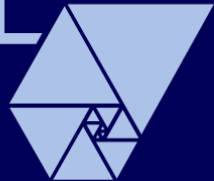


TREND & VALUE



Monday, May 4, 2009

A new subscriber requested a report where I give targets for the S&P 500. Well I know I've given some targets in the past, but I don't think I've cooked up anything specific recently. This morning is as good as time as any to take a fresh look at the benchmark.

The first thing I've done is to run the numbers on the S&P in a similar way to how I examined the Wilshire 5000 this weekend.

From the 2007 high of 1576.09 to this year's low of 666.79, the S&P 500 dropped 909.3 points. The next page has a weekly chart of the index that includes price retracement targets based on the ratios derived from the Plastic Sequence.* Before we get ahead of ourselves and start eyeing the line higher up, we need to account for the 24.5 percent target at 889.68. I don't use that ratio as much as I should, but I'm glad I did here, as the index came within a whisker of that potential resistance last week.

Since I'm usually looking at the larger ratios, I'm not sure how much forcefully .245 operates. It might be important or not important at all. There is also the .3247 downtrend slope (second diagonal dashed line) intersecting the horizontal .245 resistance this week. When horizontal and diagonal resistances intersect we should at the very least be on the lookout for a good pullback if not a complete reversal of trend. In my little piece on the Wilshire 5000 I mentioned that I didn't see any evidence yet of a top. Considering this intersection, perhaps I should mollify that statement some. I don't see *much* evidence of a top. There's something here, but for now I am more inclined to view it as an opportunity for the market to correct some before pushing higher toward the next targets. There might not be any correction, but if there is, this would be a good place for it.

As with the Wilshire, I like the look of the .3247 target on the S&P the most. Just above the highs at the beginning of this year, right near the middle of the post-panic consolidation zone of last October, and the .43 diagonal slope intersects in the middle of June which seems like a good time frame to me.

* This blog post has a full list of the Plastic (Padovan) ratios: [Padovan Ratios](#)

\$SPX (S&P 500 Large Cap Index) IND \times
1-May-2009

Open 862.82 High 888.70 Low 847.12 Close 877.52 Volume 23.7B Chg +11.29 (+1.30%) \triangle

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And just like on the Wilshire, this target coincides with the 38.2 percent retracement of wave three.

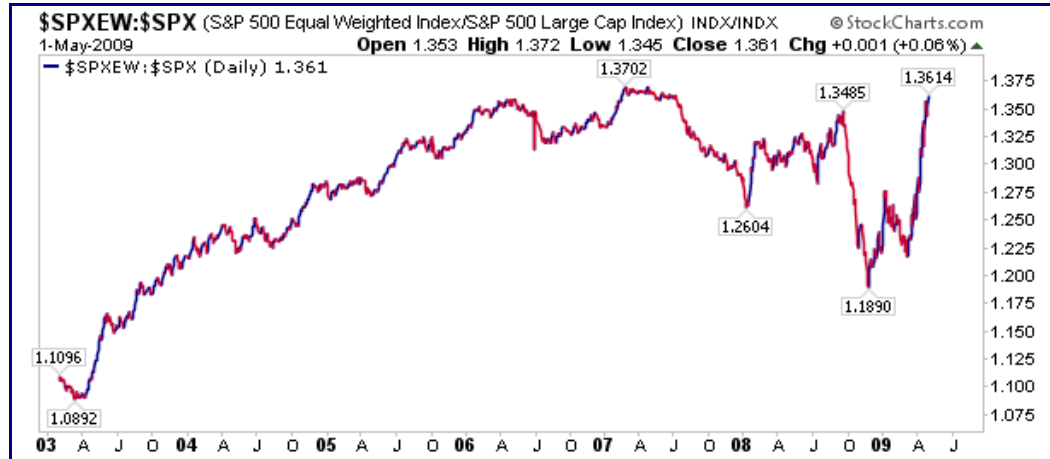


So 962 sometime mid to late June? Well for now I can't think of anything better to go on, so we'll put it down as our working script for the Stock Market.

The market often tops after small, medium and largish companies stop out-performing stocks of the very largest capitalization. A situation arises when the majority of issues stop moving higher, even as the big indexes like the S&P 500 continue to advance. The 'market' is carried higher on the backs of a few 'mega-cap' symbols.

I'm positive that will be the case this time round but it is something basic we can keep our eyes on as the

market progresses. One way to gauge this phenomenon is to track the relative performance of an equally weighted index to that of a capitalization weighted index. Here's a chart of the Equal Weight S&P relative to the regular S&P:



SPXEW has done much better than than SPX for several months now, so much so that the ratio has climbed right back up to its 2007 highs. While it would be exciting see the ratio hit a new high here, we should respect the potential for that old resistance to come into play again. So *if* the market continues to rally and *if* this ratio starts to correct, then we arrive at the conclusion that really big companies offer the most upside potential for the remainder of the rally.

While I am very hesitant to suggest throwing new money into stocks at this point, those with long exposure to equities already may want to consider taking some profits in some second- and third-tier positions and cycling at least partially into mega-cap symbols. At the moment I'm not sure which

companies offer the most appreciation potential, but I will say that likelihood of the broader Stock Market making advances from here is pretty slim without the participation of the biggest there is – Exxon Mobil (XOM).

If the S&P needs to climb another 10 percent to hit the 962 target, then it looks like XOM will have to go up at least that much and possibly as much as 15 percent. That's doable. I wouldn't call it a sure thing – far from it – but it is within the realm of possibility.



A .755 retracement of the last decline targets 78, right in the middle of the Winter distribution range.

Strong XOM implies strong forward prices for Crude Oil, which might imply a weaker US Dollar than I been

anticipating. I still don't see huge downside for the Dollar now, or great upside for Oil. Perhaps just enough of both to lure the public back into the inflation camp. Hard to say. I added to my USD long position (as part of my Balanced Trade portfolio) last week, so sure I'd like to see the Dollar take off, but I'm in no great hurry.

Have a nice Monday. I'll return with more Tomorrow.

Regards,

Kyle Ledbetter Lucas

Equal-Weight Currency Indexes

USD: 100.71

JPY: 90.95

EUR: 95.78

GBP: 104.23

CHF: 93.71

CAD: 104.44

AUD: 107.89

XAU: 101.78

XAG: 109.92