

# GLOBAL MARKET **PERSPECTIVE**



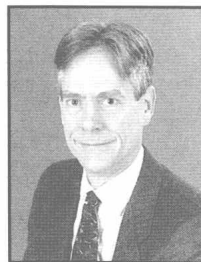
STOCK MARKETS  
CURRENCIES  
INTEREST RATES  
GOLD  
ENERGY  
ECONOMIC OUTLOOK

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JANUARY 2010

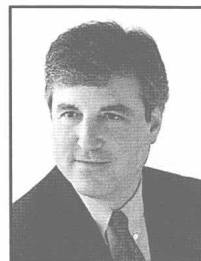
### **Robert R. Prechter, Jr., CMT**

The founder and president of Elliott Wave International, Robert R. Prechter, Jr., has been publishing Elliott Wave commentary since 1976. During the 1980s, Prechter won numerous awards for market timing as well as the United States Trading Championship, culminating in Financial News Network (now CNBC) granting him the title, "Guru of the Decade." Bob served for ten years on the Board of Directors of the national Market Technicians Association and in 1990 was elected its president. He also served on the Board of Directors of the Foundation for the Study of Cycles and is a member of Mensa and Intertel. Before starting out independently, Bob worked with the Merrill Lynch Market Analysis Department in New York as a Technical Market Specialist. He obtained his degree in psychology from Yale University in 1971. Bob serves as managing editor of *Global Market Perspective*.



### **Steven Hochberg**

Steven Hochberg began his professional career with Merrill Lynch and joined Elliott Wave International in 1994, providing institutional commentary for global markets. He can be heard as a regular guest commentator each Thursday morning on [www.webfn.com](http://www.webfn.com). Steven is a graduate of the University of Vermont and received his MBA degree from Northeastern University. For *Global Market Perspective*, Steven provides commentary on the U.S. stocks and precious metals markets. He also edits the *Elliott Wave Short Term Update*.



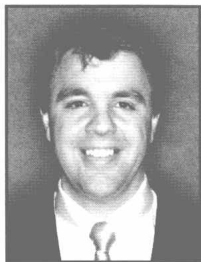
### **Robert Kelley**

Robert Kelley began his career in 1987 as a futures broker. He joined EWI in 1990 and edited *The Elliott Wave Short Term Update*, the *Currency and Commodity Hotline* and the currency section of *The Elliott Wave Currency and Commodity Forecast* newsletter. In 1994, he left EWI for New York to become a Vice President of JP Morgan (Securities), where he was in charge of the technical market research department. He later served as a consultant for HSBC Securities and thereafter developed a proprietary options trading system. In May 2000, Robert rejoined EWI where he now provides analysis for the World Stock Index for *Global Market Perspective* and daily and intraday analysis for the on-line *Specialty Services Stocks* coverage.



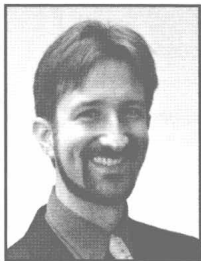
### **Brian Whitmer**

Brian Whitmer's analytical proficiency extends to two professions: He received a degree in civil engineering from the University of Maryland and has served as a designer, planner, and project manager for \$100-million-plus civil and residential developments. Brian also is an Elliott-savvy technical analyst who is proficient in socionomics, the science of history and social prediction. He describes himself as self-educated in Austrian economics and thus well-versed in the *mis*understandings of mainstream economics. Joining Elliott Wave International in 2009, Brian serves as editor of *The European Financial Forecast* and contributes the European stock section of *Global Market Perspective*.



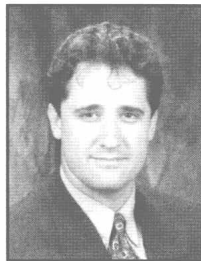
### **Mark Galasiewski**

Mark Galasiewski (gala-SHEV-ski) began his analytical career in 2001, researching company fundamentals at an institutional brokerage in Stamford, Connecticut. After joining Elliott Wave International in 2005, Mark contributed to Robert Prechter's *Elliott Wave Theorist* before joining EWI's *Global Market Perspective* team covering Asian stock indexes. For six years during the 1990s he lived in Japan, where he observed that country's extended bear market first-hand. Mark has traveled to many of the countries whose markets he analyzes. A graduate of Middlebury College in East Asian Studies, he is fluent in Japanese and conversant in Mandarin Chinese.



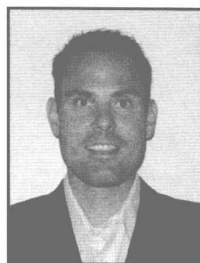
### **William F. Fox**

Bill Fox originally joined Elliott Wave International in 1994 after managing assets for the institutional trust division of SunTrust Bank. He has also managed futures money for a diverse clientele. Bill has been involved in market analysis since graduating in 1988 from Vanderbilt University, where he received a Bachelor of Arts degree with a major in Communication. For *Global Market Perspective*, Bill provides commentary on the European fixed-income markets. He also provides full coverage of European fixed-income markets for EWI's on-line *Specialty Services Interest Rates* coverage.



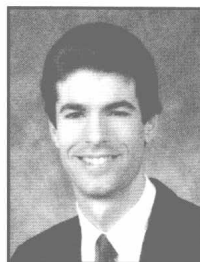
### **Jason Farkas**

A chance reading of a book on technical analysis and the Austrian school of economics eventually led Jason Farkas, to Elliott Wave International. Prior to joining EWI, Jason worked for 14 years as a futures, options and equity trader as well as a technical analyst and advisor. Jason is a Chartered Market Technician, with a background in finance, accounting and quantitative methods. He has been tutored by some of the best investment minds, including legendary trader Dick Diamond. A triathlete and Phoenix native, Jason is an avid student of financial markets and market psychology with a keen interest in proper position-sizing and risk controls, which help to differentiate gambling from speculating in investment markets.



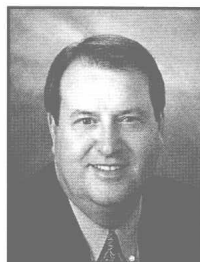
### **Jim Martens**

Jim Martens began using the Elliott Wave Principle in 1985 and by 1989 was making insightful market calls for his metals trader colleagues on the Commodity Exchange Center in New York. Jim joined Elliott Wave International in 1993 as a commodity specialist. He also oversaw EWI's currency analysis before joining Nexus Capital Ltd., a Soros-affiliated hedge fund in 2001. He rejoined EWI in 2005. Jim received a degree in finance from Florida Atlantic University. He covers currency relationships for *Global Market Perspective* and provides full coverage of dollar rates and major cross rates in EWI's on-line *Specialty Services Currencies* coverage.



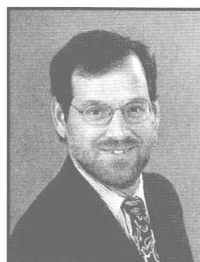
### **Steven Craig**

Steve has been involved with the energy industry for well over a decade and joined EWI in January 2001 as senior energy analyst. His industry focus was on trading and risk management, and he is intimately familiar with the production and consumption side of the business. Steve's most recent positions were at Central and South West (now American Electric Power) and with Kerr-McGee. His extensive experience with the physical and financial aspects of crude oil, natural gas and electricity adds a valuable dimension to his analytical approach. He is responsible for EWI's on-line *Specialty Services Energy* coverage, and his crude oil and natural gas views are featured each month in *Global Market Perspective*.



### **Peter M. Kendall**

Peter Kendall served as a financial reporter and columnist from 1983 to 1992. He wrote the "On the Money," a column for *The Business Journal* from 1991 to 1997. Pete joined Elliott Wave International as a researcher in 1992 and has been contributing to GMP since 1995. Pete is Director of EWI's Center for Cultural Studies, where he focuses on popular culture and the new science of socionomics. Pete graduated from Miami University in Oxford, Ohio with a degree in Business Administration. For *Global Market Perspective*, Pete provides commentary on cultural trends, the economy and the U.S. stock market.



**PRECHTER'S**

## **GLOBAL MARKET PERSPECTIVE**

a publication of *Elliott Wave International*

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Institutional traders, visit [www.elliottwave.net](http://www.elliottwave.net)

Notice: The phrase "the text" refers to the book  
*Elliott Wave Principle — Key to Market Behavior*,  
published by New Classics Library.

For a capsule summary of the Wave Principle,  
see the final pages in this booklet.

For an explanation of bond notation,  
please read the paragraph  
following the glossary.

*Financial Forecast* subscribers note: The contents of  
the monthly *Financial Forecast* publications  
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## Prechter's

### GLOBAL MARKET PERSPECTIVE

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The Elliott Wave Principle is a detailed description of how financial markets behave. The description reveals that mass psychology swings from pessimism to optimism and back in a natural sequence, creating specific Elliott wave patterns in price movements. Each pattern has implications regarding the position of the market within its overall progression, past, present and future. The purpose of Elliott Wave International's market-oriented publications is to outline the progress of markets in terms of the Wave Principle and to educate interested parties in the successful application of the Wave Principle. While a course of conduct regarding investments can be formulated from such application of the Wave Principle, at no time will Elliott Wave International make specific recommendations for any specific person, and at no time may a reader, caller or viewer be justified in inferring that any such advice is intended. Investing carries risk of losses, and trading futures or options is especially risky because these instruments are highly leveraged, and traders can lose more than their initial margin funds. Information provided by Elliott Wave International is expressed in good faith, but it is not guaranteed. The market service that never makes mistakes does not exist. Long-term success trading or investing in the markets demands recognition of the fact that error and uncertainty are part of any effort to assess future probabilities. Please ask your broker or your advisor to explain all risks to you before making any trading and investing decisions.

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Our production team is indispensable in getting out each issue of GMP. For this issue, Angela Hall, Pam Greenwood, Cari Dobbins and Sally Webb handled charts, fact-checking, proofreading, layout and other details.

# MARKETS AT A GLANCE

## Stock Markets

2010 is the year the bear market in stocks returns in full force. Now is the time to move funds that are still in risky assets into safe investments, as discussed in *Conquer the Crash*. A major stock market decline will be accompanied by a reversal of the narrowing trend in credit spreads. In time, the spread between high-and low-grade bonds should experience a record widening. The DAX, the CAC 40 and the Eurostoxx 50 have erased the non-confirmations that we discussed last month by surpassing their October highs. The latest rally, however, is weak in terms of volume and narrow in terms of breadth. Near term, the wave pattern has options that allow for additional upside. But long term, the wave pattern is clear, and investors should position themselves for a massive down year in 2010. Most major Asian Pacific indexes are near the end of final leg of their multi-month advances.

## Interest Rates

A major stock market decline will be accompanied by a reversal of the narrowing trend in credit spreads. In time, the spread between high-and low-grade bonds should experience a record widening. We anticipate substantially higher yields in the UK and Germany through Q2 2010; JGBs should benefit from a renewed carry trade.

## Currencies

Although the U.S. dollar's setback in 2009 followed different paths against different currencies, most of the patterns support a strong dollar outlook for 2010. The euro appears to have reversed its year-long uptrend against the dollar. The European currency should work its way lower over the next several months, if not longer.

## Metals & Energy

Gold's downward reversal in December is real and prices should work their way steadily lower in 2010. The target remains "below \$680." Silver's high last month creates a double non-confirmation relative to gold; it should also decline throughout the year.

Crude is at a crossroads of sorts, but the 2009 advance should carry well into 2010. Further gains are likely in Natural Gas, but it remains a difficult market to dissect.

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*Global Market Perspective* provides a “snapshot” of EWI’s long-term market opinions on Thursday before publication day. The pictures presented here are updated as needed throughout the month in EWI’s on-line *Specialty Services* products for professional and individual investors, which includes intermediate and long-term market analysis. To access this timely information for the market(s) you follow, please visit our *Specialty Services* selection tool ([www.elliottwave.com/wave/SS\\_GMP](http://www.elliottwave.com/wave/SS_GMP)) or call customer service at either 1-800-336-1618 (U.S.), or 770-536-0309 (international).

This report utilizes data through January 7, 2010.

### EDITOR’S NOTE

Both private and institutional investors need analysis based upon ideas that work, analysis that provides a high percentage of useful observations and accurate conclusions. Projecting today’s conditions, trends and relationships into the future will result in errors of judgment at the worst possible times. “Diversification” for its own sake can provide some protection, but the more it is practiced, the closer one’s performance comes to achieving mediocrity.

In contrast, analysis of market behavior delivers what it promises: a sensible basis upon which to make sound investment decisions, reduce dangerous exposure and protect against risk. Such an approach provides for fewer errors, more successes, and overall, an edge over the competition. Thank you for adding *Global Market Perspective* to your decision-making process.

Sincerely,

Robert R. Prechter, Jr.

## ANNOUNCEMENTS

Now is the time to sign up for Steve Hochberg's upcoming workshop at the World Money Show February 3-6 at the Gaylord Palms Resort in **Orlando**, FL. Meet Steve and get EWI's most up-to-the-minute forecast, all for free at <http://www.elliottwave.com/wave/1002MS>.

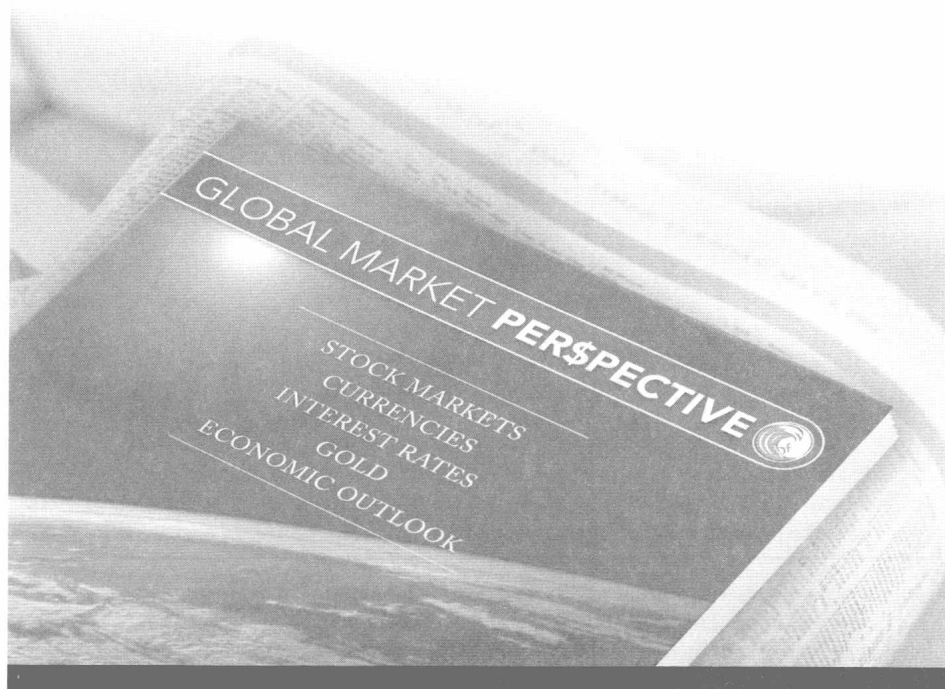
Back by popular demand: Order EWI's classic 10-DVD Educational Video Series, hailed as "*the finest Elliott wave material ever produced*," and get four bonus online courses plus a seat for the exclusive online Q&A session February 17 with EWI Senior Tutorial Instructor Wayne Gorman. Save \$500 now with this special offer: <http://www.elliottwave.com/wave/DVDEducation>.

There are only a few days left to sign up for EWI's live two-day trading tutorial, "*How to Trade in a Bear Market*," which stops January 18-19 in **London**, January 21-22 in **Paris**, and January 28-29 in **Zurich**. Attend this seminar now, so you will be ready for the next wave down. Learn more, read attendee feedback and reserve your seat: <http://www.elliottwave.com/wave/EWTutorialTour>.

*Asian-Pacific Financial Forecast* editor Mark Galasiewski presents "An Elliott Wave Perspective on the Middle East" at an upcoming conference in **Cairo**, Egypt on January 29. Learn more and register to attend: <http://www.elliottwave.com/wave/fmf-egypt>.

EWI's new 42-page trading eBook by Wayne Gorman, *How to Use the Elliott Wave Principle to Improve Your Options Trading Strategies—Vertical Spreads*, is now available: <http://www.elliottwave.com/wave/Options1eBook>.

# WORLD STOCK MARKETS



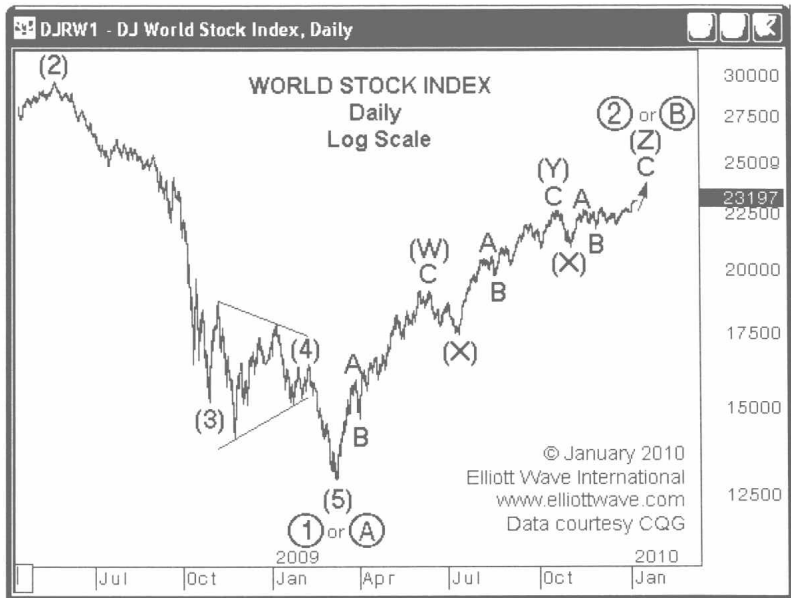
## STOCK MARKETS AROUND THE WORLD

2010 is the year the bear market in stocks returns in full force. Now is the time to move funds that are still in risky assets into safe investments, as discussed in *Conquer the Crash*. A major stock market decline will be accompanied by a reversal of the narrowing trend in credit spreads. In time, the spread between high-and low-grade bonds should experience a record widening. The DAX, the CAC 40 and the Eurostoxx 50 have erased the non-confirmations that we discussed last month by surpassing their October highs. The latest rally, however, is weak in terms of volume and narrow in terms of breadth. Near term, the wave pattern has options that allow for additional upside. But long term, the wave pattern is clear, and investors should position themselves for a massive down year in 2010. Most major Asian Pacific indexes are near the end of final leg of their multi-month advances.

Most of this Stock Market section presents the same long-term analyses that we include and continuously update as part of our daily and intraday on-line *Specialty Services*. Be advised that these opinions can change intramonth, in which case we make them instantly in *Specialty Services*.

Subscribers who desire constant monitoring of the outlook for stocks for all time horizons, including daily and intraday, should visit our *Specialty Services* selection tool ([www.elliottwave.com/wave/SS\\_GMP](http://www.elliottwave.com/wave/SS_GMP)) or call customer service at either 1-800-336-1618 (U.S.), or 770-536-0309 (international).

## WORLD STOCK INDEX



Given the lack of impulsive decline and new recovery highs, we've adjusted our wave count in the World Stock index. A third and final zigzag from the March low is unfolding, and it should take the index modestly higher before the bear market rally is complete. Within the third zigzag, we'll look to count five waves up from the late November B wave low to pinpoint a top; prices appear to be about half way through that sequence. This implies perhaps another month of advance, with prices likely pushing in to the 240-245 area. The trend will be considered up as long as the 221 area is not violated.

## THE UNITED STATES

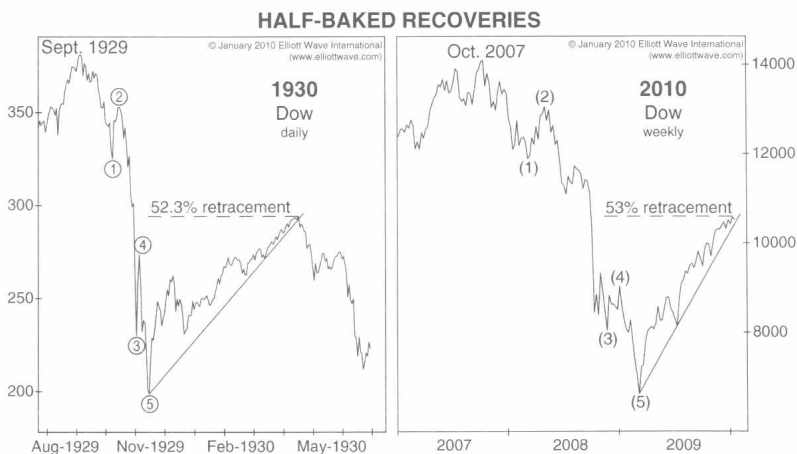
The message of the Wave Principle for early 2010 is just the opposite of what it was for early 2009, when a nearly complete Primary-degree decline indicated that a bear market rally was approaching. That rally, Primary wave ② up from March, is in its very late stages. Once top tick is confirmed, stocks will fall harder and faster than they did throughout 2008. Subscribers need to keep in mind that wave ③ will not take as long as wave ① to generate intense downside momentum. Third waves are almost always stronger than first waves. In countless areas, the downtrend will jump start from where it left off near the March low. The stresses and fears that dominated the financial scene through the winter of 2008-2009 should resume in short order.

The July issue contains a chart (see page 11) that shows the negative performance of the Dow Industrials, NASDAQ and DJIA/Gold ratio over the past decade. When priced in real money, i.e., in gold, the DJIA declined 84% from its July 1999 peak. People are finally starting to notice, at least when it comes to the headline numbers. The Wall Street Journal reports that in nominal terms, i.e., in U.S. dollars, the past calendar decade sports the worst stock market performance in two centuries of recorded stock-market history. For 10 years, holding cash, EWI's main investment recommendation, has outperformed equities by a wide margin. Safety pays in a bear market of large degree; Primary wave ③ will drive home the full meaning of this maxim.

### Elliott Wave Analysis

The rise from November 2 is wave (Z), the final zigzag (see text, p.42) in a triple zigzag upward correction that started at the March low. When it ends, Primary wave ② will be complete. The Dow sports multiple overlapping waves since mid-November, reflecting the loss of upside momentum. This week's closing high brings the index to a 53% retracement of wave ①, which is nearly the same percentage retracement as the 52.3% registered by the countertrend rally following the crash of 1929. The Dow fell 86% over the next 27 months.

The two charts below show a similar form to each period's decline as well as the subsequent countertrend rally. In 1929-1930, the bear-market rally crawled up a well-defined support line with comparatively shallower pullbacks until a terminal upward burst on April 17, 1930 marked top tick. Prices closed under the support line shortly thereafter and never looked back, as the strongest portion of the bear market then developed. Now, the Primary-degree bear-market rally that started on March 9 has been rising similarly above a support line with shallower weekly pullbacks as the rally unfolds. A meaningful close beneath the line, which currently crosses 10,489, should usher in the next Primary-degree decline and yield a similar result.



## Momentum Consideration

An Associated Press feature cited 2000 to 2009 as the “decade of bursting bubbles.” As the decade came to a close in late December, the media continued to talk about bubbles. *Mania Chronicles* did the same thing, with one huge difference: Our commentary described the bubble era *ahead of time* and as it continued to unfold.

Bubbles are relatively rare events that tend to manifest themselves when no one is looking for them. Within the current stock rise, there is one subtle aspect that fits a bubble profile: Corrections are becoming shallow and brief. In the heat of the Great Asset

Mania, *The Elliott Wave Theorist* observed this phenomenon and surmised that the reason for it is that a mania “is not simply a bear market correcting the excesses of the investment community, but an all-encompassing event that destroys many people’s fortunes.” Prechter continued:

The scientific explanation, I expect, has to do with the disruption of a properly functioning chaotic system. Here is a quote (ellipsis omitted) from “Science Watch” in *The New York Times* of April 15, 1997:

Dr. Ary L. Goldberger, director of electrocardiology at Beth Israel [hospital], determined that healthy hearts exhibit slight fractal-like irregularities patterned variations of beating. A heart beat that seems abnormally smooth and free of fractal variations may actually signal an impending *heart attack*.” [emphasis added]





The same thing, I submit, is true of investment markets. When they become smoothly-trending and free of fractal variations, they depict an unhealthy patient and signal an impending “heart attack.”

A healthy market takes deep breaths—at least occasionally. Our chart above shows the shallow nature of corrections over the course of the past several months. The chart (on page 11) of the Dow’s rally in late 1929 and early 1930 illustrates that the tail end of that push was also remarkably free of “fractal variation.” The EWI Brand Stock Index, which includes 15 key brand stocks including Proctor & Gamble, Heinz and Unilever, illustrates how the uptrend is even smoother in some sectors. Until very recently, every correction for this index ended above the prior peak. The impending “heart attack” cannot be far away.

### **Investor Psychology**

There’s no doubt about it: The stock market bulls are back. Through the end of the year, the Investors Intelligence survey of investment advisors (InvestorsIntelligence.com) was pinned to the optimistic side, as five of the past seven weeks registered readings of at least 50% bulls. This was the longest stretch of 50+% bullish advisors since nine consecutive weeks surrounding the Cycle wave **b** high in October 2007. The near-unanimous forecast for the year ahead has the U.S. “digging itself out of a huge hole.” Here’s the headline from a typical Wall Street Journal prognosis:

### **The Case for Optimism on the Economy**

However, a subtle yet potentially important difference to the market tops in 2000 and 2007 is that the current peaking process is wiping away skepticism even faster and stronger than it generates feelings of bullishness. The percentage of bearish advisors in the Investors Intelligence survey recently fell to 15.6%, its lowest level in 22 years, since April 1987, less than five months before the market collapsed 40%. As seen in the American Association of Individual Investors survey (see chart, next page), capitulation to the market’s rally also occurred among the public, generally a more conservative