Sand Spring Advisors LLC

An Update: Anticipating October Lows

by,

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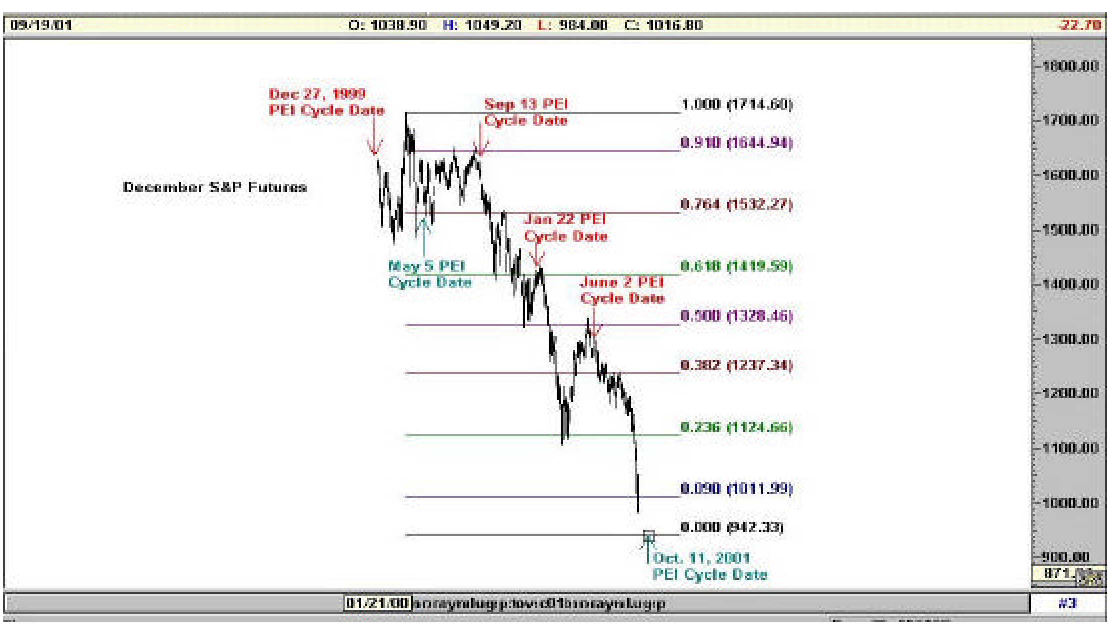
The current horrific geo-political circumstances notwithstanding, there is little doubt in my mind that the major equity indices will be leaving a “momentum low” of some significance in early October. As subscribers know, October 11th is our idealized cycle target for this low to be reached, but we will not quibble if it happens a few days before or after that time.

As far as picking potential support zones, we have recently abstained from doing so, and will continue to abstain now with regard to one major equity index: the Dow Jones Industrials. The structure of that chart pattern still shows multiple potential areas of Fibonacci support inclusive of: 8462, 8166, 7838, and 7729. In order words, the Dow could stop right around current levels or spike another 8% or so to the downside. That’s not a particularly helpful prognostication, so please ignore it.

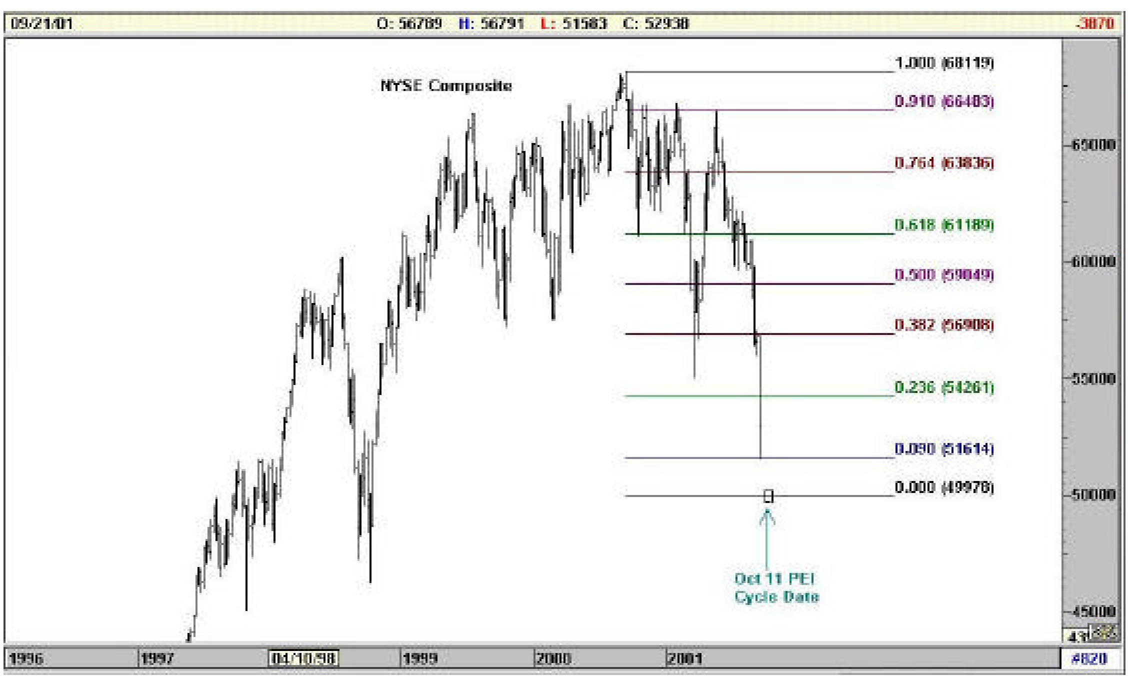
With regard to the S&P 500, however, let’s take a stab at picking a solid support area: 942.



On the chart above we see a series of PEI cycle dates overlayed on the December S&P futures chart. We also see a most definite Fibonacci rhythm – capturing the various intermediate highs and lows on the way down – presuming we leave an ultimate low for this move near 942. Given market volatility, a short term price spike as low as 931 might possible (if not probable), but we would doubt seeing prices much below that.

Meanwhile, over on the NASDAQ Composite Index we have previously mentioned 1409 as a potential target, and while an overshoot here is also possible toward 1357, once again we would not expect the current descent to stretch much further than that. The chart below should be a familiar one to readers, with its lines and arrows left completely unchanged from last May's first presentation.

Lastly, using the very broad New York Stock Exchange Index, we see yet another strong Fibonacci target emerge: 499.78 basis that index.



So overall, we are starting to look for a short-term trading bottom, but don't believe that we are there just yet. We also used the term "momentum low" above. By this we mean that while prices should stabilize in early October, and likely experience a strong November reaction bounce, we do not rule out a retest of the October low as late as early February 2001. In other words, we are likely to evolve into a two-way market of general chop for some period of time.

Where are we wrong and why might we be wrong in our views? As to where, we'd likely suggest stop-losses on long positions 2-3% under the spike levels discussed above. As to why, we can only imagine either a huge derivatives accident (as discussed in our September 10th article) or the use of bio-chemical weapons by terrorists as the two possible events that could abort making a low in this upcoming window of time.

War and aggression may be ugly and many lives may be put in ongoing peril, but we do not think current circumstances will lead to a complete collapse in the stock market at this time – at least not beyond the levels discussed above.

Send us your comments at information@Sandspring.com.

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