

US showing a shift in momentum, but which way will it move?

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US SHAREMARKETS are in uncertain territory, with the S&P 500 Index displaying conflicting signals about its direction.

Technical analyst Paul Ash says that on the one hand there are signals that the downtrend of recent weeks may have bottomed, as the market appeared to find a support zone between 1015 and 1045 points in recent trading.

That sign will be tested this week, Ash believes. If there is some levity in share prices and the market moves above last week's high of 1103, then the case for further rises

S&P 500 INDEX WEEKLY MOMENTUM INDICATOR



will be strengthened. On the other hand, if the market falls through last week's low of 1040, the situation will look quite bearish down to another support zone of about 950 points, he says.

Overlaying the current situation is a worrying momentum graph (see above). Momentum is essentially the "physics" of charting. It is measured by taking the market's weekly close and compar-

ing it with 12 weeks earlier, to show how steeply the market is climbing or falling. From the global financial crisis nadir in March 2009, the market rose steeply until May last year when it

flattened and meandered for a few months in an overall upward trajectory.

Then in February this year it took off but rose less steeply and climbed less far until its late-April peak. That phenomenon, Ash says, is called "divergence" and it means the upward momentum of the market is waning. The divergence may be early warning of a downward move, and the trend lines on the momentum chart lend weight to that interpretation.

If the market breaches last week's lows, then this momentum factor may come into play and we

will see further losses.

However, the optimists can take heart from the appearance on last week's chart of something approaching a "doji". A doji appears in candle graphs when there is a very narrow range between opening and closing levels, indicating the market is almost in equilibrium. However, that equilibrium does not mean stability, it means investor indecision, and when that mood changes there can be a breakout up or down. So this week might surprise — the question is in which direction.

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