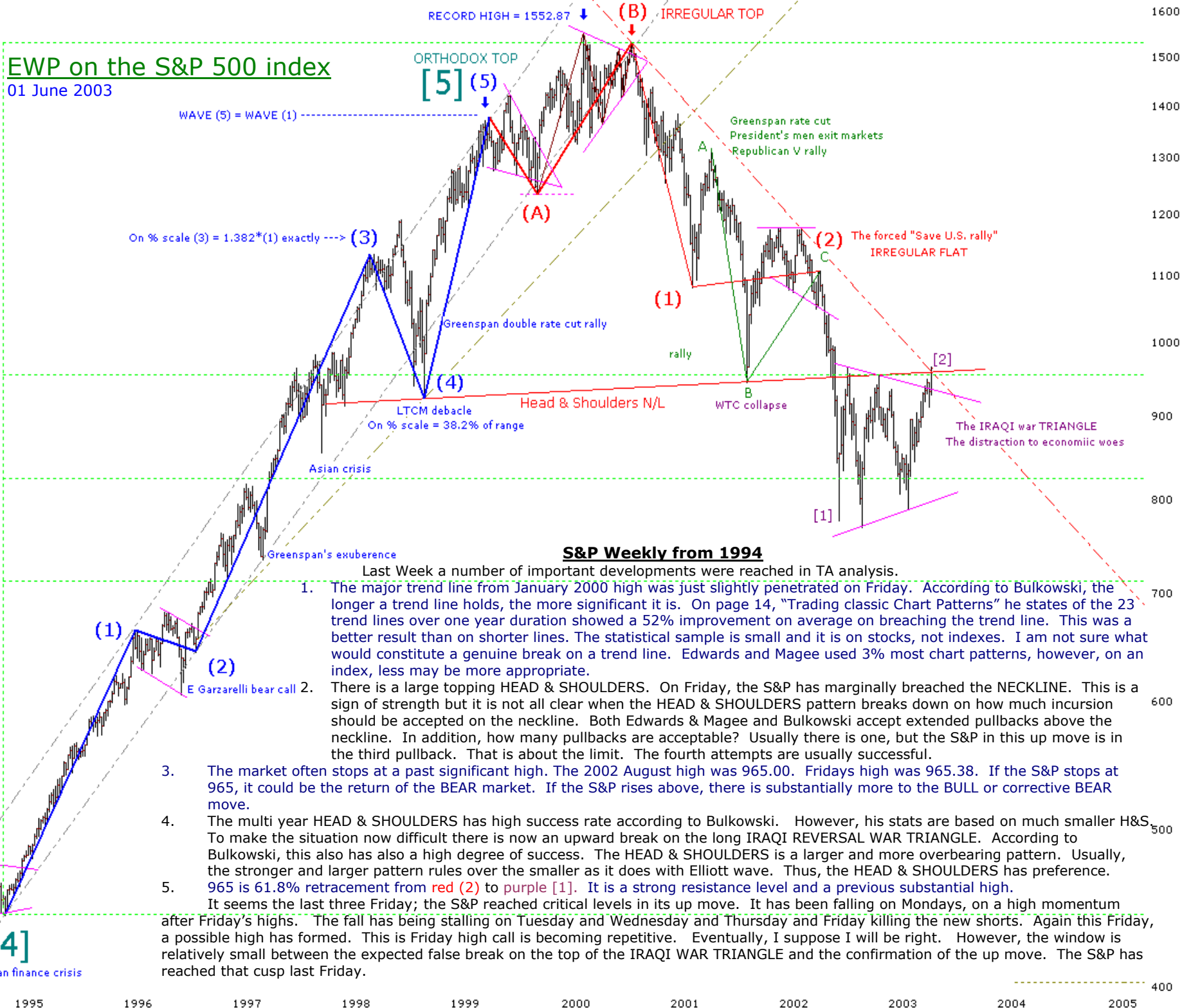


EWP on the S&P 500 index

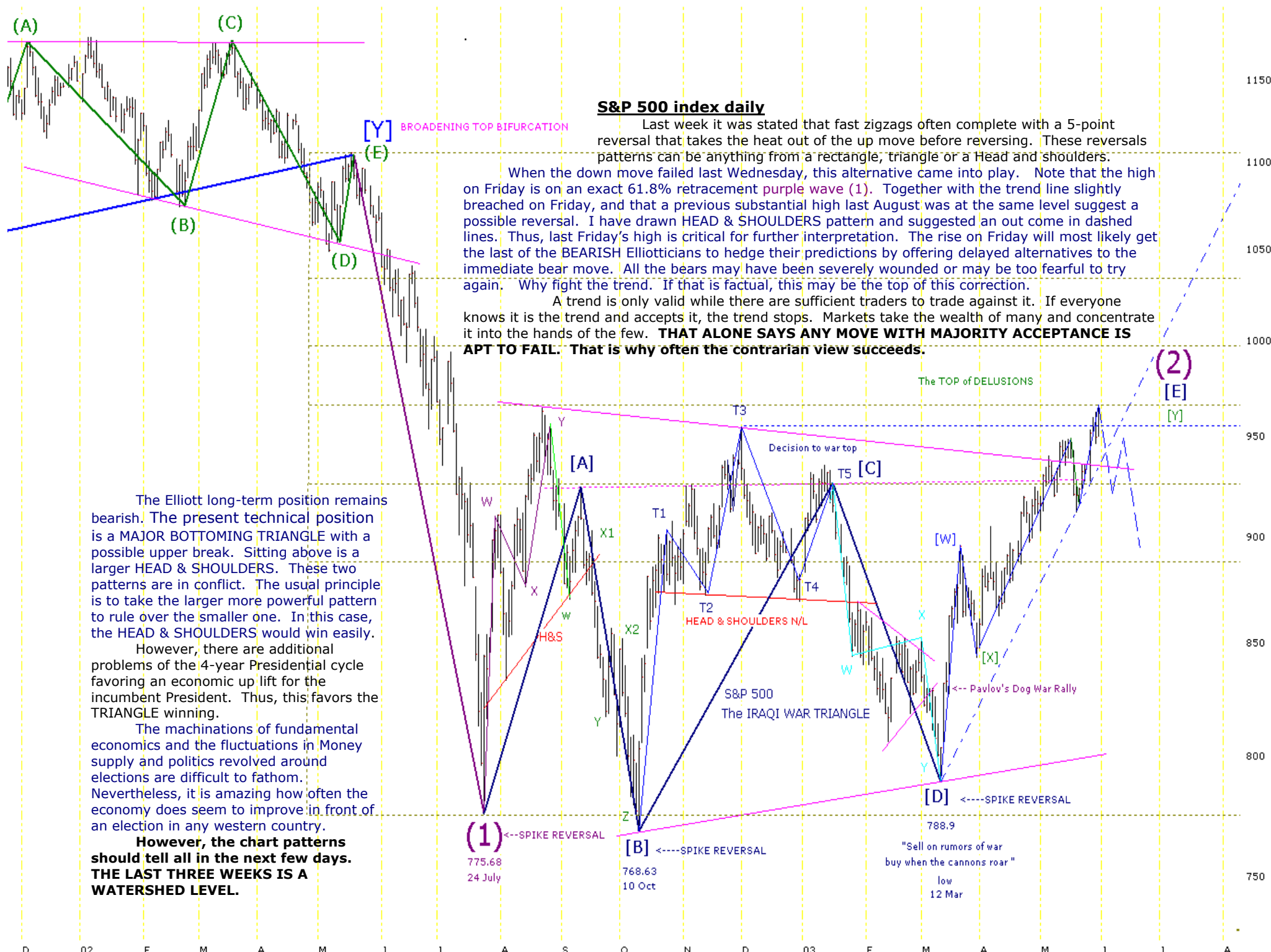
01 June 2003



S&P Weekly from 1994

Last Week a number of important developments were reached in TA analysis.

1. The major trend line from January 2000 high was just slightly penetrated on Friday. According to Bulkowski, the longer a trend line holds, the more significant it is. On page 14, "Trading classic Chart Patterns" he states of the 23 trend lines over one year duration showed a 52% improvement on average on breaching the trend line. This was a better result than on shorter lines. The statistical sample is small and it is on stocks, not indexes. I am not sure what would constitute a genuine break on a trend line. Edwards and Magee used 3% most chart patterns, however, on an index, less may be more appropriate.
2. There is a large topping HEAD & SHOULDERS. On Friday, the S&P has marginally breached the NECKLINE. This is a sign of strength but it is not all clear when the HEAD & SHOULDERS pattern breaks down on how much incursion should be accepted on the neckline. Both Edwards & Magee and Bulkowski accept extended pullbacks above the neckline. In addition, how many pullbacks are acceptable? Usually there is one, but the S&P in this up move is in the third pullback. That is about the limit. The fourth attempts are usually successful.
3. The market often stops at a past significant high. The 2002 August high was 965.00. Fridays high was 965.38. If the S&P stops at 965, it could be the return of the BEAR market. If the S&P rises above, there is substantially more to the BULL or corrective BEAR move.
4. The multi year HEAD & SHOULDERS has high success rate according to Bulkowski. However, his stats are based on much smaller H&S. To make the situation now difficult there is now an upward break on the long IRAQI REVERSAL WAR TRIANGLE. According to Bulkowski, this also has also a high degree of success. The HEAD & SHOULDERS is a larger and more overbearing pattern. Usually, the stronger and larger pattern rules over the smaller as it does with Elliott wave. Thus, the HEAD & SHOULDERS has preference.
5. 965 is 61.8% retracement from red (2) to purple [1]. It is a strong resistance level and a previous substantial high. It seems the last three Friday; the S&P reached critical levels in its up move. It has been falling on Mondays, on a high momentum after Friday's highs. The fall has been stalling on Tuesday and Wednesday and Thursday and Friday killing the new shorts. Again this Friday, a possible high has formed. This is Friday high call is becoming repetitive. Eventually, I suppose I will be right. However, the window is relatively small between the expected false break on the top of the IRAQI WAR TRIANGLE and the confirmation of the up move. The S&P has reached that cusp last Friday.



S&P 500 index daily

Last week it was stated that fast zigzags often complete with a 5-point reversal that takes the heat out of the up move before reversing. These reversals patterns can be anything from a rectangle, triangle or a Head and shoulders.

When the down move failed last Wednesday, this alternative came into play. Note that the high on Friday is on an exact 61.8% retracement purple wave (1). Together with the trend line slightly breached on Friday, and that a previous substantial high last August was at the same level suggest a possible reversal. I have drawn HEAD & SHOULDERS pattern and suggested an out come in dashed lines. Thus, last Friday's high is critical for further interpretation. The rise on Friday will most likely get the last of the BEARISH Elliotticians to hedge their predictions by offering delayed alternatives to the immediate bear move. All the bears may have been severely wounded or may be too fearful to try again. Why fight the trend. If that is factual, this may be the top of this correction.

A trend is only valid while there are sufficient traders to trade against it. If everyone knows it is the trend and accepts it, the trend stops. Markets take the wealth of many and concentrate it into the hands of the few. **THAT ALONE SAYS ANY MOVE WITH MAJORITY ACCEPTANCE IS APT TO FAIL. That is why often the contrarian view succeeds.**

The Elliott long-term position remains bearish. The present technical position is a MAJOR BOTTOMING TRIANGLE with a possible upper break. Sitting above is a larger HEAD & SHOULDERS. These two patterns are in conflict. The usual principle is to take the larger more powerful pattern to rule over the smaller one. In this case, the HEAD & SHOULDERS would win easily.

However, there are additional problems of the 4-year Presidential cycle favoring an economic up lift for the incumbent President. Thus, this favors the TRIANGLE winning.

The machinations of fundamental economics and the fluctuations in Money supply and politics revolved around elections are difficult to fathom. Nevertheless, it is amazing how often the economy does seem to improve in front of an election in any western country.

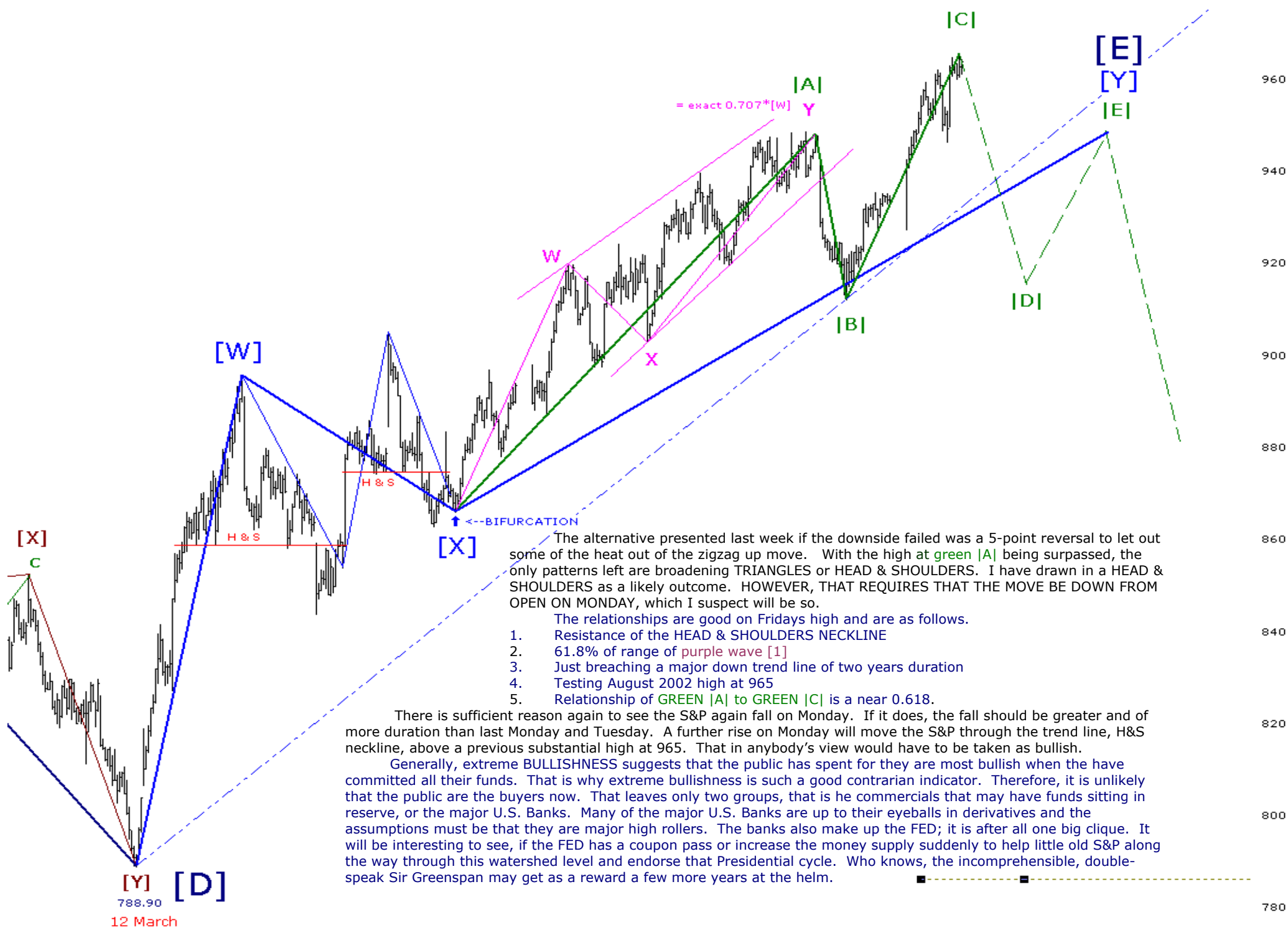
However, the chart patterns should tell all in the next few days. THE LAST THREE WEEKS IS A WATERSHED LEVEL.

(1) <---SPIKE REVERSAL
775.68
24 July

[B] <---SPIKE REVERSAL
768.63
10 Oct

788.9
"Sell on rumors of war
buy when the cannons roar"
low
12 Mar

(2)
[E]



The alternative presented last week if the downside failed was a 5-point reversal to let out some of the heat out of the zigzag up move. With the high at green [A] being surpassed, the only patterns left are broadening TRIANGLES or HEAD & SHOULDERS. I have drawn in a HEAD & SHOULDERS as a likely outcome. HOWEVER, THAT REQUIRES THAT THE MOVE BE DOWN FROM OPEN ON MONDAY, which I suspect will be so.

- The relationships are good on Fridays high and are as follows.
1. Resistance of the HEAD & SHOULDERS NECKLINE
 2. 61.8% of range of purple wave [1]
 3. Just breaching a major down trend line of two years duration
 4. Testing August 2002 high at 965
 5. Relationship of GREEN [A] to GREEN [C] is a near 0.618.

There is sufficient reason again to see the S&P again fall on Monday. If it does, the fall should be greater and of more duration than last Monday and Tuesday. A further rise on Monday will move the S&P through the trend line, H&S neckline, above a previous substantial high at 965. That in anybody's view would have to be taken as bullish.

Generally, extreme BULLISHNESS suggests that the public has spent for they are most bullish when they have committed all their funds. That is why extreme bullishness is such a good contrarian indicator. Therefore, it is unlikely that the public are the buyers now. That leaves only two groups, that is the commercials that may have funds sitting in reserve, or the major U.S. Banks. Many of the major U.S. Banks are up to their eyeballs in derivatives and the assumptions must be that they are major high rollers. The banks also make up the FED; it is after all one big clique. It will be interesting to see, if the FED has a coupon pass or increase the money supply suddenly to help little old S&P along the way through this watershed level and endorse that Presidential cycle. Who knows, the incomprehensible, double-speak Sir Greenspan may get as a reward a few more years at the helm.

[Y] [D]
788.90
12 March

960
940
920
900
880
860
840
820
800
780

DISCLAIMER

This information is intended for educational and discussion purposes only. Please direct any discussion to the site where you have obtained the update and not to me personally. I trade for a living. I do not have time to answer all queries. Directing your discussion to the posting site will allow others to participate in the discussions and resolve some of the issues independently. It will also give me the opportunity to learn from the comments.

This update does not suggest nor recommend that any trading position to be taken. **This is NOT financial trading advice.** If you trade, and need assistance or advice, it is suggested that you seek a qualified financial advisor in accordance to the rules and regulations in your country.

Zoran