Dudack Research Group
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Direct from Dudack

Monitoring the Sell-off

DJIA: 27109.87
SPX: 328.21
NASDAQ: 8970.68

The DJIA's 1,031.61-point decline on Monday was followed by an 879.44-point decline on Tuesday, leaving the DJIA 8.4% below its recent all-time high of 29,551.42 made on February 12th. The SPX is currently 7.6% below its record high; while the Nasdaq Composite and Russell 2000 indices are 8.7% and 9.7%, respectively, below their recent peaks. In short, the sell-off has been sharp and severe, but it does not yet qualify as a "correction" which we define as a drop of 10% or more in the indices. And we remind readers that the intensity of this week's decline is actually positive for the longer-term outlook since moves that are counter to the major trend tend to be the more dramatic.

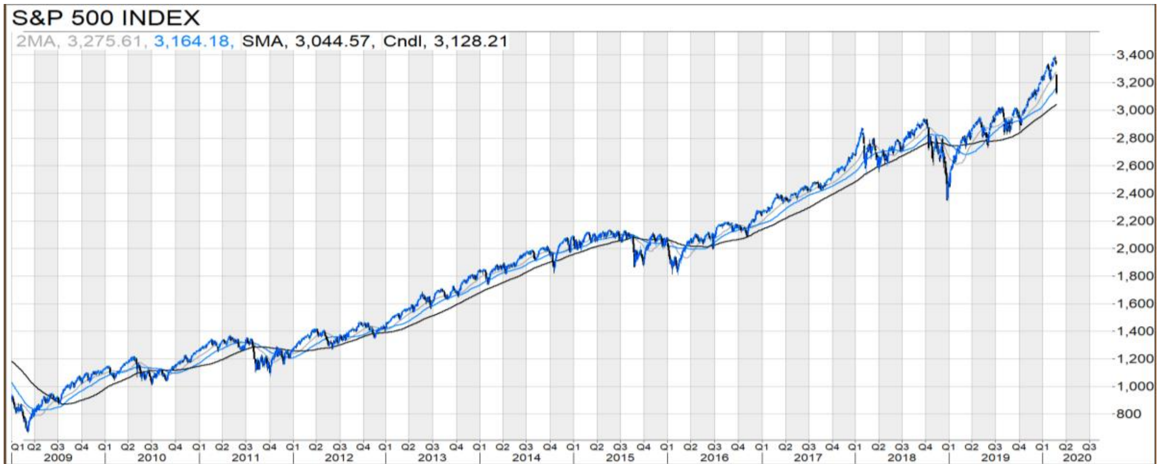
Earlier this week we noted that Monday's sell-off was a 91% down day and that these extreme readings are rare but tend to appear in a series. In Tuesday's market, 89% of the day's volume was in declining shares, which was not quite a 90% down day, but still extreme. In the next few days and weeks, we will be monitoring the market closely to see if a 90% up day appears. A 90% up day would be favorable since these readings have historically marked the reversal of selling pressure and suggest the worst of the decline is over.

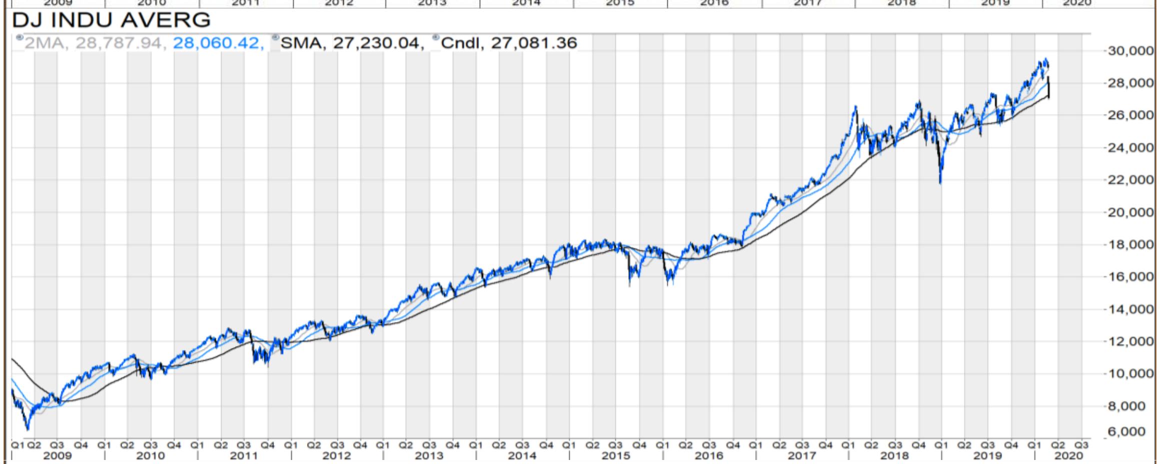
It may surprise investors that our 25-day up/down volume oscillator closed at negative 2.81 on Tuesday, which is still above the negative 3.0 level that defines an oversold reading. This oscillator is apt to become oversold in coming sessions; and if it does it would be the first oversold reading since December 2018. We will be monitoring this indicator as well since oversold readings should be short in duration in a bull market cycle. For comparison, the December 2018 oversold reading lasted for nearly 13 consecutive trading sessions.

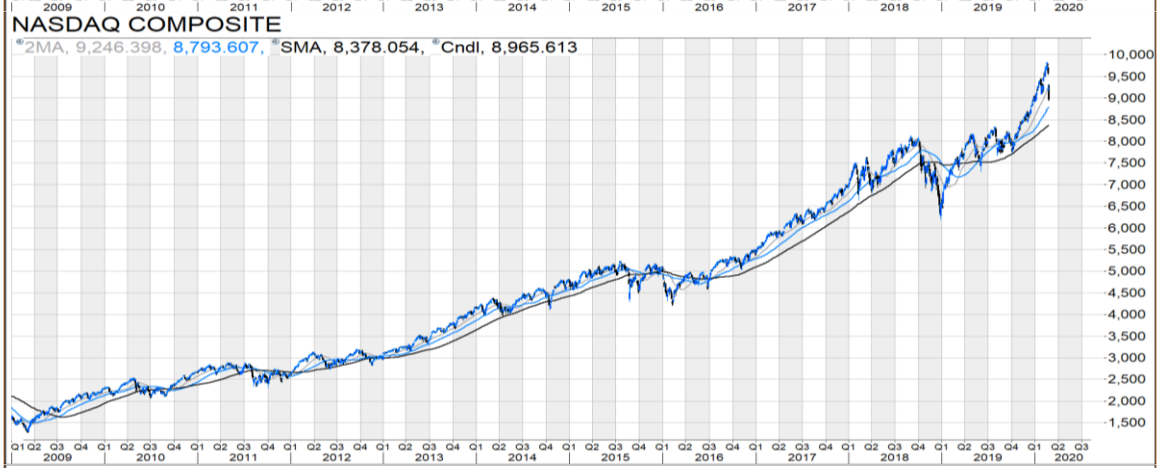
As a reminder, December 24, 2018 was a cyclical low that ended an 18.8% decline in the DJIA and a 19.8% decline in the SPX. The intense December 2018 selloff was the result of unknowns tied to fears of Fed tightening and rising US/China trade tensions. Economists were forecasting a US recession as a result of rising interest rates and a global trade war. The current environment is different. Although the sell-off is also due to unknowns, the coronavirus is not expected to trigger a US recession.

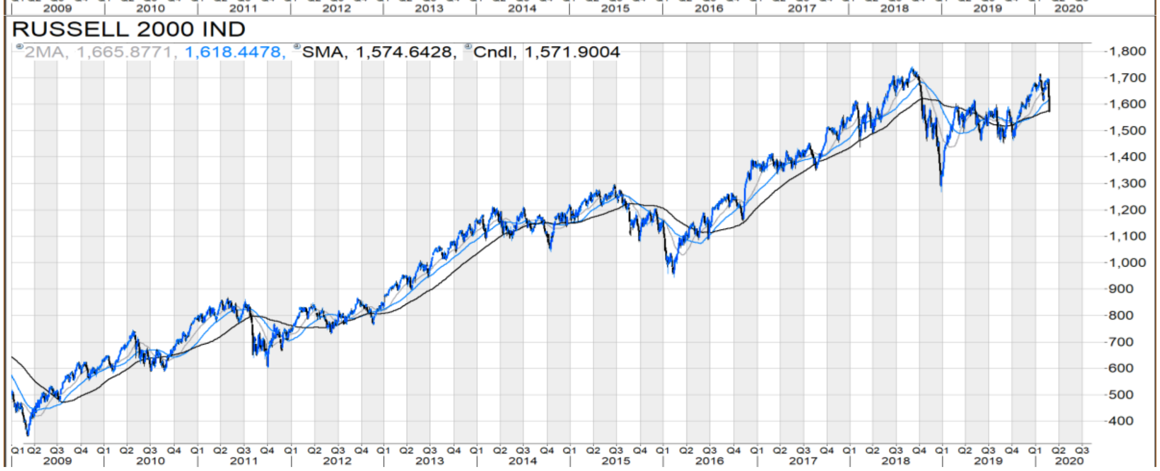
And finally, this week's decline has carried the DJIA and the Russell 2000 index slightly below their respective 200-day moving averages. The SPX and Nasdaq Composite indices remain slightly above their 200-day MA's. Most analysts view 200-day moving averages as good substitutes for long-term trendlines and we would point out that 200-day MA's are normally tested and retested during a bull market cycle. Technicians often use a 2% rule for the 200-day moving average and consider a "successful" test one that does not fall more than 2% below this benchmark. In short, these moving averages are being tested this week. See page 2.

All in all, we believe the market should begin to stabilize at, or slightly below, current levels as it awaits more news about the spread of the epidemic and the possibility of a vaccine. If we are correct, this should be an opportune time to refine and upgrade portfolios and look for longer-term buying opportunities. We would still avoid travel-related sectors.


S&P 500 INDEX
2MA, 3,275.61, 3,164.18, SMA, 3,044.57, Cndl, 3,128.21


DJ INDU AVERG
2MA, 28,787.94, 28,060.42, SMA, 27,230.04, Cndl, 27,081.36


NASDAQ COMPOSITE
2MA, 9,246.398, 8,793.607, SMA, 8,378.054, Cndl, 8,965.613


RUSSELL 2000 IND
2MA, 1,665.8771, 1,618.4478, SMA, 1,574.6428, Cndl, 1,571.9004

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