<u>DOW 20000 IS IRRELEVANT</u>

By Daryl Guppy

The DOW punched through 20,000 but for serious traders the achievement was largely irrelevant. Goldman Sachs accounted for 21% of the rise, perhaps because their staff are so widely represented in Trumps cabinet and executive choices. Although the index is followed by the general public it is not a particularly accurate index. Its importance is more psychological and this bullish enthusiasm feeds through to the more meaningful NASDAQ and S&P indexes.

The DOW and other major stock indexes like the S&P 500 have two key features that ensure that they will continually rise and break new records: They are built on survivor bias and they ignore inflation.

Survivor bias means the index is made up only of winners. Losers are dropped from the index. There have been 133 different companies in the list of 30 stocks in the DOW. Only GE has been a consistent member over the 120 year history of the index, and even it was dropped from the index between 1901 and 1907.

The importance of the long-term inflation in driving stock market indexes higher is seen by understanding the "rule of 70." This rule shows how long it takes for the average price in the economy to double. For example, if something costs $10 today, the rule of 70 shows how many years it will take for the price to reach $20. To determine the number of years, divide 70 by the inflation rate.

Since the turn of the 21st century, US inflation has increased prices by roughly 2.2 percent per year. If prices continue to rise at this rate, then the typical price of most things in the US will double roughly every 32 years (70 divided by 2.2). So if inflation were to persist at this rate then the Dow will hit 40,000 in about 32 years from now, even if nothing changes in terms of economic production.

Some suggest that reality has little to do with stock market euphoria so the break above 20,000 is psychologically important and it's that behavior that we trade. .

The DOW chart now has three significant chart patterns and they combine to limit the DOW rally in the short term and the strength of the longer term uptrend.

The first feature on the DOW chart is a long term uptrend line. This uptrend line starts in 2011, October. Between 2011 October and 2015 August the uptrend line acted as a support level.

In 2015 August the DOW moved below the uptrend line and the trend line now acts as a resistance line. The trend line is projected into the future and it will continue to act as a resistance level.

The second feature is the well-established trading band. The lower edge of the trading band is near 15,600. The upper edge is near 18,300. The width of the trading band is measured and then projected upwards. This gives a target near 21,000 for the DOW. This is a long term target. The DOW is making new highs but there are technical chart features which limit the way the DOW moves to achieve the 21,000 target.

The third feature is the uptrend line starting from 2016 February. The slope of this new trend line is different from the slope of the long term uptrend line. The result is an ascending or rising wedge pattern.

A rising wedge is a bearish pattern that signals a high probability that prices will collapse and head in a downward direction. As the price moves towards the apex of the pattern the momentum weakens. A move below the lower support is a reversal in the upward trend. These two lines intersect around July 2018 so there is plenty of time for continued bullish action.

When these three features are combined it provides information about the way the DOW breakout above 20,000 will develop. The long term trend line will act as a resistance level. We continue use the ANTSYSS trade method to extract good returns from these index movements.