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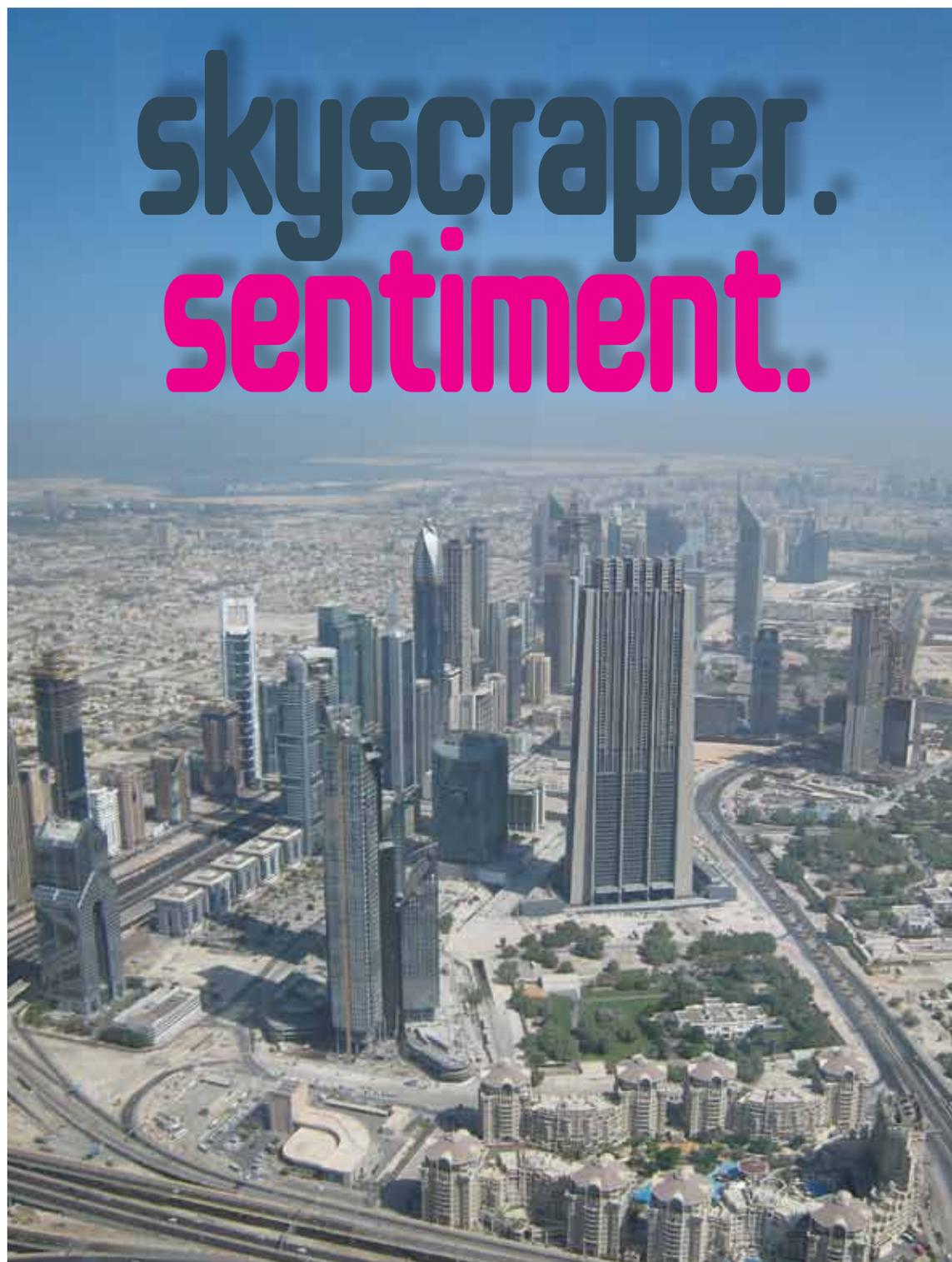
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Investors and investment professionals at some stage or another have searched for and dreamt many a night of finding the 'holy-grail' indicator to time market tops and bottoms. Many criteria have been used, and some have brought hope while others have proven to be less reliable.

of

various attempts to foretell market trends, some have stood out and raised hopes. The Skyscraper Index, at one stage, has perhaps been thought to be one such market indicator. Another indicator has been 'sell the share of a company when they build a new and expensive head office'. There are many examples of the latter in the South African equity market, the most recent example being the new Pick 'n Pay head office in Cape Town.

The Skyscraper Index was put forward in the late 1990s by the research director at Dresdner Kleinwort Wasserstein, and showed that the world's tallest buildings have risen on the eve of economic downturns. The theory is that business cycles and skyscraper construction correlate in such a way that investment in skyscrapers peak when cyclical growth is exhausted and the economy is about to go into a recession.

A decline in the interest rates at the onset of a boom supports land prices and these low interest rates

decrease the costs of funding the construction of these skyscrapers.

A series of skyscrapers such as 40 Wall Street, the Chrysler Building and the Empire State Building were launched just before the Wall Street Crash of 1929 (see Chart 1) and the World Trade Centre Towers and Sears Tower opened in 1973 during the stock market crash of 1973 and 1974.

The most recently constructed Burj Khalifa, currently the world's tallest building, is a further example. Within two months of the completion of the exterior of the building, in October 2009, the Dubai government came close to defaulting on its loans (see Chart 2).

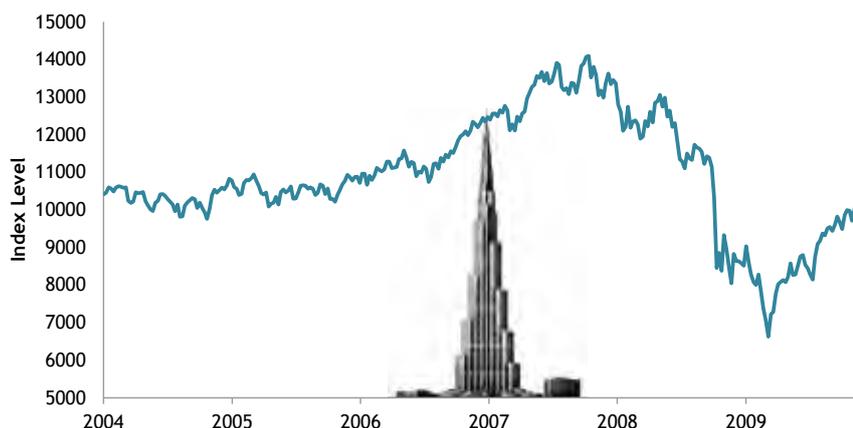
The world's next tallest building, Sky City, is set to break ground in August 2013 in Changsha, China.

A study by Barr, Mizrach and Mundra (2011) titled 'Skyscraper Height and the Business Cycle' found that, in fact, height cannot be used to predict changes in GDP. However, GDP can be used to predict changes in height.

**Dow Jones Average Index
(1924 - 1934)**



**Dow Jones Average Index
(2004-2009)**





In other words, the study finds that extreme height is driven by rapid economic growth, but that height cannot be used as an indicator of recessions.

Other known fear and greed or sentiment indicators are the S&P500 VIX index, the Credit Suisse Fear Barometer index, Risk Aversion Indicator (developed by Franco Busetti), Kumar and Persaud's risk appetite index, the Bank of England index, the Goldman Sachs risk aversion index, the JPMorgan risk aversion index and State Street's various fear and greed type indicators. Except for the Risk Aversion Indicator, most of the other indicators are global.

Aeon Investment Management Fear and Greed Index

When investors are driven by greed, markets tend to be overvalued. When investors are driven by fear, stocks tend to be undervalued relative to where they should be. The Aeon Investment Management Fear and Greed Index is a proprietary index that is potentially useful as a contrarian indicator; in other words, when the market is in the extreme greed region (see Charts 3 and 4), we position ourselves for a higher probability for a falling market in the future and vice versa regarding the extreme fear region. Aeon's Index is a composite of several fundamental and technical indicators such as new highs, new lows, market breadth, trading volumes, moving averages and market volatility indices. The index provides some guidance as to how expensive or toppish the current equity markets are. Reversion to fair value, however, may take some time and, if the market sentiment reverts, it can often overcorrect.

Chart 3 and Chart 4 show a history of the Aeon Investment Management Fear and Greed Index for both US and South African equity markets based on the S&P 500 Index and the All Share Index respectively. We observe that both the US and South African markets are approaching the extreme greed levels and, as such, Aeon Investment Management cautions, markets may have reached a peak or are close to reaching a peak. ∞



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