



Blue Line Investing¹
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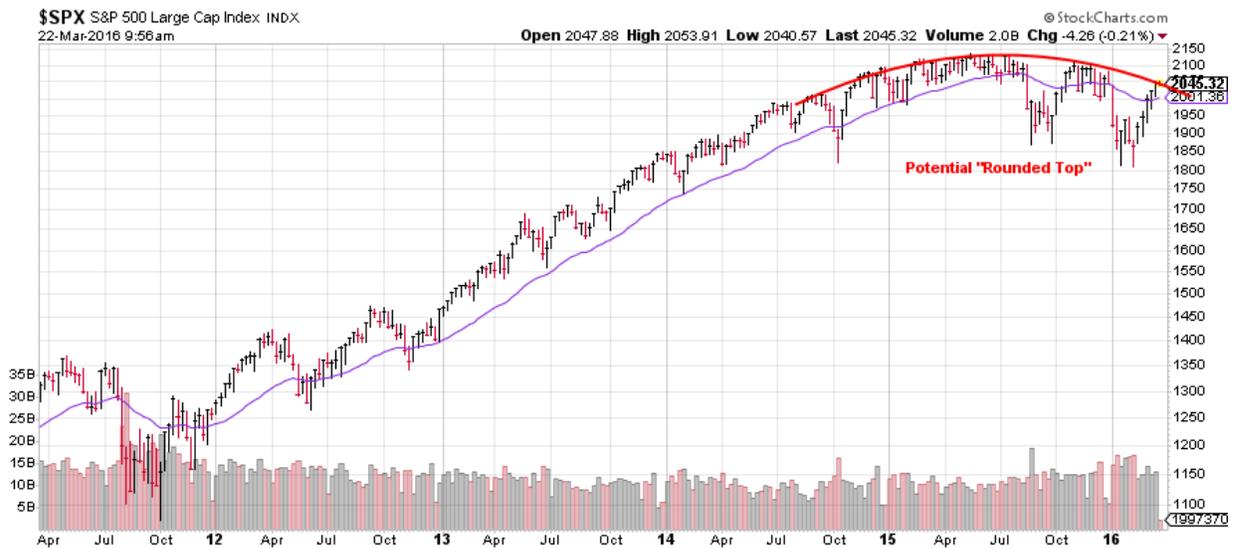
“TECHNICALLY SPEAKING”

April 25, 2016

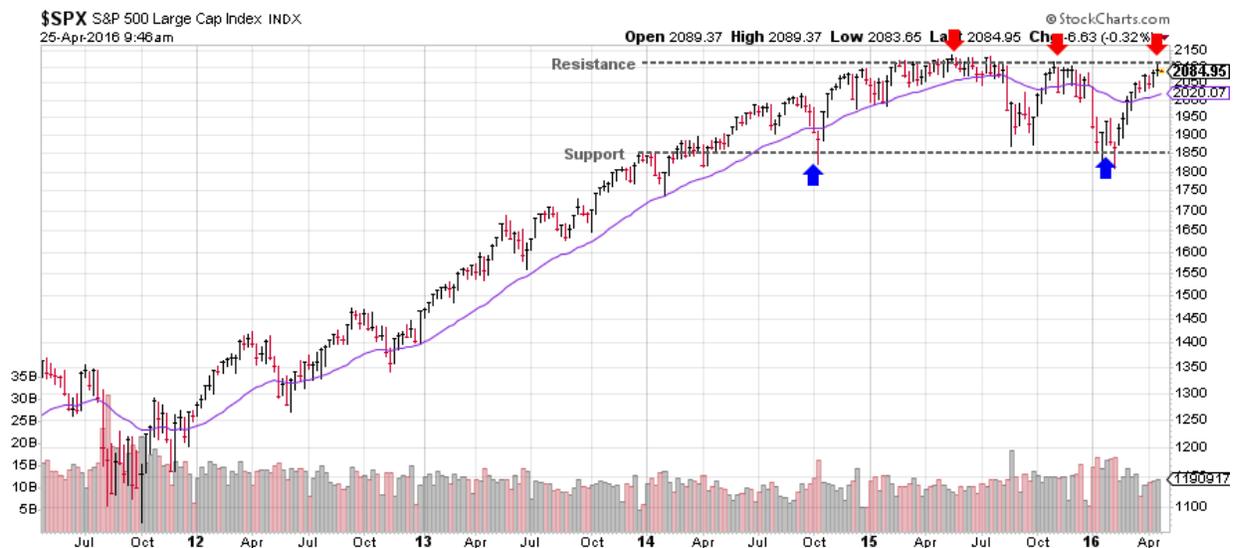
This special report is being provided to supplement our monthly BLI MARKET VIEW report. Its purpose is to help clients and investors contemplate the attractiveness or unattractiveness of investing in the stock market, at the present time, using technical analysis and the Blue Line Investing investment process.

Dodged a bullet? What could be next?

Since last fall we have been observing the formation of a potential technical pattern called a “Rounded Top.” We wrote extensively about this potentially negative formation back in our Special Report in February of this year. We provided updated comments last month in our Special Report – On The Edge? – and included the chart below as an updated illustration of the potential formation in process.



Fortunately for investors, the potential risk from the “Rounded Top” technical formation appears to have been negated with the continued rally in the stock market. So what does this imply? What could investors expect going forward? Please see an updated chart on the next page illustrating our new observations and beliefs based solely on technical analysis.



When prices broke through the 2,045 range on the S&P 500 Index², we had to reassess what the market might be telling us. In the case above, it appears the market is suggesting we are in a consolidation phase. According to the Blue Line Investment process, we would categorize the current primary trend of the market as “Neutral.” There are a couple items to take notice on the weekly chart above (*note: the chart above covers a 5 year period of time*).

First, it appears the market is bumping up against “resistance” around the 2,100 level. This means each time the market gets near this price level, there appears to be more sellers than buyers. The red arrows show where we have bumped up against this level in the past, and that we are currently at or near this level.

Likewise, when prices have “corrected” in the past, they have typically stopped at “support” around the 1,850 level. This means each time the market gets near this price level, there appears to be more buyers than sellers. The blue arrows show where we have dropped down to this level in the past.

We believe the market is likely to remain within this “trading range” until it breaks up *through* 2,100, or breaks down *through* 1,850 somewhere in the future. If markets correct again over the coming months, and decline down to the 1,850 level – *without breaking through* – this could provide an attractive price level to make new stock purchases. Likewise, if markets break up through 2,100 by a reasonable margin, and then correct back to 2,100 on a successful “test” of that previous resistance level, that could also provide an attractive price level to make new stock purchases.

Until either one of these price levels is broken through, the market may remain range bound, rallying and declining, and trying the patience of investors. We believe patience, investment discipline, and risk management should continue to be exercised during the current market environment.

¹ Blue Line Investing (BLI) is a disciplined investment process, based on technical analysis research. The process applies trend-following, along with observations of the moving averages of the market. Key to the process is the "blue line", which is derived from comparing an investment's price against its moving average. BLI monitors those activities over time in order to determine allocations within client accounts.

² The S&P 500 Index is one of the most commonly followed equity indices, and many consider it one of the best representations of the U.S. stock market, and a bellwether for the U.S. economy. It is comprised of 500 large companies having common stock listed on the NYSE or NASDAQ.

Disclaimers:

Technical analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volumes. Technical analysis attempts to predict a future stock price or direction based on market trends. The assumption is that the market follows discernible patterns and if these patterns can be identified then a prediction can be made. There are certain limitations to technical analysis research, such as the risk is that markets may not always follow patterns. This investment process should not be considered a guaranteed prediction of market activity and is one of many indicators that may be used to analyze market data for investing purposes. There is no guarantee that this process will be successful or will result in the projections contained herein.

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