

Bear-o-meter is not scary

October 29, 2018

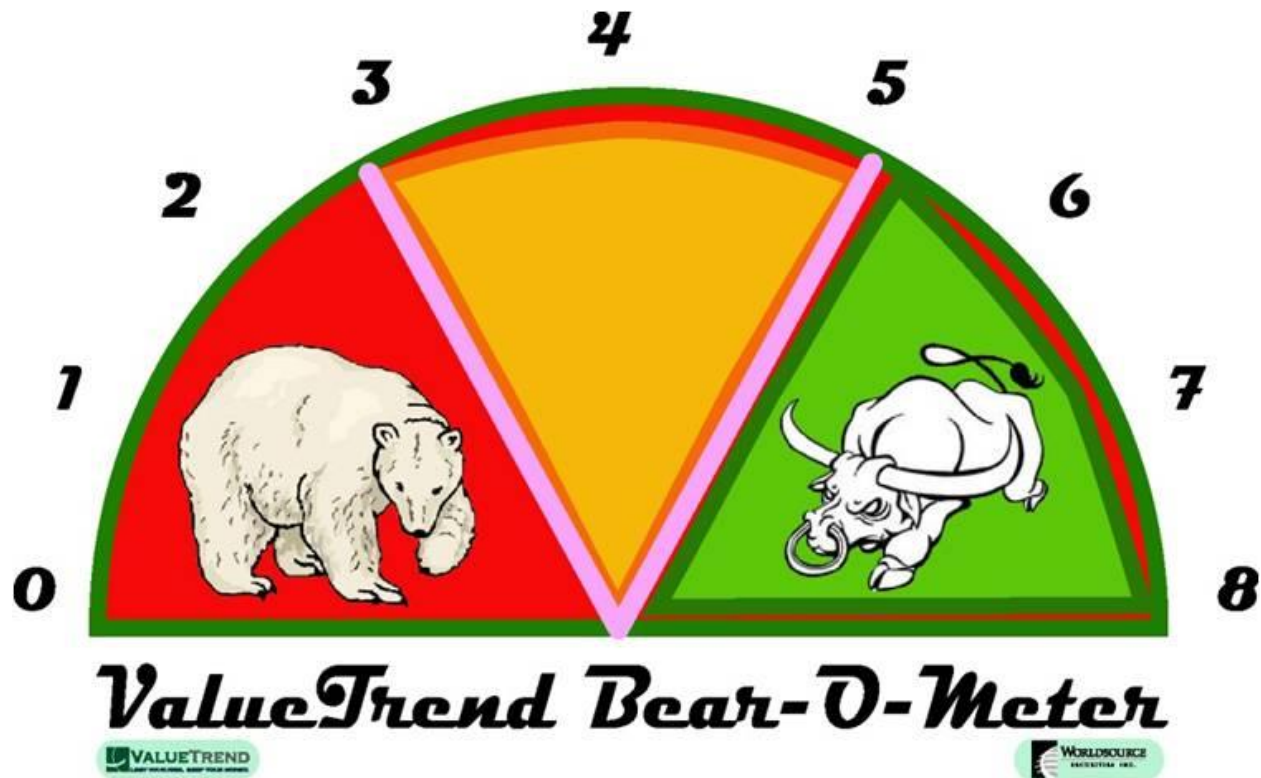
Happy Halloween—scary markets and all!



What a difference a month makes. On my last Bear-o-meter reading, [taken October 3rd](#), we got a decisive “High Risk” reading of “1”. As many of you may be aware, the Bear-o-meter is a compilation of 11 indicators that are assigned positive, neutral or bearish numeral values. The Bear-o-meter is ranked from 0-8, and divided into 3 quadrants within that ranking as Lower Risk, Balanced Risk, or Higher Risk. You can see this ranking and the respective positioning in the 3 quadrants on the diagram below. Last month’s reading was very deeply bearish. Interestingly, the very next day brought the beginning of the current onslaught for equity markets. The S&P 500 Index has shed 8.8% in October, the Nasdaq Composite is down 10.9%, and both the Dow Jones Industrial Average and TSX 300 index are lower by around 6.8% as of last Friday.

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.



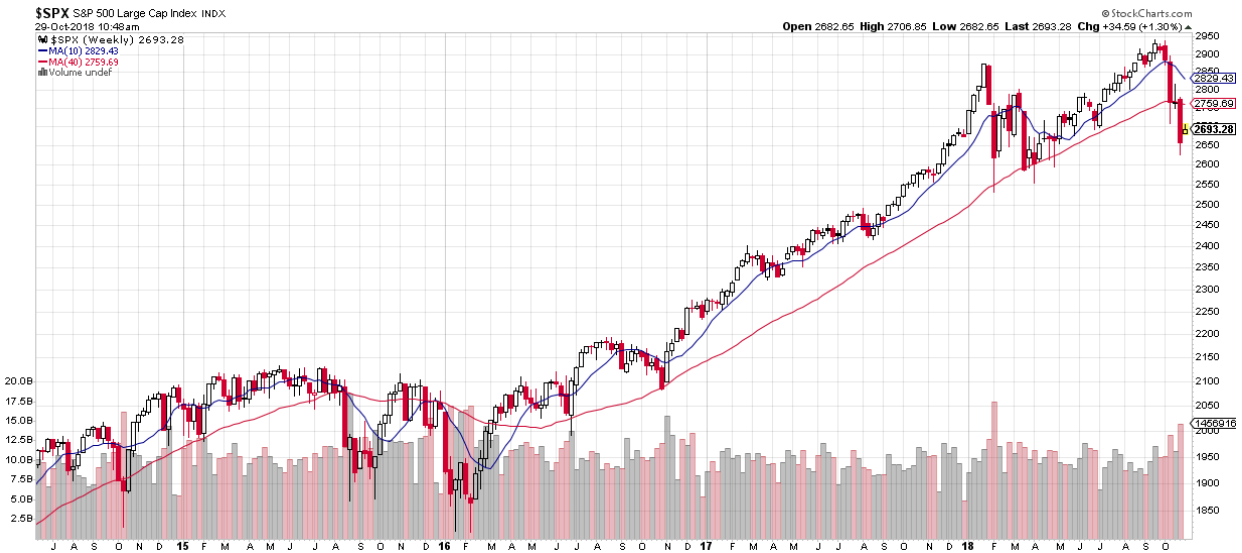
Some of these indicators are more important than others, so they get greater weightings in their scores. For example, the 200 day SMA can get a positive OR negative rating of “2” depending on where the market lies in relationship to that line. The 200 day SMA offers no “0” rating – it’s either providing a strongly bullish or strongly bearish score of 2/ -2.

Conversely, reading of some of the sentiment readings such as the Put/Call ratio may receive a “0” or a +1 or -1. Clearly the 200 day SMA, with its 2-point influence (no “neutral” rating), is a more significant factor within my Bear-o-meters readings than an indicator like the Put/Call ratio.

As of Monday morning on October 29th, the Bear-o-meter has moved to a ranking of “4”. This reading, while not outright bullish, is a far cry better than the deeply bearish reading of “1” we got a month ago. A rebound over a few days that could pop the S&P 500 over its 200 day SMA (sitting at 2760, vs the S&P 500 sitting around 2700 as I write). That would push the Bear-o-meter up by 2 points (assuming all other factors remain in similar positions) – creating an outright bullish signal. the chart below illustrates the 200 day SMA (red line) vs the market.

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.



Here is a quick recap of the Bear-o-meter indicators that changed drastically over the past month:

- S&P 500 moved below the 200 day SMA (-2)
- Sentiment indicator “Smart/Dumb confidence spread” moved from bearish to bullish (+1)
- Seasonality moved from neutral to bullish (+2)
- Advance decline line moved from bearish to neutral (0, vs. -1)
- % stocks over their 50 day SMA’s on the S&P went positive (+1)
- VIX went from negative (-1) to neutral (0).

Conclusion

All in, the market is in much better shape than it was a month ago. A decisive move by the S&P500 over its 200 day SMA would trigger a very strong risk/ reward scenario. While the Bear-o-meter does not read high-risk at this time (in fact, it reads as neutral), that can change in either direction. Thus, we will wait for the trend indication by the 200 day SMA before executing any purchases with the cash we hold in the ValueTrend Equity Platform. It wouldn’t hurt to watch for a few momentum indicator hooks in conjunction with that strategy (RSI, stochastics). It’s the safest way to play the game, albeit less opportunistic than successfully guessing a market bottom at this point.

Keith on BNN MarketCall this Thursday Nov. 1st at 6:00pm

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.



Keith appears regularly on BNN Bloomberg MarketCall to answer viewer questions on the technical analysis of stock trends, and to provide unique insights on the factors of technical analysis used in successful investment management.

(Note: Times and Dates may be subject to change)

If you have questions about the technical analysis of stock trends for individual stocks, be sure to phone in with your questions for Keith during the show.

Call Toll-Free 1-855-326-6266

Or email your questions ahead of time (specify they are for Keith) to marketcall@bnnbloomberg.ca

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.