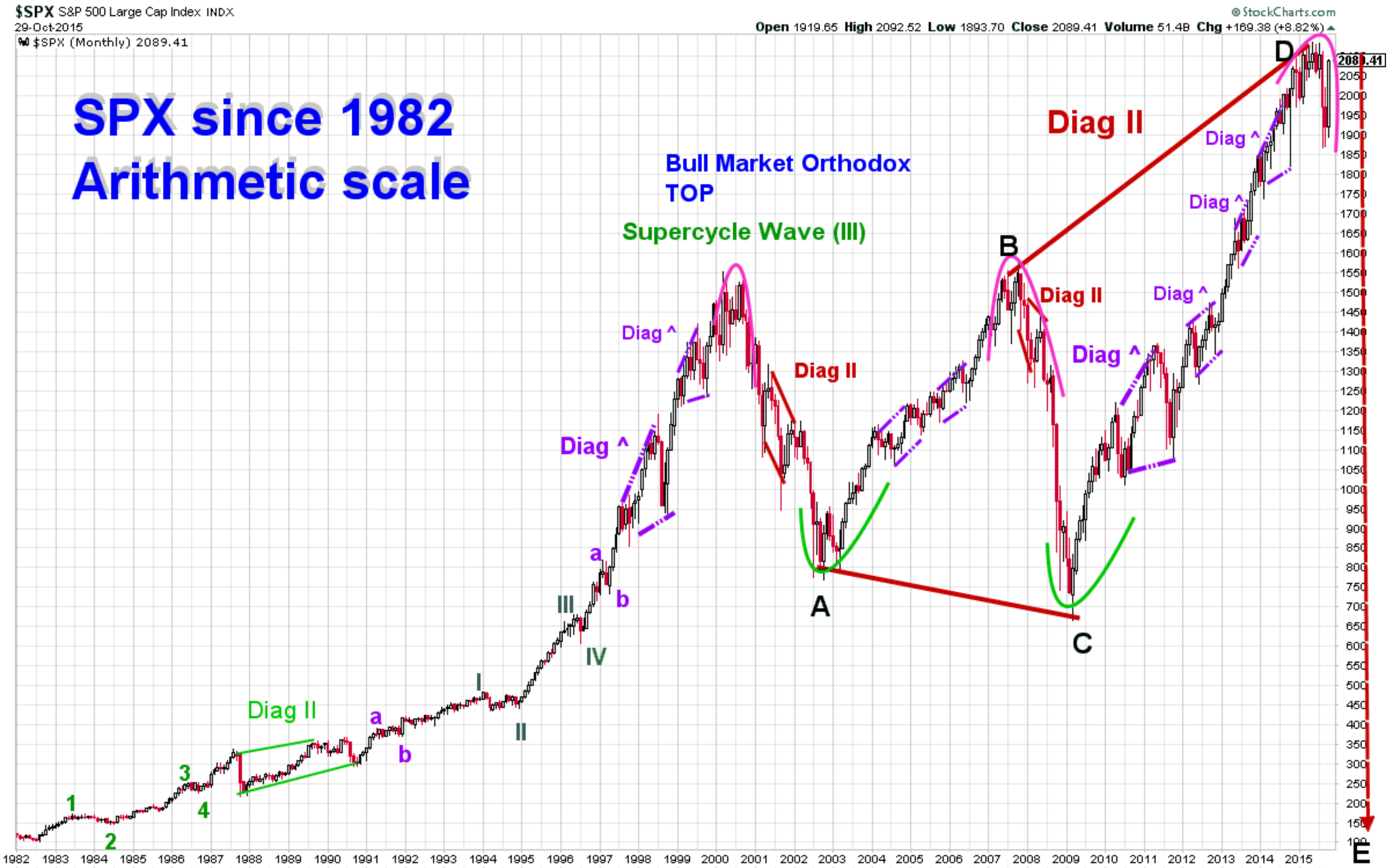
Exceptional Bear Market Letter™

October 30, 2015

The Big Picture SPX has turned ***irreversibly*** *Bearish*

Below you see the entire ***Supercycle Wave (III)*** *Bull Market* since 1982 in arithmetic, as opposed to distorted log scale. The astronomical gains represent the vast amount of capital & wealth this market created. In our *self-regulating* market, these astronomical, ***excessive gains*** must be given back via a Crash, and subsequent Deflation to obliterate the market's excess.

Figure #1 ***SPX monthly*** *since 1982 in arithmetic scale*

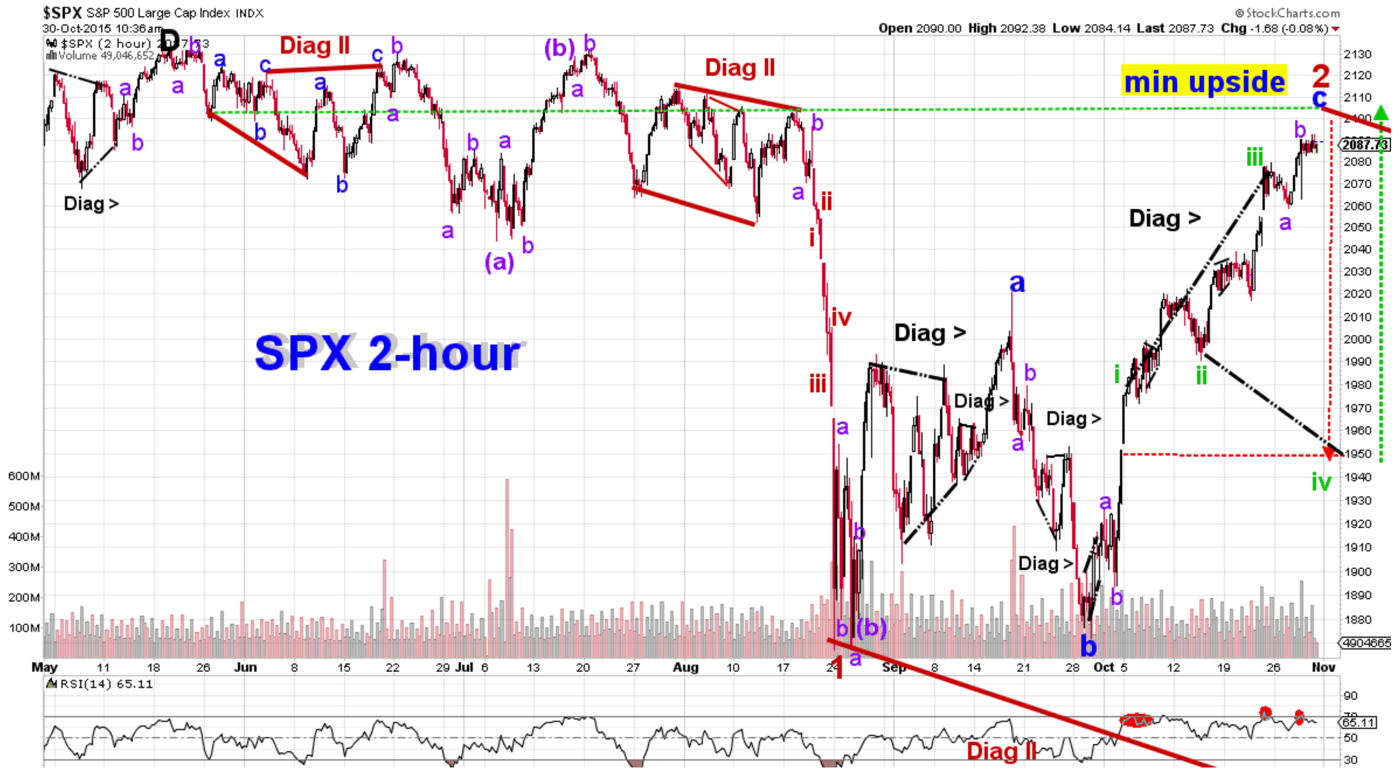


As you see in ***Figure #1***, similar highlighted by pink ellipses occurred at the 2000 & 2007 tops, to signal the ***irrevocable*** reversal into ***free-fall.*** However, before the Crash can proceed, the first touchpoint of the earliest ***Diag II*** *fractal* must be retraced. In ***Figure #2,*** the dashed green line at *2110* represents that minimum wave **2** upside, corresponding to the earliest *Diag II* in May.

Although the Market is within a stone's throw from this minimum upside, the next move should be down. The ***a-b reversal*** signals a downdraft to complete wave iv of the ***Diag >.*** Notice that both ***waves a*** *&* ***b*** of the current ***a-b-c*** were also preceded by a ***Diag >*** to signal each dramatic reversal. The final ***Diag >*** should be either larger or display multiple itinerations, as the subsequent drop will be far larger than any previous since the 2014 top.

Once **Wave 2** completes, we can expect a most likely plunge into **wave 3,** within a larger ***Diag II*** *fractal*. From the wave 3 low, a reversal back up into wave 4, will likely retrace the *second Diag II* in sequence at *2070.*

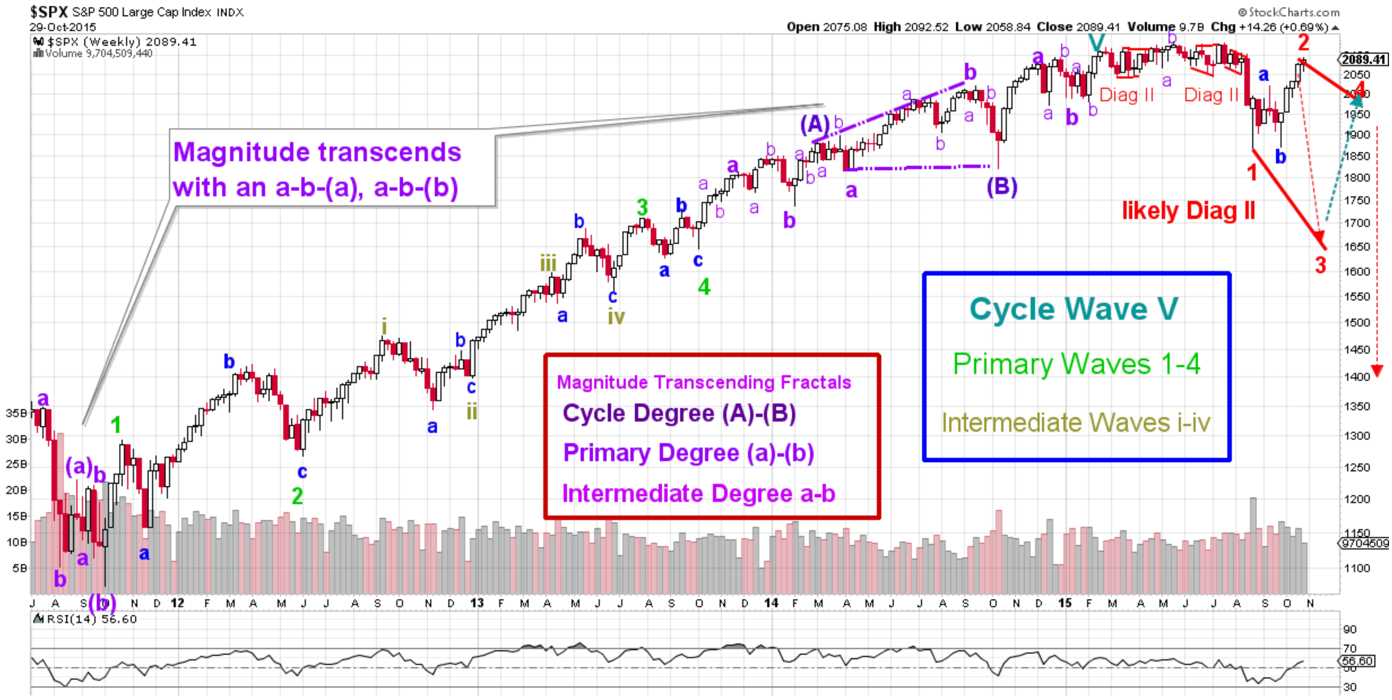
Figure #2 SPX 2-hour since May



The ***Diag II*** guidelines, anchored on waves 1 & 2, in ***Figure #2*** forecast the larger ***Diag II*** *fractal,* to confirm the free fall ahead. Notice in ***Figure #1*** that both 2000 & 2007 contain similar ***echoing & confirmatory Diag II fractals*** of substantial magnitude. Those prior to now are only visible from the perspective of the 2-hour chart and are too small to serve as confirmatory of such a massive plummet.

In summary: what speaks the loudest visually is the reversal traced by the pink swish into a plunge in process, and a likely echoing *Diag II* similar to those that initiated the previous two plunges in waves **A & C.** Although the uppermost *Diag II* must be retraced in a *headfake*, the tide has decidedly turned bearish for the final *coup de grace*.

Figure #3 SPX weekly since 2011



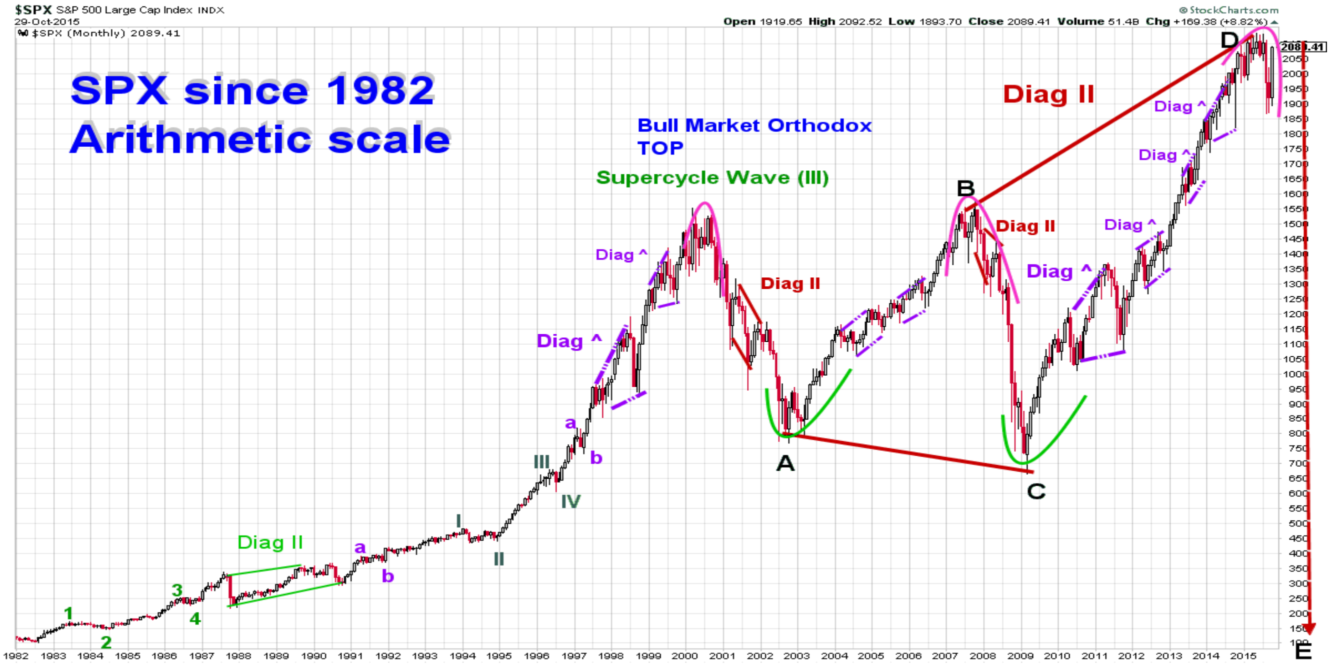
In the long chart since 1900 below, focus on the segment <u>*after*</u> ***Cycle Wave IV,*** the Bear Market ended 1978. Notice wave magnitude geared up in an ***(a)-(b)-A; (a)-(b)-B*** immediately afterwards.

Figure #4 US stocks since 1900

At first glance in ***figure #4, Primary Waves 1-4*** transcended up to ***Cycle Waves I-IV*** and then ***Supercycle Degree*** via ***a-b-(a), a-b-(b)*** structures. Both Elliott and Prechter interpreted ***Diag ^s***, *(Diagonal triangles* concurrent with *transcending magnitude*) to simply mean ***dramatic reversal ahead.*** More importantly, they indicate ***magnitude gearing***. From 1982 to 2000, Market capitalization rose 18 times, far more than the entire previous history of the market.

In 2000, the Bear Market began a proportional ***Diag II*** ***Bear Market.*** The Bearish ***Diag II,*** is so massive that few analysts are able to conceive of the whole. Instead, they interpret each down leg as a Bear Market, and the subsequent Bear Market Rally as a Bull Market in isolation. Essentially, this is the ***essence of fractals,*** structures which *echo the whole*. If you look closely at **Waves A & C** in ***figure #1*** reproduced below, you will note that each of these is a *preview* of the entire Bear Market a *Diag II* followed by a long Spike down.
We can expect **Wave E** to also lead off with a similar, proportionately larger structure.

Figure #1 ***(duplicated)*** ***SPX monthly*** *since 1982 in arithmetic scale*



The internal subdivisions, rather than direction distinguishes Bull & Bear Markets

Thanks to RN Elliott's groundbreaking discoveries, we know the difference between *Bull & Bear* lies in the ***subdivisions****, rather than* ***direction****.* ***Bull Markets*** *are* ***5-wave*** *structures,* ***Bear Markets sub-divide into 3's.*** Since 2000, the downside waves have been 5-wave impulses, while the upside **waves B & D** have been ***corrective*** 3-wave *Bear Market Rallies.* Post 2000, each Bear Market Rally, waves **B** & **D,** incremented magnitude to gear up for the Crash. These are the identical ***magnitude gearing*** structures seen before and after the great Bull Market, ***Supercycle Wave (III) see figure #.4***

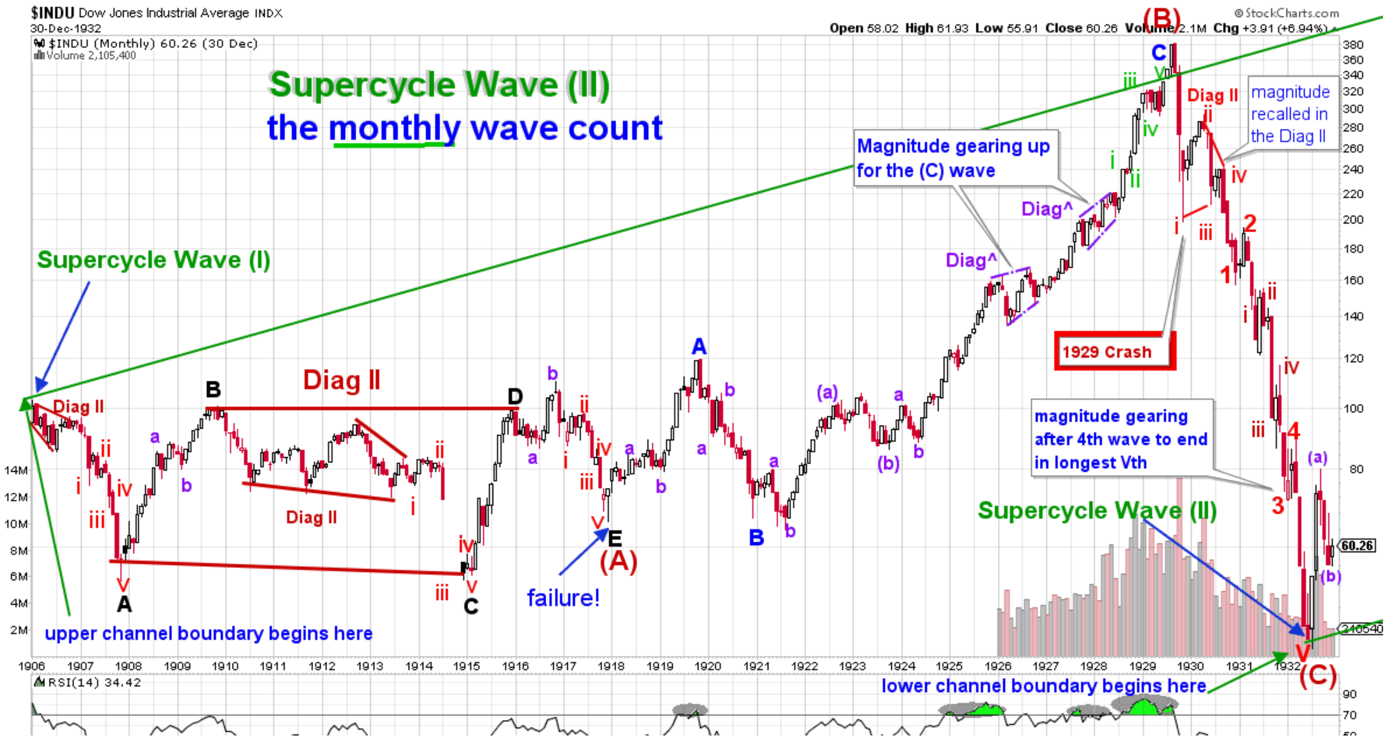
When the colossal, *bearish Diag II* is compared with its *bullish* predecessor spanning 1987-1991 the *implications of* ***proportionality*** *are undeniably frightening*. Only when viewed in its entirety, can we begin to draw parallels between the current *bearish Diag II* and its *bullish* predecessor.

Diag IIs highly susceptible to exaggeration via sentiment herding tied to fear

Diag IIs are predisposed to exaggeration via sentiment herding, tied to fear. ***Program trading is analogous to trend-following on Speed!***, it greatly magnifies the effect of a *fear-driven avalanche.* In the alternative scenario, wave iii of the *Diag II* becomes the initial crash. There is precedence for this in ***Supercycle Wave (II), 1906 -1932***, the crash occurred within wave **i** of the ***Diag II,*** before the wave had fully transcended to the highest magnitude, upon completion of the ***Diag II.*** As you see below, after wave iv of the *Diag II* completed, the plunge into 1932 was ***3x*** as severe as the 1929 Crash. This is lost in the collective consciousness for obvious reasons most investors had been wiped out long before – by then, the masses formerly on 10% equity; 90% margin were ***no longer in the market.***

While wave **i** of the ***Diag II*** is likely behind us in 2015, wave **iii** is still ahead, and highly susceptible. As you see below, in a crash, the ***normal retracements are set aside.*** Wave 2 in 1931 did not overlap the initial touchpoint of the *Diag II*.

Figure #5 Supercycle (II) 1906-1932



The ***1987 Crash*** also occurred within a ***Diag II, bullish*** this time, although the most bullish of all market structures and indicative of the long upside, wave ii was a crash. You can visualize this crash in ***Figure #4.*** ***Its corollary, of course, is the Diag II is the most Bearish of structures - and there has never been such a colossal Diag II as the current developed over 15 years.***

Eduardo Mirahyes

Exceptional Bear

"Opportunistically timed investments that mazimize wealth"