



John's Take 1-2-25

Stealth Bear Market Alert

While the stock market had a solid year in 2024, yours might not have been great.

Looking under the hood, while the indexes ended near their highs, many stocks are in downtrends, and performance has weakened.

You see, we are in a dreaded "stealth" bear market.

It's a stealth bear market because the indexes cover many stocks' weaknesses. Most indexes are market-cap-weighted, and the big stocks drive the index returns.

Those big stocks had a bumper crop in 2024. It won't always be that way.

A few weeks ago, I showed a chart of buying climaxes: stocks that made a high and finished the week lower.

Here's a reminder of that chart below.



Since then, many stocks have experienced a bloodbath, and as a result, a bear market has already started.

Below is an informative table that easily explains this situation. The table shows the bullish percent figures for major U.S. indexes.

Bullish percents are based on point-and-figure charting, which has been around for over 100 years. With point-and-figure charting, stocks can only be in an uptrend or a downtrend. There's no in-between.

Furthermore, it's a one-stock, one-vote methodology. There is no index weighting, so the biggest company in the S&P 500 weighs as much as the smallest company.

As a result, you get a very clear picture of how stocks are performing regardless of what the indexes are doing or what the talking heads on Cartoon Network (aka CNBC) are blabbing on about.

The second column illustrates the percentage of stocks in bullish trends. The third and fifth columns explain what that means in terms of bull and bear markets and the direction of bullish trends.

Have a look:

Index	Bulls%	1d Chg	Status	Status Change	Direction
AMEX	57.02%	-0.99	Bear Alert	2024-12-18	Down
By Index	43.71%	-0.84	Bull Correction	2024-12-18	Down
Dow Industrials	60%	-3.33	Bear Confirmed	2024-12-18	Down
NASDAQ 100	40%	-3.16	Bear Confirmed	2024-12-19	Down
NASDAQ Composite (CCMP)	38.49%	-0.95	Bull Correction	2024-11-19	Down
NYSE	41.84%	-0.76	Bull Correction	2024-12-17	Down
Optionable Stocks	67.93%	0.58	Bull Confirmed	2024-11-26	Up
Russell 2000	40.96%	-0.83	Bear Confirmed	2024-12-18	Down
S&P 100	42%	-1	Bear Confirmed	2024-12-18	Down
S&P Composite 1500	41.25%	-0.8	Bear Confirmed	2024-12-13	Down
S&P MidCap 400	37.58%	-1.12	Bear Confirmed	2024-12-12	Down
S&P SmallCap 600	41.82%	-0.8	Bear Confirmed	2024-12-13	Down

The S&P 100, Russell 2000, Nasdaq 100, mid-caps, Dow Jones, etc, are all in bear markets. And the trends are headed down.

What's worse, if the current form stays in place for a while, there's a long way to go in some of these indexes.

The worst part is that by the time the market hits the big boys, the key stocks driving the market, many stocks will already be washed out and the damage is done by then.

It's too late!

Both Tesla and Amazon had buying climaxes. But the point-and-figure trend is still up.

Here's Tesla:



Here's Amazon:



Now, I could be cherry-picking, but both stocks are key market drivers. They are showing some weakness, but it's not fully showing up in their point-and-figure ratings yet.

And, maybe they never do. This may be a weak period for many stocks, and those stocks rebound. Maybe not.

All we know is that stocks beneath the major index drivers are deteriorating significantly, and the major stocks are starting to weaken, too.

How to play it?

First, whether you subscribe to my strategies or other newsletters or do your own thing, it's important to stick with your system if you have an edge. Without an edge, nothing will ever matter.

All approaches have drawdowns. The only way to exploit that edge is to keep playing the game.

Second, the bullish percent can only go so low! It's not going to zero. One of the great trade setups is when the table above shows many indexes below 30%.

I will be an aggressive buyer there. I will be even more aggressive, below 25% and below 20%.

When you see figures that low, it means people are dumping stocks recklessly. They just have to get out.

It doesn't matter why they need to get out. For whatever reason, fear is taking hold, and they need to raise cash.

That's the equivalent of seeing the whites of their eyes.

For now, it's a situation to monitor.

You should not be surprised if your strategies underperform a bit more from here. And, if you're in the key stocks, you may see a butt-kicking coming as the market cycles through and finally sells off the big boys.

Depending on your strategy, that might not matter. But if you're armed with this information and you know what's happening, you're less likely to freak out.

There's likely nothing wrong with your approach. You simply need to stick with your system until things turn and more stocks participate to the upside!

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