

Since ~~in~~ the early 1930s, the short interest has played a definite role relative to overall stock market performance. Almost without exception, whenever the short interest ratio exceeded 1.5 to 2, the general market experienced a relatively sharp advance in following months. Early in 1933, the ratio was just above 2.0 and the market almost doubled within the next year. In mid-1938, the ratio again rose above 2.0 which was followed by a market rise of around 50%. The market bottomed out in 1942 around the same time that the short interest ratio moved above the 1.5 level and kept on going up for more than a year before flattening out. During 1947 and 1948 when the ratio stayed between 1.5 and 2.0, the market was undergoing a consolidation-accumulation ~~max~~ phase preparatory to the great bull market that started in 1949. When that 1949 market started off on its huge rise, the short interest ratio was at the highest point since 1931, between 2.0 and 2.5. Again, the September 1953 low point ~~max~~ coincided with the short interest rising to between 1.5 and 2.0. A build-up in the ratio from 1.5 to above 2.0 followed the 1957 market low by several months and preceded the sharp rise of almost 150 points that took place in the next 12 months.

Conversely, ~~almost without exception~~, whenever the short-interest ratio fell under 1.5 and continued downward, the market underwent a corrective phase lasting several months.

The short interest ratio bottomed out in Spring of 1966 and started to rise sharply as the market continued its decline. When the market bottomed out in October 1966, the ratio was nearing its peak, which was reached in November. Since then the ratio dropped rather sharply back to around 1.25 in Feb-March of this year, from which point it has been rising slowly, along with the general market.

From the above it could be assumed that either the ratio has reached another peak and soon will start declining as the market rebounds to the upside, or that the ratio will continue to decline to around the 2.0 level, paralleling a further market decline, before both it and the averages bottom out.

Current short interest is 1.67, or 1.7 and down from 1.9 last month, August was 1.46.