



John's Take 12-12-24

This Indicator Flashed Red Before Two Major Crashes!

I saw a frightening chart the other day and wanted to share it with you.

An event that has happened just *five* times in the past 100 years has occurred.

The S&P 500 closed with three consecutive all-time highs, with *more* declining than advancing stocks.

That's **not** the sign of a healthy market!

S&P 500 after 3 consecutive highs with more declining than advancing stocks



I have mentioned previously that market breadth has been poor in this advance and is a cause for concern.

We want all stocks – or as many as possible – to be along for the ride.

That is not the case.

Historically, just by eyeballing the chart, this has not been a positive sign for stocks in the near term.

We know what happened in 1929. Prior to the market crash, this situation flashed a warning sign twice.

It happened again just *before* the Dot Com debacle.

We know that a few stocks currently dominate the market, which can lull us into complacency. Things seem just fine and dandy, but under the surface, stocks are weakening *before* they show up in the indexes.

This is a fatal flaw in market-cap-weighted indexes like the S&P 500. Instead of one stock, one vote, you may have a stock with 100x more weight than another stock. The index tells you more about what is happening with the top 30-50 stocks than the "market."

I'd encourage you to look at equal-weighted indexes and compare them to market-cap-weighted indexes. You can put the ratio together on a free platform such as stockcharts.com and see what's happening in a nanosecond.

Like this:



When you compare the average stock in the S&P 500 to the S&P 500 index, you see a downtrend. The relationship has been *negative* over the past 12 months.

Despite all-time highs in the *indexes*, the “market” is experiencing trouble.

For now, the S&P 500's trend is clearly up. The trend is your friend. If you buy the index, then you're looking good.

Respect the trend **but also respect risk**.

We are on the riskier end of the spectrum. It doesn't mean that the market will crash, even though it did at least twice in the past when this indicator flashed warning signs.

However, when the shine wears off on the 10 stocks driving the indexes higher, those indexes will be in trouble.

Are you prepared?

As for other individual stocks?

You might be having a frustrating year. The “market” is weak.

My two main models, *Microcap Millions* and *F.A.S.T. Profits*, have continued to power ahead in 2024. While nothing is a straight line (*Microcap Millions* had a 25% drawdown earlier this year before being up nearly 60% year-to-date), it's more important than ever to have a clearly defined edge!

Don't play the game if you don't have a clearly defined edge.

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