



Sharing my Formula for Oversold Markets

Happy Thanksgiving! It's my favorite holiday of the year. Heck, Thanksgiving is my favorite *day* of the year.

There's nothing better than a great meal with loved ones and the Green Bay Packers playing a division rival on TV. Plus, for the most part, companies haven't been able to commercialize the holiday, so no need to buy people useless junk they don't need!

In the spirit of Thanksgiving, I wanted to share my formula for handling oversold markets. Last week, I noted the market was oversold and represented an opportunity to buy, although not nearly as aggressively as during the Tariff Smash. A subscriber asked me for more details on what I look for.

So, here it is. All of it. No big secret.

I've been using this method since 2008 during the Financial Crisis. At the time, I was managing a private partnership for a wealthy family, mainly shorting bank stocks. After the market imploded, I became bullish in mid-December 2008. The first two and a half months of 2009, the market continued to slide, but then turned on a dime, and the rebound was breathtaking. Below are the conditions I looked for then and that I look for now.

My philosophy is based on a couple of key points. First, markets change, but human nature does not. While trading volume is 85% or more computers, humans still run the show. They get overleveraged, make bets that are too big, and *get shaken out at the worst possible time*. Over and over again.

Second, I have zero fear of missing out. I don't care what the next guy is doing. Suppose he's making money hand over fist; that's great for him. I could care less. I have several strategies, so something is participating when the market is rallying. But for this

strategy, I'm focused on picking my spots when the risk/reward ratio is *highly* favorable. It doesn't happen that often, so there's a lot of idle time!

While I have not computed returns when all the conditions are present, there have always been gains until the market is overbought again, and I'd hazard a guess that it's triple digits on an annualized basis to the point of becoming overbought again.

First, the market needs to be oversold. I look at the *Short-Term Composite* from *Investors' Intelligence*. It's a proprietary quantitative measure based on about three dozen indicators, with a range of 0 to 100. When it drops below 10, I start paying attention.

When the indicator is below 10, the market is oversold. Sometimes I *feel* like the market is oversold, and I'll check the indicator, and it's not below 10. Or I *feel* the market is overbought, and check the indicator, and it's not above 70.

No one cares how I *feel*, especially the market. However, when it's below 10, it's oversold. I have no relationship with *Investors' Intelligence*. I also do not endorse products. I find it useful. You could find another measure you're comfortable with, or develop your own. It's simply a guide and the first trigger. Be consistent with whatever you use.

Second, sentiment must be bearish. There are a couple of indicators for this. You could look at the *CNN Fear & Greed Index*, which is free online. It's updated every day. When it's in the mid-teens, I get excited. Speculators are too bearish. Everyone says they're a "contrarian," but they're not. We are herd animals. We share 98% of our DNA with gorillas. We are not that smart and would rather run off the cliff with the group than stick our neck out and stray from the pack.

The other measure is the advisor poll from *Investors' Intelligence* again. It comes out on Wednesday. I've posted this chart too recently. When Bears > Bulls by 10% or more, that is too much bearishness.

Instead of that poll, which they conduct, you could look at the *National Association of Investment Managers (NAAIM)* allocation survey. You can find it for free online. Of course, it will differ from the advisor poll; however, professional managers are terrible collectively. In deeply oversold markets, you will find polls close to 0% allocation to stocks. When pros are scared of the stock market, you should be licking your chops.

Right now, there are way too many advisors who are bullish, but the *CNN* model hit 15 and then dropped to just 6 last week. Given that the first condition was also met when the *Short-Term Composite* hit 5.9, I bought some stock.

However, I noted that I wasn't going to be too aggressive, and I was not. I'm also looking for other conditions.

The third would be bullish percent figures on the major indexes in the 30% area. Bullish percent readings use point-and-figure charting. A stock is either in an uptrend or a

downtrend. One stock, one vote. There's no market-cap weighting, and it's crystal clear. Let's say 65% of stocks are in downtrends, many have felt *significant* pain.

There's nothing proprietary about point-and-figure charting. It's been around for over 100 years. You could search around the Internet to find this information.

Lastly, I'm looking for a surge in selling climaxes. Stocks make a 52-week low during the week but finish the week higher. This tends to happen after the market has been punched in the nose hard, and the big money, the smart money, comes in, and they're buying aggressively because they see value. You don't need to know who they are, nor does it matter what stocks they're buying. I want to know if the action picks up steam.

Over the weekend, if I see that and all the other conditions are present, then I'll buy more aggressively on the following Monday.

As long as the conditions are present, I keep buying. The risk is to the upside.

When COVID hit, no one knew how bad it might be. Was it really the Black Plague of the 21st century, and 50% of the people were going to die? Or not? While, sadly, people were lost, it became clear it was not the plague. Furthermore, governments flooded the markets with far more liquidity than in 2008-09. So, when these conditions were present, it was an aggressive buying opportunity.

The tariff smash was bad in terms of the metrics above too. The risk was to the upside. And, of course, the tariffs were paused, and the market was off to the races. I highlighted this in this space in real-time a few months ago.

Again, it doesn't happen that often, but when it does, the above metrics are *precisely* what I look for.

The first two conditions might be met 4-6 times a year. So, I'll buy a little. All conditions might be met once a year or less often than that. I'll buy hand over fist.

What about selling?

In my taxable account, I don't sell. I prefer to pay the least amount of taxes legally possible.

If I were to sell, I'd look for two things. One is the structure of the move off the bottom. There will be pullbacks along the way. Nothing goes straight up. I'd lock in gains by taking some off the table if prior pullbacks are broken on high volume. *But, I'd be slow to do it.*

Second, I'd look for signs the market is tired. A good way to do this is to look at the accumulation/distribution rating of the S&P 500 (use SPY) from *Investor's Business Daily* and/or the leading stocks like Nvidia, Apple, Microsoft, etc. That metric is proprietary to IBD, but you could also look at the trend in volume over the last 50 trading days. If the market is going up on weak volume and then pulling back on higher volume,

sellers are in control. The SPY rating around the recent top was weak *before* the market just sold off.

And that's it. It takes about 5 minutes to figure out the market conditions above.

In the spirit of giving, I'd also like to offer one last Thanksgiving goodie.

This weekend, I will update my *Forensic Accounting Stock Tracker (FAST)* for December. In April 2010, I founded my own research and consulting company for billion-dollar asset managers, using *FAST* as the basis for my work.

I charged \$25,000 or more. However, because I'd rather be poked in the eye with a dull spoon than work with investment firms, I no longer work with them.

I do, however, make the same methodology available to everyday investors so they can have access to data that significant funds have used to gain an edge.

For only a few hundred dollars.

A portfolio of the top eight stocks has nearly tripled the market return since that time.

The real value, though, is knowing which stocks are the worst-rated. They are at higher risk of an adverse earnings-driven event that can blow up the stock and ruin portfolio performance. It only takes one stock.

If you'd like a December 2025 copy of the full model, email me at jd@unboundedwealth.com, and I will send it to you. No secrets. No obligation. No trap doors.

Then, when you decide you want to subscribe, let me know you received the December copy, and I'll honor the \$100 discount.

I will not email you. There's no extra Black Friday sale. Nothing.

You have nothing to lose except not knowing what's on the list!

Happy Thanksgiving!!!

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