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By Bill McLaren | Published Today | May 2009 | Unrated

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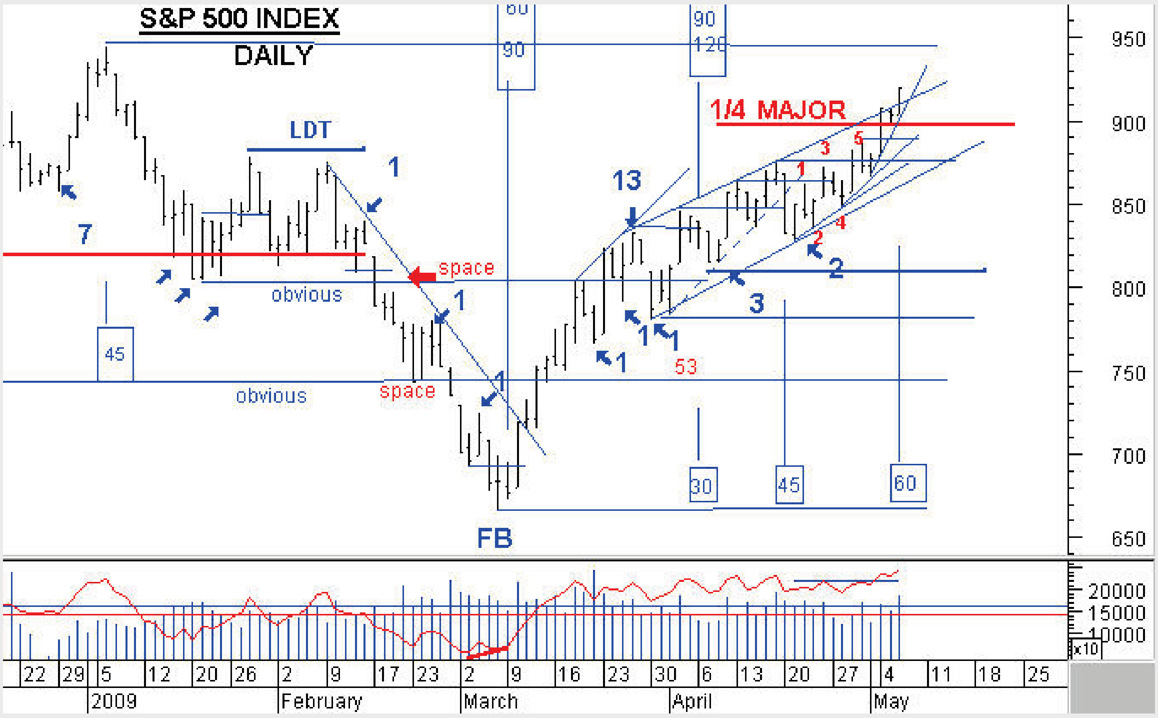
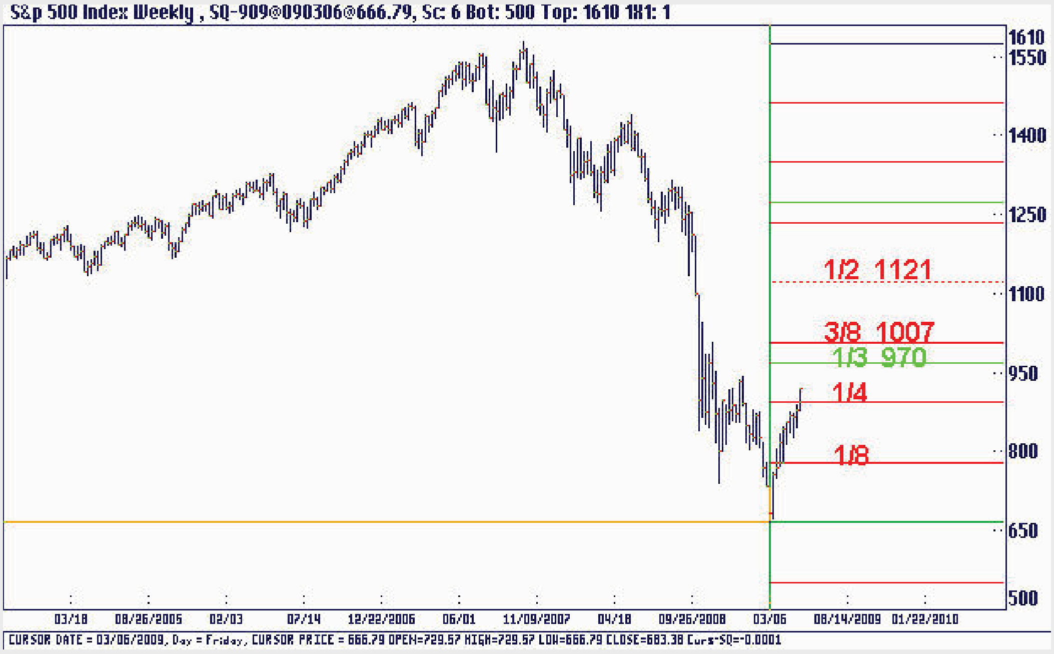
ASP Employment Report estimated 491,000 lost better than the 645,000 consensus. Data indicates large flow of funds into mutual funds and commodity prices were higher.

S&P 500 INDEX

Not only wasn't there a move below yesterday's low the index gapped up above yesterdays high. So the same thing that occurred on the 4th in the All Ords Index just occurred in the S&P 500 Index. The small range day was a consolidation of the wide range day indicating buyers are still willing to chase the index. Again, this is a pattern of trending that is associated with legs in bull trends rather than counter trend moves up. The index is obviously in an exhaustion phase (3 ascending trendlines and small range day consolidation) so the criteria for that mode of a trend can apply. While in an exhaustion phase the index will only correct back one to four day until it is complete or once it corrects more than 4 days the uptrend is complete. But in bull legs that completion usually results in a sideways pattern rather than a vertical move down. Because of the vertical nature, a correction can be steep but will only be three or four days and quickly move back up. We have looked at those circumstances over the past few days.



If this is a leg up in a bull trend then we would expect it to reach the 1/3 to 3/8 retracement and correct. That level is 970 to 1007 and will bring about a significant correction. We know this will not be the normal recovery or bull trend just as this has not been the normal bear trend due to the speed of the decline. The last peak in the economy was due to a credit bubble and that is not going to return no matter how hard the Fed and Treasury try. Once the economy shows some real signs of life the central banks will panic and try to restrain growth or pull back the huge inflationary stimulus they have been so freely putting into their respective economies. The economies will still be quite fragile and this will cause another relapse and a bear trend. Interpreting the cycles it still looks like a high in 2010 and low 2012.



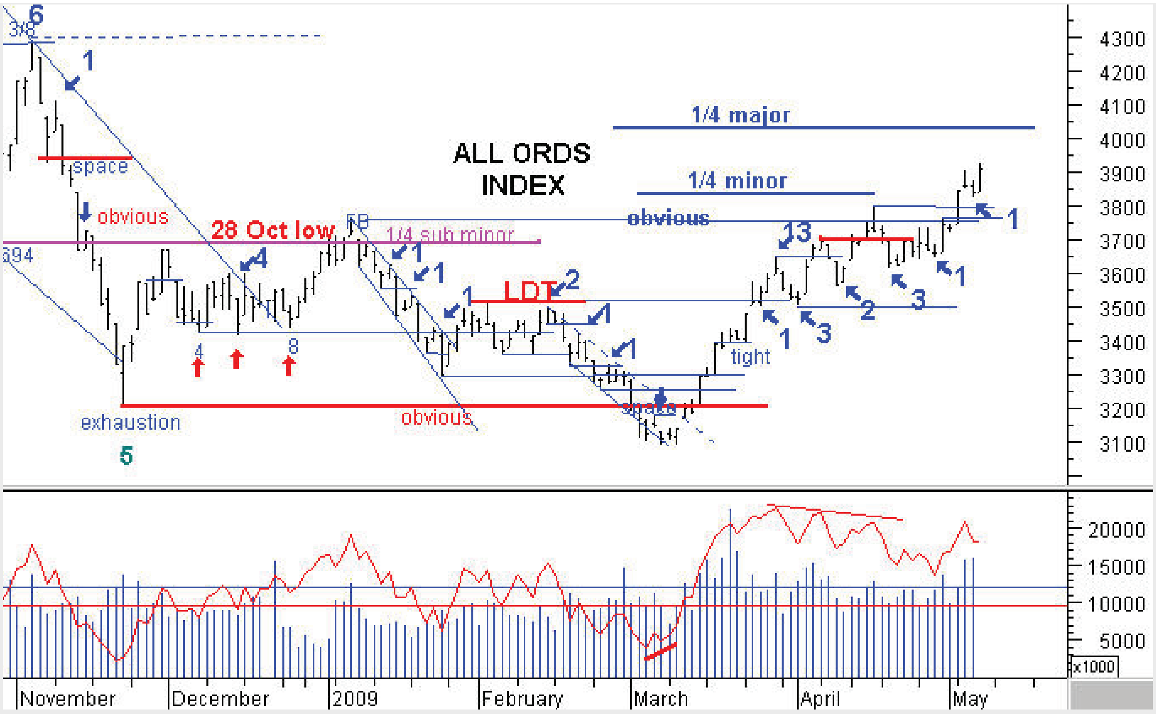
The strategy has been to look for evidence of a top within this time window but it seems unlikely because of the nature of this move up. This trend has all the appearances of a leg in a bull trend rather than a bear market rally. There have been some bear market rallies that have lasted 180 days but that is unusual. When that does occur the last 90 days is spent moving sideways. Following a massive decline of 50% as most indexes have done would seem reasonable to expect a larger counter trend than normal but history shows that in severe bear trends counter trends tend to get smaller and smaller until the trend exhausts and that appears to be the view at this time. So we can expect the index to run close to 90 calendar days no matter the circumstance.

This has been an extremely strong rally and recovering a 4X1 angle after 60 days is unusual. This means the run up has had very little consolidation by moving sideways due to the strength of the buying. It has consolidated the up move while moving upward with the struggling trend. The January high at 944 is the next obvious resistance and that may bring in a first degree counter trend. This is exhausting and the exhaustion day could occur any day at this point, I don't have anything to indicate it is complete. There is a consistent bid under the market and that takes a spike up to be resolved. But once that has been resolved the move down could very likely only be a 3 or four day counter trend.

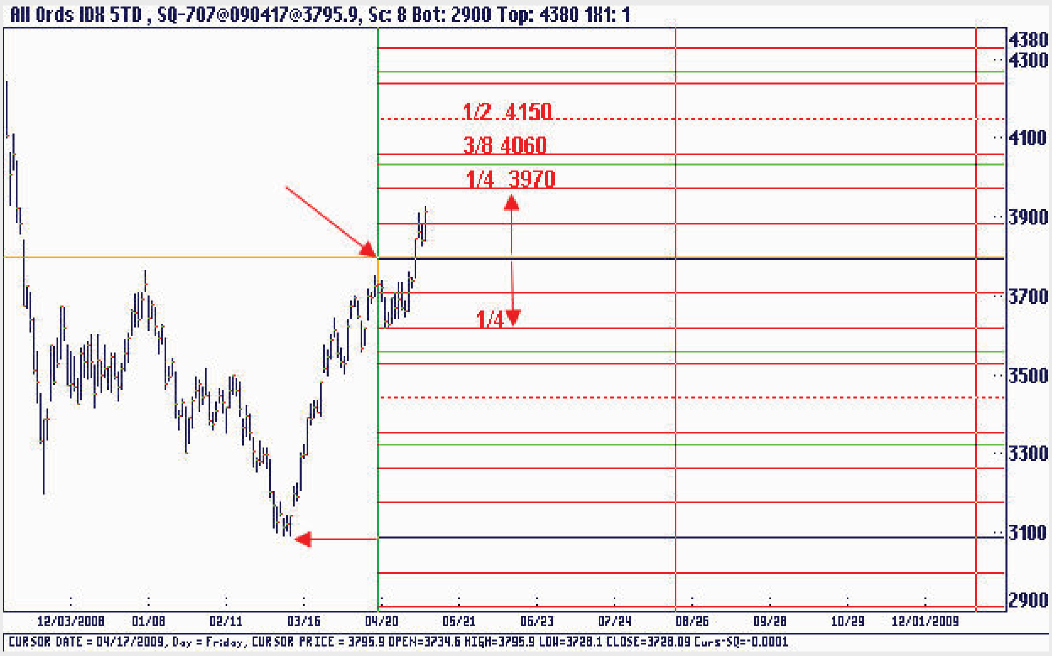
The NADAQ opened on the high for the day and fell sharply but came back up but it did show a big gap up. This is one reason why I don't want to chase the index as it could exhaust on any particular day on the open or close. But we could look at buying three days down.

ALL ORDS INDEX

The index gapped up into a high the first half hour, corrected and moved sideway into the end of the hour and ran to new highs into the noon hour. It then trended down into the 2:00 hour ad moved sideways into the close.



So there is now a one day counter trend down again indicating a strong move up. This is obviously also in an exhaustion phase of this move up and should reach the ¼ retracement at 4036 but until exhausted could go much higher.
When we extended part of this leg up, the ¼ extension (normal) was 3970, 3/8 at 4060 and ½ at 4150. When considering the retracement was only ¼, the minimum would be a ¼ extension but could also be almost any other extension with such a small retracement and the mode of the trend now being an exhaustion. The behavior of the trend is not one of a counter trend in a bear campaign. We have been looking for a higher low as evidence of the bear trend ending. That may not occur until much later. It is more likely there will be a temporary exhaustion and another multi day run. First we need to see the exhaustion day.



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