

# DOW Weekly bars

Anti Deflationary liquidity creation rally  
March 2003 --->



## EWP on the DOW and S&P 17 July 2005

The complexity of the last upswing, 03E, is now sufficient that if the DOW started south and broke the lower wedge support line it would have met all the criteria for the top. The DOW is again at that mid-point between the two containing lines of the wedge, where often reversals start. The less likely alternative is from a false break of the upper containing line.

Each major upswing from the IRAQI WAR LOW is now lower momentum, suggesting a weakening. This indicates a genuine top is most likely forming. (This pattern is not yet confirmed in the S&P, see next chart.)

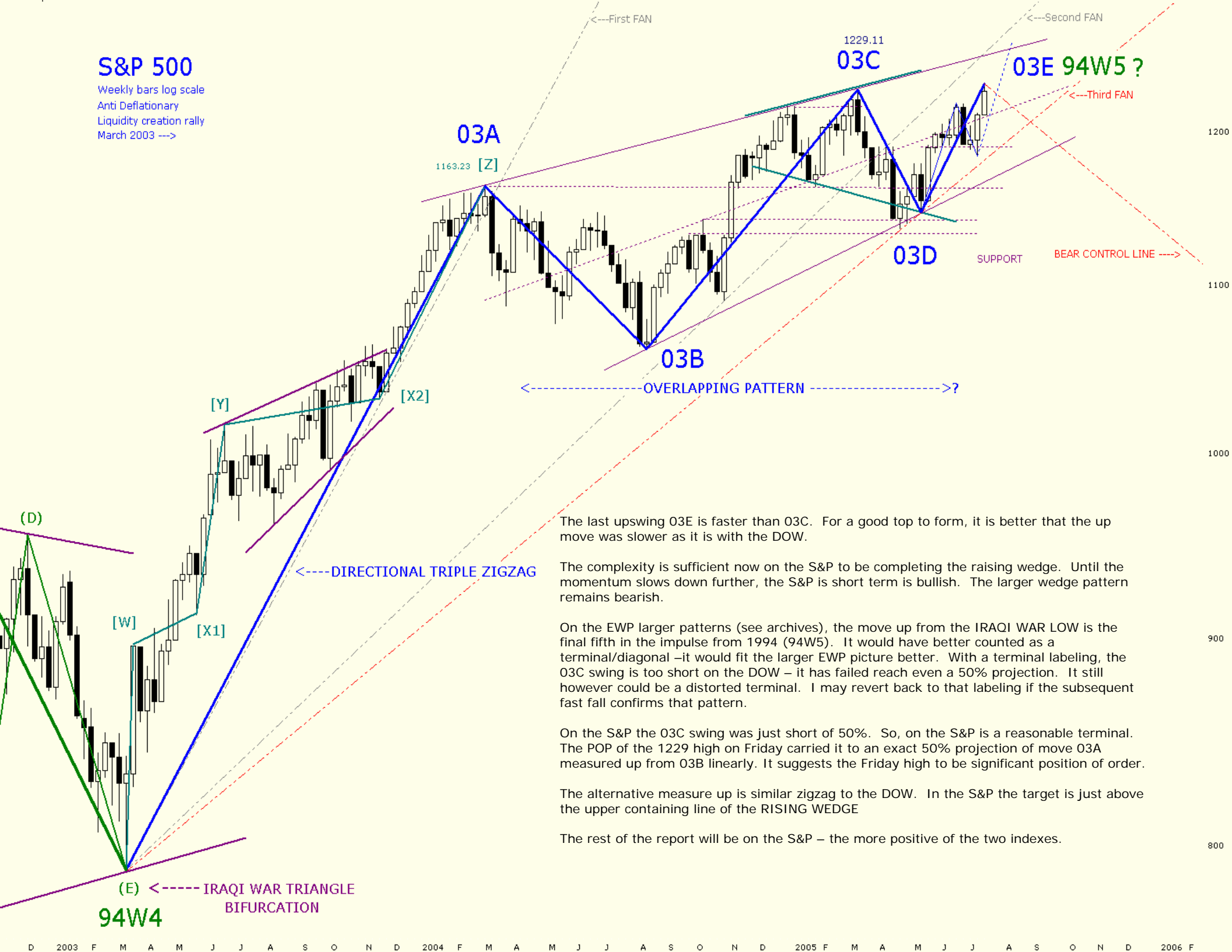
The dotted blue projection line from the London bombing low suggests slightly more to the upside on a one for one measure within the 03E swing. A possible reversal position was reached on Friday in the S&P when it popped the post IRAQI WAR HIGH.

94W4 THE IRAQI WAR TRIANGLE

↑ <---BIFURCATION ON THIRD LOW

# S&P 500

Weekly bars log scale  
 Anti Deflationary  
 Liquidity creation rally  
 March 2003 ---->



The last upswing 03E is faster than 03C. For a good top to form, it is better that the up move was slower as it is with the DOW.

The complexity is sufficient now on the S&P to be completing the raising wedge. Until the momentum slows down further, the S&P is short term is bullish. The larger wedge pattern remains bearish.

On the EWP larger patterns (see archives), the move up from the IRAQI WAR LOW is the final fifth in the impulse from 1994 (94W5). It would have better counted as a terminal/diagonal – it would fit the larger EWP picture better. With a terminal labeling, the 03C swing is too short on the DOW – it has failed reach even a 50% projection. It still however could be a distorted terminal. I may revert back to that labeling if the subsequent fast fall confirms that pattern.

On the S&P the 03C swing was just short of 50%. So, on the S&P is a reasonable terminal. The POP of the 1229 high on Friday carried it to an exact 50% projection of move 03A measured up from 03B linearly. It suggests the Friday high to be significant position of order.

The alternative measure up is similar zigzag to the DOW. In the S&P the target is just above the upper containing line of the RISING WEDGE

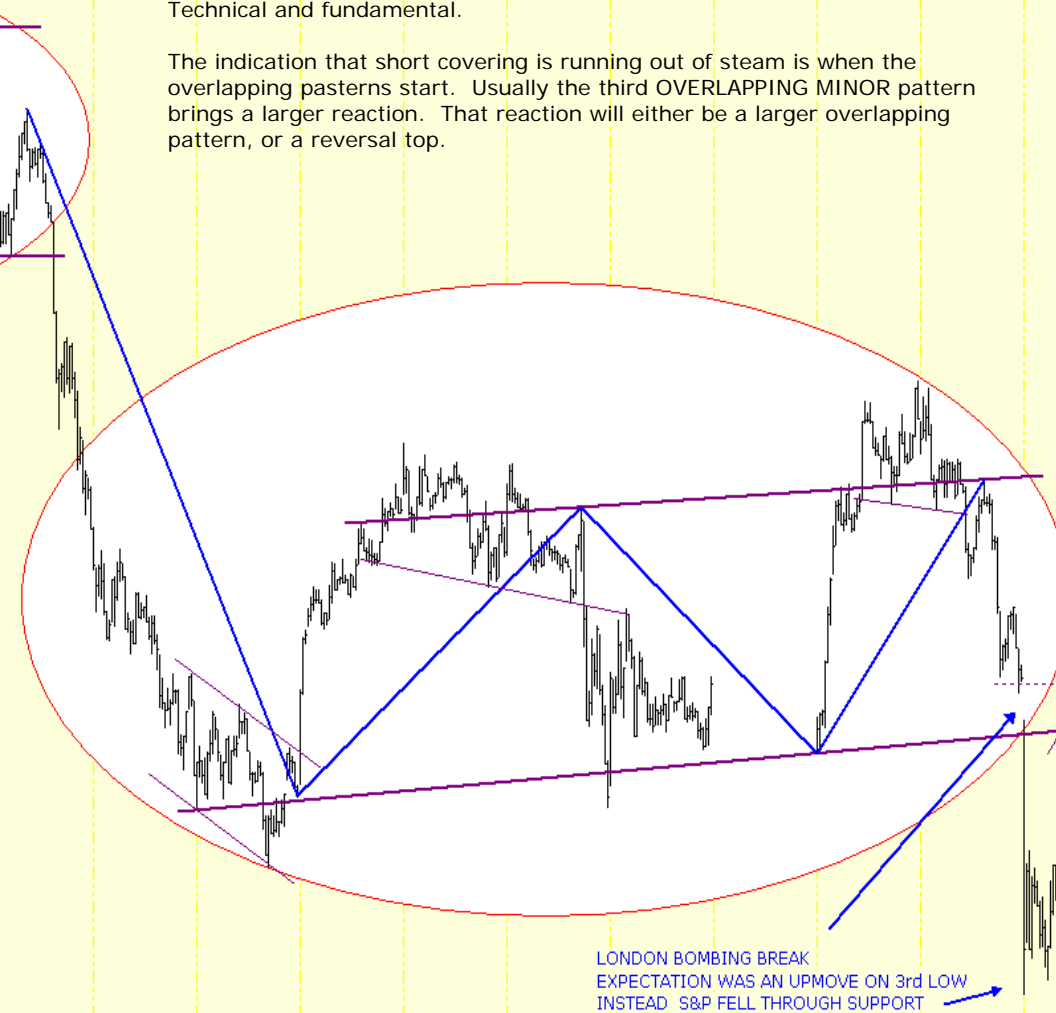
The rest of the report will be on the S&P – the more positive of the two indexes.



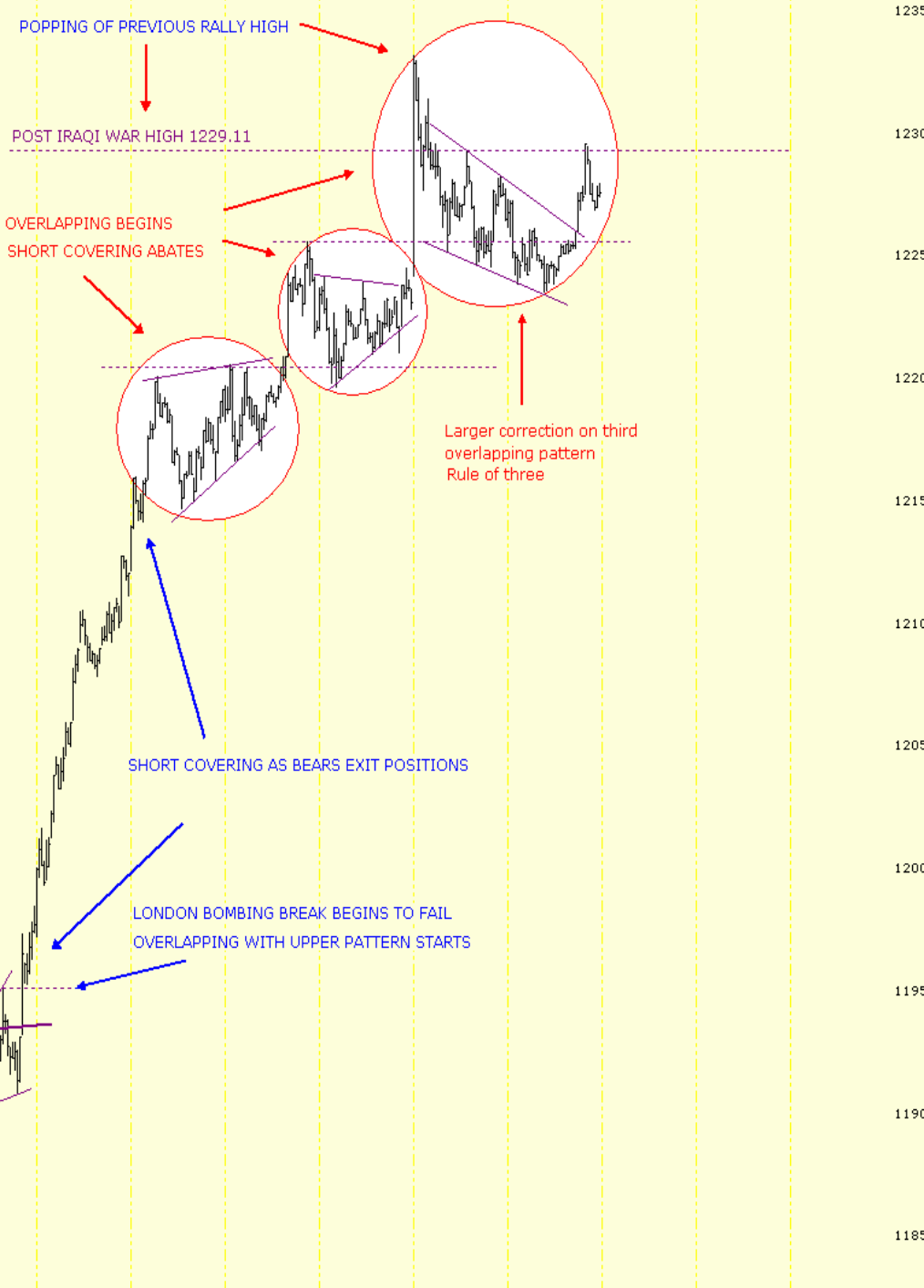
The expectation was that the S&P would bounce on the third low near the lower magenta line of the pattern. However, overnight, the London Bombing dropped the S&P futures and the S&P cash broke below pattern support immediately on open. That was short lived. Stress lows nearly always give good buying opportunities. Occasionally they do not work, as was the case with WTC bombing. I know of two traders that paid a heavy price stepping into in front of that freight train.

Usually if a break fails, as with the London bombing, and the reaction breaks back into the pattern, there is a strong tendency to test the upper limits of the overlapping pattern that started the break. In Elliott it is the nature of the final fifth that returns back to its source at wave four. The volatility has increased over the years as more and more derivatives are traded. Derivatives have the attribute of stabilizing markets and reversing excessive moves. They also have increased tactical trading as opposed to Technical and fundamental.

The indication that short covering is running out of steam is when the overlapping patterns start. Usually the third OVERLAPPING MINOR pattern brings a larger reaction. That reaction will either be a larger overlapping pattern, or a reversal top.



LONDON BOMBING BREAK  
EXPECTATION WAS AN UPMOVE ON 3rd LOW  
INSTEAD S&P FELL THROUGH SUPPORT



POPPING OF PREVIOUS RALLY HIGH

POST IRAQI WAR HIGH 1229.11

OVERLAPPING BEGINS

SHORT COVERING ABATES

Larger correction on third  
overlapping pattern  
Rule of three

SHORT COVERING AS BEARS EXIT POSITIONS

LONDON BOMBING BREAK BEGINS TO FAIL  
OVERLAPPING WITH UPPER PATTERN STARTS

## CONCLUSIONS

The conclusions are similar to last week since last week the expectation was to pop the 1229 in the S&P. So today is where we expected to be last week. The task is determining if this is the top or it is at the one for one projection at a higher position.

- 1 The S&P is a great deal stronger than the DOW. Each upswing in the DOW on the weekly cart has lower momentum. It is very suggestive that a top is forming. It is also at that critical position again at the mid line of the two-containing lines of the wedge. On S&P, the last upswing is higher momentum than the previous. To be confident of a top in the S&P, more time is needed to slow down the up move. This can occur by spending more time rolling out the top at this level or by reversing and starting down thus negating the up-momentum. The DOW has all the required criteria to make a top now.
- 2 On the weekly charts, the RISING WEDGE is intact in both the DOW and the S&P. The action is well above the critical support of the lower containing line of the wedge. **A RISING WEDGE IS USUALLY A BEARISH PATTERN.**
- 3 As expected last week the S&P reached 1229.11 – the previous high, and popped it on the good news. However 1229 is also strong resistance. So the next day or two are important short-term. If the S&P can trade above the 1229 mark and stay there, it has a measure at a 'one for one' basis, just above the upper wedge containing line on the weekly charts.
- 4 Last week EWP was BULLISH with caution until 1229.11 high was popped. This week EWP is more BEARISH. The target has been reached. EWP would like to see how the indexes handle this level the next day or two. There is a possibility of the top being here. If this level holds then to topping action could extend another few weeks.
- 5 Both indexes are above both the BEAR and BULL control lines thus basically positive. We are looking to sell a top in a rising market, which is very similar to juggling sharp knives – if you are not good at it, you can get badly cut up.

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