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By Bill McLaren | Published Today | April 2009 | Unrated

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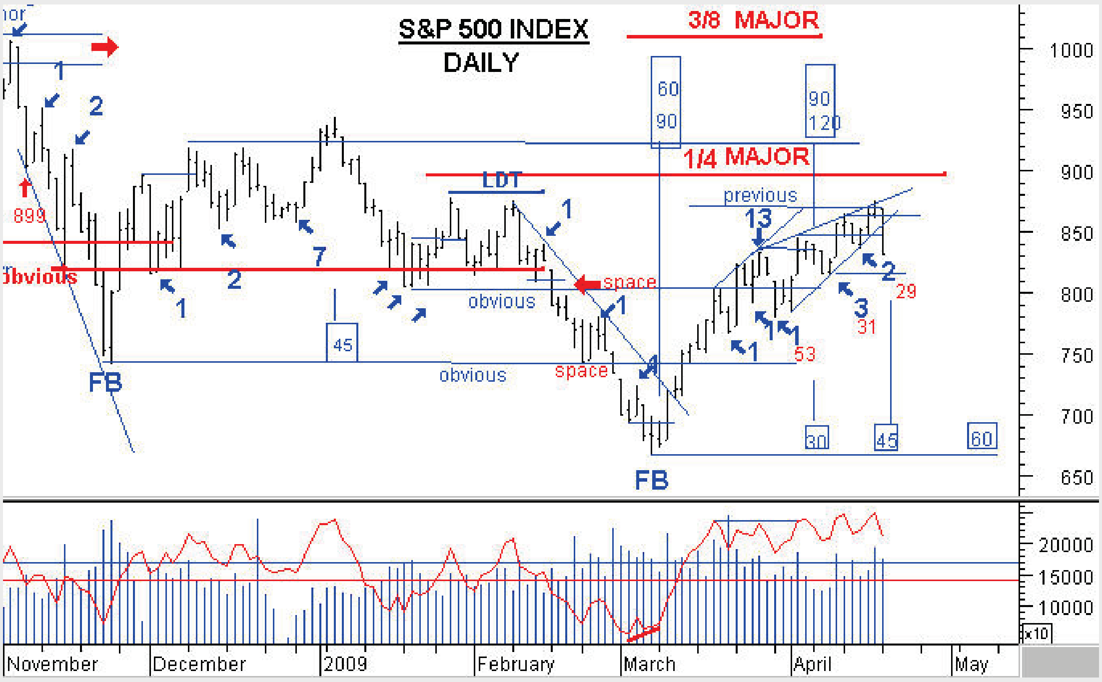
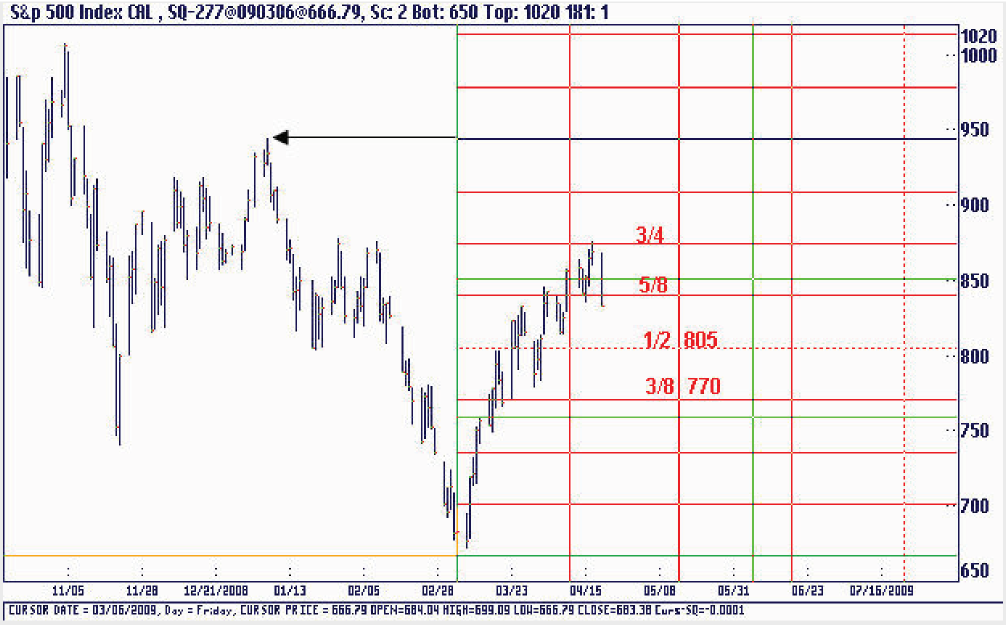
S&P 500 INDEX

One of the criteria necessary to indicate this was a three thrust distribution pattern was a wide range day down when it completed. That has occurred so we are assuming the distribution is complete and the index will now run down. The move down has been 43 points and overbalanced in price the two previous counter trends indicating the last high was an exhaustion of some sort. Today closed on the low and could be a temporary exhaustion and need a day to consolidate the wide range with a smaller inside or marginally lower low day. This appears to have occurred on the 45th day so price and time have matched the previous counter trend rally. There was lots of calculated resistance around the price of the previous lower double top.



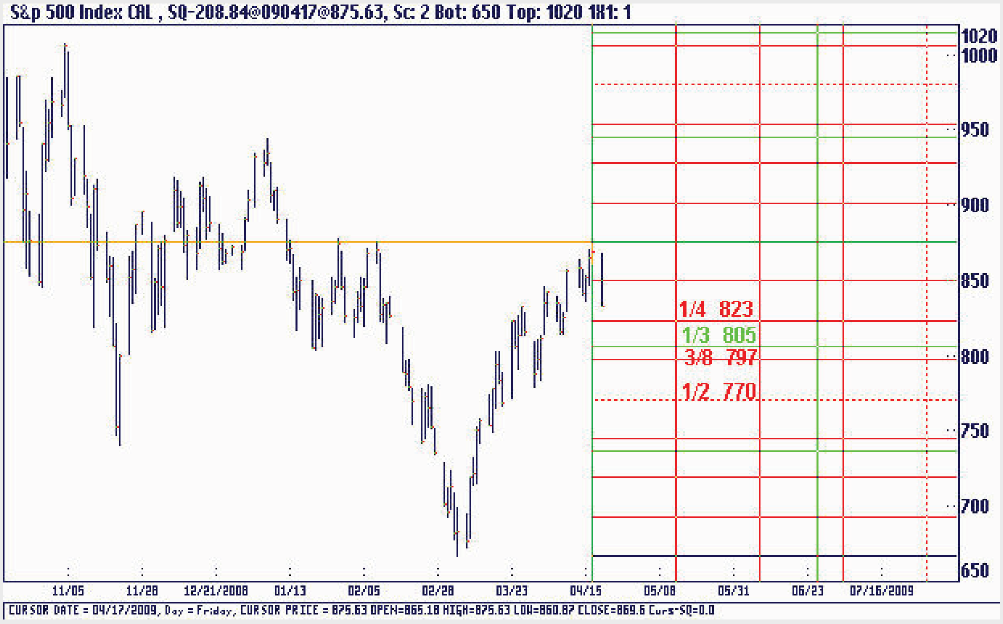
The index stopped at ¾ of the range down and important support is the ½ point of that range at 805 then 3/8 of that range down at 770 or marginally above it. Remember the first support is always the largest previous range and the midpoint is important in holding the uptrend. If there is a lot of weakness and the index moves below 800 it would make a new leg up appear very unlikely and we would view the move down as possibly producing a higher low pattern before showing an up trend. Or resuming the down trend although not much past another marginal new low.



Then we look at the retracement values of the range up. A ¼ retracement is small and keeps the uptrend in a strong position at 823. The 1/3 to 3/8 level is the normal correction within a trend at 805 to 797. The mid point is 770 and is yielding the same basic numbers as the larger range.

After a base pattern is established and the trend has change to up (new bull trend) the counter trends down in the first leg up are usually very small. So if the movement from November or even October until March was a base pattern due to the three thrusts down then the correction from this location should be small at ¼ or 1/3. If the move down exceeds those limits then it is either building a base or testing the November/March lows. We have the 60 day cycle that could be a low if this is base building. Remember this is a key drive as it will determine if the bear campaign is complete. This was a day after an options expiration but that shouldn't have created the large drop.

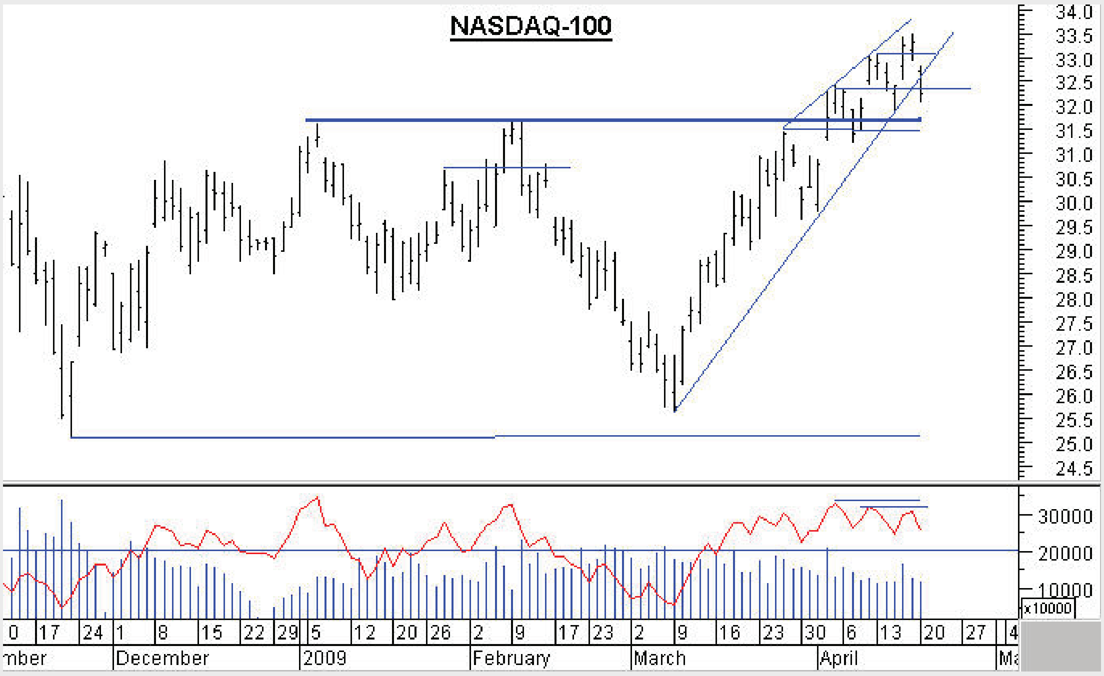
So we can conclude if there is follow through the three thrust pattern is complete as a distribution pattern. A pattern of trend that represents a struggle up that exhausted. If a ¼ retracement can hold and start a rally from that level the up trend could still be intact. Support at the 1/3 to 3/8 retracement still holds the trend intact but could also see a rally fail as a counter trend up but could even test the highs. If the index is going to move higher the 805 level is important support. If price can move below that level it would rule out this move up as a trend and would leave then two probabilities. Either a resumption of the down trend and a test of the lows or the start of a base pattern that will show one and more likely two higher lows before trending upward.



The chart below shows the days directly after a wide range day down and are highlighted with arrows. There is usually a period of consolidation with either a small range day or a small range day and a one day rally that leaves a one day counter trend indicating a fast move down. A second wide range day will leave the same probability of a consolidation day or counter trend of one day. The

August counter trend was different because it didn't have a large exhaustion up and needed further distribution before resuming the downtrend. If we don't see "follow through" to the wide range day within three days then our assumption of exhausting the move could be wrong.

The NASDAQ 100 gapped down after gapping up into the high two trading days ago. It is still above the January/February high but the struggle upward is clear and now the gap down. Large cap tech stocks are where most of the bullish sentiment exists and where this finds a low will be interesting. This is likely one of those circumstances if the index gives you a nice entry on the long side you probability don't want it.



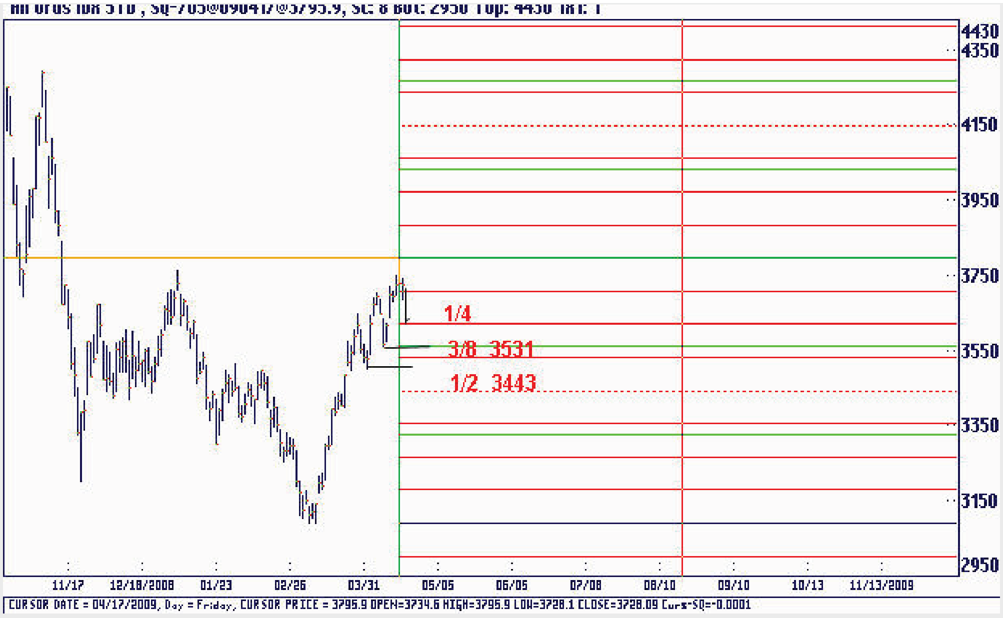
It seems as though every report I hear or read has the premise the economy is showing signs of bottoming. It is true the stock indexes could bottom 6 months ahead of the economy so the premise of seeing an economic bottoming process in place doesn't have a lot of basis for the indexes. But considering the magnitude of this economic decline I can't see what the MSM sees as an indication of an economic bottom. It's as though this entire month was choreographed starting with the change in "mark to market accounting rules" so the banks could value their balance sheets at what ever they wanted, followed by great bank earnings which have been viewed by many as just plain fraudulent. And the big banks want to give back Tarp money and now the press is saying the economy is showing signs of bottoming. I'm sorry but we have been lied to so many times I will rely on the charts and not the latest news.

ALL ORDS INDEX

The index showed a big gap down in response to the US Index decline. The low was found the first 15 minutes at down over 100 points. the index rallied back ¼ of the daily range down and successfully tested the low during and after the noon hour. The index then trended slowly upward until 2:40 and fell through the last hour.

The index has shown some “follow through” and we can assume the three thrust pattern was a distribution and the trend should now trend down to test the lows or show a higher low. There is now a false break possibility for a high against the January high and since there was a wide range day within three days of the high that is a probability. This pattern at the top has also shown a day that rallied well of the low to close almost unchanged for the day and couldn’t advance the next day. So the reversal day after the high day that couldn’t continue upward and the wide range day make this look like a top. The index has marginally overbalanced price but not yet time. It also needs to break a support level as the low of the 8th at 3560. There is an interesting probability for this index. The S&P 500 tend to hold lows while it is trending upward and this index can show marginal breaks of swing lows while trending up.
In order to confirm trending down a one day counter trend as occurred on 14 January would be helpful. With today’s wide range down day a rally day is possible tomorrow or a consolidation day. But this does have the indication of a top of some sort.

The low today was at the ¼ retracement and if that holds then the fast trend is still intact. The 1/3 to 3/8 level could show support and be followed by a counter trend up of first degree or a test of the highs. Breaking the swing lows is important and the major support is from the low marginally below the 3/8 level. The concern that this could be a new leg up of 90 days or more is fading with this move down. When the trend changes from down to up and the bull leg starts there is seldom a long side entry given. In other words the corrections remain small and usually don’t exceed 4 days. So this sell off is important in determining if this is a new leg up or a counter trend up or base building (higher lows).



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Has moved up to a 1/3 retracement of the huge move down. This was a three ascending trendline pattern of trend and indicated it would need to exhaust to produce a high and the gap up last week and two wide range volatile days could be the high to the move up. The base pattern is very attractive but the trend could have exhausted. A further decline into the previous consolidation would not look good. But remember the creed we follow and that is to exit when the trend becomes at risk and the gap up and now the gap down yesterday put the up move at risk. No evidence of trending down yet and if it can hold the high of 6 April then another multi day drive up is possible. But three ascending trendline and the possible exhaustion leaves the uptrend at risk.

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