SUMMARY OF THE PSYCHOLOGICAL PHASES THAT OCCUR IN BULL AND BEAR MARKETS
(Writings of Joe Granville in the 1960s with some edits)

Bull Phase I (The Ideal Timing Conditions for a Sustained Major Advance

- *Things look terrible*. Stocks have been declining for many months with no let-up. The news is so bad that one would have to seem crazy to risk in the stock market. The news media is bearish. Government economists are publicly pessimistic. However, it can be shown that a point had been reached where stocks are no longer acting commensurately with the bad news. A point is in the Dow has been reached which just might later on be identified as a major bottom. The last thing one might expect is that a new bull market would be forming.
- *A line is formed*. Following the point which might be identified as the bottom, the news rare, gets even worse, but stocks now are in a set trading range. There has been a small rally off the bottom, but it doesn't hold. On the other hand, new declines are no longer creating a maximum number of new individual stock lows.
- *The breakthrough*. Usually within four months of the designated bottom there is some clearly defined upside breakthrough. The Dow clears the trading range of the past three or four months. Of course, the news is still bad.
- *Major upside penetration of the Dow's 200-day moving average*. This is first rate evidence that the great buying opportunity is at hand.
- *Four to four and a half years have passed since the last major market bottom*. If one turns one's back on the clearly defined cyclical rhythms of the market, one will miss those not-too-frequent great opportunity periods. This time factor is all-important to take into consideration.
- When these FIVE conditions are met, you are probably encountering a great buying period. Obviously you must have mounting evidence that technical conditions are improving between the time of numbers 1 and 4.

Bull Phase II

- Low price stocks will peak out at the end of phase II.
- As a result, the AD line should top out late in phase II.
- In the middle of Phase II, there is a "reaction that fools the majority". This is an extended and oftentimes severe decline.
- Very late in the second phase, the DJIA will make a key upside penetration of its own 200-day trendline and advance far enough to effect a new high for the bull-market to date –after the mid-phase correction.
- New hi/lows – probable that new highs peaked in phase I.
- Fundamental news during phase II has turned generally positive which has the effect of converting non-believers to believers since they trade on fundamentals.
- Stocks splits and secondaries are not dominant yet.
- Mergers are increasing in number.
- NYSE seat prices increase.

Bull Phase III

- Look for the peak in low priced stocks and stocks of lower quality to have peaked out to usher in the start of phase III.
- Trader/investor should now restrict himself to a much smaller buying program comprising only the top blue-chip stocks, since the blue chip stocks will be the last to top out in the entire bull market.
- Look for a peak in advance/decline (AD) line.
- DJIA stocks are in their glory during phase III with the DJIA pulling away from other averages. There would be a series of new highs with the usual terminal move characterized by a sharp perpendicular rise to a record high, but this move lacks confirmation by a number of the major indicators.
- DJIA trendline comes up from the second phase reaction and zigzags into new bull market high ground, that signals the start of bull phase III.
- Economic news is glowing and the public is very bullish.
- **The bulk of the market is not responding to good fundamental news as seen in the slipping advance-decline line** (usually turns down 4 – 6 months prior to a top).
- Secondary stock offerings are very frequent.
- Stock splits are occurring with great frequency, reflecting heavy distribution of stocks
- Mergers are very frequent.
- Almost invariably a big positive disparity develops between the DJIA and the broader indices during the first phase. The more positive the disparity, the more vulnerable the market.
- Odd lot short sales are very low.

Bear Phase I (First phase erases the excitement and froth of the preceeding bull market top)

- Things look terrific. Stocks have been advancing for many months with no let-up. The news is so good that the last thing would be thought of is a major decline in stocks. News media is very bullish. Government economists are publicly optimistic. However it can be shown that a point has been reached where stocks are no longer acting commensurately with the good news.
- A line is formed. Following that point which might be later identified as a top, the news background gets even better, but stocks are now in a trading range. There has been a small decline from the top but it has not carried very far.
- **First sharp decline in the industrial average from the major peak recorded.**
- New rallies are no longer creating a maximum number of new individual highs.
- A breakthrough occurs whereby within 4 months of the designated top, there is some clearly defined downside breakthrough and the Dow cracks the trading range of the past 3 or 4 months.
- ***There is a downside penetration of the Dow 200-day line***. This move clinches the selling opportunity at hand.
- **The previously rising 200-day moving average has flattened out and is just starting to turn down**. After the first downward penetration of the MA it may still climb back over it, but promptly turns down again.
- It has been 2 ½ years since the last major top, at a minimum and commonly something closer to four years.
- 22 to 34 months have gone by since the last major bear market bottom.
- ***The smartest short selling would be done at the time that the Dow has declined rather sharply after the top and then made failing attempts to rebound.***
- Any major event that makes the public totally confident on the outlook for the business and economy at this time should be viewed with maximum suspicion.
- If more that 50% of the previous bull market is retraced during this phase, the record strongly points toward the previous bear market low will be registered during this bear market.
- Secondary offerings continue with great frequency, although with a bit less frequency.

Bear Phase II (often the longest phase, sees stocks go down as they discount the bearish effects of declining business and squeezed profits)

- AD line turns up sharply on mid-phase rally and moves out of down channel, but the move proves transitory, the AD line soon after breaks down even more sharply, breaking the previous low.
- New highs for the calendar year temporarily outnumber the new lows but soon gives way to the very bearish pattern of new lows consistently outnumber new highs.
- Smart short-sellers have had a field day and want to nail down their profits. Maximum deception occurs on strong mid-phase rally. The trendline is coming straight down hard which makes it easier for the Dow to make a deceptive upside penetration on the mid-phase rally (RALLY THAT FOOLS THE MAJORITY). Public starts to step up buying and the rally starts to look good. Just when the rally looks the best and many commentators are beginning to talk about a full market recovery, it breaks sharply as perhaps a very disturbing piece of business news hits the street. More bad news follows as the DJIA plummets to a new low, breaking under the point at which the “Judas” rally started. Anywhere from 7 to 14 months have passed since the major bull market peak.
- News: the news has soured and the market responds to the change in the news with further declines. During the mid-phase rally, the market goes up on talk of recovery, but the talk proves to be premature. Public continues to buy on all reactions, still confident that the bull market can be revived.
- Mergers are rare but an occasional one occurs.
- Few stocks are splitting. The bear market is effecting the same results.
- **It isn’t until the subsurface signs of business deterioration are completely in view that one can be sure the 3rd phase of the bear market is about to get underway.** All through the 2nd phase, the administration in Washington states repeatedly that there will be no recession, refusing to acknowledge what the market is starting to discount. By this time national polls clearly indicate that the general public, confident up until now, is turning increasingly pessimistic, the first of many advance signs which alert the smart money to the lateness of the bear cycle. Inasmuch as the obvious is obviously wrong, the public is going to act in a very obvious fashion and become sellers, as the public only knows how to act in concert with the news.

Bear Phase III (stocks head into the tank for no other reason that that investors need to raise the money. This is the phase, stocks will sink below known values; the end of this phase is marked by severely depressed investor sentiment, low volume, black business news, plus comments like “this is the end of Wall Street as we know it”, “I never want to hear about stocks again, “The Dow will be cut in half again within 6 months”)

- Public has turned completely sour on the market and responds to every bit of bad news with heavy selling. The smart money, awaiting the collapse of public confidence, shifts their stance from one of pessimism to one of confidence.
- Virtually no secondary offerings, splits or mergers being announced.
- Short interest rises rapidly month after month. The rapid rise adds a large number of new short-sellers, those shorting on the obviously bad news. Shorting is now too popular to be the correct thing to do as evidenced by the record short interest.
- A disparity developes whereby the DJIA begins to perform worse than the general market.
- Professional super-bears are on the best seller list, are giving lectures, giving interviews
- **Late in the phase, many stocks stop going down. This will be evidenced by a diminishing number of new lows as the averages make new lows**.
- Begin to look for stocks that will bounce the quickest and sharpest out of this phase – find these candidates that are trading the farthest away from their 200 day moving averages.
- News: the business press is now full of reports about flat or declining earnings, the smart money trader, with the help from the media, is pretty sure of getting all the stock he wants at his price.
- The time is right for a major event to occur that will intensify public pessimism to such a point that the DJIA will descend sharply to another series of new lows, below anything thought possible when the bear market began. In the face of it, the number of individual new lows will NOT exceed the previous record number, the smart traders certain now that the market itself is beginning to ***contain*** the bad news.