

## Six Phases of Bear Market

There are basically 6 phases of a bear market:

- 1) A major reversal pattern, the market going from a bull market to a bear market
- 2) Decline phase, lower highs and lower lows
- 3) Panic Phase
- 4) Basing and the formation of a major reversal pattern
- 5) Finding a bottom.
- 6) Breaking out of a bear market to a new bull market.

We will have full descriptions of all phases of a bear market in future Special Reports.

Below is chart for the bear market that started in 2008 with the 6 different phases:



Most bear markets follow the above phases.

Probably the best time to start accumulating stock for the next bull market is during Phase 4, basing. I will write about the basing phase once we identify that we are in that phase.

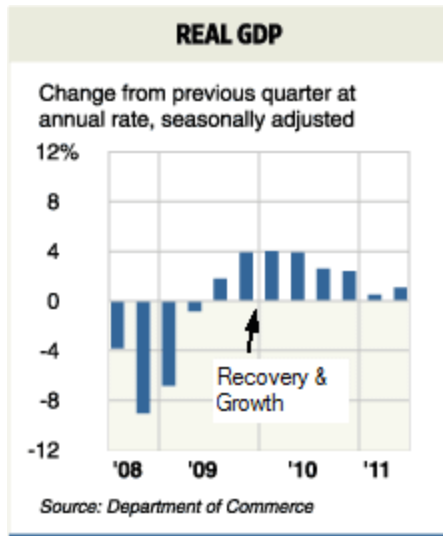
Here is a current chart for today's market:



Let's review the chart:

### 2009 – 2011 Bull Market

- The market bottomed in March of 2009 and doubled by May 2011. I consider this a bull market because it was accompanied by a recovering economy and earnings growth.



The economy was growing during the bull market. The economy has slowed quite a bit, but we are not in a recession – yet.

Here is a table with the earnings trend during the bull market:

<b>Quarterly Dow Jones Industrial Average</b>			
Year	Qtr Ended	12-Mth Earns	P/E Ratio
2011	29-Jun	896.69	13.8
	Mar.30	878.69	14
2010	Dec.30	826.75	14
	Sept.29	783.63	13.8
	29-Jun	739.88	13.2
	Mar.30	687.81	15.8
2009	Dec.30	558.83	18.7
	Sept.29	350.97	27.7
	29-Jun	357.13	23.7
	Mar.30	178.18	42.7
2008	Dec.31	256.55	34.2
	Sept.30	412.72	26.3
	30-Jun	-115.29	Nil
	Mar.31	123.99	98.9
2007	Dec.31	199.87	66.4
	Sept.28	277.24	50.1
	Peak 29-Jun	824.65	16.3
	Mar.30	644.21	19.2

Let's review the table:

- Earnings peaked for the bull market of 2003 to 2007 in 2007 at \$824.65.

Notice that the P/E was 16.3, normal. It is also normal for the P/E to rise during a recession with a decline in earnings. If the P/E followed earnings down as it declined to -\$115 in 2008, then the market would be negative. The P/E normally does not adjust downward during a recession, it is normally very high, because normally earnings fall more than the price.

- Earnings started to grow in the last quarter of 2009 and are now above the peak of 2007.

Notice that the P/E has contracted because of the increased risk in the global economy and markets.

The market was in a bull market because of a growing earnings and economy.

### **Bear Market 2011?**

So far, the market has entered the first two phases of a bear market.

Phase 1:

The market established a bear market reversal pattern, rounding top, with the normal characteristics:

1. It took about six months to build a major market top.
2. The market top pattern that was established was a rounding top (also known as an umbrella top)
3. A neck line, major support, was established (dark line)
4. The neck line was broken decisively. With this major market reversal, the market has turned from a bull market into a bear market.

The market currently is down about 17%, so technically the market is not in a bear market (a 20% decline from a peak). We are still in the early phases of a bear market.

Phase 2:

Once prices broke the neck line, the market fell with a declining tops and bottom line.

Again, we are in the early stages of a bear market. The next stage of the bear market would be the panic phase. There are many catalysts that could cause a panic phase:

- A Greek default

- A major euro-zone bank goes under.
- Contagion of the sovereign debt crisis that spreads to the U.S. and the rest of the global economy.
- The U.S. goes into a recession.

The market probably has a least another 10% more downside.

The most important phase of a bear market is phase one: the major market reversal where a market goes from a bull market to a bear market. Major market reversals happen at the top of a market (from bull to bear) and the bottom of a market (from bear to bull). Our next Special Report will analyze major market reversals.