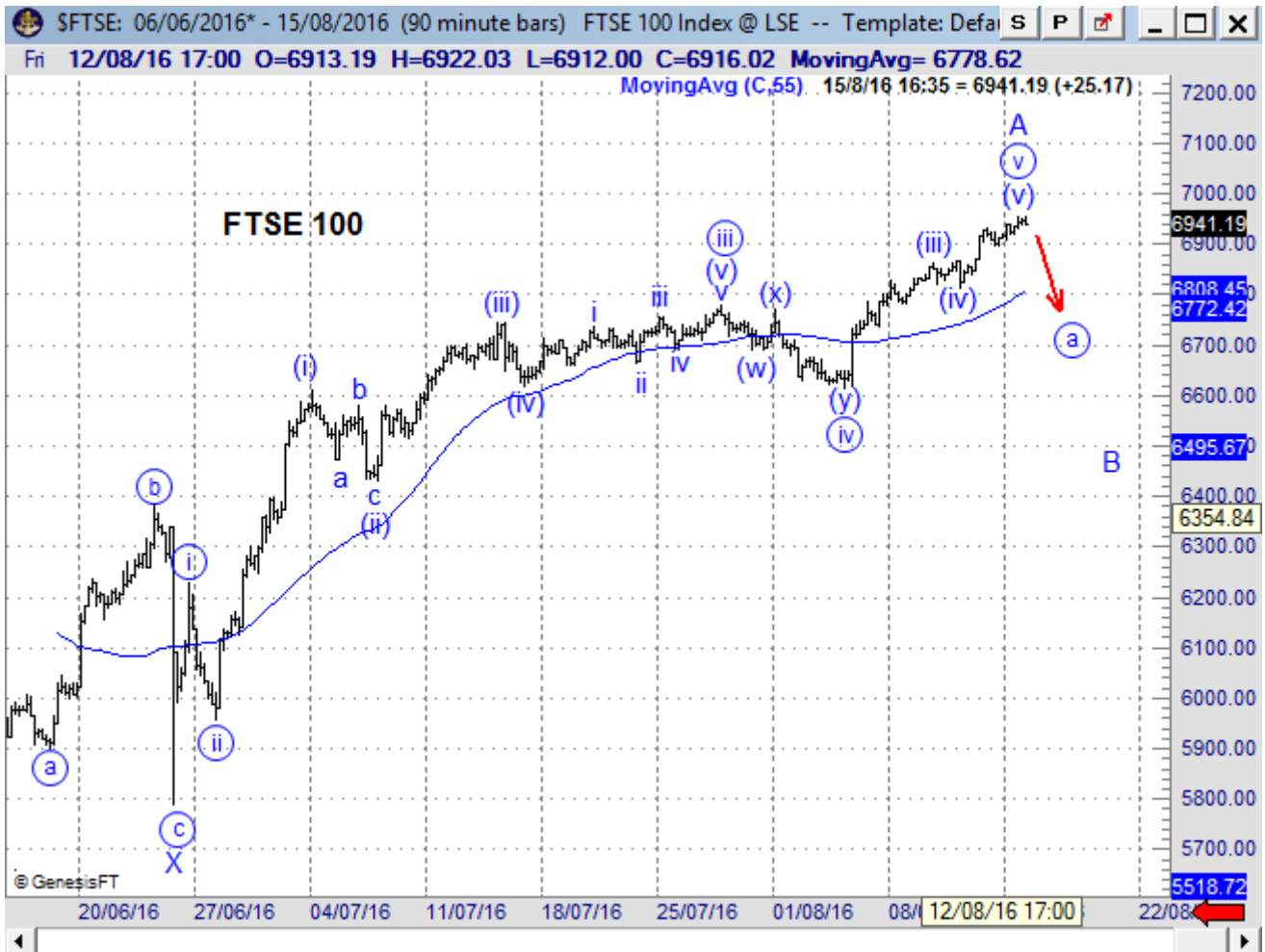




FTSE Short Term Forecast

Tuesday 16 August 2016



FTSE short term forecast: **Down**

a decline to 6700

Selling area: **6960 or higher**

Stop loss: **7060**

Model portfolio exposure: **50% short**

All levels are for the FTSE 100 cash

BTI: **Bullish**

34-day BTI: **Bearish**

13-day BTI: **Neutral**

Top 20 Differential: **Bearish**

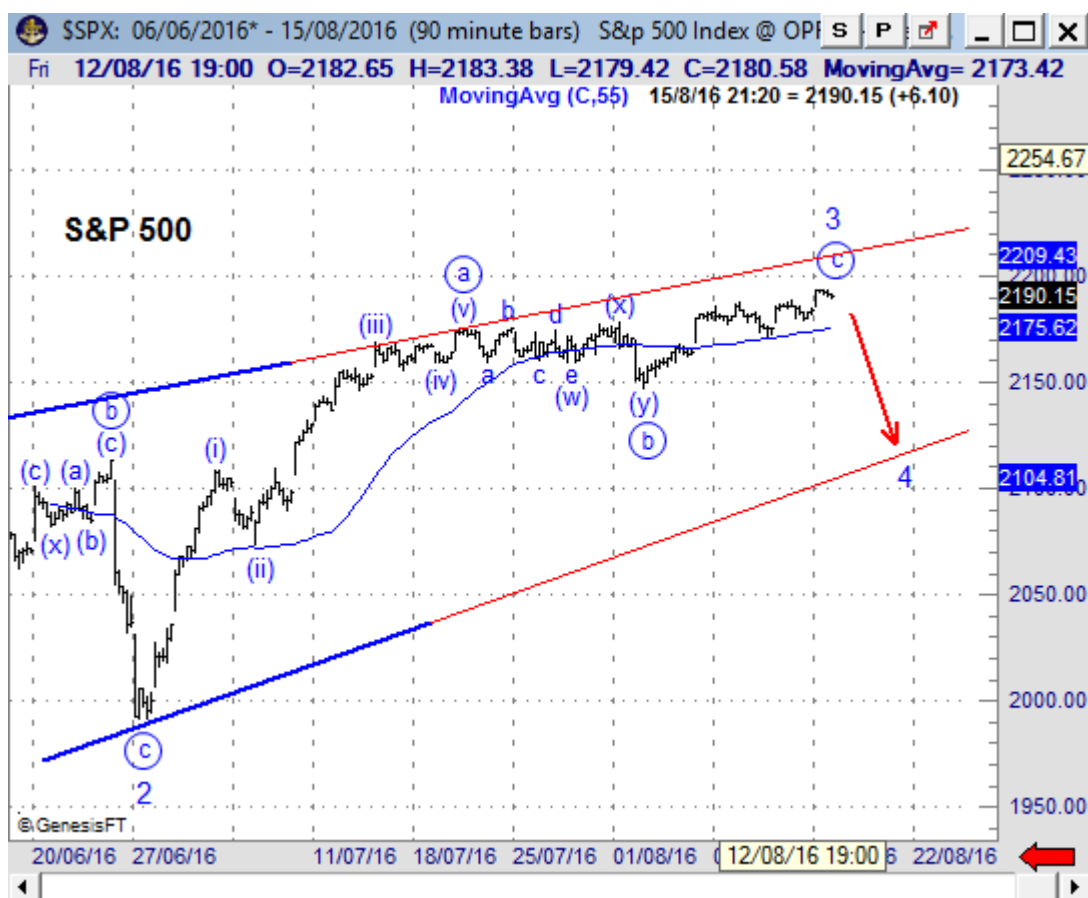
Wave count: **Bearish**

U.S. markets: **Bullish**

The BTI turned up on 29 June and is still rising. The FTSE closed up again boosted by the weak pound and strong oil. But today in pre-open we see the opposite, oil is down and the pound is up. What goes up come down and vice versa. Today we have some inflation numbers at 9.30, UK consumer price index and producer price index, this will have an influence on GBP/USD and EUR/GBP. So we could see some movements in the FTSE after 9.30. The rally is the final wave of the advance but the structure is not clear which means it is not easy to tell if yesterday's high at 6955 is the top. We must allow further upside before the top as the rally in the S&P does not appear complete. But upside is limited I don't think the FTSE will rise above 6985. The top is somewhere between 6955-6985. I have already discussed the overbought indicators, and the fact that the moves up extends. I also discussed a valuable indicator to follow in this environment, the BTI. The BTI is rising (bullish), it is not difficult to make money in this environment you simply have to follow the right indicator. When the BTI is rising the FTSE is likely to go up.

As I said I will give more importance to the BTI until there is clear evidence the FTSE rallies no longer extend. The strategy here is to follow the direction given by the BTI and trade in that direction, the wave count becomes the secondary tool to support the BTI. However, when the timing indicators are overbought as they are now we can go short. Going short now is the right thing to do because the 34-day BTI and the Top 20 Differential are overbought. When going short and because the moves extend we will go short as high as possible and near the top of the range. In this environment you don't want to go short too early. And when going long we need to see a pullback in three waves accompanied by rising BTI. This time the pullback could be deep because we are at the end of a five-wave rally that started on 24 June and the 34-day BTI is overbought. I expect a multi-week decline before the next rally starts. This decline is wave B in three waves [a,b,c (circle)] and an initial target is 6700 which is wave a (circle).

S&P 500



The S&P continues to push higher, the rally from the bottom of wave b (circle) is now in seven waves. A rally is seven waves means an extension in one of the waves or an ending diagonal. In the case of an ending diagonal inside wave c (circle), yesterday's high at 2194 is the top of the third wave. The index should pullback today to complete the fourth wave near 2182 then it should rally again to 2200 to complete the fifth wave.

What is the BTI (Bullish Trend Indicator)?

The BTI is a sentiment indicator used to assess the mood of investors. When the daily change in the BTI is down sentiment is bearish. When the daily change in the BTI is up sentiment is bullish. The BTI is used to assess the near term direction of the market and confirms the Elliott wave count.

Top 20 Differential

The Differential moved down from 3.2% to 2.5%. The Differential is still overbought, this supports the wave count, we are near a top.

Epic	Name	Sector	Trend	Wave	Differential	Status
ABF	Associated British Foods	Food Producers	N	up	8.1%	Overbought
AZN	Astrazeneca	Pharmaceuticals	N	down	-3.5%	Trending
BARC	Barclays	Banks	N	up	18.7%	Overbought
BLT	BHP Billiton	Mining	down	up	6.6%	Trending
BP	BP	Oil & Gas	down	up	1.0%	Trending
BATS	Br American Tobacco	Tobacco	up	up	1.1%	Trending
BT	BT Group	Telecoms	up	down	-5.8%	Trending
DGE	Diageo	Beverages	N	up	-1.6%	Trending
GSK	Glaxosmithkline	Pharmaceuticals	N	up	8.2%	Overbought
HSBA	HSBC	Banks	down	up	11.8%	Overbought
LLOY	Lloyds Banking	Banks	N	up	3.9%	Trending
NG	National Grid	Utilities	N	up	-1.2%	Trending
PRU	Prudential	Insurance	N	up	7.4%	Trending
RB	Reckitt Benckiser	Household Goods	up	up	-0.9%	Trending
RIO	Rio Tinto	Mining	down	up	0.6%	Trending
RBS	Royal Bank of Scotland	Banks	down	up	6.5%	Trending
RDSB	Royal Dutch Shell	Oil & Gas	down	up	1.6%	Trending
SAB	SabMiller	Beverages	up	up	-13.9%	Oversold
ULVR	Unilever	Food Producers	up	up	-0.4%	Trending
VOD	Vodafone	Telecoms	N	up	1.1%	Trending
		Average			2.5%	

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