BOB HOYE

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Some 'Ink' at Barron's

Robin Blumenthal is Senior Editor at Barron's and found Ross's summary of the *Hindenburg Omen* interesting.

> **The Hindenburg Omen Speaks: Watch Out Below**
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> **A fabled technical market indicator named after the 1937 dirigible crash is predicting financial distress. Not everyone is a believer.**
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> Bad Trip: The Hindenburg Omen, a portent of a market crash, is named for the fiery dirigible disaster of 1937.
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> It would be bad enough for the stock market if only the fabled Hindenburg Omen predicted a crash, but other technical market signals are also flashing that the market is at a cyclical peak. According to research from Bob Hoye, the chief investment strategist at Vancouver's Institutional Advisors, the Hindenburg Omen, named for the fiery dirigible disaster of 1937, has now been triggered and confirmed.
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> One of the Omen's key indicators – it includes a number of technical factors—is tripped when the daily number of New York Stock Exchange-listed 52-week highs, and the daily number of 52-week lows, are greater than 2.2% of the total NYSE issues traded that day. That occurred May 31 and was confirmed Tuesday. Today, the Omen is saying that the market is "getting old," avers Hoye, who called tops in 2000 and 2007.
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> The Omen has its skeptics. A crash failed to develop after an Omen three out of four times, but Hoye insists that investors ignore the indicator at their peril. "Not every Hindenburg has been followed by financial distress, but every financial distress has followed a Hindenburg," notes Hoye, since Omens thankfully outnumber crashes. The Omen was triggered in October 2007, and just before the market crashed in late 2008.
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> The Omen isn't the only reason for caution. "There are technical excesses showing that are found only at cyclical peaks in the stock market," Hoye says, including a recent signal that last occurred in March 2000, just before the dot-com market peaked and crashed.

This was Point Four on our *Checklist for a Top*. It can be a critical indicator.

The other items on the Checklist are:

1. Is the market up when it should be? Yes – for "around June".
2. Are there signs of speculation? – Indeed!

3. How sound is the ‘fundamental’ story? – The Trump pro-business administration story is in the market, well before the results of reform can become effective.
4. Hindenburg – confirmed signal now, as occurred in June and October 2007.

History suggests that European stock market bubbles as well as those in London can complete in May-June. New York, as in the 1873 and 1929 Bubbles, can peak in September. The 2007 example peaked in October.

All, repeat all, of the Great Bubbles since the first in 1720 have suffered forced liquidation in the fall. Typically, the last of the problems cleared in November. In the 1825 example, clearing completed in December.

While a natural consequence to excessive speculation, each has inspired central bankers to “heroic” busyness. After the natural end of the panic, the record shows that central bankers have boasted that only their “unique” efforts could have ended the panic. That is from the 1825 example to the 2008 Crash.

Then, the political side gets busy with recriminatory legislation. For example, the SEC was enacted to prevent another 1929 Bubble. In those days, the establishment understood that excessive financial speculation caused crashes and economic contractions. Also, malfeasance was eliminated by the formation of the SEC. One of its backers boasted that it would ***“Put a cop at the corner of Wall and Broad Streets”***. Going into the 2007 Bubble, the SEC would not investigate the Madoff Ponzi Scheme.

At the end of Great Bubbles, the power shifts from central bankers to margin clerks. Quite simply, that’s why the senior central bank has been unable to prevent severe contractions.