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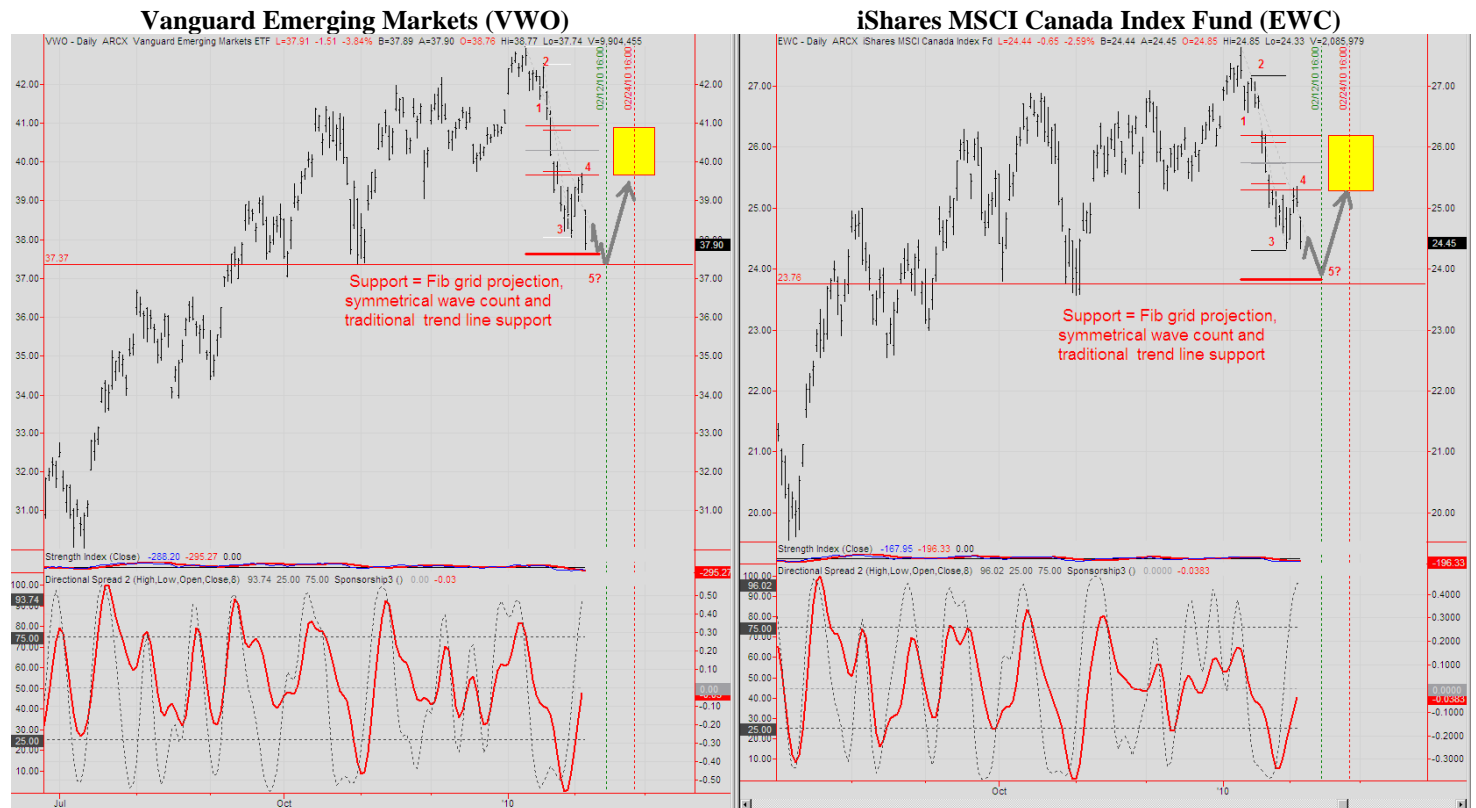
Technical Take Update: Emerging markets were the clue; next week should finish THIS leg down

We felt compelled to send an update to our earlier Trader Note given this morning's weakness overseas. Our near-term technical view on emerging markets (not addressed earlier) was that we would trade immediately lower to a new range low, but that as they did this, the S&P 500 would drift down holding above 1080. In other words, domestic markets would "retest," but emerging markets would make a new range low. Clearly, emerging markets are in the driver's seat and the same technical pattern should likely be applied to the S&P 500.

This morning we suggested that there was a wave count that would send us lower *immediately* (an "expanded flat" as a minor 4th wave), but we didn't think it was probable. Today's weakness makes that view very realistic, in our view. However, it implies that (like emerging markets as shown in the charts below) the S&P also has new range lows into next week ahead of what could develop to be the relief rally we recommended monitoring this morning. Below we've drawn what we believe are downside objectives for this current decline (specifically emerging markets and Canada, but they're all quite similar) that uses a number of techniques such as overlaying Fibonacci grids, looking for a symmetrical 5-wave decline, and what we suspect represents a traditional trend-line support. A break below these levels would mean the decline has morphed into something much more bearish.

To summarize, our best guess is that the clearer pattern in emerging markets was the clue for the S&P (we should've given it more weight). If we're right, this near-term decline should terminate by next week; then we could potentially get a bounce, and then we worry that it's a bounce in a larger degree downtrend that takes us into March.

Daily Charts: Emerging Markets and Canada



Source: TradeStation, Market Methodology Inc.

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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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