



Buckle Up!

The market has had a massive rally and it's been great for my accounts! For much of the rally, I have stayed out of my way and mostly ignored the market in recent months as the deeply oversold and overly bearish sentiment corrected itself.

However, last week I saw bearish divergences starting to form. While there's no actionable trade *yet*, the risk is clearly to the downside.

It's time to *buckle up*!

Here's what I'm seeing...

The "markets" are at all-time highs. The folks on *Cartoon Network* (aka *CNBC*) fall all over themselves talking about how great the market is doing. But they're talking about the S&P 500. The S&P 500 is **not** the market.

My first concern is that the S&P 500 is so heavily concentrated among the top 15 stocks that it masks the actual performance of the "stock market".

Take a look at this chart:

S&P 500 Index Components

#	Company	Symbol	Weight		Price	Chg	% Chg
1	Nvidia	NVDA	7.77%	▲	182.70	1.93	(1.07%)
2	Microsoft	MSFT	6.76%	▲	522.04	1.20	(0.23%)
3	Apple Inc.	AAPL	5.93%	▲	229.35	9.32	(4.24%)
4	Amazon	AMZN	4.14%	▼	222.69	-0.44	(-0.20%)
5	Meta Platforms	META	3.37%	▲	769.30	7.47	(0.98%)
6	Broadcom	AVGO	2.50%	▲	304.97	1.21	(0.40%)
7	Alphabet Inc. (Class A)	GOOGL	2.20%	▲	201.42	4.90	(2.49%)
8	Alphabet Inc. (Class C)	GOOG	2.06%	▲	202.09	4.81	(2.44%)
9	Tesla, Inc.	TSLA	1.85%	▲	329.65	7.38	(2.29%)
10	Berkshire Hathaway	BRK.B	1.75%	▲	465.40	3.93	(0.85%)
11	Walmart	WMT	1.44%	▲	103.73	0.61	(0.59%)
12	JPMorgan Chase	JPM	1.38%	▲	288.76	1.82	(0.63%)
13	Oracle Corporation	ORCL	1.22%	▲	250.05	0.66	(0.26%)
14	Visa Inc.	V	1.14%	▲	336.78	4.69	(1.41%)
15	Lilly (Eli)	LLY	0.98%	▼	625.65	-15.21	(-2.37%)

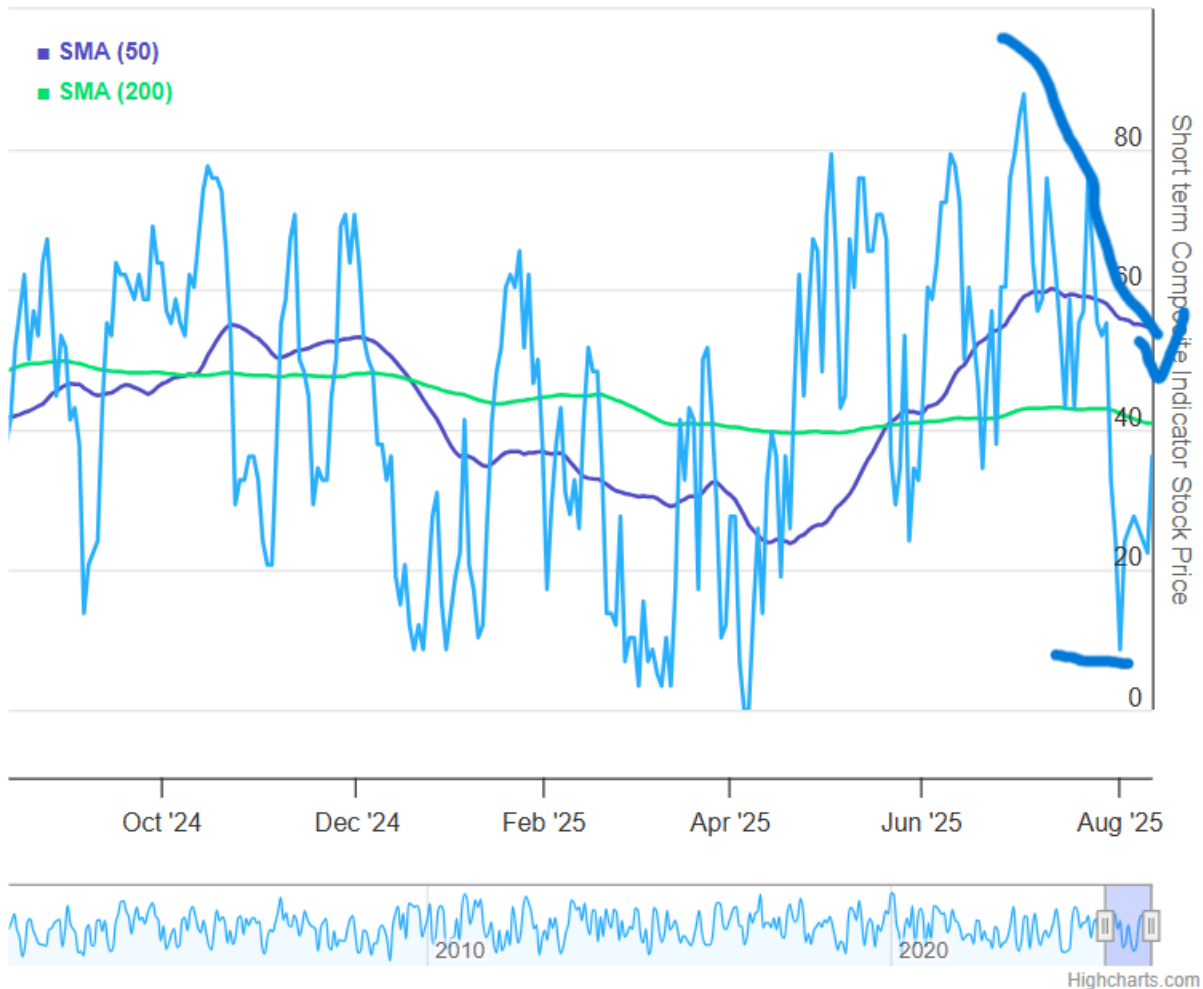
As the chart shows, the top 15 stocks in the S&P 500 account for 42.3% of the index weight. Nvidia is 7.8%! Meanwhile, Microsoft and Apple are 6.8% and 5.9% respectively.

I own plenty of broad market exposure with the S&P 500. I don't mind owning 7.8% of Nvidia in those positions. *But it's not where I want to be in terms of allocating fresh capital to my investment portfolio.*

My next concern is that my favorite indicator, the *Short-Term Composite* from *Investors' Intelligence*, has been falling while the S&P 500 has been rising. This is a *bearish divergence*.

Lots of stocks have been weak and are falling. The index is rising because Nvidia, Apple, and the like have been performing well.

The *Short-Term Composite* hit 8.6 on August 1, 2025. Anything below 10 catches my attention. While the indicator rallied from there as the market took off on inflation news, the bearish divergence persists.



Digging deeper, the major indexes show a lot of problems. Here are the indexes measuring stocks on a point and figure basis. Each stock is either in an uptrend or a downtrend. Each stock constitutes one vote. It's not market-cap weighted like the S&P 500.

Index	Bulls%	1d Chg	Status	Status Change	Direction
AMEX	62.23%	0.32	Bull Alert	2025-04-23	Up
By Index	51.81%	1.14	Bull Correction	2025-08-01	Down
Dow Industrials	70%	0	Bear Confirmed	2025-08-08	Down
NASDAQ 100	52.13%	3.19	Bear Correction	2025-08-12	Up
NASDAQ Composite (CCMP)	45.04%	1.7	Bull Correction	2025-08-01	Down
NYSE	49.44%	0.81	Bull Correction	2025-08-01	Down
Optionable Stocks	67.93%	0.58	Bull Confirmed	2024-11-26	Up
Russell 2000	48.64%	2.07	Bull Correction	2025-07-31	Down
S&P 100	54.55%	1.55	Bear Confirmed	2025-07-29	Down
S&P Composite 1500	53.45%	2.02	Bull Correction	2025-07-30	Down
S&P MidCap 400	53.92%	1.72	Bear Confirmed	2025-08-01	Down
S&P SmallCap 600	52.03%	3.1	Bull Correction	2025-07-31	Down

As the table above shows, only about half the stocks in the mid-cap, small-cap, and all-cap indexes are even in bullish trends. The Russell 2000 is below 50%. All of those indices are experiencing a downtrend in the bullish percent figures.

There's no need to guess. It's as clear as day.

That is *not* the sign of a healthy market.

Many stocks are already in bear markets. By the time the Big Boys get hit, a lot of damage will already have been done. Nvidia, Apple, and Microsoft will get hit after everything else has been sold out.

Then, market sentiment will get too bearish.

This happens over and over again. Human nature never changes!

Then the risk will be to the upside. My play, which is subject to change, will be to buy the equal-weighted S&P 500 and smaller stocks. Possibly quite aggressively.

As of right now, I'm not taking any action. But the market has my undivided attention. Fail to plan and you plan to fail!

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