FACTORS AFFECTING LONG TERM SUCCESS IN THE MARKETS

I. MONETARY LIQUIDITY

a. Loose = Good

b. Tight = Bad

Both a and b usually take time to be reflected in stock prices.

II. MOMENTUM (RATE OF CHANGE)

a. Upward and Expanding = Good

b. Downward and Declining = Bad

Both a and b usually take time to be reflected in stock prices.

III. REVERSION TO THE MEAN

a. Bull markets start at the depths of despair when everyone wants out of the market. Extreme fear is *good*.

b. Bear markets start when greed is rampant and everyone wants in. Consumer confidence is high and unemployment numbers are the lowest in a long time. Greed is *bad* for the long term health of the markets.

c. What goes up usually comes back down, and vice versa.

IV. HOW DO BULL AND BEAR MARKETS END?

a. Bull markets end when the news media and similar sources are hailing how *good* things are and how they will continue. Wall Street experts come out of the woodwork and dole out predictions way up in the stratosphere. There's a general feeling of optimism. Bull markets usually end when prices creep up over an extended period, but with very little gain to show for it. At the same time, long term momentum has been declining.

b. Bear markets end when the same sources are lamenting how *bad* things are. Economic and stock market experts come out of the woodwork to tell the world that things will be getting worse. Bear markets often end when there's a final thrust lower in prices, but momentum shows a divergence and is creeping up.

V. CURRENT ASSESSMENT OF MARKETS

a. Interest rates increasing. This is *bad*.

b. Sector rotation is taking place. Not all sectors are going up in tandem.

c. Prices are hanging in there, but advancement has been minimal compared to the major indexes two years ago.