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Big Change In Bull-Bear Spread

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan looks at the bullish-bearish spread, and notes that "… the big one-week change suggests that the down-move we have seen in stock prices is exhaustive, meriting a rebound".

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly:

https://www.mcoscillator.com/learning_center/weekly_chart/big_change_in_bull-bear_spread/

You can also visit the McClellan Financial Publications Home Page at the link below. This is a subscription service, and there are two publications which can be subscribed for: (1) **The McClellan Market Report**; and (2) **The Daily Edition**.

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Bob Weir, CFA
Director of Research

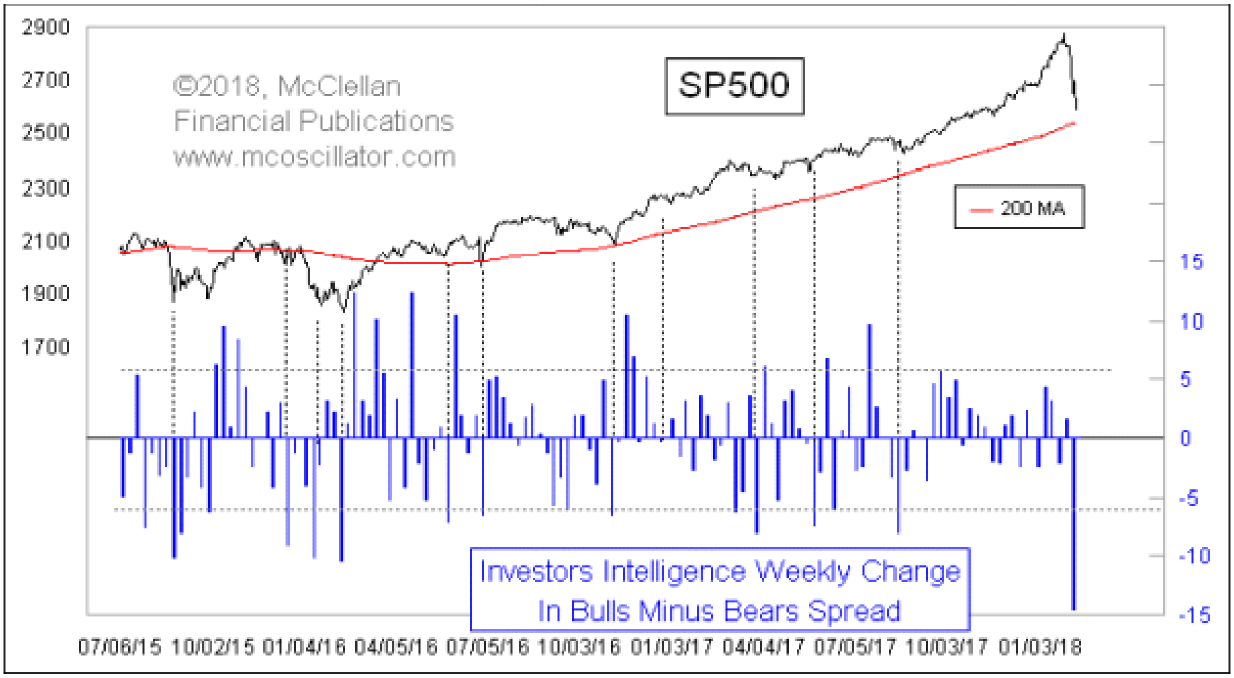
February 9, 2018

The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

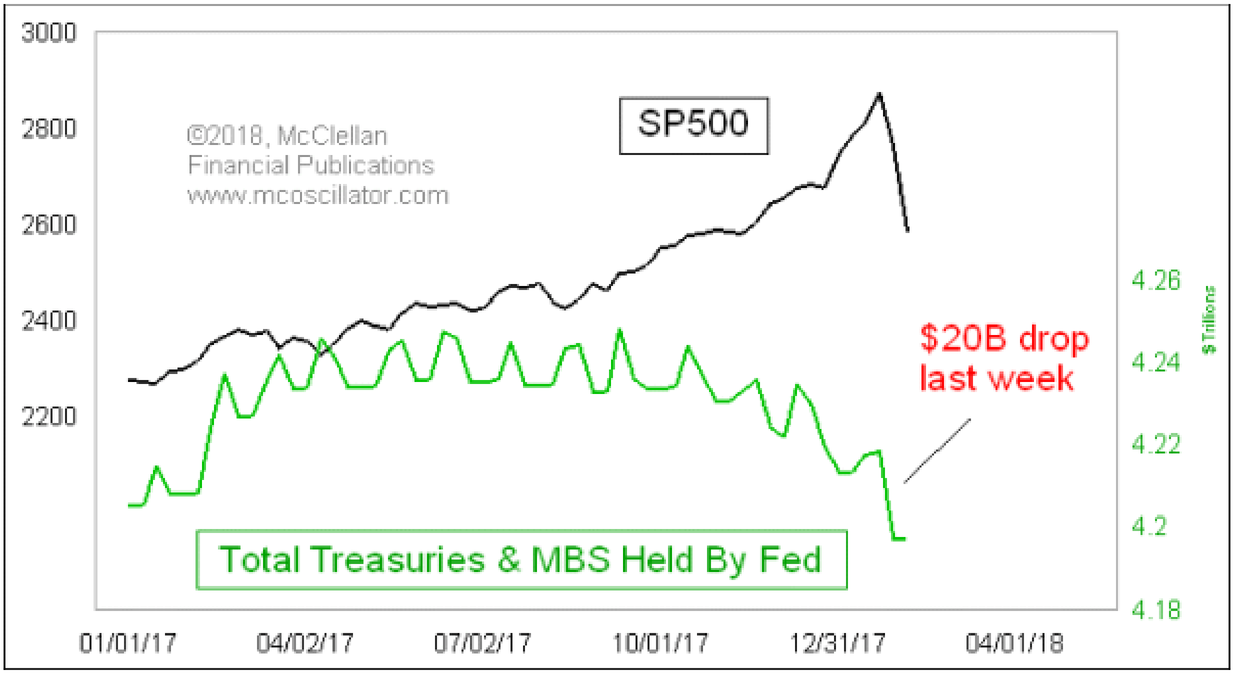
Big Change In Bull-Bear Spread

The latest data from Investors Intelligence showed a huge change this week. Bulls dropped from 66% to 54.4%, and bears rose from 12.6% to 15.5%. That means the spread between bulls and bears dropped by 14.5 percentage points, which is the biggest one-week drop since July 2011. Drops of more than 6 percentage points usually mark wash-out bottoms for prices.



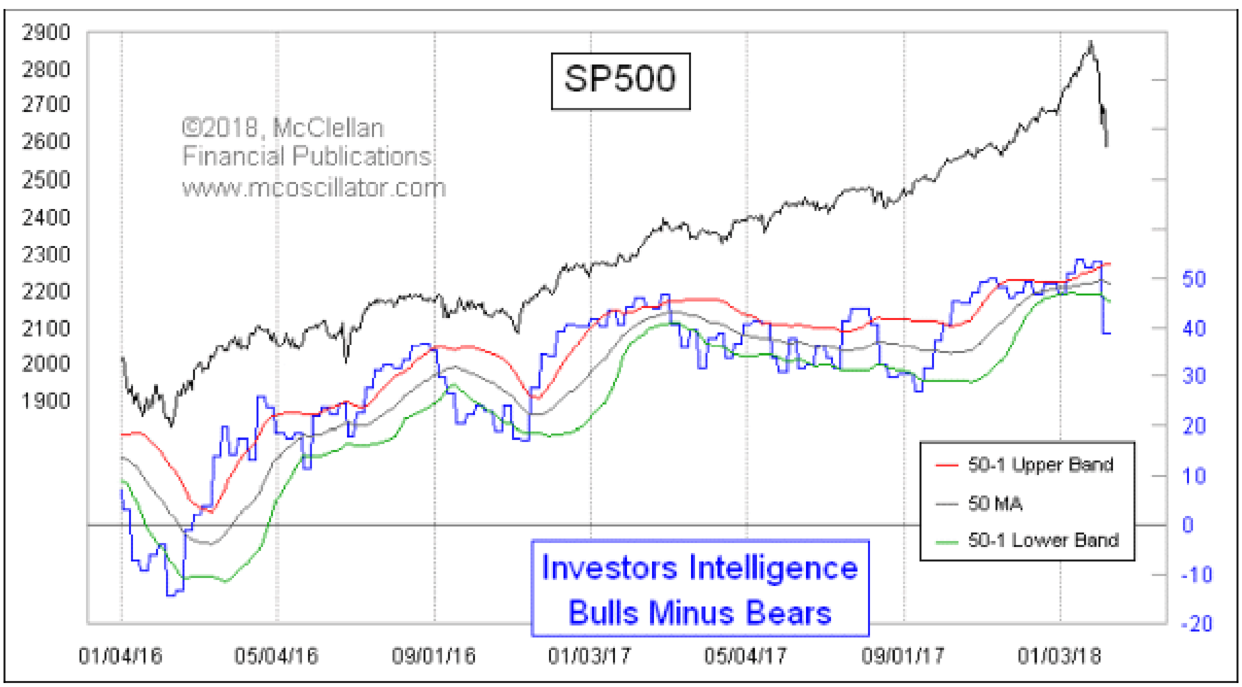
That July 2011 drop in the bull-bear came as prices crashed down 19%, following the sudden cut off of QE2. There was a similar 14.5 percentage point drop in May 2010, the week of the Flash Crash which occurred after the sudden end of QE1. The Fed learned from its mistakes, and it wound down QE3 much more slowly.

However, all of that extra money was left within the banking system, and investors got used to the plentiful liquidity and low volatility that the excess liquidity brought. So, now, when the Fed is starting to drain the bathtub, the smallest little drop in the Fed's balance sheet has brought an outsized drop in stock prices, and a corresponding sudden drop in analyst bullishness.



The $10 billion per month in reduction of Federal Reserve holdings of T-Bonds and mortgage backed securities (MBS), which was in effect in Q4 of 2017, has now accelerated to a target of $20 billion a month for Q1 of 2018. But they did the month's allotted drop all in one week at the end of January, setting up the illiquidity situation that the stock market is going through now.

The Investors Intelligence sentiment data is very sensitive to price movements. So, it is natural that a big drop like what we have seen would bring a big drop in the bull-bear spread.



The change from the prior week takes the bull-bear spread down from above the upper 50-1 Bollinger Band to below the lower one. It is still not a "low" spread reading, meaning that the value is not as low as what we have seen at important price lows over the past 2 years. But it is a drop well below the lower band, which is where price lows are found. Also, the big one-week change suggests that the down-move we have seen in stock prices is exhaustive, meriting a rebound.

Tom McClellan, Editor, The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* follows below.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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