

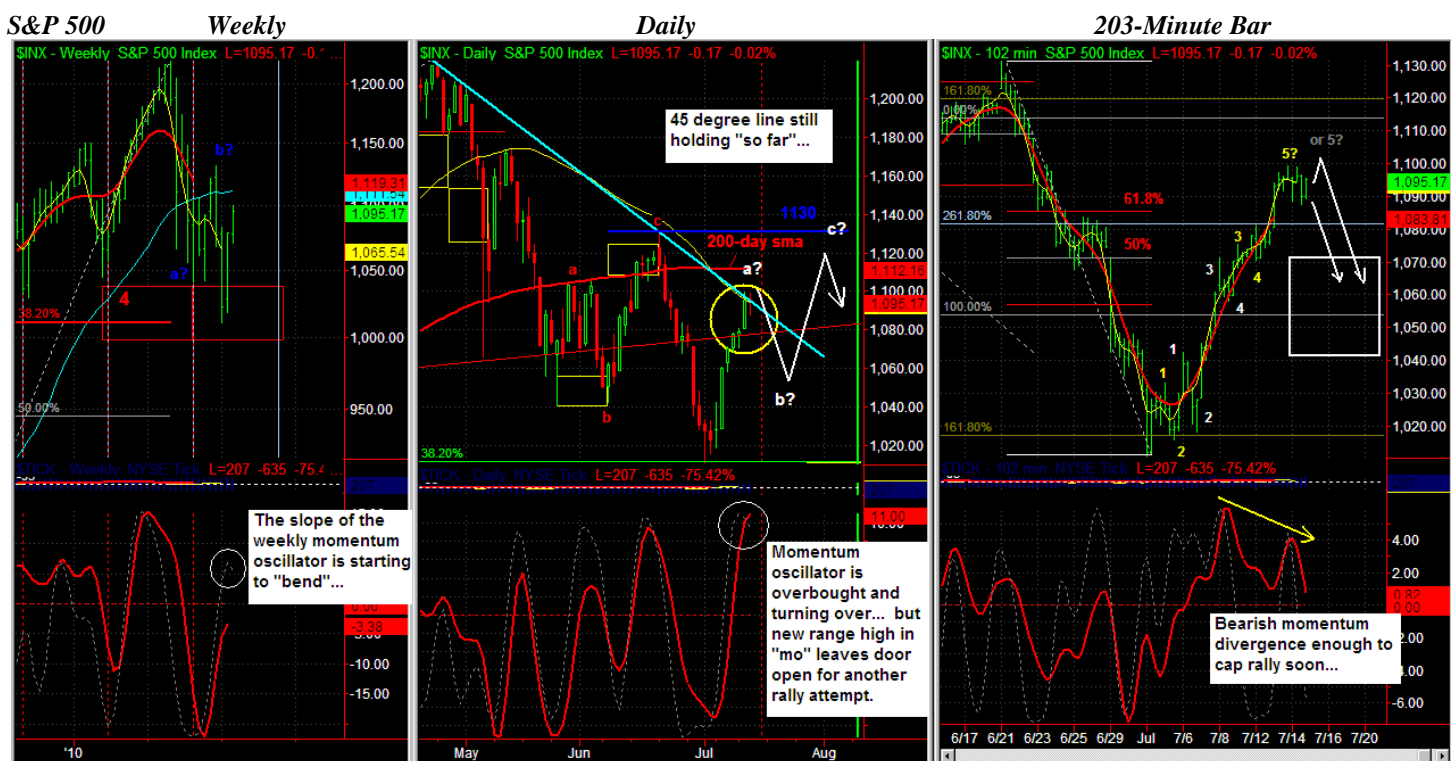
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Oversold Conditions Being Repaired While Under First Signs Of Resistance

The recent rally had two things in its favor last week -- an oversold daily momentum oscillator and plenty of room up to at least 1085 on the S&P 500 before it met technical resistance. Closing on Wednesday at 1095, the market sits right under the early June high, the 200-day simple moving average, and the 45-degree line that we've discussed in recent weeks. So far, the rally has come with healthy breadth and appears to be confirmed by price momentum (at the daily level). Not only has the magnitude of the rally been impressive, but the internal wave structure (visible at the intraday level) implies there should at least be a new range high following some natural consolidation – in short, we believe a retest of the 1010 lows has likely been pushed out a few weeks into August. Bears would have wanted to see a clear three-wave (“abc”) bounce with a bearish non-confirmations (lower highs in momentum). We don't see that; in fact, the more impulsive feel (likely a minor 5-waves up off the 1010 low) suggests to us that we are potentially looking at the “a” of a classic “abc” counter-trend rally (drawn in white on the daily chart). Unfortunately, this implies more choppy overlapping trading patterns with the expected back and forth fundamental noise in the media in the days/weeks ahead.

On a larger degree scale (weekly chart), we would continue to highlight the potential 15-week cycle of lows still in play where the next important low looks out to September 10. Interestingly enough, a simple Fibonacci time extension tool shows that a consolidation/correction into the fourth week of September would represent exactly 38.2% of the “time” of the March 2009 – April 2010 cyclical bull. In our opinion, regardless of where the consolidation/correction takes us (whether we saw it at 1010, or we go to 950) it's probable that it takes at least one-third the “time” of the recent cyclical bull phase.



Source: TradeStation, Market Methodology Inc.

Addressing the Elliott Wave Bears: Several super bears have received lots of attention, and we wanted to spend a moment on this topic. First, we have the utmost respect for the well-known technically oriented bears, as it was THEIR books and notable accomplishments in the field of technical analysis that sparked our passion for technicals in the first place. However, IF the prominent Elliott Wave forecasters were accurate in their assessment that we were on the cusp of a significant decline in equities, we think we would need to see a clear “abc” structure to the cyclical bull phase from last March into this April. We don't believe odds favor that scenario when you look at the structure of emerging markets, most domestic indices, sectors, and countless individual stocks. We believe a lot of information can be gleaned from looking at more than just price, and more than just the major domestic indices. This mosaic view tends to lend itself to an opinion that the clearest structures off the March 2009 low favor an “impulsive” count (i.e., they look more like 5-waves up rather than choppy 3-wave corrections). If this is true, then it's likely we're simply experiencing a 38.2-50% retracement of the first leg of a larger bull trend potentially into 2011. While we normally don't comment on larger degree outlooks, we at least wanted to express that we do not share the same view (from an Elliott Wave principle standpoint) as the super bears.

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Past performance is no guarantee of future results.

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.

For further information about Elliot Wave theory or Point and Figure charting, visit <http://stockcharts.com/>

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