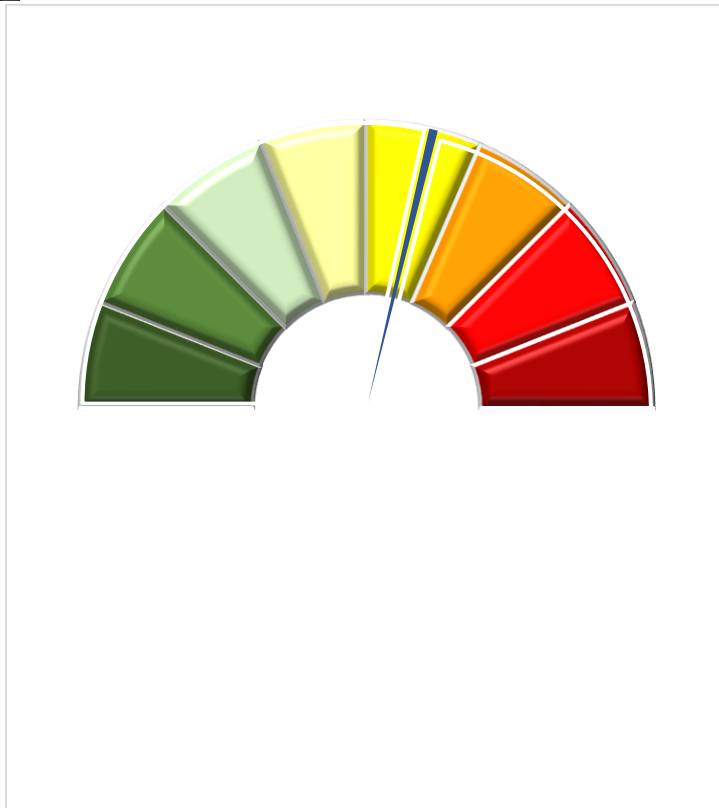




## Risks Hold Steady in Overbought Market

This week, the *Risk-O-Meter* remained on a “buy” signal. Several indicators saw their risks ease off, while a couple of indicators threw up red flags. This back and forth has been going on for several months. The net result is not much changed.



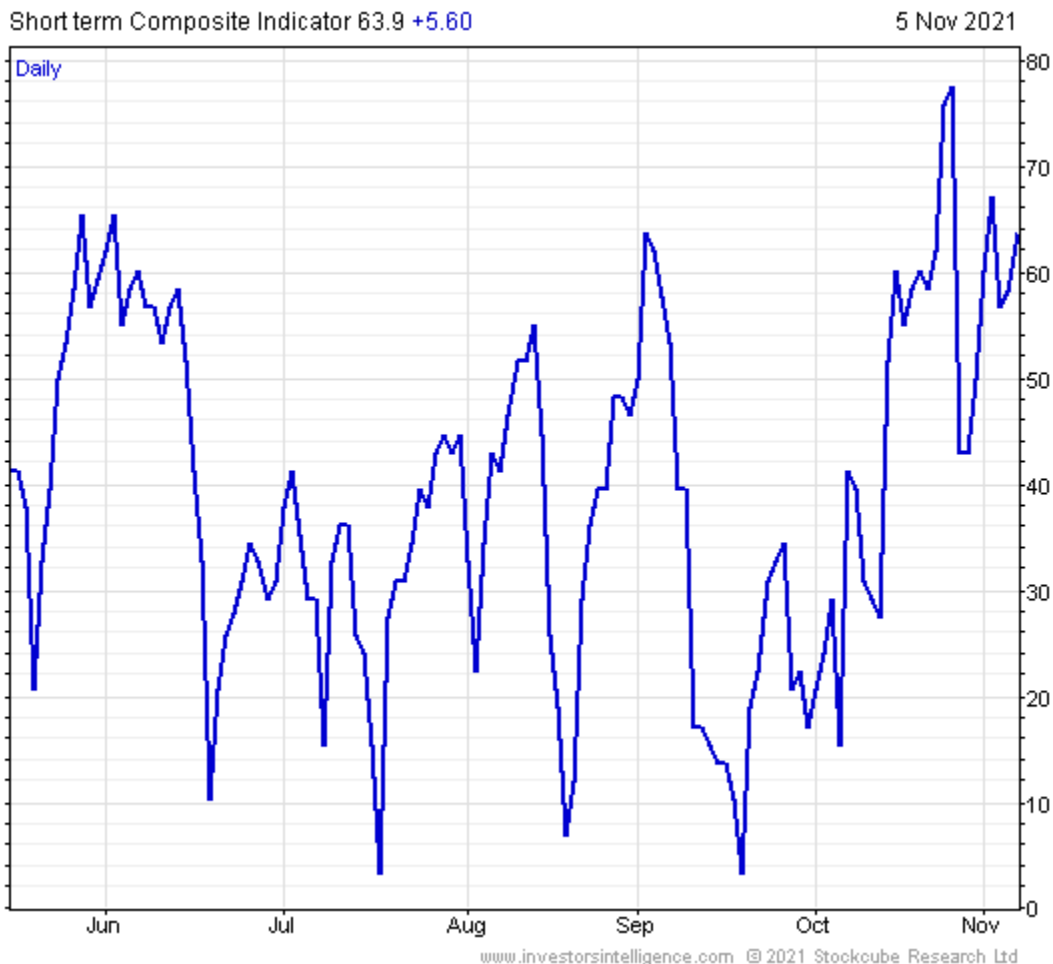
Despite the *Risk-O-Meter* remaining on a “buy” signal, the market is now very overbought. The strategies in this newsletter had big weeks, especially *Mega-Tech Trends*. If you’re long smaller stocks, it’s been a tremendous start to the month.

However, a cooling-off period would not surprise me. One of my favorite short-term indicators is the *Short-Term Composite Indicator* from *Investors Intelligence*. This indicator captures trends in several dozen short and intermediate timeframes.

The market often overshoots to the upside and downside and creates opportunities to buy up stocks during overly aggressive selling and cut risk when the market gets too greedy. Best of all, there’s no emotion in the calculation of the indicator.

As I have noted before, I think it’s much easier to spot bottoms because it’s more obvious (to me at least) when there’s not much left for investors or speculators to sell. From there, the market can only fall so much, and the risk/reward is favorable to buy some stock. On the other hand, it’s much harder to know how much more investors have to buy. Fear is easier to capitalize on than greed.

Right now, we are entering a greedy phase. Right now, the indicator is closing in on 6-month highs. Usually, this is not sustainable.



Compare that to mid-September when it was under five and represented a great buying opportunity. When the indicator gets that low, I buy aggressively. At the current reading of 64, it could go higher, but risks are elevated of a pullback.

It's a good time not to get too complacent.

Happy trading!

A handwritten signature in black ink, appearing to be the name 'John', written in a cursive style.

John

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