



The Harmonic Trader Report Monthly

November 2015

"Patterns into Profits!"

November 17th, 2015

In this report:

- + Standard and Poor's 500 ETF (SPY)**
- + Facebook (FB)**
- + Apple (AAPL)**
- + Amazon.com (AMZN)**
- + Netflix (NFLX)**
- + Google (GOOG)**

Markets Holding on by a FANG

We are at a point where the markets have triggered the long-awaited structural retest at substantial technical levels. The markets continue to be disconnected from the headlines once again while we have seen devastation in nearly every sector except for a select few large-cap stocks that have continued to hold up the market. Many have cited the phenomenon known as FANG - Facebook (FB), Apple (AAPL) {or sometimes Amazon (AMZN)}, Netflix (NFLX) and Google (GOOG) now known as Alphabet. If it was not for these for stocks, the market would be negative for the year. If we look across the financial landscape - Oil, Gold, Emerging Markets, more than 50% of all stocks and other critical sectors are more than 20 to 30% off their all-time highs. Countries such as the BRICs - Brazil Russia, India to a lesser extent and China – continue to languish in multiyear bear markets. Therefore, how is it that both the NASDAQ 100 and the S&P 500 continue to trade within 3% of their all-time high?

Clearly, the United States has been the aberrational market for the past five years. We have seen this previously during other decades. Regardless of the overwhelming evidence outside the US equity markets, these indices represent the standard for all markets. Most would agree that if these leaders started to lose ground that they would finally trigger a decline in the broader indices. However, this is not happening in these individual stocks...YET!

We are looking at a disjointed international landscape, where the majority of publicly traded companies in the world are languishing while the top 10 - mostly tech stocks - continue to thrive. In my opinion, these stocks are masking the larger undercurrent that continues to erode the broader strength that the market has experienced the past few years. In combination with current structural signals, the FANG stocks will likely be the last to fall for the broader US equity patterns to be confirmed.

Standard & Poor's 500 Index (^GSPC): Daily Bearish Gartley Potential Reversal Zone (PRZ)

As outlined in last month's report, the Bearish Gartley pattern has completed and we can focus on the resistance just under the 2100 level. The interesting aspect of this is the fact that the structure could be considered to be a Bat Pattern due to the structure as defined by the mid-point. Although this possesses a slightly higher Potential Reversal Zone (PRZ), the key is the 88.6% retracement at 2105. This now serves as the critical make or break instead of the prior all-time high at 2135.



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Facebook (FB): Daily Bearish Deep Crab Pattern

I addressed this recently and I have been bullish on the stock for the better part of two years (See Twitter and prior reports). This is definitely an aggressive momentum stock that has now formed a Bearish Crab at the 117 level. If the stock violates this structure, it would be a historic continuation signal but I expect a pause if not a larger correction on the first test of this harmonic resistance.



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Apple (AAPL): Daily Alternate Bullish Bat

I addressed Apple in May where a Bearish Bat marked the previous high. After reversing from that pattern at \$135, the stock has rebounded from the August low from this Alternate Bullish Bat. The reversal has recently rolled over and violated the short-term uptrend line. This suggests that the stock is poised to consolidate recent gains at a minimum.



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I believe that what unfolds from here defines the importance of this summer's peak. I do not expect Apple to exceed the recent highs and the longer that it moves sideways, the more likely it will continue this correction into next year. This will likely

require further consolidation before resuming the uptrend. If the stock breaks under 108, it is likely to retest the entire support at 95. Keep an eye on it.

Amazon (AMZN): Daily Bearish Butterfly

Amazon recently gapped through the PRZ of a distinct Bearish Butterfly at \$616. This stock has been a huge winner for the past few months and it is up 100% this year.



Netflix (NFLX): Daily Bearish AB=CD

Netflix has experienced one of the largest overall price gains since the 2009 low. Incredibly, the stock has stalled above \$100 a share where a significant Bearish AB=CD structure has capped the rally for the past several months. The exact completion point for the pattern at \$107 share was clearly violated on the initial test however the price action has stalled after exceeding the harmonic resistance zone by 10%. Although this presents some concerns that the pattern might be violated eventually, the fact that the strong rally of the past few years has paused at a minimum in this area.



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Netflix (NFLX): Daily Harmonic Head and Shoulders Pattern with a Bearish Gartley

The interesting aspect of this consolidation zone has been the clear Head and Shoulders Pattern with a Bearish Gartley confirming the right shoulder resistance. This is a rare structure, despite its popularity primarily because it is usually spotted after the fact. In my adaptation of the pattern, I include ratios that should be reciprocal to each other to define each shoulder of the structure.



In this case, the left shoulder to the peak is a 161.8% extension while the right shoulder has retraced the reciprocal ratio of a 61.8% level. I have referred to this structure previously as a Harmonic Head and Shoulders Pattern. I will probably release some resource material regarding this structure but its existence at the completion of the long-term Bearish AB=CD adds further evidence to this resistance zone.

Google-now Alphabet-(GOOG): Daily Bearish Butterfly

The following chart shows the Bearish Butterfly Pattern in Google. The second chart shows the price action in the Potential Reversal Zone. On the day that the stock announced earnings, it gapped into the harmonic resistance as defined by the pattern's completion point. Despite the strength, the recent rally has stalled just above this price zone. Much like Amazon, a larger breakout will ensue after the consolidation tests this pattern's completion point.



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Google (now Alphabet) (GOOG): Daily Bearish Butterfly Potential Reversal Zone (PRZ) with RSI

The stock has confirmed this resistance with an Overbought RSI reading. At a minimum, this pattern will cause the uptrend to take a break after an extended run. Of course, the stock continues to maintain a strong weekly uptrend. The failure of this pattern will be another continuation signal when the stock rallies above \$750.



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November Conclusion

Until these structural signals are violated, the market is still in a position where a bearish continuation should begin. Despite the fact that these FANG stocks are up 30% on average and in some cases more, undeniable destruction in a variety of sectors continues to erode the overall uptrend. In short, the market's ability to surmount this resistance would require an extraordinary event or unexpected game-changing turn of events to change the immediate tide.

We're looking at a market that is faced with two extremes - either the US equities violate these bearish harmonic resistance zones and initiate a significant breakout OR the next year will be challenged as these structures will cap the upside progress at a minimum. I still believe the markets are poised to hold off the larger reaction until 2016, as the market continues to move sideways in this year's range. But, these structures and measurements are absolute.

On a final note, acronym stocks such as FANG come and go throughout market history. In the 90s, it was all about the four Horsemen - Dell, Oracle, Cisco, Microsoft (and sometimes Sun Microsystems). In the 60s, it was the Nifty 50 stocks. The real concern from a technical level is the narrowing breadth of market participation where the momentum leaders - especially large-cap - tend to benefit from weakening market conditions. No doubt, many of these leaders have realized fantastic gains and the longs will look to secure profits in the New Year. Therefore, as most other markets continue to languish, this profit-taking could trigger a larger-bearish situation where the broader US equities finally relinquish gains of the past 2-3 years.

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:

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

Best Regards,

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