NIRP Crash Indicator Signals Proved Very Reliable in 2016

Michael Markowski Follow | *Tuesday, 03 January 2017 13:25 (EST)*

The NIRP Crash Indicator was a very reliable crash indicator for the ten-month period which began on March 1, 2016, and ended on December 30, 2016. The NIRP Crash Indicator became operational on March 1, 2016. The signal has been at YELLOW since November 10, 2016 and for 75 of the last 76 days. The NIRP crash signals:

· **ORANGE - Pre-Crash-Imminent**


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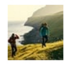
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· **YELLOW - Caution**

· **GREEN - Clear**

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The declines based on the lows for the S&P 500 during the seven periods in which the RED or ORANGE warning signals were in effect ranged from 0.2% to 4.91% and averaged 1.78%. The maximum decline for the S&P for any of the eight warning periods was 2.7% for week that began on September 6, 2016 and ended on September 13, 2016. The maximum increase for the S&P for any of the seven warning periods was 1.7% from November 9th to the 10th. During the periods that the NIRP Crash Indicator was at ORANGE or RED the aggregate increase for the S&P 500 was 0.67%, a small percentage to pay for crash insurance. .

Statistics for Periods NIRP Crash Indicator Warning Signals in Effect 3/1/16 to 12/30/16, Total Days, Days to Low, S&P 500 % Changes @ Low, and at End of Warning Period

Signal	Period	Total Days	Days to Low	% Change @ Low	% Change @ Period End
ORANGE	4/01/16 - 4/22/16	15	4	-1.49%	0.91%
ORANGE	4/29/16 - 5/09/16	8	5	-1.00%	-0.63%
ORANGE	6/01/15 - 6/23/16	17	11	-0.89%	0.93%
RED	6/24/16 - 7/01/16	8	2	-4.91%	-0.04%
ORANGE*	7/26/16 -- 7/27/16	N/A	N/A	0.00%	0.00%
ORANGE	7/29/16 – 8/08/16	6	3	-1.0%	0.5%
ORANGE	9/06/16 – 9/13/16	5	4	-3.0%	-2.7%
RED	11/09/16-11/10/16	1	N/A	-0.2%	+1.7%

**Signal changed from YELLOW after market closed and back to YELLOW before market opened.*

For the nine periods that the NIRP Crash Indicator's YELLOW signal was in effect the aggregate increase for the S&P 500 was 15.2%, an average increase of 1.7% per period. The best performing YELLOW period was March 1, 2016 through April 1, 2016, with an increase of 7.00%. The worst performing period for the YELLOW was April 22, to April 29, 2015, with a decrease of 0.94%.

S&P 500 Performance Statistics for NIRP Crash Indicator: Periods When YELLOW Signal Was In Effect 3/1/16 to 12/30/16, Total Days and % Change for Period

Period	Total Period Days	% Change @ Period End
3/01/16 - 4/01/16	24	7.00%
4/22/16 - 4/29/16	4	-0.94%
5/09/16 - 6/01/16	15	1.71%
6/23/16 - 6/23/16	0	0.00%
7/01/16 - 7/26/16	16	3.5%
7/27/16 – 7/29/16	2	0.00%
8/08/16 – 9/06/16	22	0.15%
9/13/16 –11/09/16	40	0.6%
11/10/16 – 12/30/16	35	3.3%

The impetus for development of the NIRP Crash Indicator was my research conducted on negative rates and the extreme volatility they caused for the global markets from February through November of 2016. *See* "Japan's NIRP Increases Probability of Global Market- Crash Probability", February 26, 2016.

For the NIPR Crash indicator to decrease from pre-crash ORANGE, or full crash RED, to caution YELLOW requires that the exchange rate between the yen and dollar be stable for an extended period of time, or that the dollar advance significantly versus the yen. An increase in the indicator from YELLOW to ORANGE requires a steady advance or a significant one-day advance of the yen versus the dollar. The NIRP Crash Indicator cannot go to an all clear GREEN signal until the negative interest rate policies being utilized by the world's central banks and the negatively yielding securities trading in global markets have been eradicated. When the NIRP Crash Indicator was developed there was no intention for there to be a "buy" signal other than GREEN. However, because of its proven reliability the YELLOW signal, by default, became the buy signal for those who wish to trade the markets.

The primary metric that powers the NIRP Crash Indicator, is the sudden increase in the volatility of the exchange rates of the yen versus the dollar and other currencies. The significant changes in the yen to dollar exchange rate accurately predicted the crash of 2008 and recent declines of the markets to multi-year lows in August of 2015 and February 2016. In my April 9, 2016, article entitled "Yen Volatility Puts Market on Precipice of Crash", and my video interview below entitled "Yen Volatility Causes

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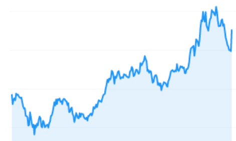

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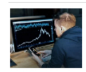
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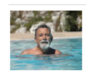
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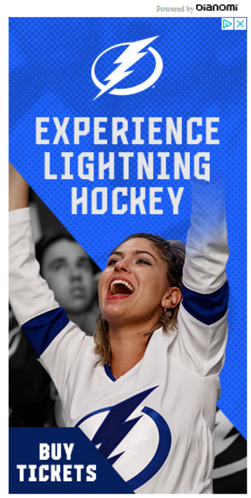

Puts Market on Precipice of Crash", and my video interview below entitled "Yen Volatility Causes Market Crashes", further details are provided on the phenomenon of the yen being a leading indicator of market crashes.

The only logical conclusion for yen volatility, or its sudden and significant increases versus the dollar being a leading indicator of crashes, is that the Japanese yen and the US dollar are the world's two largest single-nation reserve currencies. For this reason, the yen is the best default safe-haven currency utilized by investors during any US and global economic and market crises. When crises unfold, historically the US dollar - by far the world's most liquid and largest safe-haven currency - is susceptible to dramatic declines until the storm has passed.

Savvy investors know that the US is, unquestionably, considered the world's leading economy and markets. They know that upon a crash of the US stock market, the initial knee-jerk reaction would be a simultaneous crash of the US dollar. Because Japan has the world's second leading single-nation currency the yen is currently the default-hedge currency. Even though the euro, arguably, ranks with the US dollar as the world's top reserve currency for liquidity and circulation, it is not the preferred hedge against the greenback. The euro is shared by 19 of the European Union's member countries that have wide-ranging social and economic policies, and political persuasions. For this reason, and also because Japan is considered to be one of the most fiscally conservative countries on the planet, the default currency is the yen. The US dollar does not experience extended crashes versus the Swiss franc and the British pound sterling during times of crises because each of the underlying countries has economies much smaller than Japan's.

The only way to trade or hedge a currency is by pairing it with or tying the currency to another currency. Therefore, to effectuate the equivalent of a short sale for a currency (e.g., US dollar) would require that the seller utilize dollars to purchase a currency (e.g., Japanese yen) that they believe will appreciate versus the paired currency (e.g., US dollar).

Summary

The NIRP has been YELLOW for 75 of the last 76 trading days. Since the Trump honeymoon could soon be over my prediction is that the signal will soon go to RED or ORANGE. See my December 2, 2016, SA post "Will Hangover From Market's Party For Trump Last 2 Years?"

For my predictions for 2017 and my articles in support of them see my January 1, 2017, article titled "2016 Review, 2017 Predictions and Top Pick".

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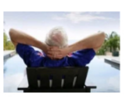
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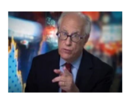
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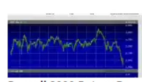
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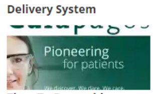

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