

Here's an interesting article I saw on DRUDGE:

On Wall Street: Beware of the sucker's rally
By Spencer Jakab

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The market is a cruel mistress indeed. Compounding the pain of big swoons, it kicks investors when they are down by luring them into sucker's rallies - typically sharp but fleeting bounces in the middle of a bear market.

The current recovery has propelled the S&P 500 a third above its March low in just 60 days, convincing many sceptics that a new bull market has begun. Noted bear Doug Kass of Seabreeze Partners said the recent nadir may be a "generational low" and strategist Tobias Levkovich of Citigroup claimed many large investors who had feared another bear market rally may soon capitulate, pushing markets higher.

The Bull Market Express may really be pulling out of the station, but Wall Street's trains have a nasty tendency to derail just as passengers jostle for seats. Most recently, the S&P 500 soared 24 per cent over seven weeks ending in early January, only to plunge to a new low. It was a fairly typical sucker's rally and bear markets often need more than one to create sufficient disillusionment for a definitive bottom.

The 2000-2002 bear market had three, with average gains of 21 per cent in the Dow Jones Industrials over 45 days.

The granddaddy of all bear markets, 1929 -1932, had six false alarms with an average gain of 47 per cent. And Japan's ongoing bear saw the Nikkei rise by at least a third four times in its first four years with 10 more false dawns since then.

Bear markets typically end with a whimper rather than a bang, casting doubt on the latest recovery according to Hussman Econometrics, which analysed numerous US market bottoms and bear market rallies. With the exception of the 1987 crash, the month before the lowest point of a downturn saw a gradual descent. By contrast, bear market rallies were preceded by steeper declines and had sharper rebounds. Another characteristic of bear market rallies has been modest volume on the rebound compared to the decline. The current recovery fits the pattern of bear market rallies in terms of volume and the "V" shape of the trough. Analysts at Bespoke Investment Group noted that there have been only seven other periods in the past 110 years with rallies of similar magnitude for the Dow. Three preceded the Great Depression, three came during the Depression and one in 1982.

That last example is a hopeful one as it kicked off the greatest bull market of all time. Expectations of a sustainable rebound have been helped by the fact that US stocks touched a 13-year low in March. But this was also the case in 1974, the start of a long rally - technically a bull market - that lost steam after a 73 per cent gain in two years. It would take four more years to reach the 1973 high and two more, the start of the 1982 bull market, to break decisively

higher.

An authority on bear market bottoms, Russell Napier of CLSA sees a 1974-1976 scenario unfolding followed by an even worse slump. In *Anatomy of the Bear*, he scanned media coverage around the bottoms of 1921, 1932, 1949 and 1982 and does not see the apathy that characterised those turning points.

"For the great bear market bottoms, you need a society-wide revulsion with equities," he said. "It just doesn't smell like the big one yet."

Stocks also become incredibly cheap before major bull markets begin. Yale University Professor Robert Shiller notes that all four big bubbles of the 20th century saw stocks exceed 25 times cyclically-adjusted earnings and trough between 5 and 8 times. On this measure, the 2000 bubble never fully deflated and even the recent low did not breach 11 times.

For what it is worth, the US market's best-informed participants do not find valuations compelling. April saw the lowest level of insider buying (by people associated with the company) ever recorded by research firm TrimTabs with insider selling 14 times as high. Likewise, companies sold 64 per cent more shares than they bought in April.

This last point though may be a contrarian indicator of a true bull market. Corporate America hardly displayed prescience prior to the bust, after all.

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