

## HedgeFolios Strategy Advisory

## "The Bear Market Will Now Resume"

03-30-2025

**Our Current View:** 

After last week's resumption of the selloff, the markets are now experiencing **their worst start to a year since 2020**. That of course was the year of COVID.

Strategist for BofA, Michael Hartnett, says that the recent market plunge was the "5th fastest correction in the last 75 years." Such a fast decline is engineered to keep many investors from selling. They have to be locked in with losses.

We now see many well-known stocks **down about 20%**, which is supposed to be the divider for a bear market. Even the "Magnificent 7" index is currently **down over 21%**.

Friday's, March 28, big stock market plunge was blamed on the higher inflation data released by the BEA (i.e. the Core Personal Consumption Expenditures). However, we believe stocks sold off due to the factors that have actually caused the heavy stock selling since mid-December; **record high valuations.** 

Even with the recent correction, stock valuations are still too high (more on this in a separate section below). Thus, more selling is still needed to bring these valuations meaningfully lower.

A few months ago, we wrote that **the market overvaluation** would be corrected in 2025 because the massive money creation, fraud, and corruption, which actually created excessive liquidity, would end with the incoming administration.

We wrote that around \$7-8 trillion of Fed money creation in just a few years went into the stock market and inflated values to levels never seen before.

To us that means P/E ratios on major indices would decline from 26 to a PE of 12-16. That would mean a big bear market (as of last Friday the S&P 500 has a **P/E of 25.4**.

If you believe the above is valid, you will forget about "bargain hunting" and "bottom picking" for now. There is **a chance** of another bounce on or after April 2, but we would not be fooled by that.

Let's look at some charts to see how poor the indices, sectors, and important stocks are looking.

The daily chart of the S&P 500 below shows that the "bounce" from the bottom of the first plunge (bottom blue line) hit our top blue line exactly, which was our first target. That level is the **38.2% Fibonacci Retracement** of the late February-mid March plunge, which coincides with other important levels from September-November 2025.



However, since running into that resistance, the S&P 500 has turned lower energetically. The first downside target (March 13 low in the 5500 area, blue horizontal line) will likely be reached this week. It will offer brief support, but then the S&P is likely to plunge to new lows. **This is a typical bear market pattern.** 

The Dohmen Money Flow at the bottom has continued to decline, even during the recent brief bounce. That shows money continues to flow out of the S&P regardless of any relief rallies.



A good yardstick of where investors' portfolios stand now is the day after the election last year (November 6) and compare where the major indices were at that time versus where they are now. Obviously, the indices are now well below that level.

That means that almost all stock purchases after the election are now held at a loss. However, most investors bought after the election.

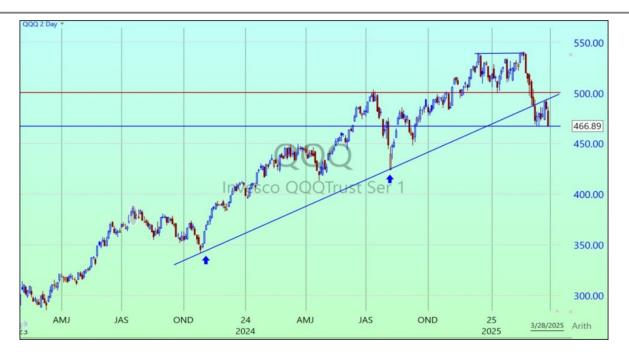
Any rally now, should it occur, will likely not rise above levels where many investors or money managers could sell and "get out even." The charts tell us those are likely resistance levels, according to our advanced technical analysis.

On the S&P daily chart above, that level is around the upper red horizontal line. That would be **very strong resistance** if the index could even get there.

The QQQ, ETF for the Nasdaq 100 Index, is leading the decline ahead of the rest of the major indices. The longer term chart (2-day) of the QQQ shows a classical **bear market pattern**. The rising blue uptrend line was broken to the downside in early March. The bounce over the last two weeks brought it from underneath right up to that line, which is **where the bounce ended**.

In advanced technical analysis this suggests that if the blue horizontal line is now broken to the downside, it would confirm the bear market.





STOCK VALUATIONS: The US stock market is very overpriced to other big international markets . Here are the comparisons from Michael Hartnett:

UK stocks trading at 12x, China at 13x, Europe & Emerging Markets at 15x

However, US market forward P/E of 21x. That means US stocks are almost twice as expensive as UK and China.

The big boom stories of AI, the related server centers and power requirements, are now starting to blow up, as all such boom stories eventually do. Because the stories propelled those stocks to incredibly overvalued levels, the busts are likely to now bring them to very low levels.

TD Cowen analyst Michael Elias, wrote that Microsoft has:

- 1) canceled leases in the US, totaling 'a couple of hundred MWs' (megawatts) with at least two private data center operators,
- 2) pulled back on the conversion of SOQs to leases, and
- 3) re-allocated a considerable portion of its international spend to the US.

**Reality and "common sense" eventually return**. As we wrote this year, P/E ratios of 500 or 950 are insane and never last. Now investors should think of other big bullish stories they had acted on. Those are likely to blow up as well.

**GOLD:** Gold is looking strong. It is probably our favorite now **for the long term** from a risk/reward viewpoint. The best part is that the retail investor has not become exuberant at all. That suggests the up move in gold has a ways to go, after a potential pullback.

The past few weeks, we had a shorter term concern, namely that gold would be sold to get cash needed to meet margin calls on other stocks during the recent stock plunge. The technical rally in



stocks the past 2 weeks pushed these potential concerns into the background.

However, because the bear market in other stocks seems to have recommenced now, that potential danger, i.e. liquidation to raise cash, has also returned.

Historically, gold eventually plunges with other market sectors for a shorter period. But then it becomes the first to recover.

Below is the daily chart of the ETF for gold, **GLD**. It seems to be getting over-extended. But with a commodity, especially gold, that does not necessarily mean a long term top is nearby. This is a time for every investor to write down whether he/she is willing to suffer a sharp decline of several months in his gold holdings if the general stock market falls apart.

Gold is used for a number of very high leveraged derivative transactions. They are subject to big liquidations when the stock market decline becomes severe.

Therefore, a 10% decline would be normal, although **a 20% decline** would not be unusual. If that is more than you could accept, selling gold when the rest of the stock market is crashing would be a wise precaution.



The long term chart (weekly) of GLD is in a long-term uptrend. The MACD indicator at the bottom is on a longer term "buy" signal.





With a further plunge of the general stock market now a possibility, **gold and gold miners** will also become vulnerable. Below is the chart of the weekly chart of GDX, ETF for the gold miners. It broke out to a new high last week. But such breakouts can reverse suddenly.



## Our HedgeFolios:

Since our last **HedgeFolios Strategy Advisory**, we made a number of updates to our 5 model portfolios as we added exposure on the bearish side with a few **inverse (bearish) ETFs**. Those did quite well for us as the markets sold off.



We also added another fixed income ETF, which should do well as stocks continue to decline in what we believe is the next leg lower. Currently we **hold up to 32% in treasury bill/bond ETFs**.

Last week we got back into **Gold** by adding GLD, the ETF for gold, and GDX, the ETF for gold miners. Given our analysis above, we expect gold positions to do well over the long term. In the shorter term, there could be a correction.

We also added a small position in ARKK the day of the big up-gap rally in the markets. To us, it looked liked that could have been the start of a stronger stock market rally given the big up-gap. However, as it turned out, that rally couldn't be sustained as stocks reversed lower by the end of the week. Therefore, we will likely exit this position soon.

We now have 50% in cash in all 5 models, which is very defensive.

## **Our Conclusion:**

As long time HedgeFolios members know, we are neither "perma bulls" nor "perma bears." We go with our advanced indicators. And based on the charts and indicators we showed above, the markets are bearish.

We believe the next down leg in this bear market, which we call the "recognition leg," should be the larger one. This is the leg where money managers give up on the bull market and the bottom pickers give up as their urgency to raise cash increases.

In addition, the bullish and overleveraged speculators will get painful margin calls. Some of the largest hedge funds have **derivative positions at 10:1 leverage, as we explained earlier**. They have no choice but to dump.

The technical bounce in the indices from the early-to-mid March low was weak and confirms it was a technical bounce, as we had surmised in our <u>trading services</u> on March 13. Now we get back to the reality of a bear market.

Wishing you successful investing,

Bert Dohmen and Dion Dohmen