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Glorious New Issue Markets and Turn-Of-The-Year Tops

New Issues

No need to expand upon "Glorious", but a "New Issue Market" invites some detailing. Historically, one of the features of a mature bull market is that the demand for stocks excites a rush by underwriters to take private companies public. Such offerings have been called new issues. Certainly from their wild record with the South Sea Bubble of 1720 to the 1970s when the lamentable "Initial Public Offering" or "IPO" began to be used. Perhaps confected by some zombie lawyer tediously proofing every line of too many prospectuses.

The other part of this study reviews that some outstanding speculations have completed in the Turn-Of-The-Year time window. One of the greatest was Tokyo's unique bubble that climaxed on the last trading day of 1989. This list is reviewed below.

Obviously, markets are now enjoying a buying frenzy at the right time, and financial history can be instructive.

During England's Canal Mania in the 1770s, companies obtained the right to build a canal from where the company was located to the end of the proposed route. So, the speculation was all about the future, based upon the right to build a canal that did not exist.

Outstanding technology, as a pack horse could carry some 250 pounds but in towing a barge one horse could move 30 tons.

And within one winter the frenzy had speculators in coaches or on horses galloping from one town to the next getting a piece of each new issue. In the dead of night and winter. Because the issuance was not undertaken by a broker each order had to go into the books of the start-up company situated in the town of origin.

And then by the early 1800s, canals had become "value" stocks. The new excitement was in railroads that didn't exist. One of the greatest bull markets completed in 1825, with the railroad rights of way commanding speculative attention. But commercial operations didn't begin until 1830.

Another example of new issues based upon new technology.

Fabulous, as moving goods or people by rail did not suffer low water levels in the summer nor too much ice in the winter.

Whatever, such underwriting manias have occurred as outstanding bull markets complete. They don't happen in bear markets. Indeed, they can be considered as an important part of a maturing bull market. Other examples would include 1929 as well as in the late 1960s.

During the heady days of the latter boom in new issues, this writer was on the institutional equity desk of a strong regional firm. And while actual numbers are not available the overall action now seems the most intense since then. And subsequent conclusions were that an unusual expansion of new clients supported the equivalent expansion of new brokers. All mad for new issues.

Allotments to financial institutions were usually placed in the dividend fund. A quick in and out, leaving the cash.

The hotter the issue the fewer shares each account was allotted. So, eager retail buyers would triple the amount they could handle. Some even opened additional accounts at trust companies, hoping to get satisfactory positions. Then came the issue that did not work, and one particularly aggressive account got filled. To such an extent, that it wiped out most of his gains made in the mania.

Essentially, any new issue party goes on until an eagerly demanded issue does not fly. With the failure marking the end of the mania and the start of the bear market.

Adjusted for inflation the S&P declined by 64 percent from November 1969 to the first part of 1982.

When another great inflation in financial assets began. In real time, they have been called New Financial Eras. "New" because they have beginnings and endings.

Turn-Of-The-Year

The title also refers to the phenomenon of so many significant speculations going euphoric and completing in the December-January window. The most recent example had the NYSE Comp reaching technical excesses last December and setting a big high on January 17. The earliest example found peaked in January 1893.

A more thorough review follows.

The point being is that an outstanding rally seems to be completing in the right time slot. And it is prudent to carefully monitor speculative excesses.

For which, we have two key methods that have been reliable. Indeed, the wilder the markets the better technical research works.

In reviewing Barron's through the late 1920s, the theme was the great bull market, itself. Which as John Moody editorialized was due to the end of socialism and consequent business revival. Real wages were increasing and continuing prosperity was guaranteed by the "new and scientific" Federal Reserve System.

On the contraction Barron's increased coverage of technical research.

In 1932, the publication provided a definitive comment on how determined the Fed was to prevent and then end the post-1929 contraction;

> "***The Federal Reserve policy of cheapening credit through the purchase of government bonds has been unable to make a dent in the conservatism of borrower or bank lender, in short, every anti-deflationary effort has yet to***

> ***provide positive results. The depression is sucking more and more bonds into its vortex***."

One proprietary method provides "Upside Exhaustions" going into significant highs. This is based upon momentum and duration. Another provides "Sequential Sells" at important highs. Based upon pattern recognition, the two going together enhance the calls.

It is worth noting, in registering "Downside Capitulations" and "Sequential Buys", both tools worked as the panic completed in March. Our March 19th publication noted that such spasms of forced selling typically last two months. Which counted out to the end of March.

And now the research is looking for an important top completing by late January and it is timely to ask the key questions:

Is the action up when it should be? Yes.

Are there signs of speculation? Measurably so.

How sound are the fundamentals? You've got to be kidding! There are no fundamentals as America is suffering its most serious political crisis since the 1860s Civil War.

On the practical side, bull markets usually complete with a surge of speculation. And such completions have usually been followed by a cyclical recession. Indeed, one of the reasons behind the formation of the Fed was that financial crises were followed by recessions. The Fed as "lender of last resort" would prevent the setbacks. And therefore the recessions.

The current recession started in February and is the nineteenth since the Fed was formed in 1913.

With many distortions, it has been weird. Forced by the unprecedented COVID lockdowns. As well as disturbed by the Left with rioting and arson allowed in too many cities. Thereby forcing many to move from disquieting downtowns to bucolic outlying regions. Thus the bid for lumber and base metals, within a recession.

And now there is another COVID shutdown.

Importantly, a speculative rush is recording excesses at the right time. Recently, the action in the Yield Curve provided a warning. However, the action in Credit Spreads is still positive but becoming overbought. Also, at the right time.

A more classic style of financial and economic contraction seems possible and could be discovered next year.

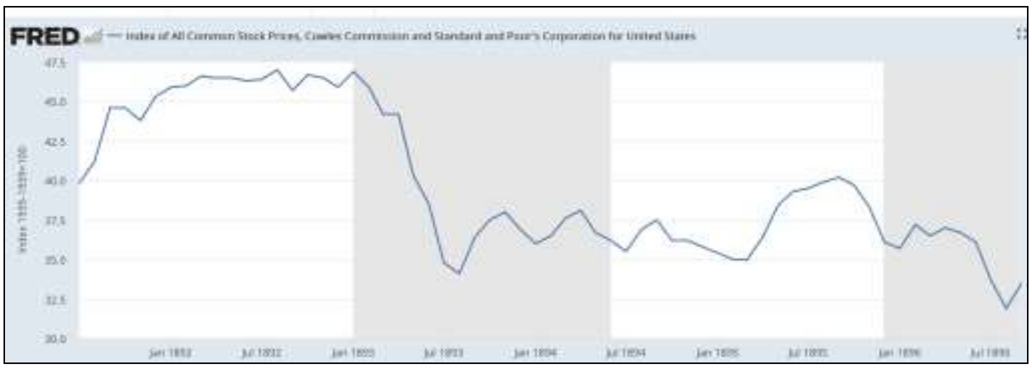
And a December 16th headline from Zero hedge concisely sums up one feature of the mania:

> ***"Regulator Alleges Robinhood 'Aggressively Marketed' to Inexperienced Investors"***

Turn-Of-The-Year Stock Market Peak
1893

The culmination of the 1893 Bull Market is another example of an outstanding speculation completing in the December-January window. Of course, those in government talked up the boom but its demise was gloomily recorded by financial publications. Historically, the 1893 to 1896 contraction was important. It ended the Great Depression that began with the collapse of the 1873 Bubble.

> ***"There never has been a time in our history when work was so abundant, or when wages were so high, whether measured by the currency in which they are paid, or by the power to supply the necessities and comforts of life."***
>
> – President Benjamin Harrison, message to Congress, January 1893.



The high was 46.9 set in January 1893 and the low was 31.9 in August 1896. And it took one extended bear market with two recessions to end the 1873 to 1896 post-bubble Great Depression.

Then, in 1894 *The Commercial and Financial Chronicle* observed:[1]

> ***"The month of August will long remain memorable…in our industrial history. Never before has there been such a sudden and shaking cessation of industrial activity. Nor was any section of the country exempt from the paralysis. Mills, factories, furnaces, mines nearly everywhere shut down in large numbers, and commerce and enterprise were arrested in an extraordinary degree…and hundreds of thousands of men thrown out of employment."***

In his *Money of the Mind*, published in 1992, James Grant observed ***"The 1890s were a time of epic consolidation in American business."***

The 1873 Bubble and consequent contraction provides some instruction for today's markets. Naturally, at its euphoric peak credit markets became strained, but the New York Herald editorialized that nothing could go wrong.

Why? America did not have a central bank constrained by a gold standard. Instead, the establishment was confident that a serious crisis could be prevented by the Treasury buying any amount of bonds out of the market, thereby timely injecting liquidity.

> ***"True, some great event may prick the commercial bubble, and create convulsions; but while the Secretary of the Treasury*** (U.S. was at that time between central banks) ***plays the role of the banker for the entire United States, it is difficult to conceive of any condition of circumstances which he cannot control. Power has been centralized in him to an extent not enjoyed by the Governor of the Bank of England. He can issue the paper representative of gold to the amount of scores of millions."***

England hosted the senior economy, weakness prevailed. In 1884, senior economists began calling it the "Great Depression" that. as noted above, ended in 1896.

Typically, post-bubble contractions have lasted for some twenty years.

By way of summary, the list of terrific speculations that have climaxed in the December-January window include:

The NYSE in January 1896, on January 26, 1906 and January 11, 1973, gold and silver on January 21, 1980, and the Nikkei on the last trading day of 1989. And the most recent had the NYSE Comp topping on January 17, 2020.