



Exceptional Bear Market Letter™

Sunday, July 27, 2008

Market to take off like a Rocket...soon!

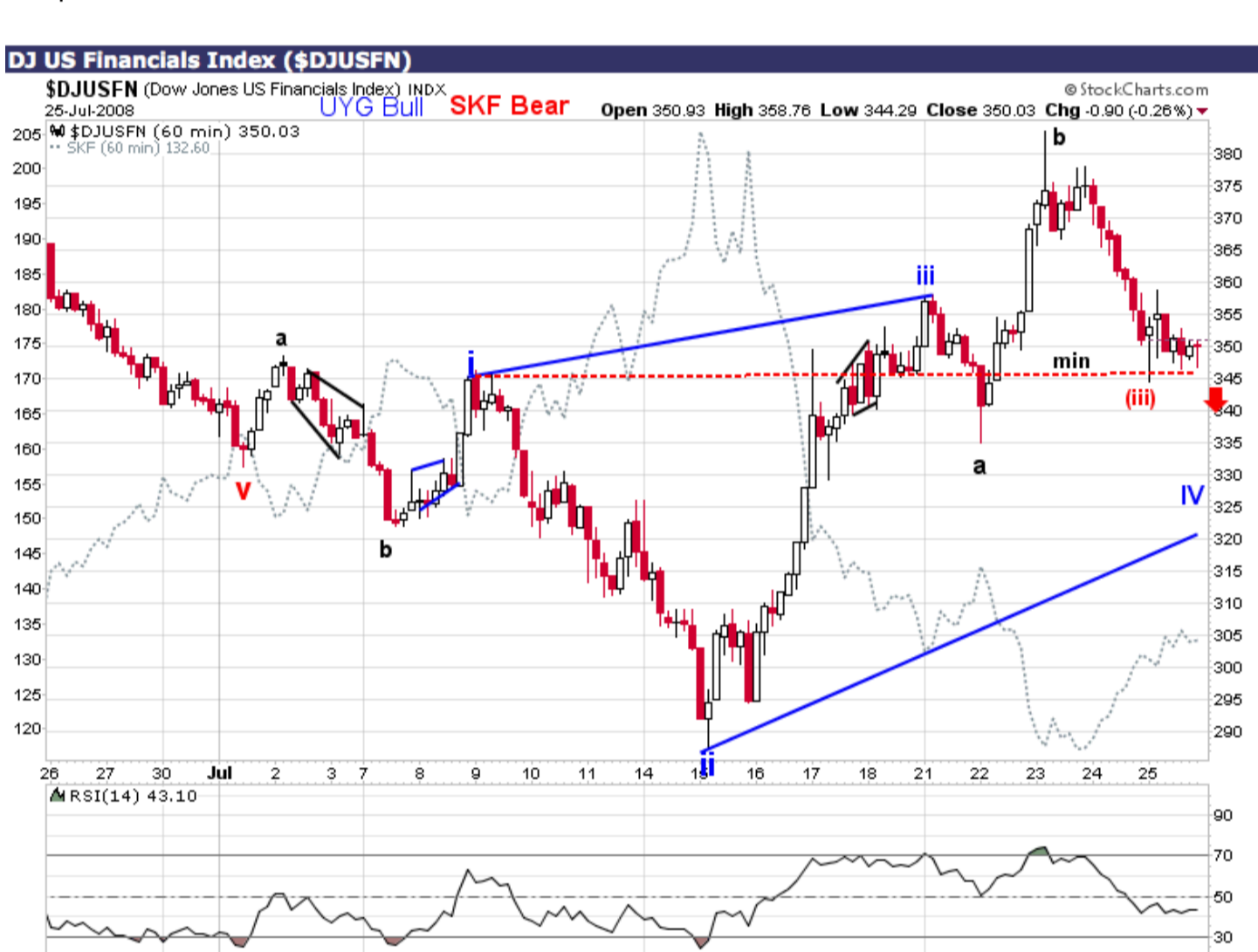
Like a good negotiator, the Market is holding out for a bigger bail out for Fannie and Freddie. Friday's calm coinciding, rather than the effect of lower inflation expectations, stabilizing home sale prices and stronger manufacturing, was a wave 4 (iv) pause on the way down. With the financials still very weak, it appears they need to get to have 4 undervalued before strong buying can come in. We could be dropping to fresh lows. When the bounce in Oil takes effect, it should knock the market quite a bit lower.

We have seen failures in both LEH and WM. A failure occurs when wave 5 fails to exceed the level of wave 3. Failures along with Diagonal Triangles indicate weakness and compound each other in the subsequent move in the opposite direction, down. For that reason we can expect lower lows in Financials. The bill in congress, expected to pass soon, includes \$300 billion in Federal guarantees on refinanced mortgages, a new regulatory structure for Freddie and Fannie, along with granting the Treasury the power to invest in the two government sponsored mortgage companies....The good news behind all this once again are the parallels between the current climate and 1982, which kicked off the Great Bull Market in the second half – Inflation expectations were recently as poor as first half of 1982...once again we can expect the second half's Market to blast off like a rocket, climbing at least until the 3rd Q of 2009....the fact that this is an election year makes it all the more certain....hope and expectations will change drastically to support an exuberant and highly profitable market.

The **Dow** gives a good perspective on most stocks. As you see we are in wave (iv) which will likely move up 100 points or so on Monday-Tuesday, before dropping to the area of at least 11,200, and possibly lower. As of 11:20 on Monday, the Dow had met the minimum downside, although it has likely a bit more to go, it could be bottoming by the close.



SKF is the inverse, leveraged Financials index, which is following the identical pattern as the Dow, although its downside will likely be exaggerated. A small bounce followed by a continuation down to complete **wave IV**.



Homebuilders Index likewise, expect a pop, followed by a downdraft below 16.50.



Oil and Gas index should drop a bit more before the big move up likely to 620 minimum on the index



Best Regards,

Eduardo Mirahyes



"Opportunistically timed investments that maximize wealth"