PERSPECTIVE

THE GREAT RECESSION OF 2008

The following comments are pieced together from several articles I have read. The great recession of 2008 fell between 53 and 57% depending upon your starting and ending point.

The average market decline, going back to 1929, sees the market fall by about 40% and averages 21 months in duration. The most severe downturns occur during periods of recession - more than likely we are already in a recession.

V shape recoveries are highly unlikely during periods of recession.

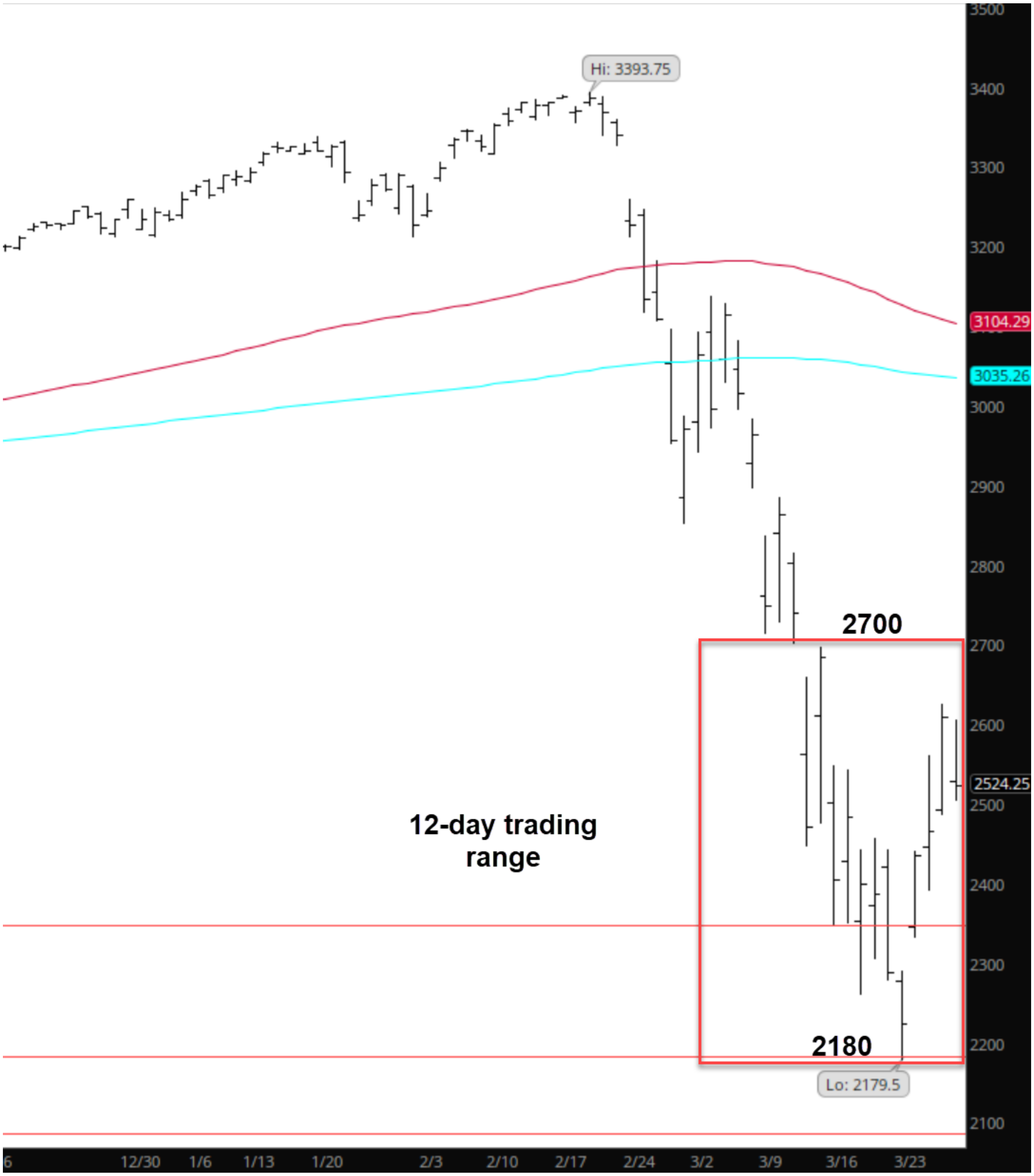
The great recession of 2008 ended with the introduction of TARP (Troubled Asset Relief Program), which saw 700 billion in stimulus.

MY OBSERVATIONS

My observations aren't based on any percentage drop but rather the process by which a low is made. Markets generally go from trend to trading range (balance). From the trading range, markets either continue the current trend (currently down) or reverse.

The graphic shown below represents the last 11 trading days. During those trading days the market is seeking balance between 2180 and 2700. Any meaningful change will see price exploration beyond that range.

Friday's settle was at 2524. Friday was also an inside balancing day - more about that later.



PERSONAL BIASES

I have cautioned many times regarding cross thinking between investment and trading accounts. The market was higher all week. Those traders with downside biases either sustained losses or missed out on meaningful trading profits. Market-generated information is information developed through the placement of orders. It is not information resulting from TV or radio personalities or spokespersons representing money managers.

Market-generated information, once you learn how to interpret it, provides a better conceptual understanding when markets, or short-term inventory, have gotten too long or too short.

Market-generated information is also our best means for interpreting when investment money is either re-entering or continuing to exit the market.

The $2 trillion stimulus relief bill was signed into law on Friday. The market rallied, last week, in anticipation of the bill. As we open for business in the coming week, we want to see the market's reaction to the bill. Failure to show a positive response would be perceived as very negative by the market. Friday was an inside balancing day, which is a form of short-term balance. My focus will be on any directional movement taking the market out of its short-term balance.

REMAIN OBJECTIVE

I lost a substantial amount of money during the days following TARP as I couldn't let go of my bias. From that time on, I have continued to rely on market-generated information to remain objective.

SCENARIOS TO BEGIN THE WEEK

1. Remaining within the two-day balance, comprising of Thursday and Friday, leaves the market undecided.
2. A strong positive response or rally demonstrates a positive response to the bill. The trading range high is at 2700. I would not consider the response positive or strong unless there is good acceptance and upward range extension above the 2700 level.
3. Trading out of balance to the downside, relative to Thursday's and Friday's trading range, would be considered negative.

VIX

The VIX, which is generally referred to as a fear index, is currently around 65 having been as high as 84 over the last couple of weeks. Generally, the VIX rises as markets are declining and falls as markets are rising.

If we are to make upward progress, I would expect to see the VIX gradually decline. At current levels the VIX is suggesting a daily 4% to 5% move in the markets. This level of volatility is unlikely to return confidence to the market.

A healthier indication would be to see a gradual decline in the VIX.

The VIX is another form of market-generated information.