

Wavespeak

Midweek Market Update

It's been a bit of a mixed bag for the indices since Monday's big session. Recall that an important statement was made by Monday's big up day, leaving us with the impression that the recent decline is a corrective, countertrend move. It would have been ideal for the indices to continue higher since then to confirm it, but it didn't. Instead, the indices drifted a bit lower on Tuesday before an indecisive session carried the indices lower and then higher today. Nevertheless, the pattern remains pretty darn clear here. If we take an objective look at recent action on the Dow and SPX, there's no doubt that the decline off February's highs looks like a three-wave move. If it is, it can only mean that an important high did *not* occur in February, and that the uptrend is going to resume before too long. From where I stand, I can't find a single good reason to doubt this apparent pattern or to try to confuse things by forcing a creative labeling onto the price pattern. Quite the contrary, our goal is to keep things as simple as price will allow us, and once again, there's nothing complex about the current pattern.

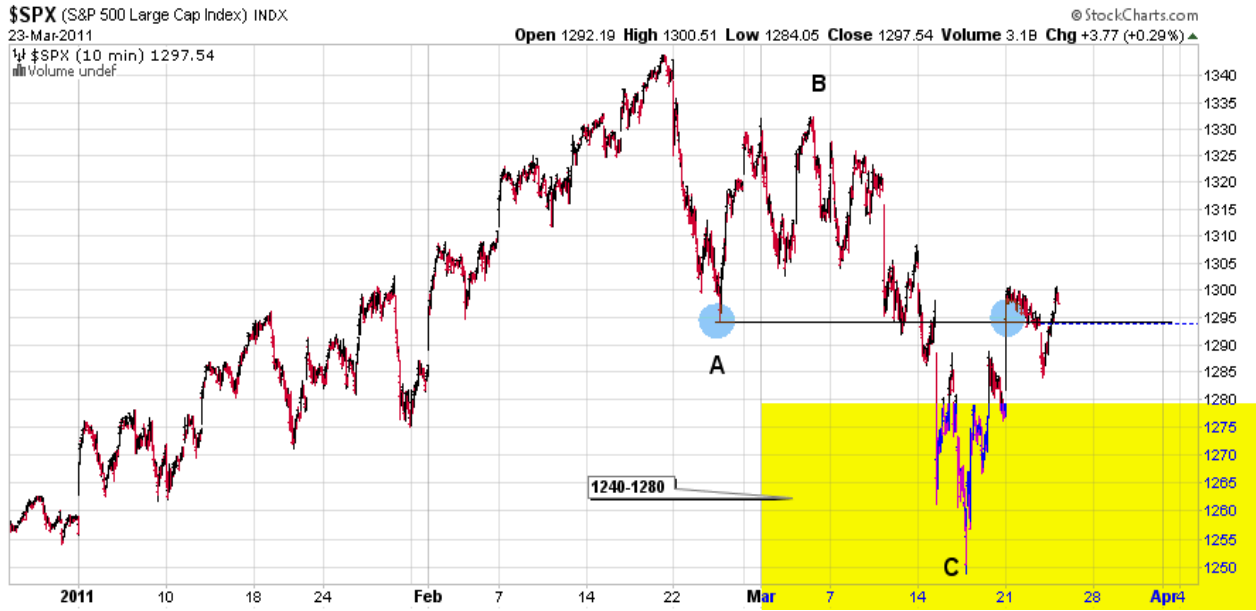
The bigger question that needs to be answered at this point is whether the decline off February's highs is over, or if a larger decline will form. Either way, the uptrend will continue before too long, but the exact timing is not yet clear. In this publication, we'll look at all recent developments and what to watch for to determine when the uptrend has resumed. Here we go:

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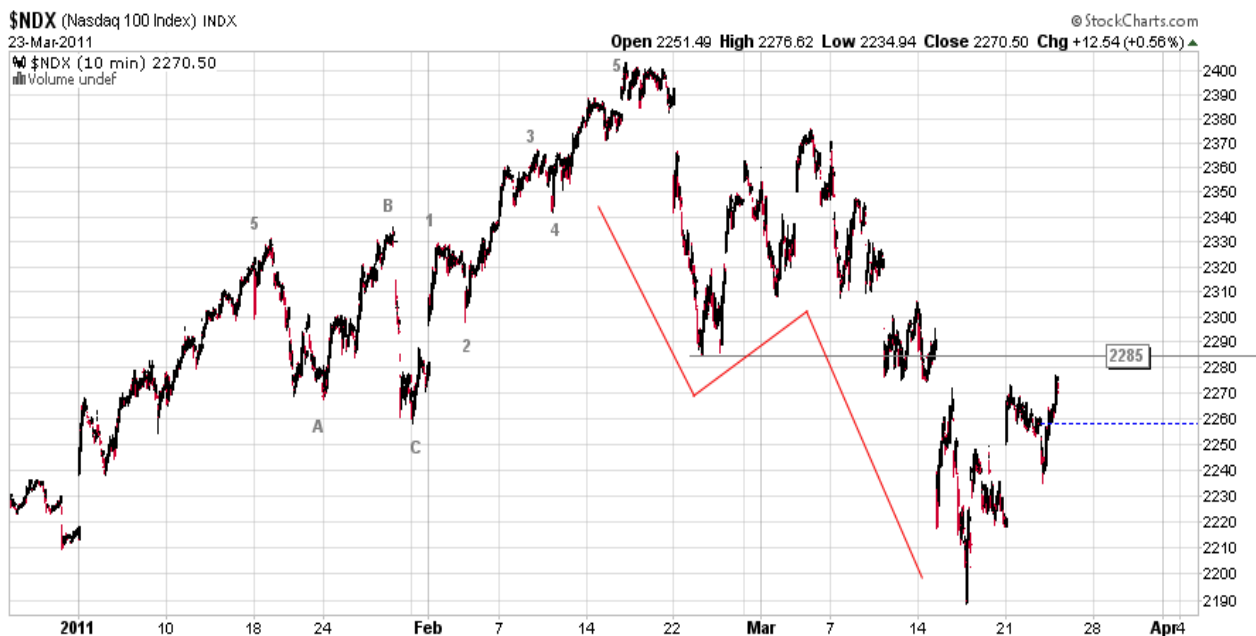


The decline off February's highs had the potential to be important. It was the biggest down move we had seen in over 11 months, and up until Monday, it had the potential to become the first impulsive down move we've seen in over two years. But it doesn't look like any of that is happening now. The indices staged a big rally off last week's lows, and as a result, we're left looking at a decline that is only

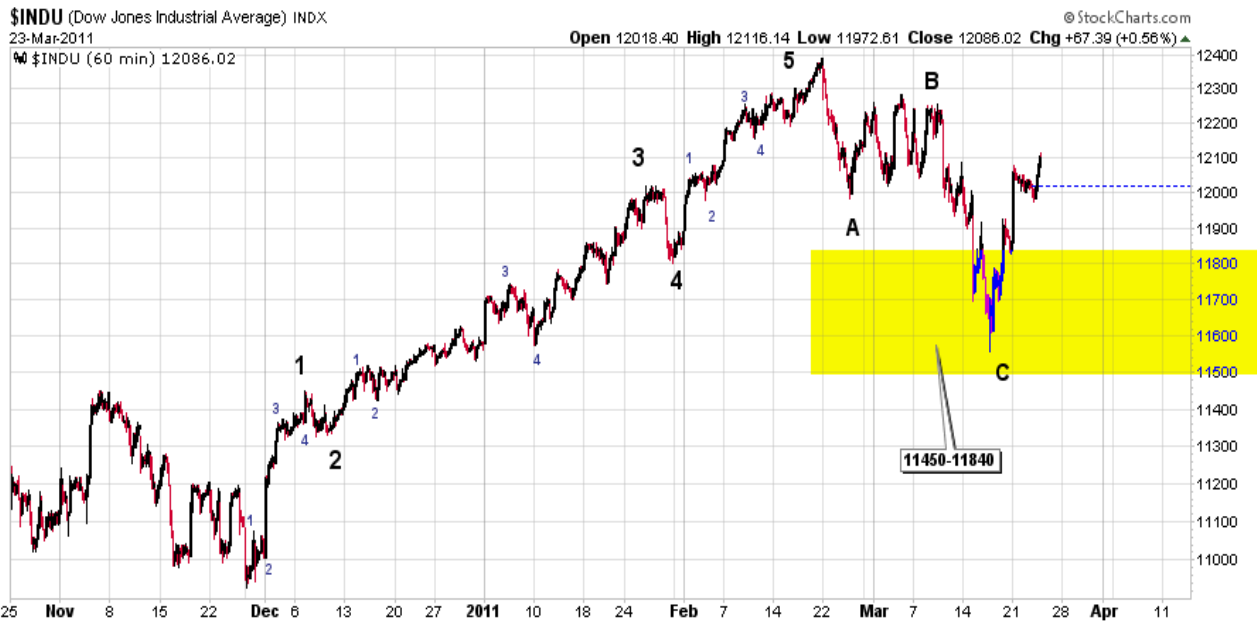
three waves down. As we know, three-wave moves are corrective moves. So if this decline is corrective, it can only mean that the overall trend is still up.



The three-wave nature of the decline off February's highs is also pretty darn apparent on the SPX as you can see here. There are other factors that suggest that this is a three-wave move as well. First, all indices bounced after testing our target zones. As we indicated when the target zones were created, this is where price should have bounced if all we were getting was a near-term corrective pullback. Second, after completing three waves down, price has bounced back to create overlap within the pattern (as shown by the blue circles above). Both events add to the probability that the decline is corrective and did not kick off a significant down move.



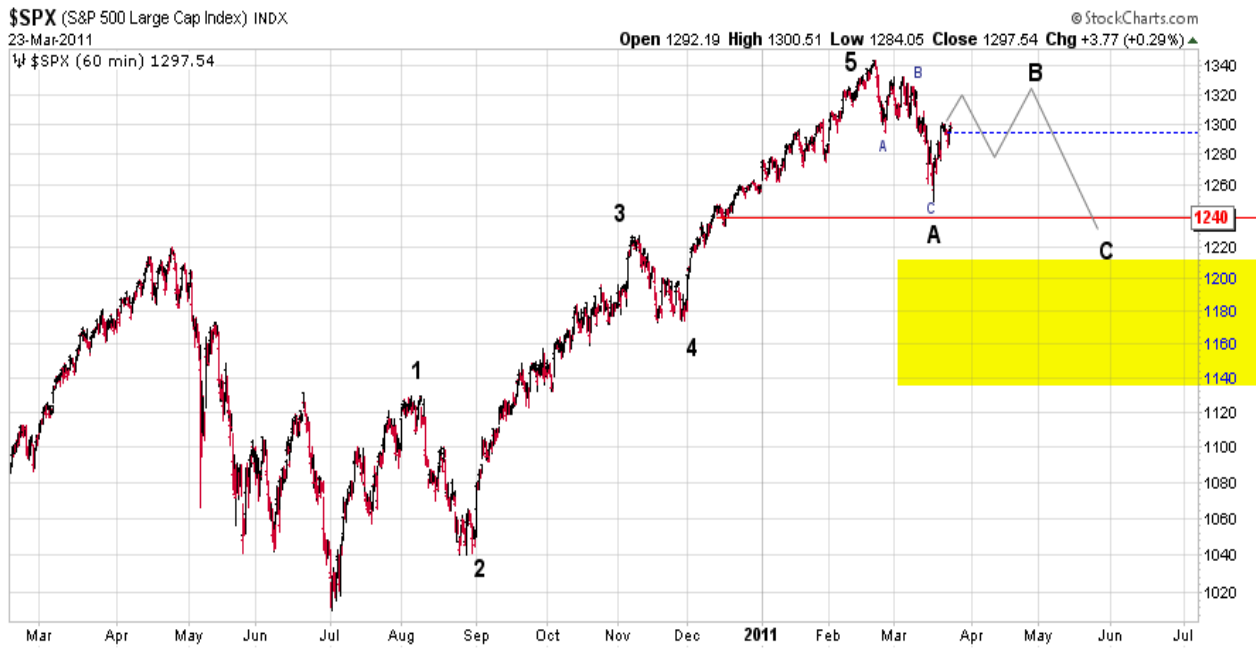
The NDX is a little different story, in that it has not yet breached any key upside levels. As such, it could potentially still make the decline off February's highs a trending five-wave affair. Of course, it'd be rare for one index to give us a larger trending move when the other indices have already given us a countertrend move. More likely, all indices will sync up to confirm that this decline is corrective across the board.



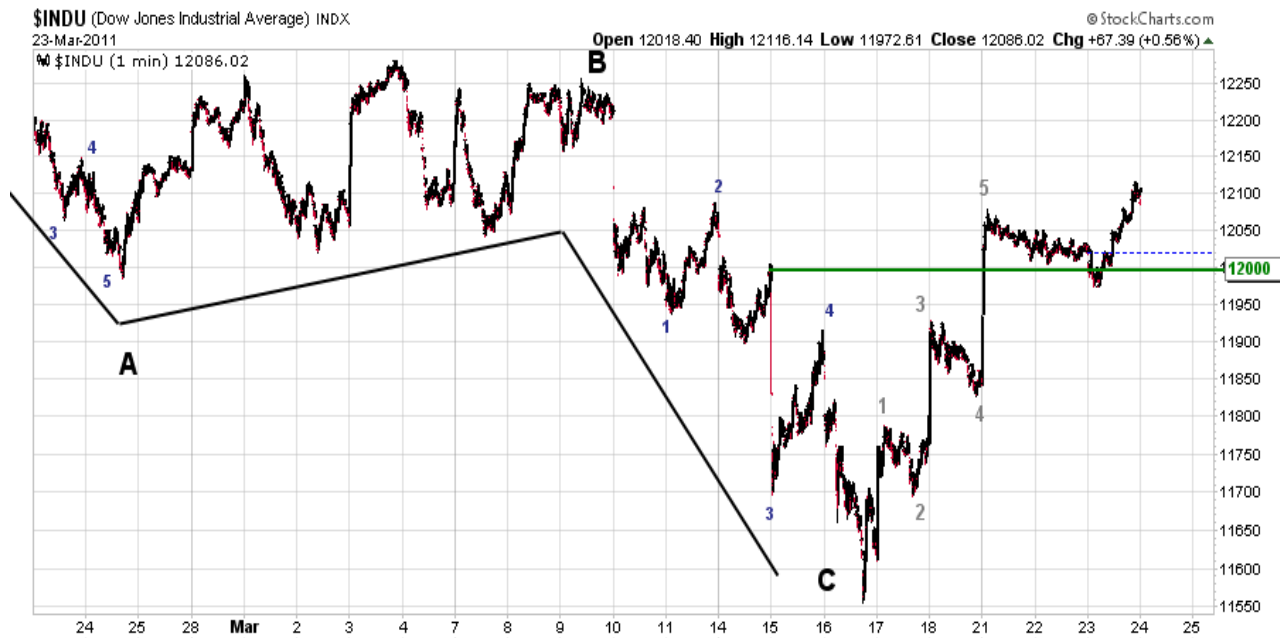
So that's where we're at right now. Since the pattern is so clear on the Blue Chips (particularly the Dow), we have to think that the overall trend remains up. The big question now is, will the overall uptrend resume directly off last week's lows, or will a larger corrective pullback form before the uptrend resumes? Let's consider:



There are two things we can do to determine which path price is likely to take. The first thing is to consult the pattern on the larger time frames. If we find a larger pattern that favors one outcome over the other, we'd be getting somewhere. Unfortunately, in the current situation, the larger pattern can justify either outcome. The labeling on this chart shows how price can continue directly higher.



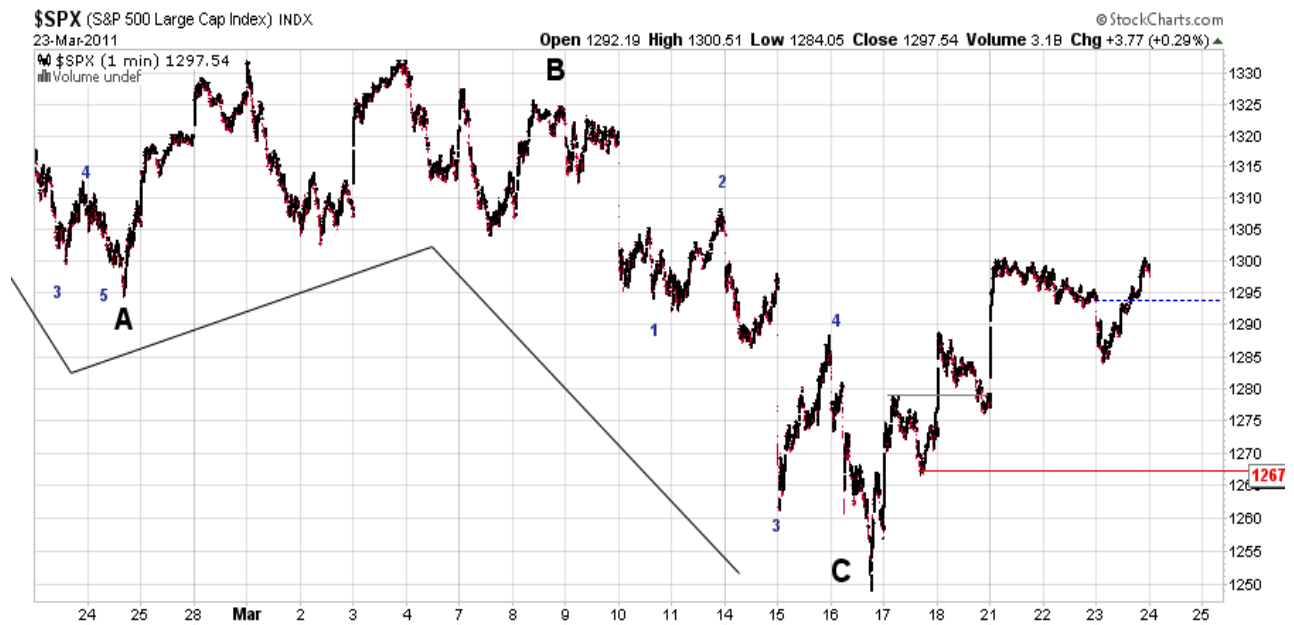
The labeling on this chart shows how a larger pullback could occur off February's highs before the uptrend begins. From a price perspective, there is exactly no objective reason to favor one over the other, so we won't. Moving on:



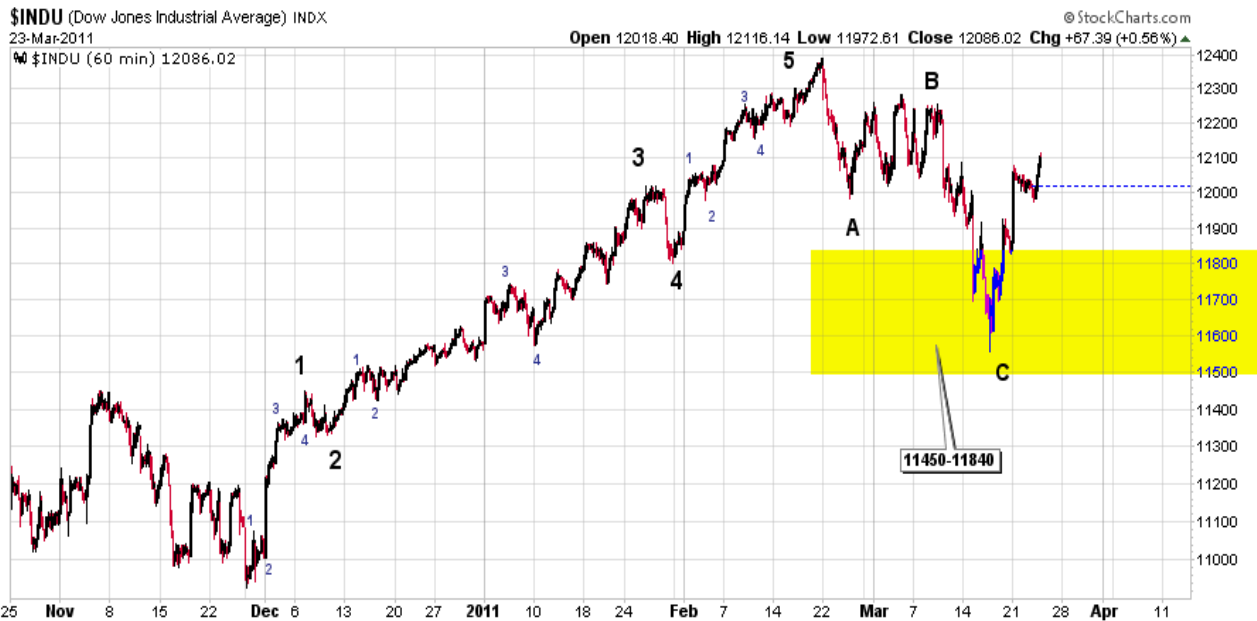
The second thing we can do to determine when the uptrend is likely to resume is to look at the action that's occurred off last week's lows. If this very near-term upside action is impulsive, it would increase the likelihood that the uptrend is going to resume right away. Conversely, if the action is corrective it would confirm that a larger pullback is going to occur off February's highs before the uptrend resumes. If you look at this one-minute chart of the Dow, you can see that it's pretty darn easy to label the up move impulsively. Maybe we're getting somewhere.



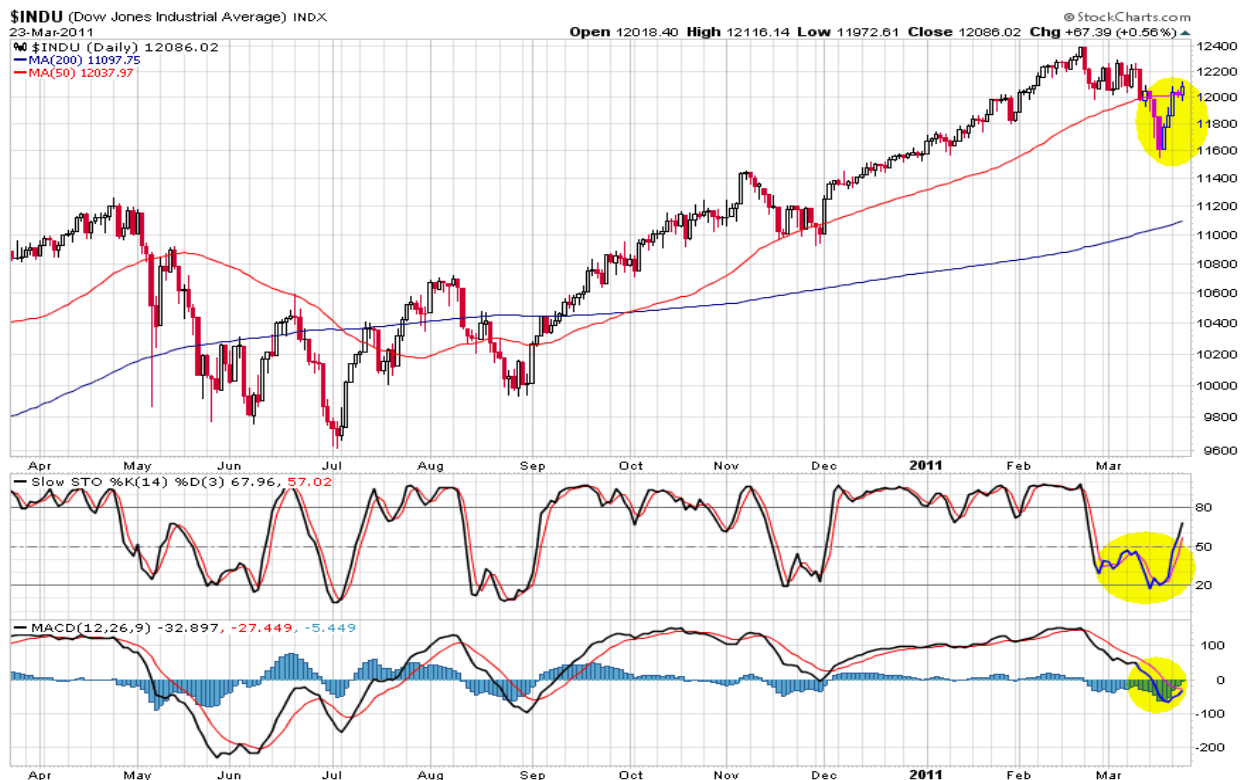
Or maybe not. If we look at the action off last week's lows on either the NDX or SPX, the move is not as clean. Instead, there is overlap within the pattern, and a general lack of a clean form. When there is a lack of consensus among the indices, our only option is to wait for clarity before getting involved in the near-term action. This is what it boils down to:



If price remains strong from here, it will increase the likelihood that the uptrend has already resumed. If that's proven to be the case, we'll look for the next near-term setup to position long in anticipation of further strength to new advance highs and beyond. However, if this recovery proves corrective at any time, it would be absolute confirmation that a larger pullback will occur off February's highs before the uptrend resumes. A breach of **11750 Dow, 1265 SPX, and 2220 NDX** would do the trick – if these levels are taken out, it will solidify a larger pullback off February's highs.



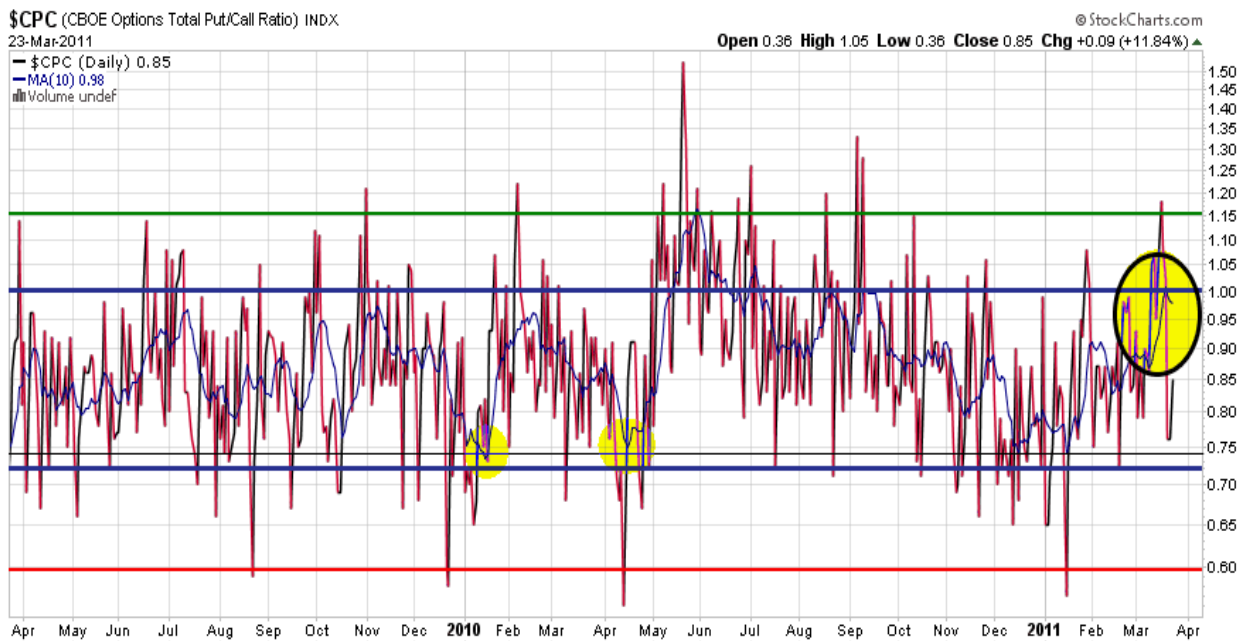
As indicated on Monday, this decline is no longer very exciting from a trading perspective. Even if a larger pullback is going to form, downside potential would not be very high. Since the decline off February's highs is a three-wave move, any larger pullback that does occur would likely be an eastbound move, or a move that heads sideways instead of down. This is something to keep in mind should the indices indicate a larger pullback.



On the technical indicators, note that new buy signals are beginning to pop up. Daily Stochastics is now officially heading higher while MACD is very close to a new buy signal. Meanwhile, the Dow is still the only index that has moved back above its 50-day moving average. It won't take much for the other indices to follow.



The Bullish Percent Indexes remain on sell signals, but you can see that a new buy signal could occur any day now.



Finally, the Put/Call Ratio remains high after spiking during the recent decline. This means that bearish sentiment is high, and that could fuel additional market strength from here.

That's the story of the charts tonight. The pattern looks pretty clear, and it calls the recent decline a corrective move. This means that the uptrend is going to continue soon, although it's not clear whether it has already resumed or if a larger pullback off February's highs will occur first. Due to this uncertainty, we are remaining neutral on our near-term stance tonight. As soon as the near-term agenda is clear, we'll get back to work on that time frame. Meanwhile, we remain bullish on all larger time frames. Have a great evening and we'll do it again this weekend!

<i>Near-Term Stance:</i>	<i>Since...</i>	<i>Target:</i>
Neutral	3/14/2011	n/a
<i>Mid-Term Stance:</i>	<i>Since:</i>	<i>Target:</i>
Bullish	December, 2010	As long as impulses are occurring to the upside
<i>Long-Term Stance:</i>	<i>Since:</i>	<i>Target:</i>
Bullish	June, 2009	Until at least one more multi-month impulse occurs



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