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January Dow Theory Sell Signal Reconfirmed.

If ever there was proof of the continued relevance of Dow Theory, the price action of the last 3 days provides all the evidence required.

Today’s market collapse at the open took out the October lows in both the Dow Transports and the Dow Industrials. This move to ever lower lows reconfirms the initial Dow Theory Sell signal triggered earlier this year. Whoever shorted the market when this sell signal was issued is now looking at a profit of nearly 8%, year to date, instead of a loss of 8% had you bought and held, a differential of 16%.

Technically all major indices are falling apart. The market is in fact so weak it is hard not to come to the conclusion that it is foreseeing a recession of some description.

The chart of the % of stocks above the 200 Price Moving Average (PMA) finally shows the 100 DMA crossing the 200 DMA. This is a technical “death-cross” The only indicator not in bearish agreement is the NYSE Advance/Decline line. When this indicator shows a similar 100/200 DMA crossover, I believe it will only be a matter of time, based on historic precedent, before a recession will materialize.

In the short term, based on the extremity of the oversold position, it is reasonable to expect a counter rally however, for now, the bull is dead.

Chart: Dow Theory 3 Day Comparison: Dow Transports/Dow Industrials