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OUTSIDE THE BOX

Hemline Index falls out of fashion

Commentary: Watch prices, not skirt lengths, to gauge the economy

By Michael Sincere

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BOCA RATON, Fla. (MarketWatch) — Of the hundreds of market indicators used by traders and investors to help predict the market's direction, one style never seems to fall out of fashion — but it should.

The Hemline Index, first observed by economist George Taylor in 1926, predicts the market's future by the way women dress. It works like this: when women's hemlines (the line formed by the outside of a skirt) are shorter, women are taking more risks and spending, which is good for the economy and the stock market. Longer hemlines, in contrast, are a negative sign for the economy.



Off to the mall

I've been amazed at the number of financial reporters, fashion editors, and professional fund managers who are enamored with the Hemline Index. For almost 85 years, thousands of articles have been written about this indicator..

After doing extensive research for my book, All About Market Indicators, I needed to find out if the popular but obscure Hemline Index really works. Is it a valid indicator or a silly myth?

Project runway

I began my research by attending two fashion events in Miami Beach: Mercedes-Benz Fashion Week and Funkshion Fashion Week. These shows are the real deal, and include the latest fashions by emerging and well-known designers. Sports celebrities, movie stars, and the news media also attend the shows along with dozens of models. I wondered: is this why so many financial reporters write about the Hemline Index?

At one of the shows, I approached a tall model, Kira Alvarado, who wore an extremely short dress by designer Casey Levan. This had to be a good sign for the economy. "Excuse me," I interrupted, pointing to her chic outfit, "but do you think your hemline can predict what the stock market will do?"

She gave me a confused look. "I don't see how that's possible."

"It's a theory that's been around for 85 years," I explained. "It's called the Hemline Index."

"I never heard of it."

I continued to interrogate her. "Would you agree that short hemlines are the most current style?"

"In South Beach the style is always short," Alvarado replied with a smile. "That's what people want."

I got it. In Miami Beach, at least, the Hemline Index is completely immaterial.

The price is right

To learn the truth about this intriguing indicator, I needed to talk to a fashion expert, preferably from New York. Luckily, I ran into Stephanie Solomon, a professional Bloomingdale's buyer and authority on women's fashion. She told me some heartbreaking news. "The Hemline Index is a silly myth that has outlived its usefulness."

"You mean the indicator is dead?" I asked.

“I hope so,” Solomon quickly replied.

She explained that the length of a woman’s hemline has little to do with the economy or the stock market. Back in the 1920s, hemline length was based on how much fabric was available, and not on the shopper’s mood or desire to take risks.

I asked her if the bright and bold new designs at the fashion shows meant that the economy was improving. Perhaps this was a leading indicator.

“Those are only trends,” she explained, “just like high or low hemlines, and people will always purchase trends. It never falters. But there is no correlation between trends and what is going on in the economy.”

“Is there anything in fashion that will help you make economic forecasts?” I asked.

“Absolutely,” she said, “but you have to follow price. During a recession, if you don’t have a lot of money, you’ll buy the lowest price in the color of the moment. And when the economy is flush, you’ll buy the same color but spend more money.” She says that fashion insiders also know it’s a recession because women stop buying designer clothes.

By the time I got home that night, I realized that financial reporters, including myself, have to stop writing about the fun but insignificant Hemline Index. You took us on a marvelous ride, George Taylor, but your ritzy indicator is not in vogue anymore. Maybe his creation was a good-natured gag. If so, he confounded a lot of people.

Introducing: The Fashion Indicator

Fortunately, I thought of a replacement, which I’m calling The Fashion Indicator. How does it work? Rather than study trends such as hemlines or color schemes, you watch shoppers, analyze clothing prices, and talk to designers for insights into how much money is being spent. It takes more investigative work but it’s much more useful. When designer labels become popular and people spend more money on clothes, it could be a very good year for the economy.

I decided to test out my new indicator by attending another fashion show. Because the Hemline Index is no longer valid, perhaps The Fashion Indicator can help predict which way the stock market is headed. What did I learn from my indicator? (I’ll let you know as soon as I complete my research.)

Michael Sincere (www.michaelsincere.com) is the author of All About Market Indicators (McGraw-Hill, 2010), which introduces the most popular technical, sentiment, and economic indicators, and a few obscure ones like the Hemline Index. He is also the author of Understanding Options (McGraw-Hill, 2006).

