Morning Tack - Persistent Selling

Yesterday, someone sent us this tweet from stock market guru Ralph Acampora that read, “Monday’s intraday activity and its closes on the leading market indexes were impressive: it’s called a ‘key reversal-day’ on a bar chart and a ‘hammer’ pattern on a candlestick chart. They suggest that an important near-term low was made.” Now, for non-technical folks, a hammer formation in the candlestick charts is defined as follows:

“A hammer is a type of bullish reversal candlestick pattern, made up of just one candle, found in price charts of financial assets. The candle looks like a hammer, as it has a long lower wick and a short body at the top of the candlestick with little or no upper wick (see chart 1, page 2).”

Also suggestive that a bottom was made on Monday was what our deceased friend Ralph Block used to term a multi-swinging session. To wit, “Ralph was a huge fan of a crater opening, multi-swinging session that ends near the high of the day. Looks like it was just what he would have wanted!” We would add that the McClellan Oscillator is pretty oversold on a short-term basis (chart 2, page 2). Likewise, the Russell 2000 is some 10% below its 200-day moving average and, therefore, oversold (chart 3, page 3). And, don’t look now, but the energy complex is very oversold (also has a hammer chart formation – see chart 4, page 4) with the anecdotal evidence that a bottom is near with three large energy-centric hedge funds closing their doors.

As for the Dow Theory “sell signal” that are being trumpeted by some on the Street of Dreams, by our method of interpreting Dow Theory, there has been no “sell signal.” The problem is these folks are using the November closing low for the Industrials, which is the wrong reaction closing low to use. While it is true the D-J Transports notched a new reaction low last Friday, the D-J Industrials have not violated their March 2018 closing low (the right closing low to use). As such, what we have, according to Dow Theory by our method of interpretation, is a downside non-confirmation, which should be interpreted bullishly.

As for all of the questions about the “persistent selling” we are experiencing, it is due to the algos, tax loss selling, and hedge fund liquidation. Recall that many hedge funds only give their investors one time a year to pull their money from said funds. Those letters from the hedge funds tend to go out on November 15 with a “window” to pull your investment funds extending into December 31. Clearly, the hedge funds have had a really difficult year in 2018, and it is not being helped in the typically ebullient month of December. Remember, “If Santa fails to call, the bears will roam on Broad and Wall.” And there was this from the sagacious Jason Goepfert of SentimenTrader fame, “It’s not just Financials, Energy stocks have been faltering, too, with more than 40% at a new low. And fewer than 5% of them are above their 10-, 50-, and 200-day moving averages. There have been 23 days since 1990 when selling was this widespread.” If that sounds like capitulation, it should! So, unless we are into another “selling stampede” (this would be session six in what typically is a 17–25 session stampede), there should be a near-term bottom at hand. Yesterday, NYSE breadth diverged negatively after the NYSE opening. Apparently traders and algos bought the incessantly recurring US-China trade deal hype, but large institutions did not. On a positive note, President Trump says he would intervene in the U.S. case against Huawei’s CFO if it would secure national security interests, or help close a trade deal, with China. As Sophocles said, “Not knowing anything is the sweetest life.” This morning, the preopening futures are sharply higher on the president’s statement that he would intervene in the Huawei CFO incident if it will help with a Chinese trade deal.

Source: FactSet. Data as of 12/12/18 7:40 a.m.
Chart 1

Source: Stockcharts.com

Chart 2

Source: Stockcharts.com
Chart 4

XLE Energy Select Sector SPDR Fund NYSE
11-Dec-2018
Open 64.04 High 64.16 Low 62.43 Close 63.09 Volume 16.8M Chg +0.02 (+0.03%)

RSI(14) 36.04

XLE (Daily) 63.09
MA(50) 69.02
MA(200) 71.83
Volume 16,761,504

MACD(12,26,9) -1.302, -1.222, -0.079

Source: Stockcharts.com
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