

Closing Out The Nikkei/NASDAQ Analog

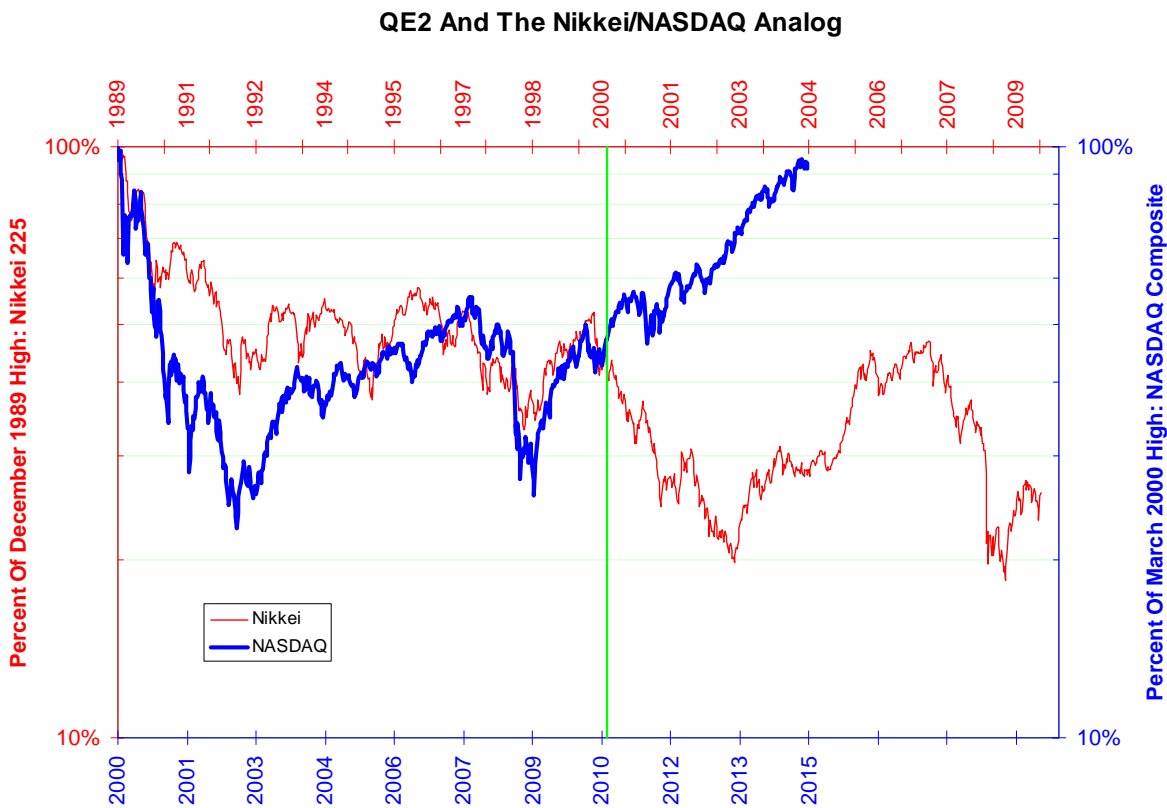
The venerable *National Lampoon* advised in 1972's [Deteriorata](#) to “gracefully surrender the things of your youth: birds, clean air, tuna, Taiwan.” Good advice then; good advice today. To which we can add the analog between the Nikkei 225 and the NASDAQ Composite. This chart overlay raised more than a few eyebrows during its time, especially during the 2000-2002 bear market. I must confess with more than a little pride I noted on these pages in October 2002 that a better analog might be between U.S. and Japanese bonds.

Market analogs are interesting so long as you do not consider them to be deterministic. All bubbles and crashes tend to resemble one another for the same reason fish and birds converge on a common design to move through the water or air efficiently. As human behavior is relatively constant, every bubble will start with a new and solid investment thesis, often a new technology, will threaten the holders of existing capital in older firms who now have an incentive to hedge their bets, will produce outsized investment returns and then will attract greed-crazed investors in a final orgy of frantic trading volume climaxing thunderously at perilously high levels before collapsing, sodden and sated, in limp heap of losses and self-recrimination.

Let's see one of those robo-advisors do that.

Five Thousand Is Just A Number And Everest Is Just A Mountain

Still, the analog between the Nikkei 225's path after its December 1989 peak and the NASDAQ Composite after its March 2000 peak was compelling, especially given their strong similarities during the 2007-2010 panic and rebound. By the time we were getting ready for QE2, marked on the chart with a green vertical line, it appeared the NASDAQ was about to follow its Japanese predecessor into the abyss.



That would have been some abyss, too. Had the NASDAQ continued on the Nikkei's path to the Nikkei's April 2003 low, it would have reached 999 at the start of July 2013. My scorecard shows 3,479 instead. Free money does wonderful things if only you give it a chance.

If the NASDAQ exceeds its March 2000 high, now less than 200 index points away, it would demand a new starting point and closure of the analog. But let's not let it go without a parting shot: The beta from the Nikkei's April 2003 low onward against the NASDAQ over an identical 85-week sample beginning in July 2013 is 1.0002, statistically

indistinguishable from 1.00. Not only do all bubbles and crashes resemble each other, so do sustained bull market drives. American policymakers might have thought they had engineered a unique bull market; instead, they simply put the NASDAQ on course to mimic a long-forgotten move in the Nikkei 225.