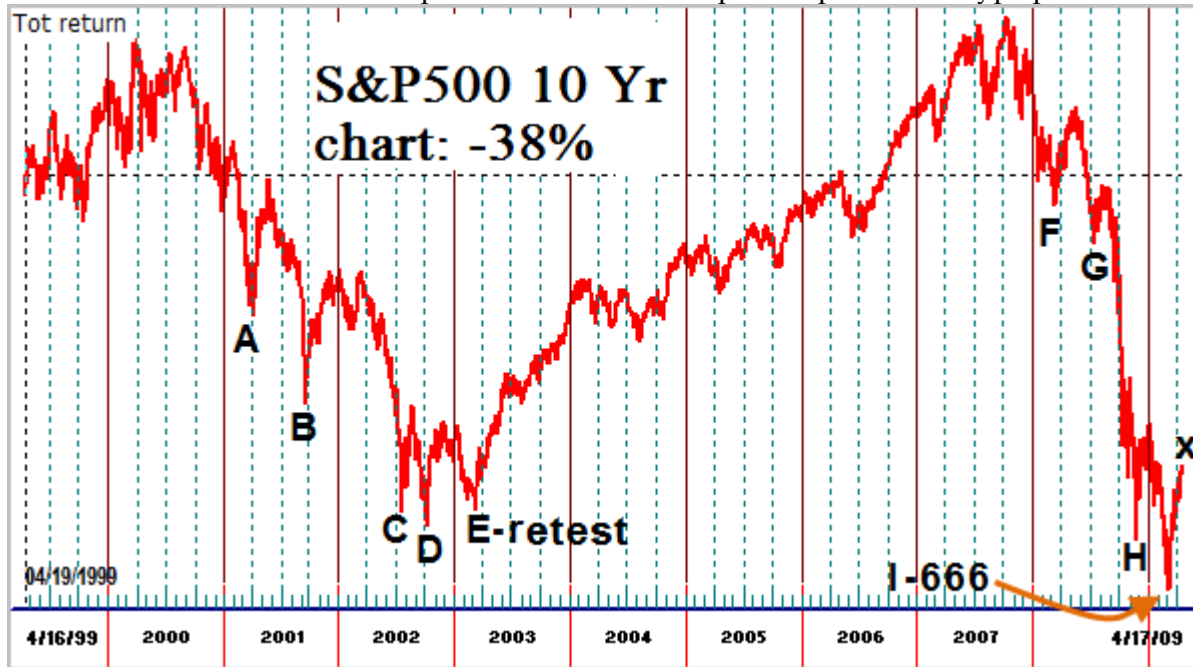


April 27, 2009 – How Bottoms are Formed

Bottoms up? Is the stock market at the bottom and on the way up in the next bull market run? If you are in cash are you afraid you “missed” a buying opportunity of a lifetime? This writer thinks not and here’s why. A look back at the bottoms of major bear markets and we see the bottoms are a process and rarely an event. History shows the severe bear markets of 1929-32, 1968-70, 1973-74, 1987, 2000-02 bottomed over a several month period and not a V-shaped or quick event type pattern.



The last 10 years of the S&P500 index shows -38% for investors who bought and held for the 10 years. Remember, buy and hold is not a timeless strategy. It only works during secular bull markets and can be devastating to portfolios over 13-16 year secular bears. 2000 is the start of the current secular bear.

The 2000-02 interval illustrates how bear markets evolve and eventually end over a process of months. The key is, to make it through the bear market with most of our capital intact so we don't have to use up too much firepower from gains in the next rising market just getting our money back.

Points A, B, and C were short-term bottoms that lead to quick bear market rallies of 19-21%. Similar to what we are seeing today with the 30% surge the last six weeks. After the passage of time, it is clear points A-C did not ultimately end up being THE low. Point D was the low at -50%. This low was “tested” five months later at point E. This was a successful retest as buyers came in and gobbled up stocks before the market went down to make a new low and hence a new four year bull market began.

In 2007 the market topped again. During this downturn, we have a series of short-term lows at points F, G, H and I. I is so far only another an individual low of this bear at 666. The S&P has bounced up 30% from this bottom to point X. 20-30% rallies over a period of weeks usually only happen in bear markets so be careful with optimism that the worst is over. 30% is a great year let alone six weeks.

Since a new *lower low* was made at point I, expect at least a retest of this low before this bear market is over. The key is for the retest to hold above or near 666. If it does not then the S&P will be on its way to my 1st target of 600, then the 360-500 range. This is serious business. Be careful out there.

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