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Third Party Research June 27, 2018

Biiwii Commentary

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

The article, starting on the next page, is entitled: **"Moving Averages and Volatility".**

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

Moving Averages and Volatility

By Charlie Bilello

June 27, 2018

The Dow closed below its 200-day moving average this week for the first time in two years.

That ended the longest streak above the 200-day moving average since 1987.

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At 501 trading days, it was the seventh longest run in history.

Dow Jones Industrial Average: Longest Streaks Above 200-Day Moving Average (1896 - 2018)						
Rank	Start Date	End Date	# Trading Days	Start Dow	End Dow	Streak Return
1	2/14/1927	10/3/1929	787	158	330	109.4%
2	12/14/1984	10/14/1987	715	1176	2413	105.2%
3	10/29/1953	5/22/1956	645	276	484	75.2%
4	5/1/1944	7/22/1946	643	137	201	46.3%
5	3/17/1904	4/26/1906	636	48	92	91.4%
6	6/26/1924	3/1/1926	505	95	151	59.3%
7	6/28/2016	6/22/2018	501	17410	24581	41.2%
8	1898-05-05	1899-09-28	418	49	73	47.4%
9	12/21/1994	7/12/1996	401	3802	5511	44.9%
10	11/26/1963	6/8/1965	386	744	889	19.6%
11	7/6/1942	10/6/1943	380	106	138	29.9%
12	8/19/1982	1/25/1984	364	839	1232	46.9%
13	4/30/1958	9/18/1959	351	456	626	37.3%
14	3/19/1935	4/28/1936	336	98	147	49.3%
15	7/24/2006	11/8/2007	328	11051	13266	20.0%
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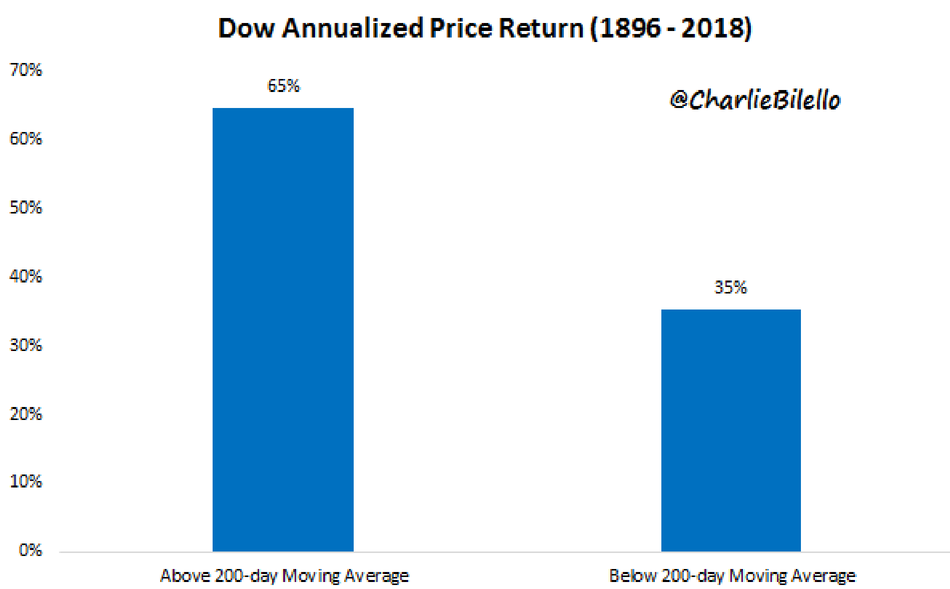
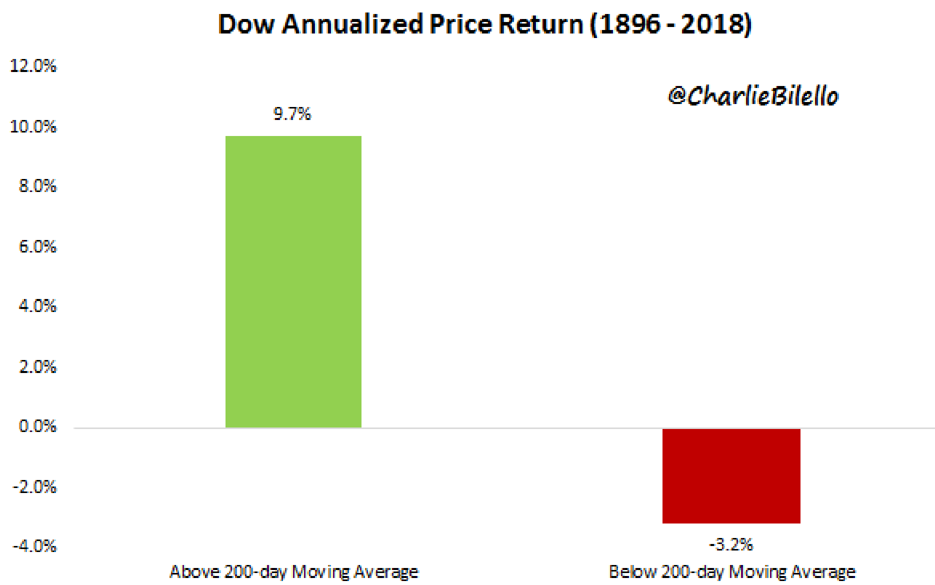
Data Source for all charts/tables herein: Bloomberg, YCharts, Stockcharts.com. Note: all data in this post is price data, not total return.

How common is a close below the 200-day moving average and what has it meant for the Dow historically? Let's take a look…

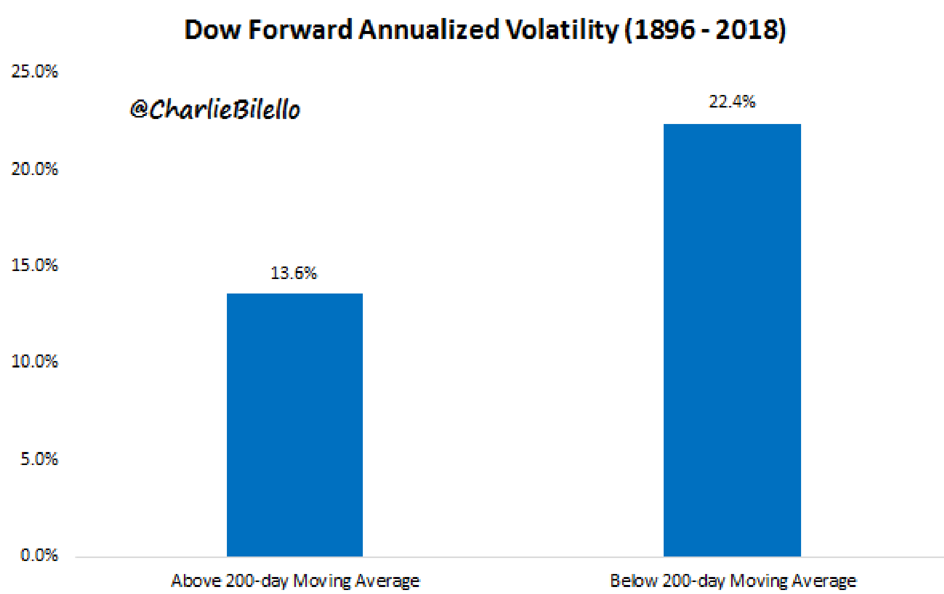
Since 1896, the Dow has closed below its 200-day moving average 35% of the time.



The annualized return of the Dow after closing below its 200-day is -3.2% versus +9.7% for closes above it.



The annualized volatility of the Dow after a close below its 200-day moving average is 22.4% versus 13.6% above it.



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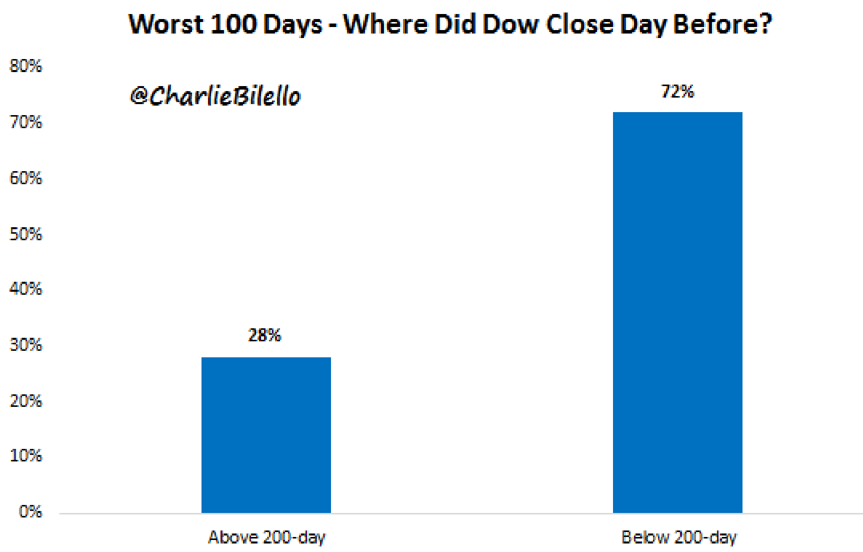
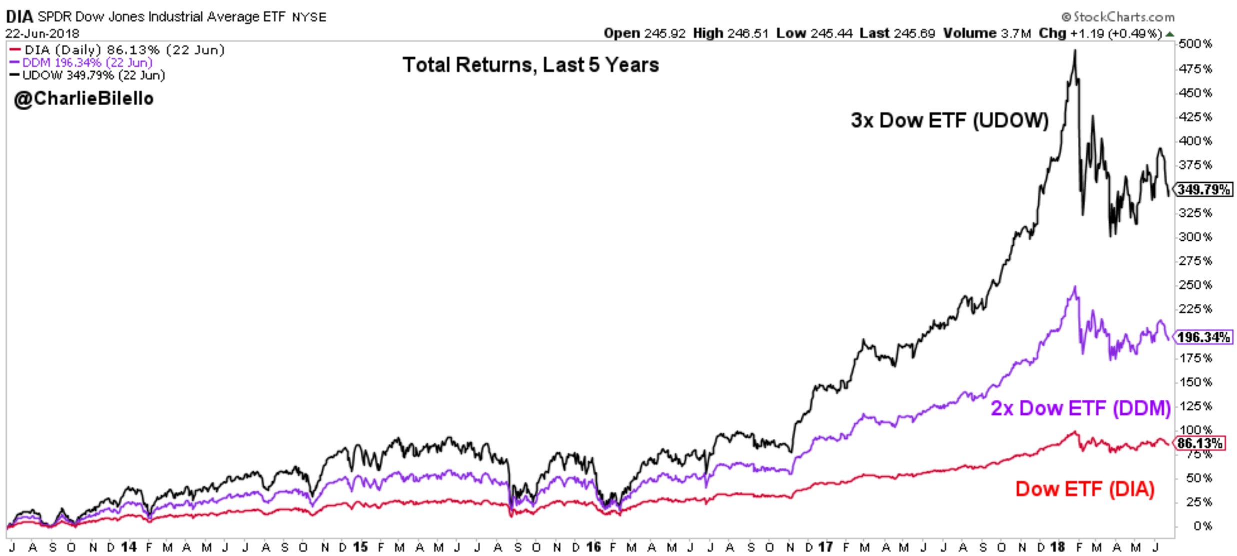
In the worst 100 days in history (declines greater than 4.6%), the Dow was trading below its 200-day in advance 72% of the time.



So, what we find is higher volatility, lower average returns, and a higher probability of tail risk below the 200-day moving average. Over the past five years, we have not seen much of this as the Dow has traded above its 200-day moving average 90% of the time (vs. 65% historically). This has been a boon for leveraged strategies as low volatility environments are the most conducive to using leverage (click here for our research paper on this). The 3X Leveraged Dow ETF (UDOW) was up 350% in the past five years versus a return of 86% for the unleveraged Dow ETF (DIA).



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Are the next five years likely to yield a similar result? Anything is possible but a continuation of such benign conditions seems unlikely.

On that point, the volatility environment already seems to be changing. In 2017, only 5% of days had an intraday range (high to low as a %) greater than 1%, a record low. In 2018 thus far, 56% of days have exceeded the 1% threshold, the highest since 2011.

Dow: % of Days With More Than 1% Intraday Range (1930 - 2018)

Year	# Days With >1% Range	# Trading Days	% Days
2017	**12**	**251**	**5%**
1944	22	251	9%
2013	70	252	28%
1949	73	250	29%
1943	76	250	30%
2014	80	252	32%
1952	80	250	32%
2016	84	252	33%
1945	84	246	34%
1941	98	250	39%
2012	107	250	43%
1953	115	251	46%
1942	116	251	46%
1940	120	251	48%
2015	129	252	51%
1948	129	251	51%
2018	**68**	**121**	**56%**

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Are the halcyon days in markets behind us? I don't know, but with each passing day it has become clearer that 2017 was, indeed, the best of times.

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Biiwii: but it is what it is

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