



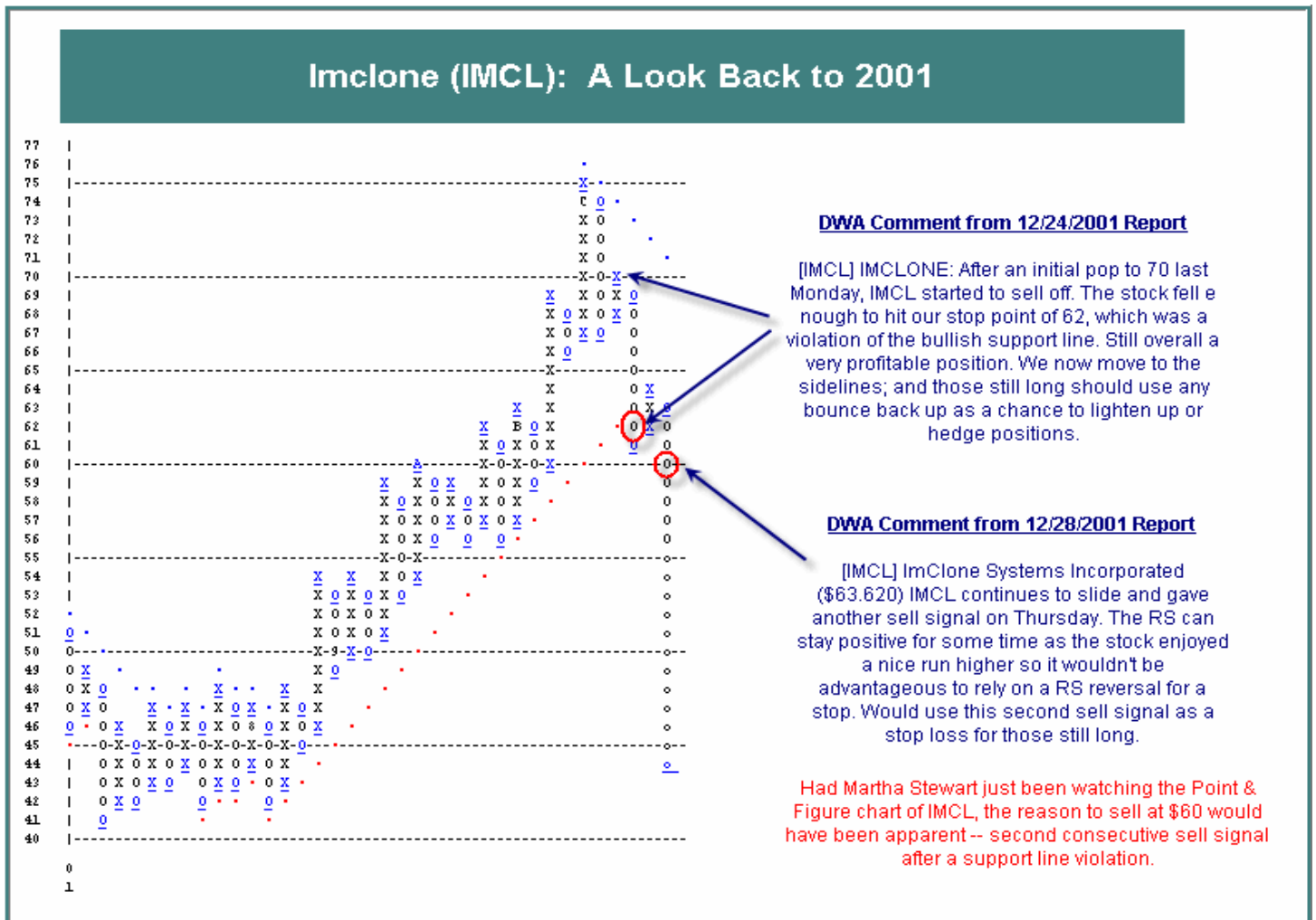
An Anatomy of a Collapse: Bear Stearns

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You can't open a financial media outlet without seeing a story on Bear Stearns [BSC]. One of the most recent stories I have seen about the stock, other than the fact JP Morgan could increase its bid to \$10 a share, is the SEC is probing into sell transactions on BSC and if someone had inside information. It makes me think back to the days of late 2001 when Imclone [IMCL] imploded on a bad FDA report, and sold off sharply from the 60's to an eventual low in the single digits. It was the sale of IMCL on reported insider information and subsequent lying to the Fed's that landed Martha Stewart in jail. The infamous scribble note to sell "at \$60" and what precipitated that note will go down in history. Of course had Martha Stewart just been looking at the Point & Figure chart of IMCL the reason she sold at \$60 would have been quite apparent. In fact, IMCL had been a buy recommendation of ours with a stop loss point of \$62 and another sell recommendation at \$60 on a second consecutive sell signal. Here's the exact quote from our reports back in 2001:



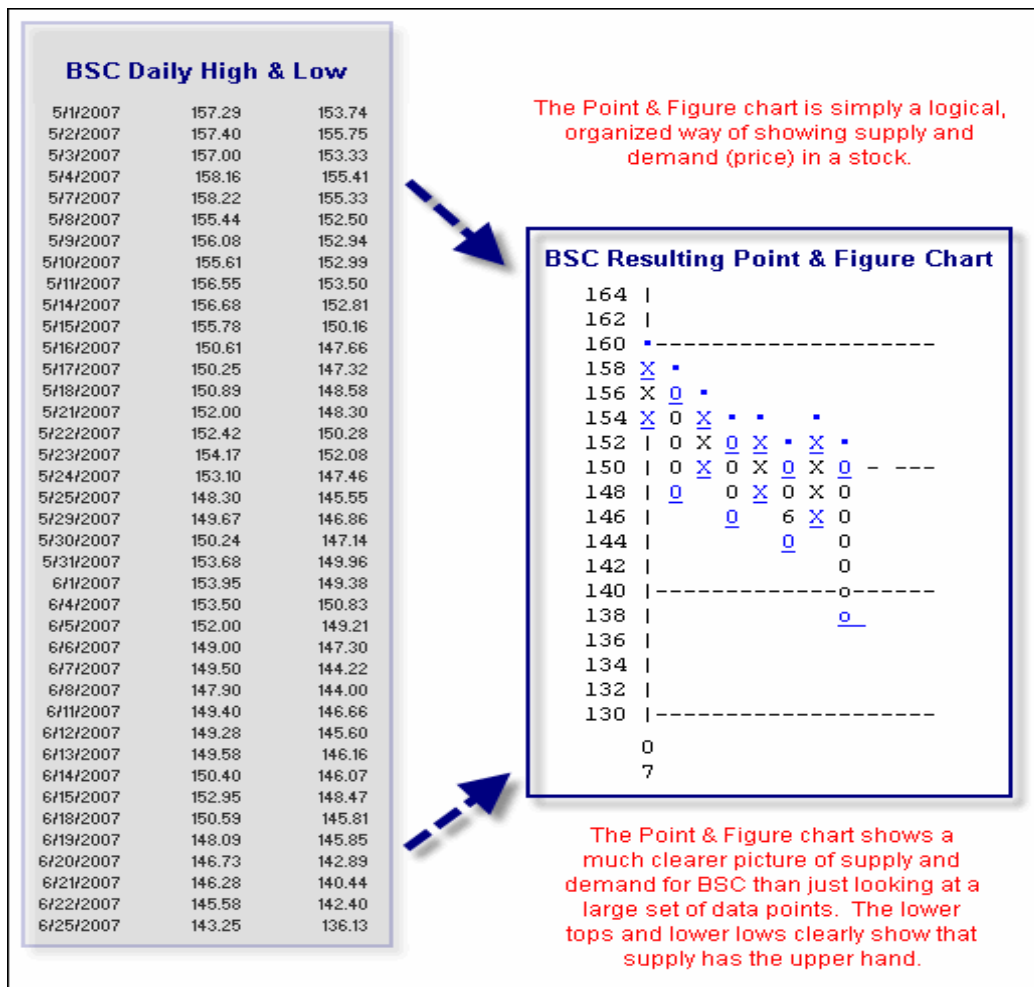
If we take a look at the Point & Figure chart of the Bear Stearns [BSC] in the spring of last year, 2007, it was quietly telling us that supply was gaining the upper hand. The Point & Figure Methodology is merely a logical organized way of recording the supply and demand relationship. The Point & Figure chart just takes a string of numbers, the high and low data, and put it into a logical organized fashion. If I gave you the following numbers, what do they mean?

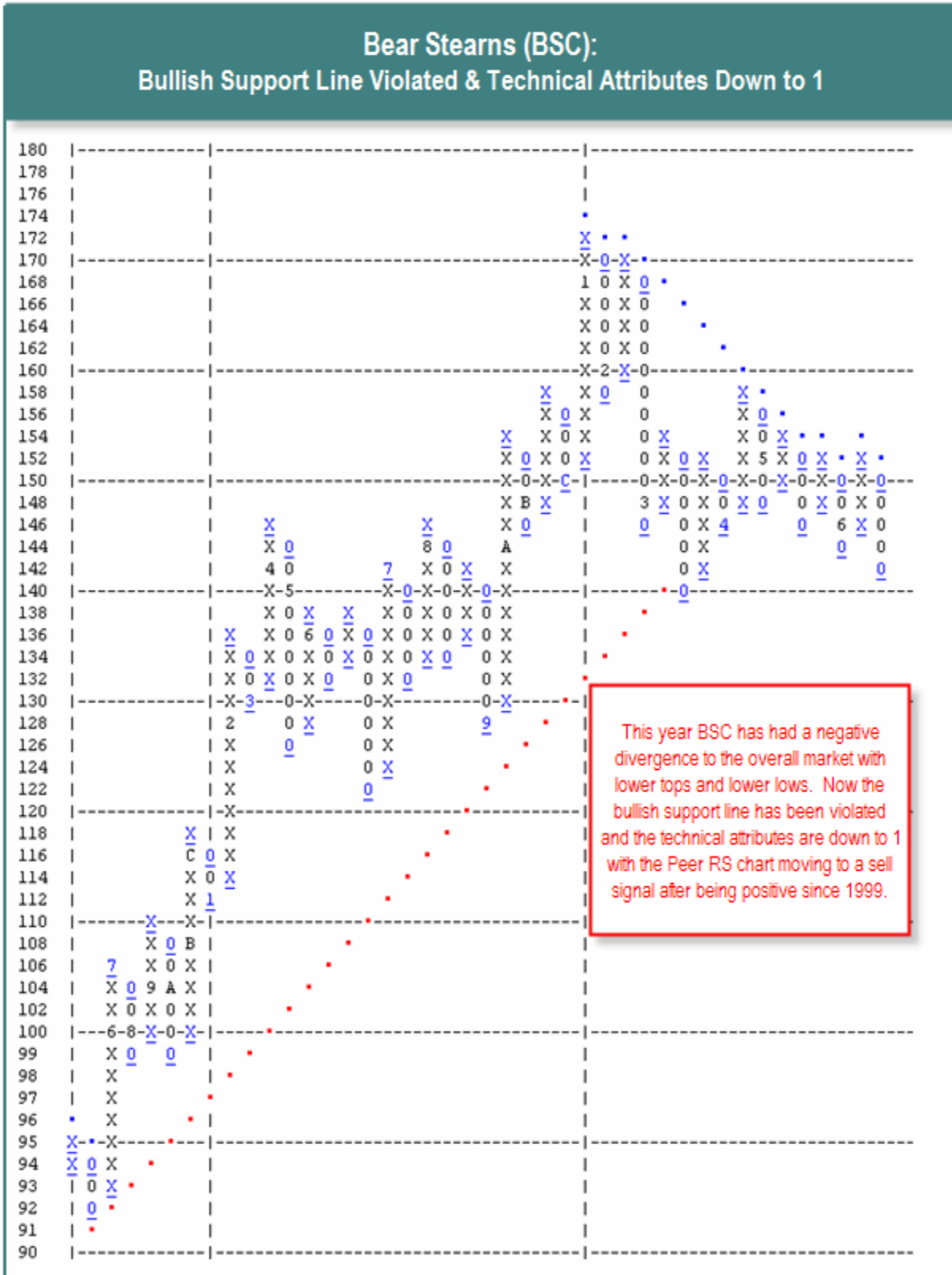
8043208511

It probably doesn't mean anything. However, what if I put those exact same numbers into the following format? What does it mean to you?

804 - 320 - 8511

Now you know instinctively that is a phone number. The first three digits tell you the area code or a region. Then the next three digits pin points a smaller area within that region and the final three digits tell you the exact phone location. The Point & Figure chart merely takes the high and low string of data for a stock and put it into a very usable format that we can make sense out of. In fact, take a look at the string of data below and the corresponding Point & Figure chart.





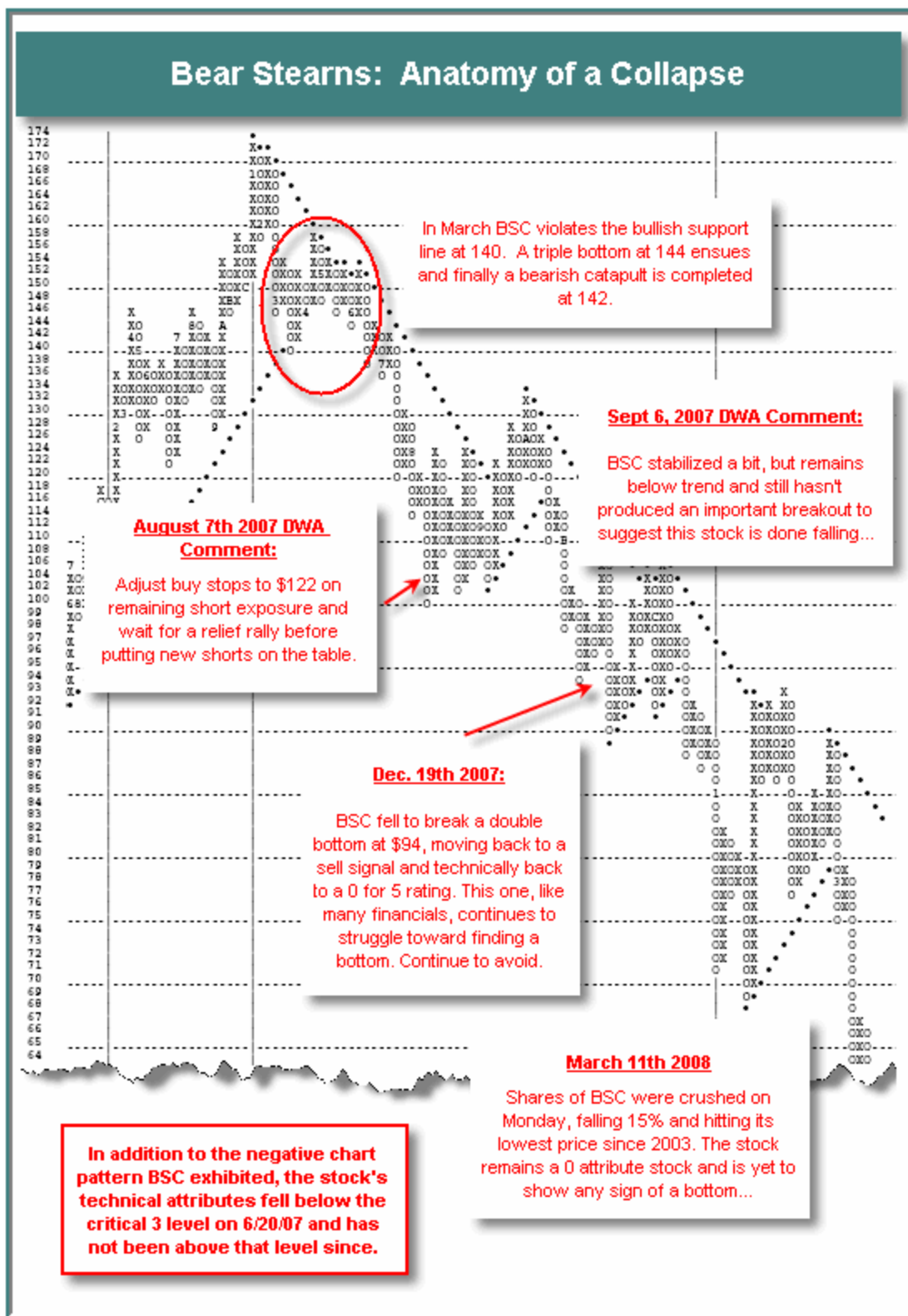
This chart is of Bear Stearns in the spring of 2007. Notice that just looking at the high and low data you wouldn't have known that it was clearly showing a series of lower tops and lower lows. In fact, if we put this chart into a longer term context, it would have shown that the long term bullish support line was being violated. In our *Daily Equity & Market Analysis Report* we featured BSC and recommended that those who owned the stock move to the sidelines or hedge in some manner. Here is that feature from June 26th 2007.

Reprinted from Tuesday, June 26th 2007 Report: DWA Comments on Bear Stearns, Inc.

leading up to the Collapse [BSC] Bear Stearns (\$142.06): This Wall Street company was a sector leader for years. A look at the peer relative strength chart of BSC shows a buy signal on August 3rd 1999 to suggest that the stock is likely to outperform a basket of Wall Street names. BSC did indeed lead the way for the sector, posting gains of 244% compared to 140% while its peer relative strength chart was in X's. That eight year run has come to an end though as the peer relative strength chart for BSC moved to a sell signal on June 20th. But this is not the only ominous technical sign for BSC. The stock's market relative strength chart has reversed down into O's and the trend chart has turned negative. The overall trend of BSC has been positive since 2003 and the bullish support line just recently violated in March at 140 had been in effect since 2005. Besides just violating the trend line, BSC has been making lower tops and lower lows with the most recent breakdown coming at 142 last week, a bearish catapult formation. The best way to summarize this data is through the technical attribute score. For BSC this score was a 3 or better, indicating strength versus both the market and the peer group, from June 25th 2004 to June 20th 2007. Now that the technical attributes have slipped to only one positive, it suggests that the odds are no longer stacked in BSC's favor. Those long BSC should look to move to the sidelines or at least hedge their positions in some manner through reducing exposure or the options market. On the downside, the next support for BSC is going to be the 122 to 132 area.

Additionally, BSC made its way onto the *DWA Equity Roster* that same day as a recommended short citing in the June 26th Daily Equity Report as well that *"BSC is a member of the Average Wall Street sector. This particular group has been sluggish lately, with BSC being the poster child for this negative action. BSC had been a perennial leader in the group until January when it peaked at 172. Instead of continuing to move to new highs, BSC has since faltered from that January peak, showing a series of lower tops and lower bottoms. As well, the long term trend has turned to negative (back in March); and more recently, the RS has started to deteriorate. Specifically, BSC has given a Peer RS sell signal, and the market RS chart has reversed to O's. In all, the technical attributes have downticked to a lowly 1 for 5. Strong initial resistance has formed at 152, while the longer term bearish price objective is 106 based on a vertical count. Momentum is negative on both a weekly and monthly basis. In all, BSC is one to avoid (as outlined in the Market comment section). In addition, BSC is one to consider as a short, for those so inclined. Ok to sell BSC short on a slight bounce back up (140-146 range). We would then use 154 as the buy stop point as that would break a triple top and violate the downtrend line."*

The ensuing months didn't alter the picture for BSC. The stock continued to show negative relative strength versus both the market and the peer group as it maintained a negative technical attribute rating. As well, we continued to see the Point & Figure chart give sell signals to tell us that supply still firmly had the upper hand over demand. So while we never know whether a breakdown like that of Imclone at \$62 and Bear Stearns at \$142 will lead to a sharp decline that takes the majority of investors money away, we do know that the supply and demand picture is changing for the issue and we'd rather err on the side of caution and move our money out of harm's way. We can always make up opportunity but its hard to make back that money.



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