



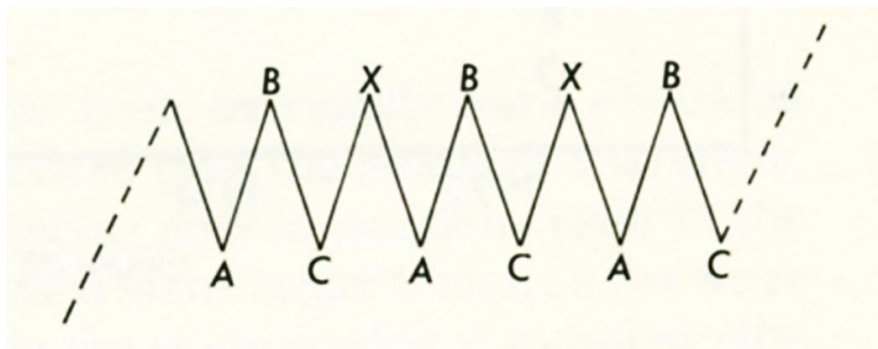
Exceptional Bear Market Letter

November 29, 2008

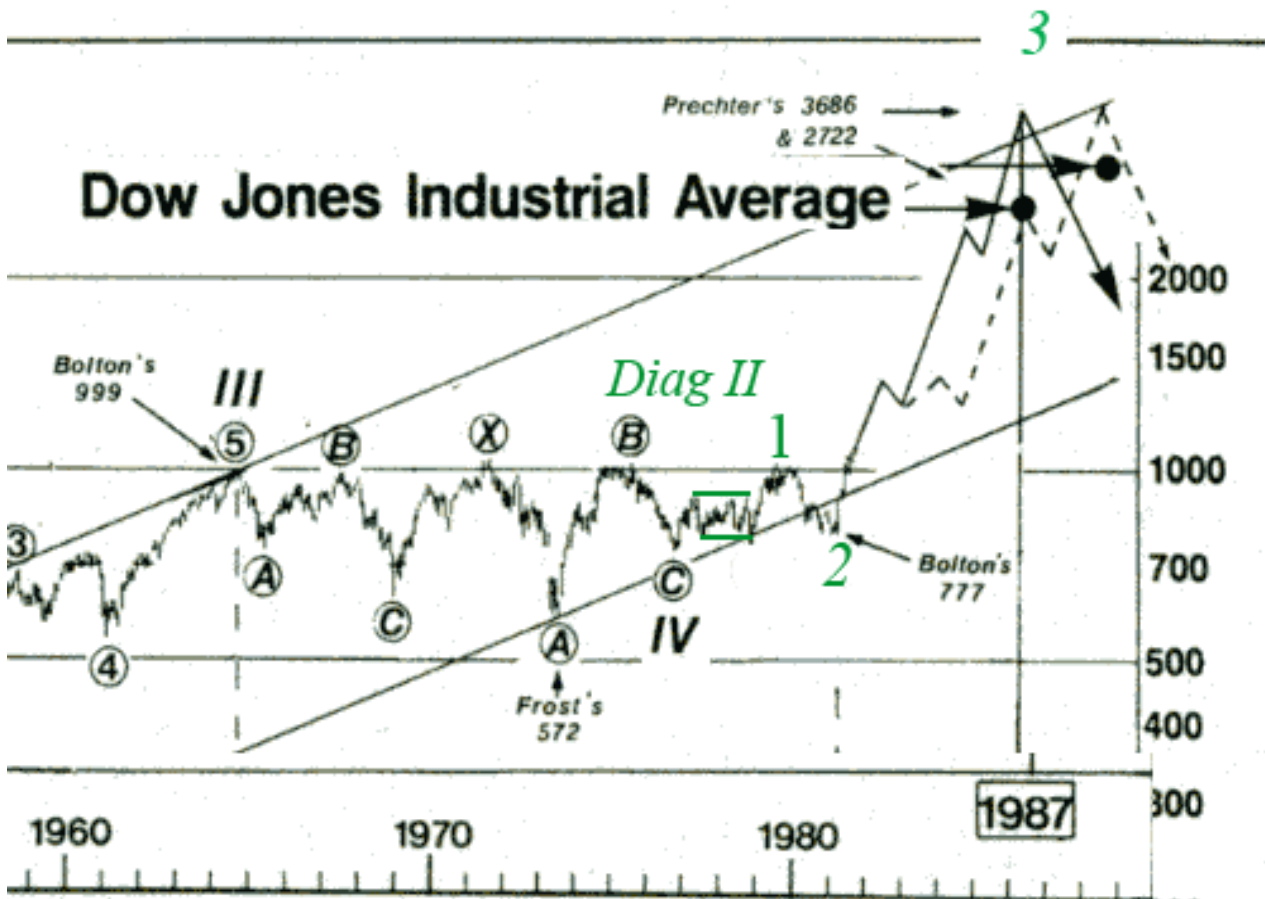
Explosive year-end rally to kick start another 5-year move.

After last weeks spectacular rise, the second best in a century, we can expect to give back roughly 2/3 in the next week. Afterwards, get ready for the mother of all Bear Market Rallies. The market has been battered with the S&P down 42%, fundamentally stocks dirt cheap by just about every conceivable measure. As Warren Buffet avows **“Buy when their fearful, sell when they’re exuberant.”** Although we can still expect an extended bear market, there will be powerful rallies of 50% or more which you can opportunistically trade with our signals. Our previous scenario is no longer viable, the **Diag II**s everywhere indicate that we’re headed up for a big move up, which can hardly be completed in a mere eleven months. **Diag II**s, which begin a long move, are much larger and numerous than those which occurred at the beginning of the bear market rally in 2002 labeled **A** below.

The diagram below is now the most probable scenario for the Great Bear Market, since it stretches out the longest, while remaining relatively flat. So far we’ve had two down legs: from 2000 to 2002 labeled **A**, and from 2007 to the present **C**, with an intervening **B** rally. We must now rally for another five years, give or take a little, before peaking a third time in wave **X**.



History provides some useful insights. After the devastating 1965-1977 Bear Market, the Dow also started up in a large **Diag >** just as we have seen since February 2008. The recent bottom in **wave 2**, should be ending next week. As in the chart, it should be followed by a powerful **wave 3** Rally of at least a 30% upside. In other words the **X** wave should exceed the last high by a substantial margin, before the biggest drop in the second wave **A**.



Although our current Bear Market will dwarf the example above, it too was a **wave 4** correction lasting from 1965 to 1977. Although widely considered to have ended in 1982, 1977 was the orthodox bottom. From there we began a long **Diag II** leading to a **wave 1** peak, and correcting in **2** as shown above. **X** waves look much like bull moves; they are “Bears in Bull’s clothing” that abruptly end when we’re still expecting **waves 4** and **5** to materialize. I have inserted a **Diag II** to correct a longstanding error in the chart below, again showing how these formations are often missed by the vast majority of Elliott practitioners. The implications of missing that **Diag II** resulted in Prechter’s calling for the Market Top in 1987, rather some thirteen years later in March 2000.

The chart above is comprised of two **a-b-c**’s joined by an **X**, although the maximum number is three. From the bottom of the correction beginning on Monday, **we will likely climb for another 5 years to a new high in the Dow**. The deflationary scare will once again progressively turn inflationary. How can it not, with the Fed having just pumped \$2.2 trillion into the economy this quarter alone! Along those lines the 10-year bond having briefly fallen below 3%, will likely climb back to 4.5% in two years or less. It follows that the next top will be a hell of a bubble.

Needless to say anyone with a five year time horizon should be fully invested soon, optimally with our timing signals in the next several weeks. *No Random Walk here!*

As you can see below the **Dow** is on slightly different pattern than the others. From the current 8829 it should drop below 7500. As you can see there is a downside **Diag II** in the **a wave** indicating the beginning of a long move down, relative to its size. The **b wave** we see at the far right is analogous to a diver springing off the old-fashioned springboard in preparation for a dive. This is the second **Diag II** in sequence, the one to which I referred above was much larger; however two or more compound the subsequent thrust to the upside. In the lower chart you see the RSI has just kissed the 70% line where it has previously reversed on this chart. I am trying out **green** as the upside color in place of **blue** for the holidays.



We are currently short/inverse 8-9 funds/stocks. Once the drop is complete, we will go long again. Why should you subscribe? Subscribers receive 9-11 more detailed charts each weekend, along with end of day allocations by 3:30 EST. Changes occur approximately once a week. What you will find invaluable is our [performance](#), which for the year just ended was 250%. For those looking to minimize volatility, while maximizing gains our **Pension strategy** may be right for you. By having only 50% invested at any one time, we are able to reverse immediately, instead of waiting 3 days for settlement. The results are still a very enviable 170% with **minimal draw downs**. If you are the worrying kind, this is the strategy for you, regardless of the type account. [Click here](#) to learn more.

Regards,

Eduardo Mirahyes

Exceptional Bear



“Opportunistically timed investments that maximize wealth”

