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GUEST EDITORIALS

The Big Bad Bear Is Coming

Preserve Your Assets Now

by Robert B. Gordon, Sc. D.

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My best guess at this time is that probably less than 1% of the adults in America have any idea of the serious financial problems ahead for our country and much of the developed world. It is also obvious to a few expert observers of our financial scene that, only a tiny percent of our leaders in Wall Street and Washington, are voicing such concerns. They may see a darkening cloud on the horizon but have chosen not to awake or frighten the masses.

Do we really have three bubbles not just one? Why doesn't Alan Greenspan see the huge credit and real estate bubbles? Of course he claimed not to

recognize the stock bubble either until it had burst. Today, the real estate industry doesn't see a bubble. Maybe its just too early to see it like the stock market in 1997 or because they're too busy selling houses and mortgages.

Why, in the biblical story of Noah building his ark, did he build it in fair weather without a sign of rain. Of course Noah was tuned into a better information source than Mr. Greenspan. Somewhat surprisingly, it turns out there are a few modern day Noahs out there. Their e-mails to me indicate they have sold their house and are renting until all the bubbles have burst and the economy is much stronger than today.

Recently I wrote about the huge massive top in the stock market created over the past five years or more. It now seems that the credit and realty bubbles, like stocks, are taking longer to reach a peak and start down. There is absolutely no doubt in my mind that severe trouble lies ahead for our credit and real estate bubbles. Sir John Templeton, great mutual fund pioneer, has been quoted recently that the price of housing may drop 90% from today's prices. This happened before in this country, but only in local areas as in the Gold Coast of Florida after the 1929 Crash. All the signs today are that the damage from our 3 bubbles bursting will be far worse than those in 1929 when the dust has finally cleared.

Look at Japan for a good guess at what lies ahead for us. In the late 1980's their economy was the wonder of the western world. Business leaders from other countries went to Japan to learn the secrets of their success. Not only did they have a huge stock market boom, but the prices of their real estate went through the roof. Finally with all their local "trophy" properties at sky high

prices, the Japanese came here and bought the Rockefeller Center and other U.S. properties at very high prices. Their stock bubble burst at the end of 1989 and after 14 years stocks are down almost 80% and real estate is down more than 50% with no bottom in sight.

WHAT'S WRONG WITH THE ELLIOTT WAVE FORECASTS?

When I read Robert Prechter's prophetic book [At the Crest of the Tidal Wave](#) in 1995, I was convinced the great market drop was coming in perhaps two years. Even the author was surprised at the long time it took to reach the final market top because the final wave 5 evolved in an extremely extended form and took an unusual time to complete. The slow progression of this bear market so far is clearly because it involves the topping of a 3 century long Grand Supercycle Wave rather than one of lower degree in the case of the 1929 crash. A full discussion of the ongoing market top is given in Prechter's *Conquer the Crash* published in 2002. These two books are at least as valid and meaningful today as when they were published. I highly recommend them to anyone wishing to understand what is now happening at the start of a very lengthy bear market process which could conceivably take this whole century to complete.

Known only to its serious followers, the Elliott Wave Principle is all about permissible wave forms and not about timing. When an impulse wave 5 or a corrective wave 3 is complete, then a change in market direction is signaled. This change of direction signal may occur in minutes or hours in very short waves but it can and does take years for a major turn in market direction such as the year 2000 top.

So, in answer to the title question, the Elliott Wave Principle stands firm in its analyses. To use it and appreciate its value, it is essential to understand how and why it works so well.

A SAD TALE OF COMPLETED BEAR MARKETS

No two bear markets are ever exactly the same, but some interesting similarities exist. For example, overlaying our current S&P 500 chart on the long Japanese bear market chart shows certain similarities so far. Our NASDAQ chart seems to be following the example of the Dow chart in 1929. A study of the charts of all completed prior stock manias shows one startling fact, unknown by nearly all present day investors, namely, that each and every completed mania chart clearly shows that the price at the end is always below the price at the start. For instance, in 1929 the Dow started at 100 rose to just under 400 and bottomed at 41. Thus, observers knowledgeable of this fact can predict that this time the Dow will probably close below 1000 where it started. And due to its gigantic size, this bear market may take many years to reach that level.

WAKE UP, INVESTORS, BEFORE IT IS TOO LATE

Of all the bearish experts I read regularly, [Dr. Martin Weiss](#) (see his recent comments in www.financialsense.com) is probably the most outspoken. As his readers well know, he does not mince words. In his books and investment services, he has been calling for immediate strong action to preserve capital from the large losses he predicts for this bear market.

The fact that, in the very recent market rally top, bullish percentages of both analysts and investors were at the same very high level as at the 1999 bull market top confirms that this bear market is still in an early stage. Every investor who lived through the last major bear market in 1973-74, remembers that the final December 1974 market bottom was not recognized. The new bull rally had been underway for months and most losing investors did not return to the stock market for many years if at all.

Although trillions of investor dollars have been lost in the bear market to date, there will be many more losses. We urge our readers to sell their risky stocks and bonds right now before their losses mount in the months and years ahead.

SAFE HAVENS FOR YOUR CORE ASSETS

As described in our [recent articles](#), we like short to medium-term U.S. Treasury bonds matched with an equal amount of high grade Foreign Government bonds, owned directly or thru mutual funds. The Treasuries could be Zero Coupon bonds or TIPs (inflation protected). The purpose of the Foreign bonds is to protect assets from losses connected to the falling U.S. dollar. There are some excellent foreign bond mutual funds listed in one of my essays located in the www.freebuck.com archive. Click on Commentary and my name to view my freebuck archive.

For the duration of this long bear market, experienced investors should have some money in physically held bullion and mining stocks. One possibility is holding shares of the Closed End Fund of Canada - CEF (Amex), which holds gold and silver bullion in the vault of a large bank in Western Canada. It is impossible to guess whether our government will again seize non-numismatic gold from U.S. citizens. Shares of mining companies would presumably not be seized. So it would be well to have some shares of gold producers. My guess is that there will be no reason for our government to seize silver coins or bullion.

Hedging your assets thru ownership of "bear" funds that gain when the market goes down is a question for each investor to answer depending on experience and other considerations.

There are now more than a dozen funds that short a given market index but only two to our knowledge that are fully managed. Readers are urged to consult our many previous essays covering these funds.

INVESTOR ASSETS MAY BE IN GREAT DANGER

I am not worried about my long time readers who are fully informed about the great potential for future asset losses. I am worried about their family members: Parents still hanging on to their long-held stocks or young adults still adding to their 401k's.

As I have written previously, I have had almost no success in convincing my fellow retirees of the potential losses they may encounter. Many of them seem to be uninterested in discussing any aspect of the economy or stock market. They are apparently unaware of the huge problems being faced by major corporate pension fund assets which will affect their incomes. And many older Americans still have most of their retirement assets at great risk.

It is time to talk to your parents and children, as the case may be, about the great need to face up to the very real dangers that lie ahead. It will never appear on the front page of your daily newspaper before it is too late to act. It will be much better to make copies of this essay and give it to them now.

WHAT TO DO ABOUT REAL ESTATE

Although I have owned 14 homes in 6 different states on both coasts, I do not consider myself an expert on sales prices or mortgage interest rates. These subjects are being well covered on the internet right now. I suggest that any reader who is worried about his home should keep very up to date on signs of a break in the real estate bubble.

Home owners who have purchased a home recently with a very low down payment and a variable rate loan need to be well aware of their precarious position once the bubble bursts as I believe it will at some perhaps unexpected time.

MY PREVIOUS BEAR MARKET EXPERIENCE

I do not know what percentage of living adult investors were actually invested during the only

serious bear market in this country in the past 70 years. It must be quite small. It started with a mini-mania in stocks and funds in the mid 1960's. It ended in a "moderate" 50% drop in the major indices in 1973 and 1974. I was in my late fifties and well equipped by years of investment experience. I charted this market for 5 years using an unweighted market average of 3000 NYSE stocks. It showed that the bear market actually started a year earlier and dropped 63% at the bottom and with many mutual funds falling considerably more.

In December of 1974, my price chart hit a low point. At that time Wall Street was a desolate place. Volume was extremely low. No one was calling a bottom. The market continued up into 1975 for a number of months before low level buying began again. Mutual funds experienced 9 years of net redemptions after this mini-bear market.

This bear market was so small compared to 1929 and the current market that, on all the present GDP corrected charts, measuring the relative strength of 1929 and 2000, 1973-74 shows up only as a small blip. Please let this important fact sink into your mind.

This experience tells me and should tell you, dear readers, that no living investor can fully imagine what lies ahead in the current bear market. I may be one of a small handful of experienced investors to compare the size our current stock mania to those of the past. Comparing today with the 73-74 bear market is why I have written repeatedly of serious problems ahead when huge redemptions begin to hit many of our current mutual funds.

WHAT LIES AHEAD

Since the October low in 2002, all the market indices have been in a strong bear market rally that has turned a huge number of investors and analysts into reborn bulls. The ratio of bulls to bears has recently equaled that at the year 2000 market top. Elliott Wave charts identify this more than 2000 point rally in the Dow as Wave 2 which will soon lead to a larger Wave 3 downward leg in the continuing bear market. Quoting from the July 25 issue of the Elliott Wave Financial Forecast,

"The wave 3 decline that is now unfolding should reduce the market cap almost as much as that to date (\$9 trillion) but in half the time. It will also reverse a generation of investor's assumptions about ever-rising stock prices."

Whether this next down leg will lead to or involve a panic-type crash remains to be seen. But it should lead to a big reduction in the percentage of bullish investors. Now may be the very last chance to protect your assets from further grave losses.

As detailed in his 2002 year book, [Conquer the Crash](#), [Robert Prechter](#) has built a strong argument for the stock market decline to lead to a major economic Depression similar to the ones occurring in the 1930's in the U.S. and more recently in Japan. If his prediction of a major depression develops from the ongoing stock market decline, there will be many severe effects on employment and all types of real estate.

RECOMMENDED READING

I strongly urge all readers to read and study the two great books written by Robert Prechter and referred to above. I further recommend that you buy copies for all the members of your family who need to learn now what is coming in the near future. The cost of these books is trivial compared to their great value in saving your families invested assets.

Prechter's great 1995 volume has correctly predicted everything that has happened leading to the crash and its consequences so far. His 2002 volume has two parts. The first part covers, in great detail; the start of the current bear market while the second part gives his ideas on what

investors can do to preserve their assets.

Another very useful book is [The Ultimate Safe Money Guide](#) by Dr. Martin Weiss published in 2002. It is a very practical book with specific suggestions on safe places for your money etc. Prechter's Tidal Wave book gives a marvelous history of the stock market prior to the current crash while the other two contain specific useful information to help all investors right now.

All of these great books can be bought at Amazon.com

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