

S&P 500 Reversal, What Happened?

SP500 REVERSAL, WHAT HAPPENED? 09/02/08

By, Stewart Solaka

With oil along with other commodities across the board seeing a strong sell off into today, and a new year high in the US dollar index, one would think this would be a good case scenario for the SP500 today, right? Apparently not. The Sep SP500 Futures contract started the day off strong, just to end up trapping market bulls and completely reverse off its highs pushing down towards its 50day moving average (1272.73) to make a low of 1271.60, before closing at 1276.50.

Since the low set on the Sep SP500 index at 120100 on 07/15/08, and Oct Crude's high that day of 147.55, Oil is down nearly 37.84 dollars or 26% and the index is up a mere 75.5 points or up 6% as of today's market close. But still up, as the 'bulls' would say. The reverse today clearly shows that even with energy prices easing, the market will need a much more convicting relief to break out of this range. Construction spending for July came in today down .6% from the forecast of down .3%. While not much attention gets paid to this number, in my opinion this is a mistake. This data feeds directly into the GDP. Non-Residential construction is about 3% of GDP and Residential construction is about 4%. The greater than expected decline surely was not a positive. Today's market reversal certainly did not play favor to the market bulls, and the bears are looking for those lows set back in July to be retested and taken out.



Chart courtesy of BarChart.com.

RISK DISCLOSURE: PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.
THE RISK OF LOSS IN TRADING FUTURES AND OPTIONS IS SUBSTANTIAL AND SUCH INVESTING IS NOT SUITABLE FOR ALL INVESTORS.

Pay attention to the VIX!

(The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by SP500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

<http://www.cboe.com/micro/vix/introduction.aspx>)



Chart courtesy of eSignal.

The Volatility Index as you notice spiked early in July just as the SP500 futures made a low of 1201. Since then you see this downward trend that was taken out today. Watch for the VIX as a barometer to how the market is reacting. Clearly, if we see the VIX continue to break out and test 25 again, you will notice the market break down, and head to test those lows set at just above 1200. 1260 for now is somewhat of a support. Any break of that in my opinion would suggest lower prices. For now the market is range bound between 1260 and 1300 consolidating waiting for the next break. Upcoming market data, the VIX, and the wedge currently created in the Sep SP500 chart will be key in my opinion.

August Auto Sales expected to be released Wednesday forecasted 4.8 M from prior of 4.4M. Non Farm Payrolls due Friday, forecasted -60k from prior forecast of -51k.

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