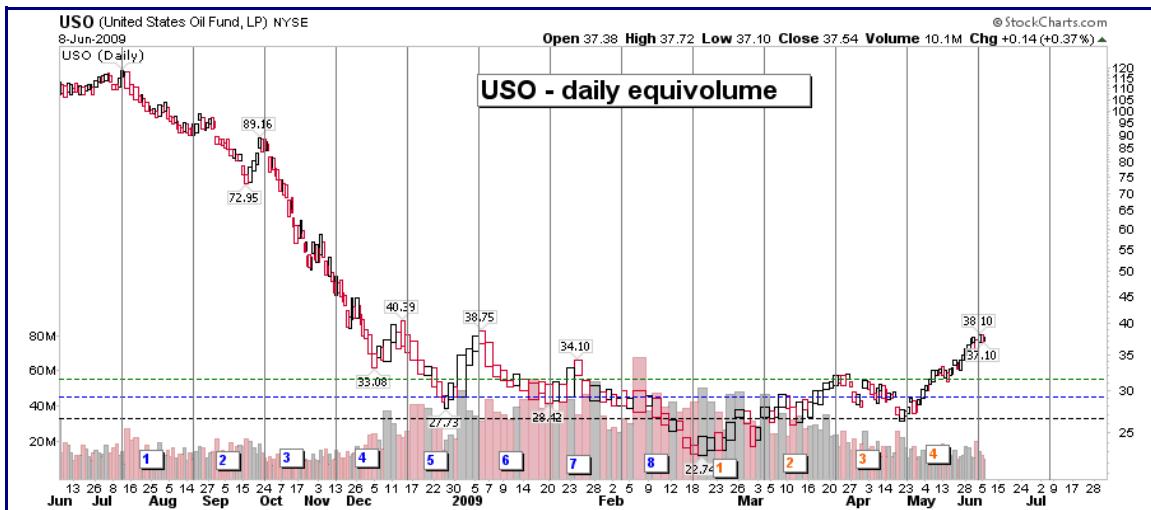
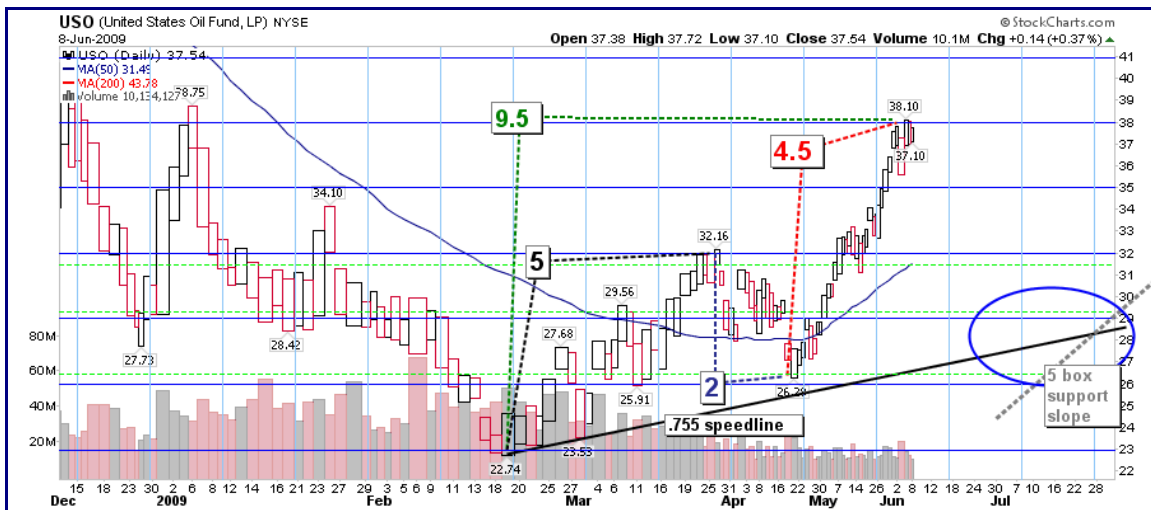


In This Issue:
USO, EEM-SPY, XLF

The share price of USO, the Oil ETF, is now about where it was during the first week of the new year. Whoop de doo. Volume traded since the February low to most recent high has been 4/3 that traded during the January/February decline, 2/3 of the September to February range, and 1/2 the volume of the entire bear market from July to February.



On the equivolume chart we can also see that during the latest wave higher, from 26 to 38, only about half the amount of volume has been traded compared to the first wave from 23 to 32. Let's examine this year's advance using our equivolume grid technique.



The grid is based on the move from February into March of about nine points. Every three Dollars up I placed a horizontal line, and then I placed three equidistant vertical lines from

the low bar to the high bar of that rally. The 'size' of the rally I marked as '5' because I counted from the bottom up three boxes and then across two boxes for a total traversalment of five boxes. After marking out that initial grid I expanded the grid across the entire chart. By doing this we are able to compare the size of each wave to the others.

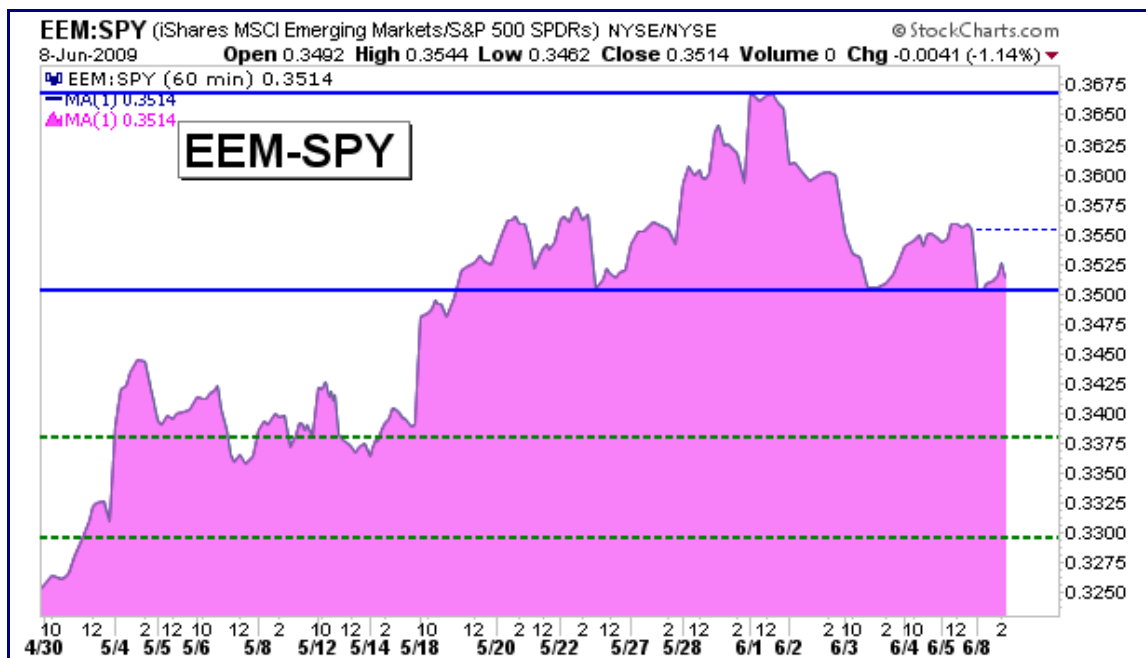
The entire rally from 23 to 38 traversed a little less than 10 boxes, so I marked that as '9.5'. The correction from 32 to 26 only moved two boxes, hence the label '2' on the chart. The advance from 26 to 38 measured between four and five boxes, so I split the difference and called it '4.5'.

Even within a bull market a security will often make a correction that is about half the size of the entire advance that preceded it. In this case the previous advance measured 9.5, so I think it is reasonable to anticipate a correction that traverses, say, five boxes of the grid, particularly since the two impulse waves of the previous advance measured 4.5 and 5. Such a retracement targets the dashed line on the lower right of the grid labeled '5 box support slope.'

Some other supports are located in the same neighborhood as that support slope too, so I have drawn a circle around area of the chart to where I am expecting the price to correct in the fairly near future.

A decline to 28ish would make the chart pattern appear to be a potential 'inverse head and shoulders' which is a pattern quite in vogue these days. Whether that head and shoulders is fulfilled or not will depend on whether this is really a new bull market or still a bear market. While I am skeptical that Oil is in a bull market now, a nearish target of 28 or so for USO seems reasonable in either context, bull or bear.

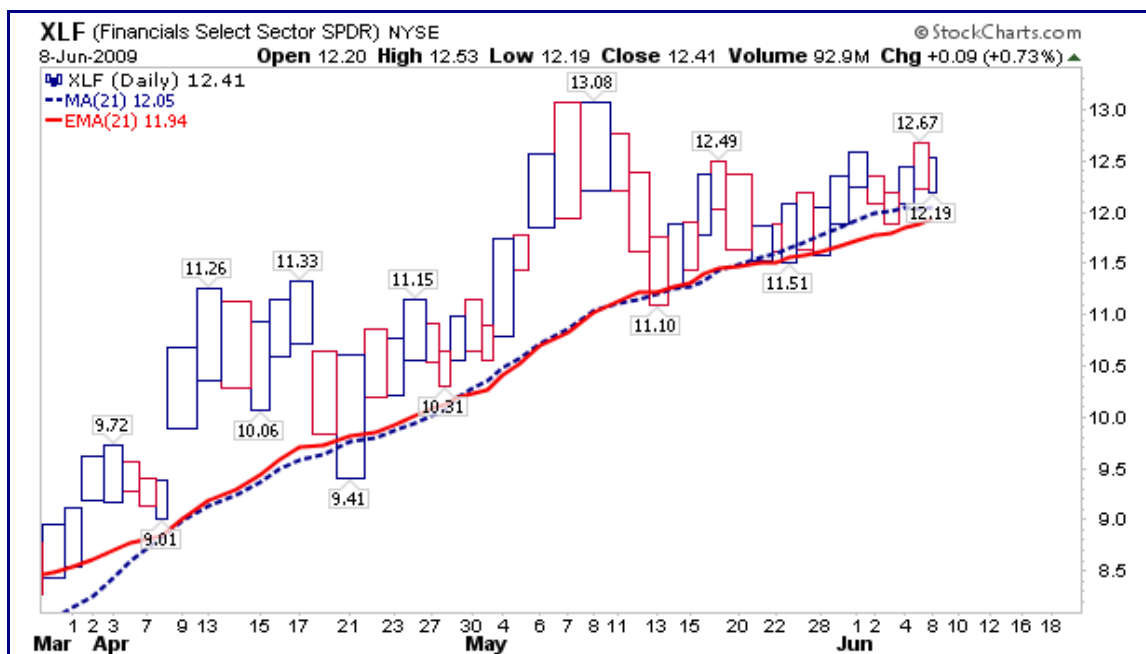
Speaking of head and shoulders patterns, here is one real with potential, the **EEM-SPY** ratio:



Now I have have been waiting to see Emerging Markets start to underperform US equities for a while now, and this potential H&S top here in the ratio is the best indication that that trend is starting. A break of the neckline at .35 should send the ratio down to the .33s in the near-term. .33 would make a 10 percent correction from the top so that might provide some temporary support. Ultimately the ratio is gonna drop a lot more than 10 percent, but .33

sounds like a good first step in the right direction.

Upside risk in the Stock Market now seems mainly confined to an eleventh hour surge in Financials. **XLF** has actually been inching up the last few days after having found support yet again at the 21 day moving averages.



Some will no doubt argue that the chart formation is something of a bullish consolidation thing. That's possible, but for the moment I am inclined to view it as a multiwave distribution pattern. A close below 12 from here would add a little validity to that view.

Short letter today. I am working on new analysis of the Dow-Gold ratio, but I want to send that out as a separate piece.

Best,

Kyle Ledbetter Lucas

Equal-Weight Currency Indexes

USD: 95.35
JPY: 87.04
EUR: 95.82
GBP: 108.16
CHF: 92.98
CAD: 106.05
AUD: 111.68
XAU: 103.89
XAG: 125.66