

# THE CANADIAN TECHNICIAN



**U.S. Edition**

## Breakouts Fail

Weekly Market Review  
February 26, 2021



WITH  
**GREG SCHNELL**

## MARKET COMMENTARY

The rotation away from momentum names was on full display the prior week. The trend continued as the Nasdaq was one of the weakest indexes in the world again. The big drop in the markets (NDX down >4.9%) suggests more caution. While you may or may not watch the videos each week, try to watch the video up to the 40-minute mark. I mentioned the expensive price multiple times this week.

I continue to be distracted each week by subtle positive moves, but the underlying for the market looks so risky. The areas I liked last week were down the least, but they were down, with the exception of energy. Issues like: market price action this week with a big down percentage overall, the drop in Tesla that fell 16% in two days before a buyer stepped in, lots of 10-week moving averages breaking on the high-flying names, the weakness of all of the big-name tech stocks; is definitely concerning.

The US vaccination rollout is greater than 20% of the eligible population. JNJ's vaccine was approved over the weekend. America will have 3 vaccines for distribution, so March should be a massive month for vaccination. We also saw the 1.9T stimulus get rolled through congress, following the \$900B in December, and now the infrastructure bill has a nod of \$3T. WOWZA.

Interesting Reading.

[Two Questions I Have](#). [When Everyone's A Genius](#). [Jay Woods Former NYSE Board Member on GME](#).

It's been two weeks since my Two Questions I Have article. So far, that marked the recent market high. The charts are playing out like they should if I am right. This newsletter focuses on that data. The article When Everyone's A Genius is also relevant. The market rallied extravagantly when we all saw the economy cratering. But not only did it rally, it became one of the most expensive valuations of all time, with little hope of a damaged economy keeping up. Another question of mine is : While the economy improves, will the stock market suffer, to bring valuations back into line with market prices?

From all the success with the ARK investing group, it sounds like the world can go to infinity and beyond. Unfortunately, they have already pushed pricing there (infinity), well in advance. When Tesla plummeted, they stepped in and started buying in the \$600's. The real question is: Where were the rest of the buyers? Tesla has dropped 30% in 4 weeks, and it has been 3 weeks since they announced they will accept Bitcoin for cars and hold \$1.5B in Bitcoin in the corporate treasury.

The charts were badly damaged last week globally. PPO sell signals on many of the foreign indexes, outside bars down on some of the commodity countries. Wild swings in China and Hong Kong. The \$SPX, \$NDX and \$INDU all had PPO sell signals. Let's not forget that the PPO's are at the highest levels in years for the broadest indexes.

So I am outright defensive. As I mentioned in the weekly video link, it could be another Patrick Mahomes escapes the pressure and moves the ball up the field one more time. But the near term prospect of trend changes on the currencies, commodities at resistance, and equities (PPO sell signals) are all concerning. I do not expect a strong rally like the end of January, but as the volatility picks up, and the direction swings widen, it will be more important to be disciplined here. Risky to say defence only, when it could rip higher, but more risky to say stay fully invested. It is the juxtaposition of all the liquidity by the government, crossed with the reality of milky-way starry current valuations that makes the situation serious. Add in remarkable technical levels, reddit traders, robinhood financial stability, crypto, SPACS, euphoric innovation investing, sport stars as financial leaders, we have ourselves a ball game. My suggestion is full caution as it may look sunny, but it's a lot more difficult going forward (Photo).

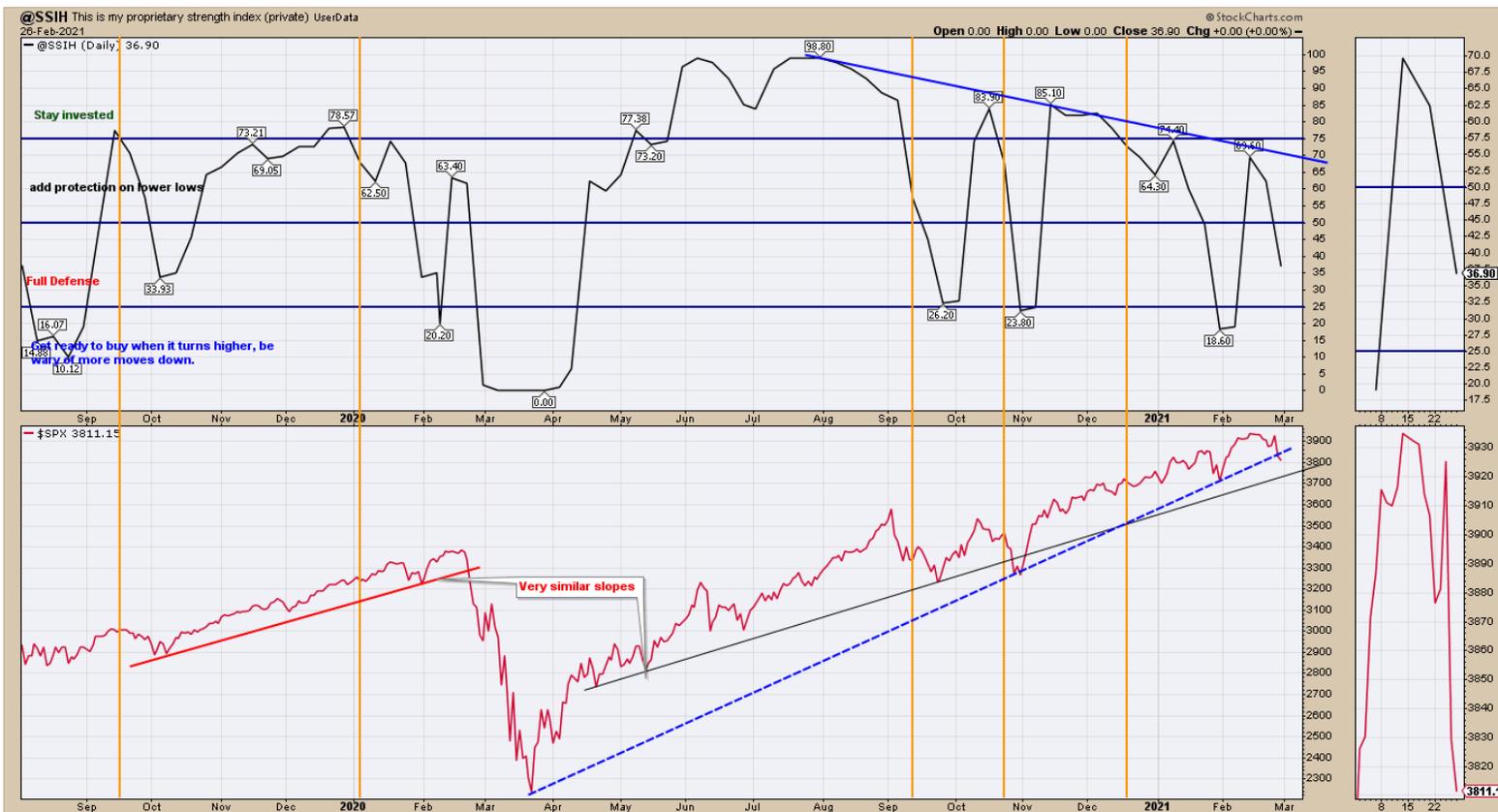


Summary: I have closed the majority of my positions and hold a high cash weighting. The market is one of the hardest to judge here. It is definitely not the wind-at-your-back investing moment. This choppy market, with leaders failing, has me letting others try to make big money. It just so happens to be within a week of the March 2000 top. Let's hit the charts.

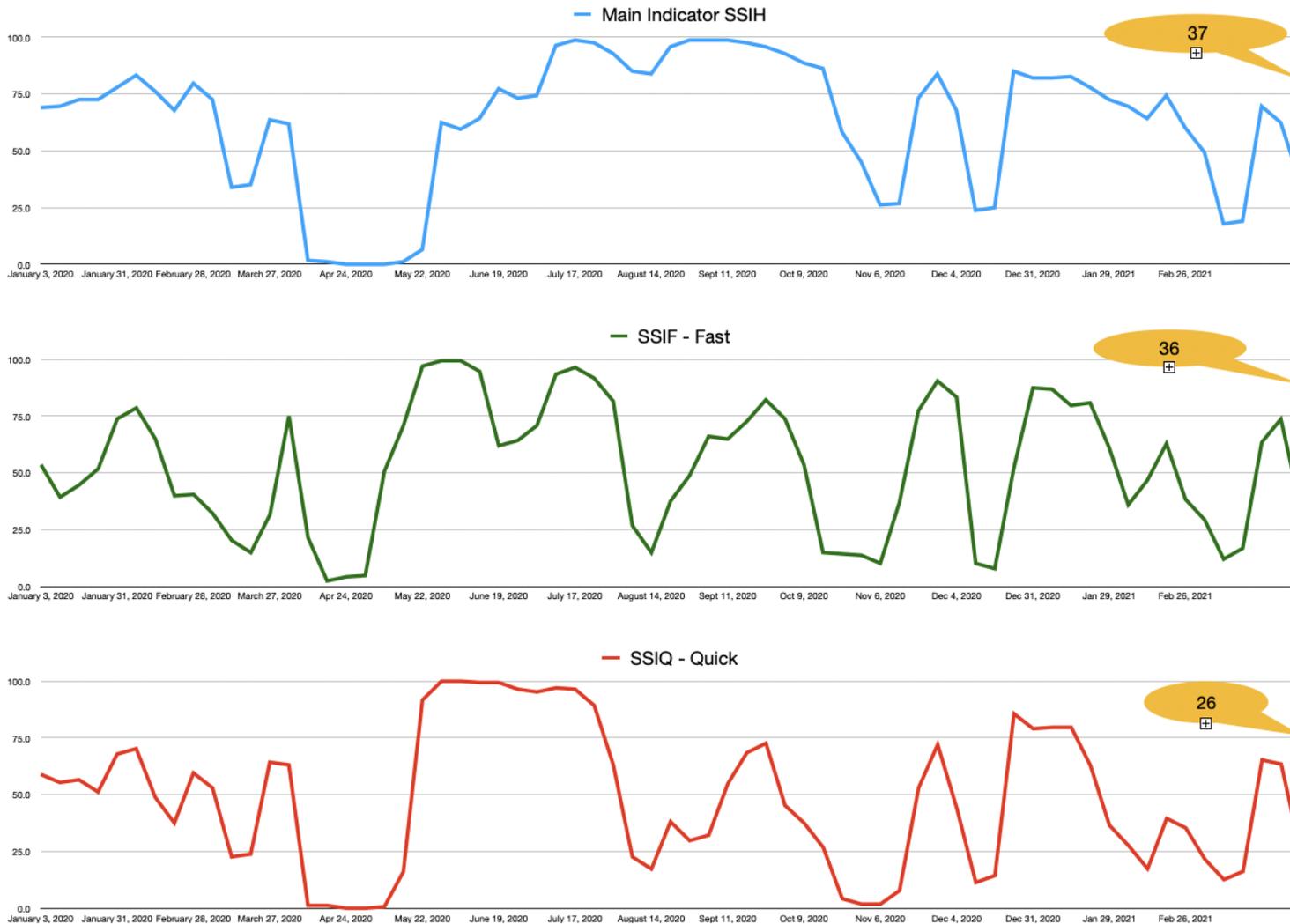
## @SSIH - STALLED AT THE DOWNTREND

The Schnell Strength Index dropped from 62% to 37%. Many of the momentum names, and some of the large cap names got hammered. This week marked the first closing breach of the steep uptrend line in blue on the \$SPX. The regular slope intersection (gray) is at 3750.

I post a preliminary SSIH reading Tuesdays after the close and Thursdays close/Friday's open on Thursday night or Friday morning. It doesn't bounce a lot, but weekend closes matter. This will allow you to position before weekends.



## SSIH, SSIF, SSIQ INDICATOR



The chart shows the SSIH in the top panel. The prior downtick was not optimal, and this week, the losses piled in.

Momentum got mowed over. Bitcoin bulls met adversity with a \$14000 drop.

As large cap tech names are showing weakness, it is difficult for the indexes to keep advancing.

If you are looking for stable markets, this is not it. The analogy is shifting gears on snow and ice, hoping for traction. More likely, spinning our wheels, with little/no forward progress.

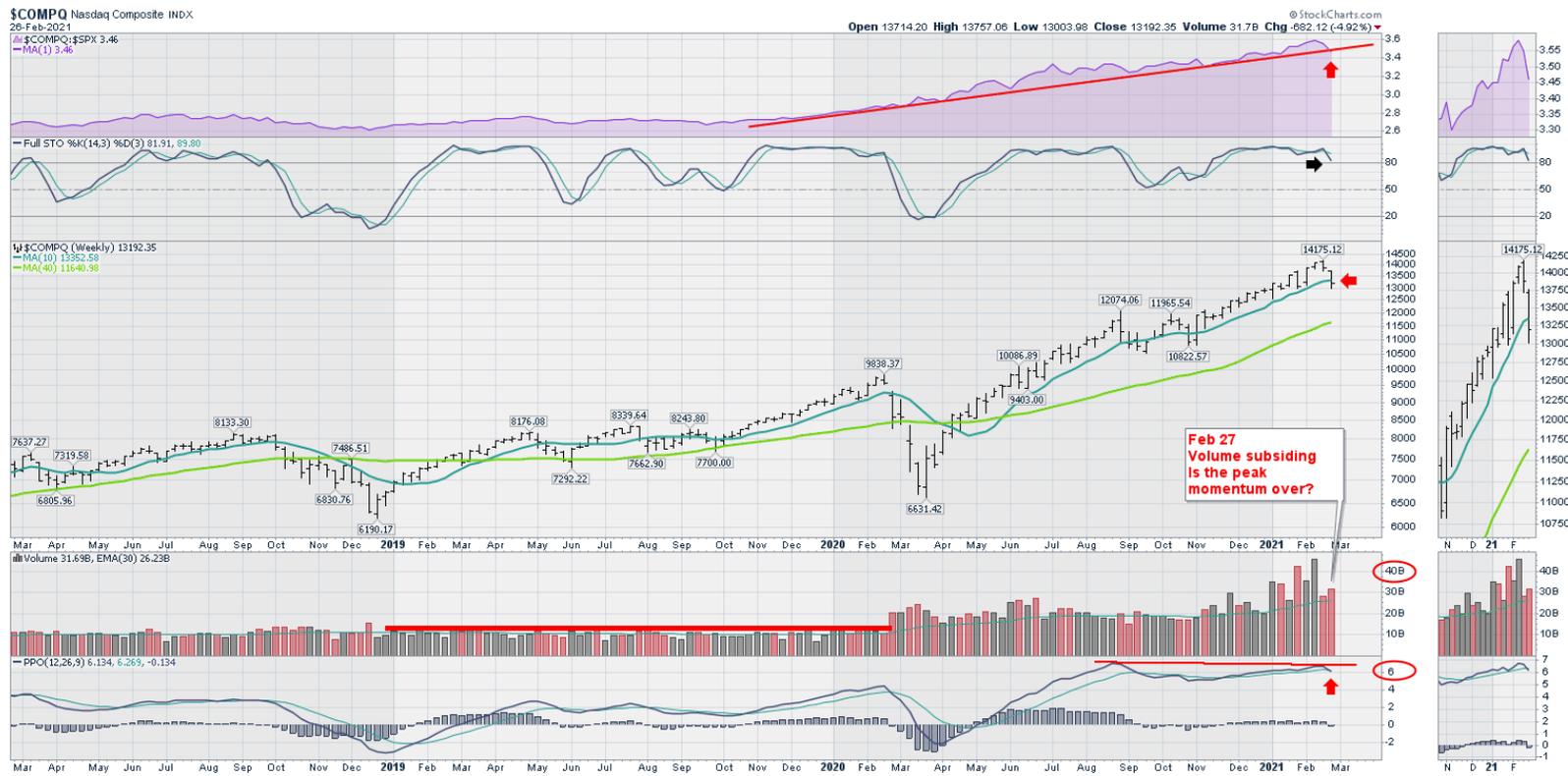
## \$COMPQ - VOLUME EXPLOSION

The month end gives us the opportunity to use the monthly charts to explain the froth more clearly. February had even more volume than January. By any historical comparison the sudden January/February surge is remarkable but also seen in 2000. Volume surges showed up at the 1968 high as well. 1968 was also struck by clearing issues like Robinhood had this month. The PPO finished February at a high level, as the index more than doubled off the March low. [\\$COMPQ](#)



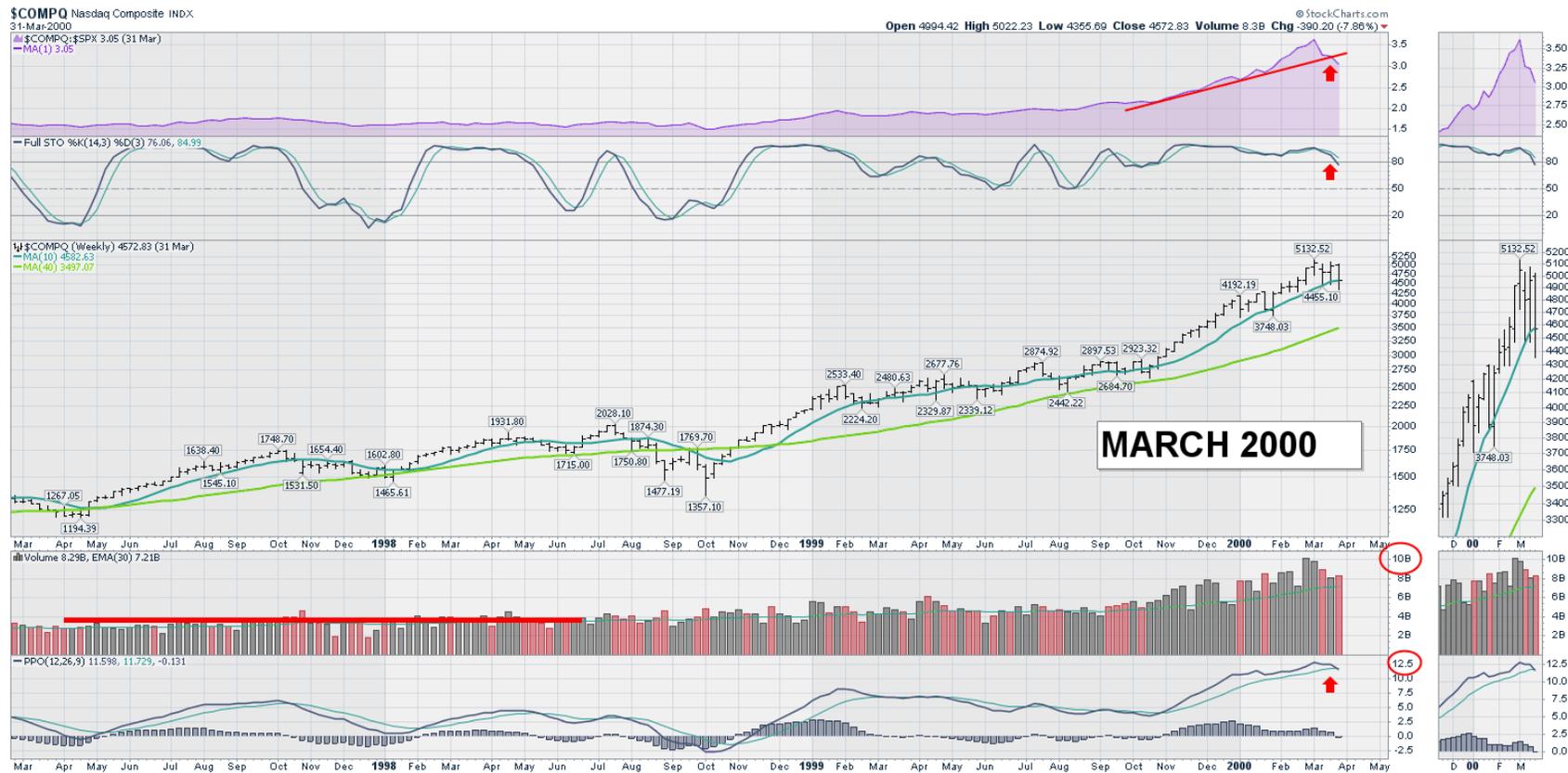
## \$COMPQ - WEEKLY

The weekly chart shows some signals for me. They are 'first-week' signals so I would like to see them confirm my analysis. Bulls are probably happier that I am very wrong! Price closed below the 10-week for the first time in a long time. The previous crosses down were not that severe. Why worry? It's the extreme volume collapsing suggesting a lack of interest continuing. The purple relative strength area broke down hard this week. The 18-month uptrend is a big caution flag for me. Large cap tech would suddenly need to come to life. The sell signal on the PPO is matched on many other world indexes this week. Any further acceleration lower would confirm my outlook. It doesn't have to be Monday. Just by Friday, I would expect to see lower lows if these signals are to be confirmed. [\\$COMPQ Weekly](#)



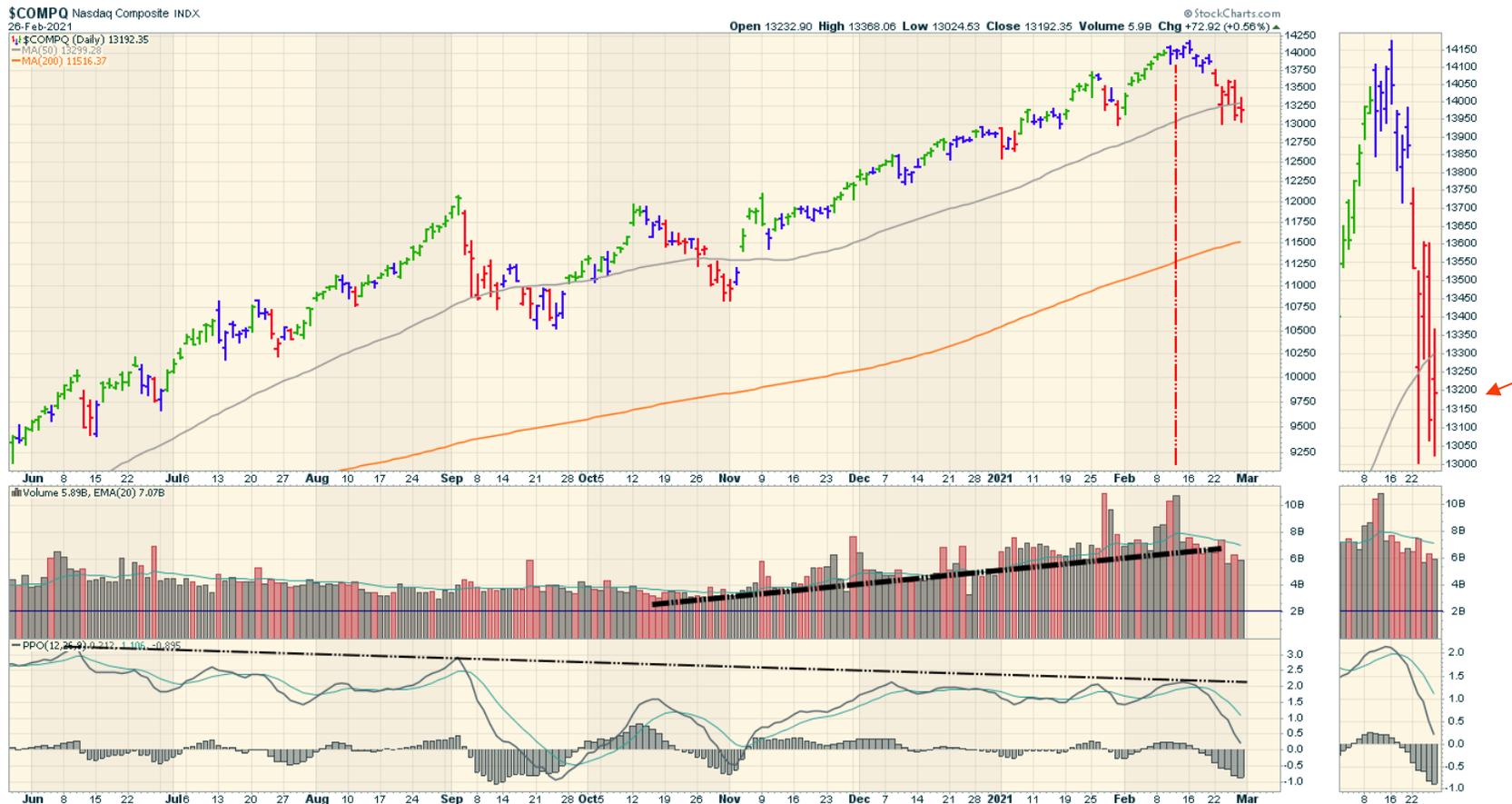
## \$COMPQ - WEEKLY IN THE YEAR 2000.

Here is the weekly chart from 2000 so you can compare. Rarely are charts of history/today so similar. They are so similar it makes me wonder how it can possibly be so close. It is important to remember technical analysis is also called behavioral finance. It plots the emotions or behaviors of investors, not the valuations of the stocks' financial performance. It would appear to me we have seen this happen before. If I told you the prior drop in late 1998 was 33%, versus the 2020 drop of 32.6%, would you be more surprised? However, the high was a triple off the lows, we are *only* a double today. Maybe we have another moon leg higher?



## \$COMPQ - DAILY

I pointed out the high volumes as they were happening, suggesting they were exceptional. This significant height really is worthy of a major top. Only in hindsight will we know for sure. Many market tops are marked with extremely high volume near or at the peak. I could just as easily be buried by more enthusiasm. Currently it looks correct, but two weeks aren't enough to judge. The declining PPO line stayed intact as well, with weakening momentum on each rally. Higher volume/ less momentum. Not great. [\\$COMPQ Daily](#)



## \$GOLD - 2011

The sell signal on the PPO coinciding with a high volume blowoff is usually helpful. A multi-month run-up into a high, is usually part of it. I picked the chart of Gold in 2011 for an example where volume soared at the end of a frothy run. The volume suddenly surges two or three-fold above average showing immense, irregular interest. The daily chart does not look that surprising, but the volume spike was a clue that the move was just about over. [GLD in 2011](#). The next page is a wider view.



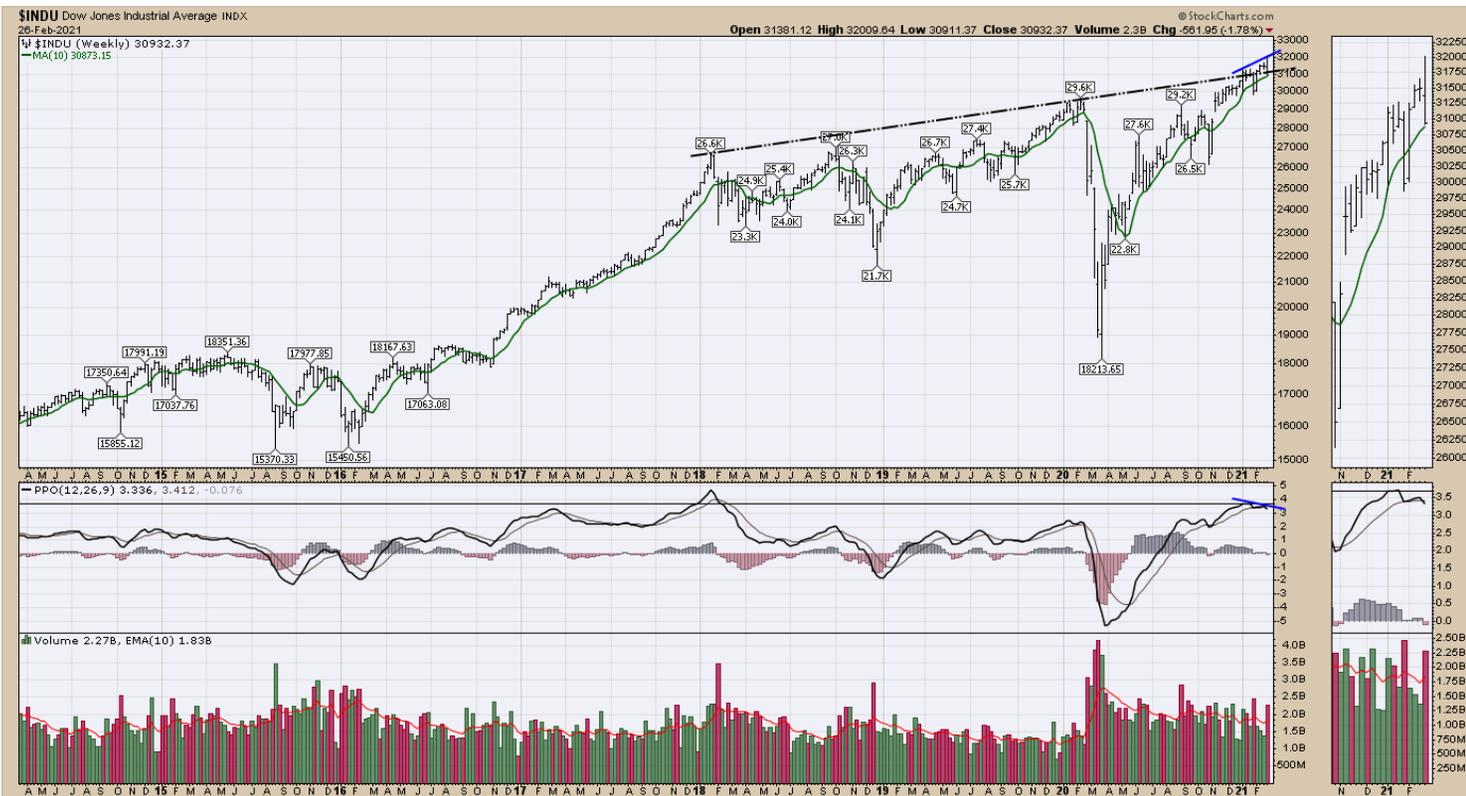
## GLD - WIDER VIEW - 2011

The spike peaks on GLD price are typically associated with high volume in the area. Gold investors made the highest volume surge in 2 years, heading into the 2011 high. Not only a single day, we can see a collection of volume accelerating into the GLD. These price spikes also had PPO's that surged to very high levels. This PPO reflects a single stock or item, which typically makes a steeper PPO rather than an index of stocks like the COMPQ above. Extreme volume can mark major turning points, and it's one of the reasons that I think the interim peak on the COMPQ might be in. Only hindsight can confirm that. [GLD - Wider View](#)



## \$INDU - NEGATIVE DIVERGENCE AT EXTREME MOMENTUM HIGHS

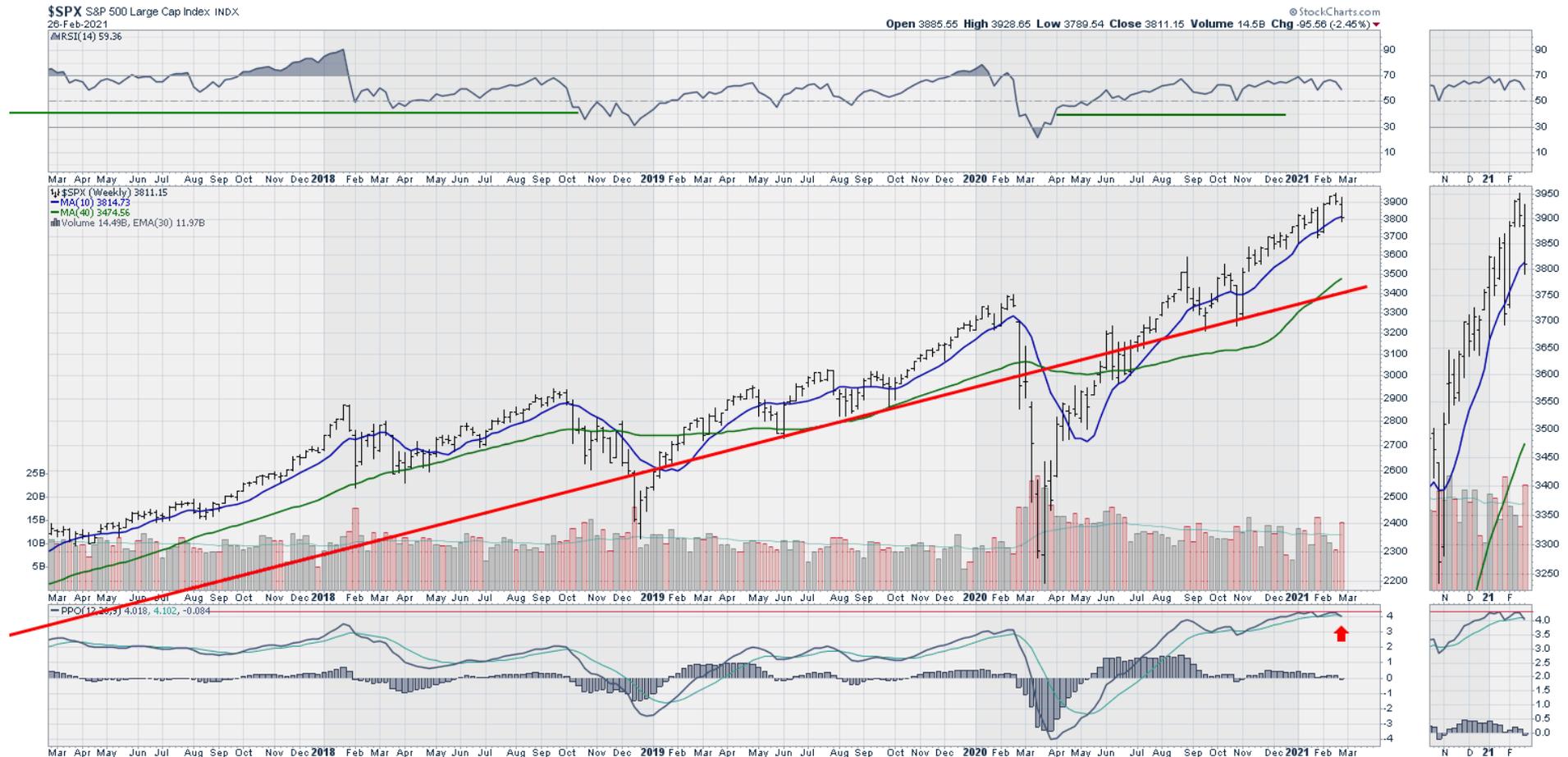
The Dow Jones industrial average is only thirty stocks. It's a group of handpicked stocks but even this broad array of major US businesses, had a huge outside bar that you can see on the zoom panel. The PPO is making a lower high compared to the January high, and is more visible on the zoom panel. The PPO crossed the signal line for the first time since the brief dip in October. The PPO is at an extreme level, but this high level was also reached in the 2018 high. In 2018, price stalled around this level for more than a year after. Big momentum highs can take a while to pass. I don't know if that is what we are in for, just that this recent advance is losing momentum and probably moves lower. [\\$INDU weekly](#)



## \$SPX WEEKLY

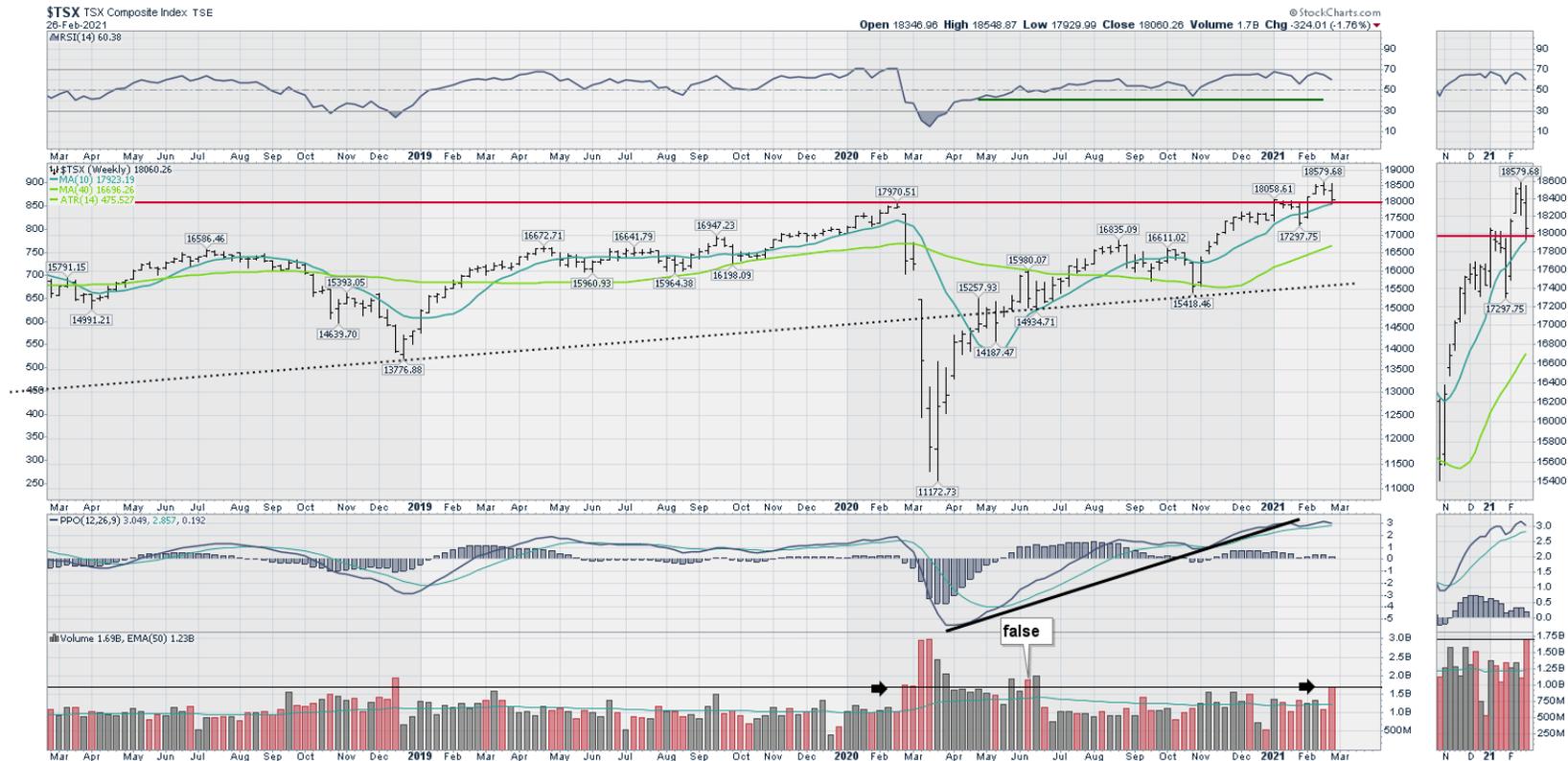
The \$SPX is the biggest index with the largest 500 companies in it. It is spread across business sectors and industries. This chart closed on the 10-week moving average. Typically, a PPO sell signal with a close below the 10 WMA are good places to take profits.

\$SPX Weekly. The volume was not excessive for these large cap stocks, pointing to speculation in the small caps, which is typically something we see at market highs.



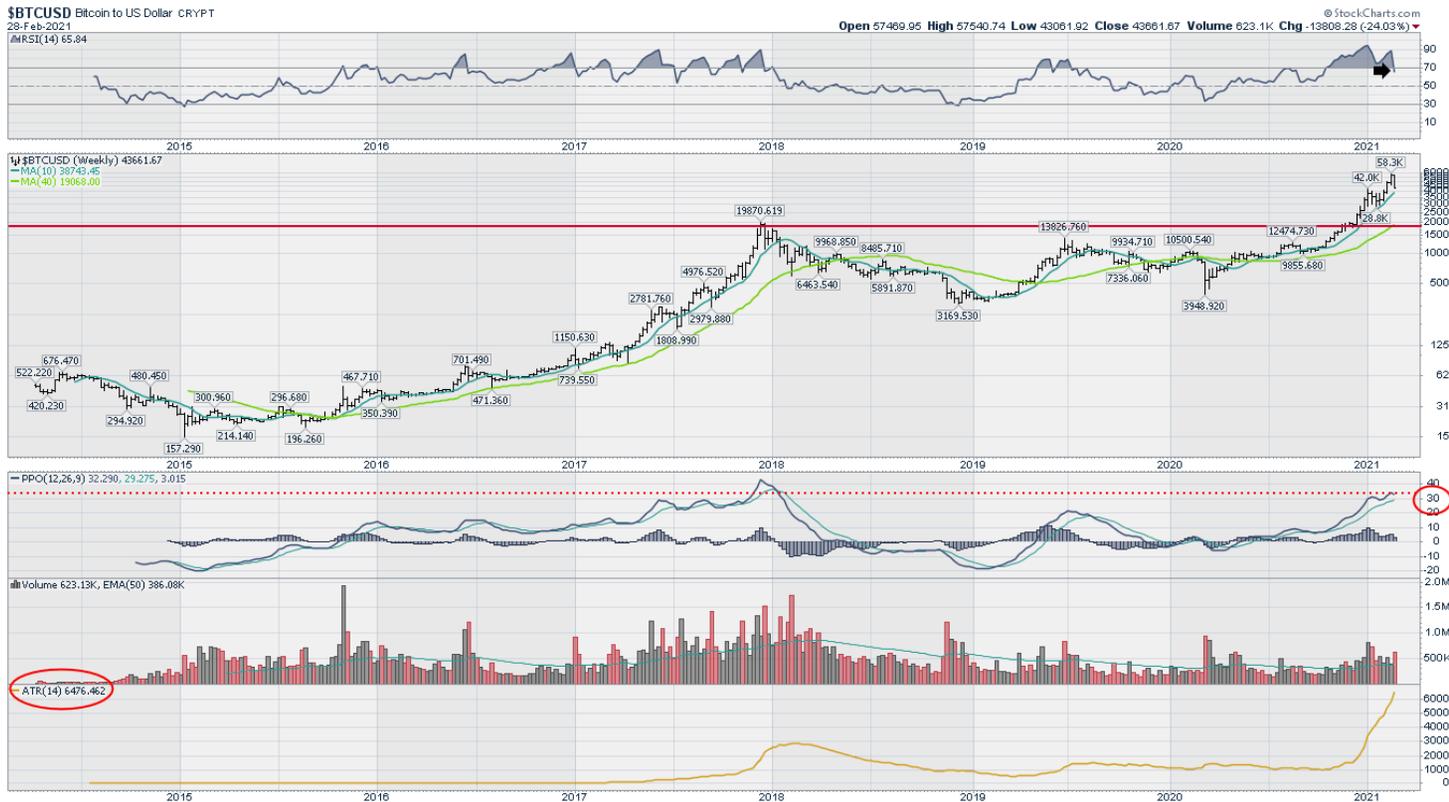
\$TSX - VERY CLOSE TO A FAILED BREAKOUT

The \$TSX is strong with energy, financials, and mining. Unfortunately, even that strong cluster of trending industries also paused this week. The price rollover we see happened after just breaking out above the prior highs. Failed breakouts are big warning signs, especially on an index. When added into the context of the US market kicking off PPO sell signals, that adds to the concern. But the other issue on this chart is the volume. Even though the market only moved down 1.76%, the volume soared to the same high level as the February 2020 initial move down. The February 2020 had a significantly larger price drop for the same volume. Investors are worried here as they created one of the highest-volume-selling weeks on the 3-year chart. [\\$TSX](#)



OTHER SIGNS - BITCOIN - THE 'AHEM' NEW STORE OF VALUE

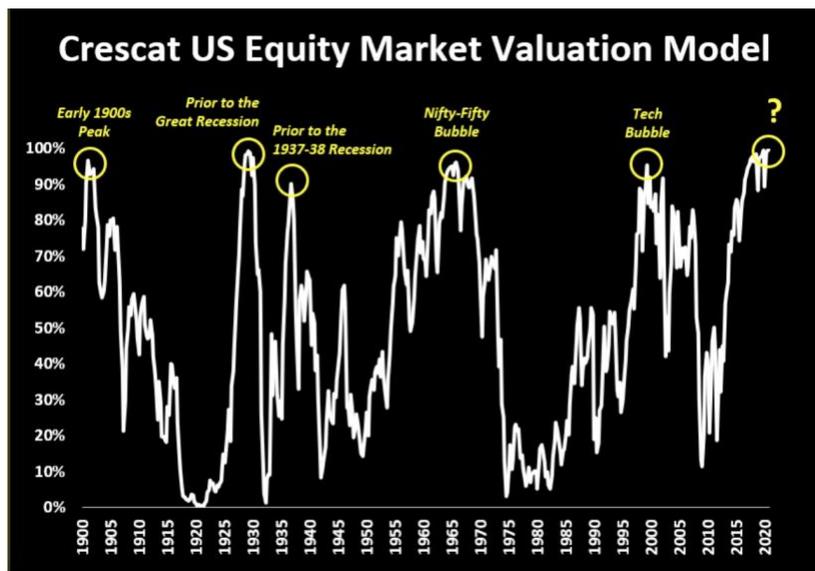
Bitcoin supporters continue to discuss becoming an alternate currency to the world of country-controlled currencies. Fuel was added to this discussion when Tesla bought some and started accepting Bitcoin for car payments. I have a 7-year history on the chart below. While the move up has been spectacular, this chart is down 24% in a week at the time of writing. Not 24% of the move up, 24% of the difference between 0 and the high! That's in one week. The other thing I notice is that Bitcoin dips when the stock markets do, so it is correlated asset that does not help stabilize investor losses. It goes up when the markets go up, and down hard on the bad days. The PPO momentum is at a very high level which suggests caution. Lately, the average weekly range has



accelerated to \$6475 shown on the lower panel. A position recently bought, down \$13000 on the week, has to be very difficult to hold with that sort of volatility. This looks as cautionary as the equity markets. [\\$BTCUSD](#)

CRESCAT FUNDS - A TWEET ON TWITTER

This chart is from one of the Crescat managers posting his views on Twitter. The table on the right illustrates the value of the ratio compared to history. It is interesting that my analysis, derived through the charts rather than fundamental analysis, have us teed up at similar peaks. I see PPO momentum data at extremes on chart after chart. For me, it would appear a lot of these charts are going to break down together, and I'll look to protect capital. Countertrend investing is hard, but so is being short. *Images: Crescat.net*



Model Factors	Most Recent Value	Historical Percentile
Median EV to Sales (Ex-Financials)	4.0	100%
US Total Market Cap to GDP	170%	100%
EV to Free Cash Flow Margin-Adjusted (Ex-Financials)	48.8	100%
Median Price to Sales	2.8	100%
Median Price to Book	3.9	100%
Median EV to EBITDA (Ex-Financials)	15.0	100%
Aggregate EV To Sales	3.0	100%
Aggregate EV to Trailing 12M EBITDA	17.5	100%
Aggregate EV to 2021 EBITDA Estimate	15.9	100%
Aggregate Price to 2021 Book Value Estimate	3.8	100%
Aggregate Price to Tangible Book Value	12.8	100%
Aggregate Price to Earnings	27.9	98%
Cyclically Adjusted P/E (CAPE)	32.9	97%
Aggregate Price to 2021 Earnings Estimate	25.6	97%
Aggregate Price to Book	3.9	91%

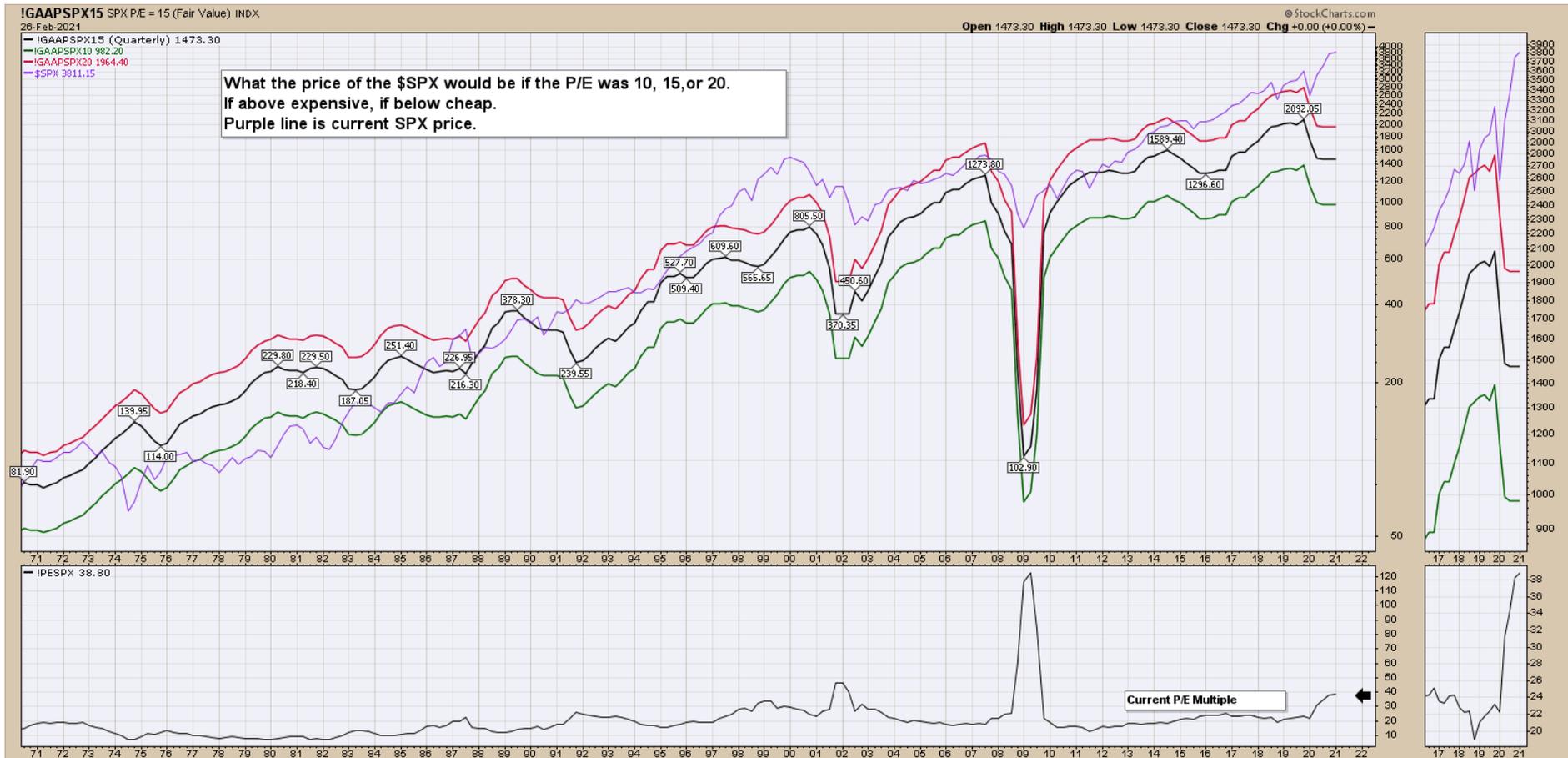
Source: Bloomberg, Yale/Robert Shiller, John Hussman \*Numbers as of November of 2020 ©2020 Crescat Capital LLC

On the video this week, I spent some time highlighting what expensive is. Just a quick reference:

Amazon Market cap in 2000 = \$30 B      Amazon revenues = \$2.3 B      Amazon market cap to sales = 13 x  
 Shopify Market Cap in 2021 = \$181 B      Shopify revenues = \$3 B      Shop market cap to sales = 60.3 x  
 Amazon traded from +300 to \$6 over the next few years. Want to hold through that?

## VALUE - ANOTHER CALCULATION

The comparison of earnings multiples to the current price of the \$SPX index is another easy view. Normally when the economy cycles lower, the stock market does too. In this case, it's been a full divergence. The lower panel shows the current Price/Earnings multiple at 38. It makes me want to be ready for corrections that may bring stock prices in line with earnings. Ouch!



MARCH MONTHLY CONFERENCE CALL LINK BELOW

Dwight and I hosted the [March Conference Call](#). Click to view.

# THE CANADIAN TECHNICIAN



## Commodities Are On Boil

March Monthly Conference Call  
February 26, 2021 at 5 PM ET

WITH  
**GREG SCHNELL**

AND  
**DWIGHT GALUSHA**

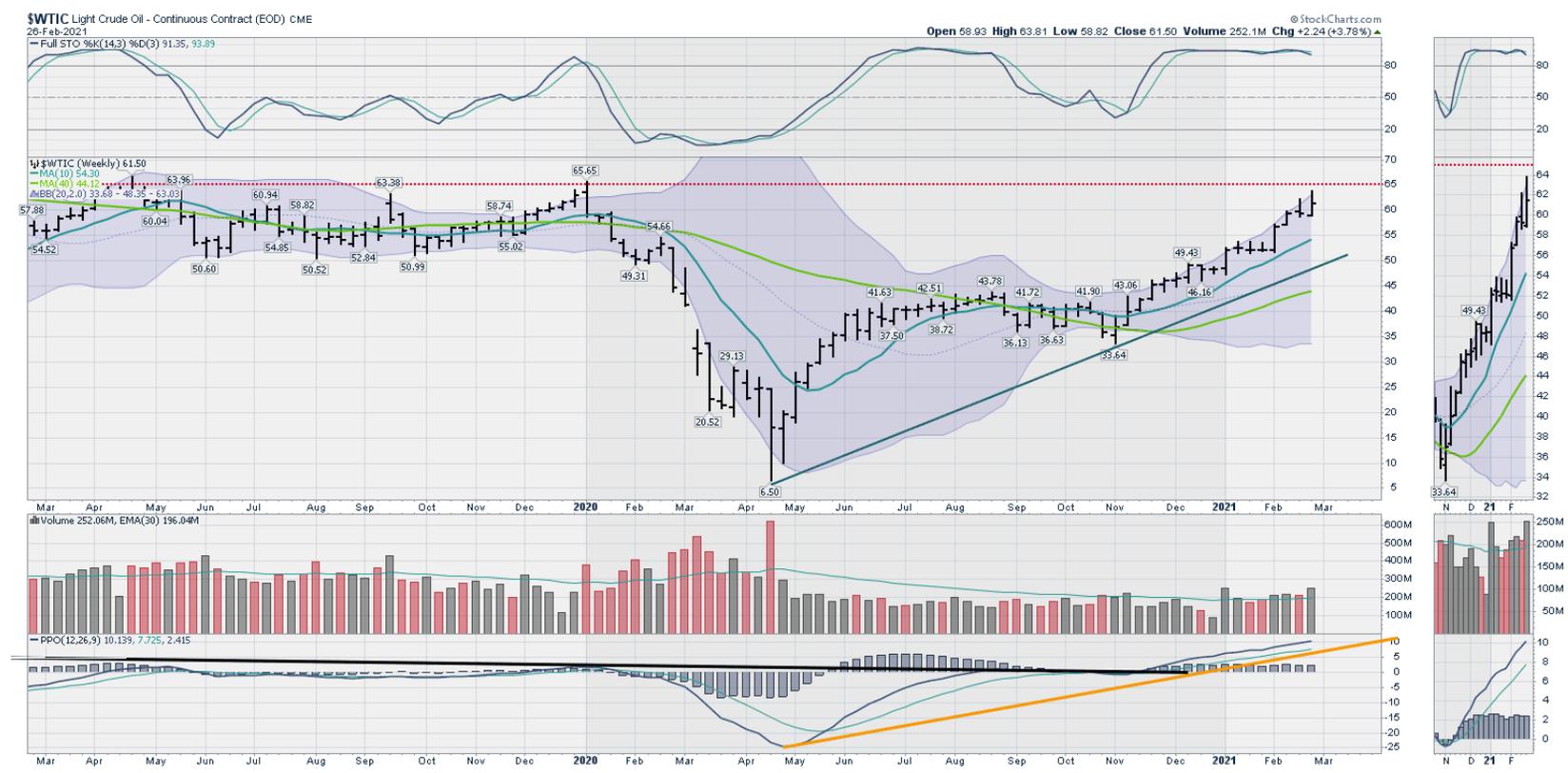
## \$COPPER STALLS AT PRIOR HIGHS

Copper had an unbelievable three weeks. It soared 20 % from \$3.60 to \$4.38. However, it was unable to stay up there, and closed back where it started the week suggesting exhaustion. In May 2006, May 2008 and July 2008, we can see huge moves higher, north of \$4, that stand alone. Those exhaustion pushes marked meaningful highs. As we are testing the all-time-highs with the recent surge, protect profits in the miners. If it continues higher great, but this looks exhaustive in my eye for now.



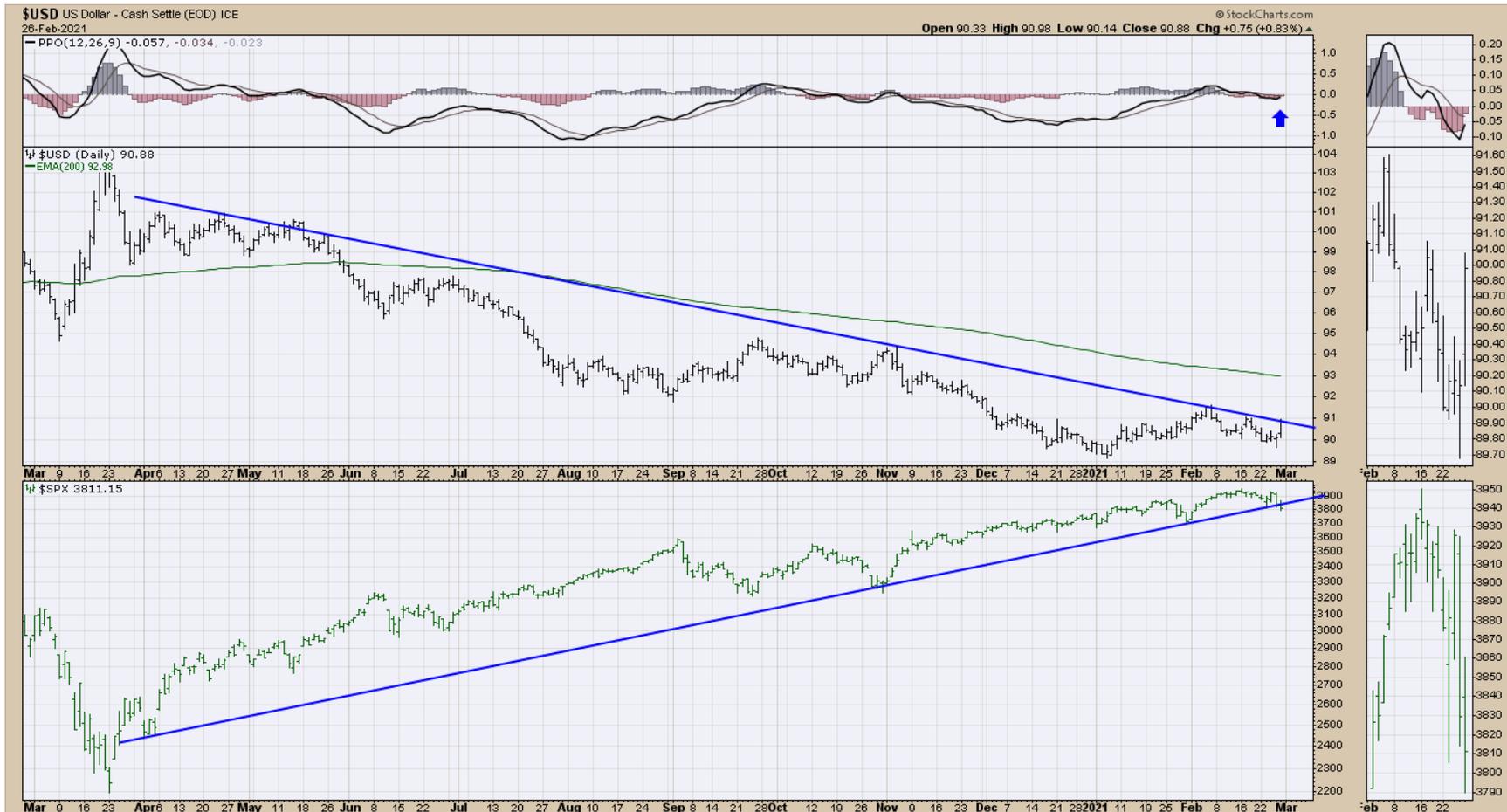
## \$WTIC - BIG WEEK TO 52 WEEK HIGHS

Oil tested higher this week, up to \$63.81. Looking left, we are at a major resistance level shown by the red line. OPEC meets this week, and we get more inventory data from the problems associated with the Texas storm. [\\$WTIC](#) I still hold a large oil related position, but I have taken profits in others. It's hard to know what to do. If OPEC continues to tighten supply, that can definitely push prices higher. The current price is improving drilling actively marginally, but not significantly. It looks like Iranian and Venezuelan barrels are off the market for the near term. The flip side is any down draft in equities typically takes a hit across the sectors. The backdrop in the oil business is bullish but be ready for near-term volatility.



## \$USD - POTENTIAL TREND LINE BREAK

The US Dollar is very close to breaking higher, while the equity market is very close to breaking lower. I ended the newsletter with this chart as I think it might be the most indicative of a change in direction for multiple assets like precious metals, commodities, energy and bonds. Bonds we covered on the video this week.



## MARKET SUMMARY

Energy continued to be a top performer. Financials and industrials held flat on the week. Defensives like Utilities and Staples were hit hard on the bond moves, and Discretionary and Tech were beaten up. Following the options expiration on Friday Feb 19th, I was right to be tentative about the leadership in technology and discretionary performance. OUCH. Canada is on the right. Two of the largest sectors in Canada are energy and financials, but again, they could not keep the index in positive territory for the week. The selloff in Gold miners is tracking lower with bond prices. Defensive sectors were still near the bottom of both lists.

SYMBOL	NAME	SCTR	CLOSE	% CHG	+/-
XLE	Energy	95.1	48.15	4.27	
XOP	E & P	98.4	80.51	3.83	
XRT	Retail	96.6	79.26	0.14	
XLF	Financials	85.2	32.31	-0.31	
XLI	Industrials	63.8	90.61	-0.41	
XLC	Communications	64.1	71.57	-1.26	
IYR	Real Estate	32.6	87.35	-1.53	
XLV	Healthcare	23.6	112.61	-1.57	
XLB	Materials	59.1	73.55	-2.00	
XLP	Staples	4.0	63.30	-2.53	
XLK	Technology	37.7	130.69	-3.94	
XLU	Utilities	2.7	58.36	-4.97	
XLY	Discretionary	30.0	161.15	-4.99	
SMH	Semiconductors	91.5	240.95	-5.09	

SYMBOL	NAME	CLOSE	% CHG	+/-
\$SPTEN	Energy	110.38	3.10	
\$SPTRE	Real Estate	315.74	0.88	
\$SPTCD	Discretionary	246.71	0.69	
\$SPTFS	Financials	324.31	0.36	
\$SPTIN	Industrials	335.83	-0.42	
\$RTCM	Income Trusts	223.69	-0.86	
\$SPTTS	Telecom	162.44	-0.95	
\$SPTCS	Staples	600.29	-1.48	
\$TSX	\$TSX	18060.26	-1.76	
\$SPTMT	Materials	295.38	-3.90	
\$SPTGD	Gold Miners	269.89	-3.99	
\$SPTUT	Utilities	309.14	-4.76	
\$SPTTK	Technology	189.44	-5.62	
\$SPTHC	HealthCare	84.93	-8.35	

## GLOBAL VIEW

It was a rough trip around the world. Asia moved down hard after leading recently. The Nasdaq was one of the weakest for the second week in a row, which does not bode well typically. Europe was a little better than the rest. Commodities are on the right. Oil closed higher than last week. Precious metals were down but the miners were down hard. Lithium and Rare Earths moved down hard. I'm a bit nervous on Commodities if the US dollar is poised to break higher.

SYMBOL	NAME	CLOSE	% CHG	+/-
\$IBEX	Spain	8225.00	0.90	■
\$IDDOW	Indonesia	1325.09	-0.68	■
\$MXXX	Mexico	44592.91	-0.68	■
\$CAC	France	5703.22	-1.22	■
\$DAX	Germany	13786.29	-1.48	■
\$AORD	Australia	6940.60	-1.75	■
\$TSX	Canada	18060.26	-1.76	■
\$INDU	Dow ----	30932.37	-1.78	■
\$GBDOW	London	292.11	-1.92	■
\$SPX	S&P 500 ----	3811.15	-2.45	■
\$KOSPI	South Korea	3012.95	-3.05	■
\$NIKK	Japan	28966.01	-3.50	■
\$BSE	India	49099.99	-3.52	■
\$RTSI	Russia	1411.93	-4.10	■
\$NDX	Nasdaq 100 ----	12909.44	-4.94	■
\$SSEC	Shanghai	3509.08	-5.06	■
\$HSI	Hong Kong	28980.21	-5.43	■
\$BVSP	Brazil	110035.17	-7.09	■

SYMBOL	NAME	CLOSE	% CHG	+/-
\$COCOA	Cocoa	2604.00	6.59	■
\$BRENT	Brent Crude	64.42	3.84	■
\$WTIC	WTI Crude	61.50	3.78	■
\$GASO	Gasoline	1.95	3.26	■
\$SOYB	Soybean	1404.25	1.96	■
\$HOIL	Heating Oil	1.84	1.81	■
\$COPPER	Copper	4.09	0.45	■
\$LUMBER	Lumber	847.70	-1.22	■
SLX	Steel	48.55	-1.96	■
SIL	Silver Miners	41.85	-2.31	■
\$SUGAR	Sugar	0.16	-2.61	■
\$GOLD	Gold	1728.80	-2.73	■
\$SILVER	Silver	26.44	-2.99	■
GDX	Gold Miners	31.13	-4.92	■
\$NATGAS	Natural Gas	2.77	-7.36	■
REMX	Rare Earth Metals	83.28	-8.32	■
LIT	Lithium	60.76	-11.05	■
HMMJ.TO	Marijuana Stocks	12.78	-11.13	■

## VIDEO OF THE WEEK

The March monthly conference call link. [March Monthly Conference Call](#).

Here is the link to the chart list. [Weekly Charts](#)

Here is a link to this week's video. [Breakouts Fail](#).

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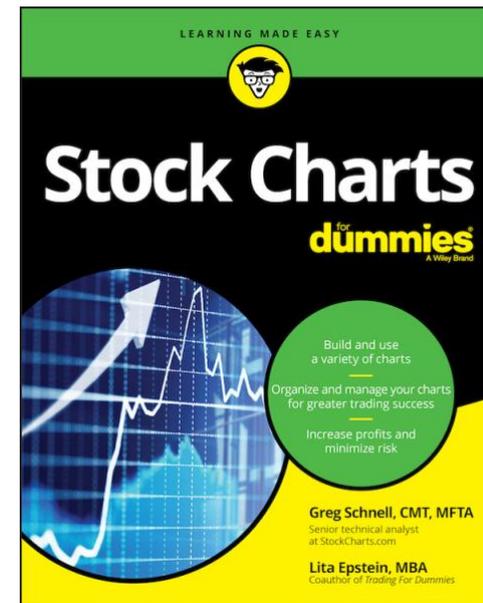
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Good trading,  
Greg Schnell, CMT, MFTA.

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Based in Calgary, Canada, he is a past board member of the Canadian Society of Technical Analysts (CSTA) and past chairman of the CSTA Calgary chapter. As an active member of CMT Association, Greg speaks throughout North America on technical analysis. Greg is the co-author of Stock Charts for Dummies.