Why Technology Stocks are Good Market Indicators to Watch

by Erik Grywalski

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Technology stocks are sometimes good indicators to watch during a period of market weakness.

Now, I say "sometimes" because the market isn't always led by technology.

Technology sectors can lag behind the market.

As an example, the semiconductors (a tech sector) were one of the groups that led the market out of the 1994 Correction.

During 1994, some semiconductors broke out of bases and outperformed *before* the market started its big surge higher in late January/early February 1995.

However, many semis topped in late 1995/early 1996, but the market kept going higher despite the semiconductors.

The key to figuring out the significance of a tech sector top (or any sector top) is to look at the charts to see what stock sectors are leading (or setting up to lead) when tech is lagging or breaking down.

Maybe new leadership sprouts from medical or transport stocks, but the demise of technology stocks isn't bad as long as new stock leadership replaces technology.

If technology stocks are outperforming the market, that's bullish and a sign that growth stocks are in demand.

It's also important to note that technology stocks will usually lead at the beginning of an uptrend.

Finally, I should mention that not all technology stocks have to be outperforming the market.

The highest growth areas may be represented by only 2 or 3 sectors that lead other technology stocks and the overall market.

2010 Bullish Signs from Cloud Computing and Virtualization Stocks

Do you remember the first major decline in the stock market of 2010?

The market went down around 20%, which was a little steeper than normal.

It was the market's first significant correction since the March 2009 Bottom and it occurred just after 1 year.

As a general rule, the first decline in the stock market (within an uptrend) is typically a normal correction and not the start of a bear market.

It does get many people bearish because memories of the prior bear market are still fresh in their minds.

I wrote about this dynamic here.

The 2010 Correction started most noticeably with the May 6th Flash Crash and got the deepest during the first week of July 2010.

During the week ending July 2, 2010, the market (Nasdaq) undercut its February 2010 low.

An undercut of a prior swing point low is one way in which a stock/market may bottom.

After the Nasdaq's undercut, the market backed and filled before moving higher in September 2010.

However, throughout the 2010 Correction, technology stocks (cloud computing and virtualization) were

outperforming the market and pretty much ignoring the correction.

This was positive and one of the signs that the 2009 Bottom was likely a major low despite the weakness during the May-August period of 2010.

Let's review 5 Technology Stocks (a majority involved in cloud computing and virtualization) to see what was going on during the market's 2010 Correction:

1. **Acme Packet** (APKT) - Refused to base and would go up another 180% before topping.
2. **Salesforce.com** (CRM) - Refused to base and would go up another 60% before topping.
3. **F5 Networks** (FFIV) - Refused to base and would go up another 65% before topping.
4. **NetApp** (NTAP) - Refused to base and would go up another 40% before topping.
5. **VMware** (VMW) - Refused to base and would go up another 50% before topping.

In the same period, the market advanced 26% (Nasdaq) to its high in 2011.

Do you see a common theme?

Technology stocks outperformed (refused to base) during the correction, which ultimately resulted in the market taking out its April 2010 high in November 2010.

I listed only 5 stocks, but there were more technology outperformers, which indicated higher stock prices were on the horizon.

For example, **Riverbed Technology** (RVBD), broke out of a 12-week base on July 23, 2010 (see chart 6, page 8).

This was the same week that the 5 Technology Stocks listed above were defying the market's correction (see charts 1-5, pages 3-7).

Riverbed Technology didn't fail its breakout when the market weakness persisted into late August, which was a bullish sign.

In fact, it hit new highs when the market was near a 2 month low (see chart 7, page 9).

Riverbed advanced 175% from its late July 2010 base breakout before breaking down in July 2011.

If technology is leading the market, one of the things that you can do is to **keep an eye on the leading tech stocks to better understand market direction**.

Please >>CLICK HERE<< **for the technology charts of 2010**.