

## Bear-o-meter flashes danger

Published on May 17, 2017

I [posted](#) my Bear-o-meter reading a couple of weeks ago when it showed a low- neutral reading of “3”. That is, the indicator suggested a flat market, with some caution. Things have changed – the indicator now reads a bearish “1”, so I thought I’d better update readers.

Just a quick refresher on what the indicator is comprised of. The Bear-o-meter is a compilation of 12 indicators.

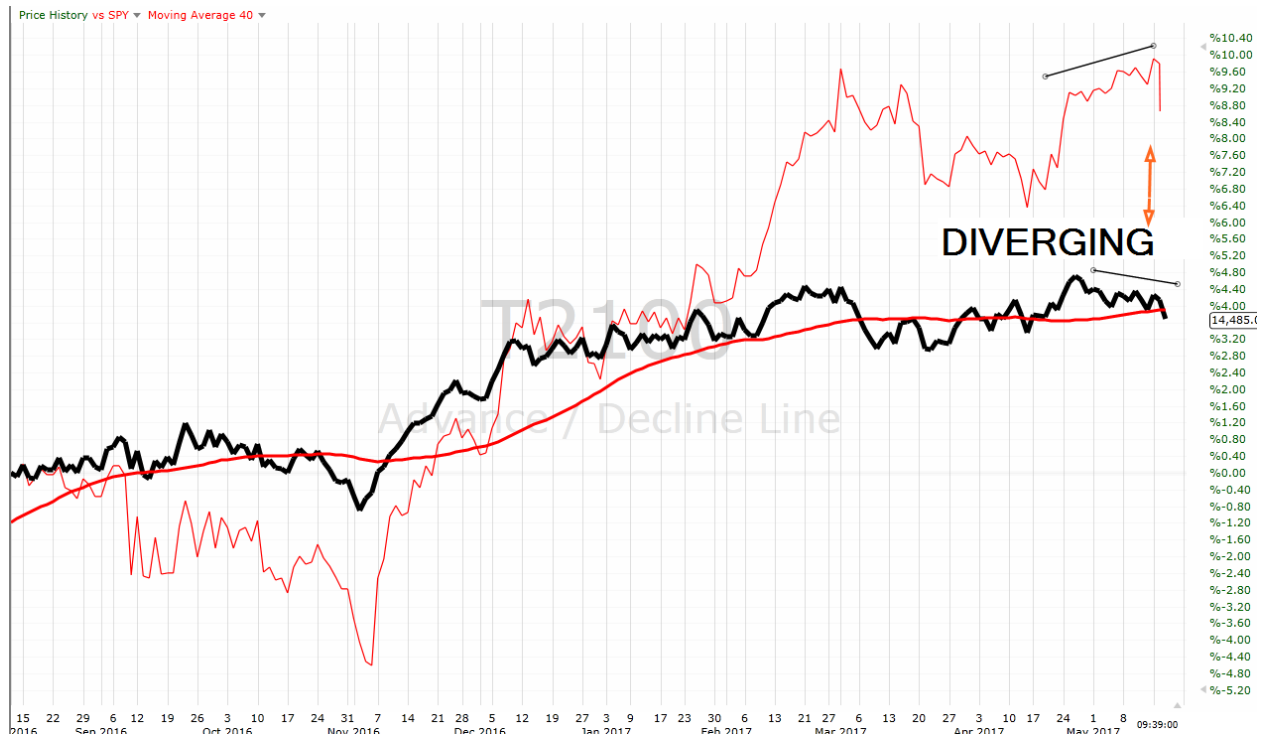
- 2 are trend indicators,
- 4 are breadth indicators (although I use 2 of them as momentum indicators),
- 1 is a value indicator,
- 3 are sentiment indicators,
- 1 is plain old seasonality (best/worst 6 months).

Each indicator can earn a positive, negative or neutral score. Some of the indicators are read twice—for example, I look at slopes as well as relative positions for the A/D line and moving averages.

Since my reading on May 1<sup>st</sup>, we’ve had 2 of the signals move from bullish or neutral to minor bearish. Specifically, The Advance/Decline line is now diverging bearishly vs. the S&P 500. This means that the market is, on the whole, comprised of more declining stocks than rising stocks. The chart below, courtesy of [www.freestockcharts.com](http://www.freestockcharts.com), illustrates the divergence. You’ll also note the move of the AD line (**black** line) below the 40 week / 200 day MA (**red** MA line). That was the second new negative signal on my list.

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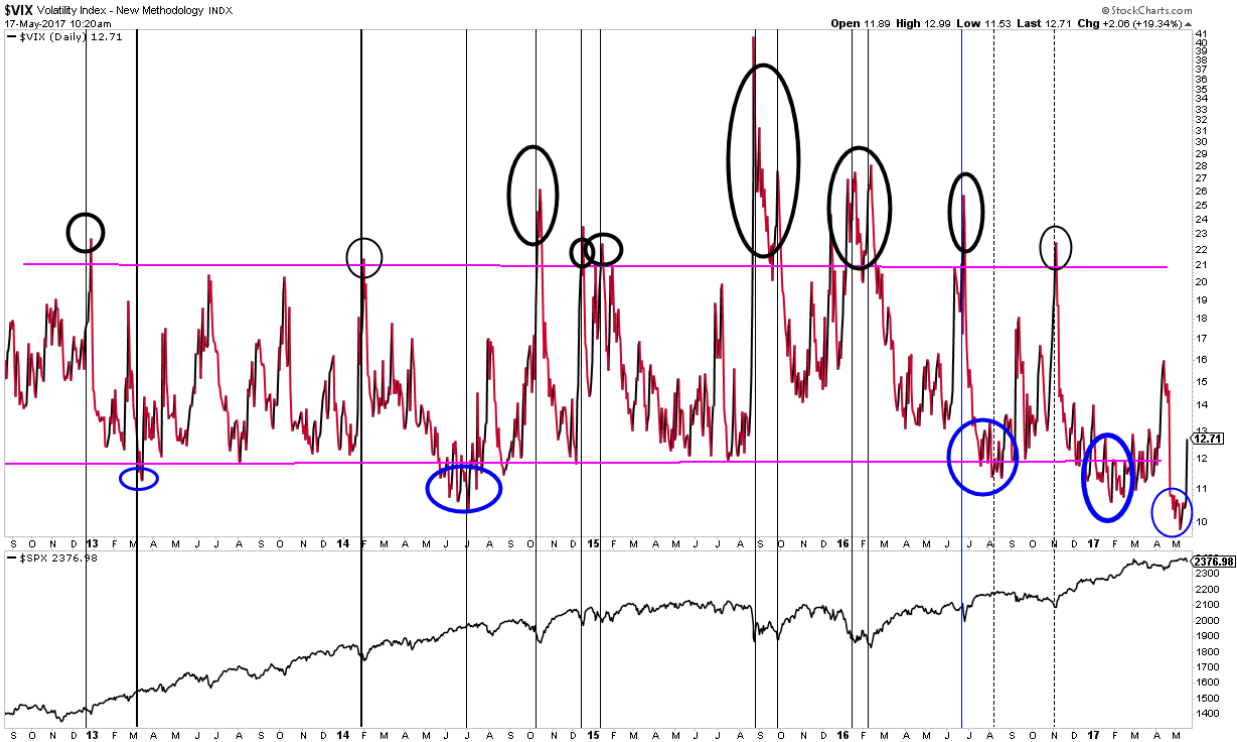
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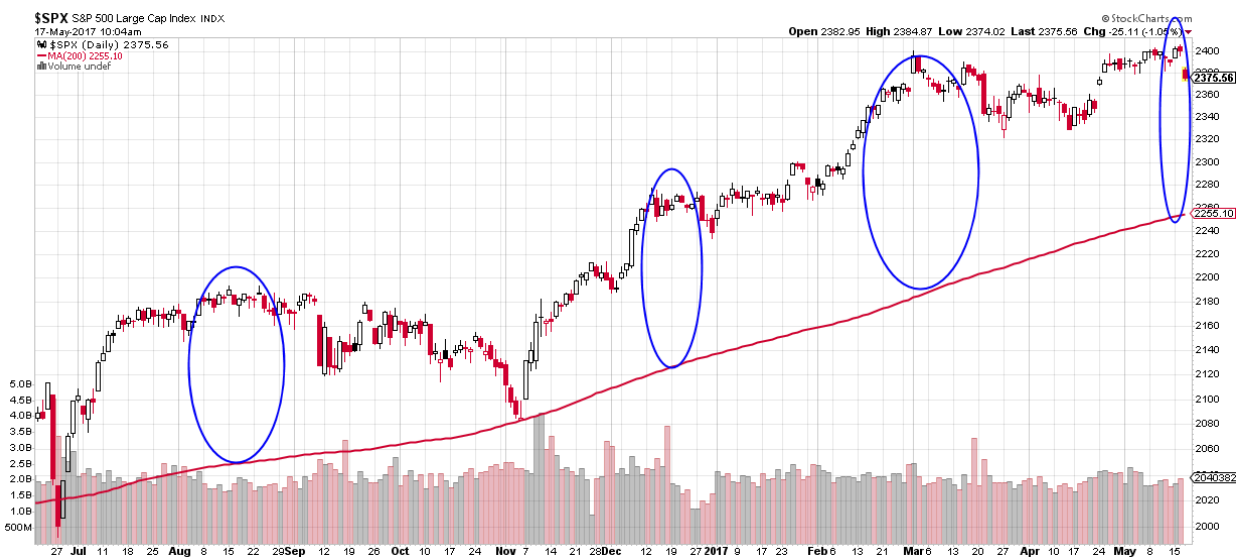
Of note: The VIX was at around 10 – an extraordinarily low reading – less than a week ago. The VIX has since then moved above 12 – a marginally neutral reading – so I’ll count it as neutral today. If I had read it a week ago it would have pushed the Bear-o-meter into a reading of “0” – which is quite bearish.

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Beyond that, most of the signals remain the same. Sentiment via the smart/dumb money spread is negative. We're still above the key MA's (200 day, 50 day) and they are sloping up. I will note that the distance between the 200 day MA and the S&P 500 was about 7%. While not a super-overbought level (which I tend to view as a 10% spread between the market and the 200 day MA) –its at around 6-7% spread where you do start to get into a potential for at least a nearerterm correction.



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**Conclusion:** we don't have a massive sell signal in place, but certainly the Bear-o-meter is suggesting more caution at this time.

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