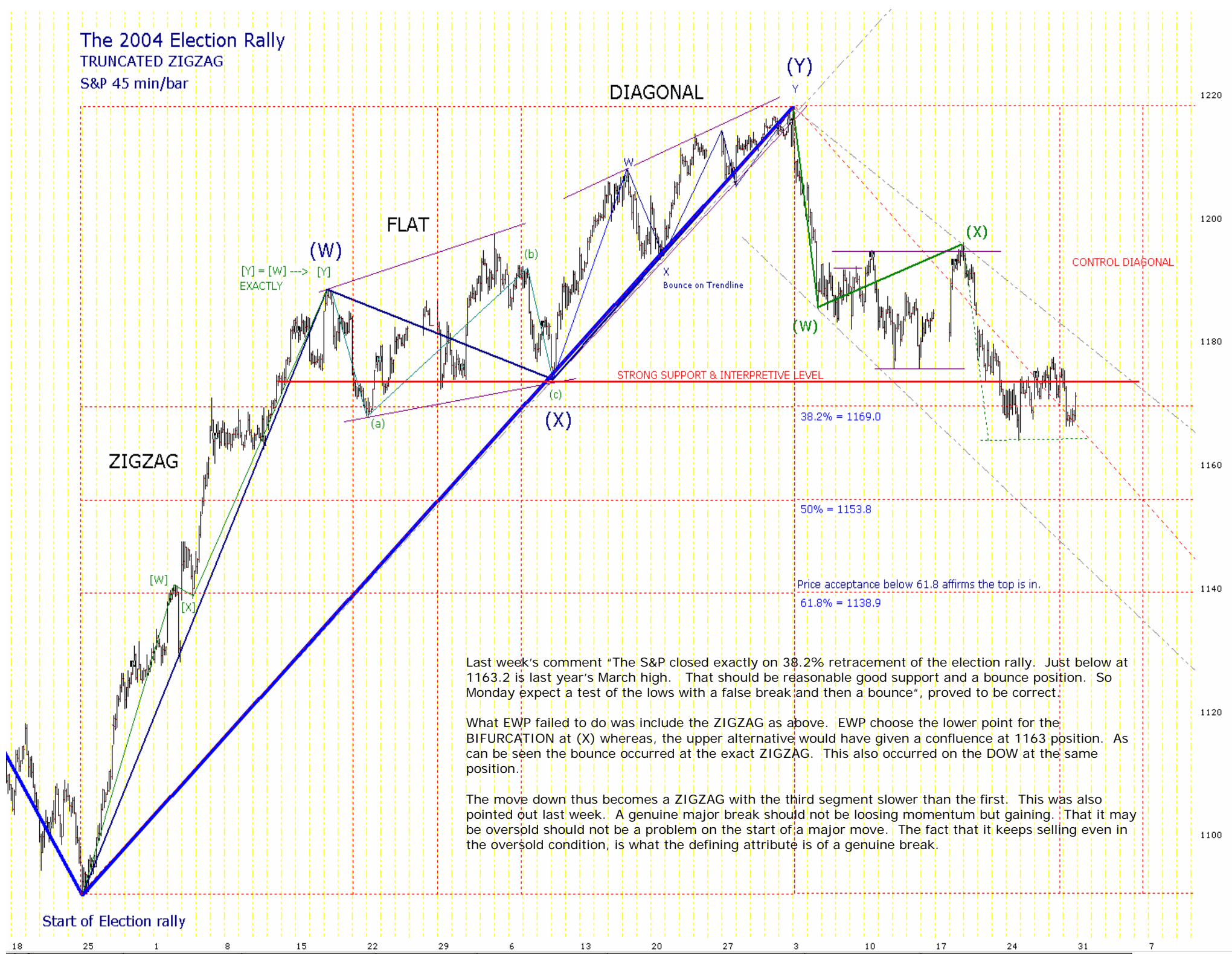
It is generally assumed that the markets such as the DOW and the S&P are too large to be raided and manipulated easily short term. At the very word of manipulation many trading commentators heckles go up. However, something has changed in the markets the last 20 years. I suspect the major change is the use of HEDGING and DERIVATIVES. Both have the effect of stabilizing the market and dampening the breaks. The other major factor is that the trading horizons have shortened. If a few large funds use the same hedging and trading techniques the result can look like collusion and a deliberately manipulated market.

Obviously when a major support is broken, strong buying is occurring where most TECHNICAL ANALYST would look to sell – hence that false break. Question is are these false breaks deliberate or an outgrowth of genuine trading methods. My suspicion is that the positions are hedged before the break, let fall through support and profits immediately taken at the break. Such a method would produce excellent profits at a small time exposure. It would also dampen volatility and stabilize the markets. Back a few years during the Mexican Financial crises the introductions of a futures market in the Mexican currency quickly curtailed the fall and stabilized the currency.

The 2004 Election Rally

TRUNCATED ZIGZAG

S&P 45 min/bar



[Y] = [W] --> [Y]
EXACTLY

DIAGONAL

FLAT

ZIGZAG

CONTROL DIAGONAL

STRONG SUPPORT & INTERPRETIVE LEVEL

38.2% = 1169.0

50% = 1153.8

Price acceptance below 61.8 affirms the top is in.

61.8% = 1138.9

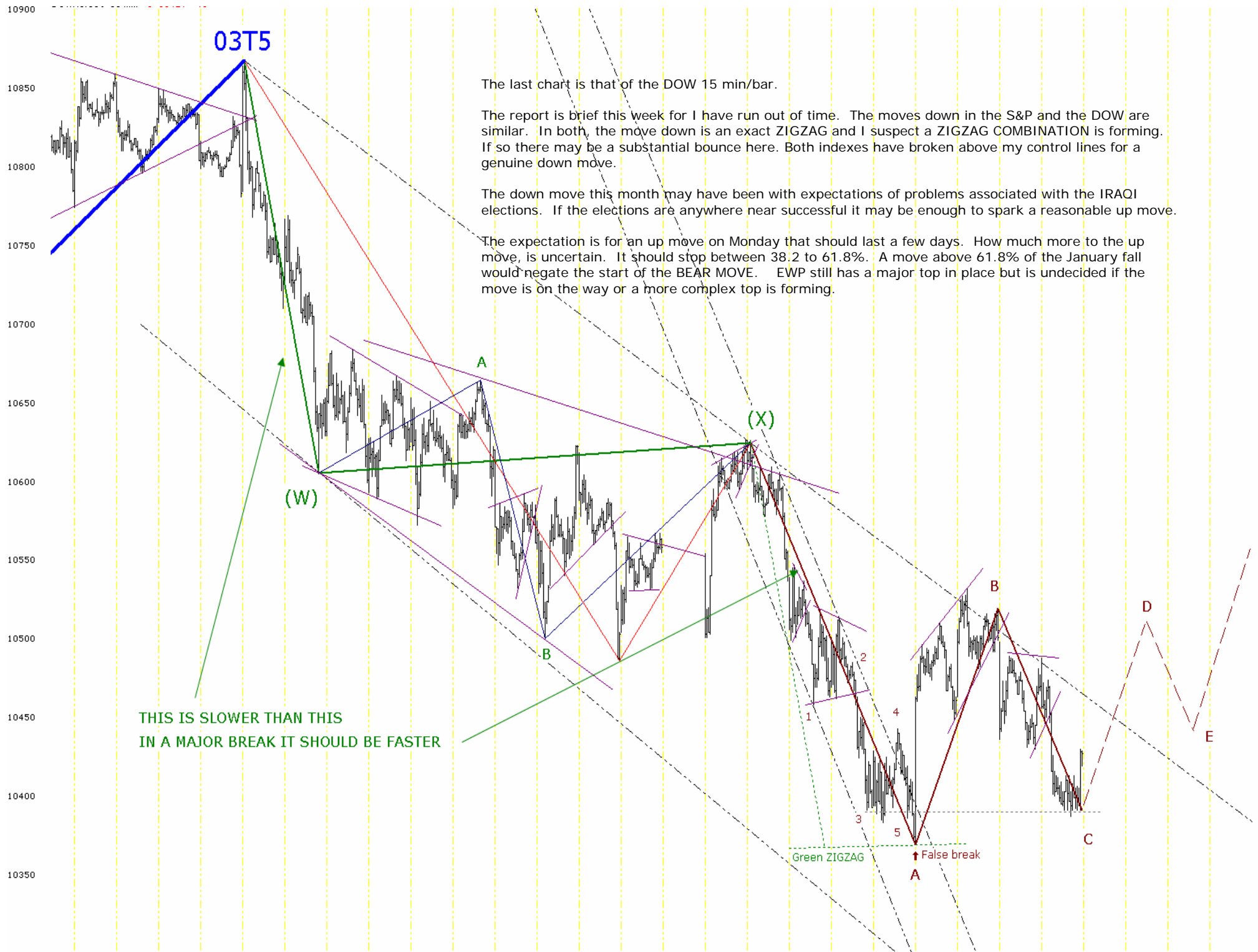
Last week's comment "The S&P closed exactly on 38.2% retracement of the election rally. Just below at 1163.2 is last year's March high. That should be reasonable good support and a bounce position. So Monday expect a test of the lows with a false break and then a bounce", proved to be correct.

What EWP failed to do was include the ZIGZAG as above. EWP choose the lower point for the BIFURCATION at (X) whereas, the upper alternative would have given a confluence at 1163 position. As can be seen the bounce occurred at the exact ZIGZAG. This also occurred on the DOW at the same position.

The move down thus becomes a ZIGZAG with the third segment slower than the first. This was also pointed out last week. A genuine major break should not be losing momentum but gaining. That it may be oversold should not be a problem on the start of a major move. The fact that it keeps selling even in the oversold condition, is what the defining attribute is of a genuine break.

Start of Election rally

18 25 1 8 15 22 29 6 13 20 27 3 10 17 24 31 7



03T5

The last chart is that of the DOW 15 min/bar.

The report is brief this week for I have run out of time. The moves down in the S&P and the DOW are similar. In both, the move down is an exact ZIGZAG and I suspect a ZIGZAG COMBINATION is forming. If so there may be a substantial bounce here. Both indexes have broken above my control lines for a genuine down move.

The down move this month may have been with expectations of problems associated with the IRAQI elections. If the elections are anywhere near successful it may be enough to spark a reasonable up move.

The expectation is for an up move on Monday that should last a few days. How much more to the up move, is uncertain. It should stop between 38.2 to 61.8%. A move above 61.8% of the January fall would negate the start of the BEAR MOVE. EWP still has a major top in place but is undecided if the move is on the way or a more complex top is forming.

THIS IS SLOWER THAN THIS
IN A MAJOR BREAK IT SHOULD BE FASTER

Green ZIGZAG
False break
A

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