RIA Advice

One indicator I like to check from time to time is a ratio of aggressive *?bull market?* indices to defensive *?bear market?* indices. It is based on the work of technical analyst Boris Simonder, CMT?s market offense index and market defense index. I first wrote about it publicly in June 2005 and adapted it for use with readily available indices. The concept of rotating money into and out of offense and defense is not new. The point is that more aggressive ?offense? sectors usually lead in good times while more defense (defense) sectors lead when things are not so good. Of course,

not as much. But I

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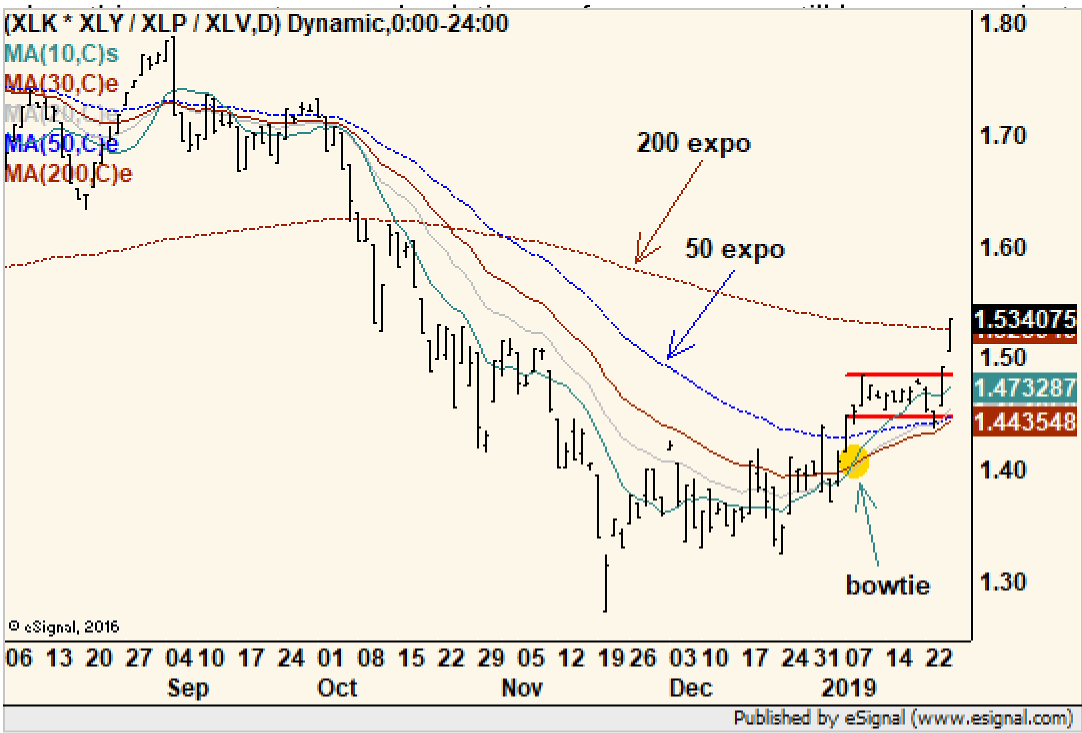
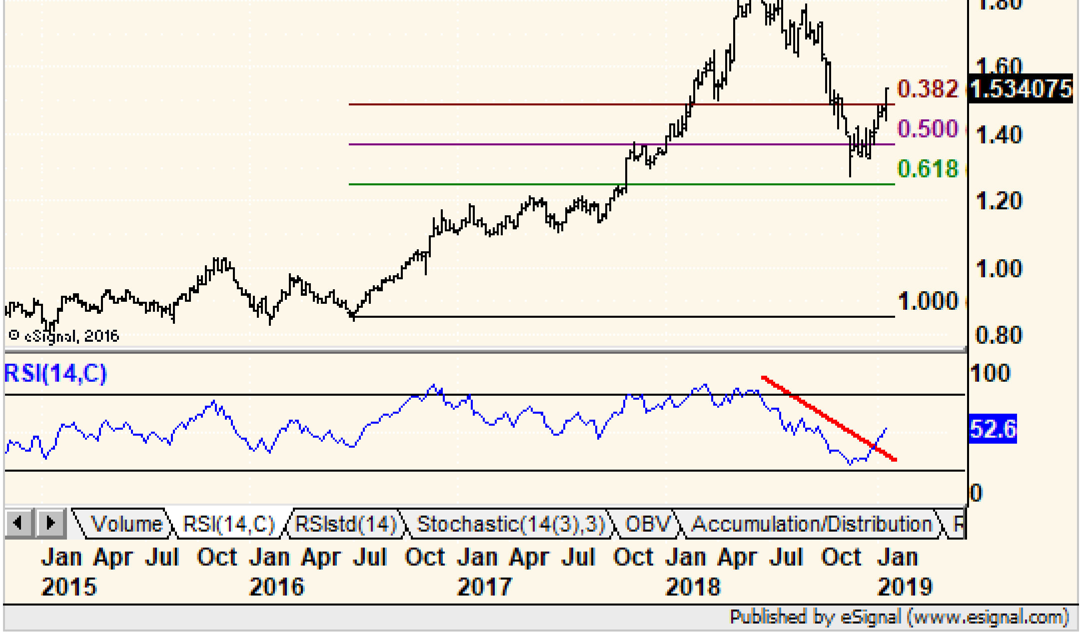


For you math deniers,

the way I wrote it was a lot easier than using parentheses. But let?s talk about the chart. We can see the rising trend since November, a full month before the rally really began in December. We can see a small range breakout and if you look really closely you will see a rejected breakdown the day before the upside breakout. And then there are the moving averages. The long ones are labelled and we can see the market closed above the 200-day exponential on Friday after holding the 50-day expo. The other averages are shorter ? 10 simple, 20 expo and 30 expo ? and make up Dave Landry?s bow tie signal. When the cross together, they look like a bow tie converging and then diverging. It is a short-term buy signal. There is one more thing. **This is far from an all-clear BTFD signal because the averages are not in proper order for a sustainable rally.** The short averages are in order but they are all below the longer averages. And the 50- is still below the 200- so no golden cross type of thing is in place. I say *?type of thing?* because that is really supposed to be applied to the S&P 500 and not a ratio.

Getting To The Point

Anyway, what does it all mean? To me, this says the market is feeling pretty good with aggressive sectors doing better than defensive sectors. I do think it needs to do a bit more work to create a satisfying upside breakout from the 2018 decline but let?s take it step at a time.



The weekly chart is not bad with a nice 50% retrace in play and an RSI breakout. **With breadth thrusts earlier this month and the end to the government shutdown, albeit maybe only temporarily, I think we have to give the market the benefit of the doubt.** But leave your glass of Kool-Aid at home.