



Stockmarket Cycles Special Report for the Week Ending November 11, 2011

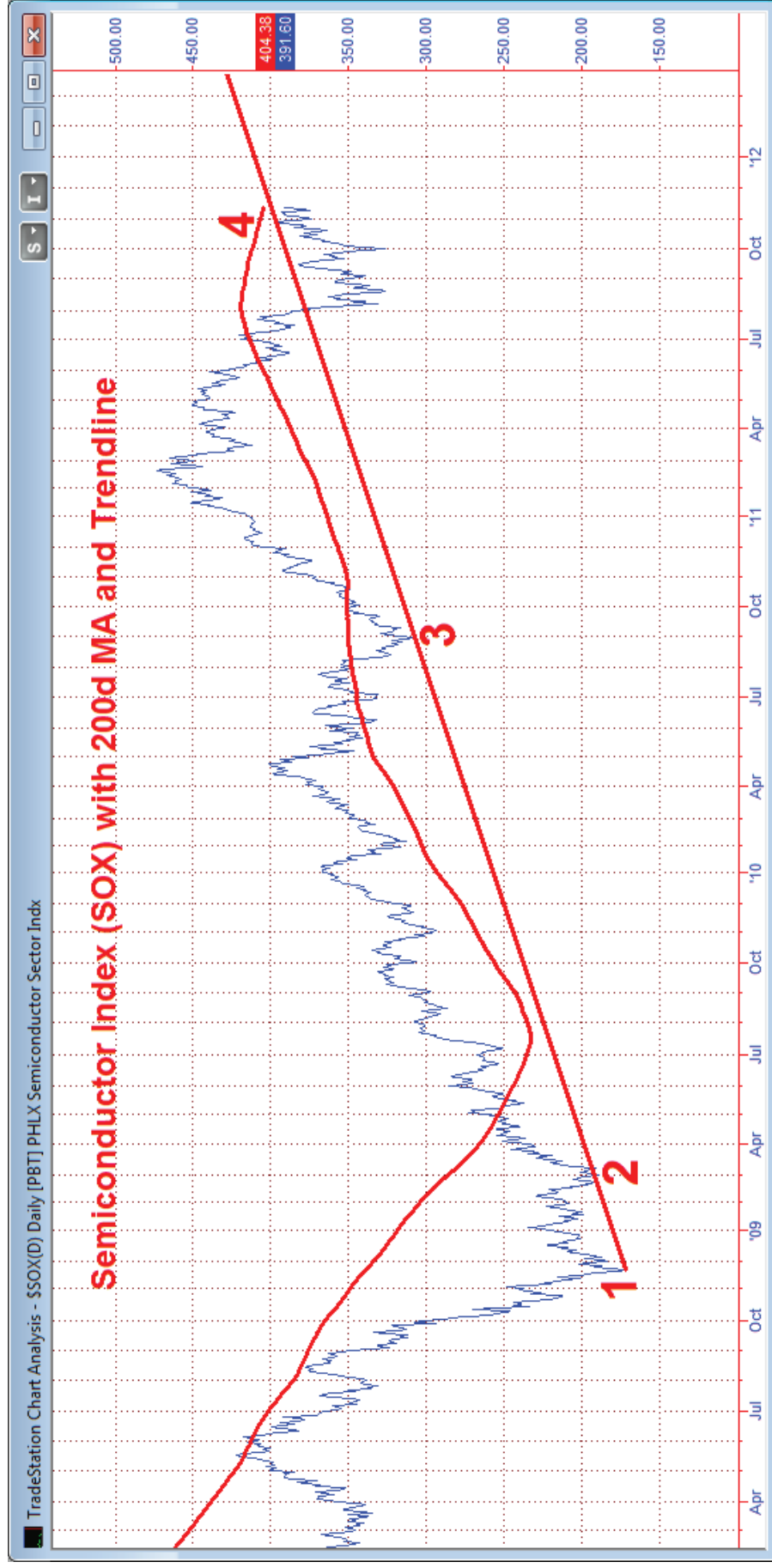
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It has been several weeks since our last report. Frankly, we have been waiting for some of the cycle projection potential contradictions to resolve. Unfortunately, some of the contradictions remain but we felt that enough information had accumulated both technically and projection-wise that an update was warranted at this time.

We should emphasize that even though we consider ourselves to be in at least semi-retirement, we have lost little if any of our passion for the markets. On the other hand, it has been a delight and a relief to be free of the heavy responsibilities of providing a daily market update.

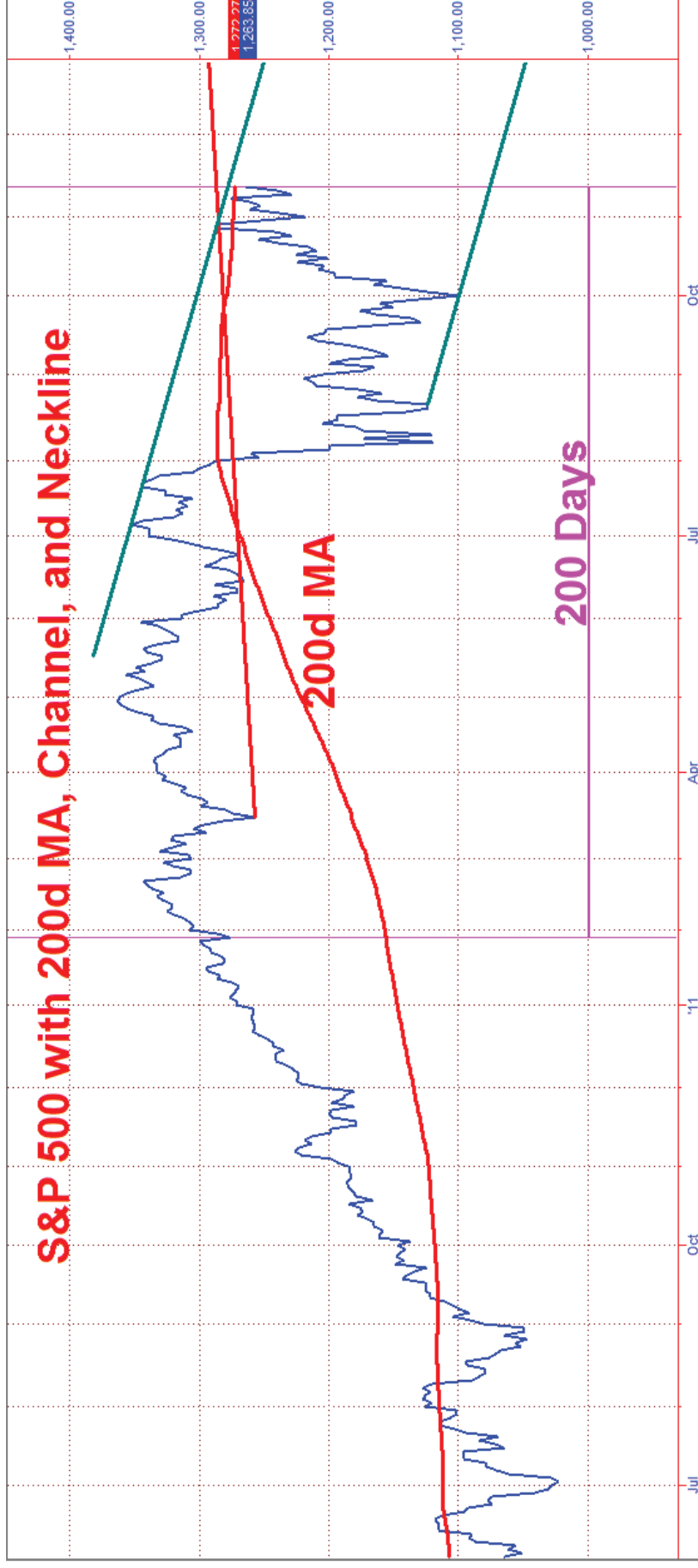
We will begin this report by showing you some of the technical formations that have been materializing over the past several weeks and months.

The first chart is a daily chart of the Semiconductor Index (SOX) accompanied by its 200 day moving average and by a trendline that goes back to the important bottom formed in November 2008. This particular index can be a very important one for technicians because it tends to lead the market. There are actually a few examples of that market leadership visible in the chart. The chart begins in late February 2008 and runs through this past Friday, November 11. Note that the low reached on the chart occurred in March 2009. Conversely, the highest point on the chart occurred in February 2011. That top preceded the top seen in most market indexes and averages by over two months. What interests us most about this chart currently is the appearance of two technical configurations. The trendline through the bottoms on the chart begins at the October 2008 bottom (numbered 1 on the chart) and extends through the bottoms in late February and early March of 2009 (numbered 2 on the chart), and the bottom of late August 2010 (numbered 3 on the chart). The trendline was decisively broken in August 2011 giving a negative technical signal. As a general rule the importance of a trendline break often corresponds in magnitude to the instances of previous lows and the duration between the lows delineated by the trendline. In this case, there were at least three instances of previous lows (realistically you could count the late February-early March 2009 lows as two separate instances which would mean that for lows have been delineated) and the duration between the first low and the last low was around 20 months. It would be easy to surmise the break of that trendline was important technically. A typical technical occurrence after a convincing trendline break is for the market index or average to rally back to the trendline from underneath and find resistance there. As you can see on the chart, that is exactly what



happened at the end of October 2011. That in itself could be a warning that the rally seen from the early October low of this year has been simply a snapback rally within a developing downtrend.

There is other evidence that this might be the case based on the 200 day moving average that is also overlaid on the chart. Technicians often misinterpret 200 day moving averages because they forget, or never knew, that the direction of the moving average is equally if not more important than the fact that the moving average is violated by a break above or below it. For example, note the break below the 200 day moving average that occurred as prices approached the numeral 3 on the chart. Throughout the decline which occurred in the month after the break of the moving average, that moving average continued to rise gently. The general rule is that a break below a rising 200 day moving average is usually a good time to buy and a break above a declining 200 day moving average is usually a good place to sell. The current status of the 200 day moving average of (SOX) is that it is declining. It is,

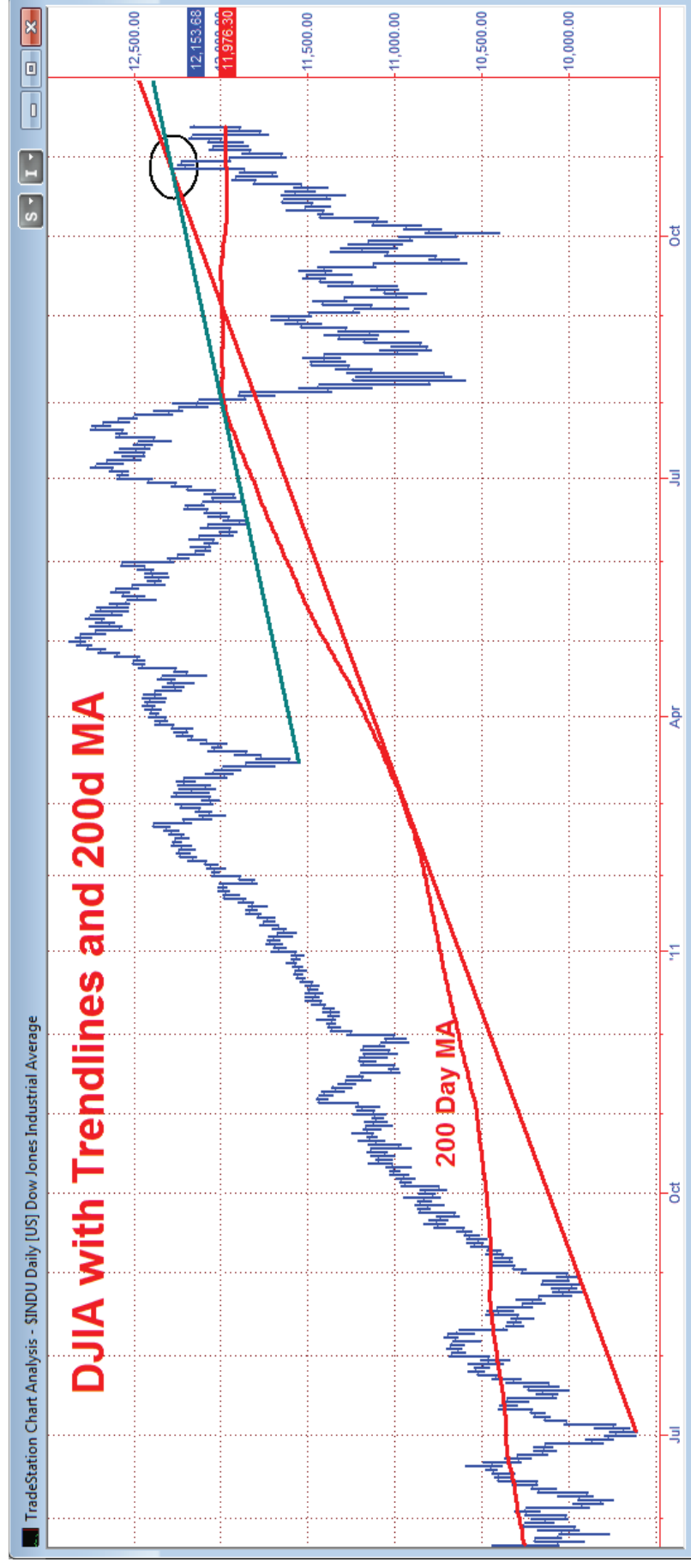


in fact, the first time in almost 2 years that the moving average has been declining. The technical implications are that any move up towards or even above that declining moving average should be treated as sell signals unless or until the moving average turns up again.

The next chart is a daily closing price chart of the S&P 500 Composite Index. That chart is also accompanied by a 200 day moving average and we have added a neckline and a channel for some added potential insight. Let's notice first of all that the 200 day moving average on the S&P 500 has also turned down as of the beginning of August of this year. It was convincingly penetrated in early August and the S&P has now rallied back to that declining 200 day moving average two times over the past two weeks and attempted to reach it once more just yesterday, November 11. We have placed two vertical lines on the chart that are spaced with 200 trading days between them. The second one is placed on this past Friday's closing price and the one to the left occurs in late January 2011 just before a large rally. This gives you an idea that it might be quite difficult to turn the 200 day moving average back to an upward direction because prices would have to rally above the equivalent prices of 200 trading days ago. It gives us pretty

good confidence that the 200 day moving average will continue in a downward direction for at least another month or so.

Contributing to the potentially negative technical configuration is the fact that the S&P also broke beneath the neckline of a potential head and shoulders top formed by joining the low closes in mid-March and mid-June of this year and extending that neckline to the right. In late October, the S&P rallied almost exactly back to that neckline from underneath, another sign of potentially strong resistance. Adding to that resistance is the fact that the upper channel line of a parallel channel formed by joining the closing lows of August 19 and October 3 and placing a parallel trendline from the closing highs of July 7 and July 22—that upper parallel channel line was also reached virtually exactly at the late October closing highs.



The third chart is a daily chart of the DJIA going back to late May 2010. Note that the Dow is slightly above its 200 day moving average and that moving average is currently flat rather than trending down. There is no strong case to be made in either direction based strictly on the 200 day moving average. But there are two other solid technical clues that indicate the Dow could have

reached important resistance at the end of October. The first is a similar neckline of a potential head and shoulders formation formed from the lows of March 2011 and June 2011. The late October high in the Dow returned virtually exactly to that neckline where it found immediate resistance. Adding strength to the potential importance of that late October high is the fact that another trendline going back to the lows of July and August of 2010 also provided resistance at the late October high. In fact, there was an almost exact convergence of the two trendlines and the Dow high on that day as noted by the black oval placed on the chart in the area of that convergence.

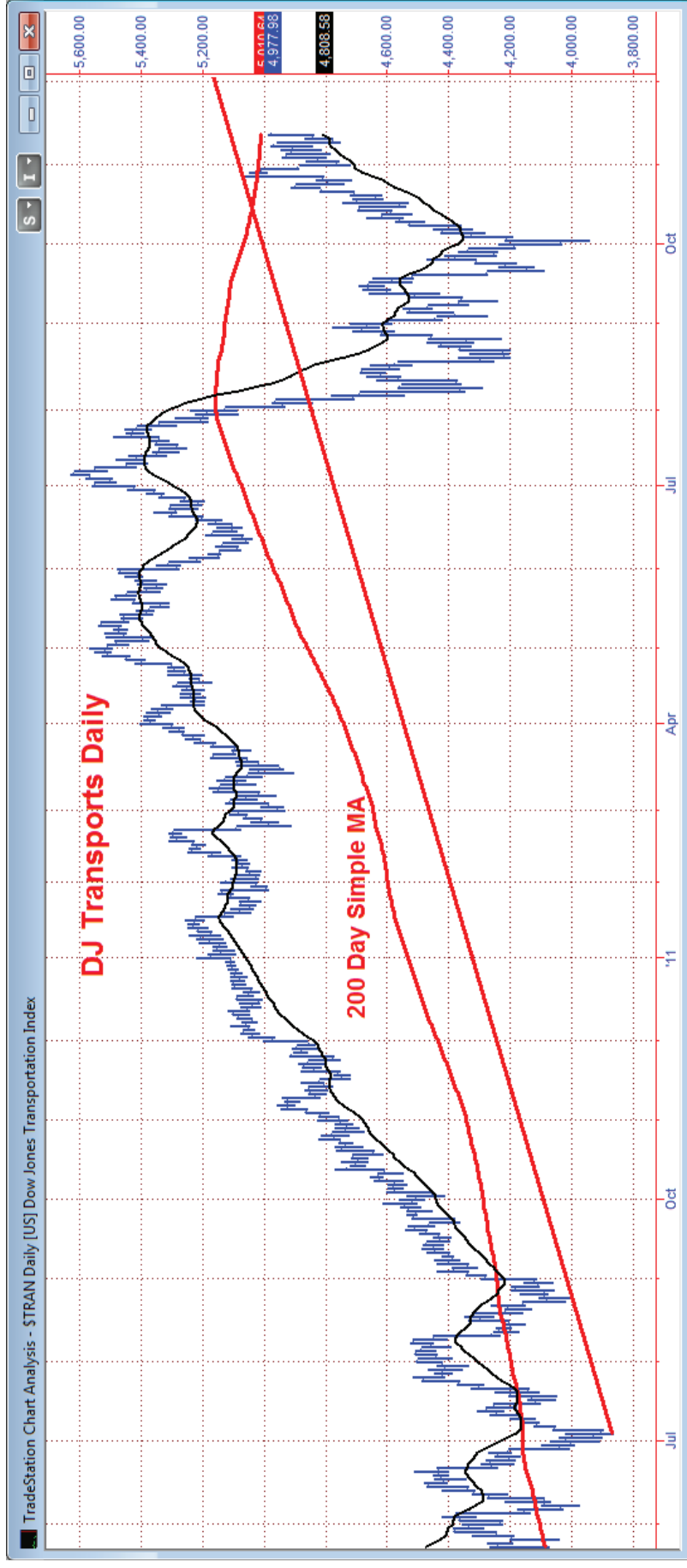


Chart 4 is more of the same. This time the Dow Jones Transportation Average is depicted on a daily chart going back to late May 2010. Notice the uniformity in so many of these technical formations despite the fact they deal with different segments of the market. Once again the average in this case rallied up to a declining 200 day moving average in late October and after a quick decline has rallied back towards that declining moving average. Notice also that the rally took the Transportation Average right up to the underside of the trendline from the July and August lows of 2010 which was decisively broken in August of this year.

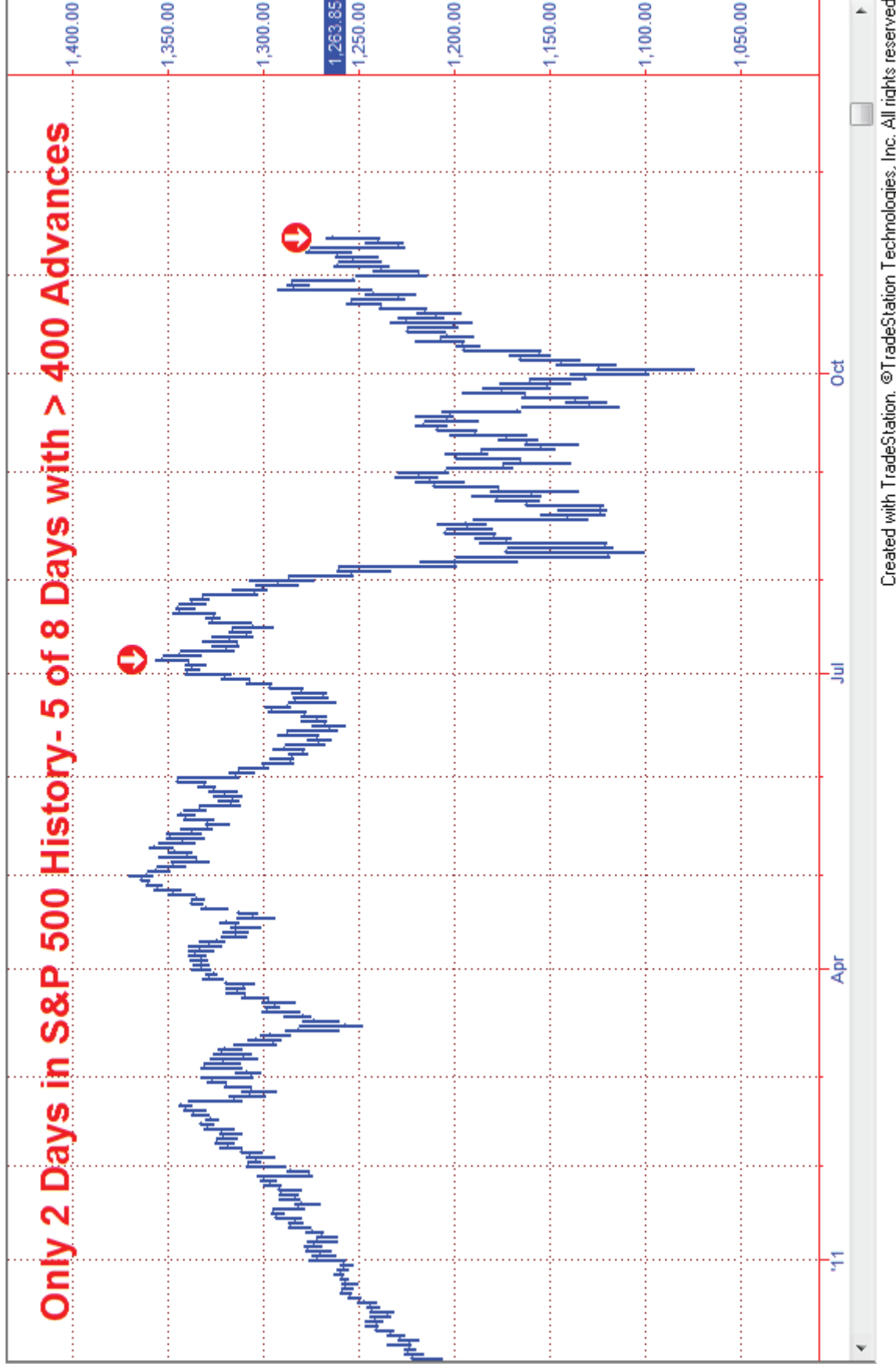


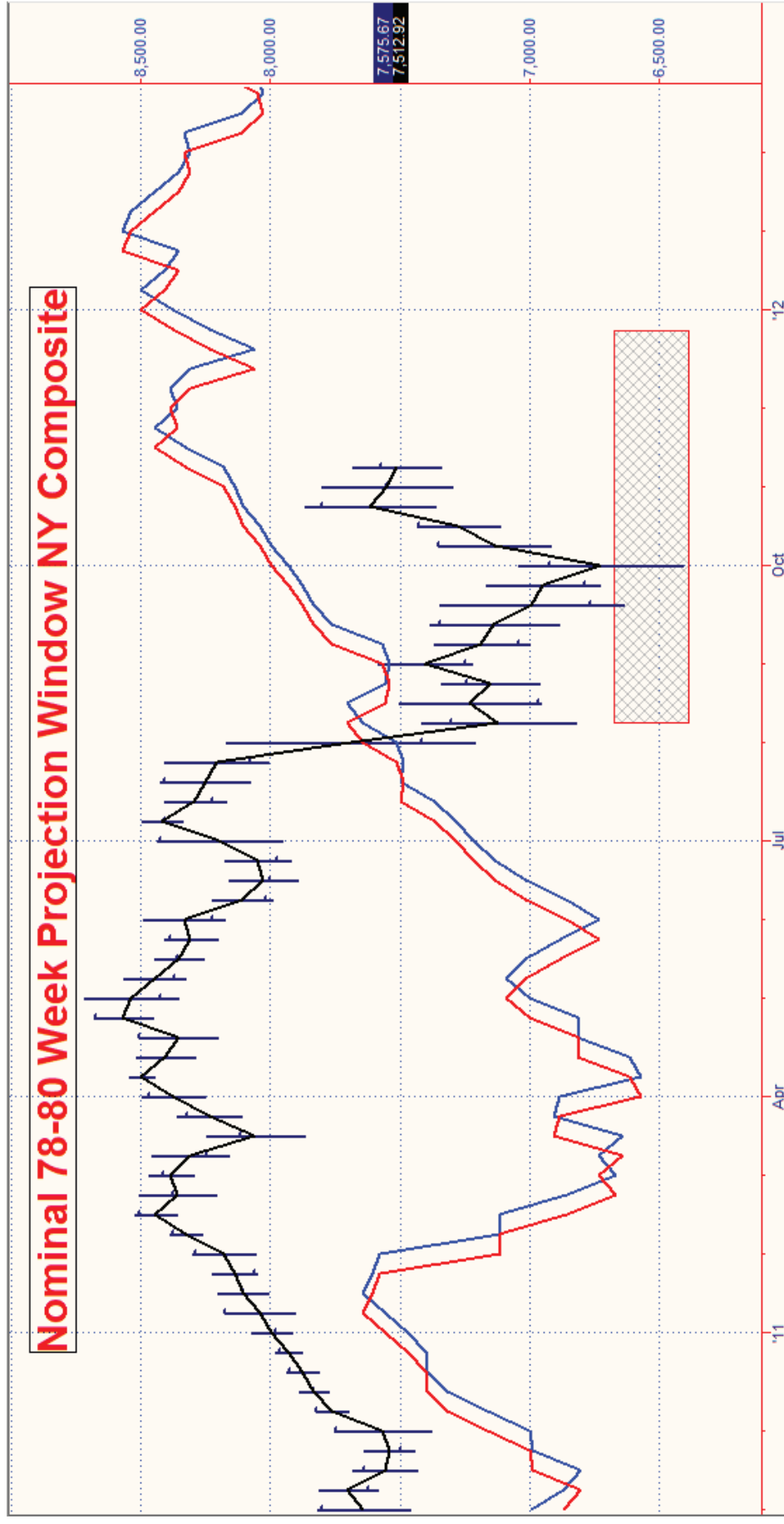
Chart 5 depicts the location of a technical anomaly we noticed in reviewing the breadth data for the S&P 500 index. We should preface this observation by noting that we are not as confident of the accuracy of the S&P 500 breadth data we have as we are in the accuracy of our breadth data from the New York Stock Exchange. We have received that data from different sources over the

years and there are always at least small aberrations and differences between advance decline statistics obtained from different quotation services. That much having been said, we noticed that five of the past eight trading days have seen over 400 advancing issues out of the 500 stocks in the S&P Composite Index. It appeared to us from our experience with the data that this was an unusual circumstance. That curiosity led us to discover how very unusual an occurrence it was. In fact, in the history of our S&P breadth data going back to 1972, we could find only one other instance where there were over 400 advancing issues on five days within a contiguous eight trading day duration. The other day that saw such an occurrence was on July 7 of this year, the exact day of the secondary closing high on most indexes, but perhaps more importantly, the exact day of an all-time high in the daily advance decline line of the New York Stock Exchange and a 13 year high in the daily advance decline line of the S&P 500. Surely, we cannot attach any statistical significance to this coincidence, but would it not be remarkable indeed if this apparently innocuous signpost turned out to have equal significance with the price just registered on November 11? We should point out that the high reached on the New York Stock Exchange daily advance decline line on Friday was the third highest reading in the history of that indicator and the reading on the S&P 500 daily advance decline line was the second highest reading of the past 13 years on that indicator.

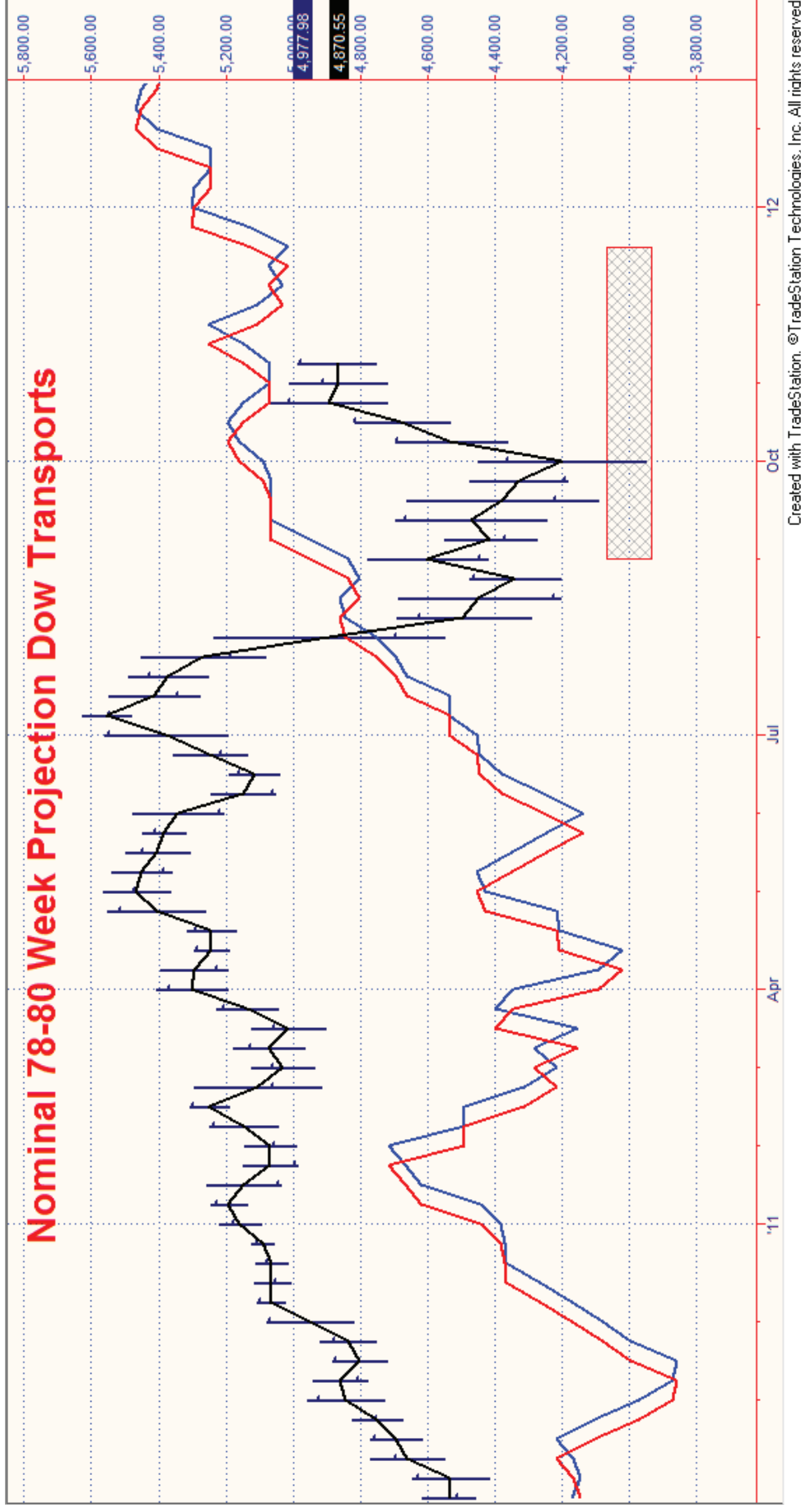
We have often pointed out that important market tops are almost always accompanied by negative divergences in the daily advance decline line. If that continues to be the case in the current situation, it would appear there is little chance we are looking at a potentially important market top. On the other hand, we have often expressed our distrust in current advance decline data so we will not be depending as heavily on the market tradition that insists that important tops must be accompanied by negative divergences on the daily advance decline line. Add to this the fact that our analysis of Terry Laundry's T Theory in relation to the advance decline line reached a conclusion there should be a very important top on that indicator around the second quarter of this year. If that is to hold true, there is precious little room for a further advance in that indicator.

Let's turn now to some of the projection charts. When the market reached its low in early October, some important market averages and indexes were actually meeting nominal 78-80 week projections, but others were not. At the time, we were concentrating on the projections that had been given for the S&P 500. That projection called for a move down to at least 1041 on the S&P 500 Composite Index. The lowest low seen on the S&P in early October was 1074.77 and that fact kept us thinking that there was indeed additional vulnerability to the downside. If you look at a chart of the New York Composite Index, however, it is clear that the equivalent nominal 78-80 week projection on that index was fully met. In and of itself, that was no high confidence indication that a market bottom had been seen, but had we looked at the Dow Jones Transportation Average at the same time, there would have been a higher confidence level that a market bottom might indeed have been registered in early October. See the chart below and notice that the Transports also fully met their nominal 78-80 week projections at the same time as the New York Composite Index was doing so.

As an aside, we should relate to you our experience from the crash in 1987. At that time the DJIA had registered lower nominal 78-80 week downside projections than the lows that were reached October 19 and October 20 of that year. It put us in a position



of waiting for lower lows to be seen for many months after the crash lows. Had we examined the equivalent projection chart for the Dow Jones Transports, we would have noticed that that projection was almost perfectly met at the crash lows. The projection technique and results are so powerful as market analytical tools that they sometimes give us a level of overconfidence that we have to guard against. We have brought that experience to light here because the same lesson applies to the market low registered in October 2011. Neither the Dow nor the S&P 500 Composite Index reached their nominal 78-80 week downside projections but both the New York Composite Index and the Dow Jones Transports fully met those equivalent projections. We have often said that the New York Composite Index tends to give the most consistently accurate projections and the only reason we do not use that index exclusively for generating projections is that few people, ourselves included, follow that index on a day-to-day basis as the Dow Industrials and the S&P 500 are the indexes that are embedded in our psyches.

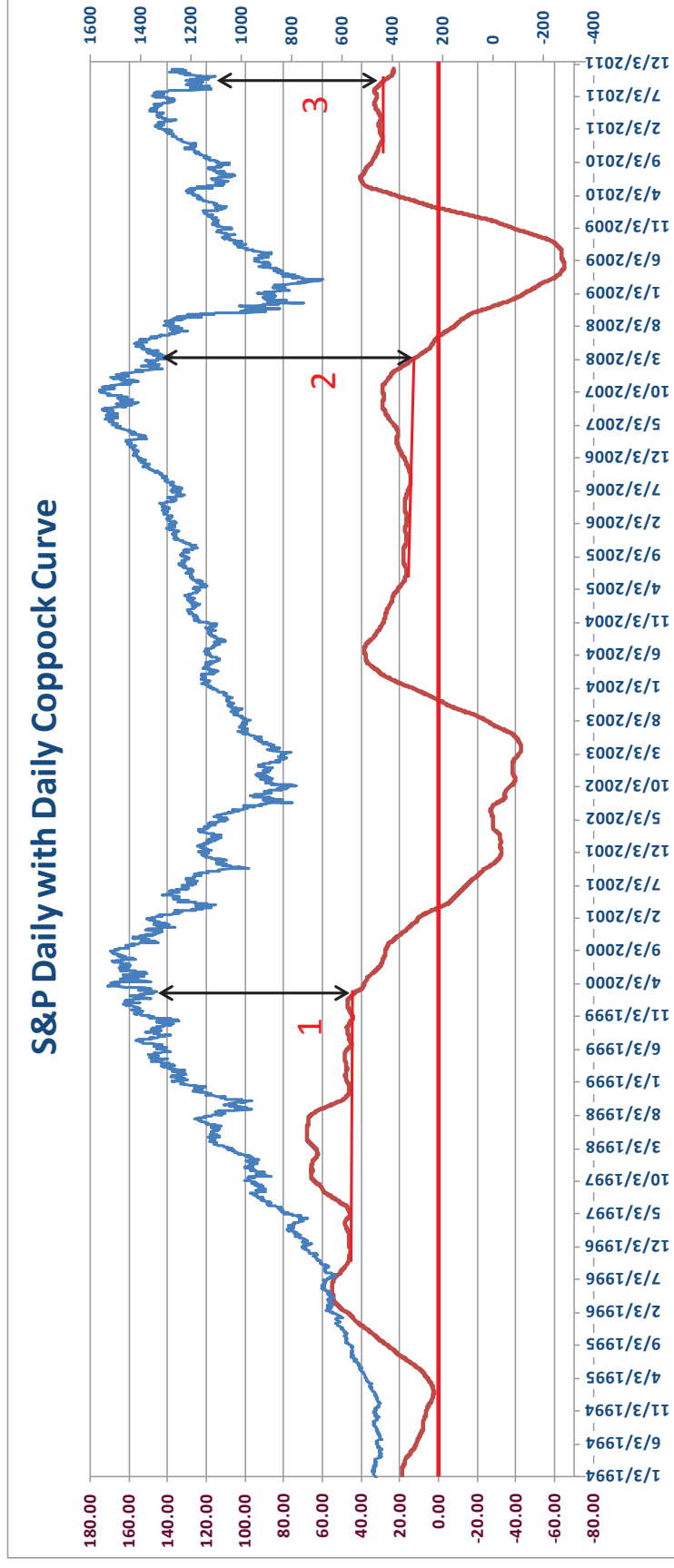


We will end this report with some projection charts to keep your eyes on, but first there is one more technical chart that could be showing us some important information. One of the technical indicators that we helped to popularize over the past few decades is called the Coppock Curve or the Coppock Guide. The indicator is designed for use on a monthly time scale. It's the sum of a 14-month rate of change and an 11-month rate of change, smoothed by a 10-period weighted moving. It was created by E.S.C. (Sedge) Coppock and first discussed nationally in the October 15th, 1962 issue of Barron's. The simple rule is that a buy signal is generated whenever the Coppock Curve turns upward from below the zero level.

We should emphasize that Coppock designed his indicator simply to give long-term buy signals in the market. He said nothing

about potential sell signals in relation to his indicator. There are those, however, including ourselves, who reasoned that an indicator that has been so effective in giving long-term buy signals, especially if one looks at its history since a few aborted signals were given in the 1930s, might also be used to generate effective sell signals. A gentleman named Don Hahn of AG Becker discovered that when the Coppock monthly turned up before moving below zero, it formed a potentially very bearish configuration which he called a "killer wave." His requirement for a killer wave configuration was that the Coppock Curve turn up by 10 points or more from a bottom above the zero level within three months of that bottom. We have written about this wave several times in the past. We have also experimented with a daily version of the Coppock curve using the same summation of the 14 month and 11 month rates of change, smoothed by a 10 month weighted moving average. In the case of the daily Coppock Curve, however, we changed the 10 month weighted moving average into a 210 day exponential moving average (there are an average of 21 trading days in each market month, so a 10 month moving average would translate into 210 trading days). As those of you who have calculated weighted moving averages know, it would have been a tedious chore simply to set up the formula on a spreadsheet with 210 separate terms and the exponential moving average proved to be a suitable substitute.

The resulting chart is presented below. What we noticed on this chart is that if the Coppock turns up before it reaches the zero



level (indicated by the horizontal red line that spreads across the width of the chart) and then forms a horizontal ledge, the subsequent break below that horizontal ledge has led to a couple of precipitous declines. There is one cautionary note, however. It seems that in both prior cases (in late 1999 and in late 2007), the immediate break below the ledge led to a last ditch rally prior to the subsequent deadly declines. In the current time period, that ledge was just broken below around September 23, 2011, and we have been witnessing a rally that began around a week later. Is this another last ditch rally prior to another precipitous decline? Stay tuned!

From the spirit of this report, the overall conclusion is that we could be facing a market top of some importance right here and now. On the other hand (only market analysts and politicians are allowed to use that term, by the way), nominal 4 year upside projections to significantly higher projections remain outstanding. For that reason, we are presenting a chart for DIY (do it yourself) readers who might like to know if those upside projections get invalidated.

Simply follow this weekly chart of the NY Composite Index. Place a bar above the corresponding dated vertical line each of the upcoming weeks with the weekly range of the NY Composite Index. For those of you who are lazy or who simply want an idea as to what is happening in relation to the higher projections, simply place the closing price of the NY Composite Index each week on the corresponding dated vertical line. As long as the price remains above both of the offset lines, the upside projection remains in effect. A weekly median (average of the high and low for the week) on the NY Composite Index below both projection lines would mean that all the nominal four year projections had been invalidated and a far more bearish case could then be made.

We anticipate our next report will be written between mid December and mid-January. Have a blessed and joyous Christmas and holiday season.

