PETER ELIADES' STOCKMARKET CYCLES

July 29, 2011	
End of Week #1911	
DJIA	12,143.24
CI	1578
NCI	1521
Ratio	1.037
S&P Ratio	1.034

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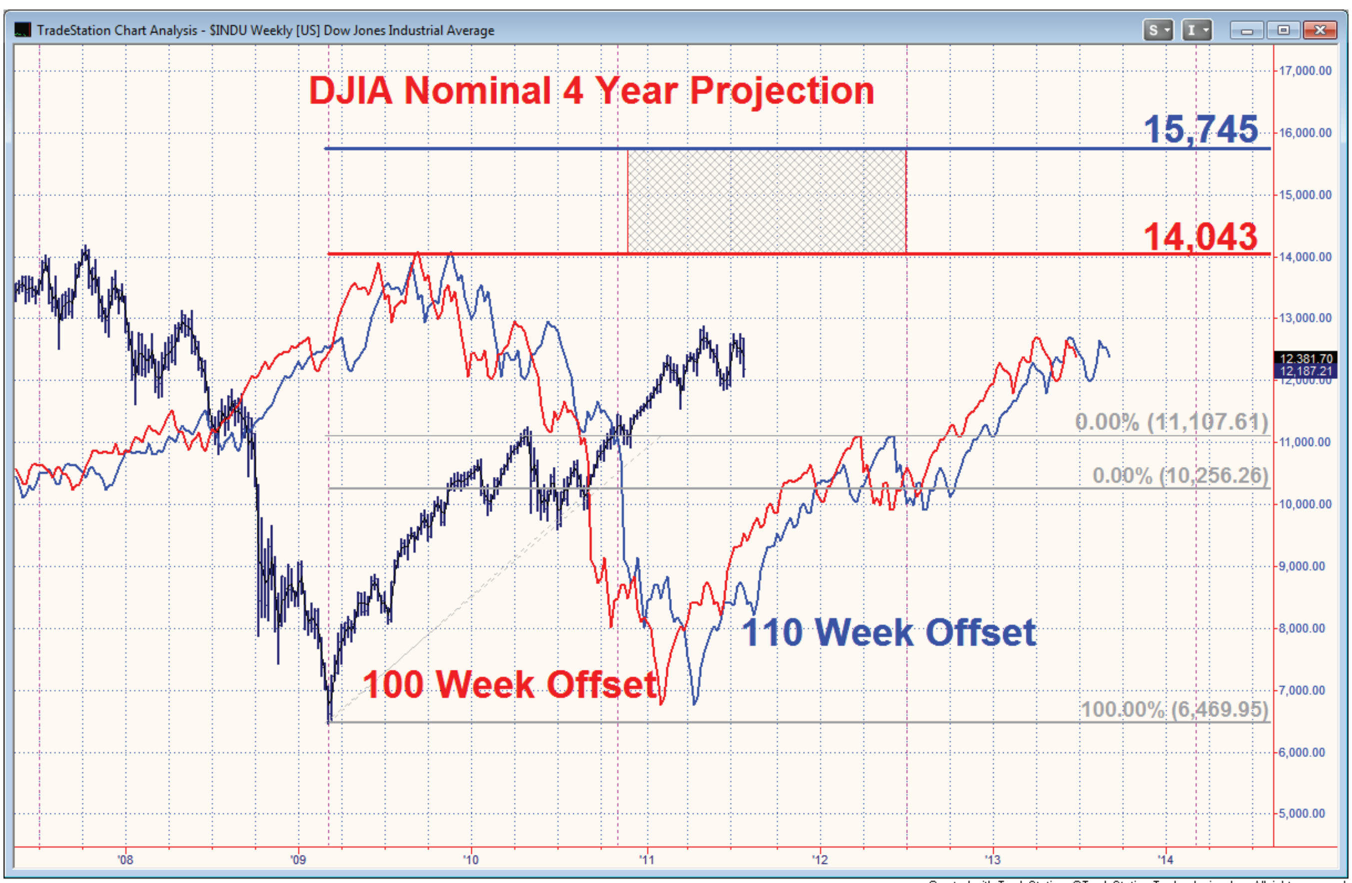
Today's issue of Stockmarket Cycles is scheduled to be our last issue. We call it a semi-retirement because we intend to write bulletins every now and then. But the day-in and day-out analysis will be left behind. Our daily updates began over a quarter century ago and since then, we have done a commentary at the end of each market day for almost 25 years. There have been approximately 6500 trading days over that quarter-century and it would probably be a conservative estimate to say 95% of those days were followed by one of our daily updates.

Just over 36 years ago, we began this great adventure, an adventure on the greatest roller coaster ride in the world, the United States stock market. It has been a journey filled with all the exhilaration and fears associated with a great roller coaster, and we have had our share of triumphs and mishaps. But through it all, we like to think we never stopped learning, both from the market itself and from our special and talented subscribers. Our love and passion for the markets will remain with us to our dying day, but we will be more restrained in our pursuit of that passion. Whatever our success has been in this business, it has allowed us to meet some fabulous people and make some lifelong friends and we have few if any regrets.

Here are the planned logistics for our transition out of the newsletter and its accompanying daily market commentary. Those subscribers who desire a refund on a prorated basis for the time remaining beyond July on their subscriptions are asked to either send an e-mail to Sue Davy at the following e-mail address: suedavy_smc@comcast.net or send us a note via snail mail to the following address:

Stockmarket Cycles
Attention:Sue Davy
1805 Wagner Lane
Petaluma, CA 94954

The commentary in the form of bulletins that we will continue to do on an intermittent basis will probably be done with an approximate monthly frequency. All bulletins will be done online and will be paid for online. There will be no faxes or snail mail bulletins, but we will extend a courtesy to current subscribers by sending out an e-mail notifying them that a new bulletin has gone online. If subscribers wish to use the credit in the remainder of their subscriptions towards these future bulletins, we will be happy to do that although the logistics behind effecting that have not yet been worked out. Currently, our online facilities are set up to provide our daily update to nonsubscribers on a pay-as-you-go basis. The payment method is either via credit card or PayPal. That will most likely be the technique we use for making our bulletins available as they



come online.

I would be remiss if I failed to mention some of the people who have been loyal workers along the way and who helped bring my Stockmarket Cycles newsletter any of the success it may have earned. There was my old friend Nick Basakis who typed the very first newsletter in July 1975 in my condominium in the shadow of the Hollywood Bowl. The typewriter had been borrowed the day before from two elderly gentleman neighbors and it was truly a classic antique. We still have copies of that very first newsletter and the age of the typewriter is quite obvious from the quality of the type. There have been three ladies who each worked for us longer than five years in the three major locations from which we have produced the newsletter. For the first 15 years or so, Ruth (Woldman) Neumarker was a most capable administrative assistant and secretary. Ruth suffered an untimely death from breast cancer after our operations were moved to Northern California. Kerry Thompson took over those duties when we moved to Santa Rosa in 1990. She was a more than capable helper and worker. For the past decade, most of you have been dealing with Sue Davy whom we were fortunate to find in our current location in Petaluma, California. Sue has done a great job over the past decade and she will remain with us to help with both our occasional bulletins and our money management business. I will also publicly offer my thanks and great love for my family who have tolerated me and the vagaries and pressures of this business. To my wife Marie, my daughter Lia (now Sister Macrina in an Orthodox Christian monastery), and my sons George and Alexander, you have all contributed in making my life a joy to live and making the long hours pursuing my passion for the markets all the more worthwhile. Now on to the market!

—THE CYCLES—

Everyone knows the global financial world is about to implode. Why then has the market been doing so well for over two years? Probably because no one entity has a greater feel for the timing involved with economic ramifications than the stock market itself. At the end of 2008 and the beginning of 2009, it appeared to many as if we had finally reached an economic Armageddon. But the stock market reached an important bottom in March 2009 and has been gaining ground for well over two years. Almost a year ago, our weekly projection charts saw both the Dow and the S&P generate nominal four-year upside projections that were significantly higher than prices at the time of the projection. That was the clue from our perspective that if there was indeed going to be a financial Armageddon, it would most likely be delayed until either our upside projections were met or invalidated. We have updated those nominal four-year projection charts for both the Dow and the S&P and we are presenting them as the first two charts in today's newsletter. The charts take on a lot more significance now than they did when the projections were originally generated because of the current interrelationship between real-time price and the projection offset lines. When the projections were originally generated beginning in September of last year, the offset lines were moving down dramatically reflecting the price action that had occurred around two years earlier. It was highly unlikely that prices would turn around and move back below the offset lines that were declining so rapidly, and so the projection took on a somewhat lesser significance because we had to say that projections will remain in effect until they were met or invalidated. That statement takes on far more significance today because projections could be invalidated over the next 3 to 6 months by a move below 10,000 on the Dow and a move below 1500 on the S&P 500. The general rule which says the projections remain in effect until they are met or invalidated now takes on greater significance because a decline of 20-30% could now invalidate the nominal four-year upside projections

The nominal four-year projection charts should be self-explanatory to most of our subscribers. We would point out that the projection range for the Dow is somewhat different than the range that was given as the projections were initially being generated. The official projections from the weekly projection charts are as follows:

DJIA	14,043-15,745 intraday
S&P 500	1500.15-1736.56

As you can see from these nominal four-year projection charts, prices have already moved significantly above the levels in September 2010 when the preliminary projections were initially being generated. As is always the case when two offset lines are being used, a break through the shorter offset line gives what we call a preliminary projection. If prices also break through the longer of the two offset lines, our terminology says that projections have been confirmed. The final projection numbers can be given in two separate ways. In the current case we use the lowest projection number generated when looking through the range of offsets between 100 and 110 weeks. The upper projection range is determined by using the highest projection number generated throughout the range of 100 to 110 weeks for the offset line. An alternate method of presenting the projections would call for averaging the two extremes and allowing for a 10% margin of error from the prior low to the projected high in the case of an upside projection and from the prior high to the projected low in the case of the downside projection. For example, the average of the projection range for the S&P 500 is 1618.355. The distance from the previous low (666.79) to the average projection is 951.565 points. 10% of that is 95.16 points. So the second methodology of presenting the projection would call for 1618.36 ± 95.16 points. Notice that there is not a significant difference with the final projection extremes that are derived from these two separate presentations. So in this, our last newsletter, we leave you with an important nominal four-year projection that calls for the S&P 500 cash index to reach 1500.15-1736.56. The only thing that would cancel that projection would be a move back below the nominal four-year offset lines. We obviously cannot give you a set number for that potential occurrence because the number is a dynamic one that changes as time goes on. In order for a complete invalidation of the nominal four-year upside projections to occur, prices would have to move below both offset lines.

—TECHNICAL INDICATORS—

Now let's look at the market's short to intermediate term technical outlook based on the charts presented in this section on technical indicators. The first chart comes from your basic TECHNICAL ANALYSIS 101 course. It is a 200 day moving average of the S&P 500 overlaid on a simple daily bar chart of that index. Notice how the two lows in June, June 16 and June 23, stock prices come down virtually exactly to the rising 200 day moving average for the S&P. Now, around five weeks later, the price just today came down almost exactly to the 200 day moving average where it once again found support.

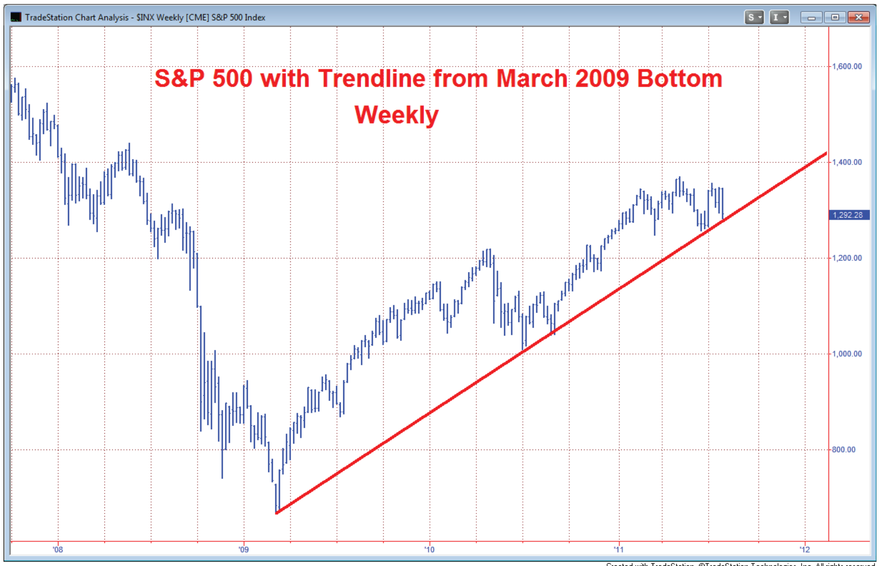
In fact, let's have a little technical fun. The next chart in this section is a 1 minute closing price chart of the S&P cash showing today's (July 29) closing price every minute throughout the market day. There are 390 minutes in the stock market's 6 1/2 hour trading day for the cash markets. A 200 day moving average would include 200 of these 390 minute trading days. If we multiply 200 x 390, we arrive at 78,000. So we know that in order to get the equivalent of a 200 day moving average on a 1 minute chart, we would have to construct a 78,000 period moving average. Before the days of computers, that would have been an impossibly burdensome task. Now, we just enter the number next to the query for the length of the moving average. The chart in this section, as noted above, shows a 1 minute closing price chart of the S&P cash accompanied by a 78,000

period moving average. In other words, it is simply a 200 day moving average that is updated every minute. Perhaps you would care to comment on the "random walk" the market took today as it registered its low for the day. It's little tidbits like this that continue to fascinate us regardless of the number of decades we have spent examining the markets.

The next chart in this section is a simple weekly chart of the S&P 500 with an uptrend line that starts at the March 2009 bottom. The line is self-explanatory. The weeks of July 2 and July 9, 2010 came down almost exactly to the uptrend line. The weeks of August 27 and September 3, 2010 also came down almost exactly to the uptrend line. From those lows, a rally of over 30% occurred over the next six months. After a high in February and a slightly higher high in May, prices once again pulled back, in this case almost to the uptrend line. Another sharp rally began from that point but it was short-lived. Once again this week, prices declined almost exactly to the uptrend line. The fact that that happened at the same time as the price on the S&P 500 met its rising 200 day moving average and at the same time as the McClellan Oscillator was reaching its 2nd most oversold level of the year (the only lower reading occurred on March 16 at the exact low close for the calendar year so far) suggests the possibility that the market has just reached or is close to reaching another bottom. Of course, any kind of price acceleration to the downside from these levels would be a strong suggestion that the market's personality had transitioned from bull to bear. But absent that kind of downside acceleration, a good case can be made that the market is forming another bottom. If we have faith that the projection numbers shown in the previous section will most likely be achieved, then a market bottom of some significance could have formed or be forming.

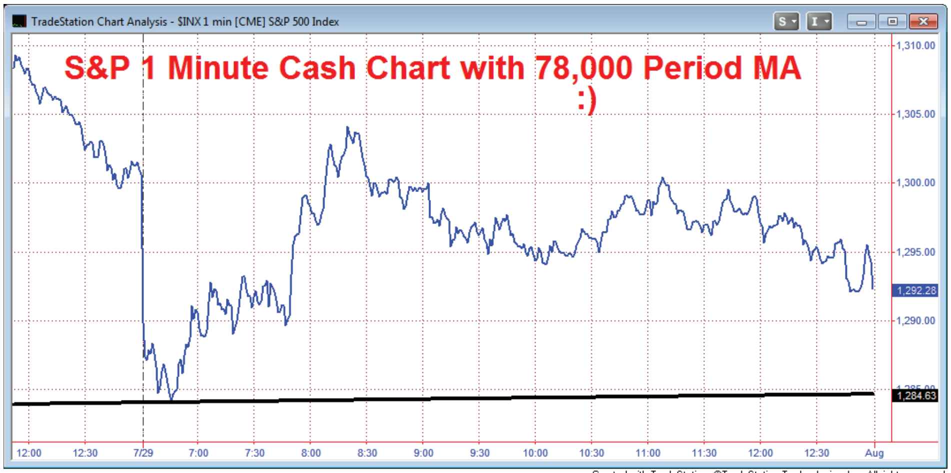
—MARKET PROJECTIONS—

We reviewed the weekly projection charts for the S&P 500 after today's close and came up with the following conclusions. There was a short-term nominal five week downside projection calling for 1287.50 ± 7 points. That was met at today's (July 29) low of 1282.86. There is still a nominal 10 week upside projection calling for 1386.21 ± 13 points. A nominal 20 week downside projection has been in effect since the week ending June 10 calling for a low of 1245 ± 13 points. But in analyzing that projection further today, we noticed that the low of 1258.07 in the week ending June 17 almost exactly reached the upper window of that projection which would be 1258.00. On a strict technical basis, there is also a nominal 40 week upside projection on the S&P calling for 1400.81 ± 14.30. We have less confidence in that projection because of the way it was generated. In any event, those projections plus the nominal four-year upside projections given in the initial section on the cycles are all the projections that remain outstanding for the S&P.



—MUTUAL FUNDS—

We have not yet decided definitively what, if anything, we are going to do about giving recommendations for mutual fund switchers. Ideally, we would like to work out a mechanical system such as the one we are using for our very successful money management, but no final decision has been made in relation to mutual fund recommendations. If you wish to be notified when our final decision is made, please communicate with us and let us know.



We close out our final newsletter with mixed emotions. There is a certain discipline and excitement in following the heartbeat of the market on a daily basis. Chances are we will continue to do that for the rest of our life. The only difference is that we will no longer be making daily commentary on what we see. We want to thank all our subscribers for their loyal support whether it has been for a decade or two or longer or whether it started in the recent past. We look forward to communicating with you in the future. Thanks to all of you for a fabulous ride!