Market Outlook

By Mark T Dodson, CFA

Highlights

Another week with another move higher for Market Risk Index as higher stock prices have pushed investor psychology further into extreme territory. MRI hit 91.8% as psychology has edged closer to the 98th percentile of readings. A big shift in corporate insider sentiment toward selling their own holdings of stock was an additional detractor that we can add to an already large list of indicators hitting extremes this week.

Investor sentiment continues to push further into euphoria as cap-weighted indices move higher and the market's favorite stocks break further into new high territory. Readings from option pits are breaching the 2018 peaks in euphoria – equity call buying in relation to puts is the highest in five years. Assets chasing leveraged market funds hit a new record high this week, almost reaching $19 billion, with the ratio of levered bullish assets to inverse bearish assets climbing above 250%.

Some of our breadth indicators are showing first indications that the FOMO momentum may be waning. One positive is that more stocks have been making new highs instead of lows, pushing the NYSE High Low Logic index to a level of a minor buy signal within the last week, but the NASDAQ High Low Logic index remains elevated and on a sell signal. The ARMS index is rolling up from very low levels, as the last week has brought a shift toward more volume going into declining stocks than advancers.

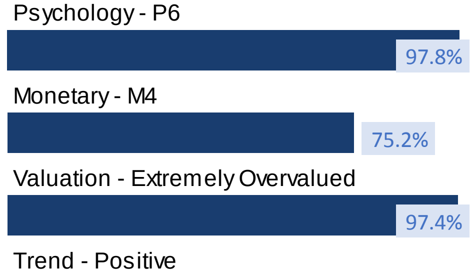
The re-emergence of weakness amongst small cap stocks has also been difficult to miss. As breakout markets go, this one still scores higher on enthusiasm than substance with a couple of key indices like Transports, MSCI EAFE, and the Russell 2000 yet to break through 2018 highs. The percentage of small and mid-cap stocks trading above their 200 day moving averages is no where close to the 80% level that is a key level for markets where momentum has staying power. The last time that small, mid and large cap indices broke the 80% threshold together was 2013, which in hindsight marked the point where investors first began to shake off their dour post Great Recession anxiety. As impressive as this rally feels, thus far it still looks a lot more like the one to start 2018, not 2013.

Market Risk Index

Elevated

91.8%

Category Percentiles



Biggest Psychology Influences

Volatility	Positive
Leveraged Investments	Negative
Option Activity	Negative
Surveys	Negative

Biggest Monetary Influences

GDP Growth (Below Avg)	Positive
Velocity	Negative
Yield Curve	Negative

Valuation

7-10 Year Rtn Forecast	2.3%
10Yr Treas Yield (on 11/30)	1.8%

Price Trends

US Equities	Positive
Intl Equities	Positive
REITs	Positive
Broad Commodities	Positive

Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

Chart – Equity Put/Call Ratio drops to 5Yr Lows

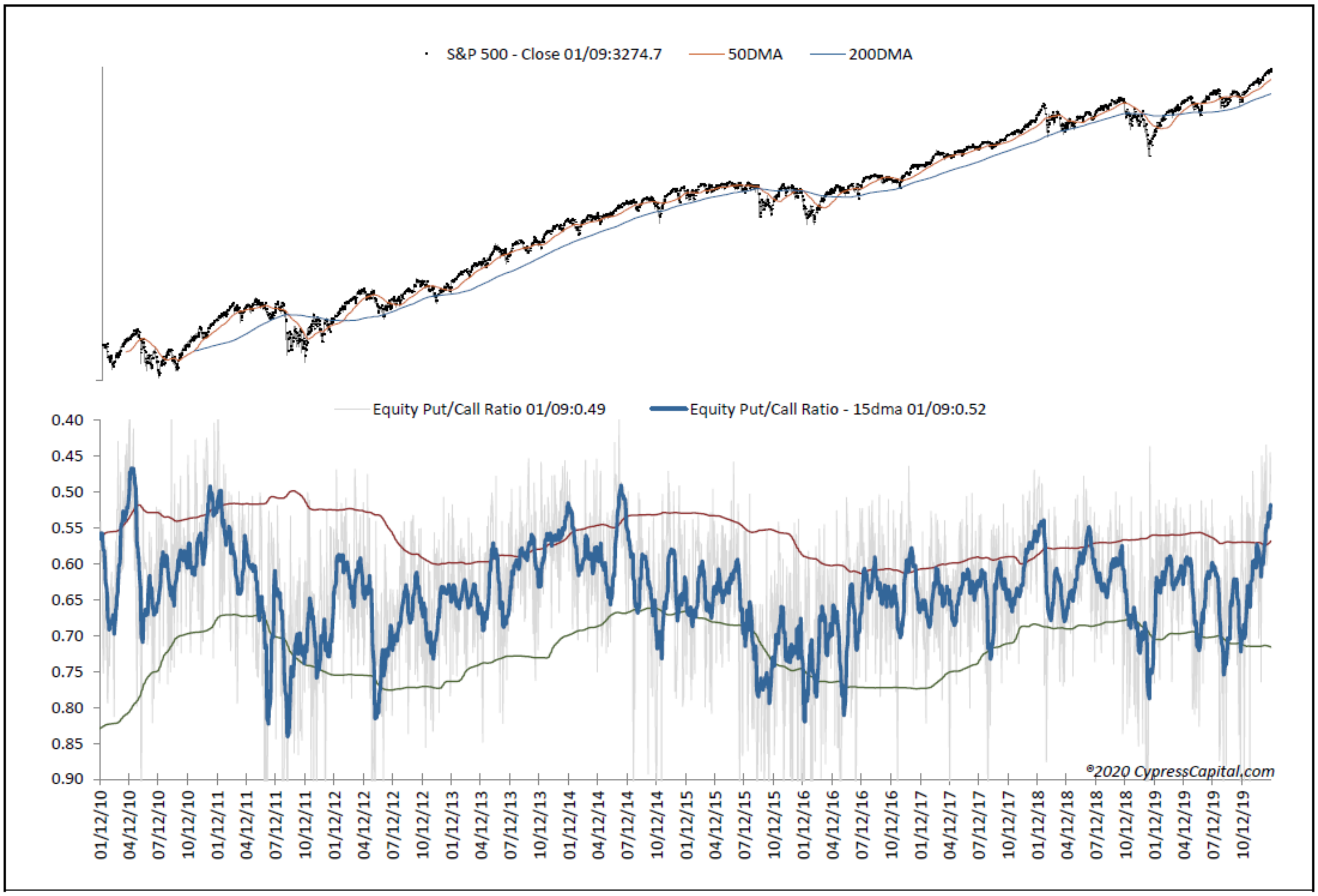


Chart – OpenInsider.com Corporate Insider Ratio of Sells to Buys

Corporate insider liquidations are exceeding open market purchases by more than 4 to 1.

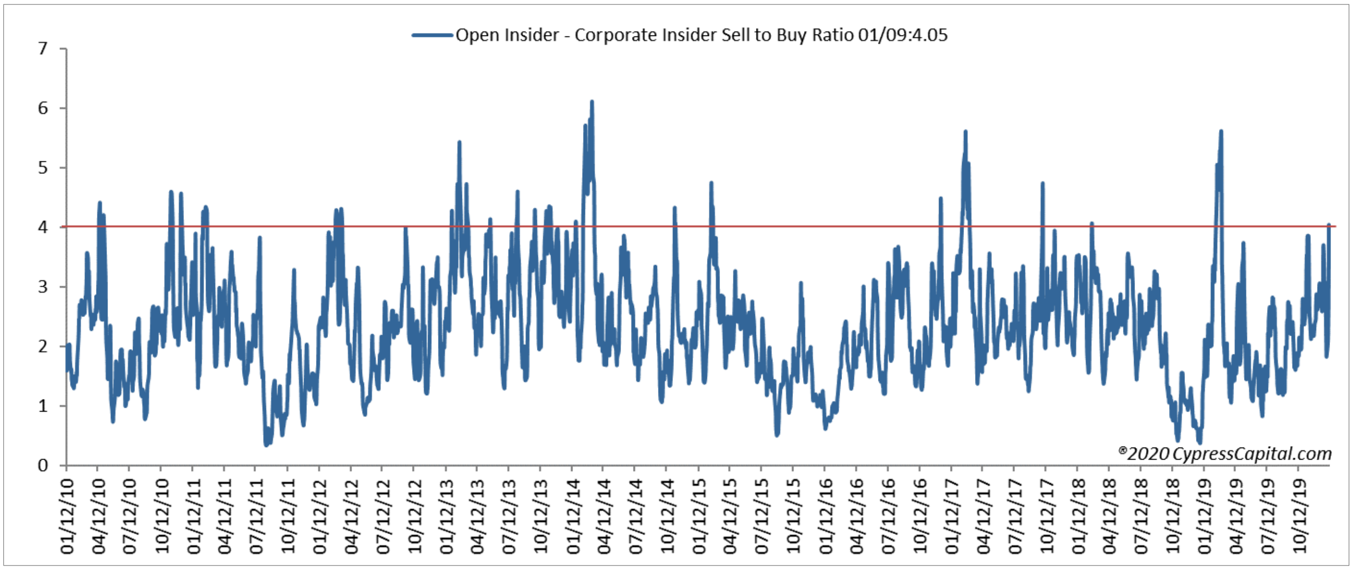


Chart – Leveraged broad market bets hits a new all-time high

Assets in geared ETFs and funds, chasing leveraged long bets on the broad US market, hit all-time highs this week, nearly surpassing $19b. These totals include assets in broad market focused Proshares ETFs, Direxion ETFs, and Rydex mutual funds.

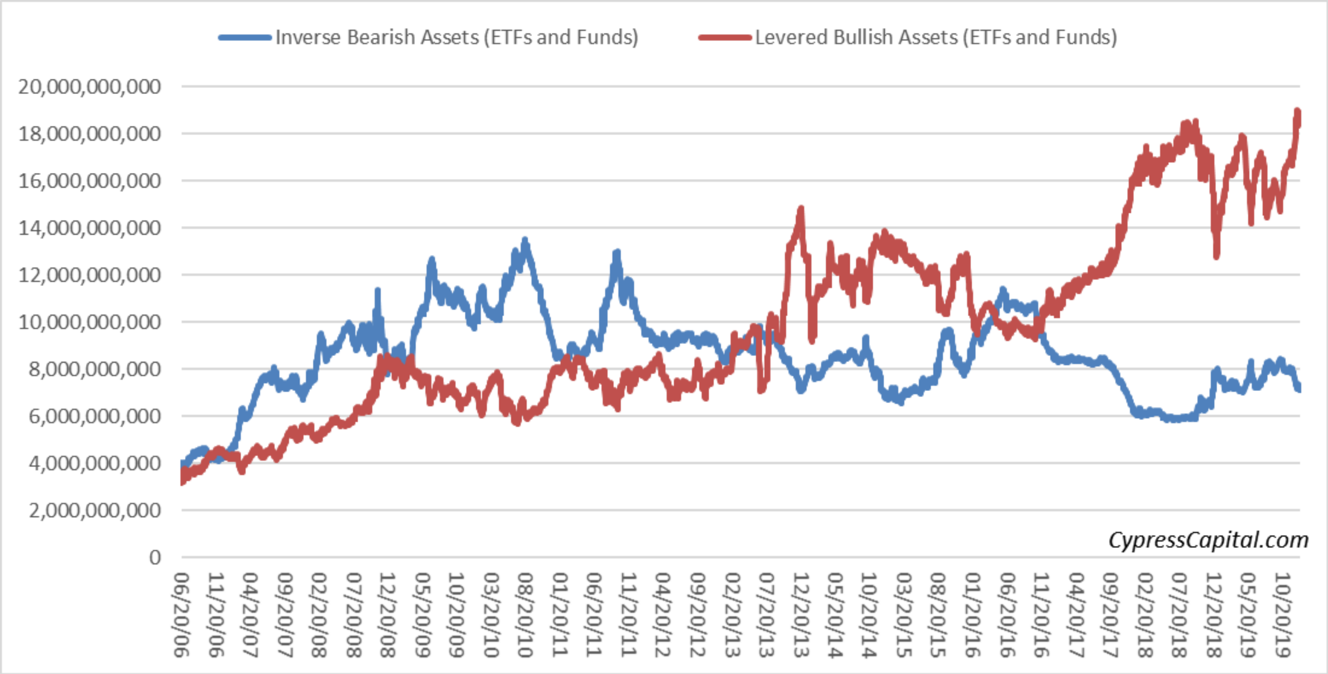


Chart – Ratio of Levered to Inverse assets breaks to highest level since 2018's all-time high

Our psychology composite uses volume for calculating leveraged ETF sentiment, because the trend is more stable, but with levered assets reaching new highs, it's worth a look. The ratio of assets in leveraged funds relative to inverse funds has broke above 250% but shy of the 2018 record, when bullish to bearish bets exceeded 3 to 1. The market's broad breakout in 2013 was the point where investors began to embrace a new level of risk, and Trump's election and ensuing tax cut marked the point where these aggressive investors began to throw caution to the wind.

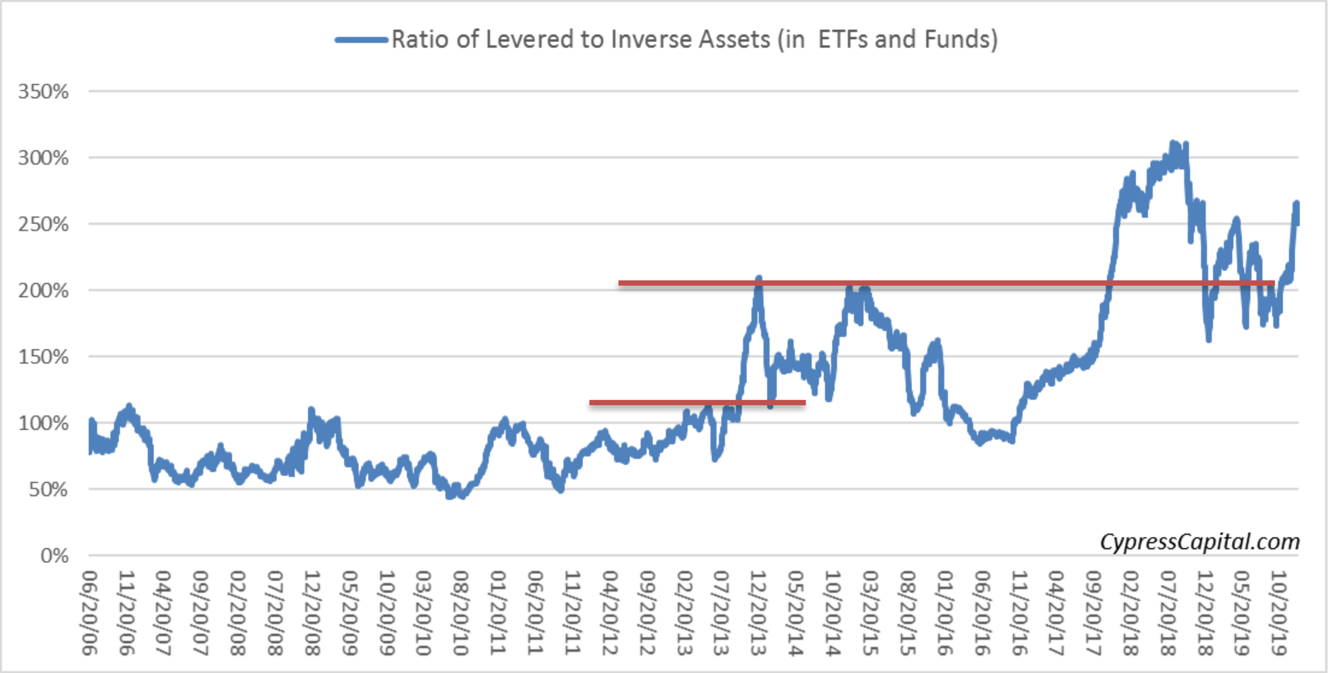


Chart – ARMS Index is rolling up from a key level

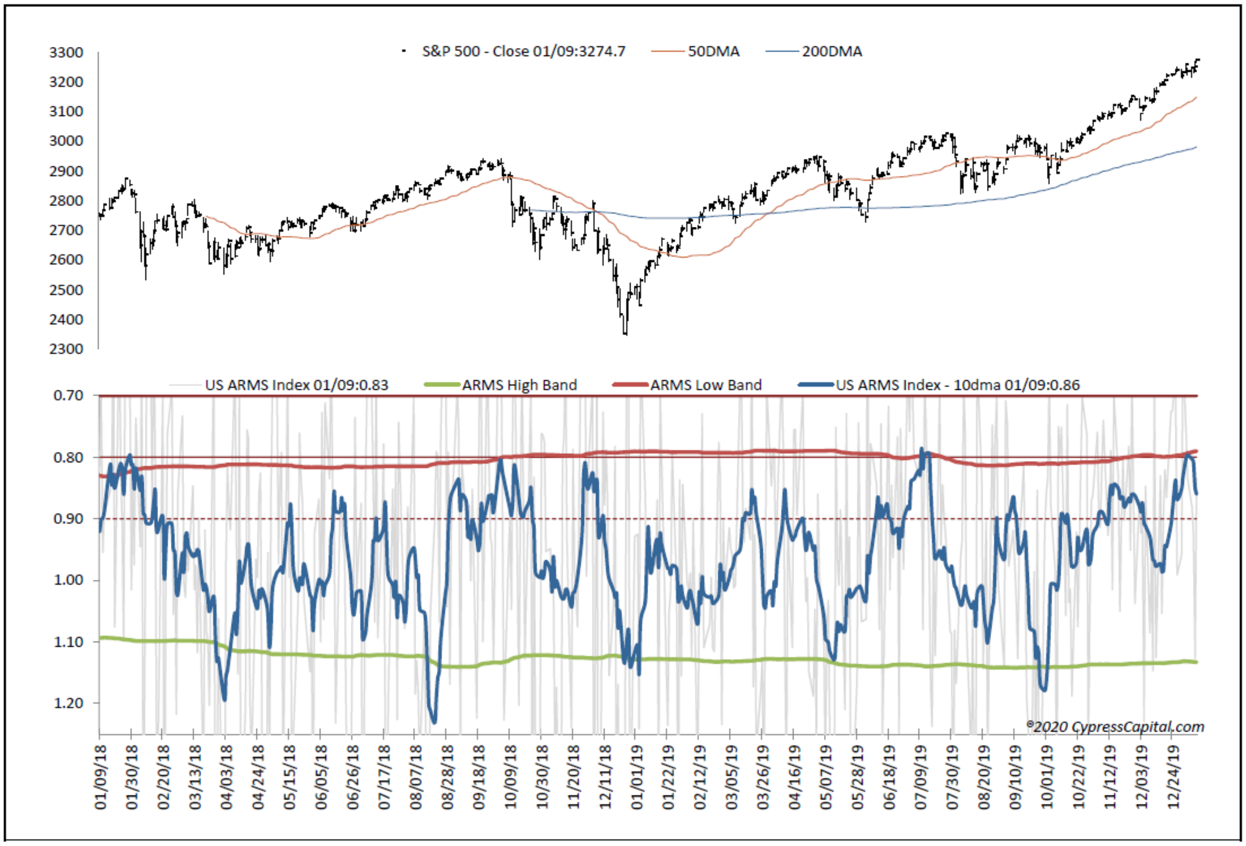


Chart – Breadth is rolling over

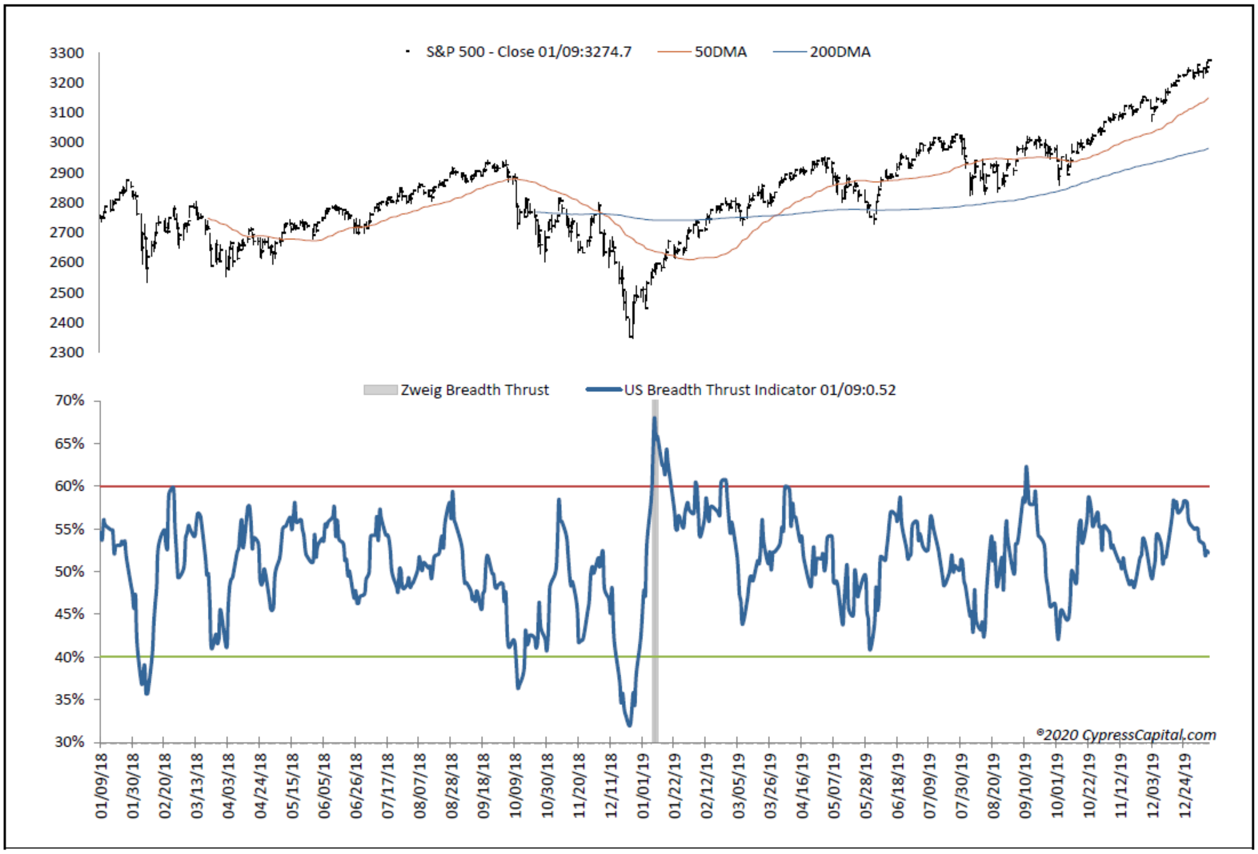
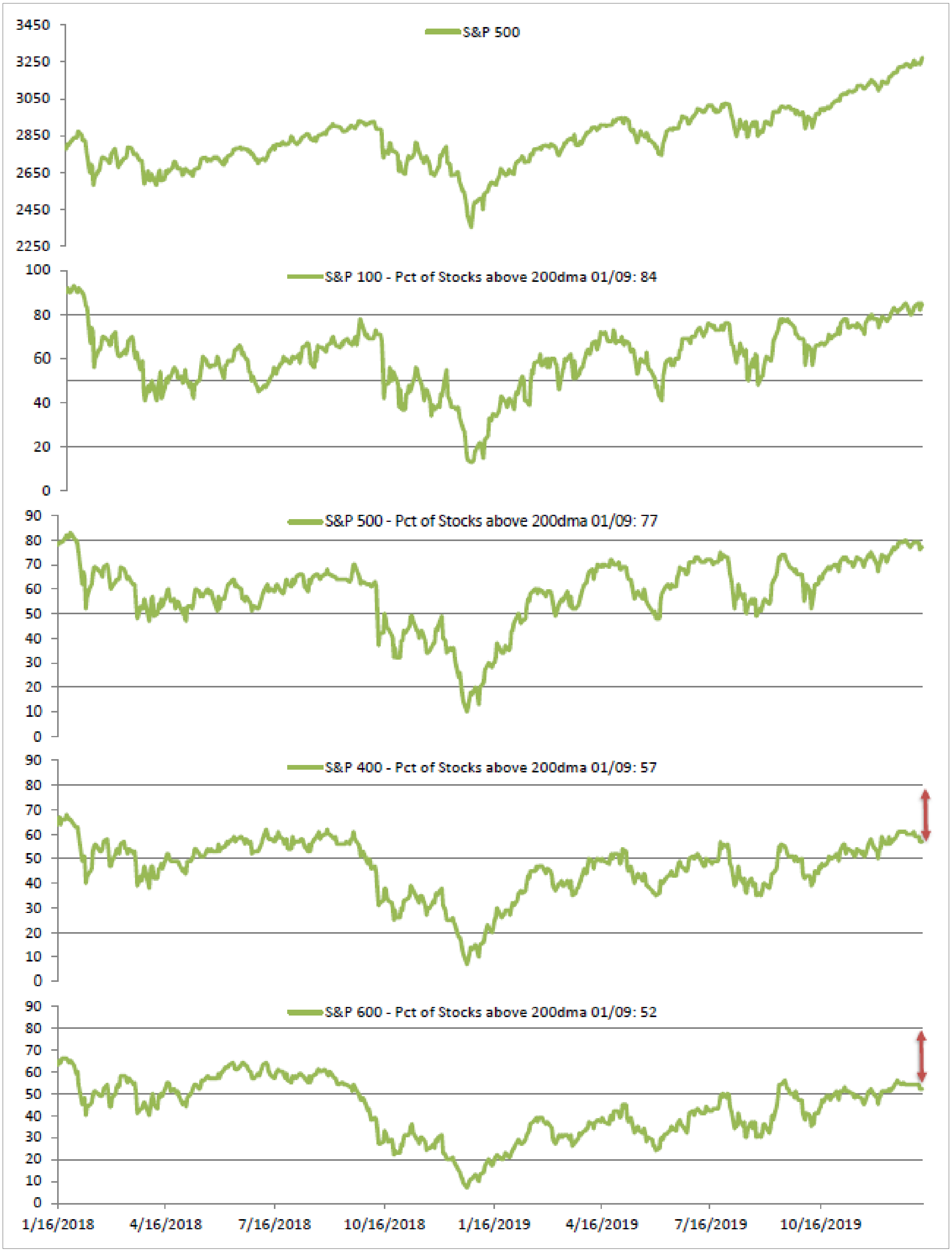


Chart – Percentage of stocks trading above their 200 day moving averages.
This holds across a number of different indices – the most participation is occurring in the most concentrated of the cap-weighted indices. NASDAQ 100 and S&P 100 have hit the key 80% level, while smaller cap indices like the S&P 600 and Russell 2000 are nowhere close. You have to go back to the breakout in 2013 to find a market with participation that was undeniably strong.



Source: Cypress Capital

Asset Management – Portfolio Lineup

The essence of investment management is the management of risks, not the management of returns.
– Benjamin Graham

Select Dividend – Bottom up risk managed dividend portfolio of up to 40 stocks that can hold cash and fixed income when markets aren't presenting attractive individual equity opportunities. Portfolio built upon Cypress Capital's own metrics that measure dividend quality and safety. The portfolio is divided 75/25 into payers and growers. Payers are stocks with above average yields and a long-term history of paying dividends, where the dividend is perceived to be safe. Growers are companies with high total shareholder yields and perceived to be high quality, franchise companies. The portfolio is generally made up with familiar, household names.

Global Allocation – Multi-asset class portfolio that invests in low cost exchange traded funds across eight asset classes based upon the margin of safety offered by each asset class in an effort to avoid significant drawdowns.

Strategic Income – Disciplined, value biased income portfolio that practices patience in awaiting excellent risk reward opportunities in fixed income. Disciplined in its refusal to reach for yield and put capital at risk of permanent impairment.

Asset Neutral – Absolute return focused multi-asset class portfolio that allocates assets based upon the margin of safety offered in each asset class. Portfolio can go defensive and hold up to 100% cash in some environments.

US Opportunity – Concentrated value portfolio of up to 50 stocks that increases allocations to cash and fixed income when the margin of safety offered by equities is too narrow. Portfolio quantitatively buys the cheapest, highest quality stocks that it can find. Quantitative sell discipline sells individual holdings based on value and momentum factors.

Contact us for more information.