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Technical Facts (bearish) versus Emotional Hopes (bullish)

The structure of the decline from the all time highs in the various stock markets (each and every major, international stock index) is unmistakable. It is a five wave decline. And as we have repeatedly emphasized there is no such thing as a five wave bull market correction. A five wave decline can be the initial "A" wave down in a larger scale "ABC" decline or the initial wave one down in a continuing five wave decline. That means this rally up from the lows (Oct 08 for the Chinese stock market and Mar 09 for the US Markets) is either the "B" wave up in a continuing "ABC" decline or the wave one down in a continuing five wave decline. The same can be said for the energy markets. The fall from last years highs in Crude Oil and petroleum products can only be counted as a five wave decline. This is also the case for the key industrial metals of Copper and Silver. Regarding real estate, the nature of the various real estate indices makes a wave count analysis of real estate price action extremely difficult.

There are three main factors that give us confidence that the present talk of a real estate rebound is also a bear market correction. The primary factor is the precision so far of the 18 year cycle in real estate, a cycle that points down into 2014. The second element is the fact that, of all the various markets, equities and commodities included, the real estate market was the most overbought at its peak. The third fact is the entirely shabby nature of the so called 'recovery' in the volume of real estate transactions. This up tic in transactions has been almost entirely the result of the surge in foreclosures.

For technicians the shape of the price action is the critical fact that separates a trend form a counter-trend correction. In a bear market correction bullish opinions, bullish arguments, and bullish fundamental analysis are all necessary. They are needed to create the bear market rally that a market requires in order to turn a deeply oversold condition to the overbought market that characterizes the end of a bear market correction. An overbought market is the necessary pre-condition for the resumption of the down trend.

The problem for Elliott wave analysts is that, compared to a corrective move, it is much easier to count a five wave pattern and estimate its likely price target and duration. Targeting the likely extent and duration of a corrective move can be notoriously difficult. This difficulty can be traced back to the fact that while there are only three basic variations on a five wave pattern, there is a virtually unlimited possible combination of the "ABC" type patterns that composed a corrective move.

The relevance of all this to the present is that, because the decline from the highs in equities and the key commodity markets was a clear cut five wave pattern, we are entirely confident that this rally in equities and commodities is a bear market correction within a continuing down trend. However the very nature of corrective moves means that we can have no such confidence in the likely extent and duration of this corrective rebound. All of our minimum upside targets have been met, so no further upside is required to complete a bear market correction. What we are confident in is how quickly the losses will mount once this bear market correction has run its course. Ironically, the only market that, in Ellliott terms, is clearly in a bull market correction is the US Dollar - the market that everyone is short and bearish.

For those inclined to be bullish energy and equities from here we strongly suggest the use of protective sell stops. We further suggest that the for the discipline required to use protective stops one may want to revisit the speed and intensity of the losses that followed the collapse of the Nasdaq bubble, the stock market bubble, the real estate bubble, and the commodities bubble.