Oil, Coal and the Bear-o-Meter

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Oil, Coal and Bear-o-meters, Oh my!

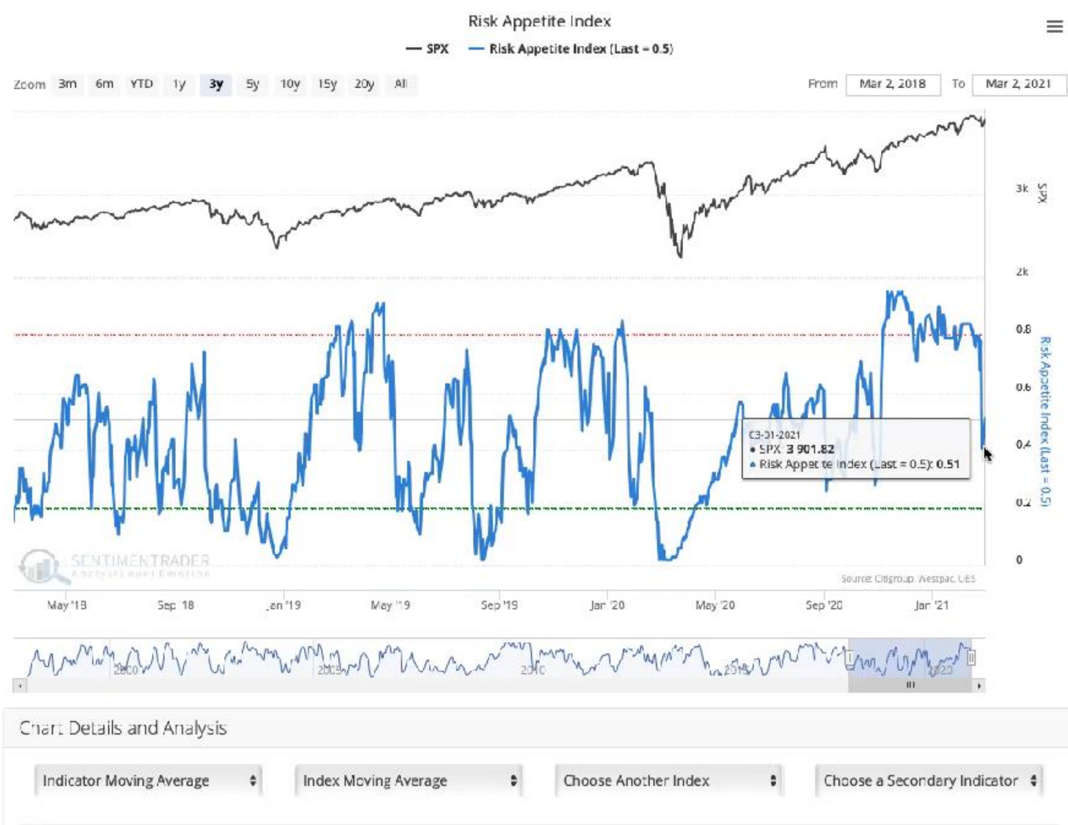
This video is a recap of a couple of blogs that I write every week. But I always highlight a couple of extras for you in this video. It's worth catching the video for not just getting the highlights of the blogs, but also to get another chart that you're not going to see on the blogs.

Let's get started. The first blog that I want to talk about was our monthly Bear-o-meter reading and the Bear-o-meter for readers of my blog. I've been reading that blog for the better part of 15 years, and I've been tracking the Bear-o-meter in one form or another for well over 20 years now. It's been refined over the years. But the principles are the same, the Bear-o-meter measures risk and reward.

Users of the Bear-o-meter should understand that this is not a market-timing vehicle, it simply measures which is in control, which is the higher probability risk or reward. But we have to understand that at any moment, on the stock market, there is both risk and reward present. So just because the Bear-o-meter measures low risk, and better reward potential, that does not mean that there's no risk of the market, there is always risk on the market. Just because the market says very high risk and less reward potential doesn't mean that the markets not, you know capable of going up, we could still very well go up. It's a relative measurement based on a number of factors that include trend, market breadth, which means the amount of participation in broad numbers of stocks, it measures volatility, statistics, and it measures sentiment, the sentiment being how different groups of market participants view the market, how bullish and how bearish they are. And finally, it also looks at seasonality and it looks at good old-fashioned market valuations.

So, we're going to look at all of those factors pushed into one indicator, and that's called the Bear-o-meter. Let's cut to the chase. What did the Bear-o-meter measure this month? Well, it measured as of Thursday, the third, I think it was in March, it measured six out of a potential eight. What that means is, is that on a relative basis, where eight is the lowest risk, the highest potential for profitability, and zero is the highest risk, the lowest probability of returns. Six is rather good reading. We're still in a bullish market.

Now, the caveat being that a week ago, if you've watched my video from last week, I noted that the stock markets, the major indices, are measuring significantly over their 200-day moving averages. I noted on last week's blog and video that I expected a correction, particularly in the NASDAQ. Well, as I stand here today, coming into the end of the week of the sixth, that probability was high. It remains reasonably high for the next little while, but the one-to-three-month outlook, which is what the Bear-o-meter tends to look at is bullish. Let's take a look at a couple of factors.



This is your bonus chart that I didn't present on the blog. What I want to show you here is what's called the SentimenTrader Risk Appetite Index. Now SentimenTrader.com is a subscription-based service. I'm sharing a screen here out of my subscription, but I give full credit to them.

They do marvellous work in sentiment indicators. They have a plethora of them and this is one of my favourites. And what it is, is coagulation, so to speak of three different companies and their risk appetite indices, the SentimenTrader takes all three of them and puts them into one indicator. So that uses the work of UBS. It uses the work of Citi Group and a group called Westpac. And it takes what they're looking at as a risk appetite by all market players. It's not pitting smart money against dumb money; it's looking at all market players. And what we're seeing here is that the movement by risk-takers, market players, has declined significantly.

In fact, if we look here, just before the recent correction that we saw on the market, that I was talking about the probability of last week, the risk appetite was very high, anything above this red horizontal line is considered high-risk appetite, people are very interested in taking on risk appetites. This past week, when we've seen the market sell-off, you can see that the appetite for risk has declined. And if there's one thing that I've noticed in this indicator that it's extremely accurate. And I'll show you here when it gets to a low point of predicting market lows.

Now, the green line is the ultimate low appetite for risk. And that tends to be a very strong buy signal, but at any point around, a third of market players that are measured on these three companies' indices, when only about a third or so of them are interested in the stock market, it tends to be a good sign because we want people to be scared. And if they're not scared, they're irrationally exuberant, like they were here markets tend to run over.

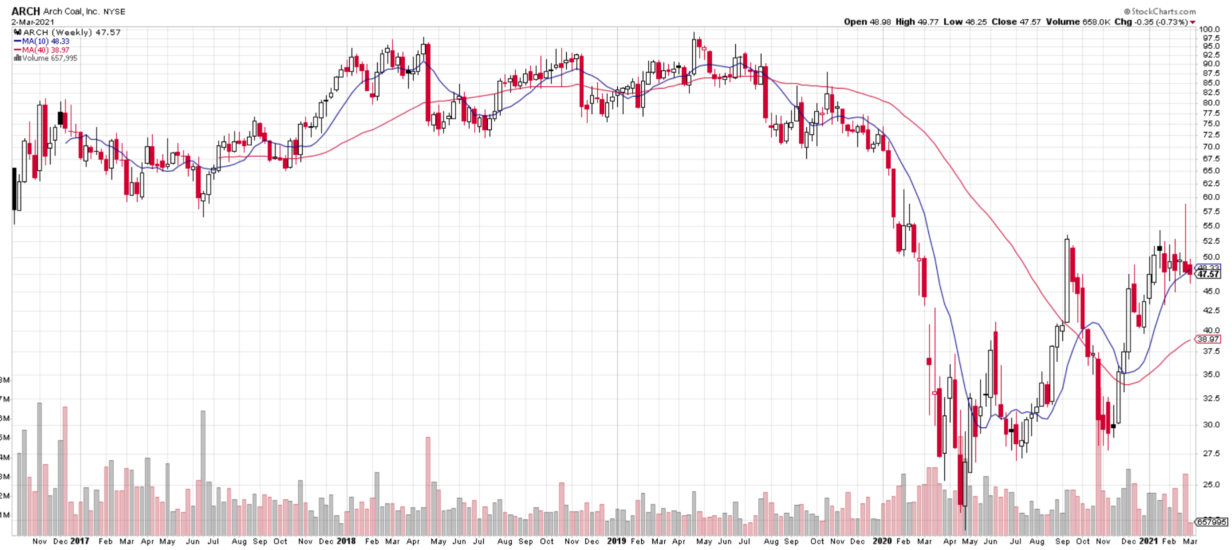
You can see them there back in March. And you can see there are several points where when this indicator got low, it indicated a market low point as well. So, we're heading towards that point, actually, as the market continues to sell-off. So that's a good thing. I think we're going to be seeing the end of this current correction in the next very short term, maybe next week, or so. So that is the Bear-o-meter measurement.

And I wanted to now bring you to the other blog I wrote, which is called a Contrarian Trading Opportunity. Now, anybody that's followed my work knows that I'm a big believer in sentiment indicators and contrarian investing. In fact, the big news announcement is that I have been working very hard on an investment book on contrarian investment strategies. And it's going to be very unique because I always gear my books. If you read either of my two books in the past, I gear my books towards ordinary people, so you can understand and pragmatically use the lessons. These tools that I'm going to talk about, including some very new tools, I'm going over in the book, including alternative data, but alternative data is normally only available to institutions. But I've got some backdoor ways for ordinary people like you and I to look at alternative data sources.

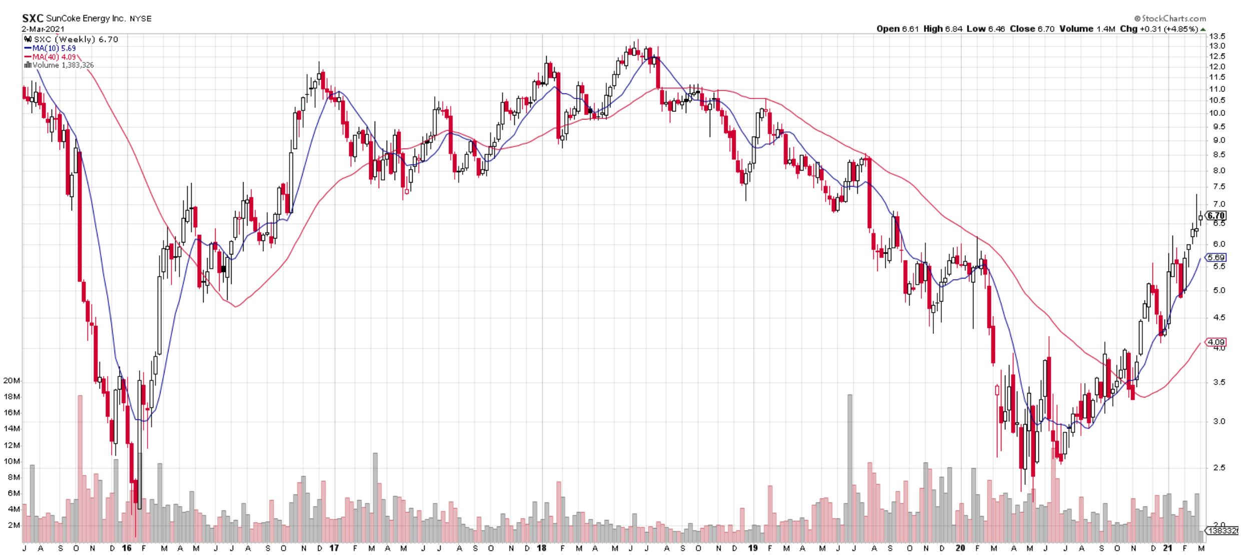
So, watch for my upcoming book. But in the meantime, this is, in my opinion, a contrarian investment opportunity that we're looking at here, and that is in coal. Now, the reason I know it's a contrarian opportunity is that as soon as they say coal as an investment opportunity to someone, people tend to balk. Isn't that against the clean green movement? And absolutely, but here's the thing. You see, just like the oil trade back in October, when I was when oil was 40 odd dollars a barrel, and I was saying I think it's going to go to 60 to 65. So far, it's just over 60 bucks. I'm being vindicated for that trade, I think.

And oil was really out of favour. Everybody was going to put up windmills and solar panels and drive a Prius and live happily ever after? Well, it's not the way things work, things don't change that quickly. And same with coal. Now True enough in North America, coal-powered electrical facilities are a dying breed. But where is the use of coal growing? I'll tell you, it's growing in India in China, which happened to be the fastest-growing economies in the entire world. So, the risk appetite for coal is huge in that part of the world. And we want to look at this very under-loved sector because their economies are growing and both India and China.

I actually read a statement recently coming out of India saying they have no intention of getting involved with the Clean Energy movement. They are sticking with fossil fuels and they're using coal almost entirely for their power output. And as their economy grows, power is a big thing and growth is a big thing to these countries.



There are a few coal stocks that I'm looking at here. This is Arch Resources. Now, we don't own this, but we've got it on our buy list. Look at that nice little bottom formation if it breaks this neckline, which if I remember correctly, the screen is sort of hard for me to read. But in the mid-50s if it breaks that you're going to see a very strong movement, you could get, you know, 30% upside on this trade possible, you want to wait for that neckline to break.



Now here's one we do own which is SunCoke Energy. Coal is also used in the production of steel. Guess what another commodity is used a lot in the reopen. Reopening economy, everybody's talking about it. Well, everybody's kind of overlooked the fact that coal is used in steel, and steel is a big part of industrial production. So, we bought SunCoke, and you can see it broke around six bucks. And we see tons of upside on this stock high-risk position.

I will note that this is not a recommendation for your portfolio. We bought it only in our aggressive platform, take a look online, by the way at the performance of our equity platform, which is a conservative platform and the aggressive platform, our aggressive platform has been trading things like this contrarian type of play, and it is done exceedingly well in this environment. We love this trading environment because there's so much rotation going on. And we're seeing a rotation in the coal right now. It's not for the faint of heart.

Perhaps if you are interested in the trade of coal, you can take a backdoor approach.

And one of the more I'm not going to use the word conservative, because I don't think investing in coal could be considered conservative. But I will say perhaps less aggressive ways to buy Westshore terminals. Now, we don't own this stock. But it pays a dividend. I think it's about 3% or 4%. I think it's closer to a 3% dividend while you wait, it recently broke its neckline here. The upside potential is kind of limited, but it's got a pretty steady cash flow. And you don't they don't just rely on coal. They're just like the name implies. They're terminal based in Canada, and they ship products like coal to developing nations like China and India. So, coal is one of their products and they have contracts for shipping coal, that's set in stone. But if coal demand picks up overseas, then you will see that Westshore will probably reap some rewards from that.

So that is it for those two blogs. And I just want to leave you with a couple of thoughts, go to our website, and click on performance and take a look at how the sector rotation that we've been doing has definitely paid off. And if you've been reading this blog, you know, a lot of the rotational ideas that I have presented right here for you to follow. And if you follow those ideas, you've been participating in the same upside that we've seen.

Now, if you're not rotating, and if you're not comfortable with this kind of movement in your portfolio, then perhaps it's time to look at ValueTrend because that's what we do. This market is what we do well in, we actually do worse in buy and hold markets because just there are very few opportunities, you tend to have to pile into the one sector that's moving and stay there. And often, sectors get overbought, like technology was getting right up until day 2019 and early, early 2020. What happens is that it becomes a crowded trade. And as rotational investors, we have a problem with that.

We love environments like this, where we can go into something undervalued that's broken out, trade it to the top and move into the next thing.

So, if you believe that this market is going to be a little more volatile than it has been in the past, and maybe even see some sharp sell-offs in the coming year as value, valuations tend to stretch, time to look at ValueTrend, because this is the environment that we thrive in. And we have proved that through many years of bull and bear markets, keeping your money safe and limiting your risk.

Thank you for watching and be sure to subscribe to this channel as well as our weekly blog. Have a great week.

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