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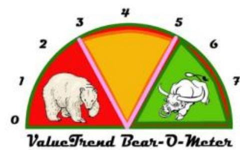

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A brief history of time, space, and Bear-o-meter signals

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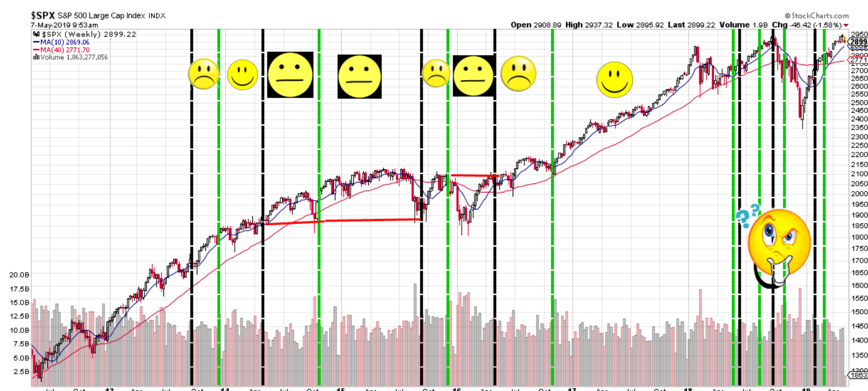
A few years back, I did a paper for the CSTA (Canadian Society of Technical Analysis) on my Bear-o-meter. In the paper, I noted signals of the Bear-o-meter where there was a change from the “bullish zone” – which is a reading of 5 or higher- into “Bearish” zone – which is 2 or lower. So, a reading of 0, 1, or 2 is bearish, and a reading of 5, 6, 7, 8 is bullish. I allow one more score within the bullish zone- due to the rarity of readings above 5. Remember, it’s a risk-reading tool. And the market always has a certain level of risk. It’s pretty rare to see an almost risk-free environment on the stock market. Thus, a “5/8” score indicates that you are still getting a greater reward potential –while a “3/8” score is certainly a less bullish environment – but I still count it as neutral. Its only when the score goes to 2 or below that I’m going to call it a greater risk than I am comfortable with.

Note that a low score doesn’t imply that the market must go down. It just means the market has greater risk of going down than normal. A high score doesn’t mean the market must go up. It simply means the market has greater potential to do so, all things considered. Neutral means that risk reward is roughly balanced. At the end of the day, nobody knows what the market will do in the future. But the Bear-o-meter does help give us a relative risk/reward reading at a given moment. As such, the chart formation must always trump this, or any other market indicator or compilation.

Below is a chart of the Bear-o-meter scores since I started tracking them in 2013. To keep things simple, I made the “bullish zone” scores green vertical lines, and “bearish zone” scores as black vertical lines. Neutral wasn’t noted. In other words, if a bearish (high risk) score comes in, I assumed that conditions are not materially changed enough to warrant that we are out of the woods – risk-wise- until we go to a bullish score.



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I put little happy faces if the Bear-o-meter helped avoid a pullback, or if it helped take advantage of a rally.

I put a sad face if it worked against you.

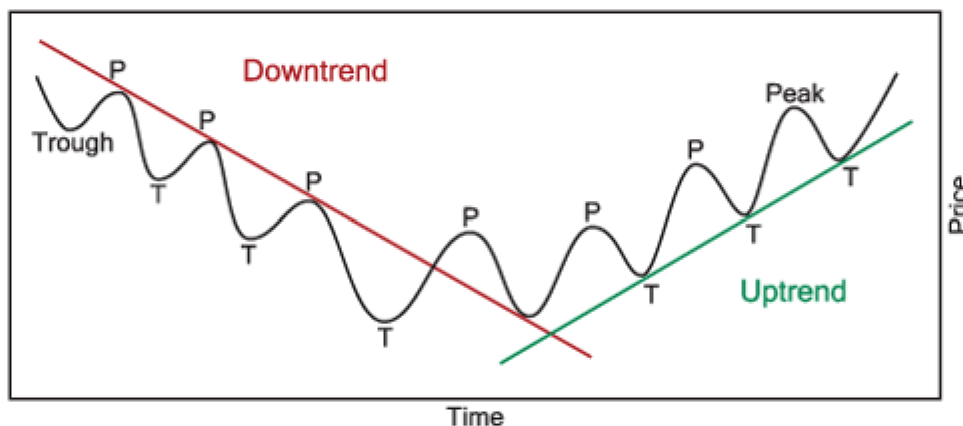
I put a neutral face if it didn't help or hurt a trade.

I put a confused face from mid-2018- present. Not so much because the signals were bad (actually, they were mostly good)—but because they were so close together it was hard to react. This, I believe, was because the market has transitioned from trending to sideways. Another example of why we pay attention to chart formation first, with the Bear-o-meter as a background for risk/reward potential scores.

Keep in mind that these signals are based STRICTLY ON THE BEAR-O-METER – WHICH I DO NOT ADVISE USING AS A SOLE TRADING SIGNAL.

At the risk of sounding like a broken record:

Once again….**Chart formation trumps the Bear-o-meter**. Period. To put it simply: If the market is making higher highs and lows on a weekly chart and is above its 200 day (40 week) SMA)—its bullish. If it's making flat of lower highs & lows, and not holding its 200 day SMA – it's not a bull market.



Putting it all together

Craig and I do not use the Bear-o-meter to make trading decisions. Instead, we use it to adjust our allocation to the ValueTrend Equity Platform's cash holdings. If we have a very low reading on the Bear-o-meter – we hold more cash—sometimes up to 50% in cash.

If we have a combination of a bearish chart and a lousy Bear-o-meter score—we go even more cash – which could go as high as 75% cash.

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On the other hand: If we see a very high reading, we hold much less cash, perhaps 5%. A bullish chart formation means almost no cash – as close to 0% as we can get.

I hope this helps you in understanding what the Bear-o-meter can, and cannot, do for us as a risk evaluation tool. Although it is not a stand-alone timing tool (and what is?), it is another factor to keep in mind when evaluating your macro market strategy.

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