

# Harmonic Edge

## Intermediate Term Trade Service System Performance and Market Analysis

Prepared by Kerry Szymanski  
December 31, 2010 – Annual Report

*There are two sections to this report. The first section is an update on the performance of the system and will be of interest to all subscribers. The second section contains market analysis and educational material that will be of interest to students of the market.*

### System Performance

#### Hypothetical Monthly Results

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2010	1.3%	2.2%	7.4%	0.4%	6.5%	0.3%	0.2%	2.1%	1.8%	1.4%	0.5%	0.4%
2011												
2012												

#### Current Trade

Opened	B/S	# Shares	Symbol	Price	Date Closed	Current or Closed Price	P/L

Note: Individual lots are included in closed trade statistics when the entire position is closed.

#### Recent Closed Trade(s)

Opened	B/S	# Shares	Symbol	Price	Date Closed	Closed Price	P/L
1-07-10	Buy	250	SDS	\$34.00	1-13-10	\$33.14	<215>
1-25-10	Buy	225	SSO	\$37.20	3-08-10	\$40.05	641.00
2-11-10	Buy	225	SSO	\$35.85	3-10-10	\$40.15	967.00
2-18-10	Buy	225	SSO	\$37.50	3-17-10	\$41.90	990.00
2-24-10	Buy	225	SSO	\$37.47	3-23-10	\$42.45	1,121.00
3-03-10	Buy	225	SSO	\$39.00	3-31-10	\$42.05	686.00
4-07-10	Buy	300	SDS	\$30.42	05/06/10	\$32.50	624.00
4-16-10	Buy	300	SDS	\$29.40	05/06/10	\$33.60	1,260.00
4-27-10	Buy	300	SDS	\$30.17	05/19/10	\$33.30	780.00
5-14-10	Buy	300	SDS	\$31.64	05/26/10	\$34.50	858.00
6-10-10	Buy	270	SSO	\$35.64	06/24/10	\$34.95	<186>

7-23-10	Buy	275	SSO	\$36.81	8-11-10	\$36.19	<171>
8-02-10	Buy	275	SSO	\$37.85	8-11-10	\$36.19	<454>
8-06-10	Buy	275	SSO	\$37.95	8-11-10	\$36.19	<484>
9-02-10	Buy	260	SSO	\$35.85	9/20/10	\$39.20	871.00
9-17-10	Buy	260	SSO	\$38.76	9/28/10	\$39.35	153.00
10-4-10	Buy	320	SDS	\$29.88	10/18/10	\$27.30	<826>
10-25-10	Buy	220	SSO	\$43.00	11-12-10	\$43.25	55.00
11-18-10	Buy	350	SDS	\$26.50	11/30/10	\$27.25	262.00
11-23-10	Buy	350	SDS	\$27.40	12/01/10	\$26.39	<356>
12-01-10	Buy	220	SSO	\$43.46	12-10-10	\$46.02	563.00

### Account Status

Started	\$50,000.00
Closed Trade Result	\$7,140.00
Closed Trade Equity	\$57,140.00
Open Profit/Loss	
Total System Equity	\$57,140.00

### Current Month Results

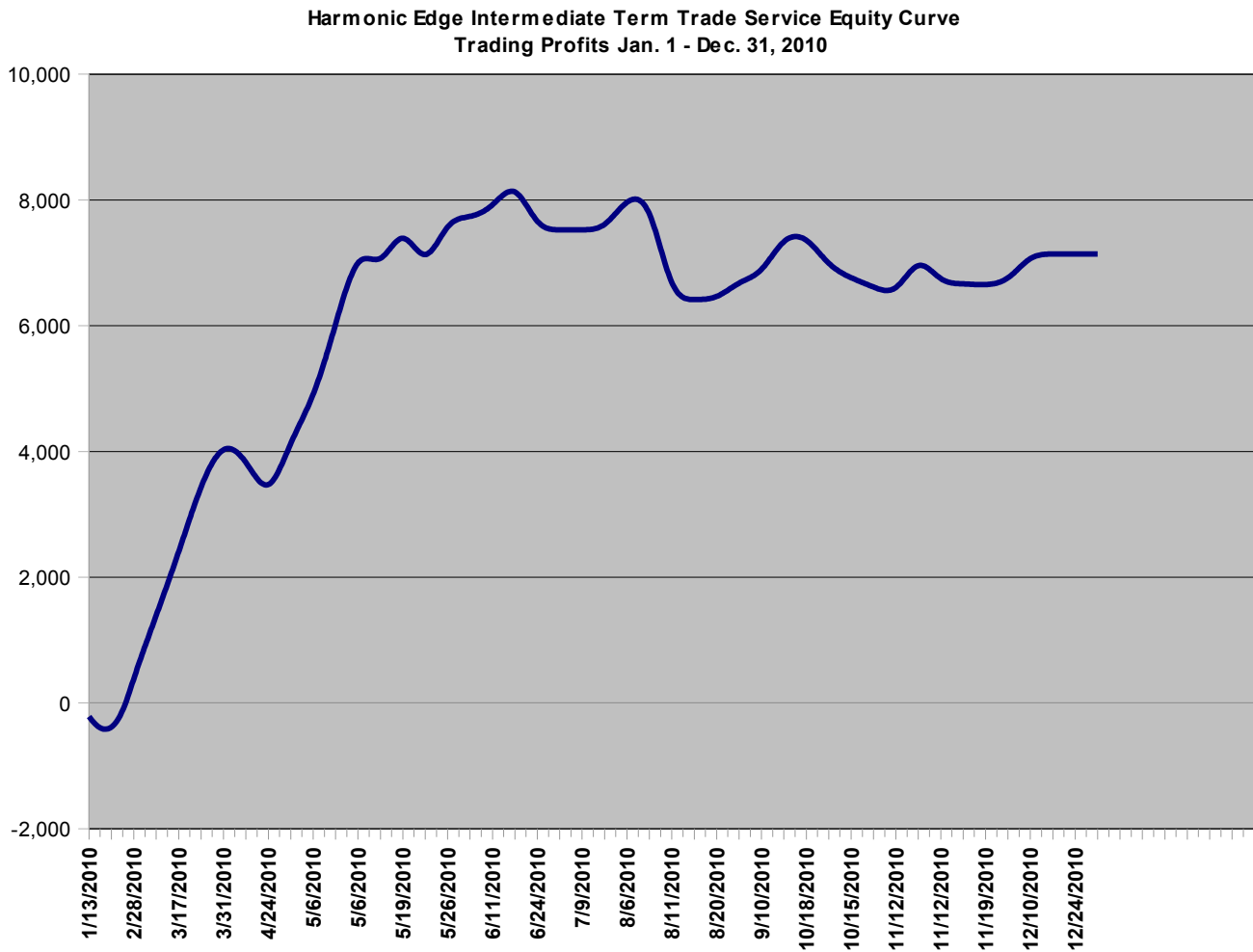
Starting Balance	\$56,933.00
Change To Open Position(s)	
Closed This Month	\$207.00
Current Balance	\$57,140.00
Percent Change	+0.4%

### Statistics

Annual Return	14.3%
Number of Wins	5
Number of Losses	5
% Win Loss Ratio*	50.00%
Largest Win	\$4,405.00
Largest Loss	\$1,109.00
Average \$ Win	\$1,914.00
Average \$ Loss	\$486.00
Profit Factor	3.9:1
Worst Draw down	\$1,247.00 or 2.1%

*\* if counting individual lots instead of groups - 14 Wins & 7 Losses. W/L ratio is 66%*

## Equity Curve



### Important Warning about These Results

It is important that you understand that these results must be treated as hypothetical. Hypothetical performance results have limitations, a few of which are described below. No representation is being made that your account will or is likely to achieve profits or losses similar to those shown here. There are frequently sharp differences between hypothetical performance results and the actual results achieved by any trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program, which

cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

### **Commission costs**

We do not include commissions and execution costs when displaying hypothetical results. These costs will reduce your actual trading results from what you see here. We strongly suggest the use of a *deeply discounted broker* like Interactive Brokers.

### **Over trading**

If you over trade (use excessive margin) this system, sooner or later draw down could kill your account.

### **Monitoring of price action.**

If you watch an open trade every minute, or even every hour or two, you can drive yourself crazy. This system is designed to profit from large multi-week or month moves. The vast majority of intraday price movement is irrelevant to this kind of a system. Constantly watching the intraday price fluctuation will stress you out and ultimately have no effect on the outcome. We suggest you step back and just let each trade unfold. Don't allow every tick or retracement to cause you stress. It will not make the system any better but will definitely play havoc with your peace of mind. You have an experienced index analyst watching the market for you, so go ahead and focus on your other trading activities or priorities.

Note: You can only ignore the price fluctuations if you have enough equity and are not over trading or making excessive use of margin.

## **Market Analysis**

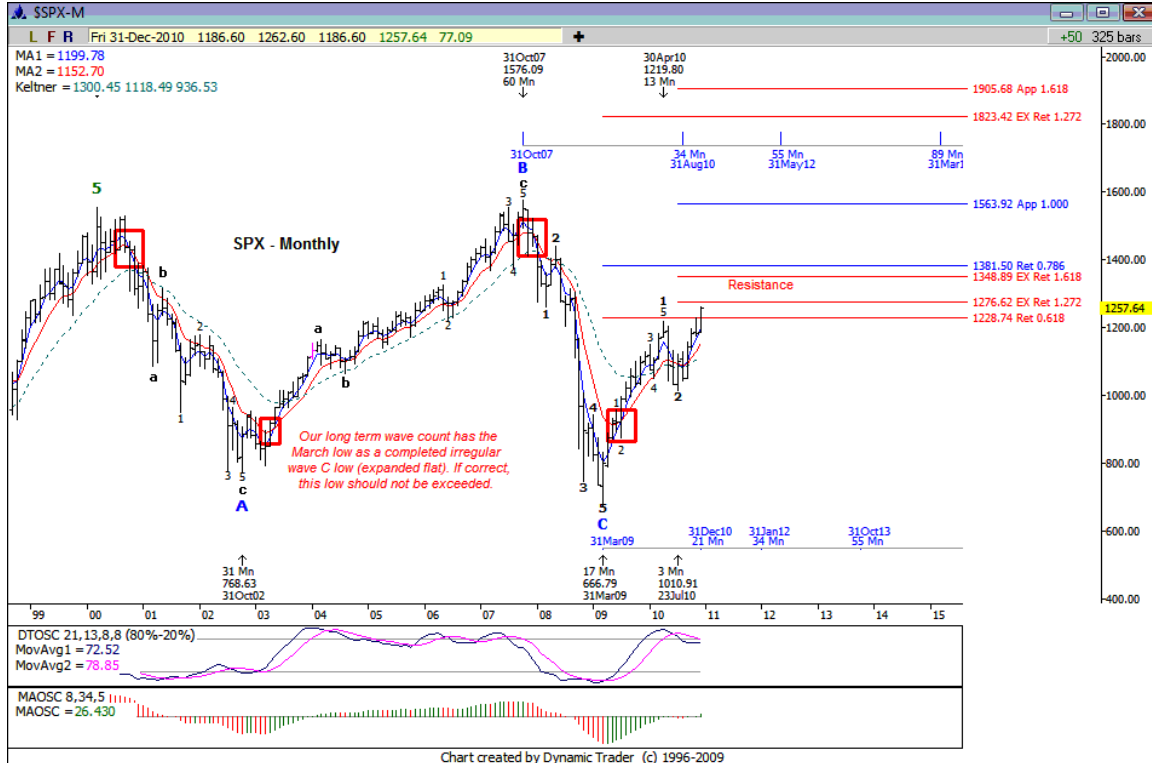
In this second section of the report, we will touch on some of the factors that we have considered in our analysis and what our view of the market is at the present time.

### **Macro or Long Term Market Position (Monthly Chart)**

It is our opinion that a multi-decade wave five pattern completed in March of 2000. The subsequent price action has been what amounts to a decade long "irregular" ABC correction in terms of Elliott wave analysis. Irregular in the sense that wave "B" actually managed to exceed the wave five high by about 24 points. This conclusion is further supported by the more traditional ABC correction clearly observable in the monthly chart of the S&P 100 (OEX) Refer to the 6-11-10 or the 8-27-10 report.

The move down off the October 2007 high is impulsive and counts out very clearly as five waves. The March 2009 low appears to be the end of this correction and we don't believe this level will ever be exceeded. While we cannot rule out a double dip type recession this appears very unlikely in our view. The majority of the analysts we monitor share our view. However, there are some skilled technicians with bearish views and wave counts to back them up. It takes two opinions to make a market.

## Macro or Long Term Position (Monthly Chart)

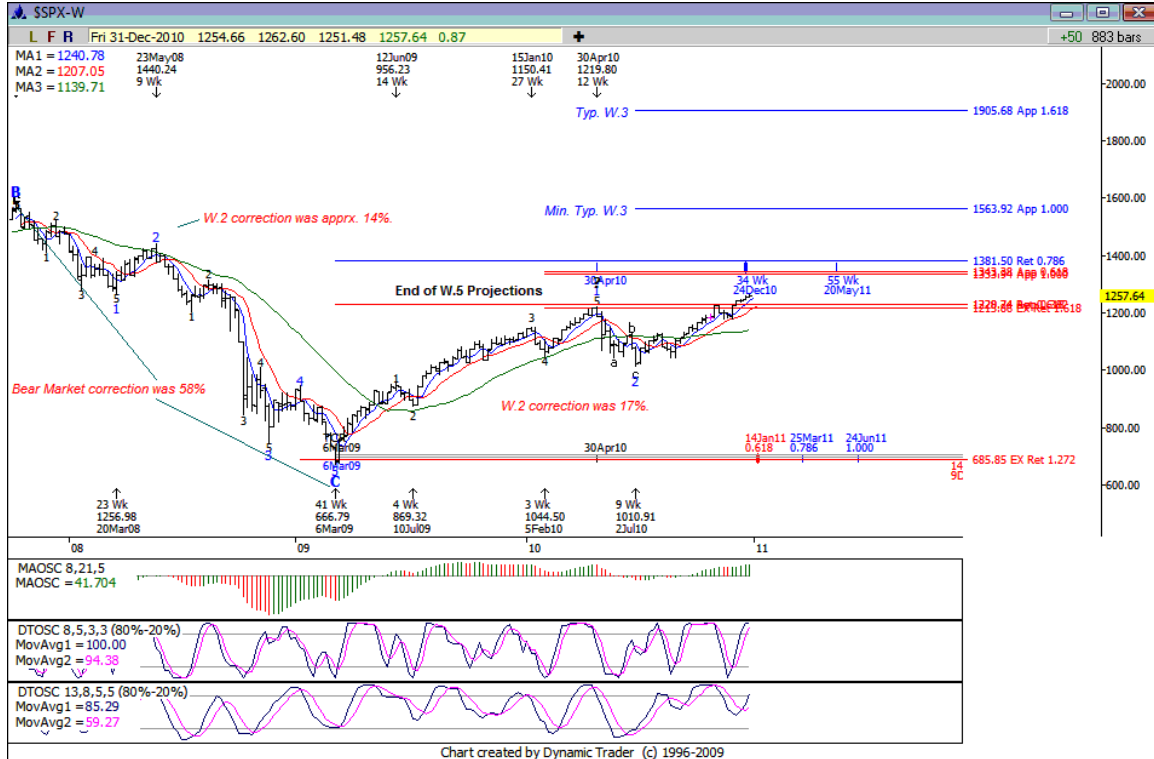


The monthly chart shows strong zones of resistance (Fibonacci retracement clusters) between 1228 – 1276 that must fail for the index to move higher. We believe the April 2010 high is a completed wave one and the July 2010 low is a completed W.2 even though its approximately 65 points shy of the minimum typical W.2 (50% retracement of W.1). Note: There is an alternate wave count that was illustrated in the November 19, 2010 report.

The four boxes on this chart denote where the fast moving average was able to close above or below the slow moving average and the market confirmed or followed through. These are very large market moves and hence powerful signals. The current signal remains bullish although it appeared to be shifting to bearish for several weeks during the wave two retracement.

The 21 period oscillator remains bearish and near the overbought zone. However, as you can note this oscillator spent much of the time between 2004 and 2007 bearish or near the overbought zone so we do not read too much into that. The next bullish reversal in the 21 period oscillator should confirm a W.3 in progress. The moving average oscillator (MAOSC) moved modestly higher this week reflecting the markets gains. The technical picture on the monthly chart remains bullish.

## Intermediate Term Position (Weekly Chart)

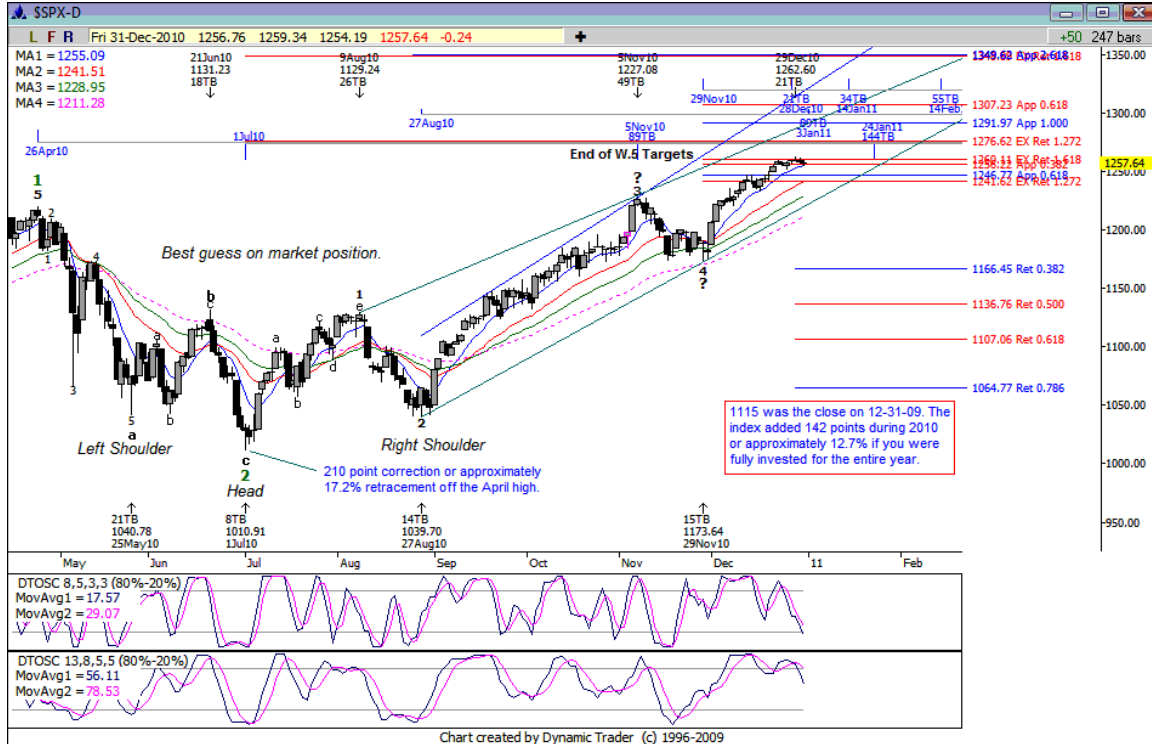


On the weekly chart the internal wave structure reveals a fairly clear five wave impulse pattern off the March 2009 low that terminated in the April 2010 high. While this move could be counted as a complex correction – the price action was far more impulsive than corrective in our view, so we have labeled it as a completed W.5:1 for the time being.

With the close above the April 30<sup>th</sup> W.1 high we have the initial confirmation that the July low should be a completed W.2 correction. The implications are quite profound since this is a very bullish wave count and signals a powerful multi-year rally should lie ahead.

The 13 period oscillator is bullish and showing a divergence from the previous momentum highs and the 8 period is bullish overbought. The fast moving average (blue line) remains well above the slow moving average (red line) giving us a *primary long signal*. The technical position of the weekly chart remains bullish at this time. However, the immediate upside appears limited and the potential for correction appears high.

## Short Term Position (Daily Chart)



## Market Recap/Economic Indications

The S&P edged a bit higher on a holiday shortened week posting a gain of 1 point or approximately 0.1% on the week. Pending Home Sales rose for a second consecutive month posting a gain of 3.5% in November and beating consensus estimates.

## Chart Harmonics

With the index essentially unchanged from the previous week we remain in the heart of the end of W.5 projections shown on the daily chart. While the index can certainly move higher from here we do have strong technical resistance at these levels that extends to the 1275 area. A five wave pattern appears at or near completion and we see a high probability of retracement or correction in the weeks ahead.

## Technical Indicators

The 13 period oscillator is now bearish with a clear divergence from the previous momentum highs and the 8 period oscillator is bearish and approaching the oversold zone. Market Internals are listed in the Appendix to the report.

## Economic News

The coming week has some important announcements for traders to digest with potential market moving new data points including the ISM Manufacturing report on Monday, the FOMC minutes on Tuesday, Jobless claims on Thursday and the employment report on Friday along with a speech by the chairman of the FOMC.

<http://www.briefing.com/Investor/Public/Calendars/EconomicCalendar.htm>

## Current Trade Position and Commentary

*At present we are flat with 100% in cash.*

We remain in cash and waiting for the market to stop us into the S&P short fund SDS. With traders returning from their holiday break and a full slate of economic news scheduled its a safe bet we will see a significant increase in volume and volatility.

**Trading futures, Forex and stocks is risky. Past performance is no guarantee of future performance. Trade and invest at your own risk. This information is supplied for the paid subscriber and may not be copied or distributed in any manner without the express written consent of Harmonic Edge.**

## Appendix

The following market internals are also evaluated in determining trend, trade strategy and tactics.

