S&P TREND STRENGTH TO CONTINUE *By Daryl Guppy*

In late 2014 the market was alive with chatter about the dreaded Hindenburg Omen which was supposed to foretell the collapse of the market. In notes at the time we explained why this analysis was so much clap-trap. Subsequently the S&P added 33%. Now the media is awash with the idea that the S&P is in danger of imminent collapse. This recent talk is just a specious as the Hindenburg omen.

Markets do not suddenly collapse out of the blue, or because some magical number is reached. Markets most often give clear signals of weakness and these shows up as end-of-trend chart patterns.

The most common patterns are:

- Head and shoulder reversal pattern. This is a long term pattern best seen on weekly charts. It takes months to develop. It is a very reliable pattern both for indicating a trend reversal and for setting downside targets. This pattern is not on the S&P Index.
- A rounding top pattern. This is also a longer term pattern developing over several months. The pattern is confirmed by a break below the support level and the downside targets have a high probability of being achieved. This pattern is not on the S&P index.
- Significant and sudden compression in the long term group of averages in the Guppy Multiple Moving Averages indicator on a weekly chart. This is not seen on the S&P chart. In fact we see the opposite, with the long term GMMA well separated which indicates strong investor confidence. Additionally the separation between the short term and long term groups is wide and consistent. This is another bullish signal.

- A break below a long term up trend line that has been used as a support level. This is a very low probability on the S&P chart with this trend line around 120 index points below the current index value.

- A blow-off top pattern. This is a buying climax with a dramatic increase in the index value and significantly higher volume.
- A move below critical support levels. The S&P is making new highs so support levels are difficult to identify. However the S&P has a consistent history of trading in well defined trading bands. These projected levels have acted as resistance and support level. The S&P index retreat from 2400 is also a retreat from the trading band target level. Consolidation around these trading and target levels is common. The trading band support level is near 2260.
- A large increase in the VIX which indicates the market is expecting a significant change in trend.

A careful analysis of the S&P chart shows no end-of-trend patterns and this suggests that there is a very low probability of a major change in the trend.

However this does not rule out the potential for a retracement and consolidation. This behaviour is common in all uptrends and provides a good buying opportunity.

Investors wait for the market to potentially test the lower edge of the short term GMMA near 2300. A rebound from this level is a buying opportunity for a continuation of the uptrend. A breakout above 2400 has an upside target near 2530.

The target is calculated by using trading band price projections – a method we have successfully applied to the S&P to set targets since 2011.