INVESTECH RESEARCH®

MARKET ANALYST

Vol09 Iss03 | Technical and Monetary Investment Analysis | MARCH 13, 2009

4 Weeks Ending March 6, 2009

	High	Low	Last
Federal Funds	0.25%	0.21%	0.24%
30yr T-Bonds	3.71%	3.45%	3.55%
Gold (London PM)	$989.00	$895.00	$936.00

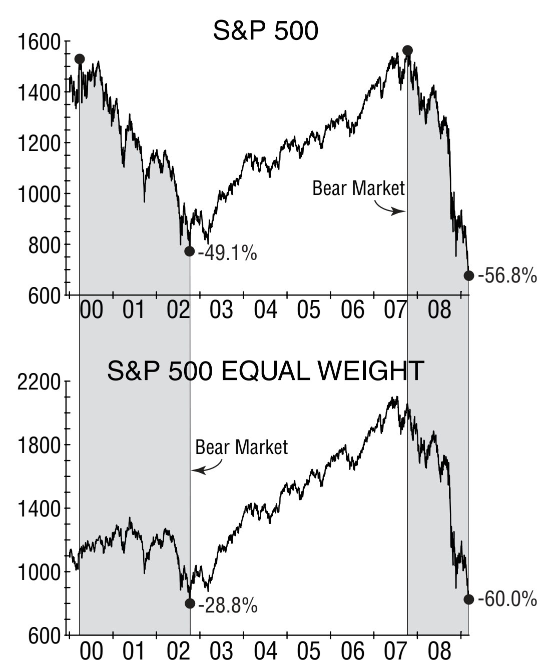
	High	Low	Last	200D M.A.
DJIA	8270.87	6594.44	6626.94	9887.15
DJUA	381.09	296.26	296.89	420.25
NASDAQ	1591.56	1293.85	1293.85	1915.96
S&P 500	869.89	682.55	683.38	1062.42

S&P 500 P/E Current: 39.3 70 yr Avg: 15.9

A TALE OF TWO BEAR MARKETS

Understanding the full extent of the market damage today requires stepping beyond the historical fact that this has been the largest bear market in over 75 years. With a -56.8% loss, this bear "appears" only slightly larger than the second biggest bear market (over this period) which ended in 2002 with a -49.1% loss – see top graphic below.

However, that slight differential (7.7% pts) is a mirage! For the average investor, the carnage from this bear market has proven far worse for investor portfolios than in the seemingly-generational bear market of 2000-2002. [OK, so now we've had *back-to-back* generational bear markets.]



The reason becomes apparent if one looks at the stock market in terms of how the average investor purchases stocks or allocates their portfolio – with an "equal" amount invested in each stock position. The lower graph (at right) looks at the same 500 stocks in the S&P 500 Index, giving equal weight (rather than capitalization-weight) to each stock. **On an equal-weighted basis, this bear market has inflicted over twice the damage on investors portfolios as the last bear market in 2000-02: -60.0% vs. -28.8%!** [Note: This is confirmed by the Value Line (equal-weighted) Arithmetic Index of 1700 stocks, which has now tumbled -59.3% versus -21.6% in the 2000-02 bear market.]

While there has been "no place to hide" in this bear market, there is extraordinarily good news on the horizon. For regardless of whether one argues that the bear market bottom is at hand, or still lies ahead in the future, it is a historically indisputable fact that *we are heading toward a buying opportunity of a lifetime.* Here's why...

A Buying Opportunity of a Lifetime?

We don't need to tell you what's wrong with this economy, or stock market. It's plastered in **big, BOLD *HEADLINES*** across the Internet and newspapers every morning…

> ***"Unemployment is soaring!"***
> Of course it is – but no faster or higher than in the other 2 recessions of the past 70 years that lasted this long.
>
> ***"This could be the longest recession since the Great Depression!"***
> Another no-brainer – as we only have two months to go before surpassing the recessions of 1981-82 and 1973-74.
>
> ***"Corporate profits are falling, with no end in sight!"***
> Happens in every recession – and earnings always bottom long after the bear market bottoms out.

All of this bad news, of course, is why the bear market has lost well over 50% in virtually all major indexes. Yet, although our model portfolio was not immune, we have limited our losses to barely half that of the S&P 500 Index. If ranked among the 2400 growth and value mutual funds monitored by Morningstar and available on FastTrack, our model portfolio would be ranked #11.

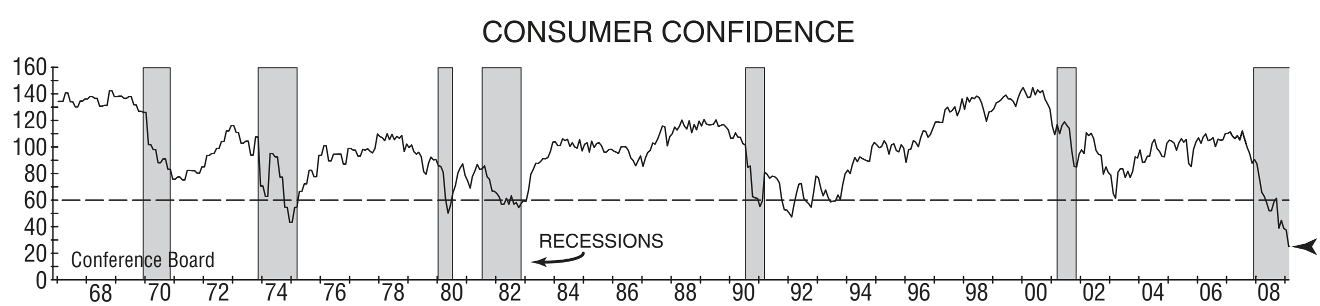
We'll leave the controversial question of whether this bear market is at, or near, a bottom until later in this issue. First, we want to focus on a far more important topic from a longer-term viewpoint: *Why we believe the stock market is approaching a buying opportunity of a lifetime.*

CONFIDENCE / SENTIMENT:

It is no secret that the best buying opportunities on Wall Street always come around in the depths of a recession and after a bear market has "marked down" share prices to discount levels. The bigger the bear market, the greater the discount… which generally means the better the buying opportunity.

That's also true of negative extremes in sentiment. Whether one looks at investors or consumers, the historical outcome is the same – the greater the gloom, the higher the probability you're nearing a good buying opportunity on Wall Street.

Look at this graph of Consumer Confidence from the Conference Board, and more specifically, look closely at those times when Consumer Confidence fell under the 60 level:



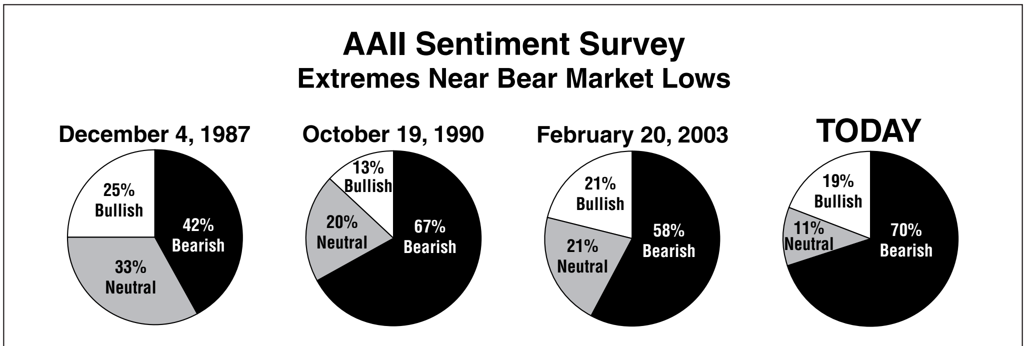
The 4th quarter of 1974, the last half of 1982, anytime during the early 1990s, and the first quarter of 2003 <u>all represented the best buying opportunities</u> of the past 40 years. The 2nd quarter of 1980 also presented an excellent profit opportunity, even though it lasted less than a year.

The record low in Consumer Confidence today may not be the <u>final</u> low in this economic recession or crisis. But when we look back 5 or 10 years from now, the bottom in Consumer Confidence will again be recognized as one of the best buying opportunities of the past 40 years. We may not be at that low, but we are approaching it…

Like consumer confidence, some important measures of investor sentiment have fallen to the most extreme (pessimistic) levels in decades.

One recent survey from the American Association of Individual Investors (AAII) shows that **<u>70%</u>** of investors surveyed *"feel that the direction of the stock market over the next 6 months will be down."*

Here is how that 70% bearish level compares with other maximum bearish levels near past bear market bottoms:



Source: American Association of Individual Investors

December 1987, October 1990 and February 2003 turned out to be <u>the 3 best buying opportunities</u> in over 20 years.

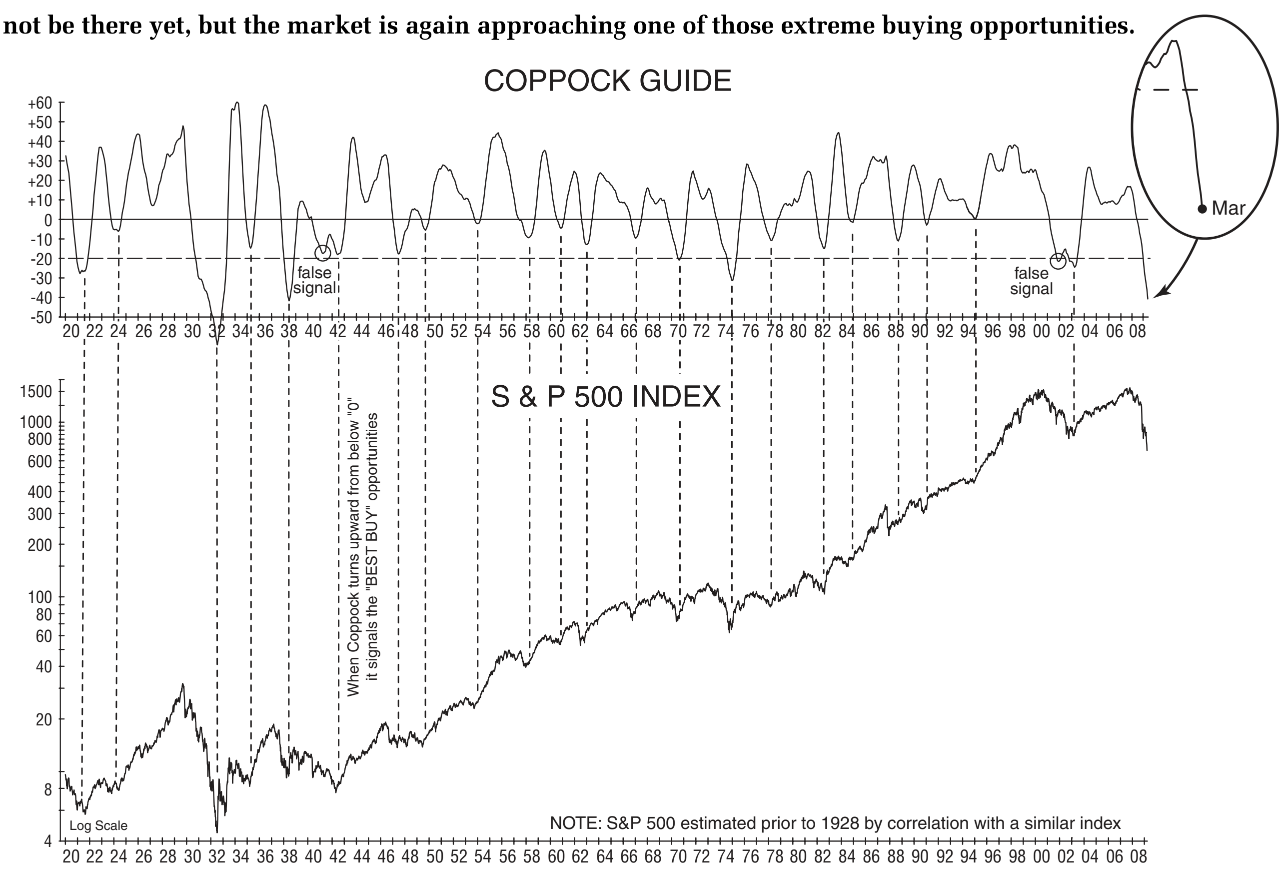
Although this AAII survey only extends back to 1987 (22 years), today's <u>record bearish extreme</u> reveals that we are again heading toward one of the best buying opportunities in decades!

COPPOCK GUIDE:

Our previous issue explained this Coppock Guide in detail, so we won't bore you with the fundamentals other than this reminder: *After dropping below '0', <u>any</u> upturn in this index should be treated as an excellent buying opportunity.*

However, with the Coppock Guide at its lowest (most extreme) level in 70 years, we now want to add this observation: *Some of the <u>best</u> (most important) buying opportunities have appeared when this Coppock Guide bottomed at a negative extreme below -20, including 1921, 1932, 1970, 1974, and 2003.*

We may not be there yet, but the market is again approaching one of those extreme buying opportunities.

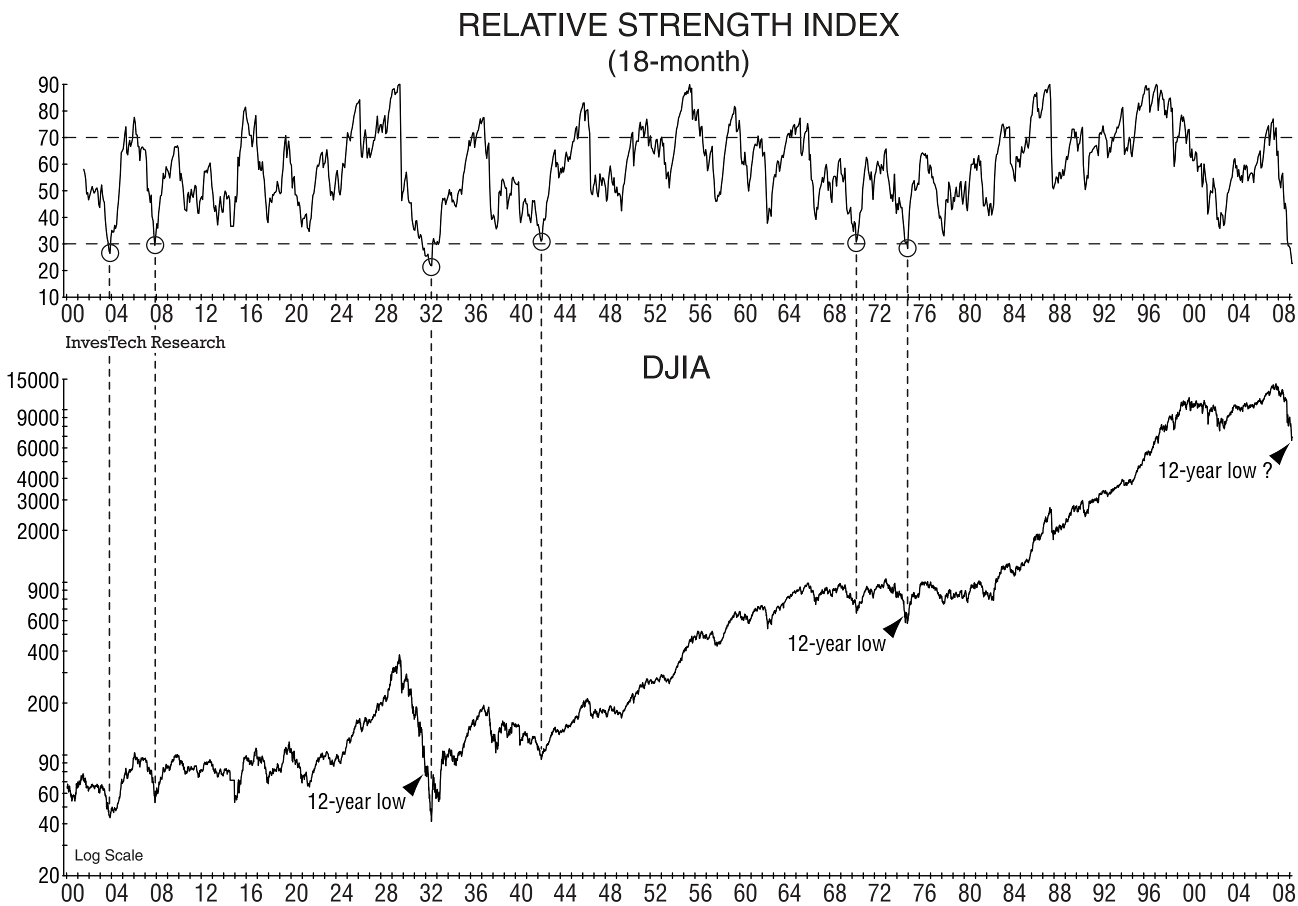


RELATIVE STRENGTH INDEX (RSI):

One of the technical gauges of oversold (or overbought) extremes in the stock market is the Relative Strength Index (RSI), developed by Welles Wilder. A long-term (18-month) version of this RSI has proven a valuable tool in helping to identify potential market bottoms –*or the best buying opportunities for investors.*

Basically, the Relative Strength Index compares the cumulative upward price changes over a defined period relative to the cumulative downward price changes.

Here, once again, extremes in oversold conditions on Wall Street inevitably create the best buying opportunities. *And the most oversold conditions can sometimes create a buying opportunity of a lifetime – at market levels that are never seen again!*



In the chart above, 1974 and 1932 were two such lifetime buying opportunities. Yet fears prevented investors from seeing them as such at the time. Other similar profit opportunities that typically lasted for at least several years occurred when the RSI bottomed at -30 or below in 1903, 1907, 1942, and 1970.

Could this painful bear market soon lead to one of those rare buying opportunities of a lifetime? When one considers that this is only the third time in the past century that the DJIA or S&P 500 Index have hit a 12-year low –*with the others in 1932 and 1974 at price levels never seen again*– it just might be…

MARKET OUTLOOK: *"Could be, but no guarantees…"*

Could last Monday's low have been the bear market bottom? From a technical standpoint, we won't be able to answer that until at least several weeks down the road. And even then, we'll maintain a healthy degree of skepticism, and remain slow in leaving our defensive position too far behind. *[Once burned, twice shy.]* ☺

Yet Tuesday's rally off that low was strong*… **extraordinarily strong!*** By the end of the day, over 12 stocks had advanced for every 1 that had closed lower. And the volume flowing into those advancing stocks outpaced volume into the decliners by an amazing 27:1 ratio.

How many total rally days have occurred in the past 50 years with similar Advance/Decline and volume ratios? Answer: Zip! None! Nada! *Not one trading day on Wall Street in the past 50 years has seen that kind of lopsided buying pressure!*

While the following analysis from our *Interim Bulletin* is, perhaps, a bit technical, we considered it important enough to include in this full issue…

***InvesTech Interim Bulletin* – February 27, 2009**

ARE WE SEEING BEAR MARKET CAPITULATION?

True "capitulation" is believed by many to mark the end of a bear market. By definition, capitulation occurs when investors ultimately decide to abandon the stock market in lieu of safer alternatives. It is often accompanied by panic selling and steep declines on high volume.

In that December 20, 2002 issue, we noted that capitulation was clearly underway as measured by TRIN – the amount of volume flowing into declining stocks on big down days. The same degree of capitulation seems to be underway today…

TRIN, which stands for <u>TR</u>aders <u>IN</u>dex, was developed by Richard Arms in 1967 and is calculated as follows:

$$\text{TRIN} = \frac{\text{(advancing issues / declining issues)}}{\text{(volume of advancing issues / volume of declining issues)}}$$

High TRIN readings above 2.0 basically mean that disproportionately high volume is flowing into declining stocks (versus advancing stocks). As an example, if declining issues outnumber advancing issues by 2:1, then the volume in those declining stocks must outpace volume in advancing stocks by over 4:1 in order to register a TRIN > 2.0. Many days of high TRIN readings are often an indicator of investor capitulation that comes near the end of a bear market.

Over the past 6 months, there have been 21 days of TRIN > 2.0. That is the second highest number in the past 50 years, surpassed only by 26 days of TRIN > 2.0 surrounding the October 2002 bear market bottom (which we discussed above). To reveal how unusual and extreme that is, the next highest number was 14 days in 1987 – following the '87 Crash.

Since this volume data first became available in the 1950s, there have been fewer than a half dozen 6-month periods which saw 12 or more days of TRIN > 2.0. Here are their respective peak readings:

Date	Max Days	Next Bull Market
07/29/57 - 01/28/58	13	Bull Market born on October 23, 1957
04/26/62 - 10/25/62	13	Bull Market born on June 27, 1962
05/18/66 - 11/17/66	12	Bull Market born on October 8, 1966
07/21/87 - 01/20/88	14	Bull Market born on December 4, 1987
04/03/02 - 10/02/02	26	Bull Market born on October 9, 2002
08/11/08 - 02/10/09	**21**	**???**

We should also mention that January saw a record 6 days of TRIN > 2.0 readings – more than any previous calendar month in 58 years. ***So does this mean the final bottom of this bear market is near, or already in place?***

Our answer from that December 20, 2002 issue is the same today:

> *"So does this mean the final bottom of this bear market is near, or already in place? Perhaps not, if we're in the midst of a deflationary debacle like 1929-32. But on the other hand, this clearly reveals that a lot of bear market capitulation has been going on. It also tells us that if we start seeing confirming evidence of a market bottom, we should treat it as a profit opportunity… because it just may be the <u>real</u> bottom."*

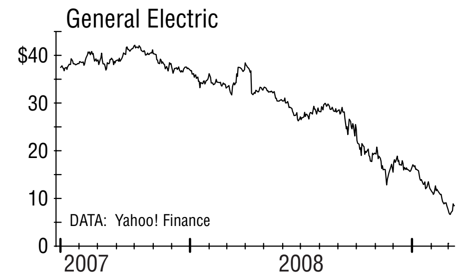
PERSONAL PERSPECTIVE

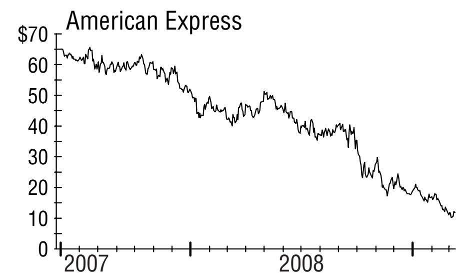
Patience... Patience... and more Patience...

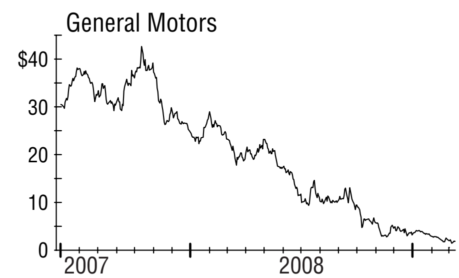
In a major bear market *(and we mean the kind of bear market we haven't seen since 1973-74)*, there is simply no place to hide. For the most part, the only defense is cash. And right now, we're thankful that our pre-bear defenses have averaged over a 40% cash-equivalent position since the start of this bear market 17 months ago.

For a surprising number of stocks, including many once-respected blue chips, this has already turned into a 1929 bear market. General Electric has lost -82%. American Express has also tumbled -83%. And General Motors has plummeted -95%, as its survivability has been called into question.

Even one of our conservative portfolio holdings has been decimated by the indiscriminate selling and credit market fears. Aflac was off -69% at the bear market lows on Monday. It has rallied 30% in the three days since, but still has a long way to go before recouping the bear market losses. But that's okay. We firmly believe the financial strength of Aflac will win out. And it remains one of the most respected insurance companies in the world:







Aflac Tops Fortune's List of Most Admired Companies in Life and Health Insurance Category

***Aflac Inc. Press Release** – 3/3/09*

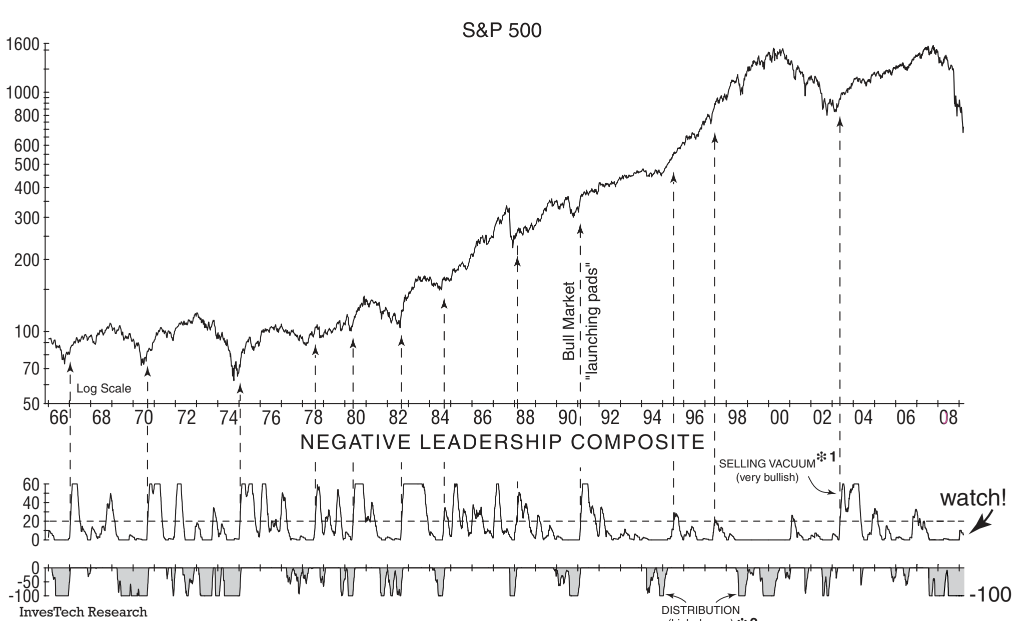
Aflac lands on list of 100 Best Corporate Citizens

***ledgerenquirer.com** – 3/12/09*

Encouraging Signs...

Inside this issue, we present convincing evidence that Wall Street is heading toward one of the best buying opportunities in decades. It might be a buying opportunity at prices that we won't see again in our lifetime. And, in fact, it might already be here.

But hold your horses! While we were encouraged (or amazed) by the breadth and volume ratios in Tuesday's advance (see top of page 5), that does not guarantee the bear market low is in place. In the coming weeks, we need to see a bullish "SELLING VACUUM" return to our Negative Leadership Composite. *And this time, we need to see stronger, more sustainable readings than during the fake-out rally in January.*



✻1 SELLING VACUUM [-BULLISH-]: This confirms the absence of negative or downside leadership. It is normally a very bullish signal since a stock market without any downside leadership is destined to move much higher.

✻2 DISTRIBUTION [-BEARISH-]: This signals that investors are anxious to sell stocks regardless of whether their position is at a loss, or the stock market is tumbling to new lows. It carries bearish implications as it suggests investors will use any rallies to get out of the market.

(Continued on page 8...)

(Continued from page 7...)

Scary Times Too...

The negative headlines are not over. Even if the stock market has bottomed (emphasize on *if*), the economy won't likely bottom and the recession won't end for another three to six months. At least that is the general lead time from the stock market bottom to the end of recession in 5 of the past 6 recessions:

Bear Markets versus Recessions
– Ending Date Lead/Lag –

Bear Market End Date[*1]	Recession End Date[*2]	# Months Lead/Lag
05/26/1970	11/15/1970	6 mo. lead
10/03/1974	03/15/1975	5 mo. lead
03/27/1980	07/15/1980	4 mo. lead[*3]
08/12/1982	11/15/1982	3 mo. lead
10/11/1990	03/15/1991	5 mo. lead
10/09/2002	11/15/2001	11 mo. lag

InvesTech Research

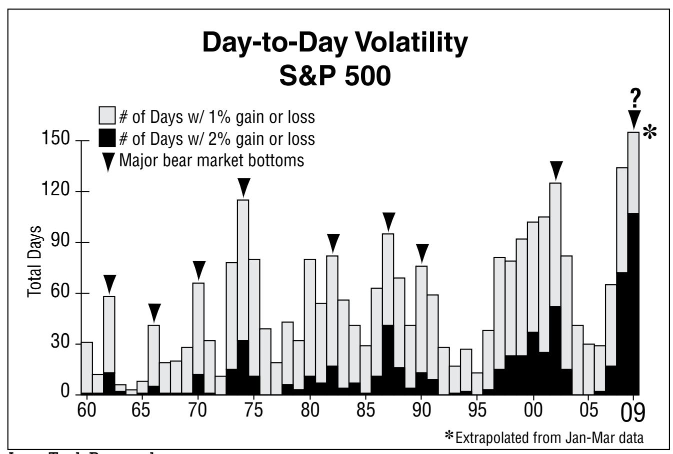
*1 S&P 500 Index
*2 National Bureau of Economic Research
*3 1980 did not qualify as a -20% bear market except in the NASDAQ.

And as for unemployment? It could keep rising through the end of the year. Yes, it is that lagging *(Why do you think the Conference Board includes it in their Composite Index of Lagging Economic Indicators?)*. In past recessions, the unemployment rate has peaked over a year past the end of recession, and it could certainly do it again in this one.

Volatility...

Volatility, too, will likely remain at scary levels. We're updating one graphic on day-to-day volatility in this issue because it has moved to a new high. Measured as either the number of 1% daily moves, or the number of 2% daily moves, volatility in the S&P 500 Index (shown here) is now running at the highest level in over 70 years. ⟶

However, as we pointed out at the end of last year, this is not necessarily bad news. In fact, it could prove outright bullish since past bear market bottoms▼have always been accompanied by high volatility.



InvesTech Research

In the End, Sanity Will Prevail...

Things seem pretty insane right now. Investors are acting like lemmings – fearful of falling off the cliff, but certainly not willing or able to sit still and wait or watch what develops. And yet, we believe that is the most prudent strategy at this time. Our portfolio remains defensively positioned with over a 40% cash position, and our stock holdings are among the best that we could choose to take advantage of a new bull market once we have evidence the bear market lows are in place.

Now we just need to make sure that we maintain the necessary patience to allow that *"once in a lifetime buying opportunity"* to develop...

James B Stack

Editor James Stack will be the featured Guest Market Monitor on PBS' *Nightly Business Report*, with Paul Kangas, on Friday, March 27. Check local listings for broadcast times in your area.