PETER ELIADES' STOCKMARKET CYCLES

August 6, 2010
End of Week #1860

DJIA	10,653.56
CI	1641
NCI	1539
Ratio	1.066
S&P Ratio	1.027

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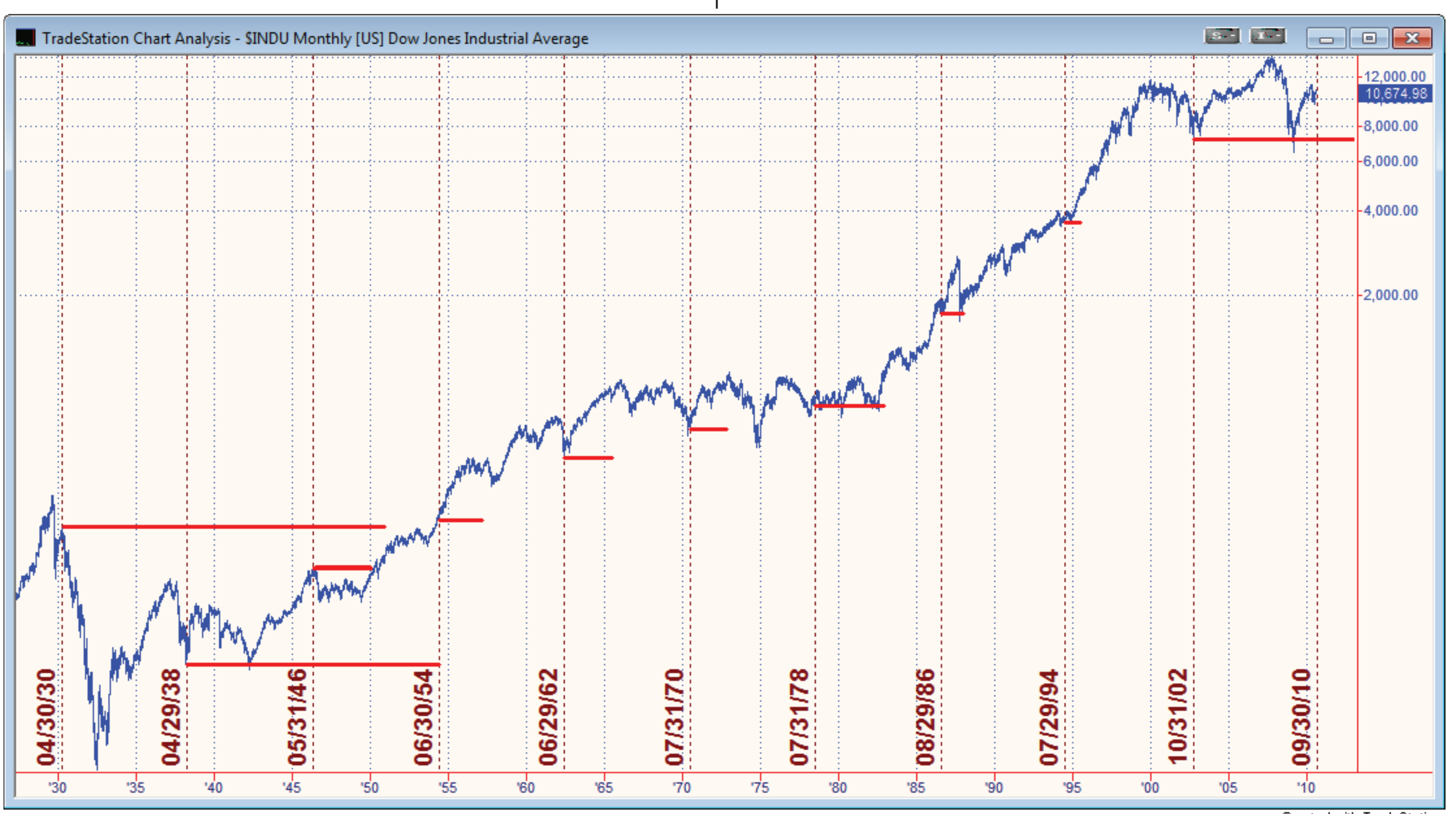
—THE CYCLES—

In our newsletter published on May 7 of this year, only nine trading days after April 26, the closing high of the year was registered, but 7.4% below the closing high, we said that there were no assurances that the market would work its way back to the high registered on that day. We did attribute a better than 50% chance, however, to the probability that the market would indeed work its way back to the April 26 high. We went on to describe the process whereby we attempted to locate a potential topping time zone over the following 2-4 months. Without going into the details of the process again, we can tell you that it was based on a George Lindsay theory which maintained that virtually every important market top in history was accompanied by at least one bottom-to-bottom-to-top configuration. By that, he simply meant that tops tend to form an equal distance away from the second of two bottoms which preceded it. We showed a chart displaying the important lows of the week ending November 25, 1994, and the week ending October 11, 2002.

We went on to say that if you add the same number of weeks to the bottom on October 11, 2002, it would take you to the week ending August 27, 2010. What made that potential resolution even more interesting at the time was the fact that the prior two short-term bottoms looking back from that May 7 date occurred on July 10, 2009 and February 5, 2010. There are 145 trading days between those two bottoms. If we theorize that could comprise another bottom-to-bottom count which would then be added on to February 5 for a potential resolution of a top date, that would take us to August 31, 2010. And so, three months ago we gave a few good cyclic reasons to be looking for a potential top around late August.

Serendipitous – the unabridged **Random House Dictionary** of the English language defines serendipitous as "come upon or found by accident." Online Wikipedia defines it as "propensity for making fortuitous discoveries while looking for something unrelated." We would describe what occurred to us within the past few days as serendipitous. We just happened to have a copy of our own newsletter published on July 7, 1978, that we had used a few years ago in researching patterns of years within a decade ending in the digit 8. We began reading the section on the cycles in that newsletter and it began with these sentences: **We are only 6-10 market days away from the time period we have been referring to for several months, namely July 17-21. This marks a 419 week cycle that last bottomed in July 1970 and June 1962.**

We have often complained to ourself that the great shortcoming that has arisen out of literally thousands of research hours we have spent for the last 40 something years is the fact that we have never catalogued the plethora of cycles discovered in that research so there have been times in market



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history when a cycle we may have discovered a few decades ago could once again he reaching a resolution of potential importance and we would be unaware of it. But the reading of that July 7, 1978 newsletter was truly serendipitous because the fortuitous re-discovery of the 419 week cycle could not have been more timely. We are going to spend the better part of this newsletter discussing that cycle because of its potential importance.

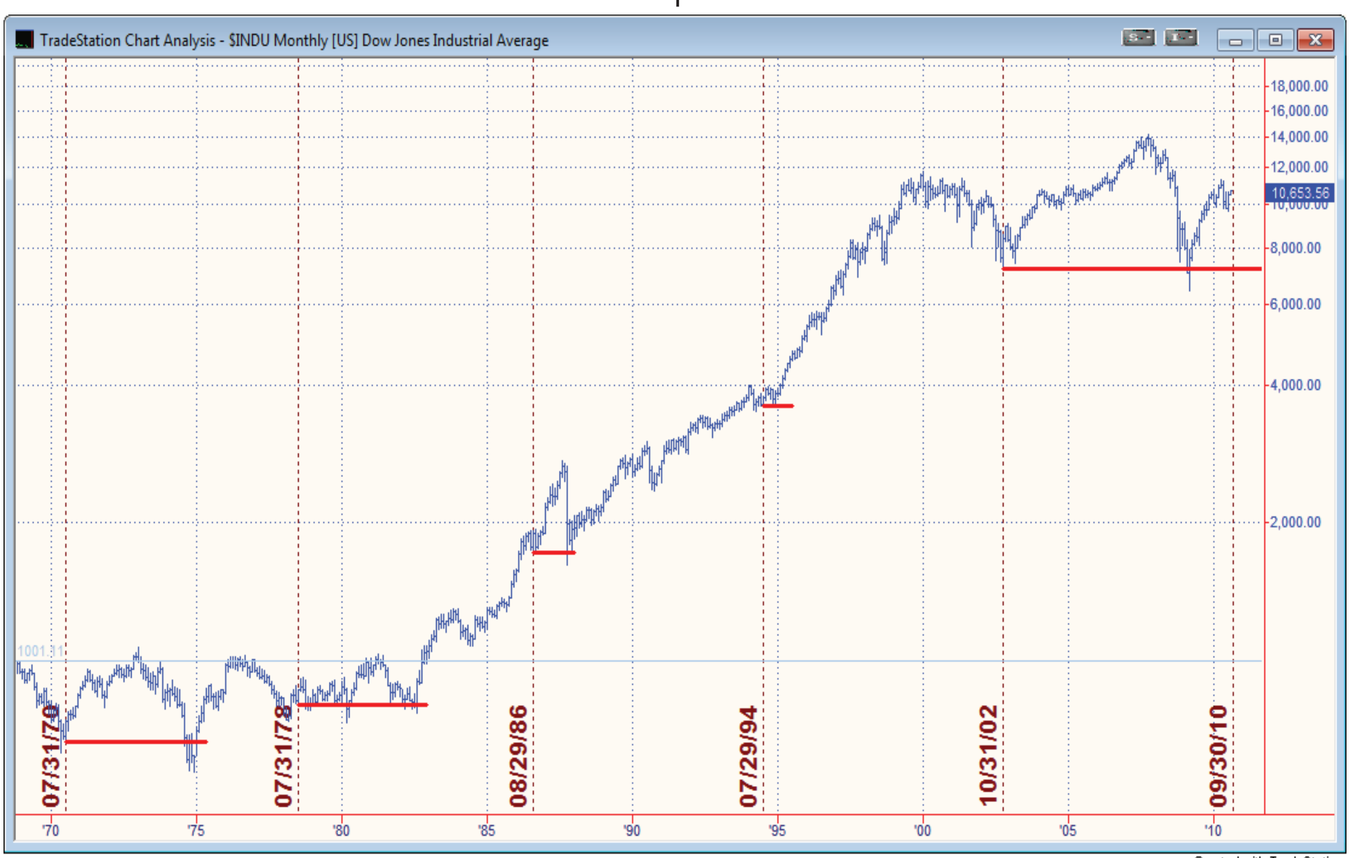
The front page chart of today's newsletter is a monthly chart of the Dow Jones Industrial Average going back to June 1927. The vertical dashes that are accompanied by dates are showing within which months the 419 week cycle or turning point pattern resolved. Here is how we determined where to begin the measurement of that cycle. The 1978 newsletter notes that the last resolutions of the cycle occurred in July 1970 and June 1962. We went back to the June 1962 bottom which occurred in the week ending June 29, 1962 and simply marked the sequence of dates 419 weeks apart in the future from 1962 and in the past from that June 29 date. Let's begin the examination of the cycle by giving you the exact dates 419 weeks apart beginning with May 9, 1930.

May 9, 1930	**July 21, 1978**
May 27, 1938	**August 1, 1986**
June 7, 1946	**August 12, 1994**
June 18, 1954	**August 23, 2002**
June 29, 1962	**September 3, 2010**
July 10, 1970	

Those are the ideal dates of resolution for the pattern. The monthly chart on the front page places vertocal dashes with dates on the closest important monthly high or low to the ideal dates just given above. Five of those resolutions occur within the exact month, four of them occur only one month away, and one of them occurs two months away. Before we go into greater detail concerning each and every one of these resolutions, we want to tell you why the resolutions are so important. At every single one of the resolutions a market top or bottom of such importance has occurred that all those tops or bottoms lasted for years into the future in almost all cases, and in several instances have lasted to the current day. Let's discuss these remarkable resolutions one by one beginning in April 1930.

1)The resolution due in the week ending May 9, 1930 occurred three weeks early when the Dow made a top at 297.25. That was the exact high of the bear market rally after the 1929 crash and it marked a high point that would not be seen again until March 1954, one month short of 24 years later!

2) The next resolution was due in the week ending May 27, 1938. There was an exact secondary low registered in that week but the lowest low in that time zone occurred in the week ending April 1, 1938 at 97.46 on the Dow. This resolution marked the greatest margin of error, being eight weeks early. Taking into account the fact that it is a 419 week cycle, the eight-week margin of error is still just less than a 2% error. That low registered in the week ending April 1 was not seen again until April 1942. A final and very major low was registered in May 1942 and that low was still only 4.9% below the low that was seen in the week ending April 1, 1938. In fact, as the very major low was forming in the two months of April and May 1942, both of those monthly lows were only marginally lower than the April 1938 low and prices have never since returned to those low levels. In other words, the cycle low registered



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in the week ending April 1, 1938 was only marginally violated over a six-week period at the major bottom in 1942 and those prices have never been seen again.

3) The next resolution was due in the week ending June 7, 1946. This time it was an important top and it occurred one week earlier than scheduled. The high on the Dow at the top was 213.36 and it was a high that lasted for the next four years.

4) The next resolution was due in the week ending June 18, 1954. This resolution was the least well defined of all the resolutions because it occurred well into a strong uptrend but its importance was still historic. The market never again moved below the price registered at this resolution. It was due in the week ending June 18, 1954 but we will use the dip that occurred in the preceding week down to 315.66 on the Dow as the official resolution of the cycle and say that the resolution was one week off.

5) The next resolution was due on June 29, 1962. It was a perfect bull's-eye (or is that redundant?). The low registered in that week of 524.55 on the Dow has never since been seen again.

6) The next resolution was scheduled for the week ending July 10, 1970. It was another bull's-eye. It was actually a secondary low that followed the lower low that was registered on May 26, 1970. But the July low turned out to be a historic low that was only surpassed at the depths of the 1974 bear market low. Even at that, the 1970 low was surpassed by only 9.2% and those levels have never since been seen again.

7) The next resolution was due in the week ending July 21, 1978. This is the resolution that was referred to in the July 7, 1978 newsletter which led us to the updated research we are now reporting on. The low in this case was registered two weeks before the scheduled resolution when the Dow reached 800.94. In 12 separate months over the next four years the market actually moved below the 800.94 bottom registered in July 1978, but never more than 8.9% lower as a long base was being formed for the fabulous rally of the 1980s and 1990s. For practical purposes, the July 1978 low was another historic one.

8) The next resolution was due in the week ending August 1, 1986. A low on the Dow of 1730.60 was registered one week later. Except for a few hours over one year later on the crash day of October 19, 1987 and the following day, October 20, when prices moved 6.6% below the low of the August 1986 scheduled resolution, prices have never been as low again.

9) The next scheduled resolution was August 12, 1994. There was a low at 3603.92 on the Dow six weeks before that in the week ending July 1, 1994. Once again, it turned out to be a historic low that has never since been exceeded.

10) The most recent resolution was scheduled for August 23, 2002. That date fell in between the actual price lows registered in the weeks ending July 26, 2002 and October 11, 2002 and the actual price low registered in the week ending October 11 occurred seven weeks after the scheduled resolution. The low registered there was 7197.49. That low held for over eight years until it was finally penetrated in the first quarter of 2009 at the end of a devastating decline of over 54%. But even then, the price moved only 10.1% lower than the low registered in October 2002.

The next resolution is scheduled for the week ending September 3, 2010. Refer back to the first two paragraphs of this newsletter and you will see the dates of August 27, 2010 and August 31, 2010 mentioned as possible topping dates. The second date just happens to fall within the week ending September 3, 2010.

If you spend some time examining the page-one chart, we believe you will be as impressed as we were with the amazing consistency and importance of every single resolution of the 419 week cycle. We do have some additional commentary for you to review as you spend some time with the chart. First of all, it should be obvious that 8 of the 10 resolutions were market bottoms. Some of those market bottoms have marked historic lows to which the market has never since returned. But, perhaps almost incredibly, every single one of the eight bottom resolutions has either been a historic bottom that was never again reached or a bottom that was never again historically broken by more than 10.1%. With the exception of 1978, and the minor exception of 1986 where there was a 6.6% violation of the low that lasted less than one day, every low held for at least four years. We will repeat what we believe is the most dramatic result. Over this 80 year time span, and without exception, no bottom resolution was ever broken in the future by more than 10.1%. The horizontal red lines on the front page chart move forward in time from the high or low that resolved at the end of the cycle so that you can visualize their historical importance.

There were only two highs within the 10 resolutions, but one of those highs was a secondary peak at one of the most important tops in market history. Most people are unaware that after the initial crash of the market in 1929 that saw 49.4% of the market's value stripped away in less than three months, there was a strong recovery rally of 52% from the November 1929 low to the April 1930 top. It is that top in April 1930 that saw the resolution of the 419 week turning point pattern. If the decline that ensued after that top were considered separately and not as a part of the 1929-1932 decline, it would be the largest decline in market history, down 86.4% from the April 1930 high to the July 1932 bottom. From that high, it took the market almost a quarter century before it regained the highs seen in April 1930.

Is it possible we will be seeing something like the April 1930 high over the next several weeks? Statistically speaking, the odds are, of course, very much against it. There are some similarities, however, between the decline and the retracement seen from the September 1929 high to the November 1929 low to the April 1930 high, and the decline and the retracement from the October 2007 high to the March 2009 low to whatever final high is seen over the next few weeks or months, or has been seen already. That sequence in 1929-1930 saw a decline of 49.4% followed by a rally of 52% which retraced 53.4% of the initial decline. The current sequence saw a decline of 54.4% followed by a rally of 74% which retraced 62% of the initial decline. The time spans of the formations differ significantly because the whole process of the decline and the recovery rally in 1929-1930 took only seven months. This time around from the October 2007 high to the April 2010 recovery high (at least so far), the process took 30 months.

We do not mean to imply that the current interpretation of this turning point pattern or cycle will be easy. If you are a true bull, you could argue that the low seen in July of this year will turn out to be the true resolution of the pattern this time around and will mark a very important market bottom, a bottom that could last a countless number of years and suffer a violation of no more than 10-11% in even the worst of bear markets that might follow. If, on the other hand, if you are a long-term bear as we are, you could well be expecting a market top over the next few weeks that might end up being a historic one, one that will not be visited again for years to come. Even if the market begins a significant decline sometime over the next month or so, we still face the possibility that this particular turning point will not be an important one. All we can deal with is probabilities and we believe that, based on the pattern which has produced very significant market resolutions over the past 80 years, the market could well be facing a top of great importance that could well turn out to be an historic one.

Might there be another reason based on cycles that the top seen in October 2007 could be a more important one than almost anyone now realizes. There is indeed, and we would like to quickly discuss this reason to end up a very long cycle section. We always try to acknowledge and give attribution to ideas and patterns that we discuss that are not our own. In this case that is impossible to do because all we have is a fax that was sent to us over two years ago with the name "ANTIOCHTIRE" at the top of the fax. If the person who sent that fax to us reads or hears of this, please notify us so we can acknowledge your discovery of the fascinating pattern we are about to relate.

This pattern begins in October 1957 at that very important bottom. The main thesis of the pattern is that three of the more important market bottoms recorded in United States securities history led to tops of major importance around 33 years later. The bottom registered in October 1857 led to a top 32 years and seven months later in May of 1890. The important bottom in August 1896 led to the major top in September 1929 33 years and one month later. The major bottom in July 1932 led to the top registered in February 1966. Those prior patterns suggested to the person who sent us the fax in early February 2008 that the October 2007 top which came 32 years and 10 months after the major December 1974 bottom could well turn out to be a top of great importance. How important? To answer that, let's look at the prior three tops. Our data from the Foundation for the Study of Cycles actually shows the top occurring in June 1889, but we are more interested now in the importance of the top than the exact date of the resolution. Our data show that the 1889-1890 top was not significantly surpassed until 14-15 years later. How about the top registered in September 1929? That top was not surpassed until almost 25 years later. How about the top in February 1966? Although there were some minor excursions above the 1966 top for a few weeks between 1966-1982, the real breakthrough above that top did not occur until almost 17 years later. The amazing conclusion is that tops that were seen approximately 33 years after three major market bottoms lasted on average 18 and 19 years. If we translate that to the current time domain, that would mean that the October 2007 market top would not be convincingly broken until around 2025-2026. Is this a bear's pipedream or a real possibility? It is a cliché, but only time will tell. What we do know is that prior market history and a very long section on the cycles in today's newsletter make a convincing case that we are in a time zone for a secondary market high and that the October 2007 market high could last for well over a decade. Three prior samples are not statistically significant, but the fact is that once again a market top of at least 34 months duration began, as predicted from the pattern, around 33 years after the major 1974 bottom. So far the pattern has held up well.

—TECHNICAL INDICATORS—

Most of our technical readings are still supportive of a continuing market advance. The latest weekly sentiment readings from the **American Association of Individual Investors** shows that there were only 30.4% bulls and 38.2% bears as of the publication of the data on August 5. The small percentage of bulls was quite surprising in a market that was trading near its highest point the prior 10 weeks. It was, in fact, the fifth lowest percentage of bulls this year. Three of the four readings lower than the current one occurred within days of the February and July lows this year.

—MARKET PROJECTIONS—

At the close on Friday, July 30, nominal 20 week upside projections were given for the major indexes and averages. The projection for the NY Composite Index called for an intraday high of 7527.59 ± 118 points and the corresponding projections for the S&P and the Dow call for an intraday high of 1196.57 ± 18.60 and 11,194.20 ± 158 points. The ideal resolution of a market top would occur if these projections are being met within the time windows discussed in the early part of this newsletter, namely the last week of August into the first week of September.

—MUTUAL FUNDS—

There have been no mutual fund recommendations since the last newsletter. On the telephone updates yesterday, August 5, we recommended a position in the Rydex S&P 500 2X Strategy Fund for Rydex switchers. We recommended purchase at the morning price which was 21.55. Fidelity switchers are in 100% cash positions. We have two different specific model portfolios—one for Fidelity switchers and one for the Rydex group switchers. How you distribute your own portfolio is up to you as an individual.

Next Publication Date: September 3, 2010