# Bear-o-meter drops a point

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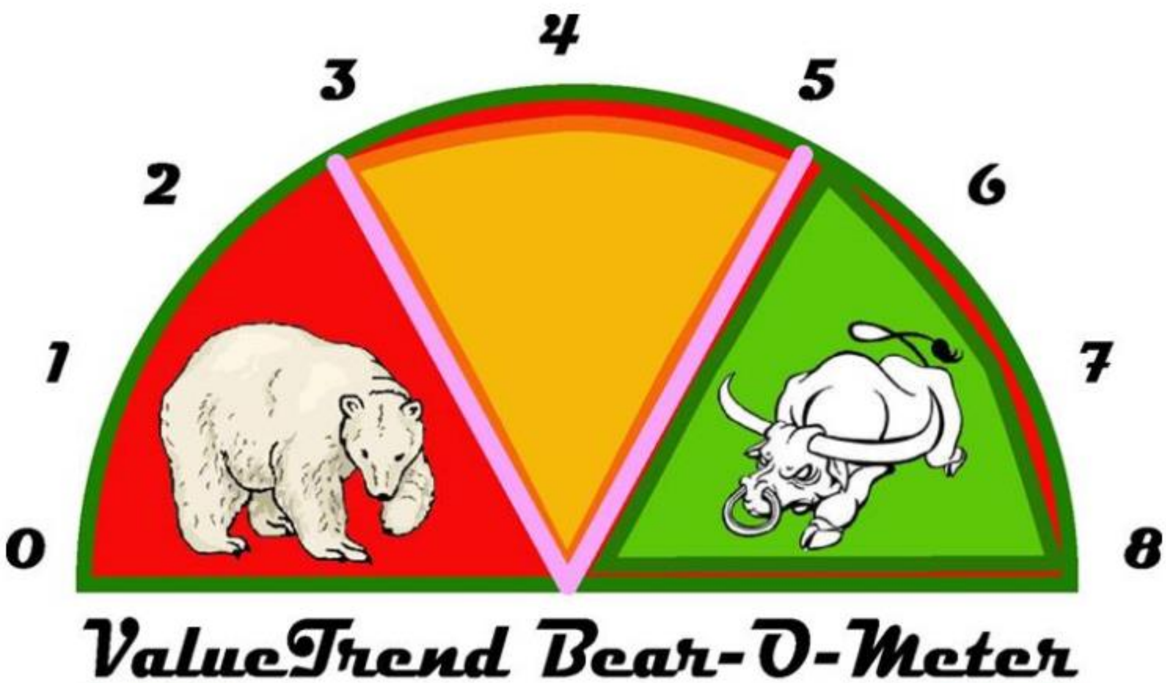
Gotta admit I was a little surprised at today's reading of the Bear-o-meter. My last reading of the compilation, which was taken at the end of October , showed an improvement in risk/ reward. The Bear-o-meter had moved into the "neutral" risk/reward zone with a score of 4 – that, from its prior reading taken in early October of high risk (a score of 1). Today's reading shows a drop of 1 point from a month ago. It now reads a score of 3. This is still a "neutral" reading, but it is a little less attractive from a pure risk/reward perspective. That's because, as you will note on my scale, a score of 3 is borderline "higher risk". Don't get me wrong, a 3 is still neutral – but barely so.




For those new to my blog: The Bear-o-meter is a risk/reward measurement against the US markets. *It is not a pure market timing tool* – rather, it gives us an idea of the current environment stacks up against ***historical risk and reward tendencies***. I rank 12 indicators that fall into 5 broad market macro Technical analysis parameters. They are:

- Trend,

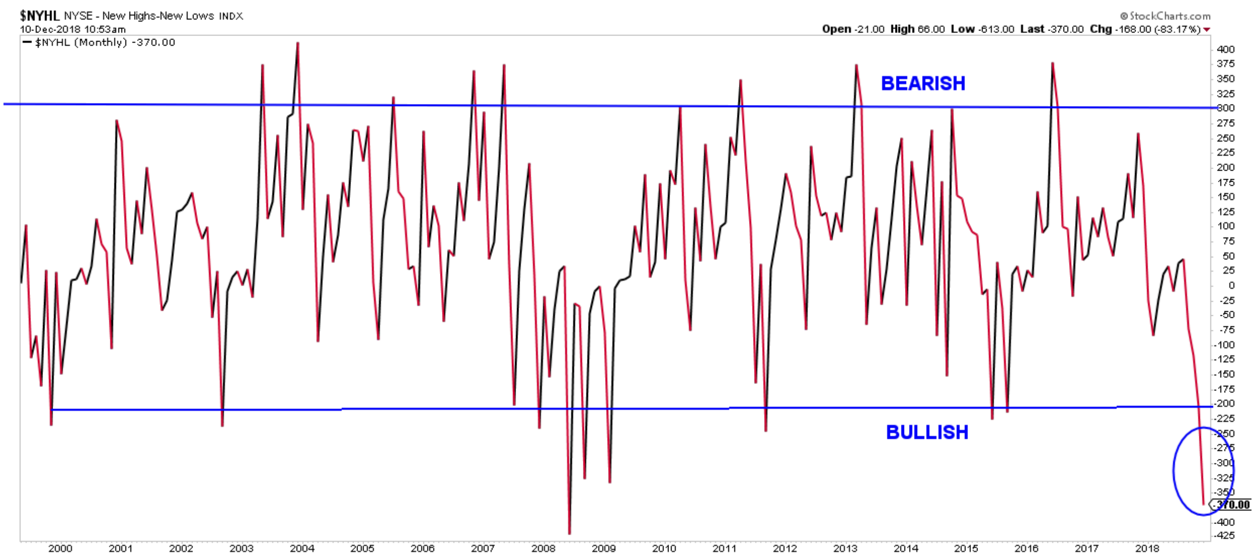
- Sentiment,
- Breadth/Breadth-momentum,
- Value,
- Seasonality

The Bear-o-meter is ranked 0-8 from least attractive risk/ reward to highest. Three categories, which can be seen on the graphic above, shows high risk, neutral, or lower risk zones—all depending on the recent numeral reading of the compilation.

**So what's changed?**

Well, just a couple of things.

On the positive – The New High/ New Low market breadth indicator for the NYSE is now showing an oversold condition. That wasn't the case last month. We got a positive point from that indicator.




On the negative – The % Stocks Above their 50 day SMA's has moved from an oversold level last month, to a neutral score. That lost the compilation a point. Subtracting one more point and creating our net drop over the month, was the sentiment reading provided by the CBOE Put/Call ratio. This indicator went from "too pessimistic" (providing a positive score of 1) to "neutral" (score 0).

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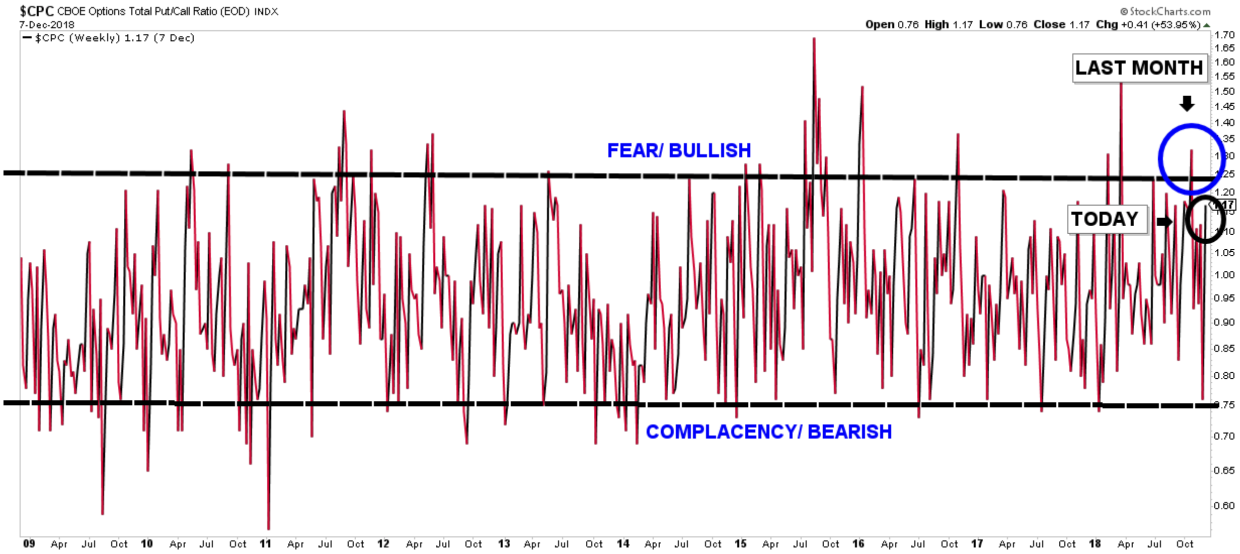


All other indicators are the same.

**Conclusion**

Sometimes the Bear-o-meter gives us clear indications as to the risk on the markets. It flags us to be bearish if the sentiment indicators are showing excess optimism, especially in an environment of overbought markets with narrow leadership (aka late 2017!). My thoughts are that we will remain in a sideways consolidation pattern for some time. Caveat: as noted on my last blog, if the S&P 500 breaks 2540 for more than a couple of days, I might expect a genuine bear market to be verified—and will act accordingly….. aka sell!! Note that we are a ways off from that right now. For now, we are in a relatively neutral risk/reward environment, subject to change. As I emphasized on the last blog:

"Do not prejudge that that scenario will happen. Just observe, and react accordingly."

Good luck out there, fellow warriors!

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