

The Dumber Smart Money Says It Ain't The Bottom Yet

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

In this article, Mr. Richards shows why the market may not have reached a bottom yet.

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The Dumber Smart Money Says It Ain't The Bottom Yet

By: Keith Richards (bio at end)

I would like to give a shout out to [Five Star Charts](#) today for an interesting observation regarding a different view on investor sentiment.

Rather than focus on "dumb money" as an indicator of an oversold capitulation point, Boris Chai, the founder of Five Star Charts, focused on looking at institutional money as a contrarian indicator.

Interesting, given that many institutional players are often counted in as "smart money" when looking at sentiment. But...not all of them. For example, many hedge funds and mutual fund managers invest with a worse track record than the "real" smart money (i.e., commercial hedgers, select institutions). So, as a group, sometimes the institutions are good contrarian indicators insofar as their fear/greed readings.

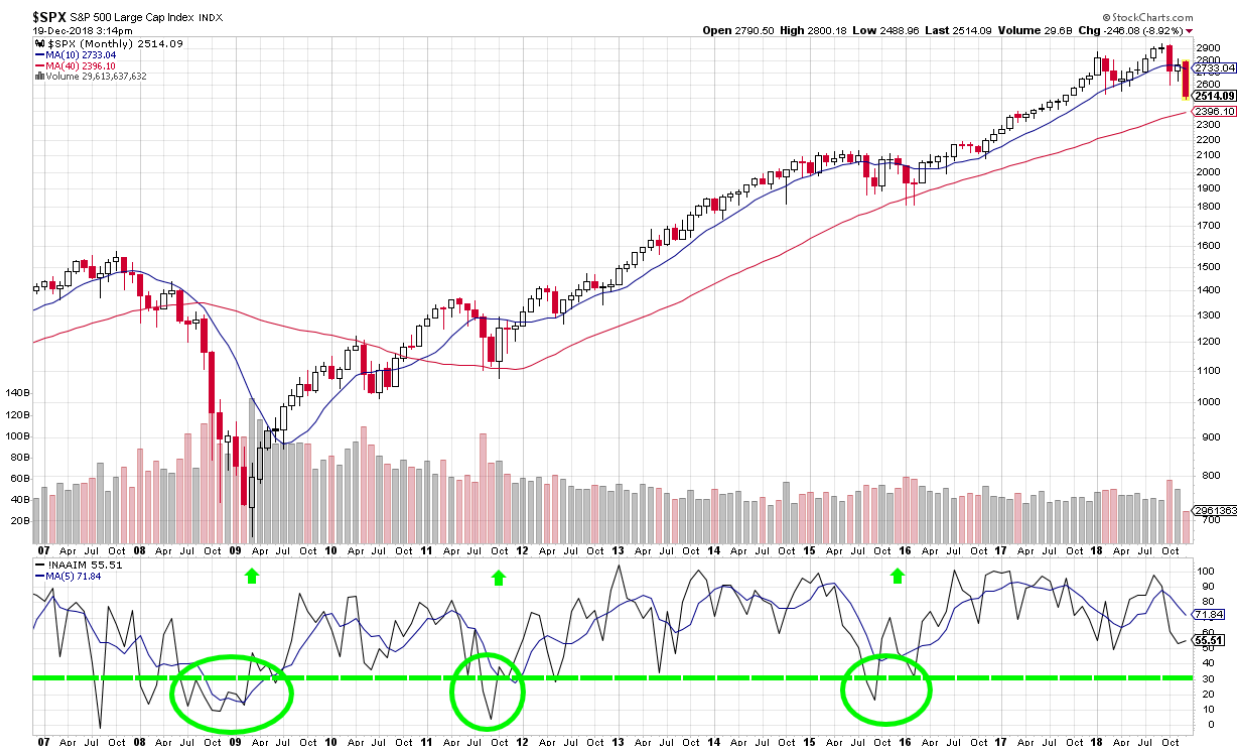
I recreated a chart that Mr. Chai posted in his recent research update. Apologies to Mr. Chai if I failed to recreate it perfectly – but I think you will get the gist.

In a nutshell, he feels that the institutions are not yet bearish enough to signal a true bear market bottom. I believe that Mr. Chai, along with my own way of viewing the markets, is looking for a short-term rally – keeping a cautious eye on the mid-term potential for markets.

His indication is that the *NAAIM Exposure index should break "30" before a bottom might be put in.*

The chart below shows the S&P 500 on the top pane (monthly bars) back to 2007, with the bottom pane displaying the NAAIM index along with its 5-day SMA. The "30" level (aka oversold) is indicated with a dashed green horizontal line.

I am going to quote Five Star Charts directly regarding the chart:



"In a bear market, an oversold situation could be extended to more oversold. That is why if you try to find a short-term bottom, you better not. However, the NAAIM Exposure index could give us hints about an oversold market. The NAAIM Exposure index represents small regional investment firms to large national investment firms, including hedge fund managers, mutual fund companies and a variety of other investment firms giving their average exposure to US Equity markets. The current reading is at 51.35% which means the professional money managers have an average 51% exposure in US equities. In an extreme oversold situation, the index could drop to 30% to 40%. If the index could reverse the current downtrend, it could mark a short-term bottom. But it doesn't seem it is happening. The upcoming FOMC meeting could be a market event. We may see a capitulation of selling. The VIX is also ready for breaking to a new high from the current level. Trade with caution if you are in the short side!"

For those interested – I note that readers interested in trying out the Five Star Charts research portal for a while can sign up for a free one-month trial.

<continued>

Keith is on BNN this Friday December 21 at 6:00pm

You might want to tune into this one folks—I am sure that I will have lots to talk about, especially given recent market developments.

BW: We will feature Keith in our Market Call report to be published on Friday evening.

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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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