

**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.**

**Bottom Line:** We find ourselves at another critical juncture in the markets, and we believe we have a good setup here with a good risk/reward to lay out some shorts for a short-term trade. One can place stops just above 785 or 805 depending on your risk preference. There is a confluence of resistance at the 780 and 800 levels and we have started to see some bearish divergences forming in the shorter-time frames with our oscillators.

We were looking for a sharp move higher (leg 4) to unravel relatively quickly, and to have a shallow pullback in the middle of the move. We were also looking for this move to last roughly 4 to 5 trading days and to reach ~760-780, so all of these minimum requirements were met for this move.

Since the beginning of the year, we have argued for fresh lows in the 650-700 area followed by a major robust primary counter-trend rally that would last for a few months. In our last update, we mentioned we believed we were only a few weeks away from the beginning of this rally. While we still believe there is one more leg lower to complete the move from last may and chances are still good that we can reach ~650-625 to complete this move before the larger multi-month rally begins, it's important to remind everyone that a move above 805 would confirm that this rally started earlier than we had expected.

Furthermore, this is a good area to enter into some short positions whether or not you believe in new lows or in just a retracement of this initial leg higher, for a short-term trade.

#### **From 03/11/09:**

As outlined in our last short-term update (see below for details), we expect this minor leg 4 (sharp move/bounce higher) to last roughly 4 to 5 trading days and to head towards ~760-780. In general, these minor leg 4 rallies unravel relatively quickly, and usually have shallow pullbacks in the middle of the move.

#### **Short-Term Technical Outlook 03/06:**

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#### **SHORT-TERM UPDATE**

**Bottom Line:** Expect a move/reversal back up to ~760-780 over the next week from the ~650-680 area, which could be reached by Friday. We expect the S&P to fail at ~760-780 and head back towards ~600-625 from there. However, we believe we are only a few of weeks away from completing this final move lower and from seeing the beginning of a major primary counter-trend rally that should last for a few months.

The important point to drill into here is that as we approach our downside intermediate price targets in the S&P we continue to cover shorts, and minimize our exposure on the short side. Having said that, we will not go outright long until we feel confident that everything has lined up for a major counter-trend rally. Nevertheless, a move above 805 would confirm that this rally started earlier than we had expected.

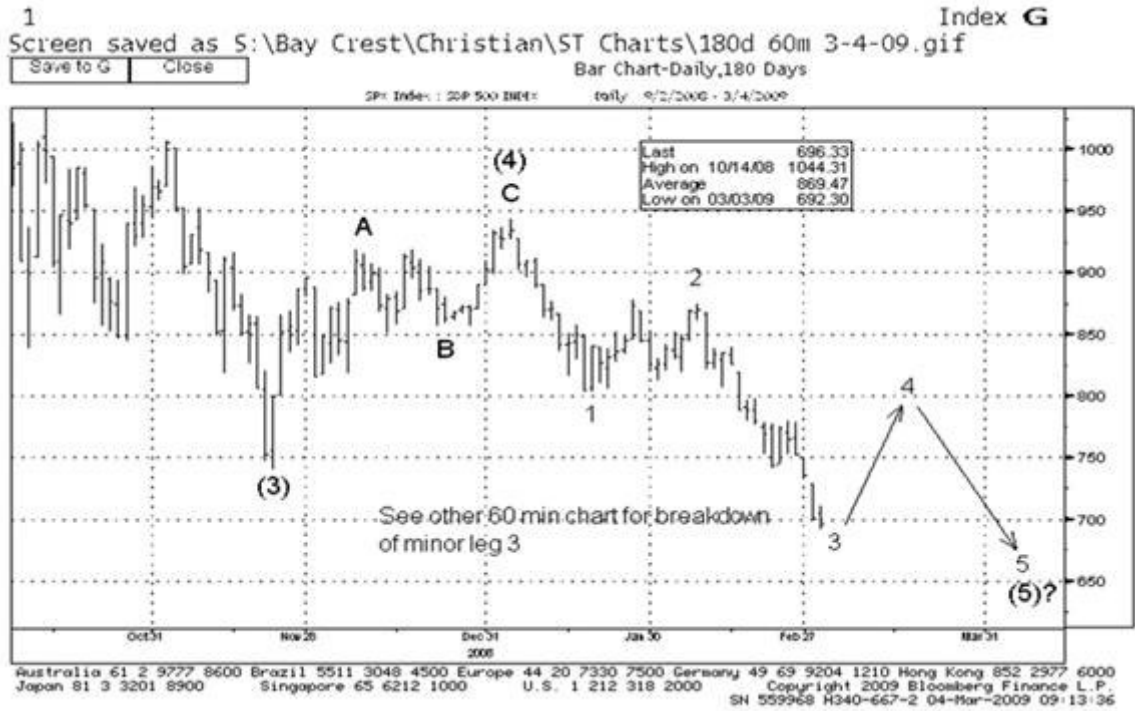
Since the beginning of January, we have argued for one major final leg lower to the 650-700 area that would be followed by a robust and sustainable counter-trend rally. As we mentioned before, we will inform our clients when the timing is right to begin aggressively accumulating shares, and we will also provide our clients with a list of the most promising stocks/sectors that we expect to outperform the broader market.

On Tuesday Feb 24<sup>th</sup>, we closed out a portion of our structural short positions since we expected a bounce, and we will close out another portion of shorts at ~650-680, despite the possibility that the S&P could head towards ~600-625 by the end of the month.

Now that we are finally approaching our price targets for the completion of leg 5, it is time to sharpen our pencil. We are confident that we will reach the 650 level, but there is now a good chance that we will reach the critical 624 level. This target is based on our work on the technical structures since May 19<sup>th</sup> '08.

Given that we broke below 735, we are in the following scenario:

- We are completing minor leg 3 of intermediate leg 5 which started on Jan 6<sup>th</sup> (intermediate leg 4 began in late November '07 and ended on Jan 6<sup>th</sup>). Minor leg 4 should take us back to ~760-780, before we get the final leg lower to complete this intermediate leg 5. The chart below illustrates this scenario.



We have broken down minor leg 3 (minor leg 3 also needs to subdivide in 5 legs) on this 60min futures chart below, for those of you that want to understand our work on the substructures.

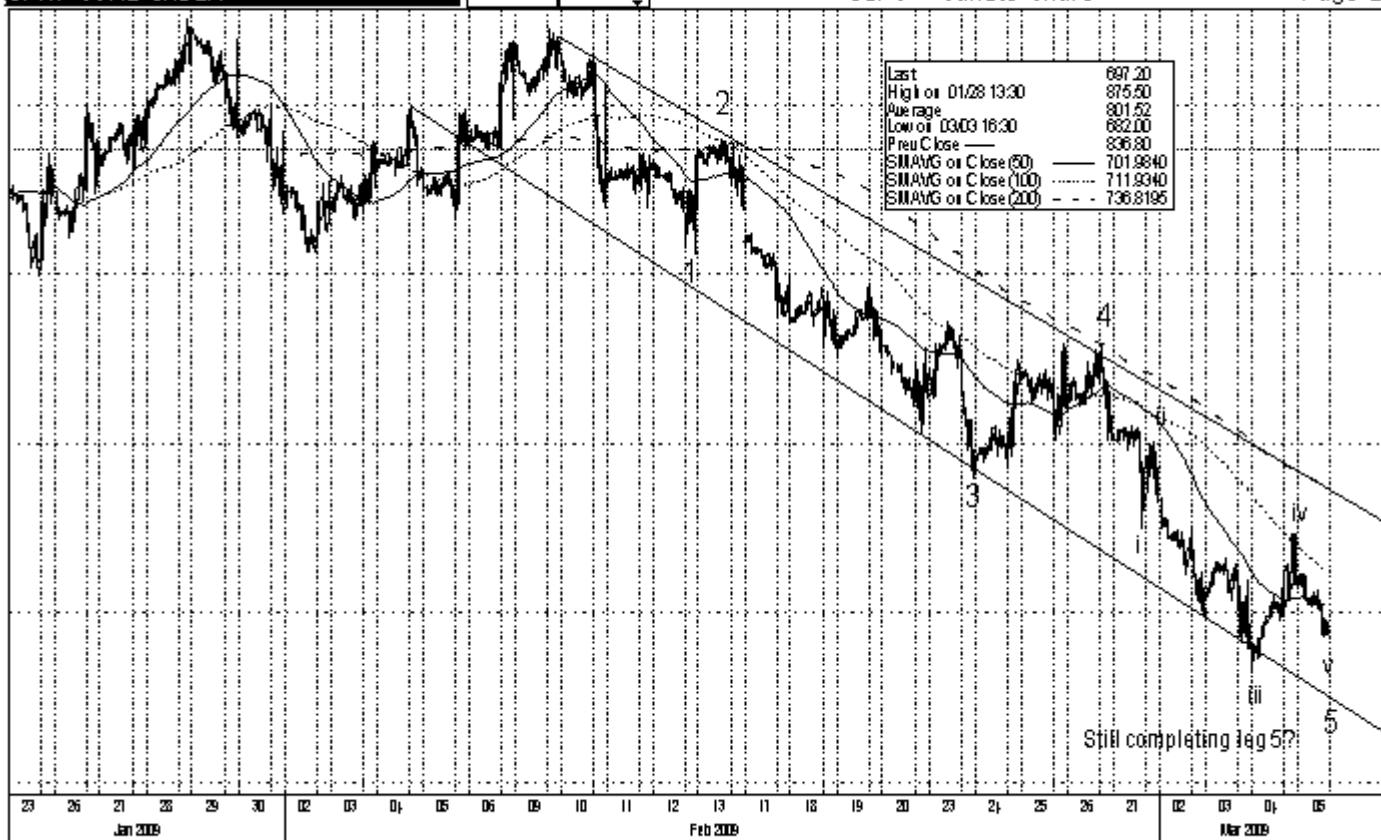
Leg 3 started on Feb 9<sup>th</sup>, and we believe we are in the process of completing the final leg 5 (the final substructures) of minor leg 3.

Ideally, we were looking for one more plunge to complete this move that should end somewhere around ~650-680.

We then expect a sharp move/bounce higher that will last for a few days that will take us all the way back to the ~760-780 area once again, before we roll over for one last move lower.

SPH9 ↓ **697.20** -11.20 M M 697.20/697.60 M Index **GP**  
 At 8:20 Vol 5,236 Op 709.40 Hi 711.80 Lo 693.10 Prev 708.40

SPH9 COMB INDEX Show Scroll IGPC - Candle Chart Page 1



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 SN 845477 6992-62-3 05-Mar-2009 08:30

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