

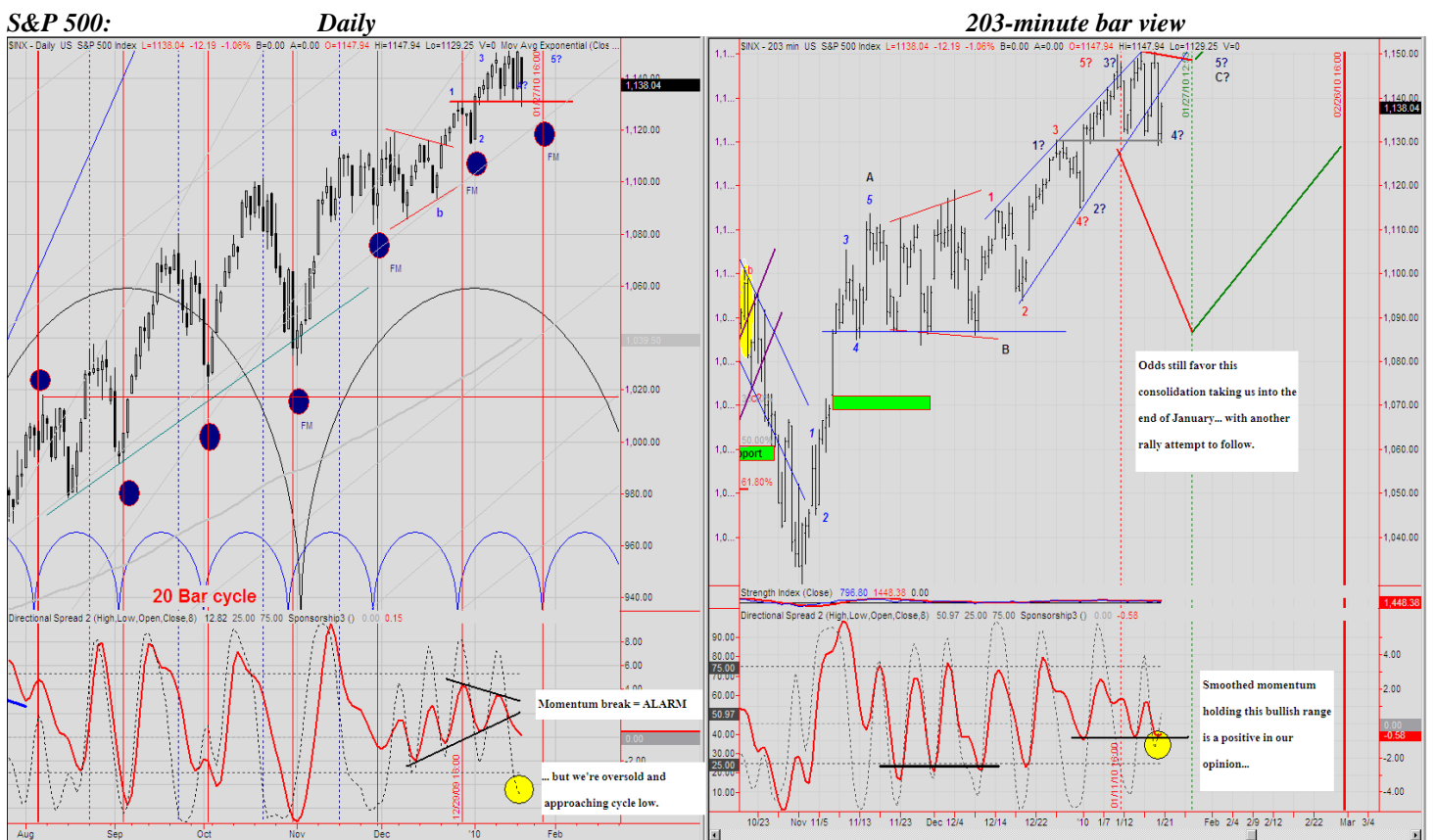
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## Technical Take: While the S&P feels heavy and confusing, individual stocks give clues to more upside

We continue to believe the minor high on January 11 was simply the start of a multi-week base consolidation and not the start of an immediate correction. Our read of our relative strength tools tells us that it may be too early for “defensive” leadership (Utilities, Staples) though Healthcare got an early start following recent political developments. In the event we’re wrong, 1115 would likely be the strongest support line to watch for a closing violation. The next support would be 1085.

Often when earnings season arrives with sentiment (on equities) stretched to the upside (using both daily and weekly measures), the earnings-per-share (EPS) “beats” fail to be rewarded and the “misses” are typically punished with negative reactions. This is the condition we suspect we’re in at the moment, and it makes a fundamental “purist” (assuming a positive reaction will follow the EPS beat) very frustrated and confused when it comes to the reality of the stock market. Cycles in sentiment are the nature of the game, and the market’s reaction (certainly the “degree” of the reaction) to fundamental news is arguably dictated by where sentiment is in the near term. In our opinion, once sentiment returns to a more neutral condition (either with “time” [perhaps by month end] or a continued correction to 1115 support) we suspect positive earnings revisions will again be rewarded.



### Additional Details

**Daily:** Our view remains unchanged from last week. We see a consolidation into month end and another rally attempt in February; after that, opportunities arise for a more notable correction given the maturity of the larger degree advance. The potential breakdown in price momentum (bottom panel) is an “alarm,” but not a trading signal. The momentum oscillator is getting oversold, which tells us we’re days away from a potential inflection point (further evidence a minor low could come with the 20-period cycle).

**203-minute:** Last week we suspected we’d reverse lower and trade down to 1130 support as we built a “base”/consolidation range. While we came down quicker than we would’ve thought, we should continue to assume our time frame for a low will stay active and allow for another rally attempt in February. Reiterating our thoughts from last week, we believe the Elliott wave bears watching, as

the aggregate S&P may be missing the more clear consolidation patterns in individual stocks. Our review of all of our large cap portfolio holdings suggests we should expect more upside. It's also bullish in the near term that the price momentum indicator is holding in the "neutral" range.

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For further information about Elliott Wave theory, visit:

[http://stockcharts.com/school/doku.php?id=chart\\_school:market\\_analysis:elliott\\_wave\\_theory](http://stockcharts.com/school/doku.php?id=chart_school:market_analysis:elliott_wave_theory)

Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 75% of the total US equities market.

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