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HEMLINES, SUNSPOTS and STOCKS

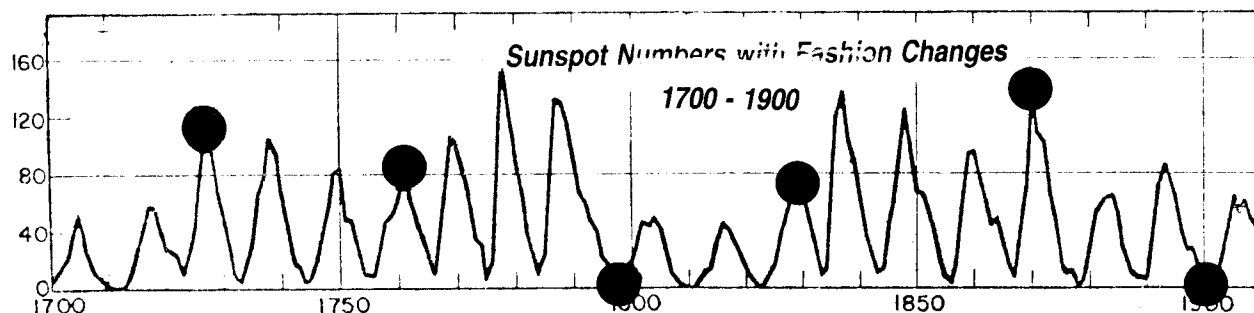
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If I should be allowed to choose one of all the books published a hundred years after my death, I would take a fashion magazine to see how women were dressing. Their fripperies would tell me more about the society of that future day than all the philosophers and preachers.

Anatole France

There has long been an observed correlation between women's fashions and more fundamental events. Most interesting for our purposes are the allegations that major highs and lows in hemlines have closely corresponded with, if not actually forecast, major highs and lows in the stock market. Three decades ago we investigated this phenomenon, and we found that from the early 1900s through the mid 1970s, reversals in hemlines and reversals in stock prices did indeed seem to be correlated, and hemlines had a tendency to lead stock prices slightly. We also discovered that these highs and lows in hemlines and stock prices both tended to correlate with the high and low points in the ± 11 -year sunspot cycle. In order to verify these intriguing results with some independent, out-of-sample data, we extended our study of these phenomena back two full centuries, to the early 1700s. Hemlines *per se* were essentially invariant in these ancient times, remaining floor

length for two centuries. However, the shape of the dress varied significantly in those days--from "Backful" to "Tubular" to "Bell" and then back again--all in regular cycles. The dates of these changes in dress shape had been previously identified by earlier fashion researchers--most notably Agnes Brooks Young. These dates were: 1725, 1760, 1796, 1830, 1969, and 1900. We have not yet been able to determine whether there was any exploitable correlation between changes in women's fashions and stock prices in the 1700s and 1800s. However, there definitely was a significant correspondence between changes in fashion and changes in the sunspot cycle. In every case but one we found that major, independently determined changes in fashion occurred on or within one year of sunspot minima or maxima. And the one exception, 1798, missed by just a few months (see below). In summary, during the 20th century, there was a correspondence among four,

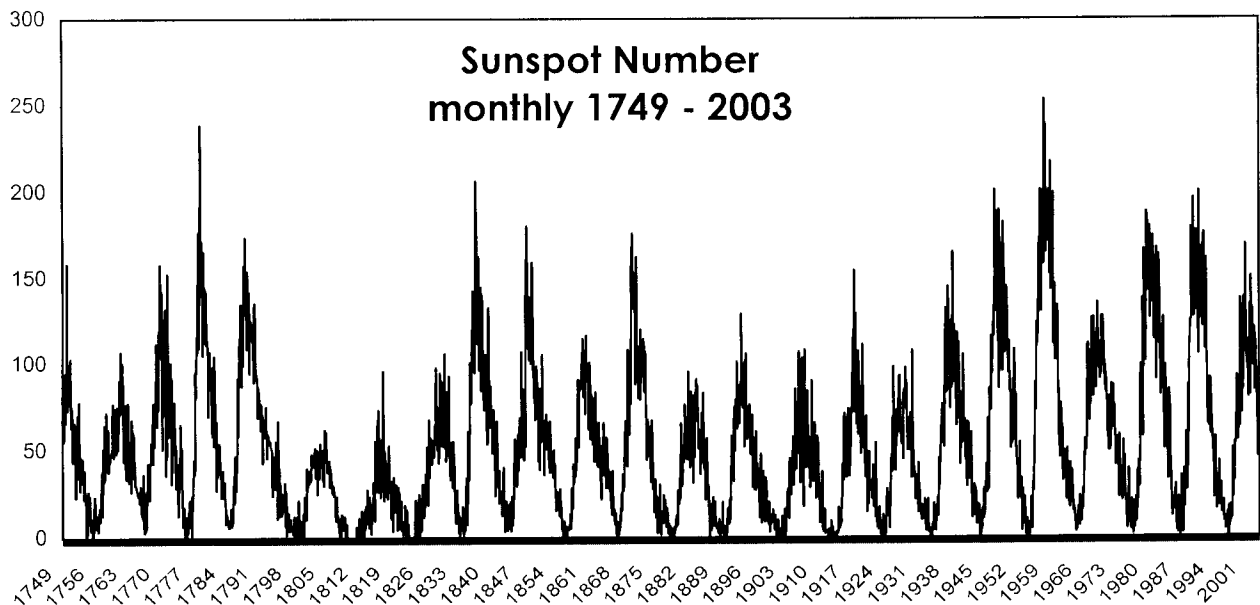


superficially unrelated variables from the living and the non-living universe; namely, women's fashion, stock prices, sunspots and certain measures of geomagnetism (magnetic u) During the *previous* two centuries there was a correspondent among at least three of these four variables; viz., women's fashion, sunspots and geo-magnetism. The correlation stock prices may or may not have had in earlier times is still under investigation. The discovery of these multiple correlations is, we believe, of profound significance. It does not mean that changes and fashion and changes in stock prices are *caused* by sunspots, as some enthusiasts have maintained. However, it does suggest that all of these disparate phenomena, in the living and non-living universe alike, may be causally related to some much more fundamental attribute of the cosmos. And it thereby offers the hope that if we can predict *one* of these phenomena effectively, we will gain an insight in the the operative dynamics of the others.

has been treated very extensively elsewhere. Generally the studies conclude that there is a definite correspondence between the sunspots and living systems--such as crop yields and human economic activity. There also have been skeptics. Nobel Laureate Paul Samuelson, for example, once quipped that "*The Sunspot theories of the business cycle are all moonshine.*" Probably the kindest assessment of this posture is that it is not up to the good professor's usually high standards. But we would concede that while the sunspot/stock market phenomenon is real, there are innumerable stock market indicators far more effective than sunspots.

This is not the place to get into an extensive discussion of sunspots and economic phenomena, as the subject

Because there are so many other, more manageable, stock market indicators, we have paid scant attention to either sunspots or hemlines since the 1970s. However, when the mini skirt began to re-appear on the runways this past February, amidst the worst bear market since the Great Depression, we began to receive calls on whether these soaring hemlines presaged a soaring stock market. Our response was that if the public accepted these short skirts,



then stock prices would indeed rise. But it was too soon for us to tell whether women were in the necessary mood to do so. Apparently they were, because rising hemlines and rising stock prices have been gaining traction ever since then. The question at hand is how long these two rising trends will last. For a highly speculative forecast we return to sunspots. The long term, 11.11 year, sunspot cycle peaked in July 2000. This was four months after the all-time peak in the *NASDAQ* and one month before the all-time peak in the *NYSE Composite*. From their peak of 169.1 in July 2000, sunspots plunged to a low of 46.2 in February 2003. And of course, stock prices plunged with them, falling 50%-75% depending upon the index, during precisely the same period of time. But since February sunspots have headed up--from 46.2 to 77.4 in June--and they have taken both hemlines and stock prices with them. But the lifting of skirts and stock prices may not be long lasting. The "11.11 year cycle" is not reliably this exact length. The 11.11 years is the long term average of many cycles that, individually, have been anywhere from 9 to 14 years. Consequently nobody

really knows how long any given sunspot cycle will last. But if the current cycle proves to be about "average," sunspots should not make a permanent bottom until some 5½ years after their 2000 top.

Consequently, based on sunspot data alone one would have to conclude that we are currently enjoying an Indian Summer both in women's fashions and in equity market prices. The latter are presumably in a cyclical bull market within the context of a secular bear market. We can not forecast on the basis of sunspots when either the current market rally, or the eventual bear market decline will end. Sunspots are not that predictable, and their connection with stock prices is not that mechanical. However, the bear clearly should have further to run in terms of *time*--e.g. to 2005--and probably in terms of *price* as well. If more conventional indicators start to disagree with sunspots, we would respect *them*.

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