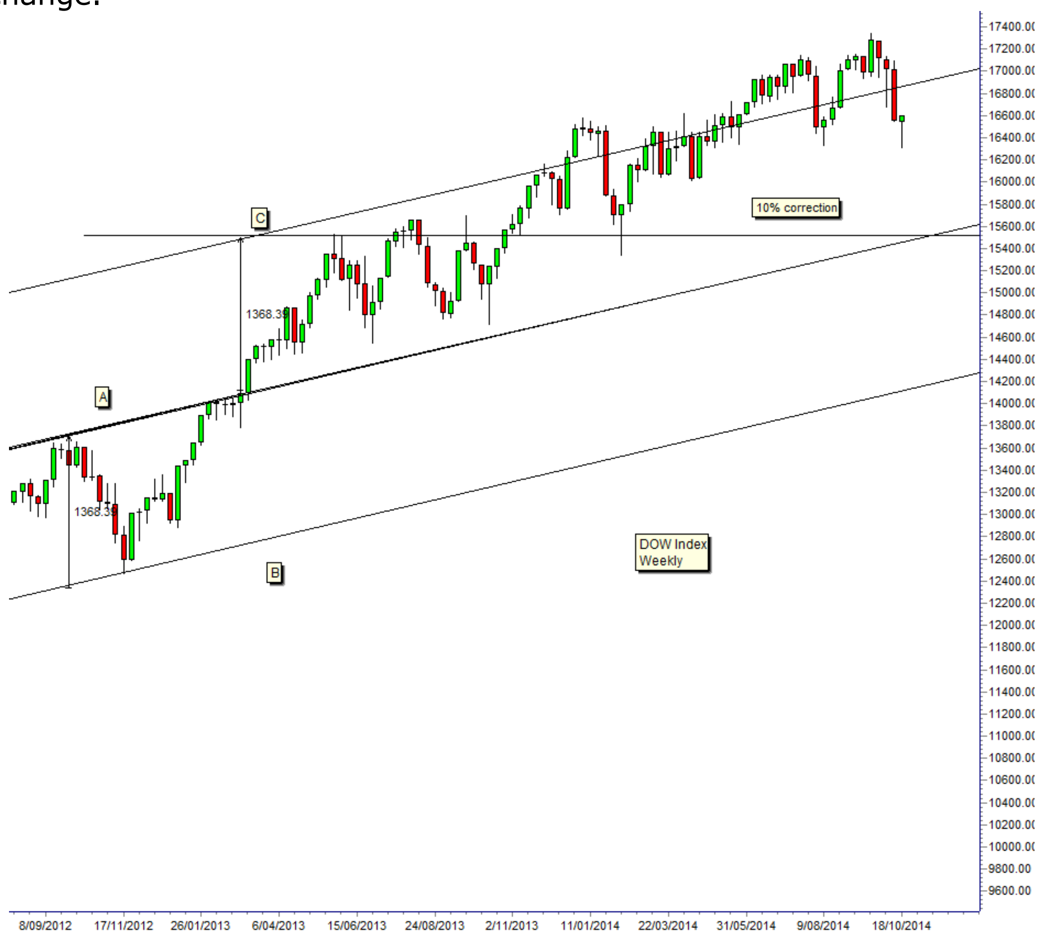
DOW: WHY WORRY?

By Daryl Guppy

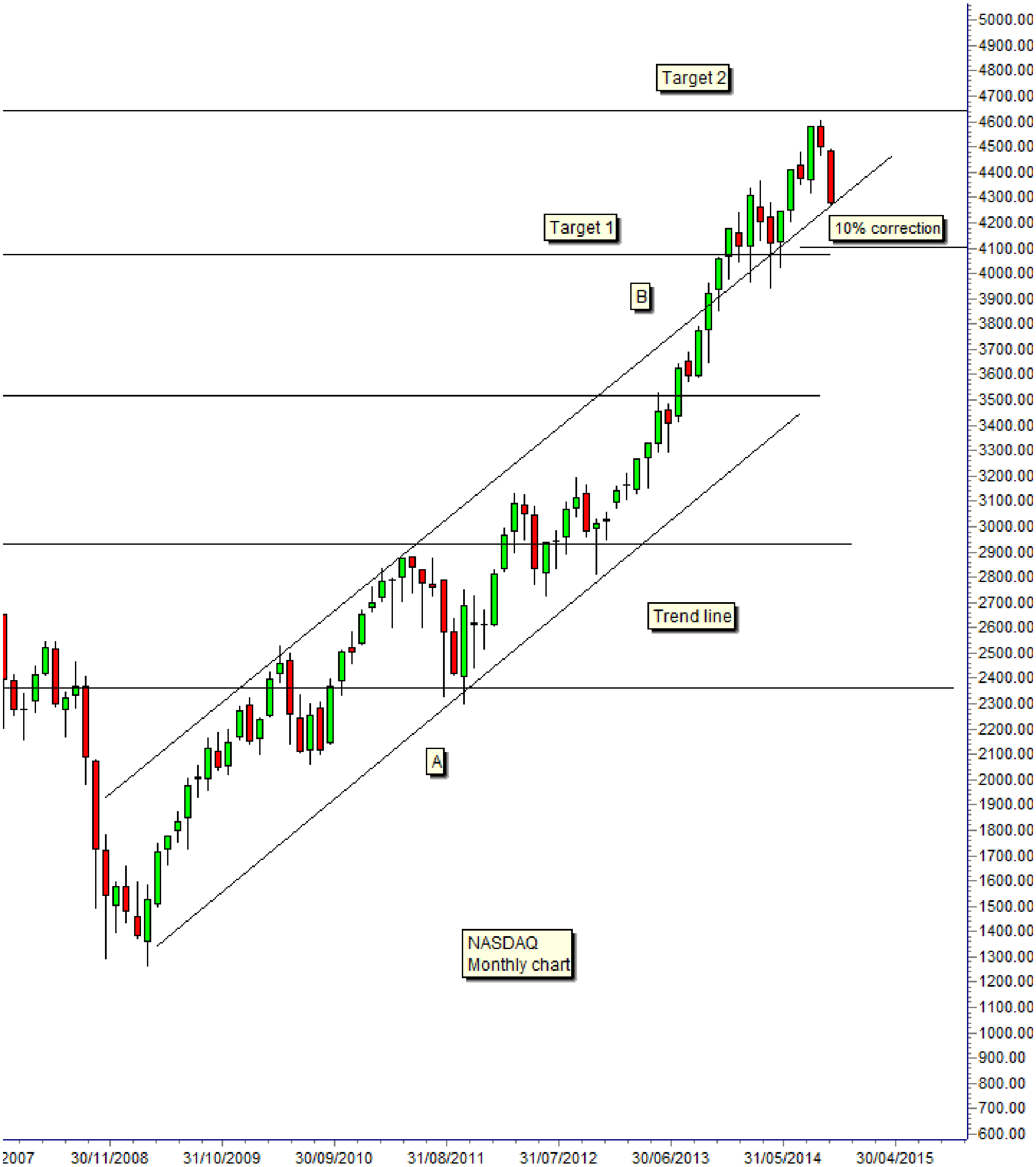
The US market has been running hot for months. It’s a well established and long term sustainable trend propelled by funny money available at virtually no interest. Fundamentally its suspect, but technically this has been a trading opportunity not to be missed.

I have been calling the DOW, S&P and NASDAQ higher for months in CNBC columns. Since the beginning of 2014 I have been castigated by readers for this bullish optimism. I have also warned that these markets will pull back and that a 10% correction is a buying opportunity.

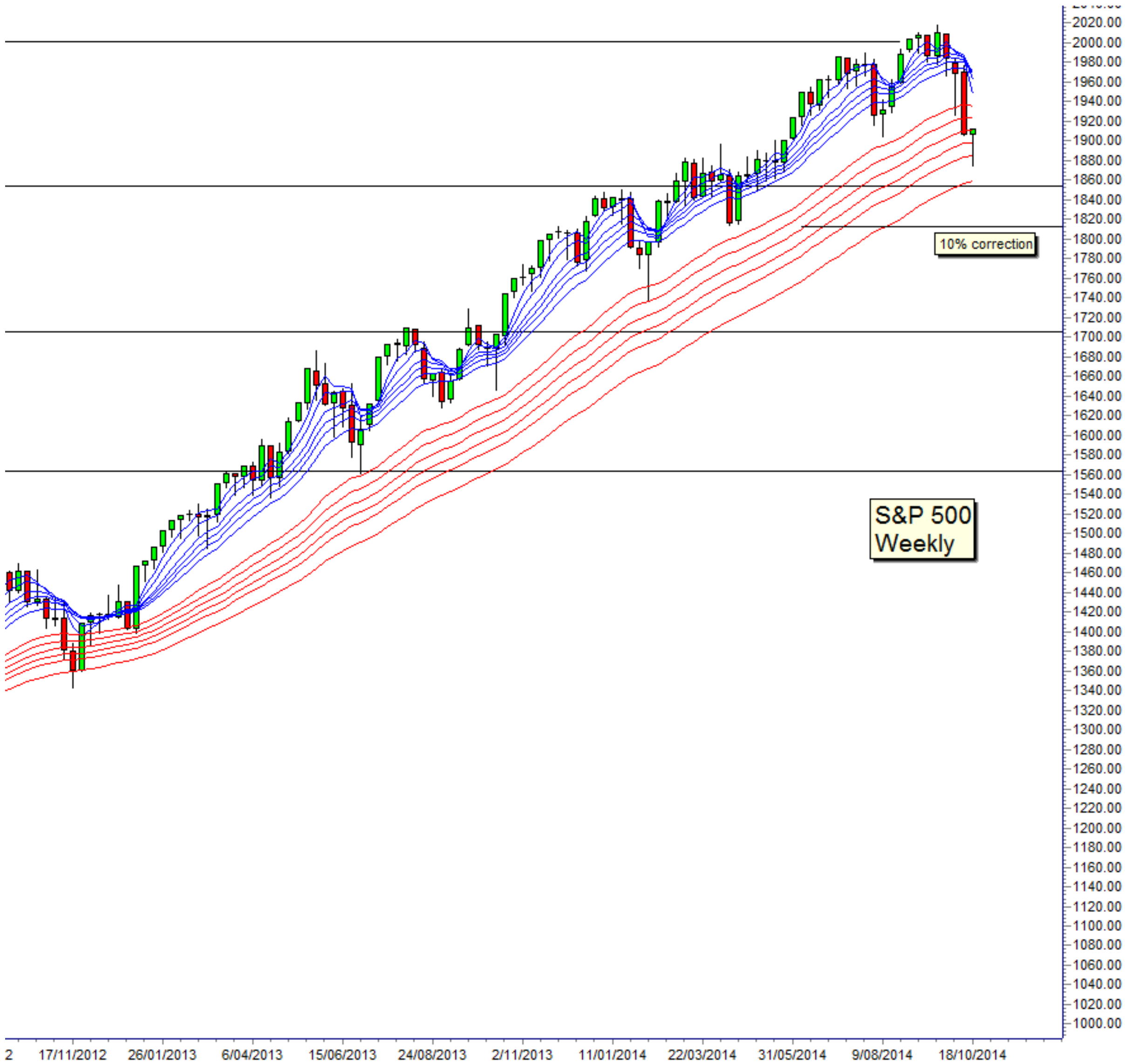
So what does 10% look like? Forget all the screams and wails from uninformed commentators who do not know how to read a chart. Understand where a 10% pullback is located and you have the opportunity to take advantage of this temporary correction in the trend. A fall below 10% is a signal of a potential trend change.



A 10% correction in the DOW bring the market back to the centre line of the long term uptrend. That’s still bullish in anyone's language.



A 10% correction on the NASDAQ brings the market back to just above the support level and still well within the long term up sloping trading band.



A 10% correction on the S&P is more serious. This would drop the S&P below the support level near 1850 and also below the lower edge of the long term GMMA. This development would signal a high potential for a major trend change. The S&P is the canary in the coal mine.

Fundamentally the biggest threat to markets is Ebola, not ISIS. Ebola has the capacity to rapidly overwhelm health systems and paralyse work environments.

You have a choice. Join the screaming chicken little's or watch the charts and act accordingly. I know what we will be doing.