

## Biiwii Commentary

**eResearch Corporation** is pleased to provide an article, courtesy of Biiwii.com, and written by Chris Ciovacco.

The article, starting on the next page, is entitled: **“New Dow Theory Signal”**.

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Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

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## New Dow Theory Signal

By [Chris Ciovacco](#)

July 5, 2017

### What Does It Mean For Stocks?

#### Charts Monitor Rather Than Dismiss Fundamental Data

Critics of technical analysis often mistakenly believe that using charts discounts the importance of fundamental data, such as earnings, employment, and economic growth. Charts allow investors to monitor the aggregate investor interpretation of all the fundamental data. Said another way, charts are efficient tools allowing us to monitor vast amounts of fundamental data, which is important since fundamentals ultimately determine the market's long-term fate.

When the economy is healthy, stocks tend to beat bonds. When economic fear dominates, bonds tend to beat stocks. In this article, we will cover the latest signal from the markets that came on July 3.

#### Dow Theory Is Based On Economic Common Sense

Dow Theory is based on a series of Wall Street Journal articles written by Charles Dow. The basic tenets of Dow Theory are easy to understand. Charles Dow believed that:

1. In order for industrial companies to increase their earnings, they had to produce and sell more goods.
2. If industrial companies are selling more goods, then transportation companies must be delivering more goods to retailers and wholesalers.
3. Therefore, in a healthy economy, both industrial companies and transportation companies should be experiencing revenue growth.
4. If industrial and transportation companies are growing their revenues, then the industrial and transportation stocks should be attractive to investors.
5. If industrial and transportation companies are doing well and are attractive to investors, both the Dow Jones Industrial Average and the Dow Jones Transportation Average should be making new highs, serving to confirm a healthy economy.

#### Behind The Averages

After reviewing the companies in the industrial and transportation averages, it is easy to see why they represent logical vehicles to monitor the pulse of the U.S. economy.

In 2017, our economy is driven by more than just industrial or manufacturing companies. The present day Dow Jones Industrial Average contains traditional producers, such as IBM (IBM), 3M (MMM), Boeing (BA), Chevron (CVX), and Johnson & Johnson (JNJ).



However, the Dow (DIA) also contains Visa (V), Goldman Sachs (GS), and American Express (AXP), since the present day economy relies heavily on the financial sector.

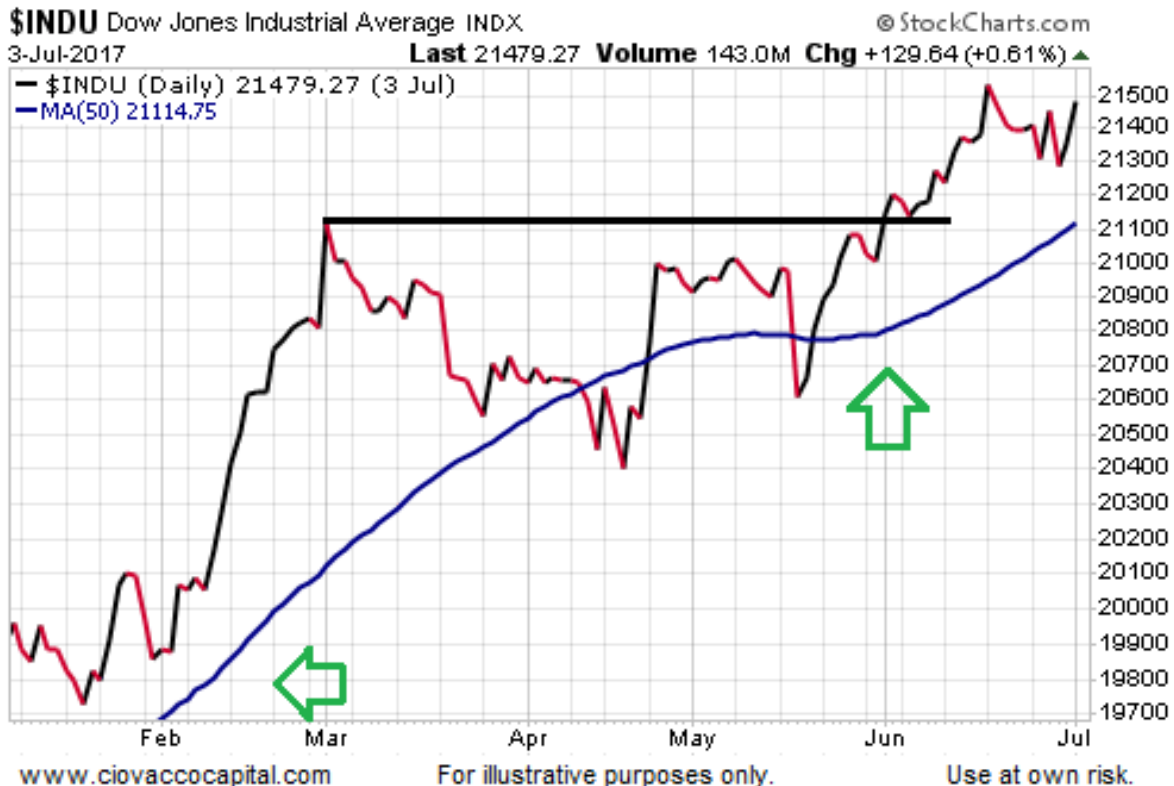
The Dow Jones Transportation Average (IYT) still has railroads, such as Union Pacific (UNP) and Norfolk Southern (NSC), but it also contains more modern logistics companies, such as United Parcel Service (UPS), Fed-Ex (FDX), and J.B. Hunt (JBHT).

## Just Reconfirmed Primary Bull Market

If investors believe industrial and transportation stocks are healthy and, thus, attractive investments, that speaks to demand. When demand is strong, stock prices rise. Despite recent stock market volatility, the Dow Jones Industrial Average broke out and posted a new high in early June.

In the chart below, notice the slope of the blue 50-day moving average; you can compare it to the early stages of a 2011 correction in stocks and to the 2008-2009 bear market later in the article.

## The Dow Broke Out In Early June

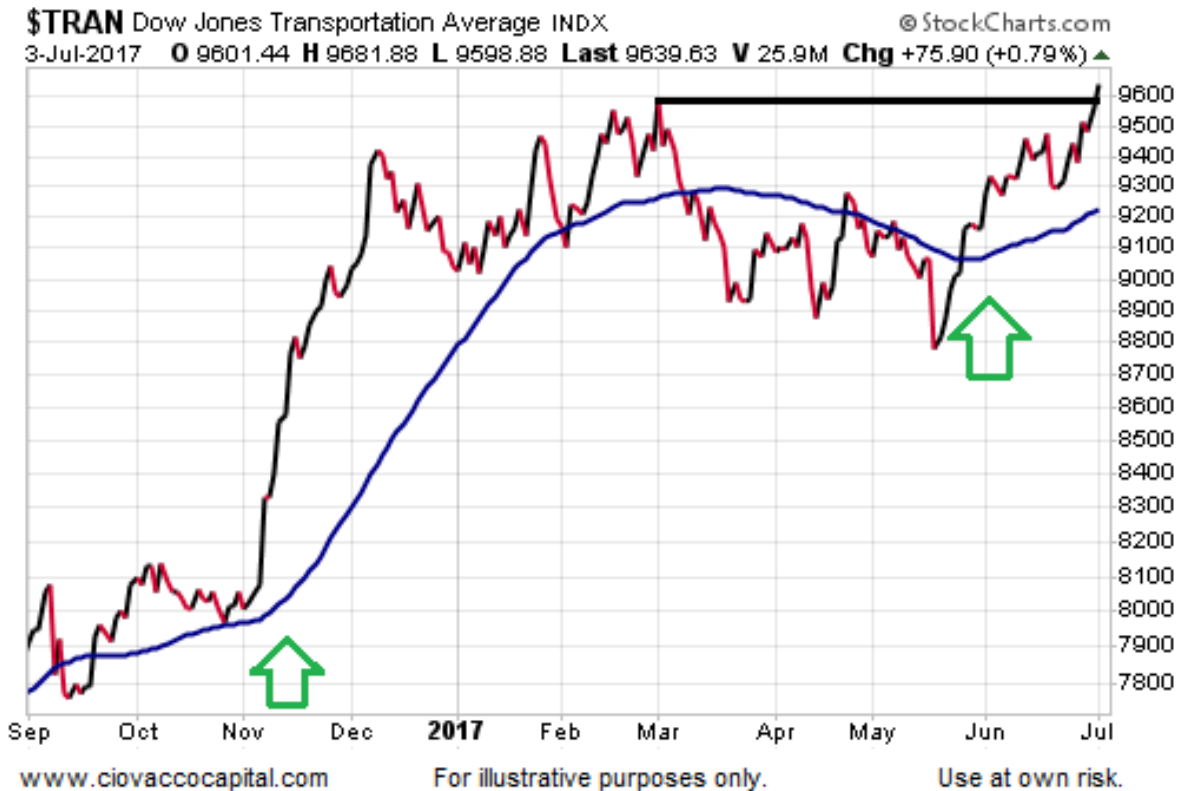


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Similarly, the Dow Jones Transportation Average also posted a new high on July 3. Again, note the look of the blue 50-day moving average.

## The Transportation Average Makes A New High



### How Can Stocks Continue To Climb With Weak Growth And The State Of The World?

This week's stock market video (See the LINK below) addresses two major questions: (1) Is the party ending for the NASDAQ?; and (2) Have stocks exceeded expectations in the past after a period of tepid growth and political instability?

After you click play, use the button in the lower-right corner of the video player if you wish to view in full-screen mode.  
Hit Esc to exit full-screen mode.

BW: The video is 30 minutes in length.

**LINK: <Ctrl-Click>**  
<https://youtu.be/7tR1qHoj5u4>

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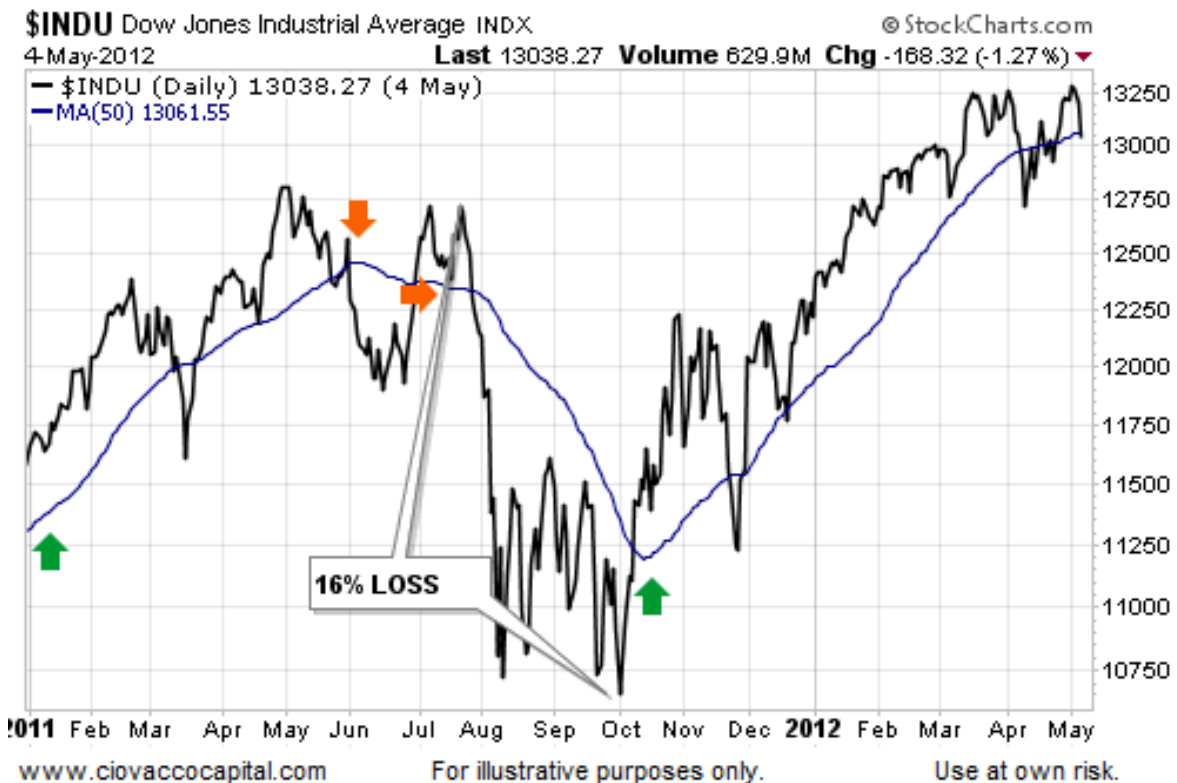
## 2011: How Can This Help Us Manage Risk Today?

If Dow Theory offers a way to monitor the aggregate interpretation of the economy, earnings, and central bank policy, then we would expect charts of the DJIA and DJTA to be helpful in terms of managing investment risk.

Since a picture is worth a thousand words, when the Dow's 50-day MA rolled over in 2011 (see orange arrows below), the index dropped an additional 16%. Notice how the Dow failed to make a new closing high before the big reversal in 2011.

As of July 2017, the 2014 Dow chart looks much better (slope of 50-day is up, recent higher high).

### Stock Market Correction Example: The Dow's chart was waving caution flags before stocks plunged in the second half of 2011.



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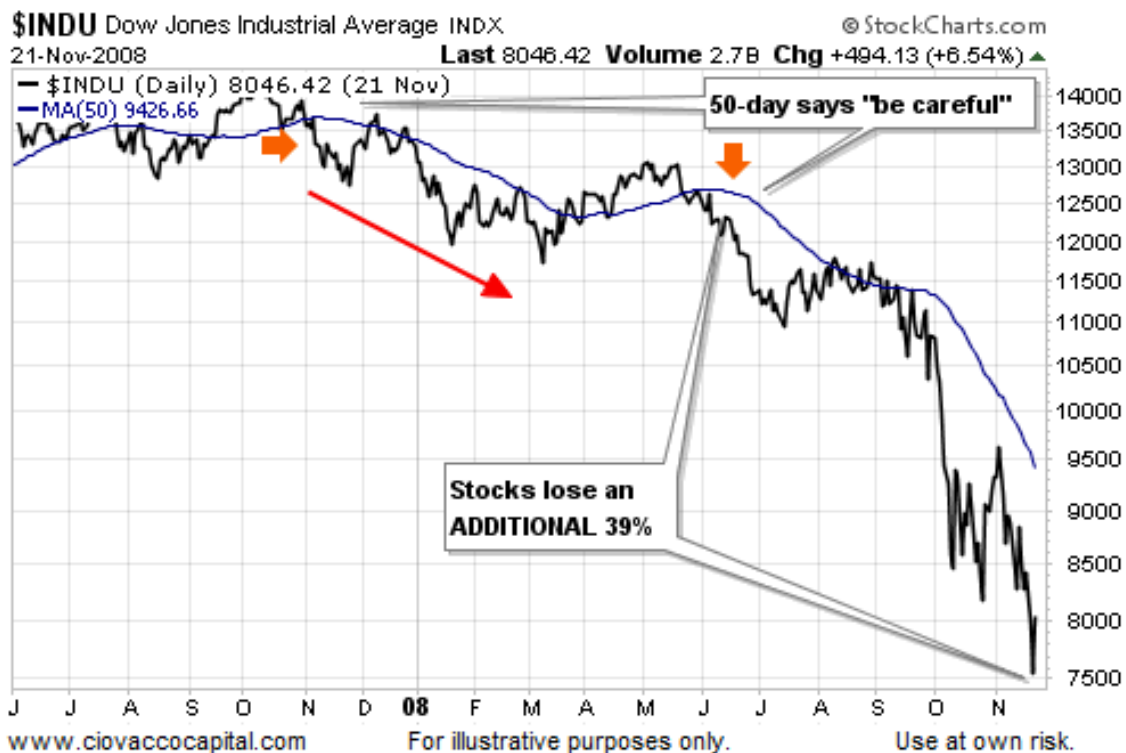


## 2007-2009: Economic Pessimism And Investor Fear

Similar economic warnings came in 2007 and 2008 (see orange arrows in the chart below). Notice during the 39% drop in the Dow in 2008 the 50-day MA never gave a “things are improving” signal, meaning it was helpful from a cash-redeployment perspective. In late 2007/early 2008, the Dow was not making new highs; instead it was making a series of lower lows, which reflected a period of economic pessimism and investor fear.

The 2017 chart of the Dow looks much better, which is indicative of more favorable economic expectations.

### Industrial stocks looked shaky in 2007 and 2008, which foreshadowed the wealth-destruction that was just around the corner.

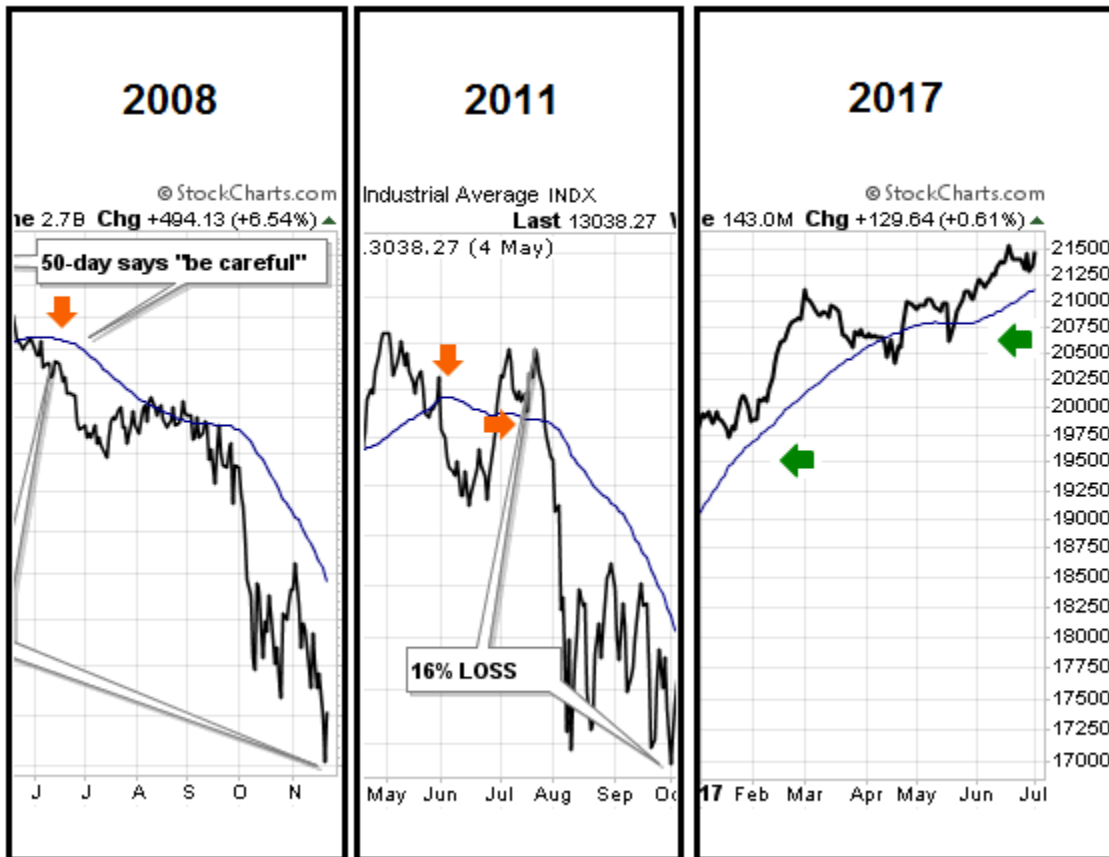


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The differences are easy to see side-by-side. The stronger bullish conviction tells us even if stocks pull back in the short-run, the odds are good that buyers would step in and attempt to test the recent highs. Reversals tend to be a process rather than a one-day binary event. The charts below speak to probabilities.

## The chart of the Dow looks much better in 2017



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## Investment Implications – Time To Pay Closer Attention

Does the recent Dow Theory bullish confirmation mean it is all fun and games for the economy and stock market? No, it simply tells us the market is currently healthy and the next bout of significant weakness is more likely to be a correction, rather than a full-blown bear market.

A correction always remains a possibility in 2017.



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## Biiwii/NFTRH on the Web

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