THE IFA's Wealth Gram

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What If There Isn't A Rebound?

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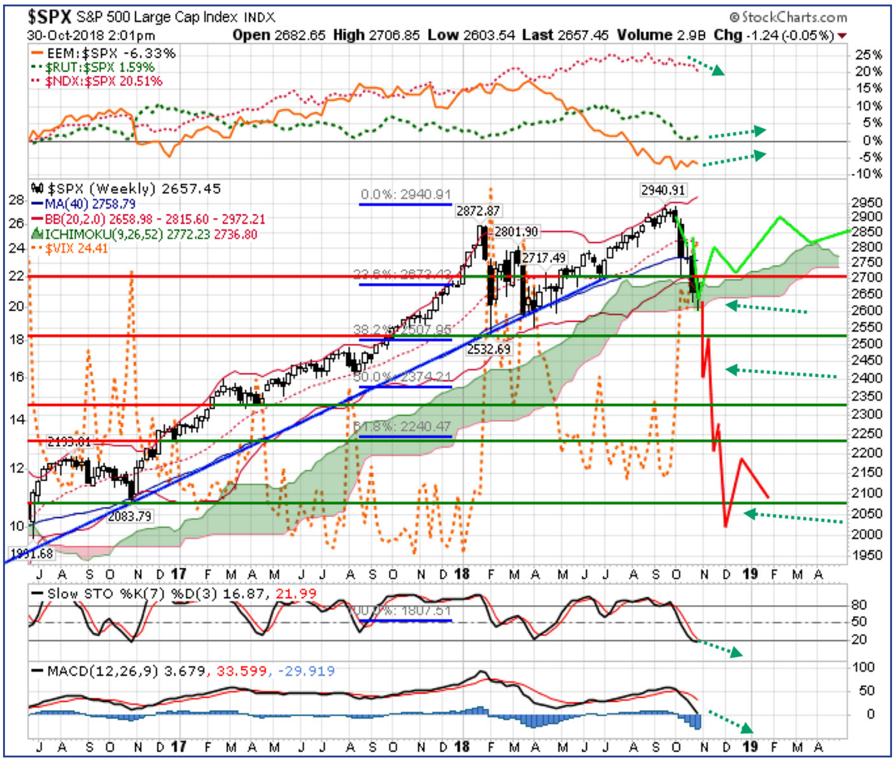
As October 2018 ends, having seen a 10% correction for the US equity S&P500, amazingly close to our Green Path drawn in the previous WealthGram, the question remains whether a major low has been seen and what kind of rebound the US equity market will make. The good news is that the decline to 2603 by the S&P500, representing the US large caps, occurred as the last domino, so to speak. Indeed, US small caps already started to underperform the S&P500 since July and even made a higher high in September. Traditionally, a major top for large caps occurred 4-6 months after a top of the small caps. Thus, the October top at 2940 of the S&P500 was widely not seen as an all-time high. A higher high above that level has been on the radar of many market analysts during most of the October decline, except may be in its final week when the sell-off accelerated below 2710. The bad news is that US equities face many hurdles to be certain that a sizable rebound would take place until year end. Internationally, there is not much support from other equity markets. Emerging Markets have been in bad shape, the Relative Strength of ETF EEM versus S&P500 *(orange line on upper panel)* has been declining since April and EEM has been in a Bear market of more than 20%. Among other developed markets during October, the Nikkei's recent pullback remained within a wide yearly range, while European markets displayed lower highs & lows despite a bottoming Relative Strength *(green dotted line)* versus S&P500. A long rising 10-year US Treasury yield above 3%, the US dollar Index is about to rise again toward higher highs, and this often correlates with declining commodities indices. This is in turn is bad news for emerging markets. So, it seems that the US remains alone to help itself. The current US Equity sector rotation toward defensive sectors away from cyclicals and technology *(including FAANG)* is usually not associated with Bull markets. The Relative Strength of the Nasdaq100 versus S&P500 *(red dotted line)* is making a nice rounding top and is becoming a bigger concern as long as it keeps declining. Thus, a rebound of the S&P500 from 2603 has to happen in the coming days with a sustained rise on high volume of higher highs & lows toward 2816-2860 area. This would break the waterfall price pattern, which started in the second half of October. This would also avoid a terrible downward immediate acceleration below key Gann levels of 2603, 2402, 2210, 2026 along the Red Path. Fortunately, an eminent proponent of Elliott Wave mentioned recently that a crash like the Red Path, has a very low probability to start on any day: 1 in 39000.



Graph:

Chart of S&P500 of weekly candles with Ichimoku cloud and VIX represented in orange dotted line behind the S&P500 candles. Displayed on the upper panel is the bottoming Relative Strength (RS) of small caps Russell2000 versus S&P500 in green dash line, the rebounding RS of emerging markets versus S&P500 in orange solid line and the more declining RS of Nasdaq100 versus S&P500 in red dotted line. On the lower panel, MACD is crossing down soon below zero, while the weekly STO is declining into the oversold area. The expected 10% DECLINE of the Green Path has been amazingly on track, slightly exceeded with a low spike at 2602. Along the expected 4-year cycle low, the Green Path should call for a rebound into year end. However, failure to do so right away would become a serious concern, and a break of 2602, a key Gann level, may lead to further losses, in the worst case looking like the Red Path.

Source: Stockcharts.com
Red & Green Paths are proposed by BEST