



Red Flag Alert

In recent weeks, I have warned that market breadth has deteriorated.

Poor breadth amid a rising market is a red flag as fewer stocks participate in the rally.

Ideally, we want to see a lot of stocks participate in rallies.

If you own individual stocks and the market breadth is poor, you may see your portfolio underperforming the indexes consistently.

You need to own stock in the key drivers of the rally to keep up.

Narrow participation in market rallies is a dangerous situation.

What happens is that many stocks start to turn down and enter bear markets before it becomes evident that a bear market is happening because the few big stocks driving the rallies are making the index performance look strong while the average stock is sliding into the red.

Investors look at the indexes to measure performance.

They should be looking at the performance of stocks on average, without market-cap index weighting.

A massive red flag is waving right now because the share of the biggest stocks in market-cap-weighted indexes is in the danger zone.

For example, the chart below shows the S&P 500's top five stocks represent 23% of the index.

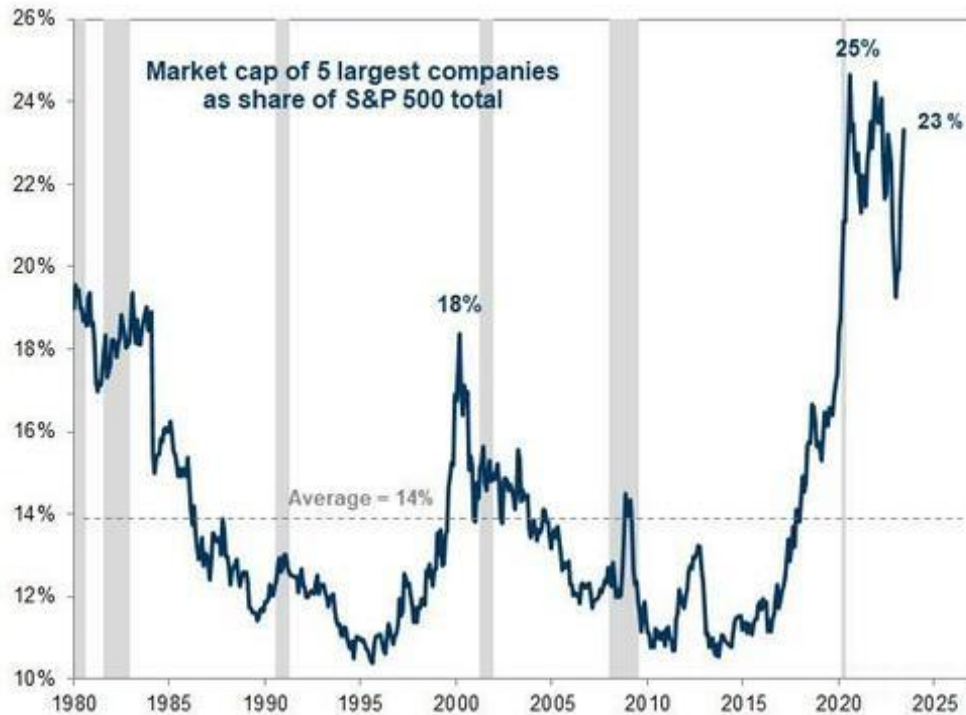
That's close to a 40-year high hit in 2020 (25%) and considerably higher than the 14% average and the 18% witnessed in the 2000 Bubble.

Just five stocks out of 500, accounting for 23% of the index, are dangerous.

Generally, after periods of concentration, the market reverts.

Big-time.

Thus, one might expect substantial losses amongst the largest stocks in the indexes.



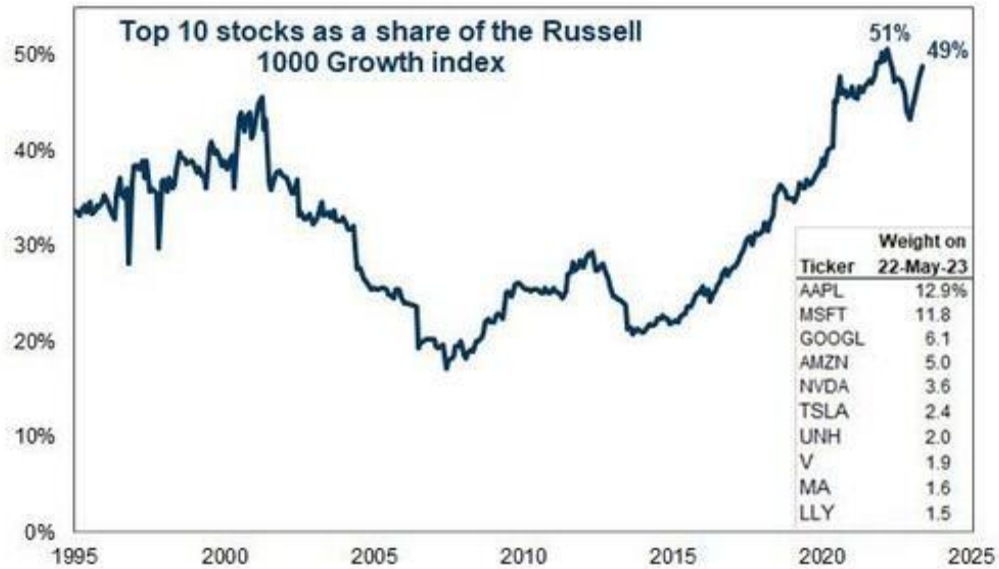
The scenario is even worse within the Russell 1000 Growth Index.

Both indexes represent the vast majority of the liquidity of the U.S. markets.

Over 95% for sure.

Some of the same stocks that contribute to concentration in the S&P 500 further distort the Russell 1000 Growth Index.

The chart below shows that the concentration among the top 10 stocks is 49%. That compares with a high of 51% since 1995.



What's going to happen is a bear market will already be well underway, and then the selling will begin in the ten stocks listed above.

Investors will then sell the top stocks because that's all that will be left as a source of funds.

By then, it will be too late.

The same thing happens over and over again.

Human nature never changes.

Now is the time to monitor all of your positions.

Closely.

It's also time to tighten stops on stocks held for short-term trading.

It's time to raise some cash.

It's time to consider hedges and at least have them on your radar.

Interestingly, the primary strategy in this newsletter, *Micro-cap Millions*, continues to explode to new highs.

The stocks in this strategy exist outside of the major indexes. These stocks often trade independently of what's going on with the broader economy and market sentiment.

Of course, small stocks can get hit hard in a major correction, just like everything else, but quality companies with strong trends often bounce back faster.

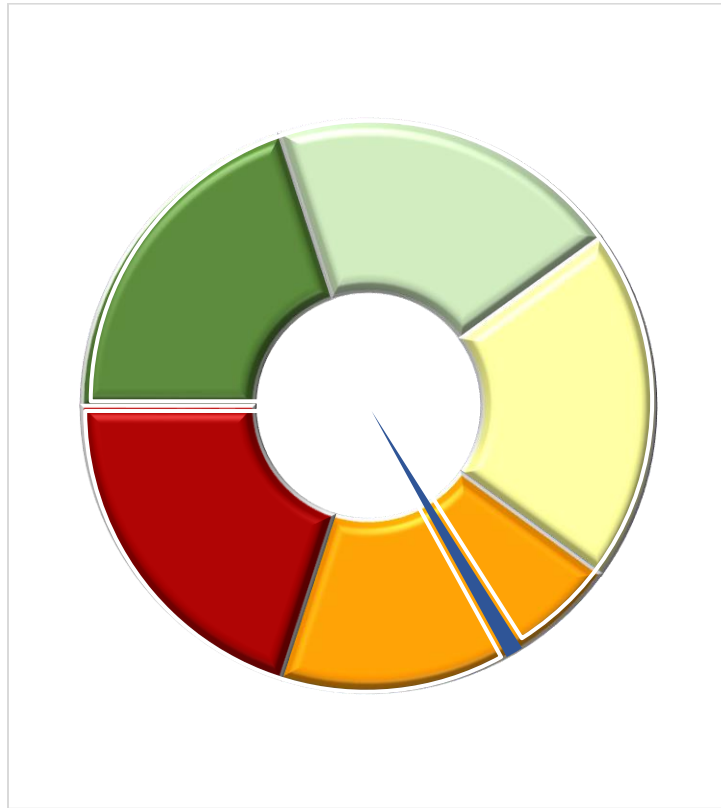
It's worth having these stocks on your radar at all times.

The *Risk-O-Meter* is in the middle of its range this week.

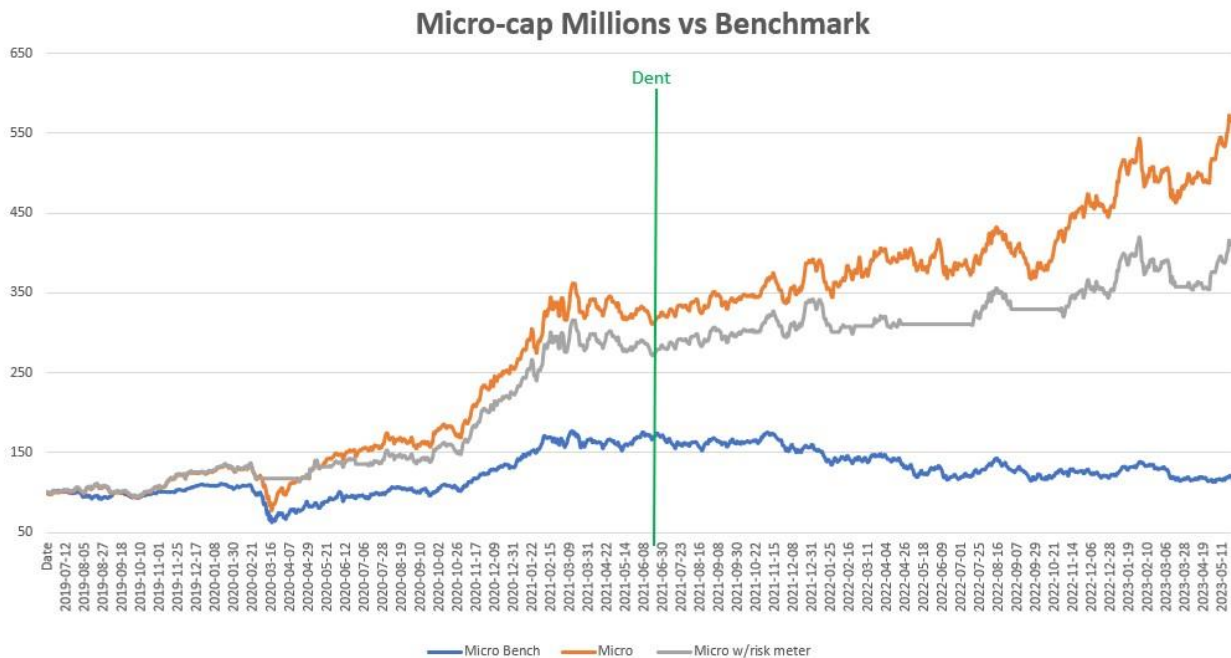
I have made no new trades in my taxable account. I continue to monitor the same indexes I have mentioned previously in this space.

Nothing has changed.

However, I am waiting to pounce on an oversold market with poor sentiment when risks are low.



Micro-Cap Millions



There are two trades this week.

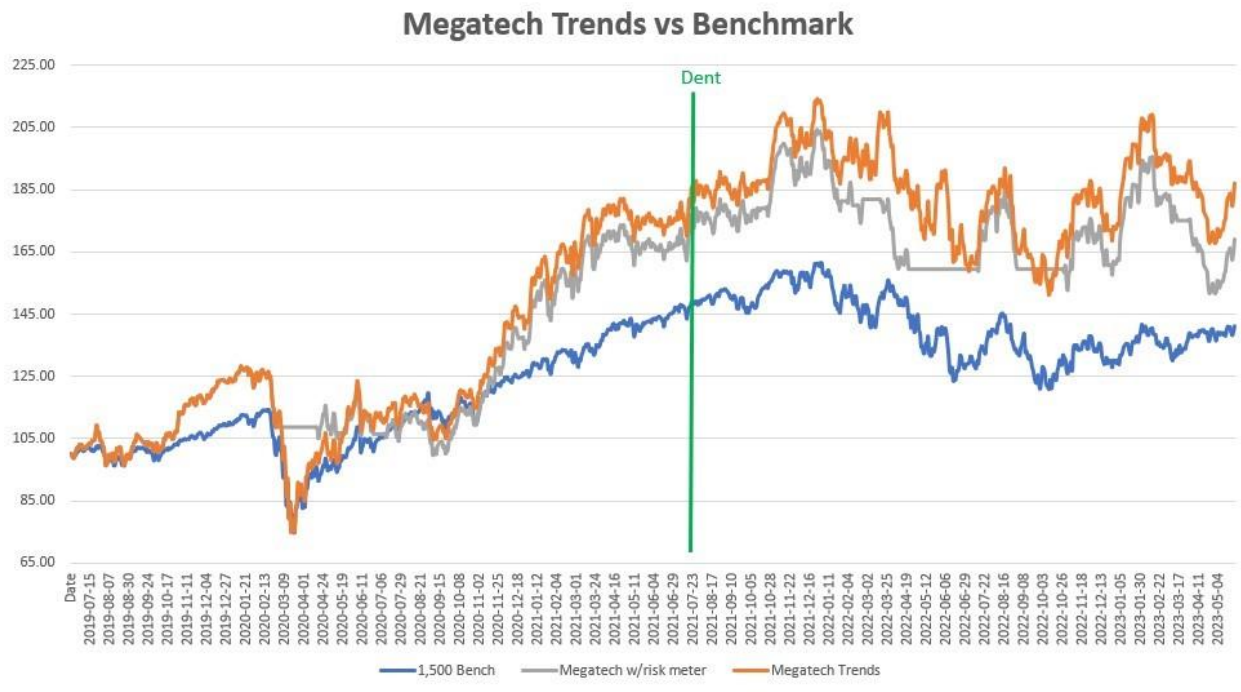
Buy Ooma, Inc. (NYSE: OOMA) and Tactile Systems Technology, Inc. (Nasdaq: TCMD)

Sell Asure Sftware, Inc. (Nasdaq: ASUR) and Kamada, Ltd (Nasdaq: KMDA)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BELFB	Bel Fuse, Inc.	76.79%	277	Technology
ELTK	Eltek Ltd.	21.56%	4	Technology
GILT	Gilat Satellite Networks Ltd.	-2.09%	11	Technology
MGIC	Magic Software Enterprises Ltd.	-18.14%	98	Technology
OOMA	Ooma, Inc.	0.00%	NEW	Technology
OPRA	Opera Ltd.	83.79%	67	Technology
SPOK	Spok Holdings, Inc.	29.57%	88	Telecommunications
TCMD	Tactile Systems Technology, Inc.	0.00%	NEW	Healthcare
UTMD	Utah Medical Products, Inc.	9.32%	88	Healthcare
UUU	Universal Security Instruments, Inc.	-23.94%	88	Technology

Mega-Tech Trends



There are three trades this week.

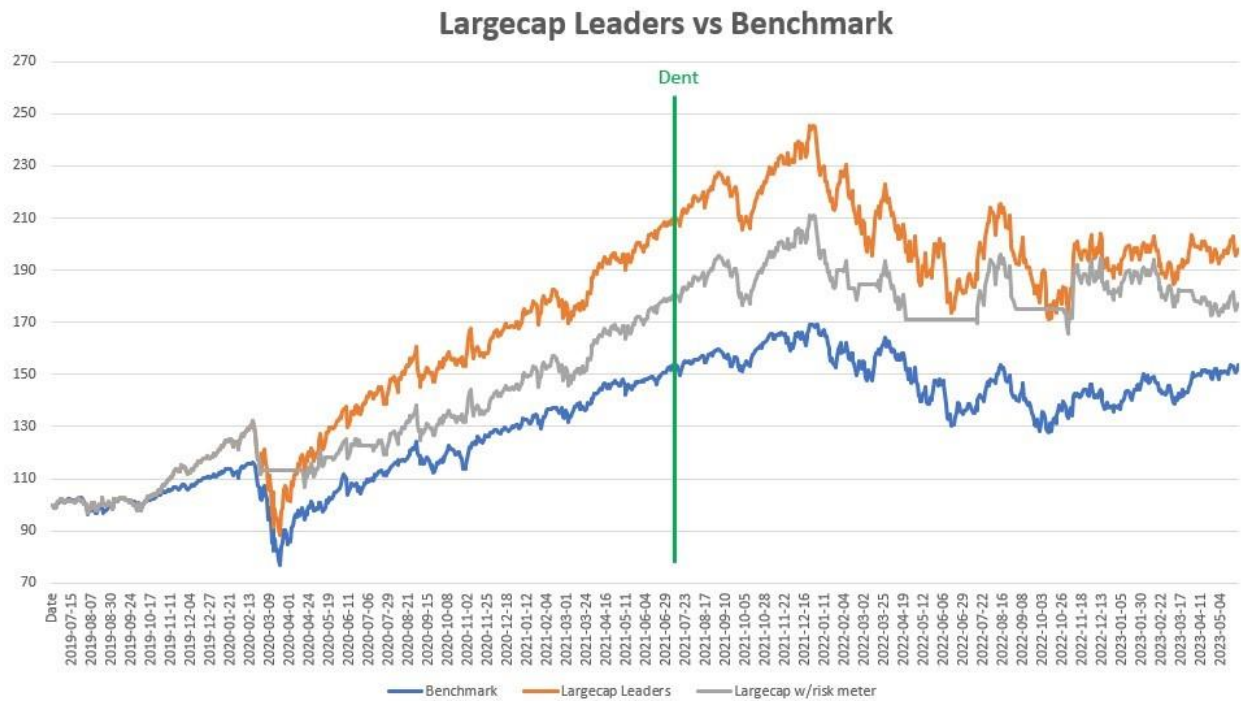
Buy Arlo Technologies, Inc. (NYSE: ARLO), ePlus, Inc. (Nasdaq: PLUS), and Plexus Corp. (Nasdaq: PLXS)

Sell Comcast Crop. (Nasdaq: CMCSA), Knowles Corp. (NYSE: K.N.) and Xerox Holdings Corp. (Nasdaq: XRX)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
AEIS	Advanced Energy Industries, Inc.	15.80%		Technology
ALRM	Alarm.com Holdings, Inc.	-0.12%		Technology
ANIP	ANI Pharmaceuticals, Inc.	10.75%		Healthcare
ARLO	Arlo Technologies, Inc.	0.00%	NEW	Technology
BDC	Belden, Inc.	11.00%		Technology
DGII	Digi International, Inc.	4.96%		Technology
DIOD	Diodes, Inc.	8.58%		Technology
LFUS	Littelfuse, Inc.	3.20%		Technology
PLUS	ePlus, Inc.	0.00%	NEW	Technology
PLXS	Plexus Corp.	0.00%	NEW	Technology

Large Cap Leaders



There is one trade this week.

Buy Keysight Technologies, Inc. (NYSE: KEYS)

Sell Intuit, Inc. (Nasdaq: INTU)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ALGN	Align Technology, Inc.	-12.27%	25	Healthcare
BSX	Boston Scientific Corp.	-2.03%	25	Healthcare
CRM	Salesforce, Inc.	24.40%	74	Technology
FTNT	Fortinet, Inc.	4.92%	18	Technology
KEYS	Keysight Technologies, Inc.	0.00%	NEW	Technology
NOW	ServiceNow, Inc.	13.82%	109	Technology
PAYC	Paycom Software, Inc.	3.05%	18	Technology
RMD	ResMed, Inc.	-10.59%	25	Healthcare
SEDG	SolarEdge Technologies, Inc.	0.35%	18	Technology
ZBH	Zimmer Biomet Holdings, Inc.	-7.44%	18	Healthcare

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