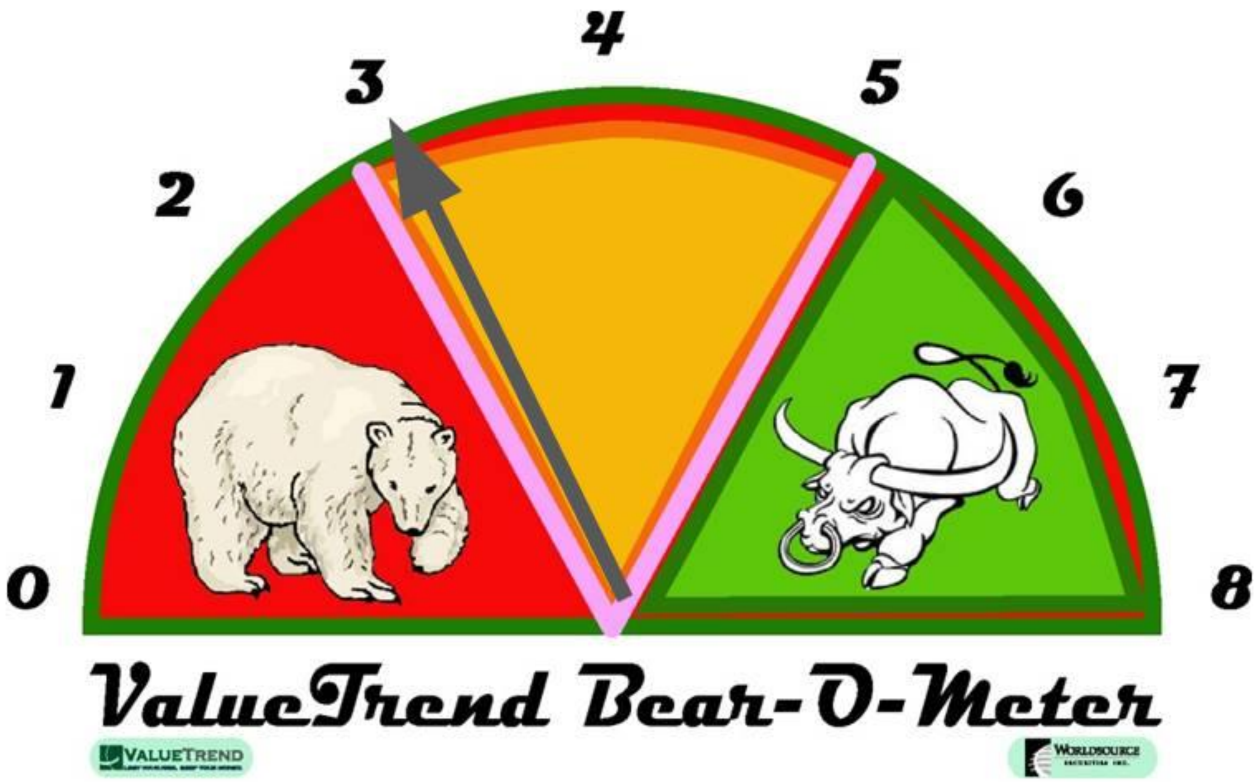
Bear-o-meter neutral … for now

Published on March 8, 2017

A reader posted a query recently regarding the current reading of the Bear-o-meter that I tend to use for macro market risk/reward readings. Although I answered his question under his posted comment, I felt inspired to post a new reading for the Bear-o-meter. This makes sense given the arguably high market valuations, arguably poor sentiment readings – which I recently covered here – and questionable market breadth statistics of late.

The Bear-o-meter covers all of those factors, plus others. Do a search on this blog to see my past readings of the indicator. As I've covered in the past – it's a macro viewpoint. It's not there to help you finesse a quick trading decision. Instead, it tries to assess risk and reward—and assign a value as to how likely the market is to go up or down in the coming weeks or months (not days). Further, it is a probability ranking tool with a scale of 0-8. If the rank is near the right side of the scale, it means risk is relatively lower vs. potential reward—but risk still exists. There is no such thing as a risk-free environment. If the rank is closer to the left side of the scale, markets may indeed pose more potential for negative vs. positive returns. But, that doesn't mean they can't or won't go up. Markets can always rise despite the odds. So please bear this in mind when I present a reading of the indicator.

Keith Richards, Portfolio Manager can be contacted at krichards@valuetrend.ca



The Bear-o-meter consists of 6 mid-long term categories. Below are the 6 categories, and their current readings. In some cases, I have 2-3 indicators within each category, and perhaps 2/3 are leaning one way. Further, each have different weightings. I assign the reading as bullish or bearish depending on the dominance of indicators that comprise the catagory:

- **Breadth**: neutral
- **Seasonality**: bullish
- **Relative fundamental value**: bearish
- **Momentum**: neutral
- **Trend**: bullish
- **Sentiment**: bearish

The current reading of all indicators is "3". That is in the low end of a neutral reading. What this means is, the potential for a market correction is growing, although the risk reward ratio is still skewed away from an outright “push the sell button” reading. As you will note on the factors above – it’s really been the trend indicators, along with positive seasonality, that are keeping the boat afloat. Its times like this that we can see a rapid change in the factors towards one side or the other. For that reason, I promise to post a new reading if, and when the “needle” moves out of a zone – particularly if it moves to bearish.

In the meanwhile, recall the adage “the trend is your friend until the end”.

Should the S&P500 break its trend (starting with the 50 day MA), it would skew the above reading to move into bearish territory. But that hasn’t happened yet. There is little to be gained by fighting the tape at this point.

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