

United-ICAP

the technical advisory service

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Peaking Action - An RSI Perspective Vol. IX

Wednesday

01 July 2015

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

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Background

For the better part of the last two years I have chronicled the risk for a major top in the equity markets from a purely technical perspective, specifically the weekly 14 bar RSI reading. Our last flirt with a potential breakdown was back in October. But the bears failed to get the job done. Once again the weekly 14 bar RSI for the S&P is approaching its long term up trend support line. As such, it is time to revisit the case for major peaking action from a technical perspective.

Summary of Contents

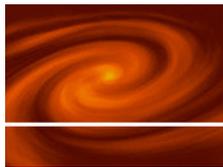
Page 3 - We have regularly highlighted the rising wedge pattern that has contained the S&P since mid October. Although on a less frequent basis, I have also highlighted the triangular shaped pattern that has contained the daily RSI reading since that October low. It very much looks like the triangle has finally resolved. And the break has been to the downside. In fact, not only has the daily RSI reading broken the lower bounds of this triangle, the lower bounds has also turned from support to resistance. From a short term perspective this suggests further weakness.

Page 4 - Here we update the status of the weekly 14 bar RSI from previous volumes. As one can clearly see the weekly RSI is now testing the long term up trend support line connecting the prior lows. While the significance of this trend line is not visible on this chart we know from prior history that similar trend lines have been a very useful tool predicting a major trend shift, most notably during the equity collapses of 2000 and 2008. As I have stated before, a break beneath this up trend support line is not enough to signal a trend shift is taking hold, to confirm the trend is now down this line must turn from support to resistance.

Page 5 - On this page we focus on several indicators that in the past have been useful in identifying major trend turns. At the top of the page we have a monthly chart of the S&P. Below that (from top to bottom) we show the monthly 14 bar RSI, the monthly MACD and the monthly DMI and ADX readings. This offers another perspective as to where we stand in terms of the peaking process. From this chart we know the tech bubble took over two years to form a top, the RSI broke down first in August of 1998, the MACD followed in August 1999 and the DMI and ADX marked the final nail in the coffin for the bulls in November 2000. In the housing bubble the breakdown was almost instantaneous as all three of these indicators rolled over simultaneously in December of 2007. So, what is the current state of affairs? At present the MACD has rolled over, the RSI is testing key support and the DMI/ADX is still in bullish territory. From this perspective the bears still have their work cut out for them.

Closing Thoughts

I believe that we are in a bubble. I believe it is a matter of when, not if the bubble will burst. At present I see many signs that tell me a defensive stance is warranted but I do not have enough evidence telling me it is time to take aggressive action. Our suggestion, have a plan in place and be prepared to act when the time is right.



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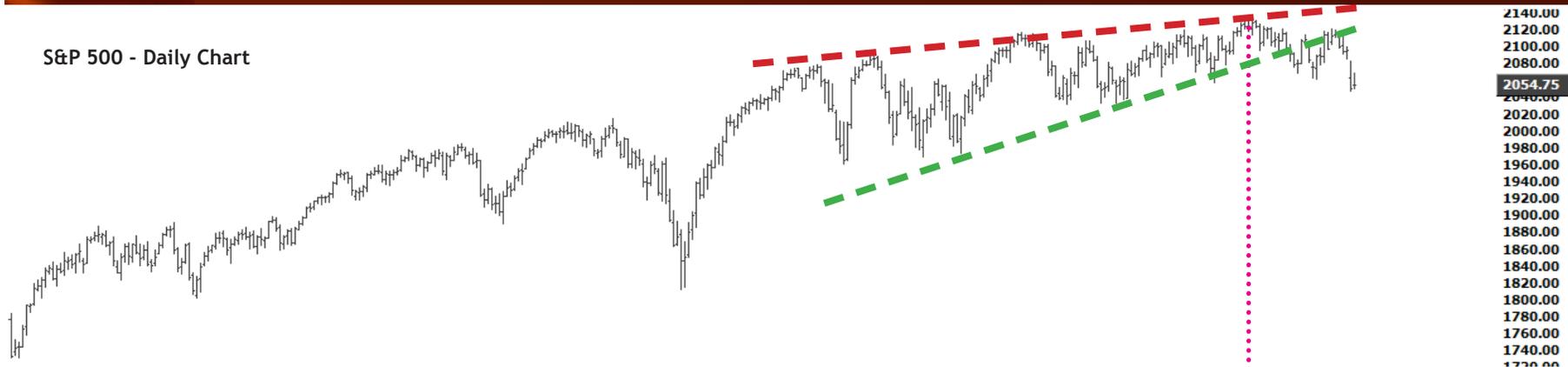
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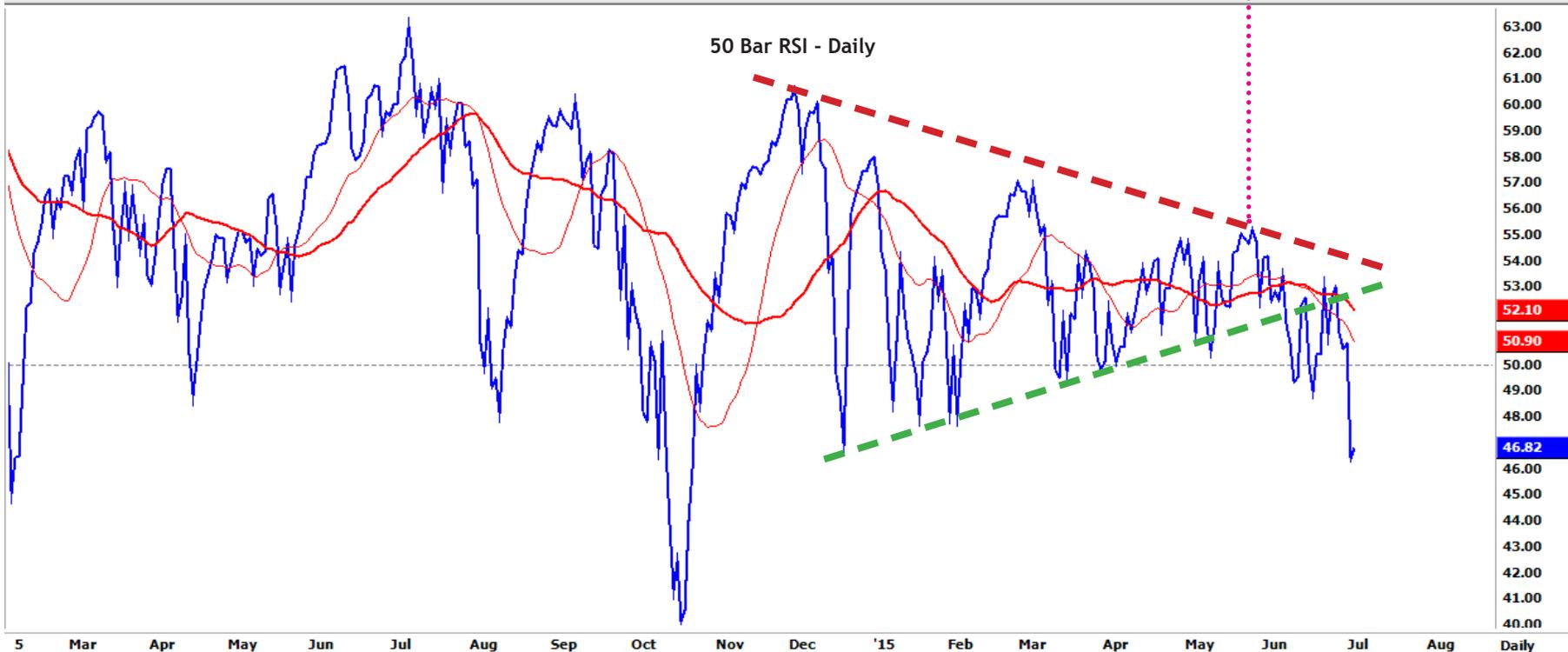
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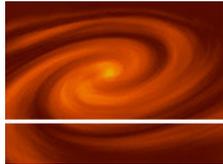
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S&P 500 - Daily Chart



50 Bar RSI - Daily





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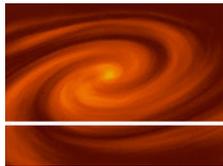
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S&P 500 Weekly Chart



14 Bar RSI - Weekly





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