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

In this article, Mr. Richards says that he is watching and waiting for an oversold bounce trading opportunity.

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Bob Weir, CFA  
Contributing Analyst

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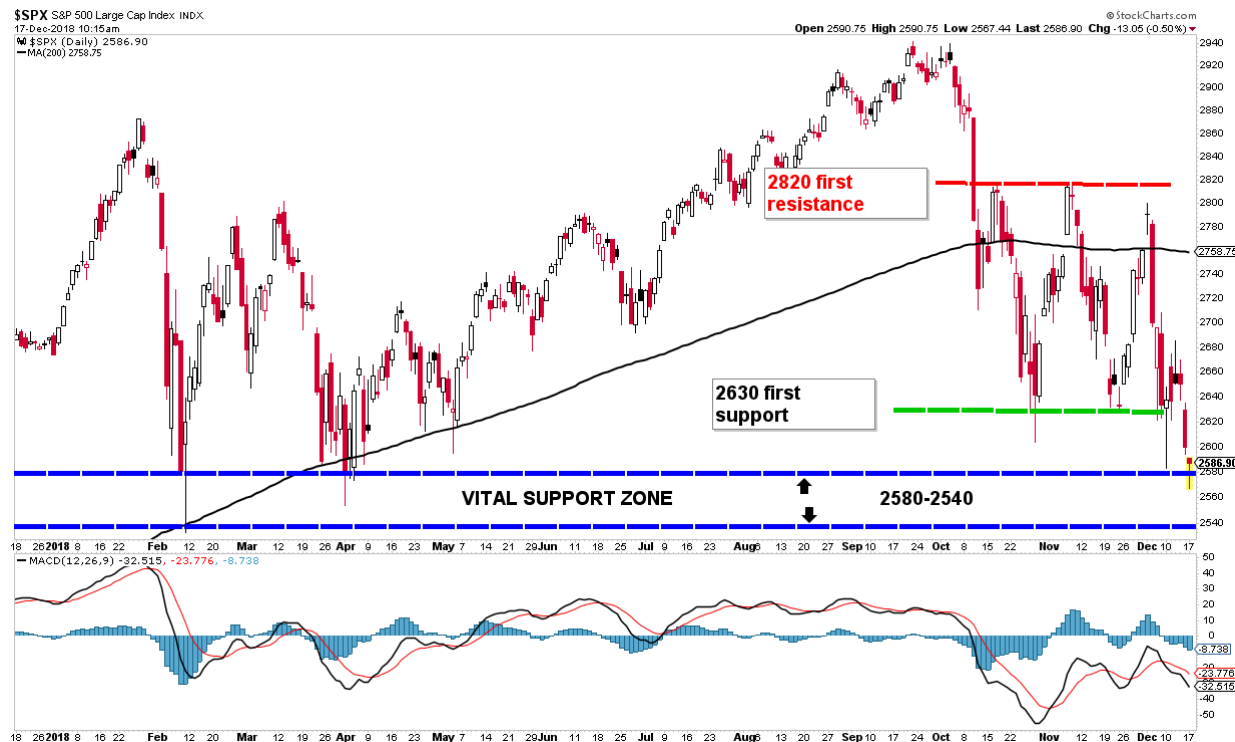
Monday, December 17, 2018

## You Are Here

By: Keith Richards (bio at end)

Big malls and places like Disney give you a map showing you where you are in the mall or resort.

My first chart shows us where we are in relation to the market's recent support/resistance zones. The S&P broke support last Friday, and is now toying with my [previously described](#) final support zone. The chart below paints a pretty good picture of where we are. A break of 2540, as I noted on the above blog link, spells trouble. For now, keep calm and carry on.



Not everyone is calm, which is a good thing!

In the past, I have mentioned that one of my favorite contrarian indicators is pitting smart money against dumb money. As you will note on sentimentrader's smart/dumb comparable, the dumb money is clearly selling while the smart guys are buying. In fact, only 26% of dumb money is confident about the market right now, whereas 69% of the smart folk are confident about investing in equities. Note on the confidence spread below that clusters of high smart money vs dumb money confidence has lead into a renewal of the bull market in the last few market sell-offs. While this is not a longer-term study, I do have some longer-dated data that might back up such a potential.



Lipper notes that the outflow of mutual fund equity investors (dumb money) is the highest in 15 years. U.S. equity investors have taken some 0.44% out of equity. Since 2002, every time that number has got over 0.25% outflow of equity funds, the markets were higher one month later (9 out of 9 occurrences). According to sentimentrader.com, every time there is a 6-month low set in December, markets are higher a month later (8 out of 8 occurrences since 1950). Seems to be some agreement in the data on that.

Finally, Larry McDonald's "[Bear Traps](#)" research notes that world markets are looking to be in a capitulation phase. Larry is probably one of the smarter cookies out there, and his main focus is looking at opportunistic capitulation – he routinely examines world markets, currencies, commodities, bonds...you name it.. for oversold trade opportunities. Larry is no mid- or long-term investor, so that must be kept in mind. He is pretty near-term in outlook. But his ACG analysis, which I have followed for about 5 years now, is usually pretty good. A vote of confidence towards an oversold bounce (particularly in Europe and emerging markets) by Larry is not a bad thing. I will note that he thinks we will see a bounce, then a new down-leg bringing NA markets into a genuine bear. Again, he has models that tend to be decent at predicting such events – albeit not accurate all of the time (but, who is?).

## Conclusion

Watch for a reversal in market movements over a few days. This might signal an oversold bounce trading opportunity with a potential for a few weeks to a month of upside. Again, though, watch for the bounce.

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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/](http://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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