

United-ICAP

the technical advisory service

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Peaking Action - An RSI Perspective Vol. XI

Tuesday

01 September 2015

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“No doubt you’re asking yourself, what are hatches? And how the heck does one go about battening them down?”

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Then

I began publishing this series in January 2014 when the weekly 14 bar RSI readings for the Dow, the S&P and the Nasdaq all reached a level of 75 and started to show bearish divergence. As I stated back in volume I, the purpose of this exercise was to see if market conditions (i.e. the technicals) matched those at the 2000 and 2007 peaks. What we discovered was that there were three distinct warning signs that preceded the collapse in the equity markets. These warnings included 1. bearish divergence 2. a break beneath long term up trend support and 3. long term up trend support turning to resistance. None of the preconditions for peaking action were present in that first report back in January of 2014. In fact, it was not until October of 2014 that extensive bearish divergence had formed and the weekly RSI readings were able to challenge long term up trend support in a meaningful way. But the bears did not succeed in breaking support and the up trend resumed, albeit at a much slower pace.

Now

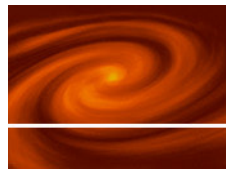
The latest installment of this series represents volume XI. And it could very well represent the last volume we will need to publish on this subject. Why? As I noted on August 12, the US equity indexes are displaying many of the same technical warnings that were visible leading up to the peak in 2000 and the peak in 2007. At this time two of the preconditions for long term peaking action have been met. We have extensive RSI divergence and long term up trend support on the weekly RSI has been broken. We are now waiting on the third and final signal, long term up trend support turning to resistance.

1998 vs 2007

Before the peak in 2000 it took the technicals over two years to signal a top in both the Dow and the S&P. The peaking process actually began in 1998. In 2007 it took just a few weeks for the technicals to signal a major top was in place. So, where are we in the peaking process? Does 2015 represent 1998 or 2007? If the answer is 1998, then we need to prepare for new highs. If the answer is 2007 then we need to prepare for a collapse. At present, the technicals better reflect the situation in late 2007. Unless this changes we would be prepared for much lower equity prices going forward.

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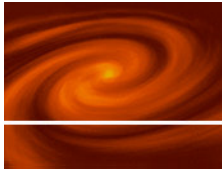
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Dow Industrials 2000, 2007 & Present



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Reprint

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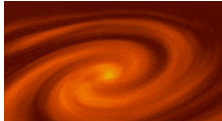
Dow Industrial Average - 2000 Peak

Here we revisit the weekly 14 bar RSI readings from the 2000 top. Note the prolonged divergence. If one would have acted solely on the divergence warning one would have missed a five year rally. This chart serves as an excellent reminder of why divergence does not necessarily imply imminent peaking action. For the Dow, the first sign of real trouble did not show up until late 2000 when the upward sloping trend line that had supported the weekly RSI began to act as resistance. We saw a similar phenomenon in 2007, see next page.

Peaking Checklist

- ① Divergence ✓
- ② Support Broken ✓
- ③ Support turns Resistance ✓





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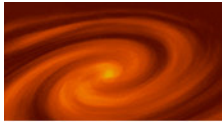
Dow Industrial Average - 2007 Peak

Into the 2007 top we can identify the same conditions leading up to the collapse. Divergence is the precursory warning sign. Next comes a break of long term RSI support. But the sell opportunity does not present itself fully until the upward sloping trend line supporting the RSI acts as resistance. So, even though the divergence periods differ substantially in duration, the sell signal appears to be the same. With the current RSI readings developing in a similar manner from the 2009 lows, it is time to pay attention. See next page.



Peaking Checklist

- ① Divergence ✓
- ② Support Broken ✓
- ③ Support turns Resistance ✓



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Update

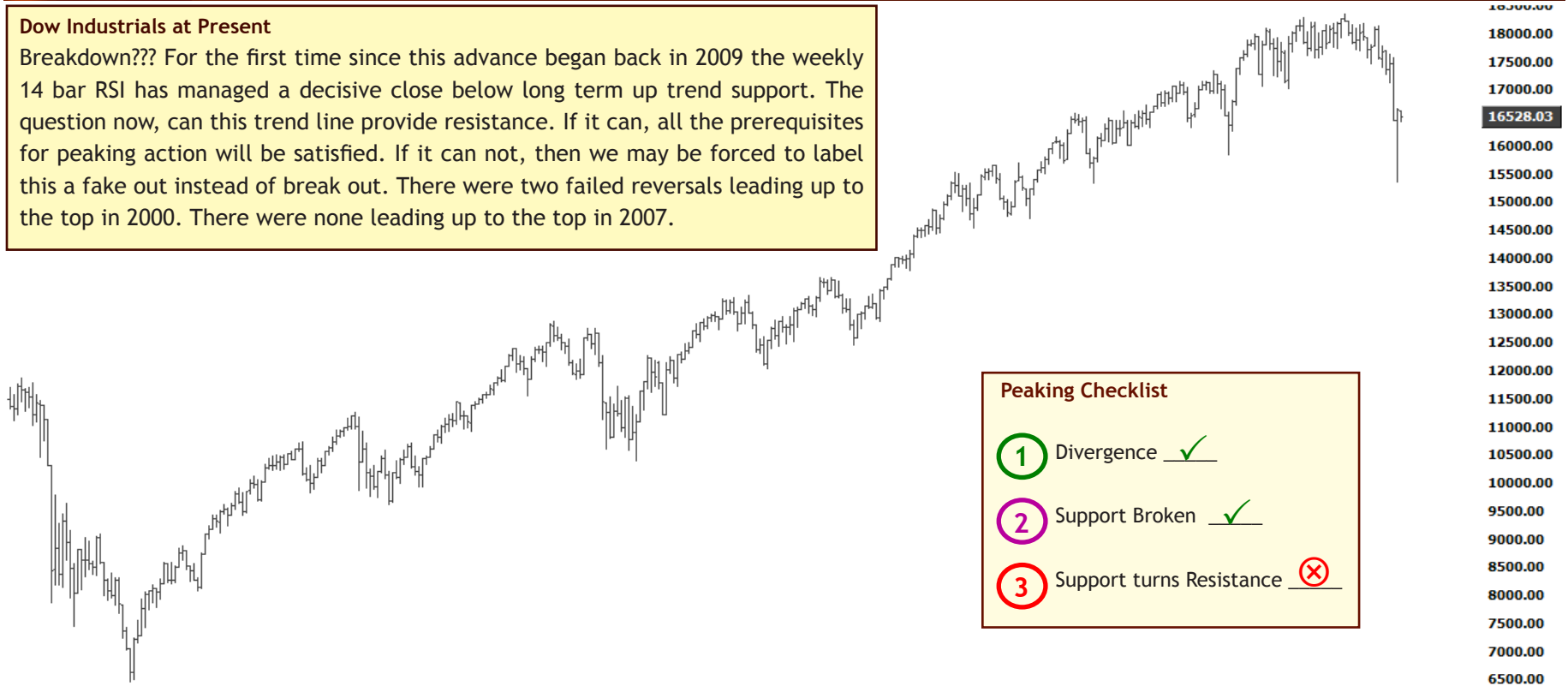
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Dow Industrials at Present

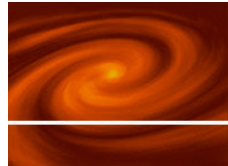
Breakdown??? For the first time since this advance began back in 2009 the weekly 14 bar RSI has managed a decisive close below long term up trend support. The question now, can this trend line provide resistance. If it can, all the prerequisites for peaking action will be satisfied. If it can not, then we may be forced to label this a fake out instead of break out. There were two failed reversals leading up to the top in 2000. There were none leading up to the top in 2007.



Peaking Checklist

- ① Divergence ✓
- ② Support Broken ✓
- ③ Support turns Resistance ✗





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S&P 500 2000, 2007 & Present



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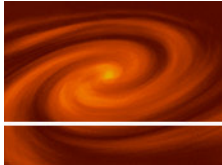
S&P 500 - 2000 Peak

To avoid redundancy we will leave the commentary to a minimum. The picture is clear enough. Same conditions applied to the S&P, same result.

Peaking Checklist

- ① Divergence ✓
- ② Support Broken ✓
- ③ Support turns Resistance ✓





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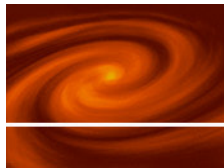
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S&P 500 - 2007 Peak
Ditto for the 2007 peak...





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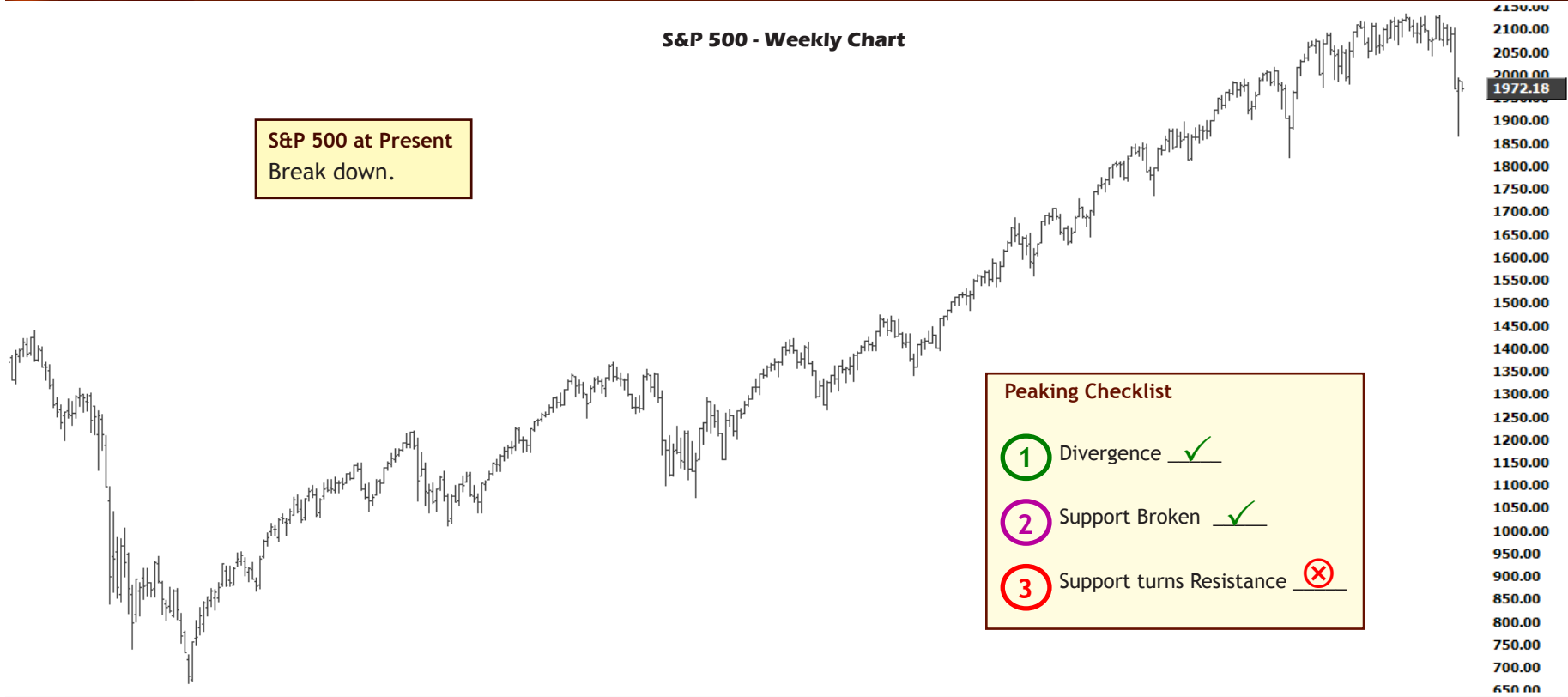
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S&P 500 - Weekly Chart

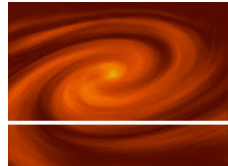
S&P 500 at Present
Break down.



Peaking Checklist

- ① Divergence ✓
- ② Support Broken ✓
- ③ Support turns Resistance ✗





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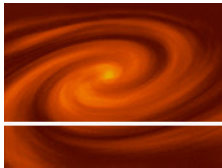
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Nasdaq Composite 2000, 2007 & Present



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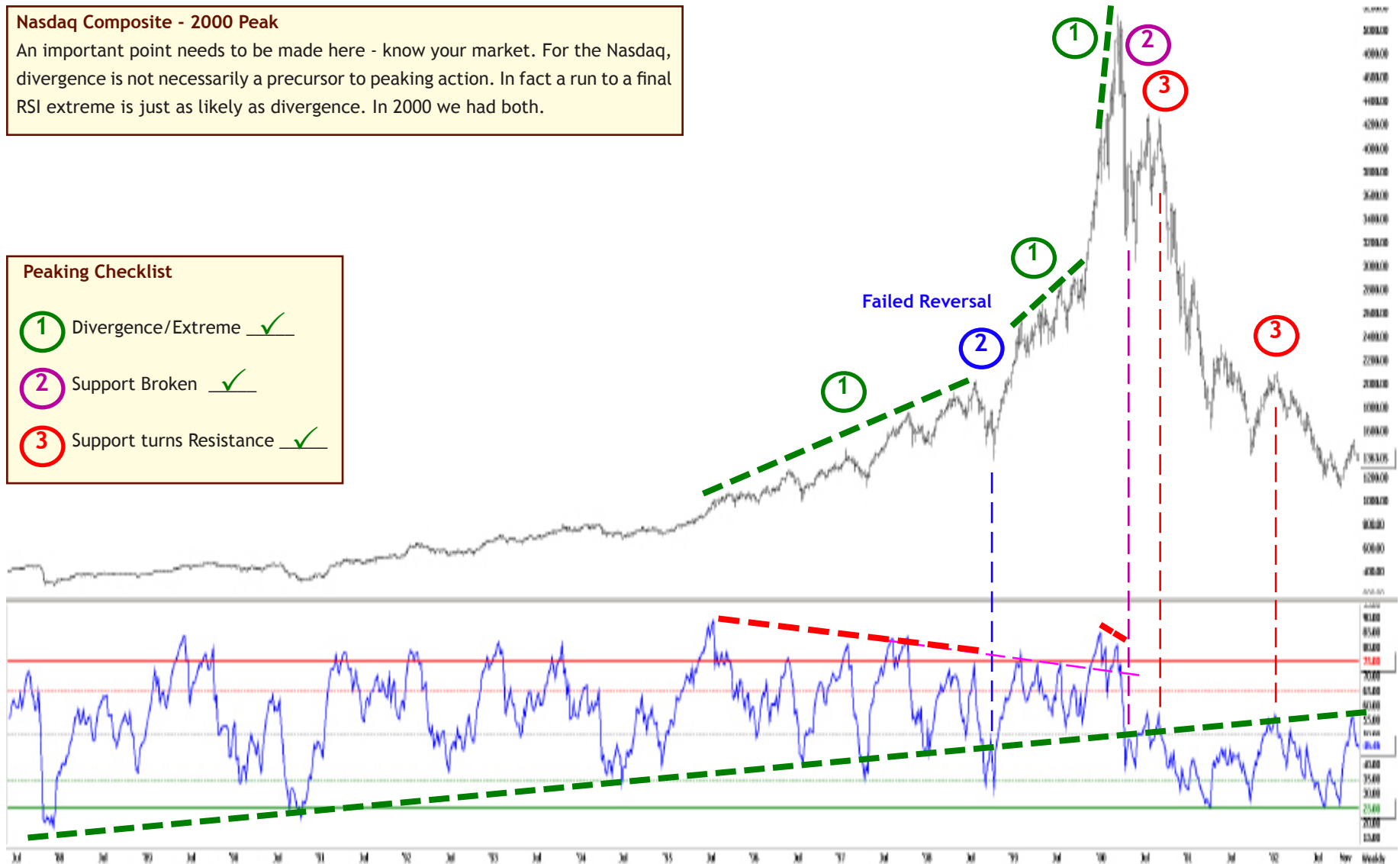
31 January 2014

Nasdaq Composite - 2000 Peak

An important point needs to be made here - know your market. For the Nasdaq, divergence is not necessarily a precursor to peaking action. In fact a run to a final RSI extreme is just as likely as divergence. In 2000 we had both.

Peaking Checklist

- ① Divergence/Extreme ✓
- ② Support Broken ✓
- ③ Support turns Resistance ✓





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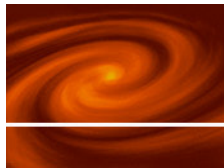
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Nasdaq Composite - 2007 Peak

No comment necessary. The chart speaks for itself.





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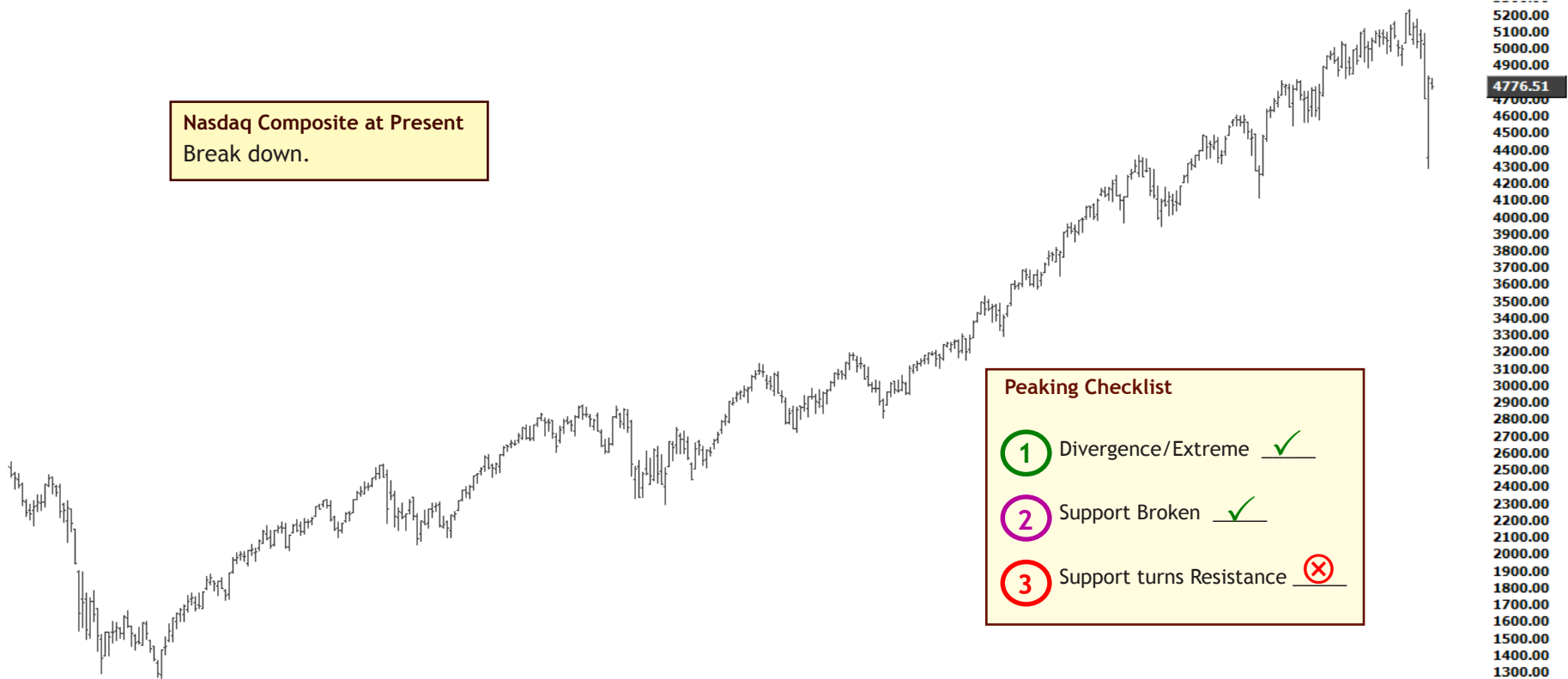
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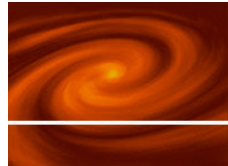
Nasdaq Composite at Present
Break down.



Peaking Checklist

- ① Divergence/Extreme ✓
- ② Support Broken ✓
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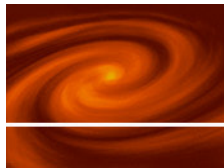
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2015 = 1998 or 2007 ????



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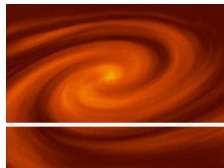
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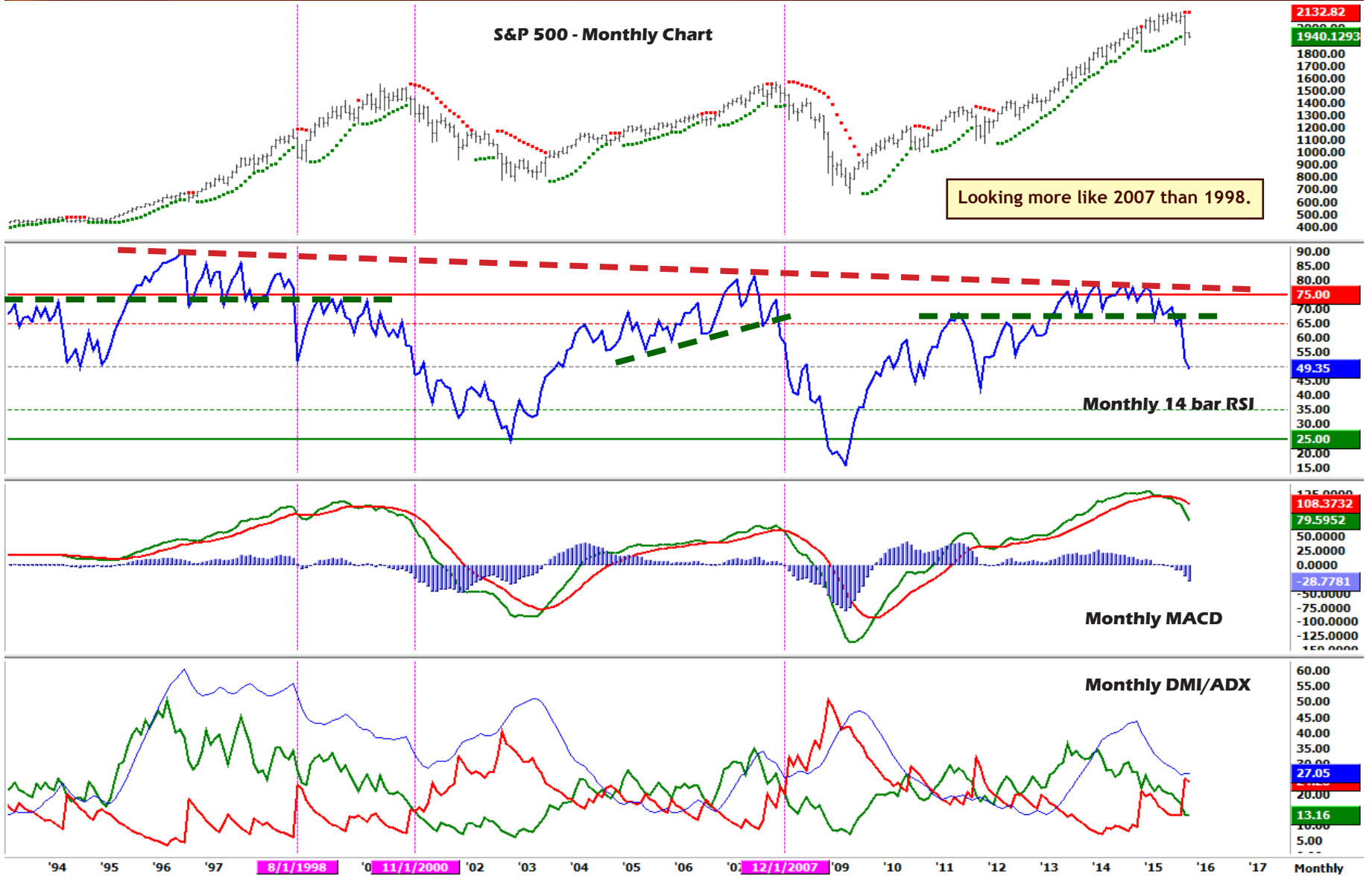
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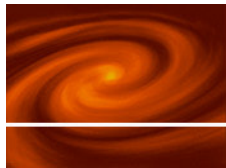
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