The Harmonic Trader Report Monthly
December 2015
"Patterns into Profits!"

December 20th, 2015

In this report:

- **Standard and Poor's 500**
- **W.T.I. Crude Oil**
- **Euro/US Dollar**
- **British Pound/US Dollar**
- **FTSE 100**

The Year that Wasn't…

Despite the long-term presidential and decennial patterns that were supposed to bring positive returns for the year, we find ourselves in quite a precarious situation as we enter 2016. Now that the Federal Reserve has finally made its move, all uncertainties in comparison to the structural realities that are unfolding currently have been removed. I wanted to wait until after this announcement to release this year-end report.

For most of this year, I have been discussing an adjustment phase in the market where the forces that have propelled the multi-year progress in equity indices are changing. We see definitive structural signals and multi-year harmonic patterns confirming the acceleration of this adjustment phase to a new paradigm. <u>That is, we will finally realize a bear market of significance in the coming year</u>. Much like the past year's slow adjustment phase which did not begin in earnest until August, this correction will require many months before the larger devastation sets in. Strategically, this equates to selling all rallies and anticipating further degradation later in 2016.

As we approach the end of 2015, markets around the world are facing a number of significant long-term challenges. Many international markets are finishing the year near their respective lows. The BRIC countries are 50-80% off their all-time highs and continue to languish relative to their long-term lows - mostly established in 2008. The undeniable fact that markets such as Brazil, Russia and China have ended the year on such a sour note does signal further caution ahead. Although this scenario has yet to take hold in the United States, the acceleration of the adjustment phase has begun in the Dow Industrials, the NASDAQ and the S&P 500 indices. In particular, the past week's reaction following the Federal Reserve rate hike is the clearest confirmation yet of the impending correction that is now accelerating.

Standard and Poor's 500: Daily
Bearish Gartley

The S&P 500 attempted one last run at the harmonic resistance established by the Bearish Gartley pattern just under the 2100 level. After the short-term bounce before being big Fed announcement, the market rejected this rally and the price action has quickly collapsed back to the 2000 level. Although this type of consolidation can be expected, a further violation of the recent support in this area will trigger a steeper decline that will accelerate into January.

The immediate objective for the index sits at the 1975 level where year–end support should hold off a steeper decline until January. The trend line support from the August low is slightly below this area at 1930. These two obvious price levels will find buyers in the short-term. However, once violated the entire retest of the August low and beyond must be considered. I believe this will require a few months before the larger scenario can take hold but the recent action has confirmed an established primary downtrend to even greater degree.

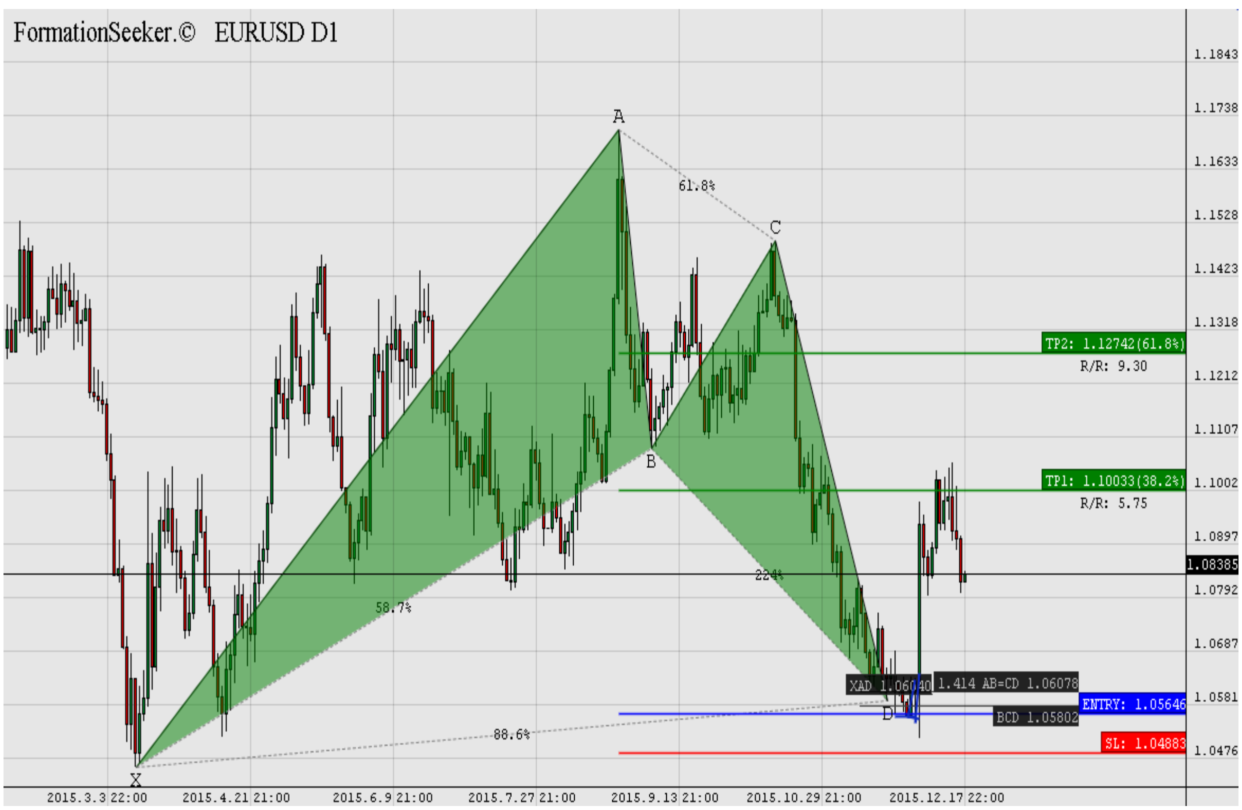
Crude Oil (W.T.I.): Weekly
Bullish Crab

The dominant market topic for 2016 will be the collapse in the price of Oil and the eventual capitulation of the commodity bear market, as it relates to the entire 2000-2015 timeframe. I have been discussing the importance of an eventual violation below the $38 level for most of the past year. Now this has been violated, the price of WTI is quickly accelerating below $30 to test the Bullish Crab on the following chart!

We are already seeing the dramatic effects in Brazil, Russia and other commodity-dependent countries. With the additional acceleration of a steeper decline in Crude Oil, we are on the verge of witnessing an international global economy that will be depressed further due to this interdependence. Finally, the correlation of this collapse in Oil has led to the recent acceleration in many U.S. Dollar pairs. In my opinion, this has initiated the second wave of the U.S. Dollar recovery that began in 2008.

Euro/U.S. Dollar (EUR/USD): Daily
Bullish Bat

After many years of the aggressive easy money policy early in this century, the Euro/U.S. Dollar has recently rebounded from the retest of recent lows of the decade. Although this is a mere continuation of the past several years, the next leg of the trend will be rather dominant until a historic capitulation can be realized. For the Euro, the recent rally from this Bullish Bat represents the last-chance support. However, the rally appears to be over already, as short-sellers have reentered at the 1.10 minimum pattern target. The price action is poised to immediately retest this harmonic pattern support at the 1.0550 level. However, I believe that the next move lower will likely fail the pattern to trigger an eventual decline to the historic low at the 0.90 level. I have been outlining this longer-term possibility over the past several months and it continues to be increasingly inevitably.



British Pound/U.S. Dollar (GBPUSD): Daily Alternate Bullish Bat

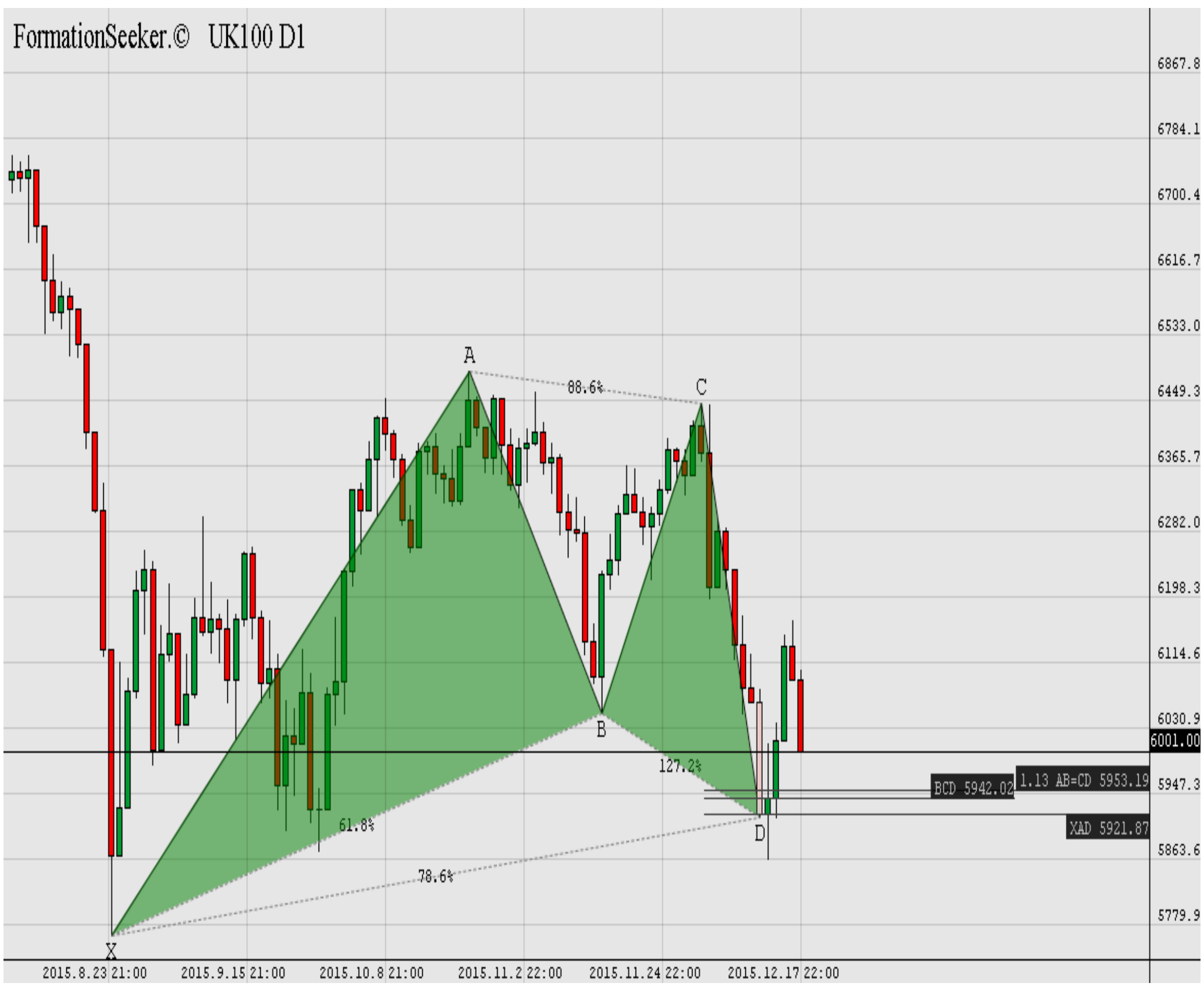
There are many other Dollar-based FX pairs such as the British Pound that are quickly challenging their low for the year and are threatening to break down to retest historic support levels from 15 years ago. The current pattern points to an immediate retest of the 2015 low under 1.46. A violation under the 1.45 mark will trigger an eventual retest of the historic support at 1.30!

FTSE 100: Weekly
Bearish Deep Crab

Although many may try to correlate the weaker Pound to stronger equities, the structural signals defined by current harmonic patterns in the UK market are telling a different story. The FTSE 100 has reversed over the past year from a significant Bearish Deep Crab pattern on the weekly chart at the 7000 level.

The action since the completion of this structure has been demonstratively bearish. As this market continues to break down and form a consistent history of lower weekly highs and lows, we are witnessing the early stages of acceleration to the downside that is imminent. I outlined a similar scenario for the German DAX over the past few months. In the case of the FTSE, the most important aspect of this Deep Crab pattern is the obvious fact that the rally from the past several years has failed to make significant progress beyond the 2007 peak. Technically speaking, this is a dangerous "head fake" on the weekly and monthly chart that spells danger for the long-term bull market. In fact, the FTSE 100 is on the verge of violating recent lows with the entire five-year bull market at stake. Simply stated, I would not be surprised to see an eventual retest of the 2008 lows after this pattern is violated – essentially, any price breakdown under 5600.

FTSE 100: Daily
Bullish Gartley



Such a dramatic statement will be validated following the violation of this Bullish Gartley pattern on the daily chart. Earlier this month, the FTSE 100 was able to find support at the initial completion of the pattern but it has since rolled over. After this harmonic support is violated, I believe the bear market in the UK will begin in earnest. Although it will not happen overnight - or let's not hope so, this structural signal is the last chance support for the continuation of the past five year uptrend. When it fails, the weekly support of 2008 low is the only harmonic possibility to consider. It is that close!

December Conclusion

I have been writing market reports for the better part of the past 15 years. In 2000, 2003, 2007, 2009 and now 2015, I have outlined extreme levels that defined significant changes in the markets. Without a doubt, the current market conditions possess the same feel and structural realities that define such historic turning points. Although there seems to be a great deal of confusion among analysts, the *market harmonics* of defined ratio and pattern measurement signals are undeniable. For me, the ability to decipher these situations results from the irrefutable evidence that Harmonic Trading measurements define.

Market Harmonics have guided me through many a bull and bear market alike with great accuracy over the past 20 years. The only time that I have experienced problems is when I have ignored this structural information and tried to include extraneous information. Certainly, the current environment is full of noise and distorted perspectives. However, the amazing harmonic phenomena that have unfolded over the past year confirm that these structural realities are no coincidence.

Critical markets such as the Euro/USD, Crude Oil and international equities have languished for quite some time. Many are threatening the recent long-term lows in a last ditch effort to sell losing positions during the tax loss season. Meanwhile, as I commented last month’s report, the FANG (Facebook, Apple/Amazon, Netflix, Google) stocks have continued to hold her head but are extremely vulnerable. Although many of these are still trading at the levels they were a month ago, this small group of large-cap tech stocks will be the last shoe to drop for the 2016 bear market.

Finally, I urge all of my readers to thoroughly review their financial exposure as we end the year and consider that the risk of being in the market is far greater than being out. As I've been saying all year, the adjustment phase that needed to occur in all markets before a new economic cycle recovery can begin will only end with demonstrative capitulation. In terms of countries such as Russia, they are in the process of trying to stabilize at incredibly low levels as measured from their all-time high. Other countries such as China and Brazil continue to languish and are severely depressed in a five-year downtrend that mutes any potential opportunity until these bearish trends are surmounted. From that simple standpoint, most of these commodity and international markets need much more time before they could warrant any future opportunity.

Happy Holidays and a Prosperous New Year to All!

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

Great Harmonic Trading to You,

Scott Carney
The Harmonic Trader Team
www.HarmonicTrader.com
www.HarmonicTrading.com
www.HarmonicAnalyzer.com

"*Patterns into Profits*"

The Harmonic Trader Report Monthly

By Scott M. Carney

Library of Congress
Cataloging-in-Publication Data

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

From a Declaration of Principles Jointly Adopted by a Committee of the American Bar Association and a Committee of Publishers and Associations.

Printed in the United States of America