

BY STEPHEN BRENNAN

A Silent Stampede

IT IS QUITE POSSIBLE THAT A NEW BULL market has been underway for over half a year and no one has noticed it yet. With little fanfare, one of history's most massive bear markets may have ended back in 2002. On the other hand, this bear may not be in hibernation quite yet. Since I am writing about the market in May, I could find myself well behind the curve by the time this article goes to print in June, but my personal belief is that we are indeed in a new bull market.

AN OCTOBER 2002 BOTTOM

The S&P 500 major market index put in a double bottom on an intraday basis in July and October around the 780 point level. We are still 17 percent

As April came to a close, the four major indices – the S&P 500, Dow Jones Industrial Average, Russell 2000 and Nasdaq – all simultaneously traded above their respective 200-day moving averages. This has not happened since 2000 – another indication that the three-year bear market may have ended.

above this level as April comes to a close. A double-bottom is often interpreted as a bullish sign that a market or stock has found a price floor from which it can rise. Charting price action on a closing basis for the S&P 500 reveals another bullish pattern commonly associated with bottoms – an inverted head-and-shoulders. The head is the October bottom, which is so far the low point for

the market. The shoulders are the July closing low of 798 points and the March retest of the 800-point support level, with an 801 close. When the market could not penetrate this support level, the second shoulder was created and this technical pattern was confirmed.

OTHER SIGNS

Although I look first and foremost at the S&P 500 when making major market calls, I also look to other major indices for confirmation. Like the S&P 500, the Dow Jones Industrial Average has demonstrated an inverse head-and-shoulders pattern. Here, the two shoulders are made up of a double-test of the 7,500-

point level, while the head in the middle is a test of 7,200. The Nasdaq, on the other hand, has thus far not looked back since putting in its October low, and despite losing some value in March, it did not test its July lows as the other major averages did. In past columns I have also mentioned the importance of the 200-day moving average. As April came to a close, the four major indices – the S&P 500, Dow Jones Industrial Average, Russell 2000 and Nasdaq – all simultaneously traded above their respective 200-day moving averages. This has not happened since 2000 – another indication that the three-year bear market may have ended.

HIGHER HIGHS, HIGHER LOWS

Although I am drawing attention to some bullish technical patterns, many market technicians would still consider this a bear market. In spite of being above the October levels, none of the major indices have yet gone on to set higher highs and higher lows. In other words, the market has yet to establish a clear, long-term upward bias. Perhaps by the time this article goes to print this situation will have changed. It is important for the market to not move lower from this point and retest those July and March lows, and it needs to remain above its 200-day moving average and to begin putting in a pattern of higher highs and higher lows. I will be paying attention to all of these factors in regards to formulating my ongoing market view.

On one final note, everything in this column directly relates to chip stocks. The broad market is going the way of corporate earnings, which are reflective of the global economy. On a good day in the market, semiconductor stocks tend to have a great day, and on a bad day they tend to perform horribly. Of the ten investment recommendations I made at the beginning of the year, semiconductor stocks (SMH) have been my second-best performers as April comes to a close with a year-to-date return of 11 percent. Since I expect the market to be up big, I welcome their volatility. Of course I am still prudent enough to diversify myself, which has hurt performance but created a risk profile superior to simply investing everything in chip stocks. ☞

Stephen Brennan is an investor relations consultant with MCA, a leading Silicon Valley public relations firm, and an advisor to Financia Capital, LLC., a San Francisco based, money management firm. He may be reached at sbrennan@mcapr.com.