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## Stock market move

The U.S. equity markets appear to have started the process of reversing the entire bear market rally that began nearly 10 months ago. The first leg of this multigenerational bear market began with the October 2007 top (actually a double top including the high in July 2007) and ended with an intermediate bear market bottom in March 2009. The length of this decline was approximately 17 months (about 512 calendar days). The next leg of the bear market was a rally that potentially ended on January 19, 2010. The duration of this rally was approximately 319 days. We mention these date spreads to illustrate how long it can take a bear market to develop. In this issue, we explain something unique about the duration of the market's initial fall and subsequent rally. Consider the length of each move periods of optimism and pessimism applied to the market. The first move was a pessimistic period of 512 days. The first state of pessimism eventually yields to some form of optimism though the extent of the optimism is often muted. Technicians use terms like "overbought" and "oversold" to describe a market that is either too high or too low.

In the January forecast issue we discussed the proverbial "head fake" the stock market administered to investors. This head fake is part of the natural process of a bear market rally. The bear market rally erases those feelings of pessimism administered over the previous 512 calendar days and turns it into optimism slowly but surely. At some point in the bear market rally, former bear mood investors and advisors succumb to the apparent move upward and dive back in. Complacency sets in. We know there is complacency through empirical values such as the low VIX or volatility indicator.

We also know there is great optimism in the market by virtue of other indicators such as the Daily Sentiment Index (DSI), the Bullish Percentage Indicator (BPI), and the percentage of investment advisors who are presently bullish. All these indicators are in the high range.