



Decrypting the Headlines: partially submerged biases and hidden implications 20 May 2010

We begin this 'observations report' with an expanded treatment of a 26th Feb 2010 e-mail to clients:

First some basic definitions:

Bull Market - an environment of more buyers than sellers. The initial and most powerful stages of a bull market are driven by short covering from an extreme of bearish sentiment. Once the short covering has run its course and the advance must rely on bulls adding to length, the pace of the advance typically slows dramatically.

Bear Market - an environment of more sellers and than buyers. The initial and most powerful stages of a bear market are driven by long liquidation from an extreme of bullish sentiment. Once the long liquidation has run its course and the decline must rely on bears adding to shorts, the pace of the decline typically slows dramatically.

Bull Market Correction - A bull market correction is the response to an over-bought market. Prices 'correct' the over-bought condition by retreating. However, as the longer term trend is still up, eventually the improving fundamentals will bring in renewed buying and incite the resumption of the longer term up trend.

Bear Market Correction - A bear market correction is the response to an over-sold market. Prices 'correct' the over-sold condition by rallying. However, as the longer term trend is still down, eventually the worsening fundamentals will bring in renewed selling, ending the rally and inciting the resumption of the longer term down trend. And this last point brings us to the first main point of this report.

A bear market is driven by the gradual erosion of hope and the fuel is long liquidation. In an extended, larger scale bear market rally, hopes revive. However in an extended bear market correction, as hopes are reviving the rallying prices are becoming more and more disconnected from the still worsening underlying fundamentals. The revived hopes exhume the perpetual cheerleaders who naturally presume the longer term up trend has returned. The still worsening fundamentals are at first dismissed and ignored. The focus is on the higher prices. However as the underlying fundamentals continue to worsen the cheerleaders face an increasingly difficult dilemma. How does one explain bearish news in a rising market? The answer is the use of the word "Unexpectedly."

When bearish headlines include the word 'unexpectedly' we know that the news service has a bullish bias and is struggling to explain the still worsening fundamentals. When bearish headlines include the word 'unexpectedly' we know that the trend is still pointing down. In the 26 Feb 2010 e-mail to clients we remarked that for the past several months, every single time that Bloomberg was forced to report on a bearish development, the word 'unexpectedly' was inserted. In fact, ever since the credit bubble burst, every single time Bloomberg has been forced to run a bearish story some variation of the word 'unexpected' is either

1. In the headline
2. In the first sentence
3. In the first paragraph



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The repeated use of the word 'unexpectedly' with bearish news clearly reveals a partially submerged, if not entirely visible, bullish bias. An objective observer expects things will continue to deteriorate in a longer term down trend - and throughout the periodic bear market corrections of the longer term down trend. Impartial observers expect things will get worse as a bear market unfolds. However a cheerleader in a down trend is in a perpetual state of surprise that eventually ripens to shock, and then panic.

By the time a bear market correction has runs its course and the longer term down trend has resumes, there is an enormous gap between the higher prices created by the correction and the still worsening economics. One would think that even the cheerleaders would eventually figure this out. However it is much easier for a bull to live in 'denial' than it is for a bull to become a bear. So there is typically an explosion in the use of the term 'unexpectedly' and its various synonyms once the down trend resumes. Hence the timing of this update.

[A headline from the original 26 Feb 2010 report:](#)

Reuters: U.S. existing home sales **unexpectedly plunge**

February 26, 2010

[More recent headlines:](#)

MNI: Germany March Retail Sales **Unexpectedly Drop**

May 04, 2010, 4:34

Bloomberg: U.K. Services Growth **Unexpectedly Slows as Ash Grounds Planes**

May 06, 2010, 5:37 AM EDT

Bloomberg: U.S. Economy: Consumer Prices **Unexpectedly Decreased**

May 19, 2010, 5:06 PM EDT

Bloomberg: More Americans **Unexpectedly File for Jobless Benefits**

May 20, 2010, 8:51 AM EDT

According to 'Google Trends' the word 'unexpectedly' was virtually never used prior to the October 2007 stock market peak. But then note once the stock market peaked and began to dump from late 2007 the use of the word 'unexpectedly' exploded.



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Google Trends: unexpectedly - Windows Internet Explorer

http://www.google.com/trends?q=unexpe

File Edit View Favorites Tools Help

Google Trends: unexpectedly

Google trends

unexpectedly

Search Trends

Tip: Use commas to compare multiple search terms.

Searches Websites All regions All years

● unexpectedly

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- A [February new home sales rise unexpectedly](#)
MLive.com - Mar 25 2009
- B [Retail sales dip unexpectedly, jobless claims rise](#)
Philadelphia Inquirer - Aug 13 2009
- C [New US home sales unexpectedly tumble](#)
Forbes - Oct 28 2009
- D [New jobless claims fall unexpectedly to 457K](#)
Chicago Sun-Times - Dec 3 2009
- E [US unemployment rate unexpectedly drops](#)
Telegraph.co.uk - Feb 5 2010
- F [US jobless claims rise unexpectedly](#)
CTV.ca - Feb 25 2010



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In another revealing tidbit, today's Wall Street Journal lead headline blares in very large type:

Inflation at 44-Year Low

This headline instantly caused me to wonder how many years must pass before they use the term 'deflation'. Is not inflation at a 44 year low deflationary? Or do we have to wait for a 60 year low? Or maybe a 100 year low? How about a 200 year low? Of course deflation would be 'unexpected' and anyway no good can possibly come of deflation. Low inflation is benign. Deflation is deadly. So let us continue to refrain from using the 'D' word.

One final point regarding the hidden meaning of headlines involves the ECB and the Euro-fx currency. I have been wondering how to get a fix on when the Euro will be abandoned and the European Central Bank will be shuttered. A headline from yesterday's Wall St Journal gives us a clue.

ECB to Build New Headquarters as Currency Stumbles

Wall Street Journal, May 19, 2010

By [ROMAN KESSLER](#) And [BRIAN BLACKSTONE](#)

FRANKFURT—As doubts swirl about the future of the euro, its 16 members are sending a strong signal of their mutual devotion: They're building a place together. The president of the European Central Bank, Jean-Claude Trichet, is due to officially kick off construction Wednesday on a new 850 million (\$1.05 billion) headquarters along Frankfurt's Main River, the most significant step to date to give the euro a permanent home—but one that nonetheless has dragged on for a dozen years...

The new home, in Frankfurt's edgier East End, will consist of two towers—one 41 floors high and the other 44 floors—joined by a massive conference and visitor center where a historic fruit-and-vegetable market once stood. "The design of our future premises should reflect the values we regard as essential to our activities. We are committed to transparency, integrity, excellence and efficiency," Mr. Trichet has said, spelling out his vision for the new building...
... The move-in date isn't until 2014, and that's if all goes according to plan. The ECB is independently responsible for setting monetary policy for the 16-member euro zone."

This suggests to us that both the ECB and the Euro-fx will very likely be defunct by **2014**

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