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# STOCK CYCLES FORECAST

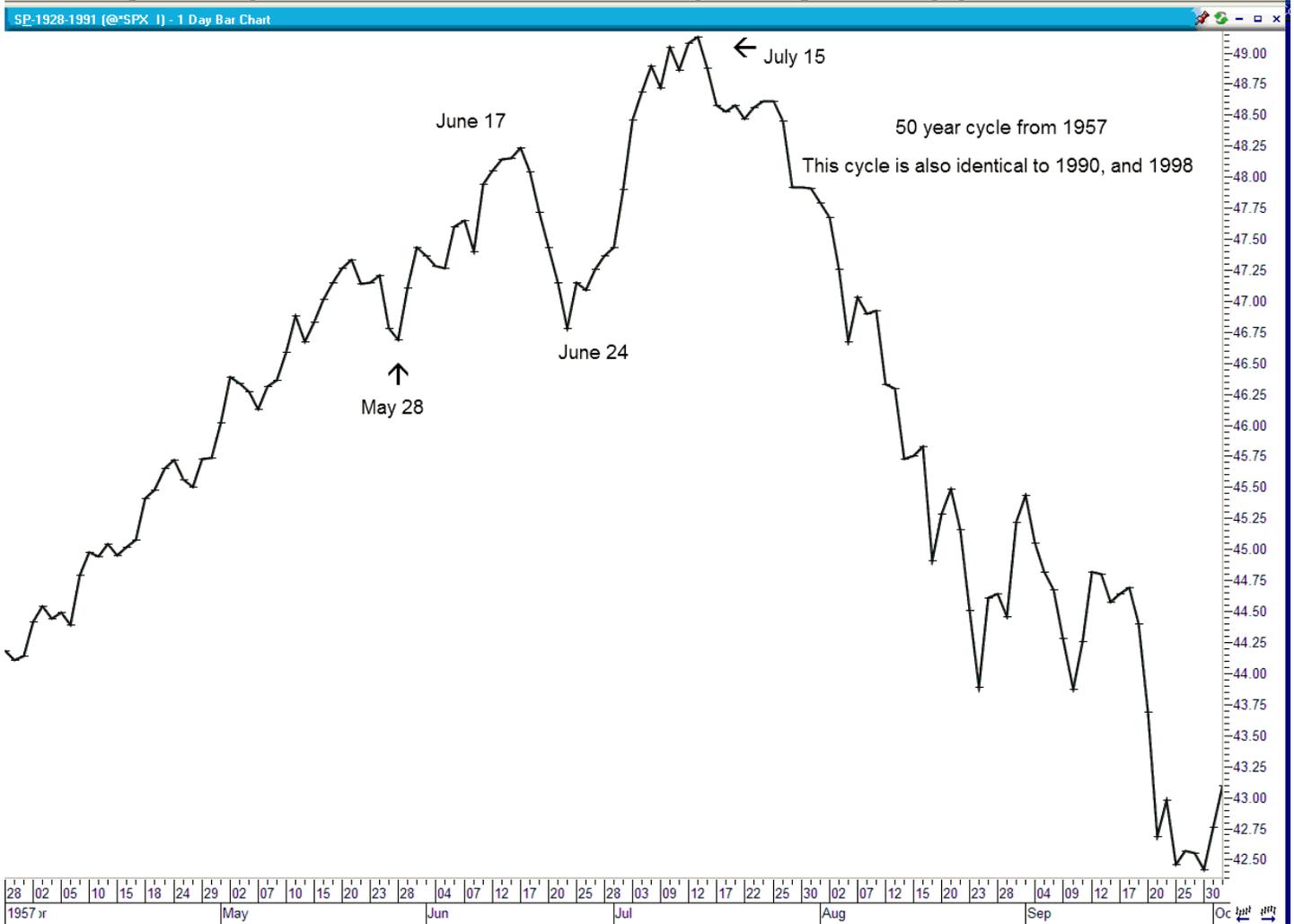
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**July 6, 2007**

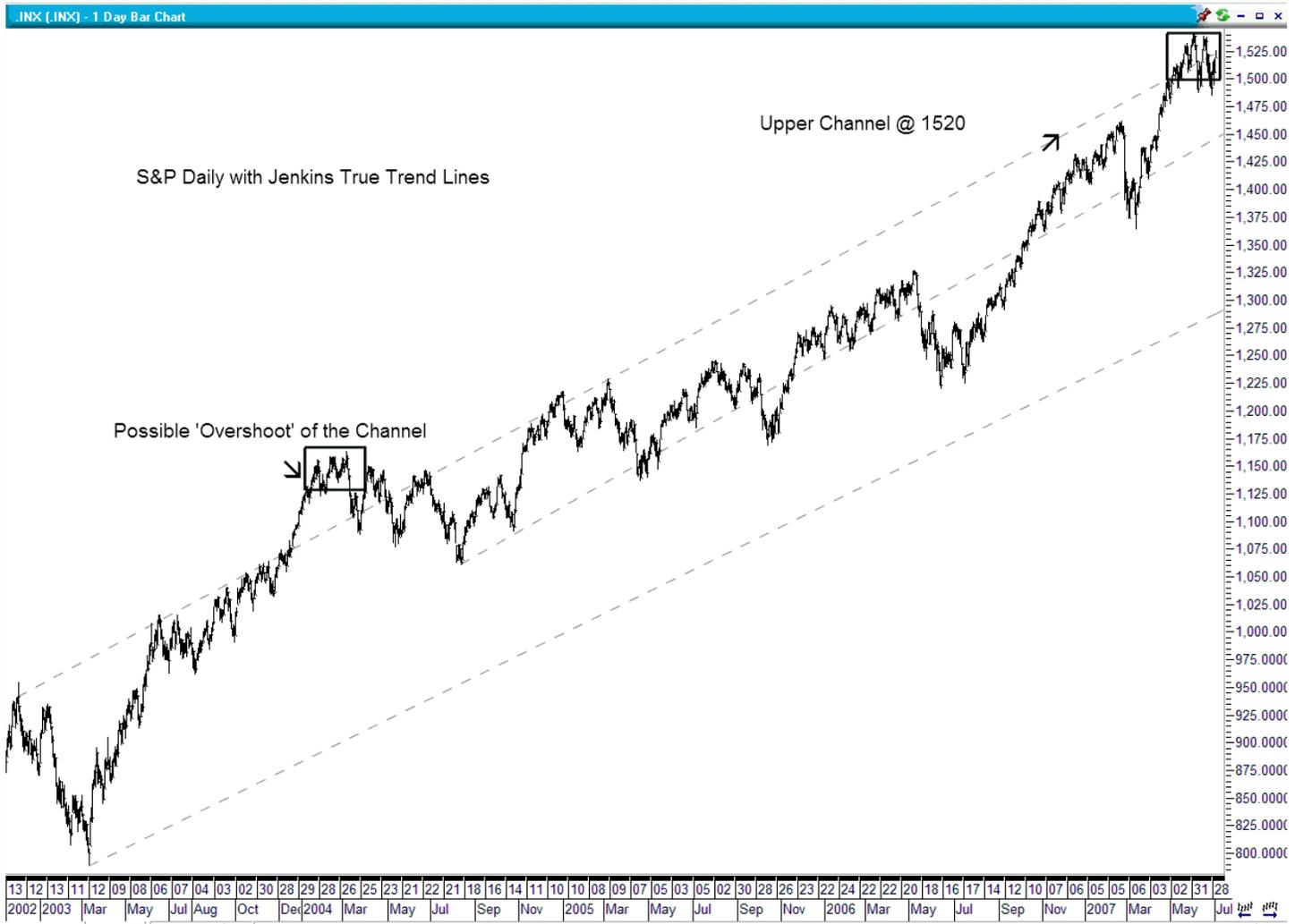
**Dow 13, 612**

**July 12<sup>th</sup> or 24<sup>th</sup>?**

Ninety months ago was January 2000, the all time high in the Dow Jones. That specific date was January 14<sup>th</sup> and the cycle returns this year from the 9<sup>th</sup> to the 12<sup>th</sup> of July. This mid July time period also ties in with major cycle highs from 1990, 1957, and 1998. The alternative is another months duration to the important 91 month cycle of the Square of Nine and the 1987 and 1937 August tops. All of these cycles saw 25% declines into October, November. This one looks no different and it appears to be a financial panic like 1987 and 1998 due to the collapse of hedge funds who over concentrated holdings in sub prime mortgages.



This chart above from 1957 shows the typical pattern. Note that high near  $7 \times 7$  or 49, and our current 39 square of 1521. A half square higher of  $39.5 \times 39.5$  would be 1560. It's also interesting to note that from the birth of the bull market on March 12, 2003, July 12<sup>th</sup> would be 52 months or 1583 days or 1557 actual degrees movement of the Sun. Prices near those numbers would be perfect 'square outs' to end the move.

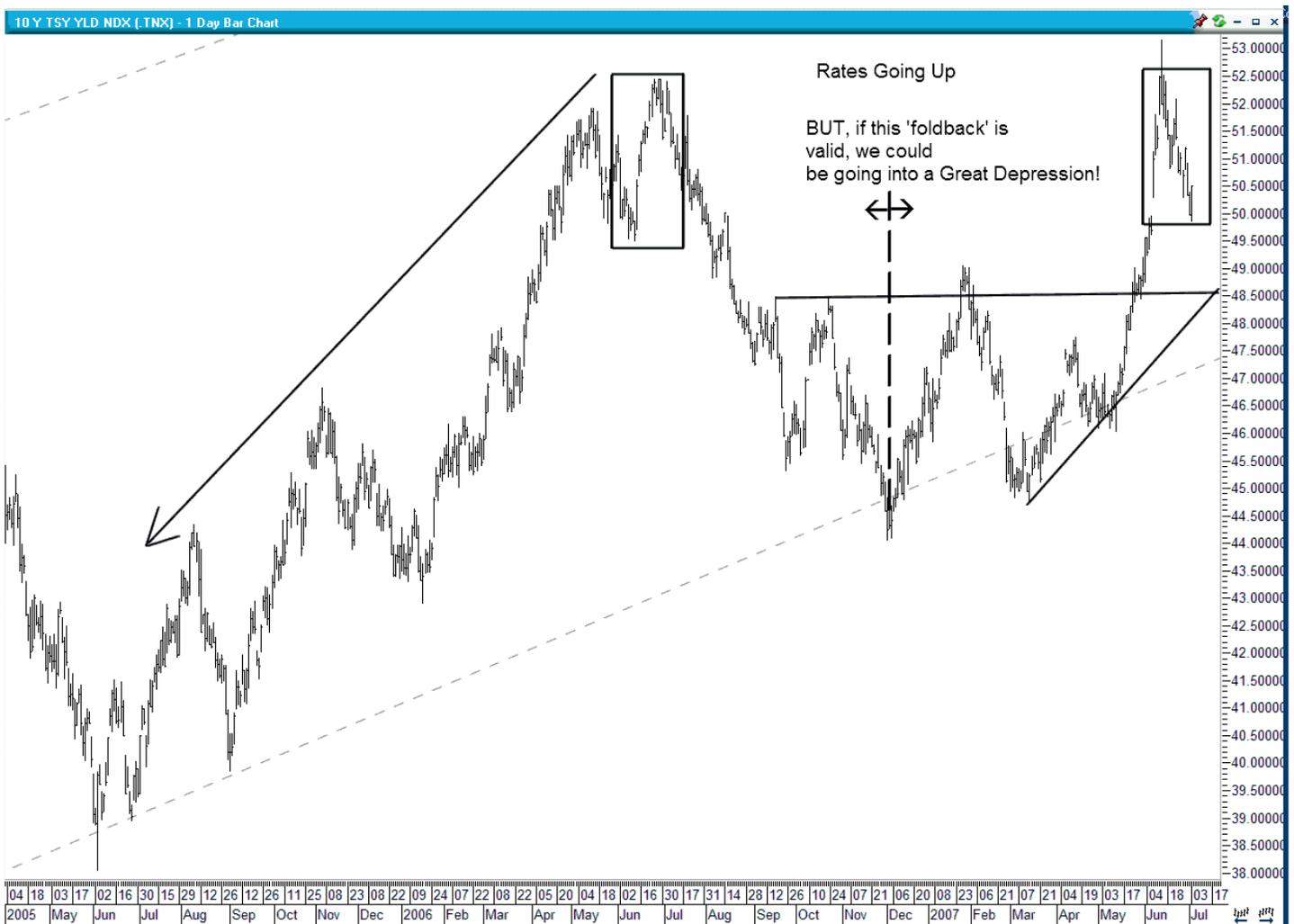


This current **S&P chart** shows the beginning of a topping pattern very similar to the first top back in June 2003. Many times the last leg to the final top is symmetrical with the first leg up from the bottom and these two look very similar. Since a final 'spike' is often seen, the key will be the break of a recent swing low like 1483 on the S&P but 1500 seems the psychological pivot. Also keep in mind the 'big picture'. The major low of October 10, 2002 was 769.50 on the S&P. A **double** of that would be 1539 WHICH WAS OUR RECENT HIGH! Complacency has set in so the market may have already topped. If we use the higher bottom of March 12, 2003 at 788.90 S&P and double that we could see 1578.

One fact needs to be addressed in thinking about the upcoming top and that is the shape it should take. A financial panic could just spike and crash but if you recall the origin points with the three main bottoms of July 2002, October 2002, and March 2003, then we could have three big tops separated with breaks of 10% or more between each. From March '03 to October '02 is 5 months and from October '02 to July '02 is another 3 months so if the pattern was to fold back perfectly we would see a top now, another in December (the bulls win again and a new high too, i.e. Oct '02 was *lower* than March '03), and the final one in March '08. My advice would be to short swing low breaks, but be very cautious with shorts if swing tops are regained.



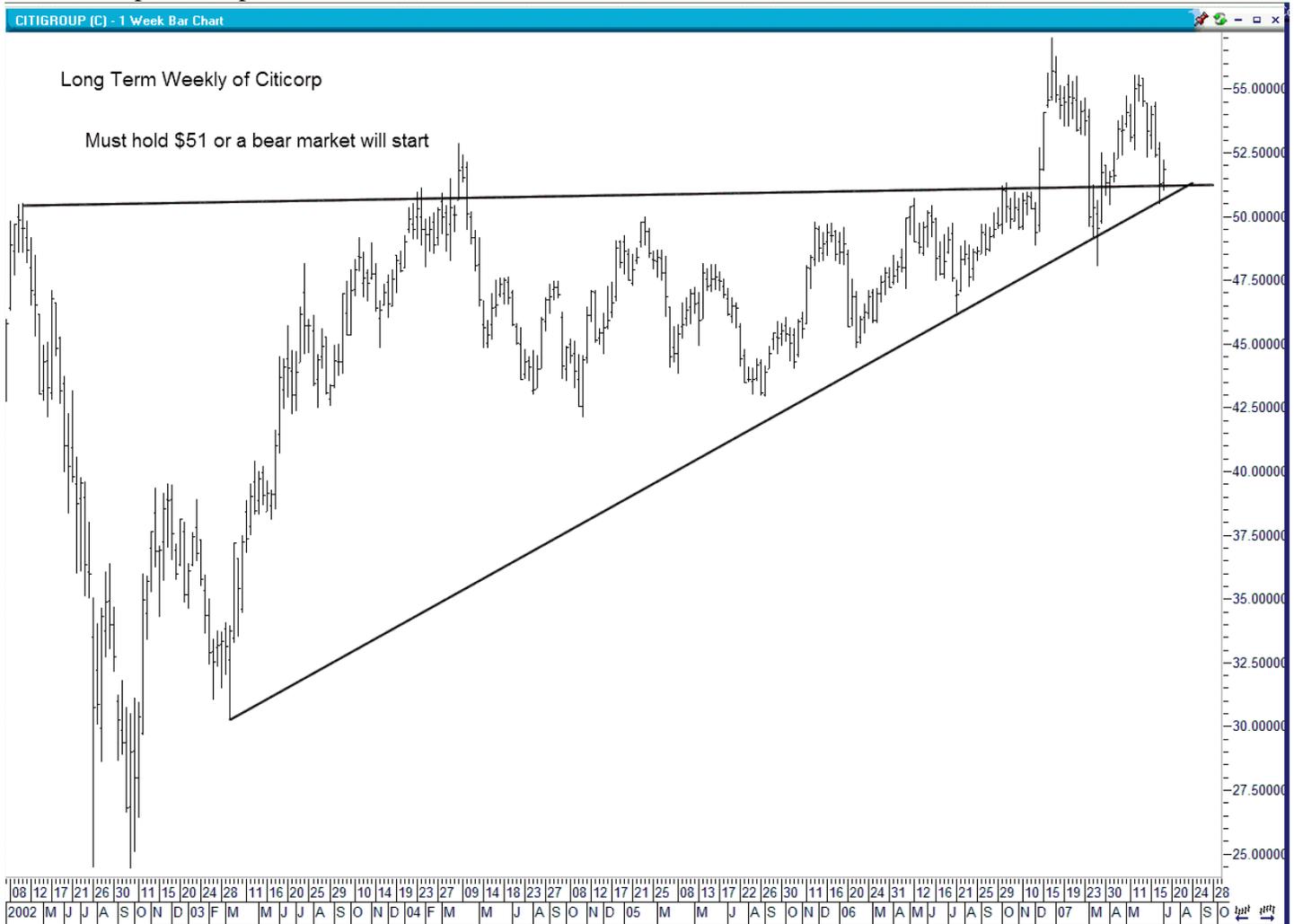
**The Dollar** is still sliding and a key to a currency panic and the Carry Trade unwinds that could destroy the US stock market. My firm belief is that the United States is exchanging places with Japan from 1990 when their market topped with a real estate crash and went dead for 15 years as the rest of the world markets went up. The demographics in the US will slow growth and weaken the dollar and real estate, and since the whole world



bought ETF baskets of US stocks over the past seven years, the selling could last for years to come. To be

bullish we need to see the Dollar bounce from this double bottom and oversold level. If it doesn't a panic will set in and interest rates will soar.

**Interest rates** appear to be breaking out (going up) but this chart of bond yields holds out hope for one more year of lower rates. That could mean a massive slowdown or financial panic approaching. Those rectangle areas are the 'foldback' patterns. That arrow down to the left is the size of the coming move and at these foldback points they either foldback or fold forwards but both interpretations show potentially lower rates. That probably means the FED will give up on inflation rather than kill the economy. Eventually the rates will spike up three points or more over the next few years but this is a critical time period just now and it ties in with the stock market expected top this month.

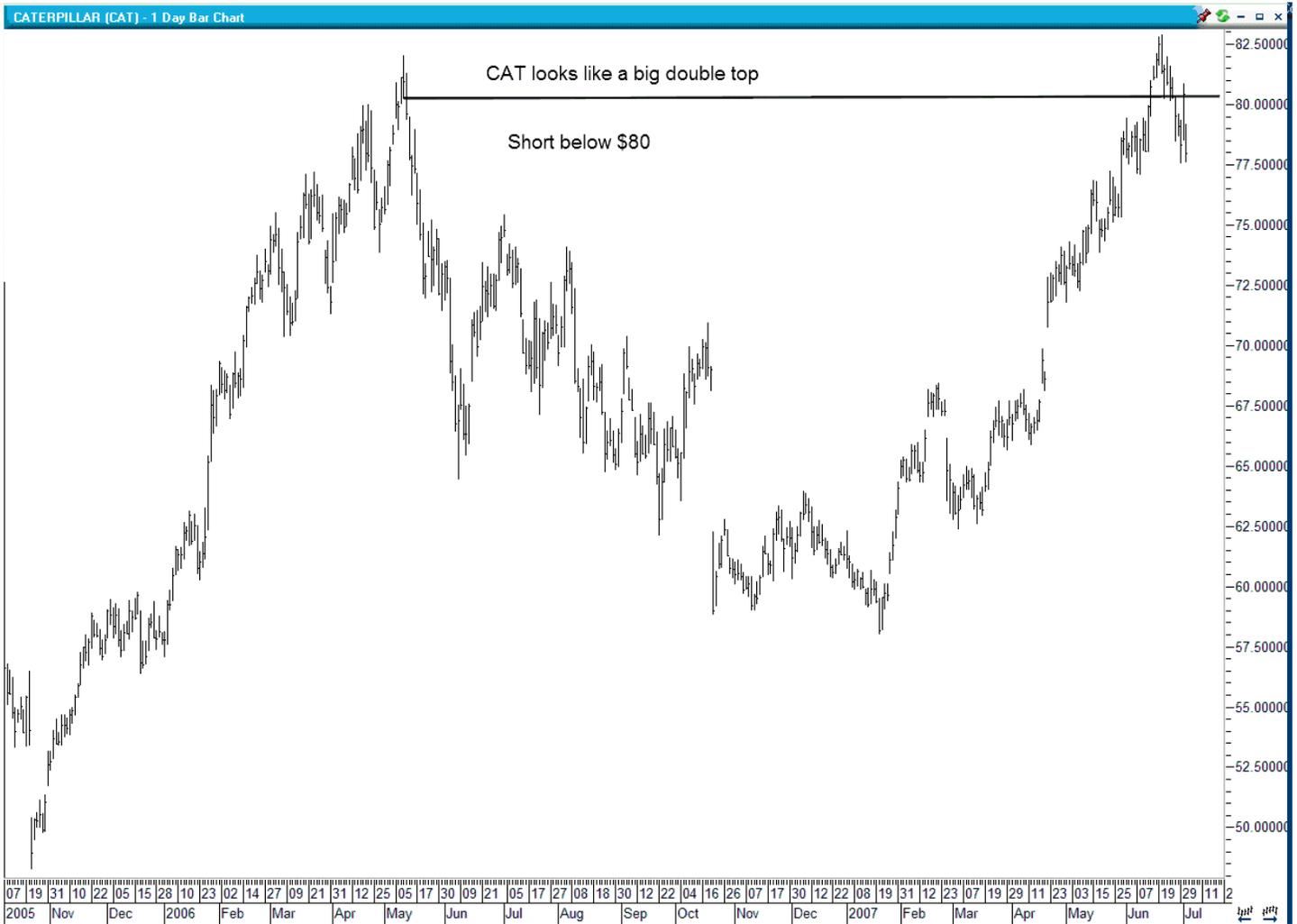


**Citicorp** is the premier financial with a huge weight in all the indexes. This long term weekly chart shows no net progress for three or four years and it's hanging by a thread at the panic point. Its had two big breakouts this year that both failed so a breakdown below \$51-\$50 would indicate very bad earnings and write offs coming the next quarter or three. The market can't really go anywhere without these big financials participating so watch it closely. It's technically a long above \$52 and a short under \$50. Remember the theme this year is financial panic and the cause will be derivative blowups and excessive leverage. We've already seen over leveraged hedge funds with bad sub prime debt get in trouble, but the real risk is the \$40 + TRILLION in financial derivatives that could implode. We live in a world where South America, the Middle East, and certainly China and India are questionable counter derivative parties who could easily lie down on the trades once they start to hurt their local economies. It's not hard to theorize another Great Depression if a domino effect gets going. Early warnings will come from C, BAC, GS, BSC and LEH so watch those charts.



Oil stocks and drillers are still the darlings of Wall Street and it's easy to project oil higher and earnings great for years to come. What is not so easy to predict is a stock market panic causing a global economic meltdown where oil goes back to \$40 and the earnings of all the oils get cut in half or turn to losses and the stocks drop 50% and more. This chart of **Baker Hughes** is typical and could be forming a double top, which has been the historical norm at past highs. The two recent tops in the chart above are almost exactly one year apart to the day, so they appear to be valid double top candidates. The oils and banks account for a good 50% or more of the S&P index so if these oils top and C goes down, nothing will keep the market up. Keep that in mind over the next thirty days when looking at the charts.

Besides banks and oils the other group that is all pumped up on the theme of the never ending China growth story, is the big cyclical names like CAT, BA, UTX, AA etc. This next chart below, of **Caterpillar** also has a double top pattern a year apart just like Baker Hughes and recently it was downgraded. Further downside action now would confirm a long term decline in the works. \$81, the natural square is the pivot for this name.



**Micron (MU)** is starting a classic bullish pattern and recent strength in INTC and WDC along with DELL indicates the big institutions are starting to rotate out of the leaders of the past few years and back into these names. If you have a bullish bias or think I am wrong on my panic scenario, then this is the group you should be buying. Almost anything in the SOX Index has an interesting chart so these will go up on each coming advance.



Last year at the lows, I recommended **Unisys** and it now has completed or is about to complete (5 wave) its first consolidation prior to the next leg up into the mid-teens. It's a buy with a \$2 sell stop and keep an eye on the quarterly earnings, but the pattern suggests accumulation and if a big institution has absorbed the float than the stock could easily triple.



By the way, if you don't get the hotwire and didn't hear it, I've put a great new 'free' program on my website [www.Stockcyclesforecast.com](http://www.Stockcyclesforecast.com) to calculate square roots of stocks and bonds and basically use the Square of Nine in an easier way for most people. Just click on the 'free stuff' link on the home page and download the Square Root Calculator. Also note on the website the new day trading book just released- '**Basic Day Trading Techniques**'. I've gotten very good feedback so far on this one.

The following table lists stocks that have cyclic turns during the coming three weeks. These turns have been mechanically generated from a program I give out in my personal seminars, which is quite reliable and often catches the major highs and lows for the year.

CAT 7/09	CME 7/10	VZ 7/10	AMZN 7/10	CSCO 7/10	KO 7/10	RIMM 7/10	GOOG 7/11	MRK 7/12
AAPL 7/12	MSFT 7/12	IBM 7/16	WMT 7/16	GE 7/16	C 7/17	MMM 7/17	CAT 7/17	GM 7/18
KO 7/19	XOM 7/20	INTC 7/20	UTX 7/20	ASA 7/20	RIMM 7/23	AMGN 7/23	MCD 7/25	GS 7/25
YHOO 7/25	BA 7/26	MMM 7/26	SLB 7/27	DELL 7/27	AAPL 7/27	TLT 7/27	MSFT 7/27	

## July Activity Calendar

DATE	UP /DOWN DAY	DAILY	WEEKLY	HOURLY
9	U			10
10	D			1
11	D			10
12	U	*	*	2
13	U			10
16	D			1
17	U			3
18	U			2
19	D			3
20	U	*		1
23	D			11
24	D	*	*	10
25	U			1
26	U			10
27	U	*		2

Notes: U means up day, D means down day. Trend changes indicated by the \* will generally be more accurate than the frequent U/D day indications and will usually trend in the same direction until the next \*. Hourly turns are given in local New York City (Eastern) times, i.e. 10=10 AM EDT.

### Summary

The next primary top number is 1560 S&P, but note the 1539 double of the '02 lows. Support is 1501 and 1483. Below that the top is probably in.

Upside still possible is 1553, 1560, 1570, and even 1600. The big dates are July 9<sup>th</sup>, 12<sup>th</sup>, and 24<sup>th</sup>.

**Note: Basic Day Trading Techniques (\$125)** my new book, is all about how you set up your trades each morning. It is a 'how to' manual for day trading and it will teach you how to trade step by step. How to set up your time frames, determine the trend, predict target prices, placements of stops, and especially how to use trading angles. My major technical breakthrough the TIME CONVERSION BAR is explained for the first time. Check the website for more details. You will like it.

Stock Cycles Forecast voicemail telephone number is (212) 866-2934, but I rarely answer phone messages. To get a quick response it is better to use email at: [mjenkins@stockcyclesforecast.com](mailto:mjenkins@stockcyclesforecast.com), or [Mikecyc@aol.com](mailto:Mikecyc@aol.com). Let me know if you can get email delivery of the newsletter as it is at least two to three days faster than regular mail.

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