S&P TARGET 2390 AND 2520

By Daryl Guppy

In the days before Google maps, giving directions was an art. The best directions included advice for when you had gone too far and for when you had taken a wrong turn. The worst directions included the phrase "You cant miss it."

Despite advances in technology, providing long term outlooks for the market remains in a pre-Google age. They are either too tentative to be useful– the market will reach 6000 in 2017 when its currently trading at 5900 – or outrageously optimistic – the market will reach 7500. Often its fiction built of guesswork and that's if the method is explained at all. In most cases it's a call based on faith with no way-points to use to decide if the call is correct or failing.

Chart analysis provides us with an objective methodology and identifies trigger points and way points which confirm when we have taken significant steps towards the target conditions, or when the conditions have failed. This includes the Nikkei target of 19,000 set 4 weeks ago and achieved this week. In the past 12 months 72% of the targets we identified in this column using these methods have been achieved.

We are traders so our usual focus is on short term trades lasting weeks or perhaps months. This week we look at the framework for longer term targets in the US Indices. The same analysis methods are applied to the DOW, the S&P and the NASDAQ and use a monthly chart.

The first feature on the S&P is that there has been a strong secular uptrend in place since early 2012. The uptrend acted as a support feature until around September 2015 when the index dropped below the trend line. Now the trend line acts as a resistance feature capping any future rises. This remains bullish but provides upside limits to the trend behaviour.

The second feature is the influence of trading bands. On the S&P these are around 130 points wide. They are not an exact measure and they are more usefully applied on a weekly chart where prolonged support and resistance behaviour is more clearly seen. However this trading band analysis provides a method to set upside targets for the S&P. The target near 2260 set several weeks ago has bene achieved. The next target is near 2390. Beyond that then next target is 2520.

Applying the same analysis methods to the DOW gives a 20,800 target and then 22,100. For the NASDAQ the trading band is around 558 points. The targets are 5800 and 6358.

This analysis does not provide a time frame for the targets and nor does it provide an indication of how the target will be achieved. The progress may be rapid, or a steady rise as shown with the S&P between September 2012 and March 2015. This longer term strategic analysis provides a framework for individual trades.

The upper edge of the trading band tells us when index activity is significant move towards the target. The lower edge of the trading band tells us when the index has taken a wrong turn.

We use the ANTSSYS trade and analysis method to identify the trading opportunities because the rise may include heart stopping collapses and rebounds as seen in October 2014. That fall rebounded form the uptrend line but had it continued it would have signalled an exit form long term long positions. This would have eroded profits by as much as 160 index points and as a trader that is unacceptable.

We use the monthly chart for strategic analysis, but we use the daily chart for trade identification and trade management. The sum of individual trades delivers a superior return to a single Index tracking investment. We use Index ETFs to park trading capital until it’s needed.