1.8 - Index Confirmation

Dow Theory Tenet 5: The Averages Must Confirm One Another

For a market trend to be valid, both the Dow Jones Industrial Average (DJIA) and the Dow Jones Transportation Average (DJTA) must move in the same direction. If one average makes new highs while the other doesn't, it suggests weakness in the trend — divergence between indices is a signal (blinker) that a reversal may be coming.

Fun fact: Charles Dow invented both the DJIA and the DJTA. The DJIA is the longest-running American index (originally 12 stocks, now 30, over 100 years old). When someone questions TA, remind them the longest-standing American index is named after the guy who invented it.

Historical DJI vs DJT Divergence — 6 out of 6 Major Tops

The educator demonstrated that EVERY major market top showed DJT divergence before the crash:

1. **1987 Crash** (worst crash in history) — DJI making new highs, DJT making new lows. Change of market structure on both confirmed → could have avoided the biggest crash in history
2. **1989-90 Crash** — DJI new highs, DJT new lows before ~25% drop
3. **2000 Tech Bubble** — DJI new high in Jan 2000, DJT had already made a lower high from May 1999
4. **2007 GFC** — DJI new high, DJT made new low. Before the dramatic drop
5. **COVID 2020** — DJI making higher highs, DJT making lower lows before the crash
6. **2022 Bear Market** — DJI new highs, DJT making lower highs during the top

Six out of six times before a major crash, the transportation average was a leading indicator showing non-confirmation. This is a third type of divergence (alongside RSI price divergence and OBV volume divergence).

How to Compare in TradingView

1. Click the **layout selector** (top right corner, small box icon)
2. Select **split screen** (two charts side by side)
3. Type the second ticker (e.g. DJT) in the right panel
4. **Match timeframes** on both charts — make sure both are daily, or both weekly
5. Use **vertical lines** to align pivots and dates across charts — this shows you whether the highs/lows match

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Modern Multi-Chart Confirmation

Dow only had two indices to compare. Today there are many. The same principle applies: if you're in a raging bull market, ALL related indices should be raging and making new highs at the same time.

S&P 500 vs Russell 2000

The Russell 2000 (small caps, IWM) should confirm the S&P 500 in a healthy bull market. If the S&P keeps making new highs but the Russell goes sideways or makes lower highs, that part of the trend is weakening — money isn't flowing into risk-on small caps.

Bitcoin vs Ethereum

Ethereum is a more risk-on asset than Bitcoin. In a healthy crypto bull market, both should be making new highs. Examples of non-confirmation:

- **BTC bottom at $15K:** Bitcoin made a new low, but Ethereum made a higher low → indices not confirming → bullish divergence signal that the downtrend was weakening
- **BTC top at $64K:** Ethereum made a new high, Bitcoin made a lower high → not confirming → weakness before the rollover

Sector → Individual Stock Flow

When a sector starts breaking out, you can find individual stocks within that sector that are also breaking out — double confirmation from two charts:

- **Sector example (Utilities/AGL):** The utility sector showed a Wyckoff accumulation at the Fib 618 + trend line support. When it broke out, ASX Trader found AGL within that sector also showing bullish divergence and a spring pattern → put 22% of portfolio in AGL at $5.20 → it went to $8+ while the broader market was collapsing. Just because NASDAQ/tech was going down didn't mean everything was

- **Sector example (Uranium):** The uranium sector completed a zag into the golden pocket zone. When it changed market structure (Aug 2023), individual uranium stocks like PDN (inverse H&S breakout), DYL (bull flag breakout), and Boss Energy (accumulation breakout) were all breaking out at the same time → confluency from sector + individual stocks

Best Stocks Break Out Before the Sector

The best fundamental companies within a sector often break out BEFORE the sector itself does. Big money flows into the best-of-the-best first.

Gold example (Northern Star): When gold was making lower lows and a triple bottom, Northern Star was already making higher lows → showing strength before the commodity itself reversed. RSI showed bullish divergence on gold at the same time. This is how the educator called the gold bottom — confluency from gold chart + gold miners chart + Northern Star chart + RSI divergence.

Confluency — The Core Principle

Definition: A confluence occurs when two or more structures come together to form a high-probability zone — like rivers joining into one channel.

In trading: Confluence is where multiple technical analysis methods give the same signal. The more reasons pointing the same direction, the higher probability the trade works.

ASX Trader's Rule

"I will never take a trade unless I have a minimum of three points of confluency." This is why he maintains high win percentages — not by being lucky, but by stacking evidence.

Bitcoin $15K Bottom — 7 Points of Confluency Example

The educator demonstrated this breakout had:

1. **Decline resistance broken** (diagonal trend line)
2. **Horizontal resistance broken** (major S/R level)
3. **Falling wedge pattern** (bullish reversal)
4. **Change of market structure** (HH/HL)

5. **Bullish divergence on RSI**
6. **Volume supporting the move**
7. **Ethereum not confirming new low** (indices diverging = bullish)

Seven independent reasons all pointing to the same conclusion. You should be almost shocked when a trade with this much confluency doesn't work.

How to Think About Confluency

"Think of it like you're in front of a judge, building your case." Every signal is a piece of evidence. The more evidence you stack, the stronger your case. Don't take a trade because of one thing — you need market structure + indicators + multi-chart confirmation.

A trade with only one reason (e.g. "it changed market structure") is weak. A trade with five to seven reasons (market structure + S/R break + pattern + divergence + volume + index confirmation) is your highest-probability setup.

Types of Confluency

Single-chart confluency — multiple signals on the same chart:

- Trend line support + horizontal support + Fib level meeting at the same zone
- Reversal pattern + bullish divergence on RSI + bullish divergence on OBV
- Candlestick reversal + market structure change + volume confirmation

Multi-chart confluency — signals from related charts confirming each other:

- Index making new highs → sector within that index also making new highs → individual stock within that sector also breaking out
- Commodity chart (gold) bottoming + gold miners making higher lows + individual miner (Northern Star) breaking out
- Bitcoin changing structure + Ethereum not confirming new low

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Non-Confirmations as Early Warning Signs

When sectors or stocks FAIL to confirm broader index moves, it's an early clue that a trend may be weakening, reversing, or masking deeper structural issues. It's the same concept as RSI or OBV divergence, just applied across charts instead of across indicators:

- If the broad market is making new highs but a key sector is going sideways → weakness
- If a commodity is making new lows but the miners aren't → the commodity trend is weakening
- If one crypto is making new lows but another isn't → the bear trend may be exhausting

It's not TA's fault when something goes wrong — it's human error. You can eliminate that error by finding bullish signals across multiple charts, not just one.

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