



April 4, 2008	
End of Week # 1738	
DJIA	12,609.42
CI	1414
NCI	1593
Ratio	0.971
S&P Ratio	0.969

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**—THE CYCLES—**

We believe the charts on the first two pages of today's newsletter are extraordinary in terms of the amount of information presented and the remarkable manner in which the market has for over 30 years conformed to and molded itself around a single straight line drawn on a semi-log chart. We have placed the digits 1-9 at various spots on the chart in order to discuss its importance over the past three and a half decades. The line begins at the very major bottom registered in December 1974 on the Dow Jones Industrial Average at an intraday low of 570.01. We do not mean to imply that this line could have been drawn with authority at any time prior to the 2002-2003 market bottoms. Now, however, it has taken on importance because we can recognize how important it has been in the past. The number 1 has been placed under the oval that circles the beginning of the trendline in December 1974. For the first four years of the bull market which began in December 1974, prices remained comfortably above the line. The first time the line was tested was in early 1978 at the early March bottom in that year. That low is seen midway between the numbers 1 and 2 on the chart. Over the next two years prices alternated above and below the line. An important bottom was reached in March 1980 which can be seen just prior to the number 2 on the chart.

An explosive rally began at that low but from July 1980 through June 1981 the market could not move itself convincingly above the line despite the fact that every single

month over that time span saw prices that reached the line but were unable to close above it on a monthly basis. Beginning in June 1981, prices began to fall away from the line once again and culminated in the market low registered in August 1982 between numbers 2 and 3 on the chart. Another explosive rally began but once again the line became a rigid barrier to all market advances. For 10 months, from April 1983 to January 1984, the market struggled again to move above the line but failed to do so. That cluster of months can be seen below the number 3 on the chart. Once again, prices fell away from the line and moved to a market low in July 1984, seen just below and to the right of the number 3.

From that bottom, the bull market which began in 1974 prepared to move into its acceleration phase. In February 1986 the market exploded above the line of resistance and began an extraordinary market phase which was to see prices remain above the line for the next 20+ years. Even the greatest 2 day crash in the history of the Dow could not create enough downside momentum to cause a monthly close below this extraordinary line. The crash bottom is seen above the number 4 on the chart. As you can see, prices did creep below the line in October, November, and December 1987 but after that the line became as strong a support line as it had been a resistance line through the first six years of the 1980s. In 1988, the year following the crash, the lows in the months of February, May, August, September, and November all came down to the line and were supported almost exactly there.



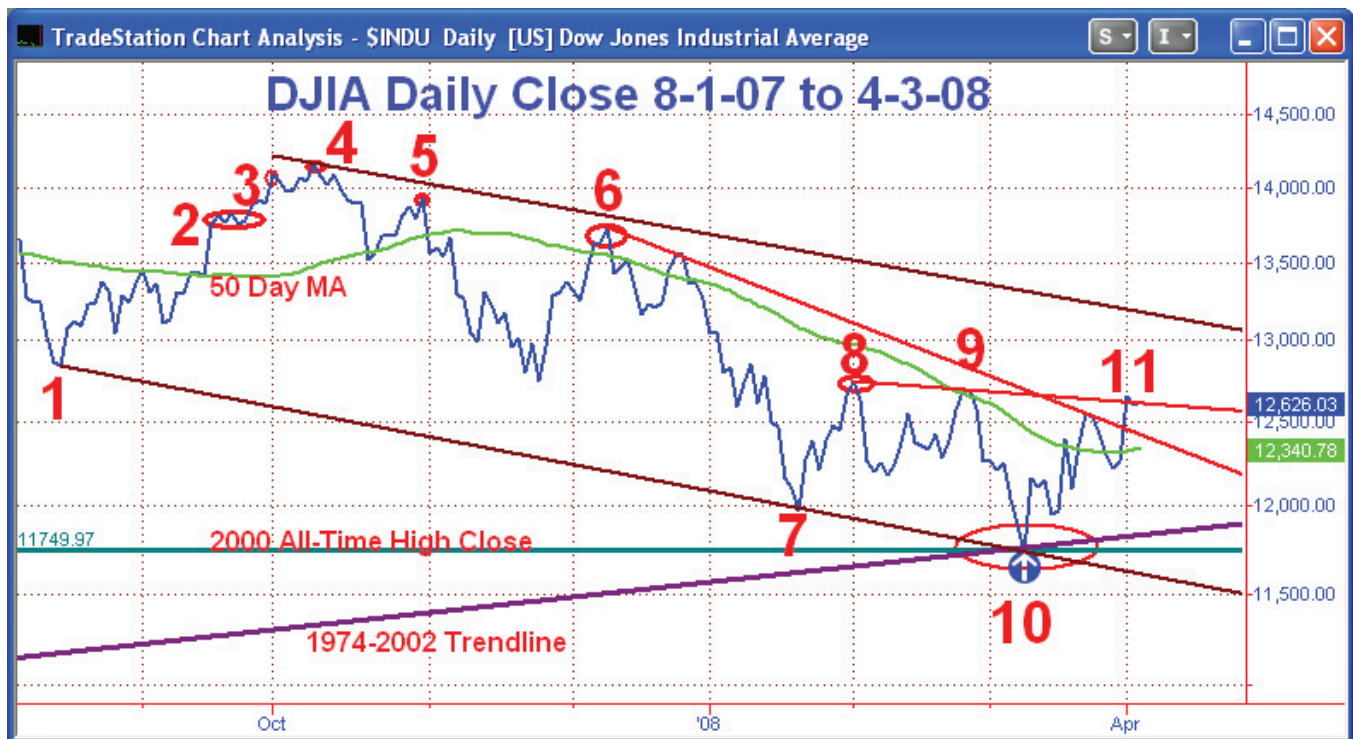
In January 1989, between the numbers 4 and 5 on the chart, prices accelerated upward above the line once again. That move culminated in the top registered in July 1990. There was a significant decline from that top but that decline was halted by the same reliable line at the number 5 on the chart. The October 1990 low moved temporarily below the line but there was never a monthly close below the line. The next move was extraordinary and lasted for almost a full decade. It was so strong a move that the 1994 market which moved sideways for a full year never even approached the line at the November 1994 bottom. That bottom occurred above the number 6 on the chart. Over the next 7-8 years, in one of the most powerful market moves in history, prices accelerated above the line and never looked back. From November 1994 through early 2000, a period of over half a decade, there was nary a declining month of significance. OK, we take it back. The month of August 1998 was down 15% but it took only three months to gain all that back again and then some. Finally, in January 2000, the Dow Jones Industrial Average registered an all-time high that would remain inviolate for almost the next seven years. Over the previous seven years, prices just pulled further and further away above what had been an almost magical line of resistance and support.

It wasn't until 2002 when the line once again came into play. It would not be fair, of course, to say prices came exactly down to the line at the October 2002 bottom because, if you recall the beginning of this analytical process, the line was defined by the December 1974 and October 2002 bottoms. Those occurred above the number 8 on the chart. The line did begin to work its magic once again, however, when prices pulled back to the line virtually exactly in March 2003. The next four and a half years saw prices move smartly above the line once again right up to the top in October 2007.

And now, we move into the present-day. In two days of panic selling in January 2008, prices once again stopped right on the line. After two strong rally attempts off the January lows, the Dow fell in another decline of over 800 points and stopped... guess where? Almost magically once again,

the decline was halted at the same line, not for one day but on three separate days, on March 10th, March 11th, and March 17th. As this section of the newsletter is being written on the evening of April 3rd, 12 trading days have transpired since the March 17th low and the Dow is approximately 800 points above the line. The low close on March 10th at 11,740.15 is a critically important close and we will direct your attention to the next chart to tell you why.

The chart on page 2 covers the time span between August 1st, 2007 and April 3rd, 2008. It is a daily closing price chart of the Dow Jones Industrial Average. Let's begin by explaining some of the lines on this chart. The horizontal line at the 11,750 (11749.97) level is labeled **"2000 All-time High Close."** The rising line below it on the chart is the same "magical line" we have been discussing in relation to the front page chart. It is labeled **"1974-2002 Trendline."** There is a third line on the chart which also comes into play. The number 1 on the chart is placed at the August 2007 closing low. If you draw a trendline through that low and the January closing low on the Dow above number 7 on the chart, an extraordinary event takes place. That trendline and the horizontal line drawn from the January 2000 all-time high close on the Dow and the 1974-2002 trendline — all three of those lines meet almost exactly at 11,740-11,750 level on March 10th. The Dow Jones Industrial Average closed at 11,740.15 on exactly March 10th. Remember, although one of those lines is less than a year old from its point of origin, the horizontal line from 2000 is over eight years old while the trendline through the October 2002 bottom originated over 33 years ago in December 1974. Perhaps it would not be so remarkable to see these three lines meet almost exactly on March 10th around the 11,740 level had nothing else occurred on that day. What makes the confluence of those lines truly remarkable on that particular day is that the Dow closed virtually exactly at the intersection of these three independent lines on exactly the day of their confluence. It is hard to ignore the potential significance of that close or the importance of that "line in the sand" to the future of the overall market. That confluence occurs on



the page 2 chart above the number 10 and within the oval. It is pointed to by the arrow on the chart. There is much more commentary concerning the chart on page 2 but we will deal with that in the next section on "Technical Indicators."

Remember, we have emphasized several times over the past year and commented on the fact over the past few decades that the low for the year in years ending in the digit 8 has always occurred before April 1st. If we tie that historical fact into the potential importance of the March 10th close on the Dow at the confluence of the three trendlines noted above, we can state with great confidence that any close below the 11,740 level on the Dow over the remainder of this year will be a very negative signal for the overall market.

### —TECHNICAL INDICATORS—

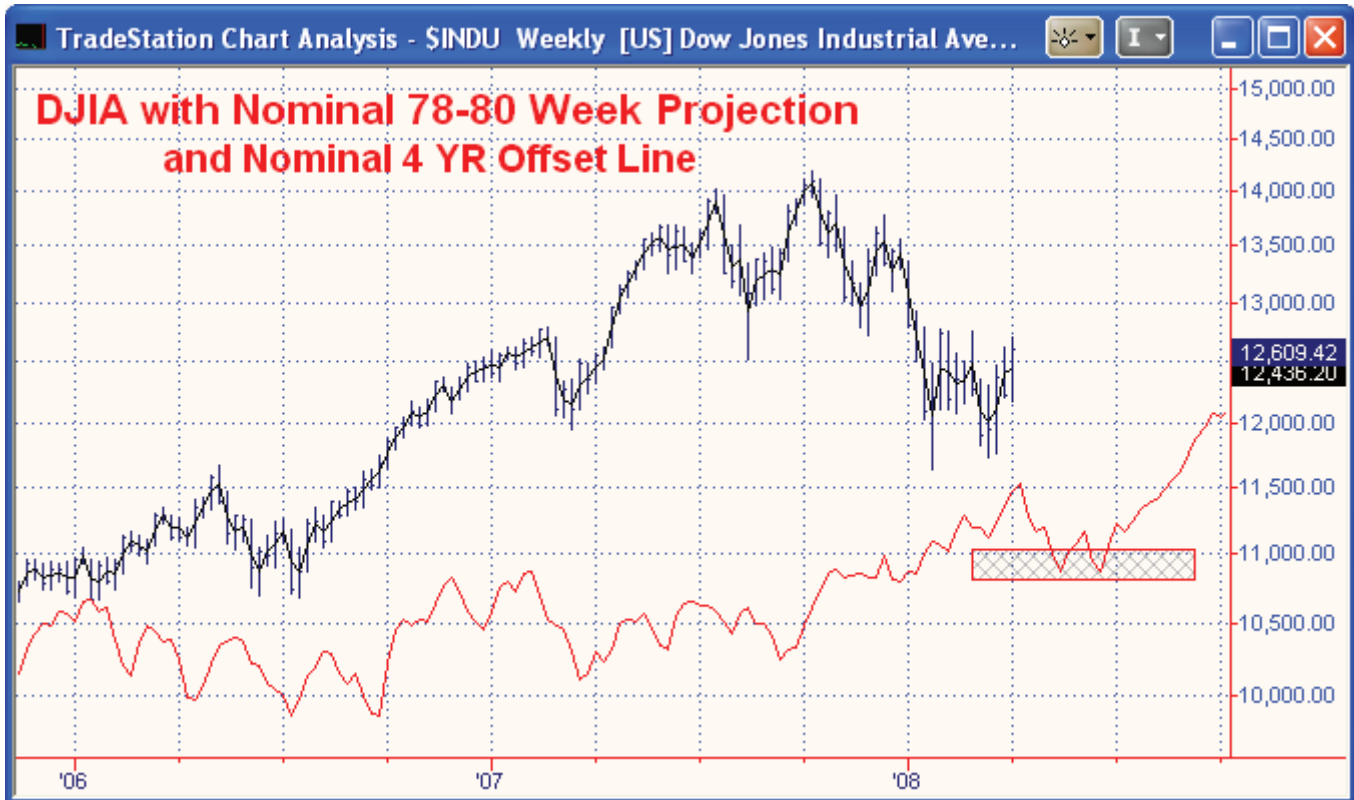
We would like to discuss a technical indicator that we very seldom quote and the easiest way to introduce it is to provide you with excerpt from our daily update dated March 25th of this year:

**"One of the indicators that we follow but very seldom comment on is the Trading Index and its various moving averages based on S&P 500 data only. We continue to research those readings but have not found many useful interpretations. One potentially significant moving average is the New 10 TRIN using S&P 500 data exclusively. That indicator tends to be useful in terms of delineating overbought and oversold levels. It got our attention today because the New 10 TRIN on the S&P 500 closed at 0.669. That was the lowest, most overbought reading since February 4th. In fact, if we go back to the all-time**

**high close on October 9th of last year, any reading lower than the 0.669 reading seen today occurred at or within a day or two of important market tops. Let's run down the list for you because there were not many such readings.**

**"Such a reading occurred exactly on October 9th, 2007. The next reading lower than today's occurred on October 31st, 2007. That was an exact top. The next readings occurred on December 6th, 7th, and 10th, 2007. Those readings formed an almost perfect 3 day top. The next readings as low as today's or lower occurred on February 1st and February 4th of this year. February 1st was an exact closing top. The next reading was today's. It should provide us with important information because prior to October 2007, there were many readings more overbought than today's that were not concurrent with market tops. The lesson here is that readings this low at market tops could be considered bear market indicators. Technicians often note that technical indicators have different parameters for bull and bear markets. What the market does in the face of today's reading could provide us with interesting information."**

For those of you who do not recall where the Dow was on the day of that update, we will tell you it closed at 12,532.60. Three days later, on March 28th, it had closed 316.2 points lower. That told us immediately that the indicator continued to be effective in pinpointing market tops. It also



told us that we could still consider the market to be reacting to bear market parameters. Take another look at the page 2 chart. We have placed an oval around all the market closes on the Dow when the S&P New 10 TRIN was lower than the 0.669 reading seen on March 25th. Notice that the closes near the numbers 2 and 3 on the chart prior to the October all-time closing high at number 4 were all at very short-term closing highs but higher prices were still seen immediately ahead. On October 9th, 2004, the New 10 TRIN on the S&P 500 was below 0.60 and that close is circled at number four on the chart. Notice how the next two closing highs after October 4th which are represented by the numbers 5 and 6 on the chart and which occurred on October 31st and December 10th of last year were also accompanied by New 10 TRIN readings on the S&P 500 below 0.60. There was not another reading below the 0.669 benchmark until February 1st and February 4, 2008. Between February 1st and February 29th, the Dow Jones Industrial Average lost over 1,000 points on a closing price basis. The next S&P New 10 TRIN close below 0.70 did not occur until March 25th, the date of the update quoted above. As noted at the beginning of this paragraph, the Dow fell 316.2 points over the next three days. The reason we have gone over this recent history is that over the past four trading days, days which have closed within a very narrow range, the S&P 500 New 10 TRIN once again moved below 0.60 with a reading of 0.57 on April 1st and 0.5997 on April 3rd. The Dow has not closed higher than its close on April 1st, the first day to see a reading below 0.60 on the S&P 500 New 10 TRIN. You can see the closes on the page 2 chart just below the number 11.

We have two more technical comments concerning the page 2 chart. Notice the three closing highs under the numbers 8, 9, and 11. The first high occurred on February 1st with a close of 12,743.19. The second high occurred on February 27th with a close of 12,694.28. The most recent high under the number 11 occurred on April 1st with a close of 12,654.36. Notice that there is a sequence of lower highs. That sequence is not just a Dow phenomenon because the closes on the S&P 500 show the same sequence of lower highs. If we were to look at no other data, we could argue based on the New 10 TRIN of the S&P 500 that the market had reached another peak, at least for the short-term and perhaps even for a much longer period than that. Notice that the latest lows in late January and early March displayed the same characteristic, mainly the later low was below the earlier low. The market continues to carve out a series of lower highs and lower lows and both the Dow and the S&P have a chance next week to break that sequence by moving above the closing highs under the numbers 8, 9, and 11 on the page 2 chart. That would be the first step in carving out a more bullish pattern which could substantiate even higher prices.

Our final technical comment concerning the page 2 chart involves the simple 50 day moving average which is represented by the green line for those of you that have received the chart in color. The line is labeled in the upper left part of the chart. Since the convincing break of that 50 day moving average by both the Dow and the S&P on November 1st of last year just after the number 5 on the chart, the S&P 500 had not closed for more than three consecutive

days above that moving average coming into this past week and the Dow had not closed more than four consecutive days above the moving average. Today, April 4th, completed the fourth consecutive day with a close above the 50 day moving average for both the Dow and the S&P. It will be important to note if prices can remain above this benchmark at the beginning of next week. As a reference point, we should note that those moving averages closed today, April 4th, at 12,345.49 on the Dow and 1,340.71 on the S&P.

### —MARKET PROJECTIONS—

Despite our overall very bearish outlook, we are giving a slight benefit of the doubt to the upside over the very short-term because of our outstanding nominal 20 week upside projections that were generated this week. The chart in this section shows you why it is difficult to be bullish for any longer than the short-term. This is a weekly projection chart for the Dow Jones Industrial Average which shows you the nominal 78-80 week projection box for the Dow along with the offset for nominal 4 year projections. The Dow Jones Industrial Average has a nominal 78-80 week downside projection to 10,800-11,019 intraday. That is the shaded area displayed on the chart and you can note that there is a very good chance that if those projections are met, even lower nominal 4 year projections could be generated. Obviously, that has not occurred as yet but be aware that the Dow could rally well above the 13,000 level without invalidating the nominal 78-80 week projections. We will be watching the progression of these projections closely for you over the next few weeks.

### —MUTUAL FUNDS—

There have been no mutual-fund recommendations over the past month. We are reluctant to take market positions when there are projections outstanding in both directions as there currently are. Although most of the major indexes and averages have given higher nominal 20 week projections, they are not high confidence projections because they can be invalidated with a sideways move next week. That, plus the fact that the Dow continues to have outstanding nominal 78-80 week downside projections outstanding, makes it difficult to take long positions while the short-term outstanding upside projections, although tenuous, make it difficult to take long positions. We have two different specific model portfolios— one for Fidelity switchers and one for Rydex switchers. How you distribute your own portfolio is up to you as an individual.

**NOTE:** We would like to remind subscribers that we are now managing money through the use of mutual fund timing. This relieves you of the stress of wondering whether you missed a signal or whether you will reach your fund in time to make a switch. Our management company is called, appropriately enough, "Stockmarket Cycles Management, Inc." If you would like additional information regarding this service, please call the office (800) 888-4351 or e-mail us at [suedavy\\_smc@comcast.net](mailto:suedavy_smc@comcast.net) anytime.

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