



*Improbable as it is, all other explanations are more improbable still. –Sherlock Holmes: Silver Blaze*

The Elliott wave principle is based on the premise that mass social mood trends and changes in a rhythmical nature that can be charted and subsequently projected forward. Rooted in human behavior, it is no surprise then, that individual waves are a reflection of the current social mood or mass personality. By knowing the typical personality of a wave, we can use our lens to uncover more clues in our search for truth in the market.

Let's analyze the typical wave2 personality in the context of a bear market.

Second waves often retrace much of wave one and the profits of wave 1 erode away, especially put options. Investors are convinced that the bull market has returned.

Can you see this budding personality starting to unfold? What happens when we break 1406, 1420?

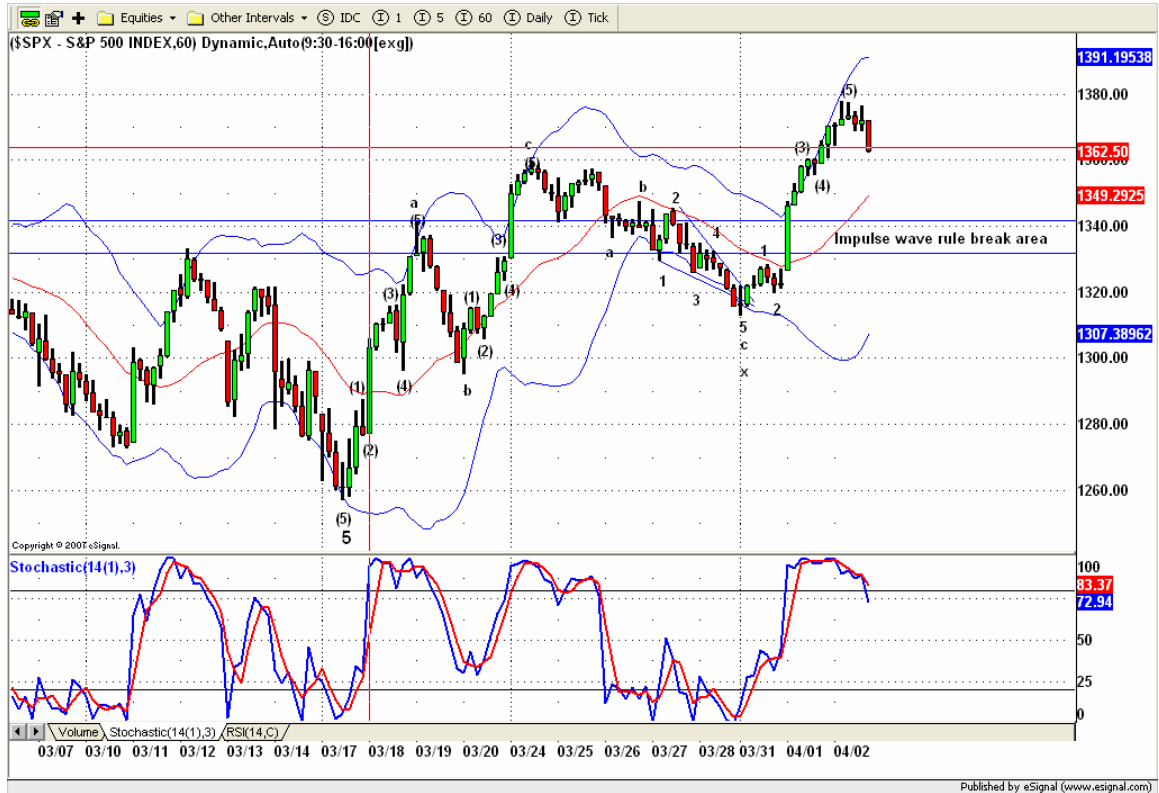
These wave personalities are more typical of waves of larger degrees, but must have some applicability to waves of all degrees. Ironically, the more bullish you become, the more likely this is the counter-trend second wave, and ultimately the more bearish you should be.

Let's review our most important clues to date that support we are in a wave2 counter-trend correction:

1. The initial move off the bottom is a zigzag 5-3-5. Even though we just completed another five waves after a 3 wave pull back, it cannot be a 5-3-5-3-5 impulse pattern because the correction from 1360 which would have to be wave 4 of the impulse pattern violated a rule by entering the price territory of wave 1. **(Chart1)** Therefore, **we can conclude that the move off the bottom is a counter-trend correction. No matter how high we go, the wave structure tells us we are in a correction.**
2. The Zigzag (5-3-5) off the bottom was followed by a 3wave *correction of a correction* (connector x) and then five waves up, so we are now in a confirmed zigzag **combination. (chart2)**
3. Five waves always come in sets (except C waves of flats). Therefore, the move up from x is only a partial move, most likely another zigzag in process. Look for another 3 wave connector to develop. Another *correction of a correction* if you will, then at least another five wave pattern up. **(chart2)**
4. We cannot find a viable alternate thesis to the current working premise that we have completed 5 waves down of a larger degree from the October 2007 high.

5. We have a larger working thesis that puts the five waves down from the October 2007 high into Super Cycle perspective. To date, everything fits.
6. We have a possible wave2 personality match.

### Chart1



## Chart2



1406 remains a level for us to watch and another confirmation clue. If we breach 1406, then that eliminates any possibility of some alternate thesis (that I missed) which puts us still in a fourth wave down from the top. Our wave 2 thesis becomes very solid at that point. It is still valid even if we turn before 1406, but weaker given the typical personality of 2<sup>nd</sup> waves.

We closed exactly on our minimum target and we have half of a zigzag to go. My sites are on 1419. The correction following the next 5 waves up on an intra-day chart, the second half of this zigzag, **the completion of a double zigzag combination**, is critical. We need to examine its structure very closely. Since it will be a completed pattern, the down trend can theoretically resume.

TMD/DW

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