2019 March Market Outlook, A Focus on Price Analysis

The market is stronger than I anticipated, but as anticipated the market remains in a trading range and headline news has been good and bad, so far. Similar to last year, the markets tend to rally on good news and ignore bad news, until the end of the year or when prices meet up against major resistance areas.

My investment career includes working for a famous managed futures portfolio manager, John Henry. What I learned in the futures/commodities markets is that technical, price analysis is more important than fundamentals. In other words timing your entry or exit points is more important than determining the valuation of an asset. In the same vein, the late Marty Zweig, market guru, used to say “the trend is your friend”, and “don’t fight the Fed”. This is the current story of the markets.

Because the technicals currently are more important than the fundamentals (growth rates, interest rates, profits, inflation, valuations) this article will focus on the technicals.

Price and Technical Analysis
Charts/pictures are worth a thousand words

I co-wrote a free technical analysis course and it covers many of the concepts with lots of real examples that will be written about in this Outlook. I will refer to them below with links to the course. You will probably get spam if you sign up for the course. If you have a good spam filter, you may not receive them. Click here to go to the course.

Below is a chart that shows the market for this cycle, from 2009 to now:

Source: www.erlangerchartroom.com

Here are the important points of this chart:

- This has been a very long and prosperous bull market. This market cycle is the longest in market history with the second best returns.

- This bull market remains intact as long as prices stay above its long-term trendline (black upward sloping line). Over time the trendline will be easier to break below.

- The rectangle areas are where the markets stalled. The first two were caused by international events. The 2011, 2012 stall was caused by the Arab Spring, Grexit and concerns about the vulnerability of the EU, and the Japanese triple tragedy (earthquake, Tsunami, nuclear plant crisis). Markets also stalled from 2014 to 2016 caused by the Chinese shift from an export, manufacturing economy to a consumer based economy. This caused a recession in several countries that supplied China when it was a manufacturing and export focused economy. The market got a second breather thanks to the enthusiasm of the election of Donald Trump as President. Notice all the white candles, bullish, in 2017.

- The market is currently developing a major reversal topping pattern, very bearish. It looks like a head and shoulders topping pattern. More on this below.
  Click here to learn about the importance of major reversal patterns.

Below is a chart of the market and its trading range for close to two years:

Source: www.erlangerchartroom.com

Here are the important points of this chart:

- Long-term support (where selling tends to dry up and buyers come in) goes back to April of 2017 at about 2350. Resistance (where sellers come in/profit taking tends to occur) is around 2940.

- Normally, when support is broken, then that support becomes the new resistance. E.G., when prices broke support (the 2550 area) last December, normally the support becomes resistance. The resistance was easily breached in January. The purple dotted trendlines were broken on the upside and downside. The bottom purple dotted trendline is the medium support.

  Click here to learn more about trends, support and resistance lines including where support becomes resistance and vice versa.

- The new resistance is the 2820 area. The market reached this area nine times so it is an important resistance area. The more times it tests it the more difficult it is to breach. The market was able to break above this resistance last summer, but it was not able to stay above the 2820 resistance area. The market is currently trying to break out again. We look more closely at its current attempt to break above resistance below.

- The solid red trend line is a 200-day moving average, considered a long-term technical indicator. When it moves above prices, the indicator causes a buy signal by traders. When prices move below the indicator creates a sell signal for both traders and investors. Prices broke below the indicator last fall creating a major sell signal on very high volume and red candles. The direction of the trendline is also important. The trend is sideways confirming the trading range market.

  Click here to learn more about moving averages.

- The 50-day moving average is the black trendline and is considered a medium-term indicator. It's created several medium-term buy and sell signals. It is in a bullish trend for now.

- The bottom pane is the choppiness indicator and it helps determine when a trend (bullish or bearish) starts, when the indicator starts falling below the 60 level. A trend is close to exhaustion when it reaches the 30 area. The indicator has not reached these levels in several months also indicates that the current trend is neutral, the market is moving sideways.

- The long-term formation is starting to look like a long-term head & shoulders pattern.

  Click here to learn major reversal patterns including Head and Shoulder patterns. See Head and Shoulders section. Sometimes Head and Shoulder patterns turn into umbrella/rounding tops formation. Rounding tops are explained in the major reversal chapter, link.

- One important tenet of technical analysis is time. Here is what I wrote in our course: "We will also learn that the longer it takes to build a trend, the more important the trend is." This topping pattern took about two years to build and is a major red flag as a major reversal pattern. Click here to read about the six major tenets of Dow Theory. See section 2. The market has three trends.

The chart below shows what happens when markets go up too far too fast:

Source: www.erlangerchartroom.com

This chart is from the start of last year. Below are the important points of this chart:

- As I've explained in previous Outlooks, trend followers, momentum players and high frequency traders jump on trends, bullish or bearish. Once the trend is broken they will start taking profits and the trend will reverse and they will normally jump on the reversed trend. These type of participants dominate the markets. Investor like me who focus on valuations and long-term prospects normally don't pursue these short-term trends.

- The chart shows how prices accelerated until it went parabolic in January of last year. Parabolic moves are not sustainable like most things in nature.

  The acceleration from black sold line to dashes to a dotted trendline is called fanning. I don’t explain fanning in the course.

- When you see parabolic moves, it is normally a sign of speculation. The almost 90 degree trendline will be easy to break causing a sell signal, so these speculators will take profits or sell to minimize losses. Once a trendline is broken, it creates a sell signal for traders.

  Click here to learn more about what happens when a trendline is broken. See Retracement Section.

- Notice that the market was about 24,000 in late November, early December, and the market peaked around late January at about 26,600. It took about 2 months to make the climb. What the market made in 2 months’ time is lost in about one week. Behavioral Finance, teaches us when prices are rising, dopamine (also known as a gambler’s high) is released into the brain. When participants lose money, cortisol (a flight or fight hormone) is released. Participants flee, sell irrationally. People losing money and cortisol are more powerful than making money and dopamine.

- A lot of damage had been done. There is supply, sellers who bought at 25,000, 25,500, 26,000, 26,500, and also those that have profits will probably sell at higher levels. It will take time and lots of money for prices to reach the old high, or to make new highs and resume this long-term bull market.

Here is what I wrote in February of 2018:
“If prices don’t recover to its old highs, prices will probably trade between the high of about 26,500 to support 23,700, making a topping formation, the last stages of a market cycle.”
This outlook has basically been correct one year later. Click here to read my February 2018 Outlook. See the Technical/Price Analysis section.

The chart for the next rally and reversal last year is below:

Source: www.erlangerchartroom.com

Below are the important points of the above chart:

- Once prices bottomed in March and April of last year, the market stages an impressive rally. The rally did not go parabolic and was more sustainable.

- Prices did break above the old high, the 2875 area (black trendline), but it was not convincing. After the first break above, prices did pullback to the trendline (where resistance is now support). The move above was also not impressive and the breakout proved to be a false breakout.

To determine if a breakout is real or suspect, [click here]() and go to the Breakouts, Break Downs, Filters section.

- Once support is broken profit taking and selling occurs. Also the fundamentals (rising rates, overvaluation, rising oil prices) and bad headlines (trade wars, rising rates, higher oil prices, slowing global economy, Brexit) start to be factored into the markets.

- From peak to trough, prices collapsed from 2940 to about 2350, close to 20%. Not shown, prices broke key support levels including 200 and 50-day moving averages.

Below is a chart of the current rally:

Source: www.erlangerchartroom.com

Below are the highlights of the chart:

- At the end of last year the markets were oversold and undervalued.

- Since the beginning of the year the market has been in a bullish trend

- The ascension of the trend was parabolic and would be hard to maintain.

- There was resistance at the 2670 but prices were able to break through that resistance and the rally resumed at a slower pace.

- A few weeks ago, the market did see some selling as it met up against resistance and the trendline was broken. The *60 Minute* interview with Fed Chair Powell did bring back the bulls the next day.

- As mentioned above, there is major resistance at the 2820 level. Once again, the markets are struggling to break above long-term resistance.

- Prices once again tried to rally above the long-term resistance, but headline news of slowing global growth caused strong selling as indicated with the big red candle. It's sill possible that prices could reach the old highs, but there are not enough catalysts to sustain a move past the old highs. It is also possible that prices test the lows of late last year and break below. The market would then enter a bear market, technically. A recession and declining earnings would end this long and prosperous bull market cycle.

Other indexes are struggling to make new highs. Below is a chart of the QQQs. Most of the QQQ stocks are technology companies and they have been the leaders of the market for the last few years.

Source: www.erlangerchartroom.com

Below are the major points that this chart is displaying:

- The QQQs are also building a major reversal pattern, and it looked like it might be a head and shoulders pattern. As mentioned above some head and shoulders morph into other topping patterns. The QQQs could be developing a bowl shaped/umbrella topping pattern.

- The topping pattern support level goes back about 1 ½ years. The momentum of this index was much stronger than other major indexes. Prices maintained their bullish trend by the rising bottom line indicating that participants were "buying the dips". Prices accelerated in April of last year.

- Prices did break below the trendline and the market collapsed into a technical bear market, down about 23%.

- Similar to the most indexes and stock at the end of last year prices were oversold and undervalued. The market rallied off this low, but the rally went too far and too fast. If prices break the accelerated trend line, this current rally could end.

- The choppiness indicator in this chart is close to 32 (30 indicates the trend is close to running its course.)

Below is the Transportation Index.

Source: www.erlangerchartroom.com

The Transportation Index is also trading sideways.

Here is an excerpt from our course about the Dow Index and Dow Transportation Index: **4. The averages must confirm each other.** The averages that Dow talked about are the Dow Industrials Index and the Dow Transportation Index. The tenet states that you can't have a significant change in a trend develop unless both indexes give a signal of change. The change/signal does not have to happen on the same day and sometimes can lag from days to months. The theory is that if one of the averages is divergent then the trend or the change in the trend is suspect.
Click here to read about the six major tenets of Dow Theory. See section 4. The Averages Must Confirm each other.

The rally of the transports was weaker than the QQQs and SPX. This year's rally is probably over as the trendline has been broken.

The strongest patterns are safer, dividend paying stocks like utilities. Below is the utility stock index:

Source: www.erlangerchartroom.com

Safer dividend stocks like utilities have been the leaders for most of this cycle's bull market. These type of stocks remain in bullish trends. The rising tops and bottoms trendlines tell us the trend is bullish, as long as prices stay above the long-term trendlines.

Summary

- At this point in this late cycle, the technicals/price action is more important than the fundamentals.

- When a parabolic, steep trend line is broken, just as fast as it when up it can go down.

- Most indexes are stuck in long-term trading ranges.

- Most of the indexes (excluding safer, dividend paying stocks like utlilities), are making major topping reversal patterns and are red flags.

- We can expect the current rally to reverse.

- If you're a trader, you can trade support and resistance levels

- If you're an investor, you should consider using rallies to sell into to raise cash and be ready for the next bull market.

In a few weeks I will issue my normal monthly Market Outlook with the bullish and bearish case, valuations, and the sentiments/psychology of the markets and a current technical analysis of the markets.

If you would like help, a second professional opinion on your portfolio, holdings please contact me at the email below. I do provide a free two hour consultation including a technical, fundamental review of your key holdings.

Contact me at danhassey@yahoo.com.