



Exceptional Bear Market Letter

November 23, 2008

Bonds are in the stratosphere and due to plummet; sell bonds this week!

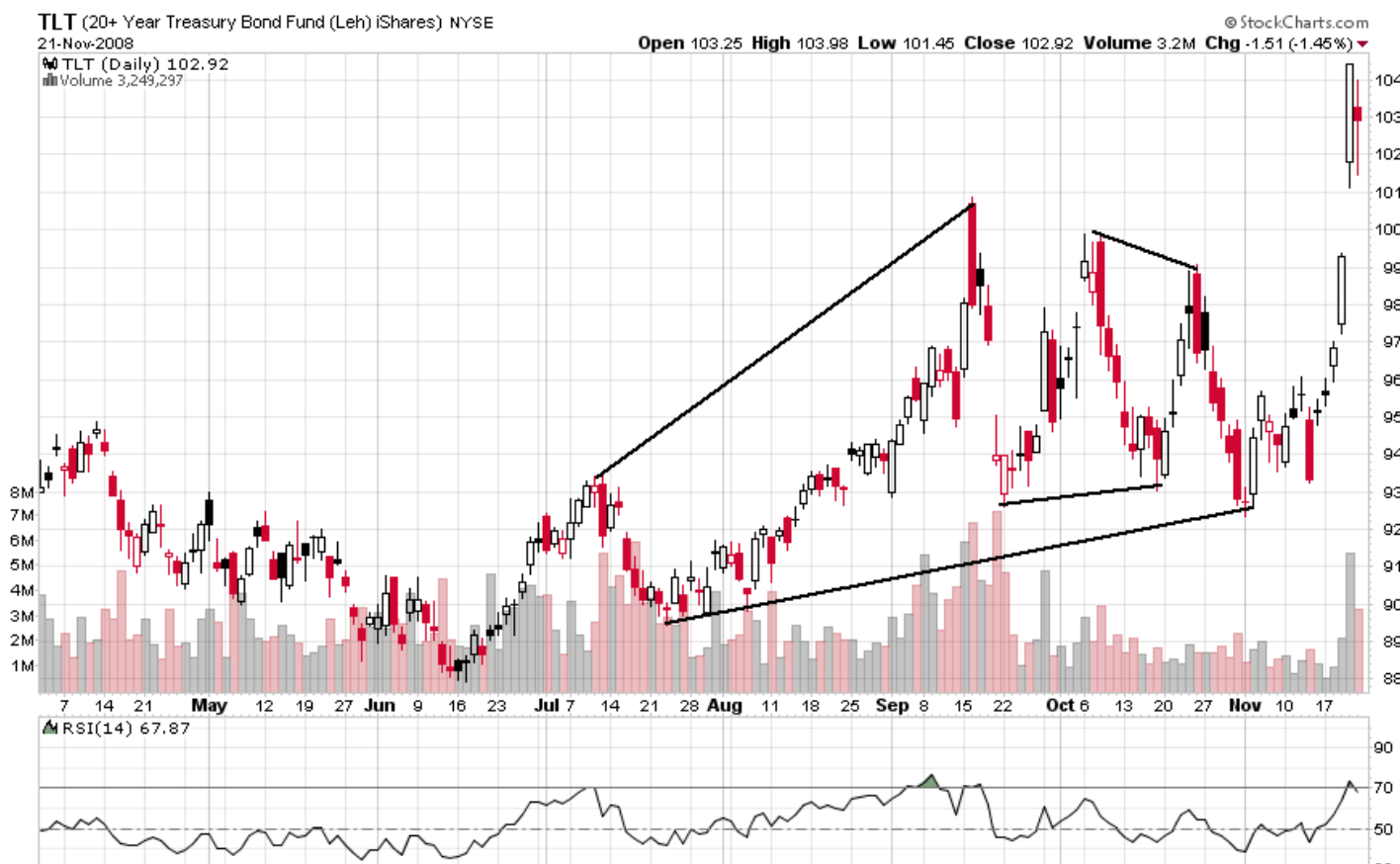
Like gold, Treasuries and high quality corporate debt had a run due to a panic fear of a long-term world-wide recession. Although it's coming, it is still quite a ways away. As usual analysts and economists project the current trend linearly, while the wave principle tells us the world is anything but linear. Although I am not advocating bonds, I know that many of you hold them anyway. Right now bonds are selling near or *over par*. The thousand dollar face-value 20-year bond below is priced at 1030. As the price of the bond goes up, the coupon declines, so these *bonds are priced as if there would be twenty years of recession ahead*. However, when it becomes clear that this stock rally is real, bonds and gold, with their relatively low returns will nosedive, as *growth* stocks become infinitely more attractive. (*not value*, there are very few catalysts to realize hidden value and the liquidity crisis has absconded with the means to do LBOs)

Bonds are even more dangerous than gold. An uptick in economic activity, which a Stock Rally would seem to be anticipating, also indicates a likely uptick in inflation. In effect, if inflation 6-9 months down the line approaches the coupon rate, these bonds become certificates of confiscation. At maturity they are only worth \$1000, so the premium will never be realized in terms of higher real returns net of inflation. These are all intermediate-term scenarios, but in the long run we are all dead. In the meantime, investor emotion and sentiment will tend to extremes creating trading opportunities. The Stock Rally in progress will be market's last fling, culminating in a bubble intended to lure in every last investor near just before we Crash. *All the more reason to get fully invested now, profits of at least 50% are a lay-up*. Our timing will likely pay for more than an entire year of the Exceptional Bear Market Letter on the very first day you enter the market.

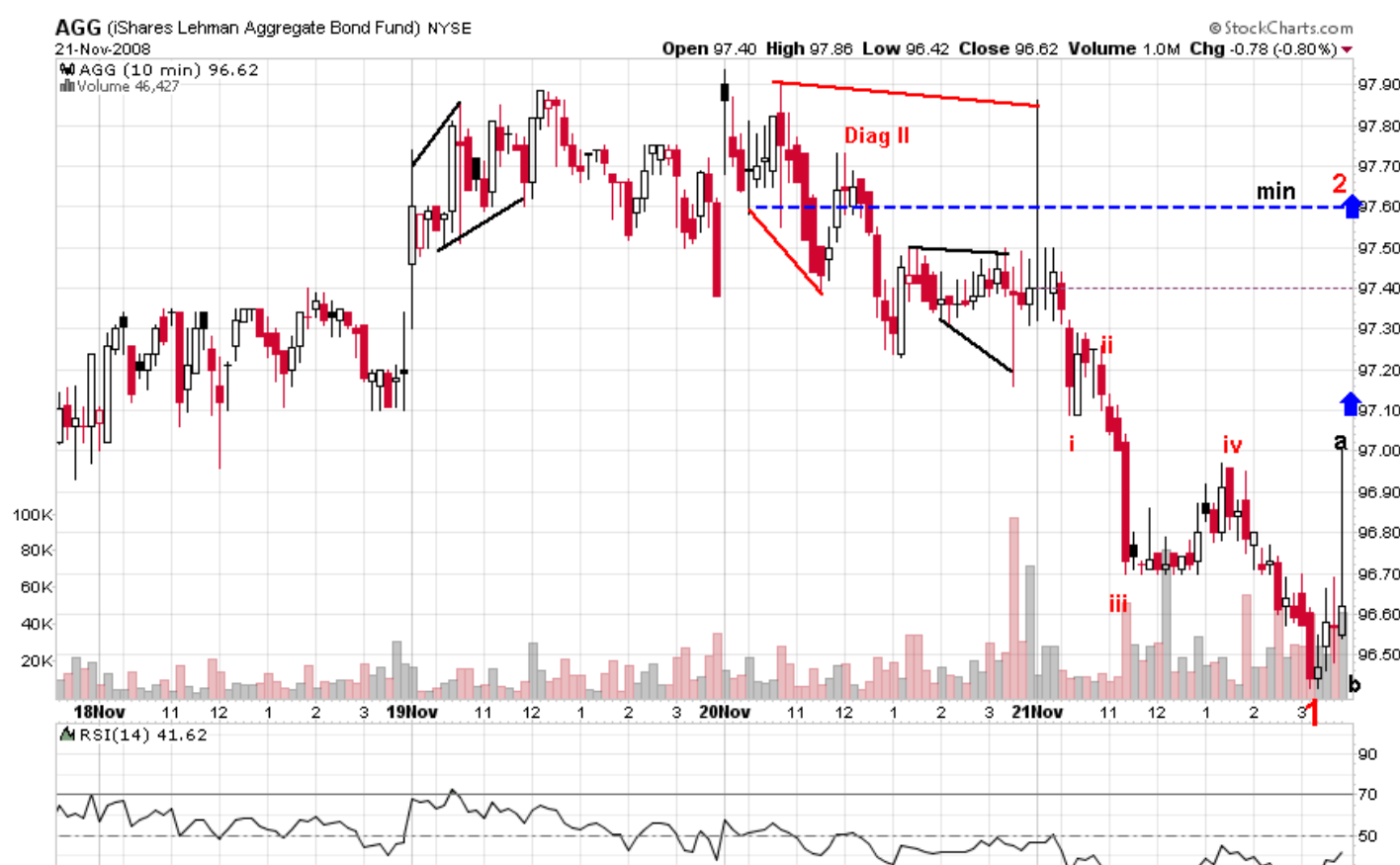
Below is the 20 year Bond. Selling at 103 in *wave iv* of the Spike. (*blue means up; red is corrective*) Early next week and likely on Monday this Bond will peak in the orthodox top along with most stocks, perhaps in the area of 105-106. If you hold any bonds, *you would be wise to sell this week*. After the *orthodox top*, and when investors become euphoric, a subsequent *b wave*, sometimes called an *irregular top* which can climb even higher. If sentiment shifts abruptly, however, then it could simply plummet faster than it has shot up, bypassing a second high. If you scale out: that is sell half by Monday's close, and the other half on Wednesday as it peaks. The average of the two will insure optimal sales price at the lowest risk. These are by no means accurate timing signals, only those sent to subscribers in real-time will maximize profits. Trading on my advice from a dated source is penny-wise and dollar-foolish, like charting a course for a sailboat, adjustments need to be made regularly, in order to stay on course.... so why not subscribe? Once this peaks, the minimum downside is 93, although if it gathers momentum there's not telling how far it could dive.

Elliott count: *Diagonal Triangles* (Diag >) marked by converging or diverging black lines indicate *"dramatic reversal ahead"*, once the Spike from the Diag completes, it swiftly retraces to *at least* where the Diag began, at the first touchpoint ~93.5 in the chart below. When a Spike like this occurs, *the subsequent plunge is at least as fast, a mini crash*.

Those of you who must hold bonds, should either buy convertible bonds funds or ProShares inverse Bond Funds, likewise scaling in. Trees don't grow to the sky.



Here is another example: AGG starts out with a *Diag II*, which when in the *a wave* or *wave1* indicate the beginning of a long move down, relative to the size of the Diag. *Diag IIs* are the identical formation pointing upwards. Always waves 1 and 4, the first and last touch points overlap. Although Diag II indicate the beginning of a move they always retrace to at least where the Diagonal began, marked by the blue dashed line, before continuing down. This the minimum upside for this bond in the next several days. While a *Diag >* has the subdivisions of a correction, a Diag II has those of an *impulse wave*, referred to my most as a bull move, although it occurs to the downside as well in Bear Markets.



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