

CRUDE OIL: THE SLUMBERING LEVIATHAN

by: Gene Nowell



Do not let the oil tycoons “buffalo” you into thinking Crude Oil is going back up to the high prices of last summer. The possibility always exists, but in my opinion it is going lower before it goes back up to those levels. If you look at the two following charts, you will see the clear but arguable evidence of my statement. Beginning with the daily chart, we can see Crude was in a consolidated trading range for a period of about 3 ½ months. It then broke out to the down side. Mr. Gann said that when price breaks out to the downside of a trading range like this, it indicates much lower prices. And in fact, a big drop in price did occur.

Now for you Elliott Wave analysts, the most recent up move is simply an ABC correction on the daily charts. This will be confirmed by the market moving below the 57.75 low of January 17th 2007, which I have marked with an arrow on the daily chart. If this does not happen and price moves above the most recent highs in the resistance channel, we all could be in for a long summer.

Included is a chart with Gann Angles and notations. For those of you who are not familiar with Gann Angles, I will explain what the most important line means and try to keep it

as simple as possible. On the daily chart I have drawn a set of angles off the July 14, 2006 high. The reason for this is that Mr. Gann used these angles for future timing and support/resistance. The degree of the most important angle is 45 degrees. This is the *1x1*, and I have labeled it as such. This angle is the balance of price and time. If price is above it coming down from the high, it is considered to be in a *strong position*, if below, a *weak position*.

I believe that Crude Oil price will test one end of it's range in the near future. A penetration of either end of the range could swiftly move Crude \$10 a barrel in the direction of the breakout.

Price has been below this 1x1 coming down from the high for 222 calendar days. That's how long Crude has been in a bear market.

On February 21st, the market closed above this same 1x1

angle. According to Mr. Gann, Crude is now in a strong position and could make a move to the upside at any time. However, I have seen these types of patterns before and most of the time price will slide down along the 1x1 angle while accumulation is taking place. A near term downside price target could be the \$56 dollar/barrel level for the May contract. I have an arrow pointing to that location in the bottom right corner of the daily chart. The price could be hit some time within a few weeks of this writing (March 21st).

Now, let's take a look at the weekly chart to get a better picture of the overall trend. Here we see price well below the 1x1 coming up from the bottom of 2001. This is the most important angle, since it is coming from a significant low and it is on a weekly chart. It appears that the weekly price coming down from the high has formed an ABC correction. This pattern has one problem though. The right side of the C wave has a little hook going down again, and if it takes out the low of the C

wave (49.90) prices could fall another \$10.00 to \$40 a barrel completing a 5th and final wave of this pattern.

I have strong convictions that this is what will happen over the next few months. However, I am a trader, so any move above the B wave would bring this market back to a running bull again.

Seasonal tendencies are moving up at this time of year. The bottom blue section of the daily chart shows the seasonal graph. Do not underestimate the value of this my friends, because a seasonal is like a map in uncharted waters. If you look at the graph closely, you can see that it has a tendency to move up slowly and steadily. But markets do move opposite the Seasonals too.

As it now stands, crude oil has a range from \$64 to \$50. I believe that Crude Oil price will test one end of it's range in the near future. A penetration of either end of the range could swiftly move Crude \$10 a barrel in the direction of the breakout.

The way I am going to trade this is to buy the lower end

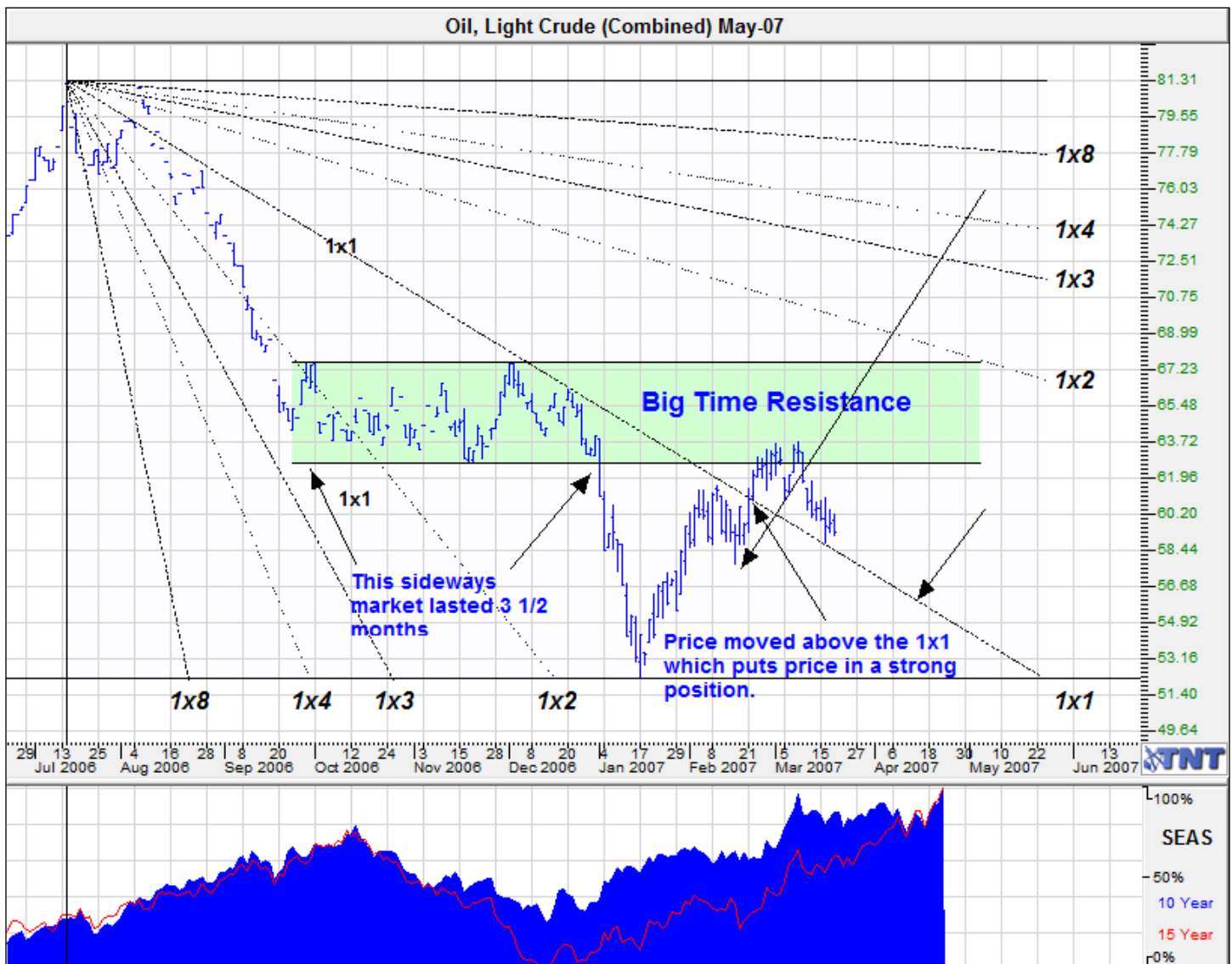


Chart courtesy of Track 'n Trade Pro. Visit www.TracknTrade.com for a FREE Trial!

of the range and sell the upper end, using a stop outside these parameters, and then go with the breakout at that time. There is an old saying I learned from a very successful trader years ago. *“Don’t diddle in the middle”*.

I have put before you a daily and a weekly chart which presents strong evidence that Crude Oil will be testing the parameters of an established trading range. Patience is a virtue which all of us need to exercise from time to time, especially if one wants to be a successful trader.

“Any frontal attack on ignorance is bound to fail because the masses are always ready to defend their most precious possession”. – *Hendrick Wilem Van Loon, a Dutch-American journalist and lecturer (1882-1944)*.

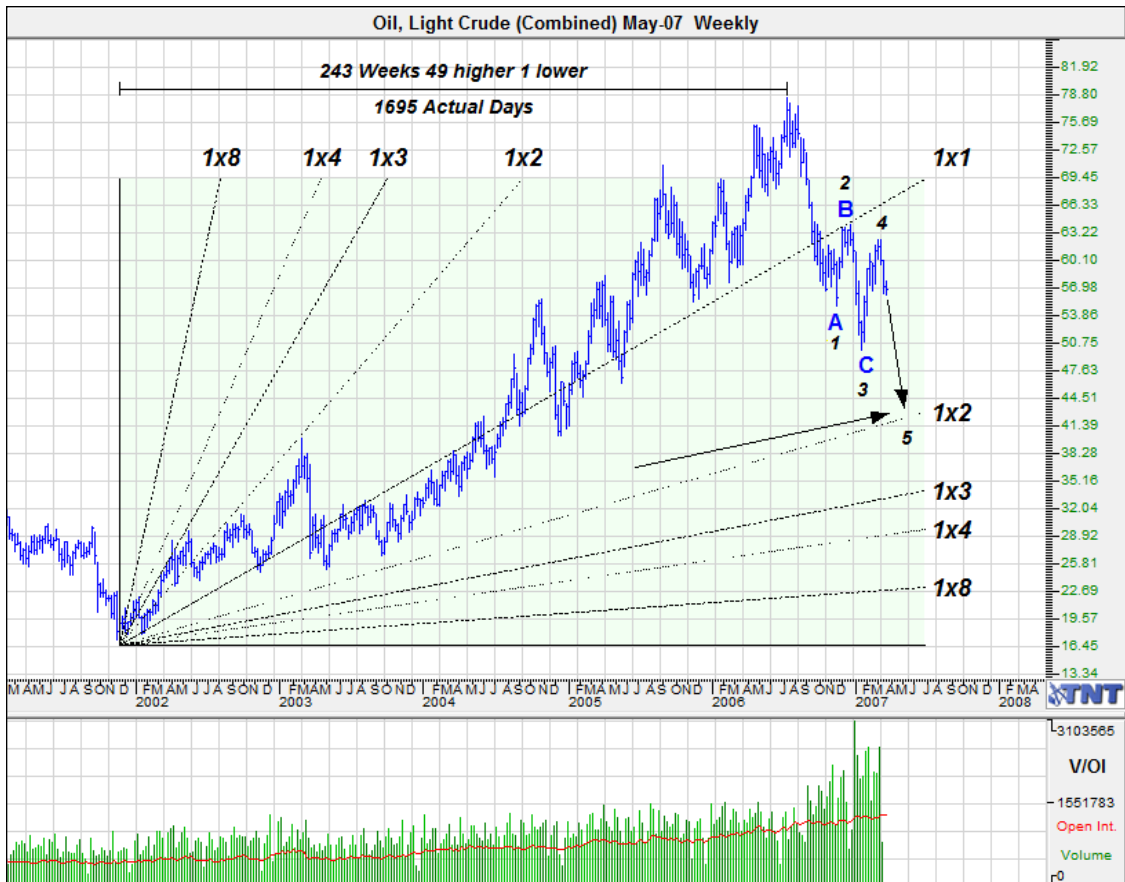
Gene Nowell has been trading since 1980. In 1989 he took the series 3 exam and became an associate broker for a grain firm near Chicago. During his employment, the firm sent him to a course about Mr. W.D. Gann’s methods at the Chicago Mercantile Exchange. Since then, it has been a journey that has led him down many roads. Above all areas of study, Gene focuses on the timing of markets. He can be reached by phone during NYSE trading hours at 800-807-1820. Visit www.gannline.com for more information.

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Is this an ABC correction in a bull market?

I do not think so. I believe if price moves below the “C” wave then it is the 5th and final wave of a bear market, which could extend prices down to the \$40 a barrel level. The main reason is because price is below the 1x1 line.

Chart courtesy of Track 'n Trade Pro.