# Great bear markets

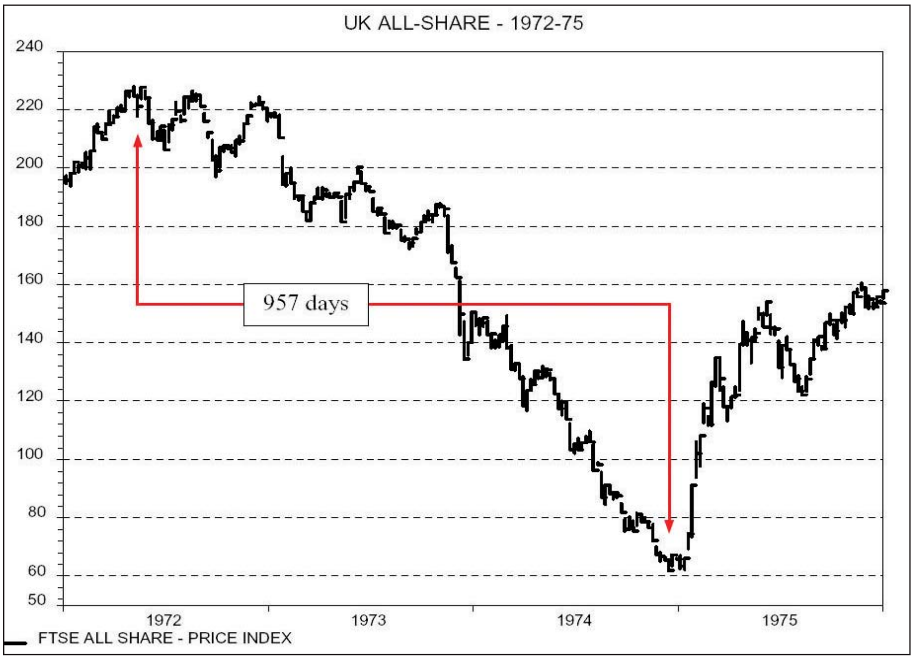
By Peter Beuttell

There have been few Great Bear Markets (GBMs) in the last 100 years if emerging indices are excluded. The first four listed below were examined in articles that were published in the *Market Technician* in 2001, 2002 and 2003 because of both the lengthy advances and the investor psychology which preceded their tops. Whilst these original four did not comprise a great statistical sample, the contention of the analysis in 2001 was that these bear trends all had a fairly similar duration, and that might be useful in helping pin-point the eventual low of that bear trend. The proposition was not so much that it would turn out to be a Great Bear Market, or that a low would occur in a given time zone, but that if markets were still falling at a particular point in time, investors should be aware of historical precedent and be looking for signs that a low might be occurring.

The table below sets out the extent and duration of some of the 20th Century's worst bear markets. In the case of two of them, Gold and Japan, the "Great" section was actually part of a larger secular trend. This table includes only the initial phase. To the original four, we have added NASDAQ and the DAX from their 2000 highs, the latter because it lasted longer than the expected 1,039 days. The CAC from that period has been included, because its duration varied from the DAX's.

Note that the severe US bear market of 1973/74 does not qualify as one of the Great Bear Markets. It did not see losses greater than 60%, or last the 900-1,000 days of the others (it was down 48% in 663 days). Similarly the UK lost "only" 50% in the early 1930's. The initial phase of the Dollar bear market of 1985-95 is worth a mention, however. Although the Dollar's 42% loss through to 31st December 1987 does not qualify it either, the decline lasted 1,039 days (exactly as long as the 1929-32 Crash), and it then effectively traded almost sideways for another nine years. And for an Elliottician, one fascinating aspect to the table is the % declines – note their proximity to the Fibonacci ratios of .854, .786, .7236, .666 and .618. (Barton Biggs actually went so far as to publish a paper entitled *Is God a Mathematician?*).


| | Index | Closing I-day Peak | Closing I-day Low | % Decline | High Date | Low Date | Duration in Days |
|---|---|---|---|---|---|---|---|
| 1. | S&P 500 | 31.86 | 4.41 | 86.1 | 3.9.29 | 8.7.32 | 1,039 |
| 2. | UK All-Share | 228.18 | 61.92 | 72.9 | 1.5.72 | 13.12.74 | 957 |
| 3. | Gold | 880 | 296 | 66.4 | 18.1.80 | 21.6.82 | 885 |
| 4. | Topix | 2,885 | 1,102 | 61.8 | 18.12.89 | 18.8.92 | 973 |
| 5. | NASDAQ | 5,133 | 1,108 | 78.4 | 10.3.00 | 10.10.02 | 945 |
| 6. | DAX 30 | 8,136 | 2,189 | 73.1 | 7.3.00 | 12.3.03 | 1,102 |
| 7. | CAC40 | 6,945 | 2,401 | 65.4 | 4.9.00 | 12.3.03 | 920 |






Using these time periods to project forward from 24th March 2000 (MSCI World Index high), the following emerged: + 885 days = 2nd September 2002; + 957 days = 6th November 2002; + 973 days = 22nd November 2002; + 1,039 days = 27th January 2003.

Clearly Autumn 2002, then a year out, was the period to watch. The US indices bottomed on 10th October. It later dawned that, since the FT World Index, France, the UK All Share Index and the NYSE Composite peaked in early September 2000, that there could be a second, later, bottoming period of the last week of March through the first week of April. The actual second low came on 12th March, so despite having only a small sample of 4 previous GBM's to work with, the technique did not do badly.

If the time durations for the seven Great Bear Markets are now added to the 11th October 2007 high in the S&P 500, the time window which results is broad – 14th March to 18th October 2010, although the 3-cluster at 920-957 days would suggest 18th April to 25th May.

The charts on the front page and page 28 of this issue illustrate all seven GBMs referred to in the table and the S&P's current position. Because the S&P traded below all but one of these profiles as of the March 2009 low, this too could easily turn out to be a GBM. In addition, my very long-term wave count pairs this decade with 1929-32 in pattern terms. Since that was the greatest GBM, it is logical that its sibling could also produce another one.

The March low coincided with an increasingly bullish configuration in terms of Elliott and the standard array of indicators. Some of the same early bull market signals which were visible 6 years ago have begun to appear again. Since GBM analysis warns that there is still the risk that the S&P could trade below 602 (a 61.8% fall from the 1,576 high) at some point between 14th March and 18th October 2010, it will be interesting to watch the development of this rally with that as a backdrop. The wave patterns of the S&P 500, NYSE Composite and NASDAQ during this decade have all been different, and there are a number of interesting parallels in the bond and commodity markets, providing clues as to whether this will indeed be another GBM, but that will have to wait for greater clarity and another article.

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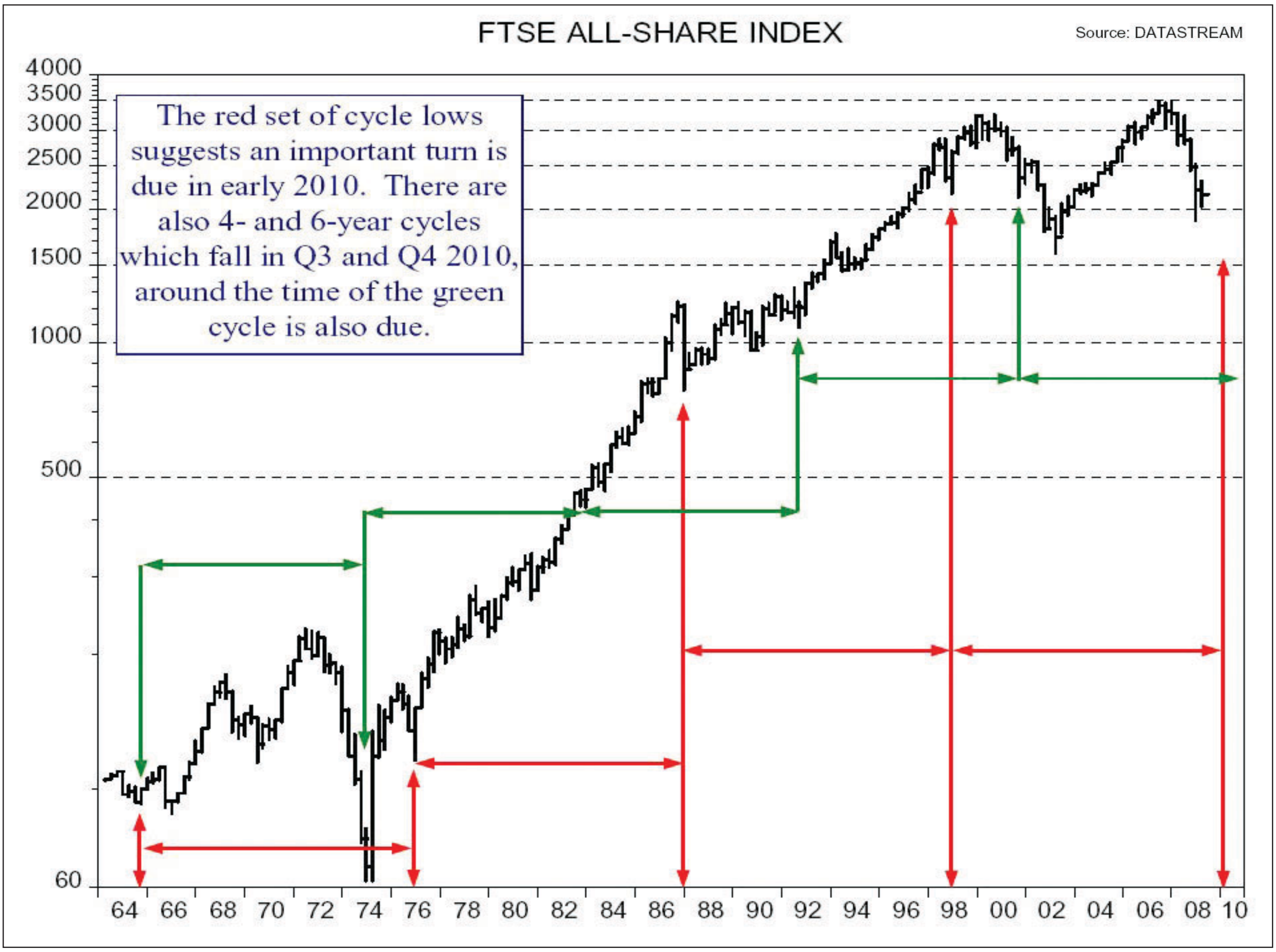
GBM1 Overlay 382
The bull market highs have been rebased to 100, and lined up with the S&P's October 2007 high, to see how the subsequent trend is moving in relation to these other bear markets.
S&P 2008-09
UK 1972-74
Gold 1980-82
US 1929-32
"Cluster"
2007
2008
2009
2010


FTSE ALL-SHARE INDEX
Source: DATASTREAM
The red set of cycle lows suggests an important turn is due in early 2010. There are also 4- and 6-year cycles which fall in Q3 and Q4 2010, around the time of the green cycle is also due.