Technical Scoop E-Commentary July 22 2019
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Highs reversed, more bull, gold phoenix, upside silver, confidence key, debt pile, adverse allies

Have we topped? This week saw a number of U.S. stock indices make new all-time highs once again then they reversed and closed lower. We examine reasons why it may have topped even against a background of other indicators suggesting there is more to this bull. The Canadian Dividend Strategy remains fully invested but is designed to allocate to cash in the event of a sustained market decline.

And in a Phoenix-like move, as we discuss with our Chart of the Week (page 6), gold is breaking out and rising in all currencies. Silver put in a strong up week as well turning the trend to the upside. The gold stocks continue their tear putting in new 52-week highs. We look at the reasons for this as well but one key is a loss of confidence in all governments as the global economy slows, debt is piled on and traditional allies are working against each other.

This week's report is shortened due to other commitments.

Have a great week!

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“Stock prices have reached what looks like a permanently high plateau. I do not feel there will be soon if ever a 50- or 60-point break from present levels, such as (bears) have predicted. I expect to see the stock market a good deal higher within a few months.”

—Irving Fisher, economist, statistician, inventor, progressive social campaigner, October 17, 1929; 1867–1947

"Stocks fluctuate, next question."

—Alan Greenberg, CEO Bear Stearns, in response to questions about the October 19, 1987 crash, October 22, 1987; 1927–2014

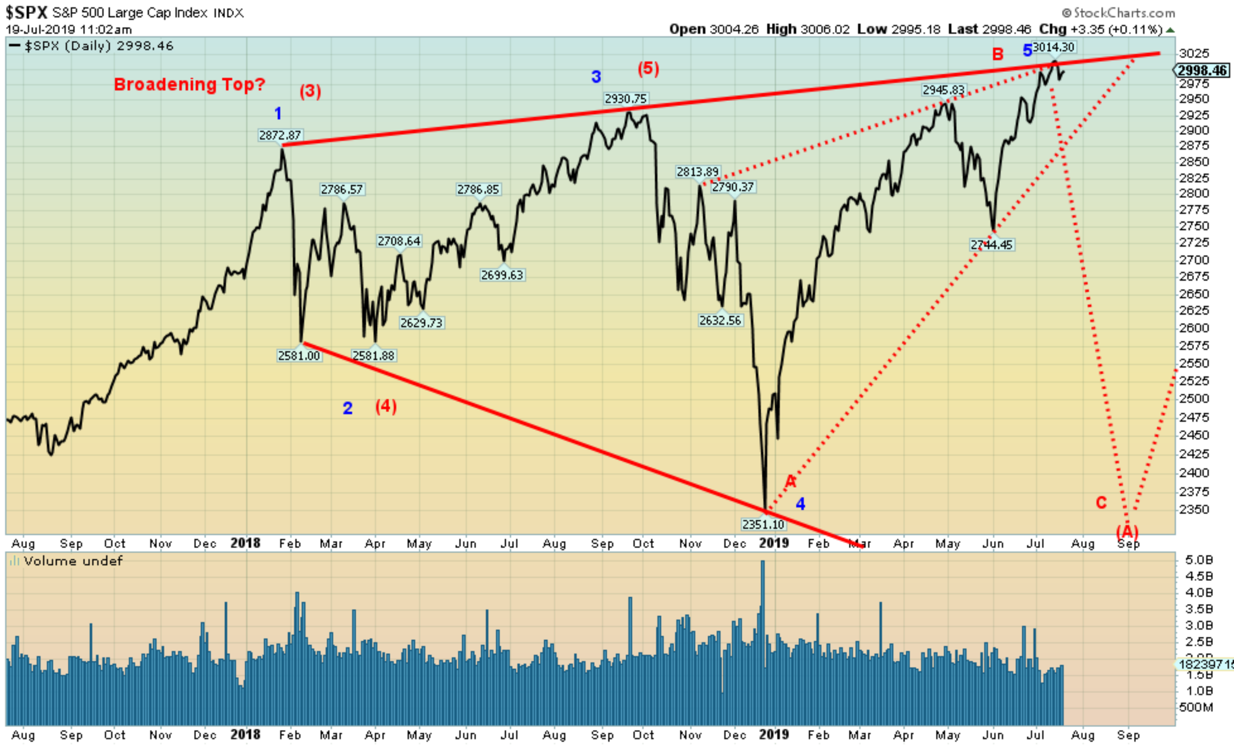
“How do you explain to an innocent citizen of the free world the importance of a credit default swap on a double-A tranche of a subprime-backed collateralized debt obligation? He tried, but his English in-laws just looked at him strangely. They understood that someone else had just lost a great deal of money and Ben had just made a great deal of money, but never got much past that. "I can't really talk to them about it," he says. "They're English.”

—Michael Lewis, author, *The Big Short: Inside the Doomsday Machine* (2010) and other books; b. 1960

Is the party over? Stock markets are starting to falter on concerns about earnings, Netflix subscriptions, a slowing global economy, and, increasingly remote chances that the U.S./China trade talks will be successful. All of this is occurring against the backdrop of an anticipated interest rate cut at the July 30–31 FOMC. Naturally, it is rather premature for us to say this because we do not have any clear sell signals and there are numerous indicators that would appear to suggest that the U.S. stock market still has further to run. However, this past week the major stock indices put in a reversal week as the S&P 500, the Dow Jones Industrials (DJI), and the NASDAQ all made new all-time highs, then reversed and closed the week lower, thus putting in a potential weekly buying climax.

We believe we have reached the top of a somewhat rare pattern known as a broadening formation. This pattern tends to form only at major tops. It is characterized by successively higher peaks (points 1, 3, and 5) and two troughs (points 2 and 4) with the second trough lower than the first. It is a pattern that is full of false signals, making it difficult to develop any sense of trend. But the third peak is often made on a wave of bullishness that it is the start of a new bull market. We also note what appears to be a large ascending wedge pattern forming. That pattern is normally bearish. The ascending wedge pattern can be a continuation pattern but does sometimes appear at tops.

The ascending wedge pattern breaks under 2,875 for the S&P 500 and is confirmed once it breaks under the late May 2019 low of 2,744. The broadening top formation is not confirmed until it breaks down under the second low. In that case it is the December 2018 low of 2,351.



Source: www.stockcharts.com

Other technical evidence of a possible forming significant top is as follows:

1. There is non-confirmation between the Dow Jones Industrials (DJI) and Dow Jones Transportations (DJT). One of the basic tenets of Dow Theory is the "averages must confirm each other." Dow Theory centered on the major averages as defined by Charles Dow. The DJI has made new all-time highs; however, the DJT remains almost 9% below its all-time highs seen in September 2018.
2. In keeping with Dow Theory, the large cap S&P 500 has made new all-time highs, but the small cap S&P 600 has not. The S&P 600 remains 14% below its August 2018 high.
3. The final Dow Theory non-confirmation is between the S&P 500 and the KBW Bank Index (BKX). The KBW Bank Index is over 15% below its high seen in January 2018 and over 18% below its all-time high of February 2007.
4. The S&P 500 Bullish Percent Index is currently at 73, a level that is traditionally high—suggesting at least a pullback. However, this indicator can remain high for a period of time.

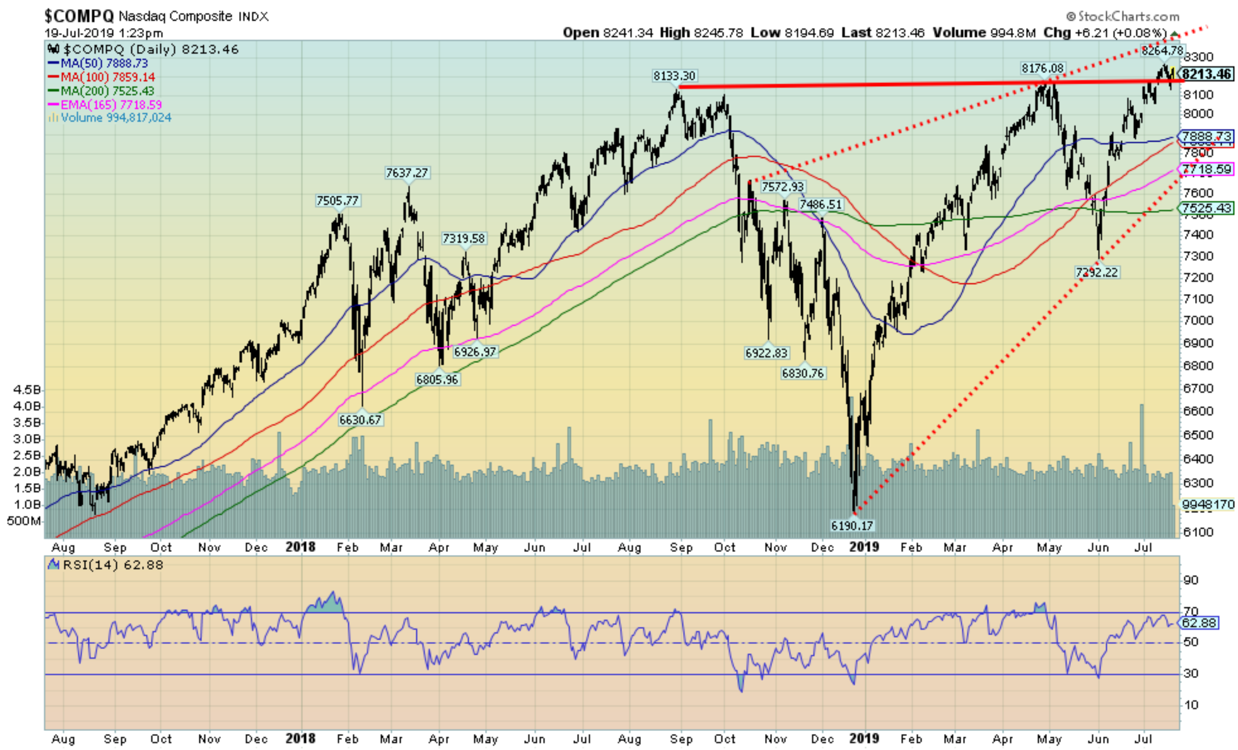
5. The NYSE Bullish Percent Index is currently at 56 and remains below its highs seen in late April 2019, even as the NYSE recently made new all-time highs. This is a divergence between the indicator and the NYSE.
6. The percentage of stocks trading above their 200-day MA at 74 for the S&P 500 is at levels often associated with tops.
7. Major international indices including the TSX Composite, London FTSE, Paris CAC 40, German DAX, China's Shanghai Index (SSEC), and the Tokyo Nikkei Dow (TKN) are not making new highs along with the U.S. indices. This is another case of potential non-confirmation between the indices.

There is also evidence that the stock market might have more to run.

1. Many analysts put high credence in the NYSE advance/decline line. It has continued to move to new all-time highs, suggesting that the stock indices should follow. While the AD line has been making solid new highs, the S&P 500 and the DJI have both struggled to new highs. Could it be misleading the market? It has happened before. But it is rare.

Source: www.stockcharts.com

2. Other indicators are also showing positive signs. The McLellan Ratio Adjusted Summation Index (RASI) remains in positive territory. The new highs minus new lows remains in bull territory.
3. Bull-Bear sentiment indicators are not yet at levels that would suggest a top. At the recent pull-back in late May–early June the sentiment indicator was quite bearish. It proved to be a low.
4. Some indices appear to be breaking out. The most noticeable one is the NASDAQ shown below.



Source: www.stockcharts.com

Is the NASDAQ breaking out? Unlike the S&P 500 and the DJI, the NASDAQ is not displaying the broadening formation. Instead, it does appear to be breaking out. One could argue it is forming a head and shoulders bottom. However, if that's the case, then the expectation would be to break out on volume. However, that is not happening as the NASDAQ did make a weekly reversal, making new all-time highs and closing lower. As they say, ''Where's the beef'?' At important tops and bottoms there are often misleading indicators. Others displaying possible breakouts include the NYSE and the Wilshire 5000. The broadening formation is only present in the S&P 500 and the DJI.

While focus is, as usual, on the U.S. stock indices, the real story of the past few weeks is the phoenix-like rise of gold after a six-year slumber. Gold acts as a Cassandra, destined to utter prophecies that are true but that no one believes. The rise reminds us of the slumber gold was in during the late 1990s. Gold was dead. The rise at first was slow and few, if any, believed it. But from 2001 to the top in 2011 gold rose from about $250 to over $1,900 a gain of over 600%. As painful as gold has been to watch over the past six years, gold has outperformed the major stock indices since 2000.

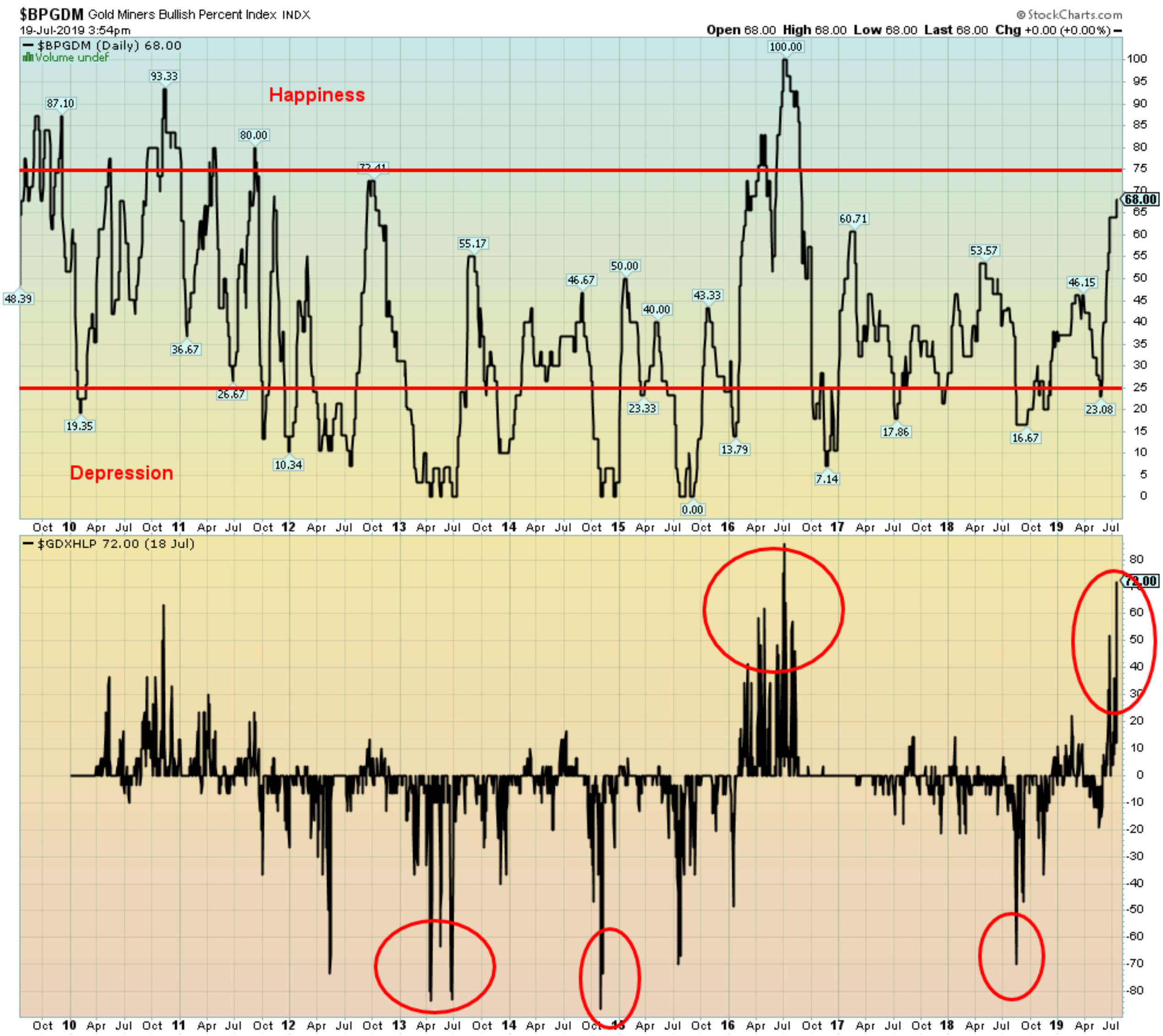
While gold has broken out, silver continues to lag although it is showing some signs of catching up this past week. Silver has broken out above $16, giving us good buy signals. Silver's trends have turned up. A week ago, the gold/silver ratio soared to an unheard-of level of 92. One week later the ratio has fallen to 88, which is still extremely high. To get it down to a more reasonable level of 70, silver would have to be priced at over $20. We are still awaiting a major breakout for silver over $18 to bust the malaise of 2013–2019. Silver, like gold, rose from around $4 in 2001 to a high of almost $50 in 2011, a gain of 1,150%.

Chart of the Week

Source: www.stockcharts.com

How long this gold bull will last is difficult to say. Gold is responding to slowing global economies and considerable political tensions around the globe. Our next 7.83 cycle low is not due until October 2022. The huge potential head and shoulders pattern that gold has formed over the past six years projects as high as $1,725. However, our first major resistance should come in between $1,500 and $1,550. The gold stocks, which have been huge laggards, are now showing signs of a major move. The Gold/HUI ratio that peaked at almost 9 in September 2018 has fallen to under 7 in just ten months and is breaking an 8-year up-trend line. From 2002 to 2002 the Gold/HUI ratio was consistently under 2.5. The HUI today stands at 211. At a ratio of 2.5 the HUI would be at 570. The HUI hit an all-time high at 640 in 2011. The fall has been long and dramatic.

For those looking to take profits on gold stocks one has to watch the Gold Miners Bullish Percent Index (BPGDM) and the Gold Miners New Highs—New Lows Percent Index (GDXHLP). The chart below shows both. The BPGDM is at 68 but it doesn't start to get into profit-taking territory until it gets over 75. It hit a peak of 100 in 2016 when the HUI rose to 286. The GDXHLP is high, but as the period from February to August 2016 shows, it can remain high for some time.



Source: www.stockcharts.com

Gold is rising. Why? Because of fears of the slow deterioration in the global economy. Global yields have been falling and many now expect the Fed to cut the key rate by at least one-quarter of a point at the July 30–31 FOMC. Some believe it will be a half point, but that would be a shocker to the market. There is also a rather frightening move to negative yields. The amount of negative yield bonds trading in the world is now about $13 trillion. In October 2018 there were around $6 trillion of negative yield bonds. That is an incredible increase that points to something that may be dangerously amiss. Since October gold has now risen over $200, over 17%. When bond yields are falling and threaten to sink under 'zero' gold's appeal rises for reasons that go beyond its safe haven, store of value attributes. Gold is now rising in all currencies and is close to record highs in Canadian dollars, pound sterling, and Japanese yen.

This is still early in this move as most are not in. We are still in the disbelief stage. Once we are over $1,500 it could shift to the "maybe we should get in" stage. We are a long way from the bubble stage usually seen at the end of the move.

There is a lot going on. China/U.S. trade talks look as though they could falter once again. Iran has seized at least one British ship in the Gulf of Hormuz, raising tensions in the world's most important oil passage. Turkey is going ahead with the purchase of the Russian S-400, an anti-aircraft weapon system, prompting the U.S. to cancel the sale of F35's fighter jets to Turkey. Who does this hurt? Well, U.S. defense companies are going to be missing a lot of orders. The U.S. threatens more sanctions against Turkey, an important NATO member. Retaliation against the U.S. could see the U.S. lose its military air base at Incirlik.

While the U.S. puts sanctions on countries, retaliation against the U.S. is rising. Other U.S. allies are considering purchase of the Russian S-400s. The EU is defying the U.S. sanctions against Iran by setting up a mechanism known as INSTEX to facilitate trade with Iran. Russia has asked to join INSTEX. Russia and China are also setting up a payments system called SPFS (System for Transfer of Financial Messages) to get around the U.S.-dominated SWIFT system. Many Asian countries and others are willing to join. All of this has the potential to isolate the U.S.

The U.S. has benefited from high interest rates in comparison to its major trading partners. This has attracted funds seeking higher returns, fueling the U.S. stock market and pushing up the value of the U.S. dollar. Lowering of interest rates in the U.S. makes this less attractive and it could spark a sell-off in the U.S. stock market and cause the U.S. dollar to fall. All of this, along with global political tensions, is sparking a run to gold as confidence falls in governments. Is there a stock market accident waiting to happen?

Our table of markets and trends is below. We note new highs in the U.S. stock indices S&P 500, DJI and NASDAQ. However, they all finished lower on the week. New 52-week highs were also recorded for gold, silver, HUI, and TGD. Silver's trend has turned firmly to the upside. The U.S. dollar closed weak while other currencies are showing signs of strengthening against the U.S. dollar. Bond yields are falling globally and the amount of negative interest bonds rises. Gold is rising against all currencies as confidence in governments falls. We live in interesting times.

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MARKETS AND TRENDS

	% Gains (Losses)				Trends		
	Close Dec 31/18	Close Jul 19/19	Week	YTD	Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	2,506.85	**2,976.61 (new highs)**	(1.2)%	18.7%	up	up	up (topping)
Dow Jones Industrials	23,327.46	**27,154.20 (new highs)**	(0.7)%	16.4%	up	up	up (topping)
Dow Jones Transports	9,170.40	10,604.20	(0.3)%	15.6%	up	up	up (topping)
NASDAQ	6,635.28	**8,146.49 (new highs)**	(1.2)%	22.8%	up	up	up (topping)
S&P/TSX Composite	14,322.86	16,485.94	(0.1)%	15.1%	up	up	up
S&P/TSX Venture (CDNX)	557.20	591.96	2.8%	6.2%	down	down	down
Russell 2000	1,348.56	1,547.90	(1.4)%	14.8%	up	up	up
MSCI World Index	1,710.88	1921.28	(0.7)%	12.3%	up	up	up
NYSE Bitcoin Index	3,769.99	10,393.63	(9.9)%	175.7%	up	up	up
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	160.58	**210.93 (new highs)**	5.1%	31.4%	up	up	up
TSX Gold Index (TGD)	186.74	**237.41 (new highs)**	5.3%	27.1%	up	up	up
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.69	2.05	(3.3)%	(23.8)%			
Cdn. 10-Year Bond yield	1.96	1.50	(6.8)%	(23.5)%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.21	0.25	(10.7)%	19.1%			
Cdn 2-year 10-year CGB spread	0.10	.04%	(60.0)%	33.3%			
Currencies							
US$ Index	95.73	96.82	0.4%	1.1%	neutral	up (weak)	up (weak)
Canadian $	0.7350	0.7683	0.3%	4.5%	up	up	neutral
Euro	114.58	112.79	0.5%	(1.6)%	down	down	down (weak)
Swiss Franc	101.88	101.60	0.8%	(0.3)%	up	up	neutral
British Pound	127.50	125.74	0.4%	(1.4)%	down	down	down
Japanese Yen	91.24	92.78	0.6%	1.7%	up	up	up (weak)
Precious Metals							
Gold	1,281.30	**1,426.70 (new highs)**	1.0%	11.4%	up	up	up
Silver	15.54	**16.19 (new highs)**	6.2%	4.2%	up	up	down (weak)
Platinum	795.90	852.10	2.6%	7.1%	up	up (weak)	down
Base Metals							
Palladium	1,197.20	1508.30	(3.3)%	26.0%	up	up	up
Copper	2.63	2.753	2.2%	4.7%	up	neutral	neutral
Energy							
WTI Oil	45.41	55.76	(7.4)%	22.8%	neutral	neutral	neutral
Natural Gas	2.94	2.25	(8.2)%	(23.7)%	down	down	down

Source: www.stockcharts.com, David Chapman

Note: For an explanation of the trends, see the glossary at the end of this article.
New highs/lows refer to new 52-week highs/lows.

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GLOSSARY

Trends

Daily – Short-term trend (For swing traders)
Weekly – Intermediate-term trend (For long-term trend followers)
Monthly – Long-term secular trend (For long-term trend followers)
Up – The trend is up.
Down – The trend is down
Neutral – Indicators are mostly neutral. A trend change might be in the offing.
Weak – The trend is still up or down but it is weakening. It is also a sign that the trend might change.
Topping – Indicators are suggesting that while the trend remains up there are considerable signs that suggest that the market is topping.
Bottoming – Indicators are suggesting that while the trend is down there are considerable signs that suggest that the market is bottoming.

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