Bear-o-meter turns bearish

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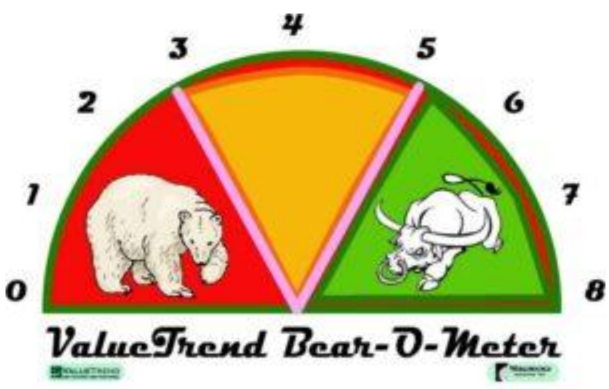
I last updated my short and longer termed trading systems in July. The longer termed system, which I like to call my "Bear-o-meter" was neutral at the time. Now it's bearish.

Recall that the Bear-o-meter consists of various factors, including breadth indicators, trend indicators, seasonality, sentiment indicators and even a fundamental factor. These indicators are assigned different weightings. The grand total is tallied according to the values each indicator reads on a given day. From there, a zone of buy, neutral or sell is indicated.



Currently, we have a "SELL" reading on my "Bear-o-meter". I re-tally periodically, and will report the results on this blog if we move out of this sell zone. But for now, we are in "sell mode". Levels of the Smart/Dumb Money indicator, as illustrated on Monday's blog and the extremely low readings on the VIX (CBOE volatility indicator that is comprised of options premiums), along with bearish seasonality for August/September tell us why the indicator is at the bearish end of its scale.

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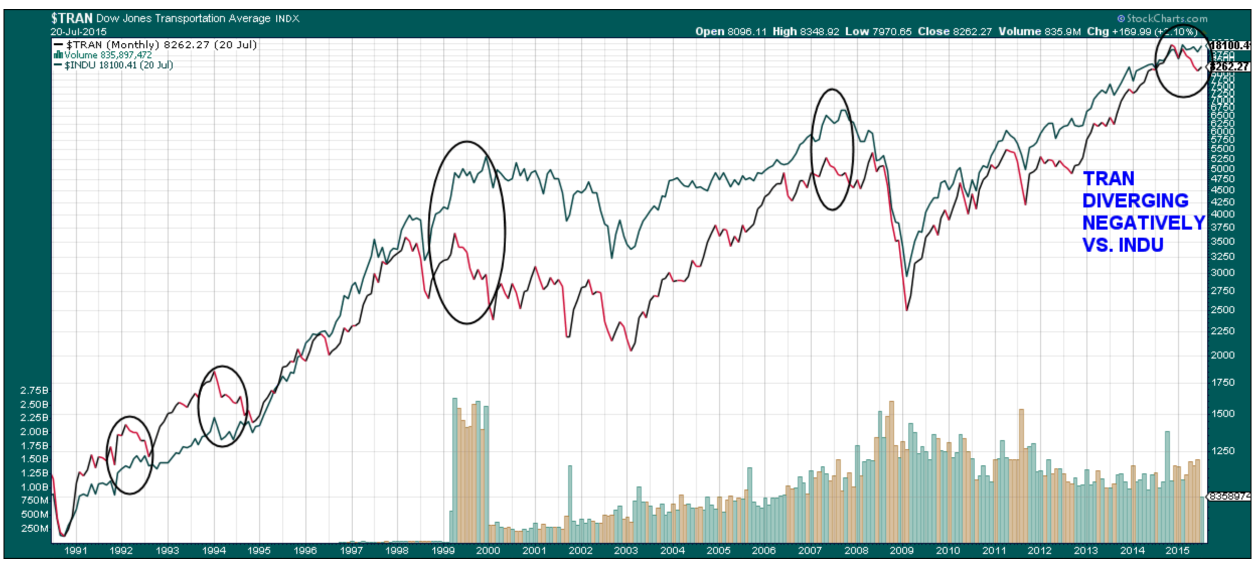
I'm also seeing a bearish reading from the Dow confirmation factor (Industrials are rising while Transports have weakened recently). However, the Moving Averages' I follow and the broad market Advance /Decline line are bullish on all counts. Netting it out we have more bearish than bullish factors in the Bear-o-meter.



So what to do?

There are 3 ways to reduce an equity portfolio's risk if your system detects an unfavorable risk/reward tradeoff.

1. You can reduce exposure to equities by selling some stocks and raising cash.
2. You can also hedge with an inverse ETF (single inverse is preferred over the leveraged types) – this effectively creates the effect of increasing cash without selling more equities. The

inverse ETF will rise and fall opposite to the market. Thus, stocks with a high correlation to the market (i.e. beta 1.0) will be offset by the amount held in a single inverse ETF.
3. Finally, you can elect to hold a greater component of low beta stocks for those equities you elect to keep. Lower beta stocks will move less than the market in a correction.

By combining actual cash with a small inverse position, we effectively moved approximately 40% of our ValueTrend Equity Platform into cash from the prior 20% weighting in mid- August. My battle plan is to use that cash to offset potential downside as/if and when markets decline – and to act as opportunity capital to be redeployed when markets offer favored stocks and sectors at lower prices.

Keith on BNN tomorrow: Wednesday August 24, 2016 at 1:00pm

Phone in with your questions on technical analysis for Keith during the show. **CALL TOLL-FREE** 1-855-326-6266.

Or **email your questions ahead of time** (specify they are for Keith) to **marketcall@bnn.ca**

Moneyshow

Keith Richards will be at **The MoneyShow Toronto at the Metro Toronto Convention Center on Friday Sept 16th at 12:45**

Keith's topic: **Have your cake and eat it too: Playing the risk/reward trade-off.**

Yes, it's still a bull market. No, it's not going to be a simple buy-and-hold ride. The good news is, this type of environment is what investors familiar with technical analysis thrive in! Attend this seminar and learn how to think and act like a technical analyst by understanding the basics of market realities – and how to position your portfolio to limit your risk in the current investment environment.

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