

The Great Repression: The Economic Collapse of 2012-2022 (New Update)

By John F. Carlucci
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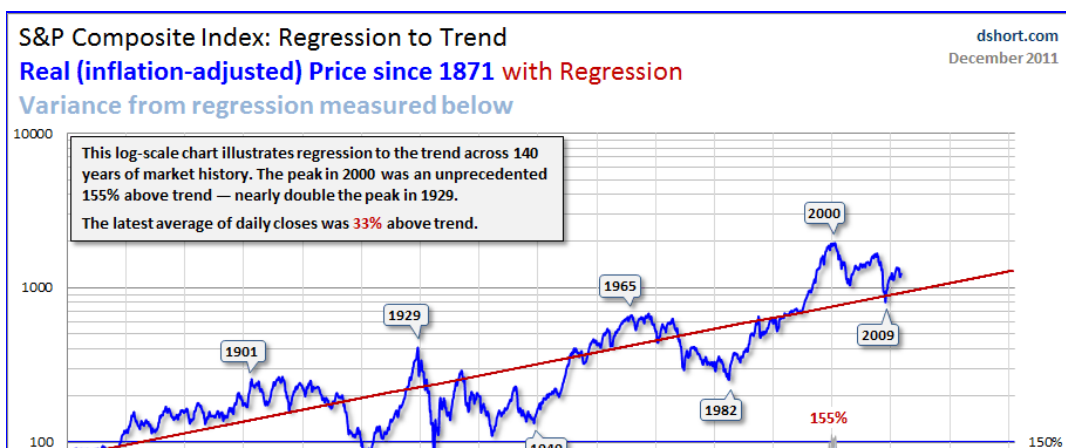
Note: This article has been updated to incorporate some supporting research published by the San Francisco Federal Reserve.

In a previous article, [Is This The Best Stock Market Indicator Ever?](#), I examined the technical indicator known as \$OEXA200R, that is, the percentage of S&P 100 stocks above their 200 day moving average, found on StockCharts.com. The \$OEXA200R can be thought of as a valuable early yellow light flashing 'bears ahead' or a confirmatory green light that we're really back in a bull market after a bear. It is an extremely accurate market timing and short term predictive tool for any investor. See also my latest update [here](#).

But what of the long term trends in the market? What does the future hold over the next 2 or 5 or 20 years? Is there a predictive tool for that?

I believe there is.

In this article we will analyze the long term S&P chart developed by Doug Short (Figure 1), using it as a reference to "tease out" some very specific predictions of future trends. The estimates and scenarios are based on an unbiased interpretation of data derived from this chart. By following the cold data where it leads us, we arrive at some unnerving predictions which I will collectively refer to as *The Great Repression*.



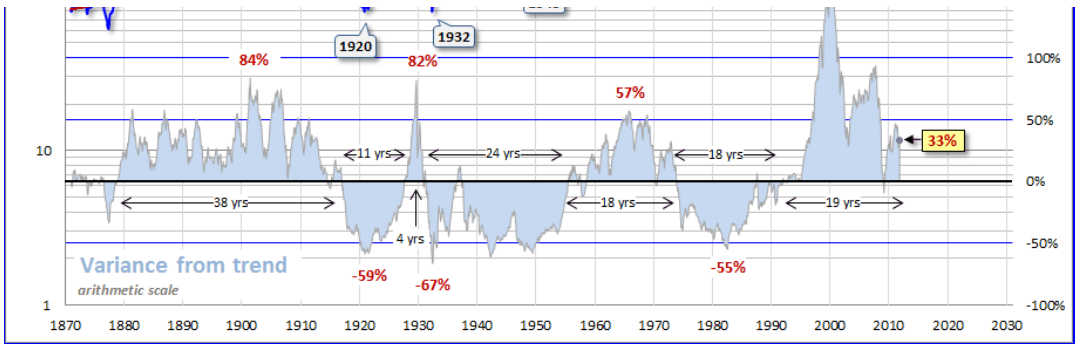


Figure 1

Figure 1 illustrates the long term trend of the S&P from 1870 to present. It is inflation-adjusted and set on a log scale for clarity. Notice the red trend line and how the market regresses from bull and bear periods back to the historical trend.

Below the S&P graphic on Figure 1 is an illustration of S&P variance from trend. That is, the percentage the S&P skewed above or below the trend line at corresponding time points. For example, at the 1929 bull peak the S&P was at 82% variance above the trend line. In 1982, the S&P had fallen to minus 55% variance below the trend line."

An analysis of the chart (Figure 2) reveals that the slopes from each bull top measured at the highest variance points in 1901, 1929 and 1965 to the beginning of the next bulls in 1920, 1949 and 1982 all measure exactly 34 degrees. Again, the start and end points for the slopes are determined by the variance tops indicated on the "Variance from trend" graphic, not the actual S&P tops.

Assuming the slopes could theoretically measure anywhere from 1 to 44 degrees (excluding the 45 degree vertical and 0 degree horizontal orientations), the probability of all three equaling 34 degrees is less than 1 in 79,000.

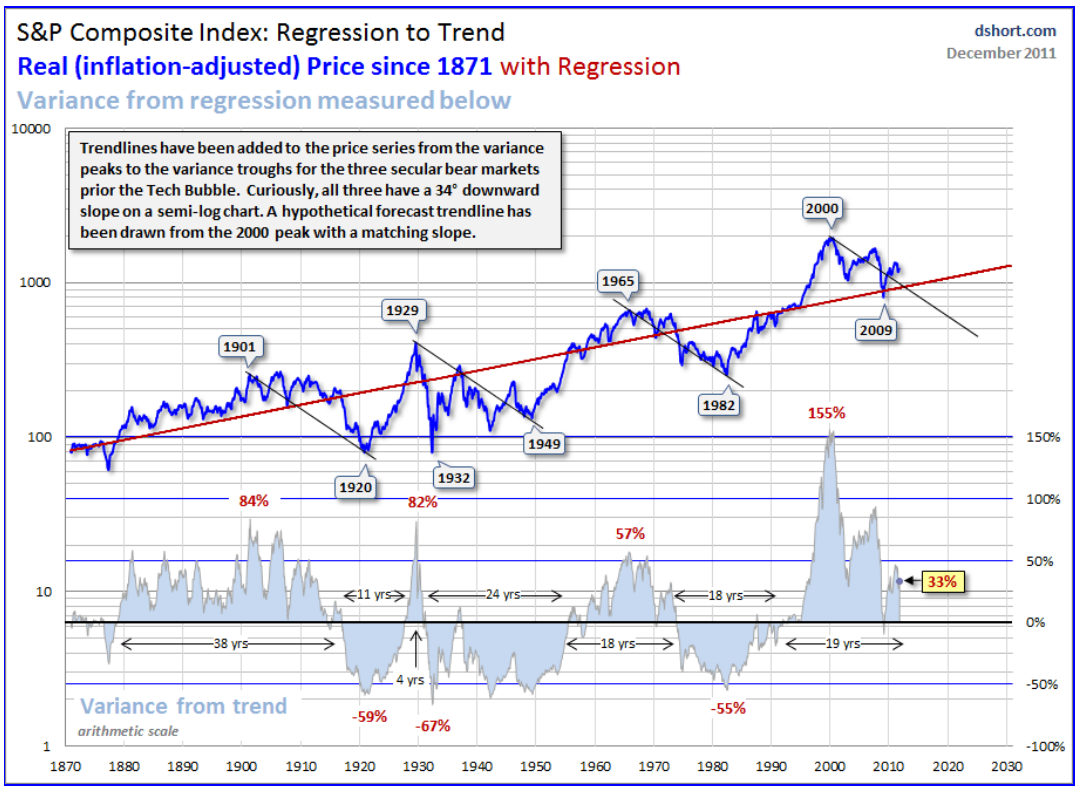


Figure 2

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Based on that data, one could make a reasonable statistical assumption that the slope for the current secular bear market beginning in 2000 would also follow the same 34 degree angle as the previous three bears. Overlaying that slope on the 2000 bull top would suggest that we are not yet half way through the present bear cycle.

But how much more "bear" is left?

To answer that question, we add an additional green line to the S&P chart corresponding to -50% variance from the trend (Figure 3). All three bears in 1920, 1949 and 1982 have touched that line before rebounding. In fact, all three have actually exceeded -50%: 1920 at -59%, 1949 at -57%, 1982 at -55%.

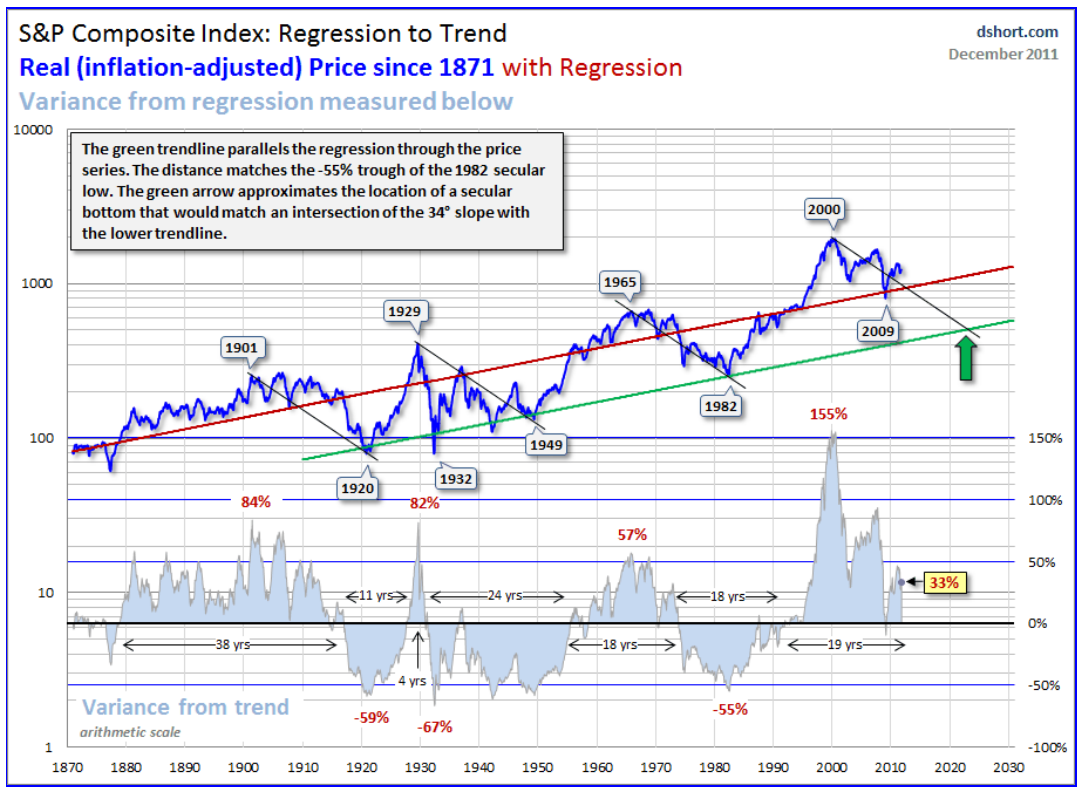


Figure 3

If we follow the 34 degree bear slope line to the -50% green variance line, we arrive at a very conservative end point for the current bear in 2022 - 2023 with the S&P at approximately 540. That, I wish to emphasize, is the *conservative* scenario.

A more mathematically realistic scenario is illustrated in Figure 4. Here, a blue variance line has been added at the -65% level, below the green -50% line. This would take the end of the secular bear out to 2025 - 2026 at S&P 450.

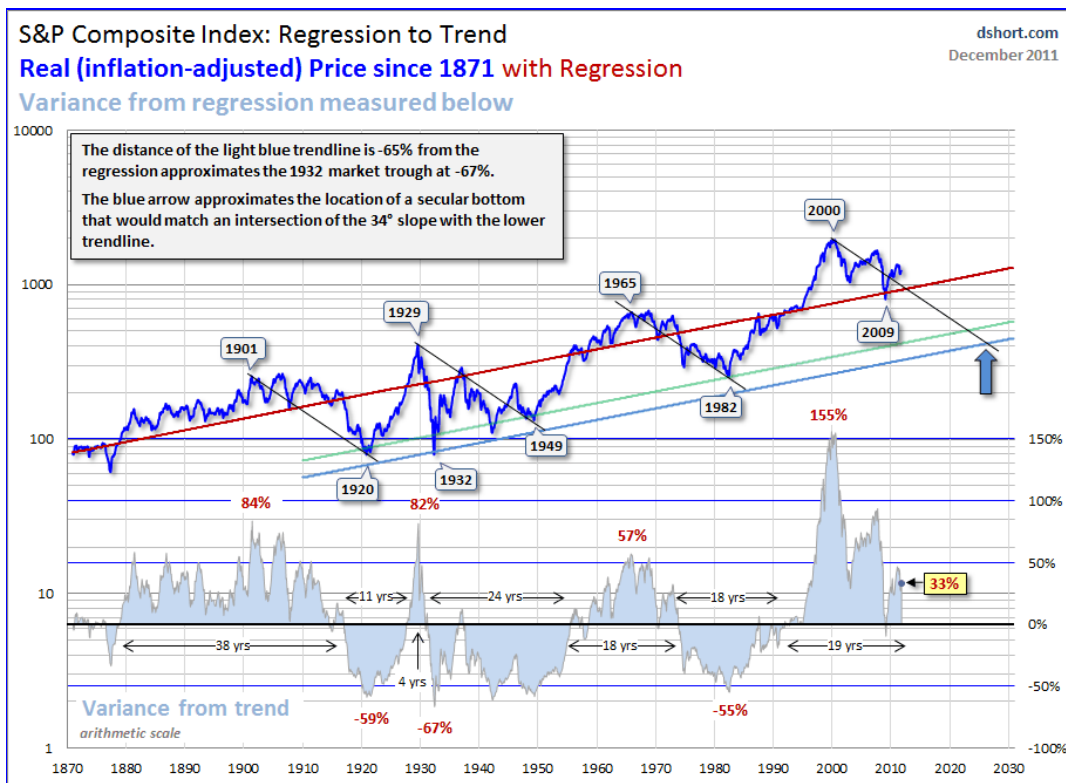


Figure 4

Why is that the more likely scenario? If one looks at the variance from trend graphic, we observe extreme positive variances in 1901 (84%) and 1929 (82%) followed by dramatic corresponding negative variances in 1920 (-59%) and 1932 (-67%). The relatively moderate 1965 peak (57%) was followed by a moderate 1982 dip (-55%).

Unfortunately, in this case there is no precise correlation as there was for the 34 degree bear slopes. However, the rule seems to be that the more extreme variance goes in one direction, the more extreme it corrects in the other. In 2000, we had variance of an unprecedented 155% above trend. There is no way to forecast how deeply the upcoming negative correction will be other than to assume it will probably be severe, that -65% is a realistic estimate and that it could very possibly drop even lower.

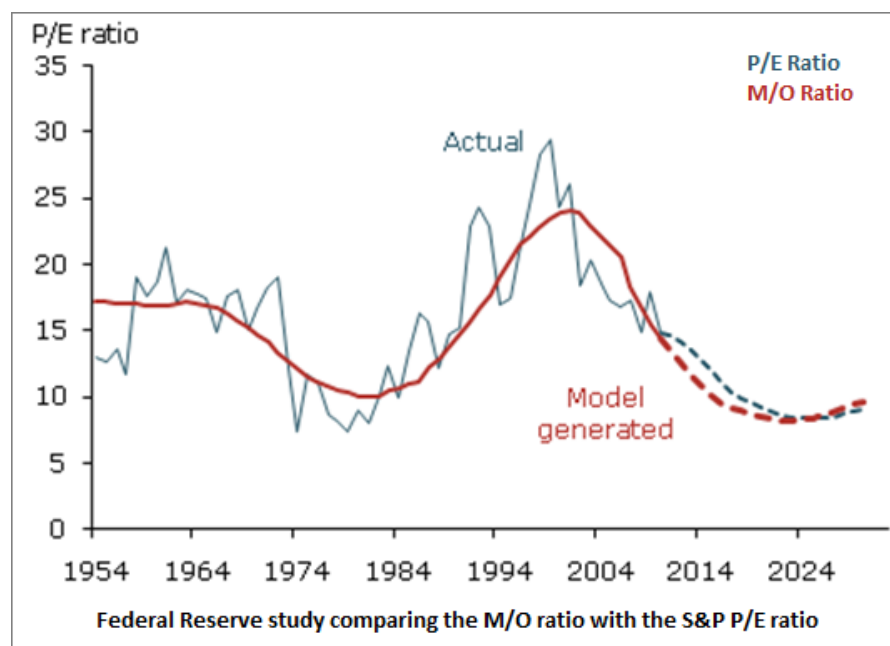
This would result in a situation where by 2025 the S&P at 450 has lost 65% of its December 2011 value. The market downturn would be worse than the 2008 - 2009 correction, with the current recession growing more severe but not as catastrophic as the deflationary Great Depression of the 1930's. In other words, a "Great Repression."

Why wouldn't there be a repeat of the Great Depression? One can only assume that Mr. Bernanke (a student of that event) or his successor would run the Treasury printing presses until they spewed smoke and flame in order to prevent another major deflationary event.

The Demographic Impact of Aging Boomers

Support for the "Impending Crash" scenario can be found in a [recent study](#) published the Federal Reserve Bank of San Francisco. The researchers examined the effect of demographics on the S&P. Specifically, they charted the ratio of middle-aged Americans 40 – 49 to older Americans 60 – 69 over time and compared it to performance of S&P price/earnings (P/E) ratio. Middle-aged individuals are in their prime earning years and the group most likely to be purchasing stocks for wealth accumulation and eventual retirement. Their mass buying would cause upward pressure on stock prices. Older individuals are most likely to be selling their stocks as they enter retirement. This would cause downward pressure on stock prices.

The study found that the baby boom generation born between 1946 and 1964 has had a large impact on stock prices over the past 20 years and will continue to do so as baby boomers gradually phase from work into retirement during the next two decades. The chart below illustrates the S&P P/E ratio since 1954.



The sharp rise in the S&P P/E ratio during the 1980's and 1990's seen in the chart corresponds to the period when millions of baby boomers reached middle age and were most actively buying stocks. The smooth line overlaid on the more jagged S&P line indicates the ratio of middle-aged to older Americans. This is referred to as the M/O ratio. The population of middle-aged baby boomers grew during the 1980's, peaked in 2000 and has been falling since.

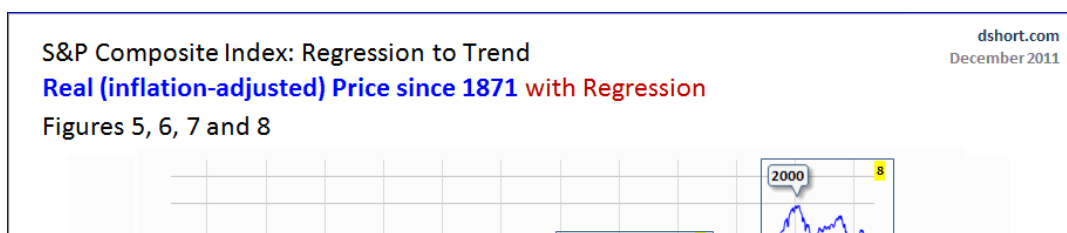
The secular bear market that began in 2000 has coincided with a steady decline in the M/O ratio. In other words, as more and more baby boomers have passed from the stock-buying middle age group to the older stock-selling group since 2000, the M/O graph has fallen along with the S&P metric.

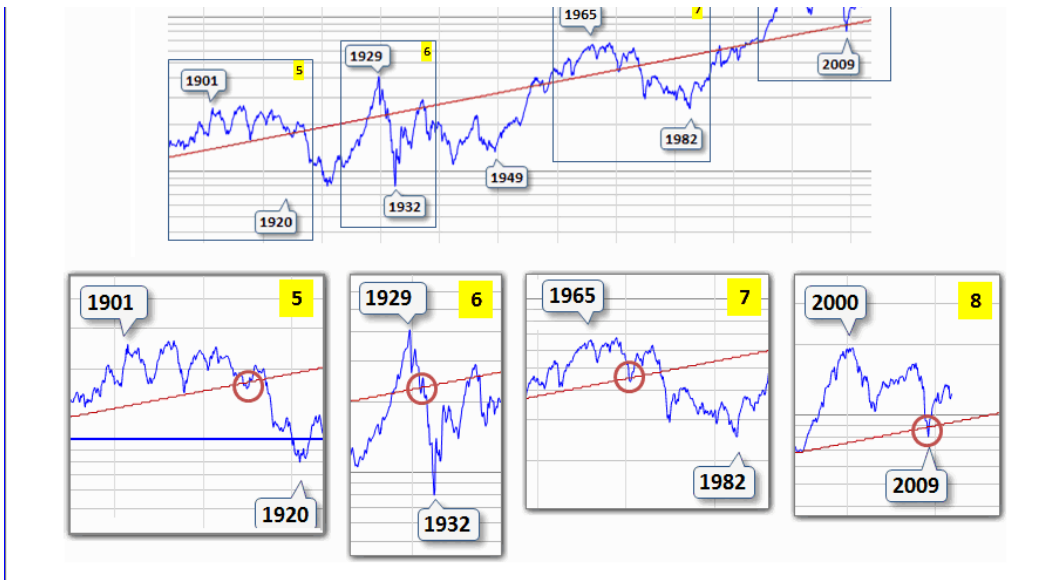
The baby boom peaked in 1957, the year with the greatest number of births. The people born in 1957 will turn 65 in 2022, exactly the year previously discussed as the conservative bottom point for the current bear market. This also coincides with the Federal Reserve study graph which shows a projected bottoming of the S&P and M/O curves in 2022 to 2024. The baby boomers who drove the S&P to new heights during the 1980's and 1990's by massively buying stocks will be massively selling off their stocks in 2022 to 2024 causing tremendous downward pressure on stock prices.

The baby boomers also explain another curious feature in Figure 4, the 155% variance above trend in the year 2000. This huge spike compared to previous bull markets was driven by the unprecedented number of individuals of that age group participating in and driving up the stock market. Conversely, we can expect that same group to have a huge negative impact on stocks when they all enter retirement age shortly, at which point they will become "baby ka-boomers".

What of the near term?

Upon close examination of the long-term chart of the S&P Composite, one can see that during the past three secular bears there was always a small dip below the S&P trend line immediately preceding a sharp decline. Figures 5 through 7 illustrate when this occurred in 1915, 1930 and 1972. Following these downward 'blips' there was brief rise in the market followed by a precipitous drop. I believe this phenomenon was repeated by the 2008 - 2009 drop ('blip') and 2009 - 2011 cyclical bull (Figure 8).





Figures 5-8

Note another striking coincidence: in each case, the S&P fell precipitously to the -40% variance level (blue line in Figure 9 above green line). If this trend repeats a fourth time, the S&P will experience another decline in 2012 - 2013 to 580, a 54% decline in its current value. The S&P would then likely rebound to straddle the 34 degree slope line to the end of the secular bear in 2022 – 2025, as previously discussed.

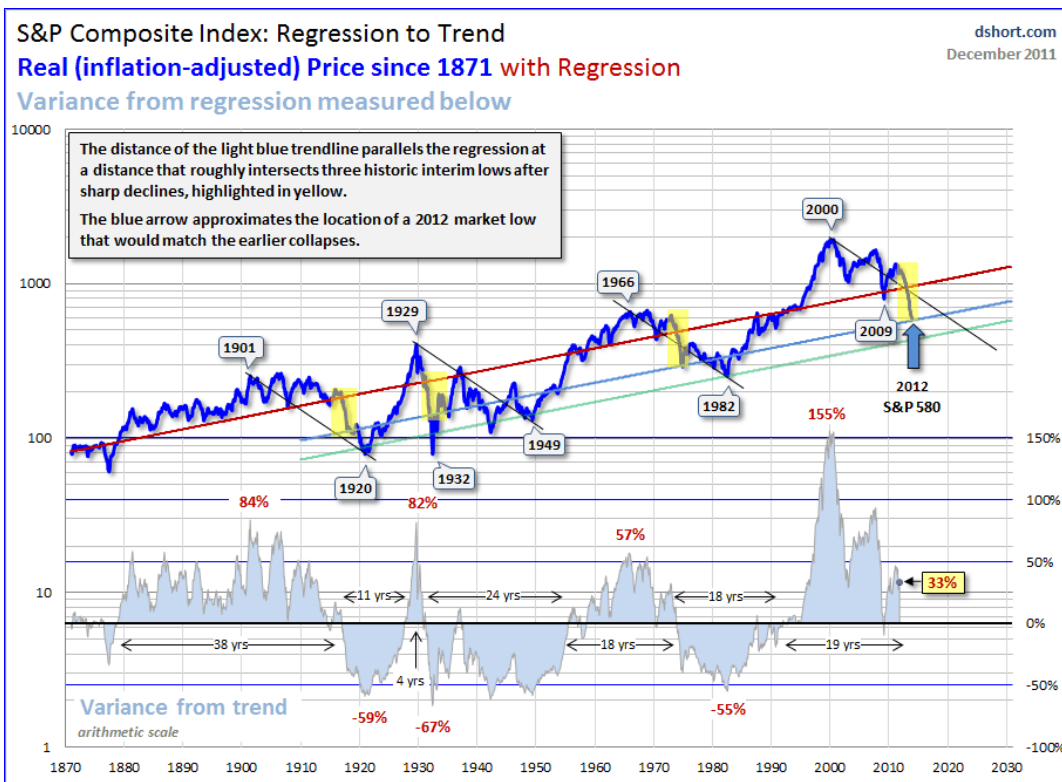


Figure 9

The charts point to various long and short term scenarios for the market, several of which have a very high probability of coming to pass. Statistically, it is extremely unlikely that the mathematical patterns discussed here are simply due to random chance. Taken as a group it would seem to be virtually impossible. Although the patterns are mathematically driven and not dependent upon world events it is fascinating how current events seem to be aligning with the near term pattern. In particular, the S&P decline indicated for 2012 - 2013 coinciding with the very likely disintegration of the Eurozone and euro.

Is there a silver lining for investors somewhere within this dark cloud? I believe there is, an extremely lucrative one that will make itself apparent in 2012 as the market tumbles.

It will be examined at that time in part 3 of this series.

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