Consolidations Do Not Last Forever

eResearch Corporation is pleased to provide an article by Keith Richards of **VALUETREND**.

In this article, Mr. Richards discusses consolidation patterns and recommends waiting until a consolidation pattern, such as the one we are in, concludes before committing.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: **http://www.valuetrend.ca/consolidations-dont-last-forever/**

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Monday, January 9, 2017

Consolidations Do Not Last Forever

By: Keith Richards (bio at end)

I have often noted on this blog and in my various media work that **consolidations** – defined as "trendless" zones of no new highs or lows—eventually lead into powerful breakout moves. Which side of the consolidation (upside or downside) the breakout occurs dictates the direction of this powerful follow-up move.

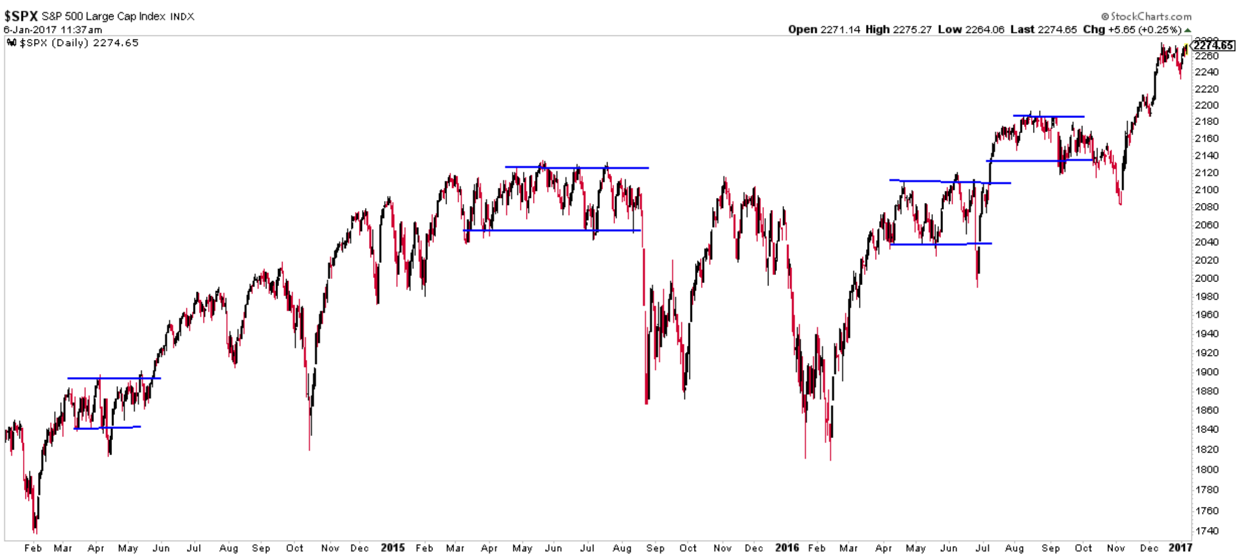
You can prove this observation for yourself by pulling up any chart of a market or well-traded stock (daily charts are best) and observing the action after a period of consolidation. A breakout usually leads into a quick and strong movement. This is why I usually advocate waiting to buy on a positive breakout before jumping into a stock that is consolidating.

Today, I have posted a daily chart of the S&P 500 going back 3 years. You can see where I have marked consolidation zones—that is, zones where the market stopped making new highs.

These zones can result in bullish breakouts leading into impressive rallies – such as the breakout in June 2014 (far left side of chart). Or, they can break to the downside and lead into a sizeable correction—as happened August 2015.

The point is – consolidations are neutral – until proven bullish or bearish upon a breakout.

As you will note on the far right hand side of the chart, we are in the early stages of a period of consolidation. So far, it has been about a month since the S&P 500 made a new high. The trading range is pretty tight right now.



While the market consolidates, you really cannot make too many bold predictions. Will it breakout to the upside or downside? Both are possible, but I will venture a guess that we might see a sell-off into late January and into February which could see a revisit of 2230 December low point – or thereabouts.

Should that low point break—and stay below 2230-ish for a few days, we might be in for a more substantial correction. That is because it might suggest a break of the current consolidation pattern we have been in for the past month.

Conversely – an upside break through 2280-ish that lasts a few days might be signs of a nice rally to come. Either are possible, but my bet is for a brief visit downward before an upside breakout later in the winter.

We shall see!

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See **About The Author** below.

ABOUT THE AUTHOR

ValueTrend Founder and Owner, Keith Richards, has been in the securities industry since 1990. ValueTrend manages over $100 million through a discretionary investment service for high-net-worth clients.

Keith Richards has been in the securities industry since 1990 and is a highly regarded member of the small, exclusive community of Chartered Market Technicians in Canada. Mr. Richard's articles appear regularly in INVESTORS DIGEST, MONEYLETTER, GLOBE AND MAIL, and the TORONTO STAR newspapers.

His appearances on BNN Television have inspired producers to acknowledge him as **"one of [our] most accurate technical analysts."** Mr. Richard's first book, SMARTBOUNCE: 3 ACTION STEPS TO PORTFOLIO RECOVERY, is available in bookstores and directly through his blog page **www.valuetrend.ca/blog/**. His second book, SIDEWAYS: USING THE POWER OF TECHNICAL ANALYSIS TO PROFIT IN UNCERTAIN TIMES was released in late 2011. He has been critical of the commission-based, follow-the-pack approach to investing – where brokers succeed regardless of performance.

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