

Bear-o-meter bewilderment

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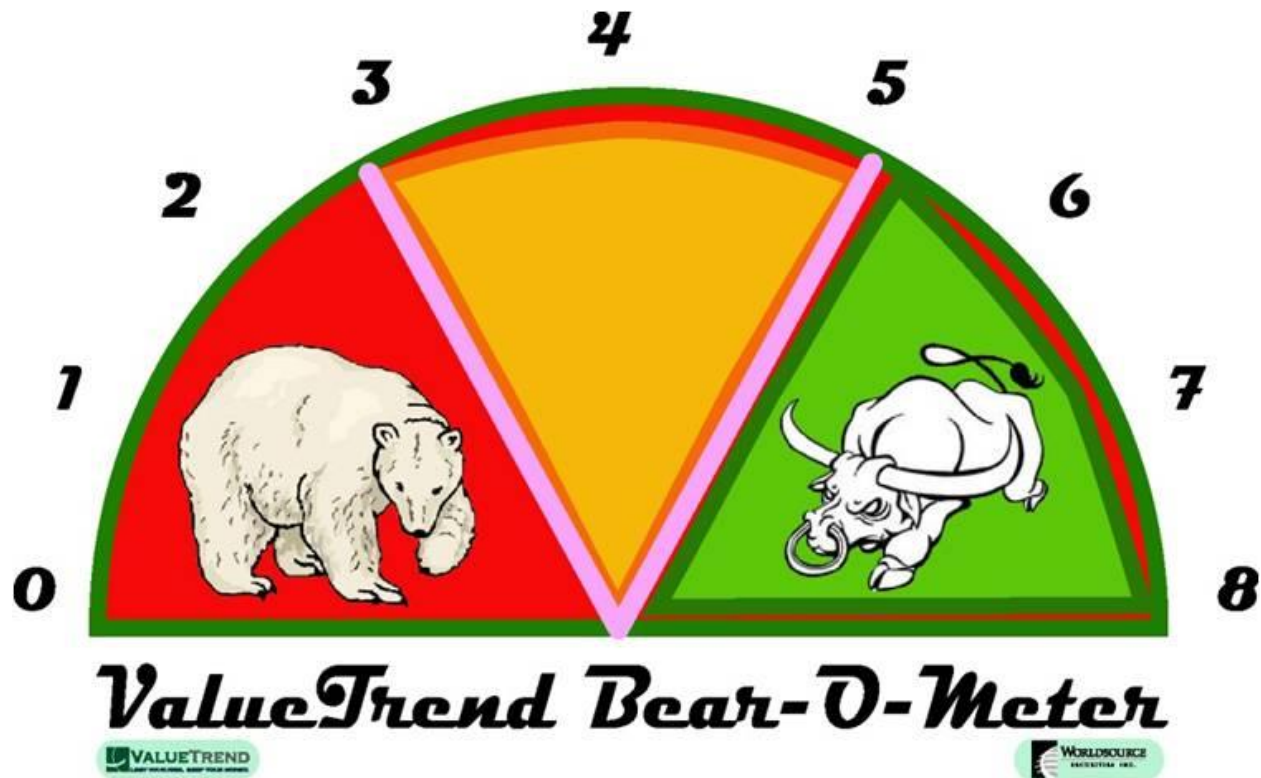
Funny situation, this. I took a Bear-o-meter reading today (Wed. June 13). The indicators read as follows:

- Primary & secondary trend (200 day, 50 day SMA): Bullish
- Breadth (AD line, Dow Theory): Bullish
- Breadth momentum (New high/low, % stocks over 50 day SMA): Neutral
- PE ratio: Neutral
- Sentiment (Smart/Dumb, VIX, Put/Call): Bearish—with one possible exception per below
- Seasonality: Neutral

After the above factors were tallied, the Bear-o-meter came out to either a 2 or a 3. Before sending me hate-mail, let me explain what I mean by such a wishy-washy reading on what is supposed to be a quantitative indicator.

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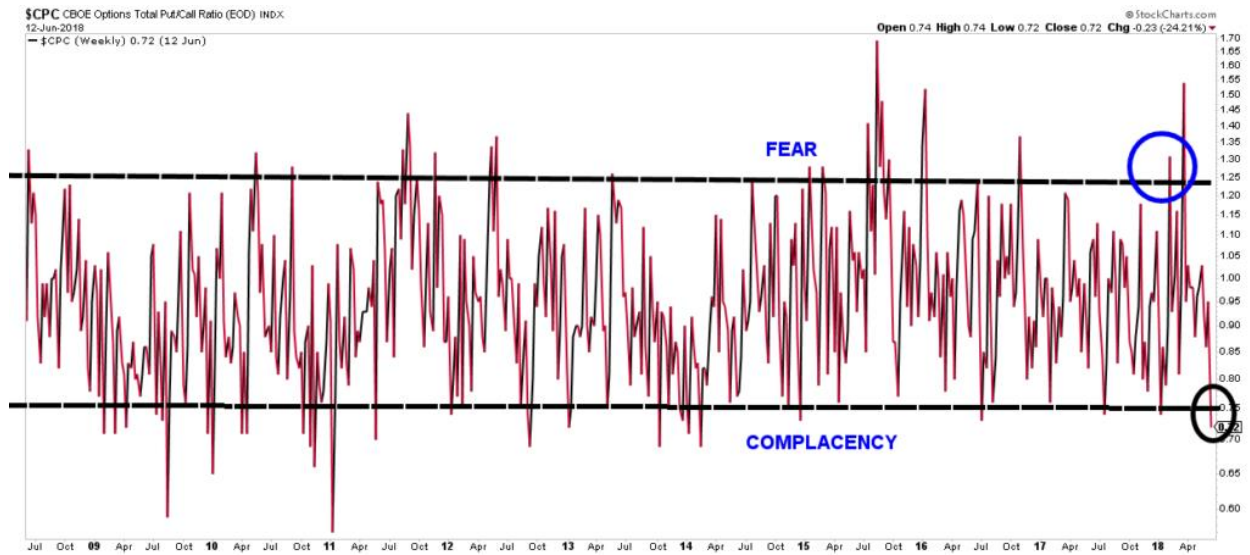
All of the above factors gave clear signals that put them firmly into bull, bear or neutral ratings. The exception to that was the “Smart money/ Dumb money” ratio. It is, as of Tuesdays close, a mere 0.04% over the trigger level to put it in a bearish position. So you have 2 choices:

1. If you want to assume it will move into a bearish position by Thursday or Friday, you can give the Bear-o-meter a “2”—which is firmly in HIGHER RISK territory.
2. If you would rather say that you will NOT assign a negative score until it officially breaks – then the Bear-o-meter reads “3”. That level implies a marginal risk score.

Put to Call: Bearish without a doubt!

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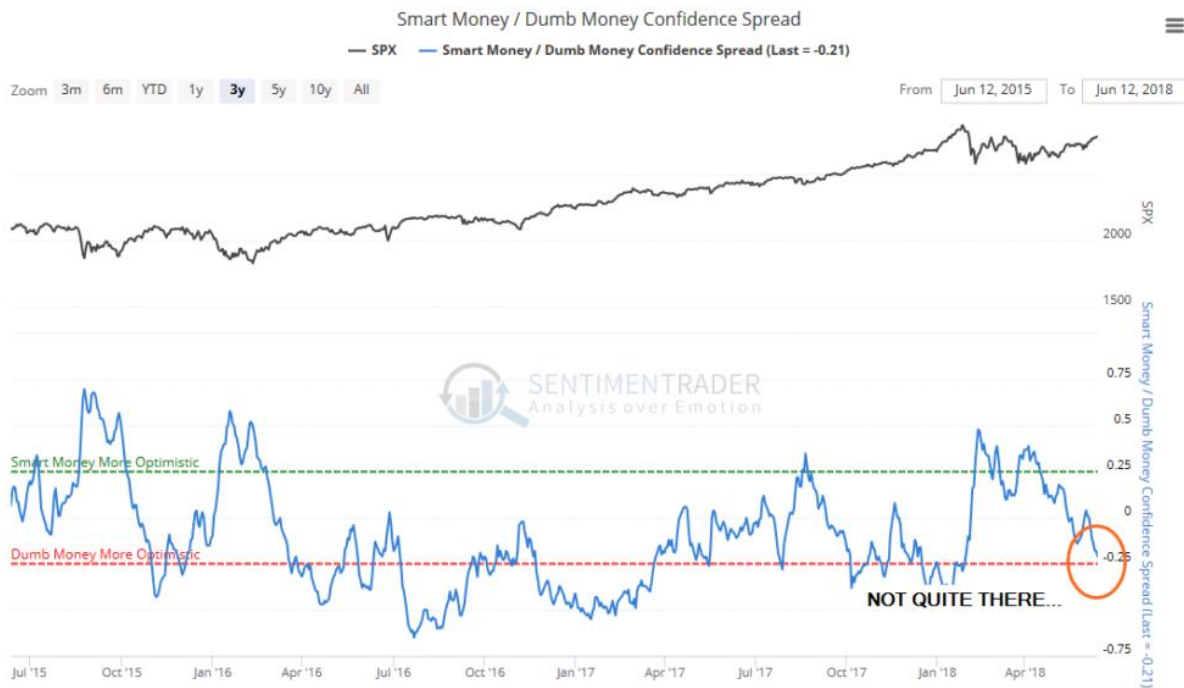
Smart/dumb money spread (courtesy [Sentimentrader](#)): On the verge of a bearish reading....

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Smart Money / Dumb Money Confidence Spread

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Sliding cash scale

One of the changes we brought into our model earlier this year was to assign a sliding scale for cash holdings within the Equity Platform. We prefer to quantify our decisions wherever possible, and this sliding scale offers a more quantitative tool to control the cash level in our equity model. Our new sliding scale cash model has assigned a MAXIMUM 20% cash weighting assuming a score of “3”. If the “2” rating holds, it would move us to a MINIMUM of 20% cash, with discretion up to 40% cash!

Conclusion

Given the the sentiment indicators are vastly faster moving than some of the other indicators I use in the Bear-o-meter model – I’m inclined to think that if there is risk in the markets – we may only get a quick pullback in the nearterm, and then return to a firm 3-4 “neutral” reading. Should a quick pullback be in the cards, I would likely spend about half of my harbored cash within the model.

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Hope this has given you some food for thought!

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