



Dow Theory: A Concerning Divergence Or Artifact?

Dow Theory is a market tool developed by Charles Dow in the very early 1900s. Dow also created the Dow Jones Industrial Average. The basic gist of Dow theory is that market trends are confirmed when gains or record highs are established in the broader market indexes, and then confirmed by similar trends and/or record highs in the Dow Jones Transportation Index.

Over 100 years ago, when he proposed the Dow Theory, the US was much more of a manufacturing nation; thus, the health of the shipping and trucking industries was a paramount gauge of the economy. Today, services account for over two-thirds of the economy; thus, shipping is not as important. That said, trucking, an essential component of the transportation industry, helps us appreciate the flow of goods within the US, whether domestically made or imported. Therefore, it can still serve as a good economic gauge.

With that, we present two graphs and a comment that elicits Dow Theory and asks whether we should be concerned or if Dow Theory is an artifact of the past.

- The first is a comment from the most recent [Dallas Fed Services Survey](#). While it is only one trucking executive's opinion, it speaks for itself.
- The graph on the lower left is the Outbound Tender Volume Index (OTVI). The index is a daily measure of the freight volume contracted by shippers for transport. Per its creator, FreightWaves, its data provides a real-time pulse of truckload demand in the freight market. As the graph shows, demand for trucking this year (blue) is much weaker than the prior two years.
- Lastly, the graph on the right shows that the Dow Transportation Index is significantly lagging the broader market. Per Charles Dow, this divergence does not confirm the S&P 500's record highs.

Telecommunications

- Too much funding (private equity combined with the Broadband Equity, Access and Deployment program) is flowing into the broadband industry as evident by the number of broadband providers in any given area. While it has naturally increased competition, resulting in lower pricing, it is also driving irrational investment decisions. These decisions will have consequences once the broadband market begins a correction in the next three to five years.

Truck transportation

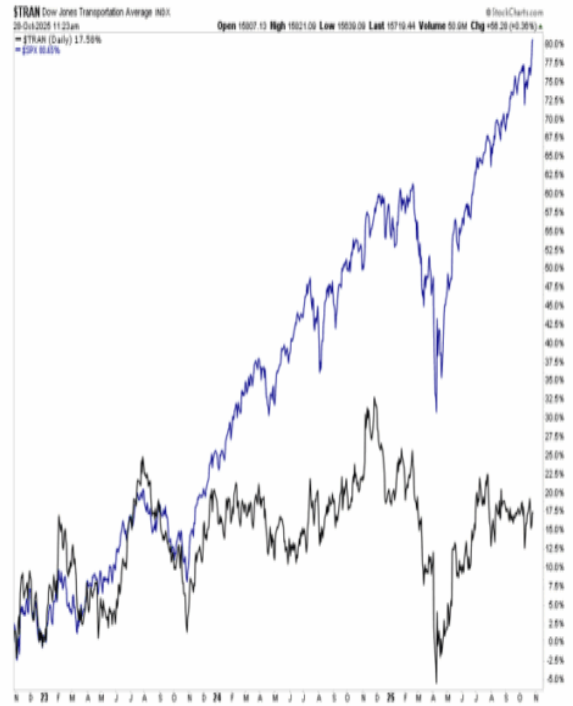
- Our business has died.

Utilities

- I feel better about business activity, but the threatened tariffs do not help with the business situation.

Warehousing and storage

- General economic conditions appear to be worsening, though it's hard to put a finger on exactly where or why. We're working through 2026 budget and are expecting revenue to either stay flat or dip. We are eliminating a small number of heads, roughly 4 percent of our workforce. We expect inflation to continue to impact the cost to provide services and will be adjusting revenue in response.



Telecommunications

- Too much funding (private equity combined with the Broadband Equity, Access and Deployment program) is flowing into the broadband industry as evident by the number of broadband providers in any given area. While it has naturally increased competition, resulting in lower pricing, it is also driving irrational investment decisions. These decisions will have consequences once the broadband market begins a correction in the next three to five years.

Truck transportation

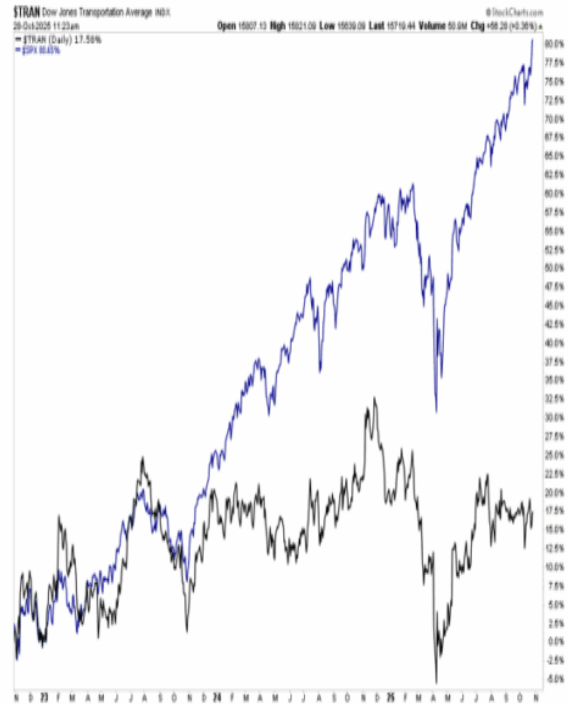
- Our business has died.

Utilities

- I feel better about business activity, but the threatened tariffs do not help with the business situation.

Warehousing and storage

- General economic conditions appear to be worsening, though it's hard to put a finger on exactly where or why. We're working through 2026 budget and are expecting revenue to either stay flat or dip. We are eliminating a small number of heads, roughly 4 percent of our workforce. We expect inflation to continue to impact the cost to provide services and will be adjusting revenue in response.



What To Watch Today

Earnings

Friday Oct 31	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time		
Exxon Mobil XOM.US		1.74	1.92		85.06B	90.02B	\$439B	Q3	AM	★	🔔
AbbVie ABBV.US		3.26	3.00		15.55B	14.46B	\$400.65B	Q3	AM	★	🔔
Chevron CVX.US		1.98	2.51		47.12B	50.67B	\$272.48B	Q3	AM	★	🔔
Colgate-Palmolive CL.US		0.91	0.91		5.18B	5.03B	\$63.82B	Q3	AM	★	🔔
Dominion Resources D.US		1.2	0.98		4.81B	3.94B	\$50.96B	Q3	AM	★	🔔
Grainger GWW.US		10.06	9.87		4.64B	4.4B	\$46.97B	Q3	AM	★	🔔
Ubiquiti Networks UBNT.US		2.11	2.14		647.63M	550.3M	\$46.1B	Q1	AM	★	🔔
Charter Communications CHTR.US		9.41	8.82		13.77B	13.8B	\$36.28B	Q3	AM	★	🔔
CBOE CBOE.US		2.38	2.22		567.6M	532M	\$24.71B	Q3	AM	★	🔔
T. Rowe Price TROW.US		2.42	2.57		1.84B	1.8B	\$23.02B	Q3	AM	★	🔔
Church & Dwight CHD.US		0.74	0.79		1.54B	1.51B	\$21.3B	Q3	AM	★	🔔

Friday Oct 31	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
Exxon Mobil <small>XOM.US</small>	1.74	1.92		85.06B	90.02B		\$439B	Q3	AM
AbbVie <small>ABBV.US</small>	3.26	3.00		15.55B	14.46B		\$400.65B	Q3	AM
Chevron <small>CVX.US</small>	1.98	2.51		47.12B	50.67B		\$272.48B	Q3	AM
Colgate-Palmolive <small>CL.US</small>	0.91	0.91		5.18B	5.03B		\$63.82B	Q3	AM
Dominion Resources <small>D.US</small>	1.2	0.98		4.81B	3.94B		\$50.96B	Q3	AM
Grainger <small>GWW.US</small>	10.06	9.87		4.64B	4.4B		\$46.97B	Q3	AM
Ubiquiti Networks <small>UBNT.US</small>	2.11	2.14		647.63M	550.3M		\$46.1B	Q1	AM
Charter Communications <small>CHTR.US</small>	9.41	8.82		13.77B	13.8B		\$36.28B	Q3	AM
CBOE <small>CBOE.US</small>	2.38	2.22		567.6M	532M		\$24.71B	Q3	AM
T. Rowe Price <small>TROW.US</small>	2.42	2.57		1.84B	1.8B		\$23.02B	Q3	AM
Church & Dwight <small>CHD.US</small>	0.74	0.79		1.54B	1.51B		\$21.3B	Q3	AM

Economy

Friday October 31 2025	Actual	Previous	Consensus	Forecast
08:30 AM US Fed Logan Speech				
08:45 AM US Chicago PMI <small>OCT</small>		40.6	42.3	42
11:00 AM US Fed Bostic Speech				
11:00 AM US Fed Hammack Speech				
12:00 PM US Baker Hughes Oil Rig Count <small>OCT/31</small>		420		
12:00 PM US Baker Hughes Total Rigs Count <small>OCT/31</small>		550		
US Core PCE Price Index MoM <small>SEP</small>		0.2%	0.2%	0.1%
US Personal Income MoM <small>SEP</small>		0.4%	0.4%	0.4%
US Personal Spending MoM <small>SEP</small>		0.6%	0.4%	0.4%
US Employment Cost - Benefits QoQ <small>Q3</small>		0.7%		0.6%
US Employment Cost - Wages QoQ <small>Q3</small>		1%		0.8%
US Employment Cost Index QoQ <small>Q3</small>		0.9%	0.9%	0.8%
US PCE Price Index MoM <small>SEP</small>		0.3%	0.3%	0.2%
US PCE Price Index YoY <small>SEP</small>		2.7%	2.8%	2.8%
US Core PCE Price Index YoY <small>SEP</small>		2.9%		2.8%

Friday October 31 2025			Actual	Previous	Consensus	Forecast		
08:30 AM	US	Fed Logan Speech						
08:45 AM	US	Chicago PMI OCT		40.6	42.3	42		
11:00 AM	US	Fed Bostic Speech						
11:00 AM	US	Fed Hammack Speech						
12:00 PM	US	Baker Hughes Oil Rig Count OCT31		420				
12:00 PM	US	Baker Hughes Total Rigs Count OCT31		550				
	US	Core PCE Price Index MoM SEP		0.2%	0.2%	0.1%		
	US	Personal Income MoM SEP		0.4%	0.4%	0.4%		
	US	Personal Spending MoM SEP		0.6%	0.4%	0.4%		
	US	Employment Cost - Benefits QoQ Q3		0.7%		0.6%		
	US	Employment Cost - Wages QoQ Q3		1%		0.8%		
	US	Employment Cost Index QoQ Q3		0.9%	0.9%	0.8%		
	US	PCE Price Index MoM SEP		0.3%	0.3%	0.2%		
	US	PCE Price Index YoY SEP		2.7%	2.8%	2.8%		
	US	Core PCE Price Index YoY SEP		2.9%		2.8%		

Market Trading Update

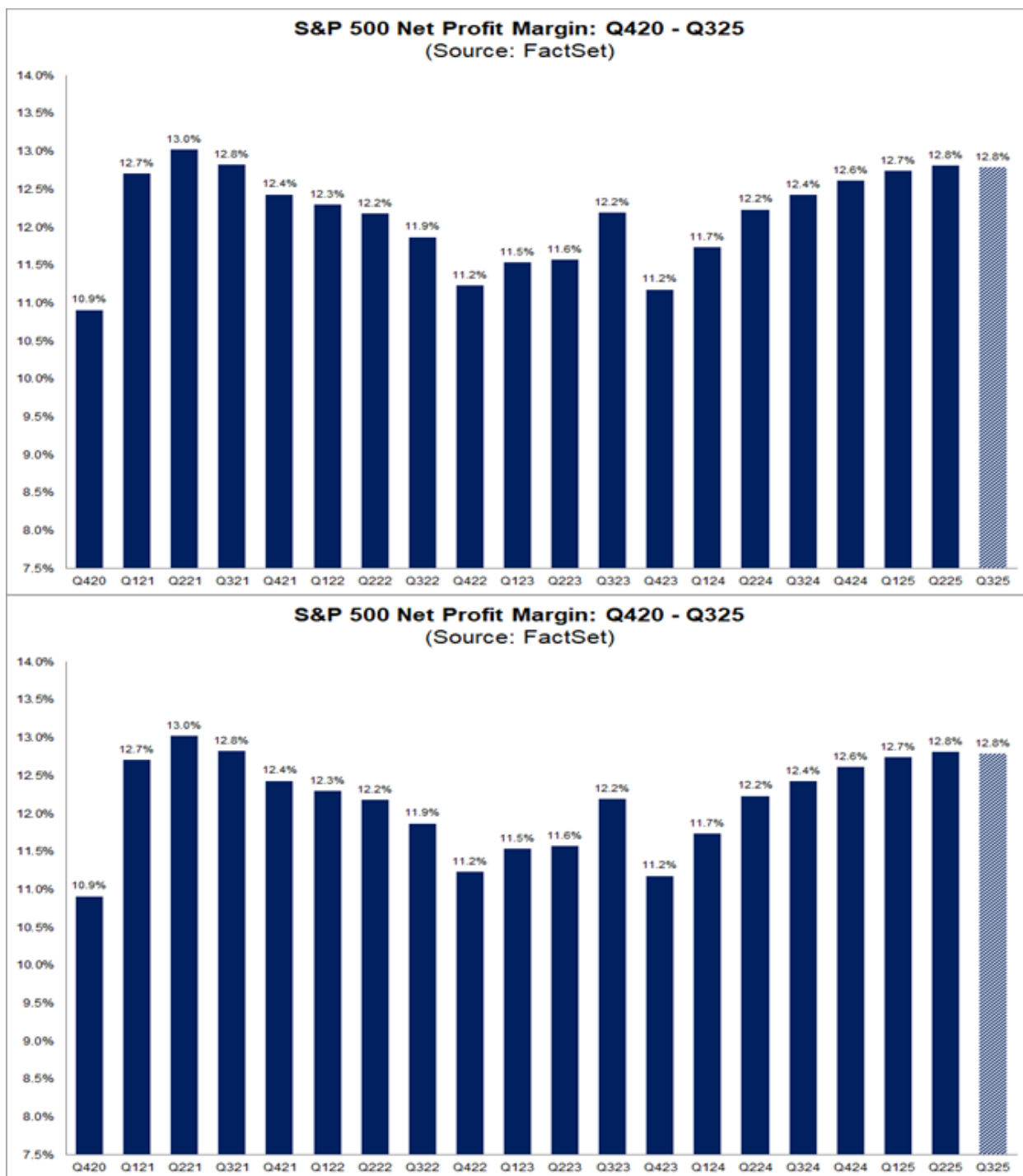
Yesterday, we discussed the ongoing breadth problem in the market. Yet, despite that concern, the market continues to find buyers on every dip. For now, corporate profits and earnings remain very supportive of bulls as we head into year-end. As noted by FactSet, corporate profitability is indeed very profitable.

*?The blended net profit margin for the S&P 500 for Q3 2025 is 12.8%, which is equal to the previous quarter's net profit margin, but above the year-ago net profit margin and above the 5-year average. **In fact, this quarter marks the 6th consecutive quarter that the S&P 500 is reporting a net profit margin above the 5-year average (12.1%).***

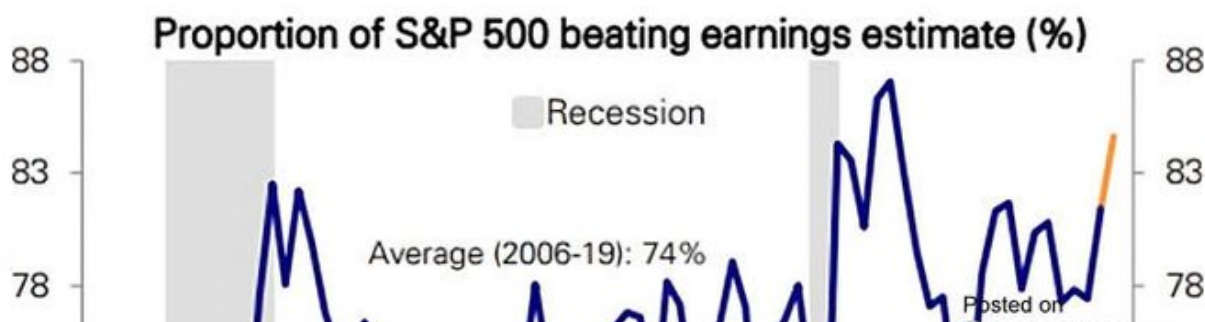
At the sector level, four sectors are reporting a year-over-year increase in their net profit margins in Q3 2025 compared to Q3 2024, led by the Financials (19.9% vs. 18.0%) and Utilities (16.7% vs. 14.8%) sectors. On the other hand, six sectors are reporting a year-over-year decrease in their net profit margins in Q3 2025 compared to Q3 2024, led by the Communication Services (13.8 vs. 14.8%), Real Estate (34.3% vs. 35.2%), and Health Care (7.3% vs. 8.2%) sectors.

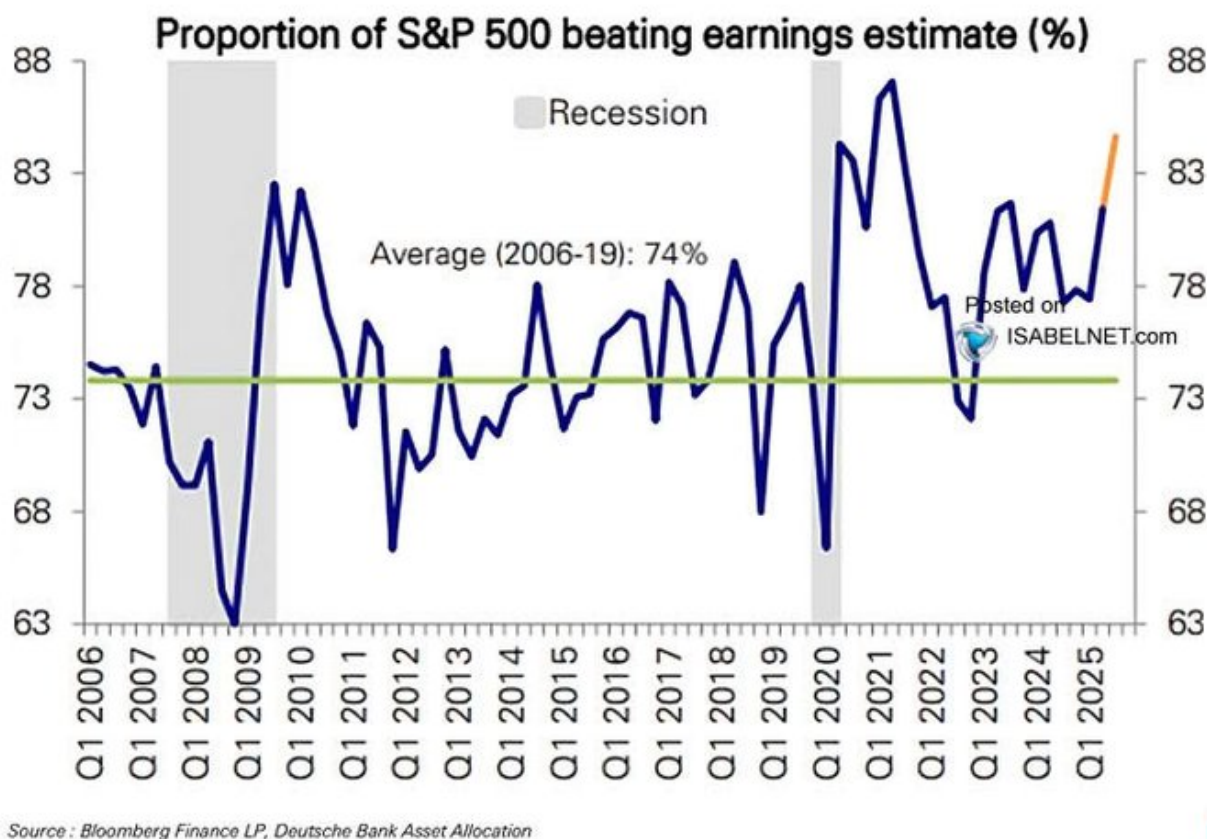
Seven sectors are reporting net profit margins in Q3 2025 that are above their 5-year averages, led by the Utilities (16.7% vs. 13.6%) sector. On the other hand, four sectors are reporting net profit margins in Q3 2025 that are below their 5-year averages, led by the Health Care (7.3% vs. 9.3%) and Energy (8.0% vs. 9.8%) sectors. Five sectors are reporting a quarter-over-quarter increase in their net profit margins in Q3 2025 compared to Q2 2025, led by the Utilities (16.7% vs. 12.8%) sector. On the other hand, six sectors are reporting a quarter-over-quarter decrease in their net profit margins in Q3 2025 compared to Q2 2025, led by the Communication Services (13.8% vs. 15.3%) sector.

It is interesting to note that analysts believe net profit margins for the S&P 500 will be higher in 2026. As of today, the estimated net profit margins for Q4 2025 through Q2 2026 are 12.8%, 13.4% and 13.7%, respectively.?



It is also notable that coming into the Q3 earnings season, Wall Street estimates were on the conservative side, given the unknowns about the impact of tariffs on US companies. It is now apparent that those concerns were overblown as the *beat rate* for earnings is approaching the highest level since the end of the Pandemic-driven economic shutdown.





With both earnings and profitability coming in above expectations, the bulls continue to find the support needed to justify the current valuation overpayment. How long that will last is unknown, but for now, the risk of the *“pain trade higher?”* into year-end seems plausible.

Trade accordingly.

SimpleVisor™

Don't invest alone.
Tap into the power of SimpleVisor.

[> Sign up now](#)

SimpleVisor™

Don't invest alone.
Tap into the power of SimpleVisor.

[> Sign up now](#)

Meta Disappoints Despite Good News

Meta shares fell by nearly ten percent on what appears to be good news. Revenues beat estimates by 3% and prior guidance from Meta by almost 5%. EPS missed estimates significantly, but it was due to a one-time accounting issue related to a temporary difference between taxable income and income reported on financial statements. There's no impact on future cash flows. Excluding the accounting earnings impact, earnings beat estimates. Most importantly, to the market, CapEx spending plans were increased for the remainder of 2025 and

2026.

Meta is going all out with its spending to transition from a social media platform to an AI computational platform wrapped into social media. As we share in the quote below from its CEO, Mark Zuckerberg, Meta is intent on being an AI leader.

I think it's pretty early, but I think we're seeing the returns in the core business that's giving us a lot of confidence that we should be investing a lot more. And we want to make sure that we're not underinvesting.

What we find interesting is that increased CapEx spending plans by other large companies have been met with applause. Is this a buying opportunity for Meta, or is the market starting to worry about overinvestment in AI? To help answer that question, consider that Microsoft is also trading lower after its earnings report, which also discussed increased CapEx spending plans.





Two S&P 500s: One Big Divergence

The S&P 500 index is weighted by market cap. Today, that means the top stocks carry much more weight than the remaining stocks. For instance, the Magnificent Seven account for a third of the daily price changes. While the weighted index is most followed, there is also an equal-weighted index. Comparing the market-cap-weighted and equal-weighted indexes can help us measure market breadth. What we have recently seen is a gross divergence between the two indexes.

The table below, courtesy of [SimpleVisor](#), shows relative returns as compared to the S&P 500. The two highest excess returns over the last five days are those that are even more heavily weighted in the Magnificent Seven stocks (IVW and MGK) than the market-cap-weighted S&P 500. Towards the bottom, note that the equal-weighted S&P 500 (RSP) has significantly underperformed. The second table, also from SimpleVisor, quantifies the extent of the performance divergence. Per the graphic, over the last 252 trading days (one year), the correlation of excess returns between RSP and mega-cap stocks (MGK) is in the lowest .81 percentile. Another table in SimpleVisor (not shown) indicates that the relationship is nearly two standard deviations from the norm. The Tweet of the Day below provides further context on the gross outperformance of market-cap-weighted indexes versus their equally weighted counterparts.

The takeaway: the market is prime for a rotation from the most prominent companies to the many others being left out. The question is when?

Performance Analysis Factor Analysis Risk Range Credit Spreads Screener Stock Summary Strategy Builder

Factors Sectors Custom

SPY Excess Returns Over Time

SPY Excess Return Correlations

Excess Return Z-Score and Rank

Excess Return Z-Score and Rank - Filtered

Lookback Days: 5,20,30,20,20,60 Update Price data of 2025-10-30 06:29:06 EST

Symbol Name	Top 10 Holdings	2025-10-22 to 2025-10-19	2025-09-24 to 2025-10-22	2025-08-26 to 2025-09-24	2025-07-29 to 2025-08-26	2025-06-30 to 2025-07-29	2025-05-30 to 2025-06-30	2025-03-05 to 2025-05-30
MGK	Mega Cap Growth	2.40%	0.88%	1.11%	0.20%	0.71%	1.47%	2.38%
YVW	S&P 500 Growth	1.88%	-0.53%	1.38%	-0.07%	0.51%	1.47%	3.47%
ARKK	Disruptive Tech	1.61%	1.25%	6.96%	0.49%	3.51%	19.97%	1.97%
SPHB	High Beta	0.81%	0.55%	2.07%	-0.25%	1.50%	6.13%	3.07%
EEM	Emerging Markets	0.29%	1.13%	3.32%	0.49%	-0.83%	1.55%	1.25%
HTUM	Momentum	-0.10%	-2.67%	1.60%	0.30%	-2.66%	-1.04%	7.81%
MDYG	Mid Cap Growth	-1.55%	-1.74%	-1.66%	-1.10%	0.89%	-1.60%	0.32%
VBK	Small Cap Growth	-1.35%	-0.98%	0.54%	0.44%	-0.02%	0.14%	-2.28%
IWM	Small Caps	-1.50%	-0.29%	0.63%	1.63%	0.38%	0.40%	-2.72%
VEA	Developed Markets	-1.99%	1.09%	-1.42%	1.47%	-2.59%	-2.28%	4.74%
MDY	Mid Cap 400	-2.19%	-1.48%	-2.37%	-0.23%	0.57%	-1.59%	-1.51%
EFA	EAFE	-2.22%	1.09%	-1.71%	1.97%	-3.15%	-4.18%	4.10%
HYM	High Dividend Yield	-2.34%	-0.97%	-1.12%	0.18%	-0.99%	-1.59%	-2.42%
FDM	Dow Jones MicroCap	-2.64%	-3.53%	-0.51%	2.95%	-3.52%	2.34%	1.37%
VOQY	Vanguard U.S. Quality Factor	-3.07%	-0.89%	-2.04%	0.33%	-0.36%	-1.24%	-1.67%
MDIV	Mid Cap Value	-3.17%	-1.36%	-3.06%	0.60%	0.24%	-1.62%	-3.11%
VBR	Small Cap Value	-3.21%	-1.73%	-2.14%	1.64%	0.77%	-1.64%	-2.63%
VTV	Large Cap Value	-3.28%	-0.81%	-0.62%	0.01%	-1.13%	-1.71%	-2.80%
PKW	Buyback Achievers	-3.53%	-0.88%	-1.98%	2.19%	-0.84%	-0.08%	1.97%
BSP	Equal Weight S&P 500	-3.73%	-0.18%	-2.42%	-0.68%	-0.18%	-1.82%	-1.41%
GOX	Gold Miners	-5.51%	-0.14%	14.93%	14.32%	-0.53%	-2.04%	20.36%
SPLV	Low Beta [Low Vol.]	-6.55%	-0.41%	-3.76%	-1.19%	-2.28%	-0.71%	-1.82%

Performance Analysis Factor Analysis Risk Range Credit Spreads Screener Stock Summary Strategy Builder

Factors Sectors Custom

SPY Excess Returns Over Time

SPY Excess Return Correlations

Excess Return Z-Score and Rank

Excess Return Z-Score and Rank - Filtered

Lookback Days: 5,20,30,20,20,60 Update Price data of 2025-10-30 06:29:06 EST

Symbol Name	Top 10 Holdings	2025-10-22 to 2025-10-19	2025-09-24 to 2025-10-22	2025-08-26 to 2025-09-24	2025-07-29 to 2025-08-26	2025-06-30 to 2025-07-29	2025-05-30 to 2025-06-30	2025-03-05 to 2025-05-30
MGK	Mega Cap Growth	2.40%	0.88%	1.11%	0.20%	0.71%	1.47%	2.38%
YVW	S&P 500 Growth	1.88%	-0.53%	1.38%	-0.07%	0.51%	1.47%	3.47%
ARKK	Disruptive Tech	1.61%	1.25%	6.96%	0.49%	3.51%	19.97%	1.97%
SPHB	High Beta	0.81%	0.55%	2.07%	-0.25%	1.50%	6.13%	3.07%
EEM	Emerging Markets	0.29%	1.13%	3.32%	0.49%	-0.83%	1.55%	1.25%
HTUM	Momentum	-0.10%	-2.67%	1.60%	0.30%	-2.66%	-1.04%	7.81%
MDYG	Mid Cap Growth	-1.55%	-1.74%	-1.66%	-1.10%	0.89%	-1.60%	0.32%
VBK	Small Cap Growth	-1.35%	-0.98%	0.54%	0.44%	-0.02%	0.14%	-2.28%
IWM	Small Caps	-1.50%	-0.29%	0.63%	1.63%	0.38%	0.40%	-2.72%
VEA	Developed Markets	-1.99%	1.09%	-1.42%	1.47%	-2.59%	-2.28%	4.74%
MDY	Mid Cap 400	-2.19%	-1.48%	-2.37%	-0.23%	0.57%	-1.59%	-1.51%
EFA	EAFE	-2.22%	1.09%	-1.71%	1.97%	-3.15%	-4.18%	4.10%
HYM	High Dividend Yield	-2.34%	-0.97%	-1.12%	0.18%	-0.99%	-1.59%	-2.42%
FDM	Dow Jones MicroCap	-2.64%	-3.53%	-0.51%	2.95%	-3.52%	2.34%	1.37%
VOQY	Vanguard U.S. Quality Factor	-3.07%	-0.89%	-2.04%	0.33%	-0.36%	-1.24%	-1.67%
MDIV	Mid Cap Value	-3.17%	-1.36%	-3.06%	0.60%	0.24%	-1.62%	-3.11%
VBR	Small Cap Value	-3.21%	-1.73%	-2.14%	1.64%	0.77%	-1.64%	-2.63%
VTV	Large Cap Value	-3.28%	-0.81%	-0.62%	0.01%	-1.13%	-1.71%	-2.80%
PKW	Buyback Achievers	-3.53%	-0.88%	-1.98%	2.19%	-0.84%	-0.08%	1.97%
BSP	Equal Weight S&P 500	-3.73%	-0.18%	-2.42%	-0.68%	-0.18%	-1.82%	-1.41%
GOX	Gold Miners	-5.51%	-0.14%	14.93%	14.32%	-0.53%	-2.04%	20.36%
SPLV	Low Beta [Low Vol.]	-6.55%	-0.41%	-3.76%	-1.19%	-2.28%	-0.71%	-1.82%

SimpleVisor Home Insights Markets Portfolios **DIY Research** Charts Simple AI (beta) Invest \$

Performance Analysis **Factor Analysis** Risk Range Credit Spreads Screener Stock Summary Strategy Builder

Factors Sectors Custom

SPY Excess Returns Over Time SPY Excess Return Correlations

Score Days: 21 63 **252** Type: z-Score **%tile Rank**

Name	Symbol	ARKK	EEM	EFA	FDM	GDX	IVW	IWM	MDY	MDYG	MDYV	MGK
Disruptive Tech	ARKK	●	87.90	87.90	93.55	85.48	92.34	89.11	93.15	92.74	95.16	91.53
Emerging Markets	EEM	12.50	●	79.44	93.15	26.61	83.87	83.06	100.00	97.98	100.00	68.95
EAFE	EFA	12.50	20.97	●	81.05	18.95	61.29	59.68	98.39	87.50	99.60	54.84
Dow Jones MicroCap	FDM	6.85	7.26	19.35	●	15.73	35.48	33.47	79.03	58.47	93.95	23.39
Gold Miners	GDX	14.92	73.79	81.45	84.68	●	76.61	79.03	87.90	85.08	88.71	73.39
S&P 500 Growth	IVW	8.06	16.53	39.11	64.92	23.79	●	49.19	97.18	91.53	95.56	0.40
Small Caps	IWM	11.29	17.34	40.73	66.94	21.37	51.21	●	97.58	92.74	98.79	32.26
Mid Cap 400	MDY	7.26	0.40	2.02	21.37	12.50	3.23	2.82	●	22.18	78.23	1.21
Mid Cap Growth	MDYG	7.66	2.42	12.90	41.94	15.32	8.87	7.66	78.23	●	79.03	3.23
Mid Cap Value	MDYV	5.24	0.40	0.81	6.45	11.69	4.84	1.61	22.18	21.37	●	1.21
Mega Cap Growth	MGK	8.87	31.45	45.56	77.02	27.02	100.00	68.15	99.19	97.18	99.19	●
Momentum	MTUM	6.85	9.27	14.11	41.13	15.73	4.84	25.00	75.00	54.44	87.50	2.82
Buyback Achievers	PKW	5.24	0.40	1.61	14.92	13.31	8.47	12.90	51.21	31.05	78.63	6.85
Equal Weight S&P 500	RSP	6.45	0.40	0.40	12.50	12.90	5.24	3.63	34.27	31.05	71.37	0.81

Tweet of the Day



Ian McMillan, CMT @the_chart_life · 17h



You have two options:

1. Cap weight

or

2. Die





Ian McMillan, CMT  @the_chart_life · 17h



You have two options:

1. Cap weight

or

2. Die



?Want to achieve better long-term success in managing your portfolio? Here are our [15-trading rules for managing market risks.?](#)

Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.

If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.