Time To Check The Bear-O-Meter

Keith Richards

I use two market timing checklists when assessing markets. The first is more of a macro intermediate termed view. Long-time readers of my blog (www.valuetrend.ca) will recognize the name "Bear-o-meter"—which is the name I've given to a cumulative value checklist of indicators I follow. The next is a short termed system that I cover only on the blog for reasons of its immediacy. It's been pretty good at picking very near-termed peaks and troughs. But it's geared more for the trader, not an investor. Let's look at what the intermediate termed "Bear-o-meter" has to say right now.

Intermediate Termed Bear-O-Meter

The Bear-o-meter is designed to give us a probability reading of market direction over the coming 1-6 months. For those who have followed my blogs for the past 10 years when I first created the compilation, you will recall the signals it gave before the 2009, 2011, 2014 and 2015 market corrections. The Bear-o-meter consists of:

- **Advance / Decline(A/D) line slope and comparatives to S&P500 slope**
- **Trailing PE**
- **S&P500 relative to 200 day MA**
- **S&P 500 relative to 50 day MA**
- **Smart/Dumb money spread**
- **Put/call spread**
- **Dow INDU vs. TRAN correlation**
- **Seasonality**
- **# stocks over 50 day MA levels**
- **VIX level**
- **NYSE New High/New Low level**

Various indicators are assigned different weightings. The grand total is tallied according to the values each indicator reads on a given day. From there, a zone of buy, neutral or sell is indicated.

Recall that this compilation of indicators is intermediate termed in nature. It also needs to be revisited regularly.

At this time of writing, which is nearing the end of August, we have a "sell" reading on my "Bear-o-meter". I re-tally periodically, and will report on my blog if we move out of this sell zone. Levels of the Smart/Dumb Money indicator, courtesy of sentimentrader.com (www.sentimentrader.com) and the extremely low readings on the VIX (CBOE volatility indicator that is comprised of options premiums) show you why the indicator is at the bearish end of its scale. I'm also seeing a bearish reading from the Dow confirmation factor (Industrials are rising while Transports have weakened recently). However, the Moving Averages' and broad market Advance /Decline lines are bullish on all counts.

So What To Do?

We moved 35% of our ValueTrend Equity Platform into cash in mid- August. My battle plan is to use that cash to offset potential downside as/if and when markets decline – and to act as opportunity capital to be redeployed when markets offer favored stocks and sectors at lower prices.

On my shopping list are specific commodity plays. If you saw me on BNN in July, you will know that one of my "Top Picks" was Vermillion Energy (VET-T). I bought that stock when oil fell below $40 in early August. We're up nicely on the stock, and feel that any further volatility on oil can be used to pick up similar energy stocks. We also hold the iShares Capped Energy ETF (XEG-T) as a play on what we see to be a broad move by the energy stocks. We expect that oil may retreat in the near-term, and offer new entry points on securities like the two noted above.

Natural Gas is looking interesting at this point. According to the Thackray's Guides, and EquityClock Nat Gas has two seasonal periods to look for. The first is March to June, followed by another period of strength from September to late December. In between those periods, the commodity can be a bit weak. It would seem that the seasonals are working quite well this year, having seen the rally occur precisely from March until June, followed by the pullback to the neckline – coincidentally occurring after a high in June. If seasonals play out in conjunction with what could be a bottom Head & Shoulders chart formation, Nat Gas could be a "buy" candidate by very early September.

An area that I have yet to place capital into is precious metals. I noted on my blogs back in early July that gold and silver were technically bullish from a trend perspective – but overbought from a momentum perspective. I relayed that the ratio of smart money selling (commercial hedgers) versus dumb money buying (retail investors) was skewed towards net "smart" redemptions and "dumb" purchases of the metals. Further, I noted on the blogs that both metals were approaching their respective resistance targets. I expected a bit of a retracement on these metals, and I noted that I would like to buy on such a pullback.

The near termed chart shows us the potential for gold to pullback to the $1290- $1315 area. I will look at buying at that price. Current upside targets are $1400 and then $1600. If gold can break $1400 it could to get to $1600. Silver has a clear upside target at $22. Buying near the technical support level of $18 on a pullback and selling near $22 would be a nice trade by itself. Whether silver could make it through $22 is yet to be seen.

Industrial metals are also looking technically intriguing. While they are not as appealing to the doomsday crowd as gold and silver are, the industrial metals group, as illustrated by the $BCOMIN Bloomberg Industrial Metals index (consisting of futures contracts on copper, aluminum, nickel and zinc) is showing technical signs of an exciting turnaround.

Copper in particular shows us a higher low in June, but no breakout through the $2.30 lid that has contained it for the calendar year. Traders may want to keep their eyes open here. Should copper break $2.30 and stay above that level for a few days, you could be seeing the beginning of a recovery–and be catching a Phase 2 breakout (please see my book Sideways for more on that subject). Smart traders will wait patiently for such a breakout. As always, an anxious trader attempting to buy the bottom may get kicked in the bottom instead. Patience is a virtue in the world of the investors.

At the time of printing, the Bear-O-Meter was a 1.

Upcoming Appearances

Keith's next BNN appearance:

Wednesday October 5, 2016 at 6:00pm

Phone in with your questions on technical analysis for Keith during the show. Call toll-free 1-855-326-6266. Or email your questions ahead of time (specify they are for Keith Richards) to marketcall@bnn.ca.

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