Technical Update

Bob Dickey – Technical Strategist **December 17, 2018**

Current market trends

Short term (Days to weeks): Correction. The market indexes have been pulling back in a volatile fashion over the past two weeks in a continuation of the typical trading pattern for the year. Each decline has caused the sentiment and expectations to become quite negative, and the most recent pullback has been typical in this regard with the measurement of the American Association of Individual Investors poll reaching the highest level of bearishness in over two years. Larger market declines do not typically start when the level of bearishness is at extremely high levels as these types of readings are more often associated with market lows. The higher level of uncertainty on the economic, international, and domestic fronts is no doubt adding to the bearish market opinion which looks to us like it is nearing a peak in terms of negativity that could lead to a correction bottom.

Intermediate term (Weeks to months): Neutral. The major market indexes have been trading in a volatile fashion this year but it has all been confined to a range that has seen several bottoms and tops along the way, but little in the way of overall progress for the year. During this time the theme has been that of rotational periods of over performance and underperformance between different market groups and even between stocks within groups that has left many stocks in various stages of corrections that have been largely separate from the performance of the indexes. It has been a different type of market correction than we are used to seeing that has made achieving better results in a portfolio much more challenging than in years past.

Long term (Months to years): Bullish. The Dow Industrials and the S&P have been in bullish uptrends since 2009, and they continue to trade in an overall rising technical channel that implies further gain potential for possibly many more years. We continue to believe that the U.S. stock market is around the mid-point of a longer-term secular bull market that we expect to rise until the economy and business climate become much more improved, which could still take many more years to develop. The overall rising channel for the Dow Industrials and the S&P are 20% wide, which allows for much movement in between that can cause distraction from the longer-term bullish trend. Long-term bull markets tend to continue to rise until optimistic sentiment becomes common among investors and the public, and we see the current conditions as being far short of that kind of attitude. Generally, the acceptance of a long-term secular bullish trend is not common until the markets have been trending higher for many years and the positive trends for the economy and business cycle are a lot more obvious to the majority.

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