

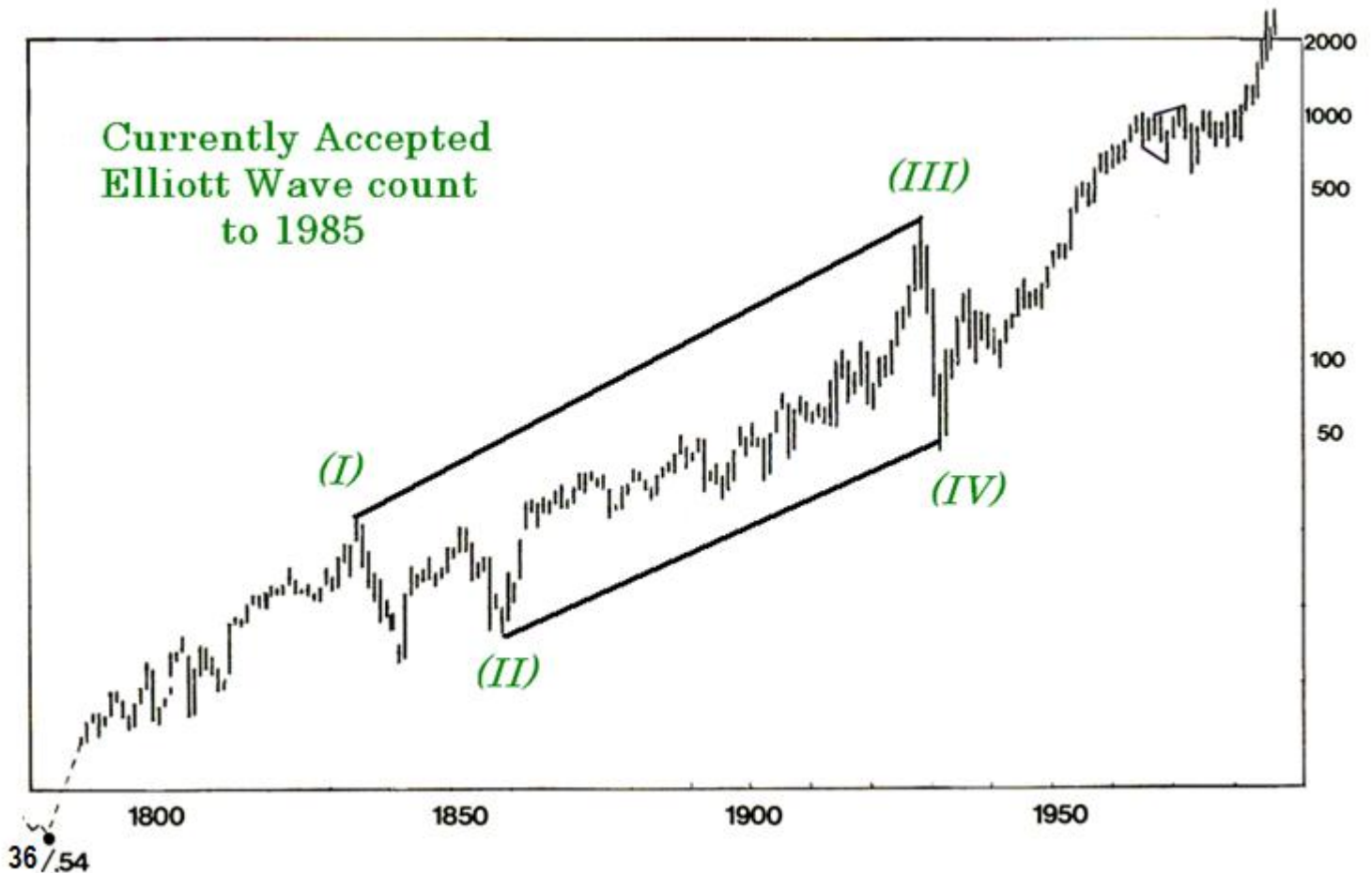


Exceptional Bear Market Letter

January 16, 2009

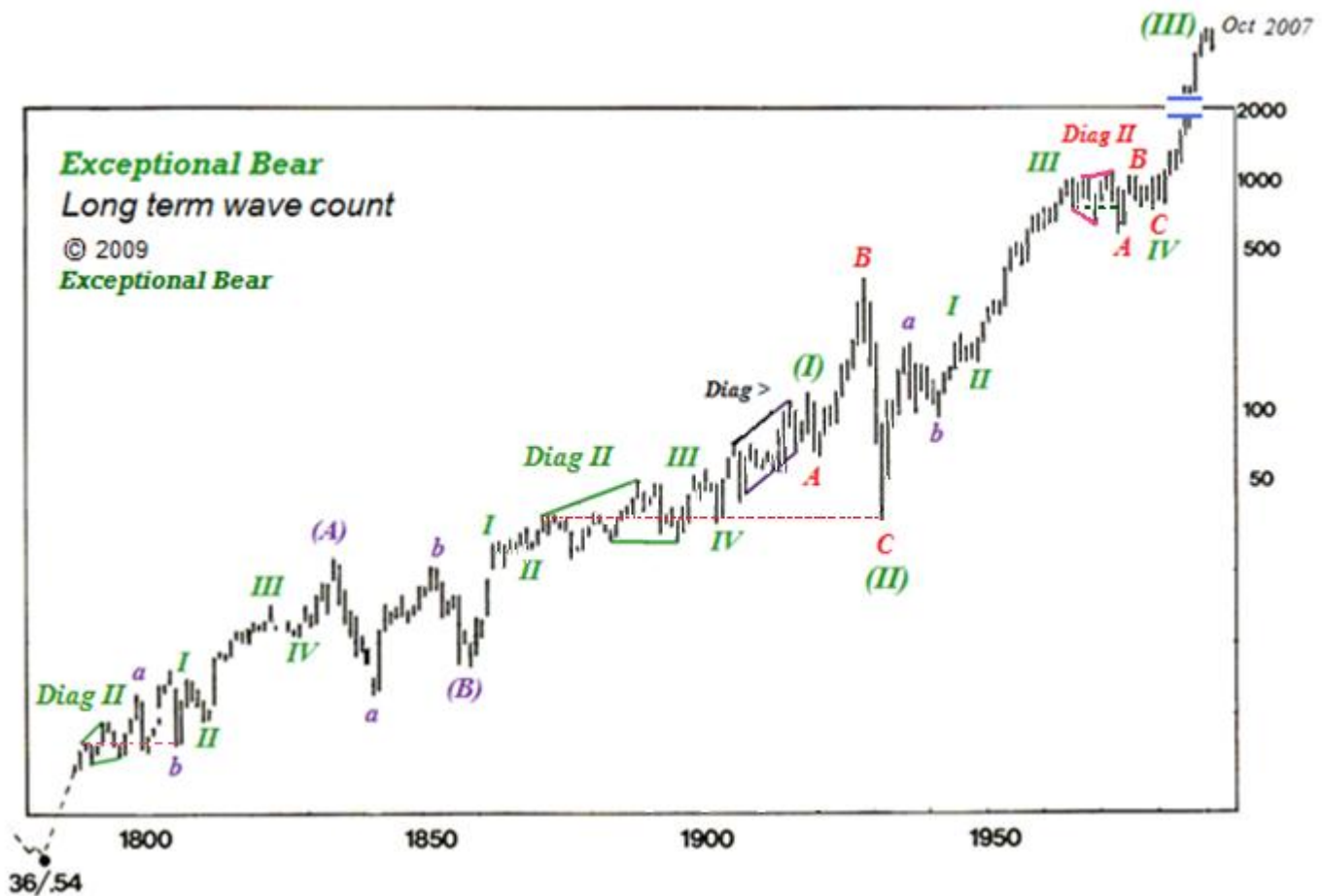
The Long-Term Wave count revised

If you compare the widely accepted long-term count below you will note the one above has mistaken the (A)-(B) transition for *waves (I) & (II)*, then lacks alternation between *waves (II) & (IV)*, since both are simple structures. What's more *Diag II's* are completely overlooked.



“In Nature’s Law, Elliott referred to a shape called a “A-B base” in which after a decline had ended on a satisfactory count, the market advanced in three waves and then declined in three waves prior to the commencement of the true five-wave bull market”....Frost and Prechter ridiculed Elliott adding “The authors have never seen an “A-B base”, and have every reason to believe that it does not exist.” Poor aptitude for pattern recognition and this faulty count are primary reason Prechter’s forecasts have been so far off for so long. Elliott’s wave principle remains the best forecasting tool, which at times has gotten the less than optimal interpretation behind much mystery. He predicted the 2007 *Supercycle wave (III)* peak twenty years early and some 11,000 Dow points short, with such a foundation, no wonder subsequent forecasts have rarely mad any money. To set things straight, we are in *Supercycle wave (IV)*, rather than *Grand Supercycle wave (IV)*, which makes a hell of a difference. *Supercycle wave (IV)* corresponds in degree to *Supercycle wave (II)*, the Great Depression. As such it will be no less severe than the Great Depression, yet one-tenth of the severity of a *Grand Supercycle wave (IV)*. Note in the above much of the chart is simply glossed over to fit the trend lines, it is impossible to have an accurate wave count without these two essential tools. Much less make any money!

In the chart below everything is crystal clear. The blue parallel lines at the top right mark a gap in the chart from 1989 to 2007. This was the extended *Vth* of the *(III)rd* ends in October 2007; it was an *irregular top*, also known as the *a-b transition*, which extended into December of that year. Notice below that each *Diag II* swiftly returns to its origin upon exhaustion.





“Opportunistically timed investments that maximize wealth”