The Harmonic Trader Report Monthly

January 2015

"Never Trade the Markets the Same Way Again!"

January 24, 2015

In this report:

- **Energy ETF (XLE)**
- **German DAX Index (^GDAXI)**
- **Russell 2000 Index ETF (IWM)**
- **NASDAQ Composite Index (^IXIC)**
- **Standard and Poor`s 500 (^GSPC)**
- **Dow Jones Industrial Average (DJIA)**

What the Charts are Saying…

It is important to take a hard look several leading sectors to get a grasp of what's really unfolding currently. Continuing news distortion skews what the charts are really saying. We can look at the price action of many of these markets and build a picture of whether or not the overall outlook has potential. It is interesting though that there are so many conflicting opinions where the market is headed that not seem to really understand what's happening.

One important note is that I try to write these reports and present the various markets in an understood priority. For the past year, it is been mostly US equity indices such as the S&P 500 and the NASDAQ composite. Time to time, secondary markets take precedence and exhibit particular behavior that could have greater ramifications for the rest of the world. Currently, we see plunging oil, collapsing Euro and stocks that continue fire on all cylinders. Clearly, the price appreciation in paper assets is in favor for now. Although some very interesting resource and commodity markets are close to bottoms, the acceleration will continue in the major world equity indices.

Most of these major markets are exhibiting very clear harmonic behavior with clear structural patterns and defined ratio levels. For the most part, we have stuck strictly to interpretation of these patterns and watched the impending price action respecting the signals as they unfolded. There continue to be very clear price movements over the past month that have confirmed existing trends and triggered new harmonic levels to consider.

Energy ETF (XLE): Weekly
Bullish Retracements

I have reviewed this market a few times in the past year. The larger scenario of a significant retracement in the energy sector has been realized. For quite some time, we've talked about the importance of the 77 level as minimum support, while the critical make-or-break 61.8% retracement of the past five years defines the 72.30 area as low end of the support range. We have a successful secondary test and the long-term weekly price action is stabilizing.

XLE 21-JAN-15 HarmonicAnalyzer (TM) v6.05 Copyright © 2001-2008 HarmonicTrader.com, LLC. All Rights Reserved

The interesting aspect of this scenario is that we have clear confirmation in the RSI readings that possess ideal triggers. All of these are pointing to the 72.30- 77 as a stabilizing support zone for now. This actually has strengthened in the past two weeks while the spot price in the futures market has collapsed. These types of divergence scenarios can be dramatic but are usually short – lived.

German DAX Index (^GDAXI): Weekly
Violation of Bearish AB=CD with 1.618 extension

The German index has broken out to the upside above an important bearish harmonic resistance, as defined by the decade-long 1.618 extension and the weekly Bearish AB=CD pattern.

German DAX Index (^GDAXI): Weekly
Violation of Bearish AB=CD Potential Reversal Zone (PRZ)

The recent move confirms the violation and it is significant following a long-term consolidation. These types of continuations are clear signals of another extension of the existing trend.

Russell 2000 Index ETF (IWM)
Bearish AB=CD at 1.618 Extension

The most important index for the health of the entire outlook for US equities relies on a similar move to unfold in the Russell 2000 index. The price action has consolidated at the completion of the similar structure as the German index. It is threatening to follow suit and break to the upside.

NASDAQ Composite Index (^IXIC): Weekly Bearish Bat

The current Bearish Bat pattern in the NASDAQ composite has defined the overall strategy for the past three years. In particular, the weekly 88 .6% retracement at 4670 was an important milestone in the long-term recovery since the prior all-time high at the 5000 level.

^IXIC 22-JAN-15 HarmonicAnalyzer (TM) v6.05 Copyright © 2001-2008 HarmonicTrader.com, LLC. All Rights Reserved

NASDAQ Composite Index (^IXIC): Weekly
Bearish Bat Potential Reversal Zone (PRZ) Type-1 Reversal

This pattern is ideal and the Potential Reversal Zone has nailed the short-term resistance, as the market has paused for the past two months. Despite the distinctiveness of the bearish pattern, the market has not confirmed a more substantial trigger yet. It is a situation to monitor but this may only be a case where the measured level will yield a pausing consolidation, especially since the Terminal Price Bar has been established. For now, the most important resistance level to monitor is the 88.6% retracement and the important 4700 level.

Standard and Poor`s 500 (GSPC): Weekly
Bearish Butterfly Violation

The S&P 500 index has consolidated last year's gains just above the 2000 level. Although the anticipation of the breakout to higher levels still remains, the more interesting aspect of the current price action lies in the ability of the market to hold above the long-term Potential Reversal Zone of the failed Bearish Butterfly pattern. I still believe that the continuation will take the market higher – specifically, the 1.618% weekly extension at 2140.

^GSPC 22-JAN-15 HarmonicAnalyzer (TM) v6.05 Copyright © 2001-2008 HarmonicTrader.com, LLC. All Rights Reserved

Standard and Poor`s 500 (^GSPC): Daily
Bullish 38.2% Retracement

The market has been able to hold firm just above the 2000 level. The exact level to monitor going forward as the critical short-term support sits at the 38.2% retracement at 1987. The pullback from October corresponds with an interesting retest of the failed resistance that is now acting as long-term support. Along with the psychological importance of the 2000 level, this represents the support area where the longer-term acceleration must continue.

^GSPC 22-JAN-15 HarmonicAnalyzer (TM) v6.05 Copyright © 2001-2008 HarmonicTrader.com, LLC. All Rights Reserved

Dow Jones Industrial Average (DJIA): Weekly
Failed Bearish Butterfly

This significant long-term pattern still defines the limitations of the current bullish trend. Although the price action has violated this pattern, it is a situation where prior resistance is now support. In this case, the most important general level support sits at 17,000. The longer price action is able to maintain above the failed resistance, the stronger the trend will persist.

January Conclusion

Despite the numerous threats that it has faced, the market over the past few months has continued the progress of the past three years, holding firm at relatively high levels. The overall market gains continue to be maintained, as the recent consolidation appears to be mere pausing before another continuation.

The markets that I am presenting in this report are listed in a manner of perceived priority. That is, the outcome of their various Harmonic Trading scenarios will have a relative effect on the overall probability of a larger market expansion, and they must be regarded more cautiously. However, the past two years in particular have yielded a number of substantial structural opportunities that have clearly defined where the market is headed. These situations continue to unfold and provide excellent signals of deciphering what's really happening and what's possible.

There still seems to be a persistent doubt despite the overwhelming evidence of continued bullish trend in the global equity indices. Although the uncertainty of the price of Crude Oil and currency fluctuations contribute to undermine even the clearest of bullish trends, many of the major market scenarios continue to provide clear signals of their progress and possibility. This is based upon the same strict interpretation of Harmonic Trading that serves as an unbiased means of measuring the state of the market. If things are going to change, price action will exhibit signs at the important measured levels. For now, the same evaluation of these markets must be maintained until the next targets reached and/or distinct structural changes in trend warrant more caution.

Please contact me directly if you have any questions about my services or would like feedback with your trading at HarmonicTrader@HarmonicTrader.com. I welcome your comments, questions and suggestions. If you are a trial member or wish to receive future reports, please sign up here:

http://harmonictrader.secure-mall.com/item/The-Harmonic-Trader-Monthly-Report-30

Best Regards,

Scott Carney
HarmonicTrader.com

The Harmonic Trader Report Monthly

By Scott M. Carney

Library of Congress
Cataloging-in-Publication Data

Printed in the United States of America