How long will the current equity market boom last? When the downturn comes, when will the next rebound begin?

Nobody knows the answers to these questions. The goal of trend analysis in financial markets is not to predict the future but to identify persistent upward or downward trends while there is still time to take advantage of them.

To avoid the catastrophic loss of a market crash and to identify the next 'value' opportunity in the subsequent boom, *it's enough to be able to identify reliable signals that a downturn has begun or that a rebound is underway.*

Omega Metrics® Multi-Trend Analysis provides the signals you need.

Our three-scale trend analysis of market prices produces indicators which are strongly predictive. They produce a cascade of warnings that identify critical transitions in profitability.[1] We illustrate this with the S&P/TSX Composite Index (Figure 1).

The first warning sign of a downturn or a rebound is given by the Short Term signal. This is the most sensitive to reversals in markets as Figure 1 shows.

If the Short Term signal turns negative and is followed by the Medium and Long term signals, this is strongly predictive of a major downturn. In the S&P/TSX Composite Index the last such period began 3 July 2015, following which the index dropped 19%.

In major markets such periods have been marked by *negative* returns.

After such a downturn, the rebound is signalled by the Short Term signal turning positive. In the S&P/TSX Composite Index this signal came most recently on 28 March 2016. From that point the Index rose 19% to its all time high of February 2017.

Identifying Winning and Losing Market Phases has a major impact on performance.

Periods in which all three trend signals are positive produce significantly higher returns than the 'buy and hold' position in major markets. Conversely, when all three trend signals are negative historic returns have not just been low– they have been negative. (See Table 1 for some examples).

In the S&P Index going back to 1904, the first year in the 20th Century when all three trends turned negative, the annualised return on the Index has been 5.4%. But during the periods where all trends were positive (in total 48 years out of 113) the annualised return was over 10%. In the 35 years when all trends were negative it fell to -1.4%.

Table 1	Historic	Positive	Negative
S&P (1904)	5.4%	10.2%	-1.4%
CAC 40 (1969)	6.5%	12.1%	-12.5%
S&P/TSX (1976)	6.8%	12.7%	-6.0%

Table 1. Annualised returns are from the date indicated to August 2017. There is a uniformly large increase over the historic 'buy and hold' return when all Multi-Trend Indicators are positive and a similarly large reduction when all are negative.

Acting on this information would clearly have had a major impact on investment returns.

The most recent transitions in the S&P/TSX Composite Index provide an example (Figure 1). A simple strategy of exiting the market when the Long Term signal turned negative and re-entering when the Short Term signal indicated the rebound would have provided a 19% gain on the 3 July 2015 market level by February 2017. Holding the Index produced just 9% in the same period with the added pain of a 19% drawdown on the way to that gain.

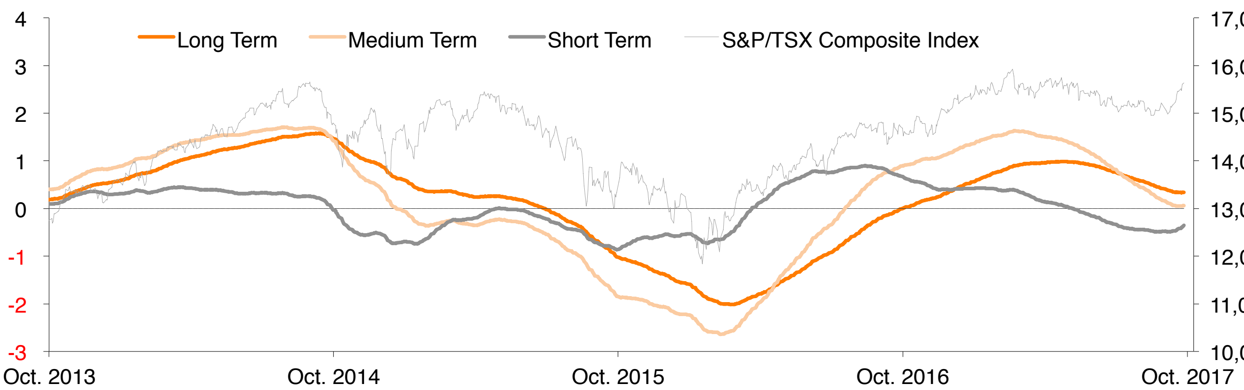

Figure 1. Multi-Trend plot for S&P/TSX Composite Index 2013-2017. Long, Medium and Short term trends.

[1] See our report Market Trend Analysis for an overview of the technology behind the Multi-Trend Indicators.

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