

Preparing for the Next Bull Market Cycle Part I

This report is Part 1 of preparing for the next bull market. This report is based on the normal process, history that the market goes through before a new bull market cycle starts. Part II will provide my specific strategy for positioning my clients and myself for the next bull market.

I have written a lot about cycles in business, the economy, the markets and life in general.

In the research article I wrote, *The Best Time to Invest*, I write about the four basic phases of a cycle on pages 2, 3. The most important phase to start investing is called the basing phase. At the end of this report I provide charts for every basing period going back to 1962. They all look similar and go through the same process. [Click here](#) to read *The Best Time to Invest*.

2020 Market

This market is different, where the major indexes have not gone through the basing phase, but many stocks and sectors have. Below is a chart of the S & P 500:



The S & P had a collapse in prices in February and March. The market has recovered much of the loss.

But

There are other parts of the economy and markets that are in bad shape. Below is a table of sectors of the economy/market and how they are performing:

#	Symbol	News	Last Trade	Low 52 Wk	High 52 Wk	% Chg frm 52 Wk Hi	Description
1	AMLP		23.65	12.05	50.80	-53.44	Alerian Mlp Etf
19	XOP		50.61	29.48	104.68	-51.65	Spdr S&P Oil & Gas
18	XLE		36.69	22.88	63.90	-42.58	Energy Select Sector
4	KBWB		38.00	28.38	59.14	-35.75	Invesco Kbw Bank Etf
7	PEJ		30.44	17.60	45.87	-33.64	Pwrshrs Dyn Leisure & Ent
14	XAR		87.84	60.27	119.48	-26.48	Spdr S&P Aerospace Def
27	XME		22.41	13.86	29.80	-24.80	Spdr S&P Mtl & Mining
20	XLF		23.95	17.49	31.38	-23.68	Select Str Financial
35	KBWP		58.81	44.46	76.48	-23.10	Invesco Kbw Property &
13	VNQ		78.67	55.58	99.72	-21.11	Vanguard Real Estate
33	DBA		13.71	13.15	16.88	-18.78	Pwrshrs Db Agriculture
31	XTN		56.19	35.96	67.72	-17.03	Spdr S&P Transportation
21	XLI		72.00	47.71	85.33	-15.62	Select Sector Industrial
24	XLU		60.21	43.44	71.10	-15.32	Select Sector Uti Select
9	PKB		32.66	16.80	36.92	-11.54	Pwrshrs Dyn Bldg & Connstrcton
5	PBJ		32.60	24.44	35.79	-8.92	Pwrshrs Dyn Food & Bev
6	PBS		33.92	20.46	36.02	-5.83	Pwrshrs Dyn Media
32	BKLN		21.63	17.06	22.92	-5.63	Invesco Senior Loan Etf
8	PHO		38.99	26.19	41.23	-5.43	Pwrshrs Water Resources
23	XLP		61.59	47.66	64.84	-5.01	Spdr Fund Consumer
16	XHB		47.06	23.95	49.34	-4.62	Spdr S&P Homebuilders
30	XTL		71.96	48.47	74.32	-3.18	Spdr S&P Telecom Etf
29	XSW		111.67	67.56	115.28	-3.13	Spdr S&P Software
3	IHE		161.01	115.53	165.70	-2.83	shr U.S. Phar
28	XRT		45.28	26.29	46.57	-2.77	Spdr S&P Retail Etf Iv
11	VCR		212.49	118.99	218.35	-2.68	Vgrd Csmr Discretion
22	XLK		106.83	68.10	109.72	-2.63	Technology Select Sector
12	VTG		284.86	179.45	292.44	-2.59	Vanguard Information
26	XLY		133.84	81.74	136.50	-1.95	Spdr Fund Consumer
10	SMH		161.00	96.00	164.05	-1.86	Vaneck Vctr Semicd
17	XLC		57.41	38.68	58.41	-1.71	Communicat Svs Slct Sec
15	XBI		118.74	62.94	119.59	-0.71	Spdr S&P Biotech Etf Iv
25	XLV		105.89	73.54	106.25	-0.34	Select Sector Health
34	PZD		53.03	32.41	53.07	-0.08	Pwrshrs Cleantech

The list shows 35 sectors of our economy, market. 40% of the sectors are only down less than 5%. About 42% are down more than 10% and most are in bear markets, down more than 20%. This is where my investment buying will be currently and to be positioned for the next bull market. If you would look at the major indexes you will see that many stocks in the indexes are in bear markets and only a handful are close to their old highs. I write much more about this in my next Market Update that should be out in early August.

Above I show you a chart of a recovering S & P index. Below is a chart of the banking ETF:



Let us review the chart:

The banking index is down about 35% from its peak, a bear market.

- Prices did find a bottom, for now.
- Prices did move above its bottom thanks to the Fed by reducing short and long-term interest rates. Because most banks, including this index, pay a nice dividend that makes them attractive. Because of their above average dividend yields, some money did move to these higher yielding investments, but not enough to move them out of bear market territory.
- What is important is that now prices are basing. We now have a new lower trading range after finding a bottom. Prices are basing.
- Another important point about the banking sector. It would be hard to have an economic recovery without a healthy banking sector. If the market, investors really believed we would have a V shaped recovery banking stocks would reflect a V shaped recovery and would not be in a bear market.

Below is a bear market chart of Nordstrom:



Nordstrom is in a bear market. It found a bottom and is now basing. Nordstrom's bear market bottom in 2008 caused the stock to fall to about \$ 6. By 2015, Nordstrom climbed to \$80. Could Nordstrom's business recover like it did after the Great Recession?

Below is a chart of the S & P. The chart has essentially been going sideways for the last 2 ½ years.



Let's review the chart:

- The S & P's support is around the 2,200 level about the same level where the 2016 presidential rally started. Resistance is around the 3000 to 3400 area.
- The market rallied hard after President Trump's election. That rally ended in January 2018. The market has had a hard time staying above the 2900 level ever since.
- There have been 3 major corrections during this time. The second correction was close to being a bear market. The economy was growing so the market was able to recover. The potential for rising rates, a trade war and rising geopolitical risks (Iran, North Korea, Russia, Venezuela...) caused the markets to stall in 2018, 2019. Also, the market has become overvalued the last two years, especially this year.
- The correction toward the end of 2018 did not base, so it's not surprising for stock prices to react violently toward the downside when the covid-19 virus came to the U.S.
- Again, there is no basing period this year, so the current rally is suspect and could reverse like the last two. The market's bullish scenario (V shaped recovery, vaccine by the end of the year, the President will be re-elected) may prove to be wrong and I would not be surprised if the S & P tested the March lows. In my Market Update next month, I will describe the scenario where the market tests the low.

Gold had a good base before its current rally:



Source: Barchart.com

Gold made an historic high in 2011. It went into a bear market and it based between 2013 and 2019.

BASES ARE LIKE A DIVING BOARD. A LONG DIVING BOARD CAN LEAD TO A STRONG BOUNCE/MOVE. A SHORT DIVING BOARD WILL HAVE LESS OF A BOUNCE/MOVE AND THE MOVE IS NORMALLY SUSPECT.

A v-shaped bottom is unusual, and we don't have the conditions for a sustained V-shaped bull market.

Below is a long-term chart of the NASDAQ:



The NASDAQ has many technology companies. This makes the index a favorite among growth, technology investors.

Let us review this chart:

- After the Y2K concern, the NASDAQ rallied from about 3000 to about 5200 in a parabolic move. Most parabolic moves are signs of speculation.
- The NASDAQ crashed from around 5200 to about 1200.
- The NASDAQ started basing in 2001 and was not able to breakout until 2012, about 12 years.
- Prices peaked in 2000, but prices did not pass those highs until 2016.
- The last five years the markets have had several strong rallies and corrections. The current rally is parabolic and is a sign of speculation. Also, prices did not base after going into a bear market and a recession was declared that February. The current rally is suspect.
- We are seeing the same level of speculation that we saw in 2001 in 2020.

I take profits and hedge near market tops and near the end of an economic cycle when stocks are overvalued. Here is why for example, if a person would have pulled out when the NASDAQ was 5200 and deployed it when prices dropped to the 1200 area. The \$1,200 could buy about \$4,200 of the index. That \$4,200 would be about \$50,000 today. If an investor didn't sell, the 5000 would be about 10000 about a double that took about 20 years.

Investing during the basing period of a bear market leads to better returns because one is buying when stocks are oversold and undervalued. Market and economic cycles last much longer than bear markets, so you want to be invested at the start of an economic cycle. There is less risk at the start of a cycle, basing period, versus speculating at the top of an overvalued market.

Question, would you rather invest during the start of a bull market cycle, the basing period when stocks are oversold and undervalued like the banking index. Or, would you rather speculate now when the NASDAQ is overbought and overvalued and prices are parabolic.

Summary and Conclusion

- Most things in the universe have a cycle: birth, growth, mature, decline. We do have market and economic cycles. We just finished an economic and market cycle that started around 2009 and finished this year, 2020.
- We are in a recession and many stocks are basing.
- The best time to invest is during the basing period and there are many sectors and stocks that are currently basing.
- IT'S TIME TO START POSITIONING AS AN INVESTOR FOR THE NEXT BULL MARKET CYCLE.
- The major indexes (Dow 30, S & P, NASDAQ) have gone parabolic, and are overvalued. Caution is warranted. I write more about this in my next Market Update.
- I will write more about my investment strategy for the next bull market cycle in my next Market Update.

If you need help preparing for the next bull market, feel free to contact me at danhassey@yahoo.com.

Below are charts of every basing period going back to 1962.

Basing Periods

Basing period Details

DATE BTM START	DATE END	BASING IN MONTHS	PATTERN	VOLUME	RECESSION	BTM TO BRK OUT/ MONTHS
10/6/08	7/23/09	9.6666667	H & S	Abv. Avg	Yes	10
7/1/02	6/1/03	11.1666667	Double Bottom	Low	Yes	8
8/31/98	10/5/98	1.1666667	Double Bottom	Normal	No	2.5
2/24/94	2/3/95	11.4666667	Bowl	Abv. Avg	No	10
8/21/90	1/30/91	5.4	H & S	High	Yes	3
10/1/87	2/1/88	4.1	Triple Bottom	Low	No	5
2/1/84	8/1/84	6.0666667	Double Bottom	High	No	0.5
9/1/81	8/1/82	11.1333333	Bowl	High	Yes	0.5
8/1/74	1/1/75	5.1	Double Bottom	High	Yes	1.5
6/1/62	11/1/62	5.1	Bowl	Low	Yes	4.5
Average # of Months		7.0366667				5.06

Source: Dan Hassey database, archive

The average basing period takes about seven months. That's about 2 quarters. Investors can start to see improvements in earnings, sales, employment and economic indicators. The last 4 basing periods took longer than seven months.

1962



1975



1982



1984



1988



1990



1994



1998 CLOSE TO V SHAPE, GLOBAL CURRENCY CRISIS, RUSSIAN DEBT DEFAULT



2002 2003



2008 2009

