

Technical Take: 1070 downside objective achieved, now we judge the bounce

While we were oversold last week, we suspected we weren't finished given the lack of positive divergences on our 203-minute (or "2 bars per day") bar chart and the incomplete Elliott wave count, noting the gap at 1070 would likely be the strongest support (as well as a Fibonacci grid projection target). Since 1070 held, we believe we're seeing the first of two rally attempts in what could be a countertrend bounce in a larger degree downtrend. Last week we suggested that the odds favored a bounce to 1105-1130 (into mid-February) before we go back down one more time into March for a more important low; we still think this is valid. Our near-term map (as shown below in the 51-minute bar chart) is that we consolidate for another day or two before we try to run up again towards our 1105-1130 target range. If we see volume contract as we enter that box, price momentum not confirming the rally, a clear 3-wave pattern and/or simply a reversal back below 1105, we would likely conclude that we were headed back down to new range lows. There is a wave count that would send us lower *immediately* (an "expanded flat"), but we don't believe it's the most probable way to view the S&P at this point. Our best guess is that we need to sucker in more bulls over the next week, whether it be from a better than expected Cisco (CSCO-NasdaqGS-\$23.07) report or a macro headline that is received well given that the near-term cycle is pointed up.

The only surprise to us in the last week has been the sharp relative strength breakdown in many Technology names. It's possible many of them (currently trading at 52-week highs) represent stocks that portfolio managers could use to raise cash, and that they weren't selling something already in an oversold condition or -- being Tech is the sector with the largest emerging market "end market" exposure -- they traded down with the reflation names as the dollar bounced. Either way, we think it bears watching given the sector's historical leadership.

S&P 500: 203-minute and 51-minute bar views

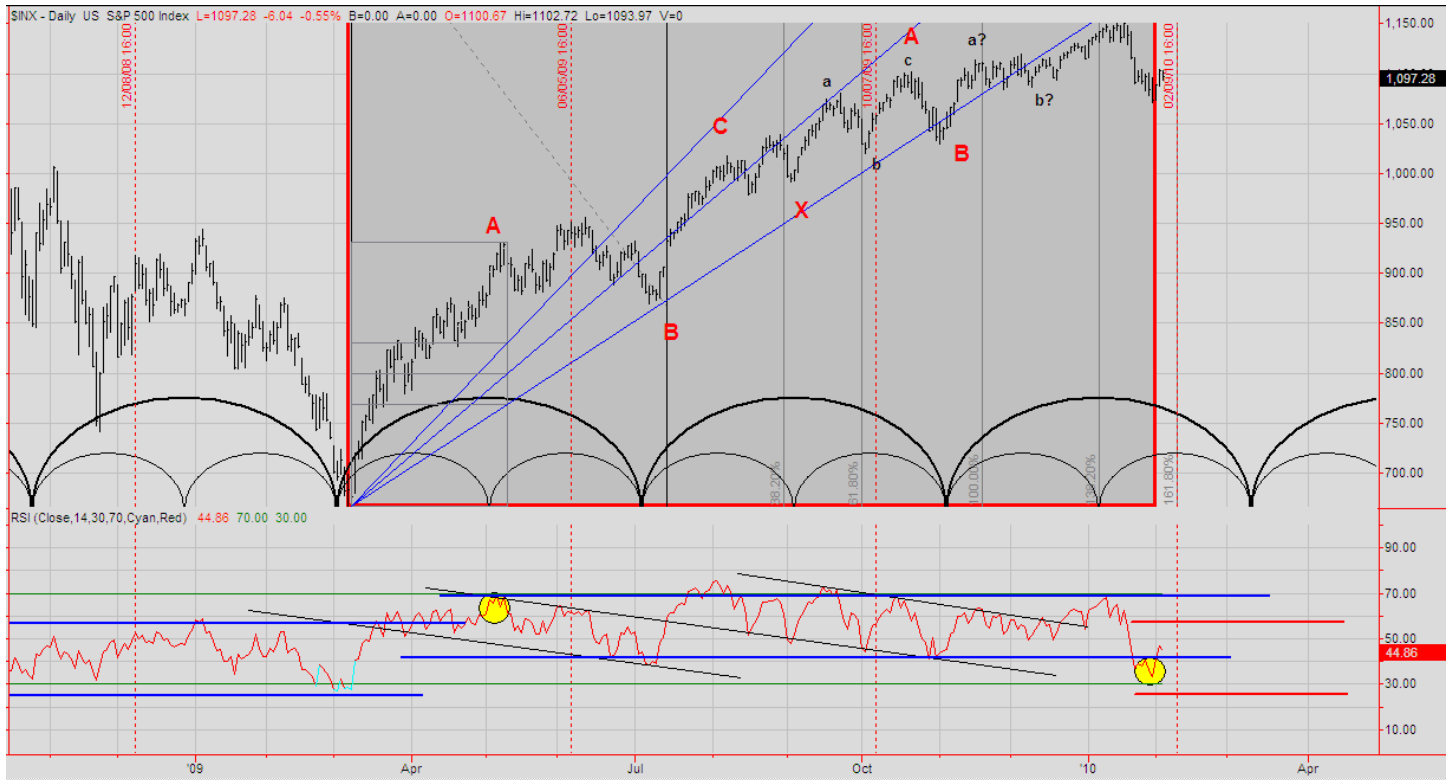
We're only showing the intraday charts this week, as we think they offer the most clues as to what to expect in the weeks ahead.



Source: TradeStation, Market Methodology Inc.

We have updated our longer-term chart of the S&P 500 and its potential downside “range break” in momentum.

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). We suspect it is bearish that we found support well under 40 when we hit 1070. The next piece of evidence would arrive if we found ourselves in an ABC rally off the lows (and overbought on the dailies) and RSI looked like it was capping under 60.



Source: TradeStation, Market Methodology Inc.

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

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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

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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