TECHNICAL FOCUS

February 26, 2009 **Futures Perspective**

> ## *Focus Highlights*
>
> - **S&P:** *A March close over 800 should provide initial confirmation of a rally starting.*
> - **Copper:** *Buy May and risk the 140.00¢ level.*
> - **Corn:** *Buy May on a close over $3.70. Risk 18¢.*

S&P 500: *A Rally is Due*

Rick Lorusso, New York

The equity markets of the world have been battered. The S&P 500 is no exception, and has shed 52.98% of its value from the all time high recorded on October 11, 2007, basis the cash index. The low since that high was scored on November 21, 2008 and followed by a rally that peaked in the early days of the new year. As of this writing, prices are testing the November lows. The structure of the decline from the high is mature and basically suggests that one of two scenarios is operative. Either the market is completing a 5th wave down from the high as illustrated on our first daily chart of the cash, or prices are two-thirds through a complex wave 4 correction within an overall 5-wave decline as illustrated on our second daily cash chart. In the latter case, a *C*-wave rally is due to unfold, with targets of ***998*** and possibly as high as ***1070***. The first case would be more bullish, suggesting a rally lies ahead to correct the 5-wave decline. ***It is significant to recognize that both wave interpretations share the common outlook for a rally.*** Given the extent of the decline, the constant litany of negative news, and the consequent high fear levels and negative sentiment readings that have resulted, a rally with substantial potential is possible, particularly when considering the amount of cash on the sidelines. The key now, however, is requiring evidence to confirm a near-term low.

We think there is evidence favoring a set-up for a low. On chart 3, also a daily cash chart, we have illustrated a few factors dealing exclusively with price. A classical downtrend channel (1-2) failed to hold back the onslaught in early October 2007, and when that occurs, doubling the channel often defines the next level of support (line 3). The market has penetrated that new lower boundary but thus far the penetration has been temporary and not sustained. A new test is currently at hand.

A very important second factor is the large range of support (illustrated as a box) gleaned from our research on range expansions. Prices have held in the top half of this calculated range. The last factor we want to stress is that prices have reached a level which is a Fibonacci 1.618 multiple of the initial large leg down from October 2007 to March 2008. The combination of the last two factors presents a very strong important area for a low.

S&P 500 – Daily Chart (1)

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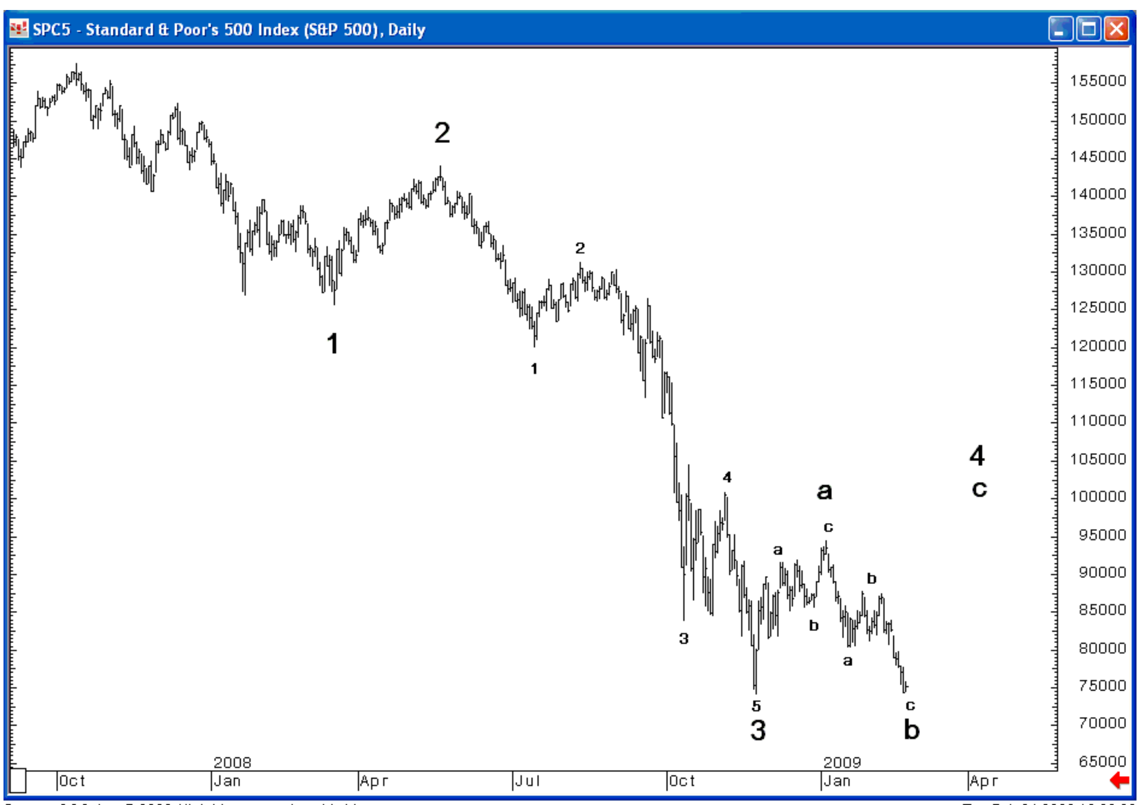
S&P 500 – Daily Chart (2)



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S&P 500 – Daily Chart (3)

S&P 500 – Daily Chart (4)

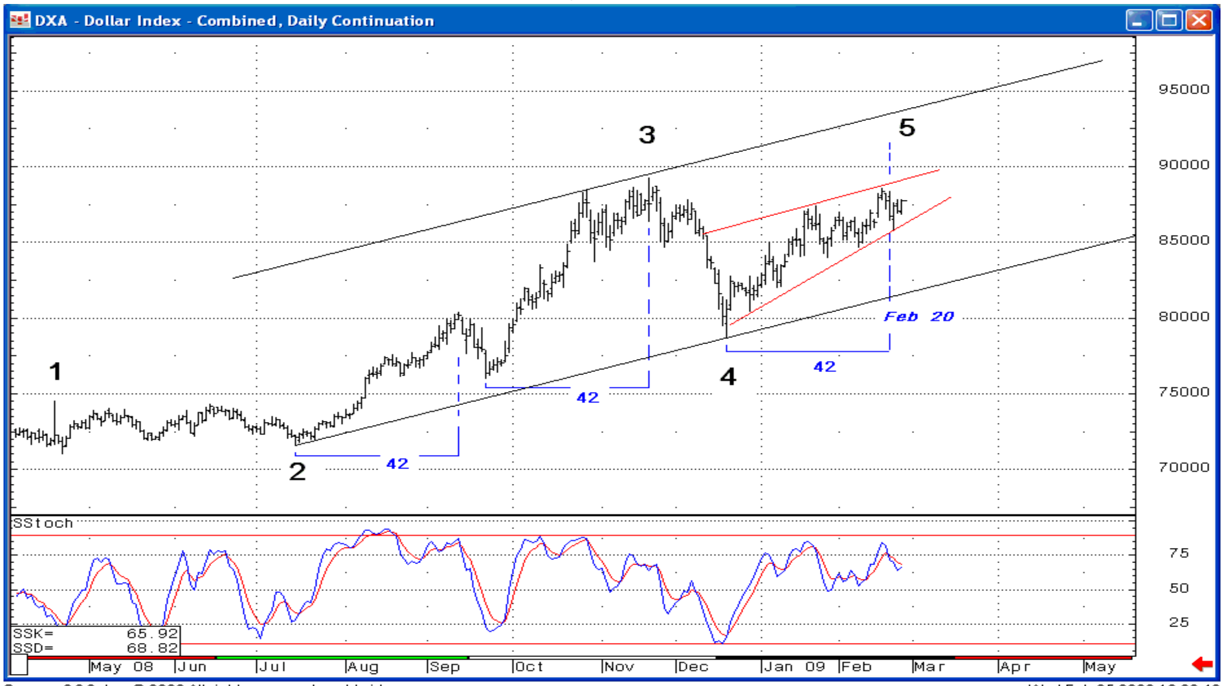
 Tue Feb 24 2009 12:41:01

S&P 500 – Daily Chart (5)

On chart 4, a daily cash chart, we devote attention to the subject of time. There are two Fibonacci golden sections that terminate on February 24. Additionally, we are showing a Fibonacci expansion (1.618) of ***time*** between two previous significant lows that is also coincident on February 24. We are not stating that February 24 must witness a turn, but in our opinion, a price low should materialize no later than the last week of February (23-27), or at the latest the first few days of March.

On our last chart, we wish to extract one measurement from each of the preceding charts 2 and 3 to emphasize the importance of marrying price and time utilizing the Fibonacci 1.618 relationship. The result is a strong indication that the market is in an area for a turn.

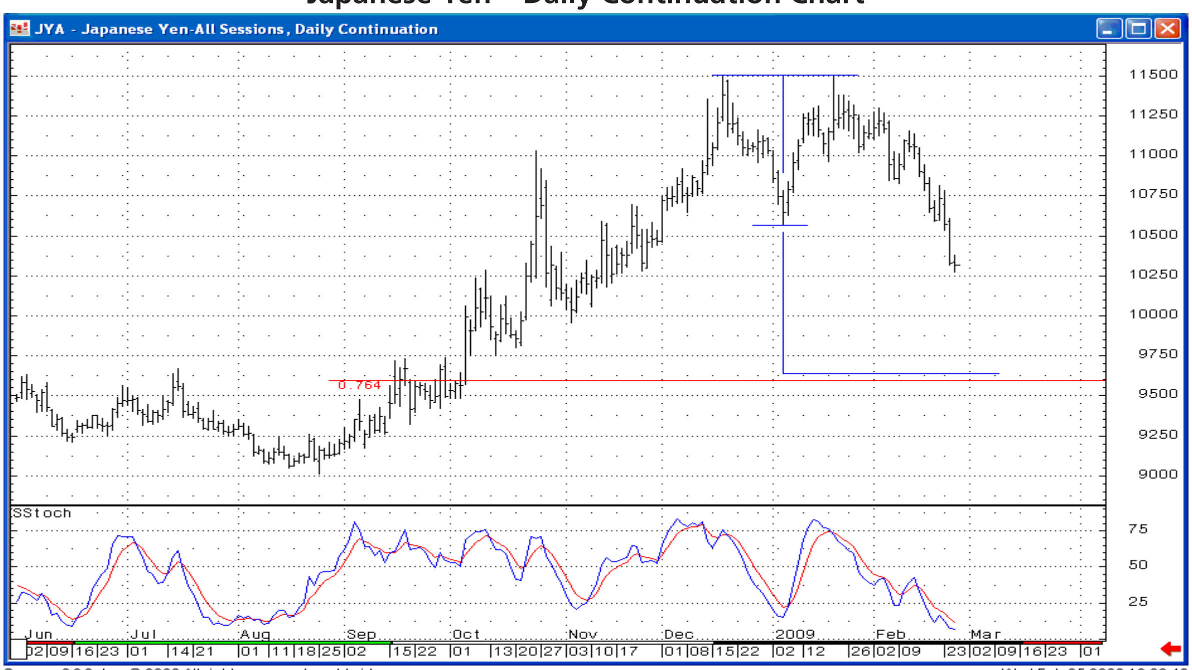
U.S. Dollar – Daily Continuation Chart



Source: CQG, Inc. © 2009 All rights reserved worldwide. www.cqg.com Wed Feb 25 2009 10:30:40

Last week's *Technical Focus* article was dollar bullish but conditional on the rally not faltering around February 20 where it would be equal to the previous two rallies in duration. A high materialized one day earlier than our date (plus/minus 1 session variance) and raises a caution. It is also possible to consider that a rising wedge (converging red lines) is operative. A close under the pattern's lower boundary will warrant a quick shift to a neutral to bearish outlook.

Japanese Yen – Daily Continuation Chart



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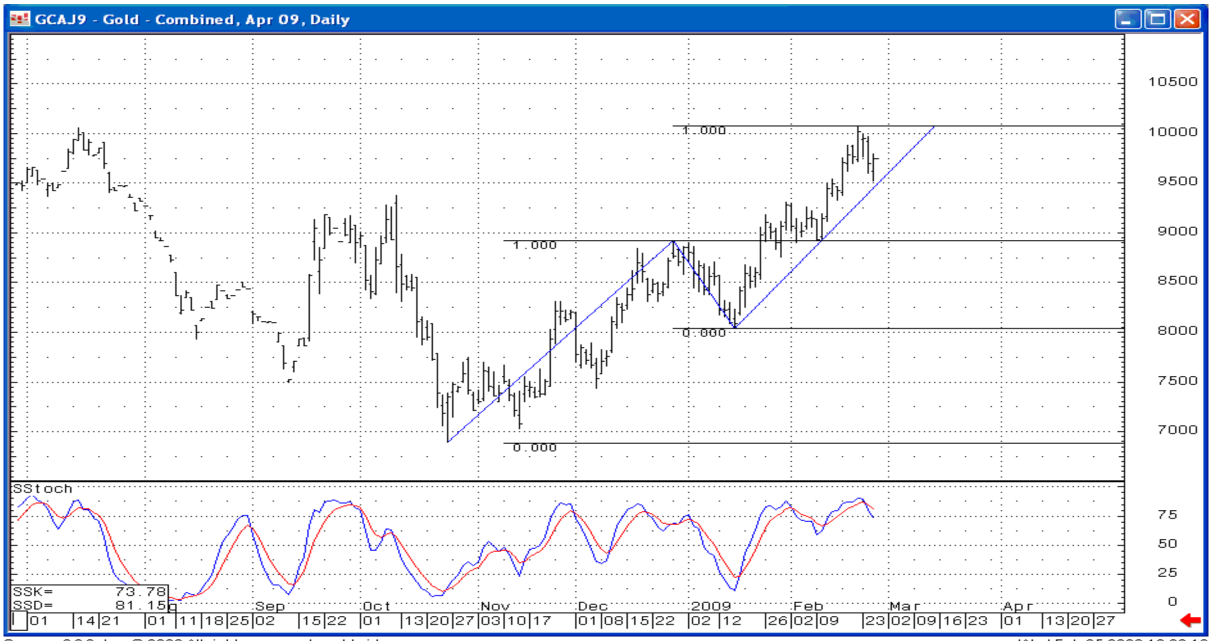
A close under the January low confirmed completion of the classic double-top pattern we had been monitoring, thereby signaling a minimum move down to .9640¢, basis the nearby contract. Interestingly, the Fibonacci 76.4% retracement of the August/January rise is at .9599¢, marginally lower. Use the foregoing range as initial support, the likely area from which a rally is attempted.

April Gold – Daily Chart



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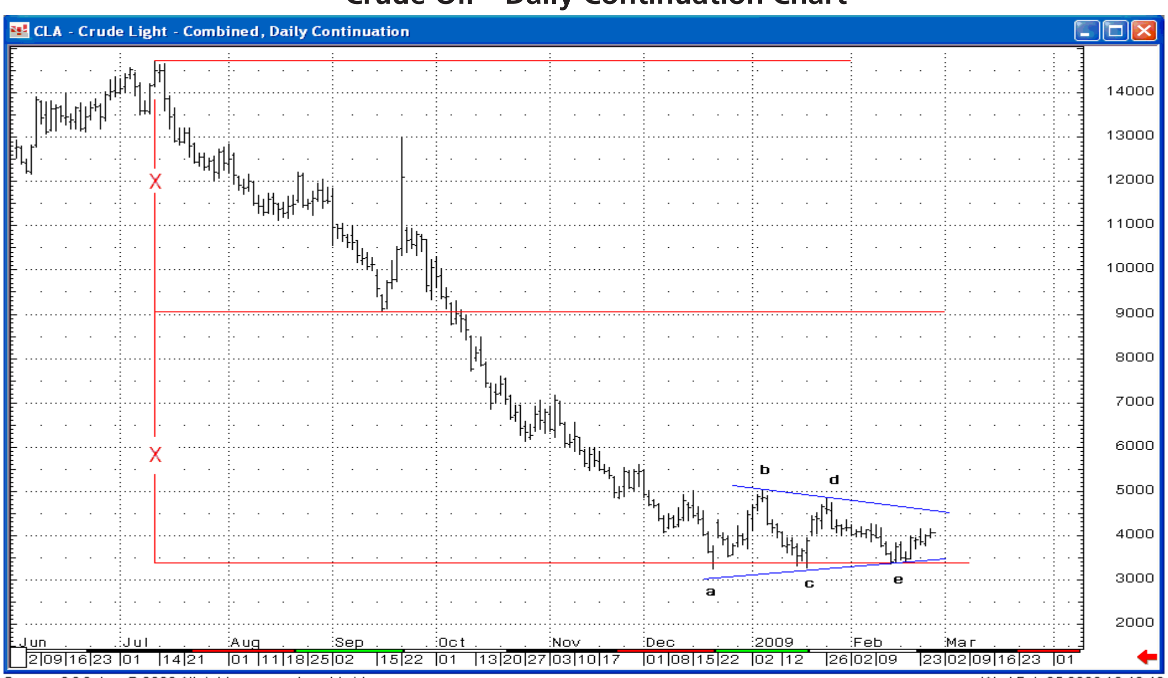
In retrospect, last week's illustrated April gold chart with its latest wave projection of $984.10 overlooked one of the simplest and most powerful techniques in our technical arsenal, the "equal-swings projection." It is illustrated above and projects a potential high at $1006.1. The high to date has been $1007.70. A close under the 2009 minor uptrend line would confirm gold has started a correction, and possibly a very large one.

Crude Oil – Daily Continuation Chart



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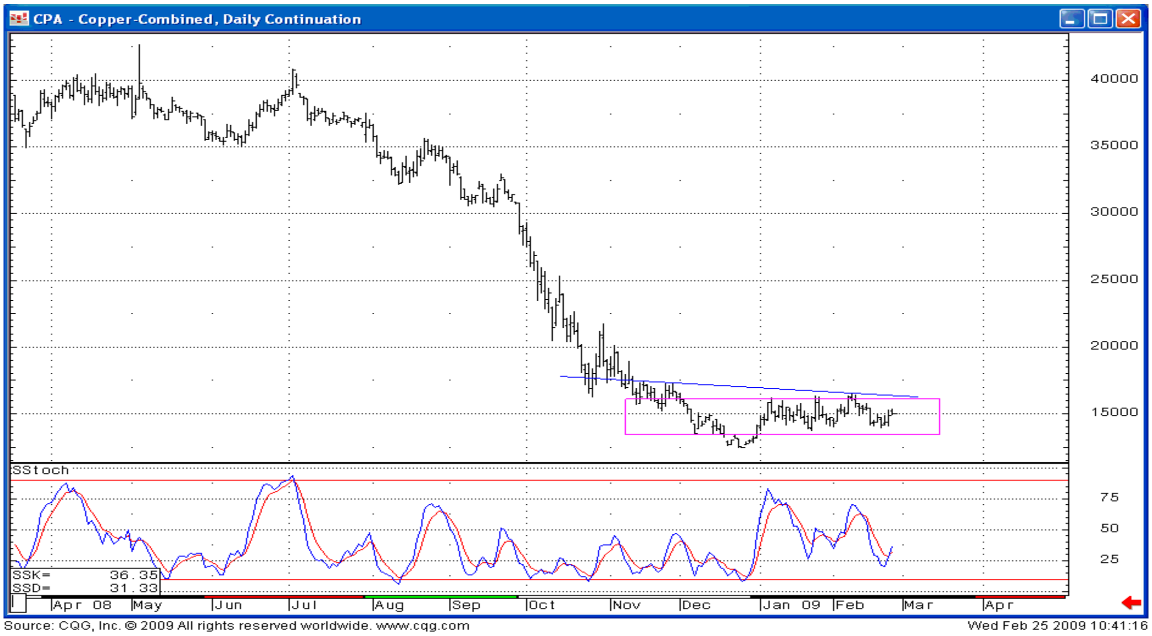
Doubling the initial large decline on the nearby oil chart has provided an effective support level for crude, as illustrated above. Over the past seven weeks, prices have formed a 5-swing (a-b-c-d-e) triangle that supports the outlook for a rally. At this point, it is best to simply wait for prices to break out to confirm a rally has begun.

Copper – Daily Continuation Chart



The volatility witnessed in the spring of 2008 enables us to project a range of values for potential termination of the current decline. That range is depicted as a box. Prices temporarily exceeded this range in December, but that proved to be a "false breakdown," as prices quickly turned higher. A close over the down sloping line that defines a base will warrant a rally outlook for copper.

May Corn – Daily Chart

The corn chart continues to display pattern symmetry supporting the idea that a complex head-and-shoulders bottom is operative. Aggressive accounts may initiate initial long positions on a close over the minor downtrend line. Completing the pattern will require a close over approximately the $4.10 level.