



Minyan Mailbag: Last Hour Indicator

GREG COLLINS SEP 30, 2005 2:20 PM



The 'Last Hour' is one of our favorite long-term timing indicators. It's calculated via the following formula...

(today's close - today's 3:00pm price) - (today's 10:30am price - yesterday's close.)

A positive number indicates the Dow's final hour outperformed the first hour, while a negative number indicates the final hour was weaker than the first hour. We use the Dow Industrials in calculating the Last Hour simply because we have an extremely long history of the indicator utilizing the Dow (not to mention that substituting the S&P or Nasdaq produces a very similar chart.) The daily readings are plotted on a cumulative basis in order to display the underlying trend of last hour vs. first hour performance.

The idea behind the Last Hour is that the 'smart money' is most heavily involved during the last hour of the trading day, while the crowd is most heavily involved during the first hour of the day. By comparing the performance of the market during the first and last hours, we gain insight into smart money accumulation and distribution that would otherwise go unnoticed.

Before I go any further, pull up [this long-term chart](#) for an illustration of the Last Hour (in red) and the Dow Industrials stretching back to 1970...

The key point to keep in mind regarding the Last Hour is that it's a true lead indicator, declining well in advance of selloffs in the market and rising well in advance of market rallies. Note that the indicator sold off sharply well in advance of long-term market weakness in '73/'74 and '76/'77, again prior to the '87 crash, and gave a huge warning sign in 2000 by entering into a record freefall. It also declined sharply following the market's rebound post-9/11, reflecting another round of heavy distribution that ultimately led to the subsequent market selloff in 2002. The Last Hour rose sharply in late '02 and early 2003, ultimately hitting new all-time highs, a good sign of heavy smart money accumulation. The stock market followed suit soon thereafter, embarking on a long-term rally that brings us to the present.

Notably, the Last Hour has entered into another significant decline beginning in November of 2004, a sign of heavy distribution by the 'smart money' crowd. During this time, the stock market has remained range-bound, much the same as 2000 when the market entered into a long-term trading range while massive distribution was occurring beneath the surface. The Last Hour can lead the market by as long as a year to a year and a half, and given the recent surge in small investor pessimism in the wake of Hurricanes Katrina and Rita, the current trading range is likely to persist through the end of the year. But the persistently negative trend of a strong first hour and weak last hour paints an ominous picture for the stock market's prospects in 2006.

-Rennie Yang

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Data from [markettells.com](#)

No positions in stocks mentioned.

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