Written by **Bob Adelmann** on April 10, 2018

Dow Theory Sell? Not yet.

Investors who religiously follow Wall Street's oldest, most successful market-timing tool, the Dow Theory, likely liquidated some, most, or perhaps all of their investments on Tuesday. They are already also likely regretting the move.

Strictly speaking, as *The New American* has noted in a series of three articles dating back to March 23, the theory tracks two primary indicators: the Dow Jones Industrial Average (DJIA) and the Dow Jones Transportation Index (DJT). Investors following Charles Dow's thinking (he never used his own theory to trade stocks) went on yellow alert following the market sell-off that began in late January. The market rebounded but never hit new highs. That put in place the floor — called "support" — for those two indexes. The theory states that if a subsequent sell-off takes those two indexes below the previous lows, investors should sell and wait for a better opportunity to buy back into the market.

For the record, the Dow pierced the floor several times but the Transportation Index — the Transports — didn't, although it came close. Although *The New American* is not a market-timing newsletter, the remarkable bull market since the election of President Donald Trump has simply demanded that TNA track and follow it from a historical perspective.

The floor "support" for the Transports — based on its bounce back in February — is 10,136. A sell signal was generated on Monday when that index closed below it, at 10,119.

Those who sold any part of their stock holdings on Tuesday missed the rally on Tuesday that took the Dow to 24,408, a gain of 428 points (1.6 percent).

Is this a head fake? Raymond James' chief investment strategist, Jeffery Saut, thinks so. In a note to his clients Saut explained why:

> We bring up this discussion of DT [shorthand for the Dow Theory] this morning because yesterday the D-J Transportation Average broke below its February 2018 closing low, thus confirming a similar breakdown by the D-J Industrials last month, rendering a DT "sell signal."
>
> As we write, we are trying to decide whether to ignore this "sell signal," since it came on news of [Mueller], the FBI, and an unprecedented raid on DJT's lawyer's offices and condo looking for files, notes, etc.
>
> We think, like in both flash-crashes, we are going to ignore this "sell signal" as well because the

earnings outlook is so strong.

Well he might. There's another tool market-timers use, often to confirm signals given by the Dow Theory: the 200-day moving average, or 200MA. Since last August the DJT has stayed above its 200MA, notching nice gains for those staying fully invested since then.

But on August 24, the Dow Theory gave a sell signal. The index closed that day at 9,021 while the Dow itself closed at 21,783. It was a head-fake. Since that date both indexes are up more than 12 percent.

Long-term investors ignore such considerations. But for those trying to avoid the downdrafts and only ride the escalator upward, the Dow Theory would have taken them out of the market back then, causing them to leave more than a 12-percent gain on the table. Only the market itself can confirm Saut's decision to ignore the Dow Theory sell signal and to stay fully invested. Higher highs in the weeks and months to come would do that nicely.

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