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Bull Bear Review[sm] *with*

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- **Stock indexes test lows and bounce**
- **Commercials cover their shorts and go long**
- **Trends turn down**

Stock indexes tested the previous week's lows and then closed higher last week. The **commitment of traders** report showed that the commercials have covered their large short position and gone net long a significant amount. It is unusual to see them change their perspective so quickly. It does not change my outlook for lower prices through mid to late May, but it does temper the amount of down side that I am expecting.

Daily and weekly trends are now down. Price is below levels of four months ago. Price is below the 21 and 50 day moving averages and the slope of both of these averages is down. It should be safe to sell rallies.

It would appear that the implication of the preceding paragraph is in direct contrast with the first two paragraphs, i.e. "it should be safe to sell rallies now that we are in a confirmed downtrend" verses "the big guys have gone long and we have had a successful test of the low. The reality is that the big guys are usually early and the downtrend could easily drive prices to new lows. Hence until the trend changes back to neutral sell rallies.

On The Upside

According to Thomson Financial, 2006 was a record year for global merger and acquisition activity, hitting 3.77 trillion and topping the record set in 2000 of 3.44 trillion. This trend has continued into 2007. A recent *Fortune Magazine* article discussed the ten biggest private equity firms. By their calculations these top ten firms have $250 Billion in cash. They will borrow up to 10 times that amount in doing their deals (hence the term "leveraged buy out"). This means they have buying power of $2.5 Trillion. This should add tremendous **liquidity** to the market thus driving it higher during good times and supporting it during sell offs.

Oil prices are $57/brrl. However, because the price of oil moved up sharply from February to August of 2006 we are still trading below year ago levels. The price of oil verses one year ago has been lower for the last

BULL BEAR REVIEW 03-19-2007 SPX 1,387 NDX 1,742 DJI 12,110

Bull (up)	**Bear (down)**
Liquidity and Free Cash Flow	**Trends are down**
Leeb Oil Index	**Inverted Yield Curve**
Seasonals (Up Nov. 1 thru April 30)	**Housing Market Fall Out**
Bonds are in an Uptrend	**Investor Psychology**
Commitment of Traders	**Pattern (Time & Price)**
	Major Cyclical low due late 4th quarter

fifteen weeks. Stephan Leeb, editor of the *The Complete Investor*, notes that, "Over the past 30 years, stocks have never fallen more than 5% during the 6 months following a drop in price below year ago levels."

There is a strong up **seasonal** from November 1 through April 30th. We are toward the end of this seasonal and the market has likely peaked.

The ten and thirty year **Treasury Bond and the Dow Jones Industrial Utility index are in up trends.** A rising bond market (declining long term rates) is normally supportive to the stock market.

On the Downside

This market is now making lower weekly highs and lower lows. It is in a **downtrend**. A Close above **1423 and 12,366** on the S&P and Dow Jones Industrial indexes respectively, would put us back into sideways trading but I do not expect that to happen.

Three-month treasury bills are yielding more then the ten and thirty year treasury bonds, and have been since June of 2006. This is what is called an **inverted yield curve** and is an important "red flag" because this condition has resulted in a recession seven out of the last eight occurrences. There has not been a recession since 1950 that was not preceded by a 10 to 20 percent decline in the stock market.

The **housing market fall out** remains the wild card. What we know about the housing market cycles are that the average length of time from peak to trough is 27 months. This down move started in January of 2006 and therefore likely has another 12 months. In the past 40 years private residential construction has never contracted to this extent with out triggering a recession. Recent focus has been on the sub-prime market, and I expect these problems to eventually affect the rest of the housing industry.

Robert Prechter's Elliottwave International report is showing a completed wave **pattern** through February the 22nd, 2007. The next move using their approach is strongly lower. The last three out of four calls they have made have been correct on direction but wrong on the degree of the drop. They correctly called the May 2006 highs to the day, but were calling for a much greater move down than the 8 percent.

The 3.3-year **cycle low** is due late in 2007. This cycle low has marked many significant lows over the past twenty-five years including the 1987 crash low. ***This is not a low risk market environment.***

Your Bull Bear Review Analyst,

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