

# Great Bear Markets and Some Time Targets for a Major Low

By Peter Beuttell

If you do not believe that the last two years in stock markets have parallels with the late 1920's in the US, the Nifty Fifty approach of the early 1970's, the panic and greed which preceded the peak in Gold in early 1980, or the Bubble phase in Japan in the late 1980's, then this article will be of little interest. Its historic analysis is based on the presumption that the technology mania of 1999/2000 will have repercussions for global stock markets much like these earlier periods, when investors and speculators made the same mistake of chasing a fashionable trend, and lost sight of value. Just as markets overshoot on the upside in 2000, there is now a risk that they will overshoot on the downside. This piece of analysis was drafted before the tragic events of 11th September, but they can only have served to exacerbate the situation.

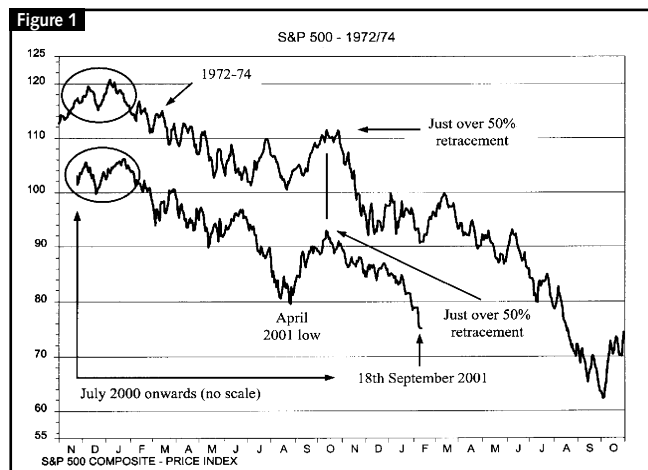
There have been few Great Bear Markets in the last 75 years if you exclude "emerging" indices. The four mentioned above are worth examining because of both the lengthy advances and the investor psychology which preceded their tops. Whilst four is not a great statistical sample, the contention of this analysis is that these bear trends all lasted a fairly similar amount of time, and this may be useful in helping pin-point the eventual low of the current trend. The proposition is not so much that this *will* turn out to be a Great Bear Market, or that a low *will* occur in a given time zone, but that if markets are still dropping at a particular point in time, investors should be aware of historical precedent and be looking for indications that a low may be occurring.

The table below sets out the extent and duration of some of the 20th Century's worst bear markets. In fact two of them (Gold and Japan) are arguably secular, and still in progress. This table includes only their initial phase.

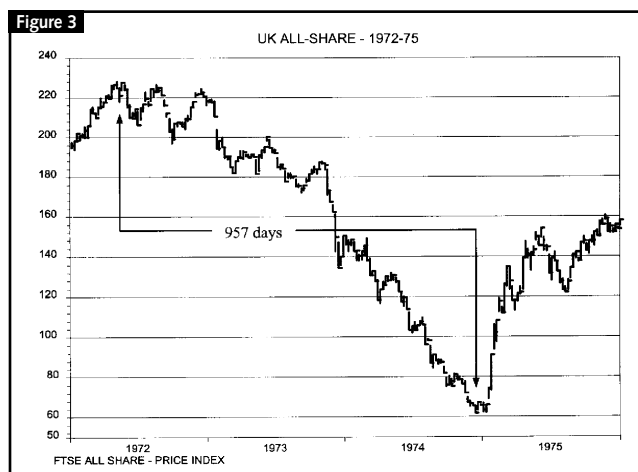
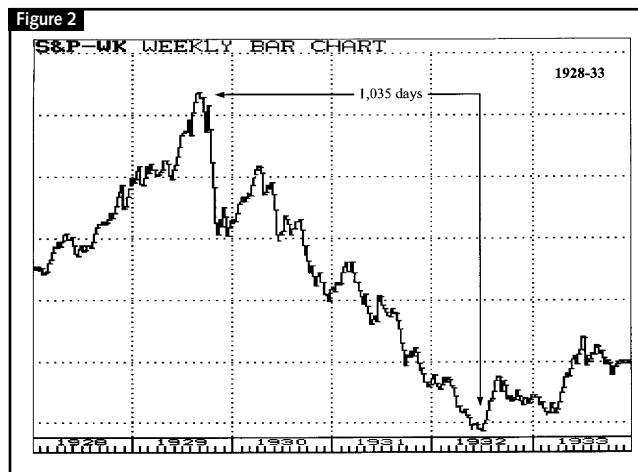
Index	Closing Peak	Closing Low	% Decline	High Date	Low Date	Duration in Days
1. S&P 500 *	31.83	4.41	86	6.9.29	8.7.32	1,035
2. S&P 500	120.71	62.28	48	5.1.73	3.10.74	663
3. UK All-Share	228.18	61.92	73	1.5.72	13.12.74	957
4. Gold	835	296	65	1.8.80	21.6.82	892
5. Topix	2,885	1,102	62	18.12.89	18.8.92	973

\* Week ending figures/dates

The US bear market of 1973/74 is included because it needs dealing with before it can be excluded. It is not one of the Great Bear Markets. It did not see losses greater than 50%, or last the 900-1,000 days of the others. (Similarly the UK lost "only" 50% in the early 1930's).



On this occasion, the 1973/74 US experience is interesting though. Figure 1 shows it with 2000/01 superimposed. The similarities may well be spurious as the 1929 comparisons were after the 1987 Crash, but this chart is worth keeping an eye on all the same.



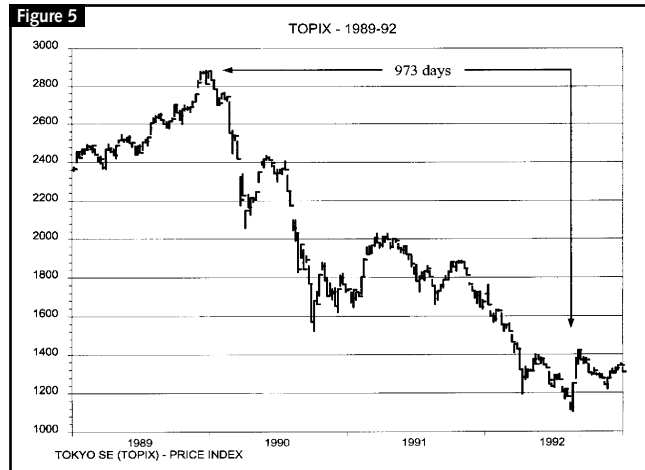
It is worth pointing out that all five of the declines in the table approached one of these Fibonacci-related decimals: .50/.618/.7236/.854. Coincidence?

If the time periods for Great Bear Markets are added to the date of the 2000 high in the S&P 500, the time window which results is:

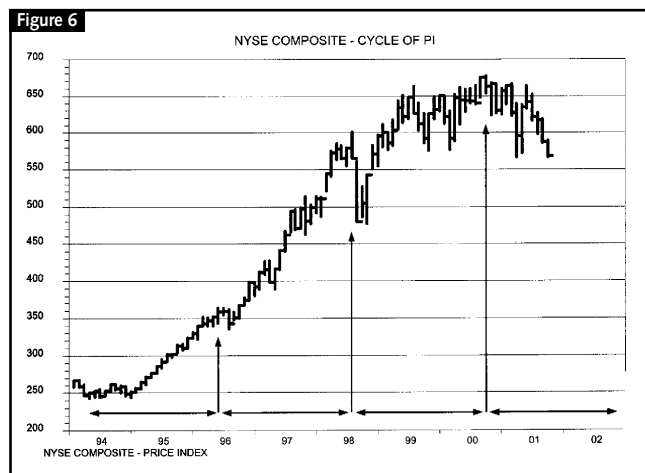
24th March 2000 + 663 days = 16th January 2002  
 (included for interest)  
 + 892 days = 2nd September 2002  
 + 957 days = 6th November 2002  
 + 973 days = 22nd November 2002  
 + 1,035 days = 23rd January 2003

Clearly Autumn 2002 will be the period to watch.

Two techniques provide some support for this time zone as a potential target.

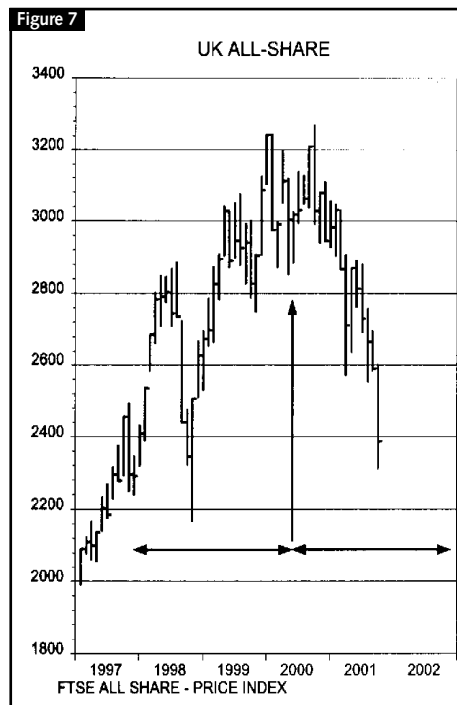


The first is the "Cycle of Pi" phenomenon introduced to us by an MTS Research client in the mid-1990's. Expressed mathematically, Pi equals 3.1415 to four decimals places. The Cycle of Pi lasts 3,141 days, with important market peaks occurring at intervals of 1/4 of the cycle. The last cycle began with the 1st April 1994 low in the US. Figure 6 illustrates how the NYSE Composite's peaks in 1996, 1998 and 2000 occurred within a very few days of these Cycle sub-divisions.



The "Cycle of Pi" is due bottom on 6th November 2002 – one of the dates above. This is almost certainly a coincidence, but we think that this is worth highlighting because of the Cycle's success in identifying these previous NYSE peaks. The Cycle was one day out in May 1996, spot on in July 1998 and two days early in September 2000.

Finally, we finish with a technique recently published in *Technical Analysis of Stocks and Commodities* by Mohab Nabil. If this is a Great Bear Market, then it is quite possible that the pattern in the UK's All-Share Index will develop into a Head-and-Shoulders top. Mohab's technique involves using the cyclic forces which create the Head-and-Shoulders pattern to help pin-point the time period during which the top pattern's target is likely to be met. Very simply, the time zone for target achievement is calculated by measuring the time taken between the point at which the first shoulder began to form and the top of the Head. That period is then projected from

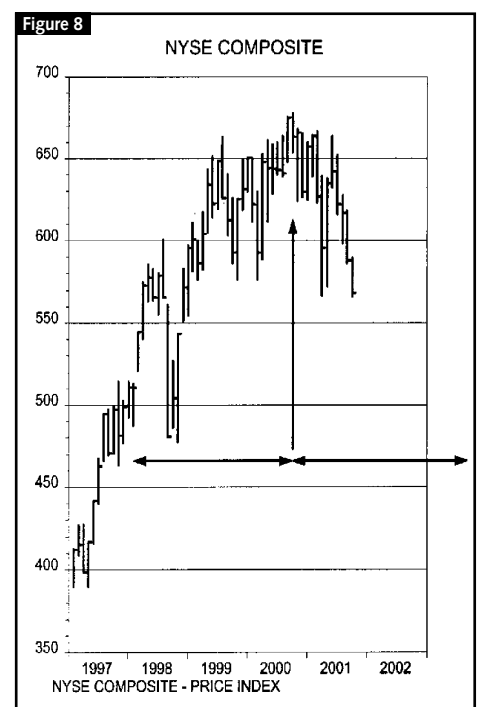


the top of the Head into the future. In this instance, the Head is a Double Top, so we have used its mid-point. The resulting time zone occurs around 1st October 2002 (figure 7).

Since a similar pattern may be forming in the NYSE Composite, it cannot be ignored in this context. Figure 8 illustrates, the pattern time target suggested is in the second half of 2003. No

confirmation here, but it will be interesting to see whether the US produces a Japan-type trading range, where a second low occurs in 2003.

This technique does not always work, and is not exact, but given that Time is the most difficult aspect of technical analysis, it is a welcome addition to the technical armoury, and adds a degree of confidence to the foregoing.



## SUMMARY AND CONCLUSION:

Events of the past two years, in particular the appearance of a two-year top pattern in the S&P 500 and the devastation amongst NASDAQ stocks, provide the right background for a Great Bear Market to occur. Sadly, *proof* that one is occurring will only begin to appear once a retracement from the all-time highs exceeds 50%.

Great Bear Markets on average run for about 964 days. If the average were to occur on this occasion, it would suggest a low around 13th November 2002, but with leeway of about two months either side. Such a wide time window would require a staggered entry strategy, but Fibonacci levels of .618 etc. could be used to refine this. It goes almost without saying that we would love to discover with hindsight that this piece of analysis was a waste of time!

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