What Just Happened?

7 December 2018

Our Red Alert Indicator for market downturns is now on for the S&P 500 Index.

Omega Metrics® Multi-Trend Analysis[1] was designed to differentiate between unusually favourable and unusually unfavourable periods in equity markets. During the past 100 years Red Alert periods have produced disastrous returns for U.S. equity investors. For the past 30 years they have been even more destructive in World Developed Market equities and Emerging Markets. Unless this time is really different from all of the previous instances, the odds are now very badly skewed against equity investment worldwide.

Omega Metrics® Multi-Trend Indicators

Our Multi-Trend Analysis[1] differentiates between unusually favourable and unusually unfavourable periods in equity markets.

The signals are generated by three proprietary oscillators. Green Alerts are periods where all three are positive and Red Alerts where all three are negative.

For the 100 years ending in July 2017 when these indicators were created, Green Alerts have been unusually profitable for investors in the S&P Index[2]. Red Alerts, by contrast, *have produced major losses*.

Profitability, Hyper-Profitabiity and Capital Destruction.

We measure the profitability by the annualised return for a 'buy and hold' position with monthly updates from the Indicators. In the 100 years used in our initial analysis, simply holding the S&P Index produced an annualised return of 5.1%.

But during the total of 48 years of Green Alerts that more than doubled to 11.7%.

There were also 35 years of Red Alerts over these 100 years. They produced an annualised return of *minus* 4.6%. For any long term investor in U.S. equity over that 100 year period, Red Alert periods have produced very significant losses.

The Entire World's Equity Markets Share the Impact of U.S. Red and Green Alerts.

It's not just the U.S. market that shows enhanced returns in S&P Index Green Alerts and severe losses in Red Alerts.

Table 1 shows the impact of S&P 500 Index Red Alert periods on that index, the MSCI World Index and the MSCI Emerging Markets Index from the inception of the latter to July 2017.

Green Alert periods in the U.S. have produced greatly enhanced returns globally. Red Alerts in the U.S. equity market have proved disastrous for equity markets everywhere.

Now, as of 7 December 2018, the S&P 500 Index is once again in a Red Alert.

Whether or not this year produces a 'Santa Rally' the odds are now very badly skewed against equity investment worldwide.

Table 1 Jan. 88 - Jul. 17	MSCI World Index			MSCI Emerging Markets Index			S&P 500 Index		
	Sample	Red Alert	Green Alert	Sample	Red Alert	Green Alert	Sample	Red Alert	Green Alert
Years	28.6	7.8	12.4	28.6	7.8	12.4	28.6	7.8	12.4
Annualised Ret.	5.7%	-14.8%	15.2%	8.4%	-10.3%	10.4%	8.3%	-5.3%	12.5%

[1] Omega Metrics® Multi-Trend Analysis 1 October 2017 https://www.omegaanalysis.com/research-archive-2017-ii
[2] We have used the S&P 500 Index since its inception in 1957 and the precursor S&P Indices from 1918 to 1957.

Omega Analysis

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