

S&P 500 Update

22 Jun 09

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United - ICAP
the technical advisory service
for the energy industry

Review

Our last full SPX update dated 25 Feb 09 targeted a peak for the bear market correction from the 741.02 low to the 911.00 to 1012.00 zone. From there we targeted the 684.00 - 625.00 zone. From the actual low of 666.79 low on 6th March we had targeted a bear market correction to the 1014.00 area.

Top Ten Main Points

1. Page 2 reprints our same long standing wave count based contention that the highs from March 2000 concluded a sixty-eight year long bull market from the lows of 1932.
2. From the perspective of this model the decline from 2000 to 2002 was only an initial 'A' wave down of a larger 'ABC' correction and the 'C' wave down began from the 1576.00 high. Page 3.
3. Pages 4 and 5 reprint our wave count model as of the 25 Feb 09 report and page 6 updates with the most recent price action. The question now is whether 956.23 began a corrective retreat, or not.
4. In the bullish case revisited on page 7 the 666.79 low ended the entire decline from October 2007 and a long term up trend began from there. Page 8 highlights a big problem for stock market bulls.
5. The bearish case reprinted on page 9 is still our highest probability outcome. And if we are wrong about the page 9 model then where should this decline from 956.23 find support?
6. In the most bullish case the SPX should ricochet higher from the 896.00 level cited on page 10. As we write this the SPX has already traded down to 894.06 with no hint of a rebound.
7. So assuming further downside from here the next key support for the bulls is the **887.90 - 876.80** zone from pages 11 and 12. We would exit any remaining length in equities and energy if this zone breaks.
8. Page 12 highlights critical long term support for the bullish case and pages 13 and 14 highlight the downside risk if the 728.67 from page 12 is broken.
9. The RSI, candlesticks, and seasonal cycle influence are all quite bearish. See pages 15, 16, and 17 respectively. Even the sentiment is bearish - see the page 22 bearish divergence.
10. So what do the bulls have from here - only the fact that the 887.90 - 876.80 zone has not yet been tested or broken. However all our technical indicators suggest this 888.00 - 877.00 area will not hold.

Impulsive	Wave Degree	Corrective
"I" "II"	Grand Supercycle	"A" "B"
I II	Supercycle	A B
<I> <II>	Cycle	<A>
-I- -II-	Primary	-A- -B-
(I) (II)	Intermediate	(A) (B)
"1" "2"	Minor	"a" "b"
1 2	Minute	a b
-1- -2-	Minuette	-a- -b-
(1) (2)	Sub-minuette	(a) (b)
[1] [2]	Micro	[a] [b]

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S & P 500 Index
30 Oct 03

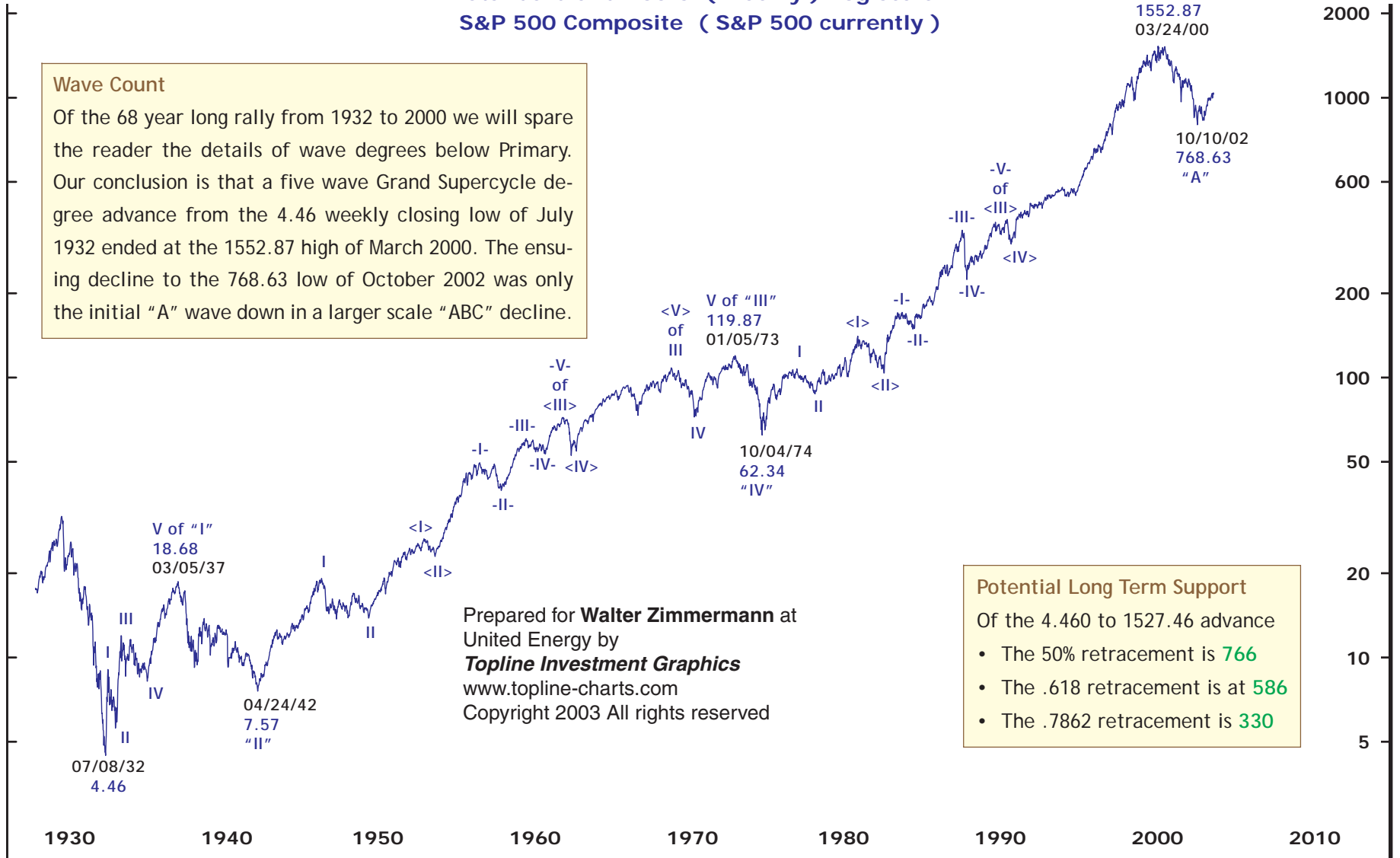
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**Standard and Poors (weekly) log scale
S&P 500 Composite (S&P 500 currently)**

Wave Count

Of the 68 year long rally from 1932 to 2000 we will spare the reader the details of wave degrees below Primary. Our conclusion is that a five wave Grand Supercycle degree advance from the 4.46 weekly closing low of July 1932 ended at the 1552.87 high of March 2000. The ensuing decline to the 768.63 low of October 2002 was only the initial "A" wave down in a larger scale "ABC" decline.



Prepared for **Walter Zimmermann** at
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Potential Long Term Support
Of the 4.460 to 1527.46 advance

- The 50% retracement is **766**
- The .618 retracement is at **586**
- The .7862 retracement is **330**

S&P 500 Index - monthly chart - log scale



Long Term Wave Count
 The big picture outlook is very clear cut. As we indicated at the time the longer term down trend resumed from the October 2007 highs. That down trend, having failed to end by the 790.00 to 765.00 zone, now targets an eventual 586.00 area.
 And if the 586.00 area failed to ignite a long term bull market then a further drop to the 330.00 would be indicated.

the A = C

the 50% of 1932 to 2000

the .618 of the entire 1932 to 2000 advance

the .7862 of 1932 to 2000

the 1.618 x A = C

in C
down

1600.00
 1400.00
 1200.00
 1000.00
 791.85
 700.00
 586.00
 400.00
 330.00
 307.19
 Monthly

S&P 500 Index - monthly chart - log scale



S&P 500 Index - weekly chart - log scale



S&P 500 Index - weekly chart - log scale



Wave Count Issues

The issue that we address in this report is the significance of the recent 956.23 low. There are only two possibilities:

1. A bull market correction began from the 956.23 low and the intermediate term trend is still pointing up.
2. The longer term down trend resumed from the 956.23 low and new lows are ahead.

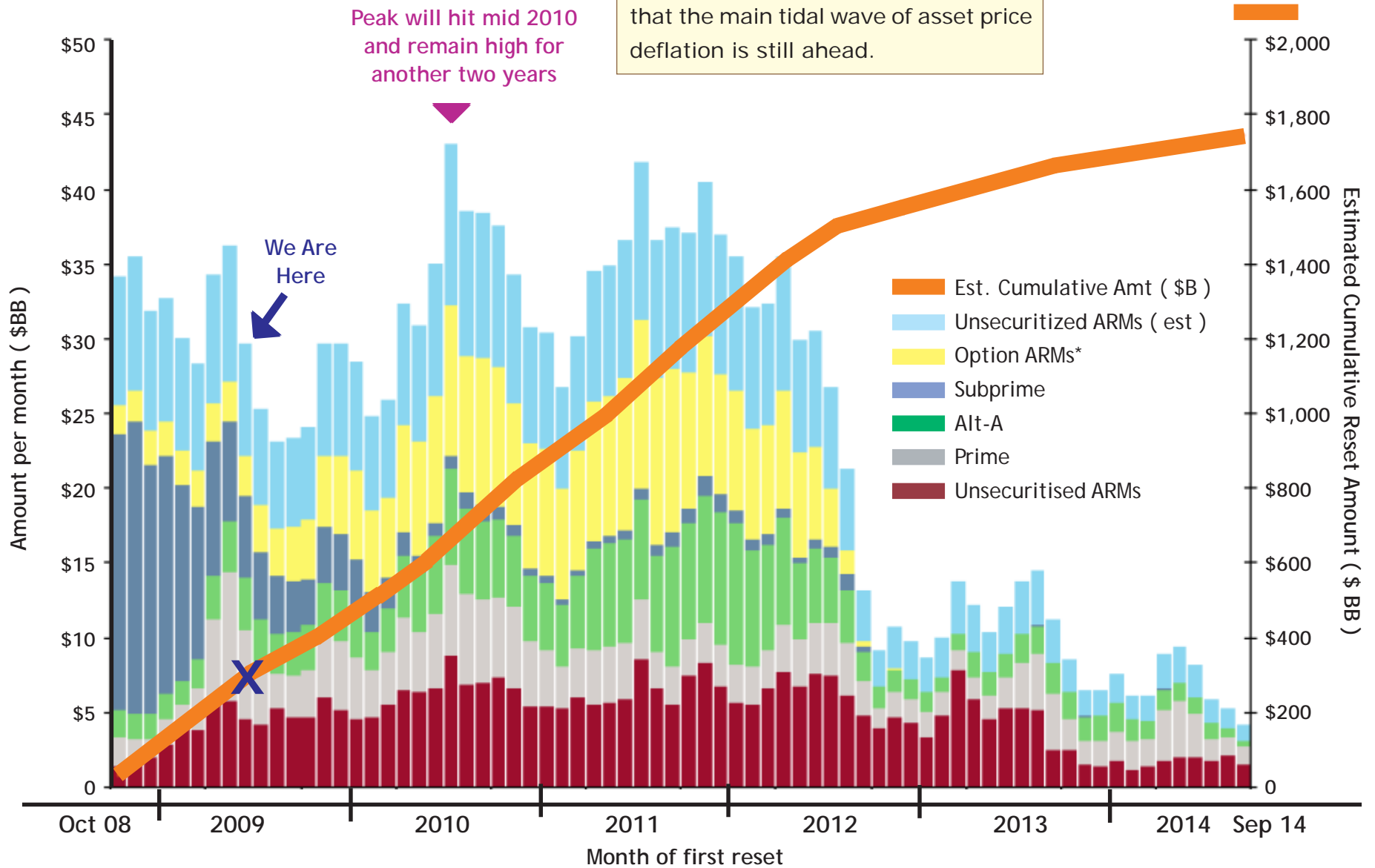
The following pages highlight the various candidates for support if this is a bull market correction and the downside risk if it is not a bull market correction.

the <I> = <V> with 943.85 as <IV>



Next wave of US mortgage defaults

Amount (\$bn)



*Option ARMs show estimated recast schedule based on current NeGam rate
Source: from Credit Suisse (US Mortgage Strategy), Loan Performance

REPRINT

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S & P 500 Index - monthly chart - log scale



Bearish Case Must Hold
 There is no bearish case if 1382.00 is exceeded as the .7862 of the 1576.09 to 666.79 decline.

Bearish Case

- This rally from 666.79 is a bear market correction and much, much lower prices are still ahead
- Interest rates will continue to climb choking off any real estate recovery
- There will be no relief from deflation until after the year 2012

the .618 of III
 the .7862 of 1932 to 2000
 the 1.618 x A = C

1600.00
 1400.00
 1200.00
 1121.00
 1000.00
 800.00
 691.00
 586.00
 558.00
 400.00
 344.00
 330.00
 307.19
 Monthly

S&P 500 Index - 300min. chart - log scale

the -A- = -C-

1143.00

the .618 x -A- = -C-

1042.38

1000.00



Most Bullish Case

- The most bullish wave count outlined here is voided by any decisive break below the 896.00 level
- If 896.00 holds the minimum implied upside target would be 1042.38 with the potential for a larger advance toward the 1143.00 area.
- The next potential key support point on a decisive break below 896.00 is cited on the next page.

S&P 500 Index - 300min. chart - log scale

the -ABC2- = .618 of -ABC1-



Less Bullish Case

- As detailed in the Friday Webcast for 19 June this is the wave count that had us very concerned about the case for a sharp decline this week.
- If **876.80** holds then the rebound from the 666.79 low should continue.
- However a decisive break below 876.00 from here would mean that, in the most bullish case, the entire 66.79 to 953.26 advance is now being corrected. See next page.

S&P 500 Index - daily chart - log scale



Ratio Analysis
 Setting wave count issues aside for the momentum and looking at a simple ratio analysis the pivotal support point is:

1. The .236 retracement at **887.92**
2. From the perspective of ratio analysis a decisive close below 887.92 would target **777.36**
3. And a decisive close below **728.67** from here would confirm that this is not a bull market correction. A decisive close below 728.67 would confirm that the longer term down trend has resumed.

S&P 500 Index - weekly chart - log scale



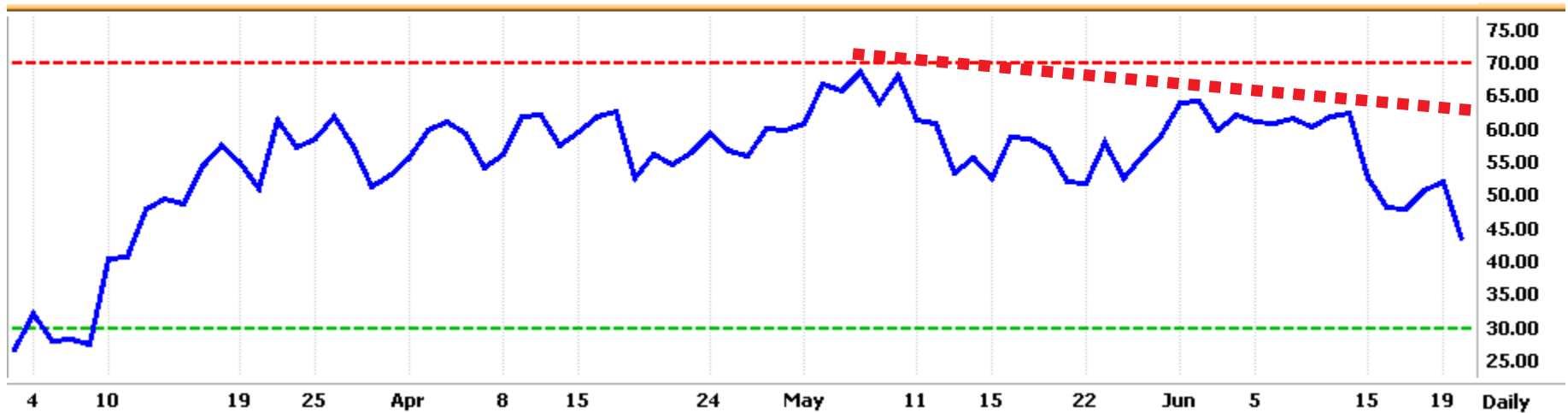
S & P 500 Index - monthly chart - log scale



S & P 500 Index - daily chart - log scale
with 14 day RSI



Bearish RSI Divergence = Walking on Thin Ice
Remember that stock market proverb "Sell in May then Go Away". See page 16. Note that every new high since 7th May has generated bearish RSI divergence. Hence our use of the 'walking on thin ice' analogy. Considering the long reliable history of post May dumps, add the bearish RSI divergence and the bearish candles cited on the next page. Our conclusion is that we can think of no reason to be long here.



S&P 500 Index - 22 Jun 09

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Monthly Chart

With six trading days remaining the monthly candlestick is a shooting star top - the most bearish of all the candlesticks. The bulls need a miracle rocket rally within six trading days.

Weekly Chart

Last weeks sharp drop confirmed the prior week as a doji star top. The last red bar on this chart is the price action from today, 22nd June. Bears are off to a great start on the week. See right.

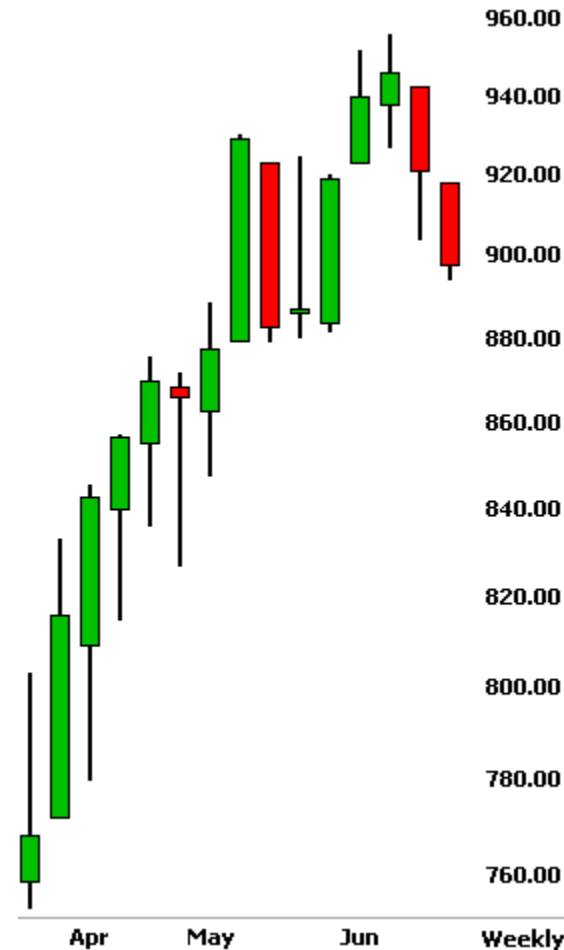
Daily Chart

In the weekly report for this week we emphasized the severe downside risk. Note that today's big dump adds to the woes of new length by confirming Friday as a doji star top.

Shooting Star Top



Doji Star Top



Doji Star Top



Dow Jones Industrial Average - Seasonality

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"Sell in May Then Go Away"

Investing \$10,000 in the Dow Industrials from 1st May to 31st October over the years 1950 into 2008 would have resulted in a loss of **\$2,222**

The result of investing \$10,000 from 1st November until 30th April over the years 1950 into 2008 would have been a gain of **\$583,949**

DJIA % Change May 1 to Oct 31	Investing \$10,000	DJIA % Change Nov 1 to Apr 30	Invest \$10,000	% Change May 1 to Oct 31		% Change Nov 1 to Apr 30			
1950	5.0%	\$10,500	15.2%	\$11,520	1980	13.1%	7,551	7.9%	\$61,731
1951	1.2	10,626	-1.8	11,313	1981	-14.6	6,449	-0.5	61,422
1952	4.5	11,104	2.1	11,551	1982	16.9	7,539	23.6	75,918
1953	0.4	11,148	15.8	13,376	1983	-0.1	7,531	-4.4	72,578
1954	10.3	12,296	20.9	16,172	1984	3.1	7,764	4.2	75,626
1955	6.9	13,144	13.5	18,355	1985	9.2	8,478	29.8	98,163
1956	-7.0	12,224	3.0	18,906	1986	5.3	8,927	21.8	119,563
1957	-10.8	10,904	3.4	19,549	1987	-12.8	7,784	1.9	121,835
1958	19.2	12,996	14.8	22,442	1988	5.7	8,228	12.6	137,186
1959	3.7	13,479	-6.9	20,894	1989	9.4	9,001	0.4	137,735
1960	-3.5	13,007	16.9	24,425	1990	8.1	8,272	18.2	162,803
1961	3.7	13,488	-5.5	23,082	1991	6.3	8,793	9.4	178,106
1962	-11.4	11,950	21.7	28,091	1992	-4.0	8,441	6.2	189,149
1963	5.2	12,571	7.4	30,170	1993	7.4	9,066	.03	189,206
1964	7.7	13,539	5.6	31,860	1994	6.2	9,628	10.6	209,252
1965	4.2	14,108	2.8	30,968	1995	10.0	10,591	17.1	245,046
1966	-13.6	12,189	11.1	34,405	1996	8.3	11,470	16.2	284,743
1967	-1.9	11,957	3.7	35,678	1997	6.2	12,181	21.8	346,817
1968	4.4	12,483	-0.2	35,607	1998	-5.2	11,548	25.6	435,602
1969	-9.9	11,247	-14.0	30,622	1999	-0.5	11,490	.04	435,778
1970	2.7	11,551	24.6	38,155	2000	2.2	11,743	-2.2	426,189
1971	-10.9	10,292	13.7	43,382	2001	-15.5	9,923	9.6	467,103
1972	0.1	10,302	-3.6	41,820	2002	-15.6	8,375	1.0	471,774
1973	3.8	10,693	-12.5	36,593	2003	+15.6	9,682	+4.3	492,060
1974	-20.5	8,501	23.4	45,156	2004	-1.9	9,498	+1.7	500,425
1975	1.8	8,654	19.2	53,826	2005	+2.4	9,726	+8.9	544,963
1976	-3.2	8,377	-3.9	51,727	2006	+6.3	10,339	+9.2	596,020
1977	-11.7	7,397	2.3	52,917	2007	+7.7	11,133	-.15	595,106
1978	-5.4	6,996	7.9	57,097	2008	-30.2	7,778	-.19	593,949
1979	-4.6	6,676	0.2	57,211					

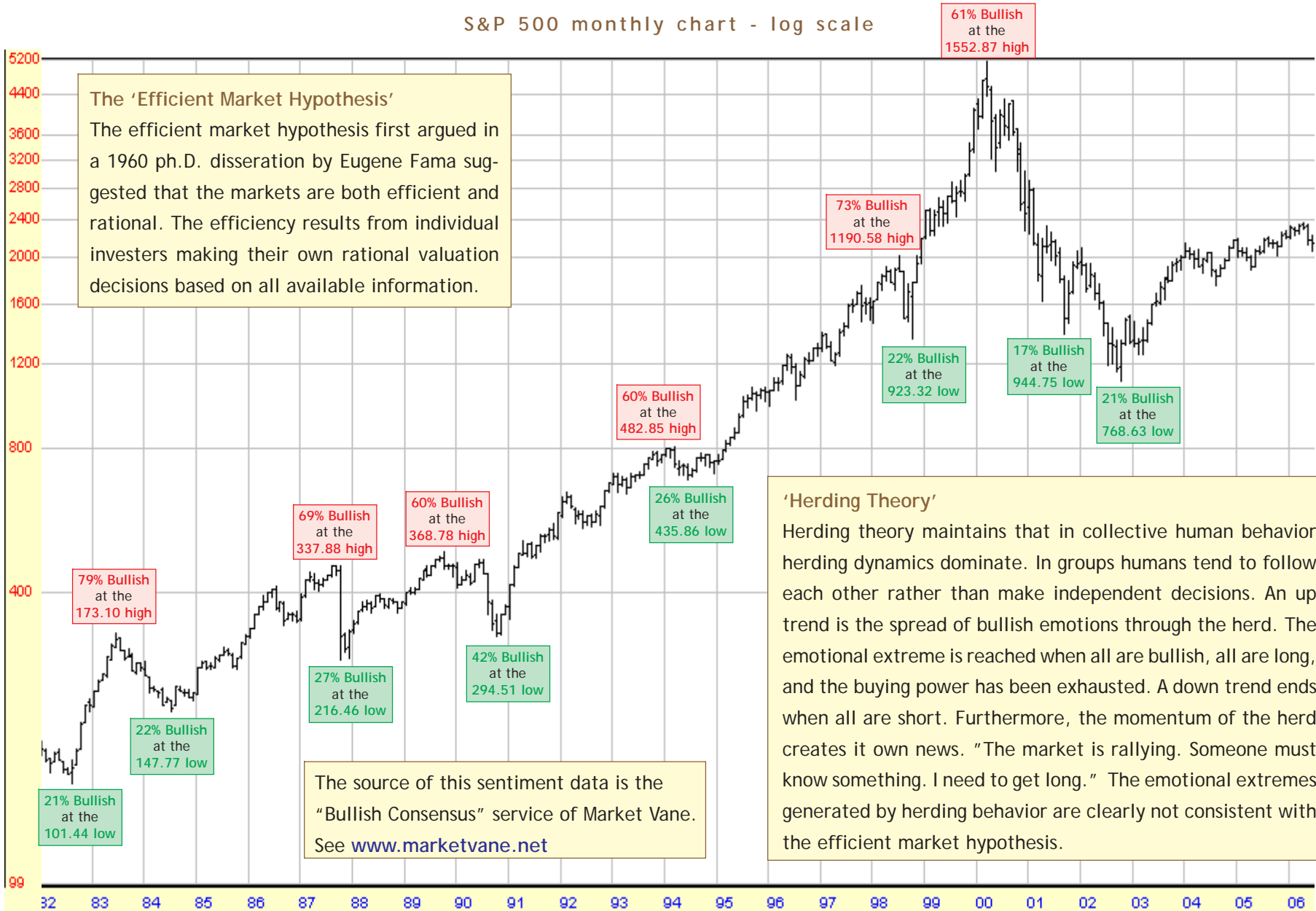
59 Year Results - \$2,222.00

+ \$583,949.00

APPENDIX

- sentiment history -

S&P 500 monthly chart - log scale

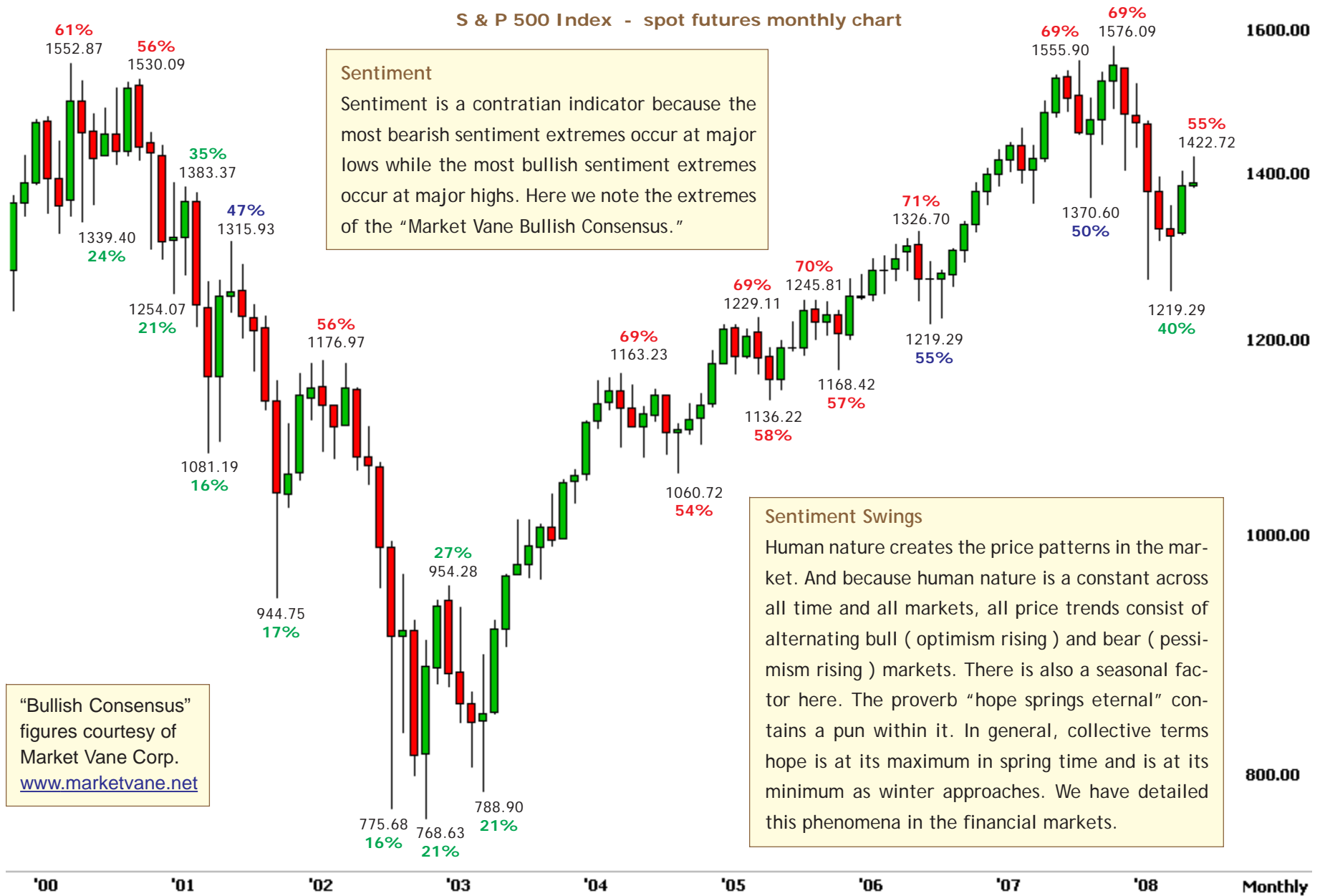


The 'Efficient Market Hypothesis'
 The efficient market hypothesis first argued in a 1960 ph.D. dissertation by Eugene Fama suggested that the markets are both efficient and rational. The efficiency results from individual investors making their own rational valuation decisions based on all available information.

The source of this sentiment data is the "Bullish Consensus" service of Market Vane. See www.marketvane.net

'Herding Theory'
 Herding theory maintains that in collective human behavior herding dynamics dominate. In groups humans tend to follow each other rather than make independent decisions. An up trend is the spread of bullish emotions through the herd. The emotional extreme is reached when all are bullish, all are long, and the buying power has been exhausted. A down trend ends when all are short. Furthermore, the momentum of the herd creates its own news. "The market is rallying. Someone must know something. I need to get long." The emotional extremes generated by herding behavior are clearly not consistent with the efficient market hypothesis.

S & P 500 Index - spot futures monthly chart

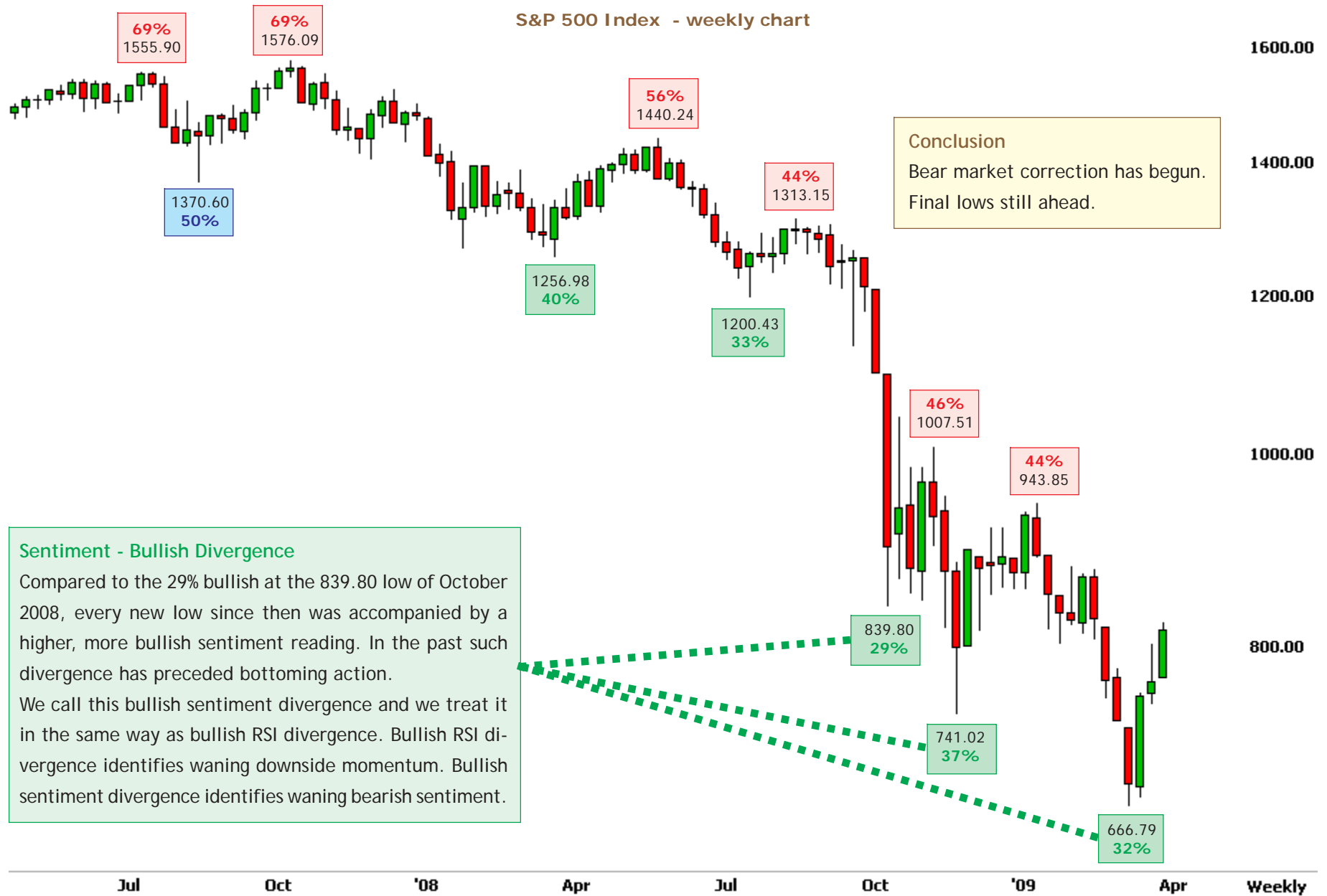


“Bullish Consensus” figures courtesy of Market Vane Corp. www.marketvane.net

Sentiment
Sentiment is a contrarian indicator because the most bearish sentiment extremes occur at major lows while the most bullish sentiment extremes occur at major highs. Here we note the extremes of the “Market Vane Bullish Consensus.”

Sentiment Swings
Human nature creates the price patterns in the market. And because human nature is a constant across all time and all markets, all price trends consist of alternating bull (optimism rising) and bear (pessimism rising) markets. There is also a seasonal factor here. The proverb “hope springs eternal” contains a pun within it. In general, collective terms hope is at its maximum in spring time and is at its minimum as winter approaches. We have detailed this phenomena in the financial markets.

S&P 500 Index - weekly chart



Sentiment - Bullish Divergence
 Compared to the 29% bullish at the 839.80 low of October 2008, every new low since then was accompanied by a higher, more bullish sentiment reading. In the past such divergence has preceded bottoming action. We call this bullish sentiment divergence and we treat it in the same way as bullish RSI divergence. Bullish RSI divergence identifies waning downside momentum. Bullish sentiment divergence identifies waning bearish sentiment.

UPDATE

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Sentiment Issue

Is bearish sentiment divergence from 45% bullish a bearish enough development to signal the re-sumption of a longer term down trend? The answer from the most recent decline outlined on the previous page is a resounding "Yes!"

S&P 500 Index - daily chart



Sentiment - Bearish Divergence
 The 956.23 high from 11 June 09 was the first new high in the advance from the 666.79 low that was accompanied by bearish sentiment divergence. Price made a new high. Sentiment failed to confirm. This is a bearish peaking indicator.

Conclusion
 A retreat has begun.
 Final lows still ahead.

3 10 20 Mar 10 20 Apr 15 23 May 15 Jun 15 23 Jul Daily