Tim W. Wood's
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Robert Rhea Calls the End of the Great 1929 to 1932 Bear Market using Dow's theory

On July 21, 1932 Rhea turns Bullish

Robert Rhea warned extensively in his newsletters between November 12, 1932 and May 10, 1933 that the bear market was ending. Few listened. The following are excerpts from some of his newsletters.

November 22,1932

"In mailing No. 1, I explained why, under a strict interpretation of Dow's theory, we must call this a bear market. Both bull and bear arguments on the subject were summarized. Personal convictions were not injected into the discussion , but several subscribers have insisted that it be done. I believe July 8, 1932 was the end of the great bear market. On July 21 when the Industrials closed at 46.50 and the Rails at 16.76, I asked my broker to tell my friends trading in his various offices that I thought the Dow theory implied heavy buying for the first time in over three years. On July 25, 1932, the opinion below was sent to perhaps fifty correspondents.

The declines of both Rail and Industrial averages between early March and midsummer were without precedent. The thirty-five year record of the averages shows a fairly uniform recovery after every major primary action, and such recoveries average around 50% of the ground lost on the decline; are seldom less than a third and more than two thirds. Such recovery periods tend to run to about 40 days, but are sometimes only three weeks – and occasionally three months.

The time element is in favor of a normal reaction at this time – because the slide off was normal (the normal time interval of major declines being about 100 days).

The market gave the unusual picture of hovering near the lows for more than seven weeks, and might be said to have made a "line" during the latter weeks of that period.

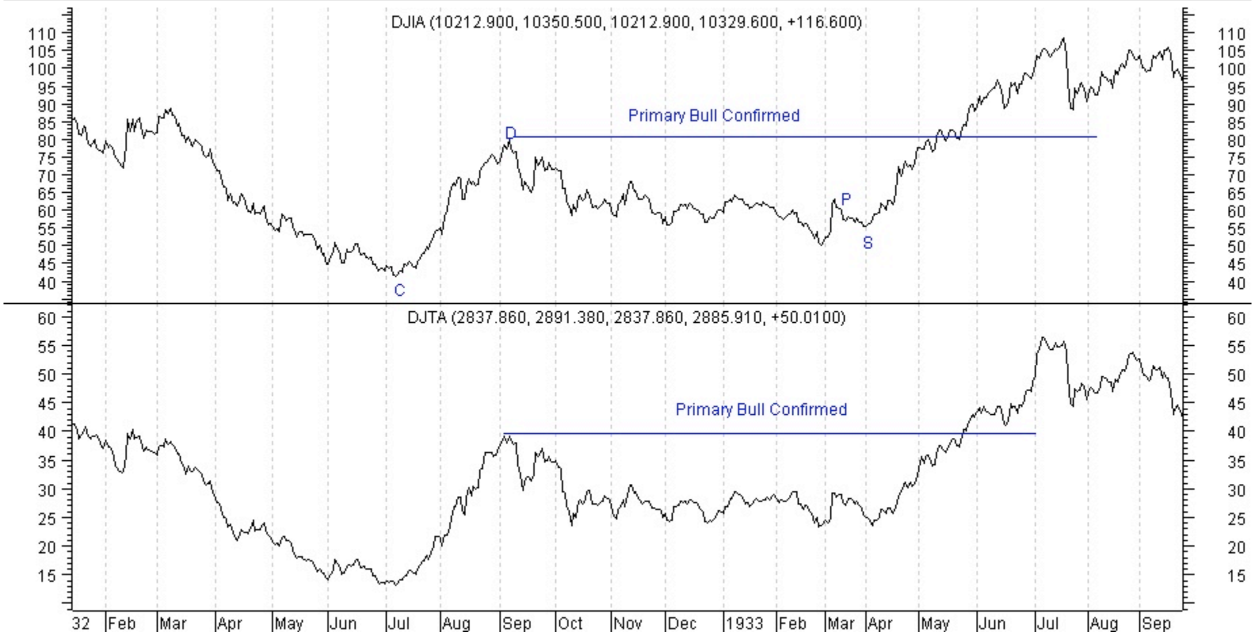
Because of all these things, and because the volume tended to diminish on recessions and increase on rallies during the ten days preceding July 21, almost any one trading on the Dow theory would have bought stocks on July 19th. Those who did not, had a clean cut signal again on the 21st. Since that date the implications of the averages have been uniformly bullish, and it is reasonable to expect that a normal secondary will be completed, even though the primary trend may not have changed to "bull". So much for the speculative viewpoint.

However, the investor asks, "Have we seen the lows for the bear market?" According to strict construction of Dow theory, we cannot yet tell.

Surely we have many things which might lead us to believe this to be true – we have surely had a considerable period of accumulation, but these periods frequently preface secondary reactions, or occur at some intermediate point in a secondary. Should this secondary reach normal limits with respect to recovery and duration, and a decline of some weeks follow, and this decline did not break the bear market lows, after which a recovery set in which carried above the high point of the secondary now in the making, it would seem reasonable to suppose that the lows had been passed. And should the secondary now forming develop a sideways drag, beneath normal expected recovery points, making a clearly defined "line", and should such a line be broken topside with some healthy advances, it would be a splendid buying signal."

February 8, 1933

"While we wait for the verdict, it is well to remember that, under Dow's theory, the last clear primary signal was bearish, and that we need the penetration of (P) topside for a secondary rally signal, and of (D) to give a complete bull signal."



The secondary reaction that Rhea spoke of above in his November 12, 1932 newsletter occurred between September 1932 and February 1933. Notice that the low point of the reaction held above the bear market low point. The rally that followed carried the Industrial above the September 1932 high point on May 10, 1933. On May 24, 1933 the Transports followed and the Primary Trend turned Bullish. Also notice that Rhea did not wait for confirmation of the Primary Trend before he began buying.

May 10, 1933

"The bull point (D) for Industrials was the September high of 79.93. Today's close of 80.78 (preliminary), having exceeded that of (D), means that the Industrials have at least done their half of the bull signal job. All that is now needed is for the Rails to confirm the action of their companion average. The Rails today exceeded last week's high point by a liberal margin, and this performance considered in conjunction with the premier performance of Industrials gives us reasonably certain assurance that the mild minor reaction of last Saturday and Monday has ended. One more day's advance for both averages would justify the assumption that the steam pressure in the market boiler is increasing, and that power will soon be generated sufficient to lift the Rails through their bull point of 39.27. Added authority for bullish hopes would be a broadening of activity as further advances occur.

The implied advance certainly warrants speculative attention, because penetration of primary points is most generally followed by a further upsurge.

Ordinarily an investor who did not load up near the July lows (as he probably would have done had he followed Dow's theory) would buy his long pull line whenever (D) had been penetrated topside by both averages. This will be good practice now if a market correction occurs before (D) is penetrated by the Rails; however, should the Rails confirm the Industrials' action before some drastic reaction occurs (and no reaction seems probable for nearby movement), then it is reasonable to suppose that when the eventual reaction does develop, retracing from 1/3 to 2/3 of the advance since (S), prices will in all probability decline below those of today.

It should be noted here that points of primary importance are seldom penetrated by both averages on the same day. Several days, weeks, or even months have elapsed before joint confirmation, as a study of averages will reveal.

The averages on present reading continue to indicate, as they have done for several weeks past, that the line of least resistance remains upward."

May 17,1933

The Bullish Primary Trend is Confirmed

"Recent hesitation augurs well for an early penetration of its bull point by the Rail average, and, if precedent holds true, a substantial further advance, without material reaction, should follow that event.

This is a rather prosaic letter to celebrate the approach of an event which we have waited for since '29. I have written about this point (D) for so many months, and past letters have discussed its significance in such detail, that nothing more remains to be said."

BUT,

Few Listen to Rhea

"Through the long drag from October '32 to the middle of last April, the averages have consoled those long of stocks, because accumulation was indicated. It is certain that the price movement gave tangible and timely warning of the splendid advances since mid-April. Nothing since then has indicated weakness. For weeks these letters have given bullish interpretations to the price movement; nevertheless, criticisms have been made because discussions are perhaps 95% retrospective and 5% introspective. Without meaning to go on the defensive, I respectfully suggest that Dow's theory is best learned through repeated reviewing of both ancient and current movements. The primary objective of these letters is to encourage readers to learn to recognize the voice of the averages; to become their own oracles, and to learn to ignore the unorthodox and misleading explanations of Dow's theory written by men, either too lazy, or who lack the mentality, to master a simple subject."