



TIME TO SELL OR TIME TO BUY?
10.10.18

SUMMARY: Our buying/selling ratio is reaching a level that suggests a potential buying opportunity is right around the corner.

Currently the MAP ratio sits at 45.6% and is at a level that has historical precedent, 45.6%. In fact we wrote an update on this very level back on 3/1/2018. You can read it here, as the message then had a striking similarity to now. Now, like then, will prove to be a dip to buy. Remember the ratio measures buying vs. selling on a 5 week moving average. This ratio allows us to gauge if the market is overbought (80%) or oversold (25%). Historically it has been very accurate.

This morning, I went through our data to see what the forward returns were for IWM (Russell 2000 ETF) in each instance where the ratio descended and fell below 45.6%. Because we are at the 45.6% level, we should break below this level today. We do expect to see lots of selling signals once today comes to a close. But again, bottoms are made when selling exhausts itself.

Below are stats on the 45.6% level and why we feel it is important:

We have had only 8 instances where the ratio has been in a downtrend and then fell below 45.6%. This is out of 1579 trading days of data, so this is a very rare event! When you read our research and we talk about “being buyers on a pullback”...it’s in moments like these.

A few observations on market returns after breaching below the 45.6% level:

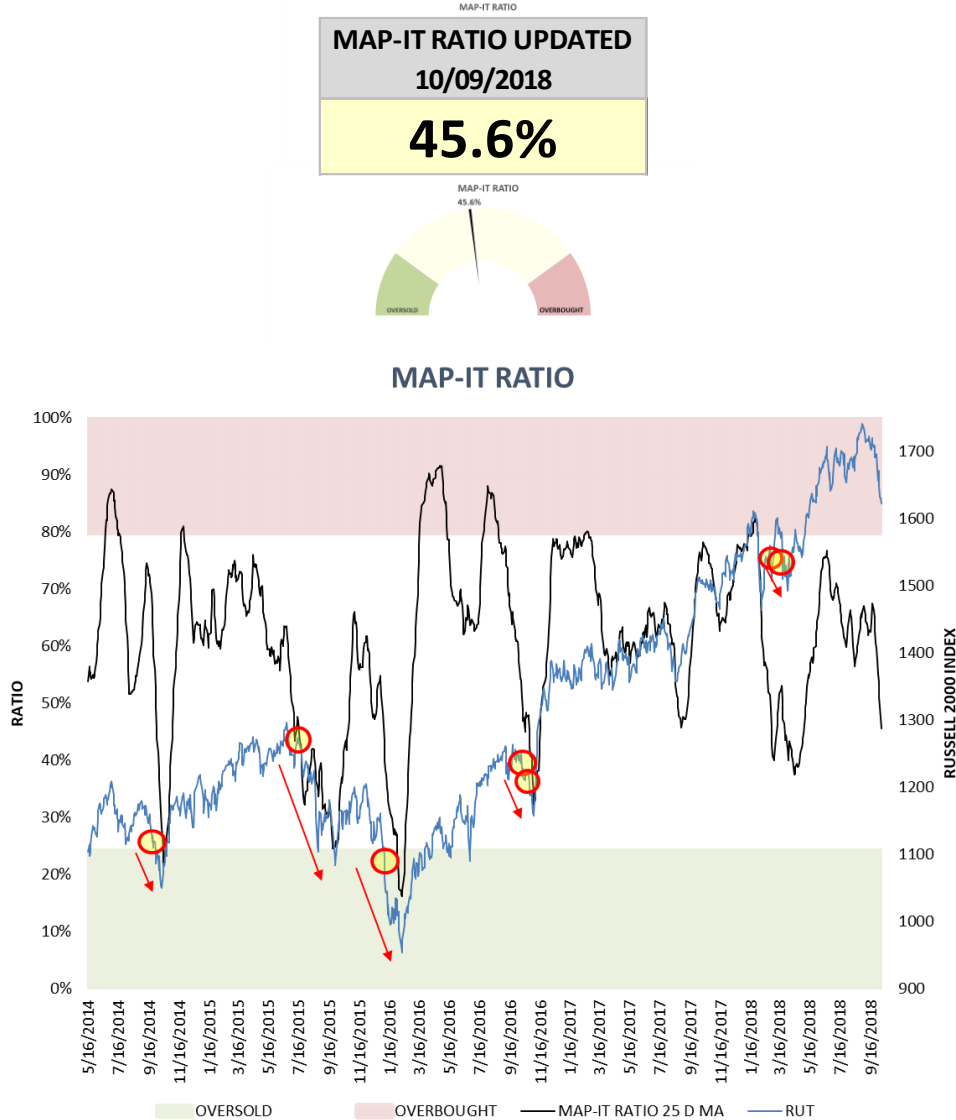
- 1) the market traded lower in all instances
- 2) the average trading days till reaching the local bottom = 13. The shortest was 3 days and the longest was 27.
- 3) the average return of IWM following each of the 8 instances till the local bottom = -5.29%

Below details the 8 instances where the ratio descended and fell below 45.6%:

RATIO BELOW 45.6%	TROUGH DATE	IWM RETURN TO TROUGH	DAYS TILL TROUGH
11/12/2012	11/15/2012	-2.92%	3
10/2/2014	10/13/2014	-4.14%	7
7/17/2015	8/25/2015	-12.78%	27
1/6/2016	2/10/2016	-11.73%	24
10/17/2016	11/3/2016	-4.40%	13
10/26/2016	11/3/2016	-3.95%	6
3/1/2018	4/2/2018	-0.99%	21
3/27/2018	4/2/2018	-1.39%	3

BOTTOM LINE: Our data suggests that a falling ratio reading below 45.6% should lead to further downside in the market. But this isn't a bad thing because levels reaching oversold (25%) have been great chances to scoop up great stocks. Our long-term view is bullish on the market and we feel that pullbacks like these are buying opportunities.

Below are the historical instances highlighted by a red circle with yellow fill:



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