

# CandleWave – Action Suggestions for Wednesday, January 4, 2012

## A. The Indexes

There was no Push during the final minutes of trading today (January 3). Instead, prices collapsed during the final five minutes. The Dow fell below its previous intraday Low of 12388.83, thereby “closing the loop” and indicating that the bounce from the intraday Low is over and that prices should resume dropping in a “third wave Down.” The Transports Index closed almost exactly where it was at last Friday’s High, and below last Tuesday’s High. The NASDAQ 100 and the SP 100 held on the best of all of the Indexes today. The NASDAQs and the Russell 2000 have now formed “island top” patterns, which are bearish. The Russell displays a “Shooting Star” reversal Daily bar. The S&P 500 is barely above the Neckline of the Head & Shoulders Top, as shown in my article “Fasten Your Seat Belts For A Bumpy Ride” published yesterday in “Global Economic Intersection” (see below).

In the Dow, the ending price today (12397.38) still leaves it 56 points above the 78.6% retracement of the decline from the major High of May 2. I think it’s more probable than not that this spike was the “last gasp” of the countertrend rally which began on October 4; that prices are likely to be “lassoed-in” by that retracement level within the next few days; and that prices are likely to resume dropping soon. The alternate possibility is that the rally from October 4 is not yet over, and that prices could make one last foray higher; but I do not think that they would top the High of May 2.

## B. Gold

Gold has been bouncing out of a Low. It appears to be peaking, at least on a short term basis. There may be a Shorting opportunity in Gold now. Its long term trend is Down. The rally from September appears to be over.

## C. Silver

The situation in Silver is exactly like that in Gold, except that it appears that Silver already has turned the corner and is heading Down.

## D. Crude Oil

Crude leaped Up \$4.13 to close at \$102.96, on the strength of increasing tension in the Persian Gulf/Strait of Hormuz. The US Navy had left the area in anticipation of Iran’s missile tests, and has warned the US not to return. It is very dangerous for a Twistor to twist the tail of a tiger. He runs the risk of becoming the Twistee, or eaten.

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## The Bonds (TLT)

The stock Indexes rose, whereupon TLT declined, which is to be expected, because normally they run opposite each other. TLT is now just below a Support trendline. Furthermore, TLT’s Candlestick pattern today was a “Doji,” a reversal pattern in which the Open and the Close are the same, or very nearly so – in this case, 119.42 and 119.43 respectively; although the significance is attenuated because the pattern did not appear at the top of a long advance or at the bottom of a long decline. Even so, we pay attention, especially because the Support trendline has been breached. In any event, when the Stock Indexes begin to decline again, TLT will rise.

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## FOREX

### EUR-USD

Please see the attached chart for an exposition of a Candlestick “Osaka Clipper” Reversal Warning Pattern in this pair. I do not believe that the bearish intimation of this pattern has yet been fully felt; although we must remember that it is only a 10-minute chart, and every Reversal pattern lives within its own environment. I just wanted to show you what a real-life “**Osaka Clipper**” looks like, right after it formed (see attached Candelaabra<sup>®</sup> chart). Every Candlestick Reversal Pattern carries the same implications, whether bullish or bearish, in all time frames – but within the environment of its own time frame. For example, we cannot expect that an Osaka Clipper which appears on a ten-minute chart would have great implications on a Monthly basis; but an Osaka Clipper which appears on a Monthly chart would indeed have long-term implications.

The Euro began to bounce up out of a Low yesterday, and continued today. It appears already to have peaked at about 2 PM today, and dropped hard a couple of hours ago. It may bounce slightly now; but it appears to have turned the corner and is declining again. In the longer term, lower prices lie ahead.

### GBP-USD

The pattern in the Pound looks very much like that in the Euro. The same observations apply.

### AUD-USD

The AUD has come down from a top and has now found a short term Low. The immediate prospect is for a rise.

### USD-CAD

The USD finally found a Low, and has bounced out of it. I think that the advance is not yet complete.

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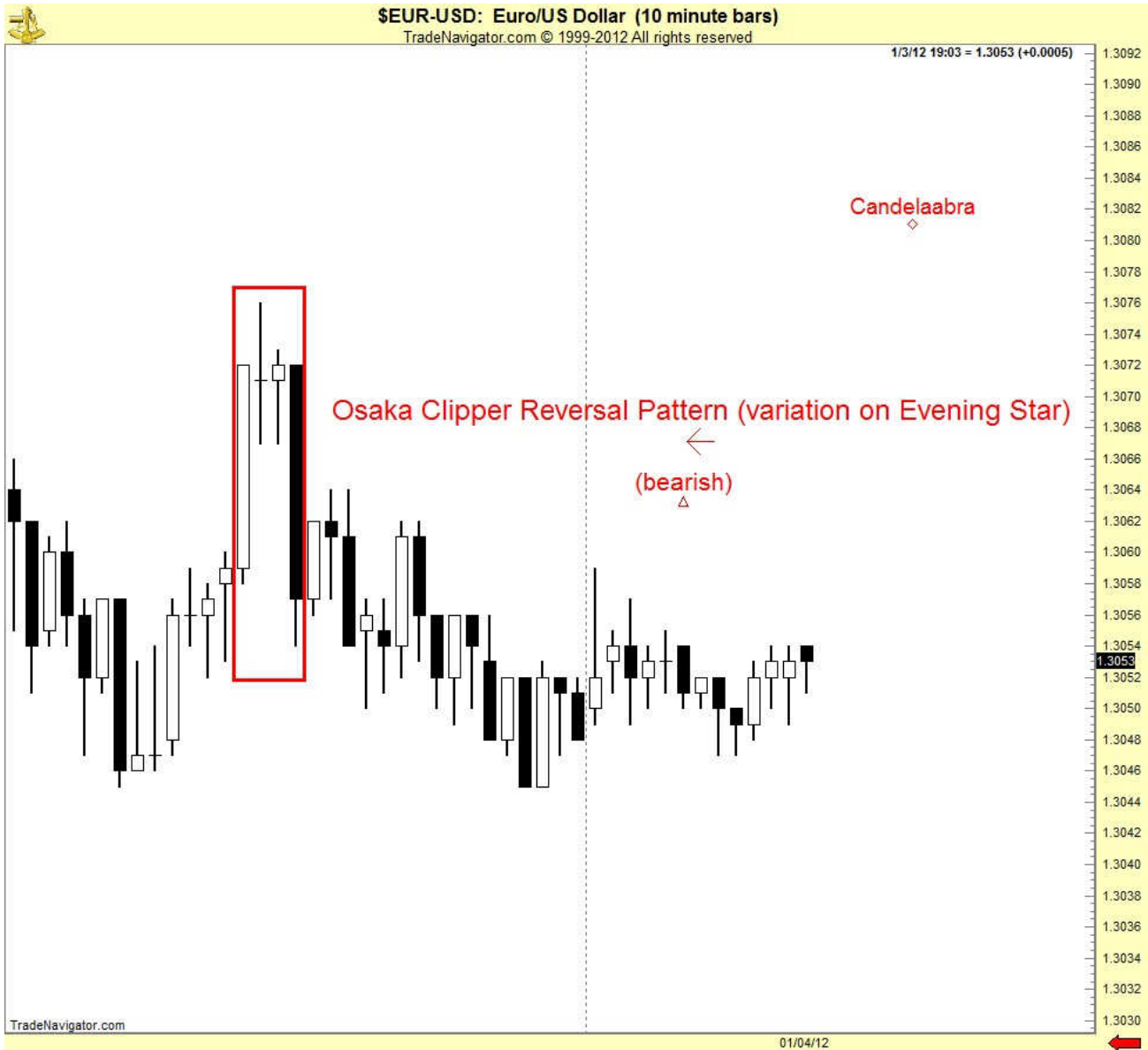
COP rose today along with the general market. It is vulnerable to a selloff.

X is vulnerable to a selloff.

PCAR is vulnerable to a selloff.

UNP is vulnerable to a selloff.

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Respectfully submitted.

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# CandleWave's Daily 3:30 PM Stock Market Peek January 4, 2012 - First Look

10:23 AM EST

The market opened lower this morning. The Dow is Down 7 points at 12390. The NASDAQ Comp gapped down on opening, as did the NYSE Composite. The SP 600 and 400 fared the worst. Following the initial falloff, the Indexes have climbed slightly. I don't see much vigor in the buying. Prices tend to fall more quickly than they're rising, in very short term moves.

The Euro declined overnight, as anticipated. It appears not yet to be at a tradable Low. The Pound followed the same pattern overnight, also as expected, but it has hit a Low and bounced - and is on the way Down again.

The AUD did rise after I wrote last evening, as expected, hit a High, and now has fallen again. In the USD-CAD, the USD did rise slightly to a peak about an hour ago, but it appears that it has not yet found a longer-term Low.

Gold did peak overnight, as I thought it would, then fell off, and is now bouncing again and will peak soon.

Silver has declined slightly; but it appears that the decline is still running.

"Final Look" at the stock Indexes: (10:18 AM) - they're falling. The Dow is now at 12358. The SP 400 and 600 have given up almost all of yesterday's rise. So has the Transports Index. By comparison, the NASDAQs are holding up fairly well.

My guess is that the markets will continue to fall.

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Respectfully submitted.

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## CandleWave's Daily 3:30 PM Stock Market Peek (TM) January 4, 2012 - Second Look

2:36 PM EST

2:30 PM - The Dow dropped to a Low of 12337, and at the moment has bounced in a recovery of about 55% of the drop from yesterday's High. The SP 500's and the NASDAQ Comp's and the Transports' bounces are about the same; the SP 100's and the NASDAQ 100's bounces are higher. The SP Midcap 400 and especially the SmallCap 600 are especially weak.

As I write, the Indexes have become overbought now, in the short term. All of these bounces seem to be starting to top out. A drop below the (so far) intraday Lows today would confirm a downturn. In the Dow, that Low (so far) is 12337.25. In the SP 500, it is 1268.10.

For several weeks, price retracements have been uncommonly deep. This one might turn out the same way; but at the moment I don't see any desire to push prices above their respective 61.8% retracement levels.

The Euro seems not yet to be at a tradable Low.

The Pound continues on the way Down, as expected.

The AUD has hit a High, as remarked upon earlier, and continues Down.

USD-CAD: The USD has not posted the anticipated longer term Low vs. the CAD.

Gold - the "peak" of which I spoke earlier may have occurred at about 2 PM. I don't see an attractive trade in Gold.

Silver's decline is still running.

"Final Look" in the Indexes: The rollover has been suppressed. Prices have stabilized at about 12410 in the Dow, which is just above the 50% retracement level of the drop from yesterday's High. Bulls try to push prices higher; but the attempts fail, so far.

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Respectfully submitted.

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## **CandleWave's Daily 3:30 PM Stock Market Peek (TM) - January 4, 2010**

3:30 PM EST

3 PM - The Dow advanced just a little more, almost to the 61.8% retracement line of its decline from yesterday's High, and has now stopped and turned Down. The SP 500 met its own "618," and has stopped and turned, too. The other Indexes also have stopped and turned. We shall see whether this holds. I don't see the likelihood of a Push today that would top yesterday's High in the Dow (or that would top any of the other Indexes's yesterday's Highs, either).

3:10 PM - the top bounce in the SP 400 today has only taken it to a point a little above its 38.2% retracement; the 600 did not even make it that far. The Transports Index has not gotten as high as the 61.8% retracement....

3:15 PM - all of the Indexes are heading Down now. The Dow is at 12405. It is possible that the Indexes' peaks in their bounces from Lows earlier today are now past. We will know that the bounces are over when prices fall below today's intraday Lows, posted earlier today.

3:20 PM - Bulls are not able to keep prices Up....I see very little chance that yesterday's High will be surpassed; and if it isn't surpassed, that means that the Rally from October 4 is over and done with.

3:25 PM - there might be a final Push today, perhaps to the vicinity of 12450 (78.6% retracement) in the Dow; but that should end it..The Bulls are not able to push prices Higher; Dow is at 12497, essentially flat for the last 30 minutes...

3:30 PM - no real change; just a touch of buying puts the Dow at 12410...but then it drops back. I have no feeling one way or the other about the likelihood of a Push...but even if it comes, I doubt that it would top yesterday's High. 12450 or so ought to be the limit...we shall see.

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## CandleWave's Daily 3:30 PM Stock Market Peek (TM) January 4, 2012 - Follow Up

3:46 PM EST

3:36 PM- Bulls are pushing prices Up. Dow is at 12422, on the 61.8% retracement line.

3:40 PM - The Dow is hesitating right at that line...Bulls are having trouble making further headway...prices rotate around that line; activity has picked up.

3:45 PM - tiny advances fall right back to that line. And now we have a black candle....which is growing. It's hard to see a meaningful Push today...black candle grows. We've probably seen the high of the day.

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Respectfully submitted.

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The chart of the S&P 500 Index shows that the 500 has retraced about 63% of that decline, and that it is again challenging, from below, the "Neckline" of a bearish Head & Shoulders Top formation. As you can see, that Neckline has proven in the past to be strong Resistance to further price advance. (Not necessarily an absolutely unbreachable Wall, but Resistance). It should prove to be strong Resistance again.



*Click on chart for larger image.*

The chart of the Russell 2000 Index shows that a Candlestick Bearish Engulfing Pattern emerged in May 2011 at the top of a long price advance; and true to form, prices declined, eventually to the Low of October 4. As in the case of the Dow Industrials and the S&P 500, the Russell 2000 has been retracing a portion of its decline from May 2 to October 4; but the Russell's retracement has been markedly weaker - only about 54%, compared to the Dow's 76% and the S&P 500's 63%.

This tells us that the countertrend rally since October 4 represents a concentration of institutional investors' interest in the large-capitalization stocks - the "cream of the crop," the 30 stocks which make up the Dow Jones Industrials Average Index; while the "retail investor," who typically focuses his interest on the lesser-capitalized stocks which are included within the Russell 2000 Index, may be less sure that the rally "has legs." The Dow Industrials Index has been the locomotive, while the Russell 2000 has been the caboose.

I think that the rally is coming to an end. The Dow, especially, is greatly overbought. Our Indicators are suggesting strongly that a peak is very near. The 78.6% retracement level should pose resistance to further price advance in the Dow; and there are other internal

resistances just above that level, as well. Dow 12500, or possibly 12600, should be about as high as it should go.

When the tide turns, that will be the kickoff to a very long decline, probably increasing in strength as it goes, which eventually will drive the Indexes to a point below their Lows of March 2009, at the start of the Great Rally.

"Fasten your seat belts; it's gonna be a bumpy ride."

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