



### Risk-O-Meter Inches Closer to A “Sell” Signal

I mentioned last week that the *Risk-O-Meter* was on the edge and underneath that edge was thin ice. **The *Risk-O-Meter* stays on a buy**; however, the risks did increase over the week, and now the *Risk-O-Meter* is near to a sell signal.

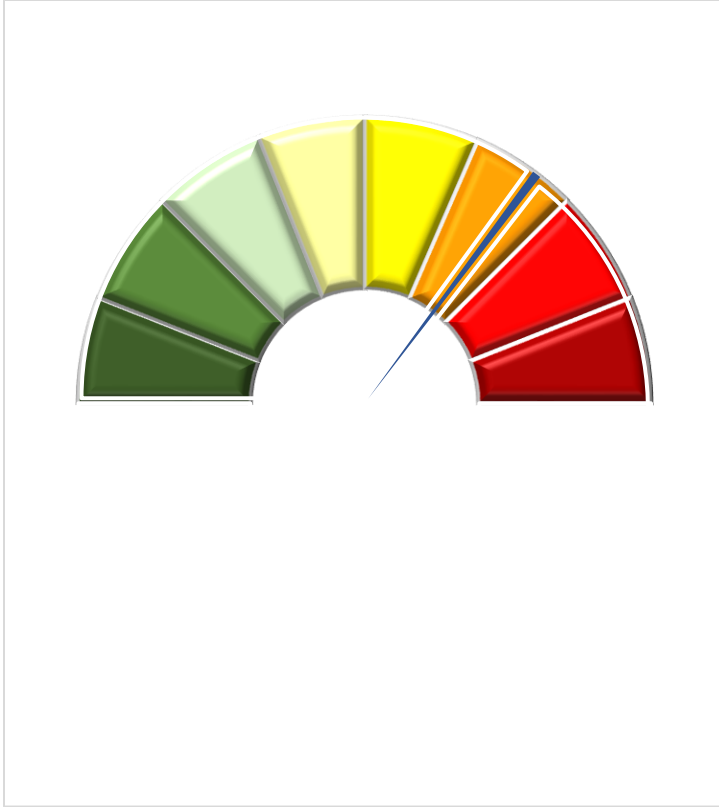
First, the volatility indicators flipped to a red flag. Volatility has been historically low for years except for a few scary periods, such as the bloodbath in December 2018 and COVID in 2020.

The next scare will likely see another massive spike in volatility.

In addition, the credit market indicators I look at have partially hit the red zone.

Furthermore, market breadth is starting to break down. I mentioned previously that there had been divergences in the market between small and large stocks. This has hurt the strategies in this newsletter, at least in the short term, because the focus here is on smaller stocks. A sell signal has not been tripped yet, but the trends indicate that many stocks are starting to run out of steam.

Lastly, market sentiment is way too high. However, since bears are nowhere to be found, I suspect that this factor will not move into a sell signal any time soon. If the other factors do, though, then the *Risk-O-Meter* will move to a sell anyway.



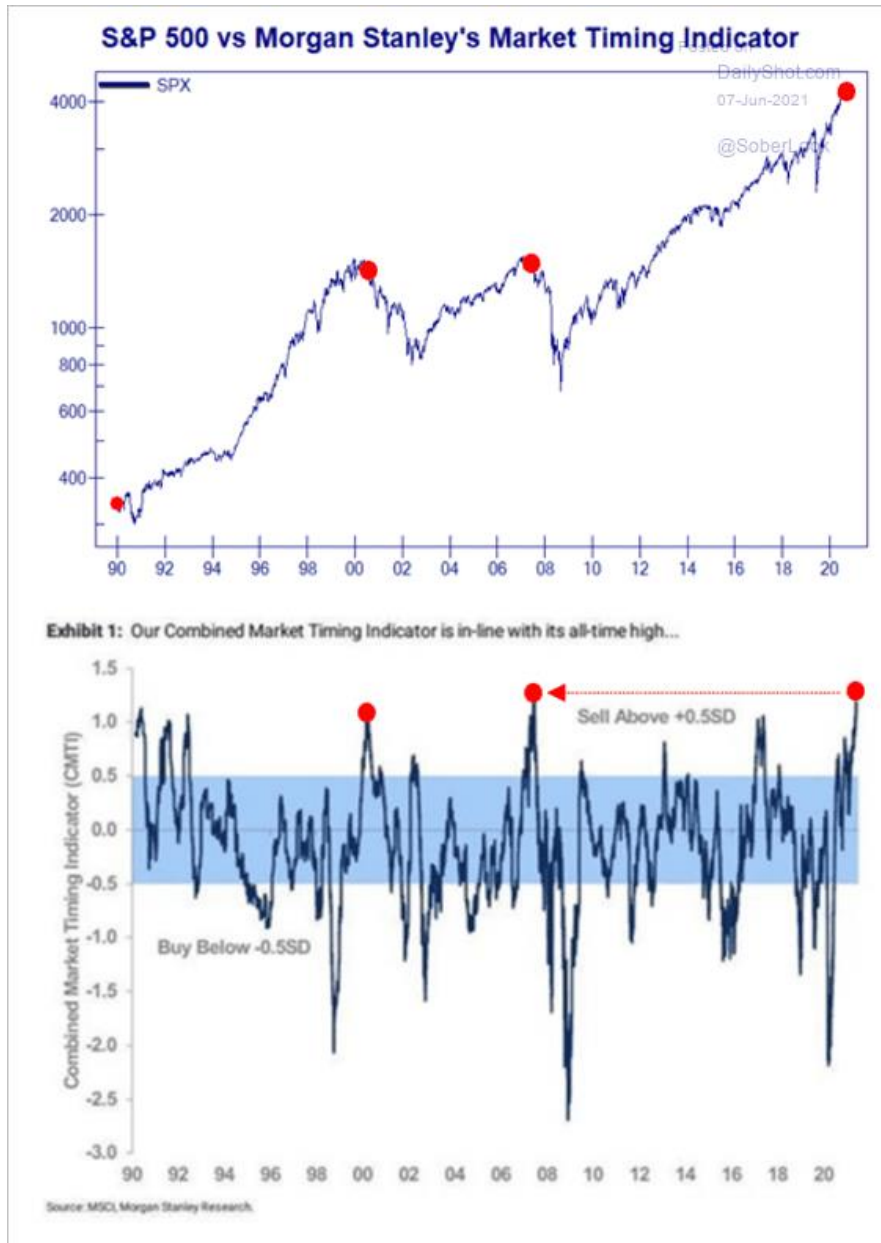
Speaking of sell signals, Morgan Stanley recently issued a rare sell signal on the U.S. market.

Wall Streeters are just a bunch of shills for Corporate America. They're also worse than the Five Crime Families of the New York Mafia. They're typically not looking out for your best interests.

In addition, these folks are perpetually bullish and go over the cliff every time there's a major butt-kicking in the market, just like a bunch of sheep.

The fact that Morgan Stanley came out with a sell signal is worth taking note of.

As the chart below shows, Morgan Stanley's composite market timing indicator has reached new highs, which is bearish for the markets. Previous significant signals include 1990, 2000, and 2007, which all preceded dramatic declines in equity indexes.

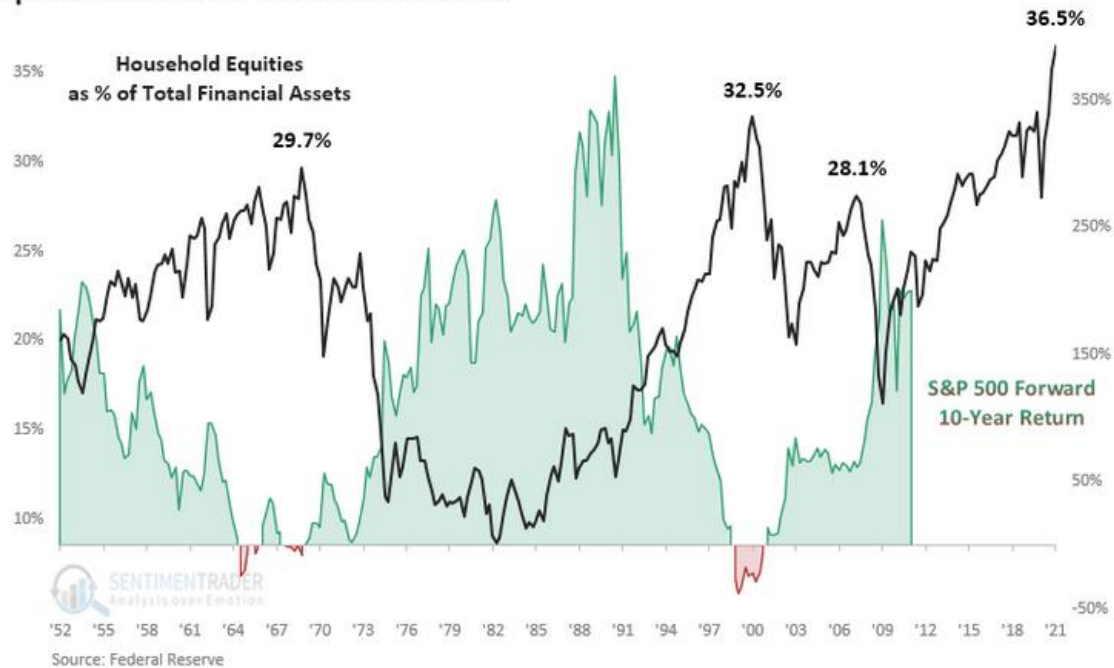


While the historical track record of the signal is impressive, current conditions in the market suggest that the next decline could be fierce.

I have already shared with you before that U.S. households are fully invested in equities, but it is worth repeating. In Addition, margin debt is exploding. Both are contrary indicators.

As the following chart illustrates, household equities as a percent of total financial assets have hit a new high of 36.5%.

### Equities account for a record % of assets



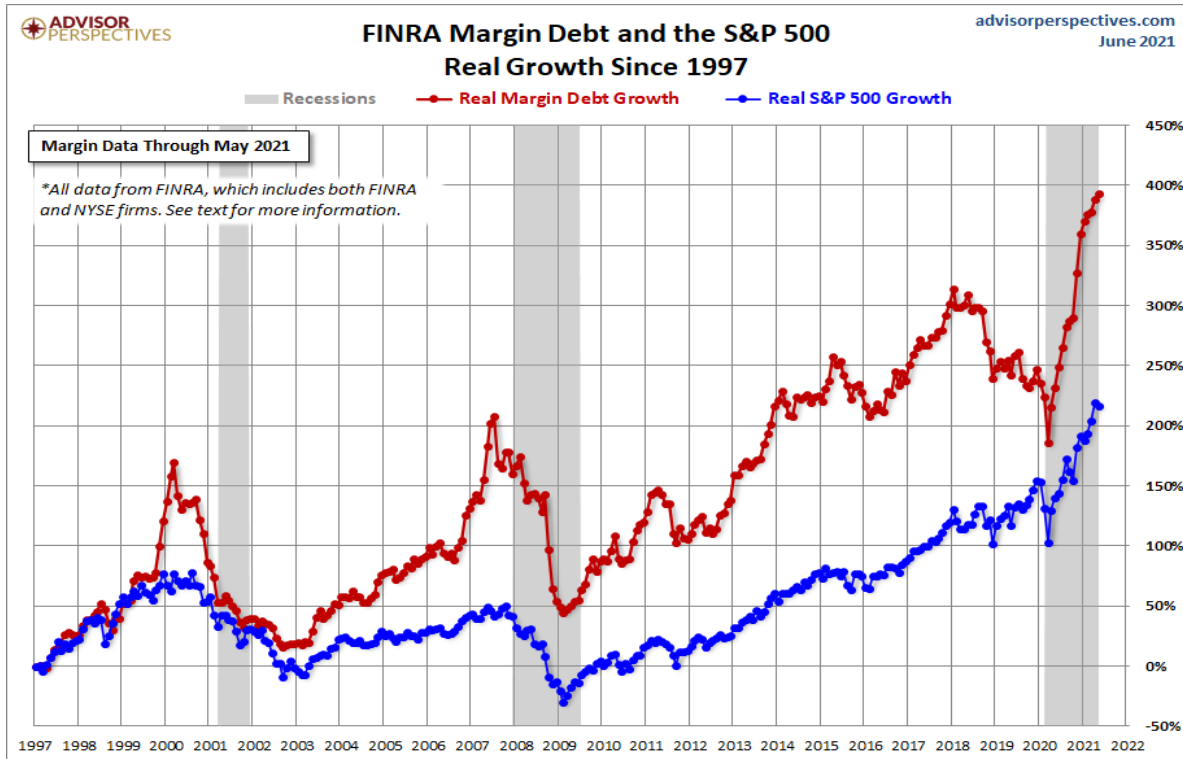
This tops the previous highs of 29.7% in the late 1960s and 32.5% near the turn of this century that preceded negative 10-year annualized returns in the market.

Quite simply, households are loaded to the gills inequities. Their holdings are more than double that of 2009, which represented a generational buying opportunity in stocks. That cycle may be coming to an end.

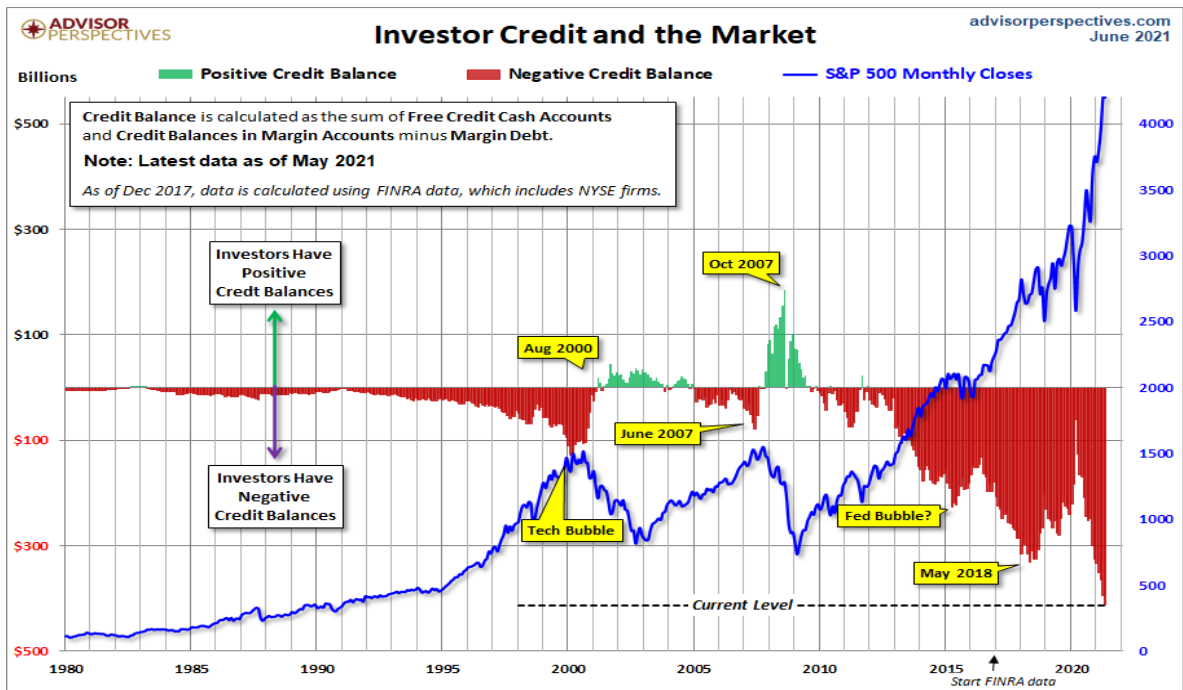
Should the cycle be coming to an end, leverage will only add fuel to the fire. The amount of margin debt has exploded and in real dollars (e.g., adjusted for inflation) is outside the norm of historical ranges.

Real growth in margin debt is literally off the charts. The following charts, courtesy of Advisor Perspectives, show that real growth in margin debt has dramatically outpaced the rally in U.S. stocks over the past 12 years.

The trend has accelerated since the COVID lows were hit last year.



Lastly, negative credit balances far exceed previously known bubbles.



The unwind is likely to happen swiftly and with tremendous damage. Morgan Stanley is making a rare bearish call on the market. Again it's worth taking note of and start preparing for turbulence ahead.

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