Hindenburg Omen

While the *Risk-O-Meter* remains in the "green zone," a couple of big picture indicators point to a butt-kicking in the markets.

No indicator is correct 100% of the time.

If there were a perfect indicator, we could use that one and sit on a beach drinking fruity cocktails while refreshing our account balances every hour to see how much more money we made.

Therefore, I do not put too much stock in any single indicator. I give the most weight to oversold market indicators because, as I explained last week, I think it is much easier to know when a bottom is in place than a top.

However, to ignore indicators would be foolish too.

This week, I wanted to share two indicators that you might not have seen before.

It's simply worth noting that they suggest trouble ahead for the markets.

First is the *Hindenburg Omen*.

The word "Hindenburg" sounds scary to me because it makes me think of the airship going down in flames in 1937. The term "omen" also sounds scary.

Like a horror movie.

Put the two together, and the phrase "Hindenburg Omen" sounds ***really*** scary.

I do not know why the indicator is named the *"Hindenburg Omen."*

The chart below comes courtesy of *SentimenTrader.com.*

Here is how *SentimenTrader.com* calculates the indicator.

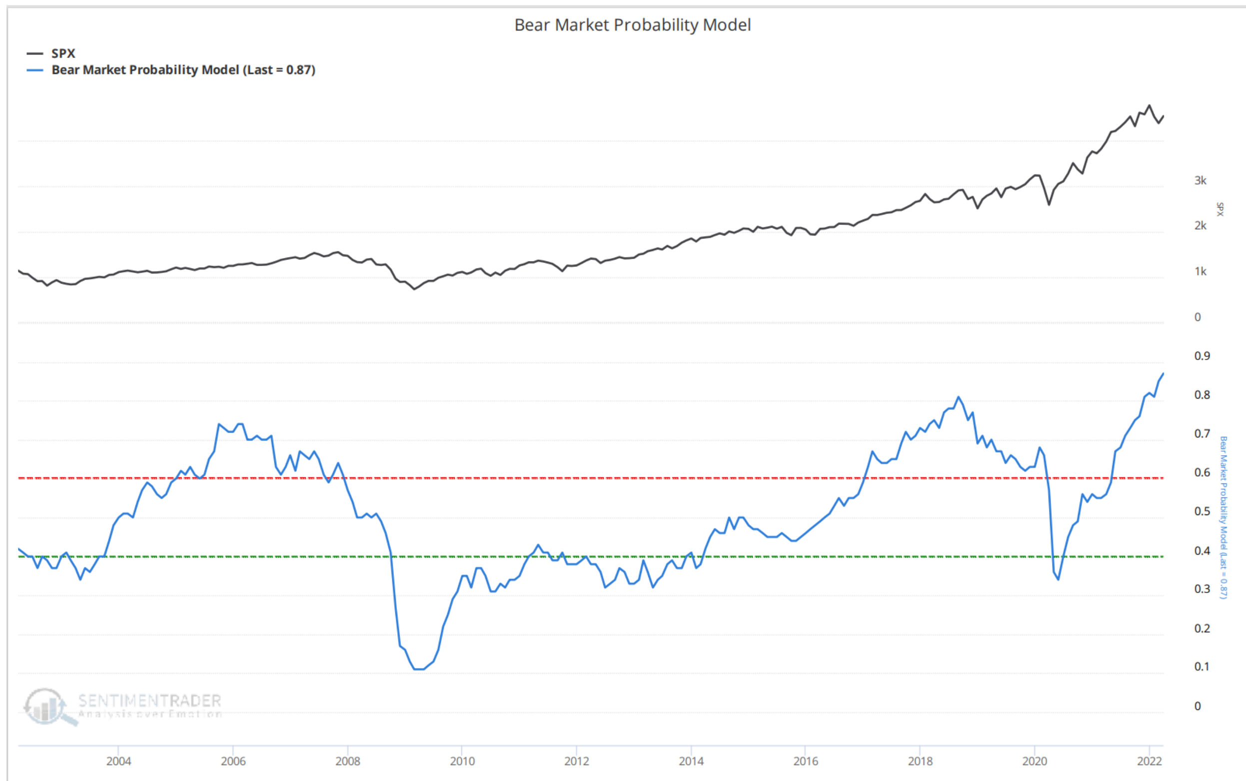
“The Hindenburg Omen is a technical warning sign created by James Miekka in the 1990s, based on work from Norman Fosback in the 1970s. It monitors conditions that analysts have looked at throughout history as signifying potential weakness underlying the market. For this particular signal, we use three criteria, which likely differ from other sources: 1) The S&P 500 is above its 50-day moving average, 2) Both new 52-week lows and 52-week highs on the NYSE are greater than 2.8% of all advancing and declining issues, and 3) The NYSE McClellan Oscillator is negative. When the signal triggers, it highlights a "split" market, which is unhealthy. Multiple signals in a cluster are a worrying sign. Traditionally, the signal is canceled after 30 days or if the Oscillator turns positive again, though we've seen that it can lead to market trouble several months in advance.”

The *Hindenburg Omen* has issued a sell signal. In recent months, the *Omen* has indicated lower stock prices ahead. Just before the COVID smash, the signal was bearish multiple times. Then the market broke lower.

Since late last year, there have been a couple of signals, and now the most recent warning.

I will keep an eye on this indicator going forward.

Next up is a bear market prediction tool monitored by Goldman Sachs that has surged in recent months to its highest level in decades. Here is a chart courtesy of *SentimenTrader.com*



This is a model monitored by Goldman Sachs using five fundamental inputs - the U.S. Unemployment Rate, ISM Manufacturing Index, Yield Curve, Inflation Rate, and P/E Ratio.

Each month's reading is ranked versus all other historical readings and assigned a score. The higher the score, the higher the probability of a bear market in the months ahead.

When the model was 20% - 29%, the S&P's average one-year return was +21%.

But when the model was 80% - 89%, that average return plunged to -2%. So the higher the model, the greater the chance for a bear market or negative forward returns.

I am more considered about this indicator than the *Omen*. This bear market prediction tool is breaking out to the highest level in 20 years.

2022 is shaping up to be a tough year. We may ultimately have a bunch of ups and downs and end up nowhere.

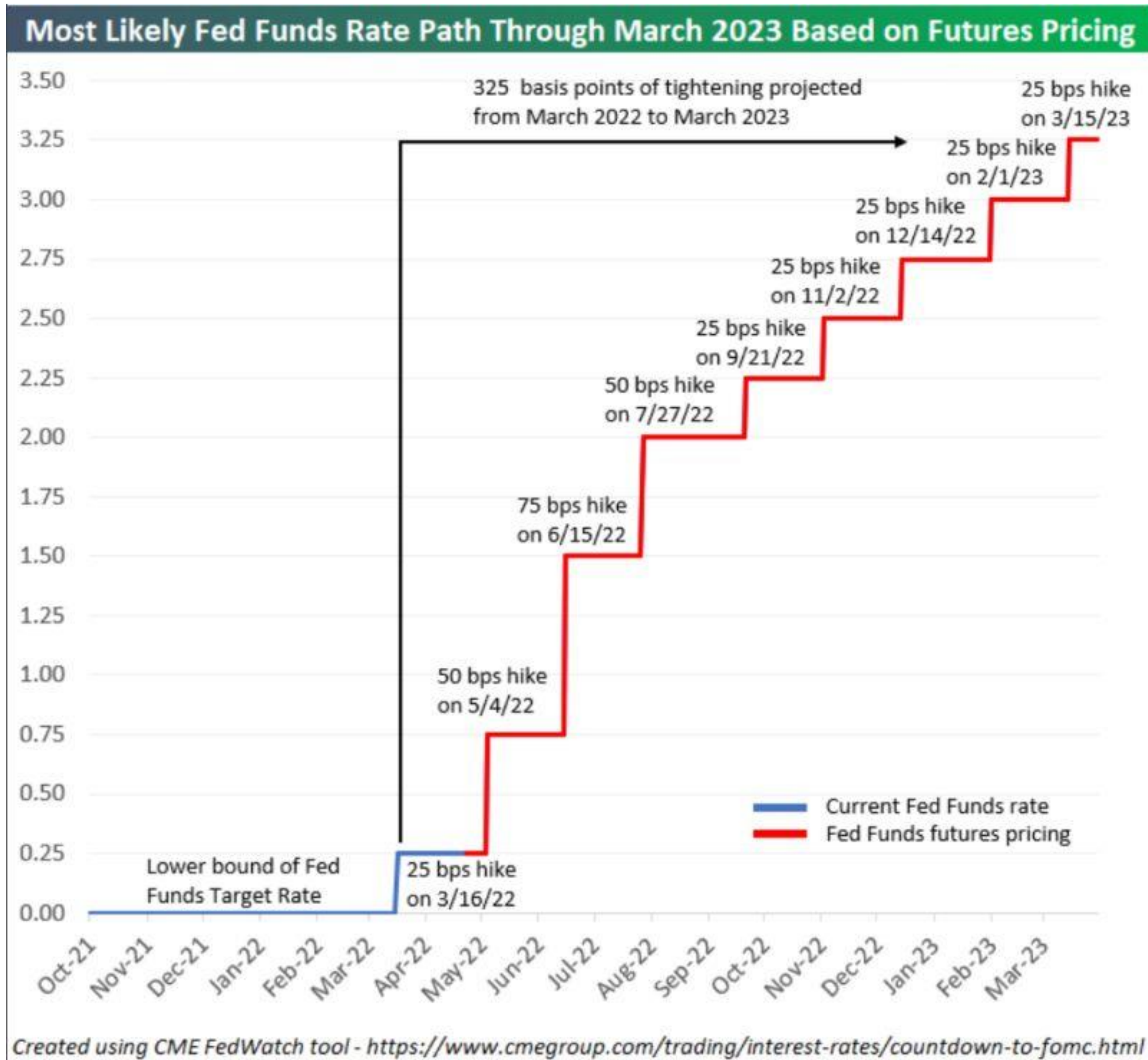
Sort of like trench warfare.

Through the first third of the year, that has been the case.

One factor that could change the trading band that has been established is a change in the liquidity picture.

I mentioned this last week. The market has discounted higher rates and the withdrawal of liquidity. Should that trend change for some reason, the market could rip higher, and we should see considerable gains in a short period.

Here is a chart of rate expectations below. This is the consensus and it is very aggressive relative to recent history. Should it change (and rates do not go up as much as expected) there is huge upside to the market.

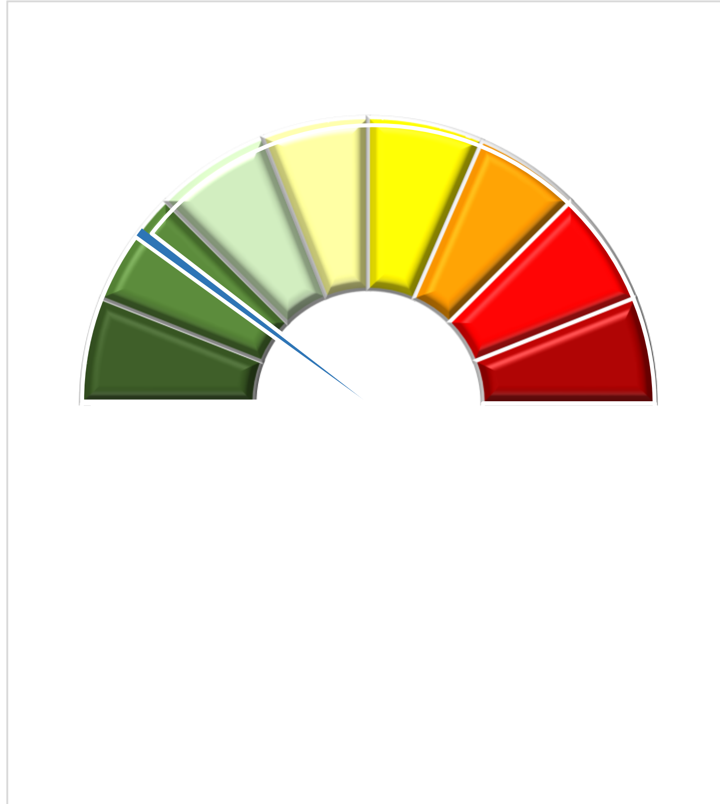


Lastly, the U.S. Dollar is breaking out to five-year highs. The Dollar traded higher in the lead-up to COVID lockdowns, but I am backing that out as an extreme event.

I have expressed concern that the Dollar did not rally as it should have with the Russian invasion of Ukraine. Recently, the Dollar has been off to the races.

I have no idea why it took so long for the breakout. However, with all the crises going on in the world, we want to see the Dollar see strength!

We finally have it!



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