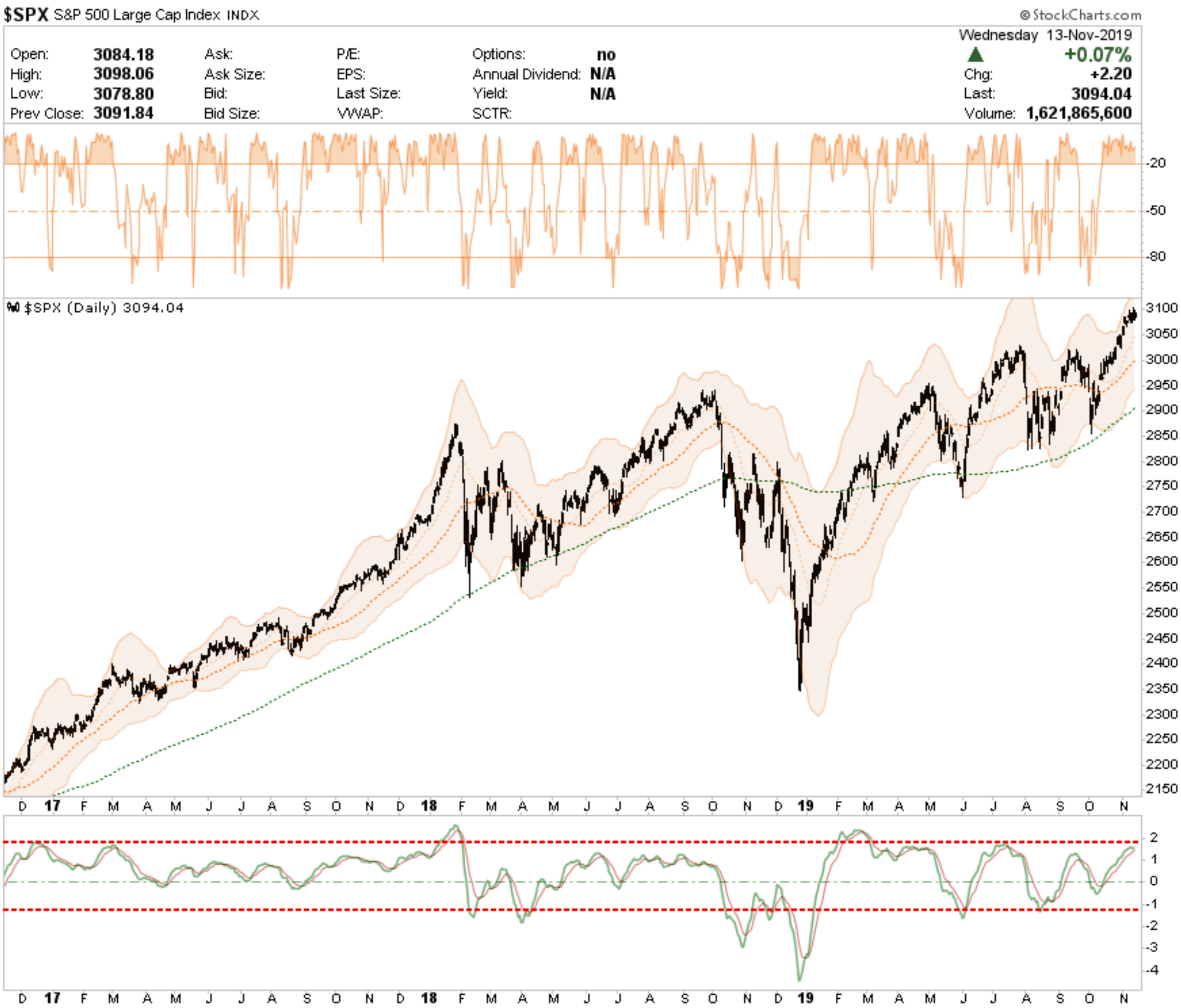
# S&P 500 Technical Analysis Review 11-14-19

A technical review of the S&P 500 using daily, weekly and monthly charts to determine overbought, oversold, and risk/reward scenarios for carrying equity exposure.

**Daily**

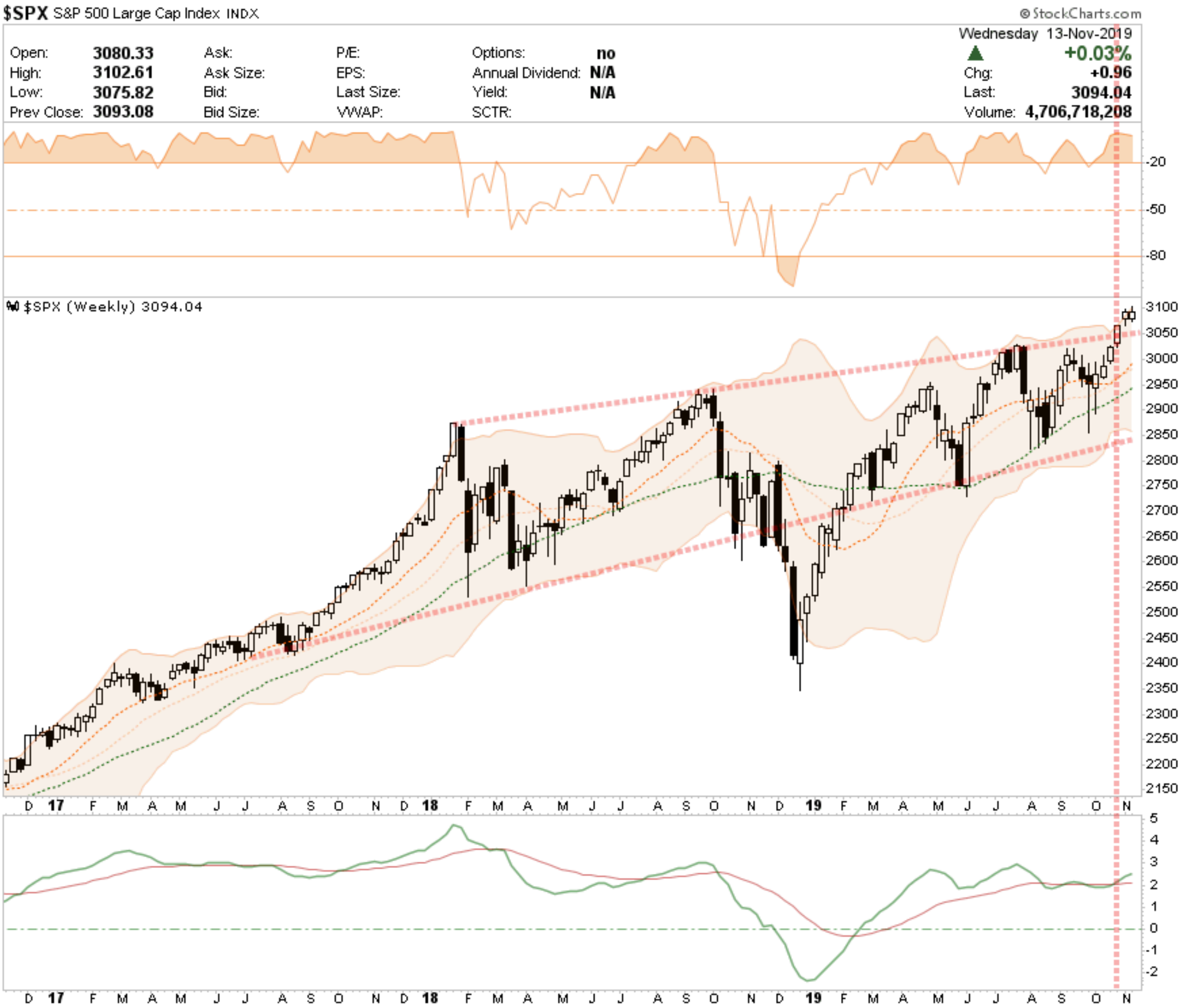



- *The S&P 500 has broken out to new highs which is bullish.*
- However, as noted earlier this week, we have added a short-term S&P 500 short position to portfolios due to the more extreme overbought condition of the market.
- *As noted in the top panel, the overbought indicator is at extremes. The center panel shows the market 2-standard deviations above the 50-dma, and the lower panel shows momentum back to the top of its historical range.*
- *None of this is bearish, in the short-term, but does suggest a pullback is necessary before the market can advance higher.*
- ***Reading: Bullish***

## Daily Overbought/Sold

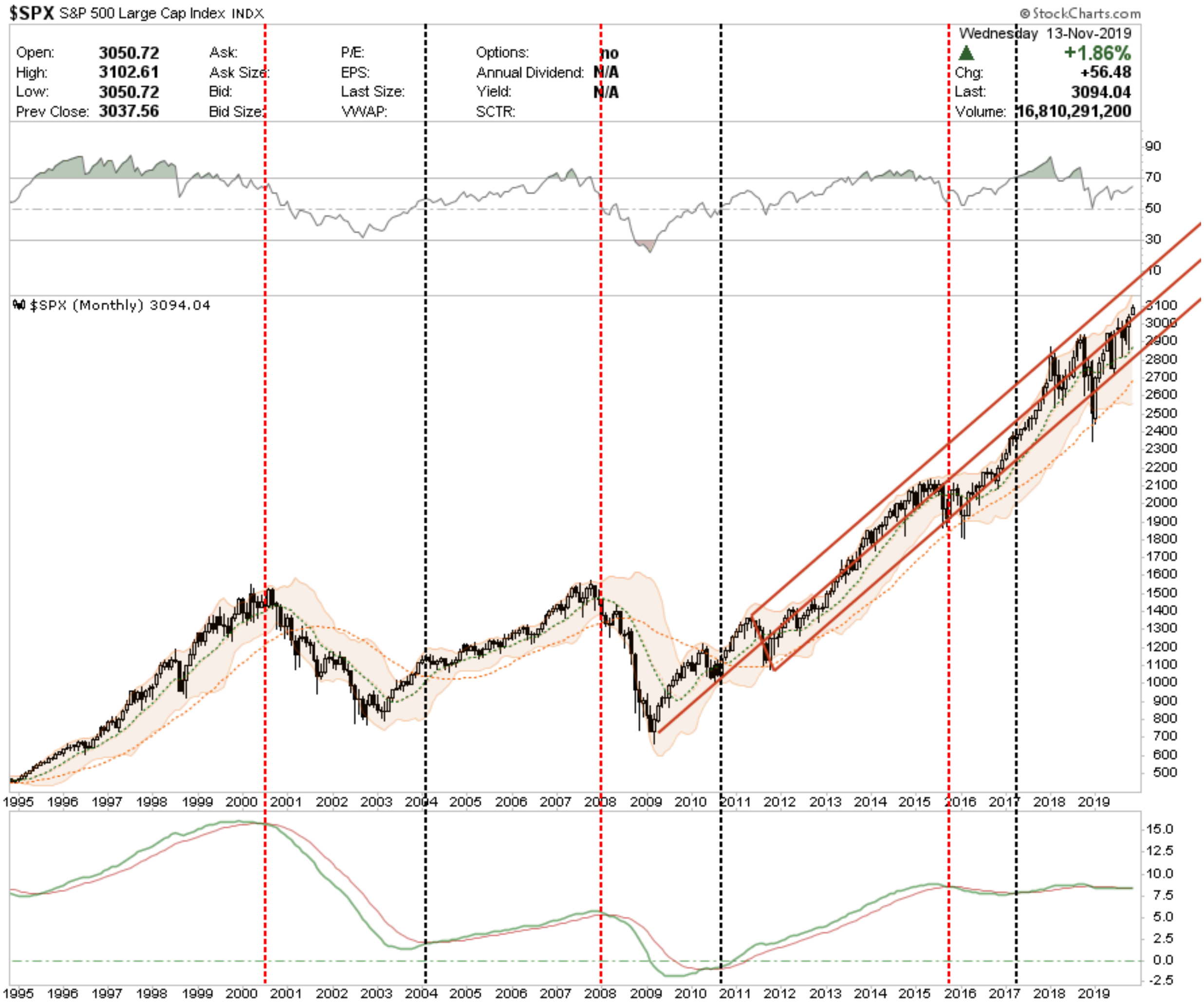

- *The chart above shows a variety of measures from the Volatility Index ($VIX) to momentum and deviation from intermediate term moving averages.*
- *We noted back in September and early October that a rally into year-end was likely. At that time all of the indicators had pushed down into their respective "BUY" ranges.*
- *Now that situation has reversed, with all indicators back into their respective "SELL" ranges.*
- *Again, as stated above, this is not "bearish" or suggestive of a "crash" coming, but rather just suggesting that currently the risk/reward for adding additional equity risk is not optimal.*
- Be patient for a correction back to support that allows for a **better entry point for trading positions.**
- ***Reading: Bullish***

## Weekly



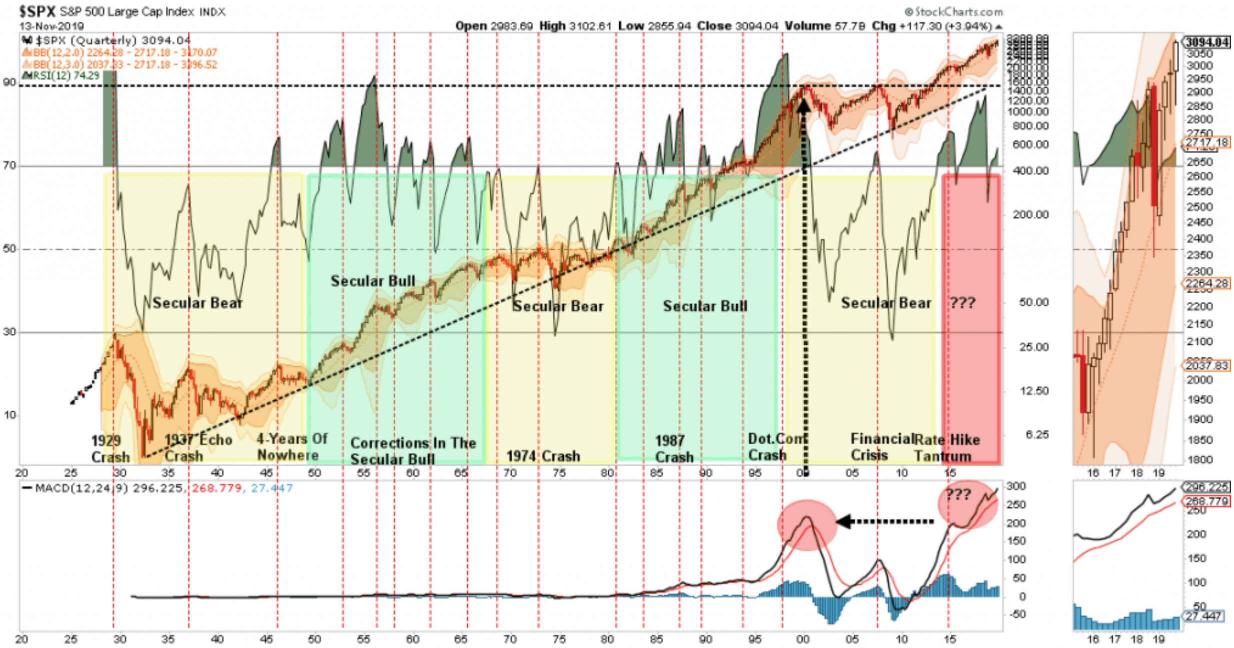

- *On a weekly basis, the market backdrop remains bullish with a weekly buy signal being triggered at the beginning of the month along with expectation of a "seasonally strong period" beginning.*
- *However, even with that signal in place, the market is back to extreme "overbought" conditions on a weekly basis as well.*
- *With the market trading above 2-standard deviations of the intermediate term moving average, some caution is suggested in adding additional exposure. A correction is likely over the next month or so that will provide a better opportunity. Remain patient for now.*
- ***Reading: Bullish***

**Monthly**



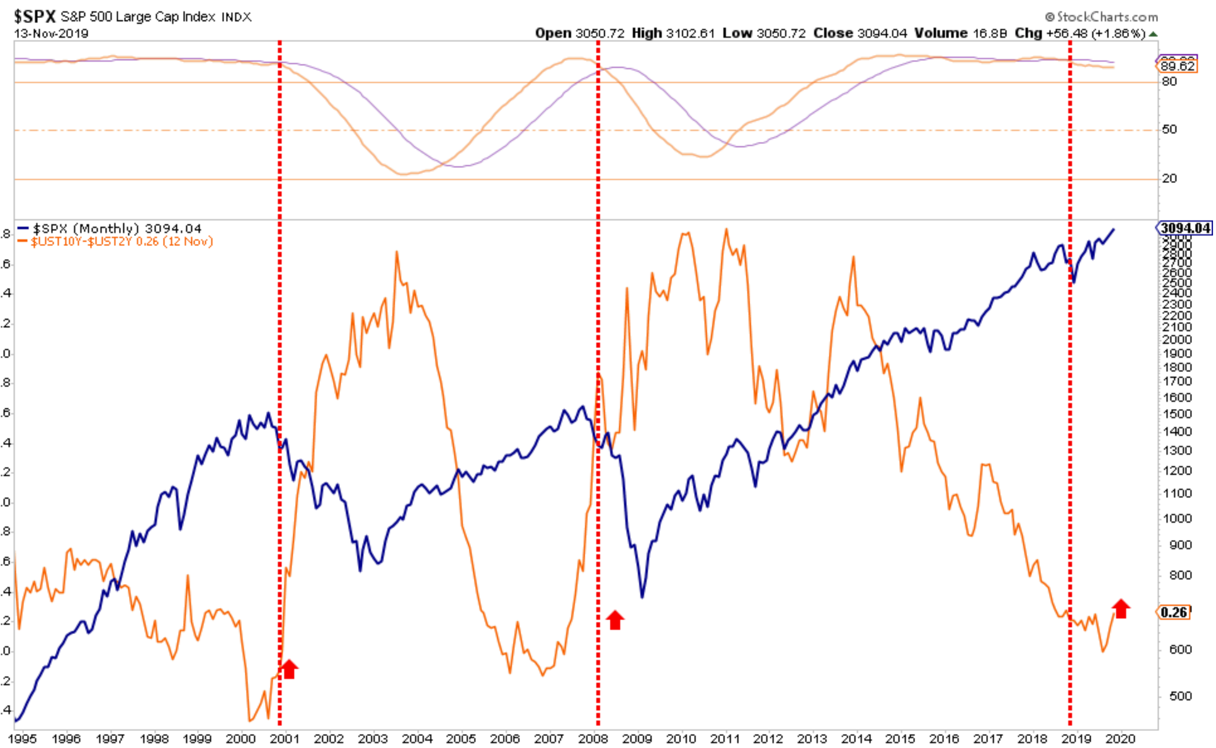

- *On a montly basis we can see a pattern emerging as well as extremes.*
- *First, from an investment standpoint, look at the previous two bull market advances compared to the current Central Bank fueled explosion. When the next mean reverting event occurs, make no mistake, it will be brutal for investors.*
- *Secondly, the market is trading 2-standard deviations above the long-term mean and is still flirting with reversing the "buy signal" to a sell.*
- *As noted in the red lines, the market continues to trade in a bullish trend from the 2009 lows, but with the market pushing back up into more extreme overbought conditions long-term, there is not likely a lot left to the current bull market.*
- *Importantly, MONTHLY data is ONLY valid at the end of the month. Therefore, these indicators are VERY SLOW to turn. Use the Daily and Weekly charts to manage your risk. The monthly and quarterly chart (below) is to give you some idea about overall risk management.*
- *However, the important takeaway is that the bull market is still largely intact but there is some deterioration around the edges. This suggests that investors should remain invested for now, but maintain risk controls accordingly.*
- *All good things do eventually come to an end.*
- **Reading: Neutral/Caution**

**Quarterly**




- *As noted above, this chart is not about short-term trading but long-term management of risks in portfolios. This is a quarterly chart of the market going back to 1920.*
- *Note the market has, only on a few rare occasions, been as overbought as it is currently. In every single case the reversion was not kind to investors.*
- *Secondly, in the bottom panel, the market has never been this overbought and extended in history,*
- *As an investor it is important to keep some perspective about where we are in the current cycle, there is every bit of evidence that a major mean reverting event will occur. Timing is always the issue which is why use daily and weekly measures to manage risk.*
- *Don't get lost in the mainstream media. This is a very important chart.*
- **Reading: Cautious**

## S&P 500 vs Yield Curve (10yr-2yr)



- *The chart above compares the S&P 500 to the 10-2 year yeild curve.*
- *Yield curve inversions, and subsequent un-inversions, as we are experiencing now, have preceded previous market reversions. (Refer to Quarterly chart above)*
- *Sure, this time could be different, and it may seem that way for the time being with Central Banks once again throwing in the towel and providing liquidity. However, in every previous case it was always believed this time was different for one reason or another...it wasn't. I suspect eventually this time will be the same so it is worth paying attention to the message the yield curve is sending.*
- *As with the Monthly and Quarterly charts above, this is a "big warning" sign to pay attention and manage risk accordingly. It does NOT mean sell everything and go to cash. Currently the Daily and Weekly charts suggest the bullish trend is intact, so we remain invested, but hedged.*
- **Reading: Bearish**