



Challenging John Hussman's Forecast

By Georg Vrba
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Is John Hussman's bearishness justified?

In a recent [commentary](#), John Hussman listed 10 occasions which provided warnings of market declines:

1. **December 1972 - January 1973** (followed by a 48% collapse over the next 21 months)
2. **August - September 1987** (followed by a 34% plunge over the following 3 months)
3. **July 1998** (followed abruptly by an 18% loss over the following 3 months)
4. **July 1999** (followed by a 12% market loss over the next 3 months)
5. **January 2000** (followed by a spike 10% loss over the next 6 weeks)
6. **March 2000** (followed by a spike loss of 12% over 3 weeks, and a 49% loss into 2002)
7. **July 2007** (followed by a 57% market plunge over the following 21 months)
8. **January 2010** (followed by a 7% "air pocket" loss over the next 4 weeks)
9. **April 2010** (followed by a 17% market loss over the following 3 months)
10. **December 2010**

My model, [Improving on Buy and Hold](#), does not confirm his current warning.

I generated figures 2.1 to 2.4 for the time periods reflecting the above listed dates. These figures show the various indicator graphs used to determine the buy and sell signals for my model. The "Hussman" dates are indicated on my figures by the vertical black dashed lines. Prior to the first nine dates, my indicator graphs were always sloping from a high value downwards and at the dates the WLlg_short_EMA was either equal to or below the WLlg_long_EMA. Also, for most cases the 20-day slope of the WLlg_long_EMA was below 1.00. Indeed, my model provided a good warning of market declines and generated sell signals near eight of those dates (with the exception of July 1998, which did not result in a loss because the market improved by about 50% from then onwards to April 2000).

The present situation is totally different from the previous nine dates. All the indicator graphs are now sloping from a low value upwards, the WLlg_short_EMA is above the WLlg_long_EMA and the 20-day slope of the WLlg_long_EMA is also above 1.00. All of this is signaling a continuous upward trend for the market according to my model.

Also see Jeff Miller's article: [Why The Market Multiple Will Be Higher in 2011](#) which makes the case that the traditional relationship between price-to-earnings ratio and prevailing interest rates suggests an S&P 500 fair value that is 50% (or more) higher than current levels.

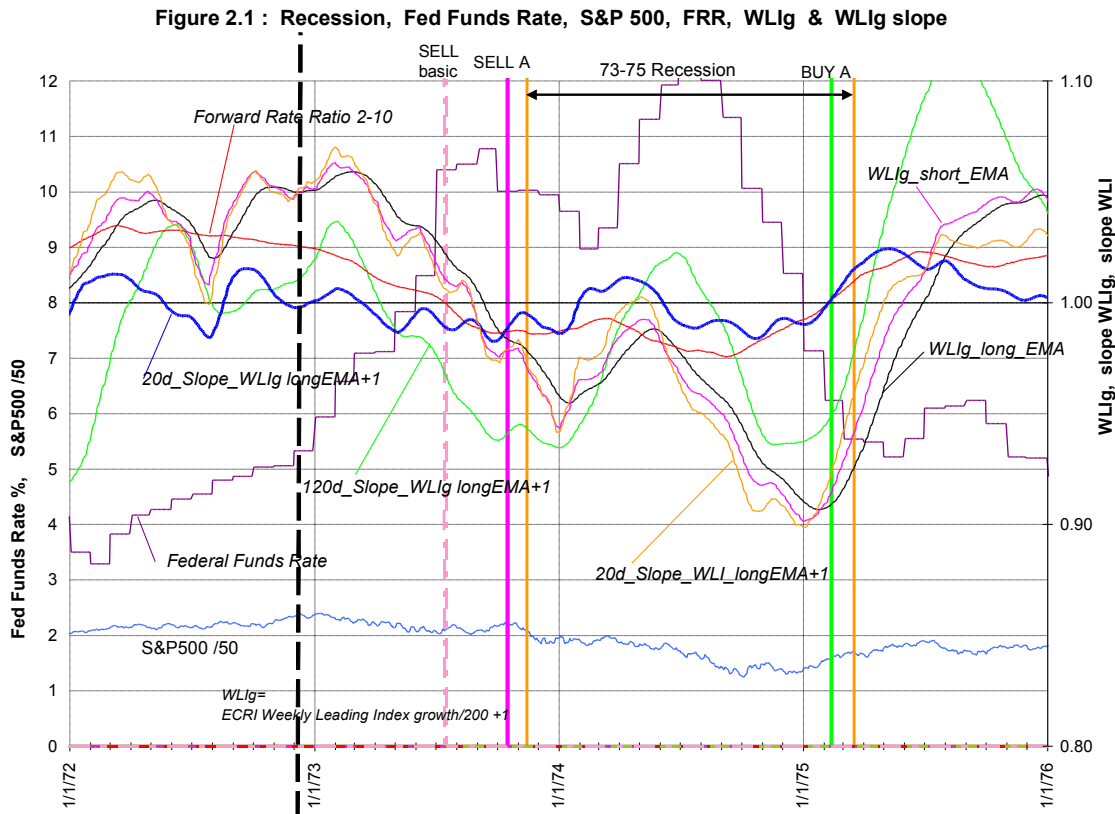


Figure 2.2 : Fed Funds Rate, S&P 500, FRR, WLIg & WLIg slope

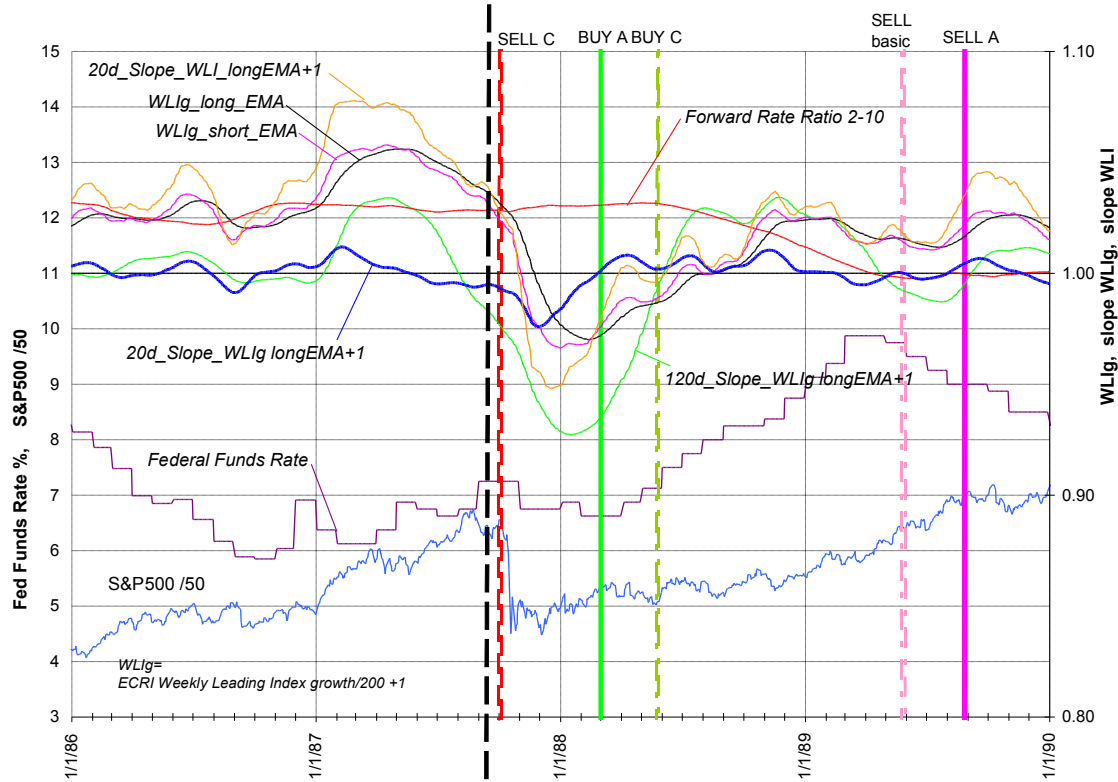


Figure 2.3 : Recession, Fed Funds Rate, S&P 500, FRR, WLig & WLig slope

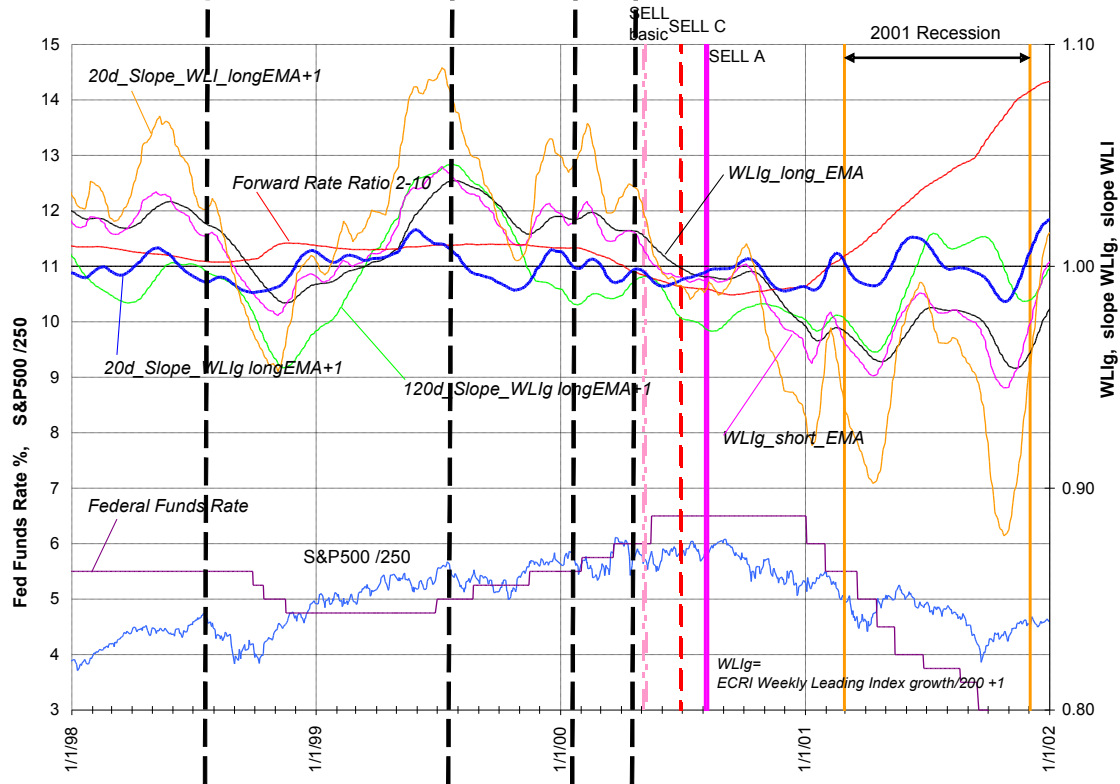
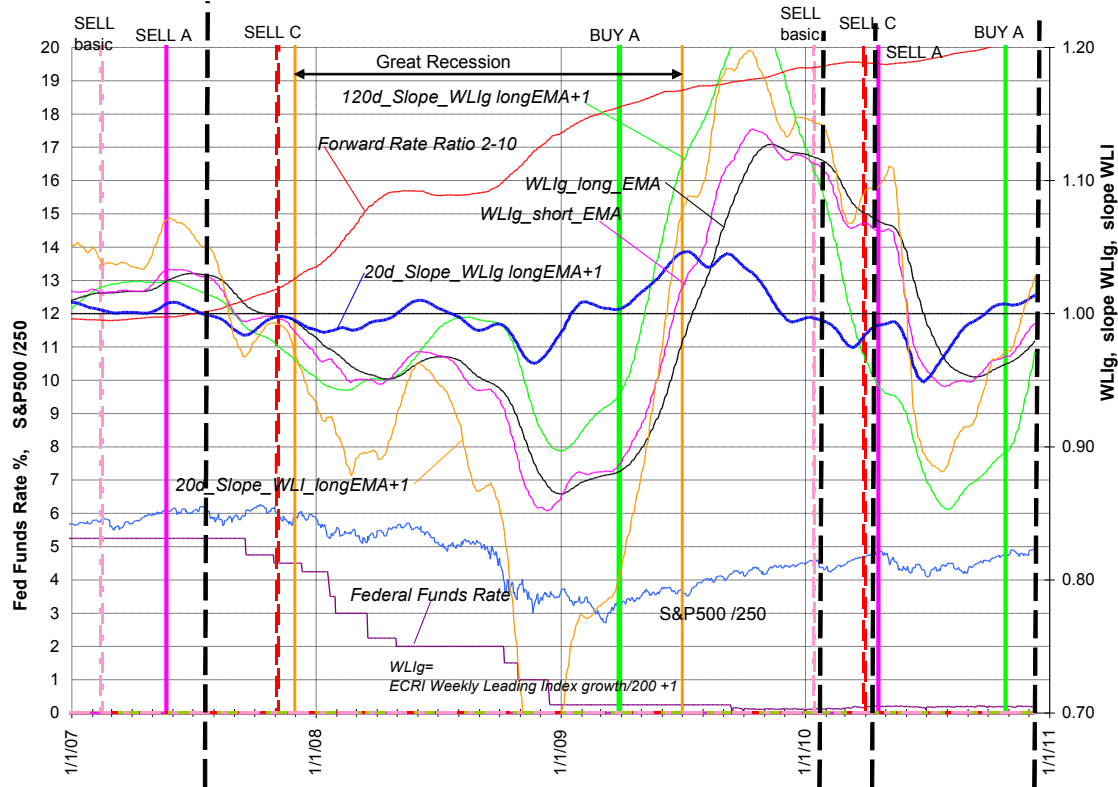


Figure 2.4 : Recession, Fed Funds Rate, S&P 500, FRR, WLig & WLig slope



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