

STOCK FEATURE

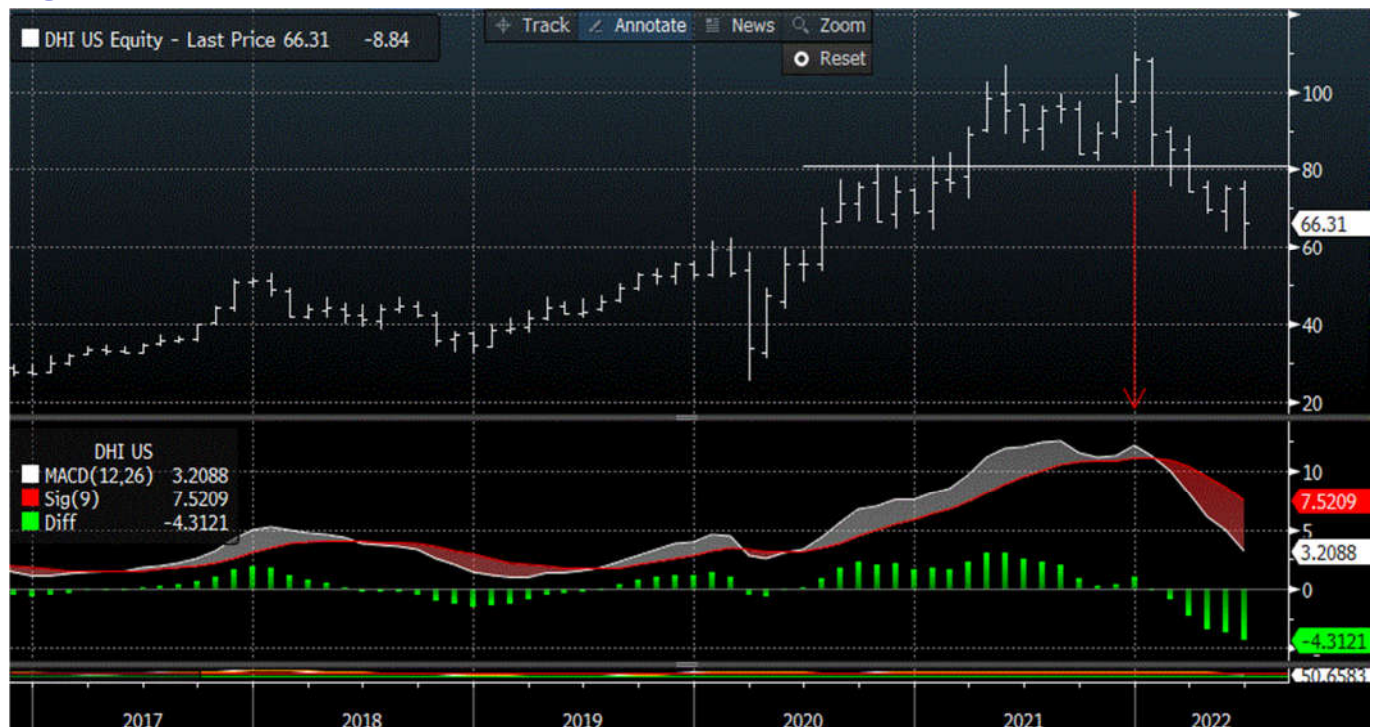
Negative Reflections; and Perhaps a Shining Light? *Yamada*

by Louise

As the market moved toward 2006-2007, the Housing stocks were the first to “top out,” beginning as early as late 2005 into 2006, offering evidence of a deteriorating market environment. Today there has been similar technical evidence moving into 2022, with initial price support breaks, negative divergences and / or monthly, more structural Sell signals.

Granted, the *Technology* stocks were the initial market decliners, with the NASDAQ index leading down into bear market territory. But the Housing stocks’ negative technical profiles suggest this market decline may have further to go, carrying the other major indexes similarly into bear market territory.

Fig. F-2 DHI (Monthly)



Source: Bloomberg; LYAdvisors

In early 2022, **DHI** completed a year-long double top (**Fig. F-2**, horizontal support line), with a very slight monthly negative divergence (see arrow) followed by a monthly MACD momentum *Sell*. The decline appears in the initial stage as the momentum continues down.

Reflecting on **DHI** in 2006, a very similar topping profile was in evidence (**Fig. F-3**, horizontal support line), without the negative divergence, but replaced with the immediate monthly momentum *Sell* signal (see lower arrow). The initial decline in 2006 was followed by a rally into resistance, formerly support, followed by the remainder of the bear market decline from a high near 40 to a low near 10, for a 75% decline over 2 years (after which a new momentum *Buy* signal initiated in early 2009).

Fig. F-3 DHI 2003-2009 (Monthly)



Source: Bloomberg; LYAdvisors

LEN during 2021 displayed a rising price against negative divergences in the momentum (**Fig. F-4**, lower arrow) and early in 2022 a secondary *Sell* signal and support break (horizontal line). Price has already extended the decline beyond the support break.

Fig. F-4 LEN (Weekly)



Source: Bloomberg; LYAdvisors

Fig. F-5 LEN 2002-2008 (Weekly)

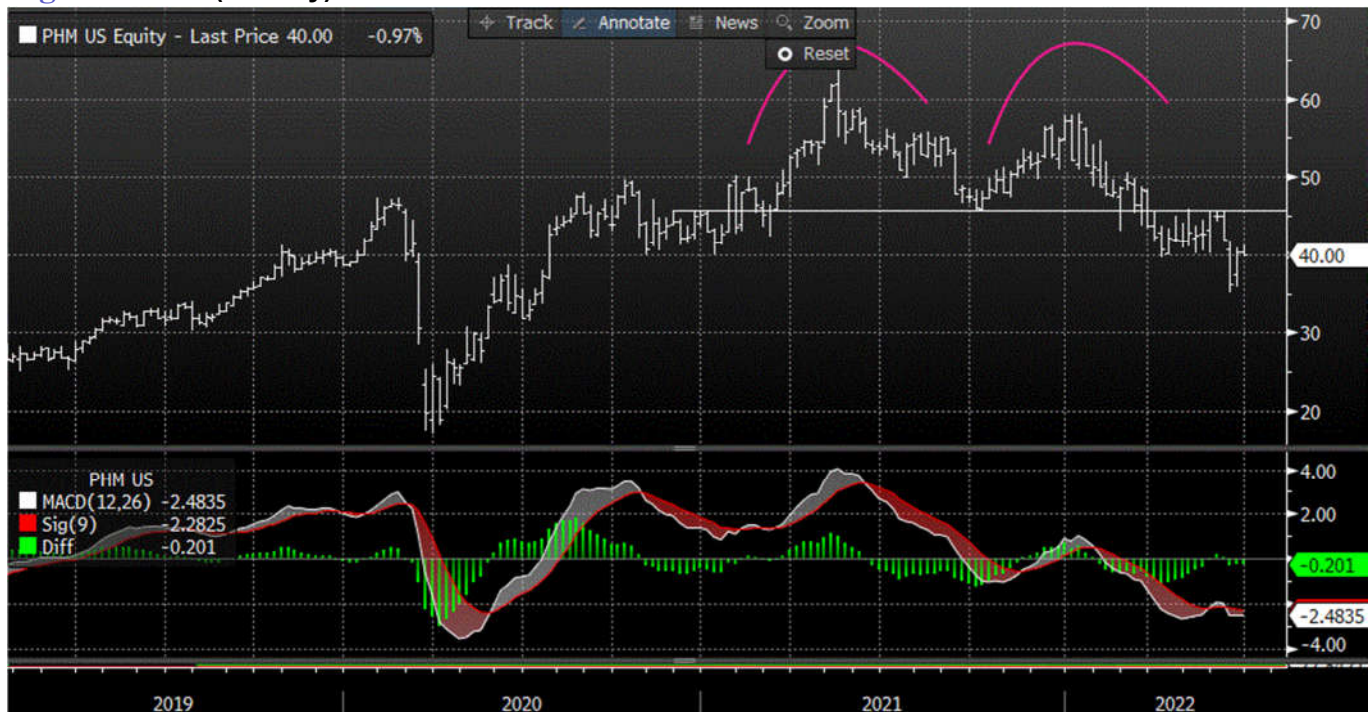


Source: Bloomberg; LYAdvisors

LEN in 2006 completed year plus negative divergence (**Fig. F-5**, both arrows), a break of the horizontal support line, and in 2007 a break of the 2001 uptrend. The decline continued for another year (inclusive of rallies) for an 83% decline.

PHM has completed a double top (**Fig. F-6**, arcs), with no negative momentum divergence but with a monthly *Sell* following each top (separated by a temporary rally), followed by the break of horizontal support, a kickback rally into the support, now resistance, and the June 2022 new low. Given the prior technical patterns above, the decline may continue.

Fig. F-6 PHM (Weekly)



Source: Bloomberg; LYAdvisors

PHM in 2005 completed a year's top (**Fig. F-7**, arc), a corresponding momentum *Sell* on the price peak and declining through the first horizontal support break; a kickback rally into resistance, formerly support, led to another horizontal support break at 25 a year later and a final decline for close to 77% depreciation top to low, into 2008.

Fig. F-7 PHM 2002-2008 (Weekly)

Source: Bloomberg; LYAdvisors

Fig. F-8 TOL (Weekly)

Source: Bloomberg; LYAdvisors

The final example today is **TOL** with a year-long top (**Fig. F-8**, arc), a distinct negative momentum divergence (see arrows), a secondary momentum Sell. The recent break of support suggests, notwithstanding any rally into resistance (former support), that the final decline still lies ahead.

TOL in 2005 offered a negative momentum divergence (**Fig. F-9**, arrows), and a rather steady decline into 2007 for another loss of 77%.

Fig. F-9 TOL 2003-2007 (Weekly)



Source: Bloomberg; LYAdvisors

The preliminary warning, given by the housing stocks in 2006, does appear to have an uncanny resemblance to the same stocks today in 2022. The message may carry more than one point; that the equity market decline for the majority of stocks may have further to go, carrying the other major indexes into bear market territory, and that in spite of interim rallies, other sectors / stocks, not yet suffering significant declines, may face more critical losses ahead.

Perhaps a Shining Light?

There are rarely more positive technical patterns as a bear market is evolving. But the basing process in face of market declines can bode well for future appreciation, or at least defend against more substantial declines in other names.

IBM had been emerging with the **potential for a 5-year base (Fig. F-10)**. In this rather symmetrical price profile around a pivot low (declining arrow), one can also notice **a positive momentum divergence** (see arrow, lower panel) in which the momentum held at a higher low while the price moved to its lowest level to date in 2019. Thereafter, **price initiated a series of higher lows** (along the uptrend, right of center from the pivot low), with price now addressing a flat, multi-year resistance (horizontal red line).

Fig. F-10 IBM (Weekly)



Source: Bloomberg, LYAdvisors

All that is technically needed now is to have these rising price lows **followed by a higher high ... effectively a breakout through the resistance ...** to suggest higher prices ahead. At the very least, the price consolidation / stability has provided a safe haven to date from the market drawdown. Success of an advance will be revealed with the passage of time. A trendline break would indicate failure to follow through.

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