Third Party Research June 16, 2017

One Momentum Indicator Suggests Trend Change Is Coming

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

In this article, Mr. Richards looks at a momentum indicator, which is flashing "be on guard".

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/one-momentum-indicator-suggests-trend-change-coming/**

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Wednesday, June 14, 2017

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By: Keith Richards (bio at end)

No indicator, no matter how much faith you have in it, is the 'holy grail" of market timing tools. Nothing will give you the definitive, absolute answer as to which direction the market might end up going in the near, or even intermediate, term.

Having got that out of the way, we can look at indicators that have been reasonably good indicators of pending change.

One such indicator that seems to be pretty good at signalling longer-term shifts on the monthly charts is the Rate of Change indicator. This indicator – a.k.a. the ROC indicator, is the granddaddy of today's sophisticated momentum indicators. It is about as pure as you can get when it comes to price momentum. No BS baffling brains or smoke and mirrors here. I like it for longer-term charts, and look for divergences in ROC vs the price of the market in question.

For more information on using this indicator vs using other oscillators, read Martin Pring's book on momentum, or my book ***Sideways***.

The ROC indicator has a simple formula. Here it is:

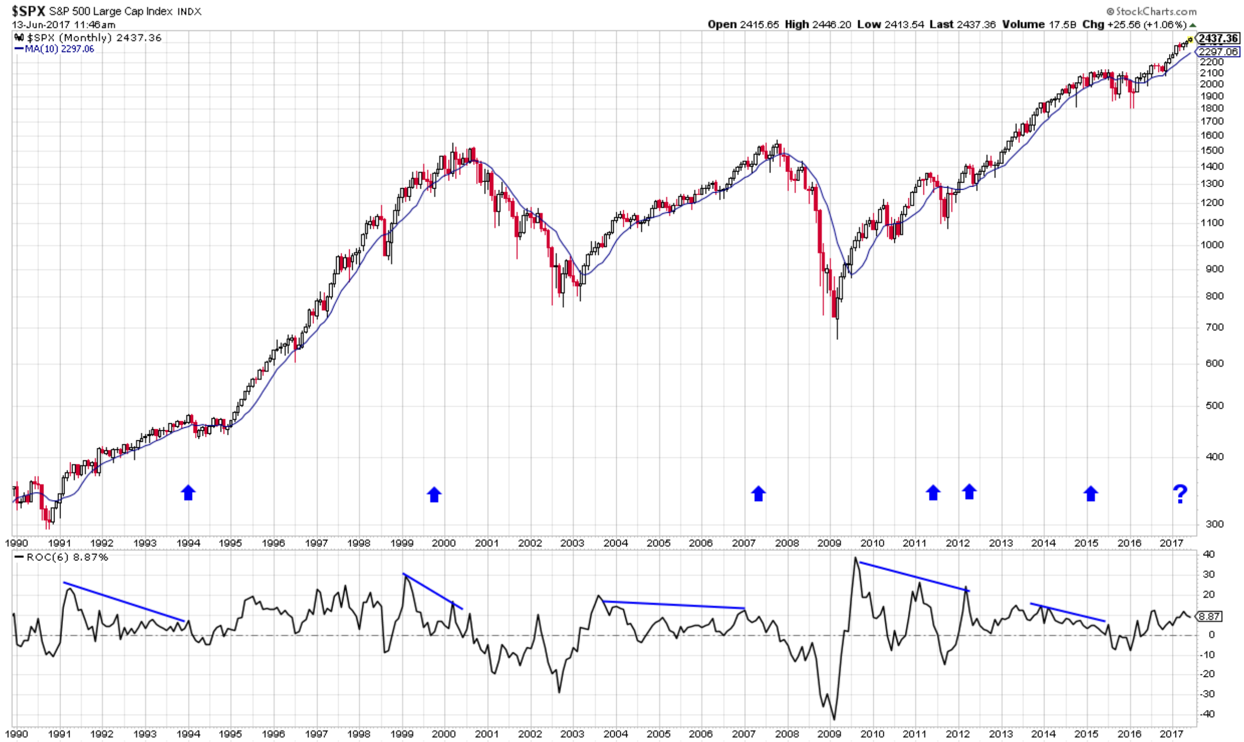
ROC = [(Close – Close n periods ago) / (Close n periods ago)] * 100

Even the least mathematical of us can see that this formula is basically looking at the price movement, as a percentage, over a given period of time. If you use stockcharts.com, they use a default of 12 periods.

On my monthly 16-year chart below, I changed that look-back period to 6. So it is looking back every 6 months and comparing the percent of change on the upside. Pretty simple stuff. But its beauty as an indicator is that it is so simple!

If the market makes a new high on a lower high for the ROC, you have a sign that things are slowing down internally. Price change is slowing. The market is losing momentum.

I probably do not have to walk you through today's chart (below). You will see that this indicator is not wonderful for precisely pinpointing the turning point. Nor is it a sure thing if it diverges—but it is pretty darned reliable most of the time. It is prone to giving us long look-ahead warnings. You have to take that into consideration when viewing these divergences. Just because it is diverging and has been doing so for a year, that does not mean that today it is time to sell. But, it may mean that you should keep your eyes wide open for a break-down in the charts. Ample warnings were provided by ROC for the tech crash and the 2008 oil/debt crash. Not to mention 1994, 2011, 2012, and early 2016. Simply note the higher high on the S&P and see if ROC confirms it with its own higher high. Simple, right?



Right now, monthly ROC is flat against a higher S&P 500 price level. Should ROC deteriorate – it may be a warning sign. The fact that it has not made a new high is suggesting that momentum is slowing for the U.S. markets. This suggests caution, but not panic. Should that condition of slowing momentum remain in place, it may be a bearish signal. We shall see.

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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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