

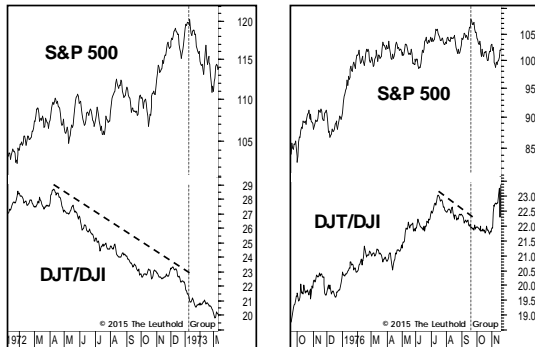
DJ Transports: Still Sounding Broad Market Warning

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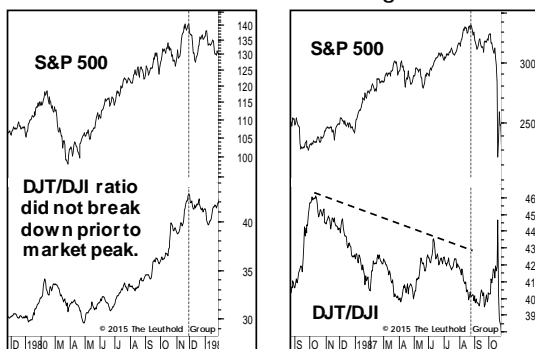
Chart 1

Relative Performance Of DJ Transports Prior To Recent Bull Market Tops
January 1973 September 1976



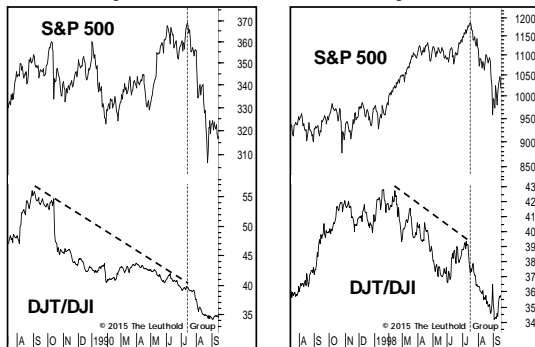
November 1980

August 1987



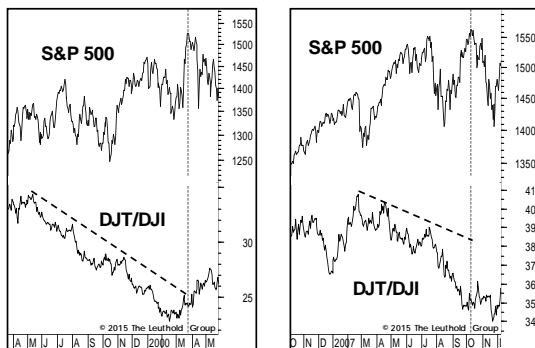
July 1990

July 1998



March 2000

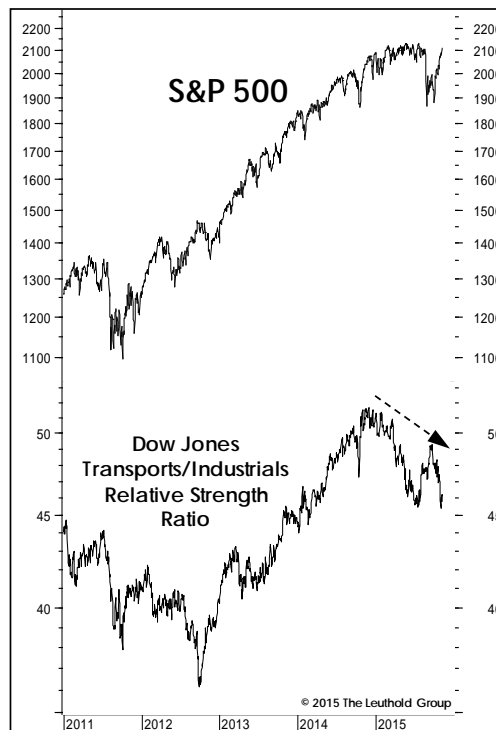
October 2007



Transportation stocks have confounded conventional wisdom about their presumed relationship with oil during the past three years. The Transports put up tremendous gains in 2013 and much of 2014 in the face of oil prices that oscillated around \$100, but **have underperformed badly throughout 2015 in spite of the “benefit” of oil below \$50.** The Dow Jones Transports are down nearly 16% YTD (through December 9th), with the Rails down 32% (arguably now more of a *victim* of low oil prices than a beneficiary).

Regardless of the role that low oil prices may have played, the divergently weak action in the Transports remains a broad-market warning signal. As detailed in a March commentary, the **Transports’ relative performance tends to peak out between six and 12 months prior to the final S&P 500 bull market high, with the diverging pattern appearing at 14 of the last 16 market tops.** (The exceptions were 1980—shown in the accompanying Chart 1—and 1966). **In the current cycle they’ve underperformed for 12 months,** roughly in line with the patterns preceding the market peaks of 1973, 1987, 1990 and 2000.

Chart 2



DJT/DJI = Ratio, Dow Jones Transports to Dow Jones Industrials.
Vertical lines indicate S&P 500 bull market peaks.