

# Bianco Research L.L.C.

An Arbor Research & Trading Company

Independent · Objective · Original

Volume 13, No. 142

1731 North Marcey, Chicago IL 60614

www.biancoresearch.com

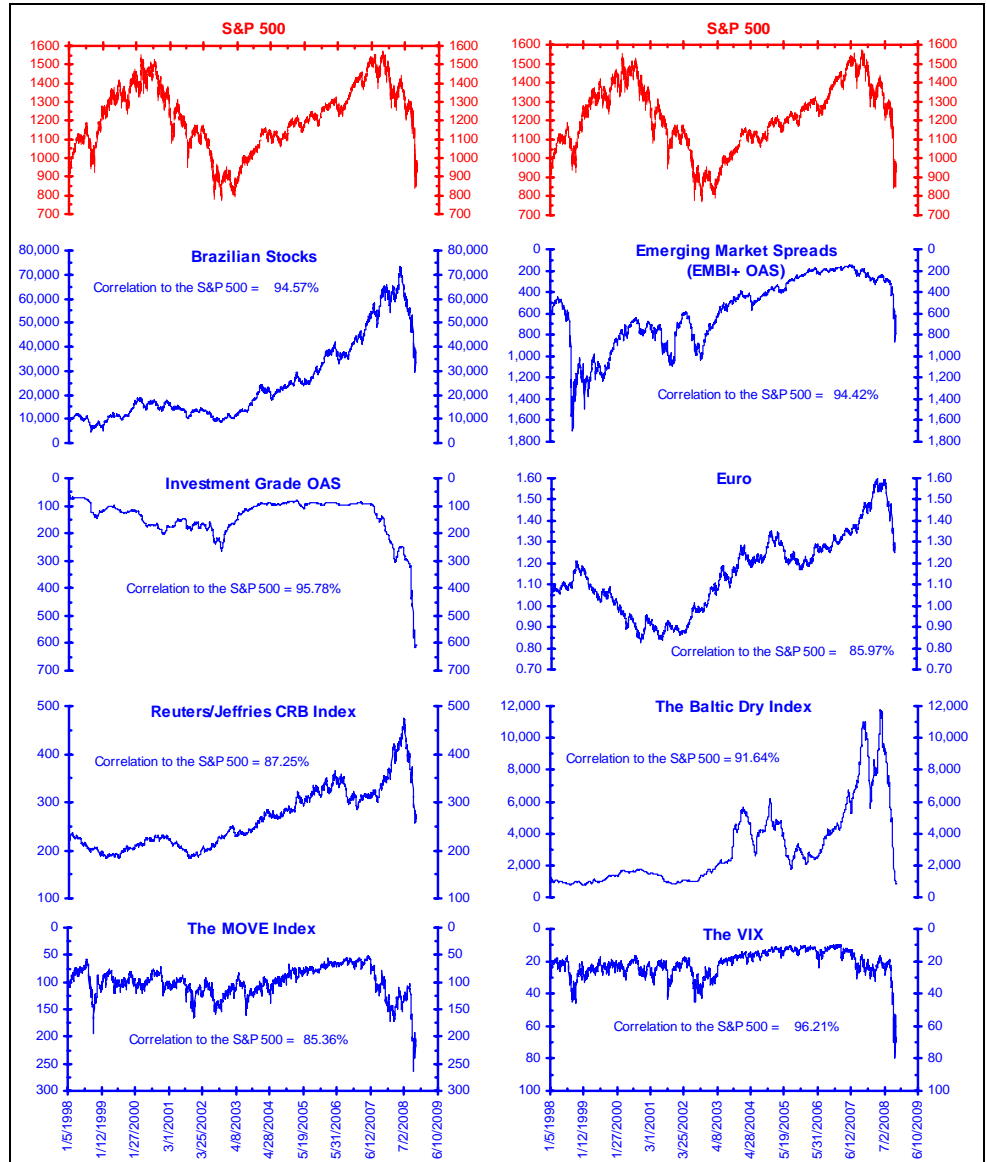
## Market Facts It Is All The Same Trade

By James A. Bianco (847) 304-1511  
and Greg Blaha (847) 304-1511  
November 6, 2008

Investors' risk appetite has by definition diminished since the start of the credit crunch. Few instruments outside of Treasury bonds and insured short-term deposits offer price protection and none offer protection against currency debasement.

In addition to an absolute wealth loss, the credit crunch has, [as all crises do](#), forced a confluence of returns and made diversification difficult if not impossible to achieve.

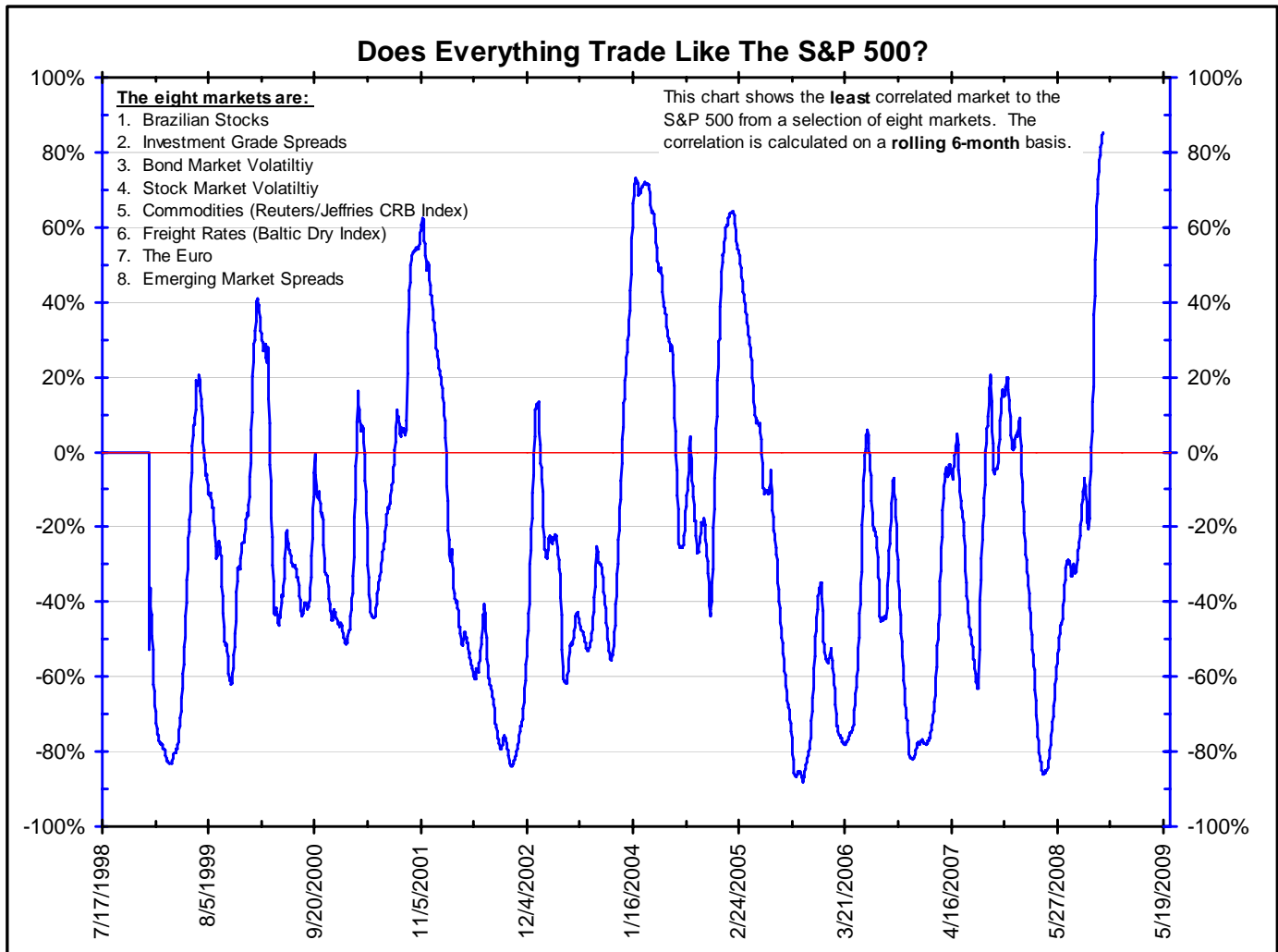
This phenomenon is visible in the charts to the right. Both top panels in red depict the S&P 500 for purposes of comparison. Underneath are emerging market stocks and bonds, investment-grade corporate bonds, the euro, the CRB, the Baltic Dry Freight index, the MOVE and the VIX.



These markets and others trade more independently of each other in normal times. Their correlation moves toward 1.00 in a crisis, as illustrated below.

We can rearrange the correlation data between these eight markets and the S&P 500 and display a rolling six-month correlation of the least correlated amongst the set to the S&P 500.

Currently the market **least** correlated to the S&P 500 of the eight in the sample is the MOVE at 85.36%. This is the highest reading in this analysis since our data began in 1998, and underscores the severity of the credit crunch.



## Conclusion

The credit crisis and concomitant global macroeconomic slowdown overwhelm the market-specific factors normally operative. This phenomenon is compounded by market dynamics such as the forced liquidation of positions by investors of all stripes.

The convergence of returns is such a powerful measure of crisis conditions we will be able to use its dissipation as an indicator of the credit crunch's end.

## Bianco Research L.L.C.

1731 North Marcey, Suite 510  
Chicago IL 60614

Phone: (847) 304-1511

Fax (847) 304-1749

e-mail: [research@biancoresearch.com](mailto:research@biancoresearch.com)

<http://www.biancoresearch.com>

### **For more information about the contents/ opinions contained in these reports:**

**President** (847) 756-3599

James A. Bianco [jbianco@biancoresearch.com](mailto:jbianco@biancoresearch.com)

**Strategist/Analysts** (847) 304-1511

Howard L. Simons [hsimons@biancoresearch.com](mailto:hsimons@biancoresearch.com)

Greg Blaha [gblaha@biancoresearch.com](mailto:gblaha@biancoresearch.com)

Ryan Malo [rmalo@biancoresearch.com](mailto:rmalo@biancoresearch.com)

### **For subscription/service Information:**

**Arbor Research & Trading, Inc.**

**Director of Sales & Marketing** (800) 625-1860

Fritz Handler [fritz.handler@arborresearch.com](mailto:fritz.handler@arborresearch.com)

## Arbor Research & Trading, Inc.

1000 Hart Road, Suite 260  
Barrington IL 60010

Phone (847) 304-1560 Fax (847) 304-1595

e-mail [inforequest@arborresearch.com](mailto:inforequest@arborresearch.com)

<http://www.arborresearch.com>

### **Domestic - For more information about Arbor Research & Trading and its services:**

#### New York Sales Office

The Chrysler Building, 405 Lexington Ave  
New York, NY 10174

Edward T. McElwreath [ed.mcelwreath@arborresearch.com](mailto:ed.mcelwreath@arborresearch.com)

Phone (212) 867-5326 Fax (212) 370-1218

### **International - For more information about Arbor Research & Trading and its services:**

#### London Sales Office

4 Broadgate, 2nd Floor, Room 57

London England EC2M 2QY

Phone 44-207-965-4784 Fax 44-207-965-4787

Neil Tritton [neil.tritton@arborresearch.com](mailto:neil.tritton@arborresearch.com)

Ben Gibson [ben.gibson@arborresearch.com](mailto:ben.gibson@arborresearch.com)

#### European Sales

James L. Perry [james.perry@arborresearch.com](mailto:james.perry@arborresearch.com)

Phone (847) 756-3510 Fax (847) 304-1595

Rich Kleinbauer [rich.kleinbauer@arborresearch.com](mailto:rich.kleinbauer@arborresearch.com)

Phone (41) 22 363-9229

#### Far East Sales

Robert Reynolds [robert.reynolds@arborresearch.com](mailto:robert.reynolds@arborresearch.com)

Phone (847) 756-3680 Fax (435) 647-3073