Over the next few weeks I will provide detailed explanations of bear markets and recessions based on economic, fundamental and technical analysis and my extensive research and databases.

Bear Markets & Recessions

The traditional definition of a bear market is a 20% decline from a previous peak with a combination of broad-based market deterioration, with a negative backdrop of psychology, economic and corporate performance.

Since 1929 we have had 16 bear markets. Average decline post WWII = 28.87% (smallest = 21.2% in 1990, biggest 89% 1929) Average time to peak to trough = 11.69 months (quickest = .76 years 1990, longest 25.2 years 1929). It take about 3 ½ years to reach the last peak.

Here is a table with data for all the bear market post WWII:

DOW 30 BEAR MARKET LOSSES POST WWII					DOW 30 BEAR MARKET TIMING POST WWII					
YEAR	HIGH	LOW	LOSS		`	TROUGH	MONTHS FROM PEAK TO TROUGH		YEARS TO RETURN LAST PEAK	POST WAR
2008	14,279.96	6,440.08	54.90%		10/11/2007	3/9/2009	17.16667			
2000	11,908.23	7288.27	38.80%		1/14/2000	10/9/2002	33.3	10/12/2007	7.86	6.841667
1998	9,337.97	7539.07	19.26%		7/17/1998	8/31/1998	1.5	1/4/1999	0.48	0.475
1994	3,945.43	3520.8	10.76%		1/31/1994	4/4/1994	2.1	2/16/1995	1.06	1.058333
1990	2,999.75	2365.1	21.20%		7/16/1990	10/11/1990	3	4/17/1991	0.76	0.763889
1987	2,722.42	1738.74	36.10%		8/25/1987	10/19/1987	2	12/4/1990	3.33	3.325
1984	1,287.20	1086.57	15.59%		10/10/1983	7/24/1984	9.6	1/18/1985	1.29	1.294444
1981	1,024.05	776.92	24.10%		4/27/1981	8/21/1982	16	10/4/1982	1.50	1.5
1976	1,014.79	74.12	26.90%		9/21/1976	2/28/1978	17.5	2/13/1981	4.40	4.4
1973	1,051.70	577.8	45.10%		1/11/1973	12/6/1974	23	10/26/1982	9.80	9.8
1968	995.21	631.16	35.90%		12/3/1968	5/28/1970	18	8/14/1980	3.90	3.9
1966	995.15	744.32	25.20%		2/9/1966	10/7/1966	8	12/10/1972	6.80	6.8
1961	734.91	535.76	27.10%		12/13/1961	6/26/1962	6	9/15/1962	1.75	1.75
1946 - 49	212.50	163.21	23.20%		5/29/1946	5/17/1947	12	1/15/1951	3.90	3.9
AVERAGE			28.87%		AVG.		11.69231		_	3.523718

The declines in the market in yellow (1998, 1994, 1987…) were not associated with a recession. I do not consider them true bear markets.

Most bear markets are associated with a recession. By the time a recession is official much of the damage to stocks has already been done.

Old definition – 2 quarters of declining GDP

Definition according to NBER - A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough. Between trough and peak, the economy is in an expansion.

http://www.nber.org/cycles/recessions.html

Here is a table of the bear markets and recessions going back to 1917.

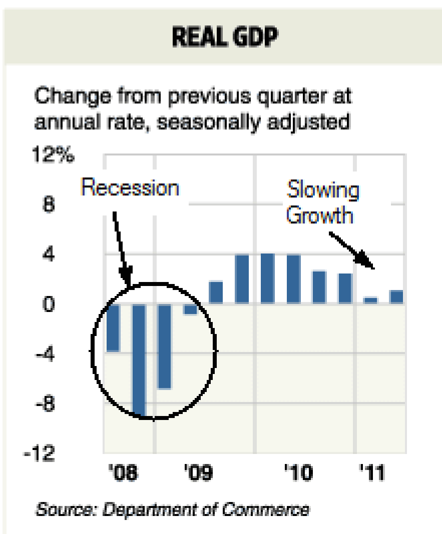
YEAR OF BEAR MKT	RECESSION	CAUSE 1	CAUSE 2	CAUSE 3	FED RAISES RATES	DERIVATIVES	OIL	HIGH P/E
2008	YES	Real Estate Bubble	Collapse of Financial Markets (Lehman Bros)	Consumer Too Much Leverage	Y	Y	Y	NO
2001	YES	Tech Wreck	911	Corporate Scandals	Y	N	Y	YES
1998	NO	Asian Conatgian	Russian Defaut	LTCM	N	Y	N	YES
1994	NO	Mexican Peso Collapse	Orange County Bnkrptcy		N	Y	N	NO
1991	YES	Gulf War I	Banking Liquidity	High oil prices		N	Y	
1987	NO				N	Y	Y	NO
1984	NO	Strong GDP	Volker raises rates		N	N	N	NO
1981	YES			STAGFLATION	Y	N	Y	NO
1976	NO	Inflation		STAGFLATION	Y	N		YES
1973	YES	Oil Embargo	Inflation	STAGFLATION	Y	N	Y	YES
1968	NO				Y	N		YES
1966	NO				Y	N		YES
1961	YES	Kenndy - steel prices	Cuban Missle Crisis		Y	N		YES
1953 TO 1954	YES	Economist predict depression			NO BEAR MARKET			
1949	YES	Overheating Economy	Inflation	Strikes		N		YES
1929 TO 1932		LEVERAGE	BAD ECON PLCY	DFLTN		N		YES
1919 TO 1921				DFLTN		N		NO
1914	WWI							
1917	U.S. ENTERS WWI							

Post WWII, most recessions and bear markets are associated with:

- High oil prices
- High inflation and interest rates which leads to a recession and falling earnings.
- High P/Es
- Problems with derivatives

Most recessions are caused by rising inflation that leads to the fed raising rates. This makes our economy and markets cyclical. The last cycle has brought to light some longer term structural problems, especially public and consumer debt.

The economy is not officially in a recession. Here is a look at GDP:



Also, corporate earnings are still expected to modestly grow. Here is a trend of earnings forecast for the Dow 30:

Year	Closing Avg.	12-Mth Earns	P/E Ratio
2010	11577.51	826.11	14
2009	10428.05	558.83	18.7
2008	8776.39	256.55	34.2
2007	13264.82	199.87	66.4
2006	12463.15	728.02	17.1
2005	10717.5	**r578.25**	20.8
2004	10783.01	702.74	r18.3
2003	10453.92	519.62	20.1
2002	8341.63	386.62	21.6
2001	10021.5	369.51	27.1
2000	10786.85	485.14	22.2

We can see that earnings peaked in 2006 and crashed in 2007, 2008. Earnings grew in the later part of 2008, and are expected to be about 12% higher next year. We are watching earnings' forecasts for 2012; they have been coming down, but still not indicative of a bear market - yet.

I believe we are headed for a recession for the following reason:

- Too much global debt, especially public and consumer debt
- The euro-zone's inability to solve their sovereign debt crisis
- Undercapitalized global banking system that could not handle another financial crisis.
- The end of U.S. and monetary and fiscal stimulus, we are out of effective bullets to stimulate our economy
- Dysfunctional political system in the U.S. and the euro-zone
- Continued weakness in the real estate markets
- Continued high unemployment rates
- Lack of confidence in the markets, governments, job market

The next Special Report will focus on the 6 basic phases of bear markets.