Harmonic Trader Report Monthly – March 2011

March 31st, 2011

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The Next Wall to Fall…

The markets have seen a steady increase in geopolitical flare ups in the past year. Although the current threat to oil supplies continues to drive prices higher, this sweeping change throughout the world is remarkably reminiscent to the late 1980s that ultimately led to a new era of global economic expansion, when eastern European countries of the former Soviet Union demanded the same freedoms. This was finally realized in 1989 after the collapse on the USSR and the end of the Cold War, most notably marked by the fall of the Berlin Wall.

Now, we are witnessing the collapse of another repressive wall throughout the Middle East. This wall – albeit more of a cultural barrier than a physical obstruction – is crumbling with the help of modern technology - high-speed internet!

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In my own interactions with people interested in Harmonic Trading, I have encountered some remarkable individuals from these countries whom have expressed a sincere desire to simply improve their life and enjoy freedoms that the rest of the (western) world experiences. Traders from authoritarian countries such as Iran, Jordan, Egypt and others have contacted me over the past several years. Despite my American "indoctrination" that espouses that these people are not our friends, I encountered extremely open and receptive individuals not bound by their government's mantra that the western world is evil. Rather, they have reached out to me in appreciation of Harmonic Trading, as it has helped them understand markets anywhere in the world. For example, a group of traders from Tehran explained the limits of their economic and internet exposure. These guys meet in internet cafes and discuss trading together. Unfortunately, they explained to me about their ability to participate in global markets is extremely limited. They are restricted in the amount of funds they can place in trading accounts and are unable to possess credit cards. I know I could not live without my credit card! In fact, I tried to mail a few freebie books to the guys in Tehran, but they never made it through customs! Although less extreme, many Egyptian traders experienced similar restrictions. Maybe now, this will change but it will take time.

Watch the Charts not the News…

As we approach April and the 1 year anniversary of the BP Oil Spill, there are several notable external influences that are creating a "red herring" perception of what drives markets. Simply stated, the geopolitical events have more to do with driving headlines that market trends. Similar to the recovery rally of post-1987 - albeit immersed in a sea of conflict – the current bullish trend remains intact.

Despite the tumultuous events unfolding, I believe we are realizing another similar expansion that will ultimately open these markets with remarkable results. Due to the multinational nature of the stocks in the Dow Jones Industrial Average, I believe that these companies reflect global growth more than any other index. As I mentioned earlier, these geopolitical developments are remarkably similar to the events of the 1980s. On the charts, we have strikingly similar technical events unfolding as well.

Dow Jones Industrial Average 1987-1990

After the Crash of 1987, the markets looked like they were in big trouble. Many - notably Bob Precteur - demanded that the index needed to retrace to the 1000 level at this time or endure further consolidation before realizing a historic low. Regardless of the persistent recovery, many questioned the strength of the recovery at this time. Despite the pessimism, the index exhibited strength that steadily took the index to new highs within three years after the crash.

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I outlined this example last year, as I explained the significance of bear market recovery rallies. In short, every substantial bear market greater than 30% in magnitude of the past 50 years has experienced distinct recovery rallies. Each of these rallies accelerated in earnest beyond the midpoint (50% retracement) of the prior decline. Following the 1987 crash, the index recovered steadily after exceeding this resistance.

Despite the bleak forecast of many at this time, the price action exhibited a strong recovery. This created a great deal of distortion in the news headlines, as the recovery ensued in full force. The extent of geopolitical conflict and the definitive technical levels during this time were similar to today's situation.

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Dow Now

In much in the same manner, the index today is exhibiting a similar character. As I outlined in previous reports, the index has rallied above the bearish 50% retracement and has triggered a BAMM (Bat Action Magnet Move) that will result in an eventual test of the weekly 88.6% retracement at 13,400 at a minimum.

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In terms of the 1987-1990 scenario, today's market would be the equivalent of 1989. I believe the index will reach for the 88.6% retracement at 13,400 within the next 9-12 months. Beyond this target, we will see what happens when the price action tests this level. However, the context is quite clear. The Dow Jones Industrial Average remains in an uptrend that is quickly accelerating.

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Current Sea of FX

The currency markets were immensely impacted by the events in Japan and the potential repercussions (nuclear) that followed. For many Yen-related pairs, the volatility may have signaled a major capitulation reversal.

Japanese Yen (JPY_A0-FX): Weekly

Bullish Deep Crab

This is quite a remarkable harmonic pattern that must not be overlooked! You are looking at a Deep Bullish Crab that is over a decade in the making. I have always asserted that Harmonic Trading works on all timeframes. From 1-minute to annual or even decennial patterns, these structures possess the same ratio alignments and must be analyzed uniformly.

In this case, the US Dollar vs. the Japanese Yen has languished for more than ten years. I firmly believe that we are looking at the early stages of a major reversal unfolding. The extreme capitulation at the completion of this 11 year pattern is typical for Crab patterns.

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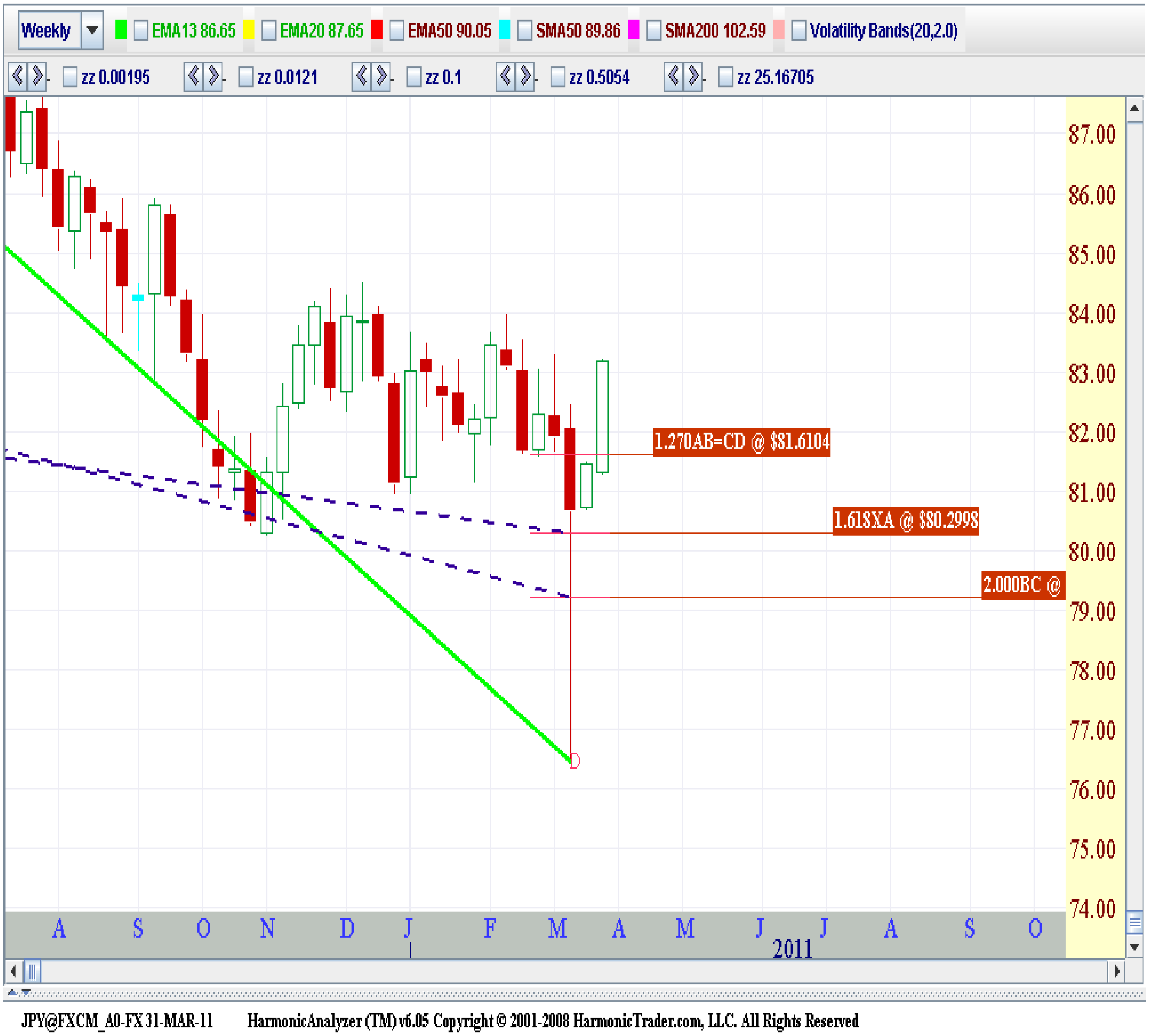
Japanese Yen (JPY_A0-FX): Weekly

Bullish Deep Crab Potential Reversal Zone (PRZ)

The following chart of the price action in the Potential Reversal Zone (PRZ) reveals the volatile test of all of the numbers at the completion of this long-term pattern. Although this was quite a tricky situation to execute in the PRZ, as the price action exceeded the low end of the harmonic support.



Despite this "overspill" of the exact PRZ, the price action is exhibiting demonstrative behavior that may catch many on their toes! I must admit that such an enormous pattern will require more time to resolve the long-term downtrend. Regardless, the progress of this structural development and reversal continuation is the most substantial harmonic pattern in the currency market in the past several years.

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Australian Dollar (AUD_A0-FX): Weekly

Bearish AB=CD with (abcd)

Another important development in the Far East currency pairs is the recent break out on the Australian Dollar vs. the US Dollar. I originally outlined this situation in the December report. I discussed the significance of the upside strength as the price action rallied towards par (1.00). The multiple Bearish AB=CD patterns point to a minimum upside target at the 1.10 level.

AUD@FXCM_A0-FX 17-MAR-11 HarmonicAnalyzer (TM) v6.05 Copyright © 2001-2008 HarmonicTrader.com, LLC. All Rights Reserved

I firmly believe the predominant uptrend will remain intact until these levels are reached. The short-term correction following the devastating events in Japan sunk the Aussie below par for the last time for a long time!

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Australian Dollar (AUD_A0-FX): Weekly

Failed Deep Bearish Crab

The following chart shows a Deep Bearish Crab that merely consolidated at the Potential Reversal Zone (PRZ) and has now continued higher – very strong!

This price action is an ideal scenario where a failed pattern is marking a clear continuation of the predominant trend. Although these situations may be difficult to perceive, the recent breakout and larger pattern considerations at higher levels provides enough evidence that the bullish trend will continue for quite some time.

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Australian Dollar (AUD_A0-FX): Weekly

Bullish Targets

The following chart clearly outlines this bullish segment. Although nothing goes straight up, the bias is clear and must be respected. I made the same statement back in December. Although the price action must be monitored, the short-term expansion targets define the next levels of harmonic resistance.

The Crab pattern is quite peculiar, as the price action frequently will exceed the primary 1.618 projection. In this case, the Aussie will reach for the relative 2.0 projection at 1.06. Beyond this level, the price action will reach even higher to the 1.10-1.13 area where both long-term AB=CD patterns and the 2.618 extension converge.

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Australian Dollar (AUD_A0-FX): Weekly

Bearish Deep Crab

If the earlier analysis of the Japanese Yen has demonstrated anything, distinct structural patterns must be respected. Clearly, the Aussie will likely reach for the 1.10 area at minimum with the completion of multiple AB=CD patterns. However, the following chart shows a Bearish Deep Crab that suggests even higher targets above the 1.22 area!

Although this pattern will require time to be realized, it represents another structural possibility of further upside. Although not every pattern comes to fruition, the effectiveness of Harmonic Trading is realized through the simple identification of the most distinct structural developments related to the predominant trend. The ability of price action at the completion of patterns effectively reveals substantial information regarding potential future realities. In the case of the Aussie, the numerous harmonic developments favor the continuation of this predominant uptrend.

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Basic Metals

I have outlined a number of metal markets in previous monthly reports. Gold, Silver and Copper have received extensive coverage as they continue to move into new upside territory. Although lagging since the 2008 bear market, the base markets are beginning to signal an accelerated recovery. Although base-related issues in Aluminum, Steel and other ore materials have lagged, these seem to be gaining momentum. Perhaps these issues are triggering a new leg in the uptrend in this super cycle of the commodity bull market? Despite the current levels, this is a situation where the technical significance of the current structural considerations is not to be underestimated.

iShares Dow Jones US Basic Materials (IYM)

The Basic Materials ETF- IYM - is quickly approaching the bear market 88.6% weekly retracement and will likely reach for new highs after a thorough consolidation at this harmonic resistance. Clearly, the uptrend remains intact but this ETF must be monitored to gauge the extent of this bull market recovery.

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iShares Dow Jones US Basic Materials (IYM): Daily

Bullish AB=CD

Although the price action reversed just shy of the weekly 88.6% retracement a while back, the following Bullish AB=CD has stabilized the recent pullback and has established support for a resumption of the predominant uptrend.

This pattern signals the continuation of base metals and a critical pivot point enroute to a full test of the 88.6% retracement at the 82.60 area.

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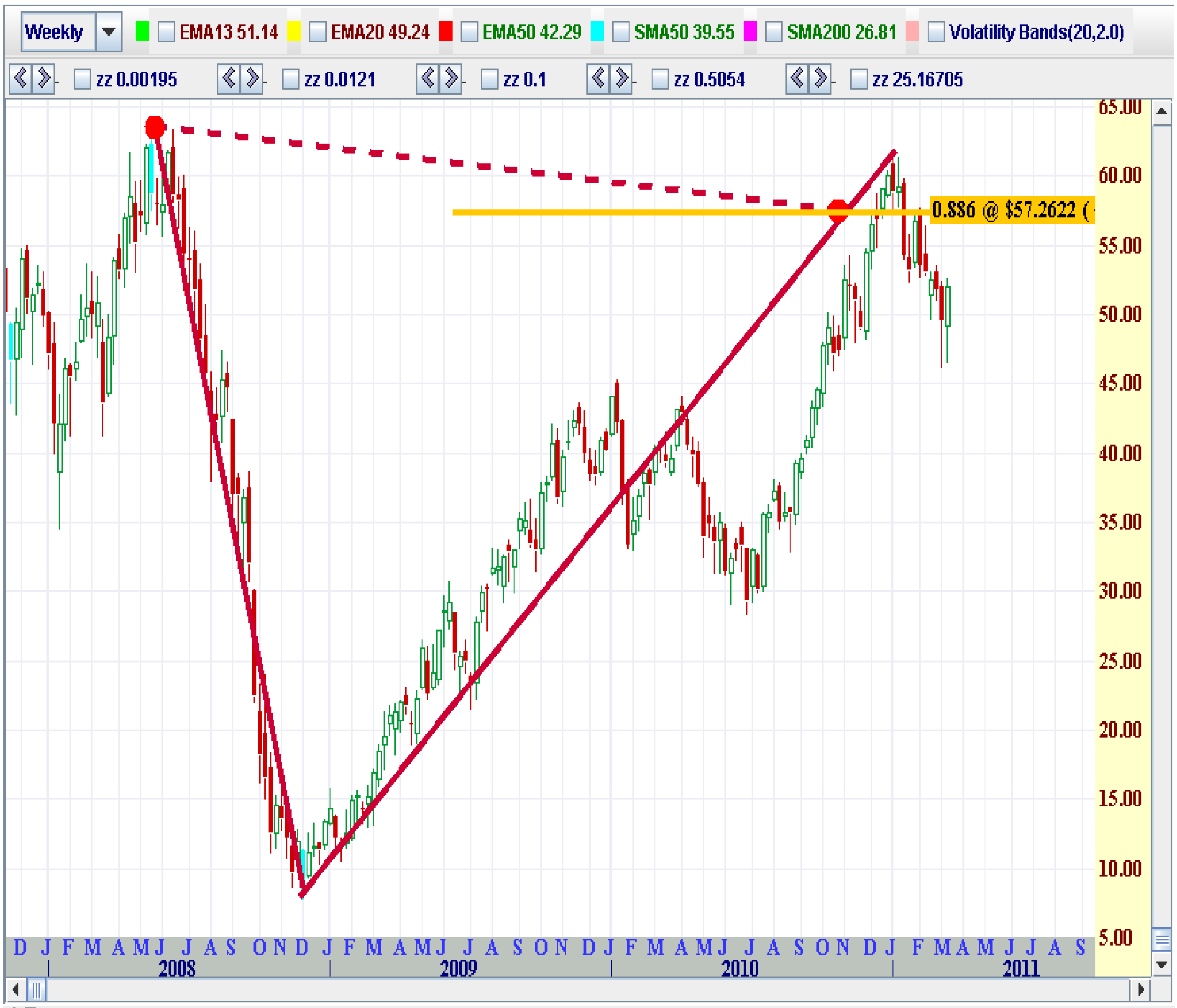
Freeport McMoran (FCX): Weekly

88.6% Retracement

Similar to the IYM, FCX is facing a long-term 88.6% retracement of the 2008 bear market. FCX has benefitted from stronger Gold and Copper prices. Although FCX includes precious metals, the Copper complex reflects the base metal sector strength, as well. (But, if these keep moving higher, we might want to start considering Copper as a precious metal!)



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I outlined this stock in December and was watching the 88.6% retracement to gauge the ability of the sector to move into new highs. Despite the pullback at the 88.6% retracement, this may be a mere pause before higher levels are realized.

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Freeport McMoran (FCX): Daily

Bullish AB=CD

The following chart reveals a Bullish AB=CD that has completed in the past week. Obviously, the recent pullback since the test of the 88.6% retracement has been sharp. Notwithstanding, the pattern represents a clear entry level to capitalize on the eventual continuation of this uptrend.

The psychological $50 level and the Bullish AB=CD just under it represent an important support zone. I expect that the 88.6% weekly will be retested at a minimum with the possibility of an eventual breakout to new highs, as long as this Bullish AB=CD holds the Potential Reversal Zone (PRZ).

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Alcoa (AA): Weekly

Bullish 5-0

After a devastating collapse in 2008, Alcoa has stabilized over the past year. The stock is rallying from a distinct Bullish 5-0 pattern in recent months. Although the price action has stalled recently, the long-term uptrend is poised to move much higher.

The stock will accelerate when it gets above the recent resistance at 17.50. AA is still in the early stages of the recovery and needs time before regaining the substantial territory lost in the 2008 collapse. Regardless, this is a fantastic sleeper opportunity about to wake up!

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Dynamic Materials (BOOM): Weekly

Bearish AB=CD

In much the same manner as Alcoa, Dynamic Materials collapsed, losing nearly 90% of its value in the 2008 bear market. The stock has rallied sharply this year and it is poised to continue higher above the 30 level. At a minimum, the price action has violated resistance at 25 in an accelerated manner which will continue until the minimum AB=CD is tested.

This stock represents the recovery unfolding in many of the lagging issues within the Metal sector. Much like the refining stocks that I outlined in the January report, I believe this sector will recover in earnest very soon.

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March Conclusion

Although the market may experience more pullbacks as it plods into new territory on the upside, the rally of the past several months is quickly accelerating to retest the pre-bear market highs. Although the 88.6% retracement at 13,400 for the Dow Jones Industrial Average serves as a critical upside target, the broader market is really starting to catch fire. Laggards such as Alcoa and Dynamic Materials may quickly reclaim major upside real estate as these recover from the brink of disaster in 2008.

The markets have demonstrated vicious cycles throughout history, as the previous collapse in 2008 exhibited. Historically, these sectors have encountered numerous multi-year rallies only to give back most of the gains in extremely volatile downdrafts. Such extreme cyclicality must be considered going forward. For now, the evidence in many of these situations clearly reveals that the Metal sector is staunchly established in the recovery rally since the 2008 collapse, as confirmed by the strength of this move. In addition, other resource and material sectors are facing all-time breakout levels. Not to stray from the mathematical measurements of patterns, however, the technical significance of the new all-time prices in Aussie-dominated currency pairs is serving as a proxy to bolster many if not most of the metal-related markets.

Since the Aussie symbolizes remarkable strength within these structural moves, it is apparent that the predominant bullish trend will continue to expand. Furthermore, the recent breakout fortifies the prior highs that preceded the 2008 bear market as viable new SUPPORT levels AND continues to fuel the action to uncharted territory. Essentially, the totality of all harmonic structural considerations is signaling much higher prices to come. Albeit early, the substantial upside targets in situations such as the Australian Dollar must be regarded with respect to the predominant multi-year uptrend. Clearly, the harmonic structures are supporting this case, as long as these markets can break through the established prior resistance. These situations are unfolding rapidly and require close attention over the next several weeks.

Please feel free to contact me at HarmonicTrader@HarmonicTrader.com, as I welcome your comments, questions and suggestions. If you are a trial member or wish to receive future reports, please sign up here:

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Best Regards,

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