Is A Bottom Forming?

As I noted last week's issue, the market was deeply oversold. A big bounce was not unexpected.

Markets behave like rubber bands. If you stretch a rubber band too far in one direction and let go, it will snap back hard and rocket in the other direction.

With the stock market going down every day, it was only a matter of time before it was stretched too far in one direction. The market had been stretched too far for at least a week.

Wednesday saw a big up day. Thursday, the market finished down but near the highs of the day. Friday, the market opened up big but finished near the lows. Now there's a lot of backfilling going on.

This begs the question, have we seen *the* low or close to it?

Only time will tell for us to know for certain. There are signs of hope.

The Nasdaq has reached bear market territory.

That's just for the index, though.

The average stock has already been destroyed. The losses for the average stock are much worse than 20% top to bottom for the index.

Only 19% of technology stocks are above their 200-day moving average.

Ouch!

Here's the thing about bear markets. Volatility goes *up* in bear markets. That means there are more days where the market is up 2% in a day in bear markets than in bull markets.

See, the market is trying to pick your pocket.

Always.

The big up days lure unsuspecting investors into snapping up new positions only to head lower once that short-term buying power is spent.

Of course, no one will know if this is the low until the low has already been made. Don't get sucked into "gurus" making predictions that seem like facts but are only predictions.

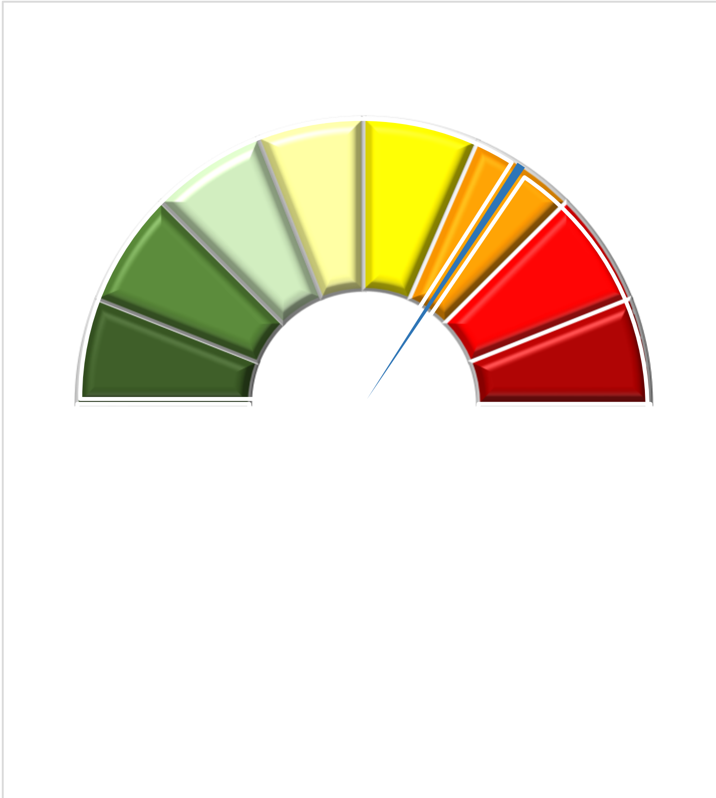
Here's what we do know and why there is some hope that a bottom is starting to form.

Risks have eased up a bit. The *Risk-O-Meter* remains in the danger zone, but risks are not as high as a week ago.

The credit market indicator turned green as it reversed direction slightly. This is a short-term and early indication of what a bottom might look like.

Of course, it is just one green signal. Ultimately, we want to see it accompanied by other signals.

But this is what we would look for at the bottom.

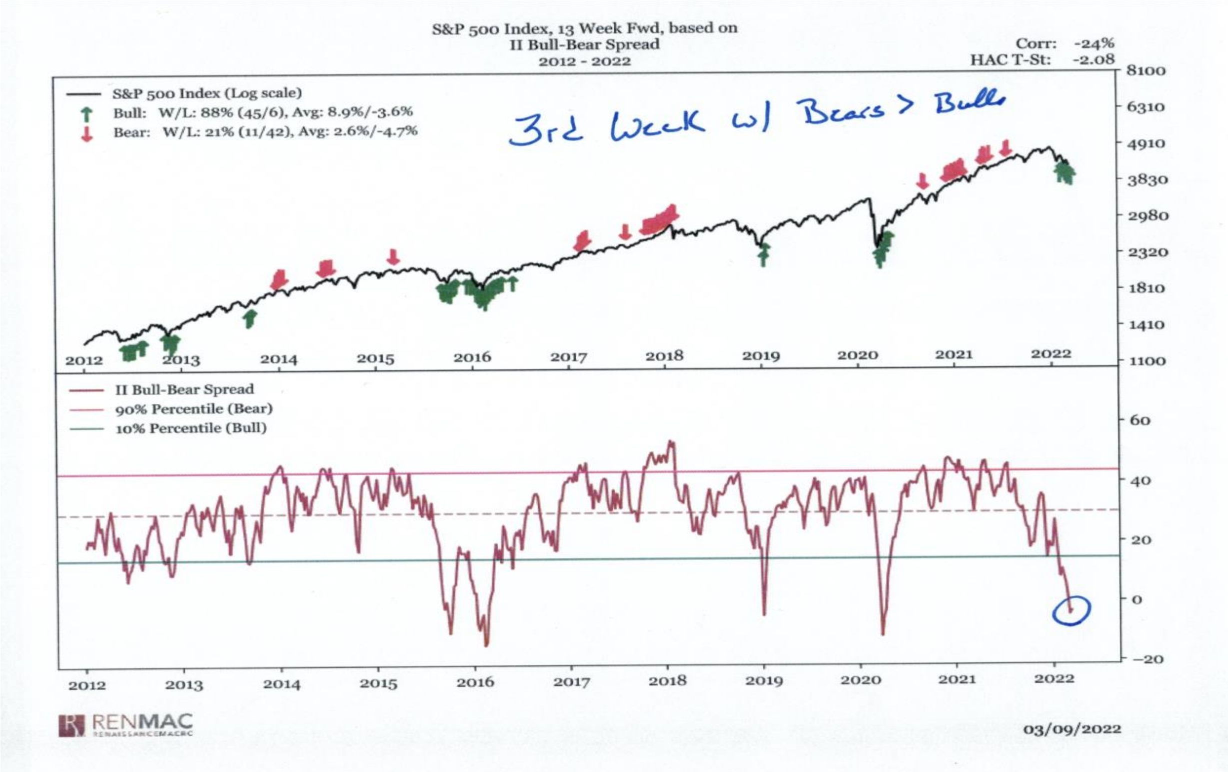


Market sentiment has seen more bears but also more bulls. The bears would slightly retreat or not increase in the bottoming process.

Take a look at the chart below. When bears are greater than bulls for three consecutive weeks, the market is up 88% of the time over the next quarter.

Those are solid odds.

Do not jump the gun, though. Risks are easing but still in the danger zone.



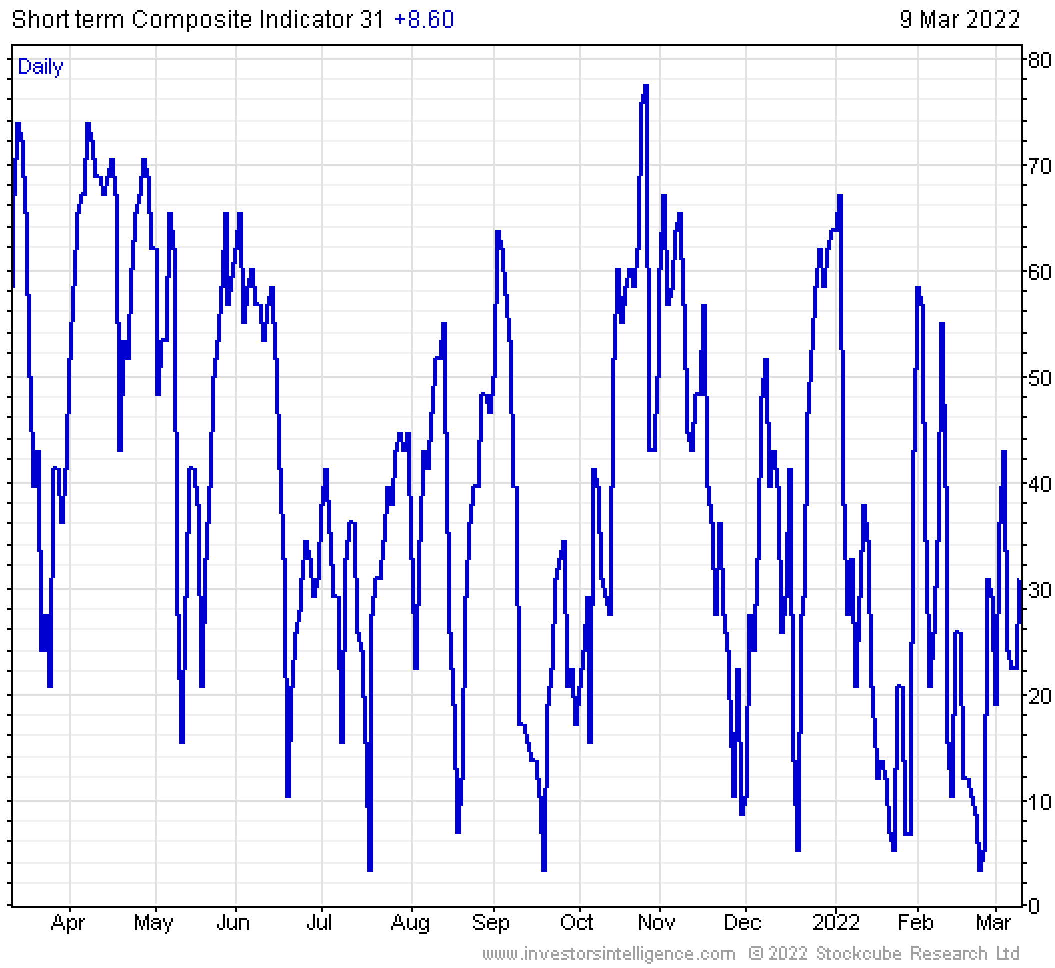
One of my favorite indicators, *The Short-Term Composite*, computed by *Investors Intelligence*, has also put in a bullish divergence. The indicator measures dozens of short-term and intermediate-term price signals.

While the market trended lower, the indicator did **not** make a new low. That means fewer stocks are taking a big hit along with the indexes.

That's a positive sign.

If this ultimately is the bottom, plenty of stocks have already turned the corner.

Over time we should expect to see more and more divergences. As the indexes search for a bottom, many stocks (possibly even most stocks) will already be headed up and beginning their journey into a new bull market.



One factor to be aware of could cause the market to reverse course and make new lows. This week, more and more companies will start to encounter black-out periods where management can no longer buy back stock.

As I noted in last week's issue, stock buybacks have ramped up significantly in recent weeks. Corporate support for the market will fade away as we get to the end of the first quarter.

We need to monitor how stocks behave *without* buyback activity which has been **the** most significant contributor to stock market performance over the past decade.

Meanwhile, Americans will turn their attention to tax filings. And, the Average Joe is getting wiped out from heating his house and gassing up his car.

As a reminder, my New Year's resolution for 2022 was not to make predictions but instead to follow the data religiously. However, last fall, I did make a prediction (before New Year's obviously) that by April of 2022, many Americans would be feeling a financial pinch, and it could be the start of a deflationary bust.

We are approaching that timeframe. Let’s see what happens!

So while the pace of selling among the average stock has slowed and there are some glimmers of hope for a considerable rebound, we are not there yet.

Do not get complacent!

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