Good News and Bad News

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

In this article, Mr. Richards provides a chart that shows the market's long-term (1995-2018) performance and identifies three four-phase cycles.

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/first-good-news/***

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Tuesday, February 20, 2018

First The Good News …

By: Keith Richards (bio at end)

THE GOOD NEWS

I read with great interest a recent report from my favorite market statistician, Jason Goepfert (**www.sentimentrader.com**). Jason points out that the Dow Jones Industrial Average, for which we have data on going back to the late 1800s, has seen only 26 times where the market has experienced similar conditions as of late.

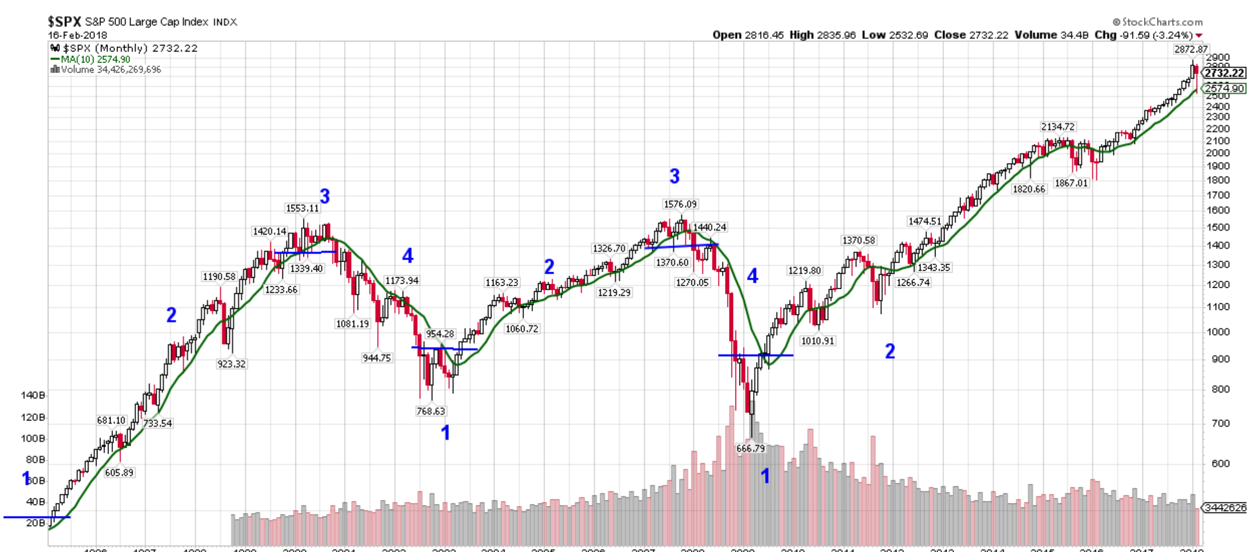
That is, 3 months or longer of no corrections, followed by an eventual 10% correction, and then a 5%+ rebound in the next 5 (or less) days. When one of these moves occurs, such as the recent sell-off and last week's 5%+ rebound, it leads to some upside. Under such conditions, markets tend to follow up with multi-month upside. That is the good news.

THE BAD NEWS

The bad news is that such a pattern often leads into severe bear markets. The market typically succumbs to the bears after 3-6 months of upside. Statistically, the market was (on average) net negative one year later after the 26 occurrences of this pattern.

This ties in well to my theory that we are in the final stages of the current bull market. Call it "wave 5" aka Elliott Wave Theory, or just plain old business cycles. It is likely that the current bull market is growing long in the tooth. I have discussed this potential on this blog a few times, including **last October**.

The chart below is a monthly (big picture) chart of the S&P 500 with the 4 phases of each market numerated on the chart. I have covered how the 4 phases of a market work on **this blog** – and in my book **Sideways**.



According to how I view the cycles of the market (aka the 4 phases), we are still in "Phase 2 bull market" mode. A break of the 200-day (10-month) SMA and a lower low on the chart can suggest the end of the bull market.

It is best to confirm that it stays below that level for the better part of the month. Exceptions to this rule – and even outright head fakes – can occur. The recent bull faked us out in 2010 and 2011. But, most of the time, it is a pretty good way of staying in during the bull markets and getting out before too much carnage ravages your portfolio.

The bottom line: As Yogi says: "it ain't over 'til its over".

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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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