The Violent Declines that Follow Overbought Rallies

By The Mogambo Guru

02/09/11 Tampa, Florida – I am as skeptical as the next guy about technical analysis, maybe more so, so I was kind of intrigued when Robert McHugh of Main Line Investors wrote an essay titled “Time Analysis of the Coming Market Top.”

He writes, “We have identified when an extended overbought rally has likely reached its expiration date.” And what is this time frame? “Two and a half months,” he says.

This “two and half months” time frame is particularly intriguing to me, as this is the approximate time it took for my wife to realize that marrying me was the worst mistake of her Whole Freaking Life (WFL).

Without showing the usual sympathy that my wife gets from her friends and family, the parallels are eerily obvious when he goes on that “once this condition reaches the 2.5 month age, the rally not only ends, but a sharp, sometimes violent decline begins.”

Violent declines! That’s it! Of course, there are those who say that since she did not actually hit me with anything that she threw at me, it cannot be termed “violent,” although nobody is contending that it wasn’t a “decline” in our relationship.

But this has taught me two valuable lessons. One is that I should never pick her to be on my softball team because she obviously can’t throw worth a crap.

The other one is that there is perhaps something profound about this “two and half months” thing.

And apparently there is, because he goes on, “Guess what? We are inside one of these overbought extended rally periods, which will reach the 2.5 month age over the next week. So, based upon this time analysis, we could be about to see markets drop sharply, perhaps violently.”

And this “violent drop” in the stock market is when, I assume, people will slap themselves on the forehead and exclaim, “What in the hell am I doing to be risking my entire net worth in the corrupt stock market, when even an idiot can see that, even in a completely honest market, it is impossible for all the people to take more money out of the stock market than they put into it, a dismal mathematical fact that is borne out by the entire last century of seeing the vast majority of people losing money by investing in stocks!”

And it is worse than that, as the few who do “make money” actually broke even since the money they took out in “gains” had less buying power than the money they put in! Hahaha! April fools, chumps!

If you want to know how accumulating a retirement nest egg really works, it is when people save a fraction of their weekly income by putting it in the bank, whereupon the bank would pay them enough interest on the deposited funds to stay even with inflation.

For the more adventurous, investing maybe 10% of their savings in the stock market was considered a “bold move,” especially seeing that most people lost most of that money, although there are always enough successes to keep people doing it. Gathering enough successes is the trick!

Of course, nowadays, with the despicable Federal Reserve forcing interest rates to zero in a pathetic, desperate, frantic attempt to reverse the calamity caused by its previous incompetence and Keynesian stupidities, saving money in the bank is foolish since they pay the depositors about 0.1%, if that.

Certificates of Deposit are now paying an average of 0.41%, which means, with inflation running at more than 6%, that the stupid owner of a Certificate of Deposit is losing 5.59% and ordinary depositors are losing the whole 6%! Hahaha! Suckers!

I know what you are thinking. You are thinking, “What in the hell is the point of all this? Do you have a point, or is this just more of you running your Stupid Mogambo Mouth (SMM) until we are sick of listening to you and that is why nobody likes you?”

Well, it’s a “bad news/good news” thing. The bad news is that I don’t know why I run my mouth so much or why people don’t like me, which I figure only shows how hateful and stupid they all are, and how those treacherous bastards are always “out to get me,” as I always suspected.

The good news, on the other hand, is that I do have a point. The point is, to what I assume is your obvious delight, twofold. Firstly, for those of you who are optimistic enough to invest your money in the hopes of a big score, Mr. McHugh seems pretty confident of shorting the indexes.

Secondly, buying gold and silver is a guaran-freaking-teed winner of an investment by virtue of 4,500 years of history, massive undervaluation due to decades of governments and markets manipulating their prices to be low, incipient hyperinflation due to the odious Federal Reserve creating So Freaking Much Money (SFMM) and the foul Obama administration deficit-spending almost $2 trillion a year ($6,536 dollars for every man, woman and child in America), and (most importantly) exploding demand for the metals but falling supply.

And you can keep gold and silver with you at home, warm and snuggly, and not have to deal with banksters or custodians of any kind, who I assume are, even as we speak, thinking of new ways to screw you Good And Hard (GAH).

And since buying gold and silver is so easy (“Here is my money. Give me my metal!”), what can you do except say, “Whee! This investing stuff is easy!”