



How many times have you heard the term "Double Dip" used?

The fall-back position of the economic cheerleaders is that, while the March 2009 low was a major, long term low, a future retest of those same levels cannot be ruled out. The unstated assumption in this term is that those who swooped in to buy the markets back in March 2009 will eagerly swoop in again to buy at those same levels should the opportunity present itself. So new lows are not a consideration. They are not a possibility. The only question is whether the long term up trend persists from here, or whether the markets "double dip" first. In this report we examine the logic of this analysis and find it to be deeply flawed.



"double dip"

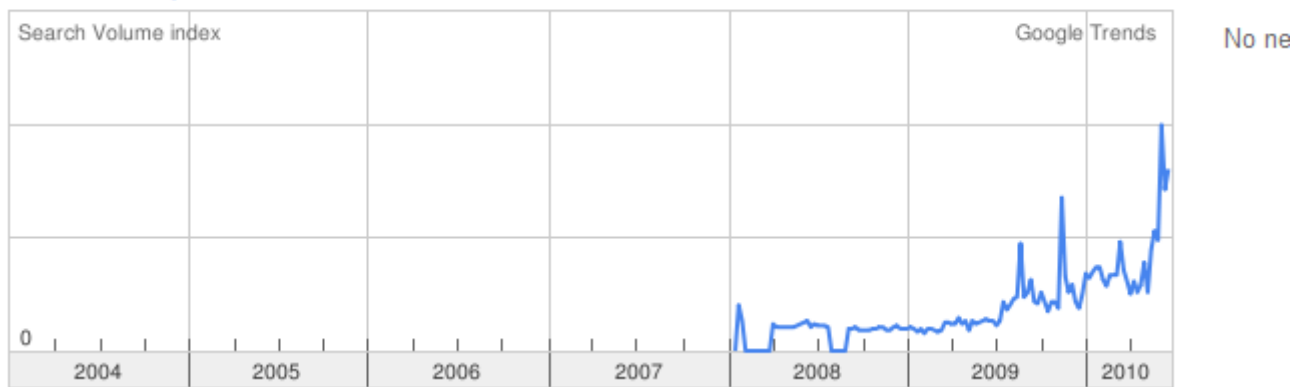
Search Trends

Tip: Use commas to compare multiple search terms.

Searches [Websites](#)

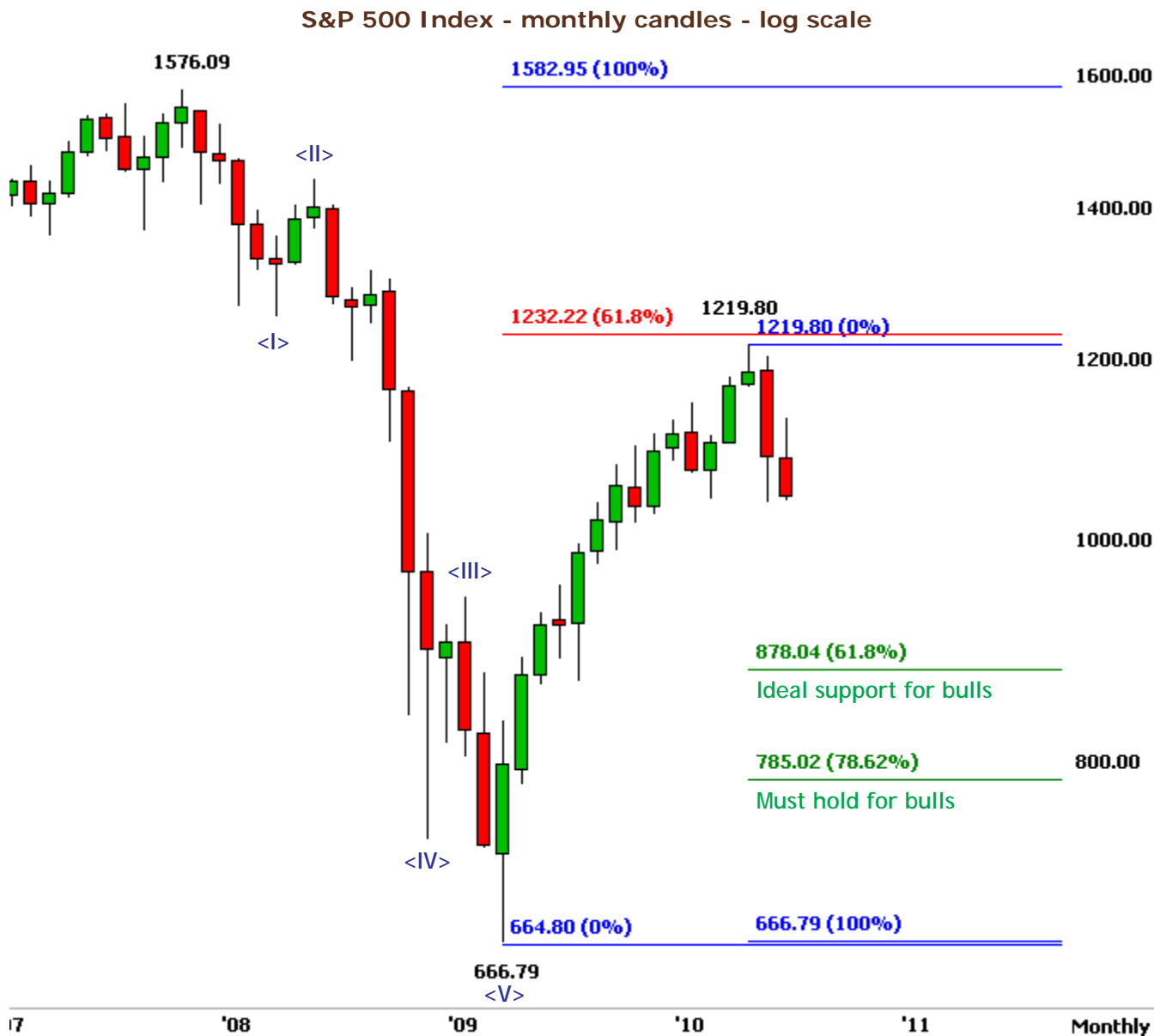
All regions

● "double dip"



As attested by the 'Google Trends' report charted above, the usage of the term 'double dip' can only be described as explosive. It began as a phrase to describe the risk of a retest of the stock market lows of March 2009. Then it grew to describe the risk of another recession - as if we ever left the first one. Now 'double dip' is being employed to describe the risk in bonds, real estate, GDP, currencies, and geo-political and economic instability. This list goes on and on. How comforting is it to use 'double-dip' to describe the worst case scenario? Evidently it is intensely comforting as sky-rocketing usage of this term attests. But is there actually a case for a double dip?

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Let us begin our analysis with a very simple technical review of the price action since the highs of 2007:

- The clear five wave structure of the decline from 2007 to 2009 means it was only the initial leg down of a larger decline. It was not the pattern of a completed bull market correction.
- The rebound from 666.79 to 1219.80 stopped right where a bear market correction should have stopped.
- If this retreat from 1219.80 is only the bull market correction of the rebound from 666.79 then there should be solid support into the vicinity of the 878.00 level.
- A decisive close below 785.00 from here would confirm the case for a continuing down trend with new lows ahead. A repeat of the percent loss from 1576.06 to 666.79, and starting from 1219.80, would target 516.00



The Logic of a Double Dip

- The market was bought from the lows of March 2009.
- Therefore there must still be buying down there.
- So a double bottom is the worst case scenario.

The Flaws in this Logic

Three Main Points:

1. The first point that must be emphasized is that the history of the market did not begin at the 666.79 low back on 6th March of 2009. Anyone long the stock market prior to that March low suffered terrible losses. The memory of those losses are likely to be refreshed if and when the market declines back towards those lows. The proverb 'Once burned, twice cautious' may apply here.
2. There has already been a double dip. It already happened. The 666.79 low was the double dip. The market fell from 1552.87 in March 2000 to 768.63 in October 2002. Then there was a rebound to the 1576.09 high of October 2007. From that October 2007 high the SPX fell back to the 666.79 March 2009 low for a double dip against the 768.63 low of October 2002. So what everyone should be referring to from here is the risk of a 'Triple Dip.' But there is that proverb 'triple bottoms never hold.'
3. Let us assume for purposes of argument that you went long at the 666.79 low back in March 2009. And then you remained long as the market rallied up to the 1219.80 high. Let us further assume that you were swayed by the whole 'green shoots' argument, so you remain long and watch as the market retreats back toward the lows. Are you really going to double up and buy again into the same 667.00 area if the opportunity presents itself? We strongly suspect that very few would treat a retest of the 667.00 low from here as a buy opportunity. It seems much more likely that investors will be placing protective sell stop orders, not new buy orders.

Conclusions

- The use of the term "double dip" to describe the worst case scenario is erroneous. It would be a triple dip not a double dip. So how did this error become so widespread? A 'second time down' sounds like a buying opportunity while a 'third time down' does not sound nearly as appealing. The widespread usage of the term 'double dip' is an emotional appeal from hopeful bulls. It is not the forecast of an objective analysis.
- The actual price action of the market does not support the case for a double bottom. The technicals indicate new lows ahead if the 878.00 level is broken from here.
- The term double dip presumes that things cannot and will not get any worse than things got back in March of 2009. In view of all the points made here we must conclude that this presumption is currently a triumph of hope over reason and is not yet supported by actual price action.
- A final piece of advice - look to the actual price action, not the opinions of others. Apply what you have learned of technical analysis and listen to what the markets themselves are saying. Draw your own conclusions. If the hopes of the perpetual cheerleaders sound too good to be true, then they probably are too good to be true.