**The S&P/TSX Composite Index has reached its Correction Level.
Daily and multi-day risk levels continue to rise and an Unstable Contraction is emerging. Major corrections are still to come in the US and globally. This is the most dangerous part of the Risk Cycle.**

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 2014 peak.[1]

Market Correction

Although the Index recovered from the decline fuelled by the oil price rout, it never quite regained its 2014 peak and began to fall again in mid April 2015. In August of 2015, the Omega Metrics® Downturn Indicator confirmed that the boom had turned to bust.

The Index fell beyond its predicted Correction Level reaching 11,843 in January of this year.

Risk Increasing

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.

The Index rose over 6% in the 5 days that ended on 18 February–a run up that was only exceeded 3 times in the past 5 years. But at current risk levels, it breached the 5-day 99% VaR by a mere 4 basis points.

Panic Selling, or Recovery?

Unstable Contractions–Anti-bubbles of panic selling–can emerge during downturns. We identified them in Copper and Oil in Q2 of 2015 and in Natural Gas at the beginning of Q4. Prices subsequently dropped precipitously in each case.

The onset of an Unstable Contraction marks the most precarious part of the Risk Cycle. It can lead to panic selling as it has in commodities. However, if it corrects quickly it can also be the beginning of a rebound phase.

The S&P/TSX Composite Index, which has rebounded almost 12% from its January low, has produced the first warning of an Unstable Contraction. With major corrections still outstanding in the US and globally, it is too soon to tell if the worst is past in the Canadian equity market.

The S&P/TSX Composite Index has entered the most dangerous phase of the Risk Cycle.

[1] Market Cycles, Risk Measurement and Early Warning of Asset Price Bubbles, W. F. Shadwick, Fields Institute Quantitative Finance Seminar, 29 Jan 2014. http://www.fields.utoronto.ca/programs/cim/13-14/finance_seminar/Shadwick.pdf

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