

AAll Investor Update: Death Crosses and Negative Yields



Scary-sounding descriptions of the market's state never cease to surface during periods of uncertainty. The latest term I've heard is the "ultimate death cross." This chart formation, used by Societe Generale strategist Albert Edwards, occurs when a 50-month moving average falls below a 200-month moving average. According to news reports about the market pessimist's recent research note, this ominous-sounding indicator is close to appearing on the long-term S&P 500 chart and is a warning of a major bear market.

Among the major global indexes, it is apparently rare to see this indicator. Edwards said that the S&P 500 came close to forming an ultimate death cross in 1978. The indicator did appear on charts of the Nikkei in 1988. Edwards points out that the Japanese market has been in the "embrace of the bear" ever since.

A regular (as opposed to ultimate) death cross formed on S&P 500 charts last year. On August 18, 2011, I wrote about how the 50-day moving average crossed below the 200-day moving average earlier that week. Since I wrote about the indicator, the S&P 500 has risen by more than 20%.

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