Stock Index Analysis: S&P 500

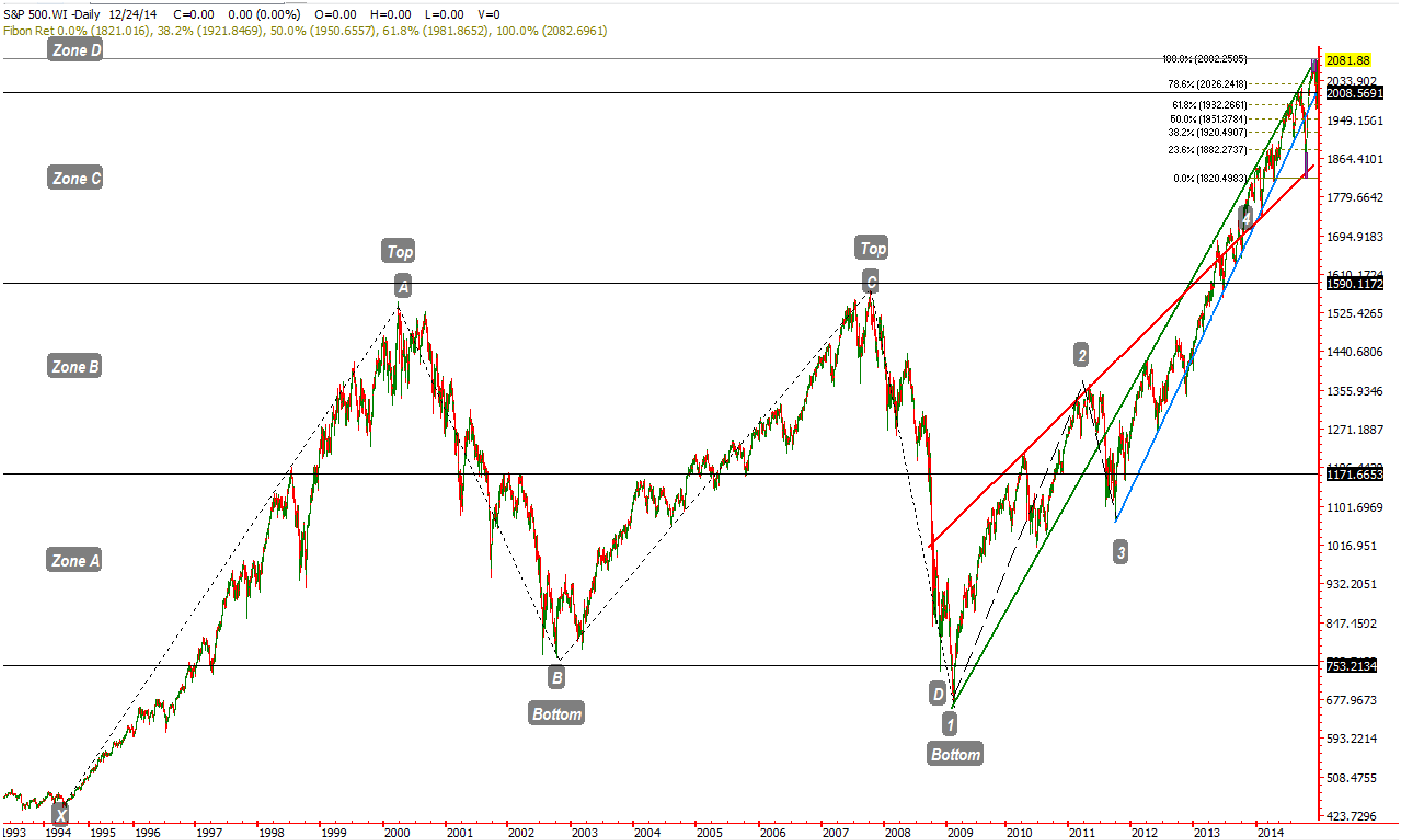


Figure 1.1: Historical Price Action of S&P 500 from 1993 to 2014 (Current)

Chart Data by:

Stock Index Analysis: S&P 500

Figure 1.2: Price Actions of S&P 500 in 2014 with Fibonacci Retracement

Chart Data by:

Stock Index Analysis: S&P 500

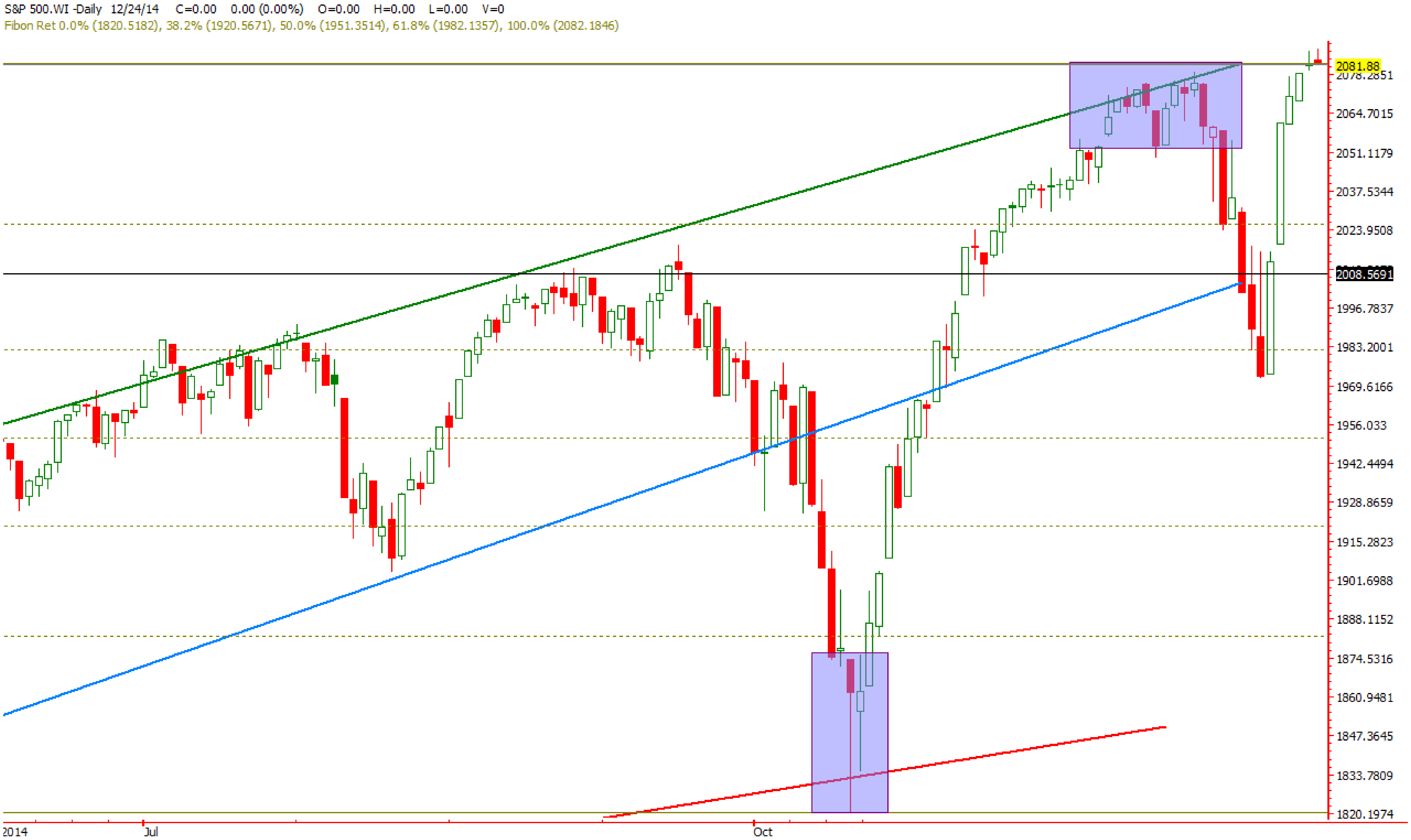


Figure 1.3: Price Actions of S&P 500 in the Month of July-October 2014

Chart Data by:

Stock Index Analysis: S&P 500

Done By:

Chief Editors: Low Quan Jun, Wang Ming Yang

Editor: Tan Jing Rong

Fundamental Analysis

Factor for S&P 500 to Range

End of Monetary Stimulus from the Fed

The Federal Reserve *(Fed)* had ended the US$85 billion quantitative easing *(QE)* program in United States. The end of cheap money means that global stock markets, which depended on money printing from the Fed, would start to range. The impact on the S&P500 is expected to be neutral, as prices consolidate before deciding on a new trend direction.

Factors for S&P 500 to Surge

Further Fiscal Stimulus

A US$1.1 trillion bill for government funding was approved by the Senate on 14th December 2014. The increase in government spending would lead to an increase in U.S. GDP. The spending would flow into companies engaged by the government and also to the rest of the market through the business ecosystem. This would lead to better profit statements of companies which would cause stock prices and the S&P 500 to rally.

Expected QE in the Europe

ECB is facing more pressure to introduce QE in 2015, due to worsening inflation measures that could lead to deflation in Europe. This would be damaging to the economies in Europe and would likely plunge the region back into recession. The introduction of the QE would cause an indirect rally on the stock price in U.S., as capital flows into U.S. from the European QE program. S&P 500 would be expected to rally when ECB introduce QE in Europe.

The upcoming ECB policy meeting is on the 22nd of January 2015.

Factor for S&P 500 to Decline

Expected Interest Rate Hike

It is also widely expected by the market that the Fed will start to raise interest rate at around mid of 2015, during one of the monetary policy meetings, as hinted by Yellen. The increase in interest rate would lead to less money supply in the economy as more investors would place their money in bonds, instead of equity. This is expected to cause a retracement in the S&P 500 or even a trend change to the downside.

Conclusion of Expected Price Direction in S&P 500

Fiscal policies are known to take months for the effects to be seen in the market. The interest rate hike from the Fed is still months away, which is expected to have minimal impact on S&P 500 for now.

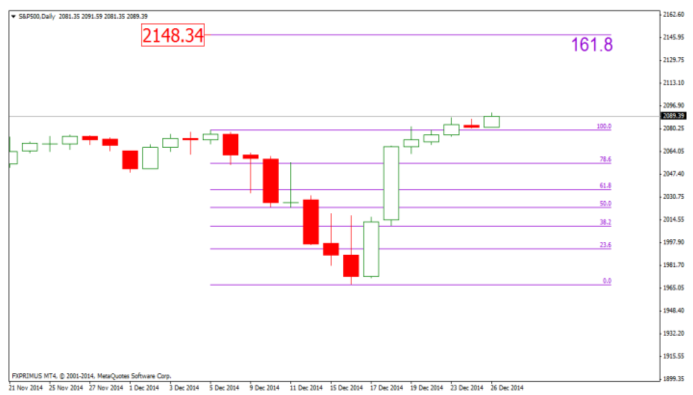
In the short term, the factors which would influence S&P 500 would be the end of monetary stimulus from the Fed and the expected introduction of ECB QE program. The sum of the influences from these factors would mean that S&P 500 is likely to continue its rally to higher price, especially from anticipation of ECB QE program introduction on 22nd January 2015. If ECB fails market expectation on that day, it is expected that S&P 500 would experience a sell-down, as investors re-adjust their portfolios and market outlooks.

In the long term, the expected interest rate hike from the Fed is expected to result in a small pullback in S&P 500. S&P 500 is also expected to be supported by the effects from further fiscal stimulus by the U.S. government. In addition, the expected introduction of ECB QE program would mean S&P 500 is expected to generally trend upwards.

Technical Analysis
(Future Price Trend Projection)

Historical Price Chart Analysis

Based on Figure 1.1, we could observe that price was on a bullish uptrend for S&P 500. S&P 500 broke a double top in early 2013, which suggested that price would continue to rally, and as expected, price rallied. The overall price actions are showing that it is still a bull market now, with price currently hovering around 2080. From Figure 1.4, based on the Fibonacci projection of 161.8%, the price is expected to reach 2140-2160 range. Beyond that, the next price target would be 2400-2450 range, which is also a major resistance area. From the box & zone analysis, 2400-2450 is upper limit of Zone D, where price is likely to face strong resistance.



The bull market is expected to continue, as long as the following critical supports are not broken. The support levels are 2008 (taken from a market top depicted in figure 1.3) and 1590-1600 (drawn from the double bottom, points A & C, in Figure 1.1). The break of the first support level would suggest that a price reversal is possible. If the second support level is broken, that would confirm a bear market is in session. After those price levels, the next critical support level would be at 753-755 (drawn from a double bottom, point B & D, depicted in figure 1.1).

Box & Zone Analysis

The chart in Figure 1.1 is divided into 2 boxes. Box 1 is further divided into zone A and zone B. Box 2 is further divided into zone C and zone D. Zone D is not depicted in the figure, but it should be noted that each of the zones are roughly equal, about 418.5 points in height. Zone A is from 753.2-1171.6. Zone B is from 1171.6-1590.1. Zone C is from 1590.1-2008.5. Zone D is from 2008.5-2427. With price broken out of box 1, S&P 500 is likely to head for the upper limit of box 2, which is also zone D, as long as 1590 price level does not get broken.

Time Factor Chart Analysis

It is important to note that each Bull Run takes an average of 5.5 years to complete, based on the figure of "The Cycle of Bull & Bear Runs" depicted below. The first Bull Run last for around 6 years, where the second run last for around 5 years.

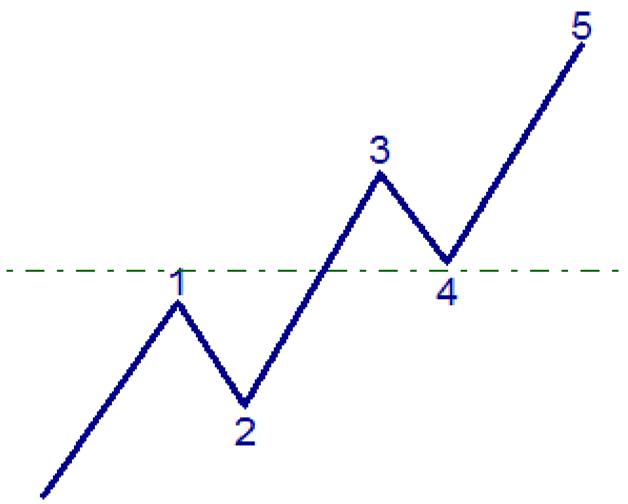
Chart Data By:

MetaTrader 4

Stock Index Analysis: S&P 500

Yet, the current Bull Run has been going on for around 6 years. This would suggest that the current price level is nearing the end of the Bull Run, and a change in trend looks likely in 2015.

Elliot Wave Analysis



Basic Elliot Wave Setup

Based on Figure 1.1, the current Elliot wave would be a wave 3. The next wave to be formed would be a downtrend wave, wave 4. It is expected for wave 4 to test the 1590-1600 region, which is a major resistance-turned-support level. It is important to note that historical bear market last between 1-2½ years (from Figure 1.1, points AB and point CD).

Therefore, the formation of wave 4 should take approximately 1-2½ years. Wave 4 would also be the anticipated bear market when the current bull market (wave 3) ends.

Considering the time for wave 3 and 4 to complete. The next bull market (wave 5) should begin somewhere in year 2016 to 2018. Based on the box & zone analysis, a possible price target for wave 5 would be 2400-2450 or higher.

Trend Line Analysis

Figures 1.1 to 1.3 show trend lines drawn from historical price peaks and troughs, which are used as resistance or support lines. The red trend line is a strong resistance-turned-support line, which nicely supported price when it came down on two occasions, as depicted by Figure 1.2. An immediate V-shaped rebound adds to the strength of the red support trend line.

Connecting all the low points from the current Bull Run is the blue trend line. It could be seen to be acting as a strong support line which had supported price on multiple occasions in the past. However, recently, the blue line had been broken twice. This could indicate weakness in the strength of the current Bull Run.

The green trend line is a strong support-turned-resistance line. It could be seen that price have tried to break the line on multiple occasions but failed.

Current price is very near the green trend line, as such, there is probable chance that price would be rejected again, and retrace back to the blue trend line. Given the recent weakness of the strength of the bull trend, there could be a high possibility of price breaking the blue line and head towards the red line for re-testing. If price breaks the red line, this would suggest that a bear market is in session for S&P 500.

Uncertainties to Price Projection Targets

It is important to note that geopolitical events and natural disasters could affect the projections given in this analysis. The effects could change the speed and magnitude of the bull and bear markets drastically.

An example would be the current falling of oil prices due to OPEC decision. A temporary fall in oil price would be good for the economic and businesses, as it helps with lowering the business costs which would increase the profit margins of the companies. This would lead to S&P 500 rallying. However, if oil price continues to fall, the resulting disinflationary-turned-deflationary pressures would lead to delay consumer spending that would reduce profitability of companies and that would cause stock prices to fall. Under such a condition, S&P 500 would enter into a bear market.

Conclusion to Expected Price Trend in S&P 500

In the short term, fundamentals are suggesting a continuation of the bull trend in S&P 500. Technical analysis supports the view of bullish trend in S&P 500, but weaknesses in the trend direction has been observed. Therefore, the opinion of the short term trend in S&P 500 is cautiously bullish.

In the longer term, fundamentals are suggesting a possible pullback before general bullish trend continuation in S&P 500. However, technical analysis is anticipating a possible bear market approaching S&P 500 in the year of 2015. The clear divergence between fundamental and technical analysis for longer term trend in S&P 500 suggest that investors have to stay cautious in planning their investments and closely observe the market's activities.