STOCK INDEX SERVICE

S&P 500 INDEX

13th October 2008

(data through 13th October 2008)

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[This report does not contain any short-term buy/sell forecasts. Its intention is a guide to explore the medium & long-term significance of pattern formations for 2008/09 and beyond as conveyed by applying the Elliott Wave Principle].

Summary

» *Wednesday's update plotted a multi-year horizontal trading range pattern for the S&P, unfolding from the 2000 highs. Consisting of three main price swings, the final leg is in progress from the '07 high of 1576.09 and destined to re-attempt the '02 low at 768.63. A variation of the pattern allows for a termination below the '02 lows by a slim percentage of the '00-'02 decline, and this is now favoured as last Thursday/Friday's losses stretched levels further. Two idealised targets are measured, extending the '00-'02 decline by fib. 14.58% projects to 693.73 and fib. 23.6% to 651.09. The time-line to complete this is also shortened, from Feb./ March '09 to late Dec.'08 by using a 76 week cycle rather than the original 78 week periodicity - see fig #1.*

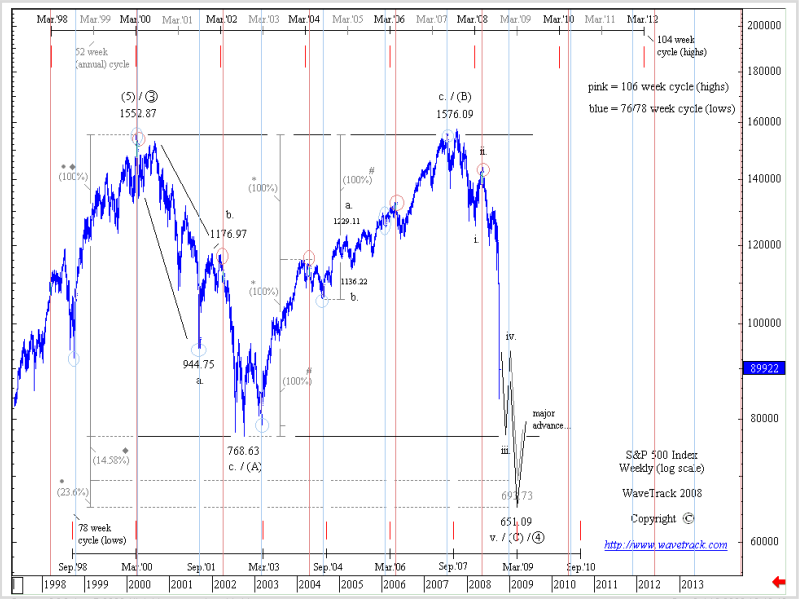

fig. #1 S&P 500 Index

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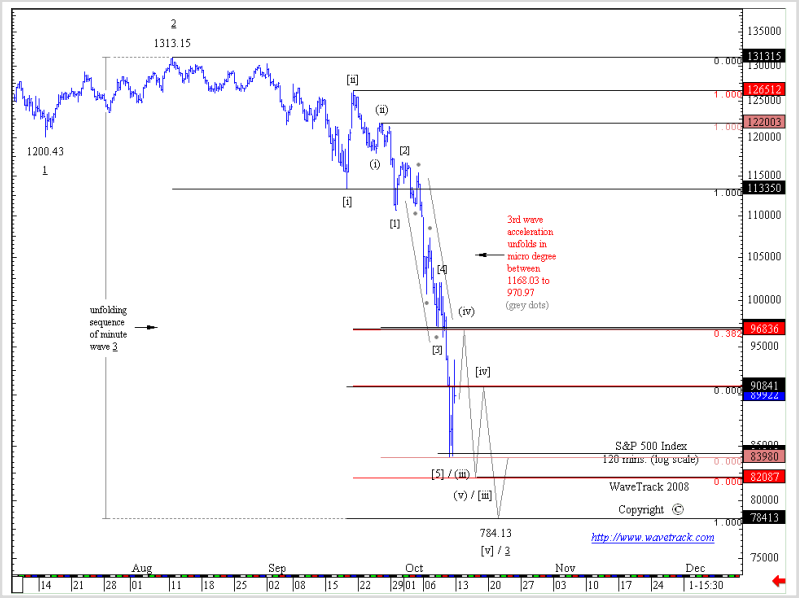

fig. #2 S&P 500 Index

» *After this, a larger counter-rally begins, projected to 946.41+/- before another two declining phases unfold to ultimate targets at 692.86 - see **fig #3**. This closely converges with the fib. 14.58% extension targets described from the weekly chart.*

» *The next scenario is created with the same amount of price-swings as the first, except the fib-price-ratio amplitudes change the various target levels. This one allows for an immediate decline from Friday's closing rally of 936.36 with next targets to 778.20 followed by a counter-rally to 871.57+/- then another decline to 752.33 to finalise the five price-swing sequence from 1313.15 - see **fig #4**. But the larger five price-swings from the higher levels of 1440.24 and 1576.09 remain incomplete, and these too will require two additional lower lows to unfold before completion. A projection of fib-price-ratios allow these to end towards 729.95 and finally between 664.54-653.22 to create a convergence of the weekly figures at 651.09 - see **fig #5** {show fig #5}.*

» *In order to qualify these downside targets, the decline from the '07 high of 1576.09 must subdivide into a smaller five price-swing sequence. With so much fractalisation at the beginning of the decline (each decline is a smaller component of the larger third price-swing decline), the first task is to identify where the point of acceleration begins and ends, then extrapolate each subsequent component so as to finally build the five price-swing series with fib-price-ratios that converge into one of the two downside targets. Two results are as follows:*

» *The sequence described last week projected the next decline down towards 894.06, some 94 points below current levels. But even this was exceeded, and the sequence appears incomplete. To finalise this 'accelerative' phase from 1313.15, two additional lower lows are necessary, but first a rally from Friday's low to approx. 968.36 then declines to 820.87+/- then another to 784.13 - see **fig #2**.*

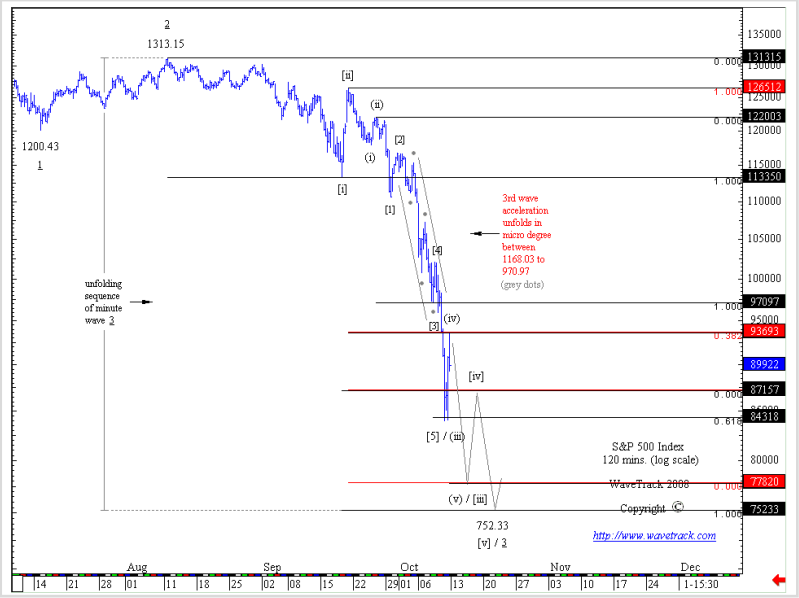

fig. #4 S&P 500 Index

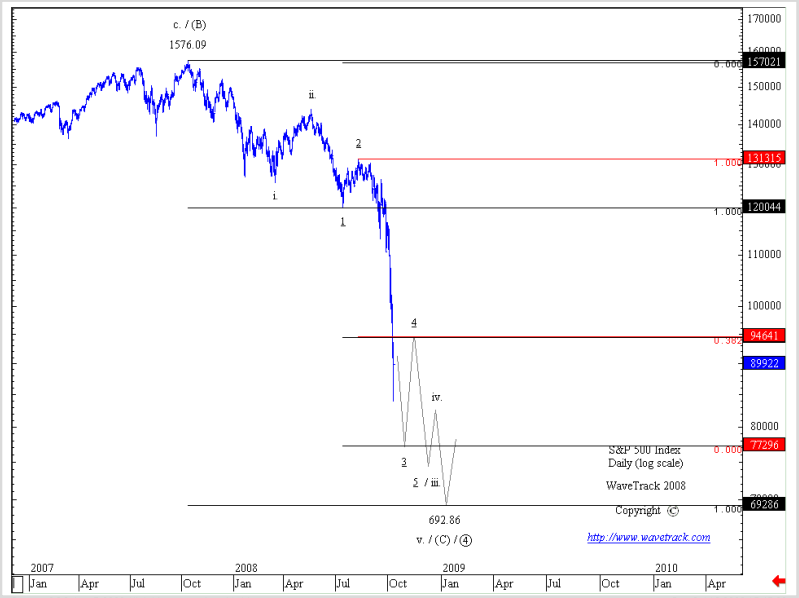

fig. #3 S&P 500 Index

» *Invalidation levels are now so high that they become useless. The current advance from Friday's low will only be invalidated if it should cross above the low of its first wave counterpart, but that is at 1179.79. So we can only be guided by the short-term pattern sequences as they evolve, and be watchful for any divergences. Ideally, to qualify the scenarios above, any advance must take the form of a three price-swing sequence, and it is this that we are monitoring.*

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ELLIOTT WAVE ANALYSIS

Levels were pulled so low last week that it now seems inevitable the S&P will eventually break the '02 lows of 768.63 changing the horizontal flat into an expanding variation - see ***fig #1*** {show fig #1}. Extending intermediate wave (A) by fib. 14.58% projects wave (C) to 693.73 and by fib. 23.6% to 651.09.

Examining the decline from 1313.15 as minute wave 3 we can see that it remains in progress, required to subdivide into a smaller five wave impulse sequence in minuette degree - see ***fig #2*** {show fig #2}. In fact, there are so many 1-2,1-2 sequences that began the decline, wave 3 is shown subdividing into three smaller degrees in total. It results in projecting two more additional declines to follow Friday's recovery rally. Watch for upside resistance as sub-minuette wave (iv) towards 968.36.

Non-linear extrapolation of the remaining 4-5, 4-5 sequences project finalisation to 784.13. Now taking this further, minute waves 4 & 5 of minor wave iii. and waves iv. & v. to finalise towards 692.86 - see ***fig #3*** {show fig #3}. Note convergence with intermediate wave (C) at fib. 14.58% extension levels.

The same pattern sequence can be derived but with differing fib-price-ratio targets to show sub-minuette wave (iv) already completed at Friday's post low rally at 936.93 and a more immediate decline preparing for the opening session today (Monday). Wave (v) of [iii] measures lower to 778.20 by extending waves (i)-(iv) by a fib. 61.8% ratio. After a 23.6% recover for wave [iv], wave [v] declines by a fib. 100% equality ratio of wave [i] to end minute wave 3 at 752.33 - see ***fig #4*** {show fig #4}.

fig. #5 S&P 500 Index

This lower target for minute wave 3 pushes the downside targets for minor waves iii. and v. five even lower, with projections to end between 664.54-653.22 - see ***fig #5***. This converges with intermediate wave (C) at fib. 23.6% extension levels.

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APPENDIX

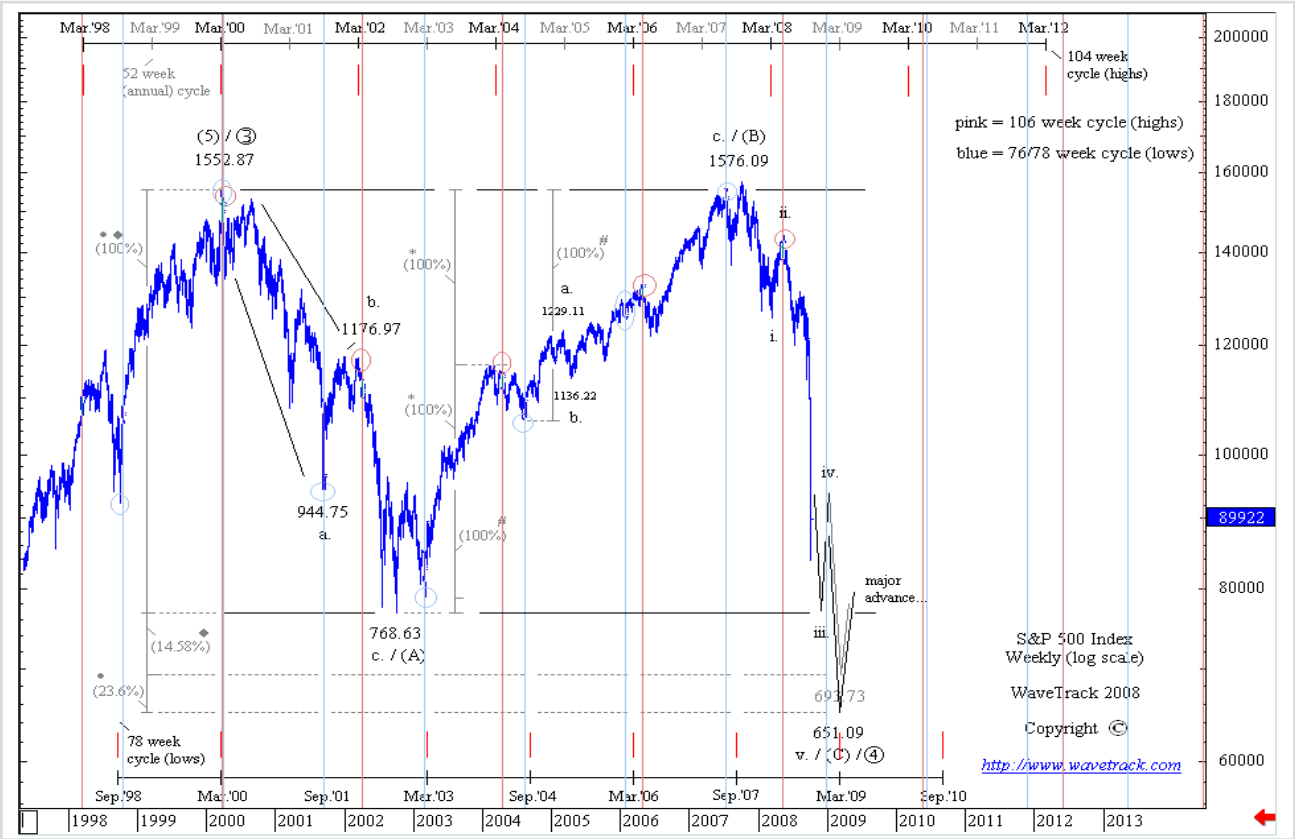

fig. #1 S&P 500 Index

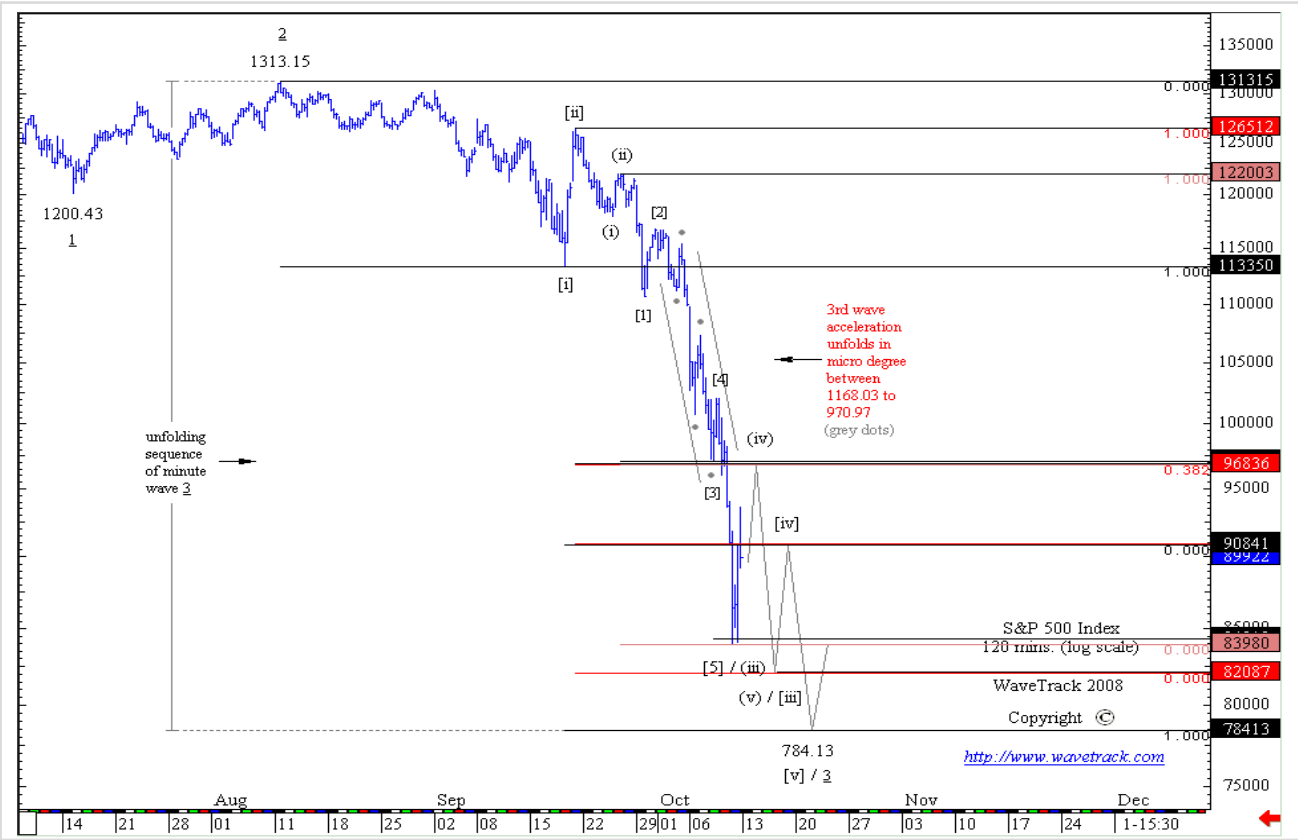

fig. #2 S&P 500 Index

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fig. #3 S&P 500 Index

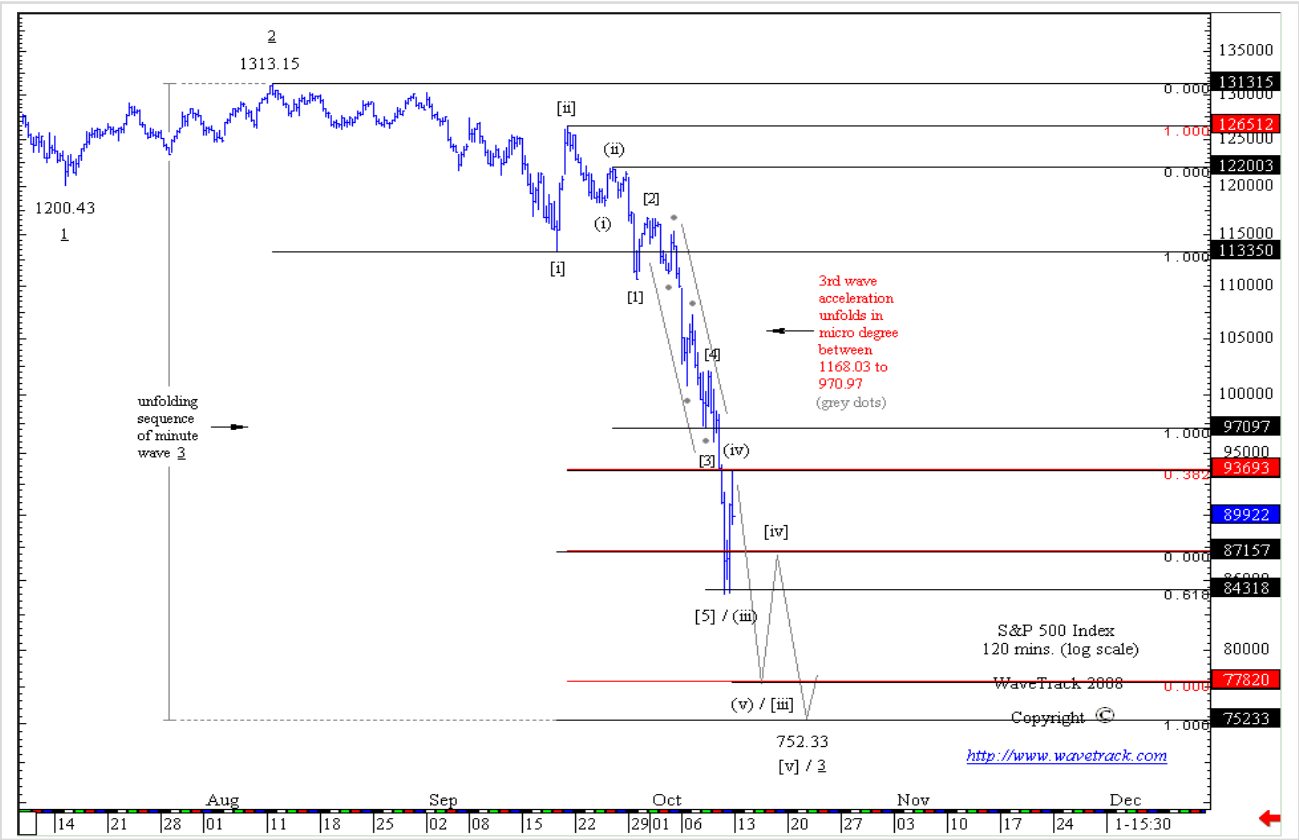

fig. #4 S&P 500 Index

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fig. #5 S&P 500 Index

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