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LONGWAVE group

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

IAN'S INVESTMENTMENT INSIGHTS

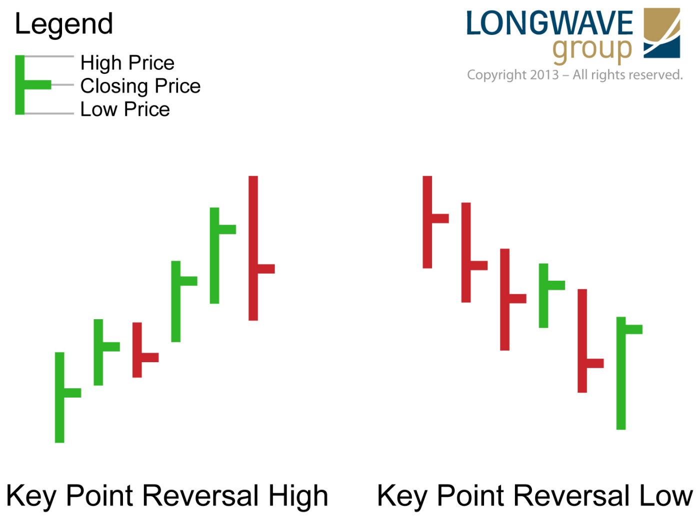
Special Alert

On Thursday July 31, 2014, the Dow Jones Industrial Average closed down 317 points, effectively completing a key point monthly reversal high. The S and P 500 and The Wilshire 5000 also made reversal highs in July, as did the Dow Transportation Index.

"The most important key point reversals occur in monthly or long term charts, because they generally indicate a reversal in the long term trend. This is exemplified in the HUI and gold price monthly charts … In these two examples alone every long term cycle bullish phase ended with a key point reversal high, (signaling the onset of the long term bear phase, which resulted in considerable loss in price). I am sorry to say that I missed all those monthly key point reversal signals. I was just not paying attention to the charts. It won't happen again." Natural Behavioral Patterns of Economic Cycles within Investment Markets, Vol. 22/Issue 1, November 22, 2013.

After missing all those key point reversals in the monthly charts of the HUI and the gold price, I promised that I would not miss another one. That is why I am alerting you to pay attention to this key point reversal top in the U.S. stock markets because it portends a mammoth bear market.

Key Point Reversals High & Low



The chart below is the monthly price chart of the Dow Jones Industrial Average (DJIA) going back to September 2004. The continuation of the bullish phase that commenced in October 2002 is evident until October2007, when the bull turned into a vicious bear market that took DJIA prices down by 64% into March 2009. That bottom was signaled by a key point reversal low. From there, stock prices moved higher in a strong bullish move until May 2011, when a fairly large price correction set in until October 2011. The termination of that price correction was, as you can see, signaled by a key point reversal low.

I have identified some additional KPRs on the chart for you and there are others present that I have not shown you. The point that I am trying to demonstrate to you is that KPRs are nearly always indicative of a change in share price trends and key point reversals on monthly charts are a strong indication that the change in trend is for the long term.

Chart: Thomson Reuters

Could the key point reversal high in July just be a short and sharp price correction as was the price correction between May and October 2011? I don't think so and there are several reasons for saying this. For a start, that price correction began after the bull market had only been in effect a little longer than 2 years and we should expect that the bull market since March 2009 should be in proportion in both time and price to the bull market of 2002 to 2007.

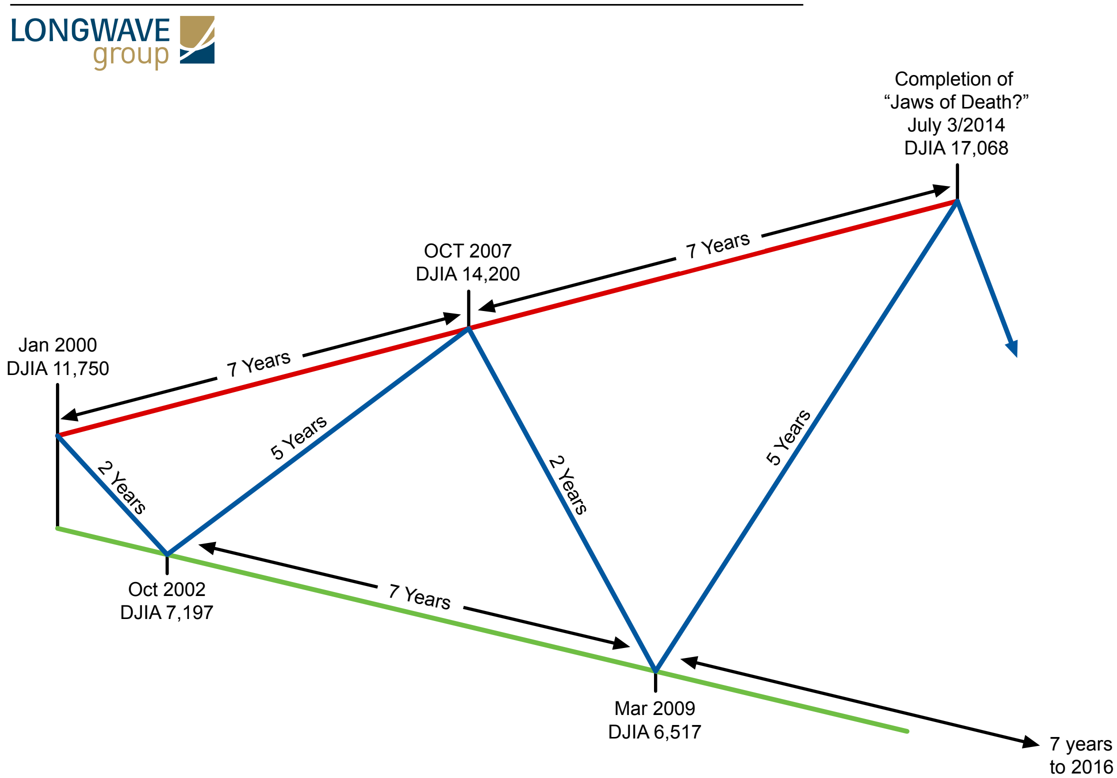
The DJIA peak in May 2011 was not kissing the upper boundary of the Jaws of Death pattern, nor was that closing level anywhere near to the high of 14,200 points reached by the DJIA in October 2007. The subsequent correction low point reached in October 2011 was above the previous low point, which was strong evidence that the bull market was still in vogue, as a result of ongoing higher highs and higher lows.

More importantly, that May 2011 peak was not reached with extreme bullishness driving the DJIA to extreme levels and margin debt was nowhere near a record. Such is not the case at this time. Bullish measures are at extreme levels and margin debt reached record levels in February of this year. You can read about this in the previous Ian's Investment Insights, published on July 11, 2014.

In that issue of Ian's Investment Insights, I wrote this paragraph-

"Cycles are also suggesting that the peak in stock prices is near and is more than likely to occur in 2014. W. D. Gann, the great cycle proponent and highly successful trader, wrote that the number 7 was a tragic number. I referenced this number and other Gann numbers in my work 'This Is It' (available on the website in the Special Editions section), which was published in 2007 and accurately forecast the stock bear market and the banking crisis. There are two different number 7s associated with the stock market this year. The first is that in numerology terms the year 2014 is equal to seven, 2+0+1+4=7. The second is that the year 2014 is 7 years beyond the previous bull market peak in 2007. That bull market peak was itself 7 years beyond the 2000 bull market price peak. The two bear market price lows 2002 and 2007 were also 7 years apart. On the following page (now shown below) I present a stylized version of the bull and bear markets since the great autumn stock bull market ended in 2000. Note the beautiful symmetry, which is an important feature of cycle analysis. Each bear lasted approximately 2 years. The bull market 2002 to 2007 lasted 5 years and the current bull market is well into its fifth year. The numbers 2 and 5 are Fibonacci numbers and these numbers are used extensively in technical analysis and in particular in Elliott Wave analysis."

Symmetry in the Stock Market and The 7 Year Itch



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I have quoted from Ian's Investment Insights published on July 11, 2014 and finally let me quote to you from the opening paragraph of that edition-

"Are the general stock markets and precious metals and precious metals equities about to experience a reversal in fortunes? Based upon current evidence I think so." Given all the evidence of a pending peak in stock prices contained in that 'Insights', the key point reversal monthly high reached in July is almost conclusive evidence that the stock bull market of March 2009 to July 2014 is now finished.

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