

EWP on the S&P 500 index 21
September 2003

Four weeks ago, the S&P broke above the upper containing line of the TRIANGLE and two weeks ago came back down to re-test the top of this line. This position was also on the 12 March to [X2] trend line. With a 50% exact retracement of the previous up move, the bounce on Thursday week had a "TRIPLE CONFLUENCE". Such a position nearly always makes an excellent short-term trade. Interestingly last Friday's high is a TRIANGLE TARGET measure where the break = the largest segment of the TRIANGLE. The target hit is on the September equinox, a GANN seasonal time. Additionally I have a pressure turning point on swing charts on Monday 23 September.

Many Elliotticians have labeled this up move as an impulsive wave. To be impulsive the up move should meet some channeling rules. G. Neely in "Mastering Elliott Wave" page 5-9 has some clear construction rules, though he goes into a lengthy detail what he says simply is that a wave three to be impulsive has to stay above the (wave-0 - wave-2) line. While the up move from 12 March is of high momentum, the move up from early April is clearly corrective. The S&P constantly washes back into the previous highs. That is NOT impulsive action. On the channel line from 12 March, each higher low transgresses the previous channel line with an infringement. It is not until the third week in May that there is a departure from the channel line suggesting a start of an impulsive wave three. It is marked [X1] on the chart.

I suspect that the light green X wave was in fact the third segment of a ZIGZAG, which should have topped in the second week of May but failed to do so. Normally this pattern is a RAISING WEDGE (a terminating move). The alternative is a "RUNNING WAVE TWO."

Moves following a "RUNNING WAVE TWO" should be impulsive and form the extended third wave of at least 1.618 times the first wave. However, it stopped short on a less than one for one ratio with high volume SPIKE REVERSAL DAY on 6th of June. This is a poor ratio suggesting a WEAK MARKET. Based on that, I have labeled the move corrective. This was proved so for the S&P spent the next three months in a non-directional move making both BEAR and BULLS unhappy. Each upswing [W], [Y] and [Z] has less momentum. That should give bearish divergences on some TECHNICAL INDICATORS.

I have read comments that this market is "climbing a wall of worry". This is taken as indicative that this up move is a new BULL move. However, this statement is a contradiction the fact. How can you have a market "climbing a wall of worry" with optimism at the highest level since 1987 peak? This is not a "wall of worry" but more in line with **exuberance of major tops and bubble mania.**

The market comments are full of clichés that often are used out of context or times do not make any sense. Part of that is because our knowledge base has grown and that our view of the world has changed. Many of the market clichés we have inherited from the past and have been repeated so many times that they take form of market truths. Elliott formulated his concept over 50 years. Some things of Elliott's conceptualization may need revision. This not to detract from the man for his observational acumen was rare amongst men. Let us consider three of his basic structural tenets.

Markets follow order

This is a basic tenet of Elliott Wave Theory as expressed by Elliott himself. Quoting from the introduction in "Nature's Law" Elliott says, **"No truth meets more general acceptance and that the universe is rule by law. Without law it is self-evident there would be chaos, and where chaos is nothing is"** and **"But the market has its law, just as it is true of other things throughout the universe. We're there is no law, there would be no centre about which prices could be the resolve and, therefore, no market"**

The statement is partly true and partly not. There is no question as Elliott puts it that there is law (or order). That there is law does not mean that the market always obeys the laws. Conceptually according to Elliott, the **market is completely ordered and thus predictable. IT OBVIOUSLY IS NOT.** It is much more correct to say, **"Markets are self ordering mechanism that constantly adjusts to an uncertain world"**. The second statement in fact states markets are unpredictable. Thus, the concept markets are never the same, but they do rhyme is true. Modern research into the way natural systems behave is that small changes can produce vastly different results. In fact, though the rules are the same the outcomes can be vastly different. Substantially all natural systems move from chaos to order and back to chaos. The financial markets follow more the CHAOS THEORY than that they follow ELLIOTT'S COMPLETE ORDER CONCEPT. (There is a form of order in CHAOS/FRACTAL concepts, which seems contrarian to its name).

Crowd behavior moves markets

The crowds may move the markets but they are not the instigators of the trend they merely reactors to what has happened. The twelve men in the monthly meeting of the central bankers (FOMC) have more effect than rest of the crowd combined. History shows that individual men not crowds made the greatest changes. Most trends of human behavior grow from small beginnings. Crowds do very little than follow established trends.

In fact, a common indicator is that the crowd gets it wrong thus giving rise contrarian indicators. At market tops, the crowd is BULLISH and at market bottoms, they are BEARISH. Those that sell the tops and buy the bottoms are the market movers. The crowd does not create the mood its mood is a reaction to the market conditions. Greenspan and the central bankers have created the BUBBLE TOP not the crowd – they simply reacted to the created circumstances. Government policy, destruction law, actions from a small group politicians that started the IRAQI war affected the market to a far greater extend than any crowd ever could. How Elliotticians can conclude that the crowd moves markets is rather perplexing for it is so obviously wrong. Short-term crowds obviously do not move markets as it was amply demonstrated on the 6 June reversal. I suspect something like Pereto's law applies to the markets where 20% of the participants have 80% of the effect.

Simplest market move

According to Elliott, the simplest market movement is five moves up and three moves up repeating in perpetuity. The direction is in the 5-wave thrust. It is a result from a LONG TERM to SHORT TERM approach. Ilya Prigogine suggested that all natural systems would move from one plateau to the next. The moves between the plateaus is fast and is directional – the order component. The plateau component is non-directional thus CHAOTIC. To Ilya Prigogine natural systems rotate between order and chaos.

Each **PLATAEU** or **NON-DIRECTIONAL** movement resolves itself in a point, which Prigogine called a **BIFURCATION**. Thus, the simplest move in a natural system is from one BIFURCATION to the next making up the **FRACTAL of chaos**. Small changes at the BIFURCATION can cause an explosive move upwards or down wards and often this point is a fine balance. Because each bifurcation is a balance, the outcomes are unpredictable, for it can tip easily either way.

This is the very reason why Elliott is obvious after the event and nearly all Elliotticians get it wrong before the event.

One has only to read the newsletters of some Elliotticians to see that they have difficulties in accessing outcomes but then so has everyone else. Thus, long-term moves are made of many small term moves. **This is opposite to Elliott and rather obvious.** It also states that predicting the markets is a much more complex affair for at each bifurcation the market can head either of two ways. That does not mean that Elliott analysis is pointless. Since we know markets are SELF ORDER SEEKING mechanisms – it just means that we have to be flexible in our approach in reacting correctly to each BIFURCATIONS OUTCOMES. WE also know from study of chaos that the same patterns appear in multiple timer frames. Thus by combining a multiple time frames in the analysis often, we can see the likely outcomes of BIFURCATIONS of a lesser degree. Each BIFURCATION will supply a possible trade in that fast move of order seeking attributes. **THIS ALSO SUGGESTS THAT ELLIOTT ANALYSIS CANNOT BE DONE EFFECTIVELY WITHOUT USING MULTIPLE TIME FRAMES.**

The chart on the next page

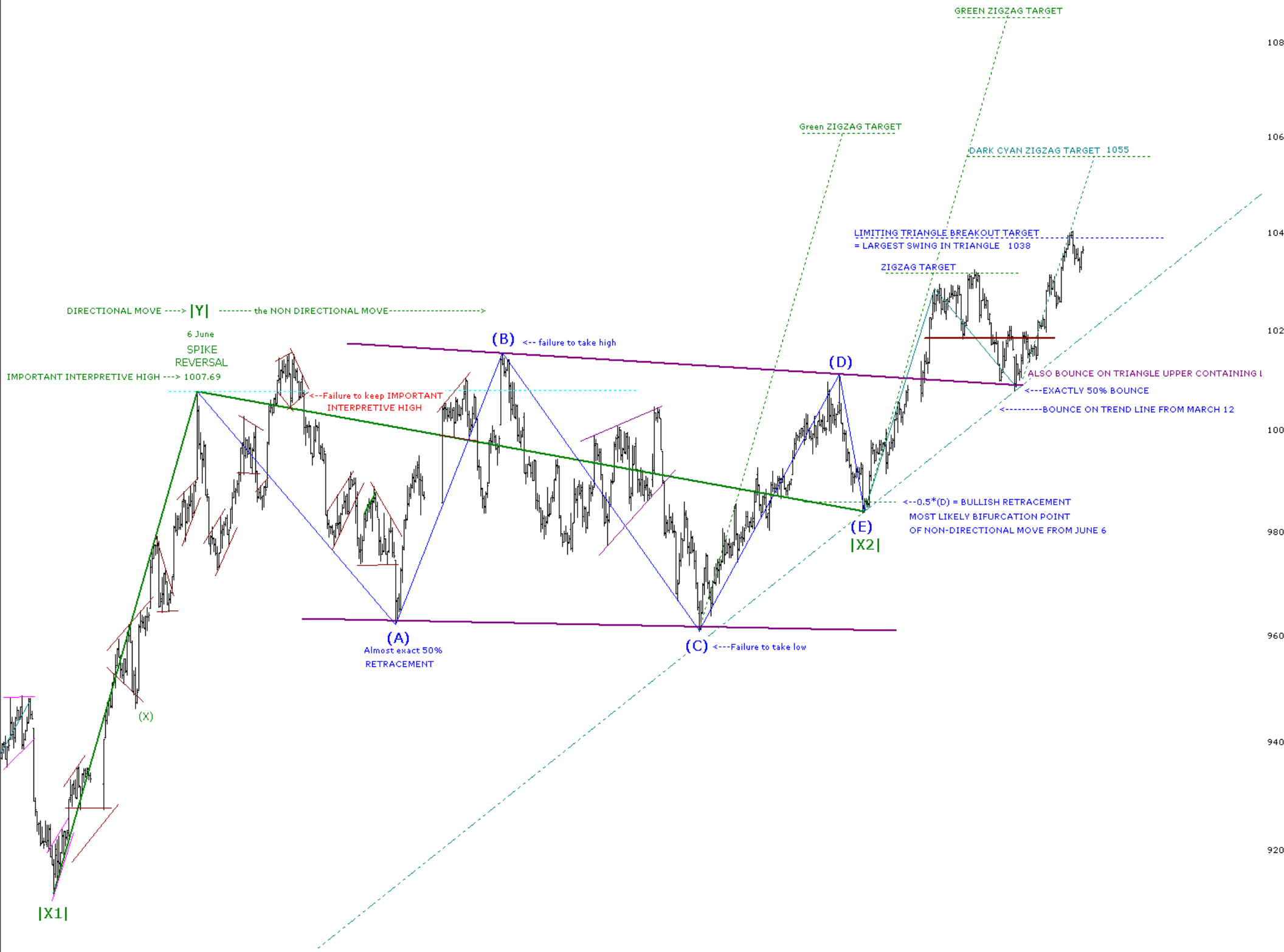
The chart shows a clear break above the TRIANGLE with a typical retest of the upper containing line. Since point [X2], the action remains positive with each swing higher. The high on Thursday/Friday is a reaction to a LIMITING TRIANGLE PROJECTED TARGET. It is based on the longest swing within the TRIANGAL, which gives the up move the power. If the S&P moves above this TARGET it becomes increasingly positive – if it cannot rise above the TARGET, it is BEARISH for it suggests that the TRIANGLE is controlling the outcome. In addition, the TRIANGLE that has formed is of a NON-LIMITING kind. Its structure because it is flattish without strong converging lines could easily move beyond the TARGET relationship.

On my GANN swing chart analysis, I have a turning window this weekend coinciding with a possible turn. Additionally it is also a GANN seasonal time with the spring equinox. Thus, I have another excellent position for a reversal. However, the up move is positive with each swing higher. For confirmation, some indication of weakness is required. This we have in the fact that each upswing from a NON-DIRECTIONAL MOVE has less momentum. This should give bearish divergences on some TECHNICAL indicators.

There is now a whole plethora of targets well above the TRIANGLE MEASURE. On the following chart, they are shown as ZIGZAG targets. However, before going on that path, I would like to see what the result is from the TRIANGLE.

CONCLUSIONS

- 1 The TRIANGLE BREAK has met its target on Thursday/Friday.
- 2 There is time and price for a possible high on Monday/Friday.
- 3 The structure as it stands is positive. The S&P is making higher highs and higher lows. However, there is NO SEPERATION between the low and the previous high, which is the sign of a weak move.
- 4 There are now many targets above the high on Thursday/Friday. This would make any break above this swing high positive
- 5 As stated always in previous posts the larger time frames remain BEARISH.
- 6 This up move is not "climbing a wall of worry" but in fact has the exuberance of a major top.



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Zoran