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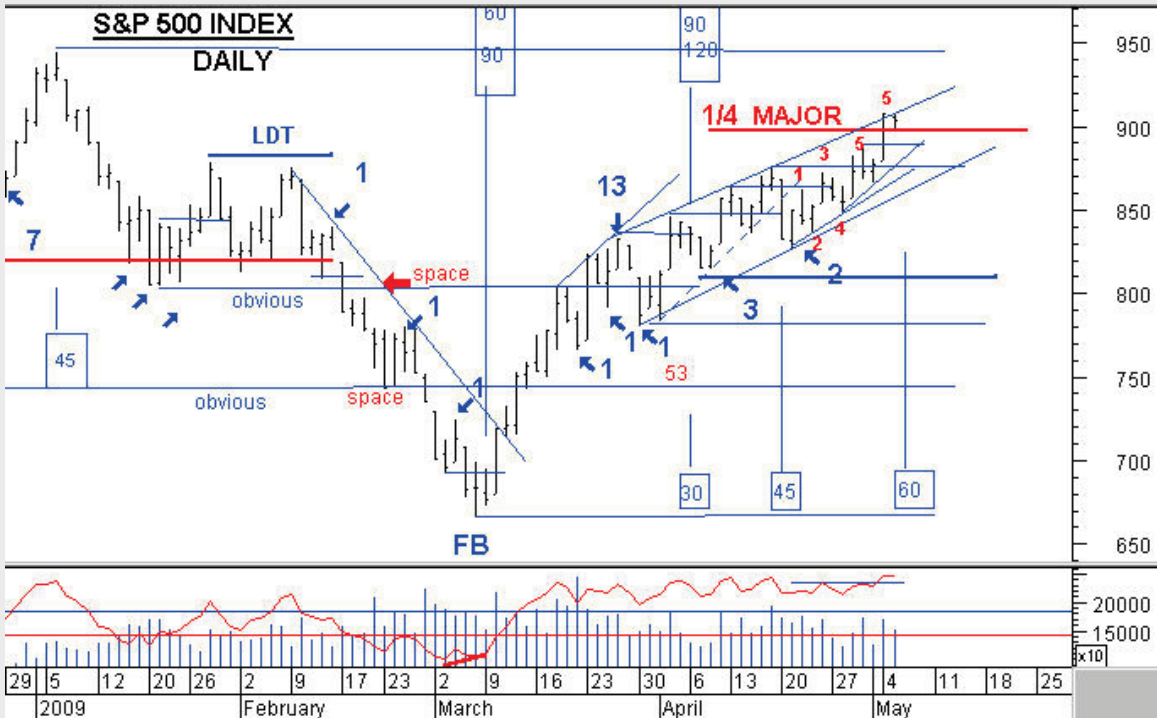
By Bill McLaren | Published Yesterday | May 2009 | Unrated

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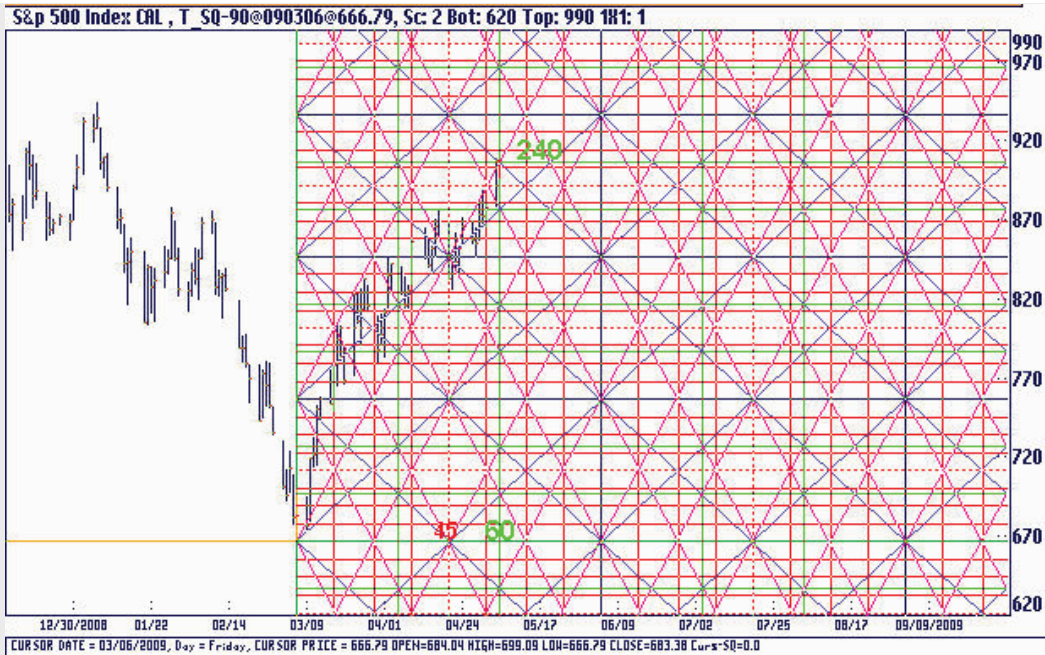
April ISM Service index better than expected and Bernanke indicated he still expects economy to turn up later this year.

S&P 500 INDEX

The index had a small range inside day. Did this small range consolidate the previous wide range day so the index could advance further or was it a bit of distribution to allow for a decline? Considering the vertical nature of the trend the question also becomes did this spike exhaust the move up? The index is up against normal resistance from the channel it has been traveling within. It is also up against the ¼ retracement of the entire bear campaign.



The index is at resistance in price and time according to Gann Analysis. The index is up 60 days and 240 points or against a 4X1 and from low. It is 120 days from high and 180 from high although 120 day cycles tend to be high to low but it is part of the same vibration that brought in the March low at 60 days and 120 days.

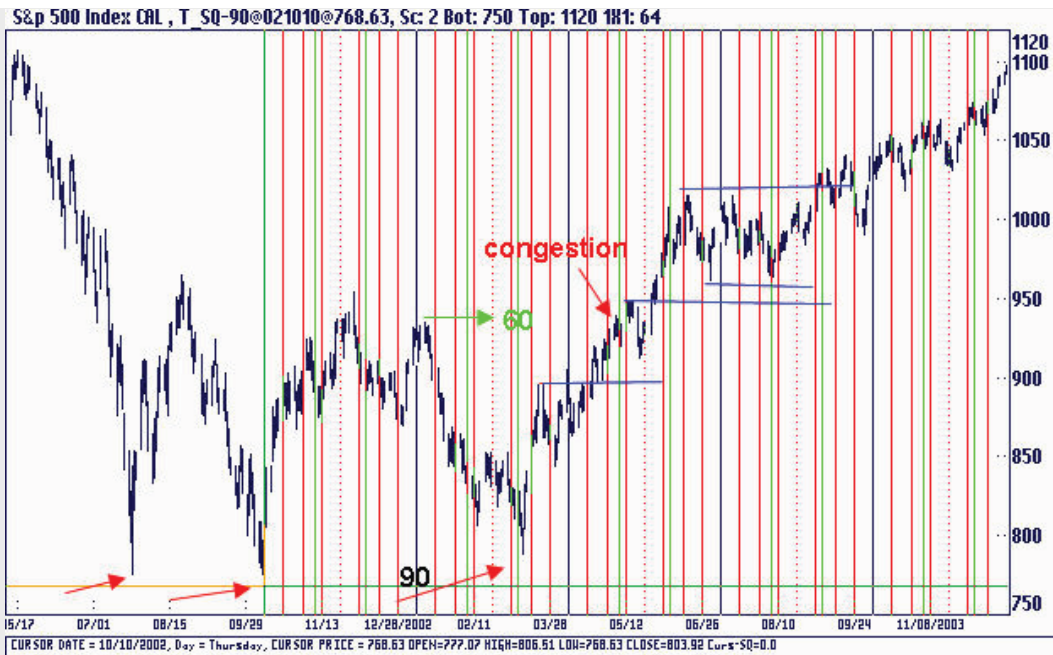


If this is a top then today either needs to be a down day or another small range day that could be marginally higher. Another wide range day up could exhaust but would also be a new momentum high. As I indicated prior, this leg up has some characteristics of a leg in a bull trend rather than a counter trend rally. That fact does pose a problem although those characteristics have not been confirmed yet. If the 60 day cycle does bring in a high it could be only a first degree counter trend down of one to four days and around 53 points down. If this is a 90 day rally that is a strong probability. If there is a selloff and the index can hold the high of the 17<sup>th</sup> at 875 it would keep the strong uptrend intact and that would be the characteristic for a bull leg.

The NASDAQ 100 has been the leadership and if the index is going higher then it should continue to lead. If this is an exhaustion in the NASDAQ 100 then the move down needs to be wide range days and start within two days. But because this is not the typical trend for a bear market rally the odds favor a higher low once this exhausts. I can see one way to play a top here and limit risk. First is sell a move below yesterday low with a stop marginally above the 908 high and take half the position out at 875 (the point that hold the trend in a strong position). Bring the stop down to breakeven on the remainder of the position and see if it can show a counter trend rally up of one or two days for proof of trending down and look to put that half back on if that occurs. We could also wait for the lower high to occur to position but this 60 day cycle does have some power in this circumstance.

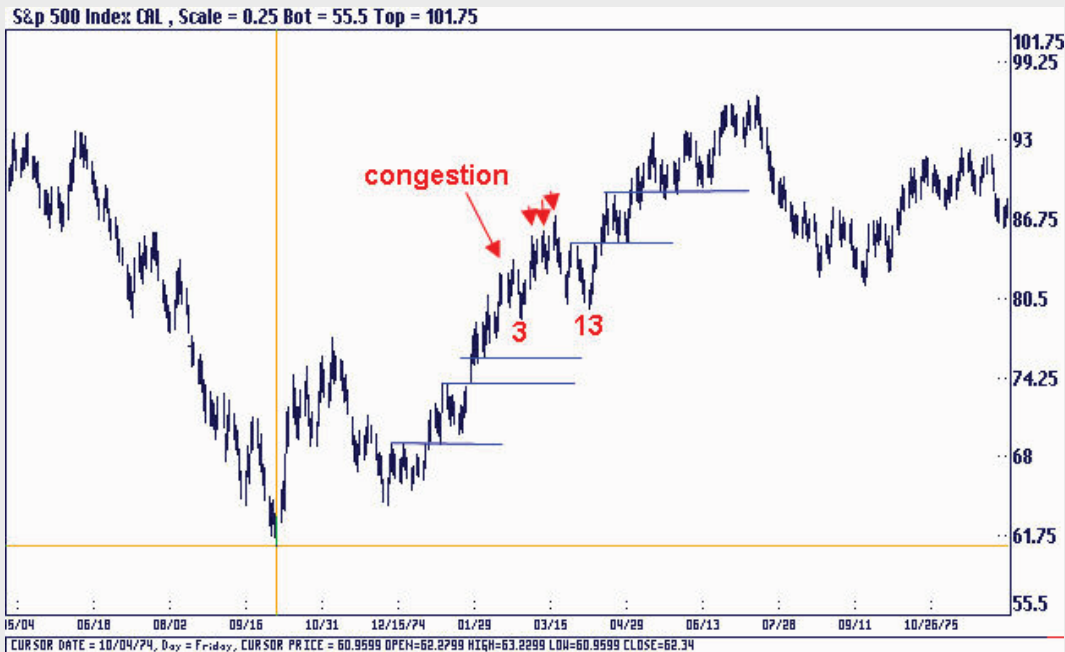
Last year we looked at my research on first legs up in bull trends. We need to take a look at some of that again. The 2002 low was basically a three thrust pattern with the third thrust at a higher level. We've seen how the move down from the December 2, 2002 high was twice the length of the move up showing a large TAS low. The trend up from the low had a creeping uptrend as a "congestion" and the index fell sharply when it was complete but that move down was only a three day counter trend.

Something we need to really be aware of now. Bull legs also tend to have horizontal consolidation and then move up out of them.



One of the major differences between bear market rallies and rallies or legs up in bull trends is bull trends are inherently stronger since they develop “space” between the previous swing high (resistance) and the next low (support). This is why the support at 875 and even 888.7 (high on 30<sup>th</sup>) are so important. This has yet to show any spacing the entire move up and is now critical to confirming a bull leg or first leg in a bull campaign.

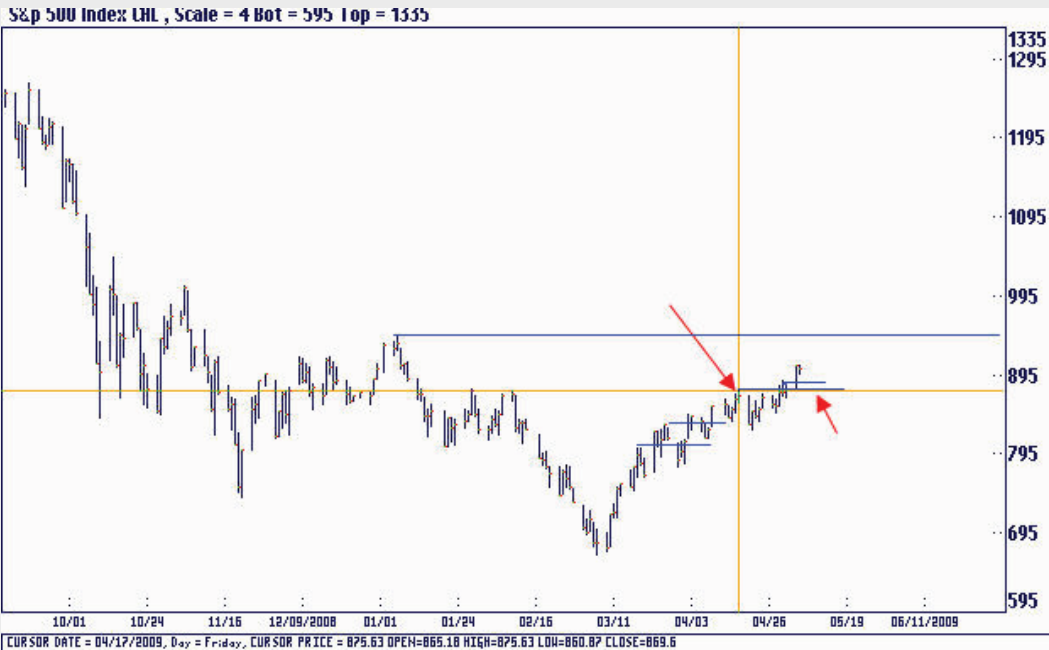
The next chart is the 1974 low and you can see there was a space that developed immediately after the higher low. There was a congestion well into the trend as occurred after the 1982 low that was corrected with a three day counter trend down followed by another little three thrust pattern that was followed by a second degree counter trend down but held the strong trend.



This index has not shown any “spacing” yet. It is not unusual for the index to rally 60 days and show a 60 day move down for a higher low since this occurred at the 1962 low in June through October. Then it took less than 20 trading days to recover the previous 60 day move down a definite bull market indication.

There is a 3 thrust pattern for low on the weekly chart and is a strong indication the low for this bear trend is complete. The move up has been struggling and has not yet left any “spacing” which is characteristic of a leg in a bull trend. The buyers continue to come in at a higher level and this pattern of trending needs an exhaustion to set in any high. That may have just occurred but could also be for a first degree counter trend down rather than something larger if this is a leg in a bull trend. We

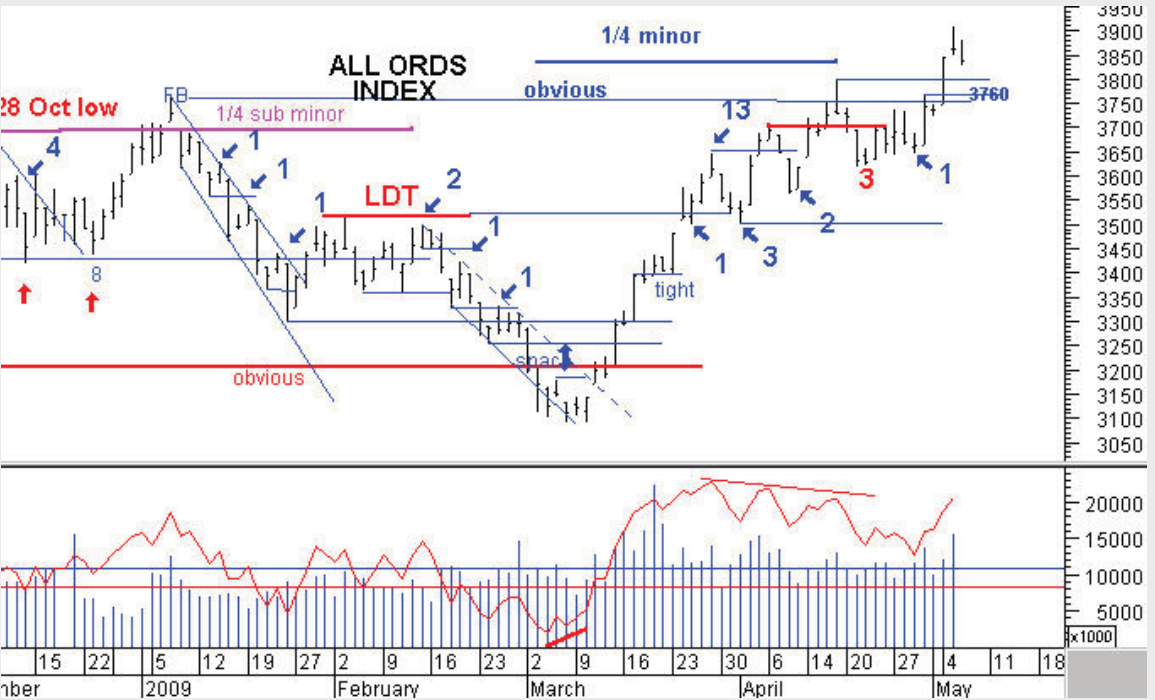
have been looking for a selloff that will exceed that first degree criteria (1 to 4 days) and establish a higher low within the time of 7 to 12 trading days down and this has not occurred. You can see how the index is vulnerable to a three day move down but if it holds a strong position it could indicate higher prices and a bear market low in place. If it doesn't hold the 875 level and exceeds three or four trading days down then this could stay into the category of a rally in a bear trend that could bring in a base or higher low as is the forecast.



Sixty days is a high probability to end a counter trend rally and if the index does fall back below the 875 support then we can look for a stronger move down. If it weren't for the time of 60 calendar days the odds would favor a test of the January high. But this has been a strong vibration in time so I am assuming it will continue until the trend changes.

ALL ORDS INDEX

The index opened marginally lower and rallied into a first half hour high it struggle down but eventually capitulated into a low during the noon hour. The index successfully tested that low two hours later but could only trade in a small range until the close.



I am assuming we can hold this index to the same criteria as the S&P 500 when it comes to the characteristics of trends. We knew there would be some follow through to the downside today and it wasn't much and another down day is also likely but after that it will depend upon the direction of the trend. This index could also see three days down and hold a strong position by staying above either 3796 or 3760.

The S&P 500 still looks like a high in this time window. The ALL ORDS has been stronger but has not shown any spacing so this move down is important. The strongest resistance above the last high is 3930 and 3972. I would feel better had this hit the ¼ extension (3972) then at least there would be something that fit with a completion in price. It is easier to make a point for a high in the S&P 500 than it is this index. It could be positioned short with the same strategy of taking 50% off at that point that keeps the trend intact (3760) and the 3<sup>rd</sup> or 4<sup>th</sup> day down.

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