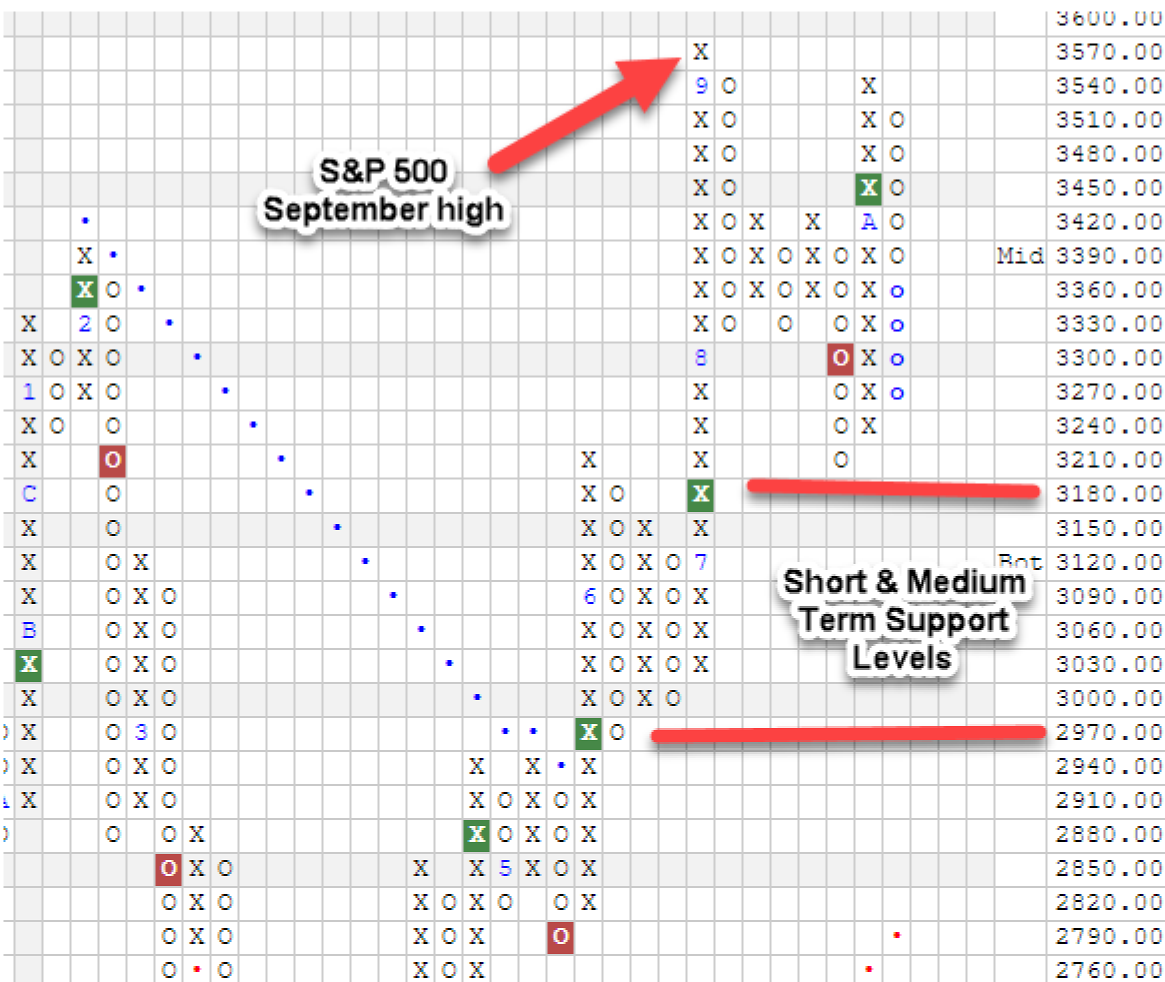
Volatility and Risk Increases – Again

We seem to be still recovering from the inordinate March drawdown which saw the S&P 500 move from 3,390 in February to a low of 2,220 in March. A very dramatic move in a short period of time. We also experienced a robust move back up to the old highs in a rather historic period of time. Has the reason for the March drawdown been eliminated? One could say no, but keep in mind markets are deemed to be forward looking. Perhaps, the S&P 500 is trying to say just that as it moved to new all-time highs in early September to above 3,570 followed by a short drawdown to 3,210 and a subsequent move back up to 3,540 – a lower high from early September. **Now we have another drawdown that looks to challenge the short term support area of 3,210** which we identified in the previous blog. We ended October 29 at 3,310. A move below this support area of 3,210 suggests more selling than buying continues. **We would then look to the next support area of 2,970**. Keep in mind that we do remain in Positive Trend for the S&P 500 as defined by the Point & Figure methodology that happened in May at 2,970.



We do see a move down in the primary indicator – The New York Stock Exchange Bullish Percent (BPNYSE) indicator - that measures the percentage of stocks that trade on the NYSE that are on Point & Figure buy signal. It did move back up to 58% which was below the August high of 68% and well below the June high of 80%. On October 29**, it moved back down to 48% - with 50% being the demarcation point**. It is currently above the May low of 44% and the September low of 46%. A move below 30% is what we classify as potential opportunity when it reverses up. Currently we are in a higher risk zone considering the volatility measurement (VIX) rising above 30.

There is room for some indicators to go lower now, so risk is elevated as we see the CBOE SPX Volatility Index (VIX) which derives its prices from the S&P 500 index options and is a key measurement of volatility move to a lofty 40 although much lower from the March high of 84. Moves above 30 have been areas of concern as we mentioned in the September 21, blog. It is currently below the June high of 44. We look forward to a reversal of this indicator from this level.

Finally, we continue to see the longer term **Positive Trend indicator** for the NYSE that measures the percentage of stocks on the NYSE in positive trend as defined by the Point & Figure methodology continue to reside around the 50% level – the demarcation point. **A move to 48% breaks that level and then you have both main indicators for the NYSE going lower below the demarcation point of 50%.** This consecutive movement has resulted in more downward movement in the past so it is another indication of risk rising.

So currently markets are moving lower along some main indicators. We are hopeful that the initial support area of 3,210 holds but risk increases with a move lower**. Market drawdowns have created opportunities in the past as we saw in March**. How this develops will be determined in the future.

Please call or email me any questions.

Point & Figure Charts and stock market data provided by Nasdaq Dorsey Wright