

# How to judge the market bottom?

Some slides to guide discussion  
in the BullCharts User group session  
27 May 2020

# Was this a bottom?



How  
could  
we  
know?

# Was this a bottom?



# Is this a bottom?



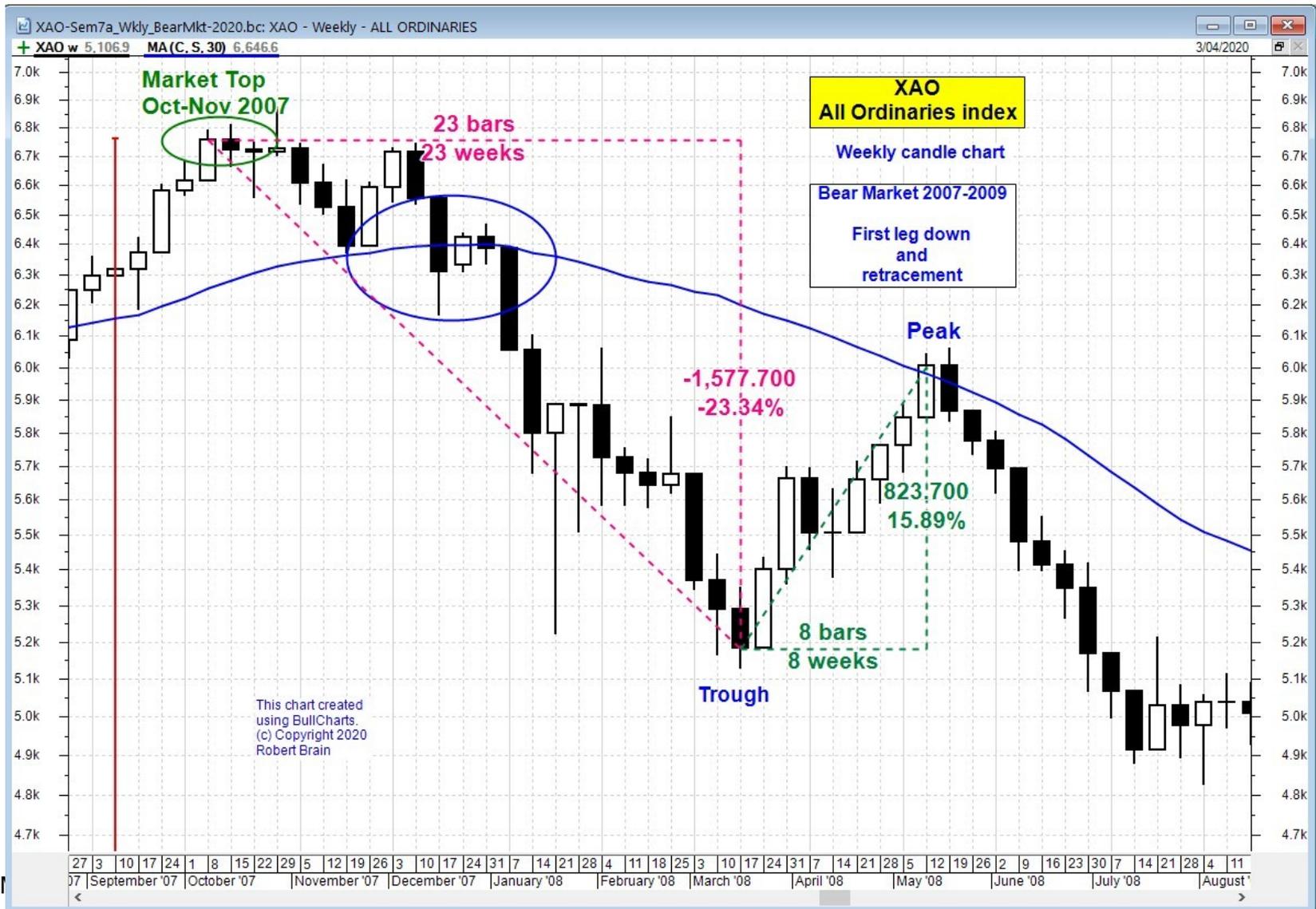
# Beware — dead cat bounce

The weekly candle chart (next slide) is the XAO index from the market top in late 2007, showing a 23% decline over 23 weeks to a low in March 2008.

In April 2008 many investors thought this was the market bottom and they piled into the market again (I heard some investing horror stories later in the year).

The index topped out in May 2008, some 8 weeks after the March low, then fell a lot further to end up 50% below the market top of late 2007!!





# Does it matter?

- But does it really matter?
- Can we simply press on regardless, and look for stocks matching our criteria?
- If we are a *Trend Trader*, should we simply look for rising stocks regardless of a market bottom?

# Market Bottom?

Whenever the market is falling for a prolonged period of time, many astute traders and investors are keen to be able to spot the bottom of the market so as to trade/invest again and safely, and to maximise any profits.

**But how can we do that?**

# Market Bottom?

## Important points to remember:-

- 1) Important to differentiate between a stock that is truly bottoming versus a “falling knife” situation;
- 2) It is very hard to perfectly spot the bottom of the market, but easier to identify in hindsight, and it gets easier as more time goes by;
- 3) Corrections can be 3 to 9 months, while bear markets by definition can run from 6 to 15 months.

# Market Bottom?

**How can we do that? — Here are some thought-starters:-**

- 1) What technical analysis or chart tools are available to assist?
- 2) How can we use BullCharts to help? And what BullCharts scans can we run?
- 3) What time chart period should we use — daily, weekly, monthly?
- 4) How confident can we be that we have spotted the market bottom?
- 5) How to protect our capital in uncertain times?
- 6) Be careful with apparent market bottoms!

# Some possibilities

- (a) Coppock indicator
- (b) Elliott Wave
- (c) Fibonacci
- (d) Gann and price cycles
- (e) More bad news has no effect
- (f) Fund managers are buying
- (g) Your favourite indicator(s)?
- (h) Stan Weinstein Stage Analysis?
- (i) Your favourite observation(s)?

# More possibilities

- (j) Close above EMA  
(eg. 8 week EMA)
- (k) Use MA cross on a  
ribbon indicator  
(eg. 8/30 week EMA)
- (l) Bullish candle pattern
- (m) 2 green “up candles”  
(on mthly, wkly or daily)
- (n) Reversal candle  
patterns
- (o) Resistance (at major support  
areas)
- (p) Chart patterns (double triple  
bottoms, reverse head and  
shoulders, cup and handle)
- (q) RSI and MACD moving up  
from a low base
- (r) Stochastic or GMMA turn  
upwards (weekly)
- (s) Directional Movement (ADX)
- (t) Break of downtrend line

(with input from David Woodside)

# Case study

The next slide includes a price chart with some key market turning points highlighted.

(chart prepared by David Woodside)



Symbol: XAO Quarterly Candlesticks

XAO q CI=5,544.700 O=5,142.300 H=5,618.100 L=5,063.500 +434.100 +8.49% DMW PVBM DMW EDVL MA 5.725.673 DVI

Chart prepared by David Woodside



AUS – XAO Quarterly – 36 Yrs

Volume (1) 16,349,073,944.0 MA-C8\_50W(C, Exp, Wei, 8, 30) 5,992.7 MA-V(S, 100) 38,624,953,106.5

Year	MA-X-OE15_30	DM	RSI5C67_33	Volume	Volume	MACDH2C
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# Let's study some charts....

## Go to BullCharts ...

In the live presentation, now switch to BullCharts and view a few charts.