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The Macro View of Boeing

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NOTE: For a better understanding of the text of this article, the reader is encouraged to access the following three charts at bigcharts.com: a monthly chart for the past ten years, a weekly chart going back three years and a daily chart covering the past twelve months.

Since its high in 2000, which can be seen on the monthly chart, Boeing has had three impressive longer term moves. The cause for the first move began to form following the high in 2000. Early in 2001, the 2000 high and the low recorded during March 2001 defined the limits of a potential trading range. The trading range was confirmed during May when the price respected the resistance level. It left the trading range to the down side in a fall through the ice during September 2001. Wyckoff tells us that after a fall through the ice it is normal to get a rally back to or toward the ice level. The rally back was completed early in 2002 when the price returned to the former support level of the previous trading range reaching that critical level on reduced volume relative to that which had been experienced on the fall through the ice.

Viewing what happened following the rally back today with the advantage of hindsight, it is possible to see a down trend channel defined off the high during 2001 and the top of the rally back. At the time, however, the down trend channel would not have presented itself as clearly. Normally, Wyckoff investors look for aggressive down side progress following a rally back to the ice with the down trend being revealed when the price takes out the low point of the fall through the ice on widening price spread and increasing volume. In this case, the price did make down side progress for the balance of 2002, but at a more leisurely pace than might have been anticipated in view of the fall through the ice and rally back. Therefore, a long term Wyckoff investor could have embraced an alternate interpretation that the price was actually working on the creation of a new trading range under the original range with the limits of the new range defined by the low point of the fall through the ice in 2001 and by the top of the rally back in 2002.

The investor who was monitoring the action throughout most of 2002 from the standpoint of it being an effort to confirm a new trading range was rewarded for his good judgment and patience near the beginning of 2003 when the price entered a potential major spring position by penetrating the support level defined by the 2001 low. Mr. Evans use to encourage Wyckoff investors to buy all springs, or to at least consider buying them. This is a case where heeding that advice could have netted the investor one of those buys of a life time as the price used the spring position as the starting point for a four year advance resulting in a three hundred percent gain.

When an investor opts not to take a position on a potential spring, the thinking is that there is likely to be a test of the spring and that the test will provide a safer entry point and a more defendable position. Unfortunately, the monthly chart does not show a clearly defined test of the spring suggesting that those who chose not to buy the spring may have missed the entire advance especially if they were only viewing the action from the standpoint of the monthly chart. Those who were monitoring the action with a weekly chart may have found a convincing test on one of the five to ten point reactions that followed the initial response to the spring.

During 2006, the monthly chart shows the first signs of excessive bullishness as the price entered an over bought position relative to the long term up trend defined off the low point of the spring in 2002. Wyckoff investors expect over bought positions to be corrected. This one was corrected with a move back to the demand line of the long term up trend that actually weakened the line with a small penetration. The weakening of a demand line is an early warning signal that the trend might be in trouble. In this case, the warning may have been overlooked due to the fact that the correction of the over bought position found support at the former resistance defined by the 2000 high. The investor who noted the warning of the weakened demand line had several defensive options to consider. A portion of the position might have been liquidated to guarantee a portion of the profit no matter what happened from that point forward. The stop order on the entire position could have been raised to guarantee an even greater portion of the profit. A third strategy would have been to use a combination of the first two.

Late in 2006, the price returned to an over bought position relative to the long term up trend. It continued to maintain an over bought position during much of 2007. A potential buying climax can be identified late in 2007 when the volume spiked to its highest level of the entire advance. After that, it was only a couple months before markdown began. The monthly chart suggests that there was not much in the way of preparation for the decline that followed and that continues to unfold. However, the weekly chart reveals that the price defined the limits of a new trading range during July and August of 2007 and confirmed the range during September. During the final months of 2007, the price entered a potential spring position relative to the new trading range. Some long term investors might have rightfully used the spring as a signal to add to their positions. However, they and all other long term bulls who chose not to add to their positions should have quickly realized that the character of the action was changing. The first indication came when the response to the spring was less than normal. While this is a concern, most Wyckoff investors have learned that a less than normal response to a spring can still lead to a successful test and a substantial advance. This was not one of those times. 2008 began with the test of the spring failing as the price fell through the ice and out of the trading range.

Since the high in 2007, Boeing has lost seventy-three percent of its value. The decline has unfolded in two down trends. The original down trend was defined off the high that confirmed the trading range at the top of the advance in 2007 and by the rally back to the support level of the trading range during May of 2008. As the general market was putting in its important low in November 2008, BA entered a severely over sold position relative to its down trend and began to correct that position. In view of the high volume on the move to the over sold position, some over anxious bulls may have concluded that the over sold position marked the beginning of the end of the decline. The recent action has not validated the bullish conclusion. When the price encountered a the over sold line of the original down trend as it was correcting the over sold position, it resumed down side progress making an additional twenty-five percent decline and in the process defining an accelerated down trend.

If the trend lines of the accelerated down trend are extended, the indication is that the price will be nearing zero in a few months. However, the figure chart suggests that things are not going to get that bad. The figure chart indicates that the price is nearing its objective range. The indication is provided by a count that can be measured at the forty-three level from the action just before the accelerated down trend began. This count has a nineteen point potential for an objective range of 24 to 28. The price recently traded as low as 29.05. Long term bears should begin to ask themselves how much of their paper profit they want to risk to realize what may only be one more point of potential profit and then to activate an appropriate defensive strategy.

Wyckoff tells us that large professional traders looking to build big positions for important advances are frequently most interested in issues that have been beat up the worst because they can quietly build their positions relatively unnoticed as the general public is licking its wounds from the previous decline or is simply too scared to consider an issue that has lost most of its previous value. Long term Wyckoff investors should be watching for signs that a change of character is beginning to take shape in Boeing. Ideally, it will begin with a clearly defined selling climax that hits bottom somewhere in the objective range mentioned above. The end may also come with the exhaustion of supply resulting in the price action simply flattening out and moving into a trading range. Either way, long term bulls need to be patient. There are two down trends that need to be broken and a new potential that needs to be built before the next significant advance can begin. Will it be as big as the advance from the 2003 low? Probably not. However, even if it is only a normal correction of the decline from the 2007 high that will still be more than a 100% advance from the down side objective.