



Exceptional Bear Market Letter

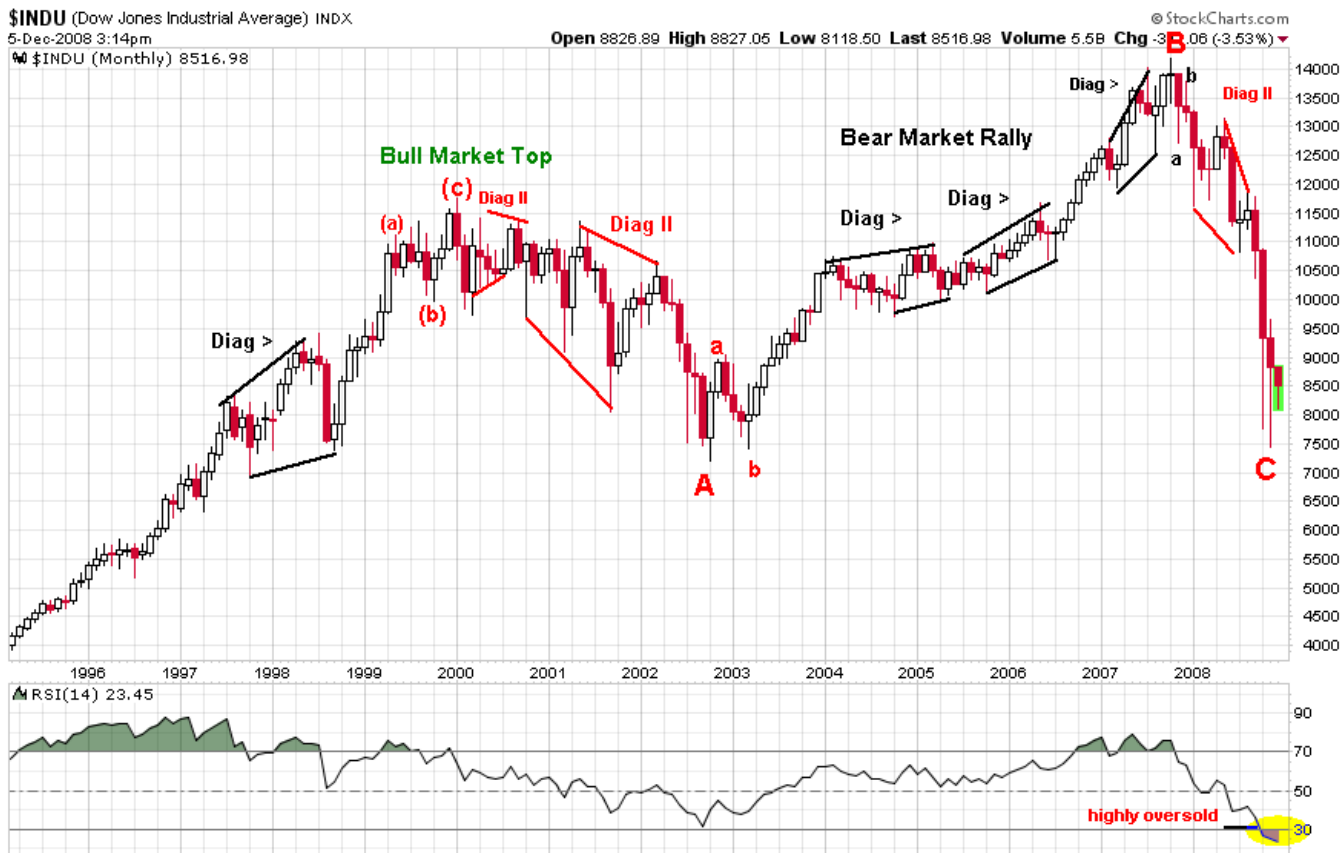
Substantial drop ahead to complete the bottom

December 6, 2008

The dire unemployment report was definitely not reflected in Friday's Market, which staged a late rally of 3.7% in the S&P. Are we in denial or just shell-shocked? From an economist's viewpoint, if unemployment is now 6.7%, it must rise to 8.5% by next year. This is yet another example of how economists project in a straight line; no wonder their projections are no more accurate than a coin toss. Although not likely reaching anything in the range of these projections, a rapidly deteriorating economy would strike fear in the hearts of most investors, mortgage holders and marginal employees. Employment figures however are *lagging* indicators; the most people get laid off just before a reversal, precisely because of these linear projections. The market, which typically discounts a recovery six months to a year ahead of time, has almost bottomed. What's more, the **a-b** transition is a degree of trend larger than any I have previously seen, confirming the *Mother of all Bear Market Rallies*. The **a-b** is similar to crown molding which transitions from the walls to the ceiling; the higher the ceiling, the larger the crown molding required. This last leg, **b**, of the **a-b** transition to the upside, will likely extend to an extreme due to fear. It could very well bottom next week.

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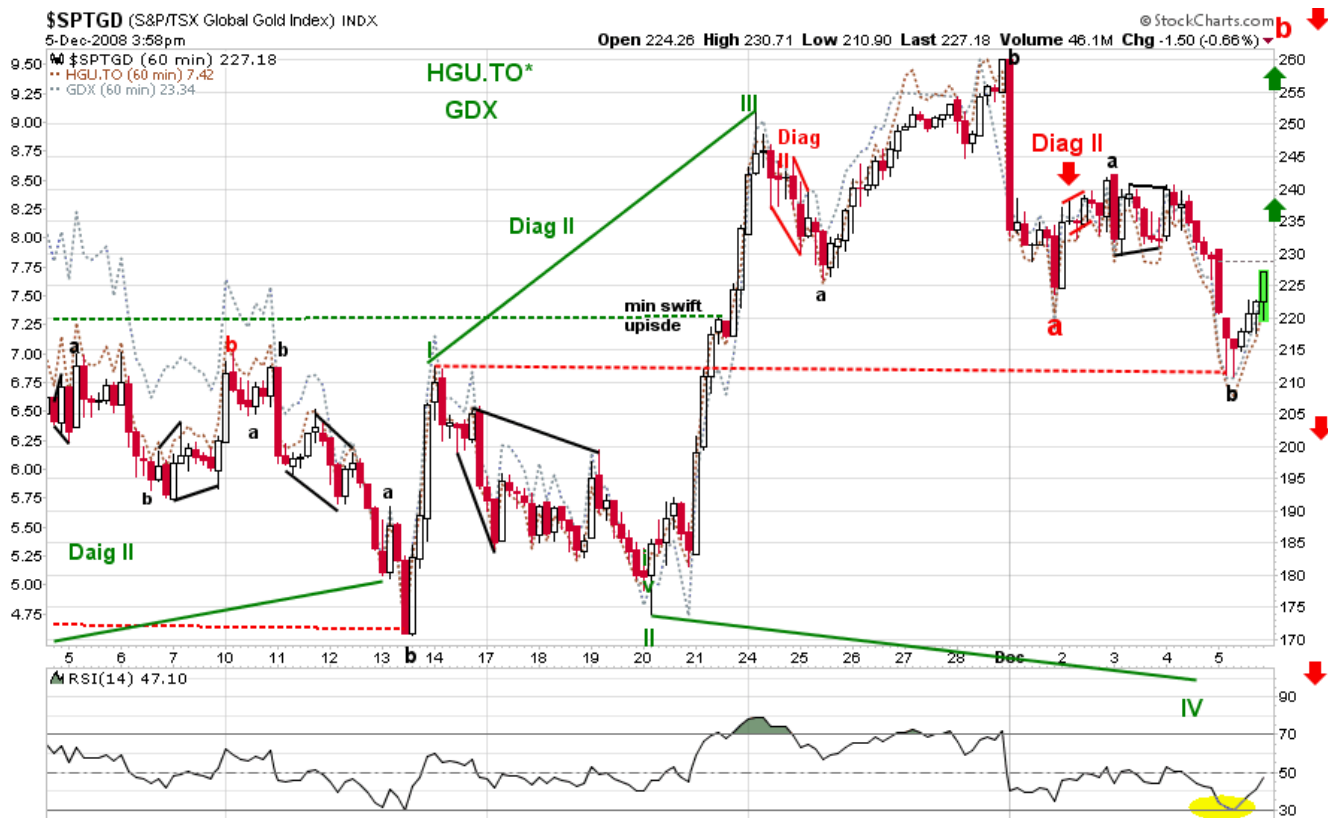
In the **Dow monthly** chart below you get a new perspective on the big picture. Like the **A wave**, the **C wave** contains a *Diagonal II*. This indicates that the minimum swift upside is 11,500, but like the previous *Diag IIs*, it will likely be exceeded. We have bottomed in **C** however the transitional *a-b* in progress will likely take us far lower as you will see in the hourly charts that follow. Notice in the bottom RSI chart that this is the first time the Dow is oversold in nearly 14 years. While **A** lasted two and one-half years, this **C** covered more territory in just one year. What's more, we are likely forming an even larger expanding wedge *Diag II: A-B-C-D-E* with the downsides becoming progressively more severe. The market has a life cycle like every living thing; recessions squeeze out the excesses so we can have fresh start. Like the Market of the 1700's, which endured several bubbles including the South Sea and Mississippi Bubbles, ours have been tech stocks, housing, commodities and credit - it's not over by any means. The final bubble should be stocks in stocks, once again excluding the tech stocks, which already had their day in the sun.



The **Dow weekly** chart below is revised to show the correct count.



In **gold** we are tracing out an extended transition to the downside as part of a **wave IV**, where the **b** could well Spike up to 260 on the index before collapsing. Gold's attractiveness come in inflationary periods. This Spike is transitory and will reverse into 5 waves down to complete the larger **Diag II**, spiking as stocks plummet and then tanking as they begin their meteoric climb. Gold is a bit behind on the timeline but it too will participate in this rally. This tells us that Deflationary fears are overdone. As you can see there are two **Diag IIs**, the first indicates this is a long move down, the second tells us the **b counter-wave** should climb high before collapsing to complete the **Diag II**. Looking at the RSI chart we see that Gold has bounced off the 30% line and should now approach 70% RSI. **RSI** is a measure of overbought/oversold which compares the stock to its previous history.



Monday should see a substantial drop in all but gold, which could continue for several days.

Regards,

Eduardo Mirahyes

Exceptional Bear



“Opportunistically timed investments that maximize wealth”