Bear-o-meter is bullish, with a caveat

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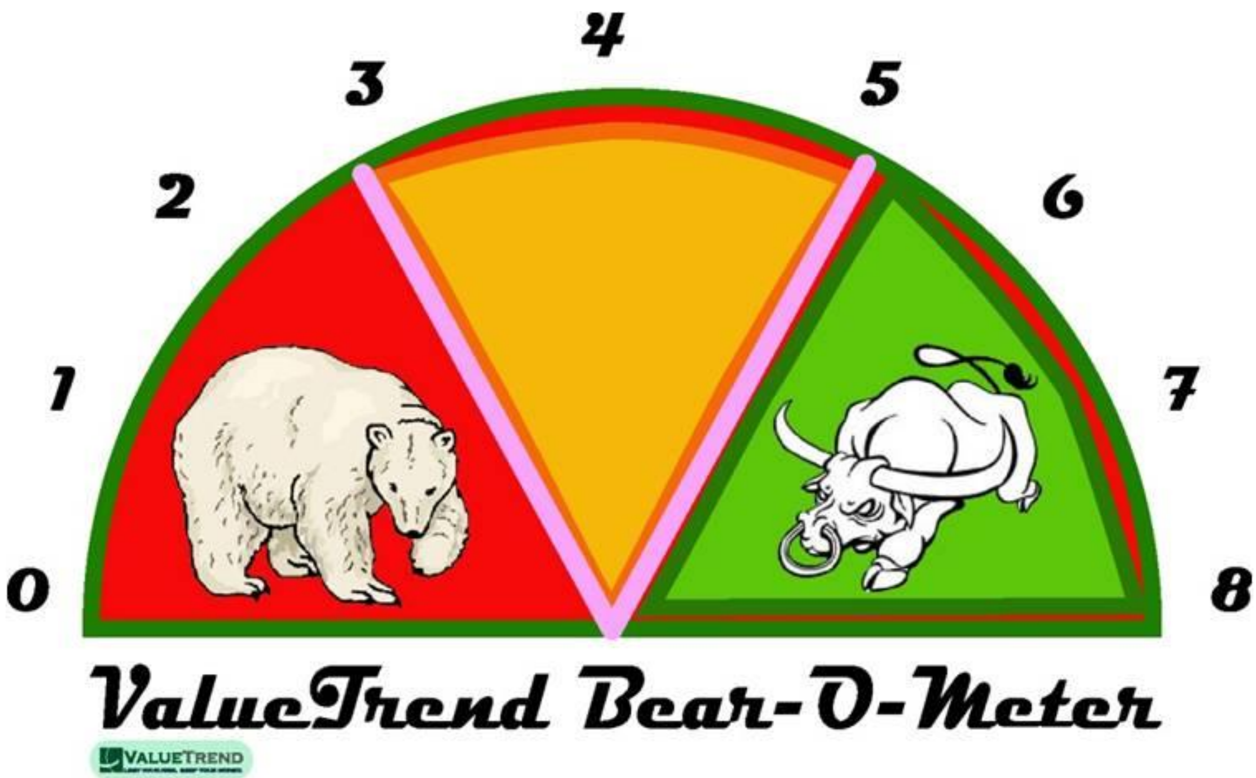
Each month I provide readers of this blog a quantitative reading of my Bear-o-meter. Most you you know the scoop, but for new readers – here is a brief on what the Bear-o-meter is, and how to interpret it.

The Bear-0-meter is a compilation of binary (quantitative) readings from the 12 indicators (truthfully, one of them is used in 2 differing ways, so its actually 11 indicators-but that's semantics). These indicators fall under the broad headings of Trend, Breadth, Seasonality, Value, Sentiment, and Breadth-momentum. Each of the 12 indicators are assigned a score – which could represent a negative point, a neutral score, or a positive point. Add 'em all up, and you get a reading that lies between 0 – 8. The illustration below highlights this scale.



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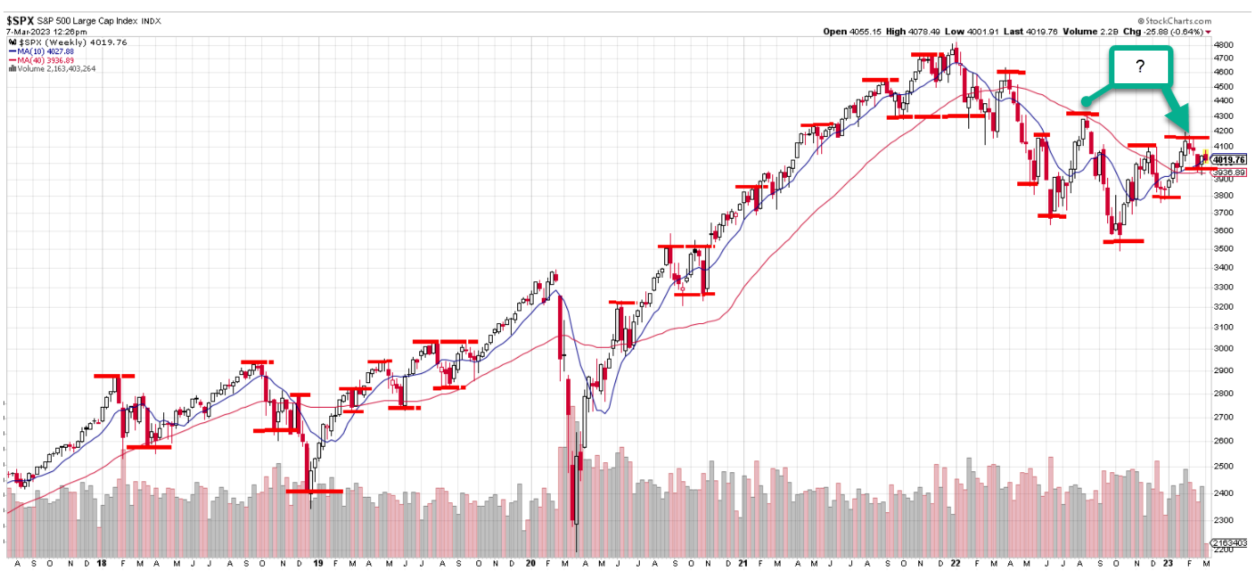
Note that those scores are broadly placed within 3 categories as high risk/ vs. reward potential, average risk/reward potential, and low risk/reward potential. If the score lies in a low-number range, it means risk is high relative to potential reward. Visa versa if the score is high. The pink divider lines show you transition points. So, if you have a score of 0, 1 or 2 – you know its a pretty high risk market. If you have a score of 3 – you are entering into a neutral risk/reward zone. Not high risk, but not quite "average risk".

Do keep in mind that risk AND reward are **always** present at **all times** on the market (gosh, really?). This is important: Just because the score says "0" (for example), that does NOT imply markets can't go up. Same with an "8". That does NOT imply markets cannot fall. My best comparative is crossing the road by foot. Cross your quiet suburban neighborhood road, and you likely won't get hit by a car. Still, one could be hit by a rampaging drunk who comes screaming around the corner unexpectedly. At the other end of the scale, crossing a major 4-lane each-direction super highway (8 lanes) with cars going 120 km/hour + does suggest more risk than crossing the street at home to borrow a cup of sugar. Still, you might just survive the walk across the the super highway if you are good at side-stepping the fast traffic in a synchronized fashion.

Again—Risk and reward are present at all times. Its just the degree of each that we are reading when we look at the Bear-o-meter. Ultimately, you need to pay attention to trend first, and take the signals you get by your trend analysis into context within the risk/reward environment.

With that in mind, lets quickly review trend. We look at a weekly chart of the SPX with a 40 week/ 200 day SMA. If the market is above its 40 week SMA, that's a positive trend indication. Below the SMA is a negative. However, we also need to look at the peaks and troughs on the chart. We want 2+ successive rising troughs and rising peaks = a bullish trend. On the other side of the coin, 2 lower troughs and peaks = a bearish trend. Lets take a look at what the SPX has to say about trend right now:



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As you will note on the chart above, the SPX barely broke 4100 recently. Sure, that is a "higher high". But I like to see a minimum of 3 days above a prior peak (which is literally all we got in January). The fact that it failed so quickly poses a question as to its validity.

The other thing to note is the higher high from last summer, which was NOT coinciding with a higher low. Nor did it break its 40 week SMA. So – my rules suggested it was not a bull market breakout. I did not get suckered into that one. The current rally did occur after a higher high (above 4100) and low. That, AND a break above the 40 week SMA. This inspired us to leg in by one small step. We moved from 30% cash to about 26% cash. However…Since the recent break of 4100 was taken out so quickly, we have not acted to buy more equity – and remain heavily in cash.

Bear-o-meter reads positive risk/reward potential

The Bear-o-meter has jumped another positive point since last month. Its gone from an already positive "6" to a reading of "7". So, the risk/reward potential on the market is not dire – like it was literally since the start of 2022 – when I warned you every month of the meter's nonstop doomsday readings. In fact, the meter suggests risk is relatively low at this point, all things being equal. But, all things are not equal….

The reason I printed the trend chart above was because, like I said at the start of this blog – trend comes first. The Bear-o-meter must be taken in context within a trend. Last year, we saw a broken trend and lousy risk/reward readings from the Bear-o-meter. It was implicit that the only strategy to take was a bear market strategy with those two indicators screaming "RISK". Right now we see a weak signal on market trend – but a very positive risk/reward reading by our Bear-o-meter. So … what to do, what to do?

Conclusion

The risk/reward reading is good right now. However – Trend is still kind of "iffy" – albeit not outright bearish. For this reason at ValueTrend, we retain a lower level of cash vs. last year. But, we are still pretty much one quarter cash in our Equity Platform. We are prepared to allocate more back into the market IF the SPX moves above 4100 with conviction (more than just a few days). Better to buy a bit higher than get caught in a bear trap. Please note – that's a lower probability now than it was last year.

I've been doing this for 33 years now. Along the way, I have learned to trust my signals, and follow the discipline of patiently legging into or out of markets without emotional knee-jerk reactions. This strategy is how ValueTrend will continue to invest within this market. If you are looking for a change in your portfolio management service, you can contact us here. Or, if you are a do-it-yourself investor, then I strongly encourage you to take my trading course if you haven't already. Positive feedback from the hundreds of readers who have taken the course verifies its effectiveness. Either through our money management services, or though the course, we're happy to help you become a more profitable, lower risk investor.

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Happy trading!

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