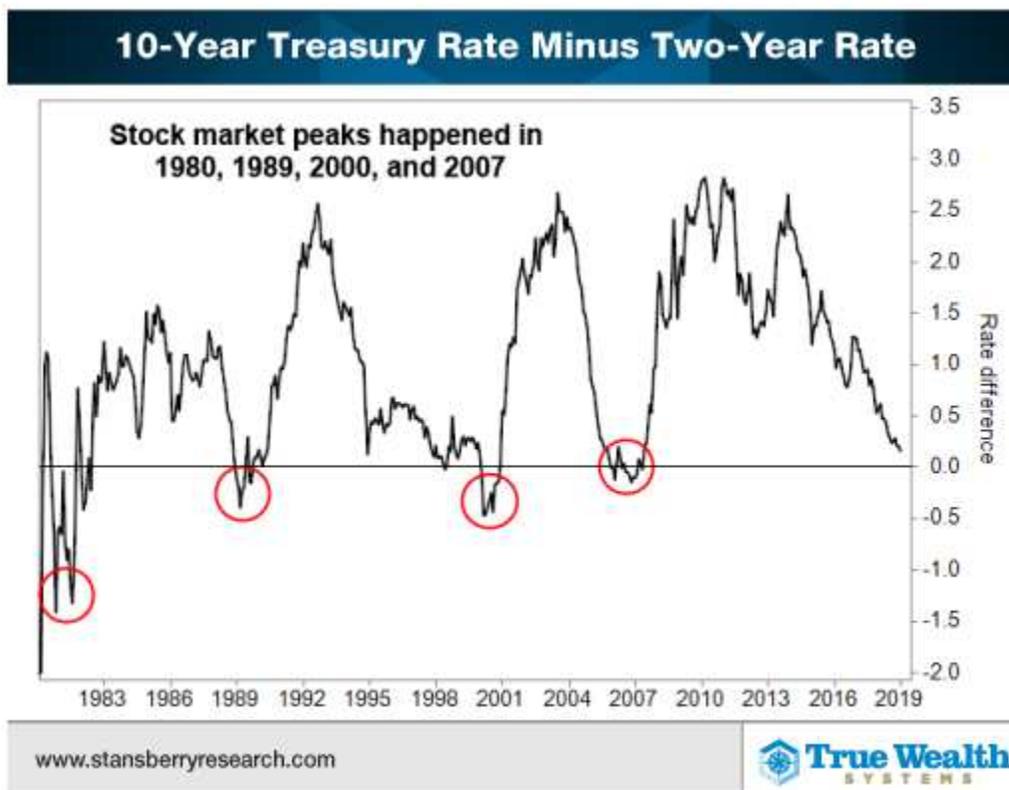


**Subject:** The one indicator that almost fool proof  
**From:** CSH Investments <steve@cshinvestments.com>  
**Date:** 1/18/2019, 12:46 PM  
**To:** <rjm1955@gmail.com>



**I often get asked how do we know when the bull market has peaked? I've searched 30 years for some magic answer and this is about as close as you'll get.**

The graph above represents the yield or interest rate on 10 year US Treasuries and 2 year US Treasuries. Normally 10 year rates exceed 2 year rates by 2-3 percentage points. This makes sense you should get paid more for tying up your money for a longer period of time. But every once in a while this fairly stable relationship gets out of whack. As you can see the 4 circles on the graph. These points represent where the 2 year rate actually exceeds the 10 year rate. It also happens to coincide with the last 4 recessions. And maybe more importantly for us the end of bull markets.

This relationship is telling. 2 year rates are set by the Federal Reserve. They move up and down depending on whether the Fed is trying to cool down the economy or stimulate it.

The 10 year rate is not set by The Fed. It moves up and down depending on the market. Essentially its supply and demand. If investors see the economy as robust and moving forward 10 year rates will exceed 2 year rates. However if its just the opposite demand for long term US Treasuries will fall. This causes the spread to narrow. It also signals recession.

The 4 data points circled and below the line show where 2 year rates are actually higher than 10 years rates. In all 4 instances it also signaled a market drop of at least 30% in the coming 12-18 months.

In other words this is a leading indicator. It tells us what's going to happen going forward.

Today we're very close to that line. But we haven't gone through it. I believe we have about 18-24 months to go before the warning signals will flash red.

You see crazy stuff happen at the end of bull markets. Valuations that are crazy. Mergers and acquisitions that don't make any sense. The dumb money is giddy. They'll think its easy to get rich investing in stocks. That hasn't happened yet.

My guess is that's when this indicator turns negative and we will adjust

accordingly.

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