

EARLY WARNING UPDATE

By John Atkinson

(Editorial: The following article contains extracts from John and Jim's own weekly Report, based on the prices as at the close of 7 April).

In the current market, Jim Berg does **NOT** have a red JB Caution in place and we have **NOT** had a recent key reversal signal on *weekly charts* in the USA markets by Jim's definitions.

However, 8 weeks ago, in Edition 602 of our '*Investing & Online Trading Report*', Jim drew attention to the USA bubble and wrote "... *I believe we need to be cautious as there is a potential market bubble and it will be difficult to trade even in this rising trend...*"

In Edition 605 I provided an update after the strong gap up in USA on 1 March and wrote;

"How steep can these go before they fall over? We do not predict the market. We work on the balance of probability and react accordingly to price moves.

Obviously, markets do not continue to rocket upwards forever. Eventually they run out of momentum and they are either:

- Retrace and take a breather within the rising trend, or
- Retrace further and switch from a rising trend to a falling trend, with a bubble 'burst'

Markets very rarely reverse as a 'crash' without warning. Rather, often there are early warning signals - e.g. stocks and Indices may start to roll over beforehand before they go into freefall"

Three weeks later, in Edition 608, I flagged what I believe to be an '*Early Warning Signal*' on 4 main USA Indices - in the form of a '*Bearish Engulfing Pattern*':

"This week, on Tuesday 21st March, the USA markets did give an early warning signal - in the form of a *Bearish Engulfing Pattern*.

As background; before we launched ShareTradingEducation.com in 2004, I wrote a series of articles for Daryl Guppy's newsletter. These were later collated into an ebook as the first item on our website, called '[The Atkinson-Guppy Articles](#)'.

In an article titled '*Exit Efficiency*', on Page 105 of that ebook, I documented various early warning exit signals and exit strategies ahead of bear markets, most of which still apply today, including the:

'Bearish Engulfing Pattern



This pattern often dramatically signals the end of an uptrend..... Prices open higher than the previous day's close, then are sold down, closing below the previous candle's open, thus the current period's solid red body engulfs the prior candle's open body.

Only the main body is important in the bullish engulfing pattern, with both upper and lower shadows being ignored. Prices typically plunge steeply after this pattern.

Usually traders wait for confirmation of the candlestick reversal pattern to avoid unnecessary whip saws. `

The updated *daily* charts below of the 4 main USA Indices show the *Bearish Engulfing Pattern* early signal (*marked with arrows*) of Tuesday 21st March 2017, with my latest comments:

The Dow Jones recently failed to get back above the 21,000 round number and continues to consolidate around 20,600.



Dow Jones Industrial Average

The S&P500 also recently failed to break above the Highs of early March, retraced, rebounded and is consolidating around 2,360.



S&P500

The Nasdaq was also recently resisted, retraced to a nearby support level of ~ 5800, then rebounded. It continues to sit just under resistance set by recent Highs.



Nasdaq Composite

The Russell 2000 was also resisted around the High set on 1 March and continues to sit just above a longer term support level of around 1350



Russell 2000

We will continue to monitor and report on these markets for Members of our weekly Report. In particular, if these Indices break support and continue to fall, this will add confirmation to the early warnings of their daily Bearish Engulfing Patterns shown above. Correspondingly, breakouts above the levels set on in March would cancel those early warnings.

Again, there is no cause for alarm at this stage.....

In the meantime we recall a phrase quoted by a professional fund manager we met years ago "*Trade what you see, not what you feel*".

For instance, in Jim Berg's [Australian Trading Signals Service](#) this week, Jim achieved two short term Profit Targets of over 15%#, as shown on the following charts:

- i) **Whitehaven Coal (WHC)**: Entered at \$2.81 on 14th February; exited at \$3.27 on 4th April at a **16.4%** profit target *in 7 weeks*#.



ii) **Challenger(CGF)**: Entered at \$11.08 on 30th January; exited at \$12.74 on 5 April at a +15% notional profit (+16.5% with dividend) in 9.3 weeks#.



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