

No more bull: bear markets stripped bare

TECHNICAL ANALYSIS
ROD MYER



BATTERED investors who have managed to retain an interest in the sharemarket, despite the horrors of the past three years, might find themselves asking: "when is a bear market over?"

Robert Brain, national director of the Australian Technical Analysts Association, says the answer is: "when the market has achieved new and sustained highs." As investors well know, we aren't there yet.

To help discern where the market might be on its path to recovery, Brain has produced a chart that graphs the present bear market

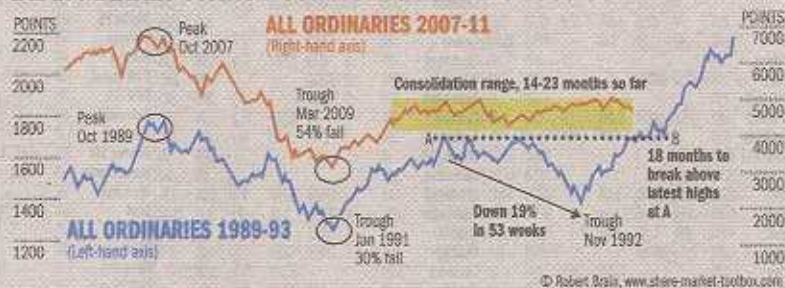
against its 1989-1993 counterpart.

When this column ran through this exercise 14 months ago, it looked like we could be about to experience a "bear-market twin". Since then, the present bear market has progressed differently from its predecessor, but there are still some remarkable similarities. In both bear markets, the All Ordinaries Index took about 17 months to travel from its peak to the low point.

Then followed year-long rallies when the index climbed but was well short of previous highs.

From there differences start to emerge. In 1991, the market turned from its hard-won highs at point A on the chart and fell 19 per cent in a year to a low not far above its January 1991 trough.

BEAR MARKET TWINS? COMPARING MARKETS 1989-93 AND 2007-11



During the current slump, the market has climbed from its lows of March 2009 and for the past 23 months (or 14 months if you measure from its post-crash high) has been in a period of consolidation.

While the ride in 1989-93 was harder, the index took only 13 months to recover from its "post-slump slump", to top its point A high, by reaching point B.

This time around, despite three attempts, the market has been unable to break on the post-crash upside. And most recently, its trajectory has turned downward.

The earlier bear market took four years to reach new highs. Even a four-year recovery looks like a tall order this time, with the index still 32 per cent below its October 2007 highs and

this bear market only four months off its fourth birthday.

Brain warns that the adage the sharemarket makes good returns over the long term needs to be challenged. The 1989-93 bear market was part of an even bigger swing that began with the 1987 crash, which saw 25 per cent of market value wiped out in a day and 40 per cent in two weeks. It took the index almost nine years to regain its October 1987 highs. But it is well to remember blue-chip stocks recovered far more quickly.

The hit to the index reflects the pre-crash significance of "entrepreneurial" stocks like Bond Corp and IEL that disappeared in the years after 1987.

rodmyr@ozemail.com.au

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