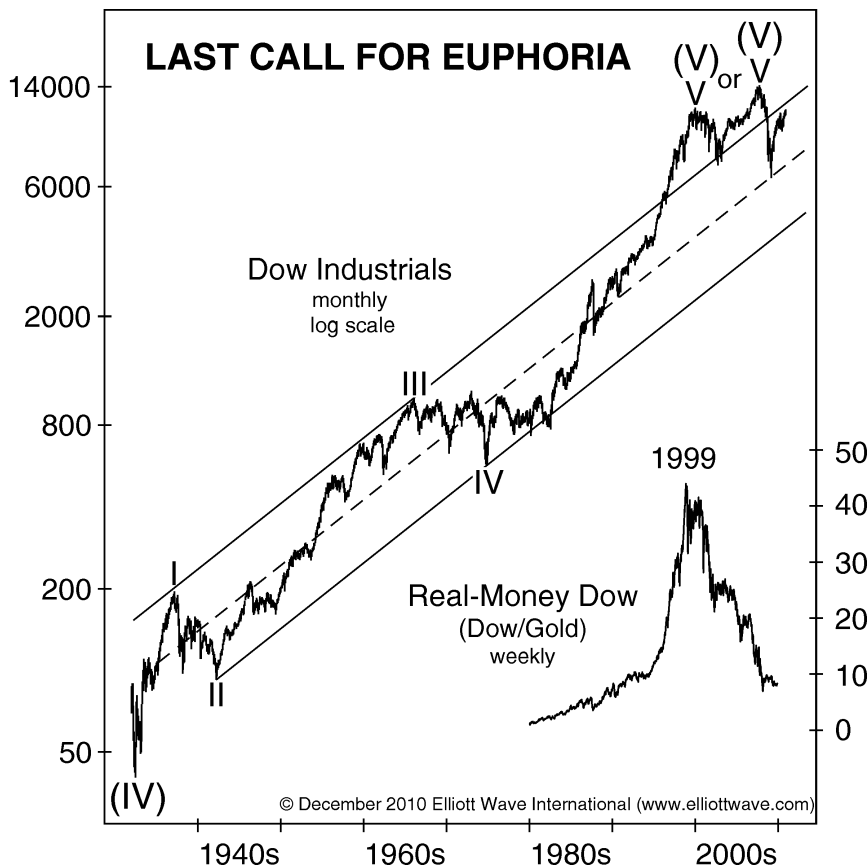


## 15 Eye-Opening Charts From 2011

Our analysts look at thousands of price charts each year. They also create hundreds of their own charts that describe the markets and the economy in ways that bring new insights to the same old data. This year, we chose 15 of the most interesting charts and analysis from three of our financial forecasting services, *The Elliott Wave Financial Forecast*, *The European Financial Forecast*, and *The Asian-Pacific Financial Forecast*. We hope you enjoy this EWI review of 2011 in charts.

### January 2011 — *The Elliott Wave Financial Forecast*



Supercycle wave (V) from the 1932 low formed an Elliott-defined trendchannel, which connects the end points of Cycle waves II and IV and places a parallel line off the top of Cycle wave III (see chart). In January 1996, the index pushed through the top line and then spent all but a few moments of the mania years percolating higher, leaving most stock participants floating in a suspended state of optimism. The 2007-2009 bear market brought prices back beneath the upper trendline. In our estimation, this is a permanent re-entry. With the current countertrend rally carrying the index toward the underside of the upper channel line, the index is bidding for a return to its former rarefied air.

But even as the rally makes its play for a revival of the glory days, the mania flashbacks betray its exhaustion. ...

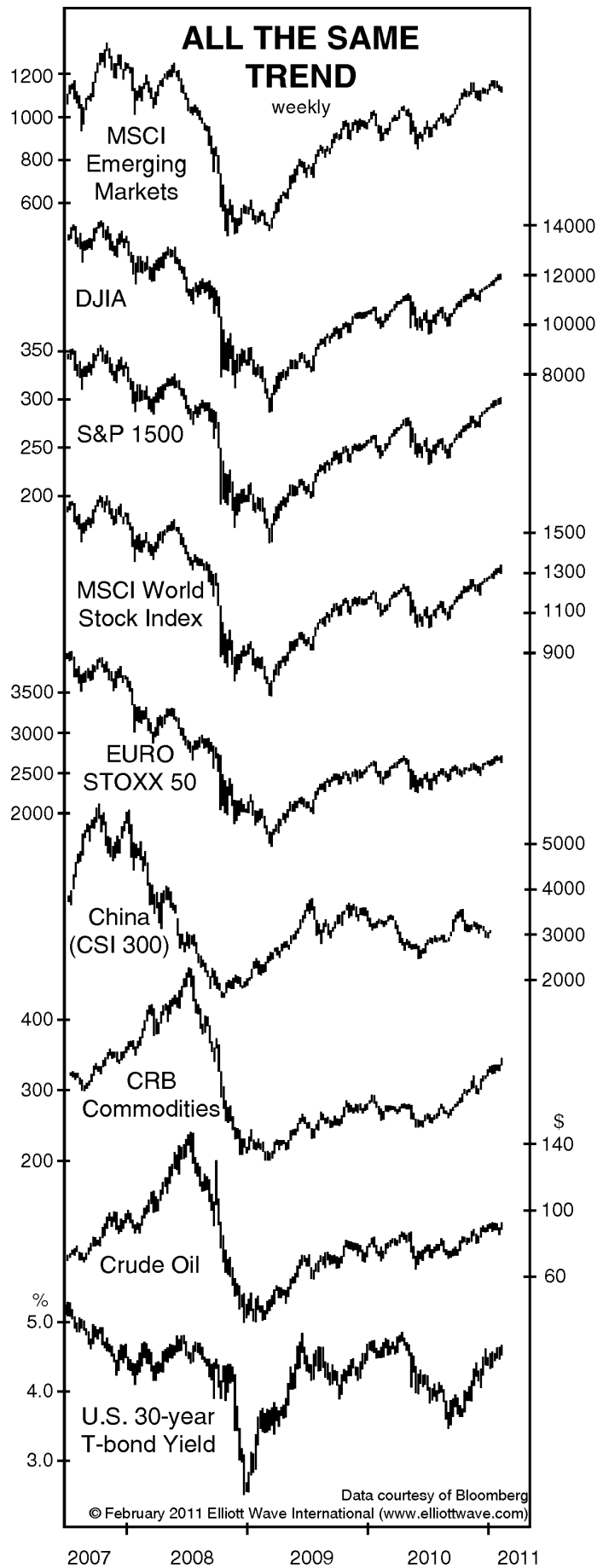
The inset of the Real-Money Dow (Dow/Gold) on the chart shows that underneath the surface extensive damage has already occurred. While the nominal Dow has rallied for a Fibonacci 21 months from March 2009, the Real-Money Dow made its countertrend high in August 2009, just a Fibonacci 5 months after the low. The disparity between the two indexes is important and should result in the nominal Dow playing catch-up to the Real-Money Dow during the next Primary-degree decline.

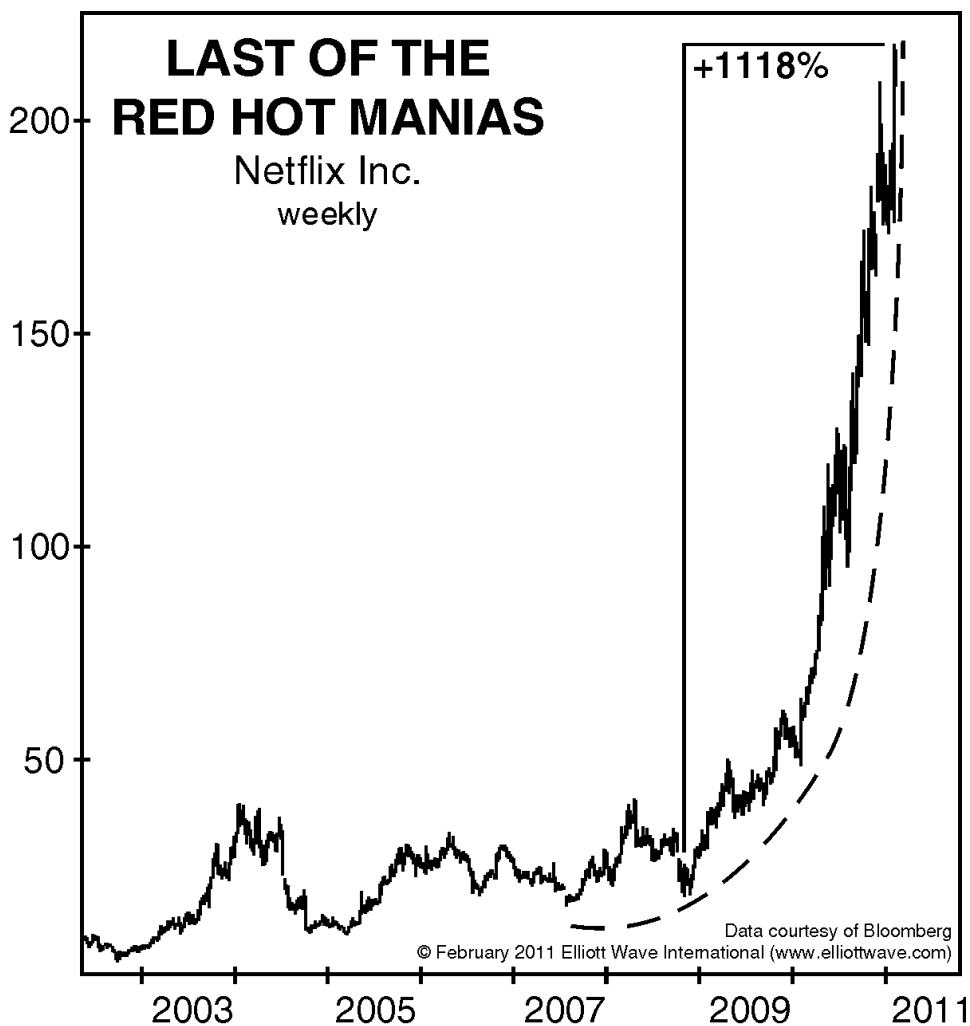
**February 2011 —**  
*The Elliott Wave Financial Forecast*

*This correlation [between a rising CRB, gold, silver and stock prices] means that most assets lately are moving up and down more or less together, probably as liquidity expands and contracts. If so, then any deflation will crush hard-asset prices right along with share prices, just as it always has.*

—Conquer the Crash (2002)

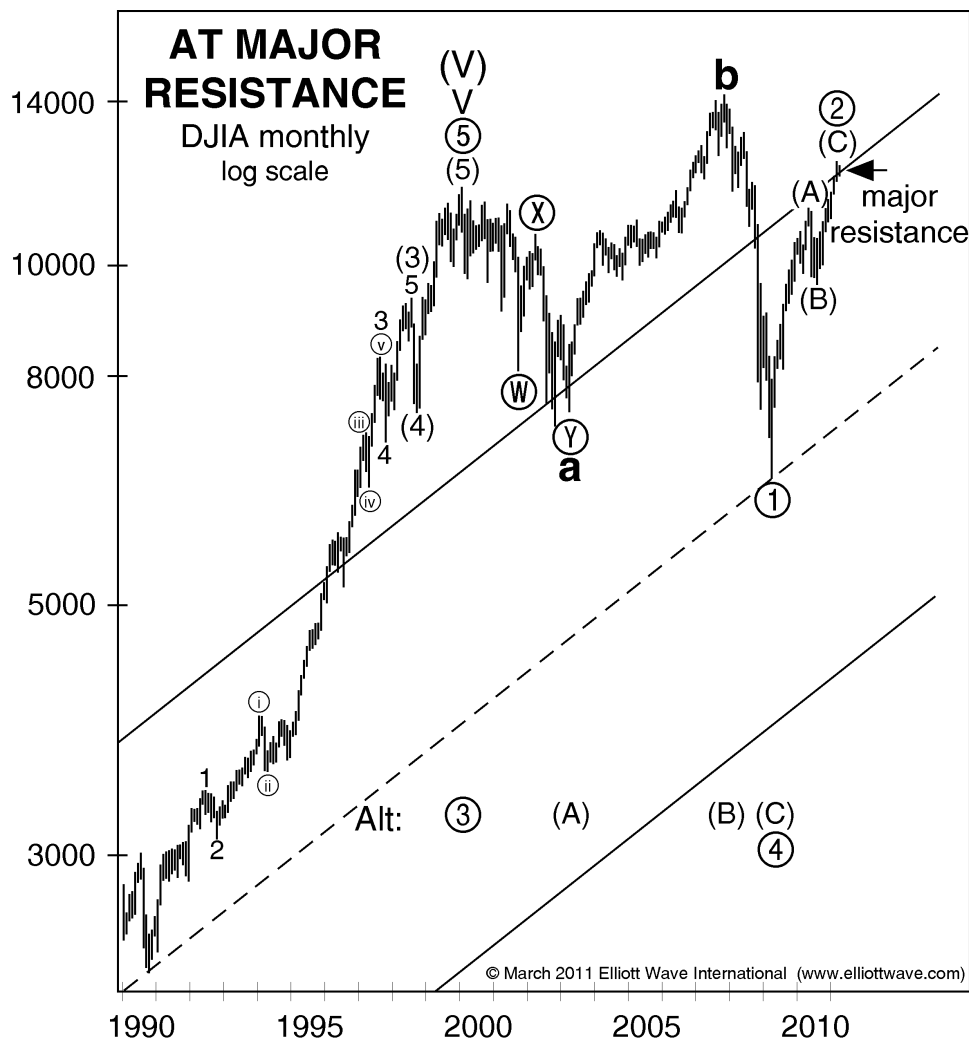
The enduring reliability of this observation is important. The stacked chart at right clearly shows that these positively correlated trends persisted through the crash that was forecast in CTC as well as the subsequent rebound rally.



February 2011 — *The Elliott Wave Financial Forecast*

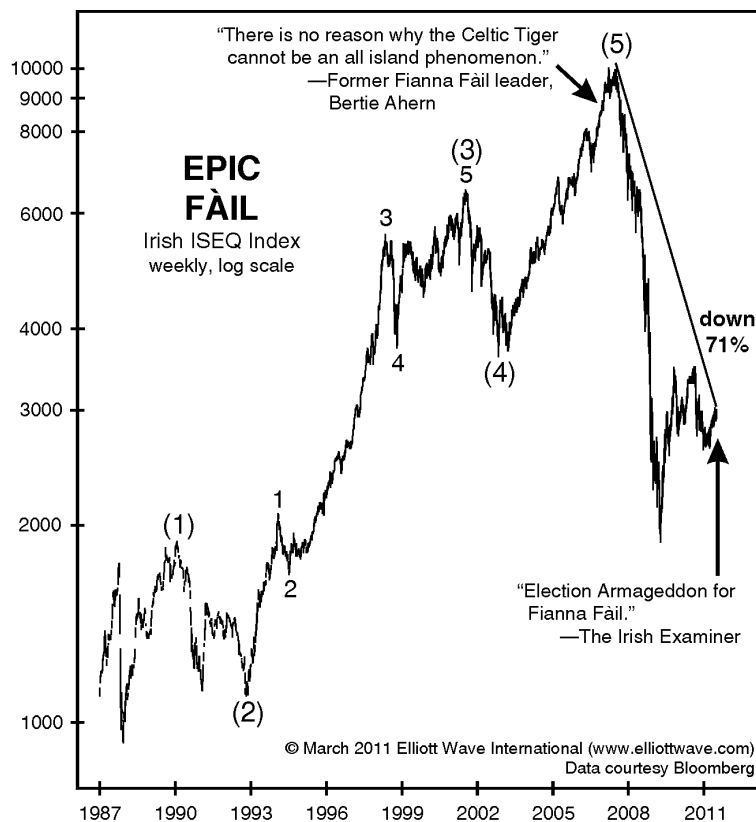
There are other signs that the financial fantasies discussed in the November EWFF are becoming more pronounced. A financial columnist who “felt the easiest gains were surely over” for Apple 18 months ago, now says, “OK, I give up.” In a column titled “Could Apple hit \$1000?,” he contemplates a further tripling. But Apple’s mania-era valuation suggests instead that its rally is much closer to an end. Netflix fever is nearly as well developed, as shown on the chart below. The exponential rise in Netflix is another vestige of Grand Supercycle-degree optimism. The finish line for any post-mania decline is the mania’s starting point, which in the case of Netflix is its \$17.90 low in October 2008.

March 2011 — *The Elliott Wave Financial Forecast*



The January issue of *The Elliott Wave Financial Forecast* shows the Dow Jones Industrial Average’s Supercycle degree trendchannel [Editor’s note: See the first chart in this report.], which contains almost the entirety of the market’s advance from the July 1932 low to the present. This trendchannel is a simple but powerful Elliott wave construct that stems from three key dates in the life of the Supercycle-degree bull market: 1942, 1966 and 1974. Readers may recall that in April 2009, shortly after the Dow bottomed below 6,500, EWWF forecast a Primary-degree rally that would be marked by a re-birth of “the zaniness of 1999 and 2007” by the time it ended. While we did not anticipate the advance to carry all the way to this channel line, this feat certainly has brought out the zaniness, which compares to that of the Internet bubble of 1999 and the leveraged buyout boom of 2007. ...

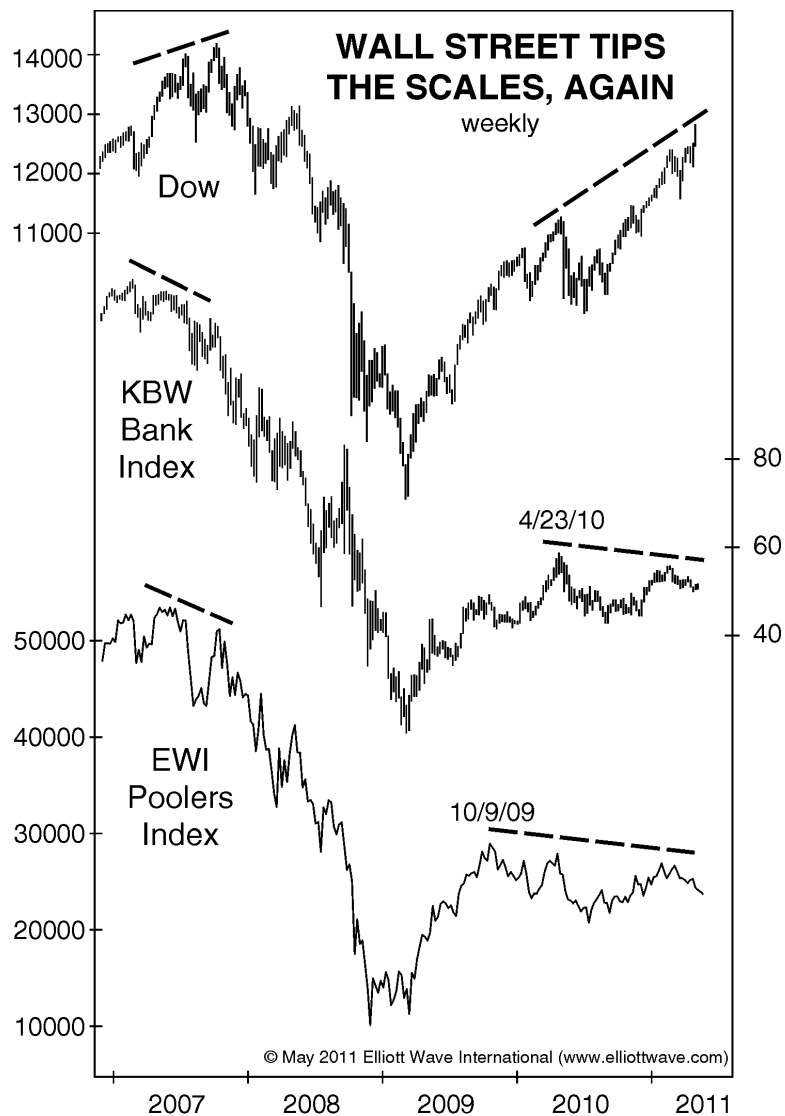
As EWT explained, “When prices exceed an upper channel line and then fall back below it, they sometimes return to test it before turning down in greater earnest.” The resistance that this 74-year-long trendline provides should prove formidable. With market optimism having pushed above the levels registered at the 2007 top and upward momentum continuing to wane, the test of this channel line should mark the starting point for Primary wave ③ down.

March 2011 — *The European Elliott Wave Financial Forecast*

When an economic contraction grows severe enough, even the most exalted politicians and political parties become vulnerable. Last month, Ireland's Fianna Fáil party suffered the worst election defeat in the history of the Irish state, which dates back to 1922. Fianna Fáil, which has governed Ireland for three out of every four years over the course of the past eight decades, has ruled as a majority or in a coalition government in every decade since the 1930s. The party, moreover, had won all three Irish elections since 1997, leading the Wall Street Journal to describe Fianna Fáil as the country's "natural party of government."

Yet, fitting the epic scale of Ireland's bear market and economic collapse (see chart), political scientists today struggle to find words to describe February's electoral debacle. Former Fianna Fáil politician Jim Glennon chose the term, "Armageddon." The deputy head of elections for the opposition Fine Gael party called the results "dramatically horrific." Political science professor Richard Sinnott from University College Dublin chose a particularly good description, calling the election a "force of nature."

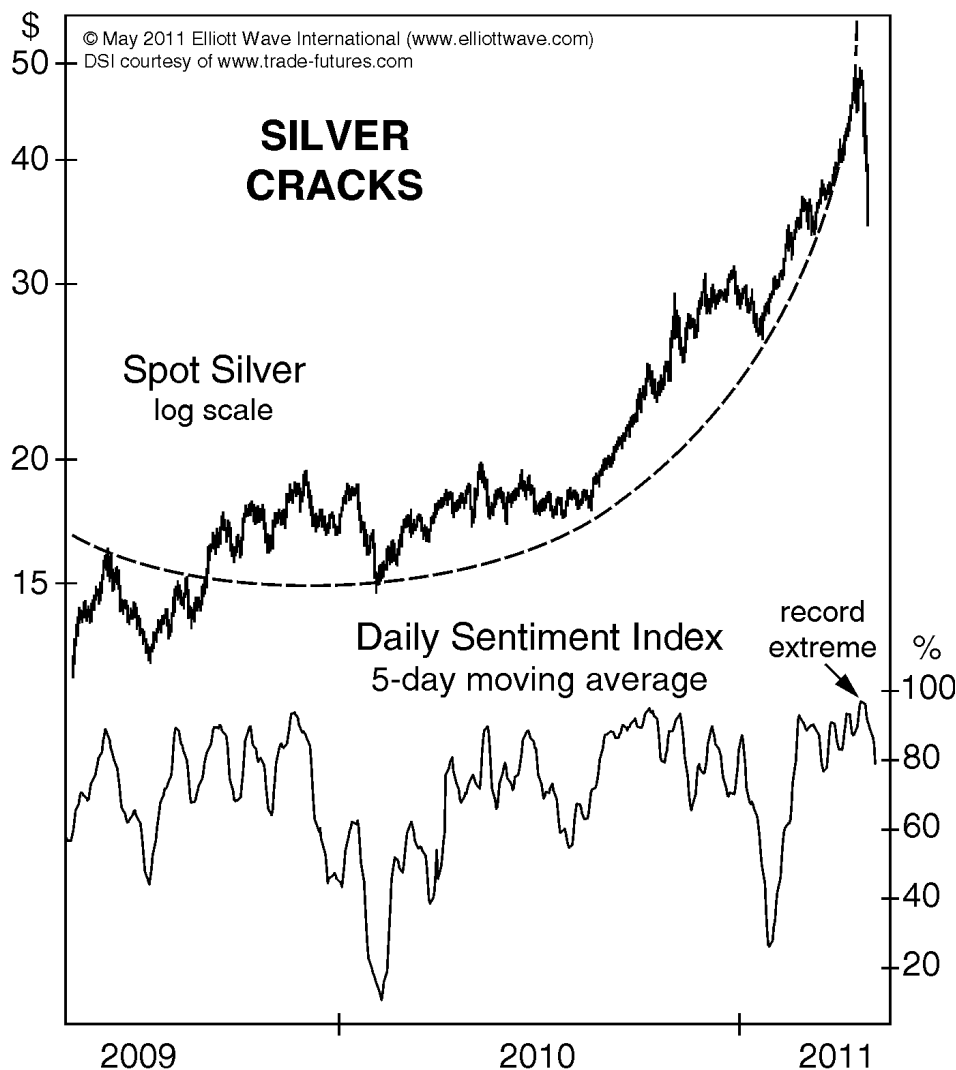
Socionomically, the term fits. The ebb and flow of social mood is indeed a naturally occurring social process, not too far removed from nature's more widely understood physical processes like seasonal changes and tidal fluctuations. The critically important question is: Does Ireland represent some sort of statistical anomaly -- a Category 6 hurricane, for instance? Or is Ireland forecasting a more permanent and all-encompassing change in Europe's economic weather? Based on wave patterns and today's epically high optimism, our answer is an all-encompassing change in the economic weather. As the bear market returns, credit reflation will turn back into credit deflation, and even Europe's largest markets and economies will grow to look a lot like Ireland's does today.

May 2011 — *The Elliott Wave Financial Forecast**The Underlying Financial Rot*

In January 2007, EWFF noted that financial engineers “found a new object for investor affections—themselves.” In a Special Section, “Year of Financial Flameout,” the January 2007 issue of *The Elliott Wave Financial Forecast* concluded:

Of course, the financial industry’s position so close to the center of the mania can only mean one thing; it is only a matter of time before it joins in the great turn lower.

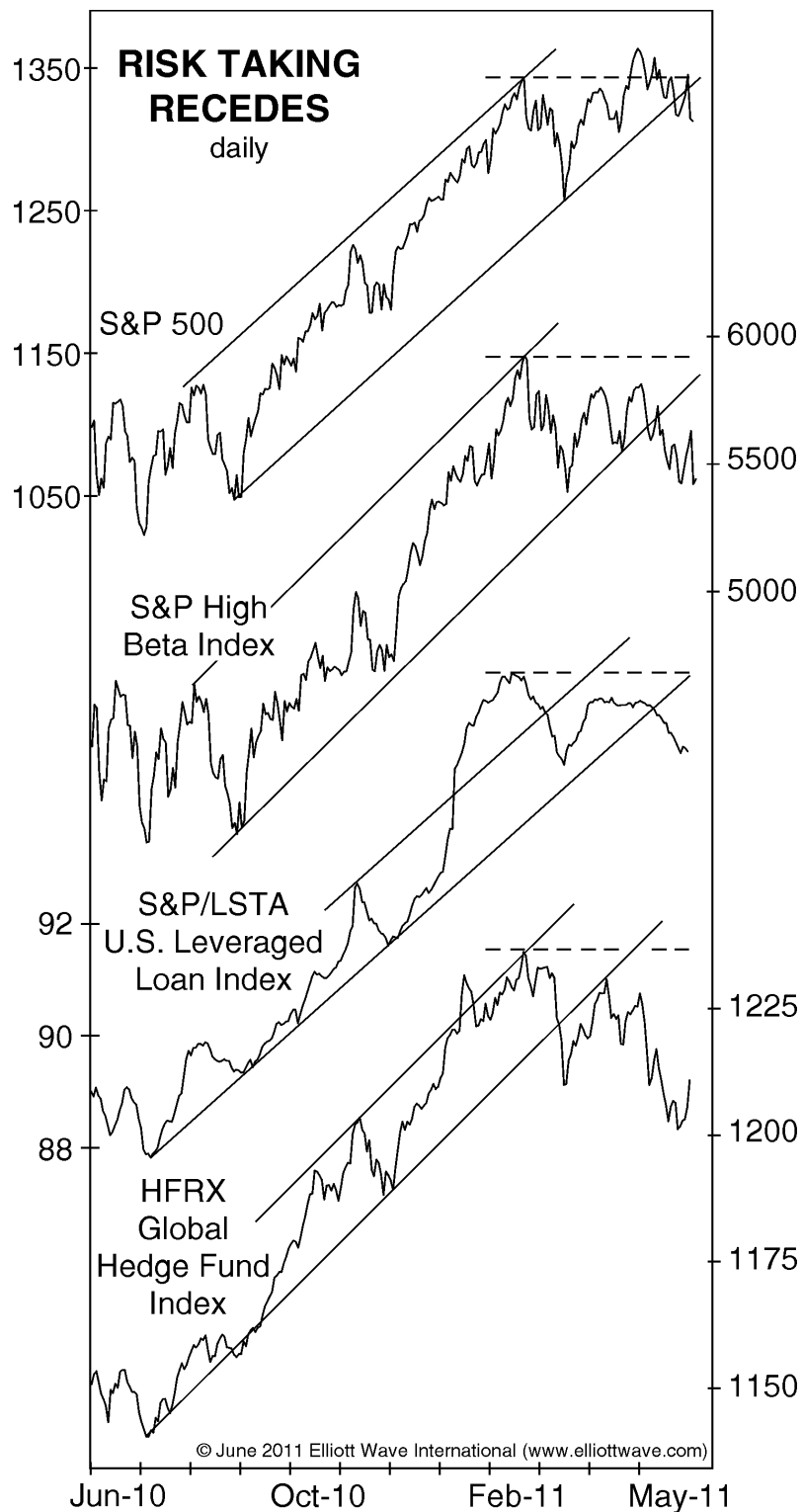
The chart shows that the reversal came almost immediately, in the February 2007 peak in the KBW bank index and the June 2007 top in the EWI Poolers Index, which is comprised of six investment firms that we labeled central to finance (see May 2007 EWFF). ... The banks are leading, *again*, just as they did in 2007. But no one is focusing on them because their direction is down, contradicting the investment community’s overwhelming upside bias. It also contradicts the main theme of the market rally: that the Fed’s QE programs are driving the recovery. If QE is working, why is the KBW falling? The lagging behavior of the financials, the key sector in a credit-based financial system, should soon spread to all sectors of the economy and markets. In November, EWT summed up the key point: “If banks are in trouble, every business is in trouble.”

May 2011 — *The Elliott Wave Financial Forecast*

Market signals always precede government statistics, and the surging demand for the shortest and safest U.S. Treasuries confirms that the depression is heading into a new downward phase. The downturn in silver has exactly the same implication.

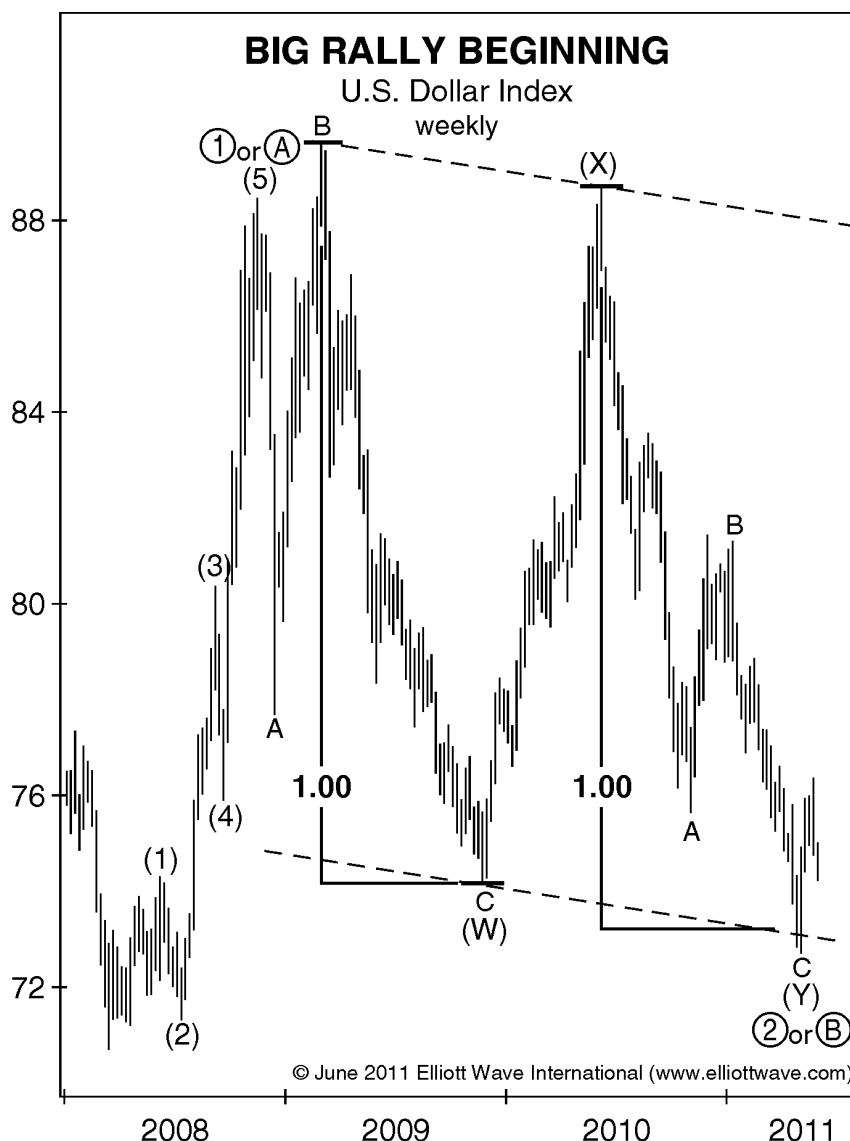
Silver's advance since at least January 2010 adhered to a rising exponential curve, which culminated in a spike high of \$49.91 basis spot on April 25, as shown on the chart. This high is 9 cents from silver's all-time price high of \$50 in January 1980. Assuming that silver does not carry higher, this mammoth rally has probably ended wave B of a flat. The 31-year double top may be the longest and largest in history. The last stage of an exponential rise should be accompanied by the most extreme speculation and expectations, and this was certainly the case with silver, as a "gotta own it" mentality, on par with that of 1980, clearly took hold. ... The Daily Sentiment Index (trade-futures.com) of traders registered an incredible 97% bulls for five straight days, April 15-April 21, and Market Vane's Bullish Consensus pushed to 92.4% bulls on a longer term 30-day basis, a 22-year record. Moreover, the disparity between silver's closing price and its 200-day moving average reached 70%, the greatest extreme since the 1980 peak.

June 2011 — The Elliott Wave Financial Forecast

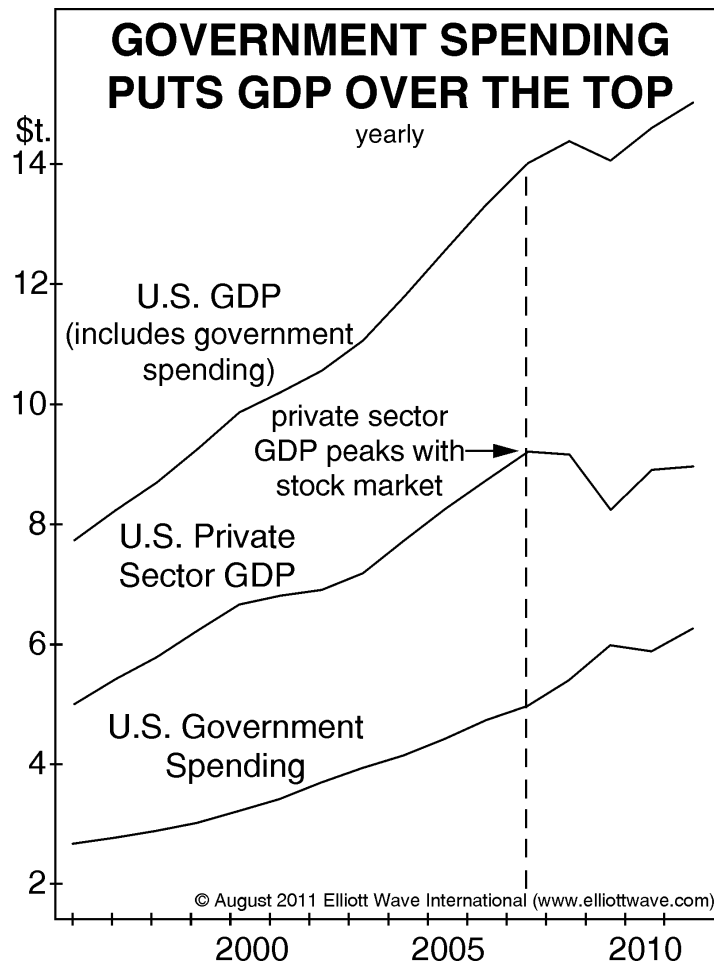


In the U.S., the last real frenzy for stocks probably crested in February. While the Dow and S&P 500 carried higher until May 2, the S&P 500 High Beta Index (second line in the chart) made its high on February 17. The S&P/LSTA U.S. Leveraged Loan 100 Index (third line) shows that the market for higher-risk loans experienced a trend reversal at the same time. The chart's bottom line shows the performance of hedge funds, represented by the HFRX Global Hedge Fund Index. This index peeled away concurrently with the others. ... Eventually, the survival of the industry itself will become an open question. Risk taking is morphing into risk aversion, a necessary shift that will drive the market decline as it broadens in coming months.





In May, the U.S. dollar rose as stocks, commodities and bonds fell. The dollar’s outperformance is consistent with EWI’s all-the-same-market scenario, which indicates that the dollar will move opposite these other asset classes. The weekly chart shows a complete double three (see text, p.52) correction that ended May 4 at 72.70, as prices met the lower channel line formed by the decline from March 2009, the same month of the Primary wave ① low in stocks. In addition, when measured from the price extreme in 2009 at 89.62, there are two equal legs down at the recent low. EWFF’s bullish stance on the dollar will remain intact as long as the May 4 low does.

August 2011 — *The Elliott Wave Financial Forecast*

This [loss of economic vibrancy] is occurring despite an astronomical rise in federal debt (Keynesians take note) and is a powerful picture of an economy that is slowly coming off the rails, as the influence of a 200-year uptrend in social mood fades away. At this late stage, GDP growth is mainly reliant on government spending. This chart breaks down U.S. GDP and reveals that private sector GDP (middle line on the chart) topped in 2007, right along with the all-time peak in the Dow Jones Industrial Average. Only government spending has increased.

August 2011 — *The European Elliott Wave Financial Forecast*

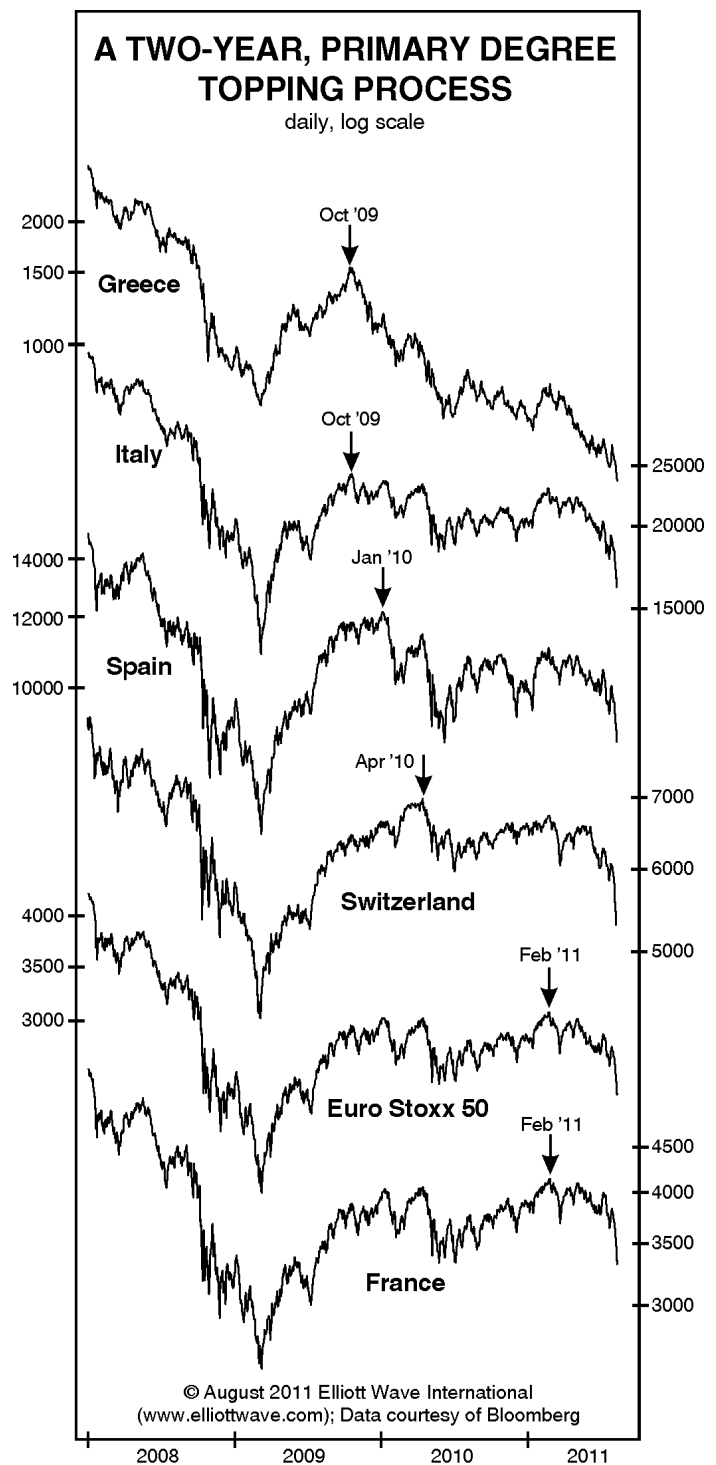
There's a lot to discuss this month, but let's first get everyone caught up with a short trip down memory lane. Europe's Primary degree topping process may feel like an eternity, but, as the chart shows, less than two years have passed since Europe's first bourses began peaking in wave ②. In fact, the succession of tops started 21 months ago in Greece and Italy. As stocks staggered lower, the October 2009 issue of *The European Financial Forecast* insisted that the emerging decline would "grip all sectors and averages." Greece not only provided an early tip-off for nearby markets, the country originated a bigger, badder version of the 2008 credit crunch: the sovereign debt crisis. Seven months after Athens' stock market peaked, Europe's first wave of losses arrived, along with the Continent's first €110 billion bailout.

The third line on the chart depicts Spain's January 2010 countertrend high. ... Along with the Spanish IBEX index, Portuguese stocks (not shown) double-topped that month, and European credit markets began a debilitating seizure that continues to this day.

The next line on the chart is significant, too, because it shows exactly what we anticipated — that the downturn would migrate into Europe's core economies. The Swiss Market Index quietly recorded its countertrend high in April 2010. ...

European blue chip companies (the Eurostoxx 50) finally caved to the Primary degree topping process in February 2011, having managed to eke out a slight new countertrend high along with France's CAC 40 index. But as the rally maintained its three-wave structure, that allowed us to maintain our conviction that the rise was merely correcting the 2007-09 impulsive decline. ...

Yes, big stock market tops can be exhausting, as time is required for investors' optimistic emotions to give way to unease ... then anxiety ... then fear ... and, lastly, outright panic. But there's more to come: The next installment of Europe's Supercycle narrative will likely contain some of the biggest bombshells yet.



September 2011 — *The Asian-Pacific Elliott Wave Financial Forecast*

Japan's parliament this week elected its sixth prime minister in five years. While conventional analysts cite the outgoing PM's supposed policy failures and dismal public opinion ratings as reasons for the change, socionomics gives you the big picture at a glance. The chart shows that during the Japanese bull market, prime ministerial elections came up once every 2.9 years. During the bear market since 1989, they have come around almost twice as often, every 1.5 years. Here is the socionomic explanation:

In 1999, Robert Prechter showed how a nation's stock market is really the best measure for gauging its political winds:

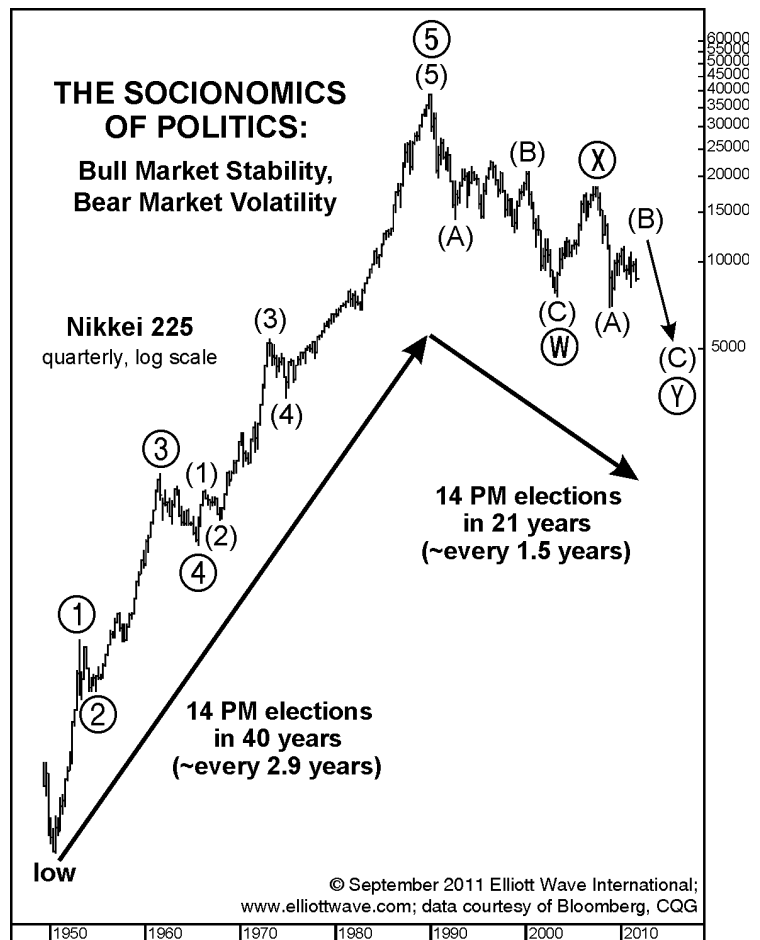
When social mood waxes positive, as reflected by persistently rising stock prices, voters desire to retain the leader who symbolizes their upbeat feelings and who they presume helped cause the conditions attending them. When the social mood becomes more negative, as reflected by persistently falling stock prices, voters decide to throw out the incumbent who symbolizes their downbeat feelings and who they presume helped cause the conditions attending them. The political policies of the incumbent and his challenger are irrelevant to this dynamic. The key is a desire for change per se, not any particular type of change. The standard presumption has no explanation for reconciling the relationship between these phenomena.

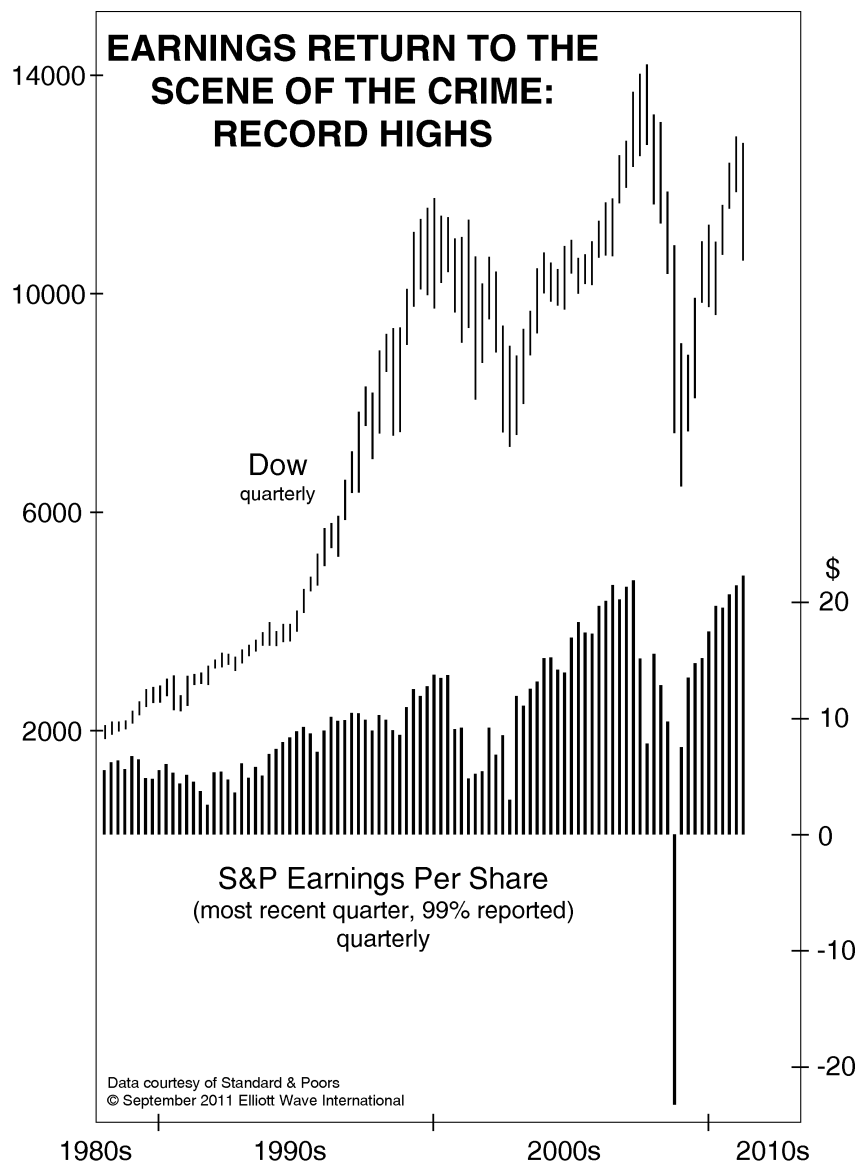
— *The Elliott Wave Theorist*, November 1999, reprinted in *Pioneering Studies of Socionomics*

...Observe the tectonic shift that Japan's bear market has forced on its party politics: Almost all PMs since the end of the Pacific War were once members of the Liberal Democratic Party (LDP). ...

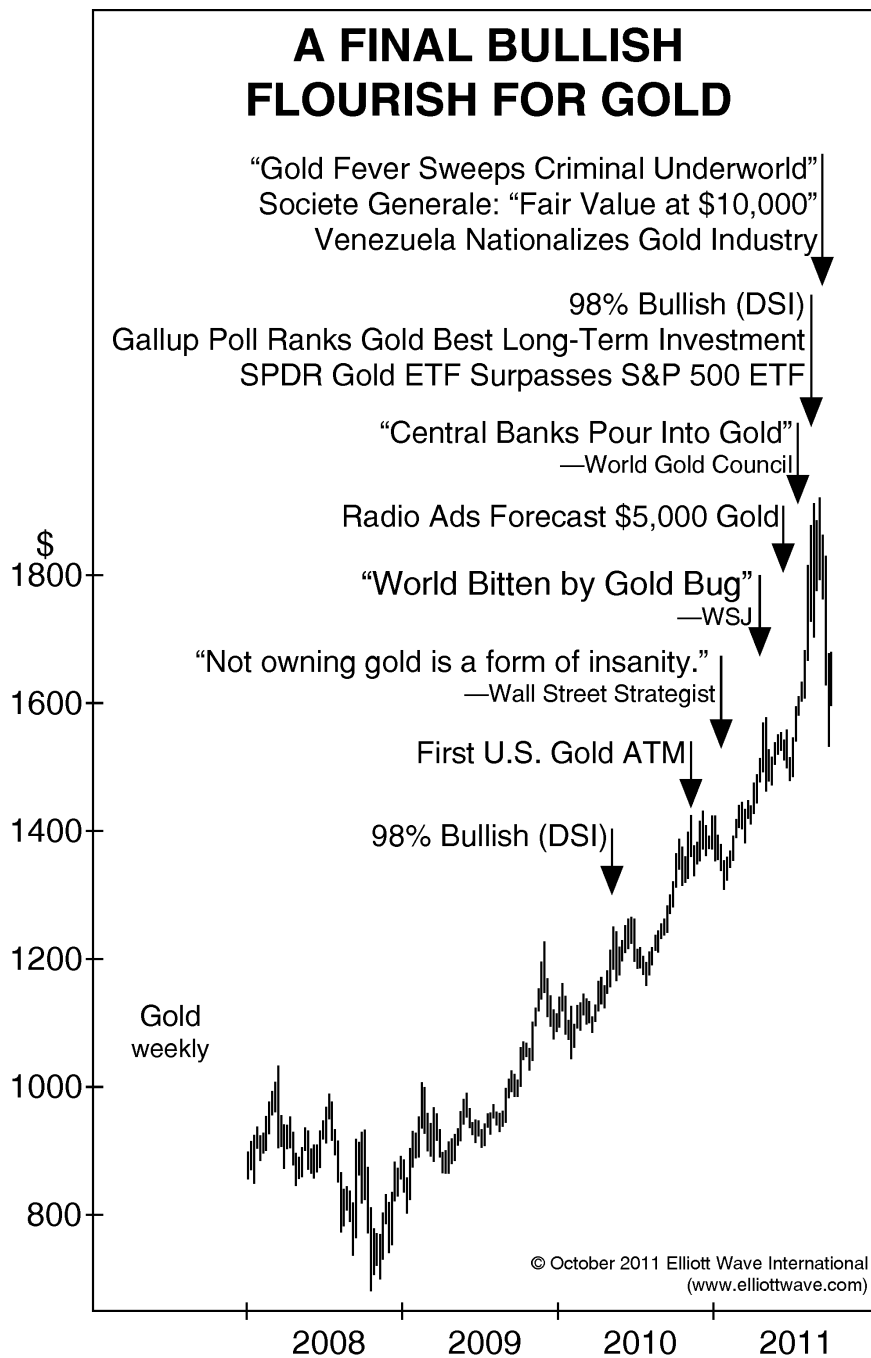
But voters dealt [the LDP] a second and final blow in 2009, following wave (A) of (Y) down, when they gave a center-left opposition party — the Democratic Party of Japan (DPJ) — an outright majority by a landslide.

Following the opposition's victory, former PM Nakasone, whose term of office spanned the middle of wave (5) of (5) in the 1980s, called the event a "national opening on par with the wrenching social and political changes that followed defeat in the [Pacific] war." (NYTimes) No surprise here, because the bear market that wrought it is certainly the largest since that time. But Japan's Democrats — who promised "hope" and "change" similar to the U.S. Democrats in 2008 — have since also suffered at the hands of the bear; in fact, they have just chosen their third prime minister in two years. The Japanese PM's door will continue to revolve until a new bull market brings real change and hope.

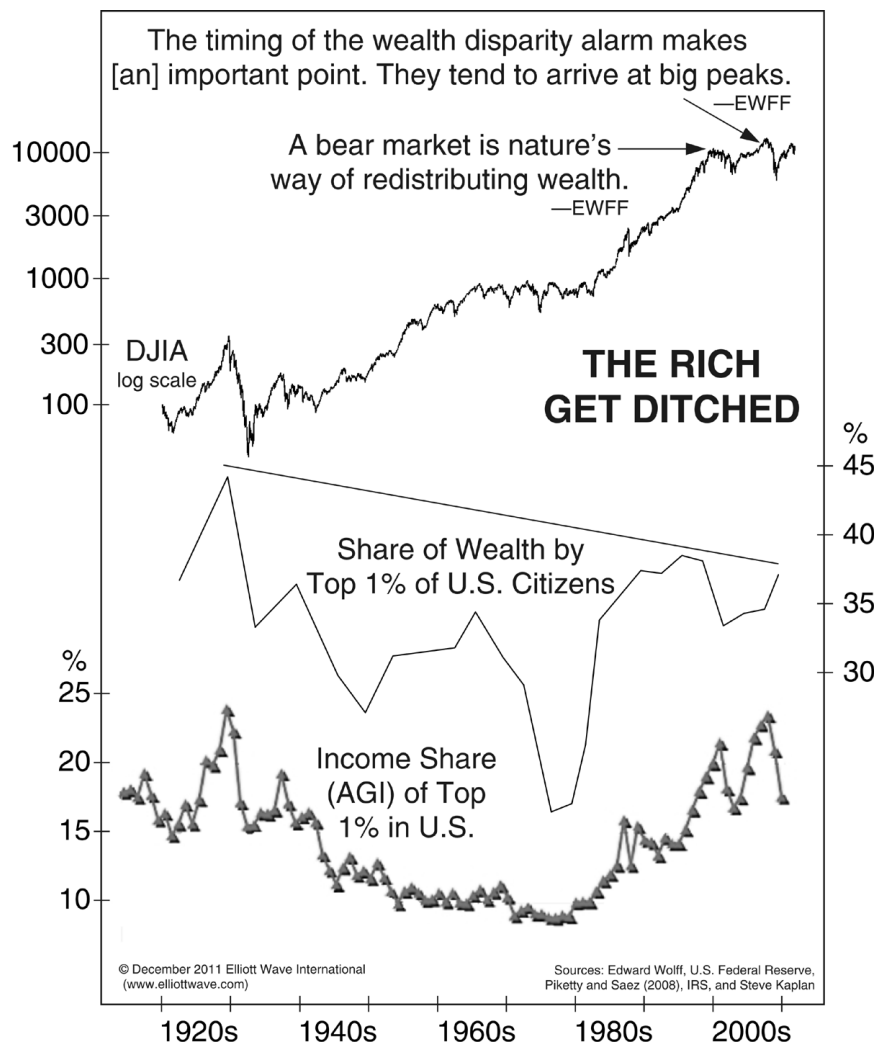


September 2011 — *The Elliott Wave Financial Forecast*

There's clearly a huge disconnect between economists, whose forecasts are wavering in line with GDP; analysts, who continue to expect robust growth; and the actual behavior of the economy. The chart shows that S&P earnings hit a record high in the second quarter. Of course, this also reflects that earnings are ripe for reversal, as S&P earnings were also at record levels near the peaks in 2000 and 2007, and at record lows in 4Q 2008, when the stock market was nearing a "buy." In this rapidly cycling environment, reports of record earnings suggest that the next economic contraction is at hand. The discrepancy between economists and earnings analysts solidifies our case. The difference between them stems from the extra lift companies are getting not from robust business but from falling costs. "Many corporations have posted strong profits during the recovery, largely due to cost-cutting and increased productivity from the consequently diminished work force." In other words, companies are temporarily benefitting from their rapid reaction to deflationary trends. But the swing in consumer sentiment shows that the economic contraction will catch up fast to their efforts as the optimism of the great peak, which kept consumers spending at historically high levels, rapidly dissipates.



Gold declined 20% in just three weeks in September. But probably the most important feature of the decline from the \$1921.50 high basis spot on September 6 is the close beneath the upper line of its long-term channel. Last month EWFF said such a close would complete a throw-over and announce the end of the five-wave rally from the August 1999 low. Gold's final push was historic, because it ran through multiple sentiment stop signs, as the chart shows. Gold investors assumed these increasingly bearish signals were irrelevant, since prices pushed aside all but the last cluster on their way to September's top. But gold's persistent rise constitutes a stretched emotional extreme, which will result in an opposite downside extreme, similar to what occurred in stocks after their 2007 peak.



This must be one huge financial top, because the battle of the haves versus the have nots is back and bigger than ever. ...

The share of wealth held by the top 1% of Americans is *lower* today than it was at the major market peaks of 1929 and 2000. Yet the impetus to redistribute wealth is far stronger, because social mood is less positive. Ironically, tempers are flaring just as the most powerful phase of the bear market prepares to “even the playing field” naturally by destroying most of the wealth created in the preceding bull market. ... As the middle class exits the housing and stock markets, this line will fall fast. The true relationship is displayed by the bottom line on the chart, which shows the income share of the top 1%; it rose dramatically with the bull market from the early 1980s, and fell hard with stocks from 2000-2002 and 2007-2009. As the bear market intensifies, the rich will get poorer faster, and the concentration of wealth will follow income downward.

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