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STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

Confusion

BULL OR BEAR?

Keith Richards

Back in the late 1990's, I wrote my final exam for my CMT designation. One of the questions on that exam had a chart of the DJIA with relevant volume, candlestick bars, etc. The exam asked for the student (me) to provide an analysis on the DJIA with some potential projections. It's funny when I look back at that moment, because up until the exam, I hadn't noticed that the Dow looked to be in an expanding pattern. Yet, there I was in the middle of the most important exam of my professional life – and I'm suddenly realizing that the Dow was demonstrating an expanding pattern! Thus, I wrote an entire breakdown of the evidence to that observation and my projections for the Dow. That expanding pattern – so suddenly recognized in the middle of a classroom examination – correctly predicted the 2000 – 2003 bear market.

If we look at the current DJIA chart on the following page, we will see an unclear picture – insofar as an expanding pattern. The most recent high – set earlier this year – is NOT higher than the high set last October. This probably negates the potential of the Dow forming an expanding pattern

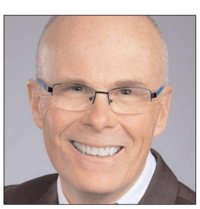
However, if we look at the chart of the S&P 500, it would appear to be in an expanding pattern – albeit a rough one. The SPX put in a high that was marginally ahead of the October 2018 high. So it qualifies as an expanding pattern, but barely. The NASDAQ composite also had a marginally higher high in May – qualifying it to be in a rough expanding pattern as well.

So too does the TSX 300 – in fact, it looks to be the best example of this pattern amongst our three examples

Expanding Patterns

All of these charts do show expanding volume for the initial 2/3rds of the pattern – which tends to be one of the signs of the "legitimacy" of most price patterns. For those interested, expanding patterns are actually kind of rare. They are considered to be bearish predictors. My theory behind their bearish predictive powers is this: If the market is progressively swinging so wildly from bullish to bearish – it is a sign of confusion. Such a pattern – when it occurs at the end of a long bull market (such as it did in the late 1990's – and today) often leads to a bear market. Market participants are telling us, through their paranoid bull/bear swings, that they question the continuation of the long bull market. They are confused. No confidence = no bull market.

However….I wouldn't take this observation as a sign of my conviction that we are at the end of the bull market. Mostly, that's because the expanding pattern



Keith Richards is a Portfolio Manager at ValueTrend Wealth Management. Sponsoring investment dealer: Worldsource Securities Inc. Member: CIPF and IIROC. He provides commentaries on equity markets and stocks during television and radio interviews and is a frequent guest on Business News Network. He also writes a monthly business column for Investor's Digest of Canada.

krichards@valuetrend.ca.

doesn't seem to be expanding in new highs as aggressively as the pattern typically displays. Also– the timing of the pattern, if it is indeed "legitimate", might be not right. We're about one decade into the current bull market from the 2009 lows of the last bear market. The 100 year Dow chart (not shown) shows us that it's usually about 20 years from trough to peak for bulls. So it seems premature that this bull market has ended – making me less convinced that it has. This offers a bull some comforting historic evidence for a continuation of the current bull market.

The end of the Bear?

The only evidence that might suggest the potential of the current bear market coming to an end is the observation of the parabolic markets in 2017 (which I ranted on endlessly on my blog whilst it happened!!). A parabolic move is one where the market moves sharply up on the back of a concentrated group of stocks. In 2017, that group was the technology stocks, including the FAANG's (Facebook, Apple, Amazon, and Google). History shows that every major bear market (late 1920's, late 1990's, 2008-9) was proceeded by such a parabolic move on the back of a concentrated group of stocks. So, if you are a bear, you might offer some evidence for your case by that parabolic move. And there is that rough looking expanding pattern….! ▼

I'd love to hear your take on all of this. Are we in for a storm, or is this just the pause that refreshes? Please feel free to join in on the conversation by visiting my blog at www.valuetrend.ca. The blog can be accessed by clicking

on the "SmartBounce Blog" icon. Each week I post two blogs on subjects concerning the markets and the technical outlook for stocks and sectors.

Keith's next BNN television appearance is on Tuesday July 16th, 6:00pm. Keith appears regularly on BNN Bloomberg MarketCall to answer viewer questions on the technical analysis of stock trends, and to provide unique insights on the factors of technical analysis used in successful investment management. (Note: Times and Dates may be subject to change)

If you have questions about the technical analysis of stock trends for individual stocks, be sure to phone in with your questions for Keith during the show. Call Toll-Free 1-855-326-6266.

Or email your questions ahead of time (specify they are for Keith) to marketcall@bnnbloomberg.ca

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Keith Richards, Portfolio Manager, can be contacted at krichards@valuetrend.ca. He may hold positions in the securities mentioned. The information provided is general in nature and does not represent investment advice. It is subject to change without notice and is based on the perspectives and opinions of the writer only. It may also contain projections or other "forward-looking statements." There is significant risk that forward looking statements will not prove to be accurate and actual results, performance, or achievements could differ materially from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements and you will not unduly rely on such forward-looking statements. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness. Before acting on any of the above, please consult an appropriate professional regarding your particular circumstances.