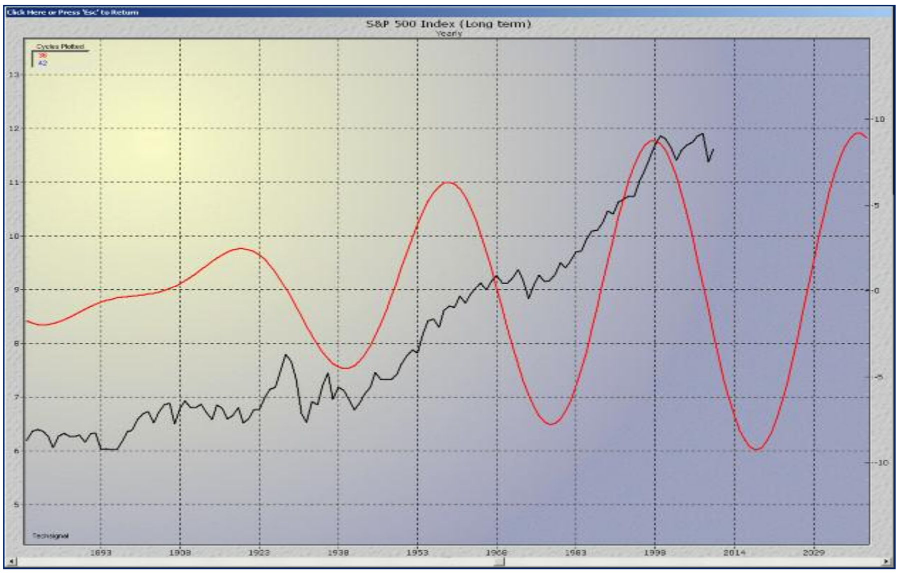
Equity markets

By Peter Goodburn

This analysis centres around the S&P 500, which is used as a proxy for other global indices. The great bull market beginning from the 1932 low, ended 68 years later in 2000. Other global indices peaked later in 2007 (75 years), and some are still continuing to progress higher. In order to understand the logic of the 2011 trends and price forecasts, we have described and illustrated how these fit together within the greater pattern sequences that date back to 2000, and look forward to the 2016-18 period. Three time and price degrees of trend are introduced – long-term/super-cycle, medium-term/cycle and intermediate-term/primary.

Figure 1

Figure 2



The counter-trend bear market for the S&P 500 is forecast to unfold into an expanding, flat pattern, A-B-C (super-cycle degree), subdividing 3-3-5. Super-cycle wave A completed from the 2000 high into the 2009 low. Subsequent advances, labelled wave B, should ultimately take the S&P to new-record highs. Other global indices will underperform and remain below their current historical highs (see figures 1 and 4). Much later, a major collapse is anticipated as super-cycle wave C is assigned a 'high probability' event.

Long-term cycles focus primarily on two time-intervals – 42 – and 36-year periodicities. The 42-year cycle develops with right-translation – up 39 years, then down sharply for three years. The 36-year cycle develops with central translation – alternating 18 years up and down. The composite cycle combining these together has peaked and confirms the long-term bear market (see figure 2).

The 39-year period of the 42-year cycle peaks in the year 2013. This is the expected date for completing super-cycle wave B's current advance into record highs (S&P). The following three-year period is expected to force prices down sharply into 2016 for the completion of super-cycle wave C.

The directional 18-year uptrend of the 36-year cycle peaked in 2000 and now heads lower for another 18 years, until a low forms in 2018. Whilst the 39-year period of the 42-year cycle pushes higher until 2013, the 18-year is influencing lower, cancelling each other out. This is the reasoning behind such volatile price movement during the last decade. Declines into the 2016-18 date is expected to form a typical double-bottom formation for global indices (see figure 3).

Medium-term cycles focus on three periodicities – 113.50, 85.10 and 70.80 months. These combine into a composite cycle that indicates a general uptrend in progress from the October 2008/March 2009 lows, with its peak in early 2013, coinciding with the conclusion of the 39-year period of the greater 42-year cycle.

Global indices share a common theme following the post-financial crisis lows of 2008/09. Many have advanced into

Figure 3

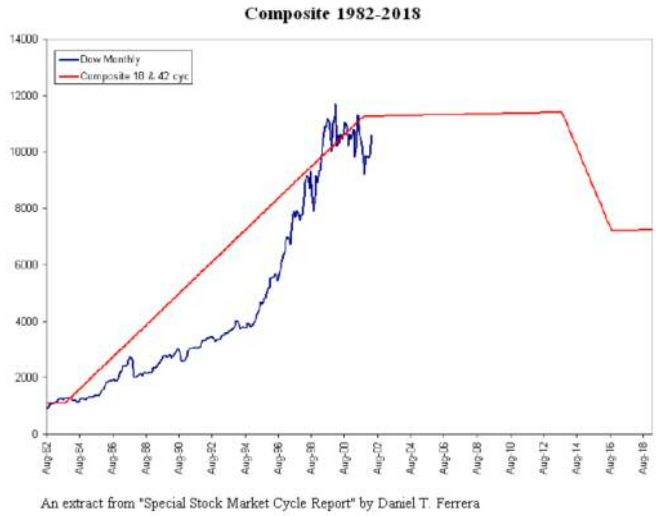


Figure 4

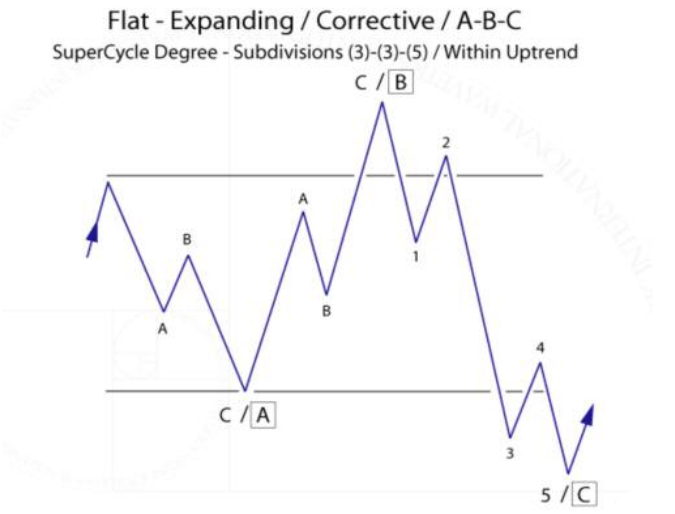


Figure 5

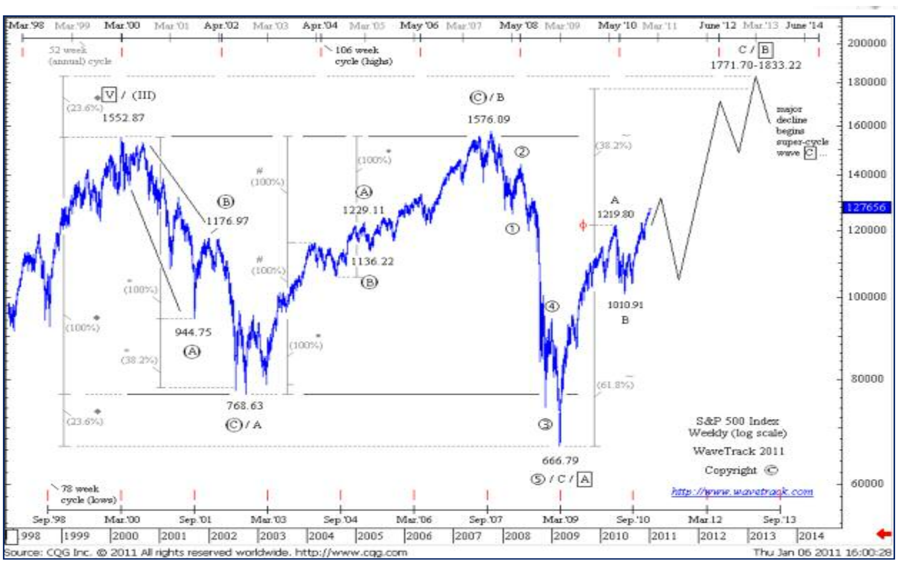
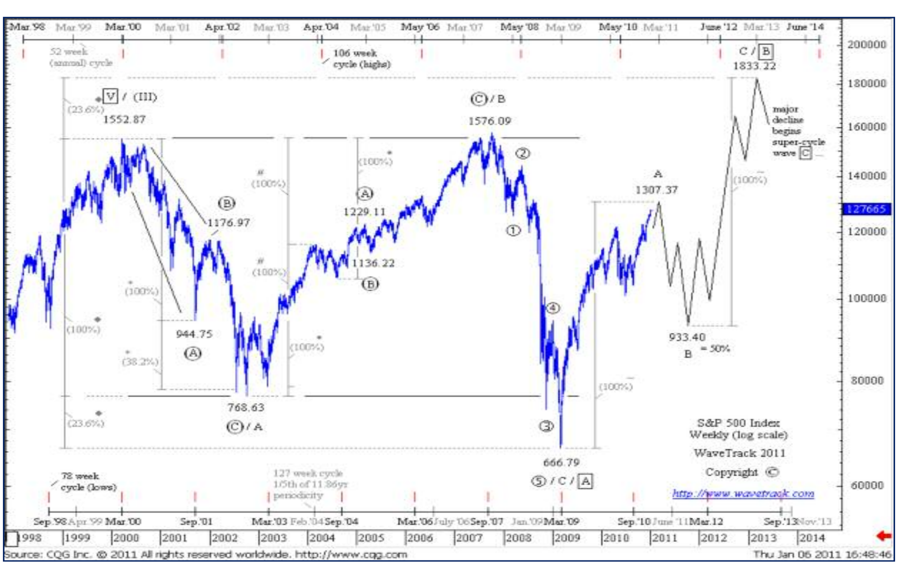


Figure 6



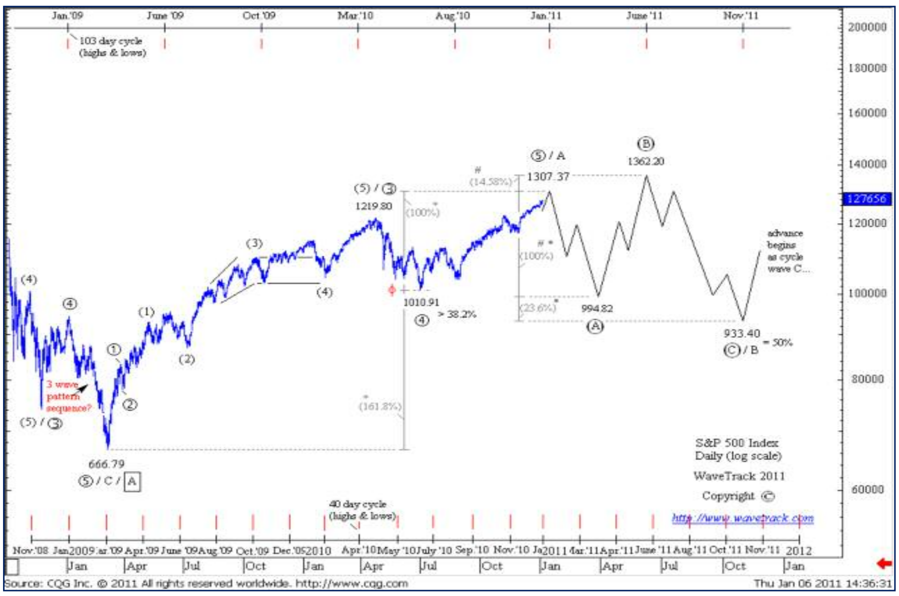
typical Elliott five-wave impulse patterns. This results in two immediate conclusions. The first is that a five-wave advance of this kind eliminates an imminent decline that collapses below the October 2008/March 2009 lows from consideration. The second is that it vindicates higher price levels 18 months from now, because a five-wave pattern located in this position must be followed sometime later by another of at least equal amplitude (Fibonacci 100% equality). This underlines the progress of super-cycle wave B's advance from the October 2008/March 2009 lows unfolding into a zigzag, an A-B-C 5-3-5 sequence, resulting in new record highs for the S&P, and some other global indices.

The S&P's advance from the March 2009 low as super-cycle wave B is expected to unfold into a single zigzag pattern, labelled A-B-C in cycle degree. Two locations are currently considered for the completion of wave A – either the April 2010 high at 1219.80 or, alternatively, towards targets slightly above 1300.00 (see figures 5 and 6). The consistency for both is that a significant high can be expected at the latest by the end of Q1 2011, with prices turning down afterwards. This is supported by the reliable 40.68-month cycle that has approximately timed most of the intermediate-term price swings since the bear market began in 2000.

The difference between the two scenarios displaying alternative locations for the completion of cycle wave A will

Figure 7

Figure 8



become evident once the S&P begins to decline. The first has more limited downside possibilities because this would be labelled primary wave 2 within cycle wave C – wave 1 began from 1010.91, and so wave 2 must end above this low. The second does not have this constraint, because the decline would be labelled one-degree higher, as cycle wave B with its own limit below 666.79, wave A's starting point. In reality, a Fibonacci 50% retracement level is targeted to 933.40.

The second scenario has credibility for two reasons. First, the decline into the July 2010 low at 1010.91 is uncommonly small to qualify for the completion of cycle wave B (as the first scenario describes, less than Fibonacci 38.2%). Second, when compared to other global indices such as the Hang Seng and the Kospi, these suggest an expanding, five-wave impulse pattern is only now approaching completion from their respective lows of October 2008 (see figure 7). This justifies the same five-wave pattern ending cycle wave A for the S&P.

The depth of cycle wave B's decline is expected towards the Fibonacci 50% area at 933.40, as this would provide the platform for an identical advance of wave A, which could be measured for the following advance as wave C, with targets towards 1833.22+/-. This would form a convergence for the completion of super-cycle wave B, where wave A is extended by a Fibonacci 23.6% ratio (see figure 6). Such harmonious convergences are commonly found for B waves within expanding, flat patterns.

The question now remains as to what type of counter-trend pattern will unfold as cycle wave B during the months following March's expected high. The decline can take a simplified form of a single zigzag, developing as primary waves A-B-C. If so, a low can be expected before year-end 2011. An alternative scenario for wave B would be that it unfolds into an expanding, flat pattern, therefore consuming a lot more time. It would create a secondary high before declining to the ultimate downside target at 933.40. An intermediate-term composite cycle chart comprising of four different time-periods, and including the 40.68-month periodicity, holds higher until June 2011 before relinquishing its role. Such an event would create a slightly higher high into June, before declining hard afterwards, probably extending its conclusion into early 2012 (see figure 8).

Peter is the founding partner of WaveTrack International and has published Elliott Wave analysis for over 20 years. He is the author of the monthly EW-Navigator and the short-term EW-Compass reports – www.wavetrack.com