Weekly Market Analysis #364 — 30 July 2021
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This Week

One of my readers emailed me a question this week. I thought the rest of our readers might find the answer interesting:

Markets are examples of Complex Adaptive Systems which are neither predictable (in any absolute sense) nor truly random. Chaotic systems are driven by deterministic algorithms that produce outputs which appear to be random. Complex systems are driven by the confluence of a large number of semi-independent forces that produce outputs which appear to be random.

Although complex adaptive systems cannot be predicted in an absolute way, they can be predicted in probabilistic ways. In other words, you can't tell exactly what will happen tomorrow or next week, but you can tell the **probability** of a given outcome tomorrow or even further in the future. Of course, prediction accuracy falls off as time increases due to what's called *dispersion*.

1. Are market price movements independent (Bernoulli) trials?

    No. Markets are people. People have memory. Therefore, markets have memory. What happened before has an influence on what will happen next. Even when computers are used to do the trading, the programming of the computers is based on human judgment.

    Admittedly, there is a lot of noise in the system. That increases the appearance of randomness and can make it harder to identify the underlying trend.

2. Are market price movements normally distributed?

    No, if you limit your focus to ±2 sigma, then they do give the appearance of Gaussian distribution. But if you [graph market price movements](#) out to ±5 sigma, it becomes obvious they are Cauchy, not Gaussian. In addition, if market price movements were normally distributed, then 4-sigma events should only happen once every 15,773 days (i.e., once every 43 years). In reality, we get 4-sigma moves every 2-3 years without fail. This should suggest to honest researchers that the Gaussian/Normal/Standard distribution does not fit market price movements.

3. Do markets trend?

    Yes. Markets are people. People tend to band together. They watch what others are doing and have a tendency to imitate what others are doing. This is what causes markets to trend.

    Many people think that markets trend up, trend down, or move horizontally. The slope of price doesn't change the mathematics of the markets. Markets have three trends — up, down, and horizontal — not just two.

> I will be first to admit that charts do NOT forecast price – they show path of least
> resistance and provide an excellent risk management tool. — Peter Brandt

VTI and SPX have been mostly flat for the last couple of weeks. COMPQ has turned down slightly. IWM now has two rows of red dots, implying that money is flowing out of small cap stocks.
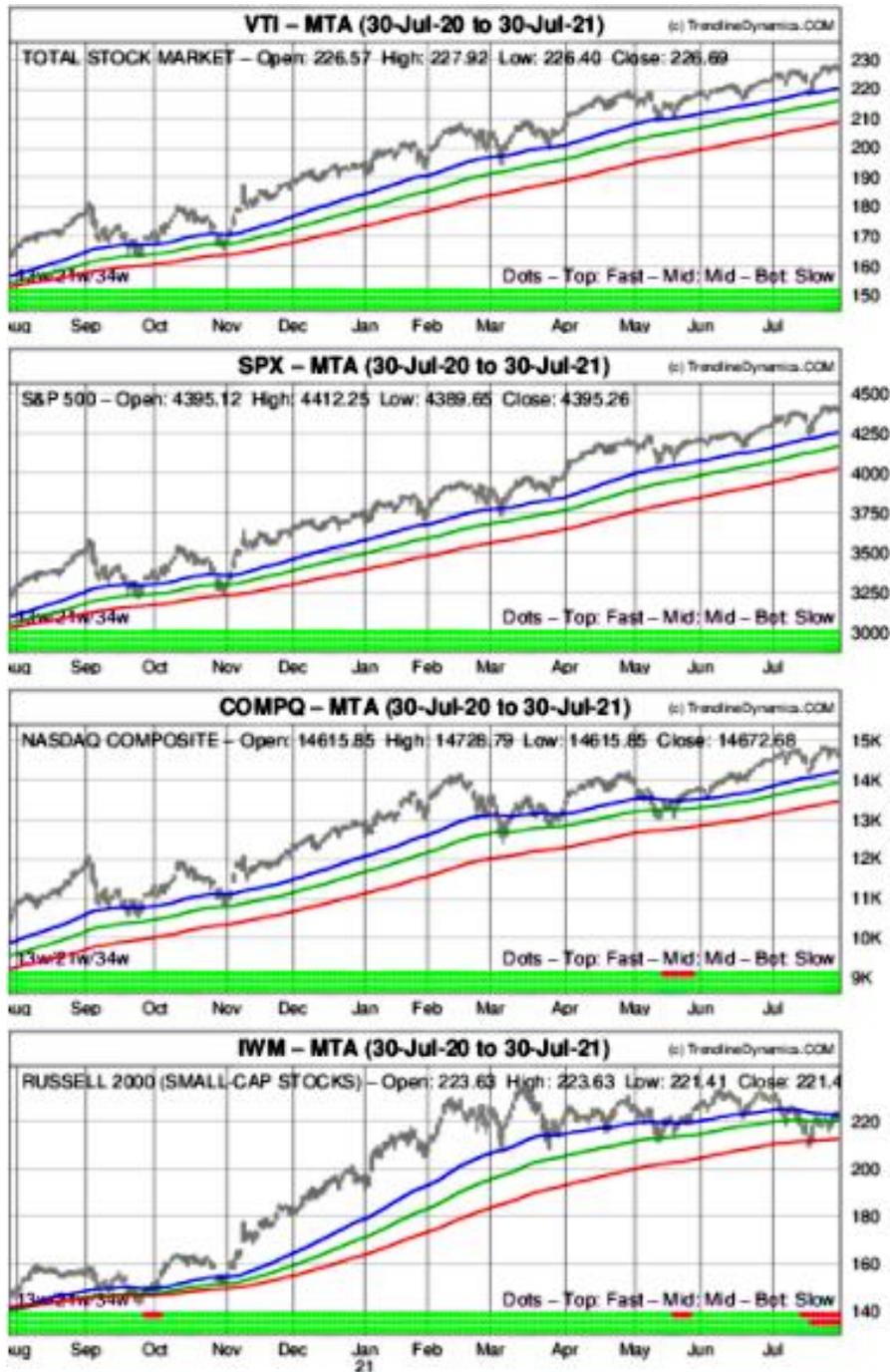
A Closer Look

The SPX essentially went nowhere this week. It flirted with $4420 on Monday and Thursday before closing slightly lower. The advance-decline didn't exactly follow price, but didn't really go anywhere, either. Stocks above their 50-day averages moved up all the way from 54.5% to 56.3%. <yawn>

These are ETFs that are likely to do well during bull markets.

Bullish Universe Analysis for 30-Jul-2021

Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
ARKK	DISRUPTIVE INNOVATION	ETF	UP	0.5:1.8	«up»	1/2	-0.5
EEM	EMERGING MARKETS	ETF	=DN=	-1.5:1.8	UP	1/30	-0.4
EFA	EUROPE/AUSTRALIA/FAR-EAST	ETF	UP	-0.2:1.8	UP	5/1	0.3
IBB	BIO-TECH & PHARMA	ETF	UP	2.1:1.8	UP	23/2	0.1
IGV	SOFTWARE	ETF	UP	4.1:1.8	UP	1/1	-0.1
IWM	RUSSELL 2000 (SMALL-CAP STOCKS)	ETF	UP	-0.9:1.8	UP	3/2	0.2
IYT	DOW JONES TRANSPORTS	ETF	UP	-1.4:1.8	DN	3/2	-0.1
QQQ	NASDAQ 100	ETF	UP	3.3:1.8	UP	520/1	-0.2
USMV	USA MIN VOLATILITY	ETF	UP	2.1:1.8	UP	492/1	0.1
VGK	FTSE EUROPE	ETF	UP	0.3:1.8	UP	6/1	0.5
VNQ	U.S. REIT INDEX	ETF	UP	3.0:1.8	«up»	520/1	0.1
VTI	TOTAL STOCK MARKET	ETF	UP	1.7:1.8	UP	520/1	0.1

Bearish Universe Charts

Last week's choices were: DBC 20%, IGV 20%, QQQ 20%, VNQ 20%, VTI 20%.

Top 10 ETFs from the Bullish and Bearish Universes

Sym	MTA	RelStr	Long	High-15%	High-7.5%	Last
IGV	↑	4.1 ↑	yes	$346.50	$377.08	$403.18
QQQ	↑	3.3 ↑	yes	$313.22	$340.85	$364.57
VNQ	↑	3.0 →	yes	$90.52	$98.51	$106.29
TLT	↑	2.5 ↑↑	no	$128.74	$140.10	$149.52
DBC	↑	2.2 →	yes	$16.67	$18.14	$19.50
USMV	↑	2.1 ↑	no	$64.80	$70.51	$76.20
IBB	↑	2.1 →	no	$146.71	$159.66	$165.78
VTI	↑	1.7 →	yes	$193.83	$210.94	$226.69
VICI	↑	0.9 ↓↓	no	$28.17	$30.65	$31.19
ANGL	↑	0.9 →	no	$28.19	$30.67	$33.10

Legend: Up: ↑, Down: ↓, Flat/Stable: →

IGV remains above $400. QQQ is strong. VNQ broke above $105 to a new high. TLT is trying to get above $150. DBC made a 6-year high. USMV made a 9-year high. IBB is facing resistance between $165 and $170. VTI made a new nigh. VICI continues to struggle. And ANGL remains below its high of 4 weeks ago.

This week's choices are unchanged: DBC 20%, IGV 20%, QQQ 20%, VNQ 20%, VTI 20%.

These are ETFs that are likely to do well during bear markets.

Bearish Universe Analysis for 30-Jul-2021

Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
ANGL	FALLEN ANGEL HIGH YIELD BOND	ETF	UP	0.9:1.8	up	3/1	-0.1
BND	TOTAL BOND MARKET	ETF	UP	0.5:1.8	UP	2/1	-0.0
DBC	DB COMMODITY INDEX	ETF	UP	2.2:1.8	UP	334/1	0.4
GLD	SPDR GOLD SHARES	ETF	DN	-0.4:1.8	UP	6/4	0.2
GOVT	U.S. TREASURY BOND	ETF	UP	0.6:1.8	UP	2/2	-0.0
HYG	HIGH-YIELD CORP BOND (HD)	ETF	UP	0.2:1.8	up	3/2	0.0
JMUB	MUNICIPAL BONDS	ETF	UP	0.4:1.8	≡DN≡	137/1	0.0
MAAX	MUNICIPAL ALLOCATION	ETF	UP	0.6:1.8	=UP=	70/1	-0.0
PFF	S&P PREFERRED STOCKS	ETF	UP	0.5:1.8	=UP=	240/1	0.0
SHV	CASH SURROGATE	ETF	DN	-0.0:1.8	«UP»	5/75	0.0
TIP	TIPS BOND	ETF	UP	0.7:1.8	UP	520/1	0.2
TLT	U.S. 20+ YEAR T-BOND	ETF	UP	2.5:1.8	UP	2/2	-0.2
USIG	USD INVESTMENT GRADE CORPORATE BOND	ETF	UP	0.8:1.8	=UP=	26/1	-0.0
VICI	VICI PROPERTIES	ETF	UP	0.9:1.8	dn	1/2	-0.0

Sector Universe Charts

Top bearish funds by relative strength:

1   TLT 2.5
2   DBC 2.2

If your goal is to beat the market, invest in the sectors that are doing better than the market while the market is going up. Pay attention to RelStr (relative strength). As more sectors turn down, shift more and more money into SHV. Hope is not a strategy.

SPX Sector Universe Analysis for 30-Jul-2021

Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
XAR	SPACE & DEFENSE	ETF	UP	-0.0:1.8	–DN–	3/1	0.1
XLB	MATERIALS	ETF	UP	-0.8:1.8	UP	6/1	0.7
XLC	COMMUNICATION SRVCS	ETF	UP	2.4:1.8	–DN–	157/1	0.1
XLE	ENERGY	ETF	UP	-1.1:1.8	«up»	2/1	0.2
XLF	FINANCIALS	ETF	UP	0.1:1.8	«up»	3/1	0.3
XLI	INDUSTRIALS	ETF	UP	0.5:1.8	UP	1/2	0.2
XLK	TECHNOLOGY	ETF	UP	3.6:1.8	UP	1/1	-0.2
XLP	CONSUMER STAPLES	ETF	UP	0.7:1.8	«DN»	520/1	0.2
XLRE	REAL ESTATE	ETF	UP	3.6:1.8	«up»	292/1	-0.1
XLU	UTILITIES	ETF	UP	0.3:1.8	«up»	14/1	0.6
XLV	HEALTH CARE	ETF	UP	2.6:1.8	UP	520/1	0.2
XLY	CONSUMER DISCRETIONARY	ETF	UP	1.9:1.8	UP	520/2	-0.1
XRT	RETAIL	ETF	UP	1.2:1.8	«DN»	3/2	0.0
Auxiliary Universe Charts							

SPX Sectors with slopes better than or equal to the VTI Index:

1 XLRE 3.6
2 XLK 3.6
3 XLV 2.6
4 XLC 2.4
5 XLY 1.9

Auxiliary Universe Analysis for 30-Jul-2021

Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
ARKQ	AI & ROBOTICS	ETF	UP	-1.2:1.8	UP	1/10	-0.1
ARKW	NEXT GENERATION INTERNET	ETF	UP	-0.1:1.8	UP	3/2	0.1
BIZD	BDC INCOME	ETF	UP	0.6:1.8	–up–	3/1	0.1
FIVG	FIFTH GENERATION NETWORKS	ETF	UP	1.0:1.8	UP	121/2	0.2
HACK	CYBER SECURITY	ETF	UP	2.3:1.8	UP	1/2	0.1
IHI	U.S. MEDICAL DEVICES	ETF	DN	-20.8:1.8	UP	2/1	-19.2
ITB	U.S. HOME CONSTRUCTION	ETF	UP	-0.6:1.7	UP	8/1	1.0
LIT	LITHIUM & BATTERY TECH	ETF	UP	8.0:1.8	=UP=	520/2	-0.1
SLV	SILVER TRUST	ETF	DN	-2.3:1.8	–DN–	2/17	0.1
SOXX	PHLX SEMICONDUCTORS	ETF	UP	1.3:1.8	UP	520/2	0.2
SRVR	DATA & TRANSMISSION REIT	ETF	UP	2.5:1.8	UP	1/8	-0.4
USO	UNITED STATES OIL FUTURES	ETF	UP	5.2:1.8	UP	3/1	0.2
XBI	BIOTECHNOLOGY	ETF	DN	-2.3:1.8	–DN–	1/11	-0.3
XHB	HOMEBUILDERS	ETF	UP	0.2:1.8	UP	11/1	0.8
XME	METALS AND MINING	ETF	UP	-0.6:1.8	UP	6/1	1.3
XOP	OIL & GAS EXP & PROD	ETF	UP	-0.5:1.8	dn	1/2	-0.3
Bullish Universe Charts							

Auxiliary Sector ETFs with slopes better than the VTI Index:

1   LIT 8.0
2   USO 5.2
3   SRVR 2.5
4   HACK 2.3