# Exceptional Bear Market Letter™

Market Letter *text* Nov 30, 2013

## Bubbles burst when Bears jump to the Bull camp

Bubbles burst once the majority of bears *throw in the towel* & previously side-lined investors get fully margined. When all the cash is invested, there's no longer sufficient buying to support prices, and they collapse.

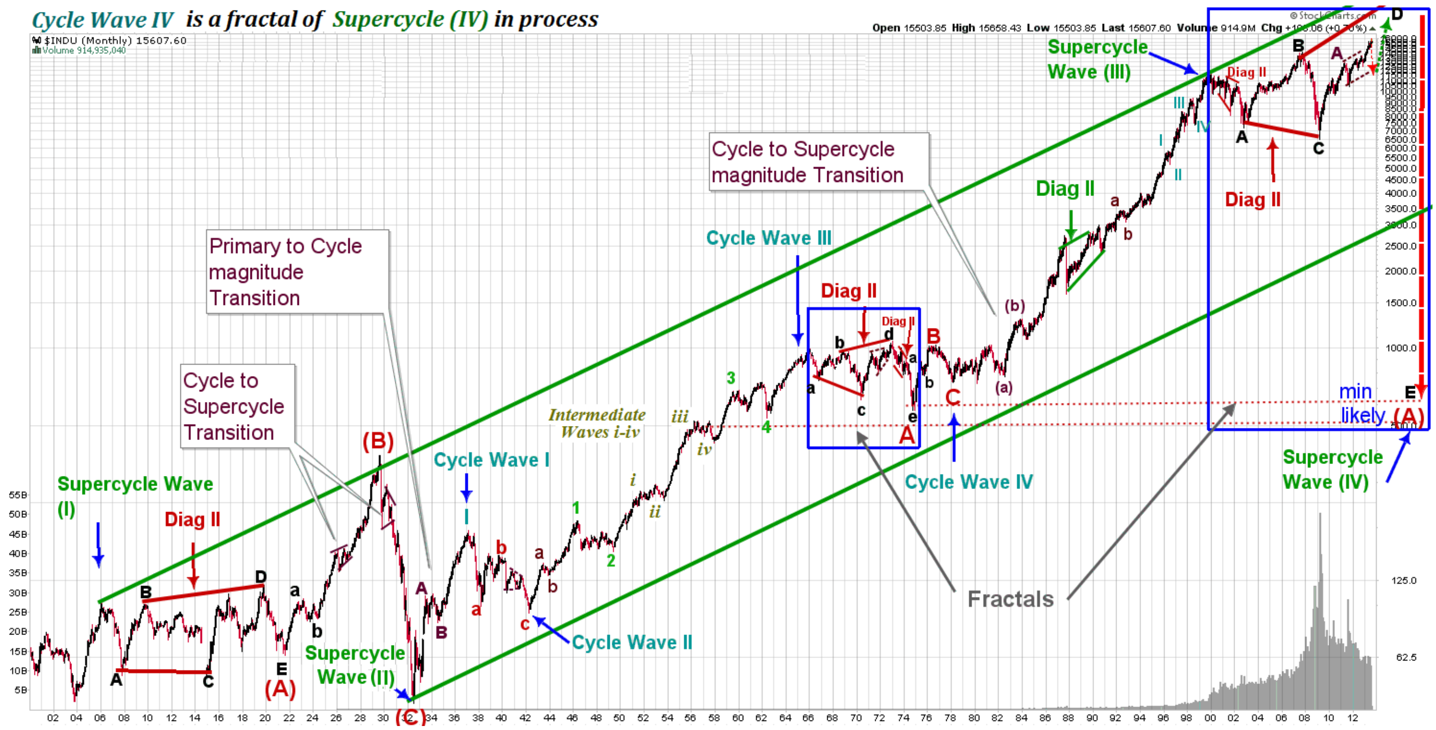
## Bulls charge; Bears *devour capital*

Given this Market Peak is occurring at the end of an economic Cycle, synchronized with historically-high profit margins, a reiteration of the last 12 month's performance is totally out of the question. Although serial margin peaks & over-valuations are known to recur in Bull Markets, *the* ***Supercycle Bull Market*** *ended in 2000*. Since then, the ***Supercycle Bear Market*** has manifested as a series of false, *3-wave rallies*, along with *5-wave impulse plunges* to indicate the larger trend remains *Bearish* for likely another 13 years.

Bulls charge; Bears devour. Once profit margins top, they collapse into economic contractions and capital losses for investors. The pendulum-swing from extreme overvaluation never stops at fair value, instead it continues into the opposite of extreme under-valuation.

## Fundamentals contradict the current overvaluations

It was multiple expansion, rather than a rise in earnings, which accounts for this Market Bubble. Historically, during the past four decades, multiple expansion continued beyond the current extreme only three times, with recurring, serial over-valuations for a total of two to three consecutive years in 1985, 1990 and 1995. Just one look at the long-term chart below however, shows that these *exceptions all occurred during the great Supercycle Bull Market*. They are highly unlikely to be repeated in Bear Territory.

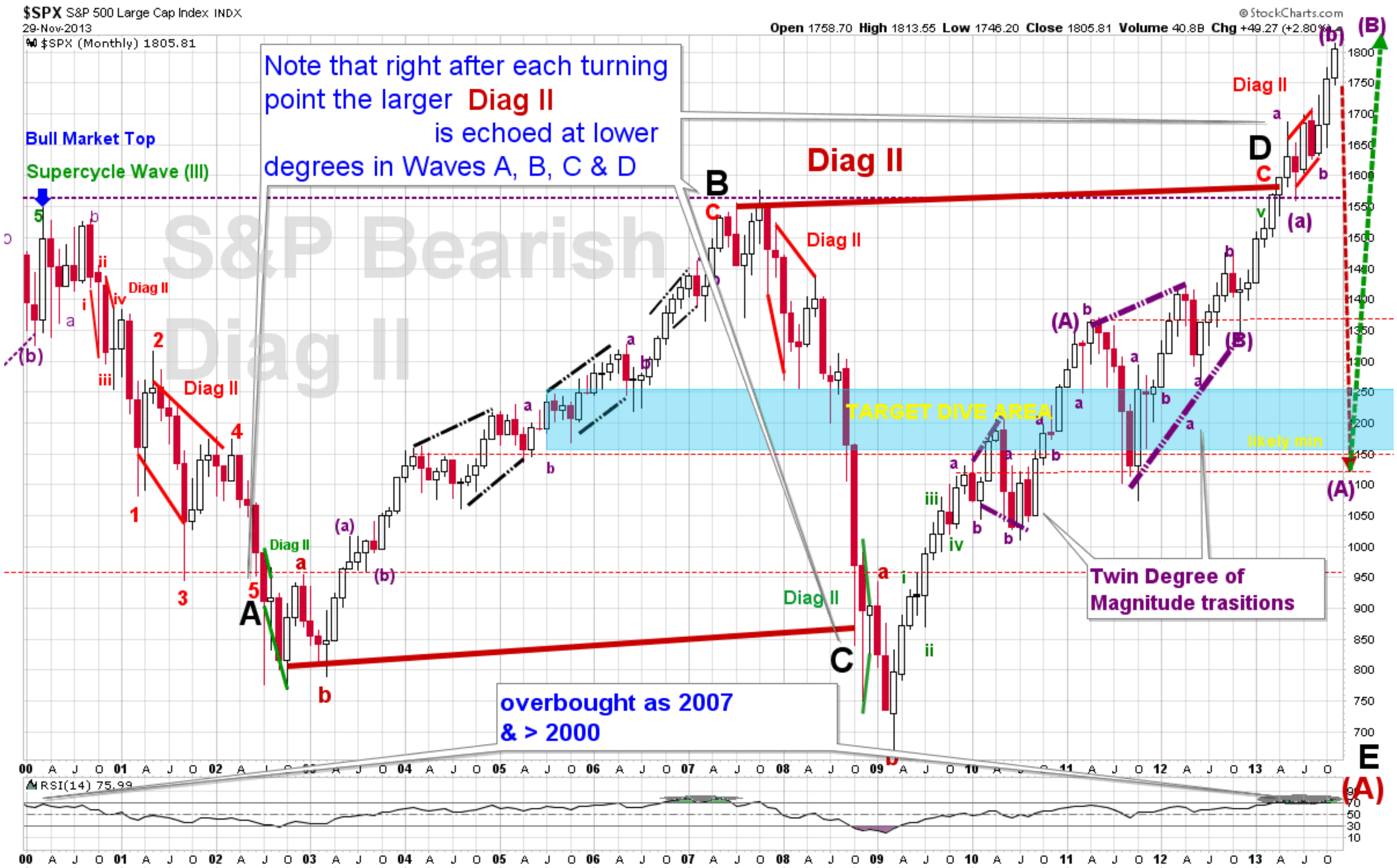



## Individual Investors: the best ***contrary indicators***

For good reason, corporate insiders have been bailing out for much of the last nine months. Just recently their convictions have confirmed by the pinpoint accuracy the best ***contrary indicator*** characteristic *Retail Bullishness* at Major Market Tops. Capital flows into equity mutual funds this year are on target to ***equal or exceed the cumulative inflows of the past four years!*** As we know, retail investors are the most accurate ***contrary indicators*** at both market tops & bottoms. Typically odd-lotters buy tops, and sell bottoms. While Bubbles, rather than merely disinflating, always ***burst.***

Persistent bond-fund *outflows* confirm the *rotation out of bonds* & into the risk trade, at precisely when investors should be *risk-averse.*

As you see in the magnified structure of ***Supercycle (IV)*** below, the (A)-wave, which completes with wave E of the A-B-C-D-E *Diag II*, should be the *longest of* (A)-(B)-(C), to alternate with ***Supercycle (II)*** wave (A), which was the shortest ending in 1922. Meanwhile, the (B)-wave no longer needs to make the initial degree of trend morphing will be a far shorter Rally, since the initial magnitude gearing-up has *already occurred,* between 2010 & 2013, leading up to Wave **D** of the *Diag II*. The Final Wave (C) should be as short as the (A) wave ended in 1921. See the long-term chart for these comparisons.

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