

Bubbles, Coils and Crashes

September 04, 2008 Newsletter

You know what they say, the more things change, the more things stay the same.

I like to point out 'bubble comparison charts' because it goes to show that human beings are an emotional bunch. I like to call the parabolic moves upwards in stocks and indices, '1-800-GET-ME-IN'. Whether it is tulip bulbs in the 1700's or the NASDAQ in the late 1990's, the ugly emotion of greed sets in once a really big move in the price of a security gets going. This

always makes me laugh because when I think about people buying truly important assets like a car or a house, they are always looking for a 'deal'. But there is something about missing out on the big move. I will update a few of my bubble comparison charts from the past to drive home the point that greed, and then fear, is alive and well on Wall Street, and in fact, most corners of the world. Then, on to *Coils and Crashes*.

Bubble Comparison #1—Japan/NASDAQ/Homebuilders/China



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Bubble Comparison #2—NASDAQ/Potash



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Bubble Comparison #3—NASDAQ/Homebuilders/Inflation Adjusted Oil



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Of Coils and Crashes

Many of us have been talking about how the market has been consolidating or 'coiling' for the past month or so. Coiling is used as a phrase like a 'coiled spring'. Usually, the longer

the consolidation, particularly when it occurs underneath resistance, the more energy is stored up. So I decided to go back and take a look at previous periods of consolidation that lasted this long and what the aftermath was.

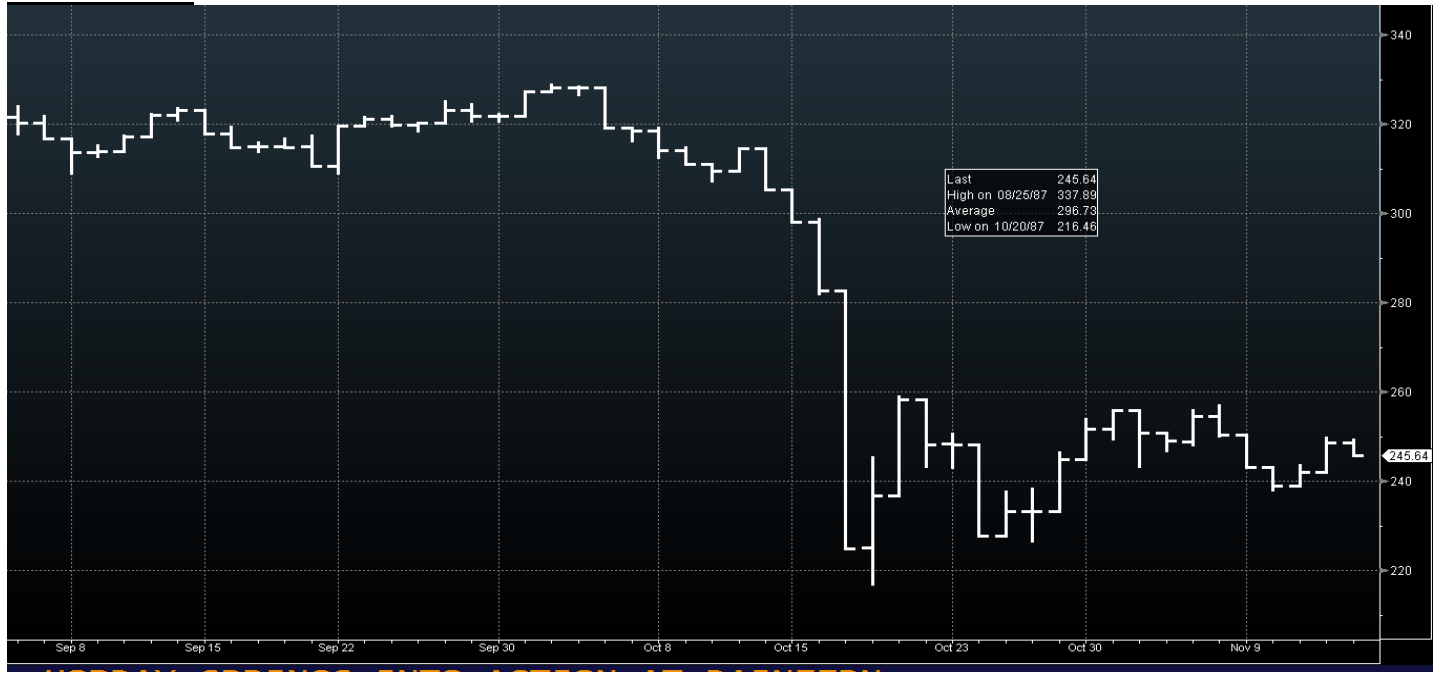
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The examples I found were 1987 and 2001, neither of which had a particularly happy ending (see the charts below). I am not 'calling'

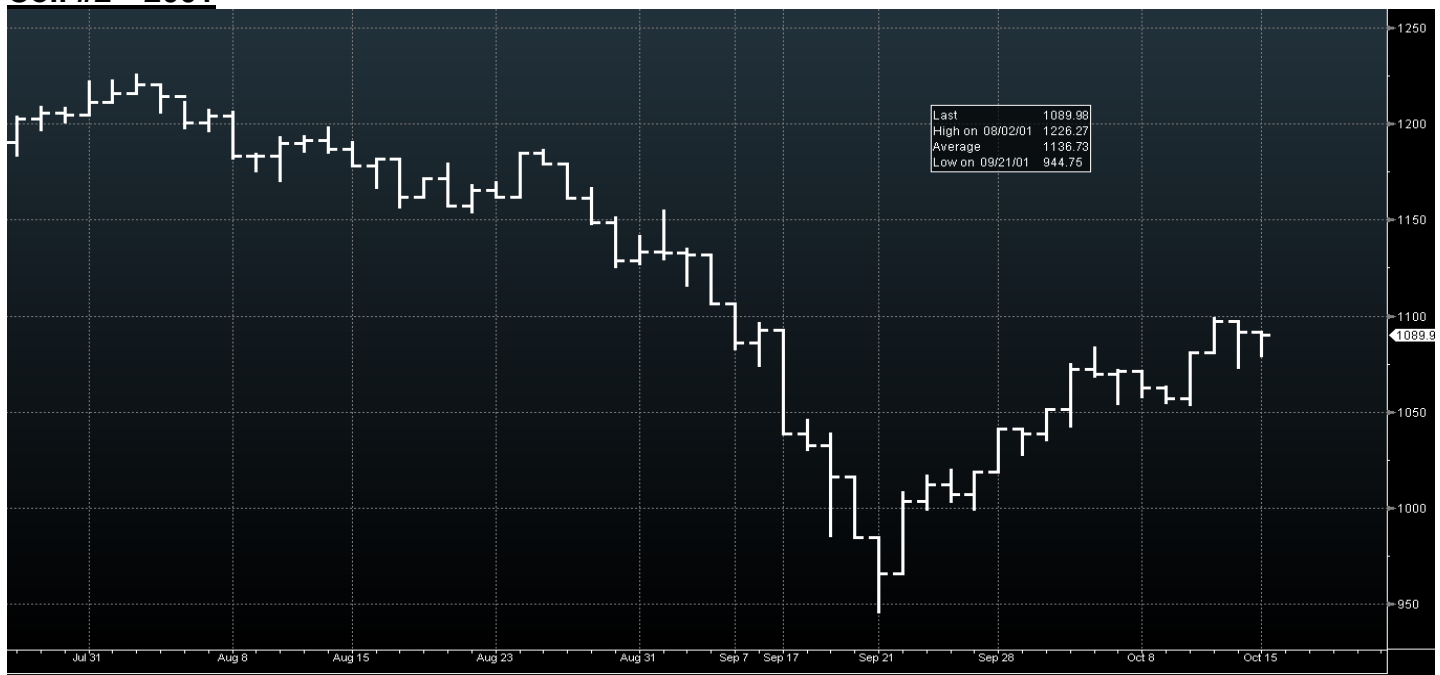
for a crash, just pointing out some obvious similarities.

Coil #1-1987



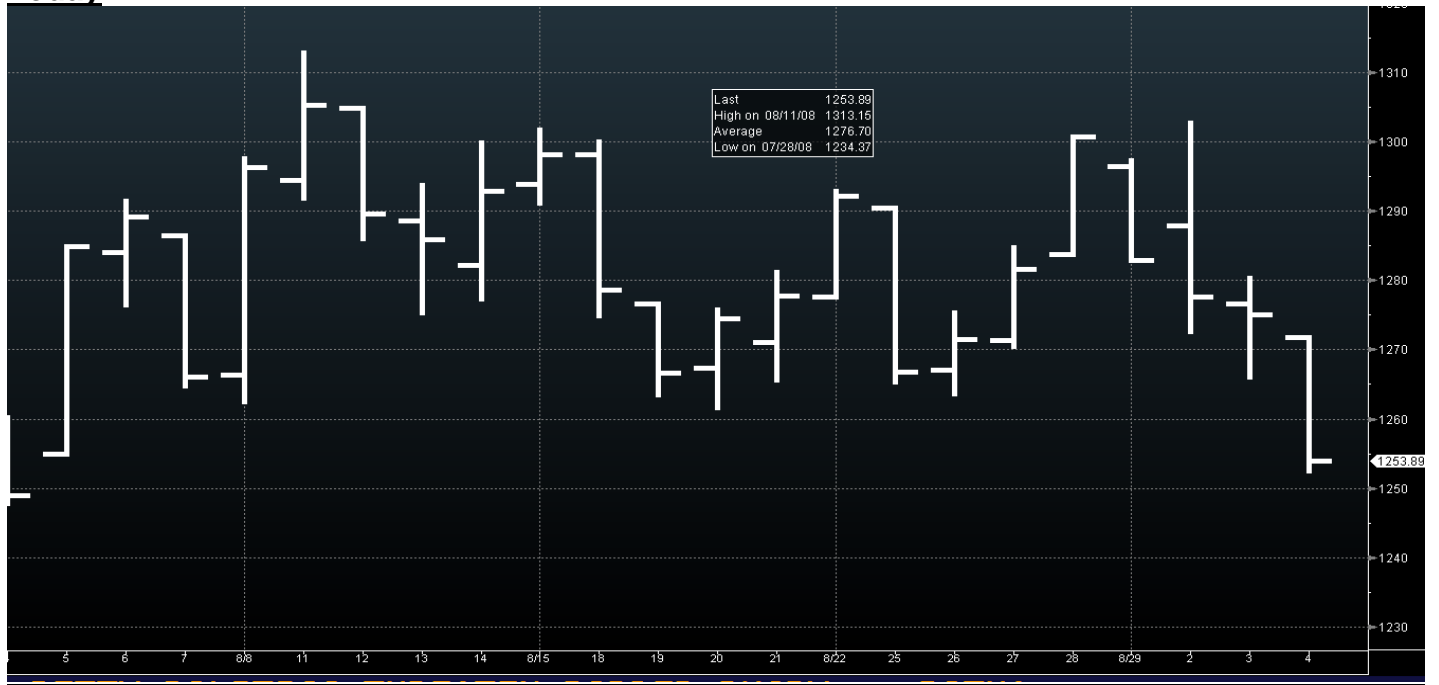
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Coil #2—2001



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Today



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Like Mark Twain said, "history doesn't repeat itself, but it does rhyme." The coil/consolidation is built, we just have to wait and see if we get the similar flush. The credit markets and fundamentals argue for it, but predicting a

crash is a tough business. But I will say this: Risks are high. VERY high.

Bennet Sedacca
President

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