

**United-ICAP**  
the technical advisory service

walter j. zimmermann jr. walterz@united-icap.com

SPX Trend Reversals  
20 Aug 2013



**Tracking Trend Reversals  
in the S&P 500 Index:  
an RSI sell signal**

20 August 2013

Walter Zimmermann

United ICAP



## Tracking Trend Reversals in the S&P 500 Index

### Main Points

1. Directional reversals on our roadways are very well marked affairs. There is no ambiguity about a U-Turn sign. However, directional reversals in the stock market are not so clearly signed. Such reversals must be extracted from the price action.
2. We spend most of our time doing Elliott Wave and classical chart pattern analysis. It is time consuming. It is labor intensive. It is tedious. There are no short cuts in this endeavor. There is no 'Elliott Wave Lite.'
3. We spend this time in order to forecast price targets, trend reversals, and key support and resistance levels. Price pattern analysis is the only set of tools in technical analysis that yields price targets.
4. However, using much more simple and straightforward technical tools it is entirely possible to identify major trend reversals in the stock market without the use of price targets or chart pattern analysis.
5. In this report we will explore the use of the 'Relative Strength Index' and simple trend lines to identify major trend reversals in the stock market. To keep the size of this report to digestable proportions we begin from the 2002 lows.
6. We will show that a weekly RSI may be all that one needs in order to identify a major bottom in the stock market, and right off the lows. However peaking action is another story.
7. Since the bursting of the Dot-Com bubble, and compared to peaking action, major lows have been very fast moving events. If one gets bullish RSI divergence on a weekly chart one should jump on it without delay.
8. However from the Dot-Com bubble the US government has been in the business of propping up the stock market. So since the Dot-Com event major peaking action has become a long, drawn out affair.
9. In other words, major bottoming action happens in fast forward while major peaking action happens in super slow motion. One needs quick reflexes to catch a bottom. However one may need lots of patience to catch a top.
10. At the recent 1709.67 high the weekly RSI gave a divergence sell signal. However the multi-year up trend support line from the October 2011 low at 1074.77 has not yet been tested, much less broken. See pages 8 and 9

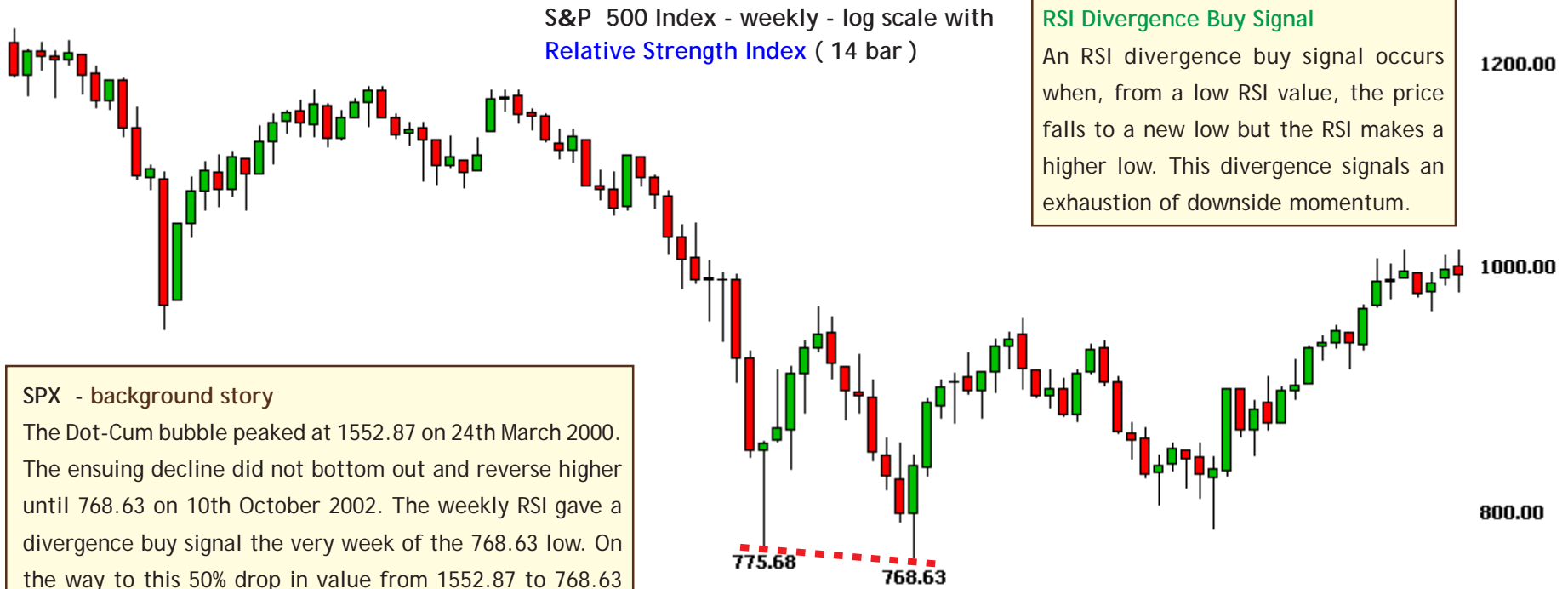
The market recommendations contained in this letter represent the opinions of the author. Such opinions are subject to change without notice. Principals and employees of United-ICAP may or may not trade in the commodities discussed in this letter, taking positions similar or opposite to the positions discussed herein. The information contained in this letter is taken from sources that we believe to be reliable, but it is not guaranteed by us as to the accuracy or completeness thereof and is sent to you for information purposes only. Commodity trading involves risk and is not for everyone.



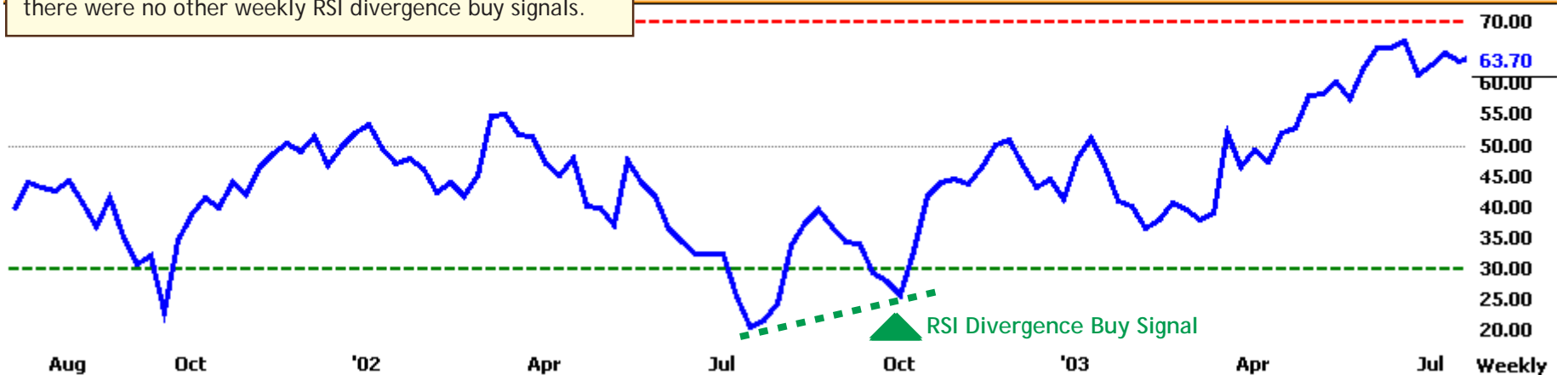
**United-ICAP**  
the technical advisory service

walter j. zimmermann jr. walterz@united-icap.com

SPX Trend Reversals  
20 Aug 2013

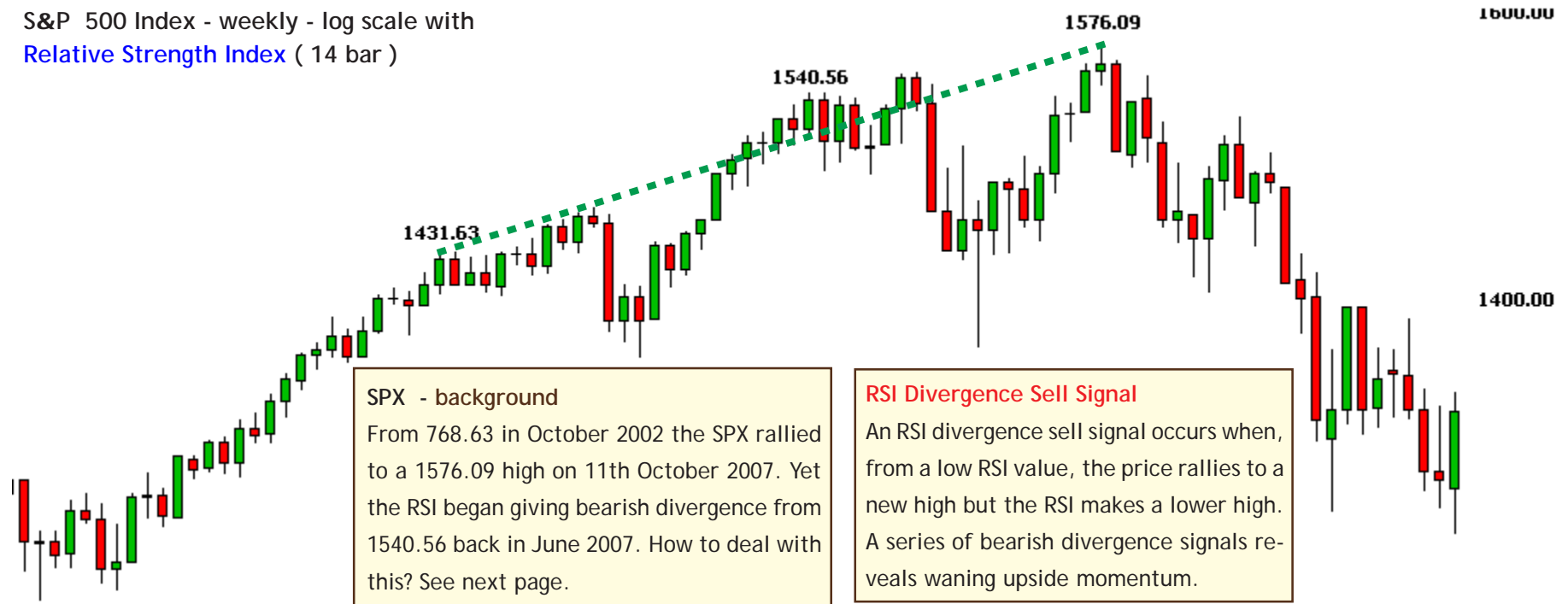


SPX - background story  
The Dot-Cum bubble peaked at 1552.87 on 24th March 2000. The ensuing decline did not bottom out and reverse higher until 768.63 on 10th October 2002. The weekly RSI gave a divergence buy signal the very week of the 768.63 low. On the way to this 50% drop in value from 1552.87 to 768.63 there were no other weekly RSI divergence buy signals.



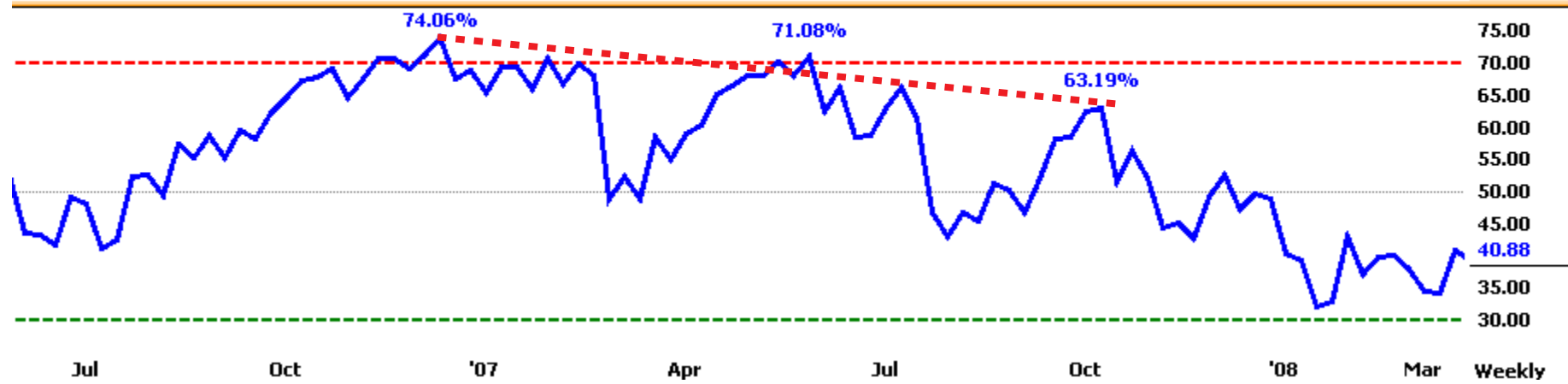


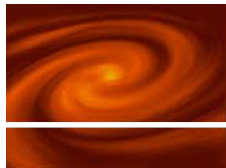
S&P 500 Index - weekly - log scale with  
Relative Strength Index ( 14 bar )



**SPX - background**  
 From 768.63 in October 2002 the SPX rallied to a 1576.09 high on 11th October 2007. Yet the RSI began giving bearish divergence from 1540.56 back in June 2007. How to deal with this? See next page.

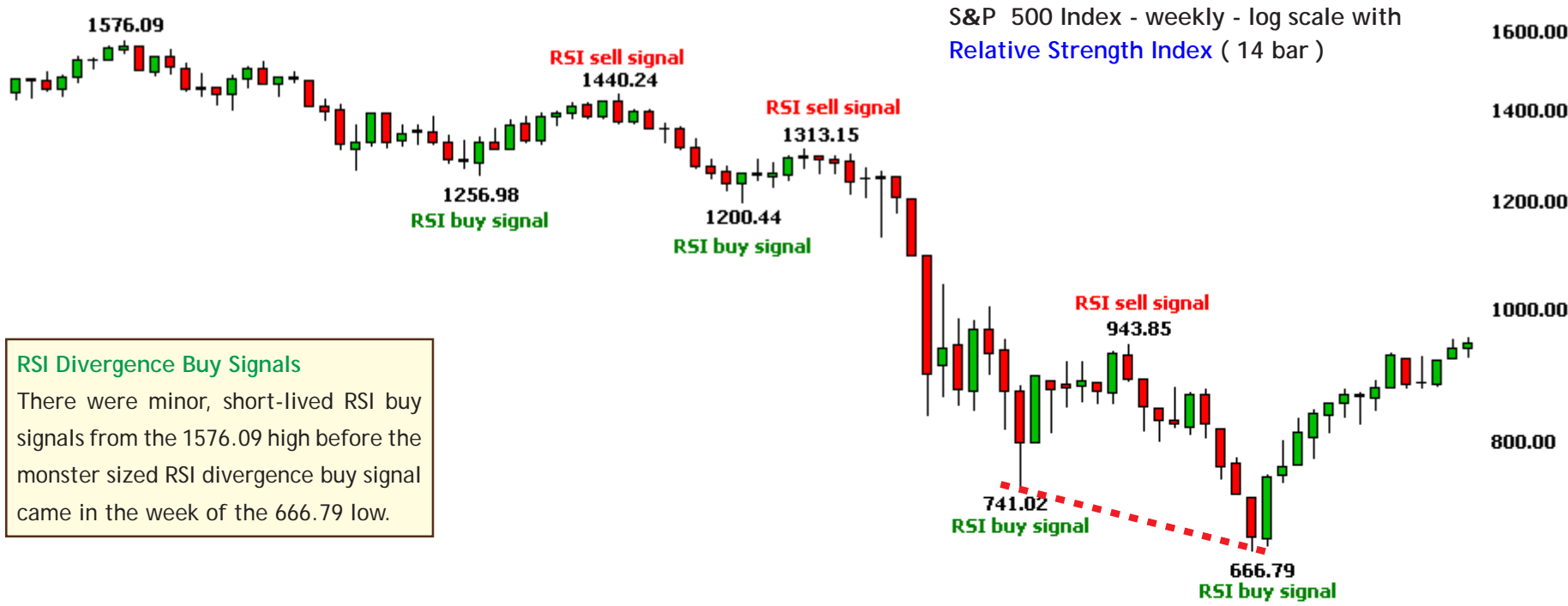
**RSI Divergence Sell Signal**  
 An RSI divergence sell signal occurs when, from a low RSI value, the price rallies to a new high but the RSI makes a lower high. A series of bearish divergence signals reveals waning upside momentum.





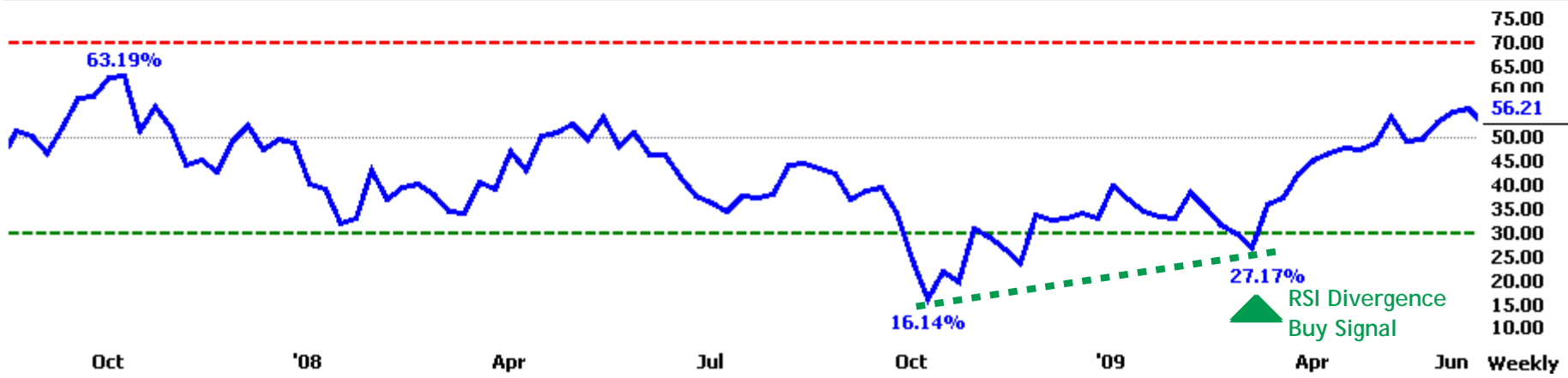
S&P 500 Index - monthly





**RSI Divergence Buy Signals**

There were minor, short-lived RSI buy signals from the 1576.09 high before the monster sized RSI divergence buy signal came in the week of the 666.79 low.

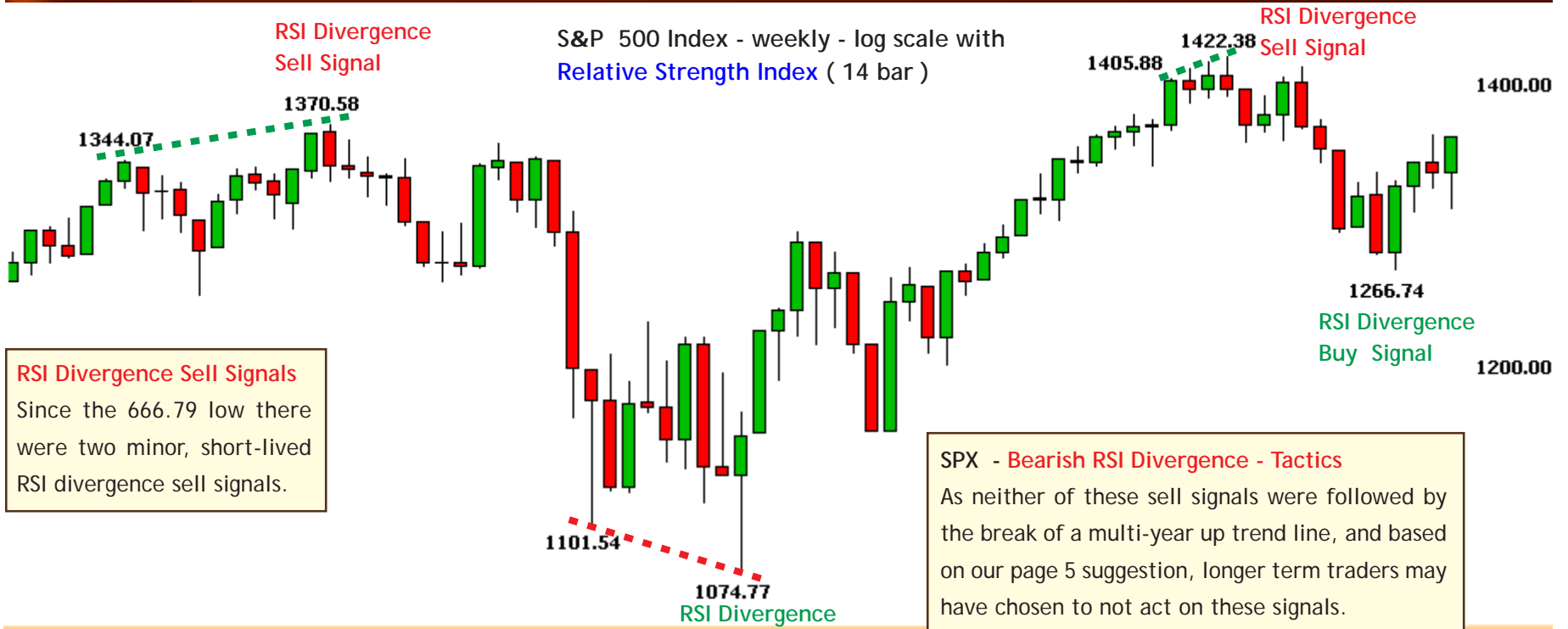




**United-ICAP**  
the technical advisory service

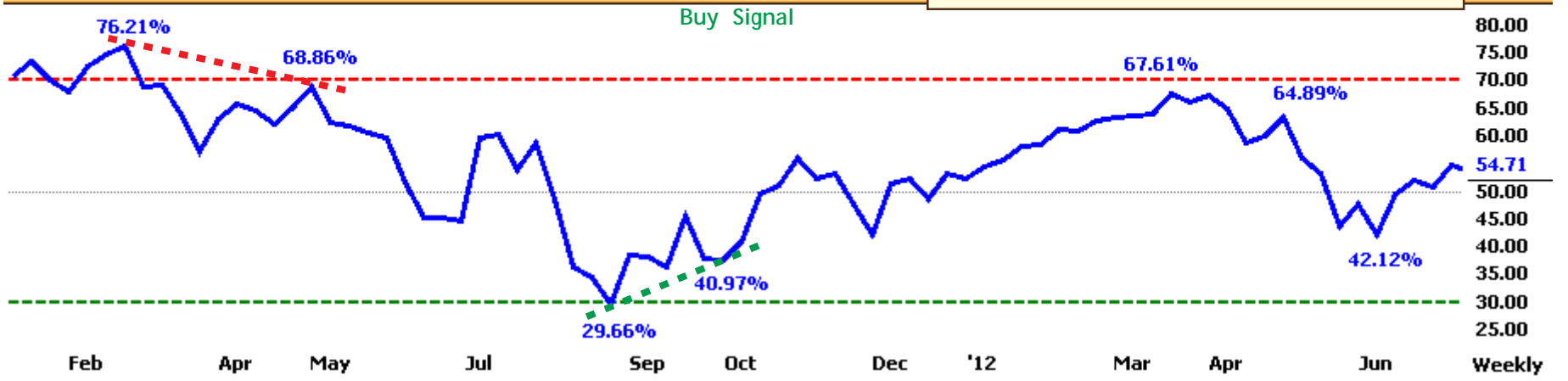
walter j. zimmermann jr. walterz@united-icap.com

SPX Trend Reversals  
20 Aug 2013

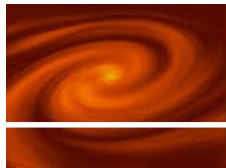


**RSI Divergence Sell Signals**  
 Since the 666.79 low there were two minor, short-lived RSI divergence sell signals.

**SPX - Bearish RSI Divergence - Tactics**  
 As neither of these sell signals were followed by the break of a multi-year up trend line, and based on our page 5 suggestion, longer term traders may have chosen to not act on these signals.



Feb Apr May Jul Sep Oct Dec '12 Mar Apr Jun Weekly



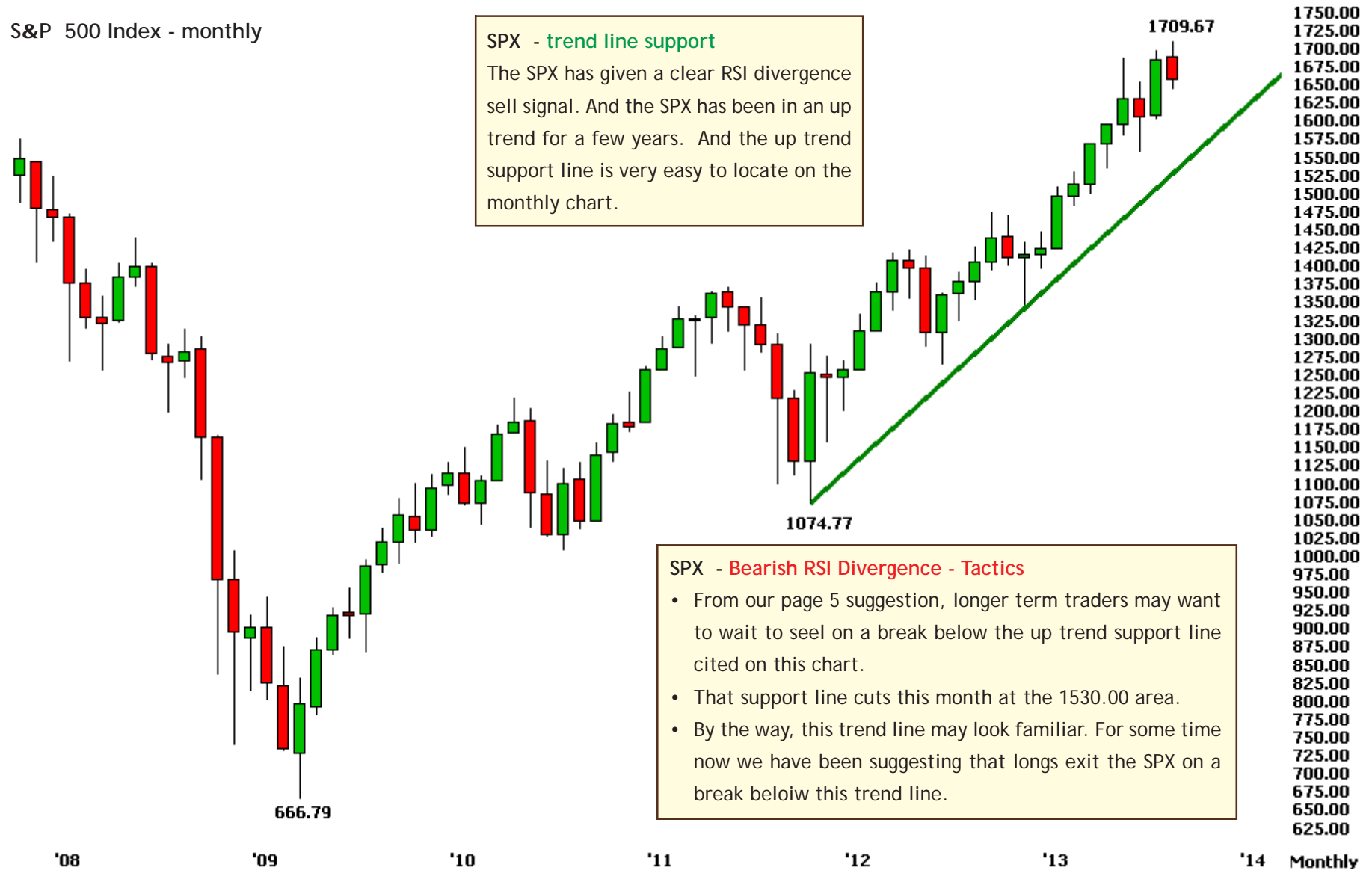
S&P 500 Index - weekly - log scale with  
Relative Strength Index ( 14 bar )







S&P 500 Index - monthly



**SPX - trend line support**

The SPX has given a clear RSI divergence sell signal. And the SPX has been in an up trend for a few years. And the up trend support line is very easy to locate on the monthly chart.

**SPX - Bearish RSI Divergence - Tactics**

- From our page 5 suggestion, longer term traders may want to wait to sell on a break below the up trend support line cited on this chart.
- That support line cuts this month at the 1530.00 area.
- By the way, this trend line may look familiar. For some time now we have been suggesting that longs exit the SPX on a break below this trend line.