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September was a relatively good month for US stocks—total return for the S&P 500 Index was 8.92%, the best September result since 1939. Small cap stocks sparkled as well, with a total return of 12.46% for the Russell 2000 Index, the fifth-best month since inception of the index in January 1979.

Ordinarily, returns in any one month do not provoke much excitement in these quarters, but we couldn't help noticing that the buoyant performance occurred in spite of a grim prediction by the so-called "Hindenburg Omen." Attributed to Jim Miekka, a blind physics teacher turned newsletter author, the Omen combines multiple technical indicators tracking moving averages and the number of issues setting new fifty-two-week highs and lows. The Omen allegedly flashed a "sell" signal on Thursday, August 12, and internet chat rooms were buzzing on Friday the 13th about the prospect for a looming disaster in the stock market. Mr. Miekka suggested to a *Wall Street Journal* reporter that the Omen signaled a "market meltdown" in September.

Many investors are easily persuaded that careful analysis of stock market trading patterns offers valuable clues to the direction of stock prices, and a small army of newsletter publishers caters to this belief. Successful timing models (and newsletter publishers) are conspicuous by their absence, and the persistence of this cottage industry brings to mind Samuel Johnson's observation on marriage: "the triumph of hope over experience."

Oddly enough, Professor Eugene Fama can be counted among the participants in the fortune-telling business. One of his first jobs was to conduct research on timing indicators for the publisher of a market newsletter. As a statistics whiz, he had no trouble coming up with technical signals that did very well in predicting major market moves. Unfortunately for fans of timing models, he also found that they worked only on past data, and none of them continued to work once he had identified them.

Fama quickly figured out that the failure of timing signals revealed something important regarding the behavior of stock prices, and the rest is history. But some investors, like alchemists seeking the magic elixir to change lead into gold, cling to the belief that their search for the perfect prediction model will be rewarded.

Steven Russolillo and Tom Kilgore. "Hindenburg Omen' Flashes" *Wall Street Journal* August 14, 2010

Steven Russolillo and Tom Kilgore. "Hindenburg' Creator Sticks to His Guns" *Wall Street Journal* August 26, 2010