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Divergences + Convergences + Volatility = Disaster

May 4, 2014

SUMMARY

The stock market is where it is because of a currency printing mania that is winding down, since the QE programmes have served their political purposes, none of which have been covered - ever - in the media, whether mainstream or electronic.

I have reported on the grand design of the Wall Street "government" in Washington, but I don't anymore because people don't want to believe it. Canadians can't imagine it, and Americans don't want to believe that they are represented by such calculated evil.

So, for perhaps a final time: Harper is merging currencies with his Swiss-bank-stuffing buddies to the south, and the Second Eagle will default on its debts and create a North American perimeter, to secure the resources that the Empire needs, while defending itself against all those whom they will have robbed.

The financial value of the information that I have again given above to my readers will become evident as matters unfold, particularly as we see the **effects** of the US-orchestrated and carefully thought-out plan that caused the Nazi overthrow of the democratically elected government in the Ukraine.

Bottom line: A single currency on our continent to rob all freedom from those who fought for it, for themselves and for those around the world, so that imperialists may benefit, spurred and supported by the propaganda that paints the devil for an angel.

So, immediately hereunder please find the essential rub regarding the technical factors that lie directly ahead, in determining the course ahead for US equities.

Beyond that, the market and asset classes covered in these reports are still unfolding in that fashion which converges these missives' components unto there where I have pointed all along....and continue to do so today:

Perceived-to-be safe haven assets are in, and equities are out.

DOW

Previous reports have harped on three major technical factors in analyzing the possible timing of the market's collapse, while also contemplating the form (map) of the bear market, including the depths of its movements.

Below, we again look at **international index** and **momentum indicators' divergences** and, again, the **expanding triangles** which, by definition, describe patterns of increasing volatility that necessarily conclude with violent declines.

This section concludes with the excerpt and study from the **October 29, 2013** report, since it illustrates the very long term expanding triangle. Apart from being the dominant secular study, I wished for the reader to have the 3 expanding triangles viewable in a single report. Why 3?

Preceding the secular expanding triangle study, please note the **April 1, 2014** excerpt which reflects the intermediate term expanding triangle.

In the case of both of the studies' reprints, the charts have been updated. The first chart below shows the 3rd expanding triangle to which I referred above.

When we look at the Dow's first peak in early March, we see what becomes the 1st point of the triangle (which, as the excerpts explain has 7 points), so long as the top in the 1st week of April, which is only points away, is exceeded by ANY amount.

Then, we would have 3 expanding triangles, replete with an extremely lofty slow stochastic (below price chart).

The latter becomes divergent the moment that the Dow would exceed the April high, accompanied by a lower stochastic (lower than the previous momentum high that

corresponded to that Dow peak), which would have had to have occurred after having first fallen below 80 {ideally for such situations (without getting too much into the esoteric)}, before turning back up to the final and lower stochastic high.

Finally, the Dow is divergent against the Nikkei, which is the most important international index in my view from a technical standpoint, since that is the market that the trend-following and panic-prone herd, which is ironically known as the "hedge funds", have placed their overinvested bets.

We saw what happened when the same underinvested herd stampeded into the Nikkei.

When they want out and can't fully satisfy the thirst for liquidity, they will express their panic for cash by offloading the Dow. Just watch.

April 1, 2014

"The most bearishly exciting observation when studying the Dow chart, however, is the expanding triangle which, as technicians know, bespeaks greater and greater volatility before a sharp downdraft.

"As there is a pat rule about the 7 points that define the chart's progression and form, we can make a reasonable forecast, so long as the interpretation is correct (therefore, first look for the move above 16,600 and reversal that takes the stochastic back below 80, after having diverged against the previous print high).

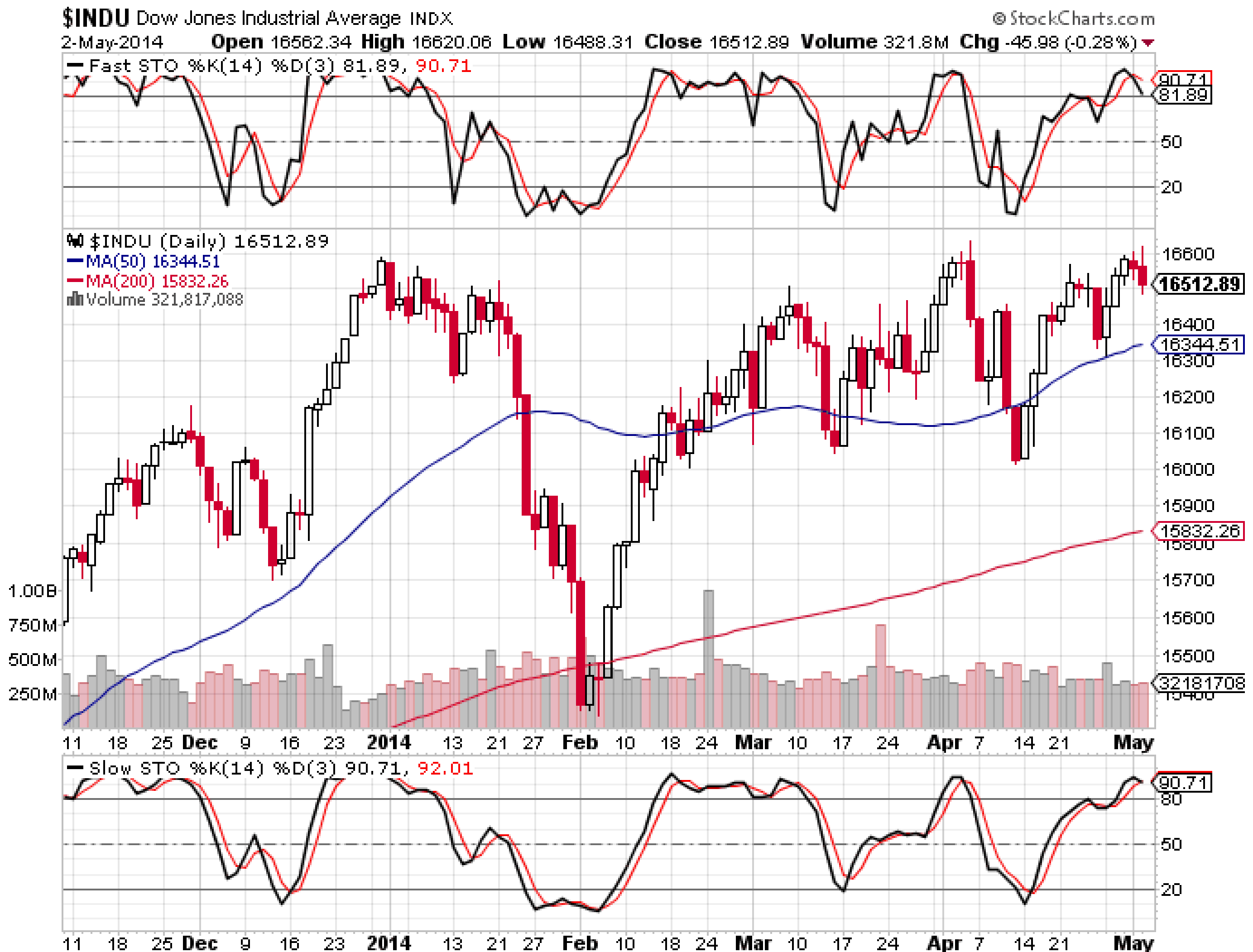
"Also find confirmations, by noting if the other findings in this report regarding other international indices prove true.

"So, in my chart interpretation, point-1 of the Dow's expanding triangle occurred in December, while point-2 concluded at yearend. Point-3 was put in at the beginning of February while, as described above, point-4 concludes with a minor move above 16,600.

"Theory and experience teaches that, in this example, point-5 would take place around Dow 15,200, followed by a pop to about 15,700, before a smashette takes the index down to about 14,000 in swift fashion.

"Given the expanding triangle immediately below (discussed above), I feel it wise to underscore the threatening position of the equity markets by again reprinting the October report to which I alluded at the bottom of page-1.

"The updated 25-year chart appears in the reprinted section which immediately follows the 6-month chart here:"



October 29, 2013

"Below, please note the **25-year Dow chart.** As often discussed, an expanding triangle is less common than others, and more dangerous as well.

"It is a pattern that has 7 points, where each point reflects a higher high than the previous one, while the lows within the pattern are lower that the preceding bottom. Such a pattern, it is easy to understand, bespeaks greater volatility.

"Point #6 is the rally that does **not** come close a new high, and it is followed by point-7, which is the pattern-concluding smash.

"In the case below, point #1 was at the end of 2002. Point-2 occurred at the end of 2007, while point #3 completed in March 2009. Point-4 is ending now.

"Point-5 will take the Dow to a level around 6000, with much of the train wreck occurring in 2014 - 2015.

"The destruction will relate to the growing materialization of hyperinflation, sovereign and major corporate defaults, and political instability (World War Three) that will ultimately manifest fully during point-7 later this decade.

"Regardless what causes it, point #6 should provide the world with "hope", as the Dow rallies from ~6000 to ~9800.

"Contemplating time, please note that point-1 took 3 years to complete, while point-2 required 5 years. Point #3 only took a bit over a year in the debacle of 2008. Point #4, now completing, will have taken about 5 years.

"The rally phases (points 2 and 4) will have each taken about 5 years, while the declining periods have taken about 1 and 3 years, respectively.

"Apart from noting the consistent Fibonacci relationships, it is also worth noting that the declining periods may well be accelerating, certainly when adjusted for the depths of the movements (more points per unit of time).

"So, if the Dow took just over a year to decline just under 8000 points, just how fast will the Dow have fallen 10,000 - 11,000 points? A year and a half?"

April 1, 2014

"With all of the dire economic, financial, momentum, and sentiment indicators, why would anyone toy with an expanding triangle within an even greater and massive long term expanding triangle, which is itself replete with dangerous Fibonnaci time relationships."

Ominously, within an ever shorter term time frame, we now have a 3rd (subdividing, so to speak) triangle. Is fear wisdom? Yes, if you are long. Otherwise, it's opportunism.

NIKKEI

The excerpts below fully describe the technical reality at present and, when coupled with the Nikkei-related commentary that appears in the Dow section above, explain the **1-year Nikkei** chart that follows on the next page.

April 1, 2014

"Without embarking upon the same degree of coverage, I will simply comment that the hedge funds have a massive trade to unwind as Abenomics has proven unsuccessful."

"Technically, we are looking at a massive shoulder-head-shoulder formation, with the left shoulder having occurred last May, while the head completed at the end of the year.

"As repeatedly noted since 1988, market extremes occur at the West's yearend (due to tax-related activity and window-dressing), while another though less perfect extreme occurs at their own yearend in March.

"This March appears to have concluded a wave-2 peak. Watch out!

"A break of 14,000, which is also the previous wave-4 (and) apex conclusion, can and should send this index spiralling toward 11,000 **FAST.**

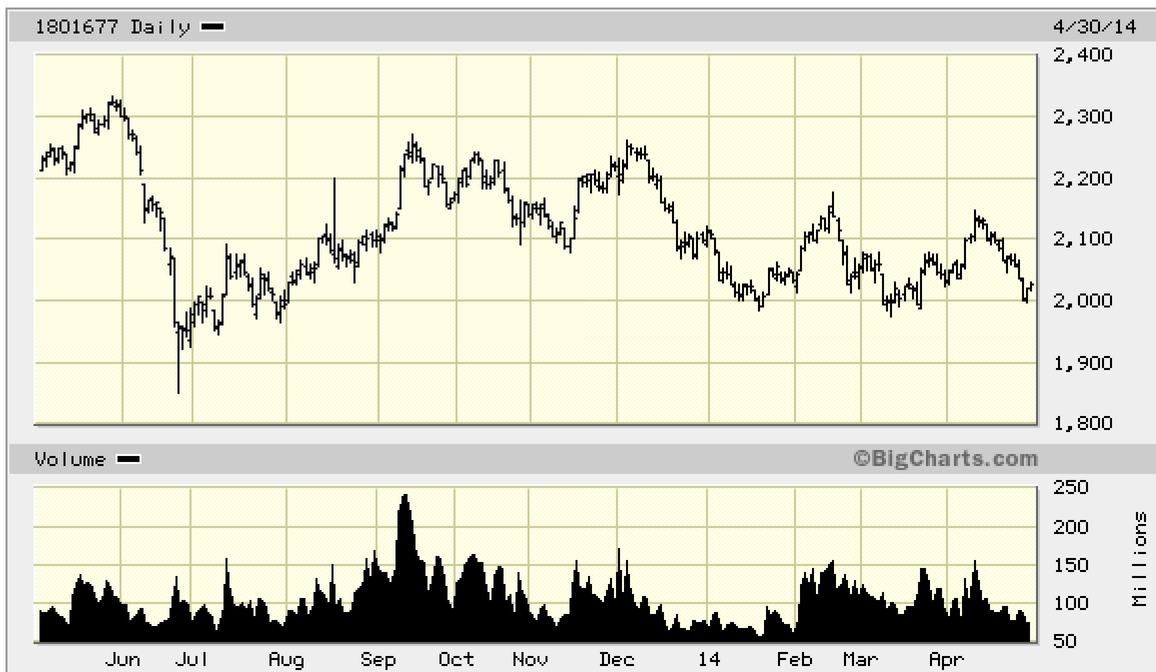
"For the Dow, this represents a massive international equities non-confirmation. It also reminds those not of short memory of the currency frolics at the beginning of the year."

"Remember too: when traders can't sell what they own, they sell anything. The Dow is joined at the Nikkei hip, in other words."

SHANGHAI

The Shanghai Composite would have to break above 2150 to crack the downtrend which appears destined to collapse under 2000 en route toward 1600, and 1000 before 2017 is over.

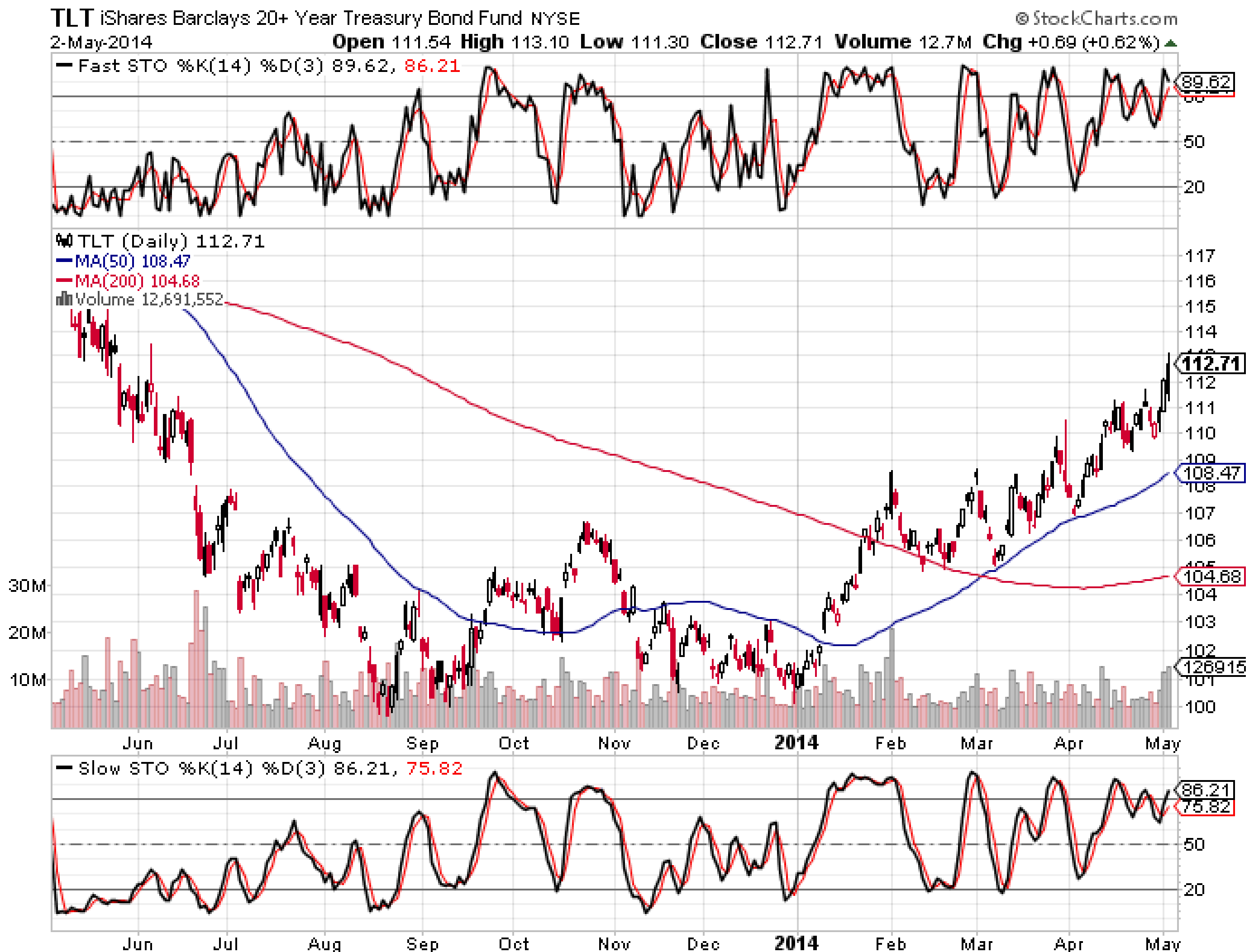
This is China's equity contribution the global equity meltdown.



LONG BONDS (TLT)

The **1-year TLT chart** (Barclays 20+ year Treasury Bond Fund) below has recently been even stronger than what I had thought it would be in the shorter term.

I reiterate that falling rates is precious metals-positive, but more on that in the precious metals section below.



A key takeaway that I wish to offer readers is that, after calling multiple turns, I have been watching bonds be "too" strong.

Simply, the multiple bearish slow stochastic divergences (below 1-year price chart) warn of a quick smash to the 109 area, when we further consider the ascending wedge pattern that has developed since the end of March.

Sure enough, that is when we saw our 1st divergence; note that it was followed by a quick ~$3.50 smash. Today, we see 2 divergences, not 1, along with a wedge that is sneaking up into its right-hand corner.

Expect another $3.50 crack. (*See gold comment.)

DOLLAR

The **1-year UUP** (PowerShares DB US Dollar Index Bullish Fund) **chart** appears immediately below.

April 1, 2014

"As previously analyzed, the USD is within a broad expanding triangle.

"Points-1, 2, 3 and 4 completed in the May through July period of last year. Point-5 then concluded in October 2013, while point-6 concluded at the end of this past January.

"The upshot is a swift and deep decline because, by definition, that is what point-7 must necessarily be in an expanding triangle. With a slow stochastic that is rolling over from a very lofty height, one must be on guard for a swift smash anytime."

Over the past month, the Dollar did indeed suffer a short and hard *smashette*, while the trends of both the price and slow stochastic are entirely consistent with the unfolding point-7 collapse to which I have again referred in the excerpt above.

PRECIOUS METALS

The **1-year GLD chart** appears immediately below.

The neckline support and key retracement level discussed last month did hold, though bulls are far from happy as yet.

Lower rates are bullish for the precious metals (as discussed in the TLT section above) but, for now, the safe haven money has been flowing into bonds.

This explains why bonds went up on those days when "good economic news" would have ordinarily had an opposite effect on other occasions.

Not only does the crowd doubt the goodness of the news propaganda, but it is scared about what is brewing in the Ukraine.

*So why would gold not rally instead? Because the crowd wants liquidity. And that's also why a quick and dirty smash in bonds could coincide with a partially counterintuitive rally in the precious metals.

NB: I very much wish to draw attention to the similarity in the massive TLT and GLD reverse shoulder-head-shoulder patterns! If the bonds are leading, which is totally logical, gold will erupt ~$150 with speed.

Such speed is consistent with the Wave-3 eruptions in the precious metals that I discussed and forecast last month. Of course, silver's new short term low did not appear so consistent for that metal's bulls.

However, on closer examination, please note that silver's slow stochastic has now put in a bullish double divergence. (**1-Year SLV chart** appears on the next page; slow stochastic is seen under the price chart.)

The June 30 2013 low was silver's left shoulder, while the head occurred at the end of the year.

By having a right shoulder break under the reverse-head, but hold above the left shoulder has created the psychological stage for a sentiment shocker if the SLV were to spike up over $21 now.

The market could then be stunned to see how viciously the bulls could break the bears' backs with a spike to over $24.

Consider copper:

April 1, 2014

"Copper has been the noose around silver's neck of late, reigning it in when gold was providing precious impetus. Regarding the technical association, the good news is that,

"historically, copper has bottomed after silver, which, again, has reason to be attracted upward by gold.

"The bad news is that copper's momentum indicators are now lined up in a manner that is consistent with another reversal of fortune.

"This would be consistent with another short term bearish interpretation for silver. Namely, the all-powerful 6-month cycle next bottoms at the end of June and that could line up closer to when copper may more likely have troughed."

Copper-related comments appear on next page above the **1-year JJC** (iPath Dow Jones UBS Copper Subindex Total Return ETN) **chart** on the next page.

Despite the strength in gold, copper's strong rally has left silver to make new lows, in a most counterintuitive fashion.

Copper had been the noose around silvers' neck, reflecting back to gold's baby brother its feature as an industrial metal.

Silver's short term stops were ravaged last week as bulls looked on helplessly, watching this manipulated market ignore the relative strength in gold (the precious) **and** copper (the industrial).

However, as a history major and colleague once taught me long ago, the longer something is manipulated, the more violent will have been the opposite reaction when it comes. And that day is coming. And boy is it going to be violent.

Yes, as per the copper analysis above, the 6-month cycle low in silver (June 30) will mark the more important bottom.

However, while it would appear that such a low may be a higher one within an uptrend, it could be even better. Understandably, given the recent level in silver, there are those who fear new year lows altogether. I am not one of them.

Though sharp spikes higher do not ordinarily occur at the end of a cycle low (only 2 out of 6 months remain), this is not an "ordinary" market. A run can occur at any time.

Whatever the market does, it's just getting the younger guys to run, leaving them with little more analysis to offer than multiple scenarios and few worthwhile corresponding strategies.

I reiterate the recent strategic approach of using 2016 calls.

No stops are needed, as dramatically cheap prices in both the underlying security, as well as the historic premium levels obviate the need to have many strategic concerns swimming in one's head.

CONCLUSION AND STRATEGY

April 1, 2014

"**Conclusion:** The Dow is terminal, as are the other major markets, including the Nikkei and Shanghai indices. The former is a negative Dow driver given the squeeze on trend-exacerbating hedge funds, which went from under-owning the Nikkei to over-owning it."

"Also a major factor for PM traders is the historically inverse correlation with the Dollar. The Dollar can go into a point-7 smash at any time, which would be consistent, and could coincide with a Wave-3 advance in the metals."

Sid Klein

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