



*We balance probabilities and choose the most likely. It is the scientific use of the imagination. – Sherlock Holmes: The Hound of the Baskervilles*

Yesterday we summarized that we had completed five waves down: *The five waves down are only wave 1 of a five wave C. The C wave is the final corrective wave of a decade long flat that started in March of 2000.* Let's leave this alone for the time being and focus on near term clues.

We also concluded that we are now in the 2<sup>nd</sup> wave of the 5 wave corrective C: *The second wave is a counter-trend wave that will retrace a good portion of wave 1. We are most likely in the midst of a corrective combination that started with a zigzag.* This is where we want to focus our energy and look for more clues. We need to establish some preliminary targets for our counter-trend rally. How much of wave 1 will we retrace, and what will the rest of the combination look like?

The most common combination added onto a zigzag is another zigzag. The most common ratio of a double zigzag is a 1:1 ratio. .618 and 1.618 ratios are not uncommon.

In technical analysis whenever you get a confluence of indicators all pointing to the same thing, that increases the probability of that outcome. Constance Brown, in her book Technical Analysis for the Trading Professional pointed out the value of overlapping Fibonacci ratios for determining price targets. When we combine these levels with other technical levels and add some market detective logic, we can establish high probability targets.

In **Chart1**, the inner range of Fibonacci levels represents a Fibonacci **retracement** of the entire move from the October top to the March bottom. The outer range represents a Fibonacci **extension** of the zigzag from the March bottom and the assumed low of the *correction of a correction*.

The first Fib confluence we see is the .382 retracement of the entire move from the top and a .618 extension of the zigzag. By scanning the chart we also see strong natural resistance formed at this level on Jan 9, 15, 30, 31 and Feb 26, 27.

SPX **1379-1380** is our **minimum target**. We will most likely meet strong resistance here, but given that it is so close in time and price, and that this level falls well short of the most common .618 retracement of a 2<sup>nd</sup> wave, I don't believe that this is THE retracement target. It will be important, however, to take an inventory of our intra-day wave count when we reach this level.

The next Fib confluence is at the **1415-1420** level. This is a .500 retracement of the entire move from October to March and a 1:1 ratio of our zigzag from the bottom. Also note the natural resistance from November and January. I believe this is the big bad wolf.

This is our **primary target**. This will be a huge resistance level to punch through. If we do not initiate the major turn back down here, then I suspect we will at least complete a wave pattern, probably the second combination wave, and retrace a portion of the move. Once again it will be important to take inventory of the intra-day wave count here, but I suspect this level will be heavily sold.

Still, the most common wave 2 retracement is over .500. I do not believe the .618 retracement level on this chart is formidable, however. If we overcome the big bad wolf, then I believe **1482-1500** is a magnet. This represents our **maximum target**.

**Chart1**



On a short-term basis, the diagonal pattern from Friday accurately indicated a turn. The move up today on a very short-term chart has completed 5 waves. Five waves come in sets. The counter-trend move has probably resumed.

In summary: Using Fibonacci levels and natural levels of resistance we have established our minimum, primary, and maximum targets for the counter-trend 2<sup>nd</sup> wave.

TMD/DW