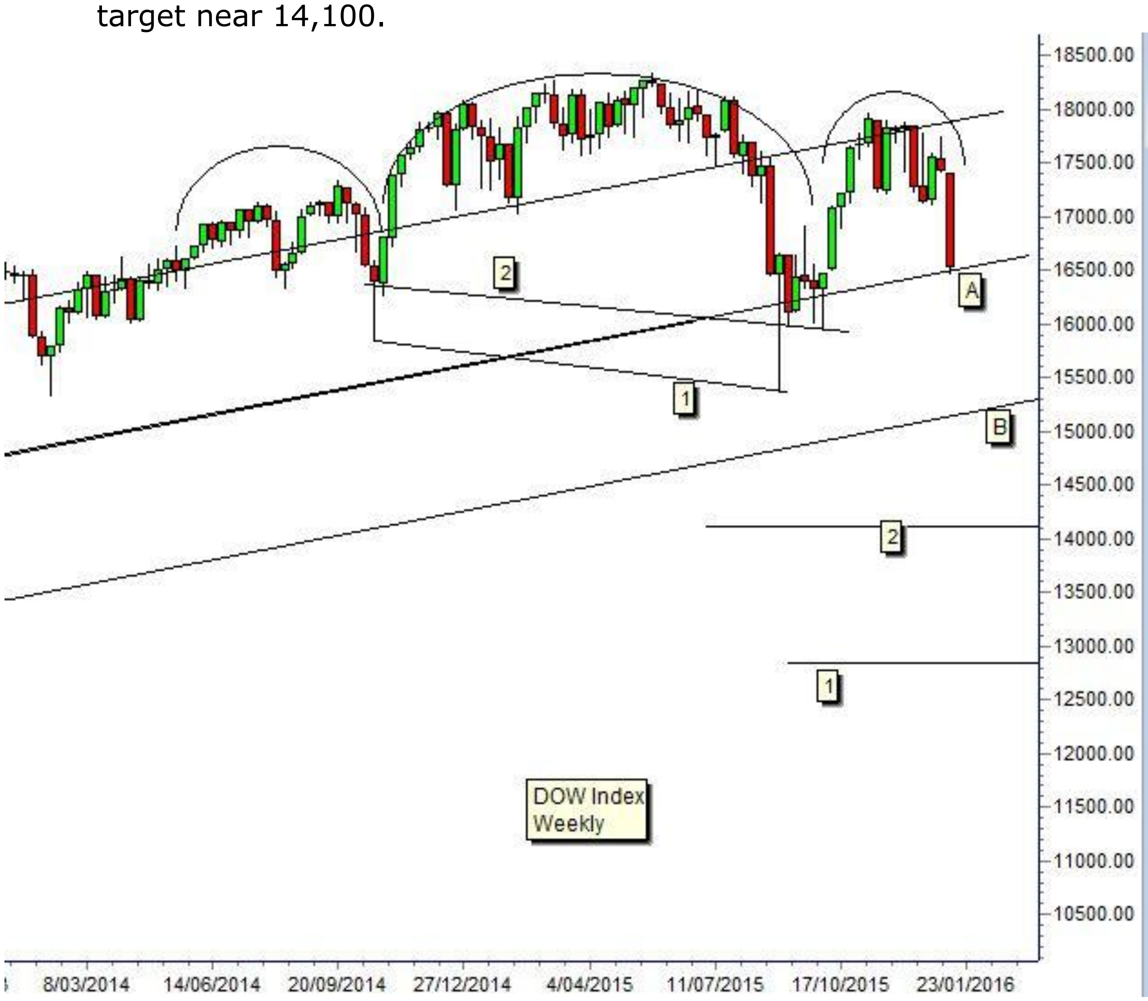
DOW AND S&P

By Daryl Guppy

This remains a story of two markets, with the DOW showing a stronger reversal pattern than the S&P. There are times when traders need to clear all the old analysis lines from the chart and start with a fresh naked chart. This is one of those times.

DOW

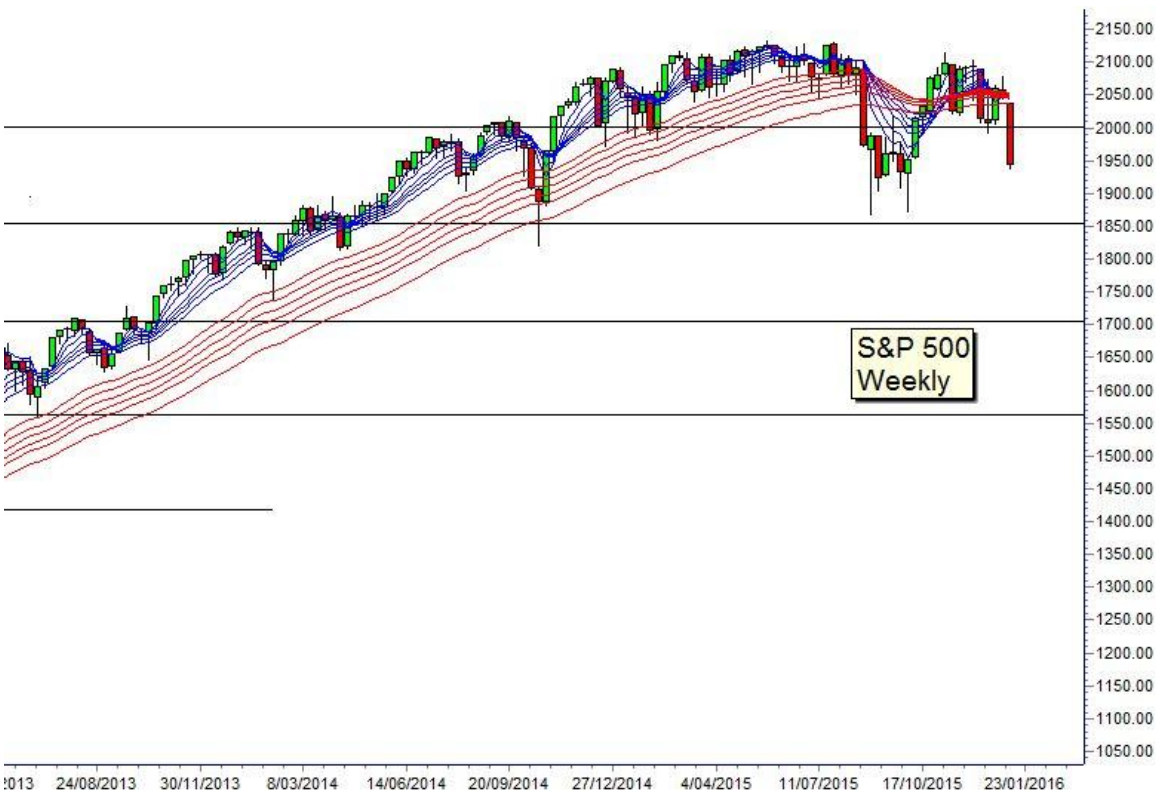
- The DOW has developed a strong head and shoulder reversal pattern. The pattern is confirmed with a sustained fall below 16500.
- The 16500 level is the value of the trend channel line A.
- Theoretical support comes from the extended value of channel trend line B. This is currently around 15,200.
- Using the extremes of the head and shoulder pattern lows (calculation 1) sets the downside target at 12,850.
- Using the close of the head and shoulder dips (calculation 2) sets the target near 14,100.



There are three downside targets, each of which may offer a consolidation point. We can argue about the best target, but the long term message from this chart is clearly bearish.

S&P

- The S&P does not have a head and shoulder reversal pattern.
- The S&P shows a significant crossover of the GMMA group of averages – the first time in three years.
- The pattern of support and resistance in the market rise gives a choice of downside targets. They are:
    - 1850
    - 1700
    - 1560



The S&P chart does not provide enough information to determine the most probable downside targets. However the change is trend is fully confirmed with a close below 1850.