Rambus Chartology

Moving forward

Wednesday Report…Part 1

Posted on October 24, 2017, 8:37 pm by Rambus

Before we look at some long term charts tonight I would like to explain what these charts represent to me. I've mentioned on numerous occasions that big chart patterns equals big moves which is a relative thing. If one is looking at a daily chart and sees a consolidation pattern building out the impulse move will be relative to what the daily chart is showing. On the other hand, if one is looking at a multi year monthly chart then one can expect the impulse move to be very large on a relative basis in both time and price.

This is an important point to grasp because if you see a big consolidation pattern forming on a very long term multi year monthly chart, the move will be in proportion to the chart pattern. The same would hold true for a consolidation pattern on a daily chart. It's a relative thing.

I've been showing some very large consolidation patterns for many years now that are over ten years in the making. These massive consolidation patterns tell us to expect a very large multi year move that is relative to the consolidation pattern. When I first started posting some of these large consolidation patterns most thought there is no way such a big consolidation pattern can predict a move on the scale I was showing. The thing is, most investors never seen a 10 year consolidation pattern because their focus is mostly on the shorter term daily and weekly charts.

One thing I find interesting at this stage of the bull market is how few investors really understand what is taking place right now. In one camp there are the bears that keep talking about an imminent top and a crash to follow. In another camp there are some bears that have given up on shorting the stock markets, but are now recognizing this impulse move is much stronger than they anticipated, and are looking for a blow off top to end the bull market that began in the spring of 2009.

And then there is my view which I've been showing for several years now which is strongly suggesting that we are in the early stages of a new secular bull market that began at the 2009 crash low. I know this perspective blows peoples minds, but that's what the long term monthly charts are telling me. Remember it's a relative thing, big patterns lead to big moves.

Just so you know that I've not completely lost my mind lets look at some long term charts and see how some of the very large multi year consolidation patterns are playing out, starting with a 20 year look at the SPX. The first reversal point occurred at the 2000 top that ended one of the biggest bull markets of all time. Reversal point #2 came in 2002 which was the first bear market. The SPX then rallied back up to the 2000 high in 2007 but could go no further and collapsed in the great crash that ended in March of 2009, which began our new secular bull market. Note the blue bullish rising wedge which formed just below the top rail of the 13 year flat top expanding triangle. Whenever you have a strong resistance line on a chart, many times you will see a small consolidation pattern form just below that important trendline, that gives the stock the energy it needs to finally overcome that line of resistance that was 13 years old.

The breakout of the blue bullish rising wedge and the top rail of the 13 year flat top triangle consolidation pattern occurred almost simultaneously in 2013. If you look real close at the breakout area you will see there was one quick backtest a month later that confirmed the 13 year flat top expanding triangle was indeed authentic, and the initial impulse move out of that very large consolidation pattern began in earnest.

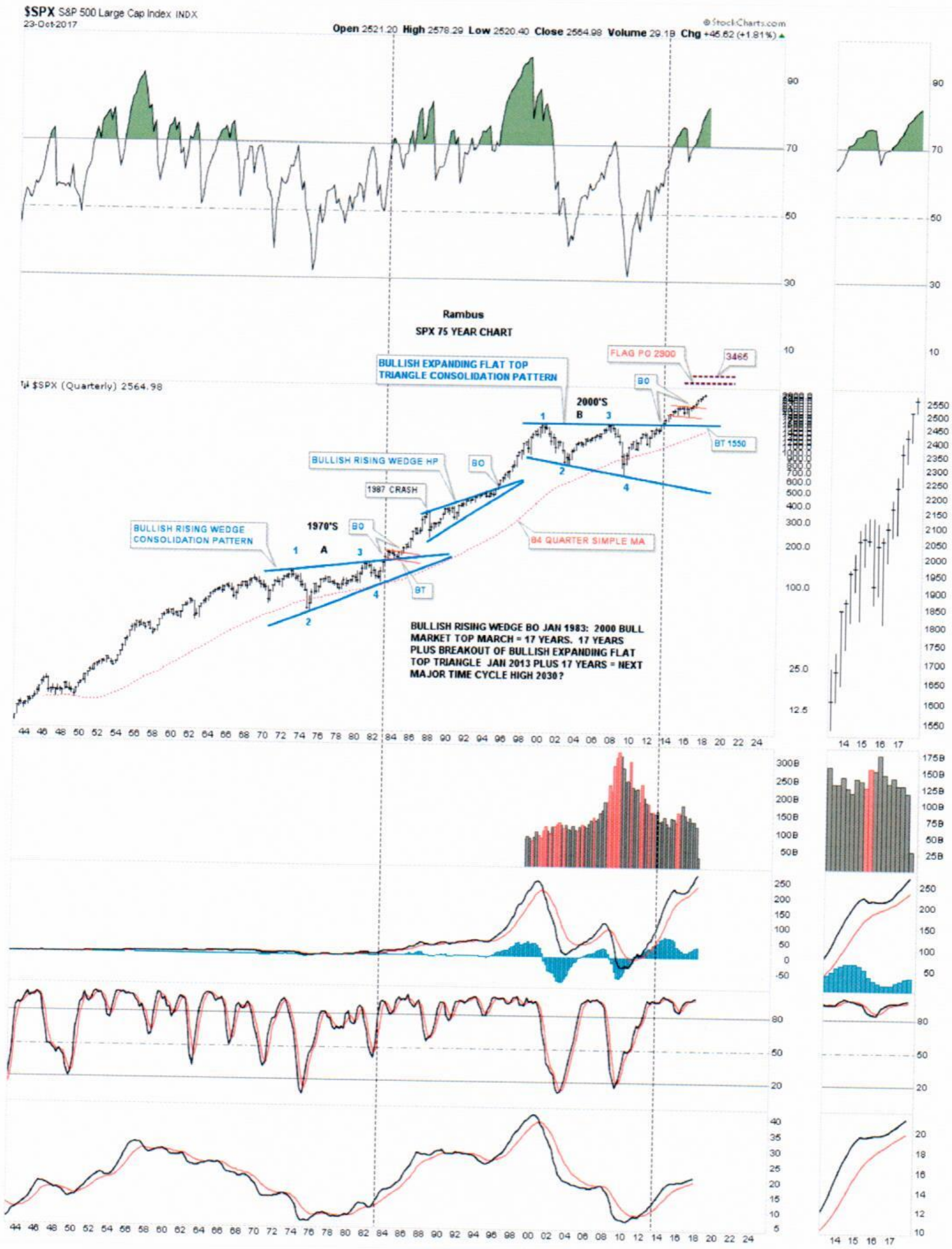
That impulse move lasted until 2015 when it was time for a rest, and the SPX built out its first consolidation pattern above the top rail of 13 year expanding flat top triangle. It took roughly 15 months to consolidate that first impulse move up, with the SPX building out the blue bullish expanding falling wedge consolidation pattern. Five months after the initial breakout and backtest to the top rail the SPX began its second impulse leg up which we find ourselves currently in. On the shorter term daily chart I've been showing the red bullish rising wedge as a consolidation pattern after the top rail was broken to the upside. Consolidation patterns that slope in the same direction of the major trend tells you the move is very strong. Some call these types of patterns running corrections and usually have a negative divergence on the shorter term daily chart. This allows the RSI to correct, while the rising flag or wedge continues to trade sideways with an upward sloping bias.

There is a measured move we can make which is what I call the breakout to breakout method. We can take the distance from the breakout point of the 13 year flat top expanding triangle to the first reversal point in the blue expanding falling wedge. We then take that distance and add it to the breakout point of the blue expanding falling wedge to get a price objective up around the 2900 area. That would be a place to see another consolidation pattern start to build out to consolidate this latest impulse move.

As we've discussed earlier in this post chart patterns are relative to the size of the chart you're looking at. Below is a 75 year chart for the SPX which puts the 13 year flat top expanding triangle, on the chart above, in perspective. If I didn't tell you which time frame you were looking at you wouldn't know if the chart below is a 2 hour chart, daily chart or a weekly chart, it's all relative. Since I told you it was a 75 year chart you can see how nicely the 13 year flat top expanding triangle fits into the very big 75 year picture.

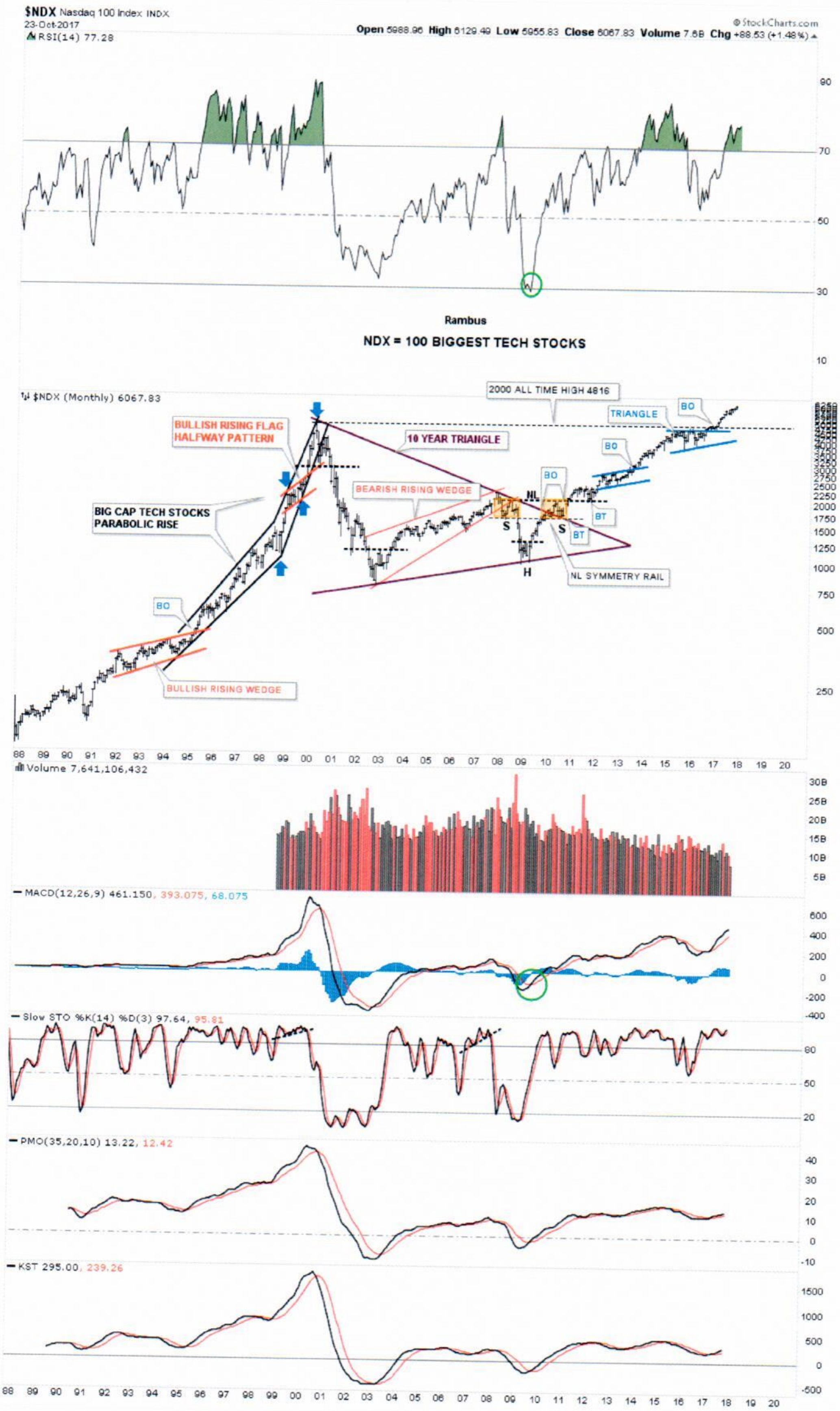
In the 1970's the SPX built out a roughly 11 year bullish rising wedge which was needed to consolidate the previous secular bull market. When the SPX broke out above the top rail of the 1970's bullish rising wedge that initial impulse move lasted almost 4 years before we saw a decent correction which we got with the 1987 crash which is still the biggest one day percentage decline in history. If felt like the end of the world if you were trading that day, but as you can see it was only the first reversal point in the blue bullish rising wedge which ended up being a halfway pattern to the 2000 top.

I don't know if it will happen, but if our current impulse move out of the flat top expanding triangle is the same as the impulse move out of the 1970's impulse move, the SPX could run to the 3450 area before we see a possible several year consolidation pattern start to build out. When you compare the rally out of the 4th reversal point in the 1970's bull market, and compare it to the our current bull market that started in 2009, you can see that in both rallies the SPX never made a lower low for the most part on this quarterly chart, which is a sign of a strong bull market.

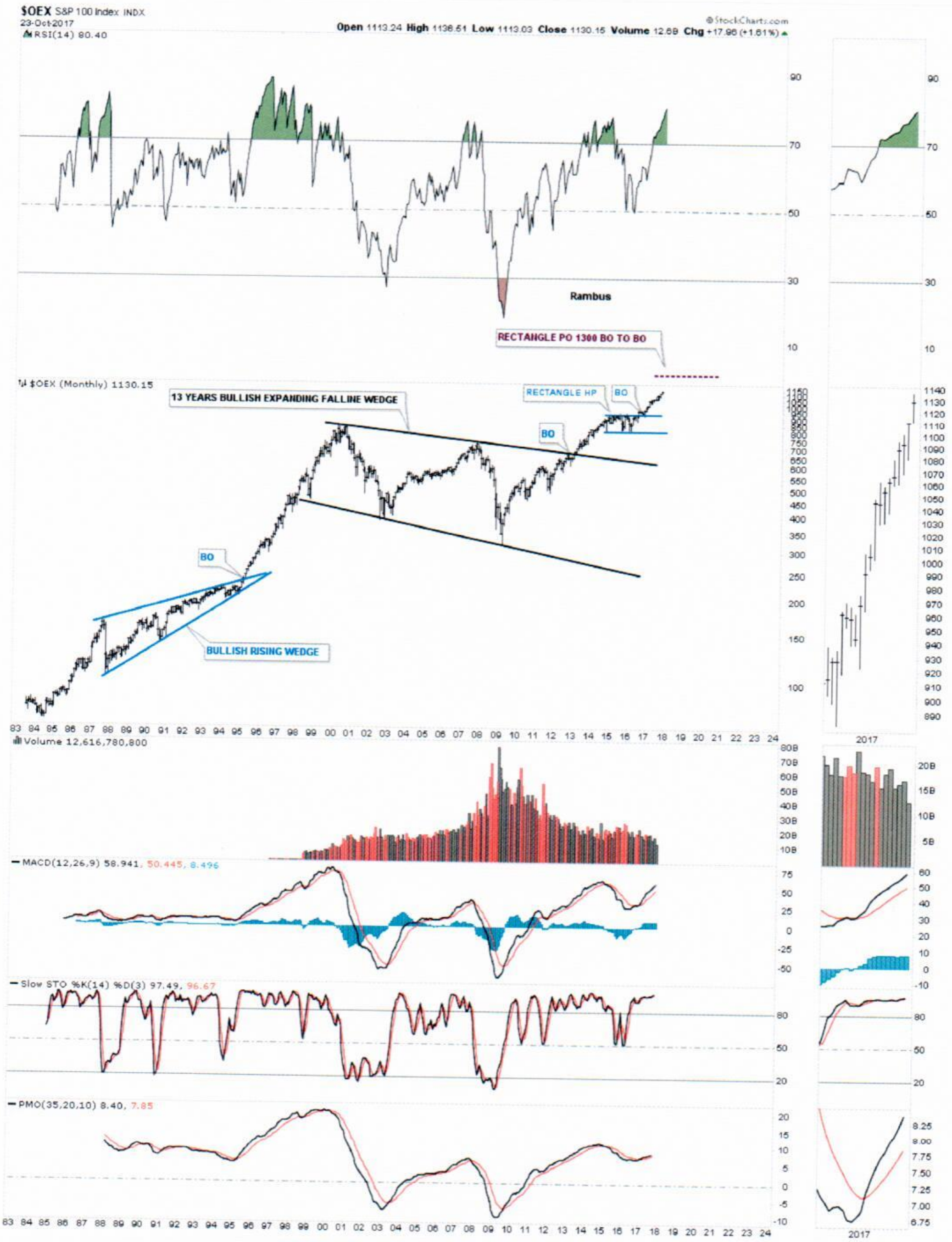


Now that I've shown you the basic relative principles of big chart patterns I won't go into much detail on some of these next long term charts to follow. Just keep an open mind when you look at these charts. Relativity works in the universe and Chartology.

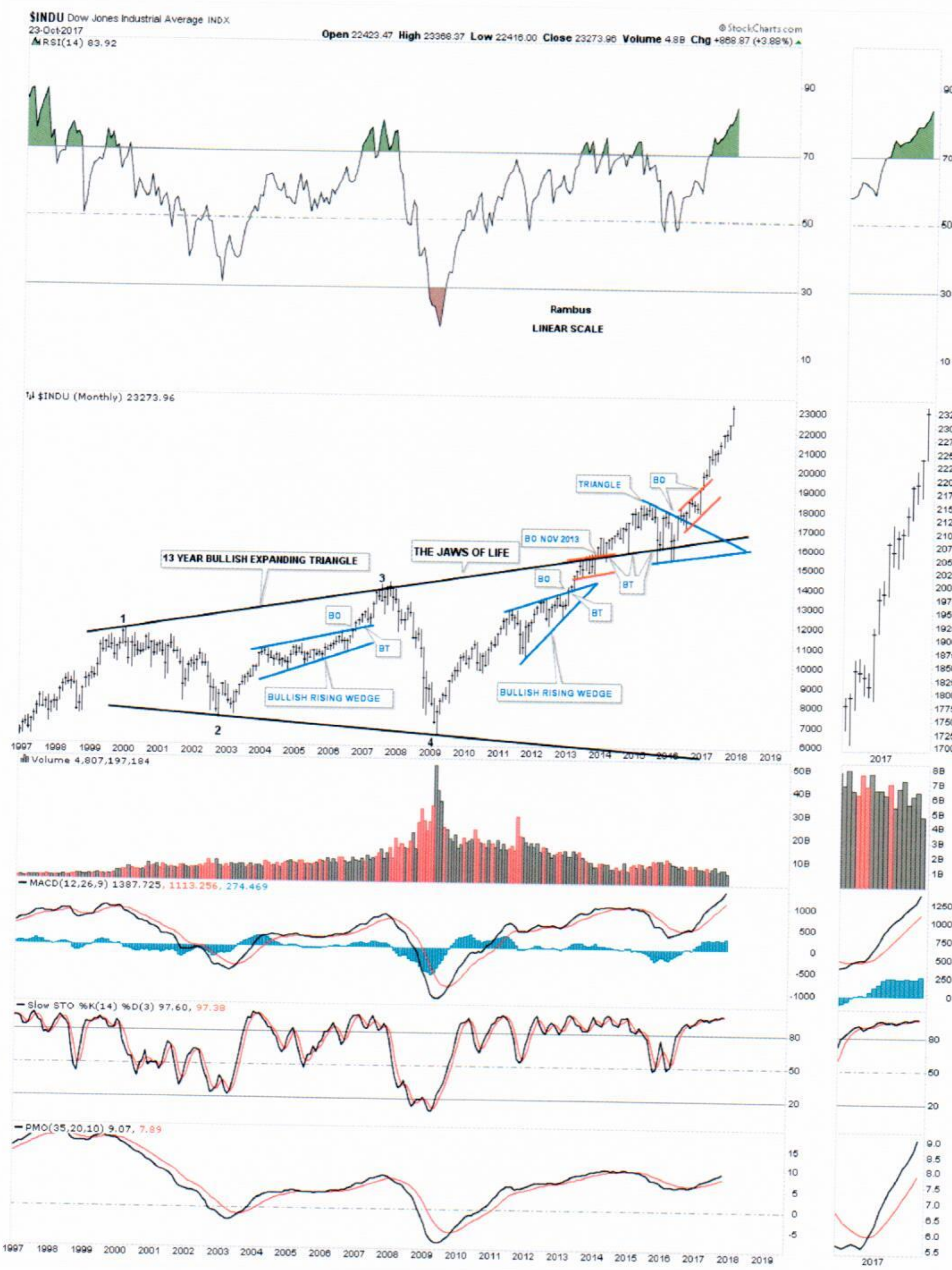
Below is a 30 year monthly chart for the NDX which shows you a 10 year symmetrical triangle consolidation pattern. Note how the NDX built out the blue triangle just below its all time highs which gave the NDX the energy it needed to finally breakout to new all time highs. Also note the beautiful and symmetrical H&S bottom in 2009 which was the reversal pattern that launched our current secular bull market. I said I wasn't going to say much about the charts to follow, but notice the red bullish rising flag that formed in the middle of the last major impulse move up into the 2000 top. Patterns that slope in the same direction of the major trend tells you the trend is very strong. The blue arrows measures the red rising flag as a halfway pattern.



This next chart is a 35 year look at the OEX 100 which built out a 13 year bullish expanding falling wedge with the breakout in early 2013. It built out the blue rectangle consolidation pattern as its first consolidation pattern after the breakout.

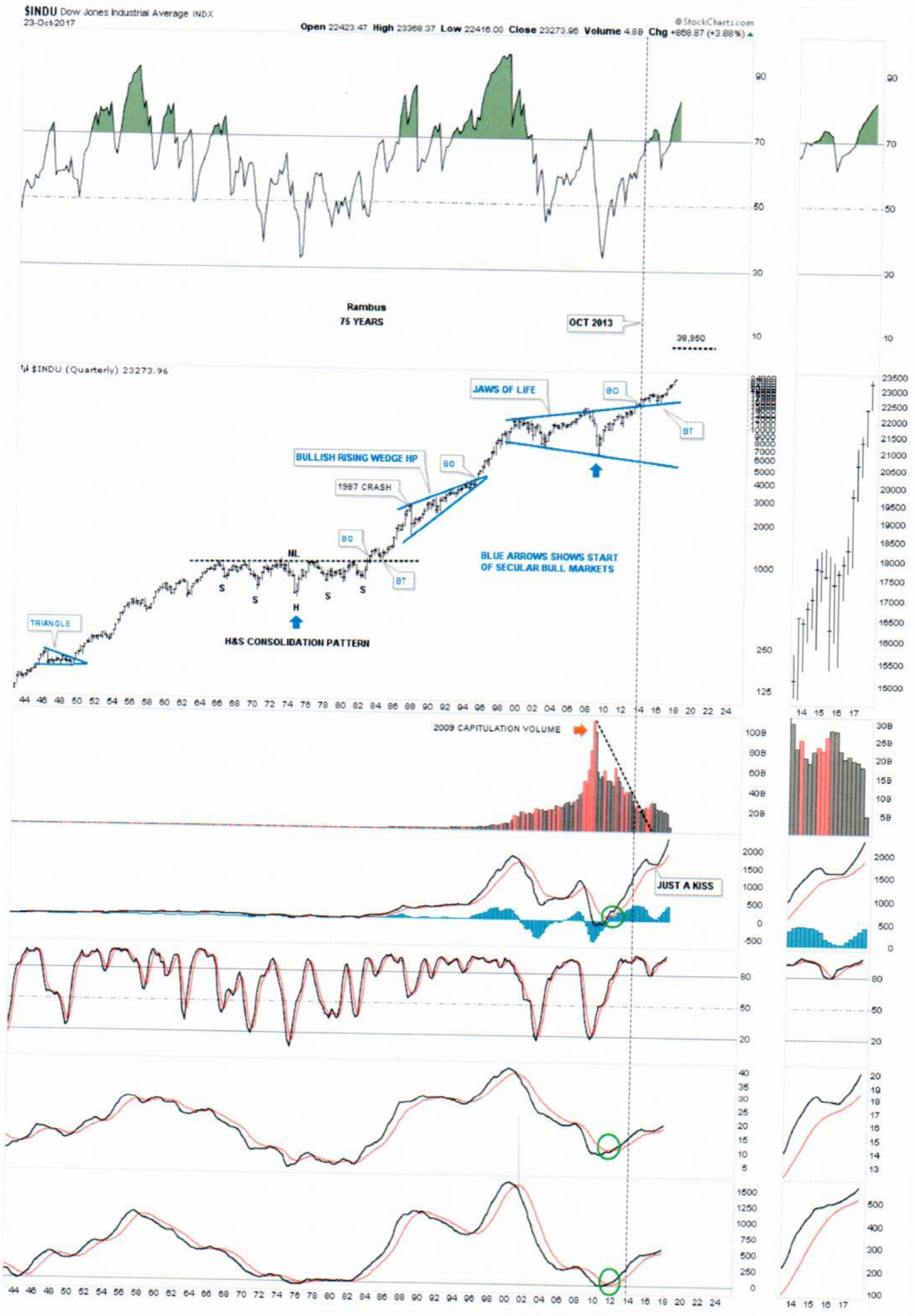


This next chart is a 20 year look at the INDU which I call the Jaws of Life because so many analysts were calling it the Jaws of Death. From a Chartology perspective nothing could be further from the truth. The breaking out and backtesting process was pretty laborious, but when all the work was done the initial impulse move higher began, which we are currently in. Big patterns equal big moves.

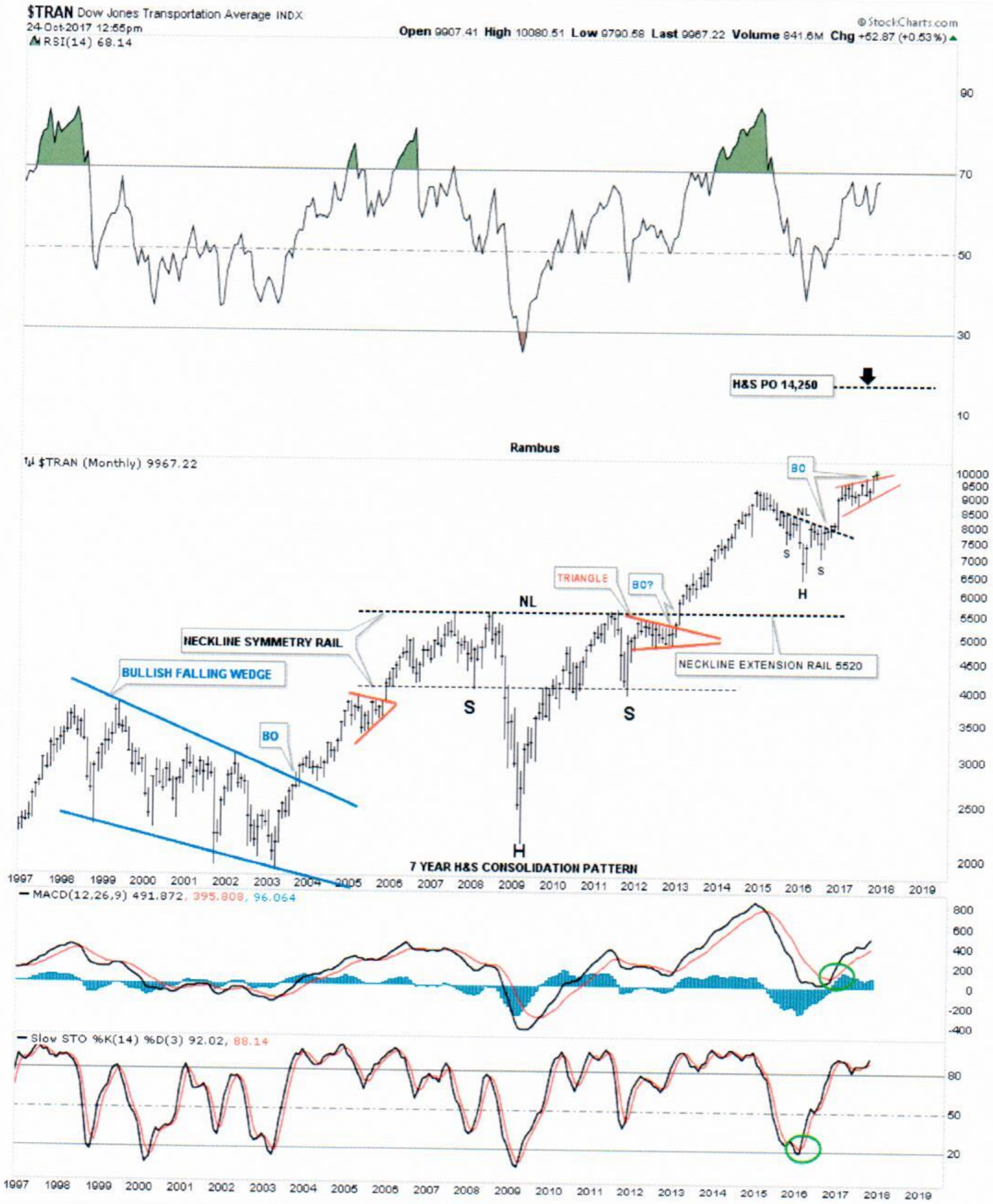


This monthly line chart for the INDU is a thing of beauty which shows the Jaws of Life and the 3 backtests to the top rail which was perfect. If you've ever wondered what a true impulse move looks like our current one shows you a perfect example.

This last chart for the INDU is a 75 year look which puts the Jaws of Life in perspective. Back in the mid 1960's to the end of the 1970's the INDU built out a perfect H&S consolidation pattern which launched the Dow on one of its best bull markets in history. Just like the SPX the first real correction didn't start to form until the 1987 crash which ended up being the first reversal point in the blue bullish rising wedge. Note the similarities between the breaking out and the backtesting process of the massive H&S consolidation pattern and our Jaws of Life expanding triangle. Again, I don't know 100% for sure if our current impulse move we are in will match the initial impulse move above the neckline to the 1987 top, but if it does the INDU could run to the 38,950 area before we see a multi year correction.



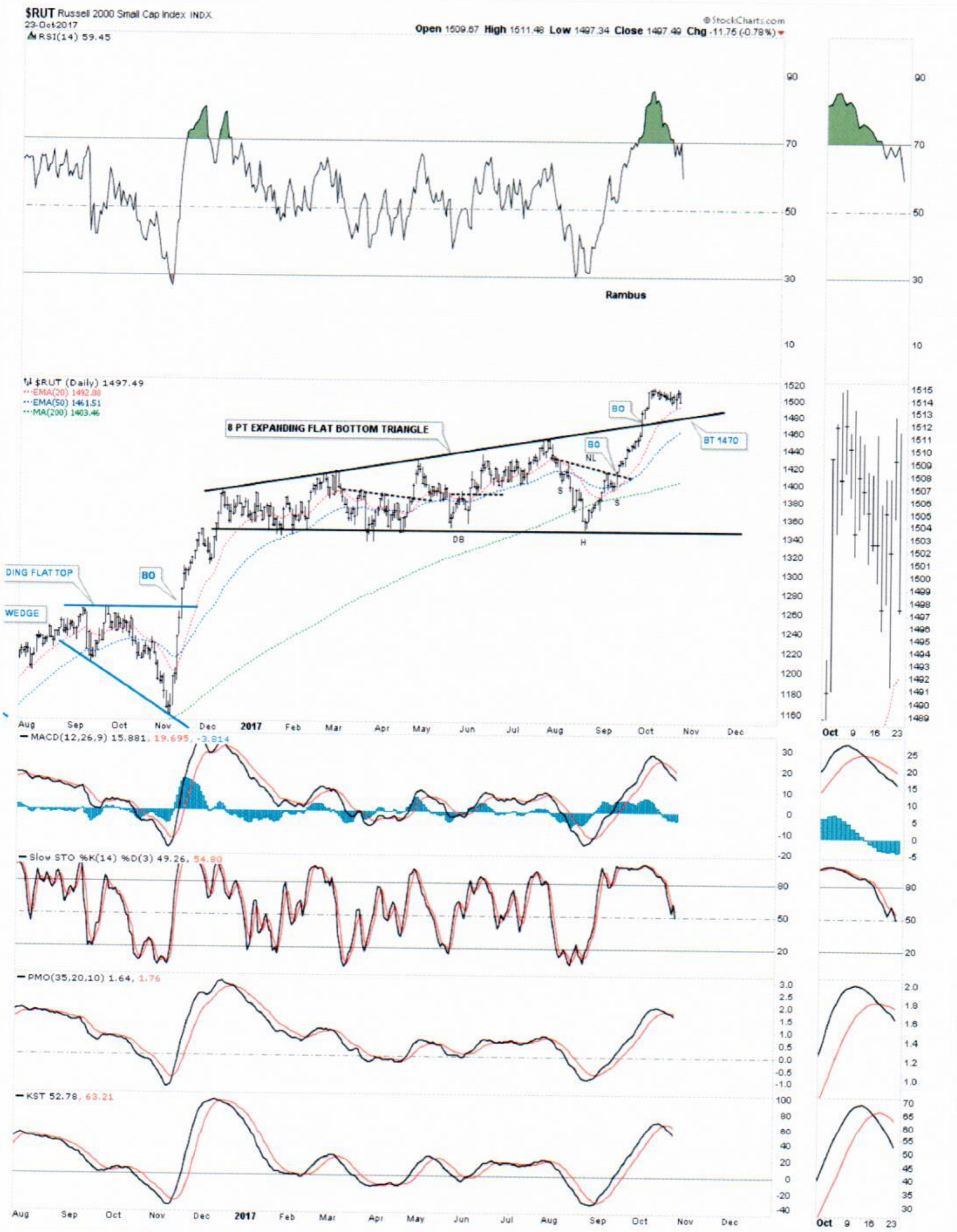
If we are truly in a new secular bull market that is going to last for many years to come the Transportation Average is going to have to play a key role in the development of the secular bull market. Below is a 20 year monthly chart which shows a very large 7 year H&S consolidation pattern that broke out in early 2013. That impulse move lasted about 2 years before it needed to consolidate. The consolidation pattern that formed was another H&S consolidation pattern which was much smaller. As you can see there is a red rising wedge that has just recently broken out above the top rail with a backtest in progress after hitting new all time highs. The price objective for that massive 7 year H&S consolidation pattern is up to the 14,250 area.



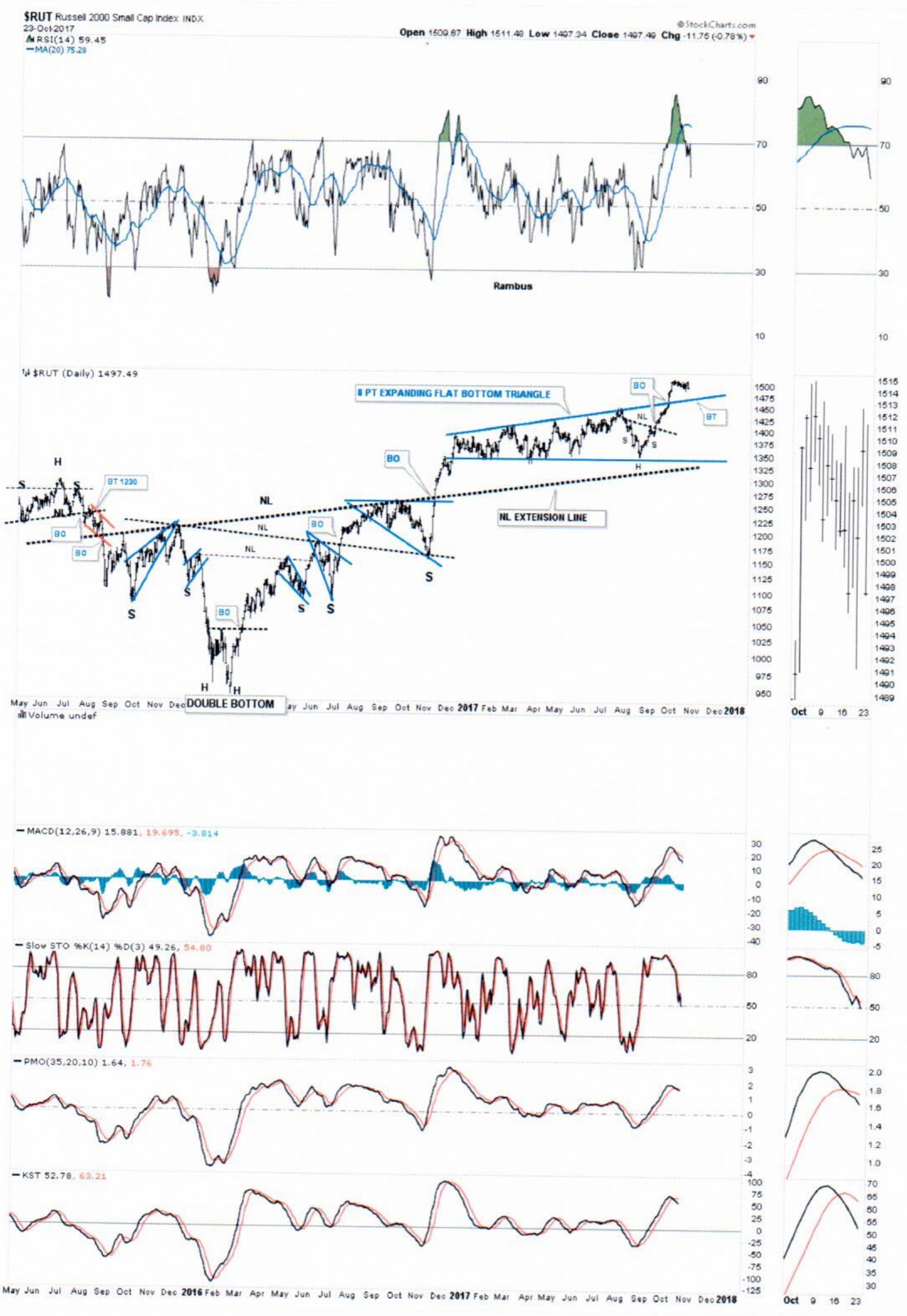
Below is a 100 year quarterly chart for the Transportation Average which puts the 7 year H&S consolidation pattern in perspective.

I'm going to change it up a bit and start with a daily chart for the RUT and work our way out to the long term charts so you can see how we get there. If you've been following the RUT, small caps index, you know it is setup a little differently than the other US stock market indexes. The daily chart below shows it has been building out a nearly 10 month flat bottom expanding triangle which finally broke out at the end of September. A backtest to the top rail would come in around the 1470 area.

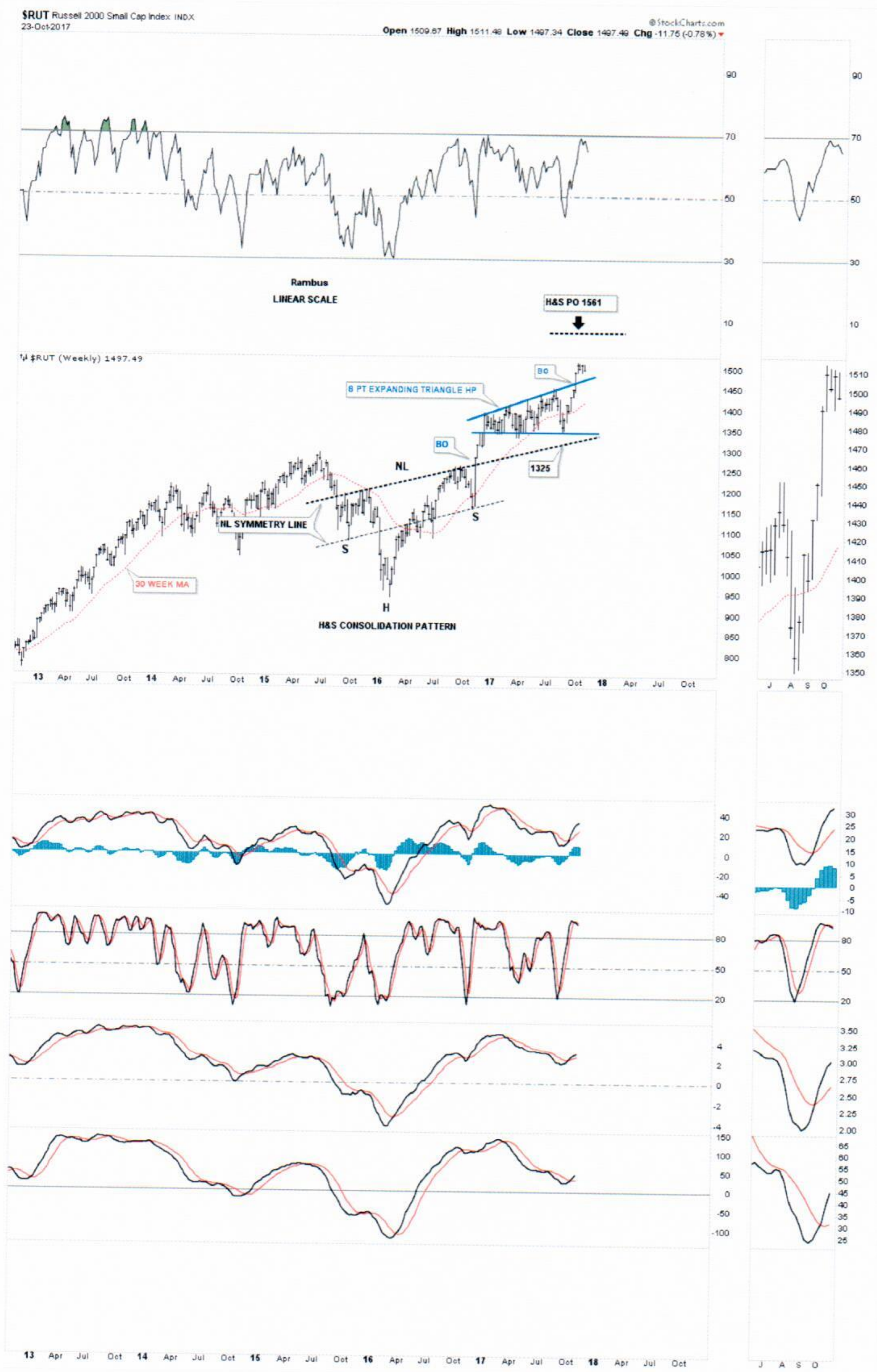
If you recall I showed you many small H&S bottoms that formed on most of the US stock market indexes toward the end of summer. This one on the RUT is responsible for the breakout above the top rail of the flat bottom expanding triangle.



Now, when we look at the 2 1/2 year daily chart for the RUT, you can see that the 8 point flat bottom expanding triangle formed just above the neckline extension line. It then reversed its role to what had been resistance when the H&S bottom was building out to support where the head is located on the small H&S bottom on the 8 point expanding flat bottom triangle. Hopefully you can begin to see how important each pattern is in the formation of much bigger patterns.



Now lets step back a little further in time and look at a 5 year weekly chart which shows the H&S bottom with the 8 point expanding flat bottom triangle. The H&S bottom on this weekly chart strongly suggested that the top rail of the blue expanding flat bottom triangle was going to give as the price objective was up to the 1560 area.

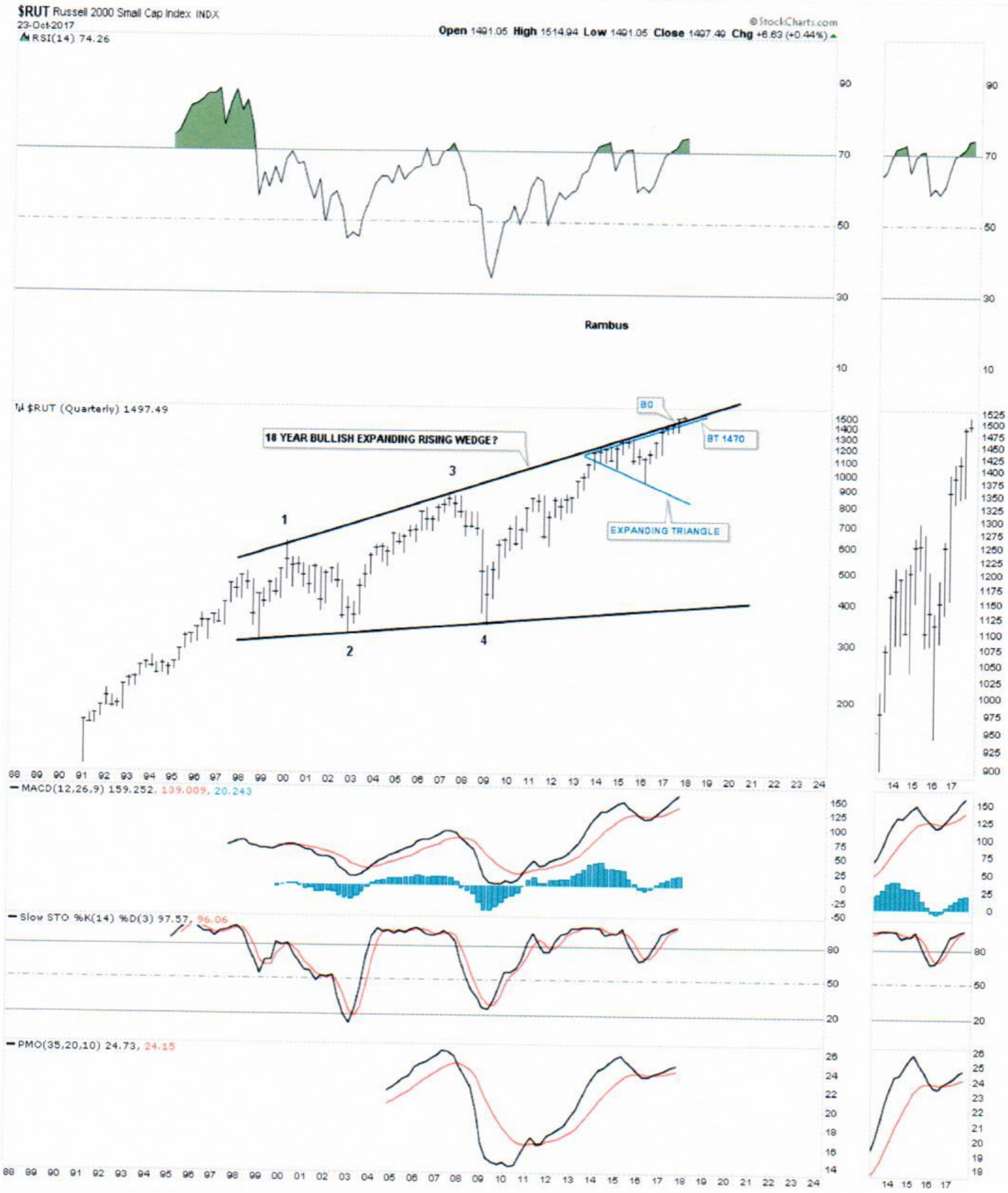


Below is another weekly chart that goes back to 2011 which shows us another consolidation pattern that has built out, which is the nearly 4 year black expanding triangle. Note how all the patterns we've looked at are coming into play in building out the black expanding triangle. Now you can see how the smaller blue 8 point expanding flat bottom triangle has formed just below the bottom rail of the much bigger black expanding triangle.

As we've seen previously on a few of the long term charts above, it's a bullish development when we see a small consolidation form just below an important resistance line. We now have two lines of support on our current backtest, the top rail of the small blue flat bottom expanding triangle, and the top rail of the multi year black expanding triangle which will come into play around the 1470 area.

This last chart for the RUT shows what we get when we put all the pieces of the puzzle together. What we get is an 18 year expanding rising wedge consolidation pattern which is in the process of breaking out. We can now add a third line of support at the 1470 area for the backtest.

In part two we'll look at some more massive consolidation patterns in many different areas of the markets so you can see how these big patterns play such a key role in understanding where you're at in the big picture so you can trade accordingly. All the best…Rambus



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