Exceptional Bear Market Letter™

Warning! *Massive Market Crash looming*

December 29, 2014

We are just weeks away from a massive Market Crash, far more severe than any other in modern times. Although I came to this conclusion independently, several reputable experts concur with my conclusions from completely diverse angles. In my experience, anytime the identical conclusion is arrived at autonomously via technical, fundamental & historical perspectives, there's is an extremely high probability that it's right on the mark. Contrary to pedestrian wisdom, which would lead you to mistrust your own rational thinking, & defer such investment decisions to market experts, the *"long"* crowd is all wrong.

As 2013 Nobel Laureate, Robert Shiller states in *Irrational Exuberance*, *"otherwise rational investors are led astray by perceiving that the level of stock market prices is the outcome of some sort of "vote" by all investors about the true value of the market"* – *this is a grave error.* What's more, it's a common fallacy to believe that *"so many bullish investors can't be wrong",* and to therefore to mistrust our own senses as being somehow unreliable. Realize that for a Crash to occur*, the majority of investors must be wrong.* Rather than allow yourself to be swayed by their delusional judgments, grounded in *"set thinking",* let go of the fear of being perceived as different or foolish. It's about time you begin to think for yourself, *you certainly don't need anyone's approval!* Rather than imprudently trusting *perceived* authority, use your head!

If you have read this far, you must begin to doubt the validity of the crowd's irrational herding. *The wisest thing you can possibly do when in doubt, is to get out*. Sell your entire portfolio, including T-bonds. After 18 years of the Fed flooding the market with liquidity, the dollar has been debased & the *risk-free rate* is in grave peril. *In vain attempts to inflate the economy out of recession, the Fed abandoned* the *dollar* – T-Bonds, like gold and oil, are all priced in $US dollars. On a purchasing power-parity basis, gold & oil will surge, with capital flight out of the US, dollar-denominated bonds will plunge *doubly hard*.

"We are in a gigantic financial asset bubble," warns Hong Kong-based Swiss fund manager, Marc Faber. *"It could burst any day."*

The Risk/Reward Ratio indicates disproportionate danger of major losses, versus a trifling upside. Billion-dollar investing legend, Warren Buffett's *market value metric* the *"Total Market Cap to GDP Ratio Indicator",* is breaching high, risk-alert status, to warn of the threat from a bursting bubble could come about very soon. From an *overvaluation perspective*, Buffett's reasoning is very similar to Nobel Laureate, Robert Shiller's. This rationale simply states that *overvalued assets are mean-reverting via extreme undervaluation. In other words, the current risk/reward ratio indicates negligible upside potential, while the risk of catastrophic losses looms large, and in no way justifies the danger of remaining invested.*

By the way, don't think that you will be somehow able to *"see it coming"* with sufficient warning to get out in time. If that's your intention, *when would now be a good time?* The reality is that once the crash begins, there will be *NO EXIT,* or entry. To survive a burning theater you must have the *good sense* to discreetly *walk out "to visit the restroom"* at the first whiff of smoke, as the majority of corporate insiders have already done. Once the alarm is sounded, the primitive herd takes the attitude of *every man for himself*, to result in many more casualties from being *trampled,* than from burning or smoke inhalation. *Get out while you still can!*

So with an inevitable crash looming, what are Main Street investors to do? One option is to sell all your stocks and deposit the proceeds in a FDIC-insured savings account. Just

that much wins half the battle, however it's analogous to an ostrich burying its head in the sand. *There's no profit in denial.*

Most investors will initially intend on ride-out the crash, *in "hopes" that the market will bounce back quickly*, as in 2003, 2009 & 1987. However other than a temporary bounce as in 1930-1931, that's highly unlikely. Realize that from a larger perspective, these previous "crashes" have been discreetly gearing-up magnitude, while the crash ahead will closely resemble the market's trajectory from 1929 to 1932, when *stocks lost over 90% of their value.*

According to Eduardo Mirahyes, founder of *Exceptional Bear***,** there is a far better option. First of all, this is a *Bear Market Crash,* not to be confused with the 1987 correction within the most *bullish* of all price patterns, to confirm the long Bull Market ahead. In 2000, the Market reversed to *Bearish* and has been discreetly augmenting magnitude with each Bear Market Rally, *Irregular top,* in 2007 & 2014. The 2000 & 2007 peaks were followed by a *free-falling* market. At present, the Market is once more reversing*.* With each repetition magnitude augments & *the stakes get a lot higher,* so that the imminent crash and follow-through will manifest at least *4x* the magnitude of the 2008-2009 financial crisis.

In a Bear Market, volatility augments proportionally with magnitude. In a *super-sized* Bear Market, only fools hold for the long-term. Besides, the long-term could outlive you. As John Maynard Keynes famously stated, *"in the long run we are all dead".* As in the wake of the Great Depression, that familiar *"hold for the long-term"* mantra will likely stretch-out to at least *25 years*, far beyond your expectations. Those who held onto a portfolio of stocks in 1929 that included no bankruptcies *(highly unlikely),* and did not withdraw funds in the interim, required until *1945 just to get even!* Don't be so gullible!

Meanwhile, those who opportunistically *sold short*, like investment legends Jesse Livermore & Bernard Baruch, made fortunes as nearly everyone else lost their shirts. These winners also had the cash to scoop up the bargains at the trough, when stocks sold for less than ten cents on the dollar. That's when the long-term, "*Buy & Hold*" makes allot of sense, *not now!*

In the *Deflationary Depression,* which accompanies the Bear Market, the dollar's purchasing power will eventually appreciate tremendously. When conventional wisdom has you fearing loss of purchasing power from inflation, *deflation* is *the real threat*. Rather than too many dollars chasing too few goods, a credit crunch results from the crash, so that the Money Supply shrinks dramatically. When the Market Crashes, trillions of dollars vanish in the wink of an eye. As households and companies scramble to raise cash to meet everyday operating expenses, everything goes on the auction block at bargain prices. As the result of sellers overwhelming buyers, prices of all goods rapidly spiral downwards.

All of a sudden, your salvaged dollars buy much more. If you just managed to keep what you have, *your wealth relative to others* will *increase dramatically*. Rather than being forced to down-size your living standards, like everyone else, your *relative* standard of living will radically improve.

As most often occurs in the Market, the dollar's international purchasing power will initially take a big hit of 17-20%, but from that trough the Dollar will most likely rise at least 40%. The dollar's purchasing power is measured by the *dollar index,* which represents a basket of currencies corresponding with the US's primary trading partners. To preserve purchasing power, we currently hold cash in €*uros* and an *inverse dollar ETFs*. Once the dollar bottoms, we will reverse to benefit from the dollar's rapid ascent.

"At Exceptional Bear we specialize in earning optimal returns in Bear Markets through Strategic Asset Allocation, Market Timing & Swing Trading, employing the Elliott Wave Principle". This is not Robert Prechter's Elliott Wave, but rather New-Wave Elliott™, a highly advanced and refined version of the Wave Principle, personally developed by our founder over 24 years, after successful completion of the Elliott Wave Advanced Tutorial in 1990. As a result, our portfolios are both Recession-proof and Depression-proof.

Our tool armantarium includes Eduardo Mirahyes's high aptitude for pattern recognition, backed by 24 years of hands-on Elliott experience, in addition to eight years of prior training in the fundamental *"value approach"* on Wall Street. Based on *New-Wave*

Elliott™*,* we have chosen the optimal asset allocation, consisting of those *Inverse* Exchange-Traded Funds with the highest profit potential to the 2009 trough – a fraction of the market's minimum dive. *Inverse ETFs are synthetic short-sales of an entire asset class*, neatly packaged into a single stock, traded on the NY Stock Exchange. When the underlying long stocks go into free-fall, inverse ETFs appreciate *at least* dollar for dollar. Other benefits include: *high liquidity, narrow bid/ask spreads* and *low expense ratios.* What's more, our inverse finds all have *reciprocal long funds*, to which we can reverse, when the Fed inevitably steps in with its big guns as in 1987 & 2009.

Inverse ETFs

- the only vehicles which allow tax-deferred accounts to profit from the free-fall

Previously your only defense against a market collapse in tax-deferred, Pension accounts was to hold cash or T-Bills to ride out the storm. Short sales require a margin account, and since tax-deferred accounts are prohibited by law from having margin accounts, inverse ETFs are a Godsend in a precipitous decline.

Instead of allowing your savings vanish into thin air, you can follow in the footsteps of Jesse Livermore, who had an estimated net-worth $100m at the 1932 Bear Market trough. In 2014 dollars, that's the equivalent of several $Billion. Eventually all stocks will succumb to the Bear Market collapse. However *inverse ETFs appreciate by the same amount as the underlying stocks lose value.*

How is this possible you say? Well, the Inverse ETFs we utilize have built-in leverage, allowing you to choose your level of volatility, from none at all, to as much as 3:1. You simply create what's known as a *synthetic ETF*, by setting aside enough cash to back-out some, or all the leverage. Once done, you consider the funds actually invested, *plus the cash set aside,* as a *single unit* for both return and volatility. Assuming you were to initially back-out all the leverage, you would actively invest only 1/3 of your liquid assets utilizing *Exceptional Bear's* market-timing signals, while leaving the rest in cash. Should you wish to add 50% leverage, so that your profit $1.50 from each dollar of Market decline, you simply invest half, and set aside half, as described above. The ETFs are the same, only the offsetting cash balances vary.

"Inverse ETFs are guaranteed to appreciate at least dollar for dollar with the Market drop over the next few months," Mirahyes explains. "The first thing you need to do is get out of all "long" US Dollar-denominated stocks & bonds". Once safely in cash, *(rather than money market funds which are likely to "break the buck"),* you can consider your options carefully.

How can Mirahyes be so sure? In the 2008-2009 Market Collapse, when stocks dropped nearly 40%, investors who followed *Exceptional Bear's* trading signals earned over 240%, without any leverage as verified by Timertrac. *Those with 2x leverage reaped profits in excess of 360%, trouncing hedge fund manager John Paulson's 2008 record by 20%.*

Of course, twice the leverage also means *twice the volatility.* So if you are not a seasoned investor, familiar with volatility magnified by leverage, you need to learn how to walk before you can run. Start by backing-out at least half the leverage.

Due to market turbulence inherent to Bear Markets, market timing is best left to a professional. But *not any professional, only one with a record of excellence in Bear Markets.* Very few of today's investment professionals lived through the 1987 crash. I am nearly 60 years old, so *anyone younger has never experienced a real Crash.* It's not something you can quickly assimilate either. The learning curve is steep and the market extracts a high tuition. *Our subscription fees are infinitely more reasonable.*

Eduardo Mirahyes
Exceptional Bear

"Opportunistically timed investments that mazimize wealth"