



SuperModels 12/20/2007 12:01 AM ET

Stock market 'winter' is moving in

Where in the world can you safely put your money? Not in equities, two top investors warn. They're not perpetual bears -- just investment analysts with enviable records.

By [Jon Markman](#)

Growing numbers of market veterans in recent weeks have stuck out their necks and declared the 2002-07 bull market over, done and dead.

At considerable risk to their reputations, considering the market is down a mere 8% from its high, they're asserting that a one-two-three punch of earnings recession, credit constriction and inflation have created bear-market conditions that could push the average stock down at least 20% over the next year.

Although the news media and amateur analysts sometimes throw the term "bear market" around carelessly, like a schoolyard curse, it is not a concept that institutional analysts and fund managers take lightly. Yet they're making the case now in an effort to help clients avoid what they believe will be the agony of watching profits that took years to amass disappear in a few months.

Among the most prominent market skeptics today are Jim Rogers, a former partner of George Soros in the famed Quantum Fund, and Paul Desmond, the head honcho of the venerable demand-analysis firm Lowry's Reports, based in Florida. Neither is a "permabear" -- they just call 'em as they see 'em, combining intuition and experience with proprietary measures of supply and demand.

Bundle up

Let's start with Desmond, who observes that bear markets have occurred over the past two centuries every 52 months or so, roughly every four and a half years. Although they seem like rare events, they're actually as regular a part of the market cycle as winter is part of the seasonal cycle. Past market lows in just the past half-century include 1957, 1962, 1970, 1974, 1978, 1982, 1987, 1990, 1994, 1998 and 2002. Surely you recall at least a couple of those.

Desmond notes that just as winter corrects the excesses of a summertime abundance of plants and animals to ensure a sustainable natural balance come spring, bear markets and recessions clear out excesses in business inventories, consumer accumulations and human emotions to make way for the next bull market.

More from MSN Money



[Big banks vulnerable to takeover](#)

[Danger! 25 stocks to avoid now](#)

[Are we headed for an epic bear market?](#)

[For an elite few, credit pain means profit](#)

[What the big banks aren't telling you -- yet](#)

The first 12 to 15 months of the market life cycle are the equivalent of springtime: a time for planting (or buying fresh stocks). The next 12 to 15 months are a time for watering, weeding and nurturing. The third phase, which can last around 30 months, is the time, like autumn, for harvesting. And the fourth phase, which is where we are headed now, is a time for protecting seeds to make sure you can replant the next spring.

Desmond says one sign indicating stocks have peaked was a gauge showing the supply of stocks for sale surpassed demand in midsummer. Because such behavior took 10 months longer than usual to emerge, he says, it will likely lead to a longer-than-normal bear phase. If precedence is meaningful, then he believes we can look for a decline that persists at least through 2008.

Desmond generally recommends moving portfolios to cash and selected shorts at the start of a bear phase, since virtually all groups of stocks tend to move down together at first, and waiting to see which groups of stocks emerge as countertrend heroes. In the early 1970s, the heroes were energy stocks, while in 2000-02 they were value and small-cap financial stocks.

He guesses that energy, health care and utilities may buck the trend this time, but it's too early to say with certainty.

'Cheap' is a relative term

One thing he says he is certain of, however, is that although the market appears soft now, we ain't seen nothing yet. So far, he says, the market has drifted down primarily due to a lack of buying. It will really collapse later on, Desmond says, when investors lose hope and begin to engage in high-volume selling.

"You need to put the idea that the Fed or some other force will ride in like a white knight out of your head," he warns. "Don't buy in to lower values too early. Cheap becomes a very relative term in a bear market, as people don't respond to value -- they respond to a sense that they need to just stop the pain, as they'll dump fast-growing, seemingly valuable stocks with abandon." How nice.

Video on MSN Money



▶ Pain ahead in 2008

The next year may not bring an actual recession, MSN Money's Jim Jubak says, but it won't be much fun either.

Rogers, who is equally negative on stocks, was one of the earliest proponents of investing in China and in metals, long before their surge of the past few years. He achieved notoriety three years ago by warning that shares of **Fannie Mae** ([FNM](#), [news](#), [msgs](#)) would get crushed once the market realized that it was "unbelievably over-leveraged" and would sink under the weight of its out-of-control derivatives positions. At the time, the government-sponsored mortgage-lending titan was on top of its game, and his warning drew derision. But no one's mocking him now that Fannie shares have lost 60% of their value.

Continued: 'Outright fraud'

1 | [2](#) | [next >](#)

Rate this Article

Click on the stars below to rate this article from 1 to 5

Low  High

[View all top-rated articles](#)

[E-mail us your comments](#) on this article

[Discuss](#) in a message board