



The Whites of Their Eyes

The best time to buy stocks is when you can see the whites of their eyes. Speculators are so scared or burned out from losses that they dump stocks recklessly.

Bottoms are easy to see. There's a lot of selling pressure, and speculators are forced out of the market with margin calls or cannot endure the pain of short-term losses anymore. People bitch about their stockbroker or newsletter recommendations or whatever.

Then the rubber band stretches so far to the downside that it takes very little for it to snap back in the other direction.

That's where we were when the tariff news hit the market hard a few months ago. The market was deeply oversold, and market sentiment was so bearish that there was no one left to sell.

It was an easy, low-risk trade to buy stocks, which I alerted readers to at the time as I was loading up in my own portfolio.

Today, we are in the *opposite* situation of seeing the whites of their eyes. And market tops are a more challenging period to deal with.

Unlike bottoms, tops form more slowly. There's cash on the sidelines that people invest. There's a fear of missing out. Sentiment is very optimistic. The trends are up, which creates a positive feedback mechanism.

As a matter of risk, we are now clearly within the *riskier* end of the spectrum.

Over the past few months, the stock market has been relatively narrow. Only a few stocks dominate the indices, and those stocks have seen tremendous gains.

Meanwhile, the average stock is lagging. Here's an updated table of the point and figure data on major indexes.

Russell 2000	58.04%	-0.27	Bull Confirmed	2025-08-22	Up
S&P 100	62.63%	1.01	Bear Correction	2025-09-22	Up
S&P Composite 1500	59.92%	-0.42	Bull Confirmed	2025-08-19	Up
S&P MidCap 400	62.5%	0.12	Bear Correction	2025-08-27	Up
S&P SmallCap 600	59.42%	-0.82	Bull Correction	2025-09-17	Down

As a quick refresher, under point and figure charting, a stock is either in a bull or bear trend. There's no guesswork. Within the Russell 2000 Index, 58% of the stocks are in a bull market. That means 42% are bearish. In all of the major indexes, it's about 60% bullish and 40% bearish. That's improved dramatically from the lows a few months ago, but still lower than one might expect at all-time highs in a raging bull market.

Market sentiment is also too bullish. Here's the bull-bear spread from newsletter writers polled by *Investors' Intelligence*.

"The bull-bear spread jumped to +39.6%, from +37.7% last time. That is the 19th positive difference in a row. It is also the fifth week in the caution zone above +30%. It is also the widest for this year. As of December 2024, the spread exceeded 45%! We considered counts above 40% as danger signals, suggesting an upcoming market decline. That occurred a few months after the peak danger signals in early spring 2025. That yields eight negative differences (more bears than bulls), with two weeks in April at -11.0 or below. Those were the first negative spreads since the fall 2022 lows. Negative differences signal diminished risk and allow for broad buying the wider they get."

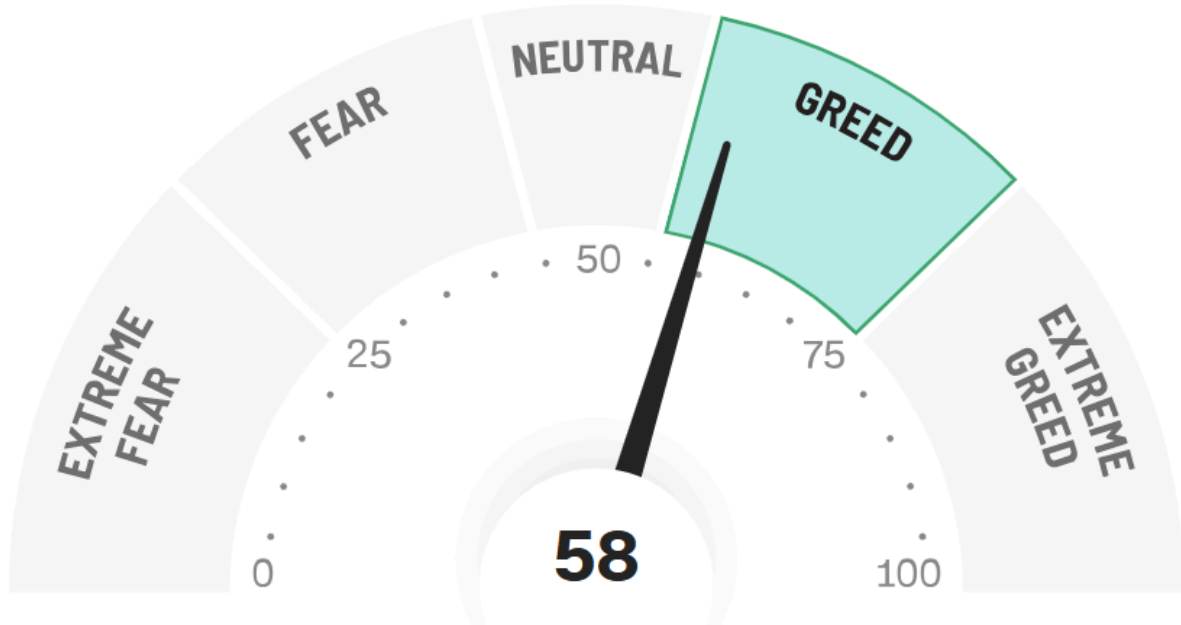
At +40% bulls over bears, I'm not allocating new capital to stocks. Period. Ain't gonna do it.

I have no fear of missing out. I'm more comfortable doing the opposite of what most people are doing.

I do, however, employ trend-following strategies. The trends are up. Those strategies are long-term stocks. *However*, I'm just not adding capital or pressing my bets.

The *CNN Fear & Greed Index* is also in the "greed" zone. Given the market at all-time highs, I'm surprised it's not higher.

Of course, back to the point and figure table above, market breadth isn't great. There's a handful of stocks leading the way.



Last updated Sep 23 at 2:25:49 PM ET

As a result of a narrow market and bullish sentiment, we are on the riskier end of the spectrum.

But again, tops are tricky. The market can continue to rise. But it won't take much to turn things the other way.

It takes a year to build a house, but an hour to burn it down.

I'm continuing to watch closely, of course, but I'm thrilled to be patient and build a war chest for the next great opportunity, like what we saw with the tariff smash. As I pointed out then, the data was the worst since the COVID smash.

What an opportunity!

We will get that opportunity again.

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