What, Me Worry?

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

In this article, Mr. Richards provides some market indicators that suggest a pull-back is coming.

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/what-me-worry-2/***

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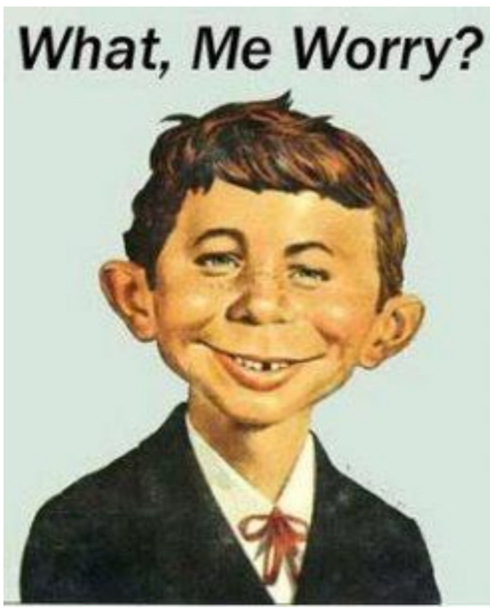
Thursday, August 17, 2017

What, Me Worry?

By: Keith Richards (bio at end)

This blog is taken from an email update I recently sent to clients and to our subscribers — you can subscribe to our free email newsletter **here**.

Risk-on capital assets have, apparently, disappeared. The stock market and real estate market both see no risk in the near or distant future. Real estate prices are slowing, and sales are off. But prices have not flinched too much from arguably bubble highs in most large Canadian cities.



Alfred E. Neumann, Mad Magazine

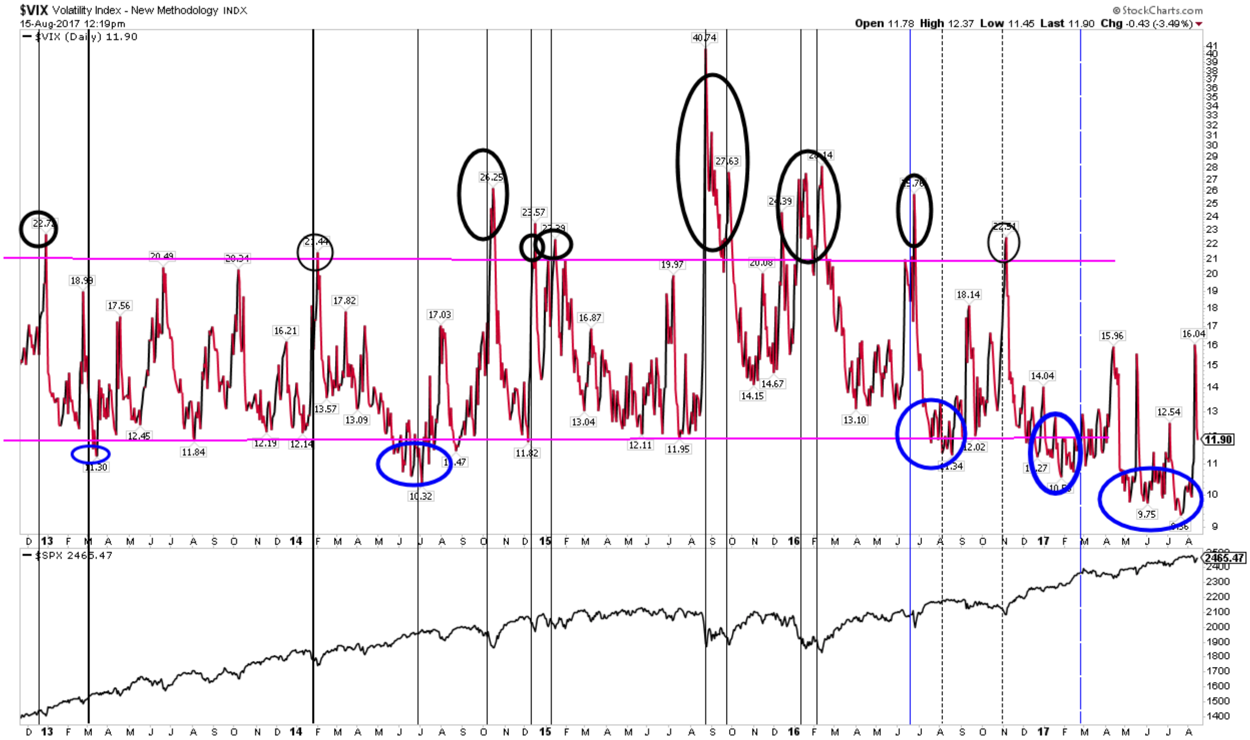
Stocks, in particular, reflect the current belief that there is no possibility of a correction. We all know how that attitude leads into trouble.

It is like wearing a seat-belt. You do it because you are not immune to car accidents no matter how good a driver you may be. You really want to buckle up in a snow-storm, and have an airbag too. Yet, the stock market refuses to wear a seat-belt right now, despite the weather report showing a probability of snow. Perhaps it will make it home alive. Or, perhaps the stock market's head will end up through the windshield. Time will tell.

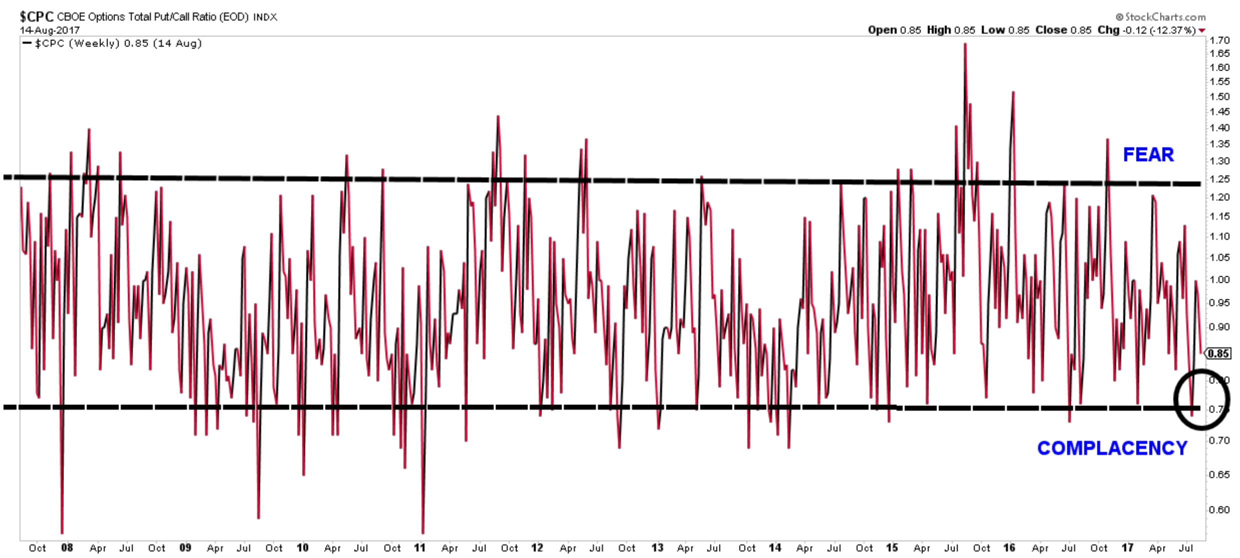
Here are some signs of irrational exuberance on the markets. (Some of my comments are made with my tongue firmly planted in my cheek):

<continued>

The VIX: which is an indication of volatility. It recently hit all-time historic lows! The VIX tries to price in future risk via monitoring option trader behavior. "Normal" levels for the VIX are usually in the mid–teens. The recent level of 9.5 suggested no possibility for stock market risk. None. It just doesn't exist anymore. Mind you, with the recent war talk, the VIX has spiked to 15. That shows you how quickly this market might turn down.

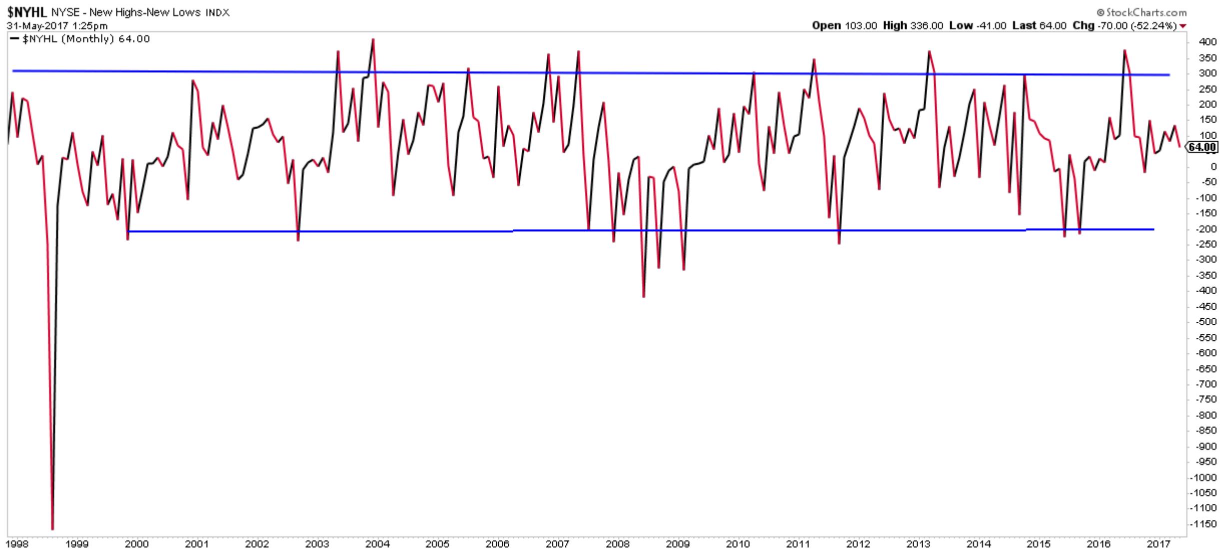


Put/Call Ratio: On the subject of risk, the Put/Call ratio shows us how many "put" (protective) options are trading vs "call" (bullish) options. The ratio recently showed an extreme level of complacency – and that is bad. Too many bulls buying calls, too few protective puts being bought. There is just no risk, you know. Gosh, no.



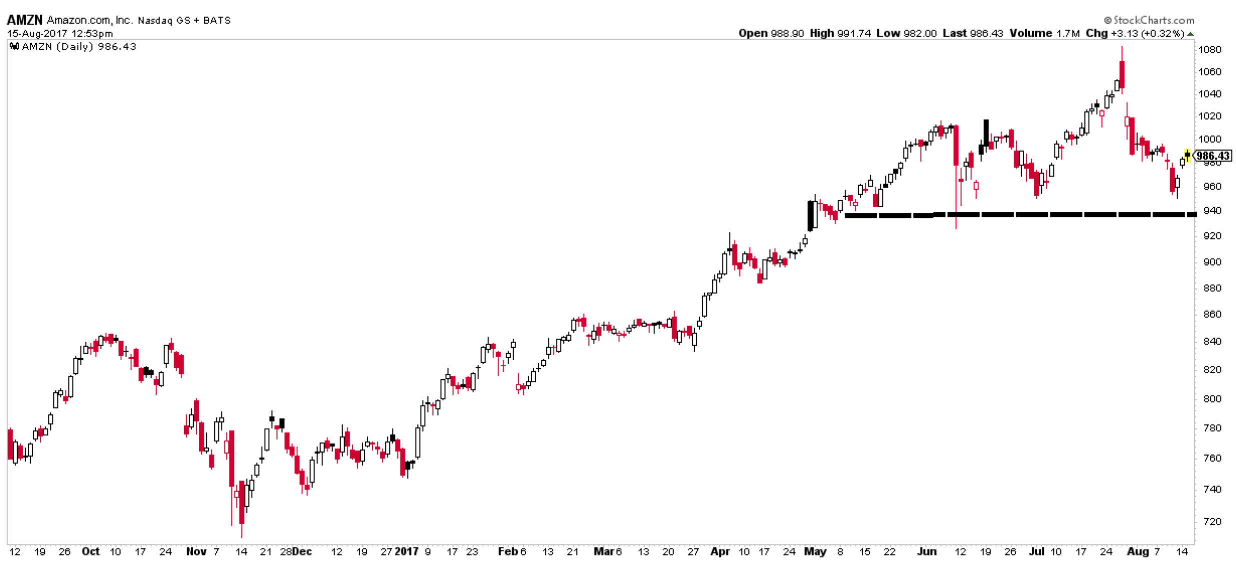
BW: ***eResearch publishes its Put-Call Ratio report every evening. We use 0.80, not 0.75, as our level of "complacency" (over-bought), and 1.20, not 1.25, as our level of "fear" (over-sold).***

Market Breadth: shows you how many stocks are participating in the bull market. The number of new highs versus new lows by stocks making up the index have not backed the new highs on the S&P 500. That means, despite a rising index, most stocks did not participate. It has been a one-pony show (see below).

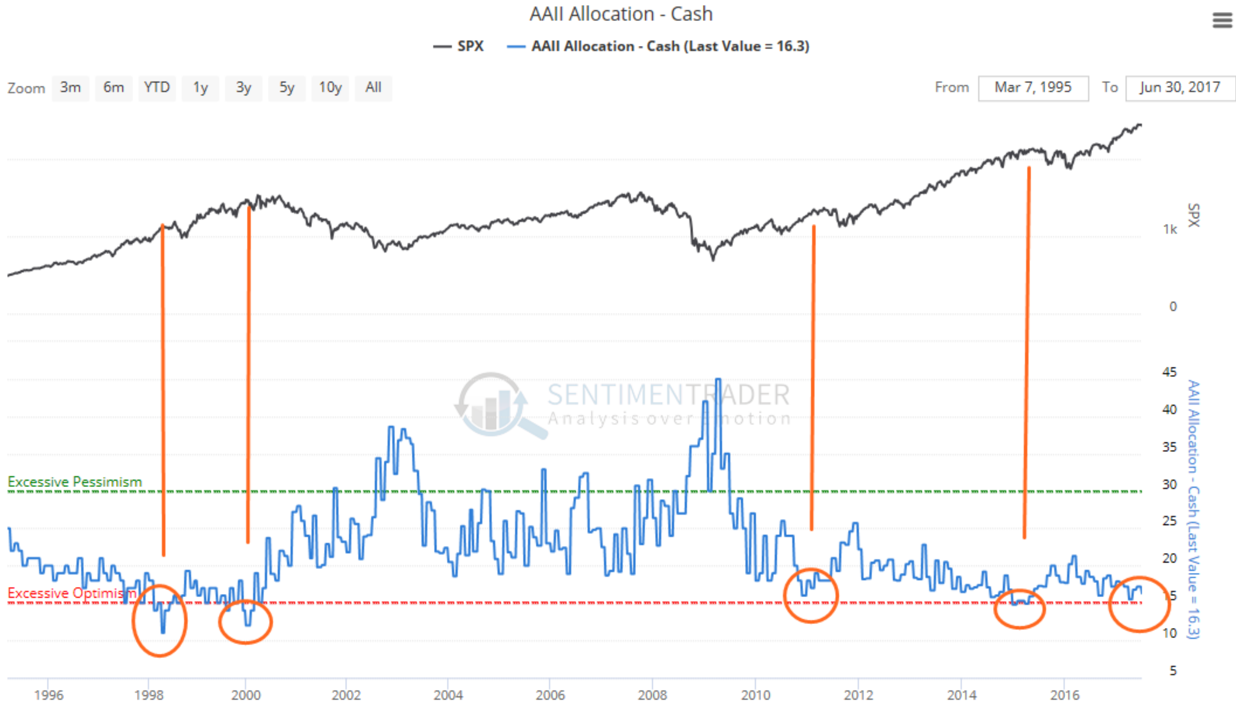


FANGs: The pony I mentioned above has a name. It is FANG, and FANG (Facebook, Amazon, Netflix, Google) could do no wrong. These stocks have been the only game in town, per the Breadth comment above. They drove the market up. Are they in danger? Not yet, but they better not break their support levels.

BW: ***Many pundits now use FAANG by adding Apple Inc. to the mix. It, too, has out-performed.***



Record Low Cash: Investors have less cash in their investment accounts that mirrors pre-correction levels seen in 2011 and 2015 (AAII study – compliments of sentimentrader.com). Investors have no reason to hold cash right now. There is no risk, remember?



Opportunity Awaits

Many of our clients have been with us for a long, long time. Many people have been reading this blog or watched my BNN shows for a decade. They know my style.

Sometimes I sit and wait, and under-perform for a while. I hold cash while others gleefully pile into the market. Sometimes I am wrong and wish I had bought. Yup, it happens.

But when I am right – I am right!

Our best years at ValueTrend are always during times when markets act irrationally. I feel this is one of those times, so we are up to 40% cash (plus 5% bonds) in our ValueTrend Equity Platform right now.

I certainly cannot guarantee you the market will fall. But if it does – I will be buying when others are despondently selling. I have done this before.

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Buckle up, now!

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See **About The Author** on the following 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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