PRIVATE WEALTH ADVISORY

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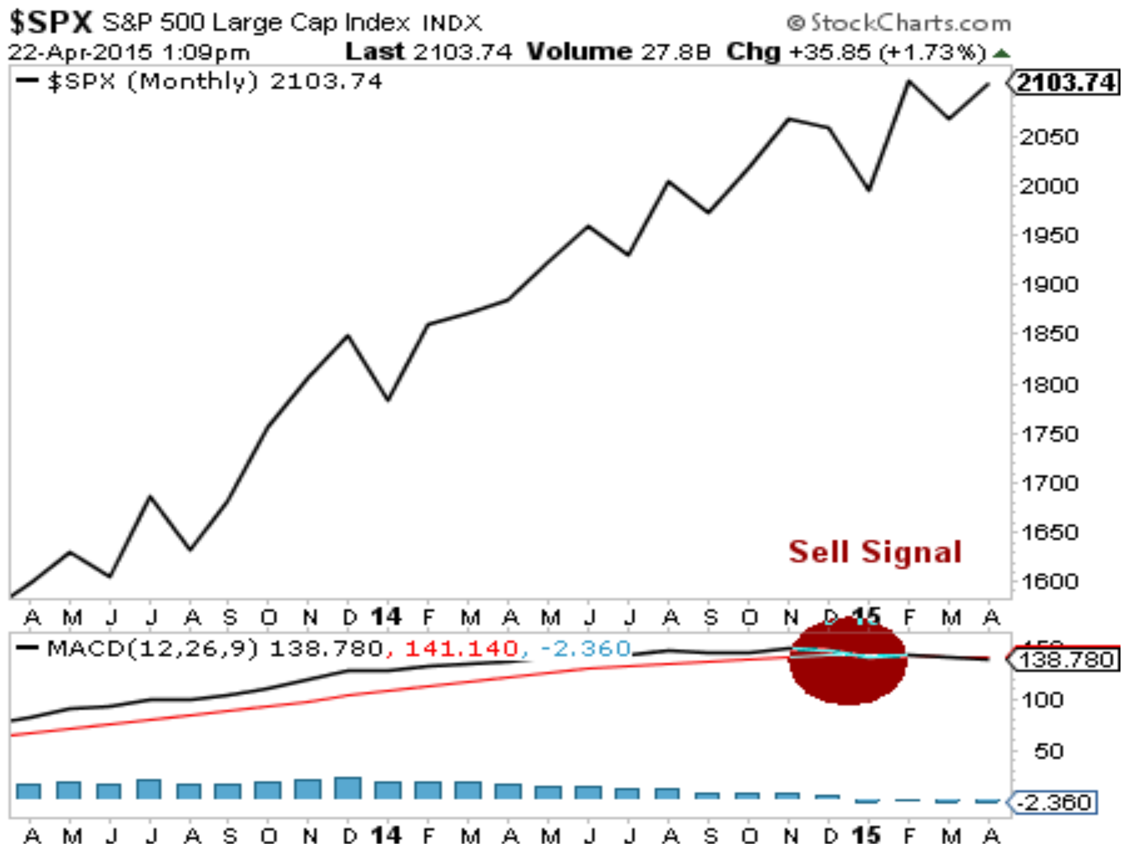
Market Update: 4-22-15

The market is showing continued signs of weakening momentum.

I recently noted that the monthly MACD has rolled over triggering a "sell" signal. Historically, this signal has correlated with market drops ranging from 20% to 50%.



From a technical analysis perspective, the S&P 500 has been in a wedge pattern since November. Traders have tried four times to get stocks to break out to the upside. Thus far they've failed with only a short-lived breach of the upper trendline.

Even if traders *do* manage to create a breakout to the upside, there will HAVE to be follow-through for it to really matter. Unfortunately for the bulls, neither the market internals nor seasonal tendencies make this very likely.

From a market internals perspective, there are 9 SPDR ETFs tracking various S&P 500 sectors. All of them peaked in February 2015.None of them have established a new high in April. So it's not as though one sector is leading the market higher.

Additionally, we are coming up on a period of seasonal weakness.

The old adage "sell in May and go away" does have some merit. According to the Ned Davis (NDR) database, had you invested $10,000 in the S&P 500 every May 1st starting in 1950 and sold October 31 of the same year, your initial position would only be worth $10,026 as of 2008. **Put another way, by investing only from May through October, a $10,000 stake invested in 1950 would have only made $26 in 57 years.**

In contrast, $10,000 invested in the S&P 500 on November 1st and sold April 30th over the same time period would have grown to $372,890. Out of 58 years, you would have had 45 positive and only 13 negative.

Put simply: the period from May to November has historically been a very weak one for stocks. All traders and trading models know this. If they cannot mount a breakout to the upside for stocks in the next two weeks, intense selling pressure will commence.

Another technical signal concerns mid-cap stocks which typically lead the broader market during significant moves up or down. I'm not saying that they make larger moves, merely that they move *first*.

With that in mind, note that mid-caps have already taken out the trendline going back to the October 2014 low.

This would suggest that the broader market will be breaking down in the near future. A short-term correction to 2,050 would be the first move as this would coincide with the lower trendline for the trading channel that has determined price action since early 2012.

This channel has been driven by two items: the weakening economy (bearish) and Fed stimulus or the hope for more Fed stimulus (bullish). The few times that stocks have broken below the lower trendline have all occurred during periods in which a critical mass of investors realize that the economy is weakening dramatically.

With that said, once again, the US economy is again weakening dramatically. The only difference is that at this point, the Fed's hands are tied in terms of additional stimulus programs (previously both times that we broke below this channel, stocks stocks quickly recovered thanks to QE 4 in late 2012 and Fed President Bullard's verbal intervention in autumn 2014, respectively.

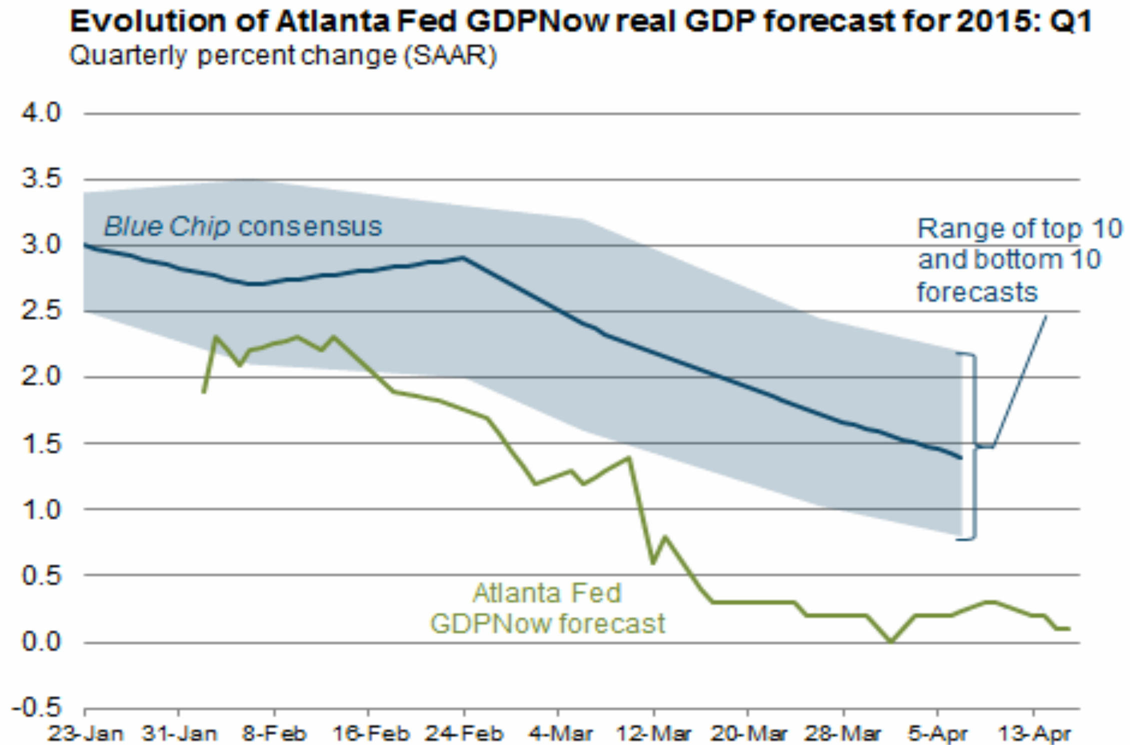
This time around, if stocks begin to crater again, the only carrot that the Fed can dangle in front of markets is to suggest that it (the Fed) could postpone its rate hike even longer.

However, with most of the market already assuming that a rate hike is coming in September at the earliest, the ensuing rally would likely be transitory.

In the simplest of terms, the US is very likely heading into (assuming it's not already in) a recession. And the Fed has few if any props left with which to put under the

markets if investors begin to sell.

As I noted last week, the Fed's own inhouse model is showing 0.1% GDP growth for the first quarter of 2015 through April:



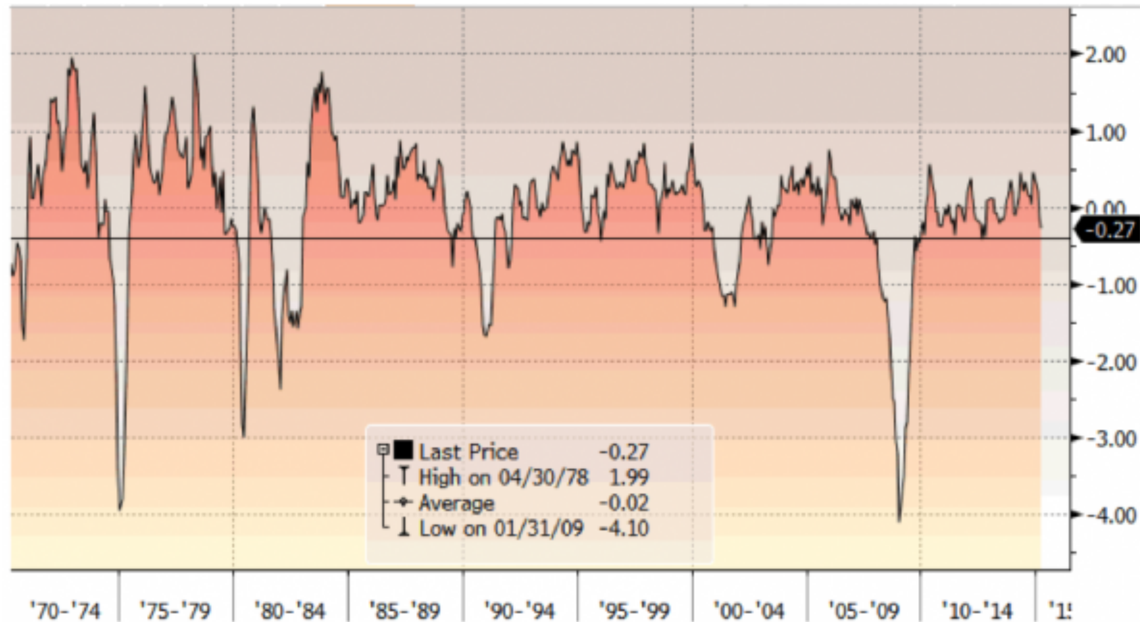
We get additional signs of economic weakness from more economically sensitive asset classes. Copper, the most economically sensitive commodity, is on the verge of breaking below the trendline that guided the bounce that began in February 2015:

In the big picture, this would mean that Copper FAILED to reclaim critical support that held it up throughout the alleged "recovery."

This is a BIG deal as it would mean both Oil and Copper (the two commodities most closely aligned with economic strength) are signaling a recession.

Copper is not off base here.

The Chicago Fed Activity Index is one of the most accurate predictors of economic growth. The three-month average for the index is now a mere 0.08 away from registering a recession (h/t Bill King).



Chicago Fed National Activity Index 3-Month Average

Thus, in terms of recessionary indicators in the US we have:

1) The Dallas Fed Index Orders Less Inventory
2) The Chicago Fed Activity Index
3) The US Economic Surprise Index
4) The ECRI Weekly Leading Index
5) The deterioration in corporate profits (registering a negative year for the first time since 2008)

This is quite a spate of recessionary signals. This combined with the technical patterns in stocks, suggest a correction is coming if not something much worse. I'm watching the markets closely and will issue updates as needed. Barring any new developments you'll hear from me next week in the longer monthly issue of ***Private Wealth Advisory***.

Best Regards

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