



Investment Management

**"Light at the End of the Tunnel"**  
**Investing at Bear Market Bottoms**  
**April 8, 2009**

*"These dire times [past bear markets] were followed by powerful rallies over the following 12 months, and long before the media's headlines became bullish." Financial History Magazine, Fall 2008 (Winans)*

*"To ensure that an investment approach is likely to work in the future, when it counts, the rules should be simple and kept to a minimum, and the testing period should cover many markets over many years." Investment Psychology Explained, 1993 (Pring)*

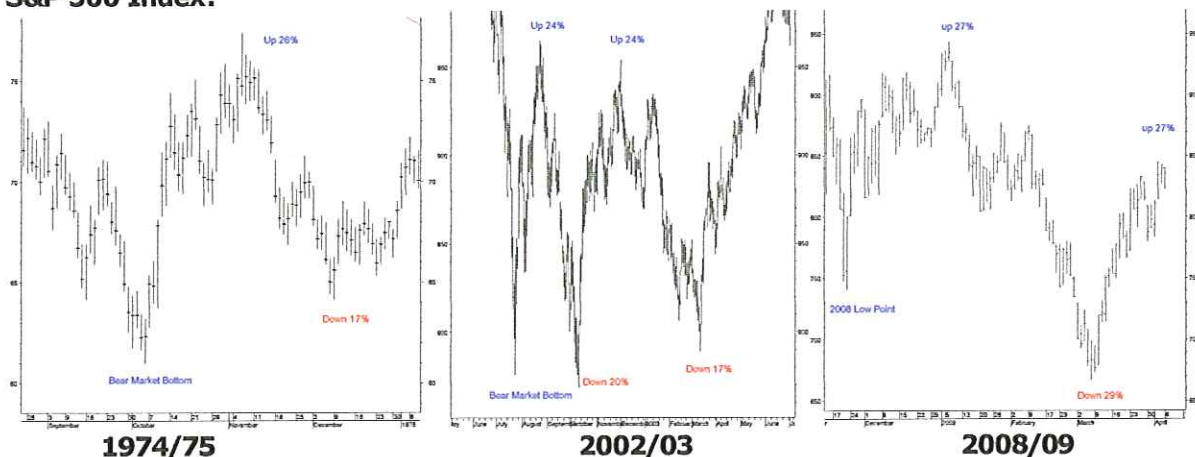
With 2009's volatile 1<sup>st</sup> quarter ending on a high note, the question on everybody's mind is whether the storm is finally over, or are we in the eye of a financial hurricane with the back end of the storm yet to come?

Past market corrections provide important clues of what to watch for in determining a positive change in the market's direction. Besides the current financial crisis, there have been two other severe stock bear markets in recent history. The investment bubbles of 1973-74 and 2000-02 are comparable with today's market declines with losses that exceeded 50%, and in many ways, resemble today's economic climate.

*High Volatility - Traders Paradise, Investor's Hell*

While there has been much fanfare in the media about how unique this bear market is, similarly high levels of volatility were present at the end of both the above mentioned bear markets. In fact, the 2000-02 bear market had two rallies of approximately 24% followed by several fast moving declines of nearly 20% over 8 months (see charts below).

**S&P 500 Index:**



## What's Lies Beneath the Market's Surface is Key

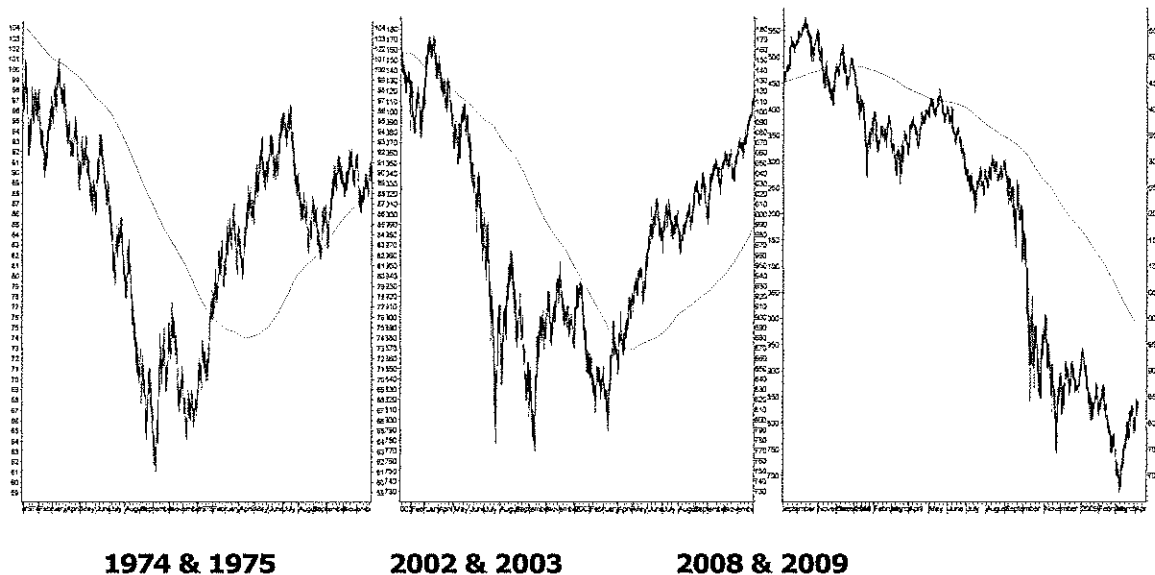
While investors follow with excitement any positive developments in the financial markets during bleak times, it is what happens under the market's surface that separates a short-term bear market rally from the beginning of a new multi-year bull market.

There are time-tested indicators useful in monitoring the overall health of the stock market and aid in identifying critically important times to be fully invested in stocks. Historically, early bull market rallies post strong returns. In 1975, the S&P 500 advanced 32%, and in 2003 it increased 26%. Both years produced approximately 45% of all of the index's price appreciation for the following 5 years.

### Winans International Market Indicators:

**200-day Moving Average** - This popular indicator determines whether it is a bull or bear market for stocks by a major index's price trading above (bullish) or below (bearish) its 200-day moving average. The *Winans Trend Indicator* further refines this indicator to prevent short-term signal whipsaws and has been very accurate over its 58-year history. In fact, this indicator is our "keel of the ship" in determining overall investment strategy in stock investing, and provided invaluable guidance for our aggressive buying in the 1<sup>st</sup> quarter of 2003 and our execution of defensive actions in January 2008.

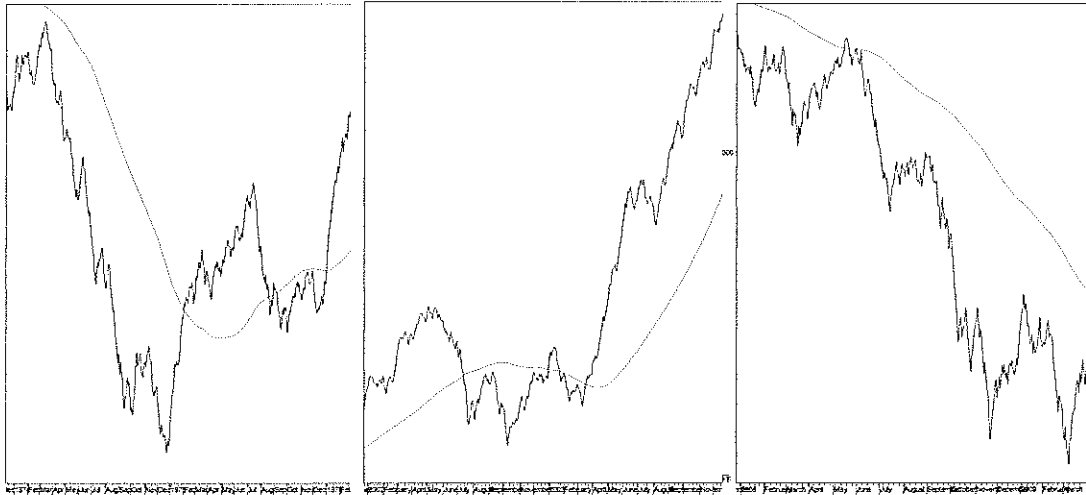
**S&P 500 Index With 200-day Moving Average (red line)**



As shown on the above charts, powerful rallies above the 200-day moving average signal a major change in market trend in 1975 and 2003. Currently, the S&P 500, as well as most major indices, are below their 200-day moving averages (a negative signal).

**Advancing Versus Declining Issues** – Healthy markets have more stocks going up than down. The best way to measure this is with the advance decline line of the NYSE (AD Line).

### NYSE Advance Decline Line With 200-day Moving Average (red line)



**1974 & 1975**

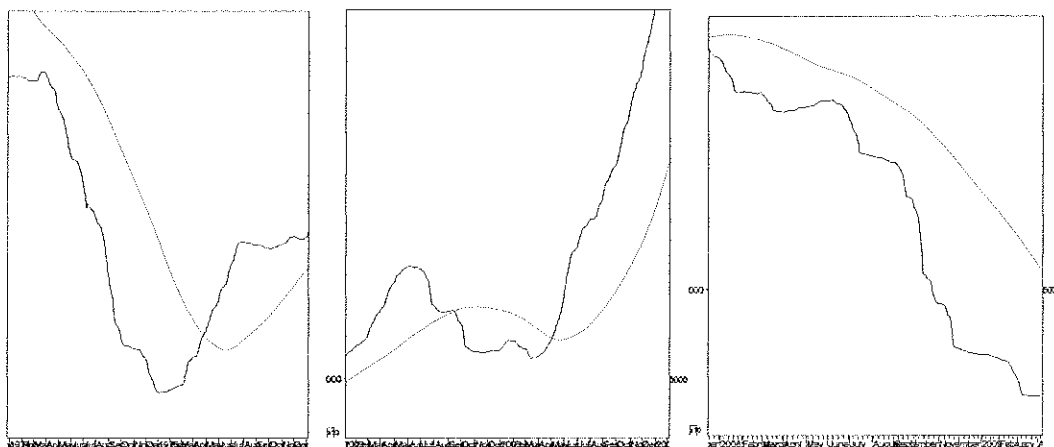
**2002 & 2003**

**2008 & 2009**

As can be seen on the above charts, the AD Line broke above its 200-day moving average near the same time as the S&P 500 Index did in 1975 and 2003 thus confirming the market's change in direction. Currently, the AD Line is below its 200-day moving average (a negative signal).

**New Annual Highs Versus New Annual Lows** - Bull markets have more stocks achieving 52-week highs than 52-week lows. The best way to measure this is with the high-low line of the NYSE (HL Line).

### NYSE High Low Line With 200-day Moving Average (red line)



**1974 & 1975**

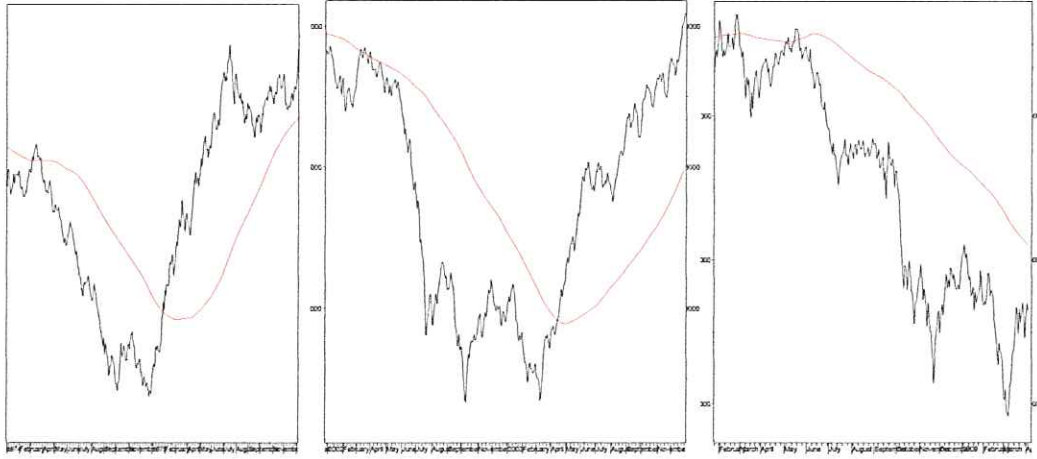
**2002 & 2003**

**2008 & 2009**

As can be seen on the charts above, the HL Line broke above its 200-day moving average near the same time as the S&P 500 Index did in 1975 and 2003 further confirming the market's change in direction. Currently, the HL Line is below its 200-day moving average (a negative signal).

**Total Trading Volume** - Healthy markets have higher levels of volume for advancing stocks than declining issues. The best way to measure this is with the advance decline volume line of the NYSE (AD Volume Line).

**NYSE Advance Decline Volume Line With 200-day Moving Average (red line)**



**1974 & 1975**

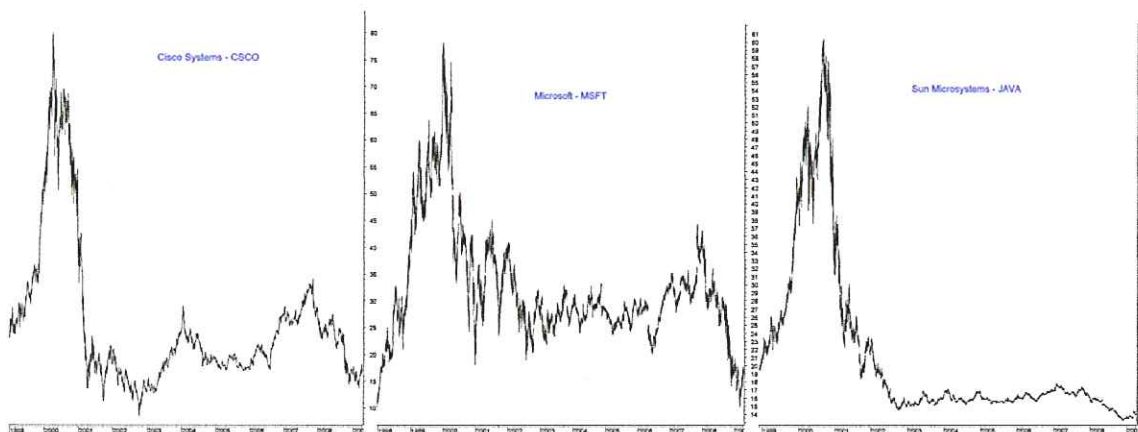
**2002 & 2003**

**2008 & 2009**

As can be seen on the above charts, the AD Volume Line broke above its 200-day moving average near the same time as the S&P 500 Index did in 1975 and 2003 further confirming the market’s change in direction. Currently, the AD Volume Line is below its 200-day moving average (a negative signal).

**Market Leadership Changes** – As the charts below show, the market leaders of the “Dot Com” era significantly lagged the market from 2003-07. While depressed financial stocks might provide short-term trading opportunities, our investment objective is to find the companies & ETFs that will provide strong price appreciation over one year and thus qualify as long-term capital gains for tax purposes. The market’s new leadership should become apparent when the above indicators turn positive.

**The Tech Giants (1999-2008)**



**Cisco Systems**

**Microsoft**

**Sun Microsystems**

## *The WI Investment Strategy for 2009/10*

As the WI Market Indicators turn positive, our plan is to try and replicate the successful actions we took in late 2002 & early 2003 when our research supported that the 2000-02 bear market was coming to an end. The key to success will be in identifying the market's leadership in U.S. and foreign markets, fully investing our portfolios in those investments, and possibly using long-term stock options to enhance returns for our aggressive investors. Our investment actions in 2003 allowed many of our clients to recover stock market losses from the devastating "Dot Com" bust within 3 years. Our expectations are to have similar success this time around.

### *Conclusion:*

While there is no magic formula to pick the low point of a bear market, there are time-tested ways to monitor the health of the stock market and to identify opportune times to be fully invested.

While our research supports the view that this severe bear market is currently in the early phase of bottoming out (An opportune time to remove hedges and short sells.), only a bullish signal from the *Winans Trend Indicator* confirmed with positive signals from the AD Line, HL Line and AD Volume Line will firmly place us in the bullish camp with quick execution of our above mentioned buying strategy. Patience is key to success in this investment climate. It took between 4 and 9 months to complete the bottoming process during the two previous bear markets studied in this report. If we apply that timeline to the present, we should not expect our indicators to give positive signals anytime between now and September.

For more information go to [www.winansinternational.com](http://www.winansinternational.com)

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*April 8, 2009*

### *Disclaimers*

Past performance should not be taken as representative of future results.

Investing in securities entails certain risks, and WI cannot guarantee that investment goals and projects will be attained. Many of these risks are outside WI's control, such as inflation rates, interest rates, US fiscal and monetary policy, the state of the economy and the movement of securities markets generally. No assurance can be given that the Client's portfolio will generate any income or will appreciate in value.

The source of the information supplied and formula calculations used is considered reliable but cannot be guaranteed.

Additional information is available upon request.

The tax related information provided in this report is for informational purposes only and should be discussed with the client's accountant before being used for tax purposes.