



# Exceptional Bear Market Letter

October 2, 2008

## Diagonal Triangles: the key to profit in Bear Markets

When you understand and apply the wealth of information available from Diagonal Triangles, your invests will be transformed into a highly pleasurable and profitable experience. Here are some good examples of how Diagonals work. In this hourly **DAL** chart below we see a large **Diag II**, and a smaller **Diag II** compounding the upside indicated by the larger. While at the very top left there is a Downward **Diag II**, meaning first a long move down, that's relatively small in comparison to the upside to follow. Notice the plunge that followed into Sept 8<sup>th</sup> in the **a wave**.

While **Diag II's** or **Diag II's** are **beginning** Diagonals, a **Diag >** (read Diagonal triangle) is a **terminal** structure, indicating dramatic reversal ahead. While very similar, in that waves i and iv (*Roman numerals 1 and 4*) overlap. In the terminal **Diag >** the sub-divisions are those of a correction 3-3-3-3- (5 or 3). While **Diag II's** are 5-3-5-3-5 they're just like an impulse wave (*ordinarily called a bull move except it also occurs to the downside*). If we look at the larger **Diag II** far left is **i**, connected to **iii** pointing up. **Wave ii** and **iv** are similarly joined by the lower blue line.



Once a Diagonal completes, it retraces at least to where it began, (*the wave i touch point*). In the example above the larger **Diag >** near the middle began at approximately 8.1, so the subsequent a reversal reached 8.9 before reversing. If you do this exercise for the other diagonals you'll see that these guidelines apply each and every time.

Below is the 10-minute **DAL** chart, find your bearings by matching the **a's** and you see the 10-minute chart is just a magnification of the hourly chart, with much more detail. Here you can see clearly a **Diag >** with the four touch points marked (i-iv). Once **wave iv** completes, it will reverse and drop below 7.5. Barring a rare failure which can't be anticipated, **wave v** exceeds **wave iii**. When the wave count completes for **b**, again we reverse to at least the blue hashed line, where the structure began at the **wave i** (1) touchpoint.



Bear Markets are defined by the frequency of Diagonal triangles each one marking a reversal of the previous direction. That's why there's such high volatility. If you can adjust to the Bear Market, you can profit from that volatility, by making money on the upside and the downside. I like to use the analogy of a highly volatile chart like that above. If you stretch it out like a rope it would easily cover at least twice the price territory and profit. That's the potential of alternately going long and short. Year to date the S&P is down nearly 20%. That same 20% stretched out would be at 40% profit with our strategy.

If it works so well, why isn't everyone doing it? Simply because they lack the aptitude and experience to accurately time the market. As humans we tend to think that because we ourselves can't do something, that no one can do it. A bit arrogant, I'd say. You don't need to do it all yourself, you can hire us. Henry Ford with just an 8th grade education built a huge conglomerate, by hiring experts for to do the things he didn't know....it never held him back. You don't have to understand everything, all you need to do is keep track of the profit...you'll likely make more money than ever before. If you prefer to auto trade our signals, so you don't have to place any trades yourself, that is available too.

If you attempt to use Bull Market "buy and hold" strategies, in the Bear Market you will find yourself continually making "round trips", back to where you bought the stock or below. **That is the reason why 70% of all mangers are down this year**, while our verified performance exceeds 80%.

Realize that money compounds **20 times faster** after just 5 years when you average 40% vs 10% through the magic of compounding. Furthermore, an exceptional Elliott technician can achieve that performance with lower volatility, meaning lower drawdowns, while negatively correlated to the S&P 500. In effect what diversification used to do for a portfolio before the world "went flat" in Thomas Friedman's terms. Instead of riding out losses, we reverse instead...and make money while the "buy and hold" crowd is losing. Although the rope never gets completely straightened, the knots that remain due to human error are a huge improvement. The *value fluctuation is much smaller to the downside while growing steadily*. You see volatility is not bad in itself, its only negative volatility that threatens your piece of mind. Once that negative volatility is harnessed in your favor, *prepare to win!*

Regards,

Eduardo Mirahyes



*"Opportunistically timed investments that maximize wealth"*