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7 STAGES OF SHARE MARKET CRASH

GETTING THE ODDS IN YOUR FAVOUR

- By Kritika Yadav

ABOUT US

We aim to serve our subscribers/readers with rigorous qualitative research which contain unbiased, independent and high level of accurate informations and data that inform them about savings and investments and help them learn how to make better choices.

Our style of presenting and expressing datas, informations is very simplified that anyone even with non-familiar background can easily relate to it. We always try to reach par excellence to the best of our ability.

INTRODUCTION

Firstly let me tell you the objective of this Booklet. The objective of this Booklet is not to tell you about Share Market Coming Crash but the objective of this Booklet is to know the facts and getting prepared.

Preparation is the most important thing.

"Success always comes when preparation meets opportunity"

- Henry Hartman

Now what is preparation? Let me explain you in simple example.

If I ask you to run a 200m race suddenly now, can you be able to sprint? Answer would be No. Because you are not prepared for this. If you sprint then there will be high chances that you cannot complete the race, loose the race or might get injuries as well.

But let me twist the question.

Now if I ask you to participate in 200m sprint race but after 6 months and not now so can you do that? Answer will be yes because you know you have time in your hand you can practice daily & may win the race.

That is why preparation is the key not in share market but in life as well.

"Before Anything Else Preparation is Key to Success"

- Alexander Graham Bell

Share Market Preparation 2020

Now let's talk about Share Market. 2020 is been a weird year for share market. Pandemic hits & Central Banks try to provide support both to the Economy & Market. The long term Business Economics of Business is totally changed.

"The World has changed now".

So this is the Best time for you to start your preparation for upcoming years.

This is the time when your hard work, preparation can meet opportunity.

So now let's start the 7 stages of Share Market Crash.

7

STAGES OF MARKET CRASH

STAGES 1 – RAPID GROWTH OR UNREALISTIC GROWTH

Stage 1 – Hint of upcoming crash can be judged from stage 1 of our parameter that is rapid growth or unrealistic growth.

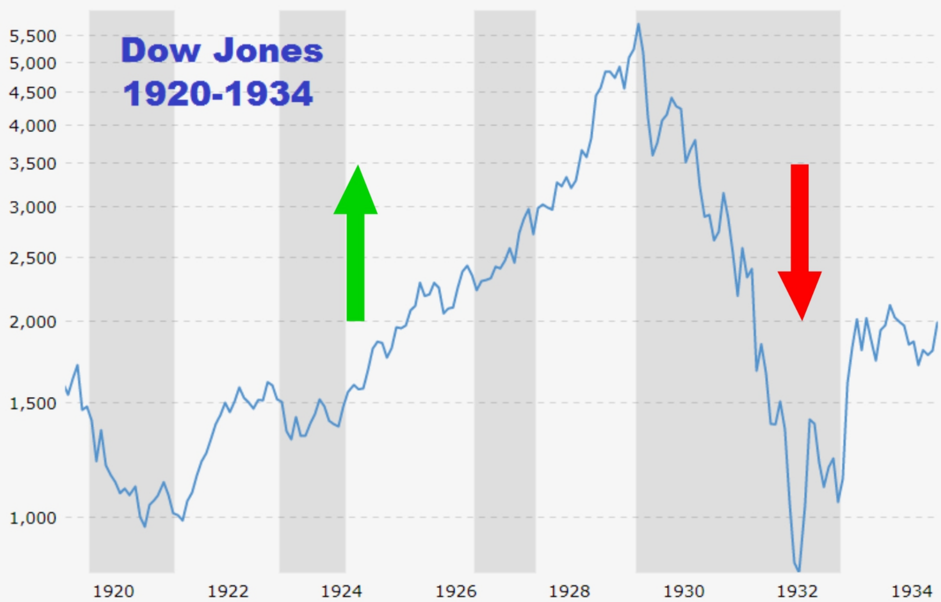
Whenever we see rapid growth in stock market then crash occurs. Before we proceed further with real examples let's understand the term with normal life.

Imagine a boy who always stood last in class. And Suddenly comes first in next exam. Can you say he will keep his consistency for next coming 5 year exam. Answer will be 'No'.

Even in daily life if something is achieved very quickly then it is very difficult to achieve & maintain that consistency in coming times.

Now Real stock Market example of Rapid Growth

Before 1929 depression, stock rises from 1920 to 1929. In photo you can see the rise clearly.



Stock Market first jumped rapidly in 9 years then in just 1 year it dropped similar to what it gained for last 9 years in fact even lesser than that.

On Aug 1921 Dow at 986

On Aug 1929 Dow at 5722

Long 9 years rally after arrival of mismanagement.

In year1932 Dow crashed to 819 which is lesser than what was in year 1921 which is equal to 986 at that point.

LESSON TO LEARN

So anytime if you see unrealistic or rapid growth in market then start getting prepared for next outcome.

STAGE 2 – MONETARY HELP

Do you know World Economy is about how much Trillion? You don't know it's ok let me answer. As on 2020 the world total economy is of $86 Trillion.

It is the data before pandemic. You are worrying why I'm giving these data. Don't worry sit back and read carefully. After pandemic world's Central Bank or Central Banks of all countries has printed $15 Trillion alone.

In which US the $21 Trillion economy printed almost $4 Trillion single handedly which is about 20% of their GDP.

Now let me take you to the point.

It takes almost 2 century or 200 years to take world GDP at around $ 85 Trillion.

But in just 6 months Central Banks printed $15 Trillion to give support to the economy.

Some of these money rather than going into economy goes into Stock Market which creates Asset Price Bubble.

Reflection of Asset Price Bubble can be seen in both Stock Market and Gold.

Such kind of monetary help will stabilize the economy & market in short term but not in the long term.

As we neutralized these effect & the situation starts getting normalized you can see less printing which effect adversely on economy & market.

To run economy & market on their own support, some day they will stop printing & this time is going to be challenging for us

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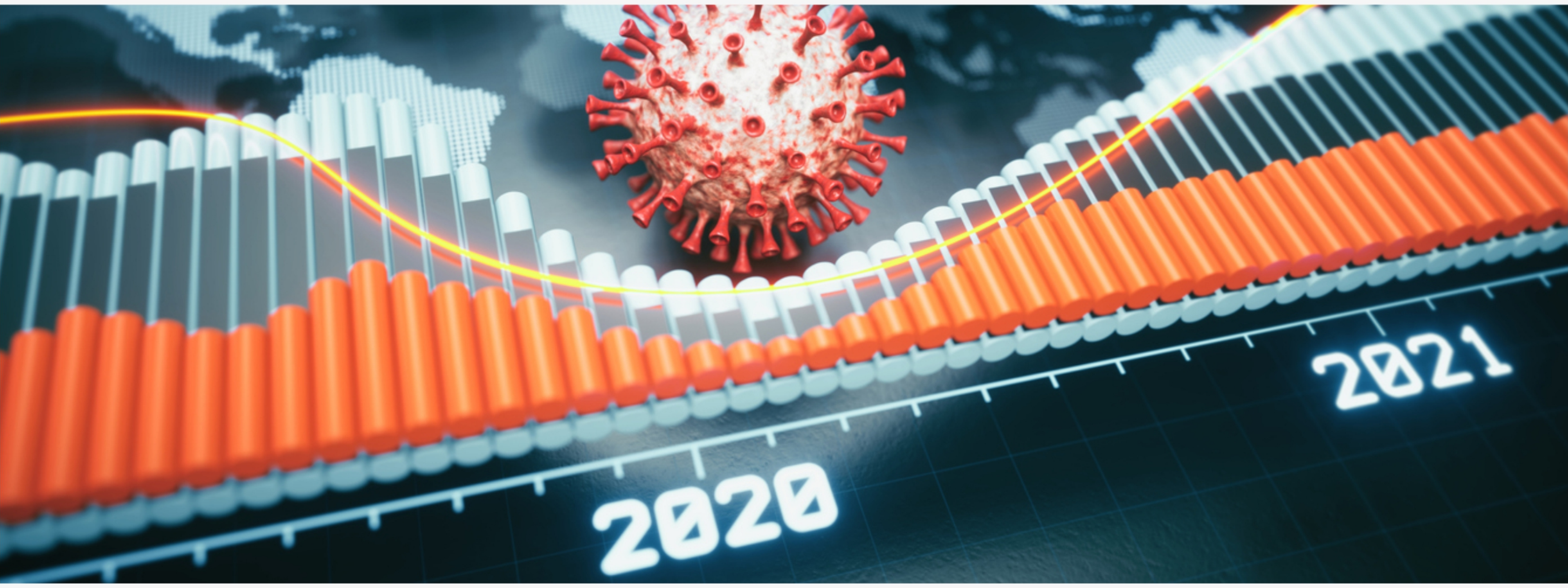
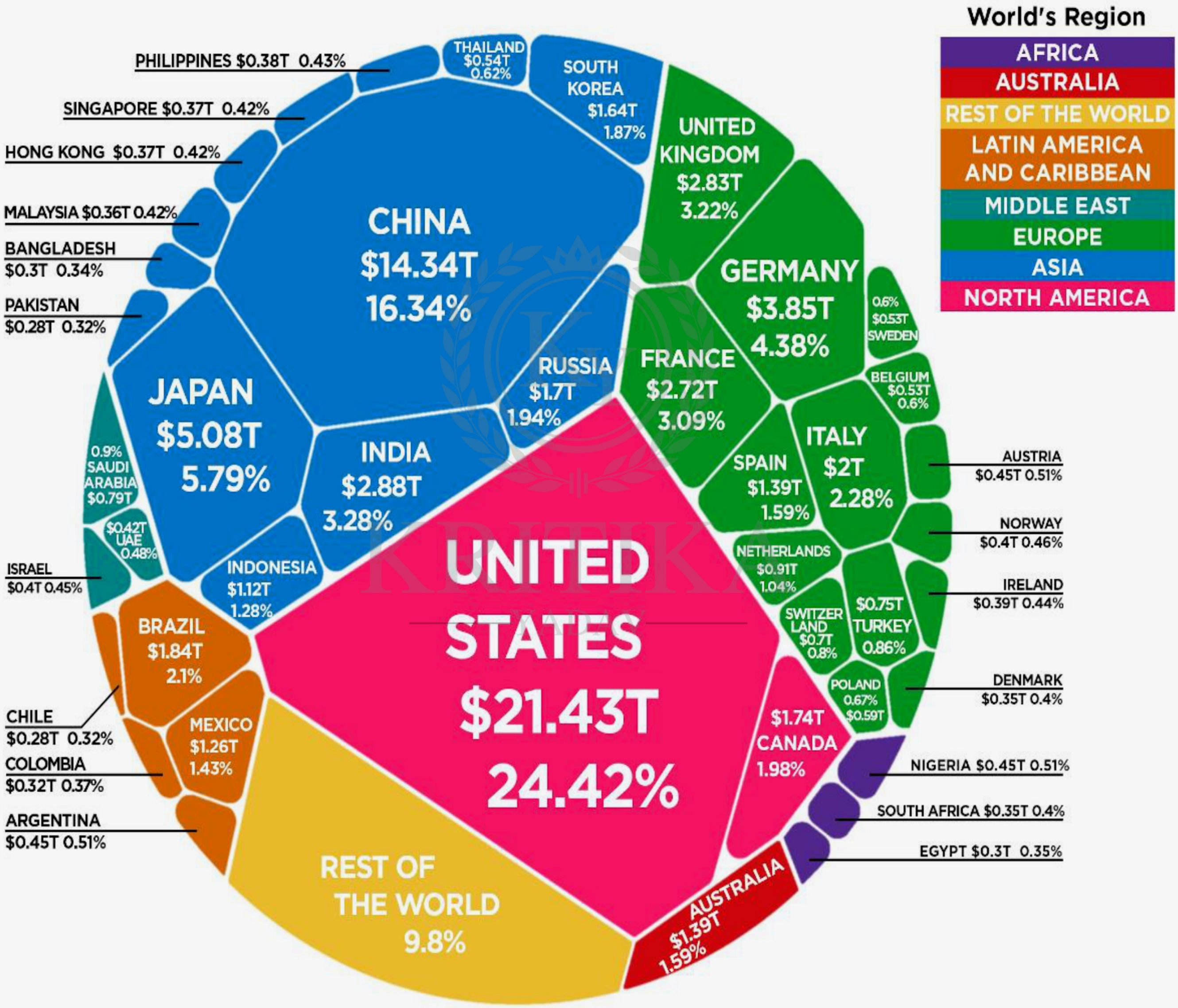
LESSON TO LEARN

Monetary supply is the second stage of upcoming market crash. In 2020 there is already a supply of $15 Trillion. And whenever this happens, crash occurred.



THE $88 TRILLION WORLD ECONOMY



Article & Sources:
https://howmuch.net/articles/the-world-economy-2019
https://databank.worldbank.org

STAGE 3 – LOW INTEREST RATES

Interest Rates is the Best tool for judging any kind of investments whether you are investing in for Gold, Mutual Funds or Stocks or Bonds.

Let me explain you in simple words.

Effect of Interest Rates on Bonds & Share Market

Lower the interest rates higher will be the market and can be called as Bull Rally.

Higher the interest rate lower will be the market and can be called as Bear Rally.

After pandemic, World's Central Banks including US, India, Germany, Spain, UK etc decided to lower interest Rates.

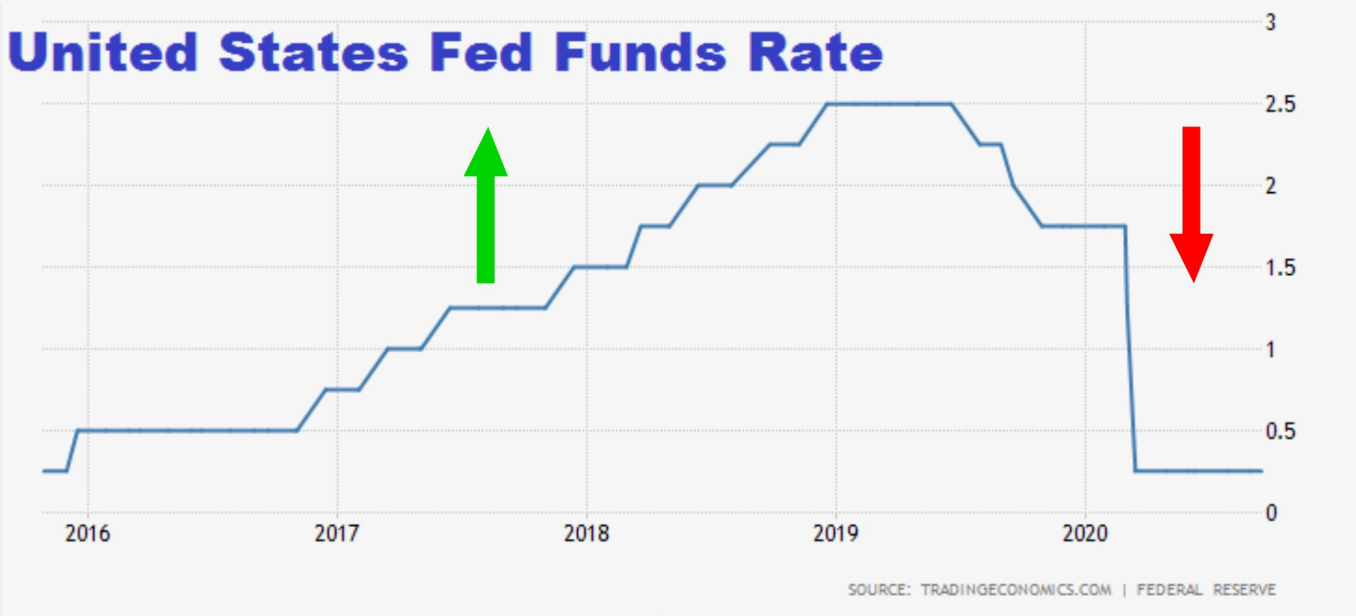
In USA interest rates comes down to '0' which is lowest in 200 years.

They have done the same thing in 2008 crises.

By lowering the interest rates, they kept the Bull Run. Market Roars after their decision & continue to rise if they keep rates low.

But again they cannot just keep the rates low forever. At some point of time they have to raise the rates & then the cycle will change.

Bear Market may arrive as investor will rush towards cash.



LESSON TO LEARN

In Low Interest Rate – All Banks FD, pension scheme rates will go down. Availability of easy loan at low rates encourages investors to take loan & invest in stock market because there is no other alternative.

But when interest rates gets higher investors will move towards safety & dump equities & invest in safety with Bonds etc.

So interest rate is the best indicator for judging market cycle.

When interest rate is low it is very simple to predict the next cycle.

In 2020 we have already seen lowest interest rates in last 10 year.

STAGE 4 – HINT OF BEGINNING OF CRISES

In stage 4 we got confirmation of the crash as crises begins.

As we mentioned earlier, to provide support Central Banks lower downs the interest rate.

With low interest rates, less people make deposit in FD schemes, small saving schemes because they are getting less return.

At the same time in low interest rates borrowing will be easy. Easy to borrow money from banks at low rates.

In stage 4 there is hint of starting of crises.

The NPA's of Banks began to explode because of people who borrow money might not be able to pack back that money to Banks which ultimately leads to rise in NPA.

With very low deposit & high NPA, Banks will start facing problems.

The problem can be seen with examples such as Bank is not participating in Bull Rally. Banking Stocks going down.

To support them initially again the Central Bank comes into place.

They provide support to them but again only for short term not in long term.

LESSON TO LEARN

As soon as investor hear the news of high NPA of Banks or Subprime credit issues they have to get prepared themselves for upcoming event. This is very strong signal & regarded as stage 4.

STAGE 5 – OFFICIAL IN RECESSION

In stage 5 we officially move into Recession.
The whole global economy moves into the Recession.

Like the event of 2008 before entering in recession the global economy passed all previous 4 stages

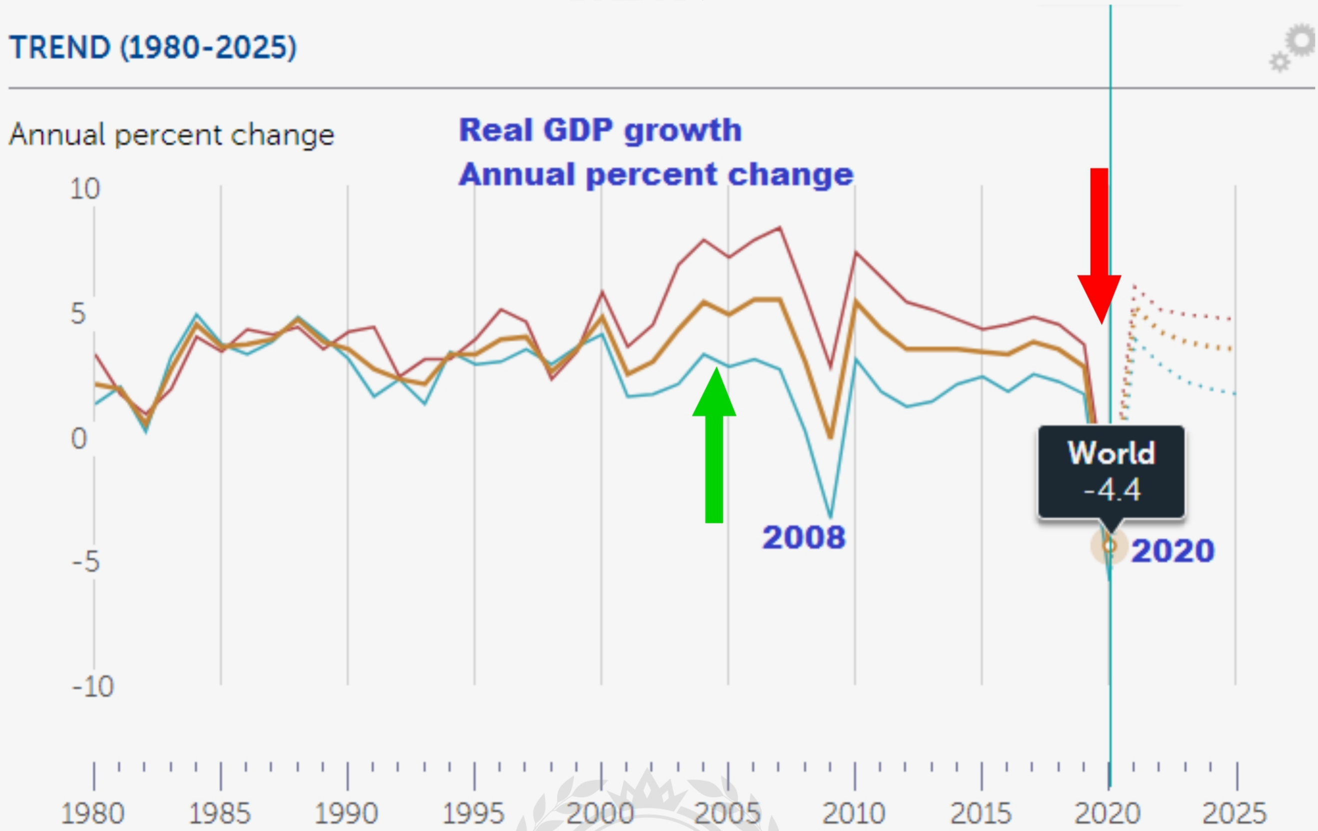
In stage 5 – How we know that we are in stage 5?

Answer is simple, All 4 stages has been passed. Global economy is in recession so this is the hint that we are in stage 5.

In recession one can clearly see that spending is low. Consumer confidence data strikes below 100.

Unemployment rate shoots up above 5%. GDP enters into negative territory.

This all economic events signalling again CRASH in market is due.



LESSON TO LEARN

As soon as you see unemployment rate is high, GDP is low and in negative territory then prepare yourself for the Market Crash.

Raise as much as cash you can for the upcoming event.
This will help investors to buy stocks at cheap.
Now we are ending 5th stage of Market Crash.

STAGE 6 – QUANTITATIVE EASING (QE)

Stage 6 is the Quantitative Easing. Now question comes into your mind what is Quantitative Easing?

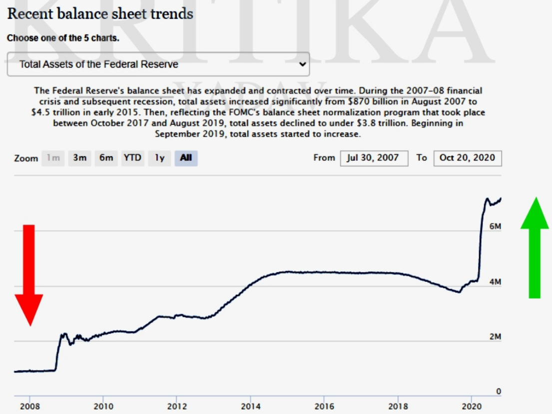
QE is a monetary policy where Central banks buy government bonds or other financial asset in order to inject money into the economy to expand economic activity.

It is logically unconventional monetary policy in which Central Bank purchases long term securities from open market in order to increase money supply and encourage lending and investment.

Buying these securities adds new money to the economy & also serves to lower rates by bidding up fixed income securities. It also expands the Central Bank Balance Sheet.

QE increases the money supply by purchasing assets with newly created bank reserves in order to provide Banks with more liquidity.

The best way to judge QE is Central Bank Balance Sheet.



You can see the spike in 2008 & in 2020 where Fed US Central Bank provides QE.

In 2020 response to pandemic on March 2020 US Fed Reserve announced a QE plan of over $700 Billion .

Later on June 10,2020 FED extended its program committing to buy at least $80 billion a month in Treasuries $40 billion in Mortgage Backed Securities until further notice.

DRAW BACKS OF QE

Major drawback of QE is that if central Bank increase the money supply, it can create inflation.

The worst thing that may also happen is that it may cause inflation without intended economic growth.

An economic situation where there is inflation but no economic growth is known as Stagflation.

So Central Banks QE is the last stage where they want to fix everything.

LESSON TO LEARN

As soon as Central Banks start QE Investor must see this & utilize that time to build an Ark, raise cash in Accounts & when QE is completed after few year and when market get corrected then use this cash to Buy stocks in Discount.

As soon as QE is announced all Asset prices start shooting upwards & share market may became very expensive so instead of participating in such an expensive market better to wait & raise cash for next upcoming event.

With unconventional QE there is lot of thing which remain non – manageable and can cause sudden spike in consumer prices and asset prices which may not be able to sustain in future.

STAGE 7 – FINALLY CRASH OCCURS

Stage 7 is the last among all the stages and it is the stage were crash happens.

From history we have seen such stages and real life examples are:

--- 1930 Great Depression

--- From 1921 to 1929 stock market rises & then crash occurs after completion of all stages.

—2008 Financial Crises

Again same thing happened just like 1929 Depression.

From 2004 stock market begins to rise. In Oct 2004 Dow at 13,667 rises continuously to reach new highs of 17,350 in Oct 2007.

In just 3 years Dow surges rapidly.

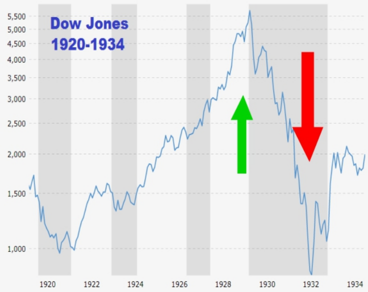
But something else is waiting in the corner.

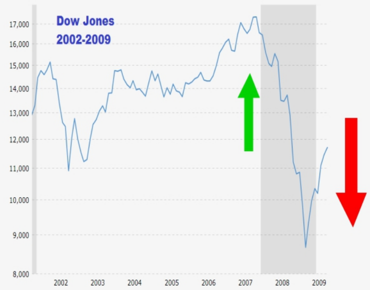
The crash begins and in just 18 months Dow crashed and reached 8,667 in Feb 2009 well below the starting point of 13,667 in Oct 2003.

Well this is what History tell us about the stages of stock market

Once Warren Buffett, the legendary investor quoted the words of Friedrich Hiegel

“The only thing we learn from History is that we learn nothing from History “





IS CRASH CERTAIN AFTER THIS 7 STAGES?

History suggest it is certain but not 100% certain. It depends on lot of things also on these stages about CRASH but when will it happen. The answer is “No Body“ knows.

It is all depends on Central Banks. Central Banks can print money to overcome crises but cannot print money forever.

But why they can’t print forever?

2 Reasons are there for this -

First one is high Debt

If they continue to keep rates low then Debt to GDP will rise shortly.

Second Reason is Inflation

If they continue to print & supply money then at some point of time inflation will come into game.

So at one point of time Central Bank will let Market Crash so that Economy & Market will run themselves without any external support from Central Bank.

In Economics we termed it as “Winding up Tool “.

Central Banks will wind up all the tool they are currently using & this is the best time to invest in stocks .

This is the time to find Stocks in their Intrinsic value & Buy them by creating Margin of Safety just like our legendary Investor “Warren Buffett”.

DISCLAIMER

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You are strongly advised to do your own research or consult professional before making any kind of investment or taking any action.

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