

Further evidence of a Great Bear Market

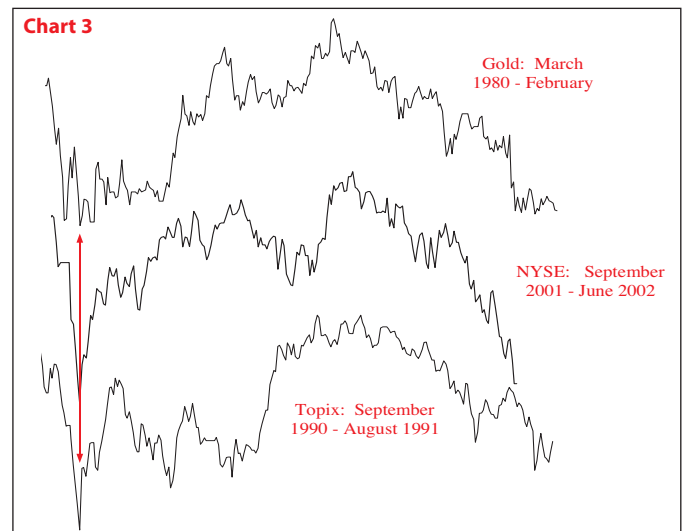
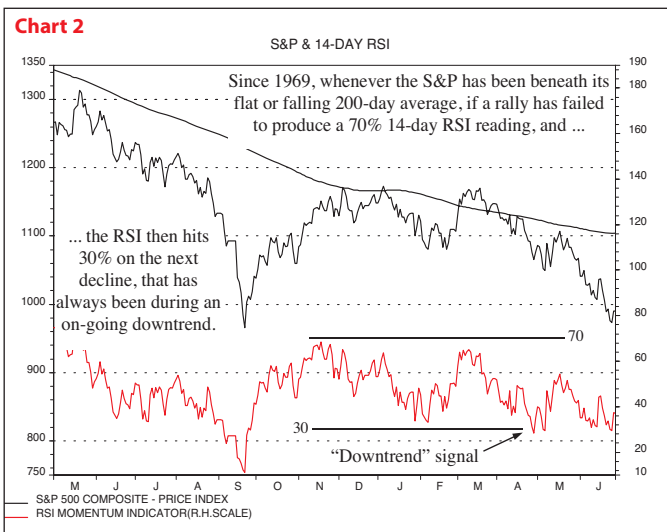
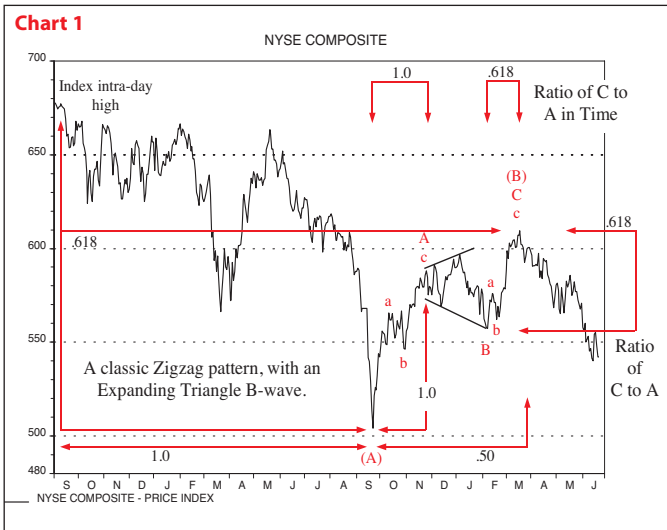
By Peter Beuttell

My original article on Great Bear Markets was drafted in August 2001 in response to a client question: "How bad can it get, and when might it finish?" (see Market Technician Autumn 2001 or www.mtsresearch.com, Articles section). Whilst the tragic events of September appeared to increase the chances of an extended downtrend, the deep oversold condition and the authorities' response provided the stimulus for a strong rebound. At the time, the action looked like a bear market rally, particularly in the NYSE Composite (see Chart 1), but confirmation of that only came in early May from the S&P 500 (Chart 2).

S&P	:	February 1932	-	76%	} These average out at about 59%.
FT ASI	:	July 1974	-	56%	
Gold	:	January 1982	-	55%	
Topix	:	March 1992	-	51%	
World	:	May 2002	-	29%) Very different in 2002.

Secondly, three out of the four previous GBMs all contained a Crash-type decline in their first 10-15 weeks, whereas the current trend did not. But note that even the UK's All-Share index, which began its decline quite sedately in 1972, had "caught up with the pack" as the bear market neared its final stages.

However, there are two similarities which have been sufficiently close that it has been impossible to dismiss the argument that this is a GBM. Firstly, if this is not a GBM, then it would be reasonable to expect that at some point markets would produce a rally longer in time than the longest rallies seen in the previous four GBMs. The longest two occurred in Gold and Topix. Chart 3 below overlays the NYSE from September 2001 on the longest GBM rallies in those two, all centred at the pre-rally lows. The NYSE produced a classic GBM rally into its March 2002 high.



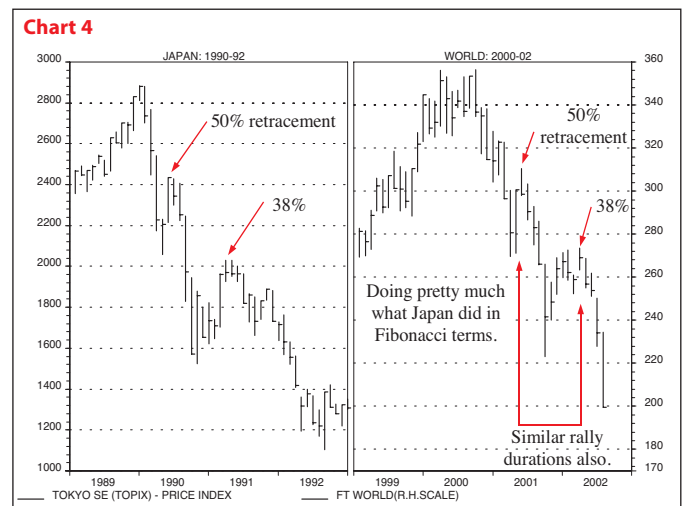
The second similarity is with Japan's GBM, which had two important rallies between its 1989 high and its 1992 low. The first occurred from the March 1990 low, retracing 50% of the initial decline (the US did the same between November 1929 and April 1930). The second began at the end of September 1990 and is the one illustrated in the above Gold and NYSE comparison. It retraced 38.2% of the entire 1990 decline. The rallies in the FTSE World Index from the Q2 and Q4 lows in 2001 also produced similar retracements (Chart 4).

Against this background, I have been asked to write a follow-up article for this issue. As a reminder, the table from the original article was as follows:

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. UK All-Share	228.18	61.92	73	1.5.72	13.12.74	957
3. Gold	835	296	65	1.8.80	21.6.82	892
4. Topix	2,885	1,102	62	18.12.89	18.8.92	973

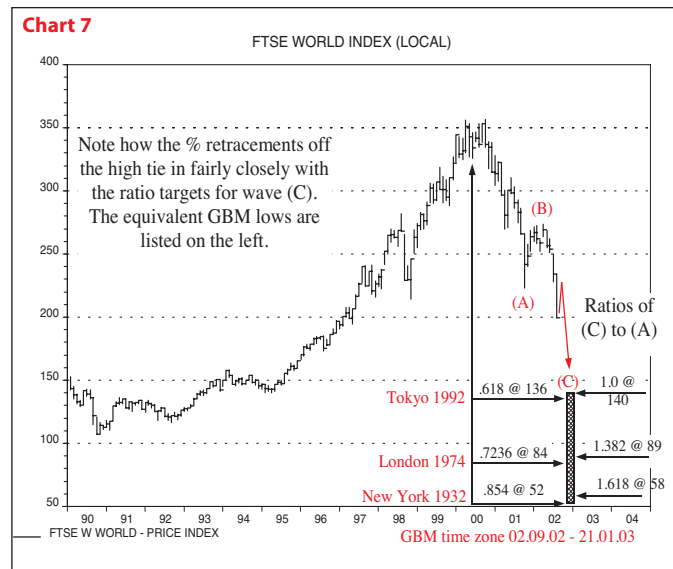
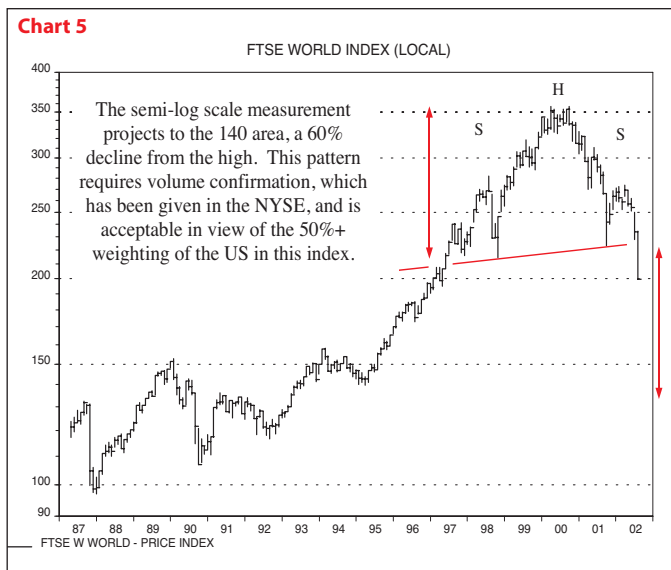
*: week ending figures and dates

So how has market action conformed to the Great Bear Market (GBM) "model"? In two ways it has not. Firstly, compare the percentage declines in these four previous examples, when they were about five months off their ultimate lows, with the World Index at 30th May.



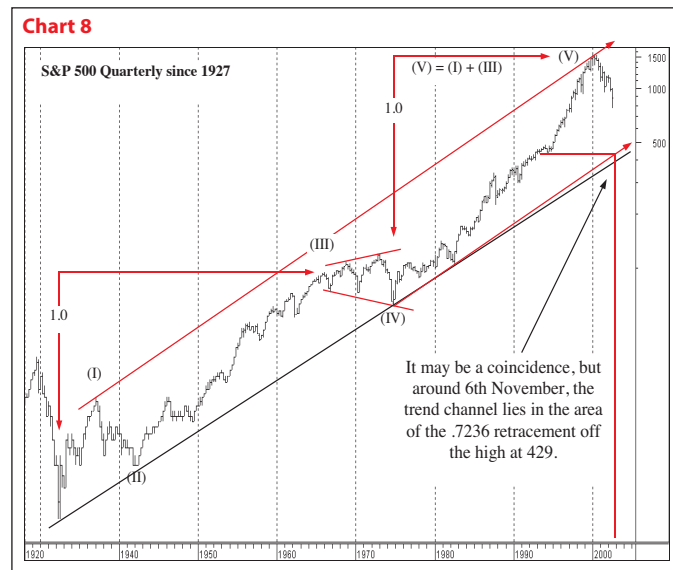
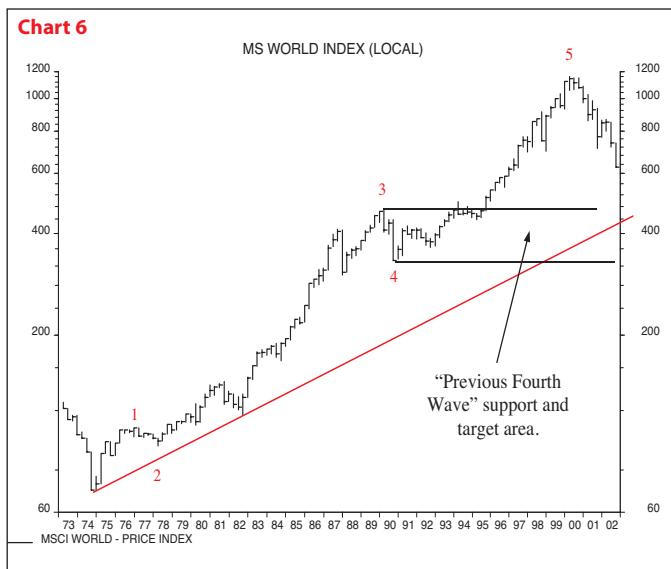
What other evidence is there that a GBM-sized decline (62-86%) could yet occur? Firstly, it has been clear since early 2001 that a large top pattern was potentially in the process of forming. In the FTSE World Index, the recent downward break targets anywhere from 140 down to the 90 area, depending on whether you use the semi-log or linear measuring method. That is a decline of 60-75% from the high (Chart 5).

– a large percentage fall in a given timeframe. There are certainly others which have lasted longer, and the US bear market of 1937-1942 is one example. However, the problem is that if this is a *true* GBM (i.e. it sticks to the 900-1,000 day timetable) the inescapable conclusion is that a final decline, which takes markets 62-86% off their 2000 highs, will be sandwiched into the four-month period centred on 13th November 2002, with a point target of 6th November when the current Cycle of Pi bottoms (see the first article for the time aspect). Whereas three of the previous GBM's began with a Crash-type or sustained decline, on this occasion the profile will reverse, and this GBM will end with one. Chart 7 below illustrates that Time and Price target zone.



There are always a number of Elliott Wave counts for any individual chart, but the one illustrated in Chart 6 is preferred. One rule of using this technique is that, once a 5-wave advance has completed, the ensuing correction will retrace into the Area of the Previous Fourth Wave, and often to its low point. The PFW is the 1990 decline and, if achieved, this would represent between 57% and 70% off the 2000 high, which compares with the 62-86% of previous GBMs. (MS World is used to illustrate the count and PFW, due to its longer history).

This article was drafted in June/July, and I am adding this paragraph to the final proof in very early September. At this stage, I am pretty convinced that we are eventually going to see a decline of GBM degree. Since the downside wave pattern which began in March 2002 is incomplete, and the July-August recovery looks like another completed bear market rally, the final decline could even have begun. Will the bear market become a *true* GBM? I cannot say, but I fear it will. I expect to see the S&P 500 trade beneath 600, and possibly as low as 430, at some point in the next two to fifteen months, based on Fibonacci time and price projections. Chart 8 illustrates an interesting coincidence in this respect.



Fibonacci targeting can also be used to arrive at a level which will help indicate whether we should expect a fall greater than 50% from the high. In an (A)-(B)-(C) bear market pattern, wave (C) is more normally related to wave (A) in one of the following ratios: 1.0/1.382/1.618. In the FTSE World Index, this gives targets of 140/89/58. These represent 61/75/84% declines from the high, and therefore confirm the risk of a GBM-sized decline (compare these percentages with previous GBM actuals).

If the worst happens, at least there are these previous GBM and other examples to look at to tell us what indicator readings to expect at the low, and what market action is likely to be in the immediate aftermath. Let us hope it does not come to that.

As I said in the original article, there is no way to prove that a GBM is in progress until a lot of the damage is already done, but it was worth publishing on a "forewarned, forearmed" basis. However, there is a further problematic aspect to the current situation which was not obvious a year ago.

Peter Beuttell is a Director of MTS Research Ltd., which provides market and stock timing advice to institutional investors. See www.mtsresearch.com and www.taranalysis.com

The second table makes the point that the Time profile of this bear market is very different from the four GBMs. They are about "intensity"