What To Hold When Stocks Fall

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

In this article, Mr. Richards takes a look at possible hedges in the event of a market correction that turns into a defined bear market.

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-to-hold-when-stocks-fall/**

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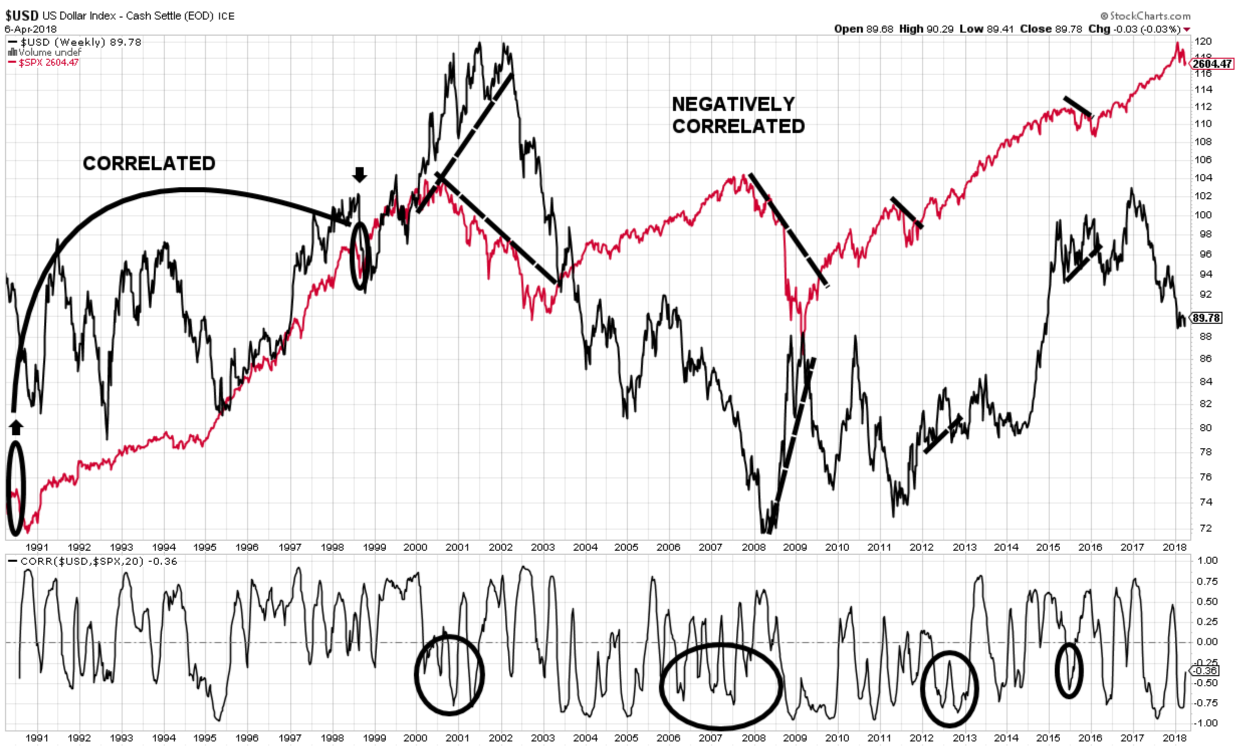
What To Hold When Stocks Fall

By: Keith Richards (bio at end)

A bear market can be identified by the break in some technical parameters, as I have discussed in my book **Sideways** (lower lows, lower highs, a break of the 200-day SMA). Adding to the evidence of a break in trend, your analysis may also be aided by observing the negative correlation of some other markets. Some assets go up when stock markets decline.

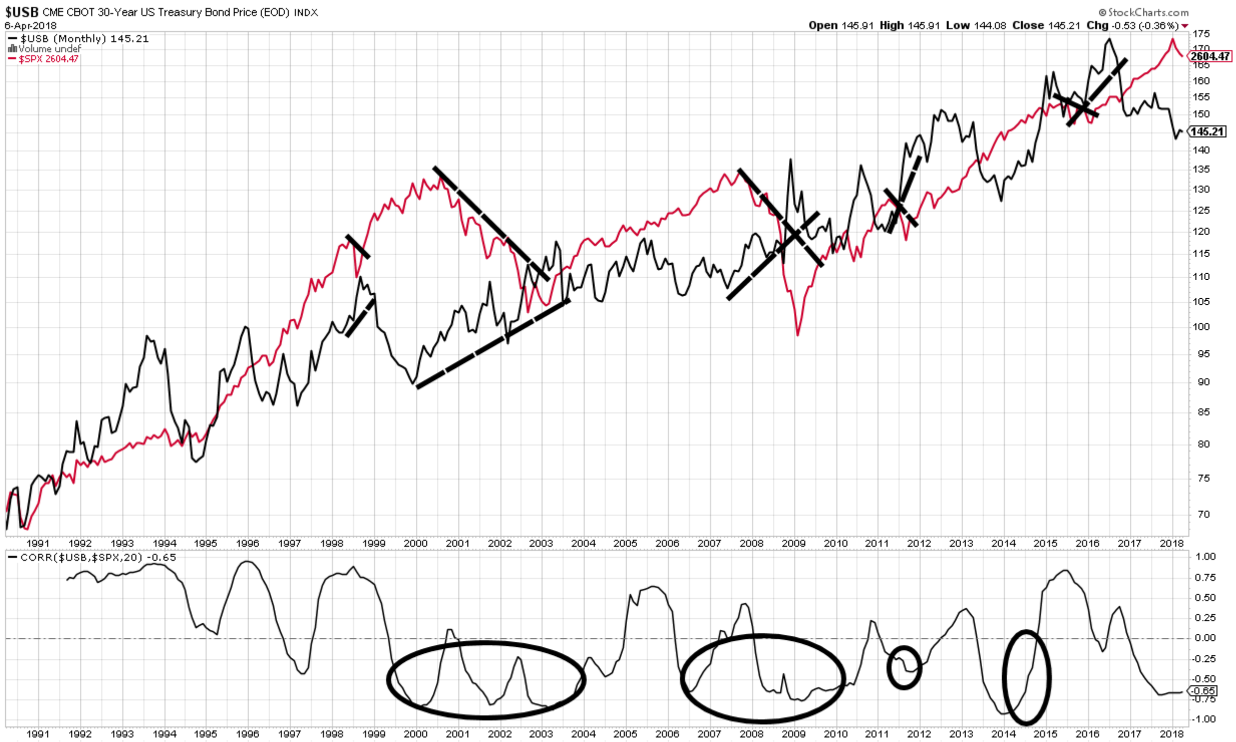
In this blog, I would like to have a look at three markets that may, or may not, have provided bear market safe-havens in the past. Observing the charts of almost 30 years of history on the S&P 500, we might gather some clues as to where we might hide our money should a bear ensue. Note that on each chart, the S&P 500 is red, the opposing index is black. For this study, bear markets will be identified as a 20% + pullback, and anything less than that is a minor correction.

USD



The USD, as seen on the correlation chart above, is negatively correlated to stock market corrections and bear markets more often than not. On the left side of the chart are two minor corrections (1990, 1998) when the USD moved in tandem with the S&P 500. However, the much larger bear market moves on the S&P 500 of 2001/2, and 2008/9 and even the bear of 2011 & the correction of 2015/16 showed a rising USD. The recent minor corrective activity has not yet inspired a flight into the USD.

30-Year T-Bonds



There is a definite relationship between the long bond and the S&P 500 during significant bear markets. Note the extreme movement into bonds during the 2001/2 and 2008/9 market crashes.

There was also ample evidence of rotation into safety during the bear of 2011 and the significant correction of 2015/16. Even 1998 saw some minor rotation into bonds.

As with the USD, we are not observing this rotation in the current correction.

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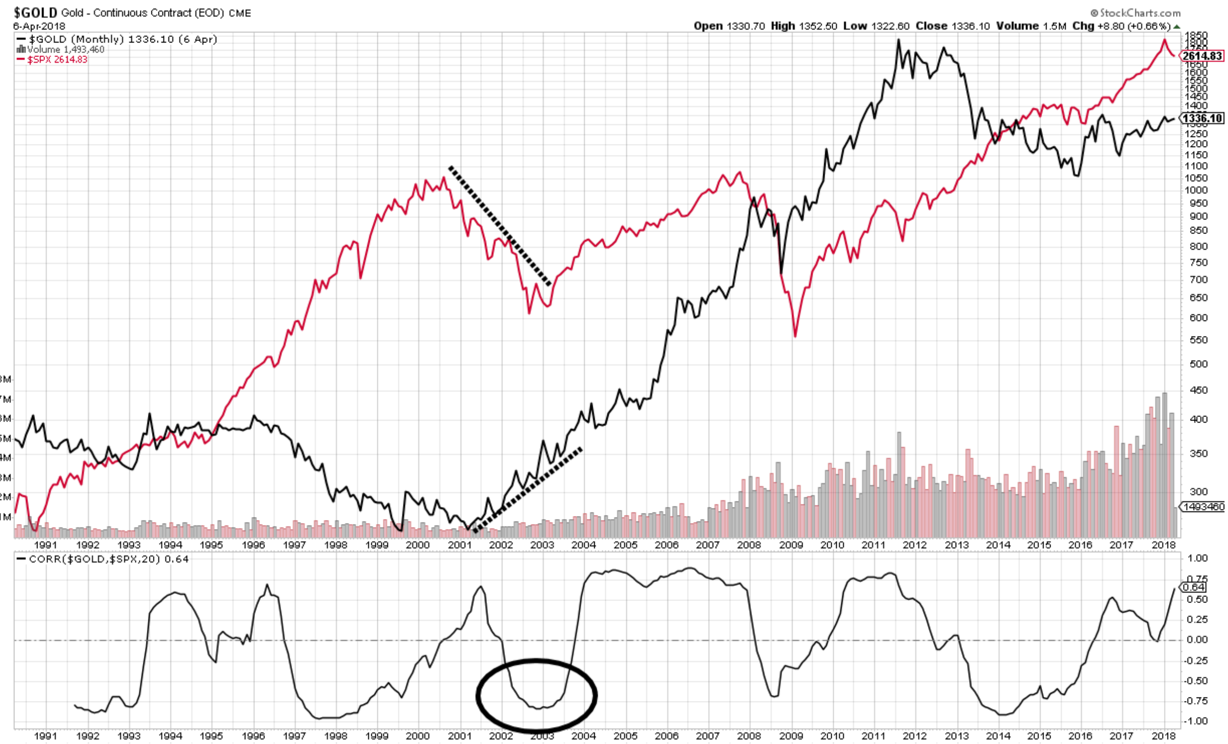
Gold



I post this chart to dispel a myth. Let me get right to the point. There is no reliable negative correlation between gold and the stock market during bear markets– at least there has not been a consistent negative correlation during the past 30 years. The chart above illustrates this fact.

In fact, gold and stocks fell in tandem during most bear market periods – it was only in the 2001/2 bear that we saw gold rise. Further, the correlation line (bottom pane) illustrates a random relationship most of the time (2001/2 aside). They deviate in relative performance randomly, not specifically during bear markets.

Conclusion: Gold is not a reliable asset to move into during most bear markets. Gold should only be bought on its technical merit, not as a hedge against falling stock prices.

STRATEGY

Currently, the stock market corrective action is not occurring in tandem with bullish moves by the USD or the long bond. Further, the current market correction has largely being seen in the FANGs and other over-bought stocks like TSLA.

Even in the tech sector, stocks with better valuations like AAPL and MSFT are not falling as greatly as the FANGs. Therefore, it is safe to suggest that we have not likely moved into a broad-based bear market…yet.

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The current correction is largely technical – removing the irrational exuberance from the markets in the overbought FANG stocks – something that I talked rather frequently last year on **this blog**, **this blog**, and **this blog**. I also covered the FANGs (actually, the FAANGs, including APPL) **here** recently.

Keep an eye on the dollar and the long T-bond. If they see substantial bullish trend changes while stocks correct, that will add a strong piece of evidence to the probability of the onslaught of a new bear market.

A purchase of those assets via an ETF or otherwise might be warranted as a hedge if/as/when that potential occurs.

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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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