

Bicycling and the Bear-o-meter

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If you read the MoneyLetter, you may appreciate a 2-part column I am in the process of writing for that publication. The columns outline how an investor might design a trading system. In the articles, I illustrate the process that we at ValueTrend utilize in buying and selling stocks. Briefly, the key elements of a trading strategy are:

1. Broad market phase analysis
2. Individual sector and stock phase analysis
3. Fundamental analysis
4. Position size rules
5. Sell rules.

I'll post the articles to the ValueTrend website (www.valuetrend.ca) over the next 2 months after they are published. If you wish to read them earlier, I might suggest subscribing to the Moneyletter service. I think it's less than \$40 for a trial subscription (<http://adviceforinvestors.com/the-money-letter/>).

The reason I bring this up is because I view success in any endeavor as available only to those who apply a structured, systematic discipline. For example, I am an amateur competitive cyclist. Racing bikes is different than one who pursues bicycling for general fitness and entertainment. My routine as a racing cyclist involves specific types of (often) intense riding on specific days of the week. I have been fortunate to train with one of the top amateur competitive cyclists in Ontario. Dave (my friend) has been a competitive cyclist for most of his life. At 64 years of age, Dave still wins or places very highly at open cycling events, often, if not usually, beating top-notch competitors who are 1/3rd his age. Dave overcomes his "age barriers" through the most disciplined approach to training and science that I know of. Food intake, bike positioning, structured training intervals, recovery methods and a scientific approach to every conceivable (natural) edge that Dave can utilize are part of his lifestyle. Dave is a machine. Although I am not in his athletic category, I have learned much from Dave regarding structure and discipline in cycling.

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He may hold positions in the securities mentioned. The opinions expressed are those solely of Keith Richards and may not necessarily reflect those of its employees or affiliates. The contents are for informational purposes only and do not represent investment advice.

Similarly, my prognosis on the markets is a structured one. Like Dave, I incorporate elements of analysis that I have found to be successful in investing (although not infallible). And like Dave, I am always studying my trade to look for another edge.

The Bear-o'meter is a quick-glance tool that I created 2 years ago for use within my macro-market analysis (step 1, above). It incorporates 6 high-confidence indicators that measure market risk vs. potential reward at any given time. I post the Bear-o-meter periodically on this blog—notably when there is a shift from one of the three zones (Bearish, Neutral, Bullish). This is one of those times. My Bear-o-meter index has moved from bearish/neutral throughout the summer to neutral/ bullish as of today. The indicators show as:

Breadth: bullish

Seasonality: bullish

Relative fundamental value: bearish

Momentum: neutral

Trend: bullish

Sentiment: bullish

All in, the Bear-o-meter reads as 5, or neutral/bullish at this time. This is up from 2 in September—which was a bearish reading. Back then, sentiment and seasonality were bearish – bringing the level into its questionable zone. While this indicator is not a short termed one, the Bear-o-meter is currently suggesting that conditions are ripe for a continuation of the bull market. This suggests that, despite short termed corrections, all lights are green for stock investors with a time horizon of more than a few months.

Upcoming events with Keith Richards

BNN “MarketCall Tonight” this Friday November 7, 2014 at 6:00pm

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

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