The S&P 500 is Performing Better than Most Stocks

October 22, 2018

Featured Video:

This week's featured video discusses the concept of confidence bands and the importance of limiting drawdowns. In conjunction with Confidence Bands, the video also talks about the Canterbury Portfolio Efficiency Score, a proprietary scoring system for measuring a portfolio's efficiency and risk of high drawdown.

Video Link:
https://www.youtube.com/watch?v=vYCDxXnAnsU&index=5&list=PLC1s5Mc5K46vVR8mvt4Lxx6q5FZO70N5h

Market State 6: Short-Term/Transitional/Long-Term Bullish (8 trading days): Market State 6 is a "Transitional" environment. Historically, Market State 6 will transition back to a "bullish" Market State about 75% of the time. On the other hand, Market State 6 will shift to a volatile bearish environment only about 1 in 4 times. Time will tell which will happen from here.

Canterbury Volatility Index (CVI 71): Volatility, as measured by the Canterbury Volatility Index, increased by 5 points for the week. In fact, volatility has more than doubled from the most recent low of CVI 38 on October 3rd. Our volatility algorithms triggered a temporary negative signal based on a sharp gap-down on October 18th. The volatility alert will be lifted on the day that the S&P 500's short term indicators turn positive **and** if the CVI remains below CVI 76.

Comment:

U. S. Treasury bonds and Notes continue to be in long-term bear Market States. Both hit their peak highs during the early second quarter in 2016. Since that time, the 7 to 10 year Treasury ETF (symbol IEF) is down about 13% from its peak. The 20 plus year Treasury ETF (Symbol TLT) is down more than -20%. Interest rates continue to rise. Bonds are anything but a "safe haven."

Most equity markets remain oversold (declined too far and too fast). There was a nice Kick-back rally last Tuesday, but the markets sold off again at the week's end. One of the market's keys to moving back to a bullish environment is for the NASDAQ 100 and small cap (Russell 2000) stocks to begin to perform better than the S&P 500. So far, that is not happening. My good friend, and one of the top market strategists in the country, David Vomund has been watching for a negative divergence between the price of the S&P 500 and the stocks only advance decline line or A/D line (the ratio of the number of stocks going up vs. stocks going down).

A characteristic of a healthy market is when the majority of listed stocks are going up along with the S&P 500. We call this the breadth of the market. It is like a rising tide lifting all ships. One early sign of a weakening market is when the medium and smaller stocks begin underperforming the large cap stocks. At least though last Friday, the big stocks have been beating the small ones. David and I agree that the advance/decline needs to reestablish its upward trend, verses the S&P 500, or we will see an early warning sign for the future health of the market.

The following is an interesting stat courtesy of David Vomund:

Currently 43% of the S&P 1500 stocks are 20% or more off their yearly highs.

That means that 43% of 1500 stocks have already experienced a bear market decline.

Bottom Line:

The most likely move from here would be a year end rally that could begin soon. If that is the case, then watch for a confirmation by seeing the S&P 500 (stocks only) advance/decline line mirror, or preferably, outperform the S&P 500 Index itself.

The Canterbury Portfolio Thermostat is a comprehensive adaptive portfolio management process. It is designed to adapt its holdings to benefit from any market environment – bull or bear.

Canterbury Portfolio Thermostat

Market States - Changing Market Environments

Canterbury Market State	Long Term	Risk/Volatility	Market Environment
Market State 1	Bull	Low	Rational
Market State 2	Bull	Low	Rational
Market State 3	Bull	Low	Rational
Market State 4	Bull	Low	Rational
Market State 5	Bull	Moderate	Emotional/Irrational
Market State 6	Bull	High	Emotional/Irrational
Market State 7	Bear	Low	Emotional/Rational
Market State 8	Bear	Low	Emotional
Market State 9	Bear	Moderate	Emotional/Rational
Market State 10	Bear	High	Irrational
Market State 11	Bear	High	Irrational
Market State 12	Bear	High	Irrational