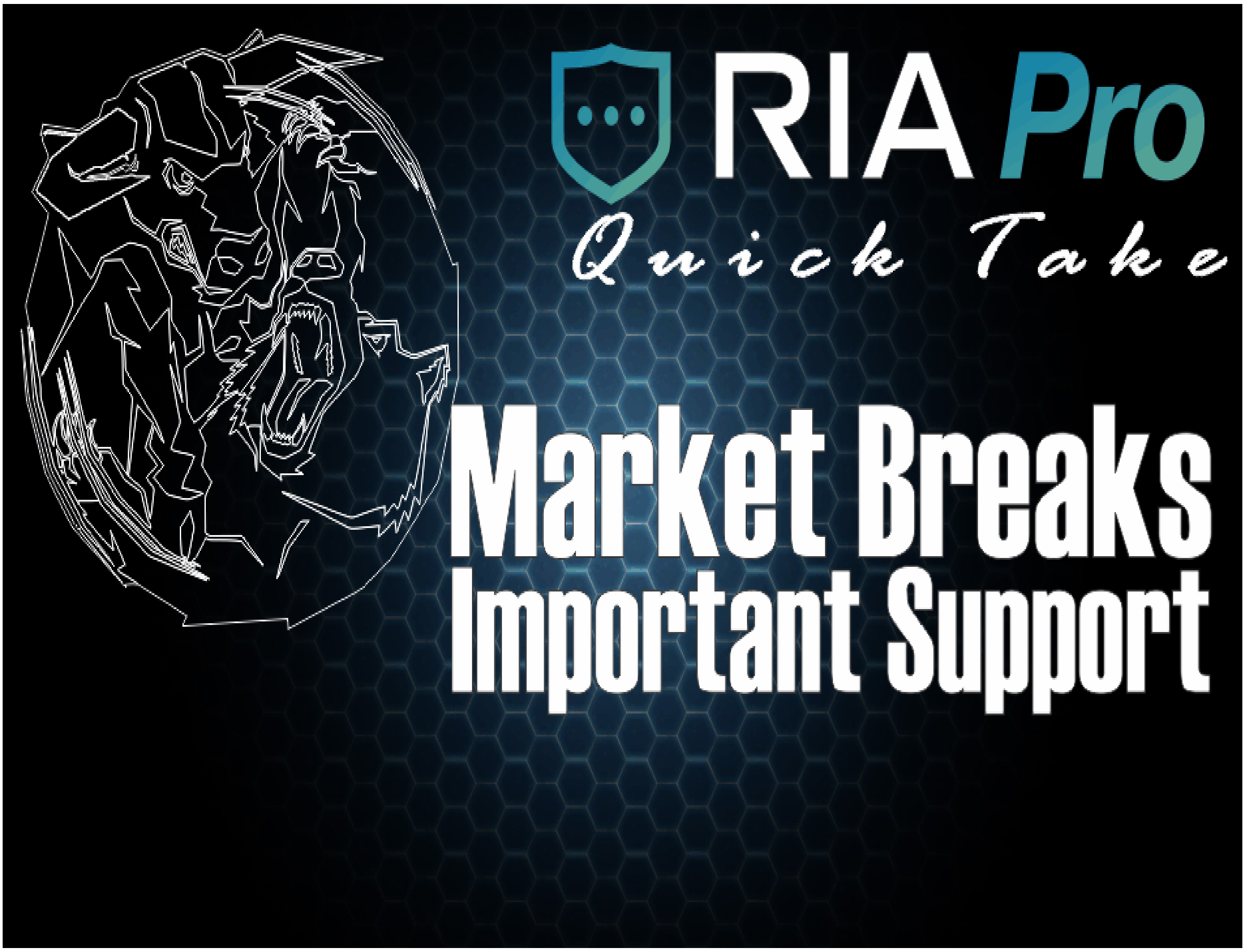
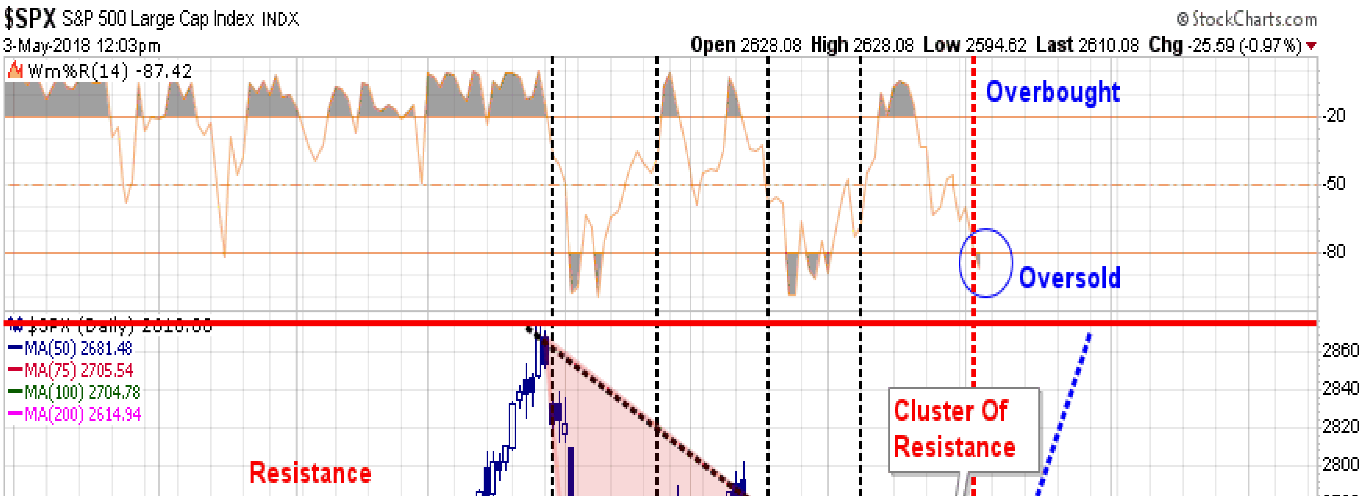
RIA Advice



I have often discussed that as a portfolio manager I am not too concerned with what happens during the middle of the trading week. The reason is daily price volatility can lead to many false indications about the direction of the market. These false indications are why so many investors suggest that technical analysis is nothing more than *"voo doo."* For me, price analysis is more about understanding the *"trend"* of the market and the path of least resistance for prices in the short and intermediate-term. This analysis allows for portfolio positioning to manage risk. [Over the last several weeks,](#) I have been mapping out the ongoing correction in the market and have noted the important support that has been provided by the running 200-day moving average. The chart below is updated through this morning.



The break of the 200-dma today is not a good sign. Consolidation processes are much akin to the *"coiling of a spring."*• As prices become compressed, when those prices break out there is a *"release of energy"* from that compression which tends to lead to rather sharp moves in the direction of the breakout. **Importantly, the break of support today is NOT a signal to run out and sell everything.**•It is, however, a worrisome warning that should not be entirely dismissed. **As stated, nothing matters for me until we see where the market closes on Friday.** Here is what we are wanting to see:

- ***If the market closes ABOVE the 200-dma*** *by the close of the market on Friday, we will simply be retesting support at the 200-dma for the fourth time. This will continue to keep the market trend intact and is bullish for stocks.•*
- ***If the market closes BELOW the 200-dma on Friday,*** *the break of support will be confirmed, suggesting a downside failure of the consolidation pattern over the last couple of months. This break is bearish for the market and suggests higher levels of caution. Such will lead to two other options:*
  - *With the market oversold on a short-term basis,* ***any rally that fails at the 200-dma will further confirm the downside break of the consolidation.*** *This would suggest lower prices over the next month or so.*
  - ***If the market recovers by early next week,*** *above the 200-dma, positioning will remain on hold.*

I am often asked why I don't just take ONE position and make a call. Because we can not predict the future. We can only react to it. After having raised cash over the last couple of months on rallies, there isn't much we need to do at the moment. However, the weakness in the market, combined with longer-term sell signals•as discussed on Tuesday, is suggesting the market has likely put in its top for the year. We remain cautious and suggest the time to *"buy"* has not arrived yet.