Borrowing from Mark Twain, a headline in the Chicago Tribune in 1941 said: ?*History May Not Repeat, But It Looks Alike.*? Real or imagined that is often the case in financial markets especially when perusing historical price charts of stocks, bonds, commodities or any financial instrument for that matter. Comparing charts of some financial index or security from different time frames in search of resemblance is known as an analogue. Although one may occasionally find an uncanny similarity, it does not usually offer much in the way of influence over decision-making. Then again, there are some circumstances where charts align and we would be well-served to pay attention if not for purposes of immediate action, then as a means of allowing for better preparation. One famous example involved hedge fund manager Paul Tudor Jones who in 1987 picked up on similarities in the price action and chart pattern of the Dow Jones Industrial Average that year and what transpired in 1929. Watching the progression of the stock market in 1987, he was convinced a market crash was coming. And come it did. While analogues may seem contrived, the concept makes sense. Technical charts in all their forms are simply a reflection of human beings and their decisions about buying and selling. They are a visual representation of human emotion, and although difficult to predict, there is a pattern to how human beings behave in markets.

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Data Courtesy

Bloomberg In early 2007 when everyone felt invincible due to home price appreciation and stock market gains, the first reports of subprime losses began to roil earnings reports for banks. Although initially disruptive, the market shrugged off those concerns and moved higher throughout spring and summer. The S&P 500 hit all-time highs in October, two months before the beginning of the recession and three months before a speech on January 10, 2008, in which Fed Chairman Bernanke stated: ?*The Federal Reserve is not currently forecasting a recession*.? The equity market contours have definitively changed in 2018 versus preceding years. An initial surge in equities in the opening weeks of 2018 was followed by a 10% decline and a long-absent spike in volatility. However, after the initial disruption in late January, the bull market managed to find its legs. By summer, the market was steadily rising and established new all-time highs in late September. While the patterns do not line up perfectly, the symmetry of time, record highs, and the confluence of many potentially unstable events is certainly comparable.

2018

If 2006-2007 represents a proper analogue, the all-time high recently set on September 21st was the end of the great post-crisis, stimulus-fueled bull-run. It is early yet, and many prior calls for market tops lie in a graveyard full of bear bones. However, the analogue, when coupled with valuation analysis, liquidity concerns and economic data suggest that there is a likelihood that what we are observing is a topping process to the ten-year bull market. Unlike 2007 where early disbelief around housing market excess and subprime lending finally offered easily identifiable culprits, today, like terrorism, the villains are not so easily identified. We live so deeply embedded in a world of debt and spending, a world so far away from fiscal discipline and prudence, that the tactics of ultra-low interest rates and quantitative easing now seem natural and healthy. Simply they have blinded our perspective. Isaac Newton?s third law of physics states that ?*for every action, there is an equal and opposite reaction.*? Years of monetary excess and the rampant speculation that resulted might be finally reversing. Regardless of whether the market is topping as the analogue warns or avoids significant declines for another year or two, investors would be well-served to be aware. The risk/reward framework is not in our favor.