BOB HOYE

OCTOBER 2, 2019

Cliffs Notes

Financial markets, as we have been reporting, have soared to the edge of a cliff and now the action is failing. Will it go over the cliff and how far is down?

While it is deadly serious, Wile E. Coyote is just now realizing he is in space with no support. In reading a biography of Chuck Jones, the cartoonist, the long falls to the puff of dust were always 22 frames. While we can't measure this hit in frames, history suggests the liquidity problem could be severe in October and the test could clear the markets in November. As noted last year, the initial liquidity crisis following the 1825 Bubble ran right into Christmas.

We have been reviewing that the CCC Credit Spread had accomplished the dreaded Second Breakout in early August, which compared to the equivalent in mid-July 2007. The even more dreaded Third Breakout occurred in mid-August, which was a nice warning on the peak in mid-October, 2007.

- The CCC Spread is now only 35 bps from the Third Breakout.
- The 3-Month Bill Yield has resumed its downtrend.
- Industrial commodities have resumed weakening.
- The US dollar has been firming.

Our "Friends of the Rally" were likely to be positive until around mid-year. We called this "Sunshine", which could turn to "Twilight" in August. To be followed by the devastating "Twilight Zone".

On October 10, 2008, we started looking for a trading bottom and some of the points follow. We thought of one of the lines from the classic song *Autumn In New York*. ***"Dreamers with empty hands"*** and another is ***"Why does it seem so inviting?"***.

1929	1873	1825	1772	1720
Nov. 10	Nov. 7-15	Jan. 1826	Nov.	Nov. 20

Serious loss of liquidity being discovered in the fall dates back to the 1300s. The following two paragraphs were included in the 2008 Report:

> *One of the earliest fall financial disasters that is well-documented occurred in the money markets in Northern Italy. Cipolla's "The Monetary Policy of Fourteenth-Century Florence (1962)" starts with the chapter "The Great Crash Of 1343-1346". The main problem was a business slowdown and too much public debt. These instruments, which had been not transferable were declared negotiable on October 25, 1345, and with doubts about interest payments the*

market immediately collapsed. During the travail the author notes that there were "wild fluctuations" in the relative values of gold and silver.

Prior to this, the debt was regarded as "a perfectly secure investment" that was yielding a return that was attractive to large and small investors. With the crash a contemporary chronicler, G. Villani, used the expression "mancamento della credenza", which translates as "want of credit". He also used the term "rimbalzo", which in today's terms meant "the multiplier effect", or a chain reaction contraction.

We have used the table of *Cliffs Notes* before to identify a tradable low on October-November 2008. This decline has just started and it could be useful in calling some violent swings.

"The Margin Calling Contest!"
Los Angeles Times, October 18, 1929