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If stupidity got us into this mess, then why can't it get us out? ~ Will Rogers.

The Ongoing Bear Market

Having already written several newsletters on this topic, I would prefer a cheerier topic. People want to know how and when the market will stop falling and what to expect. Beyond the usual (very true) disclaimers about no one knowing the market's short term direction, I can offer some historical facts for insight:

Bear markets happen on average approximately every 6 years. The timing, severity and duration all differ but they are inevitable. We rely on the other 4 – 5 years of the cycle to recoup losses and make money.

Bear markets historically do not end until we observe panic, desperation and emotional selling, resulting in very oversold stock prices. Human nature will be demanding that we sell rather than buy. Based on certain measures, it does not appear that we've reached that low yet. As a result you must be prepared for further losses.

Historically, the September and October months are often when the final lows are made. The final declines, while precipitous, can also be cathartic. However, the market is too unpredictable to "bank" on this or other scenario.

Keep in mind that the stock market looks ahead 6 to 8 months. It contemplates the status of credit problems, recessionary factors, global slowdowns, etc. out in the future, not where they are today, however dismal. The market may also be waiting for a resolution to the presidential race.

Generally, the larger profits of the new bull market come at the beginning of it. The first full year often recovers the lion's share of the losses. In 2002 the S&P 500 lost 23%. In 2003 it gained 26%. Significant gains will likely occur before we are able to confirm that the bear market has ended, just as significant losses (approximately 16% from the peak) had occurred by mid January when the bear market was confirmed.

My perspective of the bear market is that there is simply no region and no industry sector where we can find good performance. In other periods, even mediocre mainstream market performance has not stopped us from finding specific sectors and regions that were providing good returns. Our accounts are positioned today where we are likely to see early gains after the

bottom occurs. I was in agreement with the view that energy would be an effective hedge for stock prices – i.e. if energy stayed high we would make some money in energy, if energy fell this would bring recovery to our stocks. Unfortunately, since May – June, BOTH have fallen.

I am watching for the quantitative measures that will confirm an end to the bear market. It is impossible to know if that point will be higher or lower than today's stock prices. If I could know that, of course, I would be able to recommend confidently whether to sell or to hold. HOWEVER, if anyone would prefer to convert their account further or entirely to cash, I promise my BEST effort to identify the day when quantitative measures present confirming signals. I understand the sleep factor.

Please contact me if you would like to discuss the above further.

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