

CHART OF THE DAY

April 20, 2019

Spotlight on : S&P 500 Index

We are starting off this report with a chart of the S&P 500 Index that goes back to 1993.



Observations: Sometimes I find it amazing how perfectly stock chart patterns are so repetitious and predictable. The **BLUE** line shows a Double Bottom that occurred in 2002/2003 and 2009. The **RED** line shows a Double Top in 2000 and 2007. The **GREEN** up-trend line is still intact, even with the sharp decline in December 2018. The **PURPLE** rectangle shows a Double Bottom and a lot of congestion in the 1800-2000 range. The **RED** rectangle shows an ominous possible Head-and-Shoulders Top.

Conclusions: This long-term chart has chart patterns that are similarly long-term in nature. So, the H&S Top will take months to complete and, thus, before we know that a H&S pattern actually occurred.

Now that we have seen the long-term picture, let us examine the Index in a shorter time-frame.

First, a five-year chart, with those same rectangles drawn in:



Observations: Not quite a Double Bottom with the **PURPLE** rectangle, and the **RED** rectangle looks more like an almost Triple Top than it does a Head-and-Shoulders Top, or at least a Double Top unless the current (right-most) trend-line breaks out top-side.

Conclusions: We have to wait until the current trend-line finishes its course of direction before determining whether it is a Double Top, or a break-out to the up-side. It no longer looks like a H&S Top.

Note: Chart patterns are rarely “perfect”, or perfectly formed. Some degree of analyst latitude must be granted in defining chart patterns.

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Here is the one-year chart:



Observations: This chart is an update to the same chart that we published in our last report on the S&P 500 Index one week ago on April 11. See that report [HERE](#). The **GREEN** up-trend line has been broken. However, it is still not that far away from the up-trend line in order to state, definitively, that the up-trend is violated. We use 3% as our confirming metric. The **RED** Resistance line shows a Double Top in late September/early October and the recent rise to almost this horizontal line could be construed as forming a Triple Top. (Remember, chart patterns are rarely exact.) The **BLUE** rectangle represents one logical Support area; there are others.

Conclusions: We will have a closer look at the **GREEN** up-trend violation in the next chart.

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The first chart is for a 6-month period, and the second chart is for 2 months. The **ORANGE** up-trend line is the same for both charts:



Observations: The first chart confirms that the **GREEN** up-trend line has been broken. However, the Index is still close enough to it that it is pre-mature to say, definitively, that the up-trend no longer is valid. We need further confirmation. The **ORANGE** up-trend line that began in the second week of March represents a “first” down-side Support line at the present time.

Conclusions: We need to really get “up close and personal” to be able to assess the near-term strength of the market. So, proceed to the next chart.

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This last chart is for just one month of trading:



Observations: The **ORANGE** up-trend line is as before. This chart shows an ascending Triangle, bounded by the **GREEN** up-trend line and the horizontal **RED** Resistance line, which was subject to an up-side break-out on a Gap higher on April 12. As shown, this Gap was filled on April 18. It is important to fill open gaps as such action is usually required in order to resume the directional trend.

Conclusions: With the April 12 Gap now filled, it is anticipated that, for the near-term, the market will move higher. If we go back to the one-year chart, recall that there was a **RED** horizontal Resistance line that ran along the top of the trading action. This line “topped” out at 2940.91, the Index’s all-time high. We think that there is enough “left in the tank”, at least on present market indicators, for the Index to have a serious run at reaching this all-time high. With nothing above 2941, this “blue sky” scenario would be very positive for the market. If the Index is unable to break through into “blue sky”, then we think the following down-side Support levels could be tested. These Support levels were laid out in our April 11 report (link is [HERE](#)).

Down-side Support levels:

1. 2800
2. 2600
3. 2400

All nice round numbers!

Bob Weir, CFA
Contributing Analyst

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