

Technical Analysis: Dow Jones Industrial Average

The real crash may be ahead of us

16 November 2015

USA | EQUITIES | TECHNICAL ANALYSIS

- The current picture resembles the pre-crash moment of the DOT-COM BUBBLE and SUBPRIME MORTGAGE CRISIS
- The DJIA index falling 661.89 points(3.69%) from last week could be the finishing touch to the real crash

CHARACTERISTICS OF A CRASH

What it looked like before the DOT-COM BUBBLE crash (Weekly timeframe)

- 1) Price started to show real signs of weakness with big bearish bars usually BEARISH ENGULFING BAR and BEARISH OUTSIDE BAR ranging from 3.47% to 10.71%
- 2) A strong close below the 60 week moving average
- 3) The 20 week moving average crossed below the 60 week moving average eventually
- 4) Price made a last surge back above the 20 and 60 week moving average before closing back below which turned out to be the start of the crash



INDU Index (Dow Jones Industrial Average) DJIA Weekly 17NOV2010-16NOV2015 Copyright© 2015 Bloomberg Finance L.P. 16-Nov-2015 14:29:43

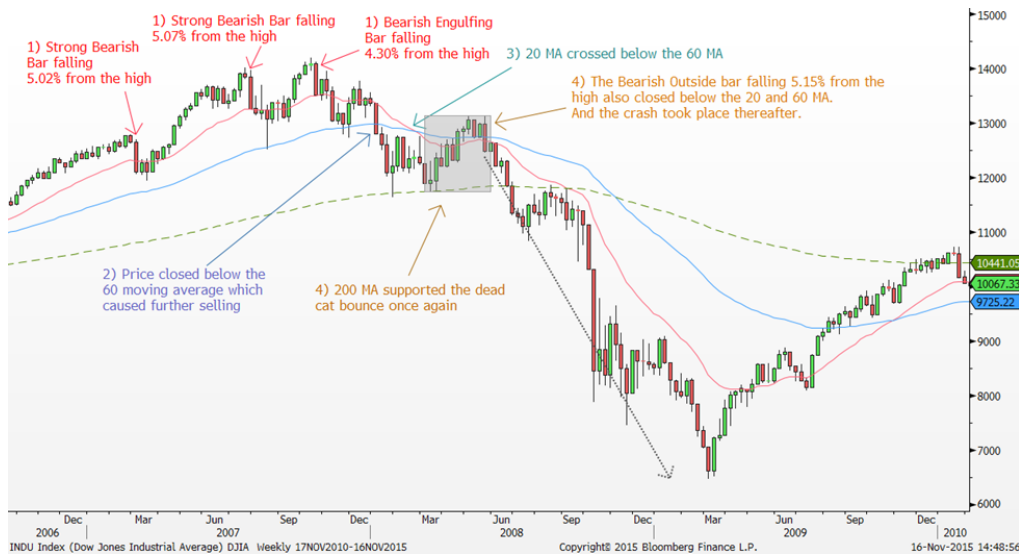
DOW JONES INDUSTRIAL AVERAGE Index weekly chart, red line = 20 exponential moving average, blue line = 60 EMA, Green line = 200 EMA

Source: Bloomberg

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What it looked like before the SUBPRIME MORTGAGE crash (Weekly timeframe)

- 1) Price started to show real signs of weakness with big bearish bars usually BEARISH ENGULFING BAR and BEARISH OUTSIDE BAR ranging from 4.3% to 105.02%
- 2) A strong close below the 60 week moving average
- 3) The 20 week moving average crossed below the 60 week moving average eventually
- 4) Price made a last surge back above the 20 and 60 week moving average before closing back below which turned out to be the start of the crash



DOW JONES INDUSTRIAL AVERAGE Index weekly chart weekly chart, red line = 20 exponential moving average, blue line = 60 EMA, Green line = 200 EMA
 Source: Bloomberg

The current picture (Weekly timeframe)

- 1) Price has been showing quite a few signs of early weakness here with multiple significant bearish bars ranging from 3.88% to 6.31%
- 2) We got a close below the 60 week moving average on the week of 8th August 2015 where a mini crash followed thereafter
- 3) On the week of 11th September 2015, the 20 week moving average cross over the 60 week moving average to the downside
- 4) Now: Price should be making their last surge up to suck in more buyers before crashing it down.

There was a BEARISH ENGULFING BAR which closed down 3.69% for the week. Moreover, the BEARISH ENGULFING BAR also closed back below the 20 and 60 week moving average suggesting that we may be near the beginning of the real crash as shown in the previous 2 examples



DOW JONES INDUSTRIAL AVERAGE Index weekly chart weekly chart, red line = 20 exponential moving average, blue line = 60 EMA, Green line = 200 EMA
 Source: Bloomberg

How much did price tumbled during the crash (Weekly timeframe)

DOT-COM BUBBLE: Price fell 38.74% from the week of 10th January 2000 high of 11750.28 points to 7th October 2002 low of 7197.49 points.

**Long-term Support level 1: 8087.15
Long-term Support level 2: 7449.38
Long-term Support level 3: 6469.95**



DJIA Index weekly chart, red line = 20 exponential moving average, blue line = 60 EMA, Green line = 200 EMA

Source: Bloomberg

SUBPRIME MORTGAGE CRISIS: Price fell 54.43% from the week of 12th October 2007 high of 14198.1 points to 6th March 2009 low of 6469.95 points.



DJIA Index weekly chart, red line = 20 exponential moving average, blue line = 60 EMA, Green line = 200 EMA

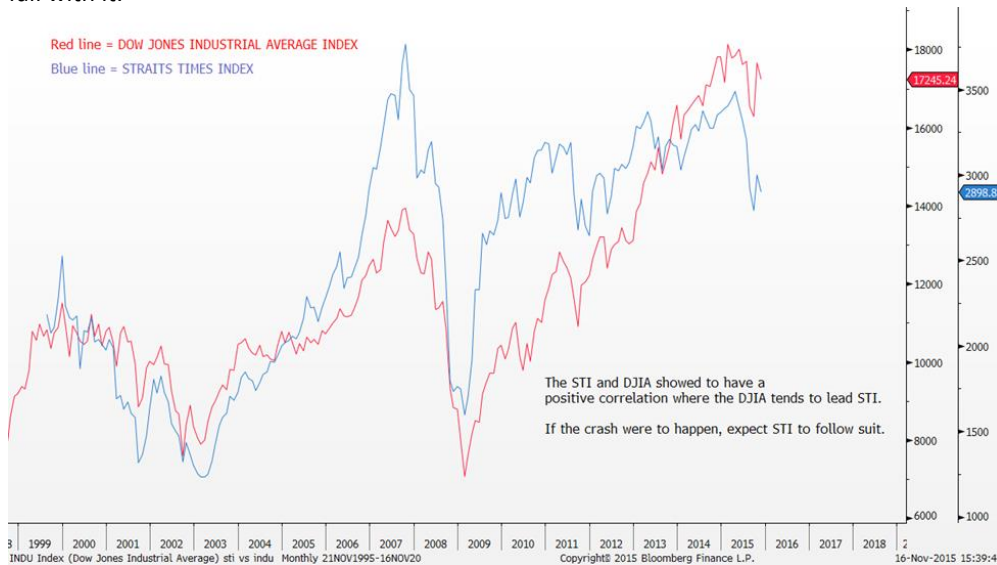
Source: Bloomberg

Hence, if the crash were to materialize, expect price to fall to a range of 11242 points to 8363 points by using the 22nd May 2015 18351.36 point all time high as the reference point.

On the other hand, looking from the support and resistance point of view, it is likely that price could bottom out near the 8087.19 support area. There are 2 other stronger support area around 7449.38 and 6469.95 points.

Correlation Between DOW and STI

There is a **positive correlation between the STRAITS TIMES INDEX and DOW JONES INDUSTRIAL AVERAGE INDEX**. The incoming crash from the DJIA should also cause the STI to fall with it.



STI vs DJIA Monthly chart, Source: Bloomberg

Conclusion

If history is to repeat itself, the crash could be staring at us right now. The current price action looks similar to what happened just before the crash in DOT-COM BUBBLE and SUBPRIME crisis.

Tread carefully as the coming crash is going to be a huge one where other markets would be greatly affected too.

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