

QUICK TAKES PRO

"TECHNICAL ANALYSIS FOR EVERYONE"

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RESEARCH LLC

January 16, 2016 – We'll spare you the statistics about how bad the opening to the year was. Worst since... blah, blah. But we will point out that the signs were indeed firmly in place for weakness although we will make no claim for making the severity call.

The yield curve is flattening. The average stock was already in a bear market. Commodities are in the tank. And both oil and transportation are in bear markets – at the same time. That should tell you all you need to know.

The saving grace is that support on the major big-cap indices is still intact. And unless the world is in turmoil over the weekend – the long MLK weekend – the extreme oversold condition in the market should result in some bottom fishing by strategists that still think the S&P is going to close 15% higher this year.

Don't forget that Asia was already closed and Europe was already closed when the Dow was down 537 points mid-day Friday. True, China had already dropped another 3.5% and the Dow was already down 400 when Europe ended the day but there is still a lot of global catch-down ahead. But will the West bounce Tuesday after the Martin Luther King holiday? We will have to wait and see.

Of course, overnight Saturday, there was yet another terrorist attack in the world, this time in the West African country of Burkina Faso. And then there is Iran. Iran vs. the US. Iran vs. Saudi Arabia. Iran vs. Pakistan. It looks as if the sanctions are about to be lifted and Iranian oil, sitting offshore in tankers because they ran out of storage, is set to get delivered somewhere.

The background for the financial and commodity markets is as bleak as it has been in a long, long time. Should that matter? Well, for a technical analyst it should not. But if oil stays low, travel becomes dangerous and business in general is hampered even we cannot ignore it.

We'll run the charts we've seen before on the bond market, breadth and relative performance. But there are new wrinkles. Take JPMorgan for example. Wednesday, it released some pretty good earnings. It jumped up but closed way lower for a trading failure. Weak performance on good news is bearish and it does not matter that the market that day was down big. Actually, Friday was worse for the market yet **JPM** closed well off its lows.

Leadership is also broken as Google, Facebook, Amazon and Netflix all succumbed. And did you see the semiconductors? Intel was crushed Friday (yeah, with a "k") and it took the sector down with it.

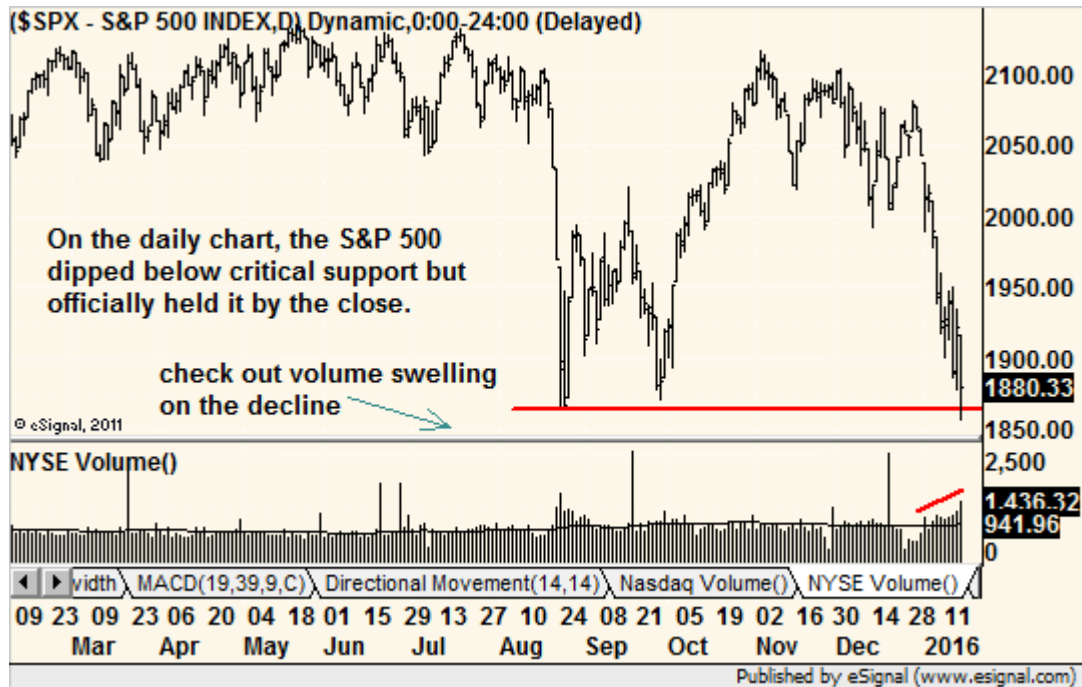
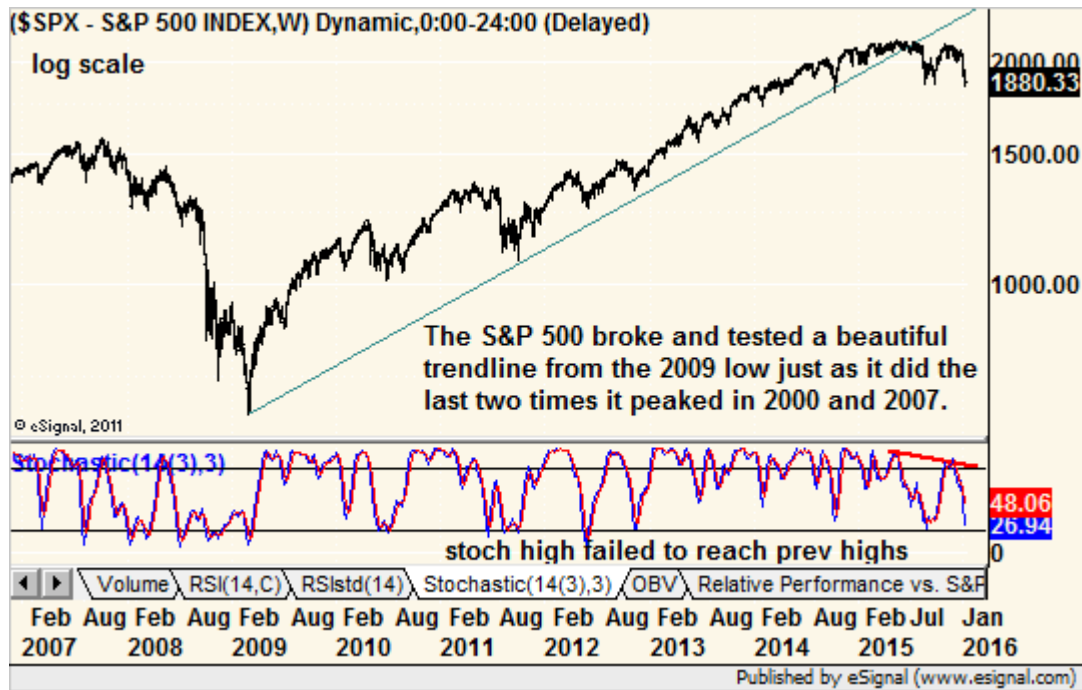
Homebuilders followed through on last week's breakdown and this week it was REITs that broke. Actually, the **IYR** ETF had a secondary breakdown after testing a long-term break over the prior few weeks. It is a higher confidence bear call.

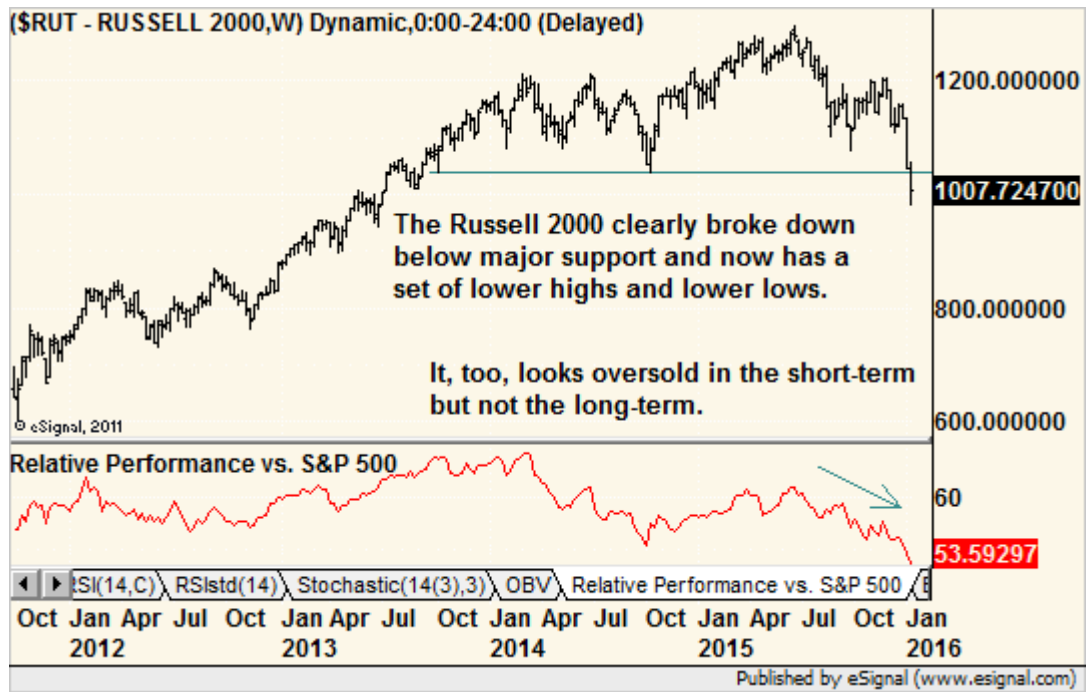
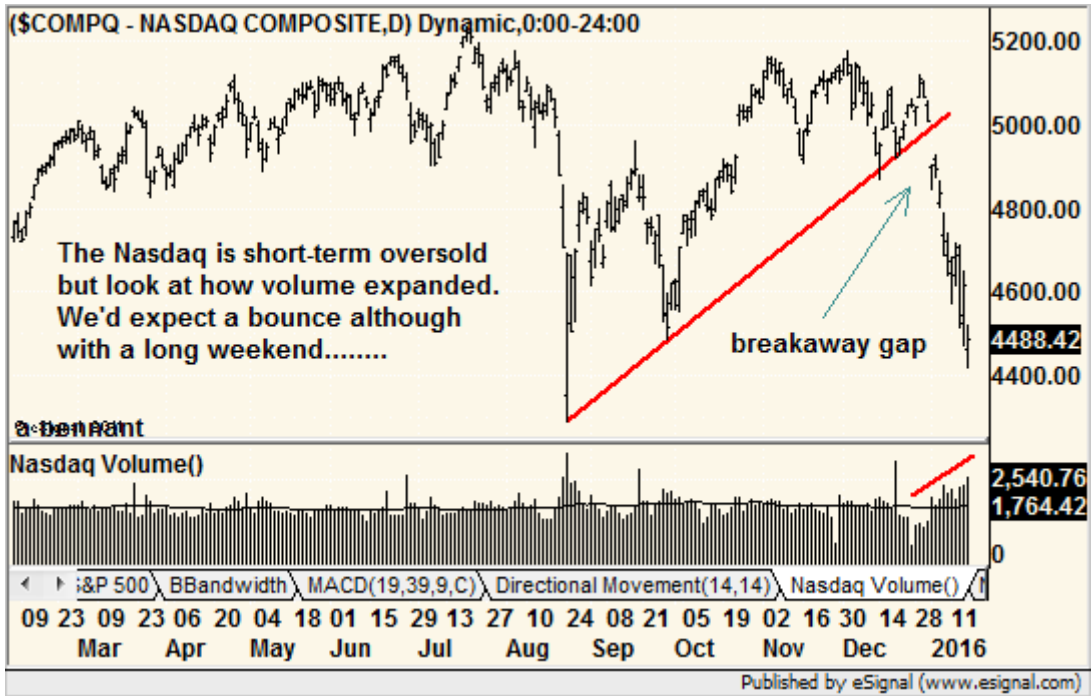
And bonds – the **TLT** ETF broke out to the upside. This as the 10-2 spread (10-year yield minus 2-year yield) continued to narrow. And even so the Fed still officially has four rate hikes in the works for this year. We are not economists here but that will make a recession a certainty if they stick to it. Is it any wonder the markets are already spooked?

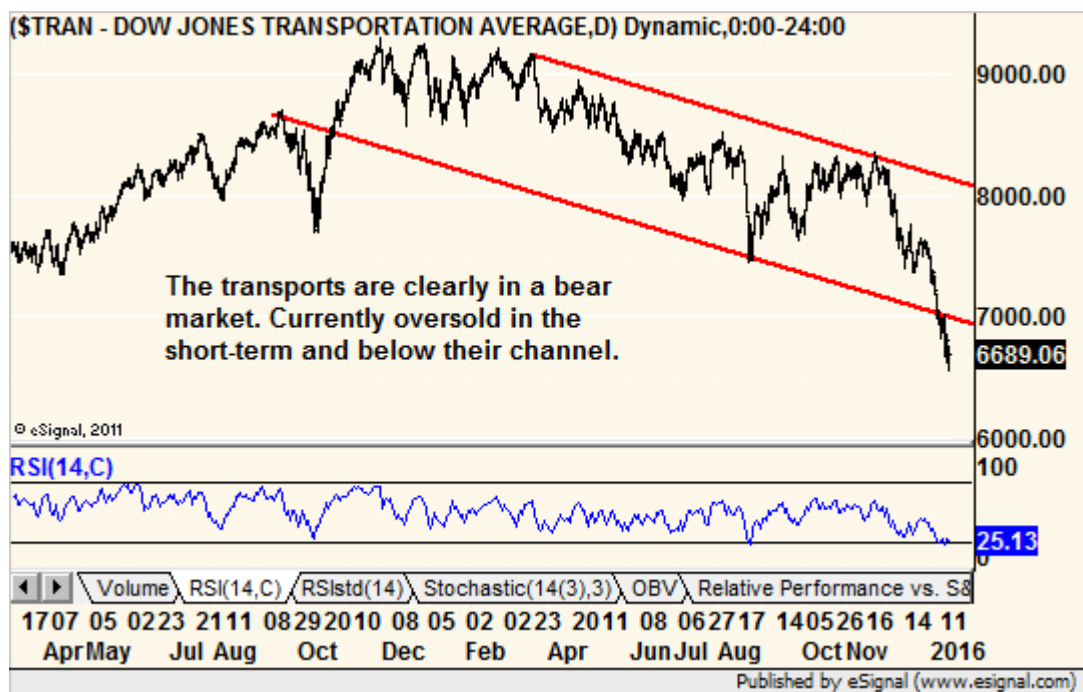
Cash is king. Shorts will work but beware oversold conditions and a building panic in sentiment. We'd like to see the Dow gain back 500 points this coming week to ease fears and then it will be ripe to continue what is already in place – a bear market.

We are seriously looking for things that may be attractive but they just are not there yet, unless you can hide in utilities. **Perhaps the best value we can offer is to recommend patience and keeping powder dry.**

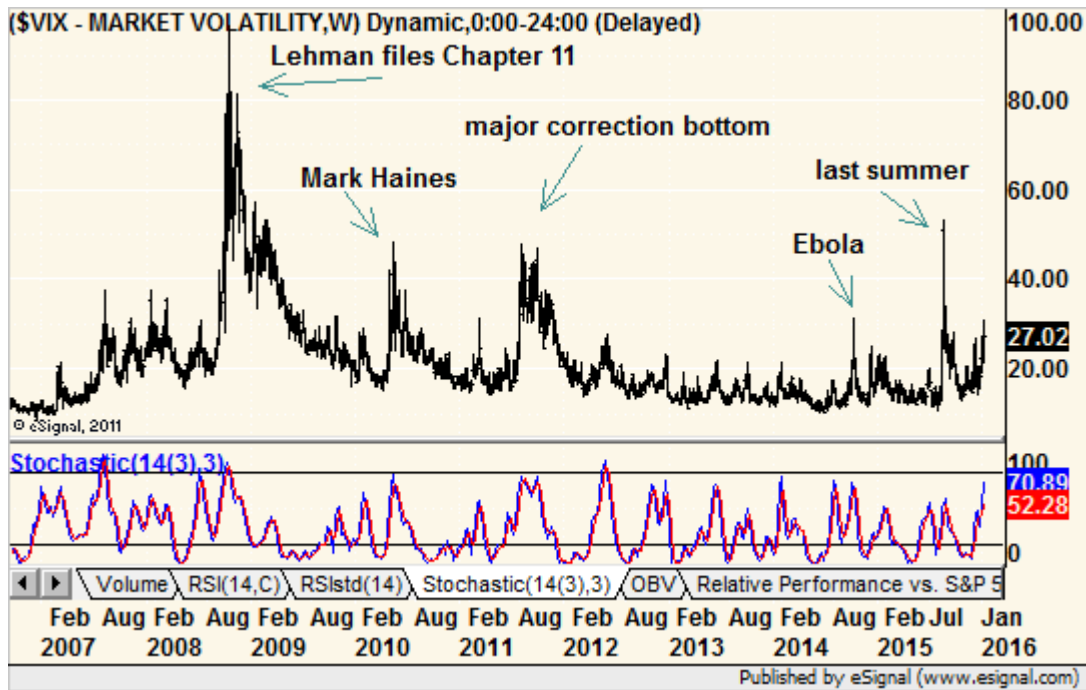
Index Charts of the Week





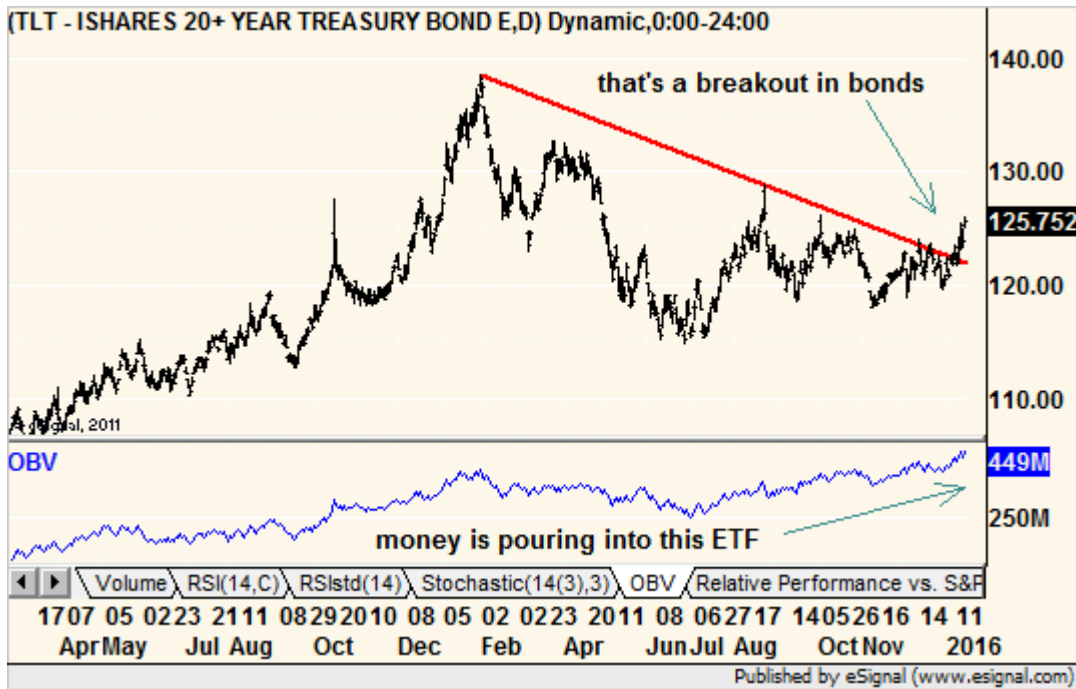


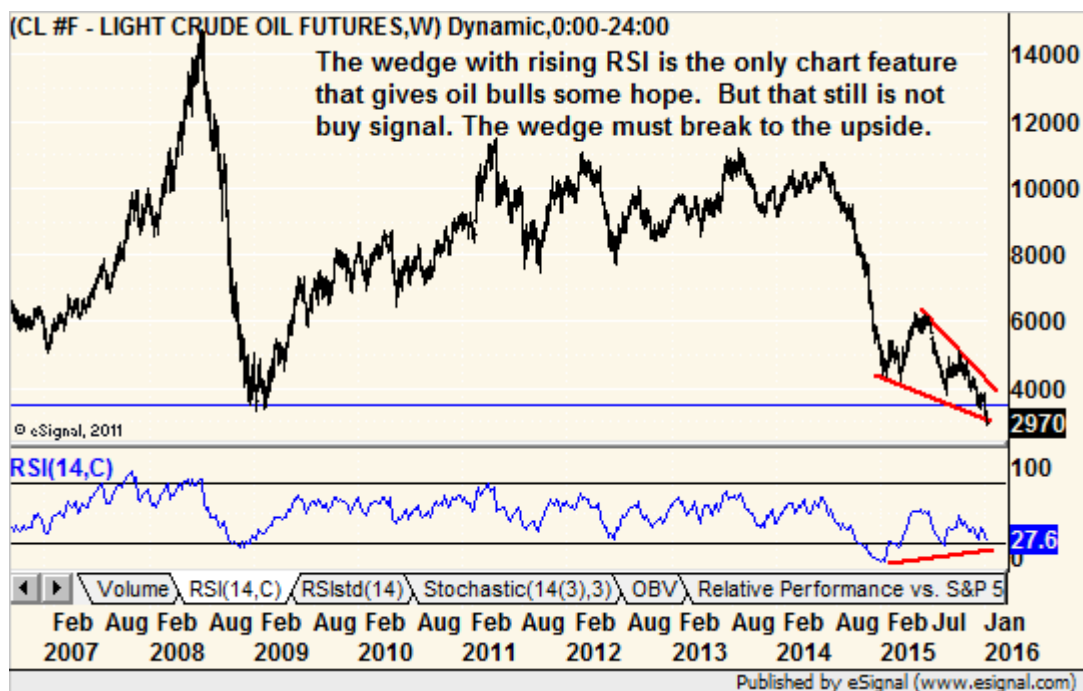
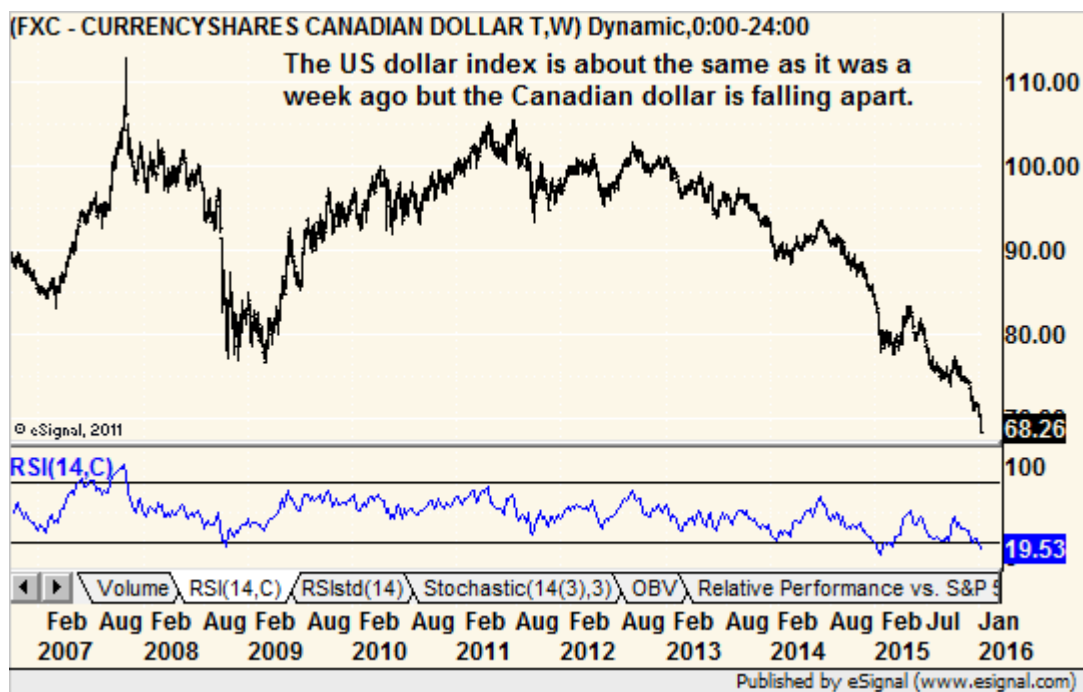
Other Markets

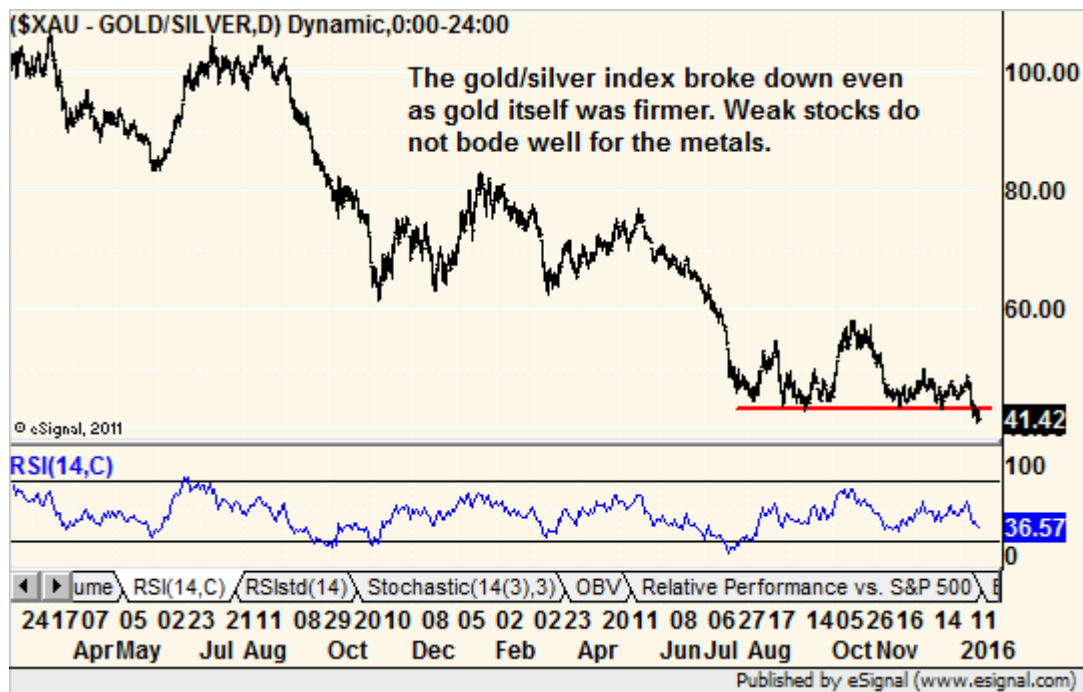
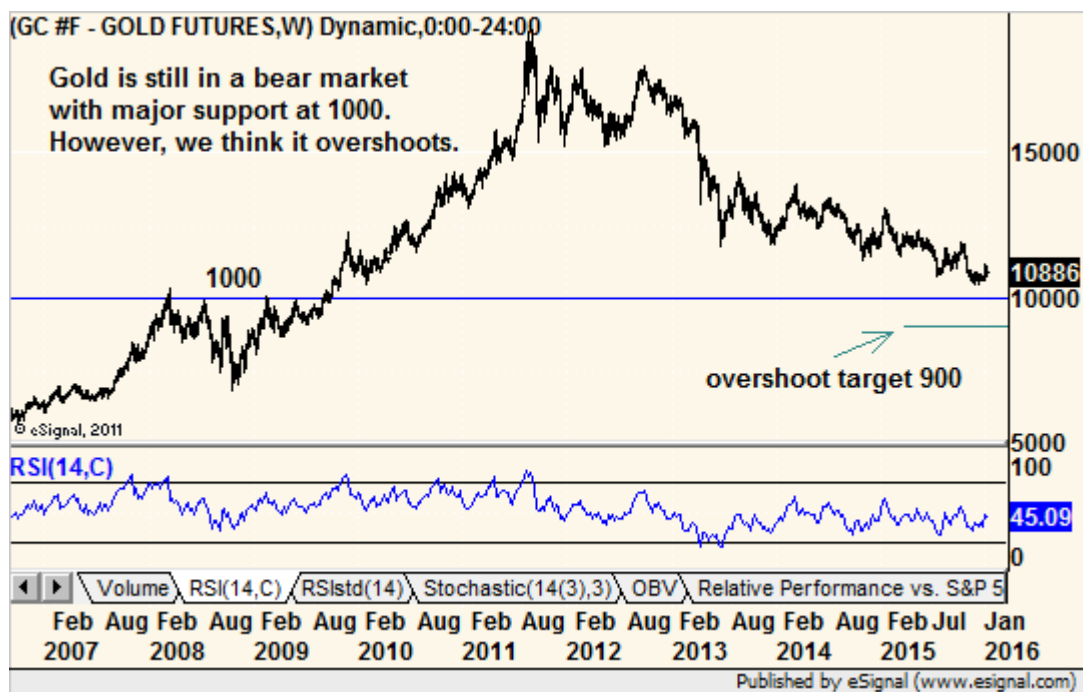


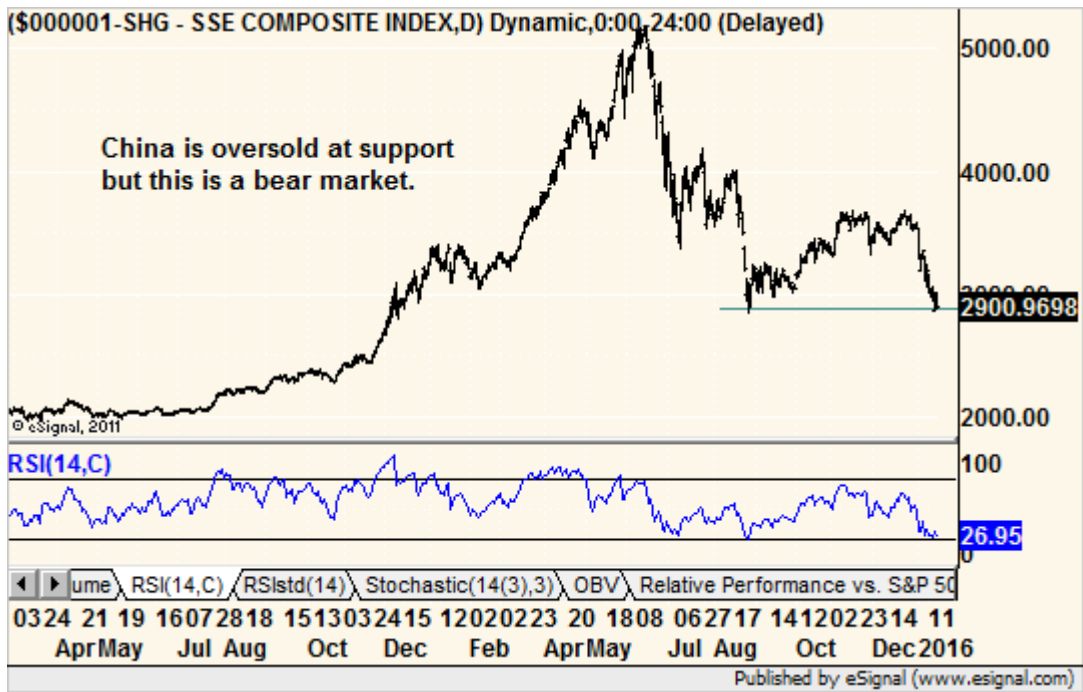
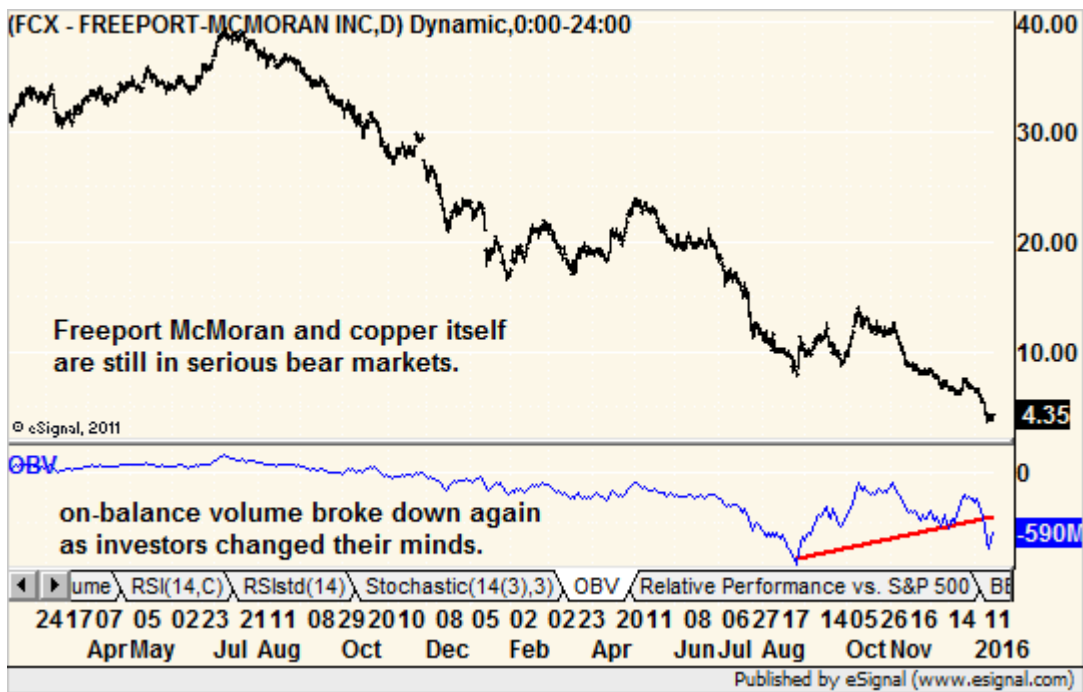
The VIX is not even close to signaling a major bottom. The Mark Haines peak in the VIX occurred when the late CNBC host asked everyone – not just technical analysts – what they thought of the head-and-shoulders that formed. He thought the bear market was about to return. That pattern completed but never broke down and it was off to the races from there.

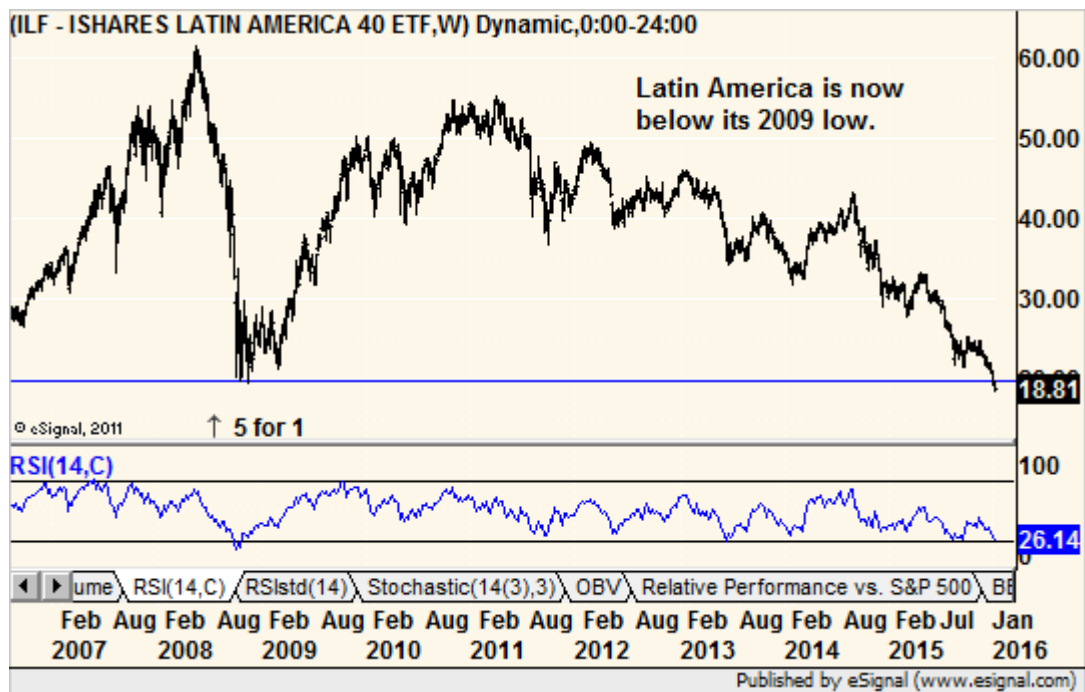
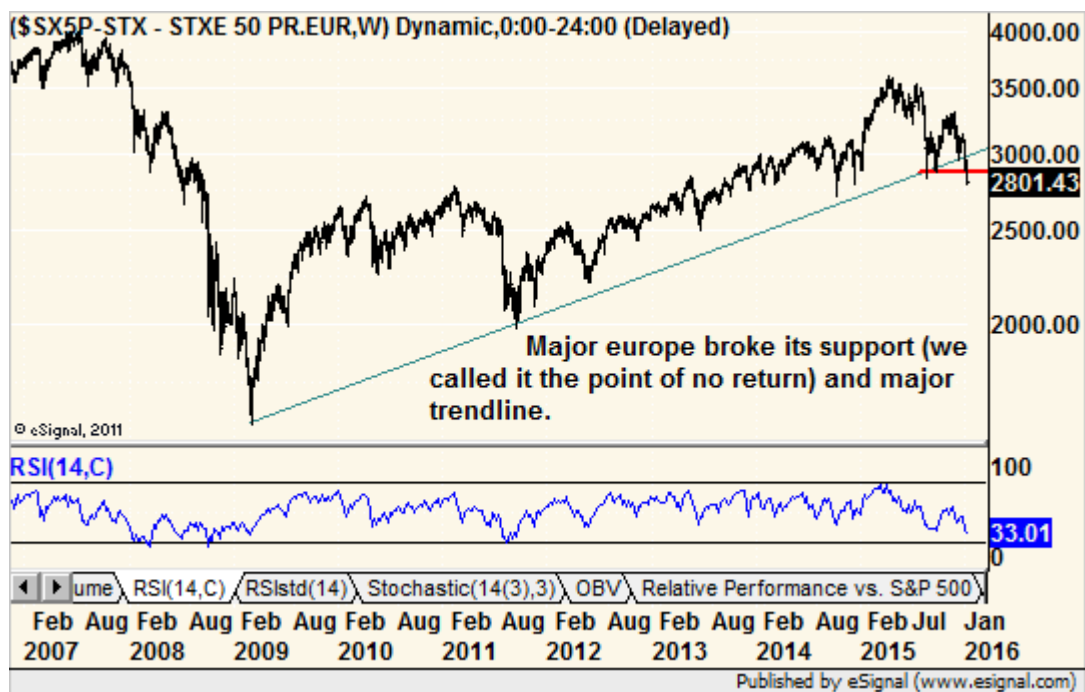


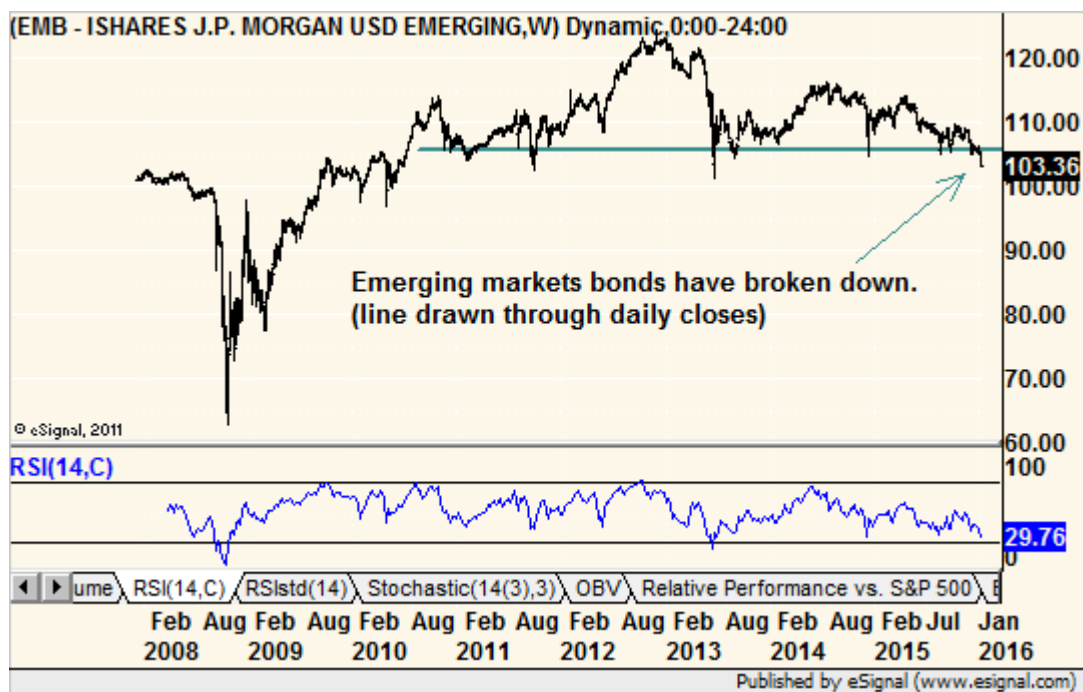




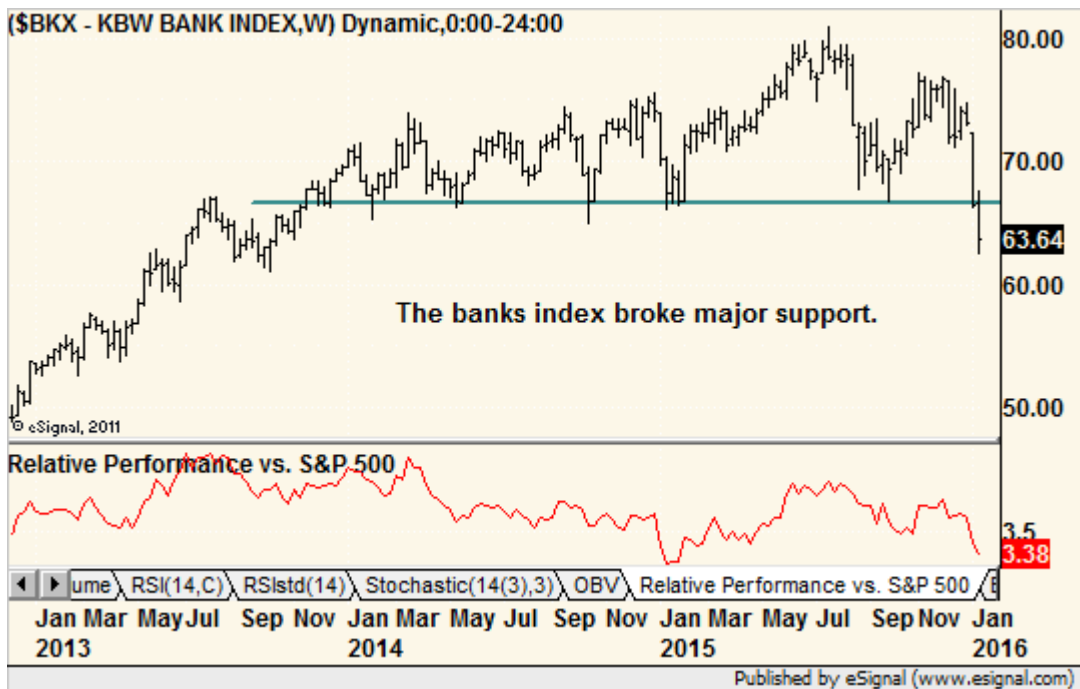
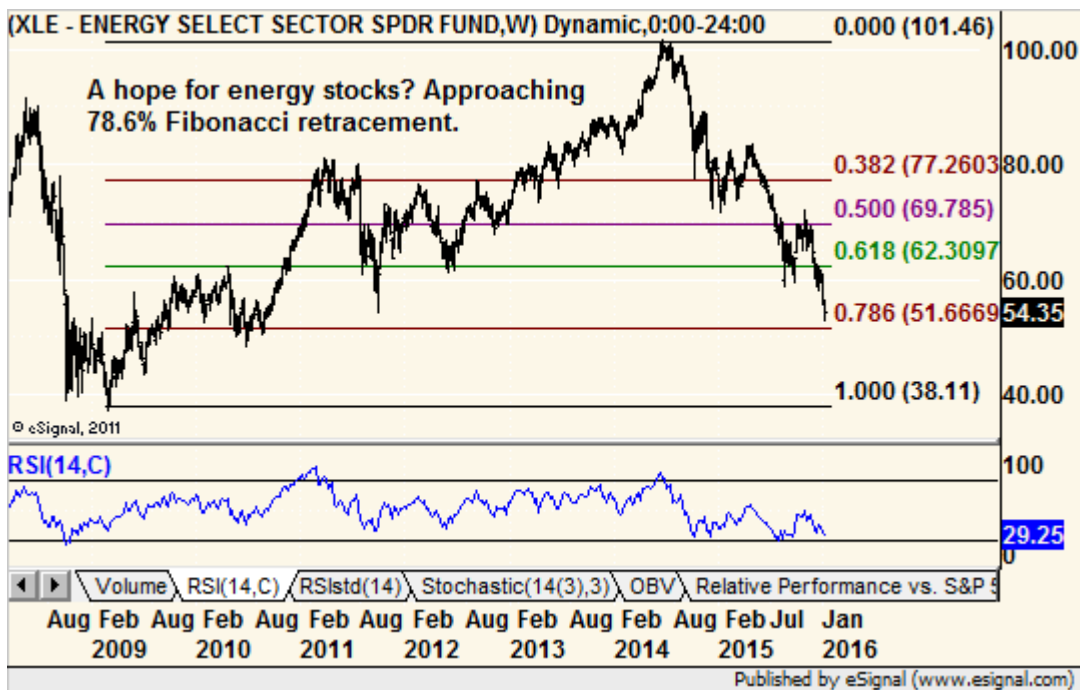


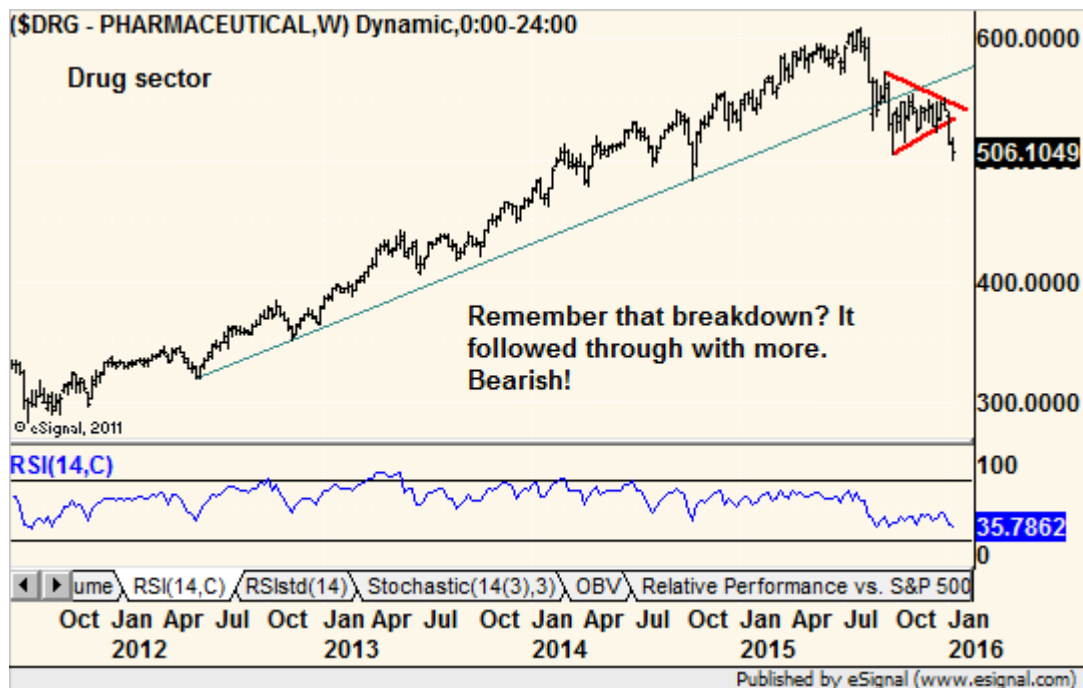


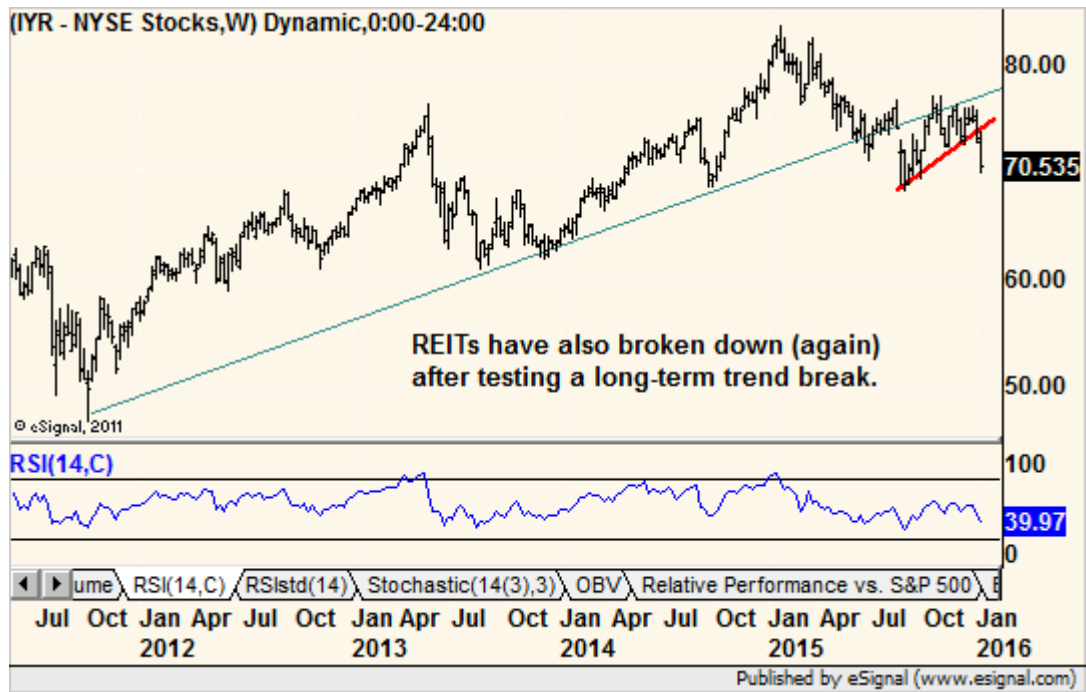
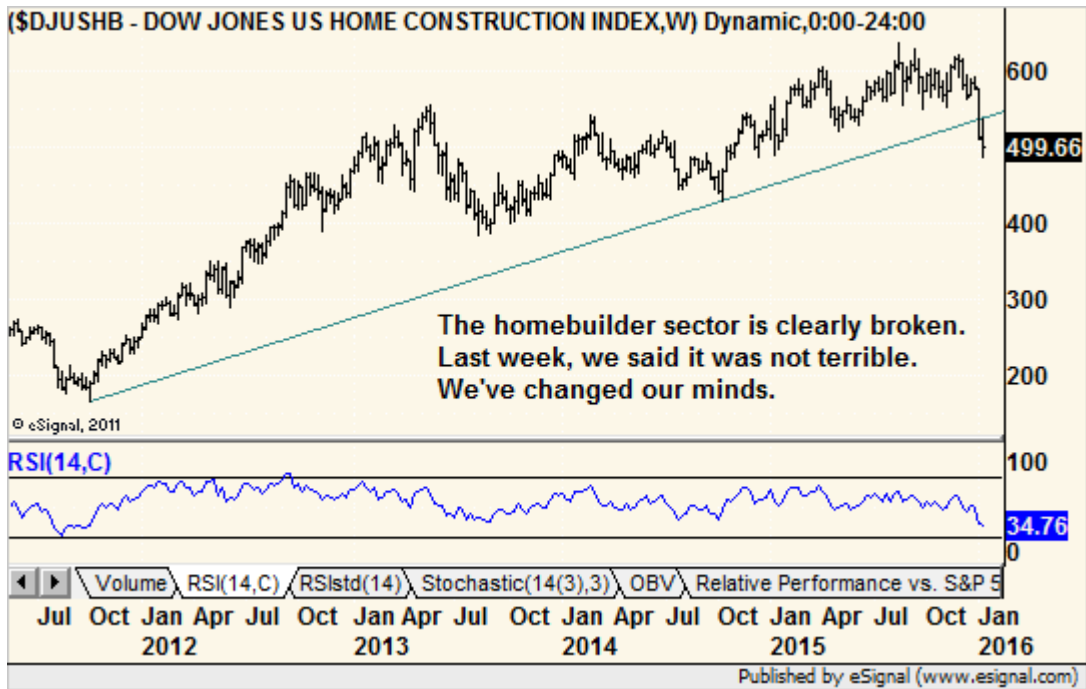


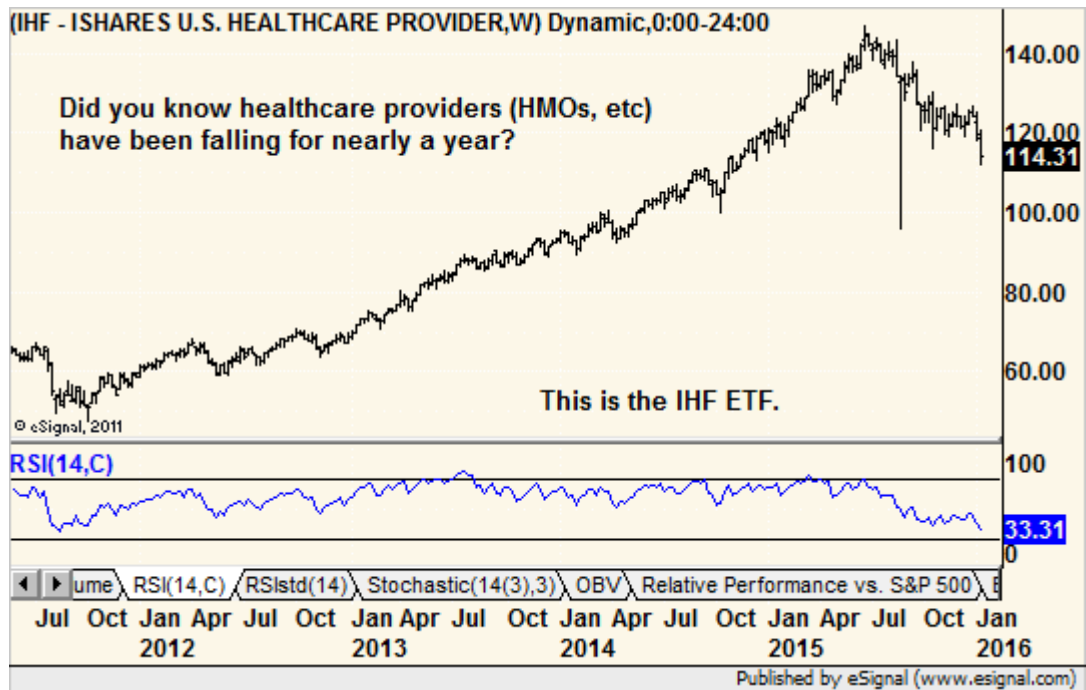
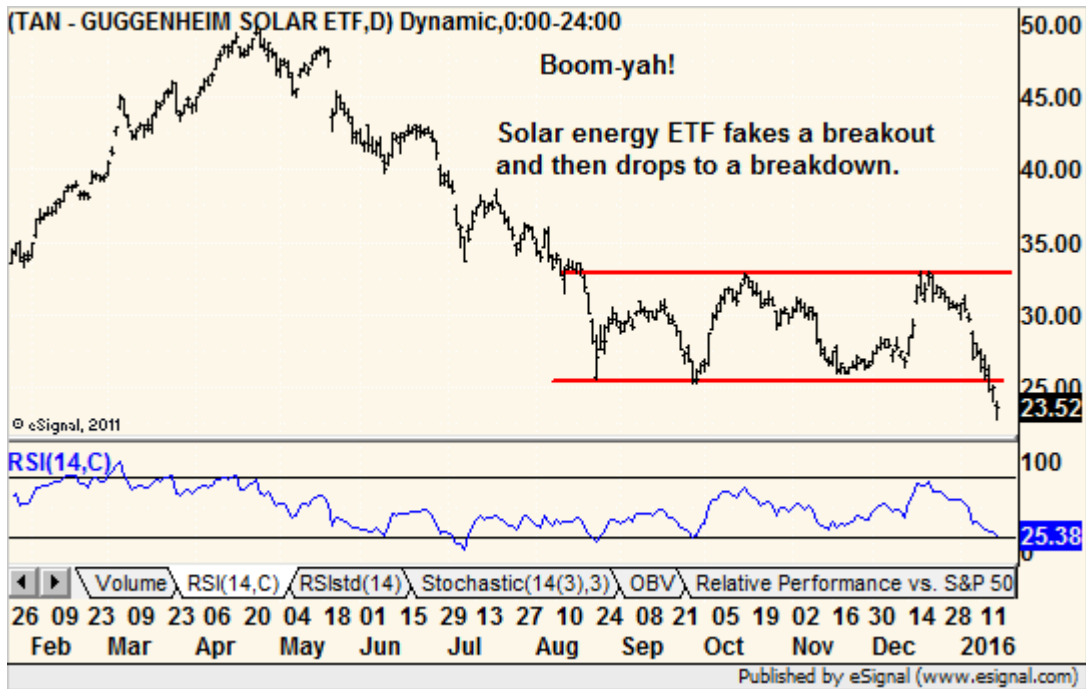


Sector Watch

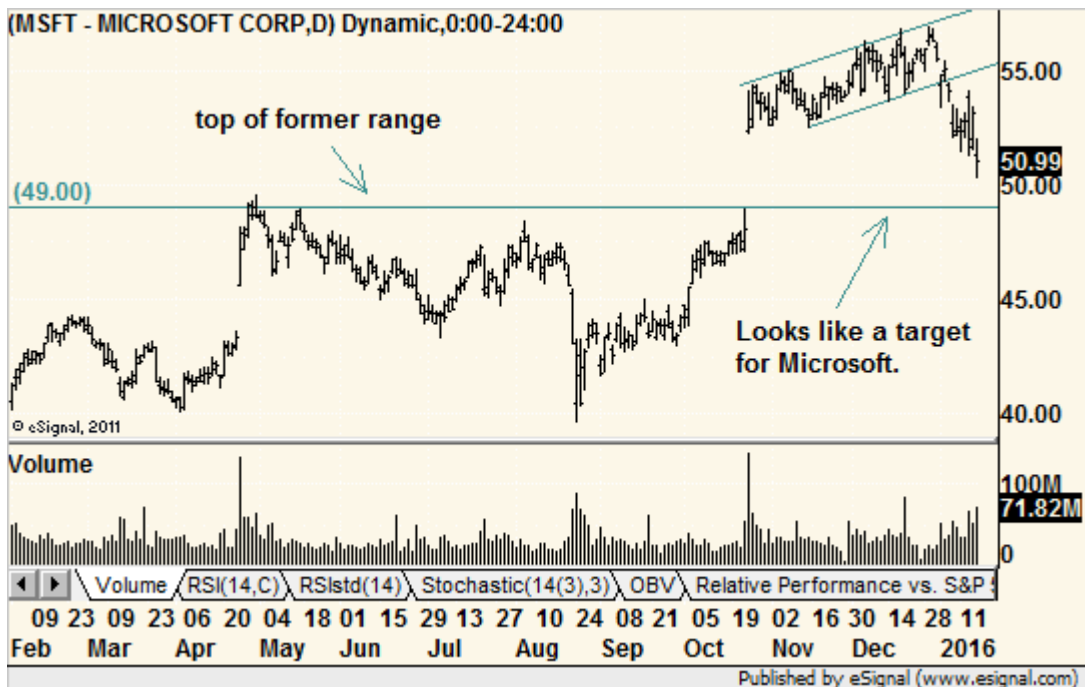
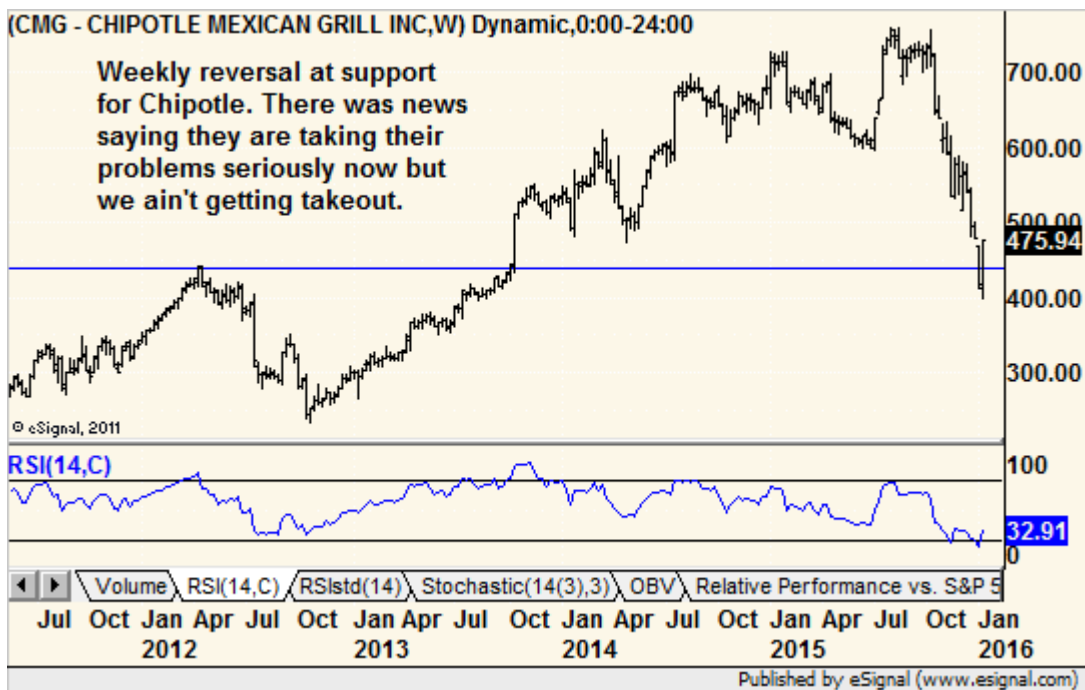


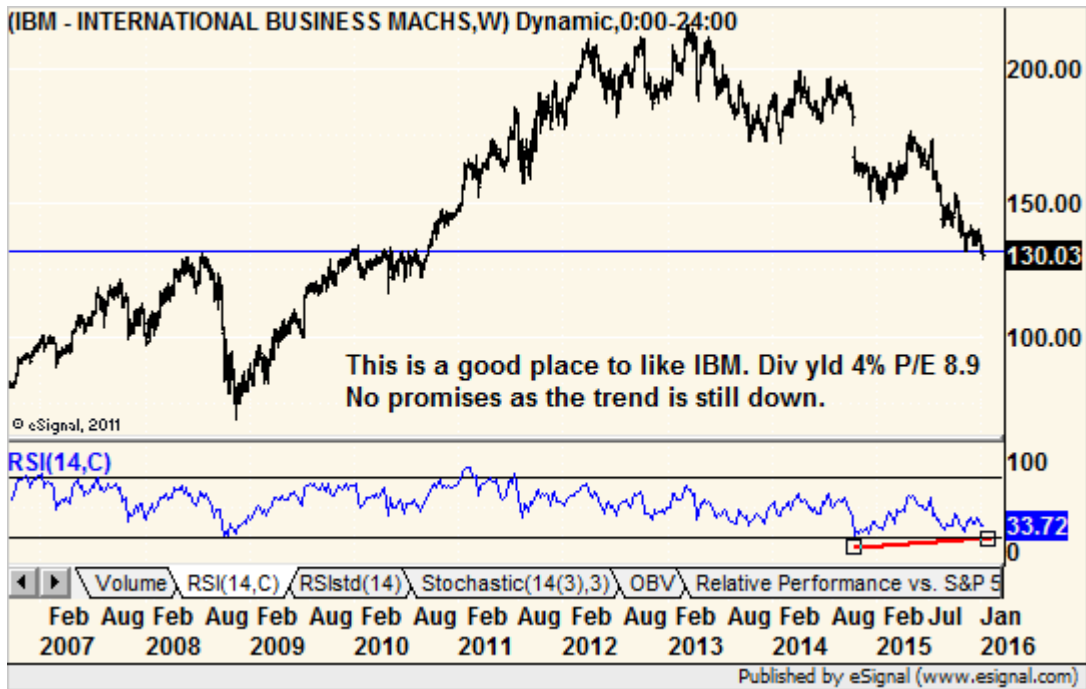


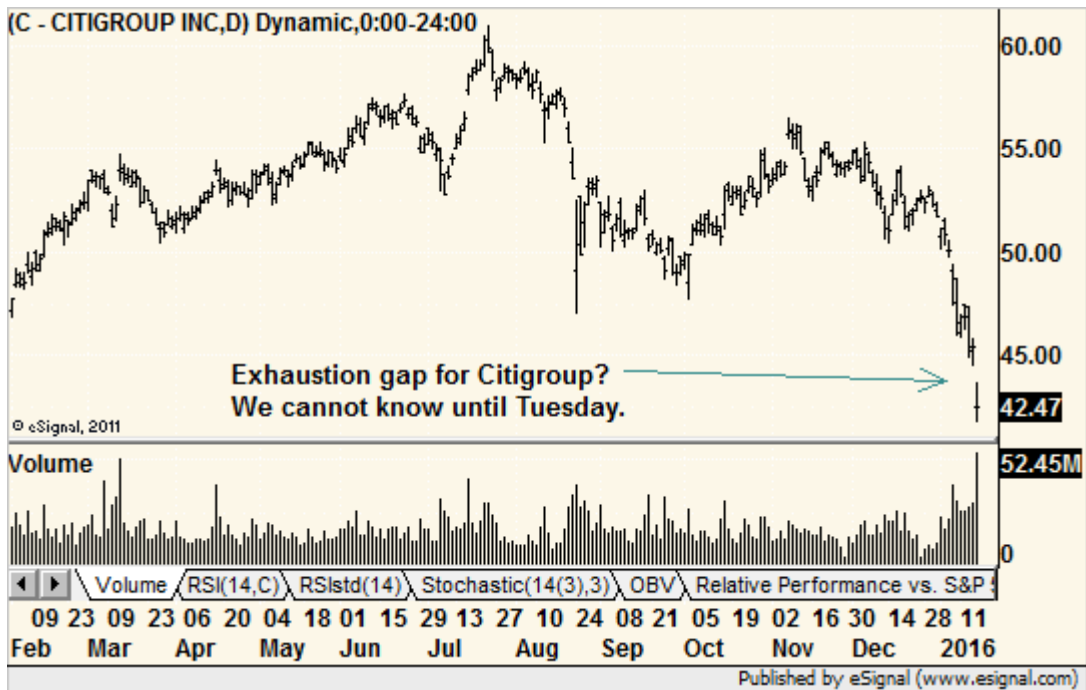
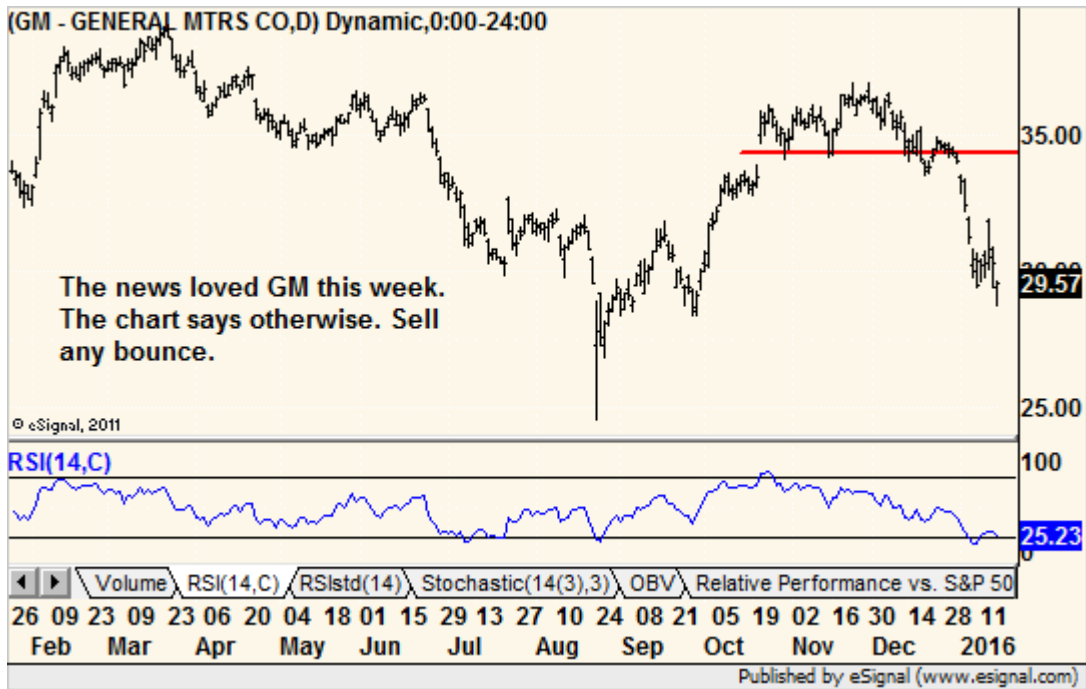


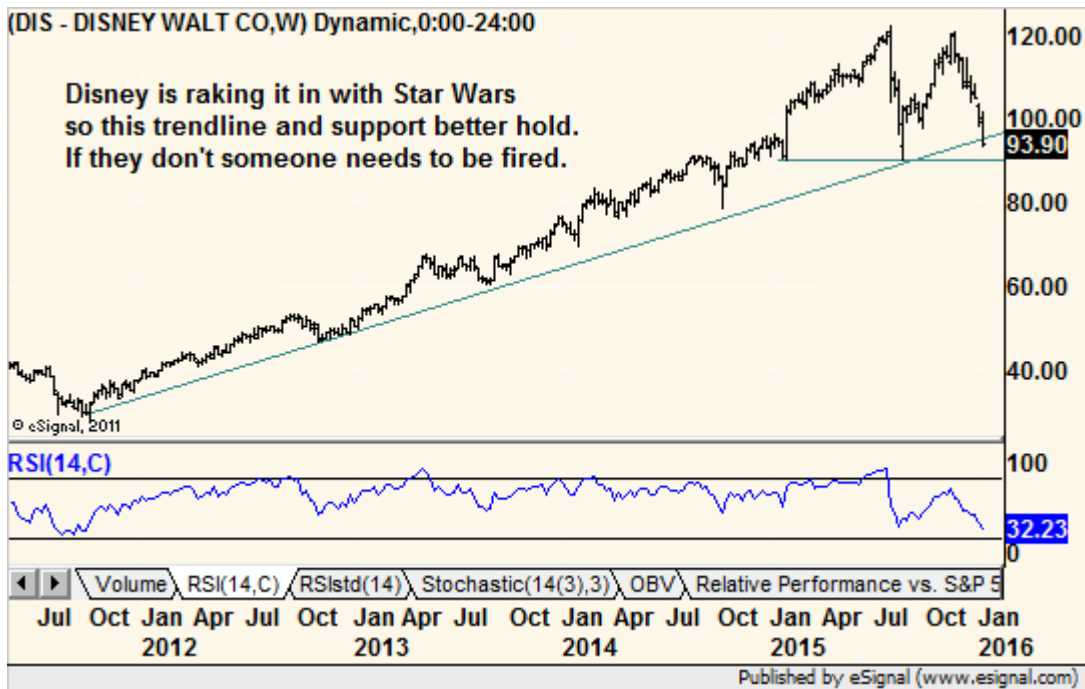
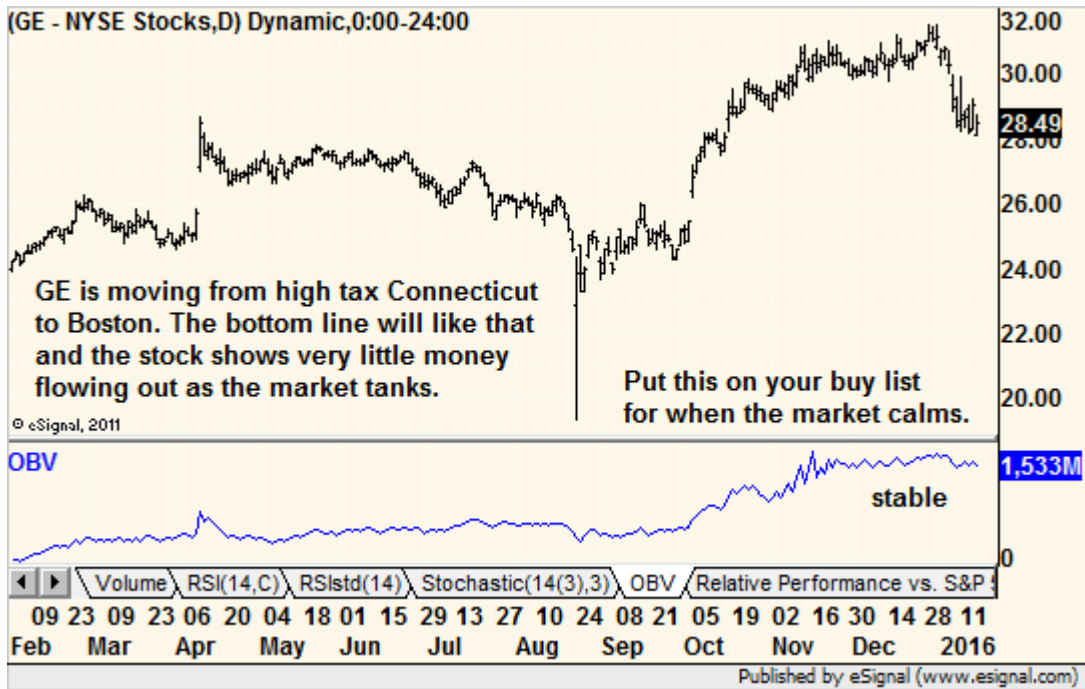


Stocks in the News









Other Information

About - Michael Kahn, CMT, has been working with charts and technical analysis since 1986 and currently writes the twice-weekly “Getting Technical” column for Barron's Online. He is also a regular contributor to MarketWatch.com. Michael was formerly Chief Technical Analyst for BridgeNews and seen frequently on financial television including PBS’ Nightly Business Report.



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