

Stealth Bull Market: Imminent Market Correction

Bull Eats the Bears Alive!, What's Next?

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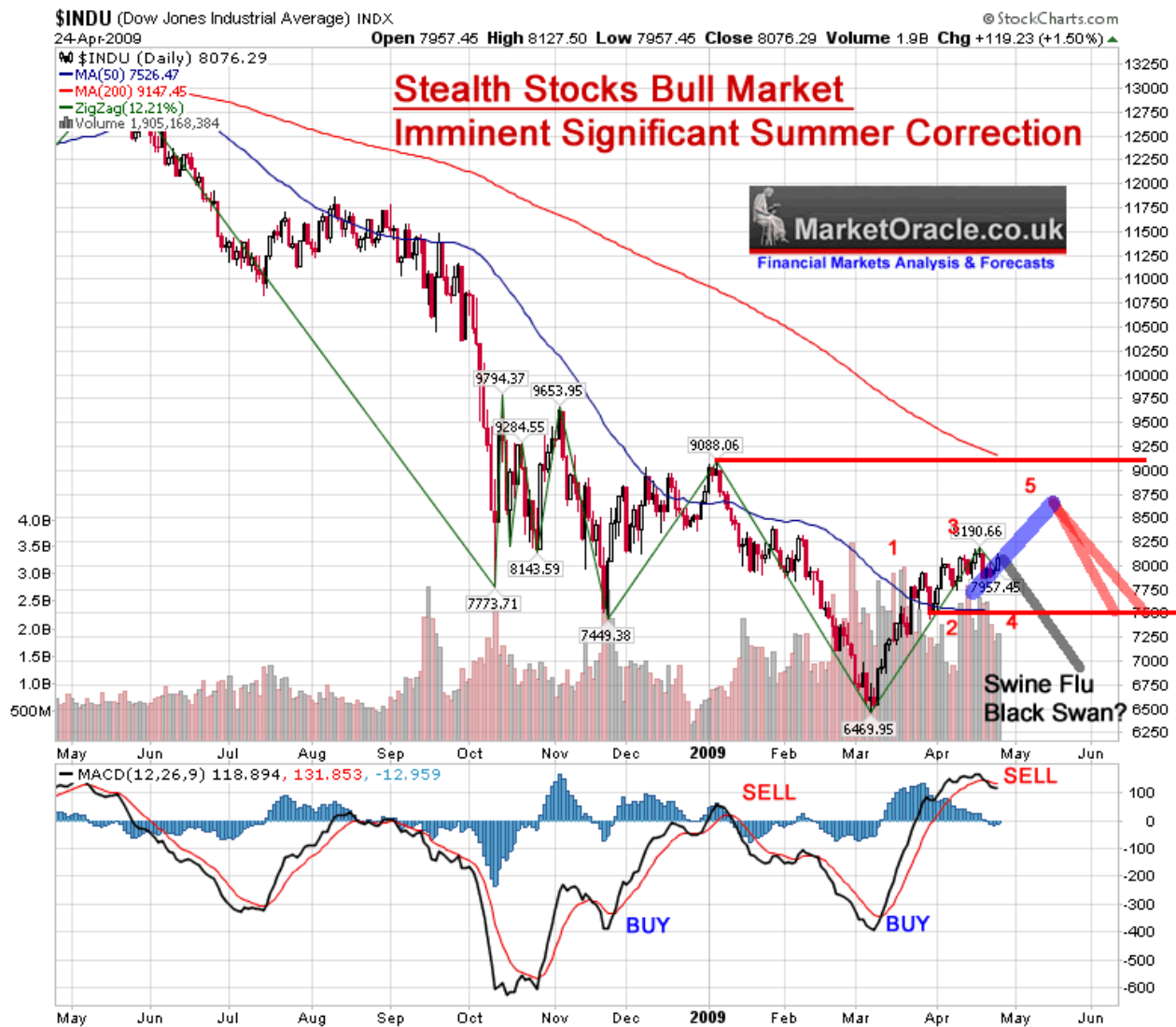
The price action following the SELL signals earlier this month can only be described as a VICIOUS BEAR TRAP !, We got sell signals, good ones for Stock BULLS such as myself (as of [Mid March 2009](#)) it was a clear sign to get ready to accumulate more, for bears it was a sign to double up for the long awaited bear market RETEST and maybe to make back some of the money lost shorting the rally ?

Even though rising prices for a bull during the stealth bull market is good, however, the vicious rally FOLLOWING Clear Technical SELL SIGNALS is something that signals alarm bells, as while it can be entertaining to gloat at the crushing of the bears, however when I look in the mirror, I have to wonder will I be next to be caught in a vicious BULL TRAP ! This is a vicious market and whether one is a bull or a bear one NEEDS to be on their guard as the consequences of getting sucked into TECHNICAL ANALYSIS, as opposed to REAL TRADING i.e. REACTING to Price movements in REAL TIME, could easily wipe traders out. More on REAL TRADING in my site [walayatstreet.com](#) which will go live once it is ready, yes people have been patiently waiting but the site cannot go live until it has the requisite articles to explain the many aspects of trading as the consequences of not doing so will result in a deluge of emails, so as with the markets PATIENCE is in order.

Back to the stock market, let's dissect what happened, the precise point where the summer correction scenario abruptly terminated and where we are heading to next:

Original Analysis

The [analysis of April 26th](#) concluded that the Dow is targeting a high of 8,750 by mid May 2009 which was expected to be followed by a significant correction of 14% towards a Dow target of 7,500.

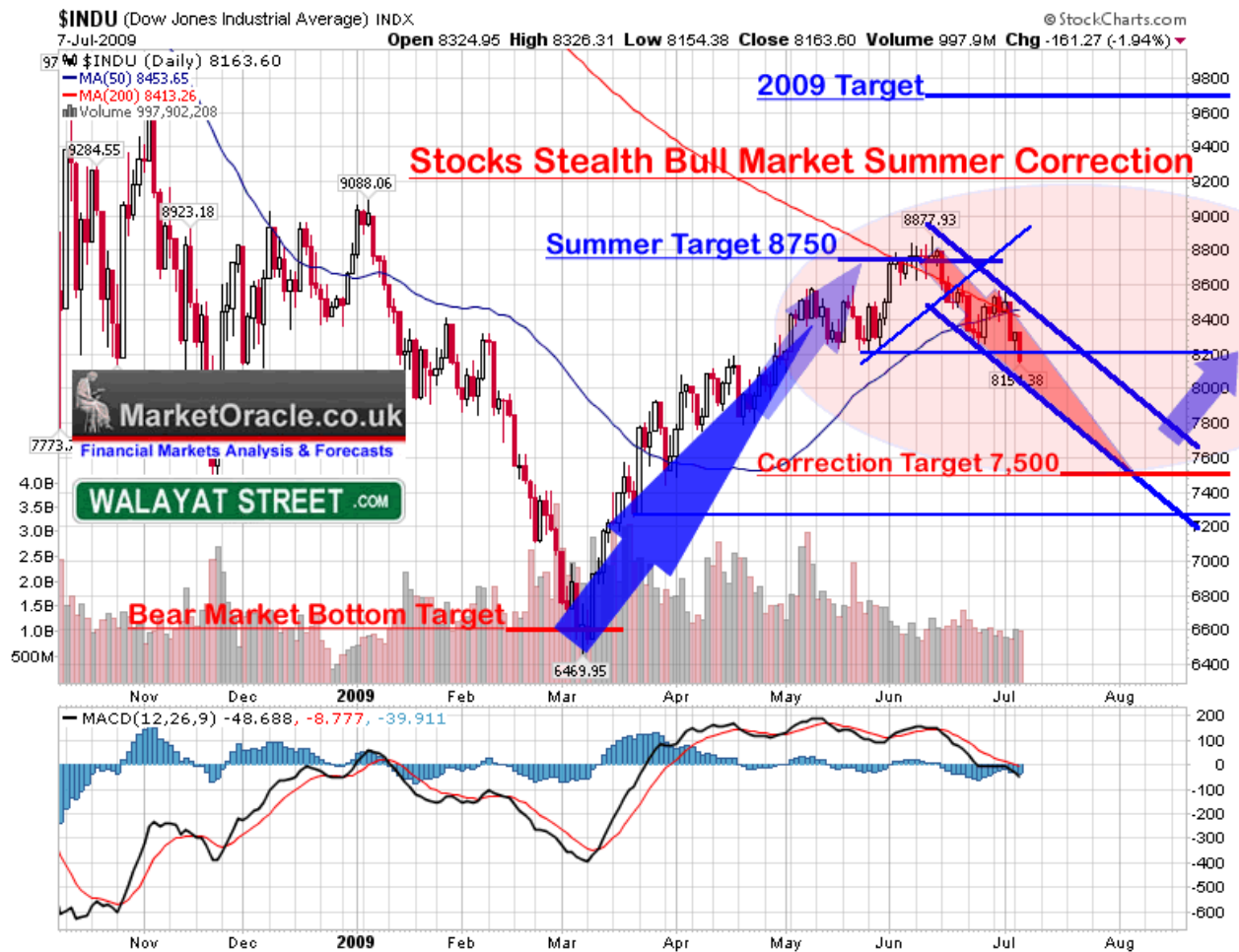


Dow Hits 8750 Target

The Dow hit the target on 2nd of June which was confirmed in [the quick update at the time](#), and therefore expectations were for the significant correction to materialise.

Dow Gives Sell Signals During June and Early July

[Analysis of of 7th July](#) - The Dow spent early June distributing along 8,800, which gave plenty of time to put on short positions with tight stops. The key chart trigger was the lower high at 8,600 which targeted a break of 8,200. The pattern size is 400 points which projects to 7,800 before the next expected bounce. The overall pattern size was about 650 which projects to 8,200 minus 650 = 7,550, which is pretty close to the [original projection of April 26th](#) for the target for the Correction AFTER the peak around 8,750. The chart also showed a head and shoulders price pattern with a similar measuring move.



The conclusion was that the Dow was still projecting towards a target of 7,500 to suck in more traders on the bear side before the resumption of the [stealth stocks bull market](#). The Mega-trend remained for the stocks stealth bull market to move towards a target of 9,750 by the end of this year.

Dow Busts TA Expectations by Triggering a Series of Buy Triggers

Technical analysis was busted - There is no point in second guessing as to why the pattern changed, the fact is simple technical analysis DOES NOT WORK MOST OF THE TIME, hence one needs to always have at the FRONT of their mind, (not the back) that the MARKETS ARE MANIPULATED! As I have voiced throughout the year at key market turning points to ignore the fundamentals and listen to the price, as you are trading the price not the data! Still the price re-action observed was not something that could have been anticipated by anyone, rather only reacted to in real time trading environment.

Where Next for the Stock Market

Near 1000 point moves spread over just over a week makes this a great traders market but is it still a forecasters market ? I have say it is tough to call a market as vicious as this but my existing analysis as of March 09 is for a rally to 9750 for the Dow this year, the price action to date is inline with this expectation. So taking into account that this is a potentially very vicious market here is my analysis -

Dow Analysis and Projection



TREND ANALYSIS - The rally off of 8,090 has been strong and powerful and could carry for some more points before correcting. The key change to the behaviour of the trend is the development of a new primary trend line that should now contain all corrections and in fact projects towards 9,750 into December 2009. Therefore implying that we could see the Dow touch this line several times during the year. The anticipated immediate correction is expected to bounce off of this line.

RETRACEMENT LEVELS - The Dow Rally from 8087 has retraced 100% of the decline from 8877. The correction therefore was 8877 to 8087 or 33% which is a sign of strength. A rally of 200% of the correction projects towards a target of 9667. With intermediate term targets of 133% 9137, 150% 9272, 166% 9400 as key potential resistance areas. Therefore this is suggestive of a sustained trend along these price points, to be accompanied by corrections of between 33% to 50%.

PRICE POINTS - Immediate support is at 8,600, which would represent a 50% retracement from the above 9137 % level. The heavy consolidation area between 8,600 and 8,900 is indicative of further price action in this range which is suggestive of the Dow spending further significant time in this zone for several months. This is suggestive of more sharp rallies followed by downtrends back into this price zone for some months. Key support is at 8080 a break of which would negate this scenario.

ELLIOTT WAVE THEORY - Elliott wave count is straight forward and has not changed since the Stock market bottomed in March. The abc correction followed by the strong rally, is highly suggestive of an impulse wave 1, therefore implying a bull run of similar magnitude of the rally from 6470 to 8900, which projects to 10,500 that's significantly above the original target of 9,750.

MACD - the MACD indicator cross has signaled a buy, which is supportive of an overall bullish trend, though not at a particularly oversold level therefore implying that the trend will be more volatile and laboured than that of the rally from 6470 to 8900. As well as signaling that the eventual peak may set the market up for a more significant decline.

CYCLES - The bull market is suggestive of a 3 months up, 1 month down overall cycle pattern, this suggests a target of late October for the rally peak before a more significant correction takes place.

SEASONAL TREND - The seasonal trend should be for stocks to decline into early September, therefore this is contrary to the building scenario.

FUNDAMENTALS - People always ask reasons as to why stocks should rise, though in reality the reasons always become apparent AFTER the market has already moved, as I warned in [Mid March](#), however I did at that time also give possible reasons, which still remain as the primary reasons for explanations of why stocks are rallying into a stealth bull market -

A. The markets move ahead of the economy, whilst I don't profess to know the EXACT reasons of why they will move AHEAD until that becomes apparent AFTER the market has already moved, however I do have some reasoning in that INFLATION, Zero Interest Rates (Forcing savers / financial institutions to take risks) Quantitative Easing (money printing), and HUGE Fiscal stimulus packages that are laying all of the ground work for the next bubble regardless of how bad things appear as any outcome that prevents another Great Depression will be seen as bullish! i.e. even a low growth high inflation stagflationary environment WILL be seen as a positive outcome against the present day data that points to a collapse of global demand on a scale not seen since the Great Depression. The governments HAVE learned the lessons from the Great Depression and WILL succeed in inflating the asset prices and ignite the next perhaps even bigger bubble, meanwhile the stealth bull market will continue which by the time everyone realizes what's going on stocks will already be up by perhaps more than 50% from the low.

However in the final analysis one is trading the stock market and NOT the economic data, so yes reasons can always be found, but when it comes to actual trading they are irrelevant, especially at market junctures.

EARNINGS - Analysts are surprised !, earnings are surprising to the upside, the earnings 'fundamentalists' have been busy revising previous earnings forecasts that convinced many that fresh bear market lows were imminent and thus missing out on a stocks bull market that has already moved 40%!, Nevertheless its not surprising to me that earnings are surprising to the upside, expect even more 'surprises' later this year, after all where do you think a;; pf the bailout billions have gone ? It has to go somewhere and we are seeing it the profit surprises in master market manipulators of Goldman Sachs and JP Morgan

STOCKS STEALTH BULL MARKET - My last analysis in the midst of the correction stated that the probability of an end to the current fledgling bull market being at less than 20%, with

the rally to date confirming that we remain in a STRONG MULTI-YEAR stocks stealth bull market. I am amazed that a 40% rally over 3 months is STILL perceived as a BEAR market rally?, what happened to the 20% rule?.

MARKET MANIPULATION - The powerful rally following a HUGE technical SELL SIGNAL, is clear sign of market manipulation i.e. in terms of generating the sell signal AGAINST the bull market trend so as to PROFIT from the subsequent powerful short covering rally. Don't forget this is a BULL MARKET, All corrections are to get sucker money in on the short-side as an enable for a larger more profitable subsequent rally.

CONCLUSION - My earlier fears about a bull trap appear to be unfounded, the stock chart is talking that we are in a stocks bull market, and is suggestive of a trend higher towards a 2009 target of between 9750 and 10,000, with a high probability that we may get there before the end of October!. Key danger areas for this scenario are a. for the trend line to contain corrections, and b. that 8080, MUST HOLD.

To keep up to date on the state of the stealth stocks bull market, ensure your subscribed to my [always free newsletter](#).

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Nadeem Walayat has over 20 years experience of [trading derivatives](#), portfolio management and analysing the financial markets, including one of few who both anticipated and [Beat the 1987 Crash](#). Nadeem's forward looking analysis specialises on the [housing market](#) and [interest rates](#). Nadeem is the Editor of The Market Oracle, a FREE Daily Financial Markets Analysis & Forecasting online publication. We present in-depth analysis from over 250 experienced analysts on a range of views of the probable direction of the financial markets. Thus enabling our readers to arrive at an informed opinion on future market direction. <http://www.marketoracle.co.uk>

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