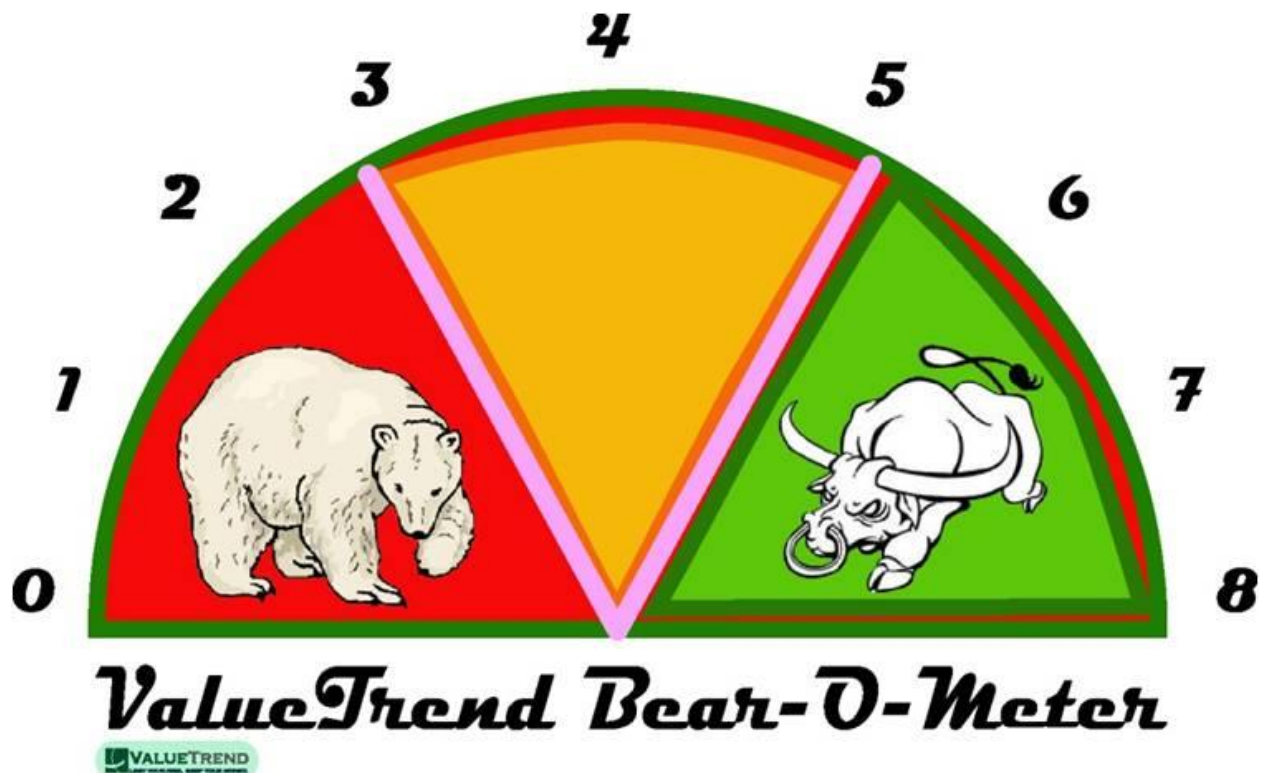


Bear-o-meter in higher risk zone

Published on May 4, 2023

The Bear-o-meter is a risk/reward indicator that I have been reporting on this blog for about 15 years. You can do a search on the blog to see past explanations of how its calculated. Basically, it incorporates individual indicators that cover the broad technical categories of trend, breadth, seasonality, value, breadth-momentum, and investor sentiment.

The meter is scored from 0-8, where 0 is high risk relative to potential reward, and 8 is low risk vs high potential for reward. The illustration below shows the scale. Note that there are 3 general zones of high, average, and low risk on the illustration.



Last month saw a Bear-o-meter score of 5 – which is a neutral to bullish score. The score was accurate, given the relatively flat to positive month in April. Since then, the Bear-o-meter has lost a few points. It has moved into the mid-bearish zone with a new score of “2”. This is significant. That’s because, as I noted in a blog a week ago, the market itself is showing technical

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

He may hold positions in the securities mentioned. The opinions expressed are those solely of Keith Richards and may not necessarily reflect those of its employees or affiliates. The contents are for informational purposes only and do not represent investment advice.

signs of bearish momentum and technical resistance failure. Here is the blog—worth reading if you have not:

[Nearerterm SPX chart suggests pullback likely – ValueTrend](#)

Why the move by the Bear-o-meter back to the unfavorable risk/reward zone is so significant is because we have corresponding bearish signals coming from the technicals – as described in the above noted blog. In other words, the odds of a market decline have bumped up a bit more given these combined factors.

New negatives include:

- SPX trailing PE moved into a low level “overvalued” point
- Seasonality (Sell in May, Go away) moved from bullish (winter) mode to neutral
- Continued negative divergence in key breadth indicator Dow vs Transports
- Continued negative divergence in key breadth indicator on broad market NYSE AD line vs. the more narrowly focused index SPX

One interesting signal that did not officially assign a lower point for the Bear-o-meter was a very low point on the VIX – seen a few days ago at 15.8. The chart below shows you how I determine an outright “complacency” signal as being 12 or below—illustrated by the lowest pink horizontal line. But I’ve also drawn an intermediate signal line of the chart (yellow line) at 20. I’ve found that the market often reverses negatively from a rally when the VIX gets too far below 20. In fact, you can see that the VIX hit 15 back in late 2021 – signaling the end of the bull market and leading into the 2022 bear market.

Quantitatively, I need a “12” or below to call an outright quantitative sell signal from the VIX. But history has shown that the recent levels of the VIX do tend to result in at least some type of correction. In conjunction with technical resistance on the major market indices and oscillators that are rolling over, I’d say this adds a bit more fuel to the fire to see at least some type of pullback.

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

He may hold positions in the securities mentioned. The opinions expressed are those solely of Keith Richards and may not necessarily reflect those of its employees or affiliates. The contents are for informational purposes only and do not represent investment advice.



Topics of interest

If there are any sectors that you'd like me to look at in an upcoming blog, please post a comment below and I will consider covering them. I will be out of the office for a few days, but back in action by Tuesday of next week. So if I don't post your comment, its merely because I may not have access to the internet for reviewing my blog comments. Don't let that dissuade you – when I am back I will read and post the comments. Thanks.

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

He may hold positions in the securities mentioned. The opinions expressed are those solely of Keith Richards and may not necessarily reflect those of its employees or affiliates. The contents are for informational purposes only and do not represent investment advice.