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## Technical Take: Some Relief In The Near-Term Perhaps, But Larger Degree Trend Still Points Lower

Last week we pointed out that the recent decline's *slope* should mirror the advance off the March low, and that it should provide a useful map in the event of a normal correction into support. At this point, we believe this decline is on track with expectations, and should still be targeting the 61.8% retracement of the March multi-month rally that we've mentioned in the past (around 1325).

That said, to reiterate from last week, in order for us to flash the "all clear" on this decline (on a purely *technical* basis), we'd like to see breadth improve, volume dry up, and some choppy base-building behavior in price. Additionally, we would like to see various momentum indicators (such as the Relative Strength Index [RSI]) begin to build positive divergences against price (at least at the hourly bar level). This is what we're waiting for -- none of these conditions are present yet.



If we adjust the standard default settings for a fast Stochastic Oscillator<sup>1</sup> (we're using a periodicity of "5" here) we can see how the overbought/oversold readings work pretty well inside our channel. At the daily bar level, we believe we've reached a point at which we're oversold enough to see some relief, but we don't anticipate the S&P 500 will rise beyond the channel resistance this time because of what the intraday patterns are telling us.

1. The Stochastic Oscillator is a momentum indicator that shows the location of the current close relative to the high/low range over a particular period.

### Zooming Into The Hourly Bar View Of The S&P 500

Similar to the daily view, we do not see any emergence of a positive RSI divergence comparing the 6/12 low and 6/18 low; therefore, we don't believe "the" multi-month bottom is likely in the days ahead. If we peel another layer back and look at the 15-minute bar, we can see a complete and classic five-wave decline (which the Elliott Wave principle suggests is a full cycle move of some degree). Additional confirmation, in our opinion, is that if you place a Fibonacci grid on this decline (from the 6/17 high to the 6/18 low) it fits really well (too many people make the mistake of forcing Fib grids where they don't belong). Therefore, we would expect Wednesday afternoon's bounce to have (potentially) more leg to it, but likely capped under 1350 resistance (this represents the 50% retracement of the most recent leg down AND (importantly) there's a gap there at 1350 clearly visible at the 15 minute bar level (as we've mentioned on several occasions, gaps generally act like magnets on retracements).

If we see a relief rally continue in the days ahead we'd anticipate the 61.8% retracement of the rally off the March lows (about 1325) to be a reasonable downside target (at a minimum). Again, remember there are certain things we're looking for to call a low, but we need to take it one week at a time. For those that don't agree with us, in the event we're wrong to look for more downside in the weeks ahead, an upward breach of the downward channel we drew last week should be a trigger to keep watching.

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