

TOP OF THE MANIA

SECOND ANNIVERSARY

Record Highs

Nasdaq 5049 March 10, 2000

S&P 1527 March 24, 2000

- One of the most fascinating things about the financial markets occurs shortly after a significant trend reversal. No matter how shocking, embarrassing, dislocating, or costly the reversal is, within two weeks there is no one who didn't make the correct call.
- Our models are based upon the typical behaviour of the stock market, credit spreads, yield curve, and industrial commodities through the dramatic climax of previous new financial eras.
- This served well on the way up as well as during the transition to contraction. Within this, the model has anticipated most of the big reversals, usually with enough time for a CIO or portfolio manager to implement strategy. As each expected change approaches, the ChartWorks independently confirms the likelihood of change. This tactical advice is also used by stock, bond, and metal trading desks.

For the reasons outlined above, this review covers opinion going into the top and, in this regard, leading newspapers included outstandingly articulated persuasions about the longevity of the boom.

As the financial strains became visible at the end of each of the last 3 new financial eras, the editorial conviction was that nothing could go wrong:

1873 – The U.S. was between central banks, but the existing Treasury System was celebrated as superior to a central bank in maintaining a financial boom.

1929 – After decades of discrediting the instability of the Treasury System, the "new" Federal Reserve System (1913) was celebrated as having unique powers to eliminate the "old" excesses of "inflation" as well as "boom and bust".

2000 – The **Wall Street Journal**, on February 1, 2000, dedicated a whole page on (only) a century of booms. The main observation was that the last failure (1929) happened because the Fed then was "*clearly amateurish*" and soaring confidence was reflected with "*It's hard to imagine that happening again – we understand the business cycle better.*"

- Our research noted that each previous new financial era had lasted a decade and the mania blew out after 18 months of soaring interest rates and was followed by a multi-year financial and economic contraction.
- Beginning in 2000, each weekly publication included a countdown that March would be the 18th month. By February, our **Boom Indicators** had reversed to a warning and our allocation for a pension fund was downweighted from a maximum of 60% equities to 40%.
- The attached, **The Internet – The New Technology**, which was published on January 11, 2000, described the financial forces underlying each incredible tech celebration since the 17th Century. It concluded with: "*Given the dynamics of the leaders now and deteriorating breadth, speculation in the stock market is approaching saturation. If it does, it would again be anticipating the eventual saturation of another set of wonderful innovations in communications that began with turnpikes in the 1660s.*"
- Also attached is its barebones summary, **New Eras – Revisited And Updated**, which was distributed on Friday, March 10, 2000 – our regular publishing day. It has been updated for continuity but with the high expected for around March yet to be included.

April, 2000 (after the top): "*The irony is that the New York establishment in 1989 competently described the action in Tokyo as a "bubble", but seems unable to make the same diagnosis now. As with previous examples, participants find them too prosperous for circumspection. As Lord Acton might have said, bull markets tend to corrupt and great bull markets corrupt absolutely.*"

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