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Don’t be lured into the Bear Trap no matter how nice the honey tastes

Rod North. April 16, 2020

Don’t be lured into the ‘Bear Market Trap’ and perceived honey pot of gains to be had just because the market has risen like a soufflé in the past few weeks.

The ill fated RMS Titanic after it hit the iceberg on 14 April 1912 did this too, as the stern of the ship rose one last time before it unceremoniously followed the bow down to the seabed of the Atlantic Ocean to its final resting place.

Unlike the Titanic, the Aussie sharemarket will rise again to meet another day and eventually get back to its all time high, but not before we reach the final low point in the current ‘Bear Market Cycle’.

Remember to ‘keep your heads whilst all around you lose theirs’.

The Aussie sharemarket is in the middle of a brief bear market rally mirroring the gains made back in October 2008 before the GFC pulled shares down a further 25% before we finally reached the bottom of the market in March 2009. In our case, and in the context of today, expect that bottom and buy signal to be reached sometime by year end 2020 or early 2021.

The downward pressure from low inflation and a near-term recession stand to make the Coronavirus virus induced profit slump deeper than past declines.

The unprecedented and massive Government stimulus packages will help, but will likely not be enough to prevent a massive slump in company's earnings in the months ahead as we deal with an economy in shutdown and people and consumers in lockdown.

Many top 200 Aussie companies will not be able to maintain their dividends and many have to drop them in the light of the Coronavirus induced slump in earnings. Earnings, earnings, earnings is always the key driver of the sharemarket sending it to higher levels and nobody wants to see company's cut their dividend.

The Australian sharemarket have technically returned to Bull market territory temporarily in recent days (although it has dipped slightly today), however the uptick will see a series of 'dead cat' market induced bounces. These will be a precursor to much deeper lows ahead of us as the full impact of a declining economy heading into a COVID-19 induced recession fully kicks in and delivers more bad news and company profit declines.

Despite all the doom and gloom, there is always a silver lining in the sharemarket

The good news is that in the months ahead, the market should produce the 'best buying opportunity' not seen since March 2009 when the index reached 3,109.

The recent gains we have just witnessed over the past week followed nearly two months of sharp selling amid fears of a coronavirus fuelled recession. That market trajectory and pattern closely matches past trends.

The danger is that at this moment in the cycle, many novice or inexperienced investors will be poised to re-enter the market only to be crushed as history suggests is normal.

Many investors need to keep their fuel dry and in the tank for future selective buying opportunities in dips in the market.

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