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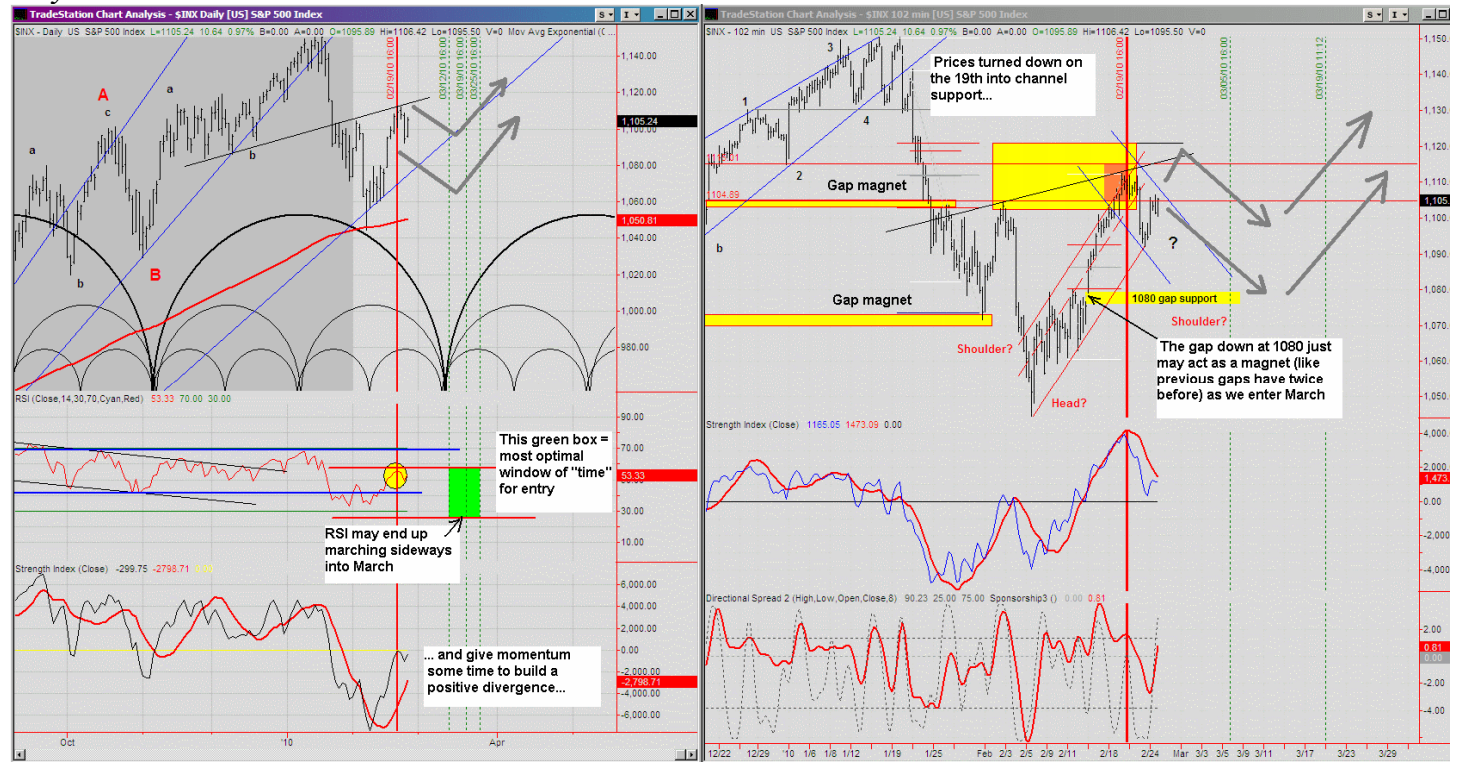
February 25, 2010

Technical Take: 1105 – 1115 Target Hit, But Near-Term Vulnerability May Emerge

Last week, we noted conflicting signals -- simple trend-followers were likely bullish (successful test of 200-day exponential moving average [EMA]), while those with a near-term bearish bias were probably concerned about cycles, Relative Strength Index (RSI) patterns, Elliott Wave counts, and distributive volume conditions. Nonetheless, we were rather confident there was upside to the 1105–1115 range, but added that we favored a scenario in which “we rally into February 19th or so, then show signs of vulnerability.” We believe the breakdown just after we rolled over the 19th increases the odds we should expect additional downside risk into March. It is our belief that a potential *March* low (where consolidations could hold above 1080 gap support) could potentially provide a lower risk entry point. At that point, we’d have our “cyclic lows” lined up, sentiment would have a chance to pull back more, and there would be more time for price momentum to build a better base from which we could stage a healthier rally.

Our near-term technical message would be “buy pullbacks into March” (specifically the 5th through the 19th – likely a cluster of cycle lows). At this point, we do *not* see risk of a scary and deep correction. While there is near-term room for another push higher in the days ahead, *ideally* we would like to see an orderly consolidation towards 1080 (a re-test of the lows of February 5th is possible, but we don’t expect to fall that far). It is likely, in our view, that once this low forms in the weeks ahead, another rally could emerge that takes us into early summer (but we’ll need to take that week by week).

Daily Charts: S&P 500



Source: TradeStation, Market Methodology Inc.; Current valuations and historical analysis do not guarantee future results.

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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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