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Let The Show Begin

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

In this article, Mr. Richards explains the price movements of the last two major stock market down-drafts in 2010 and 2011, and opines what might occur in 2018.

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/let-show-begin/

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Monday, March 26, 2018

Let The Show Begin

By: Keith Richards (bio at end)

Here is a 20-year chart that I have made annotations on over time. This 'big picture" view shows us that the recent volatility is still just a blip on the radar.

Study the recent short-term corrections like 2010, 2011, 2016 . You will note that they are usually driven by Fed-related news.

My point here is that market corrections (since 2009) of any significance have NOT been led by terrorist acts, political events, or international catastrophes (man-made or natural). We have seen our share of tsunamis, flooding, hurricanes, terrorist acts, Occupy movements, country debt defaults or near defaults, and nuclear bomb threats, etc. None of these inspired a correction of much significance. It has been the Fed, and the fear of (or actuality of) its surrounding decisions, that has moved the markets. Fear of unplugging the stimulus drug drove markets to pull back– not world events, and that is what we have right now – a new Fed regime, and a new hawkish stance. The drug is being unplugged.

So—we have the "Fed-fundamental" factor in place that has, in recent history, helped the market move into corrective or bear market conditions. What about the timing of such a correction? Can chart patterns tell us anything about when a significant (20% +) correction will occur?

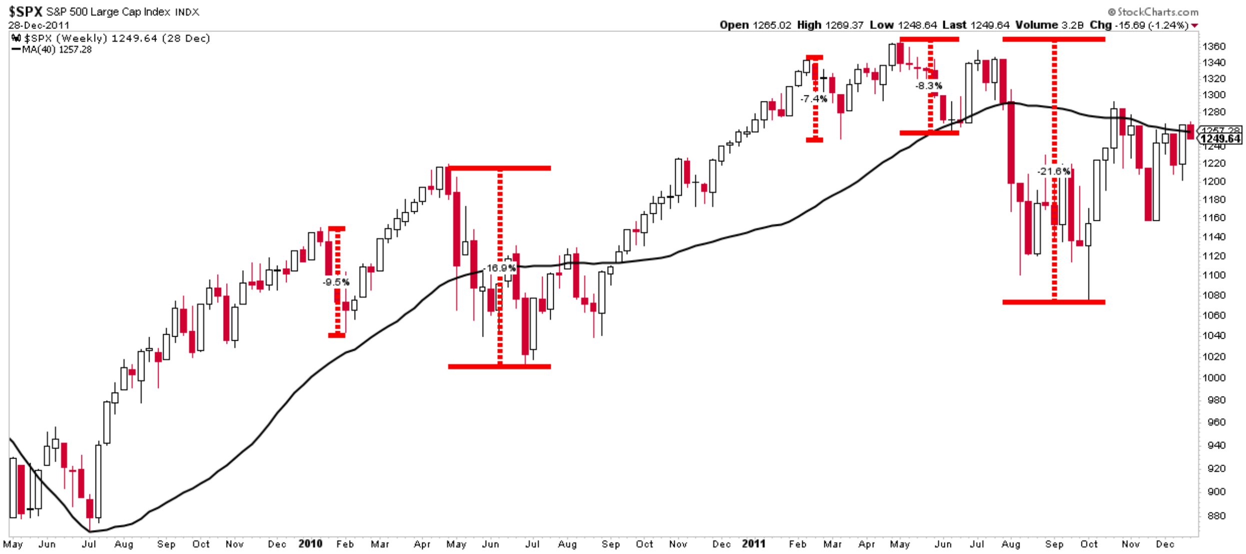
You will note that corrections since 2009 have been led by volatility. In other words, you get lots of chop before the real deal happens.

It is my opinion that we are in the "chop" stage that will lead us into a more significant bear market.

I have noted **[here]** that my view is NOT for a biggie (i.e. a 50% meltdown) like the 2001 or 2008 bear. I am in the 20%-25% bear market camp.

With that in mind – let us look at the price patterns that proceeded 2011. For the record, 2011 was the closest to a "real" bear market correction since the 2009 bottom. For example – 2010 only saw a 17% sell-off and 2016 only experienced a 12% peak-trough sell-off, while we saw a 22% peak-trough sell-off in the summer of 2011.

The chart below shows us both the 2010 and 2011 corrections. As noted above, 2010's correction was some 17% peak to trough, and it occurred that summer. The 2011 correction was a hair under 22% peak to trough, and it occurred over the summer as well, although most of the damage was carried out into the fall.



Note that in 2010, there was an early corrective "setup" move of 9.5% in early February, a rally, and finally the greater 17% pull-back that summer. This was darned close to a "bear market correction" of 20% – so it is worthy of noting despite its failure to enter into the "20%" club.

Similarly, 2011 saw a 7.5% early corrective "setup" pull-back in February, followed by a rally. Only this time, that rally was followed up by another "setup" correction of over 8% in May. The market rallied, and finally pulled back over the summer by 22% – official bear market territory.

Subsequent rallies after each of these "setup" corrections deeked market participants out into buying high again. The pattern was for the markets to see some interim volatility before the real storm hit.

The chart on the next page shows us this year's moves.

As you can see, February once again provided the market with a nice correction (almost 12%). As had happened in those prior years, markets rallied back in early March, although not to prior highs. Then, last week, another correction. It is too early to predict that the market will rally back again, but Monday looks to have seen some strength. (BW: Tuesday did not!)

Conclusion

As market participants, we are all playing a game of odds. The odds are, given my prior noted **high Bear-o-meter reading**, along with seasonal factors and past volatility patterns, that we will see one more rally before the summer.

I will revisit these charts, and my Bear-o-meter, on this blog site regularly over the coming couple of months. It is my opinion that we are looking at a potential summer setup for a deep correction – possibly in line with that seen in 2011.

Don't fight the Fed, and history can repeat itself. Rather than view this potential with dread and fear – you and I can look forward to such a possibility as an opportunity to profit by trading the correction.

Stay sharp guys and gals – this is our moment.

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See **About The Author** on the following page.

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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