Dangerous markets require accurate risk assessment.
The turbulence of the past two weeks was perfectly predictable.
Even the largest swings were well within the risk estimates of Omega Metrics® technology.

Better Late than Never

Even sell-side analysts are now starting to catch up. We warned two years ago that the global equity boom was an unsustainable bubble and published the levels that markets would fall to when the inevitable bust followed.[1] Then, 8 months ago we warned that the turning point from boom to bust was approaching. For most major equity markets that occurred in July or August 2015.

Oil Bears Picnic

Brent Crude, which we identified as being in a panic selling (Unstable Contraction) mode back in October has fallen in each of the last 8 days and has declined by 19% in that time. But by the end of December the 1 in 100 day Omega Metrics® Value at Risk (VaR) for 5 day returns was 13% and the Expected Shortfall (ES) was 19%. So the losses of the past week were anticipated and should have been within the risk budget of anyone sizing a position by Omega Metrics® ES.

Right on Target

The S&P/TSX Composite Index has now fallen below the level we predicted. The transition from boom to bust was confirmed in August. Our trend indicator for the Index continues downward with no turning point in sight. Risk levels are rising steadily.

The FTSE 100 Index has again fallen below our predicted level of 6006. It continues trending down and like the S&P/TSX Composite Index shows no indication of an upturn.

A Global Phenomenon

The Stoxx® Global 1800 Index turned from boom to bust in July. It has fallen over 8% since the beginning of 2016 and is 15% below its 2015 peak. In the past year the daily 99% VaR and Expected Shortfall have risen by more than 60%.

Over the same period, the VaR and ES on 5 day returns have risen by more than 50%. The 6% drop in the first 5 days of 2016 was not even a VaR breach.

Weekly Moves are Equally Predictable

The Stoxx® China A900 Index has lost over 18% in 2016. But since July the Omega Metrics VaR for 5 day returns on the index has been over 20% for long positions and almost 15% for shorts. The fluctuations in the Chinese equity markets may surprise their regulators but there is nothing surprising about them to our research subscribers.

[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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