

## The Big Picture

*The following is an excerpt from the Weekly Commentary piece that was presented to members of TheMarketMessenger.com on Nov 4<sup>th</sup>...*

### Crucial Minor Support being retested

The volatility continues...

Just as it seemed like the bulls were going to pull off another set of new highs on the major indices, the bears clamp down on that idea.

Frustratingly enough, though, neither side can claim to have the upper hand as yet.

Taking a look at the action over the better part of the past year, it becomes quite evident that the intermediate trend is sideways in nature on most broad market indices.

Looking at the action over the past few weeks, it becomes apparent that the minor trend is also showing up as sideways - on virtually every index.

The next week or so, is going to be crucial. If it is a week when the indices gain ground, the minor trends will continue to show up as sideways (unless there is an ungodly bounce), but virtually any loss for the week will leave minor downtrends on many indices.

For what it's worth, our view is that the indices are ready for a sharp move over the coming month or so. As such, a good number of stock picks have been added this week and a small number of options picks, which is the opposite of what has been seen over the past few weeks.

In a sharply trending environment, stocks will often do better than options, as long as you are on the right side of the trend.

We've got a lot of charts to look at this weekend, starting with the major indices, as usual, and ending with a look at various sectors via representative ETFs.

Let's get right to it...

### The daily chart of the S&P-500... (located on next page)

The most important index of them all is showing a potential inverted cup with handle pattern. 1490, which has been pegged variously as *the* crucial resistance/support level for the past 5 months, continues to carry the hopes of each camp.

Any breaking of that level, would complete the Inverted CnH and call for a move to 1405, which was the level of the closing lows from the sell-off that ended in mid-August .

An ominous sign for the bulls is that MACD has now moved under its 0-line. RSI keeps fluttering around on either side of the centerline.

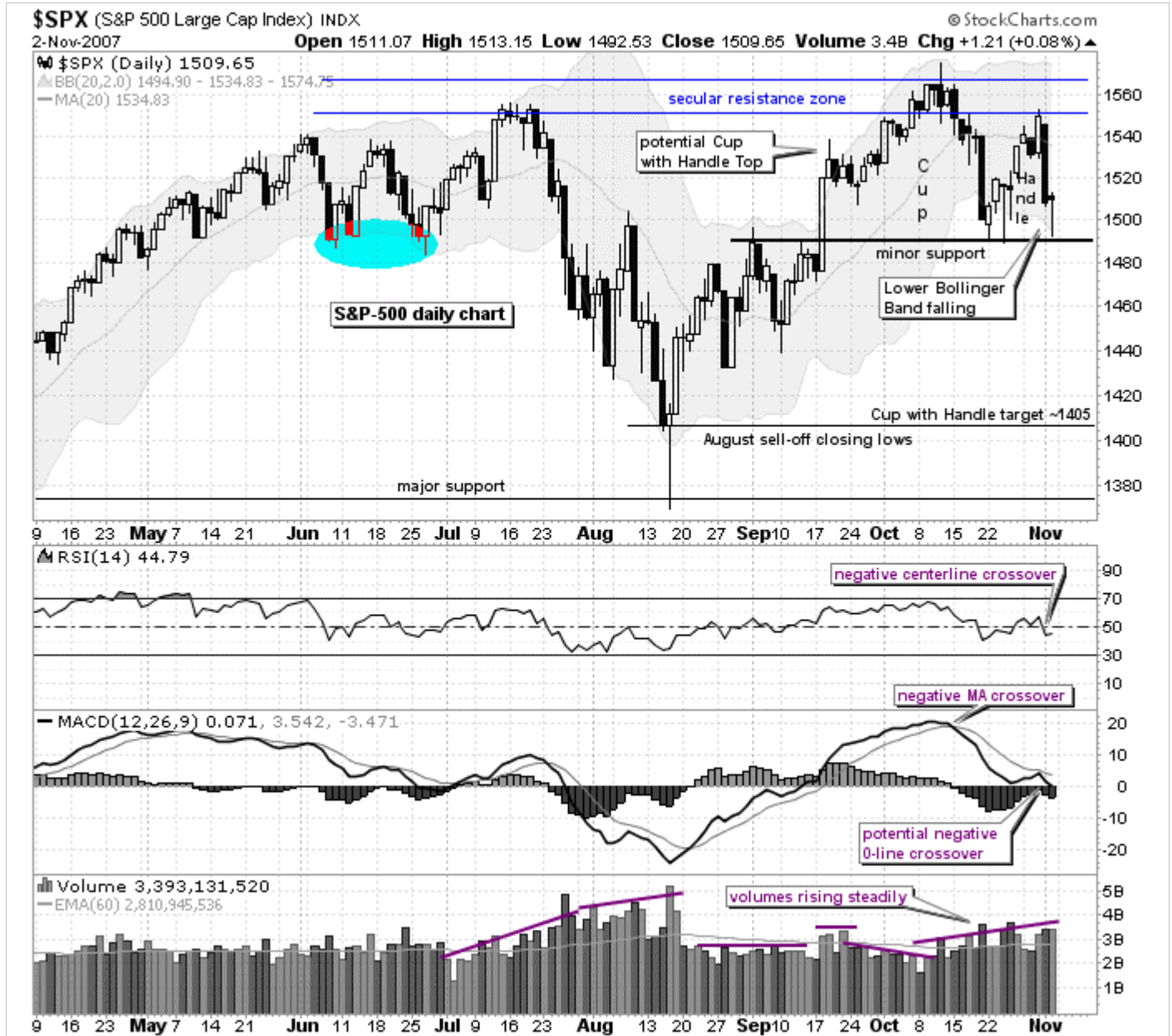
Three days ago, prices had moved above the 20dMA, at which point the Bollinger Bands were flat. Given that development on the Bands, we'd said that although it wasn't necessarily evident which Band would be reached first, what was rather for certain was that one of the Bands would be reached fairly quickly.

Well, it only took two days (less, in fact, if you consider that the intraday low on Friday had been put in place by mid-day).

Another subtle but important warning sign is the fact that volumes are rising as prices have declined over the past 3-4 weeks, while they were average to below-average when the index was rallying to its highs (late-Sept to early-Oct).

In the end though, this little period might end up being just a much-needed period of consolidation before the next march upwards to new highs.

If the bears want to change that story line, their task is simple... They need to take out the minor support level at 1490 and they need to go it as soon as possible. The longer the index meanders sideways, the higher the chances that this is just a stop to higher levels.



Let's zoom out a little bit and look at the intermediate and major trends on the SPX...

## The weekly chart of the S&P-500...

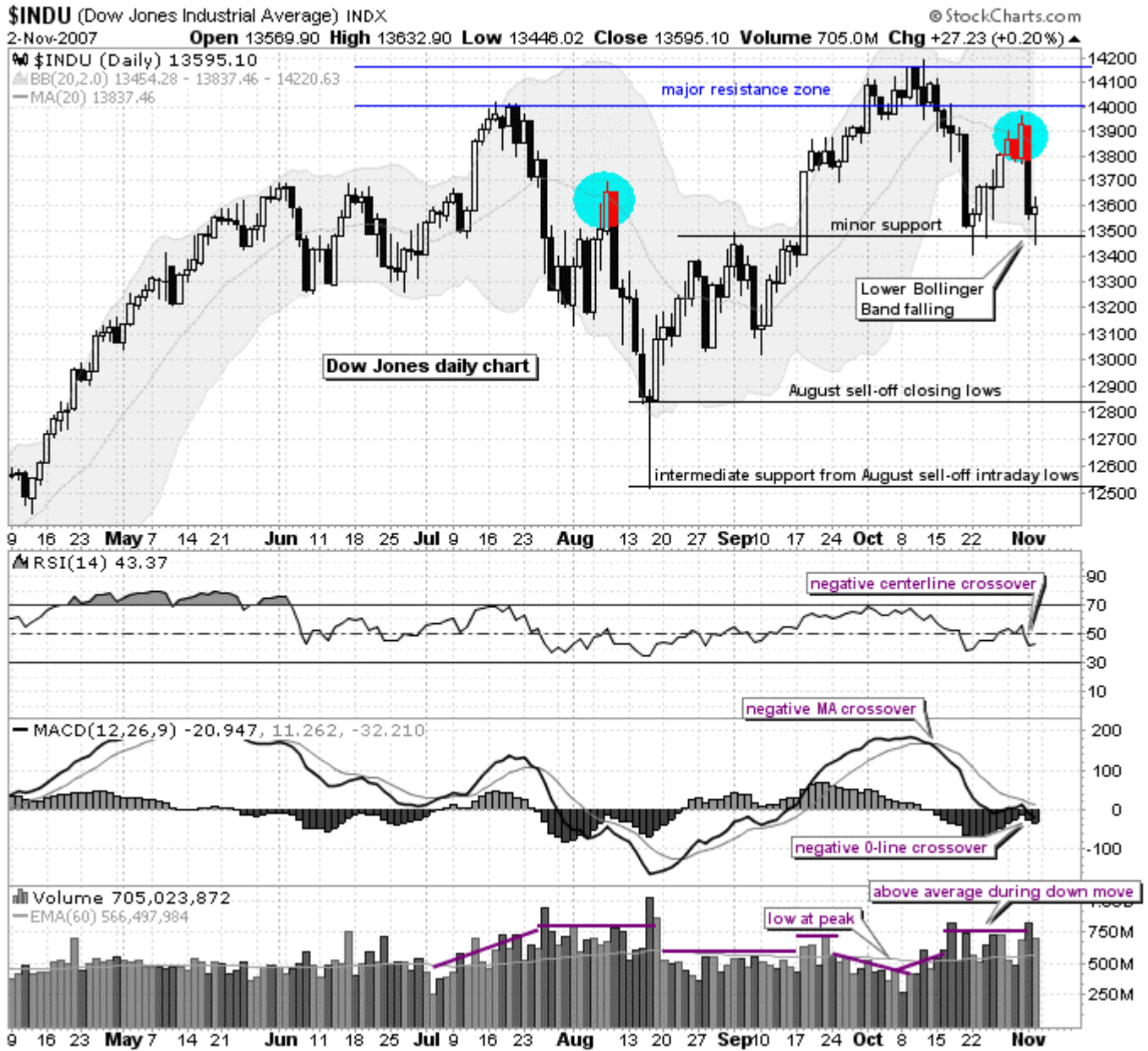


The weekly chart shows us that for all practical purposes the intermediate trend is a sideways one (although some might argue that the mid-August spike downwards was of too short a timeframe to be taken into consideration).

Regardless, until prices can surpass the resistance zone between 1550 and 1575 and then successfully retest that level, the chances are high that prices will move downwards and probably look to test the level of intermediate/major support near 1375.

There isn't much to gather from the momentum indicators on the weekly, at the moment. It will take a move below 40 (a support level for the past couple of years) on RSI and below the 0-line on MACD, before the momentum indicators have anything much to say... (If such developments were to take place, the interpretation would be that the intermediate trend has turned to bearish)

## The daily chart of the Dow Jones Industrial Average...



The Dow and the SPX are painting similar pictures at the moment. As such there isn't much to add on the daily chart above.

Let's zoom out a little bit and see if the weekly chart has anything to add...

## The weekly chart of the Dow Jones Industrial Average...



Looking at price action, there isn't much to be gleaned other than the glaringly obvious fact that the major trend is still a bullish one. However, prices cannot afford to close lower next week or else the drawn major trendline will have been broken.

Looking at the momentum indicators, RSI is still above its centerline but, hmm, what do we have here in the case of MACD??

Is that indicator showing a potential Head & Shoulders topping formation? The pattern is not fully complete at the moment, so its only a potential development but, it will be interesting to follow this development over the coming weeks.

## The daily chart of the Nasdaq-100 index...



The Nasdaq-100 actually ended the week with minor gains. Prices continue to trade within a bullish channel and the Bollinger Bands are rising. Those are bullish signs for the short-term.

On the bearish side of things...

The gap that was left on the charts on Oct 5 is still empty and MACD is showing a potential negative divergence.

If the lower channel line and/or the 20dMA were to be broken, that would be the first sign of a change in minor trend.

The daily chart of Nasdaq Composite...



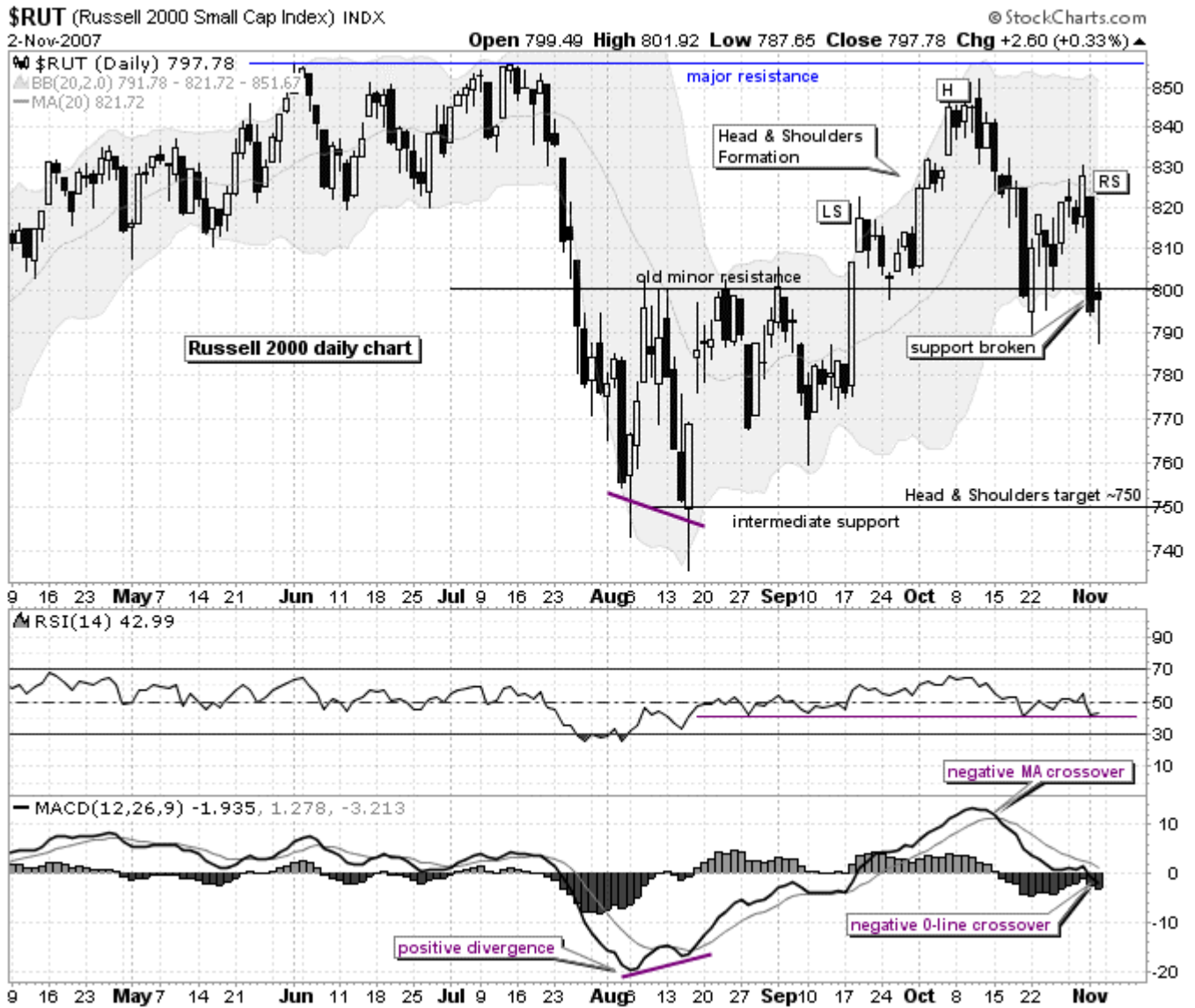
The COMP successfully tested the broken major resistance level at 2725 week before last and went on to make a new high in the middle of this past week.

RSI is a smidgen above its centerline but MACD is showing a potential negative divergence.

Still, as far as ownership of the minor trend goes, the bulls carry the flag hands down and will continue to do so, at least until/unless that level of 2725 is taken out. If such a thing were to occur, a centerline crossover on RSI and a confirmation of the negative divergence on MACD would occur and we could then talk about the possibility of a sell-off in technology into the close of the year.

But let's not count any chickens before they hatch.

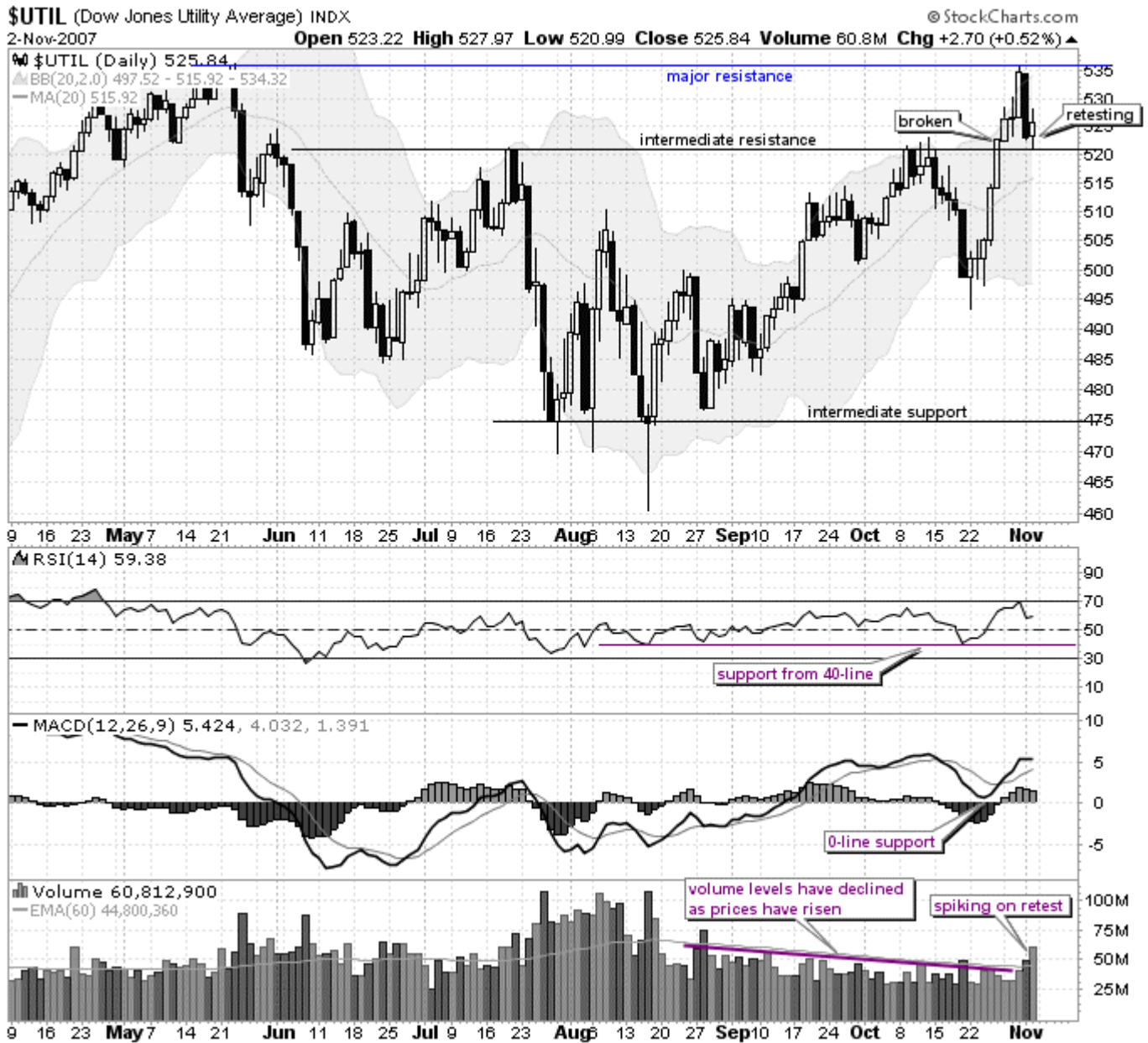
The daily chart of Russell 2000...



Last week, we'd highlighted the possibility that RUT was showing a head & shoulders top on the minor trend. The action of the past week has done nothing to harm that call. In fact, prices are trading below the neckline of that pattern and unless the bulls can get their act together from the word go on Monday, it looks like the intermediate support level at 750 is the next target for this index.

So say RSI (any further downside will break support at 40) and MACD (already showing a negative 0-line crossover).

## The daily chart of Dow Jones Utilities...



The Utilities moved past intermediate resistance this week and went knocking on the door of major resistance before falling back to retest the broken intermediate resistance.

While the trend shows up as rising, the legitimacy of the uptrend comes into question when one notices that volumes have been below average and decreasing as prices have recovered from the August lows.

We've taken a look at some of the major indices, now let's dig beneath the surface and take a quick look at a handful of sectors. Let's use charts of ETFs that represent each of these sectors to perform this analysis.

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Asher Pinto

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