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The financial media continues to provide skewed and inaccurate information to the investing public. I, myself, have been guilty of giving interviews and writing market commentary for the following publications:

Barrons
Reuters News Service
The Street.com
Affluent Golfer

The good news for me in my published market analysis and attempts to explain high probability events is that my predictions and observations have, to date, been largely correct. As Mark Twain said, "it ain't bragging if you've done it."

My latest press releases, Reuter's July 24, 2002 and again on October 10, 2002, both suggested the market was oversold. In both cases I was within a day of major bear market rallies occurring.

My work has suggested caution throughout the end of the bull market into the start of this bear market.

In Barron's, August 2000 (S&P 500 was over 1500), I suggested a very overbought market and went overboard suggesting the outright purchase of puts. I normally suggest hedged positions or spreads. The puts I recommended in the article traded from approximately \$9.00 up to the \$100.00 range.

I also wrote an article for "Affluent Golfer Magazine" about hedging in May 2001 (with the S&P 500 still in 1200s) suggesting the bear market had more room to go.

The balance of my quotes and interviews in the above-mentioned news services are also included.

Most of my hedging suggestions and cautionary comments fell on deaf ears due to the fact that during the bull market, if you bought every dip you actually got richer right until the time that the strategy failed.

With the bear market three years old, I attempt to evaluate the current landscape of the U.S. Markets as I see them today.

The following are what I consider to be the core reasons why I feel the bear market is far from over, even after the \$8 + trillion in losses thus far.

MARKET NEGATIVES

War The war with Iraq appears imminent. It may prove more costly and take longer to remove Iraq from Iraq than it did to remove Iraq from Kuwait.

Terrorism After the September 11th attacks, the benefit of the "cold war dividend" has now been erased. The new war on terrorism will be a long term trailing liability.

Geo-Political Tensions North Korea's nuclear threat, the India-Pakistan conflict, the U.N.'s lack of resolve and the potential NATO breakup create additional market uncertainty.

The Dollar is still overvalued even after losing more than 25% of its value. This overexposure to foreign investors and lenders has been so severe in recent years that the highly leveraged U.S. financial system has become hostage to a strong dollar and huge capital inflows. Last year alone foreign investors bought \$45 billion in U.S. Equities. Foreigners now hold \$7 trillion of U.S. Assets. A further decline in the dollar could challenge their staying power and could create additional selling pressure to an already weak market.

Budget Deficits A trillion-dollar government surplus has turned into a trillion-dollar deficit in the last 2 years. 40 of 50 states will also have budget deficits totaling over \$100 billion.

Interest Rates With current interest rates at 40 year lows (1.25%), it's failure to provide economic stimulus has left the bond market vulnerable and has limited the ability for the Fed to continue to cut rates further. This is the 1st time since 1929 that a series of interest rate cuts have not resulted in significantly higher stock prices within 18 months of the 1st rate cut.

Recession Six of the past seven recessions have "double dipped" before sustainable economic expansion has occurred. With profits still declining, a record saving shortfall, a capital spending collapse, an unprecedented consumer borrowing and spending binge, a massive current account deficit, and record high debt, it is hard to think that the economy will not "double dip" this time as well. The economic boom of the 1990s ranks among the worst bubbles in economic history and appears it was built on nothing but leverage upon leverage.

Deflation "Deflation is not enough money chasing too many goods." China's exporting of deflation via manufacturing is a threat to the U.S. Economy reducing corporate pricing power.

Unemployment The unemployment rate has risen to 6% from 4.5% over the last 18 months. The manufacturing sector has lost 2.1 million jobs in the last two years.

Debt is at a record high of \$31 trillion or 295% of GDP compared with 160% in 1980 and 264% at the beginning of the great depression. Credit card charge offs and bad loans exceed 7% of total debt outstanding, a record high. Bank exposure to consumer and corporate debt (also at record highs) puts the whole U.S. banking system in jeopardy.

Emerging Market Debt The possibility of default on \$355 billion in debt in Brazil may create the largest ever emerging market default. At the same time there are similar problems in Argentina and Venezuela.

Japan is the 2nd largest economy in the world. The Nikkei is at a 19-year low losing nearly 20% in 2002. Weak demand for Japanese bonds caused a 20% (U.S. \$1.6 trillion) drop in their value in one day due to lack of confidence in the government. The post bubble Japanese economy has caused a severe recession and deflation. Japan's banking system, heavily collateralized by Japanese equities, has suffered losses of 3.47 trillion yen due to recent record lows of the Nikkei. The Japanese banks have been in crisis for the past four years despite four instances of government intervention. Recent equity losses are further adding to the likelihood of a Japanese banking system meltdown.

MARKET NEGATIVES

Valuations The price to earnings ratios today are more representative of bull market highs than bear market lows. The last two bear markets ended with the p/e ratio on the S&P 500 at less than 10 times earnings with a dividend yield of over 6% versus today's 28.7 p/e and a dividend yield of 1.89%. In addition, if we were to use "Standard and Poors" new method of accounting to calculate "core earnings" it would make the p/e ratio on S&P 500 over 50 times earnings.

Bullish Sentiment Wall Street's leading strategists are still suggesting a 70% weighting in equities. A Business Week poll had only 3 of 67 analysts seeing a decline for the year 2003. For the last three years the estimates of the "experts" on Wall Street have been grossly wrong. Bear markets typically don't end with rampant optimism.

Technical Analysis The long term moving average (20 month moving average) on the S&P 500 turned negative in October of 2000 when it was 1371. Today the 20 month moving average is down to 1003 (a drop of 26.8% over 28 months or a decline of almost 1% per month) and is still declining.

Corporate Profits Profit margins peaked in the third quarter of 2000 and have declined by greater than 50%. This drop in profit margins has been the worst since the depression in the 1930s.

Corporate Fraud Corporate malfeasance is still an issue lurking in the background. It's difficult to believe that Enron, Worldcom, Global Crossing, Adelphia and the others that have surfaced, are going to be the only examples of corporate fraud. The damage to investor confidence is incalculable.

Pension Liabilities Company pension liabilities total \$111 billion for 2002 alone, a record high. Companies that have overfunded their pension plans have seen this overfunding evaporate over the last three years by over \$300 billion. These losses need to be replaced with corporate earnings causing even higher p/e ratios. Moreover, retiree health benefit commitments at 346 of the 500 stocks in the S&P 500 were underfunded by \$245 billion.

Employee Stock Options The expensing of employee stock options, if done correctly, would result in the erasure of corporate profits at a significant number of companies, i.e. Intel 2001 net income of \$1.29 billion shrinks to a mere \$254 million making it incredibly difficult to justify such high p/e ratios for it and many of the large capitalization companies.

Investor Redemptions in July 2002, investors pulled \$53 billion from all U.S. equity based mutual funds. Fidelity Magellan has lost almost 50% of its investor assets since 2000. The lack of new money coming into the market coupled with these redemptions takes away the fuel that propelled the bull market.

Real Estate Most parts of the country are experiencing a real estate bubble, which is especially dangerous due to fact that "serial refinancing" has reduced homeowner equity to a record low of 55%.

Foreclosures are at the highest levels in 30 years.

Saving Rate The savings rate has declined during Alan Greenspan's tenure from 8% to virtually 0% today.

Bankruptcies have hit a record high of 1.5 million filings in the 12 months ending March 2002. 186 publicly-traded companies went bankrupt in 2002 with debt of \$386 billion.

FINANCIAL BUBBLES

In studying past financial bubbles, the overwhelming similarity is that they tend to give back eighty to one hundred percent of the move achieved during the speculative bubble. Today's post-bubble prospects, in light of the Market Negatives listed, are not encouraging.

I have seen the market climb a "wall of worry" in the past and have been surprised and stunned by its ability to discount future events.

There are certainly arguments on the bullish side which could counter some of the list of negatives I have presented. Since no one knows the future, I feel that the use of technical analysis is the only fair way to attempt to evaluate the market's prospects.

The following chart shows where we have to go to get to 80% and 100% retracements of this bull market's last leg of the speculative bubble stage. You can see from the chart a test of the 658 level (red line / 80% retracement) does not look remotely difficult over the next several months. The balance of the move to the 434 level (dark blue line / 100% retracement) also looks obtainable over a longer period.



In light of the above, I feel being "fully hedged" or in 100% cash to be the only acceptable investment options at this time.

When it comes to managing money there are two very important rules:

Rule #1 "don't lose the money"

Rule #2 "hope is not a strategy"

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