THOM CALANDRA'S STOCKWATCH

# All about the saggy bottom boys

## Also: Currency crisis may provide a crushing blow

*By Thom Calandra, CBS.MarketWatch.com*
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**SAN FRANCISCO (CBS.MW) -- The market is a voting machine, financial authors Benjamin Graham and David Dodd once said.**

The authors of the bedrock stocks guide "Security Analysis" in 1934 believed investors register their choices in the market with one part reason and two parts emotion. Graham and Dodd are best known for their lifelong search for companies whose shares trade below a reasonable and theoretical price, based on multiyear earnings-growth rates, dividends and other factors.

The two analysts, and all bargain seekers, benefit by exploiting investors' emotions. At few times in the past 100 years have those emotions raged so furiously, bared for all the world to see. After 28 months of relentless losses, stock-market investors are pulling out their hair -- but not, it seems, plucking their portfolios.

For the most part, individuals have refused to dispatch their losers in a bout of panic selling. Market technicians, led by Paul Desmond of Lowry's Reports, say the stock market has yet this year -- or last -- to register total-surrender levels of selling.

Still, much of what makes up a market's jumbled prices comes from hormones, fed as they are by sweat, tears, fear and the cocktails of success: adrenaline, jangled nerves, euphoria. Anecdotal evidence of surrender is important to the Wall Street professionals whose job is to summarize market sentiment. So is a refusal to budge from portfolios that have gaping losses of 50 percent and more -- which is happening right now on Main Street.

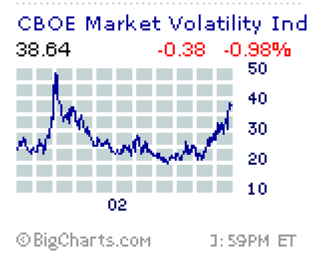
"We have had so many 2 and 3 percent down days that investors are now getting used to them, meaning that it is harder to get them to truly capitulate," says Christopher Johnson, senior quantitative analyst at Schaeffer's Investment Research in Cincinnati.

### Saggy bottom

The stock market conceivably could sidestep a rock-hard bottom, the kind marked by days, weeks and months of dreaded 90 percent downside volume and price days. See the latest on Paul Desmond's 90-90 downside days.

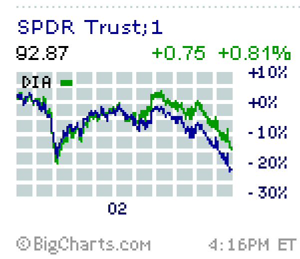
If it does, we will have, probably for the first time in a century, a saggy bottom that forms the ground upon which the next bull market takes shape.

This saggy talk is what Main Street wants to believe. "Today, individual investors think of themselves on a par with professionals, and rightly so," says Tom LaRocque, an individual investor. "They've seen the pros at Fidelity and Janus and Morgan Stanley blow it as badly as anyone. 'Am I going to be the last sucker to sell when a turn upward is just around the corner?' Better to risk going all the way down with the ship. I think that risk is small. Here's to the Saggy Bottom Boys."




Another Main Street investor, Ed Pikman, says, "The U.S. economy is already on track, and the stock market has no other way to go but up and running. The gold price will be back to $270 (an ounce) at the end of year, and gold miners will go Chapter 11."

This is what I call bankruptcy jive talk. A lot like the ribbing in a neighborhood basketball game, this jive throws the specter of Chapter 11 and Chapter 7 liquidations in people's faces. Just who goes broke - the holders of paper stocks or the believers in hard-metals like gold -- is the pivot point of the rap. Swish.




Paul F. Desmond, president of Lowry's Reports Inc. in Florida, is the award-winning market technician whose study of market bottoms examined the New York Stock Exchange for the past 70 years. Desmond found that virtually every bear-market bottom was first preceded by days in which panic took hold. These so-called 90-90 downside days, in which 90 percent of all volume and 90 percent of all points gained or lost are in the red, formed what became the launch point for lasting rallies.

Desmond on Monday told me a saggy stock-market bottom could be "followed by a limited rally." Still, he said, the "lack of capitulation is exactly what makes limited rallies limited."

He uses the following as a parable: "Imagine that you price a house for, say, $100,000, but you're not sure that this is exactly the right house for you. If the broker calls and says, 'The owner has lowered the price by $200,' would you rush over to sign the papers? Probably not. But, if the broker calls and says, 'The owners will drop their price by $30,000 if you will sign the contract today,' your reaction would probably be decisive and immediate. The 90 percent downside day, and the 90 percent upside day that should follow, serve the same purpose."

Desmond noted the post-Independence Day rally is almost destined to have little staying power. That rally, on light volume in a shortened trading day Friday, qualified as a 90 percent upside day on the NYSE but not on NASDAQ. "Ninety percent upside days that are not preceded by one or more 90 percent downside days are typically upside blowoffs, and are usually followed quickly by new lows," Desmond said Monday.

My vote on all this is in: I'll stick with the belief that a hard bottom is in store for this wallpapered stock market (SPY: news, chart, profile), and with it the emotional and financial pain that comes from unraveled portfolios and heavy American household debt.

"Hong Kong has a record-high jobless rate, and their bankruptcies tripled in the first five months of this year. Americans' personal bankruptcy filings leaped more than 15 percent in the 12 months that ended March 31, having been irresponsibly lured into excessive loans by low-interest car and real-estate deals that added enormously to household debt," says James Dines, longtime newsletter editor and gold investor.


Dines is of the opinion that some event will trigger a crushing blow to financial markets in the not-so-distant future. Whether it is the act of militants or CEOs, a Latin American liquidity crisis or a collapse of the global currency system is anyone's guess.

Dines is leaning toward currency turmoil. He points out that the Mexican peso is at its lowest point in two years, an event that has gone largely unnoticed by American investors and financial advisers. Devaluations of South American currencies most likely will lead to a financial contagion -- basically a buyers' strike by the banks and large investors that lend to emergingmarket countries -- in Uruguay, Brazil, Chile and Mexico, says Dines, editor of The Dines Letter.


"Roman citizens ignored the tremors of Mount Vesuvius until it blew on Aug. 24 in the year A.D. 79, obliterating Pompeii and Herculaneum," says Dines, who is sticking with the gold- and silver-mining companies through thick and thin. "A much bigger shock awaits the world in currencies, believe it or not."

Watch Thom Calandra's report on bear-market bottoms - from CBS MarketWatch Weekend.

Thom Calandra's StockWatch appears each trading day. Curency charts show the number of pesos that can be bought for one American dollar for the past 12 months.