Bill Sarubbi's CYCLES RESEARCH

Summary

CR moved to a 200% long position as of the November 4th close.
CR issued a buy on gold as of the close on April 9th, 2009.
A buy signal was issued on bonds on the close on June 30th, 2010.

Analysis

The Most Important Message from the Markets

Whenever I have analyzed a market in the past, I asked myself what the most important message the market was conveying. I recall Professor Robert Kavesh at NYU in 1971 telling us that the break between the dollar and gold would lead to greater market volatility in the future. He stated that market advances would be greater as would market declines. It also means that the Fed can more quickly reflate and send markets higher. I also recall my old friend In Notley saying that when there was enough liquidity so that anyone can buy anything, all asset classes move up together. Ian also indicated that whenever all asset classes go up together, they all come down together. I think that this has gone to such an extreme that we now see both gold and the dollar advancing. Thus, when the downturn comes, there will be few asset classes to hide in, other than cash. This condition has also altered investment decisions. As Dr. Marc Faber headlines his November report: Where Will Excess Liquidity Create the Next Bubble? That is the task that fund managers have to deal with.

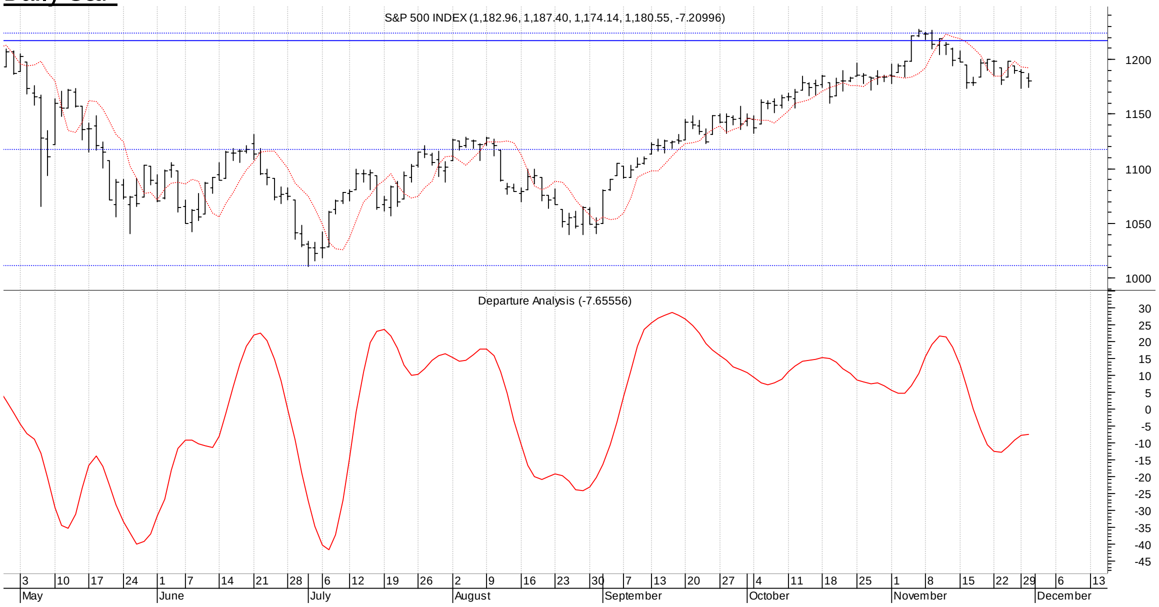
Short-Term Trends

Short-term, a low is due. The S&P has fallen for 6 consecutive days, and the market has recovered to close well off of the intraday lows for the last 2 days. My month-end study shows that the strength at the end of November typically runs from November 30th to December 6th. This study added value to Art Merrill's original research in The Behavior of Prices on Wall Street. This analysis is completed under the Turning Points section.

Intermediate-Term Trends

I continue to see reflections of the 1966-1982 market with this one. The 1966 market topped in 1966 and bottomed and made its lowest low for that 16-year period in1974. This time span was 8 years. The 2000 market top led to the lowest low thus far in 2009, a period of 9 years. If the March 2009 low is indeed a reflection of the December 1974 low, then the next major high would be due 21 months after the low, the equivalent of the end of December 2010. Supporting this projection is the fact that there are 4 monthly time counts due in January, as there were in April 2010. There will be a closer analysis in the January letter.

Daily S&P

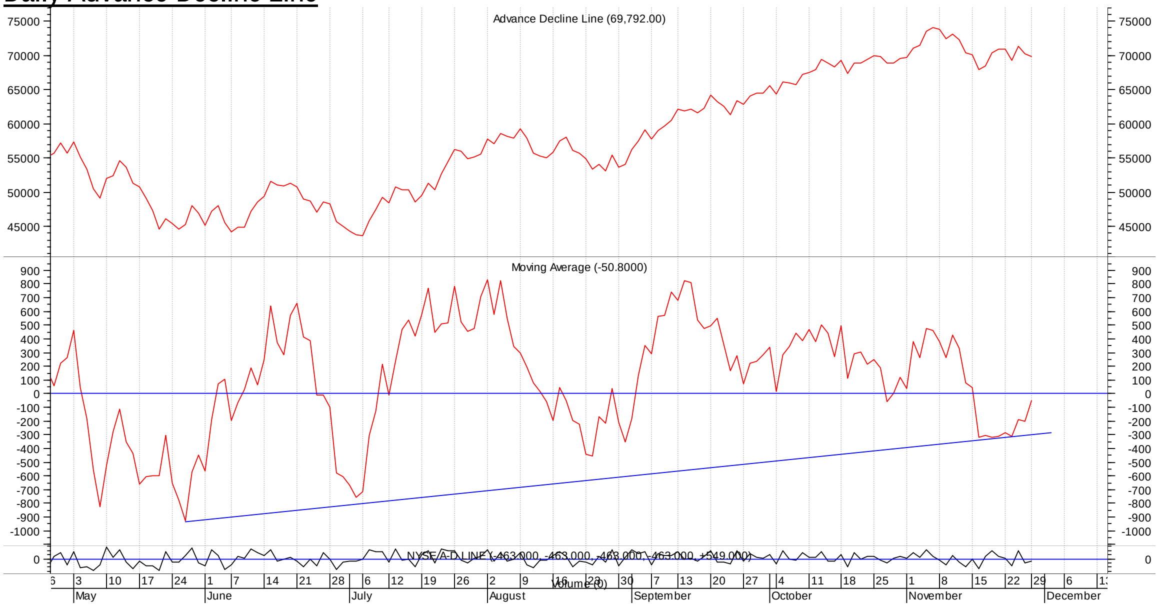


The monthly graph shows that the S&P has broken a downtrend line from the 2007 and the 2010 tops, but it is hesitating at the 61.8% retracement line of the of the 2007-2010 de4cline which is also the old April 2010 high.

Monthly S&P

The 10-day moving average of advances less declines shows a series of higher lows in the bottom strip, a constructive development.

<u>Daily Advance-Decline Line</u>



<u>Turning Points</u>

For some reason, new moons and full moons have coincided with stock market tops and bottoms closely since the March 2009 low. This was not the situation from 1915 to 2009. I recall a study done by Art Merrill, the author of <u>Behavior of Prices on Wall Street</u>, in which he studied stock market behavior within a few days of each new and full moon. The results were inconclusive. In 1988, I released the first software that was designed to conduct such types of analysis. In the early 1990s, I did a detailed analysis of the relation of the Sun to the Moon, the lunation cycle. The study from 1915 to 1990, the market tended to top at a point between the new and the full moon. The market tends to bottom about 3 to 5 days prior to the new moon. This explains why Art did not find market turns at the lunations. The turns tend to occur between the lunations and not at the time of the lunation.

December has been the strongest month of the year historically. My seasonality studies show that the period from December 15 through January 7th shows the highest expected return. The 15th does show up below as a projected turning point.

From the 12th to the 24th, the intermediate stock market cycle rises, supporting the seasonal cycle described above. The last date is close to that of the 22nd, so this may be the high for the month. Three factors suggest that the last week of the month may not be seasonally strong: the 22nd is a turning point; the cycle hits a high; and there may be cap-gains tax selling.

The date of December 21 deserves our attention for 3 reasons. First, it is the Winter Solstice, one of the seasonal 4 seasonal turns that W.D. Gann advised us to watch for turning points. In addition, it is the date of full Moon. Third, this lunation is also a lunar eclipse. Thus, there are 3 indications that this day will be volatile or a turning point. Because there is a projected turning point on Friday, the 10th, there is confirmation of a turning point, likely a high. On a more mundane level, the rise in the capital gains tax is likely to bring tax selling before the end of the year, so the December effect may be a bit muted this year.

The highest-probability S&P and DJIA turning points (+ or – 1 day) for the month are
(The stronger turning points are starred*):

3*	24
8	29*
15*	

The highest-probability NASDAQ turning points (+ or - 1 day) for the month are
(The stronger turning points are starred*):

3*	24
10*	28-29
15	

Cycles

When making presentations, I frequently am challenged on my use of cycles. There are many non-believers in the investment community. Past issues of these reports warned of higher commodity prices, stagflation, and a return of Carter-era conditions. The November 29th issue of Investors Business Daily featured the following story lines:

- Soaring Cotton and Labor Costs Will Boost Apparel Prices in 2011
- Rising Food Prices Feed Demand for Potash and Phosphates
- Are We in for Another Round of Stagflation?
- Current conditions are not unlike the late seventies-the last time America was saddled with an incompetent administration facing serious challenges both foreign and domestic.

Concerning the first item, IBD notes that we should not be concerned that cotton-based goods will make much impact on 2011 inflation data. The CPI process of substitution assures that cotton goods will lose weighting in the index as prices rise. This is one reason that the CPI does not accurately reflect the actual rise in prices. And, this is why folks who watch the CPI always miss inflation as the head of the Bank of Japan admitted after the 1989-1990 bubble burst.

IBD also made the point that the NASDAQ was the best performing index during the Carter years. We can make that same observation today. They also had a graphic of the Cater years versus the Obama years. If we want to make comparisons, then take note that most of the Carter crises occurred in the 4th year of his presidency. This suggests a tough time for the current administration in 2014.

All we need are higher interest rates, which will likely occur in 2011. I doubt that rates will revisit the levels of the Carter years, however.

Bonds

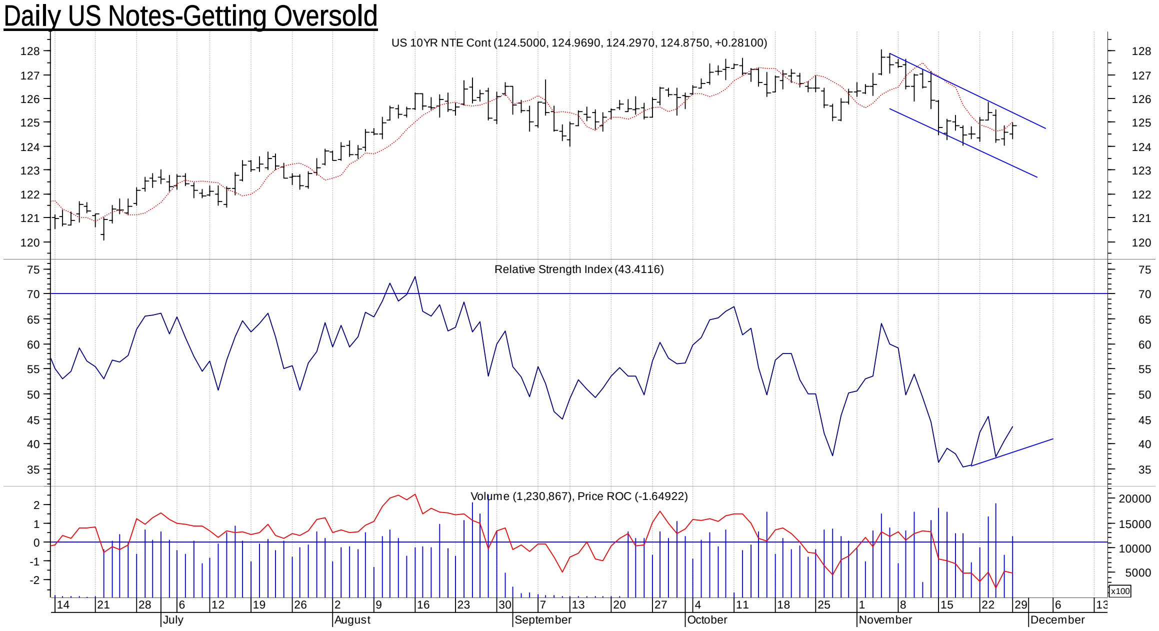
The last report stated that, *"The bond cycle drops from the November 8-10 until the 24th. There are projected turning points on the 8th, 15th and 24th. The latter point is likely a low. The cycle then moves in a narrow range into mid-January when it then rises to February 6th. At that time, both the bond cycles and the seasonal cycle turn down. Thus, there is likely to be a significant bond high in Q1 of 2011."*

Notes dropped from the 4th to the 24th.

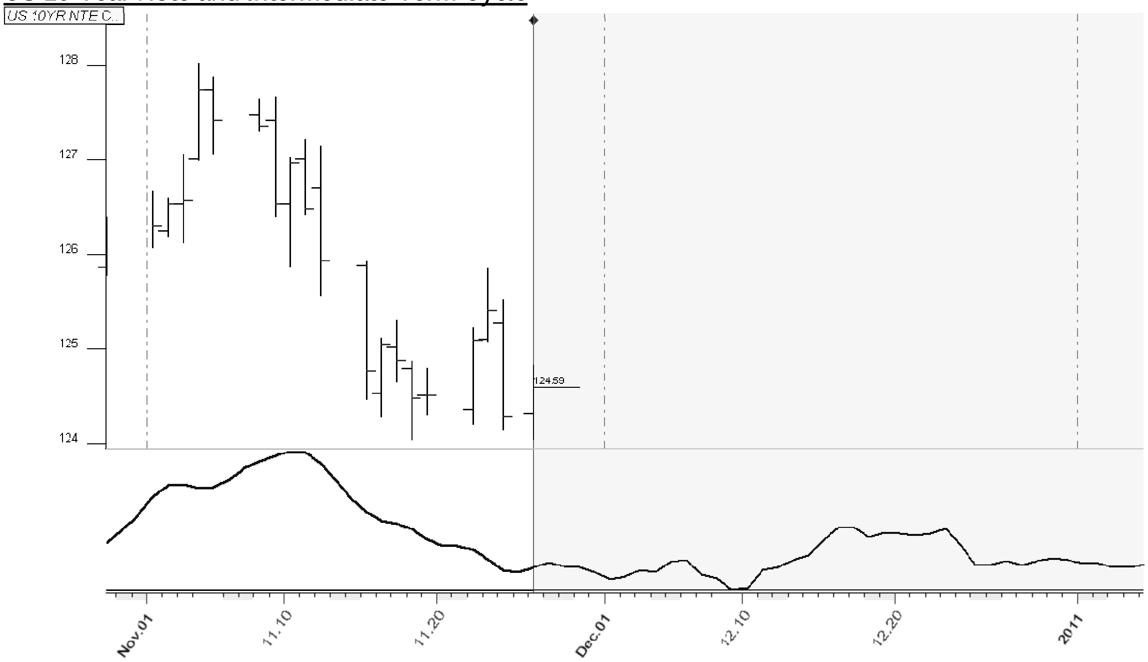
The cycle, depicted below, currently projects flat bond prices into a low on the 8th, followed by a rally into the 17th followed by another trading range for 1 week into a high on the 23rd. The daily graph below shows that notes are becoming oversold, so we have confirmation of a low in the offing. Traders are advised to take long positions now with an objective of selling before the 23rd.

In Q1, the cycle peaks and then declines into June. Supporting the 2011 bearish view, we see that not only have 30-year yields entered a bottoming process, 10-year yields are also putting in a low. Confirmation is also found in the utilities group, which has been underperforming. Sell bonds into strength.

Daily US Notes-Getting Oversold



US 10-Year Note and Intermediate-Term Cycle



Daily 30-Year Yield Index

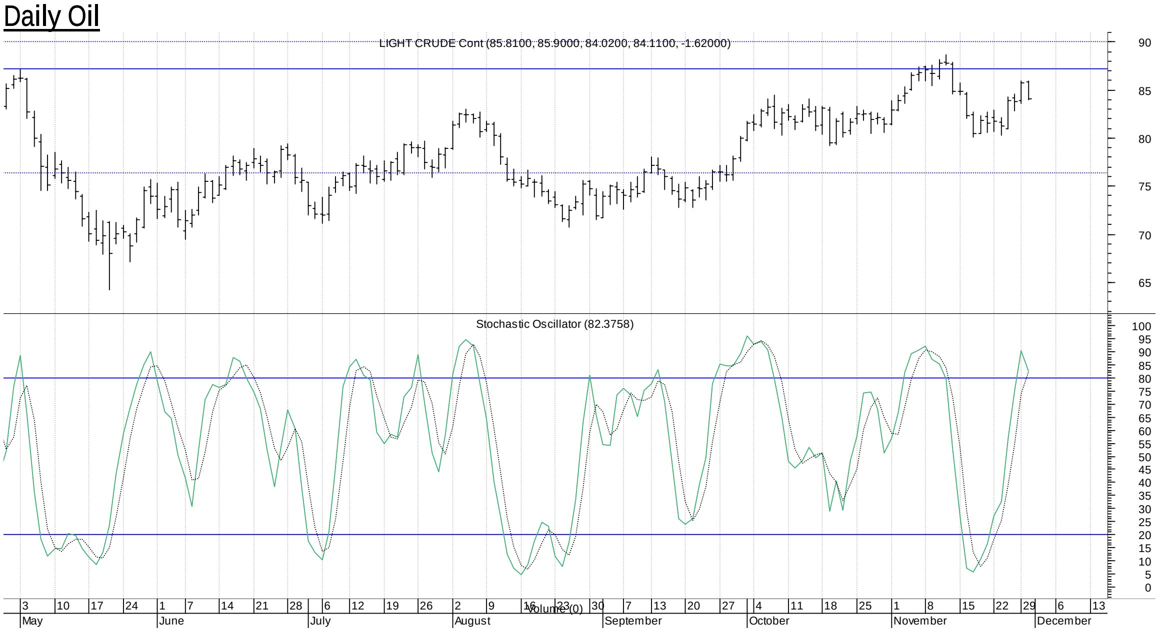
Daily 10-Year Notes Yield Index

Sectors and Groups

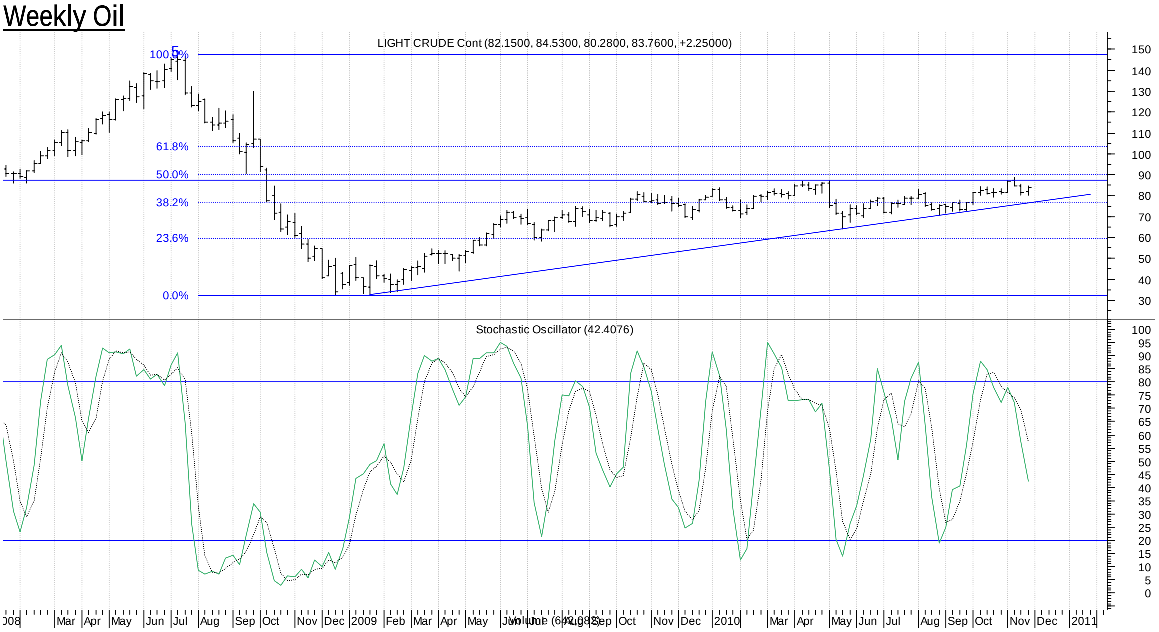
Energy

The last report stated that a rally would likely carry into the 17th-26th. The cycle makes a double top in that time period and then falls into February. The weekly graph shows that oil is now up against the prior high and the 50% retracement level of the entire 2008-2009 decline. It appears unlikely that oil can break through this barrier in the high 80s at this time.

Daily Oil



Weekly Oil

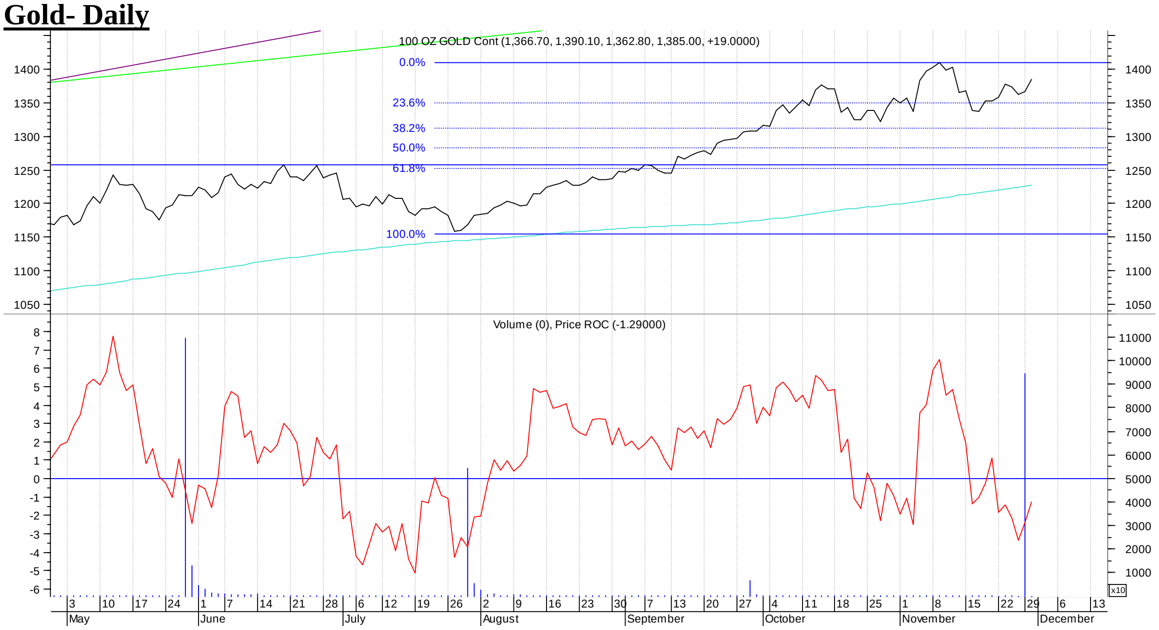


Gold

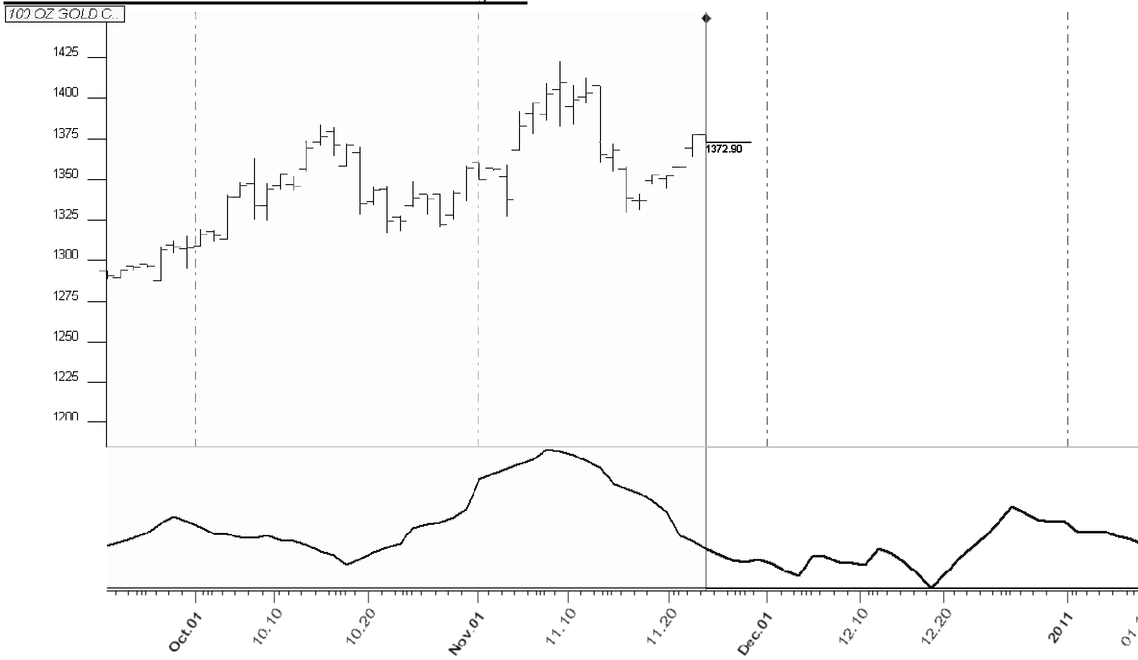
There is no change in the gold projection. The cycle falls into December 18. Gold prices have been stronger than the cycle suggests over the last couple of months. I have chosen to stay long. In utilizing cycles, one must deal with the choice between following a cycle in a market and following the technical indications from that market. When they confirm, all is well. When they part company, one is usually best in following the technicals. With gold, I have been placing more emphasis on the technical indicators than on the cycle. I continue to do so. Experience has shown that strong technicals and a weak cycle can sometimes simply result in a trading range. In any event, the maximum downside that I would expect would be to $1312. This is about 5% below current quotes.

There is a cluster of daily day counts in the 17th-20th time span, confirming the projected cycle low. This will lead to acceleration. In addition, there are 4 weekly time cycles coming due in the week ended December 24th, another indication of a significant turning point. If the market is rising into that date, then we will likely see a more meaningful correction in January. The next upside objective is $1440.

Gold- Daily



Gold-Intermediate and Short-Term Cycle



I read a report in which the author points out that the traditional relationship between gold and other assets has shifted, likely due to the inflation of paper currencies as noted on page 1. The current correlation with the euro is negative, whereas it used to be positive. The reverse is true for the US$. The current correlation with commodities is zero. Thus, gold has decoupled from these assets, likely because the metal is reverting to its historical role as real money.

This news item appeared in the China Daily on November 24th:
St. Petersburg, Russia - China and Russia have decided to renounce the US dollar and resort to using their own currencies for bilateral trade, Premier Wen Jiabao and his Russian counterpart Vladimir Putin announced late on Tuesday.

They are doing what the buyers of gold are doing-escaping from the dollar. As I have been pointing out, the solution to the economic stress is simply to print more money. Now the EU has agreed to rescue Ireland. The difficulties remain the same; the only change from past crises is that the numbers of zeroes on the price tag of the rescue package increases.

One way to determine if a stock group or sector has made a major high or low is to calculate the total market cap of the group or sector versus the S&P 500. For example, the tech sector was about 6% of the entire S&P in the early 1990s, but it rose to about 30% by 2000. This is the same percentage that the energy sector reached in 1980 when it topped out after a long bull run. Currently, the Gold Bugs index contains the 16 largest unhedged gold and silver producers. Compared with the S&P 500, the market capitalization is about 2% of the S&P. I am not suggesting that the gold group will expand to the high levels of the tech and energy groups, but 2% is too low to imply a top.

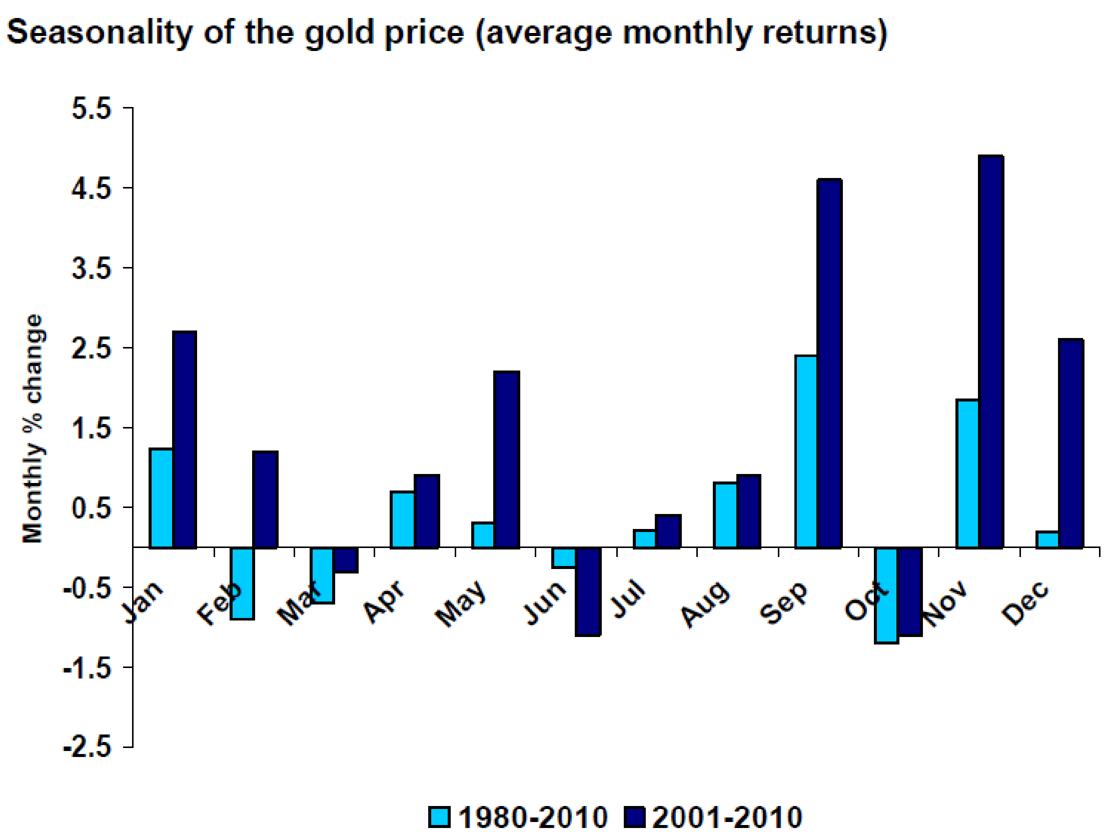
There are several ways to arrive at an inflation-adjusted price for gold:

- According to Shadow Stats gold would have to rise to USD 7,494 in order to reflect the real value of 1980.

- My own comparison of the 1980 monetary base and gold to the current levels of the base and gold show that gold should be in the $5000-$6000 range.

These are not price targets, but are akin to fundamental valuation efforts.

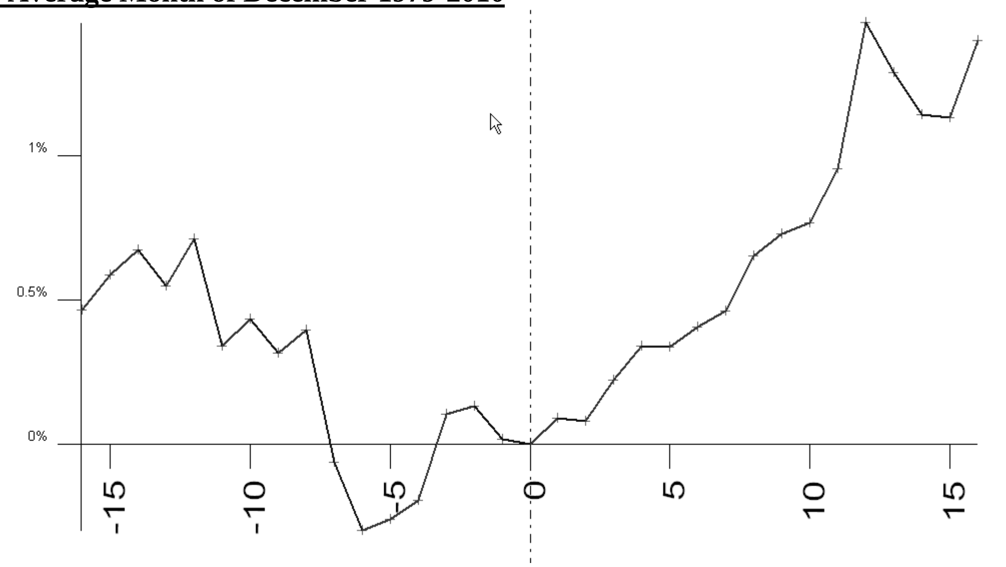
Three of the four turning points fell within a day of a high or a low in November (8th, 12th, 18th and 22nd).



Sources: Datastream, Erste Group Research

The next graph depicts the average price of gold in December for the last 31 years. Gold has risen in 58% of the time from the 9th to the 27th. In bull markets, the dates remain the same, but the percentage rises to 73%.

<u>Gold in the Average Month of December 1979-2010</u>



Dec. 1 Dec. 15 Dec. 30

In the last report, I wrote about the prospects for a world central bank and a new world currency. All of those words can be summarized below:

Individual Stocks

PORTFOLIO

Stock	Buy Price	Buy Date	Current Price	%
Pro Shares Ultra Gold ETF-UGL	30.59	April 9, 2009	67.65	60
*ProShares Ultra-SSO	45.06	Nov. 4, 2010	42.18	20
IBM	143.6	Nov. 1, 2010	141.46	20

*Bought by interim letter on the close on Nov.4

Strategy

Investors stay long.
Traders follow the turning points.

What the Media is Not Telling Us

- US District Judge Jorge Solis has ruled that there is ample evidence to support the Justice Department's decision to blacklist the Islamic Society of North America (ISNA), the North American Islamic Trust (NAIT), and the Council on American-Islamic Relations (CAIR). All are unindicted co-conspirators in the 2008 Holy Land Foundation terror trial. This trial ended with guilty verdicts on all 108 counts and concluded that these groups are fronts for Hamas. The media has not told the public that these groups still have charitable tax status. These groups are still free to lobby Congress, Homeland Security, and the TSA.
- Iraqi terrorist Khay Rahnajet did not pay enough postage on a letter bomb. It came back with 'Return to Sender' stamped on it. Forgetting it was the bomb, he opened it and was blown to bits

Don't Worry-Be Happy

The item usually carries some news or information that supports constructive action or practices. This month, I recommend a visit to the Comedy Cellar. It is located on McDougall Street in New York City's Greenwich Village below my favorite café, The Olive Tree. Both are operated by an old artist friend, Ava Harel. We had a great time there on Friday night. The comics were far funnier than any I have seen in years, a testament to the amount of talent that gathers in that part of the city. There are 3 shows nightly and reservations are recommended.
http://www.comedycellar.com/

Quote of the Month

"... while government is necessary, it is ... a non-productive expense ... supported by the productive economy ... and it always has the tendency to expand faster than the productive base which supports it."
-- Robert Welch, 1958

Book Review

Barack H. Obama: The Unauthorized Biography by Webster Griffin Tarpley. This book is not for Obama fans as denoted by these quotes:

"Obama is a creature and a puppet of finance capital and of the Wall Street bankers and investment bankers…."

"Obama is best described as a foundation-bred counterinsurgent, that is to say an operative in the service of the US financier ruling class whose task is to wreck and abort any positive outcomes…"

"If we try to identify Obama's personal patron during the Chicago years, we must conclude that Obama owed everything to the Ayers family-to ruling class patriarch Thomas Ayers, his son Bill Ayers the terrorist, to his daughter-in-law Bernadine Dohrn, (another terrorist) and to Bill's brother, John."

By the way, Thomas Ayers sits on the board of General Dynamics. This is a familiar pattern in which radicals come from wealthy families.

Note that this author also wrote a similar bio about George Bush.

CFRS Portfolio

The CFRS model portfolio rose 11.1% in Q2 versus a rise of 10.72% for the S&P. This is a computerized model portfolio and is not actual trading results. Looking at the returns on an annualized basis from January 1, 1996 through September 30, 2010:

S&P Annual Return: 4.2%
Portfolio Annual Return: 20.6%

Disclaimer: The methods utilized have proven profitable in the past but no guarantee can be made of future performance nor is any liability accepted.
See the website at cyclesresearch.com.

The report is sent on or prior to the open of the first trading day of the new month, unless otherwise stated. If you do contact us by e-mail, kindly give your full name. We cannot query the database by e-mail address. Thank you.

Cycles Research
511 6th Ave.
No. 550
NYC
NY 10011-8436