Bear-o-meter continues to suggest the bear market ain't over

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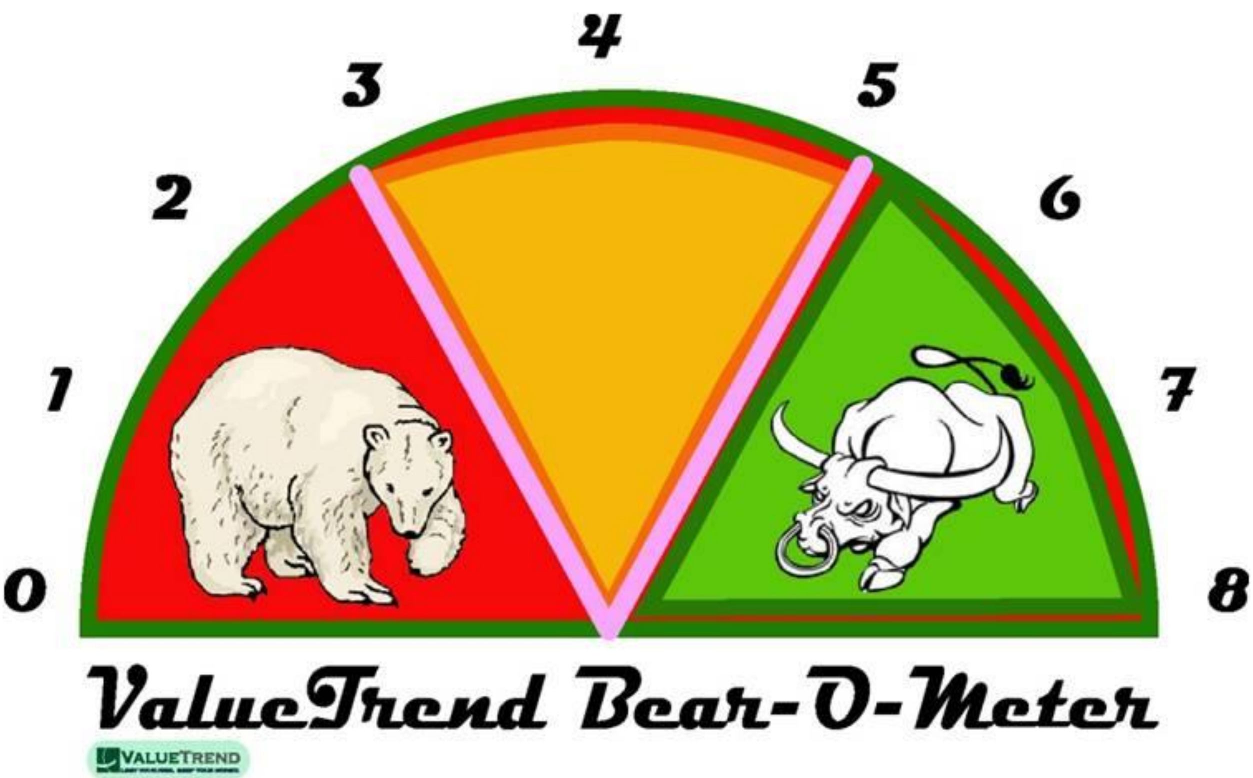
The ValueTrend Bear-o-meter is a compilation of 11 factors broadly looking at the relative risk vs. reward tradeoff for the US markets. It is a quantitative reading that incorporates 11 factors under the broad categories of Trend, Breadth, Breadth-momentum, Value, Seasonality, and Sentiment. The meter gives us readings between 0 to 8. The lower the reading, the worse the risk/reward potential for the markets are. A high reading suggests very favorable risk/reward tradeoffs.



The system has provided reliable signals during most market conditions since I began using it over 20 years ago. However, like any system, it can be wrong on occasion – although it has been pretty darned near perfect for the past 5 years. The last lousy signals I got was in 2017, just as President Trump began his favorable business policies, and re-patronizing of offshore capital policies. That, along with a cooperative Federal Reserve. Under normal circumstances, a high

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risk environment brought on by focused breadth (the FAANGs), exuberant sentiment, unusually low volatility, and high valuations (as in 2017) means an overbought market ripe for correction. However, the fact was that government stimulation policies, coinciding with ongoing Fed stimulation can push a market to continue soaring – despite it all.

Markets finally corrected in late 2018 (down 20%) – but 2017 does stand out in my mind as an example of why you need to track the TREND first, and use the Bear-o-meter as extra evidence. True, the Bear-o-meter uses the 50 day and 200 day SMA's as quantitative trend measurements within the compilation. But, there were more factors in the meter that screamed overbought and over loved in 2017, not to mention unfavorable seasonality as the summer came about. The meter projected neutral to marginally higher risk all summer of that year. Because of the power inherent in a strong bull market strung along by the Fed, the market kept going that year. As they say, "Don't fight the Fed" – and "Trend trumps all".

In other words, I do not trade on the Bear-o-meter alone. I will, however, adjust cash up or down more aggressively when both trend AND the Bear-o-meter risk/reward tradeoff agree. And that brings us to now…where we have a weak Bear-o-meter reading AND a questionable trend – as discussed here.

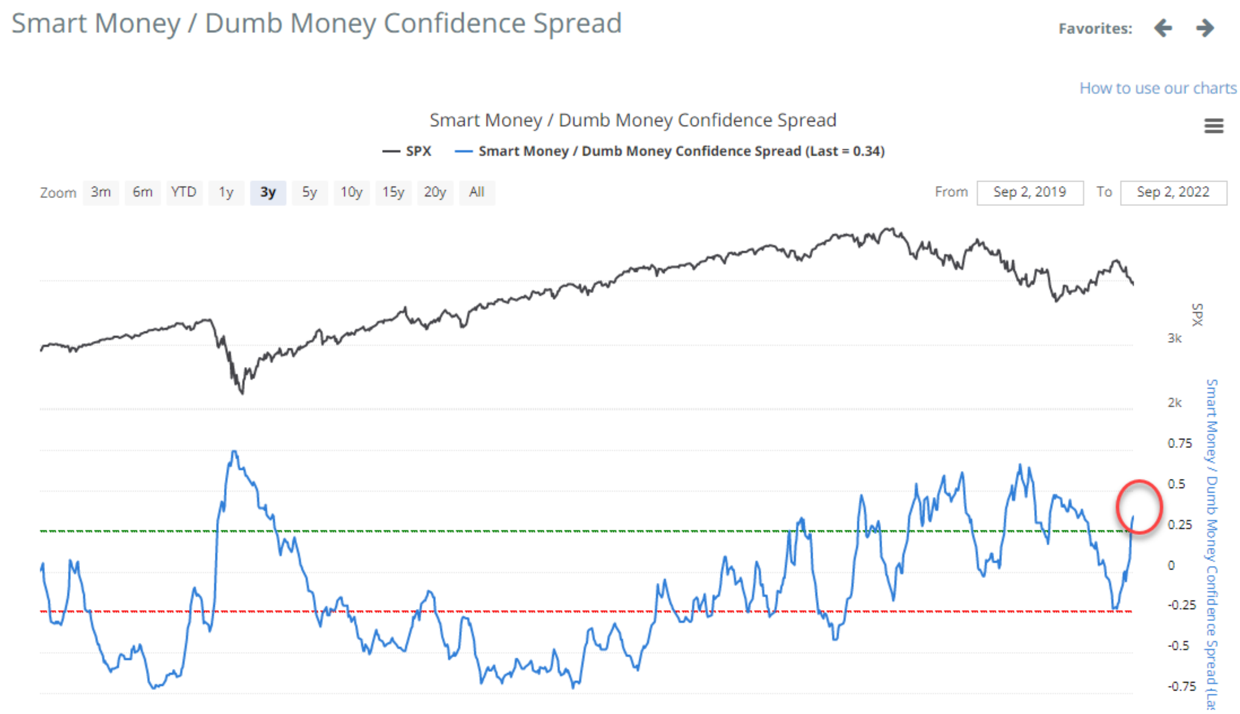
Bear-o-meter reads high risk, trend remains questionable

The headline says it all. Lets start with the Bear-o-meter. As it has been reporting literally since the beginning of this year – we are still in a "High Risk Alert" status. That's right – no relief in sight yet. The meter shows "0" on the 0-8 scale, which its basically been at for months on-end. So far, that high risk alert been dead-on. In fact, the meter was not "fooled" during the recent summer rally – despite the fact that many investors including many Technical Analysts, who don't incorporate a tool like my Bear-o-meter, were lured back into risk assets. As mentioned in my August 23rd blog, I used the recent Bear-o-meter readings, along with ongoing risk factors such as the Jackson Hole Meeting, to raise cash from our already high 30% level to nearly 40% cash.

Below are two notable changes to the Bear-o-meter's components. Having noted the changes, the end score matched last months "0" high risk rating.

Positive point added:

Smart Money is becoming more positive, dumb money is bailing out. You can see that the smart/dumb confidence spread below has moved into the positive zone since last month. It needs to go higher (deeper spread between the groups) before its a super strong signal. None of my other factors displayed such contrarian buy signals. Strong or not, its a start…



New negative point subtracted

When looking at the S&P 500's Advance Decline Line and its relationship to its 40 week / 200 day SMA, you can see that the indicator has once again fallen below the SMA. I mark this a negative, because, during bear markets (see April-July) it indicates a potential for continuing bearish index as an entrenched trend of net decliners sets in. Sometimes its just a blip, but I still assign one point negative if it does break – as it can lead into further damage as it did this past spring.

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In the news

- **New video posted on gold**: What needs to happen for gold stocks to rally
- **New updates on our performance pages**. We're happy to report that we continue to outperform the markets. Winning by not losing. Our Equity Platform had positive performance (gross AND net) during last month's broad market selloff. More importantly – it's had respectable 1-year positive returns against a very negative year for the major stock indices.
- **Ask Us Anything is closed for questions**: We'll be recording our "answers" for submitted questions and hope to release the video early next week. I'll send out a notification when its published.
- **MoneyShow presentation on Contrarian Investing is coming up soon**: It's on Saturday Sept. 17th at 4:30Pm. Because I'm part of the Canadian MoneySaver Speakers Group, the room may be fairly well attended. I recommend you book ahead, by clicking here.

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