Merry and Bright

After last year's slimmed-down festivities, I look forward to spending the Christmas holiday with my family this year. We have many traditions around the holiday in my family, and I anticipate everything being back to normal this year.

I wanted to wish you a very Merry Christmas if you also celebrate Christmas.

If you do not celebrate Christmas, I hope that the rest of your year is merry, bright, and peaceful this holiday season and wish you many blessings in 2022.

The *Risk-O-Meter* remains on a sell. It remains to be seen whether the market will deliver a lump of coal this Christmas holiday. The markets bounced initially after the sell signal and, in recent days, have turned down.

That said, all of the strategies have held up well and have performed solidly relative to their benchmarks since the sell signal.

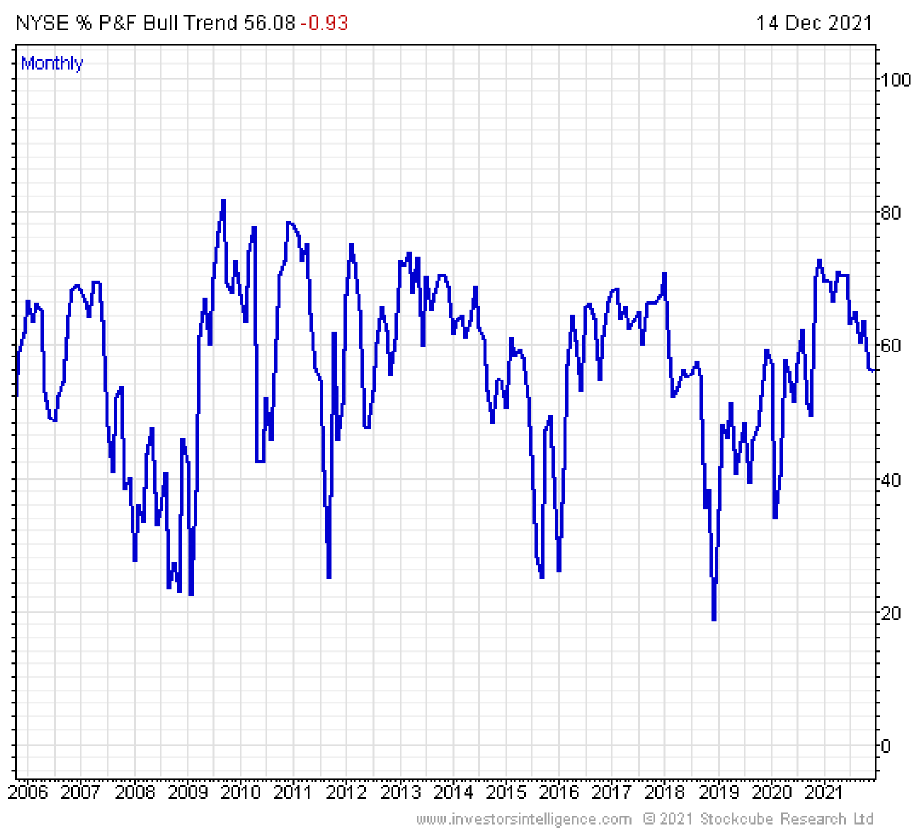
Last week I shared with you the dicey situation facing the Nasdaq market. Without the top five stocks in the index, the Nasdaq would already be in a nasty bear market.

The situation is also poor for the broader market. The chart below shows the NYSE Bullish Percent. This represents the percentage of stocks in bullish patterns using point and figure charting. Point and figure charting has been around for over 100 years.

Point and figure charting uses X's and O's to show patterns in price. Time is not a factor. In point and figure charting, a stock is either in a bullish pattern or a bearish pattern. There's no guessing.

I have performed many tests on the subject and do not find it particularly useful for individual stocks. However, I find point and figure charting very useful when looking at the market as a whole and when the data is at extreme levels.

The beauty of the bullish percent analysis is that there is no market-cap weighting like in the Nasdaq or S&P 500. It's a one-stock, one-vote analysis.



The markets have been making new highs and a series of higher lows. The Bullish Percent Index is making a series of *lower* highs after hitting an extreme level (above 75%). This means that increasingly, stocks are turning from bullish to bearish patterns despite the broad market indexes holding up.

In other words, the average stock is starting to diverge compared with the major market indexes.

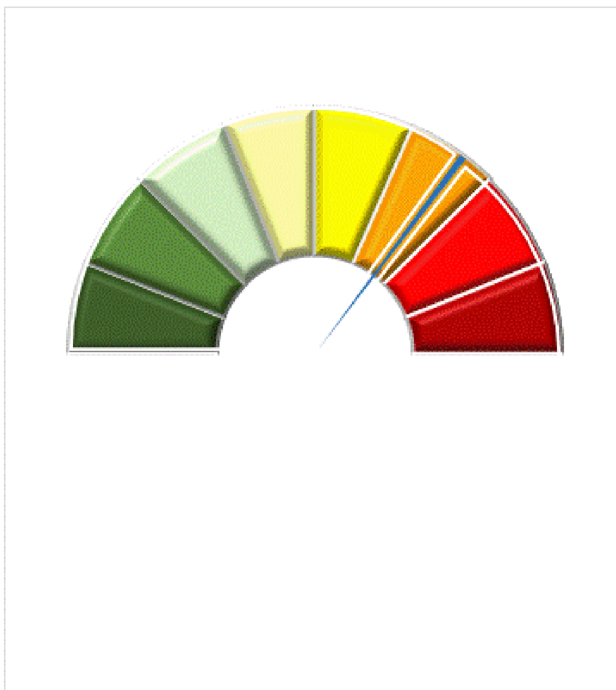
That's not good.

Ideally, we want to see more stocks in bullish patterns as the market marches higher.

Not less.

As I have warned in recent weeks, now is not the time to be complacent.

Risks did ease up a bit for the *Risk-O-Meter*. However, the sell signal remains intact.



Lastly, I did receive questions about why the stock positions may change in the three models in this newsletter when the *Risk-O-Meter* is on a sell signal. I anticipated this question and addressed it previously, but I fear I did not do a good job.

The *Risk-O-Meter* is a risk management tool. It operates independently of any particular stock-picking model. It's something I created to help me better understand risks in the market without having to guess.

Historically, less risky periods have generated substantially better returns than very risky periods. Therefore, I want to know the risk levels before I allocate fresh capital to many of the strategies I use in my own investing. This is particularly the case in my retirement accounts. I'm still a saver. So, I have more coming in than I spend. I don't blindly allocate it to the market.

However, the three stock models in the newsletter analyze stocks based on forensic accounting, trend following, and several other indicators without regard for risk in the market. The models are always long 10 stocks each.

Now, you could combine the *Risk-O-Meter* with the stock models and use it as a timing device to own stocks. You might use the *Risk-O-Meter* as a device to decide when to allocate new capital to investment strategies. Or you might ignore the *Risk-O-Meter* altogether.

There's a certain element of your own decision-making required because I cannot legally give personalized financial advice. In addition, the strategies are not funds managed by me.

For me personally, I am not going to allocate fresh capital to any strategy in my own investment accounts when the *Risk-O-Meter* is on a sell signal.

In the performance charts, you will see a grey line. If you use the *Risk-O-Meter* combined with the three strategies, that will show the performance. For now, there's not much data because the sell signal is relatively recent. Until a couple of weeks ago, the *Risk-O-Meter* was on a buy signal since this newsletter started. Therefore, the performance between the *Risk-O-Meter* and the underlying strategy was identical.

I hope that makes sense. If not, or if you have any other questions, please reach out to Karen, who handles customer service issues at info@hsdent.com. I read and respond to every email.

Have a great week!

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