Lee Adler's Liquidity Trader

Technical Trader Weekly

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Weekly Summary

The market is now in a test of resistance at 2800-2820 with the 10-12 month cycle in a strong up phase. 3-4 year cycle indicators are on the cusp of confirming buy signals. Should that happen, it would suggest the potential for another major upleg. The next several weeks should tell the tale.

The lower channel line of the current meltup starts the week at 2775 and rises to roughly 2815 on Friday. A close at least 16 points below that line would be required to signal potential reversal. Otherwise the uptrend will continue.

Cycle screening measures stayed positive. They suggest that the first pullback will probably not be the onset of a new downleg.

The 6 month cycle projection has risen to 2990. Um… ok. The message is: Until clear signs of reversal, don't short stocks or buy puts.

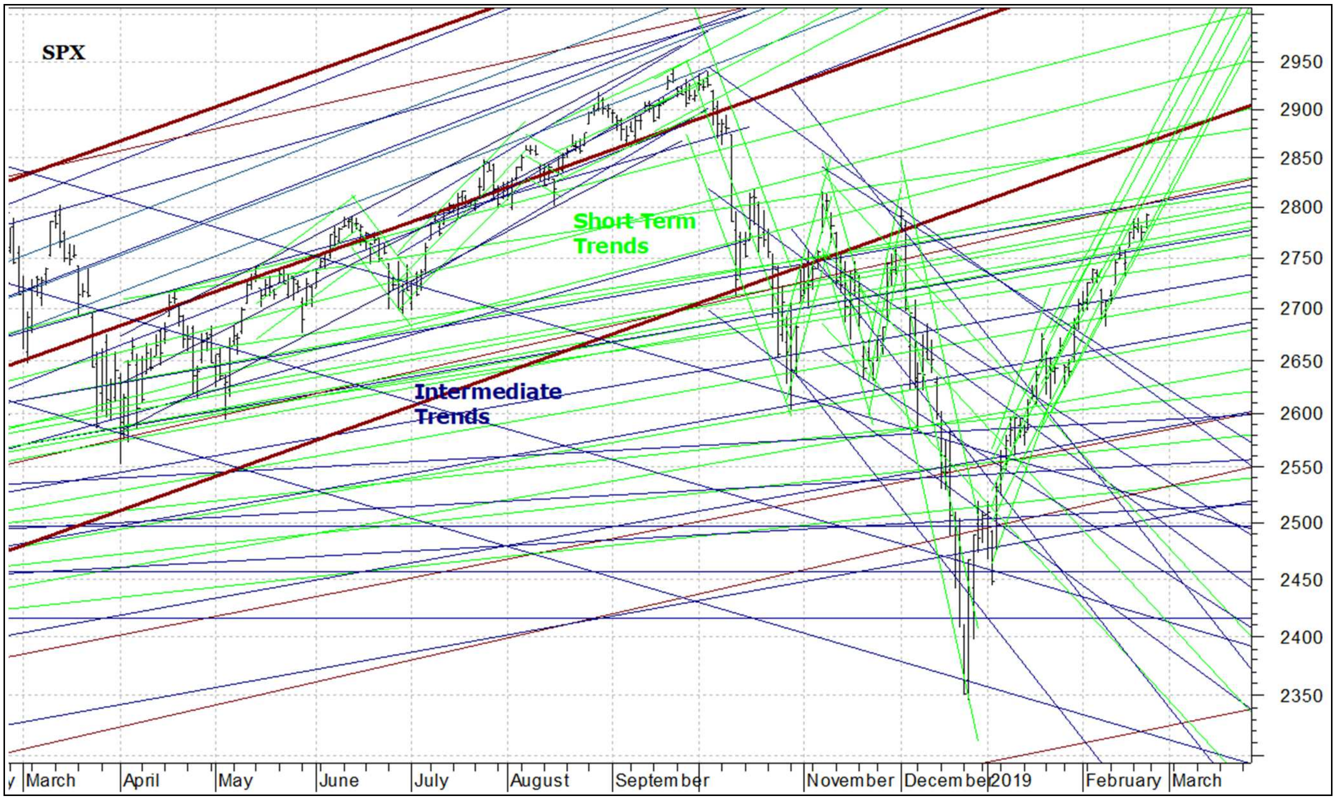
The 13 week cycle up phase is ideally due to top out at any time between now and March 4. Its projection has risen to 2970. There's major resistance at 2816. If that's cleared, bears like me may need to make final arrangements.

Joking aside, the market isn't likely to see the same volatility on the upside as it saw on the plunge to the low that is the genesis for this projection. However, clearing 2816 would set up an enormous reverse head and shoulders pattern that would measure to 3300. If you, like me, are bearish because of liquidity factors, we will need to suspend our disbelief and get with the program: The trend is your friend, and don't fight the tape.

As far as don't fight the Fed, I'm sad to report that the Fed is on crack, and it's hard to predict what kind of erratic behavior it will engage in. Liquidity is still bearish, but for now, the tape rules, as traders create their own liquidity with the use of margin and other forms of leverage.

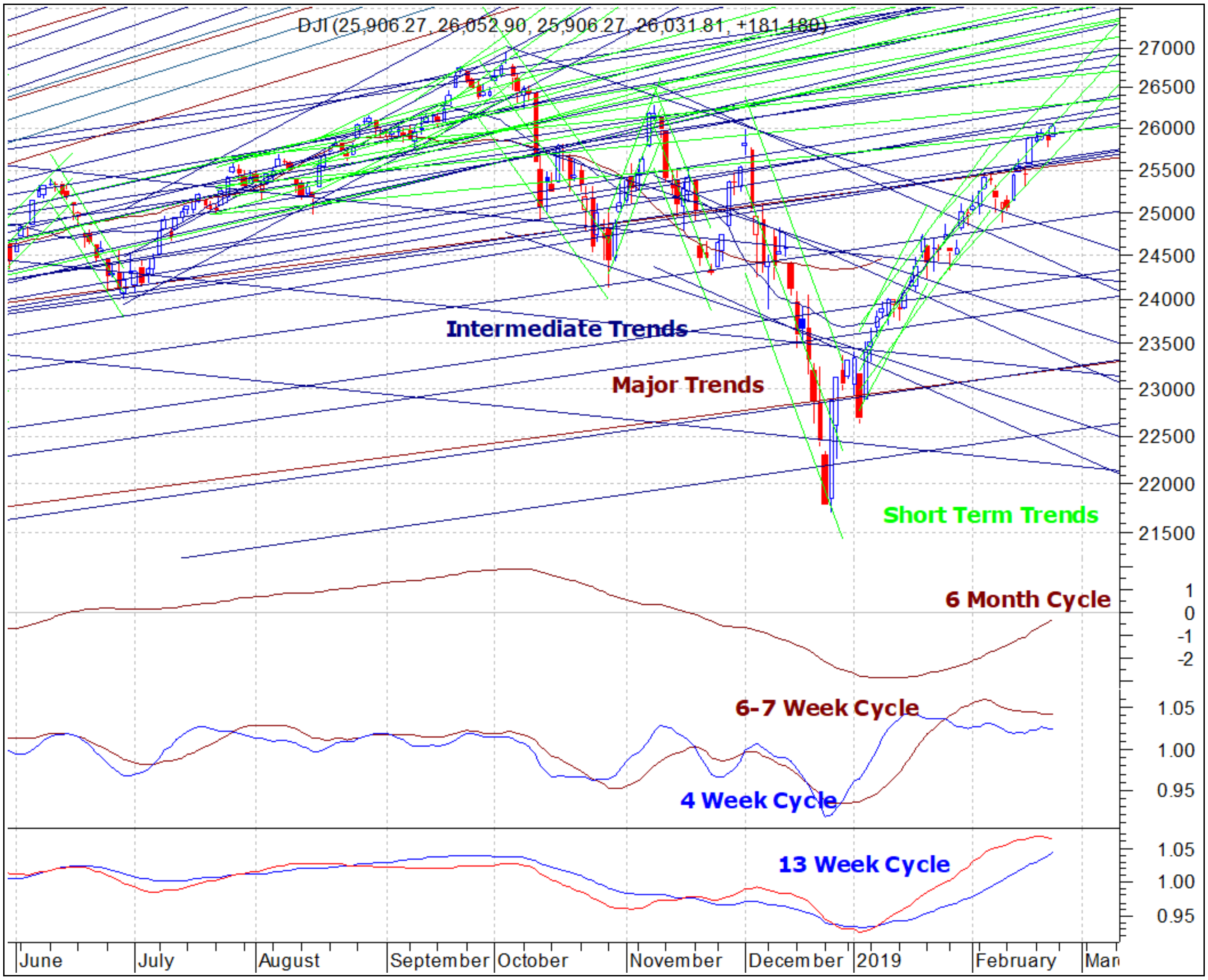
With the market at a major inflection point, I would buy SPY calls on a breakout through 2820, with a mental stop-loss at 2800 should the market fail to sustain the breakout. I would do nothing if the market does not break out.

SPX Third Rail – The market stayed within the latest iteration of its meltup channel. It tested the lower channel lines on Thursday and then rebounded sharply to a new high for this trend. The lower channel line starts the week at 2775 and rises to roughly 2815 on Friday. A close at least 16 points below that line would be required to signal potential reversal. Otherwise the uptrend will continue.



The Third Rail Chart uses linear regression analysis to illustrate trends. A linear regression channel is drawn normally 2 standard errors around the centerline between two cyclically related points. That means the regression is drawn either between the dates of two highs or two lows of the same cycle. They may or may not be consecutive highs or lows. The regression channel is then extrapolated forward. This defines a particular trend. As long as the index stays within the projection, the trend is in force. Once broken, it is usually an indication that the trend has changed direction. In other words, a particular cycle has gone from an up to a down phase, or vice versa.

Dow Jones Industrial Average –The Dow is centered in its meltup channel. The bottom of the short term uptrend channel is now around 25,750, rising to around 26,100 on Friday. The meltup would remain intact if they stay at or above that line. If broken that would begin a potential reversal.



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Cycle Analysis

Nominal Cycle	Phase/PTT	SPX Target	Ch	QQQ Target	Ch
10-12 Month	SWU/21-30Wks	?	NA	?	NA
6 Month	Up/14-39	2990	+	184.00	+
8-13 Week	Up-Top/<=5	2970	+	182.00	+
6-7 Week	Trending	2810	+	?	NA
4 Week	Top/<=2	?	NA	?	NA
SWD: Sideways Down Phase		SWU: Sideways Up Phase			
PTT- Periods till turn, in days					

The Cycle Conditions tables include cycle phase and a guess as to number of periods to the next turn (PTT), in days for the shortest cycles, weeks (W) or months (M) for the longer ones. This is a fluid exercise. The projections may be wrong at times, but they force us to be vigilant for key turning points. Centered moving average projections are used to project targets.

Indicator Review

Nominal Cycle	Last Signals	Cycle Status	Comment
10-12 Month Cycle	Buy	Early Up Phase	
6 Month Cycle	Buy	Late Up Phase	
8-13 Week Cycle	Mixed	Late Up Phase	Negative divergences on some indicators
29 Day Rate of Change	Sell		
6-7 Week Cycle	Mixed	Trending	
17 Day Rate of Change	Buy		
4 Week Cycle	Buy	Late Up Phase	

1/21/19 While not fully confirmed yet by its indicators the 10-12 month cycle appears to have entered an up phase. It is ideally due to last until at least late July, but with the transition to a bear market, it should end earlier. It should remain a rangebound affair with rallies peaking no higher than slightly above 2800. It would be better from a bearish perspective if that level were not approached.

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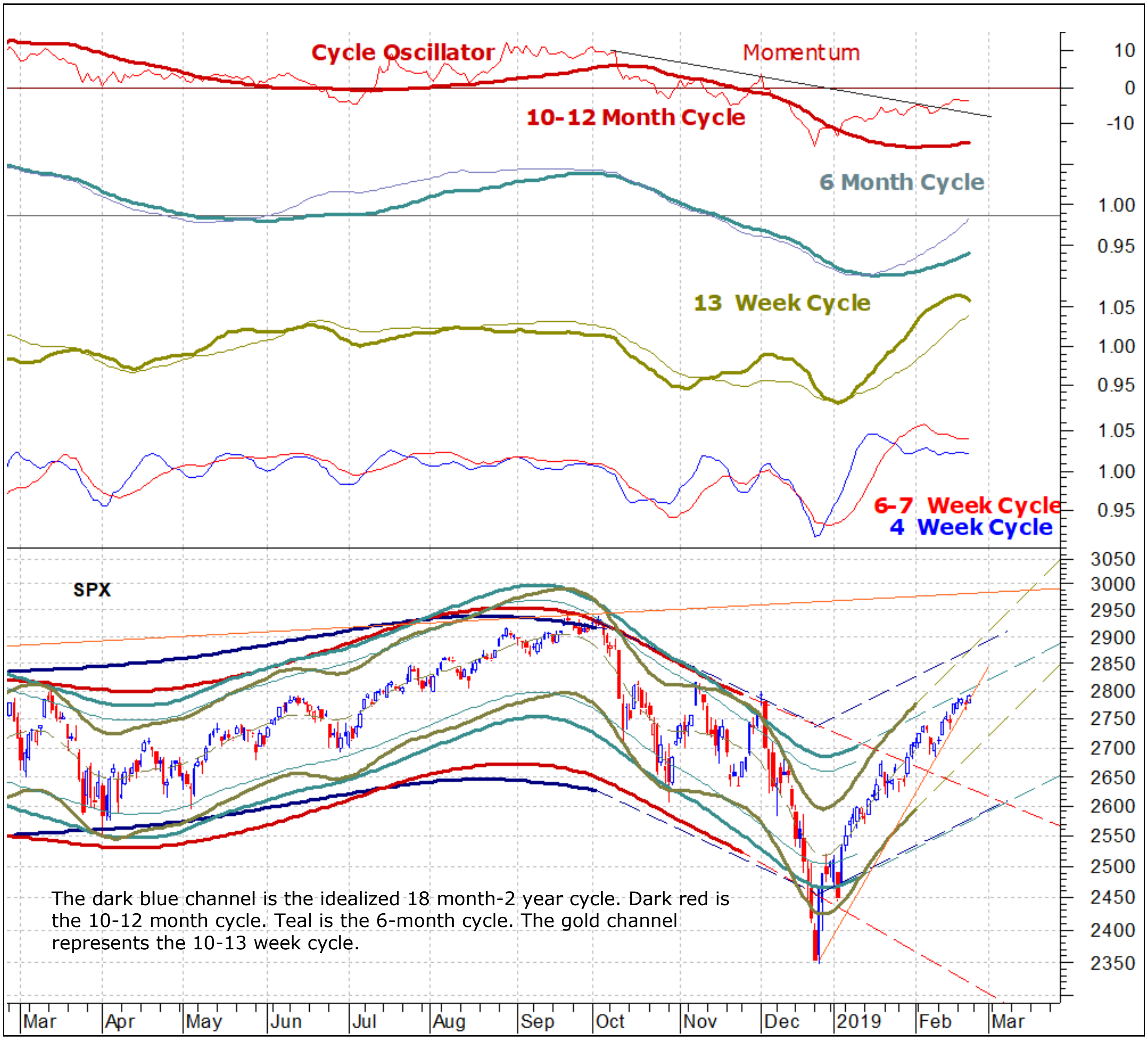
The 4 week cycle is due for a top early this week. The 6-7 week cycle is still in trending mode. Its projection is now 2810, which looks like will be hit today.

1/13/19 6 month cycle indicators have belatedly begun to trigger buy signals. 10-12 month cycle indicators have not, but the downside projection was met and we're in the time window for an upturn, so I must assume this is it.

1/6/19 While the 10-12 month cycle could be bottoming, there are no buy signals yet on 10-12 month or 6 month cycle indicators. That leaves room for doubt but it's common for these indicators to lag at bottoms. A breakout through 2550 would confirm the upturn. That in turn would imply that the market could trend sideways to higher until as late as mid year.



The top of the 6 month cycle channel runs from 2810 to 2825 this week. A breakout would probably propel the market toward major resistance now at 2990, which corresponds with the 6 month cycle projection. If the market stays below that 2820 area, then a clear break of the trendline now at 2800 should give bears at least a temporary reprieve.

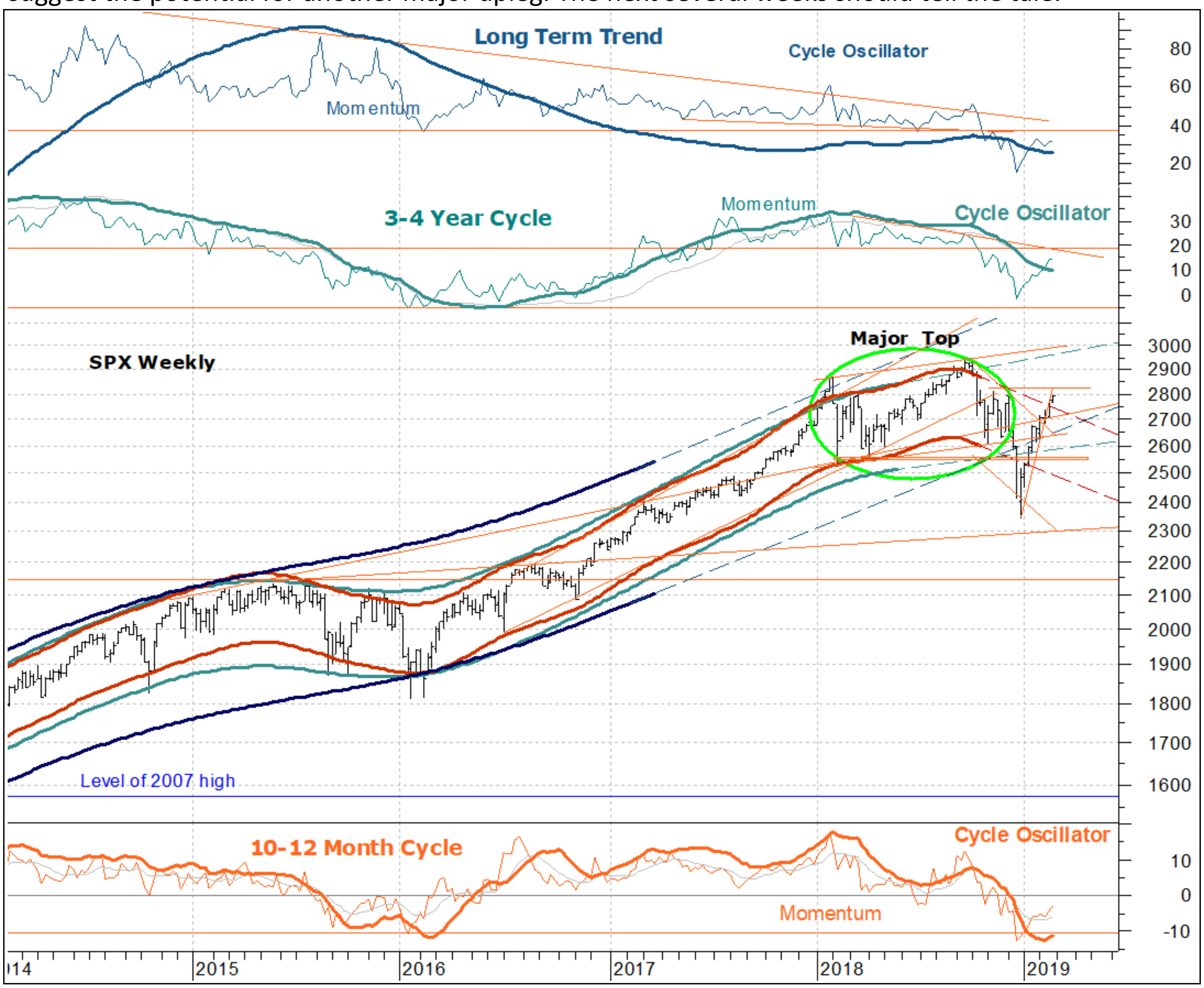
1/13/19 Closing above 2620 would confirm the 6 month cycle up phase, and above 2670 would confirm a 10-12 month cycle up phase. If that happens, it would open the door to a move to 2800.

Long Term Cycles

Cycle (Updated 12/23/18)	Idealized Turn Date	Projection
2 Year	Low Early 2020	NA
3-4 Year	Low Mid 2019 to 2021	NA
8 Years +	Low 2023	NA

Note: These are idealized targets that could be reached under optimal conditions.

The market is now in a test of resistance at 2800-2820 with the 10-12 month cycle in a strong up phase. 3-4 year cycle indicators on the cusp of confirming buy signals. Should that happen, it would suggest the potential for another major upleg. The next several weeks should tell the tale.



2/18/19 3-4 year cycle indicators are on borderline buy signals. This is a do or die moment for both bulls and bears. A breakout through 2816 would signal that this cycle had an early bottom, but it would also suggest that the major trend would be up for the next year or two. For the bear case to stay alive the market would need to reverse sharply from below 2816.

1/21/19 The SPX has returned to the area of the top from which it broke down. This has not provided any sign of the expected resistance, as the market has been flooded with liquidity from Treasury bill paydowns. Two trendlines converging at 2700 should mark significant resistance. If broken, the market should move to the next resistance target of 2800 quickly.

2/3/19 The 13 week cycle projections suggest the possibility that the market could break through 2816 on this move. That would be a higher intermediate high, and would raise the question of whether the major trend had turned bullish again. If it happens, then the 3-4 year cycle indicators would need to be watched for unusually late confirmation of a turn. These are contingencies, but we should be cognizant of them as the market attempts to reach and clear 2800. A rollover below 2816 would tend to support the bearish case.

12/23/18 All long term cycles are now in down phases. This is the onset of a secular bear market. There are no downside projections yet. The top breakdown has a conventional measuring implication of 2150-2200. Ideally that would be a 4 year cycle low in the year 2020.

12/10/18 Closing below 2600 would confirm that a bear market began in October.

10/28/18 Long term momentum has broken down after a 4 year negative divergence. The long term cycle oscillator has turned lower after a 3 year negative divergence. These signals suggest the onset of a secular bear market.

3-4 year cycle momentum has broken down after an 18 month negative divergence on this cycle. The 3-4 year cycle indicator has begun to roll over. These signals suggest the onset of a 3-4 year cycle bear market.
This appears to be the early stage of a 10-12 month cycle down phase. While it could bottom in the next month or two, it might also see another lower low as late as next April.

11/25/18 The market has broken a key long term trendline as it heads toward completion of a secular top. A weekly close below 2530 has a high potential to trigger a crash, with the first target 2300, and then 2150.
10/14/18 The conditions for the onset of a bear market that I set out on September 23 have been met. The last projection on the 3-4 year cycle is now unlikely to be met and would be rendered all but moot on a weekly close below 2700.

10/14/18 The 3-4 year cycle indicator is on the cusp of downturn that would signal a bear market. The trendline from the 2016 low has been broken. A close below 2700 would break 2 year and 4 year cycle channel extensions. That would also tend to confirm the onset of a bear market.

4/8/18 Both the 3-4 year cycle momentum indicator and cycle oscillator are on the cusp of turning down. If and when they do, it would confirm a bear market.

2/12/18 Longer term cycle indicators are now on the verge of major sell signals. This includes cycles from 2 to 4 years. This cycle began from the January-February 2016 low. Assuming that the upleg has ended here, it would be shorter than the last major cycle upleg. That would indicate that the long term trend is also weakening.

2/4/18 This week's break created a setup that is consistent with a major top. In January the market broke out above a rising long term channel dating back to a 4 year cycle low in January-February 2016. Then last week it fell back to within that channel, creating a false breakout. Unless quickly resolved to the upside, this could be the end of the line for the bull market.

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SPX Equal Vertical Width Channel Chart –This chart suggests resistance around 2820, and then 2870. After that, there's some likelihood of a moonshot to 2970. The current short term uptrend channel line rises from approximately 2785 to approximately 2830 this week. It would need to be broken to signal an end to the rally.

Inverted Scale VIX Chart- This indicator has been useless lately as it broke through parameters that looked like sell signals. It now looks like we'll need to see an 11 reading or less to signal a significant top.

QQQ Short term cycles are trending with no projections. The 13 week cycle projection has risen to 182, and the 6 month cycle projection is now up to 184. Resistance is indicated in the 173-76 area. If cleared, the higher projections should be an easy shot. The Qs would need a close materially below 170 to signal a possible reversal.

The 17-day rate of change is a proxy for the 6-7 week cycle. The 29-day rate of change is a proxy for the 10-13 week cycle. The navy channel is the idealized 18-month cycle. The red channel is the idealized 10-12 month cycle. The teal channel is the idealized 5-6 month cycle. The gold channel is the 10-13 week cycle.

2/22/2019	New	New		Weekly
Stock Screen Statistics	**Buys**	**Sells**	**Net**	**Change**
Intermediate Term New Signals				
10-13 week cycle	9	19	-10	-13
6 Month Cycle	36	12	24	0
Both Concurrent	1	6	-5	-6
Short Term New Signals				
4 Week Cycle	87	58	29	-23
6-7 Week Cycle	76	62	14	-83
Both Concurrent	43	35	8	-49
All Stocks in Sample	**Buy**	**Sell**		**Weekly**
Current Cycle Status	**Side**	**Side**	**Net**	**Change**
6 Month Cycle	486	21	465	8
10-13 Week Cycle	372	135	237	-110
6-7 Week Cycle	293	214	79	-36
Total	1403	562	841	-312

Cycle Screening Data – The aggregate indicator of cycle screening measures declined from +1153 to +841 last week.
The short term trend is still up, although with a lower high than in January. A solid down day would be needed to break that structure and set up a potential reversal.

Cycle screening measures were weaker last week. 5 of the 6 new signals all weakened but the key 6 month cycle new signals was unchanged and still on the buy side. Any weakness this week should flip that.

6 month cycle status is still more than 90% on the buy side, which is a yellow flag that this is as good as it gets. 13 week cycle status slipped from that level a couple of weeks ago, but remains strongly positive. This setup continues to suggest that the first pullback will probably not be the onset of a new down leg. 2/3/19 The more likely pattern would be for some backing and filling while the cycle screening measures began to trend weaker. A sustained downleg would require the 6 month cycle status measures to be on the sell side on balance.

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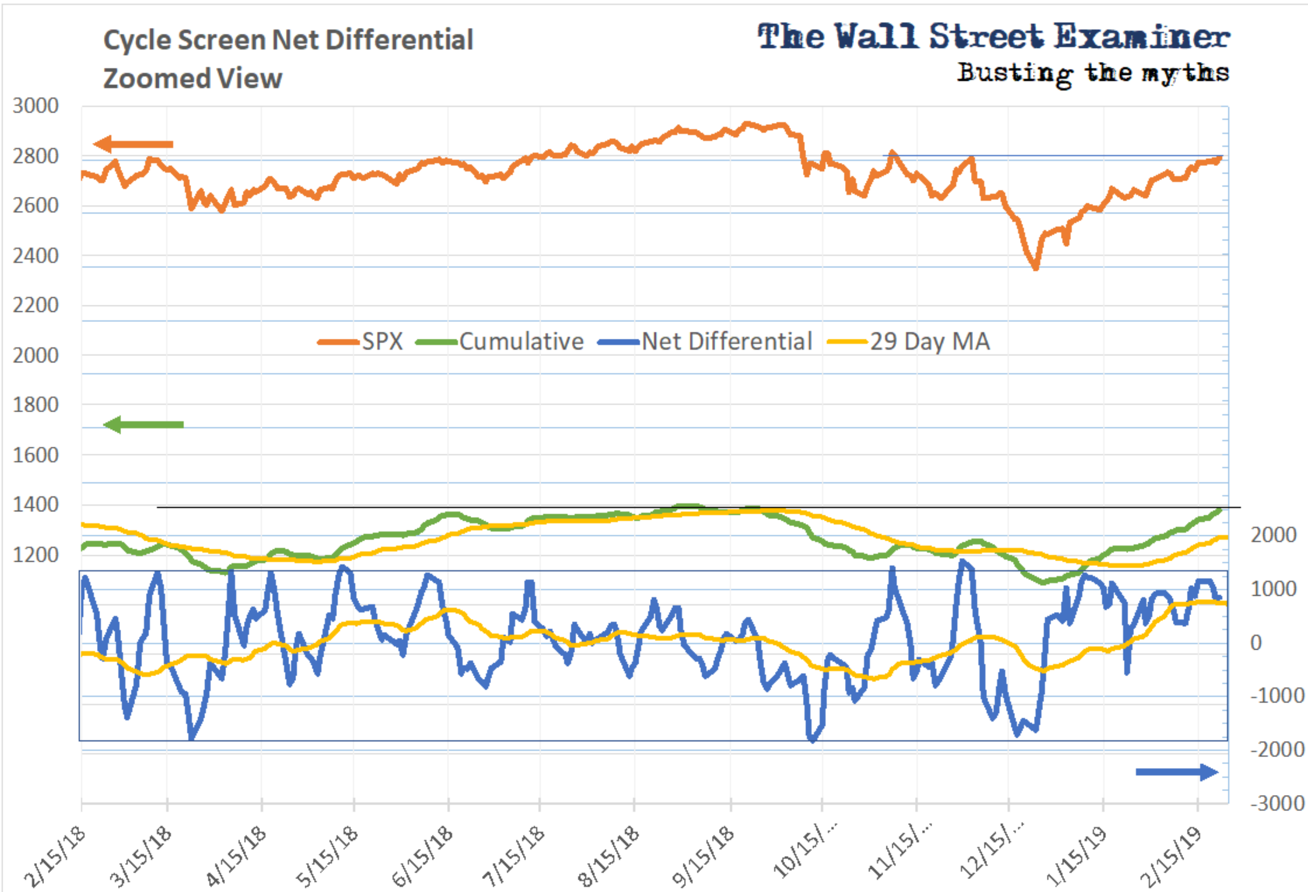

The net aggregate differential between buy and sell side indications is generated by 9 screens of the stocks in the S&P 500, along with industry ETFs. Peaks have typically been at a reading of +1,200 to +1,400. Intermediate lows had coincided with readings of -1,400 to -1,700. A new high of +2562 was reached on January 4, 2013. The indicator set a new all time record low of on August 24, 2015 at -2900.

The 29 day MA theoretically represents the 13 week cycle. The direction of the 29 day MA only signals cycle phase. It does not indicate how strong the up or down phase will be.

2/11/19 The 29 day MA has broken highs dating back to last July, confirming not only a 6 month cycle up phase, but also a 10-12 month cycle up phase. The last peak at this level was in December 2016 at the beginning of a major bull leg. Residual momentum carried the market higher for more than a year under favorable monetary conditions far different from today's. The previous instance of the indicator reaching this level led to a sharp correction in late 2015-early 2016.

The 29 day MA has turned flat. It remains extended. A day or two of market weakness would turn this indicator down. A downturn from here should lead to at least a consolidation in the market, if not an outright pullback.

2/3/19 The cumulative line has broken its December peak. This is another sign that the 10-12 month cycle is in an up phase, with higher highs likely. The long term pattern is now neutral.

1/21/19 The cumulative line has broken out above its 29 day MA. That's usually the signal for a bigger move. It's headed for a test and possible breakout through the December high, which would be a bullish intermediate term signal.

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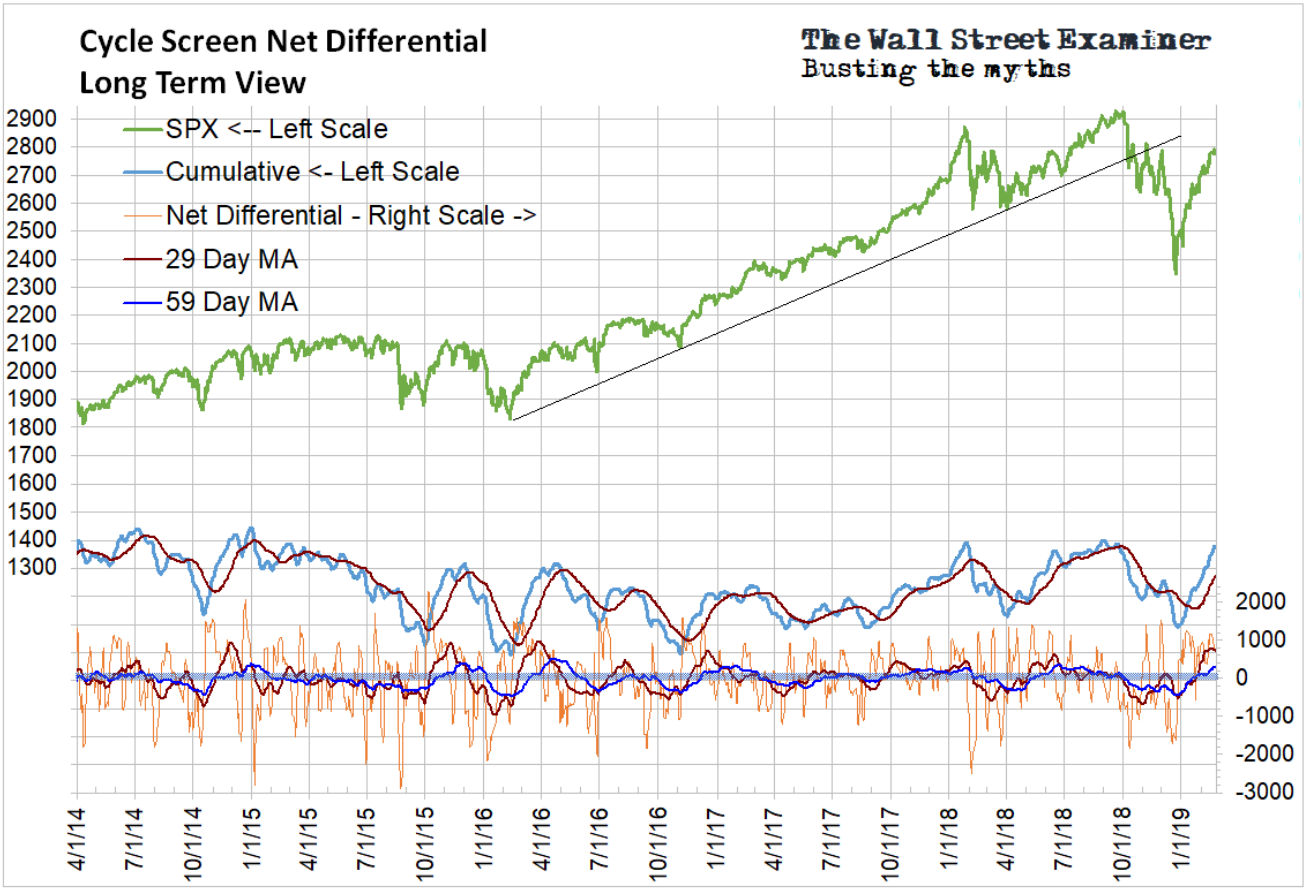

Market Strategy and Trading Tactics

With the market at a major inflection point, I would buy SPY calls on a breakout through 2820, with a mental stop-loss at 2800 should the market fail to sustain the breakout. I would do nothing if the market does not break out.

I would buy slightly in the money calls with approximately 4 weeks until expiration. I would sell the calls should the S&P hit 2900. Use the current meltup channel trendline on the third rail chart as your line for mental trailing stops.

2/18/19 In the next couple of weeks it should be clear whether the bear market will reassert itself, or if this is a new bull market. I would wait for that clarity, and a low risk entry before committing either way. There's simply too much uncertainty at this point. Liquidity argues against a bull market, but I won't argue with the tape if major resistance is cleared.

If you continue to hold the earlier recommended SPY calls, I'd use the sharpest short term trendline rising from 2755 to 2800 this week as a trailing stop line. I'd sell my calls on any move more than 5 points below that line.

I would not buy any puts yet. There's too much upside momentum that needs to be worked off.

Note: *Because options may go to zero if the underlying instrument does not move in the expected direction* *within the expected time frame, the risk is 100% of the amount invested. Options trading should therefore represent no more than a small percentage of total capital and an amount that the trader is willing to lose, should the trade be unsuccessful.*

The strategy and tactics suggestions in this report are general in nature and illustrative of one approach. No representation is made that it is the best approach, or even suitable for you or any particular investor. Nothing in this letter is meant as personalized investment advice and you should not construe it as such. Trading involves risk of loss, and in the case of options, the loss can be 100% of the amount invested. Any strategies and tactics recommended in this report should be made only after consulting with your financial adviser.

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