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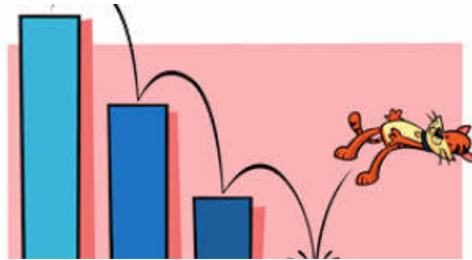
DEAD CAT BOUNCE: A temporary recovery in share prices after a substantial fall, caused by

speculators buying in order to cover their positions.



TECHNICAL ANALYSIS TECHNICAL ANALYSIS BASIC EDUCATION
Dead Cat Bounce Definition
By JAMES CHEN

Apr 13, 2019 (investopia.com)

Cat **What is a Dead Cat Bounce?**
A dead cat bounce is a temporary recovery of asset prices from a prolonged decline or a bear market that is followed by the continuation of the downtrend. A dead cat bounce is a small, short-lived recovery in the price of a declining security, such as a stock. Frequently, downtrends are interrupted by brief periods of recovery — or small rallies — where prices temporarily rise. The name "dead cat bounce" is based on the notion that even a dead cat will bounce if it falls far enough and fast enough.

KEY TAKEAWAYS
A dead cat bounce is a temporary recovery from a prolonged decline or a bear market that is followed by the continuation of the downtrend.

It is considered a continuation pattern, where at first the bounce may appear to be a reversal of the prevailing trend, but it is quickly followed by a continuation of the downward price move.
Dead cat bounce patterns are usually only identified after the fact.
What Does a Dead Cat Bounce Tell You?
A dead cat bounce is a price pattern used by technical analysts. It is considered a continuation pattern, where at first the bounce may appear to be a reversal of the prevailing trend, but it is quickly followed by a continuation of the downward price move. It becomes a dead cat bounce (and not a reversal) after price drops below its prior low. Short-term traders may attempt to profit from the small rally, and traders and investors may try to use the temporary reversal as a good opportunity to initiate a short position.

Frequently, downtrends are interrupted by brief periods of recovery, or small rallies, when prices temporarily rise. This can be a result of traders or investors closing out short positions or buying on the assumption that the security has reached a bottom.

A dead cat bounce is a price pattern that is usually recognized in hindsight. Analysts may attempt to predict that the recovery will be only temporary by using certain technical and fundamental analysis tools. A dead cat bounce can be seen in the broader economy, such as during the depths of a recession, or it can be seen in the price of an individual stock or group of stocks.

Similar to identifying a market peak or trough, recognizing a dead cat bounce ahead of time is fraught with difficulty, even for skilled investors. In March 2009, for example, Nouriel Roubini of New York University referred to the incipient stock market recovery as a dead cat bounce, predicting that the market would reverse course in short order and plummet to new lows. In fact, March 2009 marked the beginning of a protracted bull market, eventually surpassing its pre-recession high.

Example of a Dead Cat Bounce
Let's consider a historical example. Stock prices for Cisco Systems Inc. (NASDAQ: CSCO) peaked at $82 per share in March 2000 before falling to $15.81 in March 2001 amid the dotcom collapse. Cisco saw many dead cat bounces in the ensuing years. The stock recovered to $20.44 by November 2001, only to fall to $10.48 by September 2002. As of June 2016, Cisco traded at $28.47 per share, barely one-third of its peak price during the tech bubble in 2000. By 2019, CSCO shares had reached as high as $47.50.

Limitations of a Dead Cat Bounce
As mentioned above, most of the time, a dead cat bounce can only be identified after the fact, which means that traders that notice a bounce after a steep decline may think it is a dead cat bounce, when in fact it is a trend reversal - that is, instead of being a short-lived bounce, the rally may signal a prolonged upswing. How can investors determine whether a current upward movement is a dead cat bounce or a market reversal? If we could answer this correctly all the time, we'd be able to make a lot of money. The fact is that there is no simple answer to spotting a market bottom.

With the recent stock market correction, one wonders whether a recession is on the horizon. I have attached a decent commentary by Ben Carlson (10.23.18) about the relationship between the stock market and the

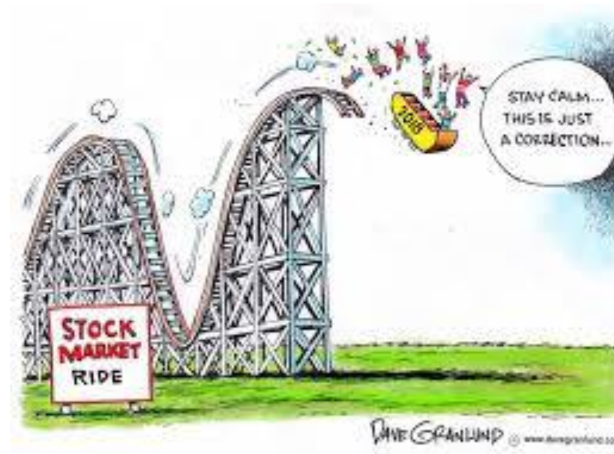
economy.

As of this morning's cold open, the S&P 500 is down 7.5% or so.
The Fed is hiking interest rates. Mortgage rates are rising. Homebuilder stocks are getting annihilated. The economic recovery is well into its ninth year. The unemployment rate is the lowest it's been in 50 years.
People are asking — are the markets predicting a recession?
The old joke is that the stock market has predicted 9 out of the last 5 recessions.
Investors assume the stock market is forward-looking, so when pundits begin "reading the tea leaves" to look for clues as to what may happen next the knee-jerk reaction is to look at the direction of stocks.
Historically speaking, the stock market hasn't gotten ahead of many recessions.
Here's a look at the performance of the S&P 500 using the returns 3, 6, and 12 months prior to the start of every recession since the late-1920s:

The lead up to March of 2001 was really the only meaningful correction that occurred before the onset of a recession and that was because of the dot-com crash which preceded the recession by around a year. Most of these other numbers look fairly run-of-the-mill and not out of the ordinary.
By my calculations, the S&P 500 has had 20 bear markets (down 20% or worse) and 27 corrections (down 10% but less than 20%) since 1928. The average losses saw stocks fall 24% and lasted 228 days from peak-to-trough.
Of those 47 double-digit sell-offs, 31 of them occurred outside of a recession and didn't happen in the lead up to a recession.
That means around 66% of the time, the market has experienced a double-digit drawdown with no recession as the main cause.
Of those 31 which occurred outside of a recession, the losses were -18% over 154 days, on average.
We'll have a recession at some point but odds are the stock market won't tip us off ahead of time. In fact, most of the time people don't even realize we're in a recession until after it's already begun. NBER typically gives the official word for a recession around the time they're ending or already in the midst of a slowdown.
The recession that began in March 2001 wasn't officially called a recession by NBER until November 2001, the month it ended. The recession that began in the summer of 1990 wasn't determined until the spring of 1991. And the recession that began in the summer of 1981 wasn't called a recession until January of 1982.
I suppose it's possible the stock market has gotten more intelligent about sniffing out an oncoming recession.
It's also possible the stock market just freaks out from time-to-time because there are so many other variables that move the markets outside of the economy.
Since the market bottomed in early-2009 alone there have been corrections of -16.0%, -19.4%, -12.4%, -13.3%, and -10.2% in the S&P 500.

Every time stocks begin to fall it feels different. And maybe this time is.
But maybe it wouldn't be the worst thing in the world for stocks to fall outside of a recession so fundamentals can play catch up a little bit. I wouldn't mind seeing lower valuations and higher dividend yields in an environment where people don't lose their jobs because of an economic slowdown. Recessions

Dr. Doom



S&P 500 Intra-Year Declines

Having been working in the retirement plan space for over 20 years, I appreciate the **"You Are In It For The Long Haul"** investing mantra. Nonetheless, the wild fluctuations in the recent equity markets have made even the stoutest of heart to pause. Whereas the Generation X, Millennials, Generation Z, (and let's not forget Generation Alpha) needn't worry about the current dislocations; the Baby Boomers certainly must pay attention.

The **"Time Value of Money (TVM)"** is an extremely important concept to grasp. For example, if you lose 40% of your principal, how long and what percentage of gain do you need to get back to even? (Estimate: 75% return on current principal

to regain 40% loss).
Time Value $.

Obviously, the older you are, the less time you have to make up the loss! I am quite sure that **"TVM"** is really not understood by the investing masses. Our continuing mission at The Prizant Group is to educate our participants on the **"What Goes Up, Must Come Down"** theory of equity investing. Nobody ever complains when the stock market is hitting new highs, but **God Forbid** we have a market correction or a **"Bear Market."** We make it a point of preaching conservative investing practices for our 55+ year old participants. As for the young'uns out there, it's time to **"Buckle Up"** and enjoy the ride.

A market correction is a period in which stock prices drop following a period of higher prices. ... One major difference between a bear market and a market correction is the extent to which prices fall. Bear markets occur when stock prices drop 20% or more, whereas corrections typically involve price drops around 10%. (fool.com).

In an effort to end on a lighter note, here is the **"I Love Lucy"** candy factory clip.

Lucy

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