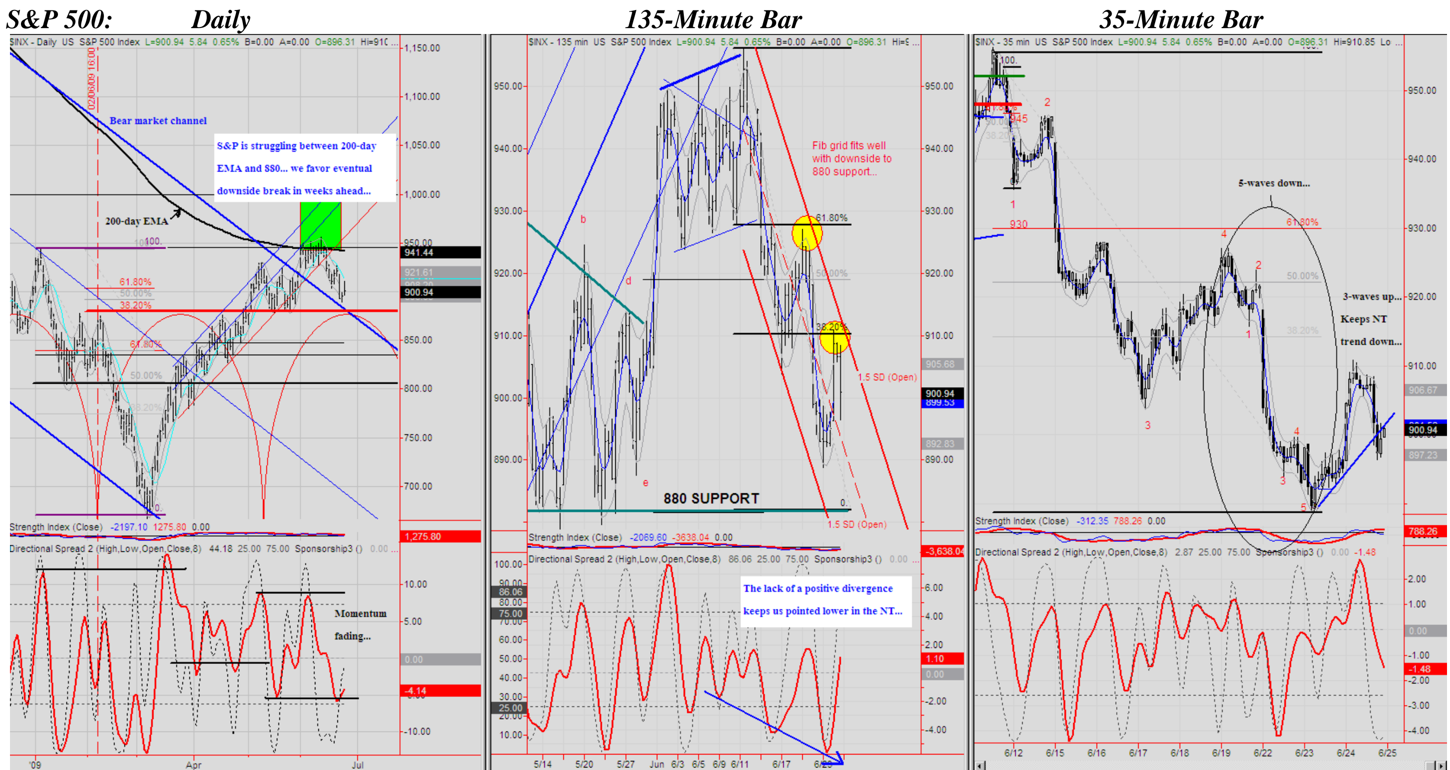
Sam Turner, CMT June 25, 2009

Technical Take: Odds favor more near-term downside before multi-day/week rally emerges

In our last update we highlighted a small developing triangle and added that it could potentially break higher, but we were skeptical of the upside and were concerned that a multi-week pullback would then *follow,* targeting at least 880. We think that map has worked well so far, but our primary question is, "Are we only in the first leg of a multi-week or even worse, multi-month, correction?" It is our opinion that while most every technical tool will argue a strong uptrend has emerged off the March lows, there is notable momentum deterioration under the surface that must be respected. Our near-term technical view (using a combination of tools discussed below) is that it is more likely we see additional *downside* (towards 880) in the days ahead, but that it's possible that once we get one more round of selling pressure we *could* enter next week with an emerging rally attempt (aided by short covering), which could carry as high as 930 (930 would be a 61.8% Fibonacci retracement of the sell-off from the recent highs at 956 to the potential downside objective of 880).

What we're trying to frame out here is a belief that we're not likely down yet, but it's possible we could find a multi-day/week low in the days ahead that could send us back up in a 61.8% retracement of the sell-off. If aggressive traders used inverse exchange-traded funds (ETFs) off the highs, this group might consider taking near-term profits in the days ahead if we wiggle lower towards stronger support. Those same traders (and intermediate-term "hedgers") will want to examine the nature and strength of that next rally if it emerges next week. The reason is that while multi-month *bottoms* tend to end in a "V," tops tend to be more "choppy" and rounded. We would want to see a rally attempt fail under the recent range highs (956) to have conviction that a *larger* degree downtrend was underway and more aggressive risk management appropriate for more than just short-term traders. (As a reminder, our larger degree "map" continues to suggest that we could stage another attack in late June or July on resistance overhead but not see a true reacceleration in trend until the 40-week cycle bottoms in September.)

S&P 500: Daily ***135-Minute Bar*** ***35-Minute Bar***



Source: TradeStation, Market Methodology Inc.

Daily: We wanted to show the price momentum indicator, which has been driven lower in the "southern hemisphere." Bulls will want this middle range to hold throughout the S&P's consolidation; otherwise it's problematic for the larger degree trend.

135-min bar: This is likely the most important fractal view so far this week. It illustrates the lack of positive divergence in the price momentum indicator in the bottom panel. In our opinion, this keeps the near-term trend pointed lower in the days ahead. The Fibonacci grid we started at the high actually fits quite well if we stretch it down to 880 (what we view as stronger support) and the correction appears well contained inside the channel drawn (1.5 standard deviations[1]).

35-min bar: We simply wanted to point out the impulsive 5-wave declines (direction of larger trend) whereas the recent intraday rally yesterday unfolded as a 3-wave advance (which as this point should be considered "corrective" and vulnerable to retracement).

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[1] *Standard deviation is a measure of the dispersion of a set of data from its mean. The more spread apart the data is, the higher the deviation.*

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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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