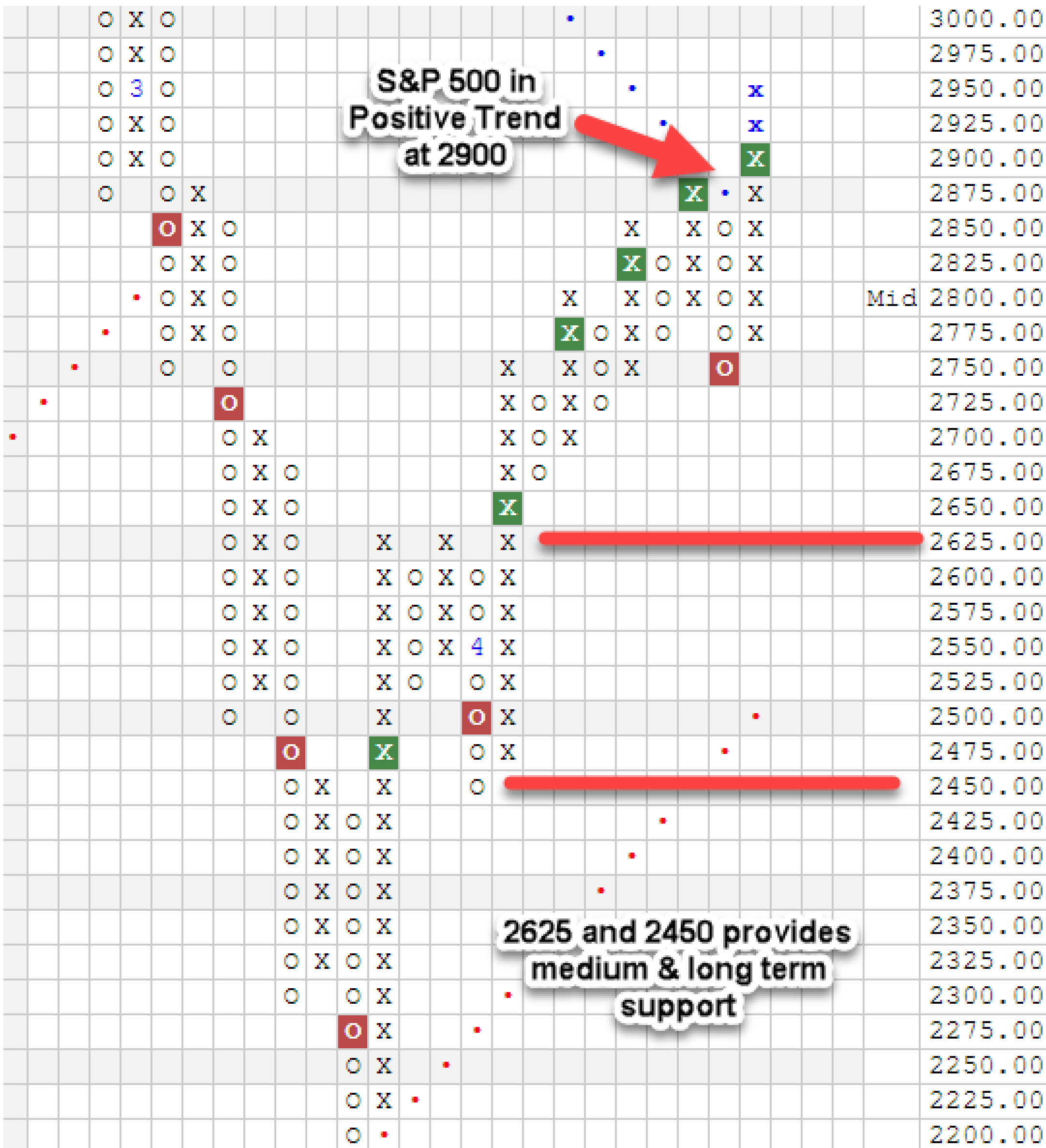
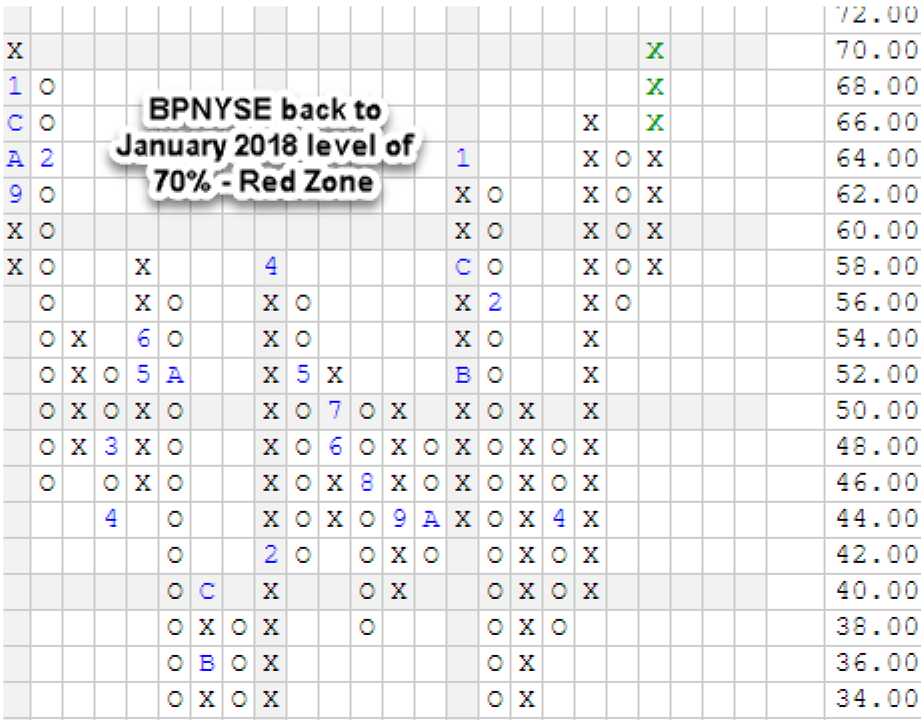
Is There a Disconnect?

WOW! Markets go down, markets go up. Does anyone really know what is going to happen next. In the end many say it always goes higher but there are some exceptions to that rule just like all rules. What we do know, is we had one of the steepest drops in history followed by a significant rebound when you look at the leading stock market – US S&P 500 or the Nasdaq. There certainly seems to be some sort of disconnect between what is happening in the real economy and what is now happening in the stock market. Is this market simply going to roll over and go back down? Nobody really knows for sure, but I suspect some would say that. Some people say a lot of things. So let's see what is really happening between buyers and sellers. When we look at the main **S&P 500 index, we see that it just went back into Positive Trend at 2900.** It went into negative trend at 2800 back in March. Whether we go back to the old February market highs at 3390 or go back to Negative Trend will be determined with time.



When we look at the main indicator, the Bullish Percent for the NYSE, which measure the percentage of stocks on the NYSE that are on Point & Figure buy signal, we see it has moved back into X's and it has reached the 70% level which can be classified as the red zone. Down movements from here can be significant especially if they move past the 50% demarcation point. **Right now, most stocks are moving higher and some have very attractive price levels.** With the recent downturn, good security selection can reap some good rewards.



The key to this market in the short term could very well be the percentage of stocks in Positive Trend on the NYSE as determined by the Point & Figure methodology**. Since 2000, this is only the second time it went below 26%. The other time was 2008 with the rebound in April 2009** on the Positive Trend chart along with the markets. Ultimately we want to get past the 50% level so we have some work to do. If we move past 30% level and never look back then we are out of the ugly part of the market. With all the money that the central banks are using to support the global economies, perhaps it will be awhile before we revisit these levels again. Only time will tell.

The gold run continues to make new highs. Gold peaked in 2011 around $1,920 and bottomed in 2015 around $1,050. It is currently trading over $1,700. Meanwhile, gold stocks that benefit from a rising gold price are trading significantly below their 2011 high on average. The gold exchange traded fund, GDX, for example, was as high as $65.00 in 2011 and is currently trading below $35.00. You can see a lot by watching price movement in my opinion.

Please call or email me any questions.

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

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