



Harry's Take

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Early on, Small Caps and Tech Stocks Crash More: Broader Large Caps Catch Up

As expected, the Nasdaq and small cap Russell 2000 have crashed a bit more thus far than the broader S&P 500 and Dow Industrials. But don't expect that trend to continue as this financial crisis turns into the crash of our lifetime, as I have been forecasting.

The truth is that the riskier stocks crash more in the early stages, and then the broader indices tend to catch up mostly, although not totally. The chart shows this clearly.

How S&P 500 and Dow Crash More Than Nasdaq and Russell From Here

Index	% Crash Into 2009	% Crash Thus Far	Crash Back to 2009 Lows	Net Crash From Here
Nasdaq	-55.8%	-34.8%	-92.2%	-57.4%
S&P 500	-57.7%	-25.6%	-86.2%	-60.5%
Russell 2000	-60.0%	-32.9%	-86.1%	-53.2%
DJIA	-54.4%	-22.3%	-82.5%	-60.2%

Source: Investing.com

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In the crash from late 2007 into early 2009, the Russell 2000 went down the most, by 60.0%, and the Dow went down the least, by 54.4%. Surprisingly, the S&P 500 went down more, 57.5%, than the Nasdaq, which fell by 55.8%.

Thus far in the present crash, the Nasdaq has fallen the most, by 34.8%, followed by the Russell 2000, at 32.9%. The S&P 500 has fallen far less, down 25.6%, and the Dow is down the least, 22.3%. But again, don't expect that imbalance to continue going forward.

My best estimate today is that each of these indices will test their COVID lows of early 2020, falling much further than most investors would assume. Column 3 of the chart shows how low these indices could go by the bottom of this major crash, projected to happen between late 2023 and mid-2024. As expected, the Nasdaq would lead the crash again, falling 92.2%, more than the Dow fell in the 1989 crash, by 89%. But the Russell 2000 surprises in this scenario, falling by only 86.1%, similar to the S&P 500 at 86.2%. The small caps lead coming out of the gate but don't collapse more in the end, as they don't rise as much in a major bubble like this one.

What should you expect from here? Where should you sell the most on this bounce, or where should you short if you are more aggressive? The S&P 500 has the greatest downside from here, with a projected fall of 60.5%, followed closely by the Dow, which could fall 60.2%. The Nasdaq comes next: it could go down as much as 57.4%. The Russell 2000 could fall the least, by 53.2%. So, it's best to buy SH to short, not RWM. PSQ is second best.

It just shows that you always have to do your homework to expand on or to curb, at times, your intuition.

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Got a question or comment? You can contact us at info@hsdent.com.