

# MORNING MARKET COMMENTS

by  
Don Hays

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## “The Sign of the Bear” Has Been Activated Now What?????

On August 5, 1982 (before this computer became so easy to use) I sat on my back porch and wrote probably the most important market comment in my life. A technical indicator (the 10-day average of the Arms Index) had just given a signal that it had only given six previous times in the last three decades, and in each case a major bull market started within the following two weeks. My report was entitled “The Bells are Ringing,” and it laid out the evidence, both technically and fundamentally, why I believed one of the strongest bull markets in history would indeed begin in the next two weeks. Indeed, on August 17, 1982 this mighty bull blasted off, and I became known as a perpetual bull until late 1997 when negative long-term evidence started telling me that an important top would be reached in April of 1998.

Tomorrow morning, my regular report will be entitled, “The Bells are Ringing II), and it will outline why I believe that the bull market of 1982, that really ended in the period from November 1997 to April 1998, but has been so well camouflaged since, is now about to reveal to the world that a bear market growling and snarling is about to come out of his cave for everyone to see.

For that very timely signal that I was able to use in 1982, I am very indebted to Richard Arms, who developed it, and to Marty Zweig who had brought it to my attention years earlier. Now for this new signal, which I believe is a very interesting and complex way to measure the waning bullish buying power in the market, I give total credit to Peter Eliades. In my life, it has been amazing how very important works of others have all of a sudden been brought to my attention, almost totally by coincidence, just at the right time. This is one of those cases, I believe (only time will tell for sure.) On the very first report that I received from Peter about 10 days ago, the possibility of the “sign of the bear” being activated was the subject. I had read this report in Barron’s from a few years ago, but now it was popping back up in “real time.”

At the very same time, my tentacles were seeing all kinds of problems that had been the same preliminary trends that had been occurring right before other recent crises during the last four years. The key thing that I wanted you to know this morning, and I’ll repeat much of this in tomorrow’s regular comment is that the Sign of the Bear signal that I have been describing to you in the last week was finally activated with yesterday’s very weak market. This is the 7<sup>th</sup> signal, according to Peter, in the last 73 years. The previous signals were given on these following dates, and the subsequent action in each case is described:

1. **July 22, 1929.** The signal was given with the Dow Jones Industrial Average at approximately 345, and it dropped further in the next couple of days to 340. But then it had a mini rally for the next five days that took it back to 255, then plunged to 335 in the next 5 days, rallied for about 18 days up to a peak of 381.17 on September 1, 1929. From

the date of the signal to the following peak of 381.17 took a total of 6 weeks. The final outcome of that phase of the 1929-32 bear market took the DJIA down to 198.69. Of course there was much more devastation in the years ahead, but it was temporarily interrupted by a fairly strong rally in the middle.

2. **December 14, 1961** This signal was given with the DJIA at approximately 730, and that first period of weakness took it down to 720 in the following few days. Then a 3-day mini-rally back up to 726, a 3 ½ week down period to 687, then a 6-week rally to 725, not a new high but very close to it, and that led to a 14-week crash that took the Dow down to a low of 535. The period between the signal and the real weakness was about 10 weeks.
3. **January 31, 1966** This signal occurred with the Dow at approximately 985 with that initial weakness that activated the signal taking it down to 975. But then it had a mini-rally that took it back to 995, which was the end of the 1949-66 bull market that Edson Gould had almost exactly predicted as far as time and level. (By the way, in my opinion, this equates to the same type of peak in the A/D line that occurred in April 1998.) This signal was one of the most timely, with it only taking about one week after the signal before the crash occurred that took the Dow down to 744 by October 1966.
4. **October 25, 1968** This signal was the best camouflaged. By the way, it was in the months that I was making a change from my Engineering career to the wonderful Financial Analyst business. Was I in for a rude awakening, as this signal was given with the Dow at approximately 957 with its first weakness just pushing it down to 945 in the next four days. The market then took off in a 3 ½ week rally to its peak of 985, then a drop to 900 low with one more strong rally to 968 in mid-May of 1969. The reason this was the most camouflaged is that it took about 26 weeks before the market really crashed, but once it did it started a 13-year period of very poor stock market performance. But the first crash in that 1969 period took the market down to 769 by December 1969.
5. **December 12, 1972** This signal was the most devastating since the 1929 one. The peak of 1036 was made right in that signal period, declined in the next couple of weeks to 1000, and then made its final high of 1051 in mid-January 1973. That devastating crash did not start for about four more weeks, but when it did, it was a mind-boggling experience, eventually ending at 569 in late 1974.
6. **April 6, 1998** I don't have to tell you about this one, but maybe I do. Since so many forget the tremendous damage that was done in that April-October period of 1998. The signal occurred with the DJIA at approximately 8980, and then rallied almost immediately for the next two weeks to its first fake-out peak of around 9250. The next few weeks were very volatile, but the overall action was a decline taking it down in the next 8 weeks to 8620. Then a big spirited rally for five weeks, taking it back to its final peak of 9340 by July 1998. The final period from the signal to the beginning of the crash was 14 weeks.

Now, today we have the McClellan oscillator for the NYSE at -120, and for the NASDAQ at -114. Both of these levels are at the first stage of being oversold, and make the short term very vulnerable to rally in the days ahead. With this election year, I'm sure they will be bringing every piece of ammunition they can to keep the spirits soaring.

For the nature of this signal, it definitely says that big trouble lies ahead, and it could be anywhere from a few weeks away to a few months. So the watch word is to become a very short-term trader, and make sure that you adopt immediately a very defensive posture. Nothing is for sure, but six out of six is not the kind of odds I want to dispute.

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