Market Madness

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

In this article, Mr. Richards provides some charts to sustain his opinion that the bull is bloodied but still unbowed.

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Friday, March 23, 2018

Market Madness

By: Keith Richards (bio at end)

Let us get right to the chase. Today's big question seems to be…Are the U.S. trade wars going to be the straw that finally breaks the bull market's back?

That is a big, big question, and, of course, I don't know the definitive answer to that. However, I CAN look at a few charts and reference some of the research I have done on past blogs to provide some level of insight on this question.

First…I want to bring you back to some big picture work that I have done on past blogs. You need to read these blogs to get a perspective on where we are in the investment cycle. I am no guru, but I do feel pretty confident that my bigger picture work is likely going to prove accurate. Some of you know from reading this blog that my perspective is that we are due for a 20%+ bear market correction – quite likely this year. These two blogs provide some insight:

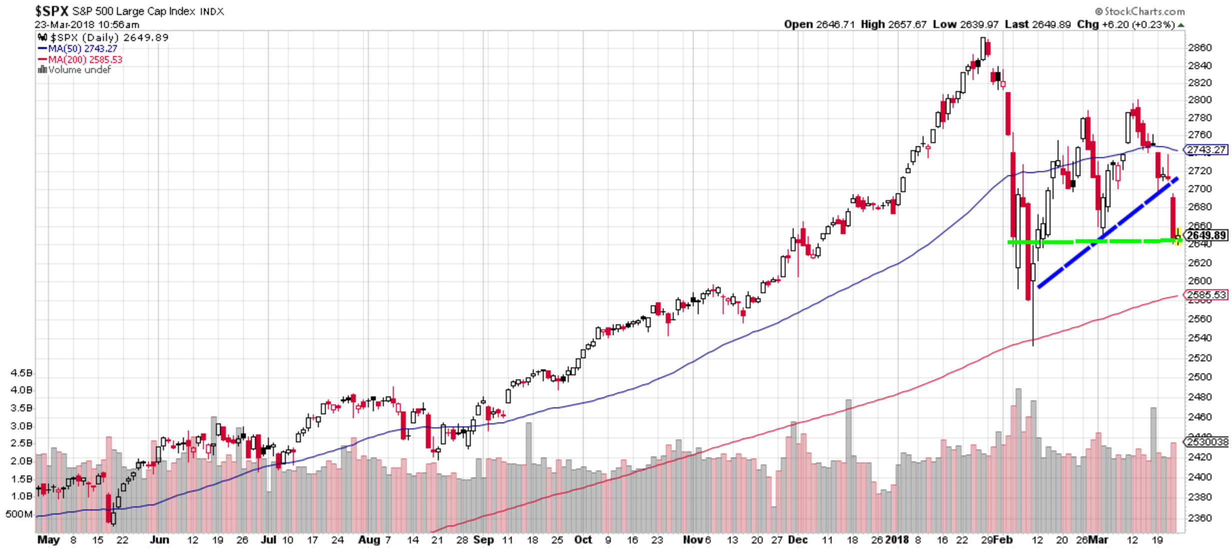
How long can this keep going on?

Armchair Elliott Wave: The macro position of the market

So let us say that you will at least entertain the idea of a bear market correction happening soon (sometime this year or next year). The next thing we need to look at is whether NOW is that time. I will use daily charts for a near-term view on the markets, and I will avoid the use of momentum indicators to keep things tidy and focused on trend.

> BW: Keith wrote this article on Friday morning and the charts reflect stock prices at that time. So the charts do not show the sharp sell-off that occurred on late Friday afternoon, nor do they take into account the sharp rally that has occurred on Monday morning.

SPX- broad market perspective



The S&P 500 is widely followed as a broad market indicator. While not perfect, it represents the trend of the overall market and U.S. large caps fairly well. The recent uptrend on the daily chart since the February correction has been broken. Current support is coming in at around 2650. That level failed today (Friday), but it is only day 1 of a break. If it stays below 2650 we will likely test February's main support low of about 2580. The S&P is still above its vital 200-day SMA (red line) (BW: it closed right on it on Friday, but is well above it again on Monday morning). The picture is neutral to bullish for the index. A break of the February lows could put the S&P 500 below its 200-day SMA. This would be a major concern if such a break lasted more than a few days. We are not there yet, but keep an eye on this potential.

NASDAQ- leadership in a "risk on" index

The NASDAQ contains a greater proportionate weighting in the market leaders (FANGs) than the S&P 500 does. Market leadership by the FANGs will keep this bull market intact. A rotation out of that leadership will likely be the beginning of a bear market correction. Yes, you may see some rotation into defensive sectors, but the influence of the market leaders will put enough pressure on the broader sectors to cause an avalanche. Currently, the NAZ is above its last low of 7100. Rising highs and lows indicate the index is on target to recover from the February lows. The technical picture of this index is, so far, better than the S&P 500. It is well above its 200-day SMA. No signs of a break-down at this point. But that will change if 7100 is taken out by more than 3 days (it is floating around 7100 as I write). Keep an eye out!

Russell 2000 – another “risk on” index

The short-term trend for the RUT is intact. Higher highs and lows suggest it is on track to recovery from February’s sell-off. The old high has not been taken out yet, thus forming a bit of a triangle. Its above its 200-day SMA. Obviously, the market still favors “risk on” – given the superior charts of the NAZ and the RUT. So far, anyway!

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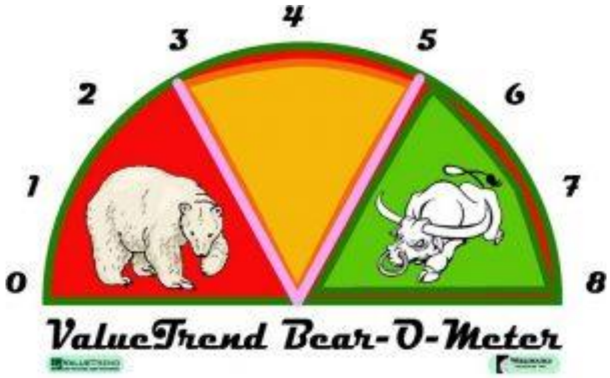
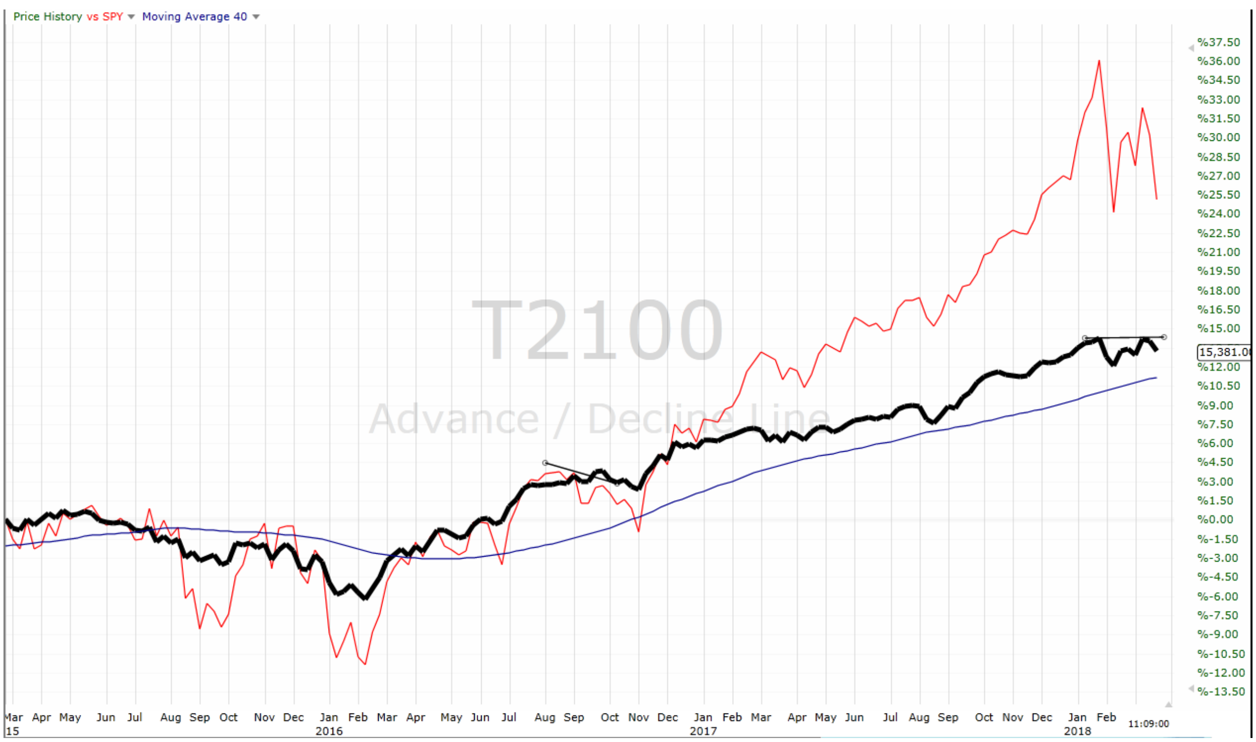
Bear-o-meter – a current risk/reward indication



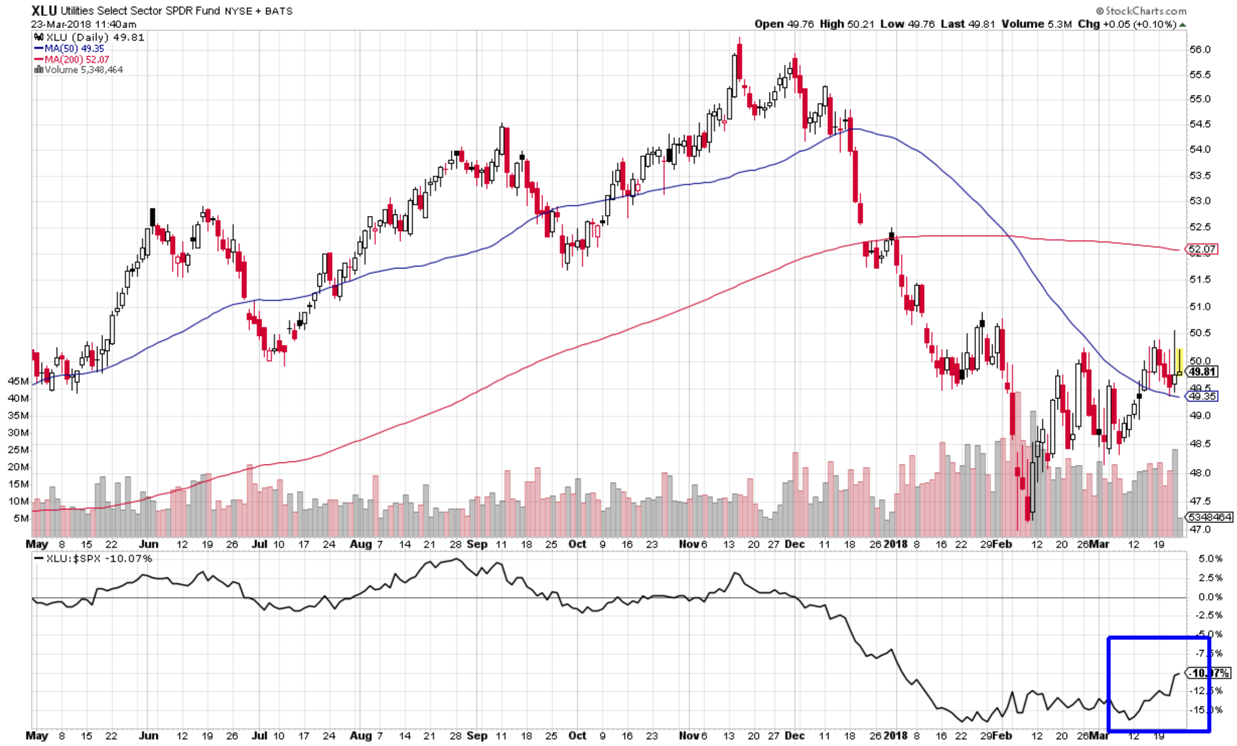
The Bear-o-meter read "6" on March 7th. I blogged on that reading **here**.

It remains at "6" – which is a bullish reading insofar as risk/reward trade-offs. Recall that risk and reward are always present. A high Bear-o-meter merely tells us that ratio is skewed favorably towards reward – although risk remains present. The higher the reading, the higher the potential reward in light of the ever present risk. And vice versa.

Interestingly, despite the similar readings from 2 weeks ago, there have been a few shifts within the positive/ negative readings of the indicators that comprise the Bear-o-meter. For example, the Smart/Dumb money confidence spread (sentimentrader.com) has declined from positive to neutral. But the NYSE Advance Decline (cumulative breadth indicator) is positively diverging vs. the S&P 500. The chart below, courtesy of freestockcharts.com, shows us that the AD line (black) has flat peaks versus the S&P 500's recent lower high. So that is a positive for the market.



There has been some shift into under-performing sectors of late to keep the AD breath indicator on track. One such sector that is seeing some inflow is the utilities sector (XLU). Note the comparative relative strength vs. the S&P 500 (bottom pane) on the XLU chart. I have put a box around the point of out-performance –which is in line with the recent corrective action on the S&P, and the flat AD line indications. Horn-blowing time here: I noted that sector as a potentially positive chart on **this blog** a few days ago.



Conclusion

There are signs to be cautious about, but the bull is not rolling over just yet. That can change, so keep an eye on key support levels.

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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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