

United-ICAP
the technical advisory service

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SPX Trend Reversals
20 Aug 2013



**Tracking Trend Reversals
in the S&P 500 Index:
an RSI sell signal**

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Tracking Trend Reversals in the S&P 500 Index

Main Points

1. Directional reversals on our roadways are very well marked affairs. There is no ambiguity about a U-Turn sign. However, directional reversals in the stock market are not so clearly signed. Such reversals must be extracted from the price action.
2. We spend most of our time doing Elliott Wave and classical chart pattern analysis. It is time consuming. It is labor intensive. It is tedious. There are no short cuts in this endeavor. There is no 'Elliott Wave Lite.'
3. We spend this time in order to forecast price targets, trend reversals, and key support and resistance levels. Price pattern analysis is the only set of tools in technical analysis that yields price targets.
4. However, using much more simple and straightforward technical tools it is entirely possible to identify major trend reversals in the stock market without the use of price targets or chart pattern analysis.
5. In this report we will explore the use of the 'Relative Strength Index' and simple trend lines to identify major trend reversals in the stock market. To keep the size of this report to digestable proportions we begin from the 2002 lows.
6. We will show that a weekly RSI may be all that one needs in order to identify a major bottom in the stock market, and right off the lows. However peaking action is another story.
7. Since the bursting of the Dot-Com bubble, and compared to peaking action, major lows have been very fast moving events. If one gets bullish RSI divergence on a weekly chart one should jump on it without delay.
8. However from the Dot-Com bubble the US government has been in the business of propping up the stock market. So since the Dot-Com event major peaking action has become a long, drawn out affair.
9. In other words, major bottoming action happens in fast forward while major peaking action happens in super slow motion. One needs quick reflexes to catch a bottom. However one may need lots of patience to catch a top.
10. At the recent 1709.67 high the weekly RSI gave a divergence sell signal. However the multi-year up trend support line from the October 2011 low at 1074.77 has not yet been tested, much less broken. See pages 8 and 9

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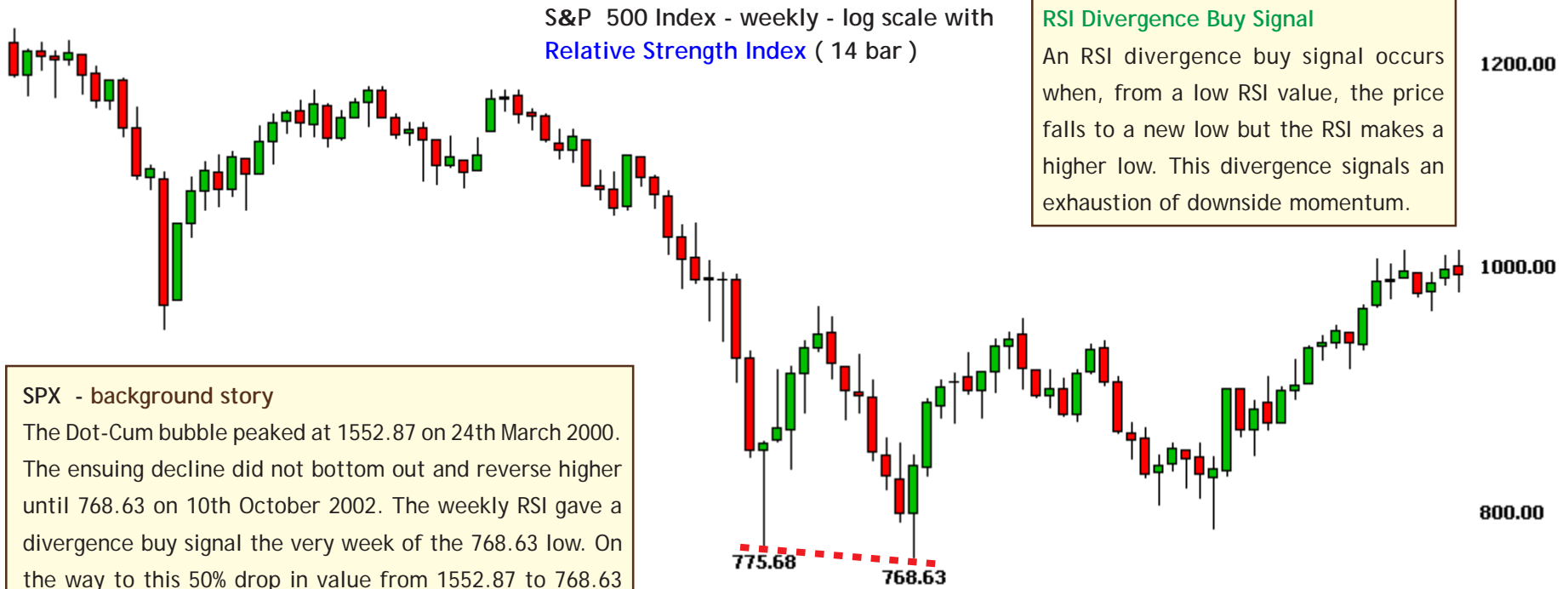
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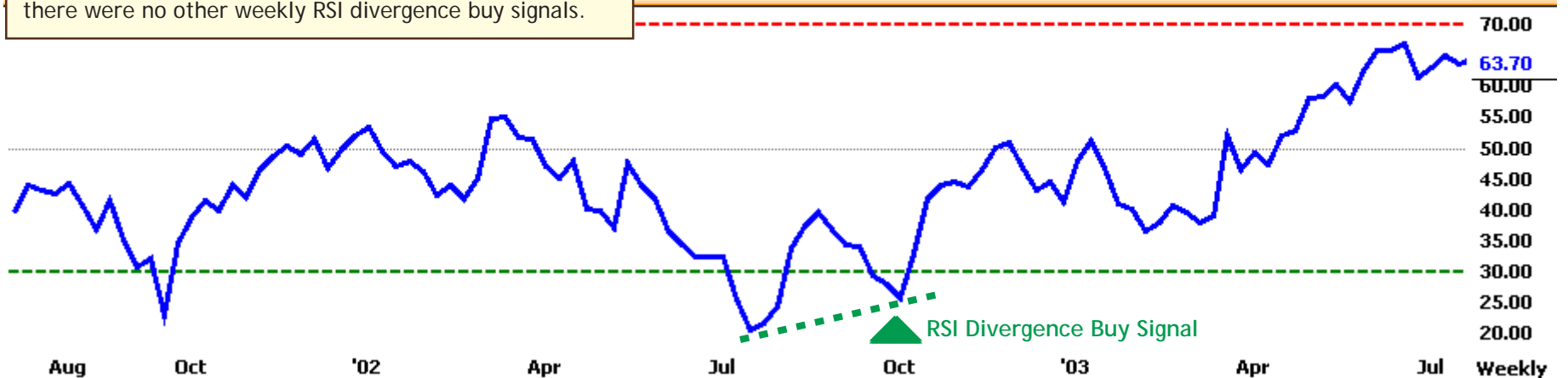
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S&P 500 Index - weekly - log scale with
Relative Strength Index (14 bar)

RSI Divergence Buy Signal
An RSI divergence buy signal occurs when, from a low RSI value, the price falls to a new low but the RSI makes a higher low. This divergence signals an exhaustion of downside momentum.

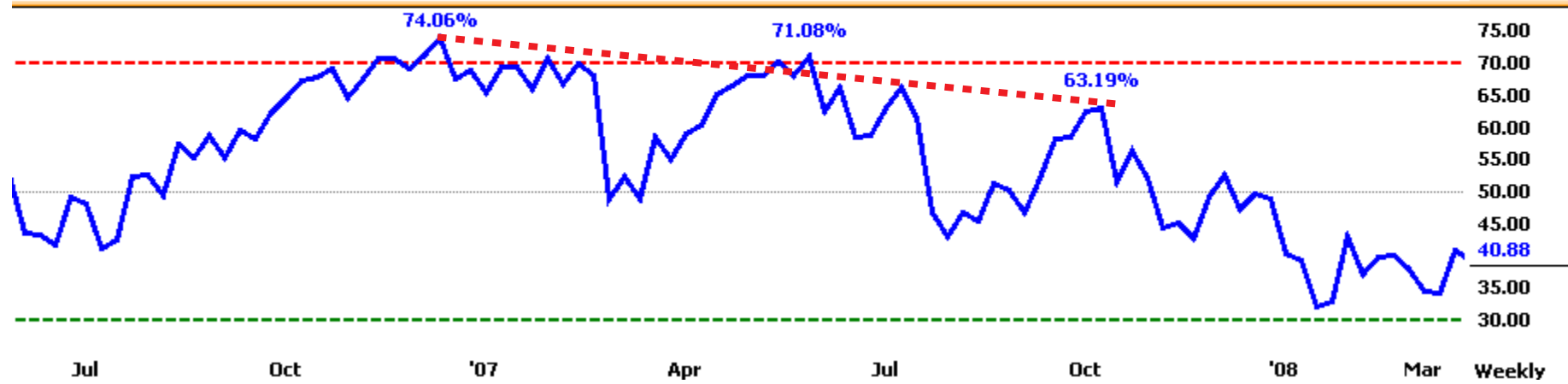
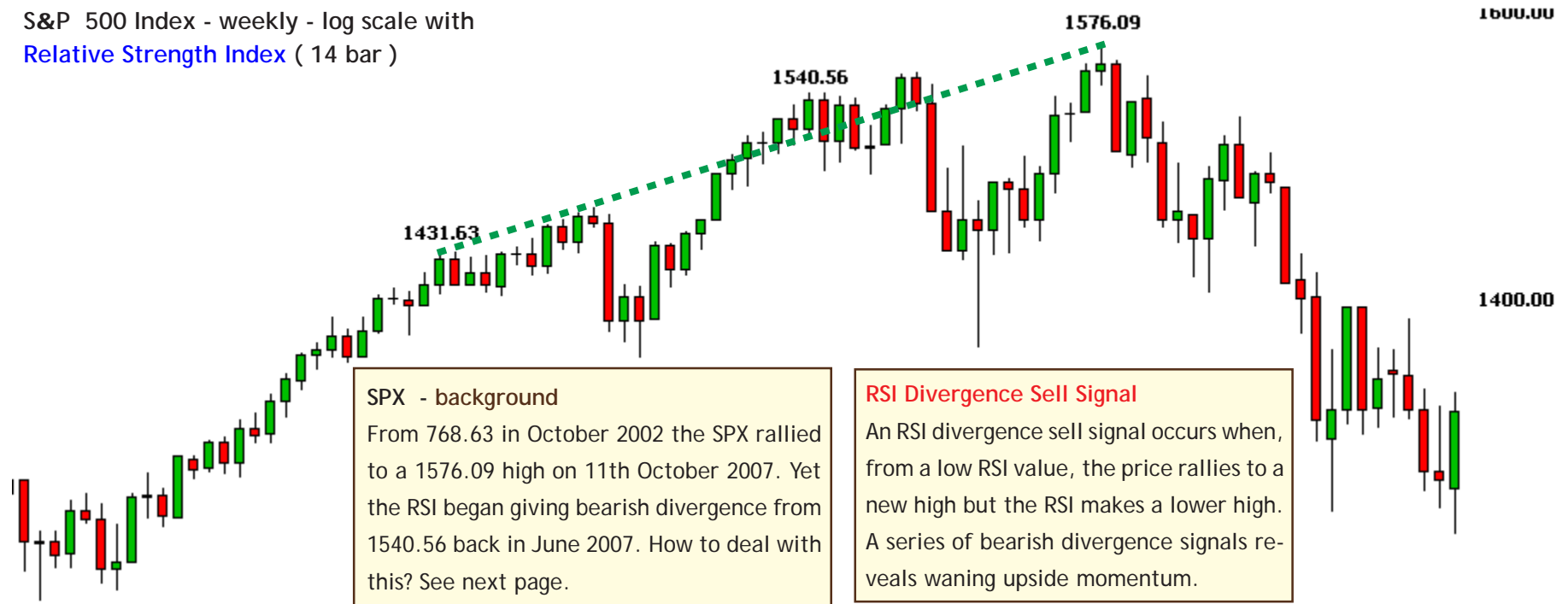
SPX - background story
The Dot-Cum bubble peaked at 1552.87 on 24th March 2000. The ensuing decline did not bottom out and reverse higher until 768.63 on 10th October 2002. The weekly RSI gave a divergence buy signal the very week of the 768.63 low. On the way to this 50% drop in value from 1552.87 to 768.63 there were no other weekly RSI divergence buy signals.

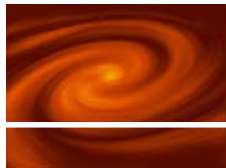


RSI Divergence Buy Signal



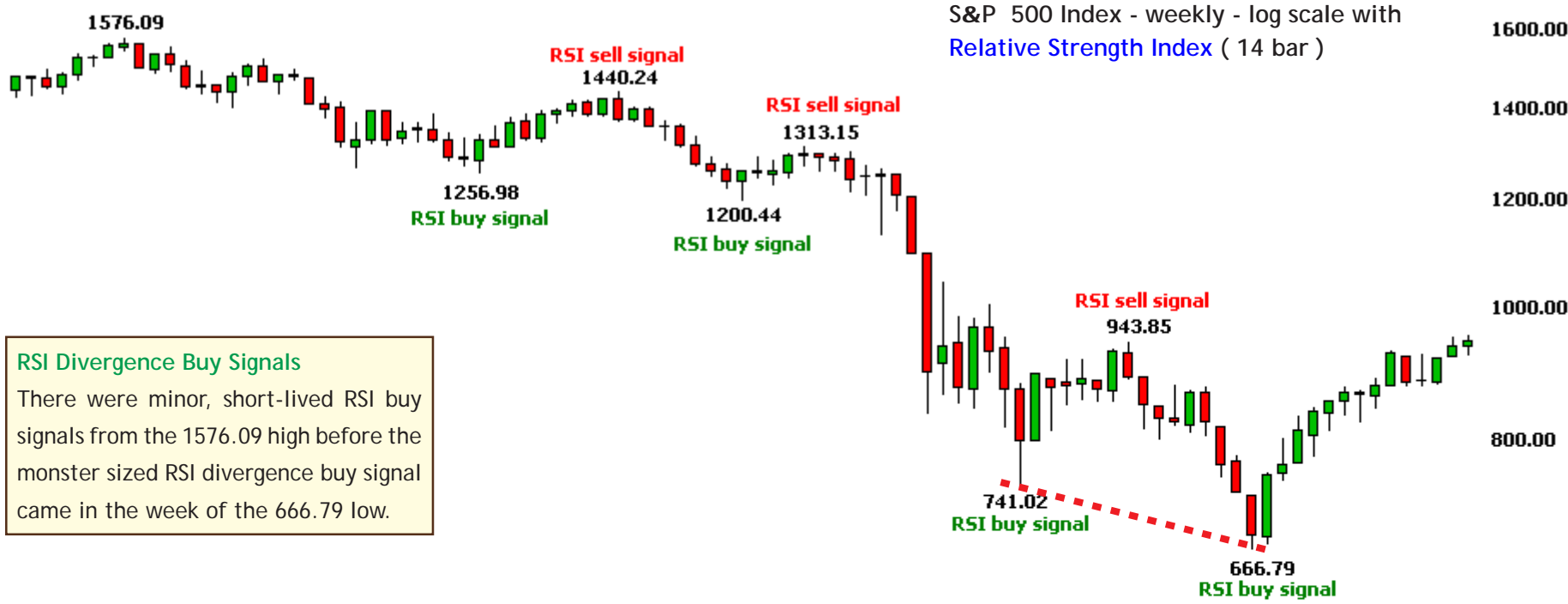
S&P 500 Index - weekly - log scale with
Relative Strength Index (14 bar)





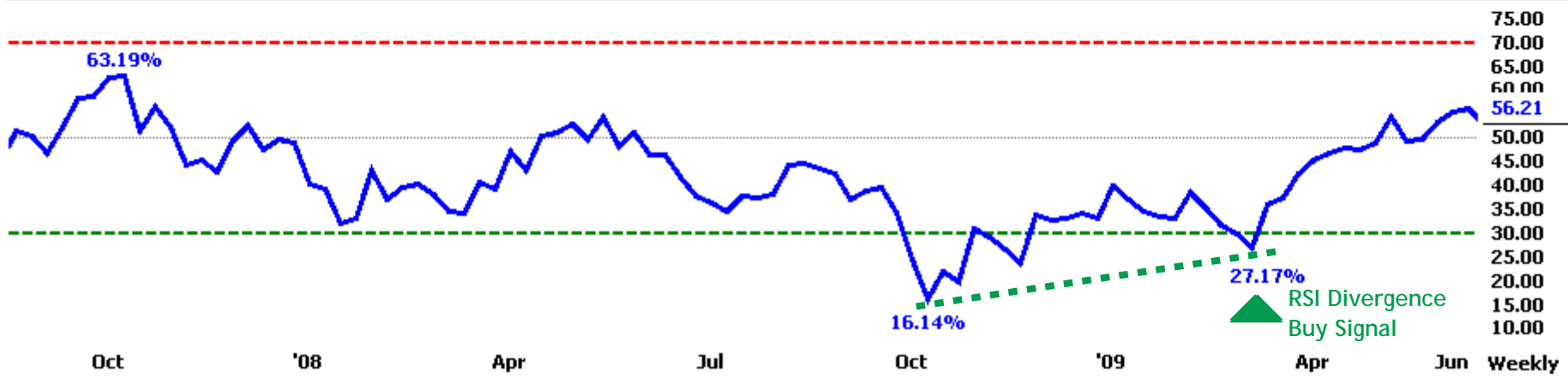
S&P 500 Index - monthly





RSI Divergence Buy Signals

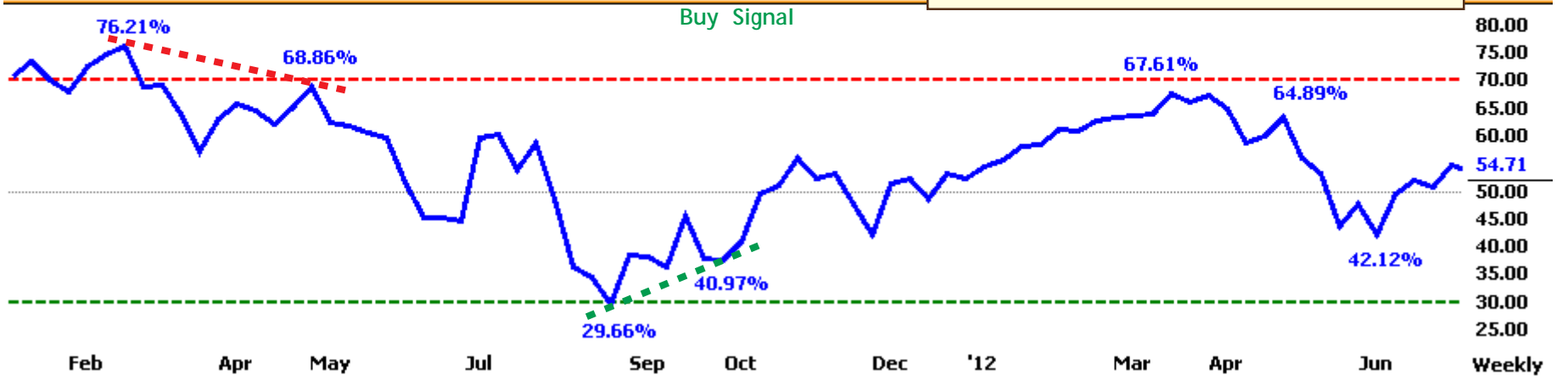
There were minor, short-lived RSI buy signals from the 1576.09 high before the monster sized RSI divergence buy signal came in the week of the 666.79 low.

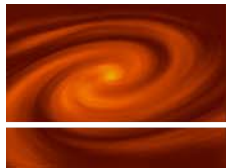




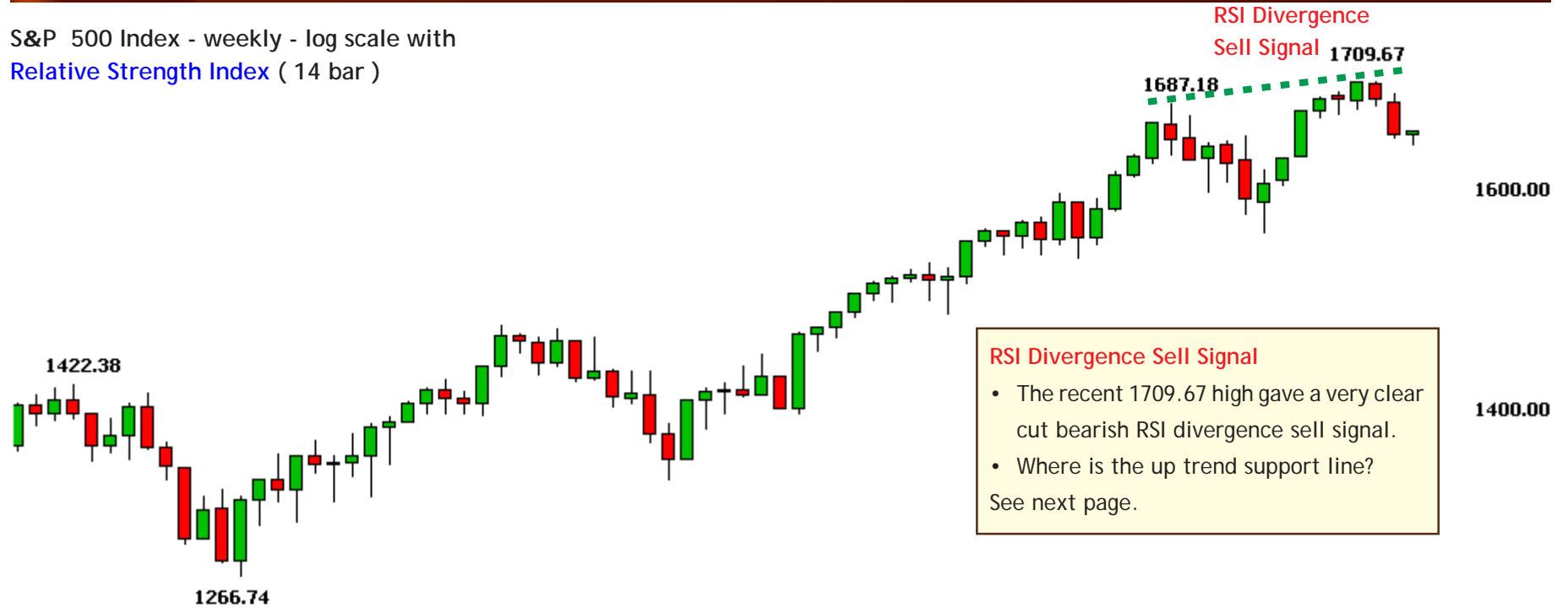
RSI Divergence Sell Signals
 Since the 666.79 low there were two minor, short-lived RSI divergence sell signals.

SPX - Bearish RSI Divergence - Tactics
 As neither of these sell signals were followed by the break of a multi-year up trend line, and based on our page 5 suggestion, longer term traders may have chosen to not act on these signals.





S&P 500 Index - weekly - log scale with
Relative Strength Index (14 bar)





S&P 500 Index - monthly



SPX - trend line support

The SPX has given a clear RSI divergence sell signal. And the SPX has been in an up trend for a few years. And the up trend support line is very easy to locate on the monthly chart.

SPX - Bearish RSI Divergence - Tactics

- From our page 5 suggestion, longer term traders may want to wait to sell on a break below the up trend support line cited on this chart.
- That support line cuts this month at the 1530.00 area.
- By the way, this trend line may look familiar. For some time now we have been suggesting that longs exit the SPX on a break below this trend line.

- 1750.00
- 1725.00
- 1700.00
- 1675.00
- 1650.00
- 1625.00
- 1600.00
- 1575.00
- 1550.00
- 1525.00
- 1500.00
- 1475.00
- 1450.00
- 1425.00
- 1400.00
- 1375.00
- 1350.00
- 1325.00
- 1300.00
- 1275.00
- 1250.00
- 1225.00
- 1200.00
- 1175.00
- 1150.00
- 1125.00
- 1100.00
- 1075.00
- 1050.00
- 1025.00
- 1000.00
- 975.00
- 950.00
- 925.00
- 900.00
- 875.00
- 850.00
- 825.00
- 800.00
- 775.00
- 750.00
- 725.00
- 700.00
- 675.00
- 650.00
- 625.00