TECH FOCUS

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S&P CASH: *Reasons for Caution?*

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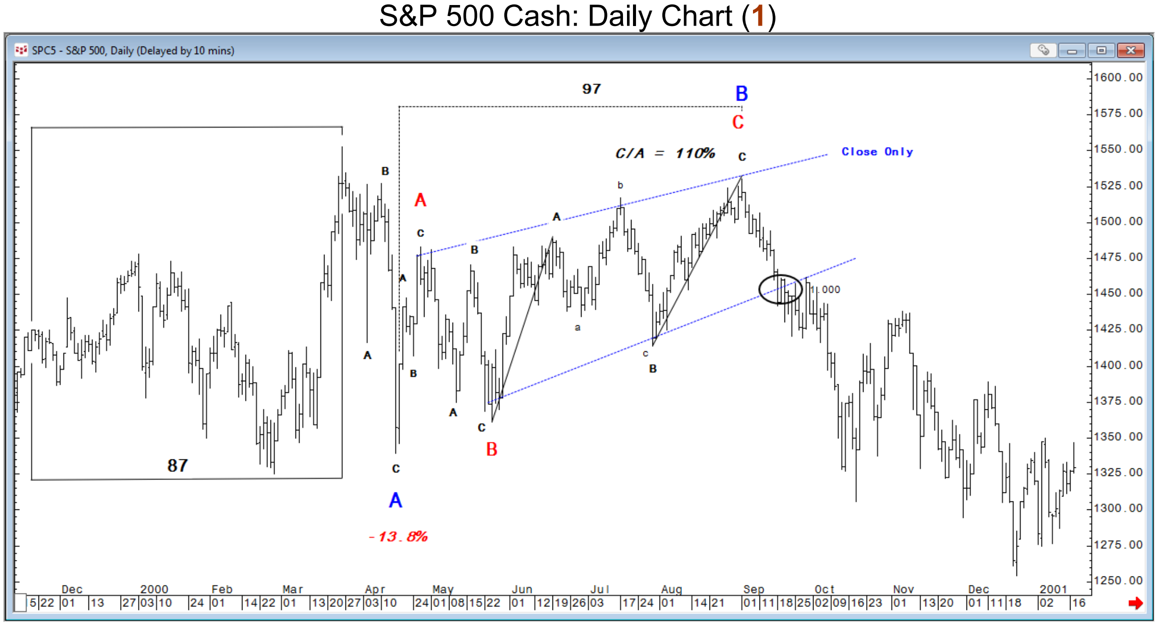
The bull market continues and in the immediate months ahead could surpass in ***duration*** all of the previous bull markets in U.S. history. Before it can do that, it will have to successfully navigate through the not-so-friendly period of August through October where seasonal weakness often materializes. Of more specific and immediate significance to us however are the perceived similarities we see today vis-a-vis those that existed in the 2000 and 2007 time periods. Our frame of reference is obviously charts which by nature can be highly subjective.

Our focus will be on 3 daily charts of the S&P 500 cash (SPX). One is current and two are from the past. The use of letters on a chart is an integral part of identifying wave structure and relating it to the reader. While some of the lettering on our charts is wave inspired a significant portion is simply intended to reference major points on one chart to the similar pattern on another. Let's start with the oldest chart first, in the year **2000**.

S&P 500 Cash: Daily Chart (**1**)



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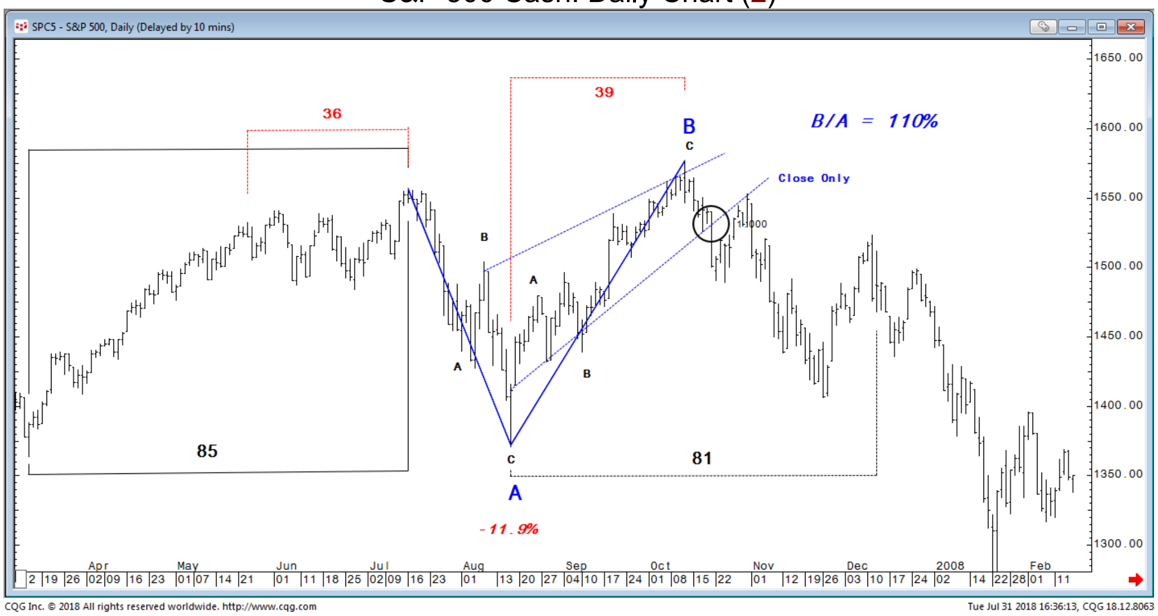
We note above that the market builds a top starting with an initial decline of 13.8% at **A**. The decline was 15 days after which a basic time consuming 3 swing rally unfolds labeled as **A-B-C.**

The rally was 97 sessions. The rally pattern is a diagonal triangle within which the last leg **C** is ***110%*** of the initial rally leg **A**. In retrospect, and this is highly subjective, if a high was approaching in the first quarter, it is reasonable to consider the erratic 87 sessions prior to the high as ***distribution***. The only alternative would be to count the 97 sessions following the low as the distribution phase. Our next chart which follows is a daily which covers the **2007** period on the cash (SPX).

S&P 500 Cash: Daily Chart (**2**)

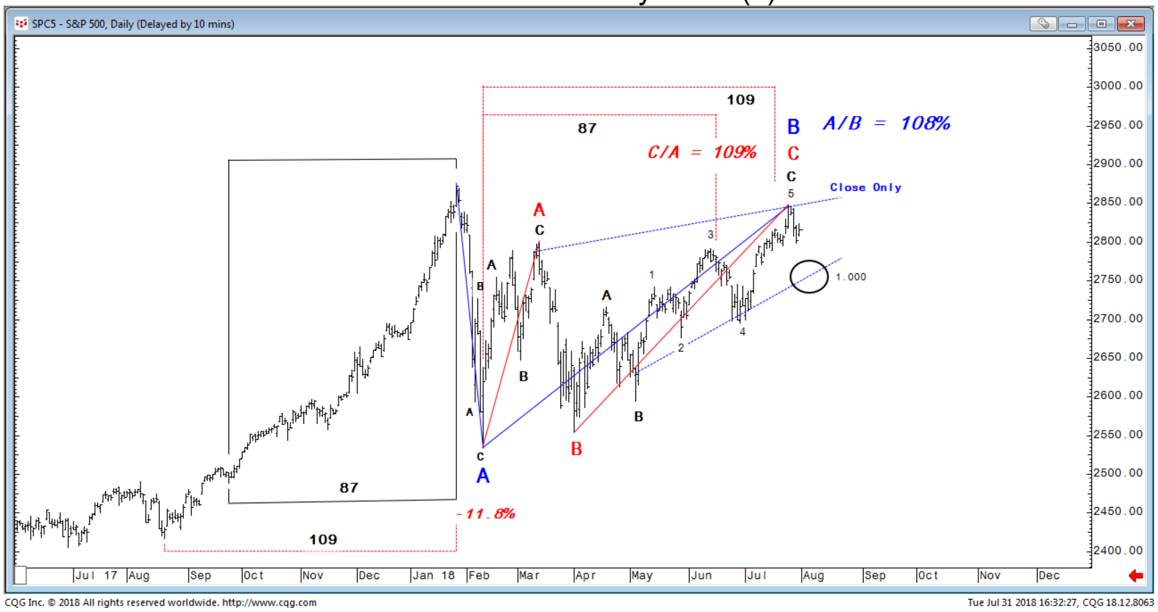


On the daily chart above, the July high of 2007 led to an immediate decline of 11.9% down to **A**. The decline was 23 days and was followed debate ably by a 3-wave rally which saw prices trade to an extremely short lived new high. The rally was also a diagonal triangle and relative to the **A** decline, **B** up was ***110%*** of **A**. That is the same "DNA" relationship but between different waves which accompanied the 2000 rally on Chart 1 above.

Distribution here was either the last leg up of 85 sessions preceding the July high or the short lateral period of erratic swings ---only 36 sessions ---preceding the July high. Very interesting is the fact that when projecting or duplicating the distribution periods forward from the **A** low, results in projections very close to a significant price high.

Our attention now turns to the **current daily chart** which follows on the next page.

S&P 500 Cash: Daily Chart (**3**)



Let's start with the same factors enumerated on our preceding 2 charts above. Prices decline 11.8% in early 2018 to point **A**. The decline was fast at 10 sessions and thereafter followed by an **A-B-C** rally, very similar to the 2000 chart. The rally was also a diagonal triangle with rising converging dashed lines ---the same pattern as 2000 and 2007.

Within the pattern we have 2 relationships noted. The first is the large **B** rally which is ***108%*** of the **A** decline (both blue lines). A somewhat smaller but not insignificant relationship between rally leg **C** and **A** (both red lines) is ***109%***. These are very comparable to the ***110%*** relationships noted on the 2 historical charts.

For a distribution period we chose two, one at 87 sessions ---a large rally leg --- prior to the high and an even greater leg of 109 trading sessions also prior to the high. The market is well beyond the smaller distribution measure projection forward from the **A** low but at the recent high, was only 5 trading sessions beyond the 109 day period projected forward from the low.

Looking at the 3 charts, there is definite similarity. Quantifying some of those factors into numerical relationships we think is extremely important. While there is an implication that a rally high is either in place or is imminent, the 2 historical charts dictate *waiting for a downside exit under the diagonal triangle on the current chart as necessary to confirm a top.* On each of the 3 charts we have circled the point at which prices did exit or would have to exit to signal another interim high. On the current chart that will obviously change in time.

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