

Shiller's "Top Spotter" Goes Bearish

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

In this article, Mr. Richards provides a chart showing negative market performance after a key market indicator goes bearish, as it has just now.

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Monday, September 25, 2017

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By: Keith Richards (bio at end)

Robert Shiller (Nobel Laureate, economist, academic) is one of those Brainiac people who makes me feel like I am a dummy when it comes to the economy, the markets, and money. But then I listen to Trudeau's latest blathering about those topics – and then I feel smart again. So it all evens out.

Anyone who has read my first book, [SmartBounce](#), will recall that I cited Shiller's CAPE (Cyclically Adjusted Price to Earnings ratio) as a way to estimate market valuation. Basically, the CAPE takes the current level of the S&P 500 and divides it by the 10 year Moving Average of inflation-adjusted earnings. It is considered by many people as a superior alternative to the trailing or forward "PE" ratio most analysts look at. Shiller has taken his CAPE, and compared it with the recent year of earnings growth, and the current one year standard deviation of prices, and the deviation of S&P 500 price movements. His indicator that resulted from these three factors is called the "Top Spotter".

You can see the table that [Sentimentrader](#) put together on this indicator below. The signal for a top has occurred 10 times since 1937 – including NOW!

S&P 500 after Shiller "top spotter" model turns down from above 70%

Signals (1928-2017)	1 Month Later %	3 Months Later %	6 Months Later %	9 Months Later %	1 Year Later %	2 Years Later %	3 Years Later %
1937-06-30	10.6	-5.1	-27.3	-27.6	-35.0	-16.6	-17.8
1956-03-29	-0.2	-2.8	-5.9	-3.7	-9.0	-13.2	15.5
1959-09-30	0.9	5.3	-2.7	0.1	-7.5	17.4	-1.4
1965-03-30	3.2	-4.4	4.9	6.5	3.6	5.2	4.6
1993-12-30	2.1	-4.9	-5.2	-1.4	-1.6	31.0	61.3
2000-03-30	-1.3	-3.1	-2.0	-10.3	-22.0	-24.4	-41.0
2004-06-30	-3.4	-2.3	6.4	3.5	5.2	11.6	33.2
2006-12-29	1.9	1.4	7.5	9.0	2.0	-36.3	-21.4
2014-03-31	0.6	4.7	5.6	11.7	10.4	10.0	26.5
2017-09-29							
Median	0.9	-2.8	-2.0	0.1	-1.6	5.2	4.6
All Days	0.6	1.8	3.6	5.4	7.3	14.6	22.2
Risk	-1.5	-5.3	-6.3	-6.3	-6.8	-15.1	-15.1
Reward	1.9	2.9	6.2	7.4	7.4	12.5	16.9
# Up / Down	6 / 3	3 / 6	4 / 5	5 / 4	4 / 5	5 / 4	5 / 4
Relevance	21%	100%	88%	82%	93%	80%	91%

Copyright © 2017 SENTIMENTRADER Relevance > 95% suggests significance; Risk = avg max loss; Reward = avg max gain

It has not always signalled huge bear markets, although in the 9 months to 3 years later column, you will see enough *significant* losses to make one worry a bit!

The near-term pull-backs were more consistent (1 to 6 months later). Only 2014 did not have a definable pull-back.

As my son's hockey coach used to yell – "keep an eye". Appropriate advice.

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See **About The Author** below.

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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