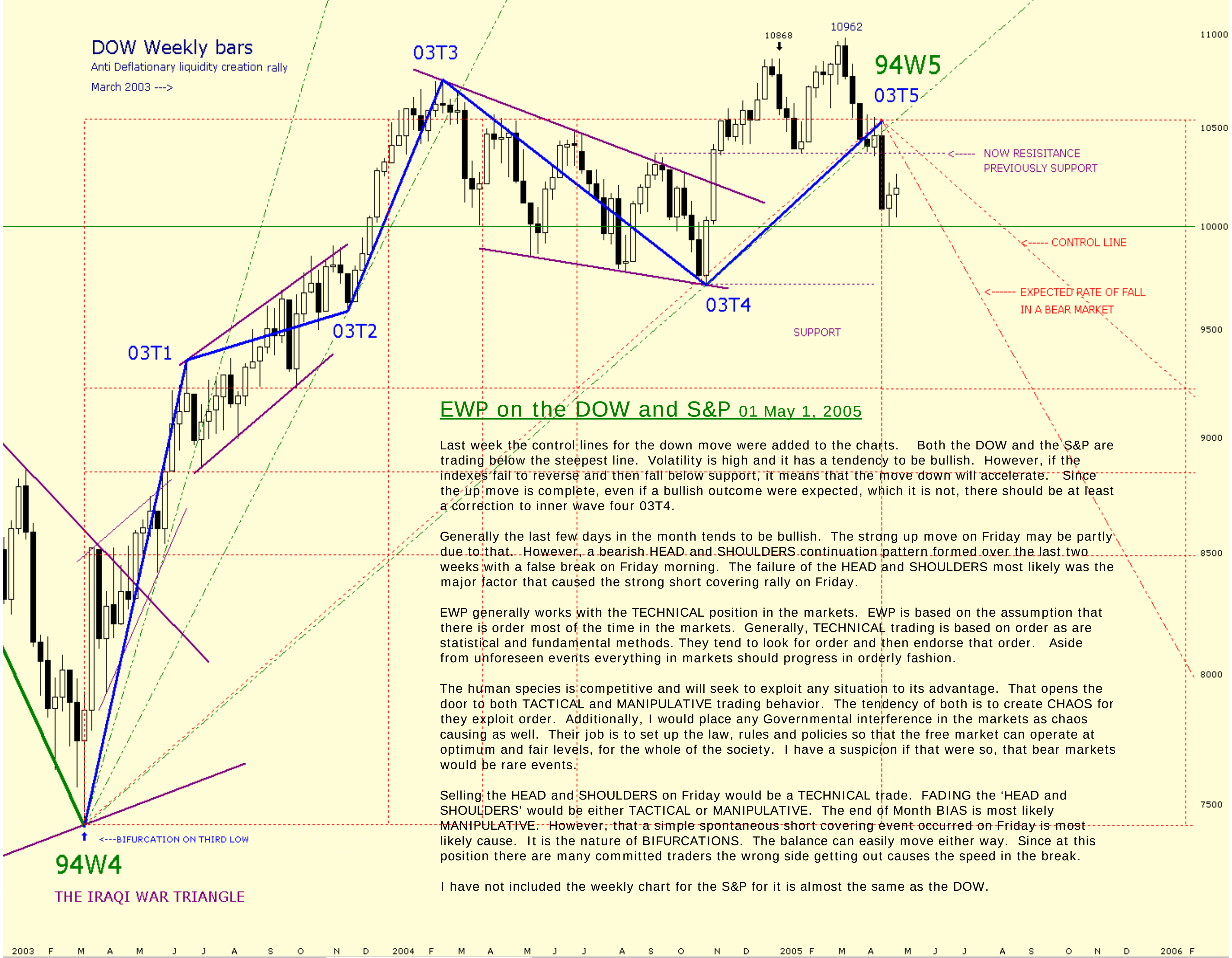


EWP on the DOW and S&P 01 May 1, 2005

Last week the control lines for the down move were added to the charts. Both the DOW and the S&P are trading below the steepest line. Volatility is high and it has a tendency to be bullish. However, if the indexes fail to reverse and then fall below support, it means that the move down will accelerate. Since the up move is complete, even if a bullish outcome were expected, which it is not, there should be at least a correction to inner wave four 03T4.

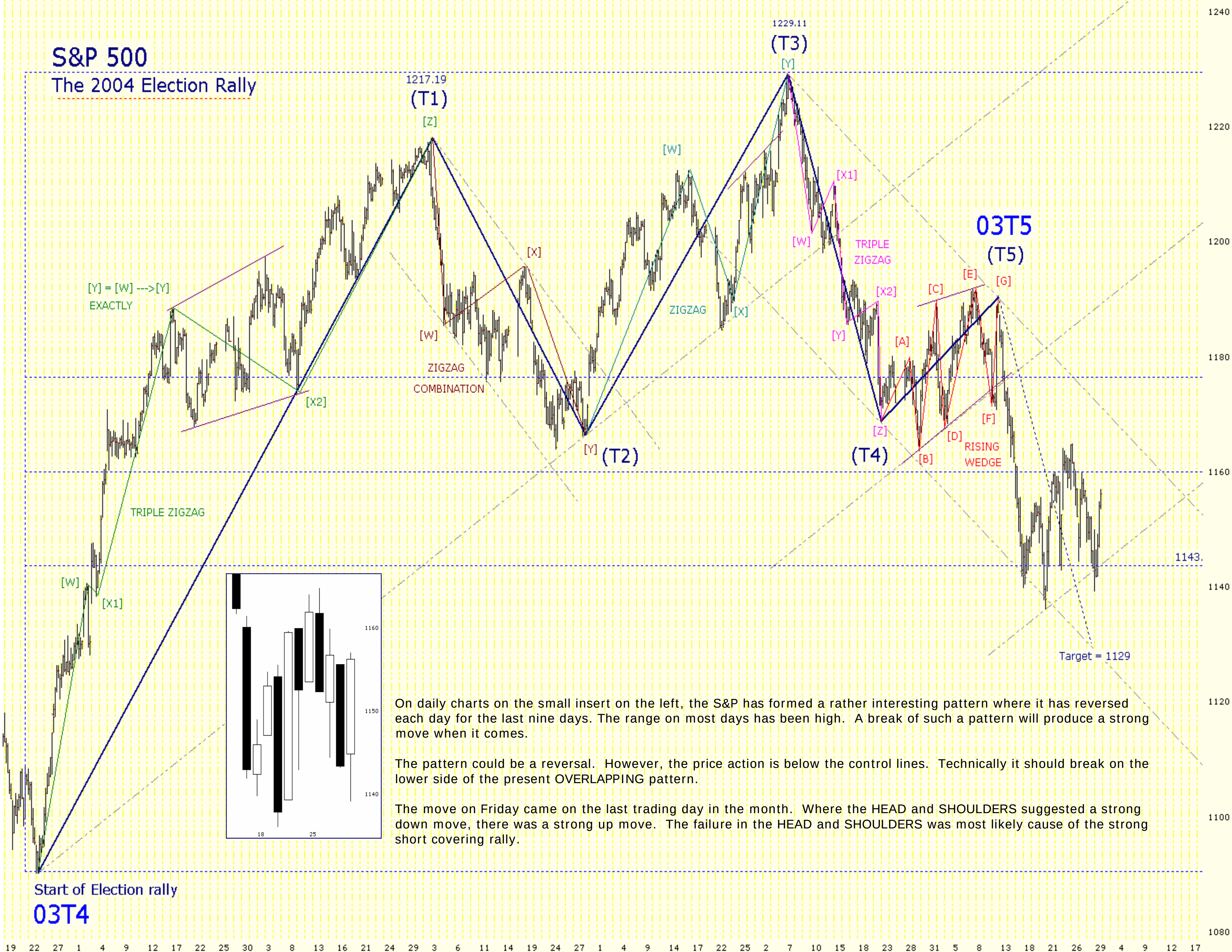
Generally the last few days in the month tends to be bullish. The strong up move on Friday may be partly due to that. However, a bearish HEAD and SHOULDERS continuation pattern formed over the last two weeks with a false break on Friday morning. The failure of the HEAD and SHOULDERS most likely was the major factor that caused the strong short covering rally on Friday.

EWP generally works with the TECHNICAL position in the markets. EWP is based on the assumption that there is order most of the time in the markets. Generally, TECHNICAL trading is based on order as are statistical and fundamental methods. They tend to look for order and then endorse that order. Aside from unforeseen events everything in markets should progress in orderly fashion.

The human species is competitive and will seek to exploit any situation to its advantage. That opens the door to both TACTICAL and MANIPULATIVE trading behavior. The tendency of both is to create CHAOS for they exploit order. Additionally, I would place any Governmental interference in the markets as chaos causing as well. Their job is to set up the law, rules and policies so that the free market can operate at optimum and fair levels, for the whole of the society. I have a suspicion if that were so, that bear markets would be rare events.

Selling the HEAD and SHOULDERS on Friday would be a TECHNICAL trade. FADING the ‘HEAD and SHOULDERS’ would be either TACTICAL or MANIPULATIVE. The end of Month BIAS is most likely MANIPULATIVE. However, that a simple spontaneous short covering event occurred on Friday is most likely cause. It is the nature of BIFURCATIONS. The balance can easily move either way. Since at this position there are many committed traders the wrong side getting out causes the speed in the break.

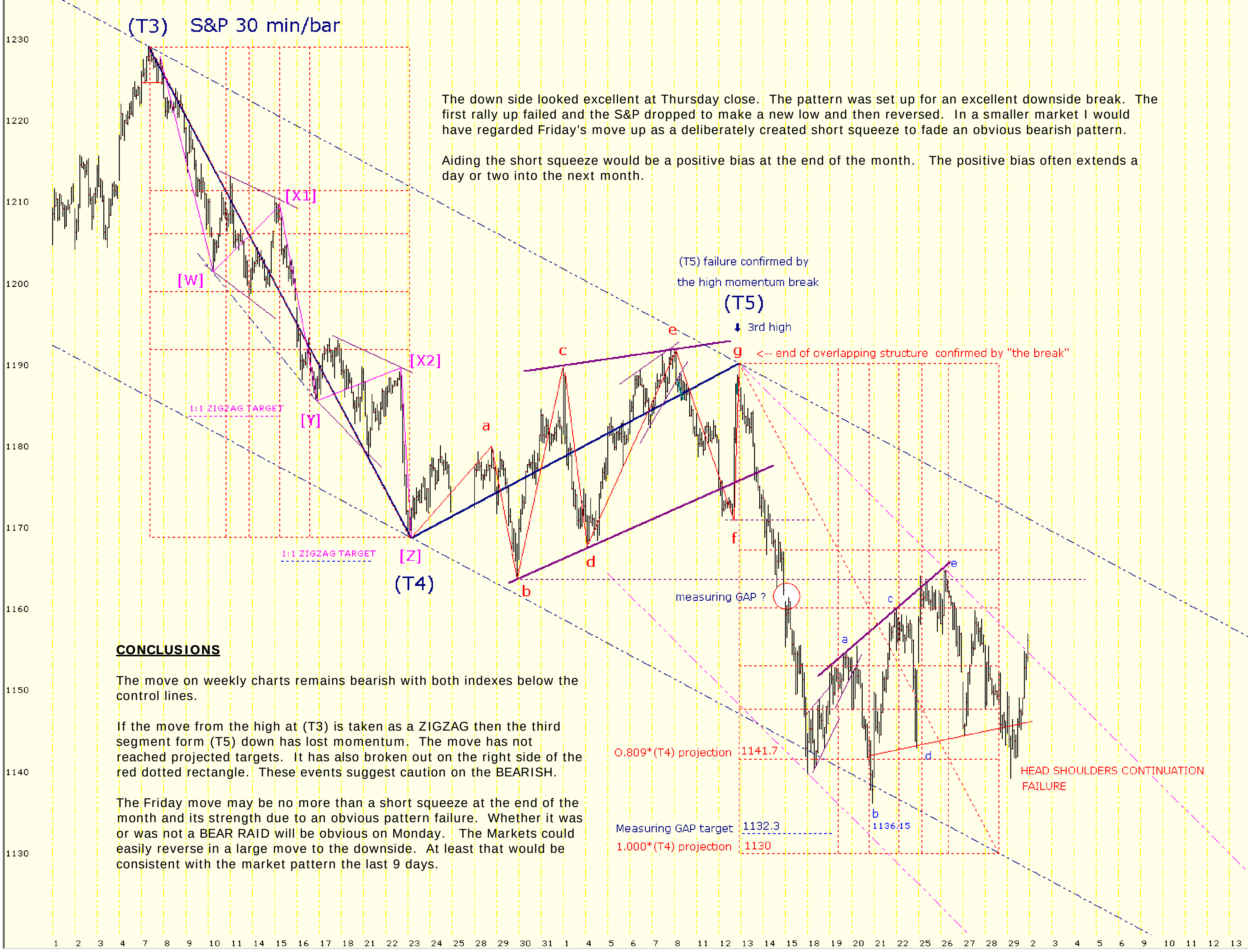
I have not included the weekly chart for the S&P for it is almost the same as the DOW.



On daily charts on the small insert on the left, the S&P has formed a rather interesting pattern where it has reversed each day for the last nine days. The range on most days has been high. A break of such a pattern will produce a strong move when it comes.

The pattern could be a reversal. However, the price action is below the control lines. Technically it should break on the lower side of the present OVERLAPPING pattern.

The move on Friday came on the last trading day in the month. Where the HEAD and SHOULDERS suggested a strong down move, there was a strong up move. The failure in the HEAD and SHOULDERS was most likely cause of the strong short covering rally.



The down side looked excellent at Thursday close. The pattern was set up for an excellent downside break. The first rally up failed and the S&P dropped to make a new low and then reversed. In a smaller market I would have regarded Friday's move up as a deliberately created short squeeze to fade an obvious bearish pattern.

Aiding the short squeeze would be a positive bias at the end of the month. The positive bias often extends a day or two into the next month.

CONCLUSIONS

The move on weekly charts remains bearish with both indexes below the control lines.

If the move from the high at (T3) is taken as a ZIGZAG then the third segment form (T5) down has lost momentum. The move has not reached projected targets. It has also broken out on the right side of the red dotted rectangle. These events suggest caution on the BEARISH.

The Friday move may be no more than a short squeeze at the end of the month and its strength due to an obvious pattern failure. Whether it was or was not a BEAR RAID will be obvious on Monday. The Markets could easily reverse in a large move to the downside. At least that would be consistent with the market pattern the last 9 days.

This update does not suggests 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 qualified financial advice in accordance to the rules and regulations in your country.