# Bear Market Odds Increase

Risks stayed unchanged for the week. The *Risk-O-Meter* remains on a buy signal. Investor sentiment is still flashing a warning sign while the other factors in the model teeter right on the edge of flipping red. Until they do turn into red flags, the signal stays on a buy.

CNBC recently interviewed legendary hedge fund investor Leon Cooperman. Cooperman ran Omega Advisors for decades and was consistently a top performer. Cooperman does not see a bear market any time soon (which directly contradicts other interviews he has done in the recent past), but he did make a fascinating point worth mentioning.

He said, "The market structure is broken. There are no stabilizing forces in the market now; it's all run by machines. When there's a real reason for the market to go down, it'll go down so quickly your head's gonna spin."

That's very true. A few years ago, JP Morgan put out a research paper estimating that over 85% of the volume traded is from machines. Of course, one of the most significant stabilizing forces in the market is practically a dinosaur. That would be short sellers. During panics, short sellers are covering their positions. That means they are buying stocks and support prices on the way down.

If there are no buyers, it could get excruciating on the way down. The *Risk-O-Meter* considers both fast- and slow-moving factors because no one knows what will be the driving force of a move higher or lower in the market.

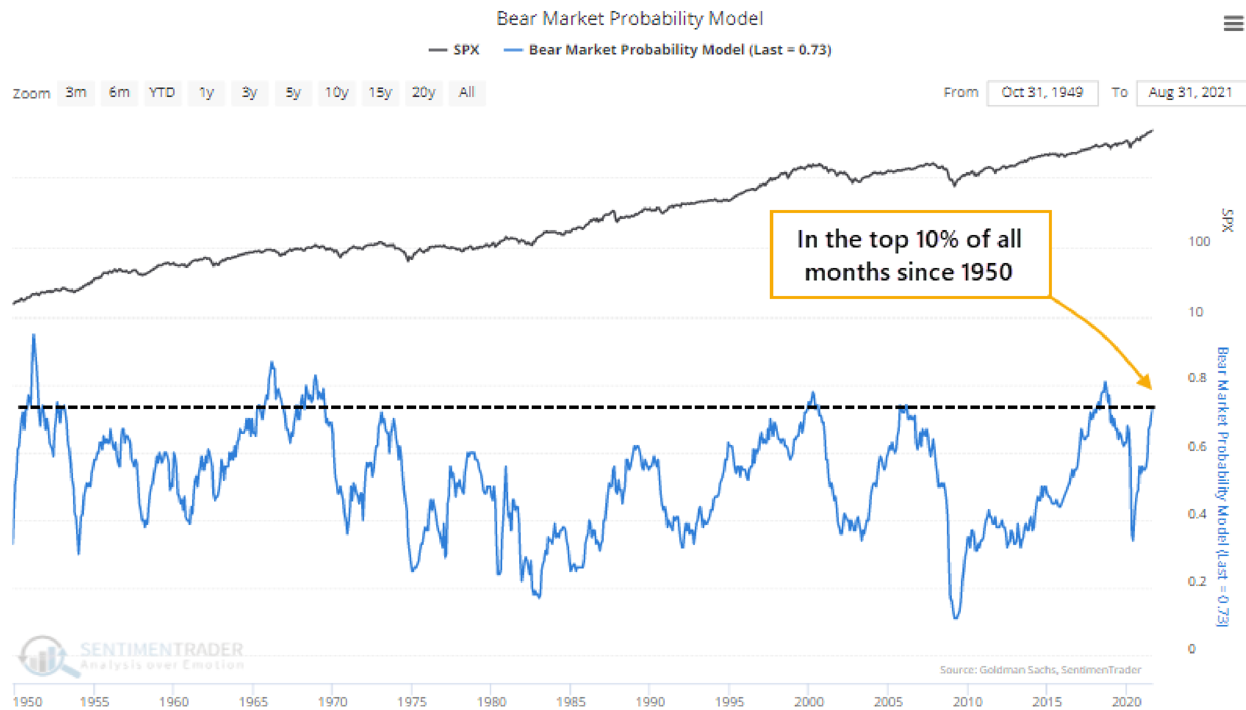
I agree, though, that a future decline could be a doozy.

How bad could it get? Well, right now, there are a few models that suggest the market may be due for a pullback.

Odds of a bear market are increasing.

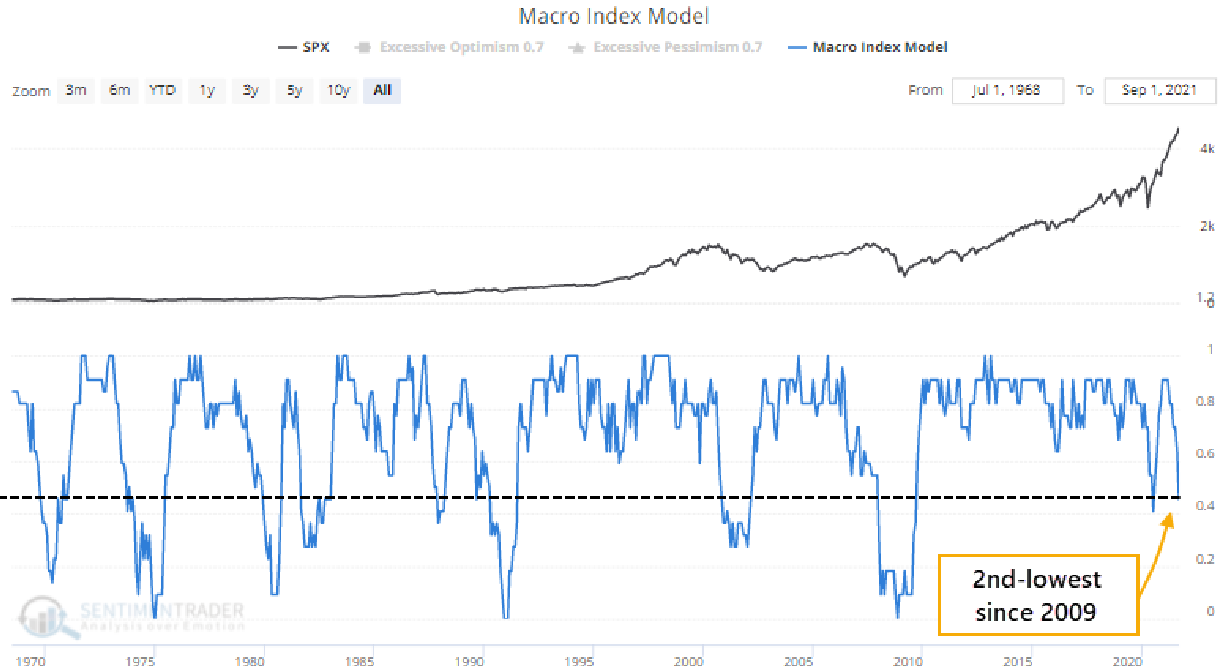
SentimenTrader.com has recently updated the Goldman Sachs Bear Market Probability Model. This model uses factors such as P/E ratios, unemployment, and the yield curve, among others.

Right now, the bear market probability model is in the top 10% of all months since 1950. That's a significant warning sign.



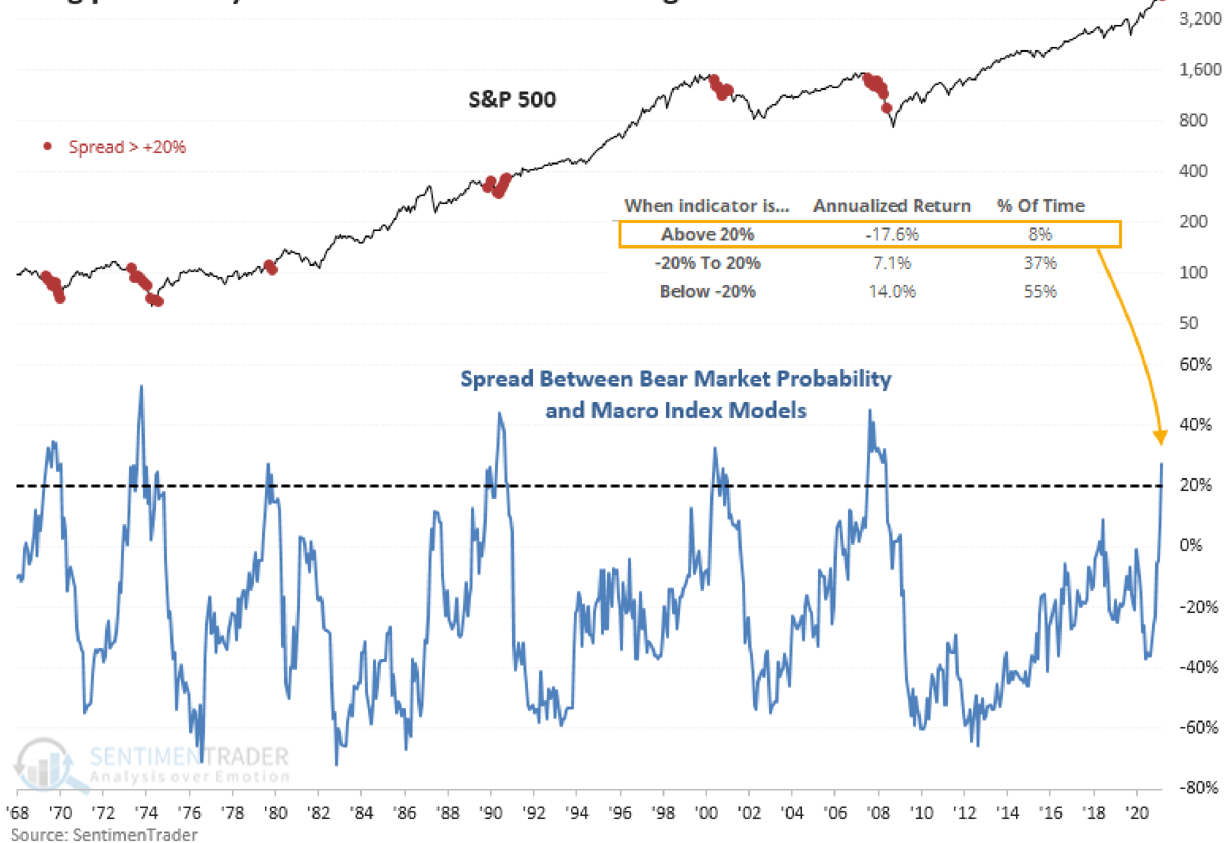

SentimenTrader then also updated its macroeconomic model. The thinking here is that the markets and the economy will move in the same direction over time. This is something that Leon Cooperman also noted in the CNBC interview.

SentimenTrader uses 11 different factors, such as new home sales and initial jobless claims. The outlook is weakening.




The real power is in combining the two models. When the spread between the two models exceeds 20%, things get ugly. The 20% spread is only exceeded 8% of the time, but the annual losses are near 18%. On several occasions, there have been even more considerable losses over two years.

It would not be out of the ordinary to have a nasty two-year bear market when the next one comes.




Cooperman doesn't see any fundamental reason for the market to break from here. Again, this contradicts statements he made just a few months ago.

However, one potential factor could tank the market, but I would put it at a low probability. One of the main issues over the coming week will be the size of Biden's spending package and how to pay for it. There's a slew of potential tax increases that are being proposed.

One of those tax increases is to tax stock buybacks. It's not clear to me the mechanics of taxing the buyback (I think the Democrats just threw a bunch of stuff on the board to try and figure out how to pay for the package). Buybacks have been a key driver of stock market performance during this entire bull market. Every day, companies buy back billions of dollars worth of shares. The reduction in the supply of shares has been a critical component in demand exceeding supply and causing prices to rally higher.

If buybacks are taxed, the market will tank.

Another proposal that I think has little chance of getting through is to tax IRAs above a certain amount. If you want to lose your election, then raise taxes on savings and people doing the right things with their money.

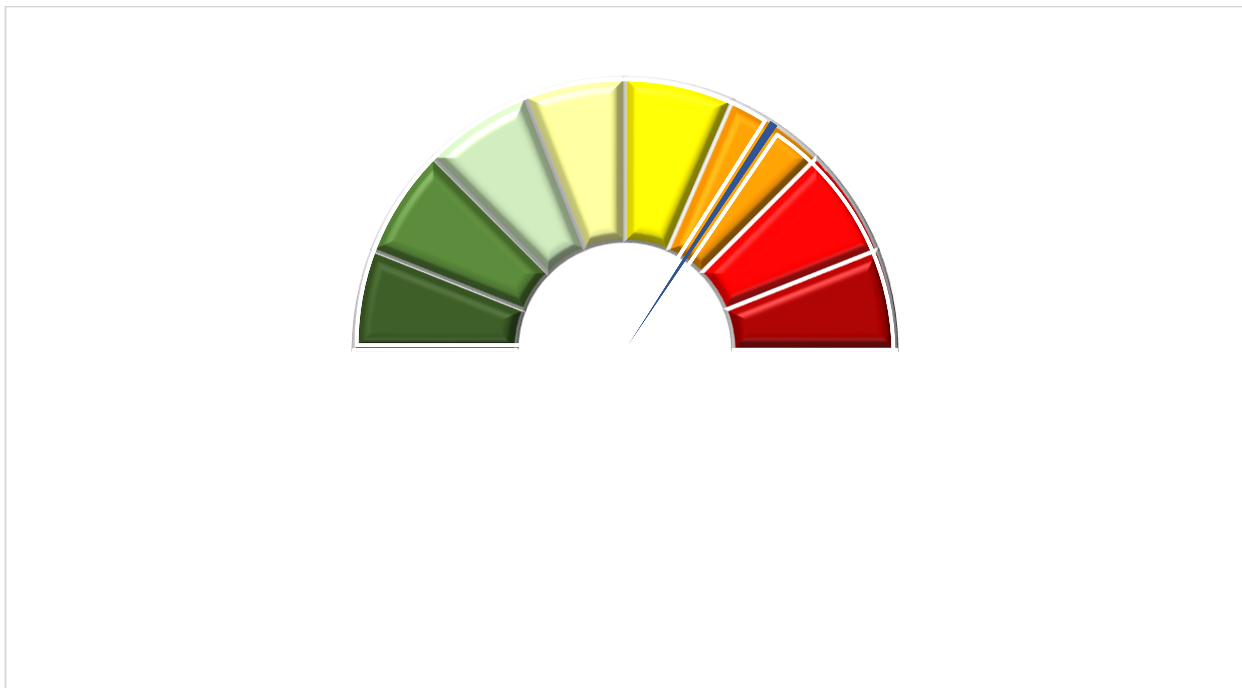
Since there will be zero Republicans voting for the package, the Democrats cannot afford to lose anyone in the Senate and only a tiny handful in the House. There are 28 Blue Dogs and 19 Democrats in the Problem Solvers Caucus (and there is some overlap between the two with members a part of both groups).

They'd be crazy to vote for these types of tax increases. They will get destroyed in 2022.

While these represent low probabilities of getting through**, it does illustrate that something out of left field could completely sink the market—an unknown unknown of sorts.**

Strange tax increases that have unintended consequences are one thing that could come out of left field.

For now, though, the *Risk-O-Meter* remains unchanged for the week and is on a buy signal, although all of the factors remain vulnerable to completely flipping very quickly.



Happy trading!

John

***DISCLAIMER:***

***THIS COMMUNICATION IS FOR EDUCATIONAL AND INFORMATION PURPOSES AND DOES NOT CONSTITUTE INVESTMENT ADVICE.*** *Any Publishing Service offered by HSD Publishing is for educational and informational purposes only and* ***should NOT be construed as a securities-related offer of solicitation or be relied upon as personalized investment advice.*** *HSD Publishing strongly recommends that you consult a licensed or registered professional before making any investment decision.*
***THE RESULTS PRESENTED ARE NOT TYPICAL OR VERIFIED.*** *HSD Publishing has not verified information regarding the historical trading performance presented. Subscribers' trading results have* ***NOT been tracked or verified,*** *past performance is not necessarily indicative of future results,* ***and the results presented in this communication are NOT TYPICAL.*** *Actual results will vary widely given a variety of factors, such as experience, skill, risk mitigation practices, market dynamics, and the amount of capital deployed. Investing in securities is speculative and carries a high degree of risk; you may lose some, all, or possibly more than your original investment.*
***HS DENT IS NOT AN INVESTMENT ADVISOR NOR A REGISTERED BROKER.*** *Neither HSD Publishing nor any of its owners or employees is registered as a securities broker-dealer, broker, investment advisor (IA), or IA representative with the U.S. Securities and Exchange Commission, any state securities or regulatory authority, or any self-regulatory organization.*
***WE MAY HOLD THE SECURITIES DISCUSSED.*** *HSD Publishing has not been paid directly or indirectly by the issuer of any security mentioned in the Services. However, HS Dent, its owners, and its employees may purchase, sell, or hold long or short positions in securities of the companies mentioned in this and future communications. John Del Vecchio is not an employee or partner of HSD Publishing. HSD Publishing is acting solely as the marketing arm for John Del Vecchio and* Unbounded Wealth: Max Profits.
*© 2021 HSD PUBLISHING. ALL RIGHTS RESERVED. 15016 Mountain Creek Trail Frisco, TX 77573.*