

# MARKET STRATEGIES AND INSIGHTS

*...for Sophisticated Institutional Investors*

November 2, 2012

## BULL MARKET EXTENSIONS Q&A

I've gotten several questions in response to my "Bull Market Extensions" piece. The two most commonly-asked questions and my answers to them follow.

*Does this mean you've abandoned your assumption that the market is going to make a Four-Year Cycle low during the first half of next year?*

No – just that the probability of a Bull Market Extension has increased to the point where we need to consider it as a real possibility. We can't rule out an on-schedule Four-Year Cycle low yet, though, because two prior Bull Market Extensions were followed by very severe albeit very brief declines: the 41% decline in 1987 took place in just two months, for example. Meanwhile, the 1961-1962 decline of 29% took only seven months to run its course – and the long topping-out process following the actual high meant that the market staged a 28% decline during just the last 14 weeks of that seven-month period. This is a horribly-insignificant statistical sample, of course, so I'm not sure if we should draw any really strong conclusions from it – and in any event the Four-Year Cycle lows occurred well after their scheduled times in both cases.

*The previous Bull Market Extensions saw the market make its high at or after the time when the Four-Year Cycle low was supposed to occur (more than a year afterwards, in fact, in 2007). Does this mean the market has a green light through the first half of next year?*

Not really – a sample of three, again, is a horribly-insignificant one. So while a green light through the first half is possible (as the late Stan Berge always reminded us, we are dealing with probabilities, not certainties) I wouldn't say it's probable. I should also point out that topping processes are often long, drawn-out affairs where the market hovers pretty close to the actual high for some time. In 1962, for example, the Dow-Jones Industrials' high of 740 was made in mid-December of the prior year, but it traded as high as 727 in mid-March before plunging to a June 25<sup>th</sup> low of 525.

The Market Now. The market staged a pretty steep short-term correction in late October but never generated the 90% downside day that would have indicated that the decline could be something that had longer-term implications. The market subsequently made a nice short-term reversal pattern and has now completed that pattern, although the internals suggest that the current rally is much more likely to be part of a top-building process than the start of a new leg to the upside. In any event, we are still waiting for the 90% downside day that would tell us that the market may finally be responding to the internal negatives plus the fact that we are dangerously late in the Four-Year Cycle – which would especially be the case if that 90% downside day comes relatively early in what would otherwise quite possibly be just another short-term decline.

Fidelity Sector Funds. 79% positive vs. 64% a week ago. Switching program holdings: #4 Consumer Finance, #17 Biotechnology and #23 Banking.

The Election According To Intrade. The current probability that Obama will be re-elected as compared to what it was last time: 67.2%, up 6.0%. The current probability that he will carry key states: Florida, 31.5%, down 1.6%, and Ohio, 67.4%, up 8.3%.

We will publish a state-by-state tally of the Intrade markets Monday night so that you can judge for yourself if our faith in Intrade's predictions that has been derived from following it very closely during the last two Presidential elections is justified or not.

*-- Walter Deemer*

FIDELITY	PRICES in cents)						DTR		S' RENGTH		RATINGS	
SECTOR FUND	Oct 31	Oct 24	Oct 17	Oct 10	R/C	Oct 31	Oct 24	Oct 17	Oct 10	Oct 3		
Gold	4188	4017	4258	4218	63	108	44	100	93	101		
Constr/Hous'g	4708	4688	4720	4576	11	101	89	126	100	149		
Multimedia	5604	5633	5741	5607	0	83	84	122	94	126		
Consumer Finance	1466	1460	1489	1473	5	82	76	124	111	132		
Insurance	5240	5286	5399	5242	-9	65	74	111	80	80		
Broker/Invest	4917	4862	5012	4875	14	65	50	105	70	80		
Wireless	811	810	831	812	12	50	38	109	43	76		
Healthcare	14279	14430	14964	14697	-12	48	60	119	93	132		
Materials	7026	6981	7280	7033	17	46	29	82	38	55		
Utilities	5798	5738	5873	5765	16	45	29	57	34	37		
Financial	6055	6046	6151	6036	2	41	38	81	58	62		
Telecommun	5126	5120	5267	5207	-5	40	46	91	66	92		
Nat Resource	3260	3217	3383	3266	29	37	7	72	24	38		
** Emerging Mkts	4115	4108	4227	4102	22	35	14	50	-1	24		
IT Services	2461	2427	2546	2519	23	30	7	80	64	96		
Chemicals	11390	11332	11758	11313	12	30	18	66	20	43		
Pharmaceutical	1527	1546	1604	1562	-16	29	45	100	64	99		
Biotech	10761	11087	11783	11378	-33	29	62	159	118	181		
Industrials	2457	2460	2508	2445	16	27	10	49	13	39		
Energy	5154	5108	5363	5177	23	25	2	68	21	39		
Indust Equip	3549	3512	3643	3550	30	25	-6	51	13	35		
Consumer Discr	2738	2716	2806	2766	10	24	13	62	43	65		
Defense/Aero	8369	8307	8457	8219	25	22	-3	30	-6	11		
Banking	1946	1937	1979	2009	5	22	16	69	81	95		
Consumer Stpls	8102	8089	8316	8182	-4	21	25	71	50	66		
Airlines	3817	3797	3847	3756	9	20	11	24	-4	12		
* * S&P 500	141216	140875	146091	143256	10	18	8	61	36	63		
Environmental	1599	1572	1635	1572	30	18	-12	41	-5	23		
Retailing	6217	6166	6348	6295	6	14	8	57	50	81		
Medical Del	6101	6115	6233	6214	0	7	7	38	52	56		
Medical Equip	2801	2786	2903	2881	7	7	-1	62	40	94		
Natural Gas	3089	3065	3238	3115	23	4	-19	48	0	4		
* * T Bills	1985	1985	1985	1985	0	0	0	0	0	0		
Automotive	3412	3352	3442	3325	34	0	-34	6	-36	-3		
Transport'n	5128	5091	5186	5060	11	-2	-13	6	-28	-12		
Software	8464	8447	8811	8723	15	-8	-23	41	29	87		
Energy Serv	6467	6528	6911	6619	3	-19	-22	52	-10	-2		
Technology	9883	9911	10288	10138	11	-23	-35	25	11	68		
Leisure	10051	10019	10542	10274	5	-27	-33	30	4	39		
Comm Equip	2067	2073	2174	2129	23	-52	-75	-12	-35	10		
Computers	5930	5996	6250	6209	5	-69	-74	-14	-22	21		
Electronics	4246	4163	4420	4263	40	-104	-144	-76	-131	-80		