# Bear-o-meter moves to neutral

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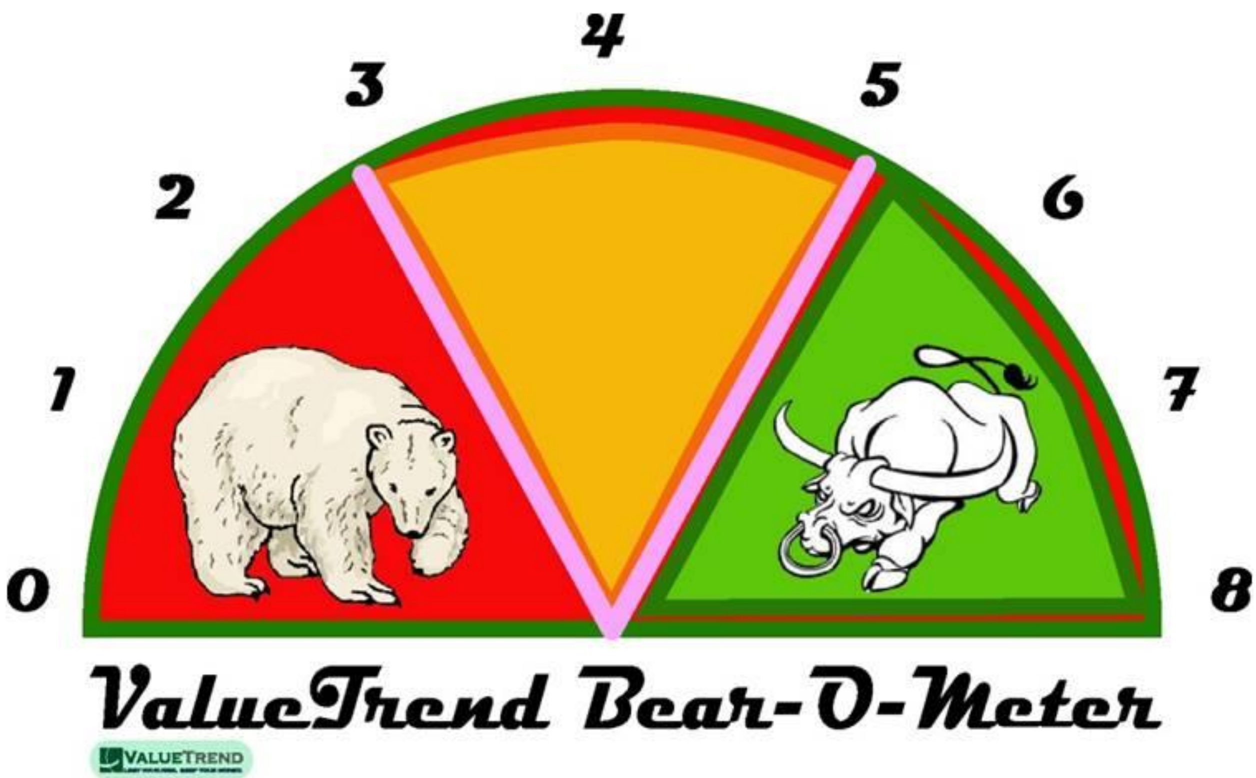
Readers of this blog come to the site to get a bit of an "edge" on the timing of markets or sectors. Technical analysis is the single best tool to provide that type of edge to investors. When combined with sentiment studies – one can make profitable market calls and optimize exit points much more efficiently than by using traditional fundamental metrics or opinions.

The Bear-o-meter combines a number of traditional technical analysis tools. Factors like trend and breadth are combined with sentiment and seasonality (plus one fundamental value tool). Adding or subtracting points assigned to each measurement into one final summation provides us with a completely quantitative measurement providing a relative risk vs reward on the US stock markets. The beauty of the Bear-o-meter is that "opinion" & "bias" are eliminated. Each factor within the Bear-o-meter is binary. A point – whether its positive, negative or "0" is assigned to each of its 11 factors. The summary of these points provides us a reading between 0-8 where "0" is very high risk and "8" is very low risk, all things being equal for the stock market. No bias, no opinion, no emotion.

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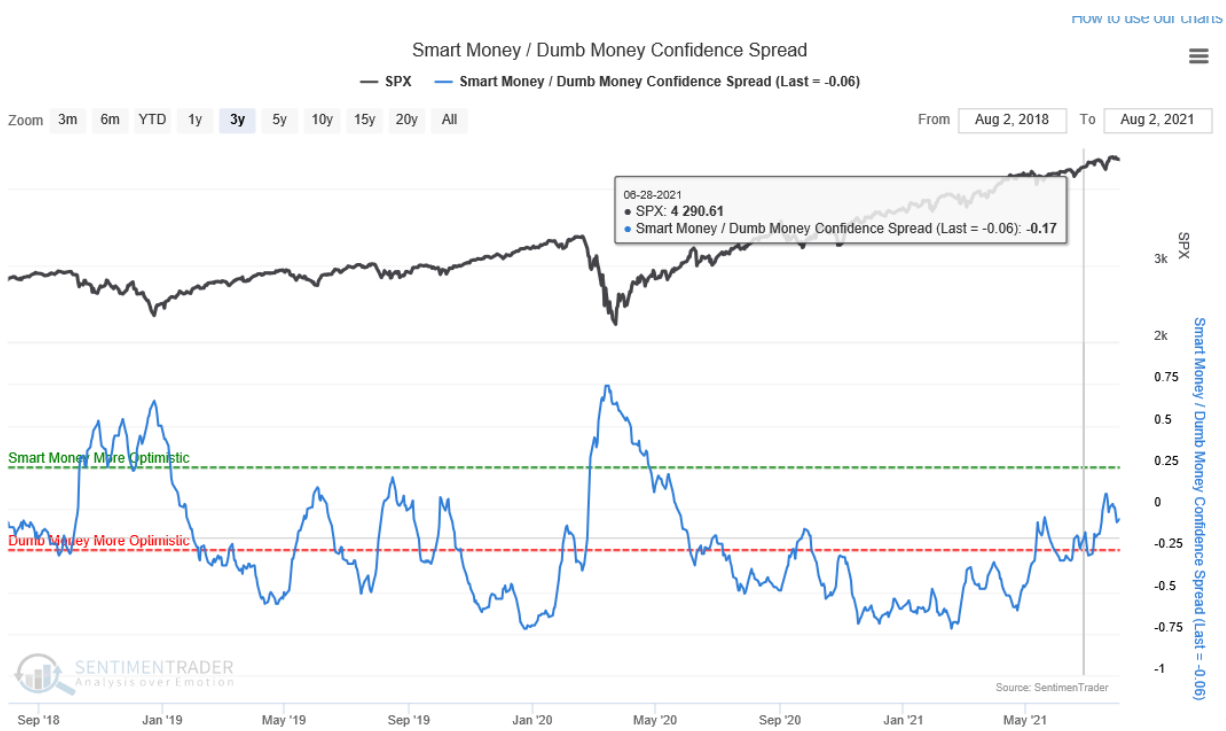
Back in June, the Bear-o-meter read “2”- which suggested a higher risk environment. July’s reading brought a reading of “3”, which implies a mildly risky environment. While we did see a fairly decent (albeit short) selloff in mid July, net-net the market (SPX) is up about 4% since the initial reading of “2”. I noted on that blog that the last time we saw a reading of two – the market rose for another month, then fell hard without recovering for another three months (fall of 2020). Be that as it may, we must understand that a high risk environment is not necessarily one that markets cannot rise in. It simply means that markets are more risky – not that they cannot go up. Keynes once said that markets can remain ‘wrong” longer than we can remain solvent if we bet against the trend. So the Bear-o-meter simply gives us a heads-up as to the conditions you are investing in. Buyer-beware kind of stuff.

## Where is the Bear-0-meter today?

As of August 3rd, the Bear-o-meter reads “4” out of 8. This is right down the middle of risk/reward. In other words, it tells us that things could go either way. Thus, we must revert to traditional trend analysis to determine our trading strategy. I might note that some factors – such as my recent posting regarding historic market actions coming into the Jackson Hole meeting, can be bearish- these factors are not represented on the Bear-o-meter.

For those interested, the positive factor that added one point to the meter this month was the “Smart Money/ Dumb Money Confidence Spread”. For the first time in many months, that indicator has moved out of its bearish zone, into a more neutral reading insofar as how “Smart” investors (institutions, pro traders, etc) see market risk vs “Dumb” investors (retail money). Chart below.



## Conclusion

Despite the move to neutral by the markets, our view of the factors surrounding August (click on the link to my blog noted above) create the potential for very neartermed volatility. This, despite the neutral risk environment. As such, we brought our cash up a bit more last week. We're around 18% cash in our Equity Model right now. Note that, should we see any volatility coming into late August per the historical trends, we will buy into that volatility with at least a portion of our cash. A neutral risk environment is not one where we want to be too underexposed to markets.

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