

## EWP on the ASX 200 22 February 2004

The EWP is on the ASX 200 which is the main hedging index and benchmark for the Australian market. The index has been back adjusted to the previous "All ordinaries index" which was the previous benchmark.

The chart is log so comparison can be drawn to previous major bear markets. If the present AUSTRALIAN BEAR MARKET is complete, it is one of the mildest on this 80 year chart. If so, that would be inconsistent on Elliott patterns for 2001 completes a MAJOR DEGREE WAVE THREE (56W3). The expectation on completion of a MAJOR THREE is a reaction to approximately inner wave four (78W4). That suggests based on the Elliott's Wave Principle, this BEAR MARKET is only beginning.

Unfortunately, there is insufficient history of the Wave Principle in larger degree patterns to have any certainty on outcomes. The expectations are based on smaller degree time frames and assumption that the results will be the same in the higher degrees.

Fundamentally, a large economic dislocation is taking place. Economic activity in U.S. is being exported to third world countries, with third world countries with China taking most of the blue, and India, the white collar work. US economic stimulation is being transferred to third world countries making them richer and US relatively poorer. The stock markets in these third world countries are booming on the Western economic self stimulation. Only service jobs are stable or growing in U.S. On international trade U.S. will not get rich eating its own hamburgers. However, it cannot morally be argued, that on an international basis that a computer programmer in India should be worth less than an Indian programmer in California. In U.S. (and the western world) the job loss will remain painful. It will even hurt more as the inflation of U.S. assets for economic recovery is transfer offshore. The assumption that quality intellectual innovative jobs will lead grow in U.S. at a greater pace than China, India or Japan may be no more than western intellectual pride.

There is a great economic dislocation in progress. These seldom happen without pain and readjustment. It will take more than a 3 year bear market to settle the issues. In the modern world borders have fallen away. This report is produced in Australia and finds itself on an international forum. This was almost impossible to achieve only a few years ago. Add to this that many large companies are international beyond the control of one government; add the mix of dictatorships, philosophical differences and a lack of sound law and order in competing nations (and to a degree in your own – for example ENRON), the problem grows.

This 80 year chart is unchanged from the EWP from the 7 December 2003 report. 2001 was the completion of the third wave from 1956. (The report should be available in SAVEHAVEN ARCHIVES). It is a completion of one higher degree than 1987 which took 7 years to complete. The present correction is of the same degree as the 1969 BEAR (wave two) which took 8 years. The expectation would be that the 2001 BEAR WAVE FOUR would be greater than 1987 wave four of one lesser degree. The expectation would be that it would relate to the 1969 BEAR which is of the same degree. The present top is just too small for the BEAR of this degree to have balance. Of course it can be argued that this time it is different, an argument has been used in all previous BEAR MARKETS. It has not been true before and may be so again.



**THIS CHART IS THE XJO – ASX 200**

The magnitude of the present BEAR in the ASX200 is far too small for the size of patterns involved from 1956. That is the only reason for re-presenting the previous chart is to get a concept of scale. Traders seldom compare long histories and seem to be completely involved in present movement. Without a feel of the historical perhaps we will be prone to repeat the past.



78W5 = 78W1 exactly on the BIFURCATION POINT

92T5 78W5 56W3

78W3  
1987 high

1.618 \* 78W1

Sykes call of BULL top -->

USE ADOBE MAGNIFYING TOOL TO SEE DETAIL.

448.2  
Mining BOOM  
high  
56W1

78W1

78W2

56W2

173.5  
MINING BOOM LOW  
= 61.3% decline

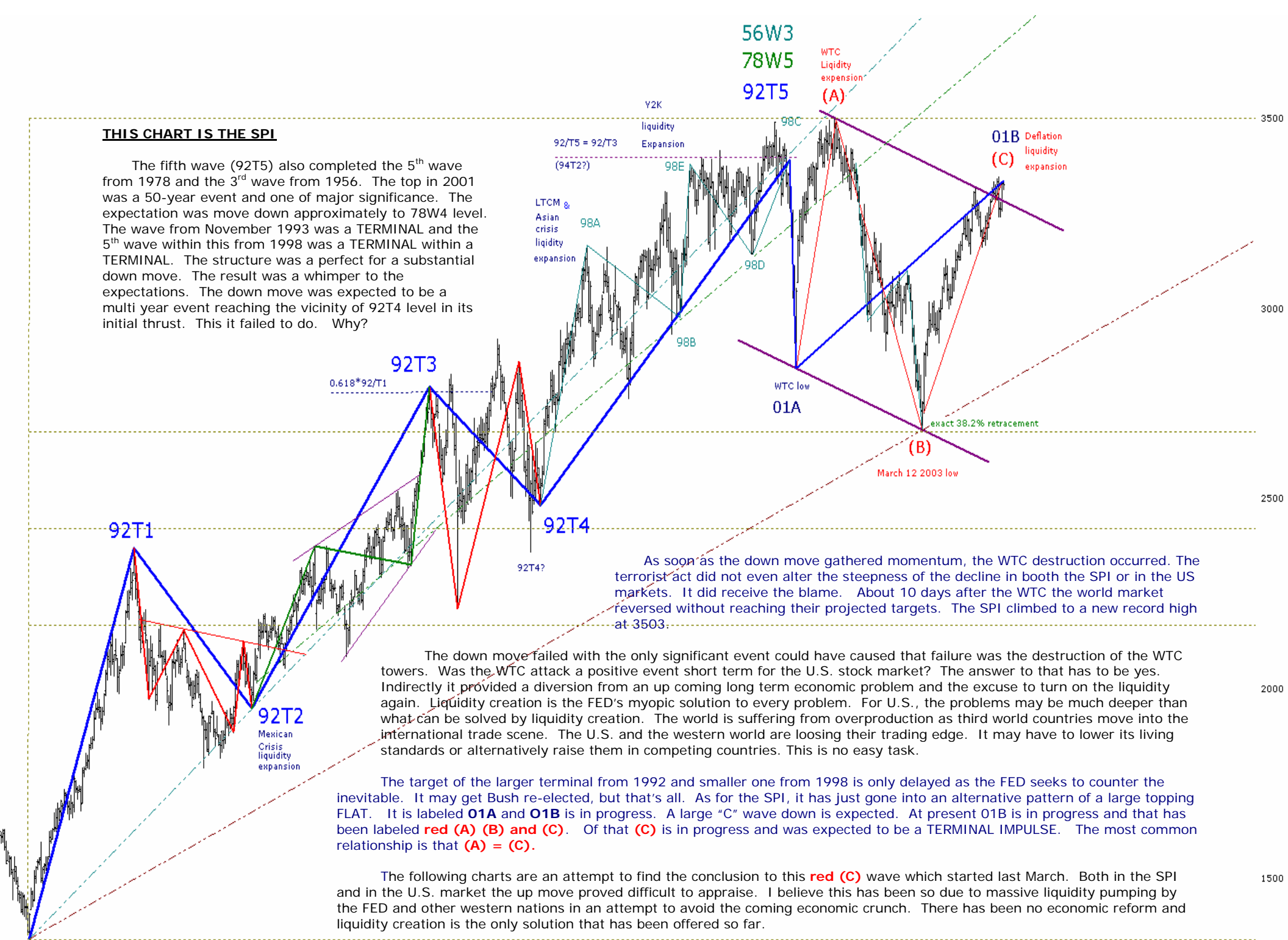
The chart on this page is the 3<sup>rd</sup> wave (56W3) from 1956. It fits G. Neely's definition of an impulse wave in textbook fashion. Neely requires that the longest wave should be at least 1.618 of the next longest wave. On this chart 78W3 is slightly longer than 1.618. In Elliott's definition the two remaining waves tend to equality. You will notice in the above chart that it has exceeded it slightly. **However, if the bifurcation points are used, the relationship is as good as exact. Wave 78W1 = 78W5 exactly on % scale.**

It's this degree of accuracy that I find amazing for this wave is just over 20 year duration. The completion is exact on the BIFURCATION point. This procedure works exceptionally well, yet has had problems in application in the U.S. markets since March 13 this year. This may be due to the unprecedented liquidity stimulation to avoid deflation. The Australian market is very re-active to world hot money. It seems any significant world monetary stimulation finds itself boosting the Australian market. Perhaps, it is viewed as a safe haven being a democratic stable government with apparent rule of law and its economic foundation being in efficient resources extraction and world competitive primary production.

The rest of this report deals in finding the top of the up move from March 13. From Elliott's point of view this is a BEAR MARKET RALLY and not a new BULL MARKET. Irrespective, if this basic assumption is wrong, a substantial trading correction is expected. From fundamental point, that there is a new BULL in progress is not entirely clear. With present world changes in progress one would expect more economic dislocation. One thing for sure, the average American would be very unhappy stimulating foreign economies with his money (or borrowings). It has to be a recipe for self destruction. The international American company – they will survive. They will do the capitalistic thing; move offshore where making profits is easier. Capitalism never had or ever will have loyalty. Profit is its God. Profit is good!

**THIS CHART IS THE SPI**

The fifth wave (92T5) also completed the 5<sup>th</sup> wave from 1978 and the 3<sup>rd</sup> wave from 1956. The top in 2001 was a 50-year event and one of major significance. The expectation was move down approximately to 78W4 level. The wave from November 1993 was a TERMINAL and the 5<sup>th</sup> wave within this from 1998 was a TERMINAL within a TERMINAL. The structure was a perfect for a substantial down move. The result was a whimper to the expectations. The down move was expected to be a multi year event reaching the vicinity of 92T4 level in its initial thrust. This it failed to do. Why?



As soon as the down move gathered momentum, the WTC destruction occurred. The terrorist act did not even alter the steepness of the decline in both the SPI or in the US markets. It did receive the blame. About 10 days after the WTC the world market reversed without reaching their projected targets. The SPI climbed to a new record high at 3503.

The down move failed with the only significant event could have caused that failure was the destruction of the WTC towers. Was the WTC attack a positive event short term for the U.S. stock market? The answer to that has to be yes. Indirectly it provided a diversion from an up coming long term economic problem and the excuse to turn on the liquidity again. Liquidity creation is the FED's myopic solution to every problem. For U.S., the problems may be much deeper than what can be solved by liquidity creation. The world is suffering from overproduction as third world countries move into the international trade scene. The U.S. and the western world are losing their trading edge. It may have to lower its living standards or alternatively raise them in competing countries. This is no easy task.

The target of the larger terminal from 1992 and smaller one from 1998 is only delayed as the FED seeks to counter the inevitable. It may get Bush re-elected, but that's all. As for the SPI, it has just gone into an alternative pattern of a large topping FLAT. It is labeled 01A and 01B is in progress. A large "C" wave down is expected. At present 01B is in progress and that has been labeled red (A) (B) and (C). Of that (C) is in progress and was expected to be a TERMINAL IMPULSE. The most common relationship is that (A) = (C).

The following charts are an attempt to find the conclusion to this red (C) wave which started last March. Both in the SPI and in the U.S. market the up move proved difficult to appraise. I believe this has been so due to massive liquidity pumping by the FED and other western nations in an attempt to avoid the coming economic crunch. There has been no economic reform and liquidity creation is the only solution that has been offered so far.

78W4



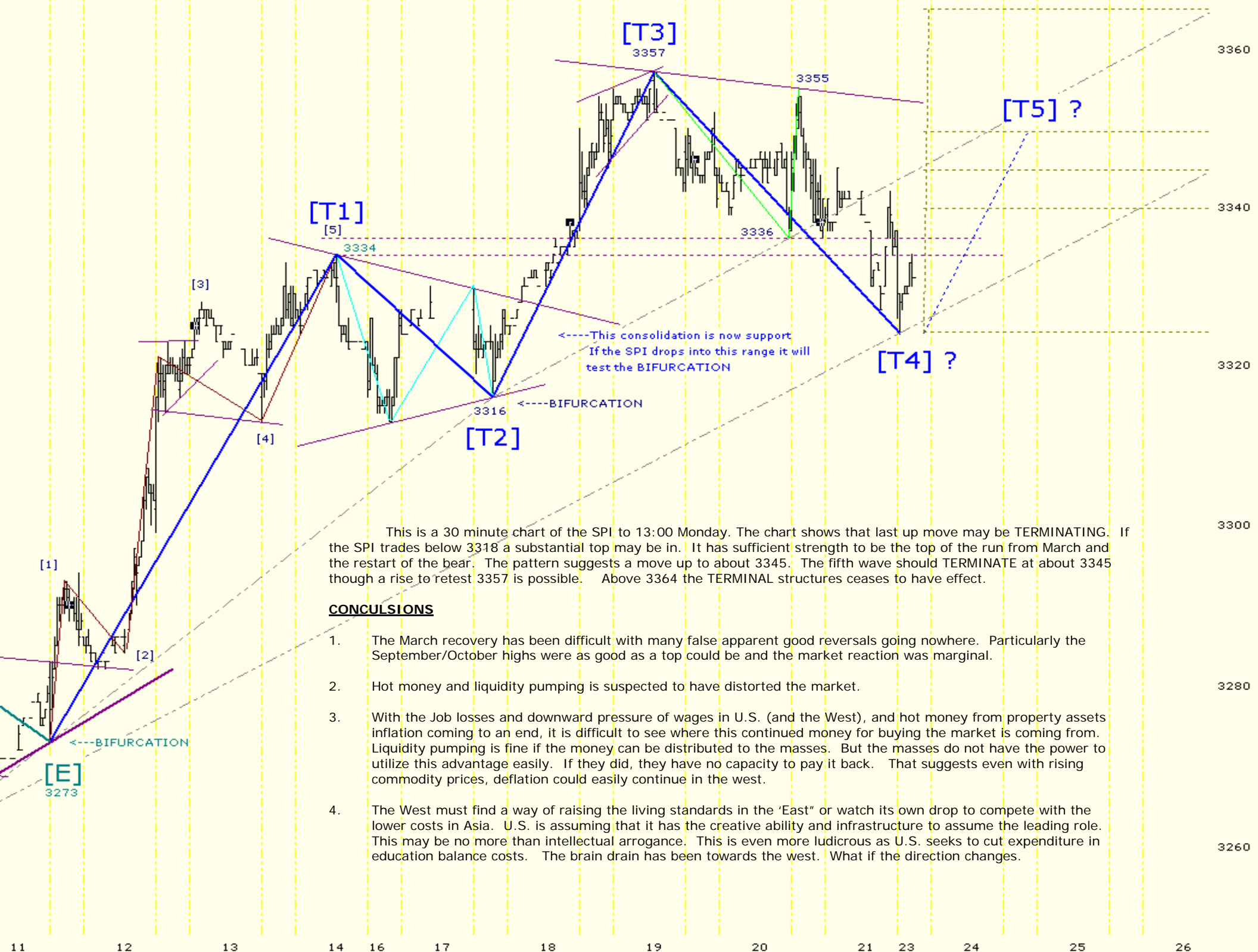


The first thing is that an impulsive terminating move was expected from the March 13 low. The SPI completed a perfect TERMINAL pattern September. The BEARISH implications just did not eventuate. The US market also performed a serious of good reversal tops coming up from the March 13 low – all failed their downside projections. However, in October the US market completed a major up move that should have bought a substantial reaction at least – but it shoot upwards in a fast strong seasonal move against expectations. Markets do often react against the obvious move. However, the number of times this has happened since March 13 has left most Elliotticians groveling in the dust. (I am sure there will be some out there that will claim they got it all right). Many of the overbought indicators did not work. About the best measurer was a moving average index which only averages the fact and delays it. It tells you what the price bars do with a time delayed filter. In fact it does not tell you much more than it is going up because the price bars are going up, a most basic observation.

Having failed in the TERMINAL, the pattern has re-ordered itself into a ZIGZAG with the target at 3348 on linear scale. On the underlying cash the relationship is exact on the last high.

The topping pattern is a finishing DIAGONAL or in Edwards and Magee terms a "RISING WEDGE". The last move on cash completed exactly on target. The ZIGZAG with a finishing diagonal is patterned named as a ZIGZAG COMBINATION. I would as a purist preferred the TERMINAL. I needed an impulse here not another ZIGZAG. However, since March 13 normal market behavior has not been the game.

There is every indication that this TOP may work. Greenspan money pumping has to end somewhere and the statistics are starting to top and reverse. It has failed at job creation and there is not going to be any. His liquidity creation has been good for India and Asia at America's expense. It is questionable in the long term that any benefit to the U.S. economy has been achieved. It will not do much good in the long run in Asia when easy money from the West disappears. They will infrastructure up to sell to the west that will have no capacity to take their goods. It is called – the misallocation of resources – world economic distortion caused by the myopic FED.



This is a 30 minute chart of the SPI to 13:00 Monday. The chart shows that last up move may be TERMINATING. If the SPI trades below 3318 a substantial top may be in. It has sufficient strength to be the top of the run from March and the restart of the bear. The pattern suggests a move up to about 3345. The fifth wave should TERMINATE at about 3345 though a rise to retest 3357 is possible. Above 3364 the TERMINAL structures ceases to have effect.

**CONCLUSIONS**

1. The March recovery has been difficult with many false apparent good reversals going nowhere. Particularly the September/October highs were as good as a top could be and the market reaction was marginal.
2. Hot money and liquidity pumping is suspected to have distorted the market.
3. With the Job losses and downward pressure of wages in U.S. (and the West), and hot money from property assets inflation coming to an end, it is difficult to see where this continued money for buying the market is coming from. Liquidity pumping is fine if the money can be distributed to the masses. But the masses do not have the power to utilize this advantage easily. If they did, they have no capacity to pay it back. That suggests even with rising commodity prices, deflation could easily continue in the west.
4. The West must find a way of raising the living standards in the 'East' or watch its own drop to compete with the lower costs in Asia. U.S. is assuming that it has the creative ability and infrastructure to assume the leading role. This may be no more than intellectual arrogance. This is even more ludicrous as U.S. seeks to cut expenditure in education balance costs. The brain drain has been towards the west. What if the direction changes.

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