

December 21, 2024

The Master Sentiment Indicator (MSI)

and

The Stock Market's Long-Term Outlook

There is no change this week in the asset allocation recommended by our dynamic allocation model.

Our Current Asset Allocation

50% stocks
10% bonds
0% gold
40% cash

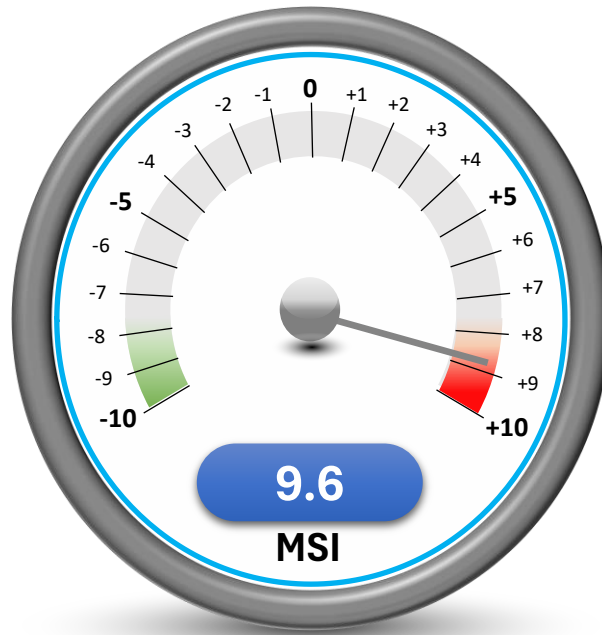
Our long-term sentiment indicator - the MSI - continues to sit well within the Red Zone. Our stock allocation can go from a low of 50% to a high of 70%. Because of the MSI reading, it is currently at the lowest allocation of 50%. With last week's sell off, the short to intermediate term ST-MSI moved out of the Red Zone.

Twenty percent of the portfolio is dedicated to bonds and/or cash, with the mix dependent on bond market sentiment. Currently half is in cash, the other half in bonds. We plan on maintaining this conservative 50-50 mix until we get another Green Zone reading in bonds.

Of the 10% allocated for gold, current sentiment requires that 10% to be 100% in cash. It will remain there until we get a Green Zone signal in gold.

Our current cash allocation: the 20% from stocks, the 10% from bonds and the 10% from gold brings the total cash allocation to 40%. This is opportunity money earning 4.2% that we believe we'll be able to invest below current prices in all three assets .

The Master Sentiment Indicator (MSI)

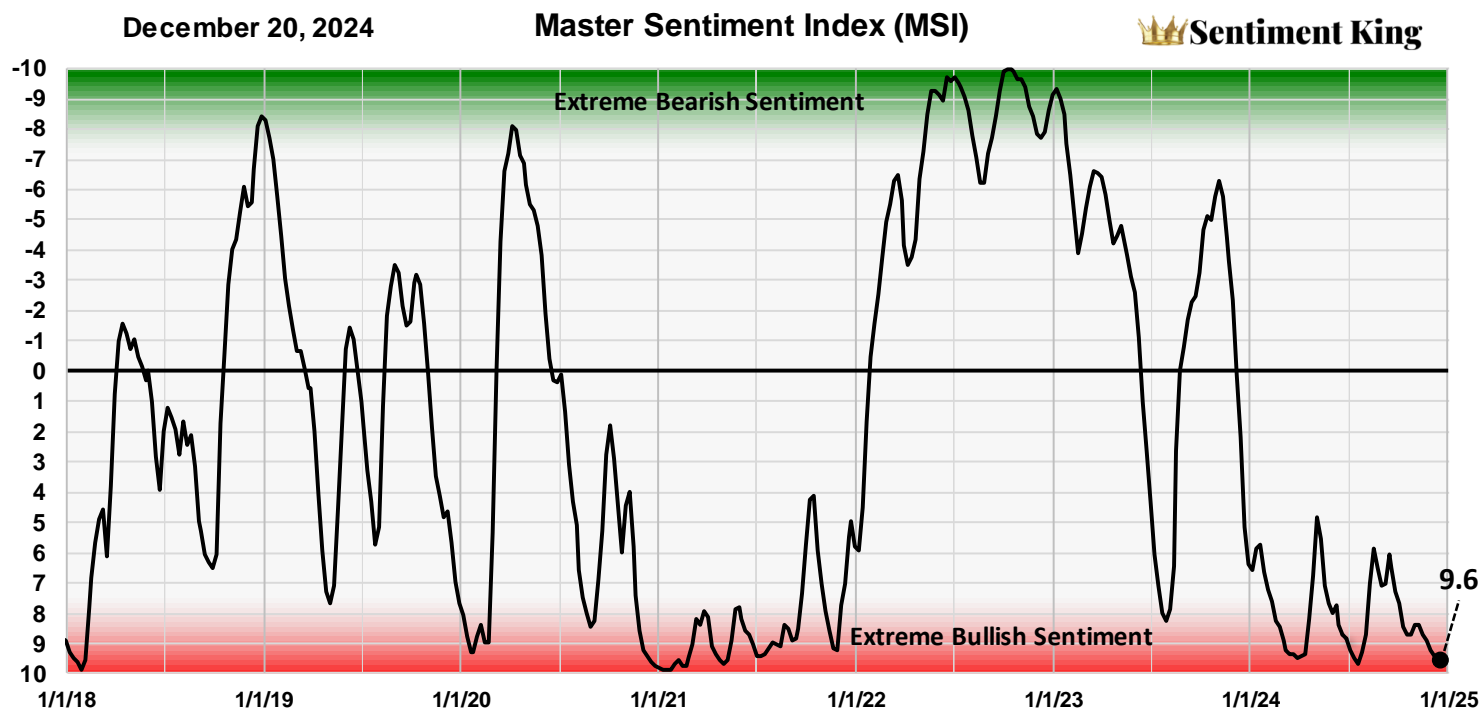


This speed dial shows the Master Sentiment Indicator, at **9.6**, is far into the Red Zone. Last week it was 9.7. It's important to remember that the MSI is a long-term indicator. In practice we usually assume a color signal (long-term buy or sell signal) is in play until the opposite color signal occurs.

December 20, 2024
Components of the MSI

	SK Rank	Total Puts/Calls	Equity Puts/Calls	COT S&P500 E-mini	ProShares Bear/Bull Buying	NAAIM	Stock Survey	Nasdaq Survey	AAll Sentiment	Investors Intelligence	MSI
Extreme Bearishness	-10										
	-9										
	-8										
	-7										
	-6										
	-5										
	-4										
Neutral	-3										
	-2										
	-1										
	0										
	+1										
	+2										
	+3								X		
Extreme Bullishness	+4										
	+5										
	+6	X									
	+7	+			X						
	+8		X			X		X			
	+9									X	
	+10			X			X				X

The yellow X's mark the current ranking of each indicator, while the + shows where the indicator was a week ago. The MSI, at **9.6** is indicated by the large yellow X in the far-right column. It's now positioned in the most extreme Red Zone category of the table. Of the nine indicators only the "Total Puts to Calls" ratio changed from the previous week, by just 5%.



The current reading of 9.7 is 1.9% of the MSI's most extreme readings. Long-term we remain cautious on this market. Two weeks ago we restarted the clock on a "distribution top." They can last from two to six months. It implies a sawtooth pattern in the major indices with little if any net price gain. Last week's sudden sell off has all the earmarks of being a short-term move and part of the distribution process since major corrections usually don't start with sudden sharp sell offs. It's the enduring price decline that no one notices or cares about that you must worry about. While there are exceptions that is the usual pattern.

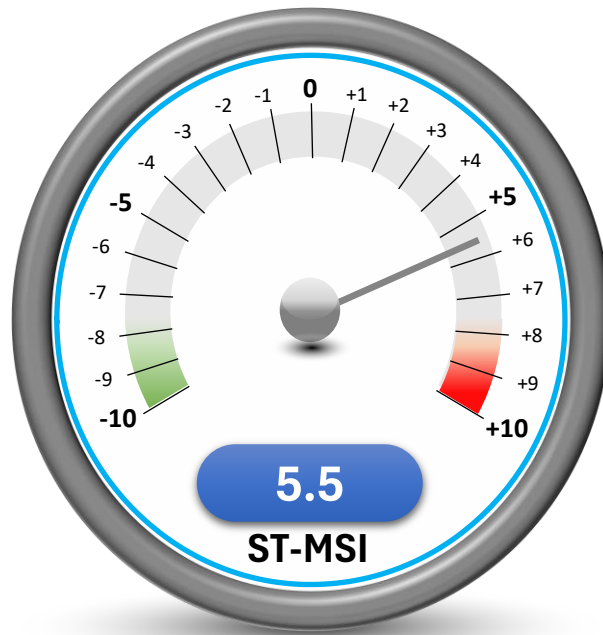
December 21, 2024

The Short-Term Master Sentiment Indicator (ST-MSI)

and

The Stock Market's Intermediate Term Outlook

The Short-Term Master Sentiment Indicator (ST-MSI)



This speed dial shows that the ST-MSI ended the week at **5.5**. Last week it was 8.8.

December 20, 2024
Components of the ST-MSI

	SK Rank	ST - Stock Survey	ST- Nasdaq Survey	VIX	20% Equity P/C	20% Total P/C	Ultra Bear/Bull Ratio	UltraPro Bear/Bull Ratio	ST-MSI
Extreme Bearishness	-10								
	-9								
	-8								
	-7								
	-6								
	-5								
	-4			X					
Neutral	-3								
	-2								
	-1								
	0								
	+1								
	+2								
	+3								
Extreme Bullishness	+4			+			X		
	+5		X			X		X	
	+6								X
	+7	X			+	+			
	+8				X				
	+9		+						+
	+10	+							

This table shows the ranking of each of the seven indicators that make up the ST-MSI. The value of ST-MSI is indicated by the large yellow X in the far-right column at **5.5**. The yellow X's mark the current ranking of each indicator, while the + in each column shows where the indicator was a week ago. Four of the seven indicators moved away from the Red Zone, while one – the equity “puts to calls’ ratio – moved toward it.

December 20, 2024

SPX

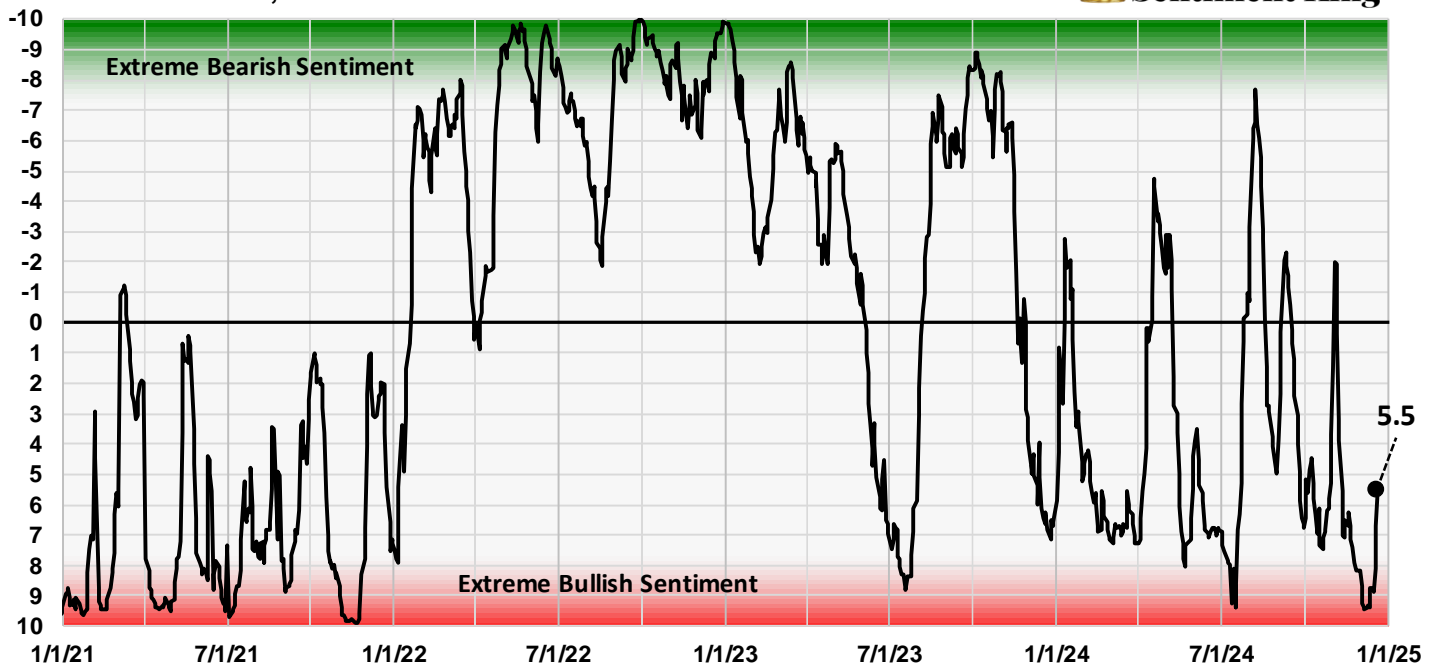
👑 Sentiment King



December 20, 2024

ST - MSI

👑 Sentiment King



ST-MSI

The ST-MSI moved out of the Red Zone with last week's sudden decline and is at **5.5**. While we are at 50% stock allocation and remain long term bearish, we will change that allocation to 60% if we believe a short-term opportunity warrants it. The ST-MSI is no where near a Green Zone reading now but this indicator can change quickly, so we want to be prepared if any opportunity presents itself.

December 20, 2024

SPX

👑 Sentiment King



Magnificent Seven

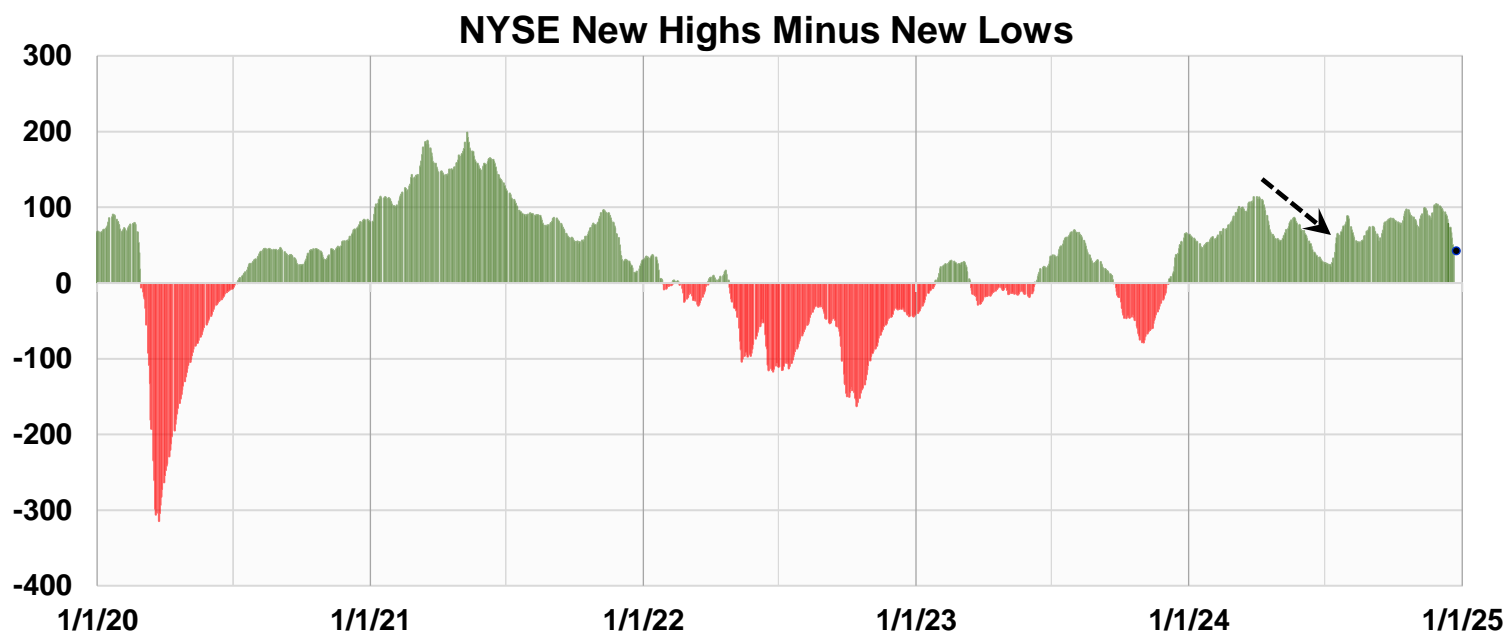


Short to Intermediate-Term Market Outlook

Right after the election, we expected a rapid 7.5% increase in stock valuations because the Republican majority almost guaranteed corporate taxes were going from 21% to 15%. We established a S&P 500 price target of \$6,200, which we explained in earlier post election reports. We've indicated it with a black dot on the S&P 500 chart. It's interesting that the upper line of the trend channel that has contained the year long advance passes right through it.

While we believe a major correction will begin relatively soon - we do not think last week's sell off is the start of that correction. We think it's one movement of what will be a multi-movement distribution top. So, we expect a price recovery over the next few weeks to around 6,200 on the S&P 500. Then another set back.

In any event, the 50% stock allocation we currently recommend is the most conservative percent possible, and we are essentially waiting for a correction and a MSI or ST-MSI signal to increase it.



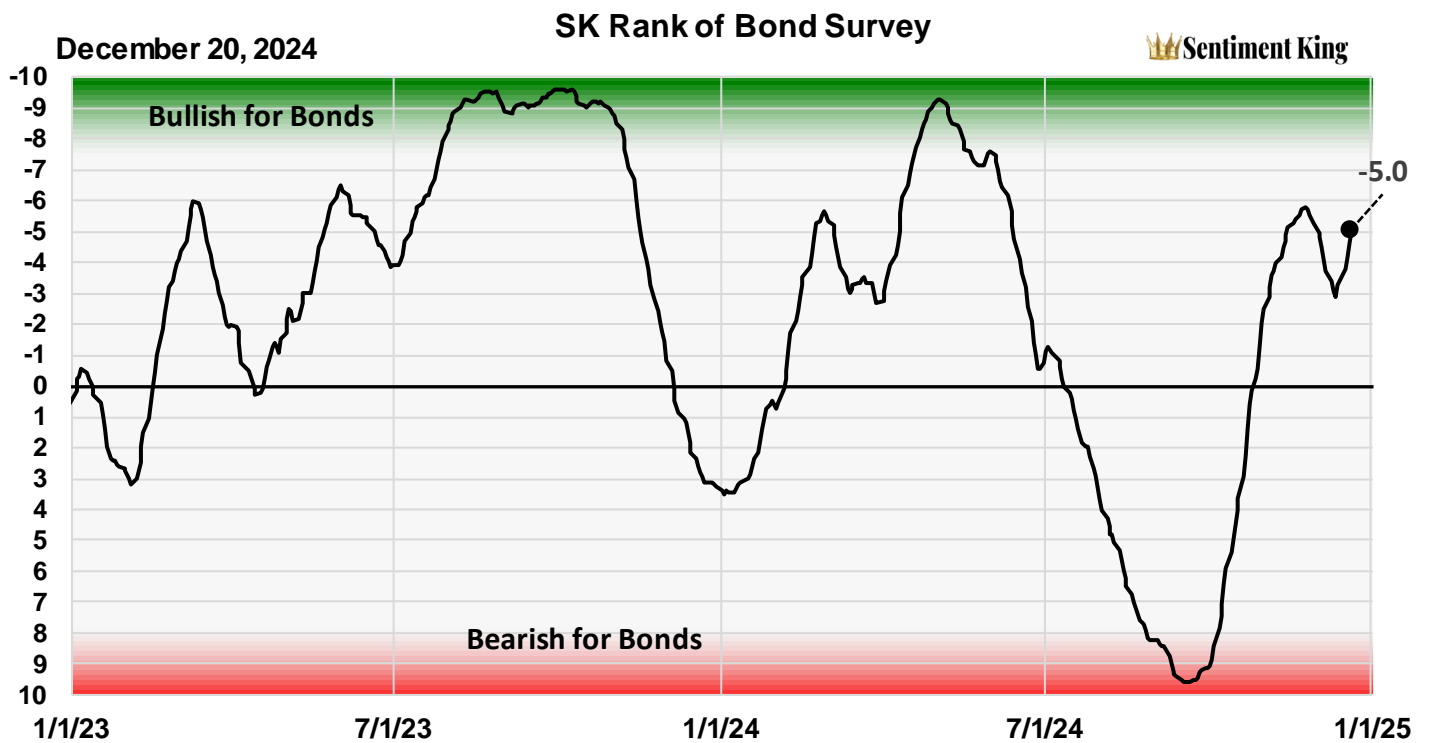
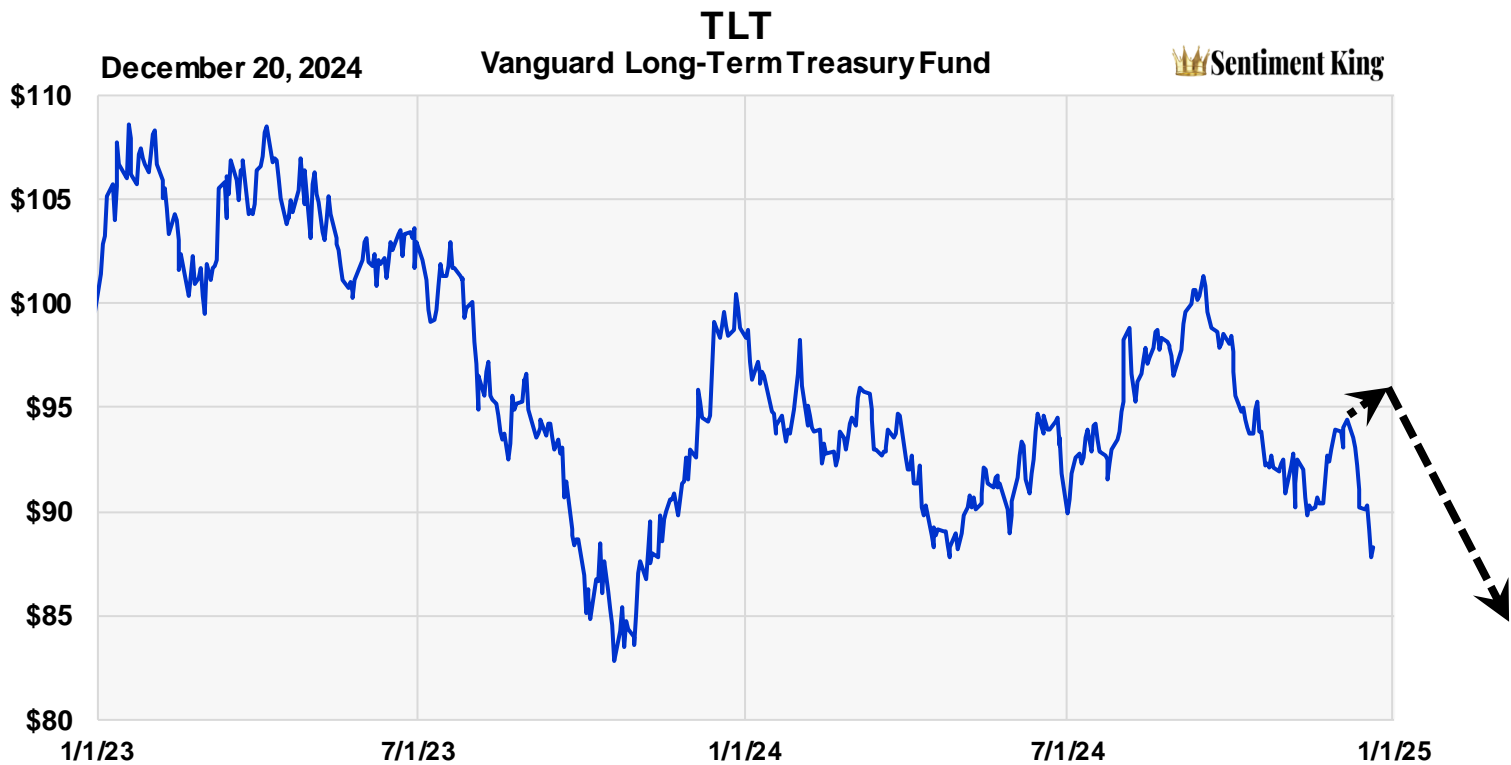
The Topping Process

One of the things that happen during the topping process is fewer and fewer stocks participate in the rally as the major indices move sideways, or even to new highs. One of the best tools to monitor this is by watching the number of stocks making new highs minus those making new lows. As the distribution top continues the number usually gets smaller and smaller.

Last week's sell off triggered a drop in the number of new highs minus new lows. The current number is shown by the black dot on the chart. Minus some unexpected event, the normal expectation will be for the market to rally and either double top or make new highs while the net number of new highs versus new lows trends lower like they did earlier (black arrow).

December 21, 2024

The Sentiment King Bond Report



Allocation of Long-Term Bonds

Bond prices broke down last week, reaching the lows made last April. We expected the decline to start at the first of the year as shown by the black arrows and don't think last week's sell off was its start. We think bond prices will rally for a month before reversing and declining again, then hitting the lows made in 2023. At some point the decline should generate a Green Zone buy signal. If it occurs, we'll move back to full 20% bond allocation.

December 21, 2024

The Sentiment King Gold Report

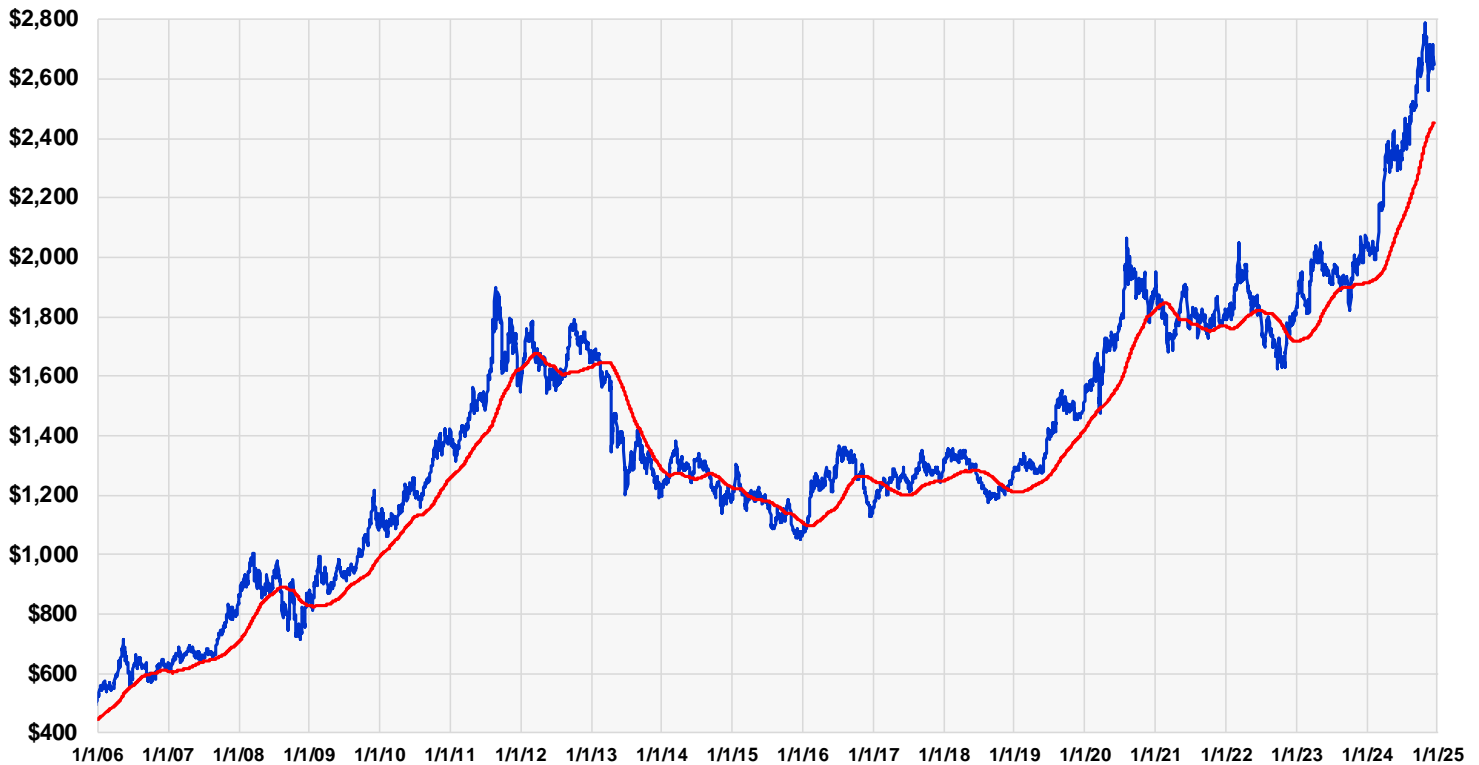
(The SK Gold Report, which is now included with the MSI report, is biweekly. The attached report is last week. The next report will be the following week.

Gold

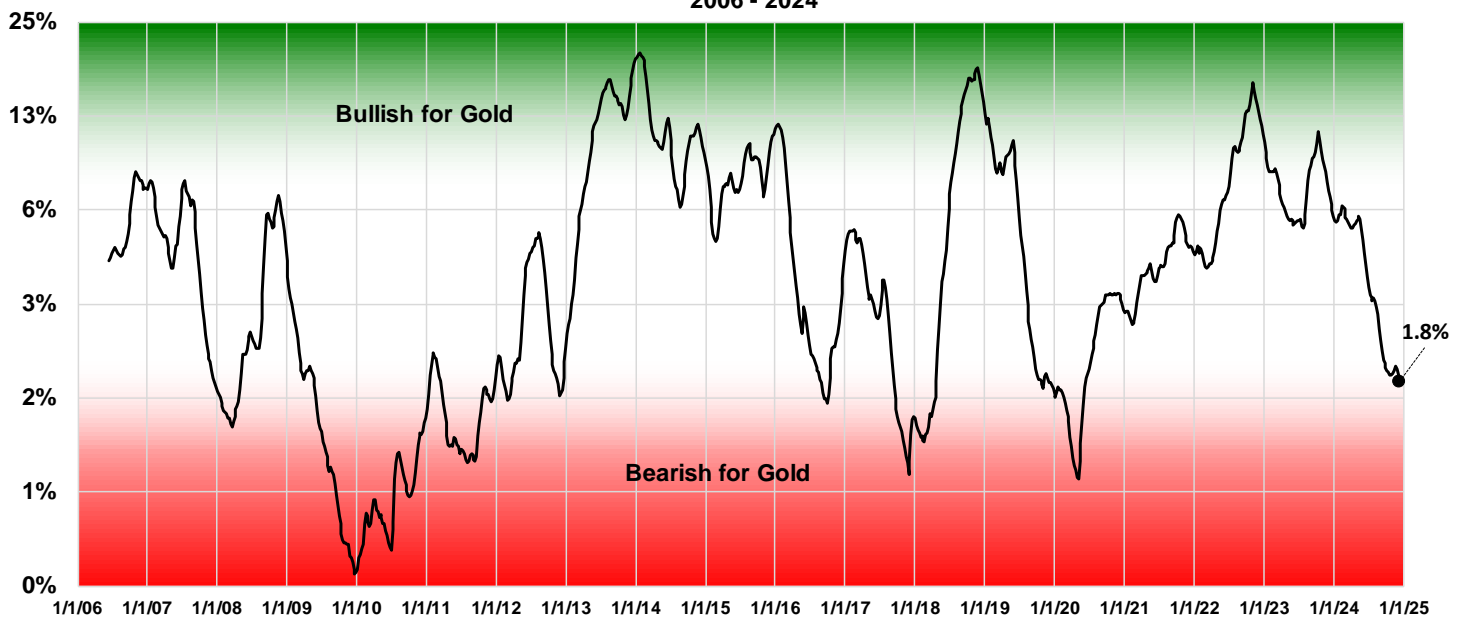
2006 - 2025

 Sentiment King

December 13, 2024



SK Long-Term Gold Index 2006 - 2024



The SK Long-Term Gold Index

The SK Long Term Gold Index is calculated from commitment of trader's data in gold futures supplied by the CFTC. Green zone readings represent long term bullish outlook, while red zone readings signal caution long-term. As you can see, this index is a long-term indicator, with only three or four long-term buy and sell signals over a 20-year period. This indicator is currently at 1.8% and approaching the Red Zone. While we are bearish on gold for the intermediate-term, we do not think we have started into a gold bear market.

Gold

2020 - 2025

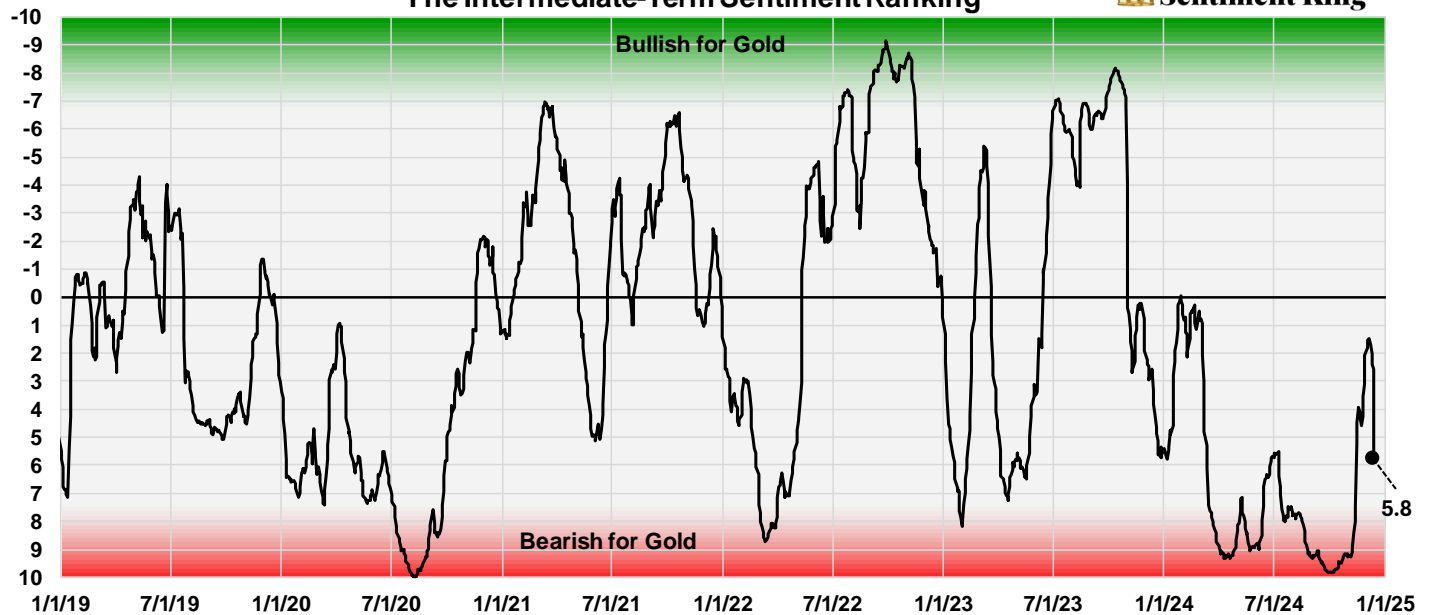
👑 Sentiment King

December 13, 2024



The Intermediate-Term Sentiment Ranking

👑 Sentiment King



The SK Intermediate-Term Gold Index

Our intermediate term sentiment indicator for Gold is **+5.8**, after moving sharply toward the Red Zone. This index is made from two sentiment indicators: 1) the SK rank of the Hulbert survey of gold newsletter writers and the 2) “puts to calls” dollar ratio of GLD.

We believe the intermediate-term down trend signaled by the Red Zone readings of the last few months has begun. We believe a correction in gold will continue until we get another Green Zone reading. The money allocated to gold is currently in cash earning 4.5%. We will put it to work again once we get a Green Zone reading.