

Laying Out the Bearish and Bullish Scenarios

I'm talking about technology giant Apple (AAPL). Here's the price chart that lays out my bearish outlook for AAPL...



From AAPL's January 2023 low, I've marked what appears to be a completed wave I-through-wave V move, in red above... It topped out on December 14, 2023, just shy of \$200.

Additionally, the Nasdaq 100 Index is already reaching new all-time highs and AAPL is failing to keep up with it.

With that in mind, I've added two black lines (solid and dashed) to highlight potential bearish scenarios that could unfold over the next few months... A lower high could develop over the next week or two, followed by a larger decline (the solid black line). Alternatively, we could see a slight new high and then a decline (the black dashed line).

Now let's move on to the bullish outlook for AAPL...



I've removed the bearish outlines in the AAPL price chart and added the bullish scenario above in blue.

Note how instead of the red wave V completing, it extends into late March... A potential target price could be as high as \$240. Simply put, the wave V would continue its strong uptrend in this scenario.

Now look at the black arrow I've added to the bullish trend line... In this scenario, we would likely see a breakout to new highs and then a slight pullback that holds support.

This is an important point...

If the \$200 level is broken and it then acts as support on a retest, that move would likely signal a continuation of the wave V over the next few months. (A retest occurs when the stock price breaks out and then reverses course.)

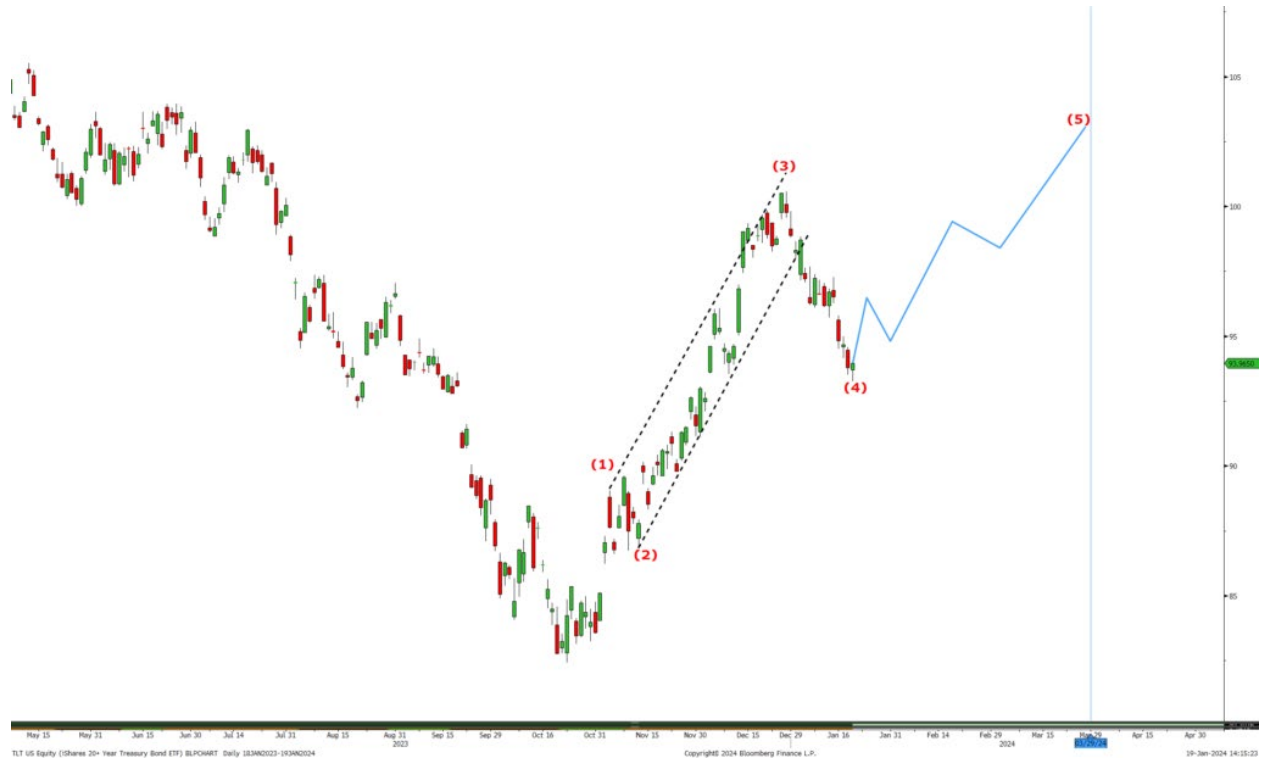
So, we have three very different scenarios to work with in AAPL... The overall technology sector would also probably look similar to the charts above.

How do we know what will happen?

If AAPL fails to keep up with the Nasdaq 100, or it fails to make a new high and hold support, we can say (with a high degree of certainty) that the bearish scenario is in play.

Let's switch gears now and discuss bullish and bearish scenarios in bonds, via the iShares 20+ Year Treasury Bond Fund (TLT).

Here's the price chart that lays out the bullish outlook for TLT...



Both bonds and stocks pivoted from important swing lows in late October 2023 and then rallied. I've outlined that setup in TLT with the two black dashed lines above.

I've also labeled the bullish setup in blue... Last week marked a wave (4) low. And as you can see, a wave (5) high would take shape in this scenario.

Note that this also lines up with the wave V extension I outlined in the bullish setup for AAPL.

Why would these two markets (technology and bonds) be so tightly correlated?

The answer is rather simple... It's because of the U.S. Federal Reserve.

The Fed has an important meeting on January 30 and 31. And if its members are very dovish (meaning they hint at cutting rates and/or applying a quantitative easing policy), this would send bonds soaring... and likely stocks, too.

As I've written many times before, I won't speculate on what the Fed will or won't do. But the outcome I just described is *possible*, and the price action could warrant this move.

Now let's move on to the bearish setup in TLT...



The top in TLT is already in and we see intense swings for the rest of the year, as noted with the solid black line above.

It's also worth pointing out that TLT topped out in late December while some stocks continue to grind to new highs. (This is creating divergence between the two asset classes.)

Usually, when bonds top and drop and stocks keep rising, it's a warning to stock market bulls that time is running out.

This type of signal can help us assess our investment risk.

All together, these charts clarify the probabilities of what's likely to happen in the short term and beyond.