

BULLISH BEAN OIL WAVE COUNT SO THEORETICALLY PERFECT...IT'S PROBABLY DOOMED

January 20, 2012

After decades of day-in-and-day-out technical research of numerous financial and commodity markets, it remains a strong belief of ours that the only difference between the various theories on technical analysis like Elliott Wave, Dow, Japanese candlesticks and Market Profile is the vernacular or terminology used in each. We do not believe for a moment that there's something that can be gleaned from candlestick analysis that isn't available from a Dow or Elliott approach.

In effect, we believe that Dow is to Elliott is to candlesticks as French is to English is to German. Every market will only be in one of three states or patterns:

- *trending* (either up or down)
- *consolidating* within those trends, or
- *reversing*

Quite simply, all these various theories try to do is describe, in their own way, where a market might be within one of these three states, from which a forecast is then postulated.

Against this backdrop, we typically try to steer away from referencing the geeky, abstruse rules and guidelines of the primary language we use- Elliott Wave Theory- in our technical blogs for two reasons: first, for those less fluent in Elliottspeak, it can be confusing, and we don't want traders relying on or accepting our views simply because we might have an advantage with the language; secondly, because we're not slaves to "theory". But given that it's a Friday, and a relatively slow day across most commodity sectors, we thought we'd take this opportunity to

talk a little Elliott with regard to a developing wave count in the soybean oil market that is arguably a textbook example of a base/reversal environment that, if correct, warns of significant gains in the weeks and even months ahead. Actually, we fear this count looks so theoretically scrumptious that it's probably doomed to total failure.

Starting with a very long-term perspective and despite Sep's break below major 54-handle area support, the weekly log scale chart above shows the long-term trend as still arguably up. And *to this point*, 2011's 60.41 - 48.11 decline looks to be only a 3-wave and thus *corrective* affair consistent with such a major bullish count. Furthermore, the erosion in the MRT Bullish Sentiment Index measure of market sentiment to its least bullish levels since those that accompanied 2010's major base and reversal would seem to contribute to this bullish count, as does the RSI measure of momentum that shows a clear slowdown in the *rate* of decline during 4Q11.

A break below Nov's pivotal 48.11 low on this active-continuation chart basis will not only



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negate this bullish count, but expose a reversal lower that may be major in scope that may not stop until it reaches 2009-10's former 41-handle area resistance. And the fact that the market's still respecting 2011's former 54-handle support as new resistance remains a concern to any broader bullish counts.

One of the basic tenets of Elliott Wave Theory is that corrective structures are NOT 5-wave sequences. And readers of our technical blogs know that the second of our three reversal requirements after a confirmed momentum divergence needed to break the trend at the time is proof of *impulsive*, 5-wave behavior in the direction of the new suspected trend.

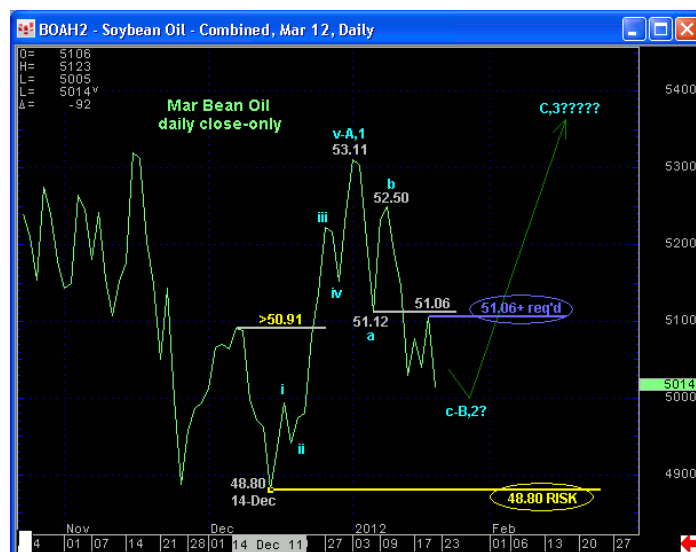
23-Dec's close above 07-Dec's 50.91 prior corrective high shown in the daily close-only chart (top) confirmed the bullish divergence in momentum that clearly stemmed 2011's bear trend and satisfied the first of our three reversal requirements. And the subsequent 5-wave rally from 14-Dec's 48.80 low close to 03-Jan's 53.11 high close is about as textbook a 5-wave sequence as there is. This satisfied the second of our three reversal requirements, leaving only proof of 3-wave, *corrective behavior* on a subsequent relapse attempt to raise the odds of a major reversal higher.

Per Elliott Wave "theory" then, Dec's 5-wave rally to 53.11 can be only one of two things- the 1st-Wave of a major new bull trend or just the *initial A-Wave* of a larger-degree correction that's got more upside behavior to come. As a result, and again, "theoretically", Dec's 5-wave rally suggests that the current relapse is the corrective 2nd- or B-Wave within a major base/reversal process. And a break of 14-Dec's 48.80 low is required to negate this longer-term bullish call.

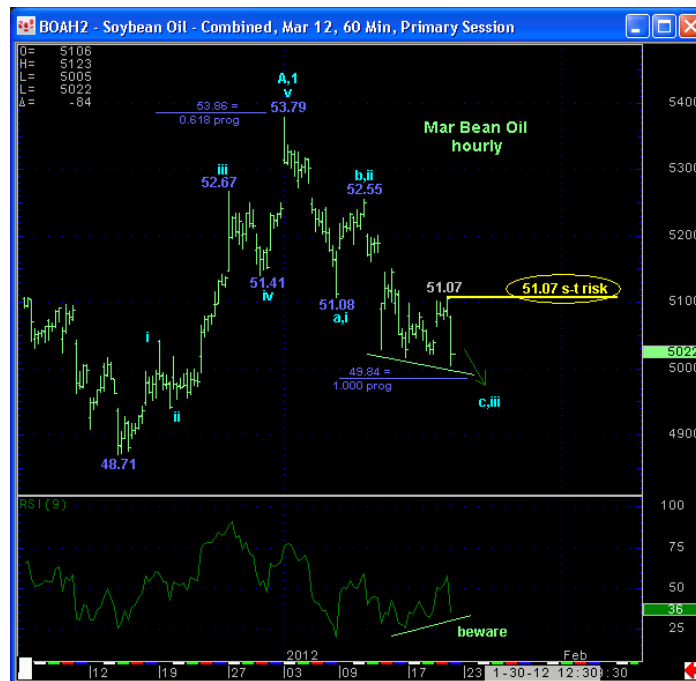
This said, in both the daily close-only chart (top) and the hourly chart (bottom), clearly, at least the intermediate-term trend is down, with former lower-51-handle support from 06-Jan playing its role as new resistance following 12-Jan's break of this area. But if Jan's relapse is merely the corrective rebuttal to Dec's initial rally ahead of a resumption of that rally, then Jan's sell-off attempt must unfold into a 3-wave, *corrective* structure per Elliott Wave theory. And with the suspected c-Wave down from 10-Jan's 52.55 (b-Wave) high within ticks of the (49.84) level that would make it of equal length (i.e. 1.000 prog) to early-Jan's 53.79 - 51.08 (suspected a-Wave) break amidst the developing potential for a bullish divergence in momentum, this market may be very near one of the great risk/reward buying opportunities of 1Q12.

What we need now however per such a bullish count and opportunity is for the market to break the clear and present downtrend. And as a result of today's latest spate of weakness, the market has defined yesterday's 51.07 high as the latest corrective high and tightest risk parameter its now got to re-coup to *confirm* a bullish divergence in mo needed to reject/define a more reliable low and risk parameter from which non-bearish decisions like short-covers and bullish punts can then be objectively based. In lieu of at least such 51.07+ strength, and with all due respect for Elliott Wave theory, at least the intermediate-term trend is down and there's really no way to objectively forecast its potential.

These issues considered, a neutral/sideline/hedged policy is advised from current 50.25-area prices, with strength above yesterday's 51.07 high required to change course to what could be an incredibly bullish environment and opportunity. And again, if Nov's 48.11 low is broken, or perhaps even 14-Dec's 48.80 low, it could be katy bar the door. Given



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