WELLINGTON-ALTUS
PRIVATE WEALTH

BEAR MARKET WATCH

AND SOME IMPORTANT PICTURES

THE SCHENK GROUP

Peter Schenk, 778-400-2813, peter.schenk@wprivate.ca
Matthias Raps 778-400-2816, matthias.raps@wprivate.ca
Marc Vella 778-400-2815, marc.vella@wprivate.ca

June 24, 2020

Last week we wrote “Suckers Rally” which suggested we thought that the weight of evidence for the health of the stock market was not healthy.

Today I’m going to share a couple of charts that are important and can give you context for decision making in this highly unusual time. My comments will be brief.

Chart 1. S&P500 and Financials

Below we see two charts in one. The top pane is the S&P500 and the bottom pane is XLF, the ETF that represents the financial sector in the US.

I’m not a fan of the current action in the S&P500.

The Financial sector (bottom pane) is also suspect if it drops below the dashed red line. If the S&P500 and Financials sectors drop below those levels, I think you can count on more downside ahead and odds increase that we go back to test the lows in March.

Under the Hood

Chart 2: Nasdaq 100 Index

What is this ‘evidence’ I’m always on about? Have a look below.

The main chart shows that the Nasdaq 100 has been the strongest market in the world. It is a basket of the 100 biggest technology and growth-oriented companies in the US.

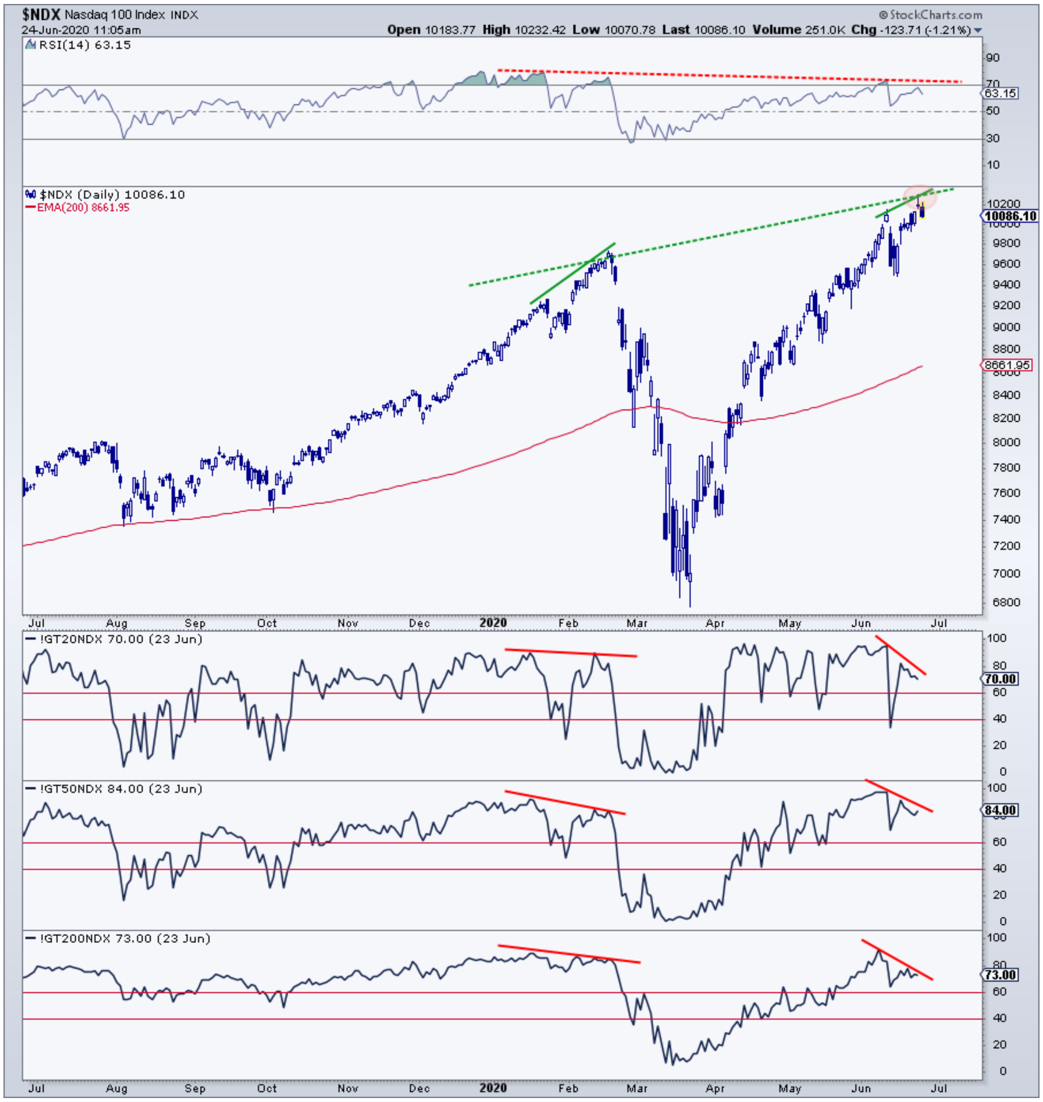
What we are seeing is, though the Nasdaq 100 is hitting a new high this week, there were a couple of problems with it.

1. Behaviour on the day of the new high (Tuesday) was something the Japanese label a “shooting star”. The point is, it jumps higher on the day and then closes near the low for the day. When that happens at the top of a trend it can often signal at least a pause in the former uptrend, if not a pending change in trend.

2. While it hit a new price high on Tuesday, it did so with less momentum than the February highs. This is what we call a negative divergence and suggests you pay for more evidence of a trend reversal.

3. Some tools critical for verifying negative divergence include watching the number of stocks that are above certain trends, like their average prices of the last 20, 50 and 200 days. In the bottom panes below, we can see that the number of stocks above those trends has rolled over. The black squiggly lines have begun to decline in June while the Nasdaq 100 went on to make new highs. Note that something similar happened before the February highs.

Chart 2 on page 3



Conclusion: They say you can't time the market. The thing is, you don't have to. All you have to do is learn what to look at to determine if market risk is high. All of our indicators and Risk Models are showing that a defensive posture is needed now. That means raising cash levels by selling laggard stocks, tightening up our stop loss levels and investing money in non-stock market-type opportunities. Yes they still exist in items like corporate bonds and alternative income generators.

Does this mean we recommend 100% cash? No. As confident as we are that our models are correct, there are no guarantees and no system is perfect. When a hockey team is short-handed, they don't put four defensemen on the ice because even when playing defense opportunities to score can appear.

If you would like to learn more about how our client portfolios are positioned, we can walk you through a more detailed demonstration online via screenshare.

Please reply with interest and our team will happily schedule a call.