Harry’s Take

May 17, 2022

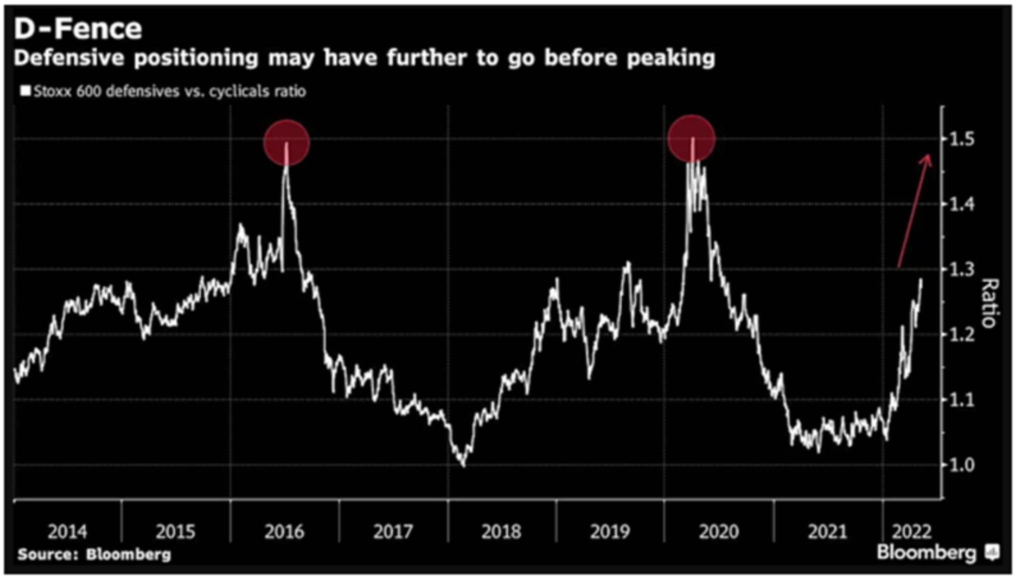
A Good Technical Indicator Says Bottom Not in Yet, Even if Market Bounces Here

A lot of market pundits and technical analysts are signaling that this stock correction looks like it’s about over… And I say maybe, briefly. I have been expecting this first crash from a major long-term bubble top to be more like a 40% crash before that first bottom, and then a 40%–50% retracement of that crash to the upside as a counter-rally before the next or third wave down of the crash continues.

I have a likely short-term cycle bottom around mid-July from Hurst Cycles, and I think we are in a third, lesser-wave down within that first crash, which could be bottoming now, to be followed by a fourth-wave bounce and then a fifth wave down again to complete the cycle, likely into that mid-July or so target.

This chart helps confirm that interpretation.

Investors Are Not Yet Getting Defensive Enough To Signal a Bottom



Source: https://finance.yahoo.com/news/11-trillion-counting-global-stock-063000467.html

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Buy signals here are suggested when defensive stocks outweigh cyclical (higher risk) by a ratio of 1.5. That's where the last two bottoms were put in around mid-2016 and early 2020 after the COVID crash. Sell signals or tops are indicated around a neutral ratio of 1.0 or close to that, as occurred in February 2020 just before COVID and in the May 2021 to early January 2022 period.

The point here is that despite the recent, sharp correction, stocks are not near that ideal 1.5 ratio to buy again and the selloff very likely has further to go, at least a few months. That fits right in with my expected short-term cycle low around mid-July.

So, investors who want to buy back in a for a significant bounce should be patient, as should short sellers. Most investors will be expecting another run to new highs, and that's where I disagree. It should be more like a 40%–50% retracement of the first wave down. A move into the third wave is likely into early 2023, and then a fifth wave down into late 2023 or so. No new high!

So, don't listen to the reactive analysts on CNBC who are almost always cheerleaders for new highs.

Harry

Got a question or comment? You can contact us at info@hsdent.com.