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Counter-Trend Rally or New Up-Trend? RASI Holds The Key

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan provides a variation, RASI, on his market Oscillator. RASI stands for Ratio-Adjusted Summation Index. Read the article to understand its importance.

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly: <Ctrl-Click> **HERE**

You can also visit the McClellan Financial Publications Home Page at the link below. This is a subscription service, and there are two publications which can be subscribed for: (1) **The McClellan Market Report**; and (2) **The Daily Edition**.

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The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

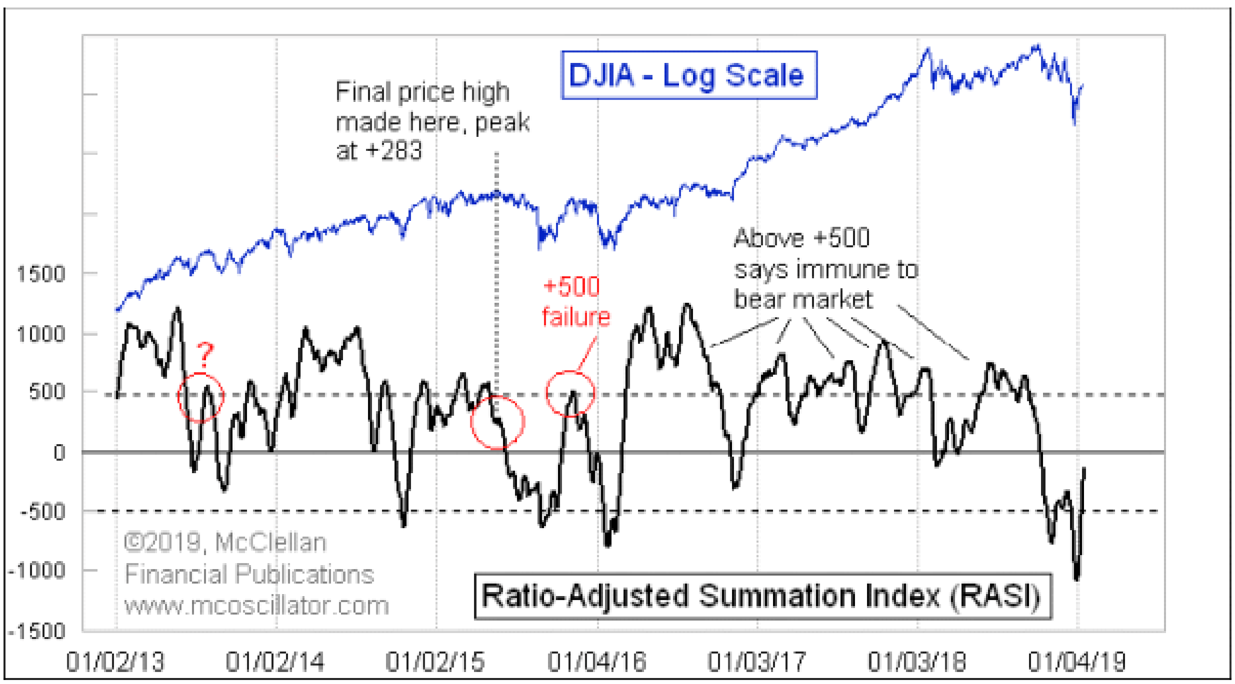
Counter-Trend Rally or New Up-Trend? RASI Holds The Key

"Gobs of breadth is a good thing." That is one of my favorite sayings, and we seem to be getting it since the December 24, 2018 bottom.

When there are multiple days in a short period with really strong Advance-Decline (A-D) numbers, it is a sign of strong liquidity. It is possible to lift a few important stocks when liquidity is tight and the mood swings bullish. But, to lift the majority of stocks takes a much bigger firehose of money coming in. So, when we see a lot of strong breadth numbers, that is a sign that the liquidity flow is healthy.

On January 9, 2019, we saw the raw McClellan Oscillator get up to +354, which is close to the all-time high of +386 it made on January 6, 2009. That all-time high was seen at the top of a counter-trend rally, two months ahead of the final bottom. So, just getting a really high McClellan Oscillator is not necessarily a sign that a new uptrend is starting.

However, a high enough reading on the Ratio-Adjusted Summation Index (RASI) can be that sign. A corrective move will take prices down, and can take the RASI down close to zero or even below. The key then is to see the RASI rise up high enough to say that the new up-move is strong and can achieve "escape velocity".

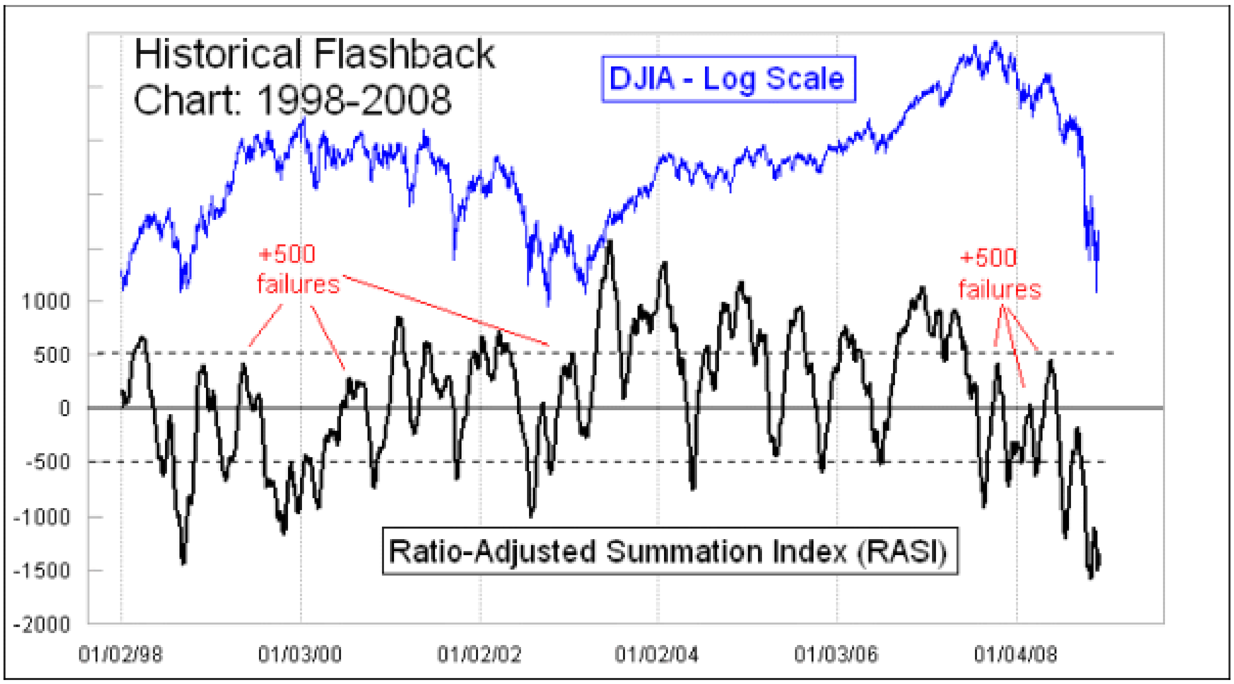


The Summation Index changes each day by the value of the McClellan Oscillator. So if the Oscillator is positive, the Summation Index moves up. If the Oscillator is negative, it moves down, and in increments equating to the value of the Oscillator. It is like integrating the area under the curve, if you can remember all the way back to high school calculus class.

The Ratio-Adjusted Summation Index differs only in that it uses a slightly different calculation method which factors out the changes in the number of issues traded each day on the NYSE. See this article for an elaboration on all of that math.

Whether one uses the raw (or classic) McClellan Oscillator or the Ratio-Adjusted McClellan Oscillator (RAMO), seeing a bunch of positive Oscillator readings means that the Summation Index (or RASI) moves higher. What we have found is that the +500 level is an important dividing line for the RASI, in terms of giving a go/no-go signal about the new uptrend. When a rebound in the RASI occurs and it falls short of getting up to the +500 level, historically that has meant trouble lies ahead. But zooming up well above +500 is a sign that there is a lot of strength behind the move, and the higher it goes above +500, the more emphatic the message of strength.

The RASI right now is at -122, but it is rising strongly and headed up toward that test of the+500 level. (BW: -122 was the close on January 16; it was -27.54 the next day, January 17.) If we keep seeing gobs of positive breadth numbers every day, then getting the RASI up above +500 should be no problem. That was the message we got in the months after the March 2009 major bottom. But on several rally attempts before that March 2009 bottom, the RASI rallied up and failed short of the +500 level.



Failing shy of reaching +500 is a pretty good sign that there are liquidity problems for the stock market. So that will be an important point to watch out for in the days and weeks ahead. If the positive A-D numbers every day keep coming, then that will result in continued positive McClellan Oscillator readings, and a continued rise in the Summation Index.

If you want to watch the RASI for yourself, to see how it does as it approaches the +500 level, you can follow it at this link: http://schrts.co/DhTEqfaT.

Tom McClellan, Editor,

The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is provided on the following page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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