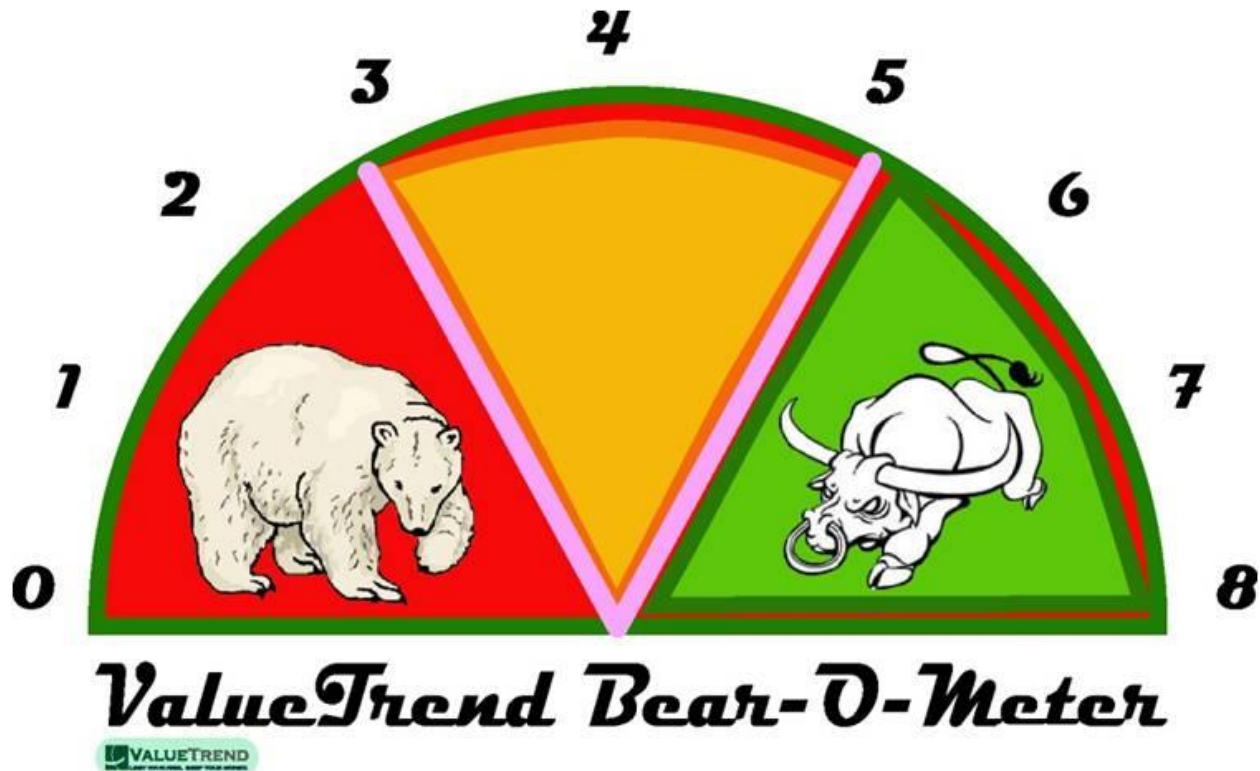


Bear-o-meter neutral, with some caveats

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The Bear-o-meter is a compilation of several trend, breadth, seasonal, valuation and sentiment indicators that attempts to provide a relative risk/reward reading on the market. Most of you have seen this diagram before, but for the new readers...the diagram below shows us that the range goes from 0 (high risk conditions) to 8 (lower risk conditions). The diagram segments these readings into 3 potential ranges as BULLISH, NEUTRAL, and BEARISH. A reading of 3 and 5 puts us on the edge of higher or lower risk, but not firmly into either of those zones. Most of the time, we get neutral readings (3-5). That's because, all things being equal, most of the time markets are relatively balanced between the reasons we should be concerned, and the reasons we should be bullish.



Right now is one of those “neutral” times. The Bear-o-meter reading for today (January 5, 2021) is firmly at the upper end of its neutral zone. It's reading is “5” as of today, which is on the cusp of outright bullish. Interestingly, we got several strong bullish trend indications which were offset by over-valued fundamental reading, a bearish sentiment and a bearish breadth indicator.

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All of this cancelled each other out on the extremes, with the balance going to the neutral and positive scores. Here is a summary of today's reading:

Cumulative breadth (A/D line): Bullish. +2 points

Trend (50 & 200 day SMA): Bullish. +2 points

Valuation (Trailing PE on SPX): Bearish. -1 point

Dow Theory (Industrials up, Transports down chart below): Bearish. – 1 point. This was a change we haven't seen for a while.

Seasonality: Bullish. + 2 points

Breadth momentum (% above 50 day SMA, New high/low indicators): Neutral. 0 points

Volatility indicators (VIX, Put/Call ratio indicators): Neutral. 0 points

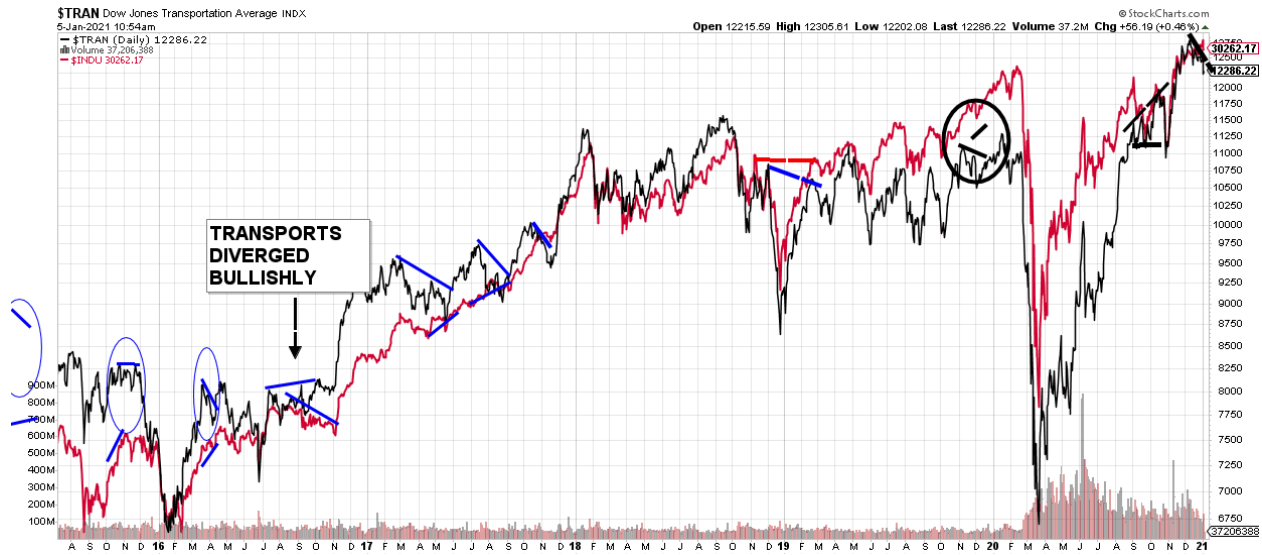
Smart/Dumb money sentiment: Bearish. -1 point. Chart below.

Charts

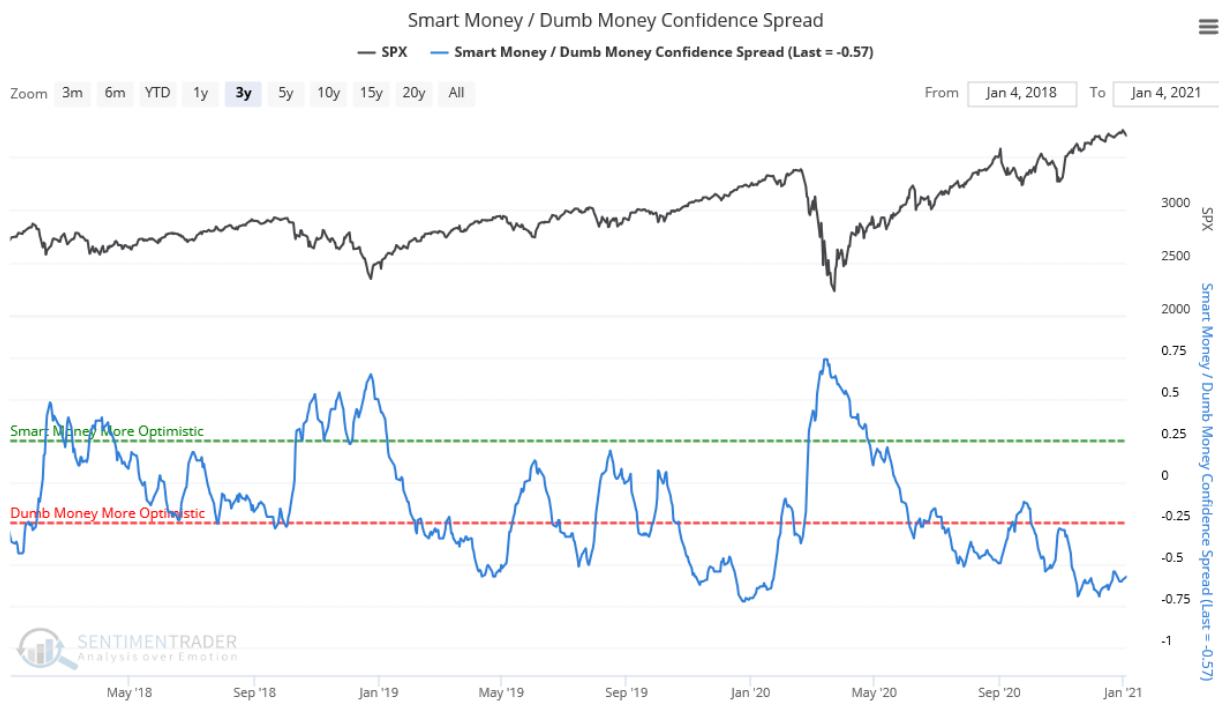
Industrials (red line, INDU) are moving up, while Transports (black line, TRAN) is moving down- right side of the chart. Note my past annotations when this has happened, and note when it lead into major or minor corrections. Most of the time!

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Smart money really doesn't like this market. Dumb money adores it. Extremes like this (below the lower horizontal trigger line) can be seen leading into the late 2018 market correction of -25%, and the COVID crash of 35%. That's not to say it will happen again. But it bears watching.



Conclusion

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The Dow non-confirmation along with the extremes in Smart/Dumb money tell me that there is plenty of room for nearterm volatility. But, you can't argue with the tape. And that's what the breadth and trend statistics are telling us. Longer termed bullish, with room for some noise for this month. Overall, any pullbacks should be bought.

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