# Bear-o-meter moves from strongly bearish to bearish-neutral

Published March 9, 2022

On February 14th, I posted my usual monthly Bear-0-meter risk/reward measurement. It had moved decisively into "High risk" territory, and I warned you about that on the blog. You can see that warning here. The S&P 500 was sitting around 4600 on that day. Now, the index is flirting with a break of its important support level below 4300. So, the alert provided by the Bear-o-meter was warranted. Today, I will report on the newest review of the Bear-o-meter – and the implications.

For those who have been following my blog regularly, you will know that I post a reading of the Bear-o-meter every month. The Bear-o-meter is a compilation of breadth, breadth-momentum, trend, sentiment, seasonal and valuation indicators. The objective of the meter is to present the current trade-off between risk and reward that investors face on the markets in a timely manner. You can read more about the composition of the Bear-o-meter in my newest book, Smart Money/Dumb Money – here.

## The bottom line

The Bear-o-meter has moved up into the less concerning of its high risk readings. It is now sitting at "3", where risk is highest at 0 and lowest at 8. That level of 3 implies a modestly risky environment, leaning towards a neutral risk potential. In other words, the market has a greater level of risk than normal, but its not as risky as it was 3-4 weeks ago. The diagram below helps you understand where the current reading lands within my 3 main general ratings of risk.

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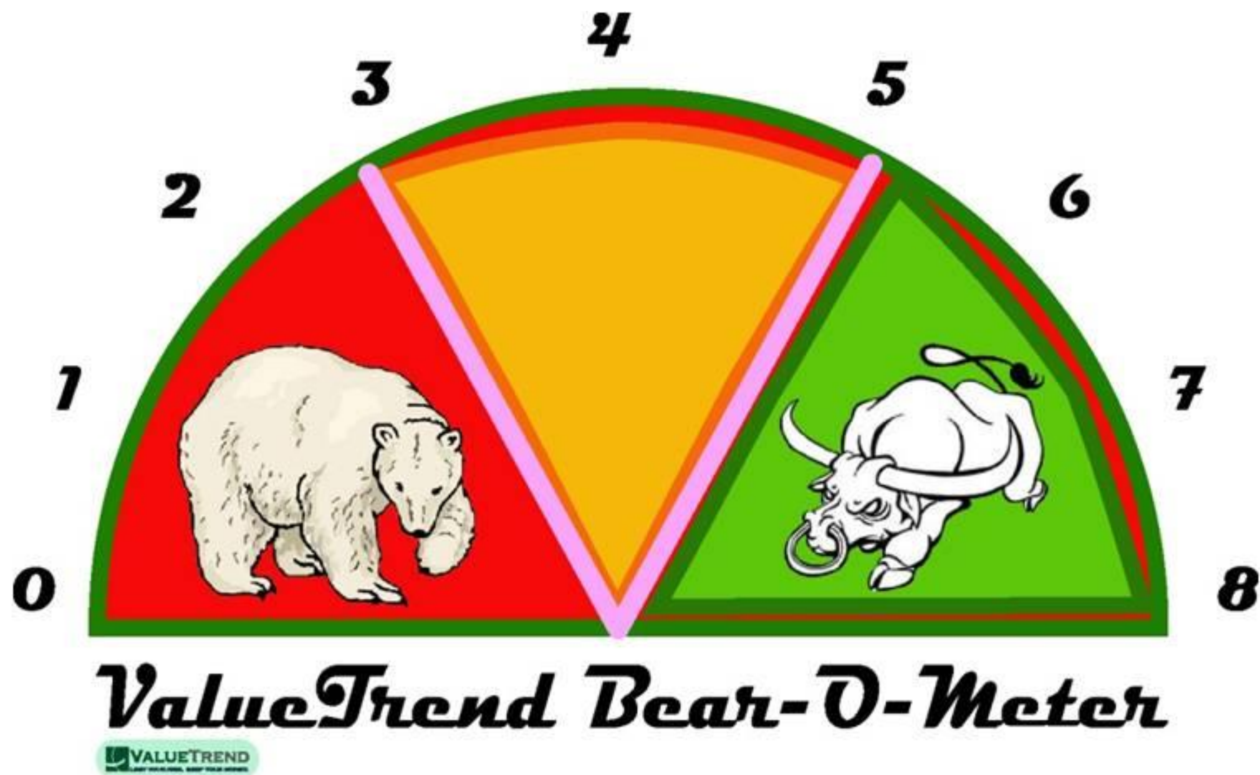
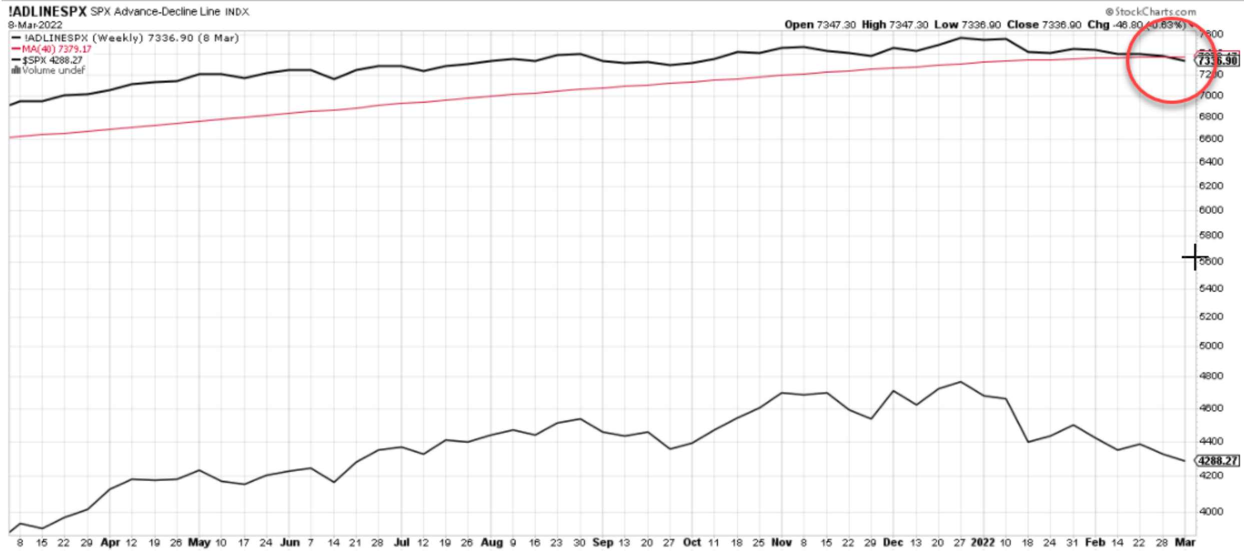


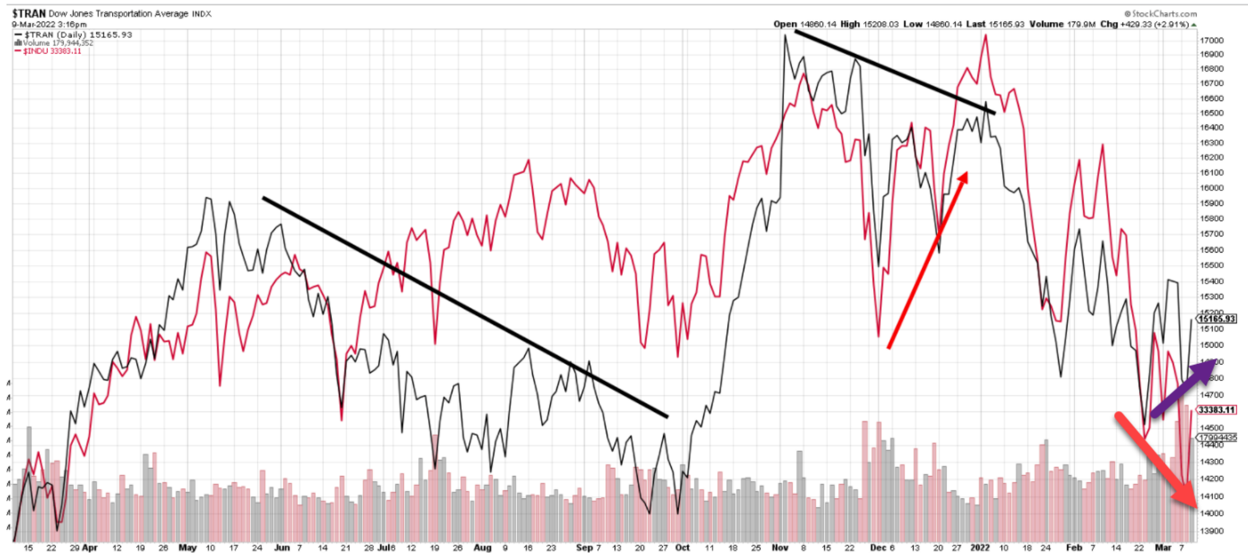

## What changed since February?

Last month, we saw some key indications of risk such as the break of the 200 day SMA. That key risk indicator has been carried through to this month. In addition to that important risk metric, I am also seeing that the 200 day SMA of the SPX Advance/Decline Line has been broken. That has not happened for a very long time. The AD line is a breadth indicator. The break tells us that the concentration of falling names in the tech/growth space of the broad SPX witnessed last month has deteriorated into more widespread selling.  Here's the chart–the top line is the SPX AD line, and its 40 week/200 day SMA in red. Note the break. The line at the bottom of the chart is the SPX itself.




While the break by the AD line would have brought the Bear-o-meter down from its prior level of 2 to a lower level of 1 this month, we also got two positive signals this month that gave the meter 2 points. This, offsetting the negative point from the AD line.

Once of the positive change in points this month comes from the Dow Breadth indicator that compares the Industrials (INDU) to the Transportation stocks (TRAN). The TRAN diverged in trend positively vs the big brother INDU. I've marked it on the chart on the right side with two thick arrows. Note how the leading indicator TRAN (black) made a higher low recently while the INDU (red) made a lower low. That's bullish.




Also gaining a point for the meter was the VIX, which rose well ahead of my "too pessimistic" buy level of 32.5. It hit 36 as of yesterdays close, although I note that intra-day its sitting just under 32 as I write.

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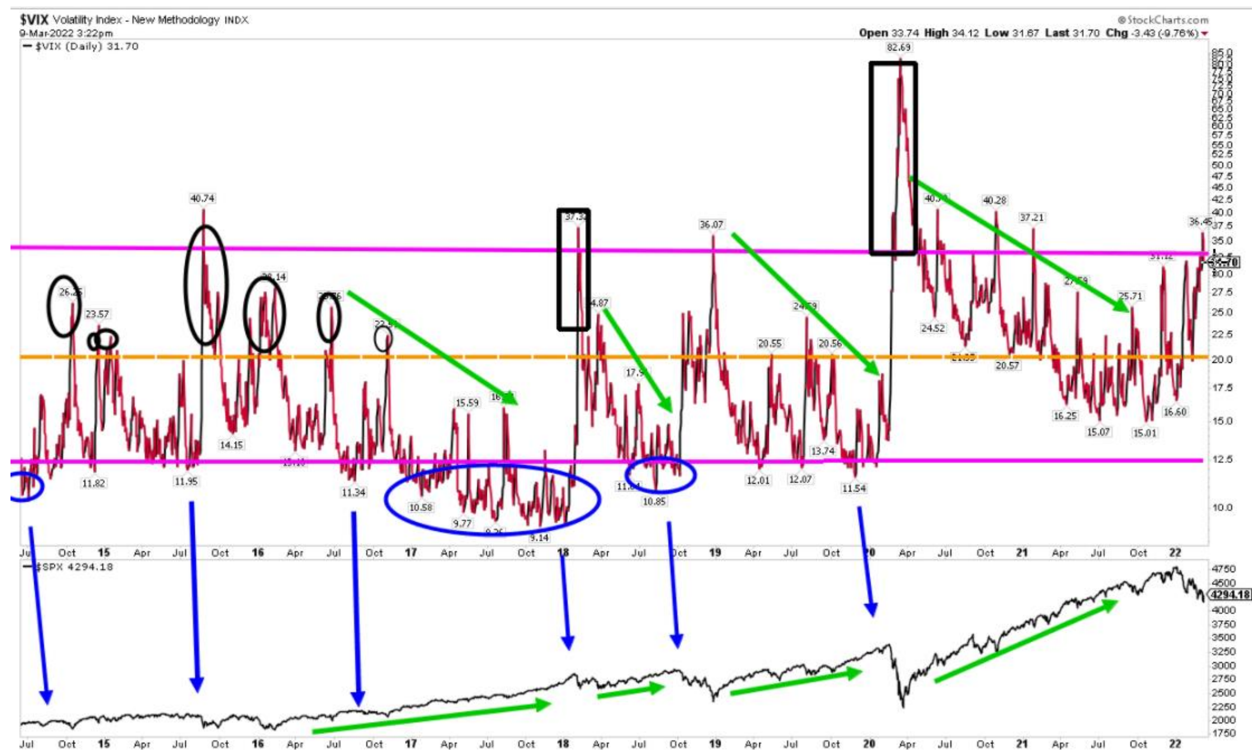
I should also note that the trend towards falling volatility, indicated by my green downtrend arrow, has broken. Volatility has moved up as participants have fled in fear. Typically, when these trends towards low-vol end, like now, you get some sort of a bottom on the market sooner rather than later. And then, the market begins to climb again. This gradually inspires greater confidence – which starts the complacency cycle and trend towards lower volatility all over again. Classic contrarian sentiment patterns – right before your eyes. You can see my green arrows and the corresponding breaks on the chart. Quite predictive!




## Conclusion

The SPX has, once again, broken its key 4300 support level – which I have discussed ad nauseam in recent blogs. You know that I follow a 3-day break rule. But keep in mind, that is a MINIMUM of 3 days. Index breaks will usually be watched for a week before taking action. Having said that, you know that we at ValueTrend have begun to gently reduce our exposure to commodities this week. As such, we legged out of the market by default when we sold 3% of our oil and 3% of another commodity position recently. We are now 11% cash total. Again – I will wait a full week from a break of the index (the 3 day rule is a minimum–indexes are given a little more time due to their diversified nature). If 4300 is not recovered by the end of this week I will sell some more next to get closer to 15% cash. And so on… Please take my TA online course for more on this strategy.

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