



John's Take 12-5-24

Profiting from the Two Most Powerful Emotions

Fear and Greed.

They're the two most powerful emotions in the markets. At extremes, I find them quite profitable, and today, I am sharing a simple measure you can get for free on the Internet.

I prefer conducting research to watching the markets. I've designed and developed various systems, including two distinct formulas. One is the Price / Earnings Quality Ratio, which is a key driver in my *Forensic Accounting Stock Tracker* software, and the other is a sentiment and volatility indicator that yields great results in my *Risk-O-Meter*.

However, I have never been able to create my own indicator to measure the overbought/oversold conditions of the market caused by extremes in greed and fear.

At least, I have been unable to create one to my satisfaction.

So, I combine my models with other indicators.

One useful indicator is the *CNN Fear & Greed Index*. As the home of "fake news" and plummeting ratings, CNN has surprisingly done well with this indicator. It measures seven factors, such as market momentum and volatility, on a two-year basis.

The indicator then shows a composite score, and you can easily compare today's score with yesterday's, a week ago, a month ago, and a year ago.

It takes one minute a day to analyze. And it's free. Just Google it.

I find that *fear* is a more powerful emotion than greed. Don't get me wrong; greed is powerful. But it's useful to know when the market is oversold due to fear because there's only so much selling one can do.

If people are on margin, like they are today, they will be the victim of forced selling. They are weak hands, and they sell at the worst prices.

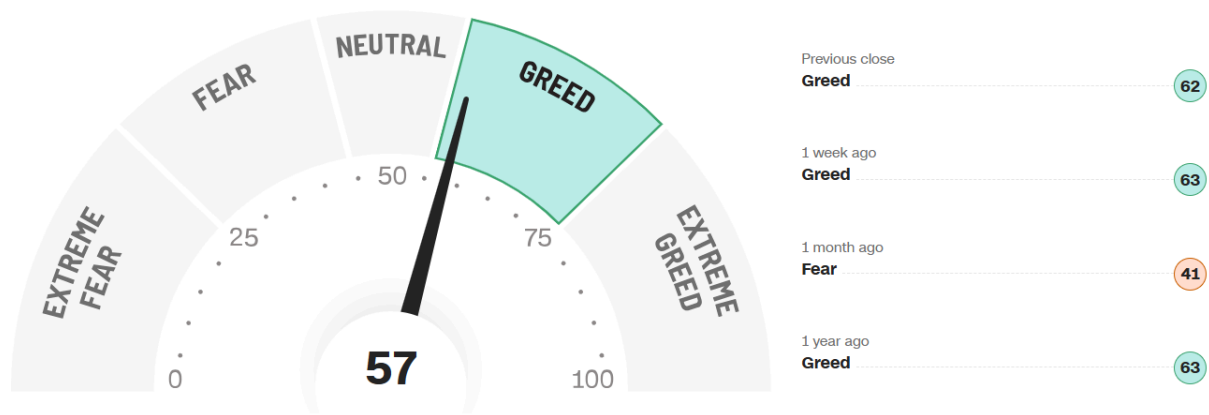
Once they've sold, there is nothing left to sell, so it's a perfect time to start buying.

Greed can last a lot longer, and the market can run a lot farther. It may take a year to build a house, but 30 minutes to burn it down.

It's helpful to know what is driving greed in the market.

CNN and its indicators do a good job of measuring these factors.

Here's what it looks like:



Right now, the indicator is slightly greedy, up quite a bit from a month ago. I find the "middling" periods good to know but not very useful.

When the gauge is pressed in one direction, it gets my attention.

This happens half a dozen times a year.

Based on the current score, there's not much to do. I am concerned that the market breadth piece of the indicator is performing poorly. Many stocks are not making new highs, which is not a good sign for the market.

In addition, market momentum is stretched to the upside. The big players in the indexes are doing well, but the average stock is not.

That concerns me, so for now, I would not allocate fresh capital to index funds. I will keep my powder dry for an oversold, fearful market.

When could that be?

I don't know, but the *CNN Fear & Greed Index* is an indicator I check daily to find out!

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