Sell The Inauguration

***e*Research Corporation** is pleased to provide an article by Keith Richards of **VALUETREND**.

In this article, Mr. Richards warns that the market is looking overbought on many technical factors, and he highlights some sectors to avoid or sell.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: **http://www.valuetrend.ca/sell-the-inauguration/**

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Monday, January 16, 2017

Sell The Inauguration

By: Keith Richards (bio at end)

I like using a number of longer-term macro factors to determine the overall health of the stock market – combined with a number of shorter-term indicators that might help determine the potential for less serious moves that might occur within the coming days or weeks.

The big macro factors I look at include cumulative breadth (A/D line), cumulative money-flow (Accumulation/Distribution line), weekly chart trends (highs and lows), sentiment, seasonality, VIX, and the 200-day Moving Average.

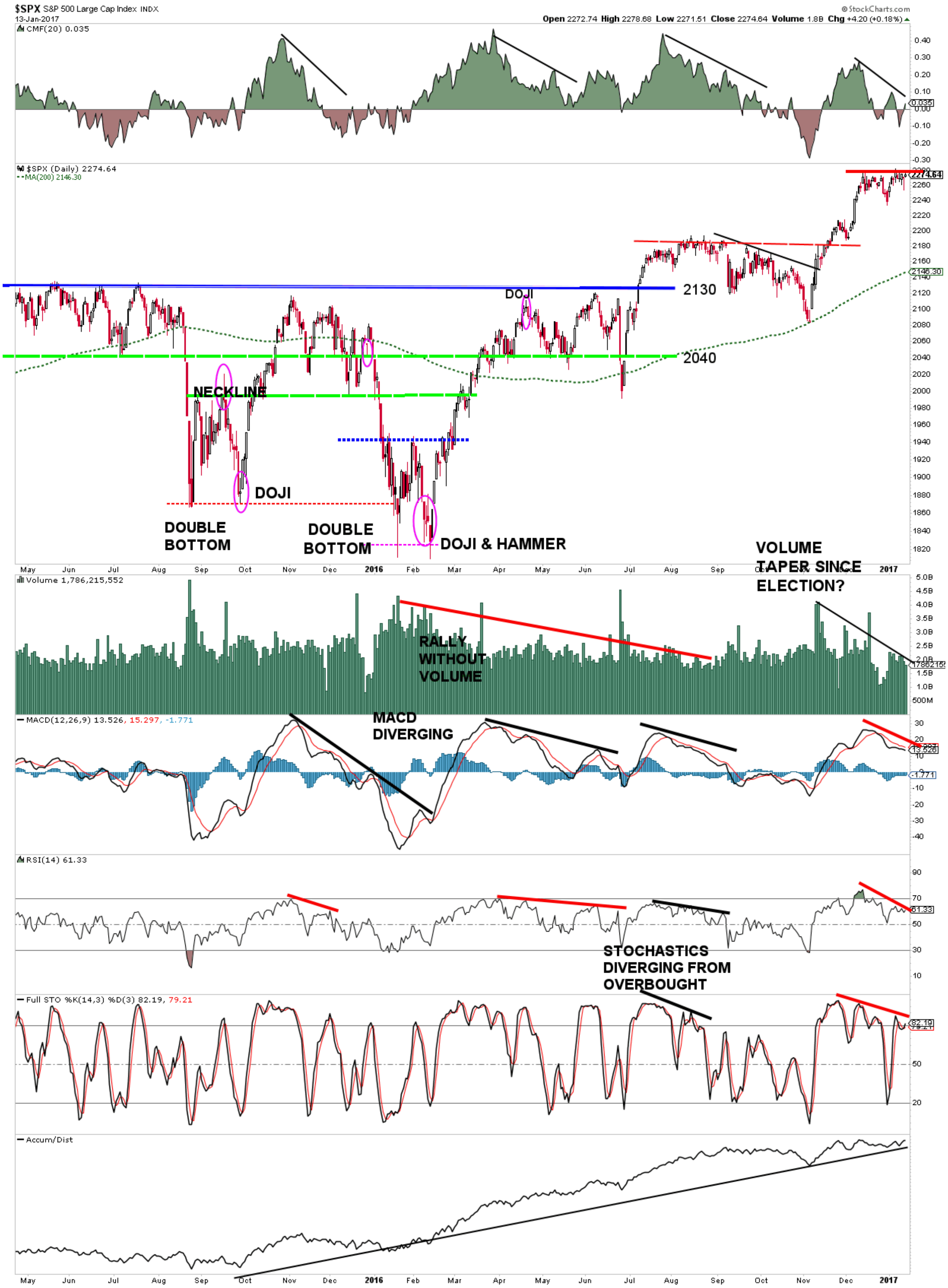
The shorter-term factors I look at include momentum indicators, near-term sentiment indicators like put/call ratio, near-term breadth indicators like NYSE new hi/low and% stocks above their 50-day MA, and Bollinger bands (volatility).

Right now, a few of the short- to mid-term indicators I watch are signalling the strong potential for a pull-back.

Take a look at the chart below. Note the divergence in trend vs. the momentum studies shown (Stochastics, RSI, MACD). They have been sloping down as the S&P has moved sideways.

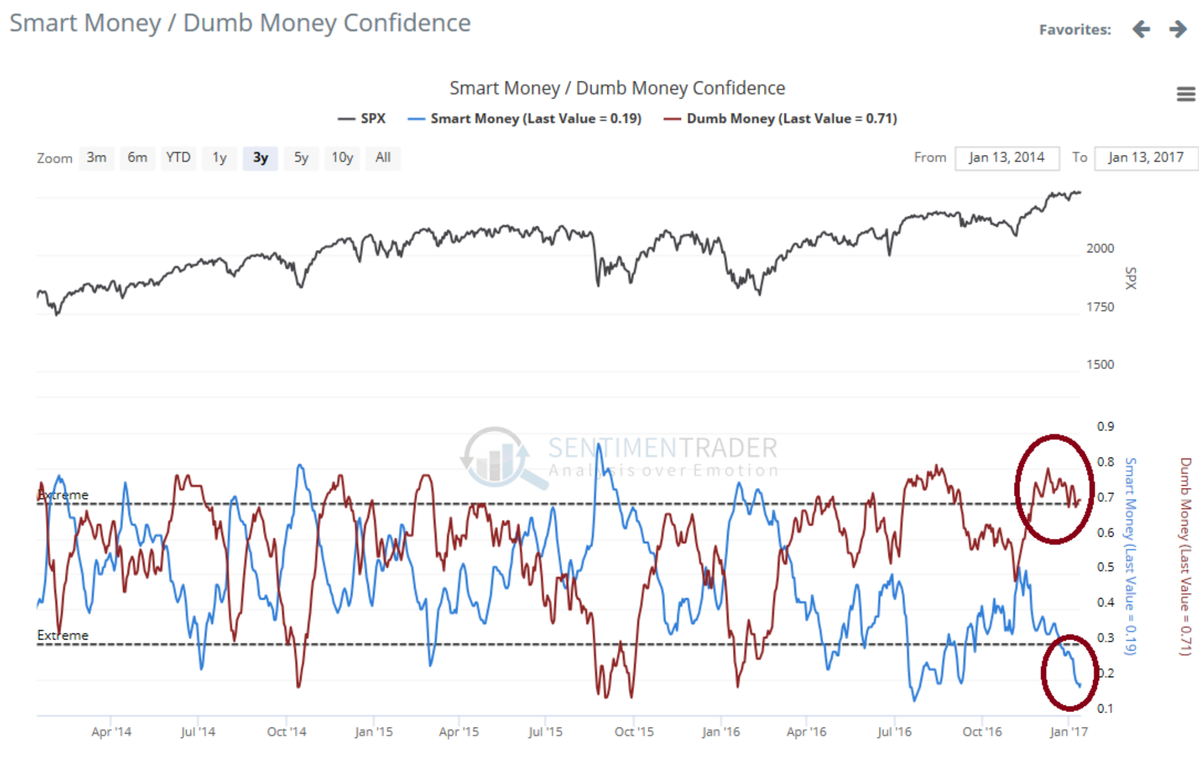
You will notice at the bottom of the chart that longer-term cumulative money-flow is fine, but the Chalkin money-flow oscillator on the top pane suggests shorter-term momentum for money-flow into the market is failing.

I wanted to keep the chart less confusing so I did not put Bollinger Bands on it – but I will note that the BBs are "pinching" which tends to indicate a coming change in direction. I covered that observation on **this blog**.

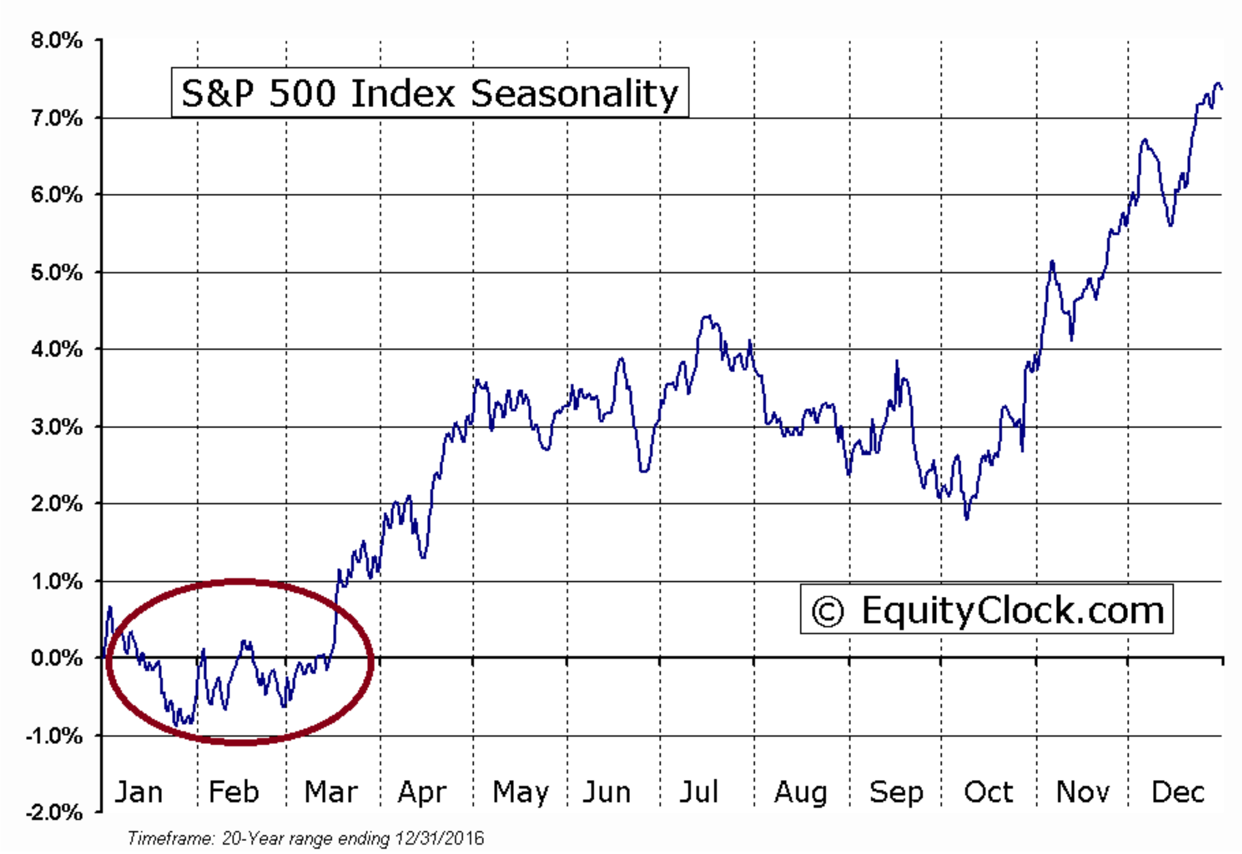

$SPX S&P 500 Large Cap Index INDX
13-Jan-2017
Open 2272.74 High 2278.68 Low 2271.51 Close 2274.64 Volume 1.8B Chg +4.20 (+0.18%)
CMF(20) 0.035
$SPX (Daily) 2274.64
MA(200) 2146.30
DOJI
2130
2040
NECKLINE
DOJI
DOUBLE BOTTOM
DOUBLE BOTTOM
DOJI & HAMMER
VOLUME TAPER SINCE ELECTION?
Volume 1,786,215,552
RALLY WITHOUT VOLUME
MACD(12,26,9) 13.526, 15.297, -1.771
MACD DIVERGING
RSI(14) 61.33
STOCHASTICS DIVERGING FROM OVERBOUGHT
Full STO %K(14,3) %D(3) 82.19, 79.21
Accum/Dist

On the chart below, courtesy of **[sentimentrader](#)**, note the extremely low confidence of Smart Money (commercial hedgers, etc) – in contrast to the bullishness of Dumb Money (retail investors).

Not shown are a few other sentiment studies I follow (too many to post). These include the confidence of Advisors in the market (most Investment Advisors are less sophisticated than the public might perceive…), and the Risk Appetite Index (ratio of money entering or leaving "risk on" vs. "risk off" assets). Both of these are in the "danger zone" – that is, too many advisors like the market, and too much risk is being taken by investors. Finally, sentimentrader notes that short interest on the widely traded SPY ETF is 24% below its 3-year historic average, and has recently hit a similar low level last seen in June 2007. Nobody thinks this market has downside.



Normal seasonal tendencies are for markets to get a bit choppy from mid-January in through much of February- you can see where I have circled the upcoming period on the **equityclock** chart below.



As noted in past blogs, markets have shown a tendency to peak by or around inauguration date. Given valuations and the above technical factors, I would suggest we are in for a short-term pull-back into and possibly through much of February.

Sectors that tend to peak at this time of the year include technology and biotechnology, which are groups contained in the broader based NASDAQ, plus homebuilding and silver.

The bigger picture remains largely bullish (my main macro concern being the ongoing low VIX level), but it might not be a bad idea to lower your exposure – should you have it, to these sectors in light of the potential near-term market risk. Raising cash from these groups might afford you the opportunity to buy into more seasonally attractive sectors in the coming month or so.

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See **About The Author** on the next page.

ABOUT THE AUTHOR

ValueTrend Founder and Owner, Keith Richards, has been in the securities industry since 1990. ValueTrend manages over $100 million through a discretionary investment service for high-net-worth clients.

Keith Richards has been in the securities industry since 1990 and is a highly regarded member of the small, exclusive community of Chartered Market Technicians in Canada. Mr. Richard's articles appear regularly in INVESTORS DIGEST, MONEYLETTER, GLOBE AND MAIL, and the TORONTO STAR newspapers.

His appearances on BNN Television have inspired producers to acknowledge him as **"one of [our] most accurate technical analysts."** Mr. Richard's first book, SMARTBOUNCE: 3 ACTION STEPS TO PORTFOLIO RECOVERY, is available in bookstores and directly through his blog page **www.valuetrend.ca/blog/**. His second book, SIDEWAYS: USING THE POWER OF TECHNICAL ANALYSIS TO PROFIT IN UNCERTAIN TIMES was released in late 2011. He has been critical of the commission-based, follow-the-pack approach to investing – where brokers succeed regardless of performance.

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