

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



# How to spot a Bear Market

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

*Robert Brain*

February 2010

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Beware!  
The bears

## Introduction

### About this presentation

1. This presentation is just one item from Brainy's **Share Market Toolbox** (which is partly free, but Toolbox Members can access more)
2. These slides are available to download (in PDF form) from Robert's web site: [www.robertbrain.com/presentations/](http://www.robertbrain.com/presentations/)
3. These slides make a lot more sense if you have heard the commentary that goes with them.
4. For bear market information visit: [www.robertbrain.com/bearmarkets/](http://www.robertbrain.com/bearmarkets/)



Brainy's Share Market Toolbox  
[www.robertbrain.com/members-area/](http://www.robertbrain.com/members-area/)

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Beware!  
The bears

## Introduction

### Today's Objective

1. To look at some past Australian bear markets.
2. To determine if we can anticipate a bear market.
3. To understand how to anticipate the bears.
4. To understand how to protect our capital during the time of a bear market.



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**Beware!  
The bears** Introduction

### AGENDA

1. Bear markets —
  - (a) How bad are they?
  - (b) Can they really decimate our funds?
  - (c) Should we consider avoiding them?
2. How to spot one
3. What can we do to avoid the ill effects?
4. How can we utilise and leverage this information?

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**Beware!  
The bears** Introduction

### 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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The bears** Introduction

### Important Notice



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### Trends — a quick word

- Why buy a falling stock?
- When a trend is confirmed, it is likely to continue.
- A trend continues until it is confirmed to have ended.



• Click to add an outline

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### Trends — a quick word

Myer (MYR) post-IPO.  
Up trend? or down trend?  
or neither?  
Should we buy it yet?




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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.*

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First — A Definition:

**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.

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How bad are they?

- How much can a bear market hurt us?
- Does it do much damage to our portfolio?
- How often do they come around?
- Might it be useful to “avoid” the bear markets?

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When is a bear market finished?

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

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**Beware! The bears** **Recent Bear Markets**

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** **Recent Bear Markets**

1987 to 1996

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

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**Beware! The bears** **Recent Bear Markets**

Recent history — 1987 to 2010

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	50	66	1.3
June 2001	O	Correction	-21	88	152	2.9
Oct 2007 *	S2	Bear market	-54	73	113	2.3

\* — 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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### Recent Bear Markets

#### Bear Market "A" — Sept 1987 - Sept 1996

Down 48% in 5 months.

New highs after **9 years!**



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**Beware!  
The bears**

### Recent Bear Markets

#### Bear Market "A" — Special Mention

The infamous "Black Monday" 19 October, 1987



- XAO rose 20% in 10 weeks.
- Down for 4 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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### Bear Market "E" — Oct 89-Jul 93

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#### Bear Market "E"

October 1989 - July 1993  
(3.7 years)

in detail...

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### Stan Weinstein — 30week MA

- Stan Weinstein published an infamous book: "Secrets for Profiting in Bull and Bear Markets" (McGraw-Hill, 1988)
- Use Weekly charts
- Apply a 30-week Moving Average (MA)
- Watch for:
  - price crossing MA
  - MA turning down
- Let's test it: ...

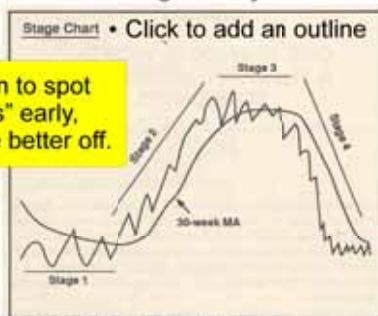


### Stan Weinstein — Stage Analysis

- "Any stock (or index) has

If you can learn to spot these "Stages" early, then you can be better off.

- And they don't have to follow in sequence.



Source: "Secrets for Profiting in Bull and Bear Markets", Stan Weinstein (1988), McGraw-Hill.

### Stan Weinstein — 30week MA

- Let's test it now: ...

*two*

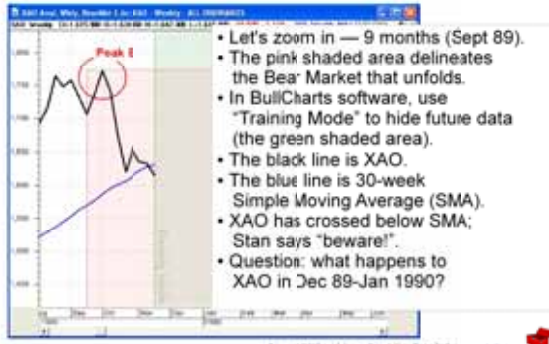
- We will look at one bear market example:...



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How to anticipate?

### The start of Bear Market "E"



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Beware!  
The bears

How to anticipate?

### The start of Bear Market "E"



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Beware!  
The bears

How to anticipate?

### The start of Bear Market "E"



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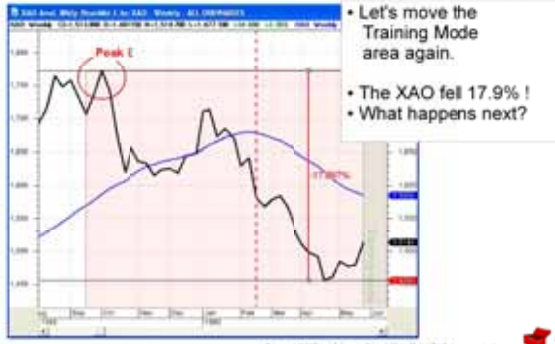
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Beware!  
The bears

How to anticipate?

### The start of Bear Market "E"



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Beware!  
The bears

How to anticipate?

### The start of Bear Market "E"



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Beware!  
The bears

How to anticipate?

### Predict? — Conclusion

Conclusion?

- The 30-week SMA can give a good clue about impending trouble.
- BUT! Technical indicators like this one:-
  - Not 100% accurate
  - Not 100% reliable
  - Not 100% guaranteed
  - Can give false signals sometimes.
- So, are they worth using?

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### Conclusion (cont.)

Further conclusion:-

- Technical indicators do improve our chances of managing our finances
- This is the conservative interpretation of Stan Weinstein's teachings
- Also utilise Stage Analysis (needs training).
- With other technical indicators we can fine tune the approach further.



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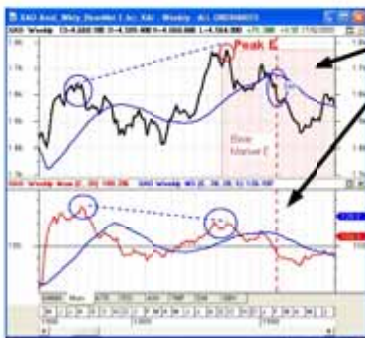
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### Fine tuning?



- Upper pane — XAO with 30-week SMA.
- Lower pane — the Momentum indicator (the squiggly red line).
- Note: "bearish divergence" between Aug 1988 and Sept 1988.
- That is: Higher Peak on XAO but Lower Peak on Momentum.



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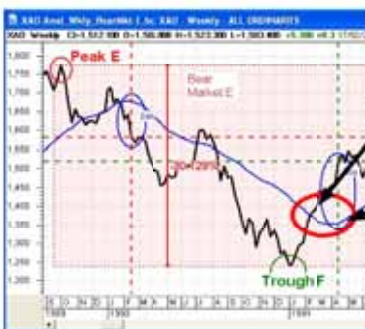
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### What about re-entry?



- Let's move the Training Mode area again.
  - XAO crosses above the SMA Feb 1991.
  - Stan says "Look out".
  - SMA turns up — this is "confirmation".
  - Stan says "get in".
- (zoom in next slide)



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**Beware! The bears** **How to anticipate?**

**Bear Market "S2" — Oct 2007 to now+?**




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**Beware! The bears** **How to anticipate?**

**Bear "S2" and 30-week SMA**




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### Twigg's Money Flow (TMF) indicator



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Is this useful?

How can we use this information?

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How can we use this?

- This type of analysis applies to:
  - Market indexes — XAO, XJO, etc. (ie. All Ordinaries, S&P/ASX 200, etc.)
  - Individual stocks (all of them)
- When the index has "turned", it means:
  - Some stocks (in that index) have already turned.
  - Other stocks "might" follow soon (so watch for opportunities).

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**Beware! The bears** **Is this useful?**

How can we use this?

- If the market is looking “weak”, then be cautious.
- Keep more of the portfolio in safer assets (eg. cash).
- Buy reluctantly, or more carefully.
- Revise the “Stop Loss” positions upwards to protect profits and capital. (“Stop Loss” — is another discussion)

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

Conclusions?

What conclusions can we draw from all this?

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

Bear Markets – severe ranges and durations

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

Start Date	From Point	Amt (%)	Weeks to bottom	Time to recover to past high	
				Weeks	Years
Sept 1997	N	-11	50	66	1.3
June 2001	O	-21	88	152	2.9
Oct 2007 *	S2	-54	73	113	2.3
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

\* — Latest bear market has not yet finished

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

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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 (or years).
- Our challenge is to identify the turning points and react “quickly”.
- We won't be able to spot the exact top/bottom!
- But we can get close!

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**Beware!  
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**Conclusions**

**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.

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**Beware!  
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**Conclusions**

**Technical indicators**

- Use Weekly charts
- Use 30-week SMA
- Use Momentum indicator
- Look for divergence on Momentum
- Use Twiggs Money Flow indicator
- The “Awesome” oscillator (refer “*Trading Chaos*”, Bill Williams & Justine Gregory-Williams)

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**Conclusions**

### Is it easy?

- This is easy with good charting software.
- This is easy with only a little training.
- The concepts of technical indicators, trends, chart patterns, etc. — “Technical Analysis”.
- Technical Analysis is a big, broad topic; but getting started is easy.

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**What Next?**

### Possible steps

- Good charting — BullCharts:
  - All the charts herein are done with BullCharts
  - Robert is authorised reseller with special offer (free tuition) [www.robertbrain.com/bullcharts/](http://www.robertbrain.com/bullcharts/)
- Learn a little more about Technical Analysis?
  - books, courses, seminars, newsletters
  - Next week's U3A session!! — a crash course.
  - Robert is running two seminars in March [www.robertbrain.com/shareseminar/](http://www.robertbrain.com/shareseminar/)

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**Beware!  
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**What Next?**

### Final Word

- As a part of his regular trading strategy, Robert analyses the state of health of the Aussie market on a weekly basis.
- And the results are posted on the internet here: [www.robertbrain.com/weekly/](http://www.robertbrain.com/weekly/)
- More details are available each week to **Toolbox Members** here: [www.robertbrain.com/members-area/](http://www.robertbrain.com/members-area/)

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**Beware!  
The bears** Summary & Wrap up

## In Summary

- It can be very beneficial to be aware of the bears.
- It does not take much time.
- Compared to the money at stake, the costs (time and money) are very small.
- Bottom line:  
*Protect our hard earned capital.*

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**Beware!  
The bears** Summary & Wrap up

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## Any Questions?

ps: A copy of the slides (PDF file )  
and more details are available.

[www.robertbrain.com/presentations/](http://www.robertbrain.com/presentations/)  
Or, simply send an email request to:  
[robert@robertbrain.com](mailto:robert@robertbrain.com)

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**Beware!  
The bears** Summary & Wrap up

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## Now, what about next week?

(Back to other slides...)

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

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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

### 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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## BEAR MARKETS — charts

A study of past bear markets  
is posted on the web.

For details, visit:

[www.robertbrain.com/bearmarkets](http://www.robertbrain.com/bearmarkets)



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