# THE BEAR MARKET RALLY IS JUST 'SMOKE AND MIRRORS'

We hear so many reasons for the stock market to have had the big plunge last August 24, when the DOW plunged 1089 points in less than 30 minutes. We are told to believe that investors suddenly all turned bearish at the same instance. The word "manipulation" is never used.

Many investors didn't even know that many ETFs plunged 30%-40% in that same time interval, although the stocks held by the ETF may only have declined 10% or so. How is that possible? The regulators swept it under the rug.

Then we had the stock market plunge in January. Suddenly, the big smart money woke up to the fact that corporate earnings were declining, instead of the rising as Wall Street had forecasted. But the cover story was, "the market doesn't like uncertainty." It's ridiculous.

At Dohmen Capital, we ask, when have we ever had "certainty" in the markets? What does that even mean? If there were ever 100% certainty, the markets couldn't function: either everyone would be buying or everybody selling. No one would be on the other side of the market.

Now, in April 2016, we know that earnings have declined for four consecutive quarters. Therefore, what justifies the rise in the some of the major indices to near record highs, especially when the numbers show that there has been no investment buying at all, only the stock buybacks from companies?

Instead of 'certainty,' and other Wall Street fables, I look at the charts. Below is a long term chart of the S&P 500 and the ETF for Junk Bonds. The shaded oval is all the stock that was bought and now held at a loss. It's about 16 months' worth of purchases. That will now be available for sale. The index is in a territory of big 'supply.'

Note the disastrous chart of the bear market in the junk bond ETF (HYG) (black line). As I have always said, the credit markets give the early warnings. The bounce since February so far is nothing but a bear market rally based on the rise in oil prices.


On the fundamental side, there are huge warnings.

China's exports declined for a 7th consecutive month in January. Imports plunged again, this time **by 19%.** These numbers are usually associated with **an economic depression,** but economists believe the 7% growth fairy tale.

Chinese shares traded in Hong Kong have crashed 49% since the high in May 2015.

The "A" shares in China, which can normally only be bought by Chinese in China, plunged a huge 61% from the peak last year, certainly a major bear market. It found support at the low of 2014, which is natural support. After the rally from this last February, the bear market low will be challenged again. Note that it is now starting to turn down again. This is important for investors because China's market has a great influence over global markets.


Japan's exports to China are plunging in spite of the much cheaper yen. That tells you the Chinese consumer has significantly slowed his spending. Yet the China government releases its fictitious GDP growth number of 6.7%. And western economists cite that number as if it were true. Even China's prime minister, an economist, said several years ago the GDP number should only be used as a "guide." He said it is "man made" and "unreliable." So true.

Italy's banks are having severe problems. Greece is approaching crisis again, and then comes Portugal.

The plunge in oil prices was temporarily halted by the shorts closing out positions because the Russians and the Saudis announced an agreement to "freeze" oil output. This was widely misinterpreted as a "cut." Freezing output just means that they will keep on producing the current, near record rates.

It's all smoke and mirrors. Iran will never stop increasing production. The Doha meeting of oil producing nations confirmed this, as Iran didn't even participate.

As we approach the month of May, investors have to be on the alert. I am confident that my technical indicators will keep our terrific clients on the right side of the markets. And of course, there are great ways to profit during a stock market plunge, as our clients have done for 38 years.

As we go into the heavy part of the earnings season, you will hear about "earnings beating estimates." Be careful. The 'estimates' are from Wall Street. When they want things to look better than they are, the estimates are intentionally low so that they can be beat. It's a game of deception, more "smoke and mirrors."

If you don't want to be manipulated, investigate how the earnings compare to the same time last year, i.e. actual earnings, not 'estimates.'

This year you must have the best, ‘contrarian’ analysis to keep you on the right side of the markets. Be very selective about whose opinions you listen to. Experience is very important: the more, the better.

Wishing you successful investing,

Bert Dohmen,
Founder Dohmen Capital Research, Inc.