S&P 500 Snapshot: Big Selloff, Is a Correction Underway?

By Doug Short, Advisor Perspectives
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The S&P 500 opened lower and traded steadily lower, closing at its intraday low for a loss of 2.09%. That's the biggest daily decline since the 2.50% drop on June 20th. The holiday-shortened four-day week was down 2.63%. That's the biggest weekly decline since the 3.02% drop in May of 2012.The question on everyone's mind is whether we're seeing the start of a significant correction. And Fed watchers are no doubt wondering whether the central bank might rethink the taper timetable.Here is a 15-minute look at the holiday-shortened week.


$SPX S&P 500 Large Cap Index INDX
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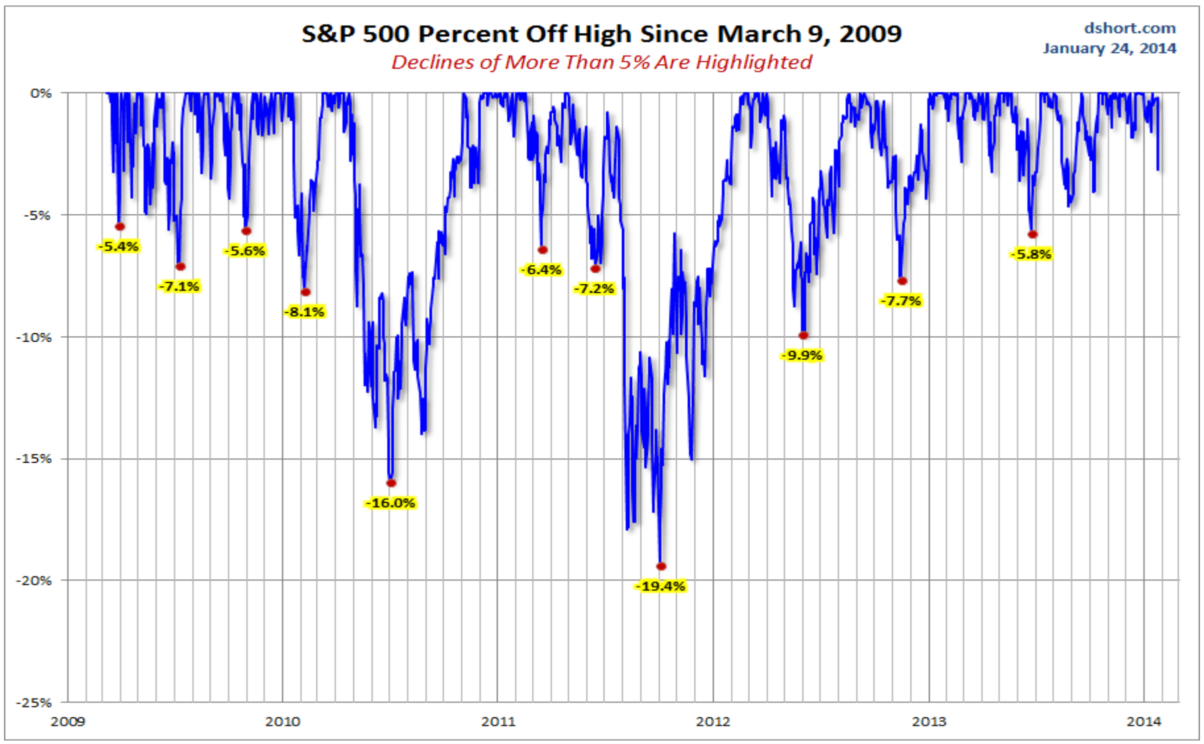
24-Jan-2014
Open 1826.96 High 1826.96 Low 1790.29 Close 1790.29 Chg -38.17 (-2.09%)
$SPX (15 min) 1790.29
Down 2.63% for the week
-0.08%
-2.09%
Volume 86,794,728
Tuesday 0.28%
Wednesday 0.06%
Thursday -0.89%
Friday -2.09%
21 Jan 11 12 1 2 3 22 Jan 11 12 1 2 3 23 Jan 11 12 1 2 3 24 Jan 11 12 1 2 3
1850 1845 1840 1835 1830 1825 1820 1815 1810 1805 1800 1795 1790
80M 60M 40M 20M

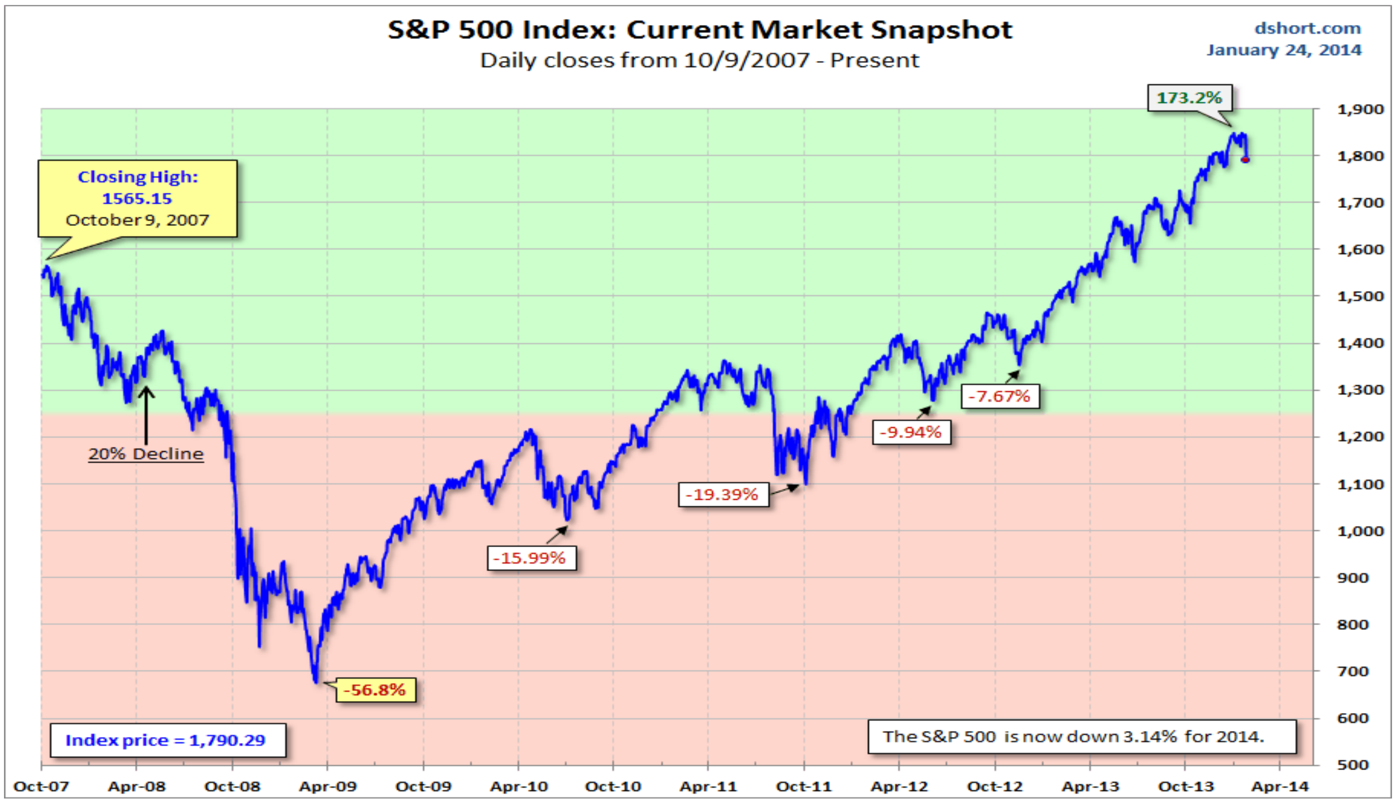
The yield on the 10-year note dropped 4 bps to 2.75% and is now well off its 3.04% interim high at the end of 2013.Here's a daily chart of the index. Readily apparent is the price drop below its 50-day moving average, which came on a substantial surge in volume.

As for the question of whether a correction is underway, here's a bit of historical context. I've used the "percent off high" technique to show all the declines since the market bottom on March 9, 2009, and I've highlighted the declines in excess of 5%. A correction at this point should not come as a surprise.



The S&P 500 is now down 3.14% for 2014.

Here is a longer perspective, starting with the all-time high prior to the Great Recession.



The last chart shows that the S&P 500 Index has crossed below it's 50-Day Moving Average. If we see the 50-Day (green line) cross below it's 200-Day (red line) that is called a "Dead Cross"; translation all bets are off and to expect major selling to occur for stocks, in general.