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COMMENTARY

Market Opinions And Topics Of Interest
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The Bear Market
Part 1 – A Look At The Decline

"The decline in the Dow appears to represent a shift away from the view, held by many investors, that the bear market could remain relatively contained to technology shares. Such a sentiment had helped keep the Dow Jones industrial average - with its broad array of companies from a variety of industries - afloat in the NASDAQ storm. Now the Dow is being buffeted by sellers who seem to think there is no haven in United States stocks, after all." ***The New York Times*****, April 4, 2001**

Now that the Dow Jones Industrial Average (DJIA) is on the verge of joining the S&P 500 in an official media defined bear market (20% decline), we thought now was a good time to look at the composition of this decline. The results may surprise you.

Typically, in a bear market there is no place to hide. However, the 2000/2001 bear market version has had plenty of places to hide.

Table 1 shows the total return of the major S&P sectors over various time periods since the S&P 500's all-time high on March 24, 2000 (1,527,46). Since this high, 6 of the 11 sectors are still showing gains. These sectors collectively represent over 55% of the market capitalization of the S&P 500. This means that the majority of the issues that comprise the S&P index are showing gains from the S&P's all-time peak on March 24, 2000.

Similarly, 277 of the 500 stocks (55%) in the S&P 500 were higher on March 30, 2001 than at the S&P 500 peak on March 24, 2000. Over this period, the S&P 500 index lost 24.04% (price return only). Only 117 (23%) stocks in the S&P 500 did worse than the index.

This year has been a different story. As the column on Table 1 titled "3-Month Total Return (also YTD)" column shows, 9 of 11 sectors are down for the year. While the decline has broadened out of late (most of the YTD declines have come in the last month), only 3 of the 11 sectors have declined more than 10% this year – Health Care, Capital Goods and Technology. This suggests that this year's decline has been more a bull market correction than an outright bear market.

To put the current bear market in another perspective, Chart 2 compares the decline in the stock market against cash (3-Month T-Bill). Had one had perfect timing ability and switched everything to cash on March 24, 2000 (the all-time peak in the S&P 500), they would have out-performed the S&P by over 29%! However, exactly 250 of the S&P 500 stocks (50%) have beaten the return of the 3-month T-Bill (6.58%) since March 24, 2000. These stocks accounted for nearly 55% of the S&P capitalization. So while moving to cash was a good move, the majority of the stocks that comprise the S&P 500 outperformed cash.

The Tech Effect

This bear market has been so highly concentrated that nearly all the decline can be attributed to one sector – Technology. This is graphically shown in Chart 1. It shows the performance of the S&P 500 **excluding** technology stocks.

What jumps out on this chart is that the stock market, **less technology**, is still in a solid uptrend and recently made new highs (December 2000). To say the same thing differently, **the stock market, excluding technology stocks, appears to still be in a bull market!** In fact, the total return of this index was nearly unchanged (-0.2%) over the 12 months ending March 31, 2001 – the same period that saw the S&P 500 total return –21.6% and the NASDAQ total return ***fall*** 58.3%%.

As chart 2 shows, the S&P **ex-technology** index is highly significant. It currently comprises about 82% of the S&P 500 and has **always** been the vast majority of the S&P 500. This means the bulk of the stock market has not declined over the last year. Or, the entire bear market in the S&P 500 can be attributed to technology – and only technology!

Table 3 shows a similar story. The stock market, less technology, has not had a down year in six years! This underscores a simple reality in this market, literally the most important decision one could have made in the last year was exiting technology – the sooner the better. If you only did this, chances are your performance has been outstanding over the last 12 months. The S&P ex-technology index outperformed the S&P 500 by over 2400 basis points!

Of course, it could be argued that the opposite was true in 1999 and early 2000 – the only decision that needed to be made was getting into technology. The S&P 500 ex-technology underperformed the S&P 500 by 1400 basis points in 1999. However, this further underscores our point – **the single most important decision has been the technology weighting in one's portfolio over the last two years. Everything else is a distant second!**

1973/1974 Comparisons

To compare how different this bear market is from the 1973/1974 bear market (the worst bear market since the Great Depression), we constructed Table 4. It shows group performance at similar points in each decline (1-year later when the S&P 500 had declined about 20%).

In 1973/1974, only 9 of 43 (20%) S&P 500 Industry groups (20%) were still holding on to gains from the January 1973 peak. Of these groups, only 5 (12%) had outperformed cash (3-Month T-Bill). They were Gold (up 110%), Oil Drillers (47%), Aluminum (39%), Integrated Oil (32%) and Paper & Forest Products (11%). These groups are best described as "inflation hedges." Finally, 18 groups (42%) did worse than the S&P 500.

The current decline has been much kinder to investors. Forty-seven of 87 (54%) of S&P 500 Industry groups were still holding on to gains from the S&P 500's March 2000 peak. Of these groups, 38 (43%) had outperformed cash (3-Month Bill). Finally, only 14 (16%) did worse than the S&P 500. Of these groups, 9 were technology oriented.

Simply put, in 1973/1974 stock investors only had one place to hide – inflation stocks. In 2000/2001 stock investors only needed to avoid one sector – technology.

Communication – Cousin of Technology

Currently 75% of the S&P 500 is ***not*** in technology **and** communications (communication being a "cousin" of technology). How has this "75% S&P 500" done since the peak of the S&P 500 on March 24, 2000? Not too bad.

A Non-Tech/Non-Communications Bull Market

	1-Month Total Return	3-Month Total Return (also YTD)	Since S&P 500 Peak (3/24/00)
Non-tech/Comm Total Returns (unwgted)	-4.00%	-7.13%	9.16%
Composite	-6.34%	-11.86%	-23.15%
Difference	2.33%	4.73%	32.30%

The S&P 500 ex-technology and communication is up 9.15% (un-weighted) since the S&P 500 peaked on March 24, 2000***.*** **So, is it a bear market, or is it a technology/communication bear market?**

Conclusion

The quote leading this article says that the decline in the DJIA to near "bear market levels" suggests that a larger bear market is now kicking in. This is a very real risk. However, it is important to note that the vast majority of the stock market has not suffered as badly as the averages suggest. At best, the stock market away from Technology and Communication has witnessed a "correction" within a larger uptrend. This is best seen in Chart 1.

In Part 2 we will look at the bond market's reaction to the "reverse wealth effect" and investor reaction.

In Part 3 we will look at how the S&P ex-technology index behaves relative to Fed policy.

In Part 4 we will look at valuation of stocks as compared to bonds.

Table 1

Lots of Places to Hide in this Bear Market

S&P 500 Sectors Total Returns Through 3/30/2001

Sorted by **1-Year** Total Return (*losses in italics*)

S&P 500 Large Cap	1-Month Total Return	3-Month Total Return (also YTD)	1-Year Total Return	Since S&P 500 Peak (3/24/00)	Sector Weight	Mkt Cap
Composite	**-6.34%**	**-11.86%**	**-21.12%**	**-23.15%**	**100.00%**	**$ 10.34**
Utilities	0.74%	-7.08%	38.06%	41.01%	4.18%	$ 0.43
Transportation	-1.20%	0.21%	24.75%	22.46%	0.76%	$ 0.08
Health Care	-7.48%	-14.92%	15.87%	17.48%	13.44%	$ 1.39
Financial	-3.02%	-9.63%	12.79%	9.21%	17.66%	$ 1.83
Consumer Staples	-6.08%	-7.88%	6.39%	7.11%	12.94%	$ 1.34
Energy	-1.54%	-6.21%	4.29%	8.52%	6.85%	$ 0.71
Basic Materials	*-4.60%*	*-6.01%*	*-5.99%*	*-4.14%*	*2.52%*	*$ 0.26*
Consumer Cyclical	*-2.56%*	*0.91%*	*-10.84%*	*-7.65%*	*8.64%*	*$ 0.89*
Capital Goods	*-10.29%*	*-13.56%*	*-11.22%*	*-11.61%*	*8.74%*	*$ 0.90*
Communications	*-4.99%*	*-0.19%*	*-37.71%*	*-37.87%*	*6.13%*	*$ 0.63*
Technology	*-12.11%*	*-24.81%*	*-59.31%*	*-62.64%*	*18.13%*	*$ 1.87*
Total Mkt Cap (trillions)					$ 10.34	

Table 2

Is Cash King In This Bear Market?

Comparing Cash (3-Mo T-Bill) to the Total Returns of the S&P 500 Sectors

Through 3/30/2001

S&P 500 Large Cap Breakdown	1-Month Total Return	3-Month Total Return	1-Year Total Return	Since S&P 500 Peak (3/24/00)
3-Mo T-Bill Returns	**0.46%**	**1.55%**	**6.48%**	**6.58%**
% of Sectors Beating Cash	4.18%	0.00%	36.04%	55.83%
Mkt Cap ($ trillions)	$ 0.43	$ -	$ 3.73	$ 5.77
% of Sectors Lagging Cash	95.82%	100.00%	63.96%	44.17%
Mkt Cap ($ trillions)	$ 9.91	$ 10.34	$ 6.61	$ 4.57

Table 3

Total Return Summary

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**YTD** (3/30/01)
S&P 500	37.5%	22.9%	33.3%	28.5%	21.0%	-9.0%	-11.9%
S&P Technology	43.9%	42.2%	26.6%	73.5%	75.9%	-40.0%	-24.8%
S&P 500 ex Technology	***36.5%***	***19.5%***	***34.6%***	***20.7%***	***7.2%***	***5.9%***	***-8.1%***
Technology Pct (Average)	13.5%	15.0%	16.4%	16.9%	22.8%	29.8%	19.1%
Technology Pct (Period End)	14.2%	15.9%	18.1%	20.0%	30.2%	21.9%	17.6%

Source: The Leuthold Group

Table 4

Comparing The Current Bear Market to 1973/1974

A Look at **Price Only** Group Performance at Similar Points in the Decline

	1973/1974 Bear Market		**2000/2001 Bear Market**	
Date and Peak	1/11/73	120.24	3/24/00	1,527.46
1-Year Later	1/31/74	96.57	3/30/01	1,160.33
Loss		-19.7%		-24.0%
Total Number of S&P 500 Groups				
	43	100%	87	100%
Groups That Are:				
Higher than S&P 500 Peak	9	21%	47	54%
Beat Cash (3-Mo Bills)	5	12%	38	44%
Lower than S&P 500 Peak	34	79%	40	46%
Worse than S&P 500 Return	18	42%	14	16%

Chart 1

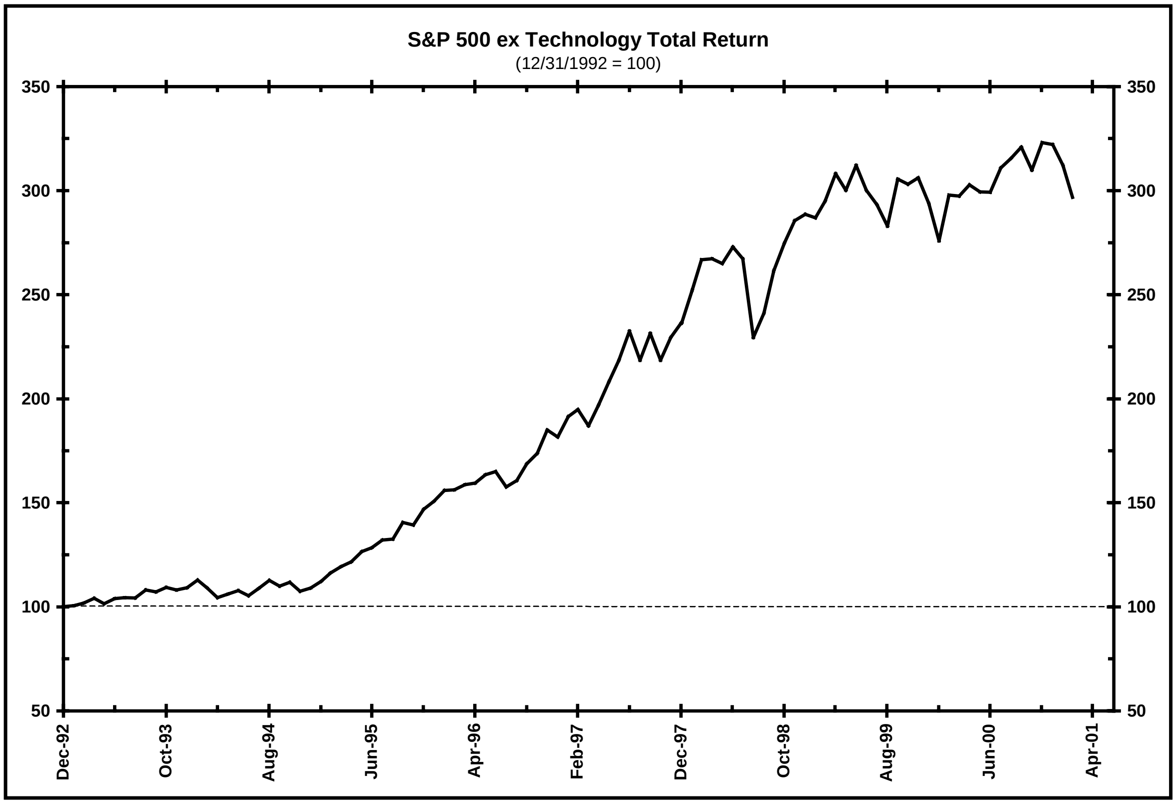

Chart 2