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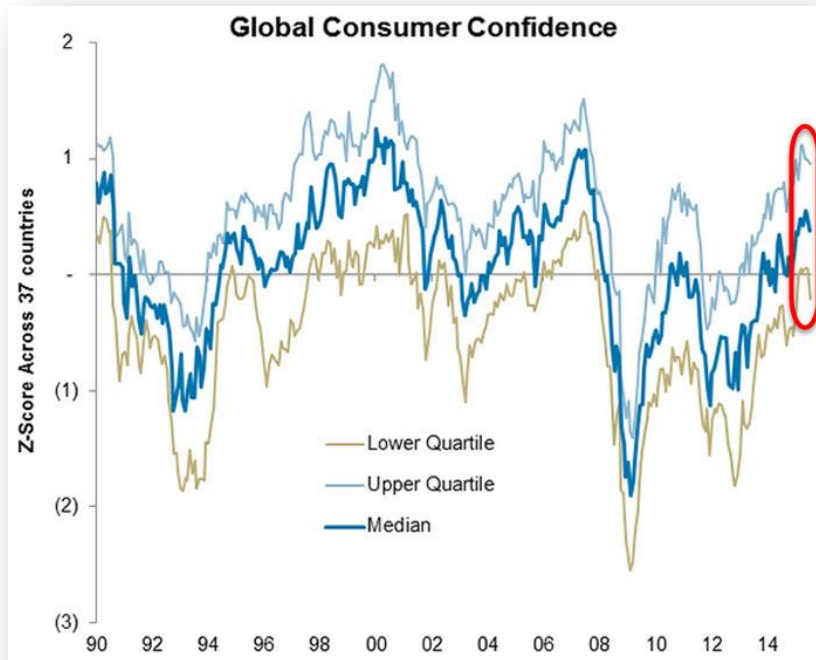
DRIVERS: Shifting Confidence & Sentiment

ANALYTIC INSIGHTS

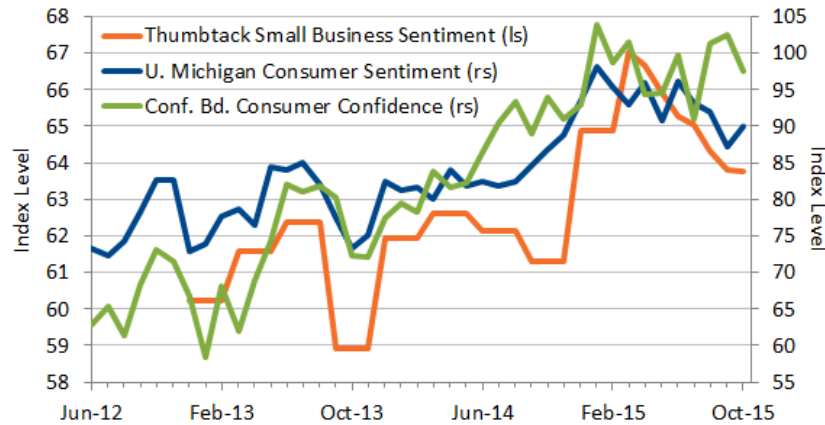


DRIVERS: Shifting Confidence & Sentiment

We have a global shift in confidence.



The shift shows itself in the willingness to accept risk. The bond and credit markets are the ones first impacted.



Source: Thumbtack, U. Mich, Conf. Board, Bloomberg

BloombergBriefs.com

SOMETHING HAS SUDDENLY CHANGED

We have previously talked about Confidence and Sentiment changing and what Alan Greenspan warned congress about a number of times during his Humphrey-Hawkins Testimony.

[The "Throwing of the Light Switch"](#)

Pater Tenenbrarum of [Acting Man](#) observes

..... What struck us was a comment made by the CEO of a manufacturing company in the context of the latest Kansas manufacturing survey release. As Wolf street notes, according to the survey, "the future composite index and the indexes for the future production, shipments, and new orders all dropped to their worst levels since 2009". Here is what the CEO said:

"It feels like someone just flipped the switch to 'off' without any concrete reasoning," one of the executives commented. (emphasis added)

We immediately recognized that phrase – we have heard it twice before, and it has stuck with us ever since. In fact, we have mentioned it a few times when occasion demanded in past articles. The first time we heard this phrase was in late 2000, in an interview with the CEO of a telecom equipment provider. Paraphrasing: "It's as if someone had just thrown a light switch – orders have suddenly disappeared".

The next time we heard the phrase uttered was in late 2007 – this time in connection with a mortgage credit company. Ever since, we have filed it away as an anecdotal reference to the onset of recessions. And lo and behold, the phrase is popping up again in a district manufacturing survey.

US SENTIMENT IS SHIFTING NEGATIVELY

Americans' Economic Outlook Holds Near 13-Month Low

Source: Langer Research Associates, Bloomberg

BloombergBriefs.com

One in five Americans in November said the economy is improving, matching the smallest share in two years and keeping a monthly gauge of expectations close to a 13-month low. The measure tracking the economic outlook was little changed at 42.5 last month after an October reading of 42, which was the lowest since September 2014, data from the Bloomberg Consumer Comfort Index showed Thursday. While 20 percent of respondents said the economy was getting better, 45 percent viewed it as staying the same, the largest share since February 2012.

DRIVER

SOURCE:
Bloomberg Brief

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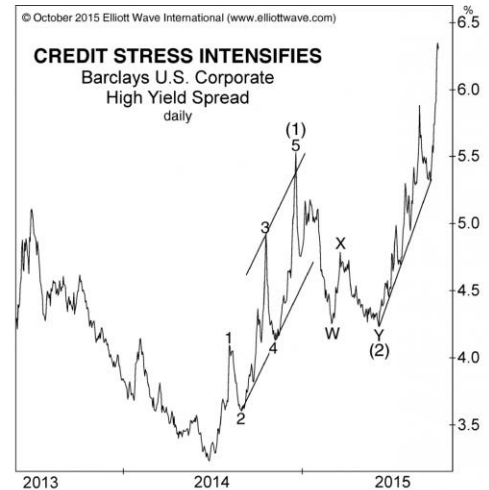
Investments of any kind involve risk. Please read our complete Risk Disclaimer and Terms of Use at GordonTLong.com BEFORE considering any statements or charts within this tweet.

Over the weekend we also looked at the latest EWI financial forecast (a monthly publication focused on US markets). In one section, the authors discuss the recent prevalence of individual stocks and corporate bonds crashing even while the market as a whole seems to be holding up relatively well. They also ponder whether certain corners of the bond market that are lately attracting funds from those fleeing the junk bond market for their perceived safety are really as safe as is widely assumed. The following turn of phrase stood out to us in this context:

"Our view is that *Glencore's "flash crash" will turn out to be one of many "light-switch" declines*, and not just in commodity-related businesses. Already, a plethora of stocks in a wide range of industries have quietly crashed over 50% this year. The industries range from specialty retail (Aeropostale, -78%) to coffee (Keurig Green Mountain, -67%) to semiconductors (Micron Technology, -61%) and the Internet (Groupon, -61%)."

[and further below, in the discussion of corporate debt]:

"As the charts of *Glencore's stock and its credit default swaps illustrate, the "light switch" moments are starting to appear.*" (emphasis added)

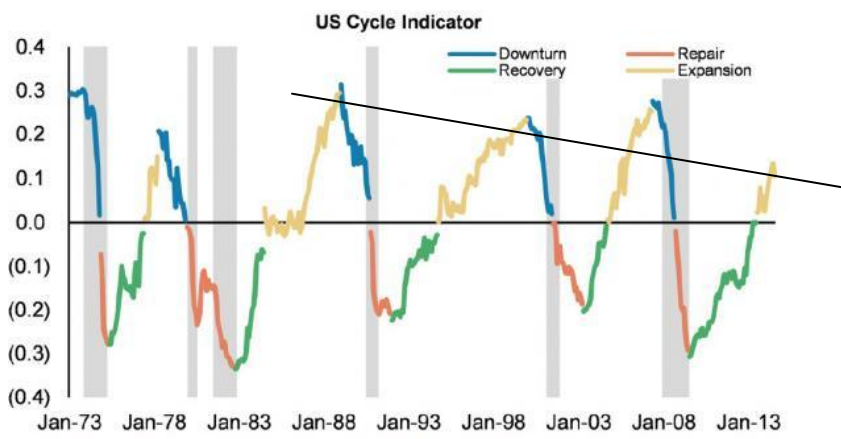


So there you have the same phrase again, only this time in connection with financial market behavior. As the accompanying chart shows, junk bond spreads are exhibiting a distinct similarity to how they looked just ahead of the most recent recessions and bear markets:

Junk bond spreads with a proposed wave count by EWI – click to enlarge..

This synchronicity in this turn of phrase is of course not a coincidence – both the sudden disappearance of manufacturing orders and the “quiet flash crashes” of individual stocks from a wide range of industries coupled with persistent weakness in junk bonds, are symptoms of the same underlying phenomenon. When we see the phrase about a “light switch suddenly being flipped to ‘off’” or a variant thereof popping up in reports about the economy or descriptions of market behavior, our ears are perking up.

WE THINK THEY ARE WORRIED ABOUT A POTENTIAL US RECESSION.



CONSUMER, INVESTOR & TRADER SENTIMENT

CONSUMER SENTIMENT

- CONSUMER SENTIMENT (Conference Board)

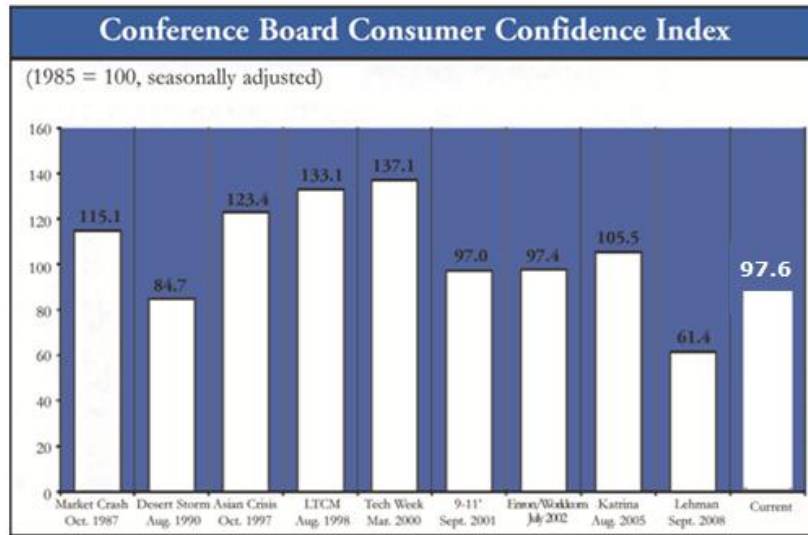


Chart courtesy of Gluskin Sheff

The Conference Board's Consumer Confidence Index in October unexpectedly reversed improvement during the prior two months. **The overall index declined 4.9% to 97.6** but remained up 3.7% y/y.

The comparable [Gallup US Economic Confidence Index](#) has been steadily falling since February 2015 in what appears to be a 2 year cycle since the end of the Financial Crisis.

[Gallup's US Economic Confidence Index](#)

*The total average is for all 56 months



- CONSUMER SENTIMENT (University of Michigan)

The University of Michigan Final Consumer Sentiment for October came in **at 90.0, a decrease from the 92.1** Preliminary October reading. Investing.com had forecast 92.5 for the October Final.

- CONSUMER COMFORT INDEX

The Bloomberg Consumer **Comfort Index declined to 42.8** in the period ended Oct. 25 from 43.5.

INVESTOR SENTIMENT

- INVESTOR SENTIMENT as measured by American Association of Independent Investors is **Bull-Bear Ratio Giving Weakening (Becoming more Bullish) Signal at 55.37. Bull-Bear Ratio Moving Towards Buy Entry Point**

- INVESTORS INTELLIGENCE – **Sentiment is Too Bearish – Rally a possibility**

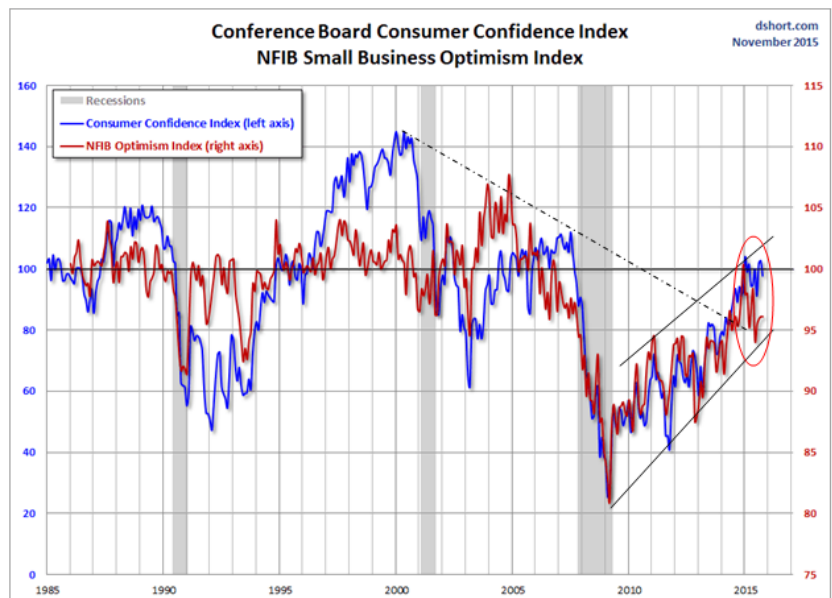
- NAAIM (National Association of Active Investment Managers). This week's NAAIM Exposure Index number is:

This week's NAAIM Exposure Index number is: **69.16**

Last Quarter Average 56.15

- NFIB SMALL BUSINESS OPTIMISM INDEX **HAS FALLEN IN 2015**

The correlation between consumer confidence and small business sentiment, the latter by way of the National Federation of Independent Business (NFIB) [Small Business Optimism Index](#) shows the two have tracked one another fairly closely since the onset of the Financial Crisis but have recently diverged significantly.

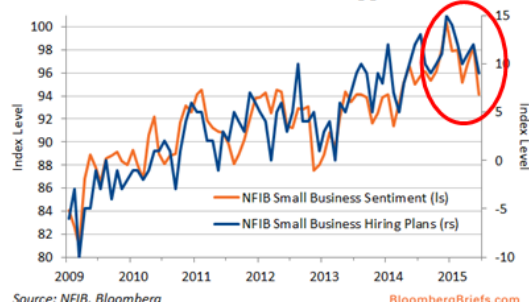


TRADER SENTIMENT

- PERCENTAGE STOCKS ABOVE 50 & 200 DMA

- With 71.1% of the S&P 500 above their **50 DMA WE ARE APPROACHING OVERBOUGHT** Territory
- With only 45.1% of the S&P 500 above their 200 DMA we **are continuing to see market weakness**
- The market has oscillated between their upper and lower boundary conditions shown above in a **LONG TERM SECULAR ENDING TRIANGLE**

Small Business Sentiment Has Slipped in 2015

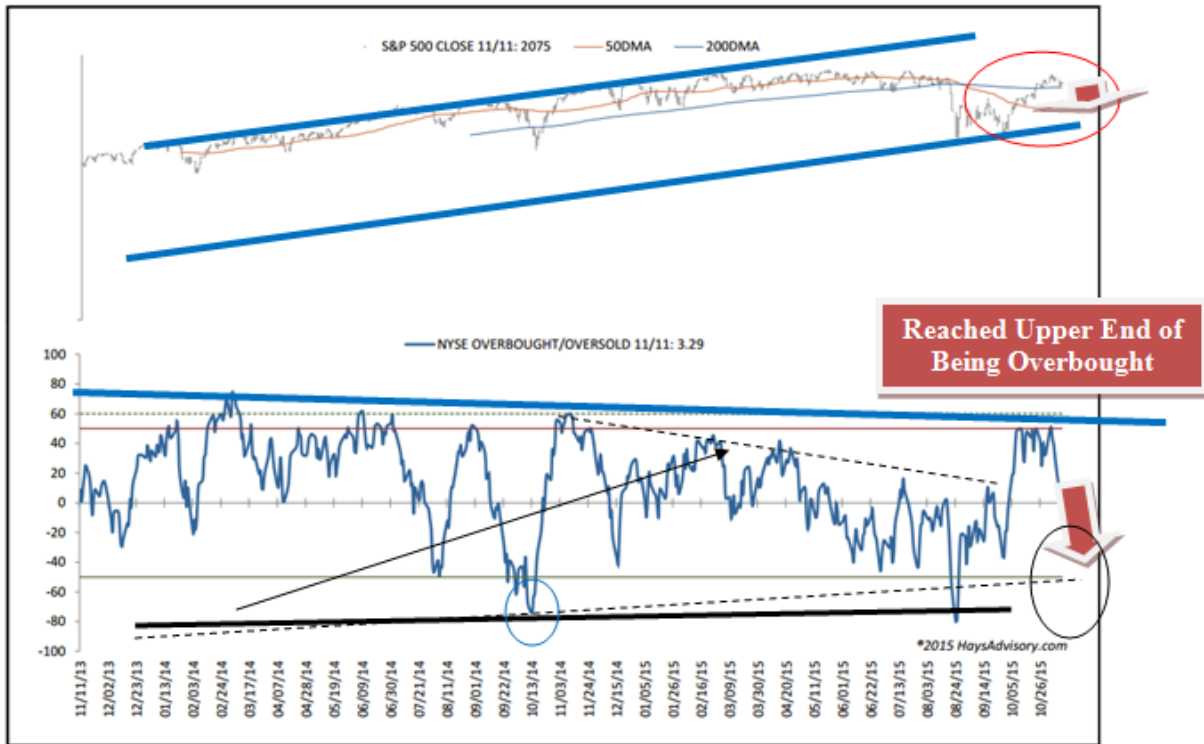


Source: NFIB, Bloomberg

BloombergBRIEF.com

PATTERN (see illustration below with a longer term perspective).

- NYSE OVERBOUGHT / OVERSOLD The NYSE: The NYSE Overbought / Oversold indicator is in a falling trend line and will likely see oversold levels in the short term (SEE CIRCLE BELOW).

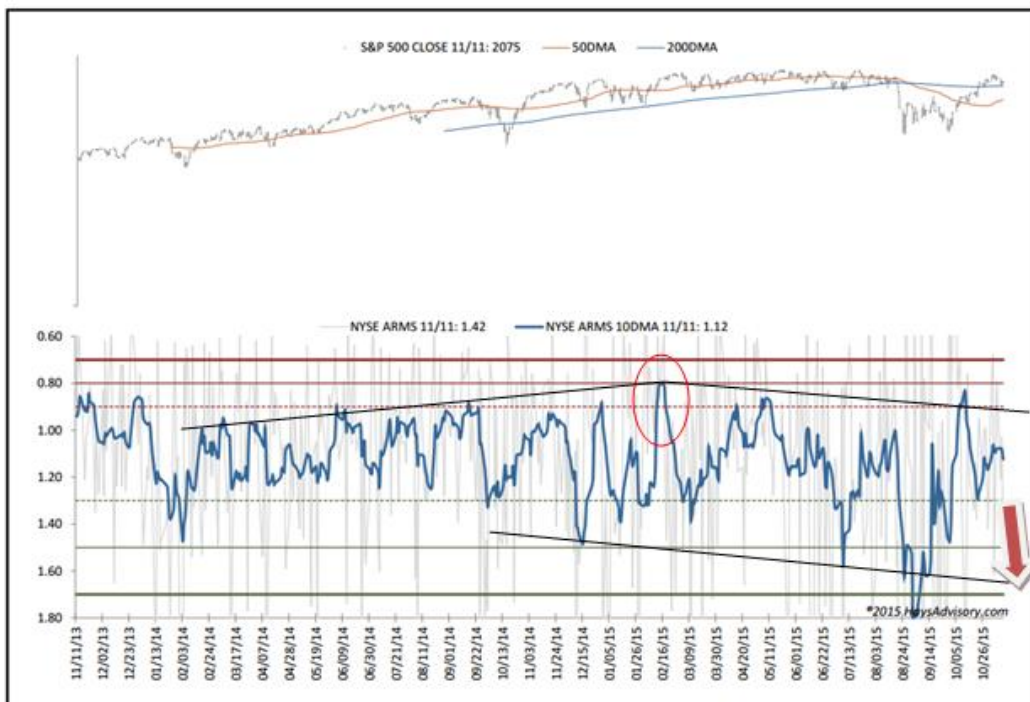


- OEX OPEN INTEREST (PUT/CALL):

- We previously suggested we should see OEX Open Interest (Put/Calls) rise towards the 1.70 level. This is exactly what happened and last month moved towards 2.5 before falling back to 2.00 before bouncing
- After a consolidation at levels of approximately ~2.0, the OEX Open Interest Put/Calls should head lower towards the black support trend line illustrated below.



- TRIN / ARMS: The NYSE TRIN now shows THAT we are likely in an ending consolidation period before breaking lower.



- MCCLELLAN OSCILLATOR: The McClellan Oscillator is **presently negative showing near term weakness.**

MARGIN & LEVERAGE




- MARGIN DEBT GROWTH: **We have broken what appears to be an important trend support level.**

- MUTUAL FUND CASH LEVELS: Stock Fund Cash levels continue to held a historic low levels with no buffer for potential redemptions. This is traditionally a market warning signs has fund managers are forced to be fully invested as their investors expect this. When this is coupled with the fact that we have record amounts of margin debt this translates to **excess risk.**

VOLUME

- In January 2011 the average number of stocks traded on the NYSE per day was 891mm shares vs. 661mm for this January (a 26% drop Y-o-Y) and this is down an incredible 59% from January 2008. The four-week average volume on the NYSE has dropped to levels not seen since, yes you guessed it, 1999.

- Cash levels at Mutual Fund are at all time lows of approximately 3.7%. They are fully invested and suggests it would be difficult to increase volumes.



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