05 08 2009 Questo rally potrebbe preludere ad un ulteriore grosso ribasso

A lot of commentators have begun heralding a new bull market in stocks. Day after day, I hear that March was THE bottom, that the next bull market has begun, and that anyone betting on another collapse is a moron.

These claims are not only wrong, they are completely misleading and should be depicted for what they are: nonsensical hype from sources with conflicted interests - folks whose jobs and income stem largely from people remaining bullish.

More often than not, these are the same guys who claimed that Bear Stearns marked the end of the Financial Crisis (how'd that work out?) and that the Federal Reserve can pump our way back into a bull market (how's that working out?).

The reason this is entirely wrong is because this recession is not your average run of the mill excess inventory recession: the kind of economic contraction we've experienced post-WWII.

No, this is a DE-flationary debt collapse, a bursting of a 30-year credit bubble that papered over enormous drops in real incomes, standards of living, and financial stability. The private sector hit a point of total debt saturation in 2007

This recession so far has been the first taste of DE-flation the US has experienced since the '30s. Comparing it to every other post-WWII recession is like comparing apples and oranges. A debt bubble cannot be re-flated by issuing more debt. A second-grader can understand this. I don't know why guys with PhDs, alleged experts, and the like don't get it.

For 30 years, our economy grew by borrowing from the future. I mean that the US's economic growth was funded largely by the use of credit: borrowings that would be paid back down the road.

In simple terms, the economy grew based on imaginary, not REAL demand. We pulled forward future sales of cars, TVs, homes, and the like. By using credit, we bought things NOW, that we would have normally bought LATER. This pulled future sales, future corporate earnings, future incomes, and future economic growth to the NOW through the '70s, '80s, and '90s.

So instead of having a safe, annual rate of consumer spending growth (say 4-5%), we saw double digit rates of growth: for example, between 1980 and 1990, credit card spending increased more than five-fold while average household credit card balances quadrupled. That's NOT normal.

This led to the single largest debt bubble in history ($49 trillion in private sector debt and $50+ trillion in public sector debt). And a debt bubble can continue until you can no longer meet debt payments. The private sector hit its "debt wall" in 2007. The public sector continues to grow its debts, creating an even larger bubble that will have even worse consequences.

Now, as you know, there are only two ways of dealing with a debt problem:

1) Paying it off

2) Defaulting.

The US consumer has begun both. From February to May of this year we paid off $45 billion in credit card debt. Consumer credit contracted $3.3 billion in May, the fourth consecutive monthly decline (this makes our current credit contraction the longest running since 1991).

And we're just getting started…

Total consumer debt at the bubble's peak was $2.57 trillion (the other $46 trillion was corporate). So the fact we've paid off about $50 billion of this means Joe America has a LOT

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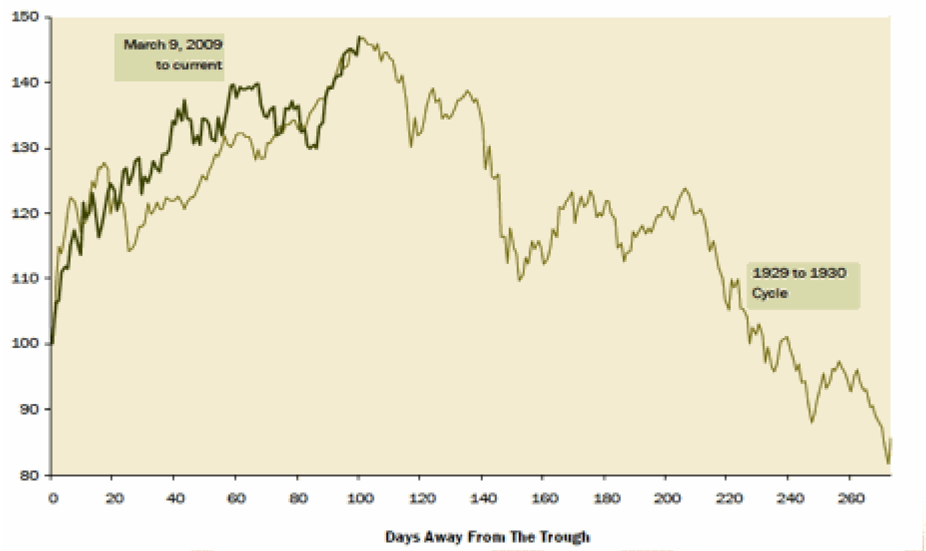
more (98%) debt to pay back and default on before he's finished de-leveraging his balance sheet.

Folks, we've got a long, LONG ways to go before this crisis and Crash are over. Anyone who's telling you the bear market is over either isn't looking at the data or is basing their analysis on "a gut feeling" or some other nonsense. They're all going to get destroyed this fall.

Above, we detailed the difference between this current economic contraction, and your usual run of the mill plain vanilla recessions. We also went over the MASSIVE consumer credit contraction that needs to occur before American households have finished de-leveraging.

Now, we're detailing why stocks will crash this coming fall. As you know, the media is rife with folks calling the end of the recession and the beginning of a new bull market. It's clear to me that this is a load of nonsense. I'll show you why.

Because a lot of the alleged "analysis" that is backing up the bulls' claims of a new bull market comes from technical analysis and charts, I'm presenting the below chart from David Rosenberg of Gluskin Shef. It charts today's bear market over that of 1929-1932.



As you can see, today's bear market is mirroring that of the '30s almost to perfection. Indeed, the correlation between the two charts is an incredible 0.8, meaning it's 4/5ths perfect. In finance, you're lucky if you get a correlation above 0.6. (gold and the dollar are only 0.28 inversely correlated). A 0.8 correlation is virtually unheard of. But that's exactly how closely today's market is mirroring that of the '30s.

I can't take full credit for this insight. Ron Coby, an investment manager at Coby Lamson in Oregon, first started pointing out the similarities between this market and that of 1929 back in February '09. No one wanted to listen to him then.

They're listening now.

Coby notes that from October 29, 1929 until November 13, 1929, the stock market collapsed 49% (2008's was 52%). Ron points out that the market then staged a 155-day rally of 50%. Today's rally (starting in March '09) has lasted 150 days and the market is up an average of 50% (average of Nasdaq, DJIA, and S&P 500).

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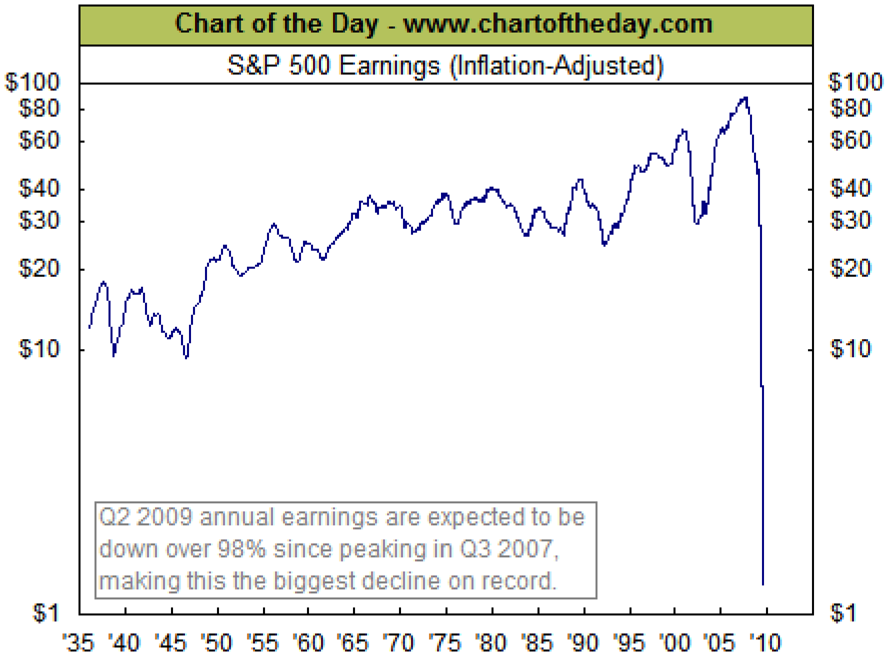
Unfortunately for the bulls today, the 1929 market then rolled over and collapsed another 70%. “Bottom callers” INCLUDING legends like Jesse Livermore, Benjamin Graham and others bought ALL THE WAY DOWN, losing entire fortunes.

Ok, so the charts for today and 1929 are identical, what about the earnings? After all, profits are ultimately what drive the stock market: you buy based on expected future earnings of the companies.



Earnings today are even lower than they were in the ‘30s during the Great Depression. They’ve fallen 98% from their peak in 2007. Adjusted for inflation, stocks have NEVER been this unprofitable in the last 80 years.

The US was already in a recession in 2008. And 2Q09 profits are actually down 31% even from THAT. Indeed, based on ACTUAL posted earnings, the S&P 500 is trading at a P/E of 700 today. Even if you go by operating earnings the multiple is still 24: hardly cheap.

Looking over this, I can’t see where any claims of a “bull market” are coming from. The people who are saying today is a new bull market probably went long Tech Stocks in 2001, Housing in 2006, and Financials in 2008.

In light of the rampant bullishness, the parabolic rally in the S&P 500, the horrific earnings, and the similarity between today’s rally and that of 1929, I believe the likelihood of another Crash (like 2008) is quite high. In fact, I would not be surprised to see stocks collapse within the next eight weeks

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