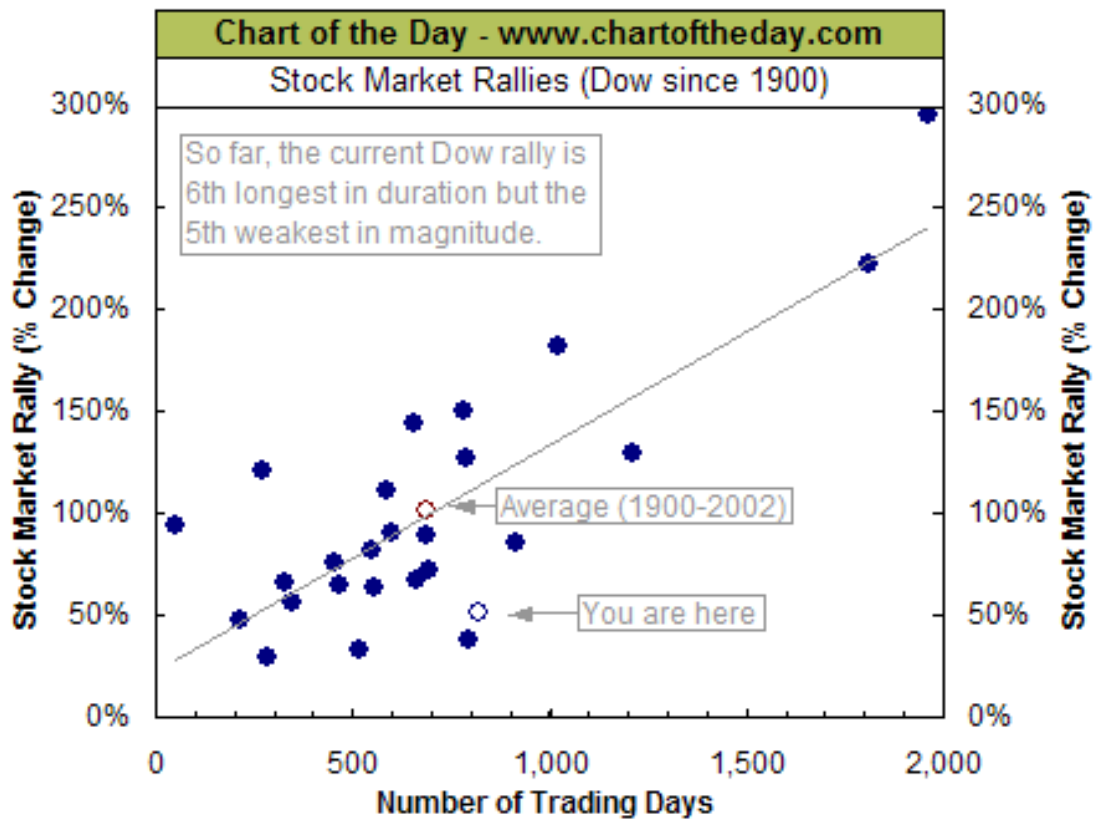


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Investing is nearly always about probabilities, about what should happen given what we know about something. There are no certainties of gain in investing, only potentialities. So it shouldn't be too hard to interpret the probability message from the chart below. It shows the average duration and magnitude of bull markets dating back to 1900 in comparison with where the current bull market is. This chart is from chartoftheday.com.



Source - Dow Jones

In today's market, if we look at the chart, we can compare where we are in terms of past bull markets. The percentage gain has been mediocre, but we are already the sixth longest in terms of duration. If for no other reason than this, the talk about the current strength early in 2006 leading us to new highs over the year is enough to give us pause. After all, we have already exceeded the current length of the average bull market. This means we are already getting long in the tooth.

To be sure, the rally could last longer; it could eventually end up on record as the longest. On the other hand, we can invest by what we already know and with the probabilities, which suggest that the bull is old by historic standards.

As such, it is time not to think in terms of how I might make tons of money this year on the long side, as if the bull will run forever, but rather what might I do if this bull turns into a bear shortly? In all probability, this is what should happen. The question to think about is do I have a bear market strategy?

There are a few other reasons this turn from bull to bear may occur this year. One technical indicator is the four-year Presidential cycle that comes into prominence this year. This cycle lows out about every four years like clockwork. You can trace it back to 1970, and then on to '74, '78, '82, '86, '90, '94, '98, and 2002. The next cycle low is due in 2006. Fundamentally, the inversion of the yield curve portends recession, not economic expansion. It implies weakness and shortcomings; surprises will be to the downside. Earnings may come in less than expected. Stocks may drop on the unexpectedly negative news. You may see the archived article on the inverted yield curve on our website investmentst.com. Click on the articles link. Over the last two weeks, the yield curve has inverted further. Lastly, investor sentiment is very complacent and very bullish. The average mutual fund has a mere 3.5% of its assets in cash; that's a five-year low. Four out of five said it's not likely the US will go into recession this year. A contrarian will take note of these things.

What about 2007? The average bear market is shorter than the bull market. The Fed will most likely ease rates later this year. So, I think 2007 through 2009 will be fantastic years in which the Industrials, the S&P 500, and NASDAQ may actually all see new, all-time highs.

In short, it's all about probabilities and right now, this bull market is now in its later innings. At any time it could be called off for any number of reasons. The fact that it has gained less than average suggests that the market's valuation was still too high to support substantial gains when it started. So, prepare now for weakness in 2006, but for excellent gains in 2007 and 2008 and 2009.