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Volume 2 Issue 01

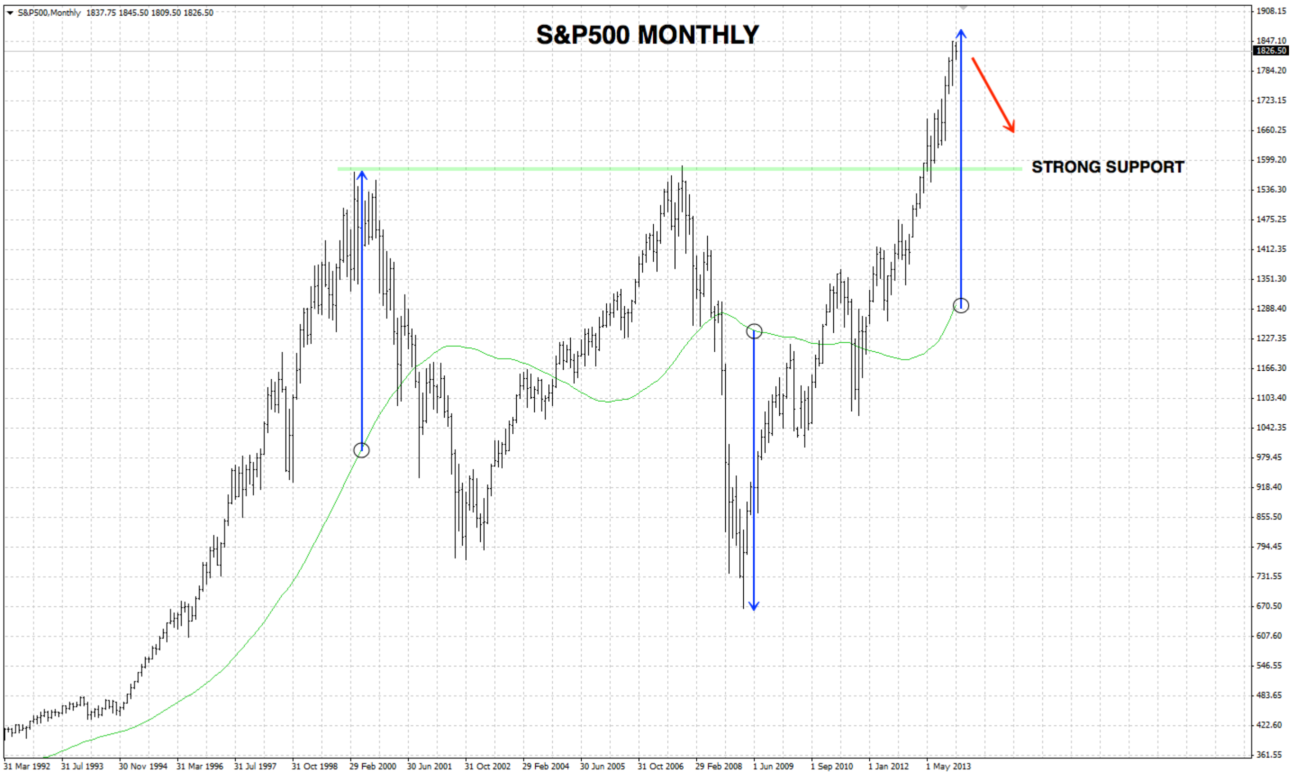
THE GEOMETRIC MARKET

24th January 2014 **S&P500:** 1828.46

Goodbye Helicopter Ben.
Greetings Janet Yellen.
Finally a 'chairman' with a sophisticated mathematics background to solve our financial problems.

Bernanke gave us *'Quantitative Easing'*. Yellen is promising *'Optimal Control'*.
The mathematics are clear: *Adjective + Noun = Monetary policy*.

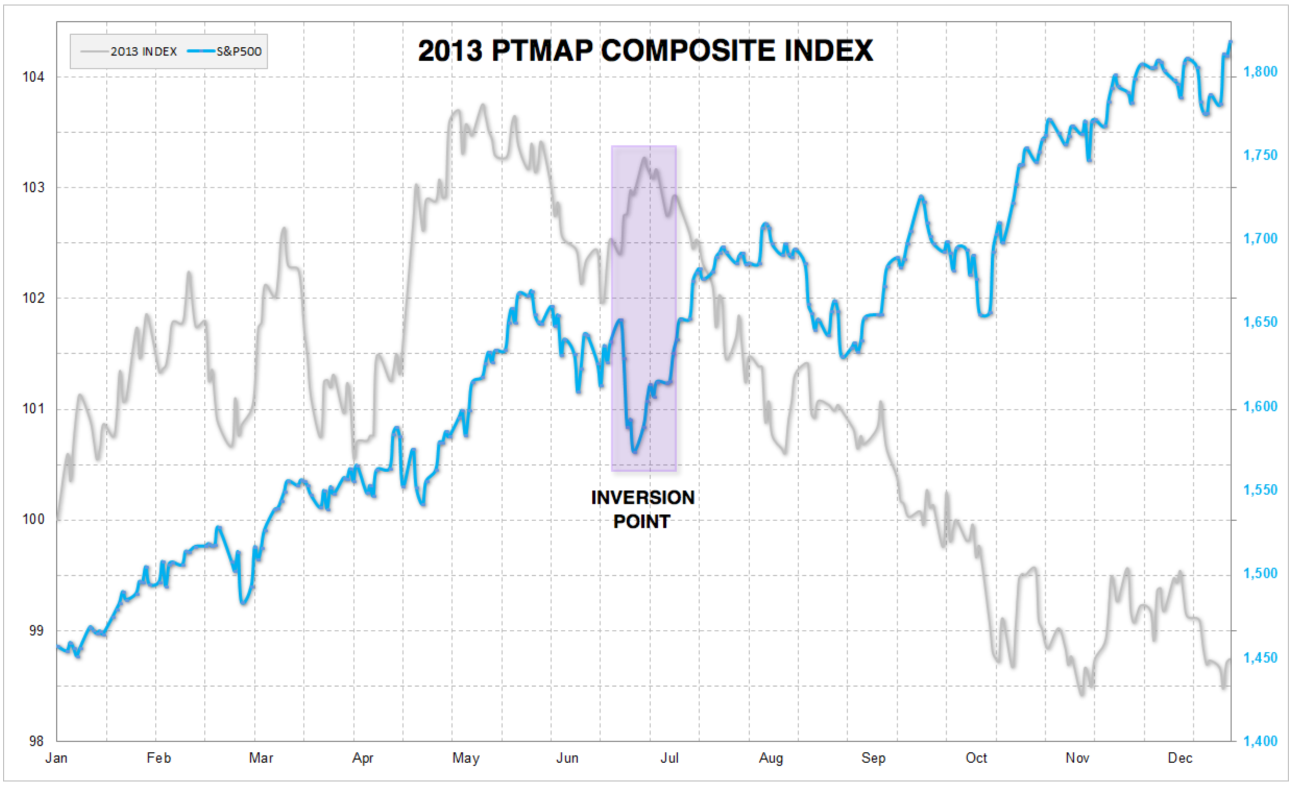
The S&P started off 2014 in blue sky having hit all-time highs. In my aged but timely update six months ago we said 1550 was the line in the sand. We corrected to 1552.75 on the futures and then rallied almost 300 points. We haven't looked back since!



You have to love the S&P. It moves so beautifully. When you're in this market you're live on EVERYTHING. There's no disconnect from the S&P no matter how hard you try, it is a BEAST of a market and in your face at all times. This market has character and demands serious respect.

February is shaping up to be a volatile month. We're *seriously overdue for a correction*. The blue arrows above demonstrate a simple technique highlighting equal extremes from a moving average. Self-explanatory where we are now. Don't get caught on the wrong side.

Last year my cycles had pointed towards a move down for the entire second half of the year.
That chart is below- the PTMAP Composite Index (PTMAP = Price & Time MAP).



Jan – Jun provided a decent roadmap of where the market was heading with very accurate turns.
Jul – Dec was the exact OPPOSITE of what the map was telling me, alas *cycle inversion.*

The pivotal point was clear- where the PTMAP made a HIGH and the S&P made a LOW (June).

If you're looking at this and saying that was easy it is because it's highlighted.
The reality is in real-time inversions are tricky because often:

a) Your mind is set on one thing   or
b) The pattern is not clear especially during volatile periods   or
c) You get erratic behavior following the inversion (mid-August).

Nevertheless by mid-September the inversion was clear as dog's balls. The MAP showed there was one side to be on and that was to be LONG.

My composite index for 2014 says sideways → slightly down for the bulk of the year.

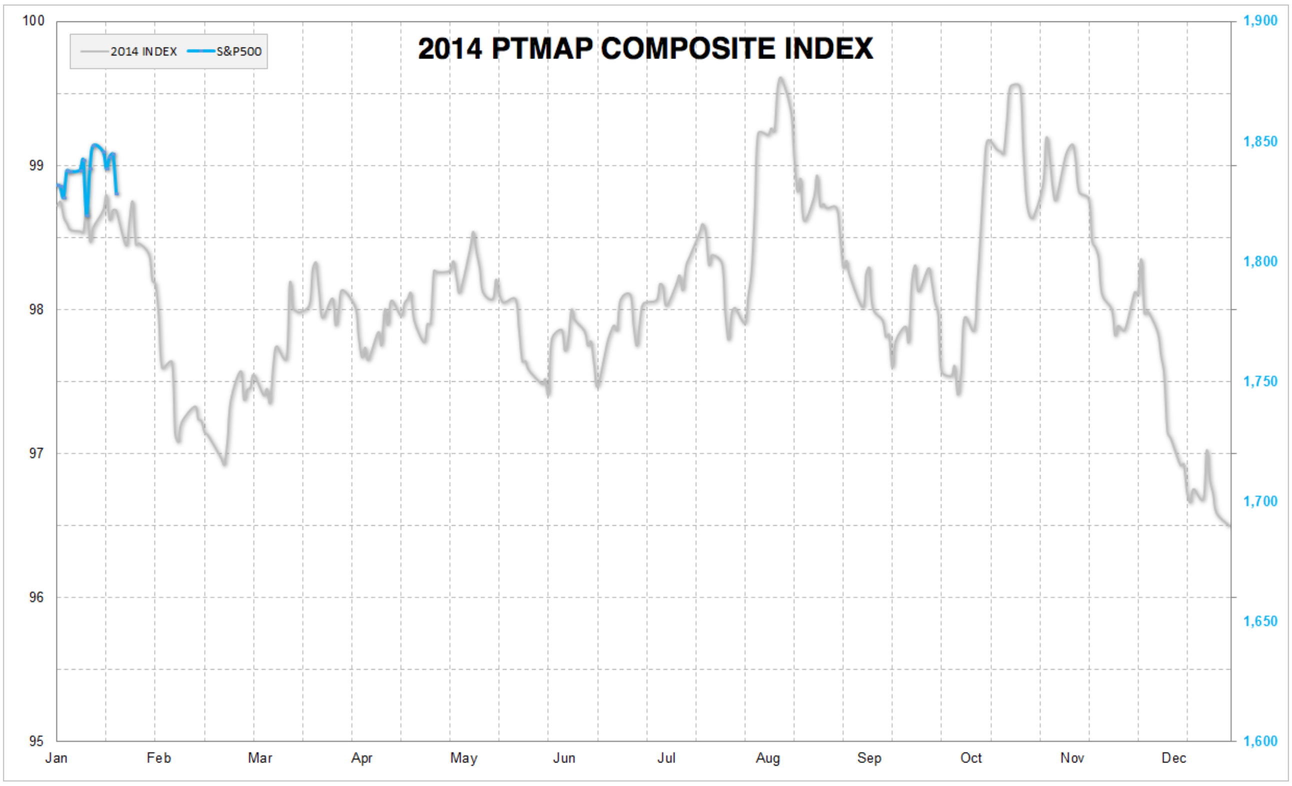
I will say this once about forecasts:

Stay as far away from forecasters as possible. All they will do is cause you grief when you're holding onto a loss hoping the market will come back to save you're ass. **I do not make forecasts.** This chart simply shows cycles that may prove important to other traders.

Forecasting on its own does not make you money. Making money is not about predicting where the market will go. It's about knowing what the market is thinking at any point in time. It's about understanding what the market is telling you, managing the risk, and making an informed decision.

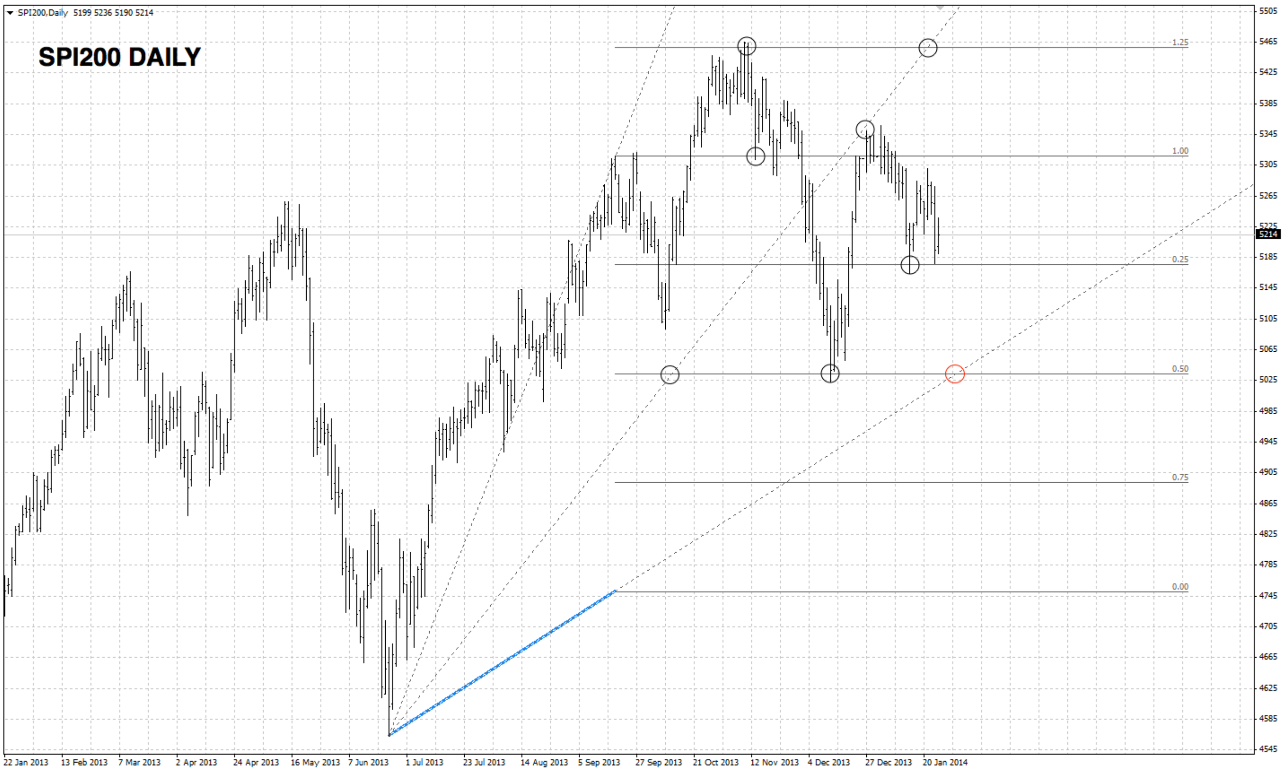
REMEMBER!

I never trade blindly off a forecast no matter how accurate it is. Again I only use this index as a guide should the unexpected happen, and to keep an open mind on some very long term cycles.



One more on the S&P- a BEAUTIFUL Butterfly currently in play. Zoom in for detail.

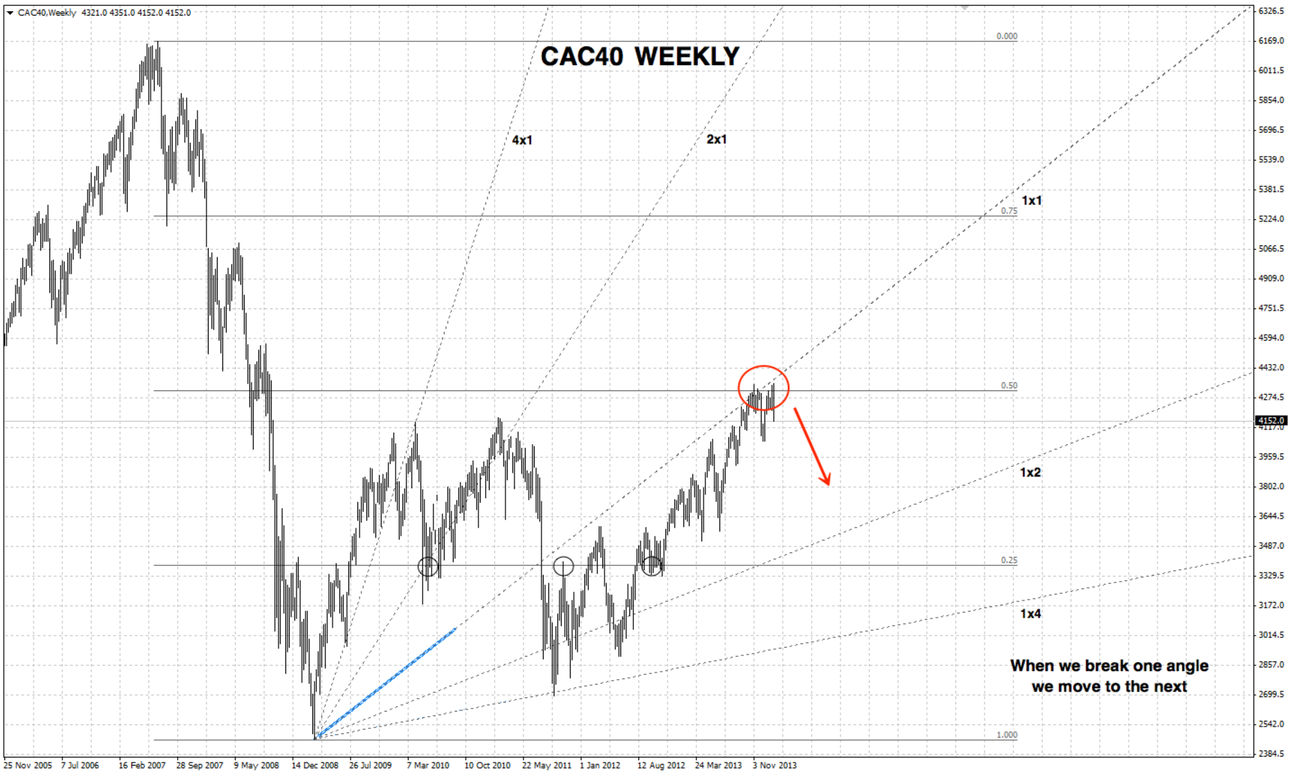
The SPI200 has been showing signs of weakness over the past few months. You can put this down to the falling $AUD cutting into profits or simply a case of another equity market due to correct-



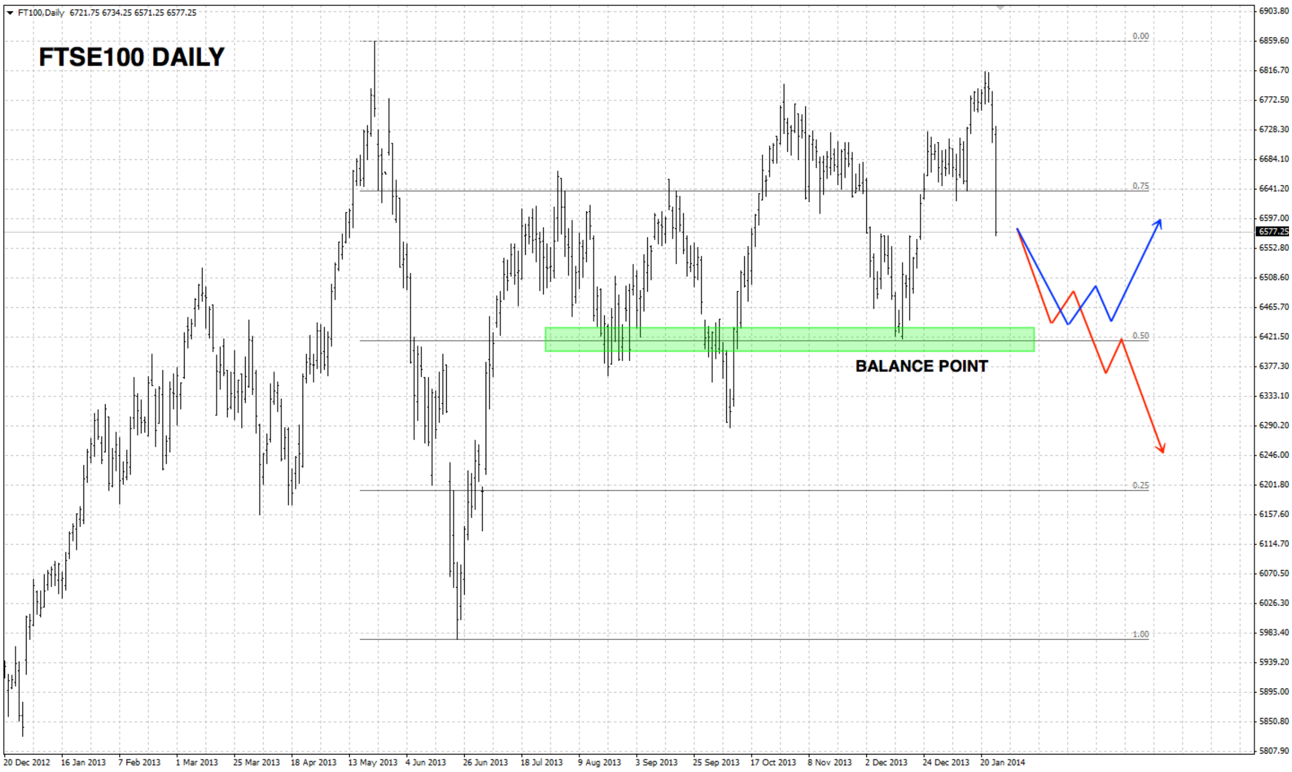
A break of last week's low of 5164 should see us test 5000. Turns everywhere on the chart above.

The Hang Seng has put in a BIG TRIPLE TOP beneath the 2007 high, a very bearish sign. Close your eyes and pull the trigger. Short.

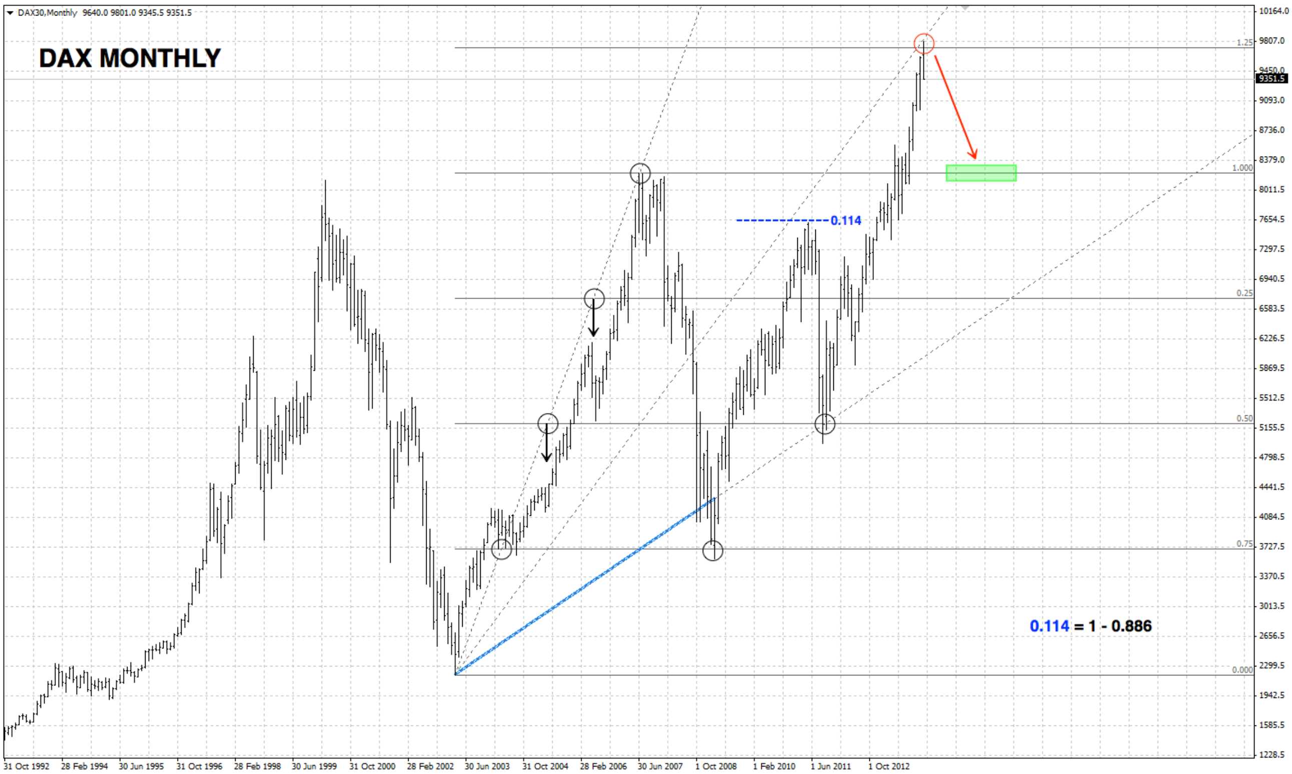
European equities are also looking shaky right now, none more-so than the CAC which is now at the BIG 50 retracement from the GFC low.



The FTSE has also been range bound since May 2013 and now we have a line in the sand at the 50% retracement below:



The DAX reflects the strongest economy in Europe. It's a MONSTER like the S&P but on heat.



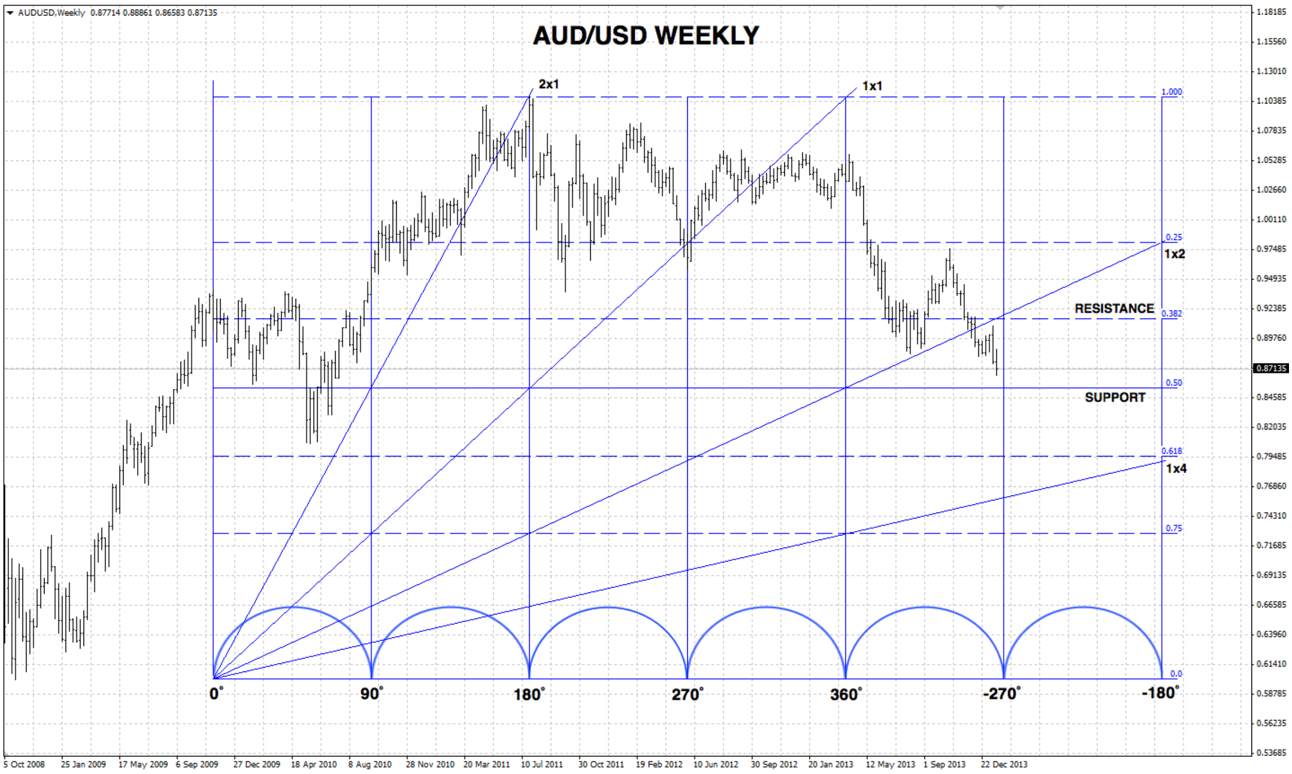
A lot of people ask me why I use the 25/50/75 harmonic levels *and* whether I prefer these over the 38.2/61.8/78.6/88.6 geometric (Fibonacci) levels. The short answer is I use both.

There are times when the harmonic series are applicable and others when Fibonacci takes precedence. With the 25/50/75, you can see in the CAC/FTSE/DAX above three different applications (low – high selection) in three different timeframes. Each market has respected levels and more often than not you get VERY PRECISE turns at these levels. The DAX has been FANTASTIC since the 2003 low. **The same levels respected for 10 years!**

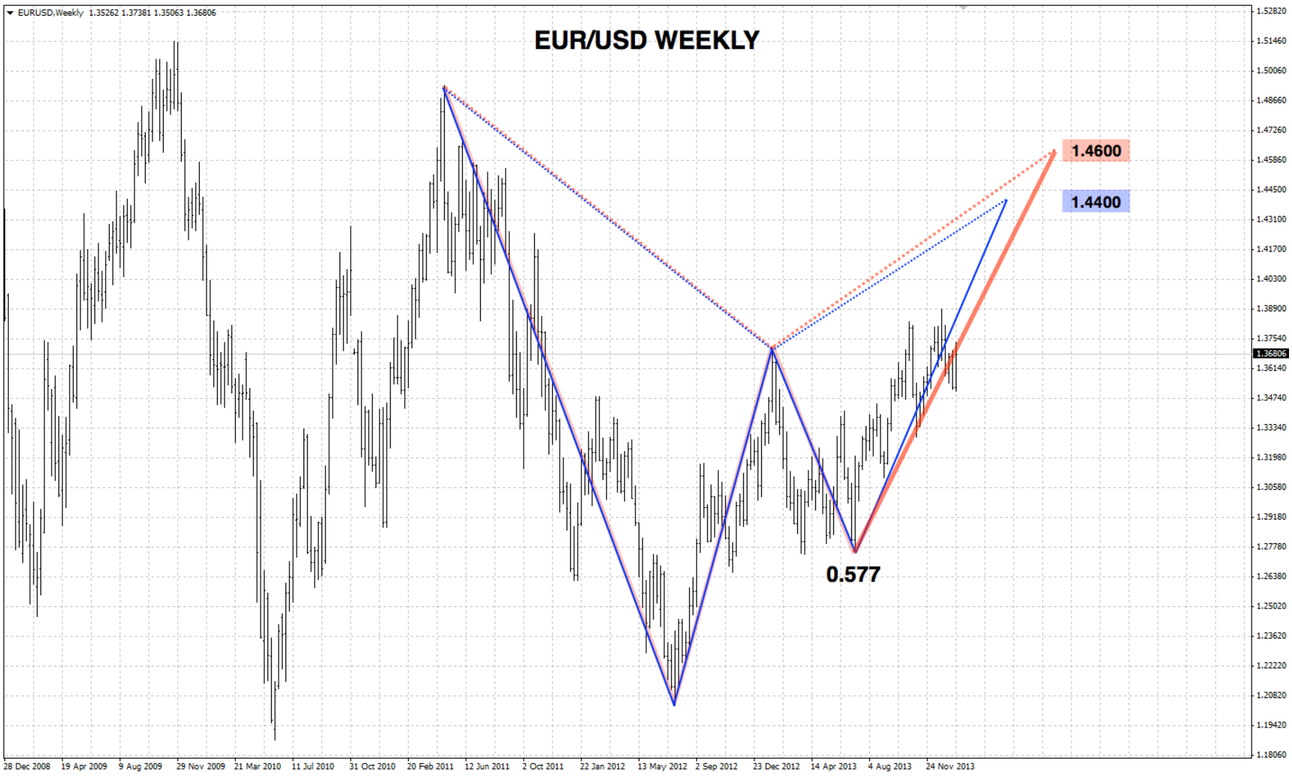
Of course some of you will measurebate and try and nitpick each turn; whilst others will appreciate how much info you can gain from a very simple technique so quickly. Again I'm not in the business of forecasting turns to the exact TICK. Who cares! All you need is a zone or area to work with and formulate a strategy to get LONG or SHORT (or stay out). Stop bitching if your (or my) method does not call the precise turn. It's not needed to make money.

Again I have no preference between the Fibonacci and harmonic series. Each market has its own charm. The S&P LOVES 50%. Harmonics work well with all markets but I've found them best with equities. Currencies love Fibonacci. The DAX works well 25/50/75 but on a 5min it loves 0.618. Commodities can be erratic but throw on some division of 8ths (1/8ths) and you'll get a clear picture. Bonds- also use 1/8ths, but in fairness there's no end to what levels you can employ.

In the past I heavily used Gann's Square of 9 and 12 but these do not serve my purpose of short-term trading anymore. This doesn't meant they don't work in the short term, THEY DO! It all depends on how you use the technique and what you use it for. At the end of the day you should have all the tools at your disposal, use what you know and understand what you're using them for. For example- a 0.618 level is not the same as a 0.786 and should not be treated the same.

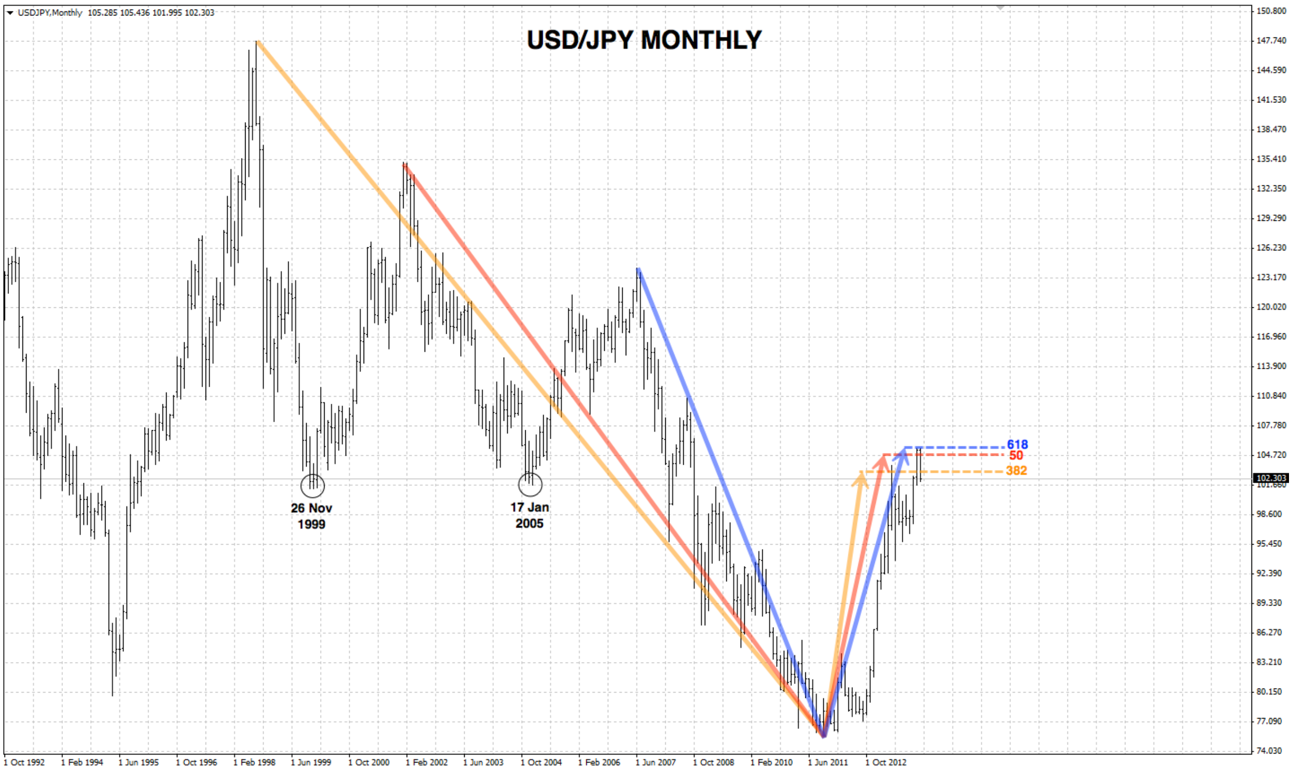


$AUD also looks like its heading lower, I expect to see that 0.8500 support handle hit.
This is an alternate grid overlay for the AUD with 44 week cycle.



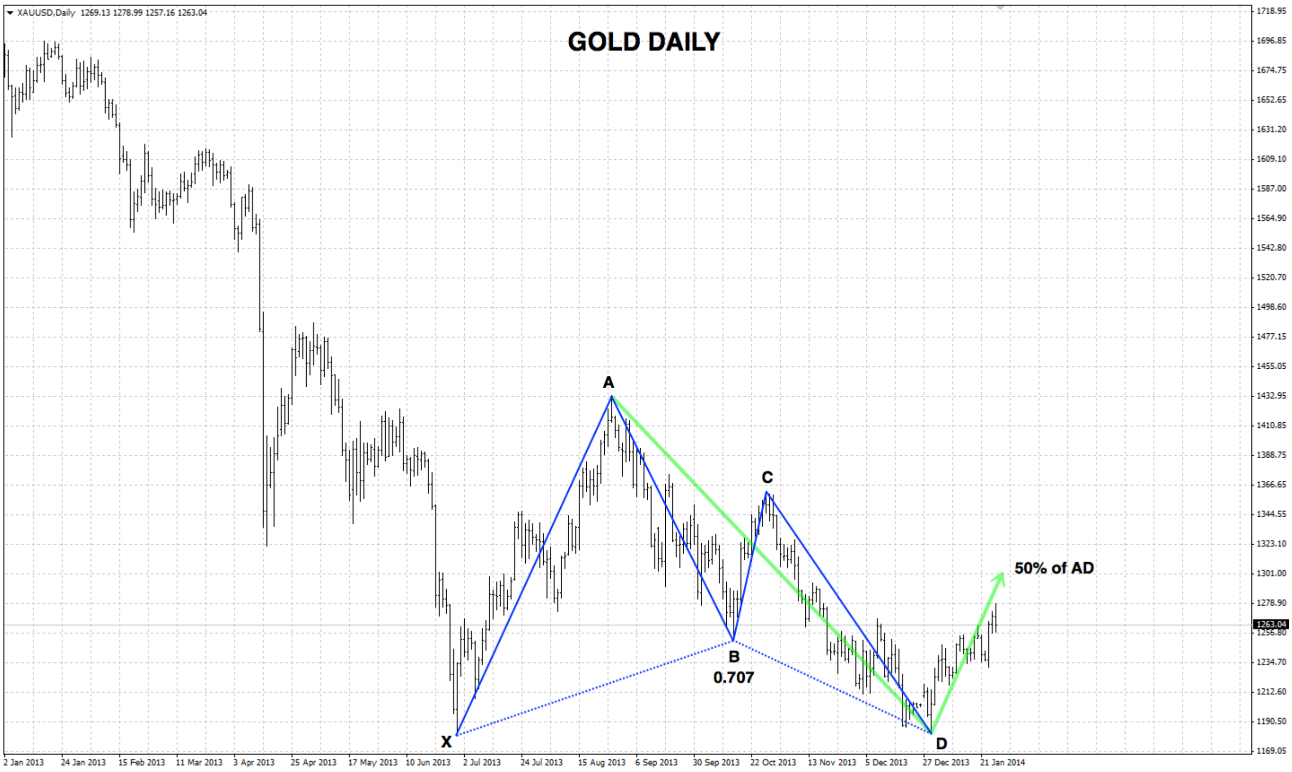
EURO currently range bound between 1.3500 and 1.3500 but medium term trend is still up suggesting higher prices to come.

The YEN faces its first serious test of resistance since Abenomics became all the rave. The confluence of Fibonacci levels **going into previous support** (LOWS in 1999 & 2005 = future resistance) should scream warning bells. In fact all JPY crosses have hit vertical and look like potential bubble scenarios, particularly the AUD/JPY.



Bigger picture Crude is still coiling in a tight range. You can see this from the monthly charts posted last year. When we break out a sizeable move will occur. Short term this is what I expect:

Gold has witnessed its 4th greatest decline in history following the bear markets we saw between 1970 – 1980. The 0.577 tan 30° retracement from the 2008 GFC low is still holding at 1180. I expect this low area (lows at ‘X’ and ‘D’) to hold but don’t rule out a possible false break. Gold bear traps occur regularly at the end of bear runs, as professionals run lows and trigger sell stops only for the market to reverse higher.



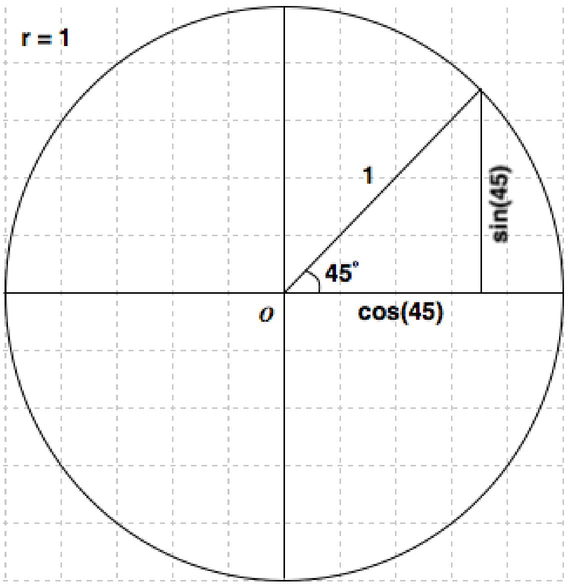
I’ve spoken about the 0.577 harmonic in the past and similarly when a market moves beyond a 61.8% retracement but never quite reaches a 75 or 78.6%, it will almost always turn on 0.707. The geometry and proof is below and you will find 0.707 occurs all the time.

$$\frac{1}{\sqrt{2}} = \frac{\sqrt{2}}{2} = \sin(45) = \cos(45) = \mathbf{0.707}$$

In proportion- 0.707 is known as the sacred cut and is just as important as the golden mean φ (0.618). When both come together you often find significant geometry and reversals.

In GOLD above point **B** fell on a 0.707 of XA whilst point **C** retraced to a 0.618 of AB.

Also above-
AB = **CD** to complete an almost perfect Gartley pattern
with a double bottom to boot at point D. It doesn’t take a genius to understand D was a great buying opportunity.



SUMMARY:

Regarding 2013-

The FED printed over trillion dollars last year creating a lot of liquidity in the system. This created trust and so 2013 was all about confidence in the FED to act swiftly to provide liquidity. If the FED can print money ad nauseam (which they can), you can’t make money being SHORT for a sustained period of time until the printing stops. And the only way the FED would stop QE is <u>if they lost control of the BOND market</u>.

BOND prices have now dropped ~17% down off its highs, at a time when the FED was still buying BONDS. Fundamentally that makes no sense. Prior to QE3 I spoke about the larger 30yr yield cycle in play which will kill the BONDS market. That is underway and anything the FED does will only stall a further collapse of the BOND market. Bonds have been in a bull market since 1980 so we’ll either see a prolonged bear market for the next 10-20 years or a severe destructive period over the next couple of years.

Going back to the FED- if Yellen decides tapering is the way forward equities *will* decline as the bears will have a catalyst to run with. The fundamental impact of tapering means the cost of financing rises which will impact US equities. Will the US then enter a fully-fledged bear market? Probably not. US companies are still cashed up and reporting good earnings. However should volatility rise + issues in Asia continue + emerging markets blow up, the landscape changes and the bears will stick around.

Regarding 2014-

Last year the S&P was up 30% in blue sky. Anytime a market breaks to new highs you expect it to continue in that direction as it follows the path of least resistance. HOWEVER you should expect that after a +30% year there will be a lot of distribution the following year. It is plain silly to think the market will continue to rally in 2014.

Currently there are major cycles in play (particularly the 30, 60 & 90 yr cycles) that when overlaid show a very similar picture to the current picture. These cycles point towards corrections for the first 1-3 months at minimum. This is also looking the case for many markets worldwide right NOW. Adding to this we’re now in the thick of US reporting season. The general vibe is whilst big corporations are cashed up, small companies and certain multi-nationals are reporting disappointing numbers due to local currency fluctuations (affecting gross margins).

In short I’m not too excited over equities yet, but definitely keeping a close eye on Bonds and Commodities. I’m expecting plenty of action in commodities this year; but before any of that happens we have an important event this coming week- Bernanke’s last FOMC as chairman.

To taper or not to taper? I don’t know.
As long as Liverpool smash Everton in this week’s derby all will be fine.