

August 25, 2015

Special Comment

Technical View of State of Equity Markets

To restate where my view of the global stock markets resides at this moment:

1. The Primary Trend in stocks has turned from BULLISH to BEARISH
2. The “topping process” of global stocks has completed itself
3. The first “leg down” below support is now complete as of August 24th 2015
4. The rebound begins today, Aug 25th.

The purpose of this update is to consider the key “milestones” in the rebound and how it might play out. (This is obviously a very loose game plan...events are happening rapidly but it is always best to have a plan.)

“Rebound”

Risk happens fast!

This is even truer in an environment when the world is over-levered at artificially low interest rates and everybody thinks they are going to be the “smart one” who is going to sell “just in time right near the top.”

Well, at least, we are past that bedtime story now!

The People’s Bank of China gave the markets the “*ointment*” they were looking for with interest rate and reserve requirement cuts this morning. There is talk of QE4 in the US...hard to believe it was only a week ago we were still talking about a 0.25% rate increase in September!

These talks are going to be the catalysts for an oversold bounce in stock markets. But if you look at the chart below of the TSX you will see that stock prices simply went down too far too fast and deserve a bounce...period.

(Note the Relative Strength Index – RSI on the top section of the chart hit an 18 which is incredibly oversold)



I have added two notations on the chart. The first is a **red line** that extends back to the 2013 “tops” in the TSX right around the 13000 level. **A close below this line signals the resumption of the BEAR market move in stocks.** My hope is that we will not see this line breached in August! The bounce that is starting today will hopefully last for a week or two.

My minimum upside target for the bounce is 13,750. The maximum bounce target is 14,750 which is the red 200 day moving average line.

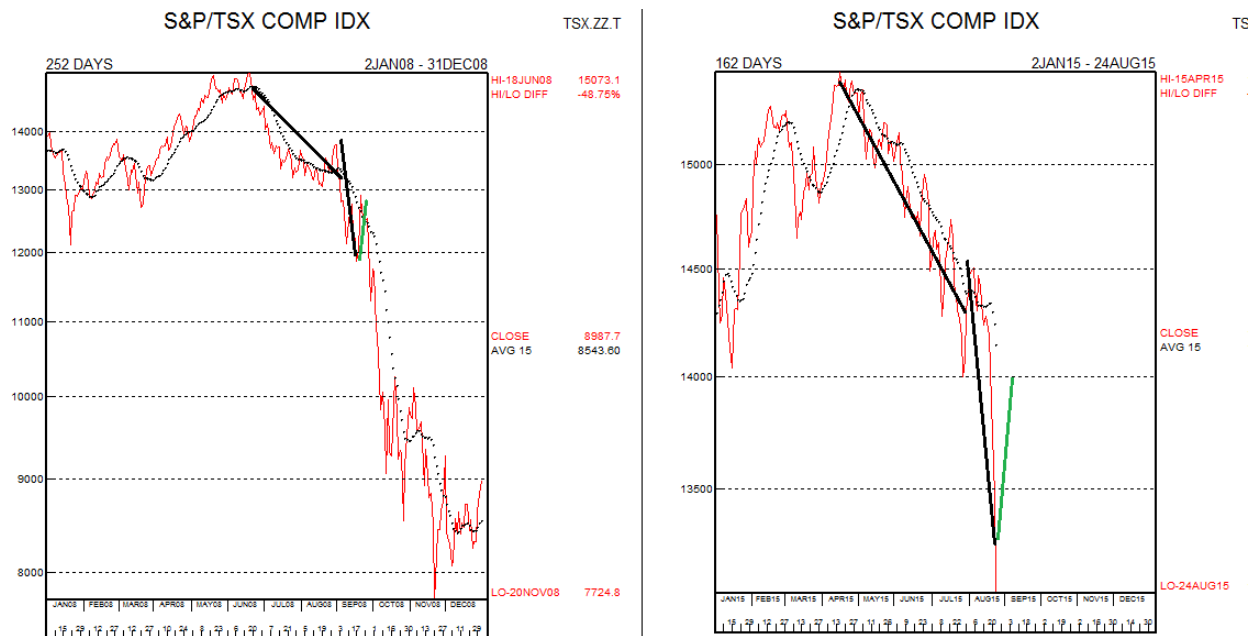
“History”

Let’s go back to the summer of 2008 for a moment. The stock market had done a similar pattern early in the summer and then broke below its “topping pattern” in August 2008.

The key to note is the rebound from the first leg down.

The left hand graph is the 2008 decline. The second graph is the 2015 move in the TSX so far. I have drawn two black lines on the chart showing:

1. The end of the 2008 “topping process”
2. The “first leg” of the 2008 decline.



The scales on the charts are a bit messed up because of the large decline that happened after the rebound occurred in 2008. But if you look at the actual TSX points lost you will notice they are very similar in magnitude and duration!

The green line on the 2008 chart shows the “rebound” that actually occurred. The green line on 2015 is what I expect to occur.

“Actions to be Taken”

My expectation is the Canadian TEAM model will end up in a “cash” position during the “rebound” phase for the TSX. A close below 14,050 on Monday, August 31 will accomplish this goal.

Traders may want to “trade” the bounce. If you do...my recommendation is to stay with good quality stocks.

Short sellers should have been out of the markets yesterday on the “puke down” in the indexes in the morning. (If you missed that “fat pitch” you better find a new career other than a short seller!)

Shorts should be looking to reload their short sales either up and around the TSX 14,000 level or on a break below the 13,000 level.

Time to let the rebound begin! Let’s hope I am right and it holds for more than a few days!

About the author: Nick Foglietta is a Vice President, Investment Advisor at RBC Wealth Management in Nanaimo, B.C., Canada. He has been managing money since 1988.

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