Bear-o-meter in no-mans land

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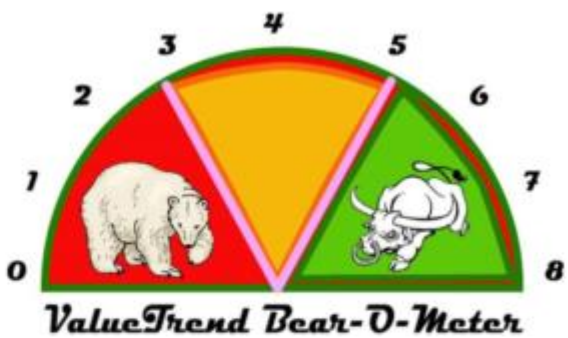
If you examine the Bear-o-meter diagram, below, you will see 3 zones, represented as:

Higher risk: 0-3

Neutral risk/reward 3-5

Lower risk: 5-8



You might say that the readings of 3 and 5 are a little indecisive. After all, they are right on the border of moving between two risk/reward zones. For example – I just conducted a Bear-o-meter reading – as of this date June 5th 2019. The end result? We are at a reading of "3". You might ask: Is this a higher risk reading, or is it a neutral reading? Good question.

When I note a change of market risk status (discussed on this blog), I do not count 3 or 5 as a definitive move into one of the zones.

For example. In my last reading, the Bear-o-meter read "4". That was taken on May 1st of this year. Here is the link. I noted that the Bear-o-meter had dropped "considerably". It had dropped from April's fully bullish reading of "7" (out of a possible 8) to a very neutral reading of "4". That's a significant negative change. And, BTW, it proved to be pretty accurate. The market has been spanked since that reading. So the Bear-o-meter was correct in suggesting that the risk profile had changed. At ValueTrend, we took action on that signal by moving from 8% cash to 15% cash—which fits the guidelines we keep for ourselves surrounding these signals. A 4 is not bearish, but it's not bullish either. Its neutral…risk and reward potential are probably about balanced. So, we raised cash, but didn't sell the farm.

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The new reading of "3" tells us that things have ***not*** gotten more bullish since May – this, despite the selloff. In fact, things are actually slightly more bearish – albeit not officially in "high risk" territory. So, we sit in limbo. We're sitting on the equivalent (net portfolio effect) of 18% cash right now, having held some actual cash along with a 5% position in a single inverse ETF. See this blog to understand how that works. If the SPX can stay above 2800 – which it did move to after the recent rally – I'd be inclined to buy more stocks. I'm using my 3 day rule here, so that would put me to Friday at the earliest before buying/ removing the hedge.

As far as where the negative score came from that dropped the index, we saw two new negative scores this month. One came from a bullish score on breadth that changed to neutral – thus losing a point. One other negative came from a move by the SPX below its 50 day SMA (erasing last month's positive point for the index's adherence over the 50-day SMA). Also note the MACD crossover sell signal. MACD tends to give big picture signals–and its not pretty right now. Perhaps the current rally back over 2800 wont last, if the MACD signal proves correct. We shall see.

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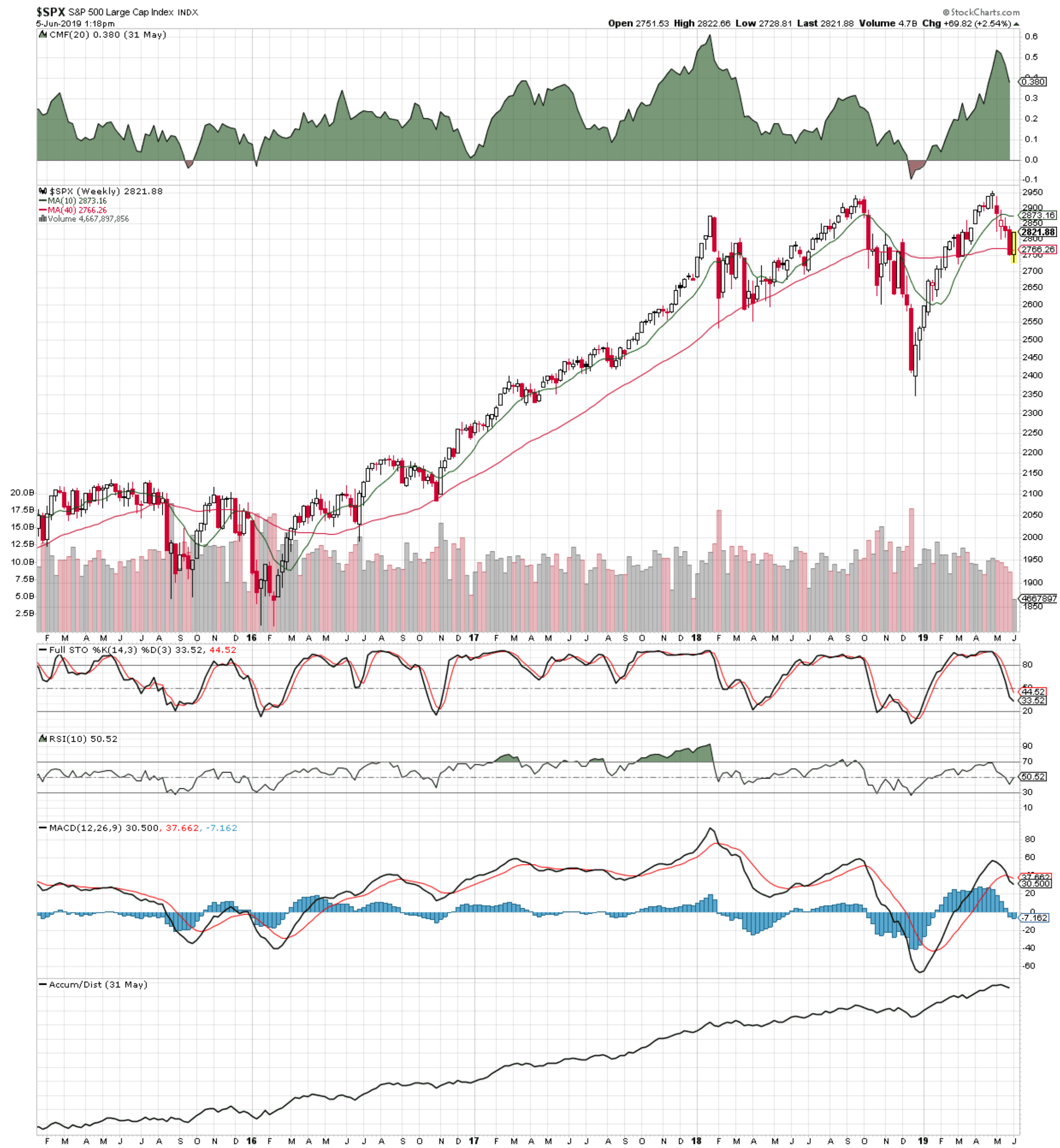

A positive move on the smart money/dumb money confidence differential from bearish (too many bullish dummies, too many bearish smarties) to neutral (minimal spread between smarties and dummies) offset one of the two new negative scores noted above.The chart below illustrates this dramatic move, as the index went from an overwhelming level of dumb bulls and smart bears, to neutral. Note that it is rapidly heading towards the "bullish" zone as the dumb/smart confidence differential changes. Smarties are starting to gain confidence, dummies are lacking confidence. Its not at a buy signal yet, but we should keep an eye on this development.

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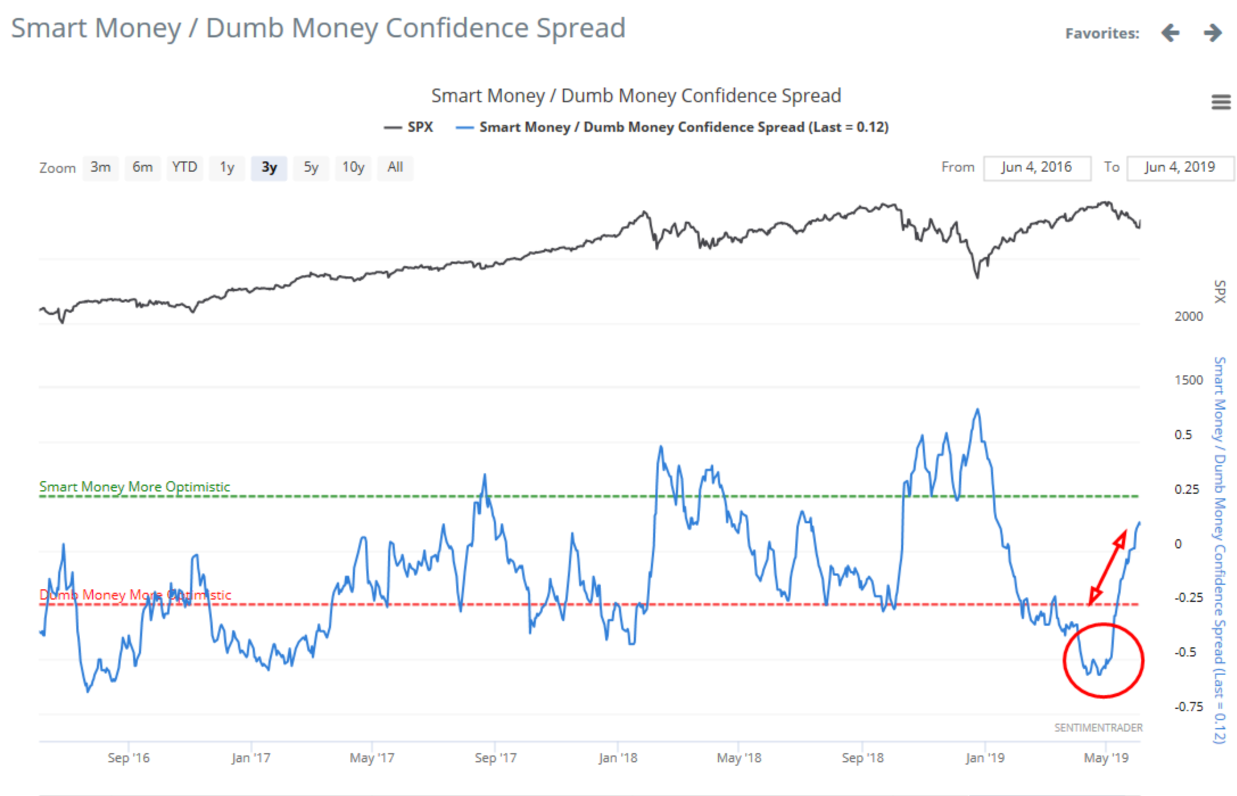

Conclusion

There's no edge that I can give you here folks, beyond noting that risk is slightly elevated vs. last month, and greatly elevated since two months ago. Having said that, its still not overly high – all things considered. I'm going to follow the market, and see if we get some firmness at the 2800 level over the coming days. That may inspire me to reduce my cash by selling the small allotment of hedge I have – and spend that cash on more equity exposure. A drop through 2800 again will inspire me to hold things as they are, if not raise more cash. Its no-man's land –or should I say "no-people-kind's land" at this time.

BNN/Bloomberg appearance Rescheduled

In case you hadn't heard, I was unable to do my BNN show this Monday June 3rd. I had a bit of a spill on my bike on the weekend, and didn't feel capable of working –so I took the day off. Lazy beatnik that I am. BNN rescheduled me for Thursday June 20th at 6:00pm. Thanks to fellow BNN guest John Hood for swapping show times with me.

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