16772 W Bell Road
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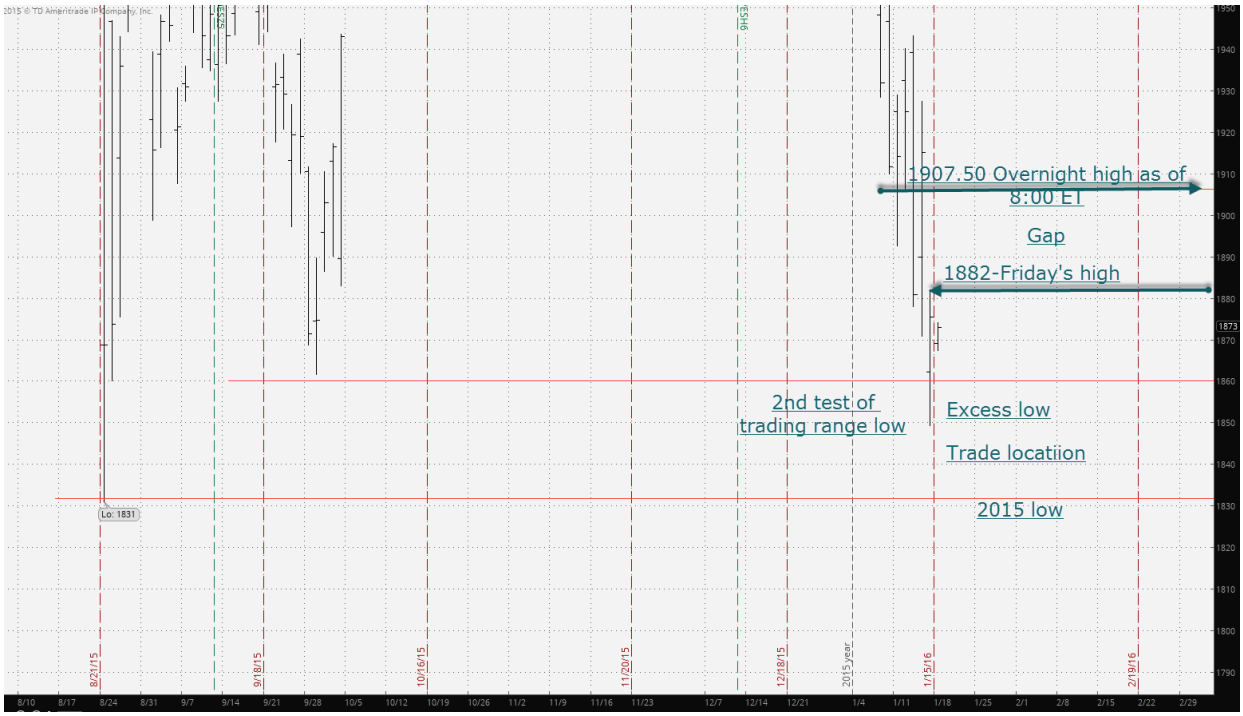
SA&P 500 Morning Report for 1-19-2016



We have continued to focus on the intermediate-term trading range from the 2015 low in 1831 through the all-time highs. September saw the first test of the trading range low. The first test of the trading range low has very high odds of leading to a sharp rally;. Last Friday provided the second test of the trading range low. While not nearly as high as the odds following the first test, which are probably 90% or so, the odds of a bounce following the second test are also respectable.

Last Friday's volume was the highest we have seen in sometime as well over 5 billion, measured by the NYSE composite. The fact that we closed well off of Friday's low suggests that there was more serious responsive buying on Friday.

It remains to be seen if there's any meaningful upside continuation. It appears that we will gap open this morning, which if the gap holds, confirms the excess low. Failure to hold today's gap sets up a potential test of Friday's low.

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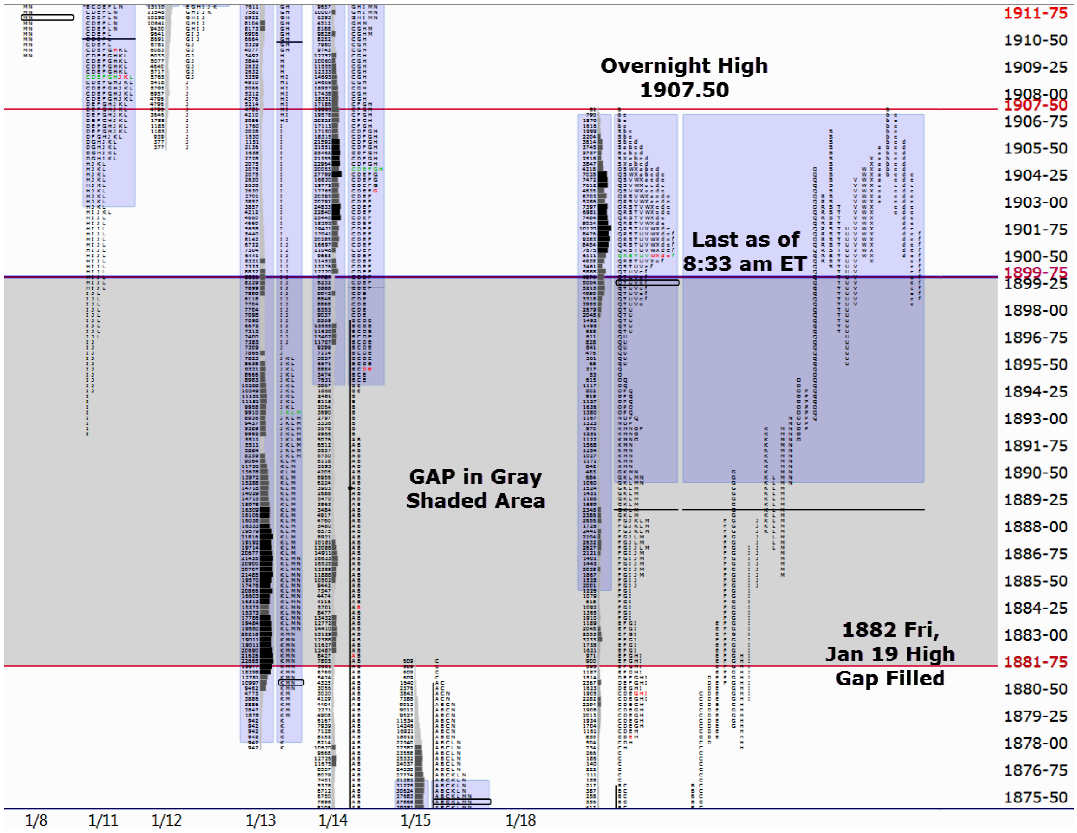

Gap trading rules are applicable:

1. Holding the gap is positive and confirms Friday's excess. The short-term auction would now be confirmed to the upside.

2. The larger the gap, the lower the odds that the gap will be filled on day one. Tthe reason for this is that there are so many position distortions that have to be adjusted. For example, short covering and forced liquidation due to margin calls.

3. If the market is to fill the gap, there is usually high confidence selling right off of the opening. If the gap is filled and value doesn't begin to overlap or be very similar to Friday's the odds of a later in the session rally are high. The reason for this is that value would be, at least, overlapping to higher.

4. Filling the gap and producing overlapping or similar value would be negative maintaining the intermediate-term auction to the downside.

We will be with you live from the opening.