Market Outlook

By Mark T Dodson, CFA

No Bells are Ringing

Market Risk Index climbed to an even 50% this week on further deterioration in the Psychology Composite, as a nascent stock market rally alleviated some investor anxiety. This week, we used the stock market strength to decrease our international equity exposure.

Talk of crossing above the 50-day moving average and of strength in advancing volume from a well-respected technician (one of our favorites) seemed to ignite a little FOMO fire early in the week, but it faded some on Friday after a disappointing report from Snapchat.

Ignoring the present state of Monetary conditions and Valuations, do we think Technicals, market breadth, or internals have given any signals that the bear market is over? Nope. Not a single one of our favored metrics for market internals and breadth that we have followed for more than 20 years has given us any indication that this is a new bull market.

None of the four horsemen of market internals - our NYSE Overbought/Oversold Indicator, our NYSE 21 Day Oscillator, the more widely followed NYSE McClellan Summation, or the infallible NYSE High Low Logic Index have given any indication that the bear market is over. The first three would provide us with a clue in a signal of buying that is broad and powerful, while the last one would signal all indications of a bifurcated market have disappeared.

The Four Horseman of Stock Market Internals

Are the bull market bells ringing?	Yes/No
NYSE Overbought Oversold above 50?	No
NYSE McCelllan Summation above 2000?	No
NYSE 21 Day Oscillator above 100?	No
NYSE High Low Logic Index below 1%?	No

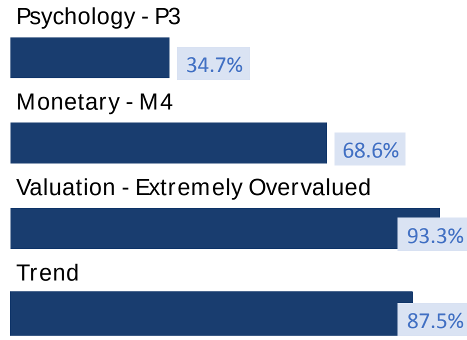
Looking back 60 years, if bells were going to ring at the end of the bear market and herald the start of a new bull, one or all four of these indicators have rung it. Those first three indicators aren't infallible – they have rung bells too early, some right as a bear market rally was ending. However, we can't even start the clock on a potential false signal (or highlight the possibility of the end of a bear market rally) because none of the four horsemen have rung a single bell.

Market Risk Index

Rec Allocation 15% Underweight

50.0%

Category Percentiles



Largest Psychology Influences

Surveys	Positive
Leveraged Investments	Negative
Option Activity	Negative
Trading Data	Positive

Largest Monetary Influences

Interest Rates	Negative
Exchange Rates	Positive
Inflation	Negative

Valuation

7-10 Year Rtn Forecast	2.5%
10Yr US Treasury Yield	3.0%

Market Trends

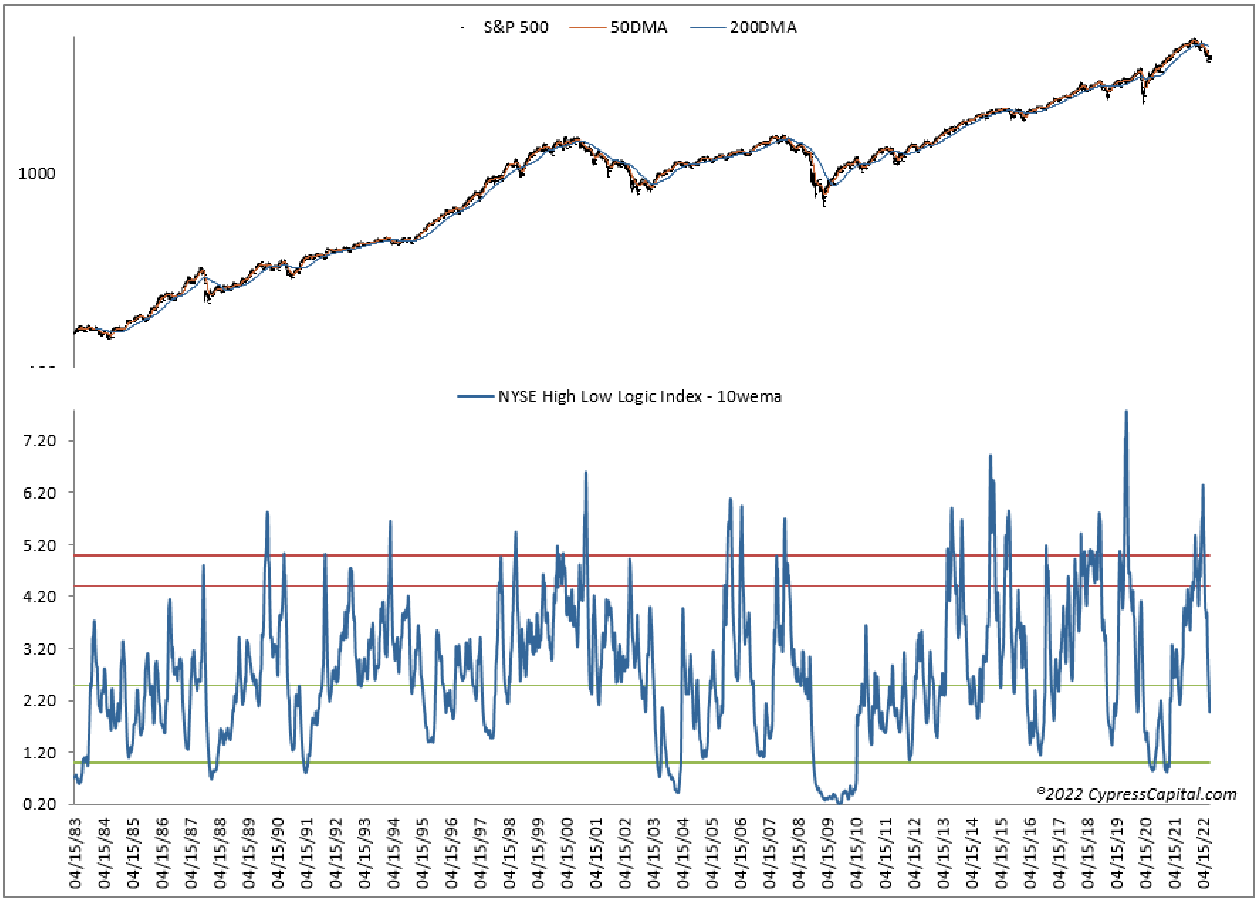
US Equities	Bullish Investment
Intl Equities	Bearish Trade
REITs	Bearish Trade
Broad Commodities	Bullish Investment

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.

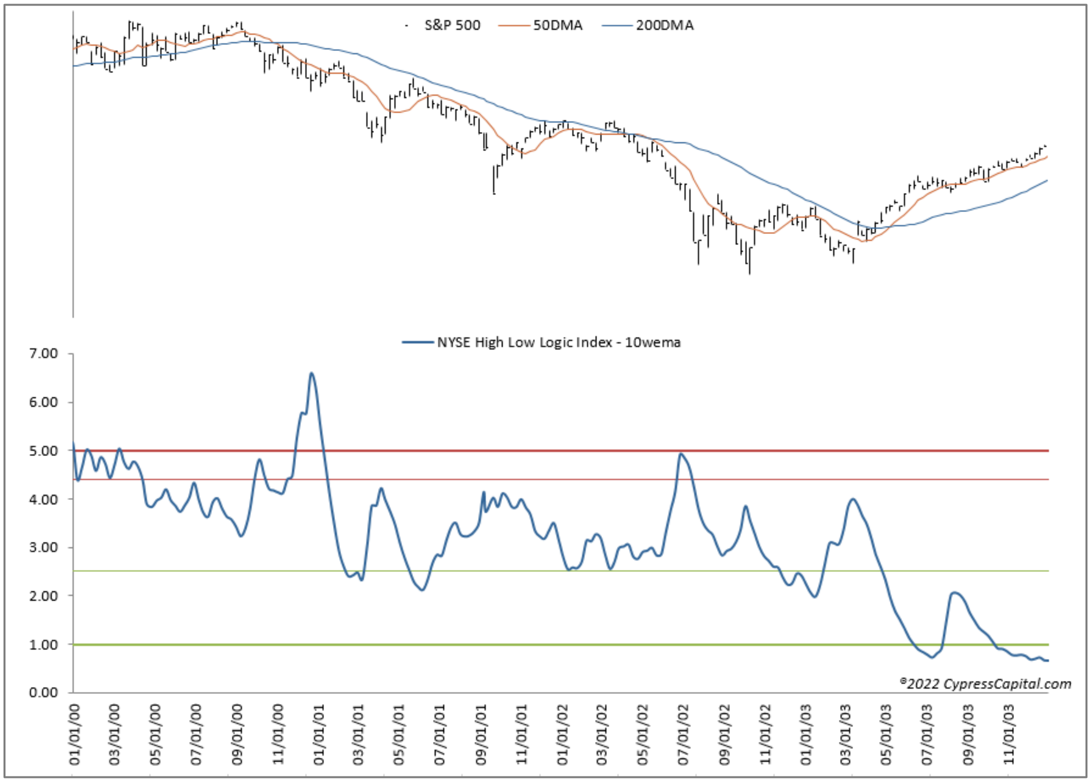
The High Low Logic Index stands alone in that it has heralded the start of every single bull market since 1960 without a single false signal. We aren't sure why this technical indicator isn't more widely followed than it is. It's right up there with our Bond Momentum indicator in this respect, but few investors seem to care or follow either of them as closely as they should. That suits us fine.

Charts of the Week

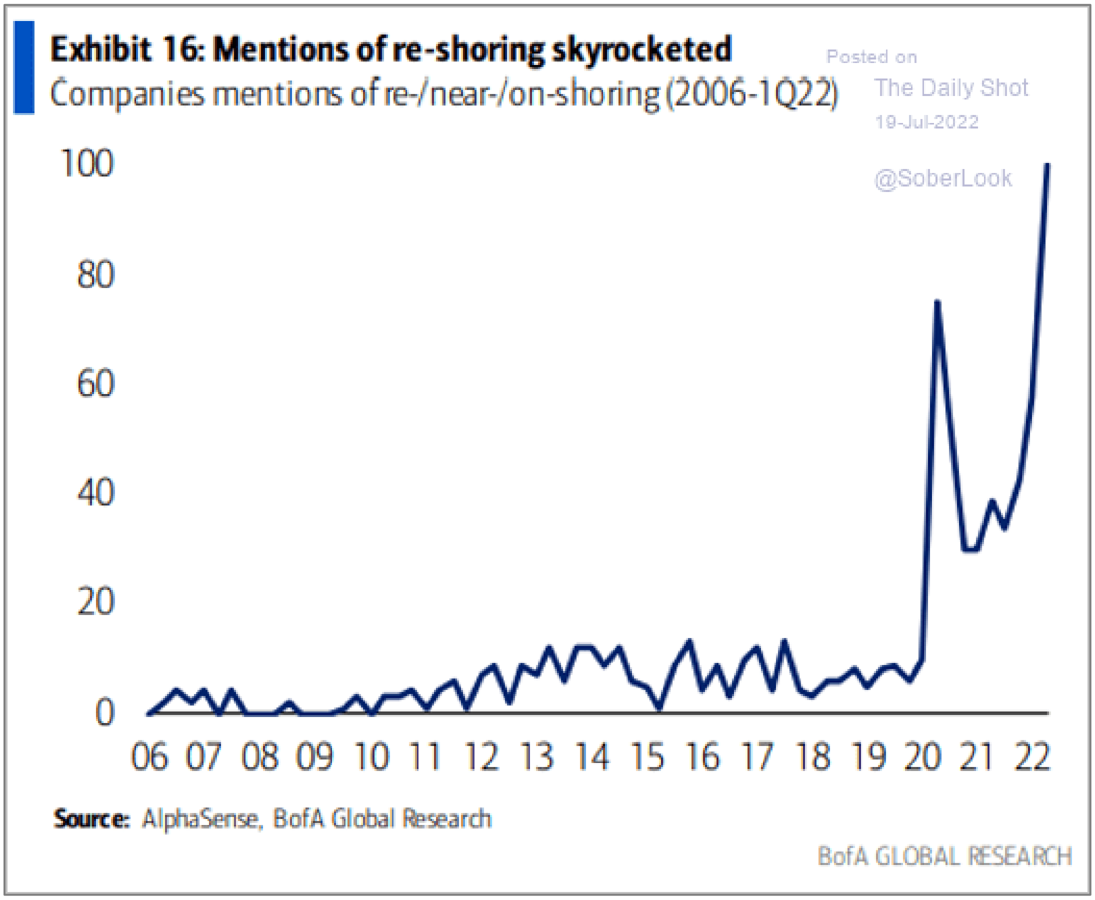
NYSE High Low Logic Index signals a minor buy signal but hasn't the new bull market threshold.



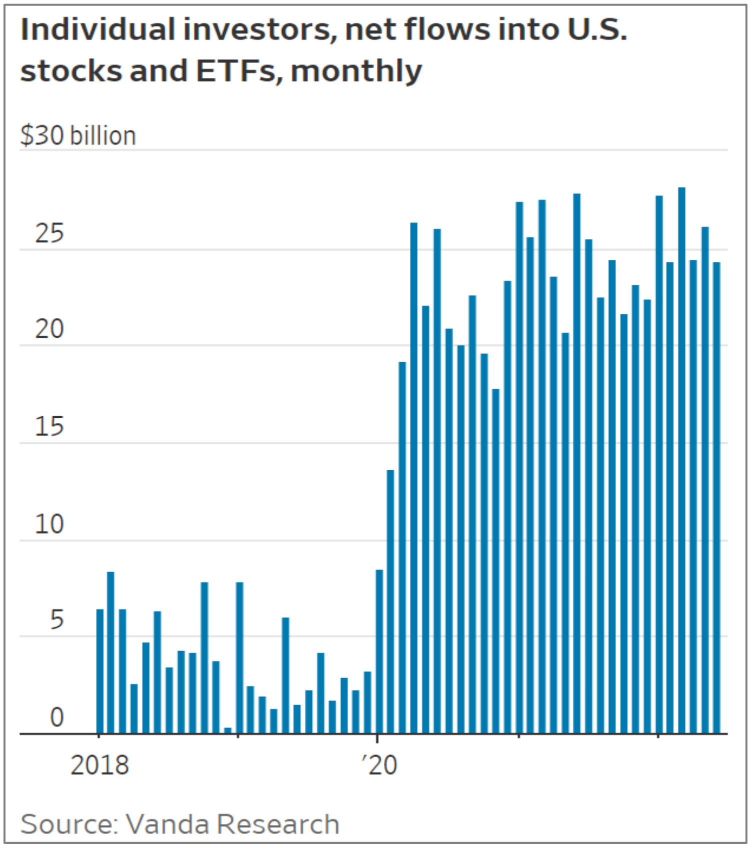
Minor buy signals on NYSE HLLI in the 2000-03 bear market signaled the start of bear rallies.



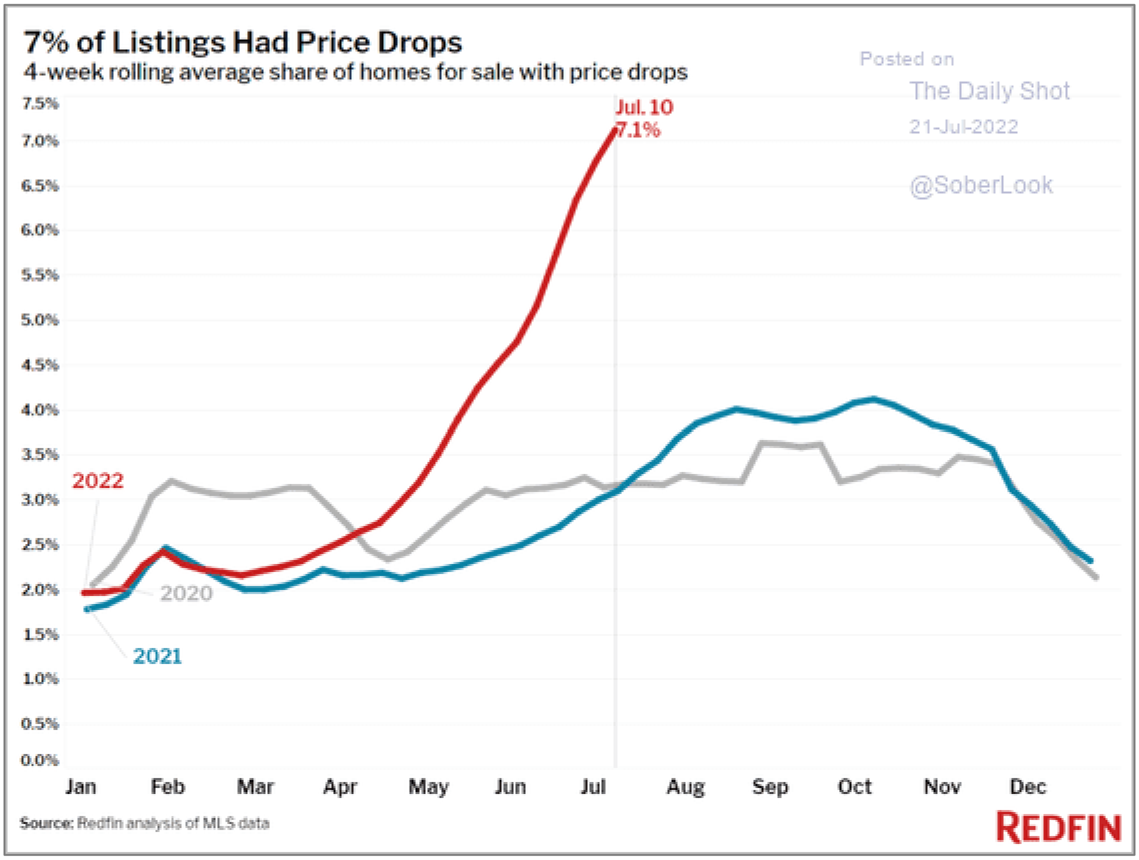
Is the World still Flat? Company mentions of re-shoring set a record.



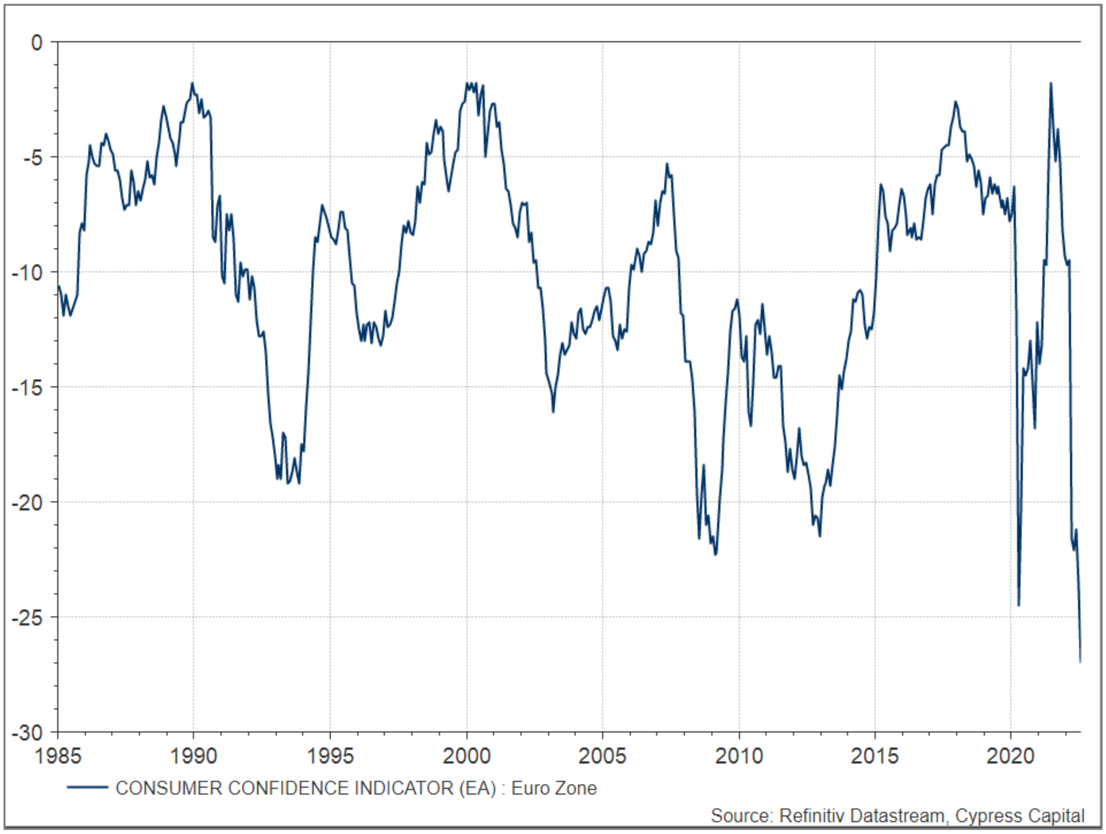
Retail investor in-flows have remained steady despite the bear market.



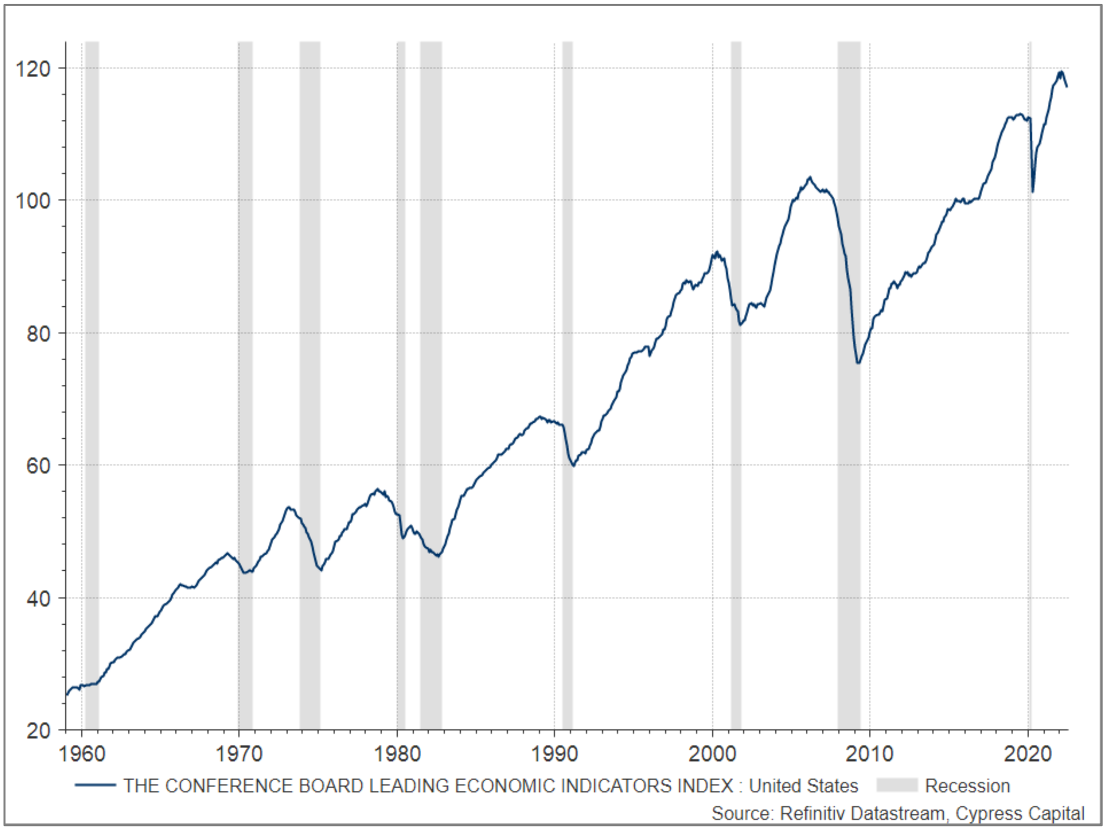
Residential Real Estate is no longer a seller's market.



Inflation and recession concerns drive European Consumer Confidence to a record low.



The downturn in Leading Economic Indicators is looking recessionary.



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. A portfolio built upon Cypress Capital's metrics that measure dividend quality and safety. The portfolio is divided 75/25 into payers and growers. Payers are stocks having above-average yields with 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 of 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 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. The 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.