

# EWP on the DOW and S&P 18 April 2004

THE DOW



For two weeks EWP has been looking for the completion of MAGENTA (B) wave. This week the top of magenta (B) is most likely in and (C) wave has started down. The most likely length of magenta (C) is a one for one ratio with MAGENTA (A). How do we determine that magenta (B) is complete? Normally a reversal pattern forms. Often this is three tops. There is usually an excellent relational price position on the third top forming a point of high order. Occasionally, the first top is on an exact projection or it is on the extreme high. At this stage MAGENTA (B) has met all the criteria and magenta (C) is so far is behaving correctly having completed waves [1] and [2] of the magenta "C" wave. What is needed this week is the fast down move in wave three of MAGENTA (C) for the final confirmation.

"The BREAK" from NON-DIRECTIONAL DEVELOPMENT is the first move that breaks pattern and does not correct more than 61.8%. Waves-2's that retrace more than 61.8% are rare. "The BREAK" has to be of HIGH momentum. It is usually faster than the preceding swing. The high momentum indicates that the NON-DIRECTIONAL MOVEMENT is over and a new thrust has begun.

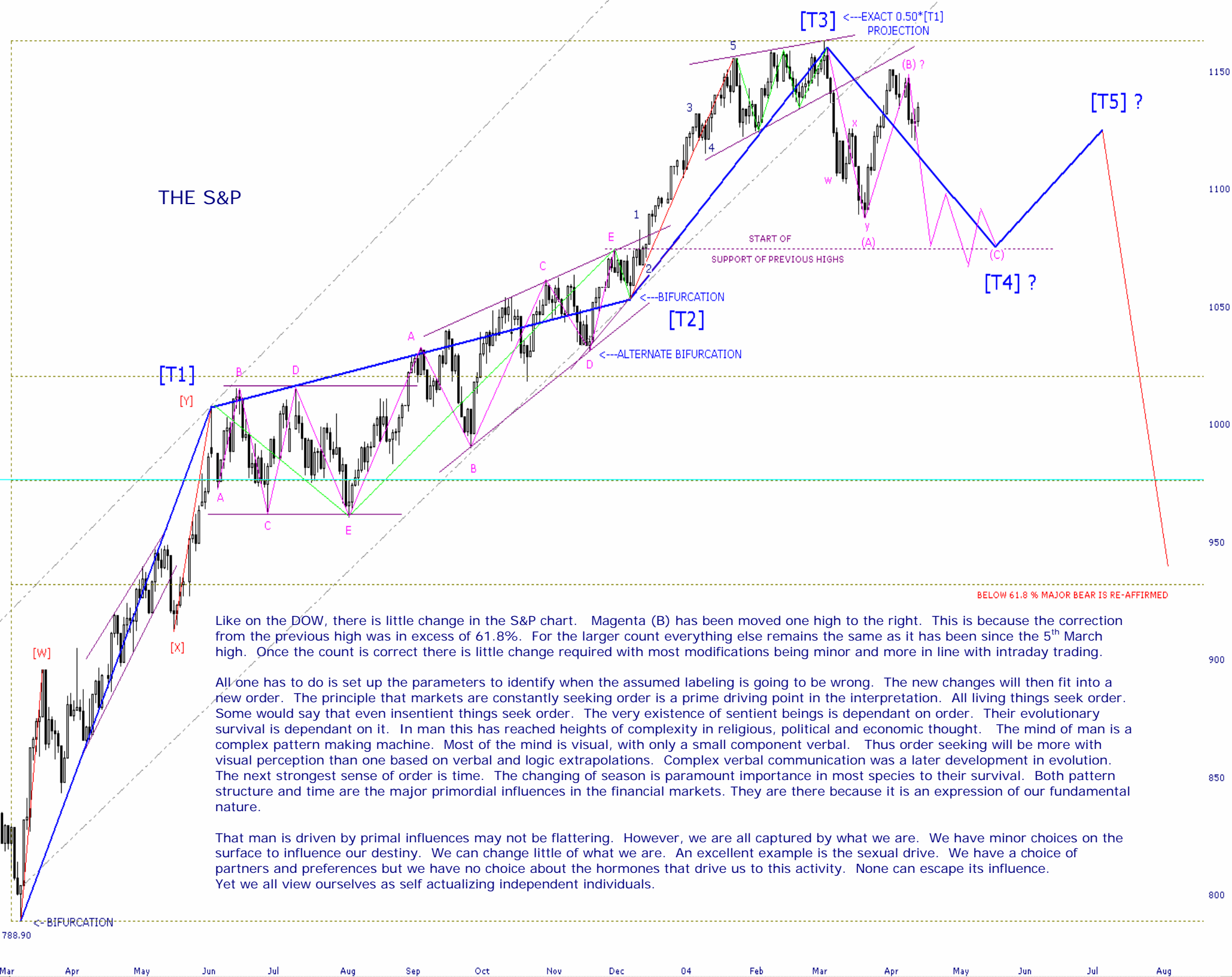
The market is comprised of two types of moves. The first is the thrusting DIRECTIONAL (IMPULSE) move with no or little overlap. The second is NON-DIRECTIONAL (CORRECTION) with OVERLAPPING MOVES. The market moves from one plateau to the next. The moves between plateaus are fast with little overlap. The moves generally do not retrace more than 61.8%. The moves within the plateaus overlap and usually retrace in excess of 61.8%. Moves within plateaus are often contained within trend lines. The DIRECTIONAL move breaks outside the containing trend lines.

This concept is a little different from classical Elliott. The basic move is the thrust and completes at the bifurcation of the NON-DIRECTIONAL MOVE. Thus the basic move is from one BIFURCATION to the next. This BASIC move in CHAOS THEORY is called a FRACTAL. In markets it is composed of the DIRECTIONAL MOVE (THE IMPULSE) and the NON-DIRECTIONAL MOVE (THE CORRECTION). Application of this concept creates different positions in the labeling. The positions for completion of the thrust are on the third low. In traditional Elliott the completion of the thrust is on the first low. In this labeling the up moves and down moves are treated the same. In Elliott, they are not.

94W4

12 March 2003  
7416.64

[T0]



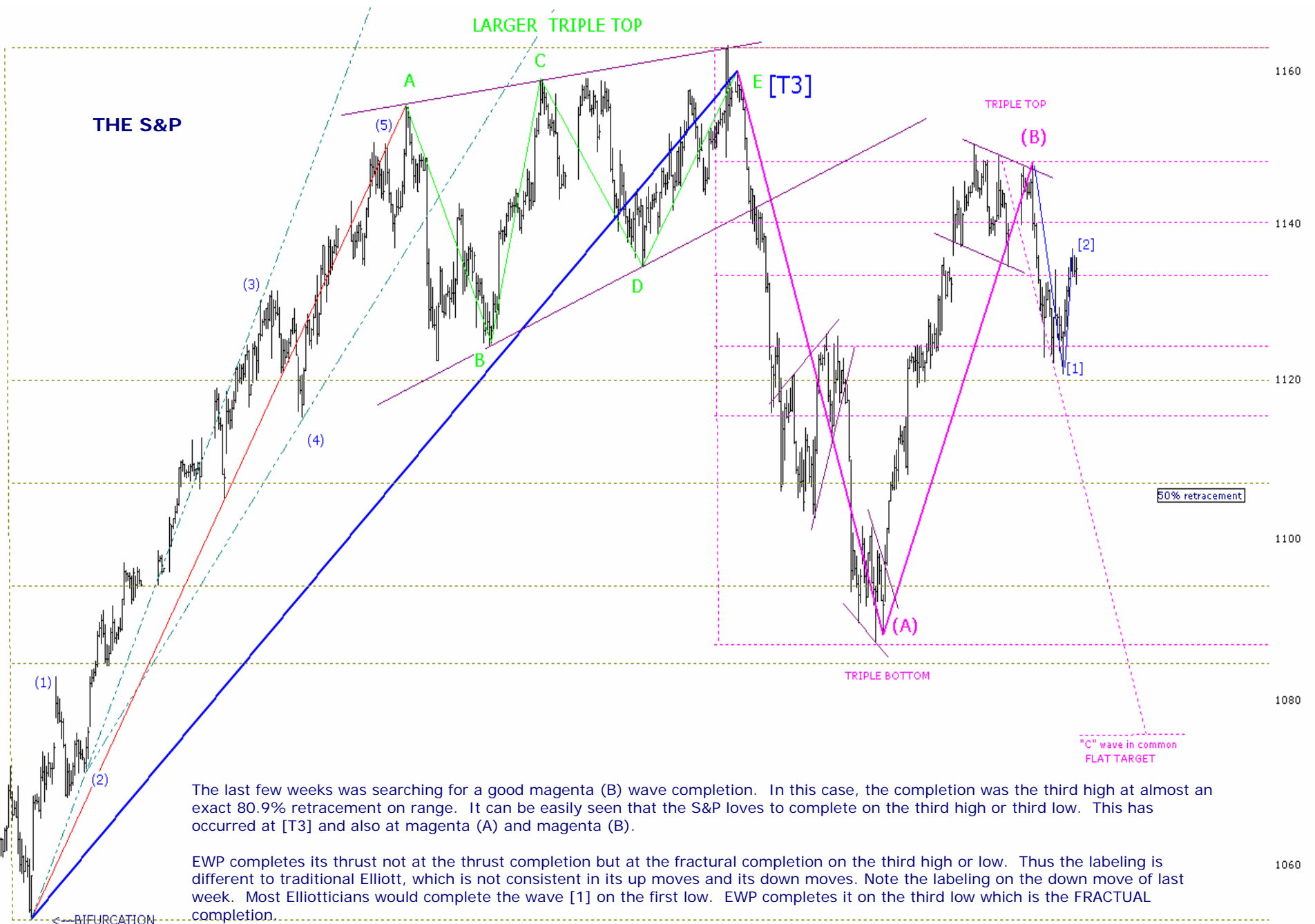
# THE S&P

Like on the DOW, there is little change in the S&P chart. Magenta (B) has been moved one high to the right. This is because the correction from the previous high was in excess of 61.8%. For the larger count everything else remains the same as it has been since the 5<sup>th</sup> March high. Once the count is correct there is little change required with most modifications being minor and more in line with intraday trading.

All one has to do is set up the parameters to identify when the assumed labeling is going to be wrong. The new changes will then fit into a new order. The principle that markets are constantly seeking order is a prime driving point in the interpretation. All living things seek order. Some would say that even insentient things seek order. The very existence of sentient beings is dependant on order. Their evolutionary survival is dependant on it. In man this has reached heights of complexity in religious, political and economic thought. The mind of man is a complex pattern making machine. Most of the mind is visual, with only a small component verbal. Thus order seeking will be more with visual perception than one based on verbal and logic extrapolations. Complex verbal communication was a later development in evolution. The next strongest sense of order is time. The changing of season is paramount importance in most species to their survival. Both pattern structure and time are the major primordial influences in the financial markets. They are there because it is an expression of our fundamental nature.

That man is driven by primal influences may not be flattering. However, we are all captured by what we are. We have minor choices on the surface to influence our destiny. We can change little of what we are. An excellent example is the sexual drive. We have a choice of partners and preferences but we have no choice about the hormones that drive us to this activity. None can escape its influence. Yet we all view ourselves as self actualizing independent individuals.

788.90  
←-BIFURCATION



THE S&P

LARGER TRIPLE TOP

TRIPLE TOP

TRIPLE BOTTOM

50% retracement

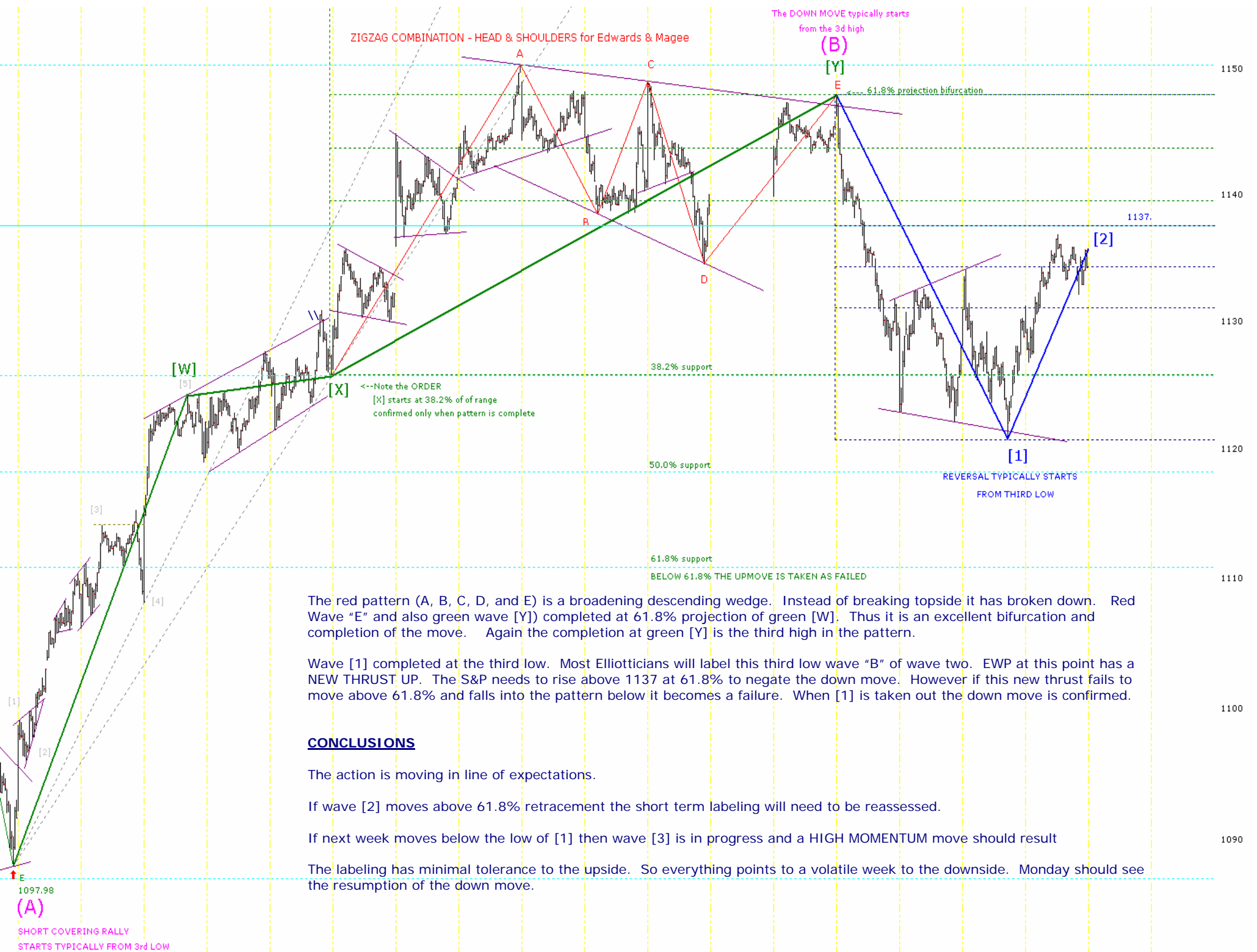
"C" wave in common  
FLAT TARGET

The last few weeks was searching for a good magenta (B) wave completion. In this case, the completion was the third high at almost an exact 80.9% retracement on range. It can be easily seen that the S&P loves to complete on the third high or third low. This has occurred at [T3] and also at magenta (A) and magenta (B).

EWP completes its thrust not at the thrust completion but at the fractural completion on the third high or low. Thus the labeling is different to traditional Elliott, which is not consistent in its up moves and its down moves. Note the labeling on the down move of last week. Most Elliotticians would complete the wave [1] on the first low. EWP completes it on the third low which is the FRACTURAL completion.

[T2]

What most Elliotticians have labeled as "C" wave, EWP has labeled as wave-[2]. It is a NEW THRUST from the TRIPLE LOW. The THRUST fails, if it cannot reach above 61.8% retracement. A robust thrust should retrace at least 61.8%. If the S&P falls and takes wave-[1] out, a fast down move will result and will be labeled [3]. We can fairly clearly surmise that wave two thrust will fail from larger time frames. One of the principles in CHAOS theory is that patterns will repeat in higher and low degrees or time frames. Thus we can surmise from larger degree patterns that wave [2] will fail and not move above a 61.8% retracement at its BIFURCATION POINT. Thus to be effective, the analysis must be in multiple time frames.



ZIGZAG COMBINATION - HEAD & SHOULDERS for Edwards & Magee

The DOWN MOVE typically starts from the 3rd high

(B)

[Y]

E

61.8% projection bifurcation

<--Note the ORDER  
[X] starts at 38.2% of range  
confirmed only when pattern is complete

REVERSAL TYPICALLY STARTS FROM THIRD LOW

61.8% support  
BELOW 61.8% THE UPMOVE IS TAKEN AS FAILED

The red pattern (A, B, C, D, and E) is a broadening descending wedge. Instead of breaking topside it has broken down. Red Wave "E" and also green wave [Y] completed at 61.8% projection of green [W]. Thus it is an excellent bifurcation and completion of the move. Again the completion at green [Y] is the third high in the pattern.

Wave [1] completed at the third low. Most Elliotticians will label this third low wave "B" of wave two. EWP at this point has a NEW THRUST UP. The S&P needs to rise above 1137 at 61.8% to negate the down move. However if this new thrust fails to move above 61.8% and falls into the pattern below it becomes a failure. When [1] is taken out the down move is confirmed.

**CONCLUSIONS**

The action is moving in line of expectations.

If wave [2] moves above 61.8% retracement the short term labeling will need to be reassessed.

If next week moves below the low of [1] then wave [3] is in progress and a HIGH MOMENTUM move should result

The labeling has minimal tolerance to the upside. So everything points to a volatile week to the downside. Monday should see the resumption of the down move.

1097.98  
(A)  
SHORT COVERING RALLY  
STARTS TYPICALLY FROM 3rd LOW

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 a qualified financial advisor in accordance to the rules and regulations in your country.

Zoran