

# ICAP Technical Analysis



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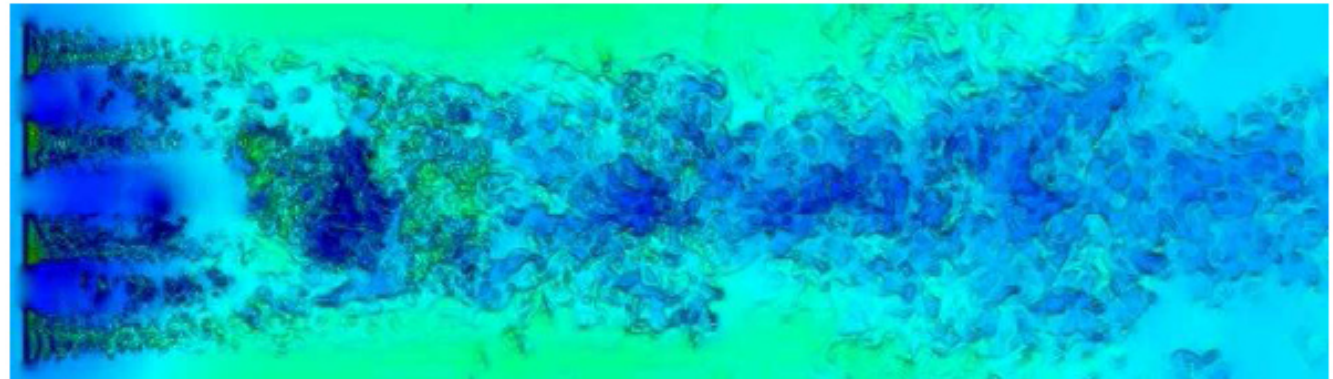
01 March 2018

01 March 2018

The 2018 to 2021 Outlook  
for the Major Markets

Walter J. Zimmermann Jr.  
ICAP Technical Analysis

Fractal Generated Turbulent Flow Laizet and Vassilicos 2009, UK National Supercomputing Service



The computer generated flow of time / fluid turbulence, left to right

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## Valley Sites versus Mountain Outlooks

During periods of conflict valleys are to be avoided. They offer no heads up of approaching danger. There is no possibility of an advance warning. Only if one wants to be ambushed is hanging out in a valley a great idea. In a high risk environment no one voluntarily chooses to be stationed in a valley.

A mountain top is the polar opposite of a valley location. From an elevation one can see approaching danger well in advance. One has ample time to prepare for the advancing risk. So during conflicts any bluffs, cliffs, and ridges are always bitterly contested.

## Fundamental versus Technical Analysis

Fundamental analysis study lagging indicators. The fundamentals only includes indications that the price has already discounted. But it gets worse. Fundamental analysts are frequently quoted as saying 'we never saw that coming.' They are severely afflicted by herding behavior. They are all bearish into major lows and all bullish into major highs. Fundamental analysts are valley dwellers.

Technical analysis give ample advance warning of bottoming and peaking risk. In fact the warnings often start so far in advance of the trend turn that one can start to doubt the veracity of the signals. When done properly technical analysis can position us on a mountain top with a sweeping panorama of the risks ahead.

## Three Famously Contested Scenic Overlooks

### *The Battle of Meggido*

16 April 1457 BC

- Egyptian forces under Thutmose III quashed a major uprising in Canaan, ensuring Egyptian control of the mid-east.
- Victory cemented Egyptian control of the Levant for 400 years.
- The focal point of this battle was a hill named Meggido, and this battle over that hill is the origin of the word Armageddon.

### *The Battle of Waterloo*

18 June 1815

- The Duke of Wellington positioned his forces behind the Mont Saint Jean escarpment, blinding Napoleon to the danger.
- This tactic very much irked Napoleon and was arguably the critical factor in the crushing French defeat that day.
- The French army suffered 34,000 casualties

### *The Battle of Monte Cassino*

January to May 1944

- The mountain of Monte Cassino was the linchpin in Hitler's defence of Italy and southern Germany.
- It took five months of ariel bombing, four infantry assaults, and 55,000 Allied casualties to take that mountain top and thereby open up Italy to the allies.



## Major Stock Market Peaks and Lows

### Fibonacci Duration Indications for a *Major 2018 Peak*

- **2018** is a Fibonacci **233** years from the onset of the Panic of 1785 that launched a major depression.
- **2018** is a Fibonacci **144** years ( off by 1 year ) from the onset of the Panic of 1873 that launched a major depression
- **2018** is a Fibonacci **89** years from the 1929 peak, from which the Great Depression unfolded.
- **2018** is a Fibonacci **55** years from the 1963 peak of ( III ) of -III- of <III> in the Dow Industrials - the Elliott wave epi-center of the bull market that began back in 1796.
- **2018** is a Fib **34** years from the 1984 Consumer Sentiment peak, still the highest reading except for the Dot-Com bubble mania.
- **2018** is a Fibonacci **21** years from the 1997 mini crash
- **2018** is a Fibonacci **13** years from the 2005 peak mania of the Housing Bubble
- **2018** is a Fibonacci **8** years from the 2010 peak of the Commodity Bubble as measured by the most broad based index, the CCI
- **2018** is a Fibonacci **5** years from the 2013 peak in NFL ratings, arguably a better sentiment indicator than many others.
- **2018** is a Fibonacci **3** years from 2015, the year that many experts regard as the peak of the Art Market Bubble.

### Fibonacci Duration Indications for a *Major 2021 Low*

- **2021** is a Fibonacci **233** years from the major low of 1788 that marked the end of the Panic of 1785.
- **2022** is a Fibonacci **144** years from the major low of 1878 that marked the end of the Panic of 1873.
- **2021** is a Fibonacci **89** years from the major stock market low of 1932 that marked the resumption of the longer term up trend.
- **2021** is a Fibonacci **55** years from the major stock market low of 1966.
- **2021** is a Fib **34** years from the market stock market panic mini-crash low of 1987.
- **2023** is a Fibonacci **21** years from the 2002 low that concluded the bursting of the Dot-Com bubble.
- **2022** is a Fibonacci **13** years from the major stock market low of 2009 that concluded the bursting of the Housing Bubble.
- **2021** is a Fibonacci **8** years from the 2013 most oversold condition in Gold since 1997
- **2021** is a Fibonacci **5** years from the major stock market low of 2016 that ended the dump from the 2015 highs at the end of QE3.
- **2021** would be **3** years from a 2018 low. Might a dump later this year mark the initial leg down in a larger, multi-year decline?



## The Final Four Sources of Natgas Price Instability

1. Collective Human Behavior
2. Changing Infrastructure Requirements
3. Changing Weather Patterns
4. Financial Market Risks

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



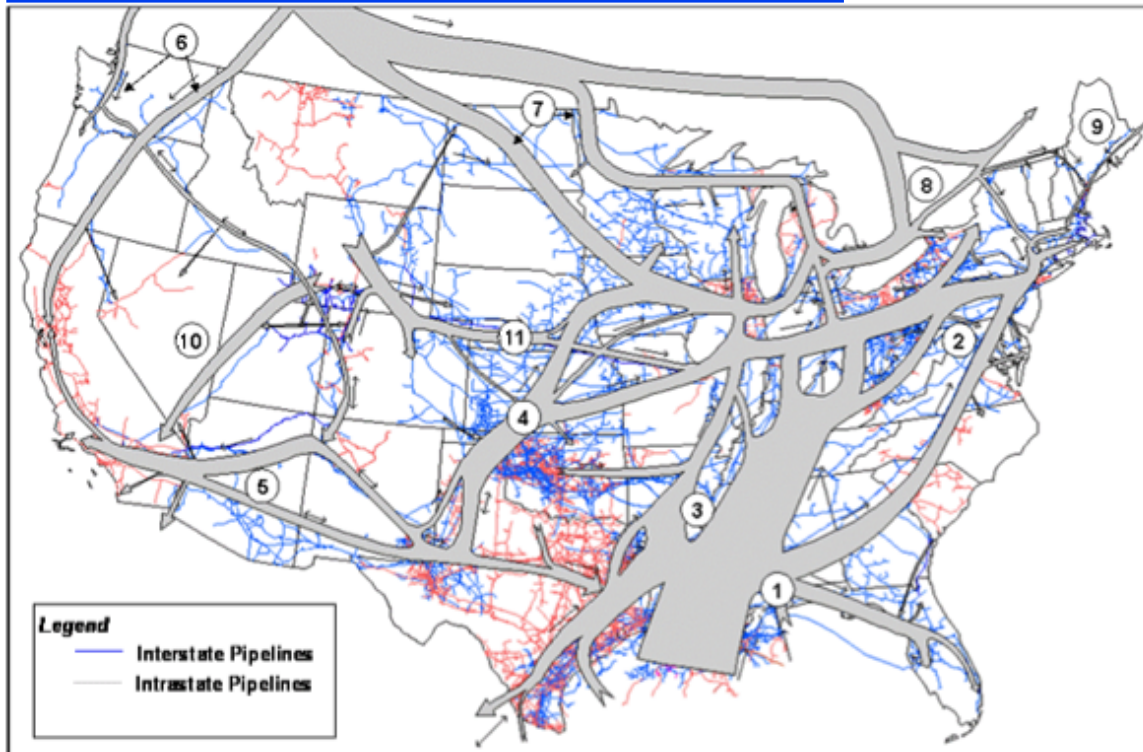


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## What the Pipeline System was Designed to Do



### Lower 48 US NatGas Production

- In MM CF/D
  - From EIA and for Dec 2017
1. TX = 22,677
  2. PA = 16,152
  3. OK = 7,352
  4. LA = 7,024
  5. CO = 4,896
- Total all states & GOM = 87,054
  - LA & GOM = 10.8%

### The Ground Zero of Price Instability in Natural Gas

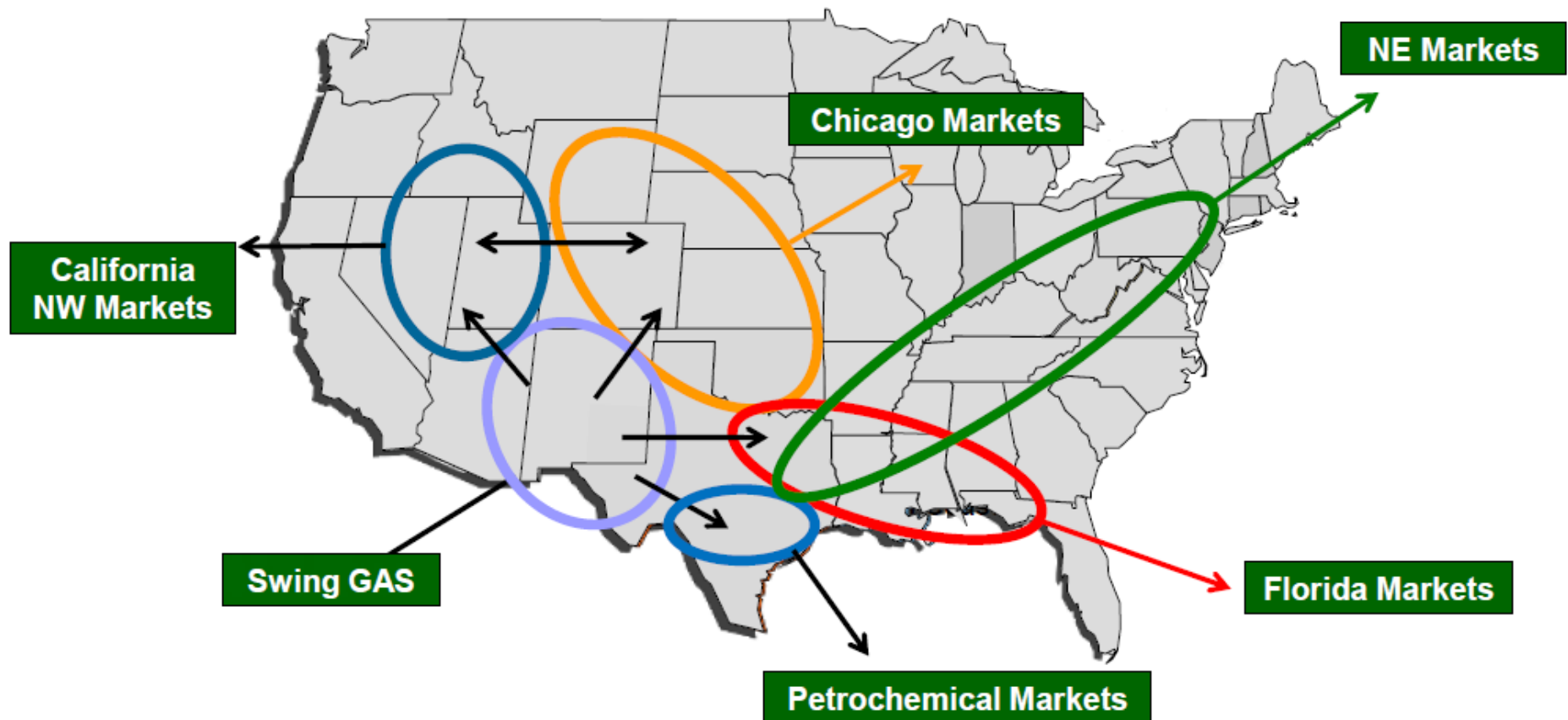
- Price instability in Natural Gas is the result of rapidly changing supply and demand sources and surges within a distribution system that struggles for relevance.
- Price instability in Natural Gas is systemic, not extrinsic, and not anomalous.
- And as we are about to see, climate change will only worsen this inherent price instability.

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Mis-Placed Pipelines = A World of Bottlenecks



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Sentiment from Market Vane  
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Natgas - monthly





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Natgas - weekly

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Fund Managers Natural Gas Net Position - Jan 2016 to Feb 2018

Fundamental Analytics

Joel Fingerman

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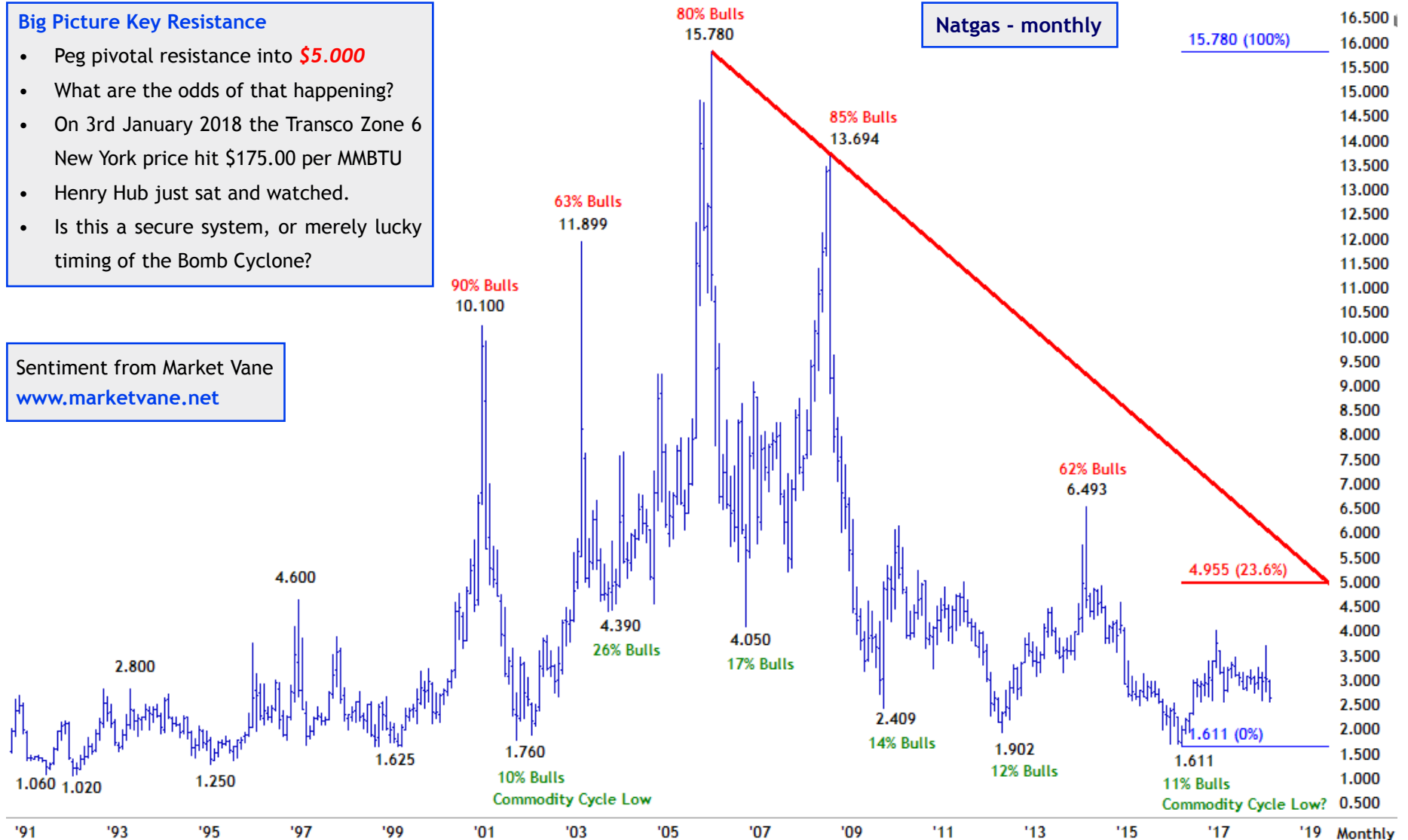
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## Big Picture Key Resistance

- Peg pivotal resistance into **\$5.000**
- What are the odds of that happening?
- On 3rd January 2018 the Transco Zone 6 New York price hit \$175.00 per MMBTU
- Henry Hub just sat and watched.
- Is this a secure system, or merely lucky timing of the Bomb Cyclone?

Sentiment from Market Vane  
[www.marketvane.net](http://www.marketvane.net)

## Natgas - monthly



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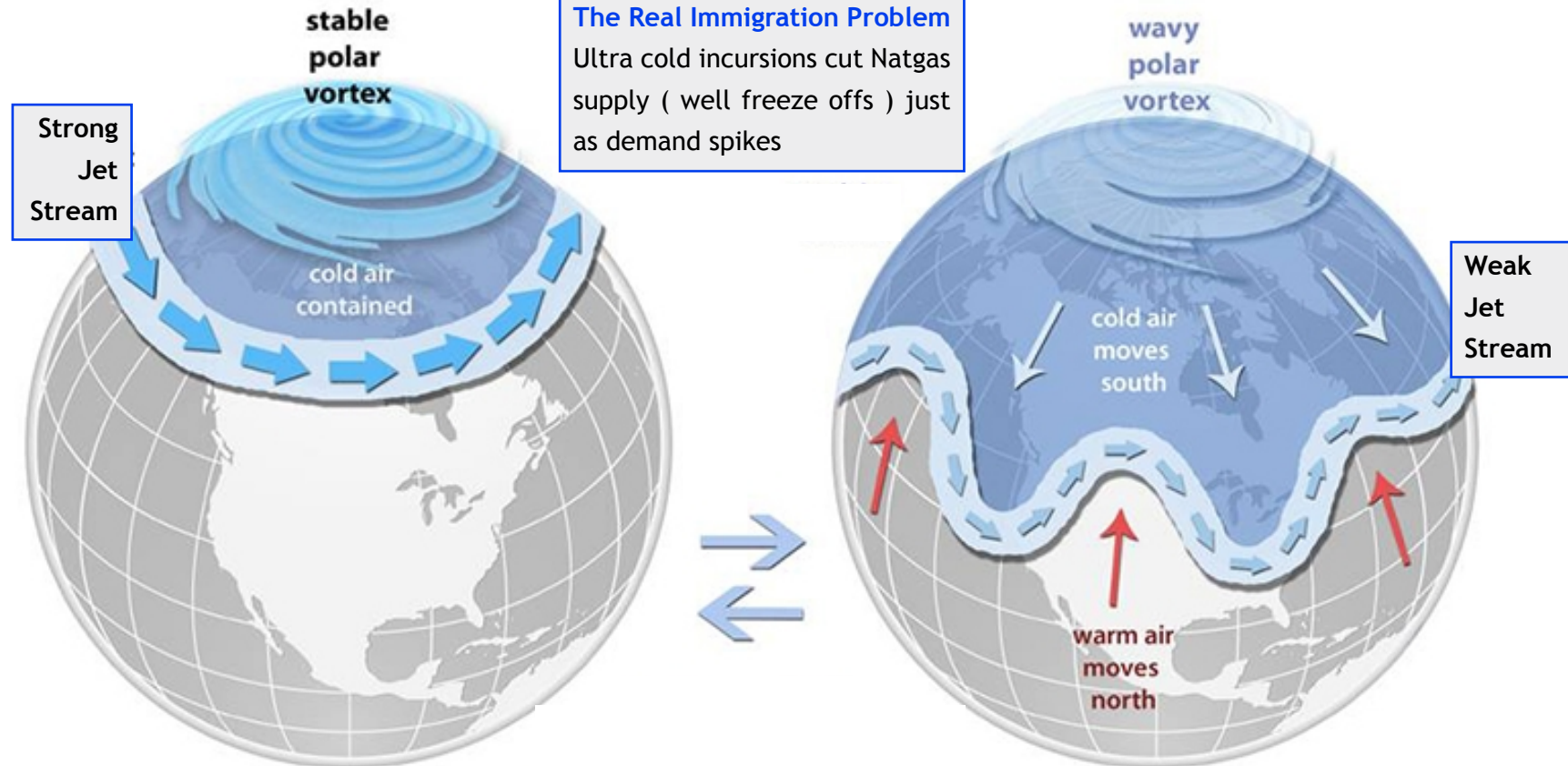
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## The Old Normal

The sharp contrast between the ultra-cold arctic air and the warmer lower latitudes kept the polar jet stream strong and steady. This kept the arctic air confined to the arctic.

## The New Normal

The rapidly warming arctic lowers the temperature differential to lower latitudes, thereby weakening the polar jet stream. This allows the arctic air to regularly migrate south



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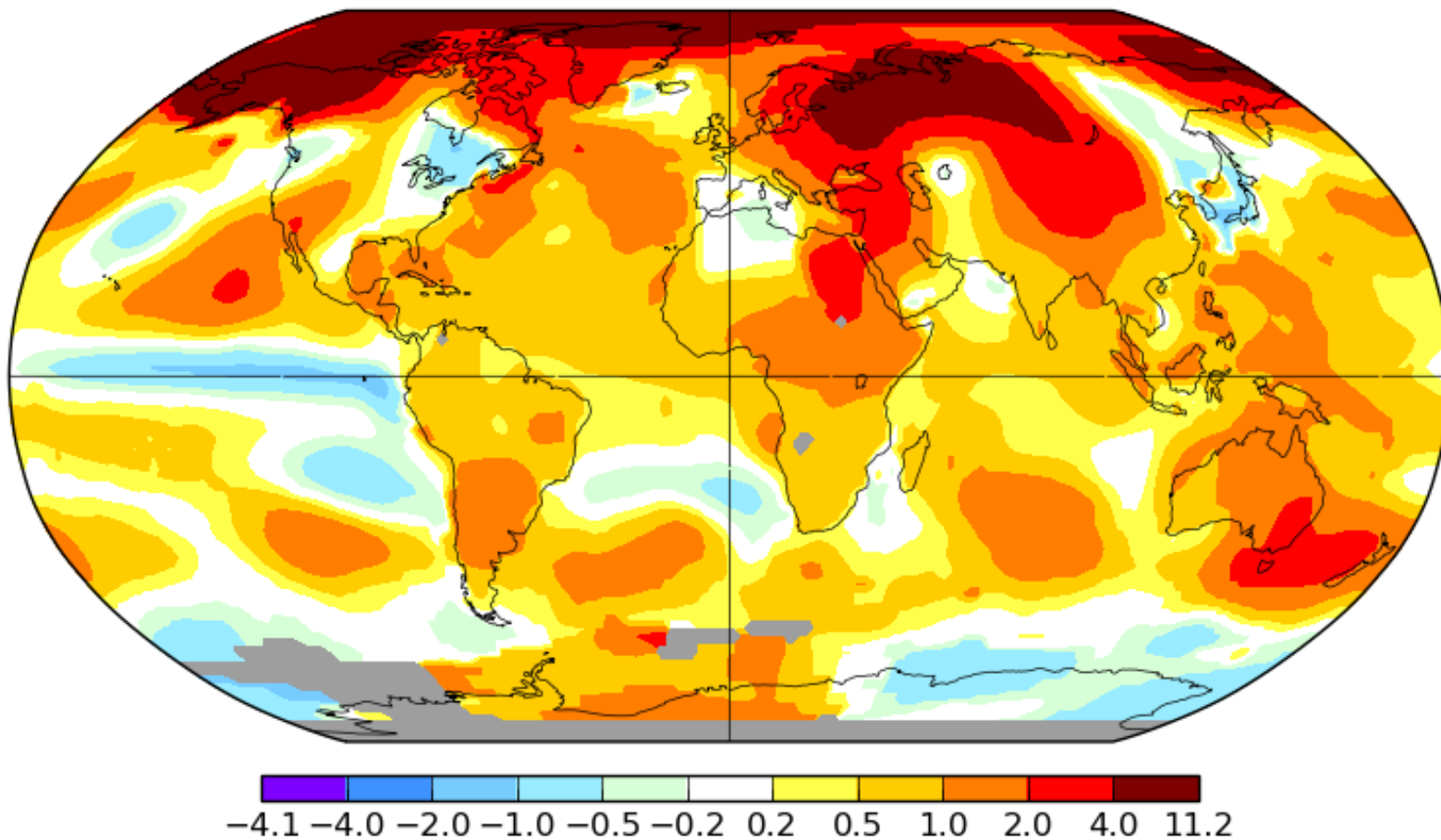
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## 2017 Surface Temperature Anomalies compared to 1951 to 1980 Baseline, NASA

December 2017

<https://data.giss.nasa.gov/gistemp/maps/>

0.90



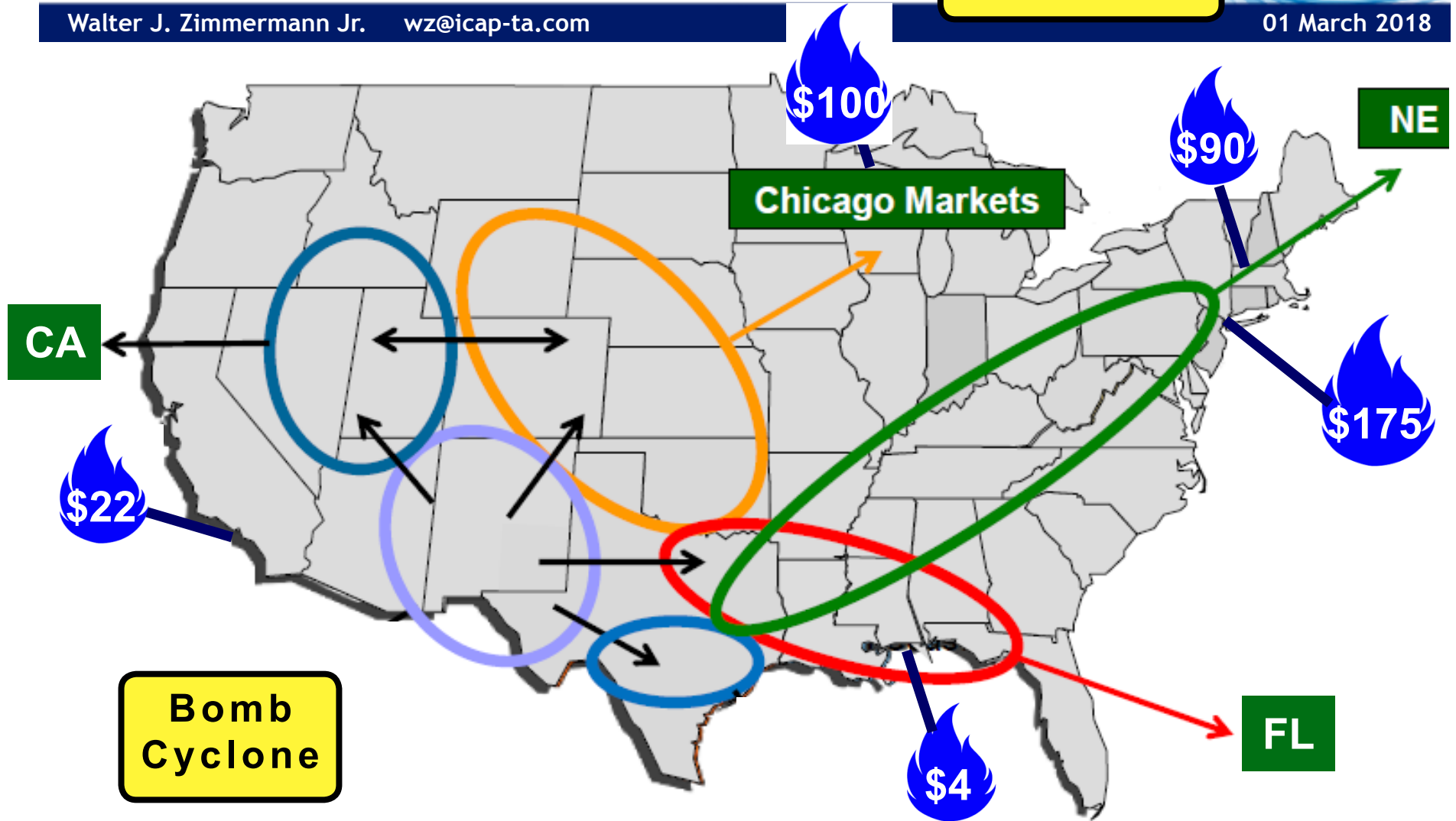


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**Bottleneck  
Pricing**

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## Natgas - monthly

### Natgas Prices and Financial Crises

- Natgas lost **58%** of its value during the Asian Financial Crisis in the drop from 3.850 to 1.625
- Natgas lost **83%** of its value during the bursting of the Dot-Com Bubble in the drop from 10.100 to 1.760
- Natgas lost **74%** of its value during the bursting of the Credit Bubble in the drop from 15.780 to 4.050



Financial  
Crisis

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## Long Term Elliott Wave Refresh

- As I emphasized back in October 2016 there is an entirely compelling Elliott wave case for the advance from 55'05 having ended at 177'11
- To further cement this very bearish outlook we now have a decisive break down below the .236 retracement of this entire advance at 148'16

## 30 Year US Treasury Bond - monthly



## No Alternate Elliott Wave

In Elliott wave analysis it is common to have a main count and an alternate count. This is a recognition that it is unwise to simply assume one will always be right. However based on the price action so far, long bond values have fallen too far off the highs to still be able to maintain an alternate bullish Elliott wave based outcome. See next page.

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30 Year US Treasury Bond - monthly

## Elliott Wave: the final highs are In

From October 2016 it has been my contention that the entirety of the advance from the 55'05 ended at the 177'11 high, and the long term trend is now very much pointed down.

## Herding Behavior: Investor Euphoria

In 2016, with investors euphoric over the death of inflation, and from 83% Bulls, the US Treasury Department could not print enough bonds yielding only 2% to satisfy demand.

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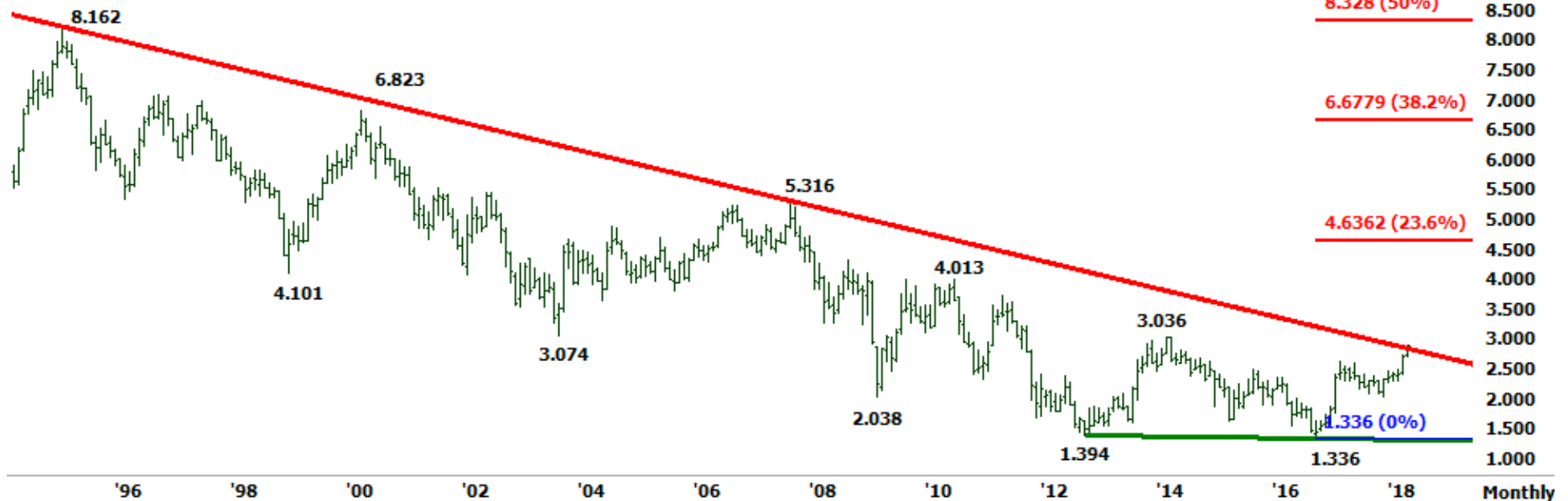
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## 10 Year US Treasury Note Rates - monthly

### The Essential Ingredient for US Based Debt

The interest rate on the 10 year T-Note is the essential and main ingredient in all:

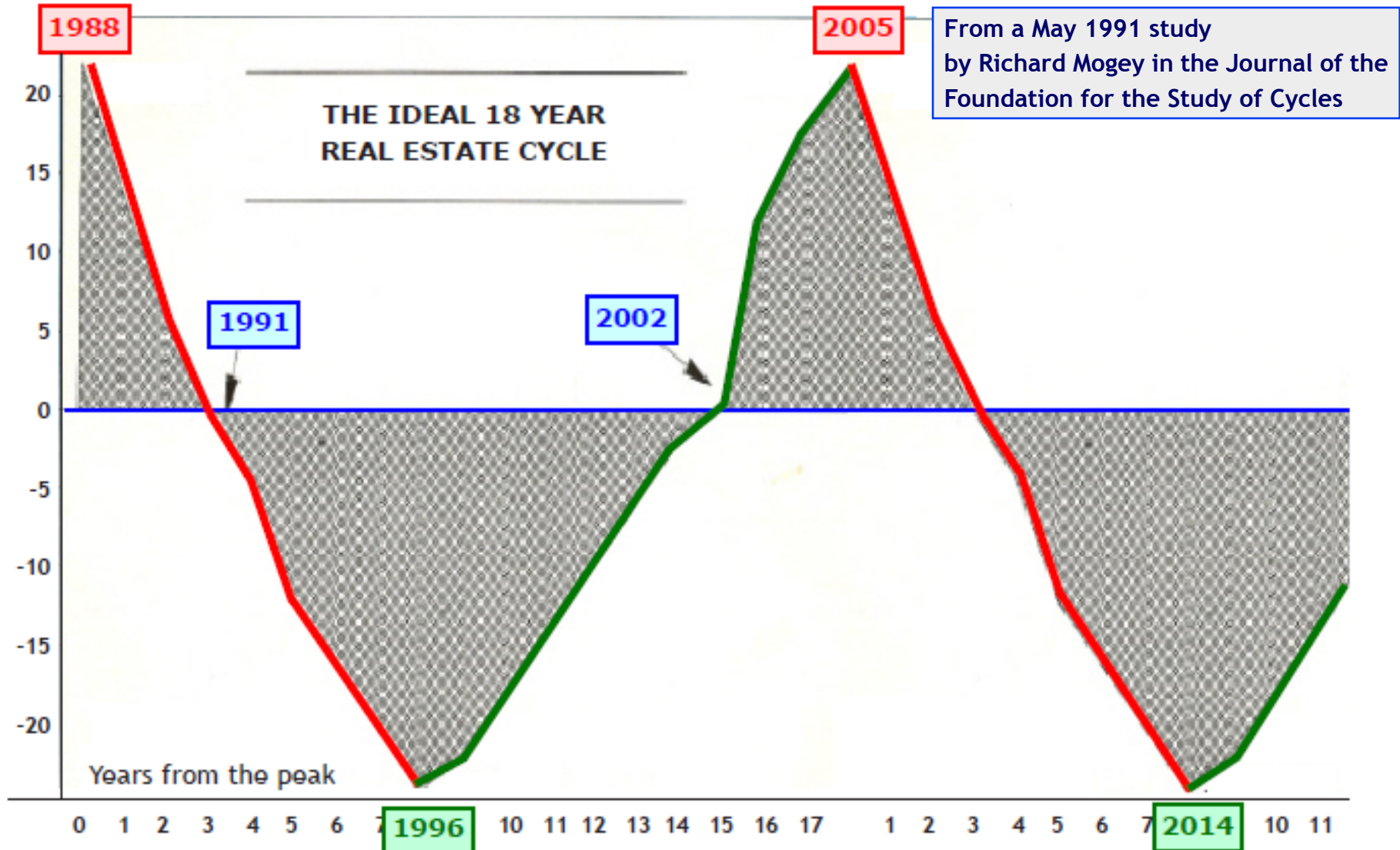
- Mortgages and Real Estate Loans
- Business and Personal Loans
- Automobile Loans
- Student Loans
- And it is this risk free rate of return for bond holders than equity market dividend yields must compete with.



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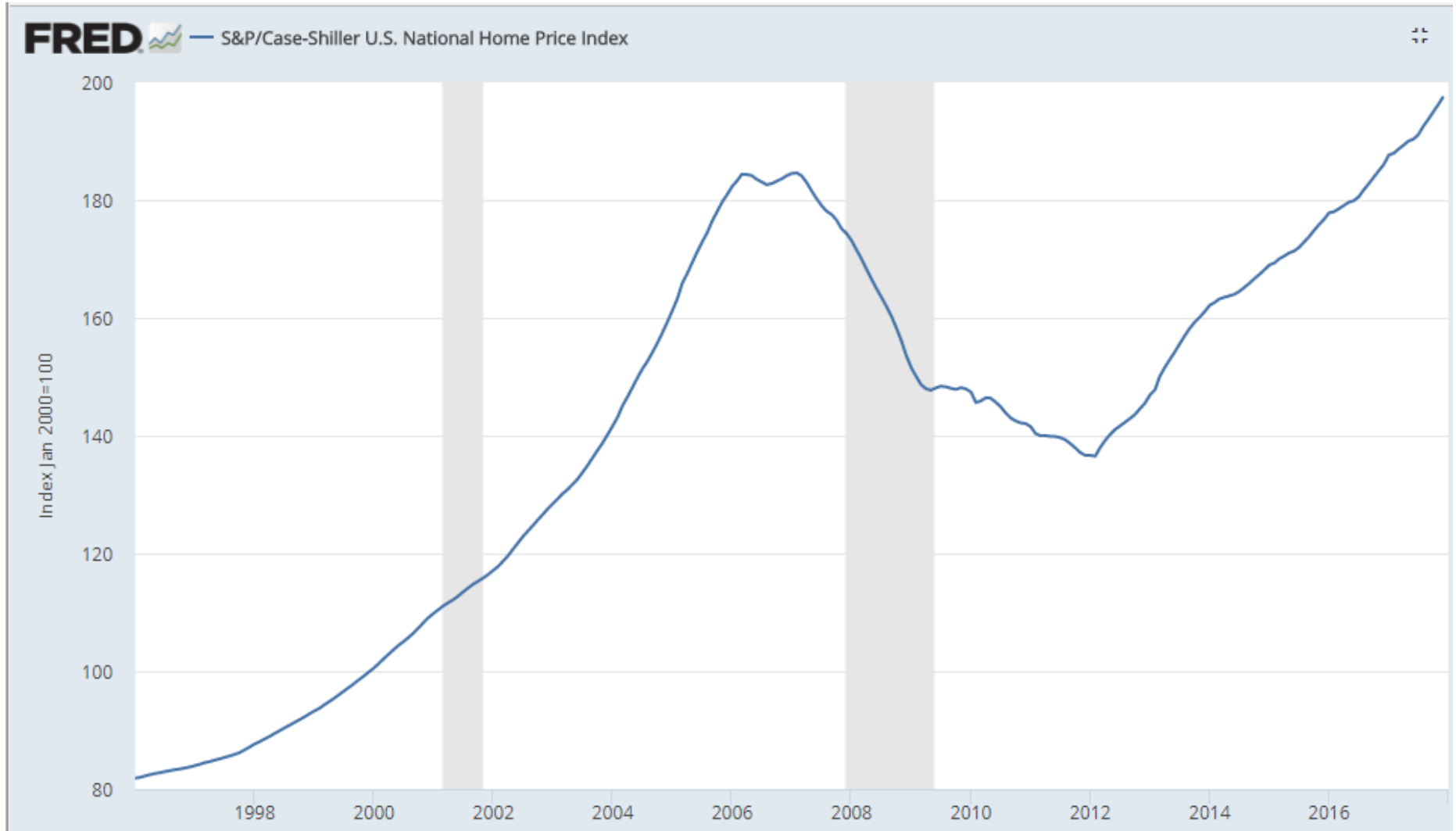


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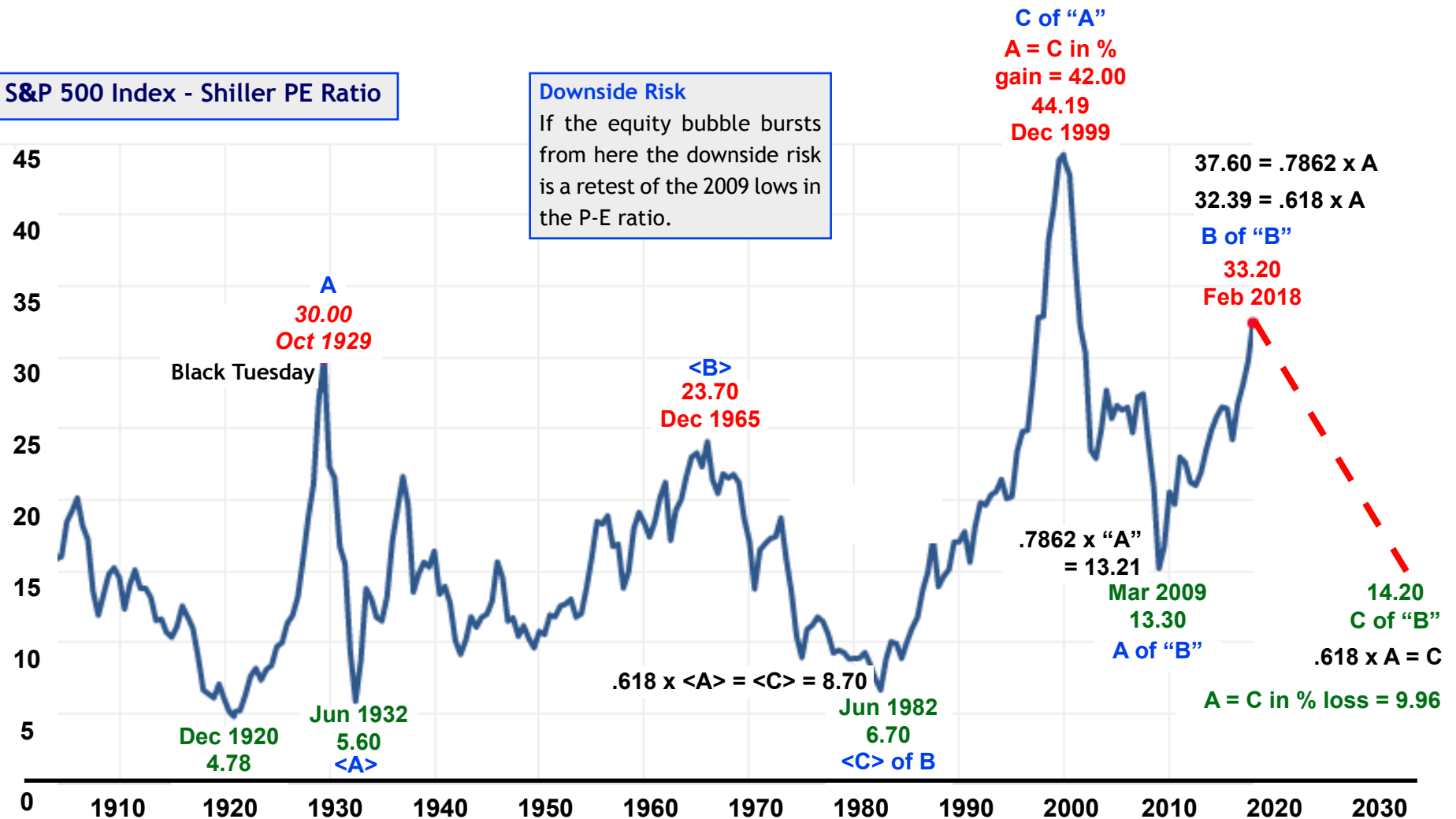
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## S&P 500 Index - Shiller PE Ratio

### Downside Risk

If the equity bubble bursts from here the downside risk is a retest of the 2009 lows in the P-E ratio.





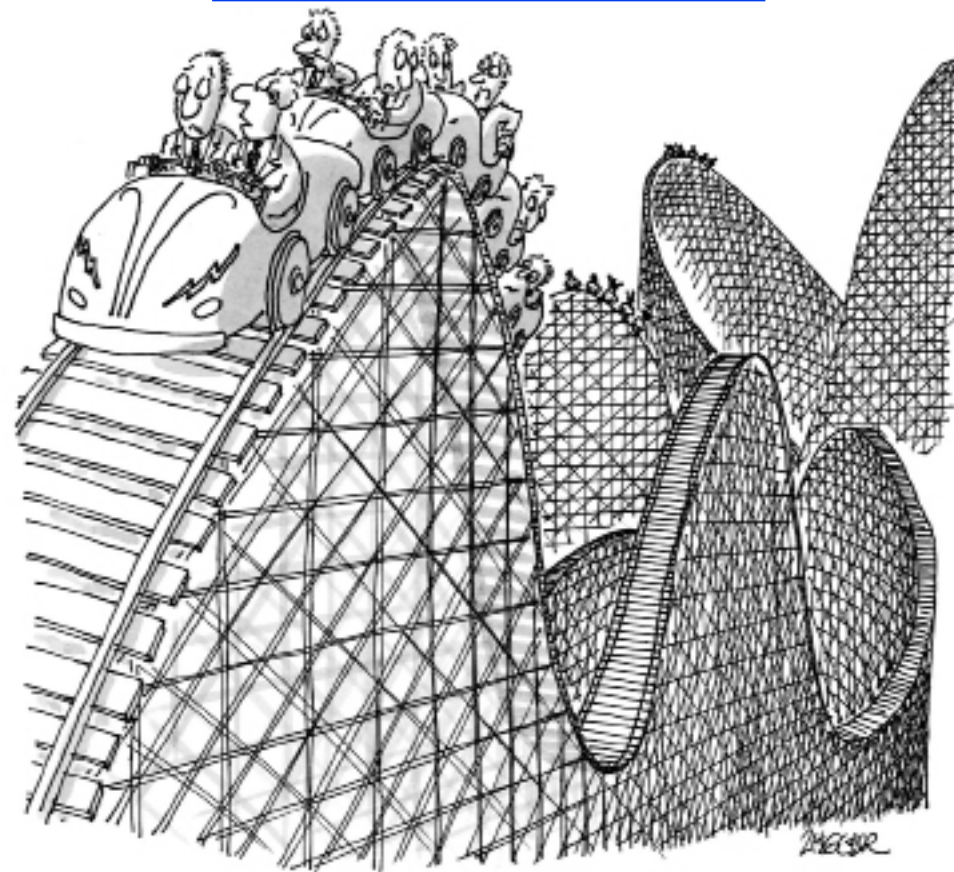
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Churning Price Action is Peaking Action



*"Dow Jonesy enough for you?"*

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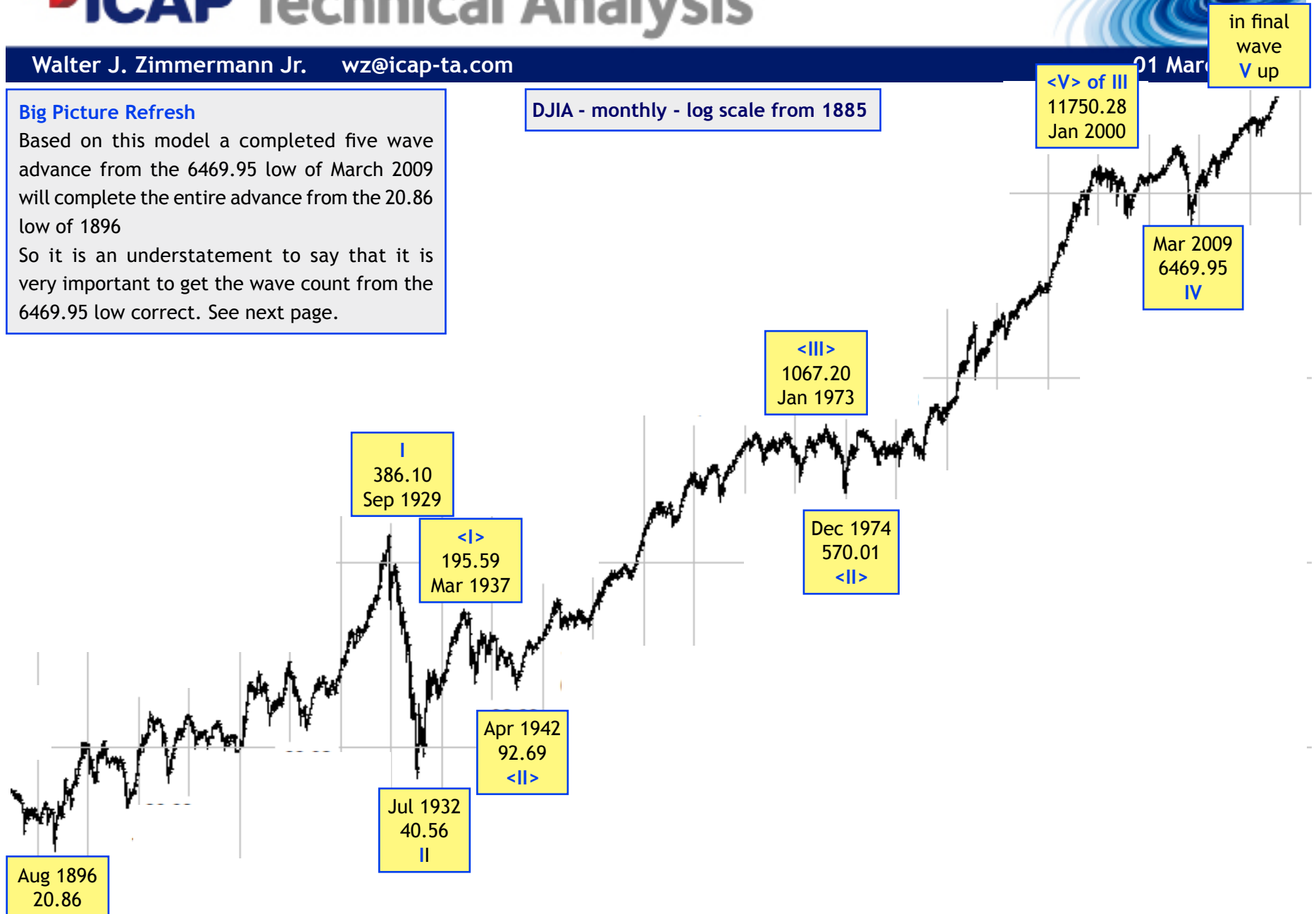
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## Big Picture Refresh

Based on this model a completed five wave advance from the 6469.95 low of March 2009 will complete the entire advance from the 20.86 low of 1896

So it is an understatement to say that it is very important to get the wave count from the 6469.95 low correct. See next page.

DJIA - monthly - log scale from 1885



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## In the Final Leg Up from 156450.56

Based on this model a completed five wave advance from the 15450.56 low of January 2016 will complete the entire advance from the 20.86 low of 1896

So it is extremely important to get the wave count from the 15450.56 low correct.

See next page.

## DJIA - weekly



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## The Most Bullish Case is Now a Double Top

- The last hope for the bulls is a rebound by the 22670.00 level.
- However note that even if that holds as a wave -IV- low the -I- = -V- in percent gain is only a marginally higher high.
- And the -I- = -V- would be double top.
- And then the collapse would begin.

## DJIA - weekly



01 March 2018





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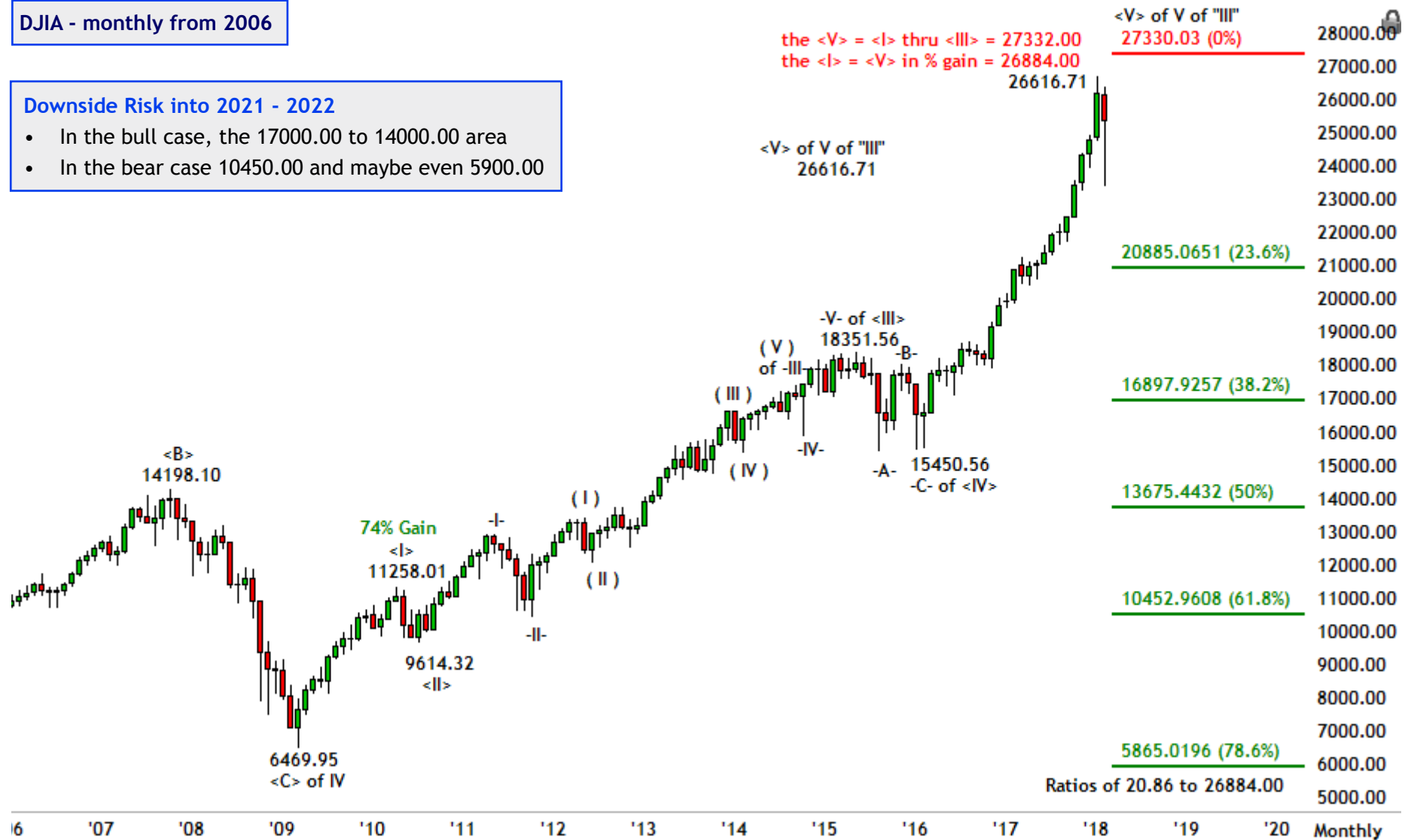
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DJIA - monthly from 2006

## Downside Risk into 2021 - 2022

- In the bull case, the 17000.00 to 14000.00 area
- In the bear case 10450.00 and maybe even 5900.00



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Nasdaq monthly

## The Big Picture

- What is at risk of peaking here is the entire advance from the 1108.19 low.
- And once the peak is in, the entire advance from the 1108.19 low will then need to be corrected.

Sentiment from Market Vane  
[www.marketvane.net](http://www.marketvane.net)



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## The Most Bullish Case

- The last hope for the bulls is a rebound by the 6815.00 area.
- From the 6630.67 low the  $\langle I \rangle = \langle V \rangle$  would be an ominous 5th wave failure.
- The  $\langle I \rangle - \langle V \rangle$  in percent gain would be a higher high, but only marginally.
- And then the collapse would begin.
- See next page for a closer look.

## Nasdaq - weekly



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Nasdaq 180 min

-V- = -I- thru -III- = 7903.00

7903.00

long term  
resistance

from 6630.47 the <I> = <V> in % gain = 7818.00

7818.00

-V- = .618 of -I- thru -III- = 7633.00

7600.00

-V- of <III>  
7505.77

-V- of <V> ?  
7438.08 7438.09 (0%)

400.48

-III-  
7338.64

7400.00

7246.8055 (78.6%)

7194.84 (100%)

7200.00

7194.84  
-IV-

7165.30 = .50 x -A-

-B-  
7170.33

7000.00

393.15

-I-  
7023.62

6938.16

-II-

6824.82

-A-

.236 x <III> = 6814.00  
pivotal long term support

6803.4579 (78.6%)

6800.00

6630.67 (100%)

6600.00

6630.47  
-C- of <IV>

## One Final Grand Finale ??

- There is no clear case for a grande finale spike higher the DJIA
- There is such a case for the Nasdaq.
- And a divergence like this would be entirely typical of major peaking action.
- There is a long history of the Nasdaq being more spikey than the DJIA, and of peaking after the DJIA.
- See the next two pages.

9:30 15:30 9:30 15:30 9:30 15:30 9:30 15:30 9:30 15:30 9:30 15:30 9:30 180 min.

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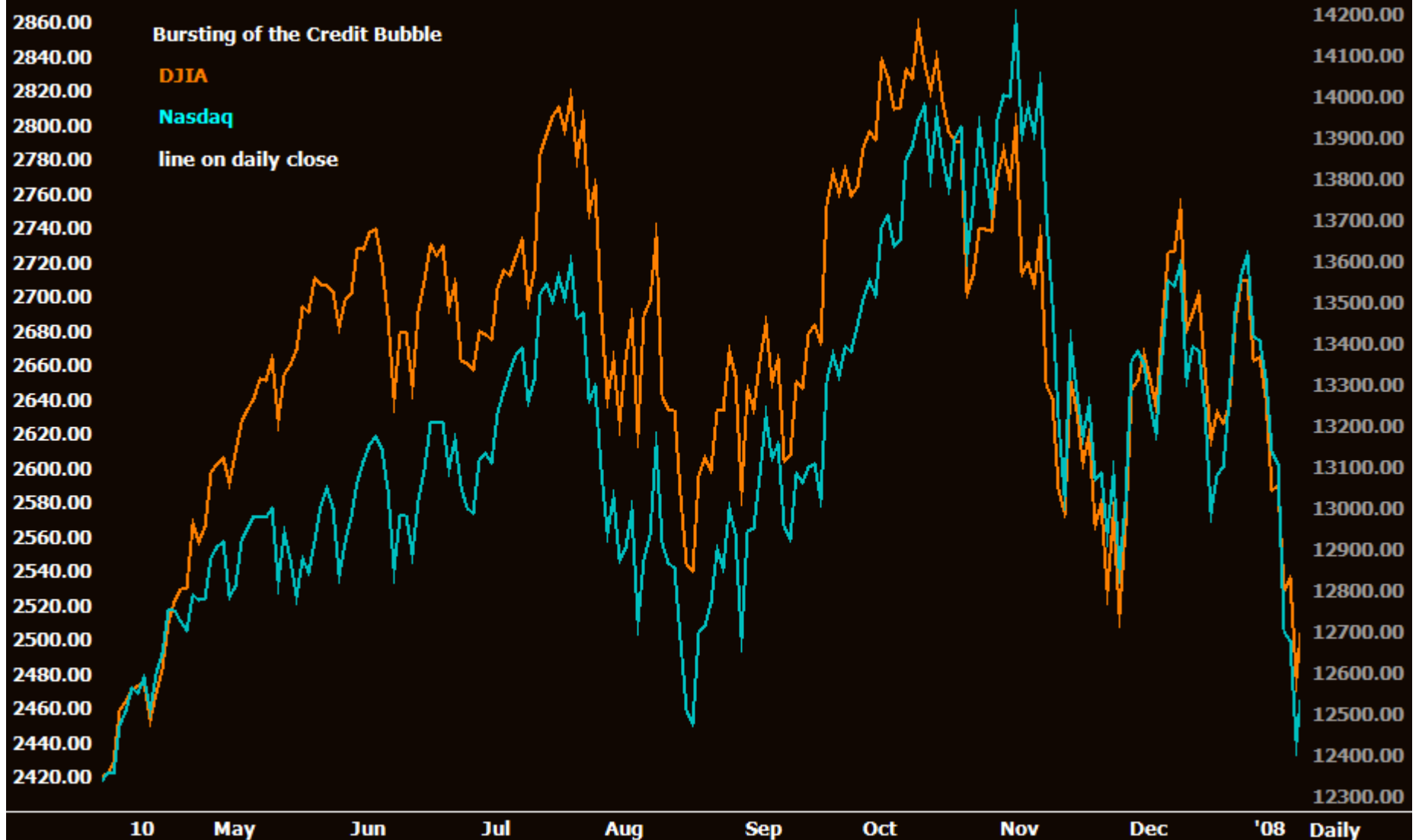


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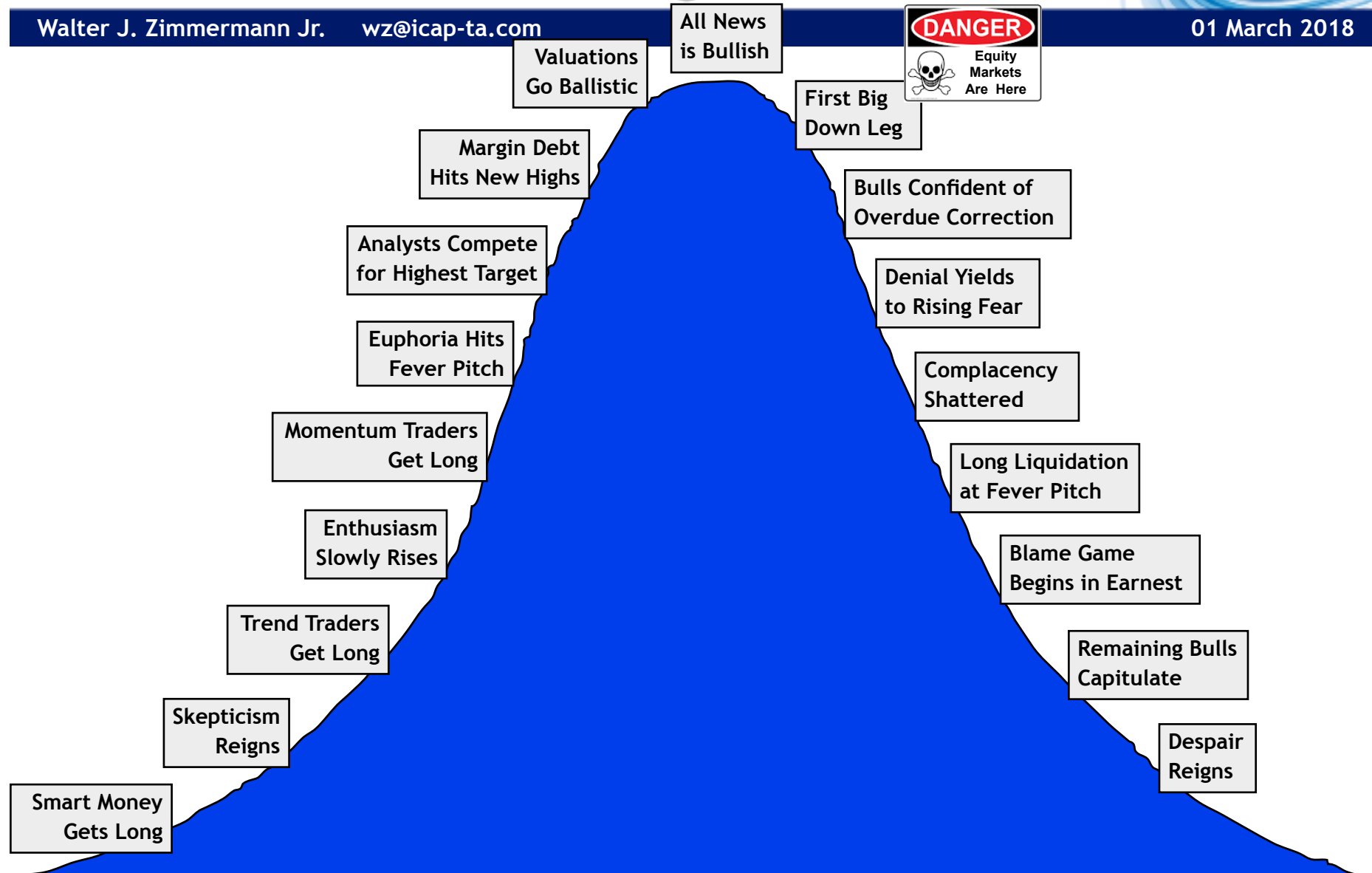




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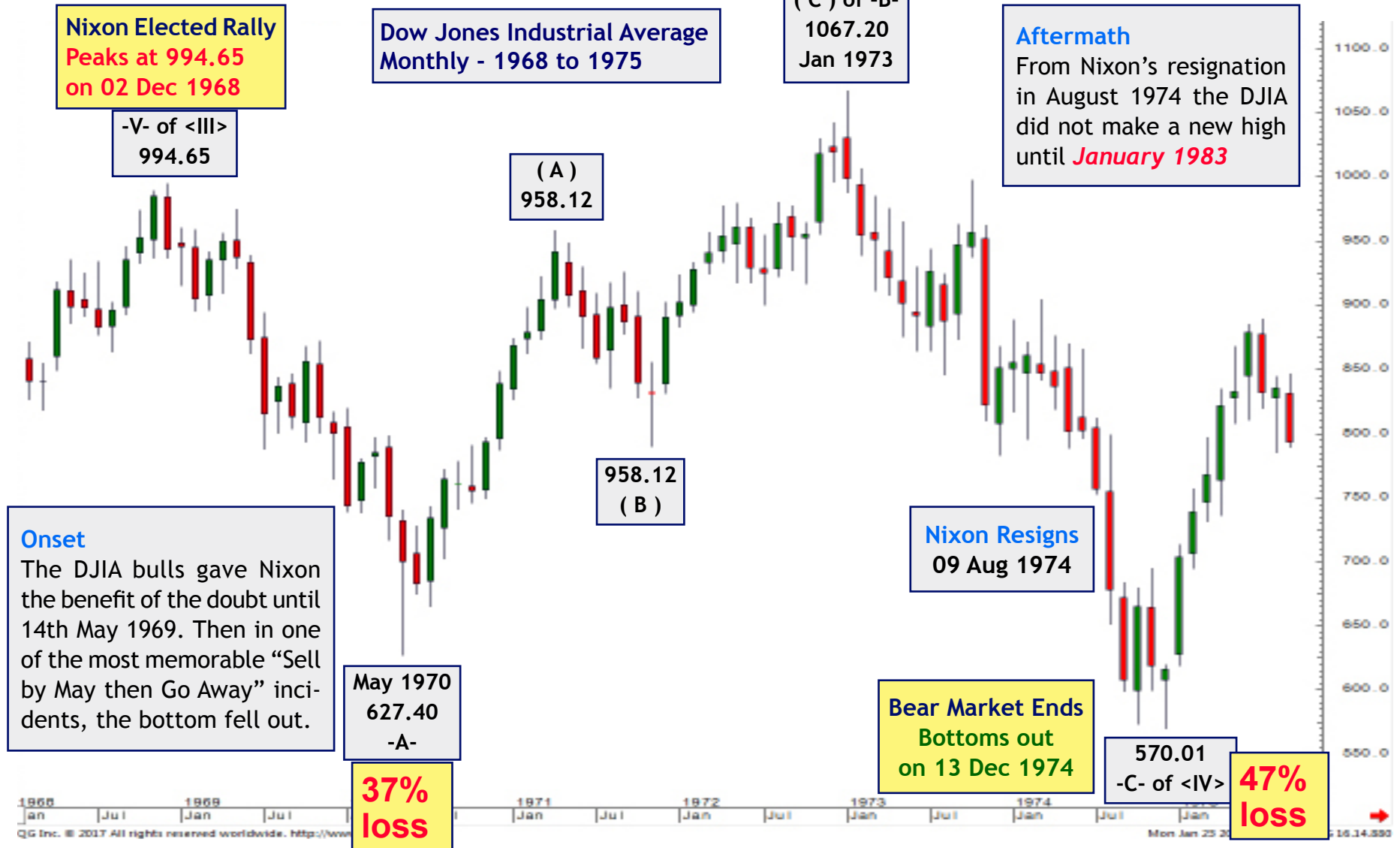


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DAX - monthly

## Bear Case

The bear case is the compelling model for a completed five wave advance from the 3589.00 low to a 13600.00 area peak.  
See next page for a closer look.



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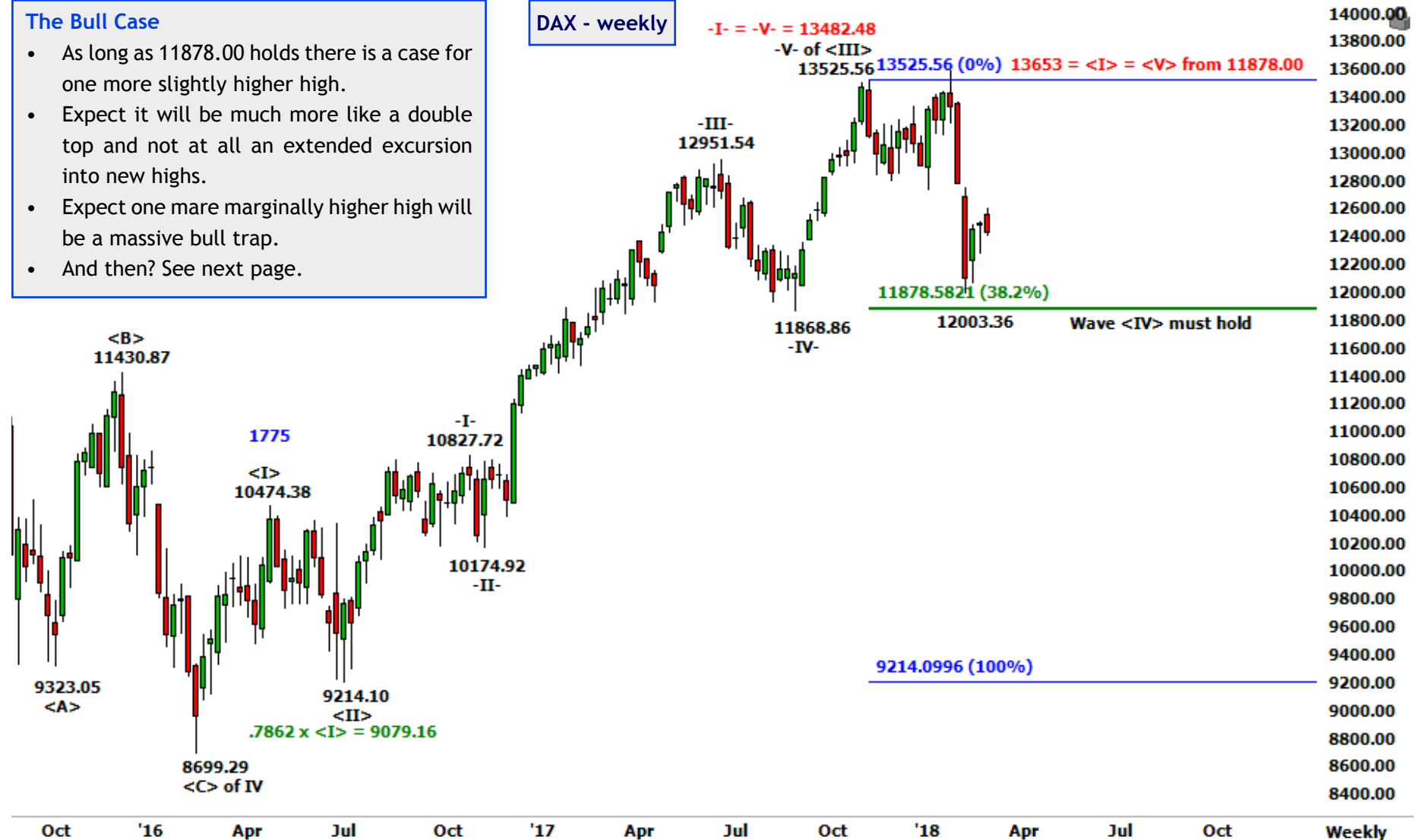
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## The Bull Case

- As long as 11878.00 holds there is a case for one more slightly higher high.
- Expect it will be much more like a double top and not at all an extended excursion into new highs.
- Expect one more marginally higher high will be a massive bull trap.
- And then? See next page.

## DAX - weekly



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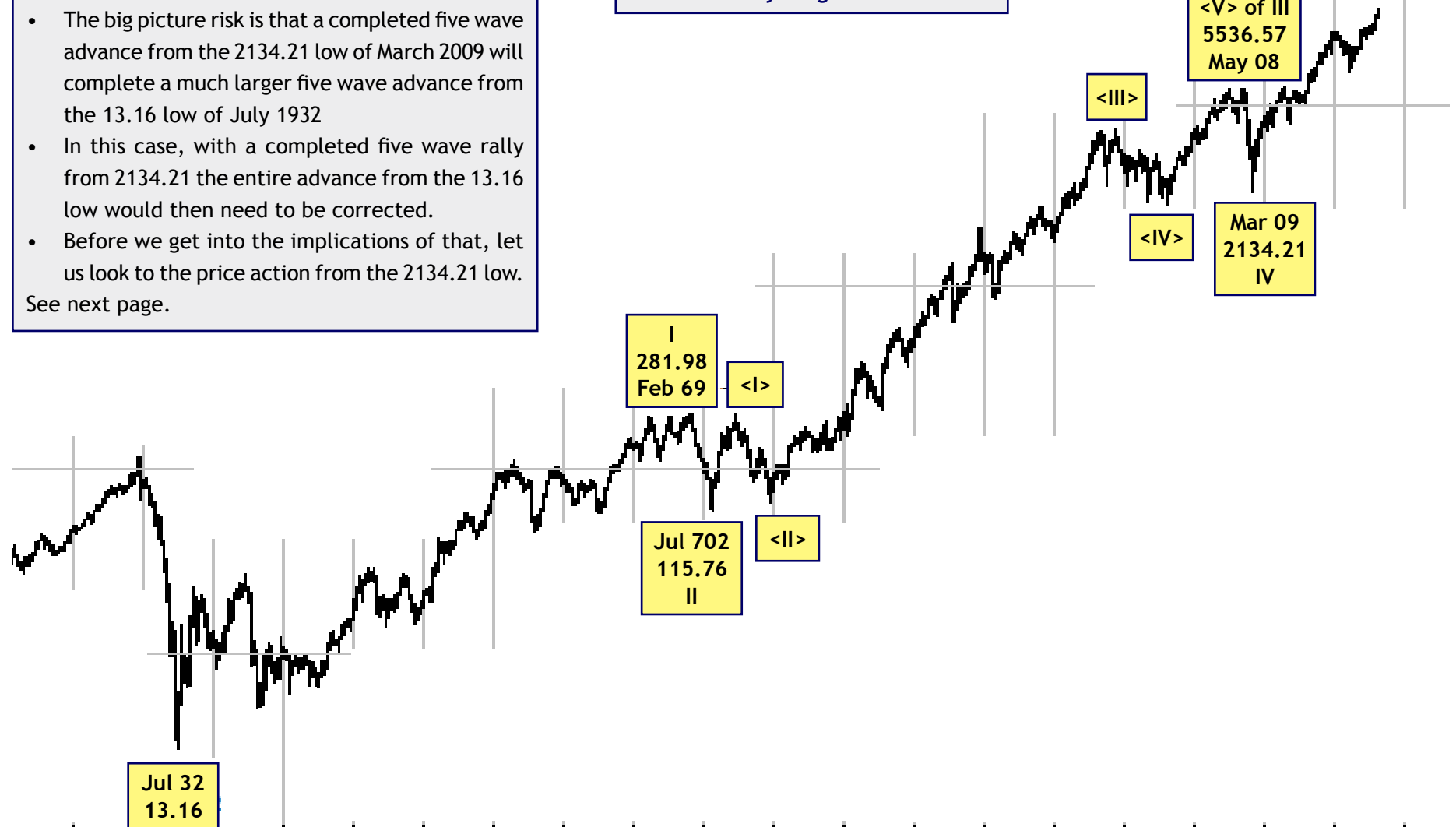
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V ??  
11423.92  
Jan 18

## Big Picture

- The big picture risk is that a completed five wave advance from the 2134.21 low of March 2009 will complete a much larger five wave advance from the 13.16 low of July 1932
- In this case, with a completed five wave rally from 2134.21 the entire advance from the 13.16 low would then need to be corrected.
- Before we get into the implications of that, let us look to the price action from the 2134.21 low. See next page.

DJTA - monthly - log scale from 1919



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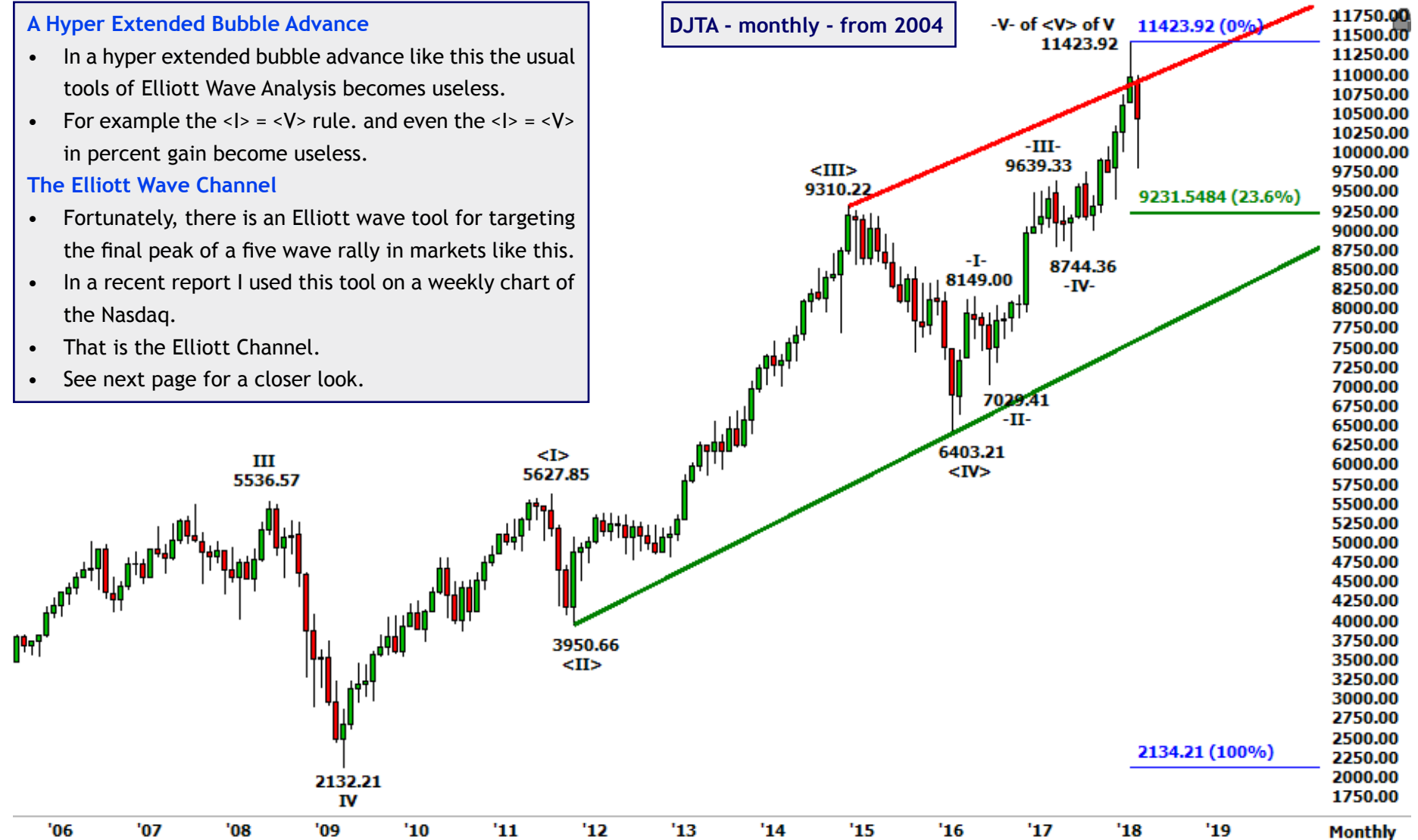
## A Hyper Extended Bubble Advance

- In a hyper extended bubble advance like this the usual tools of Elliott Wave Analysis becomes useless.
- For example the  $\langle I \rangle = \langle V \rangle$  rule, and even the  $\langle I \rangle = \langle V \rangle$  in percent gain become useless.

## The Elliott Wave Channel

- Fortunately, there is an Elliott wave tool for targeting the final peak of a five wave rally in markets like this.
- In a recent report I used this tool on a weekly chart of the Nasdaq.
- That is the Elliott Channel.
- See next page for a closer look.

DJTA - monthly - from 2004





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## Another Elliott Wave Channel

- An Elliott wave channel within an Elliott Wave Channel
- Like Russian dolls.
- Not a good sign for the bulls.

DJTA - weekly - from 2015

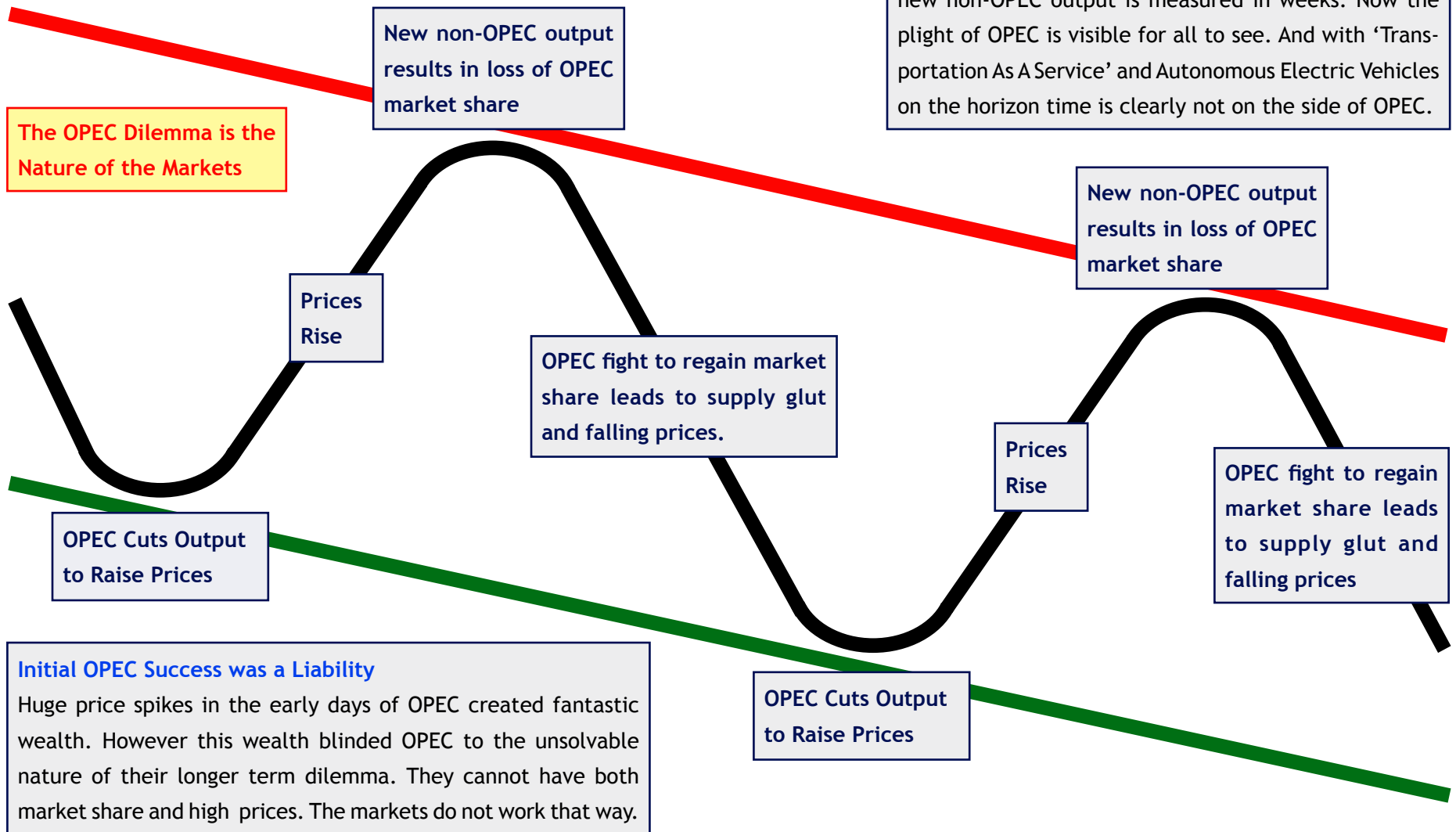


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## The OPEC Predicament

In the old days there was a multi-year lag between an OPEC engineered rise in crude oil prices and a surge of new non-OPEC output. But now with thousands of DUCs in North America that lag time between a price hike and new non-OPEC output is measured in weeks. Now the plight of OPEC is visible for all to see. And with 'Transportation As A Service' and Autonomous Electric Vehicles on the horizon time is clearly not on the side of OPEC.



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## The Most Bullish Outcome

- WTI sustains an advance from the 57.00 level
- Then one final leg up to a 71.25 area peak
- And then the larger decline begins

## WTI - weekly



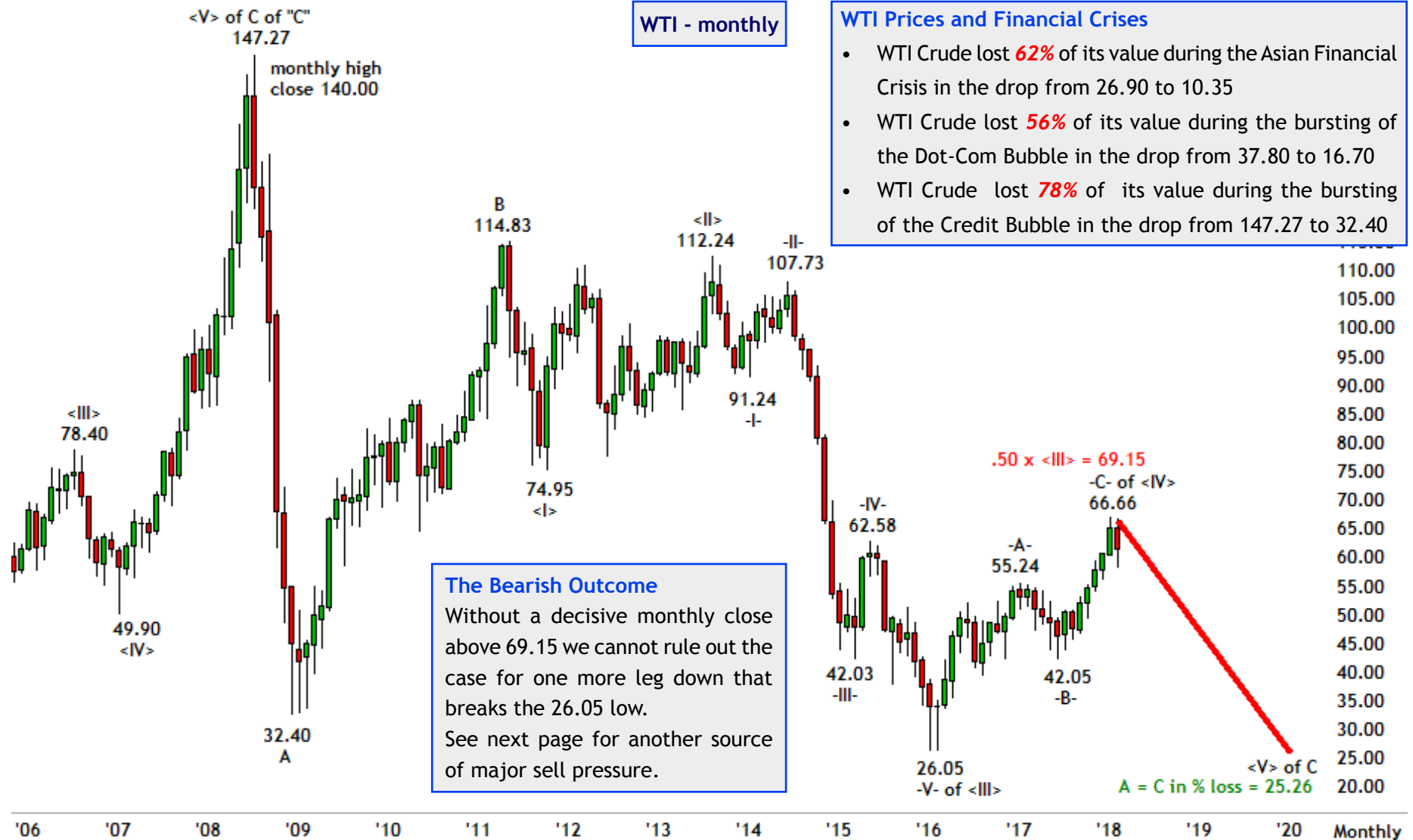
## Next Step Down

- A decisive weekly close below 54.00 targets the 41.55 to 34.75 range.
- And if 41.55 fails to hold?
- See next two pages.

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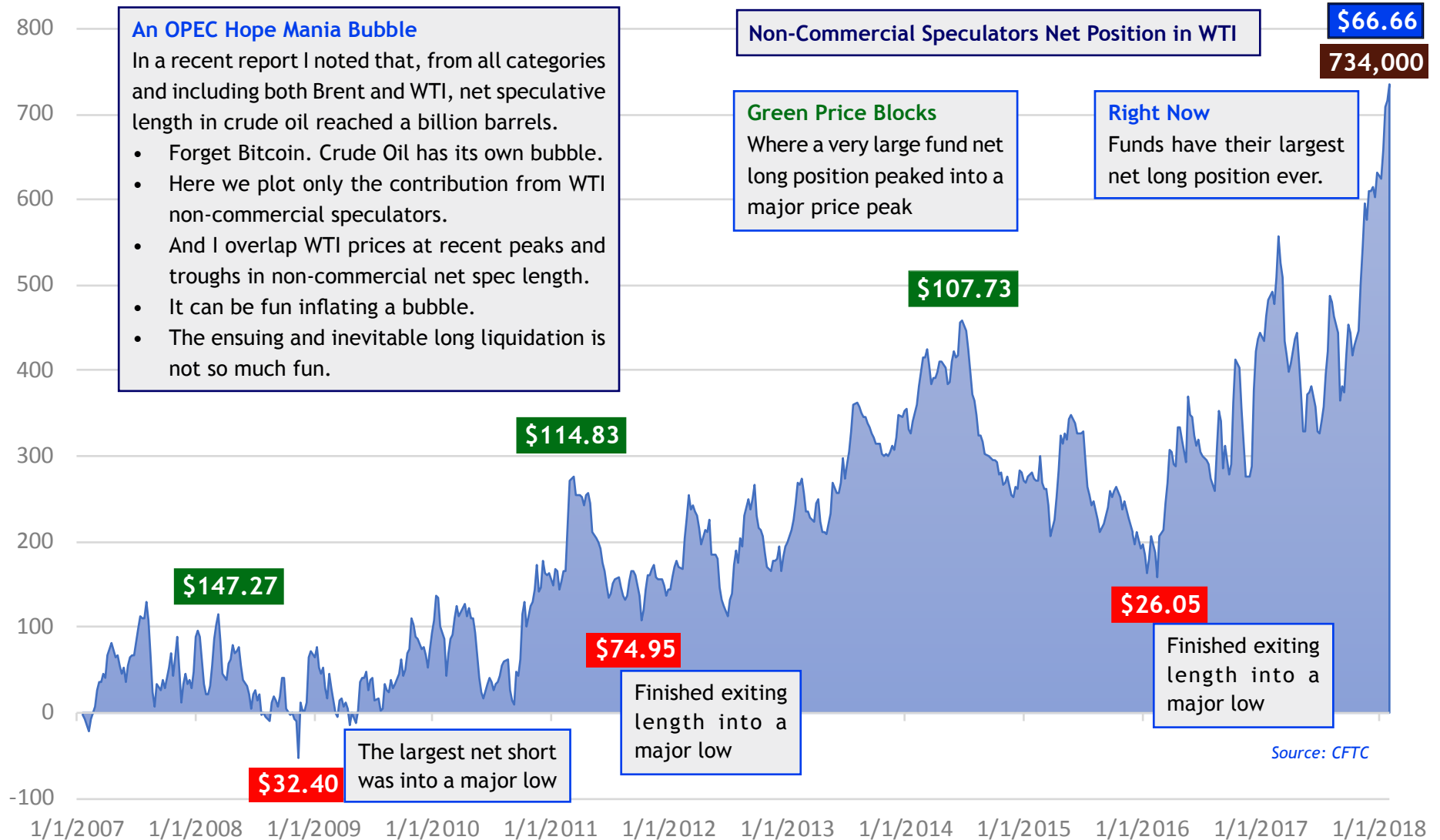
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for 08 Feb 2018





REUTERS

World Business Markets Politics TV

Pyeongchang 2018

The Trump Effect

Politics

North Korea

Earnings

Myanmar



BUSINESS NEWS FEBRUARY 13, 2018 / 4:09 AM / A DAY AGO

## Surge in global oil supply may overtake demand in 2018: IEA

Amanda Cooper

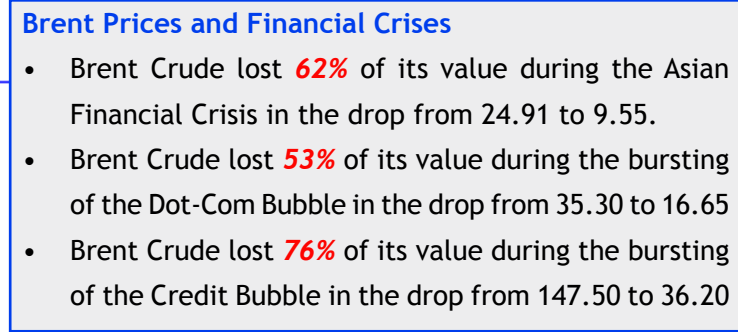
4 MIN READ



LONDON (Reuters) - The rise in global oil production, led by the United States, is likely to outpace growth in demand this year, the International Energy Agency said on Tuesday.



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## The Most Bullish Outcome

- ULSD sustains an advance by 1.8375
- Then one final leg up to a 71.25 area peak
- And then the larger decline begins

## ULSD - monthly



## The Bear Case

- A decisive weekly close below 1.8375 targets the 1.3500 to 1.1300 range.
- And if 1.1255 fails to hold?
- See next page.

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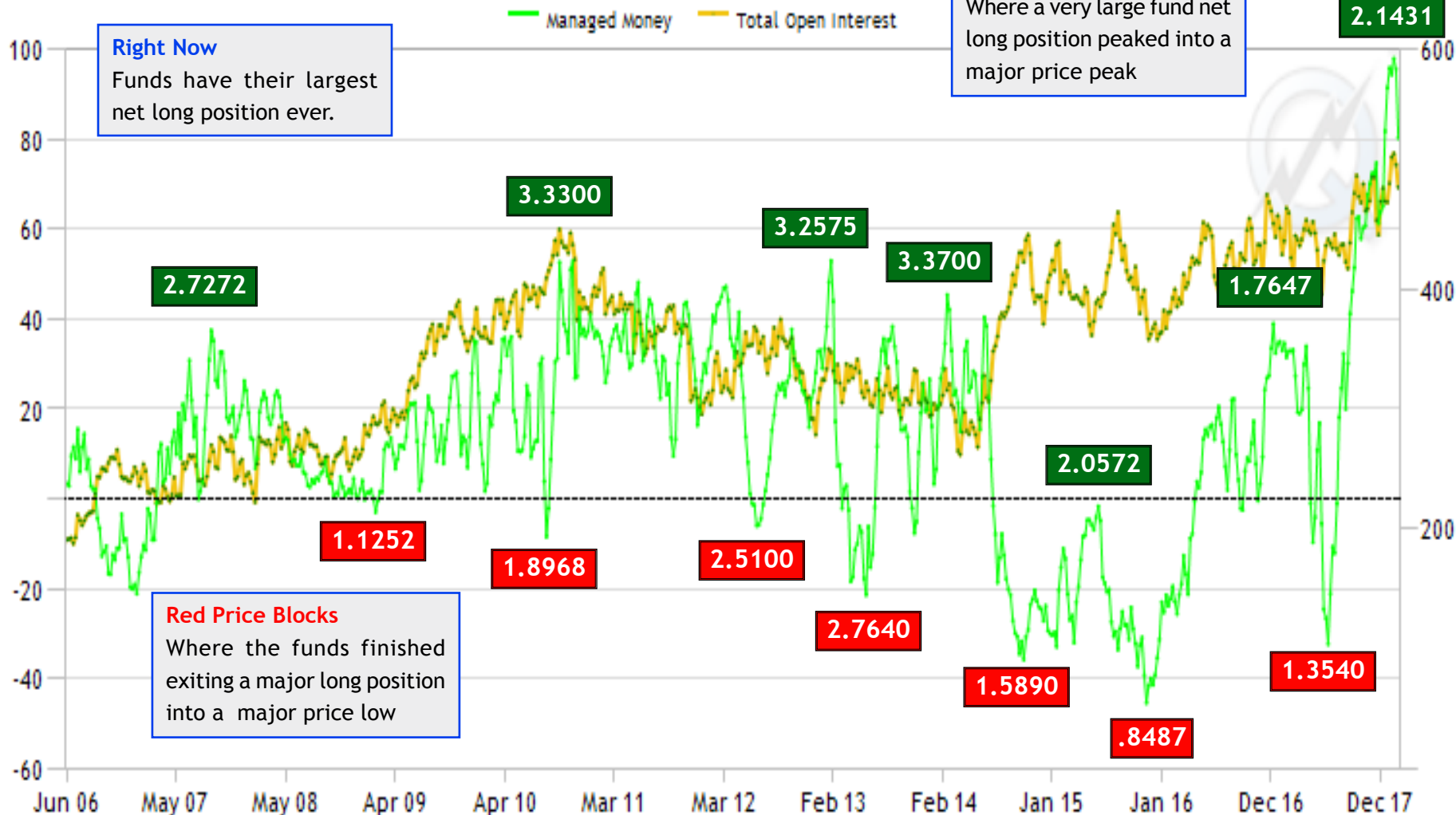
## Non-Commercial Speculators Net Position in ULSD

### Green Price Blocks

Where a very large fund net long position peaked into a major price peak

### Right Now

Funds have their largest net long position ever.



### Red Price Blocks

Where the funds finished exiting a major long position into a major price low

# ICAP Technical Analysis

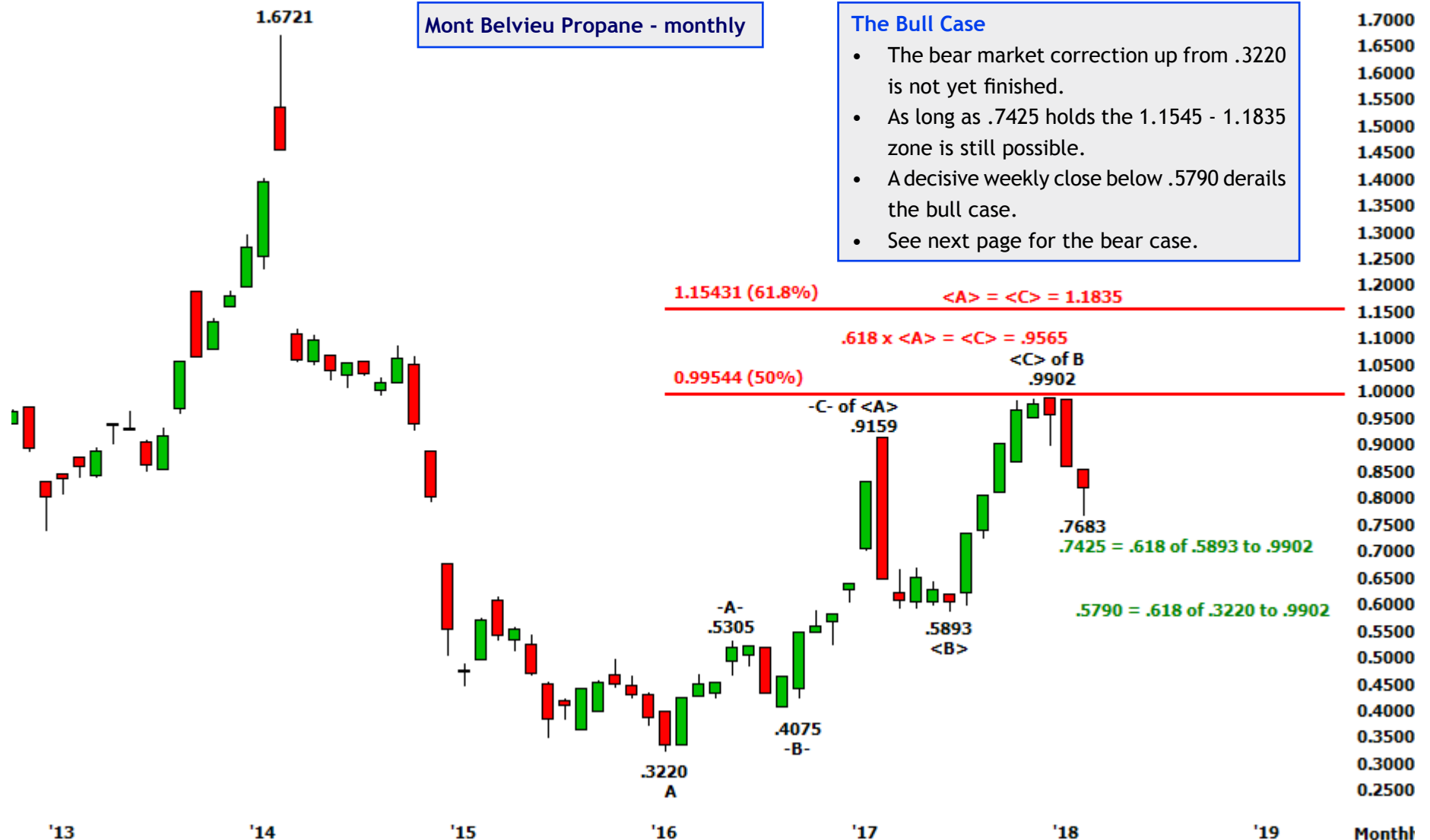
Walter J. Zimmermann Jr. wz@icap-ta.com

01 March 2018

Mont Belvieu Propane - monthly

## The Bull Case

- The bear market correction up from .3220 is not yet finished.
- As long as .7425 holds the 1.1545 - 1.1835 zone is still possible.
- A decisive weekly close below .5790 derails the bull case.
- See next page for the bear case.



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RBOB  
monthly



## Gasoline Prices and Financial Crises

- Gasoline lost **57%** of its value during the Asian Financial Crisis in the drop from .7290 to .3160
- Gasoline lost **56%** of its value during the bursting of the Dot-Com Bubble in the drop from 1.0960 to .4780
- Gasoline lost **54%** of its value during the bursting of the Housing Bubble in the drop from 2.9250 to 1.33510
- Gasoline lost **78%** of its value during the bursting of the Credit Bubble in the drop from 3.6310 to .7850

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01 March 2018

## Managed Money Net Positions in RBOB

Managed Money Total Open Interest

### Green Price Blocks

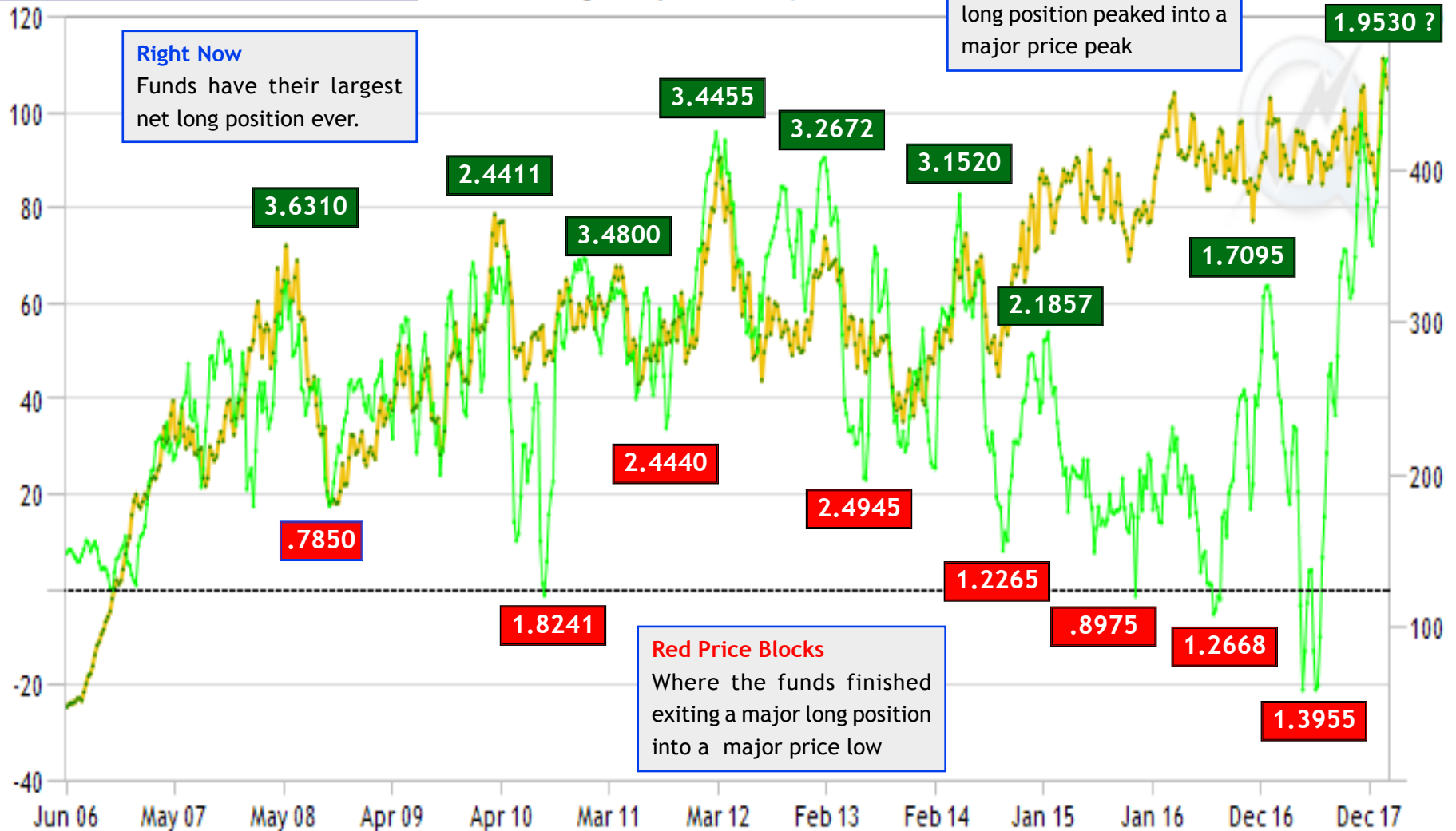
Where a very large fund net long position peaked into a major price peak

### Right Now

Funds have their largest net long position ever.

### Red Price Blocks

Where the funds finished exiting a major long position into a major price low



01 March 2018

'97	'99	'01	'03	'05	'07	'09	'11	'13	'15	'17	'19	Monthly
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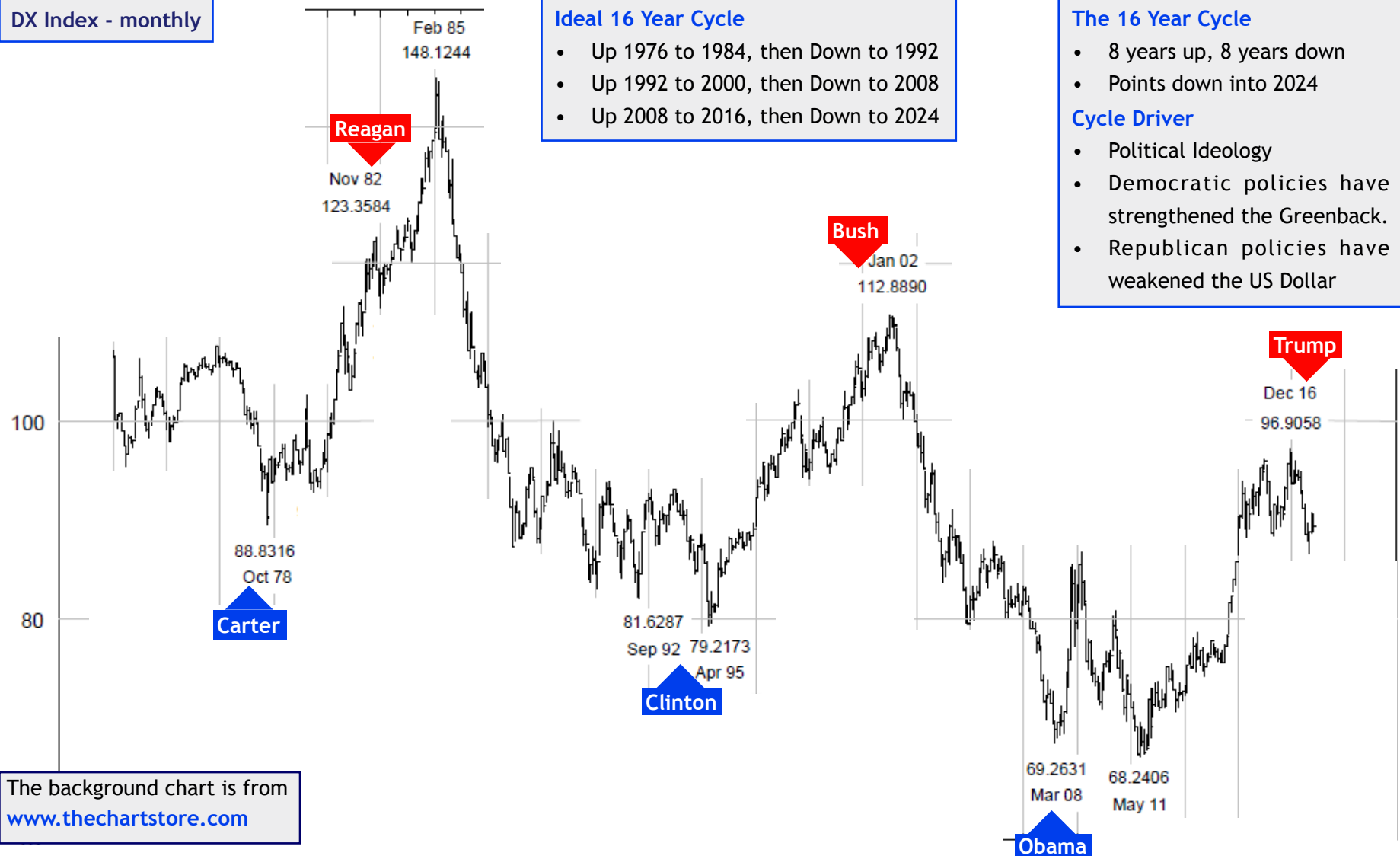


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01 March 2018

DX Index - monthly



## Ideal 16 Year Cycle

- Up 1976 to 1984, then Down to 1992
- Up 1992 to 2000, then Down to 2008
- Up 2008 to 2016, then Down to 2024

## The 16 Year Cycle

- 8 years up, 8 years down
- Points down into 2024

## Cycle Driver

- Political Ideology
- Democratic policies have strengthened the Greenback.
- Republican policies have weakened the US Dollar

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DX Index - monthly

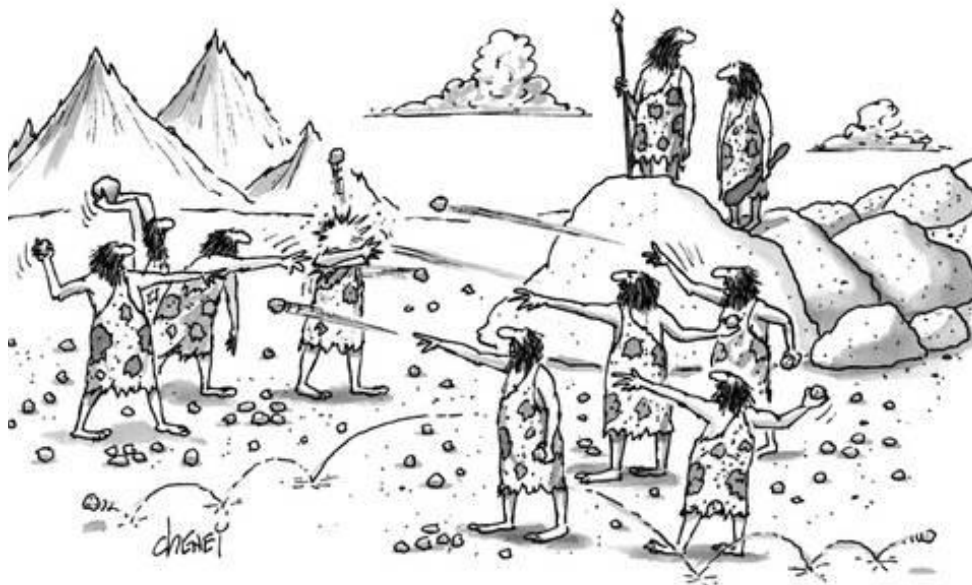
**Bull Case 16 Year Cycle Low - Price**  
My bull case for the 16 year cycle low looks for a completed ABCDE falling wedge into the vicinity of **62.000**



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01 March 2018



*"Trading is heavy today."*

## The Neuro-physiology of Human Trading Behavior

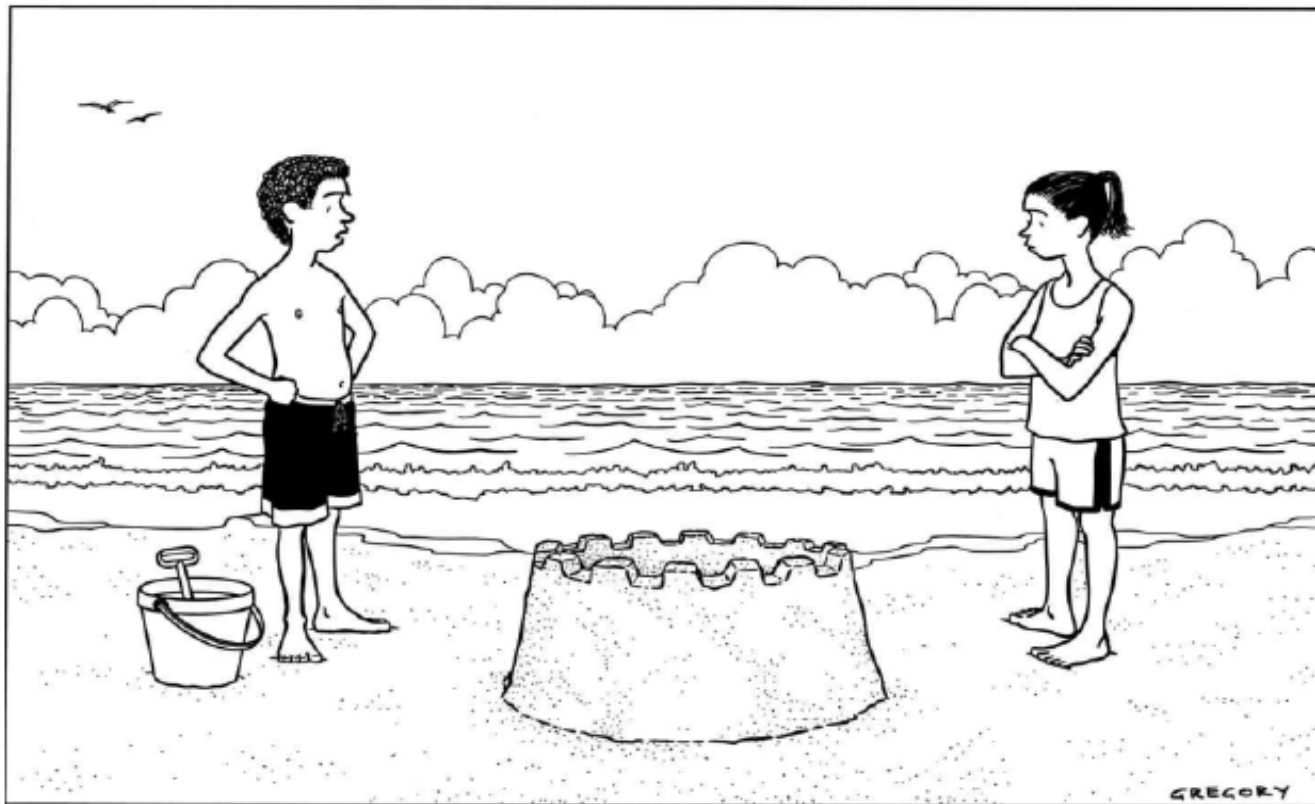
- As all know that cool headed human behavior can quickly descend into a highly emotional response when information that disproves a key belief is presented.
- Now we know the neuro-physiology.
- From research at MIT, when a subject is presented with facts contrary to an important belief, the blood flow to the pre-frontal cortex is redirected to the amygdala and the brainstem.
- Critical thinking capacity is shut down and areas associated with strong emotional responses are activated.
- Among other things, this explains why peaking and bottoming action in the markets is so highly emotional. Adverse price action shuts down the pre-frontal cortex.
- The flight or fight response is triggered by adverse price action.
- This is much more than a mere mood swing.
- It is a physiological reflex that, in this modern world, can complicate our efforts to extract ourselves from danger.



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*"I hope we can flip it before the tide comes in."*

## Laughter or Anger?

Does seeing this cartoon makes you angry instead of making you laugh?

then it make be time to break the emergency glass, and pull the 'Sell Some Shares' lever until you regain your comport zone



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