ASK THE **ADVISERS**

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Is the Market About to Crash?

It is exceedingly difficult to predict what is going to happen in the stock market on any given day. However, that does not stop people from trying.

One method some traders attempt to exploit is identifying patterns in the stock market that tend to repeat. For instance, certain months tend to be better than others. The second half of February is typically very weak. The adage "sell in May and go away" reflects the notion that the summer months to early fall tend to lag in performance.

There are also some patterns that occur less frequently yet are still noteworthy such as the 55-Day Rule which goes as follows: If, after a significant advance, the market tops out and fails to make a new high for 55 calendar days, then a severe decline is imminent. The theory behind the rule is that the investors get nervous after a top is made, and prices can no longer make new highs. After 55 days, they capitulate and decide to sell. The selling spreads quickly because so many investors are feeling similar emotions.

Many people do not realize that the Crash of 1929 and the Crash of 1987 both occurred exactly 55 calendar days after the stock market had peaked. In 1929 the top in the Dow was reached on September 3rd. Exactly 55 calendar days after September 3rd was Monday, October 28th. That was the date of the Crash of 1929, with the Dow down 40.58, or 13.5%.

In 1987, the Dow peaked at 2722.42 on August 25th. 55 calendar days later was Monday, October 19th, when the Dow collapsed 507.99 points, or 22.6% in one day! In both 1929 and 1987, the Crash was on Monday, and there was a sharp market decline in the week preceding the crash. Sound familiar?

In January of this year, the inter-day high of the S&P 500 occurred on January 4th. 55 days after Jan 4 is Monday, Feb 28th. On the bright side March is typically good for stocks.

*Source: Forbes