# The Market Breaks, Has The Bull Market Ended? – 03-23-18

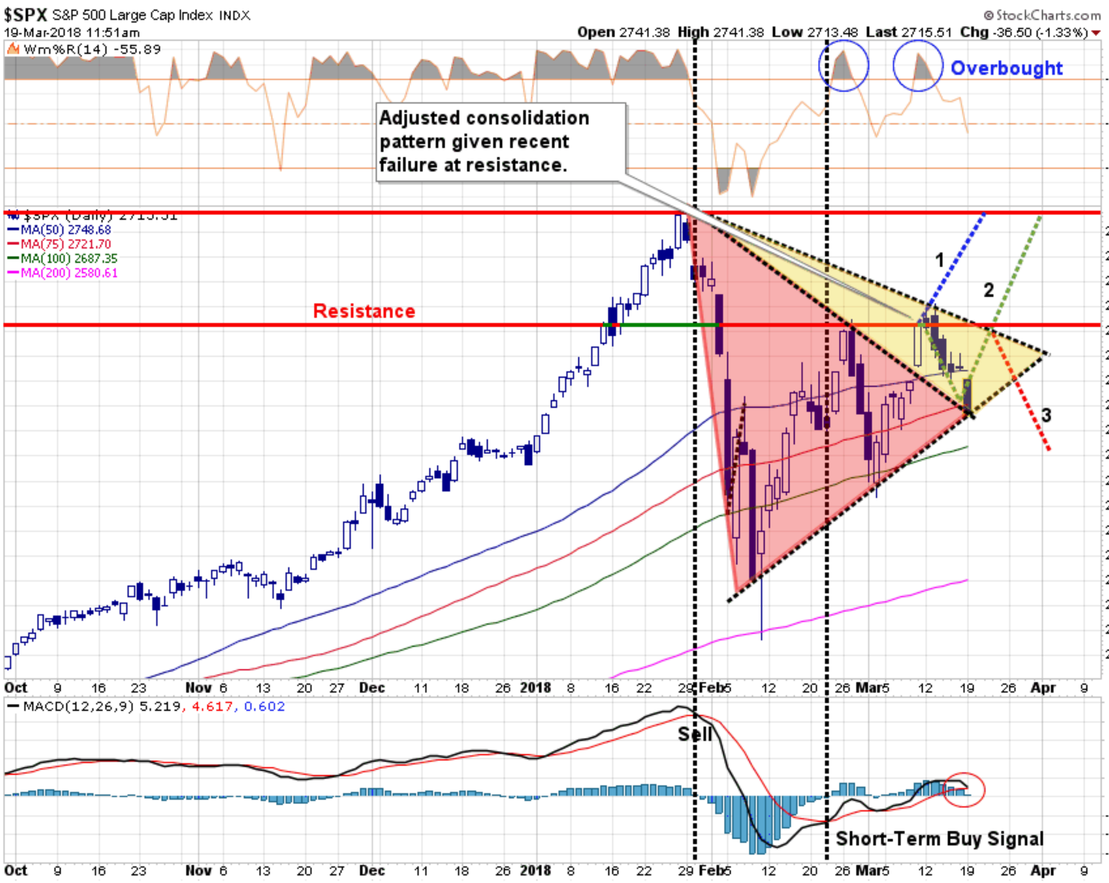
Written by Lance Roberts | Mar, 24, 2018

## The Market Breaks

Over the last few weeks, I have been tracking the markets ongoing consolidation process.

*"The breakdown on Monday has not yet completely broken the 'bullish case' for the market yet, however, a failed rally from current levels will bring "Option 3" into focus.*

*With the recent failure at the previous resistance level, we can now adjust our consolidation process for the market." 19.3.2018*




*"As long as the pattern of 'higher lows' remains, a breakout above the current downtrend line and resistance should signal a move to old highs and the current 2018 target of 3000.*

*However, **a break below the uptrend line will confirm a change to the current market** and will require a shift in allocations to a more neutral stance.*

***We are potentially at a very critical juncture of this particular 'bull market cycle,'*** *and as Doug Kass [noted yesterday:]*

*"I expect a 2018 trading range of 2200-2850 – with a 'fair market value' (based on higher interest rates, disappointing economic and corporate profit growth, political and geopolitical uncertainties) of approximately 2400.*

*Compared to the expected trading range, downside risk relative to upside reward is approximately 5x.*

*Against 'fair market value' (based on my probability distribution of a host of independent variables – interest rates, inflation, corporate profits, economic growth, valuations, etc.) downside risk relative to upside reward is about 3x."*

**On Friday, the break to the downside occurred putting the bull market cycle at risk and *"Option #3,"* the least favorable path, has come into focus.**

Interestingly, I received several comments on my predicted paths when I first laid them out 3-weeks ago:

- *"Option 3 is TOO pessimistic. It will never happen."*
- *"Why are you so bearish, this bull market is still running…."*
- *"You can't predict the future, so why even try."*

You get the idea…but here is the important point:

***"Analysis is not about trying to PREDICT future outcomes, but simply the ANALYSIS of 'possibilities,' (things that might happen,) versus 'probabilities,' (things that will likely happen.)"***

Without understanding what the various outcomes *"might be,"* action can not be taken to reduce the risk of capital loss over time.

**So, where are we now?**

With the breakdown of the market to the 200-dma, the market is now at a much more critical *"make or break"* juncture. Here as some points to consider:

1. *The market triggered a short-term "sell signal" last week with a break of the 75-dma. (bearish)*
2. *The market is "oversold" on a short-term basis which provides fuel for a reflexive bounce. (bullish)*
3. *As I will discuss in a minute, the longer-term uptrend of the market remains intact. (bullish)*
4. *Support held, again, at the rising 200-dma on Friday. (bullish)*
5. *The short-term downtrend of the market continues to gain strength. (bearish)*

Considering all those factors, I begin to layout the *"possible"* paths the market could take from here. I quickly ran into the problem of there being *"too many"* potential paths the market could take to make a legible chart for discussion purposes. However, the bulk of the paths took some form of the three I have listed below.

## Case Study as of 23.3.2018 Where are we going from here?


- *Option 1: The market regains its bullish underpinnings, the correction concludes and the next leg of the current bull market cycle continues. It will not be a straight line higher of course, but the overall trajectory will be a pattern of rising bottoms as upper resistance levels are met and breached.* ***(20%)***
- *Option 2: The market, given the current oversold condition, provides for a reflexive bounce to the 100-dma and fails. This is where the majority of the possible paths open up.* ***(50%)***
  - *The market fails at the 100-dma and then resumes the current path of decline violating the current bullish trend and officially starting the next bear market cycle.* ***(40%)***
  - *The market fails at the 100-dma but maintains support at the 200-dma and begins to build a base of support to move higher. (Option 1 or 3)* ***(20%)***
  - *The market fails at the 100-dma, finds support at the 200-dma, makes another rally attempt higher and then fails again resuming the current bearish path lower.* ***(40%)***
- *Option 3: The market struggles higher to the previous "double top" set in February, retraces back to the 100-dma and then moves higher.* ***(30%)***

**IMPORTANT NOTE:** Regardless, of any potential outcome from Friday's close, **ANY rally back to the 100-dma should be used to reduce equity holdings in portfolios.** As noted in the 401k plan manager below, the triggering of coincident *"sell signals"* and the breach of the consolidation process has reduced equity holdings in the model by 25% which is the first reduction since late 2015.