

# Investment Insight : S&P 500 Positive Trends Illustrate a Buy Signal

---



The S&P 500 has certainly been in a bullish mood lately. After going into a near free-fall over the Brexit concern, the stock market index is now trending upwards with future prospects certainly looking bright for stock investors.

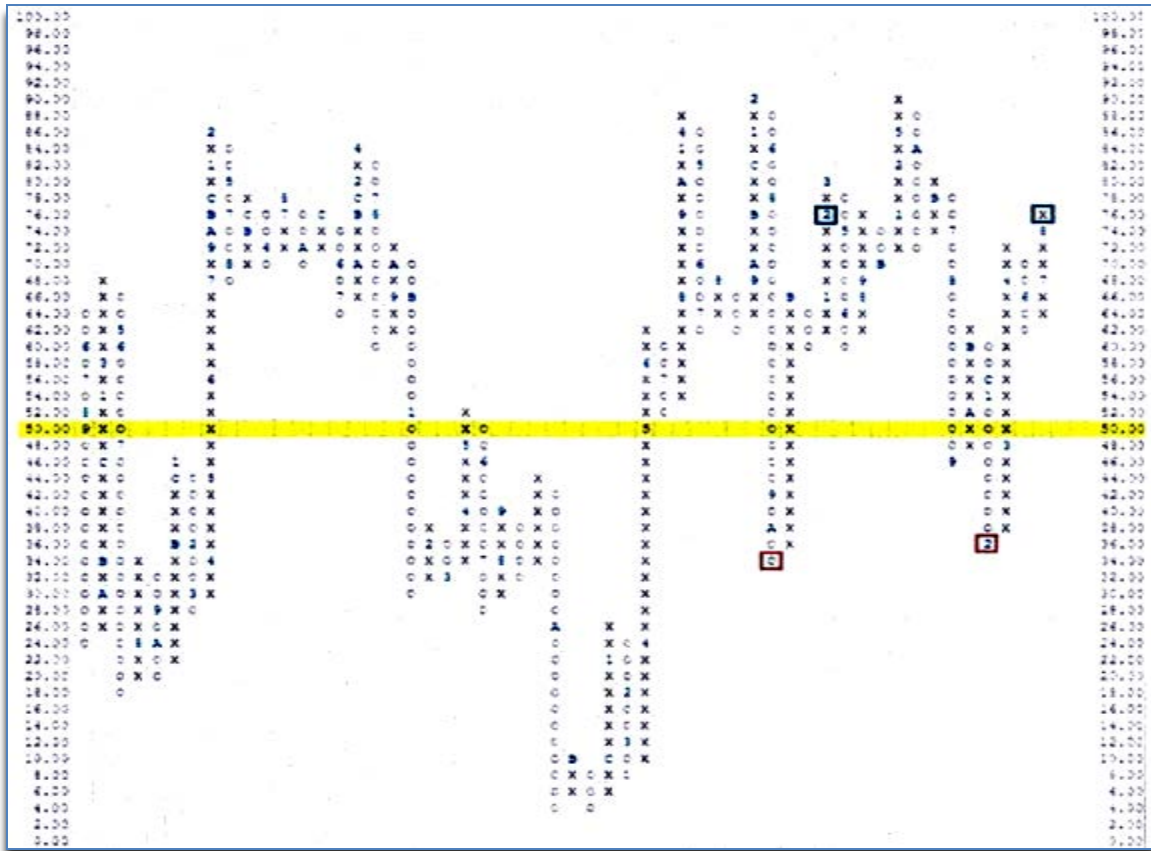
Investors Intelligence had stated last month that the positive sentiment among investment analysts has increased by more than fifty percent for the first time since 2015.<sup>1</sup>

While there are some analysts that warn investors that the market is overinflated and that a fall is in the offing, the percentage of doomsday, conspiratorial, and righteous bubblers has declined to the lowest level in the past two years.

One of the primary weapons that investors can use to assess market trends and risk is the point & figure charting that considers a security's price as the ultimate determinant of supply and demand. Looking at the point and figure chart below, we can clearly see that it is giving a strong buy signal.

---

<sup>1</sup> <http://blogs.wsj.com/moneybeat/2016/07/20/the-coast-is-clear-for-stocks-which-is-why-they-wont-go-any-higher/>



The chart currently illustrates that the market should be purchased on pullbacks rather than being sold.

From an investor's perspective, evaluating risk in the stock market is important and which requires understanding the reason behind a particular market trend. In other words, it's important to understand the factors that fuel upward movement or downward movement of stock prices.

### What Factors are Fueling Upward Movement in Stock Prices

Generally, stock prices fluctuate in the market because of the interplay between supply and demand. If more people are willing to buy stocks rather than sell it, the demand for the stocks is said to be higher than supply due to which prices move in an upward direction. The opposite happens in case more investors are willing to sell the stocks than buy them.

The interaction between demand and supply causes the prices to either go up or downwards. In general, this gives rise to two different markets.

- Bull Market – a market condition that occurs when the demand is more than the supply due to which stock prices trend upwards. It reflects a positive or bullish market sentiment.
- Bear Market – a market condition that arises when the demand is less than the supply due to which stock prices trend downwards. It reflects a negative or bearish market sentiment.

## **So, what are the factors that affect investor sentiments and make stock prices to trend upwards or downwards?**

The answer to this lies in figuring out what news make investors feel positive about the stocks' future growth prospects, and what news makes them pessimistic.

A number of factors or market news can be attributed to the current rise in the US stock prices. First, there is the prospect of low-interest rates continuing for the foreseeable future.

The Feds have kept the rates at near zero level for about a decade. While the current Fed Chairman Janet Yellen has made statements that point to a possible end of reliance on zero-rate interest rate policy by the Feds to boost the economy, the rates are still at a very low level.

Low-interest rates make fixed interest investment instruments such as government bonds and certificate of deposits unattractive to investors. As a result, they swap their fixed investment instruments for stocks. And this is one of the factors that are driving the US stock market upwards.

Another factor that is fueling upward drive of the stocks is the positive employment data. Investors look at employment figures released by the Department of Labor to gauge market activity. Latest statistics shows that payroll employment increased by 255,000 in July, while the unemployment has reached a record low of 4.9%.<sup>2</sup> This paints a positive picture about the level of economic activity in the country due to which market sentiment is upbeat that is making the stock market to move in an upward direction.

Apart from the above, there are many factors that indirectly affect US stock market prices. The sum total of their actions has continued to push the US stock market higher lately. It is certainly relevant to continue to pay attention to the global markets and see if strength can continue there as well.

## **Conclusion**

Investors should keep in mind that a bullish trend requires stability of stock prices. Our point and figure chart has been able to remain above 50% since March. At the moment, the reading is more than 75%, which indicates that 3 out of every 4 stocks listed on the S&P 500 index is trending upwards based upon point & figure charting.

That being said, the indicator did fall to 36% during the early part of 2016 due to the highly volatile market prices. This, in fact, was the lowest reading that was recorded in about five years. However, the indicator had remained at this level for a few weeks, and moved above the 50% mark quickly.

Today, the indicator is consistent with the period between early-2012 and mid-2015. This shows that the current market prices are generally stable. Based on this insight, we advise investors to remain cautiously bullish until there are significant signs of a reversal in the market sentiment.

**Disclaimer Notice:** This publication is solely the work of Michael Farrell for the private information of his clients. Although the author is a Manulife Securities Advisor, he is not a financial analyst at Manulife Securities

---

<sup>2</sup> <http://www.bloomberg.com/news/videos/2016-08-05/u-s-adds-255-000-jobs-in-july-jobless-rate-at-4-9>

Incorporated (“Manulife Securities”). This is not an official publication of Manulife Securities. The views, opinions and recommendations are those of the author alone and they may not necessarily be those of Manulife Securities. This publication is not an offer to sell or a solicitation of an offer to buy any securities. This publication is not meant to provide legal, accounting or account advice. As each situation is different, you should seek advice based on your specific circumstances. Please call to arrange for an appointment. The information contained herein was obtained from sources believed to be reliable; however, no representation or warranty, express or implied, is made by the writer, Manulife Securities or any other person as to its accuracy, completeness or correctness.