Harry's Take

February 7, 2023

Third Wave Down Is Not Quite Ready To Show Yet… But It Will Be Soon

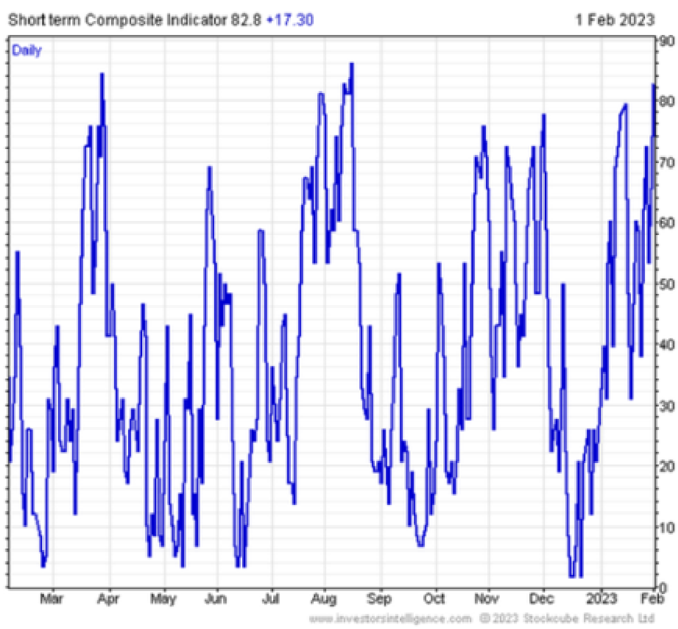
Here is a glimpse of how my short-term forecasting differs from the long-term indicators that I am more known for… things like demographic spending cycles, technology waves, and so on.

In the long term, the fundamentals are key, and I have three primary cycles: a 39- to 40-year generational spending cycle (the Spending Wave), a 45-year Technology/Innovation Cycle, and a 34-year Geopolitical Cycle. The first two cycles really drive the fundamentals of long-term growth, and the last one affects valuations more on the basis of how people feel about the political and economic environment.

But in the short term, it's all about waves of buying, which start with the smart money in a new acceleration out of a bottom—and that end with the dumb money piling in the most at the top. When it runs out of "new fools," the market tends to correct in that shorter-term time frame, regardless of longer-term trends. There are a lot of tools that measure bullish and bearish sentiment. When 60% or more of them are bullish, that is normally a sign that the most people have piled in and the markets are more likely to correct. This is true vice versa as well: when 60% or more are bearish, most have sold and it's time to buy again.

At present, we have gone through the first major crash in what is very likely the crash of a lifetime, which is happening because generational trends have been weak from 2008 forward and continue to be weak. Also, the 45-year technology cycle turned downward in early 2020 and is likely to stay down all the way to 2032. Here are two indicators at which I am looking now to decide when the next (third) wave down likely will set in more forcefully, following the first wave down, which was into October 2022.

Short-Term Composite Indicator Bearish Near 83: Correction Ahead



Source: https://lmtr.com/

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This indicator (see chart) shows that we are clearly approaching a correction once we get above 80%. Note that the last, sudden crash from early January to mid-June 2022 hit after this indicator got the most bearish in the last year, at 86%. So, there is a little more room to rise on the upside here.

But this next indicator tells me we're not quite at the end of the bounce that's been in play since that first wave down bottomed in October 2022.

Rising Percentage of S&P Above 200 Days Getting Bearish But Not Extreme Yet

Source: https://lmtr.com/

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This indicator, which measures bullish sentiment, is rising rapidly, but it is not yet near the levels at which the last top and major correction occurred, which suggests that this bounce is likely to last a bit longer and go a bit higher first… **but don't confuse that continuing bounce with talk that the markets are now on their way to new highs**. That first crash of 38% off the major bubble top in November 2021 on the Nasdaq was very likely the major long-term top I was looking for. It just may be a few or several more weeks before the markets turn downward violently again into the third wave down, which ultimately will be followed by a fifth wave down to finish.

I don't want to get more complicated than that here… but **the truth is that the short term is much harder to forecast and more complex to analyze than the longer-term trends**. That is why I encourage investors to get on our monthly newsletter, which comes with access to daily updates when needed, as that's where I add the critical, shorter-term technical analysis that can be very difficult to sort out and to keep up with on your own.

Harry

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