
CHART OF THE DAY

September 20, 2011

DANGER AHEAD ???

Observations regarding the S&P 500 Monthly Chart shown below:

- (1) The top part of the chart shows the monthly closing values of the S&P500 Index since 1993.
- (2) The middle portion shows the MACD values. MACD stands for Moving Average Convergence-Divergence. It is a market momentum oscillator developed by Gerald Appel. It is a key indicator of probable market direction. The formula plots the point spread between two different Exponential Moving Averages, a slower one and faster one. The standard MACD is the 12-day Exponential Moving Average (EMA) less the 26-day EMA. Closing prices are used for these moving averages. This is the first line (**Blue**), and shows as MACD (12,26). Then a second Exponential Moving Average is plotted against the first. A 9-day EMA of MACD is plotted with the indicator to act as a signal line and identify turns. This is the second line (**Red**), and shows as MACD EMA (9). When the faster-moving EMA crosses the slower moving EMA, either up or down, it triggers a corresponding “Buy” or “Sell” signal.
- (3) The bottom part shows the Relative Strength Index (RSI). It is also a momentum oscillator. It measures the speed and change of price movements. Developed by J. Welles Wilder, the RSI oscillates between 0 and 100. It is considered “Overbought” when above 70, and “Oversold” when below 30.
- (4) Historically, the MACD has portrayed an uncanny ability to forecast major trend changes. Key observations from the chart below: In mid-2000, the Blue Line crossed the Red Line in a significant way. The market fell, until March 2003. At that point, the Blue Line moved above the Red Line, and the market turned decidedly bullish.
- (5) The next significant cross-over was in late 2007-early 2008, and the market tanked. In mid-2009, the March 2009 low was confirmed and the Blue Line crossed above the Red Line, and the bulls took over.
- (6) Here we are in the latter part of 2011 and the chart shows that the Blue Line is back to touching the Red Line. If it bounces off it and remains above, the market should stay positive. But, if it moves below, and with any velocity, it portends bad times ahead for the market.
- (7) It shows clearly on the chart that at every turn down, the RSI moved below 50. On rallies, it moved distinctly above 50. The RSI is back to 50, and is moving in the wrong direction.

Monthly Chart of S&P 500 (courtesy of www.bigcharts.com).





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