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The Market May Be Hitting the Dreaded 'Triple Top'—a Red Flag to Investors

By Bob Sellers (excerpt)

While most investors are discussing the battle between tariffs pushing the stock market down or Fed interest rate cuts giving it another leg up, technical analysts are having a different discussion. Are we seeing a "triple top" formation? If so, that doesn't bode well for anybody who has enjoyed a bull market that by most counts started way back in 2009. …

… "We saw the formation of several bearish technical patterns taking shape," says David Kudla, CEO of Mainstay Capital. The S&P 500, which started today at 2843, has been trading in a range for the past year and a half, hitting a high in almost exactly the same area three times: 2873, 2931, and 2946, then trading lower. In other words, if you invested at the high in the S&P 500 on January 21st of 2018, you're actually below where you started. Analysts say the last indication of a triple top forming was in 2013, following highs going back to the 2000 dot.com boom. But it resolved itself by breaking through those resistance levels. In fact, it's not a triple top unless the market actually falls through support. (The last time a triple top occurred was between 1965 and 1976, when the market fell more than 40%.

… The inability of the market to push higher—sometimes referred to as the level of resistance—is driven by many investor concerns, but the biggest one may be the fear of trade tariffs and their negative effects on the economy. The more times the market hits that resistance level without taking it out, the more negative it tends to be because it reflects an investor sentiment that money put into to the market will not return a profit any time soon. Therefore, why invest in the market at all?

But Kudla doesn't think that's the direction we're going. "The rebound of just the past couple days has already changed that technical backdrop. Both the S&P 500 and DJIA have managed to break trend lines and move back above their 200 day moving averages. There is clearly an upward bias to the markets this week." …

… On the other hand, many technical analysts see what could be an "inverted head and shoulders" formation. That would mean that the low in the market back in December of last year would form the head, and the trading that takes us higher would form the second shoulder. That is a bullish indicator and could lead to the new highs in the markets. And there are fundamentals backing up that perspective. …

… Waiting and watching is seldom good for an economy. Or the stock market.