



Exceptional Bear Market Letter

1-24-08

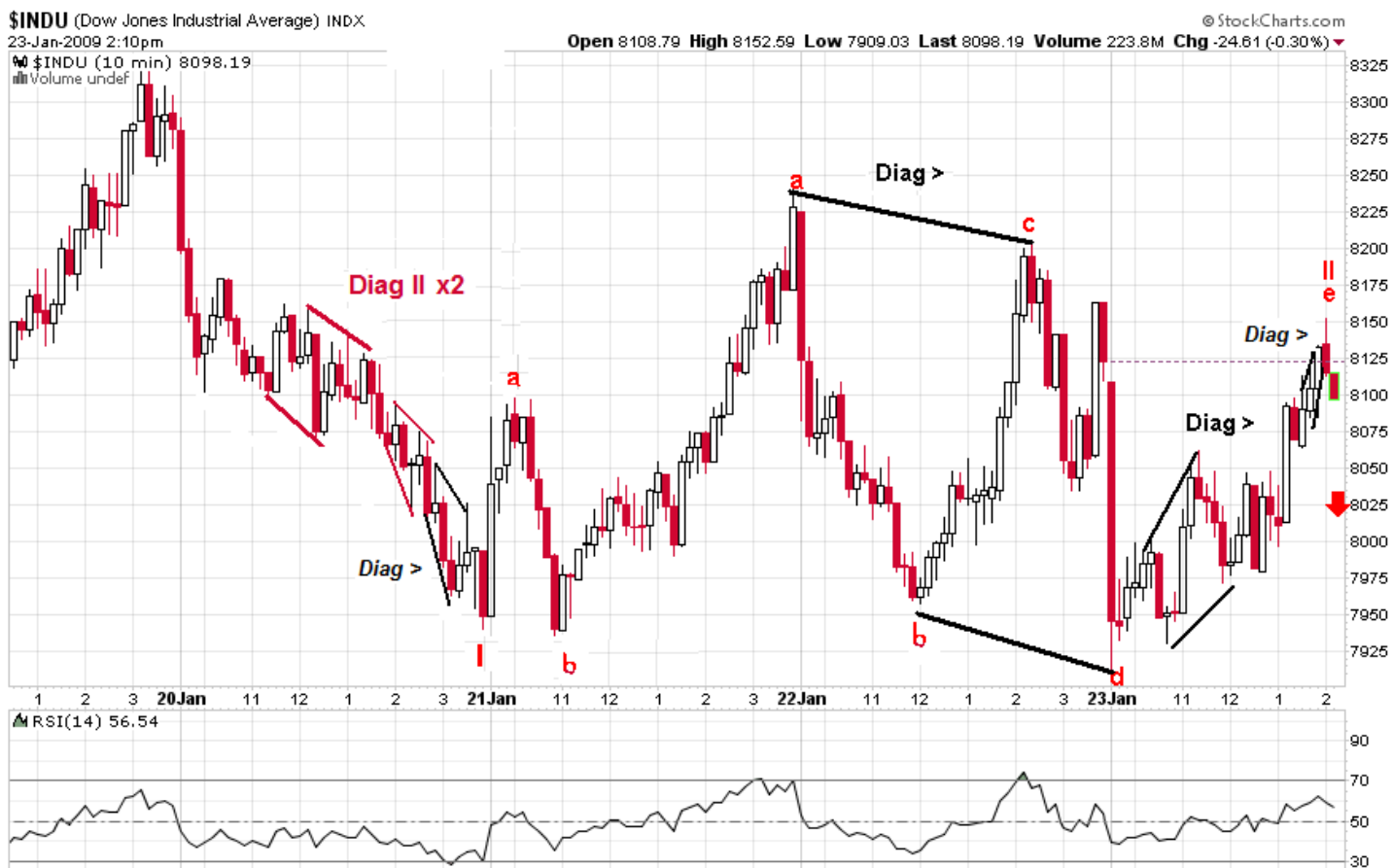
Free Fall

We're about 1/3 of the way down in the final plunge of the transition phase, required to set the stage for a dramatic upside reversal. As in the two panics last year, "support", widely held as the low, will likely be breached, setting off an avalanche of stops. At this point professional money managers stampede for the exits, at the worst possible moment. After such a blunder, it's likely they will lose self-confidence, then miss much of the first big move to the upside, for fear of being viewed as wishy-washy.

This is just one of the ways that *Bear Markets turn the rules of inverting up-side-down*. In this plunge, it would appear that blue chip, institutional investors will finally throw in the towel. Of all asset classes the Dow, will likely receive the worst drubbing, followed by Financials and Real Estate. So unless you have a tolerance for risk verging on masochism, *sell your longs now!* Buy inverse funds to make the most of it.

In the **Dow** two *Diag II* which begin a long move down in *wave I*, are interrupted by *wave II* composed of a *Diag > wave II* with a second *Diag >* in the final Spike. These compound the downside of the next move *wave III*. As you see *wave I* was roughly 400 Dow points long, so the most likely length for *wave III* is $1.618(400) = 647$. Measuring from the top of *wave II* we get ~7495. From there we still have *waves IV* and *V* to go. If there is a panic, the longest wave should be **V**. In this plunge it would appear that the institutions will lose faith and bail out at worst possible moment. That's precisely what's required for a reversal of the magnitude we're expecting. This sets the stage for a dramatic upside reversal *to kick off the Mother of all Rallies!*

Continued....



In **Financials** have dropped quite a long way since January 7th, 75 points on the index or about 33%! Multiplying by the Fibonacci multiple (1.618) gives us a target of approximately 50 on this index.



The darkest night is just before the Dawn, the plunge ahead is required for the explosive rally ahead. *We are 100% in leveraged inverse funds.* This week's subscriber market letter contains eleven charts, including our current positions and the Dollar. Those of you still holding out are *penny-wise and thousands of dollars foolish*, why not take us up on a 30-day risk-free trial?

Regards,
Eduardo Mirahyes



“Opportunistically timed investments that maximize wealth”