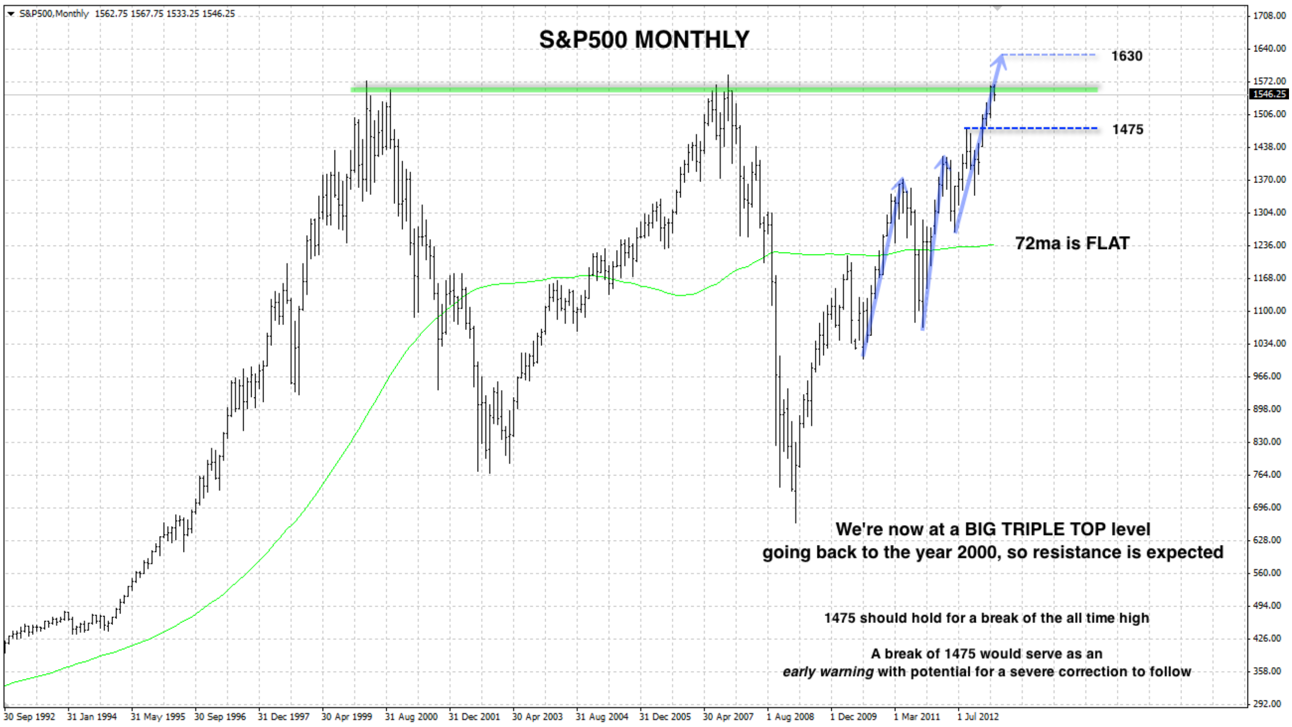
Elay Ghaly | maPriceAction.com | elayG@mapriceaction.com | +61 431 411 412
Volume 1 Issue 02

# THE GEOMETRIC MARKET

## 6th April 2013

**S&P500:** 1553.28

There's been little movement over the past month as the S&P tests the 1576 all-time HIGH. We came within 3 points before falling off, and now we're at BIG resistance.

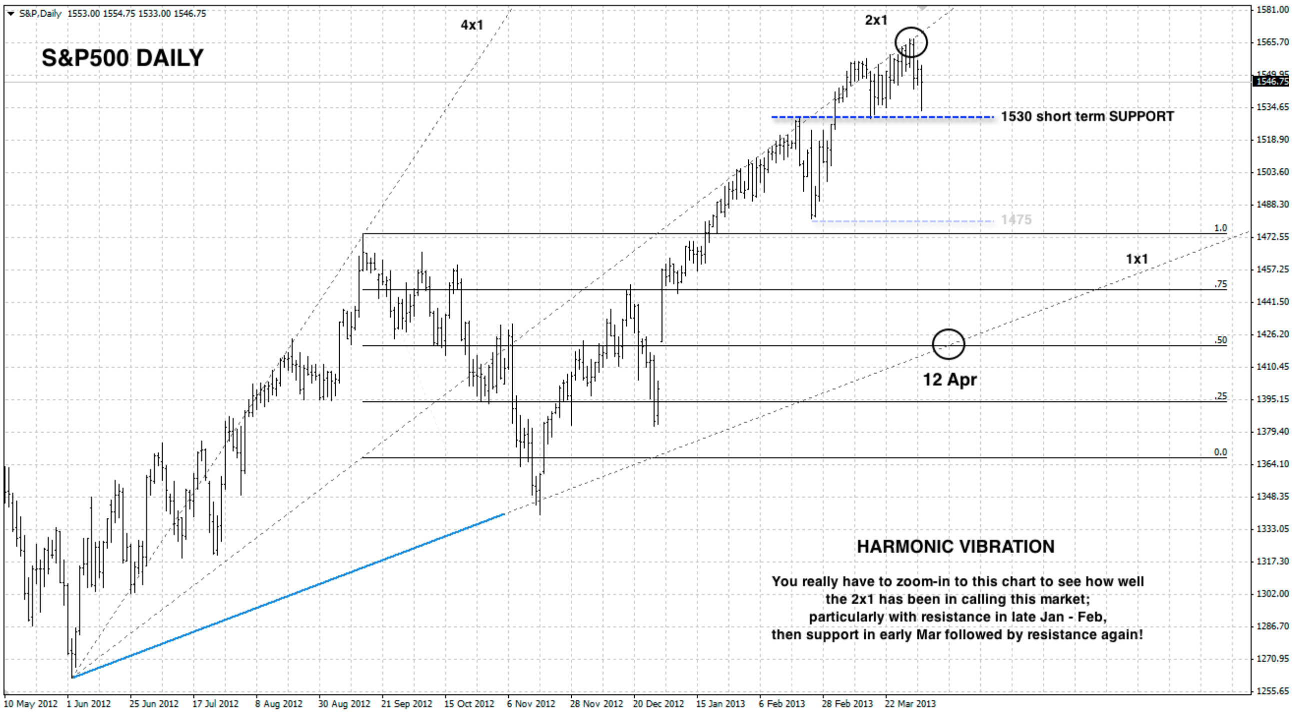



The scenarios from last month remain intact.

There will be further tests of the high followed by a potential pullback, however my longer-term view remains that the high will be taken out. The wave patterns printed going into this top almost always resolve in a break of resistance, unless of course an unforeseeable event occurs (i.e North Korea launches a Gangnam Styles attack). And herein lies the issue- There is plenty of uncertainty surrounding what the communist nation will do over the coming months; casting doubt in world equity markets. Despite a decline of only 1% last month- the S&P spent the entire period in sideways motion with lots of uncertainty. Asian markets on the other hand (with the exception of Japan) have been hit very hard. China is down 16%, Singapore -10%, Hong Kong -9% and South Korea -6%. India- which often follows China's lead is also down 10%. And then there's the Japanese. They came out again last week with a monster stimulus pushing both the NIKKEI higher and JPY further into oblivion.

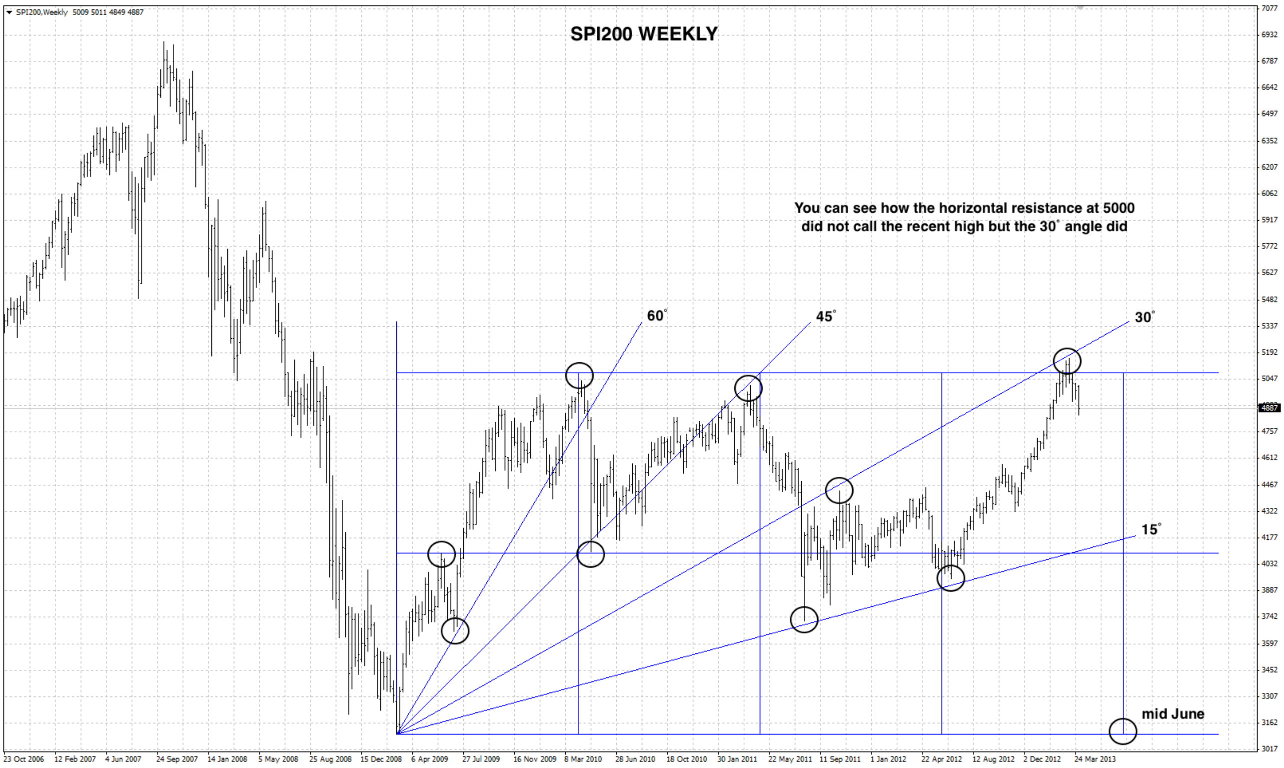
Given Europe is also down, that leaves US equities in a strong position compared to the rest of the world. However should the S&P correct further, I wouldn't want to see a decline greater than 5% (~75 points) this month. That would move us to the last high at 1475 which should prove to be support, and a healthy place for a bounce to retest the highs. Should we *break* this 1475 level, there is potential for a correction until June.

Again the short term 2x1 angle and ¼ levels on the DAILY have been working to a tee. The 2x1 has been hit no less than 15 times recently, whilst the high circled below is a 1.75 extension level.




In Australia we've already made a short-term high in the wake of Asian markets discussed earlier. Technically- all charts still point to higher prices, however the situation is now very tricky for the bulls with the election announced in September, and the big 5000 level yet to be resolved.

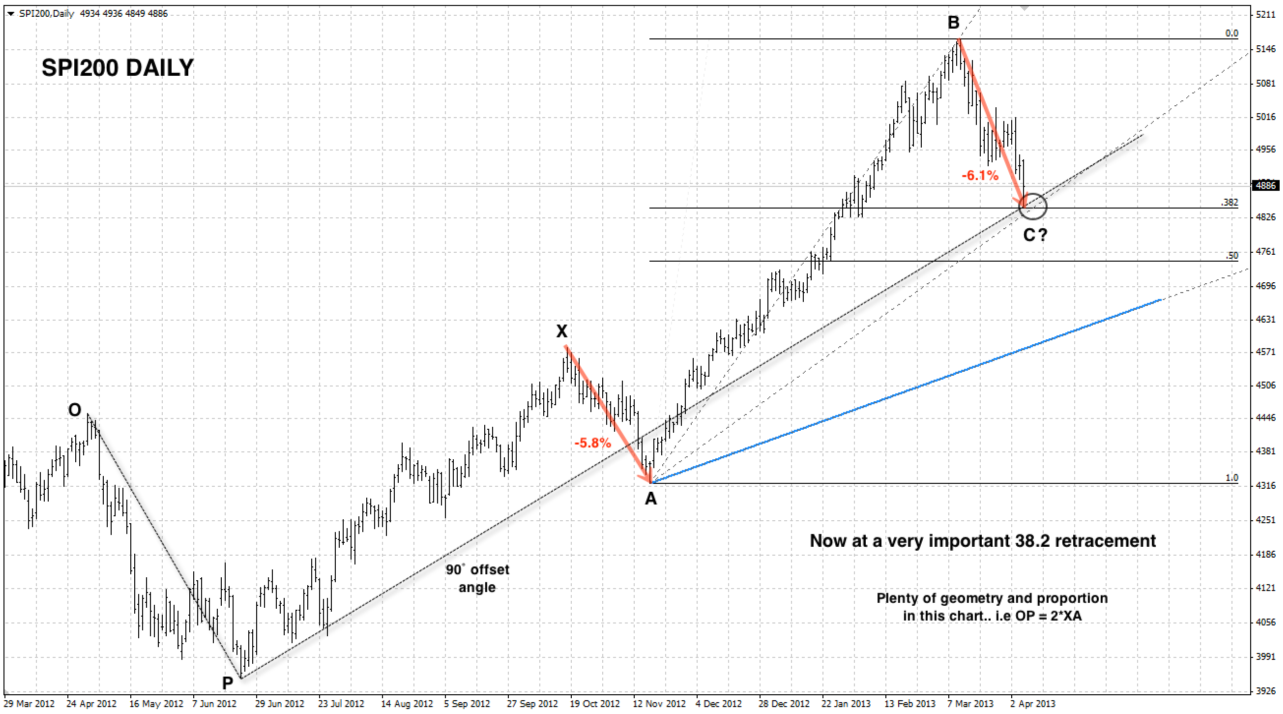
The next chart is one of my most important charts and I use it all the time:



I have kept this chart relatively clean but with a simple ruler you can dissect this further with both horizontal and vertical midpoints. Here I use 60°, 30° and 15° angles as opposed to the geometric 2x1 and 1x2 angles. Both methods can be used but you will find circular angles are often much more accurate. *Every major HIGH and LOW is geometrically related to the March 2009 LOW.* **TIP: A small adjustment to all of these angles will give you precise hits.** This is something you will learn as you perfect the craft and fine tune your technique. I have left the angles so if you place a protractor above the chart you will see they are as stated.

Should we fail to break this key 5000 level (50% retracement from the ATH – March 2009 LOW), a deep correction could easily last until mid-June like the S&P. Again leading up to the election there will be plenty of uncertainty until one party has a clear advantage- at which point the market has historically rallied and is in a position to do so once a correction takes place.

As of Friday we're now at a 38.2 retracement from the November 2012 LOW.




Worth noting is that the BC correction above has overbalanced the previous XA correction, however as a *percentage drop*, you should consider a *potential* 1:1 double drive going into a 38.2.

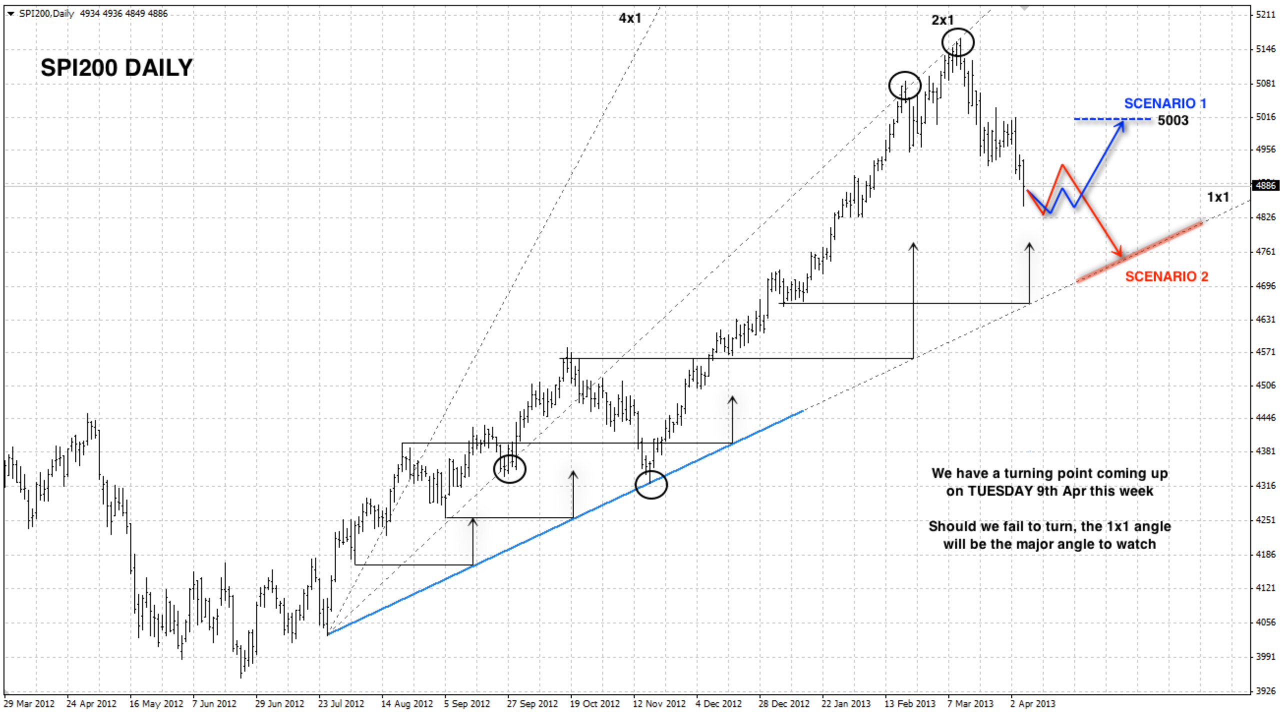
Proportion and harmony is everywhere in the chart above. Here are some basic examples:

- AB = 1.272 expansion of PXA.
- PX = 1.272 * OP.
- OP = 2 * XA.
- BC currently = 1.272 * XA.
- BC currently = 0.618 * OP

There is plenty of geometry too as some simple 45°, 60° and 75° angles drawn UP from the LOW at P will give you every HIGH on the way up to X. The 90° offset angle and 2x1 give us a turning point due this Tue 9 April.

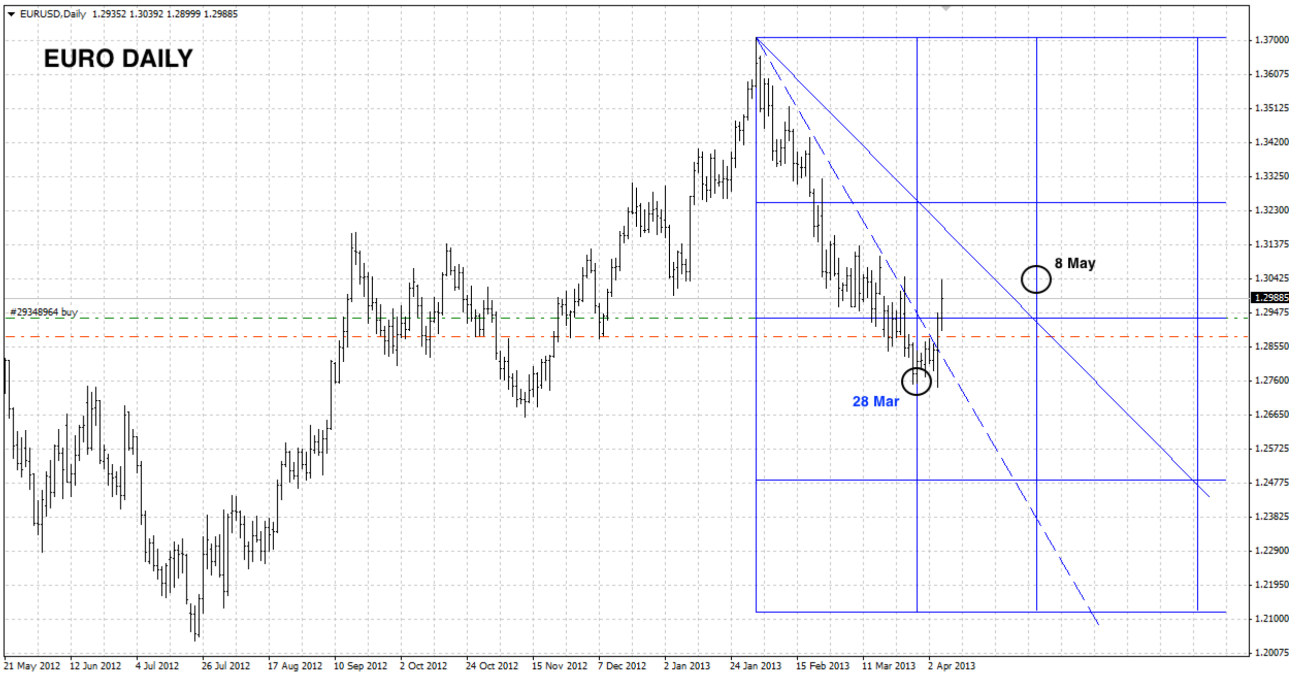
All this leads me to believe a short-term LOW is being established.

If we are indeed working a LOW, here are two scenario's to be considered for the month of April:




Again the 5000 level still has a role to play and we haven't seen the end of it yet.

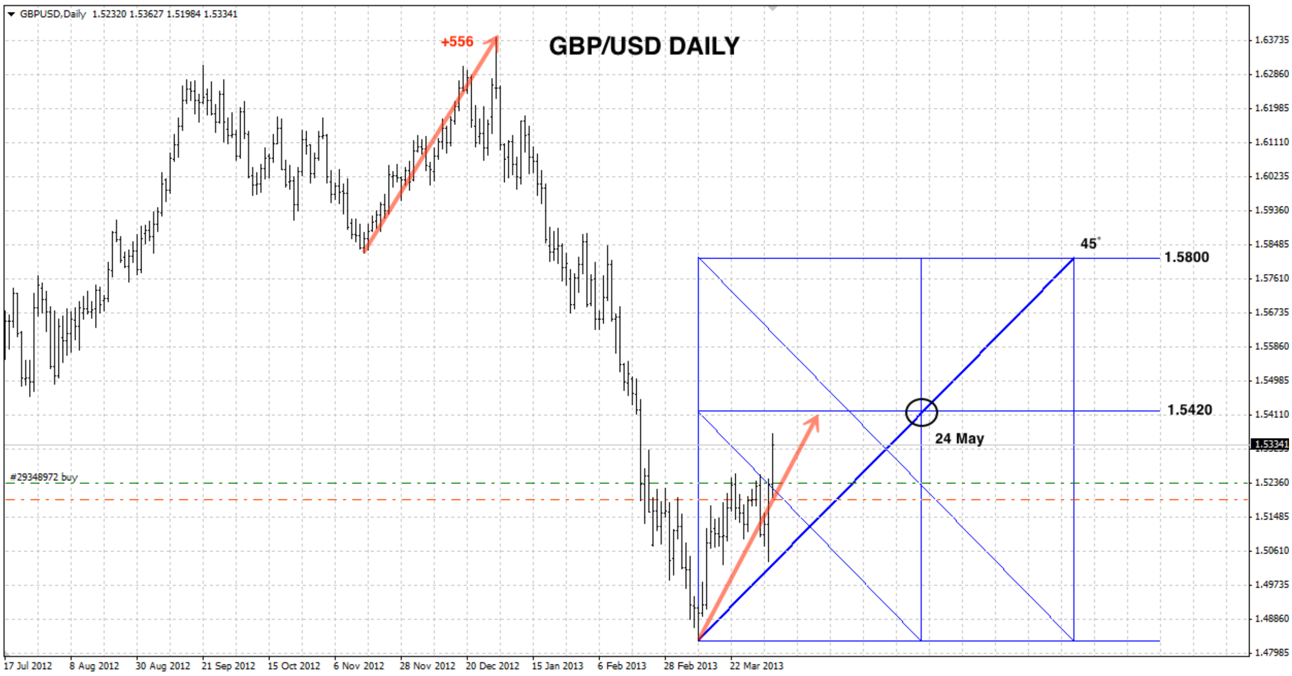
Like the S&P and the SPI most other markets are also at BIG psychological levels. The EURO is now at a vital 1.3000 handle and last month we said it was the last level of support. After 3 weeks of testing this level *every day*, we broke below and are now retesting 1.3000 to the upside again.




March 29 and April 2 were the dates I was watching in my previous letter and both proved accurate for exiting any shorts on the table. The short-term trend on the EURO is still up, but for a sustained move we must break above 1.3000.

The GBP/USD is too at a critical 1.5200 level, previously a big triple bottom area. Unlike equities and commodities- most currencies often take out important highs and lows only to test them again. The EURO above is a classic example with the 1.3000 level.

Dan Ferrera explains this phenomenon at length in his book titled *Keys to Successful Speculation.* In his chapters on *'lost motion'*, Ferrera relates this behaviour to momentum and inertia; and the tendency of an object to resist change in its state of motion until an opposing force compels it to turn. He explains why markets often turn slightly below & above support & resistance; and why they often slightly pierce key levels and then reverse immediately, aka false breaks.




After a quiet 2012 the GBP/USD has been extremely volatile this year and will make for great short term trading opportunities. My previous LOW date of March 19 was off by a week however the price target at 1.4880 was spot on. We still have an April 16 intersection approaching so this date should be watched for a HIGH; *especially* around the 1.5420 level. At this level there's also implied resistance with a 1:1 double drive to the upside matching the last move up in Nov – Dec 2012 prior to the recent big move down.

Longer term the GBP/USD appears to have reversed but must stay above 1.5300. We've rallied off the low strongly and taking out 1.5420 helps confirm this long term viewpoint.

The same applies for many other GBP pairs such as the GBP/AUD. Here's what took place:

- A low was established last month
- This was followed by a higher low earlier this week
- A **big impulse rally** followed the higher low.

These are classic signs the trend has reversed. Impulse rallies are extremely important as they begin the initial push and determine many aspects of an entire bull/bear market. The first impulse wave is always the most important and you will find *it creates future price levels through proportionate moves and logarithmic spirals.*

The Aussie Dollar is also gearing up for a MAJOR reversal. We’ve been in a tight range over the past 9 months and you can clearly see a symmetrical triangle has formed on the Monthly chart below. As we are currently at resistance the odds favour a move to the downside.

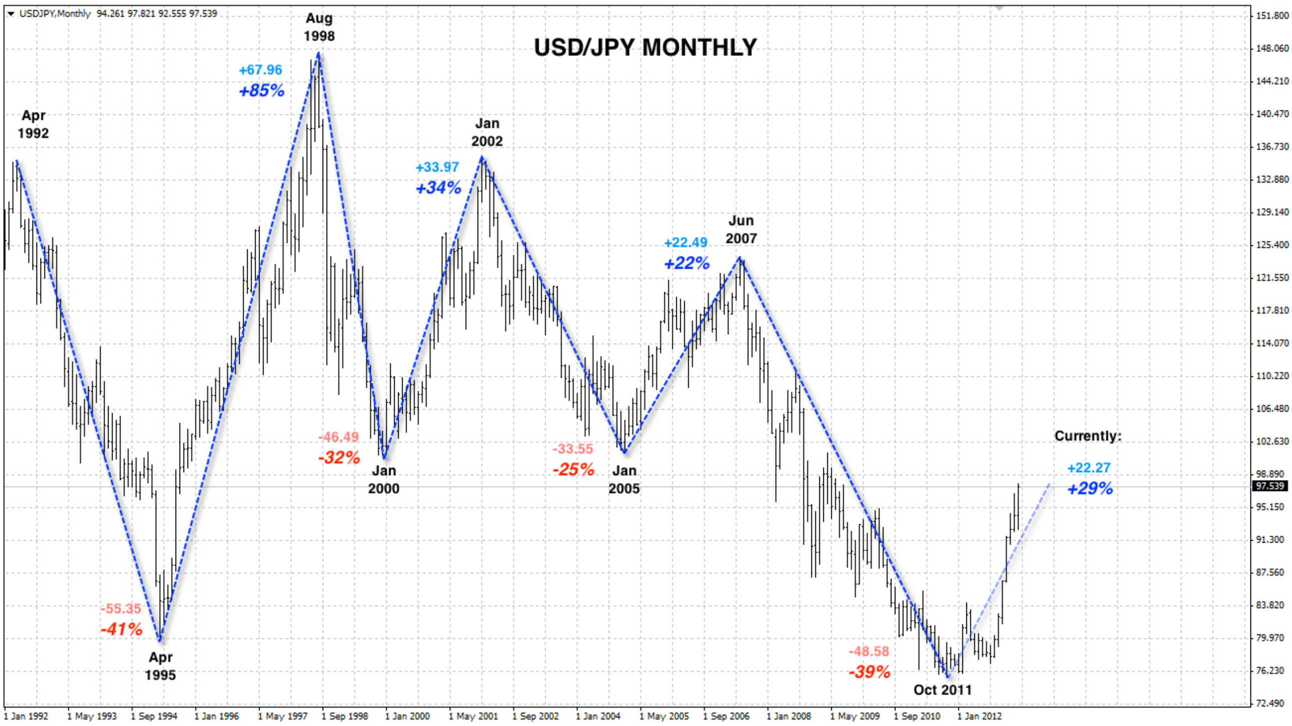

The 1:1 double drive pattern above demands serious respect as the long-term implications are enormous. Should we break below the triangle a large move to the downside may come hard & fast. The second leg of that huge 1:1 double drive (+5073) was 99.96% of the first leg; as precise as it gets considering this was over a 10 year period. This is no coincidence and should demonstrate the precise order that exists in markets. It makes you wonder how much influence humans really have; and whether collective actions are purely governed by numbers…

On the shorter timeframes- the **<u>Weekly 72ma</u>** on the AUD is now FLAT; and ready for a move. The Daily chart also confirms this; and with all three major swing timeframes showing a similar picture, a move down to parity would not be a surprise.

Perhaps the biggest *‘surprise’* this past month was the *extent* of the Japanese stimulus plan announced a few days ago. The multi-year plan will see the Japs purchase $US500 billion worth of bonds a year (50 trillion yen), which means *the country’s money supply will **double*** by the end of 2014. If you don’t know what that suggests it means the BoJ will continue to devalue its currency as there will be more of it.

There is no technical solution to this fundamental calamity (or maybe there is!) so the macro impact should be kept in mind for the coming years. The result of this whopping stimulus means the USD/JPY could hit 103’s and even 110’s over the next 12-24 months. When you look at history and sum up the numbers this becomes a real possibility, as the JPY is very directional and makes substantial price moves.

The long-term monthly chart on the next page should demonstrate this emphatically.




Currently we're 18 months into this move and up 29%. On average, JPY trends over the past 20 years have lasted for 30 months (2.5yrs) with a 32% change in price. We're quickly approaching the average price move, *but still 12 months away* from an *average, cyclical turn* (April 2014).

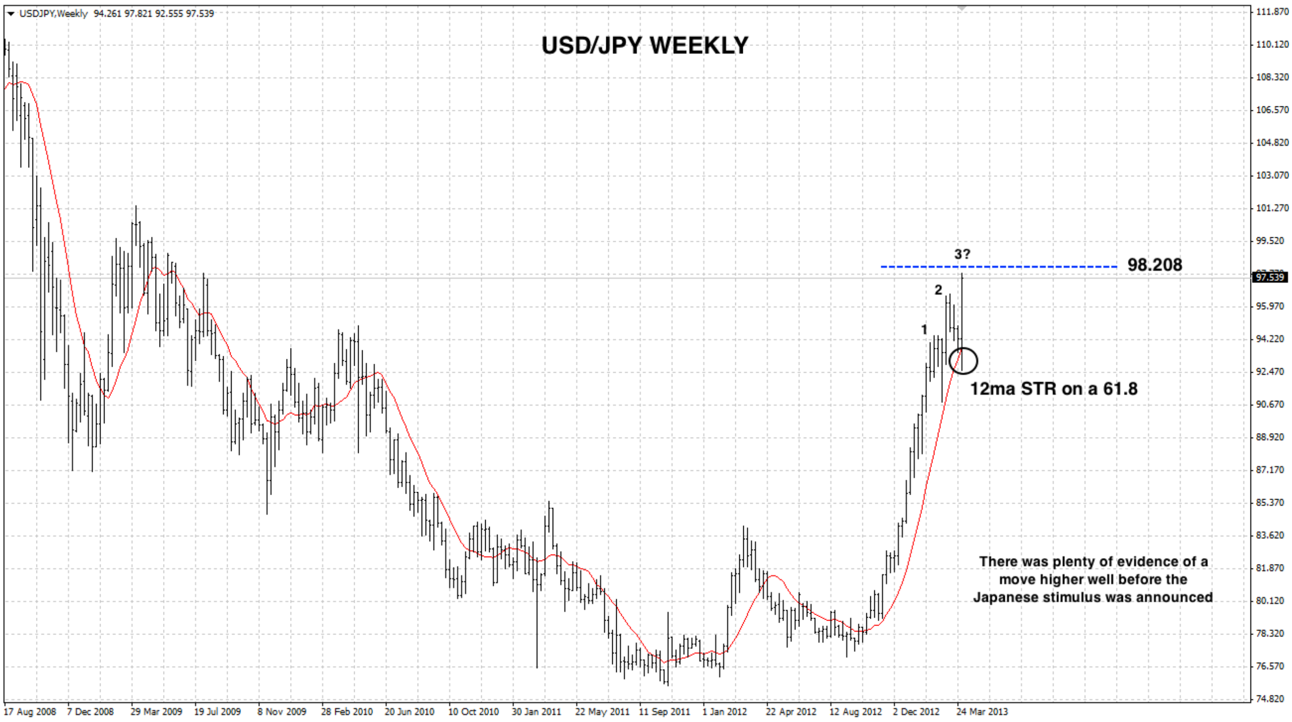
Remember- markets may be emotional beasts but *they are not random*. This average method demonstrates how quickly and easily you can formulate an opinion based on sound, historical analysis as opposed to fluff. The sample data above is only very little (6 or 7 values), but it still puts the current move into a real historical perspective.

I've said it a million times before that you cannot foresee a future if you do not understand the past. You will be doomed to the same mistakes as those before you and put simply- your predictions, forecasts or levels will be WRONG. I suppose this goes for any walk of life, the only exception being Geelong supporters. They're just a putrid bunch with a damn good footy team.

The chart above also shows lots of January's and again this is not by chance. *Every market has its own personality*. This is because certain stocks, currencies and markets are bought and sold by certain participants. Who is involved is irrelevant. Rather- you should draw your attention to the behaviour, patterns and tendencies these markets make. This point I'm sharing is worth its weight in gold as the JPY has made important January HIGHS and LOWS in 17 of the past 22 years.

FACT: The Japanese celebrate New Year's for 3 days with the Tokyo Stock exchange closed from Jan 1 – Jan 3. I was recently told after 3 days of no action, Jap traders start suffering withdrawal symptoms. Many go through a week of utter desolation, as they withstand decreased levels of testosterone. Guess that's why January is referred to as *Mutsuki (睦月), the Month of Affection.* They bloody well need it.

Mark the YEN down for January 2014 and every year afterwards.




As Thursday's announcement was filtering through, a STRONG 12ma Weekly *Reaction* (STR) to the upside became live, and it was clear many JPY crosses would set off BUY signals. What happened next was a tidal wave of /JPY buying, as all pairs went ballistic; triggering major intraday moves in most currency pairs from the AUD to the Hungarian Forint.

HOWEVER despite the announcement, the charts now show some worrying signs for a continued move to the upside. Short-term intraday and Daily charts are vertical; and the Weekly chart above shows potential for a *3 drives to a top* pattern. If the pattern comes to fruition you can bet on a volatile decline to follow.

We're also now close to a 2.618 expansion of the October 2011 impulse wave which falls on 98.208, and a big 38.2 retracement from the January 2002 high coming in at 98.246. Therefore the **98.200** area should be watched closely over the coming weeks.

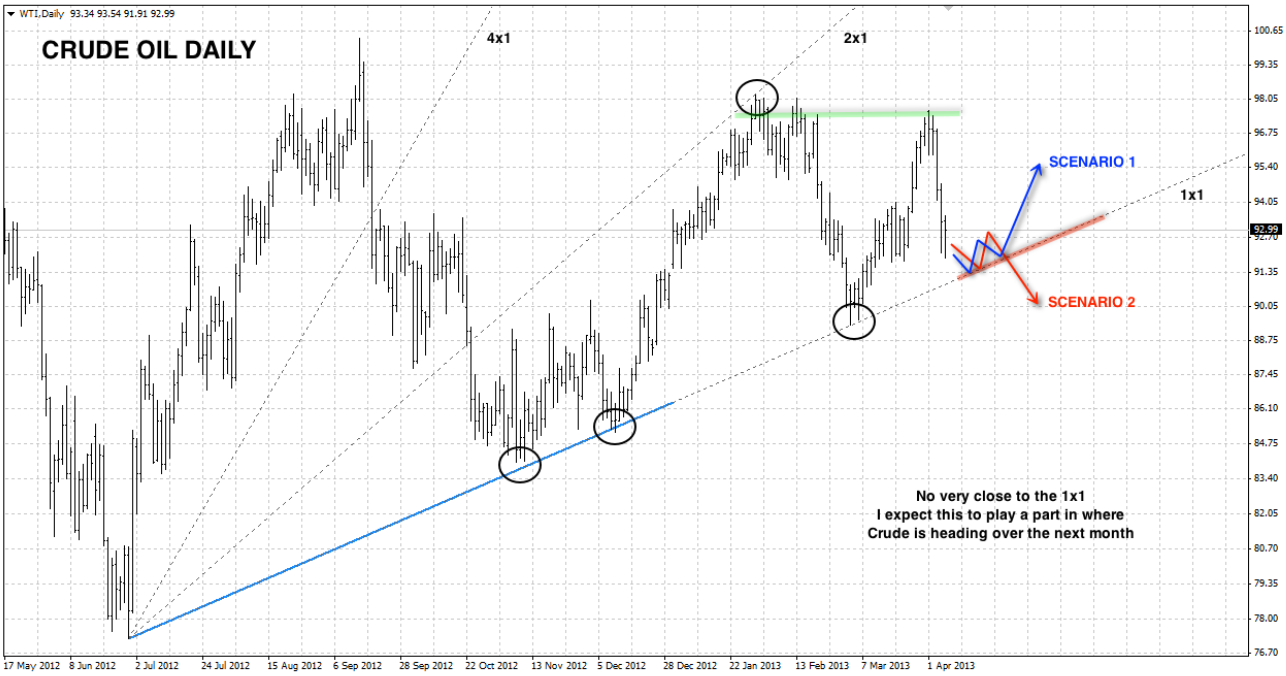
Cyclically Friday 5th April was an important date being 144 days from the MAJOR Sep 13th 2012 LOW and should we *fail to top now*, the next major time counts at 150 and 180 days should be pivotal. April 15, April 26 and May 27 are the next key dates to watch. Also keep in mind we're entering our 30th week of this rally and historically that means the YEN is about ripe and due for a decent correction.

In summary my opinion is this-

I have been extremely bullish on the YEN for the past 18 months and still targeting a move to 98 to cap off what's been an incredible 2200 pip rally. But major PRICE and TIME targets are around the corner. The general public will react very bullish to last week's announcement not knowing the move began 6 months ago and where we've come from. I've warned many times in the past that *when you have big bars in a well-established rally it is generally a sign of exhaustion*.

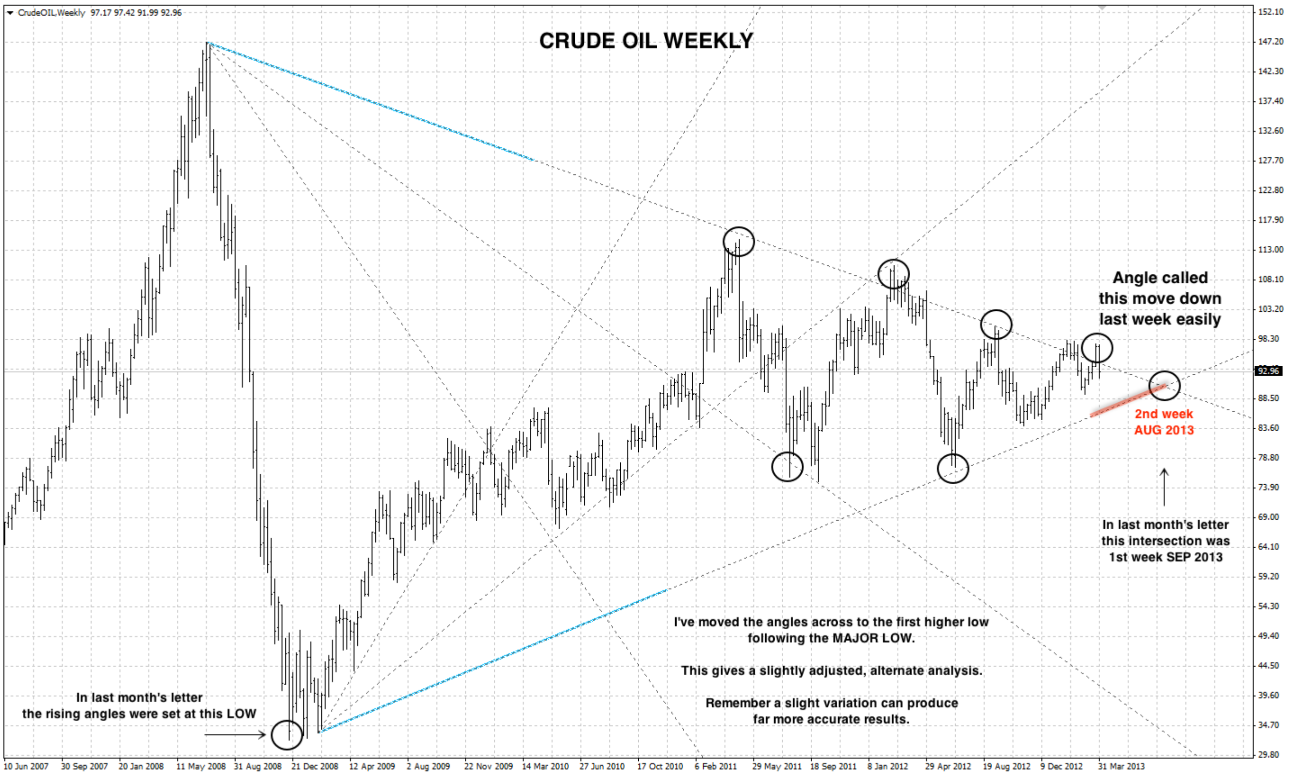
A market that tops on a colossal stimulus announcement would be a dumbfounding question for the general public. And that's exactly how the pros want you to think.

Since last month, Crude worked that $93 level I was looking for before finally breaking up to $97. Now we find a double top at that $97 area.




The scenarios above are simple and for illustrative purposes. The key factor here is the 1x1 angle that's been calling the market over the past 6 months. There are actually a couple more patterns that may play out but the above two should suffice for the rest of April.

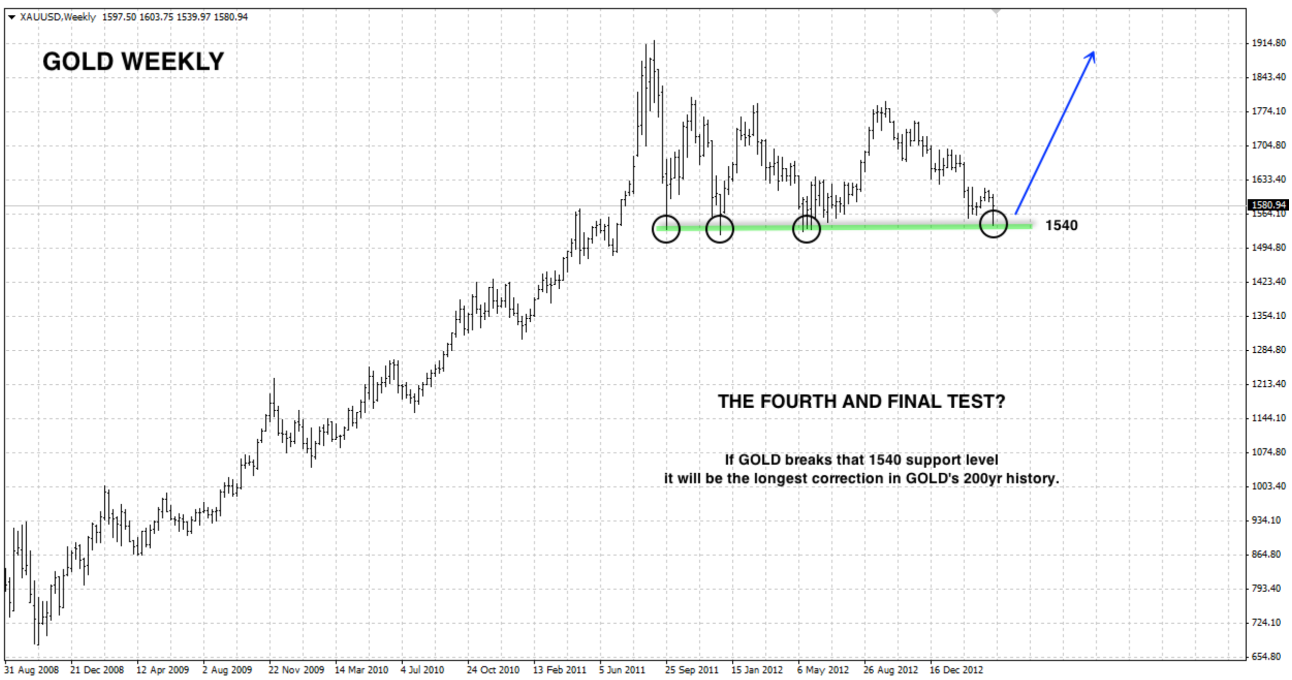
And regarding last week's sudden drop in Crude- the long term angles are still working their magic:



In the comments above we now have an additional turning point in the 2nd week of August to complement the initial 1st week of September date. As we get closer to these dates we'll be able to zoom in and identify the exact day within this 2 week window.

In last month's letter I said Gold is *'basing with a pattern indicating a LOW is in place, with a small chance we'll see a final move down'.* That has happened and it's now make or break for Gold.


The long-term chart below shows how critical the picture is. This is now the 4th test over a 2 year period in what has been a large sideways range. The correction will stand as the <u>longest correction in history</u> with a break below 1540; and should we break, a FAST sell off would ensue as plenty of stops have been building beneath these lows and they will all be triggered.



Historically speaking corrections this long have been followed by 30 – 40% advances which means *if the final LOW is in place* we will see a *dramatic* move to the upside. The only technical problem for GOLD is the SILVER market; which traditionally leads the metal complex however at present is lagging.


**SUMMARY:**

All markets are currently at critical junctures and I would not be surprised to see more 'manipulation' over the following months. Following the GFC, the FED rescued many companies and have since invested in countless others to prevent a repeat and potentially more bankruptcies.

You all know I've been sceptical of government involvement since stimulus packages began in mid-2008. Intervention starves the market of being 'freely-traded' and creates abnormal price action. Add to this mix an ageing population with increased pension/retirement payouts and you can quickly see how governments (and institutions) become more liable as society grows older. It's no wonder these governments are becoming active in the markets, and as a result- companies, industries and financial products are becoming more and more nationalised as each day goes by.

In the short-term markets have changed dramatically post GFC. We're in a new era of intervention and it's something we have to deal with. The governments are here to stay and I don't envisage they'll leave the markets for at least a few years. Which means everyone should understand how to trade around them; and more importantly: **how to get out of their way when they're around.**