

## Searching For That Important Bottom

Tuesday, February 27, 2001

The technical of the STI has come to a vital period, again. If we can rely on weekly cycle patterns, a weekly bottom should be found in the week ending 2/3/2001. (*Weekly charts use the opening data at the beginning of a week, usually a Monday unless it is a market holiday, as the weekly open, and the closing on Friday as the weekly close.*)

### *What cycle?*

From the week where we found the post-1987 low of 805 points on 4/9/1998, the STI has created important medium term tops and bottoms with a weekly cycle pattern.

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|---------------------------------------|--|
| (1) Weekly bottom found on 4/9/1998   | - 805.0.                               |
| (2) Weekly bottom found on 12/2/1999  | - 1354.8, which was 22 weeks from (1). |
| (3) Weekly bottom found on 23/7/1999  | - 1990.1, which was 22 weeks from (2). |
| (4) Weekly top found on 30/12/1999    | - 2479.6, which was 22 weeks from (3). |
| (5) Weekly bottom found on 26/5/2000  | - 1820.6, which was 20 weeks from (4). |
| (6) Weekly bottom found on 13/10/2000 | - 1860.4, which was 19 weeks from (5). |

The week ending 2/3/2001 will be 19 weeks from (6).

### *Possible variations*

To illustrate possible variations in the number of weeks in a cycle, let us put the interval figures in a straight line. The first 5 are the repetitions so far. The last, which is underlined, is the projection.

22 – 22 – 22 – 20 – 19 – 19 (?)

The count can also be, 22 – 22 – 22 – 20 – 19 – 18, basing on a shortening pattern. This would make last Friday, 23/2/2001, with 1946.9 the bottom for the current count. To verify this, we must have a higher closing this Friday.

Or, the count can also be, 22 – 22 – 22 – 20 – 19 – 20, if the original pattern is restoring. If this is the case, the weekly bottom will be found on 9/3/2001, which means the prevailing weakness can still dominate daily trends.

### *What is the significance?*

Technical analysis is the method to identify entry and exit levels for trades and the timing for such actions. With the observed weekly pattern already repeating 5 times to create important top and bottoms in the STI, the likelihood that it is to repeat again to create an important bottom is too vital to be ignored.

### *Detailed application*

The presumption that a weekly bottom will be found in the 19<sup>th</sup> week since the last repetition does not guarantee that the lowest daily data will be found within the week. The lowest daily data can also be found in the next week. As long as the weekly chart closes higher, the daily data in the higher week is allowed to be lower than the current week's close. Therefore, one has to fall back to a daily chart to identify the lowest day within the 2 weeks.

### ***The shortcomings of a cycle pattern***

While a pattern, as the one observed to have created important weekly top and bottoms in the medium term for the STI, can be relied on to check a trend turning point, it cannot, also as observed, be relied on to specify the trend within the cycle periods. For example, when a bottom was created in the week ended on 26/5/2000, at 1820.6, the cycle pattern fetched us accurately the timing of the next bottom in the week ended on 13/10/2000. However, it could not have forecast that the next bottom was only almost 40 points higher at 1860.4, while within the cycle, the peak was another 325 points higher at 2185.5. Therefore, while one may be able to rely on the cycle counting to zoom in on the important dates of tops and bottoms, one cannot rely on it to forecast the level of the next top or bottom. Cycle counting is only half of the complete combination of technical applications.

### ***For now.....***

Relying on this observation that an important weekly bottom is to be found in the current week - or, an important daily bottom by 8/3/2001, next Thursday (next Friday has to be higher if the 19 week pattern is intact) - it is only natural that any weakness, such as the prevailing one, can drive the market southwards "without a reason".

Although it is mentioned earlier that a cycle, other than accurately pinpointing a date, cannot forecast the entire trend within the next cycle, an identification of a bottom may nevertheless present a golden opportunity for short-term traders. Without fail for the past repetitions, at least a strong technical rebound followed the cycle bottom. The gain can be quite sizeable.

Therefore, watch the market closely for the next 7 days. A short-term gold mine is just somewhere around the corner.