



S&P 500 4,589.38 +42.84 (+0.94%)



Dow 30 35,629.33 +224.09 (+0.63%)



Nasdaq 14,417.55 +71.54 (+0.50%)



Russell 2000 2,029.52 -21.22 (-1.03%)



Crude Oil 87.71 -0.55 (-0.62%)



Gold 1,807.90 -2.40 (-0.13%)

U.S. markets closed

Stocks plunge as investors await Fed meeting



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Why the giant intraday reversal in stocks is not sticking



Jared Blikre

January 25, 2022 · 4 min read

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Monday's rip-your-face-off rally following the morning's gut-wrenching plunge — when the Nasdaq Composite cratered 5% — was one for the history books.

Quant desks and equities analysts are still scrambling to make sense of the mother of all hammer candles in the major indexes. But the balance of evidence that's emerging is favoring the bears — not the least of which is Tuesday's nearly 3% sell-off in the Nasdaq Composite (^IXIC).

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bullish and bearish cases. Bespoke Investment Group points out that there are only six historical precedents for the Nasdaq dropping 4% or more and closing higher — in data spanning about 34 years.

**Bespoke**  
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6th time the Nasdaq has reversed a 4%+ intraday drop to close higher (since '88).

Other days:

- 10/28/97
- 10/26/00
- 7/15/02
- 10/10/08
- 11/13/08

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The 2008 reversals followed the Lehman Brothers failure, which kicked off the Global Financial Crisis. Stocks wouldn't bottom until much lower when the Fed upped QE1 the following March. In 2000 and 2002, the about-faces occurred in the wake of the tech bubble crash. Neither of those reversals led to a tradable bottom. Finally, the reversal on Oct. 28, 1997 — in the midst of the Asian Currency Crisis — did result in a bottom in the Nasdaq that was successfully tested the following January, leading to fresh record highs.

Yahoo Finance analyzed daily data in the Dow going back to 1929, which expands the sample size but remains admittedly small. Specifically, we looked at days where the Dow was down 3% or more and closed down no more than 0.5%.

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	11/14/1974	-37.32%	-13.42%	16	11/03/1982	2013
	10/20/1987	-36.13%	0.00%	0	08/24/1989	467
	10/24/1989	-4.60%	-3.61%	10	01/02/1990	47
	01/24/1990	-6.93%	-3.51%	4	05/14/1990	76
	07/16/1996	-7.40%	0.00%	0	09/13/1996	42
	10/28/1997	-13.29%	0.00%	0	02/10/1998	71
	09/21/1998	-15.45%	-6.72%	13	11/23/1998	45
	10/16/2008	-39.44%	-27.95%	96	03/05/2013	1101
	12/06/2018	-6.71%	-12.97%	13	07/03/2019	143
	03/19/2020	-32.66%	-9.33%	2	11/16/2020	168
	1/24/2022	-6.89%	?	?	?	?
	<b>Average</b>	<b>-20.63%</b>	<b>-13.36%</b>	<b>64.6</b>		<b>828.9</b>
	<b>Median</b>	<b>-15.45%</b>	<b>-6.72%</b>	<b>10</b>		<b>143</b>

\*Zero indicates the reversal day low was the low of the selloff

The average loss after a reversal day over the 13 events is 13.36%, with a median of 6.72%. But the data vary wildly. What stands out are the falling knife events going back to the Great Depression.

Before stocks peaked in 1929, there was a tradable reversal in March of that year. Notably this was during the Fed's Roaring '20s' easy-money era that was about to come to a swift end. The following reversal day occurred in November 1929 after the Dow was already down nearly 40%. It would go on to lose another 83% until the bottom — finally reaching new highs 6,256 trading days later in 1954.

Aside from that egregious example, the data still suggest caution, with one potential beacon of hope. Looking at how far the Dow was down just prior to the reversal day suggests that the recovery is more likely to have legs if the market had only sold off 10% or less prior to the reversal.

Big Dow Reversal Days -- How Long to the Bottom? (low <= 3% while close >= -0.5%)						
Reversal Date	Return from High Prior to Reversal Day > -10%	Biggest Intraday Loss After Reversal*	Trading Days After Reversal to New Selloff Low*	Subsequent Record High Date	Trading Days to Subsequent Record High	
03/26/1929	-7.63%	0.00%	0	05/03/1929	27	
10/24/1989	-4.60%	-3.61%	10	01/02/1990	47	
01/24/1990	-6.93%	-3.51%	4	05/14/1990	76	
07/16/1996	-7.40%	0.00%	0	09/13/1996	42	
12/06/2018	-6.71%	-12.97%	13	07/03/2019	143	
1/24/2022	-6.89%	?	?	?	?	
<b>Average</b>	<b>-6.65%</b>	<b>-4.02%</b>	<b>5.4</b>		<b>67.0</b>	
<b>Median</b>	<b>-6.93%</b>	<b>-3.51%</b>	<b>4</b>		<b>47</b>	

\*Zero indicates the reversal day low was the low of the selloff

Even so, the market rolled over hard after the Dec. 6, 2018 reversal day, leading to a maximum intraday loss of nearly 13% 13 trading days later. The Dow didn't recover to a record until 143 days later in July 2019.

### Retail capitulation, institutional resiliency



...ogates opened Monday morning, when retail dumped \$1.36 billion in stock.



While it's impossible to know exactly what triggered the incredible turnaround, there's decent evidence that it was simply a large seller of put options that ignited a short-covering rally — all occurring the day after a crucial options expiration (last Friday).



While evidence points to retail capitulation, institutional investors remain highly leveraged, according to recent notes by both Goldman Sachs and JPMorgan. Unless and until large investors see their day of reckoning, the carnage can continue — so goes the thinking.

Stifel Chief Equity Strategist Barry Bannister was already calling last week for the S&P 500 to drop 600 handles from its high of 4800 to a low of 4220. (The low Monday was 4221.) He says there's more downside in the indexes until five signs appear — none of which are currently flashing green.

Number one on that list is the Federal Reserve turning more dovish — which he argues is unlikely before the first rate increase. He also needs to see the U.S. PMI manufacturing index bottom (unlikely before the end of this quarter), global M2 money supply bottom, strength in U.S. earnings beats versus misses, and a quelling of tensions with Russia over the Ukraine.

Appearing on Yahoo Finance Live, Bannister said, "If Hollywood made a movie about the pandemic fiscal and monetary response, they'd call it Overboard Part 2." He points to the \$5.8 trillion appropriated over the first year of the pandemic — which exceeds the combined cost of World War II, the Marshall Plan, and the response to the Global Financial Crisis. "The spending at the fiscal level during COVID was just excessive," he said.

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**Jared Blikre is an anchor and reporter focused on the markets on Yahoo Finance Live. Follow him @SPYJared.**

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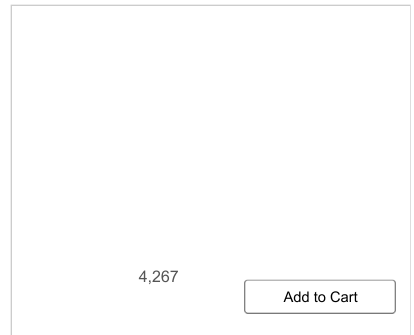
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