



3/30/2008 11:28 AM

“How often have I said to you that when you have eliminated the impossible, whatever remains, however improbable, must be the truth?” – Sherlock Holmes: The Sign of (the) Four

“Any truth is better than indefinite doubt.” – Sherlock Holmes: The Yellow Face

I like to have alternatives with Elliott wave analysis. When I have options to choose from, then I'm confident that good detective work will guide me to the correct option. If and when my preferred option fails, I immediately have an alternate thesis to fall back on. I might not like it as much, but as long as it is technically sound, it is a workable thesis. However, when my analysis narrows down to only one option, I worry. Instead of feeling a sense of accomplishment, I feel a sense of dread. I can't help but think that I am missing something. I am only one option away from being a detective without a clue.

Nevertheless, it is difficult to find a viable alternative to the thesis that we have completed 5 waves down. I had previously stated that this option included a minor breach of a rule, and it does in the S&P futures. However, in the cash S&P, there is no breach. In **Chart1**, the red horizontal line is where wave (1) of 4 ends. The horizontal blue line is where wave (4) of 4 ends. A running flat extends below the line and gives the appearance of a greater rule breach on the daily chart (chart1). **Chart 2** shows this running flat on a 60 min intra-day chart.

Running flats are identified as very rare in the biblical text: Elliott Wave Principle; *Frost and Prechter*. I quote from the text: “ In a rare variation on the 3-3-5 pattern, which we call the running flat, wave B terminates well beyond the beginning of wave A as in an expanded flat, but wave C fails to travel its full distance, falling short of the level at which A ended. Apparently in this case, the forces in the direction of the larger trend are so powerful that the pattern is skewed in that direction. The result is akin to the truncation of an impulse.” I have seen many running flats on intra-day charts in this bear market. They do remain rare on daily charts.

Chart1

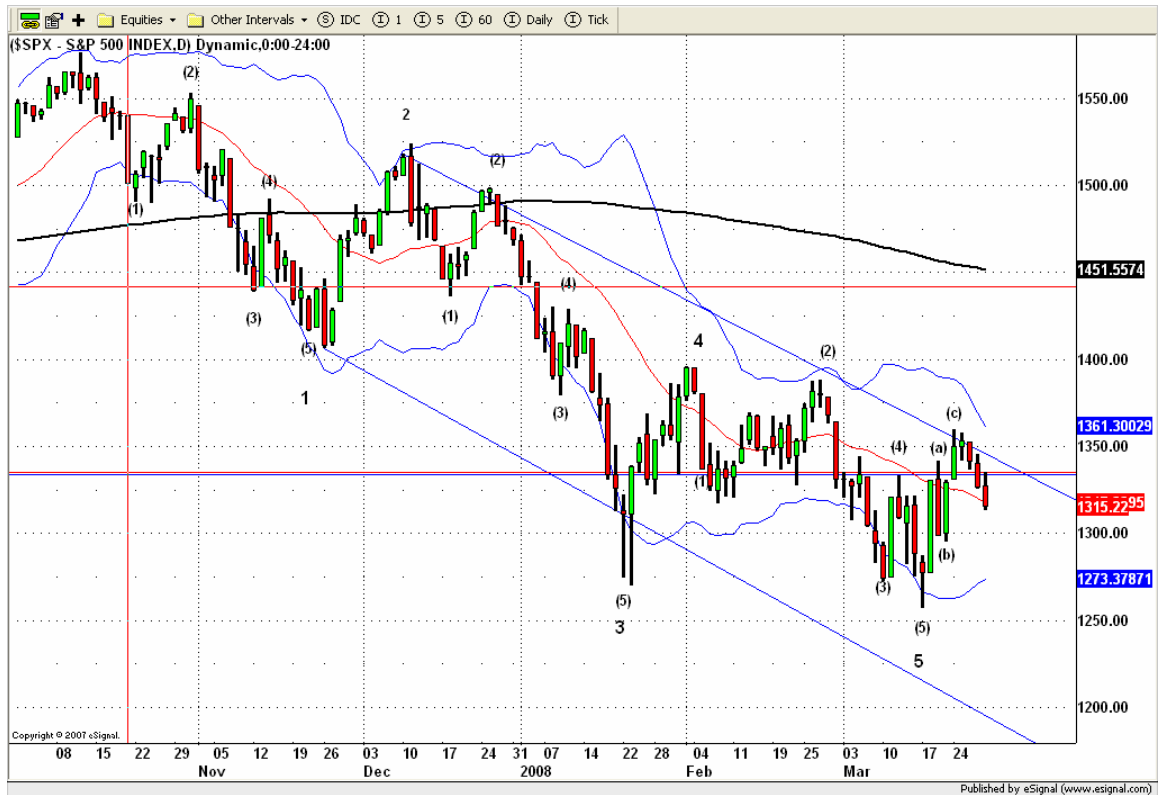
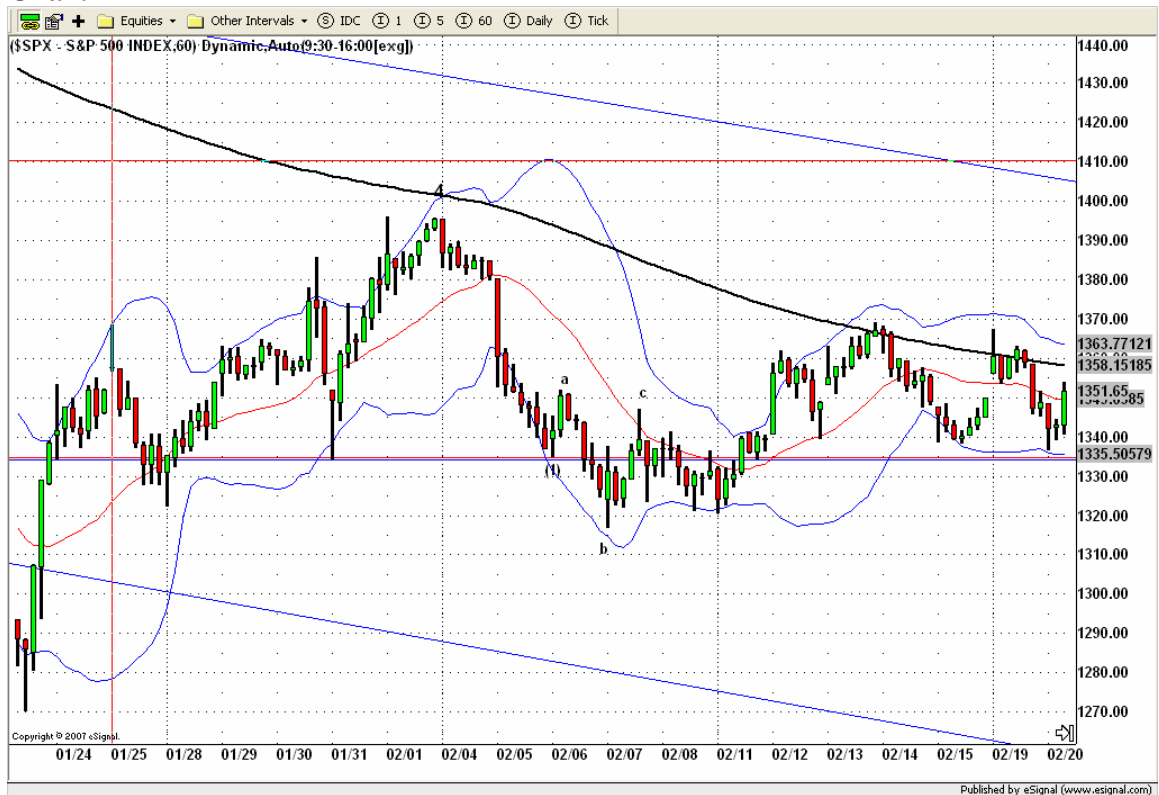
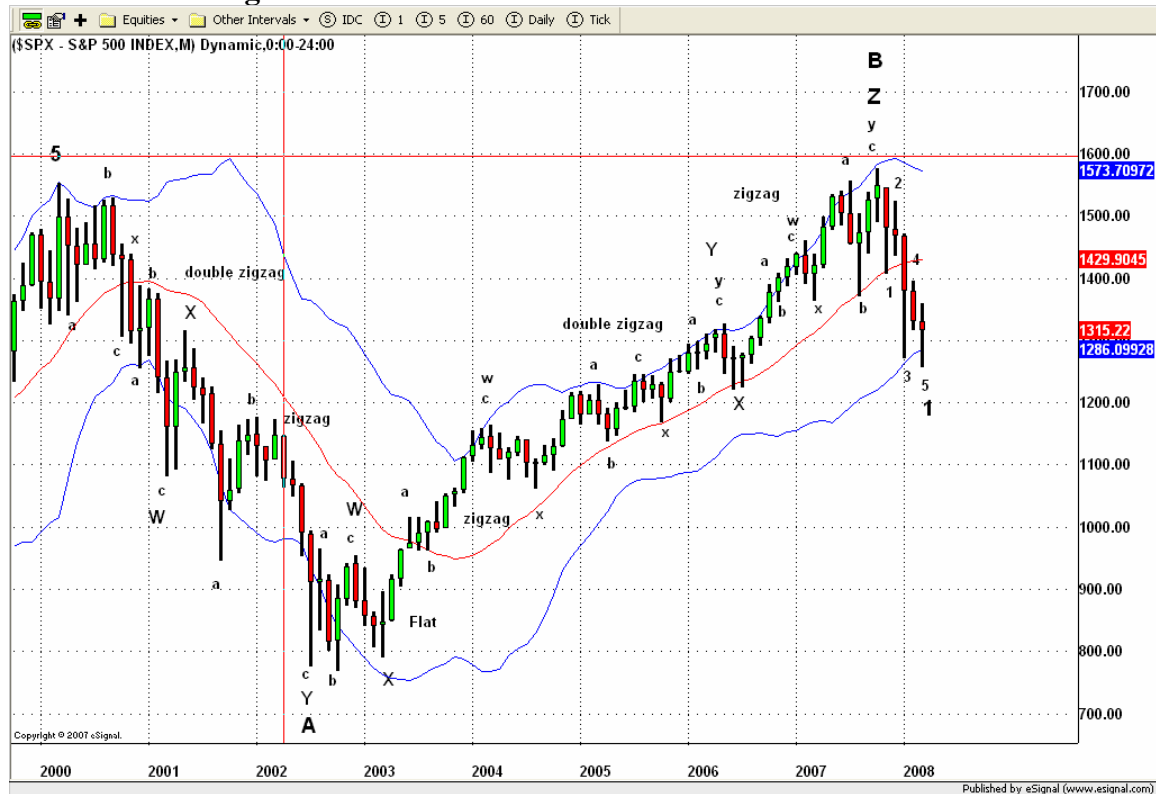


Chart2



Accepting that we have in fact completed 5 waves down from the October high, we need to put it into perspective to understand what it means. How do five waves down fit into the big picture? Let's look at a monthly chart on Chart3. I call this chart Prechter's Revenge. Robert Prechter Jr. believes that 2000 was the top of the Super Cycle: a 5 count impulse wave up that started in 1932. When the market rallied back from the 2002 low and made a new high, most market watchers quickly dismissed his theory. More recently he suggested that 2000 was in fact the top and we are in the midst of a corrective flat. In a classic case of crying wolf syndrome, no one believes him. **I do.** I have never seen anyone attempt to provide a detailed wave count to substantiate his flat theory, but I have done so here.

Prechter's Revenge

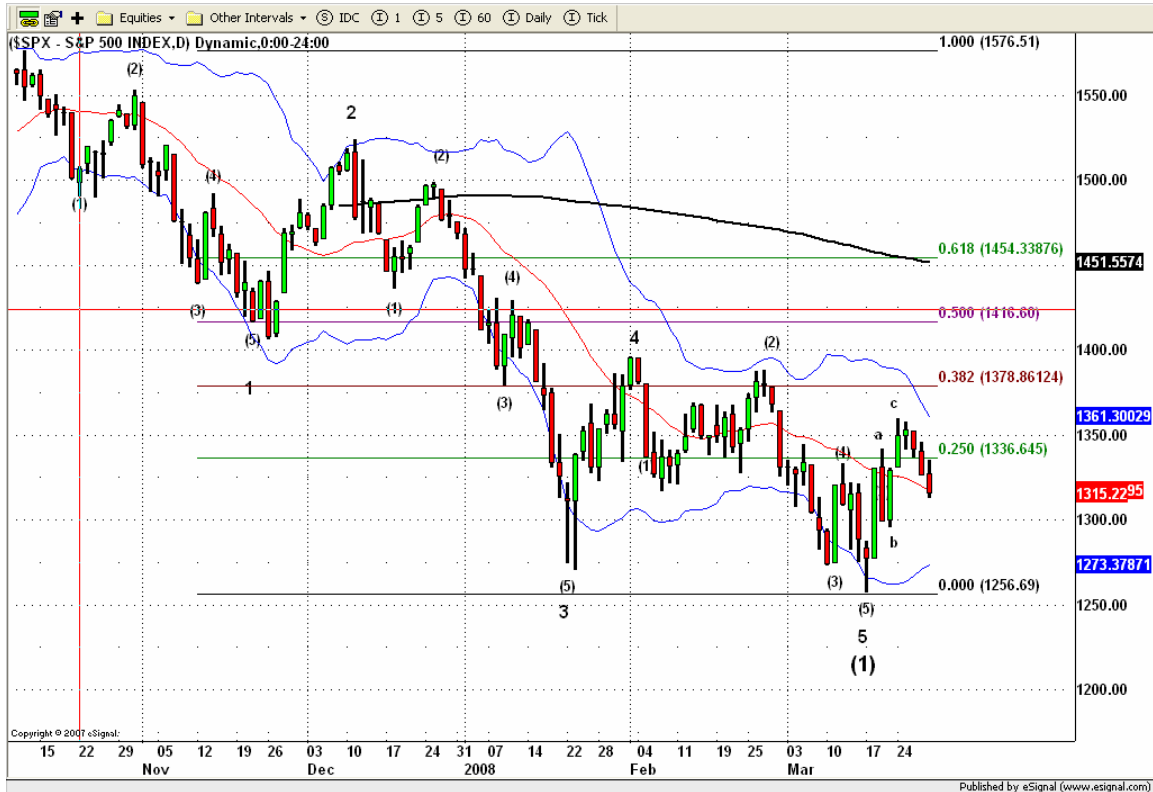


Five waves down means we have completed wave 1 of a five count C wave that will eventually complete a decade long flat that started in the year 2000. Now **that** is what I call perspective.

So how do you trade a Super Cycle corrective flat? One wave at a time... Continuing our presumption that five waves down are complete (wave 1 of C), we are now in wave 2 of C. This is a counter-trend wave up. The general behavior of a second wave is that it retraces a good percentage of wave 1. A .618 Fibonacci retracement of wave 1 is common. It is very common to return to the level of wave 4 of one lesser degree. That would be 1400. A zigzag is the most common corrective pattern for a wave 2. If the zigzag doesn't travel far enough, it is most likely part of a corrective combination.

In **Chart 3** you can see we have completed a zigzag, but the distance traveled falls short of our expected target range. We can therefore surmise that a corrective combination is likely.

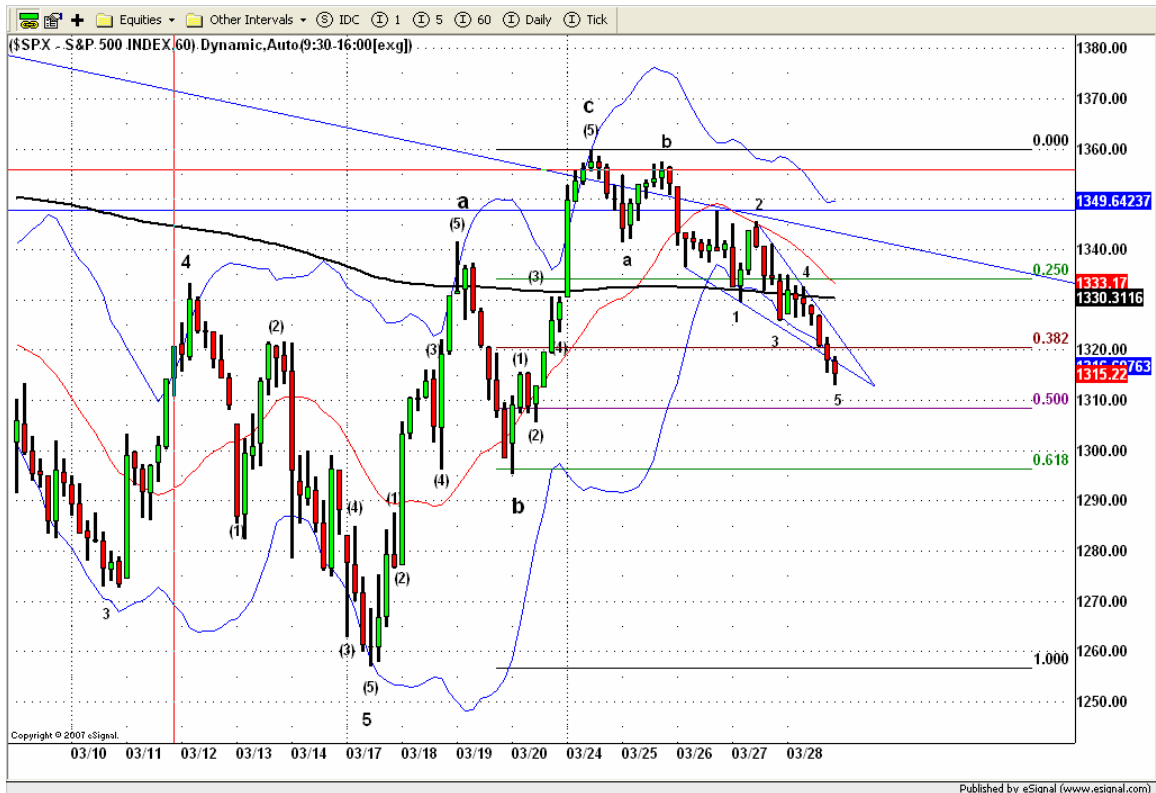
Chart3



Let's look closely at our wave 2 progress in **Chart 4** and see if we can now make sense of the endless array of a-b-c waves down we have experienced since the recent 1360 top.

I believe we now have clarity. This pattern is called an ending diagonal. A diagonal consists of five 3s. It is an exhaustive termination pattern and usually is followed by an explosive move in the opposite direction.

Chart4



In summary: We have completed five waves down. The five waves down are only wave 1 of a five wave C. The C wave is the final corrective wave of a decade long flat that started in March of 2000.

We are now in the 2nd wave of the 5 wave corrective C. The second wave is a counter-trend wave that will retrace a good portion of wave 1.

We are most likely in the midst of a corrective combination that started with a zigzag. At the lowest level of detail, we are probably finished with the correction of the correction which culminated in an ending diagonal.

TMD/DW