THRASHER ANALYTICS

Major Capitulation & Possible Initial Trend Low

During this down trend/sell-off/correction/bear market – whatever you'd like to call it, I've tried to stress the importance of being tactical in thinking and process. On Thursday Feb. 27th I noted the high level of capitulation which was followed the next day by the first low and 50% retracement. The counter-trend bounce was quick, leaving many to assume a bottom had formed but I began showing the volatility, market internals and sentiment data that did not support the idea that

blog but most of which I kept to this letter. And then today (Monday) happened, one of the largest declines in recent history, echoing days of the 2008 crisis and Black Monday '87 crash.
Sentiment

In my note last night and in my blog I shared the analysis that the spread in bond-stock sentiment suggested we weren't done selling. Since then DSI % bullish for the S&P 500 has fallen to 5% and for the Nasdaq 100, 4%. These are major lows, but (sadly) we have seen lower, in 2011 we got to 4% and during the late '15/early '16 down trend multiple readings of sub-6% and the Dec. '18 low was 4%. But I don't mean to split hairs over 1 point of sentiment when we are this low. The point being – just about everyone has panicked and is no longer bullish on equities. Looking at the Put/Call ratios, all three (total, equity, and index) were at extreme readings. Index Put/Call closed out at 2.3, the highest in a decade.

Breadth & Momentum
Momentum is now at the lowest levels since just before the 2015 and 2011 lows and I don't think I need to tell you that few stocks are still standing in the 'positive breadth' column. From an industry perspective, I see just one that finished the day positive; Diversified Consumer Services Index, notably Wal-Mart, Dollar General, and several auto parts retailers that held up well today. The Composite for Risk/On Assets is at the lowest level since the 2011 low. The 10-day average NYSE Advance-Decline Ratio fell under -1,100…. Again a level we've only see at the Dec. '18, 2016 and 2011 initial lows (2011 got to -1,350). Only 5% of the S&P 500 remains above the 50-day Moving Average and just 10% of the Nasdaq holds such distinction.

Capitulation
Today was (to little surprise I'm sure) a major capitulation day. The Bottom Hunter, which had registered a 5 reading on the Thursday before the recent counter-trend rally came in at

this high at the Dec. '18 bottom, 2011 bottom, before several major counter-trend rallies during the 2000-2002 bear market and 1998. 2011 and 1998 both saw similar drawdowns, each seeing declines of 20-23% and resulted in double bottoms (meaning a test of the initial low was made several weeks later). The initial lows were marked by readings of 6 in the Bottom Hunter as signs of major capitulation. I think this creates a good roadmap or template for what we could see play out today. While price action doesn't repeat, it does rhyme (to borrow from Mark Twain). From here it would make sense to see another counter-trend rally, potentially back to 2950-3000 (the first low) or as high as 3130 (the first counter-trend high earlier this month), followed by additional selling that gets us a test of today's level. This isn't a clear-cut map of what's to come and I of course am keeping an open mind but it's one price path we could see equities take. What triggers these moves is beyond my interest or forecasting ability, maybe a fiscal stimulus plan, Fed rate cut, cure for the Coronavirus, who knows – what we care about is the resulting price action!

Historical Precedent

-August 8th, 2011: Was marked a single-day drop of over 6% and a sentiment reading of 4%, things improved but wasn't smooth sailing from that point on.

-August 31st, 1998: A -6.6% day and put in the first low of that down trend and saw sentiment of 4% on the S&P.
-October 27, 1997: saw a -6% drop, sentiment of 4% and stocks bounced 5% the next day and began moving higher from that point forward.
-October 13, 1989, a 6% drop but sentiment was higher at 21% bullish and stocks rallied for five days before dropping again to test that 10/13 low.
-January 8, 1988: a 6% drop but sentiment was north of 20%, stocks rallied a couple days, tested and then continued higher.
-October 19th, 1987: Black Monday that brought a 20% drop in stocks and sent sentiment to 7%. Stocks bounced for a few

(I'll be doing a blog post that will go live tomorrow looking at these historical one-day declines, so please check there if interested in seeing more on this topic)

Now What?

As I wrote in capitulation paragraph, I think we're now at a more attractive risk/reward point in time than any point since late-December 2018. Is this the final low? It's possible we could see some additional selling due to institutional positions getting blown out but I'm less concerned trying to precisely pinpoint the very bottom than to seek out attractive risk opportunities – for which I believe we are now at one. I'll repeat as I wrote above, there's still a strong likelihood we see a test of these levels sometime in the future, which as I showed above – would match the historical precedent set since the 1980s of prior major one-day declines in price and sentiment. From here I want to start seeing signs of bullishness returning, noting 90% up volume days and an expansion of positive breadth as stocks strengthen. That's the important step 2 in the bottoming process.

I'll be back next Sunday with a full letter.

Best Regards,
Andrew Thrasher, CMT

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