

## **Bull Versus Bear**

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

In this article, Mr. Richards explains why he remains bullish despite a respected analyst who has turned bearish.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: <https://www.valuetrend.ca/bear-o-meter-reads-bullish%ef%bb%bf/>

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Sunday, April 7, 2019

## **Bear-O-Meter Reads Bullish!**

By: Keith Richards (bio at end)

Before getting into this month's Bear-o-meter reading and interpretation, I thought I would quote Larry McDonald – whose institutional research reports I have been subscribing to for several years. Larry's research is not cheap, but he is one of the more accurate analysts on the street. His background as head junk bond trader at Lehman's (which was a profitable division) and his AGC analytics team offer deep insight into markets and the events that affect them. He is known best for his deep value contrarian ideas- something that we have been more receptive to at ValueTrend of late.

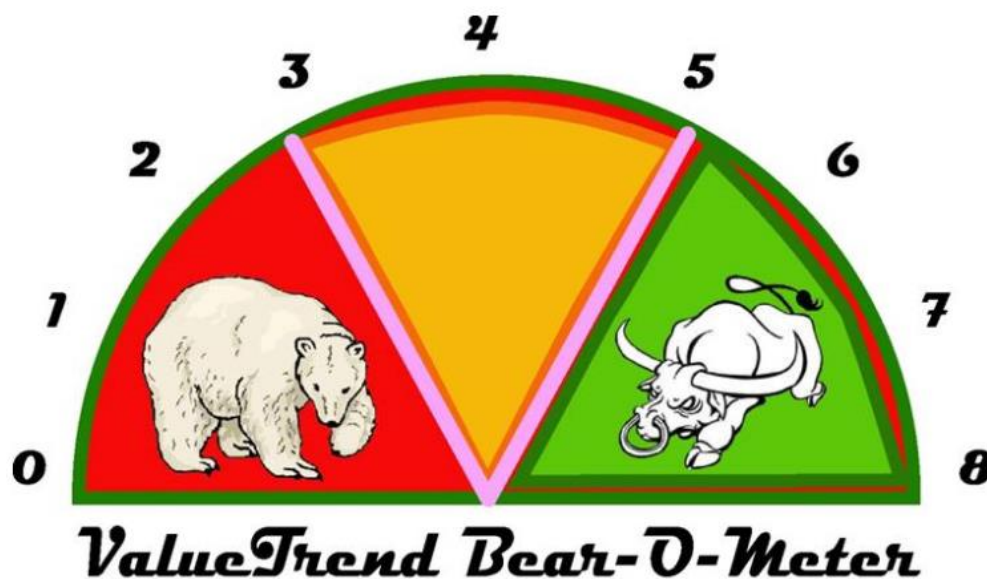
Larry feels that the U.S. markets are overdone, as do I. He assigns a pretty scary valuation to the market.

Here is his quote:

"We see 2019 S&P 500 earnings closer to \$155 - \$160 and put a 15x -16x multiple on it as geopolitical tensions don't fully subside. So, a trading level of 2325-2560 looks more likely to us."

Yikes! If this valuation came from another analyst, I would dismiss it. But Larry tends to be very insightful, and does not make projections lightly. He also tends to be right more often than not. Keep it in perspective, as nobody knows anything for sure at the end of the day. But, be mindful of his valuation as the market approaches its October 2018 highs. Failure by the SPX to pop through 2900 or so might drive markets back.

Anyhow, on with the Bear-o-meter report.



The most recent reading of the Bear-o-meter report shows a move from the ‘neutral zone’ shown in my last update – into the “bullish” zone. **The reading sits at 7 now** – which is one point below the highest reading it can have. Since the last report in March, none of the 11 indicators have turned in a negative score. Two of the indicators turned positive from a prior neutral or bearish reading.

Specifically:

The percentage of stocks trading over their 50-day SMAs went from overbought in March to neutral. However, the indicator continues to flirt just below the overbought level of 85. It is at 81% as of Friday.



Darned close to a negative score, but officially in “neutral” area.

The TRIN/TRAN went from non-confirmation to confirmation between the two indicators (ie the transports moved up with the industrials—whereas last month they were diverging).



Note the divergence (circled) last month, followed by the recent upswing by TRAN

And the cumulative Advance/Decline line – which is the most important breadth indicator in the Bear-o-meter's compilation – is now bullishly diverging from the SPX by making new highs (vs. no new highs by the SPX).



The A/D line (black) is at new highs while the SPX (red) is not.

## Conclusion

The market is bullish right now. Larry McDonald will quite probably correct his valuation assessment and targets for the U.S. markets. However, that prognostication may take a while to materialize. For now, the technicals are saying to stay the course.

Some of you are aware that we held some cash back in December. As the market moved up from January, we legged in a step at a time. We now sit at 12% cash in our equity model—considerably down from the 30% we held going into December. We continue to emphasize “value” trades over “growth” investments lately. I will write a blog on that later this week with some specific ideas. As such, we buy when we find a security at the right price, and hold cash until these opportunities appear. Our cash holdings are not a statement about the markets as much as they are a statement about the availability of bargains on the market. We do expect to find new opportunities – but we are not rushing into anything. After all – there is a reason that Larry is concerned about fundamental valuations right now.

Being the agile traders we are – we will be the first to react if Larry’s fundamental projections materialize through chart break-downs. Until then, the Bear-o-meter tells us to stay the course.

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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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