

(Beware the bears! — they are never far away)



Aussie Bear and Bull Markets

(in the last two decades)



If we can better understand the past,
we can better understand the future.

Robert Brain

January 2010
(revised)

Beware!
The bears

Introduction & Housekeeping

About this presentation

1. This presentation provides information about the Australian bear and bull markets over 2 decades.
2. These slides are available to download (in PDF form) from Robert's web site (see link below).
3. These slides make a lot more sense if you have heard the commentary that goes with them.
4. If you have not heard the presentation commentary, you can look for more information on the web in the **Members Section** of Robert's **Share Market Toolbox** web site (to be posted in January 2010).



Brainy's Share Market Toolbox
www.robertbrain.com/members-area/

Beware!
The bears


Introduction & Housekeeping


AGENDA

1. Aussie bear markets, and bull markets, in the last two decades.
2. Including:
 - (a) Patterns and repeat behaviour
 - (b) Beware the newspaper HEADLINES
 - (c) Bear markets and corrections
 - (d) Bull markets
 - (e) Observations and Conclusion?
3. Interactive session — discussion as we go.

**Beware!
The bears** Introduction & Housekeeping


Important Notice


1. This presentation does not include any advice.
2. For proper advice, your personal financial situation needs to be considered.
3. This presentation is pure education, only for your general awareness. 
4. There are no recommendations to take any action, or to invest any money in any way.
5. Always consult a properly licensed advisor before making investment decisions.

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**Beware!
The bears** Introduction & Housekeeping

Important Notice




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**Beware!
The bears** PREAMBLE

Patterns and Repeats

- Technical Analysis relies on patterns and repeats of behaviour.
- So, look for repetitive patterns.
- “Cycles” are important.

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Beware! The bears Newspaper Headlines

Newspaper Headlines

It helps to maintain perspective...

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Beware! The bears Newspaper Headlines

“Happy days: super funds back to double-digit growth”

AFR paper
Wednesday
16 December
2009

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Beware! The bears Newspaper Headlines

“Happy Days” — Are they really?

Great news!
“...double-digit gains!”

But read the detail...
“...after a 20% plunge!”

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Beware! The bears Newspaper Headlines

Is this acceptable?

All Ords (XAO)
From peak of 2007 to now.

"My investment tracks the index, and I am down 31% !!!"

"But that's okay, because I am up 43% from the lows of March 2009 !!!"

What do you think?

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Beware! The bears Newspaper Headlines

Alternative Newspaper Headlines

Consider the following alternative newspaper headlines which we have seen at various times.

[It helps to maintain perspective.]

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Beware! The bears Newspaper Headlines

Alternative Newspaper Headlines

True or False?

1. "Market down 22%..."
2. "Market down 32%..."
3. "Market up 19%..."
4. "Market up 28%..."
5. "Market up 51.6%..."
6. "Market up 5.2%..."

How often do you see conflicting or confusing headlines like these?

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Newspaper Headlines

1. "Market down 22%..."



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Newspaper Headlines

2. "Market down 32%..."

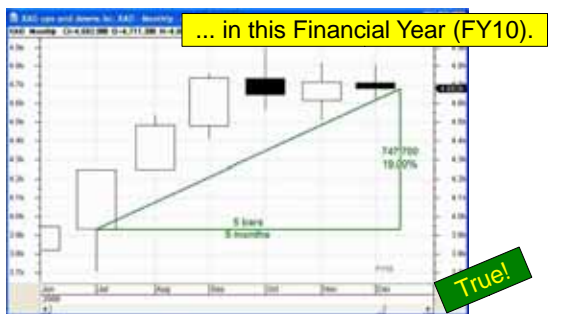


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Newspaper Headlines

3. "Market up 19%..."



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4. "Market up 28%..."

... in this calendar year (2009)



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Newspaper Headlines

5. "Market up 51.6%..."

... since market low (March 2009).



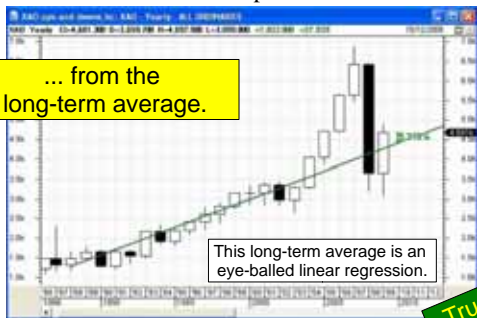
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Newspaper Headlines

6. "Market up 5.2%..."

... from the
long-term average.



This long-term average is an
eye-balled linear regression.

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Beware! The bears **Newspaper Headlines**

Alternative Newspaper Headlines

Beware of the context:

All true!

1. Market down 22% ... in FY09
2. Market down 32% ... since Nov 2007 peak
3. Market up 19% ... this Financial Year (FY10)
4. Market up 28% ... this Calendar Year (2009)
5. Market up 51.6% ... since March 2009 lows
6. Market up 5.2% ... from a long-term average.

(Note: These figures apply to **Monthly** charts — see over...)

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Beware! The bears **Newspaper Headlines**

Weekly figures are different

- The figures on the previous slides are on **Monthly** charts.
- Monthly charts are good for “big” picture.
- The figures for **Weekly** charts are different:
 - Some percentage amounts vary up/down.
 - Some dates for highs/lows are a little different.
- In the following slides we look at Weekly charts.

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Beware! The bears **Newspaper Headlines**

Newspaper Headlines

Conclusion:

Take with a grain of salt.
What is the “starting point”?

Maintain perspective.

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Recent Bear Markets



A quick look at recent bear markets (>20%) and market corrections (>10%; <20%).

If we can better understand the past, we can better understand the future.

Definition — Bear Market

Bear Market:

- A fall of more than 20%

Correction:

- A fall of more than 10%; but
- less than 20%

* - These are the generally accepted definitions.

When is a bear market over?

What is the criteria that defines when a bear market has ended?

- ?

Beware! The bears **Bear Markets & Corrections**

When is a bear market over?

What is the criteria that defines when a bear market has ended?

- ?

*The answer is not clear.
There is no definition.
BUT we will know later in hindsight.*

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Beware! The bears **Bear Markets & Corrections**

Recent history — 1986 to 2009

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Beware! The bears **Bear Markets & Corrections**

Recent history — 1987 to 2009

Bear Markets and Corrections — 1987 to 2009						
Start Date	From Point	Bear Market or Correction	Amt (%)	Weeks to bottom	Time to recover to past high	
					Weeks	Years
Sept 1987	A	Bear market	-48	21	470	9.0
Oct 1989	E	Bear market	-30	65	194	3.7
Nov 1991	G	Correction	-19	53	80	1.5
Jan 1994	I	Bear market	-21	53	150	2.9
Sept 1997	K	Correction	-11	5 or 50	66	1.3
June 2001	O	Correction	-21	88	152	2.9
Oct 2007 *	S2	Bear market	-54	73	113	2.2

* — Latest bear market has not yet finished.

Note: The letters in the "From Point" column refer to points on the charts.

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**Beware!
The bears**

Bear Markets & Corrections

1987 to 1996

Some significant falls (and rises)
over a 10-year period.



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Bear Markets & Corrections

Bear Market "A" — Sept 1987 - Sept 1996

Down 48% in 5 months.

New highs after **9 years!**



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Bear Markets & Corrections

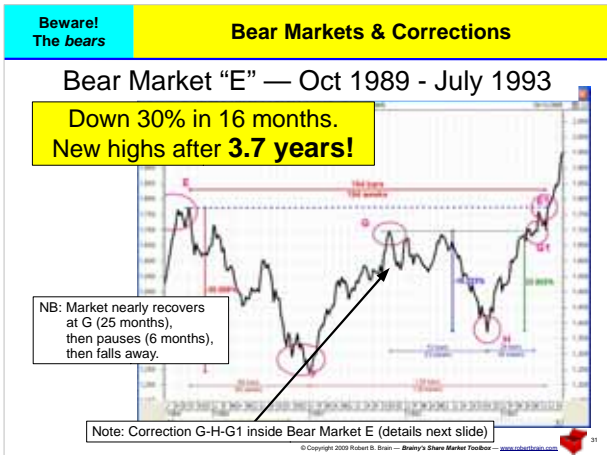
Bear Market "A" — Special Mention

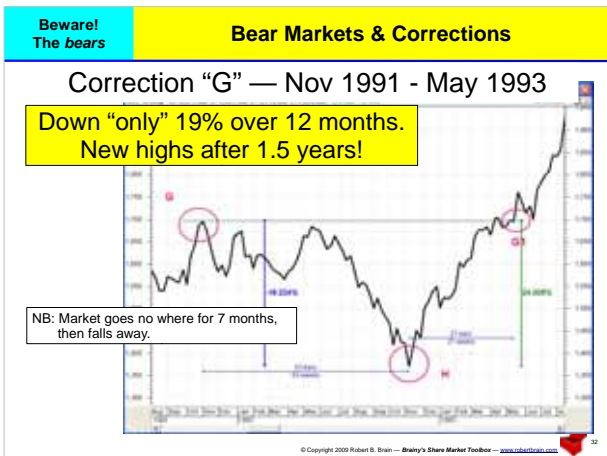
The infamous "Black Monday" 19 October, 1987



- XAO rose 20% in 10 weeks,
- Then fell 30% in one week.
- The crash hit overseas markets on Monday 19th October, 1987.
- It hit Australia on Tuesday 20th.









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The bears

Bear Markets & Corrections

Correction "K" — Sept 1997 - Dec 1998



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Bear Markets & Corrections

Correction "O" — June 2001 - May 2004

Down 21% over 20 months.
New highs after **2.9 years!**



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Bear Markets & Corrections

BEAR MARKET "S2" — Oct 2007 to now?

Down 54% over 17 months!!
New highs after ??? years?
(to be advised)



What shape is most common?

In these bear markets and corrections, is there any one shape that is most common?

- V, W, M, J ?
- Patterns and repeats of behaviour?

Go back and review the previous slides.

Are any of them a simple "V" shape?

Start with Bear Market "E" for clarity.

[Click here to go back to the "Recent Bear Markets" slide...](#)



Re-cap — From "A" to "J" (~10 years)



Re-cap from "I" to "R" (~10 years)



BEAR MARKETS — These charts

The charts on the previous slides are already posted on the web.

Visit:

www.robertbrain.com/bearmarkets



Recent Bear Markets

A quick look at recent bear markets (>20%) and market corrections (>10%; <20%).

If we can better understand the past, we can better understand the future.



Recent Bull Markets

A quick look at recent bull markets.



If we can better understand the past, we can better understand the future.

Definition — Bull Market

A Bull Market is:

- ? (what is the definition?)

A Bull Market is finished when:

- ? (how do we know when it is over?)



Definition — Bull Market

A Bull Market is characterised by:

- Rising investor sentiment.
- Rising share market.
- There is no accepted definition for percentage increase to describe a bull market!!

A Bull Market is over when:

- A Correction is confirmed (ie. a fall of 10%).



Eight Bull Markets — 1988 to 2009

Start Date	From Point	Bull Market?	Amt (%)	Duration		Ave Amt pa (%)
				Wks	Yrs	
Feb 1988	B	Bull Market	37	25	0.5	77.0
Apr 1989	D	Bull Market	25	26	0.5	50.0
Dec 1990	F	Bull Market	37	43	0.8	44.7
Nov 1992	H	Bull Market	70	64	1.2	56.9
Jan 1995	J	Bull Market	50	137	2.6	19.0
Aug 1998	L2	Bull Market	39	146	2.8	13.9
Feb 2003	R	Bull Market	138	228	4.4	31.5
Mar 2009	T	Bull Market	56	33	0.6	88.2

Note: The letters in the "From Point" column refer to points on the charts.



Beware!
The bears

Bull Markets

1988 to 1994

Some variety, and
a range of opportunities



Beware!
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Bull Markets

18 years — 1991 to 2009

One very significant rise
(plus others)
over an 18-year period.

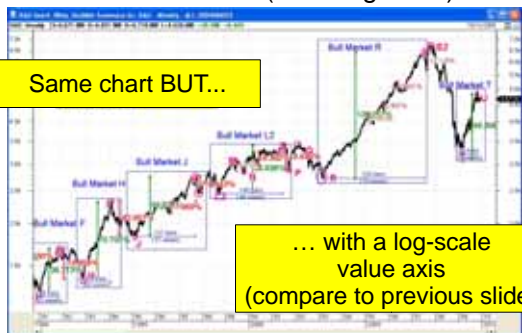


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Bull Markets

1991 to 2009 (semi-log chart)

Same chart BUT...



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Bull Markets

Bull Market "B" — Feb - Aug 1988



Up 37%
in 6 months.

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Bull Markets

Bull Market "D" — Apr - Oct 1989



Up 25%
in 6 months.

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Bull Markets

Bull Market "F" — Dec 1990 - Nov 1991



Up 37% in 10 months.

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Bull Market "H" — Nov 1992 - Jan 1994



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Bull Market "J" — Jan 1995 - Sep 1997



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Bull Markets

Bull Market "L2" — Aug 1998 - June 2001



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Bull Markets

Bull Market "R" — Feb 2003 - July 2007



Beware!
The bears

Bull Markets

Bull Market "T" — Mar 2009 - now



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Bull Markets

BULL MARKETS — These charts

The charts on the previous slides
will soon be posted on the web.

Visit:

www.robertbrain.com/bullmarkets



Recent Bull Markets



A quick look at recent bull markets.

If we can better understand the past, we can better understand the future.

Conclusions?

What conclusions can we draw about bull and bear markets?

Bull Markets — duration and range

Start Date	From Point	Amt (%)	Duration		Ave Amt pa (%)
			Wks	Yrs	
Aug 1998	L2	39	146	2.8	13.9
Jan 1995	J	30	137	2.6	19.0
Feb 2003	R	138	228	4.4	31.5
Dec 1990	F	37	43	0.8	44.7
Apr 1989	D	25	26	0.5	50.0
Nov 1992	H	70	64	1.2	56.9
Feb 1988	B	37	25	0.5	77.0
Mar 2009	T	56	32	0.6	88.2

• From 13% to 88% (pa*)

• Longest — 4.4 years

• Shortest — 6 months

* - percentages — annualised

Bull Markets — Compared



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Bear Markets - range and duration

- Click to add an
- From 11% to 48%

Bear Markets and Corrections 1987 to 2009					
Start Date	From Point	Amt (%)	Weeks to bottom	Time to recover to past high	
				Weeks	
				Years	
Sept 1997	N	-11	5 or 50	66	1.3
June 2001	O	-21	88	152	2.9
Oct 2007*	S2	-54	73	113	2.2
Oct 1989	E	-30	65	194	3.7
Jan 1994	I	-21	53	150	2.9
Nov 1991	G	-19	83	80	1.5
Sept 1987	A	-48	21	470	9.0

- Shortest — more than 1 year
- Longest — 9 years

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Bear Markets — Compared



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**Beware!
The bears** **Conclusions?**

Observations

Bull and Bear markets:

- Cyclic
- Market can go no where over many months
- Market can move a long way (eg. -30% per week — Oct 1987)
- “V” shaped bottoms — mostly
- “W” shaped patterns — often


How can we spot them?
and trade them to advantage?

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**Beware!
The bears** **Conclusions?**

Conclusions


- The significant down moves in the market:
 - can take place over short periods (a few weeks); or
 - can continue for many months.
- Our challenge is to identify the turning points and react quickly.
- We won't be able to spot the exact top/bottom!
- But can we get close?
- Is it feasible? Can it be done?

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**Beware!
The bears** **Conclusions?**

Momentum indicator?

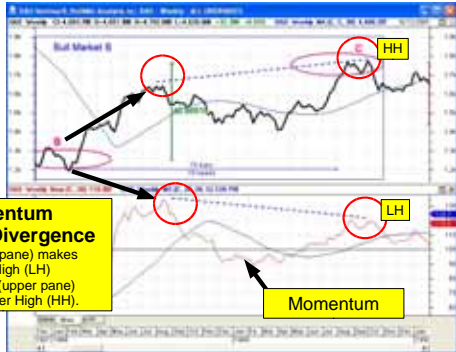
- Can divergence on the Momentum indicator help at all?
- Use a Weekly chart (or a Daily?)
- Let's see... next slides

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Conclusions?

End of Bull Market "B"



**Momentum
Bearish Divergence**

Mom (lower pane) makes
Lower High (LH)
while index (upper pane)
makes Higher High (HH).

Momentum

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Conclusions?

End of Bull Market "D"



**Momentum
divergence**

Mom makes Lower High (LH)
while index
makes Higher High (HH).

LH

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Conclusions?

End of Bull Market "E"



**Momentum
divergence**

While the index makes
a Higher High (HH),
Mom is about the same
as previous — ie. no lower
and no higher.

LH

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Other technical indicators

- Consider a combination of “tools”
- Maybe the RSI indicator?
- The “Awesome” oscillator
(refer “*Trading Chaos*”, Bill Williams & Justine Gregory-Williams)
- Twiggs Money Flow (or Chaikin)

Conclusion

- Sometimes we can easily spot a pending bull or bear market.
- Sometimes it is not easy.
- A good leading indicator is difficult to find.

SUMMARY

- Bear markets come around fairly often
- Their duration and impact can be extensive
- Look for patterns and repeat behaviour
- Work on spotting the bull and bear markets
- We are now wiser about investing (or trading) going forward.


Beware!
The bears

Summary & Wrap up

Final Word

- As a part of his regular trading strategy, Robert analyses the market on a weekly basis.
- And he posts the results on the internet.
- An overview of the approach is here: www.robertbrain.com/weekly
- More details are available each week to Toolbox Members here: www.robertbrain.com/members-area/

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Summary & Wrap up

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Any Questions?

ps: A copy of the slides and more details are available.
www.robertbrain.com/presentations/
Or, simply send an email request to:
robert@robertbrain.com

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(Beware the bears! — they are never far away)

Click to add title

The End

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(Beware the bears! — they are never far away)

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THE END

THANK YOU

(backup slides follow)

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Beware!
The bears

Introduction & Housekeeping

The presenter

1. Engineering degree
2. 30+ years – professional experience
3. Trainer / presenter / conference facilitator
4. Share Market – 8+ years
5. Technical Analyst (ATAA Director)
6. Provide tuition and support to traders and investors
(Brainy's *Share Market Toolbox* web site)
7. Does not hold AFS license! (Can't give advice)



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