

# ICAP Technical Analysis



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08 February 2017

**08 February 2017, 3:00 pm to 4:00 pm EST**

**Ask not what a new government can tell us about the markets.**

**Ask what the markets can tell us about government.**

**Applying a market based theory of government**

**Walter J. Zimmermann Jr.**

**ICAP Technical Analysis**

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- The Matrix is a metaphor for Pure Consciousness.
- That movie is a quest by Neo for Enlightenment.
- Our goals here are far less lofty
- Our quest is to understand the intersection of markets and current events from a deeper level.

# ICAP Technical Analysis



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## Fundamental Analysis

- Markets are driven by exogenous events
- News creates the trend
- Supply and demand drives price trends
- Markets are rational

## Technical Analysis

- Markets are driven by endogenous events
- The news follows the trend
- Herding behavior drives price trends
- Markets are pre-rational

JUST A NORMAL DAY AT THE NATION'S MOST IMPORTANT FINANCIAL INSTITUTION...





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**If fish could talk...**



**Yoo-hoo! Look at us!  
We're weightless!**



**Anyone who has ever gone scuba diving will  
understand why these fish are mistaken**



## *Fish Experience*

- 'There is no such thing as water'
- 'We hover, weightless'



## *Fish Reality*

- You are immersed in water
- You are **NOT** flying



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## *Market Experience*

- 'I am waiting for news'
- There is no collective mood, only news
- And news drives price trends



## *Market Reality*

- The collective mood drives price trends
- The mood selects what is newsworthy
- So the news follows the trend

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## *Market Reality*

Price trends reflect the collective consciousness of the market



## *Government Reality*

A head of state reflects the collective consciousness of the nation.



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## *Presidential Election Cycle*

Hope for better things always peaks early on into any new administration



## *Presidential Election Cycle*

And then those hopes are invariably and utterly dashed. Why is this?

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- The head of state reflects the collective consciousness of the nation.
- The government approval rating reflects the mood of the nation.
- We get the government that we deserve.





In olden times President's were elected by, governed from, and reflected the political center



- But what happens after years of unrestricted gerrymandering and rising income inequality have destroyed the political center?
- What kind of national mood does this create?





- If the President can only reflect the collective mood of the nation...
- Then how might the President of a deeply bipolar nation behave?
- Such a President may seem fickle, and to stand for nothing.
- Such a President may change their views suddenly and often.





**4 Years of  
Democrats**



**4 Years of  
Republicans**



**4 Years of  
Democrats**



**4 Years of  
Republicans**



## Implications:

1. Markets and government both reflect the collective mood.
2. Cannot parse the collective mood from speeches and tweets of the head of state in a deeply divided nation.
3. It is more practical to peg the collective mood from market trends

So what are some key market trends?



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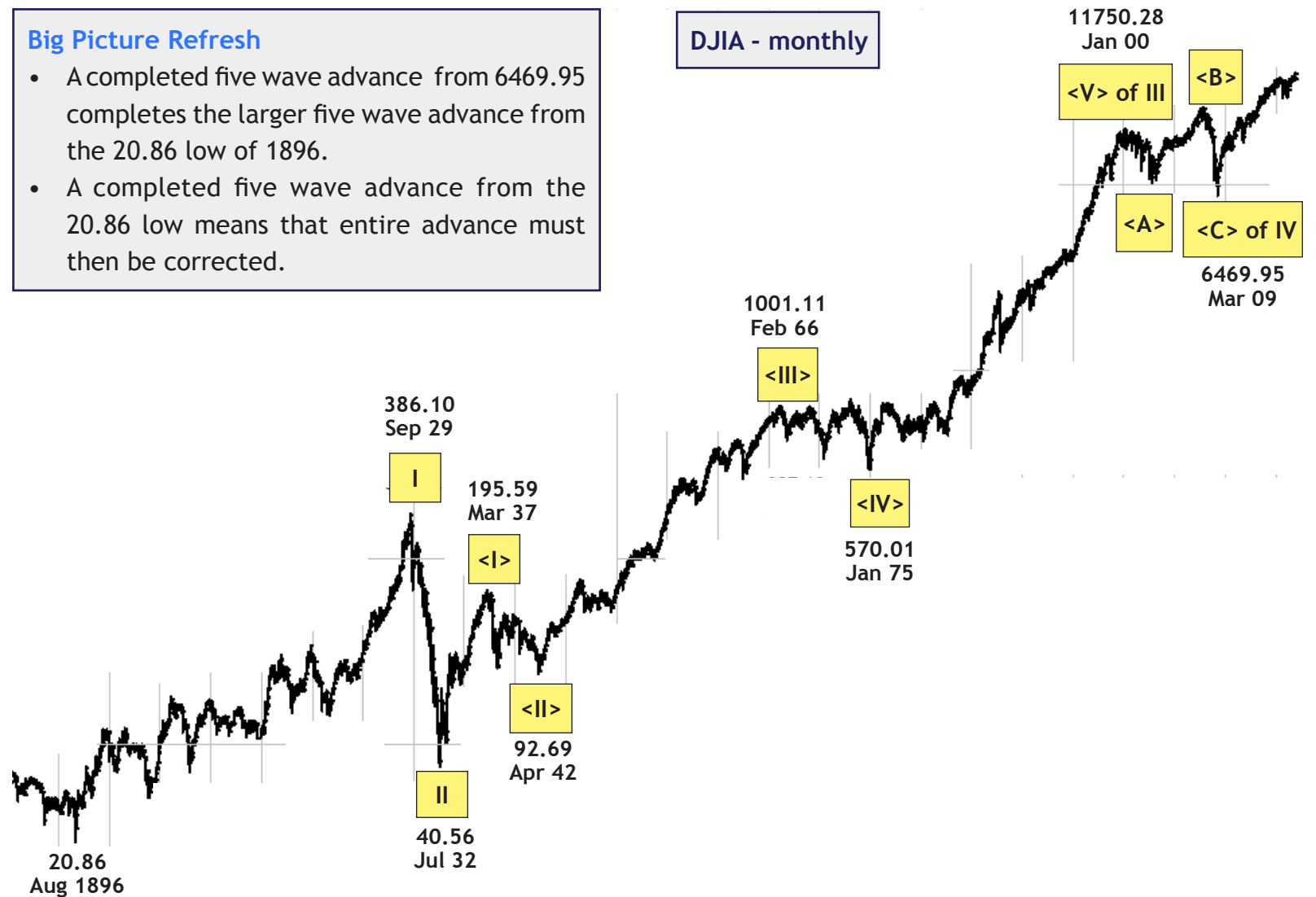
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## Big Picture Refresh

- A completed five wave advance from 6469.95 completes the larger five wave advance from the 20.86 low of 1896.
- A completed five wave advance from the 20.86 low means that entire advance must then be corrected.

## DJIA - monthly

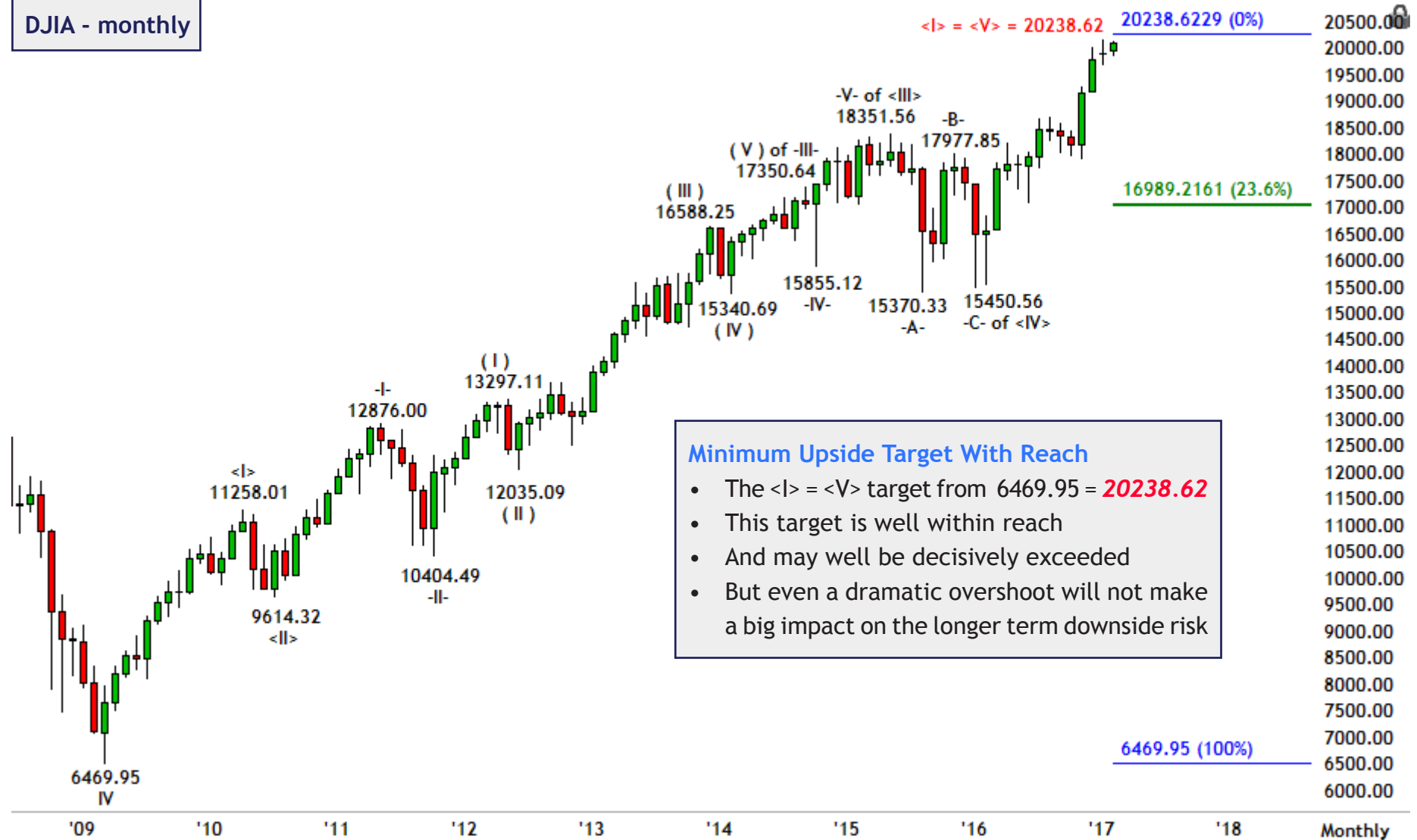


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DJIA - monthly



## Minimum Upside Target With Reach

- The  $\langle I \rangle = \langle V \rangle$  target from 6469.95 = **20238.62**
- This target is well within reach
- And may well be decisively exceeded
- But even a dramatic overshoot will not make a big impact on the longer term downside risk

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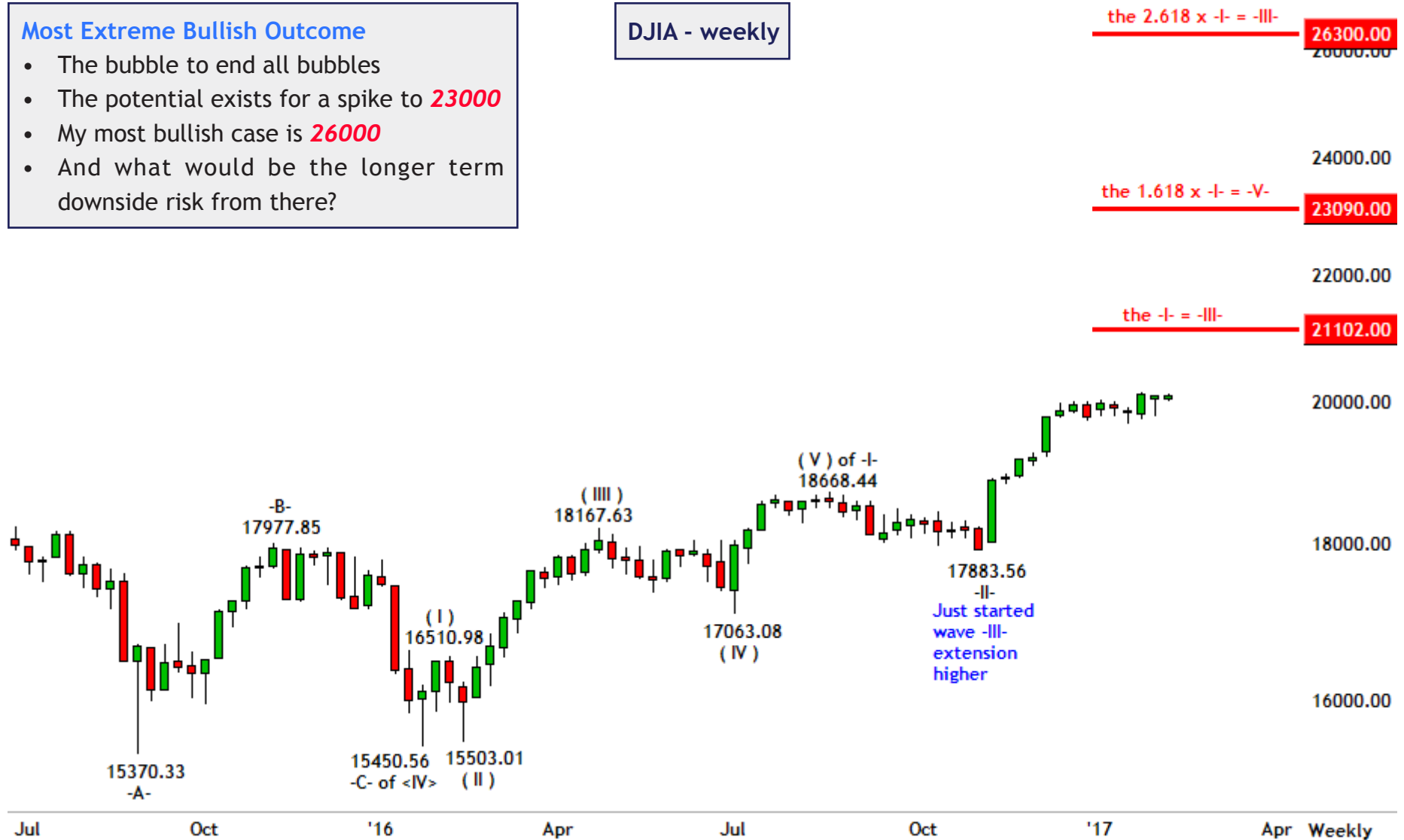
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## Most Extreme Bullish Outcome

- The bubble to end all bubbles
- The potential exists for a spike to **23000**
- My most bullish case is **26000**
- And what would be the longer term downside risk from there?

DJIA - weekly





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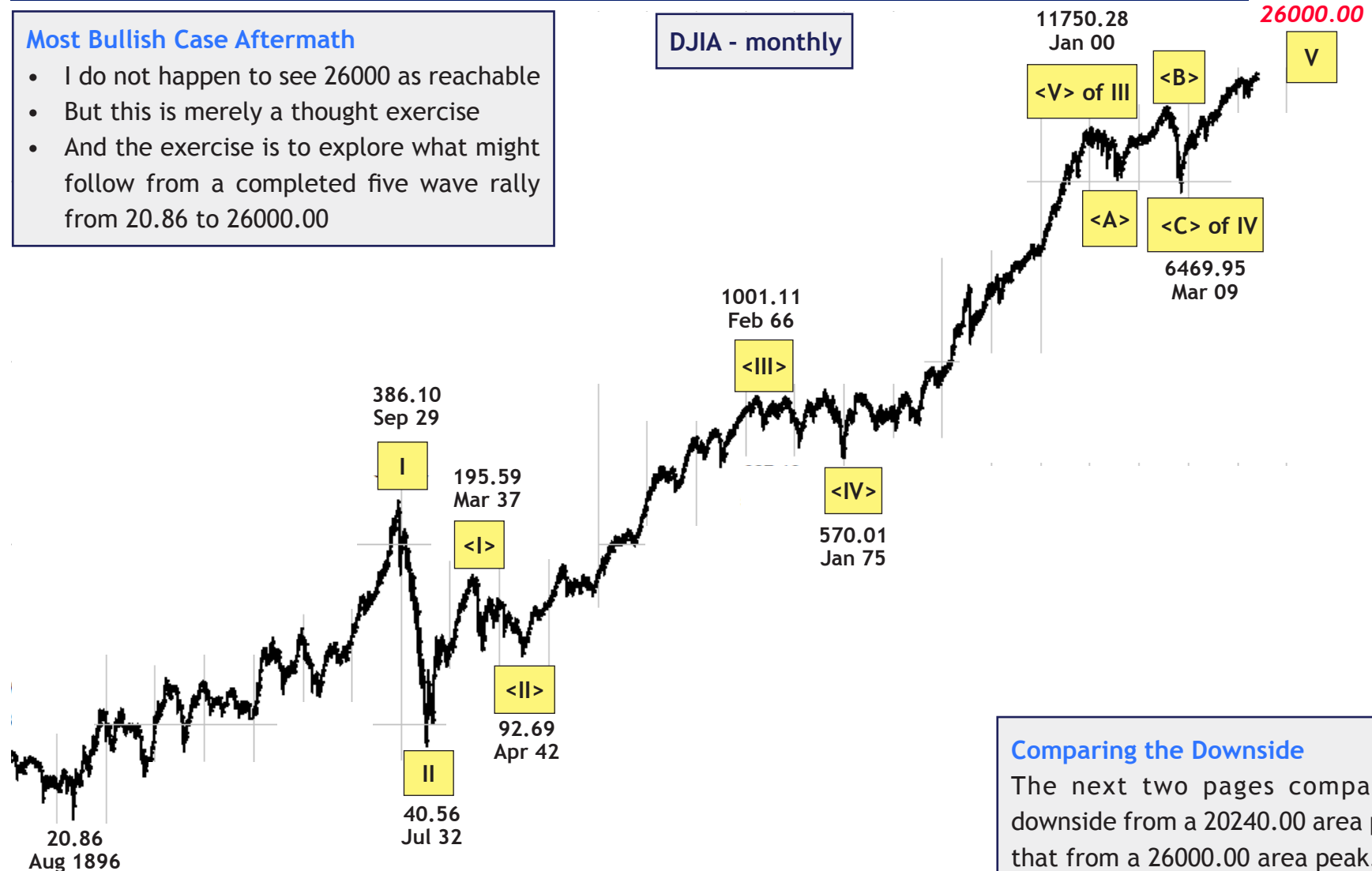
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## Most Bullish Case Aftermath

- I do not happen to see 26000 as reachable
- But this is merely a thought exercise
- And the exercise is to explore what might follow from a completed five wave rally from 20.86 to 26000.00

## DJIA - monthly



## Comparing the Downside

The next two pages compare the downside from a 20240.00 area peak to that from a 26000.00 area peak.

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From a 20240.00 area peak

- Would need a break below **15465.00** to get a long term sell signal
- The long term downside target range would be **7745.00 - 4350.00**

DJIA - monthly



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## From a 26000.00 area peak

- Would need a break below **19865.00** to get a long term sell signal
- The long term downside target range would be **9945 - 5580.00**

## DJIA - monthly







- A pure mirror like the DJIA has no free will and no personality.
- It has no choice but to spontaneously reflect the net collective mood.
- However a president brings a personality and free will to the office
- The mood of a nation never has the sameness of a monolithic block
- The personality of a president determines which aspects of the national mood gets reflected back and thereby magnified.
- Therefore a president has a profound personal responsibility.



## Two Extremes

### *Nixon*

- Brilliant but Flawed
- Combative and Vindictive
- Deeply Paranoid
- Vicious Campaigner from the start
- Employed Anger and Resentment
- Had an 'Enemies List'

### *Reagan*

- The Complete Opposite

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**Nixon Shock**

**Nixon Elected Rally**  
Peaks at 994.65  
on 02 Dec 1968

-V- of <III>  
994.65

**Dow Jones Industrial Average**  
Monthly - 1968 to 1975

( C ) of -B-  
1067.20  
Jan 1973

**Aftermath**

From Nixon's resignation in August 1974 the DJIA did not make a new high until **January 1983**

( A )  
958.12

958.12  
( B )

**Onset**

The DJIA bulls gave Nixon the benefit of the doubt until 14th May 1969. Then in one of the most memorable "Sell by May then Go Away" incidents, the bottom fell out.

May 1970  
627.40  
-A-

**37%  
loss**

**Nixon Resigns**  
09 Aug 1974

**Bear Market Ends**  
Bottoms out  
on 13 Dec 1974

570.01  
-C- of <IV>

**47%  
loss**



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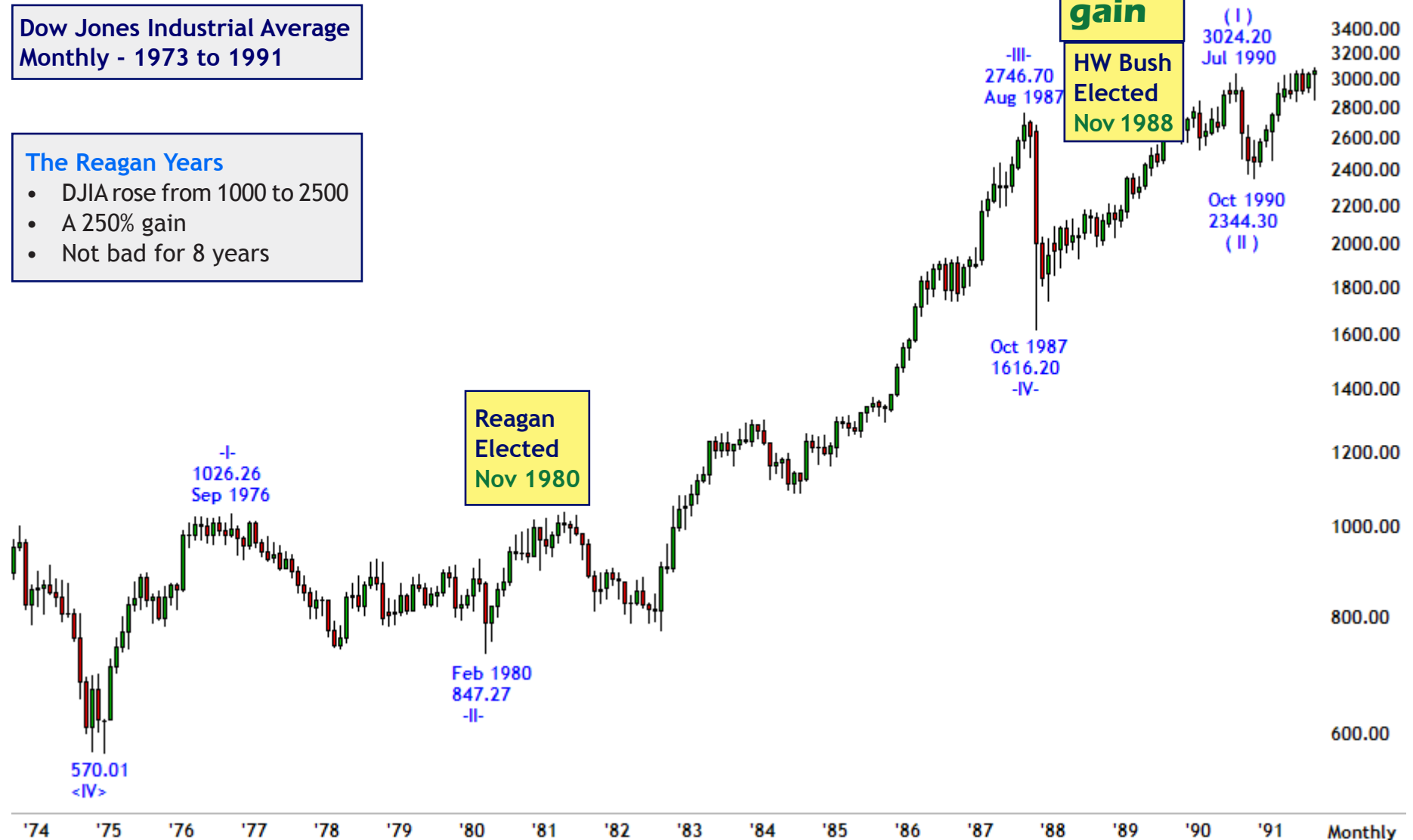
**250%  
gain**

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Dow Jones Industrial Average  
Monthly - 1973 to 1991

## The Reagan Years

- DJIA rose from 1000 to 2500
- A 250% gain
- Not bad for 8 years





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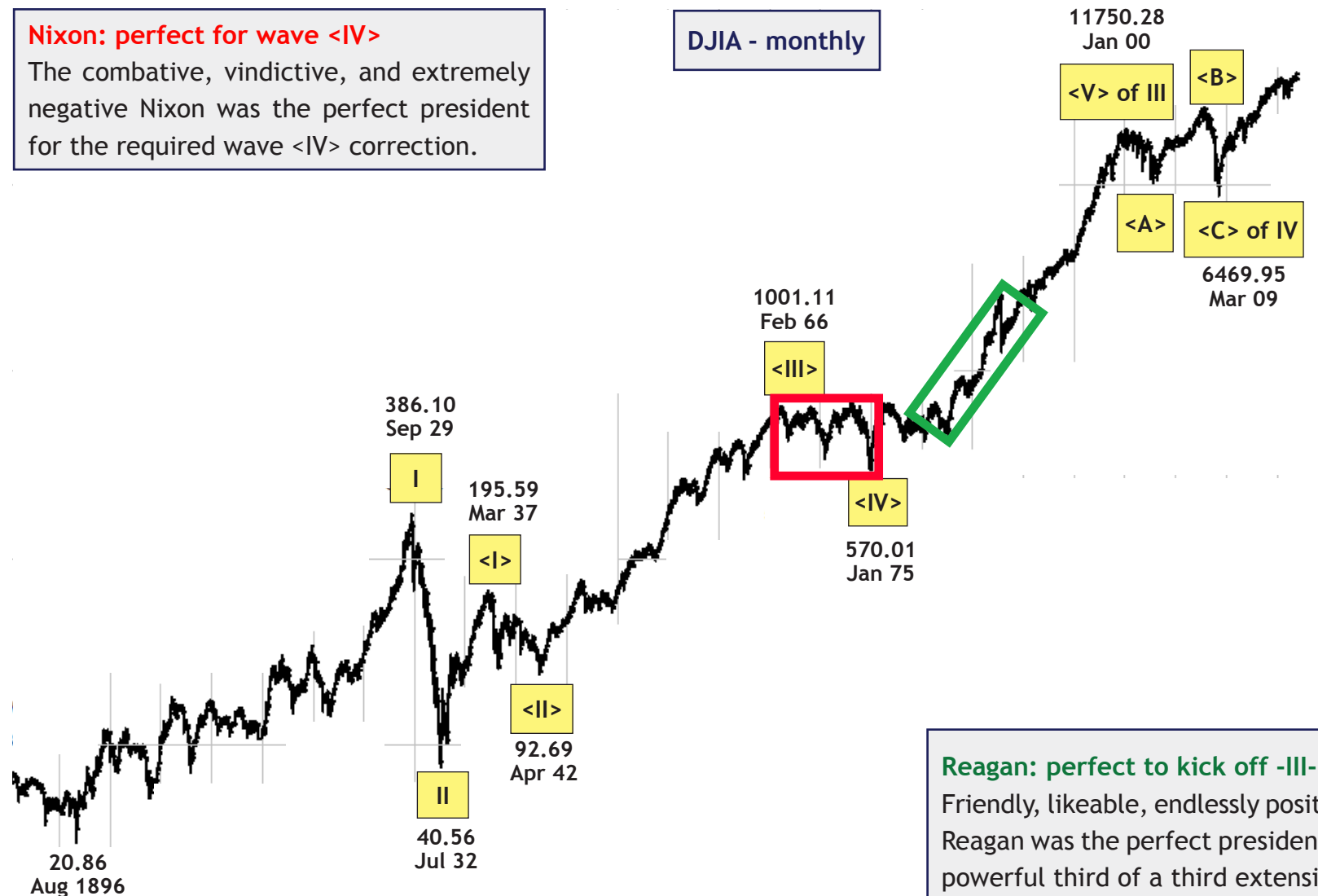
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## Nixon: perfect for wave <IV>

The combative, vindictive, and extremely negative Nixon was the perfect president for the required wave <IV> correction.

DJIA - monthly



## Reagan: perfect to kick off -III- of <V> of III

Friendly, likeable, endlessly positive and upbeat, Reagan was the perfect president to kick-off the powerful third of a third extension higher.

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## Help Wanted

Need a '*Super-Nixon*' to orchestrate the most dramatic stock market decline since the wave II from 386.10 to 40.56

## DJIA - monthly



## Also Needed

Also need the most bullish sentiment extreme since the 386.10 peak

## How to Assure a Major Down Trend

Follow the example of the Great Depression and start another tariff driven trade war.

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Market Week Pullout Yes, Dow 20,000 Does Make a Difference Page M3

**BARRON'S**  
The Dow Jones Business and Financial Weekly Vol. XCVII No. 5 barrons.com January 30, 2017 \$5.00

UP & DOWN WALL ST. • 5  
20,000 reasons  
to be wary

STREETWISE • 9  
Warren Buffett's  
\$2.95 breakfast

HEALTH-CARE PLAY • 16  
Anthem could  
jump by 30%

AUTO-PARTS TITAN • 18  
Why Magna  
is attractive

CLOUD VS. CHIPS • 20  
Microsoft looks  
better than Intel

INTERVIEW • 27  
Kotok likes oil,  
gas, bank ETFs

LIGHT ON STOCKS • S2  
Trump skeptic  
plays defense

**NEXT STOP**

**DOW  
30,000**

The Dow hitting 20,000 was no fluke. Today's stock prices are well supported by corporate earnings and economic growth. In fact, if President Trump can avoid stumbling into a trade war—or a real war—the Dow could surpass 30,000 by the year 2025.

Special Report  
PART 3 ROUNDTABLE  
17  
17 MARKET PICKS

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## ***New Kiss of Death Risk***

In addition to the “kiss of death risk” for the Greenback from the Economist, we now must deal with this, and as many key equity indices are flirting with critical resistance levels.

**Kiss of Death  
for the DJIA?**

**30 Jan 2017**

## ***Bullish Sentiment Extreme? Check***

- The bears could not possibly hope for a more graphic bullish sentiment extreme.
- And I might add, an unsustainable bullish sentiment extreme.
- This is a huge warning flag for equity bulls.



## Equities in a Tizzy over Trump

The tease of lower corporate taxes is still triumphing over the threat of a tariff driven trade war. To be bullish on the stock market from here one would must focus on the former and become oblivious to the risks of the later. After all it was a tariff driven trade war that rolled out the red carpet for the Great Depression. But who wants to remember that when equities are making new all time highs. And it seems that certain policy makers in the new administration have not simply forgotten about the checkered past of tariffs. One must assume that they never learned this bit of history. And this is precisely what one needs for history to repeat itself.

## Lower Taxes versus Higher Tariffs

Taxes are wealth redistribution systems. So any change in tax policy is a change in patterns of wealth distribution. And any legislated change in wealth distribution will have unforeseen consequences. An army of lawyers are already waiting in the wings to take advantage of any such unforeseen consequences. Higher tariffs however are a policy completely free of unintended consequences. There is never any doubt about the effect of higher tariffs. They will always act to strangle international trade. A tariff is a self-imposed sanction that is also a tax. The last two egregious examples in the USA were the 'Tariff of Abominations' of 1828 and then Herbert Hoover's equally infamous Smoot-Hawley Tariff Act of 1930.

## Tariffs Multiply Like Rabbits

What do Lay's Potato Chips and tariff acts have in common. There was that commercial for Lay's potato chips in the 1980s that went 'Bet you can't eat just one.' Tariff acts are like that. International trade being what it is, when country 'A' enacts tariffs on country 'B' the inevitable result will be that country 'B' then enacts tariffs of country 'A', and that will inevitably draw in tariffs by countries 'C', 'D', and 'E'.

## The Dual Impact of Time

The trend toward dismantling trade barriers that followed the Great Depression was the result of lessons learned from the catastrophic effect of Smoot-Hawley and its various tariff act offspring. They say that time heals all wounds. That is good. What is not so good is that time also acts to erase all lessons learned. Otherwise history could never repeat itself, or even rhyme. And this brings up to the big picture Elliott wave of the DJIA on page 12.

## Solving an Elliott Wave Mystery

The long term Elliott wave pattern signals a historic decline after the completion of a five wave advance from the 6469.95 low of March 2009. In effect, a much larger scale Great Depression is implied. But how the heck does that happen? This issue has been a real mystery. However this issue will become much less of a mystery if the era of free trade yields to an era ( error ) of tariffs.



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## Nasdaq Negative

- The Nasdaq looks about to complete a five wave advance from the Jan 2016 low.
- But it gets worse.
- See next page.

## Nasdaq - weekly



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## Help Wanted

- Very different index.
- Very similar story.
- Need a '*Super-Nixon*' to orchestrate the most dramatic dump since the bursting the Dot-Com bubble from 2000 to 2002

## Nasdaq - monthly



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Thomson Reuters Equal Weight Continuous Commodity Index - monthly

## Cycle Outlook

- The cycle outlook is an extended trading range.
- The cycle outlook is not another boom.
- The precedent from 2016 is 1986, not 2001

## The Commodity Cycle

A major low every 15 years  
A major boom every 30 years

## Next Cycle Low was Due 2016

The next cycle low was due 2016.  
That low hit in Jan 2016

## Index Components

17 futures @ 5.88% each

- |             |               |
|-------------|---------------|
| • Cattle    | • Natural Gas |
| • Cocoa     | • Platinum    |
| • Coffee    | • Silver      |
| • Copper    | • Soybeans    |
| • Corn      | • Soy Oil     |
| • Cotton    | • #11 Sugar   |
| • Crude Oil | • ULSD        |
| • Gold      | • Wheat       |
| • Hogs      |               |



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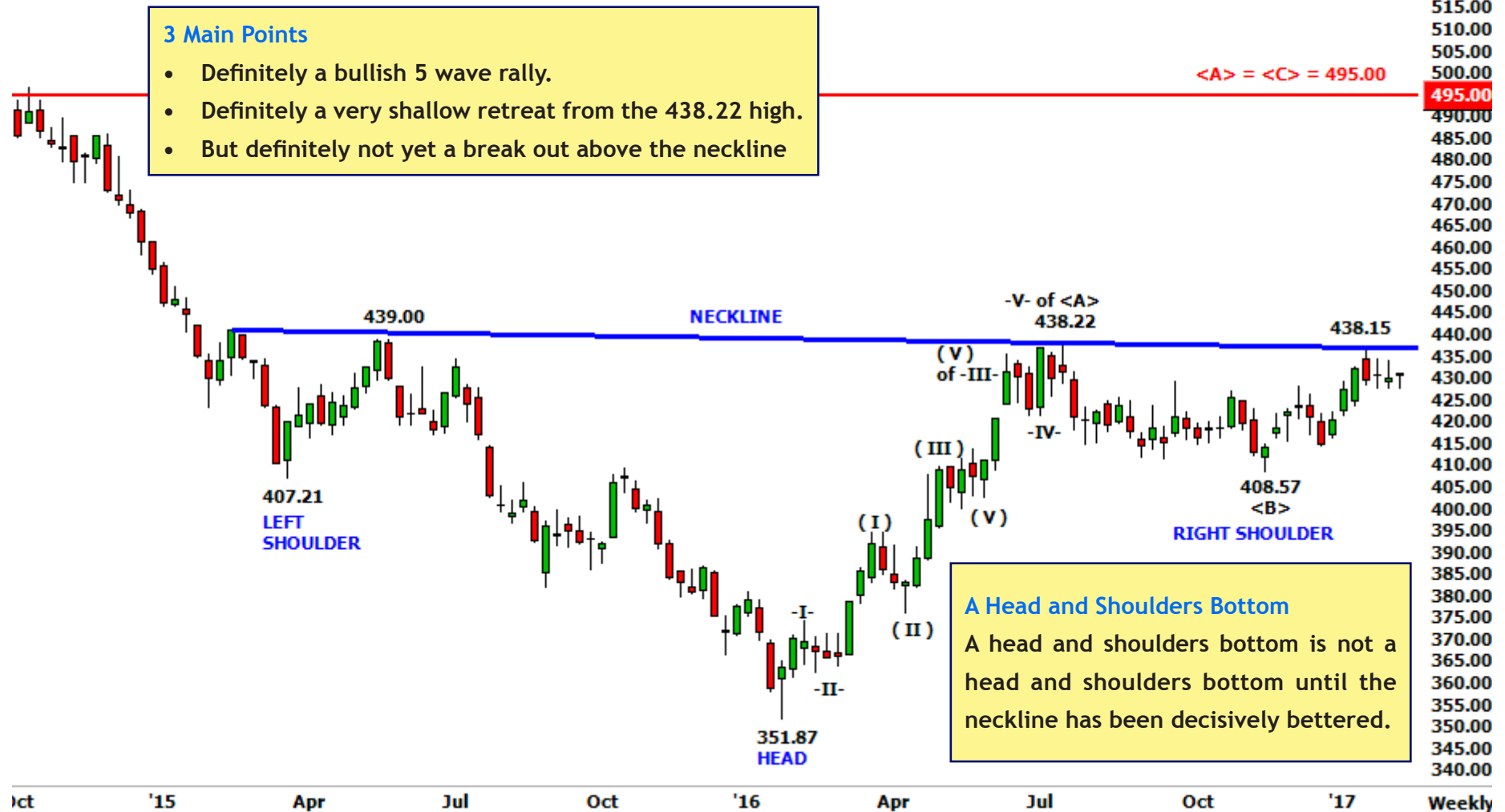
Thomson Reuters Equal Weight Continuous Commodity Index - monthly

## 3 Main Points

- Definitely a bullish 5 wave rally.
- Definitely a very shallow retreat from the 438.22 high.
- But definitely not yet a break out above the neckline

Head and Shoulders Target = 526.00

<A> = <C> = 495.00



## A Head and Shoulders Bottom

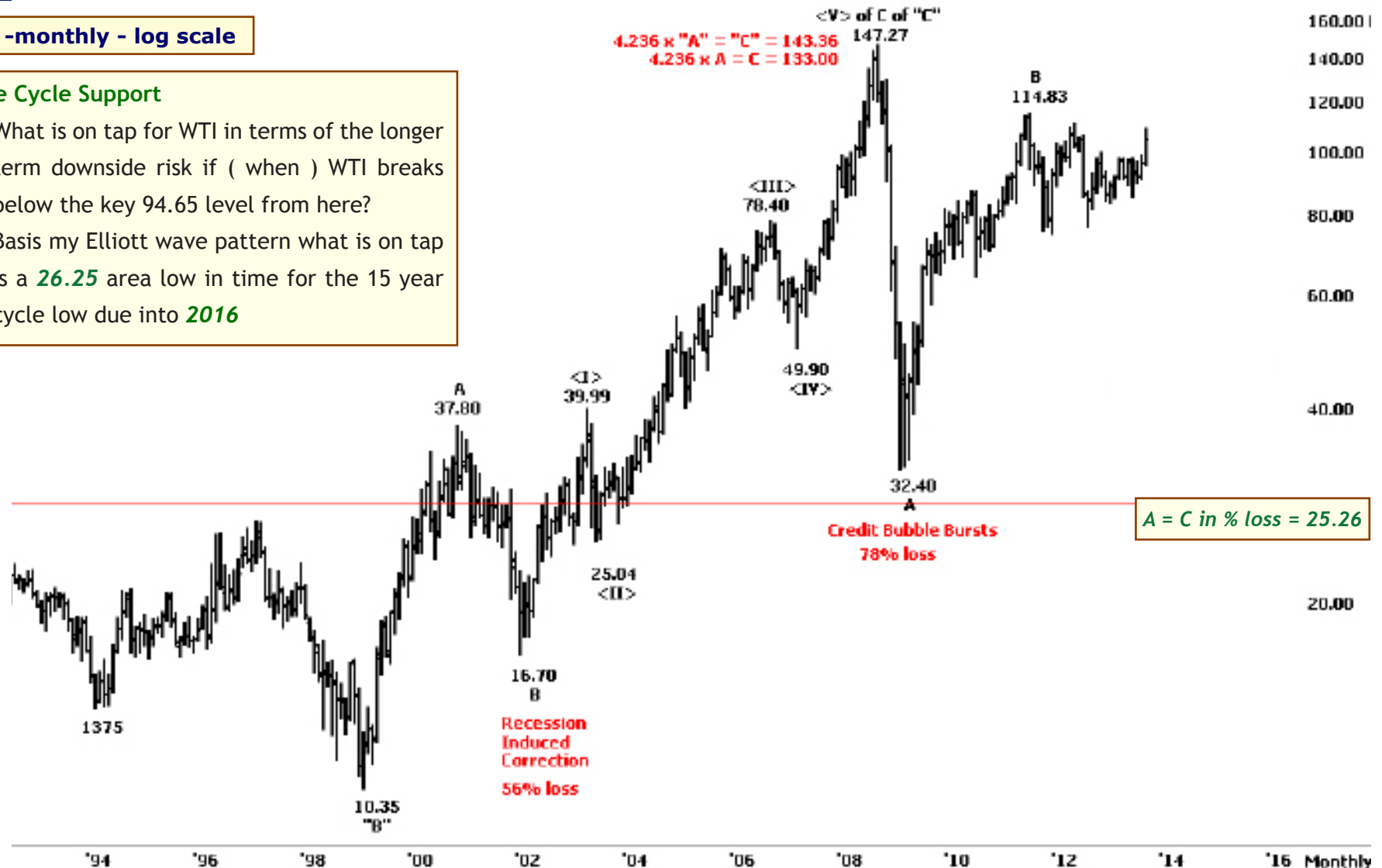
A head and shoulders bottom is not a head and shoulders bottom until the neckline has been decisively bettered.



### WTI -monthly - log scale

#### Time Cycle Support

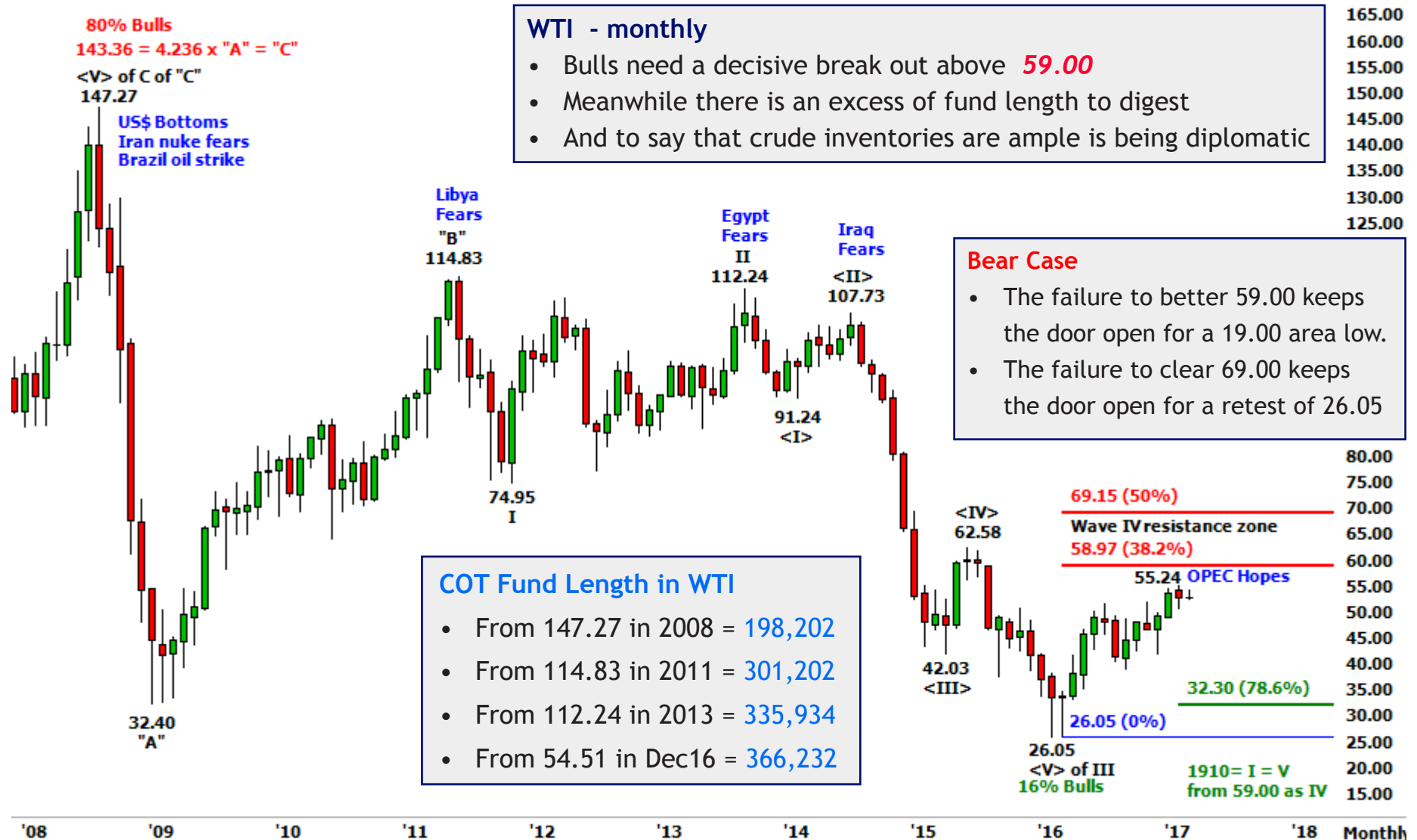
- What is on tap for WTI in terms of the longer term downside risk if ( when ) WTI breaks below the key 94.65 level from here?
- Basis my Elliott wave pattern what is on tap is a **26.25** area low in time for the 15 year cycle low due into **2016**



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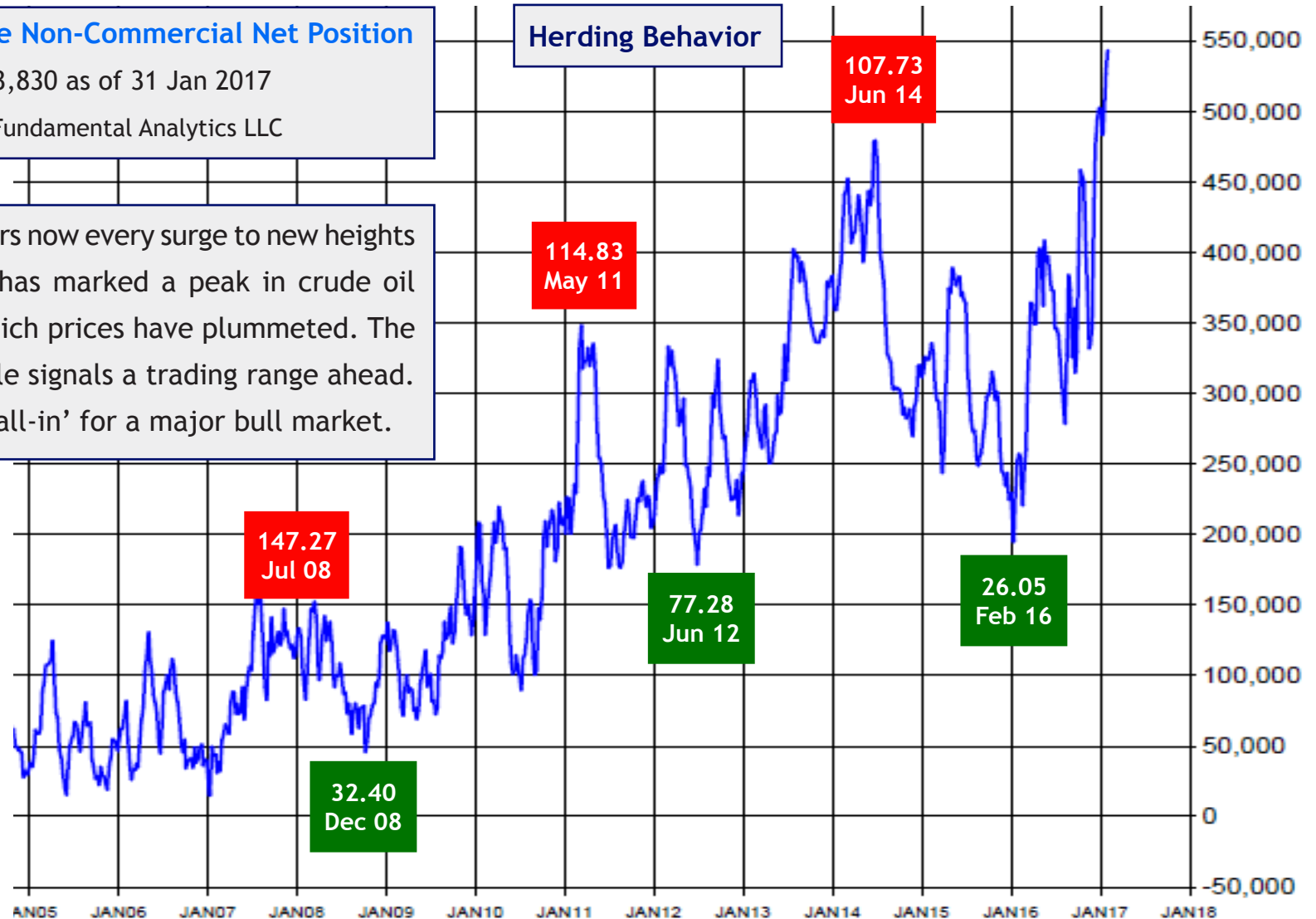
## CFTC WTI Crude Non-Commercial Net Position

Open Interest 543,830 as of 31 Jan 2017

Chart courtesy of Fundamental Analytics LLC

For over ten years now every surge to new heights in fund length has marked a peak in crude oil prices, from which prices have plummeted. The Commodity cycle signals a trading range ahead. The funds are 'all-in' for a major bull market.

## Herding Behavior



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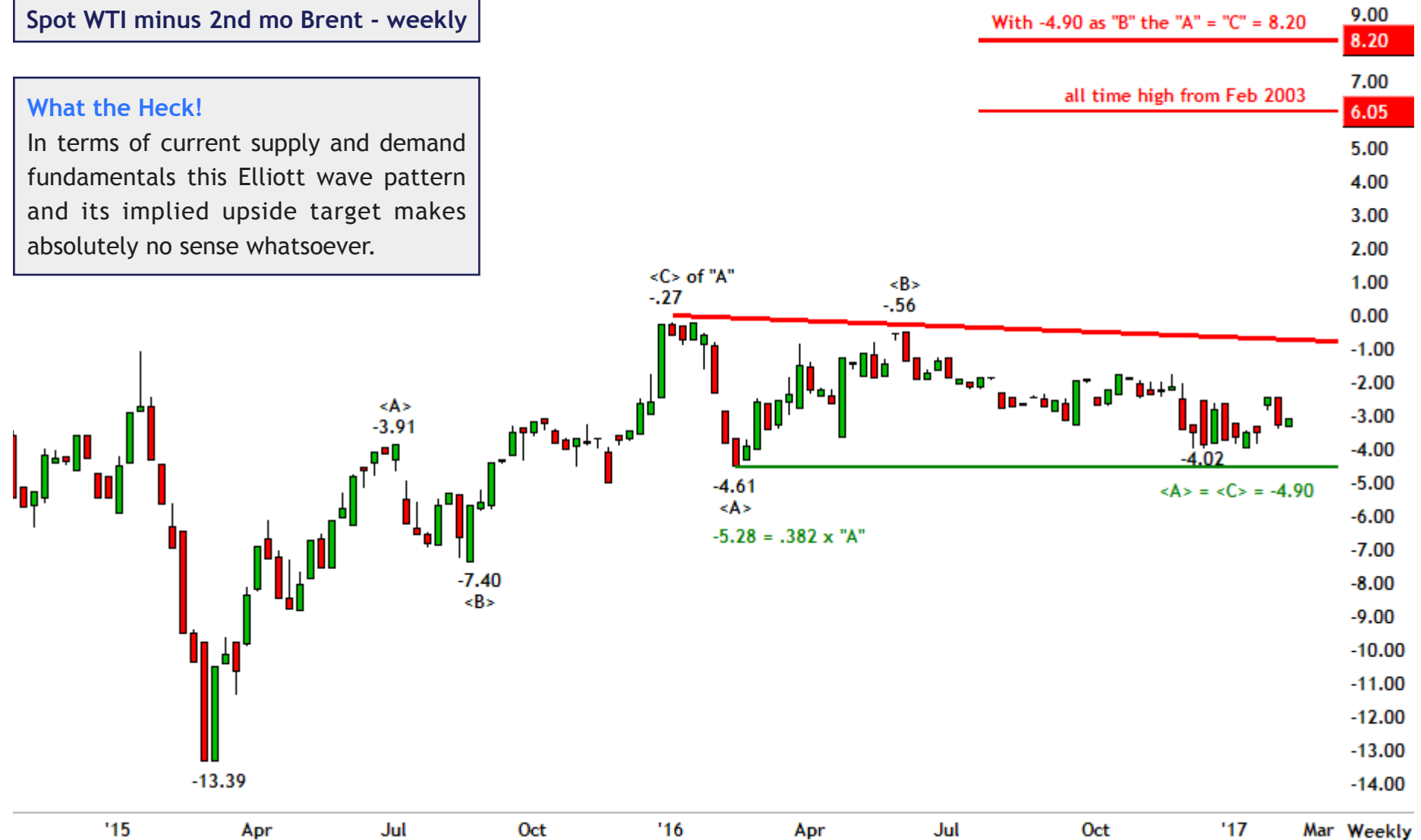
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Spot WTI minus 2nd mo Brent - weekly

## What the Heck!

In terms of current supply and demand fundamentals this Elliott wave pattern and its implied upside target makes absolutely no sense whatsoever.





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Dec18 WTI minus Jan19 Brent - weekly

## Same Ridiculous Pattern

Here we are two years out and the market is still seeing the same nonsensical upside risk in this spread.



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Dec19 WTI minus Jan 20 Brent - weekly

## Same Ridiculously Bullish Pattern

These chart patterns in the WTI minus Brent spread only make any sense from one perspective only. That is the perspective of a border adjustment tax.



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Feb 85  
184.72

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## Index Components

- Euro-fx 57.6%
- Japanese Yen 13.6%
- Pound Sterling 11.9%
- Canadian Dollar 9.1%
- Swedish Krona 4.2%
- Swiss Franc 3.6%

## US Dollar ( DX Index ) - 16 Year Cycle

- 8 Years up and 8 Years down
- The **70.70** low plus 8 years = **2016**
- The **121.02** high plus 16 years = **2017**



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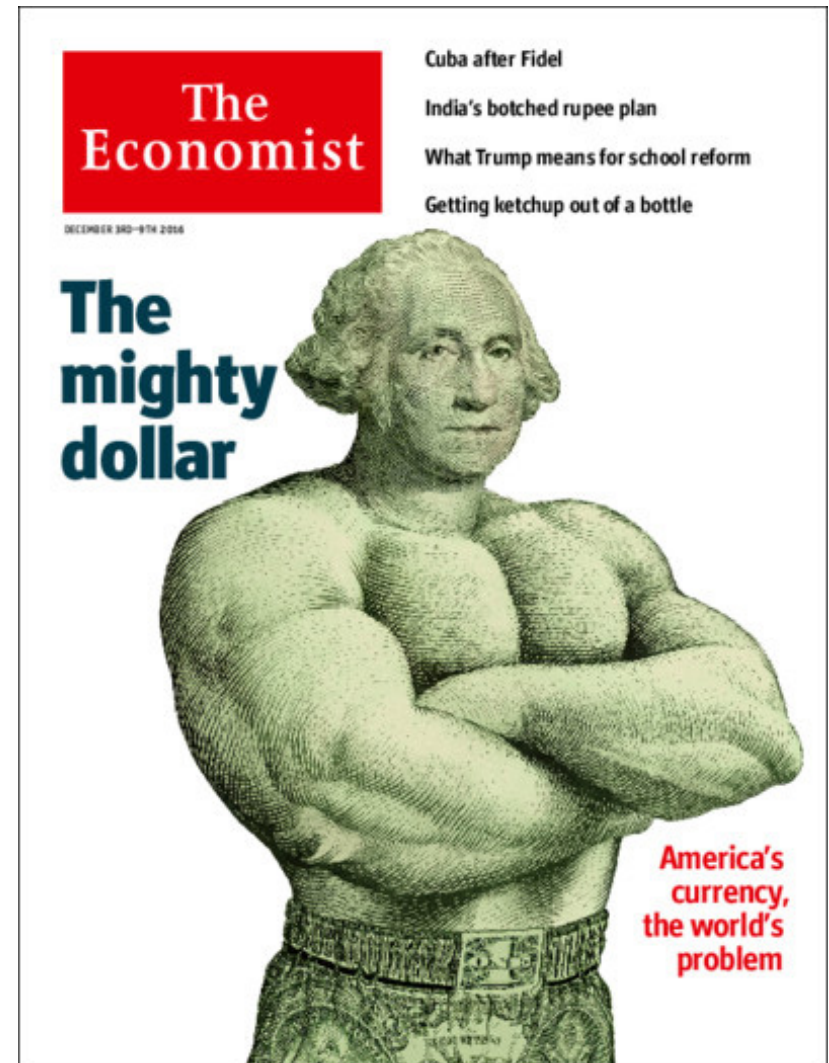
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Dec 3rd, 2016

Kiss of Death for Greenback Bulls?





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## US Dollar ( DX Index ) - monthly

- Here I update the bull case
- In the bull case the DX is still into wave <IV>
- The final wave <V> up has not yet begun.





*DX Index* peak near **121.00** implies...

- The *Euro-fx* below 1.0200 targets **88.00**
- The *Yen* below 120.00 targets **150.00**
- The *Yuan* below 7.070 targets **7.700**
- The *Pound* support is **.9600** or bust



*finis*