

The S&P/TSX Composite Index downturn is not over.
The Bank and Real Estate sectors still have major corrections outstanding.
Oil and Natural Gas have both entered panic selling modes.
Risk is rising rapidly across asset classes.

Predicting Market Booms and Busts

Omega Analysis' risk measurement technology reveals predictable Risk Cycles which are leading indicators of market booms and busts.

Unstable Expansions—unsustainable asset price increases—which emerge during booms provide predictions of the extent to which markets must correct in the subsequent downturn.

Equity markets world wide went into Unstable Expansion by 2013. Although the Canadian equity market did not match the explosive gains of U.S. equities, our prediction in January 2014 was that the S&P/TSX Composite Index would fall *at least* to 12,289 some 21% below its 2015 peak.¹

Market Correction

Omega Metrics'® Downturn Indicator marks the transition from expansion to correction phases. The end of the boom in the S&P/TSX Composite Index occurred in August of this year when the Index entered its downturn phase.

Risk Levels Continue to Rise

At the 1 day 99% level, Expected Shortfall (ES) in S&P/TSX Composite Index has increased by over 30% in the past year. ES for 5 day returns is up by over 60% in that time.

Oil and Natural Gas Prices are in Freefall

Prices of Oil and Natural Gas have been declining steadily for more than a year. During any protracted downturn, Unstable Contractions—anti-bubbles of panic selling—can emerge. These are particularly dangerous periods for long positions and can be extremely profitable for shorts.

Unstable Contractions in Oil were confirmed by the end of Q2 of this year and in Natural Gas at the beginning of Q4. Since the onset of these Unstable Contractions oil has fallen by over 30% and natural gas is down over 25%.

During this period the exchange rate of the Canadian dollar against the U.S. dollar has fallen rapidly and measured risk levels have risen dramatically.

The Outlook Continues to be Gloomy

While the S&P/TSX Composite Index has already fallen almost to its predicted Correction Level, there is no sign of an upturn. Two key sectors of the Index, Banks and Commercial Real Estate, have significant corrections still outstanding.

As long as the Index continues its downward trend the key question is whether the sell-off will produce an Unstable Contraction as it already has in Oil and Natural Gas.

¹ W. F. Shadwick, *Market Cycles, Risk Measurement and Early Warning of Asset Price Bubbles*, Fields Institute Quantitative Finance Seminar, 29 January 2014. Copies are available from Risk@OmegaAnalysis.com.

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