Bear-o-meter & Neartermed timing model updates

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Long-time readers of this blog know that I employ 2 models to get a handle on long term and short termed market risk/reward potential.

The first model I use is the Bear-o-meter. A number of you have received a copy of the research paper I did for the CSTA (Canadian Society of Technical Analysis) Journal. If you have not asked for a copy of the CSTA Journal with my write-up in it, and would like to get one—email me at info@valuetrend.ca

The Bear-o-meter is a very big picture (macro) view of the markets. It's not designed to be a precise market timing vehicle. Instead, it tries to read the relative balance of risk vs. reward present on the US markets at a given point of time. It gives you an edge, but not an absolute. A high rating on the Bear-o-meter indicates higher potential for reward than risk – and a low reading indicates the relative risk vs. reward is unfavorable.

As you are no doubt aware, markets always have the potential for delivering downside or upside—either can happen. In that way, they are a little like a casino. Nothing is known as far as the next trade, or the next roll of the dice. But if you are the casino (house), you have an edge. The edge is the statistics behind the games. The house does not know if you will win the next hand or on the next pull of the slot machine handle. It does know that over the next 100 card games or the next 100 slot machine pulls – it will average out ahead. Not you. In fact, slot machines are pre-programed to deliver a random, yet average rate of win/losses over a large number of pulls. I know this because a friend of mine is a casino executive, and he walked me through the logistics. So picture a high Bear-o-meter reading to be similar to the house programing the slot machine. In this case, the house has decided to give you the edge for a win rather than a loss on the next pull. But you could still end up with a losing pull.

On January 19, 2018, the Bear-o-meter moved to a bearish/neutral "3". Prior reading to that was a "5" neutral reading taken on December 28 2017, Although the Bear-o-meter is not usually so good at predicting short termed moves, this one was a pretty good signal. More importantly, my Near-termed timing system signalled bearish around the same time. More on that below. After the January signal, the market did fall by a good 10%. The "3" reading is not an extreme bearish reading. So the relatively tame 10% pullback was in line with that reading. Interestingly, On February 9th, 2018, the Bear-o-meter moved to its highest reading ever. It hit "8" (bullish). Again, this was in line with a Neartermed timing system buy signal that I'll cover below. I was in Florida when I got this signal, and couldn't post this reading until the 15th . Here was my blog.

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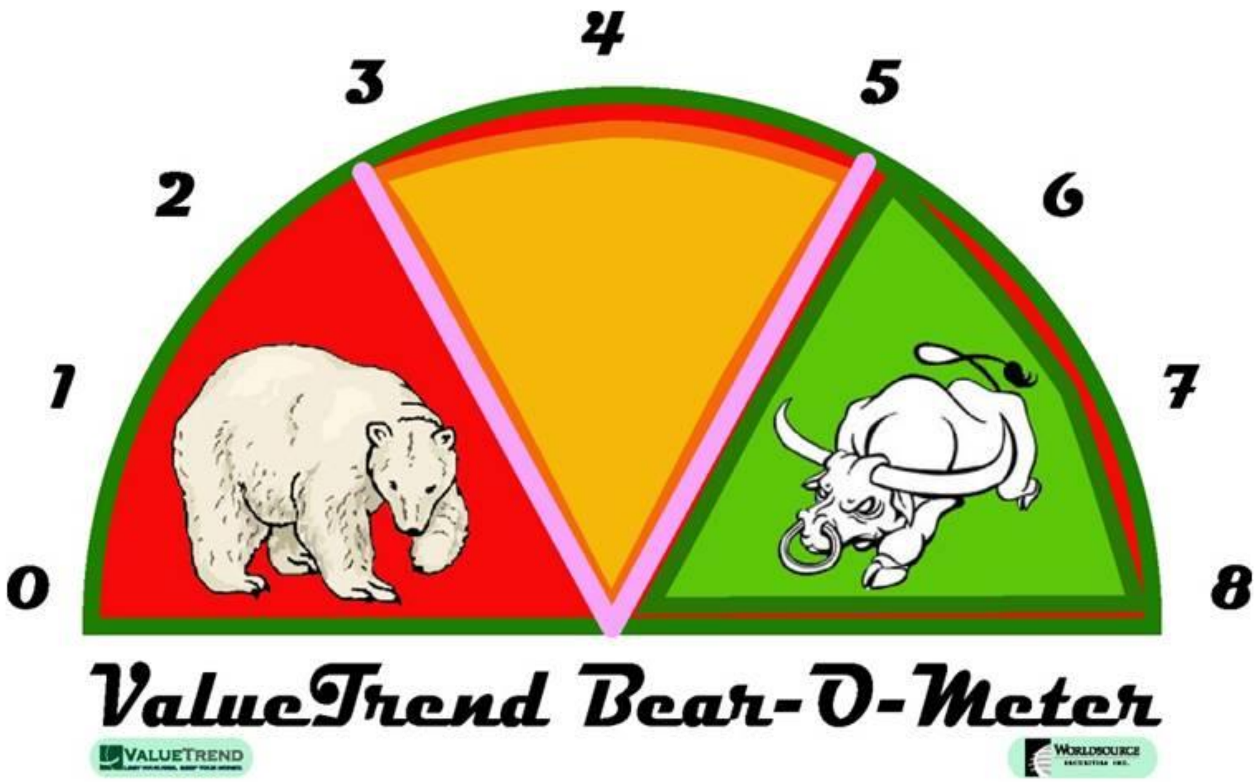
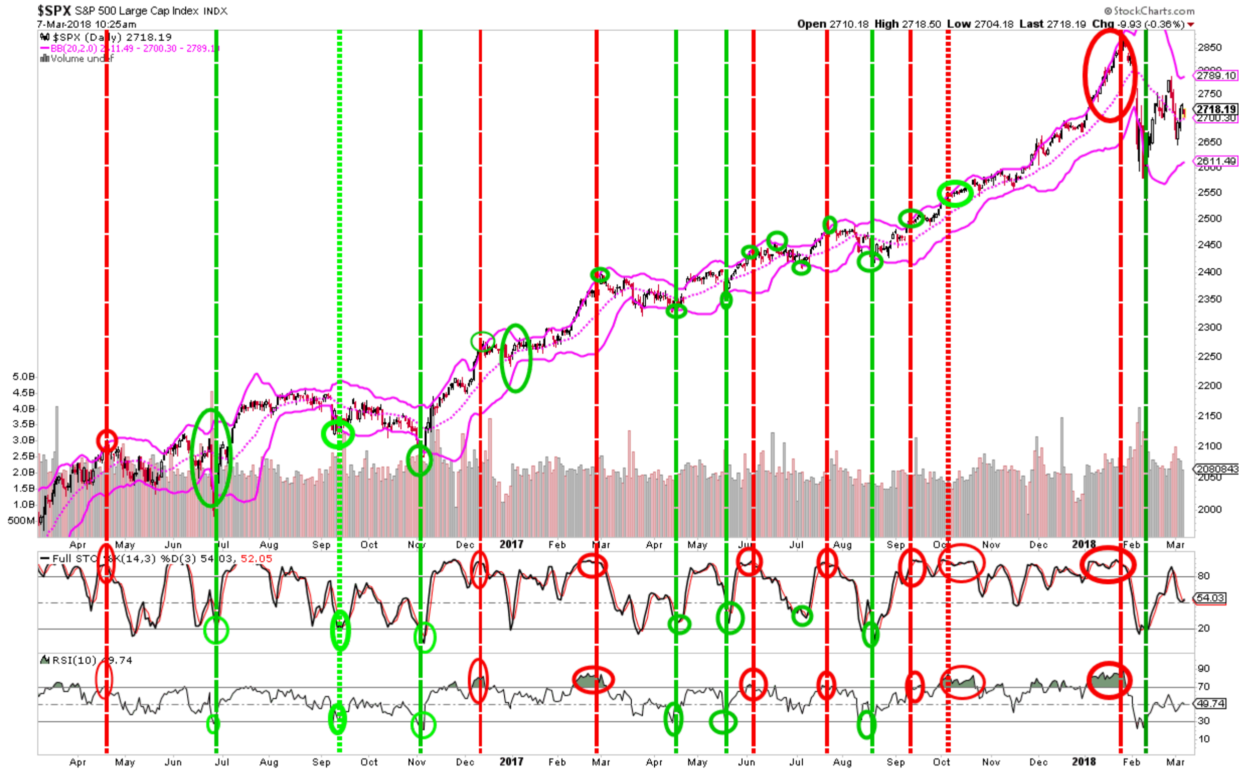


The buy and sell signals on the Neartermed timing chart below are indicated with vertical lines. Read the above linked blog for an explanation on how the signals are derived. Note that the period between September of 2017 and January of 2018 was really just one giant sell signal on the Neartermed system. This was a very strange thing indeed, based on a very strange market environment. I blogged on that a few times during this period, including here.



For those wondering where we stand right now with regard to the macro (Bear-o-meter) and short term signals (Neartermed timing system), the answer is: long termed bullish, neartermed neutral.

As of March 7, 2018 – the Bear-o-meter reads a solid 6. That means reward is skewed more favorably than potential risk. The neartermed chart shows us that my three indicators (Bollinger Bands, Stochastics, RSI) reside in the middle of their ranges.

Conclusion: ignore the ripples, and stay the course if you are long the market. The outlook from a risk/reward perspective is still in favor of the bulls.

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