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# Methodology & Perspectives

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**The *Super-Cycle Correction*SM** **The Broad Economic View**

## Sherlock Holmes and Dynamic Disequilibrium

Among our favorite long view analysts is the Financial Times' Tony Jackson, who once again had some excellent perspectives on the need for caution even as some folks became more hopeful late last month into early November.

To his credit Mr. Jackson also derives a good deal of information from highly credible resources of his own, as was the case over the past month.

In a late October article where he cautions against being misled into searching for a bottom just because equities had dropped so far in price, he notes that while it is an absorbing topic, fundamental analysis is "…only occasionally relevant to market reality." That was part of the review of a question over whether the equity markets had reached 'fair value'.

While not necessarily easy in normal times, he noted that expectations for corporate earnings were "deeply obscure" during the current disorderly economic phase. Also noting that "sector analysts,… are no good at turning points" left him turning to more tactical considerations.

Mr. Jackson's full column is attached as usual for your direct review; as is his column from the following week that also had fairly daunting analysis on the likely path for the overall global economy.

While it may be a truism that people tend to seek out opinion that reinforces the very views which they already hold, this thorough dissection of the IMF study of developed economies (along with quite a bit of other perspective) is impressively depressive.

And most certainly supports our technically inspired belief that the DJIA failure below 9,700-10,000 derailed the equities' up trend (and we presume the associated growth trend) from the December 1974 low in a manner that will not leave it in a position to exceed that level again for many years.

While technical projections can be Negated if the market reverses back through the key price level, the fundamental rationale in this case would seem to support the notion that expectations for corporate profits will not be healed to a degree that indicates sustained valuations back above the 9,700-10,000 area any time soon.

Under the Rohr Axiom (as such not really proprietary so much as a fact of life) of *Dynamic Disequilibrium of Price Trends*, prices exist in a constant state of *disequilibrium* due to short-term impacts as well as unknowns. However, rather than standing frozen like a deer caught in the headlights, prices are *dynamic*, and will generally seek to discount future influences through directional trend movement.

Why is that somewhat self-aggrandizing theoretical exposition important at this time? Because one of the very most important components of fundamental or technical 'trend' analysis is the 'inferential deduction' aptitude to appreciate that prices which are definitively *not* moving in one direction will find an excuse to move in the opposite direction sooner than not.

It is very much akin to that passage from the Sherlock Holmes mystery "The Sign of the Four" where the master detective responds coolly to misguided guesses of Dr. Watson on a matter of investigation, "…when you have eliminated the impossible, whatever remains, however improbable, must be the truth."[3] Of note, the title of the first chapter is "The Science of Deduction."

Trend analysis (admittedly as opposed to quite a few other forms of deriving price projections) is a bit like that.

The difference is that it must be allowed the market can do whatever it wants, whenever it wants just because it decides to do it (a lesson many uninitiated have learned of late, much to their chagrin.) As such, there is no 'impossible'. However, some sense of what is likely 'very highly improbable' on both a fundamental and technical basis does form a goodly portion of any forceful directional trend projection or opinion.

That is one of the least well-kept secrets in the world. Yet it takes most novice analysts and traders quite a bit of time to realize it. That there is so very much far-flung and phenomenally multidimensional data, along with many scheduled and ad hoc events, it obscures a simple truth: the actual price trend is two-dimensional, so any directional manifestation is actually a binary decision.

Which gets us all the way back to how can we be so technically bearish on the equity markets in spite of how far they have fallen? Whether one's primary mode of analysis is fundamental, statistical or technical, they must each be assessed independently of the other. While it has been put forward at times that it should be theoretically possible to combine them in a "master model", in our experience most folks who have attempted that have ended up mad or in financial ruin. Yet when independent analysis methods concur, it can be a strong indication.

[3] Arthur Conan Doyle, The Sign of the Four (Various Publishers, 1889 and subsequent.)