Stockmarket Cycles Report for Friday, March 20, 2015

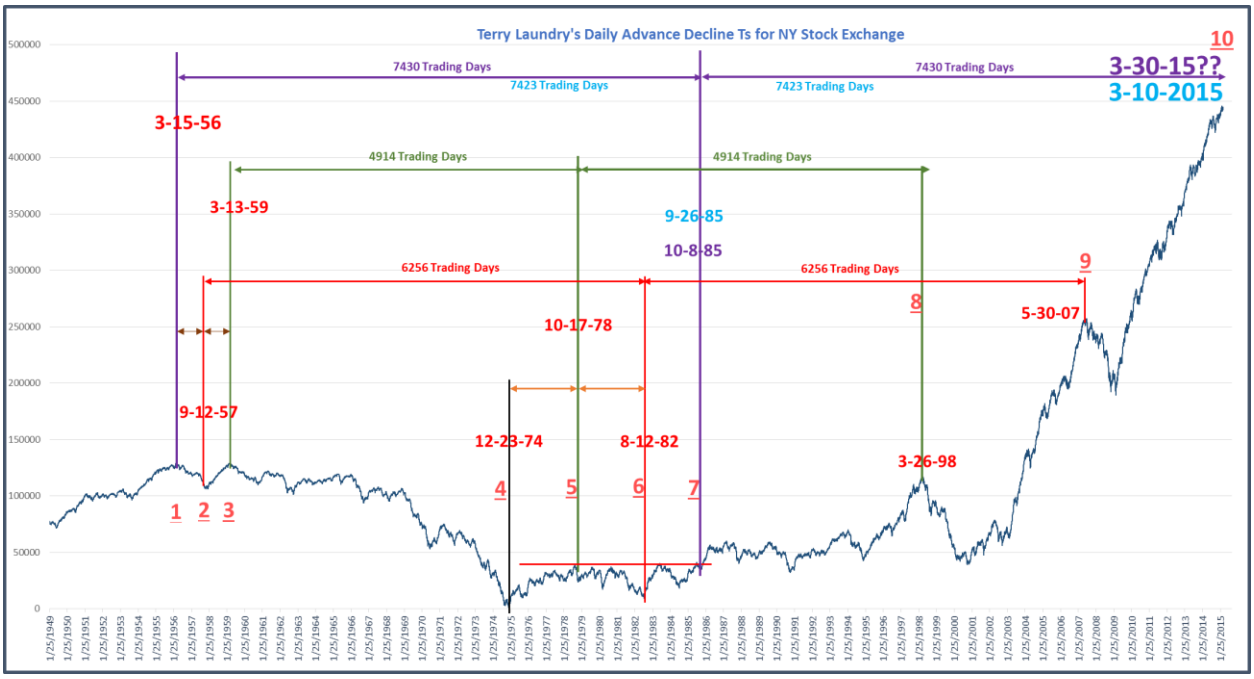
We believe the stock market is on the "inside edge" of a time span that could well prove to be one of the more important time spans in market history. We appreciate the fact that market prognosticators love to make dramatic forecasts and we acknowledge the fact that the great majority of dramatic forecasts end up in that huge trash bin labeled, "Stupid Market Forecasts." With that in mind, however, let us elaborate on our opening sentence.

As we will detail below, we are relying on our interpretation of Terry Laundry's **T Theory** to define this month of March 2015 as the "inside edge" of a time span that will theoretically extend out for another three to seven months. Typically, the daily advance decline line will reach a peak prior to a final price peak in the popular averages. We are about to show you why we believe a top of paramount importance is being reached on the advance decline line. The "outside edge" of this critical time span will occur with the price highs on the S&P 500 and the DJIA. In our January report we gave you a myriad of reasons why the final price highs could be expected within the next seven months. Later on in this report we will review some of those reasons.

Before we go into our current interpretation of Terry Laundry's **T Theory**, it is only fair to disclose to those that may be reading our musings for the first time that there have been prior time zones over the past few years when we felt the advance decline line could be reaching a major top. Once you understand the mechanics of the theory, however, it should become clear how such an interpretation was made and how we almost surely are now reaching the last possibility for a final top of great importance in the advance decline line if there is indeed validity to Terry's theory as applied to the advance decline line.

At this point, we are going to present a chart that we have spent a lot of time on, an updated and more detailed chart describing the time patterns related to Terry Laundry's **T theory.** Below the chart we will repeat an explanatory section from a report we wrote in October 2013.

T



Terry Laundry passed away in July 2012 but he left behind a legacy of genuinely original, creative, and, at times, brilliant market work. We have often commented on Terry's work in our newsletters over the past few decades and over the past few years we have used his T Theory to analyze the daily advance decline line of the New York Stock Exchange. Although Terry and I were market "buddies" for over 30 years, we never met personally. We spoke on the phone often, exchanging ideas, and in the few years before his death we often communicated via Skype.

I mentioned Terry now because the string is running out in terms of possible tops for the longest term Ts according to Terry's T Theory, and as a tribute to him, I hope to present to you a chart depicting the prior successes of his advance decline Ts along with a chart depicting what I believe are the last two possible dates for a very major top in the daily advance decline line of the New York Stock Exchange. Prior to viewing the charts, we will use a few paragraphs to explain as best we can Terry's T Theory, especially in relation to the advance decline line.

Terry's basic premise is that there are ways of measuring cash buildups that generally occur during market declines as people are selling, and those cash buildups comprise the left-hand side of the letter T. Once the cash buildup ends, a rally begins and the distance from the center post of the T to the right side of the T where market tops occur matches the distance from the beginning of the cash buildup to the center of the T. In other words, the length of the left-hand side of the T determines the length of the right hand side of the T where market tops are formed. Although the theory is far more sophisticated than this simplistic explanation, the simplistic interpretation would simply say that a market rally lasts as long as the preceding decline. Terry has experimented by using different advance decline oscillators and volume oscillators over the years to determine the length of the cash buildup, i.e. the left-hand side of the T. But one of the easiest ways to measure Ts is to use the cumulative advance decline line of the New York Stock Exchange. In the chart [above], we will attempt to show you how eerily accurate these advance decline Ts can be. We should emphasize that the following analysis is not necessarily Laundry's

own interpretation of his theory, but we had long discussions with Terry for a year or longer preceding his untimely death and we pointed out to him how his theory pinpointed to within four trading days the top of the advance decline line in 2007, a top which ultimately led to the second worst bear market of the past 100 years.

The chart above shows the daily advance decline line of the New York Stock Exchange going back to 1949. Let's examine how Terry's Ts led to the most important tops in the advance decline line of the last several decades. One of the things that Terry discovered over the years is that the center post of some Ts is best located at the midpoint of two market bottoms rather than at the first or second bottom individually. As we started to experiment with time spans using his T Theory, we also found that some Ts are best measured by starting the left side of the T at a point midway between a double top rather than at one individual top or the other. We also noticed that sometimes locating at a midpoint between two tops or two bottoms worked best but at other times, more accurate results were obtained from using an individual top or bottom rather than the midpoint of those tops or bottoms. Let's give you one more general rule before we get to the application of the theory. In determining where the center post of the T should be placed, the general rule is that a center post is placed at the first bottom which leads to a higher high than the high seen between the current low and the low preceding it. So, for example, the 1974 low (vertical line 4) which is the lowest point on the chart is not a good candidate for the center post of the T because the rally following the 1974 bottom failed to move above the high between the 1970 and 1974 bottom.

One could argue that the 1982 bottom (vertical line 6) was a candidate for the center post of a long-term T because the rally after the 1982 bottom appeared to at least match if not slightly surpass the high between the 1974 and 1982 bottoms. In reality, one could argue that either the 1982 bottom or the midpoint between the 1974 and 1982 bottoms(vertical line 5) would be good candidates for the center post of a T and we will show you momentarily how well each of those choices worked in pinpointing a future top in the advance decline.

The chart above, as noted earlier is a daily chart of the cumulative advance decline line of the New York Stock Exchange going back to 1949. Notice the long-term basing pattern which formed between the lowest point on the chart on December 23, 1974 (vertical line 4) and the low on July 24, 1984 (the low between vertical lines 6 and 7). There were three distinct lows formed during that basing pattern. The dates of those lows were December 23, 1974, August 12, 1982, and July 24, 1984. Although the 1974 low turned out to be the most important one, it was not a prime candidate for the center post of a T because the advance which followed that bottom did not move above the highs established between the preceding two lows, namely the 1974 low and the 1970 low.

The first real candidate for the center post of a large advance decline T according to our understanding of Terry's theory occurred at the August 12, 1982 low (line 6) in the advance decline line. That low was followed by a high on June 16, 1983, that slightly surpassed the highest point achieved between the lows of 1974 and 1982, namely the high of September 11, 1978 (high just before vertical line 5).

The question now becomes what date should be used for the left-hand side of the T. There are three candidates. There was an almost exact double top on the daily advance decline line registered on March 15, 1956 and March 13, 1959. Each of those is an obvious potential candidate for the left side of the T. Because those tops formed an almost exact double top, however, one could argue that the exact midpoint between the two highs could be used for the left-hand side of the T. That exact midpoint is the

date of September 12, 1957 (vertical line 2). Now we need to measure the time period from the August 12, 1982 centerpost of the T back to the September 12, 1957 midpoint of the two major tops. These measurements can be done either with calendar days or trading days. There were 6256 trading days on the left side of the T. If you measure forward another 6256 trading days from the August 12, 1982 center post to determine the resolution for the right side of the T, the calculated date turns out to be May 30, 2007 (vertical line 9). The exact all-time high on the daily advance decline line of the New York Stock Exchange prior to what was arguably the second worst bear market in modern United States stock market history occurred on June 4, 2007, just three trading days away from the calculated date! Mind you, this calculation covered a time span of almost half a century from the left side of the T in 1957 to the right side of the T in 2007. Was it a coincidence? That is always a possibility, of course but let's continue to look at the data associated with the chart and see if we can argue that the other important top on the advance decline line that occurred on April 3, 1998 and followed the basing period between 1974 and 1984 could also have been determined by a long-term T. When there are different candidates for the left side of the T and the center post of a T, all of the possible combinations and permutations should be examined. For now, let's give you the combination that worked. For the left side of the T we will use the peak of March 13, 1959 (vertical line 3) and for the center post we will use the midpoint between the 1974 and 1982 bottoms (vertical line 5). Remember that the 1974 bottom did not qualify as a center post candidate because of the explanations given above. The exact center of those two bottoms was October 17, 1978 and that is the date we will use for the center post of the proposed T. There were 4914 trading days between March 13, 1959 and October 17, 1978. That time span represents the left side of the T. If we measure another 4914 trading days from the October 17, 1978 center post, the calculated right side of the T, would be March 26, 1998. Six trading days later, the advance decline line reached an exact peak which preceded its sharpest decline of the prior 25 years. Another coincidence? Of course, it remains a possibility, but the theory has now been shown to identify the two most important tops in the advance decline line over the past 30 years within just a few trading days.

We are now faced with the most important task of all. With the exception of the market decline from October 2007 to March 2009, the advance decline line of the New York Stock Exchange has seen one of the great rallies in market history beginning in the very early 2000s and lasting to the current day. As we are preparing this report on October 22, 2013 (that's when this explanatory report was written), the daily advance decline line has reached yet another new all-time high.

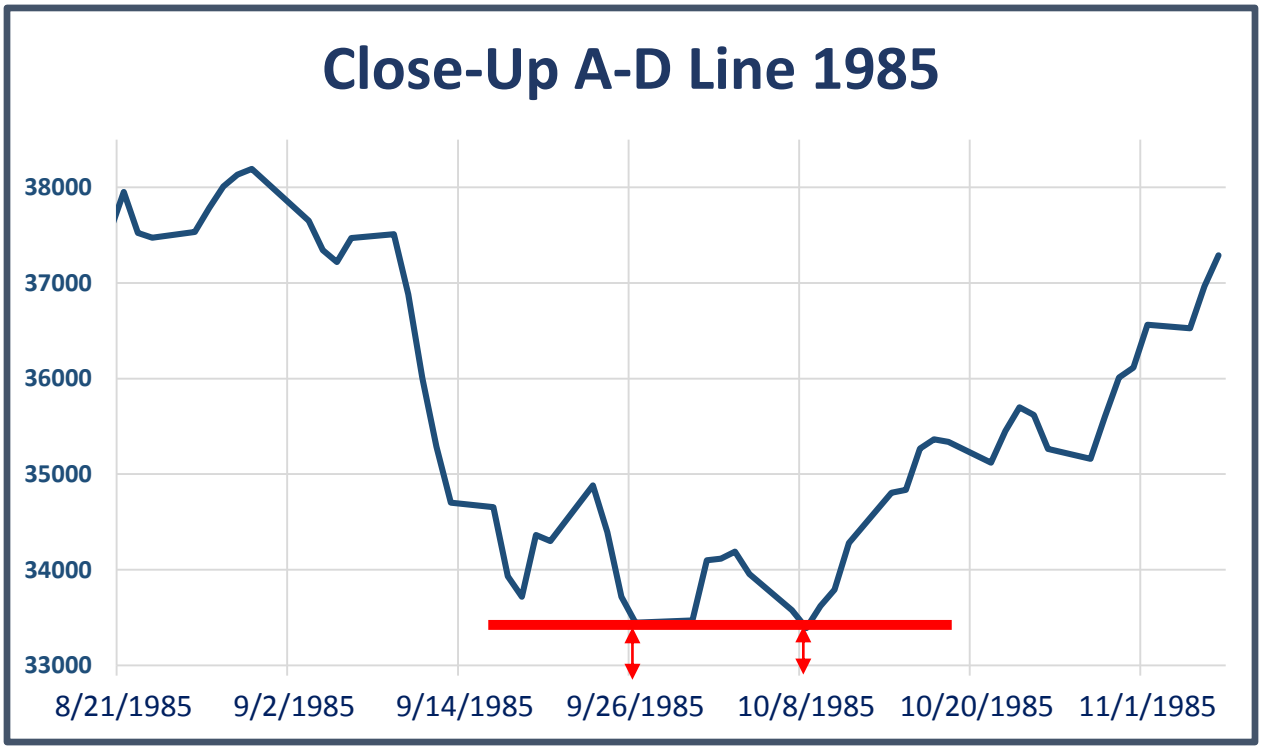
We noted earlier that all potential candidates for the left side of a T and the center post of a T should be examined. We have been doing that over the past two years as regular followers of our publications are aware, but the advance decline line has yet to be halted by any of the dates calculated to be the potential right-hand side of the largest T in history, a T that could lead to one of the more important tops in market history. We are quickly running out of candidates for potential tops. As far as we can determine, there are only two remaining possibilities. They both revolve around using October 8, 1985 (vertical line 7) as the center post of the mega T. Examine the chart and note that October 8, 1985 marked a bottom which finally led to a convincing break above the resistance that had been formed from the late 1970s to the mid-1980s in the advance decline line. We have drawn that resistance line on the chart (the red horizontal line between vertical lines 4 and 7. As far as we can see, there are only two remaining possibilities. Both of them involve using October 8, 1985 as the potential center post low of the T. The one that is of immediate interest to us now is the T whose left-hand side would begin at

[vertical line 2], the exact midpoint between the 1956 and 1959 tops in the advance decline line. That exact midpoint occurred on September 12, 1957. If we measure the left-hand side of the T in trading days, it comes to 7053. That would predict a final high on the advance decline line on September 27, 2013. If we measure the left-hand side of the T in calendar days, there are 10,253. Adding that number of calendar days to the October 8, 1985 center post gives us a date of November 3, 2013.

We now know in retrospect that a new all-time high on the daily advance decline line was actually reached on October 29, 2013, just four trading days before the potential top of November 3, and that October 29 high lasted for almost 2 months, but when it was decisively broken in the last few days of 2013, it became obvious that there would be but one more opportunity to prove the effectiveness of our interpretation of Laundry's **T Theory** in relation to the advance decline line, and that final opportunity was well over a year beyond December 2013.

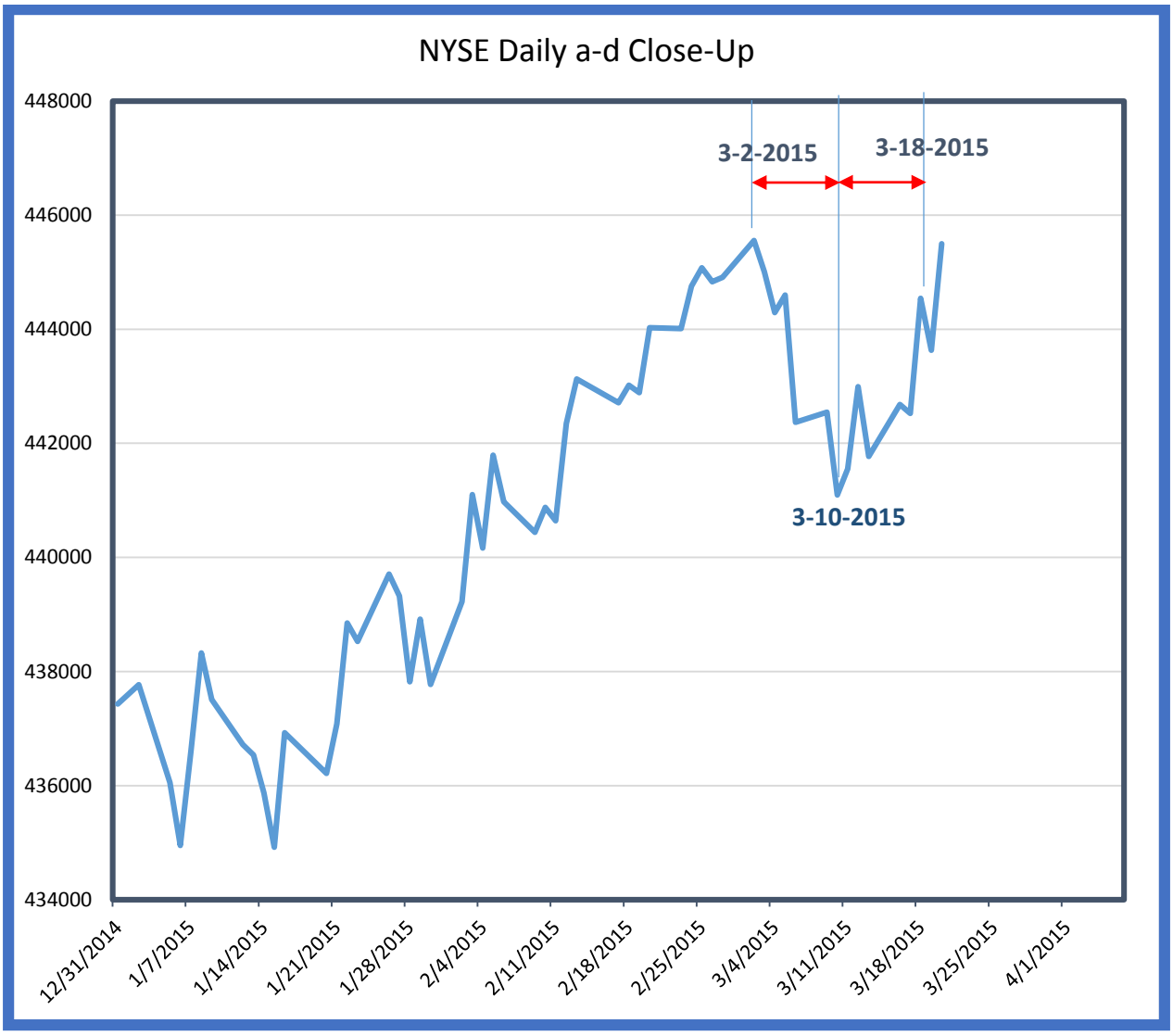
As we noted above, November 2013 was the penultimate date that could be calculated from Terry Laundry's theory. It would be more accurate to say, however, that it is the penultimate date that can be calculated from **our** interpretation of Terry's theory. As you have probably gleaned in looking at the chart, the only remaining time span resolution after November 3, 2013 would use the furthest point on the left, March 15, 1956 (vertical line 1), in combination with the furthest point on the right, October 8, 1985 (vertical line 7). That combination would lead to a resolution on March 30, 2015 when calculated on a trading day basis and May 3, 2015, when calculated on a calendar day basis.

That is the extent of the detailed explanation we gave in our October 2013 report. Most of it has remained intact although we have updated the text in several instances in order to correspond more closely with the updated detailed chart near the beginning of this report.



There is a further, albeit slight, modification on this last and largest advance-decline T. In reconstructing the chart and double checking the data this time around, we noticed that the October 8, 1985 low that

preceded the final break above the more than decade-long resistance represented by the horizontal red line between lines 4 and 7 on the chart could actually be viewed as a double bottom in association with the low of September 26, 1985. That would, of course, slightly change the calculation for the termination point of the right side of the T. That alternate calculation is placed on the detail chart at the beginning of this report and it lists the number of trading days from March 15, 1956 to September 26, 1985 as 7423. If we count forward a corresponding 7423 trading days from September 26, 1985, it takes us to March 10, 2015. The final short-term alternative would be to use the midpoint between September 26, 1985 and October 8, 1985 for the calculation and that would lead to the midpoint between March 10 and March 30, namely March 20, 2015.



The chart above shows the daily New York Stock Exchange advance-decline line from the end of 2014 through yesterday, March 19. We found it interesting that one of the calculated top dates as indicated above, namely March 10, 2015, falls exactly in between the recent all-time high in the daily advance decline line on March 2 and the recovery high of the March 18. In other words, despite the fact that the

real possibility that a final top on this indicator may not be seen until the end of the month or a little later, a realistic alternate interpretation is that the final top has already been seen on the daily advance decline line of the New York Stock Exchange.

We cannot overemphasize the potential importance of the current time zone. On several levels, stocks are as overvalued as they have ever been in history and the fact that a technique that has virtually pinpointed the last two important tops in the daily advance decline line over the past few decades is now calling for the real possibility of a final top on that indicator within a week or two of today's date should be alerting us to possibly grave dangers that lie ahead in this market. The pattern we are discussing here has been forming over a period of time just short of six decades. The major double tops that occurred in 1956 and 1959 were not convincingly surpassed for another 45 years!

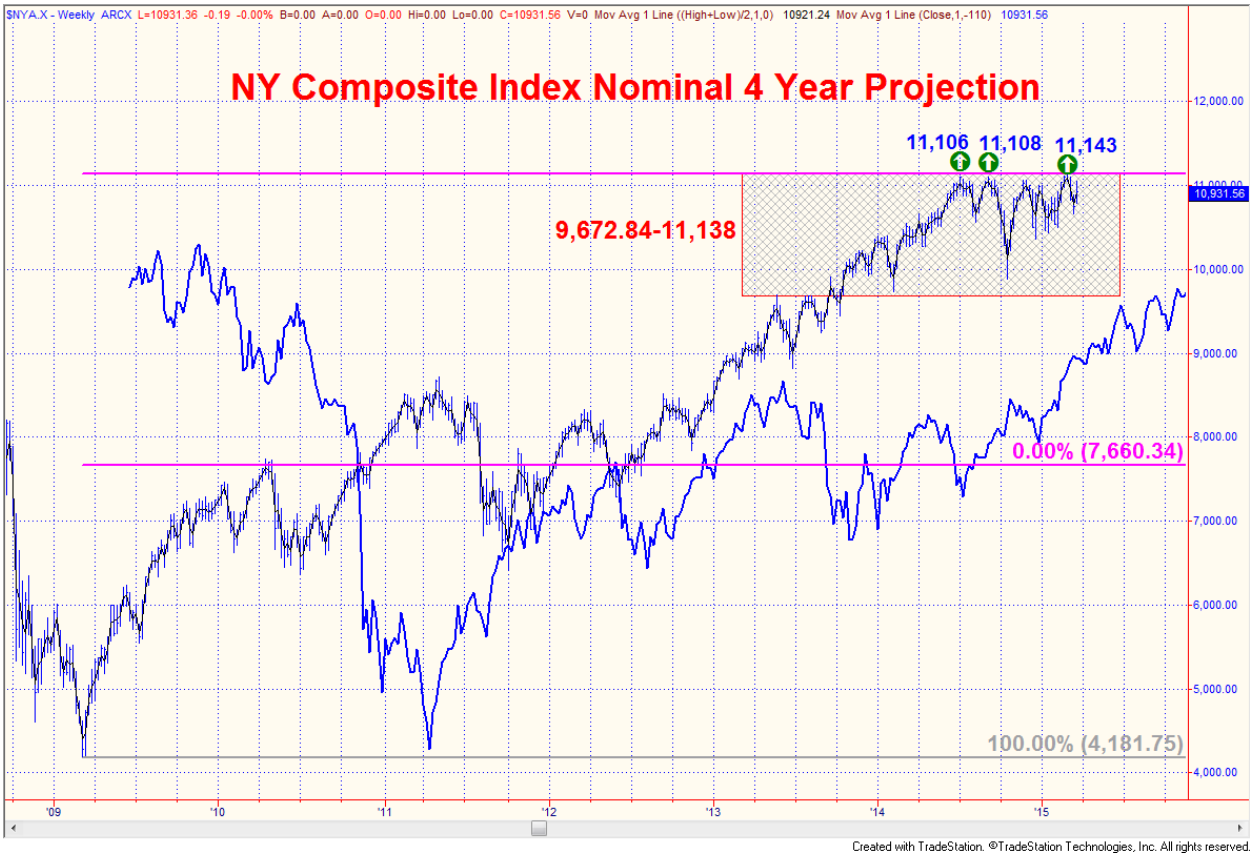
Let's be clear. A top in the advance decline line will almost surely **not** coincide with the very major top we expect to see in the popular indexes and averages this year. A good case can be made that those price highs will not be seen for several more months. But when the advance decline line reaches a final high, it marks the beginning of the end because fewer and fewer stocks will then participate in future rallies.

The most likely market scenario from current levels should see an intermediate-term market top between early March and early May that leads to a 5 to 10% decline in the popular averages. The rally that follows such a decline, should it occur, will be the market's death climb, probably lasting into summer or early fall and it will likely move some of the popular averages into new all-time high ground. The difference will be that there should be growing negative divergences and no positive confirmation from the advance decline line. We will be far more confident that a market top has formed if what we call the "Sign of the Bear" is witnessed. We will not go into the details of that indicator now but we can tell you that it consists of a full month (at least 21 trading days) of churning market conditions whereby neither advances nor declines see a daily ratio of 2 to 1 or greater in their favor. The pattern is usually accompanied by the popular averages moving to multiyear or all-time highs. We will go into the details if we see such a pattern begin to form.

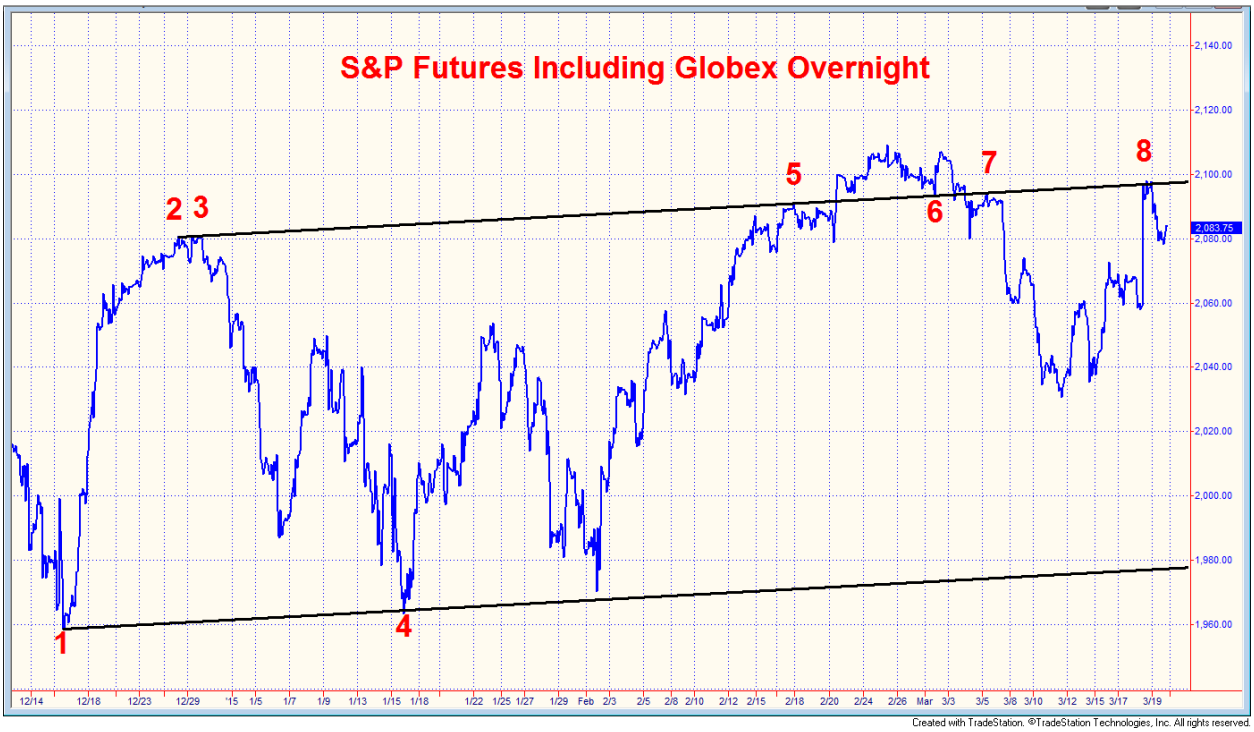
So much for the pattern in the daily advance decline line. What are our other tools telling us about the current market picture? In our January 21 report, we showed you a nominal 20 week projection chart of the New York Composite Index that showed a downside projection to 10,231. Since that projection was generated, there was a move back above the projection line which invalidated the downside projection. In the past few weeks, the failure of the market to initiate a sustainable trend has caused several projections to be given and invalidated and the overall projection picture is somewhat murky. We often say that when contradictory projections are being generated we turn to the New York Composite Index as it tends to be the most consistently accurate projection generator.

Take a look at the nominal four year projection chart for the New York composite index that is depicted below. Before we discuss it in more detail, we should reiterate that the nominal four year upside projections for the Dow Jones Industrial Average and the S&P 500 have long ago been reached and surpassed. That is not the case with the New York Composite Index. Take a look at the shaded area in the chart below between the projection window of 9,672.84 to 11,138. Amazingly, that projection has been in effect since the week ending November 12, 2010, well over four years ago. The projection is calculated by using weekly offsets of 100 weeks and 110 weeks and noting where the price action crosses above the projection lines. In this case the 110 week offset, which is the one depicted on the

chart below, shows the index moving above the offset line at a price of 7660.34. The preceding low was 4181.75, so if 7660.34 is the halfway mark, the market would have another 3478.6 points to reach its upside projection. That would mean the furthest upside projection (the furthest because 110 weeks is the longest offset for a nominal four year projection) would call for a price between 11,138-11,139. In July of last year, the New York Composite Index reached a high of 11,106 within a quarter of a percent of the projections upside window that was generated almost 4 years previously. Since then, the index has reached virtually the same level on two other occasions. In the week ending September 5, it reached 11,108 and just three weeks ago it reached a new all-time high of 11,143. There are, of course, no assurances that new highs above this potential triple top will not be reached. But in line with the detailed analysis presented above in relation to the advance decline line, it would not be surprising if this level turns out to produce an important top whose neighborhood might well be revisited later this year.



We believe the next chart will provide a good roadmap for the market over the next few weeks. It is presented here as a parallel channel, although it is indeed an unusual one. Note that the definition of the channel was formed between the mid-December low and the mid January low. Those three or four points determined the slope and the width of the channel and the market has been paying attention to them ever since. After the formation of the mid-January and early February lows, a dynamic rally began quickly bringing the price up to the top of the channel which stopped it dead in its tracks on February 17. After a high level consolidation for a few days, however, prices made what appeared to be a convincing break above the upper channel on February 20.



By February 25, new all-time highs at been registered for two or three consecutive days but then prices stalled once again. On March 2 the upper parallel channel line provided support for the decline which ended at .6 on the chart. Another rally ensued taking prices to within two points of the all-time high that was established on February 25. Once again, however, prices stalled and in the next decline between points 6 and 7 on the chart prices broke below the upper parallel channel, moving down 30 S&P points.

On a technical basis, the break back below the upper parallel channel could be viewed as a negative signal and, after the low established between point 6 and point 7, it was important to note whether a move back above the upper parallel channel could be quickly reestablished. A rally indeed occurred, but as you can see on the chart, it stopped virtually exactly at the upper parallel channel line at point 7 on the chart from which point it began a more substantial decline. That decline ended on March 11 and once again an attempt was made to break back above the upper parallel channel line. Once again that line proved to be important and the rally from the March 11 low stopped virtually exactly at the upper parallel channel line. That line has now become an important delineator for judging future market action. Since mid-December it has proved to be either exact support or exact resistance on six separate occasions. A break back above that line would imply that the market could well move up into at least the end of the month when the advance decline line could be meeting its appointment with destiny around March 30. On the other hand, a failure to break above that line over the next several days could well be telling us that we have already seen a major top in the daily advance decline line and that the market could well be facing an intermediate term decline of several percent.

In dealing with a market as overvalued as this one, it is always wise to treat every short-term top as a potential top of great importance. We are reasonably confident that a final major top in this bull market will not be seen until later this year, but if there are surprises to be seen, we believe those surprises will be to the downside. By surprises, we are not talking about a 5-10% decline. That would fit into our tentative scenario of an intermediate-term market decline before a moved to a final top of great

importance later this year. By surprises, we mean waking up one morning to see the market down 10% and realizing a very important top has already been seen. We emphasize that such a scenario is not at all our prediction, at least not in the current time zone. It is simply the kind of surprise that could well be seen because of the market's virtually unprecedented overvaluation.

Our next report will be published at some point over the next 4-6 weeks depending on market action. If something completely unexpected should occur, we will, of course, publish sooner.

Peter Eliades

Stockmarket Cycles