Tech Tips: 4-Shadow Sell Signal

Perfect Storm

02-05-20 - The next 48 hours could be very revealing in the markets. In order to better appreciate the significance of the coming days, it is important to understand the application of several technical indicators, including:

1 - Intra-month Trend Indicator

2 - *Intra-month X-X* Pattern

3 - Daily Trend Indicator

4 - *4-Shadow* Indicator

5 - Daily Cycles

6 - Weekly Cycles

7 - Weekly *HLS* & *LHR*

As described last week, convergence is a powerful tool in the markets. When multiple cycles or indicators converge and argue for the same conclusion, it provides the most valuable technical tool: *Synergy*...

Before describing the actual convergence, and what it could mean, it is important to understand what is being described.

So, to review these indicators.

The Intra-Month Trend Indicator

-- The intra-month trend (up, down or neutral) is determined by a daily close outside of the price range of the first three trading days of the month. As a result, a confirmed intra-month trend cannot be determined until the close of the fourth trading day, at the earliest.

-- An intra-month uptrend projects a rally to monthly resistance and/or into mid-month (ideally both)… If a market is going to set an early-month low, it should do so in the first 3 - 5 trading days without turning the intra-month trend down…

The markets have just completed the third trading day of February, so this indicator now becomes a primary focus.

However, the other indicators need to also be reviewed so that this one can be placed in proper context with the potential for corroborating synergy…

The *V* or *Inverted V* is the other primary intra-month pattern in which a market hits a high or low in the opening days of the month and then trades to the opposite extreme leading into mid-month.

It then reverses and trades back to its early-month extreme and retests or exceeds the original high or low set at the beginning of the month.

The DJIA produced a textbook *Intra-Month Inverted V Reversal* lower in Jan. '20…

***4-Shadow* Indicator**

There are two simple techniques that often warn of an impending reversal. Both deal with the final corrective move before the end of a trend.

They are the penultimate wave… or the wave before the ultimate wave (in an overall series of waves).

One deals directly with time while the other focuses on price.

In each case, the final corrective move - before a final rally (and subsequent high) or decline (and subsequent low) - is actually a revealing indication (foreshadowing) of what is to come. This move is commonly known in Elliott Wave terminology as Wave 4… thus the name *4-Shadow*.

In a typical uptrend, the market spends far more time in a rallying mode then it does declining. When

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it does retrace, the corrections are usually violent and sudden -- correcting an overbought condition in a matter of days or weeks.

On the weekly charts, the late-2018 stock sell-off is a perfect example of this.

If 4Q '18 had been the start of a bear market, it would have spent far more time putting in a high, retesting subsequent resistance levels and slowly turning momentum and psychology mixed before a substantial decline. It did not…

For a valid *4-Shadow* signal, a market will exceed both the duration and magnitude of the preceding correction - warning of an impending top.

In other words, if the most recent correction lasted two weeks and saw the DJIA drop 500 points - the ensuing correction would need to last longer than two weeks and/or drop more than 500 points (ideally it would do both) in order to generate a *4-Shadow* signal.

This 'warning sign' is an omen of a terminating trend.

Depending on the strength of the underlying trend (an uptrend in this example), the ensuing action - after the *4-Shadow* signal has been generated - can take three basic and relatively similar forms:

1 - The first sees the ensuing bounce fall short of the previous high after a quick rally. This is the most bearish and usually leads to an imminent breakdown (a dynamic 'c' or '3' wave sell-off).

2 - The second involves the market matching or barely surpassing previous highs but taking longer than the two preceding rallies while covering less ground - a type of drawn-out 'b' or '2' wave rally in a flat or irregular correction. This shows underlying weakness and can also lead to a sharp decline immediately after.

3 - The third gives the benefit of the doubt to the existing uptrend with the final rally surging to convincing new highs but falling short of the magnitude of previous recent rallies.

While this shows additional strength on a near-term basis, it warns of an impending peak.

In all three cases, the market experiences a final rally after the *4-Shadow* signal is generated. The only distinction is where that subsequent rally peaks (below, at, or above the preceding peak).

The *4-Shadow* signal has its roots in Elliott Wave Theory and Gann Analysis.

Daily & Weekly Cycles

The daily & weekly cycles have been discussed repeatedly, with the primary focus on the DJTA expected to set a multi-week (possibly multi-month) peak on **Jan. 20 - 24** and reverse lower… with other indexes following shortly after.

Weekly HLS & LHR

See diagram & explanation [on page 3]. These extreme targets are usually reached just before a turning point...

Stock Indices are reinforcing a divergent top with the Nasdaq 100 - the only index that had not turned its daily trend down (and therefore targeted a rally to new highs before a larger-degree sell-off could take hold) - surging to new highs and spiking above its weekly *LHR...* represent the 'final car' (in a train of cars, as in a wooden rollercoaster) passing the summit and preparing to reverse down.

That would fulfill what was described last week and usher in the time for all the indices to suffer a sharper decline in the weeks that follow.

Leading the pack, the Transports have already dropped over 7% after key indexes fulfilled analysis

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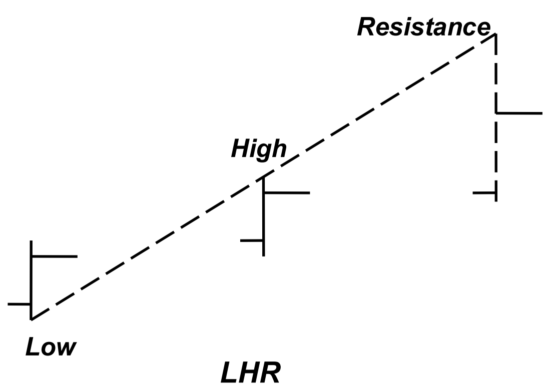

LHR (and its inverse - the *HLS*) is an effective means of measuring an extreme** in any market. This often culminates a dynamic '3' or 'C' wave rally and warns of an impending top. A weekly *LHR* is often tested within 1 - 3 *weeks* of a final peak. A daily *LHR* is often tested within 1 - 3 *days* of a final peak, etc.

[**'Extreme' is relative/proportional. A daily extreme does not compare to the magnitude of a monthly extreme and would only indicate a trend, acceleration and/or a reversal on a short-term basis. *Do not mix apples with bigger apples.* This indicator is limited in scope and should be used in conjunction with others.]

for an intermediate peak and reversal lower on **Jan. 20 - 24** - the latest phase of an *11 - 12 Week* high-high-high-high-low-low-low-low-high-(high) *Cycle Progression*.

At that time, they also fulfilled their weekly LHR...

In most indexes (all three primary indexes and many others), they experienced successively smaller corrections in May '19, then July/Aug. '19, then late-Sept./early-Oct. '19, then late-Nov./early-Dec. '19 and finally in late-Dec. '19/early-Jan. '20.

Then, in late-Jan. '20, they suffered sell-offs that exceeded the magnitudes of both the Dec./Jan. and the Nov./Dec. corrections… ***warning of an impending peak***.

That *4-Shadow* signal projects a subsequent rally - some to new highs, some to equal highs (double tops) and some to lower highs - followed by a sharper sell-off… In many respects, it is like a *Perfect Storm* of critical indicators reaching fruition… and setting the stage for a larger-magnitude (3 - 5 week instead of 3 - 5 day) correction."

The preceding is an excerpt of the Feb. 5, 2020 ***Weekly Re-Lay Alert*** and is another example and elaboration of the *Tech Tips* and technical analysis tutorials provided in our publications.

While this addresses several indicators projecting an impending, larger-magnitude sell-off in stock indices - after a few remaining stocks rally to new highs in the first half of Feb. '20 - the focus is on the *4-Shadow* indicator - an ominous harbinger of what should unfold in equities over the next 3 - 5 weeks (and potentially morph into something even larger).

More information on this indicator can be found in *Eric Hadik's Tech Tip Reference Library*. The ***Weekly Re-Lay*** will continue to monitor this evolving topping process - that is expected to trigger a much sharper decline in the very near future.

Uncanny cycles (weekly, *2-Year* & *40-Year*) hone this outlook and reinforce why this is labeled a *'Perfect Storm'* of bearish indicators portending a larger-magnitude sell-off in the very near future. These and other cycles & indicators are addressed separately.

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The Culminator

3-20-08 - There are two simple techniques that often warn of an impending reversal. Both deal with the final corrective move *before* the end of a trend. They are the penultimate wave… or the wave before the ultimate wave (in an overall series of waves).

One deals directly with *time* while the other focuses on *price*.

In each case the final corrective move, BEFORE a final rally (and subsequent high) or decline (and subsequent low), is actually a strong indication (*foreshadowing*) of what is to come.

This move is commonly known in Elliott Wave terminology as ***Wave 4*** (see '4' in the diagram above).

*Thus the name **4-Shadow**.*

In a typical uptrend, the market spends far more *time* in a rallying mode then it does declining. When it does retrace, the corrections are usually violent and sudden -- correcting an overbought condition in a matter of days or weeks.

On the monthly charts, the 1987 'crash' in the S+P is a perfect example of this...

During an authentic bear market, conversely, the *upward* corrections would have been swift and substantial -- often retracing the entire extent of a preceding decline in 10-20% of the time it took to drop.

These sharp corrections reflect the ultimate in emotional trading - a panic move based on some surprise event or expectation - without the underlying trend (or fundamentals) actually changing.

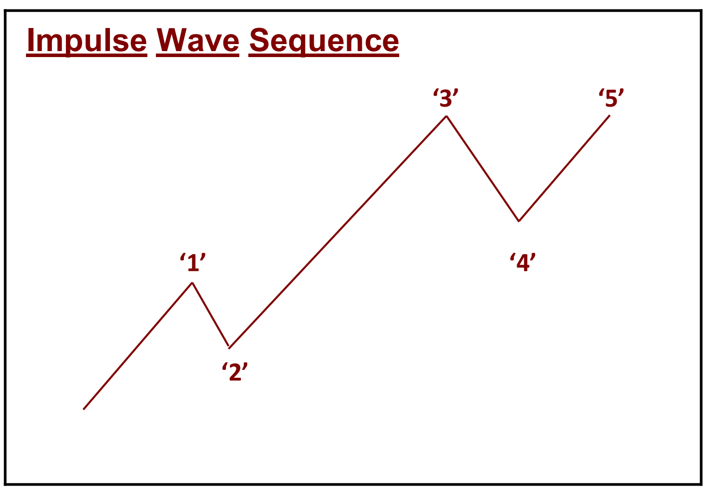
Another example was described in late-1999, shortly after this pattern was first published. It was cited as a means of testing and validating this signal in real time. To quote from 1999:

> "*The Stock Indices are another and have completed a decline which exceeded the magnitude of all prior ones for the last 7 years (in percentage terms).*
>
> *The ensuing rally (from March 1998 on) is likely to be the final one in this overall wave structure, before a larger-degree correction.*
>
> *Though this may not be as concise of an indicator as some, it is very valuable particularly to traders anticipating a major top or bottom."*

History shows that this assessment was accurate as Stock Indices peaked in early-2000 and then entered a 2.5 year bear market.

Last year, Stock Indices did the same thing in July/August 2007, setting the stage for a major peak when the preceding high (July 2007 top) was exceeded.

The interesting thing about this *4-Shadow* signal is



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that it coincided with an extensive discussion - throughout 2007 - of the ***17-Year Cycle*** & ***34-Year Cycle*** of Stock Index and economic crashes.

The cycle projections are for a 1--3 year bear market, capable of seeing a 50% drop in the Stock Indices (just as they did in 1973--1974), beginning in late-2007. This cycle analysis coincided perfectly with this *4-Shadow* signal - creating a more synergetic signal for a top.

Stock Indices have already fulfilled the *4-Shadow* signal - rallying to a slight new high in October and reversing lower.

This also means they have initially validated the ***17-Year*** & ***34-Year Cycles***, as well. They topped on October 11, 2007 - EXACTLY ***17 Years*** from when this bull market began on October 11, 1990.

And, they have already dropped farther than the July/August decline, the best confirmation of a *4-Shadow* signal. So, the outlook for Stock Indices is very negative for the second half of 2008… and beyond. -- End excerpt from *TTRL*

This excerpt from the March '08 edition of *Eric Hadik's Tech Tip Reference Library* explains the basics of the *4-Shadow* indicator, emphasizing the overall pattern that usually unfolds before a sharp sell-off.

While these examples describe even larger magnitude *4-Shadow* signals (late-1999 and Oct. 2007) and the ensuing sell-offs, they describe a similar pattern to what is unfolding in Stock Indexes during 1Q '20 - resulting in the conclusion that "*the DJIA could suffer its sharpest drop in 6 - 12 months and complete it before the end of 1Q 2020*". *Hold on tight!*

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