

## Volatility Returns – Simply Rotation?

We entered the month of September with an over-bought US stock market and it did not take long for a down movement to take hold in the US markets to reflect that state with the technology heavy Nasdaq 100 stocks leading the way. Without question, the Nasdaq 100 has been the major stock index leader for the last number of years and certainly this year. So, it is not uncommon for the leaders of the markets to lose the most in a momentum driven market.

**The CBOE SPX Volatility Index (VIX)**, which derives its prices from the S&P 500 index options is a key **measurement of volatility** and it spiked higher at the end of the 1<sup>st</sup> week of September from a low of 21 to a high of 38. It then proceeded to reverse down to 25. This movement, is still a long way from the March high of 84 but **should be observed closely when it trades above 30 as uncertainty increases**. A movement to a higher high of 39 would suggest more selling is likely to take place in the market whereas a movement back down to the low 20's would suggest more buyers may enter the market. It finished yesterday at 26.46.



Our main indicator, the Bullish Percent for **the NYSE (BPNYSE)** which measures the percentage of stocks on the NYSE that are on a **Point & Figure buy signal reversed down from 68% to 60%**. The June low is 52% and the May low is 40%. Where it ultimately reverses back up will establish whether we can realize a higher high for this indicator or a lower low. **Currently supply is in control as there are more sellers than buyers.**

One of our short-term indicators, The Bullish Percent in X's (BPINXS) for all 40 sectors in the Nasdaq Dorsey Wright US stock market universe, is currently at a very low level of 7 **which simply means only 7 of 40 sectors is moving higher with regard to their Bullish Percent.** This indicator can move from the bottom to the top fairly quickly as we just saw it at 34 in August. Hence, it is beneficial to consider where the average Bullish Percent sector is at. Currently it is at 52%. Its previous high was 62%. A move down to 48% would be a lower low and a move to 30% has provided resistance in the past. **A move back up for the BPINXS from an extremely low level has presented some good opportunities in the past.**

It is **worth noting that all markets are not created equal** as the Bullish Percent for Toronto has not reversed down currently but hit a multi-year high of 68%. The long-term Positive Trend indicator for Toronto is moving to new highs at 52%. **Perhaps this strength is reflected in the industrial sector with commodities like copper moving to multi-year highs at over \$3.00/lb** and the US\$ coming under selling pressure since March 2020. We do look forward to some of the US indicators reversing back up suggesting demand is coming back to that market. It has been a historic move up for the US market following a historic move down. As mentioned in prior blogs, **there appears to be very good support for the S&P 500 at the 2970 area followed by 2,790. It is currently trading above 3,300** so one would expect some back and forth activity if those lower levels are reached again. The more it goes directly down, the more panic it likely creates and the more potential for upside opportunity which we discovered in April. **We will continue to monitor the current cracks in some major US technology Companies and in the market in general— opportunity or otherwise.**

Please call or email me any questions.

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

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