BY VICTOR NIEDERHOFFER AND LAUREL KENNER

Nobody asked me, but...

New York sports columnist Jimmy Cannon, who died in 1973, sometimes published collections of short takes on such diverse topics as women, boxing, taxis and manners, beginning with the phrase, "Nobody asked me, but…"

In tribute, we offer our own observations on tsunamis, survival times and casinos, always with an eye on "counting" — our speculative style of observing and quantifying market behavior.

The speculator on the beach

The Pacific Tsunami Museum in Hilo, Hawaii, offers valuable instruction for traders. The tiny island is known as the tsunami capital of the United States, as its shape, location and shoreline make it a natural target for the big waves.

Caused by earthquakes, landslides, volcanic activity or meteorite impact, tsunamis can travel up to 500 m.p.h. across the ocean — as fast as a jetliner. They come in a series of waves, with the final wave being the biggest. Thus, just when everyone has relaxed after the first few waves weren't as bad as expected, in comes the *coup de grace*.

Thirteen Pacific-wide tsunamis struck the Hawaiian Islands in the 20th century; none have hit since 1964.

Modern technology makes tsunami warnings possible. But such warnings don't always keep the curious from harm. When an 8.5-magnitude earthquake in Chile caused a Pacific-wide tsunami in 1960, Hawaiians went to the ocean shoreline to inspect the damage after the third wave. Then a fourth wave hit and killed 61 people.

Similar complacency is sometimes observed in the market after a lull.

Where's the drop?

Speaking of the long time since the last tsunami in Hilo: As of Thursday, Jan. 22, the market had not been down two days in a row since Dec. 3 — a record 31 trading days (30 was the previous record). This run was only a 3-in-10,000 shot by chance. Previously, on only 13 occasions has the market failed to go down twice in a row between 21 and 30 trading days.

Such a run, and all similar long runs without two consecutive down days, were highly bearish to the next instance of a "success" — i.e., two down days — with z (which indicates how far and how likely the deviation from the mean is relative to randomness, with a z of 1.6 corresponding to a 5-in-100 shot) on the order of -2 and the expectation of a -12 percent move lasting four days being the norm.

But no sooner had we written about this long run than the market actually dropped two consecutive days: On Friday, Jan. 23, the streak was broken.

And what happens when a long run without two consecutive declines is broken? One of the most helpful ways of analyzing markets, and predictably one almost completely overlooked, is in terms of survival statistics.

Survival time can be defined as the time it takes for a given event to occur. It's usually used for things like time until death, relapse, failure or accidents. It easily can be extended to things such as the time it takes for declines of a certain size to occur, or the waiting time between market declines of, say, 2 percent, or market rises of 10 percent.

Many survival-time distributions are best modeled as "survivals with immunes." After a certain period of exposure to a disease, for example, all the susceptible elements of the population have died, and the remainder is relatively immune. Such is often the case in the market.

In the February 2004 issue, we noted the S&P 500 had not made a 10-point decline since Nov. 18, 2003 — 42 trading days. You might think this would be a relatively bearish scenario. But no, the facts showed the expected move until the next such decline, when a waiting time of 40 or more days has occurred, is relatively bullish. In other words, when a long time has occurred without such a decline, the subsequent stock market moves are relatively *immune* to declines.

Such are the insights that can come from looking at markets this way. And such is the way that technical analysis might be augmented.

Speed

The speed with which a market covers a given distance is a key quantifiable cause of subsequent moves that hardly any technical indicators are designed to measure.

Traders anonymous

The receptionist at the casino in Baden, Austria, carefully checks the names of everyone who enters against a list of people who have signed irrevocable pledges never to enter any gambling establishment.

Far-sighted regulatory agencies involved in the futures market should consider a similar system, as the vast majority of traders are guaranteed to trade themselves into oblivion. This includes all traders paying commissions of more than $25 per round trip, as well as those who base buys and sells, in equal proportion, on charts.

The long wait for total capitulation

When there's an accepted hypothesis about a basic precondition for the market to go up and that precondition is broken, an entirely new hypothesis has to be generated. This can cause major sea changes.

Last year, the chronic bears often warned the market could not go up until every last ounce of optimism had been wrung out of investors' hearts.

Allow us to recall that, inveterate optimists we are, we forecast a 20-percent rise in 2003 based on supply and demand conditions in the stock market and the relation between bonds and stocks. We also predicted the indices would end at highs for the year.

Given that the market's performance in 2003 more than fulfilled our expectations, it might be appropriate right about now for bears to generate a new hypothesis.

But before you start holding your breath, call the paramedics.

For information on the author see p. 10.