Market Timing

Advisors Sentiment

8 July 2020 By John Gray

Investors Intelligence

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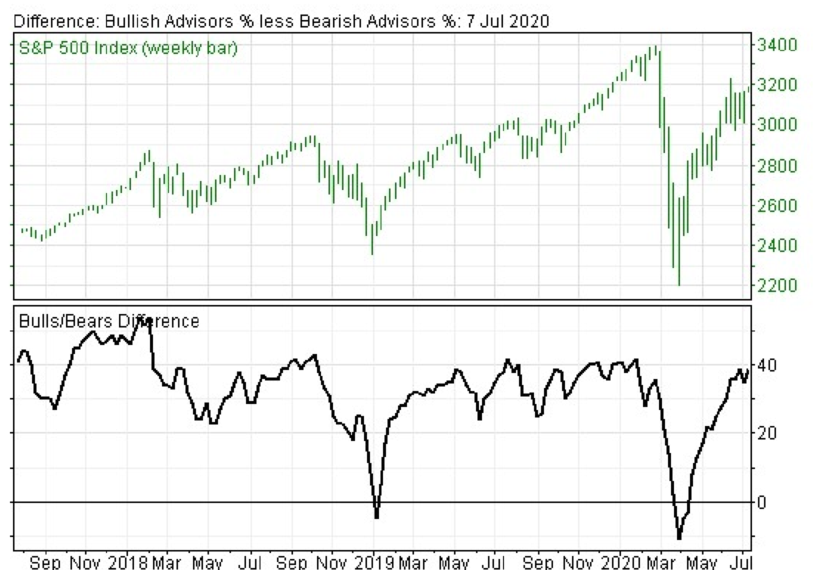
Overview

Stocks again shifted their short term direction, recovering their prior weekly losses over the holiday shortened week. Big tech stocks starred, sending the Nasdaq Comp (+4.62% over the four sessions) and 100 (+5.00%) to new records even after slippage Thursday afternoon. The DJIA (+3.25%) and S&P 500 (+4.02%) each bounced off technical support at their 50-day MAs, action that contributed to increased optimism among editors. Confirming highs from those NYSE centered indexes could push the bulls into the same danger zone around 60% that occurred mid-Jan. The Russell 2000 (+3.85%) remains about 18% below its Aug-2018 peak, reflecting the relative underperformance of many stocks. One major divergence is the lack of individual stocks at new 52-wk highs even as the primary averages are doing so well.
Our short term indicators also strengthened, with new trading signals after Jun weakness and some oversold readings. They should rally further. The medium and long term oscillators remain bullish. They are now starting reversals after modest pullbacks triggered by the large 11-Jun decline. We remain positive for the near term.

The **bulls** advanced to **57.7%,** after a small dip to 54.5% last issue. That is their high since mid-Jan when they peaked at 59.4%. (That was just below their Sep-2018 reading at 61.8%). Our rules says bulls above 55% calls for defensive measures - tight stops at the minimum and possibly some selling among shares with big gains. Bulls around 60% signal increased danger the higher they get, and the need to prepare for a market decline. Sentiment top signals can take month before markets decline. The current bulls are up substantially from just 30.1%, shown near the 23-Mar market lows. That was the fewest since Dec-2018 ended with a similar 29.9% count. Bulls near 30% say cash is high after a market tumble for a lower risk buying chance. Those signals are much quicker.

The latest market surge trimmed the **bears** to **18.3%,** from 19.8% a week ago. That is the fewest since below 18% readings in Jan. Those low levels were also seen for the last nine months of 2019. This year, as stocks tumbled to late Mar lows, the bears jumped to 41.7%. They also outnumbered the bulls for three straight weeks. That situation has been rare since the 2008-9 financial crisis. Similar elevated bearish levels were also shown Dec-18 and Feb-16, when other market selloffs ended. Bears below 20% are not favorable for longs, while high readings, especially when they exceed the bulls, are indicative of market bottoms.

A similar decline occurred for the advisors expecting a correction, as advisors shifted more funds into equities. At **24.0%** their number dropped from 25.7% last time. Those readings are down sharply from 40.9% early March, when the market retreat was in the initial stage. Late May some editors thought the correction was over and their count fell to 22.5% but after the sharp rally early Jun they again expected another retreat. High counts for this group are not favorable for market gains. Low, near 20%, suggest diminished risk and near-term upside potential, signaling plenty of cash on the sidelines.



The ***bull-bear difference*** expanded to **+39.4%,** from 34.7%. That widest positive ***spread*** since mid-Jan (then +41.5%) and another increased call for caution. It also represents a 51.0% change from the -11.6% negative difference at the Mar lows. Then the bears outnumbered the bulls for three weeks. That has been rare since 2009. Negative spreads point to lowered risk for longs the larger they get! Other similar buying chances were -4.7% in Dec-18, -14.5% in Feb-16 and -25.0% in late Oct-08. In contrast, that Jan-20 peak spread was followed by a mid-Feb-20 reading at +35.8%, as indexes hit repeated highs to start this year. Above +30% counts show more risk the higher they

get, with defensive measures appropriate above 40%. Prior to +41.5% in Jan this year we saw a +43.2% spread late Sep-18, just before the S&P 500 corrected 19.7% to its Christmas Eve low that year.

Bullish Themes

"Stock market investors discount the future, and in response to the pandemic, which should be regarded as a major natural disaster, investors are now discounting economic prospects over a longer time frame than usual. That means 2022 for the purposes of valuation.
We are estimating a price earnings ratio of 20-times forward operating earnings during an extraordinary period marked by short-term interest rates close to zero, and benign inflation figures. In this case, on a present-value basis, the stock market is less overvalued than it would otherwise appear. A preliminary S&P 500 operating earnings range of $160 to $165 in 2021 would support a target range of 3200 to 3300, using a P/E ratio of 20. A return to normalized growth in 2022 would justify higher target levels as long as the corporate tax rate stays at 21%. Our model portfolios have remained fully invested this year based on our view that the COVID-19 pandemic is a temporary event. We continue to recommend a dollar-cost-average approach for new money." (1-Jul-20)
Bob Brinker's Marketimer, Littleton, CO ***www.bobbrinker.com***

"The Dow Industrials and Dow Transports closed below their 11-Jun closing lows on 26-Jun, while the S&P 500 Index avoided a move below its 11-Jun closing low. The stock-market exposure of our buy lists is being decreased by about 3%, to a range of 89.1% to 90.5%. While that may seem like a modest reduction, we think it makes sense, for at least five reasons:
The S&P 500 Index held its June low. Textbook Dow Theory analysis considers only the action of the Industrials and Transports. But we are increasingly using the S&P 500 as a check on the price-weighted Industrials, which have become top-heavy as stock splits have fallen out of favor. Ten stocks now comprise nearly 58% of the Industrials. Also, as the most widely watched index, the S&P 500 is now the benchmark with the most power to influence investor psychology with its movements.
The averages have bounced since 26-Jun, with gains of 2.9% in the Dow Industrials, 3.9% in the Dow Transports, and 3.5% in the S&P 500. The 8-Jun closing highs are within striking distance. We'd like to see the divergence between the S&P 500 and the other averages resolved before we make more dramatic moves. This divergence could be resolved with a breakdown to fresh lows — or with a move above the 8-Jun closing highs. From current levels, a breakout above those levels would require gains of 7.1% in the Dow Industrials, 9.8% in the Dow Transports, and 3.7% in the S&P 500.
Even with a breakdown below the recent lows, we are unlikely to make a huge move into cash. This year's market action, with big moves compressed into short time periods, has forced a more tactical and short-term approach to the Dow Theory." (6-Jul-20)
Richard Moroney's Dow Theory Forecasts, Hammond, IN ***www.dowtheory.com***

"Over the last year or two, the main narrative in equity-land was TINA — "There is no alternative" to stocks. Most analysts said that interest rate vehicles yielded too little, and gold was a "barbarous metal." Yet, while stocks are up from a year ago, I continue to classify the trend evidence as "mildly bullish." The fact is that both bonds and gold have outperformed stocks over the last year. And this is true for the last two years as well.
Of course, everyone knows that over the long-run, stocks outperform everything else. But, there are long periods where gold and bonds have outperformed. The last 20 years has been one of those periods. One could have probably won a pretty good bet on this one. If there were no alternative to stocks, there would be no need for me to talk about hedge fund strategy or even global asset allocation. But, not only do other alternatives provide diversification to stocks, they can actually be profitable alternatives.
We still view stocks as in an uptrend, confirmed by the buy signal from the Three-Day Price Thrust Indicator. In fact, currently stocks, bonds, and gold are all in uptrends. We suggest equal weighting for all three assets." (6-Jul-20)
Ned Davis at Ned Davis Research Group, Venice, FLwww.ndr.com

Correction Theme

"For the last three weeks the S&P 500 has seen a battle between bulls and bears, bounded by 3,155 to the upside and 2,965 to the downside. While the pullback from the 8-Jun high might be interpreted as having now resolved into a consolidation or trading range, our view is that we are in the midst of a more substantial correction that still has a way to go. Our reasoning is that while oscillators have pulled back they remain stubbornly in overbought territory and they should move to a more clearly discernable oversold status, which will require more corrective activity. This likely requires the S&P 500 to retrace about one-third of the entire Mar to Jun advance, which would target the area just below 2,900. This would mean the S&P 500 needs to come back below its 50-day MA which has supported the rally since early May. We expect the S&P 500 will reach its pullback target area during the second half of July. It

may be a volatile journey to complete the correction, and our target area might be briefly overshot, but we are definitely not going back to the March lows!
Nothing has happened in the last few weeks to alter our view that the longer-term bull market remains in good health. The NYSE daily advance/decline line recently hit yet another new all-time high, a key characteristic of a continuing bull market. But the S&P 500 and the entire New York market needs a rest and refresher period after its stupendous rally. Although most stocks participated in the advance, just over one-half of NYSE stocks never recovered to reach the level of their respective 200-day MAs. Some of these relative laggards will present themselves as buying opportunities when the next bullish up-leg begins." (29-Jun-20)

Ron Meisels & Dave Tippin's' Phases & Cycles, Montreal, QC, Canada ***www.phases-cycles.com***

Newsletter Extracts

Markets and the Corona Bounce Back
Dan Seiver's The PAD System Report, San Diego, CA ***www.padsystemreport.com***

"The S&P 500 erased all of its 2020 losses in June, before a dose of virus reality began to set in later in the month. The NASDAQ, however, powered through 10,000, taking out its early 2020 high with room to spare. This is a big-cap (and especially megatech) rally, though, with the Russell 2000 lagging badly. The Russell is still nearly 20% below its all-time high set early in the year. When the troops lag behind the generals, it often ends with a general retreat.

Stocks are currently priced for a rapid economic recovery. We consider this highly unlikely. While rapid (and often rash) reopenings in many states will mean that 3rd quarter GDP could easily show a substantial increase, it will be following a truly massive GDP collapse in the second quarter. The reopenings have led to an easily predictable surge in new cases in the US, with Dr. Fauci warning that daily cases could reach 100,000 if current trends continue. Corona is clearly not going away, and there is still the danger of a "second wave" in the fall. It is unlikely that the White House will do anything to stem this tide, which will weaken the economy and end the pipedream of a V recovery for the economy, and for corporate profits.

Another pipedream supporting stocks is the belief that a vaccine is on the way. Reality: Most drugs never make it out of trials. Reality: There has never been a successful vaccine for any coronavirus. Reality: a successful vaccine must be thoroughly tested in a substantial and diverse population, safely produced and distributed on a scale in the billions, and confer immunity for at least a year. Immunity is rarely ironclad, and so there must also be a treatment for those who still come down with Covid-19. Reality: We must also assume that Covid-19 will not mutate to become more dangerous, or mutate to make the vaccine much less effective.

In spite of all this, the unprecedented intensity of the world research effort makes us optimistic that there will be a vaccine, but we see no way this happens before 2021, at the earliest. Until then, the US and world economies will be weakened by this invisible foe. Once the stock market swallows this unpleasant dose of reality, prices (except for Amazon of course) could easily stagger back to the March lows.

And then there is the 2020 election. Are you ready for it, Facebook? Are you ready for it, state election administrators? Wall Street, are you ready for Elizabeth Warren as Secretary of the Treasury? We will have the answers to these questions before we have a vaccine ready.

Since equities are not cheap at VLMAP 60% [Value Line's Median Appreciation Potential] we suggest portfolios hold approximately 35% cash." (1-Jul-20)

Technical Environment Improves
Martin Pring's InterMarket Review, Sarasota, FL ***www.pring.com***

"The Stock Barometer has moved back into bullish territory with a 50% reading. This places our models in a Stage II environment, where bonds and stocks are bullish and commodities negative. Historically, Stage II has proven to be the most positive for equities as the best and broadest gains have been achieved in this environment. We can also do a quick test by comparing the three markets to their respective 12-month MAs. That check also confirms a Stage II for the second consecutive month.

The Barometer has barely moved into bullish territory, but several other indicators have recently turned positive. One involves the yield on 3-month commercial paper dropping below its 12-month MA and being subsequently confirmed by a positive equity response with the S&P trading above its MA. Between 1900 and 2010, the monthly annualized gain when these conditions were in force was 21% compared to 10% for the S&P buy hold. We also note that the 10-day MA of NYSE market breadth and the 13-week ROC of the stock/bond ratio have reached the kind of levels indicative of a young and vibrant bull market.

We don't know how long the current positive environment will prevail. However, the current elevated reading in the VIX suggests that a lot of the fear reflected by this indicator still needs to be unwound before prices reach a meaningful peak. That is not meant to downplay the odds of a possible correction. In an early phase primary bull market environment such as this, very believable sharp scary sell-offs can and do develop out of thin air. A more serious resurgence of the pandemic, unwanted swings in the presidential election polls, and an abrupt upheaval in the international scene, are just a few of the unknowable possibilities. However, we believe that late March and early April saw the formation of a solid bottom that will not be taken out for a long time, if ever. The wiser policy is to look up not down.

Our bottom line is that markets anticipate economic developments the vast majority of the time, and as long as the momentum of the leading indicators continues to point north, the wiser policy is to look through an intermediate correction that may or may not develop." (30-Jun-20)

Valuations Continue to Improve
Richard Segarra's Ford Equity Research, San Diego CA ***www.fordequity.com***

"After a volatile month, equity prices on average were moderately higher for June. Stock indexes representing large, mid and small caps all ended in positive territory. As states continued to ease restrictions related to the coronavirus pandemic, positive economic impacts began to make news. The most significant was a sharp rebound in the payrolls numbers that was well above expectations. In addition, retail sales, new home sales and durable goods orders all posted increases for May. However, a resurgence in the number of COVID cases spooked investors, leading to a large mid-month sell off. Investors favored value stocks in June with peg ratio, p/e based on normal earnings, price/sales and price/value among the top performing selection factors. Price momentum was also a strong performing selection factor. Higher quality stocks didn't fare as well, with Ford quality rating, large market capitalization, share buyback and dividend growth falling to the bottom of the selection factor performance list during the month. Most of the industry groups we track posted positive average price gains in June. Notable among the top performing groups were auto & truck manufacturing, oil well drilling, and electrical equipment. Food and beverage industry groups were among the poorest performers, with dairy products, meat packing, brewing, distilling, confectionery, bakery products and packaged food all posting negative average price changes. High dividend yielding groups such as tobacco and utilities also had negative average price changes in June.

Ford's price to value ratio (PVA) is computed by dividing the price of a company's stock by the value derived from a proprietary intrinsic value model. A PVA greater than 1.00 indicates that a company is overpriced while a PVA less than 1.00 implies that a stock is trading below the level justified by its earnings, quality rating, dividends, projected growth rate, and prevailing interest rates. The average PVA for the market as a whole can provide insight into current valuation levels. The latest market PVA moved up to 0.94, from 0.87 last month. Near the Mar market lows the PVA was just 0.77. That depressed reading was last seen in 2012 and 2011, and again pointed to diminished risk. In contrast, the ratio was 1.15 at the start of 2020, failing to confirm the index records. Prior market tops showed much higher levels, including a 1.22 value in Feb-19, and a much higher Nov-18 peak of 1.39.

What's working now: Stock selection factors: Best: peg ratio, price momentum, p/e using normal eps, price/sales ratio, price/value ratio.
Worst: quality rating, market capitalization, share buyback, price gain-past 5 years, 5-year dividend growth.
Industry groups: Best: pollution control equip., auto & truck mfg., oil well drilling, electrical equipment, copper
Worst: coal, tobacco, dairy products, meat packing, natural gas utilities." (6-Jul-20)

Advisors Sentiment Table

Date	DJIA	S&P 500	Bullish Advisors %	Bearish Advisors %	Correction Advisors %
Tue Jul 7, 2020	26,287.03	3,179.72	57.70	18.30	24.00
Tue Jun 30, 2020	25,812.88	3,100.29	54.50	19.80	25.70
Tue Jun 23, 2020	26,156.10	3,131.29	57.30	18.40	24.30
Tue Jun 16, 2020	26,289.98	3,124.74	54.90	18.60	26.50
Tue Jun 9, 2020	27,272.30	3,207.18	56.90	20.60	22.50
Tue Jun 2, 2020	25,742.65	3,080.82	53.50	23.70	22.80
Tue May 26, 2020	24,995.11	2,991.77	50.50	23.80	25.70
Tue May 19, 2020	24,206.86	2,922.94	49.00	24.10	26.90
Tue May 12, 2020	23,764.78	2,870.12	47.10	26.00	26.90
Tue May 5, 2020	23,883.09	2,868.44	48.10	26.90	25.00
Tue Apr 28, 2020	24,101.55	2,863.39	46.60	29.10	24.30
Tue Apr 21, 2020	23,018.88	2,736.56	43.30	30.80	25.90
Tue Apr 14, 2020	23,949.76	2,846.06	40.90	32.40	26.70
Tue Apr 7, 2020	22,653.86	2,659.41	33.30	36.20	30.50
Tue Mar 31, 2020	21,917.16	2,584.59	31.40	36.30	32.30
Tue Mar 24, 2020	20,704.91	2,447.33	30.10	41.70	28.20
Tue Mar 17, 2020	21,237.38	2,529.19	34.60	32.70	32.70
Tue Mar 10, 2020	25,018.16	2,882.23	36.20	22.90	40.90
Tue Mar 3, 2020	25,917.41	3,003.37	41.70	20.40	37.90
Tue Feb 25, 2020	27,081.36	3,128.21	49.10	19.20	31.70
Tue Feb 18, 2020	29,232.19	3,370.29	54.70	18.90	26.40
Tue Feb 11, 2020	29,276.34	3,357.75	52.90	19.20	27.90
Tue Feb 4, 2020	28,807.63	3,297.59	47.60	19.10	33.30
Tue Jan 28, 2020	28,722.85	3,276.24	52.80	18.90	28.30
Tue Jan 21, 2020	29,196.04	3,320.79	59.40	17.90	22.70
Tue Jan 14, 2020	28,939.67	3,283.15	57.00	17.80	25.20
Tue Jan 7, 2020	28,583.68	3,237.18	55.10	17.80	27.10
Tue Dec 31, 2019	28,538.44	3,230.78	58.90	17.80	23.30
Tue Dec 17, 2019	28,267.16	3,192.52	57.70	17.30	25.00

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