Trader’s Notes

RIVERFRONT INVESTMENT GROUP

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Technical Take: End Of Multi-Month Advance Receives More Confirmation

Two weeks ago, we were suspecting the multi-month advance off the March lows was over, but we felt more comfortable saving any higher conviction calls until we saw the next rally attempt *fail* under the late April highs and reverse lower on reasonable volume. We believe we saw that behavior this week in the S&P 500. While the potential correctionôs slope could mirror the advance (and provide a nice guide in terms of a falling channel), we would anticipate the current oversold condition at the daily bar level, along with the ñdojiò left in place yesterday (the one day candlestick pattern which often calls out ñstop!ò in the near term), may imply we could see some relief in the days ahead before the downtrend resumes.

Zooming in further to the hourly bar reveals an impulsive decline off the 5/19 highs (five waves down suggests to us that larger degree trend may still be lower) and a classic failure at the 50% Fibonacci retracement level on 5/29. The current choppy trading at support from last week may be further evidence to suggest we could see some relief to work off the current oversold condition weôre seeing at the daily bar level.

Leadership in the week ahead may come from the oversold sectors (Financials and Consumer Discretionary), while previous leaders (Energy) may lag. While we noticed a two-month cycle at work in Financials since the decline began in 2007 (this work would imply a better low in mid-July), several price momentum oscillators are currently ñas oversold asò we were at previous multi-week lows (this is often the problem with fixed time cycles. They donôt account for the reality of the subtle and dynamic expansions/contractions present in cyclic analysis). In short, we would not be surprised to see some relief from beaten-up Financials in the week ahead, but we would not anticipate a sustainable advance at this point.

S&P Financials breaking down

The reason why we would be surprised to see financials enjoy a sustainable move is because a number of the constituents are breaking down to new lows. Bank America (BAC-N-$31.99) is not aloneé Regions Financials (RF-N-$16.43), SunTrust (STI-N-$49.32), BB&T (BBT-N-$28.98) are joining the ranks of many others heading into new lows. We mentioned some time ago the regional banks were developing what we believed to be a symmetrical triangle with the classic wave ñaò through ñeò pattern often seen in triangles. Triangles are ñcontinuationò patterns and often convince investors into viewing the series of ñhigher highsò as bullish ï however, when viewed in the context of a triangle, the outlook usually means new

Sam Turner, CMT, Portfolio Manager• 804-549-4808 • sturner@riverfrontig.com Åwww.riverfrontig.com
Riverfront Investment Group, 9011 Arboretum Parkway, Suite 110, Richmond, VA 23236

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