



Third Party Research

February 5, 2019

Bulls and Bears

eResearch Corporation is pleased to provide an article by Keith Richards of **VALUETREND**.

In this article, Mr. Richards compares some past bull/bear markets and looks for similarities and differences.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: <https://www.valuetrend.ca/the-playbook/>

You can also visit the **VALUETREND** website at the link below:
<http://www.valuetrend.ca/>

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Friday, February 1, 2019

Dazed & Confused

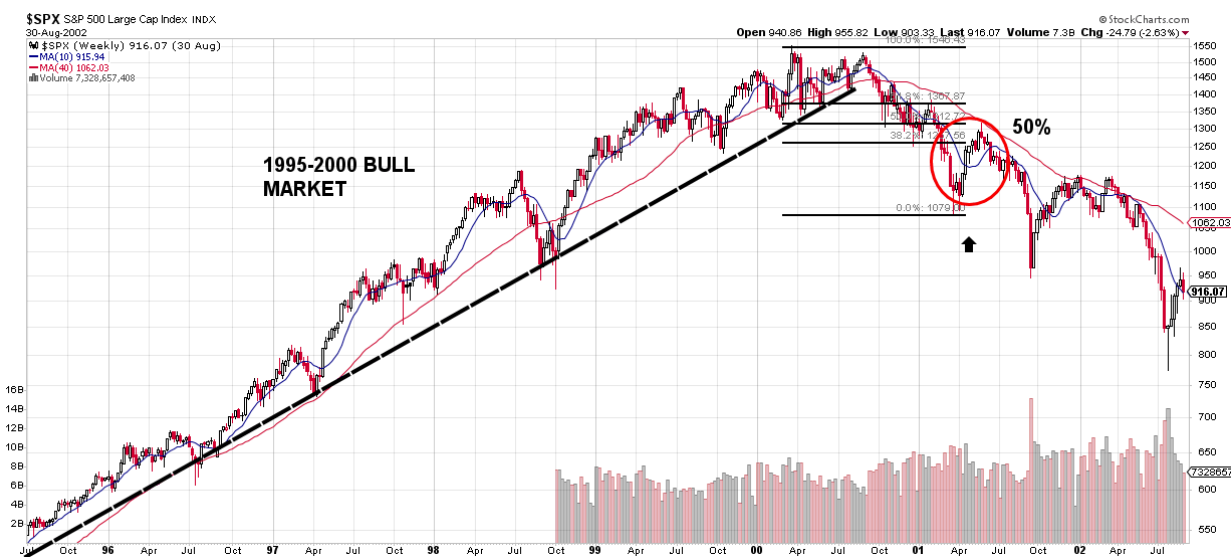
By: Keith Richards (bio at end)

I would like to offer up 3 charts comparing bull and bear cycles – and note similarities across all three charts.

But I would also like to illustrate why the current sell-off is not entirely like that of the first two – leading me to be a dazed and confused.

I am not 100% convinced that recent actions are leading into a bear market similar to what happened in the first two charts. However, there are enough conditions present to suggest that the market could easily tip into that bear market scenario on a dime...hence the mindset of being “dazed and confused”.

Chart 1: 1995 -2000 Bull, 2000-2002 Bear



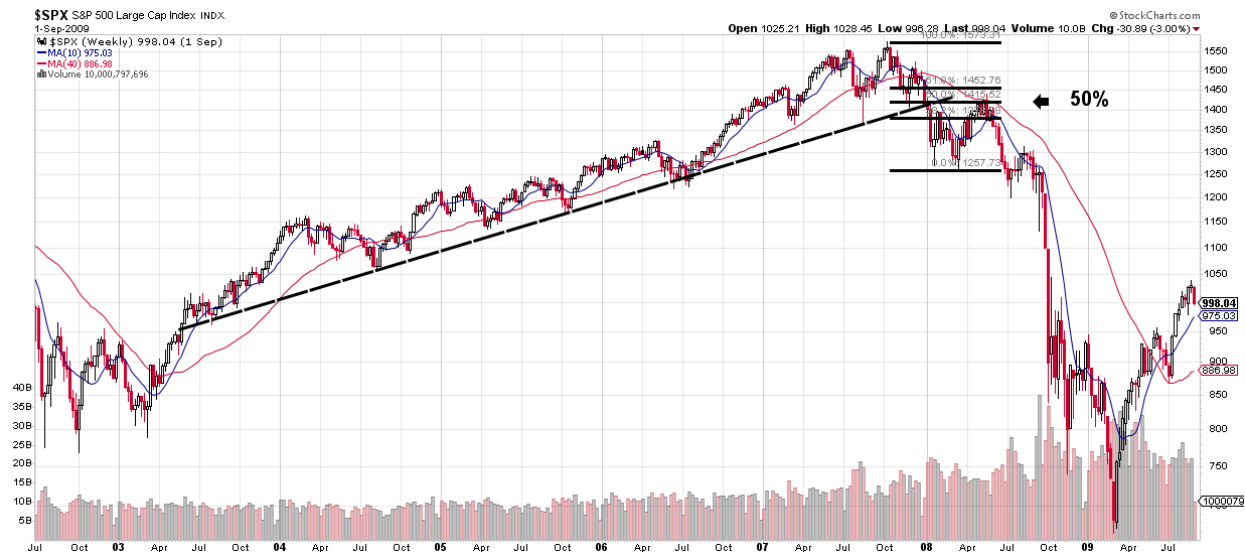
The weekly chart above shows us the strongest trending 1995-2000 bull period, despite the bull market truly beginning in the late 1980s. The earlier trend of that bull had a much lower angle of accent- making that period less similar to the next two charts.

Four conditions can be observed as the market trended through its 1995-2000 bull market phase, and then transitioned into a massive bear market. They were:

- Sharp angled bull trend with consistent higher highs and lows, above the 200 day SMA with only brief breaks
- Narrow leadership in the latter years of the bull market (technology & “dot-com” stocks)

- When the market broke, it then rebounded by a 50% retracement but did not return into old trend-line- as discussed [here](#)
- When the market broke – it broke its sharp angled trend-line.

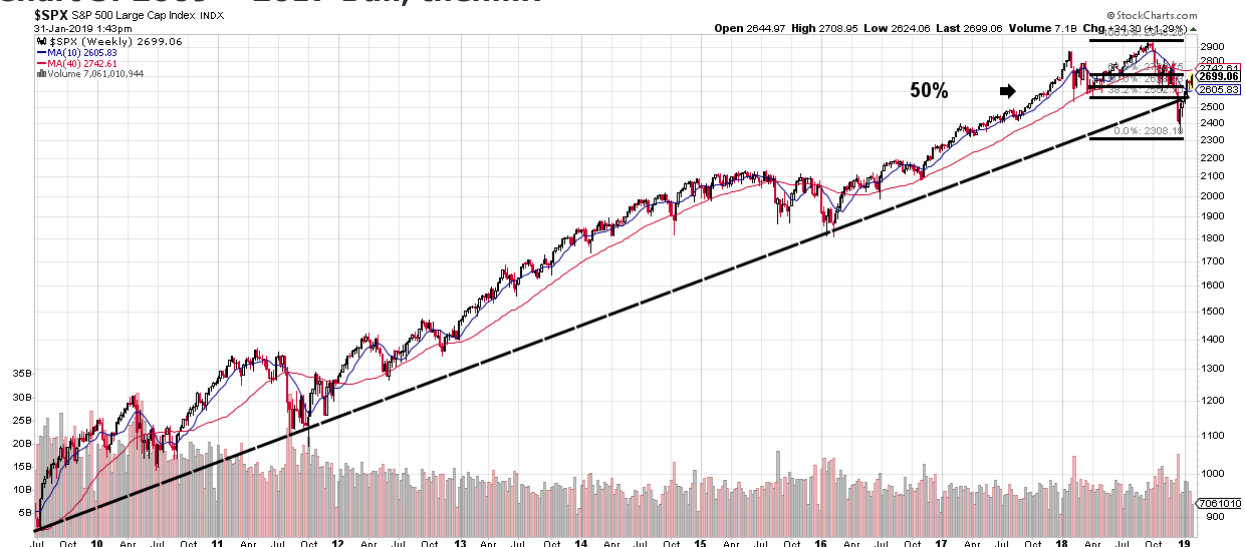
Chart 2: 2002 – 2008 Bull, 2008 – 2009 Bear



Here, we see 4 similar conditions as we saw during the prior bull, with a few nuances:

- More regulated bull trend with consistent higher highs and lows, above the 200 day SMA with only brief breaks
- Narrow leadership in the later years of the bull market (energy, financials and junk bonds)
- When the market broke, it then rebounded by a 50% retracement
- When the market broke, it made a lower peak and trough, which took the market back up but not into the bull trend-line

Chart 3: 2009 – 2017 Bull, then....?



- More variety in this uptrend. Very sharp, tight low volatility trend in 2017 that led into a sideways 2018
- Narrow leadership in 2017 during the later years of the bull (FANGs, other technology stocks)
- When the market broke, it so far has retraced a bit more than 50%.
- The market has returned to its longer term trend-line

Conclusion

We have some similarities between the three charts in that they all broke the 200-day SMA, they all broke a dominant trend-line by taking out a dominant low, and they were all led into the break by narrow leadership.

The difference this time around is the return of the market to trading above its long-term trend-line. It is for this reason that I am less convinced that we are entering into a bear market with any certainty. However, there are enough similarities within the other factors that worry me.

To paraphrase Robert Plant:

I've been dazed and confused for so long it's not true. I wanted to invest, but never bargained for you!

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See **About The Author** on the following page.

ABOUT THE AUTHOR



ValueTrend Founder and Owner, Keith Richards, has been in the securities industry since 1990. ValueTrend manages over \$100 million through a discretionary investment service for high-net-worth clients.

Keith Richards has been in the securities industry since 1990 and is a highly regarded member of the small, exclusive community of Chartered Market Technicians in Canada. Mr. Richard's articles appear regularly in INVESTORS DIGEST, MONEYLETTER, GLOBE AND MAIL, and the TORONTO STAR newspapers.

His appearances on BNN Television have inspired producers to acknowledge him as **“one of [our] most accurate technical analysts.”** Mr. Richard's first book, SMARTBOUNCE: 3 ACTION STEPS TO PORTFOLIO RECOVERY, is available in bookstores and directly through his blog page www.valuetrend.ca/blog/. His second book, SIDEWAYS: USING THE POWER OF TECHNICAL ANALYSIS TO PROFIT IN UNCERTAIN TIMES was released in late 2011. He has been critical of the commission-based, follow-the-pack approach to investing – where brokers succeed regardless of performance.

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