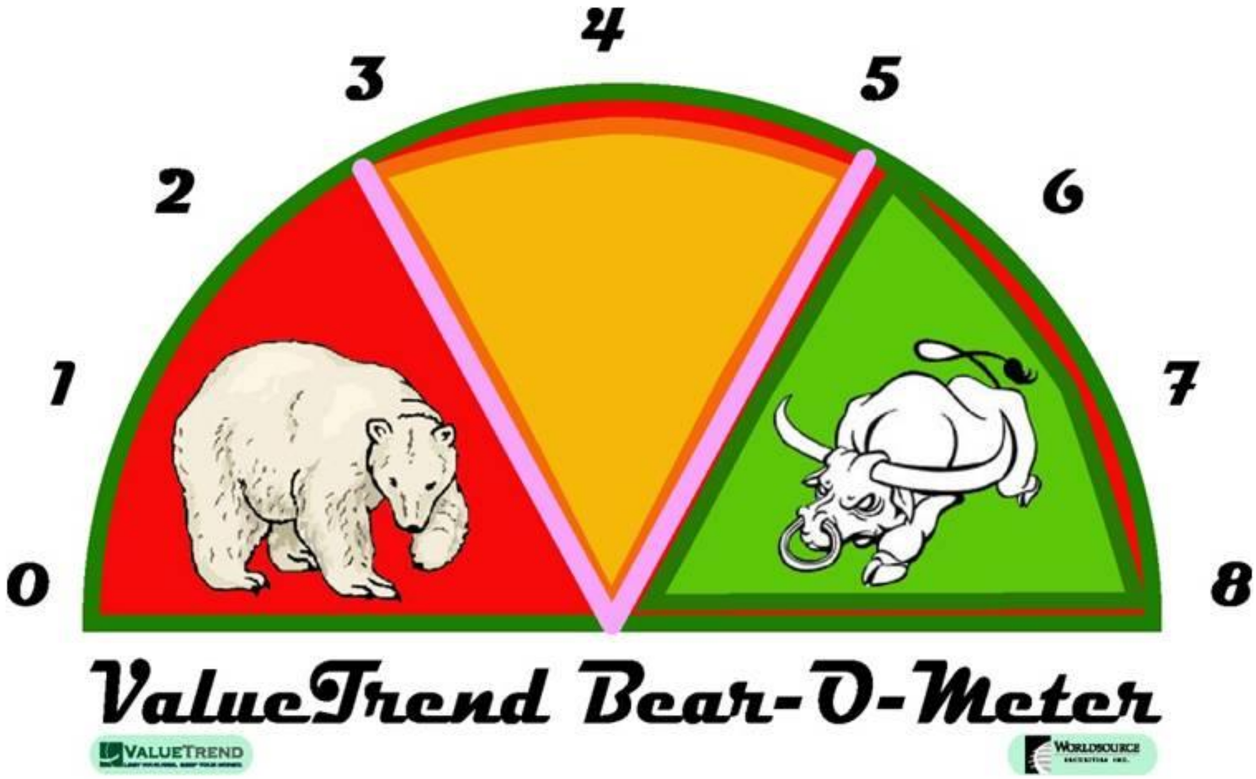
Bear-o-meter goes bearish

Published on May 3, 2018

I did the full-blown Bear-o-meter reading today, and it came out bearish. The current reading is a "2".



As a refresher:

The compilation assigns "points" to a number of different factors. If a factor is bullish, it can get a +1 or at most a +2 reading. If its bearish it can get a -1. If its neutral it gets…you guessed it…a "0" reading. These numbers are added up, and a score is given to the Bear-o-meter. You can see how the scores are assigned a bullish, bearish or neutral zone in the chart above. As I always point out: risk and reward are simultaneously present on the markets at all times. There are times when one side of the equation is greater than the other, and a Bear-o-meter reading suggesting one side or another does not preclude that the other side (i.e. the opposing outlook for risk or reward) doesn't exist . At this time, potential risk is at a <u>higher level</u> than potential reward.

Keith Richards, Portfolio Manager can be contacted at krichards@valuetrend.ca

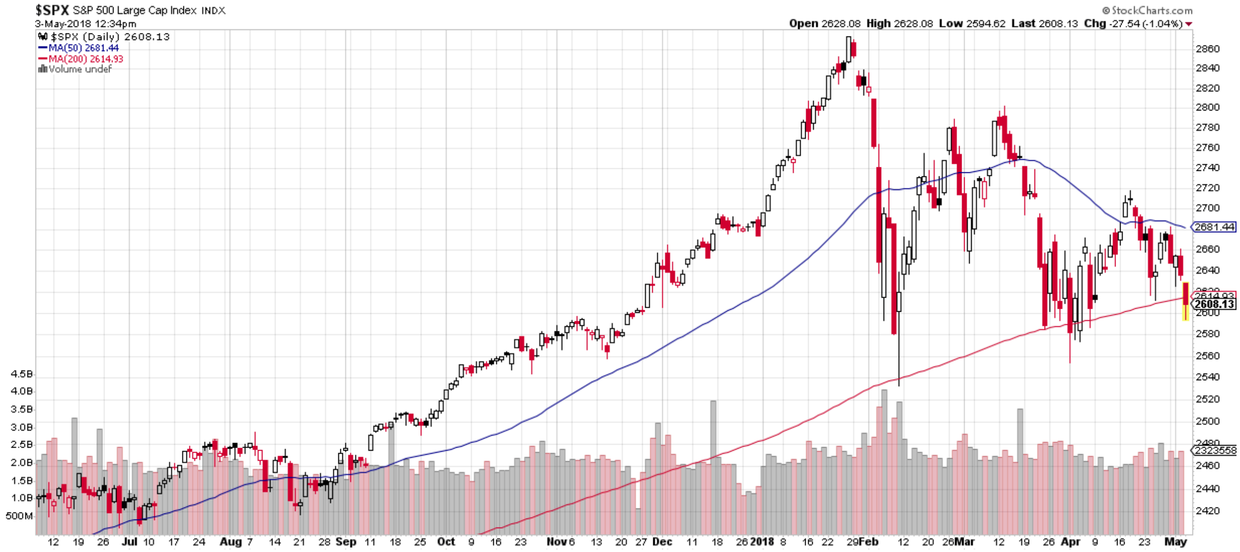
These factors can be broadly classified under the headings of:

- Trend
- Valuation
- Breadth
- Sentiment
- Seasonality
- Breadth-Momentum

Under each of the above headings are usually several indicators. For example, under the factor of "breadth" I use a couple of factors surrounding the Advance Decline cumulative indicator, along with the Dow tenant of Industrials vs. Transportations. Under Breadth- Momentum, I look at the relative positioning of indicators like the % of S&P 500 stocks above their 50 day SMA's (simple moving averages) and the NYSE's "New high vs. New low" indicator. Under the Sentiment factor I look at Put/Call ratio levels, VIX readings, and Smart/Dumb money ratios. If you would like an in-depth report on the Bear-o-meter, I published the full monty in a research report for the CSTA's (Canadian Society of Technical Analysts) Annual Journal. Contact me at info@valuetrend.ca and I'll email you a copy of the full report, which contains my research paper.

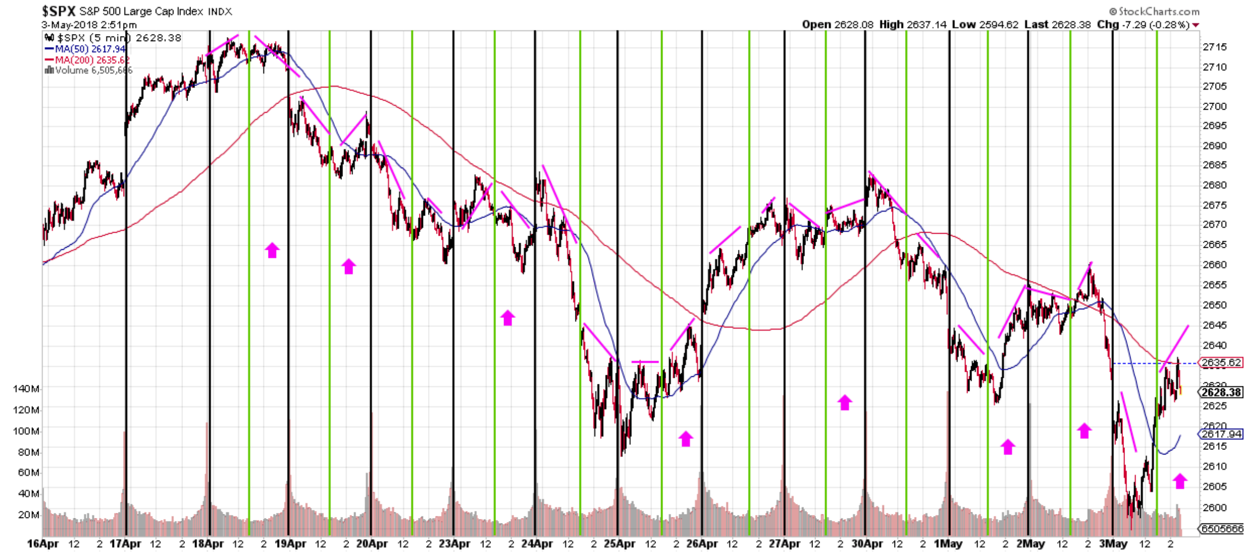
What surprised me about today's reading was that most of the indicators are not actually bearish. In fact, it was the overwhelming lack of bullish or bearish readings that created the "2" rating. The only positive readings were those surrounding the cumulative Advance /Decline line. This indicator suggests positive breadth (weekly chart against the 40 week SMA) and a recent bullish divergence in peak/trough formations against the S&P 500. One puzzler was the S&P 500's position vs. the 200 day (40 week) SMA. The S&P is dead-on sitting atop that SMA. Today it actually cracked that level intraday, then moved above again. For what it's worth, I'll call it a positive at the time of writing, which adds 2 points to the bear-o-meter. If the market closes below the 200 day SMA (currently at 2620, to round it off), the Bear-o-meter remains in the bearish zone, only more so (at "0"). That would be a very negative thing, and it could happen at any time!!!

Keith Richards, Portfolio Manager can be contacted at krichards@valuetrend.ca



Literally every other indicator in the compilation received a “zero” score. So the market is not so much about looking BAD. It’s more about NOT looking good! It’s like when I go to the beach. If I’m standing in my bathing suit next to a bunch of 80 year old men, I’m looking good, on a relative basis. But standing next to Ryan Reynolds, I look really, really, really bad. So it’s a relative thing! The market is not overly bearish per say, but there are no technical positives to inspire a bullish outlook either. It’s the deteriorating middle aged dude standing in a bathing suit next to Ryan Reynolds. He’s still standing, but not the way Ryan does!

Another disconcerting factor has been the markets daily changing of the guard of late. Almost every day for the past 2 weeks has seen a reversal in direction for the major US indices. For example…on Monday the market was lower in the morning, then higher in the afternoon. Yesterday (Tuesday) the market was up in the morning, then down in the afternoon. Today it was down (significantly) in the morning and then – by 1:30pm it had turned positive. I am leaving the office prior to close, so things could change—but at the time of writing this reversal pattern is right on schedule today. Look back at the past two weeks and you will see this pattern repeated more often than not.The chart below indicates an afternoon directional change with arrows.



This pattern is indicative of indecision. Indecision leads to an atmosphere where a news item that might have been shrugged off in the past becoming a trigger for a significant selloff.

I'm going to take this Bear-o-meter, and recent daily market patterns reading as a strong heads-up for probable risk. Moving into my most important technical rules – I'll be running for the hills if the S&P breaks 2580 (last low) and stays below the 200 day SMA –both for more than 3 days. I covered my sell strategy on this blog last week.

Get ready to think fast, folks. If the market breaks, you will want to be prepared for at least some degree of defensive positioning.

Keith Richards, Portfolio Manager can be contacted at krichards@valuetrend.ca