VOLUME ANALYSIS

CHIEF TECHNICAL ANALYST, BUFF DORMEIER, CMT | MARCH 26, 2021

In the movie *Groundhog Day*, a weatherman lives out the same day repeatedly, over and over again. The film playing this year in the markets could be titled *Groundhog Month*. In January, February and now the March publications of *Volume Analysis*, we noted how the market surged in the beginning of the month and then fell back to trendline towards the end of the month.

Referencing the S&P 500 chart below, notice the red arrows signify a topping out of the market midmonth. Each topping point is followed by a testing of the **50-day moving average support line** (teel line) by the end of each month. In the previous two editions, we stated that these pullbacks (noted by the green arrows) may represent good entry points. Can the same be accurately stated this time around? That is what we will investigate, the evidence for and against the rebound scenario, in this edition of *Volume Analysis*.

S&P 500

Source: Stockfinder: Worden Inc. Dates: (Jun. 2020 - Mar. 2021)

Like the movie Groundhog Day, although the price movements appear to be the same pattern repeating itself, market internals show a different picture. This is most apparent in the NASDAQ index depicted in the following page.

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KINGSVIEW
INVESTMENT MANAGEMENT

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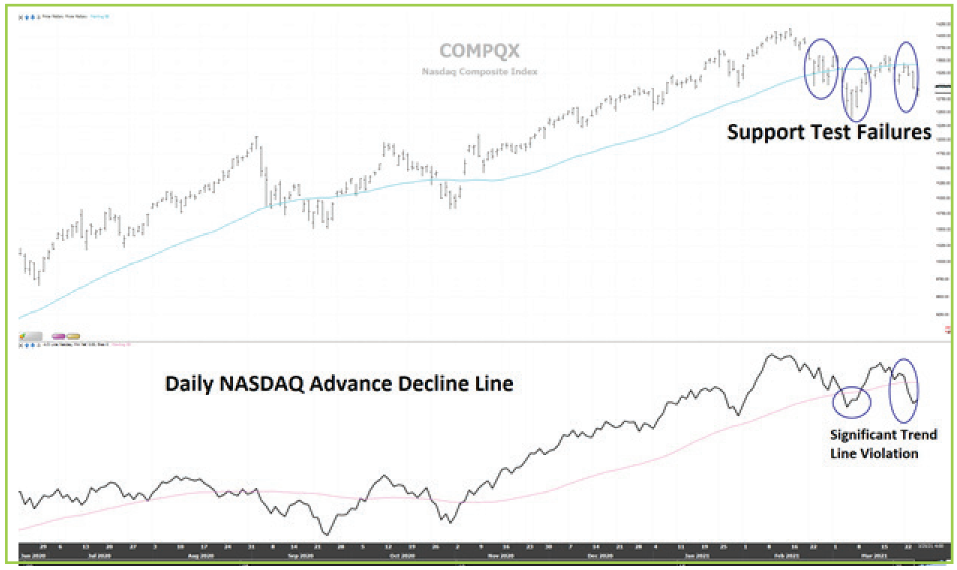
NASDAQ INDEX

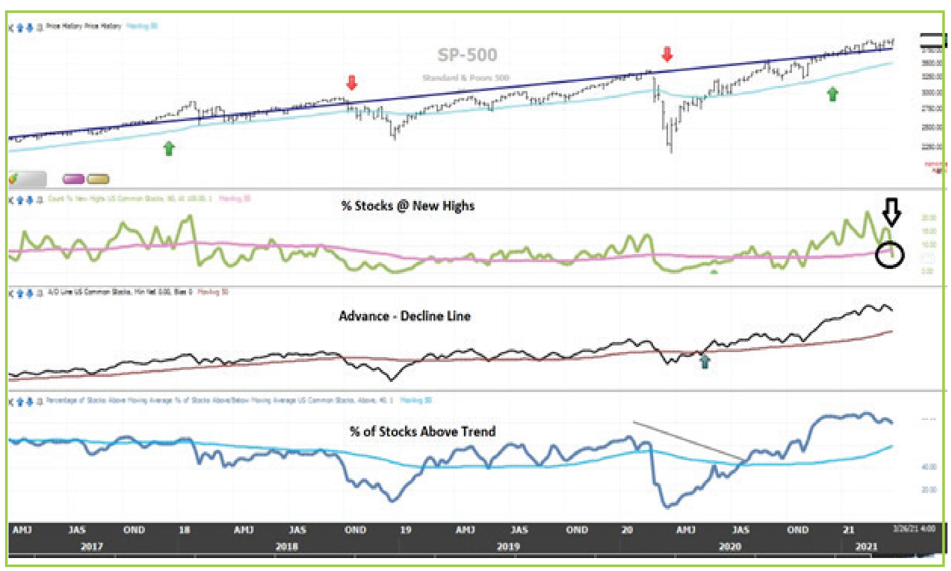
The NASDAQ was the leading index last year and has led the broad market indexes such as the S&P 500 higher for the last several years. But notice the three circles in the chart on the right. Once the NASDAQ broke its **50-day support line** in late January, it has struggled to move above trend again, whereas the S&P 500 has regained its upward trend with each **50-day support line** test (see Chart 1 S&P 500). Moreover, the daily NASDAQ **Advance-Decline Line** is well below its trend.



Source: Stockfinder: Worden Inc. Dates: (Jun. 2020 - Mar. 2021)

WEEKLY S&P 500

Next, let us review the weekly S&P 500 breadth data in the chart on the right. Unlike the NASDAQ, the weekly **Advance-Decline Line** is still trending higher, as is the **% of Stocks Trading Above Trend**. A positively trending **Advance-Decline Line** suggests plenty of liquidity is still fueling the markets. And the **% of Stocks Trading Above Trend** suggests that most stocks are holding support.



Source: Stockfinder: Worden Inc. Dates: (Apr. 2017 - Mar. 2021)

However, our fastest leading indicator, the **% of Stocks Making New Highs**, has now broken below its trend, represented by the pink line. The **% of Stocks Making New Highs** reveals how much overhead resistance lies in front of the market. Now that the **% New Highs Line** is below trend, the broad indexes may have a more difficult time moving higher through resistance.

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CAPITAL WEIGHTED VOLUME

Now on to what we believe is our most important indicator, **Capital Weighted Volume**, depicted in the chart on the right. Notice that **Net Capital Flow Trend** continues to be inching higher and remains above trend. So long as these money flows continue higher, our risk mitigation system remains unemployed.

Source: Stockfinder: Worden Inc. Dates: (Dec. 2019 - Mar. 2021)

LONG-TERM TRENDLINE S&P 500

Finally, in our last edition of *Volume Analysis*, we highlighted the long-term trendline of the S&P 500. The critical support line was 3700. So far, trendline support has held. This support line has been moving up approximately 4.65 points per week and now rests at 3725.

Source: Stockfinder: Worden Inc. Dates: (Oct. 2008 - Mar. 2021)

Overall, although on the surface this market looks a lot like January and February, an inside look into March reveals some import variations which are not as bullish as previous months. So far, only one S&P 500 critical indicator is flashing a warning sign. The **% of Stocks @ New Highs** has broken below trend. This indicator is typically the first of our leading indicators to signal. Even so, sellers should beware, this indicator is not always followed by the others, and it could reverse higher again. The other significant bearish development has been the erosion of the NASDAQ and the **NASDAQ Advance-Decline Line**. We have been highlighting this shift in leadership since late last year, and were fortunate to invest in some NASDAQ positions this time last year. Going forward, we will be swapping out those positions into more traditional economy positions in our taxable accounts as the gains become long-term and at the end of the quarter in our qualified / non-taxable accounts.

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Despite these chinks in the armor within the broad markets, most of our indicators remain either neutral or bullish. Given the mixed environment, we will be more cautious and selective going forward when buying dips. And as always, our risk management system is ever on duty within our active portfolios.

Stay safe and enjoy our gift of life, my friends!!