

BetterBizBooks.com

Technical Analysis of the S&P 500 Index –
Why I wrote this and what is Technical Analysis

By

Dan Ross

August 1, 2002

Legal Disclaimer:

BetterBizBooks.com is founded and operated by Dan Ross and is a personal website to provide independent and public research. This report is provided as a public service. All information provided must be understood as opinion only and is not investment advice. All statements and expressions are the opinion of **BetterBizBooks.com** and are not meant to be a solicitation or recommendation to buy, sell, or hold any form of investment vehicle. Any opinion made by **BetterBizBooks.com** is based on raw data and reports that have been presented by independent government agencies, private industry associations and other sources. **BetterBizBooks.com** makes no representation or warranty as to the accuracy of the information provided. The information provided should only be used as a research tool. Further reading of this document constitutes your acceptance of these terms and conditions.

RESEARCH

This article is one section of a larger report on technical analysis. A copy of the full length report or additional sections can be downloaded at my personal website, BetterBizBooks.com

1. Why I wrote this article and what is technical analysis.
2. My technical analysis of the S&P500 as of 8/1/02.
3. My technical analysis of the S&P500 as of 8/1/02, using Fibonacci numbers (a technical indicator used by many analysts.)
4. My technical analysis of the S&P500 as of 8/1/02 using P&F charts.

Why I wrote this article:

On June 6th, 2002, in my [Stock Market Returns](#) article, I talked about how the economy was likely going to face years of minimal economic growth and poor investment returns in the near future. At that time, when the S&P 500 was trading at approximately 1050, I also stated my disdain for Wall Street analysts that were forecasting a huge surge in the S&P 500 for the remainder of the year. Some were giving target prices of 1300 (over a 20% return in a six month time horizon!), much to my horror. **Since I wrote about the stock market and its woes on June 6th the stock market is down over 20%. It has been nothing short of a market meltdown.**

I am concerned about economic growth. Forget GDP growth. I want to see top line corporate results growth. Economic data can be fudged every which way known to man. Top line growth, across a broad spectrum of U.S. corporations, such as those included in the S&P 500, is much more difficult to fudge. Don't get me wrong, companies can inflate revenues (Enron & Medco are two recent examples) but a diverse gauge of public companies should provide some indication of true economic growth in the U.S. As of today I have yet to see any meaningful top-line growth in corporate America. Top line growth is essential to justify the EPS models that many analysts have forecast for the next 12 – 24 months.

In this particular article I want to spend some time looking at some stock charts using technical analysis, a method of looking at stocks based on market direction and sentiment.

So what is technical analysis and why is it important?

Technical analysis is the examination of past price movements to forecast future price movements.

Technical analysts are sometimes referred to as chartists because they rely almost exclusively on charts for their analysis. Technical analysis is applicable to stocks, indices, commodities, futures or any tradable instrument where the price is influenced by the forces of supply and demand. Price refers to any combination of the open, high, low or close for a given security over a specific timeframe. The time frame can be based on intraday (tick, 5-minute, 15-minute or hourly), daily, weekly or monthly price data and last a few hours or many years. In addition, some technical analysts include volume or open interest figures with their study of price action.

Technical analysts consider the market to be 80% psychological and 20% logical. Fundamental analysts consider the market to be 20% psychological and 80% logical. Psychological or logical may be open for debate, but there is no questioning the current price of a security. After all, it is available for all to see and nobody doubts its legitimacy. The price set by the market reflects the sum knowledge of all participants, and we are not dealing with lightweights here. These participants have considered (discounted) everything under the sun and settled on a price to buy or sell. These are the forces of supply and demand at work. **By examining price action to determine which force is prevailing, technical analysis focuses directly on the bottom line: What is the price? Where has it been? Where is it going?**

Given this brief explanation of technical analysis, "Are there any technical indicators of value to the individual investor?"

Introduction: Who, What, When and Why:

Who: My name is Dan Ross and I am the author of the report. **For a full copy of my resume you can find it at <http://www.betterbizbooks.com>.** Having finished my one year sabbatical I am now seeking a position in a financial analyst role.

Education: MBA - emphasis in finance - Rice University
B.S. Accounting - University of Texas at Dallas

Work Experience: My work experience includes working for two different investment banks in the Southwest U.S. where I was a research analyst following the telecommunications industry, services at one and equipment at the other. Prior to those positions I worked as a junior semiconductor analyst. Before entering the investment industry, which I am no longer working in, I worked for Nortel Networks in cost accounting, joint venture financial reporting and as an engineers assistant, where I had the pleasure of working on Nortel's DMS-250 switching platform. In that role I assisted customers with running tests on the latest and greatest hardware / software upgrades before they went live on the customer's switch. Obviously the goal is to find all the glitches as soon as possible and get the bugs worked out before they go into a live network.

Why did I write this brief report?

1. It enables me to keep my writing skills fresh.
2. The brief report enables me to shed some personal thoughts about the current economic environment in the U.S. through a graphical format. I hope that such a format will help others to learn more about the current state of the economy in the U.S. as well as some of the issues that we face as a nation.
3. This report is just the beginning of many reports I hope to write based on my personal learning experience in the last year (April 2001 – May 2002). During the one year period I read over 50 business books and frankly got a whole new educational degree from a personal perspective. I have read subjects that include sales, marketing, economic history, financial and general business books. While I already have 6 years of formal college education (B.S. Acct & MBA – finance) I am committed to being a lifetime learner. My goal is to learn and then APPLY what I have learned in a business environment.
4. Are you looking for good reading material? Books that can help increase your pay and cause you to experience a paradigm shift in the way you see the world and business, in general. If so check out my website and peruse my book reviews.

"The economic world's structure today relies heavily on global trade. It relies on comparative advantages, on free floating currencies, etc.....What concerns me is that the foundation upon which this structure is based on is constantly in flux and changing at a pace far greater than ever. In such an environment, the possibilities of economic and social upheaval are greater than ever.

When I look at today's economic environment in the U.S. I see a nation and attitude very reminiscent of France in 1848. As John Stuart Mill characterized the French Government, "it is wholly without the spirit of improvement and...wrought almost exclusively through the meaner and more selfish impulses of mankind." In saying this I see a divergence in the rich and the poor, I see families working two jobs to maintain a standard of living or, in some cases, just to put food on the table. I see a government beaurocracy encapsulated in eternal deadlock, engulfed in personal gain for that of its representatives and one that increasingly providing little or no personal guidance to its people, the electorate.

What I fear is that today's social commentary on our levels of debt (consumer and government), education, immigration and economic attitude will be but a small-scale dress rehearsal for a gigantic social overturn in the early 21st century."

Source: Robert Heilbroner's *The Worldly Philosophers*

Pick up a copy! The book is about the times, lives and thoughts of the world's greatest economists. It is VERY easy to read and chocked full of insight, humor and historical relevance.