

Hi Everyone,

Since this bear market started October 9, 2007, all 10 sectors in the S&P 500 have declined from 18% to 59%. In addition only four of the 128 sub industries rose during this period. I guess the old saying is true, “that during a bear market there is usually no place to hide.”

During a bear market there is traditionally no safe havens in the equity (stock) market. As I look at a graphic here, all 10 sectors in the S&P 500 have posted average price declines during all 11 bear markets since 1946.

The price performances for the consumer staples, healthcare and utility sectors traditionally outperformed the overall market as demand for their products and services has remained typically static during good times and bad.

Yet since 1946 their average price declines ranged from an average of minus 9 percent to minus 20% versus an average decline of 25% for all stocks in the S&P 500. As a result you can not say these groups are safe havens. This time around the same holds true as all 10 sectors posted declines since last October and in most cases their declines lined up in historical order.

This time around only the S&P 500 healthcare facilities, hyper markets, brewers and trucking sub-industries have risen during this year long bear market.

The worse performers on the other hand, have been thrift and mortgage finance, multi-line insurance, auto manufacturers and consumer electronics each of which experienced a more than 75% decline in price.

Last week we saw some improvement, will it continue?

After the market had its worse week in history, we rebounded sharply on Monday October 13th to put in one of the best days for the stock market.

As I take a look at a weekly chart of the S&P 500 going back to the 2002 – 2003 bases, I see that the market turned around on Friday Oct. 10th after hitting 840 on the downside.

If we look back in history a little bit to find where we based during the last bear market I see that we put in a low between the 769 area and 965. Therefore, this is an area that I have been watching as a potential support for the stock market during this crash. So far we have held in this fairly large and potentially significant chart support.

If we tighten it up a bit and take a look at the total bear market since the October 2007 high on a daily chart, I see that we bounced off the 840 level on an intra day basis on Friday the 10th as well. Then on the following Monday we got up above the 1000 level and on Tuesday we got up above the 1040 level. So the good thing, if there is a silver lining in this price structure is that because the market fell so sharply and so quickly there

isn't a lot of overhead resistance because there wasn't a lot of buying once the market broke down between the 1100 & 1200 area.

The market has the potential to run a little bit here. We don't know the exact price pattern that is going to evolve; we could put in a very small double bottom like we did during the 70's market which was very weak. We had a full re-test of the low, I don't think we have to have a full re-test during this time because of the precipitous fall that we have had, however if we look back to the 1930's we had a huge rally that was followed about 8 months down the road by a re-test. However we didn't come all the way back down and re-test the lows, we retraced about half of the initial gain.

I think from a chart resistance stand point we could see the S&P run up to + 1100 even up to 1200 but 1200 would probably be a real ceiling here because that is when a lot of buying started to come in and that buying ended up being really wrong very quickly.

If I look at the Fibonacci retracement levels of the entire bear market I see that on Tuesday we exceeded the 28.6 so the next Fibonacci which is a 38.6 retracement comes in around 1121 and the 50% comes in right around the 1200 level which I think would be a top for an initial move here off this panic low.

So to recap:

I think that we have a potential chance to go up here in the near term but then we could definitely see some kind of retracement down the road.

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