WOODSON WAVE REPORT 2012

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CLASSIC CRASHES

In this special report, we'll look at some of the most historic classic crashes that have occurred over the last eighty years dating back to the 1929 crash that started the Great Depression of the thirties. But let us begin with the current crash – the crash of 2008, if you will. To gain a better understanding of this decline we must go back to the top in 2007. As we all know most historic panic/crash lows have occurred a Fibonacci 55 days after the high. And it might be safe to say that the crash of 2008 probably would have actually happened in 2007 if not for some government interference. You've heard us refer to such events as the "Fed manipulated bounce" back in 1999 before the meltdown in 2000. In every case, we contend that when the government tries to avoid a meltdown or crash by intervention, they save nothing – actually, they make matters worse. Thus, the headlined of a recent Woodson Wave Report newsletter: "LET IT BE, BERNANKE, LET IT BE." The crash of 2008 is no exception – actually it's a perfect example of how attempted government intervention in the markets accomplishes just the opposite of its intended purpose. In every case, we contend that the market ends up a lot worse off than it would have been had the Fed just left it alone. Let the market take care of itself – it always does. What we feel the Fed did in this situation was turn a one day crash into a multi year recession and possibly a decade long depression.

It is safe to say that the stock market was poised to turn in a classic crash scenario back in August of 2007. In a classic crash scenario the market falls precipitously in the days just before options expiration day - the third Friday of the month. That day- Friday, is a HUGE down day, only to be outdone by the following Monday as those that missed the "opportunity" to sell with the herd jump in on Monday. Now all the lemmings are falling off the cliff. That is followed by "turnaround Tuesday" as the market puts in a lower intraday low before reversing course and finishing the day to the upside. That is the format for the “classic crash” scenario.

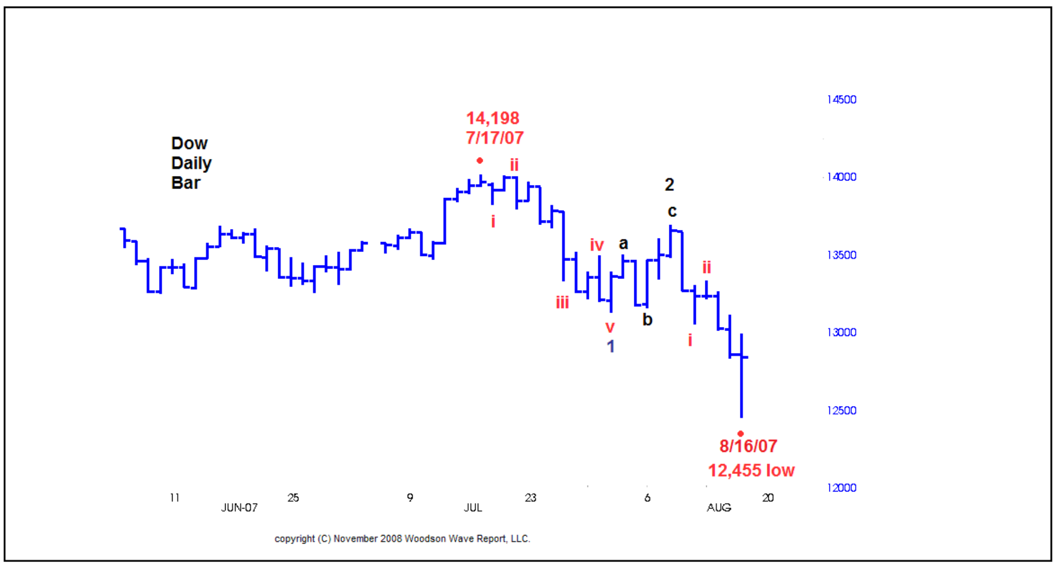
The Dow had topped on July17, 2007 at 14,198. WWR was poised, pointing toward our Fibonacci sequence for a possible panic/spike low. From the August 15, 2007 report:

“…this second wave bounce will give way to wave three of three down, which should be a swift and severe spiral downward, and represent the most ideal time for any panic/crash to occur.”

One day later, Thursday, August 16, 2007 from the WWR Email Alert:

“Most panic/crash lows occur a Fibonacci 55 days after the high, which we know is September 10, 2007. A Fibonacci 34 days after the high marks this Monday, August 20, 2007. Since this is a third wave, and a Fibonacci turning point looms just three trading days away, there is a possibility this thing could crash over the weekend.”

The chart below depicts the Dow as of August 16, 2007.



The next day was Friday, August 17, 2007 – option expiration day. Bernanke and the Fed know that historically markets have turned in “classic crashes” in the fall over the weekend of options expiration day, or the third Friday of the month. They also occur on a Fibonacci number of days after the high – usually 55 days. But in this case everything was pointing toward a panic/crash scenario over options expiration weekend of August 17, 2007. Overnight the overseas markets were spiraling downward, out of control. The Dow and S&P futures were tumbling. With only the trading day left until option expiration and many traders holding shorts, Bernanke stepped in with an overnight injection of liquidity in the markets before the open on options expiration day, Friday August 17, 2007. We all know what happened from there.

From WWR September 23, 2007:

"How well timed was that injection of liquidity back on August 17th? Those who were short felt the most pain. With just the end of the day for options expiration in front of them, those who sold August calls were punished. They had no choice but to buy back their shorts for a higher price. The Fed knew exactly what it was doing. They may as well have taken those folks out to the alley, kicked them in the groin and stolen all their cash, it may have hurt less. That was shot number one."

"In September, the Fed lowered interest rates. Shot number two... When wave three down arrives the Fed will be out of bullets. It will be interesting to see them watch the market plummet while firing their blanks. That's OK Bernanke, Greenspan suffered through a crash in 1987 too. ..As far as the Fed is concerned, as we have stated, charted and argued for years, the Fed flows the market. The traders are the dogs and the Fed is the tail. The tail does not wag the dog"

So instead of a one day crash, we saw a "Fed manipulated bounce" higher. It appeared to some that the Fed had "saved the day" or "saved" the markets from a crash. But WWR would have none of that. From the January 17, 2008 report titled FED SHANANIGANS:

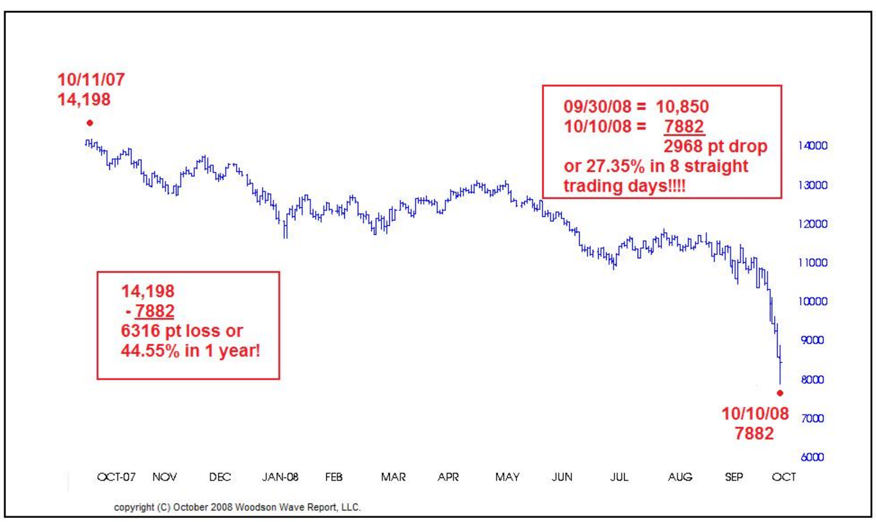
"As we go to press, Ben Bernanke is being grilled on Capitol Hill and the market continues to tumble… Remember at that time (August 16th to be exact) the Fed injected liquidity in the market and to some "saved" the market from a potential crash. WWR suggested the Fed did no such thing – at most - they merely prolonged the inevitable… I ask, what did the Fed "save?" Nothing – they've just delayed the inevitable. The market is no better off today than it was six months ago; actually it's a lot worse"

Suppose for a moment the Fed did nothing on August 16, 2007. Options expiration day is tomorrow. European and Asian markets are down sharply. The Dow and S&P futures point toward a HUGE decline at the open. The Fed does nothing and the market crashes. In fact it puts in the "classic crash" scenario. The Dow falls hard on Friday, August 17, 2007 and even harder on Monday, August 20, 2007. On "turnaround Tuesday" the market registers an intraday low before reversing course and moving higher. Now let's suppose that the market crashes with the biggest percentage drop in history. The Monday October 19, 1987 crash saw a decline of 508 points which was a 22.63% drop on that day alone. Tuesday saw the Dow dropping to 1616 or a loss of 631 points from the 2247 high which represented a loss of some 28% from last week's high.

So let's suppose that by Tuesday, August 20, 2007 the Dow suffered the worst one or two day percentage decline in history – a decline of 30%. From the 13,119 high on Thursday August 15, 2007 a 30% decline would represent a drop of some 3935 Dow points giving us a target price of 9184. If (and I know this is a big if and every decline is different) that scenario had played out, it would have likely marked the end of the decline just as the crash in 1987 marked the low. From Dow 9184 in August of 2007, we would have stumbled, built a base and started our way toward recovery over a year ago because as history has shown, at almost every crash or capitulation point – when everyone throws in the towel, the market puts in a long lasting low and starts the road to recovery. Instead what we have now is a Dow that touched 7882 some 12 months later and is threatening to go much lower. Even if the 10/10/08 low is THE low, the economy will lag the market and the next several months or years are going to be tough enough. And if the Dow goes much lower, unemployment will soar. Buying in everything – not just stocks, but everything will screech to a halt as a deflationary depression sets in. If we can define inflation as more dollars chasing higher prices, then deflation is just the opposite - less dollars not chasing lower prices – meaning prices of everything are falling but nobody is buying – they want to hold on to their precious cash. Cash is King in a deflationary environment. Prices of everything fall – homes, commodities, equities, stocks – there is "nowhere to hide" except in cash, to quote Bob Prechter of Elliott Wave International. Or to quote Jeff Macke from CNBC's fast money show – the only positions he has in this market are two: "cash and fetal."

In summary, instead of an historic crash over one year ago, what we have now is a 44.55% percent decline (see chart below) and counting. And even if the low is already in we're looking at falling prices and job losses for the next several months at best and several years at worst. Now we all know the Fed intervention in the markets is nothing new and one could argue that they've done a lot of good and prevented worse things from happening. But in this case I for one would have liked to have seen what would have happened had the Fed just left well enough alone on August 16, 2007. Thanks Fed. Next time keep your fingers out of the pie.

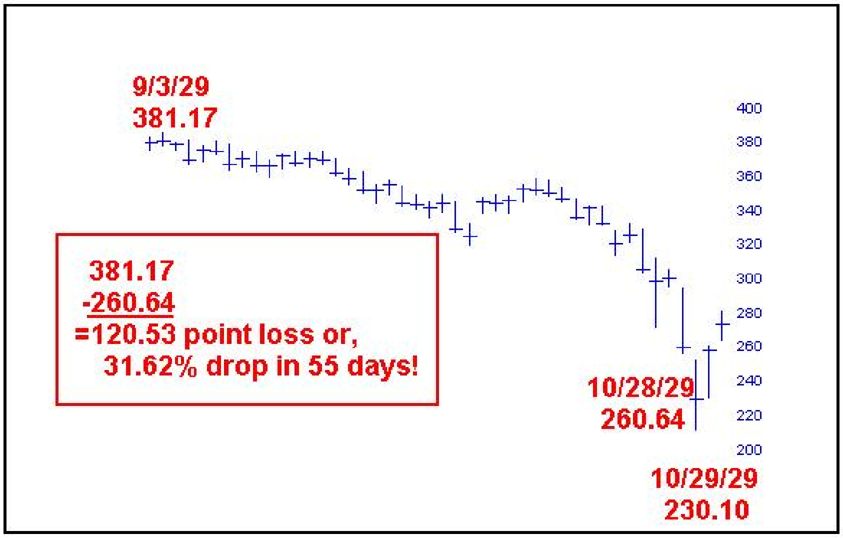
THE CRASH OF 2008



THE CRASH OF 1929

Now let's look at some of the "classic crashes" of the past. As we've stated, most panic/crash lows tend to occur some Fibonacci 55 days from the high. The crash of 1929 was no exception. While the crash itself caused a 31% drop in the Dow in a Fibonacci 55 days, by the time the low was in some three years later in 1932, the market had lost 89%!!

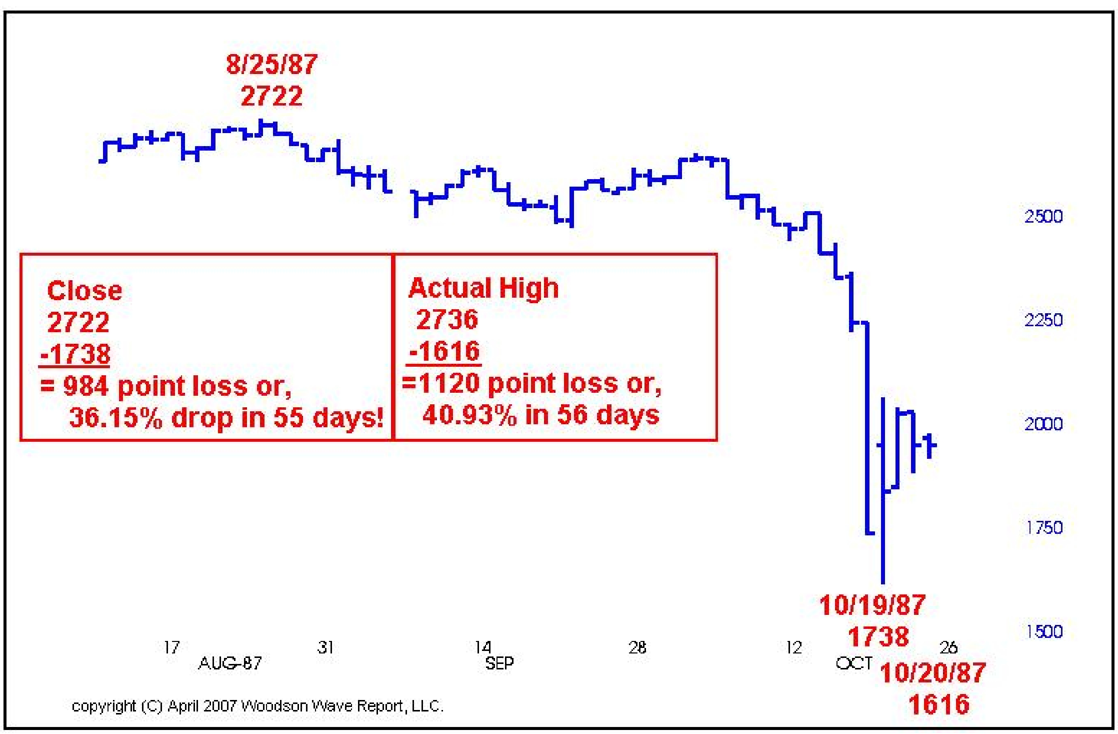
9/3/29 plus 55 days = 10/28/29



THE CRASH OF 1987

We detailed the crash of 1987 earlier in this report. The chart below depicts the price action from the high into that historic day. Once again, the market crashed a Fibonacci 55 days after the high on Monday October 19, 1987. “Turnaround Tuesday” saw the Dow plummet to 1616 before reversing course higher. The market would not put in a lower low from that day forward. Another shining example of how once we reach a state of capitulation, the market establishes an “identifiable” low.

8/25/87 plus 55 days = 10/19/87



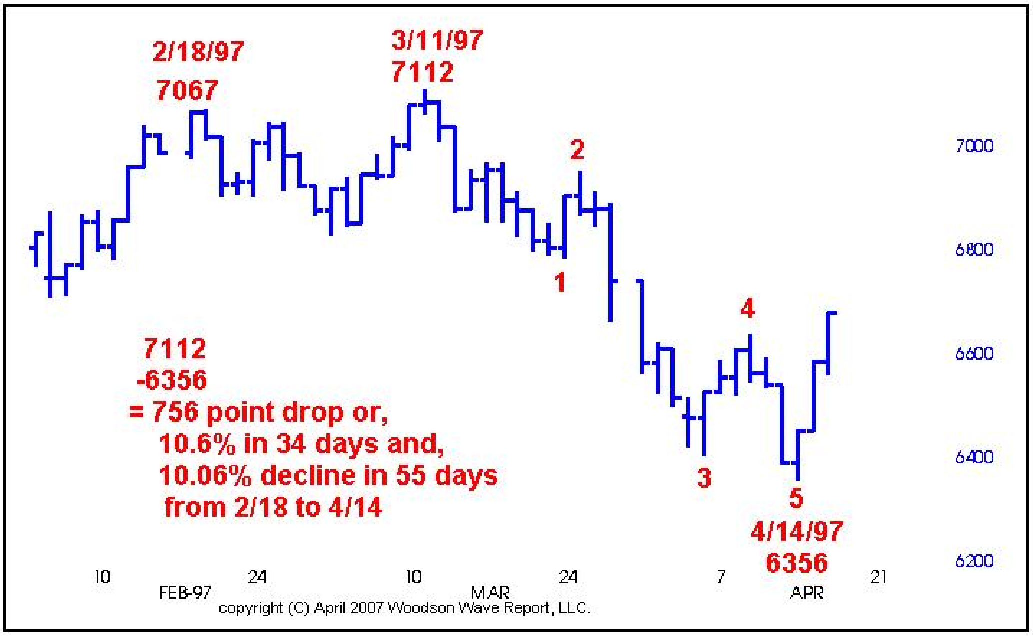
THE 1996 DECLINE

I remember 1996 like it was yesterday. This is the one that got me hooked on Elliott wave. I had read “Elliott Wave Principle” by Frost and Prechter and started keeping my own hourly wall chart at the beginning of that year (I still do to this day). I was having trouble figuring out the wave count. Then after the 5796 high in May I calculated that if the market was to bottom it most likely would happen a Fibonacci 55 days after the top. Keep in mind at that time the market had not witnessed a decline of any significance for many years. 1994 saw a long and dragged out sideways market - a “stealth bear” as some labeled it. So for me to see that the market actually put in a low to within one day of Fibonacci perfection was all I needed. My curiosity had been peeked by the 1987 crash almost ten years earlier. How could all the stocks go down so hard at the same time? They couldn’t possibly all had the same bad earnings or reports on the same day. Something else is moving the markets - something much larger than news. The July 1996 decline was all the fuel that was needed. Thus was born Woodson Wave Report.

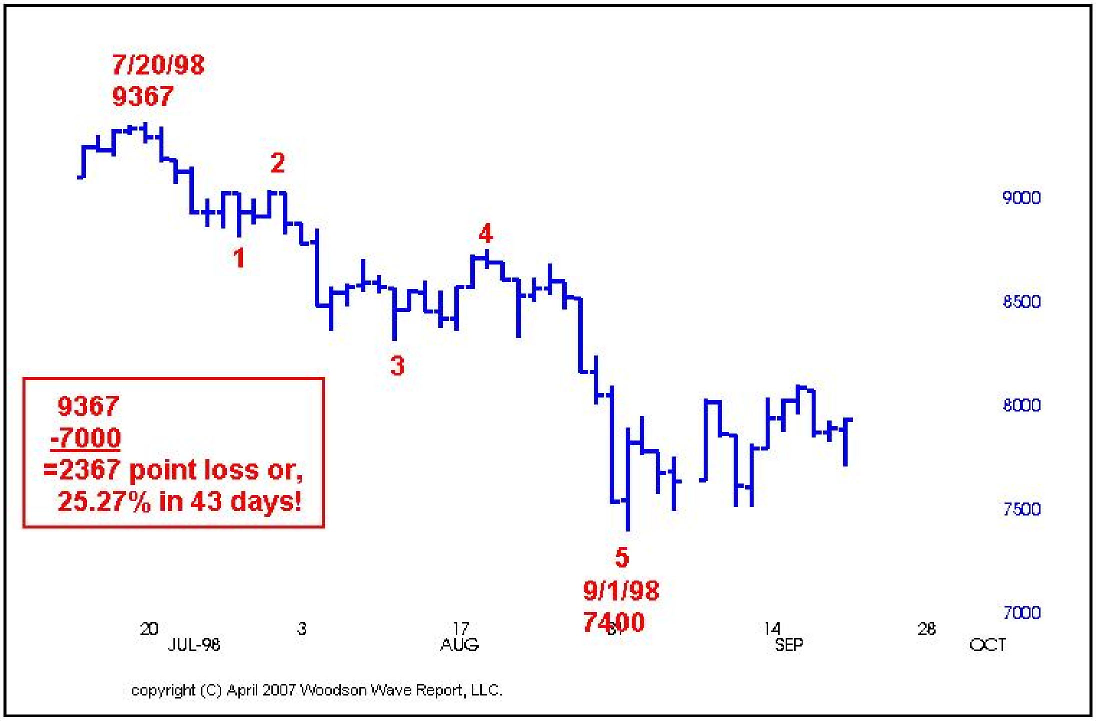
5/23/96 plus 55 days = 7/17/96

1997
DECLINE

2/18/97 plus 55 days = 4/14/97
2/18/97 plus 21 days = 3/11/97
3/11/97 plus 34 days = 4/14/97



1998 DECLINE
LONG TERM CAPITAL COLLAPSE



1999 DECLINE

WWR 8/2/99:

"Wave 3 will be the strongest and most severe. It should bottom 55 days from the high. Wave 4 will be a long, sideways affair, making those September options worthless on option expiration day, 9/17/99. Wave 5 will be the final blow, with a closing low on 10/18/99 the next trading day after October options expire on 10/15/99."

8/24/99 plus 55 days = 10/18/99

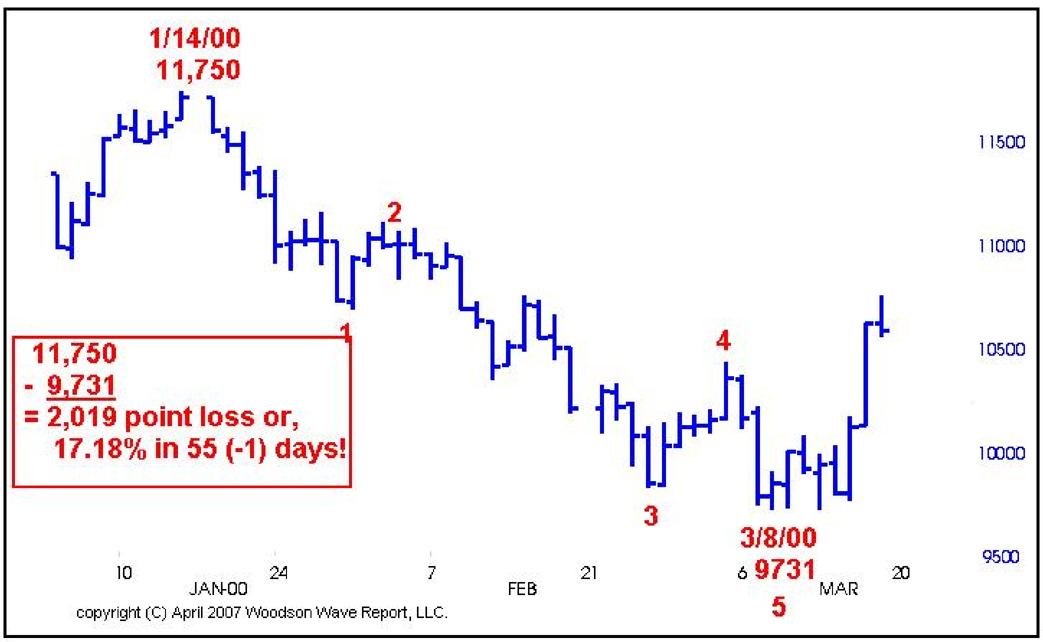
2000 BUBBLE BURST

From WWR December 20, 1999 Special Interim Report:

"In regards to time, we still have several Fibonacci relationships that point to January 15, 2000…it is now a prime candidate for the new high…As this date marks a Saturday, expect the turn to occur one trading day to either side, Friday, January 14 or Monday, January 17, 2000."

"Wouldn't it be ironic if Y2K came and went with no major problems and as a result, while most people would expect the market to rally, it actually began a descent just after the new millennium?"

1/14/00 plus 55 days = 3/9/00



WWR February 10, 2000:

"Remember, panic/spike lows tend to occur 55 days from the high. Fifty-five days from the January 14 high gives us a target date of March 9, 2000."

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Dale Woodson, editor.

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