

FEB. 9, 2014

Momentum Structural Analysis

Momentum 101 - totally different vista and way of thinking of trend



Basic Concepts and Principles.

With accompanying visuals and large print. Relax.

A major trend is like a bridge.

A bridge has evident structures that support it. Consider that a market trend over time will develop support structures with each successful correction in the life of that trend.

These structures are not always evident on price chart of the trend, and if they are, they usually do not have clear symmetry and often are far below the market.

But with a momentum view of a trend (price measured against different long term means or averages of price, not against a fixed-price scale on the Y axis) the structures will almost always be evident and clear to the eye. If structure is not large and clear, then a trend change is not likely to occur anytime soon.

The trend structures - the vulnerable supports - must be in evidence, be definable. If so, then pay attention.

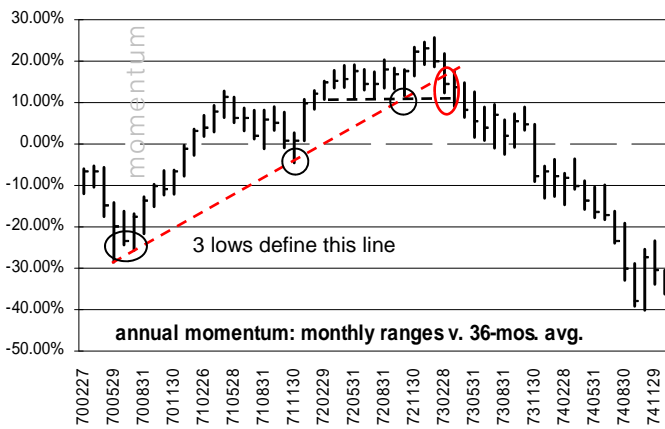
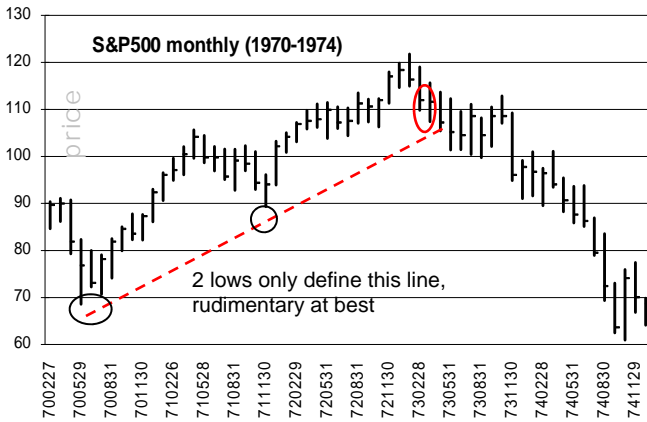
RULE: A trend does not "break" unless - THERE IS SOMETHING TO BREAK.



Momentum Structural Analysis (institutional technical research since 1992)

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For MSA's history and a brief video on its methods visit: www.olivermsa.com



March 1973 circled in red on both charts above.

In July 2007, the financial sector signaled top, six months before the broad market got the message. Beginning from 2004 onward on price chart, one had to constantly “re-angle” the trend line to attempt to define a valid trend line. A price chartist had to “finesse,” in other words.

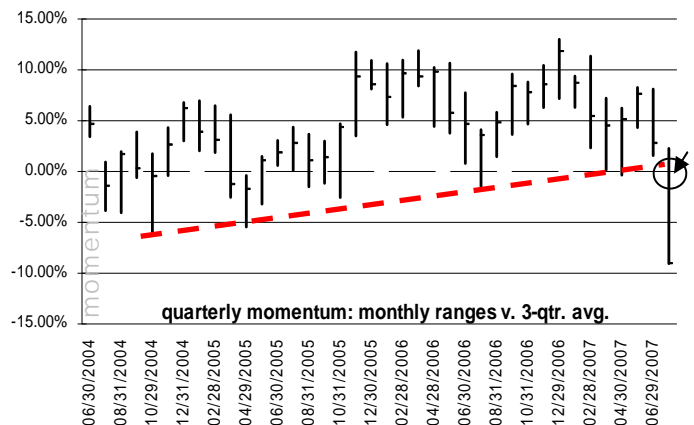
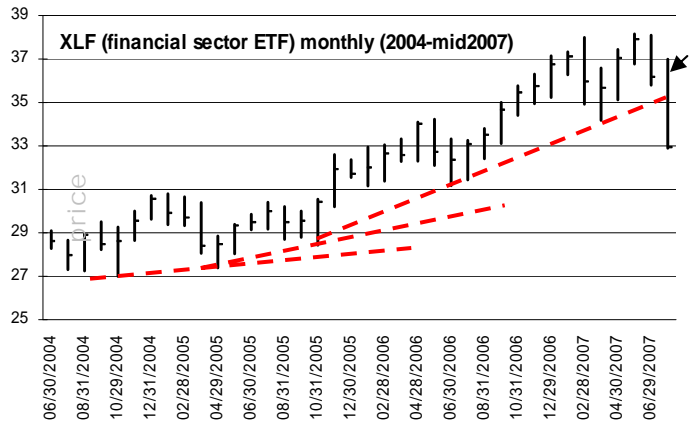
Momentum built one contiguous sequence of in-line support pillars. Their integrity came out with a bang in early July, 2007 (noted with arrow on momentum; where that momentum sell signal occurred also noted on the price chart).

Rule: Do not expect a trend to break until there is something clear to break (most often evident on momentum).

Semester One: all on this page...sample visuals of prior bull trends: price and long term momentum.

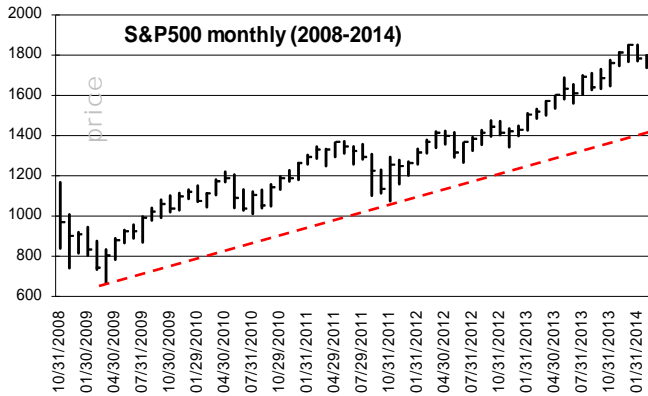
Take-home reading: see charts from past 20 years in 7 minute video on MSA’s site: link at bottom p. 1

1973 top. Price had only a 2-point uptrend, least reliable technical factor one can plot. 3-points along trend line far more valid. Even more pillars of support add to greater clarity of structure and dimension. But price does not always accommodate with clarity. **Momentum bridge** (on left) shows 3 in-line pillars of structural support, coupled with a flat triple-bottom structure. These nearly convergent momentum structures are blown out in February/



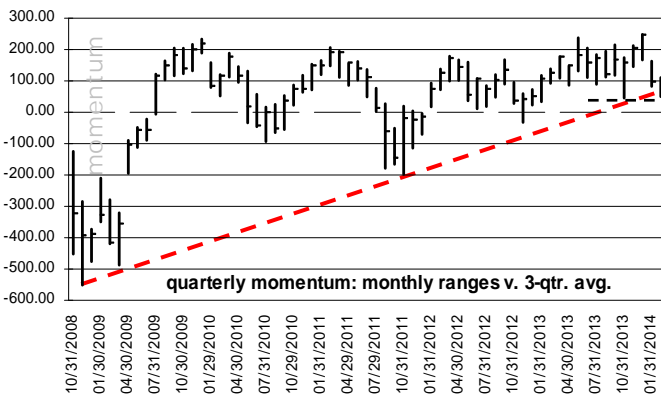
Semester 2

The Current "Bridge" and its Supports



Two long term momentum studies on this and next page...quarterly and annual. Big trend pillars/big structures defined.

Again, price allows for rudimentary 2-point line below - way below. Of no utility now. Momentum offers multi-point, multi-year uptrend coupled with horizontal structure, and clarity is especially evident on point& figure version of the quarterly momentum chart (below).

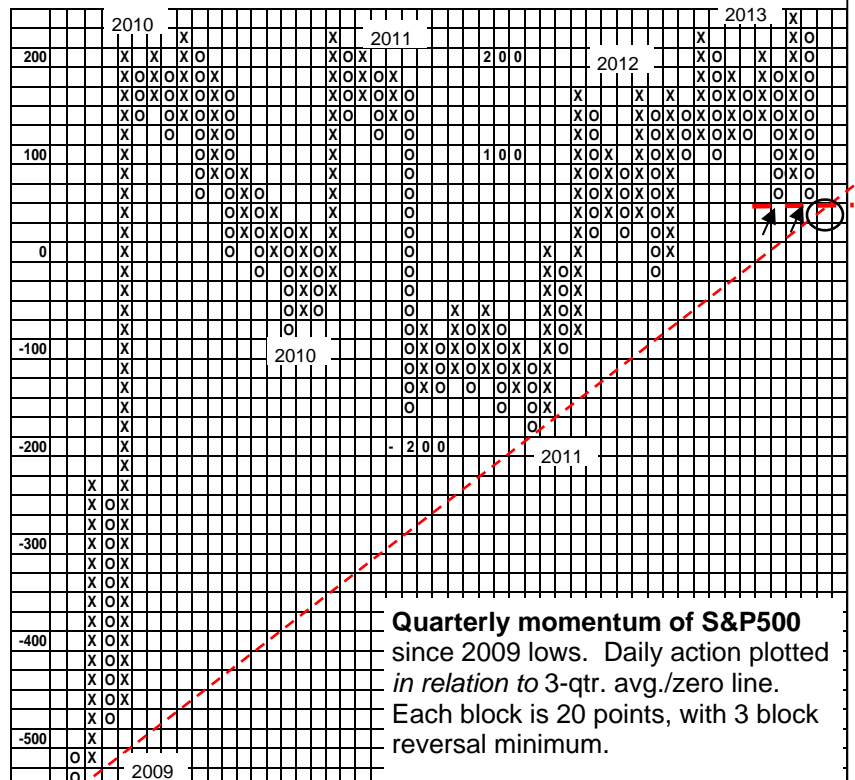


P&F chart below has advantages. It is plotted with upticks and downticks of 20 point size, and does not alter the uptick (X's) or the downtick (O's) direction until there is a 60 point (3 block) reversal in direction of price as price is measured against the mean of the 3-qr. avg. (at 1687.75, adjusts up sharply each new quarter).

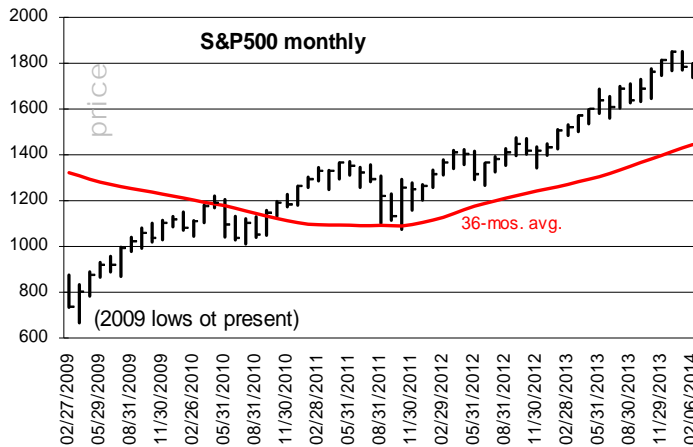
P&F ignores the little stuff - ignores the noise.

The current downticks (O's) have halted at 60 points over zero line/3 qtr. avg., same level as the prior downtick column that ended back in Oct. 2013 (arrows). Same horizontal level. If in the current bounce we see S&P500 trade to 120 points over the 3-qr. avg. (if price trades to 1807.75), then the p&f chart will post 3 upticks (X's), leaving a double-bottom waiting below, thereby creating the potential for future triple-bottom negative breakout if ever trades 40 points over the 3-qr. avg. If the needed upticks occur that means there is a coincident triple-bottom momentum breakout below, in sync with violation of multi-year uptrend - a potent negative combination. If price upticks, it then needs to "keep on ticking."

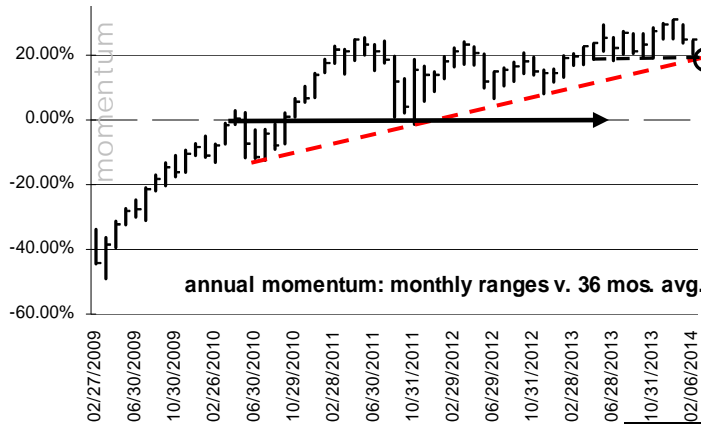
Quarterly momentum pillars under this bridge are becoming obvious.



Quarterly momentum of S&P500 since 2009 lows. Daily action plotted in relation to 3-qr. avg./zero line. Each block is 20 points, with 3 block reversal minimum.



If these convergent support structures break (circled), expect return to the mean - zero line area (mid-1400's) as consequence. Same echoed by 3-yr. avg. and 200-week avg. momentum studies, not shown here.



In February annual momentum has posted 4 downticks and just missed tagging the flat structure at 20% (a "set trigger" tick in MSA's opinion, if seen). The big pending negative tick is the +18% tick which constitutes a quadruple bottom momentum breakout that is now coincident with violating the multi-year momentum uptrend structure - the in-line pillars under this bridge.

For Feb. if trades 1733.80 is 20% over; if touches 1704.90 is 18% over.

For Mar. (estimated numbers) if trades 1749 is 20% over; if touches 1719.90 is 18% over.

Momentum 101 - is over.

Now annual momentum, or as the chef Emeril says, "Let's kick it up a notch!"

36-mos. avg. this month is 1444.85. Low tick this quarter put price just barely above 20% over that average/zero line. Had it traded to 1733.8 it would have touched 20% level matching all the reaction lows that occurred in 2013, all of which halted at 20% level, never dropping down to 18% level. Best shown on the P&F version of annual momentum below.

Taking reaction lows (the meaningful ones) since the bull market began, summer 2010, late 2011, June and November, 2012, etc. Those lows on price are not aligned in any manner. No trend structure defines those random corrections. On momentum they are in-line. And this month's low (so far) halted again on that line, and the horizontal.

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