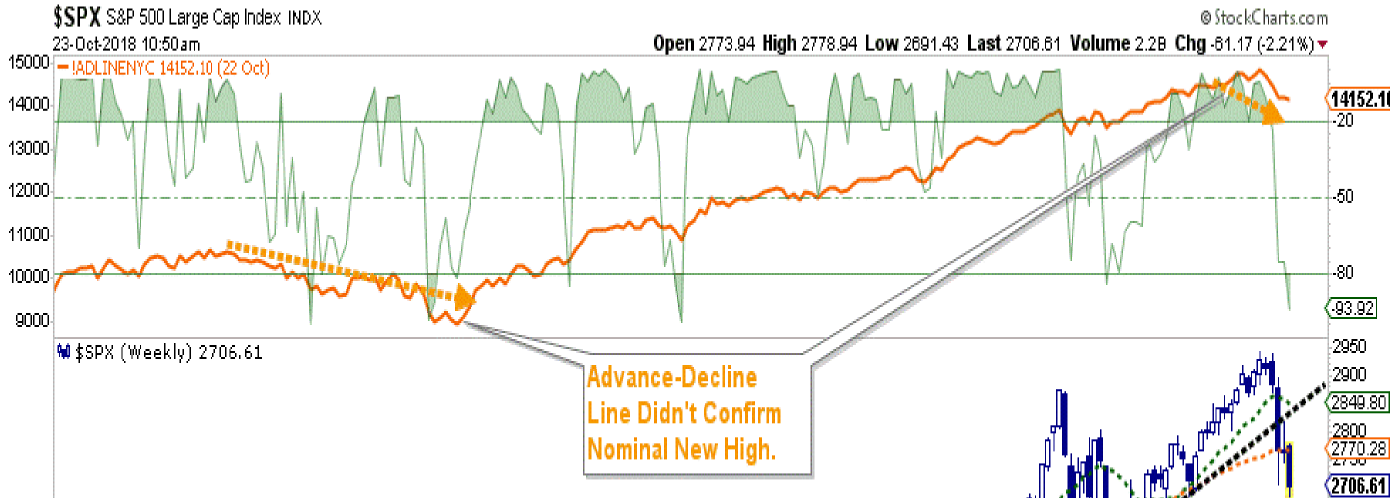
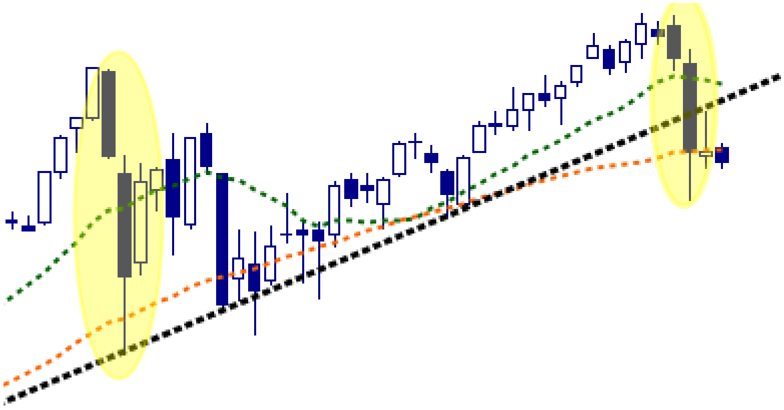

Comparing the 10% market dip that occurred in the first quarter of 2018 to the current decline can provide us clues as to whether 2018 is a period of consolidation or the makings of a bearish topping process. As the charts reflect, there are some similarities and differences between the two periods. We start with the weekly chart of the S&P 500 shown below.



## Candle Structure

The first two weeks



ndles, as highlighted in the graph below. Note the similarity of the long second candle in each shaded area which occurred during the second week of each sell-off period. In the January-April timeframe, the second candle was the longest candle of the period, and its bottom proved to be the low for the entire time frame. That low was tested in April and it held. In the current period, the market has so far failed to bounce higher following the early October lows. Further, as of writing this, the S&P 500 has broken below that candle?s low point.

## Trend Line Support

During the January ? April period, all of the weekly closes stayed above the dotted black trend line, which has reliably supported the market since early 2016. In the current period, the second weekly close finished well below the trend line and the market has continued to trade further below it since.

## 34-Week Moving Average

While not perfect, the 34 -week moving average (orange) has demonstrated reasonable support for the market since 2016. Currently, the S&P 500 is 80 points below that moving average, and it is not, at least yet, proving supportive. Another weekly close below that level will offer more conclusive evidence of a meaningful breach. The slope of the 34 -week moving average continued upward throughout the January ? April period without any degradation in trajectory. Currently, the slope, while still upward, has flattened considerably. The 20 -week moving average (green) turned lower in the sixth week of the January ? April decline. It turned lower in the second week of the current decline. The 34 -week moving average and the trend line are important markers to follow. When the market bounces, the next test will be to see if it can rise above these lines or if they become resistance.

## Volatility

In the first week of February, the S&P 500 Volatility Index (VIX) went from 12.5 to over 50. This was a signal of distress in the market and likely a signal of illiquid conditions driven by impetuous selling. That spike was also fueled by concentrated selling due to the failure of poorly constructed short VIX ETFs. Currently, the VIX has risen from the same 12.5 to 25. Our concern is that this move is not as driven by fear which might lead to a more measured and durable sell-off.

## Traditional Safe Havens

On January 26, 2018, when the S&P 500 peaked, gold closed at 1352. Over the next three months, as the S&P fell over 10%, gold was never able to close above that level. On October 3, 2018, when the current decline started gold closed at 1202. As of October 23, it stands above 1230. This time around, unlike the prior decline, gold is reacting positively as a safe haven. During the first three weeks of the January ? April decline, U.S. Treasury yields rose, and prices fell. Typically during periods of market stress, yields decline as investors seek safety. In the current move, yields have declined since early October. While that decline in yields has been moderate, U.S. Treasuries are acting more like a safe haven than earlier in the year.

## Summary

This second decline of the year is showing signs that are a little more concerning than those offered at the beginning of the year. While the moves may appear somewhat similar thus far in regards to points lost, the differences should be watched closely. The question we must consider is, are we simply in a period of consolidation before the bull market resumes or is this a bearish topping process? One other comparison bears mentioning. In 2007, the market peaked at record highs in February, recovered and set new record highs over the next eight months before setting a final top in October 2007. In addition to following the signals detailed above, the low set on February 9, 2018, of 2532 is an important line in the sand. As long as the S&P stays above that line, we must assume the bullish trend since 2009 is intact and the ups and downs of 2018 are merely a period of consolidation. A break below that line leads us to believe further that we may be in the midst of a topping process. Given extreme valuations and the poor risk/reward dynamics offered by stocks, we urge caution and responsiveness as the market further presents itself. For more on our most current technical thoughts, please read our latest Technically Speaking.