



Exceptional Bear Market Letter

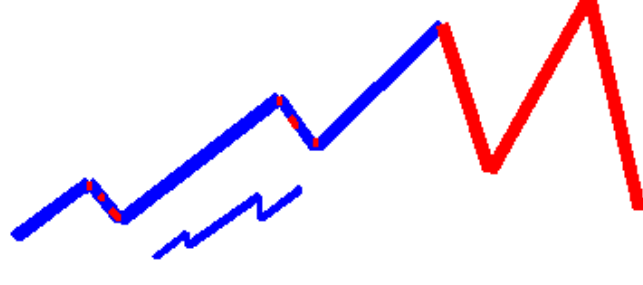
October 8, 2008

Not a *do-it-yourself* Market

Long-term net worth vs long-term investing

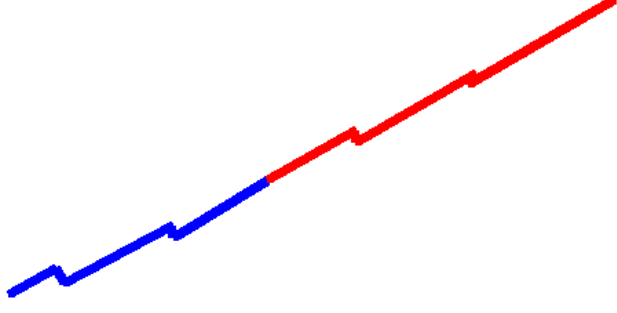
Long-term Investing in a Bear Market is detrimental to your long-term net worth. Synonymous with *“buy and hold”*, long-term investing, is a strategy which works very well in Bull Markets, since barring small corrections, the larger trend remains up. But what about Bear Markets? Anyone investing for the long-term in 1928 would have been decimated by 1932. Not until 1949 would they have gotten even, assuming they held on and carried no stocks that went belly-up, like Bear Stearns and Washington Mutual. Could you wait that long?

What we've come to know as a “bull” move is 5 steps or waves up, where 2 and 4 are smaller corrections. Once five waves up are complete, a correction gives back two-thirds of the entire move. In the really big picture, March 2000 was the end of 5 colossal waves originating in the 17th century, the eventual drop is far steeper than anything we have experienced in the last 300 years. This is several levels of magnitude larger than 1929-32 in terms of severity and time. That means that if you are old enough to reading this, *the Bear Market will outlive you*. No matter how financially secure you are now, the Bear Market will likely squeeze you. What's more, if you continue investing the old way, you will soon find yourself downsizing or broke.



Above is a stylized 5-wave progression followed by a 3-wave correction. The smaller segment below depicts one of the sub-divisions magnified, where each of the parts is contained in the whole.

In this Bear Market there is not a more fitting expression than *“In the long-term we're all dead”*. Given you comprehend this, Bear Markets allow a good Market Timer to shine, since volatility is high and catching those swings in both directions means much more profit and commensurate rapid compounding of your nest egg. Take the red portion of the graph above, representing a correction, if we invest alternately short, long and short with the market moves, a graph of your net worth graph might look much like this.



The Start of a *b-wave* rally

In the *Dow*, the next move is a *long b wave* up, will likely exceed the previous high of ~9650 on Nov. 5th. Notice that we just missed the crossing the minimum downside needed to complete *wave IV* of the *Diag II*, marked by the red dashed line. Once the upside plays out, we drop back down below this line at 8600, before continuing the climb. In the *Dow*, *Diag II* in both the *a* and the *a* of *b* waves compounds the upwards thrust and is *the most bullish configuration at the beginning of a move*....Foreign buyers buy blue chips to get currency appreciation at a nominal risk, along with a dividend. With interest rates dropping hard in Britain and Europe, the Dollar should be a major beneficiary, as the interest rate differential narrows substantially.



In conclusion, our stocks are setting the stage for a rally back near the highs of November 5th. *b waves* are sucker's rallies. They lure in optimistic investors after exceeding the previous high, just before the subsequent plunge. Traders should go long, while long-term and pension investors should cover at least half their shorts and inverse funds, in order to buy them back cheaper near the top.

Instead of concentrating on the long-term, you would do better to focus on your long-term net worth. In a Bear Market, you either hire a really good market timer or learn the hard way that you should have, after its too late. *This is not a do-it-yourself market*. In the menu at the upper right you can navigate our website to learn more, no password required.

Best regards,

Eduardo Mirahyes

Exceptional Bear



“Opportunistically timed investments that maximize wealth”