Major Market Outlook

August 26, 2015

By

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Mad Day Trader

Overview:

With the major markets experiencing a sharp sell off this past week, I felt it would be prudent to describe where I see major support and resistance for the markets. And what actions to look for if there is a shift in the markets from a bull market to a bear market. That is the ***KEY*** issue to address at the moment.

Just as a bit of background, I have been asked many times if this bull market is different. My answer has always been that we do not have a market segment that is completely overvalued. The prime examples in the recent past, are the dot com bubble that brought about the bear market in 2000. And the real estate bubble that began the bear market in 2007.

That line of thinking maybe changing at the moment with the slow down in China and the impact it is having worldwide.

The point is or was, is that the catalyst for a shift to a bear market did not seem to be there.

During this bull run, you could make a case that the biotech sector is in a bubble. The Biotech iShares (IBB) traded at $56.39 back in 2008 and peaked at $400.79 last week. That is a move of over 600%.

The BIB, which is a leveraged biotech fund, stood at $4.24 back in 2011 and hit $106.10 last week. That is a move of over 24 times in four years.

Having said that, by historical standards, both in price and time, the markets are overextended and this has been a concern for me.

The last two Bull Markets were as follows:

2000 Top: Broke out around 450 and topped at 1,562.50. Range of 1,112.50 or 247% Return.

It lasted for about 5 ½ years

2007 Top: Started at 768.63 and topped out at 1,576.09. Range of 807.46 or 105% Return

It lasted for about 5 years.

The *average* of the last two bull markets are …

960 points and about 5.25 years in time

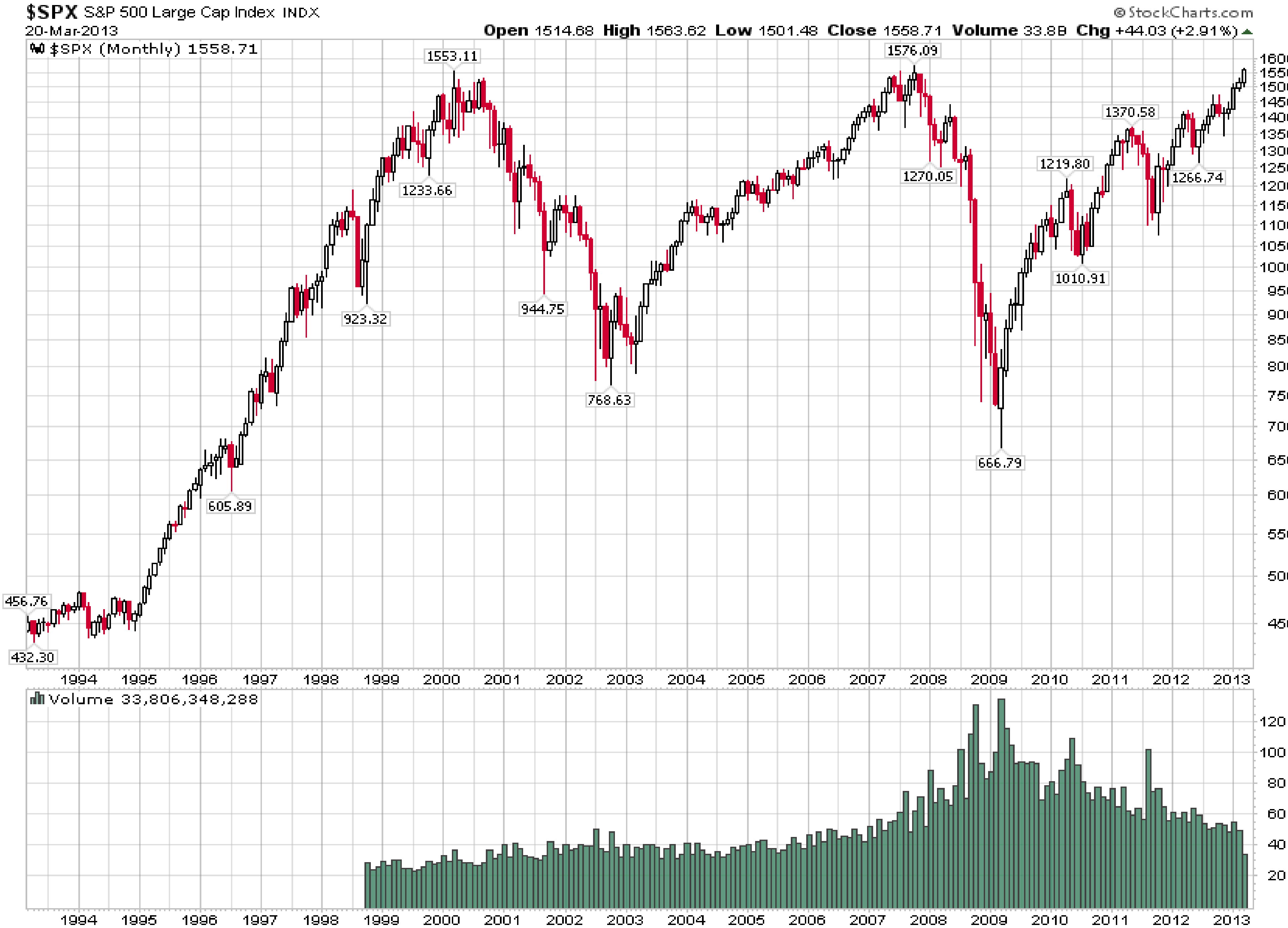
The current bull market started on March 9, 2009 with the S & P 500 at 666.79.

Based on the average of the last two bull markets, this bull market would top out at 1,626.

Timewise, this bull market has lasted for seven years, which exceeds that last two bull runs by over two years.

If you consider the top at 2,134.72 made on May 20, 2015, to be a major top, then this bull market has moved 1,467.93 points or 220%. This return is less than the 2000 bull market, but greater than the 2007 bull run.

The next page shows the historical moves from 2000 and 2007.



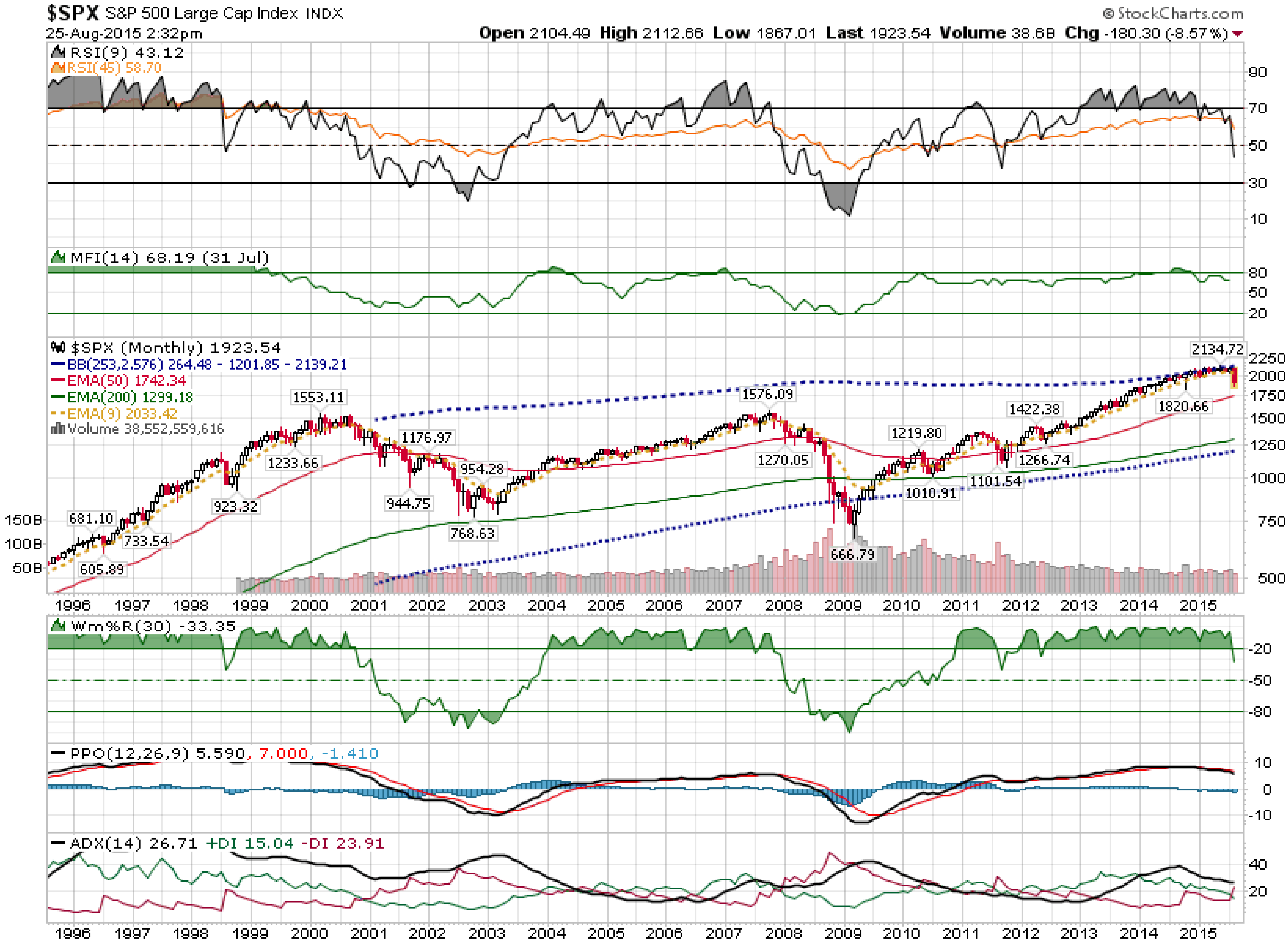
$SPX S&P 500 Large Cap Index INDX
20-Mar-2013
© StockCharts.com
Open 1514.68 High 1563.62 Low 1501.48 Close 1558.71 Volume 33.8B Chg +44.03 (+2.91%)
$SPX (Monthly) 1558.71
1553.11
1576.09
1233.66
923.32
944.75
768.63
1270.05
666.79
1219.80
1010.91
1370.58
1266.74
605.89
456.76
432.30
Volume 33,806,348,288
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
120B
100B
80B
60B
40B
20B

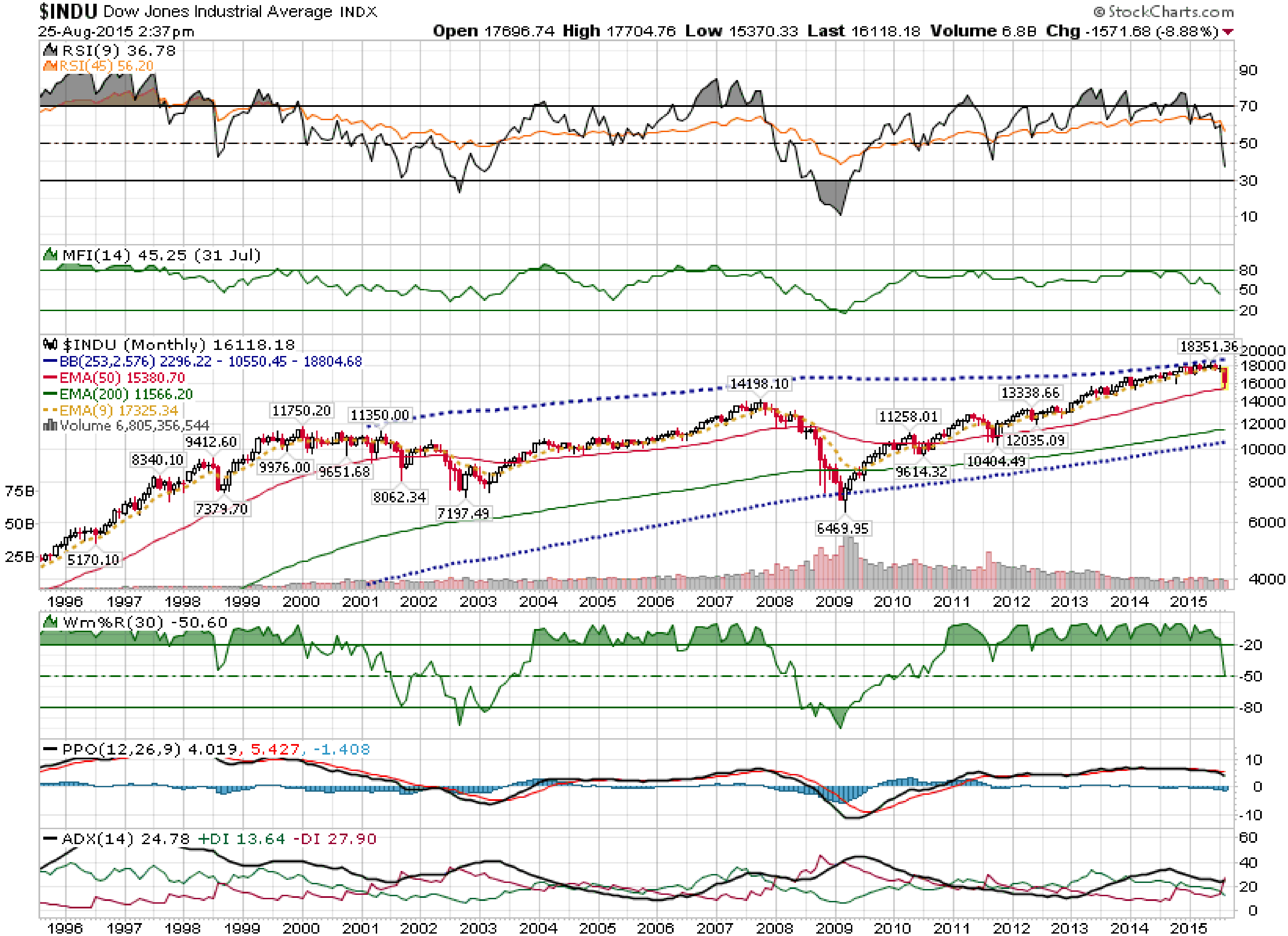
Now let’s take a look at a 20 year chart of the S & P 500 with the extreme Bollinger Bands drawn on them.

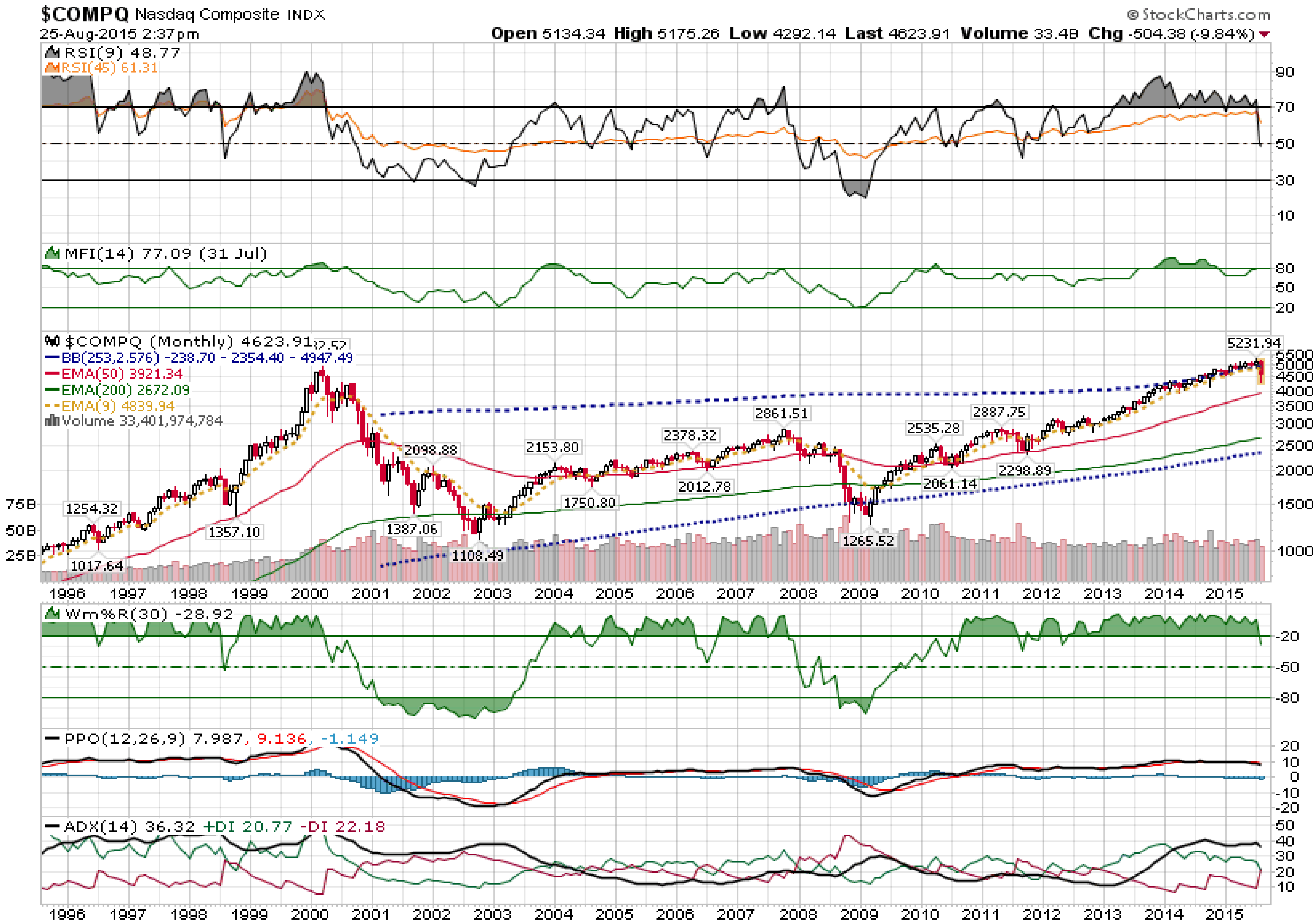
As you will see, the S & P 500 is right up against the Upper Band and has sold off them. The setting I use should contain 99.9% of the price action.

Notice that in 2000, that when the price closed back inside the bands it began the bear market.

I also include the monthly charts for the DOW & the NASD Composite so you can see their relationship to the upper Bollinger Bands.


$SPX S&P 500 Large Cap Index INDX
© StockCharts.com
25-Aug-2015 2:32pm
Open 2104.49 High 2112.66 Low 1867.01 Last 1923.54 Volume 38.6B Chg -180.30 (-8.57%)
RSI(9) 43.12
RSI(45) 58.70
MFI(14) 68.19 (31 Jul)
$SPX (Monthly) 1923.54
BB(253,2.576) 264.48 - 1201.85 - 2139.21
EMA(50) 1742.34
EMA(200) 1299.18
EMA(9) 2033.42
Volume 38,552,559,616
Wm%R(30) -33.35
PPO(12,26,9) 5.590, 7.000, -1.410
ADX(14) 26.71 +DI 15.04 -DI 23.91
1553.11
1576.09
2134.72
1422.38
1820.66
1219.80
1176.97
1233.66
1270.05
1266.74
954.28
923.32
944.75
1010.91
1101.54
681.10
733.54
768.63
666.79
605.89
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015


$INDU Dow Jones Industrial Average INDX
© StockCharts.com
25-Aug-2015 2:37pm
Open 17696.74 High 17704.76 Low 15370.33 Last 16118.18 Volume 6.8B Chg -1571.68 (-8.88%)
RSI(9) 36.78
RSI(45) 56.20
MFI(14) 45.25 (31 Jul)
$INDU (Monthly) 16118.18
BB(253,2.576) 2296.22 - 10550.45 - 18804.68
EMA(50) 15380.70
EMA(200) 11566.20
EMA(9) 17325.34
Volume 6,805,356,544
Wm%R(30) -50.60
PPO(12,26,9) 4.019, 5.427, -1.408
ADX(14) 24.78 +DI 13.64 -DI 27.90


$COMPQ Nasdaq Composite INDX
© StockCharts.com
25-Aug-2015 2:37pm
Open 5134.34 High 5175.26 Low 4292.14 Last 4623.91 Volume 33.4B Chg -504.38 (-9.84%)
RSI(9) 48.77
RSI(45) 61.31
MFI(14) 77.09 (31 Jul)
$COMPQ (Monthly) 4623.91
BB(253,2.576) -238.70 - 2354.40 - 4947.49
EMA(50) 3921.34
EMA(200) 2672.09
EMA(9) 4839.94
Volume 33,401,974,784
1254.32
1017.64
1357.10
1387.06
1108.49
2098.88
2153.80
1750.80
2378.32
2012.78
2861.51
1265.52
2535.28
2061.14
2887.75
2298.89
5231.94
Wm%R(30) -28.92
PPO(12,26,9) 7.987, 9.136, -1.149
ADX(14) 36.32 +DI 20.77 -DI 22.18
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015

In addition to price relative to its' extreme Upper or Lower Band, another way I use the extreme Bollinger Bands is to determine the trend direction.

The setting I suggest, which is a 253 day setting with a 2.576 standard deviation means that 99.9% of the price action should be contained within the bands.

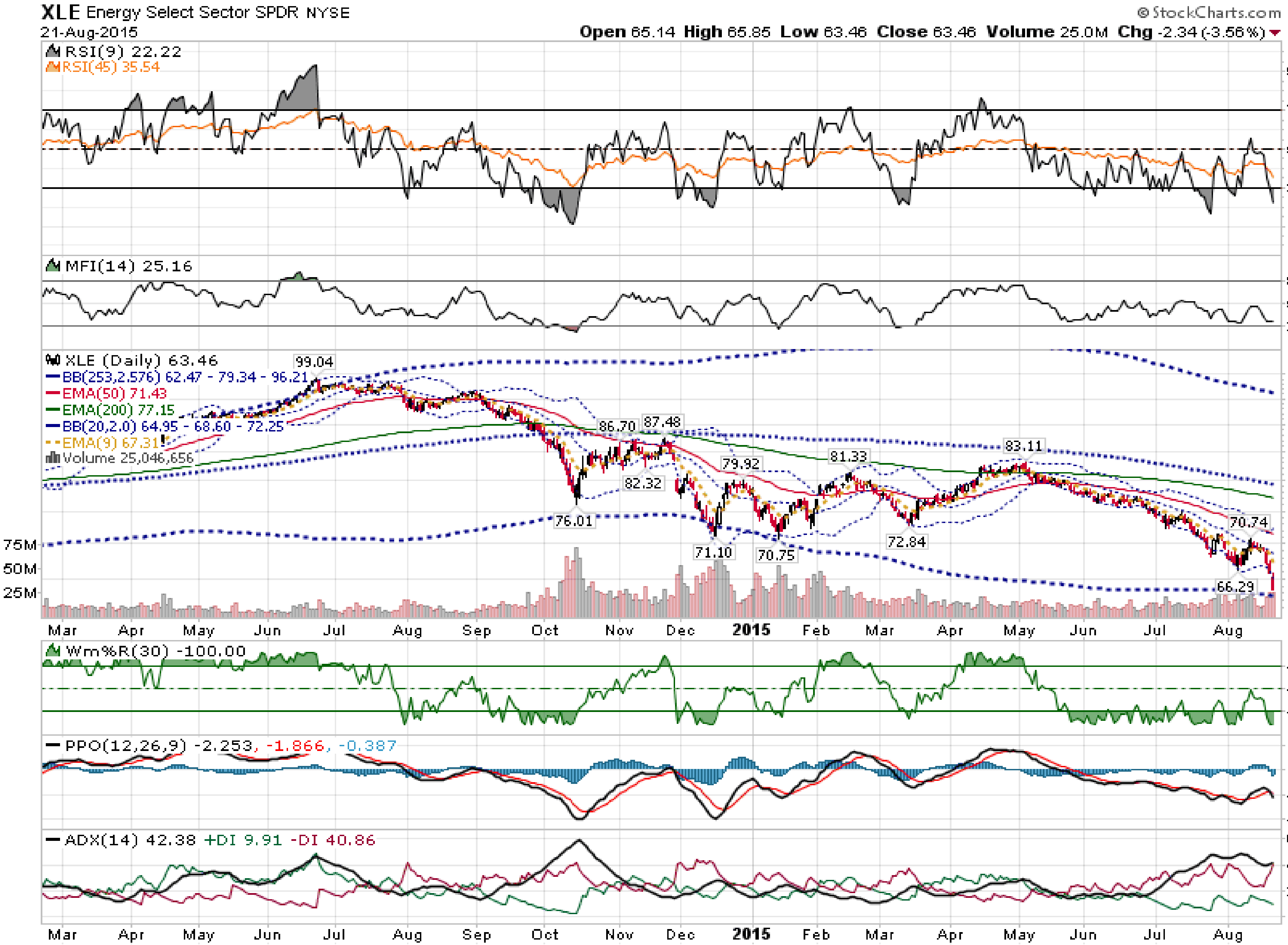
The corollary to this is that when price breaks through either the Upper or Lower band there is an unusual event.

Also, when using these settings it is plotted as a simple moving average, therefore, the midband is a 253 day simple moving average.

I combine this with a 200 day exponential moving average (ema) and compare the 200 day ema to the midband, or the simple 253 day average.

When the 200 ema is above the midband, the trend is bullish. When the 200 ema is below the 253 day average, it is bearish.

By way of demonstration, I want to show the daily chart for the XLE. I will also show a chart with edits on it.



XLE Energy Select Sector SPDR NYSE
21-Aug-2015
© StockCharts.com
Open 65.14 High 65.85 Low 63.46 Close 63.46 Volume 25.0M Chg -2.34 (-3.56%)
RSI(9) 22.22
RSI(45) 35.54
MFI(14) 25.16
XLE (Daily) 63.46
BB(253,2.576) 62.47 - 79.34 - 96.21
EMA(50) 71.43
EMA(200) 77.15
BB(20,2.0) 64.95 - 68.60 - 72.25
EMA(9) 67.31
Volume 25,046,656
99.04
86.70
87.48
82.32
76.01
79.92
81.33
71.10
70.75
72.84
83.11
70.74
66.29
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2015 Feb Mar Apr May Jun Jul Aug
Wm%R(30) -100.00
PPO(12,26,9) -2.253, -1.866, -0.387
ADX(14) 42.38 +DI 9.91 -DI 40.86

XLE Energy Select Sector SPDR NYSE
© StockCharts.com
21-Aug-2015
Open 65.14 High 65.85 Low 63.46 Close 63.46 Volume 25.0M Chg -2.34 (-3.56%)
RSI(9) 22.22
RSI(45) 35.54
MFI(14) 25.16
XLE (Daily) 63.46
BB(253,2.576) 62.47 - 79.34 - 96.21
EMA(50) 71.43
EMA(200) 77.15
BB(20,2.0) 64.95 - 68.60 - 72.25
EMA(9) 67.31
Volume 25,046,656
Note 200 & 253
spreading apart
Close back under
the Upper Band
Wm%R(30) -100.00
PPO(12,26,9) -2.253, -1.866, -0.387
ADX(14) 42.38 +DI 9.91 -DI 40.86

Now let’s look at a daily chart of the S & P 500 from August 25, 2015


$SPX S&P 500 Large Cap Index INDX
25-Aug-2015
© StockCharts.com
Open 1898.08 High 1948.04 Low 1867.08 Close 1867.78 Chg -25.43 (-1.34%)
RSI(9) 10.72
RSI(45) 33.70
MFI(14) 29.14
$SPX (Daily) 1867.78
BB(253,2.576) 1904.56 - 2054.44 - 2204.32
EMA(50) 2071.86
EMA(200) 2058.64
BB(20,2.0) 1927.07 - 2063.46 - 2199.85
Volume undef
200 ema VERY close to crossing under the 253 simple average
Violation of Lower Band. We will see a retest
2119.59
2114.86
2134.72
2132.82
2079.47
2093.55
2064.62
2039.69
2045.50
2044.02
1972.56
1992.44
1980.90
1867.01
Wm%R(30) -99.71
PPO(12,26,9) -1.907, -0.747, -1.160
ADX(14) 26.05 +DI 8.65 -DI 51.69
$NYDNV:$NYUPV 3.72
Nov
Dec
2015
Feb
Mar
Apr
May
Jun
Jul
Aug

The final chart to take a look at is a weekly chart of the S & P 500 with the resistance levels.


$SPX S&P 500 Large Cap Index INDX
© StockCharts.com
25-Aug-2015
Open 1965.15 High 1965.15 Low 1867.01 Close 1867.62 Volume 4.9B Chg -103.27 (-5.24%)
RSI(9) 21.34
RSI(45) 45.90
2,132.82 was the upside confirming line to 2,156
MFI(14) 27.96 (21 Aug)
$SPX (Weekly) 1867.62
BB(253,2.576) 811.24 - 1614.91 - 2418.58
EMA(50) 2038.36
EMA(200) 1766.19
BB(20,2.0) 1964.35 - 2082.45 - 2200.55
Volume 4,893,605,888
2,132.82
2,000
1,875
1,812.50
1729.06
1850.84
1897.28
1991.39
2019.26
2093.55
2119.59
2134.72
2132.82
2039.69
1988.12
2044.02
1904.78
1814.36
1820.66
1737.92
1646.47
1627.47
Sep Oct Nov Dec 2014 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2015 Feb Mar Apr May Jun Jul Aug
Wm%R(30) -99.77
If 1,812.50 is violated, EXPECT further downside. I would expect it would be difficult to violate on 1st attempt.
PPO(12,26,9) -0.888, 0.232, -1.119
ADX(14) 18.61 +DI 9.86 -DI 37.08
$NYDNV:$NYUPV 3.87

As you can see, there are a few technical set ups at the moment that are quite concerning. The first is that the daily chart is VERY close to having a bearish cross. The second is that price is selling off against the upper extreme Bollinger Band on the monthly charts.

If this market shifts to a bear market, the support levels provided by the monthly charts consist of the following:

50 exponential moving average	1,742
200 exponential moving average	1,299
Midband	1,201

The bear market that ended in 2002 stopped at the 200 ema and the bear market that ended in 2009 terminated just under the midband. As you can see from above, there is only a 100 point difference between those levels. (The average is about 1,250, which is a major resistance level and a level I would feel would be strong support.)

Should the markets shift to a bear market, profits will be made on the short side. Consideration should be given to hedging any long positions.

Thank you.

Bill Davis

The Mad Day Trader