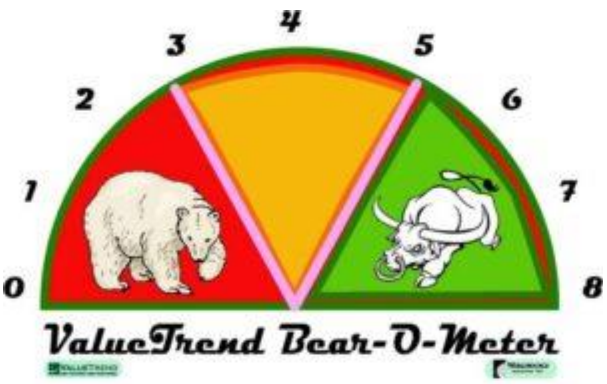
Bear-o-meter bullish indicators

Published on April 16, 2018

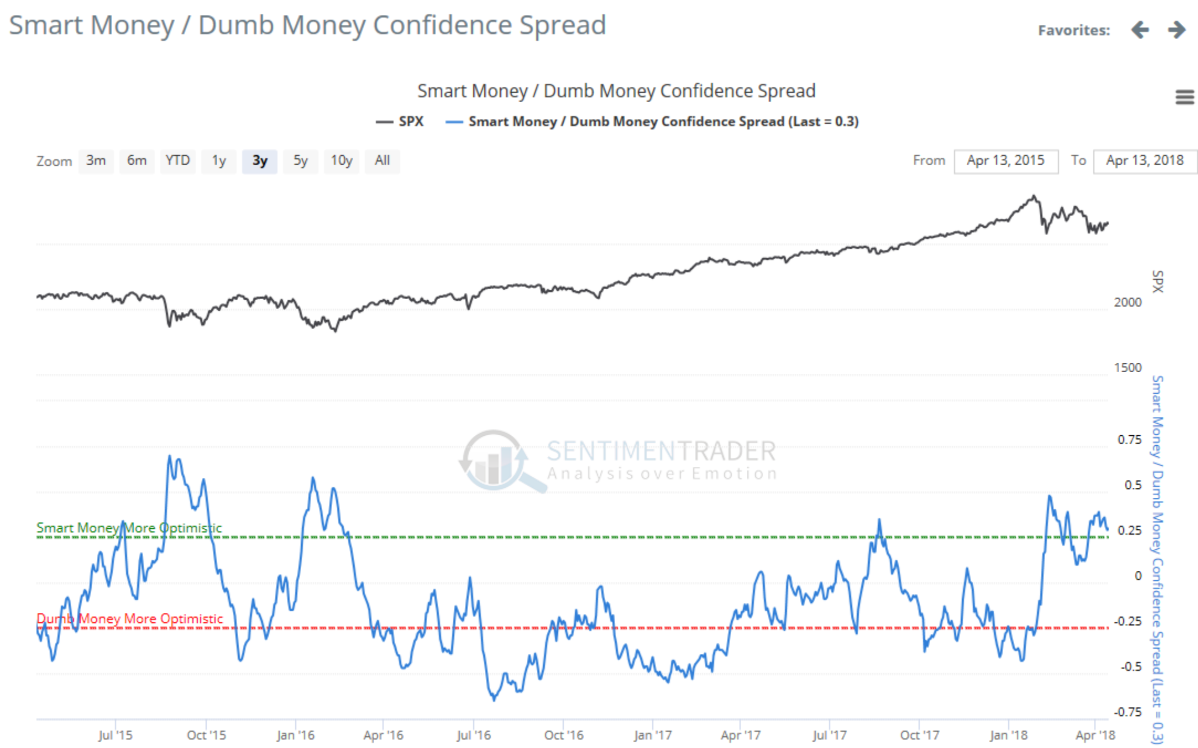


The ValueTrend Bear-o-meter has moved up one point to read 7/8 on the risk reward scale. This implies that the reward potential on the market currently outweighs risk, on a relative basis. Of course, readers who follow my blog regularly know that risk and reward are simultaneously present on the markets – but there are times when one side of the equation is greater than the other. At this time, potential risk is at a lower level than potential reward. The last reading on the Bear-o-meter was taken on March 23rd. It read 6/7 – so the current reading has actually become slightly more positive. Here is my blog addressing that reading. Currently, the Bear-o-meter has duplicated many of the readings from my March 27th reading, with the exception of one new positive factor. BTW—if you are interested in receiving the CSTA (Canadian Society of Technical Analysis) yearly report – which contains a research piece I wrote on the inner workings of this compilation, email me: info@valuetrend.ca

I do try to provide investment education on the factors used in my practice as part of my commitment to the CSTA organization.

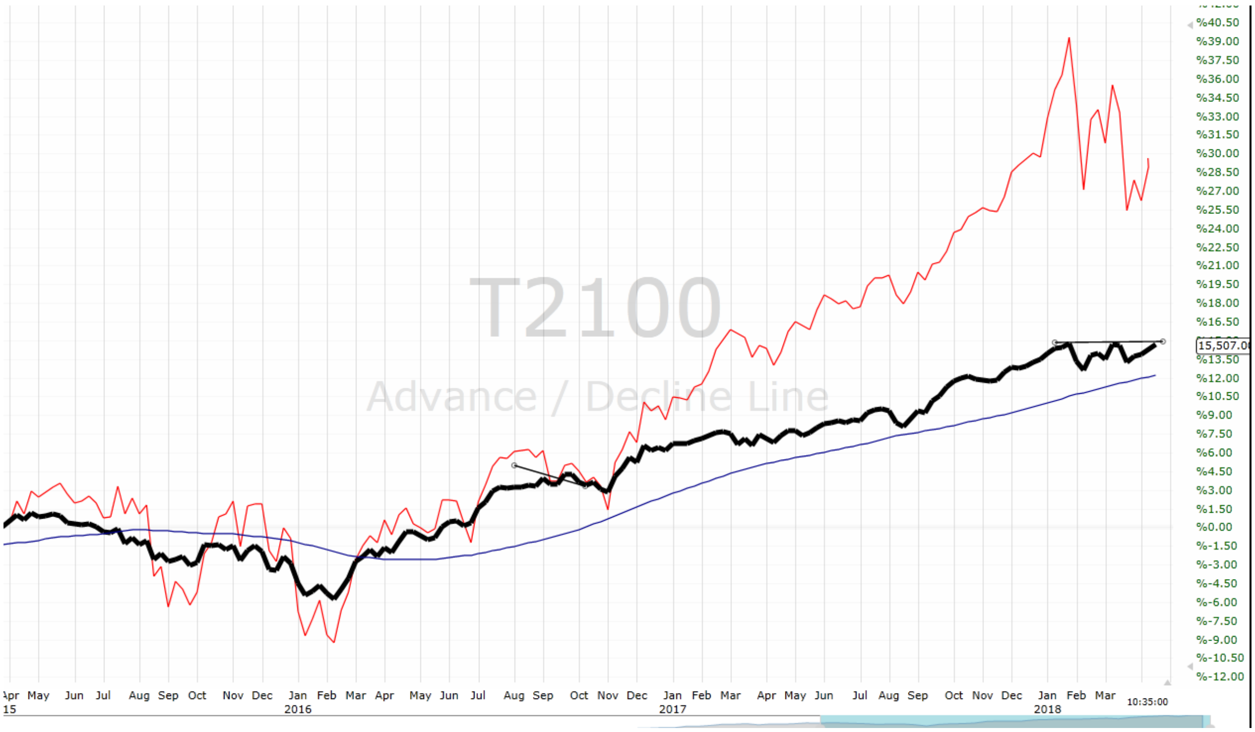
A new positive

A bullish Smart money/ dumb money spread, as you can see below, is in "buy" territory – indicated by its level over the top horizontal line. There is enough paranoia present in the market by "Dumb money" (retail investors and small speculators), along with a reasonably high confidence level by "Smart money" (commercial hedgers, institutional investors) to suggest that the current wall of worry the market must climb is sufficiently poised for more upside. This is one of the bullish indicators in the Bear-o-meter collective.



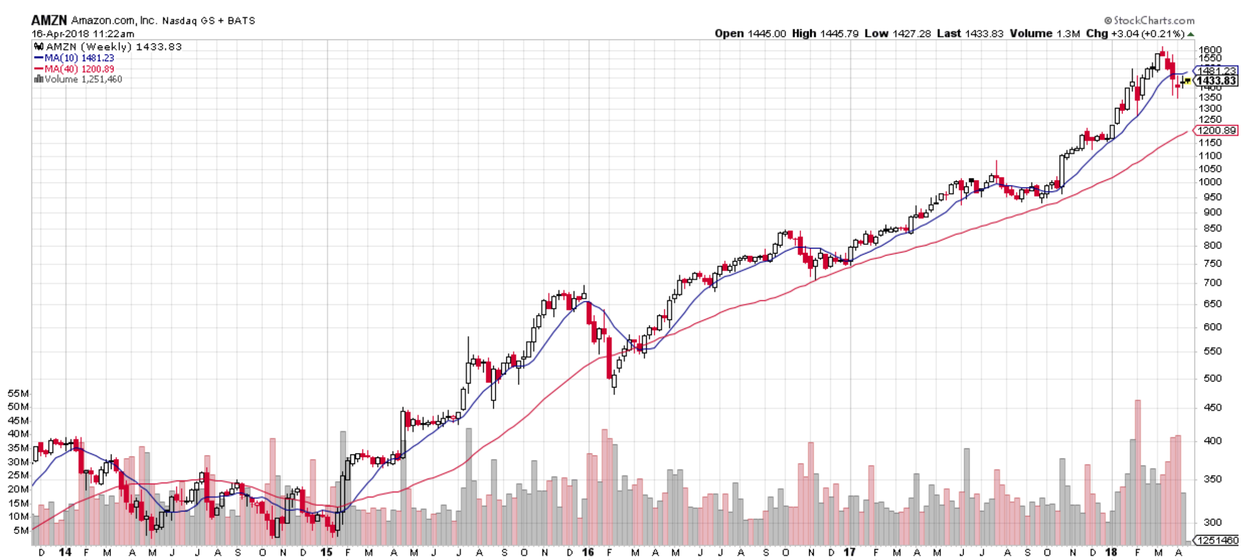
Market Breadth is finally looking healthy

One indicator has only now moved into positive territory. The cumulative Advance/Decline line (courtesy www.freestockcharts.com), after remaining neutral to bearish for the entirety of 2017 – is now bullishly diverging. Last year the AD line was at best in-line, and at times negatively diverging from the S&P 500. That's because the AD line is a broad market reading of the NYSE. It looks at the whole enchilada and answers the question "Are most stocks going up with this market, or is it just a select group of stocks that are pushing the cap-weighted indices?" Obviously, with the rampant upside movements of the FANG's – and a few other select stories last year – the AD line was not keeping up with the cap-weighted S&P 500. That index tends to overweight the stocks with the highest amounts of capital flowing into them – which happened to be the FANG's and a few others last year.



The AD line is currently positively diverging against the S&P 500 – as indicated by the flat (black) AD line vs. the declining (red) S&P 500 peaks of late. This is something that hasn't happened since October of 2016…

This means that, despite the lower lows on the S&P 500, the broader market is actually holding its own. As noted above, part of the reason for this weaker cap-weighted S&P 500 index is the failure to maintain their highs by some of the heavily weighted former leaders such as GOOGL, FB, TSLA, AMZN, etc. Despite this clear movement away from market leaders, a tendency to rotate into new sectors by the market will – in the long run – end up being market-positive.



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What's next?

In 3 weeks, the "best six months" period ends for North American markets. This will influence the Bear-o-meter negatively by 2 points. Should all other factors remain the same, that would imply further upside potential – albeit without the degree of positivity it is showing now. However, should any significant number of the trend, breadth or sentiment factors change negatively, that bullish reading will disappear. I will report a new Bear-o-meter reading after the first week of May – which is the traditional end of the "best six months" period. Stay tuned.

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