

**PLEASE NOTE: THIS IS THE UPDATE FROM LAST TUESDAY (03/24/09). FOR THE CURRENT UPDATE PLEASE SEE THE BODY OF THE EMAIL**

**BOTTOM LINE:** Given that we surged and closed above the pivotal 805 level, and given the extremely positive breadth signals we witnessed yesterday (broadest rally since July of 2004), we believe the large primary counter-trend rally is underway. This will reignite claims that the bear market is over, but we believe significant new lows will be formed by 2010.

The confirmed breakout above the 805 level suggests that new lows in the next couple of months are now off the table. We expect this move to reach the ~930-980 [area](#) in the next 30-45 trading days, which takes us into May. In other words, we only expect to see new lows once we have reached those higher levels first.

Having said that, we would not chase the rally at these levels (we would be looking to get net long on any significant pullback) since we believe we are almost completing the first leg from the lows and we expect a pullback/correction to begin shortly to approximately the 760-770 area, but we are mindful that these short-term extreme overbought conditions can be worked off by either price or time.

We expect the reflation trade to continue for a few more weeks, and we believe commodity prices will continue to strengthen across the board. With respect to crude oil, we are looking for prices to reach our target of \$72-76 a barrel.

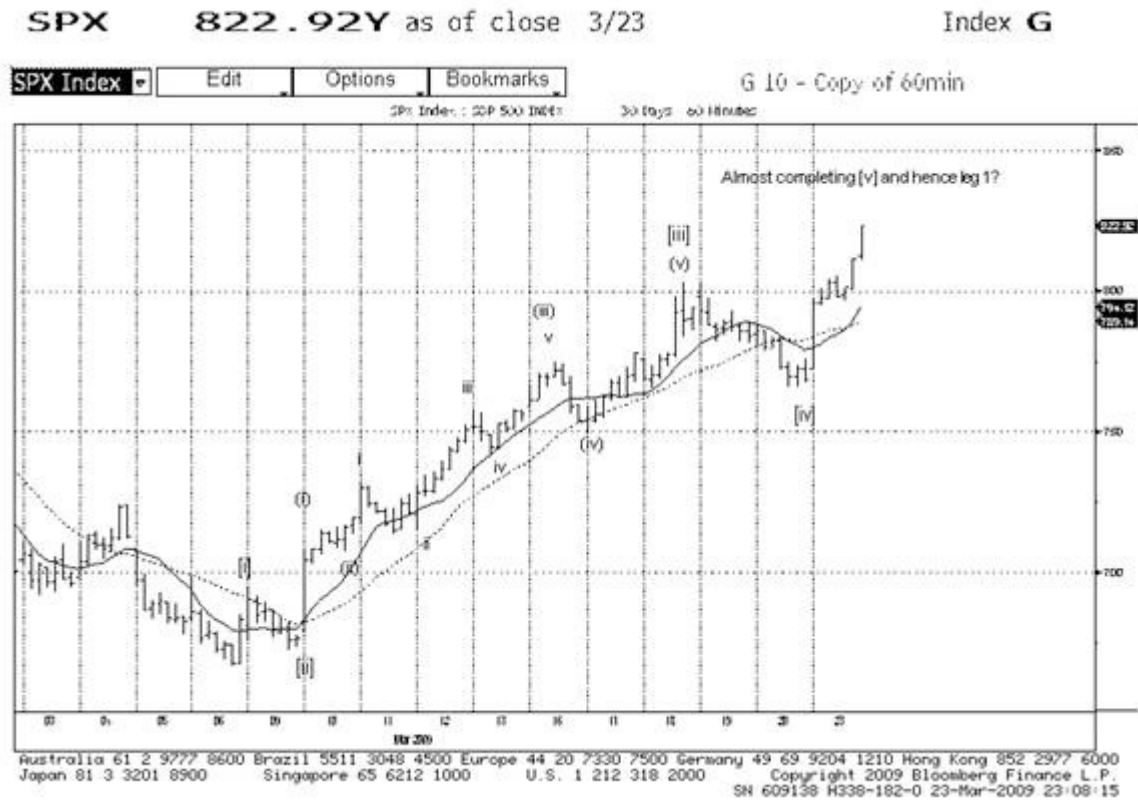
**SUMMARY:** The breakout above 805 yesterday triggered heavy short covering. Volume was heaviest in financials yesterday and lightest in healthcare. Defensive sectors like consumer staples, healthcare, and utilities underperformed, and we expect this to continue.

Since the beginning of January we argued for a final leg lower to the 650-700 area which would be followed by a robust and sustained multi-month primary counter-trend rally that would begin in the March-April time frame. In our last update, we argued for the possibility of one final minor move lower to the ~650 area, but the breakout above 805, which was our line in the sand, indicates that the counter-trend rally started a couple of weeks earlier than we had anticipated. We stick to our discipline, and we now don't expect to see new lows [without](#) first reaching our target of ~930-980 in the next 30-45 trading days.

Our technical indicators and work on the substructures (see chart below) suggests that we are on the verge of completing the first 5 waves higher that are necessary to complete leg 1 from the lows. We now look for a retracement for leg 2 to begin shortly, and we expect the retracement to try and close the gap left open at 768-772. In terms of time, we expect leg 2 to last roughly 4 to 8 trading days.

There are two viable scenarios but both suggest we move higher from the March 6<sup>th</sup> lows in 5 legs (please let me know should you want to discuss these scenarios in greater detail), and according to our calculations this move should last roughly 30-45 trading

days and should target the ~930-980 area. If you want to be aggressive, we would look to short into any strength today with stops above any of the following resistance levels: 827, 840, or 852 (20 week exponential MA). However, we are cognizant of the fact that prices are very depressed and that liquidity being pumped into the system globally is monumental and the risks are that pullbacks are very shallow and that the markets remain well bid.



Below is a daily chart of the SPX index that shows that the index has overcome the 20, 35, and 50 exponential MA's and has broken out of a six-month downtrend. We expect this move to target the ~925-975 area which will come close to testing another important downtrend.

SPX 822.92Y as of close 3/23

Index G



The weekly chart below highlights a few important technical developments. Namely, that there has been major positive divergences between price and the oscillators (price forming a new low while the oscillators formed higher lows). We have also mentioned in the past that a good indication for confirming the beginning of the primary rally would be a breakout from the downward trend channel in the weekly RSI (illustrated by the arrow on the chart), which just occurred.

SPX 822.92Y as of close 3/23

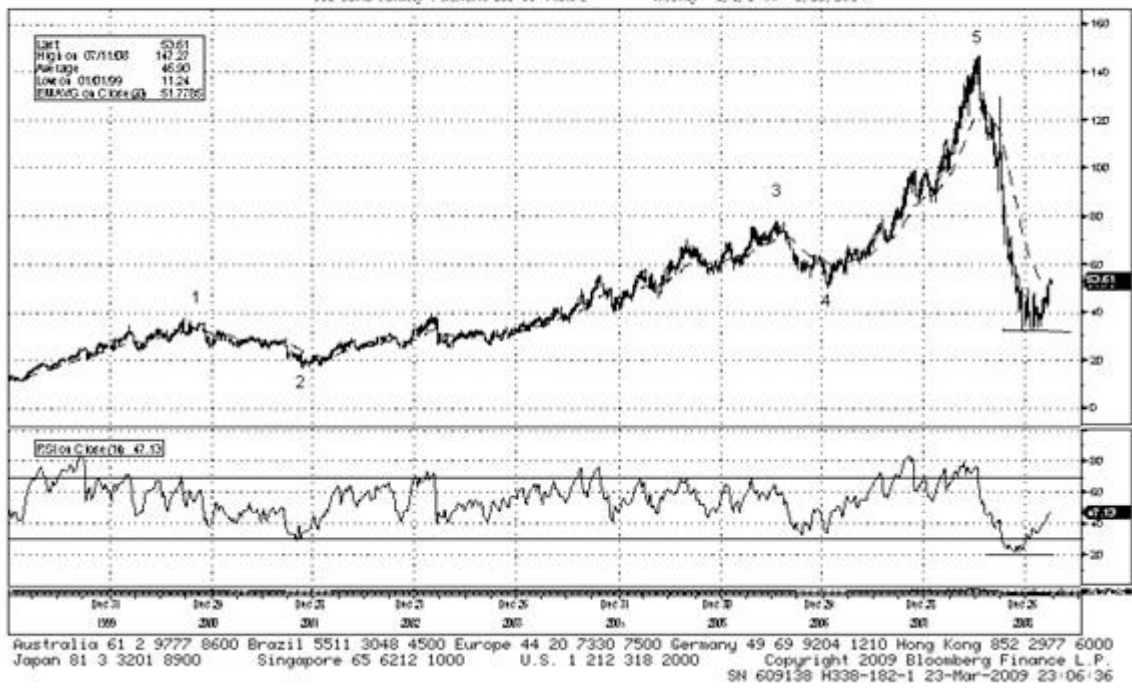
Index G



Let's also not forget that the lows formed on March 6<sup>th</sup> came very close to the 665 level which was the 61.8% Fibonacci retracement of the entire secular bull market in equities beginning in 1982. Furthermore, the AII Investor Sentiment index showed a record number of bears at 70.3% during the week ending March 6<sup>th</sup>. So far this has largely been a liquidity driven rally. We have seen a sea change in sentiment which will now be exacerbated by the confirmed breakout above 805 yesterday. Over the last few weeks we have witnessed some positive action in the markets, including the stabilization of commodities ranging from crude to copper (possibly discounting economic stabilization in the coming quarters), so it appears that fiscal and monetary efforts may be starting to work in reflatting the economy. Nevertheless, we have not seen all the signs we were looking for at this juncture. One notable example is that we don't believe credit markets are fully participating in this recent move, but we will continue to monitor LQD, HYG and JNK.

With respect to crude oil, we are looking for prices to reach our target of \$72-76 a barrel. In the weekly chart below we see the bull market in crude that played out over the past decade. After completing major leg 5 in July of 2008, we saw a major collapse in crude oil prices. More recently, we see some positive technical signs on this time frame that suggest that we will get a robust counter-trend rally. We have seen a major positive divergence between price and the Relative Strength Index (RSI), after that oscillator reached the most extreme oversold level of 20.

CL1 I **53.61** -.19 S S 53.62/53.64 S ComdtyG  
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 CL1 COMB Comdty Edit Options Bookmarks G 3 - Copy of WEEKLY



In the daily chart below the Elliott Primary Wave is marked out. We believe we are in leg 4 and we are either in smaller minor leg 3 or leg C and our calculations suggest we will complete this leg in the \$72-76 resistance area, which also coincides with a confluence of Fibonacci retracements from the top in July of 2008. Besides the rounded reversal pattern, we have also seen a clear bullish divergence with MACD. Furthermore, we saw a bullish crossover of the zero line in the MACD that corresponded with price breaking the multi-month downtrend. Crude prices have also overcome and broken above the 20 week exponential moving average.

CL1 I 53.61 - .19 S S 53.60/53.64 S ComdtyG  
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