CHART OF THE DAY

March 27, 2017

Spotlight on : S&P 500 Index

It has been almost exactly two months since I last updated the S&P 500 Index as the Chart-of-the-Day.

Since that time, the market has enjoyed what is widely known as the Trump Trade. With the market racing higher to peak at 2,400 and then subsequently falling off a bit, now the hue and cry is that the Trump Trade is over, particularly in light of the President's need to back-track on implementing a replacement for the Affordable Care Act.

What I think the market would like to see now is for President Trump to put Obamacare on the back-burner and to instigate tax reform proceedings. A successful implementation of meaningful tax reform would go a long way to pleasing the market, and certainly much more than repealing Obamacare.

So, currently, the market is digesting the health-care setback and will likely mark time for a while. A range-bound sideways trading period, if it occurs, will form another rectangle, much like the one that occurred from early December until almost mid-February (see chart and comments below).

The outcome of such trading patterns is impossible to predict (does it break out through the top of the rectangle, or break down through the bottom?).

A rectangle formation is considered a "continuation pattern". This would be intact as long as the new rectangle (again, if indeed one forms) lies above the December-February rectangle, i.e., the bottom of a new rectangle has to be above the top of the first rectangle, being at 2,300.

A concerning experience is if the Index falls through the whole rectangle, which has a bottom support line at 2,245.

In this report, I have compared the S&P 500 Index currently (March 24) with the Index shown in our last report (January 26), almost exactly two months ago. The comparisons include both one-year and six-month periods.

At the conclusion, I provide commentary on Upside Objectives as well as the Downside Possibilities.

Bob Weir, CFA

The charts begin on the next page.

Chart 1: One-Year Chart (close at Tuesday, January 24, 2017)

Chart 2: One-Year Chart (close at Friday, March 24, 2017)

Observations:

In Chart 1 above from last January, there are two support-resistance lines, a **GREEN** trend-line intersecting at 2,120, and a **RED** trend-line intersecting at 2,194. In December 2016 and January 2017, the Index moved horizontally. There is also a longer-term **DARK BLUE** up-trend line intersecting at about 2,165.

In Chart 2 above, I have drawn the same **GREEN** and **RED** support lines, and also two **BROWN** lines that formed a rectangle from December until almost mid-February. The Index broke to the upside from this rectangle, making the top **BROWN** line a significant support line on any retracement (as is happening now). The Index peaked at 2,400.98 in early March. It could not hold that psychological level and has retreated 2.6% since then. The **BLACK** line shows the current down-trend line from the peak. I have also included a shorter-term **LIGHT BLUE** up-trend line, which intersects at about 2,180.

From Chart 2, the key pivotal SUPPORT points are at 2,300 (top **BROWN** line), 2,245 (bottom **BROWN** line), 2,194 (**RED** line), 2,180 (**LIGHT BLUE** line), and 2,120 (**GREEN** line).

Let us move on to the short-term formation that is analyzed in the next charts, the six months chart, and shown on the next page.

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Chart 3: Six-Month Chart (close at Tuesday, January 24, 2017)

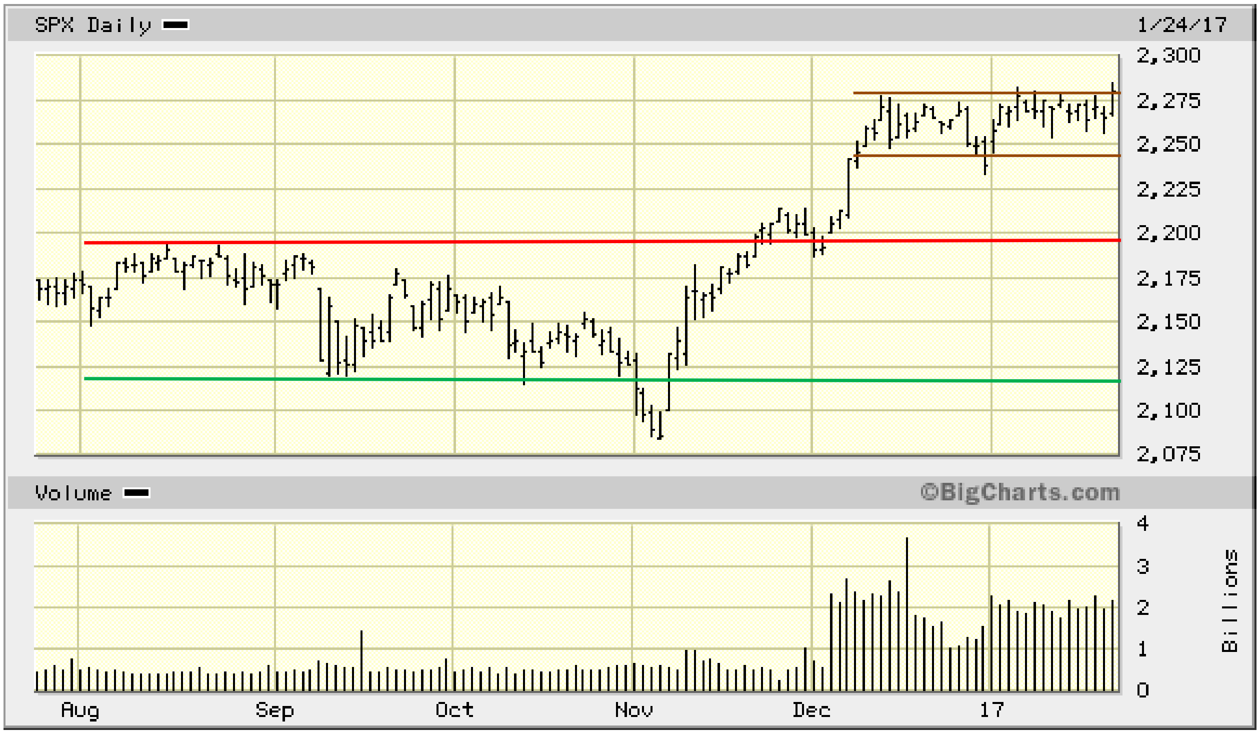
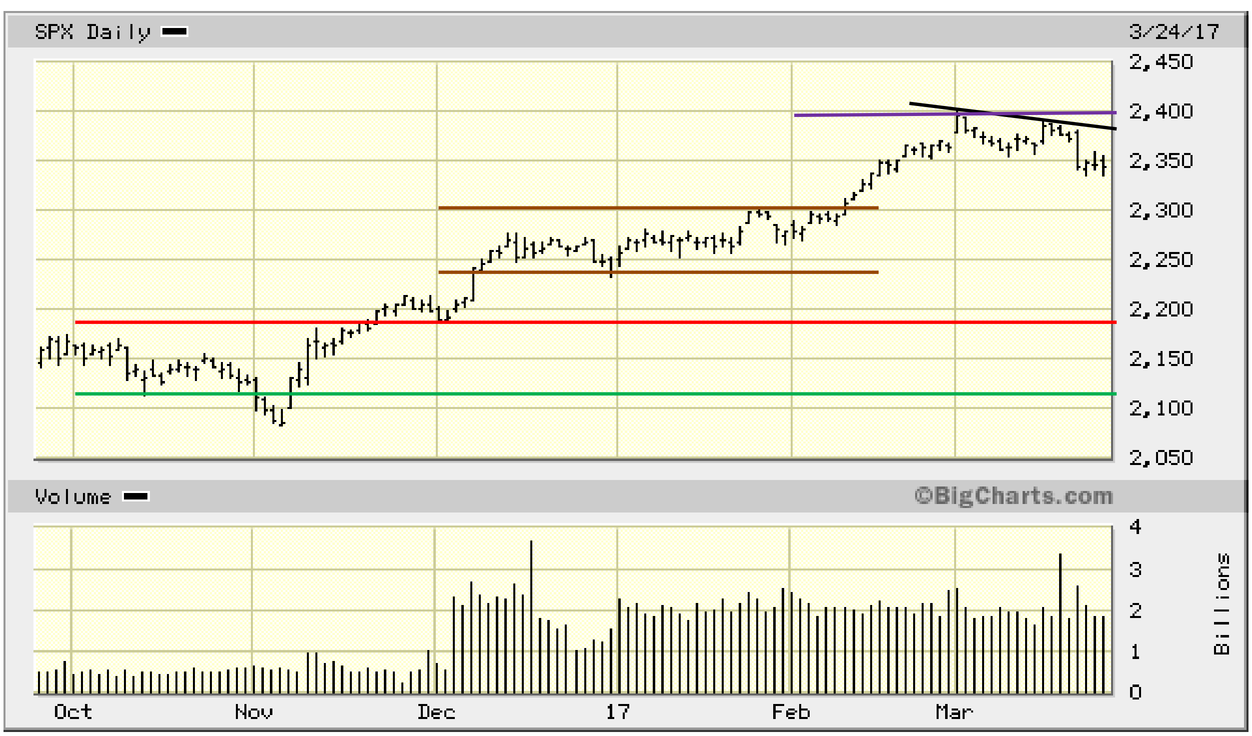


Chart 4: Six-Month Chart (close at Friday, March 24, 2017)



Observations:

In Chart 3 above, in addition to the **RED** and **GREEN** trend-lines from the previous Chart 1, I have drawn two parallel **BROWN** lines to form a rectangle, with the upper boundary being at about 2,282 and the lower boundary at about 2,245. The S&P 500 Index was range-bound in this rectangle since early December.

In Chart 4 above, we see that the rectangle extended into February and the top was raised to about 2,300, with the bottom unchanged at about 2,245. Then there was the break-out near mid-February, culminating in reaching the 2,400 peak (**PURPLE** line). This is now a significant RESISTANCE level.

LOOKING AHEAD

Questions: Where do we go from here? What is the upside potential? What is the downside risk?

1. **Upside Objectives**:

Over the next few months, I expect that the S&P 500 Index will, at the very least, go back to challenge its all-time high at 2,400. Being a significant technical and psychological price-point, this will be both a probable magnet and a possible stumbling block. If the Index fails to breach the 2,400 barrier, there will be a Double Top formed, which is considered to be a reliable Negative Indicator. The downside possibilities are shown below.

2. **Downside Possibilities**:

2,300: the top boundary of the **BROWN** rectangle
2,245: the bottom boundary of the **BROWN** rectangle
2,200: psychological round number level
2,194: the **RED** support line
2,180: the **LIGHT BLUE** up-trend line (shown on the one-year chart, Chart 2)
2,165: the **DARK BLUE** up-trend line (shown on the one-year chart, Chart 1)
2,120: the **GREEN** support line
2,100: psychological round number level
2,040: long-term support line (not shown on the charts in this report)
2,000: psychological round number level

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