Feb 15, 2015

**Natural Gas from the Forest to the Trees**

Below is the *New-Wave Elliott™* analysis of Natural Gas *from the Forest to the Trees*. Unlike stocks, which reflect humanity’s technological & cultural progress, commodities, like Peter Pan, never grow up. Once they reach teen-age, *Cycle Degree*, they start the magnitude progression all over again. For Gas that was 1990.

**Figure #1 - Natural Gas Monthly**
To make sense of the short-term charts, we must first begin with the big picture. Above you see Natural Gas in monthly increment candles, since 1990. The Diag II of this magnitude indicates a nascent Bull Market. However, Diag IIs always retrace the first touchpoint of the Diag II in wave 2 and fill in all the gaps, to set the stage for lift-off from a solid foundation. As you see, Wave 2 retraces wave (i) of the Diag II, and so does wave ii of 3. You can patch up the Monthly and Weekly charts by cross-referencing wave i in March 2014 at 6.5.

**Figure #2 - Natural Gas Weekly**

Next we reconcile the Weekly chart above with the Daily chart below. The easiest point to match is conclusion of the Diag > in November 2014 @ 4.6. From there, 5 waves down mark the conclusion of wave ii near the end of January 2015.
As you see in the monthly chart, the upside wave iii will likely stretch to at least the Fibonacci 1.618x the price territory of wave i, measured on the perpendicular already in process. From Daily chart we see the first correction in process. Above we overlay the spot price with the chart of the ETN which tracks the Gas Futures. As you see, although on a slightly different scale the pattern is highly reliable, so we can switch to the ETN both long & short for maximum opportunity.

Below we switch to inverse Gas, although corrections are the hardest to forecast and trade, for us, armed with a mastery of Elliott they offer a decided advantage, with little competition, in some of the least crowded of trades. As you see in figure #3, the price of the ETF drops to a discount after an extended period in corrective mode, while not so in impulse wave rallies as seen at the top left. The reason for this is that the vast majority of traders persist in a bullish bias, regardless of market, most cannot simply invert the charts as I do. Facility for such inversion is sourced in from dyslexia.

My first job on Wall Street was apprenticed to a giant of a Saxon immigrant, who was highly intelligent, but disorganized and unfocused. My job was to organize his mind. 

“If
that trade is good for Mr. Lakovsky, then isn’t it also just as good for the others? Here are the same percentage dollar amounts in their accounts”. He soon noted my tendency for inverting numbers as dyslexia, and told me that I needed to verify my figures 3x. Not much later, he commended me on my progress and told me that going forward I need only verify them twice. He told me I had turned my liability into an asset, and that was a hallmark of genius.

For the same reason we excel in Bear Markets where mastery of Elliott really shows, while less proficient traders will look to trade only the linear impulse waves 1, 3, & 5. That’s why we have such scarce competition during corrections – & Bear Markets are no more than large corrections. Even so-called Elliott experts, like Steve Hochberg who has never identified a Diag II in either direction, will tell you there are 42 different permutations and combinations that a correction can take, meanwhile I see only two, with slight variations: either a simple or complex a-b-c.

As you see in the 10-min chart below, the volatility is great, providing at least one profitable trade per week of substantial gain. Assuming we are able to buy DGAZ at an average price of 6.95, a sell at 8.85 the gain is 27% in less than a week.

Like the Bullish Diag II in the Monthly chart up top, its reciprocal Bearish Diag II, must retrace the earliest Diag II and wave (iv) must overlap wave (i) as the definition of all Diagonal structures, before going lower, (or higher in the Reciprocal Diag II in Gas).

That’s precisely what makes the target 8.95 such a high probability/low risk trade.

Below you see the preset buy & sell limits for two lots, to obtain the lowest average price execution, without missing the trade entirely, from a limit set too tight. If you are trading a total account value of $10,000 or less, pick the midpoint between the two prices and execute with a single ticket to halve your commission expense as a percentage of your total account. On occasion, when we execute only at the higher price, you may miss the trade entirely, but overtime the commission savings, as a percentage of your total account will be higher.
Figure #4 – Inverse Natural Gas DGAZ

DGAZ Inverse Natural Gas; UGAZ Long Natural Gas

Buy ½ pos DGAZ limit 6.90
Buy ½ pos DGAZ limit 7.00
Sell ½ pos DGAZ limit 8.80
Sell ½ pos DGAZ limit 8.90

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Exceptional Bear
"Opportunistically timed investments that maximize wealth"