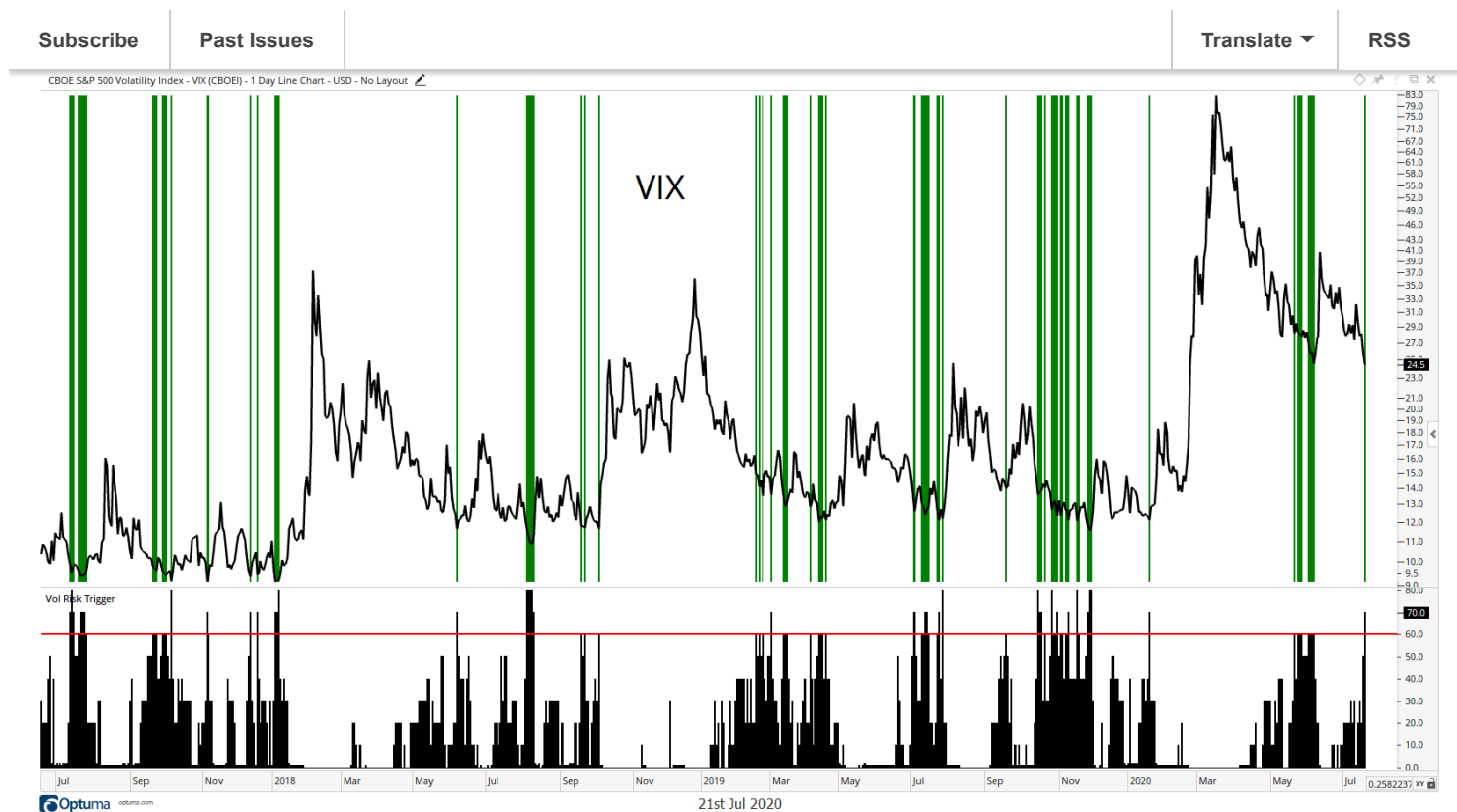




VRT Signal & Rising Divergences

I'm going to keep this short and sweet...

In Sunday's note I mentioned that the Volatility Risk Trigger (VRT) was very close to signaling. Well, yesterday's price action was enough to push it over the edge, giving us the first signal since the last time the VIX went from 25 to 43 after several signals were observed in the VRT. Keep in mind that we often can see several signals of the VRT before the VIX moves, the VRT signals often occur near the low in volatility and a spike becomes a higher risk from there.



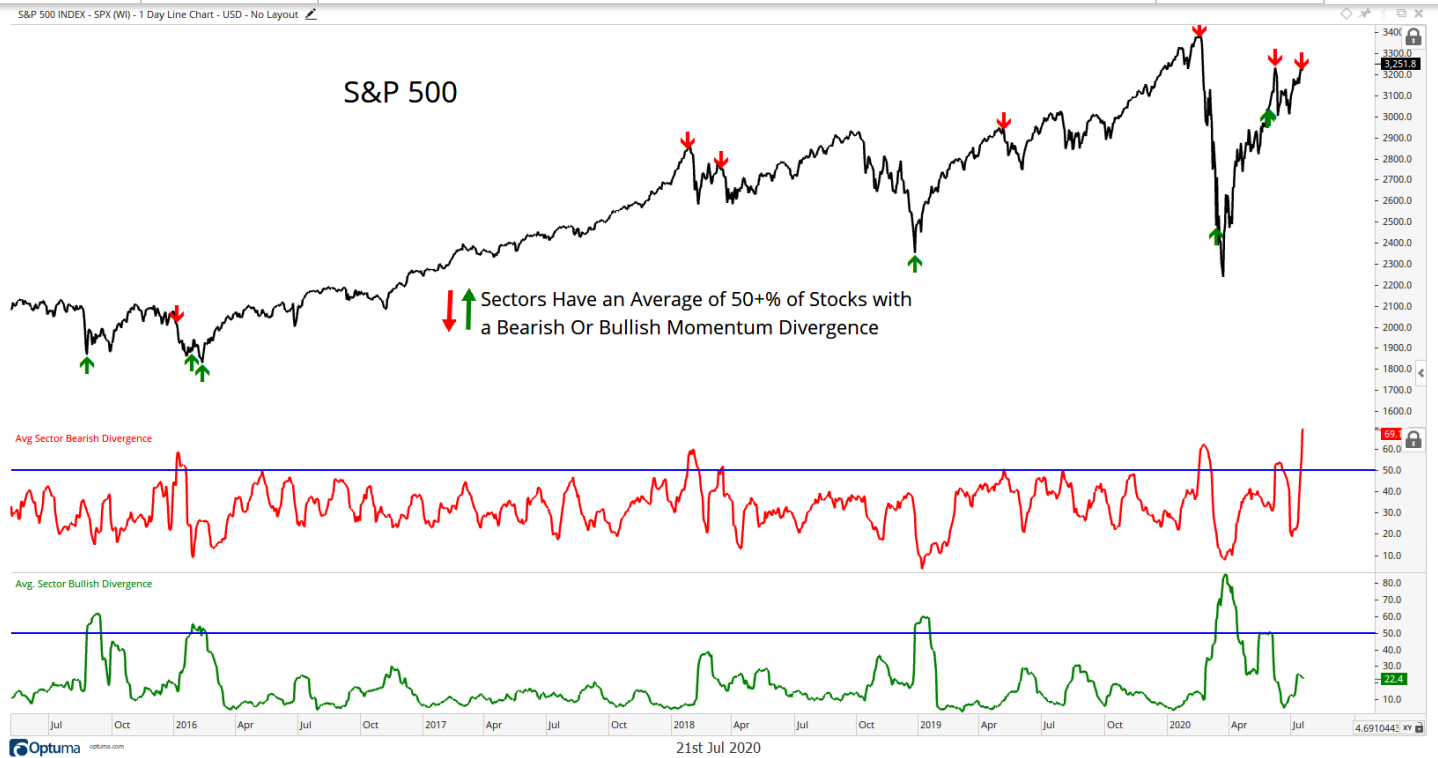
I also noted on Sunday that there's a growing number of momentum divergences building within U.S. equities. The average sector now has almost 70% of stocks with a bearish momentum divergence, the highest percentage in ten years. As the red arrows on chart below show, when this figure gets above 50%, stocks have often struggled. We last saw this happen at the prior June high and before that in February. The market is entirely focused on the mega cap tech names and price action has been incredibly strong. The Nasdaq 100 is now 23.9% above its 200-day MA, the highest level since Oct. '09. Many traders point to a repeat of '99-'20, which is the last time we saw such strong moves in the Nasdaq, rising over 50% above the 200-day MA at the March '00 peak. I don't get caught up in this debate, it really doesn't matter if we are or aren't repeating the tech bubble, instead I prefer to stay focused on the price action in front of us rather than trying to calculate the analog to '99.

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The risk/reward from here becomes difficult. It doesn't mean stocks can't continue this trend but I imagine it won't take much to cause traders to become skittish and seek to protect profits. On the other hand, a continued move lower in volatility could bring in inst'l investors, who have been largely sidelined during the last few months. I'm watching short-term moving averages like the 20-day MA for signs of potential confirmation and of course the breakout level that was taken out in the S&P 500 yesterday at 2230.

I'll be addressing some of these topics in a few public appearances this week. Later tonight I'll be on The Final Hour YouTube series by Stockcharts.com, presenting to the New York City chapter of the CMT Assoc. on Thursday night and interviewed on TD Ameritrade Network on Friday morning.

Have a great rest of the week.

**Best Regards,
Andrew Thrasher, CMT**

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