



# Fascinating Stock Market Analysis

April 5, 2008

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**Back in 2000, near the top of the stock market, our prognostications turned bearish. Subsequently, in 2002, we concluded that the market was setting up for an extended period of sub-par performance, albeit with strong interspersed rallies, similar to occurrences in 1901, 1929 and 1966 where, for approximately 20 years, the S&P averaged a scant 1.9% to a negative 0.2%! The fact is, over the past nine years, the S&P is down 0.37%--and in line with our forecast! In fact, according to Morningstar, the S&P has been the worst-performing of nine different investment vehicles over the past nine years.**

The first quarter of 2008 saw the Dow lose 1,001.93 points. That is the largest first quarter decline in the history of the index. The speed of the decline was faster than the March 2000-October 2002 bear market. These losses occurred against the backdrop of volatility not seen since the stock market collapse of October 1928 to 1929, and continued through most of the 1930's. The market's steep decline and volatility underscore the deep seated problems in the credit markets that the Federal Reserve Board adroitly addressed with their innovative ways of making credit more easily available to non commercial banks in their new role as market stabilizer. (Read our March 29, 2008 report, *Can the Federal Reserve Stop the Credit Crisis?* for a better understanding of the Fed's actions in addressing the credit crisis [http://cta.visionlp.com/pdf/gen/fed\\_stop\\_credit\\_crisis.pdf](http://cta.visionlp.com/pdf/gen/fed_stop_credit_crisis.pdf).)

The Federal Reserve Board must be commended by their aggressive proactive moves in preventing a collapse of our banking system. They are addressing one of the biggest problems in our financial system which we believe is a lack of

confidence. The verdict is still out if they will succeed, but we believe they will! However, we also firmly believe the stock market will continue to underperform for around the next ten years in a manner similar to its behavior over the past nine, going up and down, essentially making little upward progress over the long term. We believe, as we believed in 2002 that we are in a secular bear market similar to 1901, 1929 and 1966 that lasted around 20 years. Our 2002 report, *FORECAST FOR THE REST OF 2002 AND BEYOND* "tells the story" as to why!

Fascinating, one might think, how the market forecast and analysis we shared with investors as far back as March 5, 2002 is still relevant today! In fact, we'd venture to suggest that if we were to substitute today's date for the aforementioned, we believe it would be just as relevant. ***But you be the judge as we go back in time to our March 5, 2002 report!***

## “FORECAST FOR THE REST OF 2002 AND BEYOND”

Since we began writing our Special Reports in 1999, our market forecasts have generally been very accurate. In 1999, for instance, we were cautiously bullish on the market, turning bearish near its peak in January 2000, only to warn investors of more losses to come in 2001.

*No, we are not oracles, nor do we have the benefit of divine intervention. And, no, we don't have all the answers. But we do pay very close attention to economic and market history, which we believe can be a very important guide as to the future direction of the markets. We believe studying the history of the markets is of little use in forecasting day-to-day or short-term market movement, but extremely useful in helping forecast the intermediate- to long-term trend of the markets! Why? History is created by the actions of people, and people have generally repeatedly reacted in a predictable fashion since modern civilization began! People don't change; only circumstances and events do!*

*With history and human nature as our guide, we will continue to strive to provide investors with accurate market forecasts that can prove useful for their financial well being. Bear in mind, past performance is not indicative of future results.*

### AN ADMONITION FROM HISTORY

- After the stock market crash of 1929, the Federal Reserve Board tried to stimulate the economy with a series of steep interest rate cuts. The Fed cut the discount rate from 6% to 5% on November 1, 1929; then to 4.5% on November 15 and 4% on January 30, 1930. The Fed didn't stop there. By mid-1931, the Fed cut rates to 1.5%. **The market responded to the Fed's cuts in the discount rate by having five rallies in excess of 20%. As powerful and convincing as each rally ap-**

**peared, none held. The Dow made new lows by 1932, dropping from its first rally high after the crash of October 1929, approximately 80%.**

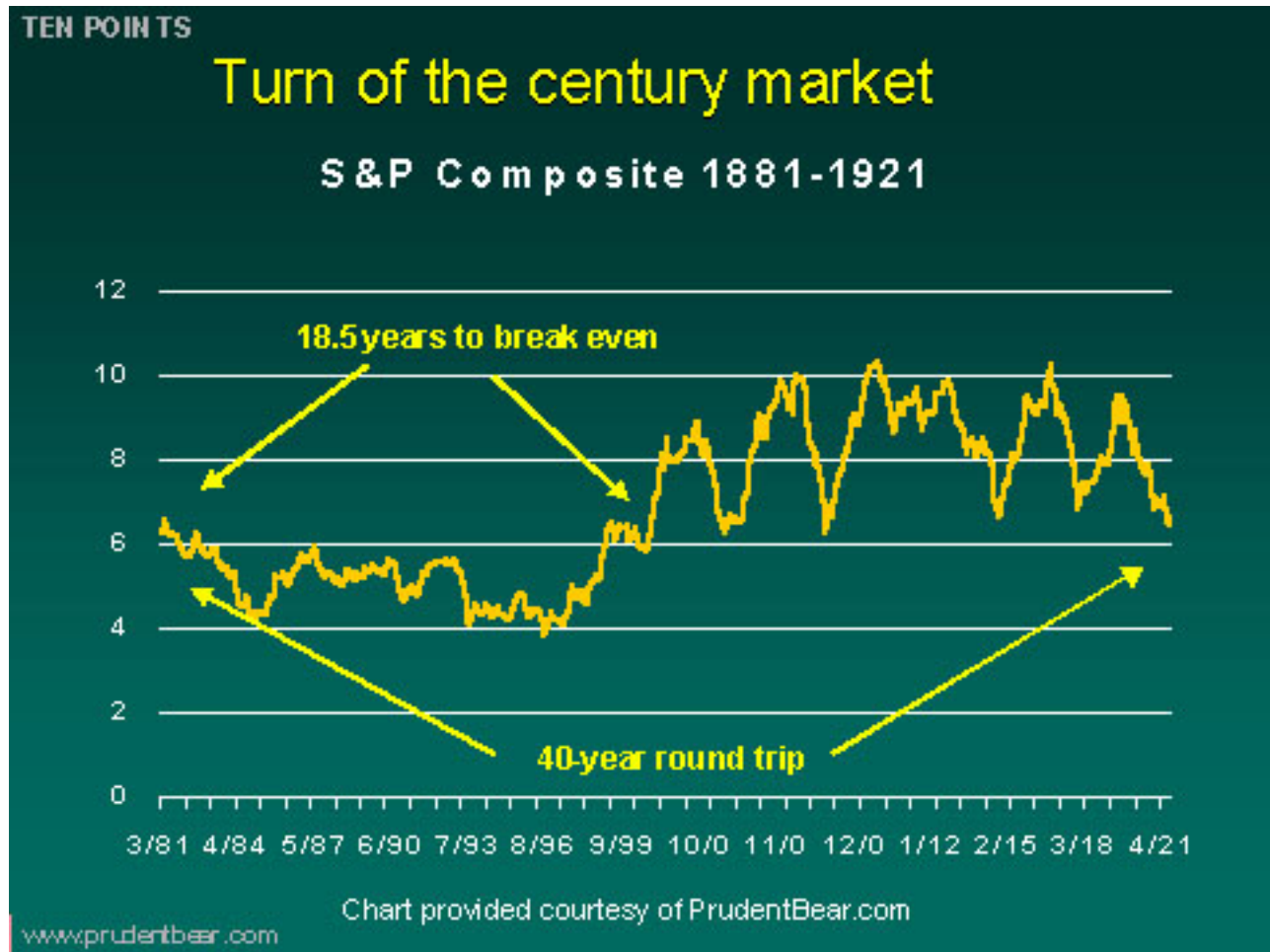
- *In response to a sagging economy, the Japanese lowered rates even more than the U.S. Federal Reserve Board, to almost zero. Like the U.S. stock market, in 1929 and 1932, the Japanese stock market, the Nikkei, experienced five rallies of 20% or more during the 1990's. Like the rallies in the U.S. between 1929 and 1932, none held. The Japanese stock market has now made new lows. From its peak of 39,000, it is now around 10,500!*
- *We believe the similarities between what is happening now in the U.S. economy and what happened in 1929-1932 in Japan are alarmingly similar.*

*For almost 20 years, the stock market has been booming. Sure, there have been ups and downs. There have been scares like the 1987 crash, when blue chips lost more than 20 percent in a single day. But every market setback has been followed by a swift rebound. You generally couldn't go wrong by investing more whenever share prices dipped and focusing on the same stocks that had been hot before the downturn.*

*We strongly believe that era is finally over. It may look as though the current market is just a more painful edition of the pullbacks that occurred throughout the 1980s and 1990s. On the contrary, we believe the past year's (remember we are talking about the year 2001 here) slump marks a fundamental turning point and a "new era" in stocks. The behavior of share prices for the next several years will probably be very different from what it has been since 1982.*

**We believe the key to understanding our market forecast is to understand that the bigger the boom, the bigger the bust and the longer it takes for the stock market to recover.**

*In 2000 we ended one of the biggest, speculative bull markets in history! And super-bear markets traditionally follow super-bull markets. We've seen that in the "new era" bull markets that peaked in 1901, 1928, and 1966. In all three of these super-bull markets, after their peaks, for almost 20 years, returns averaged 1.9% to a negative 0.2%.*



TEN POINTS

## Recovery from '29 boom

S & P Composite 1929-1954



Chart provided courtesy of PrudentBear.com

[www.prudentbear.com](http://www.prudentbear.com)

TEN POINTS

## The long up and back market

S & P Composite 1965-1980



Chart provided courtesy of PrudentBear.com

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On September 7, 1929, at the peak of the bull market, "Business Week," stated:

"For five years at least, American business has been in the grip of a apocalyptic, holy-rolling exaltation over the unparalleled prosperity of the "New Era" upon which we have entered." Fast forward to the present. Sound familiar?

On November 15, 1965, near the peak of the bull market, "U.S. News & World Report," stated:

"There seems to be a consensus that the present is something of a new era.... A number of conservative economists and businessmen now accept the idea that business expansion can go on indefinitely..." Fast forward to the present. Sound familiar?

**Think about this: In each period, when the bear market began, very few investors realized or ever imagined, that the market for twenty years, would average returns, from a scant 1.9% to negative 0.2%! As you can see the "irrationally exuberant," "new era" feelings that investors had in 1901, 1929, and 1966 were similar to our recent bull market. For your financial well being, please don't delude yourself that it isn't a distinct possibility that the many years of paltry returns that occurred after the market peaks in 1901, 1929, and 1966, can't also happen now!"**

## **Back to the Present**

**Now that you have read our 2002 report we hope we have provided our readers with a better macro economic view of extended periods when the stock market underperformed for around 20 year periods as it did starting in 1901, 1929, 1966... and what we believe started in 2000! As happened in the previous periods mentioned we expect sharp rallies that won't hold where the market falls**

**back until the next rally attempt that also fails, essentially having the market going up and down but going nowhere. We believe the years ahead will be a traders market; not a buy and hold market!**

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