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### Buy now, chances of making a killing are extremely high

The Market is at a near-term bottom; with the NYSE short positions setting another record high, a substantial, energetic and fast-moving rally is due to correct the excesses in selling of the last couple of weeks and then some, culminating in the 3<sup>rd</sup> Q 2009.

I am going to make the case for a crash in oil prices and a concurrent intermediate –term Spike in most stocks. In particular we favor the Homebuilders, Financials, Small Cap Growth, Airlines and couriers. If we look at the insider transactions published in Barron's we see on the buy side one forward looking insider (10%+ holder who is a director or upper management), buying his homebuilder stock (HOV), and one buying Aerospace (BEAV). In the sales column there are 7 individuals selling oil and oil service stocks these are CRED, SII, PDO and MDR. Since insiders are the smart money, this tells us that homebuilders have been oversold and about to rebound in a big way, while the bubble in Oil is about to burst. Along with oil, many other commodities responsible for inflation will likely follow suit. This will take the bite out of inflation and allow for further Fed cuts, or at least no rate increases in the foreseeable future. Meanwhile, the stimulation package is showing signs of success, with Wal-Mart earnings nearly 50% higher than the median earnings estimate.

Unlike what is being circulated in the Media, a 20% decline does not a Bear Market make. Secular Bear Markets last at least 10 years, and possibly much more. Our Bear Market began in 2000 and has quite a bit to go. In previous letters I've made the case for this Bear Market lasting the rest of our lives, and that's why we chose to call our firm Exceptional Bear...exceptional profits, in a Bear Market.

As Romel Naper writes in the Anatomy of a Bear, bear markets bottom under three circumstances: when there is a recession, when there have been extreme disturbances in price levels and when commodities stabilize. Well two of the three are about to occur. Oil has gone up quite quickly, as a rule, the subsequent drop is at least as swift and usually more so, this will certainly entail extreme disturbances in price levels. There have only been only 4 Bear Markets in the last century ending in 1921, 1932, 1949 and 1982. Our cub is the offspring of the 1982 Bear Market Bottom and will likely have similar, albeit more modest characteristics.

In the Big picture we are in a Bear Market Rally which must complete with a blow off bubble, luring in the very last investor before the Crash. That Crash is at least 14 months away, and possibly 22 months. In 1928 a very similar formation occurred where the Dow dropped 14.7%, then proceeded to climb nearly ~50% before the Crash. We are likely repeating this scenario although we may climb somewhat less than 50%, at least 30% seems assured in the Dow although 50%+ in the Homebuilders and Financials is a high probability.

We are in effect coming out of a "cub market", that is a prolonged **correction within a Bear Market Rally**. It follows that if you buy at the bottom of a Bear Market or a Cub Market, you stand to make fantastic gains. **If you buy now, your chances of making a killing are the highest since 1982.**

### Barron's seconds our analysis of the Homebuilders

This week's Barron's cover article focuses on the housing market. In essence, based on recent data, pessimism seems to be overdone. Sales of existing homes are showing tentative signs of increasing, while the plunge in prices is nearing an end. There are two proposed acts of congress that would greatly ameliorate the prospects: one the recasting of some \$300 million in troubled sub-prime mortgages through the Federal Housing Administration (FHA). The other proposed legislation is a proposed government takeover of the troubled Fannie and Freddie, the biggest source of financing for the US mortgage market. Both would work short-term wonders on the housing market.

Chip Case, after which the Case-Shiller Index is named notes that new housing starts fell to 975,000 in April from a peak rate of 2.27 million in January 2006. Three declines of similar magnitude have occurred in the last 35 years and each time the housing market has rebounded and caught the experts by surprise. One of those times incidentally was the second Q of 1982, as I noted in last week's issue, the second half of that year began the biggest bull market in history. Although this will only be a bull market spike, it should have many of the same characteristics. Including a rebound of housing prices and a surge in small cap value and if I'm not mistaken a plunge in oil. Of course a resurgence of housing prices and plummeting foreclosure rates will hold well for the banks which can begin marking those sub-prime securities to market, at a profit.

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**Exceptional Bear**



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