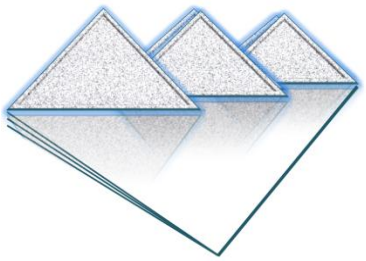

The Harmonic Trader Report Monthly

December 2016

"Never Trade the Markets the Same Way Again!"

December 31st, 2016

In this report:

- **Standard and Poor`s 500 Index (^SPX)**
- **NASDAQ Composite Index (^NDX)**
- **Dow Jones Industrial Average (DJIA)**
- **German DAX Index (^DAX)**
- **FTSE 100 (UK100)**

Turn the Page

As we close out the year, we see a renewed optimism as the broader equity markets continue to break out to new highs. I have been anticipating this breakout for the past few months and I have been defining the larger upside targets that remain as the immediate objectives for this move well in advance. Again, Harmonic Traders find themselves in a situation where the measured price levels are flashing clear signals within a confused environment.

As we turn the page of what was a noisy 2016, there seems to be a hyper-emotional response to the market action of the past six weeks by individual traders and fund managers alike. In fact, much of the holiday dinner party talk that I have encountered seemed to focus on the market in a way that I have not seen in years. Some seem optimistic while most continue to discredit recent gains. Specifically, several have mentioned the irrational emotional reaction following the election in the United States. My response is typically that market analysis must measure price movements to establish opportunities rather than trying to connect recent events to some future rationale. For most, it is fun political speculation but for market considerations, these arguments are meaningless. I believe the fundamental news distortion will dominate the headlines throughout 2017 but the obvious long-term harmonic scenarios for many major asset classes are so well-defined that their eventual realization dictates trend direction in a manner not seen in several years. For example, in last month's report, I outlined why I believed the eventual breakout in the major US equity indices would take form of an acceleration in demonstrative fashion. The minimum 1.618 weekly objective in the Standard & Poor's 500 index at 2350

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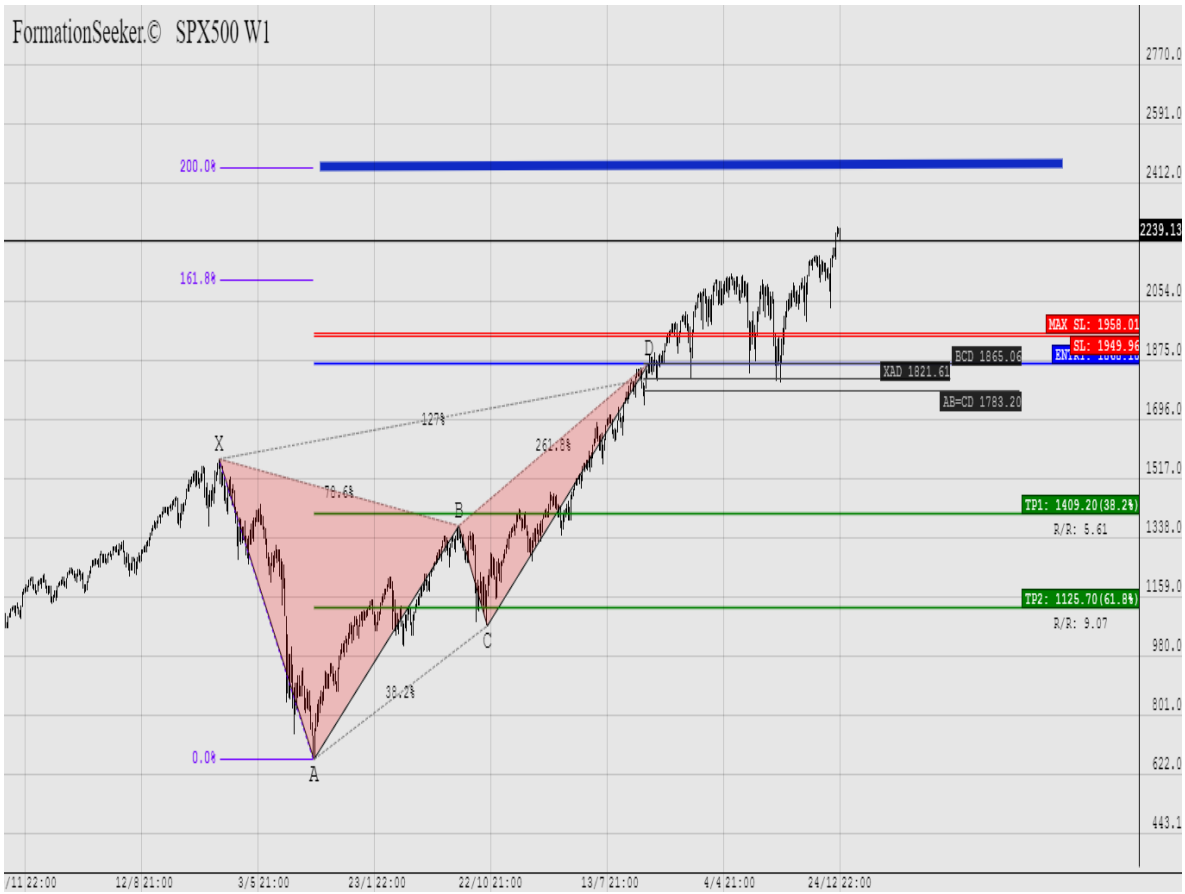
provides a reasonable target within the next 30 days. We will look at this situation and I will outline a few other primary markets that point to a continued *normalization* of historic price levels.

Before I do, I would like to briefly explain what this normalization represents. In many market situations, we have witnessed dramatic price moves over the past year. Most notably, the Crude Oil market crashed in a perfect storm. Despite the severity of the decline, the market has stabilized and it is reverting back to the historic mean of the past decade. From a general approximation standpoint, the average price of Crude Oil should be $75-$80/barrel. This is one example of the historic challenges that have been surmounted this year. Now, these TEMPORARY extreme swings are quickly reversing to provide improved price stability and liquidity after a prolonged period of inactivity. Although some currencies – mostly US Dollar pairs - will require the first half of 2017 to resolve their various situations, the renewed trend continuation for many markets signals that the worst is behind us.

Standard and Poor`s 500 Index (^GSPC): Weekly
Failed Bearish Butterfly



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As the index finishes the year at all-time highs, the end result of the past 12 months signals a monster continuation move currently developing within the decade long rally. It is important to review the weekly scenario of the past two years to fully grasp the significance of what has unfolded over the past six months. Ever since breaking above the 1865 level, the index has continued higher. This was the failure of a Bearish Butterfly pattern that resulted in an acceleration to the weekly 1.618 extension at 2140.

Standard and Poor`s 500 Index (^GSPC): Weekly
1.618 Extension with RSI, HSI

Now, the index has violated this measure and it has triggered a continuation to the next harmonic target level. Beyond this, the weekly 2.00 completes at 2500. The most important structure is the immediate 1.618 extension of last year's decline. This establishes the 2350 level as the objective of this breakout and the likely level for January's upside target. The extreme HSI readings are early bearish signals but require an eventual RSI extreme test to confirm the weekly resistance. Either way, the trend remains up until BOTH indicators reverse. For the index, this should trigger a 3-5% rally in the first month or two of 2017.

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NASDAQ 100 Index (^NDX): Weekly
Alternate Bearish Bat

The NASDAQ 100 index harmonic scenario considers the longest period of time since it is breaking above its prior all-time high. We have talked about this potential violation for the past 6 months but it is now a confirmed conclusion. All considerations must begin to anticipate a much larger acceleration. The 88.6% weekly retracement served as a minimum level but the steady continuation now defines the 5400 level as the immediate target for 2017.

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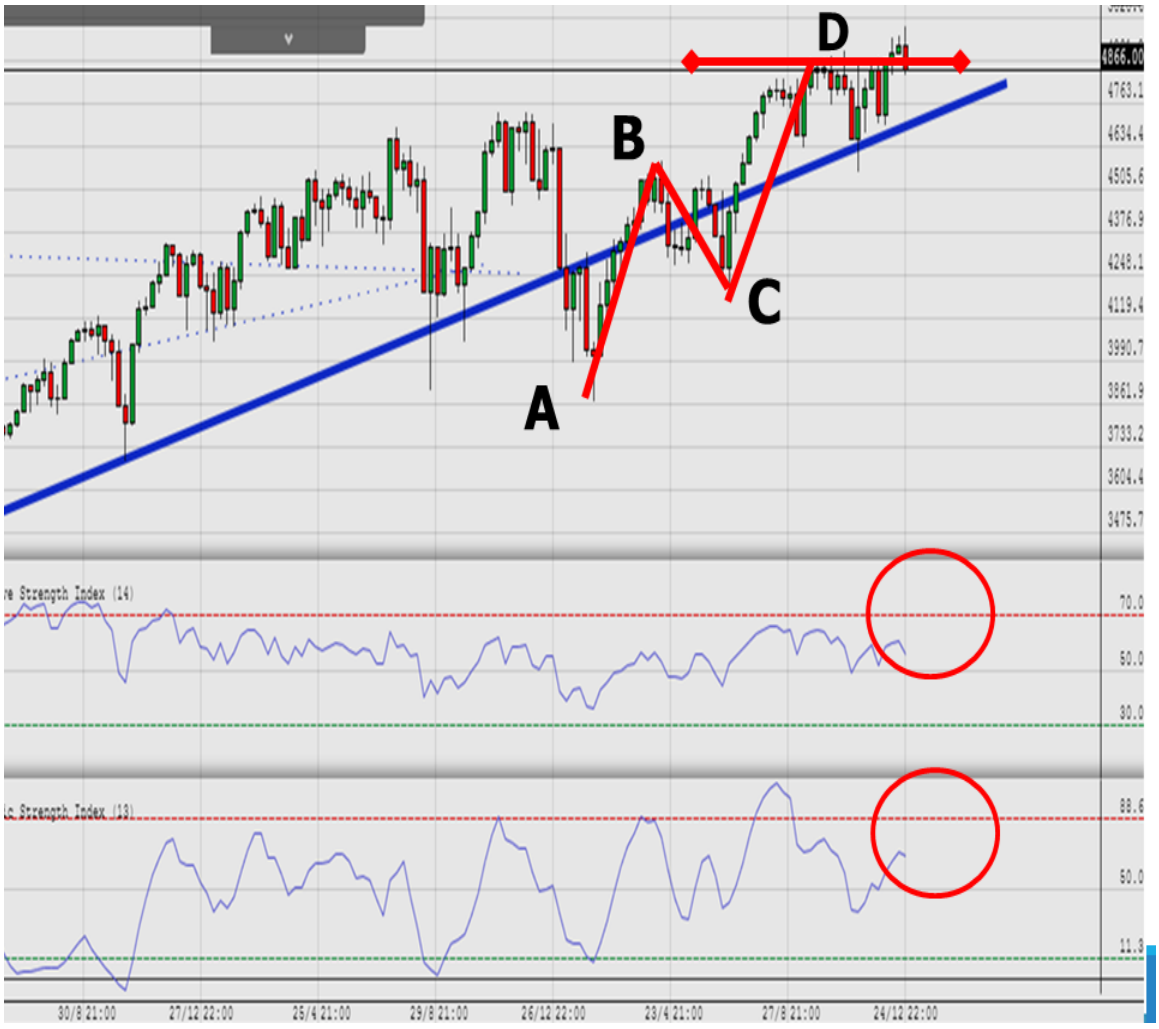
Although the long-term price action on the initial completion of the pattern stalled for nearly a year. This is not an uncommon scenario sinc the entire structure was nearly 15 years in duration. When these situations occur, the failure to provide a significant reversal is marking an important continuation within the long-term trend. We are now witnessing the early progress out of this price range and begin to reach for larger possibilities.

NASDAQ 100 Index (^NDX): Weekly
Failed Bearish AB=CD with RSI, HSI

The next weekly target for the NASDAQ 100 index is at 5400. This is it a 15% rally from current levels. I would be continuing to accumulate as this break out accelerates beyond the AB=CD resistance at 4800.



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Dow Jones Industrial Average (DJIA): Weekly
Bearish Deep Crab

Of all the indices, the Dow Jones Industrial Average has experienced one of the sharpest moves, especially significant after a prolonged consolidation phase. In the short-term, the index possesses a Deep Bearish Crab pattern will take the index immediately to the 20,600 level.

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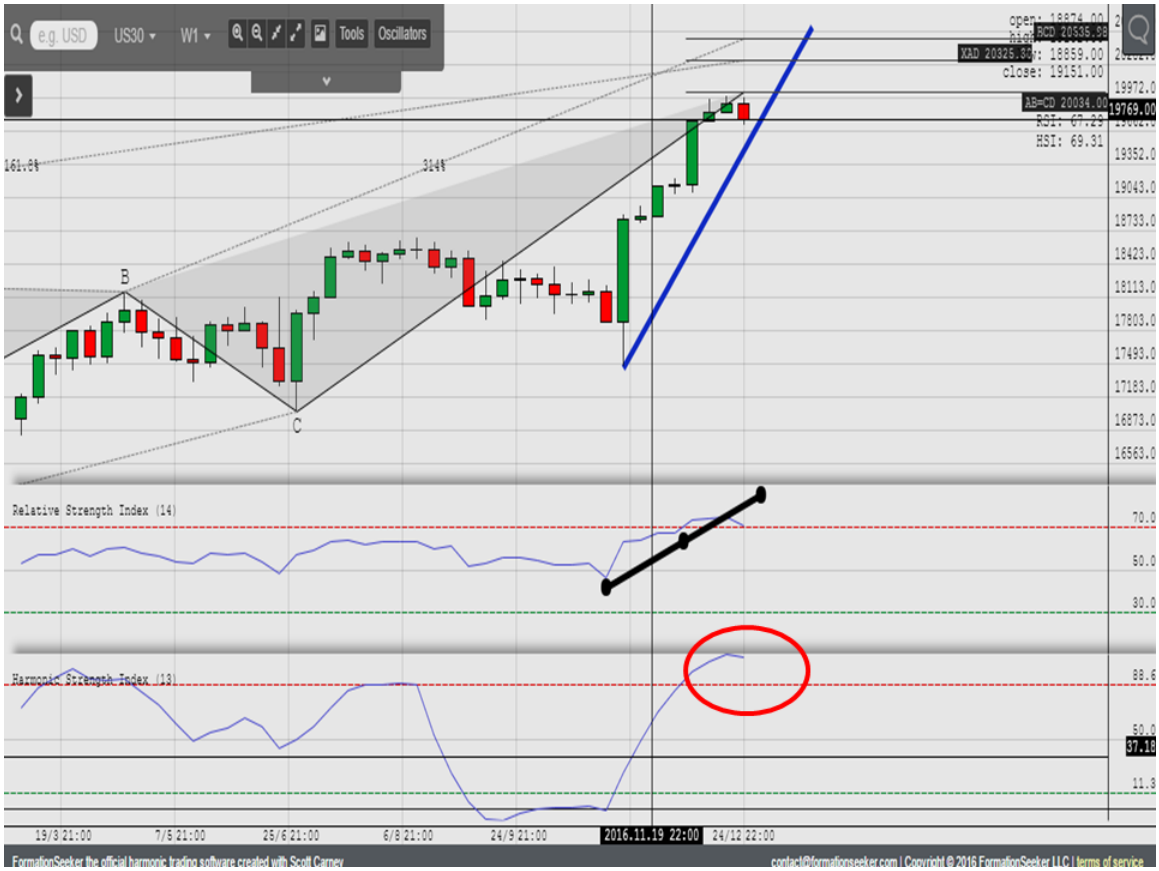
Dow Jones Industrial Average (DJIA): Weekly
Bearish Deep Crab Potential Reversal Zone (PRZ)

Although everyone is anticipating the eventual 20,000 milestone, the most important aspect of the long-term action is the resulting indicator confirmation that this most recent rally exhibits. The weekly pattern has an ideal RSI, HSI structural extreme set up that is particularly important. These readings are still early signals and the trend remains bullish until we test the Deep Crab pattern at 20,600.



The larger assumptions that we must begin to consider beyond this patterns are actually quite intimidating. I will outline these objectives over the next several months. However, the most important aspect of this most recent break out is to anticipate a continued acceleration to the upside. I do not want to overcommit and seem excessively bullish but I must emphasize the magnitude of a rally beyond 20,600. The index is at a relative historic position where this type of scenario usually results in a "SuperCycle" extension that could see the Dow reach 36,000 in the next seven years. I will only address this scenario at Dow 21k but it is possible!

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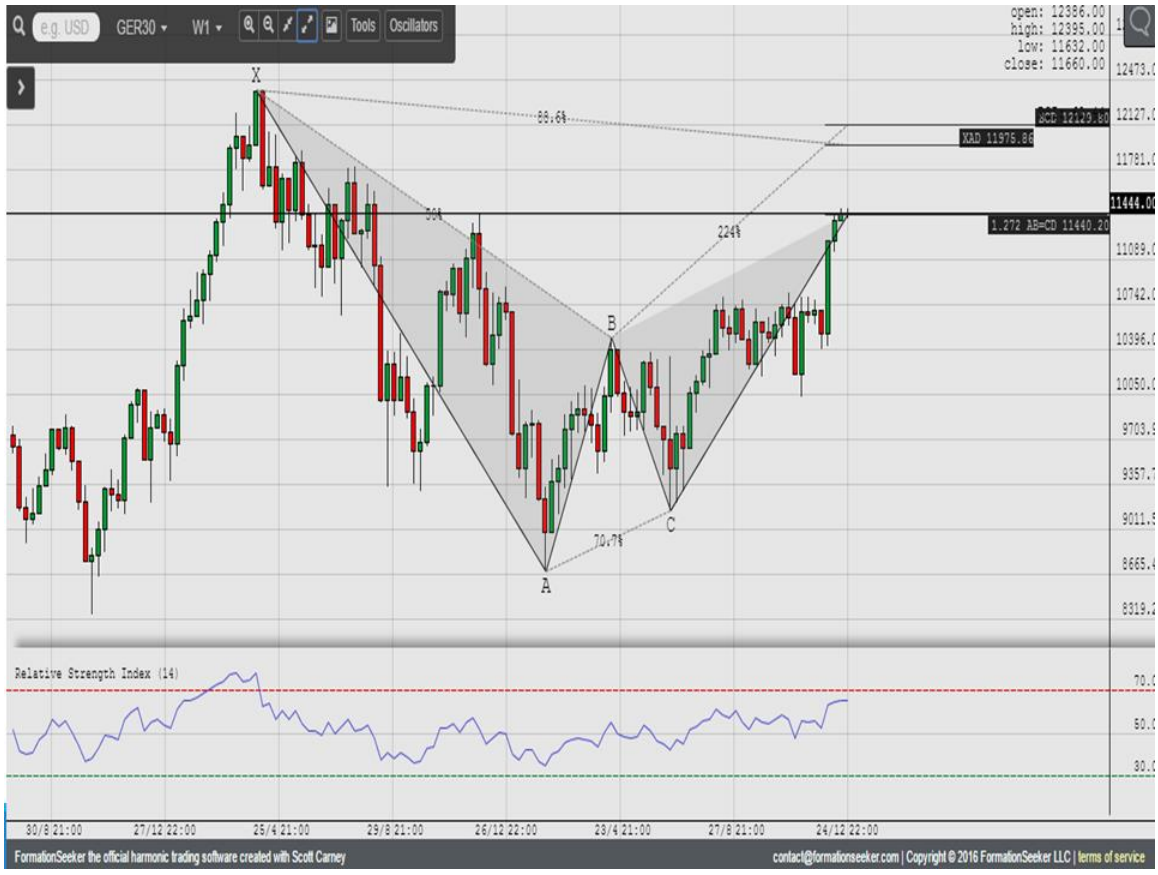
German DAX Index (^GDAXI): Weekly
Bearish Bat

The German DAX index has exhibited phenomenal weekly patterns over the past few years. Although the index nearly entered into a bear market scenario earlier this year, the recent rebound has been quite strong and it is pointing to a full retest of the all-time high. This will likely be realized early in January, as an immediate rally will take the DAX to hit the 12,200 level in the first quarter of 2017. Much like the action of the S&P 500, a break out above these levels will trigger a larger acceleration but we remain focused on an immediate 5% rally from current levels.



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FTSE 100 (UK100): Weekly
Bearish Bat

Back in November, I outlined a weekly Bearish Bat pattern in the index that experienced a short-term reversal. Despite this consolidation, we see yet another harmonic structure that is failing. This is especially significant due to the fact that the price action is retesting the prior all-time high at the 71oo level. When we see these type of failures, they are typically followed by an accelerated continuation. In this case, the index is poised to rally to the 7700 level in immediate fashion.

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December Conclusion

Last month, I was invited to the opening of a new office for a Latin American hedge fund here in Miami. I met a few of the partners and coincidently found myself shoulder to shoulder with the head of their Mexico fund. Earlier in the evening, he spoke for 10 to 15 minutes about the state of affairs of the Mexican economy. I found it truly fascinating. Although most did not realize how valuable his insights were, I listened intently and learned much. Despite the crash in Crude Oil and unprecedented corruption, he stated that overall business was still functioning well and the prospects were positive. When he and I chatted later in the evening, I told him I appreciated his presentation because it reinforced my thought that markets around the world have experienced just about every possible financial challenge imaginable yet they continue to function relatively well. Despite the sluggish growth and geopolitical concerns, the natural driving mechanism of (relatively) free market economies marches forward to sustain the long-term progress. This is not to say that things will be rosy overnight. However, the improved prospects of many markets are mostly due to the inherent natural demand for growth and development that has now overcome the challenges to realize a continuation of the long-term trends at hand.

Regardless of personal sentiments that any market participant may hold, the clear expression of price is the underlying phenomenon that must be analyzed and understood to define opportunities. For many, the thought of buying stocks at these prices might seem crazy. Others realize that there is something larger unfolding. The most important take away from 2016 is to realize that the challenge the markets had to face has been surmounted. The resumption of the multiyear bull market has accelerated at an important point that will define how significant this next leg will be. There are numerous historic cases where the market has exhibited an excited state of long-term continuation. In the months to come, I will reference a few of these important examples.

Finally, the finality of all harmonic measures to define the proper bias and expectations has continued to accurately pinpoint proper price targets and a realistic framework of what has been possible. In fact, the report from last December was the polar opposite of this opinion. In December of last year, I was anticipating a substantial correction immediately in January. We realized a 15% drop across the board but rebounded by the summer and we have steadily climbed since. Over the past several months, I have recognized this change and outlined the inability of a larger reversal to ensue. As always, the price targets are well defined in the markets I have featured in this report. The general assessment is to expect a renewed expansion of equities and commodity prices.

In many ways, 2016 will go down much like 2011 - when global economic

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prospects and geopolitical instability painted a dark picture. No matter what the reason, the markets were able to hold firm and continue the long-term recovery in the past year. In my opinion, the markets have entered the next phase of this bull market. However, this is no longer a recovery. The recent acceleration is more a reflection of new growth beyond the relevant measures of the last bear market. We have seen this in the Standard & Poor's 500 index. The NASDAQ 100 index has exhibited ideal harmonic behavior that confirms a breakout that is as significant as a valid reversal.

Within the harmonic framework, these markets are signaling that they have entered new growth phases that must be respected until the minimum targets are reached. I believe we will see remarkable gains in the first month of 2017 and I continue to remain bullish on equities up to their minimum targets – which are roughly 5 to 7% higher on an immediate basis. The most significant determination will occur when the markets reach these targets. Further acceleration beyond these aforementioned scenarios will require that larger potential targets be assessed that may seem unattainable. Whether or not these price moves are sustainable is another question, however Harmonic Traders must respect the clear price levels that act as magnets within larger trends.

I want to wish everyone a Happy Holidays and a prosperous 2017. This has been a phenomenal year of growth and change for myself personally and professionally. I look forward to continuing this progress and sharing the knowledge of the proper harmonic framework applied to the financial markets.

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:

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Best Regards,

Scott Carney
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