Crude Oil Foretold The Trump Rally 10 Years Ago

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan shows that the trend in the price of oil has an uncanny relationship to stock market performance ten years later.

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http://www.mcoscillator.com/learning_center/weekly_chart/crude_oil_foretold_the_trump_rally_10_years_ago/

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Director of Research

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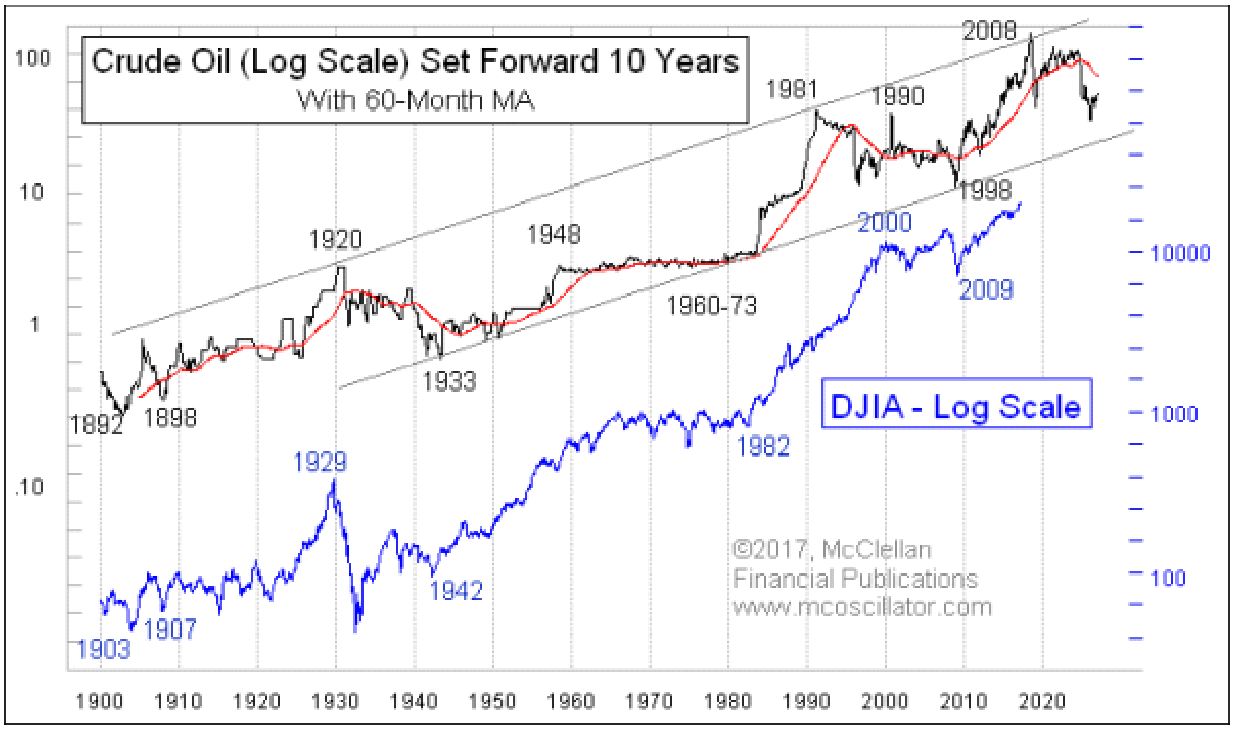
The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

President Trump is being given credit for the post-election rally, based on analysts' understandings of investors' assumptions about what potential policy changes might mean. And, someday, I am pretty sure Mr. Trump is going to be blamed for a stock market sell-off he similarly had nothing to do with. Such is the nature of the media.

The up-trend still underway was foretold by crude oil prices 10 years ago, as this week's chart below illustrates. This leading indicator is one of the most fun insights I have uncovered in 22 years of newsletter writing. I like to get the answers ahead of time, and often those answers are imperfect. But, it is still a compelling insight about the stock market.



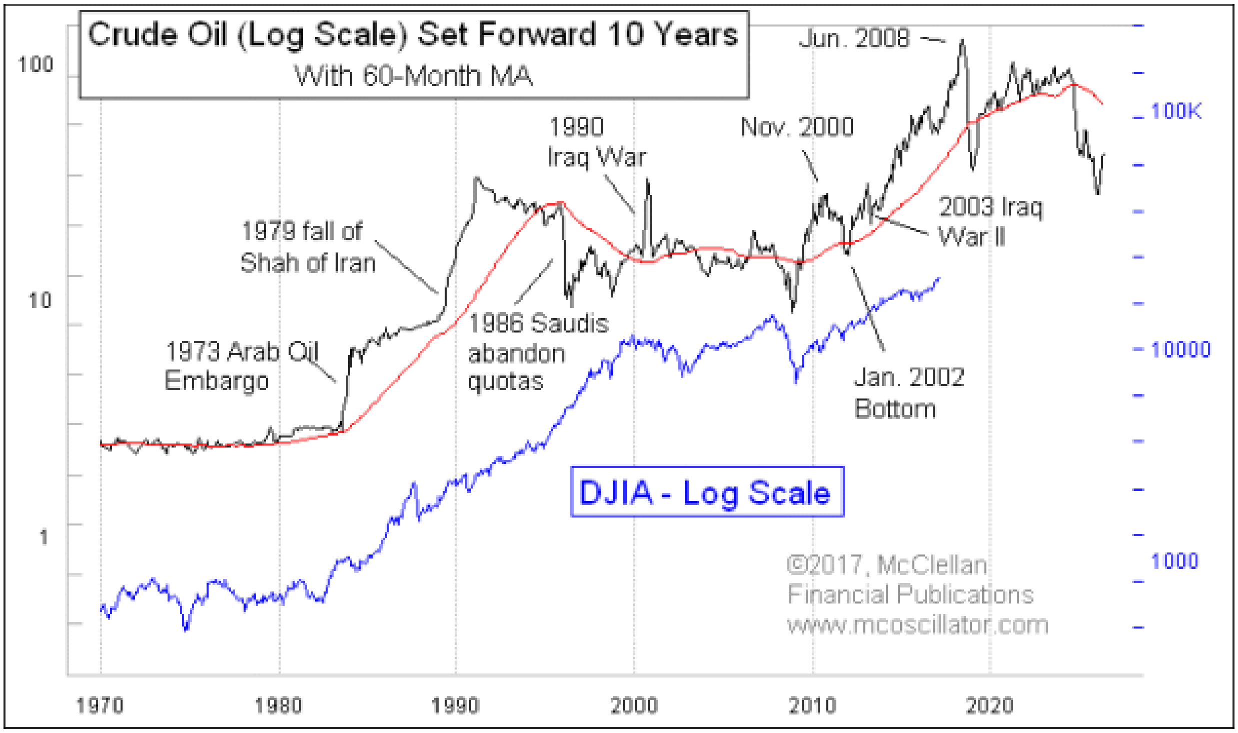
I first noticed this when looking at a long-term chart of crude oil prices, using data compiled by the Foundation for the Study of Cycles. I noticed that the chart pattern looked familiar, and it resembled that of the stock market. Putting them together on one chart revealed that my observation was correct, but that the movements of crude oil prices seemed to be leading those of the DJIA. A bit of tinkering showed that a 10-year leading indication made for the best fit.

That insight deserves a moment of contemplation. The chart reveals that crude oil prices seem to know 10 years in advance what the DJIA is going to do. The correlation is not perfect, but it is darned good. How could the crude oil market know in advance what the stock market is going to do?

That is a fascinating but irrelevant question. At some point, where there is enough data, one can let go of the "why" and start accepting the "is".

The leading indication from crude oil prices has only been "working" for the entire history of both the DJIA and crude oil prices. It has not worked perfectly, but it has still worked. For most rational people, 120+ years of data should be seen as enough to validate an hypothesis, although I recognize that for others, this is not enough. Perhaps they need 125+ years.

Here is a chart showing the same relationship, zoomed in on the last few decades:



It lets us see more easily that the up-trend since the 2009 low is just the echo of a similar run-up in oil prices a decade earlier. Oil peaked in June 2008; therefore, adding 10 years to that date gives us June 2018, plus or minus a few months.

When we get to the 10-year echo point of crude oil's June 2008 top, the stock market should start to see a serious down-turn. I have no doubt that President Trump will earn the blame for that down-turn, just as he has been getting the credit for the post-election rally. Neither instance of credit/blame is deserved, but that does not stop the media from applying them.

The message from crude oil prices is that the stock market should continue to run upward into mid-2018, and then fall hard. The risk in this hypothesis is that the 2008 commodity bubble collapse might be another exogenous event, like the 1990 Iraq War, or the 1979 Iranian revolution, and that the stock market will ignore this message. If so, then the magnitude of such a stock market price response may be less than indicated. But, if oil's 2008 top was a real market event, then we have some excitement ahead, just before the mid-term elections in November 2018. The stock market should recover nicely from whatever excitement that might be, but that will not stop the financial media and most investors from blaming President Trump for whatever happens.

Tom McClellan

Editor, The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* follows on the ensuing page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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