

## **Sand Spring Advisors LLC**

### **The Push-Pull of 2005: Horror Filled -- At Least from Hollywood**

by,

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There has been a real push-pull struggle in 2005 financial markets that has felt very much like a “giant tease.”

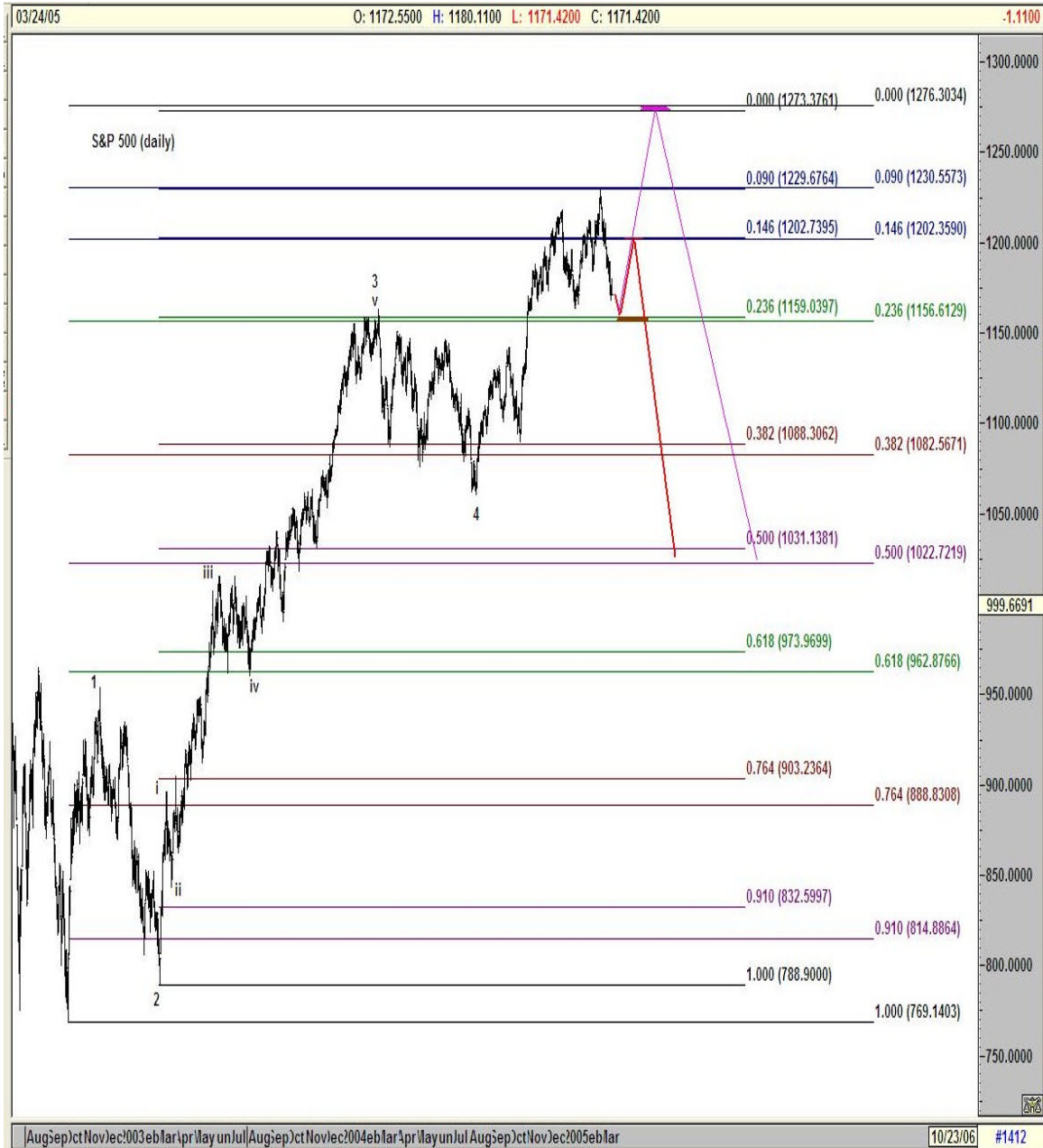
When we penned our February 20, 2005 article “Lost in Space” we spoke of a likely reversal lower in the markets during March into a mid-May 2005 low; followed by a summertime rally, and then a nasty 4<sup>th</sup> Quarter of 2005. This continued to be our preferred view until we got “teased” and “concerned” on March 7<sup>th</sup> by new highs in the S&P 500 Index up to the 1222-1229 area – a move that transpired at the same time as the Dow Transports and Dow Utilities were poking to new recent highs as well (prompting many to celebrate a Dow Theory buy signal). Although in our web posting of March 7<sup>th</sup> entitled “Cold as Ice” we did point to the fact that such new highs were transpiring on low volume, and that the major NASDAQ Composite and NASDAQ 100 indices were nowhere near their late December 2004 highs, overall we succeeded to get ourselves all twisted up in our positioning -- primarily for money management reasons. 1205 had been our preferred bounce point from the late January S&P lows to sell into. 1222-1229 was simply too far beyond that point for us to ignore. This was unfortunate.

At present any Dow Theory buy signal that did transpire in early March is being severely threatened by an apparent DJIA outside-month down “key reversal” formation (defined as higher monthly highs within a trend, but a close below the low of the prior month) potentially in the making. A March 2005 close in the DJIA below the February 10,489.60 low would certainly make Dow Theory proponents very concerned. A close below the January DJIA low of 10,368.60 would likely leave them near apoplectic.

Other cross-currents exist. At present the S&P is trading near 1171, and we can spy Fibonacci support of some magnitude not that far away in the 1148-1556 region (our original target region for support back in January). If this support region is reached in the near future, a bounce once again toward at least 1200-1205 on this chart is possible. Such could easily complete our long-espoused “domed house” topping formation on the S&P 500, and re-offer a nice short-selling opportunity. And yet, the “look and feel” of the S&P chart shown below taken

on a standalone basis certainly also allows for one last far bigger hurrah up to 1265-1274 – a move that we previously suggested might transpire from mid-May through the summer months.

Overall, volatility is certainly creeping back into the equity markets, and as our bottom-line opinion – sooner or later in 2005 -- we believe that a downside S&P 500 target of 1022-1031 beckons. The more perilous trick is to discern the correct path that will transpire to reach this target. In looking at the S&P alone one can easily reach different conclusions because the S&P 500 chart pattern by itself is not entirely clear. But when one drills down to other sub-indices and individual equity price charts, a far more bearish picture appears to be transpiring.



One specific chart that we believe bears close attention is the NASDAQ 100 chart denominated in yen (as depicted on the following page). At present this chart is hanging on

moving average support, yet longer-term has a clear Fibonacci rhythm that points towards an ultimate low at less than half its current value. At present, with USD/JPY near 106, and the NASDAQ 100 near 1469, the NASDAQ 100 index denominated in yen terms trades at approximately 155,714 yen. Using IMM yen futures in this calculation (as our chart does), the price is a tad lower due to the forward point differential. But put cash USD/JPY at 103, or the NASDAQ 100 a bit lower, and this chart would be breaking decidedly lower. Such an occurrence would tilt us to being more immediately bearish than we are at present. The overall anemic complexion of our major stock indices when denominated in foreign currencies continues to be the most palpable evidence that America is currently living through a period of “false illusion of domestic prosperity” instead of “actual prosperity in real global terms.”

### NASDAQ 100 / June IMM



Another chart that certainly looks “fully baked” with a complete Fibonacci rhythm and a significant downside move brewing is the S&P Retail Index depicted below. Just look at how wonderfully “tight” all of its Fibonacci bands are when drawn up to the January 3, 2005 466.68 high. Support currently resides around 410-414, but if that region gives way, watch out below.



And the Philadelphia Bank Stock Index looks almost equally sick:



Indeed, when we peruse individual stock charts within the financial sector – particularly those such as MGIC, Capital One, Americredit, Bank of America, Washington Mutual, Wells Fargo, XL Capital, and MBIA -- we continue to see chart patterns that look primed for disaster.

Fannie Mae, a long term bearish view of ours, has also now broken trendline support, and appears poised to reach a downside target over time near \$34-35. This target is approximately 38.2% of its peak 2000 valuation of \$89.38.



Tech and Internet sectors also remain suspect. The Interactive Week Internet Index specifically did not participate at all in the Jan 24<sup>th</sup> -Mar 7<sup>th</sup> S&P rally, and the longer term picture on the Philadelphia Semiconductor (SOX) Index also remains decidedly bearish in complexion.





So overall, we see plenty of evidence beneath the broader S&P 500 that still makes us highly skeptical and bearish. Most of this evidence is showing up in the Retail, Banking, Internet, and SOX sector sub-indices and individual stock charts.

Just as we may be living through a “false illusion of prosperity” where stock indices in foreign currency-denominated terms are far less buoyant than they are in dollar terms, the broad indices themselves -- even in dollar-terms -- seem to be masking far nastier sub-sector developments under the headlines. Many Americans are currently off on their spring break holidays almost unaware that their portfolios may stand at serious risk of imploding sometime this year or next. They are being myopically blasé and are at serious risk for such a mindset.

### **Other Push-Pull Reflections**

Speaking of mindsets, the American populous on a “socioeconomic” basis (kudos to Robert Prechter for the term and concept) is also experiencing an interesting push-pull in its overall psyche at present. The extreme attention in the media to the Terri Schiavo “right to life” situation shows a conservative religious faction within the United States that is hell bent on defending what they perceive to be traditional values – and these protestors are getting significant media attention. And yet, on the other side of the socioeconomic landscape -- as witnessed within our movie theatres – we have recently seen the release of horror movie after horror movie. This has easily been the most packed (and certainly the most explicit) offering of ghoulish fare in over three decades. Post the 2003 Super Bowl “wardrobe malfunction” on television, emphasis on sex from Hollywood even seems to be diminishing, replaced by more fear and fright.

According to one newspaper source we found, since August 2004 there have been 15 horror thriller movie releases ranging from *Hide and Seek*, *Boogeyman*, *Constantine*, *Cursed*, *SAW*, *The Grudge*, *The Village*, *Constantine*, and *Ring Two*. Over half of these fifteen movies opened in the number one position in terms of box office sales vis a vis other available movies on the date of release. Forthcoming in 2005 will be additional horror titles such as *Cave*, *The Amityville Horror* (remake), *House of Wax*, *Undead*, and *The Devil Rejects*. In most normal years just 6-8 notable horror movies appear. 2005 will leave that norm in the dust, easily on the path to surpass even 2002 – a year of stress in the financial markets that saw the total number of major horror movie releases well into the double digits. Indeed, ever since 9/11, horror movies have been increasingly prevalent.

What is the significance of this cultural phenomenon? Let us first make an assertion that we will then work to defend. Horror movies (and the quality thereof) most certainly come in cycles, and seem to broadly align to equity market behavior as well.

First in the Great Depression, we saw the production of such Hollywood horror classics as *Frankenstein*, *Dracula*, *Dr. Jekyll and Mr. Hyde*, and *The Mummy* that led in turn to various spin-offs during the 1940 war years (*The Wolf Man*, *The Mummy's Hand*, *The Mummy's Tomb*, *The Mummy's Ghost*, etc.) The 1930-1940's were of course very trying years for this country and our capital markets.

But by the 1950-1960's horror movies had slipped into the more ridiculous and humorous genre with a sci-fi emphasis (*Abbott and Costello Meet Frankenstein* and related sequels, *The Blob*, *The Thing*, etc.). People wanted to laugh more than they wanted to be scared.

Alfred Hitchcock movies also gained popularity during this period -- with suspense winning out over outright ghoulishness. Such trends toward humor and suspense (in lieu of explicit fear and gore) came of course at the same time as financial markets turned more buoyant.

But then we had the 1970's -- the initial era where "slasher" movies were prevalent together with such fare as *The Exorcist*, *The Texas Chainsaw Massacre*, *The Amityville Horror*, *Carrie*, *Halloween*, *The Omen*, and *The Shining*. The emphasis all seemed to be on the dark "devilish" side of humanity at the same time as markets went dark as well. How ironic that we now see the remake of *The Texas Chainsaw Massacre* in 2003 and the forthcoming remake of *The Amityville Horror* in 2005.

Some of these "dark-styled" movies continued into the early 1980's, but so too did increased sci-fi humor again (like the 1950's) with a remake of *The Fly* and the great success of films such as comedy-horror film *Ghostbusters*. Within this decade, more horror movies were produced in 1981-1982 (heavy market years) than in the happier market years of 1983-1984. The 1987-1988 post-Crash period also saw more horror films produced than during 1985-1986. While in 1991 *Silence of the Lambs* emerged as a popular hit, it would be the last major horror-thriller until very late in the decade. Mid-1990's interest in horror films largely died off, with many horror titles even being released direct-to-video over in the U.K.

But then horror made a huge comeback post the 1998 market meltdown with the 1999 production of *The Blair Witch Project*, *The Haunting*, and *The Mummy*, only to quiet down again over the bulk of 2000-2001. Then came 9/11 and horror movies stepped up in prominence yet again -- *Ghost Ship*, *Red Dragon*, and *The Ring* all being quite popular. Television aired Stephen King's *Rose Red*, and shows such as *Fear Factor* became increasingly popular.

So it is we currently find ourselves in an ongoing 2002-2005 "horror-fest," occurring at the same time as a re-emergence of conservative religious fervor (N.B. -- 2004's *The Passion of the Christ*). Add in the real-life debates over whether the 10 Commandments should be displayed in government public spaces and the Terri Shiavo right-to-live affair, and one can easily see a moral "socioeconomic battle" playing out across America's popular media at the same time as bulls and bears are slugging it out on Wall Street. Personally, I believe that the aggressiveness of the horror shock tactics reached an all-time extreme in last fall's *The Grudge* -- a movie that left my heart truly pounding when I saw it with my 16-year old son last December.

Horror movies are of course a release mechanism for natural tensions. As the U.S. consumer becomes increasingly strapped between low wage growth and the higher cost of goods and services, he can at least go into a horror movie and emerge thinking: "My problems are pretty minor compared to what that person just had to go through." The nugget of neurons that sit deep in the temporal lobe called the amygdala (controlling our "fight-or-flight" survival response) enjoys a natural adrenaline rush when we align with heroes that we want to get out of harm's way, but can't actually do much for from our theatre seats. Just as surviving a rollercoaster ride produces a rush, so too does surviving a movie like *The Grudge* -- a feeling akin to "Get me out of here" during the movie, and "Phew, I'm still alive; the world is normal again; and so what if I'm going broke" after the movie.

From what we can see, the historic appearance of horror movies (and the popularity thereof) is not itself a particularly good *leading indicator* for market behavior. Only the appearance of financially-oriented movies such as *Rollover* (1981), *Wall Street* (1987), *Bonfire of the Vanities* (1990), and *Boiler Room* (2000) seem to hold prescient contrarian significance -- appearing toward or on market highs. Horror movies, by comparison, have historically been more concomitant reflections of overall investor psychology and mindset. When investors want



to feel good and be happy, horror movies fade away. But when market or societal stress exists, horror movies are in demand for a “worse than reality” form of release.

As a short note, sometime this spring or summer following the tax-day April 15<sup>th</sup> release of *The Amityville Horror* and May 8<sup>th</sup> release of *The House of Wax*, we will see the release of a film called *The Edukators*. This picture was billed at last year’s Cannes Film Festival as a “gripping confrontation between a trio of anarchic, disaffected youngsters and the fat-cat businessman who they kidnap.” No doubt this will be more socio-economic reflection in the popular media of the real world’s financial and social angst. Then after a mid-May to late-June lull in horror movies, we note the following release schedule. Where available, we’ve included brief movie synopses – doing so simply to reinforce what an ugly overall tone Hollywood has laid out for our theatres during 2005:

June 29: *The War of the Worlds*... A contemporary retelling of H.G. Wells’s seminal classic, the sci-fi adventure thriller reveals the extraordinary battle for the future of humankind through the eyes of one American family fighting to survive it.

July 1...*Undead*

July 22: *The Devil’s Rejects: House of 1000 Corpses*...The sequel to "House of 1000 Corpses" centers on a band of bounty hunters led by Sheriff Wydell's brother who is fueled by revenge when he finds out that his kin was slain by the Firefly family. The film will pick up shortly after the first with the Firefly clan going on the road after their house is burned down and a few family members have been gunned down during a police raid.

August 5: *Doom*... Set countless years in the future and told in the hyper-kinetic, kamikaze style that made its gaming predecessor a global phenomenon, the science fiction action adventure *Doom* takes the viewer to the far corners of the galaxy with a fully-realized vision of a dark and disturbing future.

August 12: *Dark Water*... The story revolves around a mother and daughter who escape an ugly custody battle with the girl's father by retreating to a dilapidated apartment building. Instead of finding solace, though, they are haunted by the ghost of a young girl whose family used to live there.

August 12: *Skeleton Key*... Set largely in the dark atmospheric backwoods just outside of New Orleans, *The Skeleton Key* stars Kate Hudson as Caroline, a live-in nurse hired to care for an elderly woman's (Rowlands) ailing husband (Hurt) in their home ... a foreboding and decrepit Gothic mansion in the Louisiana delta. Intrigued by the enigmatic couple, their mysterious and secretive ways and their rambling house, Caroline begins to explore the old mansion. Armed with a skeleton key that unlocks every door, she discovers a hidden attic room that holds a deadly and terrifying secret.

August 19: *Asylum*... Stella Raphael, a cultured and elegant but restless young woman, lives with her husband, Max, a forensic psychiatrist, and their small son, Charlie, at a high-security mental hospital in rural England. Isolated from the urban excitement she craves, Stella is unhappy with her husband and her life, and when she comes into contact with the brilliant and attractive sculptor Edgar Stark, a patient who is engaged in rebuilding the asylum's decrepit Victorian conservatory, she begins to fall in love. Her discovery that Edgar was confined to the hospital after he brutally murdered and disfigured his wife in a psychotic, jealous rage fails to deter Stella from her growing passion, and eventually her love for Edgar is pitted against her husband, her child, the institution, and the entire fabric of her

society. Finally Stella makes her choice, precipitating an appalling tragedy and changing the course of several lives.

August 19: *Cave*... Deep in the Romanian forest, a team of scientists stumbles upon the ruins of a 13th century Abbey. On further inspection, they make a startling discovery - the Abbey is built over the entrance to a giant underground cave system. Local biologists believe the cave could be home to an undiscovered eco-system, so they hire a group of American cave-explorers to help them investigate its depths. But what they find deep inside the caves is not just a new eco-system, but an entirely new species altogether.

August 26: *Cry Wolf*...A modern-day retelling of "The Boy Who Cried Wolf."

Sep 2: *The Woods*... The Woods is a psychological horror story that begins when a neglected teenager named Heather (Agnes Bruckner) is dropped off by her parents at a remote all-girls boarding school deep in the forest. Watched over by sinister headmistress Traverse (Patricia Clarkson) and her staff, Heather is tormented by her classmates and is desperate to go home. But when students start disappearing and she begins to have horrifying visions, Heather realizes things at the school are not what they seem. She only knows there's something out there in the woods and it won't be letting her leave any time soon.

Sep 9: *The Exorcism of Emily Rose*... In an extremely rare decision, the Catholic Church officially recognized the demonic possession of a 19 year-old college freshman. Told in terrifying flashbacks, "The Exorcism of Emily Rose" chronicles the haunting trial of the priest accused of negligence resulting in the death of the young girl believed to be possessed. Inspired by true events, the film stars Laura Linney as the lawyer who takes on the task of defending the priest (Tom Wilkinson) who performed the controversial exorcism.

Oct 14: *The Fog*... Director John Carpenter creates an old-fashioned campfire ghost story with THE FOG. Antonio Bay, a quaint, small seaside town is celebrating the 100th anniversary of its founding. That night a heavy, mysterious fog rolls through the town and people begin to die in savage ways. Rumors of a secret as old as the town begin to surface and the people of Antonio Bay realize they are victims of long dead sailors who have come to revenge their own murders at the hands of the town's founding fathers. The townspeople can only wait for the fog to roll in and pray that they are not the next to die.

Oct 21: *George A. Romero's Land of the Dead*... "Land of the Dead" is set in the modern world. The living inhabit a walled-in city, protected from the walking dead that populate the wasteland beyond. Baker, Argento and Leguizamo will all play a team of soldiers sent out to do battle with the gathering and evolving zombie threat in a fearsome, bewepioned tank-like vehicle called the Dead Reckoning.

Oct 28: *SAW 2*... The deranged, sadistic serial killer, who abducts morally wayward people and forces them to play horrific games for their own survival, is back. The killer is obsessed with teaching his victims the value of life.

Oct 28: *Brood X*... Young lovers must battle a mutated population of killer Cicada that emerges in a small Pennsylvania town.

*Havoc* and *Macabre* are other titles set for release in 2005. Titles such as these are quite simply what Hollywood producers believe people really want to see -- projects on which producers are willing to risk their own hard cash. As such, let us ask a slightly wild and provocative question: *Could simply knowing the overall genre and mix of movies that Hollywood*

*has planned for us in a given year also help one forecast how markets may behave during that year?*

We'll soon see whether the 2005 plethora of horror movies continues to correlate with heavy and dour markets. We will proceed in our own trading one step at a time, but the socio-cultural mood certainly appears set for bearish times.

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