

Goldman 'Bear Market Indicator' Nears Record High: The Signal is Red.

"No Limit to the Stupidity of Wall Street"

By [Zero Hedge](#)

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Region: [USA](#)

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"Get used to this kind of volatility," warns [Hussman Funds' John Hussman in his latest comment](#).

"Unfortunately, **the moment interest rates hit zero, [historical risk and valuation] limits vanished,** and preemptively responding to speculative extremes became terrifically detrimental."

"Presently, neither valuations nor internals are favorable, and **that is what opens up a trap door under the market.**"



[Goldman](#) agrees, high valuations in isolation do not provide much of a timing signal for investors **but, again, when combined with other factors can indicate risks of a correction or possible bear market.**

Goldman aggregated these variables in a signal indicator, and took each variable and calculated its percentile relative to its history since 1948. What it found is that, heuristically, **the odds of a bear market at this moment, are in the 73% percentile.**



The aggregate Bear Market Risk Indicator shows the average of these factors. Historically, **when the Indicator rises above 60% it is a good signal to investors to turn cautious, or at the very least recognise that a correction followed by a rally is more likely to be followed by a bear market than when these indicators are low.** By the same token, when the Indicator is very low, below 40% (as was the case in 1975, 1982 and 2009), investors should see any market weakness as an opportunity to buy.

As shown below, **the risk of a bear market has almost never been greater.**



So where are we now? As Oppenheimer puts it simple, **"The signal is red."**

While the momo-driven indices have bounced back honorably (fadin Friday), the world's largest stock index (NYSE's @24 trillion market cap Composite Index) has bounced and

failed at key technical support...



While many eyes prefer to focus on 'Dr.Copper' as having the economics PhD, it is Lumber that is the real expert...

Tomorrow's Divergence Du Jour in case I die in my sleep tonight
pic.twitter.com/1lj9MF9N2j

— Not Jim Cramer (@Not_Jim_Cramer) [October 9, 2018](#)

And it is flashing red...



And the bounce in the last two weeks has decoupled US equity prices from everything...



And if cyclicals underperformance is anything to go by, bond yields are set to tumble...



US Financial Conditions have tightened dramatically...



And as financial conditions have tightened, something dramatic changed in the way 'smart' money is flowing across the US equity market...



And while we have seen some panic in recent weeks, one very notable signal is not offering hope to the bulls - the put-call ratio is at its lowest since early 2017 - not the over-hedged ammunition for another exuberant leg higher in stocks...



As it appears the all-too-eager momo-chasers piled into calls on the first sign of a rebound...



Bond shorts rebuilt their positions a little last week (after 4 weeks of derisking) but previous metals bears unwound their positions further, and VIX positioning shifted further into net long territory.

Finally, we note that there is currently a record number of assets around the world with negative returns YTD...



And if 70 years of historical relationships are anything to go by, **the S&P 500's annual return over the next 10 years may be about zero.**



In conclusion, we given John Hussman the final words:

“We can **no longer rely on well-defined limits to speculation**, as we could in previous market cycles across history.”

“In hindsight, the fix was simple: **abandon the belief in any limit to the stupidity of Wall Street.**”

...

“Despite its discomfort, **the market decline we observed in October is only a drop in the bucket** toward normalizing valuations.”

“Over the completion of the current market cycle, **I fully expect the S&P 500 to lose close to two-thirds of its value from the recent peak.**”

Is that what The Fed, The Deep State, or The Dems want?

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