Market Ready to Rally?

Risks eased up this week. Specifically, risks eased up later in the week. Had the *Risk-O-Meter* been published on Tuesday, it would have been a sell. But, it's not. It's published on Saturday and a shallow correction seemed to be all that was needed for risks to lessen this week.

The *Risk-O-Meter* stays on a buy signal. Many of the indicators are close to flipping to red so next week I'll discuss how to deal with that when a sell signal finally comes.

However, for now the *Risk-O-Meter* stays on a buy. It's possible a rally over the coming weeks or into year-end could be sizeable.

Let's look at a couple of charts that illustrate that a big rally could be in the making.

First, the breadth of the NASDAQ 100 is clearly on a buy signal. The chart measures the percentage of stocks above their 50-day moving average. This percentage has plummeted from over 70% a month ago to about 25% today. The market for technology stocks is deeply oversold.

When this level is reached, it's typically been met with aggressive buying.

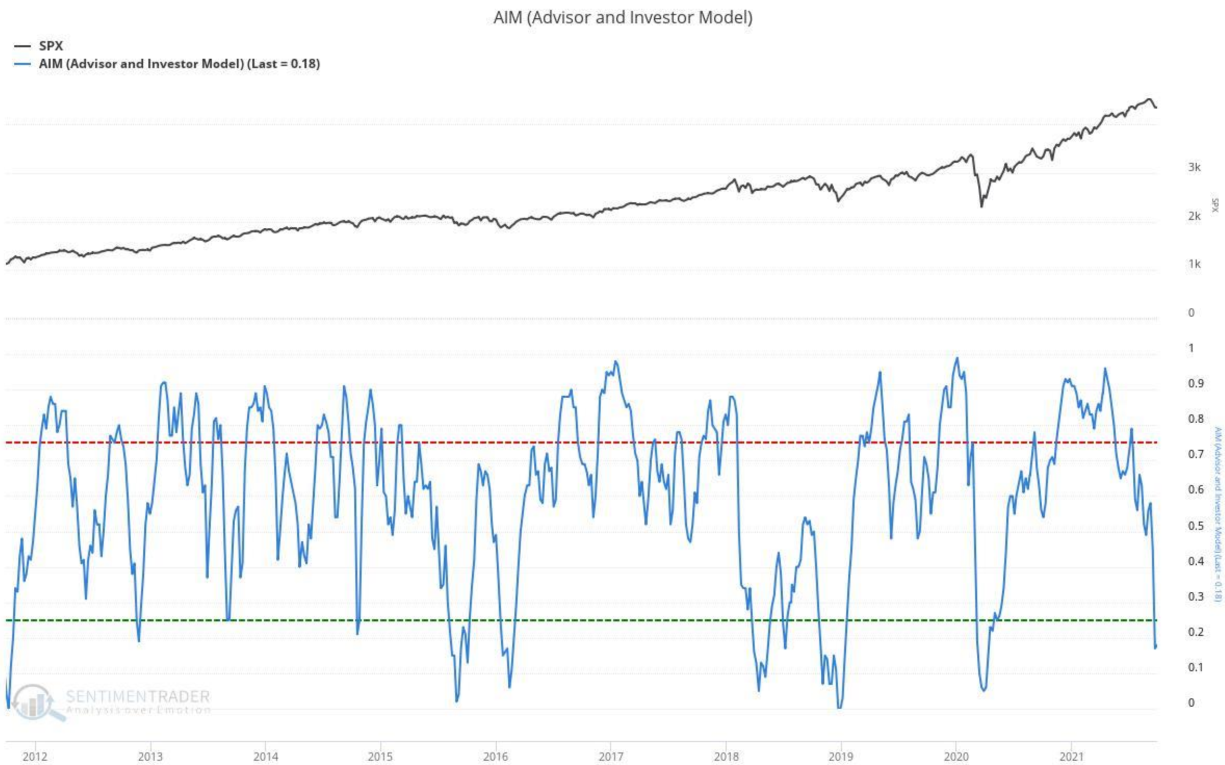
The next chart is a proprietary indicator from SentimenTrader.com that measures investment advisor sentiment.

Here’s the definition of how the indicator is constructed:

The **A**dvisor & **I**nvestor **M**odel (**AIM**) is a model consisting of sentiment readings from several popular (and some not-so-popular) advisor and investor surveys. The index is computed on a weekly basis.

This model takes advantage of the fact that when the typical investor and investment advisor should be most bullish, they are most bearish. And, when the markets are getting overbought and are about to turn, these Johnny-come-lately are most bullish. When a preponderance of the survey respondents are more bullish than they've been in the recent past, then the model will move towards its upper (red) trading band. When it approaches this band (or exceeds it), then we should be concerned that too many investors are expecting higher prices, have likely already bought, and therefore support for further prices gains is minimal.

When the model has moved towards or outside of its lower (green) trading band, then we know that investors have soured on the market's prospects to an extreme degree. This rarely lasts long, as the market has a strong tendency to rebound after such episodes. These signals are especially strong when the market tone is positive (e.g. the 40-week moving average of a broad index like the S&P 500 is rising).



Sentiment is now too bearish. Sentiment is also too bearish for the *Risk-O-Meter*. We have analyzed 50 years of sentiment data and developed trend following methods and thresholds to determine if sentiment indicates we should buy or sell the market. We didn't lick our finger and stick it in the wind and make stuff up. A lot of work went into the construction of our sentiment indicators.

They are now on a buy signal.

The news out of Washington may be bullish for stocks too. The $5 trillion in spending bills are dead for now. Joe Manchin came out this week with a $1.5 trillion number which is far less than the $3.5 trillion that Democrats want to spend on "human infrastructure" and as a result the various factions of the party cannot come to an agreement.

For now, that means taxes won't go up. That likely bodes well for stocks.

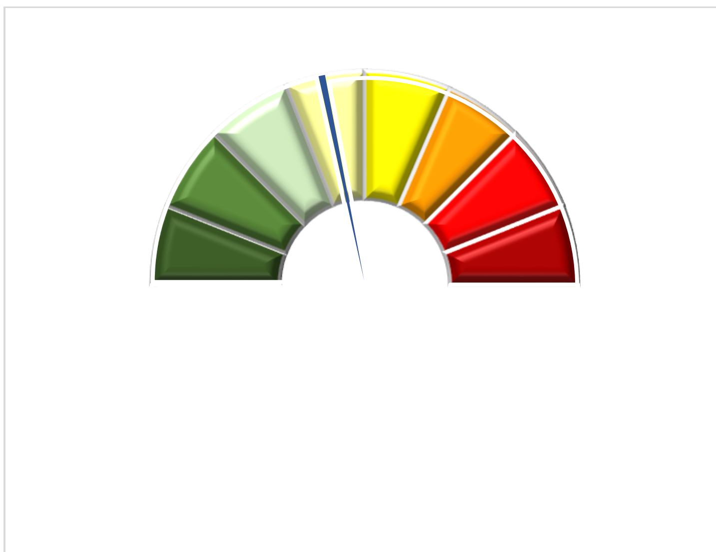
There's a couple of lessons to be learned from this week's action on Capitol Hill.

The first lesson reminds me of an old Taoist proverb that says, "you have two ears and one mouth." In other words, it pays to listen rather than talk. Joe Manchin has been saying for months he did not support $3.5 trillion in spending. In fact, he put it in writing on July 28th. Yet, many folks in his party were talking over him. For some reason, they are now surprised by his number. Had they simply listened to him, possibly a deal could have been struck a while ago.

The second lesson is that the analysis that takes place in the news is very superficial. This is also true in the financial markets. In my book *Unbounded Wealth*, I suggest avoiding the news. It's proven to be detrimental to your health. I believe it's also detrimental to your wealth.

I only read the news because I write this newsletter. I feel I owe it to you to be informed. However, the news does not shape my investment approach one bit.

Anyway, it's superficial because Joe Manchin threw out a $1.5 trillion price tag. However, there were also ***a lot*** of conditions that came with that amount of money. Some of these conditions would be complete non-starters for the more progressive wing of the party. If Joe Manchin holds firm on his conditions, these bills will never pass. I don't understand why everyone is so focused on the $1.5 trillion when it is the details that matter more.



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*.*