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LE COIN TECHNIQUE

Much ado about … Head & Shoulders for Equities

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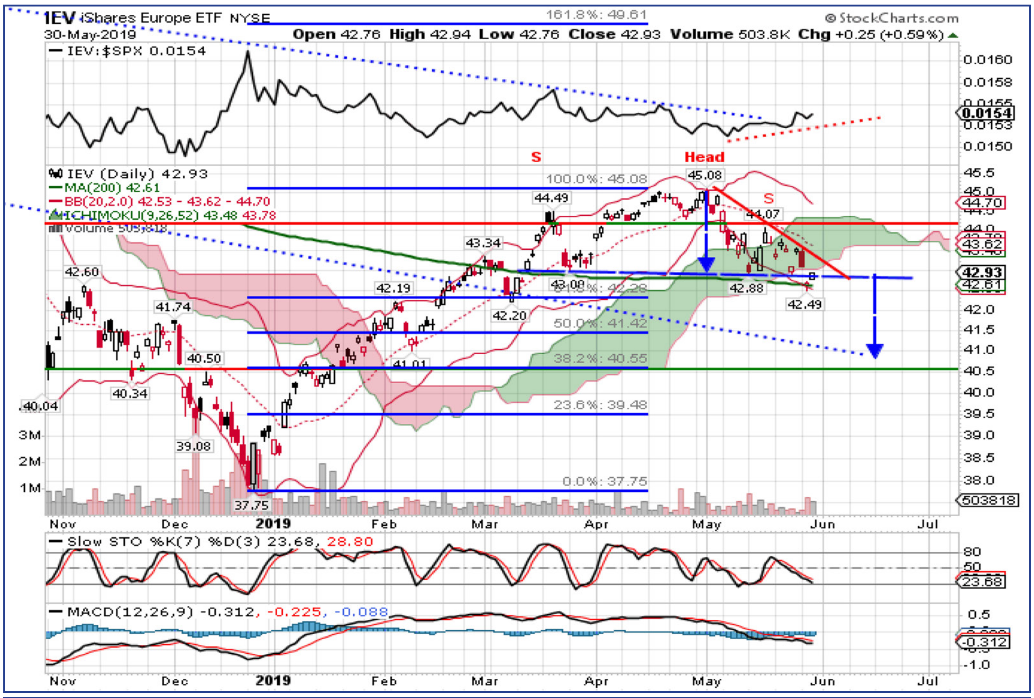
April 1: ***The Safety of the Swiss Market Index***; May 1: ***New Paths from May to October for the S&P500*** *(Red path 60% probability)*; June 1: ***Much Ado about H&S for Equities*** … you know the saying about 2 & 3, you never know I may be right a third time…and again it is a contrarian view! As shown on the daily chart of IEV iShares Europe ETF NYSE since November 2018, the rise from December 2018 (32.75) to May (45.08) was a stunning 37% in 4 months. No wonder that a correction started in early May as expected, as in late April few bearish divergences on momentum oscillators *(short-term STO & medium-term MACD)* were calling for it. A normal correction of a strong rise usually retraces 38% (42.28), the 4th wave for those practitioners, or 50% (41.42), a second wave. It all depends on the importance of the major low in December 2018. Here comes into play the location of longer-term cycle lows *(4-year-cycle low which occurred in 2018 and 9.25-year-investment cycle low expected in Q2 2021)* to select the probable scenarios. On one hand along the expected 4-year cycle the third presidential year (2019) has a bull bias, on the other hand, until Q2 2021, the investment cycle pushes down. The net result of these forces makes the debate between "Bullish and Bearish" economists about the economic impact of the current political news and their implications. My view is that we are still in a bull market following the 4-year cycle low in December 2018, which should last a few more months at least as no classic signs of a major top were registered either in September 2018 nor in May 2019. Furthering the validity of a Head & Shoulders (H&S) pattern *(Head in May)*, as displayed on the chart with its blue arrow target, is strongly influenced by its own definition. A REVERSAL pattern has to reverse something and it has to be good looking *(in my humble view the right shoulder is too small versus the left one)*. Further, as in 2010 with a rise from 666 to 1219 in 12 months on the S&P500, the current rise of ETF IEV Europe from December is not enough of an aging bull trend to have a major Head & Shoulders calling a major top right now. I suspect the H&S target of 40.75 may never be seen in the next 3 months and either the decline will stop right away near 42.28 or, at worst, near the gap 42.20-42.00, failing to reach even Fibo 50% (41.42). Once the rebound closes above the descending trend line *(currently 43.50)* joining the Head & right Shoulder, the H&S bearish pattern will be buried 6 feet deep!



Graph:

Chart of IEV iShares Europe ETF NYSE in daily candles with Ichimoku cloud, Blue arrows showing a potential target of Head & Shoulders pattern and Fibonacci retracement & extension target. The 20-day MA is declining but has not yet reached the 200-day MA (42.62). On Wednesday 29 May, ETF closed with a gap down below the neckline and below the lower line of the cloud. All elements create bearish worries. On the upper panel displaying the declining Relative Strength (RS) of IEV versus SP500 in a black solid line with a blue descending long term resistance trend line and a red rising short term support trend line. On lower panel MACD is declining below confirming an on-going major correction, while the declining STO is nearing the oversold area. In case of a rebound closing above the descending trend line joining the Head & the right Shoulder, the H&S pattern would be invalidated. Recall that along the expected 4-year cycle the third presidential year (2019) has a bullish bias!

Source: Stockcharts.com Arrows & trend lines are proposed by BEST