This Time is Not Different

Stock market risk invariably brings to mind major market panics, and while the topic can recall different events to different people, the central theme is always the same. There is a sharp and rapid shift of prices in the market, resulting in a lot of pain and financial loss. Each time there is a different story, and people are left scratching their heads saying, “who knew that could happen.”

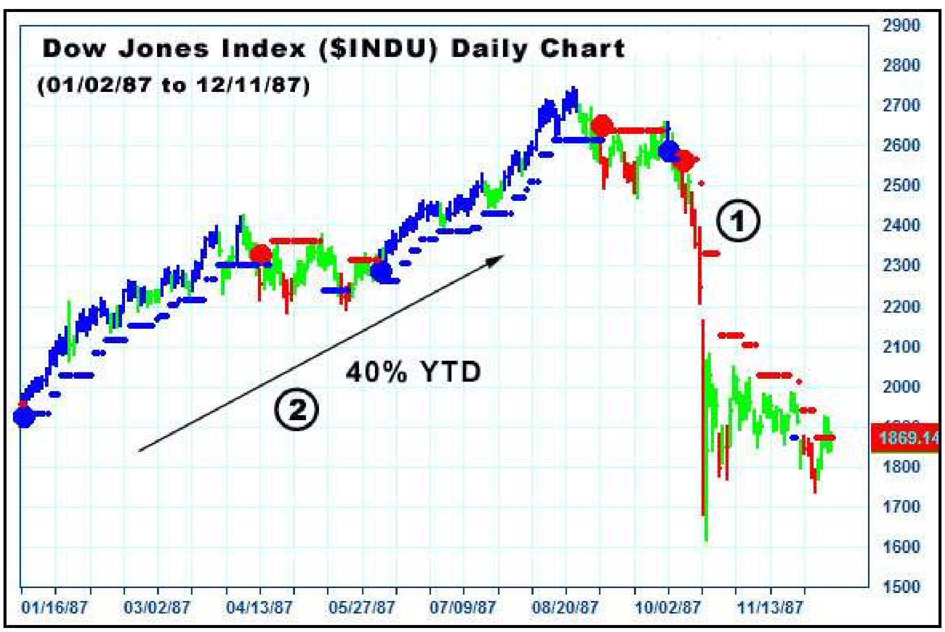
There is often a build up to the break, but sometimes there are isolated events that are big enough themselves to start a move. There may be a predictable event, as in the case of market bubbles, or there can be an unpredictable event as in the case of a natural or manmade disaster.

Don’t be one of those that simply shrug off losses from these events by saying “this time is different.”

As investors, we can’t be responsible for understanding the intricacies of every market development, and we certainly can’t be responsible for predicting acts of God. The important thing to take away is that while there may be different stories to the events, the result is the same, and that is something we can leverage to protect ourselves. This time is <u>not</u> different, at least not to AbleTrend.

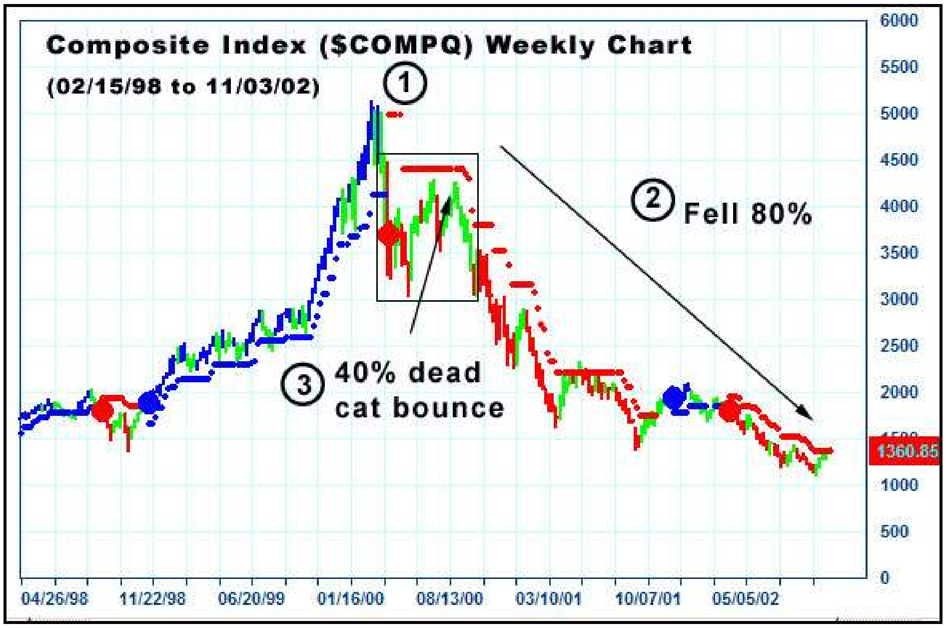
Let’s take a look at some of history’s great moves, through the lens of AbleTrend

Black Monday, 1987



On October 19th, 1987 stock markets broke all around the world. The Dow Jones Industrial Average fell over 500 points, 22.61%, its largest one-day percentage decline in history **(1)**. Here are the signals applied to that period. You can see 1987 began with significant strength, climbing over 40% at its peak in August **(2)**. In the bull market, AbleTrend provides clear indications to stay with trend. Of course, with this kind of exuberance, the trend doesn’t end rationally, with everyone heading for the doors at once! Fortunately, AbleTrend signaled to get out early securing profits, and even would have given a sell signal 10 days before the stock market crash.

The Dot-com Bubble

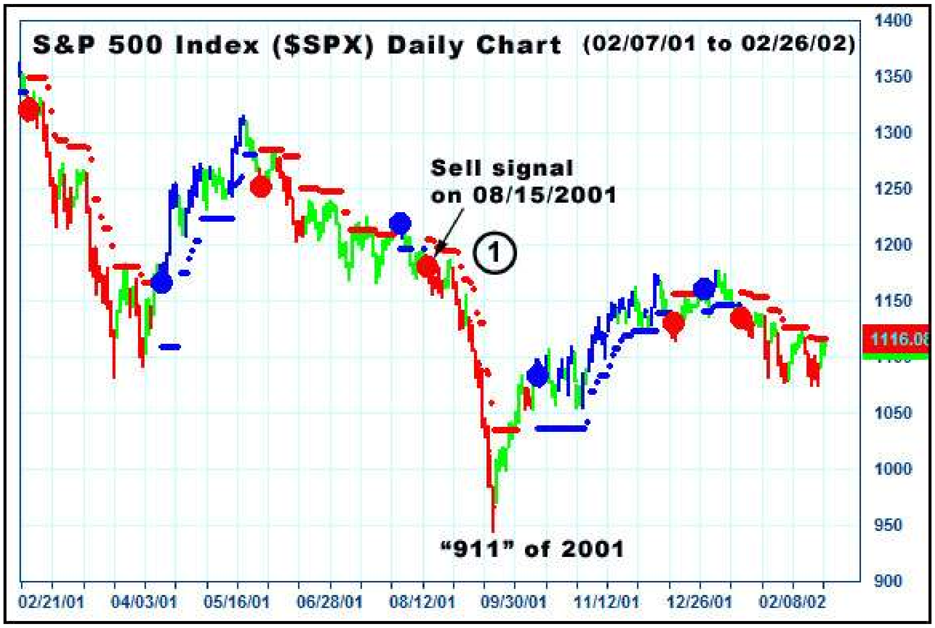


The 1990s saw technological boom with the Internet and home computers. New technologies transformed the way we saw the world, but it also transformed the way many valued stock prices. Suddenly, companies valuations followed a new set of rules; one in which a company didn't need to make money for stock prices to soar.

The idea was to build fast, create brand awareness, and deliver profits later. It seemed like every day, a new IPO would come on the scene to provide new opportunities for quick profit. While this era undoubtedly laid the foundation for the technological advancements that we enjoy today, the bust resulted in the loss of trillions of dollars in paper profits.

In the chart above, we can see the NASDAQ's peak in March 2000 **(1)**. Over the next 27 months the NASDAQ lost 80% of its value **(2)**. With the benefit of the AbleTrend signals, we can see the trend clearly, but more importantly, we can see when it ended. It is also of great interest that even after the reversal had begun, the market saw a sharp bounce off lows of 3042, rallying over 40% back up to 4289 **(3)**. Again we can see that AbleTrend would not be fooled, holding steady on the downtrend indication.

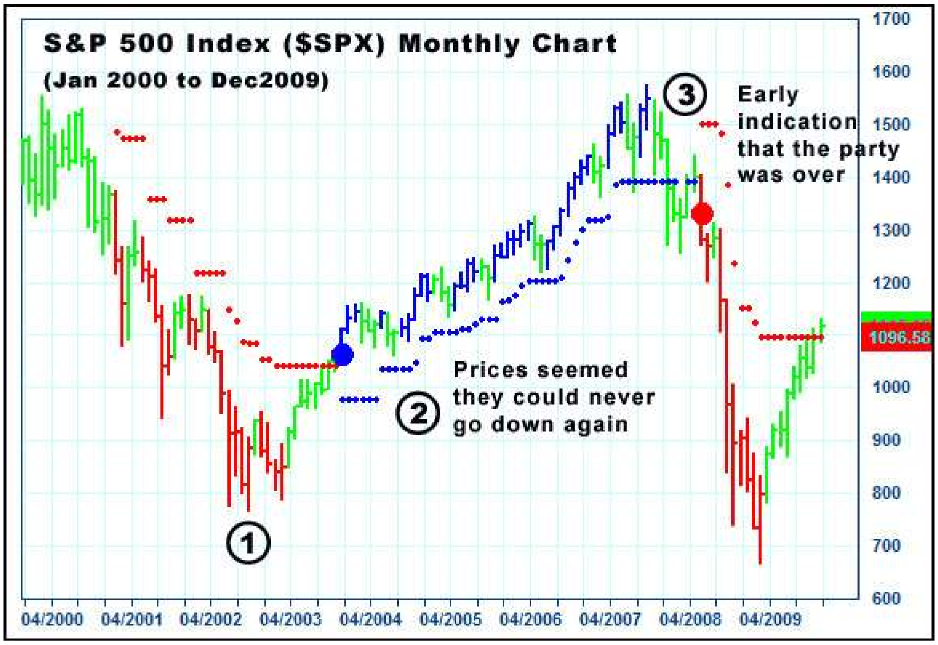
9/11 Terrorist Attack, 2001



Tuesday September 11th, 2001. Americans awoke to find that impossible had happened. Terrorists had hijacked a commercial airliner and crashed it into the World Trade Center's North Tower. The market reaction was swift and vicious, and within minutes of the second tower being hit, exchanges were forced to close. When markets reopened the following week, the panic continued and within a week, major US indices had fallen over 10% **(1)**.

Enough pain was felt as a result of 9/11, and this sample chart is certainly not included here to insult anyone with the idea of benefiting from such a tragedy. It is however, a stark reminder that unpredictable and tragic events can continue to hurt us as the effect ripples through financial markets. You can see how you may have been shielded from that additional harm as markets turned, leading up to September.

2007-2008 Housing/Financial Meltdown



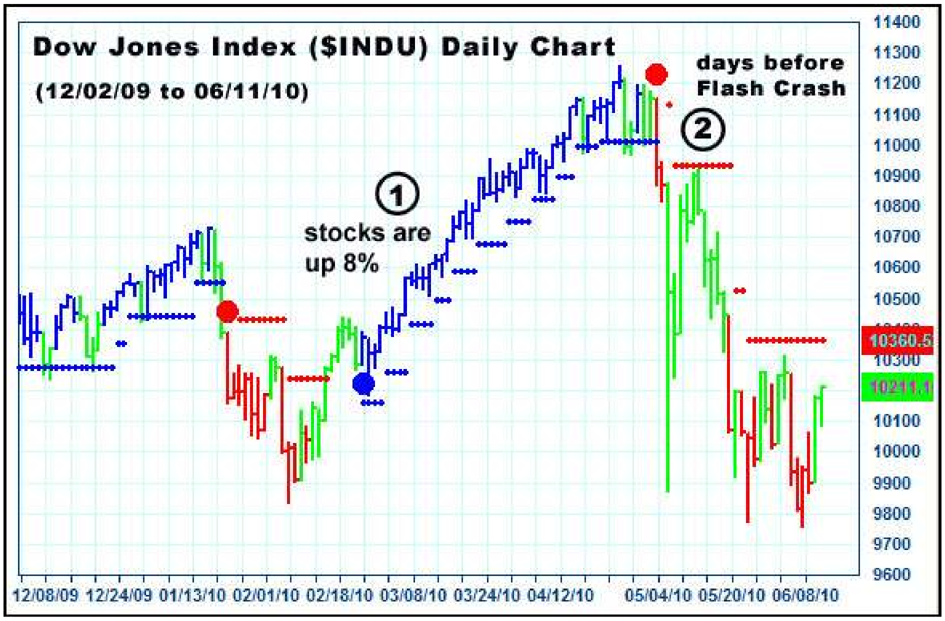
I doubt that any of you reading this will have forgotten about the 2008 financial crisis, but leading up to the panic, there were few who had seen it coming. The story picks up following the Dot-com crash. Market weakness continued following 9/11 attacks in 2001, but then, it all stopped.

Midway through 2002, markets found a bottom and things started to get better. Money started to flow into the US, and the Fed began to ease interest rates to promote a “soft landing”. Additionally, new guidelines allowed for a new type of borrower called “sub-prime”, and citizens were able to take advantage of new housing initiatives. As a result, home prices soared and home owners were able to free up equity in existing homes, and spend it on consumer products which stimulated the economy **(1)**.

At the same time, there was also incredible growth in the business of mortgage securitization. The new sub-prime mortgages could be packaged and sold with a AAA rating. This appeared to be such a safe and easy way to make money, the market for these mortgage positions grew swiftly upon greater and greater leverage. By 2006, the skeptics were going out of business, and bulls were once again in full control. Prices seemed like they could never go down again **(2)**.

Finally, the cracks began to reveal themselves, and money markets started to break in 2007. By the winter of 2008, it became apparent that the entire financial system was in deep trouble. The simple result was a panic that few could escape. The risk however, was not unavoidable. It has been our business to help you to benefit from price action. Whether or not you were one of the skeptics, AbleTrend would have helped you to profit with the bull run, <u>but more importantly</u>, it would have provided you with an early indication that the party was over **(3)**.

Flash Crash 5/6/2010

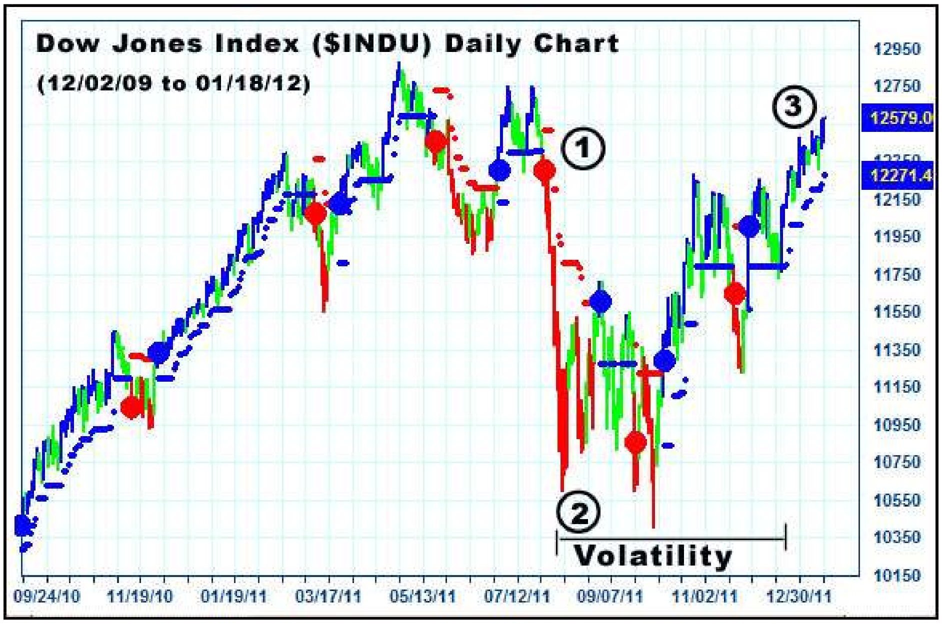


2010 saw a new threat, one that would seemingly strike without any warning. The story now goes that the market opened down on worries in Europe, and over the course of the day, that led to major selling from high frequency trading algorithms. The Dow fell over 1,000 points from the previous day's close, only to bounce back within minutes.

The significance to investors was that it appeared the rules of the game had changed. Many came to the realization that there were people actually competing on a nano-second level, making thousands of transactions within minutes. There was also the very real fear that markets could suddenly become illiquid in major markets.

Through the lens of AbleTrend, it was apparent that even though markets had made significant gains in early 2010 **(1)**, the uptrend had ended days before the flash crash actually occurred **(2)**. Today, there is still some debate over the role of HFT in the marketplace, but regardless of the outcome, we need a reliable way to identify trend changes early and to protect ourselves.

August 2011, US Credit Rating Downgrade



We once again witnessed an unprecedented event, which triggered incredible panic in the market. This time, the panic results from worries over what was being called the "fiscal cliff". The fiscal cliff referred to the rising national debt exceeding the debt ceiling set by Congress. If the debt ceiling is exceeded without an increase in the limit, the Treasury will face default or will have to resort to some other extraordinary measures to finance government expenditures. With the debt growing toward that limit, it was on Congress to vote to raise the limit.

After an extended standoff, a decision was finally made on August 2nd to raise the debt ceiling. This however, was not enough to avoid consequences. In April 2011, rating agency S&P had already warned that the rate of growth and relative size of US national debt was high relative to other AAA countries. On August 8th following the decision from congress, S&P downgraded US credit rating from AAA to AA+. This resulted in a sharp break in markets, as well as severe volatility for several months.

As we have grown accustomed, AbleTrend had given us a warning well in advance **(1)**. Additionally, the incredible volatility provided tremendous short term opportunities as prices made sharp swings up and down **(2)**. Major indices ended up seeing strength in December, and actually closed nearly unchanged for the year **(3)**.