

## BOB HOYE

PUBLISHED BY INSTITUTIONAL ADVISORS

DECEMBER 8, 2010

# GLOBAL WARNING!

## Momentum Peak Forecaster

Our proprietary Momentum Peak Forecaster has been useful in anticipating the conclusion of some great market moves. We stumbled on this indicator in a timely manner in 1998 and it has worked on different manias from precious metals in 1980 to the housing peak in 2006. The chart follows.

It soars straight up as speculation becomes intense and typically the reversal can be one to two months ahead of the actual climax of speculation. Getting above 1.21 is a "heads up" signal and now at 1.25 it compares to the 1.31 reached in the middle of 1987.

### TRACK RECORD

SIGNAL	PEAK EVENT	PEAK DATE	LEAD
Nov. 23, 1973	Commodities (CRB)	Feb. 26, 1974	3 Months
Nov. 9, 1979	Gold & Silver	Jan. 21, 1980	2 Months 13 Days
May 22, 1987	Stock Market DJIA	August 7, 1987	2 Months 17 Days
Feb. 13, 1998	Narrowing Spreads in Euroland (LTCM)	May 1998	3 Months
April 9, 2004	Housing Annualized Rate of Change (Please see following chart)		
May 12, 2006	Housing	June 2006	1 Month
Dec. 2010	AOM *	??	??

(\*AOM = All-One-Market)

### OVERVIEW

What this indicator does is more important than what it is. When backdated to 1970, it has anticipated some of the most significant speculative reversals of our times.

The model first worked in real time in 1998 on the tout that governments would narrow all European spreads as the European Community became fully integrated. Our May 1, 1998 edition featured the Forecaster, noted the enthusiasm for narrowing spreads and concluded that lower-grade bonds and spreads could suffer "dislocating conditions in August-September". Spread widening began in May and became a disaster that collapsed the biggest hedge-fund of the day – Long Term Capital Management (LTCM). Trouble arrived in August and remained until early October.

With a two-month lead this served well going into the top of the housing mania. The S&P/Case-Shiller Home Price Index (attached) recorded the big high in June, 2006. It is interesting now that the annualized rate of change seems to be rolling over and it will be worth monitoring the actual price index.

Our August 29, 2006 special "**The Consequence Of Real Estate Bubbles**" (link below) noted that during the Great Depression that endured from 1873 to 1896 U.K. farmland values declined from 55 to 20. In the U.S. farmland values declined from 59 in 1920 to 20 in the mid 1930s. We have no idea why the two indexes are so similar.

[http://www.institutionaladvisors.com/pdf/060829%20CONSEQUENCE\\_OF\\_REAL\\_ESTATE\\_BUBBLES.pdf](http://www.institutionaladvisors.com/pdf/060829%20CONSEQUENCE_OF_REAL_ESTATE_BUBBLES.pdf)

It seems that the Forecaster was unable to recover enough to signal the credit collapse that started in May 2007. However, our work on the typical reversal in the yield curve from inverted to steepening suggested that credit problems could begin as late as June 2007.

This is the seventh such alert in forty years from our Forecaster and we take it as a serious warning on the All-One-Market phenomenon. As with the LTCM default the AOM has been inspired by government schemes. This time it's the Fed's belligerent attempt to trash the dollar.

Financial adventurers now dominate government policy. Over a couple of generations this has turned government from the ideal of fiduciary prudence to the agent of desperate speculation. In so many words, the notion that a wise committee can "manage" the economy has always been radical speculation. This in turn has prompted extreme speculation on the private side of the equation. Our model suggests that another failure in asset speculation is inevitable.

This has profound implications. It will mark the end of the first business recovery out of a natural post-bubble crash. In which case, it will remind again that market forces can overwhelm arbitrary ambitions of interventionist economists. Also, the public is finally becoming critical of government promises as well as abilities. This has happened before – the public tightens its belt and then turns to the extravagance at all levels of government.

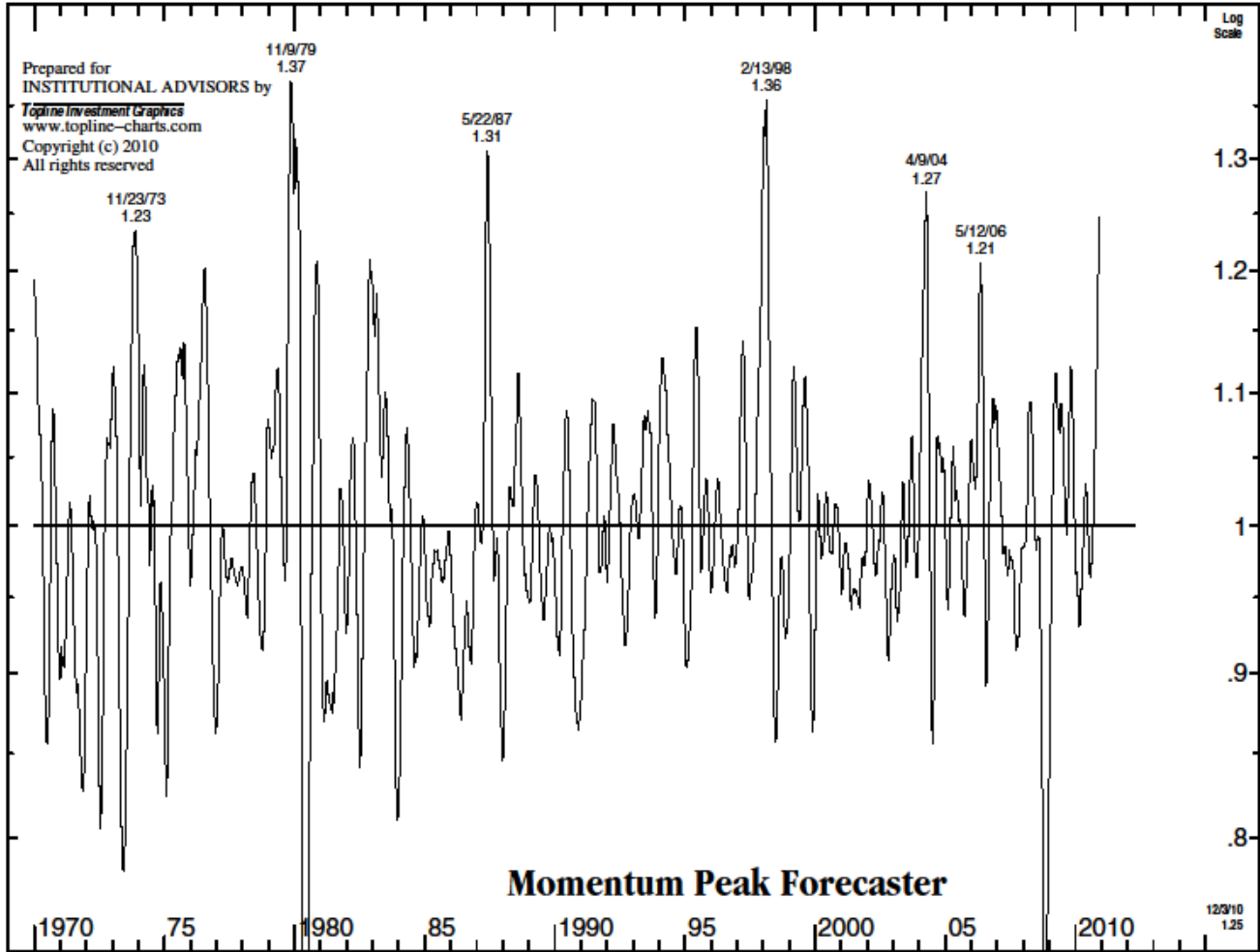
On the bigger perspective, most institutions will be scrutinized on a cost-benefits basis, not to overlook the BS component. Under similar circumstances state-funded alchemy became privately-funded chemistry and astrology became astronomy. In the next few years state-sanctioned agencies of currency depreciation will be constrained by the public's choice of money, which will be gold.

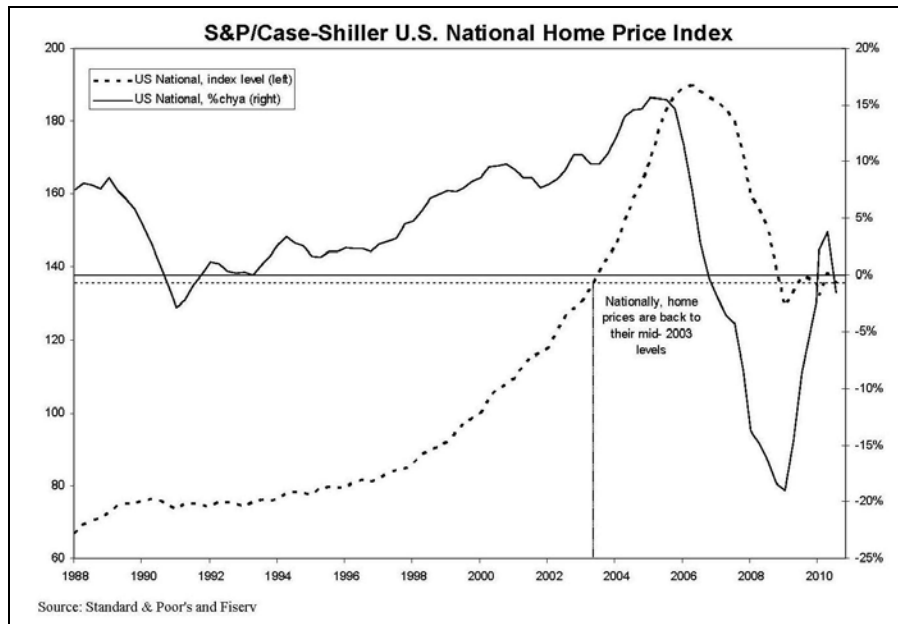
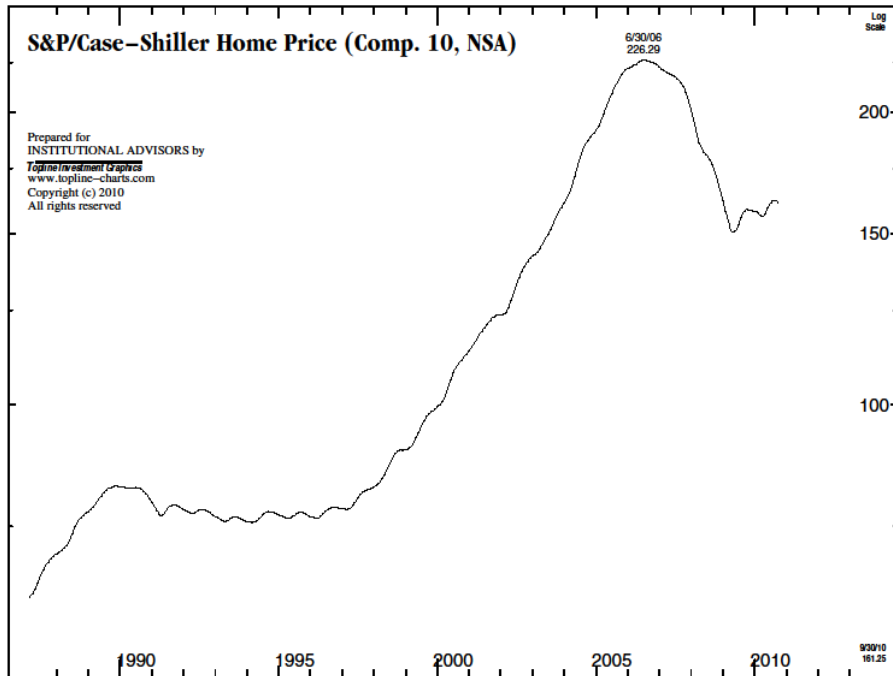
### **WRAP**

For most of the year we have been working on intermediate models and even veterans are impressed at how reckless financial markets can become in only five or six weeks. But this is often the case with the climax of compelling market action when the consequences shift from intermediate to more severe results. That is either up or down.

In rising above 1.21 this model is in serious alert mode. Every such reading has been inevitably followed by a significant decline in the featured game.

As Robert Louis Stevenson observed: *“Everybody, sooner or later, sits down to a banquet of consequences.”*





- The high for the index was in June 2006.
- Note the reversal of the rate of change in 2005 and recently.