Conspiracy Theory

By The Mogambo Guru

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The Mogambo Market Indicators have found that banks have been getting rid of government securities over the last month. The Mogambo looks closely at this bad omen…

There are those who lay awake at night wondering things like, "What does The Mogambo use as technical indicators?" and "What in the hell is wrong with me that I even care what the stupid Mogambo thinks about anything?" I'll ignore that last remark, but I will be happy to address the first question by example. Let's mosey on over to the banks and start rooting around in their fetid bowels. What do we find? Well, for one thing, we find that the banks are getting rid of government securities, and their total stash of that toxic waste went down over the last month. This is, as one of the Famous Mogambo Market Indicators (FMMI), a very bad omen. For one thing, it means, since bond prices have fallen over the last few weeks, that the banks have lost a lot of money as they sold the bonds.

Sticking just to the facts and not launching into a long, tiresome tirade about how the banks and the Federal Reserve banking system are killing us and how they have doomed us with their stupid neo-Keynesian idiocy, the last time this kind of weird thing happened was in 2000, just prior to the market tanking! Of course, it may have been just a coincidence, but maybe not. Anyway, after the stock market dropped, the banks started buying government debt like crazy in 2001, and by the middle of 2003 had increased their holdings of government debt by 40%. Then the stock market stopped falling and was rising. By the middle of 2004 the banks pretty much stopped accumulating government debt, but only after they had increased their total holdings by 50% in just a couple of years!

Also, this forecasted decline in the market is strangely in keeping with the famed Fibonacci ratio. The SP500 topped out at about 1520, whereupon it fell to about 820. The difference is 700. So, a multiply that 700 point difference by .the Fibonacci number of .618, and you can expect a market rise of 432 points. The market is now at about 1220. So it has climbed 400 points from its low of 820, which is pretty close to what the Fibonacci predicts. The next step is, as I understand the theory, another big leg down in the market, breaking the previous low, as the secular downtrend continues.

Mutual Fund Cash Levels: Lower Than Ever

And Samex Capital has observed that mutual fund cash levels have again reached historic lows. According to the Investment Company Institute, mutual funds decreased the amount of cash on hand to very low levels. How low? Well, cash is 2% LESS than what they are required to hold! They have sunk more than every available dime into the market!

Now, I am sure that there are lots and lots of very good reasons why this could be so. After all, they are hotshot investment type guys pulling down the big money because they are so smart and handsome and bathe regularly, and I am just a guy sorting through the neighbor's trash as my tentative entry into the lucrative "identity theft" racket. But the stock market has been flat, despite all of this buying, and so that means that somebody was taking money OUT of the market at the same time as all this money was flowing INTO the market. Hmmm I smell a big, fat, stinking conspiracy here! Only this time it does NOT involve brain-sucking lizards from outer space or the CIA.

Samex writes, "This is only the third time in history that mutual fund cash-to-assets ratios have been this low. December 1972 marked the high point for more than a decade, and was followed by a 50% loss. March 2000 has marked the high point for more than five years to date and was followed by a 50% loss."

Another interesting market-timing indicator is found in a recent research paper entitled "Congress and the Stock Market" by Michael Ferguson of the University of Cincinnati and Hugh Witte of The University of Missouri reports that "an astonishing 90% of all the gains in the Dow Jones Industrial Average occurred while Congress was not in session. Dow Jones gains during Congressional sessions have been rare, they typically occurred when Congress had a high approval rating."

But before you run out and construct a new financial plan to time the market based on this highly interesting fact, perhaps you should also note "According to a recent poll by the Gallup Organization, only 35% of the U.S. currently approves of the way Congress is handling its job." Which proves, I guess, is that more than a third of Americans have absolutely no clue as to what in the hell they are talking about. What is more important, however, is that this is not an omen for a rising market!

Mutual Fund Cash Levels: The Advance-Decline Line

And another indicator of the future of the stock market is the NYSE advance-decline line. If you have been watching the advance-decline line, you can't help but notice the rise. This is usually a very good indicator of how the stock market prices have been going, which is, in turn, a pretty good indicator of where prices WILL be going. Well, maybe yes and maybe no. John P. Hussman writes, "In short, despite the apparent serenity of the NYSE advance-decline line, the market is already exhibiting the sort of internal turbulence and speculative characteristics that are hallmarks of late-stage bull markets. That's not to make any pointed forecast that stocks will or must turn down any time soon. Rather, the point is to emphasize that there are emerging signs of distribution in market action that investors shouldn't ignore." And "distribution" is the polite term used to mean "dumping these dog stocks onto some dumb suckers at high prices."

Eric J. Fry of Rude Awakening knows Jay Shartsis by sight, whereas I only know him as the guy who yells at me "Don't call here again trying to borrow any money, you creepy little jerk!" Anyway, he says that he has noticed some interesting market indicators, too, and has found "A dizzying array of troubling signs, omens and auguries are warning that the stock market is due for a drop of some significance." And how does he figure that? "The small-time option traders –

those who buy or sell less than 10 contracts at a time – have been aggressively buying into the market. On only two prior occasions in the last five years – July 21, 2000 and Jan. 16, 2004 – did small-time options traders buy more call options than they did last week." The upshot to all of this? Oh, nothing important. Forget I even said anything. Well, if you MUST know, he says that "On both of those two prior occasions, they soon regretted their buying binges…and they probably will again this time."

Even Carl Swenlin in the "Did You Notice…?" column of Daily Reckoning, has noticed some interesting things, and writes "A good way to determine overbought (and oversold) conditions is by tracking the percentage of stocks above their 20-, 50-, and 200-day moving averages, indicators which measure market conditions in the short-, medium-, and long-term respectively." Well, he has taken the time to look at the stocks in the S&P 500 Index, and he notes, "They are all approaching the 90% level, a level that represents the most extreme overbought conditions."

Mr. Hussman goes on to say "If investors don't keep valuations, skew, and other factors in mind, it may be relatively easy to get sucked in by the continual talk of '4-year highs,' while forgetting that the annualized total return on the S&P 500 over those 4 years has been just 2%, and that the index still shows a negative return over 5 years." So the average investor has been earning just 2% over the last four years? Hahahaha! That's a mighty fine investment manager you got there, dude! Hahahaha! And this moron has actually given you a NEGATIVE return over five years? Hahahaha! I'm laughing so hard that my stomach hurts! You lost 5% in nominal terms, and you also lost at least 25% in buying power because the dollar has lost that much in value. So adding them together, you lost 30% over the last five years? Hahahaha! Mr. Hussman sneers at my impolite guffawing, and showing what a class act he is, with understated dignity simply says, "Suffice it to say that I don't find the talk of 4-year highs, economic sweet spots, and 'great earnings' overly compelling."

The monetary base has stopped growing, and M3 is not growing much either.

The dollar has obviously started to roll over, as I gather from the chart. So SOMEBODY is out there dumping dollar-denominated financial crap!

And maybe last by not least; from UPI we learn that Saudi Arabia said it was "working to bring back to the kingdom a total of $360 billion invested abroad in the last 18 months." A third of a trillion dollars is coming out of something, and into Saudi Arabia? Wow! Woes betide whatever in the hell it is that is facing a withdrawal/sale of $360 billion!

Putting all of this together, if you are the gambling type, (and if you are married then you ARE the gambling type and you already know what it means to lose and lose big! Hahaha!), this is the time to start thinking about index put options, with all that lovely leverage and limited downside.

Regards,

The Mogambo Guru
for The Daily Reckoning

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The Mogambo Sez : My mood is dark. The world of economics is dark. Dark dark dark. Only the glittering of gold consoles me now.