

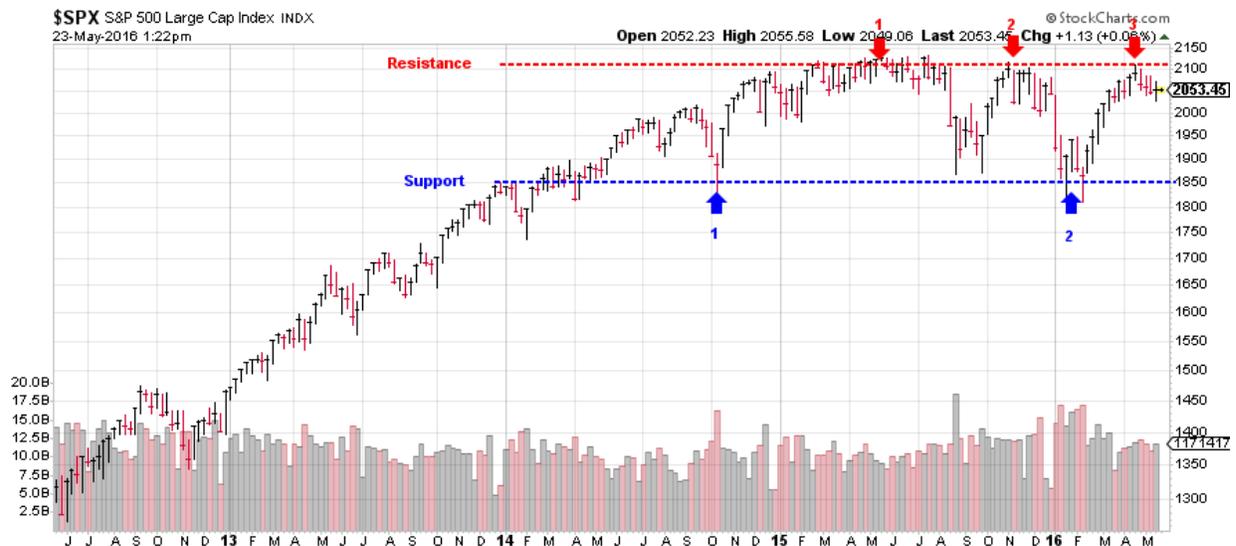


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“TECHNICALLY SPEAKING” ² May 23, 2016

Third Time's the Charm?

In last month's report titled, "*Technically Speaking – Dodged a Bullet?*" we included a weekly chart of the S&P 500 Index³ to illustrate why we believe the market is currently going through a consolidation phase. Over the past year we have been observing how the market continues to bump up against price resistance around the 2,100 level. This means each time the market gets near this price level there appears to be more sellers of stocks rather than buyers. The chart below has been updated to reflect the price activity since that last report. As can be observed, prices have turned down from the 2,100 level...again.



When it comes to technical analysis, there are certain “rules” that can be used to help create expectations for what might occur in the future, based upon observing similar price behavior in the past. While technical analysis is not a crystal ball and cannot forecast what will happen in the future, it can help investors with their *expectations*, and help them set their investment strategy accordingly.

An interesting observation of technical analysis is how markets typically “test” support or resistance levels. Sometimes prices are tested twice, but often, it occurs three or more times. The more times a market

"tests" a price level, the more likely it is that that price level will eventually be broken through. As a case in point, notice on the chart above the market has "tested" the resistance level of 2,100 three times over the past year-and-a-half. This has been identified with red arrows and numbers, and so far, it has not broken through. This suggests that somewhere in the future there is the possibility for the market to "test" this level a fourth time.

Compared to resistance, we can observe the market has only "tested" support at the 1,850 level two times. This has been identified with the blue arrows and numbers. So with this information in mind, we believe investors should expect prices to eventually "test" that level again. While there are no guarantees this will happen, we believe it is likely. And if it does happen, investors should expect stock prices to fall by approximately 10% from current levels.

So what could investors do in the current environment? First, if they are already fully invested they could consider putting some investments in their portfolios to hedge, or protect, against losses that could occur from a price decline. Second, if they are not invested, they could patiently wait to see if prices do decline to support, which could provide an attractive, long-term buying opportunity. Third, investors could *short*⁴ the market, if the opportunity presents itself, thereby attempting to profit from a stock market decline should one occur.

For existing clients we are always happy to answer any questions you have about our current investment positions and thank you for your continued trust and confidence.

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 *"Technically Speaking" is a special report 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.*

³ *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. The volatility (beta) of the account may be greater or less than the index. It is not possible to invest directly in this index.*

⁴ *A short position is the sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value. The intent is to buy it back at a future lower price, thereby replacing similar shares to the original owner at a lower price and profiting from the difference.*

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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