

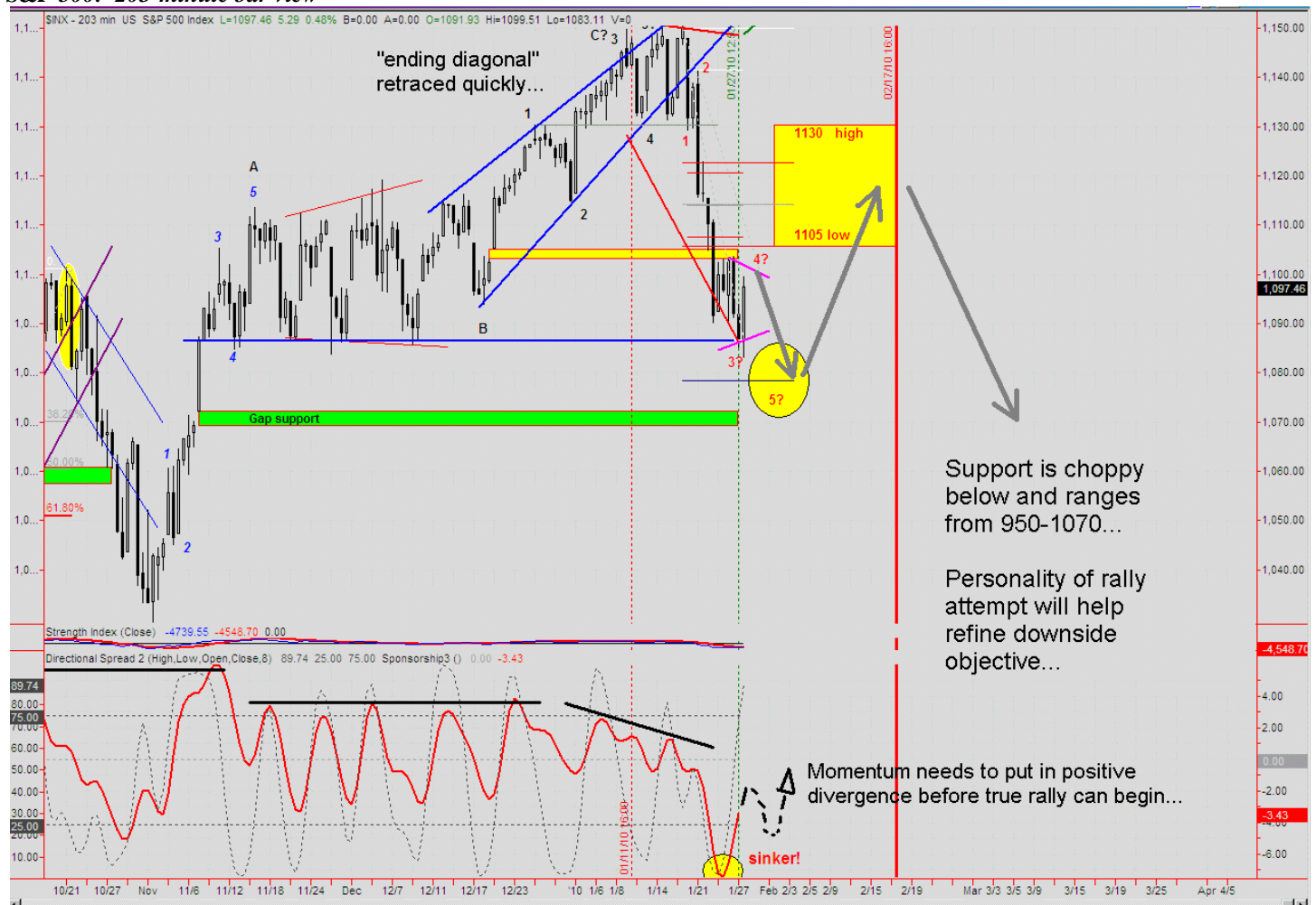
Sam Turner, CMT

January 28, 2010

Technical Take: Near-term risk to 1070-1080; personality of bounce to help determine ultimate downside

Last week we discussed our belief that our previous turn date of January 11 would represent the start of a trading range (thus an opportunity for more near-term upside) with a more notable correction to follow in February. This proved incorrect as President Obama's commentary last week quickly caused important breakdowns in many financials, dragging down the S&P as well and causing the market to follow our "worst-case" scenario, which we outlined with a falling red line last week (and reprinted below). Our assessment of the near-term indicators suggests to us that we may not "be down yet," and we may need to settle into the 1070-1080 box before an oversold rally attempt can be made. Given the personality of this decline (an impulsive 5-wave decline is underway, which says the larger degree trend is likely still down) we think the odds favor a bounce to 1105-1130 (into mid-February) before we go back down one more time into March for a more important low. Some industry groups, such as regional banks, biotech, medical devices, and semiconductors, may run to new highs on this bounce in the aggregate, but we suspect many groups will not. Once we see what the bounce looks like, we'll have a more convicted opinion on just where the next low will be as there is choppy support all the way from 950 up to 1070 (which is too wide at this point to be helpful).

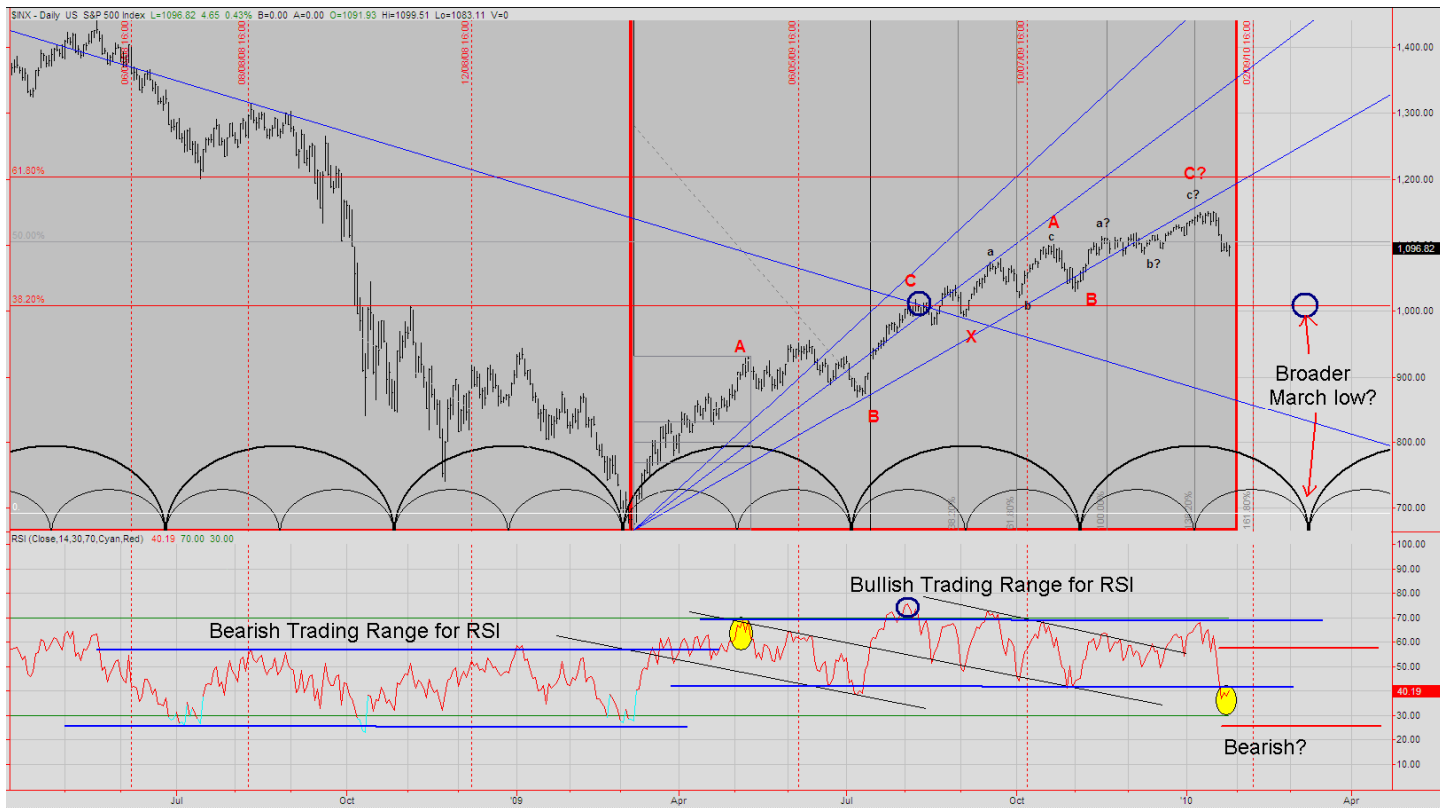
S&P 500: 203-minute bar view



Source: TradeStation, Market Methodology Inc.

Let's step back and take a look at the bigger picture:

The pattern of the Relative Strength Index (RSI)¹ highlighted below on the daily chart of the S&P 500 shows why we suspect the current multi-week decline is potentially different (more bearish) than previous ones off the March lows. Note the emerging change from RSI trading in the northern "hemisphere" (bullish) to trading into a new southern range (bearish). It would be bearish if support is found at 1070-1080 in the days ahead (with RSI as weak as 25-28) and the next rally attempt caps under resistance (with RSI under 58-60). The map below is one we included in *Traders' Notes* some months ago, but we think it's also been helpful to mark larger cycles that could possibly be at work, which continue to point to a more notable low in March.



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¹ The RSI compares the magnitude of a stock's recent gains to the magnitude of its recent losses.

For further information about Elliott Wave theory, visit:

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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