



March 7, 2008

Lehman sends the Market over a cliff

The key to the market's imminent plunge is concern over Lehman's insolvency. Lehman's first quarterly loss since public, could be several times the \$300-500 million expected. What's more, Lehman has yet to come clean with its bond portfolio, and its credit rating was downgraded, meaning it has to put up an additional \$200 million in collateral. A second investment bank failure now, will most definitely send the market reeling. Since a stock's *price pattern* provides the next best thing to "inside information," a stock that's down 50% in six months with Lehman's pattern, speaks volumes. Here's the classic Elliott 5-wave decline in process, where *wave 3* must drop below \$20, and like Bear Stearns, will not likely recover. Here is a similar analysis of Bear Stearns less than a year ago, from the Exceptional Bear Archives found on the website. [Bear Stearns at \\$12?](#)

In the charts below, letters and numbers in red relate to a *downside count*, while those in blue on refer to a higher degree of trend's *upside counts*.



The Dow - glancing at the Dow Daily chart below you see (a) at the top left, (b) in the middle bottom, (c) in process should rise substantially above the level of (a) to a new, all-time high. In preparation for that long (c) we have been building a formidable launching pad, known as a *Diagonal II (Diag II)*, since January. Although a *Diag II* signals the beginning of a long move, the market must first wring out all but the staunchest of bulls in *wave IV*. As you can see we have just completed *wave 2* of 5 down. *Wave 3* should take us below 11,700, only to correct at 4, before finally collapsing in *wave 5 = IV*. From there the Phoenix can rise from the ashes.... notice there are two smaller *Diag II*'s. *When there are two or more Diagonal Triangles, they compound the force of the next move.* That is why the coming rally should take off like a rocket!



Next the **Financials**. As you see have the identical pattern as the Dow. Given that we are within a stone's throw of the Bear Stearns low labeled *b*, this plunge could be proportionately deeper. Here too there is a *Diag II*, within the larger. However to the top left you see a second *Diag II*, this one pointing down indicates the beginning of a big move *down*, although considerably smaller than the one pointing up, we are in for quite a scare. Here again there will be tremendous profits in financials on the way up, but you would be foolish to hold through the collapse, when short positions would allow you to buy many more shares at the bottom. **SKF**, the inverse financials, is our preferred vehicle. In the chart below SKF's prices are noted on the left margin and its chart is in the dotted gray line. Although the financials have started down irrevocably, the previous all-time high marks the upside limit.

In the chart below, you can see a complete five wave decline within (b) labeled *i - v*, where *wave ii* is a simple correction, *wave iv* is complex correction. In most of these downsides we are at a point analogous to *ii*, or about one-third of the way down.



The **Homebuilders index (XHB)** has a similar pattern as the financials and Dow, but quite a bit ahead in time. While we are on the way to completing *wave IV* of the *Diag II* above, XHB is on the way to completing *wave 2*. Once again there is the Double *Diag II*, forecasting profits beyond belief for longs from the bottom. XHB has also irrevocably started down and so its upside is limited by the previous high.



In the full report to our subscribers, I detail the prospects of all of our recommended positions. Here is a scorecard from Friday. The red bars are short positions, the green ones are inverse longs, *all highly profitable*. As you can see, quite a few of our other positions beat these indices.

	Close	Change	% Change
	7.53	-1.08	-12.54%
	14.64	-1.35	-8.44%
	11.64	-0.99	-7.84%
	17.79	-1.44	-7.49%
	6.14	-0.46	-6.97%
	20.06	-1.16	-5.47%
Homebuilders short (XHB)	18.81	-1.02	-5.14%
	32.29	-1.56	-4.61%
	7.09	-0.22	-3.01%
	67.95	+3.93	+6.14%
	38.78	+2.32	+6.36%
	88.46	+7.02	+8.62%
Financials (SKF)	122.00	+10.60	+9.52%
	76.21	+6.93	+10.00%

If this is *wave i* of the 3rd we can estimate that we are just only about one-third of the way down.

Except for two moribund financials, the charts represented by the short positions and inverse ETF's all contain large and often do quite well, many individual stocks should fare far better as you can see in the chart above. The difference in profitability between your current portfolio and the Exceptional Bear Model above, would likely mean at least double the profit, by comparison, a subscription represents an insignificant cost of doing business.

You will not find this kind of forecasting anywhere else. Even Robert Prechter, who wrote the book on Elliott Wave, has been a "Bear with Blinders", up to now. Only this month he changed his tune to allow for the likelihood of an 18 month rally ahead. Why you ask? Simple, he lacks the aptitude for pattern recognition, as does 99.5% of the population. You will not see a single *Diag II* in his forecast... nor anywhere else that I'm aware of. Of those remaining one-half of 1%, few have sharpened their skills over 17 years, and *none of them* publishes a Market Letter.

So there you have it. You have a map of the big picture, and where we are going. That puts you ahead of 95% of investors. With a little patience, you could have your best year ever in the market. In case you have not noticed, this year the average hedge fund, charging 2% and 20% of the profit, is down. To see my tracked performance, just [click on the Timertrac Medallions](#). You will note that much of that 100% plus was earned since March. Previously I was attempting to limit the number of trades so as to accommodate your Bull Market, "buy and hold habits", *obviously this way is better*.

Of course these returns would likely be far higher, had it not been for the constant hacking, which diverts my energy from making money to maintaining the flow of information and transmitting it to Exceptional Bear Subscribers. The unsavory competitor funding this hacking is obviously running scared, to say the least.

By the way those Lehman options are still a great speculation, provided you stick with deep "in-the-money" puts and limit exposure to 3% of your portfolio.

Best regards,

Eduardo Mirahyes

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