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Danger requires 'thorough' approach

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by Alan Rohrbach

Some folks' lapses into sanguine expectations do not change the fact markets are always a dangerous neighborhood. As John Authers noted in this weekend's Long View, Goldilocks seemed to be a permanent resident until devoured by a large group of bears.

While many still adhere to vehement defense of whichever side of the fundamental-technical divide they favor, the fact is that only proper use of diverse tools can end well. The Lex column provided a balanced and thoughtful perspective in "Charts Aflutter" (Monday, June 29.) The review of benefits and drawbacks provided by the 200-day moving average as an isolated technical indicator was very clear.

Two key points deserve a bit of further development. The first is that use of technical indications for intermediate- or long-term market projections can only be viable in the context of some fundamental rationale. Which is not to say the current news needs to reinforce the technical analysis; that is fairly rare. Yet, there must be some scenario under which economic and political developments support aggressive price expectations.

From a purely technical perspective, Lex was definitive on a point savvy analysts and dealers understand: "Investors should remember that all trading techniques sometimes work and sometimes they do not."

As one considered fairly adept at the 'macro' combination of fundamentals with technical analysis, I am happy to take that a step further: any single technical analysis indication will *not* tell you which way the market is going to go. It can only provide a price and time from which the market is *supposed* to be doing something. While that may sound a bit convoluted, there is still something to be said for the value of technical projections' well-defined parameters as a supplement for intrinsically more nebulous fundamental views.

An article I wrote over 10 years ago opened with this except from the I Ching trigram for Danger: *"In danger all that counts is… thoroughness - and going forward, in order not to perish by tarrying in the danger."*(1) That would seem to sum up the benefit from paying heed to the same sort of technical indications Lex duly noted "…would have avoided the 1929 meltdown…" and "…dodged the 1987 crash." 2008 was another case in point.

It is up to the experience and intelligence of the analyst to know whether the market is conforming to or aborting a particular technical expectation. However much it requires more effort than a simplistic single indicator view, using a suite of tools which complement each other has been found to be the most effective approach.

The 'thorough' approach psychology and combined use of some basic tools (including a 200-day moving average spinoff) is covered in that somewhat dated article *The Importance of Balance*(2)

(1) Wilhelm, Richard, *The I Ching*, Princeton University Press, Princeton, Copyright 1950 by Bollingen Foundation Inc., p. 115., as translated into English by C.F. Baynes.
(2) 1996, Alan Rohrbach

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