DOW RALLY REBOUND CAUTION

By Daryl Guppy

The DOW retreat was large, but not unexpected. The retreat presented a buying opportunity, but not for a long term up trend continuation. DOW trend weakness remains significant. This is confirmed both with chart analysis, and with some fundamental analysis. 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 and new feature is the uptrend line starting from 2016 February. This is the first anchor point. The second anchor point is the July low. The third anchor point is this weeks collapsed. The slope of this new trend line is different from the slope of the long term uptrend line that starts on 2011 October. 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. The trend lines of this pattern converge, with both trend lines slanted in an upward direction. the price movement is bounded by the two converging trend lines. As the price moves towards the apex of the pattern, momentum is weakening. A move below the lower support is a reversal in the upward trend.

This wedge pattern develops within the context of two other patterns that are also not bullish.

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 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. The DOW would pull back to this level and then rebound and continue the uptrend.

In 2015 August the DOW moved below the uptrend line. Many people believe that when this happens it means a new downtrend starts. This is not correct. It means the nature of the trend has changed and with the DOW it means the trend line now acts as a resistance line. When the DOW rallied in 2015 November the trend line acted as a resistance level. The trend line is projected into the future and it will continue to act as a resistance level.

When these three features are combined it provides information about the way the DOW breakout will develop. The long term trend line will act as a resistance level. There was a high probability the DOW would retreat and retest the upper edge of the trading band near 18,300 before a rebound rally moves up to test the trend line as a resistance level. This has developed, but the retreat confirmed the lower edge of the trend line in the wedge pattern.

We continue use the ANTSYSS trade method to extract good returns from these index movements.

The weakness of the breakout is confirmed with fundamental analysis. The DOW has added around 1000 index points in 2016. Three stocks, 3M, IBM and United Health have contributed 54% of that gain. A total of seven stocks make up 97% of the year to date rise in the Dow 30. These are Johnson and Johnson, Caterpillar, Exxon and Chevron. The fundamentals of this rally and the retreat confirms the chart analysis.