

## March 24, 2008 – When will the Bear Market End?

The Federal Reserve has been throwing money out of helicopters in recent days in an attempt to prevent the US economy from falling into a financial crisis. The question is, “Is it too late?” Will they be able to make a *shoe-string-catch* and save our economy from severe economic slowdown? Or is this pouring of money into Wall Street financial institutions like throwing bricks in the Grand Canyon? Only time will tell.

Historically, this type of easy and “*guaranteed*” money has led to economic recovery and great times in the stock market. When money is cheap, companies use it to grow and this leads to economic expansion and bull markets for stocks. But the US economy is in the midst of a credit crisis not seen since the Great Depression so this could be a tough catch.

The headwinds facing our economy are historic. First, the housing slowdown is the worst in history:

- Existing home sales have fallen 33%, from a 7.25 million annual rate to 4.89 million.
- New housing starts have fallen 43%, from 2.2 million per year to under 1 million. Each time in the last 40 years, this has happened, a recession occurred.
- Foreclosures are at record levels and climbing.
- The month’s supply of homes for sale is up to 10 months (normal is 4-5 months) and rising.
- Median Home prices in the US have fallen 12%: from \$229,000 in June, 2007 to \$201,100 in January, 2008. Some expect this number to fall 20-30% by 2009/2010.

In addition to housing, revolving consumer credit levels have risen to just under \$1 Trillion! Merrill Lynch economist David Rosenberg calls credit card default the “next skeleton in the closet.” Consumer spending represents over 70% of our economy so this could turn out to be a significant development.

Another issue is inflation. The cost of just about everything we buy is rising...fast! Inflation acts like a tax on the consumer as they have less and less to spend on the mortgage and heat bill because of rising prices. When the Federal Reserve prints money like it has been doing the last several months, it devalues the dollar and pushes up prices. Runaway inflation is one of the worst things that can happen to an economy...and this will likely need to be dealt with in the future. But when the house is on fire, we don’t worry about the water bill.

The good news is some of the best bull markets in history have come after recession. Stock market bottoms happen during a recession as Wall Street has an uncanny ability to look ahead 6 months or so and the market begins to rise when there seems to be no sign of economic hope. Average recessions last ten months and we are five months into the current slowdown. So *IF* this is a “*typical*” recession, we could be near “*THE*” bottom.

If I were to dust off the crystal ball, my assessment is we may be near “*A*” bottom - and due for an intermediate-term rally but would be surprised if this ends up being “*THE*” bottom. The stock market is in a downtrend and must be respected until a new uptrend emerges as bear markets can be quite painful to a portfolio. The US is in the midst of a housing slowdown and credit crisis not seen in our lifetimes so rallies should be met with skepticism as this continues to be a dangerous market environment.

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