



Apple: Bull Trap or Bull Market Rest Stop ?

We began covering the Nasdaq back in August 2000 in response to client requests. Back then it was an excellent canary in the coal mine for the impending collapse of the stock market. Apple stock is arguably the canary's canary. We think there is much to be learned from this stock - especially right now. Hence this 'Observations' report.

Top Ten Main Points

1. Markets never bottom with a bullish surprise. Markets bottom in bearish sentiment extremes. Markets bottom when there is only bad news. Markets bottom when things are all doom and gloom. Page 2
2. The mass media is a barometer of collective sentiment, and the news follows the trend. Trading off the content of news stories risks getting you caught short at the bottom and long at the peak. Pages 2 and 4.
3. The more emotional and enthusiastic and hyped a market, the more it lends itself to momentum analysis. If you trade momentum then you had better be following a momentum indicator like the RSI. Pages 3 and 5
4. Major scale bearish RSI divergence is never the result of a bearish surprise. It is always the result of an exhaustion of a bullish sentiment extreme. The news is always and only bullish at major tops. Pages 3 and 5.
5. The time to buy is when everyone is fearful, bearish and despondent - as was the case back in the summer of 2003. The time to sell is when everyone is confident, enthusiastic, and bullish - as is the case right now. Page 4.
6. Candlestick reversal patterns are a colorful and graphic display of the reversals in collective sentiment that mark major turning points in the market. They should be taken seriously. Page 6.
7. A few years ago we detailed the contrarian value that magazine cover stories play for financial trends and careers. See pages 39 to 109 of the free tutorial 'Why Technical Analysis.' Then see page 7.
8. How concerned should we be about the fate of the larger market if Apple stock is over-bought and over-hyped? In other words, is Apple a bellwether for the larger economy or a mere curiosity of limited consequence? Page 7.
9. From the year 2000 until mid-2008 the stock of Apple had tracked the larger market. However since mid-2008 the fates of Apple and the larger stock market have clearly diverged. Page 7.
10. So this report is intended as a cautionary tale and an opportunity to refresh the sentiment dynamics that drive price trends, media priorities, and trend reversals.

Impulsive	Wave Degree	Corrective
"I" "II"	Grand Supercycle	"A" "B"
I II	Supercycle	A B
<I> <II>	Cycle	<A>
-I- -II-	Primary	-A- -B-
(I) (II)	Intermediate	(A) (B)
"1" "2"	Minor	"a" "b"
1 2	Minute	a b
-1- -2-	Minuette	-a- -b-
(1) (2)	Sub-minuette	(a) (b)
[1] [2]	Micro	[a] [b]

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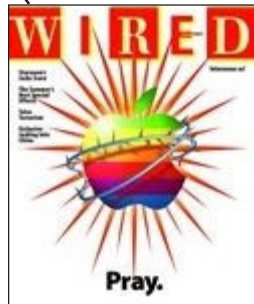
Apple - monthly chart - log scale

The News Follows the Trend
By the publication of this issue of Wired magazine in June 1997 things were looking so bad for Apple Computer that few doubted it could survive. The conclusion of this article was that Apple was so far beyond hope the only thing one could do was "Pray"

[101 Ways to Save Apple](#)

An assessment of what can be done to fix a once-great company. *By James Daly*

June 1997



Sell the Rumor, Buy The News

By the time the gloom becomes widespread enough to demand a magazine cover story one can be reasonably assured that the worst case has already been discounted in the price. From there anything less than an absolute disaster will incite a sustained rally.

The Bottom

Apple bottomed the month after the cover story at 3.10 on 10th July 97 and began a long term up trend from there.



Apple - Bearish RSI - Jan 2010

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Apple - weekly chart - log scale
- with 14 week RSI -



Apple - monthly chart - log scale
- with possible wave count -

Worst Case Scenario Wave Count

I have no confidence in this wave count. However this wave count is not the product of confidence. It was my attempt to make sense of the extraordinary magnitude of the bearish RSI momentum divergence featured on the previous page.

Will Apple actually fall back to the 84.33 level from here? Who the heck knows. What I do know is that a .618 retracement of the 3.10 to 215.59 advance would have brought me back to break even on my purchase price. What is that proverb about 'Discretion is the better part of valor.' I know it has not been wise to bet against Steve Jobs. But I also know it is not wise to ignore large scale bearish momentum divergence. So I opted for discretion and booked my profits.



Apple - Bearish RSI - Jan 2010

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Apple - daiy chart - log scale
- with 14 day RSI -



Apple candles - 02 Feb 10 **United-ICAP**

Daily Chart
 Perhaps the best that be said about this chart is that Apple looks over sold. However there was no RSI divergenbce buy signal at the recent 190.25 low. And no bullish candlestick either.

Weekly Chart
 What do we find rigjht at the apex of this mas-
 sive towerr top on the weekly chart? We find a
 confirmed doji star top. Perhaps a rebound is
 overdue. But this is a very ominous pattern.

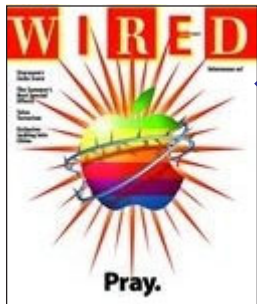
Monthly Chart
 The 215.59 high is a long way from last years
 78.20 low. And the big, bearish engulfing pat-
 tern is the first bearish monthly candlestick since
 the rally from 78.20 began.



February 2010

How Can This Economist Cover Story Not Be A Sell Signal ?

In pages 39 to 109 of the free tutorial entitled "Why Technical Analysis" we detail the phenomena we describe as "the Magazine Cover Story Syndrome." In brief, by the time a trend or a career is celebrated as the cover story of a major magazine it is very likely that the trend or career being acclaimed has peaked and is due for a sustained decline. This phenomena has been long ago recognized in financial trends, the careers of famous people, and in the case of professional athletes. My wife subscribes to the "Economist" and when I took this issue out of the mailbox last night my immediate reaction was: "thank God I am not long Apple."



June 1997

Maybe it will be different this time. Probably not. The 'Economist' magazine has an excellent and long standing reputation of eulogizing trends just as they are peaking.

Don't get me wrong. I am a big fan of Apple products. However there is such a thing as the most bullish case already being discounted in the price. With this Economist cover story one must ask whether that is what happened to Apple at its recent 215.59 high tic.

