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ROHR ALERT!! The Long-Bomb and the Sharp Pencil

1 message

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Dear Subscribers,
We have been happy to field a few compliments of late on our recent major projections coming to fruition repeatedly in hypervolatile markets. That is not to boast, as we are always humble and simply appreciate any time the markets cooperate with our overall perspective and technical Evolutionary Trend View.

Those major sizable projections (which we also make across longer time frames in less volatile markets) are like American football quarterbacks who can throw the ball with precision nearly the length of the field… the proverbial 'long-bomb'.

Old Oakland Raider quarterback Daryle Lamonica threw so many long passes before many teams did that, he was nicknamed 'The Mad Bomber'. Yet clearly the operative term there is 'with precision' to connect with the receiver on a definitive 'pass route'. That is like the 'sharp pencil' technical projections in the markets.

We are coming to you a bit later than usual in order to see and assess somewhat dated yet still relevant April US Wholesale Trade Sales. While a bit of a rearview mirror indication in the context of Friday's US Employment report major upside blowout, it is still dire in showing a 16.9% decline versus an estimate of only 4.0% lower. Along with other data, it seems to belie any strong US picture.

And after Monday's 'Social Shift or Just a Blip?' ALERT!! major review of the cross currents on the COVID-19 pandemic issues, economic data variables and potential broader social shift that could affect November's US general election, all of that remains much the same. As such, it seems there might be some utility in discussing the technical side of macro-technical analytics. That is due to the 'macro' aspect already being well-reviewed in Monday's and other ALERT!!s.

There is a possibly over-simplified, yet nonetheless true, major axiom on the effective trend analysis process: "*Pre-decision trend analysis should always be 'top-down', and post-decision trend analysis should always be 'bottom-up'*."

This is in any event instinctive for most, yet not all, analysts, traders and portfolio managers attempting any meaningful risk management. We started our analytic career in the pre-electronic quote era as a 'runner' (order clerk) on the old Chicago Mercantile Exchange (check it out https://bit.ly/2Yme8aW ...may need enlarging.)

Yep, those are the latest trade quotes called up to folks on catwalks marking them on chalkboards. The arena beneath the 'CME Group' label is the dear departed Pork Belly futures pit. The 'Bellies' were the frothing mad dog of agricultural futures back in the day due to their high volatility. This was natural as the pork cut that gets turned into bacon (in the US, 'rashers' elsewhere) is, after all, a half a pound of fat. This is the basis for their erratic near-term and overall behavior.

Yet from an analytic training standpoint, this was excellent training for fine line ultra-short-term trend analysis. It took a lot of practice in self-kept charts, as there were naturally no electronic histories to bring up charts on screens yet either. Also clearly the rigor required to show the patience and fine line technical view to analyze and trade the volatile Bellies was excellent training for the incremental advent of volatile financial futures; from currencies into debt and finally equities.

Given early training was only on the short-term, how did one evolve from there? Well, with the assistance of talented mentors. My financial market friends and I are forever grateful to these folks for their guidance going up the learning curve when short-term expertise and views were no longer adequate to understand the broader context of the trends. They were like Sherpas assisting us with the hard slog up Mount Everest… and starting from floor scalping, it felt that daunting.

However, ultimately 'widening the lens' to include somewhat longer-term charts and additional techniques for trend following along with 'overbought-oversold' indications, we were able to put the markets in the long-term context. And getting back to where we began, that long-term view ultimately can be an extremely extended ultra-long-term analysis. As an example, when I produced an analysis to assess the breakdown of the DJIA in 2008, the longest term up channel projection had to be taken from the July 1932 40.56 all-time trading low… not a typo.

Of course, going back that far is rarely necessary. Yet even in the current S&P 500 future trend context, we are assessing the trend out a 2015 sideways churn into the 1,802.50 last February 2016 trading low prior to the overall bull of the last four years into the February 2020 new all-time high. From that we garnered a lot of history which proved to be very useful on the way down and the way back up in recent hypervolatile activity (more below, especially the weekly chart through last Friday with indications.) Along the way we used daily and intraday charts as well.

In the most recent examples of those shorter-term projections assisting clients, look at how instrumental the understanding back in March of the importance of the 2,620 area was in the front month S&P 500 future. That was already important recent historic congestion and other indications when the S&P 500 Broke DOWN through it in March and recovered back above it in early April. Likewise for the interim higher resistances in the 2,750 and 2,850 areas which were useful on the way back up, as well as the more major 2,970-3,030 range violated of late.

As important now is the understanding that above that level the next resistance was the 3,200 area, which it only took the market five trading sessions to reach after the weekly Close above it on May 29th. That's an obvious recent example of how to take advantage of the 'long-bomb'. Yet we also have a fine-line Tolerance (weekly Close as usual) of 3,230 on that general 3,200 projection. And while anything can happen, it is of note that this has been the effective trading high for the past couple of sessions at the top of a $200 rally (from the last pullback low into the 3,030 area last week Tuesday.) Not to boast; just an observation.

However, we use a 'fractal' approach that includes technical analysis techniques being portable across time frames. As such the 3,230 area seemed obvious on the 'drill down' from the longer-term charts into the daily and intraday activity back in January and early February (as well as the 3,231 June S&P 500 future annual Close for 2019.) Much above that level it might be capable of pushing back up to the higher congestion in the 3,330-40 area. If not, it might dip back down.

And once any definitive view is taken, it is important to monitor the short-term charts and indicators as well. That will assist in knowing whether the longer-term Evolutionary Trend View is conforming, or reversing previous trend indications. The latter is what happened to the bears on the recent S&P 500 attempt to top out from below the 2,970-3.030 range (as reviewed at length in the video below.)

The balance of Evolutionary Trend View on broad-based macro background and psychology and technical trend ideas remains the same as Monday's analysis.

Anyone interested in a more extensive view of how fledgling trader in the old days used to expand their perspective and develop sharp timing skills would do worse that a read of 'Reminiscences of a Stock Operator' by Edwin Lefevre (https://amzn.to/2A8p1W1 Amazon link.) It is allegedly the fictionalized business biography of legendary early 20th century multi-market timer Jesse Livermore.

For anyone with more of a quantitative headset that would like to know more about fractals in markets, the bible is Benoit Mandelbrot's 'The Misbehavior of Markets' (https://amzn.to/37hwoqb also Amazon link - to hardcover edition.)

Courtesy Repeat of Monday's critical consideration
COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Front month S&P 500 future was already back below key congestion around the mid-2019 3,030-00 previous all-time high congestion. That was below support from the push above the multi-year topping line at 3,070developments as well, and left a late-February intermediate-term up channel 2,970 DOWN Break.

The subsequent DOWN Break below the front month S&P 500 future 2,600 area major up channel seemed to indicate more of a near-term failure. That was from the early 2016 low (https://bit.ly/2MHIxfA updated through Friday.) That was the recent key higher resistance it had violated on its push above its 2,675 trading high Tolerance from prior to the DOWN Break (including monthly MA-48.)

As such, it is reasonable the June S&P 500 future will now treat the low 2,600 area (with a Tolerance to the mid-2,500 area) as support. And the front month S&P 500 future pushed out of the broad higher range top in the 3,030-2,970 area two weeks ago and sustained it, with the 3,200 area the next higher meaningful resistance that has a 3,230 Tolerance. That is obviously what the market knew once it exceeded the 3,030 area.

The key levels along the way were previously violated support at 2,850 area and 2,750 area, both of which had been exceeded. It held below the latter in late-April without ever nearing the 2,675 Negated Tolerance of the 2,600 area DOWN Break.

This left open the potential to retest that more prominent confluence of resistance factors in the 2,970-3,030 range despite previous slippage. That resistance was further reinforced by the manner in which volatility had returned to the downside from late April into mid-May. This created a more highly focused Evolutionary Trend View (ETV) in the form of a near-term Head & Shoulders Top pattern.

That pattern along with the other key low-mid 2,800 area technical indications 'confluence' is reviewed at length in our TrendVIew Video from late May (https://bit.ly/2XylbNn) on June S&P 500 future 'long arc' and shorter-term (04:00-06:40) developments. There is also comparison with a 2008 front month S&P 500 future recovery rally (07:10-11:30) with important implications for the current US equities decision.

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