How to Predict a Crash

The Critical Signals That Flash Before a Crash Hits

SPECIAL REPORT

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PREPARED BY

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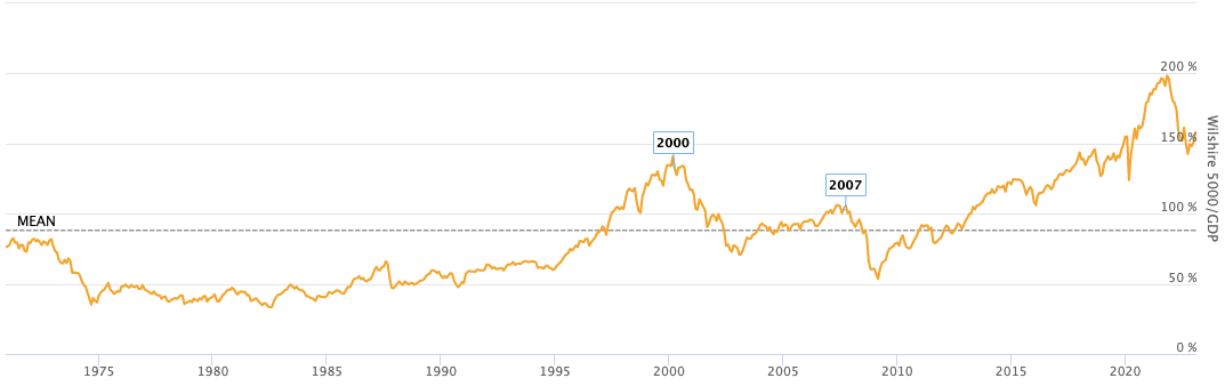
Despite the Fed raising rates dramatically from 0.25% and ending its Quantitative Easing (QE) programs, **the stock market remains in a bubble.**

Indeed, I'd like to share a chart that illustrates this situation to perfection. It's alleged to be Warren Buffett's favorite means of valuing the stock market. In fact, Buffett used this indicator to avoid going anywhere near stocks during the Tech Bubble in the late 1990s.

I'm talking about the total stock market's capitalization as a percentage of the U.S.'s Gross Domestic Product.



The single most important aspect of this chart is the fact that **in spite of stocks collapsing 20% last year... this indicator is STILL HIGHER than it was at the PEAK of the Tech Bubble.**

Anyone who claims this bear market is over and that the Fed's work is done is out of their minds. **The stock market is now MORE overvalued relative to the economy than it was at the absolute peak of the Tech Bubble!**

CHIEF MARKET STRATEGIST

Graham Summers, MBA is a world-renowned expert in central bank policy with over 20 years of experience in market analysis and investment strategy. Having analyzed over 1,000 businesses and countless investments during some of the most volatile periods in capitalism, his investment strategies encompass six different asset classes ranging from emerging markets to currencies to real estate.

A best-seller author and acclaimed communicator, Graham's cutting-edge business and research insights have been featured in several media outlets around the world including CNN Money, Fox Business, Rolling Stone Magazine, Crain's New York Business, MoneyTalk Radio, and The Huffington Post among many others.

This bubble will burst, as all bubbles do… so smart investors are currently looking for signs to indicate when that might happen.

I must warn you, that predicting the **actual week**, let alone the day, of a market crash is all but impossible. Anyone who tells you they know the actual WEEK or DAY the market will peak and begin to crash is lying.

However, there are certain key developments that MUST happen for the market to crash.

Think of them as BIG warnings, or the FOUR Horsemen that precede a stock market apocalypse.

What are they?

The most heavily weighted companies began to break down badly.

Let me explain.

When people talk about the market, they are in fact talking about groupings of individual stocks.

In the case of the S&P 500, the index is made up of 500 companies. However, each of those 500 companies don't receive the same weight from the index. Rather, **certain companies receive a disproportionate weight giving them a much larger impact on the market's price action.**

Because of this, in order to get a crash, you need the heaviest weighted stocks to break down badly. Even if most of the 500 companies in the overall market are in a downtrend, if the heaviest weighted stocks DON'T break down, **it's pretty much impossible for the overall market to crash.**

Let's dive into a historical example, the 1987 Crash: the single largest one-day collapse in stock market history. In 1987, the 10 largest companies by market weight were:

Company	Symbol
IBM	IBM
EXXON	XOM
GE	GE
Royal Dutch Petrol (Shell)	RDS/A
AT&T	T
Merck	MRK
duPont	DD
Philip Morris	PM
Ford Motor	F
General Motors	GM

Of these, IBM, XOM, GE and T have charts that are easy to find. So, let's review them.

In 1987, IBM had already taken out both its 50-DMA and its 200-DMA before the crash hit. Put another way, the largest company on the index (the equivalent of the tech sector today) had already broken down VERY badly.

Exxon had yet to look as terrible, but it was clearly struggling, having traded sideways for months before finally breaking down.

General Electric looked awful, breaking its uptrend, and falling below its 50-DMA long before the Crash hit.

Chart on the next page.

AT&T (T) was the only chart that looked remotely good, as it was still in something of an uptrend when the crash hit.

For space reasons, we're only looking at four of the top 10 companies today. But if you were to look at all 10 charts, you'd quickly see that the majority of them had entered downtrends, and were breaking down badly, weeks before the Crash hit.

Again, in order for the market to crash, the stocks that receive the heaviest weight have to break down. So, the key to predicting a crash, is to watch the heaviest weighted stocks closely. Once they begin to break down in a BIG way, you can start preparing for a crash.

Today, the top 10 most heavily weighted stocks in the S&P 500 are:

Table on the next page.

#	Company	Symbol	Weight (in %)
1	Apple Inc	AAPL	7.0
2	Microsoft Corp	MSFT	6.5
3	Amazon.com Inc	AMZN	3.2
4	Nvidia Corp	NVDA	3.0
5	Alphabet Inc Cl A	GOOGL	2.2
6	Tesla Inc	TSLA	1.9
7	Meta Platforms Inc Class A	META	1.9
8	Alphabet Inc Cl C	GOOG	1.9
9	Berkshire Hathaway Inc Cl B	BRK.B	1.8
10	Exxon Mobil Corp	XOM	1.3
		TOTAL	**30.6**

Note that out of an index of 500 companies, these 10 alone account for 30% of the market's weight. So, in order for the market to crash, we need to see them breakdown badly.

So, let's take a look at the top five today (late 2023).

Apple (AAPL): short term downtrend, long-term uptrend.

Microsoft (MSFT): the same as AAPL.

Chart on the next page.

Amazon (AMZN): ditto.

Nvidia (NVDA): major uptrend

Alphabet (GOOGL): short term downtrend, long-term uptrend.

Put simply, out of the top five companies in the S&P 500, which account for over 20% of the market's weight, ALL of them are in intermediate to long-term uptrends.

This suggests that the risk of a crash right now is minimal. Obviously, this can change as things progress, but right now, the odds of a crash hitting are quite small.

This concludes this report, thank you for reading.

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