



Unbounded Wealth: John's Take 11-21-24

Climaxes

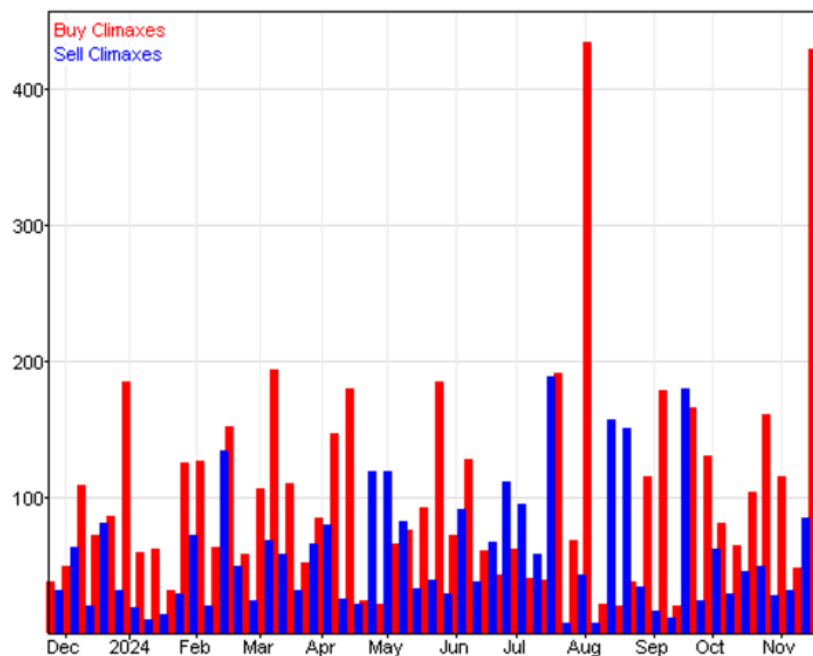
Sometimes, a climax is a good thing in life. For example, climbing Mt. Everest is exhilarating. It's *the* climax.

I will never know. Doesn't interest me.

In other parts of life...climaxes are...*pleasurable*.

Not so much pleasure with a climax occurring in the stock market these days.

There are buying climaxes in the market—*many of them*. Take a look at this chart.



A buying climax occurs when a stock reaches a 12-month high but closes the week with a loss. These are signs of **distribution** and indicate that stocks are moving from strong hands to weak ones.

Selling climaxes occur when a stock makes a new 12-month low but then closes the week with a gain. They are a sign of accumulation and indicate that stocks are passing from weak hands to strong ones.

Based on historical data from *Investors Intelligence*, sellers into buying climaxes and buyers into selling climaxes are right about 80% of the time after *four months*.

What does this all mean?

Let's start with what the climaxes **do not** mean.

The climaxes do not mean the market is going to crash.

The climaxes also do not mean that the market will sell off.

The climaxes **mean** that the market rally is not as healthy at this stage, mainly when it's this long in the tooth. We want to see lots of stocks participating as the market goes higher.

That's not happening. We should be on alert!

The climaxes are also a pre-warning. They warn you ahead of time by about four months and often correctly identify changes in risk before the next guy knows.

Do you want to be in the know or do you want to be the next guy?

That's why I am pointing this out to you. Now.

The climaxes are another data point that suggests risks are elevated.

Meanwhile, the trend is still up.

Therefore, the market will trend higher until it doesn't. However, the risk is elevated, so while I am not waking up in the middle of the night all hot and bothered about a crash, I am not excited to buy stocks hand over fist either.

That said, on a scale of 1 to 10, I'd rate this indicator an 8. It's based on buying and selling pressure, but more importantly, it's based on *price*.

Price. Not *opinion*.

Prices are hitting new highs only to close lower. That's a fact, not an opinion. In addition, the number of buying climaxes just surged (red line on the chart above). So it sticks out like a sore thumb.

The situation will resolve itself. We simply need to be prepared so that we can act!

Do not get complacent!

Ignore risk at your own...risk!

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