15.01.2009 Opalesque Exclusive: Equity market recovery? Analysis of past recoveries shows up to 19% of growth was captured within first month

From Kirsten Bischoff, Opalesque New York : In a 2008 year end communication to investors obtained by Opalesque, The Conquest Capital Group, which returned +45% (Macro) and +51.40% (Managed Futures Select) in 2008, stated expectations for the bear market to continue in equities for some time.

For the firm's macro strategy, rising volatility, and the rising volatility of volatility throughout the year provided favorable environment. The strategy's biggest gains in 2008 came from foreign exchange trading (+22.97%) and equities (+17.72%).

Looking toward the 2009 environment, and citing the US government's foray into the nation's banking, insurance, and automotive arenas; rising unemployment rate; continued corporate cash holding and other variables, Managing Partner Marc Malek's letter stated that the firm did not believe that equities had reached a bottom. However, the letter also indicated that although we might be bumping somewhere along the bottom, the ultimate bottom would be far from the low set in November.

Optimism in pessimistic times, in past recoveries up to +19% has been captured in first 30 days

Warren Buffett informed the US Markets, via the New York Times in October 2008, that it was time to buy equities, and hedge fund manager Michael Steinhardt told Reuters in late December that cyclically it was a good time to purchase equities.

Although equities had several bear rallies between October and December 2008, the markets have stayed within a fixed range and well below showing signs of recovery.

In the January release of its first "Maximum Pessimism Report", Tennessee-based value investors Lauren Templeton Capital Management looked at the history of bear markets. The 2007 market decline from October 2007 to the present has passed -50% which puts it on a par with all but the worst bear market (1929 at – 86%).

Templeton makes the case for current equity opportunities by also charting the S&P 500 returns following bear market troughs. On average, the 6-month growth (following the bear markets of 1957, 1962, 1966, 1970, 1974, 1982, 1987, 1990, 2002) is +23%. However, on average almost 11% of that growth was captured during the first month, with 19% and 17% being captured in the first months during the 1982 and 1974 recoveries.