# BIG PICTURE STOCK MARKET REGIME IDENTIFICATION

WallStreetCourier

## 1. TREND

*Uses the signals of **Trend Indicators** to identify the trend of the S&P 500*

| BULLISH | BEARISH | CONSOLIDATION |
|---|---|---|
| (UP) | (DOWN) | (NO TREND) |

**CURRENT TREND STATUS**

*Identifying the current direction of the market (to measure if it will be sustainable in its nature further analysis is necessary)*

## 2. TREND QUALITY

*Uses the signals of **Trend Quality Indicators** to measure how many stocks are participating in an existing trend*

***HIGH (Broad-Based)***

*Trend it is driven by most stocks in the index*

**STRONG TREND**

*Any consolidation is just a breather in an existing trend*

***LOW (Narrow-Based)***

*Trend it is only driven by a few heavy-weighted stocks in the index*

**WEAK TREND**

*Consolidations/slow-downs are potential tipping points for stronger trend-reversals*

## 3. SENTIMENT

*Uses the signals of **Sentiment Indicators** to identify greed & fear (among Dumb- and Smart Money)*

***GREED***

*Too much good news is priced in (no one left to buy/push prices higher)*

**BURDEN FOR POSITIVE TRENDS**

*Any consolidation is just a breather in an existing trend*

***FEAR***

*Too much bad news is priced in (no one left to sell/push prices lower)*

**BURDEN FOR NEGATIVE TRENDS**

*Consolidations/slow-downs are potential tipping points for stronger trend-reversals*

## 4. MARKET REGIME CHARACTERISTICS

(Short- to Mid-Term Analysis of Step 1-3)

WallStreetCourier

| | BULLISH | | BULLISH CONSOLIDATION | | BEARISH CONSOLIDATION | | BEARISH | | STABILIZATION | | RECOVERY | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Short-Term | Mid-Term | Short-Term | Mid-Term | Short-Term | Mid-Term | Short-Term | Mid-Term | Short-Term | Mid-Term | Short-Term | Mid-Term |
| TREND | Positive | Positive | Negative to Neutral | Positive | Negative | Positive | Negative | Negative | Positive | Negative | Positive | Neutral to Negative |
| TREND QUALITY | High | High | Low | High | High | Low | High | High | Neutral To High | Neutral To High | Broad-Based | Low to Neutral |
| SENTIMENT | Neutral to Greedy | Neutral to Fearful | Greedy to Fearful | Neutral to Fearful | Neutral to Greedy | Neutral to Greedy | Fearful to Neutral | Fearful to Neutral | Fearful | Fearful to Neutral | Neutral to Fearful | Fearful to Neutral |
| CHARACTERISTICS | Positive market regime accompanied by low volatility. The uptrend is packed by a high trend quality since the upside participation within the stock market is broad-based on a short- to mid-term time perspective. Sentiment is neutral to fearful. Risk of a sustainable regime switch is outright low. | | Positive market regime accompanied by increased volatility. The short-term trend condition is slowing down or even turns negative, but the mid-term condition remains strong. At the beginning of that regime, sentiment is typically greedy and at the end fearful. Although negative trading days are likely, the risk of a sustainable regime shift are low. Ignore negative days, as they are just part of a healthy breather. | | Capped upside potential together with an increasingly high risk for waterfall declines and stronger corrections. All bear markets started with that regime, although not every bearish consolidation regime caused a bear market. Expect high volatility in that regime. The short-term trend condition is negative, and the mid-term trend condition is weakening, or also slightly negative Weak trading days are often just the starting point for stronger losses. | | Negative market regime accompanied by extremely high volatility. The trend is negative and packed by a high trend quality basis. At the beginning of that regime, market sentiment is typically neutral and at the end fearful. The bear market is also hitting the ultimate low in that regime (since at the end nobody is left to push prices lower). | | Stabilizing market regime accompanied by declining volatility. The short-term trend is improving (albeit on low levels). Sentiment is typically neutral to fearful. In that market regime it is difficult to differentiate if the stabilization/recovery process is sustainable or just part of a stronger bear market rally. Thus, use tight risk management in that regime. | | Increasingly positively biased market environment accompanied by high volatility. The short-term trend is getting increasingly broad-based in its nature, whereas sentiment is typically fearful. | |
| STRATEGY | Build or hold long positions, increase exposure/ leverage on weak trading days (buy the dips), sell volatility, buy high beta stocks, sell puts or buy calls. | | Hold long positions (no usage of leverage), sell covered puts, buy the dips and buy calls as speculation. | | If market enters that regime take profits, reduce leverage and define a close hard stop level to exit. Afterwards stay on the sideline up until the market enters a positive (biased) regime. | | Although prices might appear cheap, do not start bottom fishing or build up speculative long positions unless typical signs for a stabilization regime are visible. | | Build up tactical/selective exposure, buy calls as speculation and use close stops in that market regime. | | Build up selective exposure, buy calls as speculation and use close stops in that regime. | |

www.WallStreetCourier.com