

GordonTLong.com

GLOBAL CONFIDENCE ERODING FAST!

ANALYTIC INSIGHTS



GLOBAL CONSUMER CONFIDENCE ERODING FAST!

Consumer, Investor and Trader Sentiment has shifted and Global Consumer Confidence is showing clear signs of deteriorating. Market Internals and Market Breadth can be best described as increasingly troublesome! We have Event Risk in Greece, China, Brazil, and Puerto Rico ... and the list goes on. We have Q2 earnings down 1.3% Y-o-Y and markets over-valued according to our MATA research measures by 80.4%. So if none of this is sufficient to de-rail this historic "central bank" bull market, what will?

Alan Greenspan in his Humphrey-Hawking testimony as Federal Reserve Governor and global central bank leader was often lamented that the thing that worried him the most, and the one thing he was unable to predict, was **the inevitable and cyclical shifts in public sentiment and confidence.**

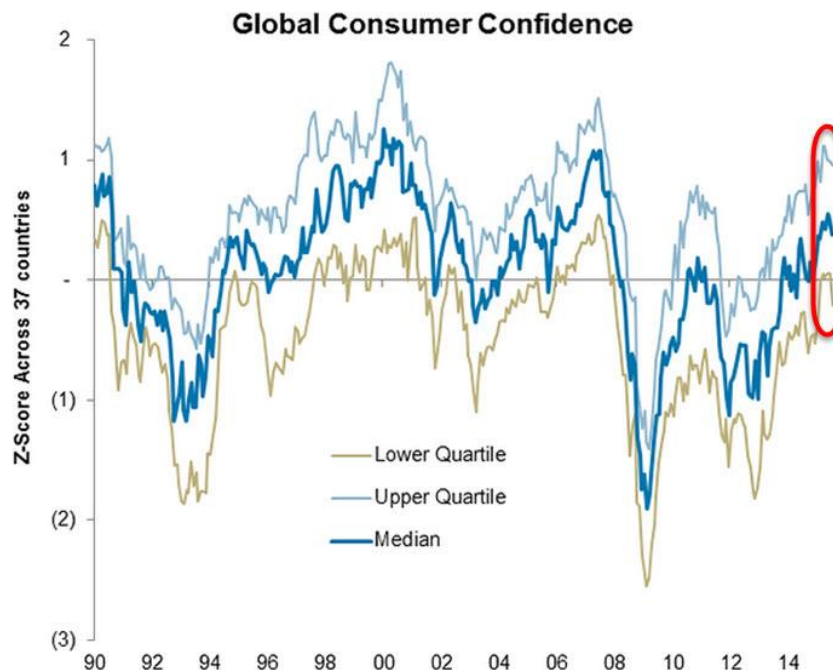
Like a thief in the night, major shifts in confidence and sentiment arrive unexpectedly and leave the unsuspecting and unprepared violated and in shock.

This month's MATA reports lays out endless warnings, concerns and troubling historic anomalies which need to be thoughtfully heeded, but **what will likely "pop" this market bubble is a cyclical shift in public sentiment and confidence.**



GLOBAL CONCERNS

There is now an unmistakable shift in Consumer Confidence around the world and it deteriorated in most countries in July. Though on a global basis it is still early, it is unquestionable in many countries.



THE GLOBAL AC NIELSEN SURVEY

One of the ways we track the overall Global shift is through the [AC Nielsen's Global Consumer Confidence Report](#). Certain concerns are universal. Worries about the state of the economy, fear of losing a job or anxieties about health issues are top concerns in all regions of the world. But other concerns take on greater significance depending on where you live. Understanding the emotional burdens that weigh heavily on consumers provide insight into the factors that can drive behavior. For example, debt and increasing food prices are top concerns among North Americans. Crime and work/life balance top the list of anxieties in Latin America. Parents' welfare and happiness is a key issue for those in Asia-Pacific and Middle East/Africa, and rising utility bills is a major worry for Europeans.

"... there is still a widespread concern among consumers about recession. In fact, six years after the official end of the Great Recession, more than half (54%) of global respondents still believe their country is in recession. So while global consumer confidence has been rising slowly to reach near optimistic levels in the past year, there is still evidence that consumers feel uncertain about their countries' futures. Retail sales activity has been slower to respond, reflecting that lingering uncertainty."

Anemic consumer spending levels are reflective of the fact that nearly two-thirds (65%) of consumers around the world are in a saving—rather than a spending—mindset. This cautionary outlook is most prevalent in Latin America (79%), followed by Middle East/Africa (69%), Asia-Pacific (66%), North America (59%) and Europe (58%), as more than half of respondents in these regions say they are actively taking action to save on household expenses compared to a year ago. "

What is most telling is the US which is supposedly the bright spot in the global recovery

"U.S. consumer confidence decreased six index points in the second quarter to a score of 101, but remained at an above-the-baseline optimistic level. Consumer confidence in Canada increased two points to 98, after declining six points in the first quarter.

In the U.S., the all three confidence indicators decreased in the second quarter with immediate spending intentions declining the most at six percentage points to 44%. Job prospects sentiment dropped five percentage points to 50% and personal finance sentiment declined one percentage point to 61% from the first quarter.

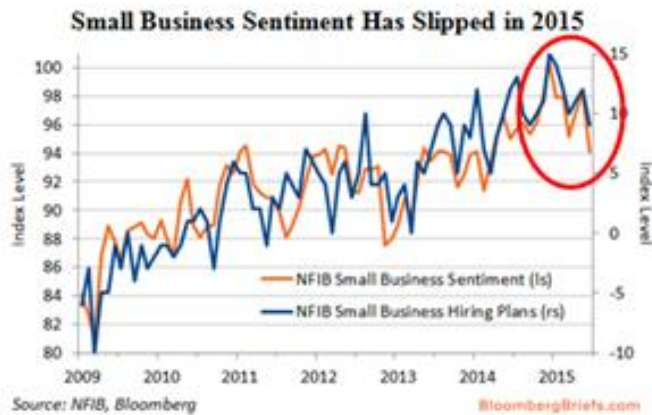
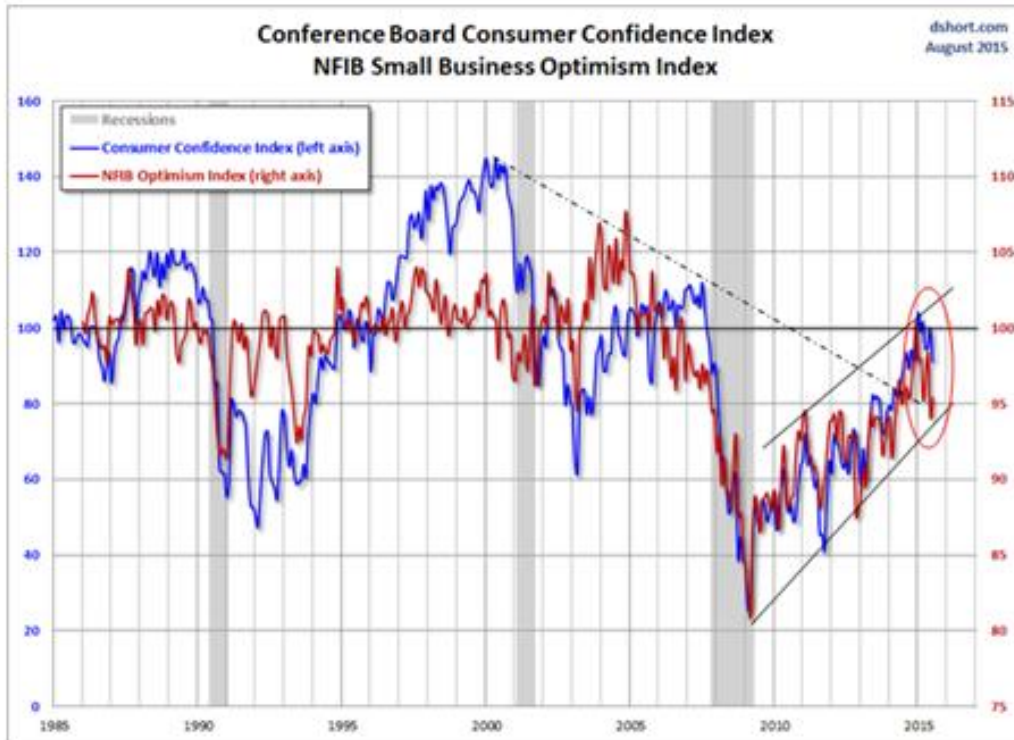
"Confidence in the U.S. remains at elevated levels, but it's an uneven recovery, as more than half of Americans still feel the effects of the recession, and nearly 40% are living paycheck to paycheck," said James Russo, senior vice president, Nielsen Global Consumer Insights. "While fast-moving consumer goods dollar sales were up 2.6% through May 2015, driven by inflation and perimeter store growth for health care and personal care products, we expect the five-year unit sales trend to be flat."

So let's examine the US more closely.

One thing that immediately stands out is the erosion in small business confidence in America.

GROWING RECESSIONARY SENTIMENT

	Q1 2015	Q2 2015	Change
Peru	46%	56%	10%
Chile	47%	55%	8%
Colombia	59%	66%	7%
Estonia	42%	49%	7%
U.S.	50%	57%	7%
India	44%	50%	6%
Brazil	85%	90%	5%
New Zealand	30%	35%	5%



But it is much broader than this.

Below we summarize the Consumer, Investor and Trader confidence indicators we track. *(Skip this section if you don't want the details).*

US CONSUMER, INVESTOR & TRADER SENTIMENT

Highlighted examples of continuing weakening analytics and warning signals are as follows:

1-CONSUMER SENTIMENT

- CONSUMER SENTIMENT (Conference Board)

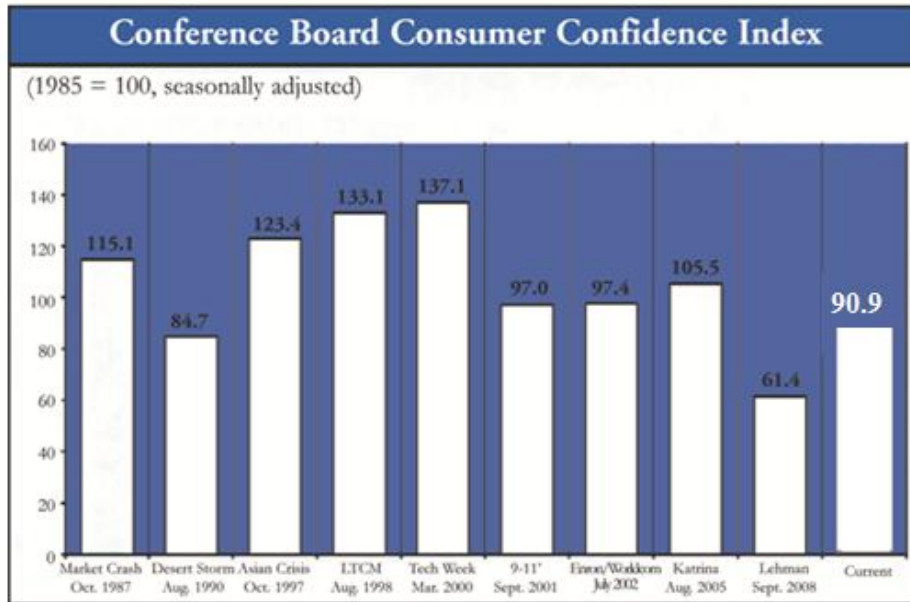


Chart courtesy of Gluskin Sheff

The Conference Board's Consumer Confidence Index **declined 8.9% this month** (+0.7% y/y) to 90.9 from 99.8 in June, revised from 101.4. It was the **lowest reading since last September**.

The comparable [Gallup US Economic Confidence Index](#) (to the right) **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 July came in at 93.1, **a decrease from the 96.1 June final reading**. [Investing.com](#) had forecast 94.0 for the July Final. The Index is at its highest eight month average since 2004.

- CONSUMER COMFORT INDEX

Bloomberg's Consumer Comfort index **plunged (by the most since Sept 2014) to hover at 18 month lows...** as 70% of Americans see the state of the economy as negative.

2- INVESTOR SENTIMENT

- INVESTOR SENTIMENT as measured by American Association of Independent Investors is **Bull-Bear Ratio Giving Weakening (Becoming more Bullish) Signal at 125.6**

- INVESTORS INTELLIGENCE – **Elevated and still too Bullish at 37.6**

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

This week's NAAIM Exposure Index number is: **63.17**

Last Quarter Average: 72.84

- 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.

3- TRADER SENTIMENT

- PERCENTAGE STOCKS ABOVE 50 & 200 DMA

- With 49.2% of the S&P 500 above their 50 DMA we have we have been falling since fall highs suggesting **slowing momentum**.
- With 51.2% of the S&P 500 above their 200 DMA we are **continuing to slowly weaken**
- The market has oscillated between their upper and lower boundary conditions shown above in a LONG TERM SECULAR ENDING TRIANGLE 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.

- OEX OPEN INTEREST (PUT/CALL): The long term support trend line held as previously predicted. 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

After a consolidation at levels of approximately ~2.0, the OEX Open Interest Put/Calls should head lower.

- 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.

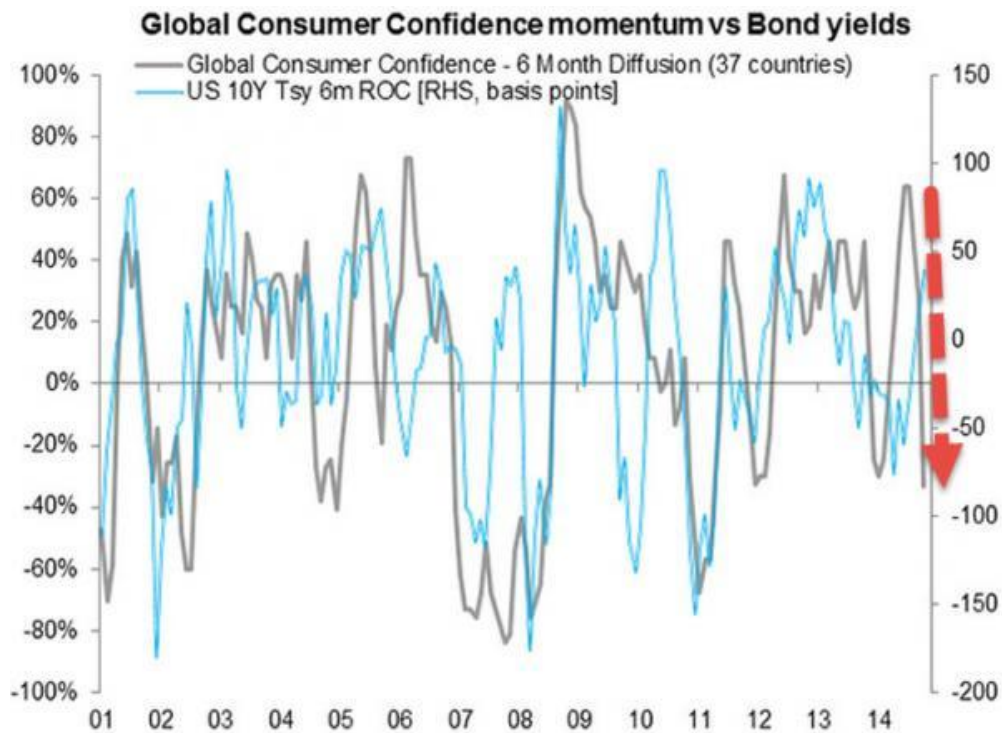
- Cash levels at Mutual Fund are at all time lows of approximately 3.7%. They are fully invested and suggests it would be difficult to increase volumes.

CONFIDENCE WILL SHOW IN THE CREDIT MARKETS

Our experience has shown us that when confidence shifts it is seen in the credit markets. Yields begin weakening, demand falls as confidence in forecasts is reduced and retail spending begins weakening.

We see all of these now occurring.

If you track the trends in consumer confidence against changes in bond yields, you can see a loose relationship (**which would be logical as falling demand is consistent with falling bond yields**).



Source: AMP Capital, Thomson/Reuters Datastream

THE TREND IS REVERSING

Market Vane Sentiment Survey - S&P 500



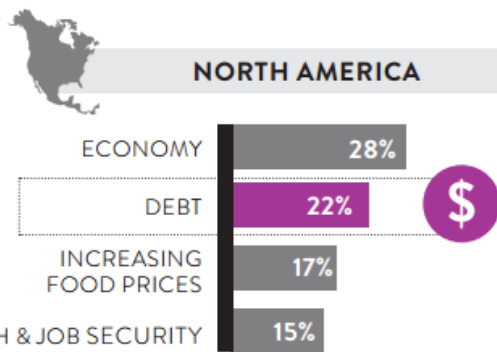
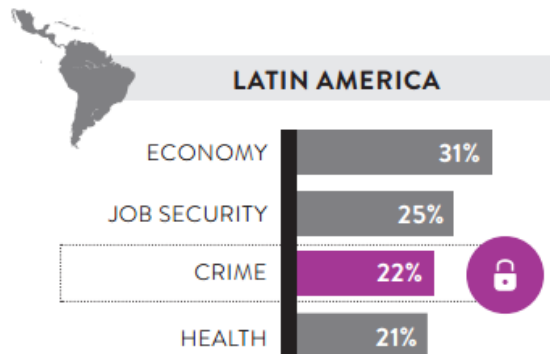
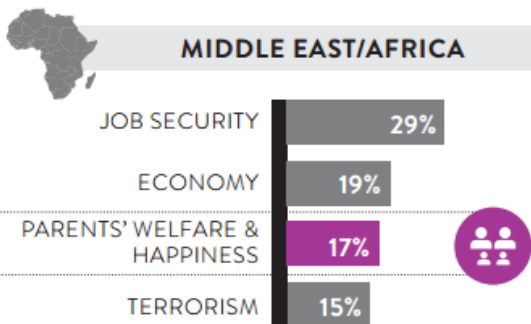
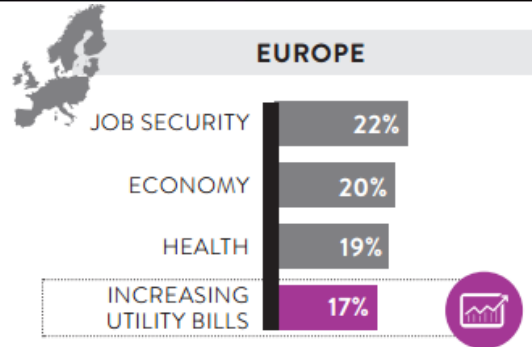
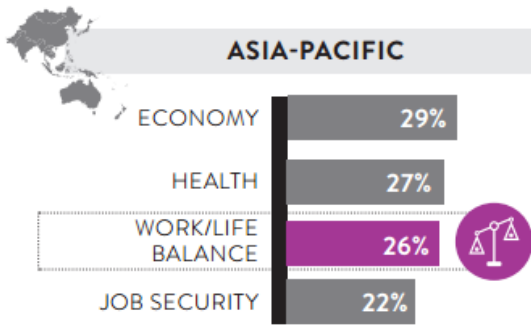
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■ = CONCERN IS SIGNIFICANTLY HIGHER THAN IN OTHER REGIONS.