Rambus Chartology

Moving forward

Weekend Report…

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In the Wednesday Report we took a good hard look at the INDU which is showing us a very bullish picture for the long term. One of the most important aspects to trading the markets is to know what the major trend is, either up or down. Trading against the main trend can be done, but it's much harder to do vs going with the main trend that is in force.

For instance, if you short a bull market and the bull market keeps going up against you theoretically you can lose more than your initial investment if you keep paying the margin calls. On the other hand if your buy point is off in a bull market, the bull market will eventually save you as it makes higher highs. It's a simple concept to understand but hard to enforce when the inevitable corrections come into play.

Anyone who has shorted the INDU for instance, and hasn't covered their shorts yet are underwater, and with the breakout move last week the pain is now getting pretty extreme. They have to decide on whether to cover their shorts for a loss or pay their margin call. Being short in an impulse move up is the worst possible scenario to be in. The same thing can be said about buying long in a bear market. It can be done, but you're constantly pushing against the headwinds instead of going with the natural flow.

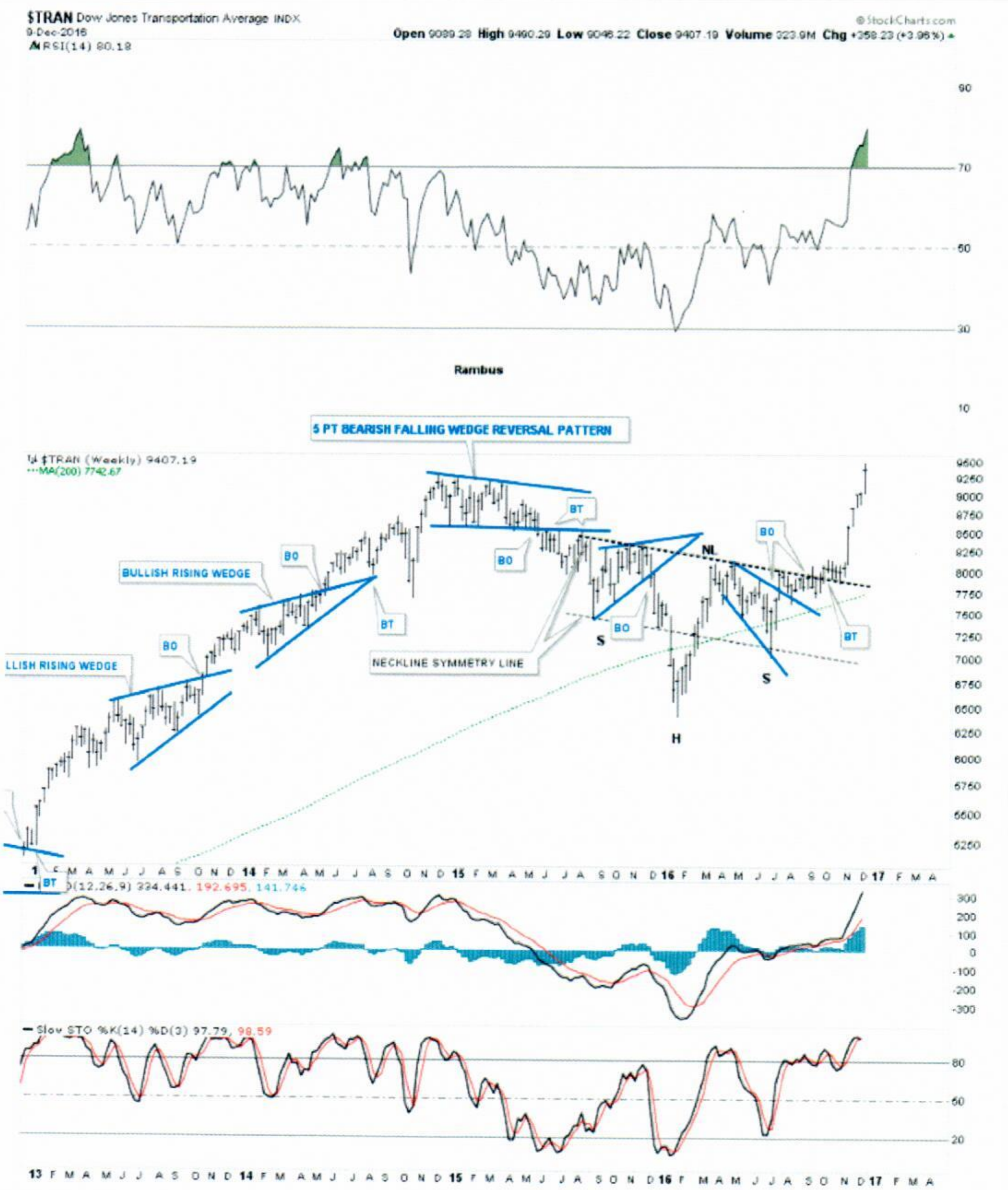
Lets start with the Transportation Average, as it confirmed last week, a Dow Theory buy signal as it made a new all time high along with the INDU. This is a very important buy signal which shouldn't be ignored. We've been following this daily chart for the Transportation Average for a very long time. There are some classic H&S patterns that stick out like a sore thumb when the symmetry is almost perfect. The daily chart below shows just that, a symmetrical H&S bottom.

First note the red and blue reverse symmetry patterns that make up the left and right shoulders. There are several ways to look at reverse symmetry. In this case if you put this chart on a piece of paper, grabbing the paper on the right side and folding it to the left with the head of the H&S being in the center of the paper, you can see how the two chart patterns on the right side of the chart overlap the two on the left side of the chart.

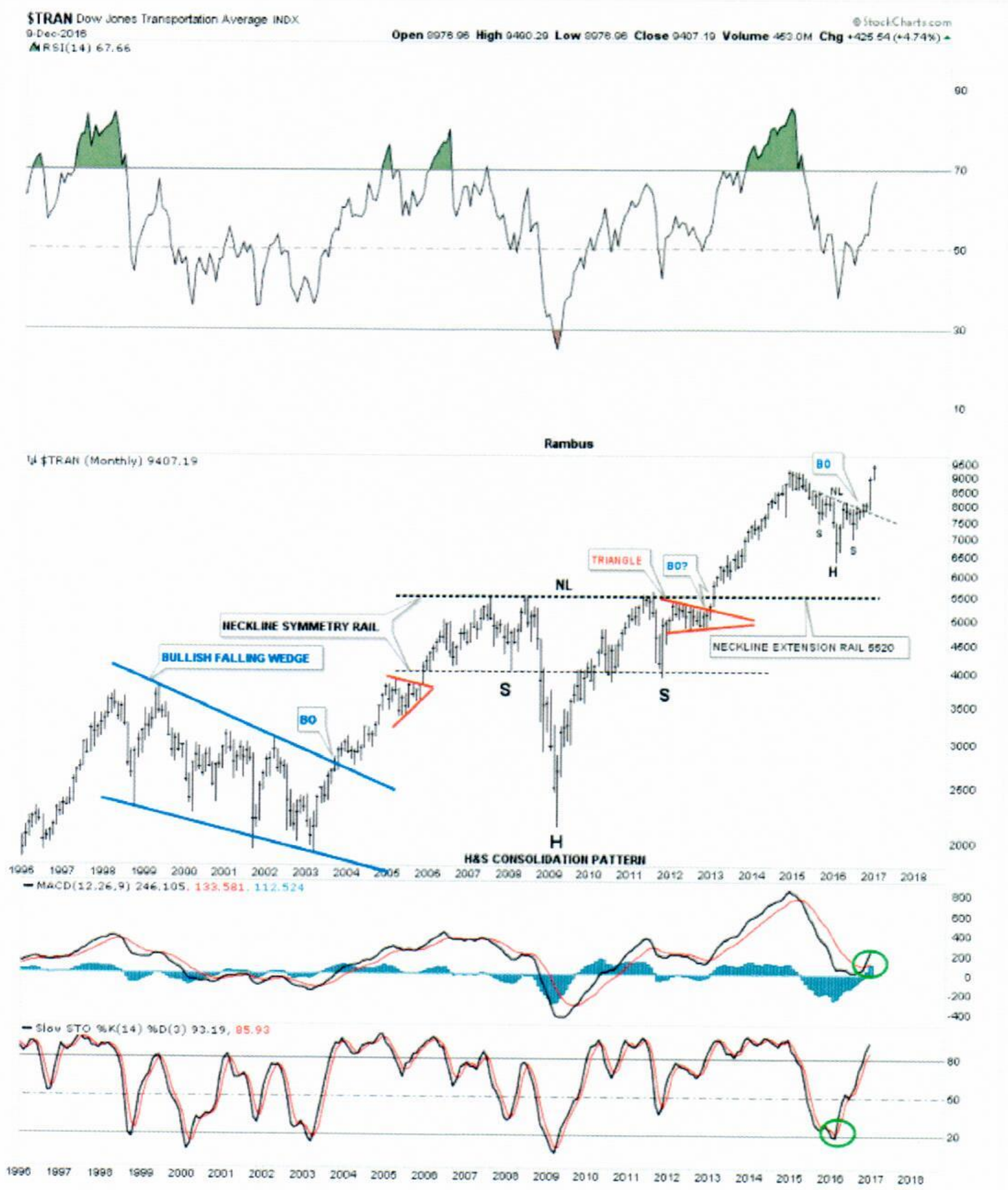
The other nice piece of symmetry is shown by the neckline symmetry line. The neckline symmetry line is nothing more than the neckline dropped down to the bottom of the left shoulder, which many times can show you where to look for a low for the right shoulder. So from a Chartology perspective this is a very beautiful chart.

Now lets look at a four year weekly chart which shows how the triangle on the daily chart above fits into the bigger picture. The TA began to top out in late 2014 when it built out the five point blue bearish falling wedge reversal pattern that ended that impulse move up. Note the two blue bullish rising wedges that told us the move up was very strong, as these types of patterns show up in strong moves.

The blue five point bearish falling wedge reversed that huge impulse move up, and the H&S bottom reversed that impulse move down. Knowing that a stock is doing one of three things helps you understand what is truly taking place. A stock is either building out a reversal pattern, consolidation pattern, or is in an impulse move. In a bull market the corrections will be shallow on a retaliative basis. This is where knowing what the main trend is can help you understand what this H&S bottom is all about. This correction lasted almost two years from top to bottom, which is a nice amount of time for a correction in a secular bull market. If the Transportation Average wasn't in a bull market it wouldn't be making a new all time high.



Lets keep working back in time and look at the twenty year monthly chart for the Transportation Average which shows you how the H&S bottom, on the two charts above, fit in to the much larger time frame. First, note the massive H&S consolidation pattern that built out between 2006 to 2012, which I labeled as a consolidation pattern, which I will show you why in the last long term chart. Again, notice the beautiful symmetry on that massive H&S consolidation pattern as shown by the neckline symmetry line. The smaller H&S pattern at the top of the chart is the one we just looked at on the daily and weekly charts above.

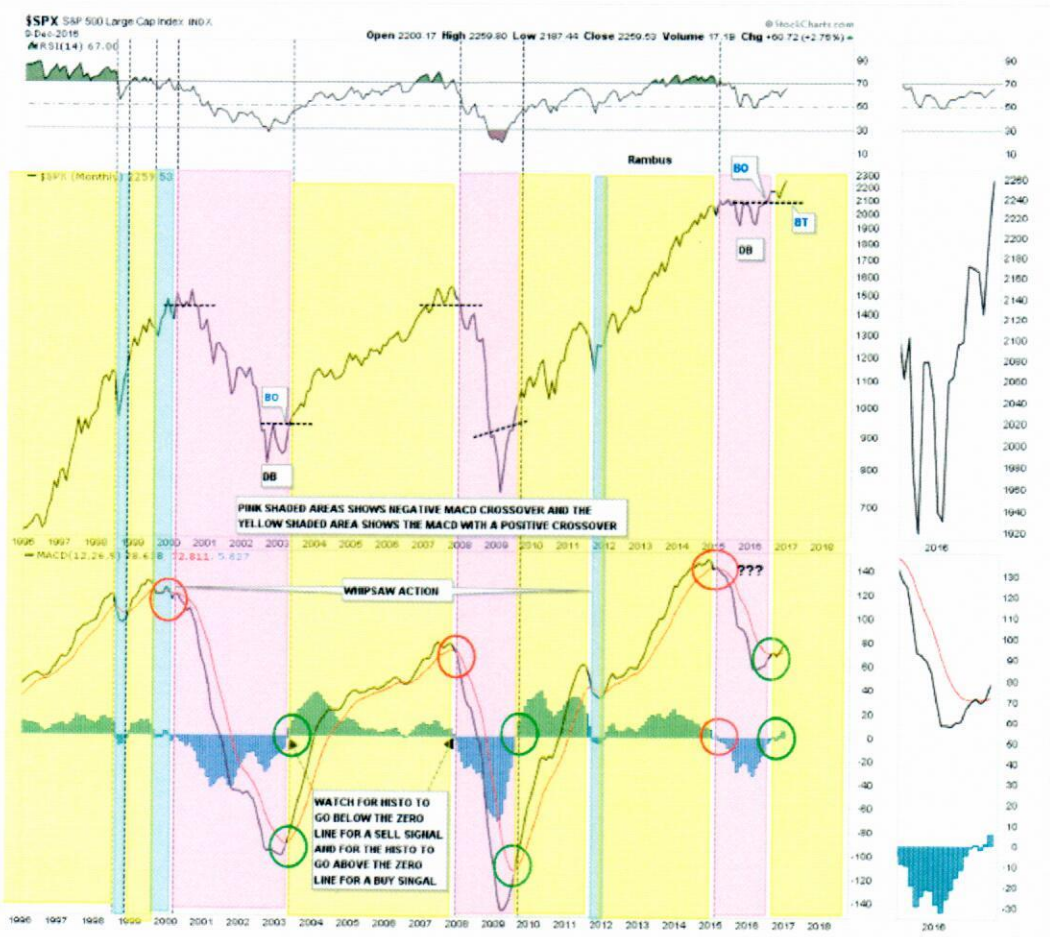


This last chart for the Transportation Average is a 100 year quarterly look at all the major chart patterns that have formed over the many years. You can see how the H&S consolidation pattern, we just looked at on the monthly chart above, is just that, a consolidation pattern as it formed in the 100 year uptrend as the next consolidation pattern. The smaller H&S bottom we looked at on the daily chart is not even visible on this time scale. The main point of this chart is to show you that the Transportation Average is making a new all time high confirming the bull market.

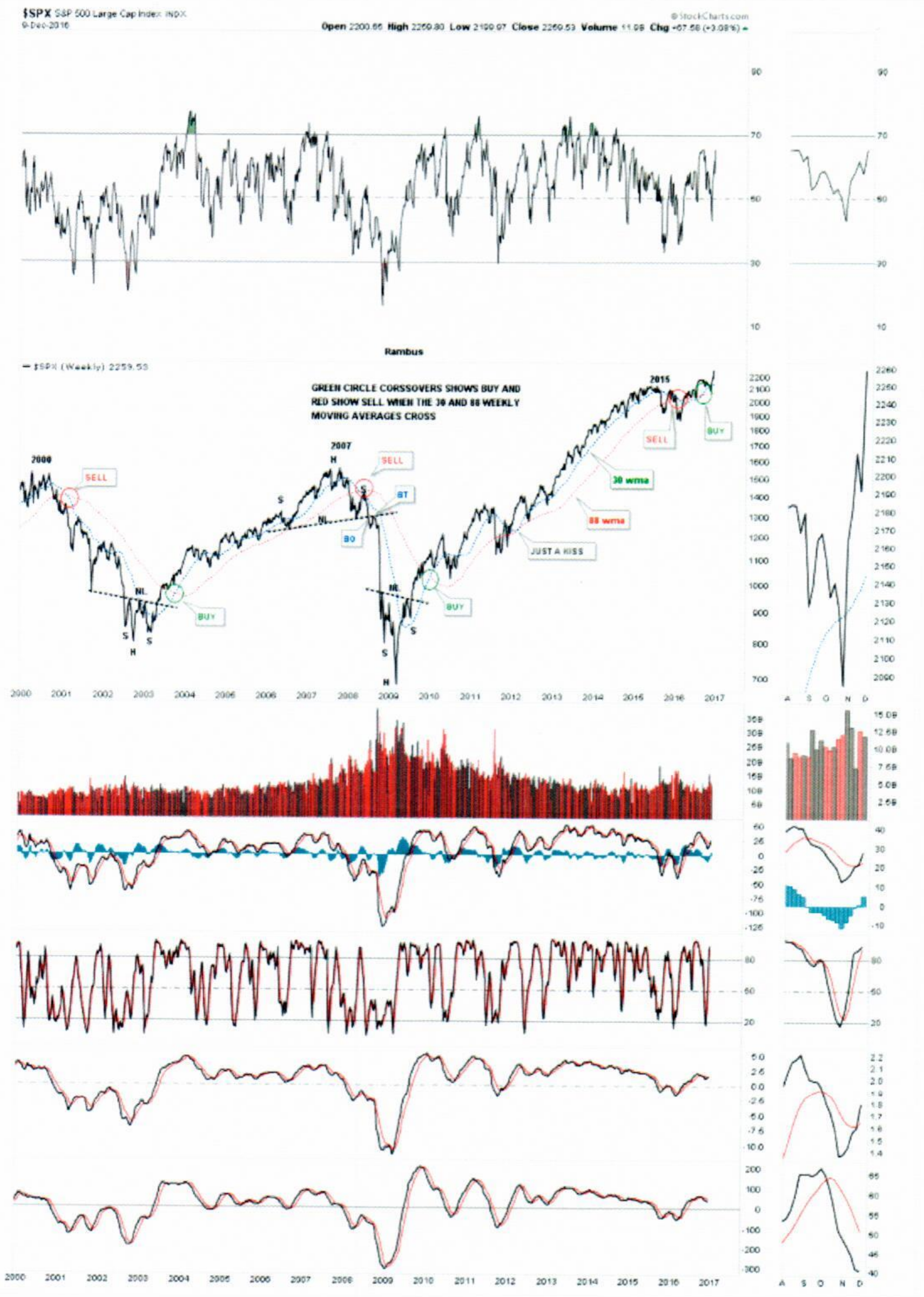
Now that you have seen the Chartology for both the INDU and Transportation Average we'll go thru these next charts looking for more confirmation that the bull market is alive and well. There is a long term monthly chart for the SPX I've been showing you which uses just a simple buy and sell technique. Last week when I showed you this chart the MACD was just crossing to the upside, but confirmation didn't come until the end of November, as this is a monthly line chart. The blue histogram was just inching its way above the zero line confirming a long term buy signal.

We also looked at the top of the chart which shows the SPX was putting in a double bottom and was in backtest mode. It now appears the backtest was successful and now the impulse move up has begun in earnest. You can see the long term buy signal that was generated back at the 2002 low which also formed a double bottom. It's hard to see on this chart, but the 2009 low formed an inverse H&S bottom to reverse that bear market decline.

One last point I would like to make on this monthly chart, is how the SPX is now making new all time highs, but the MACD and the blue histo are just now turning positive, which gives the SPX a lot of room to run before it becomes oversold on a monthly basis.



Below is a long term weekly line chart which shows another simple buy and sell technique which I use the 30 week ema and the 88 week ema crossovers. These buy and sell signals don't come around very often, but when they do it's important to pay attention. The red circles shows where the two moving averages crossed to the downside, giving a sell signal and the green circles shows a positive crossover giving a buy signal. During our most recent consolidation area we did get a whipsaw as there was a negative crossover, but that was quickly negated with the bullish crossover giving a new buy signal.

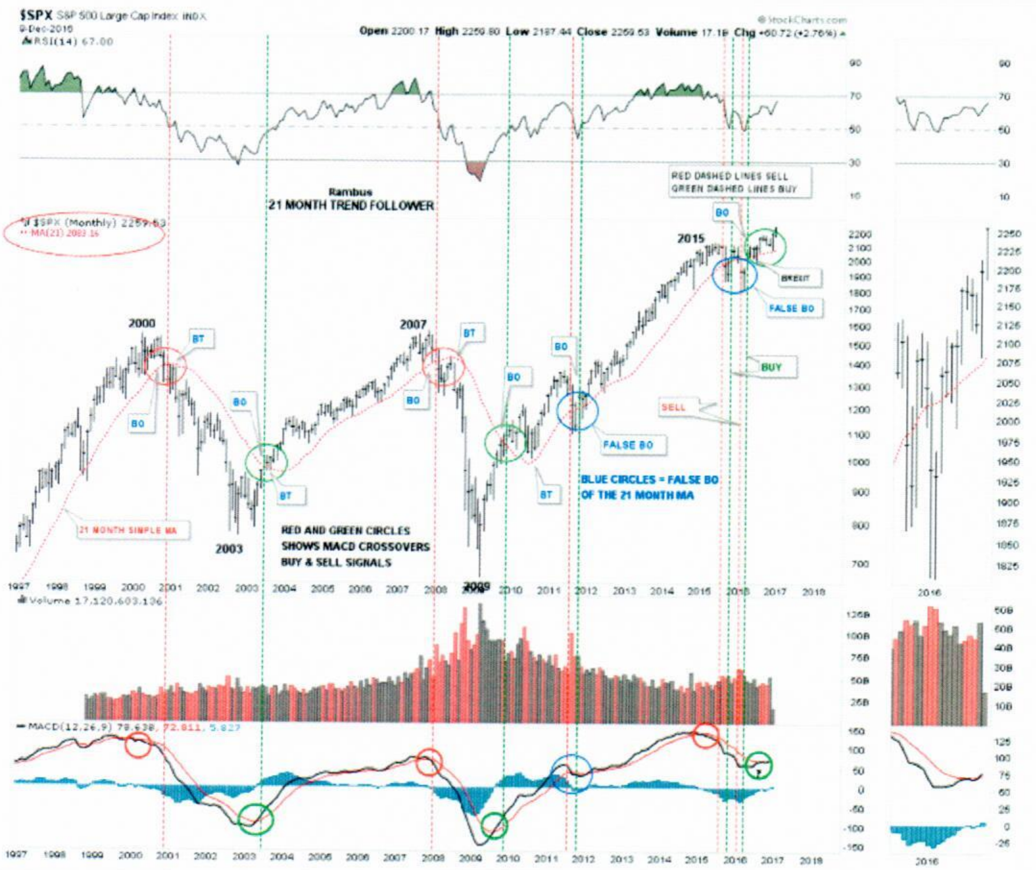


It's been awhile since we last looked at this simple trend following technique which I use the 21 month simple moving average for buy and sell signals. As you can see the buy and sell signals don't come around that often, but when they do it pays to heed what they're showing you. Think of the 21 month moving average as a support and resistance line, above is bullish and below is bearish. If you start to follow the price action and the 21 month ma beginning in 1997 you can see how the 21 month ma held support until the bull market top in 2000. Note how the price action backtested the 21 month ma from below once it broke to the downside. What had been support turned into resistance. The sell signal stayed in force until there was a positive crossover in 2003, with a backtest from the topside before taking off to the upside.

There was a whipsaw made in 2011 during that difficult time in the markets when the price action closed the month below the 21 month ma. That sell signal was quickly negated the very next month when the SPX closed back above the 21 month ma which gave a buy signal.

The 21 month ma held support all the way up to our most recent consolidation area that began to form in late 2014. During this difficult consolidation phase the 21 month ma gave two false sell signals as shown by the blue arrows. That can happen with any trend following system during tough consolidation phases. Note how the price action has been interacting inside the green circle at the top of the chart. For nine months now since the SPX has closed back above the 21 month ma, it has been doing its job again of holding support.

It was a little shaky during the BREXIT vote when the price action fell below the 21 month ma, but it closed the month above the 21 month ma so no sell signal was generated. In November the price action came down and touched the 21 month ma and rallied strongly to the upside. The buy signal remains in force until the SPX closes out a month below the 21 month ma, which on this time scale may take years.

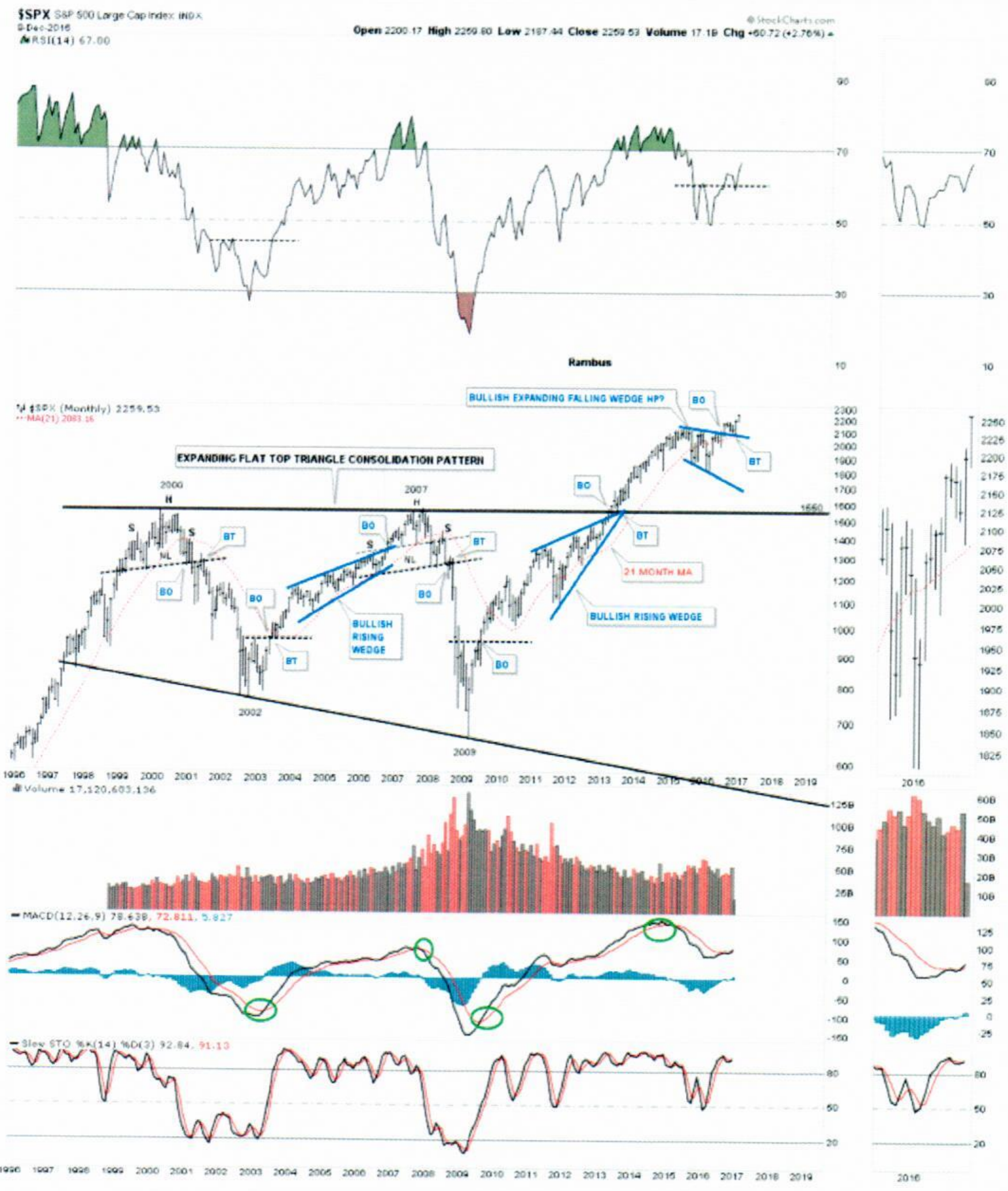


Now lets look at some Chartology and see if it matches up to what the moving averages are telling us. This weekly chart for the SPX shows a beautiful bullish expanding falling wedge with a breakout and a backtest to the top rail six weeks ago. Confirmation was confirmed when the price action took out the old highs made in 2015. You can see the little whipsaw that occurred during the formation of the bullish expanding falling wedge, as shown by the red and green circles. Your loss would have been small once the buy signal was given, which is still in affect.

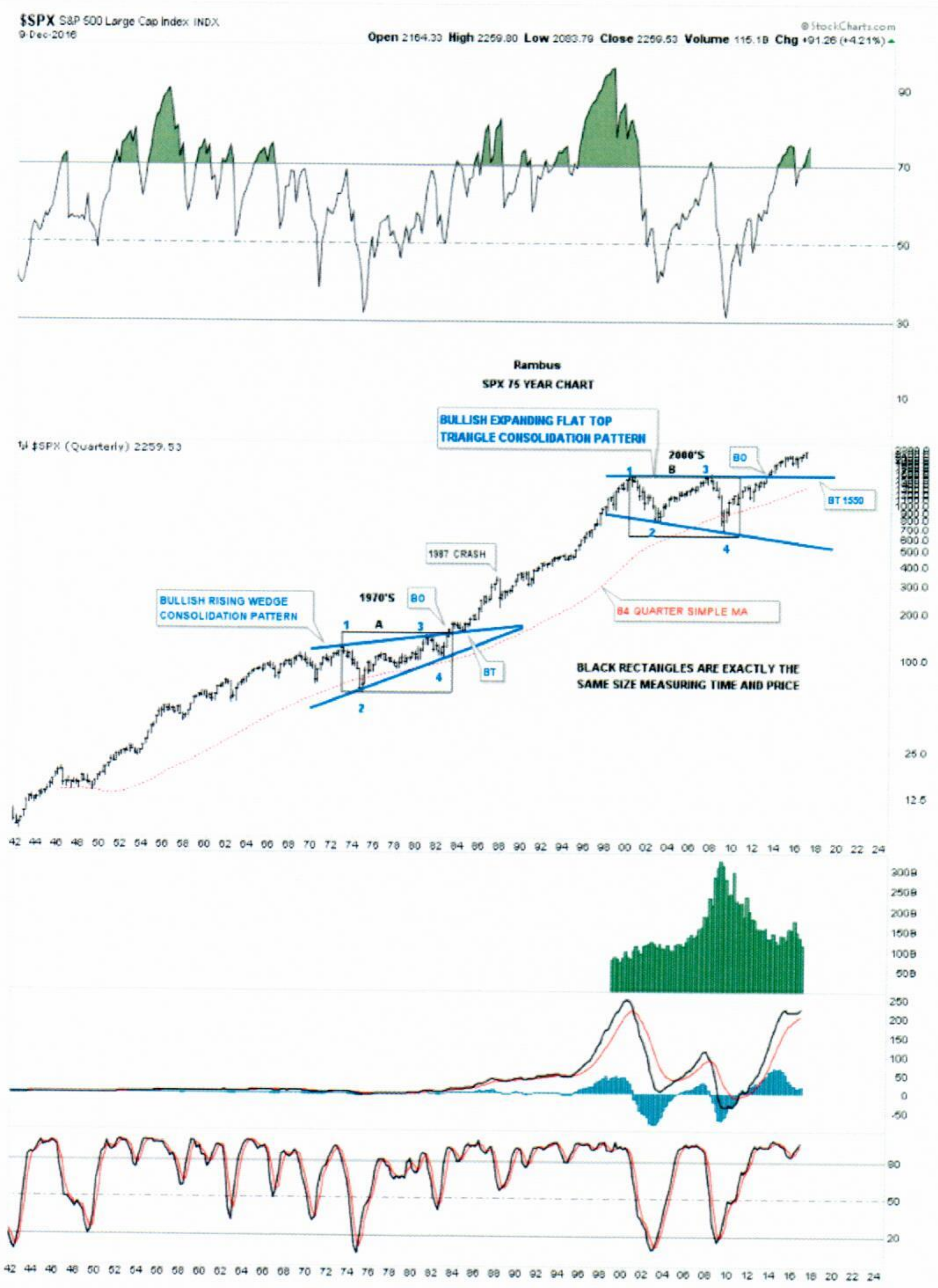
Now it's time to put everything in perspective by looking at the long term charts for the SPX just like we did for the INDU and the Transportation Average. This first chart is a twenty year monthly look which shows the 13 year flat top expanding triangle consolidation pattern. Remember the blue triangle consolidation pattern I showed on the "End of the World History Chart" last night. This is the SPX version of that chart.

What is different about this long term chart for the SPX is that it broke out of its massive flat top expanding triangle four years ago in 2012. Note the blue bullish rising wedge which formed just below the top rail of the expanding flat top which gave the SPX the energy it needed to finally breakout above that very strong resistance line.

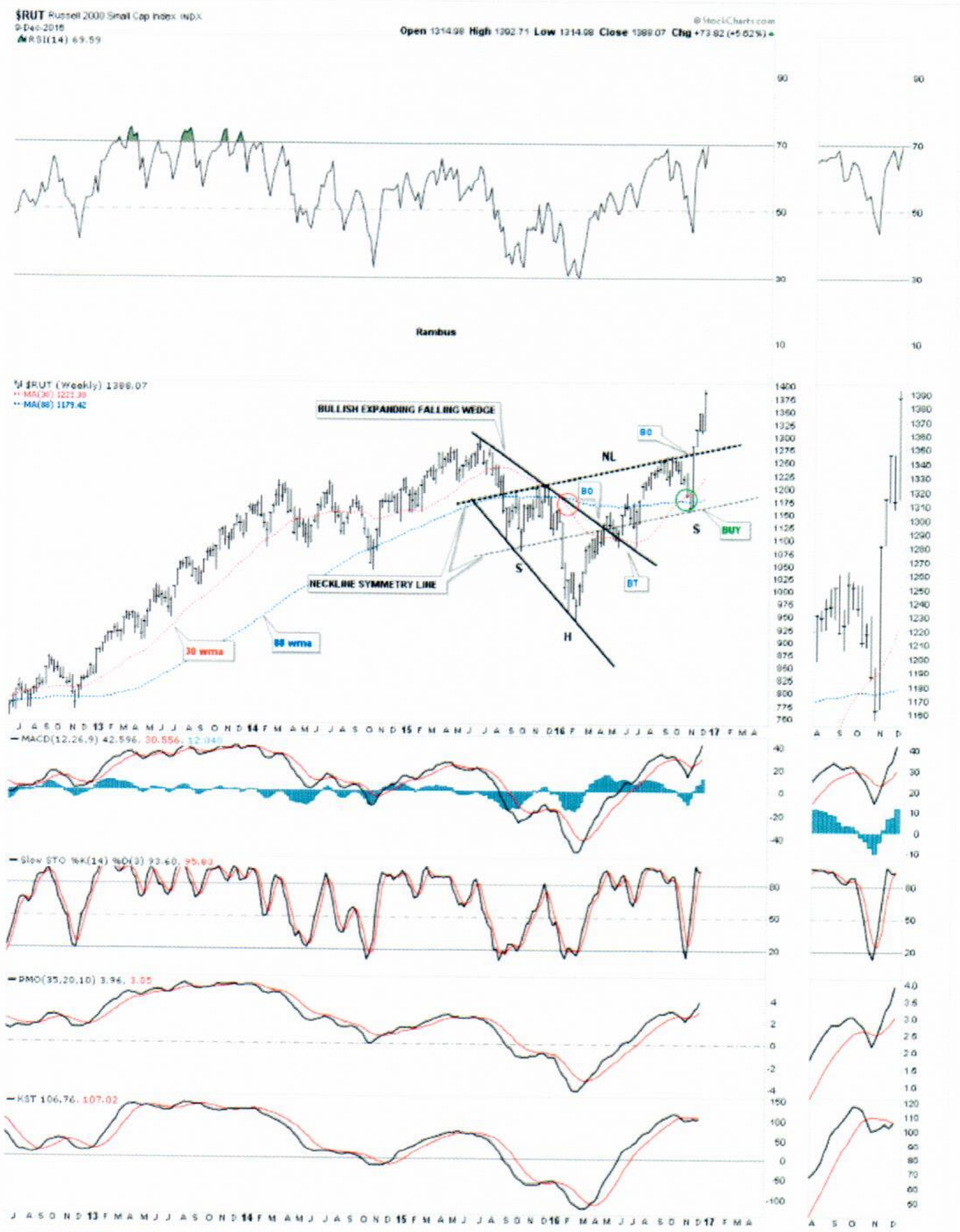
Note the bullish expanding falling wedge at the top of the chart, which is the same pattern we looked at on the chart above. All the work is finished in regards to the breaking out and backtesting process, so the impulse move up is really just getting started. The 21 month moving average is a well defined line in the sand, above is bullish and below is bearish.



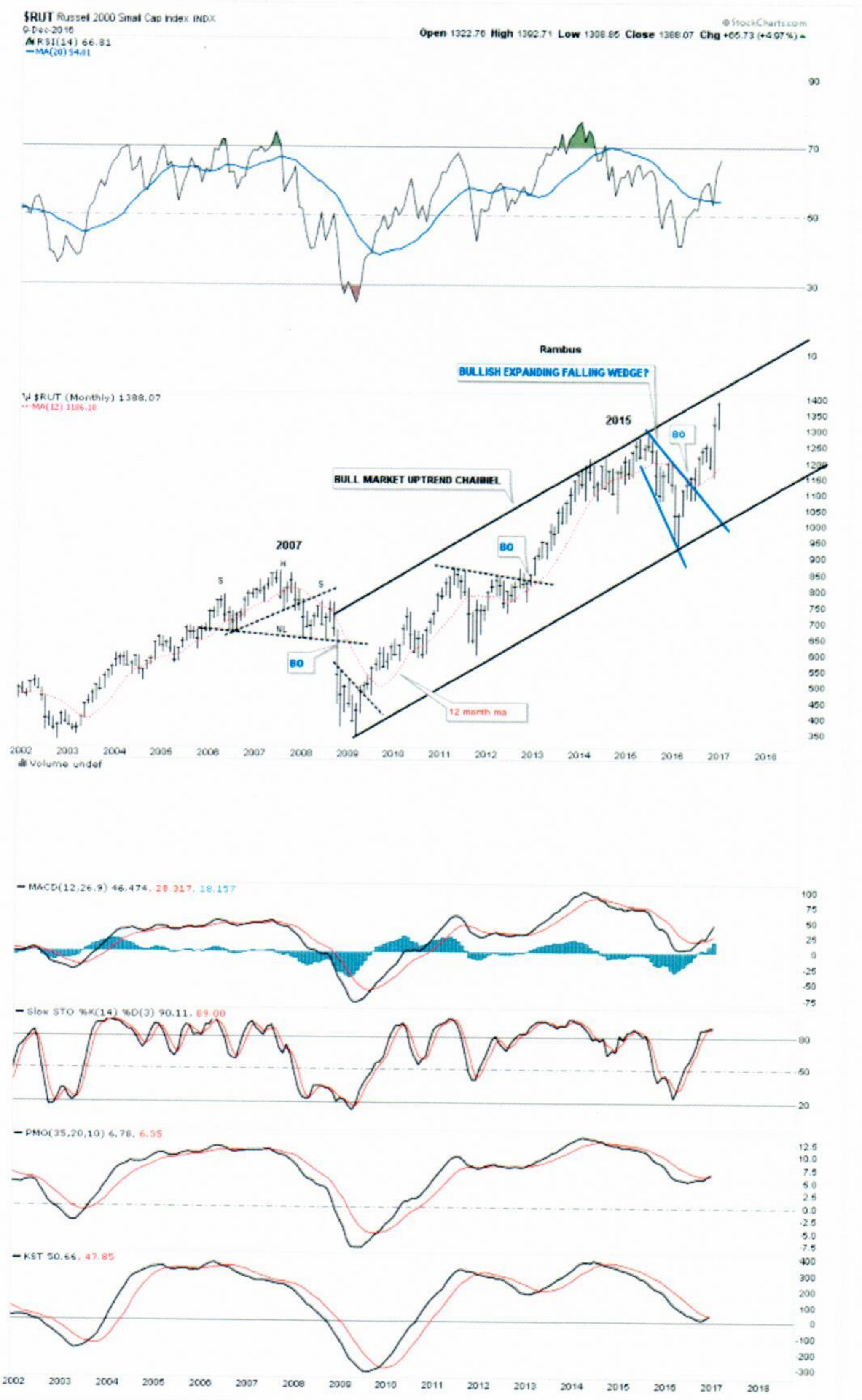
Just like we looked at with the INDU and the Transportation Average, below is a 75 year quarterly chart for the SPX which shows how the flat top expanding triangle fits into the very big picture. I added the black rectangles just to compare how the consolidation pattern that formed back in the 1970's compares to the 2000 consolidation pattern in time and price. It's pretty amazing when you think about it, that the SPX is making new all time highs which from a fundamental perspective, it should be making all time lows.



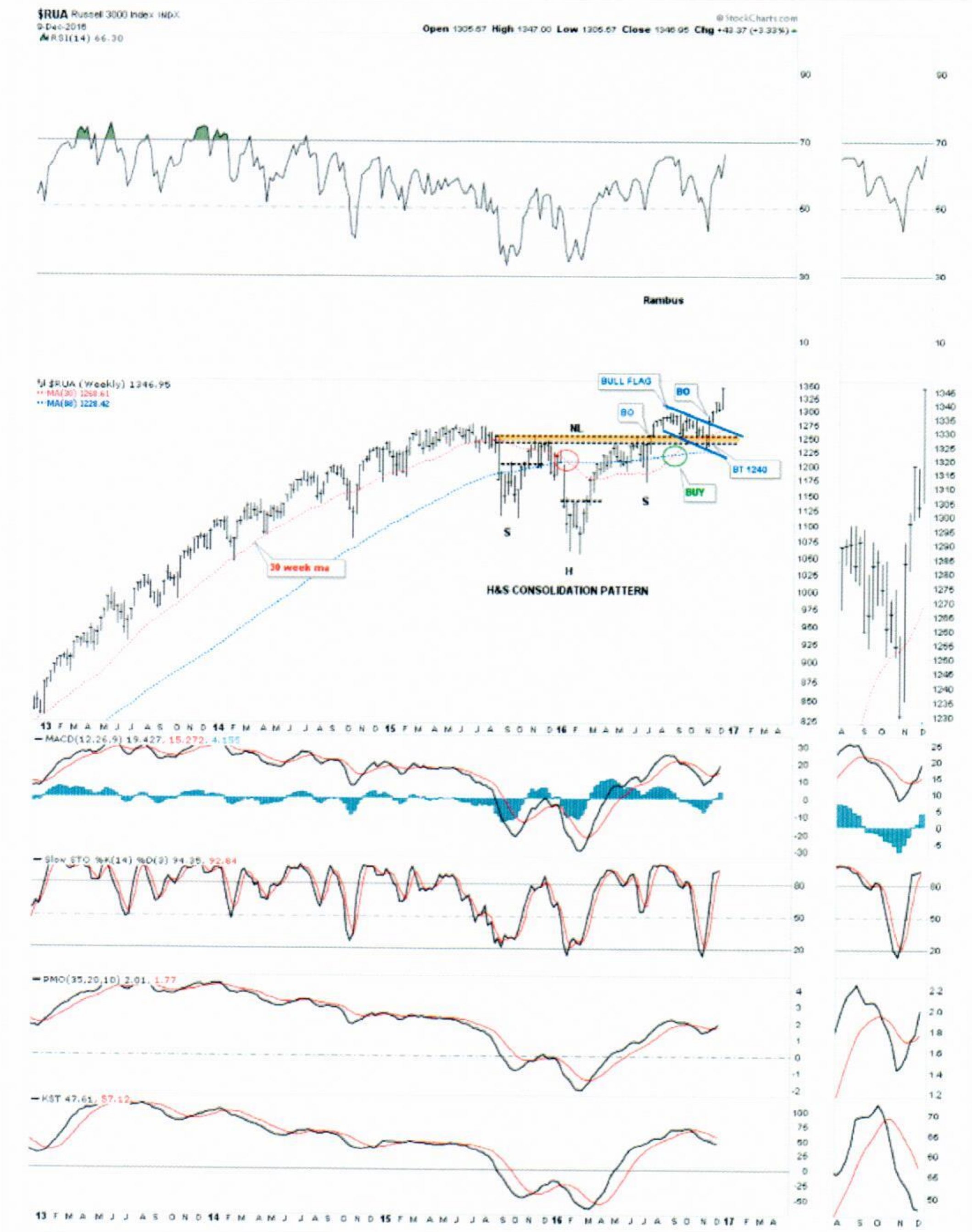
Lets look at one of the hottest indexes right now which is the $RUT, small caps index. The weekly chart below shows two reversal patterns in place since the top in 2015. The first reversal pattern is the black expanding falling wedge, which contains the left shoulder and head of a bigger H&S bottom. Note the neckline symmetry line which shows the low for both the left and right shoulders. The simple 30 week ma and the 88 week ma have a bullish cross to the upside, made at the bottom of the right shoulder, green circle



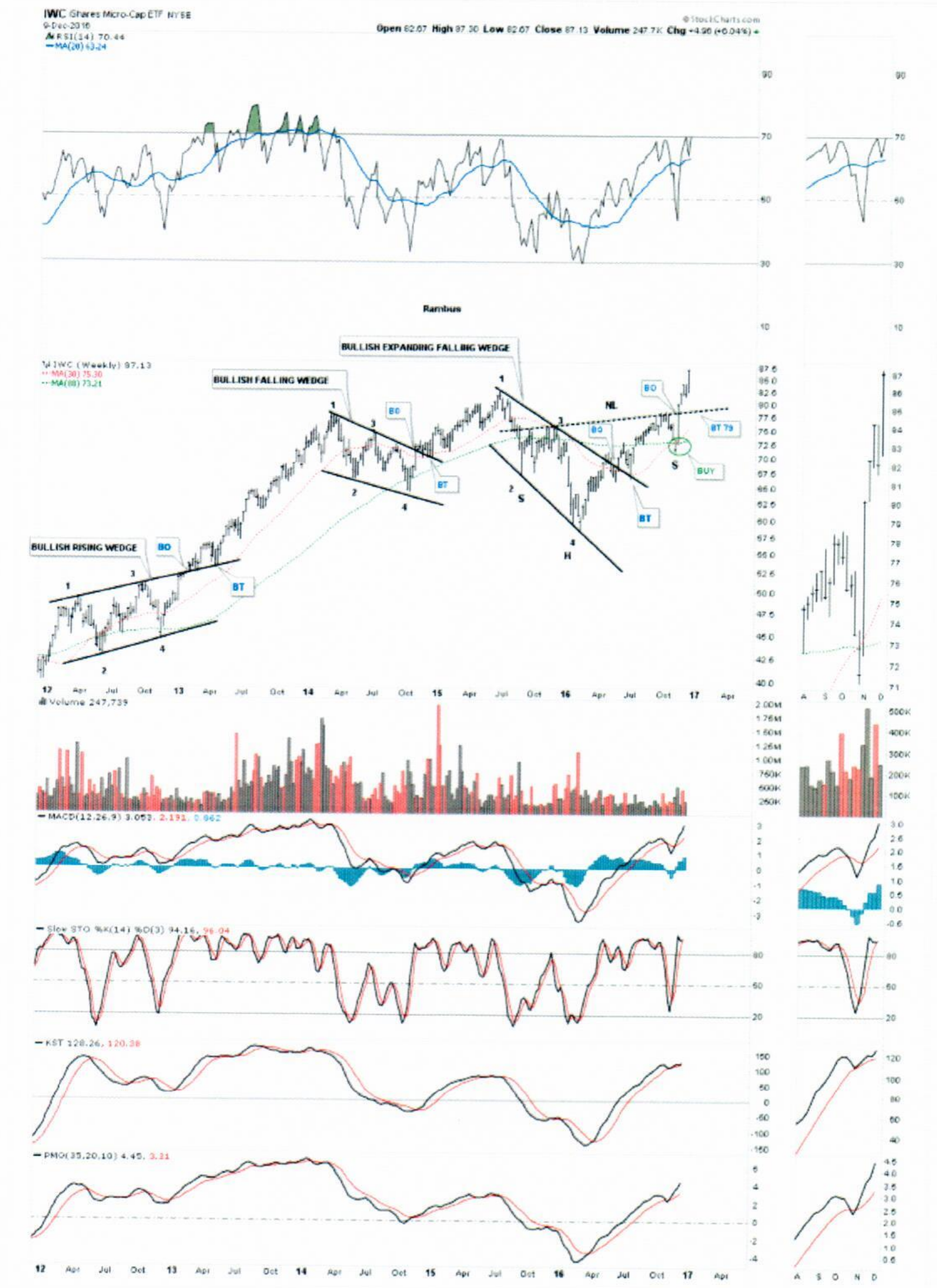
The monthly chart shows the bull market uptrend channel that began at the 2009 crash low. I'll be watching the top rail of the major uptrend channel to see how the price action interacts with it. If this impulse move up is going to be as strong as I think it might be, there is a good possibility that the current uptrend channel could double in size with the top rail being the halfway point in this impulse move up. It's just something I will be monitoring for more clues.



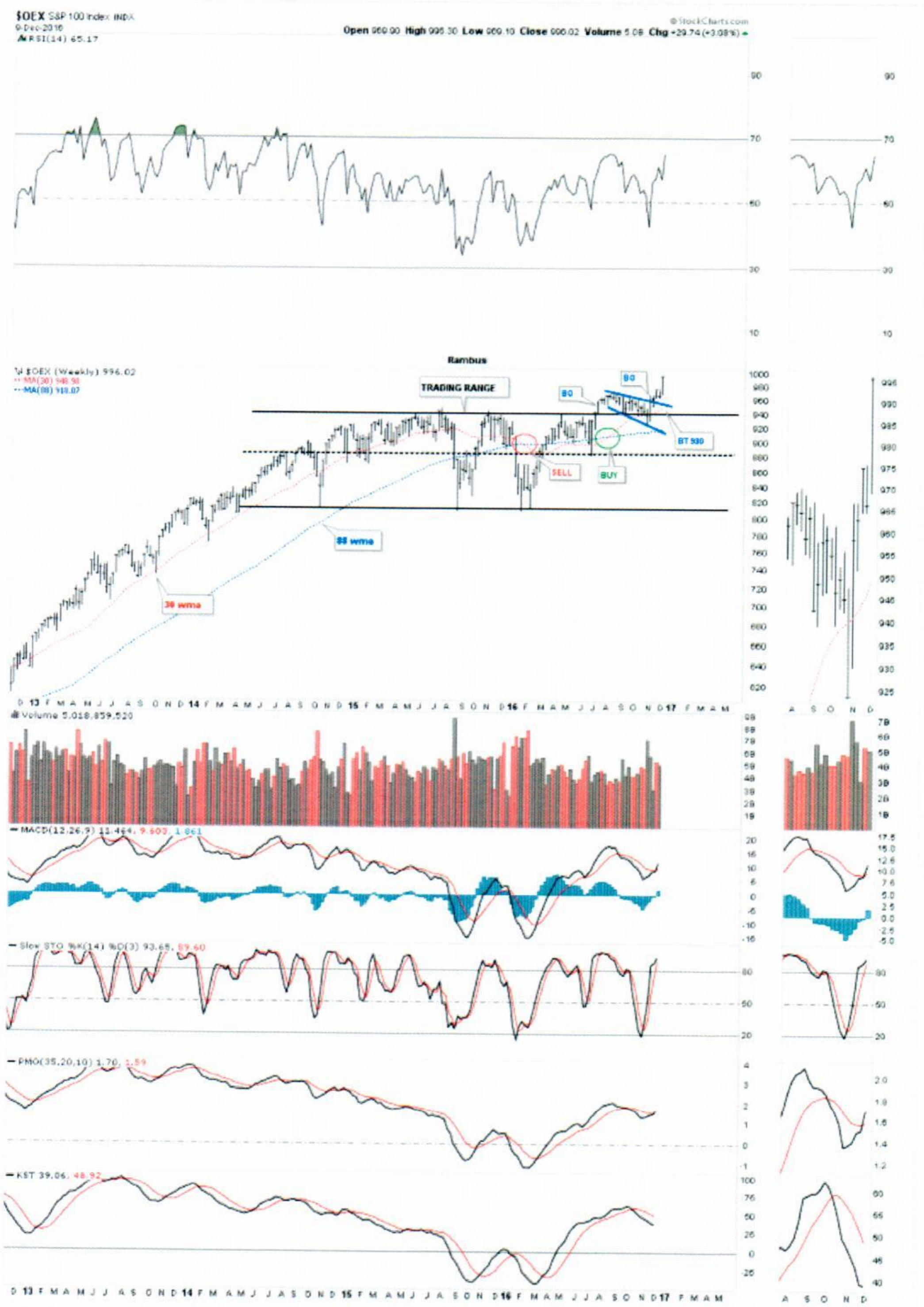
When the small caps are strong that means there is a lot of money floating around looking for riskier assets to invest in. The $RUA, Russel 3000 index, is a good proxy to look at for the health of the markets. It has formed an H&S consolidation pattern which shows a breakout, and the blue bull flag as the backtest.



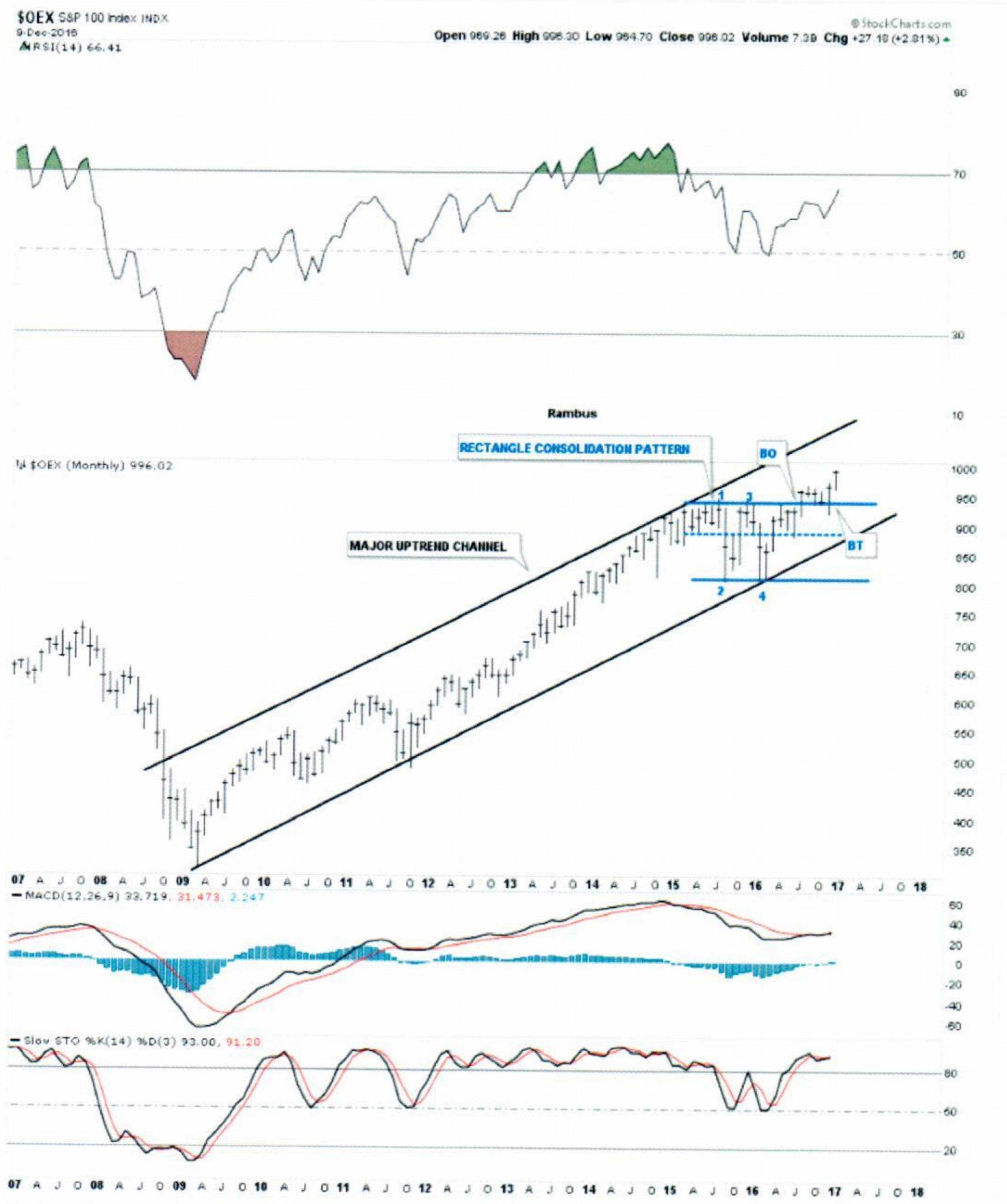
This next chart is a weekly look at the, IWC micro caps, which shows it breaking out of its H&S consolidation pattern five weeks ago.



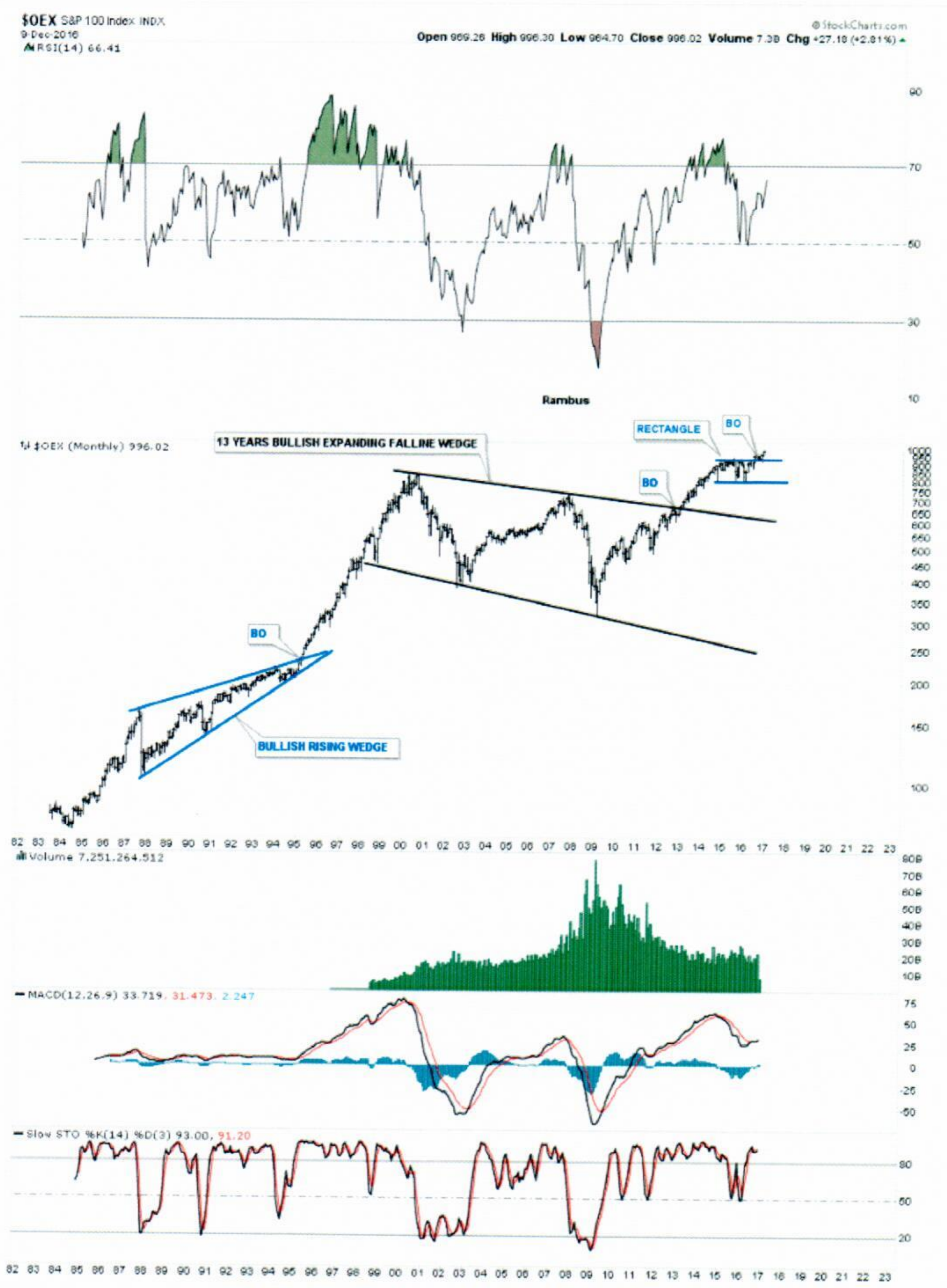
This next chart we'll look at is a weekly chart for the $OEX 100, which shows a two year trading range that recently broke out above the top rail which formed the blue bullish expanding failing wedge as the backtest. The top rail of the black trading range did its job of reversing its role to what had been resistance to support, once it was broken to the upside.



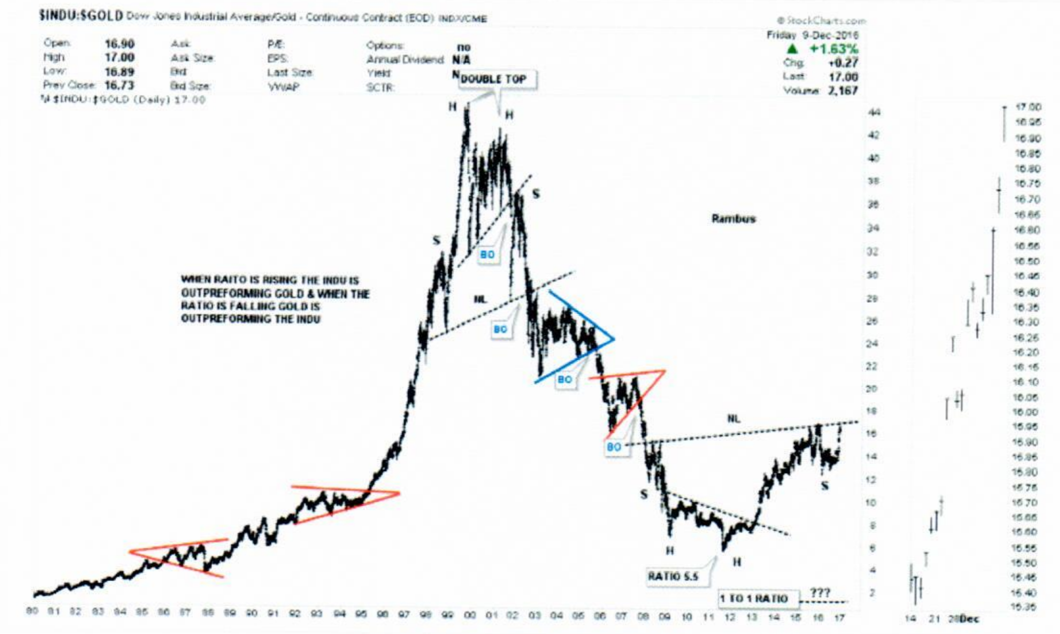
The monthly chart for the $OEX 100 shows its bull market uptrend channel and the breakout and backtest to the top of the blue rectangle. Again I'll be watching the top rail of the major uptrend channel for more clues on a possible doubling of the lower channel.



The long term monthly chart for the $OEX 100 shows the entire history going back to 1983. It formed a 13 years bullish expanding falling wedge as its major consolidation pattern. You can see the breakout taking place on the small rectangle consolidation pattern. The rectangle looks small on this time frame, but it's actually almost two years in the making. The breaking out and backtesting process took five months to complete. Again, big chart patterns equals big moves.



I'm going to change it up just a bit before I end this Weekend Report by looking at a ratio chart which compares the $INDU to $GOLD going all the way back to 1980. When this ratio is rising it means the INDU is outperforming gold and just the opposite when it's falling. This chart makes if very clear how the two tend to move opposite to each other. When the INDU topped out in 2000, gold began its bull market. Note the massive H&S top which reversed the out performance of the INDU to gold. Clearly gold was the place to be for the next ten years or so, as it kicked the INDU's butt falling all the way down to 5.5. I, along with many other folks thought the ratio could make it all the way down to 1:1 like it did at the 1980 top when gold and the INDU were both trading at about 850 or so. It took a massive H&S top to reverse this ratio in 2000. It hasn't broken out yet, but you can see a potentially very large H&S bottom with the price action testing then neckline, as we speak. If the neckline is broken to the upside it strongly suggests that the INDU is going to outperform gold and probably in a big way if reverse symmetry begins to play out. It's true that they can both go up together, but if the ratio is rising it still means the INDU is outperforming gold.



This last chart for tonight is a ratio combo chart which has the INDU to gold ratio on top and gold on the bottom. The ratio chart on top shows the low in the ratio in 2011 and the high for gold. That was an inflection point which lasted until January of 2016 when the ratio declined and gold had its eight month rally. Note how strongly the INDU has been outperforming gold until about five or six weeks ago when the ratio broke above the double bottom hump, while at the same time gold was breaking down below its neckline. There is never a perfect correlation that lasts forever, but they can last for a long time before things change. This week we may see this inverse correlation end, but until it does, I have to go with what the charts are suggesting today, which is long the the stock markets, and out of the PM complex. Keep in mind this is on a relative basis as each can go up, but this ratio chart says the INDU is going to go up faster than gold.

If you recall I mentioned about a month or so ago that I thought we were at a major inflection point in the markets. I believe that inflection point has now revealed itself as shown by the charts above. They say a picture is worth a thousand words. I hope all the charts above paint a picture that you can understand. All the best…Rambus