Here are some updated thoughts on where we stand:

Bottom-Line: We remain confidant that we will reach ~930-980 and that Crude Oil will reach $72-76 by the end of May, but we believe that the S&P 500 will have a difficult time overcoming the 850-855 resistance area, and we expect some sort of a pullback from those levels.

- The breakout above 813 confirmed that the next leg up was underway and there is a confluence of targets around the 850-855 area for this minor leg up
- There is a high probability that corrective leg 2 was completed at 780 (on March 30th) but we can only get confirmation after seeing the depth of the next pullback. Scenario (1): We only pullback to the 810-830 area and then start trending higher again, which would confirm that leg 3 started on March 31st. Scenario (2): The pullback is significantly deeper and we end up retracing to the ~750-780 area. If that occurs, then that will be leg C of corrective leg 2 (subdivides in 3 waves), and then leg 3 will represent the most powerful move to the upside
- We are going to challenge the 20 week exponential moving average at ~850, where there is a confluence of resistance

See below for our last update (March 31, 2009):

The goal of this product is to complement our intermediate-term technical outlooks with short-term actionable calls. In addition, we feel it's important to provide technical color and highlight technical developments as they arise, even if we do not make a call. This does not alter our intermediate and longer-term views.

SHORT-TERM UPDATE

Bottom Line: We remain bullish over the next few weeks, and we will be buyers of weakness in the 770-730 area as this corrective sell-off unfolds over the next few days. We expect this bear market rally to extend itself to the ~930-980 area over the next 30 to 40 trading days, but we are still looking for new lows later this year. We are also bullish on commodities over the intermediate-term, and would be buyers on weakness over the next few days – we expect crude oil to extend towards $72-76 over the next few weeks before resuming its downtrend.

We still believe (see our last update attached as a pdf) that since we broke above the pivotal 805 level, that we will only see new lows in a few months, after we have extended higher first and reached our minimum upside price targets. We also mentioned (when the S&P was around the 820 level) that we would not chase the rally at those levels since leg 1 was almost complete, and that we would look to get long on any significant pullback. We were looking for a retracement for leg 2 that would close the gap left open at 768-772, and for it to last roughly 4 to 8 trading days. Therefore, the minimum requirements for leg 2 in terms of price and time have nearly been met.

Below, we attached two daily charts to illustrate where we believe we are in the cycle according to our technical counts after carefully analyzing the substructures on various time-frames. We are certain that leg 1 completed last week, and our only dilemma is whether we are in leg A of leg 2 or leg C of leg 2 (corrective leg 2 will subdivide in 3 waves which is annotated by a-b-c). So either we are almost done with corrective leg 2 and we will bottom at some point today or tomorrow around the 760-770 area or we will first rally to about the 800 to 810 area before selling off to approx. the 740-750 area over the next few days. **To confirm that the next leg up is underway, we will look for a breakout above the 813 level in the S&P. We will send out a quick update once we have confidence that leg 2 has completed.**

We are going to get net long over the next few days and put money to work in the 770-730 area with stops below the 730 level (61.8% retracement of the move from 666 to 832). If that stop is too wide and one wants to trade more actively, we will look to get long at ~770 level with a stop just below the 765 level, since a failure there will probably lead to a deeper retracement. Should that strategy fail, we would get long at ~740 level with a stop at the 725 level. We would add to our long exposure once we breakout above the 813 level.

Options Strategy: Another way to play this scenario is via options. Our options strategy team recommends the following trade:

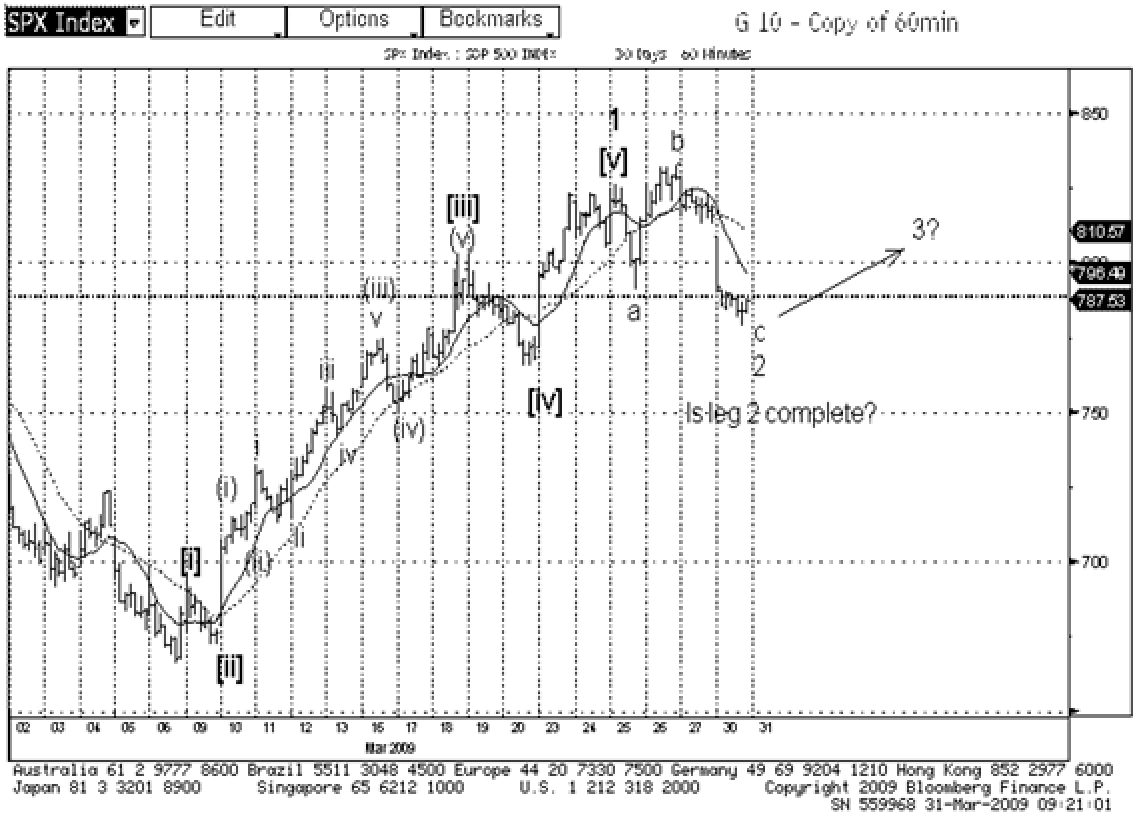
As of close March 30 (SPY reference 78.79) - Buy June 85-95 call spread and pay 2.41 - Risk 2.41 to make 7.59

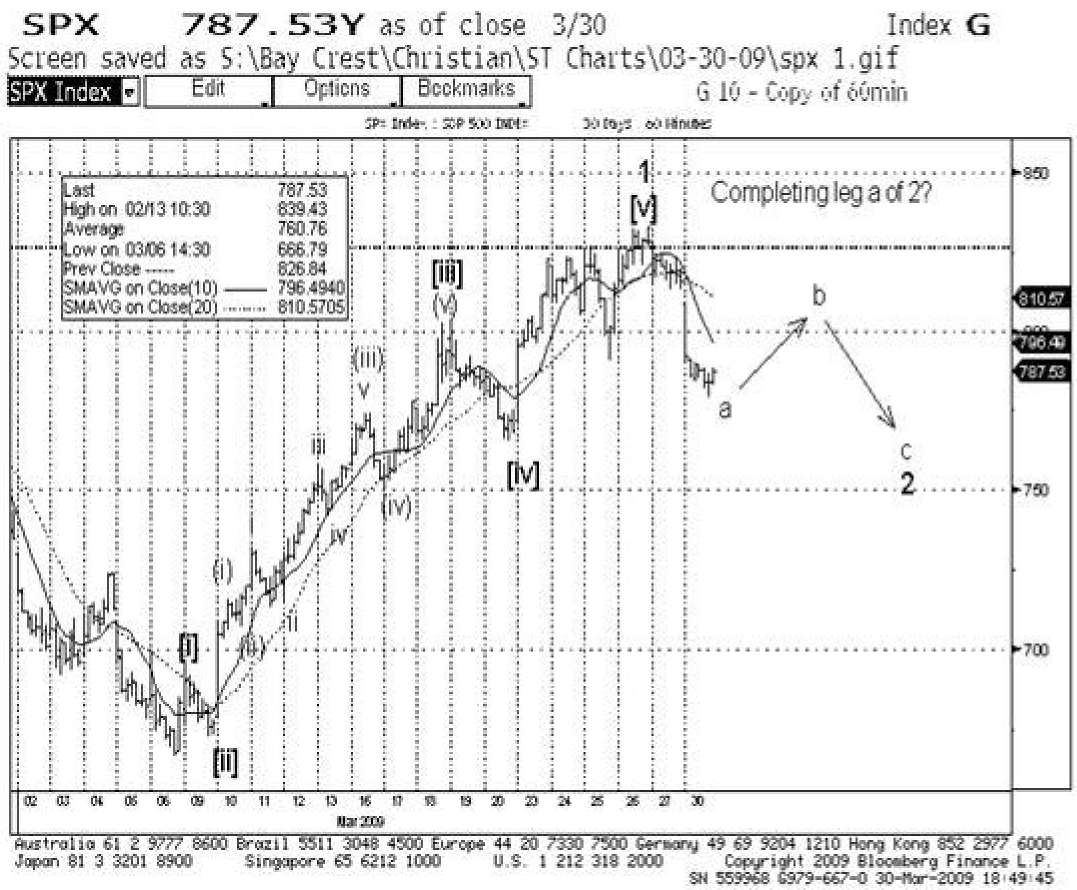
We like buying the call spread for several reasons: since we expect volatility to compress as the market rallies, the call spread lessens your long vega (long volatility) exposure. 95 is the mid point of our price target to the upside and by selling the 95 calls the trade becomes cheaper, while still allowing you to participate in a move up to 95.

Several of our clients have asked us why we remain so confidant that we will extend this bear-market rally higher over the next few weeks. For starters, there was extremely positive market breadth readings since we saw the lows on March 6th. Furthermore, volume has been light and below average during the last few days that the market has sold-off, which we view as bullish. We have also seen major positive divergences between price and oscillators form over the last few weeks since price found support near the 61.8% Fibonacci retracement of the entire secular bull market in equities that began in 1982. We included the last weekly chart below to once again highlight the fact that the weekly RSI reversed and broke out of the downward trend channel. We had mentioned on several occasions that such breakout would be a telling sign that the larger counter-trend rally in equities would be under way. Thus, we believe we have entered into a new paradigm technically speaking.

SPX DAILY ELLIOT WAVE SCENARIOS

SPX 787.53Y as of close 3/30 Index **G**





SPX WEEKLY CHART

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