

QUICK TAKES PRO

"TECHNICAL ANALYSIS FOR EVERYONE"

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RESEARCH LLC

December 12, 2015 – It's funny because we led off last week's comments talking about "Friday's 370-point Dow scoot higher." This week we lead with Friday's 309-Point Dow decline. While that makes nice headlines, the weekly charts tell a little different story.

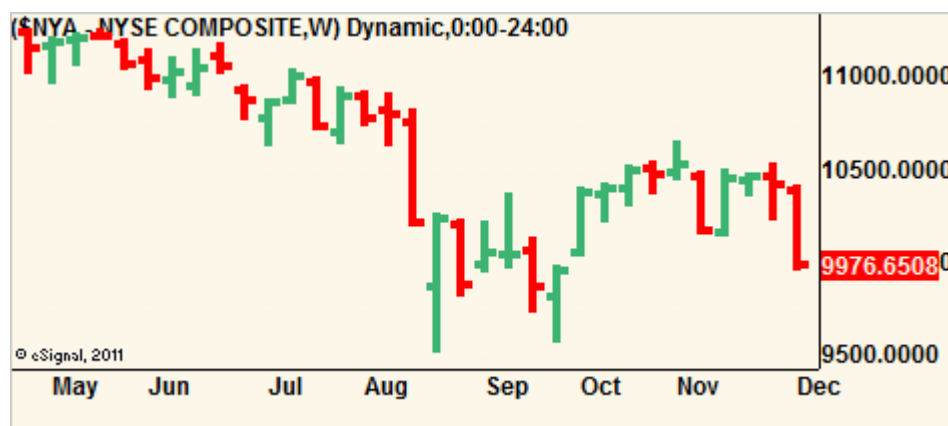
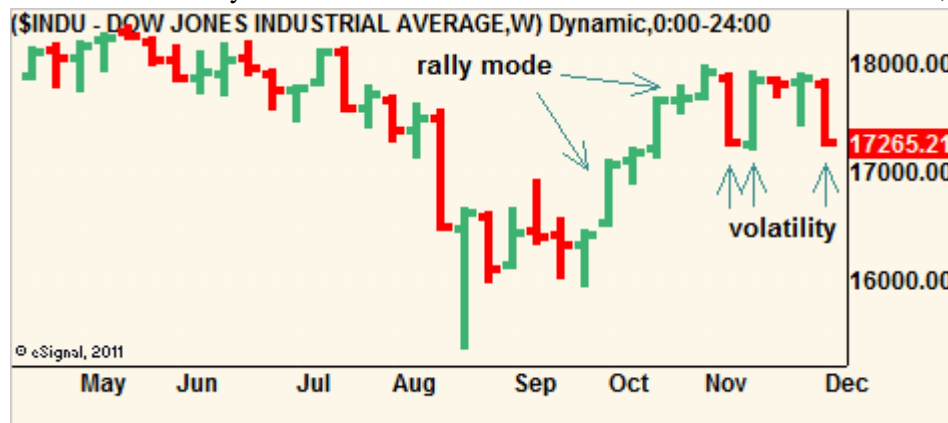
Last week was net flat (more or less) but this week was solid to the downside. Now check out the rather sizeable intraweek moves. And so far it is two to one for the bears with the one unchanged big-range bar.

Now check out the NYSE composite – a more balanced index for market capitalization and more representative of the average stock.

As we can see, the same big range weeks appear but the downside bias is quite clear.

This past week's range was the largest, unlike the Dow's, and it definitely undercut November.

Without looking at any breadth statistics we already know that the market rally, or what is left of it, is quite narrow.



Last week, we listed reasons for skepticism about the stock market. We'll update some of them here:

- Big caps performing better than small caps and that list is shrinking.
- Junk bonds hit a 52-week low – actually they cratered this week with a monster decline Friday to levels last seen in 2009.
- Three-month T-bills were up big early in the week but ended with only a small gain.
- LIBOR soared for the fourth week in a row in a seven week total rally. You can figure that the TED spread soared this week, too.
- All four horsemen (tech, retail, homebuilding, finance) stumbled this week
- Transports continued to crater and even airlines finally joined in with a technical breakdown (despite the collapse in oil prices).
- The improvement in small tech ended with a breakdown in the PSE index.
- The discretionary to staples ratio also broke down.

Many of these items will be charted below. And last week's list on the bullish side is now empty with several switching to the bearish list above. Clearly, it was a damaging week in the stock market.

Now let's talk about the week's highlights.

- Dow DuPont merger actually leaves good charts in its wake, pulling back likely for regulatory fears.
- Oil collapsed this week and has a clear breakdown of a 1-year triangle pattern. However, I wrote an article last week saying \$35 – where it is now – is a good place to look for it to stop falling. That does not mean it will rally.
- While gold remained weak, gold stocks still look better. Normally, that could be bullish but I also penned a column calling for gold to drop to 900 (from its current 1074).
- Generals (FANGs and more) finally started to weaken. Outside-week down in Netflix. Google was the chart of the week with a bearish call.
- **VIX** jumped. Not yet close to an extreme high at this time.
- Treasuries rallied while junk fell. Serious flight to safety.
- Economic data had no impact on expectations that the Fed will raise interest rates when it meets next week. The probability of a rate hike on Wednesday is at 79%, according to CME Group's FedWatch.
- Whole Foods lifted from the dead on a report its earnings will be better than expected.
- Canada hit a 26-month closing low on the commodities rout.
- China's yuan fell to a 4 ½ year low on a slowing economy and US rate hike.

This past week's action made us more confident that the stock market is topping. Just keep in mind that a top is a process as one sector after another falls away. After all, the big indices have been more or less sideways – August excepted – all year.

There are not a whole lot of ways to hide. Perhaps blue chips with big dividends can soften the blow. So can cash but with a near zero return, even after a Fed rate hike, you might as well turn your computer off for a few weeks or months as that would net the same return.

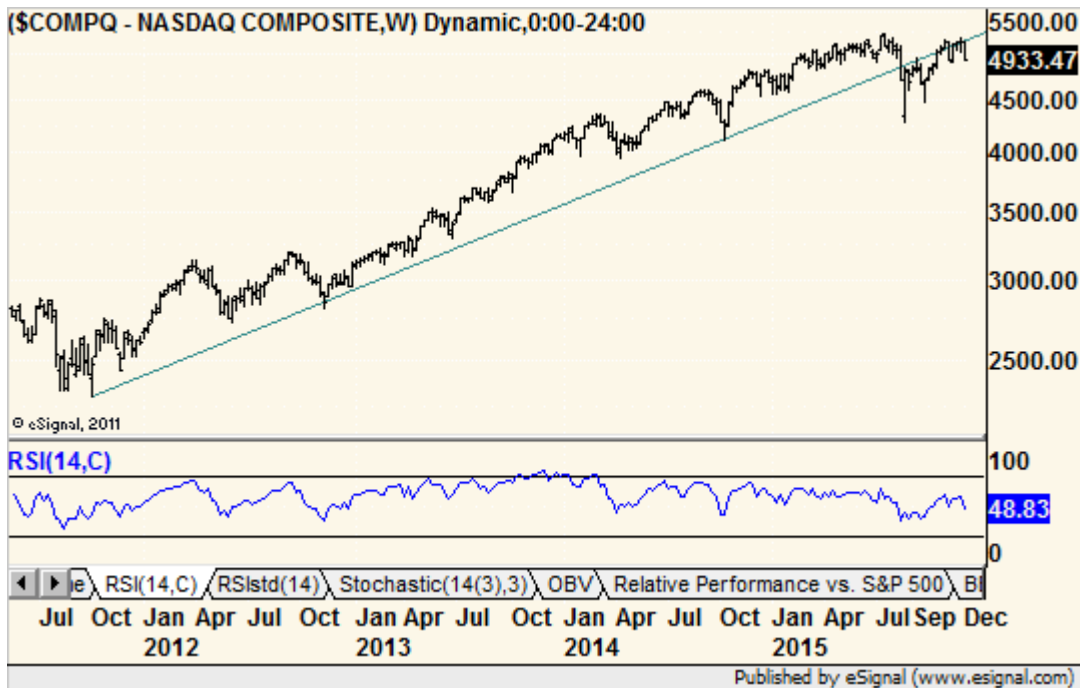
Here's our overview:

- **Oil** is close to a bottom but that does not mean it should be bought.
- **Gold** has room to fall but some of that is predicated on a strong dollar.
- However, the **dollar** is having a very rough December so stay tuned.
- **Bonds** are now divided between safe Treasuries and less safe corporate bonds. Quality matters.
- **Stocks** are topping. We'd look for a small handful of big dividend blue chips (remember **IBM**?) but that is really it. More cash is better here.

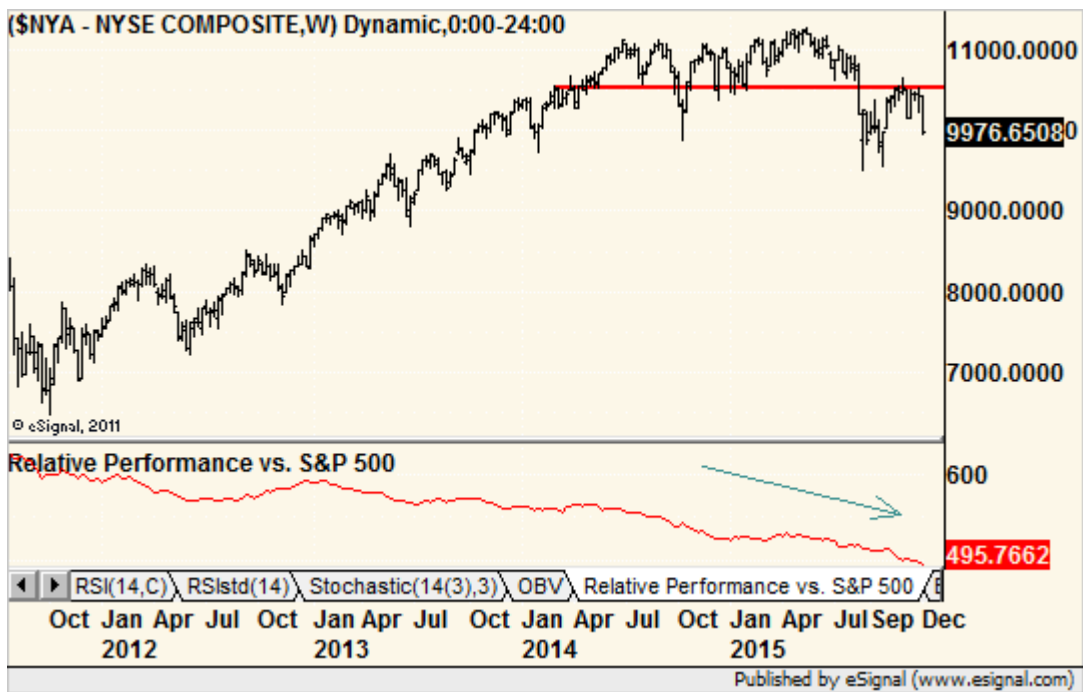
Index Charts of the Week



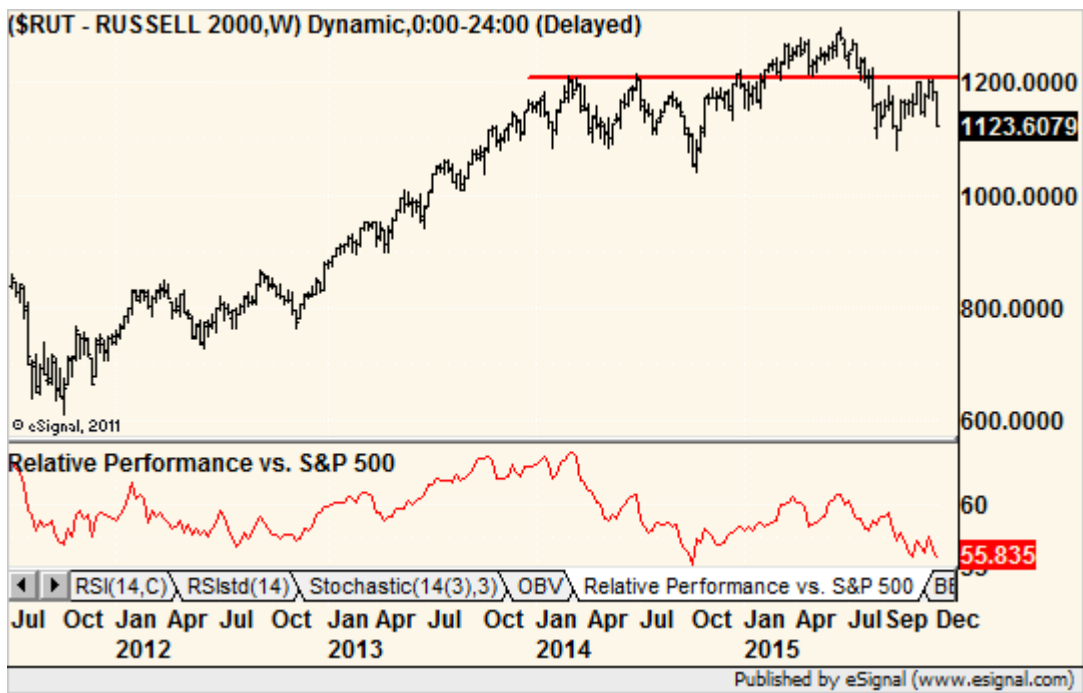
The S&P 500 sure looks broken. Note the dip below both moving averages.



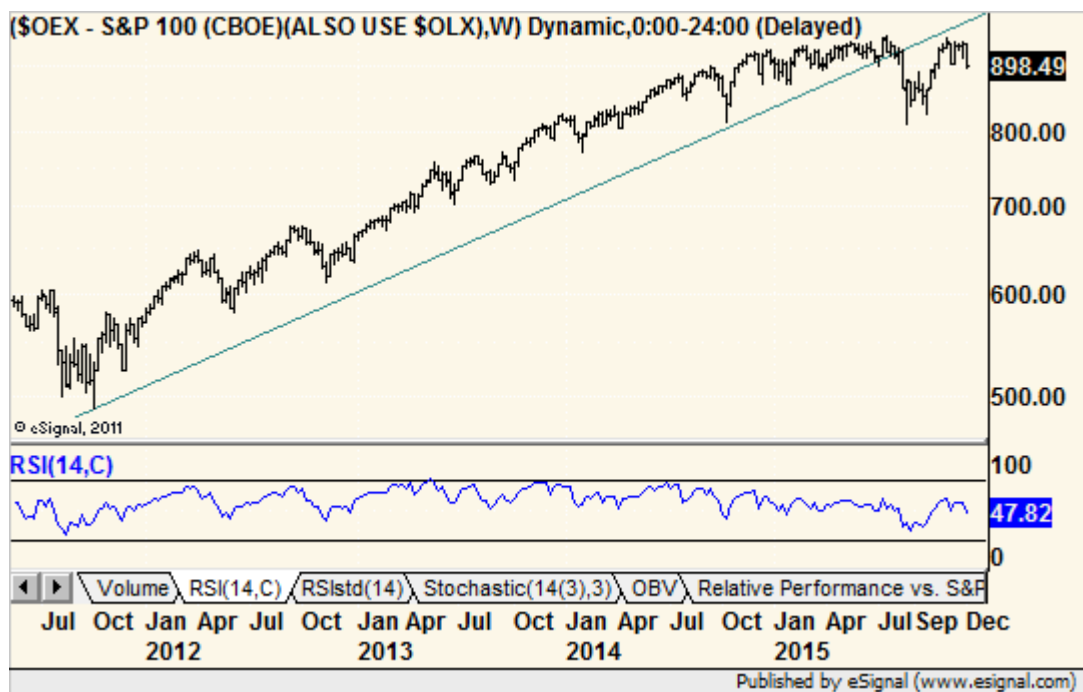
The Nasdaq weekly chart sure looks like a kiss goodbye before the fall. Also note the short-term double top forming under the line.



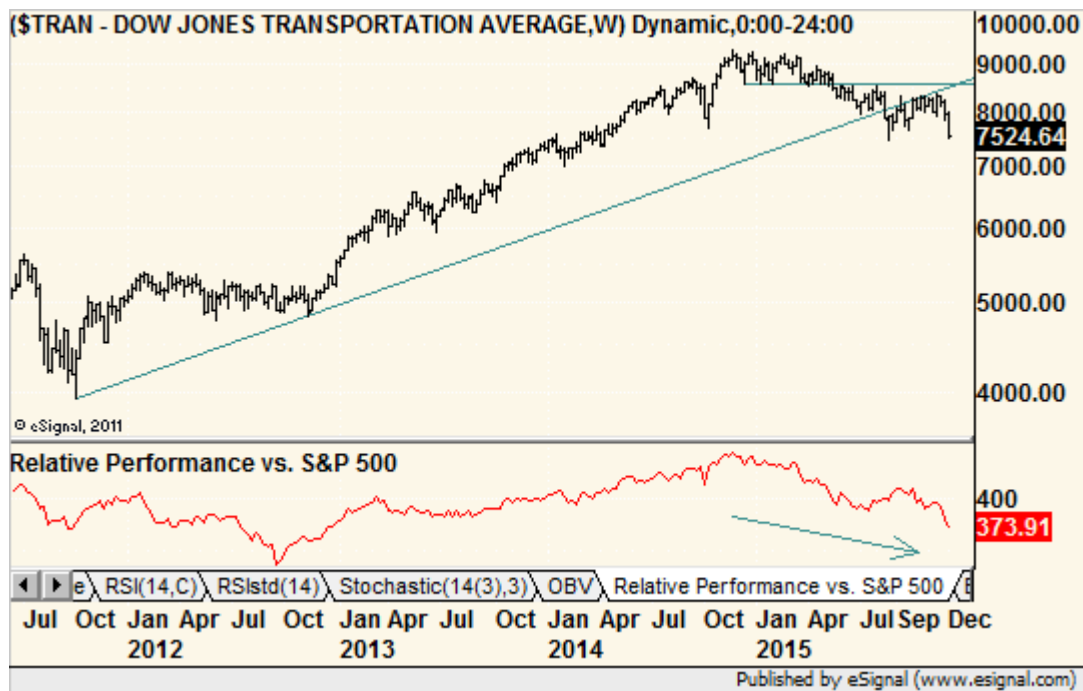
Another kiss goodbye in the NYSE Composite.



Ditto the Russell 2000.

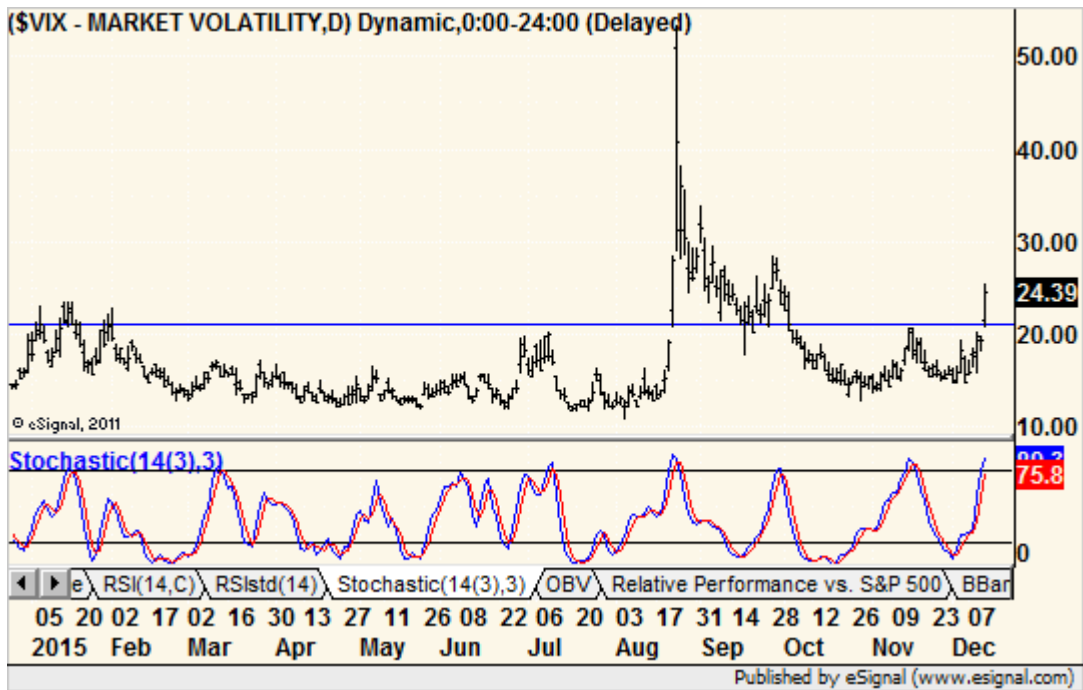


Even the mega-cap S&P 100 looks topy. It is leading in a narrow market but that means it is losing less.

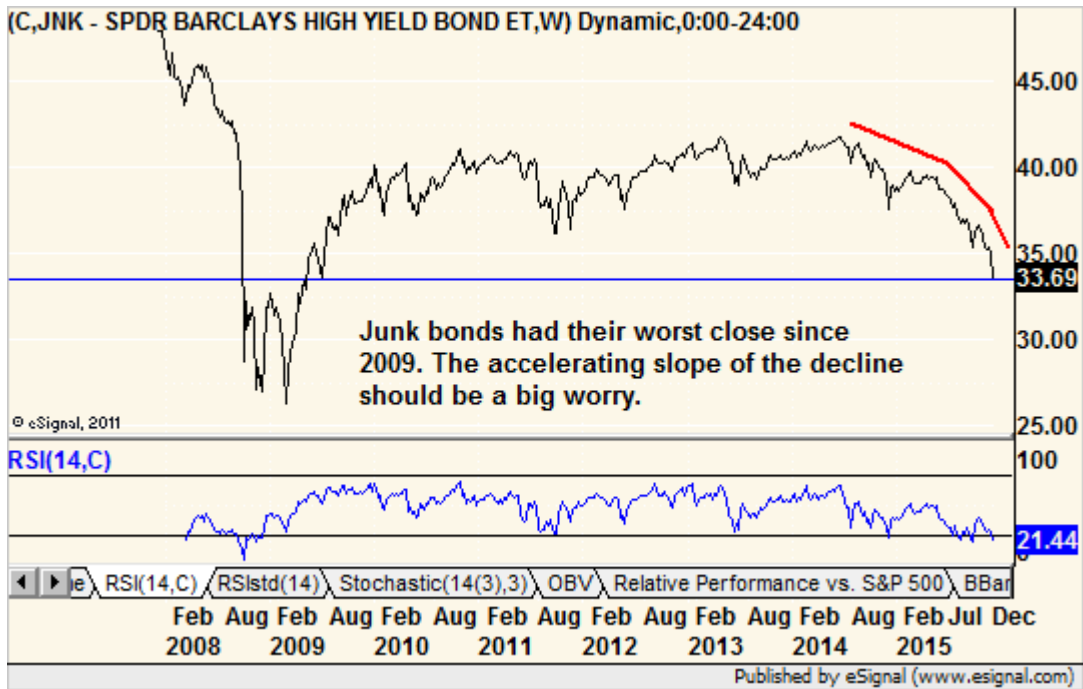


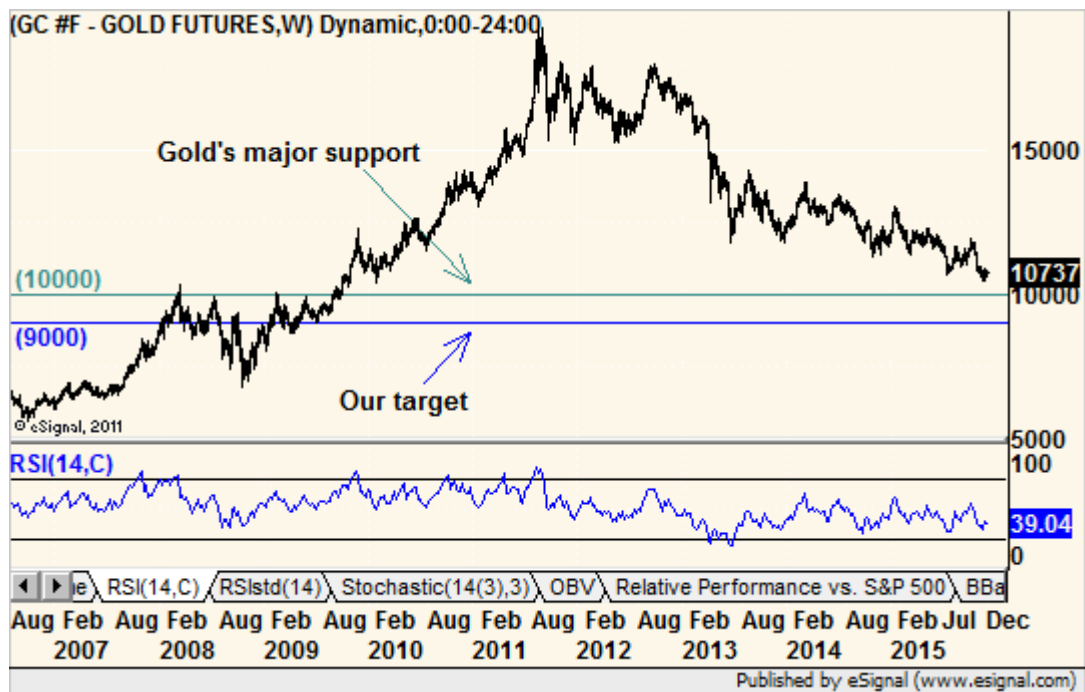
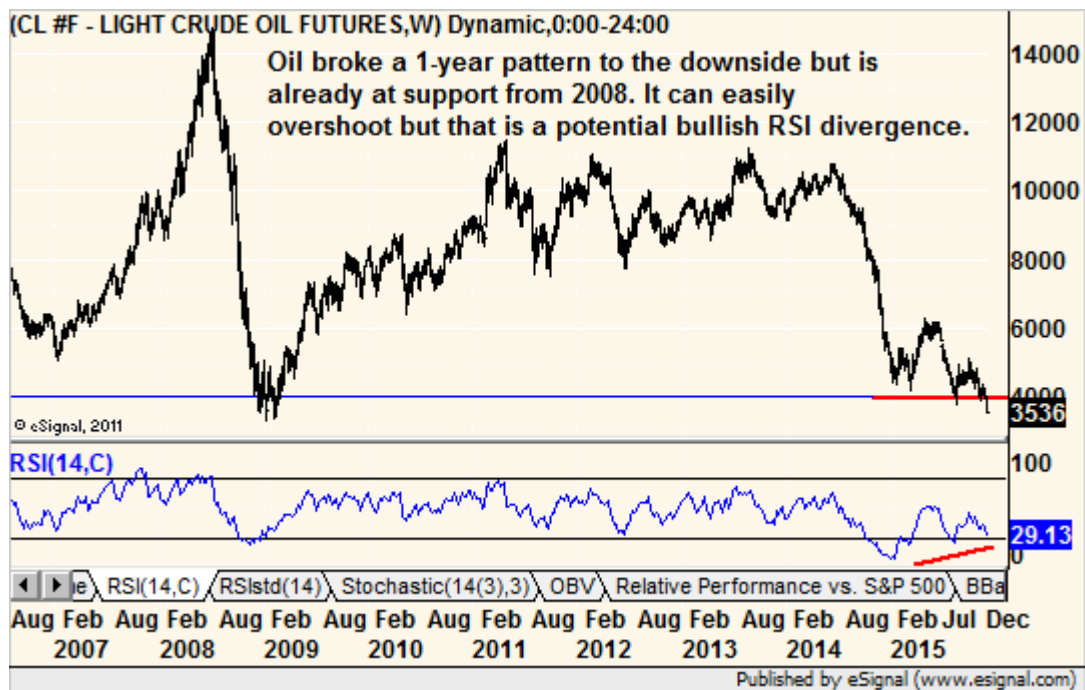
The short-term wedge breakdown now looks like a long-term kiss goodbye.

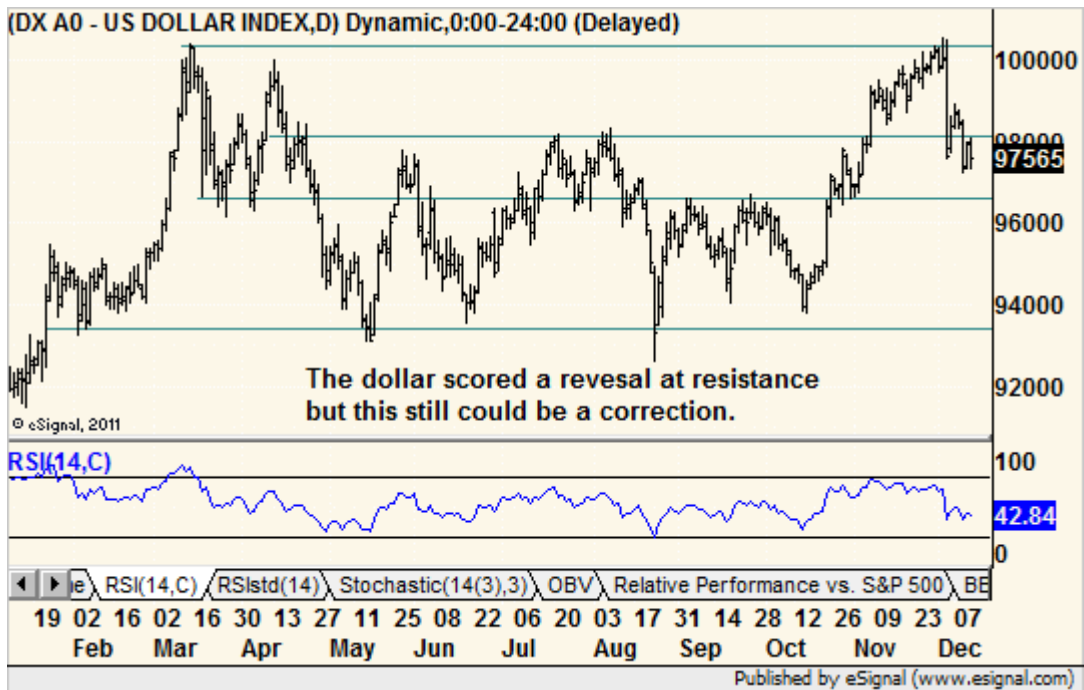
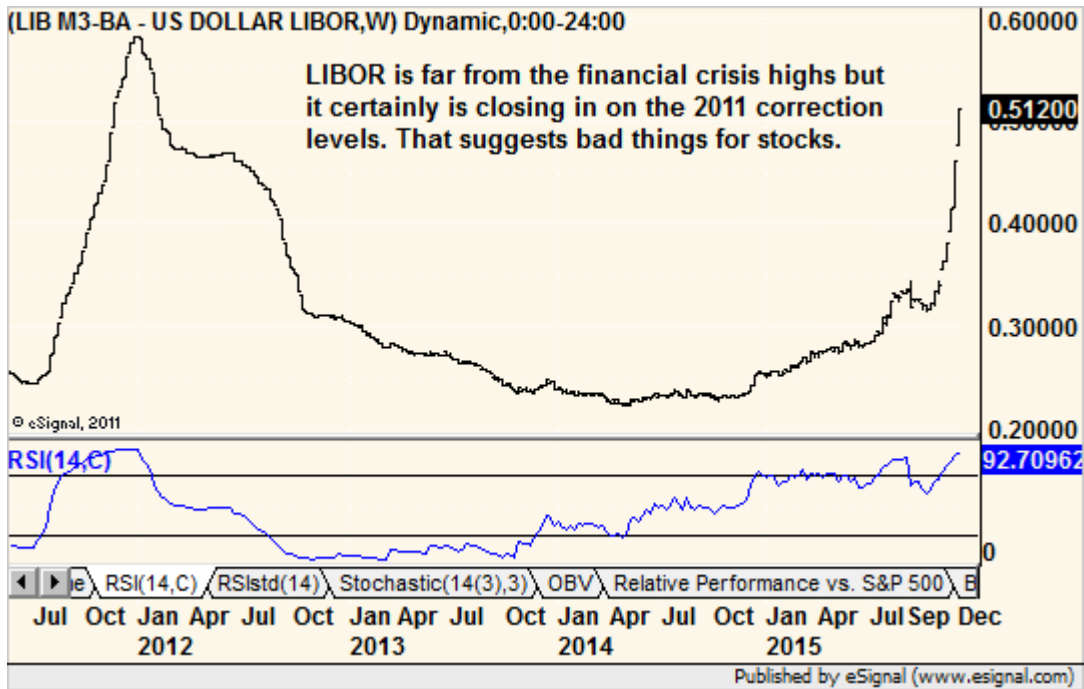
Other Markets



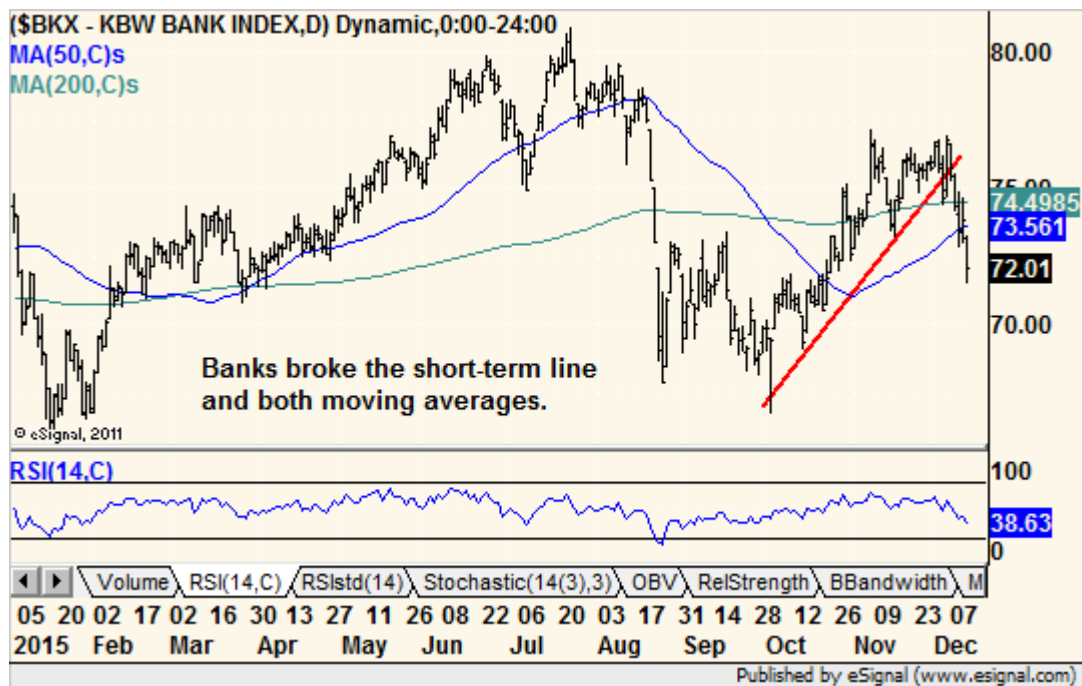
VIX – The volatility index soared Friday and took out “resistance.” It is still not high enough to think about a bottom (we’ll look at 30) but with stochastics so high the odds for a market bounce are decent. Still, this looks more like the start of a real decline than a buying opportunity.

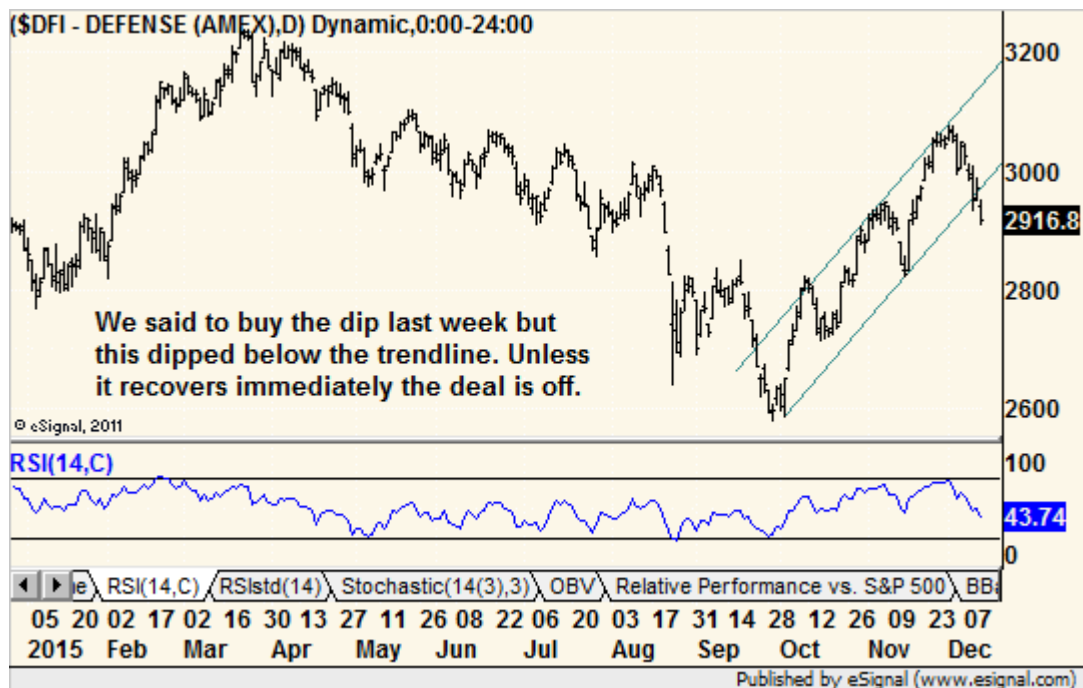


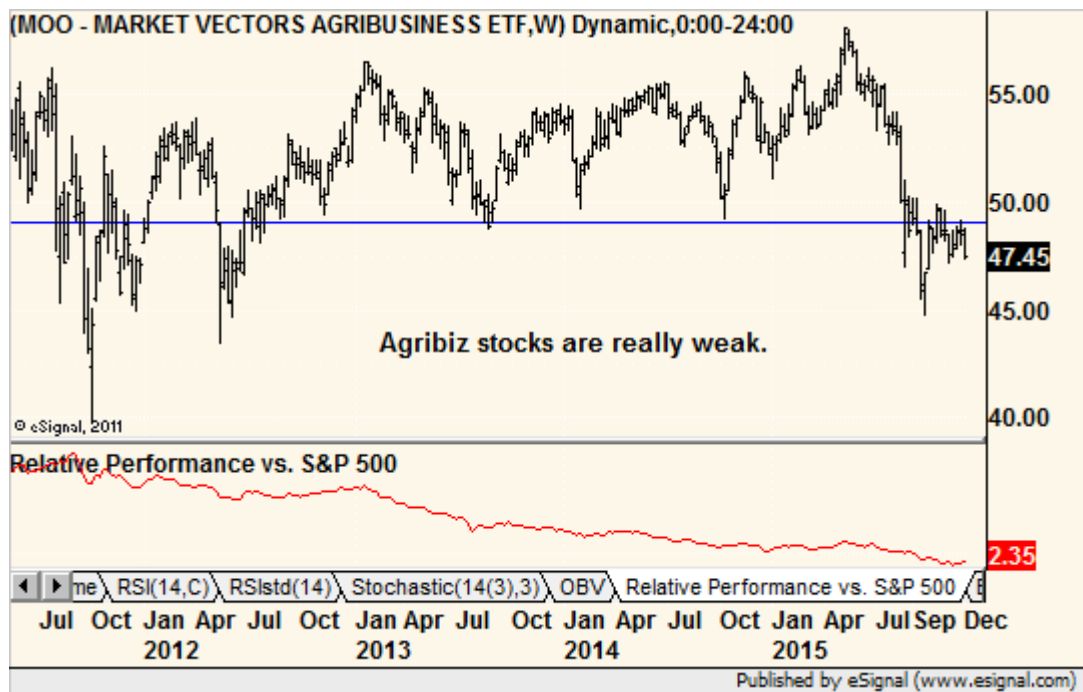
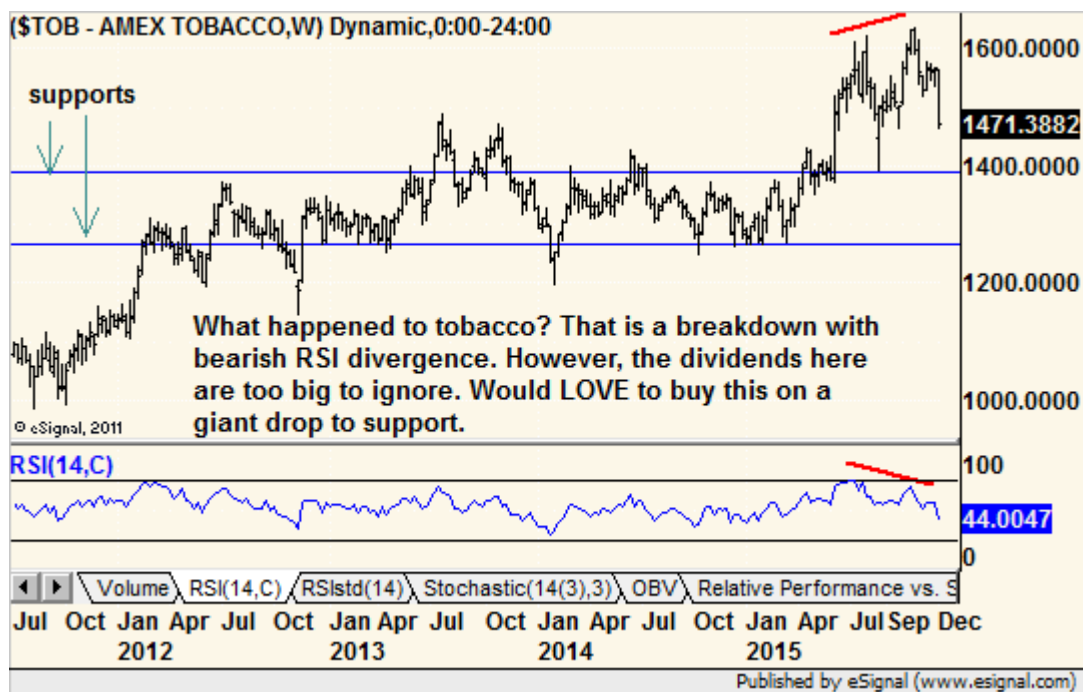


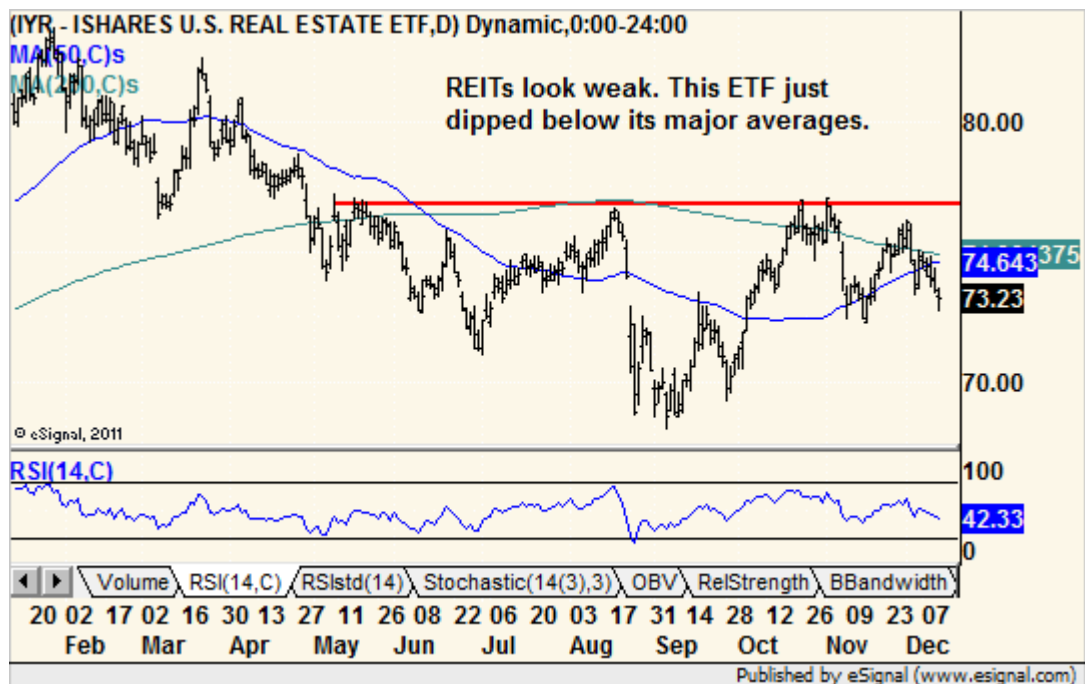
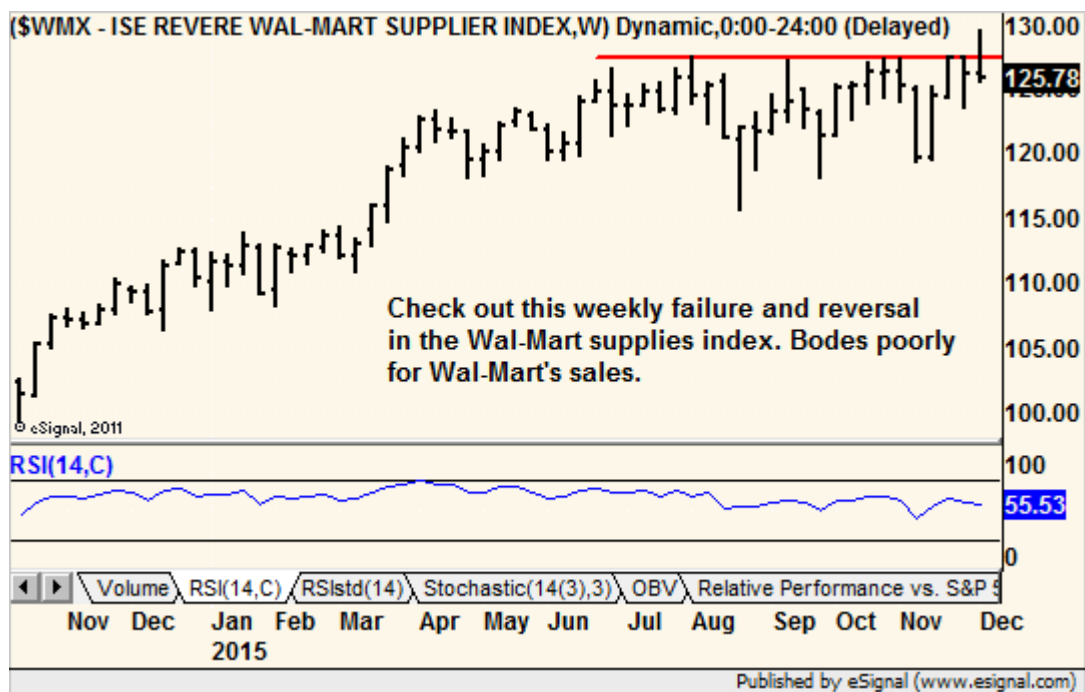


Sector Watch

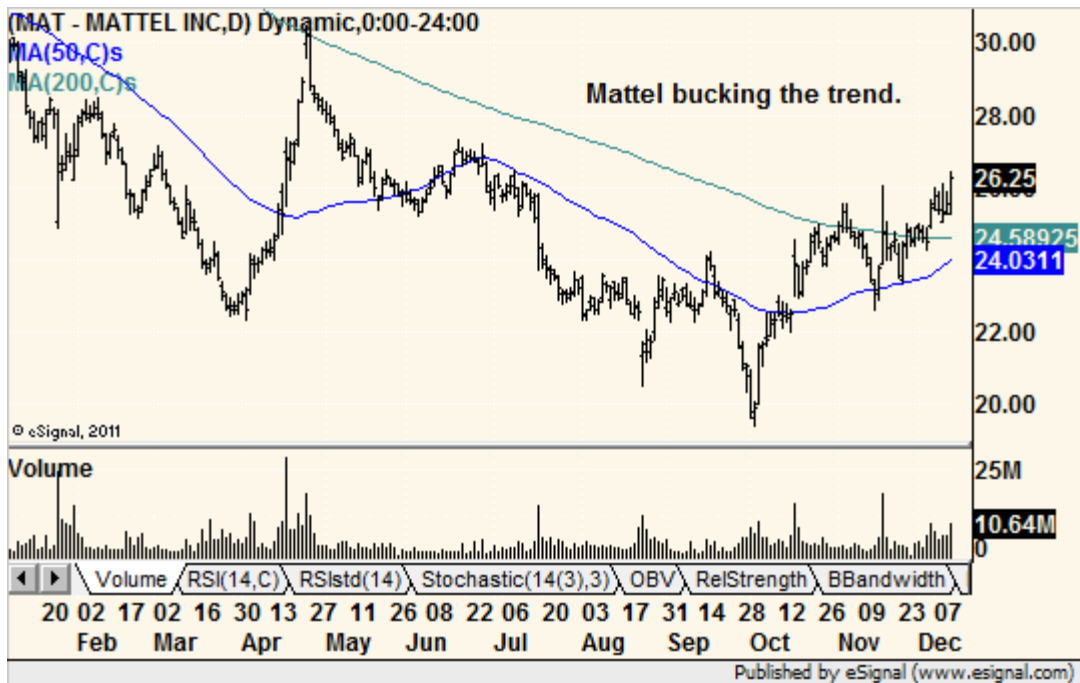
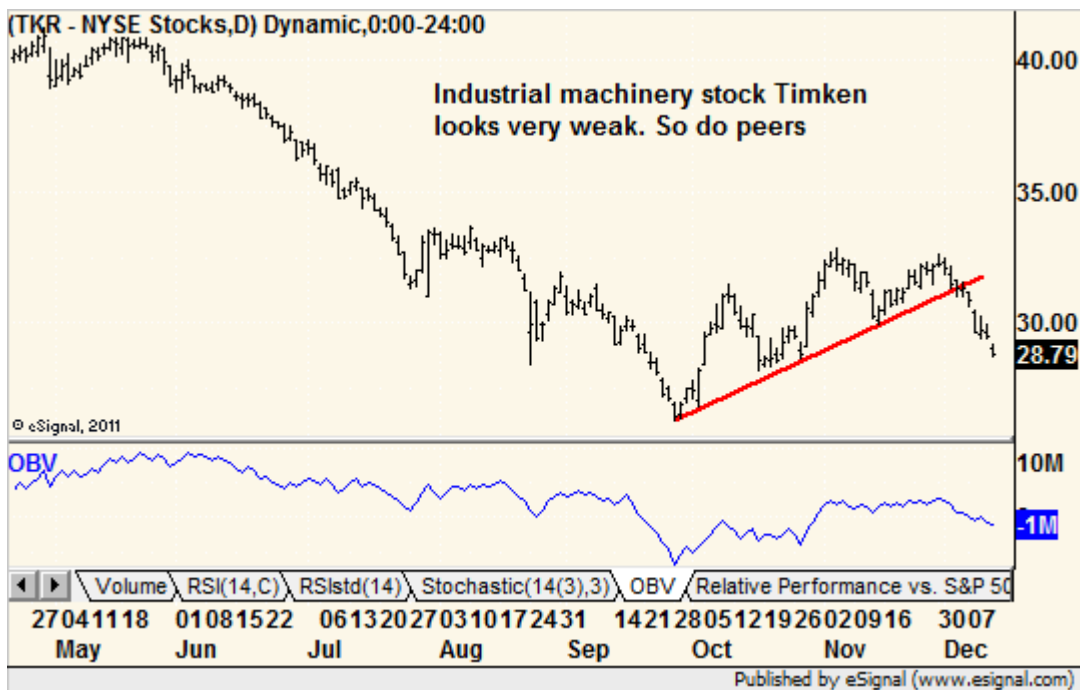


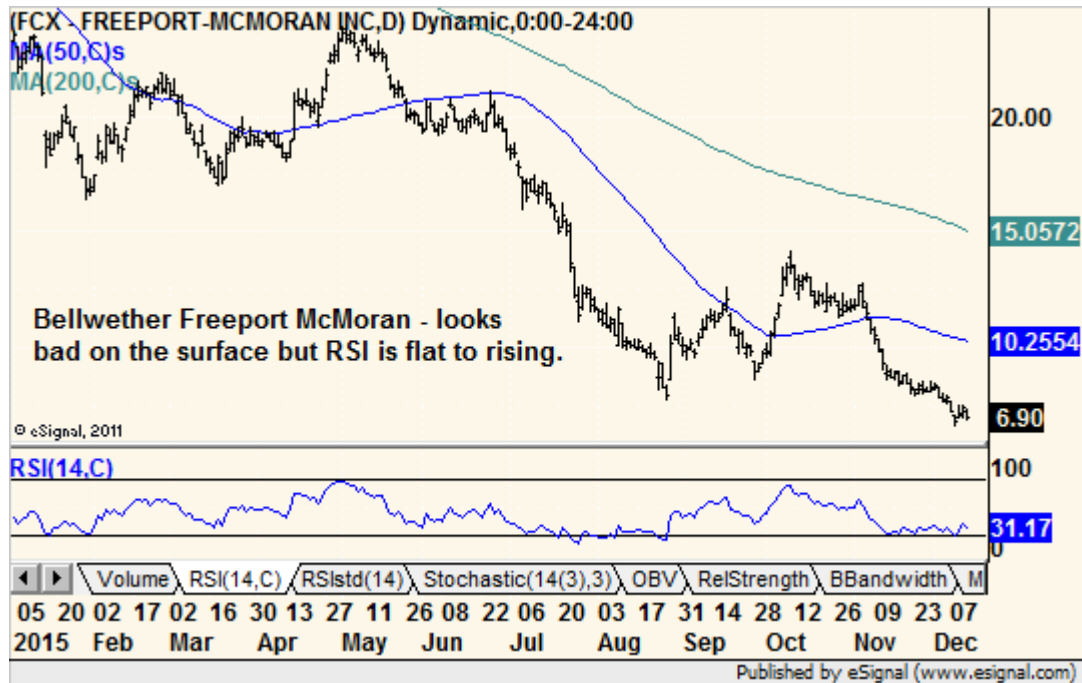
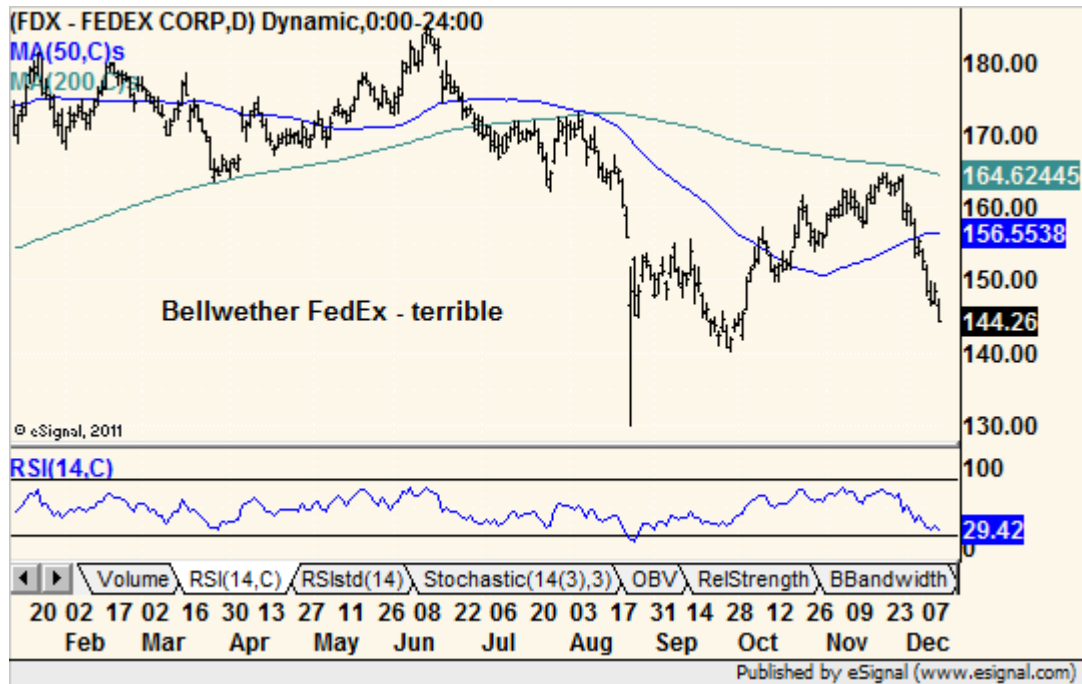


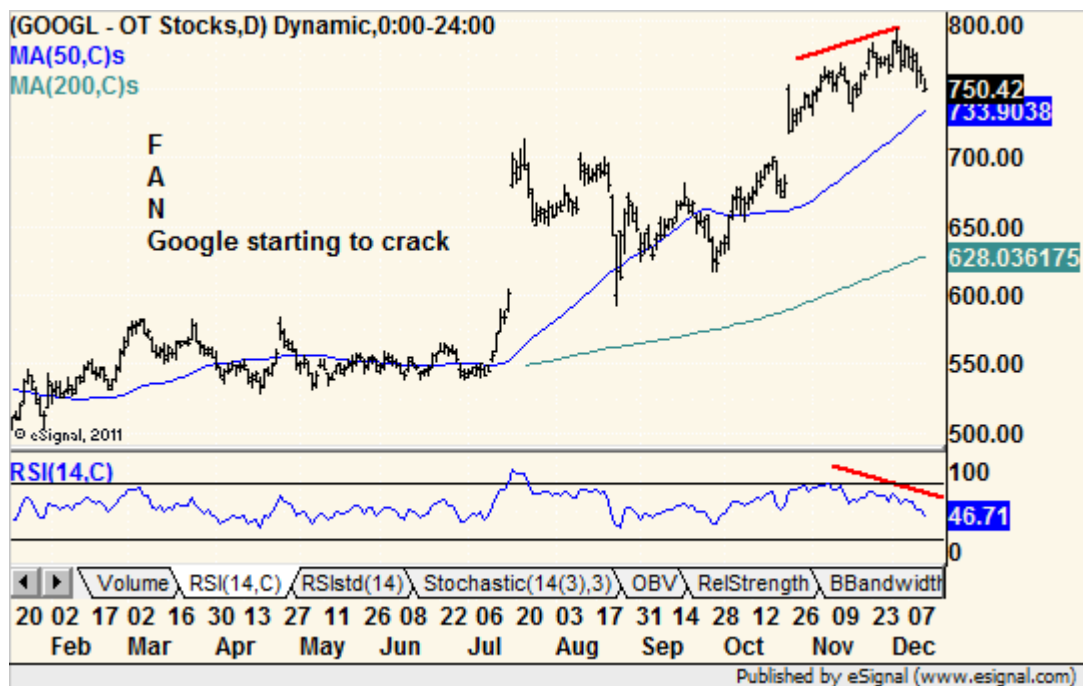
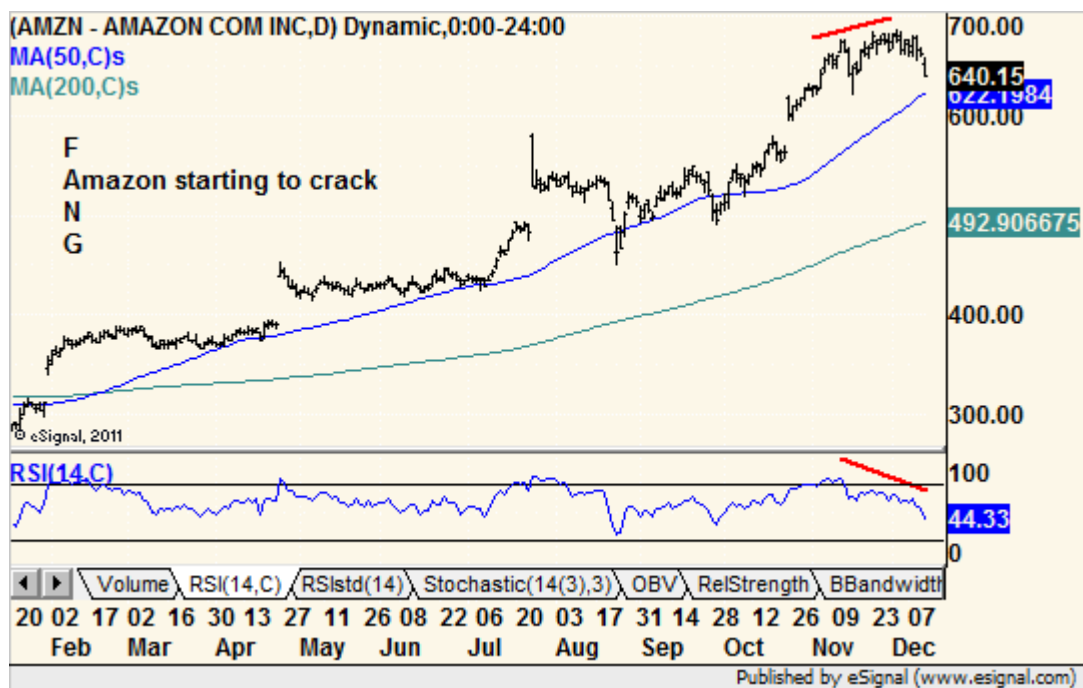


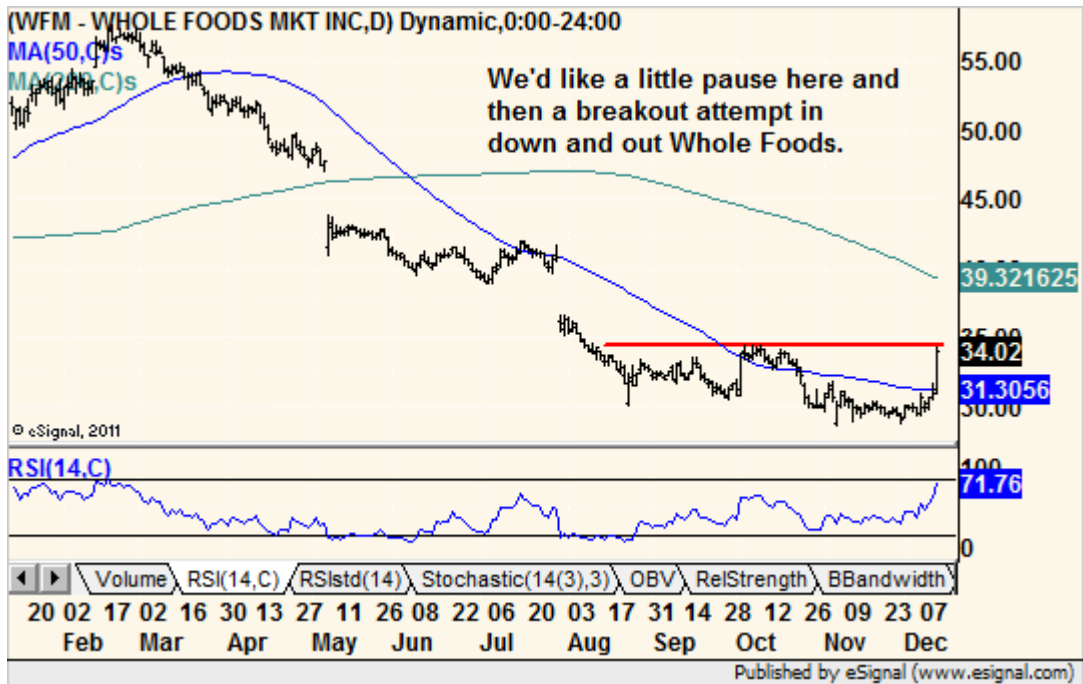


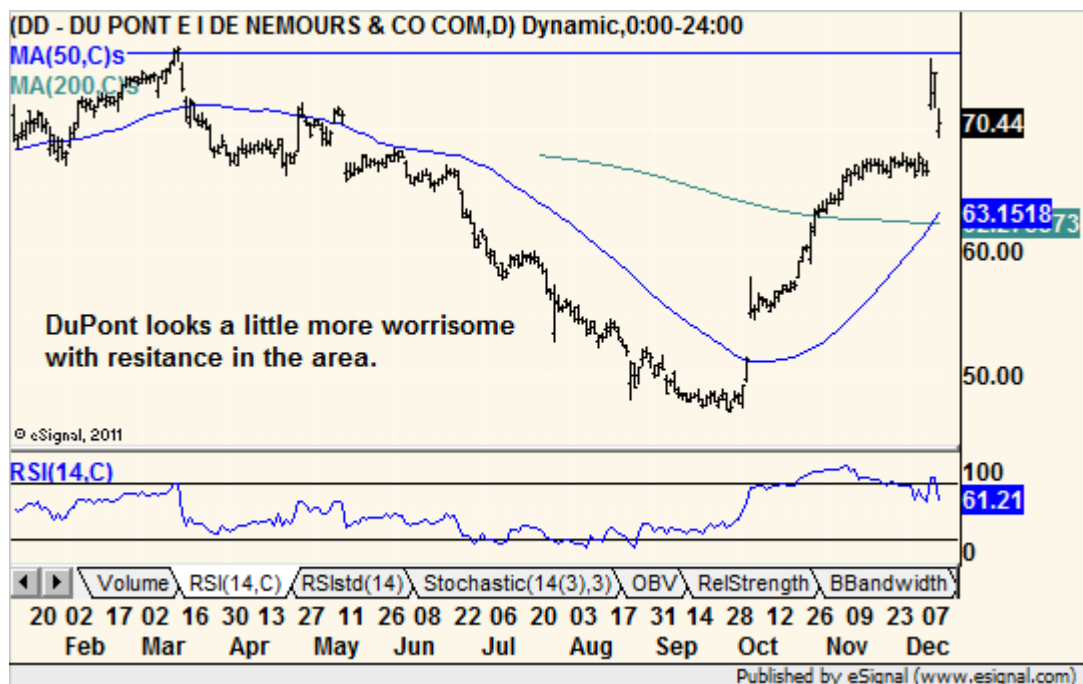
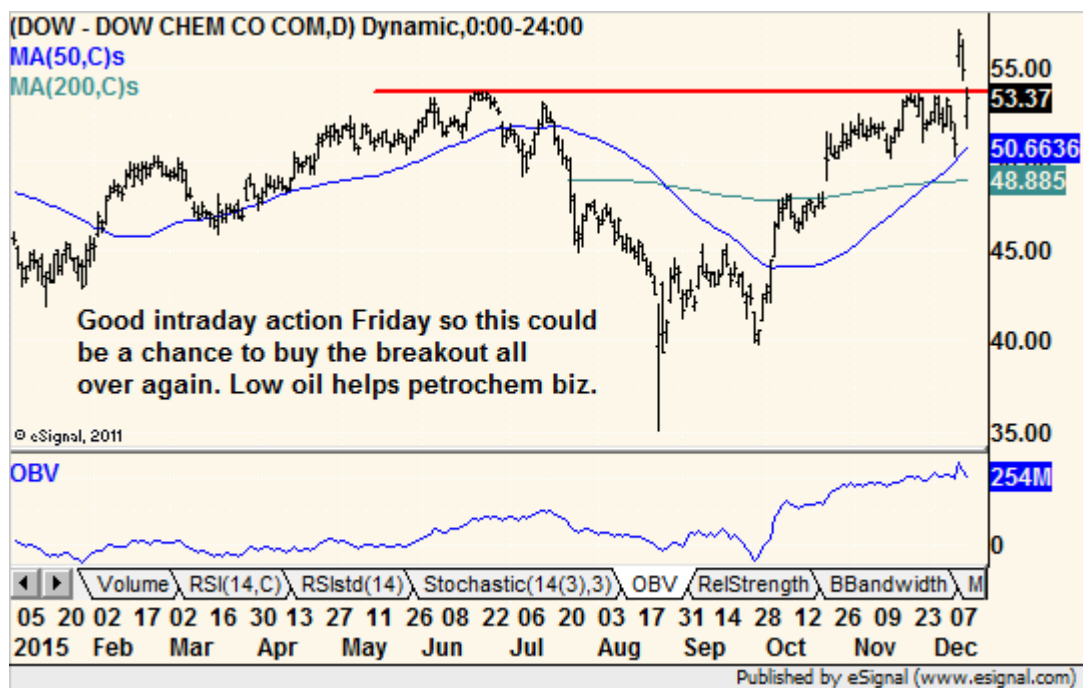
Stocks in the News

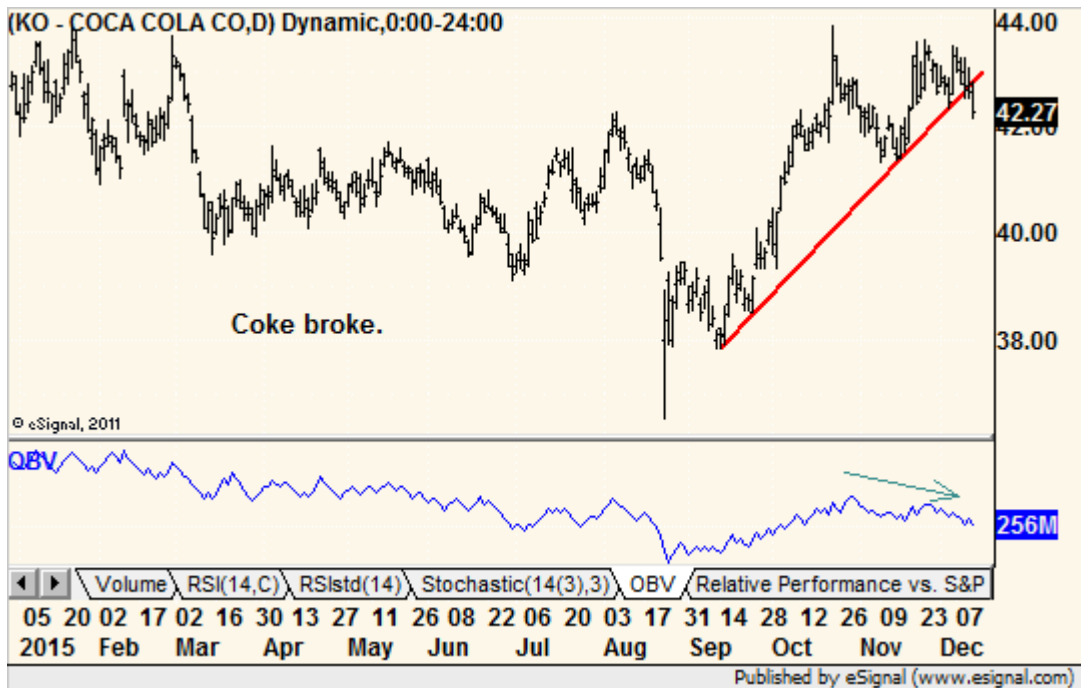












Other Information

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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