Bear-O-Meter moves into high risk territory

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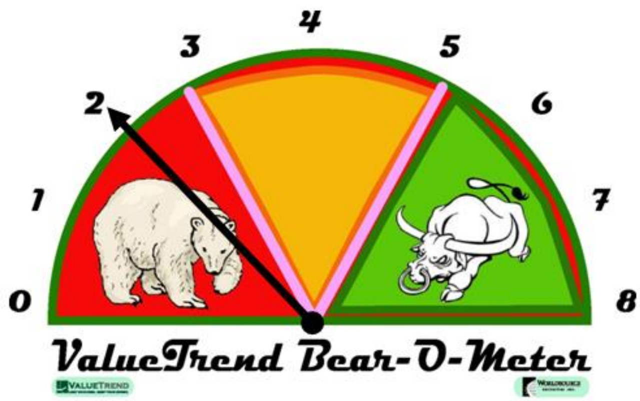

I've been tracking a broad market-risk indicator that I like to call my "Bear-O-Meter" for about 18 months now on this blog site. It measures 6 factors: Breadth (A/D line), Seasonality, Value (Shiller PE), Momentum (RSI), Trend (50 day MA) and Sentiment (compilation of indicators). Some of these factors are weighted higher than others to create the broader indicator. As I have pointed out in the past, this indicator is NOT a market timing indicator – it is a measurement of relative return vs. risk potential on the markets. The indicator is measured on a 0-8 scale. A low score indicates more risk with lower return potential. A high score measures the opposite. A measurement between 3-5 means that risk and return are not overly skewed in either direction.

The current reading for the Bear-O- Meter is "2" out of a possible 8. This indicates that market risk is higher than market return potential. This does not mean that markets cannot go higher.

Instead, it means that you are taking on more risk than you normally would be when investing in stock markets at this time.

The compilation lost points for negative seasonal trend ("Sell in May and go away"), a high Shiller PE ration, and a slightly bearish sentiment profile (overly optimistic retail investors). The indicator gained points in market trend and breadth indicators, which are still quite strong. Momentum is neutral. Overall, the Bear-O-Meter reading at this time suggests focusing on reducing your exposure to market risk via lowering your portfolio beta, raising cash, or focusing on seasonally strong positions. It is no surprise to see money continuing to rotate into bonds, utilities, consumer staples and other low-beta asset classes.

As J.P Morgan's chief strategist Jan Loeys recently noted: "Low volatility doesn't mean low risk". In fact, it eliminates investor caution and promotes excessive risk taking and leverage, according to Loeys. The Bear-O-Meter agrees.

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