The Harmonic Trader Report Monthly

August 2015

"Never Trade the Markets the Same Way Again!"

August 6th, 2015

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Circumstantial Evidence

Although the US equity indices have been quiet for the first half of this year, other key markets have exhibited significant changes over the past few months in particular that are beginning to finally impact the global financial landscape. I find it interesting that the news media has moved on from the crisis in Greece already just a few weeks ago. Despite those concerns, the overall perspective from the Harmonic Trading approach continues to maintain the longer-term targets that have defined primary objectives for many markets. Regardless of the headlines, most markets are approaching important extremes that are likely to change the overall outlook. The dominant themes of a strong U.S. Dollar, surging US equities or weakening commodities continue to be defined by their structural constraints.

These are certainly interesting times for the US Dollar markets, as the larger picture is poised to enter a new phase where higher historical price targets will be tested. In the Euro and many Latin American currencies, the U.S. Dollar has continued to dominate and contain any countertrend reactions. In fact, several South American countries are amid panic, as surging inflation due to collapsing currency values have marked a new phase in this recent crisis. Meanwhile, For example, the NASDAQ Composite and the S&P 500 index are challenging important resistance limits at their all-time highs. If we combine these considerations with the current price action in Crude Oil and Gold, a larger picture is clearly developing where the next bullish phase for the U.S. Dollar will exacerbate these situations to

create an acceleration of pressure that may be in the process of migrating to the equities – if for a short but sudden down draft. After some consolidation over the past several months, these markets are beginning to show signs of stress.
It is important to note that this is not anything that most people have not been aware of for some time. It comes down to the clear fact that many of these markets are finally showing the stress in an extreme manner.

In another area of consideration, the US equity markets have been remarkable over the past three years. These are frequently compared to international markets such as Europe and China. Overall, the performance of the past three years has been positive even with the recent turmoil in Asia. The interesting aspect is that these both have lived in their own financial bubble where there fluctuations have had little correlation in the past several years. However, correlations frequently come and go. All of these markets still must be assessed independently to develop larger picture. It can be easy to be complacent, especially in dull markets like these. These are early signs but there is circumstantial evidence that potential change in the outlook for equities is beginning to unfold.

The most important aspect of these developments is the simple recognition that some key markets are beginning to clearly exhibit price action that is indicating new technical scenarios that must be considered. It is important to reiterate the fact that these are early signs but possess potential implications that can shape expectations of what is ahead.

As we begin to consider what may happen by year's end, it is important to acknowledge the character of this year's price action. For many key markets – equities and currencies alike, the long-term significance of important weekly targets continues to increase as the price action consolidates their respective levels. The dominant price targets remain intact but currently rumblings are beginning to set the stage for a significant retest of important harmonic levels in a variety of markets over the next month or two. For example, the Euro will likely retest the prior lows from this year at 106. Other markets that have formed important long-term patterns are consolidating in the same manner and are poised to complete important retests by the end of September.

Most of the scenarios that have been covered in the monthly reports this year have been quite clear about the price targets and expectations of what is possible beyond the scenarios. In fact, we have spent great deal of time discussing many of these scenarios months before their fruition. Now, we are reaching one of those moments where decisive action will be required based upon how the price action unfolds over the next 6 to 8 weeks.

On a final note, I recently heard that the Dow Jones Industrial Average recently recorded two consecutive quarters of zero percent gains for the first time in decades and has maintained one of the narrowest price ranges in over 100 years. Although these technical factoids are interesting, they do substantiate the lack of action so far this year following three stellar years in particular. Let's take a look at some current charts in order of immediate priority.

Gold ETF (GLD): Weekly
Bearish 61.8% Retracement

Although Gold has been quite dull over the past year, the recent breakdown has immense significance for commodities as a whole and confirms the recent new phase of U.S. Dollar strength across the board. The blatant fact that breakdown in the Gold market is finally realizing the long-awaited retest of the psychological 1000 level in the spot price. We have reviewed the GLD and the spot price in past reports and have been quite clear that the precious metal was in a steady bearish trend that will probably retrace back to the 800 level eventually. This will take some time. At a minimum, the breakdown in the GLD now triggers a move to retest the decade-long 61.8% retracement. No matter what, this trend will remain bearish for quite some time.

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Crude Oil (CL_#F): Weekly Failed Bullish 5-0

As I have outlined in last month's report, the energy sector has continued to lag and breakdown against important long-term support. The spot price of crude itself possesses a long-term weekly pattern that suggests an eventual retest to the low 40s – and this is a minimum target.

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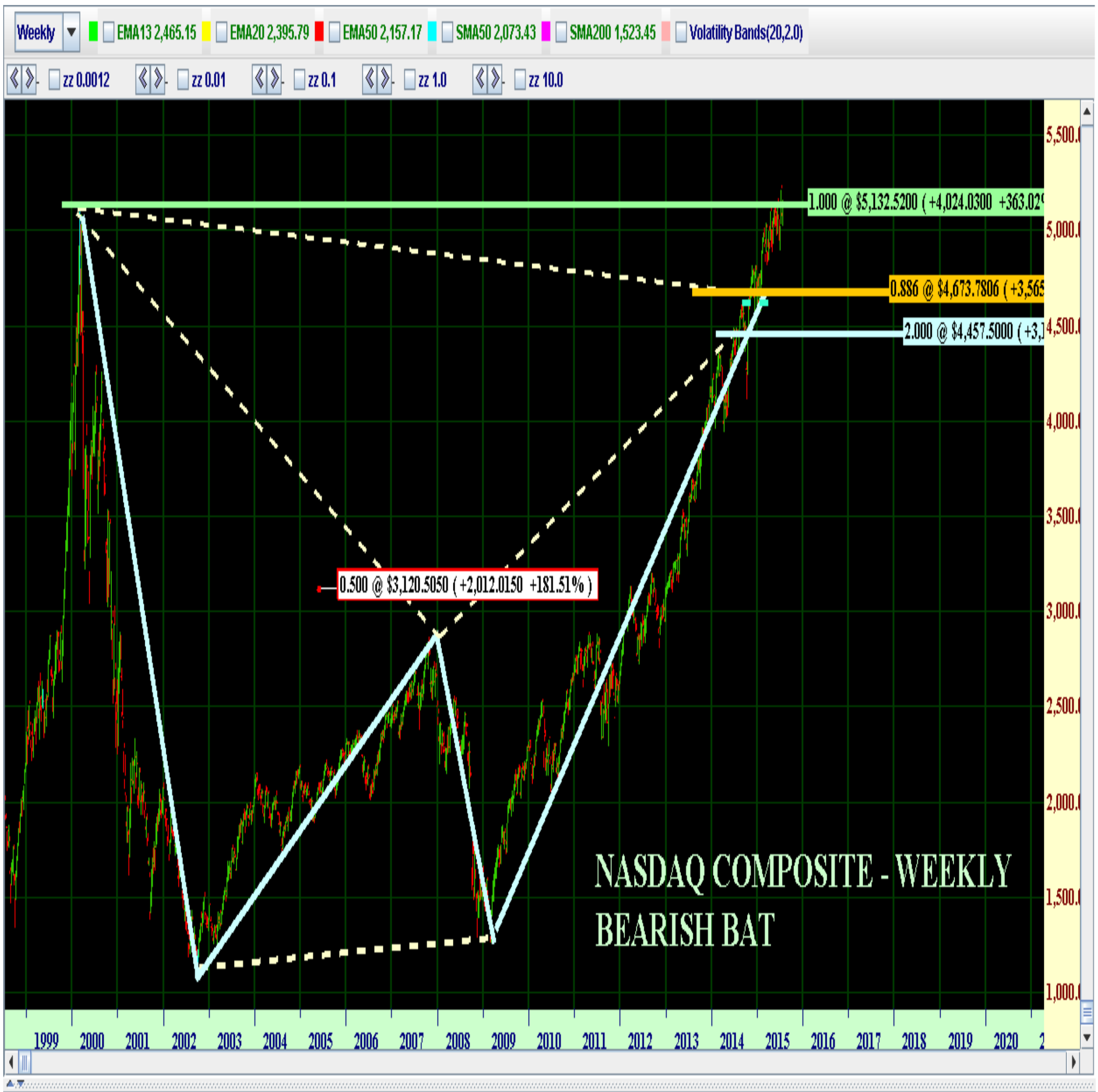
In my opinion, the Dollar strength against the other currency pairs represents a primary concern for the financial markets as a whole. Although secondary markets such as Oil and Gold help to confirm this thesis, the essential focus still requires direct evidence for the possibility of a change in the state of the markets.

NASDAQ Composite Index (^IXIC): Weekly Bearish Bat

We have seen some remarkable moves in Google, Amazon.com and Netflix to name a few within the tech sector. In fact, these moves instinctively make me question if we are witnessing the early signs that this is in fact buyer's exhaustion. Many of these stocks have jumped 10% in one day after announcing positive earnings reports.



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NASDAQ Composite Index (^IXIC)
Bearish Bat Potential Reversal Zone (PRZ)

Although price action has exceeded the ideal 88.6% weekly retracement at 4700, the current state of this index is about the psychological retest of the all-time. In most Harmonic Trading cases, the second test of a Potential Reversal Zone (PRZ) experiences price action can retest the initial point of the structure.

One consideration that I am monitoring is the lackluster readings in the Relative Strength trend. The market has continued to move higher while the weekly and daily RSI readings have lagged. Again, this is not an actionable strategy, more of an observation about the overall trend with respect to the current structure that is defining the immediate limits for this rally.

NASDAQ Composite Index (^IXIC): Weekly Bearish Alternate Bat

Earlier this year, I compared the two structures in the NASDAQ Composite versus the NASDAQ 100. The NASDAQ 100 possesses a slightly different structure that suggests a higher retest of the initial point of the pattern. Although these numbers are higher, the minimum measurements to validate the structure and require greater attention of the price action in this zone have been tested. With that in mind, the need to focus on the price action as it reaches to retest its all-time high becomes increasingly important. Essentially, the progress of the longer-term trend will be seriously challenged if 10% moves in stock such as Google or Amazon can't get the rest of the index moving.

The interesting aspect of this backdrop is the position of the NASDAQ Composite index versus the NASDAQ 100 index. We have looked at this in the past and identified an important short-term bullish pattern that helps to confirm the tech rally of the past several months.

NASDAQ Composite vs. NASDAQ 100 Spread (^IXIC~^NDX): Weekly
Bearish Bat

The spread between these indices has now reached an important harmonic resistance point on both the long-term and short-term charts. It is important to keep an eye on this spread in particular because it has exhibited precise harmonic behavior and is defining excellent technical levels within the broader market. Looking at this chart, I have a problem with the structural realities of what I see.

The weekly chart possesses a long-term bearish pattern that is retesting the prior high from 2007. In actuality, the weekly pattern completed over a year ago. After an initial retracement, the recent rally has tested this resistance the second time and signaling resistance in the long-term price action.

NASDAQ Composite vs. NASDAQ 100 Spread (^IXIC~^NDX): Weekly
Bearish Bat Potential Reversal Zone (PRZ) @ 88.6% Retest with Relative Strength

This chart shows the precise reversal at the important harmonic resistance levels that has been confirmed by a significant RSI BAMM Confirmation signal. The continued decline of the broader market against the NASDAQ 100 index will begin to pressure the tech sector.

NASDAQ Composite vs. NASDAQ 100 Spread (^IXIC~^NDX): Weekly
Bullish AB=CD

We initially looked at this spread earlier this year. I outlined a Bullish AB=CD in the daily chart (see yellow arrow) that defined an important rally for the NASDAQ during the first half of this year. After an exact 88.6% retracement of the prior peak, the price action has rolled over, violated an important bullish trendline and it is poised to further retrace the gains from the past year.

Standard and Poor's 500 ETF (SPY): Weekly
Bearish 1.618 Extension Potential Reversal Zone (PRZ)

We have been discussing the remarkable price action that has recently retraced after testing the long term 1.6 180 weekly target at 213.40. Although the index fell a few points shy of its exact target, the reality of the price action in the ETF can no longer be ignored. Officially, this target has been tested and the price action is consolidating at critical harmonic resistance.

Standard and Poor's 500 ETF (SPY): 60-Minute Bearish 1.618 Extension Potential Reversal Zone (PRZ)

The following chart shows the price action at the weekly harmonic resistance level on a 60 minute timeframe. The intraday chart not only reveals the strength of this resistance but further confirms the importance of this price level as we approach the end of the year.

August Conclusion

One of the most important signs that I have been anticipating is a change in the technical character of the markets. I am usually referring to Harmonic Trading measurement strategies but this perspective includes the recognition of a variety of markets around the world. When we see significant price action that is trading at levels not seen in years, it is critical to recognize such situations. When significant levels of support and resistance are violated, they trigger a new phase that adds to the overall assessment of global financial well-being.

As the U.S. Dollar surges to new prices not seen in over a decade, the resulting repercussions will impact other markets. At the same time, the distinct correlations that have supported multi-year trends in equities must be reassessed and analyzed relative to the challenge that these technical events present. Although these situations take time, it is essential to recognize their potential as the signs materialize. This is what is unfolding currently and creating circumstances of greater importance as we approach the end of the year.

On a final note, the market would benefit immensely from a correction within this multi-year bull market. In fact, a retest of recent highs in both the US and European equity indices would establish an ideal scenario for such a pullback. In the long run, whether the correction occurs in October or later next year, it would provide an excellent opportunity to accumulate discounted equities. In most markets, the weekly price ranges of support and resistance are quite clear. Even if the S&P 500 declined 10% from current levels, it would merely be retesting last year's failed harmonic resistance. Therefore, despite the stagnant summer action, I believe there is much to be anticipated as we enter the final months of the year.

Please feel free to contact me at HarmonicTrader@HarmonicTrader.com, as I welcome your comments, questions and suggestions. If you are a trial member or wish to receive future reports, please sign up here:

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Best Regards,

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The Harmonic Trader Report Monthly

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