Chart-in-Focus

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No Reversal; Looks Like Just A Pause

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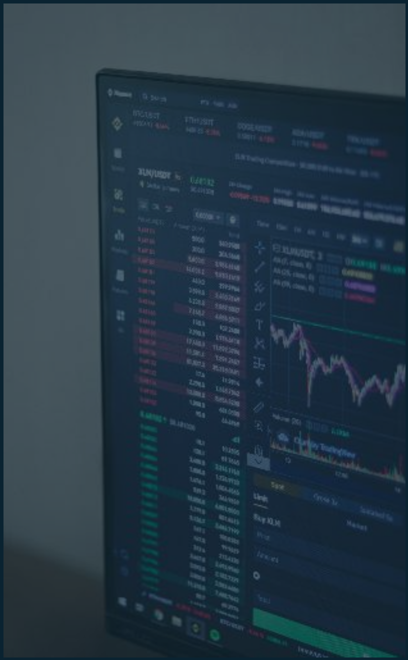

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Chart-in-Focus: No Reversal; Looks Like Just A Pause

Welcome to the March edition of "Chart-in-Focus", where we delve into the intricate dynamics of market patterns and trends. In this issue, our focus is on the double top formation, a significant bearish reversal pattern known for its potential to signal impending downward movements in price trajectories.

Despite its reputation for heralding price downturns, it is essential to acknowledge that the outcome of such formations can sometimes defy conventional rules as they are subject to price confirmation. Moreover, not only this, but no pattern should ever be traded in isolation and one should also look at a bigger picture on the charts. Indeed, there are instances where these patterns, instead of precipitating a downward trend, may disrupt the ongoing upward momentum. Following a period of consolidation, these formations might even confound expectations by resuming their ascent in alignment with the prevailing trend. Through insightful analysis and examination, we aim to unravel the complexities surrounding double top formations, shedding light on their potential outcomes and implications for market participants.

Alphabet Inc. (Symbol: GOOG)

GOOG has had a good year; just like other frontline technical stocks, it has also performed well and has relatively outperformed the benchmarks. Looking at a 12-month relative comparison, it is evident that GOOG has returned 49.42% and has relatively outperformed the Nasdaq Composite and S&P 500 Index who returned 37.34% and 30.45% respectively over the same period.

However, a look at the price chart co-plotted with S&P 500 also shows that while by and large the stock has moved in--line with the broader index, it has had some phases of its relative underperformance. Currently, this is evident if we consider the relative comparison of GOOG with the benchmarks on a YTD basis.

On the YTD basis, the stock has slightly underperformed returning just 9.10% as against the Nasdaq and S&P 500 index returning 10.93% and 10.79% respectively.

The answer to this is clear when we zoom out and take a look at the weekly chart. The weekly chart for GOOG shows a classical reversal pattern taken shape. Though the prices have not reversed their trajectory, they have certainly underwent quick consolidation. This is better explained when we look at the weekly chart.

Alphabet, Inc. functions as a holding company with diversified interests spanning software development, healthcare, transportation, and various other technological sectors. Its operational structure encompasses distinct segments, namely Google Services, Google Cloud, and Other Bets. Within the Google Services division, the company offers a range of products and services, including advertisements, Android operating system, Chrome browser, hardware devices, Google Maps, Google Play store, Search engine, and YouTube platform. The Google Cloud segment primarily focuses on delivering infrastructure, platform services, and collaborative tools tailored for enterprise clients. Meanwhile, the Other Bets segment encompasses endeavors related to the provision of healthcare services and internet-based offerings. Founded by Lawrence E. Page and Sergey Mikhaylovich Brin on October 2, 2015, Alphabet, Inc. is headquartered in Mountain View, California.

A look on the weekly chart of GOOG presents an interesting picture from many angles. Let us just first take a look started in March 2020 and halted in November 2021. The range of this upmove was 51 to 151 levels. If measured by

Fibonacci Retracement, the corrective that followed after the stock marked its high in November 2021 found support exactly at 0.618 retracement level that fell near 89. Following a sideways consolidation and spending a couple of days in a defined range after that, GOOG staged a rally which took it back near its previous high point.

Weekly Chart of Walt Disney Co., (DIS)

Taking a holistic view of the weekly chart also shows that the 0.618 retracement levels just fell below the 200-week MA. However, uptrend that followed saw the stock retesting the previous high and forming a classical Double Top pattern on the weekly chart.

Double Top patterns are essentially bearish reversal patterns. Generally they appear forming two distinct peaks that are reasonably apart and are at almost similar levels. There are a few important things to note here. The Double Top formations are bearish reversal patterns. However, they must never be traded without the price confirmations. Traders can take a short entry here only after the price fall below a defined support point on its way down.

That being said, GOOG has a different story to tell. Double Tops not always result into reversal of the trend. However, they definitely lead to a halt in the uptrend or a temporary disruption in the uptrend. After that, instead of reversing the trajectory, prices tend to consolidate and may also result into resuming the move higher.

A closer look at GOOG reveals that the uptrend that started from 89 levels was disrupted and halted near 150-151 levels January this year which led to the formation of a classical Double Top pattern. After that, over the past weeks, the stock saw a quick corrective decline, found support at the 50-week MA which is currently at 132 and quickly rebounded to test its previous high once again.

The current price action has led to the price forming a bullish cup and handle pattern; the cup is not wide enough though. In any case, the stock has formed a strong support area near 130-132 levels and looks at moving higher.

A penetration of 150-155 zone with conviction shall herald a new uptrend for the stock. The weekly MACD is on the verge of a positive crossover as evidenced by narrowing Histogram. The RS line against the broader markets has started to rise forming a higher bottom and the stock is showing strong improvement in its relative momentum against the broader markets on the RRG.

A convincing move above the 151-155 levels shall initiate a fresh uptrend which will have the capacity to see the stock testing 185-192 levels over the coming weeks. Any close below 130 shall negate this technical setup and validate the double top formation on the chart.

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