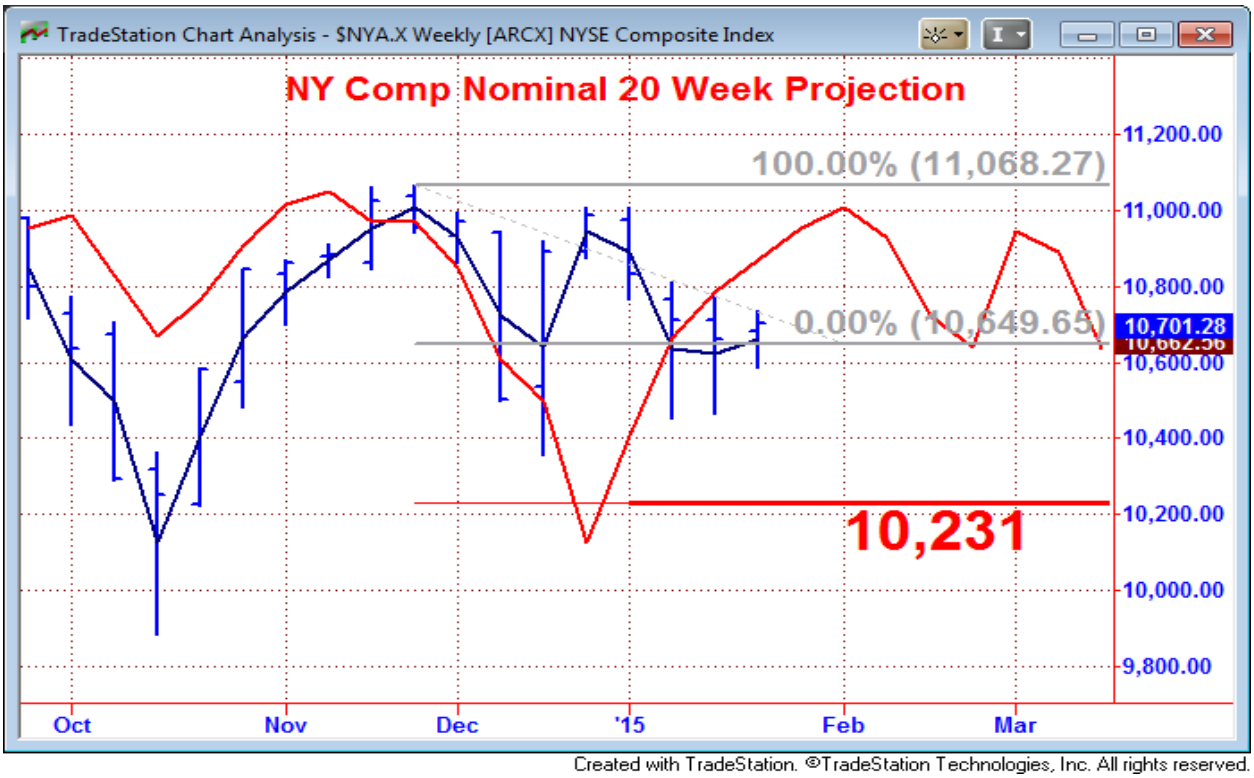
Stockmarket Cycles Report for Wednesday, January 21, 2015

Welcome to 2015! As those of you who have been reading these reports over the past year or longer know, 2015 is set up in so many different ways to mark a stock market top. Potentially, it would be a top of supreme importance and, hard as it may be to believe, some of our studies point to the possibility that it could be a top that might last for a decade or two, or even longer.

Most of today's report will be directed towards a review of the various factors that point to a potential top of great importance scheduled to occur with a focus point between July and September of this year. There are, indeed, some factors that might argue the top we are looking for later this year could already have occurred at the end of 2014. According to measurements of market valuation that we have learned to respect over almost a half-century of experience, the stock market is as overvalued as it has ever been historically. That kind of historic overvaluation might not wait for its ultimate appointment with destiny expected later this year before it implodes.



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

Before we begin reviewing the many factors involved in analyzing the very long term prospects, let's take a look at the market on a shorter-term basis. In late 2010, nominal four year upside projections were generated for the major indexes and averages. Although most of our analysis is directed to the DJIA and the S&P 500, we have noted over the past few decades that the New York Composite Index has

proven to be the most consistently accurate projection generator. Both the DJIA and the S&P 500 have moved well beyond the upper windows of their nominal four year projections over the past year. The upper range of the nominal four year projection for the New York Composite Index, however, was listed as 11,138. Mind you, that projection was given over four years ago. The all-time high on that index was established on September 4, 2014, with a reading of 11,108.39, within a quarter of a percent of the exact high end of the projection. Over the next three-four months after that September 4 high, both the Dow and the S&P 500 continued on to higher and higher all-time highs until reaching what has marked their highest readings all-time on December 29, 2014, just over three weeks ago.

The fact that the New York Composite Index, which incorporates all the stocks listed on the New York Exchange, has failed to confirm those new highs can be considered a sign of negative divergence, although that potentially negative factor is somewhat mitigated by the fact that the New York Stock Exchange daily advance decline line **did** confirm the new all-time highs on December 29 as it also reached a new all-time high on that very day. The projection chart above shows a 10 week offset (in red) used to generate nominal 20 week projections. As you can see on the chart, the decline which began in late November at a high of 11,068.27 crossed below the offset line around 10,649, yielding the most recent projection for that index, a nominal 20 week projection calling for a move to 10,231 ± 84 points. That projection remains in effect as we write this paragraph on Wednesday, January 21, and it suggests that there is further downside risk. In fact, if the projection is met over the next week or two, the next chart suggests that an even lower projection could be given.



Created with TradeStation. ©TradeStation Technologies, Inc. All rights reserved.

The chart above shows the New York Composite Index accompanied by a 39 week offset in red and a 40 week offset in blue. Those offsets are used to generate nominal 78-80 week projections. Notice that we have placed a horizontal red mark at the nominal 20 week projection of 10,231. It should be clear from the chart that if that projection is reached in the next few weeks, a nominal 78 -80 week projection will be given on this chart. It seems from the chart, however, that such a projection would not be significantly lower than the current projection of 10,231.

So much for the current outlook. Now that we have actually entered the year 2015, we will spend a great part of the remainder of this report in reviewing the many reasons why we view this year as a high probability topping year of potentially great importance.



The chart above is among the top five or 10 favorites of ours among the hundreds and hundreds of charts we have published over the past 40 years. It is from our November 7, 2007 newsletter that was published within weeks of the very major top in October 2007. You should be able to zoom in on the chart with your browser and see the details quite clearly. We are not going to go into great detail in explaining the chart. Much of it is self-explanatory, but there are some items involved that could directly relate to the year 2015.

One of the points made by the chart is the proliferation of 150 month time spans between important market turning points. The very first one on the chart encompasses the 150 month time span between the September 1929 market top and the April 1942 market bottom. Those were both supremely important market turning points. In fact, if readers are technically oriented and wish to find other important 150 month time spans between important market turns, we promise they will be richly rewarded. We tried it ourselves this past week and found several more significant turning points at 150 month time spans. Notice that there are a few time spans that are plus or minus one-two weeks but the

patterns are very clear and there are very few major market turning points that are not delineated by a prior important market turn around 150 months earlier. With that in mind, we can theorize that if the next major top will be around 150 months from a prior important turn, it could well be related to either of the two important market bottoms registered in October 2002 and March 2003. The former month would lead to April 2015 as the end of the 150 month span while the latter one would lead to September 2015 as the end of the 150 month span. If we allow for a ± two months margin of error, then the whole time span between February 2015 and November 2015 would be a candidate for a major market top.

Now let's examine another pattern on this chart, one that is quite fascinating because of its almost perfect forecasting record in the 78 year time span between 1929 and 2007. We discovered, in fact, that we made a minor mistake when we first constructed the chart above. At that time, we noted that the time span between the September 1929 market top and the June 1962 market bottom was 394 months. In fact, it was 393 months based on the months in which the turns were recorded. In terms of actual time span between the days of those turns, however, it would be accurate to say the time span was 393.5 months, so calculations based on either of those time spans should prove generally accurate. Let's proceed with some Fibonacci calculations based on the 393 month time span.

September 1929 - June 1962	393 months		
393 × .382 = 150		June 1962 + 150 months =	December 1974
393 x .618 = 242.9		June 1962 + 242 months =	August 1982
393 x 1.00 = 393		June 1962 + 393 months =	March 1995
393 x 1.382 = 543.126		June 1962 + 544 months =	October 2007
393 x 1.618 = 635.87		June 1962 + 635 months =	May 2015
		June 1962 + 636 months =	June 2015

You would be hard-pressed to find five more important long-term market turning points than September 1929, June 1962, December 1974, August 1982, and October 2007. They truly represent three of the most important bottoms and two of the most important market tops in history. The two tops represented preceded the two greatest magnitude market declines of the past century. In real time, the March 1995 date may seem like it does not belong with the others in terms of importance, and that is probably true in terms of identifying an important market top or bottom, but one glance at the long-term monthly chart above should make it clear that March 1995 marked an almost exact breakout and acceleration to the upside that began one of the greatest and longest upside explosions in market history.

These Fibonacci time spans are but one more reason why we can mark 2015 as a prime candidate for a potential top of great importance. Let's move on to the next pattern which is perhaps the most compelling of them all.

The next pattern is one that we have written about for several years now. It was suggested to us by a subscriber or reader of our newsletter who sent us the following note on February 5, 2008.

Peter,

Thought you might be interested in this 33 year cycle I discovered. If the final peak isn't in yet, it should be by the summer. A major bear market is due if not already started.

Jay Sanderson Reliablestockcycles

Needless to say, the message caught our attention as did the pattern that was suggested by the message. We have attempted to contact Mr. Sanderson several times over the past few years without success. If you google him, it appears he was making active market commentary online back in the time when he sent me the above message. The information I will provide for you below combines some of the basic facts first provided by Sanderson along with many of my own discoveries in relation to the pattern. The fact that it has been in existence for over 200 years leads us to believe it may be the most important key of all in pointing to a potential top of great importance. We discovered that, when properly characterized, this pattern has led to market tops of great importance, tops that have lasted, on average, over two decades! Let's begin our review of this remarkable pattern.

There was a basing pattern in the early 1800s that one could argue ended in February 1802. In fact, our data show that the market never again moved below the lows registered that month. If you move forward 33 years and three months, it takes you to May 1835. That month is a distinguished month in the first half of the 19th century because the May 1835 high remained an important market high for the next 28 years! This is the first 33 year pattern that we can identify with our long-term database and, needless to say, the results were compelling.

The next instance of the pattern began in October 1857 at that very important bottom. The bottom registered in October 1857 led to a top 32 years and seven months later in May of 1890 according to Sanderson. Our data from the **Foundation for the Study of Cycles** showed the top coming somewhat earlier but the integrity of the pattern remained. That top was not significantly surpassed until 14-15 years later

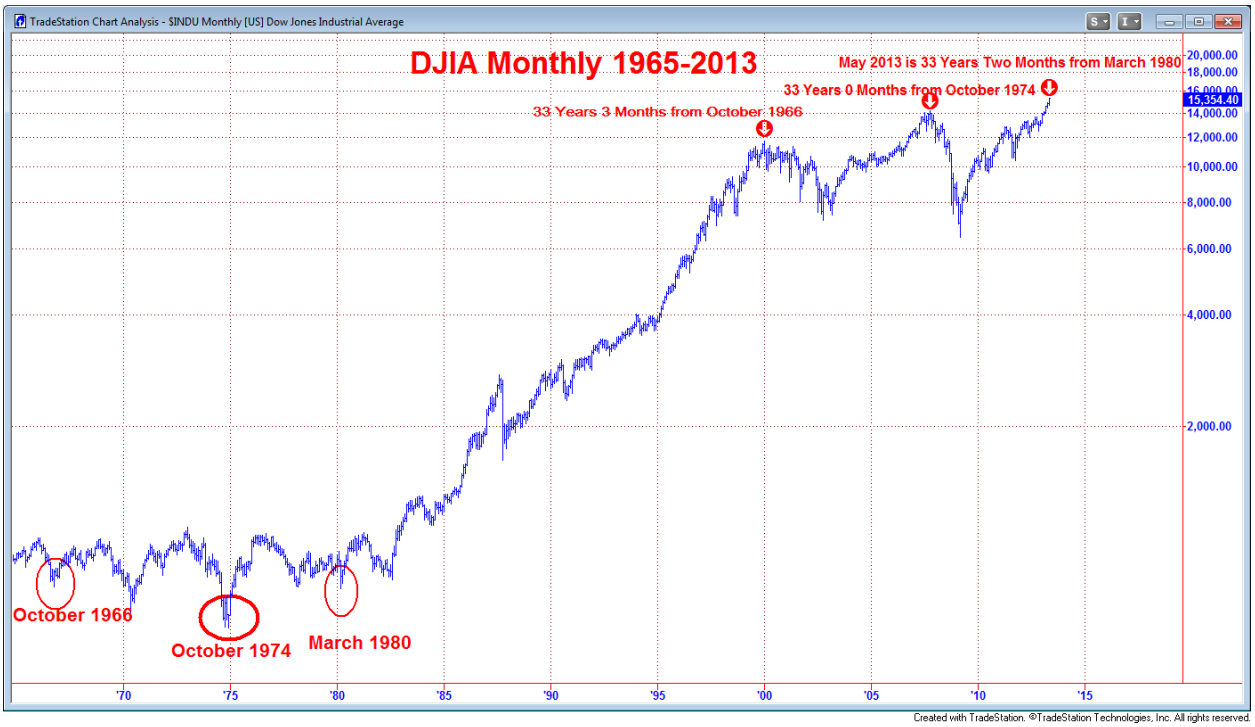
There was an important market bottom in August 1896 which led to the major top in September 1929, 33 years and one month later.

Most of you are acquainted, at least historically, with the major bottom in July 1932 which led to the top registered in February 1966, 32 years and seven months later.

This is where things get interesting. In a report published in May 2013, we looked at the major market lows of October 1966, October-December 1974, and March 1980. We had already seen the approximately 33 year pattern work successfully from the October 1966 low. If you add 33 years and three months to that bottom, it takes you to January 2000, the month that the DJIA reached an important top. The S&P 500 and the NASDAQ composite took an extra two months to reach their major peaks, spreading the time span out to 33 years and five months.

The next time span was equally successful as the October-December 1974 bottoms led to one of the most important peaks of the past century as judged by the magnitude of the subsequent decline. That peak occurred in October 2007, leaving behind it a time span of exactly 33 years if we measure from the October 1974 bottom and 32 years and 10 months if we use the December 1974 bottom.

By the year 2013, it appeared that the tops produced in 2000 and 2007 were followed by different price action than the preceding tops at the end of these 33 year patterns. It was at that time that we theorized that there might indeed be three intertwining 33 year patterns that followed the three major bottoms in October 1966, October and December 1974, and March 1980. It was at that time that we publish the following chart



We appreciate the fact that the writing may appear small but you should be able to zoom in on the chart with your browser and read the writing clearly. At the time we published this chart, we thought the measuring stick for the beginning of the final 33 year period in the sequence might well begin from the March 1980 bottom. There were reasons at the time that we used that bottom rather than the August 1982 bottom as the beginning of the measuring stick. The fullness of time has confirmed that the March 1980 bottom did not produce a top of importance around 33 years later. Even if we allow a leeway of six months in either direction, the March 1980 low would have called for a major market top between September 2012 and September 2013. In retrospect, it is clear that no such important top was registered.

It now becomes very clear, however, what the only remaining measuring stick can be if this incredibly consistent and successful pattern, a pattern that has endured for over 200 years, continues. August 1982 was the month that marked the exact and obvious end of the basing pattern that had

begun in October 1966 after the February 1966 top. That February 1966 top, as noted above, marked the end of the 33 year pattern from the very major low in July 1932.

In retrospect, the picture seems to be clarifying. The prior market bottoms in this pattern were solo affairs that led to solo peaks or tops in the market. This major basing pattern which lasted well over a decade consisted of a group of market bottoms around the same general price range. The one thing that has been lacking in these last two 33 year patterns beginning in October 1966 and October 1974 has been the importance of the subsequent market tops. Although, indeed, both of the subsequent tops preceded very substantial market declines, their personalities were different from the prior market tops in the pattern because of their inability to sustain themselves over a decade or longer.

The pattern now has a final chance to prove itself. The so-called solo bottoms of 1802, 1857, 1896, and 1932 produced tops which lasted for 28 years, 14 ½ years, 25 years, and 17 years, respectively. That averages out to just over 21 years. Is it possible the pattern will live up to its predecessors? If so, we can expect a market top in 2015 that might last until 2036! Granted, it sounds very hard to believe, especially in light of the market history most people have been blessed with over the past 40 years or so. We just want to make it clear that such an apparently inconceivable outcome would only be a repetition of four or more such patterns that have been repeating for over 200 years.

If we use August 1982 as the last candidate for the beginning of a 33 year count for the pattern, where does that leave us? What was the average length of the four patterns that began in 1802, 1857, 1896, and 1932 from bottom to top? The average length of those approximately 33 year patterns turns out to be 394.5 months. That is 1.5 months short of an exact 33 years and if we count that time span off as measured from the August 1982 bottom, it would take us to June-July 2015.

There is more. Cycles master George Lindsay always looked for a B-B-T (bottom-bottom-top) or L-L-H (low-low-high) count at important market tops. Simply stated, there should be a B-B time span followed by an equivalent time span after the second bottom that leads to an important high. We mentioned some possibilities in our report a few months ago, but now that 2015 is upon us, they bear repeating. The last two major lows occurred in October 2002 and March 2009, a time span of 77 months. If we measure forward 77 months from the March 2009 bottom for a potential topping zone, it takes us to August 2015.

The time span between the October 1990 bottom and the March 2003 bottom is 149 months. Add 149 months to the March 2003 bottom and you come up with August 2015.

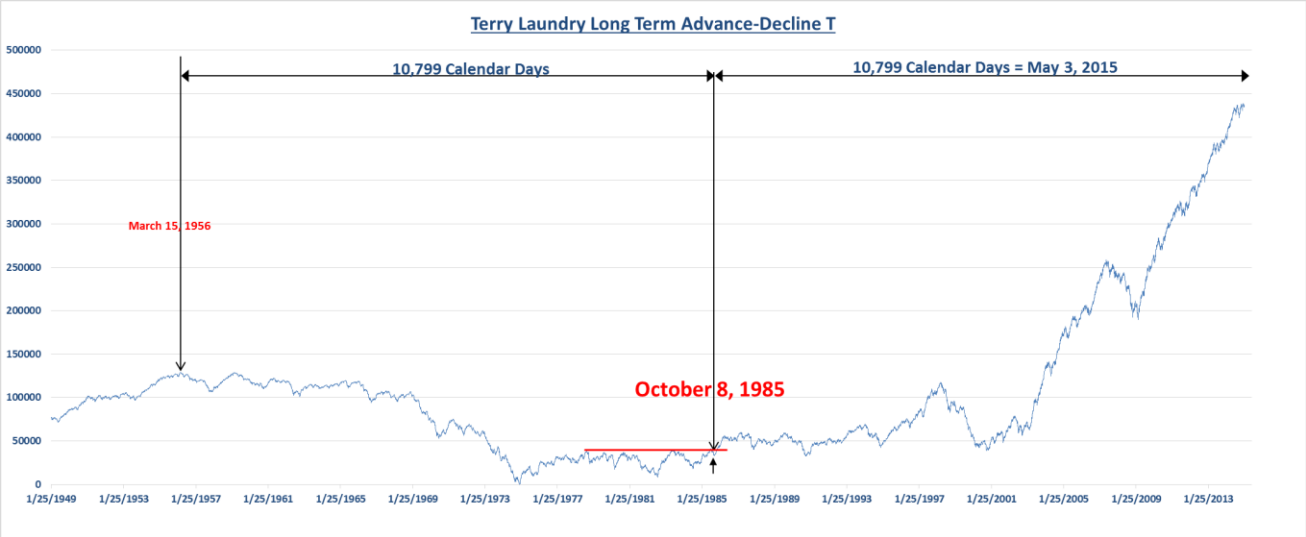
Here's one that fits in with our 33 year pattern discussed at length about. There was a distance of 398 months between the major market lows registered in June 1949 and August 1982. Add 398 months to August 1982 and it takes you to October 2015.

At this point, we have but one more "trick" up our sleeve. My market "buddy" Terry Laundry and I exchanged newsletters for the better part of 35 years. I greatly admired Terry's intellect and originality when it came to market analysis. He was best known for his "T" Theory which, on a very simplified basis, claimed that there was a cash build-up on the left side of a T which corresponded with a subsequent advance on the right side of a T. Terry passed away in July 2012, but his work will live long after him. Terry thought that the daily Advance-Decline line of the NYSE was a good surrogate for the

overall market and useful in determining when long term trends are due to end. Below is a long-term daily chart of the advance-decline line going back over 60 years.

The one potentially tricky part of T analysis was determining the initiation and termination points of the left side of a T. That, of course, is critical in order to determine the equivalent length of the right side of a T which would determine where a long-term trend would end. Over the past several years, we have used various potential points for determining the time span of the left side of the T. Only one possibility remains. Terry felt that if there was a basing period around the center post of a T, the last possible location for the centerpost would be the low just prior to the breakout from the basing period. Although it is difficult to make out details in the chart below (there are 16,715 individual daily data points represented), we can tell you that the low just prior to the breakout above the basing range (the top of the basing range is represented with a horizontal red line on the chart) on the chart occurred on October 8, 1985. The left side of the T occurred at the March 15, 1956 high on the a-d line. Between that left side of the T and the centerpost, there were 10,799 calendar days. If we measure out an equivalent 10,799 calendar days to the right of the centerpost in order to determine when the overall pattern was due to culminate, it take us to May 3, 2015.

The alternate method of measuring would entail using market days rather than calendar days. Using that analytical method yields a result of 7,430 days between the left side of the T and the centerpost and that equivalent number of days from the October 8, 1985 centerpost date leads to the date of March 30, 2015. Remember, both of these results attempt to determine the topping date for the daily advance-decline line, and then remind yourself that the a-d line almost always reaches a high before an important high on the major averages. Either date, March 30, 2015 or May 3, 2015 would leave plenty of time between those dates and the dates noted above for potential market tops on the major averages and indexes.



We have been noting over the past several months that our most probable scenario would entail seeing an intermediate term decline of some substance over the intermediate term followed by a

move close to or above prior all-time highs in the prime time periods noted above as we see important divergences between market indexes and the advance-decline line.

Finally, we should note that we would not be surprised to see a “Sign of the Bear” signal given as the market approaches a final top. We will not go into the details of such a signal now, but we will be watching closely for the possibility of such a signal over the remainder of this year. The signal will not come quickly if it comes at all because it requires a full month of daily a-d figures to meet the parameters required for such a signal.

There is, of course, no way to be sure that a major top will be seen this year although we believe the evidence for such a top is remarkably strong and comes from a myriad of different analytical techniques. Without becoming alarmist, it would likely behoove all of us to be prepared for very difficult market and economic conditions over the next decade and perhaps much longer. We hope to be able to guide you through the dangers and detours over the foreseeable future.

Peter Eliades

Stockmarket Cycles