BLI
BLUE LINE INVESTING

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"TECHNICALLY SPEAKING" [2]
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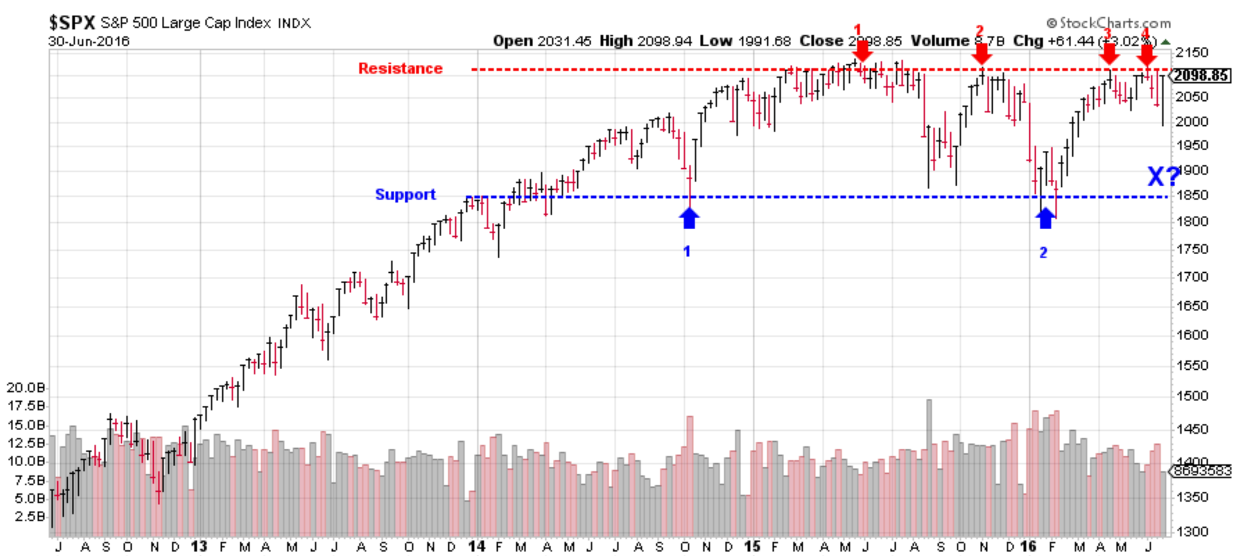
Perspective

Volatility – it comes with investing. But is it our friend or foe? The answer is, it depends. If we are fully invested in the stock market when upside price volatility occurs, then it can be our friend. But if we are fully invested in the stock market when the downside price volatility occurs, then it can be our foe. With the recent price volatility in the stock market, partly due to the "BREXIT" vote, I wanted to provide our thoughts so investors have some perspective on recent events and can set some future expectations.

In May's "*Technically Speaking – Dodged A Bullet?"* report we provided a Weekly chart of the S&P 500 Index[3] to illustrate what we believe is "the big picture" for why the market is currently in a neutral/consolidating phase. We have updated that chart below. If you did not read the previous report I encourage you to do so.

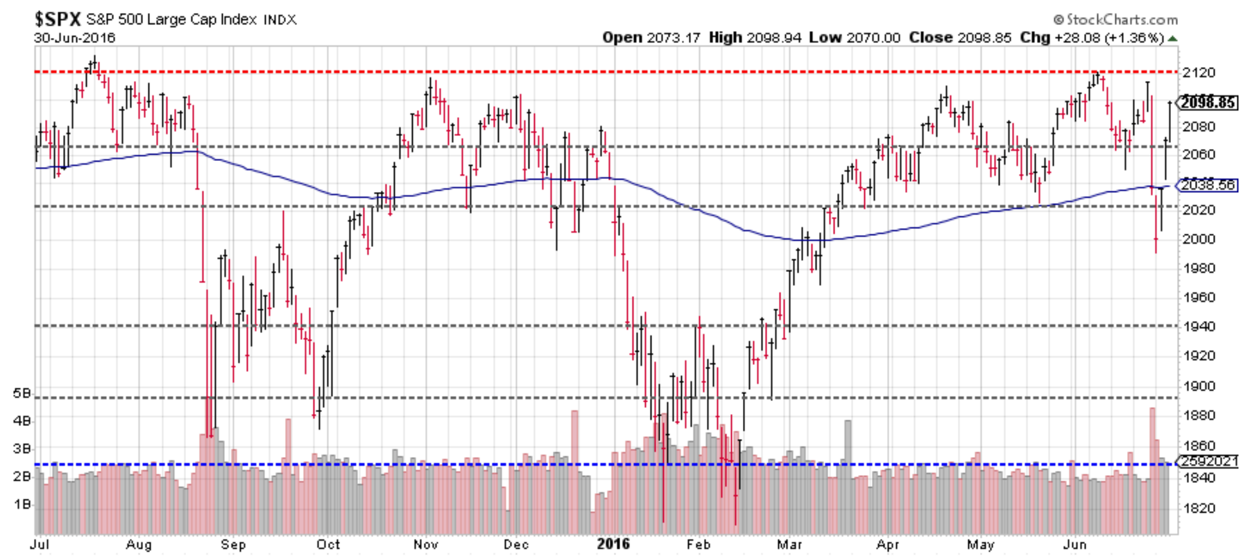


Purely from a technical analysis point of view we believe the chart above is suggesting the following:

- The consolidation continues

- The market continues to try (and so far fail) to break through price resistance around the 2,100 level of the S&P 500 Index. *(This level must be broken out to the upside for the stock market to make further advances to potentially new, all time highs).*
- Historically speaking, ***stock market tops do not form this way***. From a purely technical analysis perspective, it is more likely that markets will eventually break up through 2,100, than down through 1,850.
- If the market fails to break out above 2,100, it is possible that the S&P 500 Index may continue to decline back to the lows from earlier this year at the 1,850 level – *although it does not have to*. We have marked this on the chart with a blue "X."
- If prices do correct back to test the 1,850 price level and hold, this could be an opportunistic area to buy stocks.

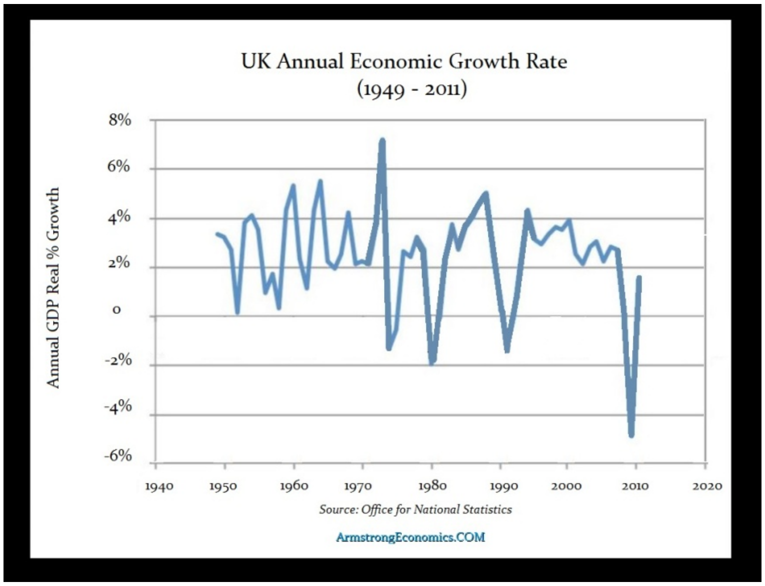
So with those thoughts in mind, let's take a look at the Daily chart of the same index to get some ideas of where possible Resistance and Support areas might lie for an investor to set their expectations. Since stock markets do not typically rise and fall in a straight line, these levels can help us manage investment strategy based on what markets might be suggesting.



- We can observe that the stock market is marginally higher than where it was at the start of the year.
- If prices fail to rally further it becomes possible for prices to decline to test the 1,940 price level in the weeks or months to come.
- Observing the two previous price declines, we can observe that they typically decline, then rally, then decline again to "test" the previous low price. If this occurs again over the weeks and/or months to come, this could be a signal from the market that prices are on the verge of stopping their decline, and are ready to rally. This could be a great buying opportunity for investors if it comes to pass.

I want to stress the importance for investors to maintain their emotions during these periods. If someone is a profit-seeking investor (which we presume all investors are), then they should be looking for opportunities the market may provide. It is likely for volatility to increase going forward, and volatility can bring opportunity. Remember, some of the greatest investment gains can come from purchases made during stock market declines. If one occurs in the weeks or months to come, an investor should patiently wait for the stock market to signal the price decline is likely coming to an end, rather than just buying aimlessly because prices have declined. If you have been a long-time client you may recall we call these situations "***positive divergences***." Should the market's decline further in the weeks to come, we hope they provide a positive divergence as we intend to take advantage of that opportunity.

Lastly, I wanted to provide a chart that, I believe, sums up the recent decision by the United Kingdom to leave the European Union. Many claims have been made through the media that if the UK left it could have devastating consequences to their economy and country. However, take a look at the following chart. It was constructed using public, government data, and is provided courtesy of Armstrong Economics:



The United Kingdom joined the European Union in 1973. That coincided with the *peak* of their economic growth. Since 1973, the general trend in economic activity has been down.

For existing clients we are always happy to answer any questions you have about our current investment positions, next planned investments, and where we are looking for investment opportunity in the stock, bond, and commodity markets. 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.*

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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