Harry's Take

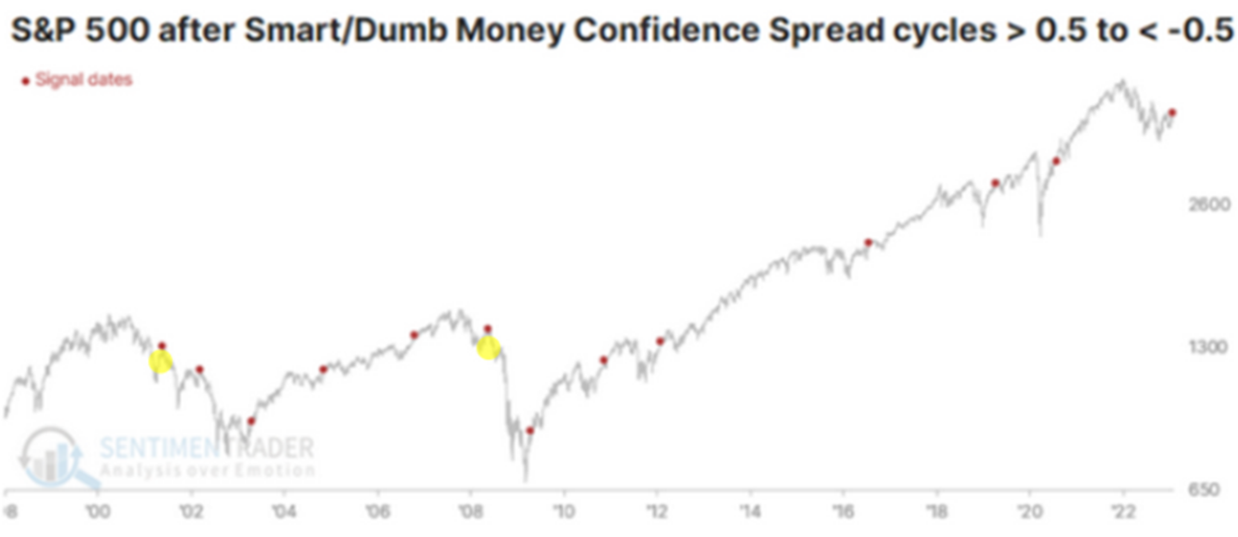
February 14, 2023

Unique Indicator Calling for Third-Wave Crash, Like in Early 2001 and 2008

I keep reminding people that we've seen a first crash credible enough that the odds are very high that we've seen a major, long-term stock top. But since the first, rapid move down into mid-June 2022, stocks have gone more sideways, despite modest new lows on most indices into early to mid-October. I've been looking for that next and normally strongest third wave down after this two-wave bounce since early to mid-October.

The indicator below, from my forecasting friends Brad Lamensdorf and John Del Vecchio, proved very good for predicting a continued crash during the last two major crashes in 2000–2002 and 2007–2009. This indicator looks at the spread between the smart money and dumb money, with more emphasis on when the dumb money gets giddy!

Spread for Dumb and Smart Money Bearish Early, Like in 2001 and 2008



Source: https://lmtr.com/

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The red dots show the sell signals this indicator gives—but again, I'm focusing on the two periods most like now. A sell signal was given in early 2008, just before the worst or third wave down of the crash hit, into December 2008. Further back, in very early 2001, it gave a sell signal before the third wave hit, into late 2001.

The important part here is that we are at that same point in this stock downturn if we are going to see the now-overdue "crash of a lifetime" that I expect here—and that crash should be even worse than the crashes of 2007–2009 and 2000–2002. This signal is coming after the first, strong, first-wave crash downward and likely is just ahead of the next third-wave crash, which should be large enough to cause the markets to fall by that much or more. And recall that I still predict a fifth wave downward to a long-term bottom that will come after that.

That long-term bottom now is expected to happen around the summer of 2024, given that the Fed has pushed this first, major, totally artificial bubble out for so long now, largely by adding to the economy a massive and totally unprecedented $10 trillion in combined fiscal and monetary stimulus from

March 2020, after COVID began, through March 2022, when the Fed first started this tightening cycle. In normal times, the markets would have been more likely to bottom by late 2022 or so, at the huge convergence of the 40-year Generational and 90-year Super-Bubble economic cycles.

So, let's all be on alert, as this bounce also will approach strong resistance at 13,186 on the Nasdaq just ahead… although it's possible it may not quite make it there. But that would be the best time to make final sells or to short stocks, if you are a more-aggressive investor.

Harry

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