The Ship Be Sinking

One of my favorite sports quotes is from former New York Knicks basketball player Michael Ray Richardson. When asked about the extent of the Knicks' poor performance, Richardson said, "The ship will be sinking."

When further asked how low it could go, he replied, "The sky is the limit."

When it comes to the markets right now, the ship is sinking. According to point and figure charting, all major indexes are in bearish trends. Take a look at this chart:

US Index Summaries

Name	Close	Change	Trend	Target
Dow Jones Industrial Average Index	43,840.91	+601.41	Bear	**43,000.00**
S&P 500	5,954.50	+92.93	Bear	**5,700.00**
NASDAQ Composite Index	18,847.28	+302.86	Bear	**17,700.00**
NASDAQ 100 Index	20,884.41	+333.46	Bear	**19,700.00**
S&P Midcap 400 Index	3,095.15	+30.24	Bear	**3,040.00**
S&P 600 Smallcap Index	1,363.73	+11.93	Bear	**0.00**

I've warned in the past that we were in a "stealth bear market," as breadth has been poor, and the indexes only showed gains because the most heavily weighted stocks were up. The declines certainly broadened in recent days. Many indexes have seen their 2025 gains evaporate to flattish or hostile territory.

Nothing has been safe. Bitcoin, for example, quickly fell 20% from its highs. I fail to see how Bitcoin is a defensive play. Instead, it's like a levered commodity bet on technology stocks. There's nothing wrong with that, but trading it like a hedge or store of value is a good way to get your head chopped off. Folks trading it as a store of value just got their ass kicked.

I got smacked in the face hard mid-week last week. I felt like I went toe-to-toe with Mike Tyson. The 1985 version of Mike Tyson. The version where he climbs into the ring throws a couple of devastating uppercuts, pulverizes his opponent in 90 seconds, and leaves.

On the bright side, the sky is not the limit while the ship is sinking. The market isn't going to zero. Furthermore, lows are much easier to deal with than highs because speculators can seemingly buy for long periods, but only so much selling can occur.

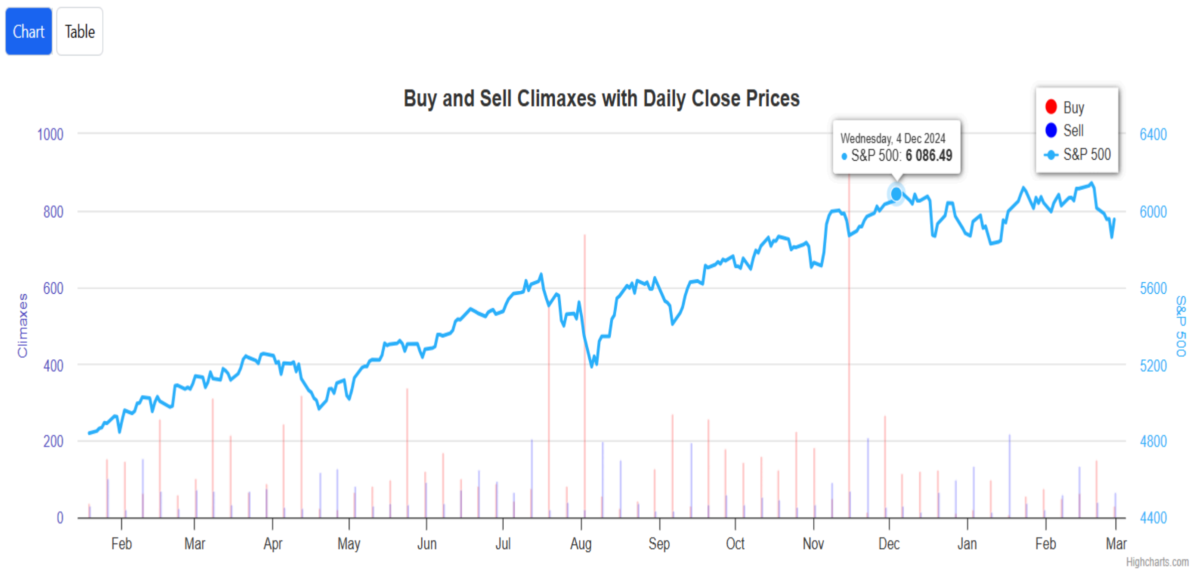
For example, there’s the mysterious “cash on the sidelines” speculators can use to add to positions. They can also use leverage.

When speculators get sold out, they get sold out quickly and at terrible prices. Margin calls are unfriendly.

I have previously pointed out that the number of "buying climaxes" was a warning sign that should not be ignored. A "buying climax" is when a stock makes a new 52-week high but finishes the week lower. That's a sign of distribution or selling.

It's difficult to see on the chart, but last week, "selling climaxes" exceeded "buying climaxes." In other words, there's been accumulation or buying despite the indexes' mired in bear trends.

That’s generally good news for stock holdings.

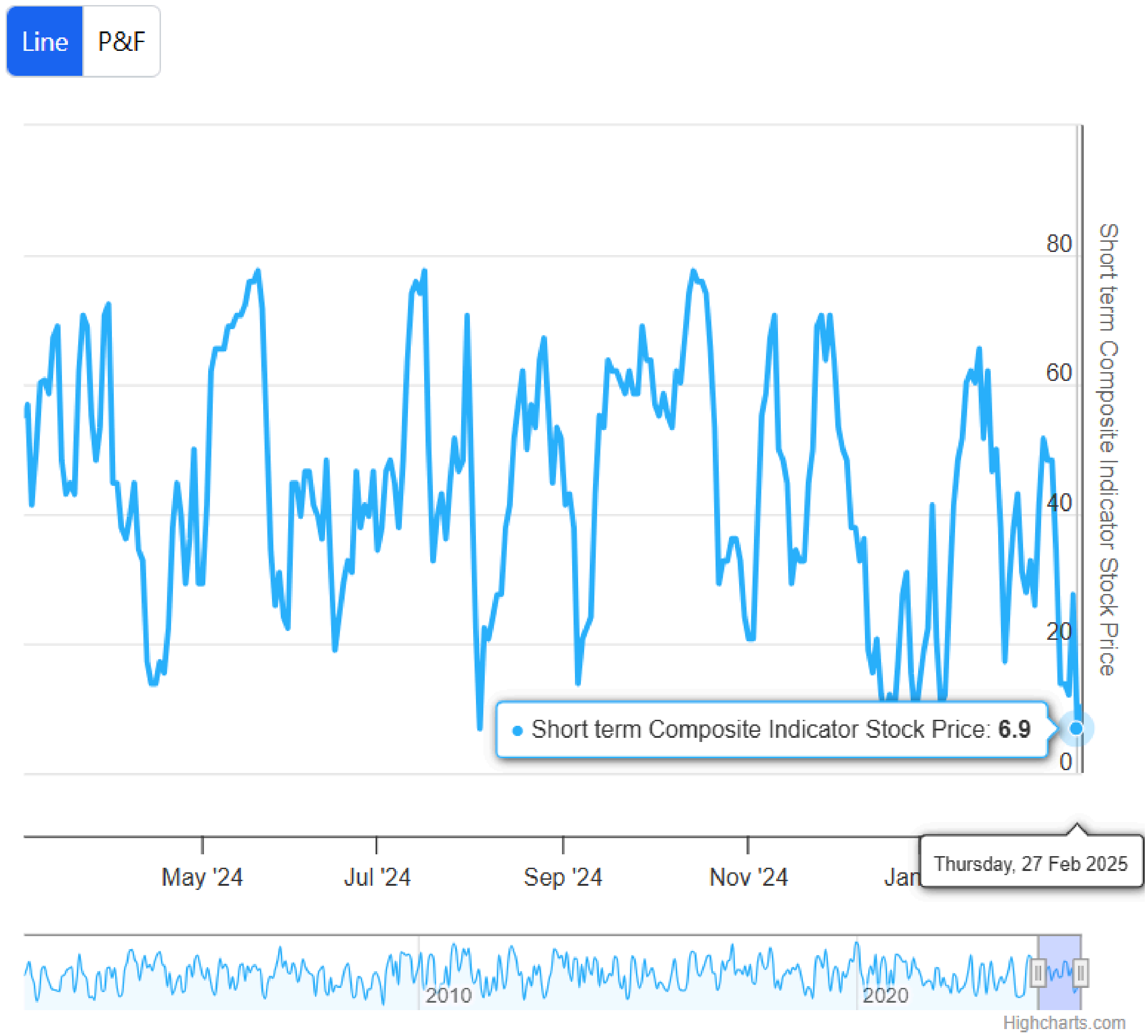


The markets also finally got oversold. *Deeply* oversold.

I've noted that my favorite overbought/oversold indicator is the *Short-Term Composite* from *Investors Intelligence* (as I always mention, I have no affiliation with the company).

I patiently wait for the indicator to drop below 10 before allocating to my accounts. The *Short-Term Composite* dropped below 10 after Thursday's close last week.

Specifically, the indicator hit 6.9



So, despite many other indicators flashing warning signs, what did I do?

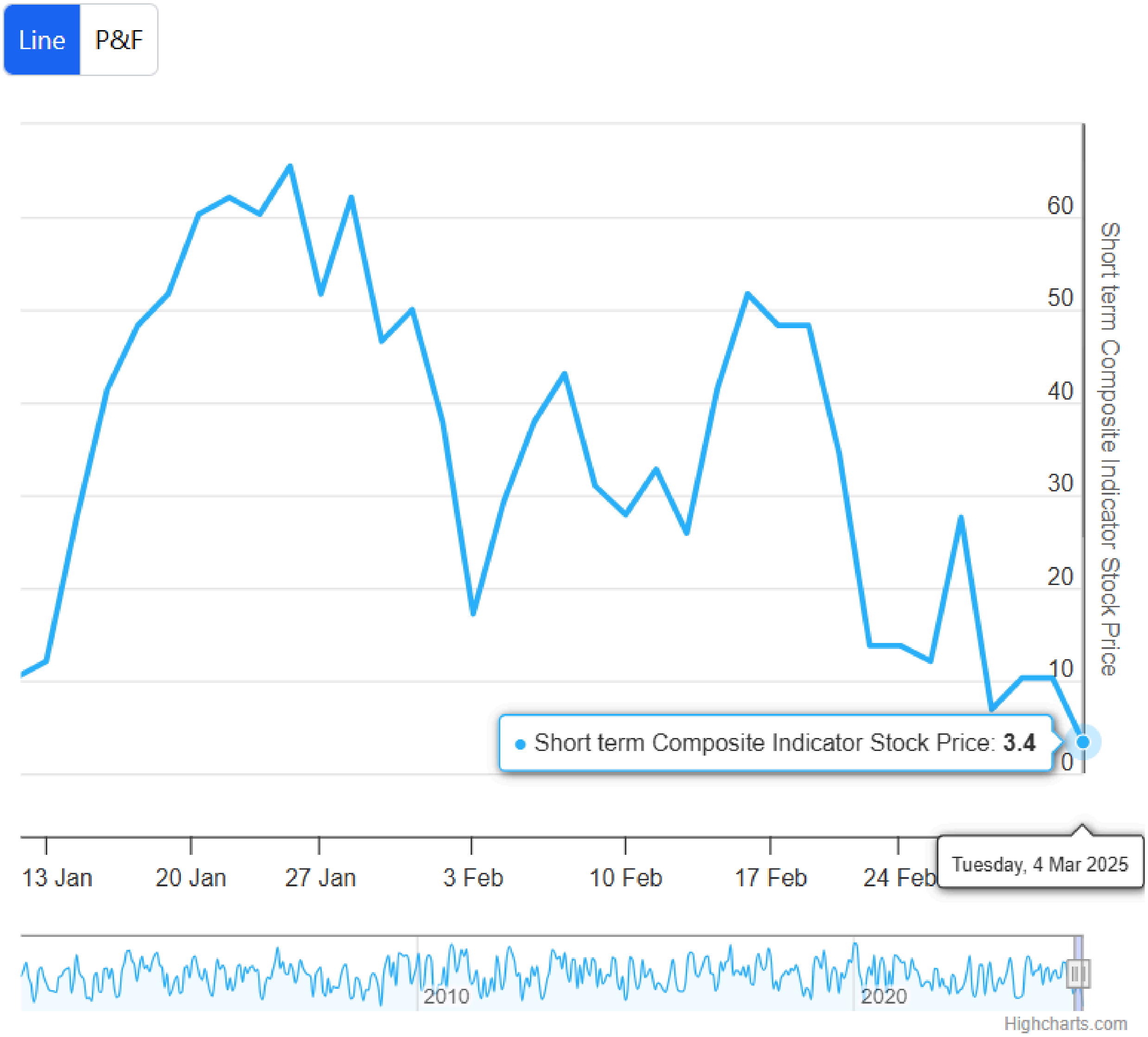
I put on my Big Boy Pants and bought the market on Friday. I did get lucky in that I made purchases after lunch when the market was slightly down for the day. To my surprise, the market rallied hard at the end of the day.

Then, that turned out to be much ado about nothing.

The market got spanked again on Monday and Tuesday.

The indicator turned down.

It hit 3.4 on Tuesday's close. Take a look here:



However, that is all relatively unimportant in the grand scheme of things. Just like I can't recall what I had for breakfast last Tuesday, I likely won't recall what happened on March 4, 2025, a year from now.

One of my strategies is to buy when the market is pressed to the downside. It takes a bit of holding one's nose because things often look *ugly*.

Things are ugly.

The meeting between the U.S. and Ukraine in the Oval Office last Friday was surreal. At the time, it looked like we could be on the brink of World War III.

Then, on Monday and Tuesday, another war—trade wars—came into focus, so the market took another big leg down.

Again, I followed my strategy. It's just one strategy among many, but I followed it. It's always worked out for me.

It takes discipline.

Sometimes, it takes balls of steel (think buying as COVID is crashing the markets).

That discipline pays off over time.

I was excited to buy more as I may only get this opportunity a handful of times yearly.

I have now made my bed and will back off for a bit.

I have focused on the equal-weighted S&P 500 (ticker: RSP) in my taxable and tax-deferred accounts. A handful of stocks have driven the S&P 500, while the other 490 or so have been much weaker collectively. I've been betting that the gap will close as the top-heavy portion of the index peters out.

I do not plan to change my strategy in the near future. I also favor small-cap stocks for similar reasons (ticker: SCHA). I may also buy the market-cap-weighted market indexes occasionally (I used ticker: SCHB) *in case I am wrong*.

This action in the past few days is a good reminder that you must muster up the discipline to follow your strategy.

It's not easy. It's supposed to be difficult.

Despite all the financial newsletter hype, you're not going to retire next week while trading S&P options lounging on the sofa in your underwear with Judge Judy playing on the TV in the background.

You'll probably end up in your underwear. Broke.

In addition, if you kick the dog, yell at your spouse, lose sleep, feel anxious, or anything other than cool, calm, and collected, you risk too much, and your positions are too big.

It's a good time for self-reflection and adjusting based on risk tolerance.

This is a good time to make sure your strategy fits your personality.

It's a good time to check position sizes.

I'm sticking to my process. In the end, I'll be OK. If you do the same for yourself, you will be OK too.

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