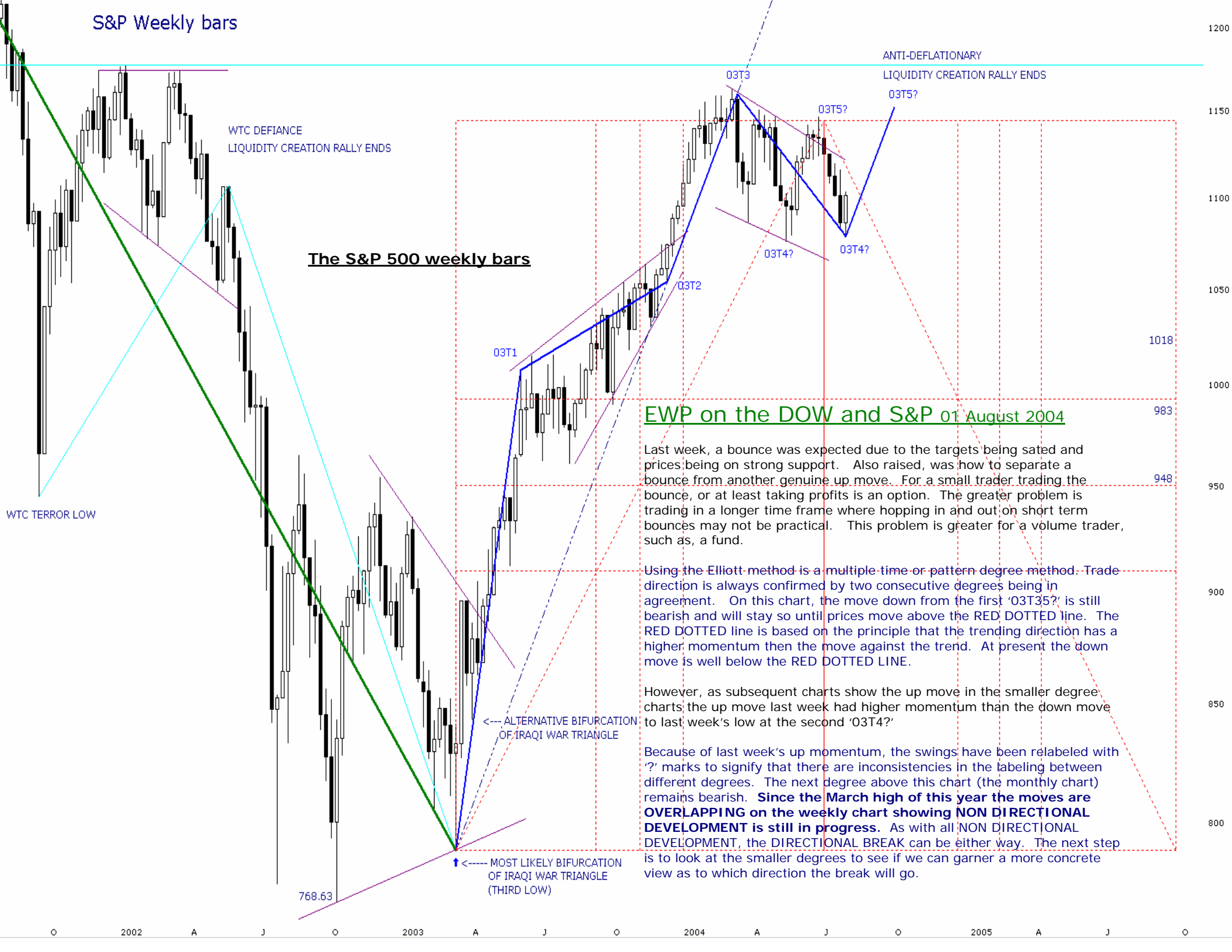


S&P Weekly bars



The S&P 500 weekly bars

EWP on the DOW and S&P 01 August 2004

Last week, a bounce was expected due to the targets being sated and prices being on strong support. Also raised, was how to separate a bounce from another genuine up move. For a small trader trading the bounce, or at least taking profits is an option. The greater problem is trading in a longer time frame where hopping in and out on short term bounces may not be practical. This problem is greater for a volume trader, such as, a fund.

Using the Elliott method is a multiple time or pattern degree method. Trade direction is always confirmed by two consecutive degrees being in agreement. On this chart, the move down from the first '03T35?' is still bearish and will stay so until prices move above the RED DOTTED line. The RED DOTTED line is based on the principle that the trending direction has a higher momentum than the move against the trend. At present the down move is well below the RED DOTTED LINE.

However, as subsequent charts show the up move in the smaller degree charts the up move last week had higher momentum than the down move to last week's low at the second '03T4?'

Because of last week's up momentum, the swings have been relabeled with '?' marks to signify that there are inconsistencies in the labeling between different degrees. The next degree above this chart (the monthly chart) remains bearish. **Since the March high of this year the moves are OVERLAPPING on the weekly chart showing NON DIRECTIONAL DEVELOPMENT is still in progress.** As with all NON DIRECTIONAL DEVELOPMENT, the DIRECTIONAL BREAK can be either way. The next step is to look at the smaller degrees to see if we can garner a more concrete view as to which direction the break will go.

WTC DEFIANCE
LIQUIDITY CREATION RALLY ENDS

ANTI-DEFLATIONARY
LIQUIDITY CREATION RALLY ENDS

03T1

03T2

03T3

03T5?

03T5?

03T4?

03T4?

1018

983

948

900

850

800

←--- ALTERNATIVE BIFURCATION
OF IRAQI WAR TRIANGLE

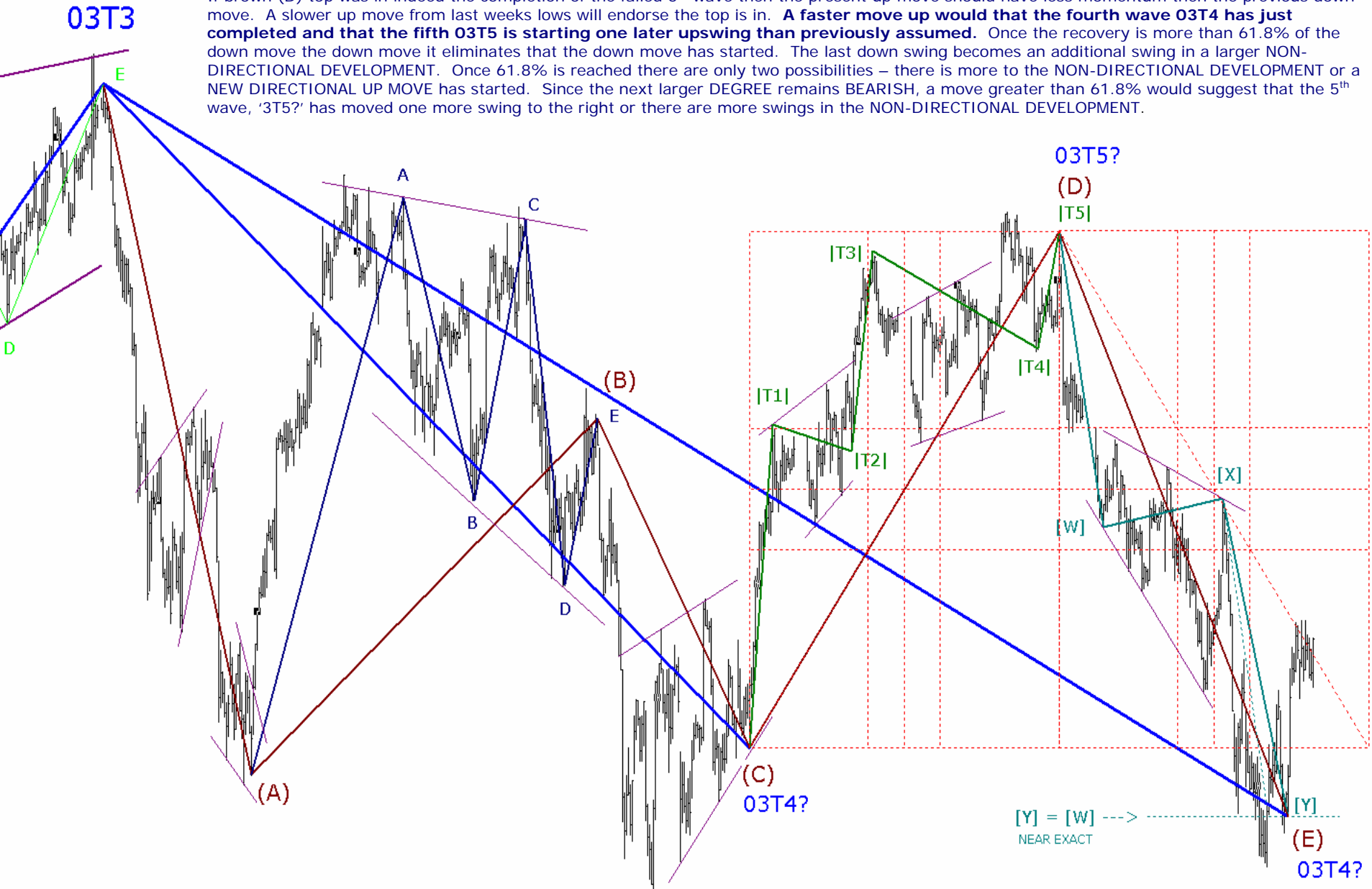
↑----- MOST LIKELY BIFURCATION
OF IRAQI WAR TRIANGLE
(THIRD LOW)

768.63

O 2002 A J O 2003 A J O 2004 A J O 2005 A J O

To determine the trend direction, the move labeled brown (E) had to fall below brown (C) in less time than (D) took to form. **In both the DOW and the S&P this did in fact occur confirming the down trend by this method.** However, both the DOW and the S&P have **not followed through and fallen below support.** Additionally, both the DOW and the S&P sated their ZIGZAG targets on that strong support. Both met their TERMINAL targets, the S&P dropping well below and the DOW stopping almost exactly on ZIGZAG target at 9915, (actual low was 9914). So last week, based these factors a bounce was expected and did in fact occur. How far this will bounce, its speed, and patterns, will give us pointers as to what to expect next.

If brown (D) top was in indeed the completion of the failed 5th wave then the present up move should have less momentum then the previous down move. A slower up move from last weeks lows will endorse the top is in. **A faster move up would that the fourth wave 03T4 has just completed and that the fifth 03T5 is starting one later upswing than previously assumed.** Once the recovery is more than 61.8% of the down move the down move it eliminates that the down move has started. The last down swing becomes an additional swing in a larger NON-DIRECTIONAL DEVELOPMENT. Once 61.8% is reached there are only two possibilities – there is more to the NON-DIRECTIONAL DEVELOPMENT or a NEW DIRECTIONAL UP MOVE has started. Since the next larger DEGREE remains BEARISH, a move greater than 61.8% would suggest that the 5th wave, '3T5?' has moved one more swing to the right or there are more swings in the NON-DIRECTIONAL DEVELOPMENT.

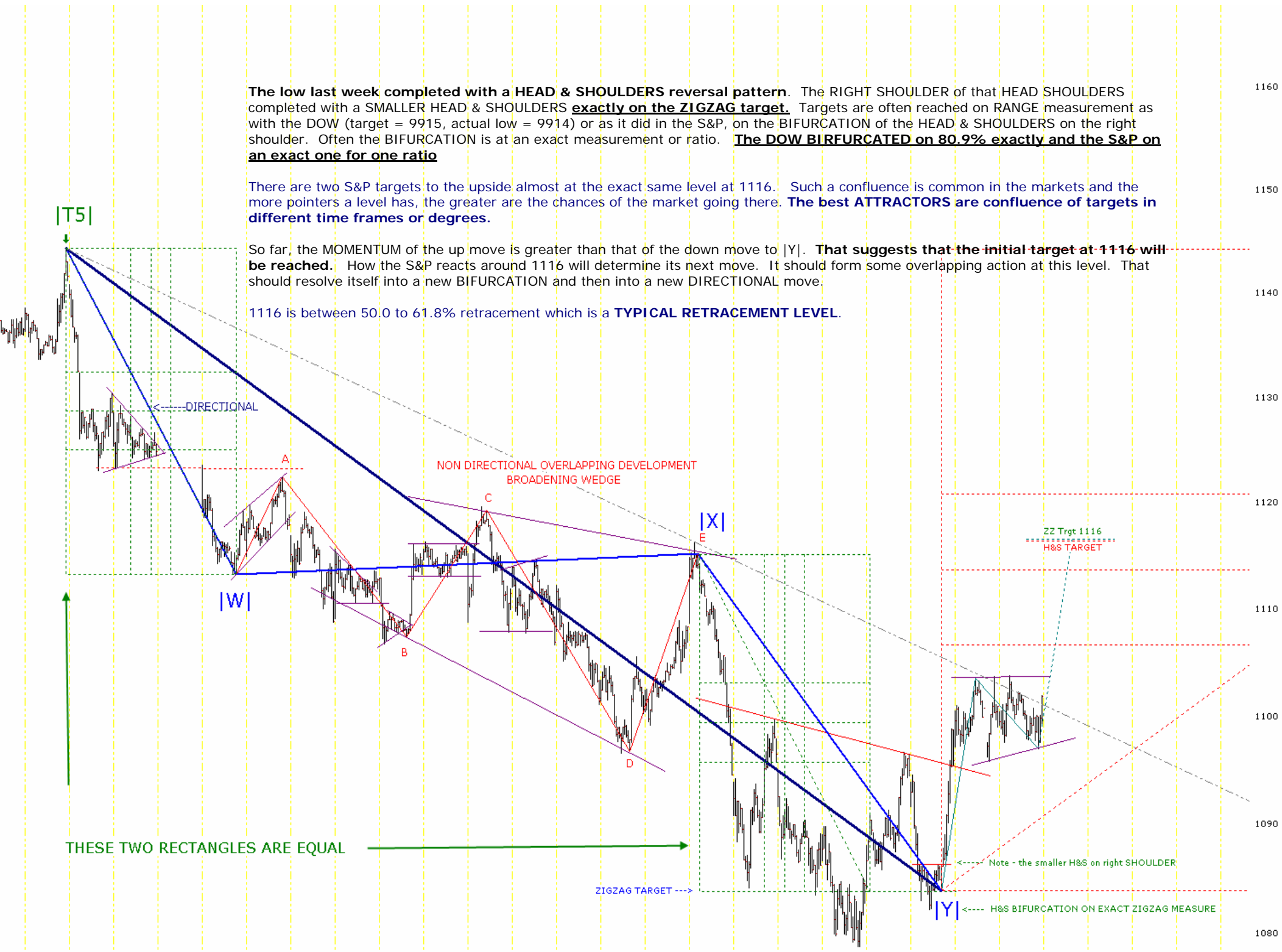


The low last week completed with a **HEAD & SHOULDERS reversal pattern**. The RIGHT SHOULDER of that HEAD SHOULDERS completed with a **SMALLER HEAD & SHOULDERS exactly on the ZIGZAG target**. Targets are often reached on RANGE measurement as with the DOW (target = 9915, actual low = 9914) or as it did in the S&P, on the BIFURCATION of the HEAD & SHOULDERS on the right shoulder. Often the BIFURCATION is at an exact measurement or ratio. **The DOW BIRFURCATED on 80.9% exactly and the S&P on an exact one for one ratio**

There are two S&P targets to the upside almost at the exact same level at 1116. Such a confluence is common in the markets and the more pointers a level has, the greater are the chances of the market going there. **The best ATTRACTORS are confluence of targets in different time frames or degrees.**

So far, the **MOMENTUM** of the up move is greater than that of the down move to |Y|. **That suggests that the initial target at 1116 will be reached.** How the S&P reacts around 1116 will determine its next move. It should form some overlapping action at this level. That should resolve itself into a new BIFURCATION and then into a new DIRECTIONAL move.

1116 is between 50.0 to 61.8% retracement which is a **TYPICAL RETRACEMENT LEVEL.**



THESE TWO RECTANGLES ARE EQUAL

ZIGZAG TARGET

Note - the smaller H&S on right SHOULDER

H&S BIFURCATION ON EXACT ZIGZAG MEASURE

1160

1150

1140

1130

1120

1110

1100

1090

1080



The DOW reached the exact **TERMINAL TARGET** at 9915 (low was 9914). Like the S&P the low on the DOW has a **REVERSAL HEAD & SHOULDERS**. The move up from last week's lows at 9914 has higher momentum than the previous down move. As such, at this stage, both INDEXES are more BULLISH than BEARISH in this short time frame. The DOW's targets are near 61.8% retracement. The HEAD & SHOULDERS target is at 10,263 and the ZIGZAG at 10,242. Interestingly the DOW completed its BIFURCATION at 80.9 times exactly the first segment whereas the S&P BIFURCATED exactly at a one for one move.

10500
10400
10300
10200
10100
10000
9900
9800

CONCLUSIONS

1. Last week both the DOW and the S&P completed ZIGZAG/TERMINAL targets.
2. Completion of targets often results in bounces or reversals.
3. The bounce at early stages is stronger than the down move. That is suggestive of a SHORT TERM BULLISH outcome for the next week or so or until targets are reached.
4. Both the DOW and the S&P have completed HEAD and SHOULDERS reversal patterns and broken up side.
5. At present both the DOW and the S&P are in a SMALL TWO DAY NON-DIRECTIONAL DEVELOPMENT phase. The HEAD and SHOULDERS patterns suggest an upside break from this pattern on Monday.
6. If the expected upside break occurs the targets for the DOW are 10,263 for the HEAD and SHOULDERS and 10,242 for the ZIGZAG. For the S&P the HEAD and SHOULDERS and ZIGZAGT are about the same at 1116.
7. The normal retracement levels are between 38.2 and 61.8% of the last down swing. The up targets of the HEAD & SHOULDERS and ZIGZAGS are within these limits.
8. Once the TARGETS are reached, both the DOW and the S&P should go into NON-DIRECTIONAL DEVELOPMENT. The resolution will be the BIFURCATION point for the next move (up or down).
9. There is a strong possibility, because last down wave has ZIGZAGED, that this third low (of last week) is in fact O3T4 and the fifth wave O3T5 may just be starting. This should resolve itself by the end of next week.
10. From the pattern it is assumed next week will be up until targets are reached. However there is at present a TWO DAY NON-DIRECTIONAL move in progress. There is always a chance of a break in either direction. A failure to move up from here would produce an accelerated down move. The patterns that have been created suggests long position taking. A failure here would almost certainly cause strong long liquidation and an accelerated down move. As it stands – all things being equal – we should see the S&P near 1116 and the DOW near 10,242 this week rather than a failure and a strong down move. However, nothing is certain in markets. This however, does make us ready either way having some idea what to expect.

This update does not suggest nor recommend that any trading position 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.

Zoran