

# TA THRASHER ANALYTICS

JANUARY 24, 2021



WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

## Bullish

- Support for SPX remains intact.
- Trend Model remains positive for almost all sectors and indices.
- The VRT 2.0 has not signaled.
- Long-term Breadth remains supportive.

## Bearish

- Equity sentiment is extremely high.
- Volatility dispersion is narrowing.
- VIX Commercial Traders Raise Position.
- Momentum moving lower for index and indiv. equities
- Hang Seng Pot'l Double Top.
- Short-term breadth weakening.

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Sector Rotation: Jan.	
Financails	XLF
Industrials	XLI
Materials	XLB

Fixed Income Rotation: Q1	
20+ Yr Treasury	TLT
Muni Bond	MUB

Market Health Report	
Breadth	3
Divergence	0
Momentum	4
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Trend	1
Volatility	2
<b>Total</b>	<b>11</b>

Index & Sector		
	Up Trend	Down Trend
SPX	X	
QQQ	X	
XLF	X	
XLV	X	
XLK	X	
XLU	X	
XLP	X	
XLI	X	
XLRE	X	
XLE	X	
XLB	X	

Daily Sentiment Index		
	% Bullish	5-day MA
S&P 500	74%	78%
Nasdaq 100	84%	82%
Nikkei	77%	84%
VIX	20%	21%
10yr Treasury	47%	46%
5yr Treasury	46%	46%
CRB Index	74%	78%
Gold	64%	63%
U.S. Dollar	23%	27%

\*Green<25% Red>80%

source: trade-futures.com

## A few thoughts on whether we're in a bubble or not....

The VIX-plosion of February 2018 didn't have an immediate catalyst. Instead, a slow buildup of short volatility chasers that began in institutional land and leaked out into retail through the easy-to-access XIV, an inverse volatility Exchange Traded Note. The shockwave across equities was fairly well contained, we saw a 10% decline that was followed by some whipsaw price action before finally resuming its trend higher. A few hedge funds and institutional investment firms went under due to their poor risk management strategies involving being short an excessive amount of volatility, echoing the theme of the housing market in 2006-2007, "housing prices never go down!" This time it was "Volatility always stays low!" Oh how the market loves to prove the over-confident wrong!

### Retail Traders Enter The Game

Mr. Market is like snake slithering through the high grass, seeking out the bold and boastful. It's next victim is rarely known by a few until it's known by all. 2017 and into the first weeks of 2018 the victim was short-vol, today where is the boastful, over-confident and the bold? Options. It's been well reported the explosion in popularity of call options, the drug of choice for many new market enthusiasts. The siren song of cheap/zero cost transactions coupled with the greed and "I'm going to get mine" mentality that's been brewing as the wealth gap has widened over the last decade.

Gunjan Banerji at the [WSJ](#) wrote on [January 24th](#), "More than half a trillion dollars' worth of options on individual stocks traded on Jan. 8 alone, the highest single-day level on record." [Jason at SentimenTrader](#) shared a [great chart on Twitter](#) recently that we continue to hit new highs of small trader call volume, accounting for 9% of total NYSE volume, compared to 2% peak in 2007 and 3% in 2018. The GS Index of the most shorted stocks has risen over 70% since the end of October, going near-parabolic to finish out 2020. One of the new Wall St. celebrities to come out of 2020 was Cathie Wood and the amazing performance in her firm's ARK ETFs. But we're not at the point [where people are literally selling t-shirts](#) with her ticker symbols and it. That kind of hero worship isn't something you see at market bottoms. Is this enough to call it a bubble? Call it whatever you'd like, "bubble" is entirely subjective but beyond a duel of semantics, there does appear signs of froth in excessive speculation.

## **The Excess**

The gates has been lowered holding back the ‘average man’ from not just dipping their toe in the pool that’s brought great wealth to others, emboldened by the strong run in stocks off the March 2020 low. The access to platforms like Robinhood and reduction or elimination of trading costs as shorted the “discovery phase” of the speculative onramp of newcomers. It took several years to build in the 1990s, because just like it took an hour to download a song on Napster, it took a while for consumers to learn just how to make that proverbial easy buck from internet stocks. The saying “It’s different this time” actually does apply. Technology gives an injection of speed to nearly everything it touches, and the stock market is no different.

Retail investors aren’t alone in the chase, professional investors are ratcheting up their risk exposure as well. The latest BofA Fund Manager Survey showed a new record in percent of respondents saying they are “taking higher than normal risk levels” and the NAAIM Exposure Index has regularly been hitting above 100 levels (which suggests the use of leverage to get even more exposure to equities). Meanwhile the Put/Call ratio has been at basement levels for months, falling along with the percent of short interest and many other metrics suggesting risk management is less popular than wearing a mask by, never mind.

## **The Tools**

But back to the retail players... They have their tools from Reddit, TikTok, Facebook, YouTube, and Gary the taxi driver offering up stock tips. These tips are like free tanning oil at the beach for those seeking the deep dark tan of the young and beautiful. They’ve gotten tired of seeing everyone get a bronze glow and want to slather up and soak in the rays of a rising P&L too. But the longer they stay baking in the sun the greater the risk that oil causes them to burn, leaving the sand with more pain than they were seeking. So far the market has been accommodative. Whether it’s GameStop, Tesla, or Bitcoin, the “YOLO” (you only live once) trade has pulled more participants into the sun.

## **But When?**

The question becomes, how long until these nouveau option geniuses get burned from over-exposure or Mr. Market attempts to teach a lesson of humility? No one knows but history has shown us the day will come. Fortunately for those that follow price activity, we don't need a crystal ball to forecast the specific day of reckoning. It could be tomorrow, next week, or next year, it doesn't matter! The result will be shown in the price discovery. When the internals and the indices begin to respond, price followers can recognize the change in trend and respond in-kind if needed per their own risk management process and time frame. At Thrasher Analytics we deploy the Market Health Report to help shine a light on our path within this jungle of a market along with the other tools and analysis deployed each week in the letter.

As I've written already, and what's begun to play out since, I think Tesla and Bitcoin are in for some tough times. Tesla market cap is now larger than the next eight automakers, combined yet it makes less than 4% of the cars. Bitcoin has risen faster and by a larger percentage than any other 'defined bubble' asset in forty years, all on the hope and prayer of it having an actual use at some point (since you still can't use your bitcoin to buy a Big Mac much less a Tesla). It doesn't mean they will disappear into the market trash bin, but the velocity of their trends has gotten parabolic and unstable, refer to the letter last week and two weeks ago in the archive on the website. This is notable because these are two of the darlings of the new Freshman class at Wall Street University.

## **Follow Price**

My approach to the market is to identify risks when they appear and then pause to see if the market responds. The calls for a Dot-Com mirroring bubble are loud. Maybe they are correct, maybe not. But truly it doesn't matter. Because the response from the market is likely to be different. That was the biggest lesson I personally learned from the Covid Crash, the path won't always follow a historical roadmap of past recoveries and it's critical to recognize that and adapt. Some point to the recovery off the March 2020 low as the beginning of something new. A piece of me doesn't agree. I don't think we saw a great "reset" during that decline. It was more like the 1998 decline, stocks quickly recovered and resumed the trend that has preceded but there wasn't a "reset" in stock valuations or sentiment. Goldman Sachs notes that Forward P/E is at the 98th %tile, Price-to-book is 94th, CAPE is 93rd, and enterprise value-to-sales is at the 100th %tile. If we had a 'reset' then we wouldn't see valuations at these upper ranges already (but enough of me trying to make a fundamental argument...) I believe we'll eventually look back at the Covid Crash as a very large bump in the road but not the start of new trend.



## My Take

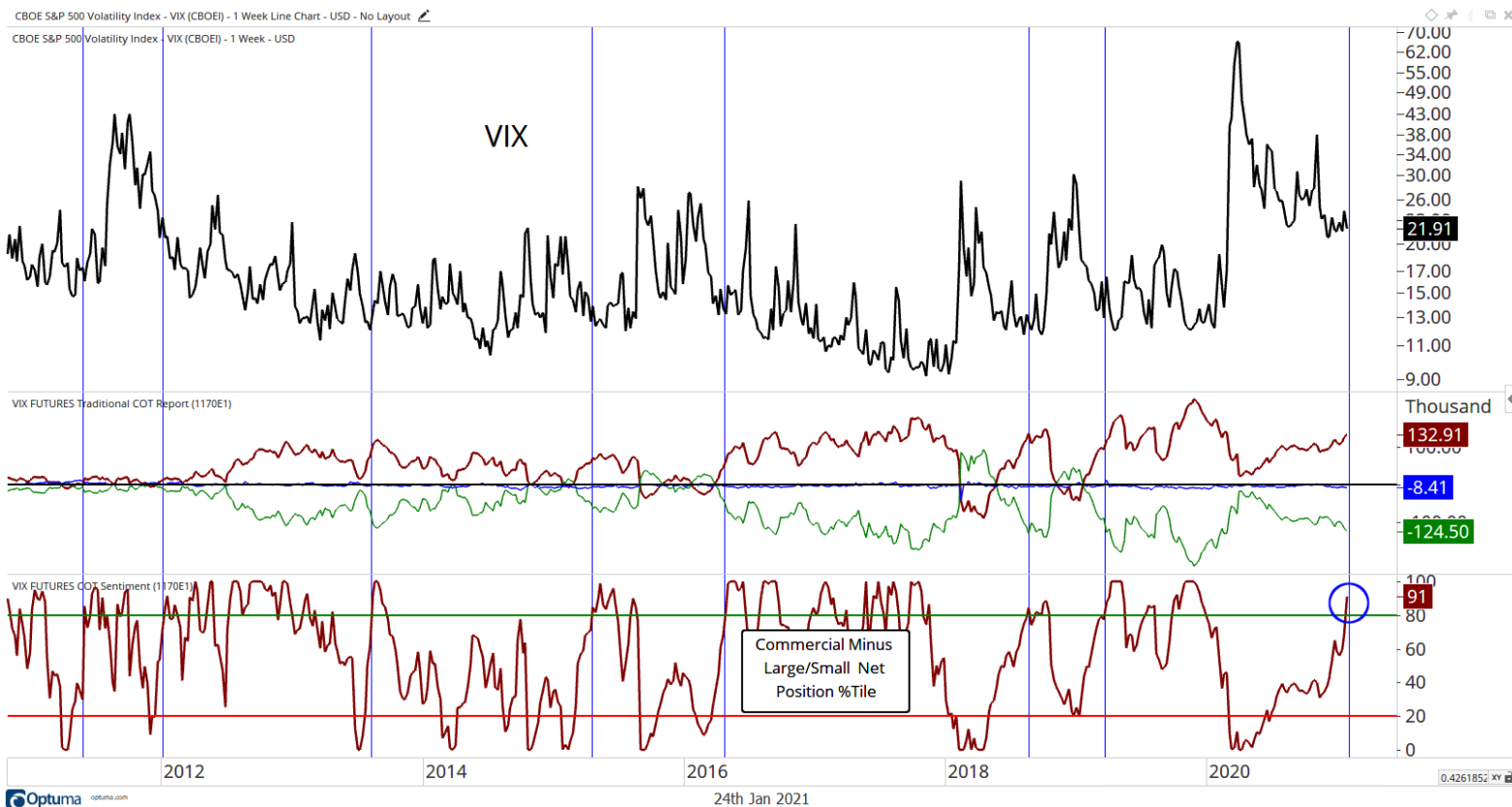
I lean more towards the idea that we are in bubble of some varying size, how it plays out after it's popped though is anyone's guess. A swift drop like February 2018 while delivering humble pie to overconfident short vol traders? Maybe. A protracted multi-year decline like after the Tech Wreck? Maybe. In the end, as I said before, we follow the path the market takes and adjust accordingly. Whenever a bubble is blown and does pop, it's not likely to crest and resolve itself in a single day, so there's likely to be opportunity for traders to recognize the bend in the trend. However, the sun will shine and burn up their accounts like many before them, at the current level of excess it doesn't appear to be a question of if but instead of when. Mr. Market won't be made a fool for too long. The good news is there's still a large majority in stocks in up trends. The greatest risk if some speculative pressure is released is in the high growth, ultra-speculative corners of the market.

As a reminder, the below chart shows both the old Volatility Risk Trigger (VRT 1.0) as well as the new Volatility Risk Trigger (VRT 2.0).

The Volatility Risk Trigger 2.0 continues to remain below its trigger level. However, the old VRT 1.0 has signaled, but I remain focused on the 2.0 version. While dispersion across volatility indices (SPX, Dow, Nasdaq, Russell 2000) remains very low, we still aren't seeing enough evidence to suggest a spike in vol is near.



The COT data for VIX futures is starting to look interesting. Commercial Traders have been edging up their net-position in VIX futures, rising to the highest level since before the March crash. Meanwhile, the percentile of the net position of Commercials minus Large and Small Traders has risen to 91st %tile. I've drawn blue vertical lines on the prior instances of the percentile going from less than the 20th to above the 90th %tile. As you can see, this isn't meant to be an exact timing signal but I note the build up in interest of Commercial ("smart money") when it reaches these levels often has preceded some significant moves in the volatility complex.





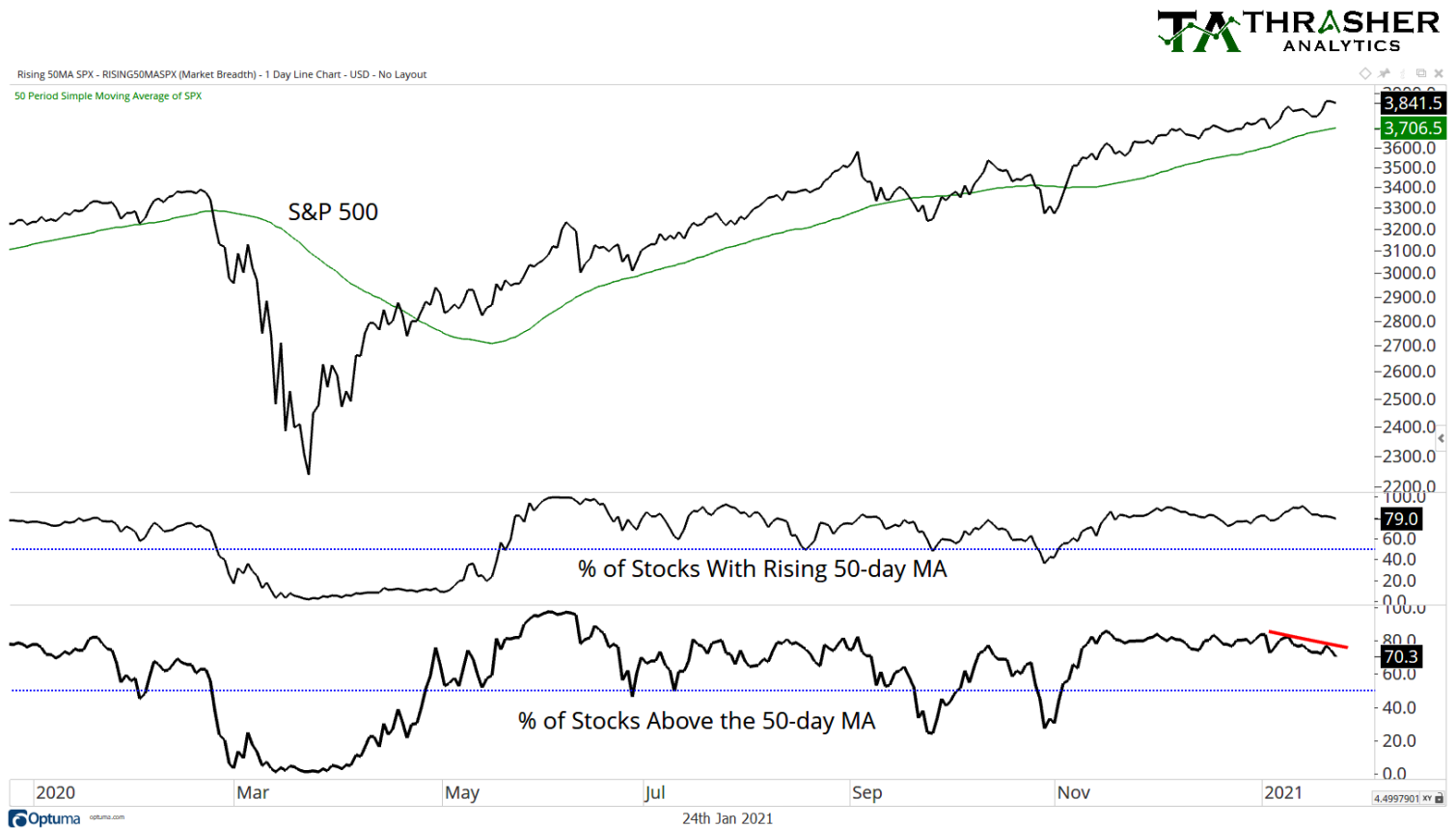
# EQUITIES - S&P 500 DAILY



The S&P 500 popped back after the test of the 20-day moving average and drifted slightly lower on Thursday and Friday but still finished the week higher. A very small bearish momentum divergence has developed in the 14-period RSI, which made a lower-high as the index made a higher high. There's been a build up of quite a few bearish divergence sin many of the sectors, which I'll be addressing later in the letter. As of right now, the trend remains up for the large cap index.



While the S&P 500 moved slightly higher last week, there was a decline in the percentage of stocks trading above the 50-day moving average. This breadth indicator has declined to the lowest level since Early November but still remains at a relatively healthy 70%. We also still have nearly 80% of stocks with a still rising 50-day moving average. Short-term breadth has begun to weaken a bit along with a decline in % of stocks at new 52-week highs which closed down compared to last week. This is a possible sign of stocks starting to stall a bit.



# EQUITIES - DIVERGENCES



It's been a few weeks since I've shown some of the custom divergence indicators. Now that we've seen a rise in the data it's worth pulling out again. There's now 61% of the S&P 500 with a bearish momentum divergence. Since the March bottom these rises in bearish divergences haven't mattered much to the index, often getting shrugged off as price continues to advance. Will this time be different? We'll see. But I wanted to share the data nonetheless.

It's not just the SPX that has a rise in bearish divergences, The tech sector has 60%, Financials are at 61.5%, Consumer Discretionary is at 60.6%, and Energy has risen all the way to 92%. So across the 'risk-on' spectrum of sectors there's been a build up of lack of confirmation by momentum indicators.

Next step is to see if price begins to confirm.

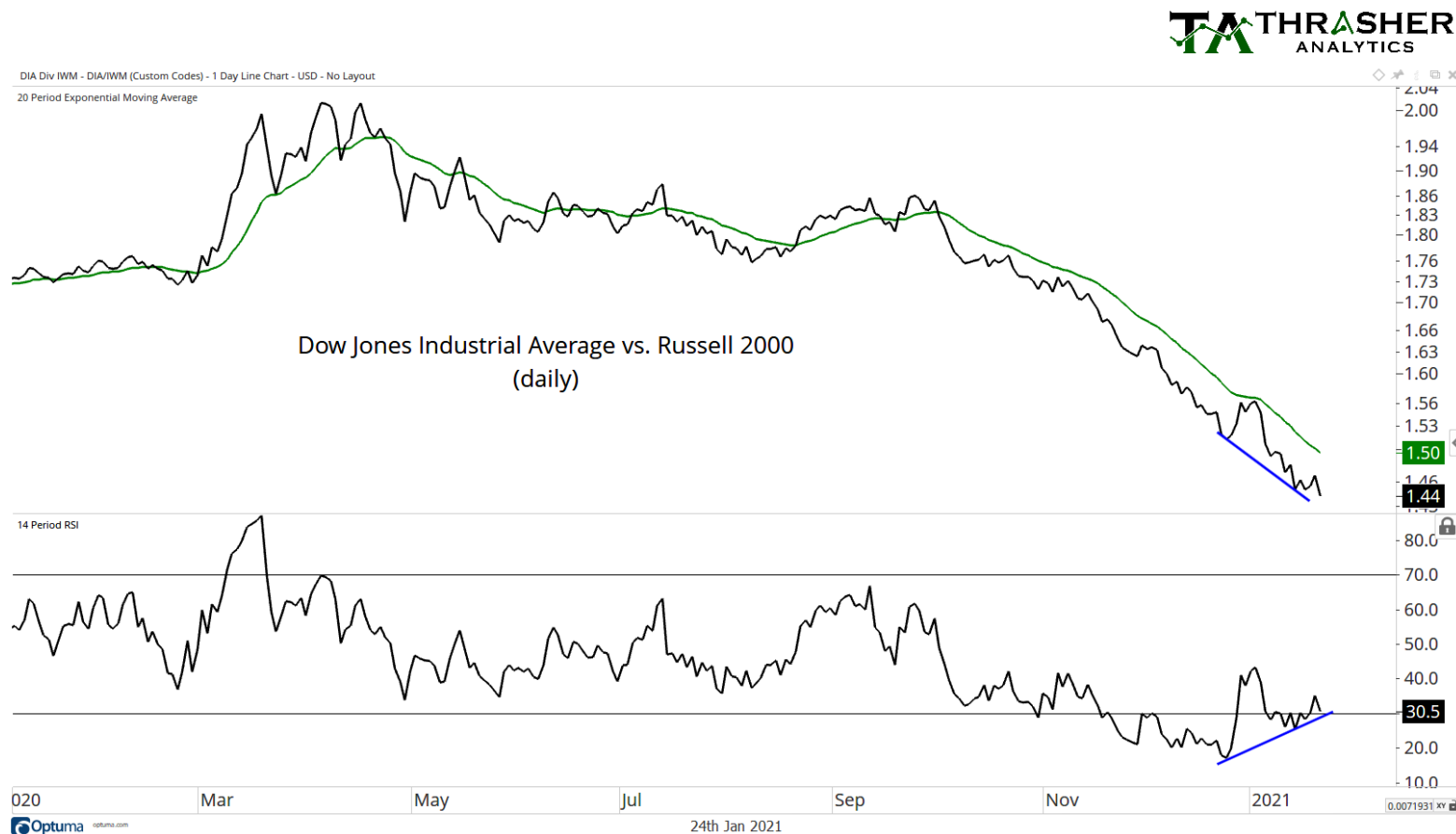


# EQUITIES - DOW VS. RUSSELL



My expectation of the relative performance between the Dow Jones Industrial Average and Russell 2000 has failed to play out, but I wanted to share the recent development of a bullish momentum divergence in the ratio on the daily timeframe.

The 14-day RSI has been making a series of higher-lows while the ratio b/w the Dow and Russell has made lower-lows. This is a sign the trend may be exhausting as momentum begins to show potential signs favoring the Dow strengthening against the Small Cap Index. I'm watching the 20-day moving average of the ratio between the two for price confirmation.



# EQUITIES - RISK APPETITE



The Risk Appetite Index continues to move lower, diverging from the equity market. While the broad market is advancing, it's doing so with 'risk-on' components taking a back seat. For instance we've recently see high beta and equal weight indices under-perform during periods last week, suggesting traders may be buying equities but was further down the risk spectrum.



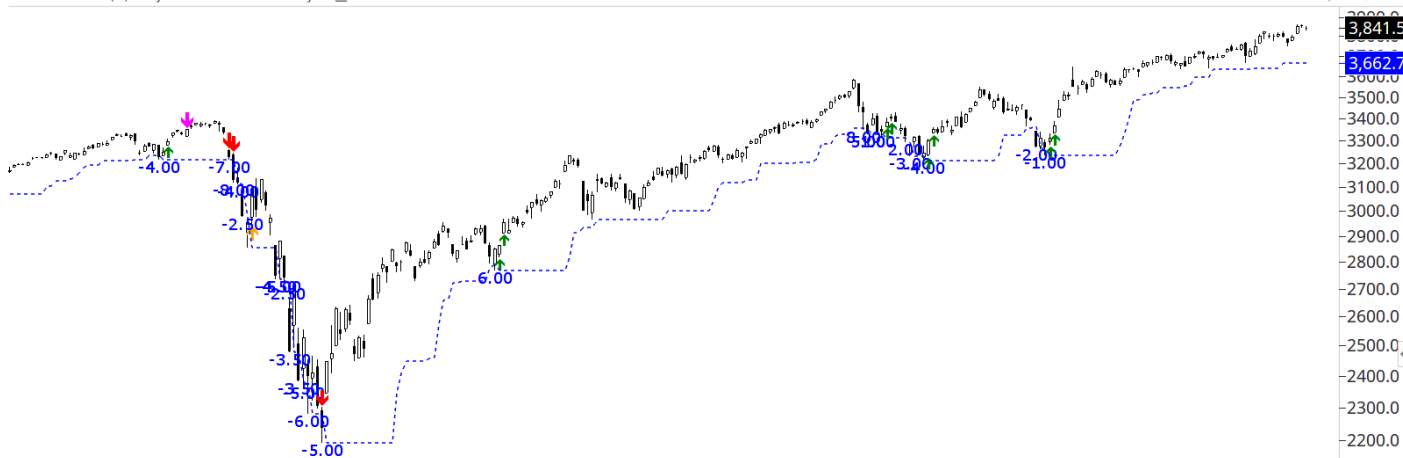
# MARKET HEALTH REPORT



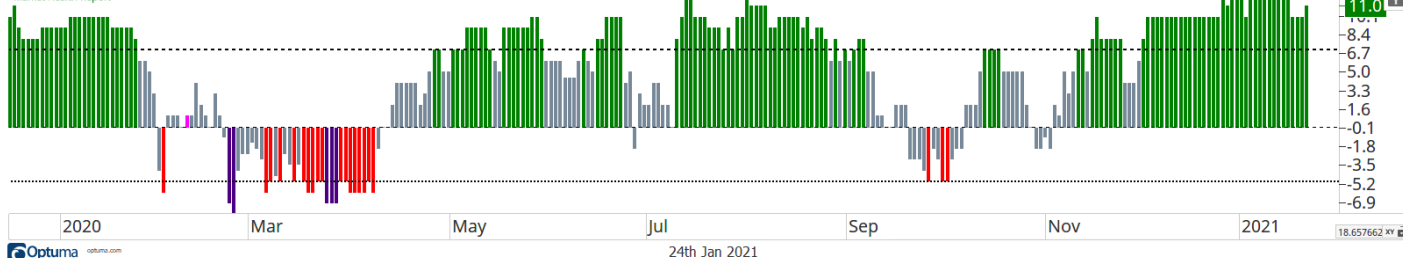
The Sentiment component did move lower last week but the Market Health Report remains supportive of the up trend in equities, sitting at a strong score of 11 and the S&P 500 well off its 15-day low.



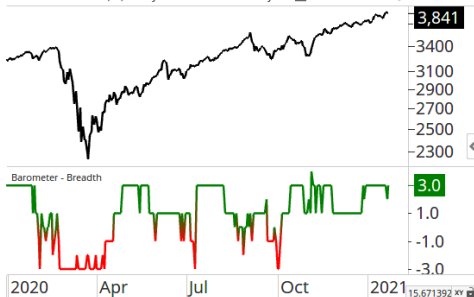
S&P 500 INDEX - SPX (W) - 1 Day CandleStick Chart - USD - No Layout



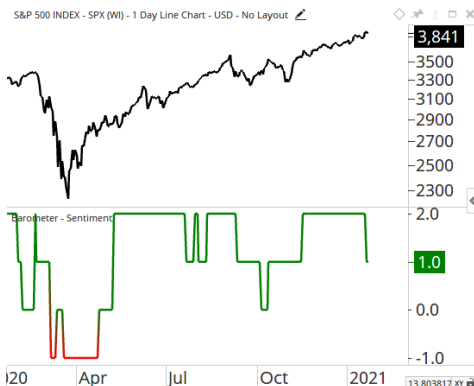
Market Health Report



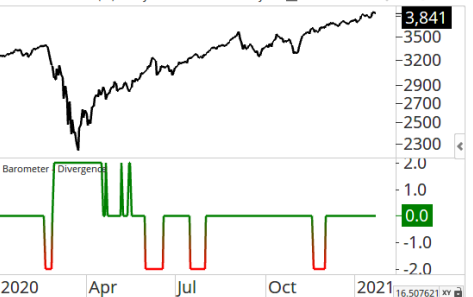
S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



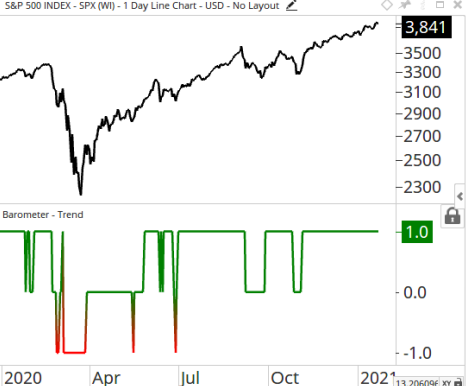
Barometer - Breadth



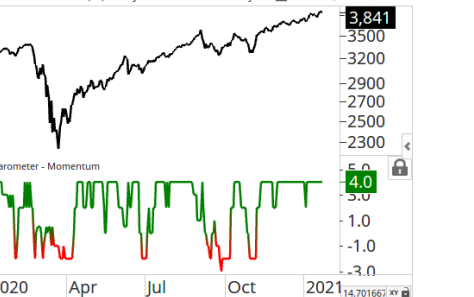
S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



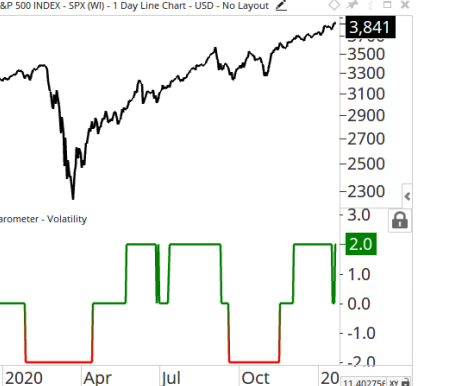
Barometer - Divergence



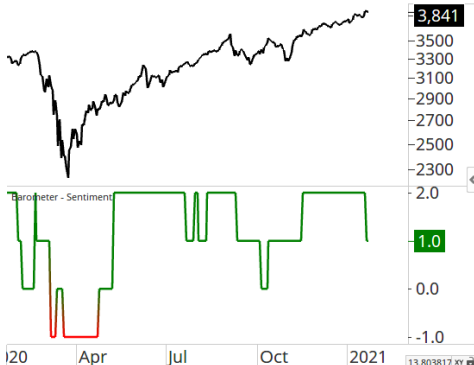
S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



Barometer - Momentum



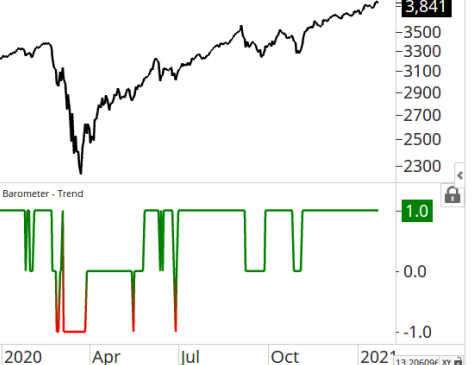
S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



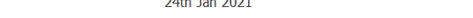
Barometer - Sentiment



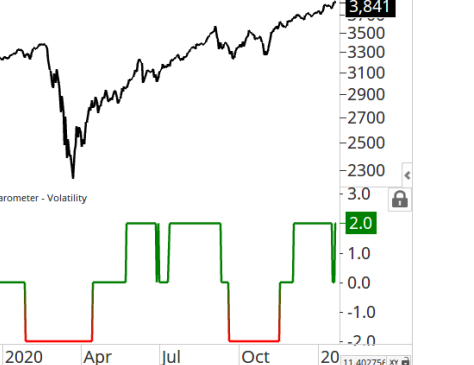
S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



Barometer - Trend



S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



Barometer - Volatility





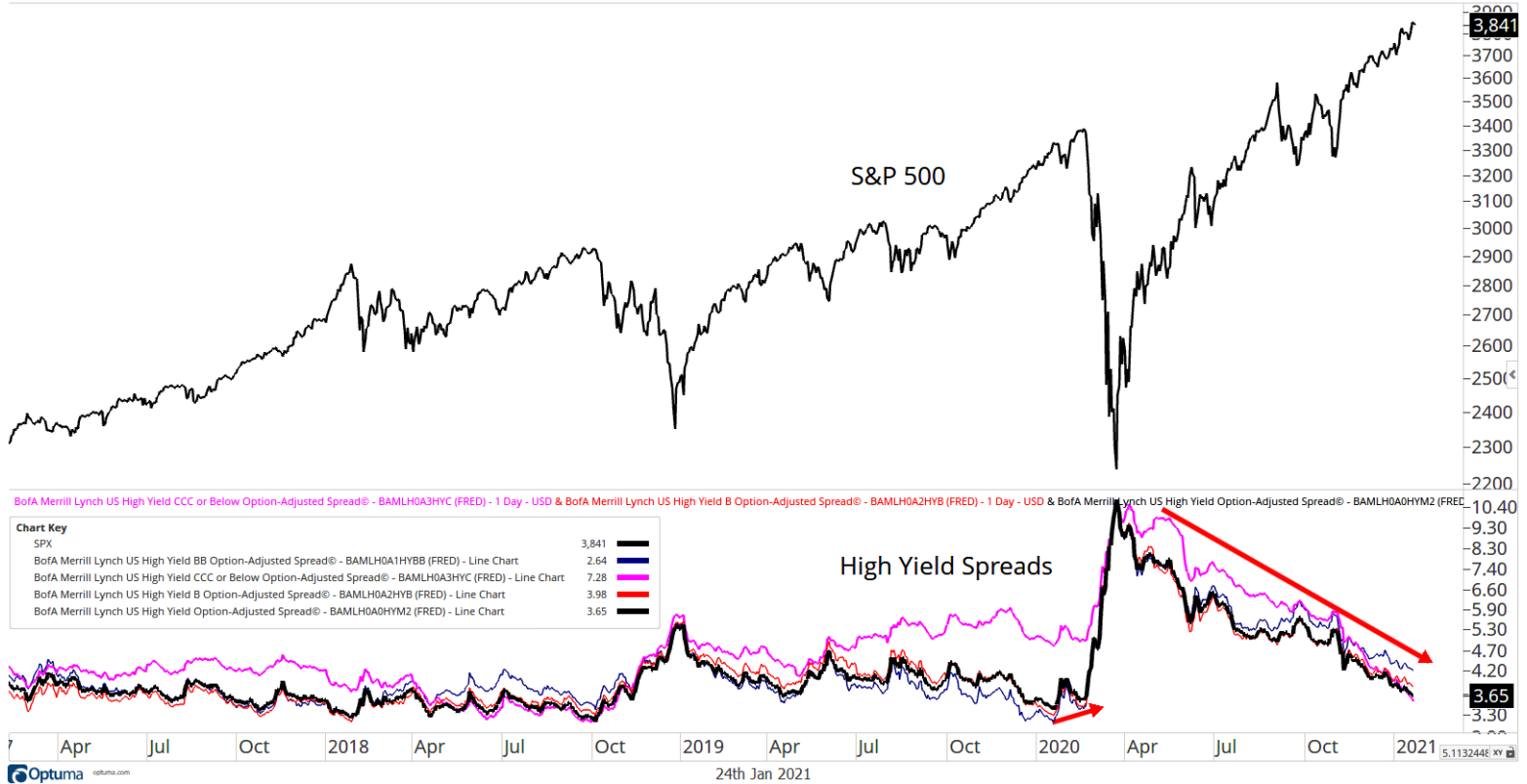
# FIXED INCOME - HY SPREADS



High Yield spreads continue to decline, confirming the strength in the equity market. Typically when the fixed income market begins to get concerned, high yield spreads will widen, as they did in early 2020. However, that's not taking place right now as it seems fixed income traders remain comfortable in the high yield debt market.



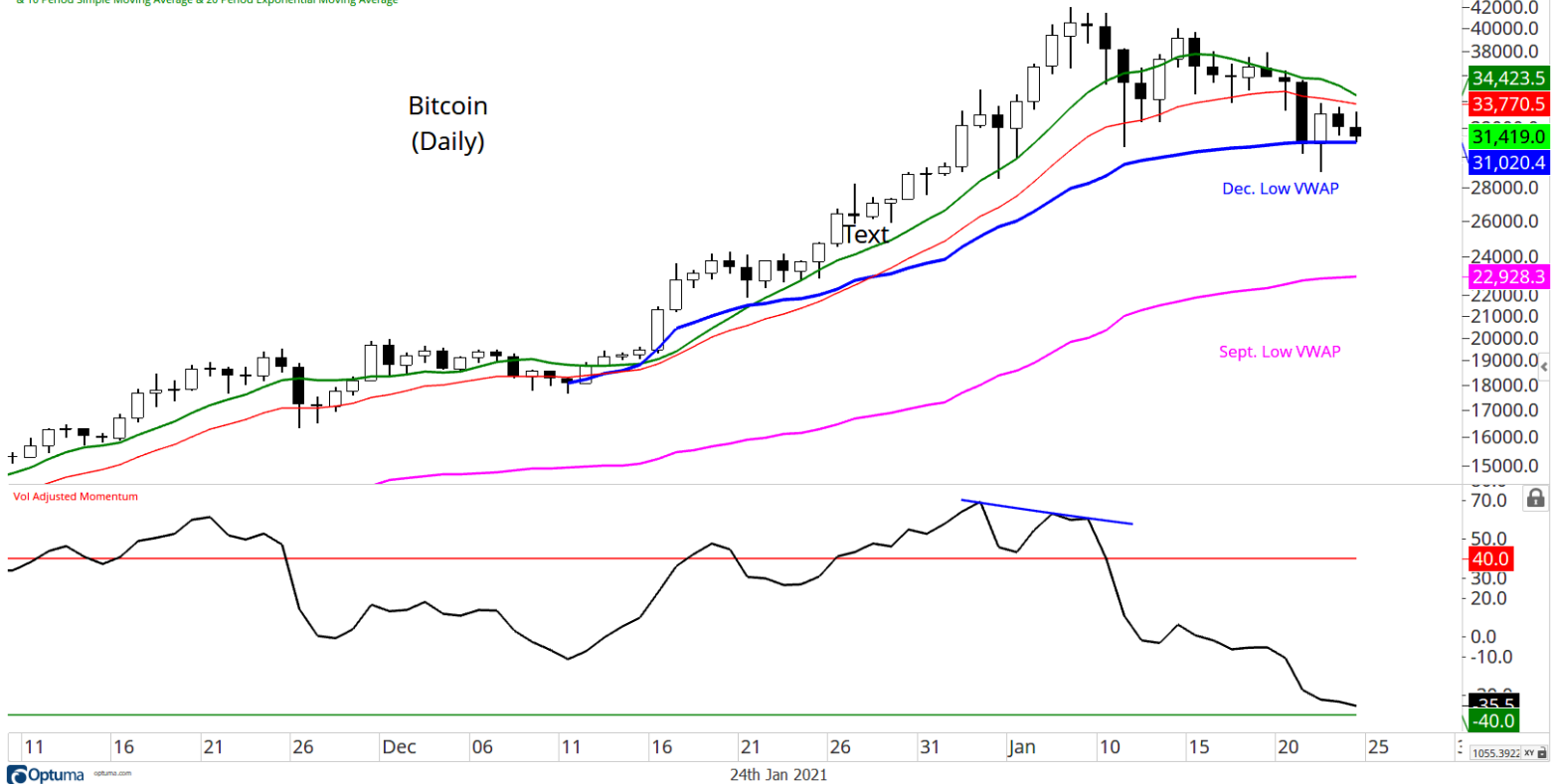
S&P 500 INDEX - SPX (WI) - 1 Day Line Chart - USD - No Layout



Bitcoin has now fallen about 25% from its high of \$42,000. Last week I share that while I was expecting a move lower in the crypto I was keeping an eye on the December and September low VWAPs. That's exactly where we saw Bitcoin fall, tagging the December VWAP before seeing a slight bounce, now testing that level again on Sunday. I remain bearish on bitcoin at the momentum, continuing to look for a full 50% drawdown, matching similar declines in the cryptocurrency.



Bitcoin/United States dollar - BTCUSD (CW) - 1 Day CandleStick Chart - USD - No Layout --- Data from Cryptowatch  
& 10 Period Simple Moving Average & 20 Period Exponential Moving Average

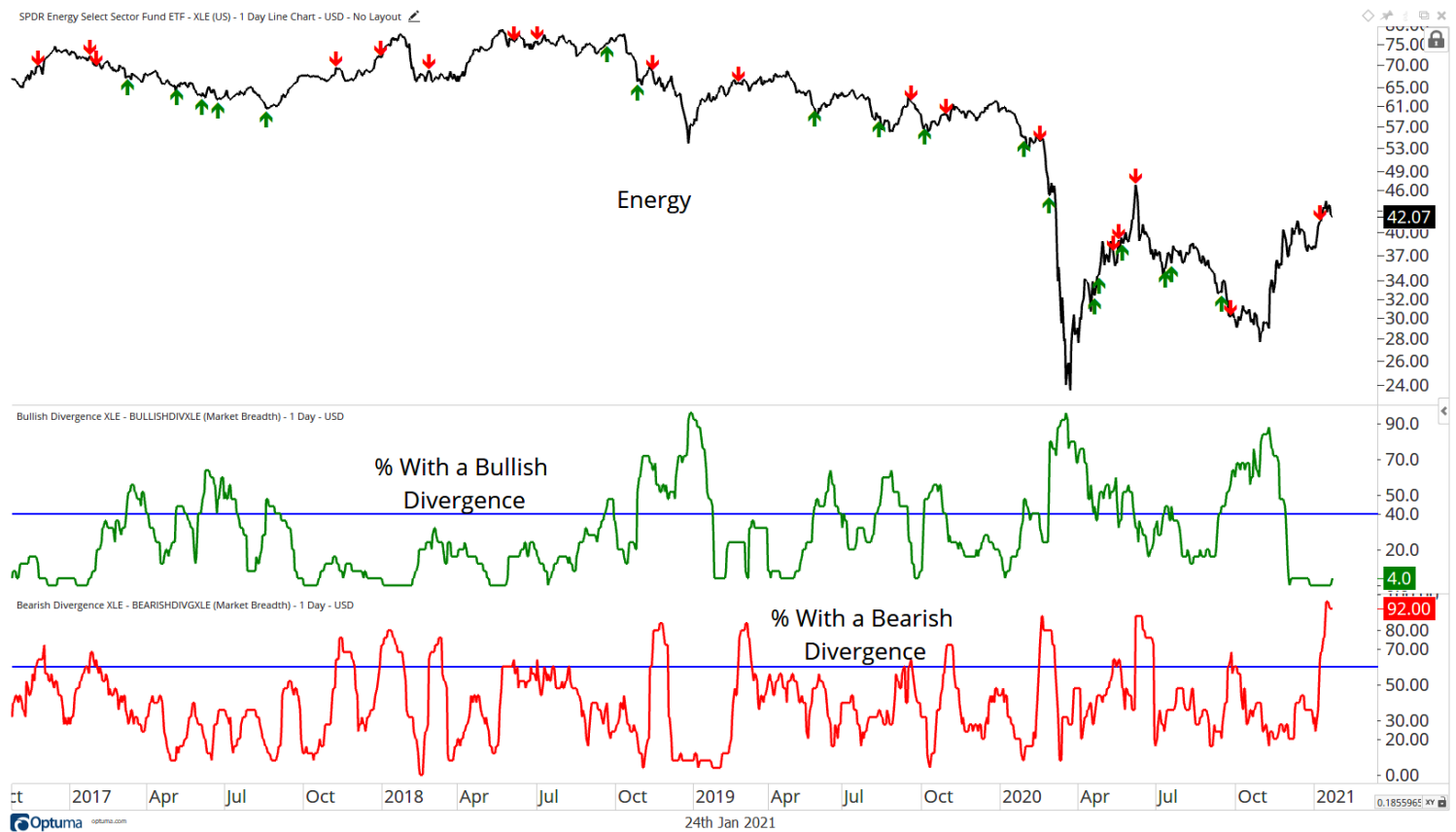


# SECTORS - PERFORMANCE



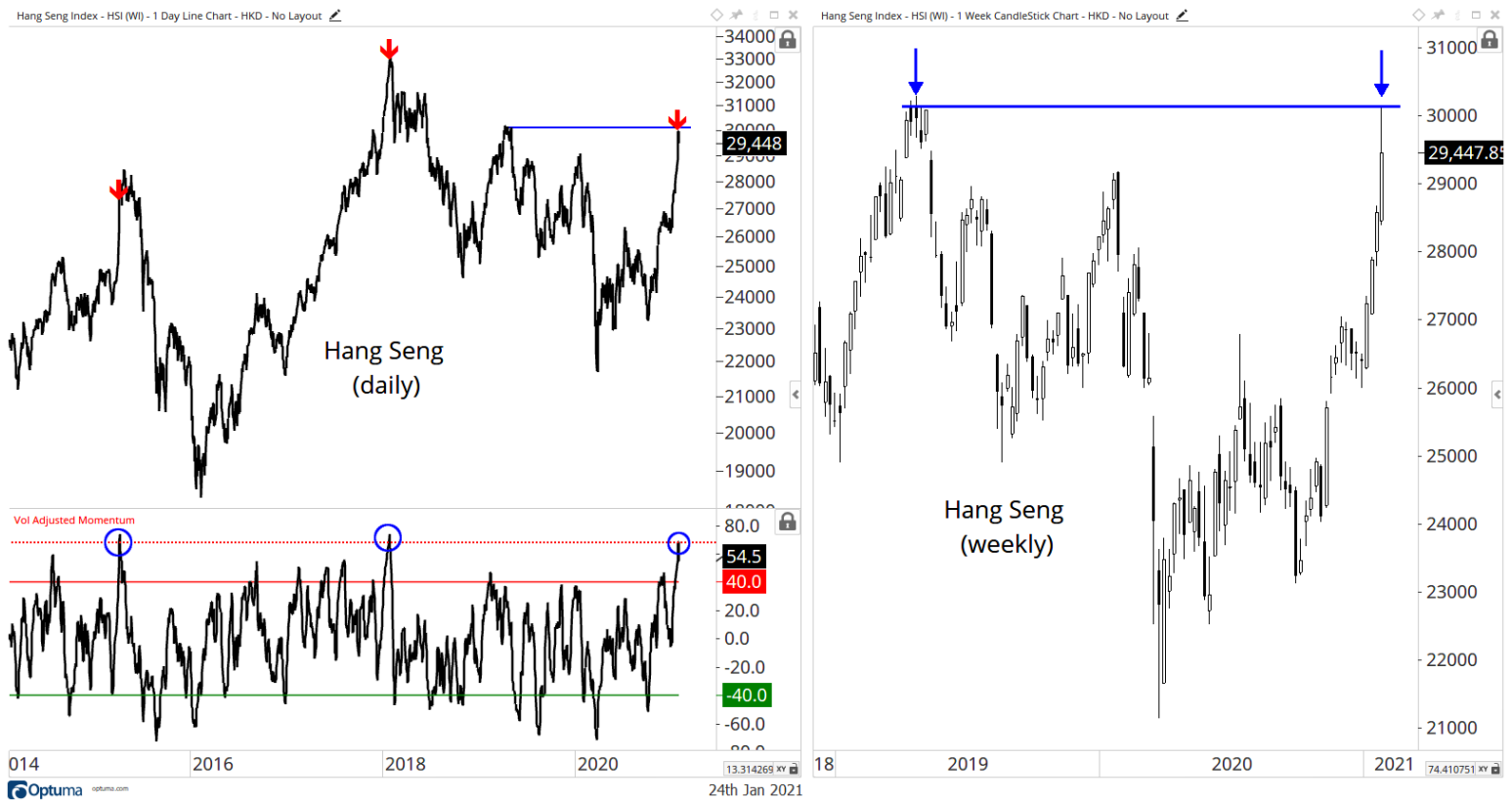
Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Communication Services Select Sector ETF	True	True	5.44%	4.60%	11.88%	21.63%
SPDR Technology Select Sector Fund ETF	True	True	4.25%	2.82%	12.03%	36.33%
SPDR Consumer Discretionary Select Sector Fund ETF	True	True	2.59%	8.20%	12.16%	33.37%
SPDR Real Estate Select Sector Fund ETF	True	True	1.32%	2.56%	4.01%	-7.18%
SPDR Health Care Select Sector Fund ETF	True	True	0.53%	5.87%	9.47%	12.28%
SPDR Utilities Select Sector Fund ETF	False	True	-0.24%	3.19%	-2.68%	-7.01%
SPDR Industrial Select Sector Fund ETF	True	True	-0.36%	1.12%	9.47%	6.59%
SPDR Consumer Staples Select Sector Fund ETF	False	True	-0.85%	-1.66%	-0.31%	1.53%
SPDR Materials Select Sector Fund ETF	True	True	-1.27%	4.72%	13.11%	23.47%
SPDR Energy Select Sector Fund ETF	True	True	-1.59%	12.22%	37.75%	-26.83%
SPDR Financial Select Sector Fund ETF	True	True	-1.94%	6.68%	20.54%	-1.69%

I mentioned early the build up in bearish divergences for energy, below is that chart. You can see this is one of the highest % of bearish divergences seen in this sector in several years. When it gets above 60%, a red arrow is drawn.



The Hang Seng Index is the equity market in Hong Kong and is currently testing the prior 2018 high. However, Volatility adjusted Momentum is at extremely high levels. The chart on the left shows red arrows when VaM has been at its current level since 2014, the prior two occurrences sent price lower in the following weeks. I'm watching if the \$3,000 level fails, as it started to do last week, moving lower as a key Asian Market, many others of which are also extremely extended Including China, Taiwan, S. Korea, and India.

Speaking of S. Korea, the Bank of Korea Governor Lee Ju-yeol recently made concerning comments that the growth of the Korean equity market has gone too fast. "If the growth is too fast, [the stock market] can be shaken up even with the slightest impact," Lee said. "It's not easy to tell at this point whether the recent hike in stock prices is a bubble or not, but the speed of growth is definitely very fast compared to in the past." if the Bank of Korea is concerned about a bubble, being a very technology-sensitive market, this would likely translate to other export heavy markets and into our U.S. market.



# DAILY SENTIMENT INDEX



Market	% Bullish ▲	5MA	History 📄
VIX DSI	20	21.2	
Cocoa DSI	22	29.60	
US Dollar DSI	23	26.80	
Palladium DSI	24	29.20	
Coffee DSI	35.00	41.80	
Natural Gas DSI	40.00	44.80	
5YR DSI	46.00	46.40	
10Y DSI	47.00	46.20	
Orange Juice DSI	56.00	59.80	
Wheat DSI	57.00	71.00	
Crude Oil DSI	60.00	65.20	
Platinum DSI	62.00	60.60	
Heating Oil DSI	62.00	68.20	
Cattle DSI	62.00	50.20	
Gold DSI	64.00	63.20	
Swiss Franc DSI	65.00	63.80	
Sugar DSI	66.00	72.20	

Code	% Bullish ▲	5MA	History 📄
<input type="checkbox"/> Lean Hog DSI	68.00	61.20	
<input type="checkbox"/> EuroDollar DSI	69.00	69.00	
<input type="checkbox"/> Euro DSI	70.00	67.80	
<input type="checkbox"/> Corn DSI	70.00	79.00	
<input type="checkbox"/> British Pound DSI	71.00	70.40	
<input type="checkbox"/> Mexican Peso DSI	72.00	77.40	
<input type="checkbox"/> Copper DSI	72.00	77.80	
<input type="checkbox"/> Australian Dollar DSI	72.00	72.80	
<input type="checkbox"/> New Zealand Dollar DSI	73.00	72.60	
<input type="checkbox"/> CRB Index DSI	73.00	75.00	
<input type="checkbox"/> SPX DSI	74.00	77.60	
<input type="checkbox"/> Gasoline DSI	76.00	77.80	
<input type="checkbox"/> Nikkei DSI	77.00	83.6	
<input type="checkbox"/> Lumber DSI	77.00	54.20	
<input type="checkbox"/> Cotton DSI	77.00	79.00	
<input type="checkbox"/> Silver DSI	82	81.4	
<input type="checkbox"/> Nasdaq DSI	84	82	

Source: trade-futures.com



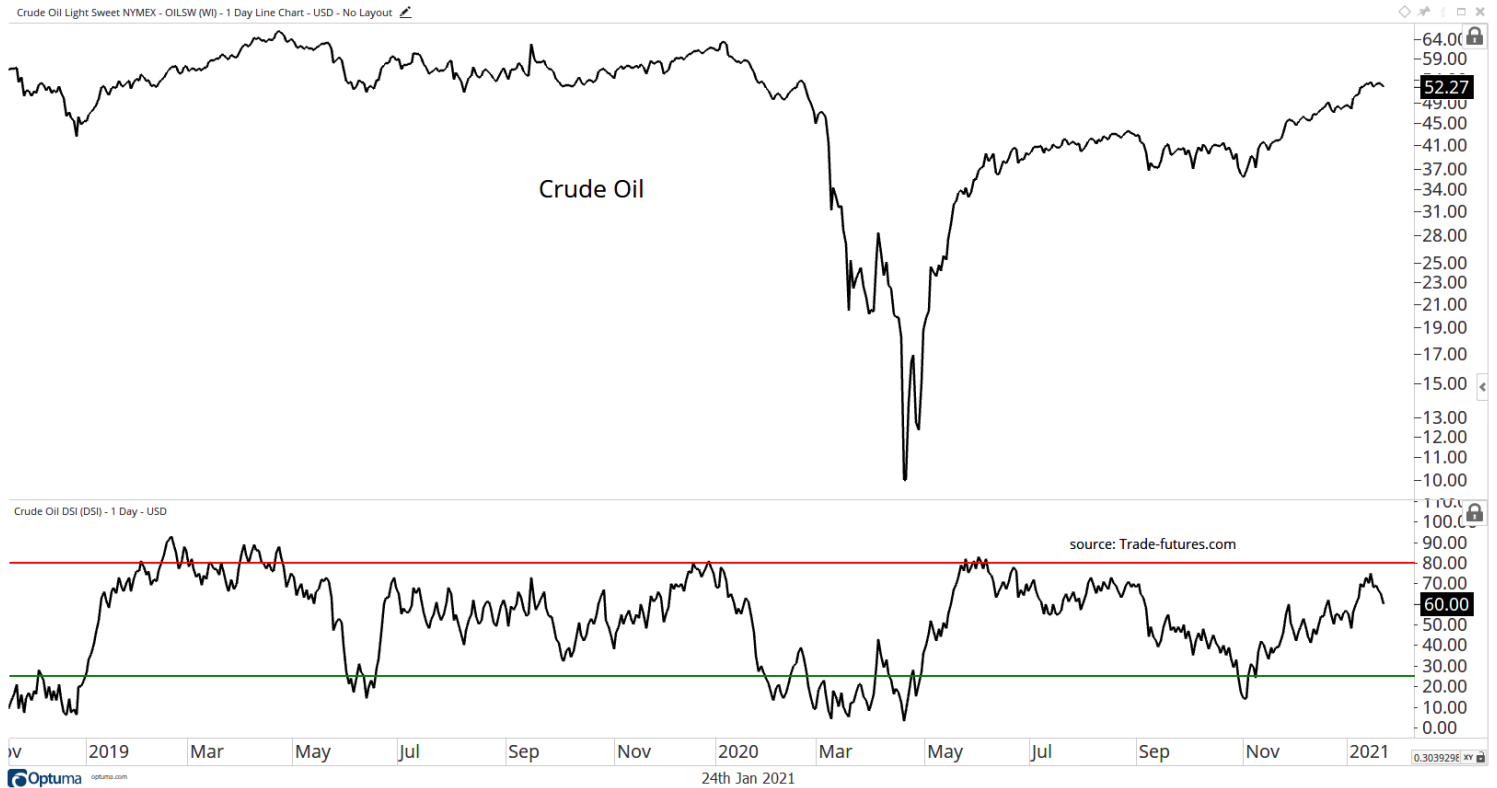
# DAILY SENTIMENT INDEX



10-Year T-Note (P) Continuation - TY\_F5spot (CBOT) - 1 Day Line Chart - USD - No Layout



# DAILY SENTIMENT INDEX



# DAILY SENTIMENT INDEX



**TA THRASHER**  
ANALYTICS

Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout



# DAILY SENTIMENT INDEX



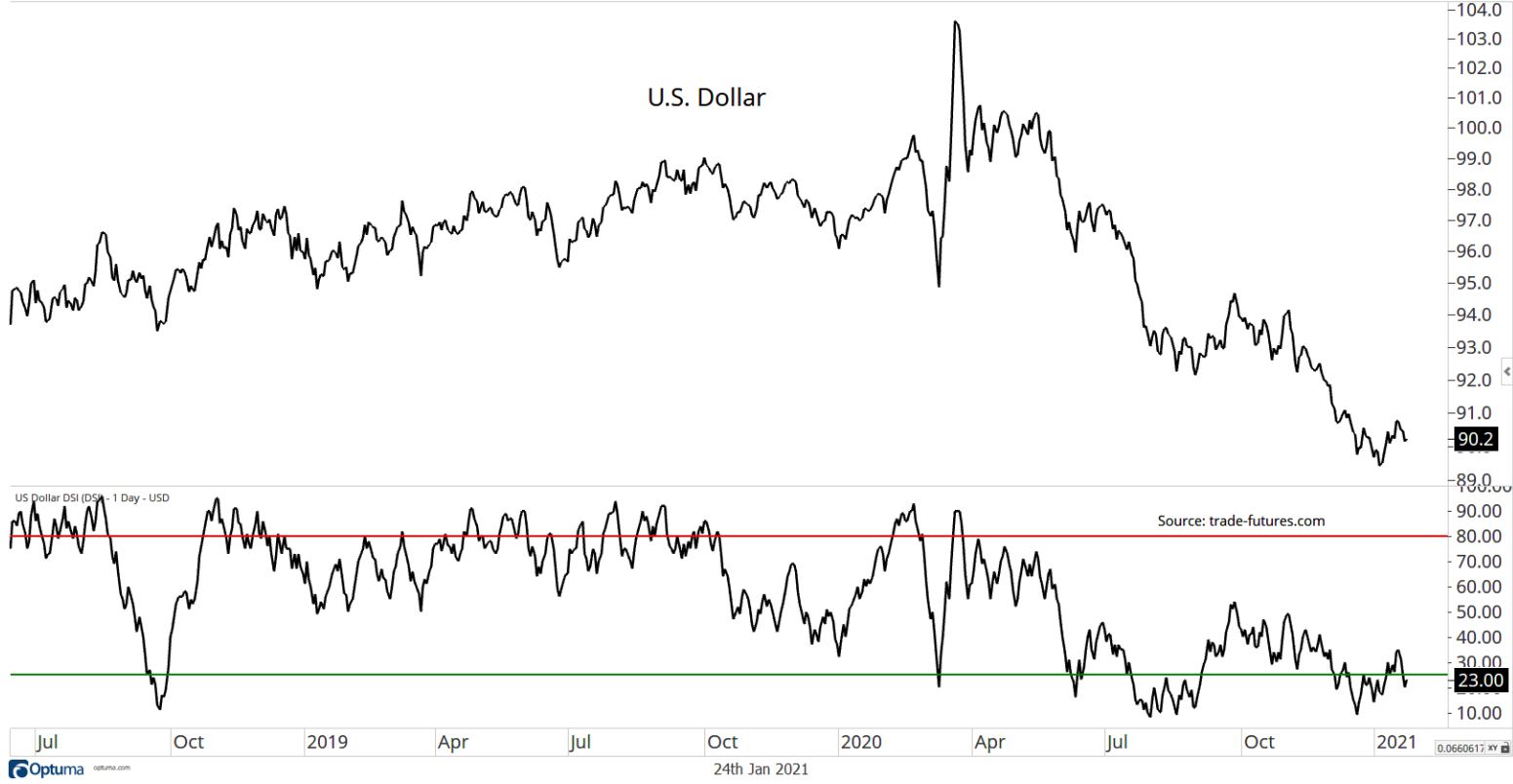
NASDAQ 100 Index - NDI (W) - 1 Day Line Chart - USD - No Layout



# DAILY SENTIMENT INDEX



U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout



# DAILY SENTIMENT INDEX



CBOE S&P 500 Volatility Index - VIX (CBOE) - 1 Day Line Chart - USD - No Layout

Chart controls: zoom, pan, reset

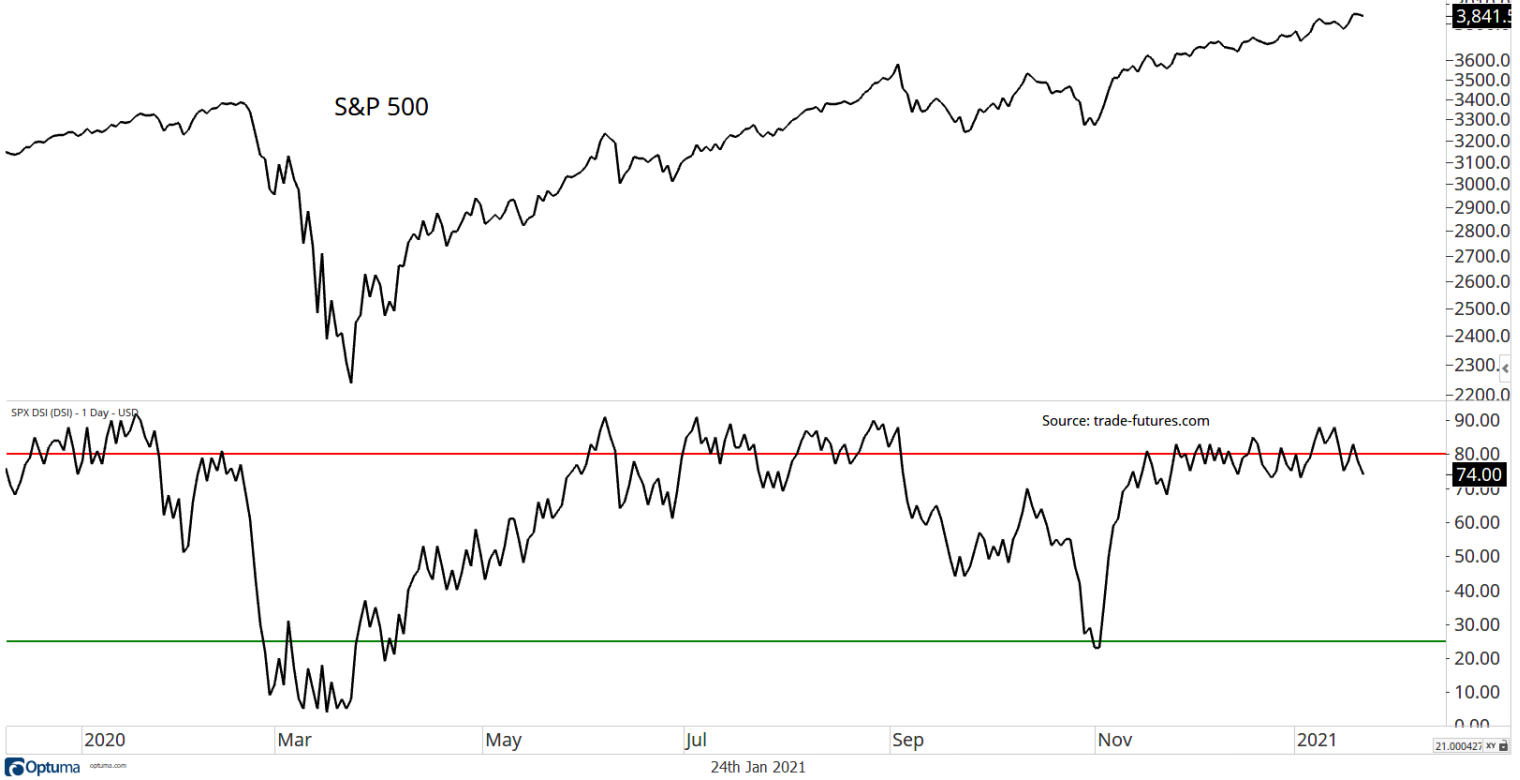




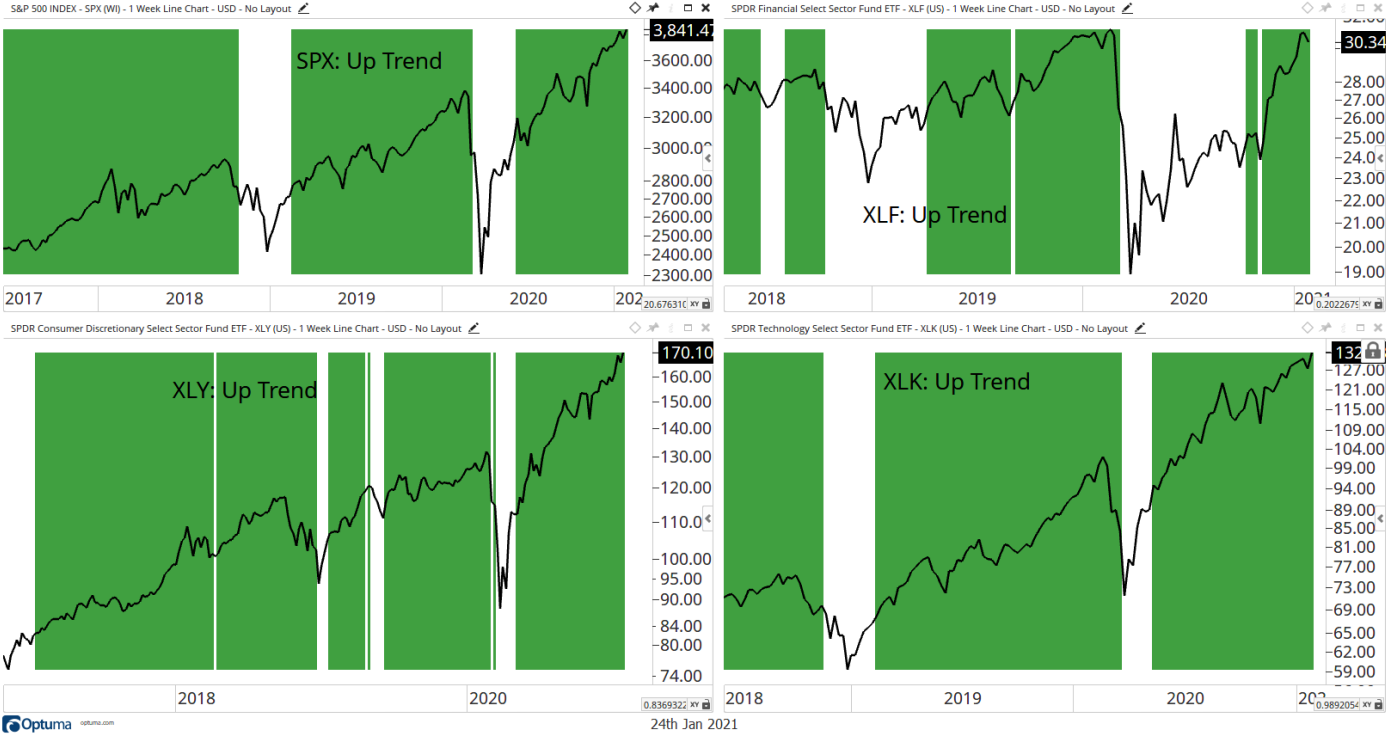
# DAILY SENTIMENT INDEX



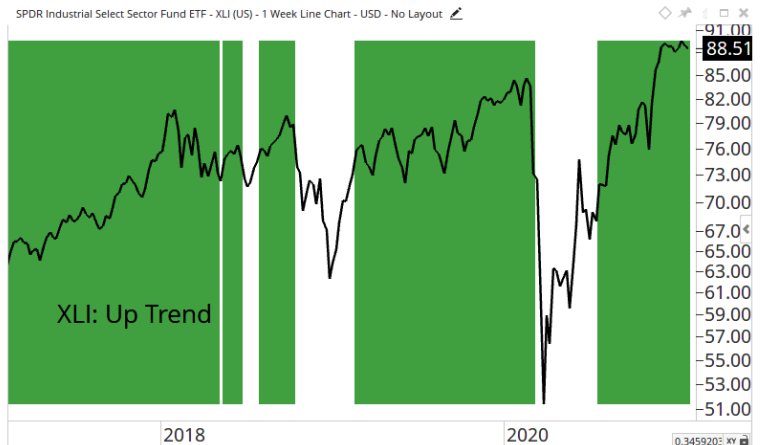
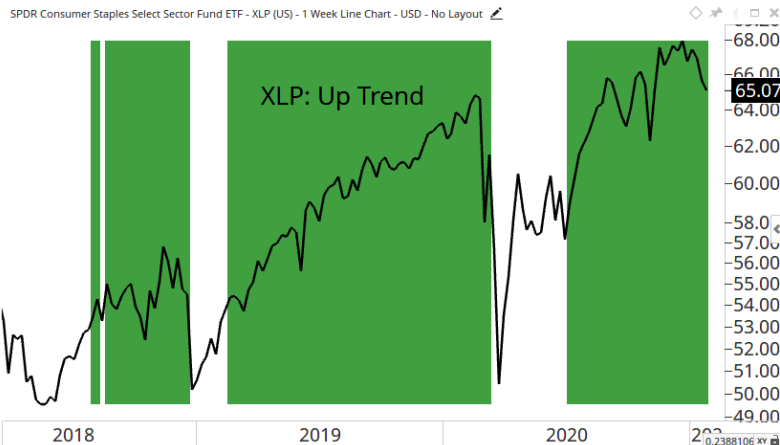
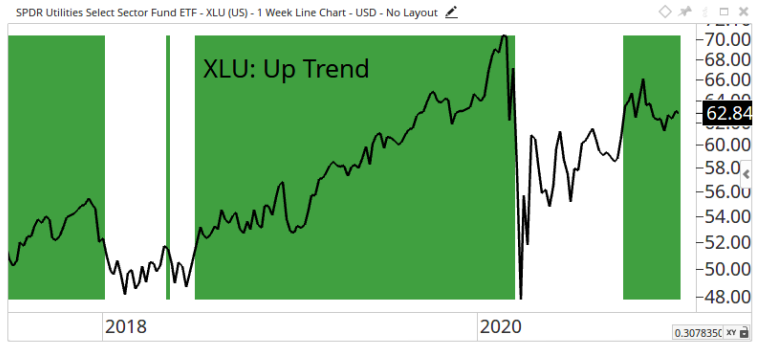
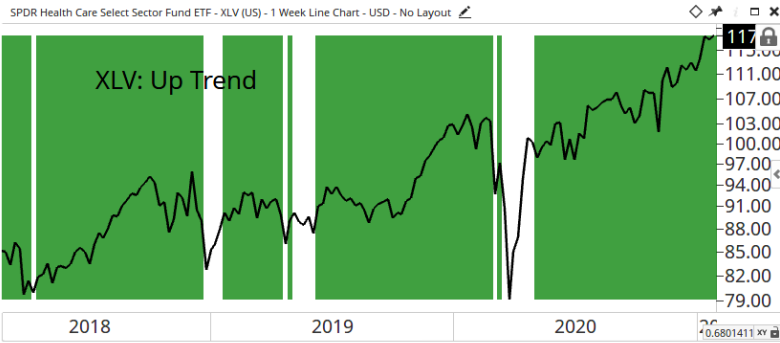
S&P 500 INDEX - SPX (W) - 1 Day Line Chart - USD - No Layout



# TREND MODELS



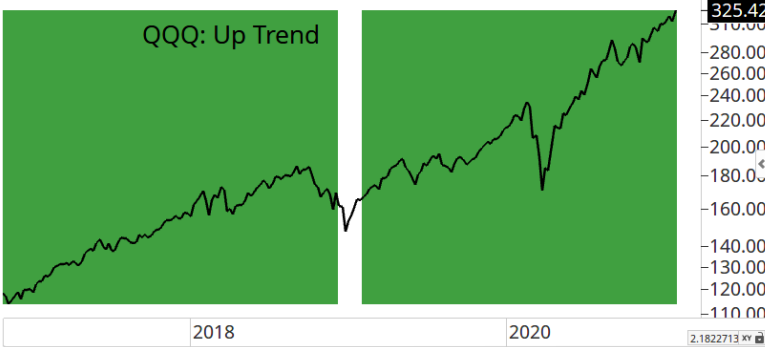
# TREND MODELS



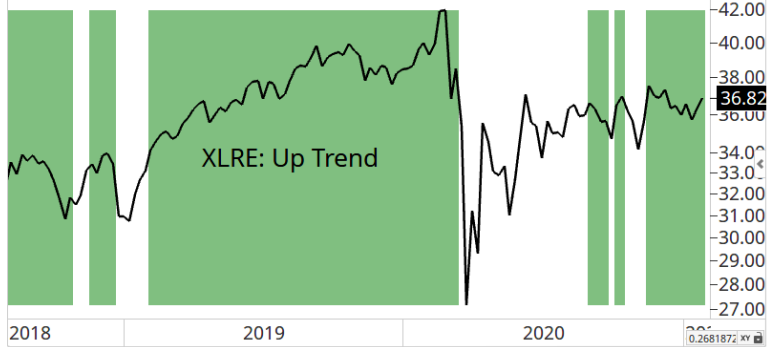
# TREND MODELS



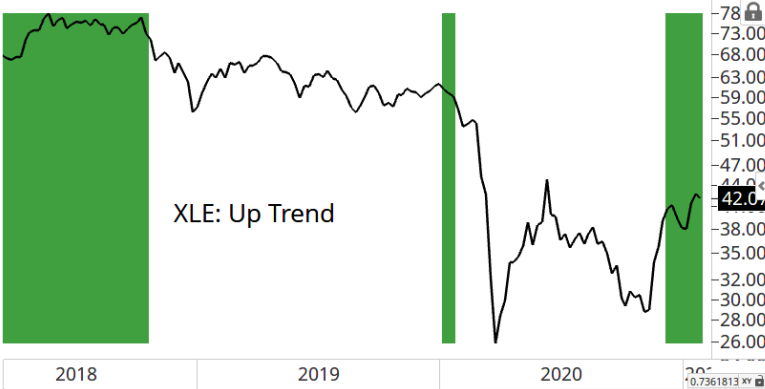
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout



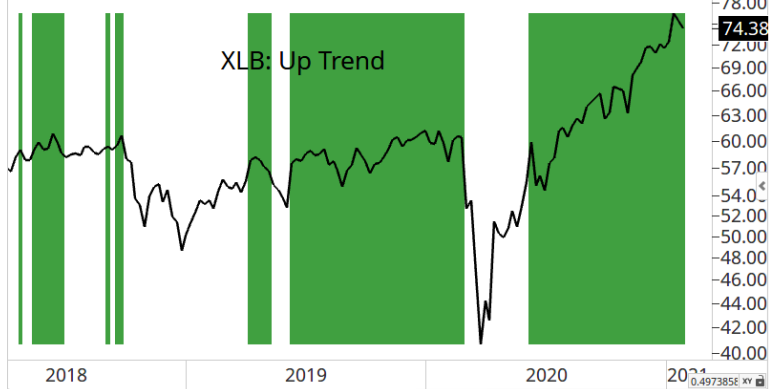
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout



SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout



SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout



24th Jan 2021

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