Biiwii Commentary

***e*Research Corporation** is pleased to provide an article and video, courtesy of Biiwii.com, and written by Chris Ciovacco (link to the Author is provided on the following page).

The article, starting on the next page, is entitled: **"Is A 20% 1998-Like Plunge Coming In Stocks?".**

Biiwii.com was created in mid-2000 solely as a way to help get the message out about deeply-rooted problems about too much debt and leverage within the financial system. The concerns were confirmed and the message proved justified 3 to 4 years later as the system began to purge these distortions, resulting in a climactic washout extending from October, 2008 to March, 2009.

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.

But It Is What It Is: You can access Biiwii at its website: **www.biiwii.com**.

Notes From The Rabbit Hole: You can access NFTRH at its website: **www.NFTRH.com**

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Bob Weir, CFA
Director of Research

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Is A 20% 1998-Like Plunge Coming In Stocks?

By Chris Ciovacco

January 31, 2018

CIOVACCO CAPITAL MANAGEMENT

Facts Instead of Fear

When investors see red covering their screens, it can understandably be unnerving. Since many are comparing the recent move in stocks to the late 1990s (don't include us on that list), a fair question might be:

> After moving up rapidly in 1998, the S&P 500 plunged over 20%.
>
> Is the present day market similar to the peak in 1998?

The chart below shows the four months leading up to the 1998 plunge (see orange box).

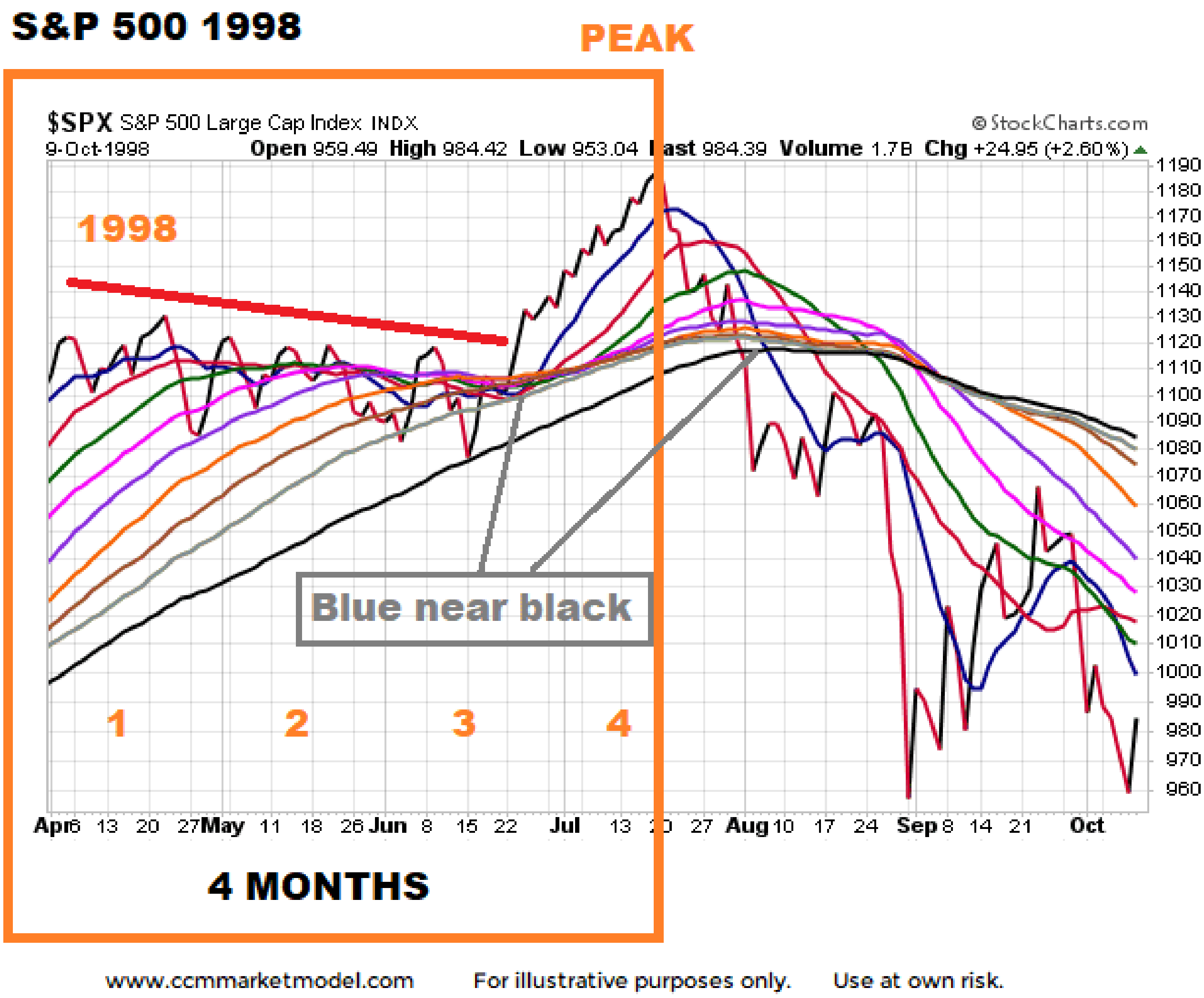
Notice the following:

(a) price was making a series of lower highs for almost three months below the red line,

(b) the fastest moving average (blue) came down near the slowest moving average (black) in June 1998, which is indicative of a weakening stock market trend,

c) after the peak was made, the vulnerable trend allowed the blue moving average (MA) to drop rapidly toward the black moving average, eventually resulting in the blue MA moving from the top of the moving average cluster to the bottom, and

(d) after that point, really bad things happened.


S&P 500 1998
PEAK
$SPX S&P 500 Large Cap Index INDX
© StockCharts.com
9-Oct-1998 Open 959.49 High 984.42 Low 953.04 Last 984.39 Volume 1.7B Chg +24.95 (+2.60%)
1998
Blue near black
1 2 3 4
Apr6 13 20 27 May 11 18 26 Jun 8 15 22 Jul 13 20 27 Aug 10 17 24 Sep 8 14 21 Oct
4 MONTHS
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<continued>

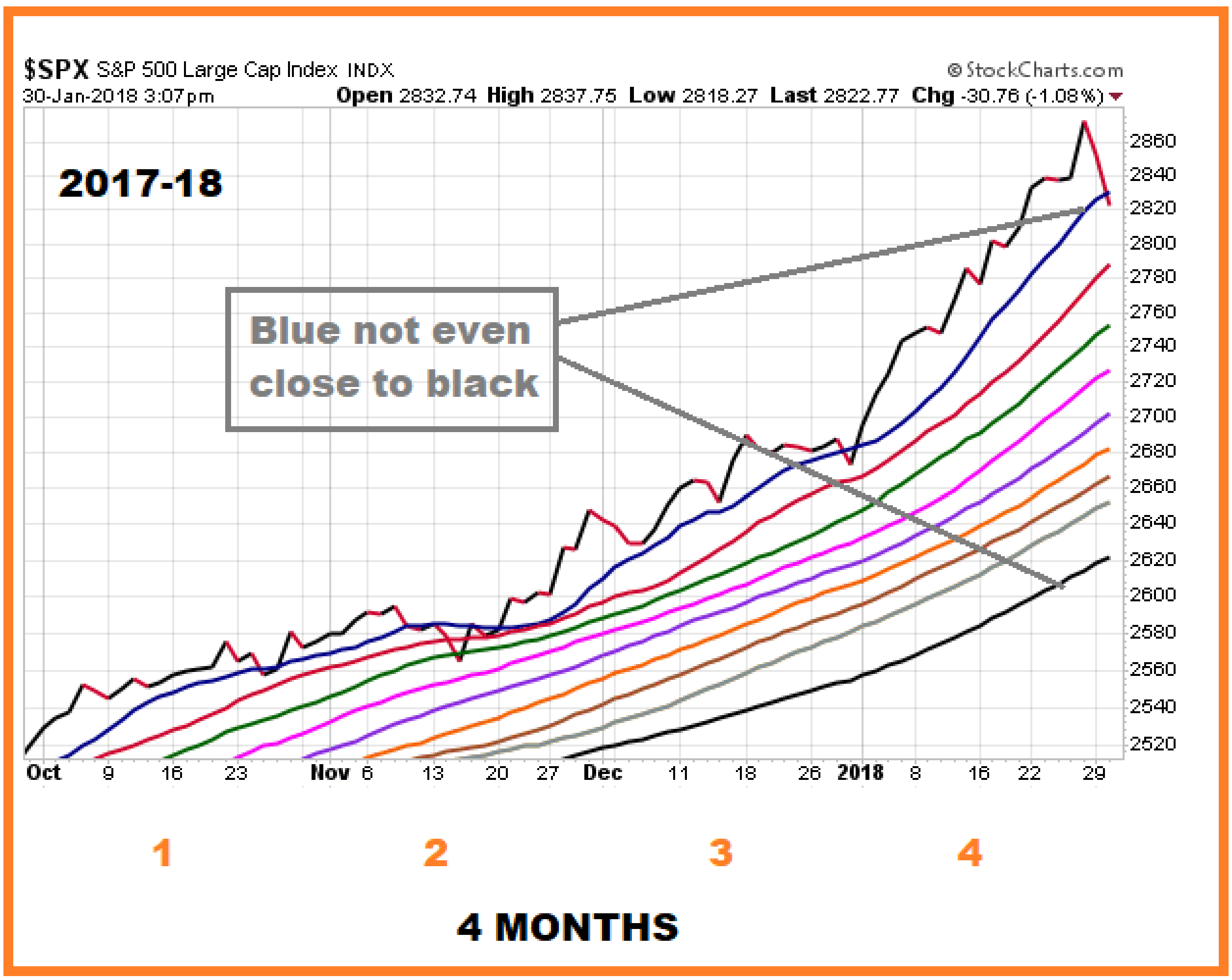
HOW DOES THE SAME CHART LOOK TODAY?

The answer to the question above is “much better”.

Instead of threatening to move to the bottom of the moving average cluster, the fastest moving average (blue) remains firmly on top, which is indicative of a strong bullish trend.

Instead of price making a series of lower highs as it did below the red line in 1998, the S&P 500 has printed several new all-time highs over the last four months.

S&P 500 2018



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MORAL OF THE STORY

While anything can happen in the markets, the present day trend in the S&P 500 has a stronger and more sustainable look than the S&P 500 did before and after the peak in 1998. Strong trends, similar to the one we have in 2018, typically go on to print a new closing high after relatively shallow (2% to 6%) pull-backs.

The comments above are based on the facts we have in hand today. If the data deteriorates in a meaningful manner, we will classify the decline as "volatility to respect" and make any necessary defensive chess moves. Under our approach and based on our time-frame, that has not happened yet and, thus, the normal two-day pull-back falls into the "volatility to ignore" category.

We will continue to take it day by day, monitoring the hard data with a flexible, unbiased, and open mind. If action needs to be taken, it will be taken.

Biiwii/NFTRH on the Web

NFTRH and Biiwii.com commentary and technical analysis have regularly been published, highlighted and/or quoted at SeekingAlpha, Investing.com, MarketWatch, Yahoo Finance, Ino.com, TalkMarkets and many more since 2004.

Biiwii.com is proud to be included in the **50 Blogs Every Serious Trader Should Read** from TraderHQ.com.

Biiwii: but it is what it is

NFTRH: Notes From The Rabbit Hole