

The Deviant Standard – Weekend Supplement

Rigorous preparation for volatile markets

Summary

Evidence continues to mount that April 26, 2010 marked an important high and that prices will continue to fall. Correspondingly, plausible bullish scenarios become harder to find. In this scenario, we won't need reminders that the downside is where money is likely to be made. Instead, we need reminders that this is the time to be extra vigilant when looking for alternate scenarios.

Weekly Charts

Have we seen a pivotal turn?

Let's look at the evidence for a pivotal turn in a corrective uptrend that began in March, 2009. Given the length of the move we'll look at it on a weekly chart (a two day chart would also be good). Our technical indicators confirm that the most likely scenario is a protracted down move from here. Let's review:

Elliott Wave Oscillator:

The Elliott Wave Oscillator has been making lower peaks on successive highs. After crossing below its 5 period average 5 weeks ago, it has now crossed below zero for the first time since May of 2009.

Fisher Stochastics

Fisher Stochastics turned down near where we labeled [2]

RSI

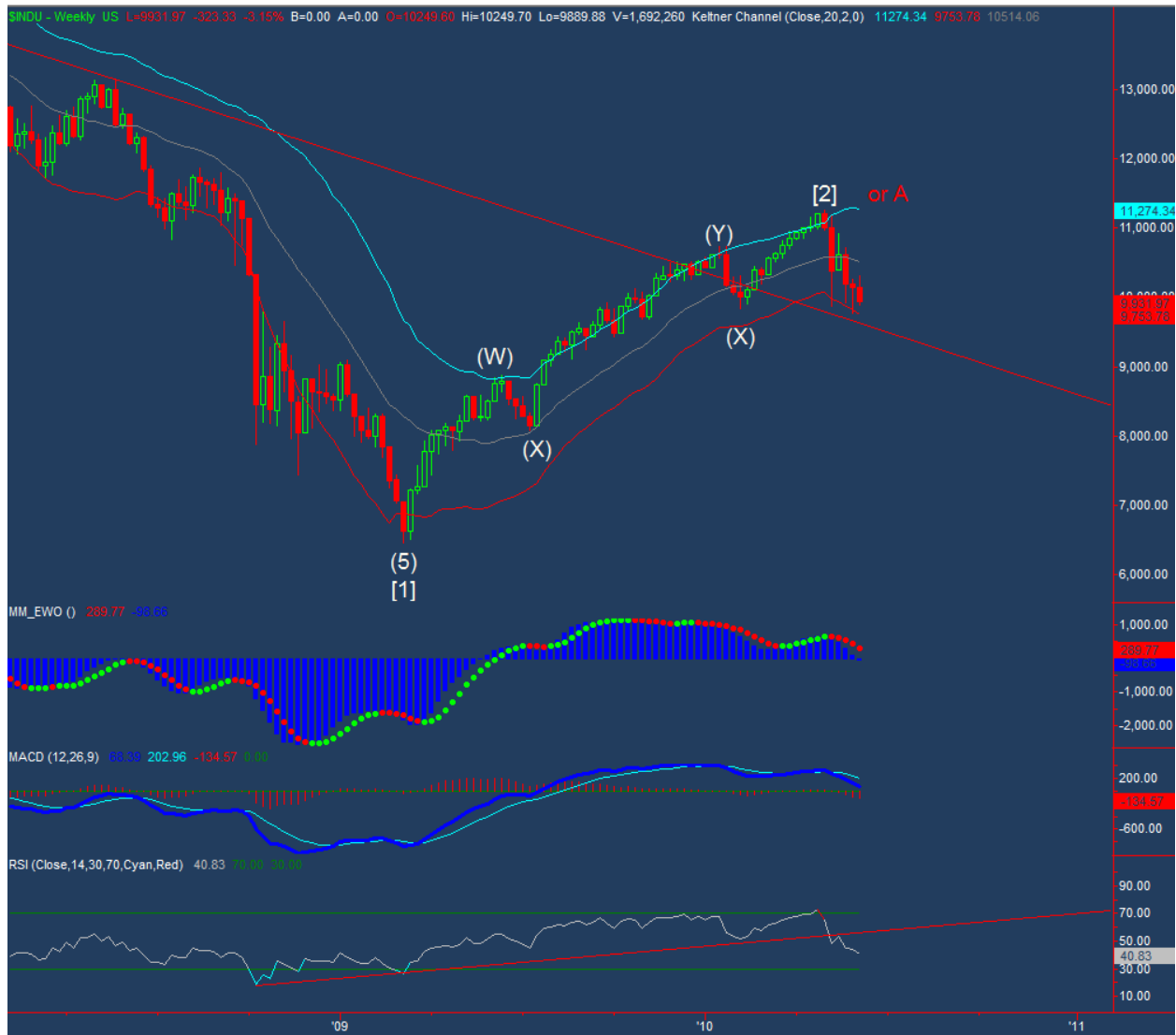
Having made its first visit to overbought territory six weeks ago, weekly RSI began heading downward the following week. After breaking below trendline support and retesting the trendline from below, it has made its way beneath 50.

Keltner Channel

The Keltner channel has begun to curve downward as price has started to pierce the lower boundary for the first time since March 2009.

New Lows

On a weekly chart, we have the first new swing lows since March 2009.



Together with our wave count, these indicators present a compelling case that wave [2] is complete and we are now in wave [3] down.

What to expect next

If we are in wave [3], then it is likely to be longer than wave [1]. That would suggest a target below 3530 on the Dow based on equal Dow points or a target below 5131 if measured based on equal percentage movement. Third waves are often much longer than first waves, so the end-point might be significantly below either of those targets. We will need to see how the wave develops before being more specific about a target.

While available evidence suggests the likelihood of such a dramatic drop, there are many reasons to cautious. Among them:

- **Possible alternate counts** – As we continue to push lower, the number of bullish alternate counts consistent with EWT diminishes. Now that prices have fallen below (X), it is hard to consider scenarios where (Z) remains incomplete. If price were to rise and make new highs, it would likely require relabeling much of the move up from March, 2009. A structure consistent with EWT is not immediately obvious at this time.
- **Incomplete theoretical framework** – Empirically, EWT has proved to be generally reliable. However, we are on the verge of a down move of very large degree and the sample size to draw experience from is limited. It's not unreasonable to contemplate the possibility that there are elements of the theory that might need to be enhanced in these circumstances. There's no reason to believe that this would be the case, but with limited experience, it's also dangerous to simply assume that the theory's tenets hold across all timeframes and degrees.

Daily Charts

There is very little to add to the wave analysis from the daily chart. Indicators on the daily chart may be useful for helping to identify the end of wave (1). However, we're not far enough into the wave to have much wave structure on the daily chart. However, there are some technical observations worth making.

Resistance Overhead

The 200SMA has been successful in repelling multiple rally attempts. The doji day on June 3 followed by the long red candle on June 4, suggest that the market now recognizes this as a significant point of resistance. The 200SMA is still rising at a rate of about 4 or 5 Dow points per day. Using rough calculations, we could turn it downward this week by shedding another 400 or 500 points.

The slope of decline in the 20SMA may slow at the start of the upcoming week. As the week progresses it should pick up speed to the downside as the average drops the bars put in during the bounce that followed the flash crash. If traders continue to observe the 20SMA, it may provide additional resistance if needed. However, if our wave count is accurate, we may spend most of the week adding additional distance between price and the 20SMA.

Snapback in progress

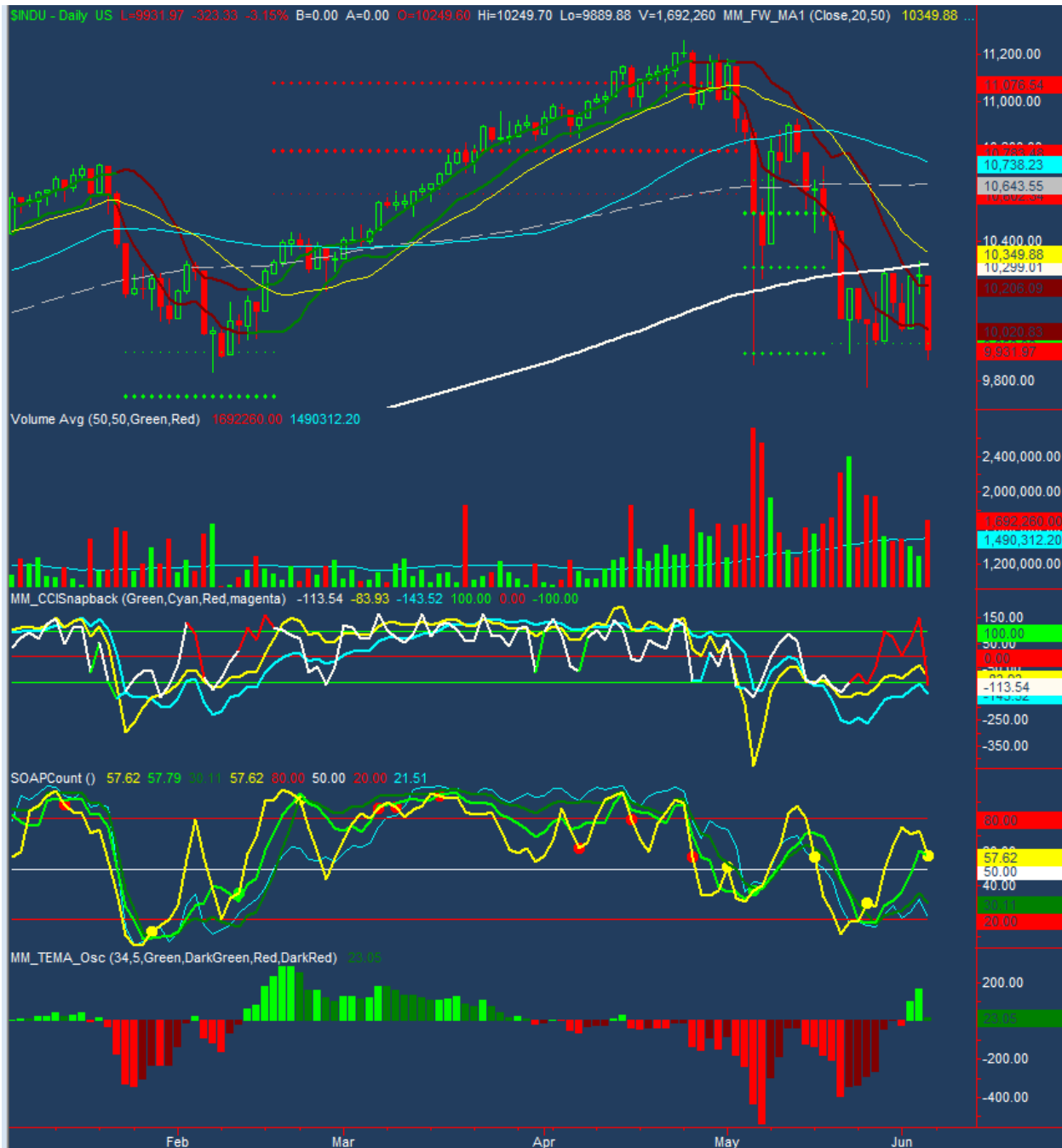
A significant snapback set up last week. It can be seen on the 3CCI indicator with CCI5 in process of snapping back to CCI50, which has remained zoom down. It's also visible with Stochastics(5,3) snapping back down to Stochastics (17,5). These suggest that move down from the 200 is incomplete.

Volume

Put simply, the red volume bars have generally been the tallest for the past month.

SFR Support

First SFR support is currently at 9958.96. Price has found support here for the last two weeks. While the indications above suggest that we should crack this level on our continued move back down to new lows. Failing to do so would also indicate a failure of the snapback we discussed. If such an unanticipated move develops, it could lead to a significant bounce.



Calendar

| | U.S. Economic Events | World Economic Events | Market Events |
|-------------|--|--|--|
| Mon. | 3:00p Consumer Credit | 6:00a German Mfg Orders | BMO Earnings: GII AMC Earnings: ALTR, CWST, FCEL TBD Earnings: ATAI, CASC |
| Tue. | 7:30a Small Business Confidence 7:45a ICSC Store Sales 8:55a Redbook | 1:45a Swiss Unemployment 2:00a German Trade 2:45a French Trade 3:15a Swiss CPI 6:00a German Industrial Production 8:15a Canadian Housing Starts 9:30p Australian Home Loans | BMO Earnings: CHP, CMN, CPY, DG, TLB AMC Earnings: BOBE, MIND, MLNK, OXM, PLL, TTWO, TXN TBD Earnings: FCEA, MBT, ODC, PBY |
| Wed. | 7:00a MBA Purchase Applications 10:00a Wholesale Trade 10:30a EIA Petroleum 2:00p Fed Beige Book | 4:30a UK Trade 5:00p New Zealand RBNZ Policy 7:50p Japan GDP 9:30p Australian Jobs | BMO Earnings: BFB, CIEN, NAV, RGEN, TITN, MTN AMC Earnings: UHAL, LUB, MW, PURE, SHFL, SHE, ULCM TBD Earnings: HOFT, MAGS, PNY, STEI |
| Thu. | 8:30a International Trade 8:30a Jobless Claims 10:00a Quarterly Services Survey 10:30a EIA Nat. Gas 2:00p Treasury Budget 4:30p Fed Balance Sheet 4:30p Money Supply | 2:00a German CPI 2:45a French Industrial Production 4:00a Italian Industrial Production 5:00a Italian GDP 7:00a UK BOE Policy 7:45a EMU ECB Policy 8:30a Canadian Trade 7:50p Japan PPI | BMO Earnings: AOWR, SCHS AMC Earnings: ARST, EXPR, FNSR, HRLY, IDT, MCZ, NSM TBD Earnings: AEP, CRAI, CIDM, DLM, LULU, NOOF, |

| | U.S. Economic Events | World Economic Events | Market Events |
|-------------|---|--|---|
| Fri. | 8:30a Retail Sales 9:55a Consumer Sentiment 10:00a Business Inventories | 2:45a French CPI 4:30a UK Industrial Production 4:30a UK PPI | BMO Earnings: CHBT, LAKE TBD Earnings: KAD, CLMDY TBD China New Borum (BORN) IPO to price TBD Film Department Holdings (TFDI) IPO to price |