



Report Excerpts from Major Bull Market Tops and Bear Bottom Bottoms 2000-2009

**Connect these market turning point dates with
dates on the following historical reports**

2000-2002 TECH BUBBLE BEAR MARKET

TOP	Mar 24, 2000	S&P500	1527.46
BOTTOM	Oct 9, 2002	S&P500	776.76
	% CHANGE		-49.1%

2002-2007 HOUSING BUBBLE BULL MARKET

BOTTOM	Oct 9, 2002	S&P500	776.76
TOP	Oct 9, 2007	S&P500	1565.15
	% CHANGE		101.5%

2007-2009 CREDIT CRISIS BEAR MARKET

TOP	Oct 9, 2007	S&P500	1565.15
BOTTOM	Mar 9, 2009	S&P500	676.53
	% CHANGE		-56.8%

2009-2017 FED QE BUBBLE BULL MARKET

BOTTOM	Mar 9, 2009	S&P500	676.53
TOP ?	Jan 25, 2017 (?)	S&P500	2298.37
	% CHANGE		239.7%



Article
Quote S
Compa



April 7, 2000

The Global Player

This Forecaster May Be Brash, But Belkin Is a Model Fellow

By **MICHAEL SESIT**

Staff Reporter of THE WALL STREET JOURNAL

LONDON -- Michael Belkin sees a lot of "C.R.A.P." out there. He's not just being vulgar; he thinks there are entirely too many listed "companies without revenues and profits."

Sounding like the fifth rider of the Four Horsemen of the Apocalypse, Mr. Belkin warns that the Nasdaq 100 index could fall another 60%, Germany's Nemax 50 another 62%, the Dow Jones Stoxx euro-zone tech sector 63% and the U.S. IIX Internet index another 66%.

Michael who? Mr. Belkin is president of Belkin Ltd., a one-man New York firm that uses quantitative computer models to forecast financial-market trends. George Soros, he isn't. But Mr. Belkin's clients include hedge, mutual and pension funds, proprietary trading desks of investment banks and some very wealthy individuals. What's more, his recent predictions have been on target.

"He was looking for a strong rally in Nasdaq in the first quarter and it happened," says John Hickling, a partner at Liberty Square Asset Management in Boston. "He was the first one that I know of to identify the Y2K monetary boom at the end of last year, and it would appear that he's been very right on his call on the technology-sector correction."

On March 2, Mr. Belkin spoke at a lunch sponsored by Instinet at the Paris Stock Exchange. His message: Stock markets could halve. His advice: Unload technology shares and buy government bonds. He was two weeks early. "But I'll never get it to the day," says the 46-year-old geek who cut his teeth designing computer-driven strategies for Salomon Brothers' traders.

But
A who
suddenly
host of re
But which
work?

Sp
Execu
spread of
for Interr
resonates
brick-and
boardroom
companie
"special c
employee

A SPI
1
Get
FRE
Per:
E-M
Your N



In this Section:

[World-Wide](#)

[Asia](#)

[Europe](#)

[The Americas](#)

[Economy](#)

[Earnings Focus](#)

[Politics & Policy](#)

[Editorial Page](#)

[Leisure & Arts](#)

[Voices](#)

[Weekend Journal.](#)

And it isn't just New Economy stocks that adorn his hit list. Mr. Belkin sees the S&P 500 falling 29%, Finland's HEX index 66% and markets in Germany, France, Italy, Sweden and Spain by 30% to 40%.

Behind these dire forecasts sits what insiders call a "threshold" model which, combined with analysis of the 200-week moving average of different financial assets, seeks to identify turning points in stock, bond, currency, commodity and emerging markets.

"When a market gets to an extreme deviation from its mean, it tends to revert to that mean," explains Mr. Belkin. "A speculative bubble is an extreme deviation from long-term trend, and a crash or correction is simply a reversion to a mean." Basically, Mr. Belkin tries "to supply a probability matrix that people can factor into their own asset-allocation strategies."

Want a history lesson? In 1929, the Dow peaked at 83% above its 200-week average; in 1987, it was 72%. In 1989, Japan's Nikkei peaked at 51%; in 1997 the Hang Seng crested at 57%. The average of the four pre-crash bubbles equals 66%.

Now get a load of this: The HEX is 190% over its 200-week average; the Swedish General 78% over; the French CAC-40 is 70% over; and the DAX is 61% above.

Oh, it's sectors you want? The Nasdaq 100, IIX and U.S. SOX semiconductor indexes are, respectively, 150%, 195% and 200% over. The STOXX Euro-zone technology sector is 169% over. Its U.K. equivalent is 147% over.

Mr. Belkin blames the U.S., Japanese and euro-zone central banks -- which he calls "the three blind mice" -- for these stretched valuations. All three pumped out billions to deal with potential Y2K glitches. "But there was no Y2K problem; so they totally screwed up and printed a bunch of money for no good reason," says Mr. Belkin. "That money spilled over into financial markets and ignited a huge financial boom."

What follows? A bash, of course. In December 1999, Mr. Belkin sent clients a mock New Year's Eve invitation: "You are cordially invited to the Greenspan Millennium Meltup Y2K Party!" Location? U.S.S. Bubblemania, Broad and Wall Streets.

Trust a guy who once played guitar in Los Angeles bars for a living and whose college graduation speaker was Ivan Boesky? "The weekly Belkin Report provides a valuable, contrarian view of the global equity, debt and currency markets, and very useful macro charts of global markets," says Steven Schoenfeld, head of international equity strategies at Barclays Global Investors. He

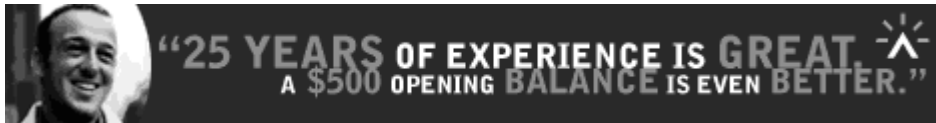
thinks the views can be extreme and sometimes quite wrong. "But he has had enough good calls to make his work valuable. When you're inundated with sell-side research, it is vital to get diverse views of the markets as a counterbalance."

Yes, there have been times when Mr. Belkin has missed the side of the proverbial barn with a howitzer. His worst call: getting the October 1987 crash wrong. He waxed bearish when the market peaked in August but expected it to rally to new highs after a 10% decline. "Then it crashed in my face," he says. "But I learned something: that I had to develop a model that incorporated risk-controls, which is this model."

Believe it or not, the bear does recommend buying a few things, such as Italian, Spanish, French, German and U.S. government bonds. And relative to others, he likes the Irish, Swiss and U.K. stock markets. In Europe, he favors the energy, insurance, health-care, utilities and food and beverage sectors. In the U.S., it's oil, insurance and retail food and discount stores.

Right now, it seems, the black-box model has a safety latch.

Questions or comments? Send e-mail to michael.sesit@wsj.com



[Return to top of page](#) | [Format for printing](#)

Copyright © 2000 Dow Jones & Company, Inc. All Rights Reserved.
[Copyright and reprint information.](#)

Companies without Revenues And Profits -- C.R.A.P.

Just about the only stocks still rising recently in the US and European equity markets have been **C.R.A.P.** stocks -- Companies without **Revenues And Profits**. In an extraordinarily shrewd and sophisticated asset allocation shift, the public is redeeming its *old economy* broadly diversified funds and index funds -- and is plopping that money down into the most promising investment sector of the *new economy* -- C.R.A.P. The effluent from this process is driving the broad market lower, as conservative mutual funds flush out old economy stocks to meet growing redemptions from investors who are switching into C.R.A.P. mutual funds and C.R.A.P. stocks. The new economy portfolio managers who are getting the massive inflows from the investing public, take those funds and buy more of the same C.R.A.P. -- thereby pushing up a slim segment of the market. Of course cash-flow, business franchise, products and profitability are handicaps in the world of C.R.A.P. investing -- which prizes multi-billion dollar market cap, minuscule revenues and massive operating losses (growing at a geometric rate) above all else. But new economy investors might be stepping into something soft and squishy that won't wipe off their investment portfolios so easily. Novice investors in financial diapers will no doubt be shocked when the C.R.A.P. hits the fan at the imminent conclusion of this speculative bubble. Because (after all) Companies without Revenues and Profits are simply overvalued C.R.A.P.

In all seriousness, industry group rotation in the US, UK, Eurozone and Japan is the most schizophrenic we have ever seen. Most stocks and groups are plummeting, while that small handful of C.R.A.P. stocks levitate. This is absolutely unprecedented. A last burst of frenetic speculative bubble fervor has coaxed hapless investors and portfolio managers into the stocks with the greatest downside risk -- just as markets roll over. While serious money is indeed being made in the worst C.R.A.P. at the moment, our model suggests that window of opportunity will soon slam shut.

Let's take several steps back and consider how markets got to this present perilous position. European, US and Japanese central banks conducted an aggressively accommodative monetary policy over the past several years.

In the US, the Federal Reserve cut interest rates in late 1998 to massage financial markets after the Russian default and subsequent LTCM Meriwether fiasco. Then in late 1999 the Fed created \$100 billion of new high-powered credit to thwart the forecast Y2K computer gridlock meltdown risk -- which never materialized. Examine the record and the Fed has screwed up -- printing a lot of excess money for no good reason and thus fanning the flames of speculation in securities markets (of which Greenspan is fond of criticizing). That Y2K excess credit the Fed provided is now gone (expired tri-party repos) and so is the US market's justification for being at this crazy level. But investor over-confidence is **sticky** -- easier to stimulate with a round of excessive credit creation than to turn off with a credit tightening.

In Europe, European Monetary Union was conducted at the lowest possible interest rate in early 1999 -- and the European Central Bank (ECB) has since dragged its feet at raising interest rates to a more normal level that a free market might set. Not coincidentally, the Euro has weakened and Eurozone equity markets have soared.

Meanwhile, Japan has maintained a zero interest rate, BOJ fund surplus monetary policy that has kept Japanese financial markets swimming in liquidity. And Japanese stock prices went up -- surprise, surprise.

So all three major global monetary regions have pumped up liquidity (and by extension equity markets) excessively over the past several years. That is where the bubble in front of our faces comes from. The monetary over-stimulation fostered the pathetic parody of capital markets celebrating new economy C.R.A.P. stocks as if they were legitimate businesses.

The central bank monetary stimulation propelled US and European stock indexes to record deviations above long-term trend. If a bubble is defined as excessive deviation from long-term trend, then a post-bubble *correction* can be defined as reversion to the mean. We use the 200 week average as a measure of long-term trend. Previous great bubbles (1929 DJIA, 1987 DJIA, 1989 Nikkei, 1997 Hang Seng) peaked an average 65% over their 200 week averages (range 51% to 83%). The Nasdaq 100 now stands 200% over its 200 week average, Finland's HEX index stands 240% over its 200 week average, for the French CAC40 it's 84%, Italian MIB30 it's 82% and German DAX it's 77% -- all much greater than or equal to maximum deviation from trend at previous great speculative bubble peaks. The 200 week average becomes a downside target when a bubble bursts, since all of the major bubbles we've studied reached the vicinity of that level in the post-bubble correction. The 200 week average gives downside targets 66% below current levels for the Nasdaq and 40% to 70% below current levels for most European stock indexes.

While the bubble was still expanding, it was appropriate to participate in the so-called bull market -- and we did. Excessive deviation from trend became more excessive. But now our forecasting model suggests the risk has shifted to the downside. It is mean reversion time. Major equity markets could halve. We recommend that portfolio managers switch out of stocks and into bonds, which now have a rally forecast from our model. It's time to be defensive and not get buried in the collapse of overvalued C.R.A.P.

Target: 800 level for the S&P500

"There is an overhang over the market of distrust ... The business world must clean up its act. People have got to have confidence as to whether or not the assets and liabilities are good numbers." US President George Bush

"I don't know why markets are where they are today ... Eventually (stocks) will go back up, perhaps sooner than later. There is an unbelievable movement in the market without what I believe to be substantive information." US Treasury Secretary Paul O'Neill

A realistic target for the current US equity market decline is the 800 level for the S&P500 -- down 20% from here. The Nasdaq could probably fall twice that much in percentage terms (1000 level for the Nasdaq Composite). European stock indexes and the Nikkei Average could also fall more in percentage terms than the S&P500. This is all with a three month view, although it could happen sooner.

If that sounds like an overly harsh and pessimistic outlook, perhaps you have not recognized that global equity markets are in a long term bear market. Classifying long-term bull and bear markets is a simple matter, although no one else seems to do it (can't be bothered to study market history?). The definition of a long-term bull market is: ***A stock index remains above a rising uptrend*** (we use 200 week average, regression line also works).

During long-term bull markets (decades), shorter-term advances during business cycle expansions (2-4 years duration) rise to moderate deviation from long-term trend (20% to 30% over 200 week average). Then short-term declines during recessions (1-2 years duration) reach the vicinity of the 200 week average. Then the next mini-bull market begins (as long as it is still a long-term bull market). See charts.

This pattern repeats for a number of cycles (say 2 decades) and culminates in a bubble -- excessive deviation from trend (65% over 200 week average for the S&P500, 200% over 200 week average for the Nasdaq 100 in March 2000). In the bubble crazy things happen. Fed Chairmen dance jigs and celebrate productivity miracles. Corporate CEOs commit fraud. Auditors cover it up. Capital is directed into crazy unprofitable schemes that go up in smoke. Wall Street analysts issue 99% buy recommendations and 1% sell recommendations. Brokerage house strategists have perpetual 25% higher targets for stock indexes and earnings growth. Investors throw money into the bubble like drunken sailors. Portfolio managers have to buy into the bubble or lose their jobs. Valuations get insane. Brokers concoct ridiculous excuses to justify overvaluation (forward consensus earnings estimates).

Then the bubble bursts. The first decline drops to the 200 week average vicinity, like a normal mini-bear market in a long term uptrend. But after a short-bounce on the 200 week average, the post-bubble stock index then drops significantly below the 200 week average, the average rolls over and the long term trend turns down. Instead of leading the 200 week average trend higher, the index leads the average lower. Long term bear markets last for years. Think Nikkei 1990 or DJIA 1930 (see charts). The definition of a long-term bear market is: ***A stock index remains below a declining downtrend.***

US and European stock indexes are at such a juncture. The long term trend changed from up to down last year. The two-decade-long uptrend culminated in a massive bubble and the bubble has burst. Now equities are in the liquidation phase.

In the long-term uptrend, buy-and-hold was the winning strategy. Academics wrote theories about passive investing and won Nobel prizes for it. Pension funds adopted those theories and positioned accordingly.

In a long-term downtrend, buy-and-hold is a ticket to the poor house. The rules are reversed. No more magical compounding of gains into further gains on a larger base. Now it is constant erosion of capital. Companies go bust and their share prices go to zero. A long-term investor should be long the market during the long-term uptrend and completely out of the market (or short) during the long-term downtrend.

But the investment industry expanded aggressively during the bubble and most portfolio managers have to manage long exposure in a downtrend -- without having the skill-set to do so. The bull market toolbox didn't include any gadgets for managing downside bear market risk.

So most managers (and long-bias hedge funds) could gradually vaporize, as did portfolio managers in Japan over the past decade -- or as did investors in the US during 1930-1932.

The alternative is to recognize that the rules of equity market investment have changed. The long-term downtrend can be an excellent trading environment. Timing the market is essential to survival (what academic theory rejects and says is impossible). Bear market declines and advances tend to come in 3-6 month chunks (30%-60% moves up or down). Staying long through a down move of that length and intensity can be a career-ending strategy. Likewise, staying short (or un-invested) through a bounce like that is unbearable. Bear market psychology is brutal -- the pressure is to buy at the top before the next big drop (like semiconductors and autos 2 months ago) -- and to sell because of redemptions at the bottom (2-3 months in the future?).

We are dedicated to capturing these bear market rallies and declines. Obviously we won't be perfect, but the model does show the probability of significant and extended market moves up and down. The model forecast now points strongly down, three month view.

Markets have shorter swings within extended uptrends or downtrends. With the model forecast pointing down, we recommend taking advantage of any 1-3 day rallies (created by intervention, shortcovering, or simple volatility) as a gift selling opportunity. Selling into panic liquidations should be avoided. If stock indexes are to drop 20%-40% from here (as the model forecast suggests), then selling into brief rallies is the best way to protect yourself.

Government officials, central bankers and corporate leaders are following a classic script (see quotes at beginning of this report). It is their role to issue reassuring statements while the market drops and the economy falters. In that light, expect to hear more official statements like: ***'Stock prices have declined more than the fundamentals warrant. A recovery is just ahead.'*** ... ***'The strength of the US economy is intact. The stock market decline will not impact the real economy, which is thriving.'*** ... ***'The underlying fundamentals of the US economy are sound. Production and employment conditions should remain strong, despite this irrational stock market decline.'*** ... ***'The Dollar remains a strong currency and the recent decline is just a little blip in an uptrend.'*** ... ***'Investors have panicked for no reason. Common stocks represent good value at current levels.'*** ... ***'Recent corporate scandals have improved the outlook by removing bad apples from the barrel. Corporate executives are honest citizens and haven't abused the system or enriched themselves excessively at the expense of shareholders.'*** ... ***'This stock market decline is senseless. Investors should calm down and accumulate shares in stable, growing businesses -- which represent the strong future of the US economy.'*** ...

Turnaround

We switch from short to long on global stock indexes this week. Industry group recommendations also reverse -- outperform prospects for the US and Europe are now mainly tech and telecom, while underperform prospects are now mainly banks and cyclicals.

This is obviously a big change (hope you don't get whiplash). We have recommended being short stock indexes and tech since April 14th. Our global composite stock index is down 22% since then. We rode out several snapback rallies on the short side in those seven months, but the model forecast has changed.

Long term bear markets can have significant rallies. We had thought that this latest rally (starting October 9th, now six weeks old and up an average 13% for global stock indexes) would fade like the July-August rally did. It didn't.

That changed the model forecast. Also, the model forecast for industry group rotation has completely reversed over the past several weeks. Conservative groups that have worked so well as outperformers in relative terms are now forecast to be underperformers. Yet the forecast in absolute terms for those groups is up. That suggests a rising market (conservative groups rise less than the index in an uptrend). Meanwhile, the only groups the model can identify as having outperform potential are tech and telecom. The forecast there is up in relative and absolute terms. That is typically bullish for the market (high beta names outperform in an uptrend).

Drilling deeper, the stocks within US tech groups with a higher forecast relative to their groups are mostly lower quality names (Sun Microsystems, Rational Software, etc.). Not the Microsofts and Intels of the world.

That suggests a miserable market rally for most sensible investors. At this point (2 1/2 years into a bear market), tech has more than halved as a market cap weighting in indexes -- while banks and cyclicals have more than doubled. Our forecast suggests that closet indexers (most portfolio managers) will soon underperform on their largest weightings (financials, cyclicals and consumer products), while they watch low-weighted and low quality tech stocks lead a market rally. Ouch.

Hedge funds that short tech companies with lousy fundamentals already feel the pain, but it seems garbage will continue to lead the rally. So most longs and shorts should together be unhappy campers.

How could a potential market rally be such a painful experience? Only in a bear market. While it might be possible to make money on the long side in the projected rally -- most conservative funds should underperform and get squeezed into bigger tech positions before the next bear market collapse. Our model rally forecast has a 2-3 month time horizon. We will be watching closely for a signal to close longs and go short again.

Positive end-of-the-year seasonal factors are related to Federal Reserve money creation. They expand their balance sheet and create new money so the system is awash in cash during holiday shopping season. That balance sheet expansion just started. It can spill over into financial markets (like the Y2K Fed credit expansion event) and generate irrational stock market rallies.

Other big model forecasts currently are: 1) A renewed decline in the US Dollar, 2) A renewed downturn in the US economy.

Does it sound weird to forecast an equity market rally in the face of such sick fundamentals? Yes. But we don't run the asylum. We just try to stay out of the path of the stampeding inmates.

Trend Analysis and Model Forecast Suggest Further Rally Ahead

Stock indexes are probably poised for substantial gains over the next 3-6 months. This bear market rally should be bigger than any bounce of the past 2 1/2 years.

Stock indexes are mean reverting processes over the long term. Two examples are the Nikkei Average (1968-1990) and S&P500 (1976-2000). Each index was in a long-term uptrend during those periods. A 200 week moving average is a way to analyze trends. Stock index long term uptrends remain above rising 200 week averages. During long-term uptrends (decades), stock indexes typically begin rallies from the vicinity of the 200 week average, often starting during a recession before any economic rebound is evident. The rally continues for several years, pushing the stock index to a minor deviation from trend (200 week average). After a several-year-long rally, the stock index peaks and declines back to the vicinity of its rising 200 week average (usually during a recession). That pattern repeats over and over during a decades-long uptrend -- up three years, down 1 year, or endless variations of that pattern (see next chart page). What investors perceive as bull markets (3-4 years) are simply upward deviation from trend -- and what investors perceive as bear markets (1-2 years) are simply reversion to mean, during a decades-long uptrend.

At the end of a decades-long uptrend, bubbles develop (1929 DJIA, 1989 Nikkei, 2000 Nasdaq). Stock indexes go to greater (and unsustainable) percentage deviation from trend. Market participants get careless. Remembering only the long-term uptrend of the past many years, they throw caution to the wind. Go-go mutual funds advertise 25% annual returns for the past five years. The financial industry prostitutes itself. Stock analysts hype companies they despise for the sake of their year-end bonus. Prominent strategists invent Mickey Mouse valuation models to rationalize the market's overvaluation and feed the bubble frenzy. Companies with half-baked business models are showered with IPO and private equity capital. Governments reap capital gains tax windfalls and think budget surpluses will last forever.

Then the bubble bursts. In the first decline, the stock index drops to its 200 week average (just like in the long term uptrend). But this time (after a bounce), the index drops decisively below its 200 week average, for the first time in decades. The 200 week average rolls over, led lower by the index below. Now it is a long-term bear market -- the exact opposite of the previous experience. Trend deviation is to the downside (in market collapse phases) and mean reversion is back up to the declining 200 week average (in bear market rallies).

Consider the Nikkei example. After breaking below its 200 week average (in 1990), the Nikkei plunged 46% below the 200 week average when it bottomed (temporarily) in August 1992 (2 1/2 years into its bear market). **The level at which the Nikkei ended its initial 2 1/2 year collapse phase was near its 200 month average** (see chart -- 14800, August 1992).

The principle of trend deviation and mean reversion applies in the much-longer term monthly periodicity as well as the weekly periodicity. When the Nikkei reached its 200 **month** average, it stabilized and had a 42% rally over the subsequent year. Guess where that rally ultimately reached? The declining 200 **week** average. Simple concept. Trend deviation gets extreme to the downside in a bear market decline, the index bottoms near its 200 **month** average -- and the subsequent bear market rally reaches the declining 200 **week** average.

The Nasdaq and European stock indexes reached their 200 month averages in early October (see charts). At that point, The Nasdaq was 56% below its 200 **week** average and the Dax was 52% below (versus 46% for the Nikkei at its 1992 bottom). That October 2002 low for European and US stock indexes is similar to the Nikkei low of August 1992, which signaled the end of a plunging market and the beginning of a trading range marked by substantial rallies.

The model forecast now points up (intermediate and long term) for the Nasdaq, tech industry groups and most global stock indexes. This is a stronger signal than for the Nikkei in August 1992 -- that was a real-time upward forecast made to hedge funds when we first started this business 10 years ago.

The declining 200 week average upward target for this rally is far above current levels (Nasdaq 100 NDX +100%, Dax +70%). It took the Nikkei a year or more to reach its 200 week average level, so those are longer term targets. In the meantime, there will certainly be volatility -- but stock indexes should head higher.

Markets and industry groups with the biggest upside potential are the ones that have collapsed the most (Dax, Cac, Tech). Defensive positions should underperform in this bear market rally.

The fundamentals or valuations aren't there to support a bull market. But that doesn't mean a big bear market rally can't happen. We aren't like Blodgett or Abby Joe -- telling you to buy crap for the sake of our bonus. We are simply pointing out that normal bear market dynamics could soon produce a rally of bigger proportion than most market participants can currently imagine.

The Top is In

The projected year end stock market top has moved forward. It now appears that October 31st was the 2007 peak for speculative indexes like the Nasdaq. So that index is 1 1/2 weeks past its tentative peak. Other speculative global indexes like the Hang Seng also peaked at the end of October. Although emerging markets, the Nasdaq and some internet stocks rallied sharply after we turned temporarily bullish at the end of September, those gains are quickly evaporating and it is turning into a bad call. Sorry. We are completely changing stance this week, closing most long stock index positions and adding shorts. This should turn out to be an important long-term stock market top. So the renewed downward forecast is probably much more significant than the cynical brief upward forecast was. We're hoping our contrary indicator status provides a short-term rally for clients to sell into. The intermediate and long-term downward forecasts are now kicking in together, so we recommend taking advantage of any such remaining bounces (sell).

The sector and group rotation forecast was much better than the index forecast at anticipating last week's market turbulence. Cisco, Freddie Mac and Fannie Mae were on the sell list. The favorite recommended utility sectors outperformed their benchmark indexes by 4% in the US and Europe. The forecast US outperform list (average) beat the S&P500 by 1%, despite having clunkers like Google and Yahoo one week too long. The US stock outperform minus underperform list (average) was +1.6% alpha. So the model's sector and group rotation forecast was more intuitive than the index forecast at this market turning point.

Sell China

The new story is a big sell signal on China. We added the Shanghai C and B share indexes as shorts 2 weeks ago. The downward China signal is picking up intensity. This week we add shorts on the Hang Seng and FXI ETF. It appears that the long-awaited top in the Chinese bubble has arrived. Amusingly, the Chinese authorities coaxed foreigners into Hong Kong equities on the rumor that they would open that market to domestic Chinese buying -- the Hang Seng zoomed 55% from its August lows. Now they've changed the story. Looks like a case of screw the foreigners. In any event, both domestic Chinese and Hong Kong stock indexes have a big downward forecast starting and the indexes are up in the clouds after a huge rally. The history of emerging markets is full of bubbles and crashes. It looks like China is about to experience the latter. The Chinese equity market has been the backbone of 2007 global stock market strength. But global markets might soon get a backache from China.

Utilities

The Utility Sector has outperformed the S&P500 by 8% in the past 4 weeks. We've repeatedly recommended utilities as the antidote to toxic financials in a slowing economic environment. Utilities remain our number one S&P outperform sector prospect. With financial stocks falling like flies on credit worries, order flow is likely to get funneled away from financials into utilities. This looks like a sustainable trend. It's not too late to switch weightings. The tech sector has become a new underperform prospect (previously tech was a mixed bag, short communication equipment and semiconductors, long internet). But the Cisco warning seems to have destroyed the myth of tech invulnerability in an economic downturn. Now the tech sector is a sell. Therefore, one pair trade idea is -- long utilities/short technology.

Conclusion

We're not dancing anymore. Like Chuck Prince, we attempted to play the game into the final hour. But it's easier for the Belkin Report to turn around than Citibank. Some clients will be confused by this change of stance. But last week's abrupt stock index drop really changed the forecast. Markets are always full of surprises. We hope this switch proves to be more accurate and enduring than the last one.

The Best Offense is a Good Defense

Global equity market sector and group rotation has moved in a maximum defensive direction. The games that investors were playing with materials, autos and other cyclical groups appear to be over. Now that most financials have been nuked -- economically sensitive sectors seem to be in the crosshairs for liquidation. The stock price declines in Fannie Mae and Freddie Mac over the past two weeks have been astounding (-35%). These were supposed to be boring, low volatility holdings. Credit market disruption is now spreading again into junk bond and emerging market spreads -- it looks like the next wave of credit convulsion is starting. This should accentuate the downward pressure on the US and global economies. Over-owned global cyclical plays have become good shorting prospects. Disappointing news on the revenue and earnings front should soon surface.

The top three S&P outperform sector prospects are consumer staples, utilities and health care. These are strong, early signals (mostly relative to the index, not absolute). So they are simply hideouts for long-only funds, or potentially the long side of long/short pair trades for hedge funds.

Utilities have become the financial sector surrogate. Most financial stocks seem to have that Fannie Mae-like risk of nuclear meltdown. Usually at this point in the falling interest rate cycle, low-beta financials would be *outperform* candidates. But order flow that would typically be directed toward financials is probably now captured by utilities.

The S&P consumer staples and health care sectors also have defensive appeal and an upward model forecast. See S&P group rotation page for specific stock recommendations.

The new Eurozone Stoxx sector and stock recommendations have a similar flavor. Food & beverages, health care, utilities and personal goods are top model *outperform* prospects (see new Stoxx sector page for specific stock recommendations). European telecom is also an *outperform* prospect.

The top European STOXX underperform sector prospect is basic resources. The global boom theme has run its course and left many materials stocks up in the stratosphere. Materials stocks are probably good short prospects on any sharp bounces. **Autos and technology groups are also top underperform prospects**, both in Europe and the US. The *underperform* prospects (metals, tech and industrials) also have absolute decline forecasts, so they are recommended as outright shorts on any bounces.

Reinforcing the global bust scenario is a model switch on base metals. Long positions were recently closed out and short positions added. A substantial slump in base metals prices should be approaching.

China has become our number one short recommendation among equity markets. Chinese companies (which were previously so appealing, partly because they made all the stuff the US was buying) should become increasingly vulnerable as the US economy suffers through the housing finance implosion. The Chinese equity bubble appears to have consumed all its domestic fuel and should enter a classic bubble liquidation phase. Short-term bounces in Chinese and Hong Kong equities should be sold and/or shorted.

We have just one long stock index recommendation left -- Saudi Arabia (which has become a negatively correlated market). More to the point, most global stock indexes either have a downward model forecast or have one approaching. We had expected the irrational global rally to last through year-end, but changed position when the speculative stuff topped out in late-October, early-November (Nasdaq, Google, Hang Seng, emerging equity markets). Most stock indexes have given back most of their 2007 gains and the model forecast now points down. We recommend taking advantage of any remaining stock market bounces to close long positions, get short and switch into defensive sectors.

2008 Outlook: US Recession, Equity Bear Market

The National Bureau of Economic Research (NBER) -- a private research organization -- defines US business cycle expansion and recession turning points. Their data extends back 150 years. (www.nber.org/cycles.html) For this report, we'll focus on the past 100 years. *The Belkin model forecast suggests that the US economy will soon tip over into an official recession.* That is based on the model forecast for S&P500 earnings, ECRI Weekly Leading Index, ISM Indexes, employment indicators and consumer sentiment. So the NBER will likely proclaim the start of a recession (months after it has already started). The current business cycle expansion is now 73 months long, 20 months longer than the average expansion of 43 months (1902-now).

Stock prices go down in recessions. Although this is an obvious pattern in market history -- business school textbooks and CNBC talking heads seem oblivious of it. The illusion that Fed-engineered rate cuts make stocks go up is deeply ingrained in mass market psychology -- more so than the reality that earnings slumps in recessions make stocks go down. Portfolio managers can take advantage of that ignorance by selling to the uninformed.

This is the stock market/recession pattern: Stocks (we use the DJIA here because it has the best historical data going back 100 years) typically peak several months before the official start of a business cycle contraction (while the economy still looks rosy). The DJIA then slumps (an average -29.5%) -- bottoming out in the deep, dark depths of the recession -- before any economic recovery is evident. Then a new, extended rally starts. This has been the pattern in virtually every business cycle contraction since 1902 (see table). Percentage DJIA declines have ranged from -6% (ending 1945) to -89% (ending 1933). Please note that the peak (and trough) in the DJIA and economic cycle do not exactly coincide. Perhaps that is why the pattern is not more widely understood. Further complicating the issue is that business cycle dates are not officially announced until many months after economic turning points. So real-time economic forecasts that accurately anticipate NBER cycle dates are critical.

Where do stocks stand now? The tentative peak in the DJIA for this cycle was three months ago, at 14,164.53 on October 10, 2007. The DJIA is down -6.4% from there. Using that -29.5% average bear market decline provides a ballpark downside DJIA target of 10,000. That is down -24.4% from here. Of course speculative stocks, groups and emerging markets have greater downside risk. We recommend a strategy of closing long positions, selling short-term rallies, overweighting defensive groups, underweighting aggressive groups and having a net short equity market exposure. Longer-term, bulls can look forward to a potential buying opportunity at a much lower level. But the only way to participate would be to have cash -- by not getting destroyed in the bear market.

Bear Markets and the Business Cycle -- a 100 Year View

RECESSION START	RECESSION END	LENGTH RECESSION (MONTHS)	LENGTH PREV. EXPANSION (MONTHS)	DJIA HIGH BEFORE RECESSION	DATE OF HIGH	DJIA LOW DURING RECESSION	DATE OF LOW	PERCENTAGE BEAR MARKET DECLINE
OCT 1902	AUG 1904	23	21	67.77	9/9/1902	42.15	11/9/1903	-37.8%
JUN 1907	JUN 1908	13	33	96.37	1/7/1907	53	11/15/1907	-45.0%
FEB 1910	JAN 1912	24	19	100.53	11/19/1909	72.94	9/25/1911	-27.4%
FEB 1913	DEC 1914	23	12	94.15	9/30/1912	53.17	12/24/1914	-43.5%
SEP 1918	MAR 1919	7	44	89.07	10/18/1918	79.15	2/8/1919	-11.1%
FEB 1920	JUL 1921	18	10	119.62	11/3/1919	63.9	8/24/1921	-46.6%
JUN 1923	JUL 1924	14	22	105.38	3/20/1923	85.76	10/27/1923	-18.6%
NOV 1926	NOV 1927	13	27	166.64	8/14/1926	145.66	10/19/1926	-12.6%
SEP 1929	MAR 1933	43	21	381.17	9/3/1929	41.22	7/8/1932	-89.2%
JUN 1937	JUN 1938	13	50	194.4	3/10/1937	98.95	3/31/1938	-49.1%
MAR 1945	OCT 1945	8	80	161.5	3/6/1945	152.27	3/26/1945	-5.7%
DEC 1948	OCT 1949	11	37	190.19	10/23/1948	161.6	6/13/1949	-15.0%
AUG 1953	MAY 1954	10	45	293.78	1/5/1953	255.48	9/14/1954	-13.0%
SEP 1957	APR 1958	8	39	520.76	7/12/1957	419.78	10/22/1957	-19.4%
MAY 1960	FEB 1961	10	24	685.47	1/5/1960	566.05	10/25/1960	-17.4%
JAN 1970	NOV 1970	11	106	968.85	5/14/1969	631.16	5/26/1970	-34.9%
DEC 1973	MAR 1975	16	36	987.06	10/26/1973	577.6	12/6/1974	-41.5%
FEB 1980	JUL 1980	6	58	903.84	2/13/1980	759.13	4/21/1980	-16.0%
AUG 1981	NOV 1982	16	12	1024.05	4/27/1981	776.92	8/12/1982	-24.1%
AUG 1990	MAR 1991	8	92	2999.75	7/16/1990	2365.09	10/11/1990	-21.2%
APR 2001	NOV 2001	8	120	11722.98	1/14/2000	8235.81	9/21/2001	-29.7%
	AVERAGE	14.4	43.2					-29.5%

Bear Market Downside Targets

Last week's report presented the 2008 economic forecast (recession). The accompanying table portrayed US stock market performance (from index peak to trough) during recessions (-29.5%, DJIA 1902-2001). It is worth repeating that *the stock market usually peaks before recessions start -- and usually bottoms before recessions end*. With that in mind, let's develop a recommended investment strategy for the forthcoming bear market.

Major US stock indexes are down about 10% from their October 2007 peaks (S&P500, Nasdaq, DJIA). Small cap indexes topped earlier (July 2007) and are down about 16% (Russell 2000, Value Line). Major European indexes are down less than 10% from their peaks (FTSE, DAX, IBEX). Technically, most stock indexes have decisively broken their 200 day averages and (from a trend analysis perspective) are in downtrends. The next question is: ***How far could stock indexes drop in the bear market?***

We'll approach that question from several directions. Using last week's approach -- the DJIA is about 1/3 of the way through an *average* recession bear market (down 10%, 1/3 of an average 30% drop). So (from that perspective) US stock market investors might endure 2 more such 10% drops before the extended decline concludes.

Broadening the analysis to include 1) The model forecast and 2) Trend analysis provides a different picture. 1) ***The stock index model forecast now points down strongly in both intermediate-term (3 month) and long-term (12 month) time frames.*** This is similar to the forecast of late 2000, before the Nasdaq dropped 70%. So the probability of a greater-than-recession-average stock market decline exists.

Trend analysis (not model forecast) provides intermediate-term and long-term support levels that become downside targets in bear markets. We use 200 week and 200 month averages. That approach was derived from studies of the DJIA (as far back as recorded data exists). The general pattern is for the DJIA to rise during a business cycle expansion and decline during a business cycle contraction -- usually to the vicinity of its 200 week average. That is during a 'normal' business cycle.

Then there are bigger cycles. The DJIA has declined to its 200 month average during three major periods in the past 100 years -- early 1920's (post WW1), 1930's (great depression) and 1970's (stagflation era). Another example of a 200 month average retracement is the Nikkei -- which reached its 200 month average in 1995 (5 years after its bear market started) -- and has remained below its 200 month average most of the time since 1997. Note all these examples were accompanied by severe economic stress.

With that in mind -- let's consider levels. The 200 week average for the DJIA is 11406 -- down 11%. The 200 month average is 8091 -- down 37%. That is for the DJIA. More overextended global stock indexes in this cycle have much greater downside risk to reach their 200 month averages -- Hang Seng (-56%), S&P/IFC Emerging Equity Market Composite Index (-63%), DAX (-48%), Spanish IBEX (-50%). Of course those downside targets hinge on whether this is a 'normal' economic contraction or the 'big one' (in direct proportion to the excesses of the previous credit bubble).

In either event, we recommend adopting bear market investment strategies. That might include 1) Selling stocks and going net short. 2) Shifting into defensive groups. 3) Shifting out of stocks into government notes and bonds. 4) Selling brief rallies. 5) Steeling yourself for larger daily percentage moves, both up and down. 6) Anticipating company earnings warnings and downgrades by brain-dead brokerage house strategists and analysts. And anything else you can think of to not get hurt in a bear market.

Our tentative outlook is for a two-stage global stock market decline in 2008 -- a first decline (already underway) to the 200 week average zone (down another 17% for the average global index, 10% for the average US index, 40% for emerging markets). Then some sort of recovery bounce from around that level (later this year), then another extended decline toward the 200 month average. So our 2008 outlook does include a potential investable long position on global stock indexes -- but not until indexes fall sharply.

New Bull Market -- or Too Much of a Bear Market Bounce to Miss?

'The real money investors are still waiting. I think they are waiting, they're watching. They want to make sure that what we saw in March is real. And I think once they are convinced you will know it. The market will have a totally different tone to it.' Duncan Niederauer (CEO NYSE Euronext) FT Apr 16, 2009

The NYSE CEO probably has a good read on order flow. His comments suggest there is a herd of would-be bulls waiting to stampede. Most global equity markets are up in April as much or more than they were in March. This rally is probably starting to squeeze the big boys back into risky positions. While there seems to be a great deal of skepticism about how much equities have advanced in recent weeks -- those who have missed the rally should soon be compelled to dive back in. This scenario is consistent with the model forecast. Stock indexes are supposed to rally, defensive issues are supposed to underperform, financials and some cyclicals are supposed to outperform and stocks are supposed to outperform bonds. Large portfolio managers who are parked in cash and defensive positions are likely to get squeezed. A forthcoming asset allocation shift out of bonds into global equities should support stock indexes.

'Two of the Federal Reserve's top policy makers defended the Fed's emergency lending, saying the programs won't cause an inflationary surge or create "significant" risk for taxpayers ... New York Fed Bank President William Dudley, speaking at the same conference, said he's "not worried at all that" a doubling in the central bank's balance sheet to \$2.19 trillion will spur inflation.' Bloomberg Apr 19, 2009

Central bankers now deny that higher money growth creates inflation. What are they going to say? *'The excessive credit we are adding will restore the speculative bubble and create an inflation surge with a lag?'* Of course not. So we will probably have to endure a barrage of happy-talk from Bernanke and Associates about how they've repealed the laws of monetary physics. Implicit in their assurance that they will remove the excessive monetary stimulus in the future is a guarantee of another big boom-bust cycle. For now the model forecast and Fed monetary stimulus are in uncorrelated agreement. But the Fed is creating another bubble that will ultimately have to be lanced. Bernanke is providing more upside market volatility through his bubble-making policies.

New Bull Market?

The essential question for the big money institutions waiting to dive into stocks is: *Is this the start of a new bull market or just a bounce in a longer-term bear market?* While it is too early to be absolutely certain, the pendulum is starting to shift toward the new bull market scenario. The strongest evidence comes from the long-term model forecast (12 month) and the 200 month moving average for global stock indexes. Most indexes recently fell below their **200 month** averages for the first time in years (in some cases decades). But the recent recovery is lifting indexes back toward (or above in the case of the DAX) their 200 month averages. So this could potentially become simply a classic bounce near an ultra-long-term (16 year) moving average. In other words, a big dip in the long-term uptrend.

The long-term model forecast (12 month) is now moving in agreement with that thesis. The advance during March and April has flipped the long-term stock index forecast from down to up. This model turned negative in August - December 2007 (depending on index). With the 12-month forecast now turning up, a sustained market rise is likely.

Bull Market or Not, Too Much Upside Potential to Miss

From a trend analysis perspective, stock indexes have some hoops to go through to verify a continued uptrend. These are: The **200 day** average and the **200 week** average. Currently, most stock indexes are about 8 - 10% below their 200 day averages and about 38% - 45% below their 200 week averages (with great variation). These levels are our current two-stage upside targets for stock indexes. *The essential point is stock indexes could rally by 10% to 40%.* Whether you call it a bear market bounce or a new bull market, is irrelevant -- it should be too much upside potential to miss. So big institutions will probably get squeezed out of defensive positions back into the market while the Fed blows another recovery bubble. With this scenario in mind, we recommend taking advantage of brief market pullbacks (like today's) to establish long positions in global stock indexes and the recommended sectors and groups.

Cinderella Financials

It's probably safe to say that not many prominent investors have recently had banks and financials as their top holding or long recommendation. With the fundamental news seemingly still so bad, financials are like Cinderella -- the scorned family member no one wants to invite to the ball. Meanwhile, the BKX bank index has outperformed the S&P500 by 45% over the past seven weeks (gaining 56% vs the S&P500's 11% advance). This is a Cinderella performance, the sector not invited is turning out to be the star of the ball. *Banks and financials remain our top long portfolio position and group outperform recommendation.* How much more could financials rally? Although it sounds outlandish, the BKX 200 day average is 42% higher and its 200 week average is 171% higher. Financial stocks were absolutely demolished in the previous liquidation and now have the greatest sector rebound potential.

Cinderella Stock Market Rally

Recent comments by prominent investors and talking heads suggest a consensus skepticism about the current stock market advance: *'Pimco says stock rally vulnerable given data,' 'Soros Says Gain in U.S. Stocks Is 'Bear-Market Rally,' 'Roubini Says Stocks Will Drop as Banks Go 'Belly Up.'* Since the fundamental news hasn't improved, it is natural for investors to extrapolate a continuation of economic and market weakness. But the danger in that assumption is missing a major market bottom. Lord knows this six-month long range in stock indexes has been frustrating and confusing. But this current rally is probably designed to punish the doubters, the shorts and those who are waiting for an earnings recovery before plunging in again. Stocks are usually the first to move at major business cycle inflection points -- heading higher before the green shoots of economic spring arrive. The model forecasts a forthcoming rebound in the US economy, presaged by a continuing global stock market rally.

Squeeze

This projected recovery rally will probably squeeze portfolio managers out of cash, back into the market. It should also squeeze investors out of defensive sectors (health care, utilities, energy and consumer staples) into financials, consumer discretionary and industrial groups. This sector rotation forecast jives with the approaching economic rebound forecast. A move back into depressed financial and cyclical issues would be a natural development before an economic inflection point. Shortsellers should beware of a rising market trend affecting the beta of their positions. The model's best short ideas are currently defensive groups (in relative terms only). Thus, a recommended long/short pair trade in this environment would be long XLF/short XLV (or short XLU). Another pair trade example would be long CYC/short CMR (added this week).

Japanese Equity Market Bottom

The Nikkei Average remains right up there with financials as a recommended long position. The Japanese market appears to be making an intermediate term and long term bottom (3 month and 12 month view). For those who have suffered through the interminable Japanese bear market, there is some light at the end of the tunnel -- and it is probably not a Japanese bullet train heading in your direction. We urge global portfolio managers to take a look at the Japanese equity market. This is probably a good entry point for a sustainable rally. As in the US, Japanese financials are the model's top outperform recommendation.

More European Equity Markets Added as Longs

Although European markets are less appealing from an outperformance perspective than markets in the US or Japan, the model does have an absolute rally forecast kicking in. Depressed European stock indexes with stand-out rebound potential are the Irish ISEQ, Austrian ATX, Dutch AEX and Italian MIB30. These indexes are still relatively close to their bear market lows, have a fresh upward model forecast and high double-digit percentage rebound potential to their 200 week averages.

Conclusion

The long trading range has probably dulled consensus expectations of an economic and market recovery. A rising trend is likely to squeeze investors back into stocks, financials and cyclicals. Japan is appealing from a long-term investment perspective. Like Cinderella, downtrodden markets are likely to surprise the doubters.