



Nibbling a Bit

After an extended period of time sitting on my hands, I've nibbled a bit on stocks in recent days.

While I have concerns about concentration risk in the S&P 500, aggressive accounting practices among those same companies, and the lack of breadth in the market, the fact is, it became deeply oversold coming into last weekend.

If you're not in AI, you're likely lagging the market. And that only accelerated in the first part of November. I see it in my stock-specific strategies where the differences have been practically historic.

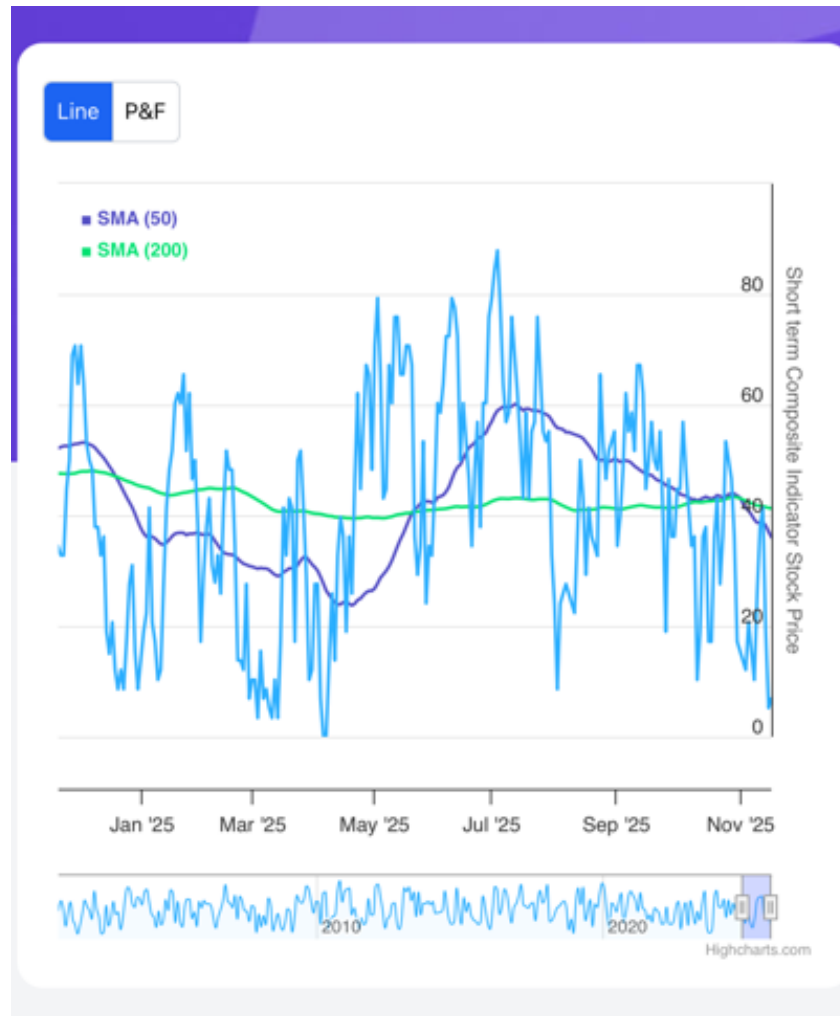
That said, as a function of discipline, when the market gets overbought and sentiment turns a bit dour, I pepper my long-term portfolio with various indexes.

Here's what caught my eye.

First, the market is objectively oversold. Posted below is the *Short-Term Composite* from Investors' Intelligence, which I have said before is my favorite short-term indicator and has given me wonderful signals in the past.

Last week, the index fell sharply, dipping below 10 and hitting 6.9. Mid-single-digits catches my eye.

While there's no "magic number" at that level, I consider other factors such as the performance of the average stock and market sentiment to determine whether to make a move.



The average stock has been smoked. In every major index, a significant portion of stocks are in defined downtrends and breadth has been terrible.

This is despite the indexes hovering around all-time highs. As I have said many times, the concentration in the S&P 500 is masking what's happening to the average stock, which is in a bear market.

As the chart below shows, in the S&P 100 – many of the market's largest companies – the overall trend is bearish, and 50% of the stocks are in uptrends while 50% are in downtrends.

Mid-caps are worse at 42% and 58% uptrend and downtrend, respectively.

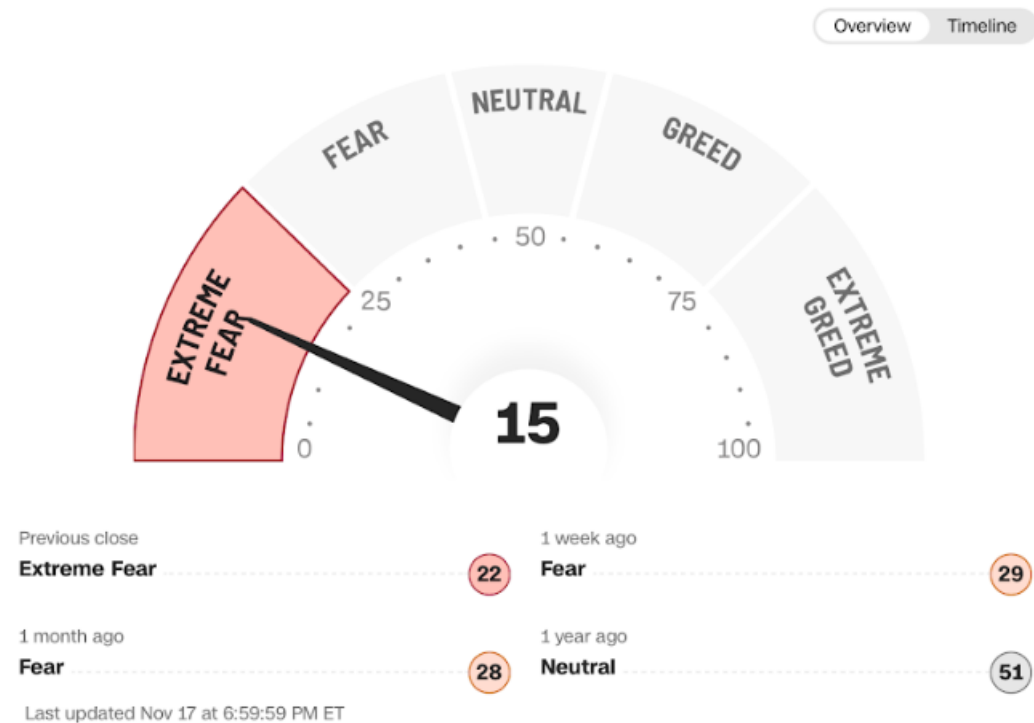
Small-caps are *worse yet*. Those figures sit at just 37% in uptrends and 63% in downtrends!

That is *not healthy* in a market near all-time highs!

US Index Breadth

Index	Bulls%	1d Chg	Status
AMEX	60.89%	0.07	Bear Confirmed
By Index	45.43%	-0.63	Bear Confirmed
Dow Industrials	61.9%	11.9	Bear Correction
NASDAQ 100	40%	-2.19	Bear Confirmed
NASDAQ Composite (CCMP)	34.58%	-2.41	Bear Confirmed
NYSE	45.4%	0.26	Bull Correction
Optionable Stocks	67.93%	0.58	Bull Confirmed
Russell 2000	36.94%	-2.36	Bear Confirmed
S&P 100	50%	0.68	Bear Confirmed
S&P Composite 1500	41.73%	-0.65	Bear Confirmed
S&P MidCap 400	42.36%	-2.89	Bear Confirmed
S&P SmallCap 600	37.4%	1.04	Bear Confirmed

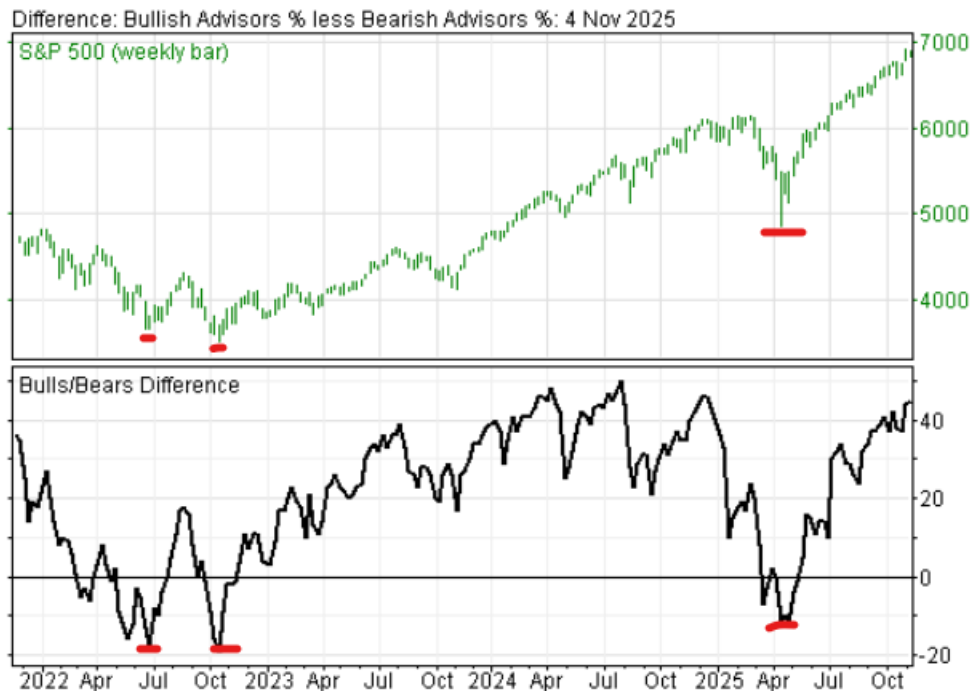
Of course, investors are feeling this pain too, and sentiment has shifted to the negative side of the equation. The *CNN Fear & Greed Index* has plunged to just 15.



When I see mid-teens in this index, it piques my interest. Of course, it can go much lower. And, if the market continues to get pressed, it will go much lower.

That said, other sentiment indicators are still too bullish. For example, newsletter advisors are +40% bullish to bearish, and that's a red flag.

As I pointed out last week, I need to see about -10% to feel aggressive. We are far from those levels! Here's the chart again for quick reference.



Nonetheless, I want to take advantage of the pressed conditions. So I started buying a bit. I am not nearly as bullish as I was during the Tariff Smash. That was the most absurdly pressed market since late 2022, and really, since COVID. That was an easy spot to buy aggressively.

Here? Not as much. I have stated before that the bear market in the average stock will play out before the major AI companies get pounded, and by then, it will be time to start buying everything but those companies. The bear market has begun in the average stock, but the AI stocks haven't plunged.

Some big investors dumped Nvidia shares recently, and there's been more ink spilled over recent accounting maneuvers. So, there's more scrutiny today than at any time in recent years.

I want to avoid the concentration risk in the S&P 500. I own plenty of S&P 500 over the long term. I don't want to add to it.

I mainly focused on equal-weighted S&P 500 (RSP) and some dividend shares (SCHD). I also favor small-caps because they've lagged poorly and are the most oversold.

As long as these conditions persist, I'll buy here and there. They need to get much worse before I'd be salivating at the opportunity to make big bets!

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