BRIGHTVIEW
CAPITAL MANAGEMENT

The Stock Market May Be Flashing A Warning Sign

Dangerous For Most; Opportunity For Those Who Are Prepared

Michael Kerris
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The change of calendar year has also brought on a serious change in investor sentiment. The six year long bull market in the S&P 500, already long in the tooth, may be transitioning. The stock market went through all of 2014 without a losing streak of more than three days, but the market this year has already completed its second slide of five straight days. The market may only be off a few percent from its all time highs, but the market may be trying to communicate something more important to those who know how to listen to it.

For the past six years, "buy the dip" was the religion that seemingly every investment pundit would preach. And why not? In a bull market buy the dip works, and we too have benefited from this. However, how does one know when the dip will no longer lead to a buyable bounce back? Chart reading may tell us the answer. And we think the U.S. stock markets are waving a big yellow caution flag that things may no longer be as they have been.

A long-term bullish stock market trend takes many months to change direction. Psychology has to go from the automatic reaction of buying the dips, to instead selling the rallies. From a technical perspective, a market changes its trend by taking a series of lower steps which includes making new lower highs and new lower lows.

If one looks at the monthly chart of the S&P 500, one would see that since January 2012, the market has cleanly traded above a rising 8 period moving average. That is until October 2014, when the market suffered its first serious drop in three years falling nearly 10% and breaking below its 200 day moving average and its long-term uptrend. The October 2014 drop also broke below the August 7, 2014 low.

December 26, 2014 did bring a new all time high, but it's bounce from the December 16th low was relatively muted—less than half a percent higher than its prior cycle high on December 5th. And this lack of strength on December 26th was met with quick and earnest selling, which has since continued.

What is also disconcerting is that the January 8th bounce did not have enough carry through to lead to a higher high as it has on countless other cycles over the prior three years.

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Moreover, the current January 14th and 15th market lows which are testing the 150 day moving average have made new lower lows below January 6th. These weakening technicals have been attributed to plummeting oil prices, weaker than expected national and global economic news, and today's tumultuous move by Switzerland's central bank to end its cap on the Swiss franc's exchange rate against the euro. Beyond the stock market, warning lights are flashing all over as seen in plummeting oil and copper prices that may be saying the global economy is weakening; and the rush to safety being reflected in the sovereign bonds of many countries reaching record low yields.

I am not saying that the S&P 500 will not recover from this level. It likely will because markets typically do not move straight in any direction. And we are still in a bull market that may or may not continue. But the market has been weaker and there are more fundamental issues for it to worry about. Now is an appropriate time for market participants to start thinking more about how to protect their capital.

So for those that want to protect themselves, how do they go about doing this? Traditional ways include simply holding a larger percent of one's portfolio in cash. This is effective when markets fall, but misses opportunities if markets continue higher still. Secondly, more sophisticated and aggressive investors may hedge their positions by shorting the market or individual securities benefiting from any continued drop in market prices. However, a consistent short position introduces its own requisite expertise and risks.

<u>BrightView</u>

At BrightView Capital Management, we believe we have found a better way to approach investing. It is a dynamic approach that regularly adjusts itself to the market regardless of where it is in its cycle. And our approach can especially shine during bear markets with the potential for very high returns while other investors are losing money. Our proprietary automated algorithmic technology called Adaptive looks for technical setups that provide a high statistical investing edge. These positions, whether they are held long and/or short are held typically only from a couple of days to a couple of weeks and then capital is repositioned back into the safety of cash pending the next setup. Adaptive utilizes a number of built in filters which disqualifies buying stocks that have weakened thus generally preventing being long stocks during a bear market. Adaptive also won't begin to short stocks until the filters indicate that the trend is bearish and the odds are most favorable for doing so.

If you want to learn more about a systematic risk-averse way to invest with an edge that can not only protect your portfolio, but may actually allow you to prosper during challenging markets, contact BrightView Capital Management.

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