November 5, 2010	
End of Week #1873	
DJIA	11,444.08
CI	1659
NCI	1537
Ratio	1.079
S&P Ratio	1.045

PETER ELIADES' STOCKMARKET CYCLES

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Notes and Thoughts: Before we begin the main body of today's newsletter, we would like to share some thoughts with our subscribers. This newsletter has been in continuous publication for over 35 years. We would like to think that we have added value to the investment portfolios of the great majority of our subscribers over that time. Our most recent trade for mutual fund switchers, however, started us thinking about the times when subscribers incurred losses because of our recommendations. In fact, the most recent mutual fund switch for Rydex switchers was one of our biggest losers ever, and resulted in a loss of 18.0% for those who participated in the trade. We have no way of knowing how many, if any, subscribers follow our instructions to the letter because a significant number of our subscribers have told us they use our updates and our newsletters as ancillary information for their own trading and investing. Nevertheless, our most recent losing trade stirred some gray matter within us and the thought process went as follows.

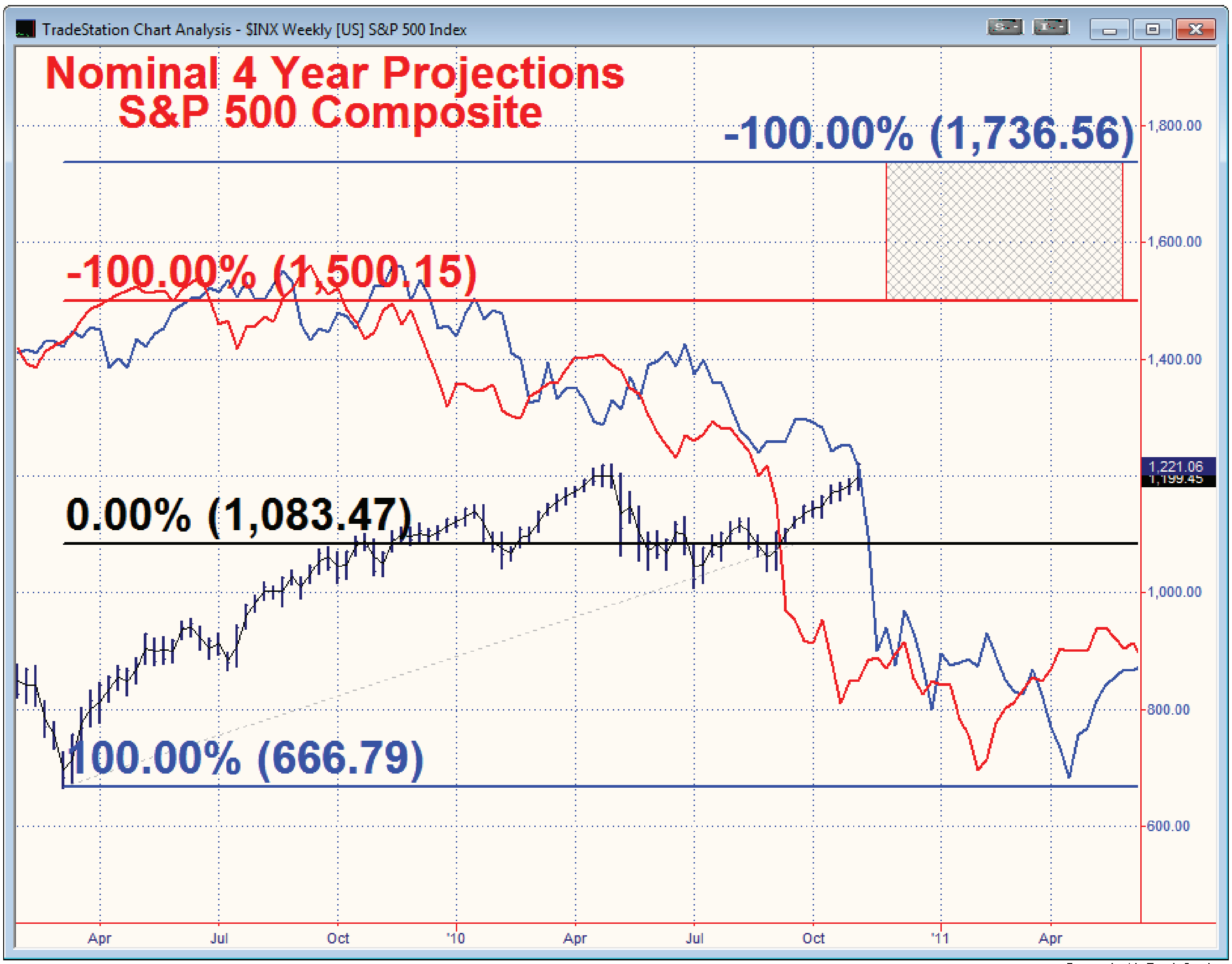
Over the past 5+ years, beginning in February 2005, after several years of intensive research, we began a money-management program. We described that program in some detail to subscribers at the time and even made the management program available to subscribers at reduced management rates. Frankly, there were few takers. The program was based on a seasonality pattern that we had researched back to the mid-1920s using daily data for the S&P Composite Index. We will not go into the details of the seasonality pattern that we utilize but we will tell you that after 5 1/2 years of real-time, real money application, our reaction remains the same as it was after our research ended and the management program began in earnest in 2005, namely, why would anyone do anything else with his or her investment money. The program has survived and thrived through one of the more difficult five-year periods for investors in the history of markets.

You should be aware that our program is a long–only program that is out of the equity market and in the safety of a government money market fund over 70% of the time. Since the date of the inception of our program on February 24, 2005, the S&P 500 Total Return through the quarter ending September 2010 was -3.39%. Over that same period of time, our management program dubbed EP (The Eliades Program) was up 102.1%. Remarkably, the largest drawdown on a monthly

closing basis was in the single digits, and this performance was achieved during a period when the market suffered the second largest decline in its modern history going back over 100 years. From the October monthly close in 2007 to the February monthly close in 2009, the S&P 500 Total Return (including all dividends) declined a stunning 52.6%. Over that exact same period of time, our management program showed a gain of 28.7% on a net basis after all management fees. Perhaps we should repeat that that performance was achieved using long-only positions. The program achieved something that is virtually impossible to achieve over longer periods of time if you are fully invested, namely, it outperformed the market in both bullish and bearish phases. Our program does not care which direction the market moves in and it cares even less which direction we believe the market will move in. That is part of its great beauty. Perhaps the performance we are proudest of is the combination of raw performance coupled with small drawdowns. Our favorite tool for measuring that special combination of performance versus risk is called the **Ulcer Performance Index**. We will not go into its calculation here but we encourage you to look up the term online at Wikipedia. There is an online website administered by **Theta Investment Research** that monitors performance of over 400 different management portfolios and provides investment data relative to those performances. Our management program has been rated since its inception with a real money account from Theta. Theta gives performance figures for 3, 6, 12, 24, 36, 48, and 60 month time spans. As of the publication date of today's newsletter, our program's performance as judged by the **Ulcer Performance Index** is in the top 1% of all portfolios monitored over the past three months and its consistency of longer-term performance is confirmed by being in the top 5% of **Ulcer Performance Index** rankings for the 36 and 48 month periods and in the top 3% of the rankings for the 60 month period.

Okay you ask, so what is this all about? Are you trying to sell us a management program or are you going to analyze the market? And that's exactly the point we are now faced with philosophically. Over the 35 year publication life of Stockmarket Cycles, we have always made specific recommendations, either for stocks or mutual funds. We dropped the stock recommendations over 20 years ago after discovering we had little talent for individual stock selection. And although we displayed some award-winning talent for choosing the correct mutual funds and timing their purchase over long periods of time, our greatest disappointments came from our frustration at not being able to take advantage of inverse mutual funds in the fashion we hoped we would. We have done some soul-searching after the 18% loss incurred in our last mutual fund recommendation for Rydex switchers. Surely you can understand our frustration, both for ourselves and for our subscribers, when our money-management program is one of the top performing ones in the country but our recent mutual fund recommendations have ended up being losers. After spending so much time researching a program that has turned out to be so successful, why are we still attempting to better that performance with subjectively chosen time periods for entry into long and short leveraged mutual funds?

Here is the bottom line. We are seriously thinking of changing our *modus operandi*, if you will. We are not quite sure how we want to accomplish that and we would certainly en-



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courage feedback from our subscribers. If we had to guess, it would be our guess that our most valuable talent for subscribers is the calculation of our price projections. Perhaps, rather than doing daily telephone and e-mail updates, we could find a way to do 1 to 3 short updates (Twitters?) during market hours that might better satisfy our subscribers. So far, we have not taken complete advantage of the new technologies of communication and perhaps that is the direction we should move towards. Because of the success of our management program, we envision putting more and more time into that area but we feel very dedicated to our subscribers and do not want them to feel in any way that they are getting less of our attention and concentration. We will be thinking a lot about this over the next few months and we look forward to feedback from subscribers. Perhaps the best way to do that would be for you to write an e-mail to our administrative assistant, Sue Davy, with a subject line of "Feedback." Please remember to use that subject line so we can easily sort subscriber feedback from other areas of administrating the newsletter. Use the following e-mail address to communicate with Sue: suedavy_smc@comcast.net We look forward to hearing from you.

—THE CYCLES—

Well, if finally happened! As you can see on our front-page and page 2 charts, significantly higher nominal four-year upside projections have been generated for both the Dow Jones Industrial Average and the S&P 500. The projections shown were generated on the weekly projection charts and both the projections for the Dow and for the S&P 500 allow for the possibility of moving back to the all-time highs registered in 2007. We would have bet a lot of money against that possibility at almost any time between March and December of 2009. It would, of course, be reasonable to ask what the odds are that the projections will not be met. The general rule that applies to all projections is that they remain in effect until they are either met or invalidated. An invalidation would occur if prices move back below the offset line before the projection is met. As you can see on the charts, however, it would require an almost unprecedented decline to take place in order for the projections to be invalidated. Over the next several months, the Dow and S&P would have to decline more than 25-30% in order to invalidate the current upside projections. Such a move is not impossible, of course, but it is surely highly improbable.

We went back historically and looked at prior nominal four-year projections, both to the upside and the downside, to attempt to get a feel for the consistency and accuracy of such projections. Because we wanted to have a good historical perspective, we went back 50 years and examined every crossing of price above and below the offset lines used for nominal four-year projections. Over the course of the fifty-year period, there were 14 clear crossings that generated projections. Of those 14 crossings, our analysis showed that 10 of them were met on a satisfactory basis. As long as the projection was met within its projection window, we considered it successful. In several instances, projections were exceeded but those projections are considered successful. In other words, we do not necessarily look for prices to end their movement within the projection window because there are always other cycles acting on prices that may be causing further projections to be given. We believe it is fair to say that more than 71% of the nominal four-year projections generated over the past 50 years have been met. Based on that success rate, it is fair to conclude that the projections given above have a 71% chance of being successfully achieved.

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In our August 6 newsletter, we went into great detail discussing a 419 week cycle or turning point pattern whose resolutions over the past 80 years have provided market tops and bottoms which have lasted at least several years and in many cases have lasted to the current day. The ideal resolution date for that cycle was September 3, 2010. After giving the ideal dates of the previous resolutions, we went on to say that five of the previous resolutions occurred within the exact month of the ideal date, four of them occurred only one month away, and one of them occurred two months away. Because September 2010 was the idealized resolution month, we should allow two months on either side of that month for the actual resolution of the cycle this time around. That gives us a time window bordered by the months of July and November. The Dow saw a low of 9614 in July and has now rallied over 1800 points from that low. If that low was indeed the resolution of the 419 week cycle, it should hold for several years into the future. We must admit that does not match up with our perception that the market faces great potential dangers over the next few years. That leaves only two possibilities. Either 1) the pattern that has been established by this cycle over the past 80 years will not hold this time around and the July low will be broken by far more than 10% (remember the conclusion in the August newsletter was that no prior bottom resolution was ever broken in the future by more than 10.1%) or 2) the cycle has not yet resolved and will end up being a high, not a low in the month of November, two months beyond the idealized resolution month. We had originally theorized that any new highs into the month of October would strongly suggest the cycle resolution was indeed a bottom rather than a top, and that may still be the case, but the fact that the market is moving to two-year highs at a time when bullish sentiment is moving to extremes on several sentiment indicators suggests it would be wise to allow for the possibility that an important high will be registered in the month of November. It should be safe to say at this point that any new highs after the month of November would almost surely establish that the 419 week cycle was indeed a low and perhaps a more important low than now seems possible. Time will tell.

—TECHNICAL INDICATORS—

The third chart in today's newsletter is a daily chart of the S&P 500 Composite Index showing the past 9-10 months of market behavior. We showed part of this chart in a recent daily update and emphasized how important the price zone within the red oval was. For just over two weeks prices huddled beneath or at that important price zone. The blue line that extends across to the right margin where the "1,200" label is placed is the downward 1/3 Speed Resistance Line from the March 2000 high to the March 2009 low on the S&P. Notice how the April rally was halted exactly at that line. The second line within the oval is the 200 week moving average of the S&P. Notice that that was also closely approached at the April high. We pointed out these resistance levels several times over the past few weeks and noted that a convincing move above them would have to be considered a bullish resolution.

There are a few other points of interest on this chart. The labels to the right of the chart are placed at Fibonacci retracement levels of the complete decline from October 2007 to March 2009. Notice that those levels appear to continue to influence prices. When the S&P broke above the 50% retracement level in late March-early April, if moved almost immediately up towards the 61.8% retracement level where it was met by the 1/3 Speed Resistance Line. After the sharp decline from the April high, a decline that stopped almost exactly at the 38.2% retracement level, the S&P rallied back towards the 50% retracement level and that level proved to be resistance at the June top and again at the late July-early August top. Finally, in late September, the 50% level was again overcome and after a quick move back to the 50% level on September 23, the index moved inexorably back towards the 61.8% level. It seems that no matter how successful the market is in overcoming important resistance levels, there is always another stumbling block its path. The exact Fibonacci 61.8% retracement on the S&P is 1228.74. Today's high and this week's high on the S&P was 1227.08. Do you think it's possible that this impressive breakout over the past two days has been a phony breakout and will be stopped at the 61.8% Fibonacci retracement level? Stranger things have happened.

—MARKET PROJECTIONS—

We gave you the nominal four-year upside projections in the projection charts on the first two pages. There are also nominal 40 week upside projections for both the Dow and the S&P. If we use the July 2010 lows to measure those projections, they come in around 1270 on the S&P and 11,760 on the Dow. Those are the preferred lows to be used for the projection, but we could argue it is also appropriate to use the low established in the week ending August 27. If those lows are used, the projections come in around 1230 and 11,440, respectively. If those turn out to be the correct projections, they were being met at the end of the week at this week's highs.

—MUTUAL FUNDS—

Fidelity switchers remain in 100% cash positions. Rydex switchers closed out their positions in the Rydex Inverse S&P 500 2X Strategy Fund at yesterday's morning price (November 4) for a loss of 18.0% on the trade. As noted earlier in the newsletter, is one of the worst trades we can remember recommending and it has caused us to rethink the nature of this newsletter and exactly what would be the best way to serve the needs of our subscribers. We will be reporting over the next few months on any decisions made. Be aware that an exit from a loss of that magnitude can also serve as a sentiment indicator that the market is about to move in the opposite direction. Often the kind of market move that motivates an exit such as that, an exit where one appears to be throwing in the towel, leads quickly to at least a temporary reaction in the opposite direction. Don't be surprised if we see a decline of some kind begin next week. We would like to make a special offer for any subscribers who incurred the 18.0% loss on the trade we just exited. Our offer is that we are willing to place you into the "friends and family" group of our managed accounts for five years without incurring any management or performing fees. If you are interested, simply send us a copy of the confirmation slip of the losing trade and we will be happy to accommodate you. This group is traded in our management program using the exact same entry and exit points. The returns are even better because there are no management or performance fees. Although, as noted above, we are considering changing the nature of the newsletter in terms of its recommendations, we currently 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.

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