Quick Takes Pro

"Technical Analysis for Everyone"

Michael Kahn Research LLC

January 23, 2016 – Wednesday morning the market was tanking and the holy support level of 1867 on the S&P 500 was smashed quite convincingly. However, as we warn in every article and every speech, broken support levels have to stay broken. While the index did end that day at 1859 it ended up barely unchanged for the day. The next day, it closed above support and Friday continued higher still.

What it left us was a bullish hammer candle and another successful test of support in a market that was oversold and very fearful. So that's it, right? Time to buy and look for another rally like the one we saw in October?

Not exactly. The reversal started on the technicals (including super lopsided breadth) and was boosted by another round of jawboning by ECB Chief "Super" Mario Draghi. If we had Euro-stimulus for every time Draghi promised one we'd be at negative interest rates and the ECB would own the entire global bond market. Good luck with that stimulus as the Fed has proven quite clearly that it does not work.

But seriously, this rebound is completely understandable and <u>it fits in well with the bear market story</u>. Remember, some of the biggest rip roaring rallies happen in bear markets. But aside from the anecdotal evidence, <u>the yield curve is just as flat as it was a week ago</u>. All sectors except utilities and consumer staples are below 200-day averages. And financials have a serious long-term support break in place.

Basically, there is plenty of room for a reversion to the mean bounce but nothing has changed in terms of the technicals that got us here. Bonds are correcting after a breakout. Oil bounced on short covering (while industrial metals and industrial metals mining stocks fell). And why is the dollar still rallying?

This looks to us as the time to get ready to unload some positions that should have been unloaded before. Good candidates? The sectors that went from worst to first this week. Pipelines, coal, marine transportation, recreational products, footwear (sans **NKE**) and a few more. We've created a table of the top 10 worst performing sectors over the past one, two and three months and matched that with the top 10 performers over the last week. Any sector that is on two or three of the worst lists and then appears on the best list is what we are talking about. Oil equipment is one that comes to mind right away. Anyway, that table is below in the sector section.

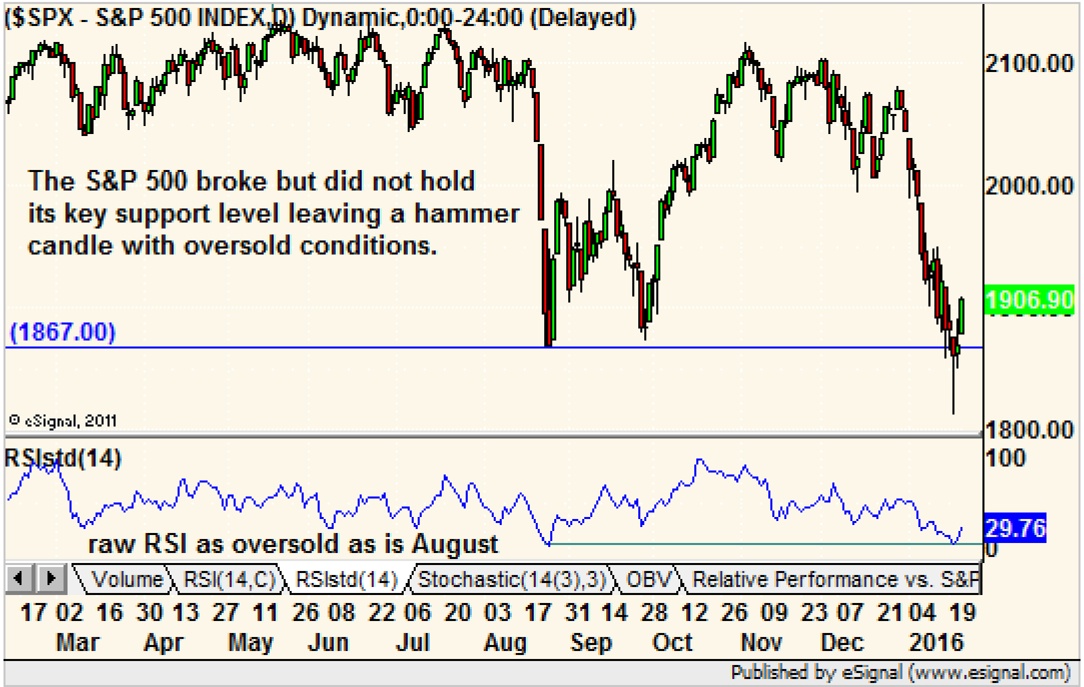
Let's switch gears and see that even staid and necessarily optimistic banker types are not pleased with the state of the global economy. Heard at Davos (source: Daily Telegraph) - "The situation is worse than it was in 2007. Our macroeconomic ammunition to fight downturns is essentially all used up." "The global elastic has been stretched even further than it was in 2008 on the eve of the Great Recession. The excesses have reached almost every corner of the globe."

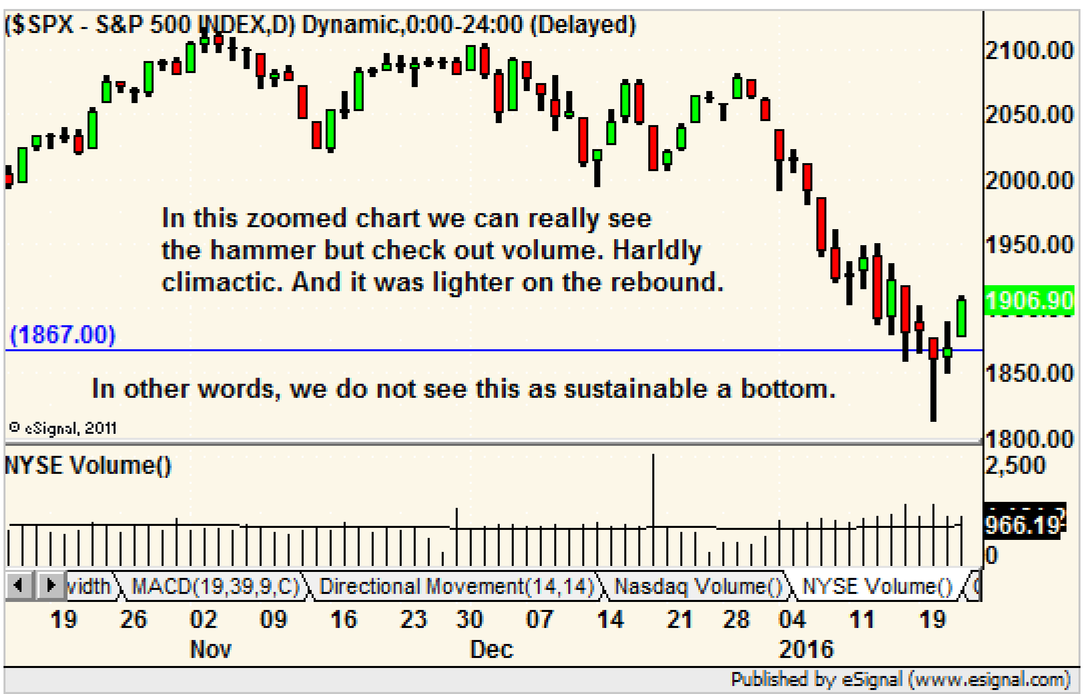
We saw it in the charts although we did not know what exactly we saw. All we knew is that the markets are weak. As it was last week, the only saving grace is that the big cap indices have not yet taken out their summertime lows. <u>As long as that is the case, we can hold on to hope</u> that the markets will actually stabilize, perhaps geopolitical tensions ease, companies report surprise profits and for later in the year, presidential candidates from all parties put forth ideas the market likes. We are intentionally staying apolitical. Our job is to follow the market and nothing more.

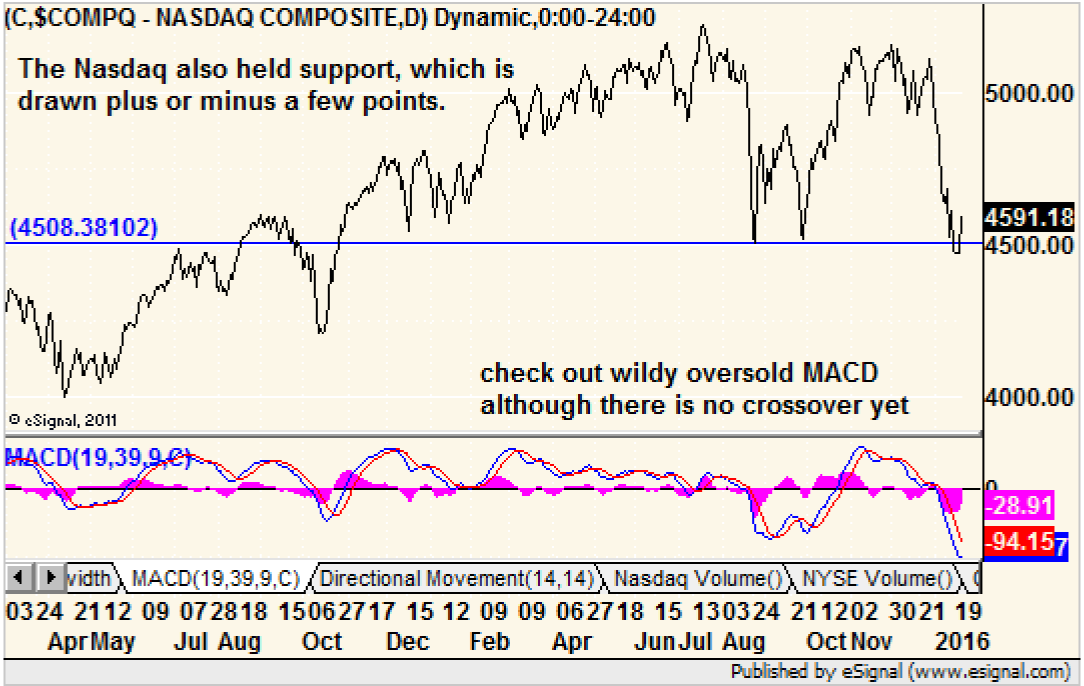
The Fed is on tap for this week although nobody expects any changes in policy. The jawboning, of course, will be of great concern. Will they back down on the rate rising plan? If so, that could help markets.

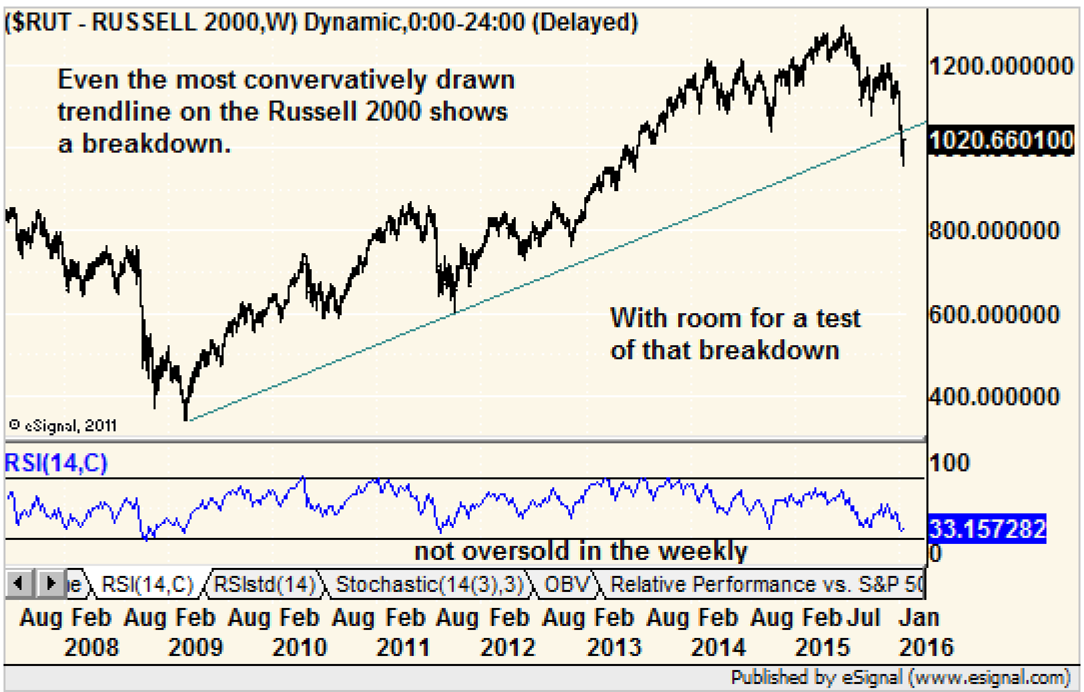
Bottom line – It's a correction in a bear market with some factors that could make it quick or less quick. But none that we see that will change this to being a bottom.

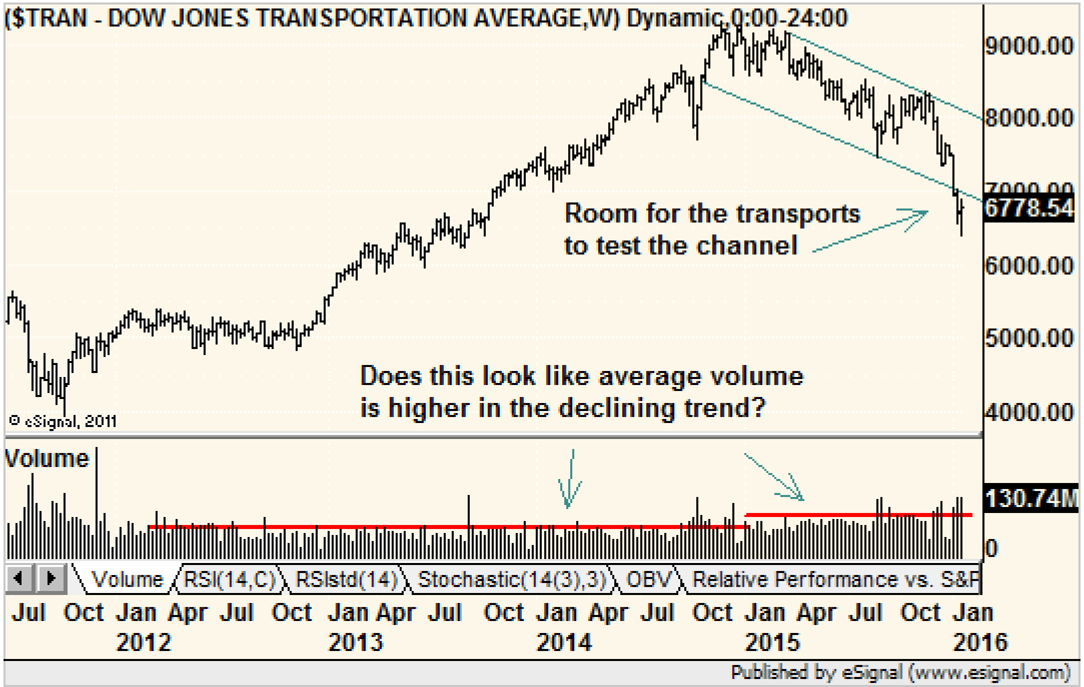
Index Charts of the Week

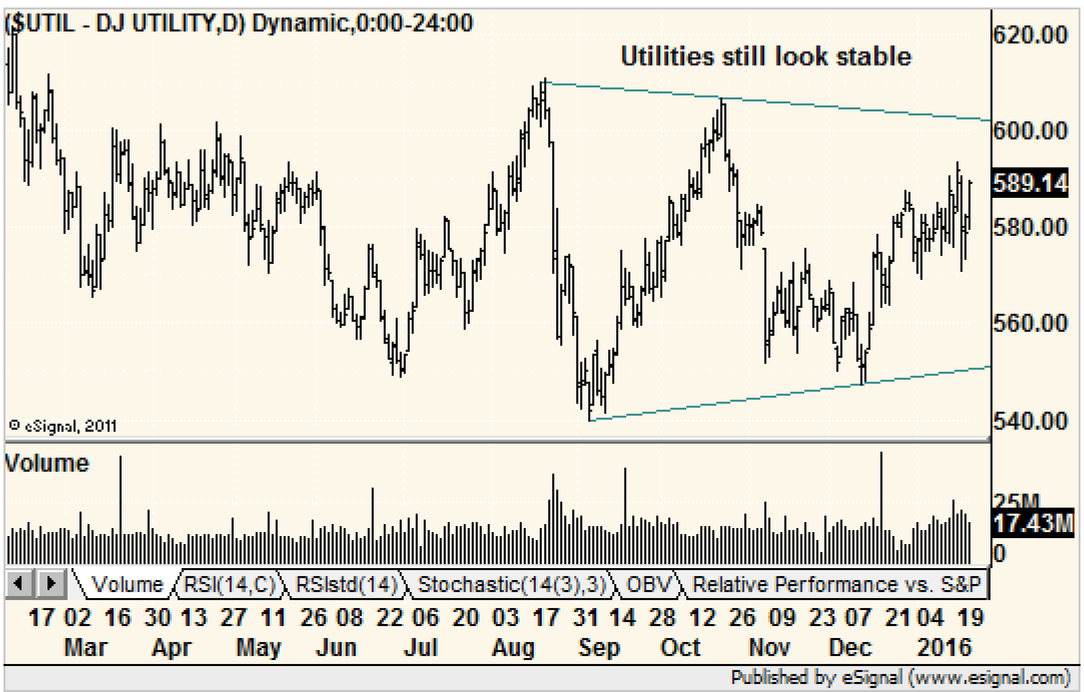




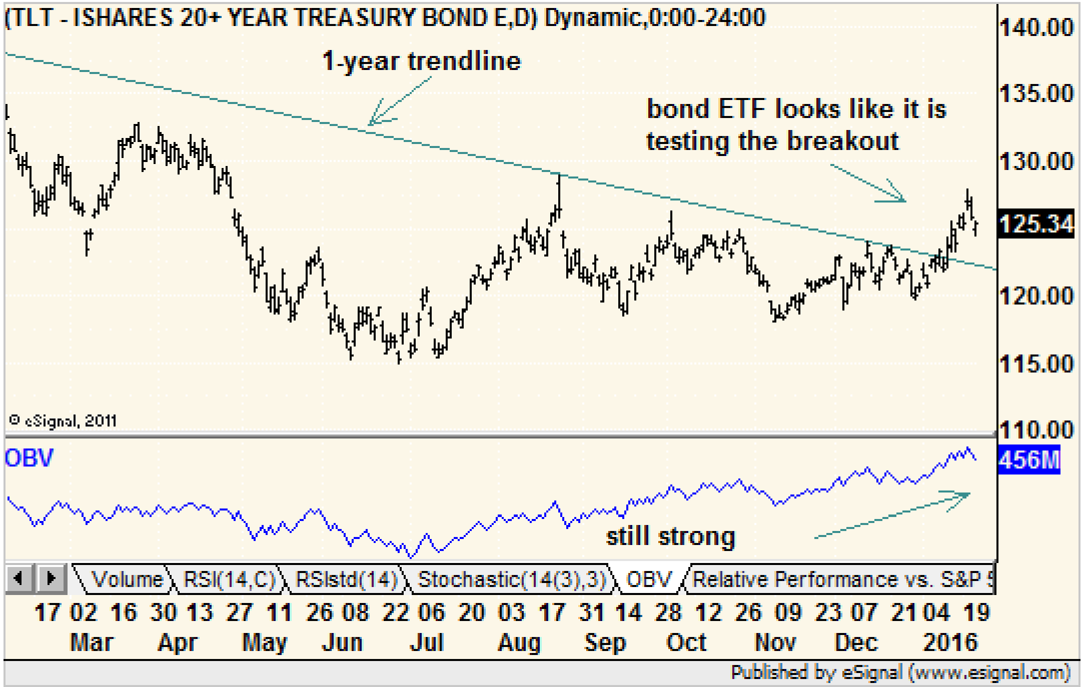

(C,$COMPQ - NASDAQ COMPOSITE,D) Dynamic,0:00-24:00
The Nasdaq also held support, which is drawn plus or minus a few points.
(4508.38102)
check out wildy oversold MACD although there is no crossover yet
© eSignal, 2011
5000.00
4591.18
4500.00
4000.00
MACD(19,39,9,C)
-28.91
-94.15
Published by eSignal (www.esignal.com)

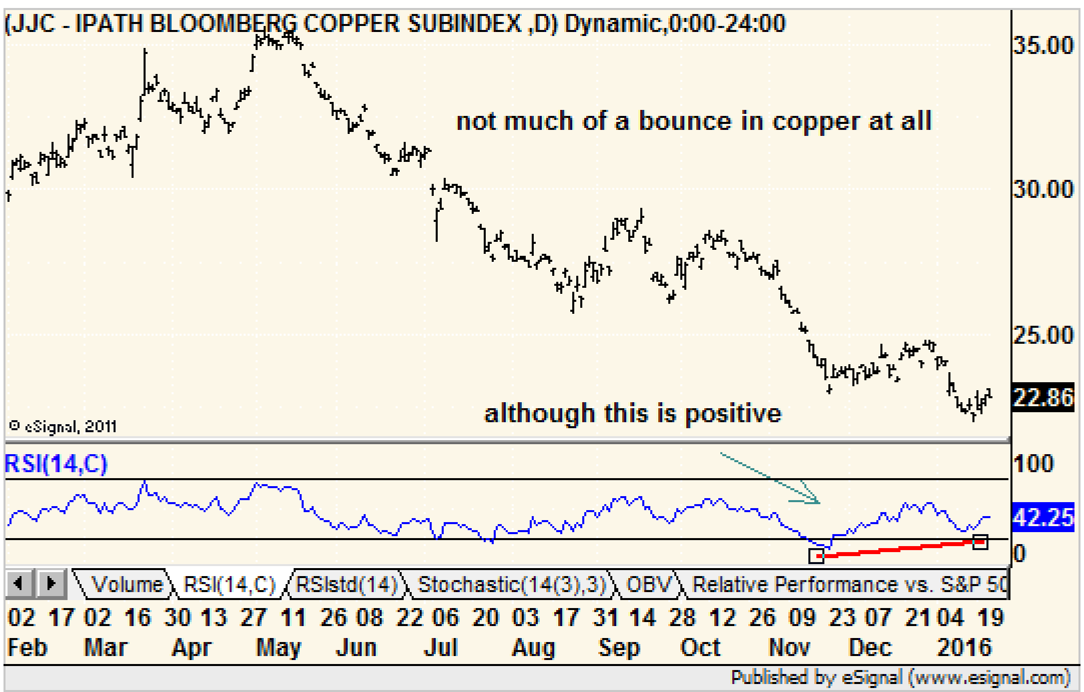

($RUT - RUSSELL 2000,W) Dynamic,0:00-24:00 (Delayed)
Even the most convervatively drawn trendline on the Russell 2000 shows a breakdown.
With room for a test of that breakdown
© eSignal, 2011
1200.000000
1020.660100
800.000000
600.000000
400.000000
RSI(14,C)
33.157282
not oversold in the weekly
Aug Feb Aug Feb Aug Feb Aug Feb Aug Feb Aug Feb Aug Feb Aug Feb Jul Jan
2008 2009 2010 2011 2012 2013 2014 2015 2016
Published by eSignal (www.esignal.com)

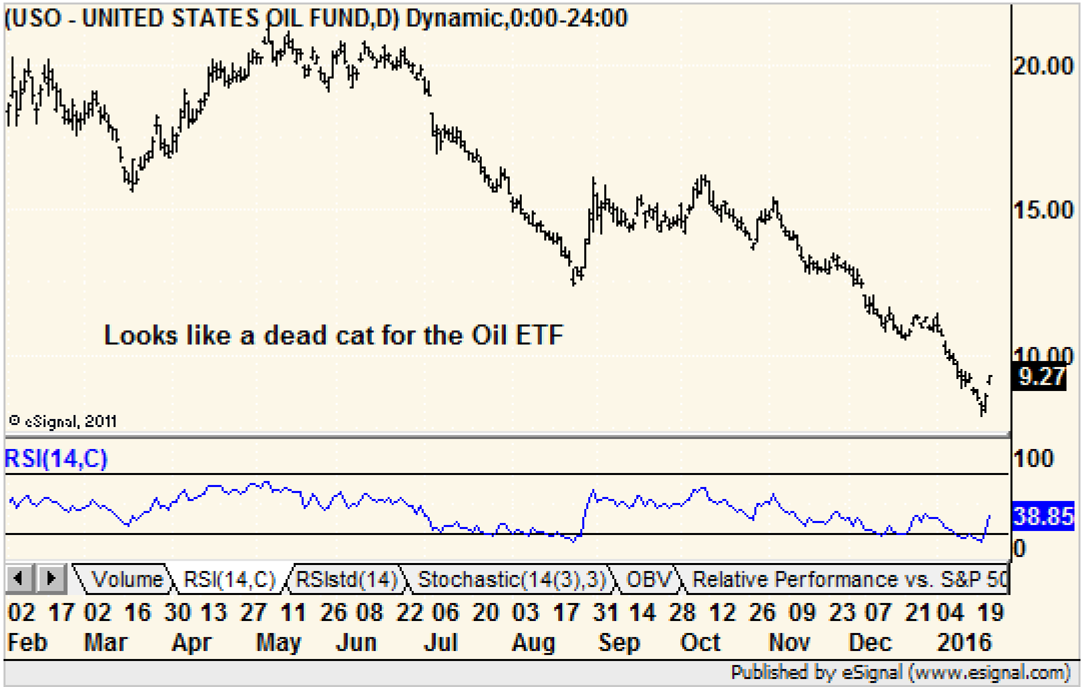

($TRAN - DOW JONES TRANSPORTATION AVERAGE,W) Dynamic,0:00-24:00
9000.00
8000.00
7000.00
6778.54
6000.00
5000.00
4000.00
Room for the transports
to test the channel
Does this look like average volume
is higher in the declining trend?
© eSignal, 2011
Volume
130.74M
0
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P
Jul Oct Jan Apr Jul Oct Jan Apr Jul Oct Jan Apr Jul Oct Jan Apr Jul Oct Jan
2012 2013 2014 2015 2016
Published by eSignal (www.esignal.com)

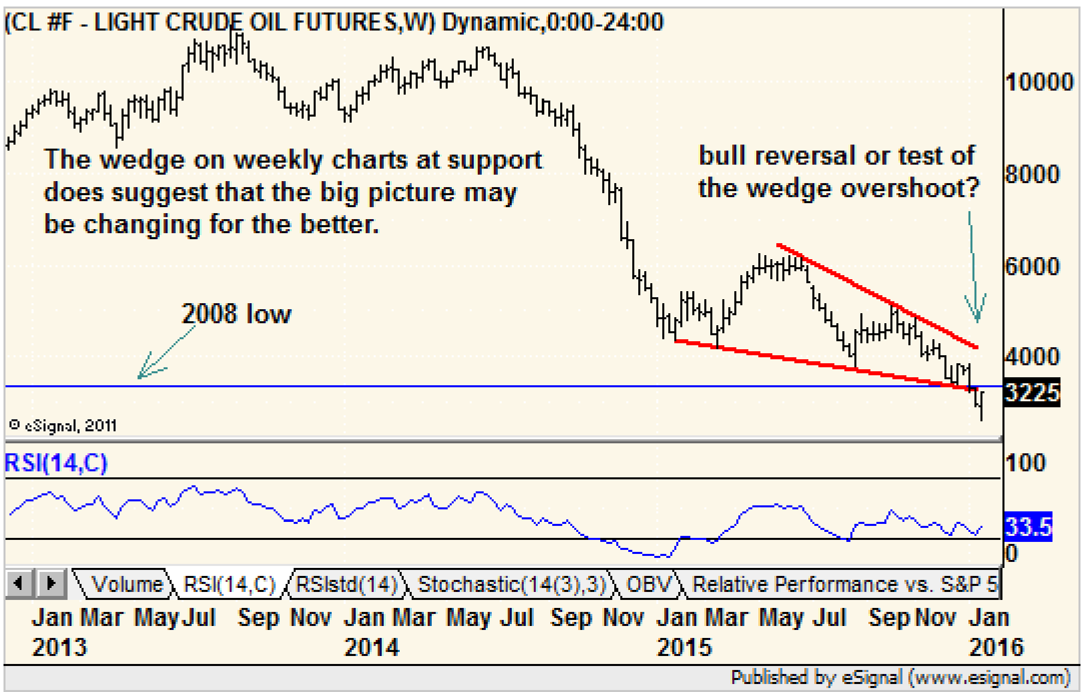

($UTIL - DJ UTILITY,D) Dynamic,0:00-24:00
Utilities still look stable
620.00
600.00
589.14
580.00
560.00
540.00
© eSignal, 2011
Volume
25M
17.43M
0
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P
17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)

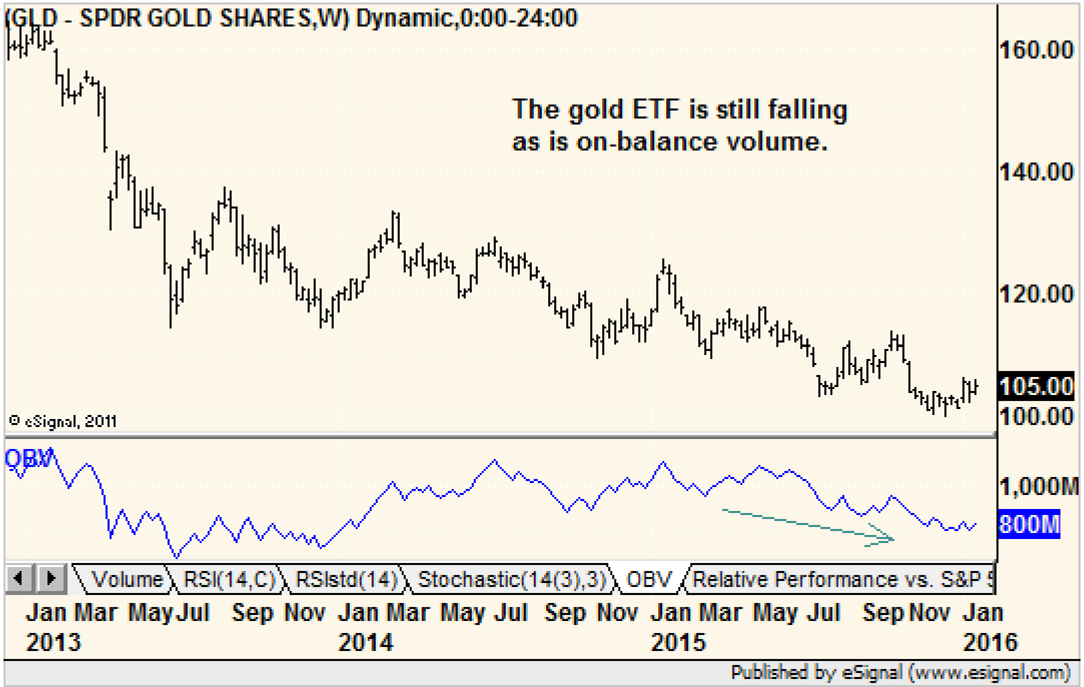
Other Markets

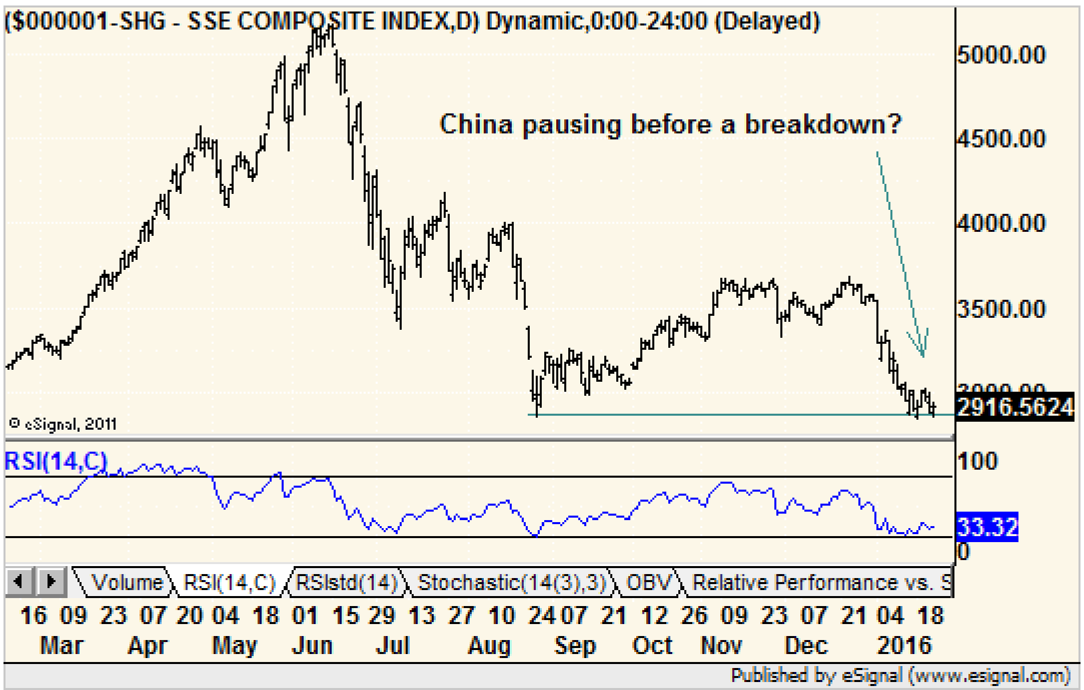





(USO - UNITED STATES OIL FUND,D) Dynamic,0:00-24:00
20.00
15.00
10.00
9.27
Looks like a dead cat for the Oil ETF
© eSignal, 2011
RSI(14,C)
100
38.85
0
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P 50
02 17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)


(CL #F - LIGHT CRUDE OIL FUTURES,W) Dynamic,0:00-24:00
10000
8000
6000
4000
3225
The wedge on weekly charts at support does suggest that the big picture may be changing for the better.
bull reversal or test of the wedge overshoot?
2008 low
© eSignal, 2011
RSI(14,C)
100
33.5
0
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P 5
Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan
2013 2014 2015 2016
Published by eSignal (www.esignal.com)

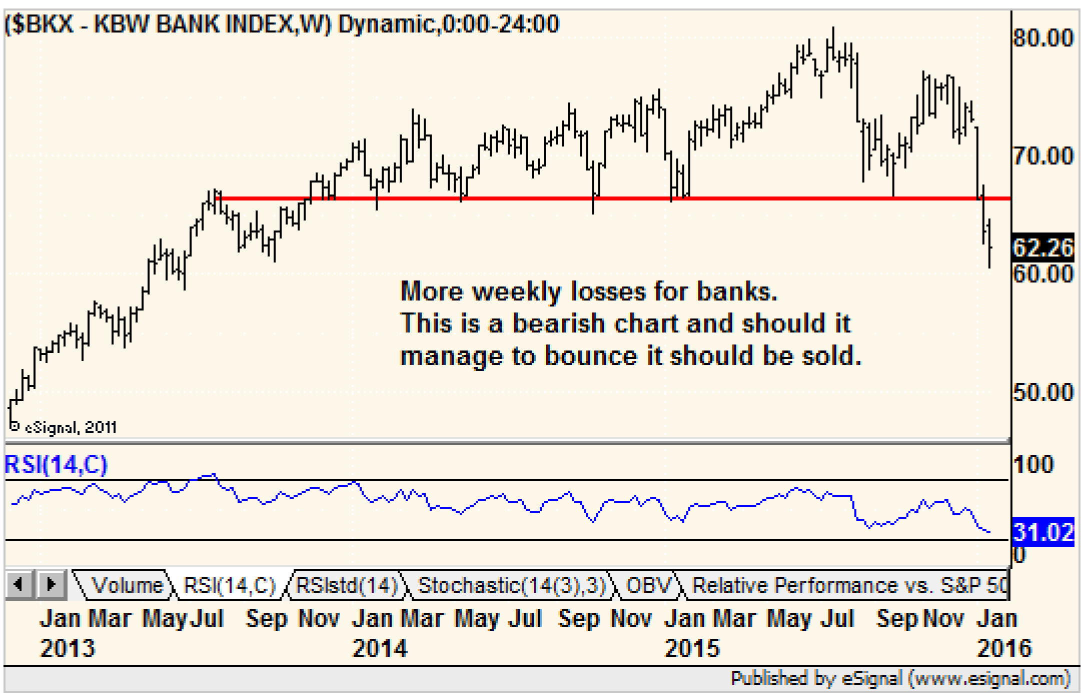

(GLD - SPDR GOLD SHARES,W) Dynamic,0:00-24:00
The gold ETF is still falling
as is on-balance volume.
160.00
140.00
120.00
105.00
100.00
© eSignal, 2011
OBV
1,000M
800M
Volume RSI(14,C) RSIstd(14) Stochastic(14(3),3) OBV Relative Performance vs. S&P 5
Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan
2013 2014 2015 2016
Published by eSignal (www.esignal.com)

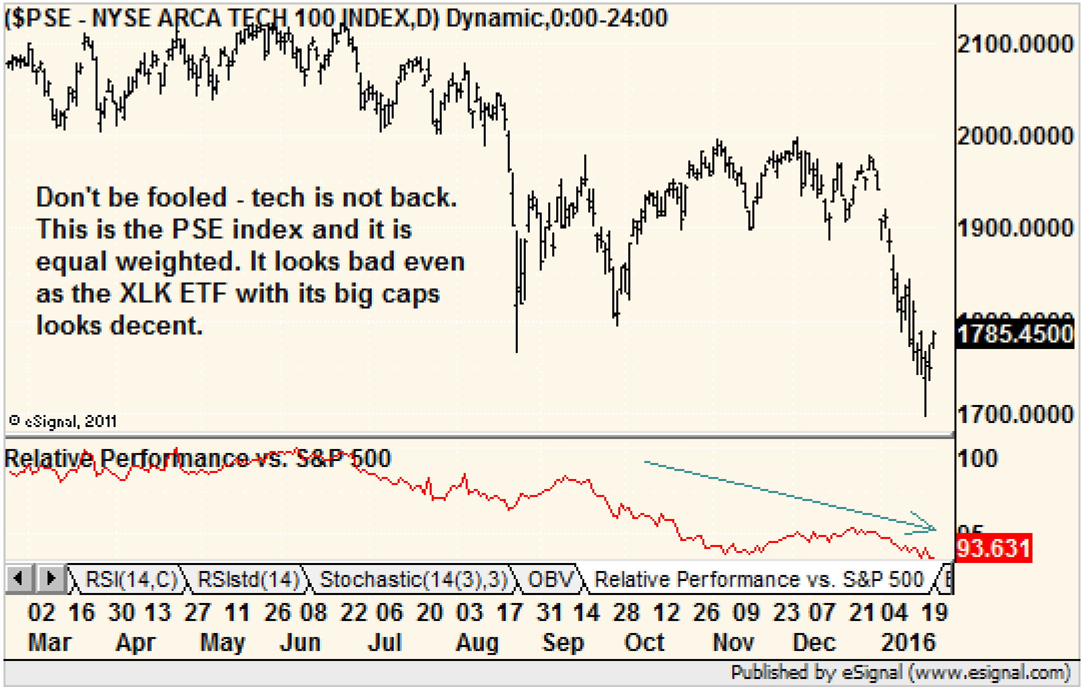

($000001-SHG - SSE COMPOSITE INDEX,D) Dynamic,0:00-24:00 (Delayed)
China pausing before a breakdown?
5000.00
4500.00
4000.00
3500.00
2916.5624
© eSignal, 2011
RSI(14,C)
100
33.32
0
Volume RSI(14,C) RSIstd(14) Stochastic(14(3),3) OBV Relative Performance vs. S
16 09 23 07 20 04 18 01 15 29 13 27 10 24 07 21 12 26 09 23 07 21 04 18
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)

Sector Watch

3-month loss		2-month loss		1-month loss		1-week gain	
		Aluminum	-24.26%	Aluminum	-32.58%		
				Auto Parts	-16.92%		
Basic Resources	-29.46%			Basic Resources	-21.41%		
Coal	-35.16%			Coal	-28.46%	Coal	23.45%
Consumer Electronics	-35.68%	Consumer Electronics	-26.71%	Consumer Electronics	-20.93%		
		Exploration & Production	-24.81%			Fixed Line Telecomms	4.38%
						Footwear	5.58%
Forestry & Paper	-25.34%	Forestry & Paper	-22.45%	Forestry & Paper	-16.61%		
						Hotels	4.11%
Industrial Metals & Mining	-32.18%	Industrial Metals & Mining	-21.99%	Industrial Metals & Mining	-24.14%		
						Internet	3.95%
						Marine Transportation	6.95%
Nonferrous Metals	-67.52%	Nonferrous Metals	-50.75%	Nonferrous Metals	-47.11%		
Oil Equipment	-26.69%	Oil Equipment	-22.14%			Oil Equipment	5.28%
Paper	-25.34%	Paper	-22.45%	Paper	-16.61%		
Pipelines	-37.46%	Pipelines	-27.68%			Pipelines	13.97%
Platinum & Precious Metals	-49.67%	Platinum & Precious Metals	-41.72%	Platinum & Precious Metals	-41.72%		
						Recreational Products	5.16%
						Telecommunications	4.18%

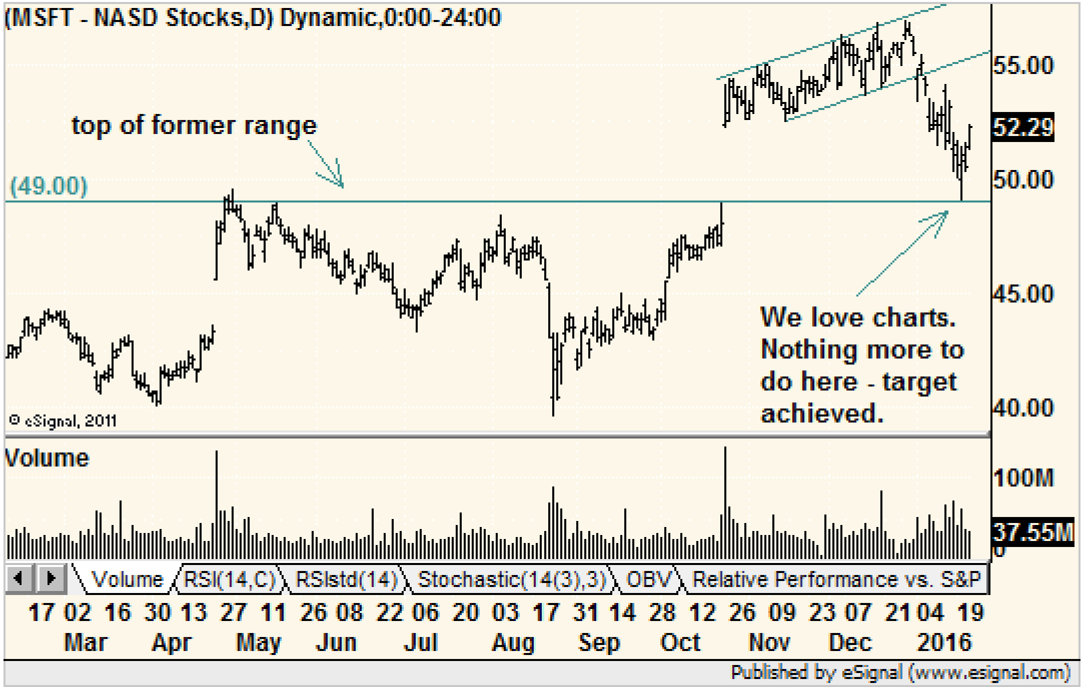
This table shows the top 10 losers for the past 1, 2 and 3 months and the top 10 gainers for the past week. The idea was to find the worst sectors with the biggest dead cat bounces but the fruit was not as sweet as we had hoped. Coal is so low-priced that it does not matter. Footwear excluded Nike. Telecoms are really the secondary issues. That leaves us with oil related sectors, which we will watch for more gains and then look to sell them.

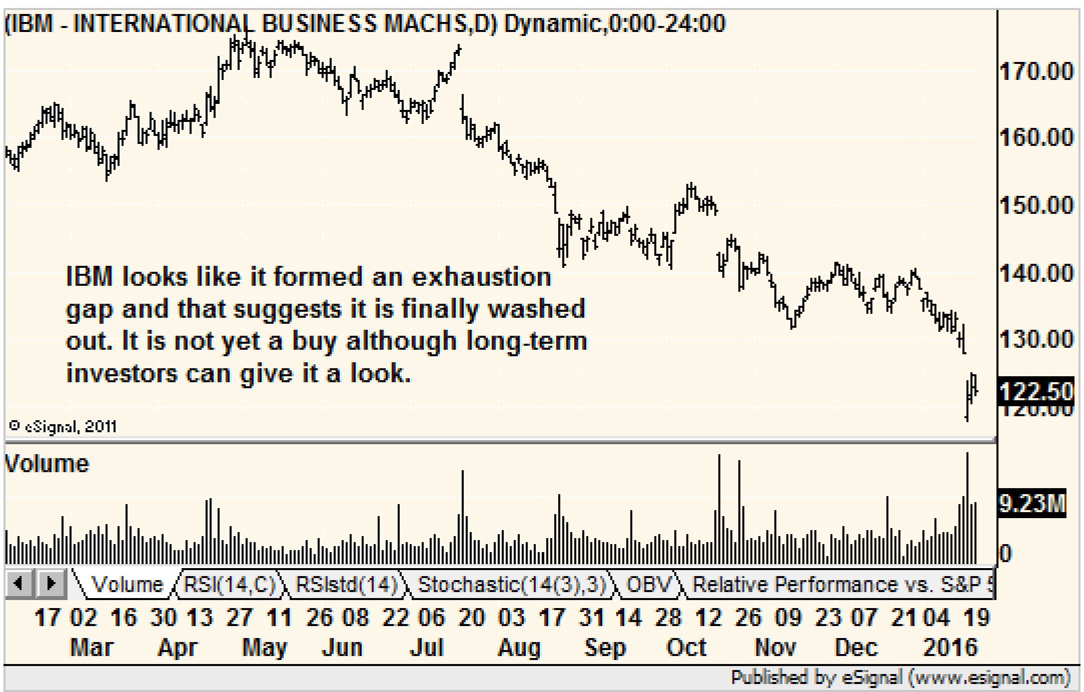


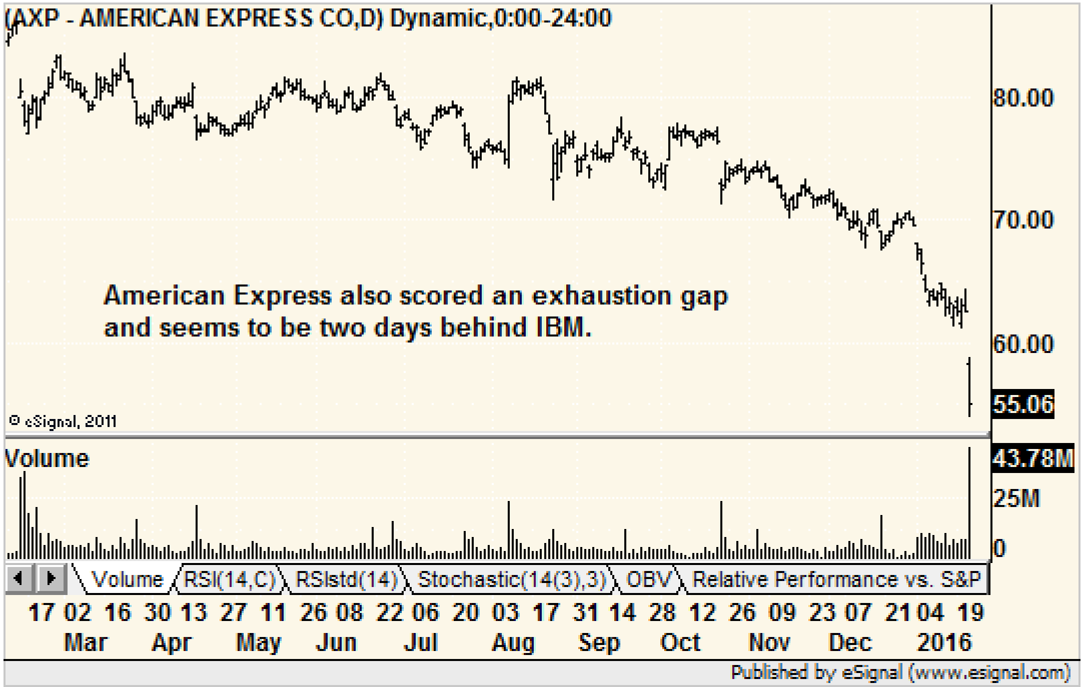


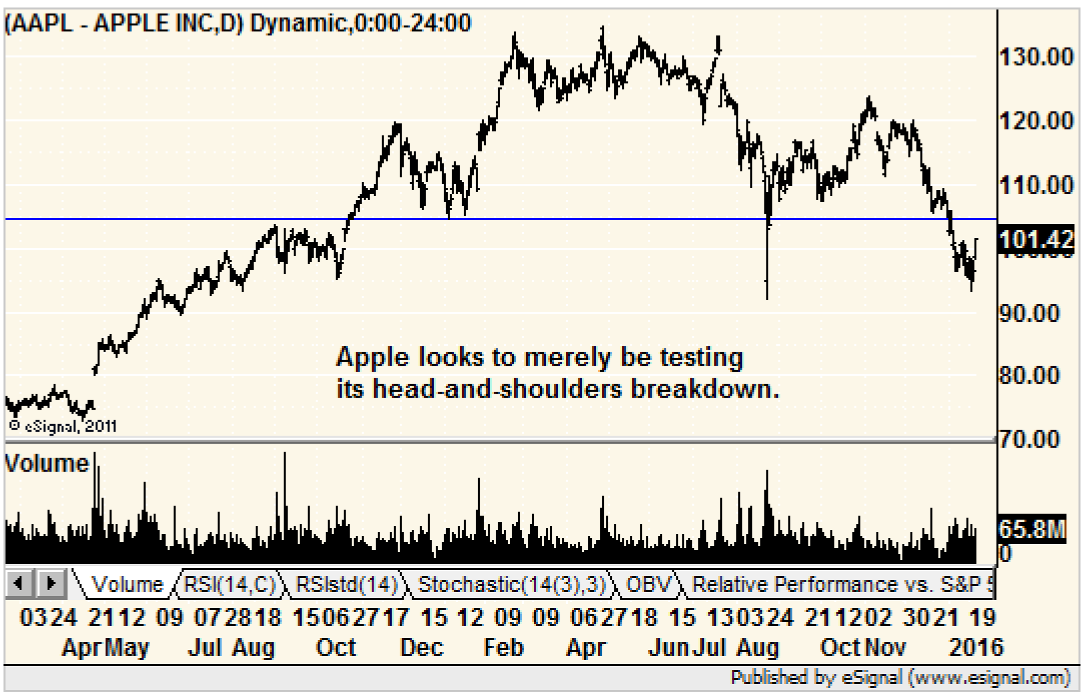
That is it for sector charts. The market is moving more or less in unison and questionable reversals are everywhere. We think this is a correction in a bear market.

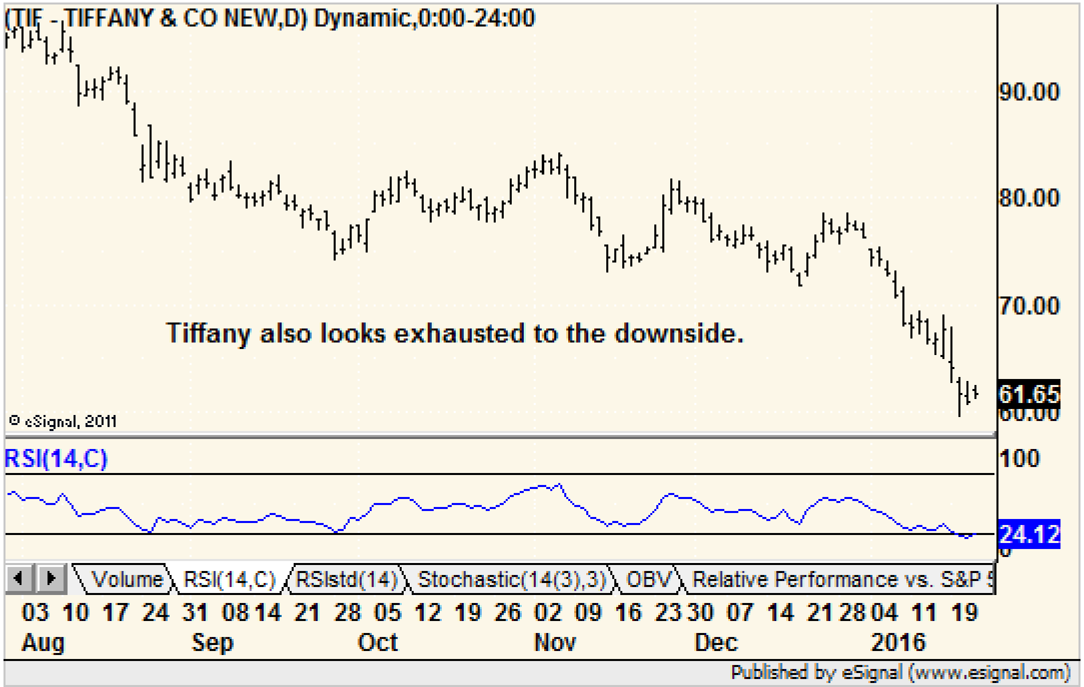
Stocks in the News



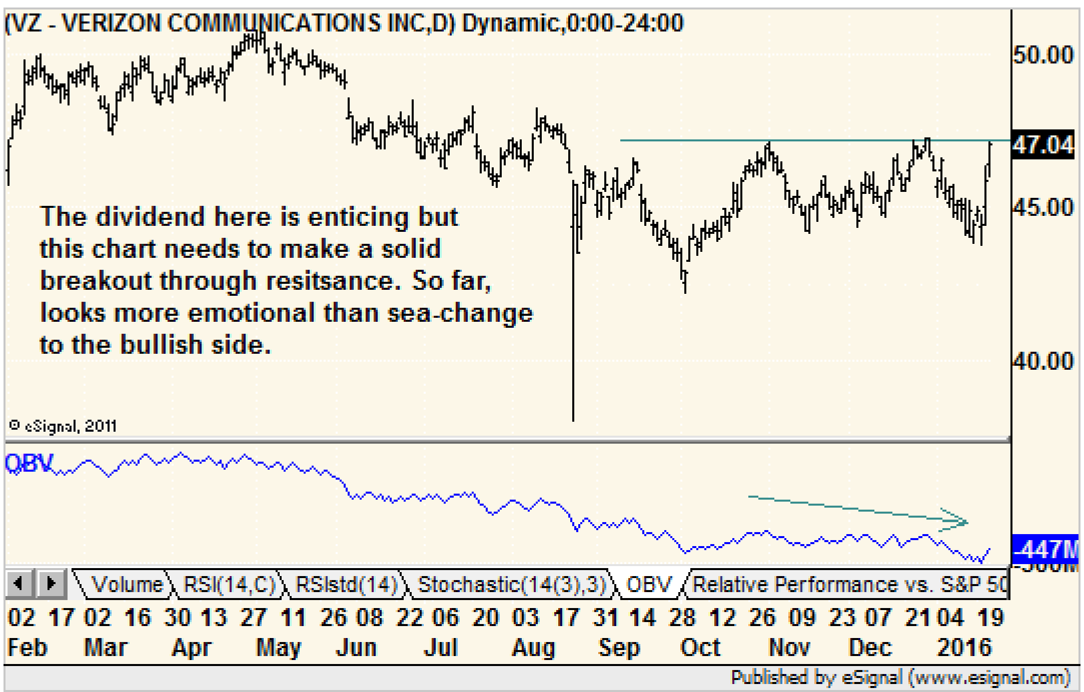



(AXP - AMERICAN EXPRESS CO,D) Dynamic,0:00-24:00
80.00
70.00
60.00
55.06
American Express also scored an exhaustion gap
and seems to be two days behind IBM.
© eSignal, 2011
Volume
43.78M
25M
0
Volume RSI(14,C) RSIstd(14) Stochastic(14(3),3) OBV Relative Performance vs. S&P
17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)

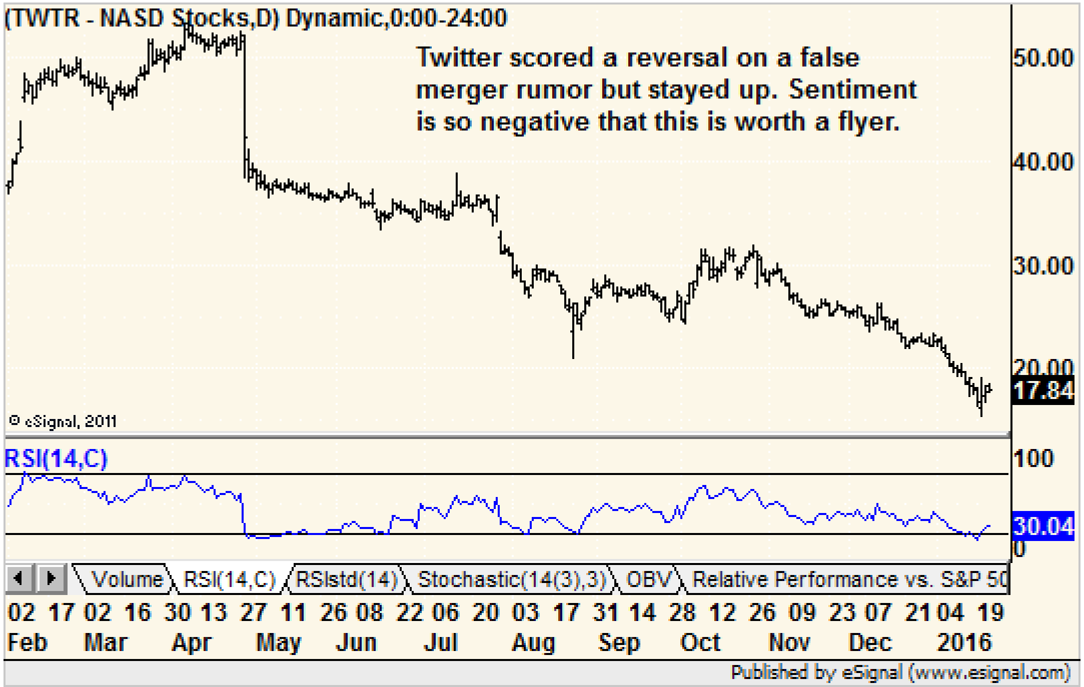

(AAPL - APPLE INC,D) Dynamic,0:00-24:00
130.00
120.00
110.00
101.42
90.00
80.00
70.00
Apple looks to merely be testing
its head-and-shoulders breakdown.
© eSignal, 2011
Volume
65.8M
0
Volume RSI(14,C) RSIstd(14) Stochastic(14(3),3) OBV Relative Performance vs. S&P
Apr May Jul Aug Oct Dec Feb Apr Jun Jul Aug Oct Nov 2016
Published by eSignal (www.esignal.com)

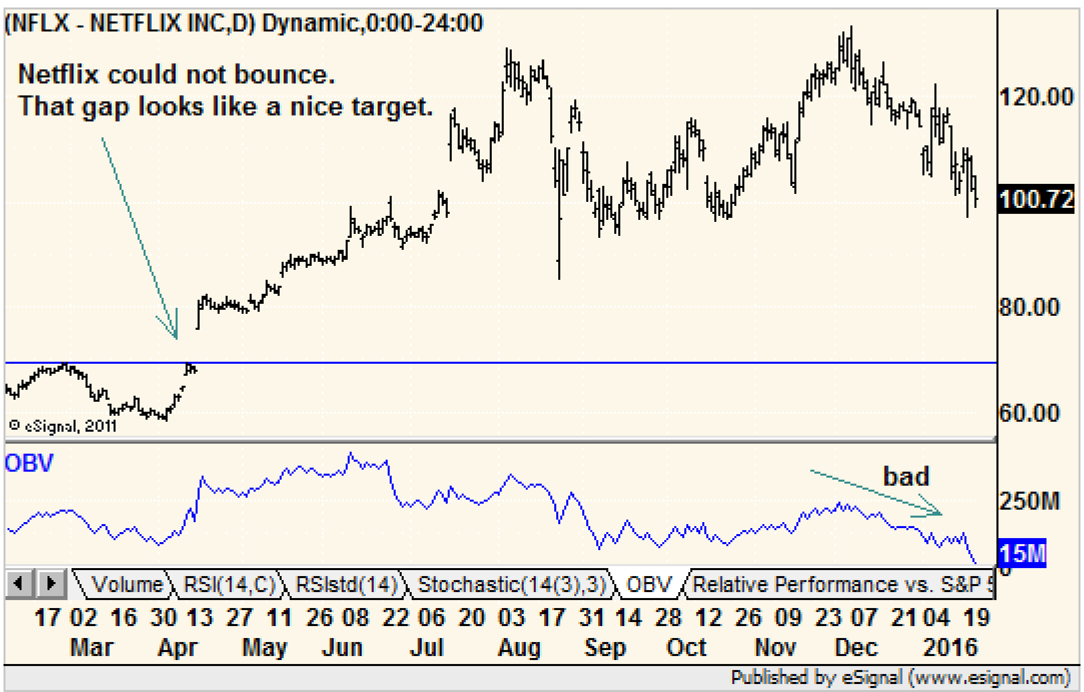


(TIF - TIFFANY & CO NEW,D) Dynamic,0:00-24:00
90.00
80.00
70.00
61.65
60.00
Tiffany also looks exhausted to the downside.
© eSignal, 2011
RSI(14,C)
100
24.12
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P 5
03 10 17 24 31 08 14 21 28 05 12 19 26 02 09 16 23 30 07 14 21 28 04 11 19
Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)



(VZ - VERIZON COMMUNICATIONS INC,D) Dynamic,0:00-24:00
50.00
47.04
45.00
40.00
The dividend here is enticing but
this chart needs to make a solid
breakout through resitsance. So far,
looks more emotional than sea-change
to the bullish side.
© eSignal, 2011
OBV
-447M
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P 50
02 17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)


(TWTR - NASD Stocks,D) Dynamic,0:00-24:00
Twitter scored a reversal on a false merger rumor but stayed up. Sentiment is so negative that this is worth a flyer.
50.00
40.00
30.00
20.00
17.84
© eSignal, 2011
RSI(14,C)
100
30.04
0
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P 50
02 17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)


(NFLX - NETFLIX INC,D) Dynamic,0:00-24:00
Netflix could not bounce.
That gap looks like a nice target.
120.00
100.72
80.00
60.00
© eSignal, 2011
OBV
bad
250M
15M
0
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P 5
17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
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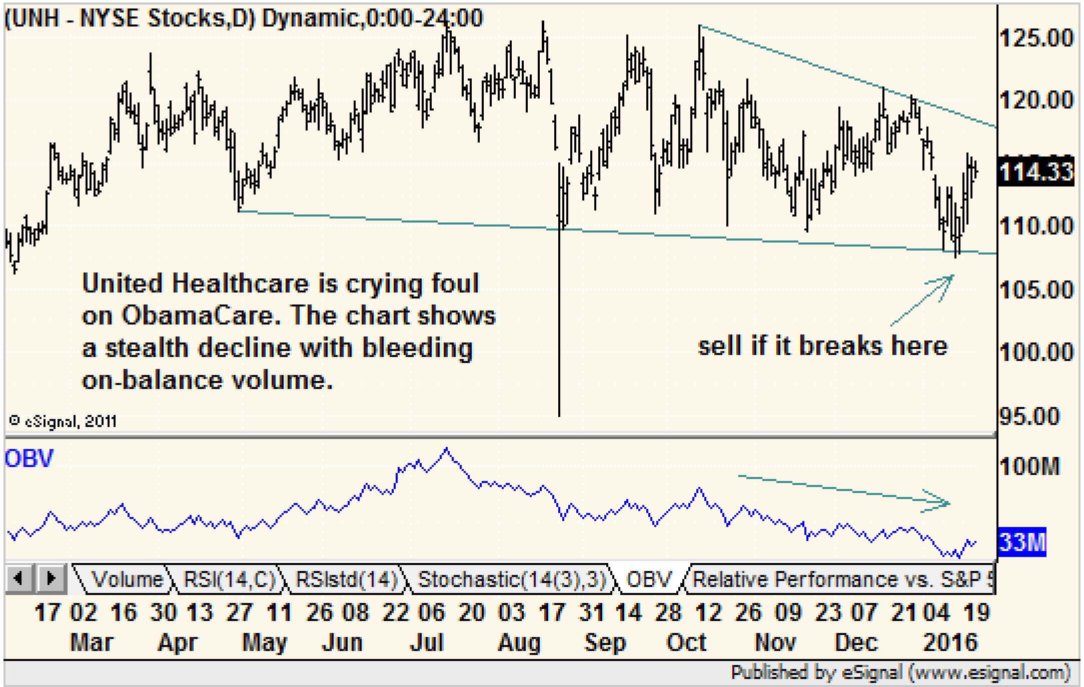
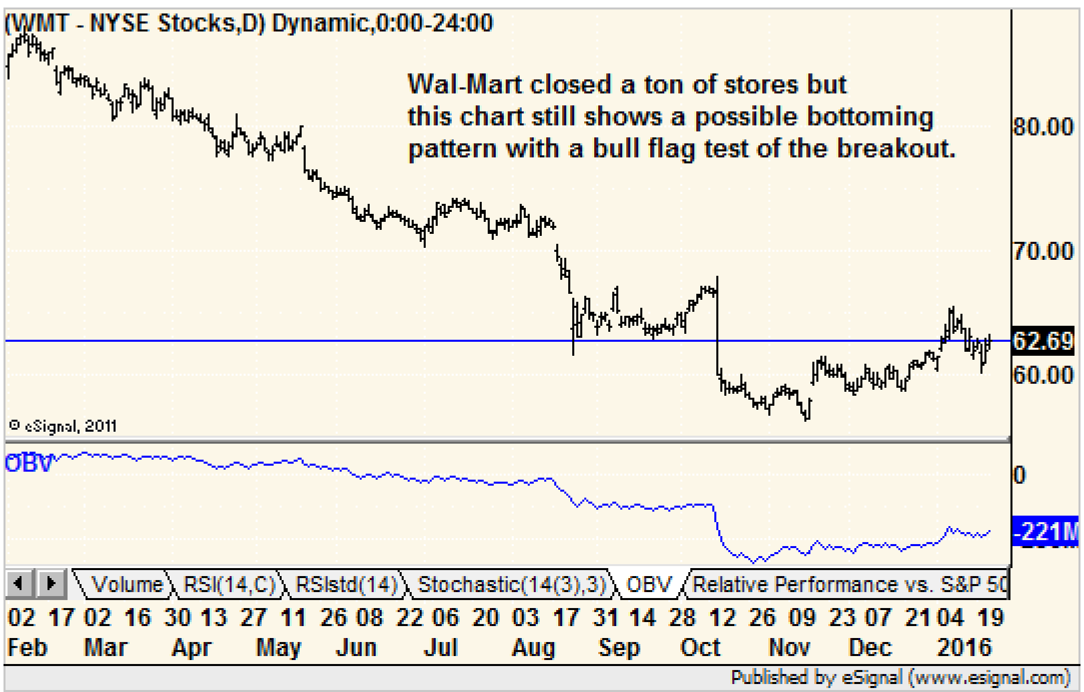
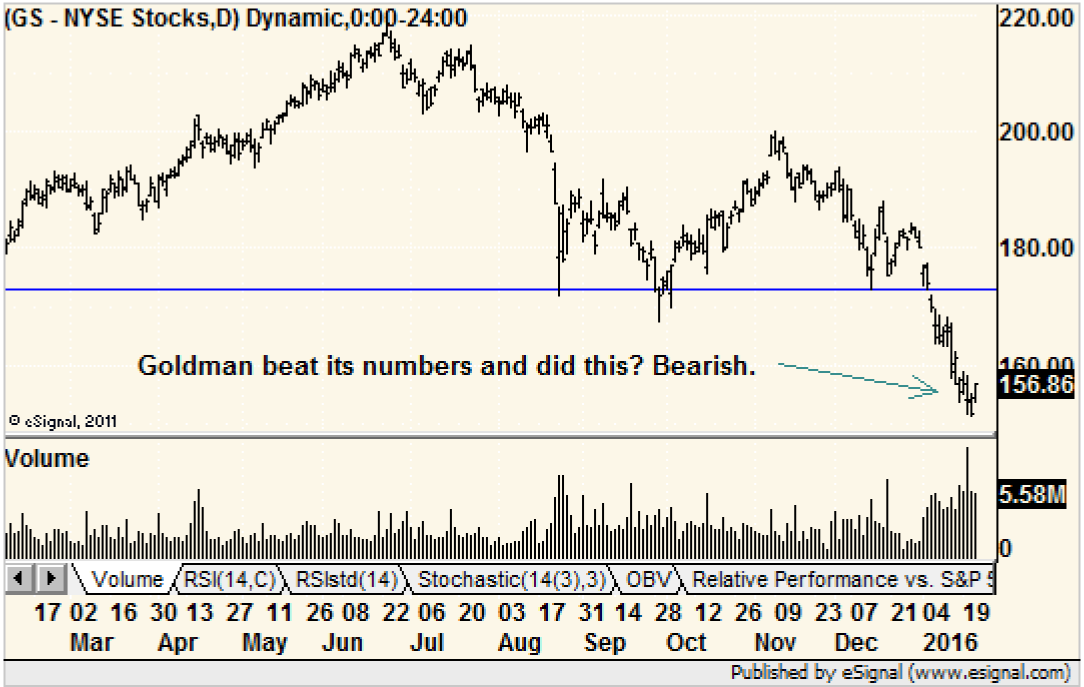
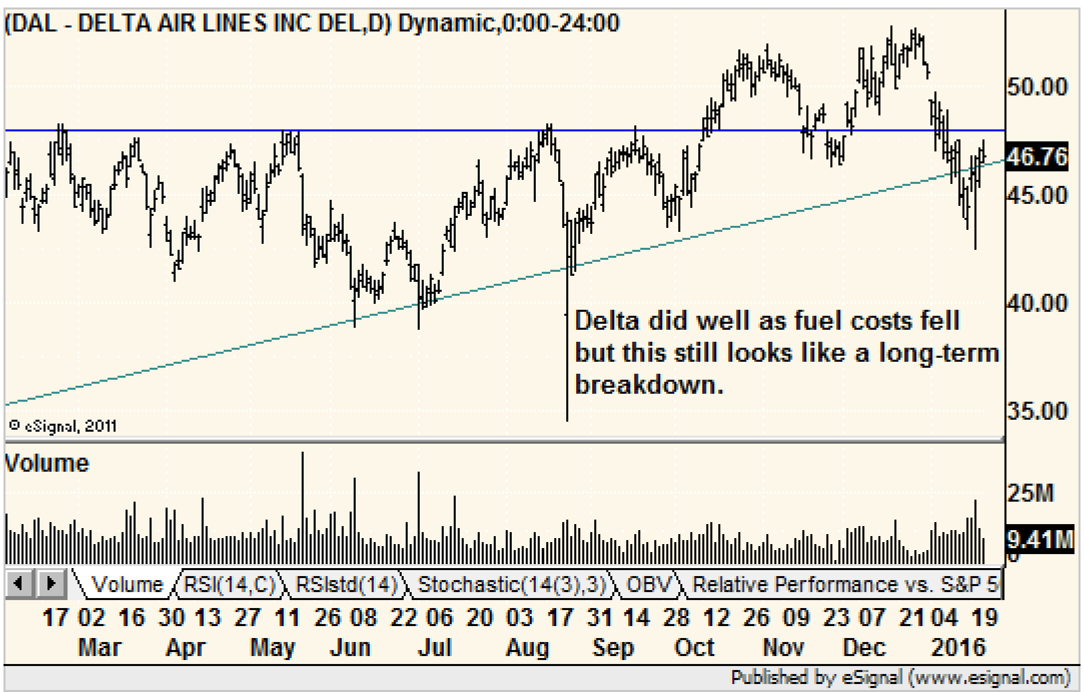
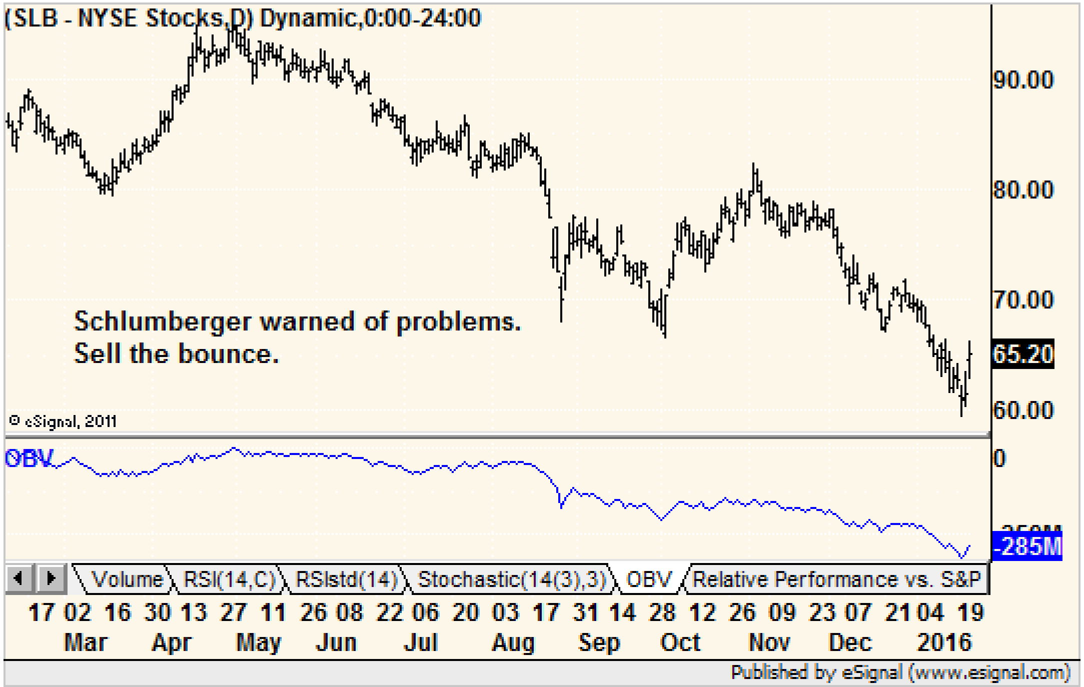
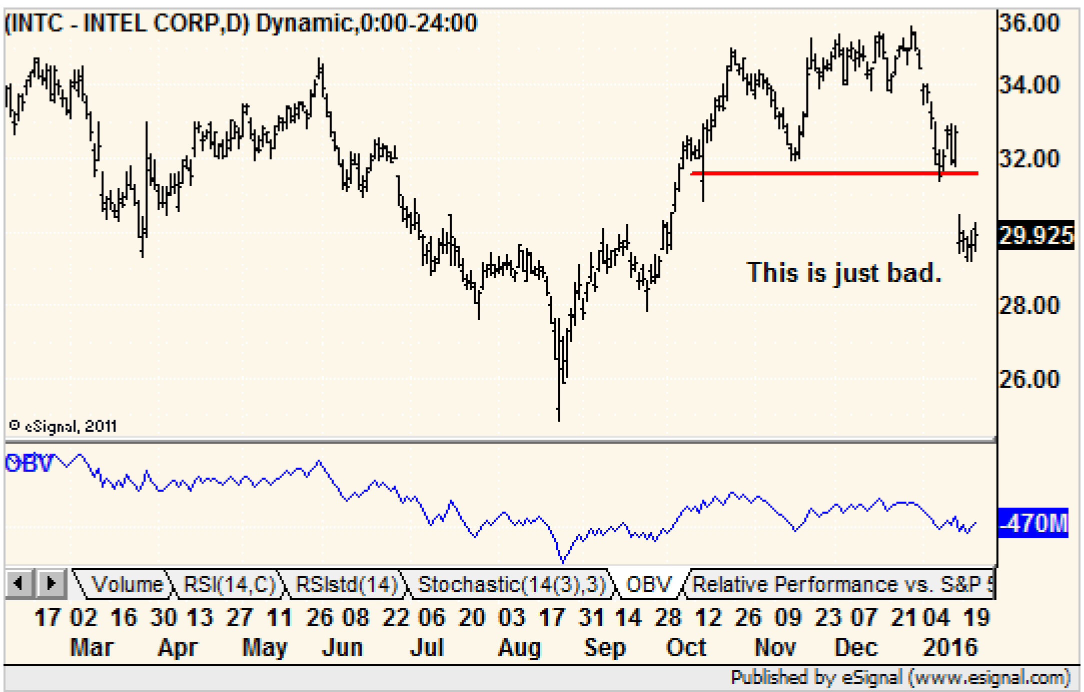

(UNH - NYSE Stocks,D) Dynamic,0:00-24:00
125.00
120.00
114.33
110.00
105.00
100.00
95.00
United Healthcare is crying foul on ObamaCare. The chart shows a stealth decline with bleeding on-balance volume.
sell if it breaks here
© eSignal, 2011
OBV
100M
33M
Volume RSI(14,C) RSIstd(14) Stochastic(14(3),3) OBV Relative Performance vs. S&P
17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)


(WMT - NYSE Stocks,D) Dynamic,0:00-24:00
Wal-Mart closed a ton of stores but this chart still shows a possible bottoming pattern with a bull flag test of the breakout.
80.00
70.00
62.69
60.00
© eSignal, 2011
OBV
0
-221M
Volume RSI(14,C) RSIstd(14) Stochastic(14(3),3) OBV Relative Performance vs. S&P 50
02 17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)


(GS - NYSE Stocks,D) Dynamic,0:00-24:00
220.00
200.00
180.00
160.00
156.86
Goldman beat its numbers and did this? Bearish.
© eSignal, 2011
Volume
5.58M
0
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P 5
17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)


(DAL - DELTA AIR LINES INC DEL,D) Dynamic,0:00-24:00
50.00
46.76
45.00
40.00
35.00
Delta did well as fuel costs fell but this still looks like a long-term breakdown.
© eSignal, 2011
Volume
25M
9.41M
0
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P 5
17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)


(SLB - NYSE Stocks,D) Dynamic,0:00-24:00
Schlumberger warned of problems.
Sell the bounce.
© eSignal, 2011
90.00
80.00
70.00
65.20
60.00
OBV
0
-285M
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
Relative Performance vs. S&P
17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
Published by eSignal (www.esignal.com)


(INTC - INTEL CORP,D) Dynamic,0:00-24:00
This is just bad.
© eSignal, 2011
36.00
34.00
32.00
29.925
28.00
26.00
OBV
-470M
Volume
RSI(14,C)
RSIstd(14)
Stochastic(14(3),3)
OBV
17 02 16 30 13 27 11 26 08 22 06 20 03 17 31 14 28 12 26 09 23 07 21 04 19
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016
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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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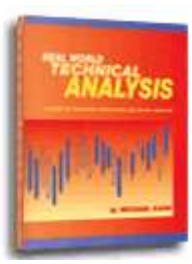

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