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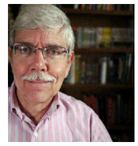

### Editor-in-Chief

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# Fibonacci & Elliot Wave Suggest Deeper Downside Rotation Before Another Leg Higher

**By Chris Vermeulen**

Our proprietary Adaptive Fibonacci Price Modeling System and other analysis tools have continued to assist us in predicting the trends in the US stock market, true valuations levels and Smart Cash activity. One of our favorite research tools is the use of our Adaptive Fibonacci Price Modeling System in addition to our deployment of what we call “Tesla Price Amplitude Arcs”. In this article, we are going to attempt to show you how we use a combination of specialized tools to help us understand the true price structure of the market and what to expect going forward. We’ve learned that when we can accurately identify the true price structure, wave structure and Fibonacci components, we can attempt to identify price rotation setups in various market sectors that provide incredible opportunities for skilled traders.

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By now, most of you should be familiar with Fibonacci price structures and the Fibonacci Sequence. This price theory is sometimes called the Golden Number Sequence and originates from a very simple set of instructions. We simply build a string of numbers starting with 0 (zero) and 1 and add those two values together. Then take the last summed number and add it to the previous value to continue to string of values.

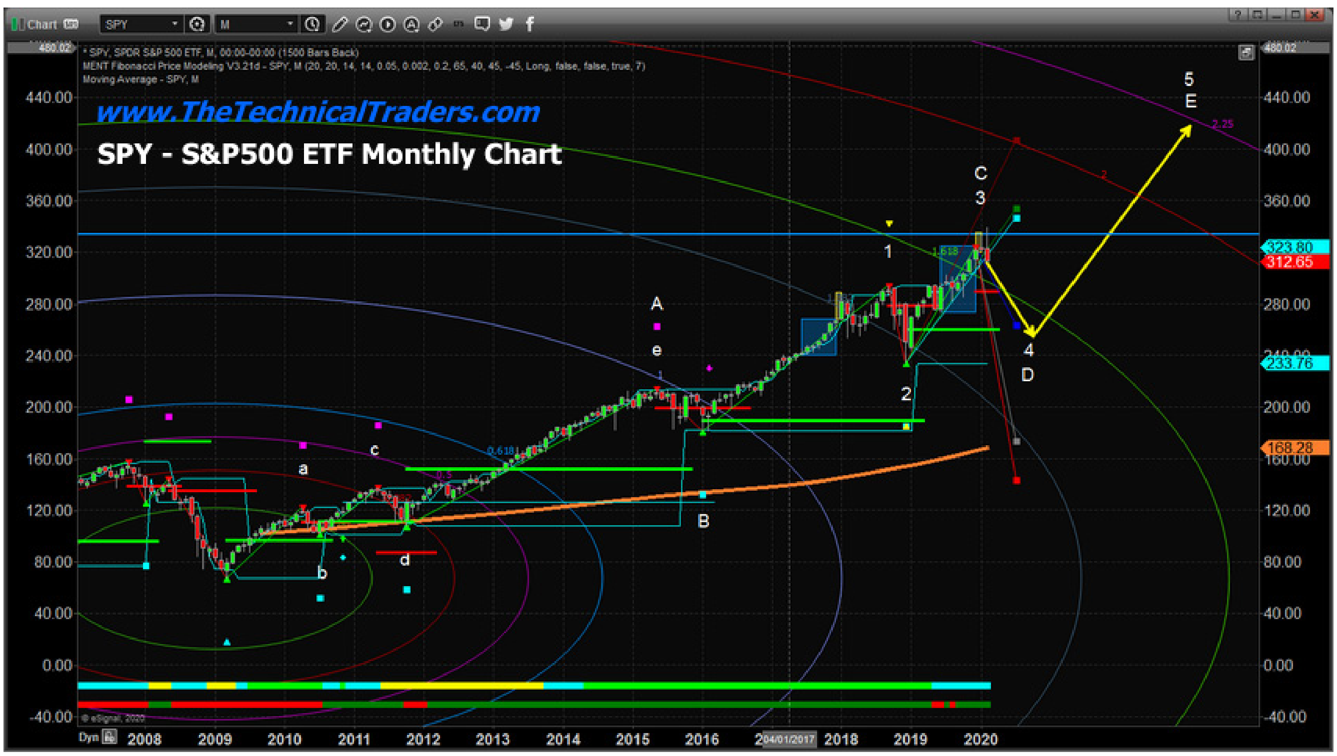
0 + 1 = 1
1 + 1 = 2
1 + 2 = 3
2 + 3 = 5
3 + 5 = 8
…..

This number sequence, and the relationships of the numbers within the sequence, sets up the Fibonacci Ratios that are most commonly used by traders.

When we combine these ratios with simple price structure rules, traders can attempt to create a mathematical process that attempt to identify key reversal points, price target areas, internal support and resistance and broader market structure. The only thing that traders need to understand to accomplish this is that Fibonacci price theory structure is typically based on identifying major market peaks and troughs and the relationship between these peaks and troughs as they continue to develop.

As we continue, we want to highlight the current Elliot Wave structure in combination with our Adaptive Fibonacci Price Modeling system's structure in this Monthly SPY chart (below). We've highlighted the Elliot Wave count that we believe is accurate based on our belief that the origin for this current upside move starts near the lows of 1974. We believe this entire upside price rally that originated after the end of the Gold Standard (the expansion of global credit from Central Banks) pushed the US and global markets into a massive upside Elliot Wave formation that originates near the lows of 1974. Because of this, we believe the current wave formation will end near a peak price level close to $440 on the SPY after the current D-Wave downside rotation.

From early 1987 lows, the SPX500 rallied from $192 to a peak in March 2000 near $1553 – a 570% price advance taking 149 months to complete. From the lows of March 2009, a similar price advance would push the peak price level to near $4400 ending near August 2021. This corresponds with our analysis that the current downside price rotation may end near $251 on the SPY where a new upside price rally will begin driving price higher towards the ultimate peak near $440 on the SPY.




A few of the supporting aspects of this major market rotation and Elliot Wave structure are the custom indicators we use to measure true market price structure. This first chart showing the Custom Weekly Smart Cash Index highlights the fact that the true peak in the markets setup in early 2018 and the current peak is nothing more than a "euphoric speculative price move". Being able to measure how capital is working with the structure of price and as a component of valuations, price advance or decline, we are able to see how capital is being deployed and when there is a disconnect between a price move and how capital is moving.

Obviously, when Smart Capital is not aligning with a price advance, we have reason to be concerned about a "blow off top" or "wash out low". In this case, the Smart Cash Index highlighted the fact that while the SPY was rallying to new all-time highs, the real function of capital was very cautious of this move and did not participate in a broad manner. Therefore, we could make the determination that this last upside price rally was somewhat "euphoric and speculative" in structure.

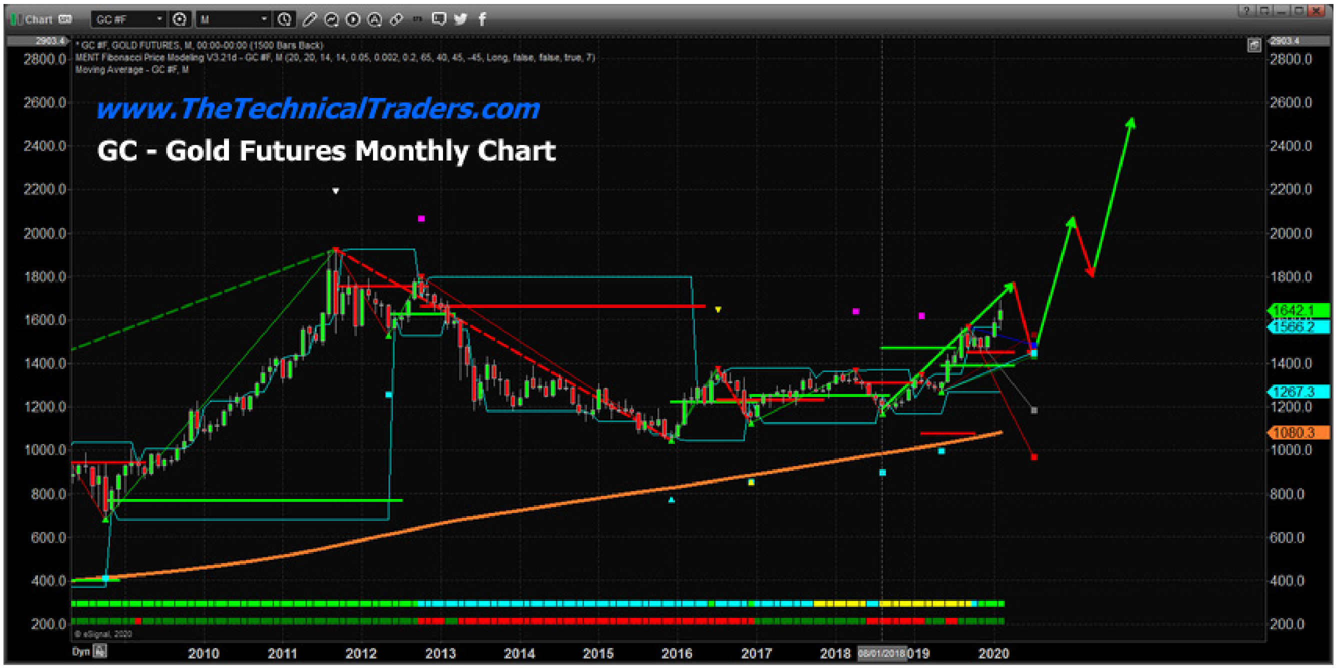

Our Custom Valuations Index helps us to understand hos capital is operating to develop true valuation levels. We want to see the valuation levels climb as the Smart Cash Index is climbing. This suggests that capital is being deployed in unison as broad market participation expects strong earnings and returns. When the Smart Cash Index is not rallying like the Valuations Index, then we have a disconnect between real institutional investment participation and retail speculation. If the larger investment firms and institutional traders are not participating in the rally, then a large portion of the market is expecting different results and speculators are driving trends.

Pay attention to how the peak in the Smart Cash Index setup early in 2018 and the more recent activity suggested weaker upside price activity. Compare that to the Valuations Index where the Valuations levels began to climb very early in 2019, setup into a FLAG formation between August and December 2019, and again rallied with the start of 2020. Pay very close attention to how the Smart Cash Index "rolled over" in early 2020 and completely disconnected from the Valuations Index.

Our researchers determined this as a "speculative rally" in early late 2019 and early 2020 because the Smart Cash Index and Valuations Index were not aligning. We began to issue warnings near November/December 2019 that the markets seems a lot like the peak in 1999/2000 with the speculative rally that ended the DOT COM rally. We'll see how Q1 and Q2 2020 play out over the next few months.


This Monthly Gold Chart highlights our researchers belief that Gold will continue to rotate higher, with a number of moderately substantial pullbacks, over the next 2+ years. Remember, if our research is correct, we are entering a corrective wave formation in the US stock market (W4) of a broader Wave 5 setup. This means that fear will continue to spread as global investors begin to understand the implications of the end of the broader Wave 5 setup over the next 12 to 24+ months.

This next W4 downside trend should send Gold well above the $2100 price level as fear pushes precious metals above previous all-time highs. After the next upside Wave 5 begins in the major markets, Gold may move lower and settle back above $1750 or so as traders begin to engage in a complacent "rally mode". Don't let this rotation in Gold fool you, any real opportunity to load up on Gold below $1700 is an incredible opportunity if you are able to hold for 3 to 5+ more years. The ultimate high price target we've identified is $3750. Gold could rally above this level on extreme fear after the final Wave 5 is complete. So play this smart and try to trade the bigger swings in the metals. Our advice is to get a base position in precious metals and to trade the rotation with a smaller position size.



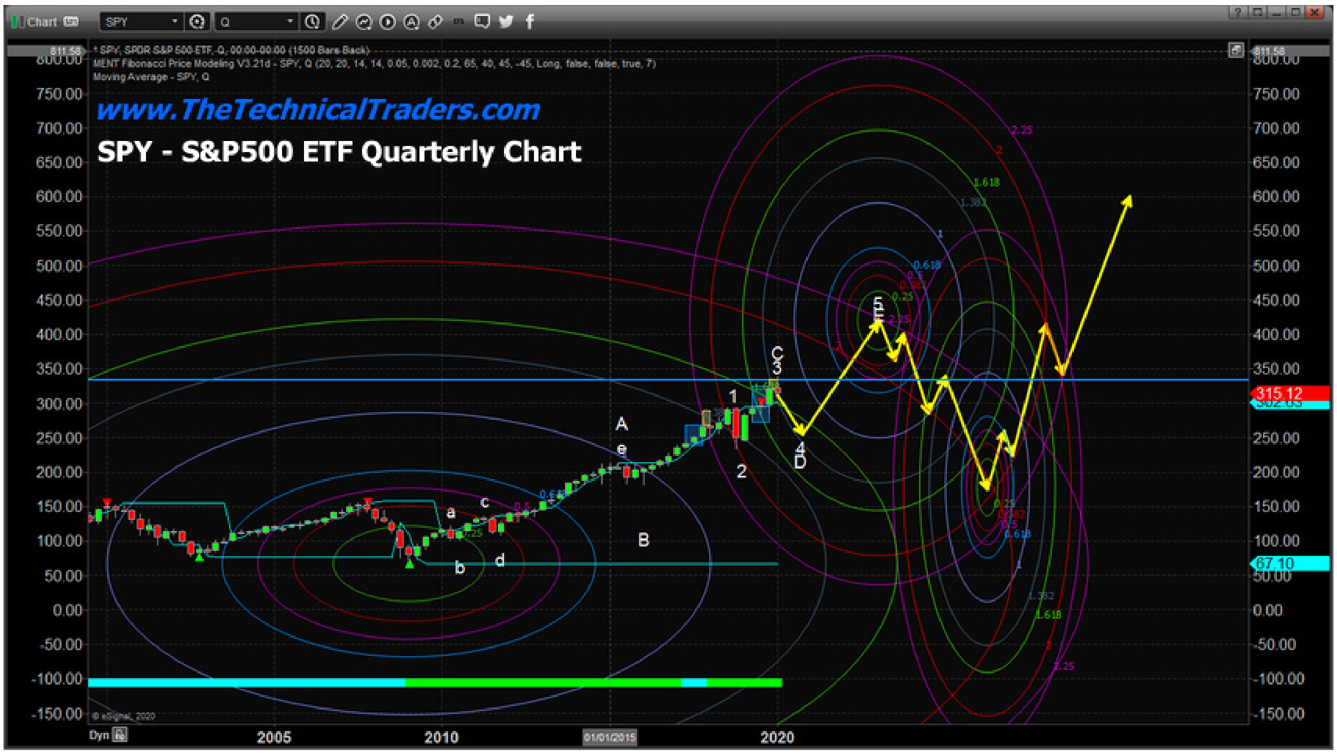

Overall, this SPY chart highlights the Fibonacci Price Modeling and Tesla Price Amplitude Arcs that we use to identify major trends and expected price target levels.  We're pretty sure you understand Fibonacci price theory by now.  The Tesla Price Amplitude Arcs are a measurement of price trends (usually completed price trends) as applied to major peaks and troughs.  The concept is simple, price moves in waves (just as Fibonacci and Elliot Wave theory teaches us), yet price also moves in a series of energy frequencies or amplitude forms.  Let me try to explain in simple theory why we believe these Tesla Price Amplitude Arcs are important.

One of the most advanced theories Nikola Tesla attempt to explain to the public was that energy surrounds us continually – throughout the universe, throughout everything we see and experience, and throughout our bodies, souls and interactions with others.  Essentially, everything we do, touch, feel, engage with or interact with engages in some form of energy transfer or disturbance.  Thus, all price action, waves and structures also include an energy component that is often completely overlooked.

We attempt to develop these Tesla Price Amplitude Arcs by measuring price structures of the past and applying them to current major peaks and troughs.  In this chart, below, we have drawn levels into the future originating from the Tesla Arcs from 2009.  From these drawings, based on Price Amplitude Arcs, we can determine where potential peaks and troughs may occur in the future – thus we can attempt to draw new Tesla Price Amplitude Arcs from these points and attempt to identify where major new price targets/reversal may form.

These energy waves assist us in understanding how price sets up and where price will reach resistance and support levels.  You'll see that price will often stall or rotate near these Tesla Price Amplitude Arcs.  This is because energy operates in a frequency (similar to a Sine Wave) and once we identify the true frequency of a price wave, we can attempt to identify where and when Amplitude arcs may apply support/resistance pressures in the markets trends.

It may be a bit advanced for you right now, but take a look at this SPY chart and pay attention to how the Arcs align with price activity. Once you start to see how price either stalls near or breaks through these Tesla Price Amplitude Arcs and you start to see and apply Fibonacci price structures and Elliot Wave rules to these arcs, you'll start to understand how energy waves play an important role in understanding the bigger picture of total price structures in waves.




Lastly, our research team wanted to add this final chart showing the origination of the complete Elliot Wave structure from 1974. Our research team drew a Fibonacci Retracement from the origination point of this wave structure to the expected high level where Wave 5 is equal to Wave 3 in length and size (149 bars and 570% upside price advance). Additionally, we drew some downside price expectations after the peak near $4400.

Ultimately, the next few years (2020 and 2021) should be incredible opportunities for traders. We are expecting a moderately broad downside rotation to take place in early 2020 which will likely setup a bottom sometime before April or May 2020. After that bottom sets up (see "D" on the chart above), another incredible price rally will take place pushing prices up towards the ultimate peak for this Wave 3 setup (see "E" on the chart above). After that peak is reached, we will start a broad market decline which will likely send the foreign market scrambling as capital will shift away from risk and rush into established mature economies (US, UK, Canada, Japan and a few others). Risk and currency rotations will become the driving force behind where capital flows.

Once that major Wave 4 bottom sets up, then we are headed straight into another major upside price trend which may, again, last 149 months and may total nearly 570% in upside price gains. All of this is likely to happen over the next 10 to 12+ years.


This is a great time to be an investor and trader. Knowing what we know and being able to identify the market sector rotation that is taking place and where to position our capital for the best gains is essential for surviving this type of rotation. Follow our researchers and learn how we use our skills to identify major opportunities in the markets. Now is the time to start taking advantage of these huge rotations and to position your accounts for these bigger price trends. Don't miss these moves – these are the types of trends that can make fortunes for skilled traders.

As a technical analysis and trader since 1997, I have been through a few bull/bear market cycles. I believe I have a good pulse on the market and timing key turning points for both short-term swing trading and long-term investment capital. The opportunities are massive/life-changing if handled properly.

I hope you found this informative, and if you would like to get a pre-market video every day before the opening bell, along with my trade alerts visit my **Active ETF Trading Newsletter.** If you are a long-term investor looking for signals when to own equities, bonds, or cash, be sure to look into my **Long-Term Investing Signals**.

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