Bear-O-Meter still reading bullish

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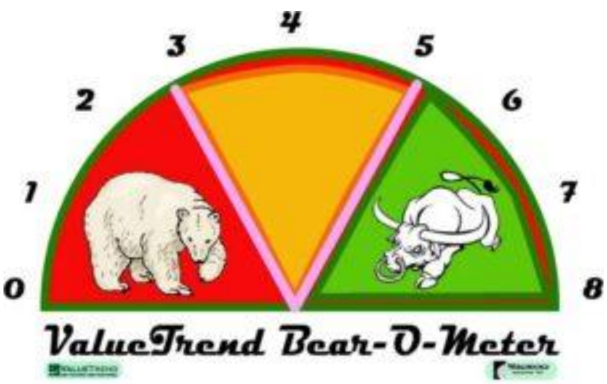
On December 28 I took a reading of the "Bear-O-meter" compilation. Despite the very strong potential of a neartermed pullback on the markets (as discussed here) , the Bear-O-meter continues to read a bullish "5" on the scale of 0-8. The highest ratings for low risk bullish conditions as measured by this compilation are in the 5-8 range. The current score of "5" puts it at the low end of the bullish scale, but bullish nonetheless.



Interestingly, the only negative reading on the Bear-O-meter was the Smart/Dumb money confidence spread. The reading of the current spread (that is, the differential between smart vs. dumb money bullishness) is about -0.28. That's not terribly low, but this reading is after reaching a low point of -0.41 recently. Often it's in similar situations as this – that is, after the low point is hit on the smart/dumb confidence spread, that you see a correction, if there is to be one. For greater insight on this indicator, and some history of its accuracy, please see my blog here.

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Perhaps the most interesting thig that I note today is the large number of neutral readings on the compilation. In fact, 3 of the 4 breadth indicators read "0" points, along with the PE ratio, VIX score, and put/call ratio score. Basically, it's been the trend (50 and 200 day MA's), long termed cumulative breadth (A/D line) and seasonality that have been adding positive points to the compilation. The bullish score is less about bullish indicators, and more about a lack of bearish indicators. Hmmmm…

The takeaway

My conclusion from this reading is that the broad picture remains bullish (trend, cumulative breadth, seasonality) but the neartermed picture suggests a pullback or even a multi-week period of chop. Neartermed momentum indicators discussed in my last blog, plus the relative confidence of smart vs. dumb money suggest such a pullback is overdue. I was also interested to read in sentimentrader.com (who provide us with the smart/dumb money spread chart) that options traders are betting on an increasing VIX level via buying calls on the spread. Basically, this means that options traders are betting that the sustained lack of volatility illustrated by the VIX (which in itself reads option premiums) is going to end. It would appear that VIX options traders are betting on a return to normalcy. Sentimentrader notes in a research report that this positioning by traders often proves to be a correct assumption.

In straight talk, what this all means is that the picture for the markets remains bullish, but some smart people are betting on a bit of static to hit the markets soon. As noted in my last blog, any pullback or chop that we see is likely going to be a buying opportunity. Stay on top of my blog postings over the month in January. I will do my best to read the conditions and offer suggestions on how and when to exploit potential opportunities.

I recently wrote a full research report on how the Bear-O-meter is constructed and its historical track record to 2013. Despite that short track record, I was using most of its components to assess risk and reward prior to that point. This research report was published in the Canadian Society of Technical Analysts Journal. The CSTA has agreed to allow readers of my blog to receive a copy of the full journal, which contains my paper. Please email me via **info@valuetrend.ca** to get a copy. I'll email you directly with the full CSTA report. Please also indicate if you'd like to subscribe to our emailed newsletter if you don't already receive it.

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