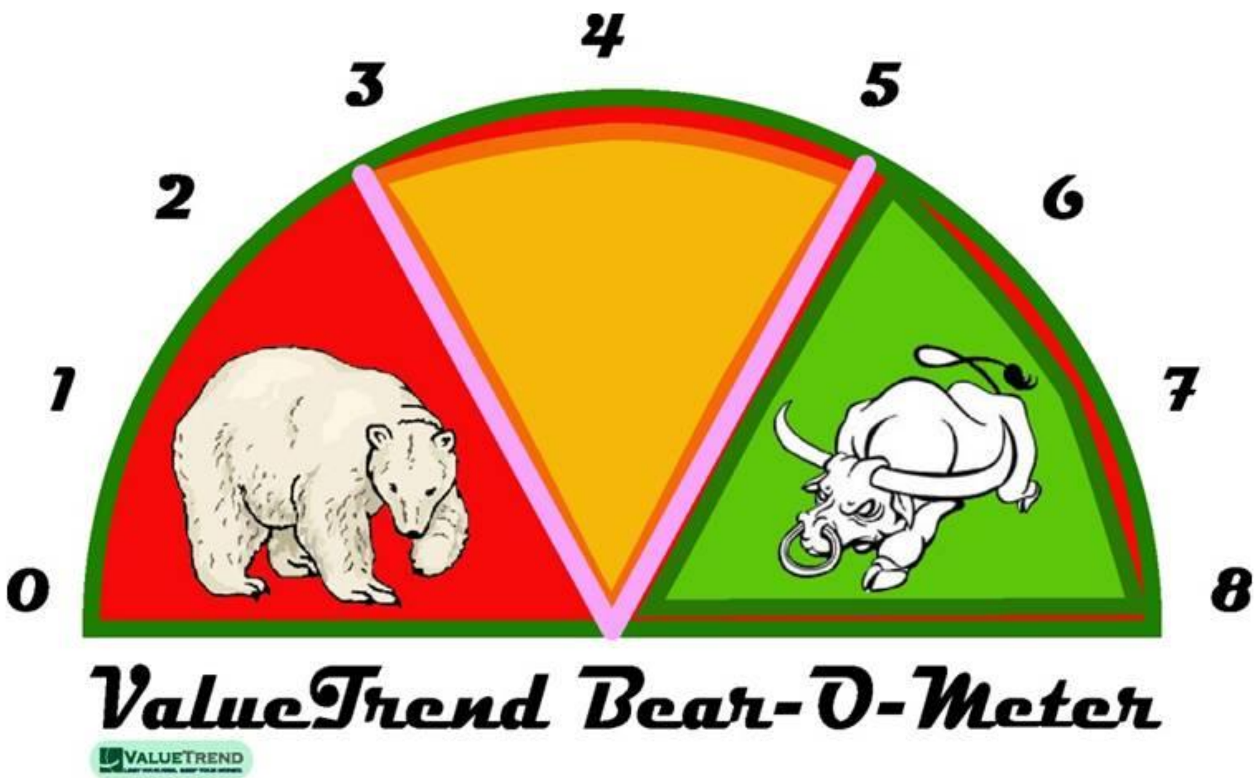
Bear-o-meter moves from bearish to neutral

Published on October 4, 2021

Every month I report on the risk/reward reading coming out of my 11-factor Bear-o-meter. On a scale of 0-8, where the risk/reward tradeoff is least attractive at "0" and extremely attractive at "8" – we saw the indicator fall to "3" last month. That level is the "entry" level into a higher risk environment for the market. **As I noted in last months Bear-o-meter blog, we may get a correction in September**, despite the bigger picture being in a bull trend. The Bear-o-meter has proven correct in that prognostication.

I divide the meter into 3 zones. Anything 3 or lower is progressively more concerning as far as risk is concerned. If the reading falls between 3 to 5, that is considered neutral – and a reading of 5+ we are seeing an above average risk/reward environment. It should be noted that readings of 3 and 5 are transitionary levels. They hold the line between the more crucial readings of low, neutral or high risk.



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Bear-o-meter neutral at “4”

Now that the market has corrected about 5%, the Bear-o-meter has moved back into a more traditional neutral reading. Currently, it sits at “4” – which is right smack in the middle of the risk/reward tradeoff. Interestingly, the only thing that has increased the meter into a lower risk reading is one of the sentiment readings. Recall that sentiment is a contrarian form of analysis. You want to move in the opposite direction of the herd. The Sentimentrader “Smart Money/ Dumb Money” compilation goes a step further by comparing the institutional/commercial investing herd (smart money) to ordinary investors (dumb money). It does this by tracking large orders and hedging activity taken on by sophisticated investors like pension plans and commercial hedgers, and compares it to mutual fund and ETF flow -which are investments most often used by retail investors and less sophisticated investors. This month, the Smart money/ Dumb money indicator moved into a bullish zone. This, as retail investors fled the markets, and sophisticated investors began to swoop in and buy into their panic.

It should be noted that true “buy” signals that come out of the Smart/Dumb money indicator usually occur after the computation reaches an extreme. The chart below shows us the strong buy signals coming out of the December 2018 selloff, and the March 2020 capitulation. Given that the indicator has just barely crossed the bullish zone, it is my opinion that the signal is weak. Still, the Bear-o-meter is quantitative. It uses a binary over/under the line readings. Because the Smart/Dumb reading crossed the bullish line, it gave the Bear-o-meter a positive point. And that’s the point that swung my compilation out of the bearish zone and into the neutral zone. The chart below shows a cross above the upper “buy” zone line.

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Conclusion

I'm not bullish yet, despite the move back to neutral by the Bear-o-meter. Still, its a good first step to see the meter move back up, and smart investors begin to step in. Many of you know that ValueTrend has held a fair amount of cash coming into September. This, along with our focus on inflation-based investments, afforded us substantial outperformance as noted above. I anticipate patiently stepping back into the market in the coming weeks. For our part, we will leg in through 3 increments. I'd expect to see more volatility in October, so the pullbacks should offer some potential to "buy the dips". Patience, grasshopper. patience.

Housekeeping

New video posted on the Emerging Markets – an emerging opportunity, or submerging bear market? I examine the charts.

Performance figures are being posted for the VT Platforms today. Of note, our Equity Platform had a positive return in September vs. wide losses in the major markets. We are also ahead of the markets YTD and long term. Here is the link.

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A reminder

You know that ValueTrend offers a unique process to keep your money safe and growing. If you or your friends & family who are not getting the type of Portfolio Management that we offer through unique tools like the Bear-o-meter, and our in-depth fundamental and technical analysis – perhaps you should take a closer look at our Portfolio Management services. Everyone's a hero in a bull market. It's the volatile markets that separate ValueTrend from the masses.

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