

## The Harmonic Trader Report Monthly



*"Never look at the Markets the Same Way Again!"*

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*November 30, 2011*

### **In this report:**

**Dow Jones Industrial Average (\$INDU)**  
**Euro/U.S. Dollar (EUR@FXCM\_A0-FX)**  
**Euro/Australian Dollar (EURAUD@FXCM\_A0-FX)**  
**Euro/British Pound (EURGBP@FXCM\_A0-FX)**  
**Euro/Swiss Franc (EURCHF@FXCM\_A0-FX)**  
**Euro/Japanese Yen (EURJPY@FXCM\_A0-FX)**

### **Occupation - Wall Street**

The current geo-political environment is complex but completely disconnected from the current economic realities. Many people are reaching for excuses and direct cause-and-effect circumstances to rationalize the lack of guaranteed prosperity ingrained in our society. The past 20 years have experienced remarkable technological and economic progress that has created an unprecedented world that is often taken for granted. In my opinion, the lack of appreciation and understanding of how things were in the "old days" creates an unrealistic assumption what to expect from life in general. So, we now have a disgruntled segment of the population crying foul and camping out as if the Grateful Dead will appear at a city hall near you.

First, let's consider what the Occupy people represent. Without ignoring the economic troubles of the day or passing judgment on the desperation of many, the overall premise of the Occupy movement demonstrates a clear misunderstanding of the system in which we all live – the same system that fostered the economic prosperity to enable massive technological advancement. Sure, those "Wall Street Fat Cats" have made a great deal of money in the past 30 years but these scapegoats are not the reason why the U.S. is facing its current predicament. The 1% that the Occupy people claim is the source of the problem is not the reason for high unemployment, slow growth and

disappointing future expectations. It simply is a function of resource allocation. The U.S. has wasted the "Peace Dividend" after the end of the Cold War, squandered its capital surplus and recklessly amassed an enormous credit card bill that it fails to reconcile. These are surprising realities that is scaring the hell out of many people for good reason.

The fundamental misconception of the Occupy people is the failure to recognize that the old business/life model of the past 50 years has been eviscerated by new technology – namely the Internet. This change has facilitated resource allocation, enabling corporations to function outside the U.S. while permanently eliminating many "generational employment cycles" that previous Americans enjoyed. Is that fair? Absolutely! Corporations can do whatever they desire to stay profitable because that is how Capitalism works. Do I like it or think it is good for future Americans? No!

Personally, I was fortuitous in my career choice, as I always knew that I wanted to trade for a living. I started BEFORE the internet was a mainstream reality in peoples' lives and clearly remember what life was like BEFORE the AGE OF TECHNOLOGY! I pursued a business that was not dependent on a company or vulnerable to the employment cycle. It is not easy and my future depends upon my ability to produce for myself. Moreover, I understand that many people are dependent upon companies to provide jobs as much as the Capitalist system needs employees to facilitate our daily lives. Therefore, the injustice of the system and rampant inequality is and always will be a by-product in exchange for some functional process to maintain a coherent civilization.

The economic system will only become more advanced, eliminating more jobs and requiring new means of making a living. It is ironic that the Occupy People who are dissatisfied with the current state of societal equality protest via social media, iPhones and wireless internet that would have never been invented without the system we have today. I am not disagreeing with their premise. I am simply reflecting on the new realities of life that must be accepted by everyone in order to survive.

In its essence, Capitalism is an undeterred functional ideology that is defined by resource allocation. However, the true reality of the system – much like the markets – is distorted by the 24-hour news cycle. Headlines that warn of potential economic collapse or promise of future growth are simply a means to an end for the media to sell advertising. In the markets, the news is worthless. This was one of the most difficult lessons I had to learn in my trading. The desire to attach news to market movements results in an endless loop of righteous justification that fails to yield effective results. Therefore, times like these demand precise and thorough measurements of market movements to comprehend current events that are unfolding and anticipate what is to come. So, let's start measuring so we can profitably Occupy Wall Street and improve our lives.

## Dow Jones Industrial Average (\$INDU)

Due to the immense uncertainty at hand, there is no better group of stocks to monitor than the Dow 30. This index represents most of the largest companies in the world. Therefore, this group as a whole represents the condition of business prospects, regardless of the news headlines. Coca-Cola, IBM, Boeing, Microsoft and others can act as a global thermometer of what is really unfolding. So, let's review what has happened year-to-date and analyze the undeniable technical evidence at hand, as we measure the actual health of price action for the index.

### Dow Jones Industrial Average (\$INDU): Weekly

The undeniable fact regarding the August decline is that the price action violated the multi-year uptrend from the 2008 low. Since 1987, the index has violated three multi-year "ACCELERATED" uptrends, resulting in a more substantial correction to the primary uptrend of the past 25 years.



In the prior two cases, the long-term uptrend required a considerable pullback of the accelerated trend. In terms of Harmonic Trading, there is a distinct difference between an accelerated trend line (a trend with a slope of 60 degrees or greater) as opposed to a primary trendline (45 degrees approximately). The violation in August signaled a crack in the three year recovery rally following 2008. If this was a trade on any timeframe, this violation would signal a partial closure of long positions immediately.

## Dow Jones Industrial Average (\$INDU): Weekly

Now, let's take a closer look at this violation with Relative Strength (RSI) included. Clearly, the peak established in late April confirmed a simple yet powerful Divergence on the weekly chart. Although the price action is still resolving the longer-term situation, this technical reality defines the prior highs as considerable resistance. Not to mention, the price action continues to languish under the accelerated uptrend (blue) line.



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From a Harmonic Trading perspective, if this was a potential trade opportunity, I would be looking for the next structural pattern to define the resistance and entry level for a short position. It has not materialized at the moment but it is close.

## Dow Jones Industrial Average (\$INDU): Daily Bearish Shark Pattern

There is an undeniable structure – a Bearish Shark Pattern – that defines the 88.6% retracement with an extreme 1.618 harmonic impulse structure converging at the 12,590- 12,635 area. This represents a substantial potential short opportunity but at higher levels. With the enormous rally of the past few sessions, it appears likely that this target will be reached sooner rather than later. So, I would expect the volatility to continue.



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At a minimum, this will represent a fantastic short, as the convergence of these ratios with the structural pattern is ideal. 12,635 or just above is a number to consider EVERYDAY going into year's end. The pattern may define a historic retest of the recent highs and result in a minimum 50% pullback. (The Shark Pattern is a specific type of a structure that typically precedes a 5-0.)

To read the rest of the report, please sign up at the link below. Please feel free to contact me at [HarmonicTrader@HarmonicTrader.com](mailto: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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## ***The Harmonic Trader Report Monthly***

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