United-ICAP

Walter Zimmermann

Why Technical Analysis ?

news, fundamental analysis, and herding behavior

It’s amazing that the amount of news that happens
in the world every day always just exactly fits the newspaper.
Jerry Seinfeld (1954 -)

Trying to determine what is going on in the world by
reading newspapers is like trying to tell the time
by watching the second hand of a clock.
Ben Hecht (1893 - 1964)

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Why Technical Analysis?

Having studied technical analysis for close to twenty five years and having published a technical advisory service for over twenty years this seems as good a time as any to finally explain why we do technical analysis.

First Impressions Need Not Be Lasting

For purposes of a thorough explanation is it probably a good ideas if I begin with my own initiation in technical analysis. I did my graduate work in the study of pattern development in complex, turbulent systems. Having quickly soured on the insular and relatively narrow minded world of academia I escaped the university system as soon as I found a situation where I could attempt to apply what I had learned.

Some of my friends from undergraduate days had just started up an oil brokerage firm and in the early 1980's the most complex and turbulent system out there was the oil market. I convinced these friends that they should hire me for a two year trial period. My goal was to develop a complexity theory based fractal pattern recognition trading system for the energy futures.

There are three basic characteristics of a fractal pattern:

- The pattern is spontaneously generated by turbulence.
- Tha pattern is sustained by the turbulence and can quickly vanish if the turbulence subsides below a certain threshold level.
- The Fibonacci .618 ratio plays a central role in the structure of any fractal pattern.

So I was looking for the spontaneous development of a complex pattern with .618 based ratio relationships and the more turbulent the market the better. I was only logical to presume that the price action would be the place to look for these patterns.

The first thing that I needed was a computer system so I could plot the price history for study. Through a referral a currency trader in New York City offered to demo his computer system. As I walked into his office he was standing up, bent over his desk, and with his finger on the screen he was mumbling to himself "one, two, one, two, one two, three, four, five. My immediate thought was that if I ever find myself mumbling one - twos to myself I will know that it is time to leave the brokerage business. I was instantly repelled by my first contact with technical analysis. I thought "this is just too strange for me." Now 25 years later I spend most of my day counting one - two patterns on my computer screen.

Resistance to Elliott Wave Support and Resistance

My travels from the academic study of complex systems to the technical analysis of the energy markets was a bit of a bumpy road complete with wrong turns and dead ends. I quickly discovered that the five wave moves and ABC type corrections that are the subjects of study in Elliott Wave analysis is a very complicated and labor intensive effort. I was hoping for something much more simple. So instead of diving into Elliott Wave analysis I spent the next several months devoting my full time attention to the search for a moving average based trading system.

My thinking was that if I could develop a moving average trading system for energy futures I could live in Aruba or Maui, windsurf all day, and spend a couple minutes each night updating the moving average signals. Much to my dismay I came to the reluctant conclusion that the typical trend in energy futures was a very volatile three to four month long event. And of the typical three month long trend more than 50% of the move occurred in the initial and final panic spikes. If you did not get stopped out in congestion a moving average was lucky to capture 20% of the trend.

It became clear that the moving average approach was spectacularly ill suited to energy futures. We present an in-depth treatment of this problem in the tutorial “Moving Averages Versus RSI.” I reluctantly abandoned the moving average approach and resigned myself to taking the time to learn Elliott wave analysis. And I have not been back to Aruba since.

Acceptance

Why did I stick with technical analysis? The only alternative was fundamental analysis and I quickly discovery that fundamental analysis was even more complicated than Elliott wave analysis, much more subjective than technical analysis, and much less useful as a price prediction system than anything I had yet found in technical analysis.

And this brings us to the dilemma of an energy company. Fundamental analysis is the study of supply and demand factors. Any energy company that is constantly handling the physical energy commodities must first ensure that their own internal balance of supply and demand is relevant to the larger supply and demand situation in the market. So an energy company must engage in an on-going and never ending fundamental analysis. Any such company cannot avoid doing fundamental analysis. Otherwise the firm risks being over or under supplied with product in a market that rarely rewards the unprepared.

The dilemma here is that fundamental analysis is by nature unsuited for use as a price prediction system. An objective and rigorous fundamental analysis can well predict the future balance of supply and demand but it is not equipped to predict the resulting effect on the price trends. It can be very dangerous to allow fundmanetal analysis to seep into price forecasting. This point is critical enough to justify its own separate tutorial. This point is the sole focus of this tutorial.

Fundamental analysis does not work as a price prediction system. Fundamental analysis is simply not capable of accurate or reliable price prediction. It does not give price targets and it struggles mightily to even predict the duration of price trends. Why is this the case? It does not seem logical and it is certain a counter-intuitive conclusion.

Fundamental Analysis

Fundamental analysis employs reason and logic to model the various factors of supply and demand of the actual physical commodity in the physical markets. Therefore any attempt that fundamental analysis might make to explore the pricing implications of an imbalance in the physical supply and demand factors must necessarily assume that the price response in the markets will be rational and logical. Due to the nature of human nature the price trends in the markets are driven by strong emotions, not by cool headed logic and deductive reasoning. Price trends are much more than the mechanical interaction of supply and demand.

Emotions Rule Here on Earth

Anyone who has ever traded their own money in the markets knows from experience how quickly and easily an emotional response can overcome and overwhelm whatever logic may have originally motivated the trade in the first place. If the trade is successful there will invariably be a powerful urge to add to the position at what was originally intended to be the price target from which to take profits. And if the trade goes against you there will be a powerful urge to add to the position at the price level that was originally supposed to be the protective stop out level. Logic may say “get out’ but the emotions will say that “ I was just right too early.” One can “be right too early” only as long as the money holds out. Deep pockets can result in deep losses.

As a Thing is Viewed, So it Appears

Due to the emotional nature of human nature the best way to get bullish on a market is to go long. As soon as one goes long one instantly thinks of many other reasons to get even longer. And the best way to get bearish is to sell short. As soon as one sells short one quickly finds many other reasons to build an even larger short position. The objective and logical evaluation of the supply and demand balance that is the task of fundamental analysis does not have to deal with these powerful forces of hope, fear, and greed. Yet it is hope and fear that drive price trends. Any truly effective method of price prediction must therefore necessarily be able to track and quantify the emotional content of the market. The various tools of technical analysis that we employ are various techniques for quantifying the emotional content of the market. Any candidate for a system of price prediction that cannot objectively evaluate the emotional component of the market price is doomed to fail.

There is no market here on Earth where fundamental analysis is competent to predict the duration and extent of price trends. The reason is the nature of human nature. To find a market where fundamental analysis alone can accurately and consistently predict price targets one would have to travel to a planet like Vulcan where the beings are pure logic machines like science officer Spock of "Star Trek" fame.

Let us explore the evidence that emotions rule the markets. Any experienced fundamental analysts will readily acknowledge that the price trends always over-react to actual changes in the fundamentals. When the fundamentals sneeze the price trend will quickly catch pneumonia. It is certainly not logic and reason that are responsible for this consistent over-reaction. It is the hope for gain and the fear of loss that magnify the price response to changes in the fundamentals. A trader who does not understand this point will either lose money in the markets or will tend to consistently exit the price trend way too early. Beam science officer Spock into a trading room and Spock will find himself in a constant state of puzzlement. "But Captain, this is not logical."

We do not need to rely on the frustrations of fundamental analysts to prove the point that emotions rule the markets. All we need to do is observe the relationship between the news and the price trends.

The News Follows the Trend, The Trend Follows the Emotions

Any longer term observation of the markets will inexorably bring one to the realization that the emotional content of the market decides what is newsworthy and what is irrelevant. A bull market will consistently ignore bearish developments and seize on even the most obscure and dubious bullish events to justify the prevailing bullish mood in the market. The news does not create the price trend. The emotional content of the market creates the price trend and the price trend creates the news. Here is another critical insight that is completely counter-intuitive for an analyst bred and raised on fundamentals.

The proof of this insight is that the news is always the most bullish at major peaks in the price trend. An the news is always the most bearish at major bottoms in the price trend. It might be logical to presume that up trends end with an unexpected bearish development but in fact is that is never the case. And a major down trend will never end with a surprise bullish development. What common sense might presume to be the dynamics of peaking and bottoming action is not at all the case. Those who wait for bearish news to sell out their length will miss the top every time.

An up trend will only end when a new and even more bullish development fails to sustain a rally to new highs. And a down trend will only end when a new and even more bearish development fails to sustain a drop to new lows. These failures occur because the market has reached a state of emotional exhaustion. The long term repeated observation of this dynamic brings one to the conclusion that the market is a bit like a manic-depressive patient. When the extreme of bullish optimism is reached the market begins its long price descent to the extreme of bearish pessimism. The up trend peaks only when the overwhelming collective opinion is that “there is no resistance” and the down trend bottoms only when the overwhelming collective opinion is that “there is no support.”

A bull market will eventually exhaust the bullish enthusiam and a bear market will eventually exhaust bearish despair. The exhaustion of the emotional extreme is the dynamic that reverses the price trend. And this exhaustion is not created by a change in the tenor or content of the news. This exhaustion is the nature of human nature. All markets behave the same way because what all markets have in common is human nature. The price action of the markets does not display the logical price response to a rational adjustment to changes in supply and demand. The price trends in a market display the emotional nature of human nature.

A detailed examination of the relationship between the news and the price trend will expose this dynamic. And we present the examples in the pages that follow to assist the reader in reaching this insight. The fact is the content of the news changes from bullish to bearish only after the price trend reverses from up to down. And the content of the news reverses from bearish to bullish only after the price trend has reversed from down to up. And the lag time between the reversal in price trend and the reversal in the content and tone of the news can be days, weeks, or even months. Anyone who waits for the news to turn bullish before they take profits on their short position will miss the bottom every time. Even more to the point, with the news most bearish at the bottom a news trader is likely to add to a short position at the very bottom of a down trend. And a news trader is at great risk of adding to length at the very top of an up trend when the news is most bullish.

Once the bullish emotional extreme of the market has been exhausted the market price trend will then reverse then from up to down. Once this occurs bearish news stories that were long ago discarded as irrelevant will eventually be dusted off and then touted as reason why prices are trending lower. When the emotional tone of the market is bullish any bearish developments are ignored. And when the emotional content is bearish any bullish developments are ignored. We would go further and say that ignored is the wrong word. You ignore something when you are aware of its existence and choose to look the other way. The fact is that a strong bull market is completely oblivious to bearish events and a powerful bear market is blind to bullish events. There is no other way to say it: the emotional tone of the market creates the news.

This is an inconvenient truth for the fundamental analysts who typically treat the news as if it were responsible for the price trend. A technical analyst is keenly aware that the news is merely a sentiment indicator. What the market selects as news and how the market interprets events reveals the emotional bias of the market. This reality is most evident at major tops when the news is always and only bullish and at major lows when the news is always and only bearish. We hope that the examples on the concluding pages of this report render this truth easier to see.

Why Do Technical Analysis ?

Why do we do technical analysis? We do technical analysis because of the severe financial penalties inherent in not doing technical analysis. These financial penalties are of a two fold nature.

• The financial penalties that one can incur from trading fundamentals
• The financial penalties that one can incur from trading the news

Regarding the risks associated with trading the fundamentals, the nature of human nature ensures that the price trend will always over react to changes in the fundamentals. In practice this means two things. First, the fundamental analysis based price targets are always exceeded on the upside in bull markets and exceeded on the downside in bear markets. Second, the rally in prices that is a bull market will always persist beyond the point where the fundamentals turn from bullish to bearish. And the down trend in prices that is a bear market will always persist beyond the point where the fundamentals turn from bearish to bullish. So the danger of trading fundamentals is that the trader will get short too early in an up trend and thereby risk getting stopped out of the short position at the very top of the market. The danger in a down trend is that the trader will get long too early and thereby risk getting stopped out of length at the very bottom of the down trend.

The source of the danger in trading the news is that the news is always the most bullish at major market peaks and the most bearish at major market lows. The risk is that the trader will get tricked into being the last buyer in an up trend and the last seller in a down trend.

The goal of the direct study of the price action that is technical analysis is to reduce the risks inherent in trading fundamentals and news.

No Pain, No Gain ?

While technical analysis is much more than a deeper understanding of the relationship between fundamentals, news, and price trends this deeper understanding is invariably the start of the path that leads from fundamental analysis to technical analysis. The motivation to trod this path is financial loss. Trading based on fundamentals and news inevitably results in financial losses. Were this not the case no one would bother with technical analysis. Technical analysis is complicated, time consuming, labor intensive, and it involves learning a new language. As such technical analysis involves all the kinds of things that we prefer to avoid in life. No one would do technical analysis if you could consistently make money buying bullish news and selling bearish news.

WTI - monthly chart

Market Vane

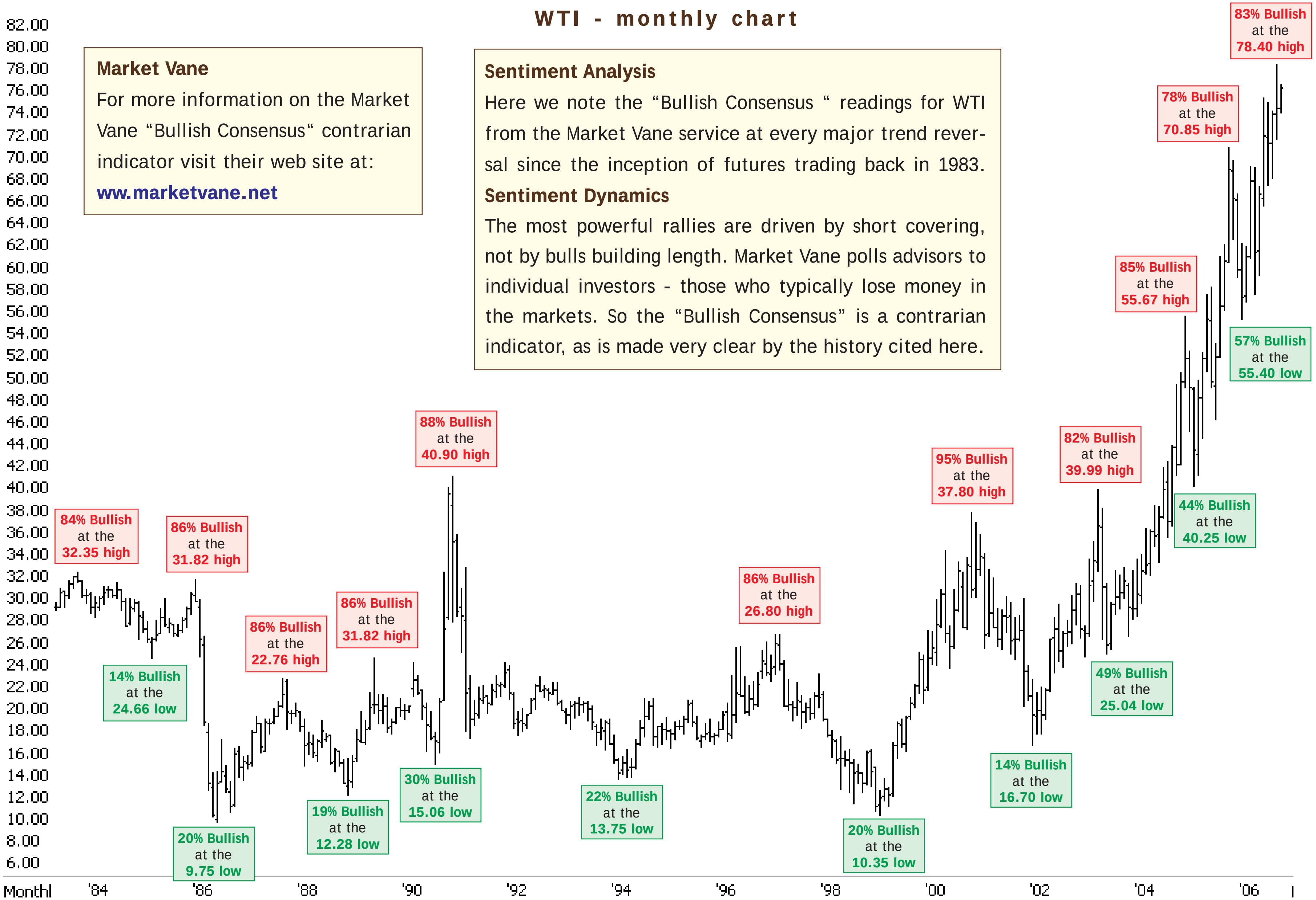
For more information on the Market Vane “Bullish Consensus“ contrarian indicator visit their web site at: **ww.marketvane.net**

Sentiment Analysis

Here we note the “Bullish Consensus “ readings for WTI from the Market Vane service at every major trend reversal since the inception of futures trading back in 1983.

Sentiment Dynamics

The most powerful rallies are driven by short covering, not by bulls building length. Market Vane polls advisors to individual investors - those who typically lose money in the markets. So the “Bullish Consensus” is a contrarian indicator, as is made very clear by the history cited here.



Natgas - monthly chart

Sentiment Extremes and Bullish Divergence

The "Bullish Consensus" has been at or below 21% since 26th June. The sentiment reading at the 4.050 low was only 17% bullish. One has to go back to 2001 to find such a bearish extreme.

Sentiment Dynamics

Bull markets peak when everyone has become bullish. Bear markets bottom out once everyone has turned bearish. There is clearly something going on here that the efficient market hypothesis never even began to consider.

Market Vane

The source of this consensus data is the "Bullish Consensus" from Market Vane.
For more info: **www.marketvane.net**

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Sentiment and Economic Cycles
Swings in the collective sentiment are not something separate from economic cycles. Long term trends in economic cycles are the sentiment swings. Here we see the dynamics of sentiment extremes that drive the long bond and the economy.

Gold - monthly chart

Market Vane

For information on the Market Vane "Bullish Consensus " contrarian indicator see their web site at **www.marketvane.net**

Sentiment Analysis

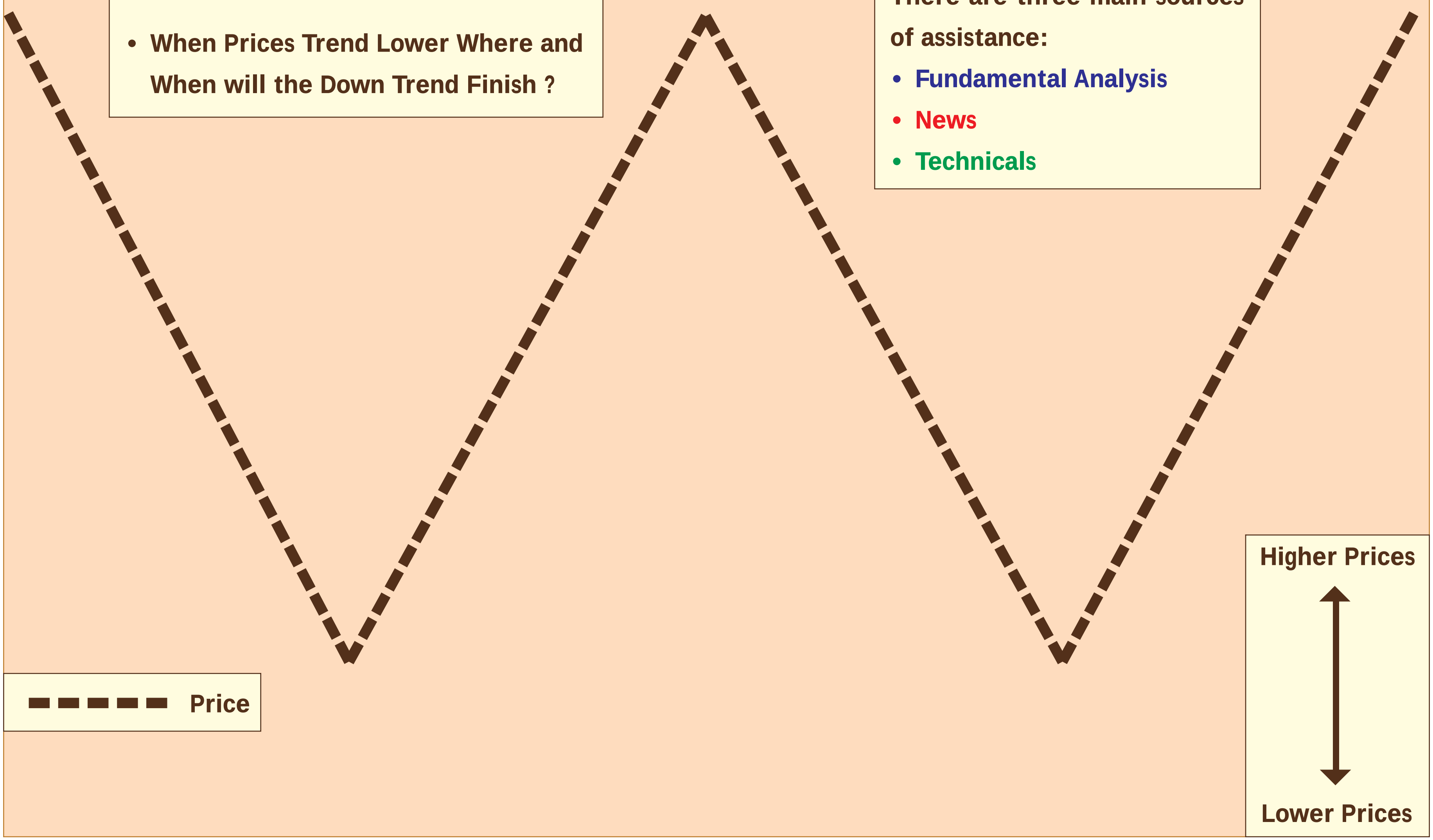
Clearly visible here is the emotional dynamic that drives price trends from over-bought, unsustainable panic tops to over-sold, unsustainable panic lows. Note that the 92% bullish at the 732.0 peak was the most extreme sentiment reading since Market Vane began tracking gold back in 1980.

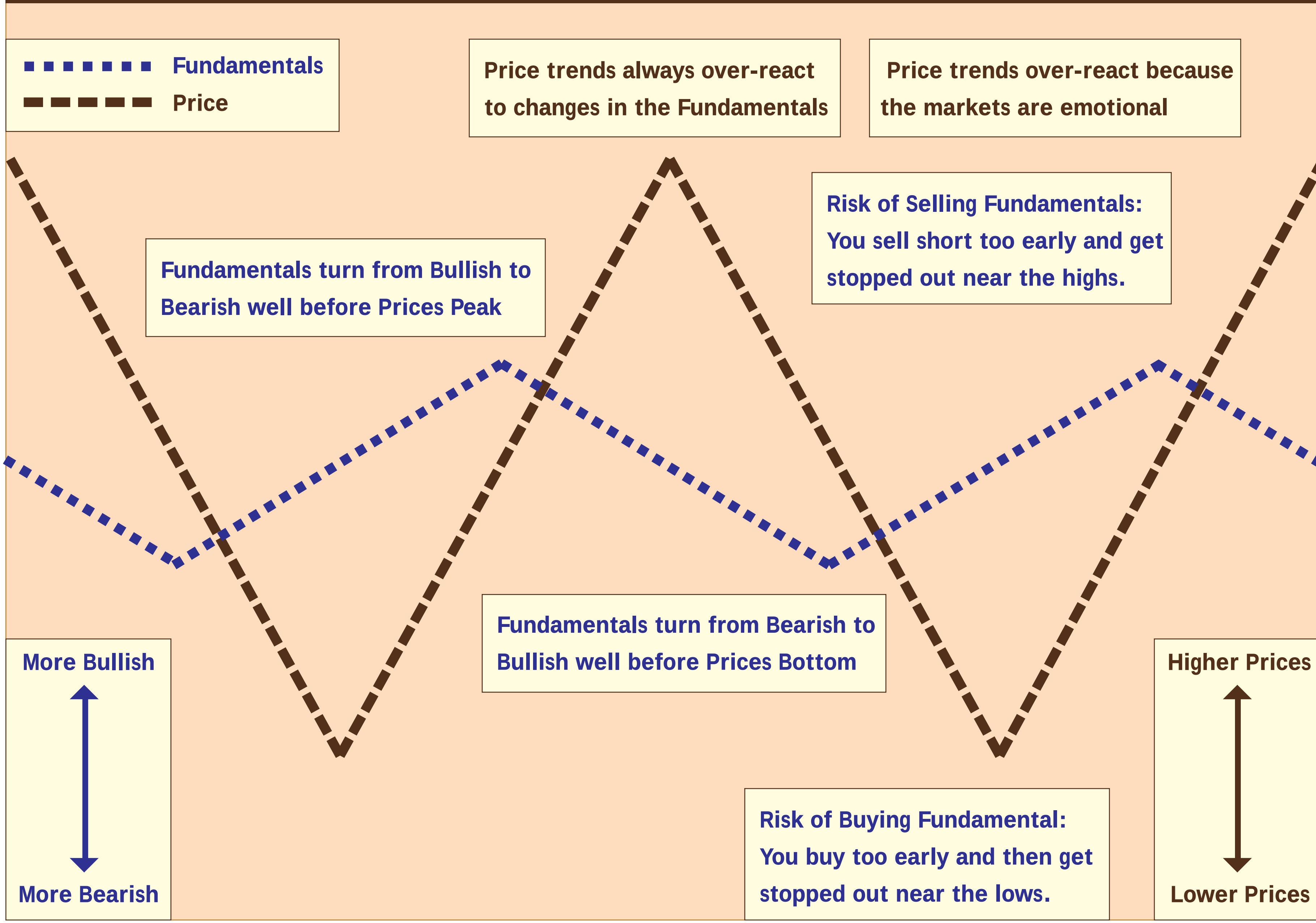
- **When Prices Trend Higher Where and When will the Up Trend Finish ?**
- **When Prices Trend Lower Where and When will the Down Trend Finish ?**

Where might help us answer these questions ?

There are three main sources of assistance:

- **Fundamental Analysis**
- **News**
- **Technicals**




Fundamentals
Price
Price trends always over-react to changes in the Fundamentals
Price trends over-react because the markets are emotional
Risk of Selling Fundamentals: You sell short too early and get stopped out near the highs.
Fundamentals turn from Bullish to Bearish well before Prices Peak
Fundamentals turn from Bearish to Bullish well before Prices Bottom
More Bullish
More Bearish
Risk of Buying Fundamental: You buy too early and then get stopped out near the lows.
Higher Prices
Lower Prices

Nasdaq - monthly chart

Fundamentals Reverse Before the Price Trend

On the previous page we state that fundamentals turn from bullish to bearish well before the price trend peaks and reverses lower. Arguably one of the most infamous examples of this phenomena was the "internet bubble" into the year 2000. Way back in December 1996 Alan Greenspan was arguing that the fundamentals no longer supported higher prices.

Alan Greenspan - 5th Dec 1996

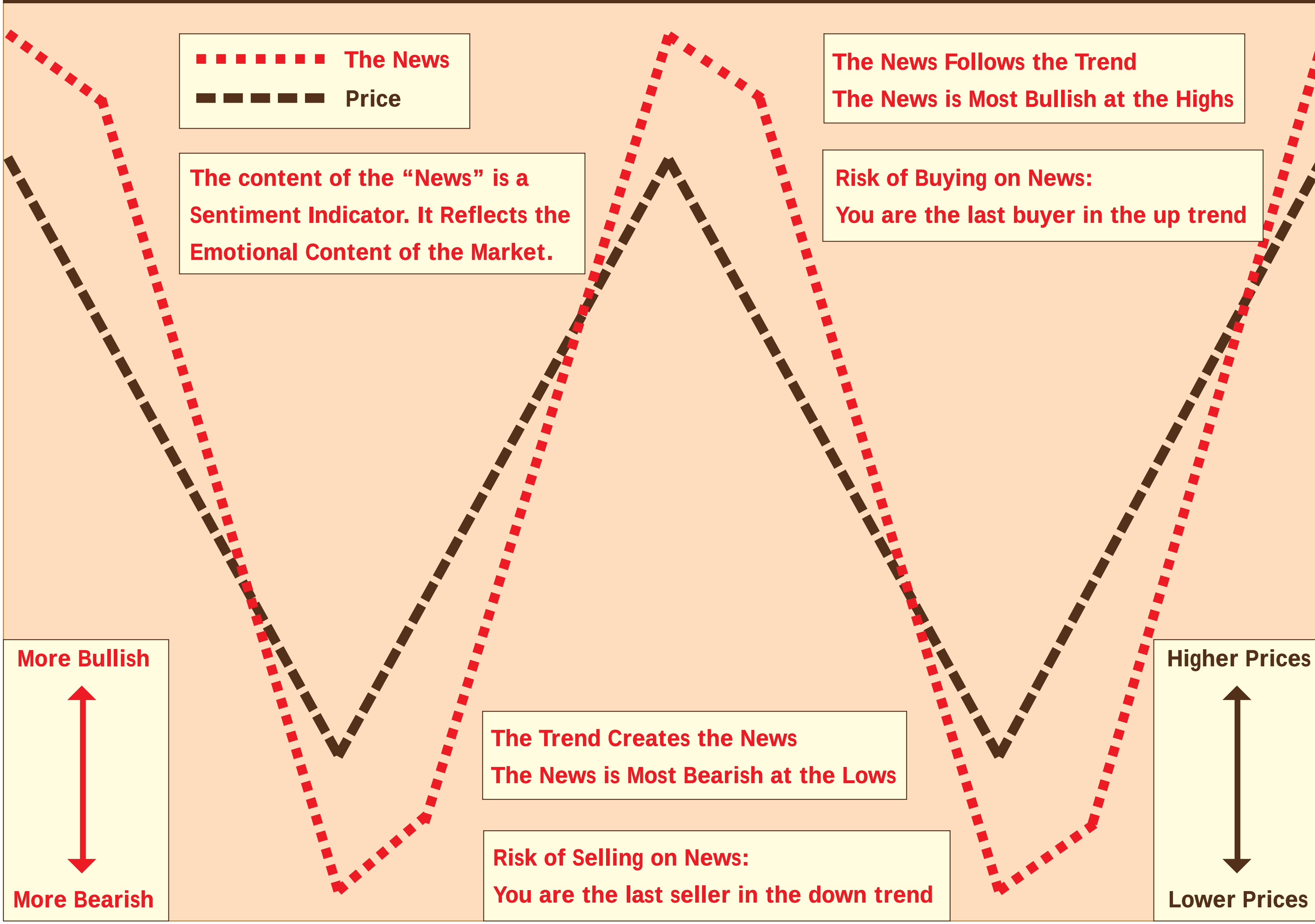
"But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade."

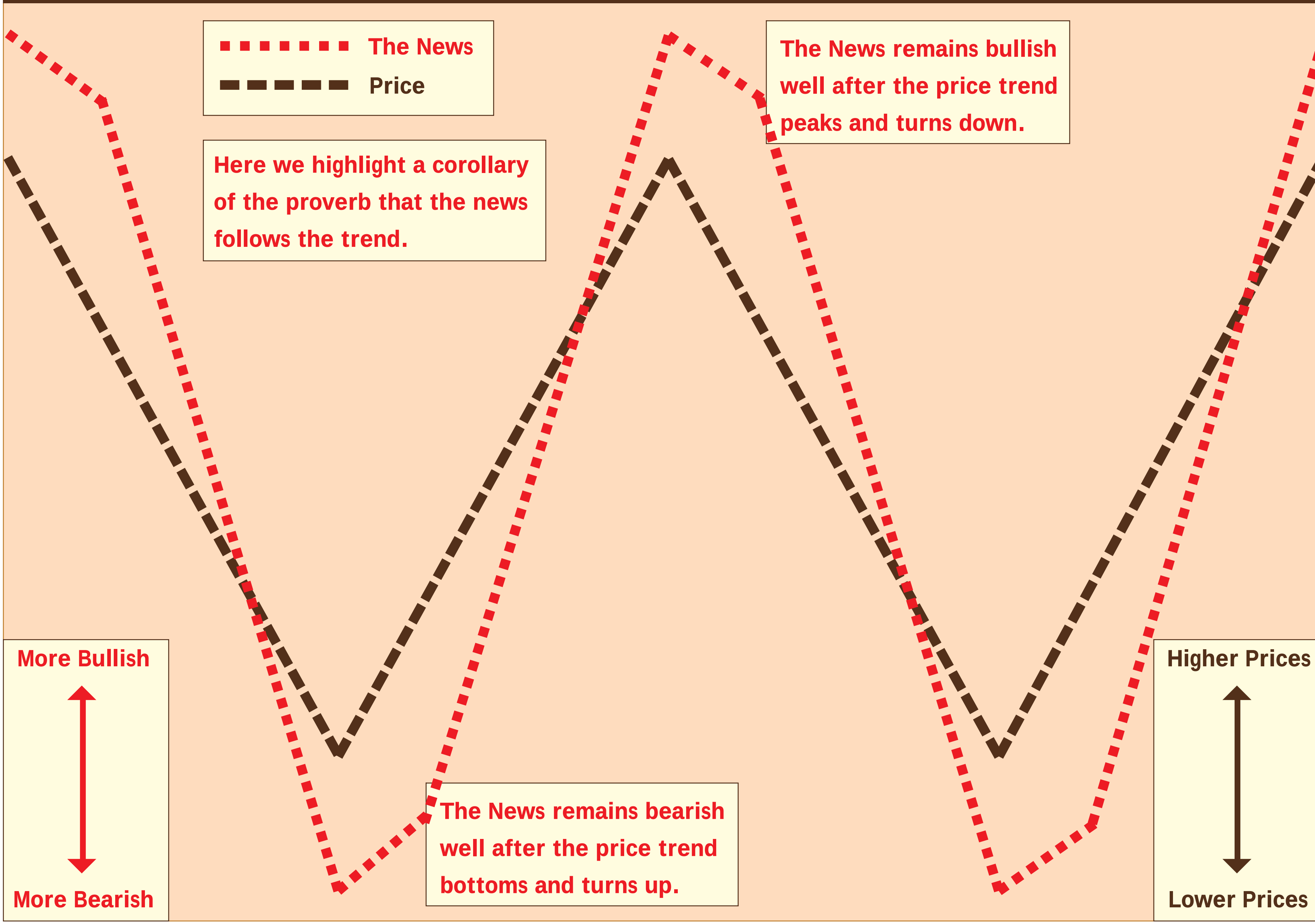
Nasdaq Prices

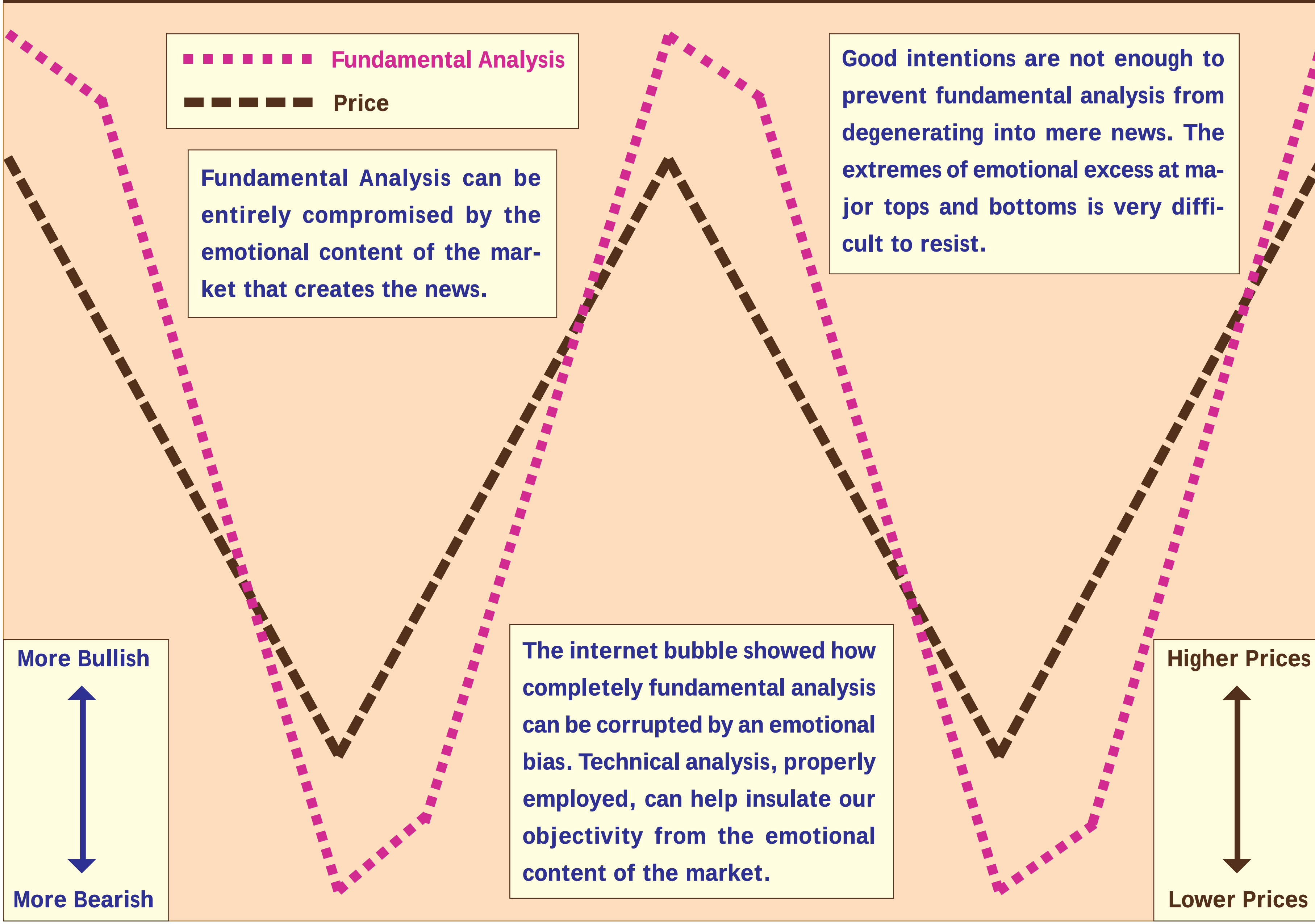
- On 5th Dec 1996 - 1,300.12 close
- On 10th Mar 2000 - 5,132.52 high
- Today - 21 Dec 06 - 4215.85 close

Fundamental Analysis and Emotions

A fundamental analyst un-swayed by the emotional content of the market and yet unable or unwilling to access the tools of technical analysis can sell short way too early. And a fundamental analysis corrupted by the emotional content of the market is likely to be most bullish at the peak of a bullish mania.


The News
Price
The content of the "News" is a Sentiment Indicator. It Reflects the Emotional Content of the Market.
The News Follows the Trend
The News is Most Bullish at the Highs
Risk of Buying on News:
You are the last buyer in the up trend
More Bullish
More Bearish
The Trend Creates the News
The News is Most Bearish at the Lows
Risk of Selling on News:
You are the last seller in the down trend
Higher Prices
Lower Prices


The News
Price
Here we highlight a corollary of the proverb that the news follows the trend.
The News remains bullish well after the price trend peaks and turns down.
The News remains bearish well after the price trend bottoms and turns up.
More Bullish
More Bearish
Higher Prices
Lower Prices


Fundamental Analysis
Price
Fundamental Analysis can be entirely compromised by the emotional content of the market that creates the news.
Good intentions are not enough to prevent fundamental analysis from degenerating into mere news. The extremes of emotional excess at major tops and bottoms is very difficult to resist.
More Bullish
More Bearish
The internet bubble showed how completely fundamental analysis can be corrupted by an emotional bias. Technical analysis, properly employed, can help insulate our objectivity from the emotional content of the market.
Higher Prices
Lower Prices

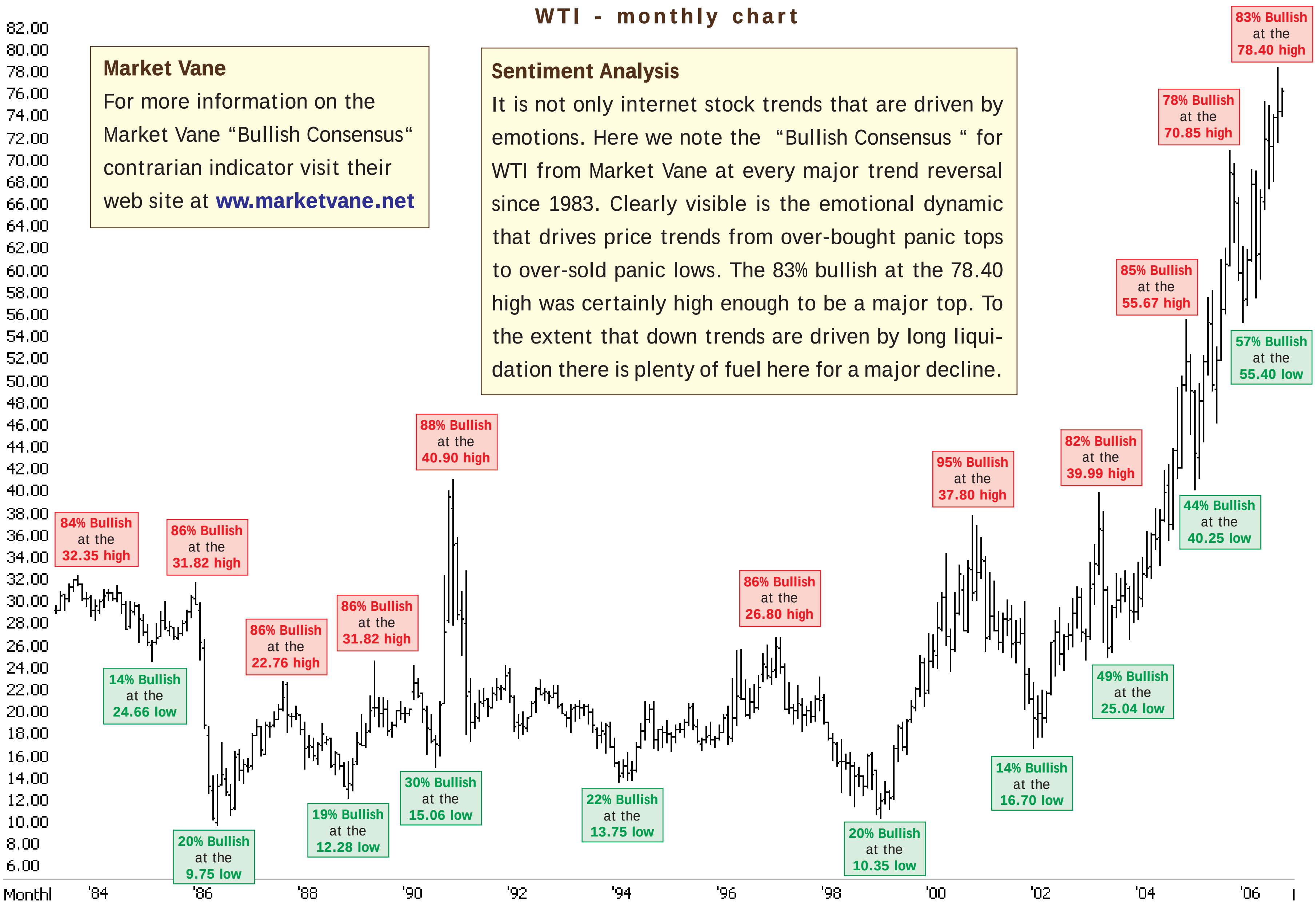
WTI - monthly chart

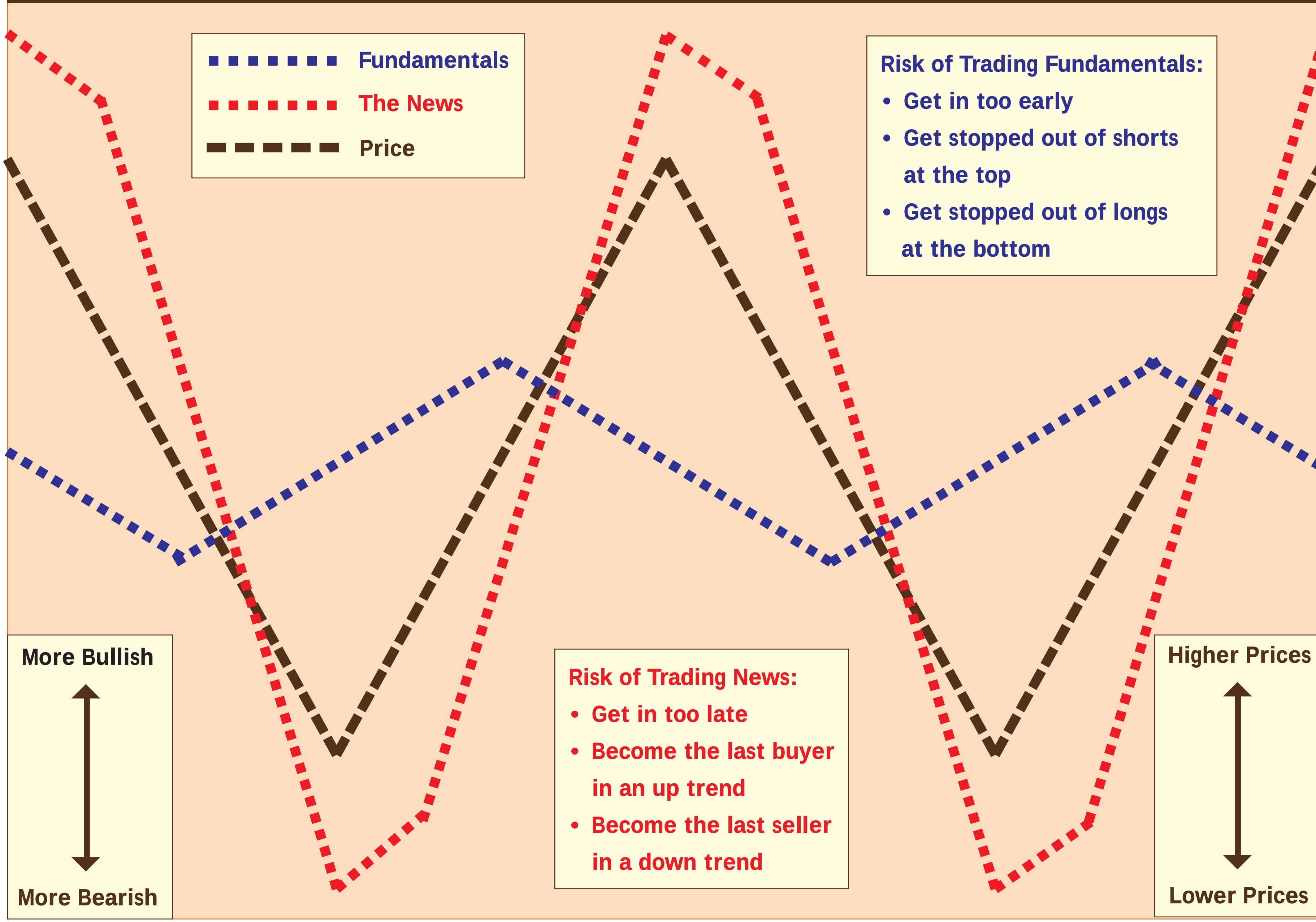
Market Vane

For more information on the Market Vane “Bullish Consensus“ contrarian indicator visit their web site at **ww.marketvane.net**

Sentiment Analysis

It is not only internet stock trends that are driven by emotions. Here we note the “Bullish Consensus “ for WTI from Market Vane at every major trend reversal since 1983. Clearly visible is the emotional dynamic that drives price trends from over-bought panic tops to over-sold panic lows. The 83% bullish at the 78.40 high was certainly high enough to be a major top. To the extent that down trends are driven by long liquidation there is plenty of fuel here for a major decline.




Fundamentals
The News
Price
Risk of Trading Fundamentals:
• Get in too early
• Get stopped out of shorts at the top
• Get stopped out of longs at the bottom
More Bullish
More Bearish
Risk of Trading News:
• Get in too late
• Become the last buyer in an up trend
• Become the last seller in a down trend
Higher Prices
Lower Prices

Natgas - monthly chart

Sentiment Extremes and Bullish Divergence

The "Bullish Consensus" has been at or below 21% since 26th June. The sentiment reading at the 4.050 low was only 17% bullish. One has to go back to 2001 to find such a bearish extreme.

Market Vane

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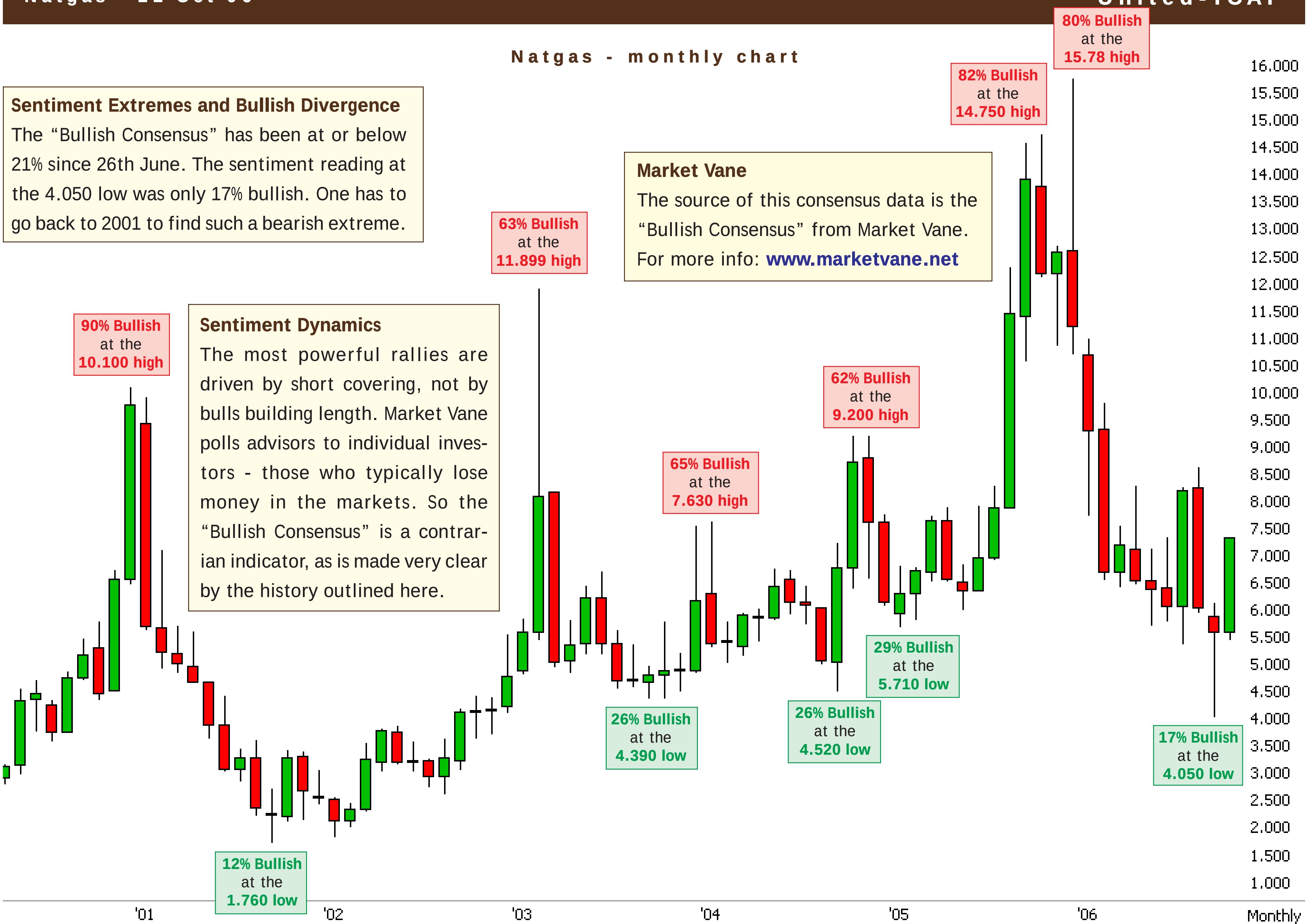
Sentiment Dynamics

The most powerful rallies are driven by short covering, not by bulls building length. Market Vane polls advisors to individual investors - those who typically lose money in the markets. So the "Bullish Consensus" is a contrarian indicator, as is made very clear by the history outlined here.



Risk of Trading Fundamentals:

- Get in too early
- Get stopped out of shorts at the top
- Get stopped out of longs at the bottom

Risk of Trading News:

- Get in too late
- Become the last buyer in an up trend
- Become the last seller in a down trend

Goal of Technical Analysis:

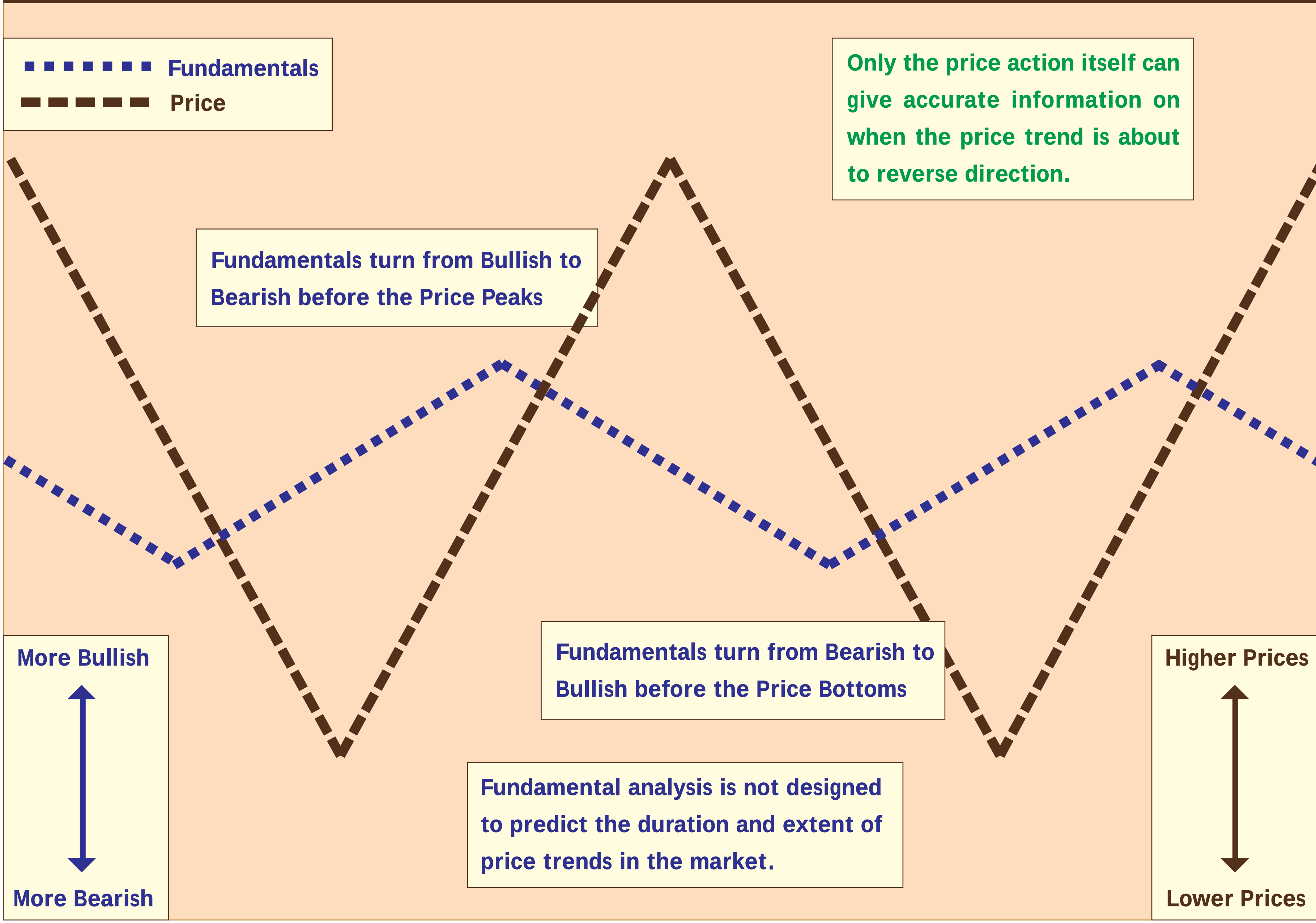
- To do better

Strategy of Technical Analysis:

- Study the Price Action Directly

Tactics of Technical Analysis:

- Candlesticks
- Sentiment Studies
- Elliott Wave


Fundamentals
Price
Only the price action itself can give accurate information on when the price trend is about to reverse direction.
Fundamentals turn from Bullish to Bearish before the Price Peaks
More Bullish
More Bearish
Fundamentals turn from Bearish to Bullish before the Price Bottoms
Fundamental analysis is not designed to predict the duration and extent of price trends in the market.
Higher Prices
Lower Prices

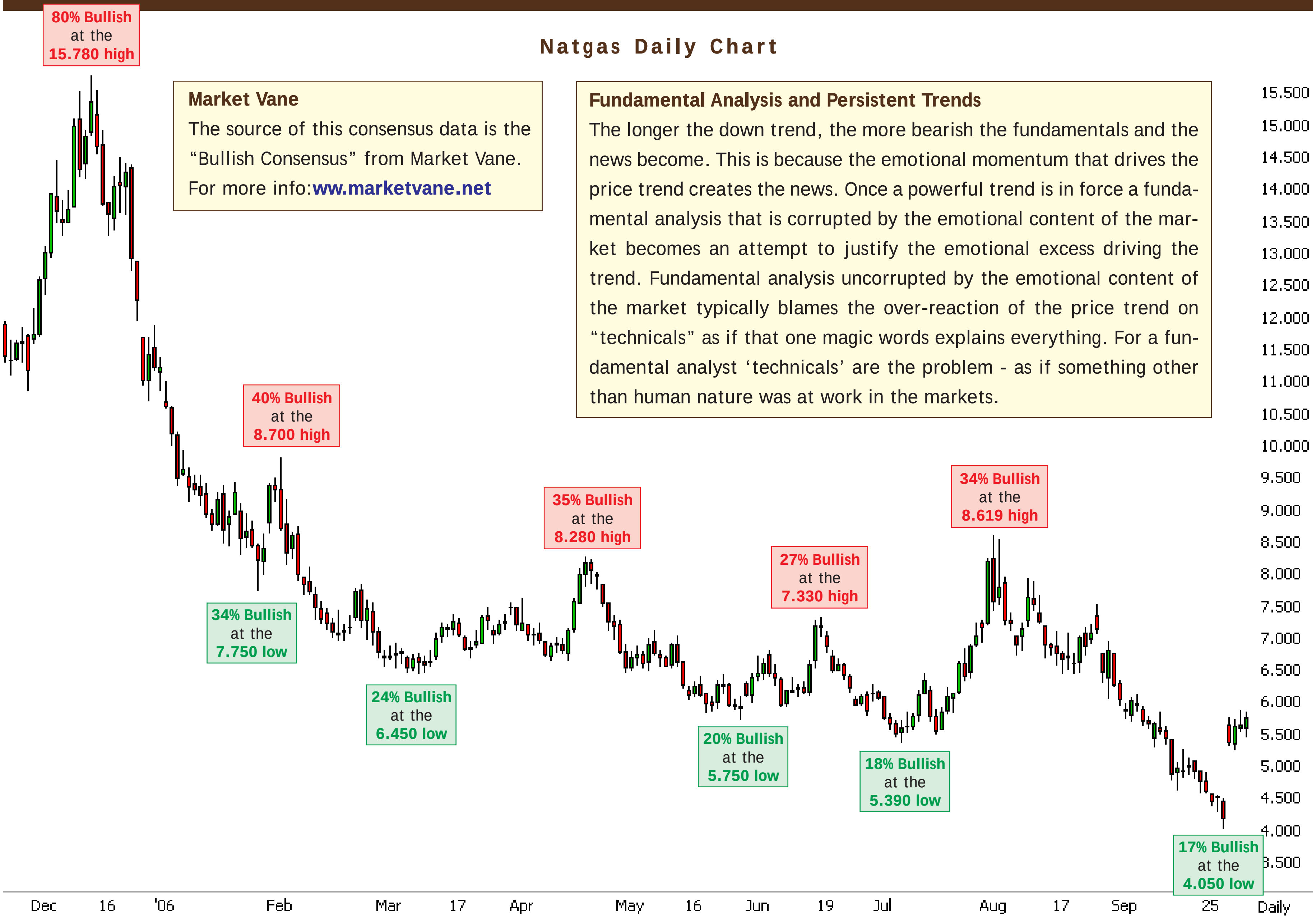
Natgas Daily Chart

Market Vane

The source of this consensus data is the “Bullish Consensus” from Market Vane. For more info:**ww.marketvane.net**

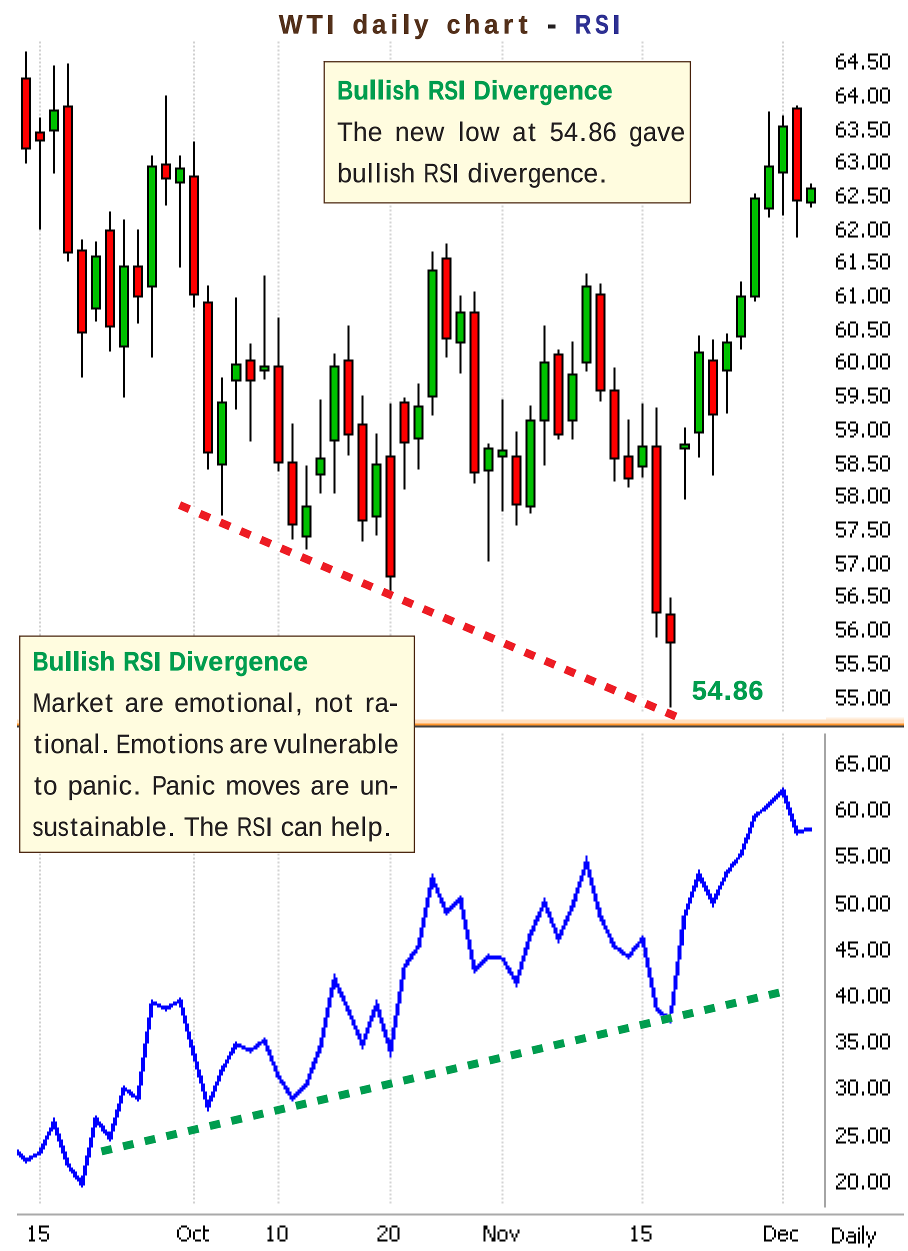
Fundamental Analysis and Persistent Trends

The longer the down trend, the more bearish the fundamentals and the news become. This is because the emotional momentum that drives the price trend creates the news. Once a powerful trend is in force a fundamental analysis that is corrupted by the emotional content of the market becomes an attempt to justify the emotional excess driving the trend. Fundamental analysis uncorrupted by the emotional content of the market typically blames the over-reaction of the price trend on “technicals” as if that one magic words explains everything. For a fundamental analyst ‘technicals’ are the problem - as if something other than human nature was at work in the markets.



WTI - RSI Divergence

United-ICAP



WTI monthly chart

Wave Count

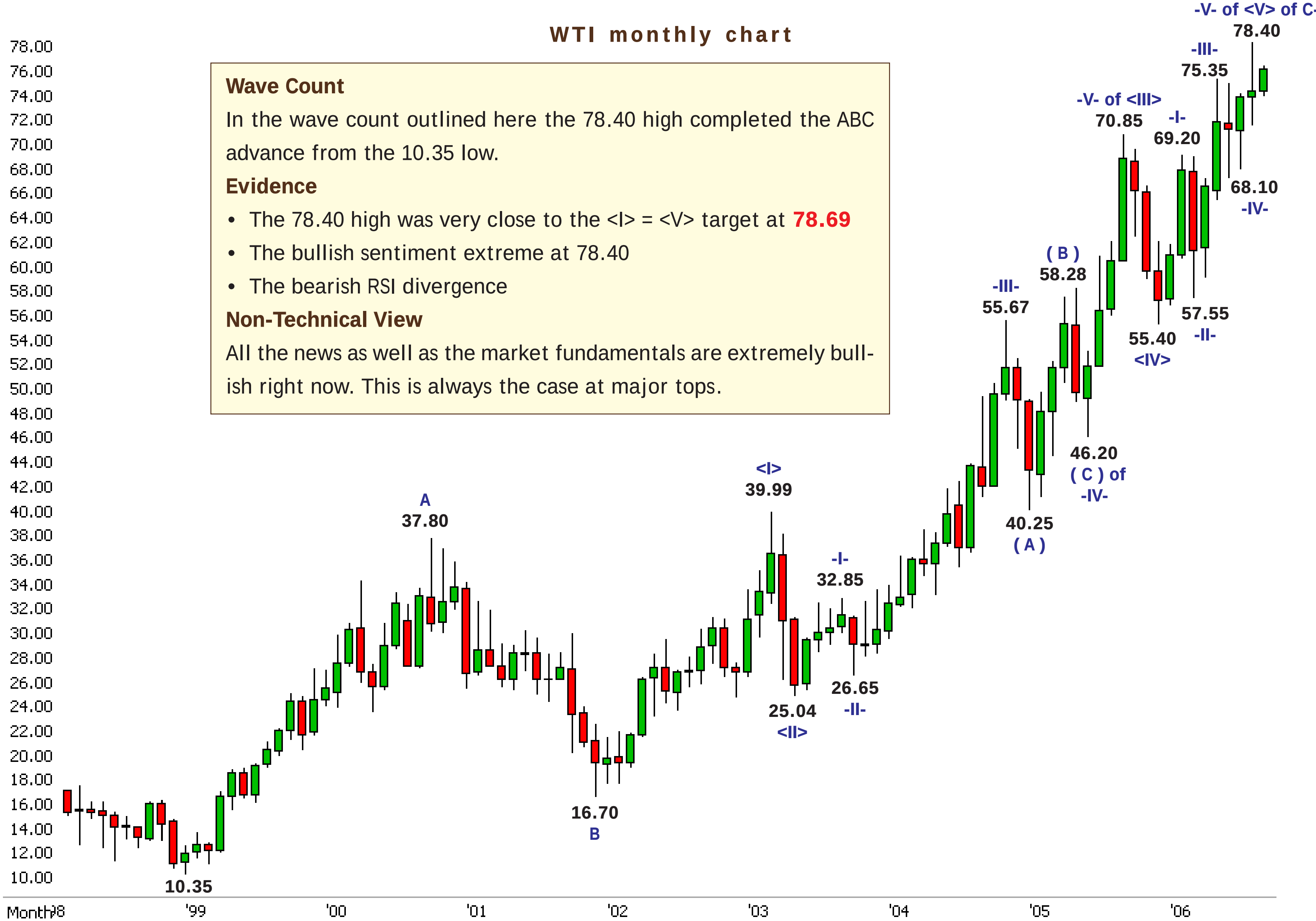
In the wave count outlined here the 78.40 high completed the ABC advance from the 10.35 low.

Evidence

- The 78.40 high was very close to the <I> = <V> target at **78.69**
- The bullish sentiment extreme at 78.40
- The bearish RSI divergence

Non-Technical View

All the news as well as the market fundamentals are extremely bullish right now. This is always the case at major tops.



2Oil - monthly chart

Herding Behavior vs. Efficient Market Hypothesis?

"If everyone is thinking alike, someone isn't thinking"

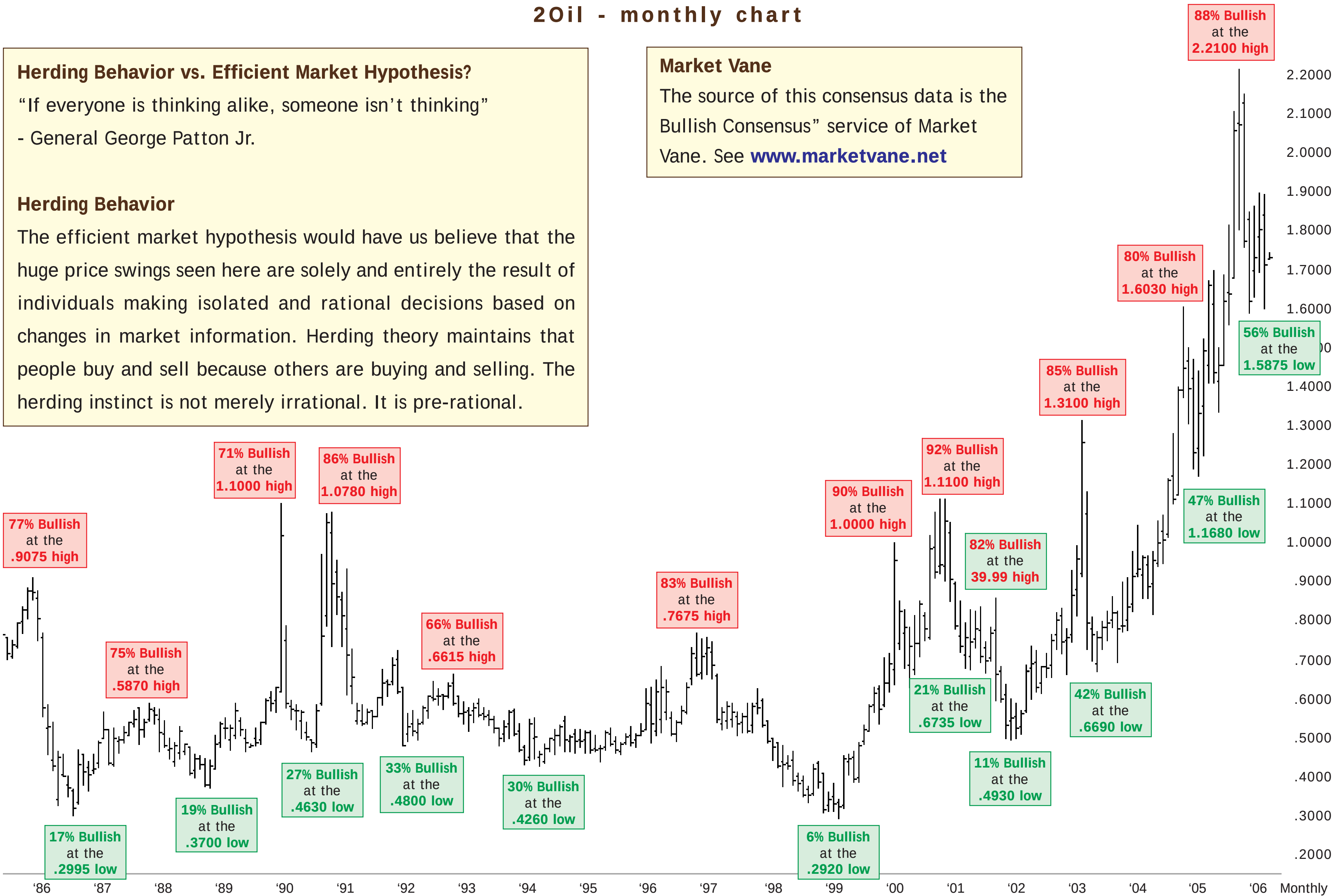
- General George Patton Jr.

Herding Behavior

The efficient market hypothesis would have us believe that the huge price swings seen here are solely and entirely the result of individuals making isolated and rational decisions based on changes in market information. Herding theory maintains that people buy and sell because others are buying and selling. The herding instinct is not merely irrational. It is pre-rational.

Market Vane

The source of this consensus data is the Bullish Consensus" service of Market Vane. See **www.marketvane.net**



The Sunday New York Times “Week in Review” section from the week ending 25th October 1987

The Market: A Manic-Depressive

The emotional nature of the markets is a reality well known to professional traders. Fundamental analysis is simply not capable of gauging the emotional content of the market. Quantifying emotional content is one of the principle goals of technical analysis.

The pursuit of this goal inevitability causes one to question the efficient market hypothesis that is one of the bulwarks of fundamental analysis. And these questions invariably bring one face to face with herding theory.

Just a normal day at the nation’s most important financial institution...

- Insects Swarm
- Fish Swim in Schools
- Birds Fly in Flocks
- Animals Migrate in Herds
- Financial Markets Trend

And all for the same reason.

In a Predator - Prey dynamic the prey finds safety in numbers.

For hundreds of millions of years those who tired of following the herd quickly became lunch for the predators.

- In the markets the last buyer in an up trend is consumed by the ensuing reversal.
- The last seller in a down trend becomes lunch for the bulls
- Bulls are the prey in a down trend
- Bears are the prey in an up trend
- Unexpected trend reversals are the main source of danger in the financial markets.

2 Oil - weekly chart

Current Sentiment

The critical sentiment question from here is whether the recent 76% bullish at the 2.1700 high was a major double top against last years 76% bullish from last years 2.1700 high.

Market Vane

The source of this consensus data is the "Bullish Consensus" service of Market Vane. See **www.marketvane.net**

Intermediate Term Support

Our 2nd November 2Oil report had targeted major intermediate term support into the 1.5700 - 1.5475 zone as:

- The <A> = <C> target is **1.5475**
- The -I- = -V- of <C> at **1.5700**

Whoever wishes to foresee the future must consult the past;

for human events ever resemble those of preceding times.

This arises from the fact that they are produced by men

who ever have been, and ever shall be,

animated by the same passions,

and thus they necessarily have the same results.

- Nicollo Machiavelli 1469 - 1527

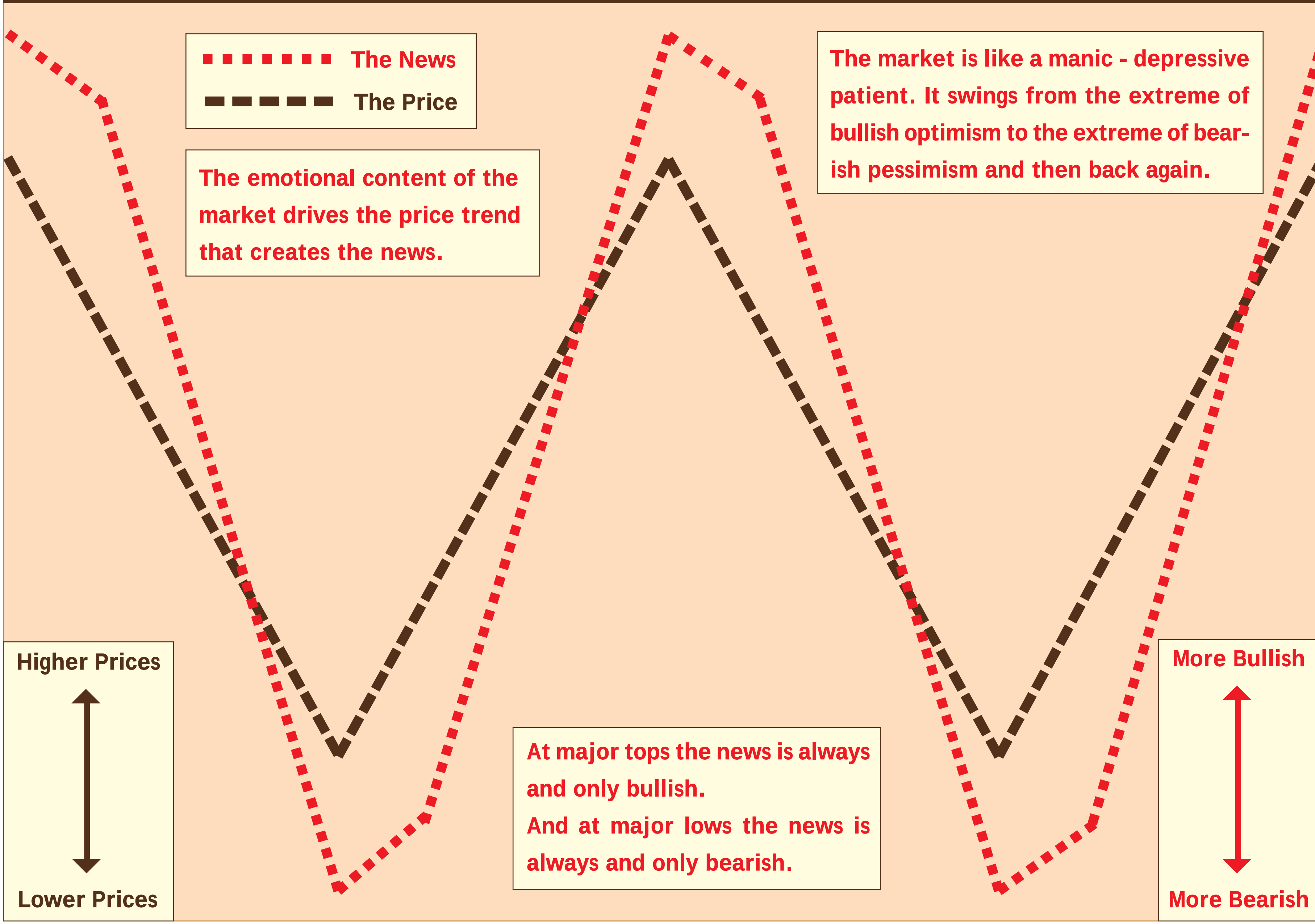
The study of the markets is the study of human nature.

If our model for the price action in the markets

does not account for the nature of human nature

then our model could be dangerous

to our financial well being.


The News
The Price
The emotional content of the market drives the price trend that creates the news.
The market is like a manic - depressive patient. It swings from the extreme of bullish optimism to the extreme of bear-ish pessimism and then back again.
Higher Prices
Lower Prices
At major tops the news is always and only bullish.
And at major lows the news is always and only bearish.
More Bullish
More Bearish

Canadian Dollar - monthly chart

National Currency

Neither a nation nor its currency have any sovereignty over human emotions. And it is the collective effect of human emotions that drives a market from an oversold bearish sentiment extreme at the conclusion of a down trend to the overbought bullish sentiment extreme at the peak of an up trend.

Market Vane

The source of this consensus data is the Bullish Consensus” service of Market Vane. See **www.marketvane.net**

Gold - monthly chart

Market Vane

For information on the Market Vane "Bullish Consensus " contrarian indicator see their web site at **www.marketvane.net**

Sentiment Analysis

Clearly visible here is the emotional dynamic that drives price trends from over-bought, unsustainable panic tops to over-sold, unsustainable panic lows. Note that the 92% bullish at the 732.0 peak was the most extreme sentiment reading since Market Vane began tracking gold back in 1980.

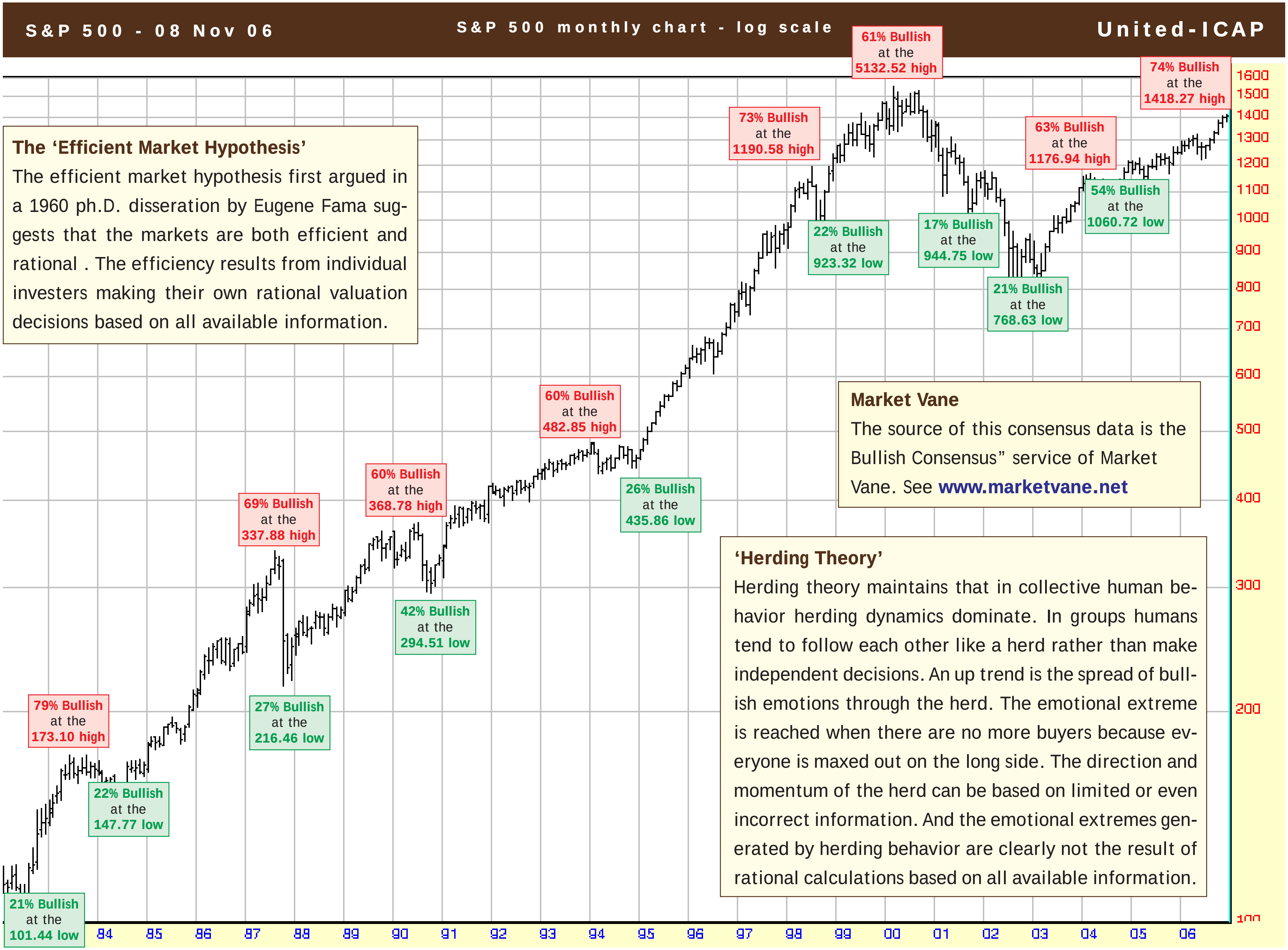
Long Bond - Monthly Chart

Market Vane

The source of this consensus data is the Bullish Consensus” service of Market Vane. See **www.marketvane.net**

Sentiment and Economic Cycles

Swings in the collective sentiment are not something separate from economic cycles. Long term trends in economic cycles are the sentiment swings. Here we see the dynamics of sentiment extremes that drive the long bond and the economy.



The 'Efficient Market Hypothesis'

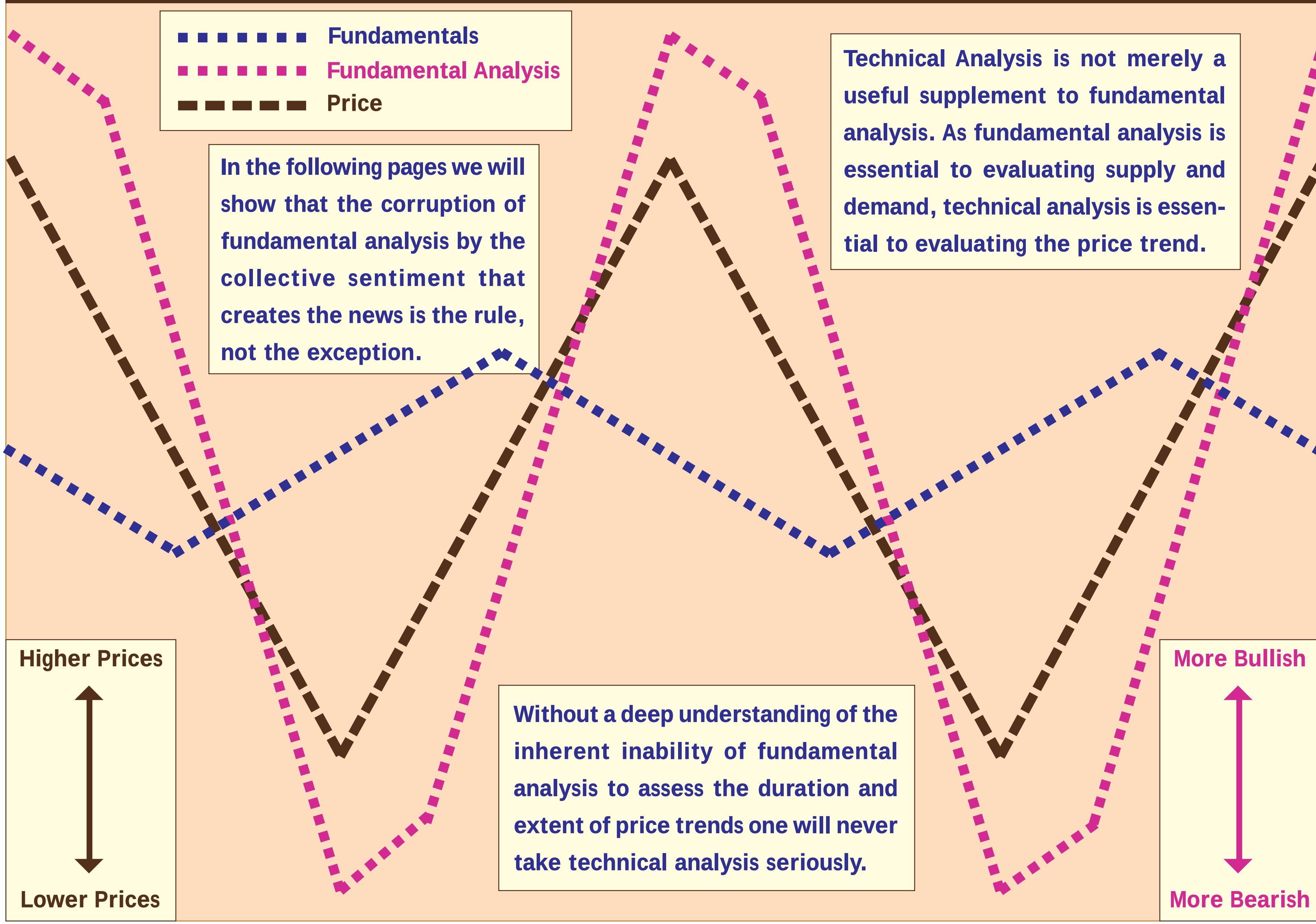
The efficient market hypothesis first argued in a 1960 ph.D. disseration by Eugene Fama suggests that the markets are both efficient and rational . The efficiency results from individual investers making their own rational valuation decisions based on all available information.

Market Vane

The source of this consensus data is the Bullish Consensus" service of Market Vane. See **www.marketvane.net**

'Herding Theory'

Herding theory maintains that in collective human behavior herding dynamics dominate. In groups humans tend to follow each other like a herd rather than make independent decisions. An up trend is the spread of bullish emotions through the herd. The emotional extreme is reached when there are no more buyers because everyone is maxed out on the long side. The direction and momentum of the herd can be based on limited or even incorrect information. And the emotional extremes generated by herding behavior are clearly not the result of rational calculations based on all available information.



In the following pages we will show that the corruption of fundamental analysis by the collective sentiment that creates the news is the rule, not the exception.

Technical Analysis is not merely a useful supplement to fundamental analysis. As fundamental analysis is essential to evaluating supply and demand, technical analysis is essential to evaluating the price trend.

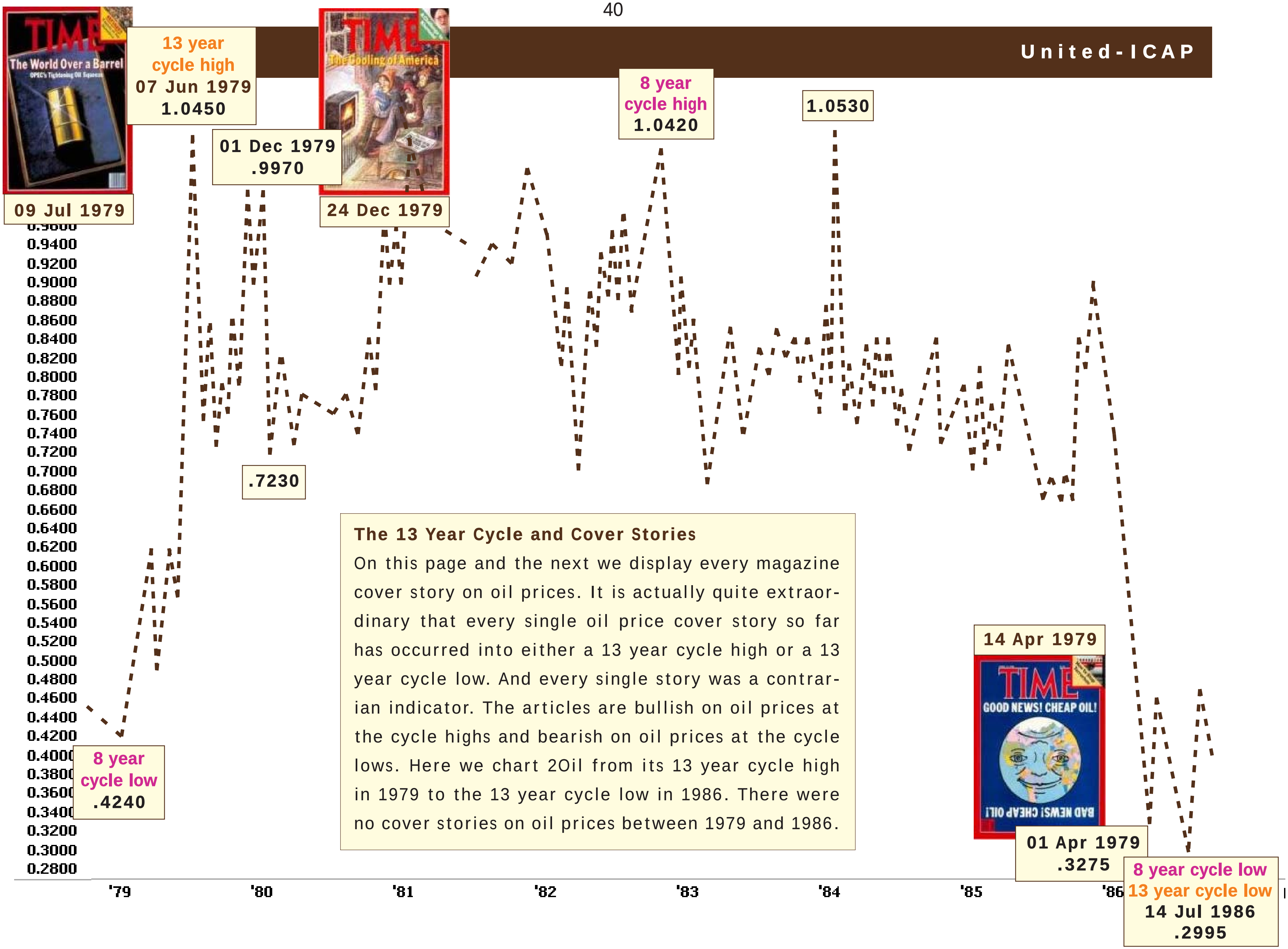
Without a deep understanding of the inherent inability of fundamental analysis to assess the duration and extent of price trends one will never take technical analysis seriously.

Magazine cover stories on economic trends in commodities, currencies, or even the stock market are very rare events. When they do occur they have so far been, without exception, very reliable contrarian indicators. Why is this the case?

Every day a magazine editor has many dozens of possible topics vying for contention as the next cover story. A financial trend has to be very powerful, if not outright traumatic, to beat out the competition for placement as the next cover story.

The history has shown that by the time a financial trend has lasted long enough and been powerful enough to make it onto the front page of a magazine, that trend is typically ending, already over, or has already reversed direction.

Over the next few pages we will see that this phenomena of magazine cover story as contrarian indicator applies to commodity trends, currency trends, and to trends in individual companies as well. And as we will see that the dynamics that make a magazine cover story a contrarian indicator reveals the interaction of price trends, fundamental analysis, and sentiment extremes that we outlined in the schematic diagrams in the previous pages.



The 13 Year Cycle and Cover Stories

On this page and the next we display every magazine cover story on oil prices. It is actually quite extraordinary that every single oil price cover story so far has occurred into either a 13 year cycle high or a 13 year cycle low. And every single story was a contrarian indicator. The articles are bullish on oil prices at the cycle highs and bearish on oil prices at the cycle lows. Here we chart 2Oil from its 13 year cycle high in 1979 to the 13 year cycle low in 1986. There were no cover stories on oil prices between 1979 and 1986.

WTI Monthly Chart

Cover Stories and Trend Reversals

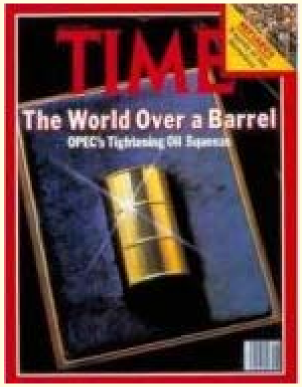
While other cover stories featured Mid-East wars or on the Saudi royal family the cover stories featured on this page and the previous were the only cover stories whose focus was the price of oil. With the exception of the December 2001 Economist magazine all oil price cover stories occurred only into the 13 year cycle reversals and only as contrarian indicators.

News Follows the Trend

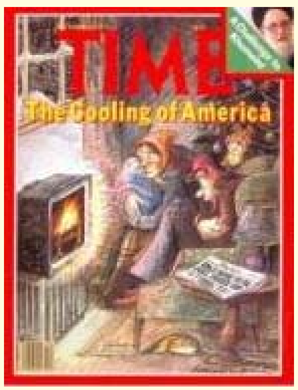
In the introduction to this essay we stated that the news is always and only bullish at the major highs and the news is always and only bearish at the major lows. In the intensely emotional environment of the sentiments extremes and major tops and bottoms it is all too easy to become the last buyer in an up trend or the last seller in a down trend.

Energy Price Cycles and Magazine Cover Trend Reversal Confirmations

Peaking of
13 Year Cycle:
Due Q4 1979



July 9, 1979

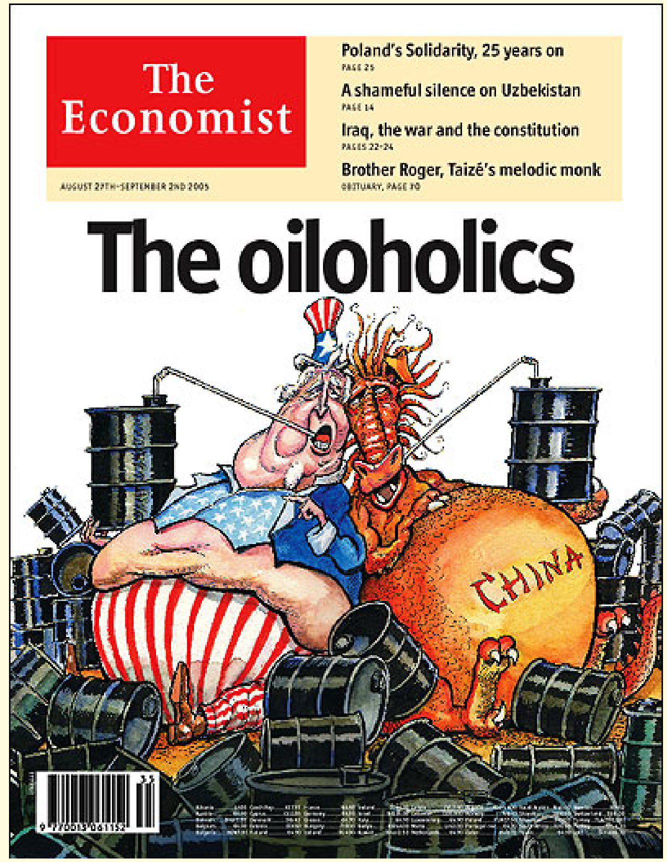


Dec 24, 1979

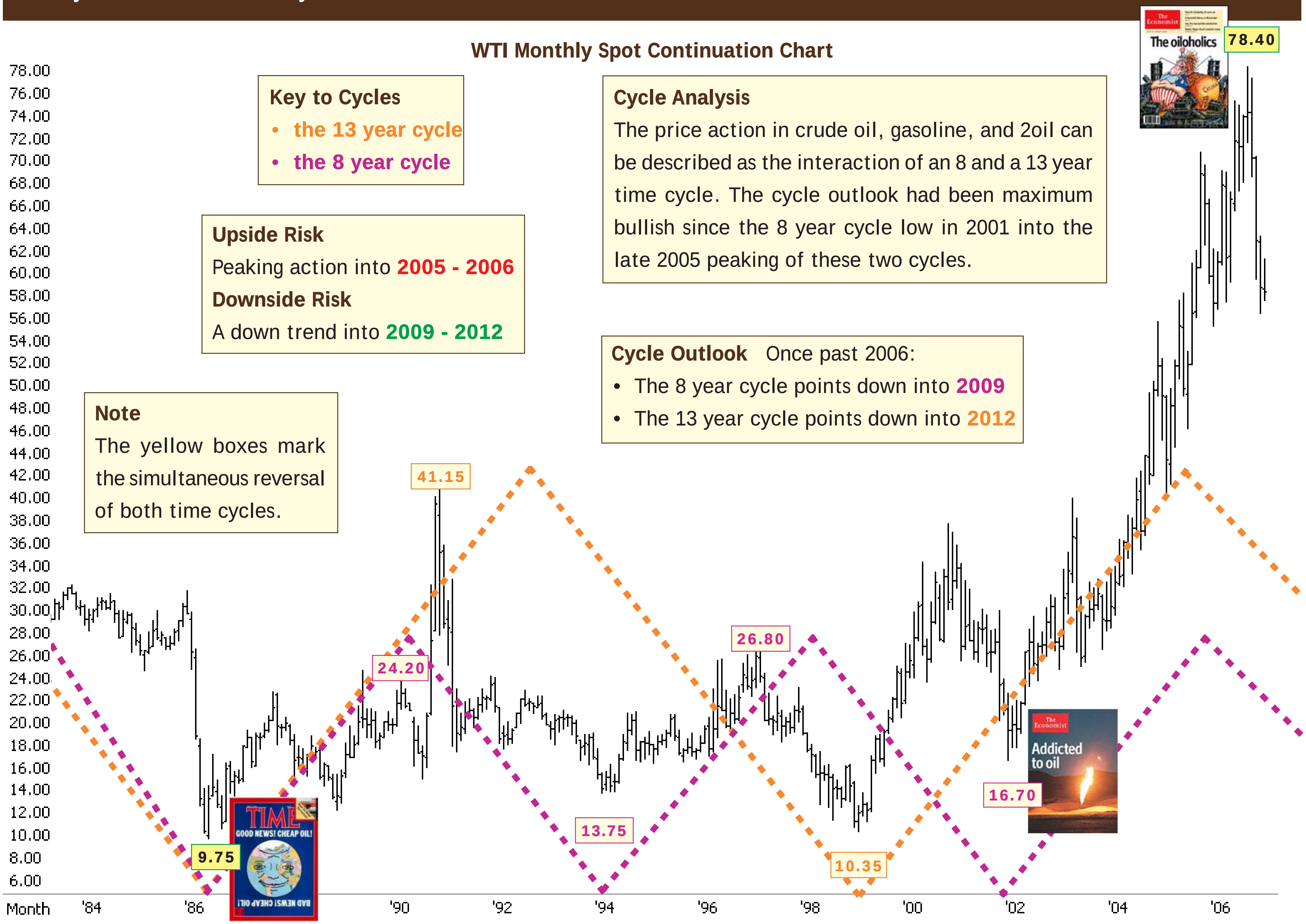
Bottoming of
8 and 13 Year Cycles:
Due 1986

Apr 14 1986

Peaking of
8 and 13 Year Cycles:
Due Aug - Sep 2005



27 Aug 2005


WTI Monthly Spot Continuation Chart
Key to Cycles
• the 13 year cycle
• the 8 year cycle
Upside Risk
Peaking action into 2005 - 2006
Downside Risk
A down trend into 2009 - 2012
Note
The yellow boxes mark the simultaneous reversal of both time cycles.
Cycle Analysis
The price action in crude oil, gasoline, and 2oil can be described as the interaction of an 8 and a 13 year time cycle. The cycle outlook had been maximum bullish since the 8 year cycle low in 2001 into the late 2005 peaking of these two cycles.
Cycle Outlook Once past 2006:
• The 8 year cycle points down into 2009
• The 13 year cycle points down into 2012
The oilholics
78.40
41.15
24.20
26.80
13.75
10.35
16.70
9.75
TIME
GOOD NEWS! CHEAP OIL!
Addicted to oil
78.00
76.00
74.00
72.00
70.00
68.00
66.00
64.00
62.00
60.00
58.00
56.00
54.00
52.00
50.00
48.00
46.00
44.00
42.00
40.00
38.00
36.00
34.00
32.00
30.00
28.00
26.00
24.00
22.00
20.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
Month
'84
'86
'90
'92
'94
'96
'98
'00
'02
'04
'06

The Economist magazine is clearly not a low brow tabloid. It is in fact arguably the most respected magazine in the world. It also happens to have a 100% track record as a contrarian indicator when it comes to cover stories and currency trends.

Euro fx, monthly chart

Calculated pre-Euro Euro

Economist Archives

The archive of cover stories for the Economist magazine only dates back to January 2000

US Dollar - Euro fx

The previous page was a monthly chart of the Euro fx. Here we look at the same magazine cover phenomena from the perspective of a weekly US Dollar chart. The phenomena is the same. By the time a currency trend has lasted long enough and has become obvious enough to make it as a cover story, the trend is over.

Currency Price Cycles and Magazine Cover Trend Reversal Confirmations

Bottoming of
5 and 6 Year US Dollar Cycles:
Due Dec 2004

04 Dec 2004

Peaking of
5 Year Dollar Cycle:
Due Q4 2005

Bottoming of
4 Year Euro Cycle:
Due Oct 2005

12 Nov 2005

Potential Double Bottom
in US Dollar
Against Dec 2004 lows

02 Dec 2006

Dollar Index (DX) - monthly chart

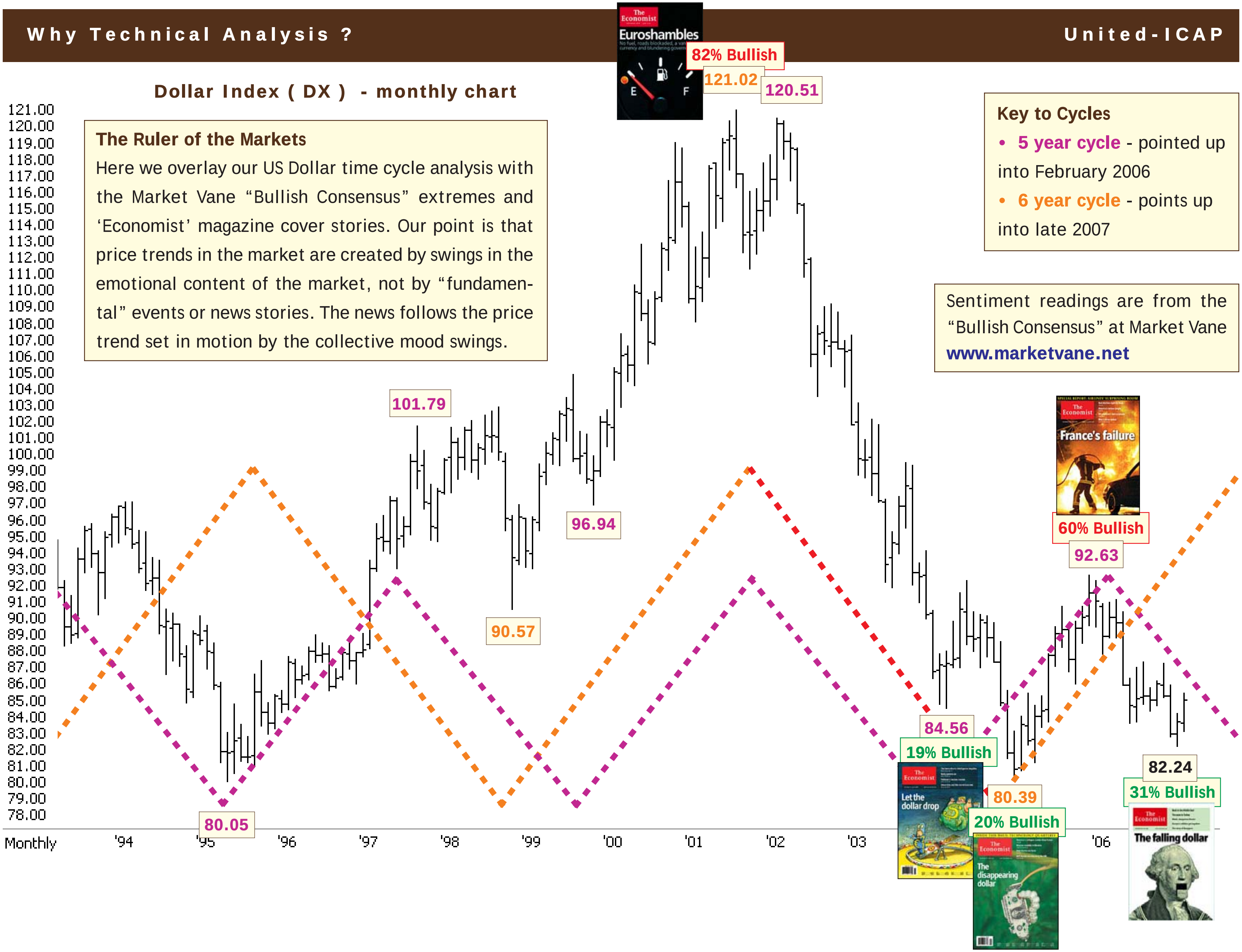
The Ruler of the Markets

Here we overlay our US Dollar time cycle analysis with the Market Vane "Bullish Consensus" extremes and 'Economist' magazine cover stories. Our point is that price trends in the market are created by swings in the emotional content of the market, not by "fundamental" events or news stories. The news follows the price trend set in motion by the collective mood swings.

Key to Cycles

- **5 year cycle** - pointed up into February 2006
- **6 year cycle** - points up into late 2007

Sentiment readings are from the "Bullish Consensus" at Market Vane **www.marketvane.net**



Dollar Index (DX) - monthly chart

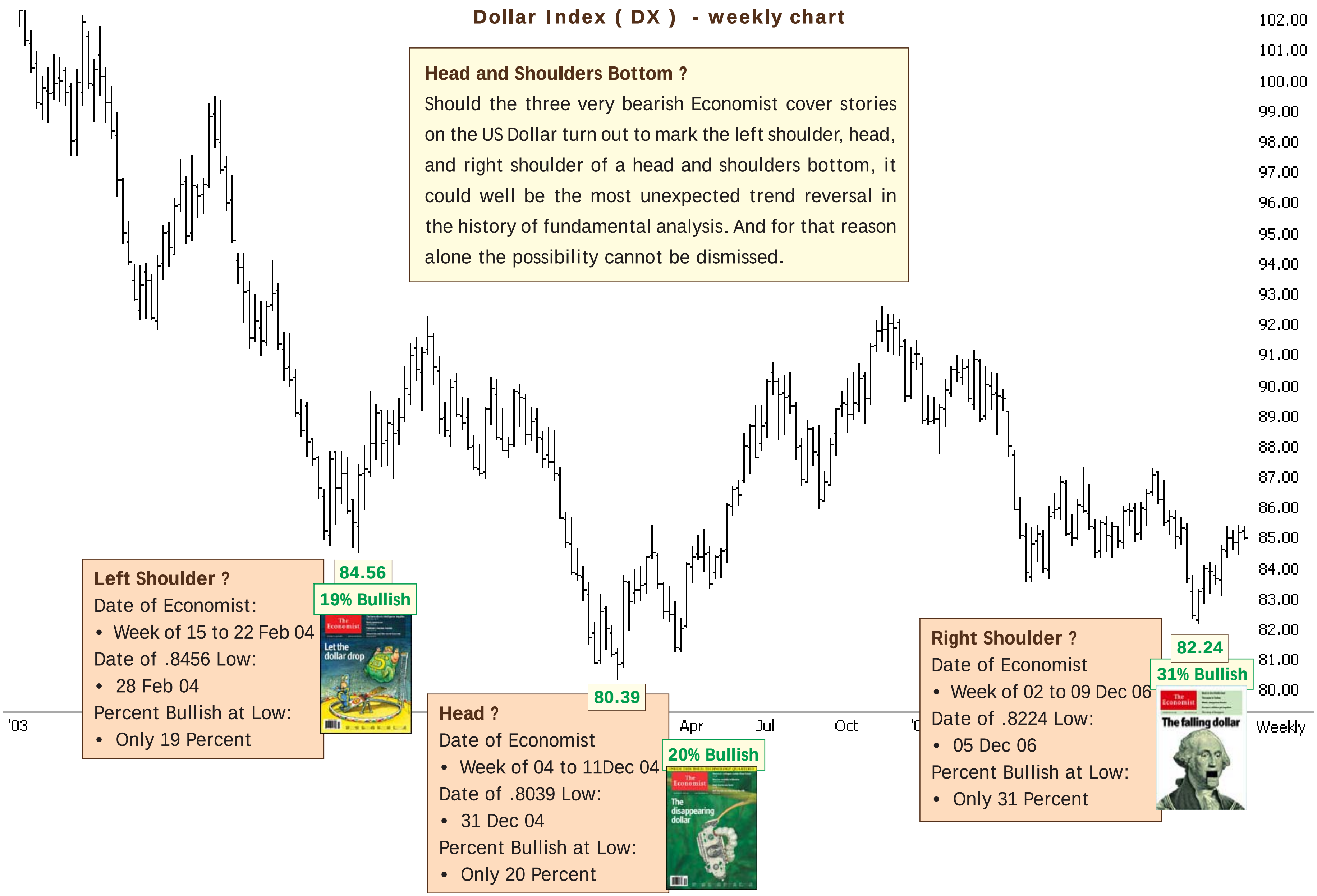
Cause and Effect

If the news is created by the price trend and the price trend is created by the collective mood swings then the primary cause of a price trend is the collective mood of the market. From this perspective market fundamentals are the creation of trends in the collective mood of the market. Fundamental events are not the cause of price trends.

Key to Cycles

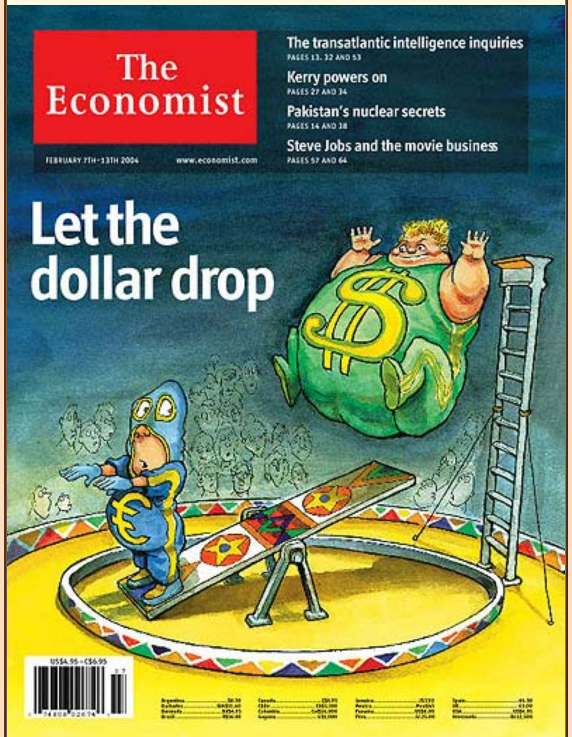
- **5 year cycle** - pointed up into February 2006
- **6 year cycle** - points up into late 2007

Sentiment readings are from the "Bullish Consensus" at Market Vane **www.marketvane.net**


Dollar Index (DX) - weekly chart
Head and Shoulders Bottom ?
Should the three very bearish Economist cover stories on the US Dollar turn out to mark the left shoulder, head, and right shoulder of a head and shoulders bottom, it could well be the most unexpected trend reversal in the history of fundamental analysis. And for that reason alone the possibility cannot be dismissed.
Left Shoulder ?
Date of Economist:
• Week of 15 to 22 Feb 04
Date of .8456 Low:
• 28 Feb 04
Percent Bullish at Low:
• Only 19 Percent
84.56
19% Bullish
Let the dollar drop
Head ?
Date of Economist
• Week of 04 to 11Dec 04
Date of .8039 Low:
• 31 Dec 04
Percent Bullish at Low:
• Only 20 Percent
80.39
20% Bullish
The disappearing dollar
Right Shoulder ?
Date of Economist
• Week of 02 to 09 Dec 06
Date of .8224 Low:
• 05 Dec 06
Percent Bullish at Low:
• Only 31 Percent
82.24
31% Bullish
The falling dollar
102.00
101.00
100.00
99.00
98.00
97.00
96.00
95.00
94.00
93.00
92.00
91.00
90.00
89.00
88.00
87.00
86.00
85.00
84.00
83.00
82.00
81.00
80.00
'03
Apr
Jul
Oct
Weekly

Currency Price Cycles and Magazine Cover Trend Reversal Confirmations

Left Shoulder of Head and Shoulders Bottom at 5 Year US Dollar Cycle Low ?



07 Feb 2004

Head of Head and Shoulders Bottom at 6 Year US Dollar Cycle Low ?

04 Dec 04

Right Shoulder of Head and Shoulders Bottom at An .852 Retracement ?

02 Dec 2006

Euro fx monthly chart

The Syndrome as Herding Behavior

The markets display the herding nature of human nature. People buy and sell as a function of this herding reflex. The herding instinct was hard wired in the human nervous system over millions of years. The herding reflex is the survival instinct. In any predator - prey environment the prey find safety in numbers, safety in the herd. So buyers buy largely because others are buying, and sellers sell largely because others are selling

Euro fx monthly chart

Herding Drives the Collective Mood

At major lows the news is always and only bearish. Any bullish fundamentals have long since been tossed aside as irrelevant. At major highs the news is always and only bullish. Any bearish fundamentals have long since been forgotten. That the Economist cover stories on the US Dollar and the Euro appear only at major trend reversals and only as a contrarian indicator is solid evidence of this dynamic.

Gold - Spot Daily Chart

"The News Follows the Trend"

A corollary of the proverb cited above is that the news remains bullish well after the trend has reversed lower. That is clearly the case with this magazine cover story. The cover story consisted of analysts in a seeming contest to have the most bullish price target. While readers were marvelling at these extremely bullish forecasts, gold was tumbling lower from a 13 year cycle high and the most extremely bullish sentiment reading ever.

The red arrow marks the publication of this Forbes issue.

Note

To my knowledge this was the only magazine cover whose focus was the price of gold.

Gold - monthly chart

Gold Time Cycles

Here we plug in the same **eight year** and **thirteen year** cycles that we use for energy futures with a slight offset to the actual energy cycles. We use the thirteen year for peaks and troughs and the eight year for troughs only. From this perspective the recent peak at 732.0 looks extremely vulnerable to a sustained down trend.

Gold - monthly chart

Market Vane

For information on the Market Vane "Bullish Consensus " contrarian indicator see their web site at **www.marketvane.net**

Sentiment Analysis

Clearly visible here is the emotional dynamic that drives price trends from over-bought, unsustainable panic tops to over-sold, unsustainable panic lows. Note that the 92% bullish at the 732.0 peak was the most extreme sentiment reading since Market Vane began tracking gold back in 1980. It was this sentiment extreme that created the Forbes magazine cover story.

Dow Jones Industrial Average - Daily Chart

BOOM IN STOCKS: WHAT IT MEANS

This cover story on the stock market boom meant that the boom was over and the market had already peaked. The Dow Industrials then proceeded to fall 17.5% over the next few months.

United-ICAP
the technical advisory service

walter j. zimmermann jr. walterz@united-icap.com

United-ICAP

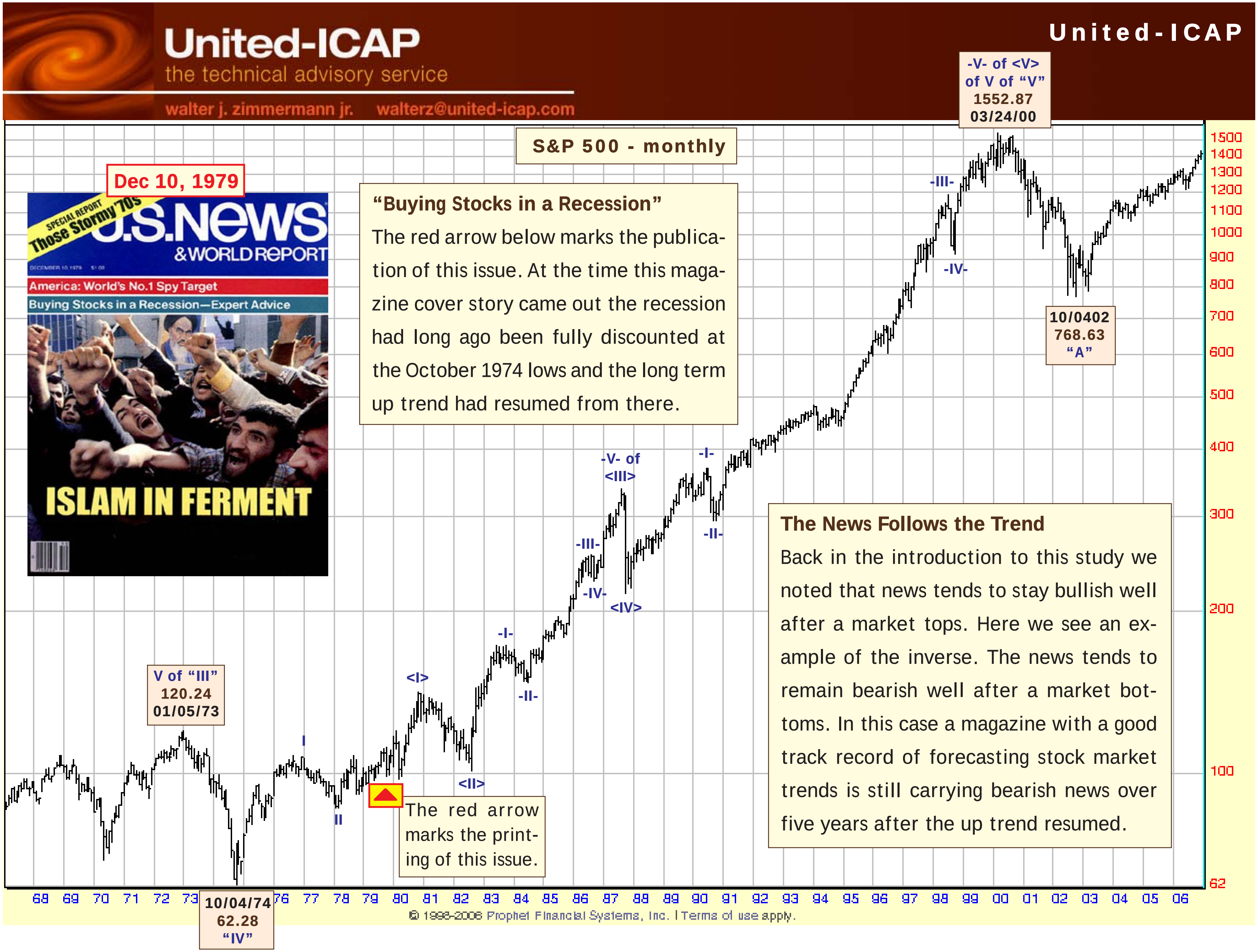
Bearish Wave Count

The bearish wave count pegs the 68 year long rally from the 4.46 low in 1932 to the 1552.87 high in 2000 a completed five wave rally. In this model the decline from 1552.87 to 768.63 in October 2002 was the initial leg down in a long term corrective retreat.

Potential Long Term Support

Of the 4.40 to 1552.87 advance

- The 50% retracement is **778.64**
- The .618 retracement is **595.92**


United-ICAP
the technical advisory service
walter j. zimmermann jr.
walterz@united-icap.com
United-ICAP
S&P 500 - monthly
Dec 10, 1979
U.S.News & WORLD REPORT
SPECIAL REPORT Those Stormy '70s
America: World's No.1 Spy Target
Buying Stocks in a Recession—Expert Advice
ISLAM IN FERMENT
"Buying Stocks in a Recession"
The red arrow below marks the publication of this issue. At the time this magazine cover story came out the recession had long ago been fully discounted at the October 1974 lows and the long term up trend had resumed from there.
The News Follows the Trend
Back in the introduction to this study we noted that news tends to stay bullish well after a market tops. Here we see an example of the inverse. The news tends to remain bearish well after a market bottoms. In this case a magazine with a good track record of forecasting stock market trends is still carrying bearish news over five years after the up trend resumed.
The red arrow marks the printing of this issue.
-V- of <V> of V of "V" 1552.87 03/24/00
10/0402 768.63 "A"
V of "III" 120.24 01/05/73
10/04/74 62.28 "IV"
-III-
-IV-
-V- of <III>
-I-
-II-
-III-
-IV-
<IV>
-I-
-II-
<I>
<II>
I
II
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500
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300
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62
68 69 70 71 72 73 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06
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One implication of this syndrome is that a proper technical analysis should be able to predict the timing of magazine cover stories on financial trends. If your technical analysis has warned you of the potential for a bullish cover story within either a targeted timing window or a targeted price zone then you are far less likely to be tricked into getting long based on the content of that cover story. And similarly you are thereby far less likely to be tricked into being the last seller in a down trend based on a bearish magazine cover story.

Technical analysis can protect our objectivity from far more than magazine cover stories. Here the magazine cover story represents a much wider range of phenomena that includes news in general and especially the corrupted fundamental analysis that tends to be most bullish at major tops and most bearish at major lows. Technical analysis can allow us to maintain objectivity into the major sentiment extremes that occur at major price trend reversals. And these principles have a much wider range of application that to major markets like commodities or stock market averages. We are about to see that these same principles apply to individual companies and even to individuals.

Apple - Monthly Chart

The News Follows the Trend

By the publication of this issue of Wired magazine in June 1997 things were looking so bad for Apple Computer that few doubted it could survive. The conclusion of this article was that Apple was so far beyond hope the only thing one could do was "**Pray**"

Sell the Rumor, Buy The News

By the time the gloom becomes widespread enough to demand a magazine cover story one can be reasonably assured that the worst case has already been discounted in the price. From there anything less than an absolute disaster will incite a sustained rally.

The Bottom

Apple bottomed the month after the cover story at 3.10 on 10th July 97 and began a long term up trend from there.

As shown on the previous page a bearish cover story on a company may well be a buy signal. On this and the following pages it is clear that praising a company in a magazine cover story may well be a sell signal.

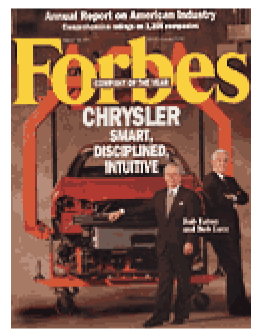
Not even the mighty Goldman Sachs is immune to the magazine cover syndrome. Why? Because nothing human is immune from human nature.

Apr 29, 2006

Magazine cover stories on trends in commodities or currencies are extremely rare. And when they do occur they have so far been, without exception, powerful contrarian indicators.

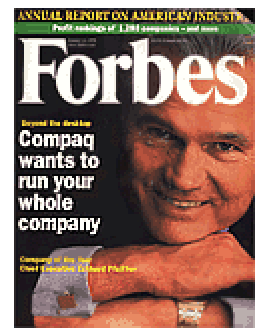
Every week a magazine editor has many dozens of possible topics vying for placement as cover story. History has shown that by the time a financial trend has lasted long enough and been powerful enough to make it onto the front page of a magazine, that trend is over and ready to reverse direction. As will we see on that next few pages this phenomena applies to individual companies as well.

13 Jan 1997



Forbes Company of the Year: Chrysler

12 Jan 1998



Forbes Company of the Year: Compaq

We now revisit the last ten years of the Forbes magazine company of the year. Chrysler shareholders were lucky to be bought out by Mercedes. Compaq went down hill fast and Compaq shareholders were very lucky indeed to be bought by HP before the company went under.

Forbes heralds their web-site as

"The Home Page for The World's Business Leaders"

Evidently modest is not one of their virtues.

They are all about big money and sophisticating investing.

They pride themselves on listing the world richest and the worlds largest companies.

And as noted above Forbes proclaims itself the home page for these wealthiest of the wealthy.

And every year Forbes puts is credibility and reputation on the line when it features a

"Company of the Year" in the January issue.

Forbes puts their best minds to work to anoint one company as the best of the best.

And the tool that they use to select this company is Fundamental Analysis

Pfizer - Monthly Chart


Nov 1999
77.00 high
UPS - Weekly Chart
The UPS stock was not able to hold above its January 2000 high until late 2003.
10 Jan 2000
THE PLATINUM LIST
Forbes
COMPANY OF THE YEAR
UPS
Forbes Company of the Year: UPS
46.00 low
Sep 2001
Volume
Nov Dec 00 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 01 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 02 F

Charles Schwab & Co. - Monthly Chart

Harley Davidson - Weekly Chart

Northrop - Grumman - Monthly Chart

Best Buy - Weekly Chart

Amgen was a short sale on the Forbes pick like all previous Forbes picks except Northrop in 2003. However it was a short lived sale and extensive congestion ensued.


09 Jan 2006
America's Best Managed Companies
Forbes
SEAGATE
Forbes Company of the Year: Seagate
Feb 2006
28.11 high
Seagate - Weekly Chart
18.38 low
Aug 2006
Ten Year Scorecard;
• One good rally (2003)
• Two compames saved from almost certain death with a buy-out.
• Three congesting markets
• Four great short sales
One hit in ten at bats is not skill. It is luck.
©BigCharts.com
28
27
26
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10
0
Mar Apr May Jun Jul Aug Sep Oct Nov Dec 06 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Forbes does not do technical analysis for their "Company of the Year"

In their own words they analyze elements such as

- Total return and total revenue
- Long and short term sales
- Earnings growth and operating margins
- Long term earnings forecasts

Every single one of these metrics is a tool of fundamental analysis.
Not one of their measurements involve technical analysis.

Except for Northrop (there is that proverb "the exception proves the rule") fundamental analysis inexorably leads Forbes to pick the company whose stock price has already discounted the most bullish case scenario. That means anything less than the most bullish possible outcome will spark a sustained sell off in the stock price.

There is the proverb "Buy the rumor, sell the news."
Every year in their January issue Forbes buys the news.
And the news tends to remain bullish well after the peak.

Icarus and the Phoenix

Therefore the sage avoids extremes, excesses, and complacency

- Lao Tsu, Tao Te Ching, chapter 25

"Magazine Cover Syndrome"

While the magazine cover story syndrome featured on these pages is not an unknown phenomena the dynamics that create it are not well understood. For the fundamental analyst it is more convenient to leave the implications of the magazine cover syndrome unexplored. Warning: a complete understanding of the dynamics of the magzine cover syndrome might compel a fundamental analyst to abandon fundamental analysis.

For the masses when a bullish financial cover story occurs at a major peak it is seen as a jinx. And when a bearish cover story occurs at a major low it is seen as a jinx. No wonder traders can be a superstitious lot. They are used to seeing situations that seem to defy all logic. They are used to seeing the jinx and the curse. They are used to seeing events that seem to defy the laws of cause and effect. We will see that this syndrome is not a jinx. We will see that this syndrom reveals a deeper level of causality to anyone who takes and time and effort to study it.

The magazine cover story as contrarian indicator speaks volumes about human nature, the herding instinct, and fundamental analysis. It is a lesson on the nature of human nature and the dynamics of mass psychology.

There are three financial proverbs that summarize what the magazine cover phenomena teaches us about human nature.

1. What everyone knows is already in the price.
2. The news follows the trend.
3. Buy the rumor, sell the news.

"What everyone knows is already in the price"

At the very start of an up trend all are completely convinced that the trend is still pointing down and that much lower prices are still ahead. The herding instinct that creates the down trend also ensure that the news gets more and more bearish as the down trend continues. The history of sentiment indicators shows that time and again the most extreme bearish sentiment is reached right at the bottom of the down trend and so right at the start of the up trend.

The overwhelming unanimous consensus that there is no hope is the signal that the most bearish case has already been discounted. And if the most bearish case has already been discounted then the price can only go up. It was the bearish sentiment extreme typical of a major market low that produced the "Pray" cover story about Apple. Pray because there is no hope. Disaster is assured. Apple is finished. Pray that the end will be painless.

For a financial trend to crowd out all other issues and make it onto the cover story of a magazine the sentiment that produced the trend must be extreme. And extremes mark trend reversals. Let us examine the dynamics.

By the time the market sentiment has reached an ‘all doom and only gloom’ extreme everyone is already short. There are no more sellers. As everyone is already bearish, everyone is already short. And everyone is waiting for the next leg down to take profits. However with no one left to sell there is no one to produce that next leg down. What everyone knows at this point of a maximum bearish sentiment extreme is that prices can only go lower. But as there are no more sellers the most bearish case has already been discounted in the price. What everyone knows is already in the price. With only shorts waiting to buy back there is only buying pressure. So the up trend begins from the ashes of hope.

The image of the phoenix rising from the ashes is very iconic. It is an icon of the dynamics of human nature. As the markets are the product of human nature the myths that give us insight into human nature, like the phoenix rising from the ashes, can also give us insight into how a down trend becomes an up trend. The markets are nothing more than human nature on display.

So now we see why a bearish magazine cover story is always a buy signal. Now let us examine why a bullish cover story is always a sell signal. It is the same story only in reverse. By the time an up trend is powerful enough and has lasted long enough, and has become dramatic enough to crowd out all other candidates for the magazine cover story it is very likely that bull market is on its last legs. Bull markets never end because an unexpected piece of bearish news shocks the bulls into a panic. Because the trend creates the news the news is always and only bullish at major market peaks. So a bearish news story can never end a bull market. Bull markets end when the supply of buying power has been exhausted. Bull markets end when all are long.

How does one know when there are no more buyers? As the news follows the trend, the most bullish news story is always at the top of the up trend. And when the most bullish news story in the entire up trend fails to sustain an advance to new all time highs, then one knows that the buying power has been exhausted. When everyone knows that prices can only go higher then everyone has already bought. And when the buying power has been exhausted then the most bullish case has already been discounted. When everyone knows that prices can only go higher then that certainly is already reflected in the price.

The longer an up trend endures the more bullish people become. There is that proverb “nothing succeeds like success.” There is nothing like going long to get one bullish. And the herding instinct ensures that no one will be immune to the siren call of the bull market. As the bull market continues doubt gives way to certainly. Prudence gives way to excitement. Caution gives way to enthusiasm. Modesty gives way to hubris. By the time an up trend peaks the price has reached unsustainable levels based on a wildly optimism view of the future.

One is reminded of the myth of Icarus, a myth that has become an icon of the dangers of hubris. The higher Icarus flew the more excited he became by the thrill of flying. His enthusiasm overcame his prudence. He threw caution to the wind and thereby threw his life away. He escaped from the prison of other men only to fall victim to the prison of his own excessive enthusiasm.

To celebrate one company as THE company of the year is an act of hubris to begin with. When the selection of that company is a function of the collective sentiment then the “Company of the Year” will be that company that everyone can agree has the most bullish prospects. It may start off with objective number crunching but the process cannot help but end up as a popularity contest. So a cover story on the company of the year is the kiss of death for that company because it is the signal that all have already bought that company. When everyone is already long then the down trend is poised to start. When all the experts can agree that one company is the best company then the highest probability outcome is a sell off because the stock price of that company is already reflecting the best case scenario.

The Search for Value

The company of the year is therefore likely to be the company with the most over-valued stock price. And the company that becomes a cover story with the advice to pray for that company, then that company is likely to already have a very undervalued share price. The share prices will be undervalued because they are already reflecting the most bearish case scenario. What everyone has rejected, discarded, and sold short is likely to be grossly undervalued. What everyone loves, craves, and must have at any price is likely to be very over-valued. In trading one will not find value in the winner of a popularity contest.

The News is a Lagging Indicator

Since the news follows the trend, the news is a lagging indicator. How do we stay ahead of events? How can we anticipate price trends and the news these trends create? How can we recognize a trend at its inception instead of getting tricked into buying the highs and selling the lows? Certainly not by reading the news. Only the study of the price action itself can give us the insights needed us to buy into the earliest stages of an up trend and sell into the earliest stages of a down trend. Technical analysis is the study of the price action.

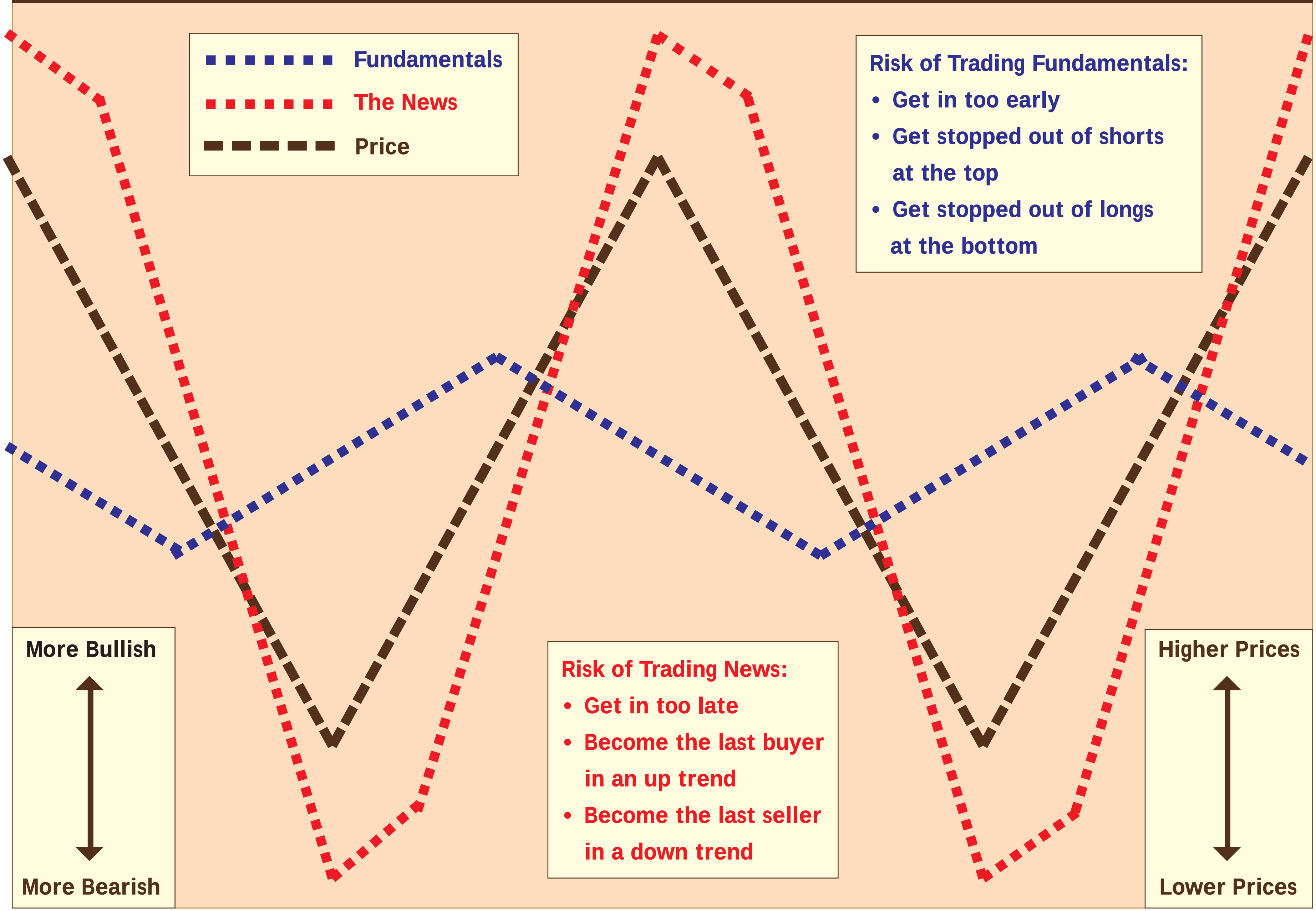
Technical analysis can allow us to be among the first buyers when all else are still short and the down trend has just ended. It is technical analysis that can allow us to be among the first sellers when all else are bullish and long and the up trend has just ended.

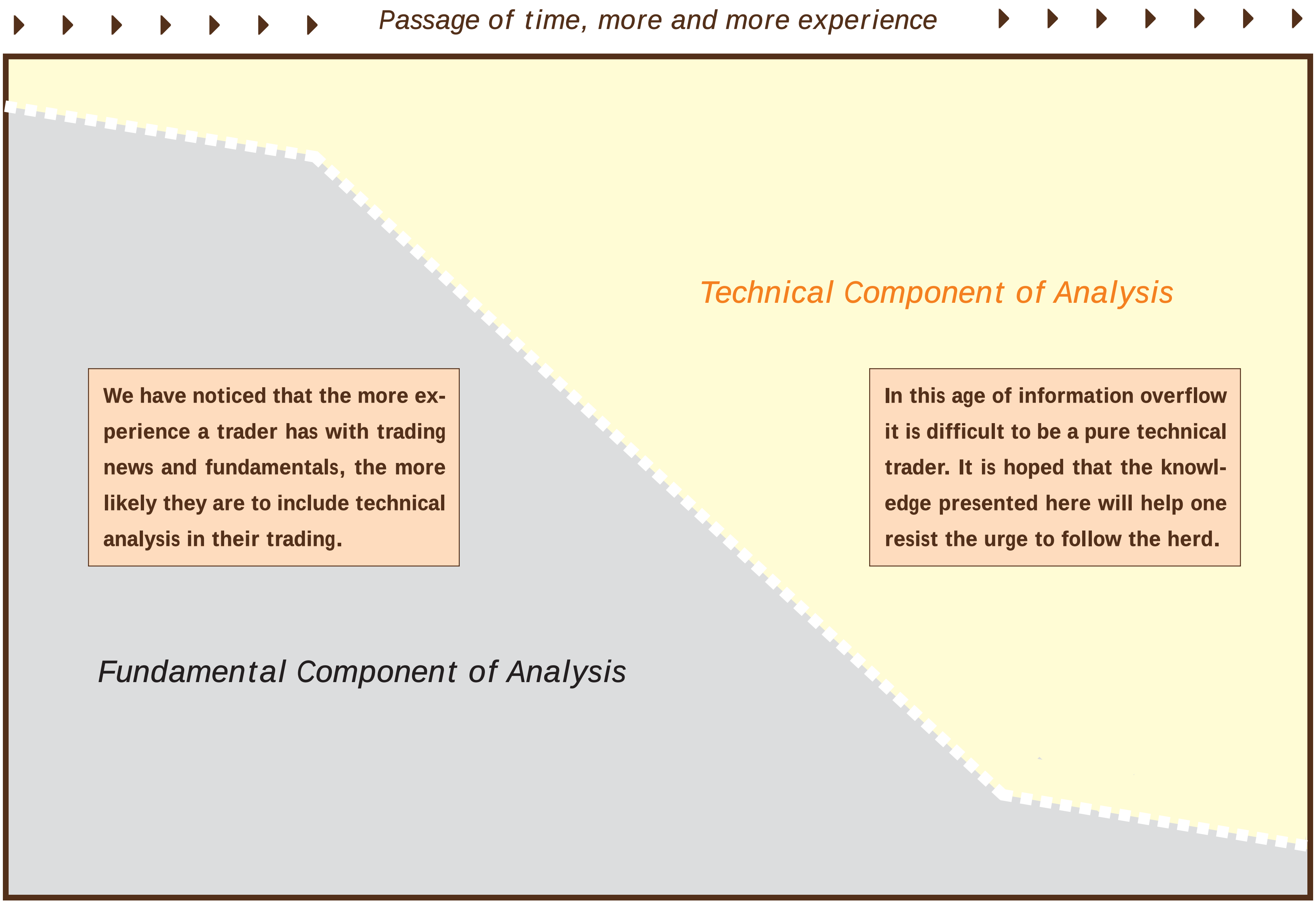
As fundamental analysis is the study of the supply and demand factors the fundamental analysts requires a constant stream of news if his analysis has any hope of remaining relevant. The only thing the technical analyst requires is access to the price action. A fundamental analyst reads the news reports. A technical analyst reads the price ticker. The price trend creates the news. So who will be first to recognize a price trend reversal?

A Cover Story is Old News

At first it may seem uncanny that every cover story on a financial trend comes out just as the trend begins to reverse. Uncanny means inexplicable, mysterious, or supernatural. Yet there is no mystery here. The dynamics that create the magazine cover story syndrome are the dynamics of human nature, the dynamics of the herding instinct.

The magazine cover story syndrome exposes the lagging nature of the news. The news lags the price trend because the price trend creates the news. And what creates the price trend? The price trends in the market are the result of the shift in the collective mood of the market from a bearish extreme to a bullish extreme, and back again. A down trend does not end and reverse higher because of bullish news. The news is all bearish at major lows. A down trend ends when the market reaches an unsustainably bearish sentiment extreme. An up trend ends when the market sentiment becomes unsustainably and maniacally bullish. The collective mood shifts first. Then the price trend reacts to that mood shift. And then the news follows the trend with on-going attempts to explain the trend with fundamental “news” that is created to explain a price move that has already occurred. News predicts the past - not the future.


Fundamentals
The News
Price
Risk of Trading Fundamentals:
• Get in too early
• Get stopped out of shorts at the top
• Get stopped out of longs at the bottom
More Bullish
More Bearish
Risk of Trading News:
• Get in too late
• Become the last buyer in an up trend
• Become the last seller in a down trend
Higher Prices
Lower Prices

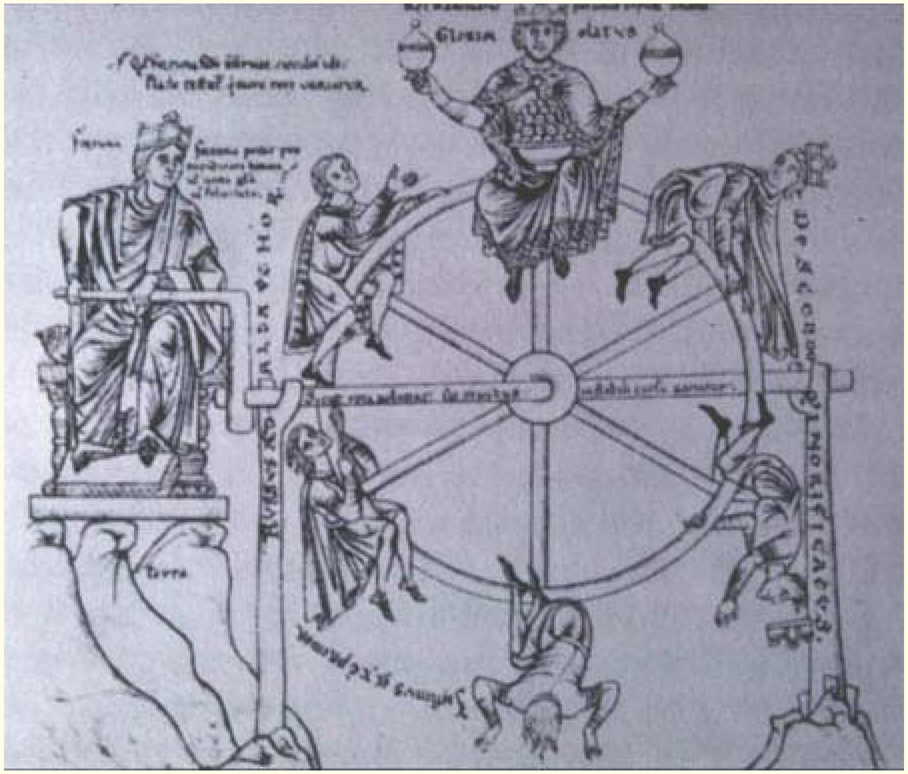

Passage of time, more and more experience
Technical Component of Analysis
We have noticed that the more experience a trader has with trading news and fundamentals, the more likely they are to include technical analysis in their trading.
In this age of information overflow it is difficult to be a pure technical trader. It is hoped that the knowledge presented here will help one resist the urge to follow the herd.
Fundamental Component of Analysis

√ **Financial Trends**

√ **Individual Companies**

- **Individuals**

Wheel of Fortuna in Hortus Deliciarum



In this picture, Fortuna is shown turning the crank on the wheel of fortune.

Such depictions sometimes contained the legend:

Regnabo. Regno. Regnavi. Sum sine regno

I shall reign. I reign. I reigned. I don't reign.

Amazon.com Inc.-(Nasdaq NM) 40.29 0.49 1.23%
06 Dec 99
113.00 high
Amazon - Weekly Chart
Time Magazine Person of the Year for 1999
Jeff Bezos
CEO Amazon
15.00 low
29 Dec 00
5.67 low
26 Sep 01
TIME
PERSON OF THE YEAR
Volume (Millions)
120
100
90
80
70
60
50
40
30
20
10
4
810
720
630
540
450
360
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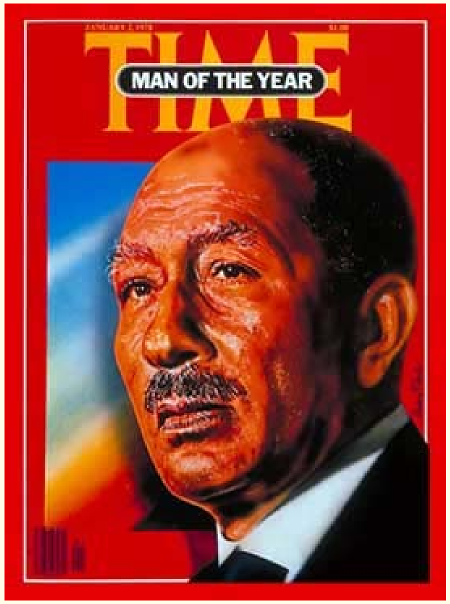
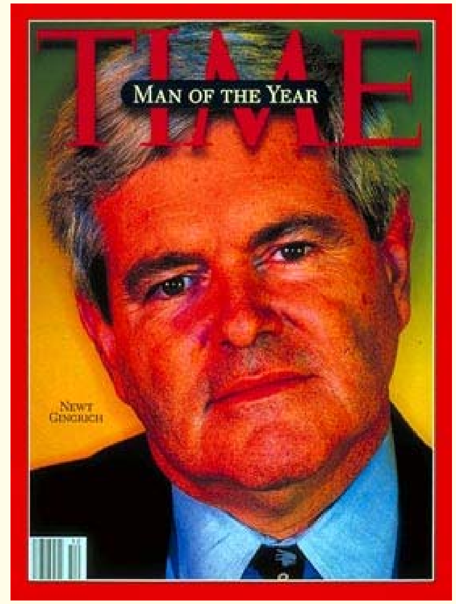
02



December 1977
Sadat is named Time Magazine's 1977 "Man of the Year."

October 6. 1981
Anwar al-Sadat is assassinated by Jihad members.



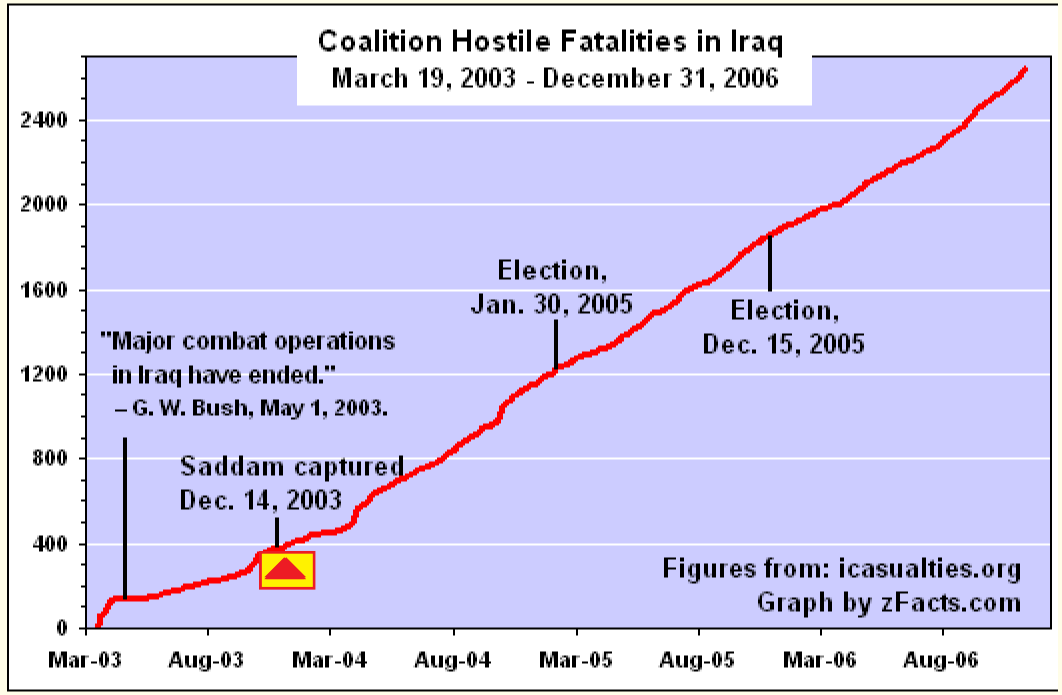
December 1995
Newt is named Time Magazine's 1995 "Man of the Year."

January 16, 1997
Newt is fined $300,000 by the ethics committee for violating House rules barring use of tax-exempt foundations for political purposes.

November 6, 1998
Gingrich announces he will not seek re-election for the position of Speaker of the House. Newt also announces he will retire from his seat at the end of 1998.

December 2003
The American Soldier is named Time Magazine's 2003 "Person of the Year."

Sadly, this magazine cover story and the accompanying graph and text speak for itself.

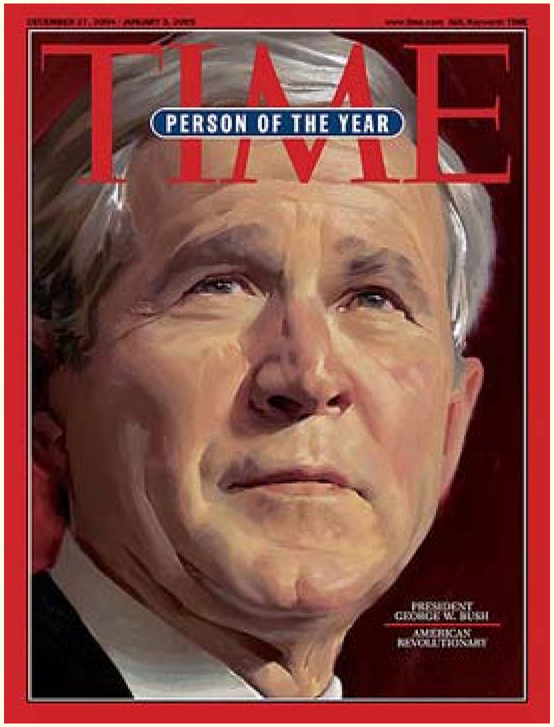


The red arrow marks the date of this magazine cover story.

This graph does not show all fatalities, only those killed in hostile action. This makes it a better indicator of the intensity of conflict than might be found elsewhere.

Hostile fatalities in the 4th year of the war are now running higher than in the 3rd year of the war, and the fatality rate has been increasing rapidly. This graph do not count the many private contractors who have died defending the reconstruction effort in place of regular military personal. Were they included, the deterioration would appear more severe.

Source: **http://icasualties.org/oif/ Iraq Coalition Casualty Count**



December 2004
President Bush is named Time Magazine's 2004 "Person of the Year."

The President's job approval poll peaked in December 2004 at 50% and has done nothing but decline since then. The most recent job approval is down to only 30%
- source, Zogby America Poll

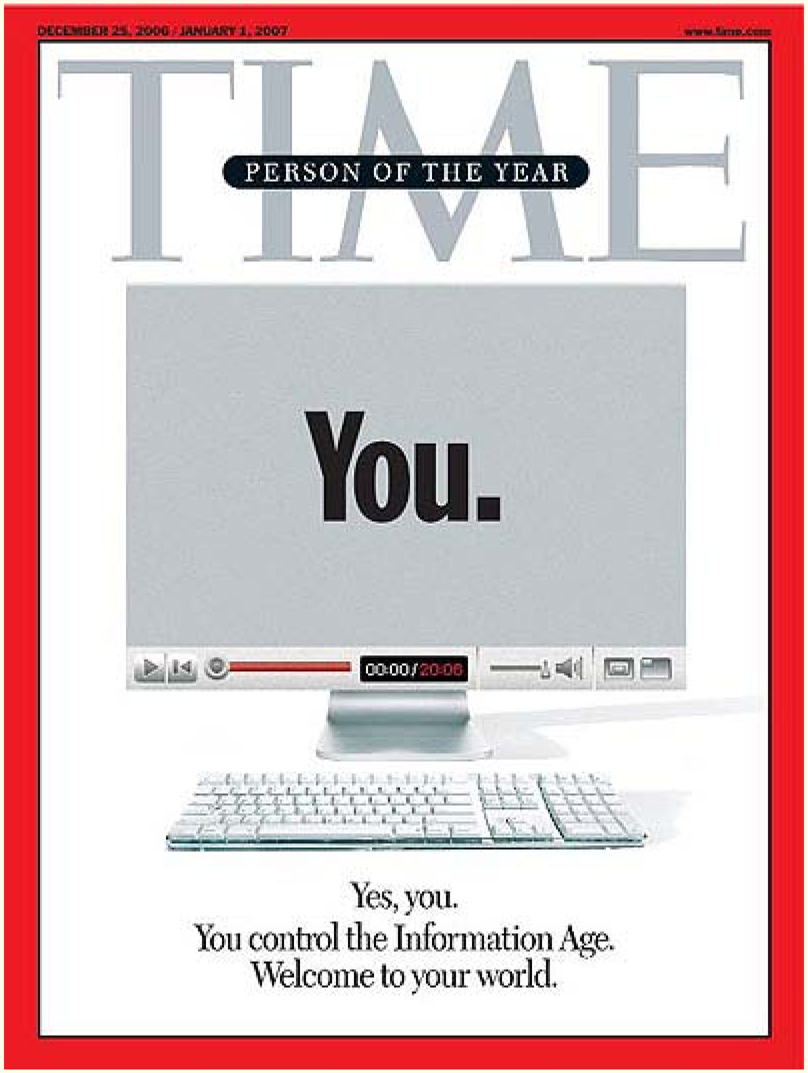
Recap

Although as its name suggests the Economist magazine deals with the world economy, Economist cover stories on price trends in the financial markets are quite rare events. What cover stories there have been have all, without exception, been contrarian indicators. The Economist posts bullish cover stories on financial trends just as the bull market is peaking and they feature cover stories on bear markets just as the down trend is bottoming.

Forbes magazine is a perpetual cheer-leader for capitalism. They only do bullish, optimistic cover stories. So while the Economist is ambidextrous - equally capable of selling the lows and buying the higher, Forbes seems only capable of buying the highs.

Both the Economist and Forbes are bastions of fundamental analysis. Time magazine is all about popular culture. Yet popular culture trends just like the financial markets. And it is our contention that both financial trends and trends in popular culture are two carts pulled by the same horse. The horse is the collective mood and the popularity of elected officials swings with those moods.

The Time magazine cover stories cited on the previous pages have all marked the high water mark of careers. Careers takes decades to rise and years to fall. Is there a career path that rises and falls more quickly - a career path where the contrarian nature of the news is more obvious? See next section.



Now here is a heaping portion of irony served up as both a cover story and a "Person of the Year" recognition. The various Market Vane "Bullish Consensus" charts in this report highlight the power of the herd. Trends are the collective mood of the herd in motion whether the trends are in finance, entertainment, fashion, culture, or politics. From the perspective of herding theory the idea that the individual is in control is a complete illusion.

Regarding the "You control the Information Age" cover statement, being able to control what information one views is not at all the same as controlling the trends of time. The collective mood of the herd controls the trends of time. If by the 'You' on this cover Time magazine was referring to the collective social mood then they would have been correct. Ironically enough this cover story itself is an expression of positive social mood. It is not an account of the actual dynamics of mass behavior.

- Appendix -

The Magazine Cover Syndrome and Professional Athletics
- Peak Performance and Peaking Careers -

Better stop short than fill to the brim.

Over sharpen the blade and the edge will soon blunt.

Amass a store of gold and jade and no one can protect it.

Claim wealth and titles and disaster will follow.

Retire when the work is done.

This is the way of heaven.

Lao Tsu, Tao Te Ching, Chapter 9

In this study we have seen the long standing, reliable, and consistent ability of magazine cover stories to act as contrarian indicators for financial trends. Bullish cover stories on crude oil prices mark the peaks of major up trends and bearish cover stories mark major lows. We have seen a 100% track record of bearish cover stories on a currency marking a major low in that currency and of bullish cover stories on a currency marking major highs. And we have seen the same phenomena at work on individual companies. Time and again a bullish cover story on a company marks a major peak in the stock price of that company. Bearish cover stories on a company mark major lows in the stock price of that company. Finally, we noted the consistent ability of glowing magazine cover stories on individuals to mark major apogees in the careers of those individuals. The magazines that we have covered include Time, Newsweek, US News and World Report, and Forbes. These are among the most respected magazines in the world, magazines known to have the best reporters and among the most intelligent and insightful analysis of world events.

The magazine cover story phenomena reveals the mechanics behind the proverb 'Buy the Rumor, Sell the News.' The big surprise is that even among financial magazines cover stories on financial trends are quite rare. So we had to search far and wide to find enough cover stories on financial trends to fill this essay and without exception every single cover story that we could find was a contrarian indicator. By the time a financial trend has lasted long enough and has become dominating enough to crowd out all other candidates for cover story, that trend is either reversing or has already reversed direction. This applies to trends in commodities, currencies, equities, and even individual careers. Given the inherent bias toward positive cover stories most of the stories that we have reported on have to do with bullish news and therefore peaks in price trends, corporations, and careers. In this appendix we explore the cover story syndrome in world class athletes through the magazine "Sports Illustrated."

"Sports Illustrated" has over three million paid subscribers. It has been estimated that the magazine is read by over twenty-three million adults each week or over 19% of adult males in the United States. In the pages that follow, we reprint in its entirety a "Sports Illustrated" cover story on the "Sports Illustrated" cover story syndrome. Now there is a fractal pattern for you. We follow up this "Sports Illustrated" piece with an article on the 'Madden Curse' that refers to athletes on the box of the popular video game. After the reprint of these two articles we offer some closing comments on the material covered in this work.

Why do we cover sports in this essay?

The typical career spans decades. It takes quite a long time to build high enough levels of name recognition to crowd out all other contenders to a Time magazine cover story. So by the time an individual makes it to the cover of Time magazine there is the distinct probability that his or her career is peaking, or has already peaked. However except for dramatic cases of malfeasance the decline of a career can take many years. So the contrarian effect of a Time magazine cover story on a public figure is not nearly as strikingly obvious as a Forbes magazine cover story of a publicly held company or an Economist magazine cover story on a financial trend.

Is there a sector of human affairs where the rise and fall or careers covers a much shorter time span? Even better yet, is there a field of human endeavor where the careers are much shorter and the rise and fall of those careers are much more closely covered? If there were such a field it would be the ideal laboratory in which to study the magazine cover story syndrome. As it turns out there is just such a field - the sports field.

Compared to any other career - in business, in science, in public service - the time span of a professional athletic career is very brief. The rise and fall or a professional athletic career can be measured in a few short years, and in some cases, in only a few months. As far as coverage goes, and even compared to entertainers, no career is as closely covered as the career of a professional athlete. So with athletes we have the perfect test of our contention that the contrarian nature of major news headlines, as represented by magazine cover stories, is a universal phenomena that transcends time, cultures, and fields of human endeavor.

We have already cited extensive evidence for a magazine cover story syndrome in the financial markets and in popular culture. If we can find evidence of the magazine cover story in sports then it will be clear that we are dealing with a fundamental of human nature, not some mere artifact of the volatility of the financial markets.

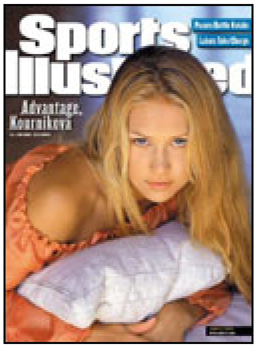
http://sportsillustrated.cnn.com/features/cover/2002/jinx/main/

That Old Black Magic

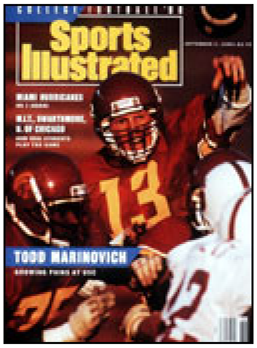
Jinx Timeline

Millions of superstitious readers -- and many athletes -- believe that an appearance on *Sports Illustrated's* cover is the kiss of death. But is there really such a thing as the *SI* Jinx? In this week's issue, senior writer Alexander Wolff attempts to answer that very question. Read about Wolff's experience working on the story, then click on the covers below or use the dropdown menu to check out our six-decade timeline of unlucky cover subjects.

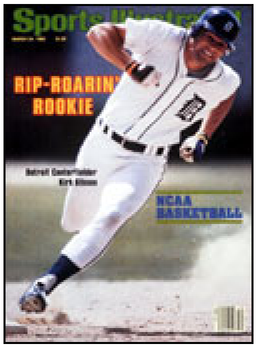
Walter Iooss Jr.



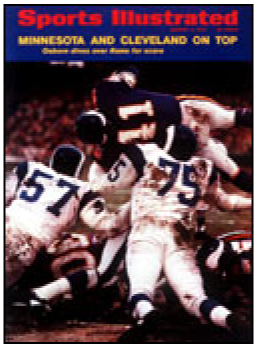
2000s



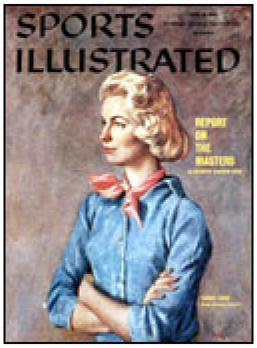
1990s



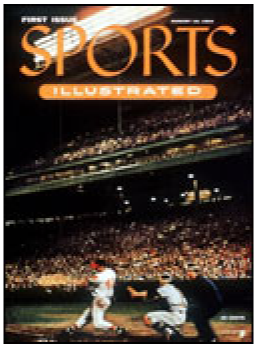
1980s



1970s



1960s



1950s

Unraveling the Jinx

Posted: Tuesday January 15, 2002 5:13 PM
Updated: Tuesday January 15, 2002 5:49 PM

As years go, 2001 was a pretty good one for the *Sports Illustrated* Cover Jinx. Which is to say it was *annus horribilis* for **Nomar Garciaparra**, the Oregon State football team, **Eric Crouch** and the Washington Redskins, all of whom graced our cover and paid for it.

That's why I'm bracing to hear from the ASPCA.

See, I wrote this week's cover story, in which we conducted a thorough exploration of what happened to everyone who has appeared on our cover, from **Eddie Mathews**, on the inaugural issue in 1954, to **Michael Jordan**, who took his 51st turn last week just as his wife filed for divorce. To illustrate the story, we asked St. Louis Rams quarterback **Kurt Warner** to pose for the cover with a black cat. Only Warner refused, so the cat does a solo turn with the billing THE COVER THAT NO ONE WOULD POSE FOR.

It was a hoot to work on the piece. On the one hand, we listened as sober statisticians went over the basics of "regression to the mean," which would explain why a hitter who gets hot enough to make the cover goes into a slump shortly thereafter.

On the other hand, we heard from sports psychologist **Jim Loehr**, who believes that there is an *SI* Cover Jinx of sorts. Only he calls it "a failure to efficiently metabolize heightened expectations" or some such -- and he actually works with clients, including athletes such as **Grant Hill**, on this very matter.

In investigating virtually all of SI's 2,456 covers, we found 913 "jinxes" -- a demonstrable misfortune or decline in performance following a cover appearance roughly 37.2 percent of the time. One of the most fascinating things we discovered seemed to buttress Loehr's contention that the Jinx is more likely to strike athletes in fine-motor-skill sports like golf and tennis than smashmouth sports like boxing. Golfers were "jinxed" almost 70 percent of the time and tennis players after more than 50 percent of their appearances, while boxers suffered barely 16 percent of the time.

My favorite Jinxstance has to be the fate of University of Washington quarterback **Bob Schloredt**, an All-America who was pictured taking a snap on a 1960 cover. A week later, the heavily favored Huskies lost to Navy when the Middies scored in the final minutes following Schloredt's fumble of -- you guessed it -- a snap.

I'm still not sure why Warner declined our offer to put him on this week's cover. After all, he wears No. 13, and that number hasn't kept him from achieving stardom and winning a Super Bowl and two NFL MVP awards. What's more, Warner is as confirmed a Christian as there is in sports, and if you believe that your life is subject to a superior power, some dubious magazine hoodoo shouldn't give you a second thought.

But there you are. So we were left with our front-page feline, Mr. Ed, supplied by the agency Theatrical Animals. Mr. Ed knows his way in front of a camera -- he recently appeared in an episode of *Sabrina, the Teenage Witch* -- and maybe, in the course of doing that show, he learned a thing or two about spells and how to ward them off.

"The first cat we auditioned was totally black," says SI photo editor **George Washington**, who supervised the cover shoot. "It made me a little nervous. I was glad to see that Mr. Ed had a little white spot on his chest."

George may have been reassured. But all the cats I know will be steering clear of Mr. Ed's Tender Vittles bowl.

Sports Illustrated senior writer Alexander Wolff is the author of Big Game, Small World: A Basketball Adventure *(Warner Books), available online and in stores everywhere. You can contact him at* *biggamesmallworld.com*.

Related information

Stories

- SI cover jinx timeline
- Alexander Wolff's Insider Archive

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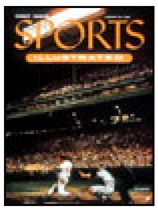
1950s

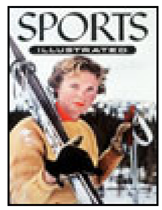
Jinx Timeline

Click on any cover to view large



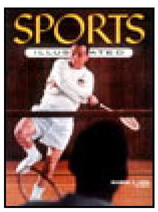
8•16•1954

Eddie Mathews is SI's first cover subject. One week to the day after the cover date he becomes the first victim of the Jinx, suffering a hand injury that forces him to miss seven games.



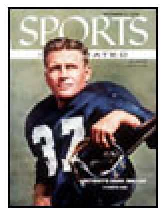
1•31•1955

The week that an issue featuring her was on the stands, skier Jill Kinmont struck a tree during a practice run and was paralyzed from the neck down.



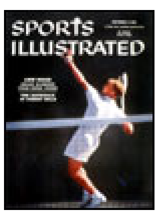
3•7•1955

Badminton star and FBI agent Joe Alston was to have been moved to an undercover post, but publicity from his cover appearance leads the Feds to keep him in investigations ... for the rest of his career.



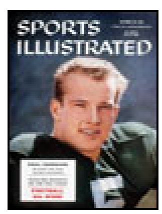
10•03•1955

Doak Walker and his Lions are 0-5 after making the cover.



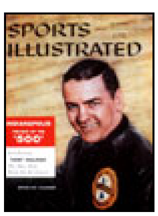
9•3•1956

Lew Hoad is featured on the preview of Forest Hills, where he's going for the Grand Slam. Ken Rosewall beats him in the final.



10•29•1956

Paul Hornung and Notre Dame lose 40-0 to Oklahoma the Saturday after gracing the cover, then fall to Navy and Pitt as well. The Irish finish the season 2-8.



5•26•1958

SI's 1958 Indy 500 preview featured Pat O'Connor, who was killed in a 15-car pileup during the first lap.

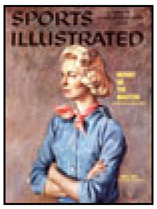
Jinx Timeline

Photographs by: Mark Kauffman, Hy Peskin, Mark Kauffman, Hy Peskin, Mark

1960s

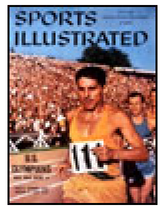
Jinx Timeline

Click on any cover to view large



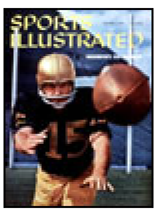
4•18•1960

For four years Carin Cone is undefeated in the 100-meter backstroke. At the nationals a few weeks after her cover she finishes second, and at her next meet she fails to qualify for the Games.



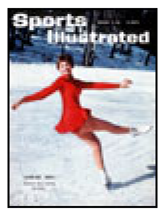
7•11•1960

A week after this cover appearance, Jim Beatty, the U.S.-record holder in the 5,000-meter, injures his left foot in a tune-up for the Games. He fails to make the finals in Rome.



10•3•1960

A week after its All-America quarterback, Bob Schloredt, is on the cover, heavily favored Washington loses to Navy 15-14, thanks to Schloredt's fumble of -- you guessed it -- a shotgun snap.

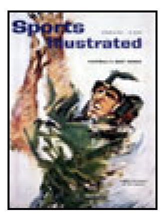


2•13•1961

Laurence Owen appeared on the cover in '61, billed as AMERICA'S MOST EXCITING GIRL SKATER. Two days after the cover date Owen and the rest of the U.S. skating team perished in a plane crash.

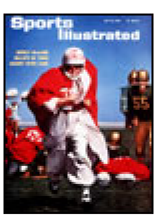
3•26•1962

Ricardo Rodriguez, the driver billed as MEXICO'S YOUNG FIREBALL, dies in a fiery crash later that year.



10•8•1962

After appearing on the cover, Tommy McDonald and the Eagles lose four in a row and go 0-6-1 in their next seven games.



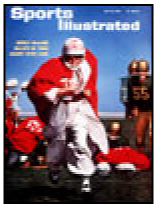
7•20•1964

Shirley MacLaine is on the cover touting a college football movie she appears in. The film gets panned, and Notre Dame sues the producers over the school's portrayal in the film.

12•21•1964

Sportsman of the Year golfer Ken Venturi is a non-factor on the tour the next season as he battles carpal tunnel syndrome.

1960s



7•20•1964

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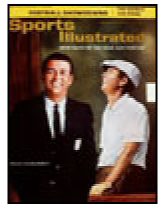

12•21•1964

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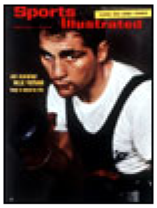
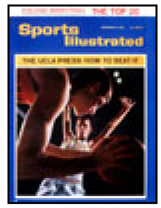


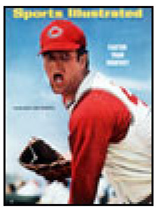
3•22•1965

Light heavyweight Willie Pastrano graces the cover the week before he is to defend his title. Pastrano is KO'd in the ninth round of what would turn out to be his last fight ever.



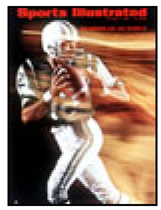
12•6•1965

Doug McIntosh and UCLA have won 17 straight basketball games when they grace the cover. The Bruins lose two of their next three.



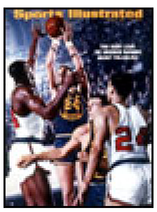
5•23•1966

Sam McDowell of the Indians, 4-0 with two one-hit shutouts, gives up five runs without retiring anyone in his next start; in the start after that he walks four before being yanked after 1 2/3 innings.



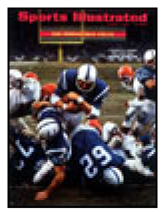
10•17•1966

Joe Namath's movie star looks and swagger couldn't save him from the Jinx, as his 4-1 Jets go 0-4 after making the cover.



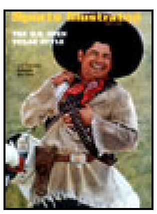
4•24•1967

Rick Barry, soon after this cover and a marvelous season, loses in court and is denied entry into the ABA. The ruling forces him to sit out the next season.



1•6•1969

Running back Tom Matte appears on the cover a week before his Baltimore Colts are stunned 16-7 by Joe Namath and the underdog Jets in the Super Bowl.



6•9•1969

Defending champion Lee Trevino is on the cover of our U.S. Open preview; the next week he fails to make the cut.

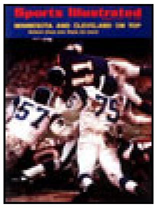
Jinx Timeline

Aaron Shikler (Artwork), John G. Zimmerman, Phil Bath, Jerry Cooke, Tony Triolo, Frank Mullins (Artwork), Allan Grant, Jay Maisel (2), Neil Liefer, Sheedy & Long, Neil Leife, Walter Iooss Jr., Herb Scharfman, Walter Iooss Jr.

1970s

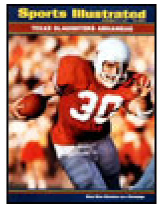
Jinx Timeline

Click on any cover to view large



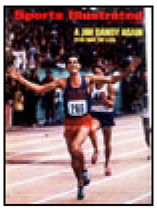
1•5•1970

The Minnesota Vikings, favored by two touchdowns in the Super Bowl, lose 23-7 to the Kansas City Chiefs.



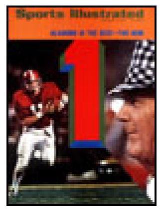
12•14•1970

Texas, 10-0 and enjoying a 30-game winning streak, fumbles nine times in its next game, a 24-11 loss to Notre Dame in the Cotton Bowl.



7•17•1972

Shortly after Jim Ryun makes an appearance on SI's cover, Olympic officials in Munich misread his entry form and place him in an opening heat of the 1,500-meter with the formidable Kip Keino of Kenya. Ryun winds up losing, fails to advance to the finals and soon thereafter ends his amateur career.

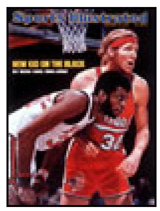


12•3•1973

Alabama is 11-0 going into its Sugar Bowl date with Notre Dame. But after coach Bear Bryant graces the cover, the Tide ebbs, losing 24-23 to the Irish.

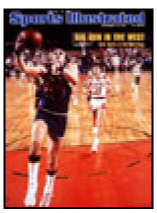
9•2•1974

Evel Knievel, after our preview of his much-heralded canyon leap, fails miserably and thereafter loses much of his mystique.



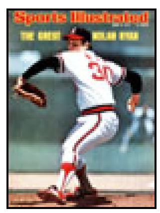
10•14•1974

Kareem Abdul-Jabbar is featured on the cover of the NBA Preview Issue. His Bucks start the year 2-13 and he misses 15 games with hand and eye injuries.



12•16•1974

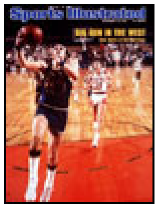
Rick Barry and the Warriors lead the NBA's Pacific Division. In their first game after this issue appears, the Warriors lose to the 2-23 New Orleans Jazz.



6•16•1975

With a 10-3 record, Angels pitcher Nolan Ryan makes a cover appearance. He loses his next eight decisions.

1970s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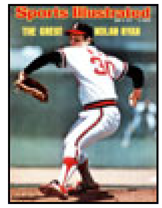
6•16•1975

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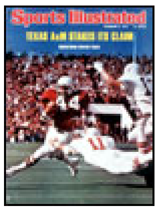
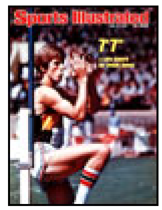
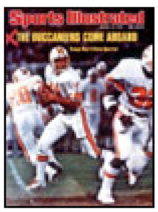

12•8•1975

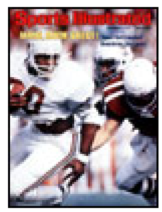
Texas A&M and Bubba Bean make the cover for the 10-0 Aggies, who lose their next two games by a combined 51-6.


6•14•1976

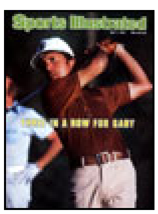
After being featured on the preview to the Montreal Olympics, high jump favorite Dwight Stones struggles in heavy rains and takes home a bronze.


8•23•1976

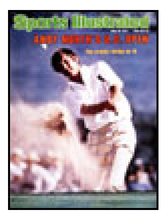
They may have COME ABOARD, but the Bucs and Steve Spurrier walk the plank in their inaugural NFL season, getting shut out in back-to-back games and winding up 0-14.


12•5•1977

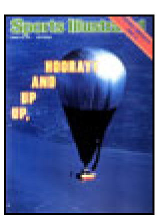
Earl Campbell and the 11-0 Texas Longhorns lose their next game, the Cotton Bowl, to Notre Dame 38-10.


5•1•1978

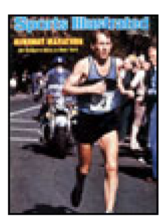
After SI honors Gary Player with THREE IN A ROW FOR GARY cover billing, he fails to win his next tournament.


6•26•1978

Andy North gets the SI cover treatment after winning his first tournament, the U.S. Open. He then fails to win another event on the PGA Tour for seven years. In 1985 he finally wins his second tournament, another U.S. Open, and again makes an appearance on our cover. He fails to win another PGA tournament for the rest of his career.


8•28•1978

It takes a while, but ill things befall the Double Eagle II crew. One crewman dies in a ballooning mishap in 1983. Another dies in a plane crash in '85. In '95 the third nearly dies in a skydiving accident.


10•30•1978

After winning his seventh marathon in a row, Bill Rodgers finally makes the cover. In his next marathon he finishes sixth.

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1980s

Jinx Timeline

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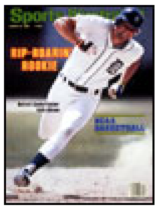
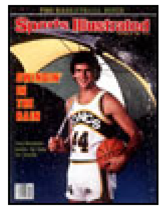
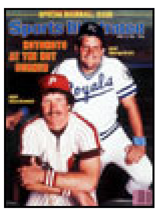

3•24•1980

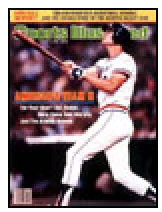
After Tigers slugger Kirk Gibson appears on SI's baseball preview cover, he starts the season 4 for 35 as Detroit opens 2-9.


10•20•1980

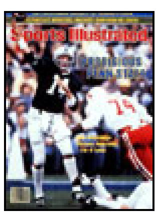
Après his cover, *le deluge* for Paul Westphal and his new team. Seattle loses 22 more games than it did in 79-80, and Westphal sits out more than half the season with a stress fracture.


4•13•1981

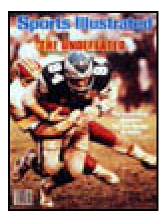
George Brett starts the season hitting .208, and his Royals go 3-10. SI reruns the cover in August, after the strike is settled; Brett makes the least of his second chance. He goes 1 for 20.


8•9•1982

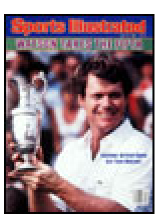
The Braves drop 14 of 15 games in the aftermath of Dale Murphy's appearance. He has a stretch of 6 for 31 to help the streak along.


10•4•1982

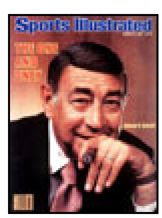
Penn State is unbeaten and ranked No. 3 until Todd Blackledge makes the cover. A week later Alabama picks off four of his passes and spoils the Lions' season with a 42-21 victory.


12•6•1982

The Redskins are THE UNDEFEATED -- until they play the Cowboys that week and lose 24-10.

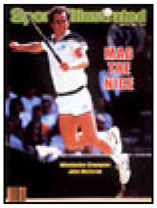

7•25•1983

After appearing on the cover for winning his fifth British Open title, Tom Watson finishes in a tie for 47th in the PGA Championship, his next tournament.


8•8•1983

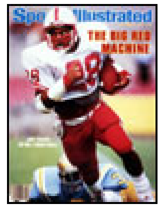
In the first *Monday Night Football* broadcast after Howard Cosell's cover, the ABC commentator causes a tremendous outcry when he refers to Redskins wide receiver Alvin Garrett as "that little monkey."

1980s



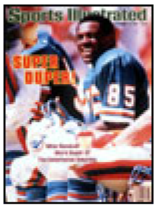
7•16•1984

John McEnroe would win 82 of the 85 singles matches he played this year, but he takes a first-round, postcover drubbing from unseeded Vijay Amritraj in the ATP Championships.



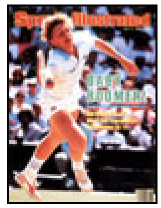
10•01•1984

After his '84 appearance, running back Jeff Smith misses his next game due to an ankle injury and the top-ranked Cornhuskers lose to Syracuse.



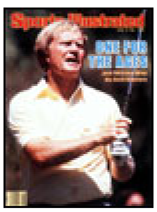
11•19•1984

The SUPER DUPER Dolphins are 11-0 ... until they encounter the kryptonite of an SI cover and lose their next game to the Chargers.



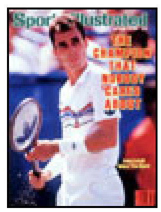
7•15•1985

In the aftermath of this post-Wimbledon appearance, Boris Becker loses first to Ivan Lendl, then to a journeyman. "I haven't played so weak since my childhood," Becker says.



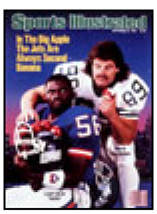
4•21•1986

In his next outing after winning the Masters, Jack Nicklaus ties for 42nd in the Houston Open.



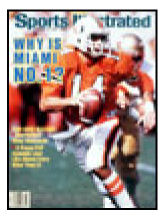
9•15•1986

The Jinx is contagious: A week after this appearance Ivan Lendl took driving lessons with Paul Newman, who crashed the car shortly after Lendl vacated it.



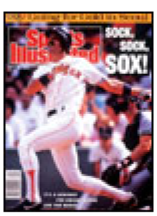
9•29•1986

After posing with the Giants' Lawrence Taylor, the Jets' Mark Gastineau misses his first game in seven years.



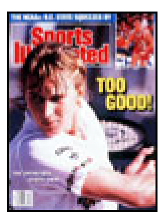
11•24•1986

Six days following this appearance, Miami quarterback Vinny Testaverde is in a motor-scooter accident and misses the Hurricanes' next game.



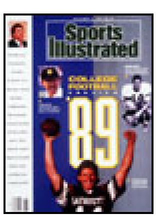
9•26•1988

More woes for BoSox fans. Slugger Dwight Evans goes 4-30 in the two-week span following his cover appearance.



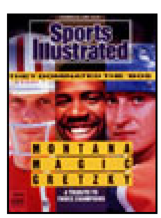
3•27•1989

Steffi Graf suffers her first loss of the 1989 season two weeks after her cover shot.



9•4•1989

Though commissioner Bart Giamatti's image doesn't grace this cover, his words about Pete Rose do -- and for an academic, words are all. Giamatti dies of a heart attack that week.



12•18•1989

Days after appearing on SI's cover, Wayne Gretzky fails to get an assist, thereby settling for a tie for the NHL record for consecutive games with at least one.

The Magazine

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1990s

Jinx Timeline

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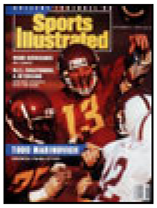
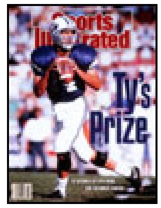


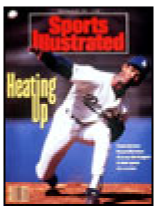
9•3•1990

USC quarterback Todd Marinovich makes a star turn on the cover of the 1990 College Football Preview. He's benched during the season for skipping class as the Trojans lose two Pac-10 games early and fall out of the race for the Rose Bowl.



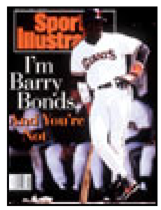
12•10•1990

In BYU's next game, the Holiday Bowl with Texas A&M, Ty Detmer throws one interception and separates both shoulders as the Cougars lose 65-14.



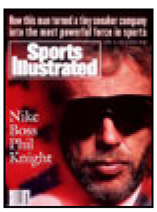
9•30•1991

On this date Ramon Martinez and the Dodgers have a two-game lead in the NL West. Martinez loses his next two starts, and the Dodgers finish the season a game behind the Braves.



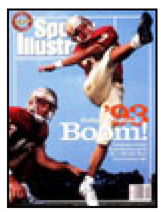
5•24•1993

The Jinx does what National League pitching couldn't -- drive the batting average of the Giants' Barry Bonds down 40 points in two weeks.



8•16•1993

In the month following CEO Phil Knight's appearance, Nike's six-year streak of record earnings ends, its stock plummets, hundreds of employees are laid off, and 37 high school players who had partaken of Nike's hospitality find their eligibility imperiled.



8•30•1993

In his first five games after SI's College Football Preview Florida State kicker Scott Bentley muffs seven extra points.

11•22•1993

A week after appearing on the cover, Notre Dame loses its No. 1 ranking when the Irish are stunned by Boston College on a last-minute field goal.

1•10•1994

Widespread NCAA improprieties come to light shortly after Florida State is featured for winning the national championship.

1990s

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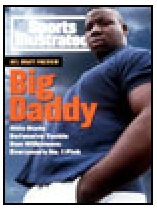
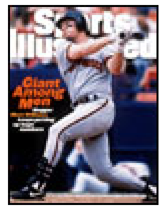


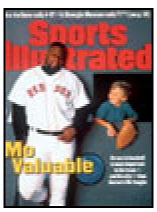
4•25•1994

Dan (Big Daddy) Wilkinson, a defensive tackle from Ohio State, appears on the cover of our NFL draft preview and then fails to make a sack in the Bengals' first six games.



6•5•1995

Three days after his appearance Giants third baseman Matt Williams, then the league leader in home runs, batting average and RBIs, fouls a pitch off his right foot and breaks it, forcing him to miss 2 1/2 months.

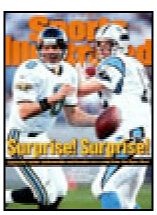


10•2•1995

Mo Vaughn gets the cover treatment as the Red Sox enter the playoffs. He goes 0 for 14 in the Indians' three-game sweep of Boston.

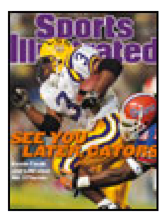
9•16•1996

The week after Nebraska tailback Ahman Green appears on the cover, he knocks the ball through his own end zone, resulting in a safety, during a 19-0 loss to Arizona State. The Cornhuskers had won 26 straight games.



1•13•1997

Jacksonville's Mark Brunell and Carolina's Kerry Collins share a cover during the playoffs. They also share the same fate in their following games: playoff losses.



10•20•1997

A week after upsetting top-ranked Florida, LSU feels the Jinx in a 36-21 loss to Ole Miss.

11•16•1998

Texas running back Ricky Williams may be THE TEXAS TORNADO, but in his next game Texas Tech's Ricky Williams outrushes his eponymous counterpart in a 42-35 Red Raiders victory.

3•8•1999

A week after this appearance Dennis Rodman misses four Lakers games and then takes a leave of absence to address "personal matters." He files for divorce on April 6; L.A. releases him on April 15.

Jinx Timeline

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The Magazine

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2000s

Jinx Timeline

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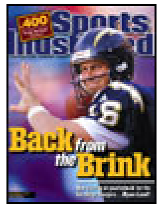
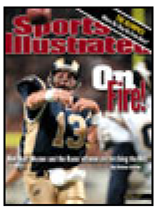
6•5•2000

A day after this cover appearance Anna Kournikova is bounced from the French Open in the second round, the earliest she has exited a Grand Slam in three years.



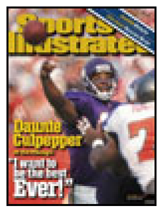
9•4•2000

After Week 1, Chargers quarterback Ryan Leaf has gone 17 for 39 with three interceptions. He throws seven more interceptions than touchdowns for the season.



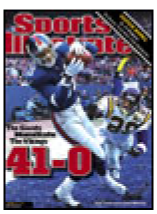
10•9•2000

Two games after his cover appearance the Rams' Kurt Warner breaks his pinkie and, for the first time since he won the job, is sidelined, missing his next five games.



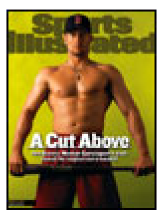
12•4•2000

Minnesota quarterback Daunte Culpepper wants to be "The Greatest Ever!" but he's not yet great enough to prevent the Vikings from losing its next (and final) three regular season games.



1•22•2001

Amani Toomer and the Giants, featured after a rout of the Vikings in the NFC title game, lose 31-7 to the Ravens in the Super Bowl.

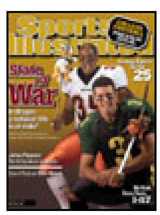


3•5•2001

Days after Nomar Garciaparra of the Boston Red Sox appeared on SI's cover, it was announced that he had split a tendon in his right wrist.

5•21•2001

The Hornets, appearing with a 3-2 lead on the Bucks in the second round of the playoffs, lose the next two games and the series.

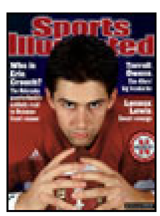


8•13•2001

Oregon State, SI's preseason college football No. 1, lost 44-24 to Fresno State in its opener and finished 5-6.

10•1•2001

In his next game Dolphins quarterback Jay Fiedler has two fumbles and two interceptions in a 42-10 loss to the Rams.



11•26•2001

The run of Nebraska QB Eric Crouch for the Heisman trophy hit a speed bump the day after Thanksgiving, when Colorado obliterated the Cornhuskers 62-36.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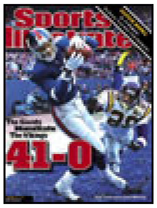

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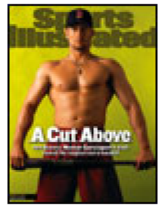

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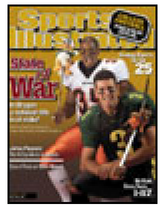
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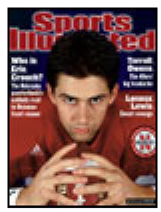
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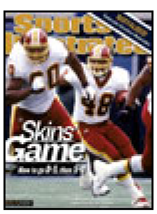
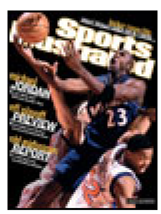


12•03•2001

The cover billing SKINS GAME: HOW TO GO 0-5, THEN 5-0 all but assured the Washington Redskins would lose to the Dallas Cowboys that week and then fail to make the playoffs.


1•14•2002

As SI goes to press, news reports come out that cover boy Michael Jordan's wife has filed for divorce.

Jinx Timeline

Photographs by: Walter Iooss Jr., Peter Read Miller, Damian Strohmeyer, Heinz Kluetmeier, Damian Strohmeyer, Walter Iooss Jr., Lynn Johnson, Rich Frishman, Eliot Schechter/Allsport, Jeffery A. Salter/SABA, , Al Tielemans, Nathaniel S. Butler/NBA Entertainment

On this page and the next, one final sports related article

The Seattle Times **SPORTS**

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Tuesday, September 26, 2006 - Page updated at 12:00 AM

E-mail article Print view

Now do you believe in the "Madden" curse?

By Seattle Times staff

Add Shaun Alexander to the list of athletes injured the year they appear on the cover of the popular "Madden" football video game, as what began as a coincidence has come to be characterized as a curse.

Alexander is the sixth consecutive athlete featured on the cover to suffer an injury that forced him to miss at least one game.

"It's unfortunate," said Chris Erb, who is the director of marketing for EA Sports. "We work so close with these athletes, and we root for them to succeed."

Erb has more than a simple rooting interest in Alexander. Erb is from Seattle, attended Washington, and was at Sunday's game against the New York Giants, having flown here to watch the Huskies on Saturday and the Seahawks on Sunday.

"Both personally and for work," Erb said. "I'm really bummed to see Shaun go down."

Alexander has been diagnosed with a fracture in his left foot. He is out indefinitely. He said this offseason that he didn't believe in curses and wasn't superstitious.

"Curse or no curse, everybody, and I mean everybody, wants to be on that cover," Alexander told The Times. "I don't know one person that would say no."

The Seattle Times

SPORTS

Tuesday, September 26, 2006 - Page updated at 12:00 AM

E-mail article   Print view

Now do you believe in the "Madden" curse?

By Seattle Times staff

The cover boys

• **1999 ("Madden 2000"):** Barry Sanders. The first NFL player to be on the cover quickly became the first former NFL player on the cover. He retired before training camp began.

• **2000 ("Madden 2001"):** Eddie George. Hardly cursed as he rushed for 1,509 yards and 16 touchdowns, both career highs.

• **2001 ("Madden 2002"):** Daunte Culpepper. Missed the final five games with a knee injury, but the curse kicked in well before the injury. He went from being tied for the league lead with 33 TD passes in 2000 to having almost as many interceptions (13) as touchdown passes (14) in 2001.

• **2002 ("Madden 2003"):** Marshall Faulk. He rushed for 1,000 yards in seven of his first eight seasons, but he hasn't surpassed that mark since appearing on the cover of the game. In 2002, he missed two games with an injured ankle.

• **2003 ("Madden 2004"):** Michael Vick. Suffered a broken right leg during an exhibition game. He missed the first 11 games of the regular season.

• **2004 ("Madden 2005"):** Ray Lewis. The Ravens' linebacker didn't have an interception for the only time in his career. He missed the regular-season finale because of an injured wrist.

• **2005 ("Madden 2006"):** Donovan McNabb. After the Eagles slipped to a 4-5 record, McNabb missed the final seven games because of a sports hernia.

• **2006 ("Madden 2007"):** Shaun Alexander. He gained 187 yards in the first three games, his slowest start since 2002, and now is out indefinitely with a broken bone in his left foot.

E-mail article   Print view   **More sports headlines...**

Before destruction is pride
And before stumbling, a haughty spirit

Proverbs 16:18
Bible, Young's Literal Translation

In the main section of this essay we noted that bullish magazine cover stories on financial trends occur into the peak of that financial trend. We also noted that bearish magazine cover stories on financial trends occur into a major low in that trend. Our search for an understanding of this phenomena led us to examine the role that market sentiment, sentiment extremes, and the herding instinct play in the financial markets. We concluded that, when it came to financial trends, the nature of collective behavior ensures that magazine cover stories are always contrarian indicators. They cannot be otherwise. To win out over all the other news stories vying for placement as the cover story a financial trend must have lasted long enough and to become vulnerable to peaking action and therefore a major trend reversal. We cited examples of this contrarian cover story phenomena in commodity trends, currency trends, stock market trends, and trends in the stock prices of individual companies. We concluded the main section with a few examples of positive magazine cover stories on individuals marking the high point of the career of that individual.

The entire focus of that first section was in gaining an understanding of the dynamics of mass behavior that create the magazine cover story syndrome. The article from “Sports Illustrated” suggests that the same dynamics that makes a cover story on a financial trend a contrarian indicator also apply to a cover story on an individual. On any given week there are many possible sports events that could justify placement as cover story. For an individual athlete to crowd out all other contenders to the cover story, that athlete must be something very special indeed. Their prowess and exploits must be so extraordinary that it is easy to see how that level of athletic excellence could be completely unsustainable. They call it “peak performance” for a reason.

The content of the “Sports Illustrated” story encourages us to take this analysis one step further. Previously we have explored only the dynamics of the events that led up to the magazine cover story. In financial trends the appearance of a cover story helps confirm that the trend is over. The cover story is not the cause of the trend reversal but an indicator of the sentiment extreme that accompanies a major trend reversal. The cover story is an indicator, not a cause. The trend would have peaked and reversed lower anyway, even without the cover story. In this final discussion on cover stories and athletes we will briefly explore the dynamics whereby finding one's own face on a magazine cover might contribute to one's downfall.

We will begin by citing a few historical quotations that bear on this issue.

Fortune makes a fool of those she favors too much.
Horace, Roman lyric poet and satirist, 65 to 8 B.C.

Whatever fortune has raised to a height, she has raised only to cast it down.
Lucius Annaeus Seneca, Roman philosopher, statesman, dramatist, 4 BC–AD 65)

Nothing is more dangerous to men than a sudden change of fortune.
Marcus Fabius Quintilian, Roman orator, lawyer, teacher, 35 to 95 A.D.

Our first reaction might well be that these Roman's were entirely too cynical. A second reaction might be the realization that they spoke of their times, time of turbulence and uncertainty. That Roman history is the history of the rapid rise and rapid fall of all-powerful Emperors makes their observations seem a bit less cynical and a bit more realistic. And a third reaction might well be the belated recognition that we live in times not unlike theirs. While we do not have the rise and fall of Emperors to teach us the transitory nature of power, wealth, and fame, we do have the examples of Cendant, Imclone, WorldCom, Enron, Tyco, Parmalot, AIG, ...the list goes on.

The history of human events has shown that those who think they are smarter than everyone else often feel free and easy about breaking laws. History shows that those convinced of their superior power and prestige tend to also become convinced that rules apply to others, not to them. History is replete with examples of this phenomena in individuals, in political parties, in corporations, in governments, and even in entire civilizations. Those who have become convinced that they are smarter and stronger than everyone have thereby become convinced therefore can afford to be careless. They can get away with things that mere mortals cannot. Or can they?

While many athletic careers have survived magazine cover stories, enough have not survived to suggest those ancient Roman's just quoted were onto something. There seems to be something about human nature that can make the ego boost of a magazine cover story the busting up of a career. However this is not a sermon on morals. Our intention is to emphasize that the contrarian nature of "news" is the rule, not the exception.

In this essay we have seen something of the dynamics behind the proverb that states a fool and his money are easily parted. Trading the face value of headlines can quickly part anyone from their money. When it comes to major news headlines a healthy dose of contrarian skepticism is warranted. Trading off a fundamental analysis can also be very hazardous. Fundamental analysis is not equipped to assess the emotional content of the market that is the true driving force of price trends. To the extent that fundamental analysis is the analysis of news, an analysis that takes no account of market sentiment, to that extent fundamental analysis is fundamentally flawed. And that is why we do technical analysis.

Some closing shots…

At a certain point I realized that I needed to stop writing this piece and get it onto the web-site. I could easily have filled up another 50 pages with further examples. The day after I wrapped up the writing these two examples popped up.

Reuters did a story on how often winning an Oscar has been a career ending event for the winner. The industry even a name for this phenomena. They call it the "F. Murray Abraham syndrome." For the full article: **http://www.cnn.com/2007/SHOWBIZ/Movies/01/31/oscars.curse.reut/index.html**

Below is an excerpt from a Sports Illustrated "Top 10 Super Bowl Controversies" article. I could not resist including it. This particular turn of the wheel of fortune only took a few hours.