Third Party Research March 12, 2019

Tear Down The Wall!

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

In this article, Mr. Richards views the 200-day Moving Average of the S&P 500 Index (SPX) as the key indicator to watch in order to gauge future market direction.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: **https://www.valuetrend.ca/tear-down-the-wall/**

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Tuesday, March 12, 2019

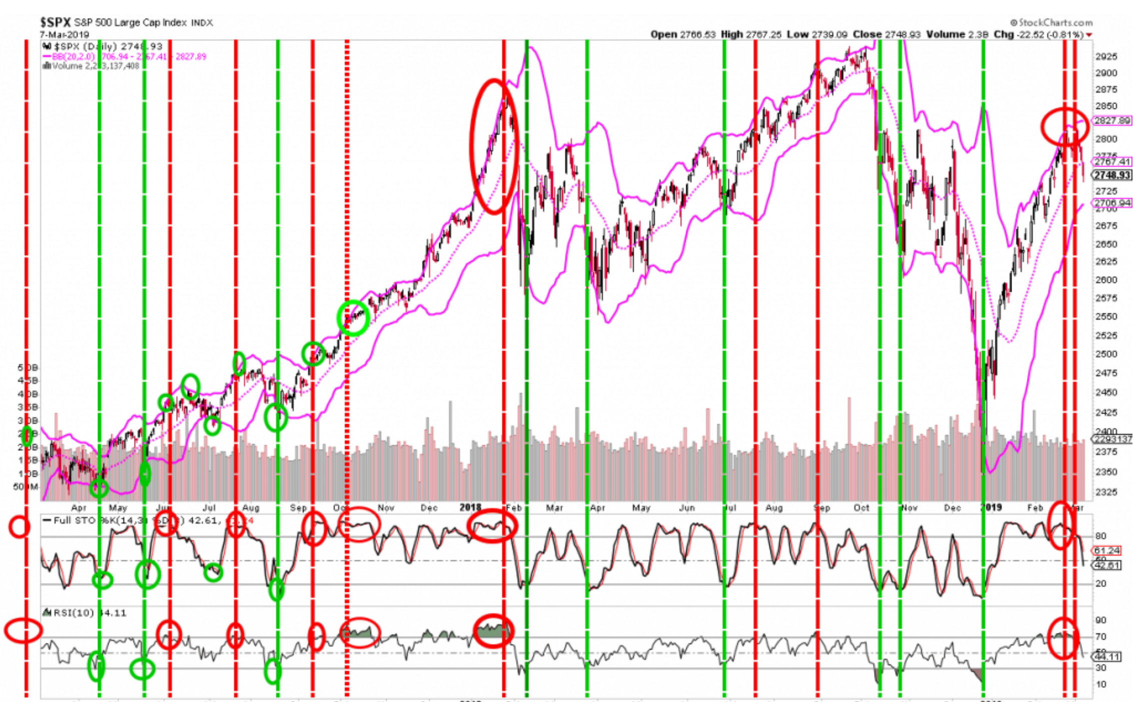
Tear Down The Wall!

By: Keith Richards (bio at end)

If you read this blog often enough, you will have run across a few references to rock 'n' roll songs. I am in my late 50s, so my teen years were in the 1970s—the golden era of rock 'n' roll. Sure, the 1960s had the Beatles, the Stones, the Yardbirds, and others. But the groups that survived the 1960s really hit their stride by the early 1970s. Right around that time, we saw even more talent arrive on the scene with the advent of experimental rockers like Pink Floyd, Led Zeppelin, and Canadian homeboys, Rush.

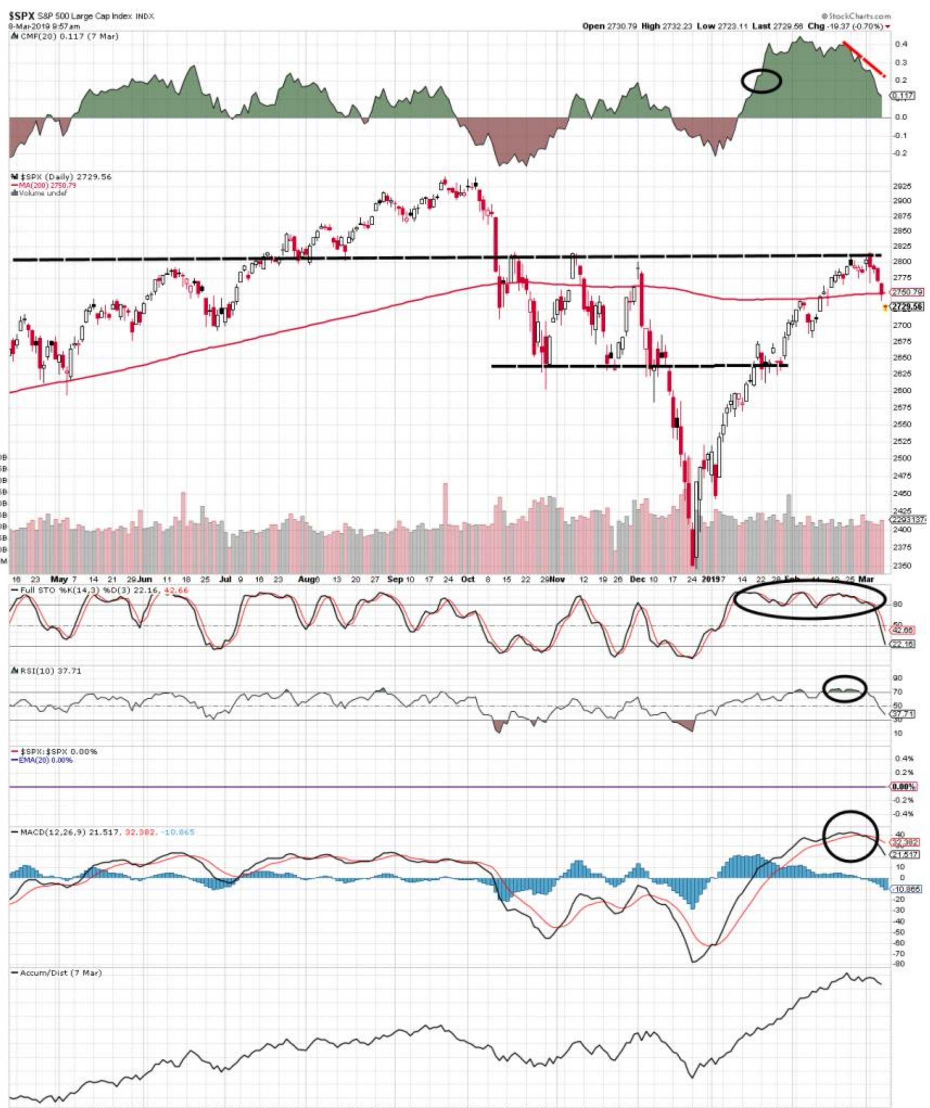
For those who feel the same enthusiasm about the 1970's rock bands as I do—there are some truly iconic albums that we could confidently say that, even after almost 50 years, are still wonders to behold. I could name a bunch of them (including Rush's iconic 2112 – still considered one of the top 20 albums ever made) – but I took today's topic title from Pink Floyd's great progressive rock piece, "The Wall". Forgive my massive simplification of an iconic masterpiece, but I believe the story of the album was that of an individual named "Pink" who suffers depression and builds a wall to keep others out– his inevitable suffering leading to a loss of sanity. So, how does this relate to the stock market?

I have made it fairly clear that the SPX would struggle to get through its technical resistance at 2800. I presented my short-term timing chart, as seen below, and presented a case for a bit of weakness on the SPX on BNN, and on my February 13th blog. Note the two sell signals (dashed red lines) between the last few days of February and the first days of March.



The current picture shows us a few things—keeping in mind that the chart below, like the short-term timing system chart above, is a daily chart. Daily charts are shorter term by nature – making this more of a near-term prognosis. Here is what I see:

- The SPX broke its 200-day SMA on Friday. That is just one day, and I look for at least 3 days to confirm the legitimacy of the break, but it is something to be aware of.
- The SPX hit 2800, and then, like magic, declined. Days before that, the near-term timing indicator flashed two sell signals, per above. Coincidence? I think not…
- Moneyflow –as illustrated by the money-flow momentum indicator (top pane) and cumulative money-flow (bottom pane) is slowing. This means that participation in the current rally is waning.
- While we might expect to see the more whippy stochastics indicator (first pane below price chart) remaining overbought during the entirety of the recent sharp rally, it is more telling to see RSI (next pane down) pull back given its more contained nature. Even more importantly, MACD – which is a much longer-term indicator – is rounding over with a very defined cross through its own SMA. That is a lot more telling than the other two oscillators – it indicates that the current pull-back may go longer.



The Takeaway

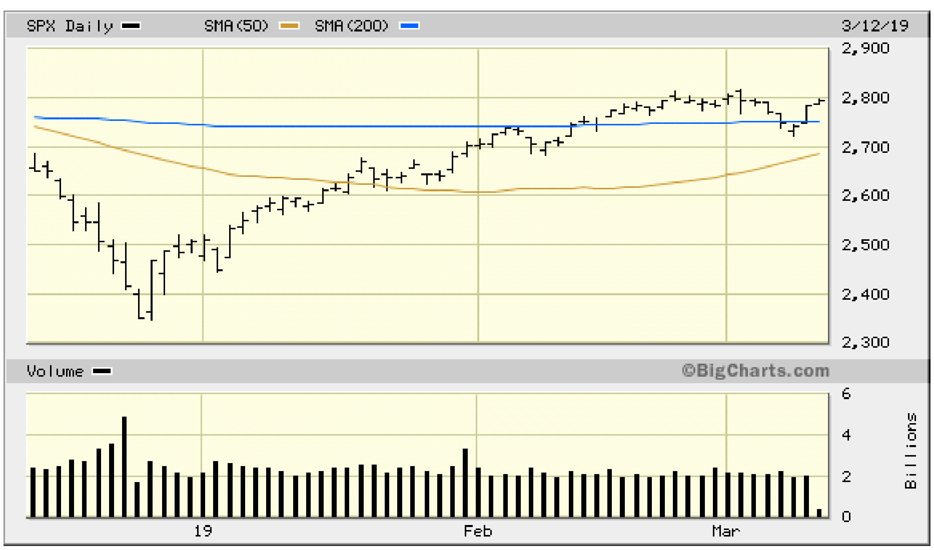
Last week, I noted that the Bear-o-meter had moved into neutral reading, up from a bearish reading. Recall that the Bear-o-meter is a mid-term risk analysis tool. I don't use it to tell me what is going to happen in the next 2 weeks. It is more for a picture of the current market risks, and for some possible predicable edge for the coming months if we have other technical chart patterns becoming more bullish or bearish.

The near-term model operates under a different premise. It is designed to provide very, very near-term signals. If the Bear-o-meter was suggesting higher-risk readings (i.e. 0-3 readings) AND a sell signal came out of the short-term timing system, you may get a stronger down-move than if the Bear-o-meter was in the neutral zone – let alone the bullish zone.

Because the Bear-o-meter is currently in the neutral zone, it does not give us much of an edge in determining how deep the current correction will go. That is why I will defer now to watching the market's activity around the 200-day SMA. If the SPX remains below the 200-day SMA for a few more days—I might be inclined to believe that we might test or penetrate the December 24th lows. However, if the market moves over the 200-day SMA within a couple of days—I am inclined to believe the market will either tread water near 2800, or blast through it to the upside.

Sorry I cannot be more "predictive" than that- but that is the status of things as they are right now. Watch that 200-day SMA – it will be a key component in market direction.

BW: As of Tuesday's mid-morning trading, the SPX is well above the 200-day MA (**blue** line):



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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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