

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: 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 24th, 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 19th '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 6th (intermediate leg 4 began in late November '07 and ended on Jan 6th). 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 9th, 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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