



Bear Market Rally or the Bottom?

The *Risk-O-Meter* is back in the green zone.

The market has seen a massive rally in the past couple of weeks. While risks have moderated, the market is now overbought. Patience is key here.

Morgan Stanley is out with research suggesting that the recent stock rally is a classic bear market rally.

Of course, we will not know until a later date if this is a bear rally or if *the* bottom has been found.

All we can do is manage risk.

I'd share some of the Morgan Stanley research, but the fact is, I have no idea what the hell they're talking about.

The research department is fond of using big words such as "vols," "vega," "skews," and "conditional return beta."

Huh

Yeah, I'm lost too!

The gist of these fancy words is that it is time, in their opinion, to book some profits and start to hedge again.

The market is now very overbought.

The riskiest assets have seen a massive rebound.

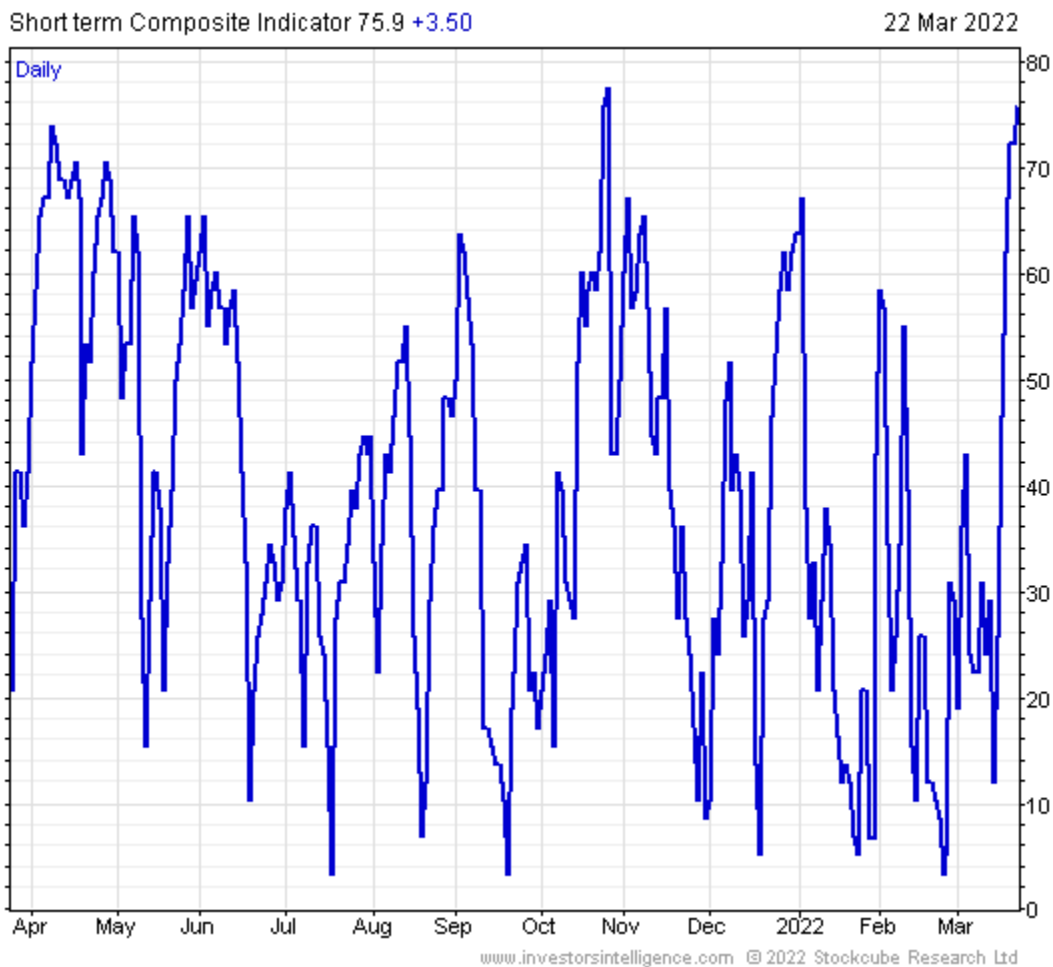
In just a week, many stocks are up 20-30% or more off the recent lows.

One of my favorite indicators, the *Short-Term Composite Indicators*, courtesy of *Investors Intelligence*, is now exceptionally overbought. At a level of 75.9, we are in nosebleed territory.

The indicator measures dozens of short-term and intermediate-term technical factors. The market is the most overbought it has been in months.

At a level that preceded pain the last time, we got there.

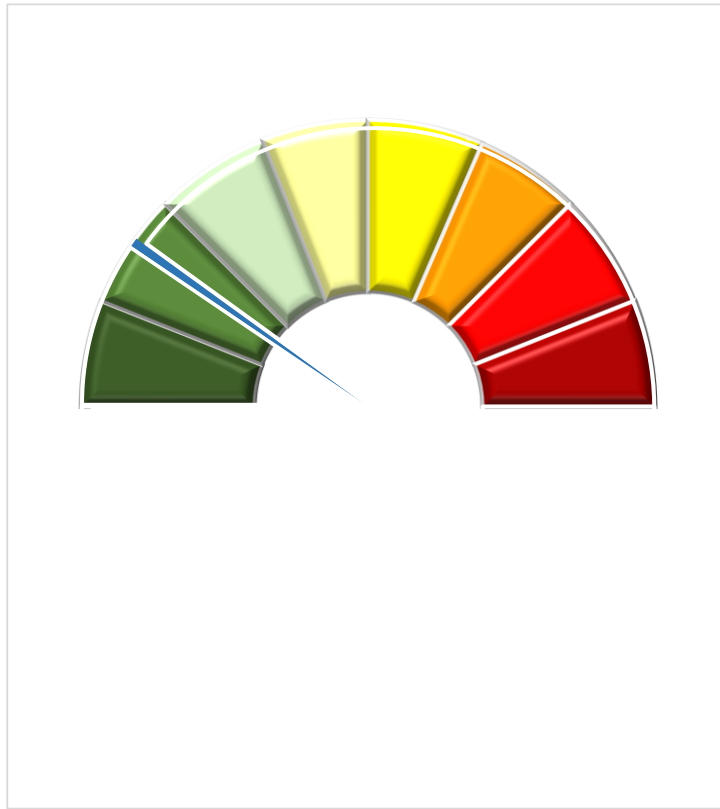
While no indicator is perfect, the *Short-Term Composite* suggests we are due for a breather.



If we get a healthy pullback, then the *Risk-O-Meter's* rating suggests that it's an excellent opportunity to accumulate shares.

The ideal scenario for the *Risk-O-Meter* is a buy signal in an oversold market. Under those circumstances, I would be an aggressive buyer.

Given the current conditions, I'll be very selective in buying stock until the overbought condition is worked off.



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