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Peaking Action A Technical Perspective Vol. X

"No doubt you're asking yourself, what are hatches? And how the heck does one go about battening them down?"

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The Short Term Perspective

From a short term perspective we see plenty of reasons to be concerned. Traditional indicators such as breadth, volume and momentum all are waning or have rolled over. Rallies are being met with increased selling pressure. MOMO stocks are losing their luster. Market leaders are falling out of favor. The narrative appears to be changing, albeit very slowly. But none of this will matter unless the bears can back up these technical warnings with real price action. So, what exactly do the bears need to do? To start we would like to see a break down beneath both the 200 day moving average and the 50 week moving average (see page 2). The 200 DMA cuts at 2070.25. The 50 WMA cuts at 2053.75. Just beneath these levels we have the neckline of a potential head and shoulders top (see page 3). The neckline cuts at 2034.00. See a break beneath the neckline as step two. But are the bears capable of taking out support? After Tuesday's reversal we see no technical reason why they should not be able to get the job done. If 2070.25, 2053.75 and 2034.00 can be broken, the next step down would target 1951.75-1934.00. Given the opportunity, I suspect the bears will be able to quickly fill the void between these support clusters.

The Long Term Perspective

From a long term perspective we are a far from confirming a top in price terms. If we use our standard .236 rule of thumb to signal a top a close below 1787.50 would be required. In technical terms we are not far off. To jeopardize the up trend the bears simply need to a take out two major trend lines. The first is the long term upward sloping trend line connecting the major lows on the weekly 14 bar RSI (see page 5). Back in 2000 and 2007 this was the first sign that trouble was brewing for the bulls. The second trend line that must be broken is the horizontal support line on the monthly 14 bar RSI. Like a break down on the weekly RSI, a break down on the monthly RSI also preceded the market collapse in both 2000 and 2007. Suspect the technicals will break down before the price.

2000 or 2007 ?

As we noted in the last volume of this series, it took over two years to form a technical top in 2000. In 2007 it took days. So, are facing a situation like that of 2000 or 2007? At this point I believe the next top will fall somewhere in between. With the Fed dragging it's feet when it comes to raising rates and decreasing it's balance sheet, it could take several more months before we get a break down on the longer term technicals. However, once the Fed signals the end is nigh I suspect the pace of peaking action will accelerate rapidly.

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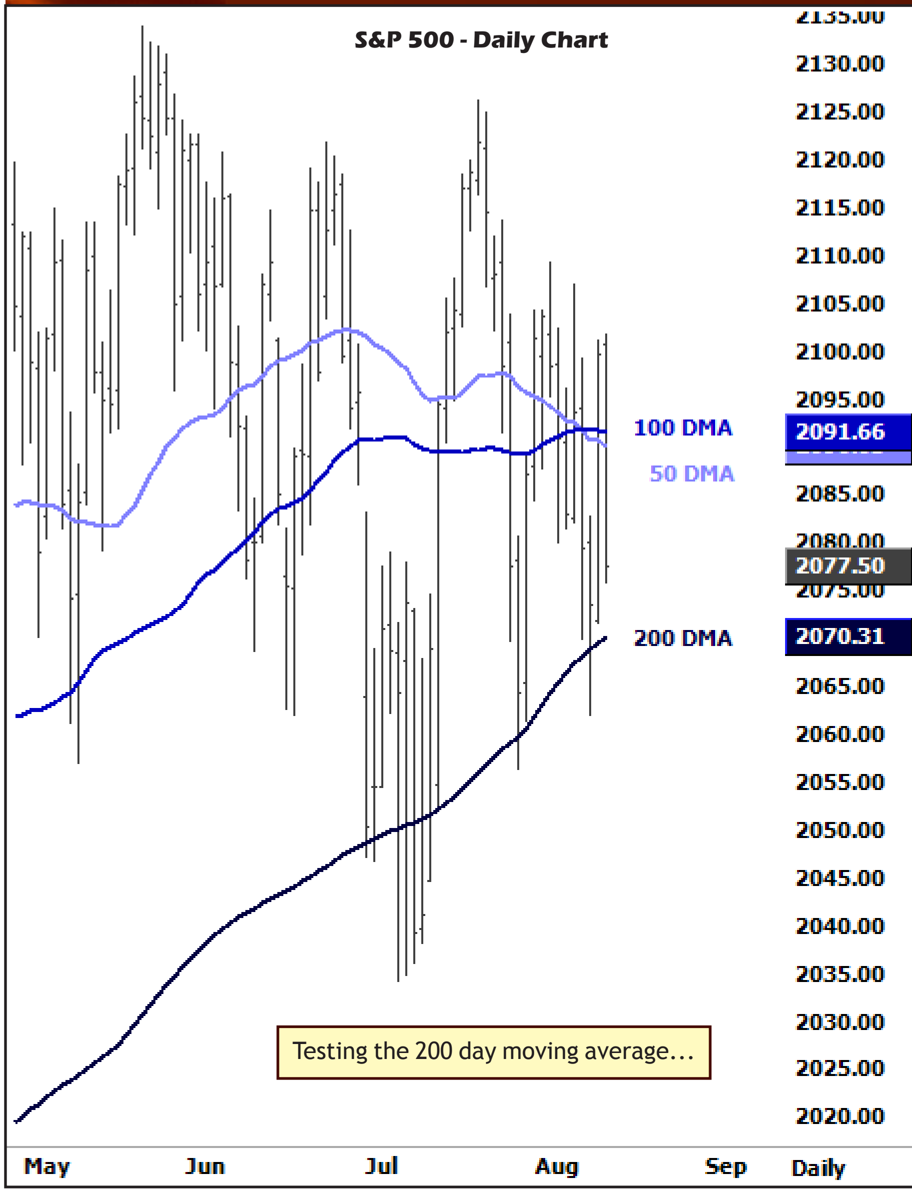

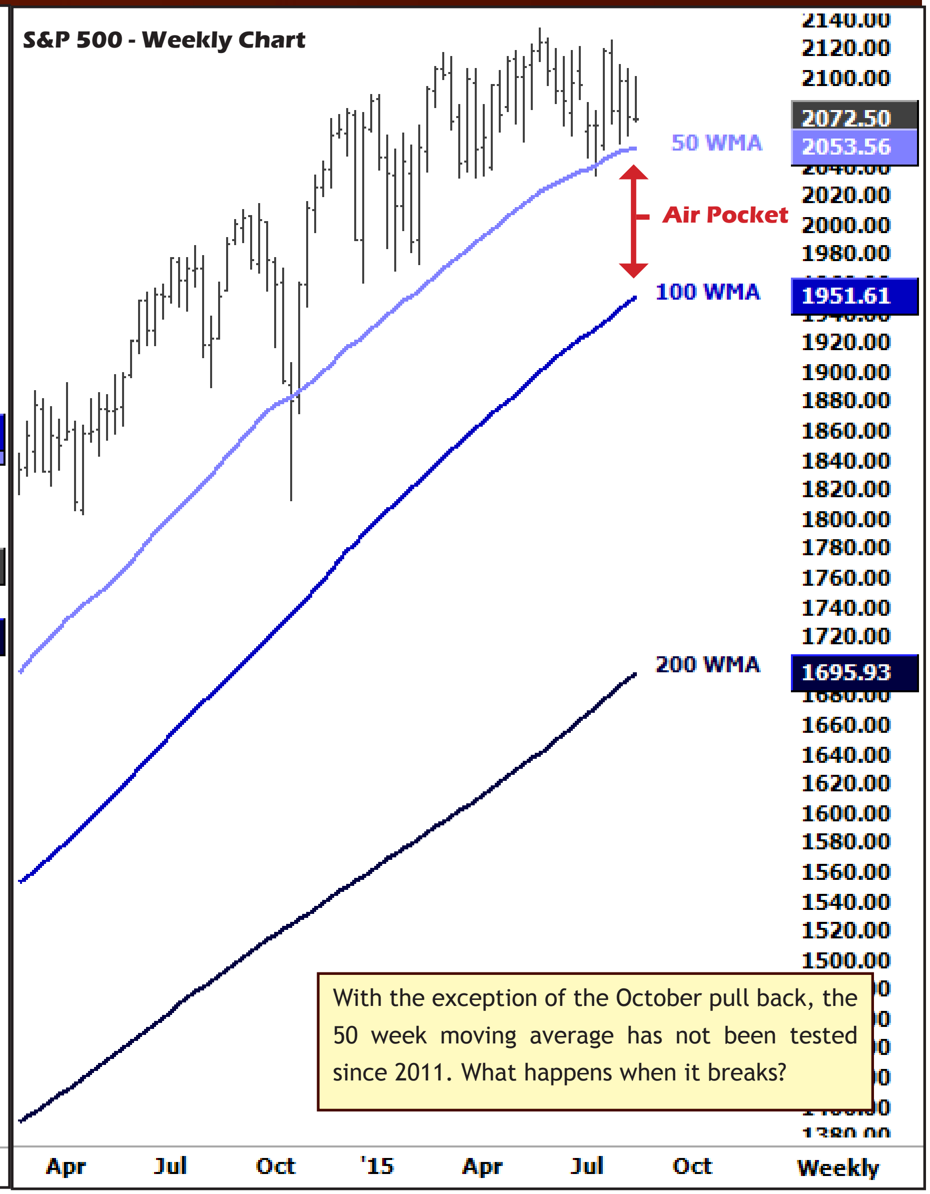

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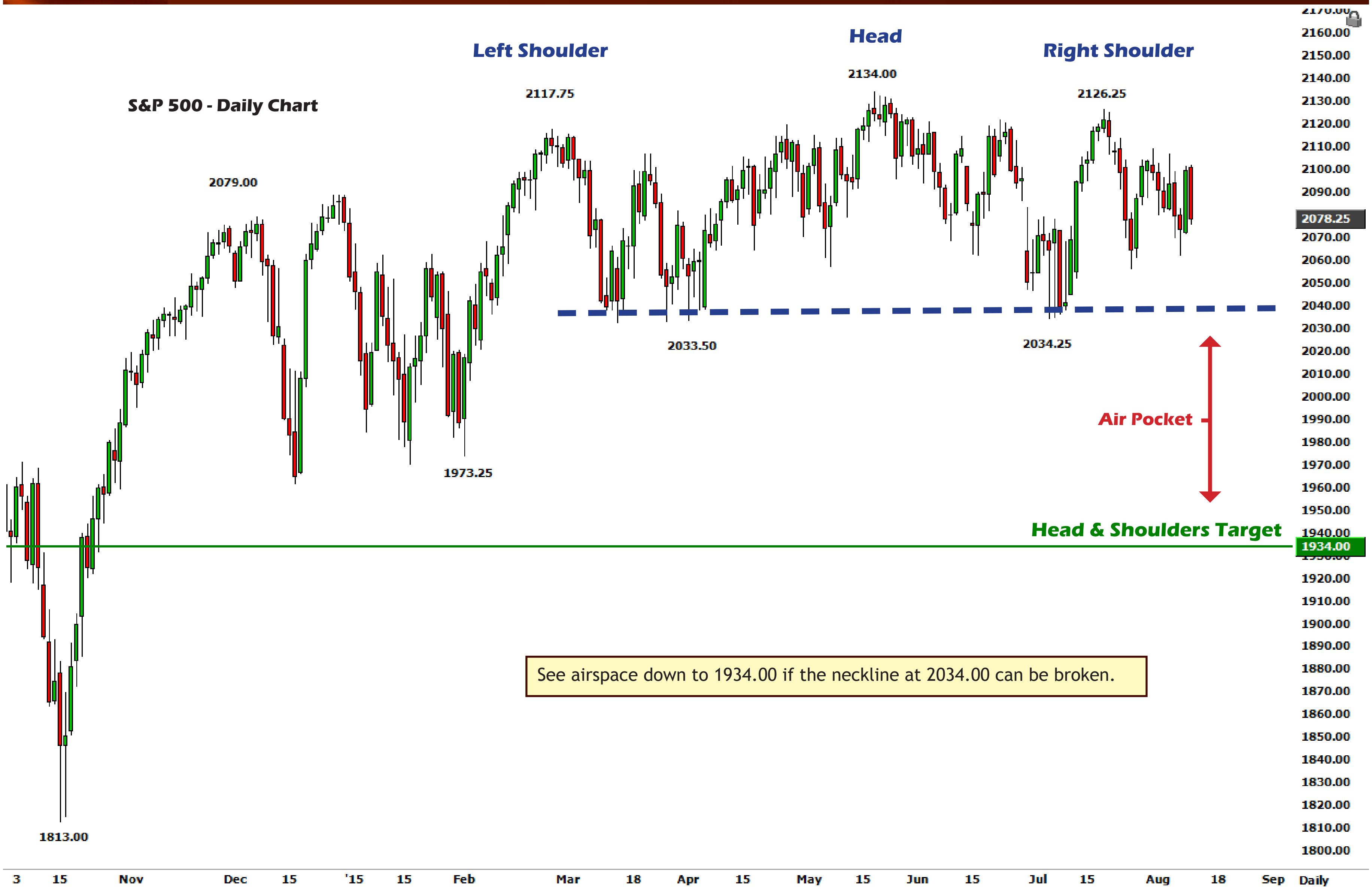

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