A Different Sort of Presidential Cycle

***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 analyzes low VIX values relative to concurrent S&P 500 performance.

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly:

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

You can also visit the McClellan Financial Publications Home Page at the link below. This is a subscription service, and there are two publications which can be subscribed for: (1) **The McClellan Market Report**; and (2) **The Daily Edition**.

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Bob Weir, CFA
Director of Research

July 27, 2017

The McClellan Chart-In-Focus

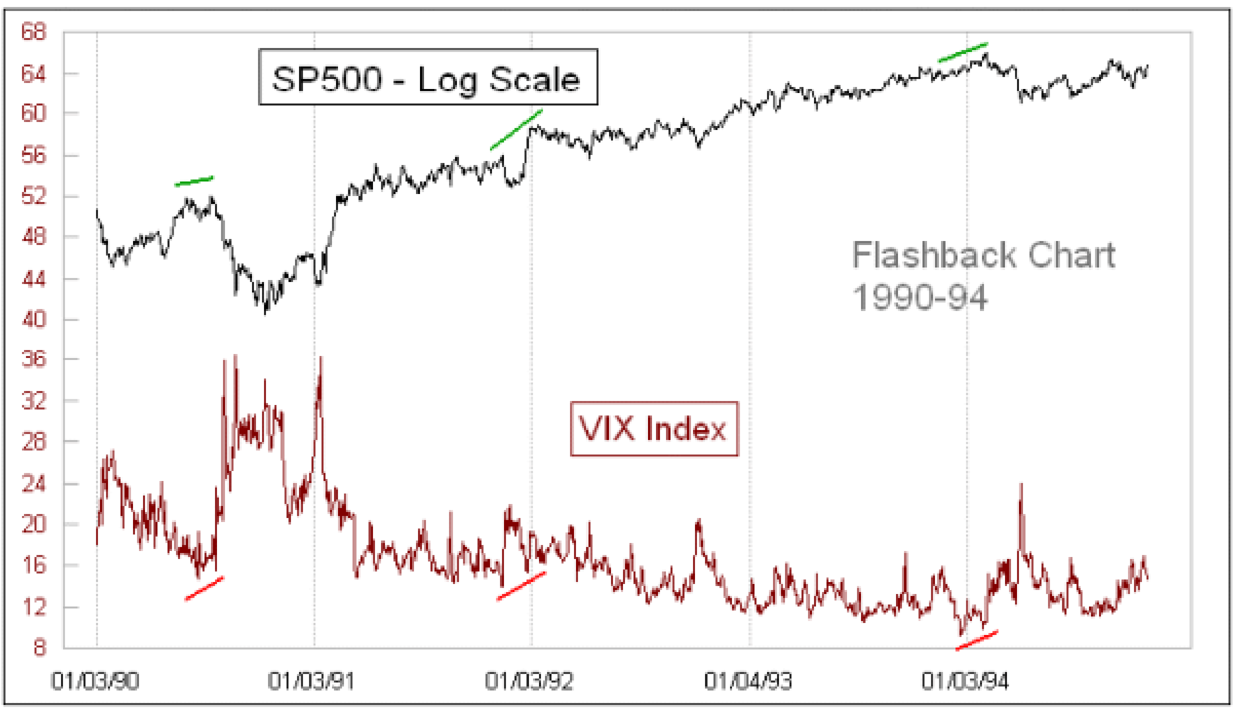
by Tom McClellan (bio at end)

How VIX Ends A Long Run of Low Values

With the VIX Index down in the 9s, and with valuations at historic extremes, investors are wondering how long this all can last. The short answer is: MORE.

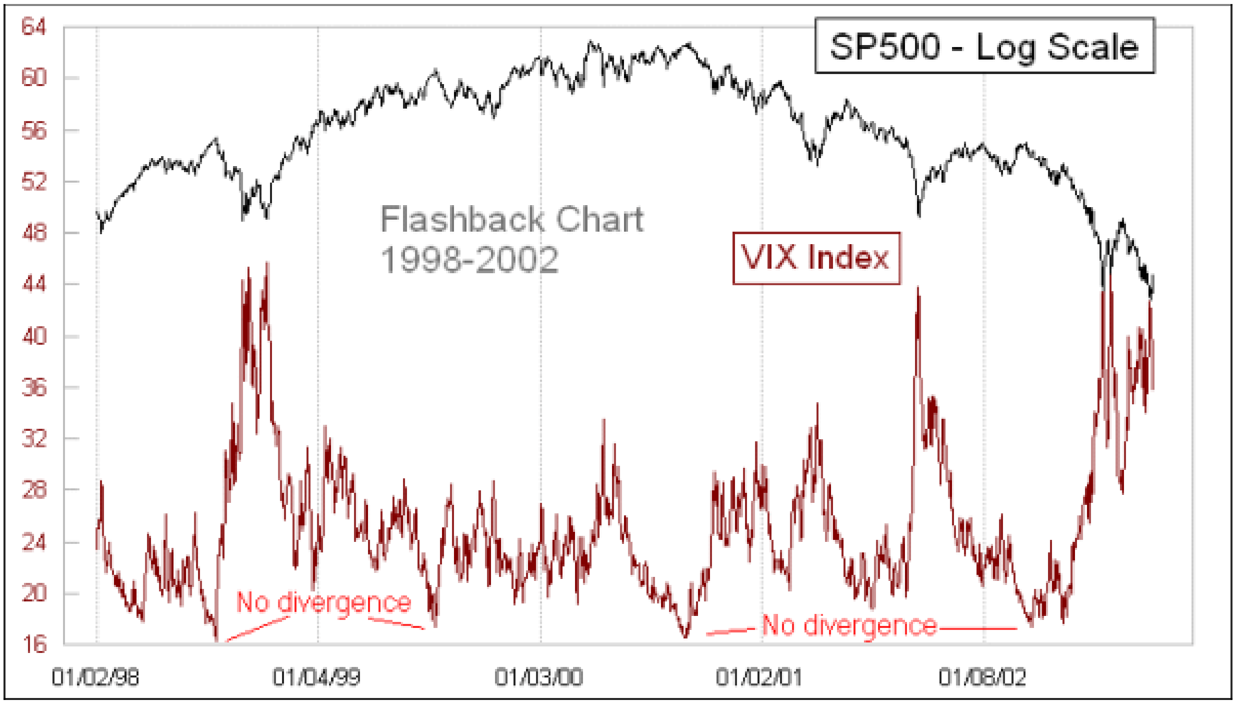
The VIX Index made its all-time closing low of 9.31 back on December 22, 1993. It has posted intra-day values below that number in July 2017, but has not yet made a lower closing low. The most important point that history teaches us about these extreme low VIX readings is that the lowest VIX closing value seldom coincides with the highest price high. Also, the amount of time between those two events can vary wildly.

Here is a look back at that all-time low in 1993:

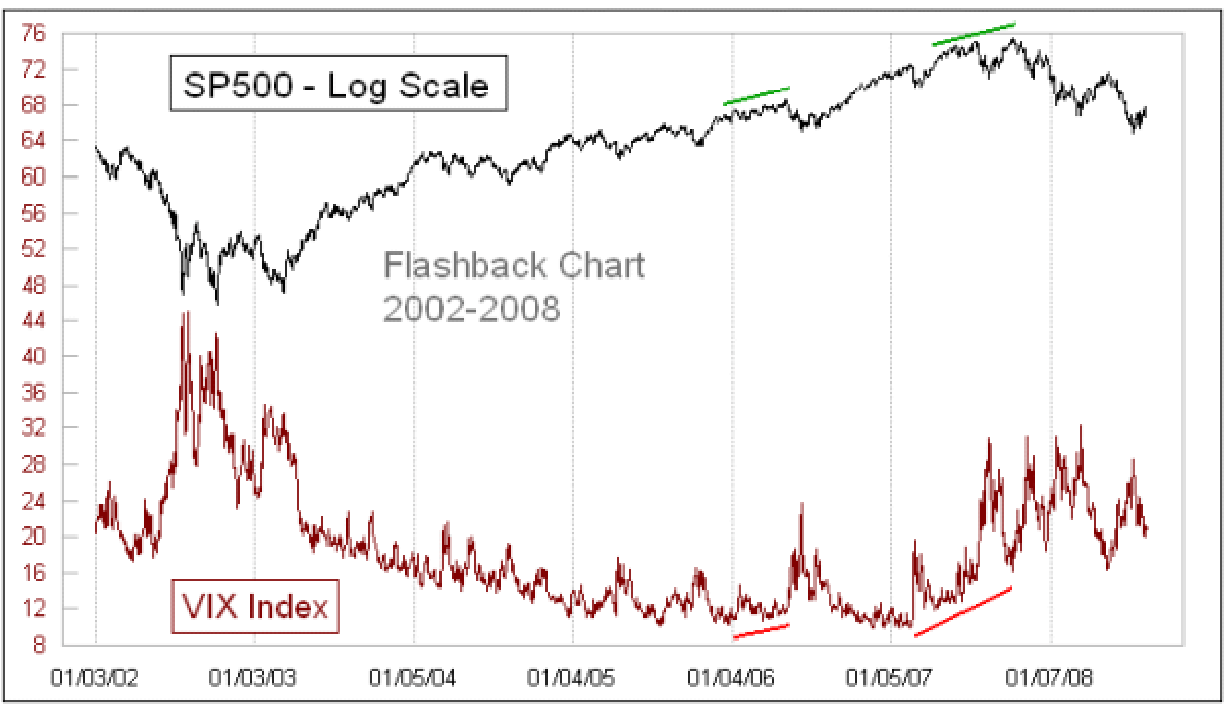


Notice that at each of the significant price tops in this period, the VIX was making a divergent higher low. So if one had understood this point back then, one could have observed the lower VIX levels and had some assurance that the top was not in at those moments.

But this principle has not always been perfect. Around the Internet Bubble top in 2000, there were none of these nice VIX divergences. Thankfully, there were lots of other indications back then to tell us that the market was having problems.

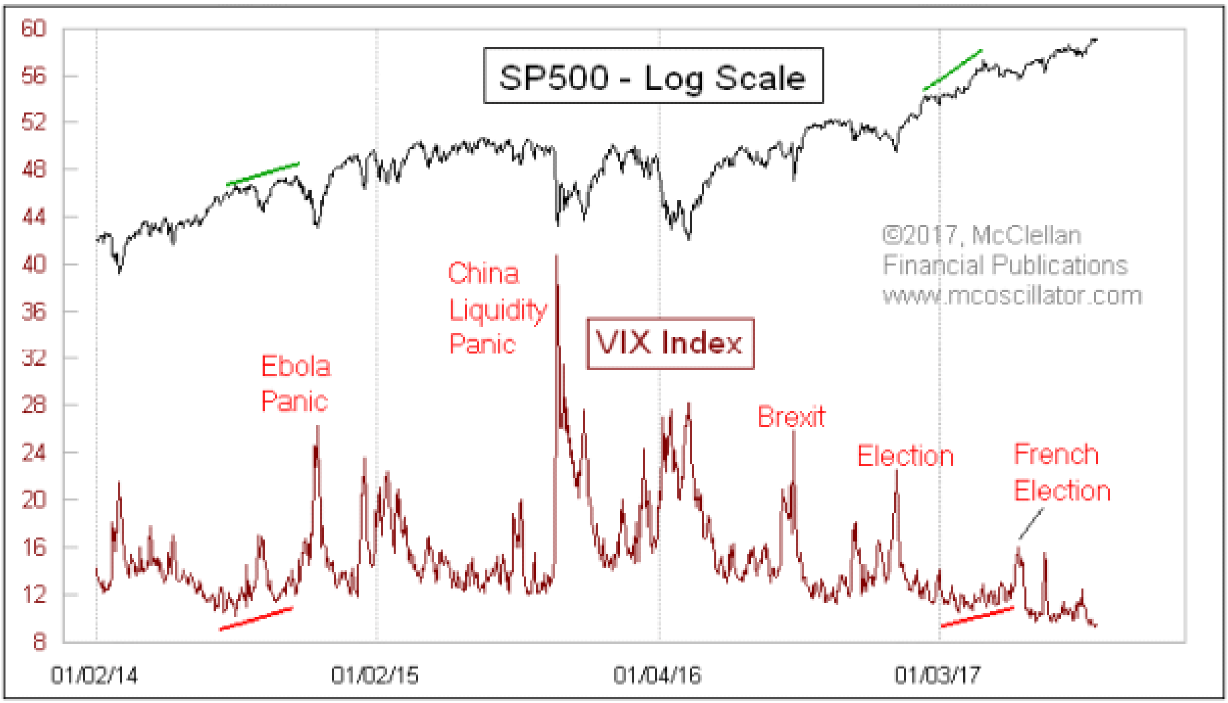


At the 2007 top, the VIX was back to giving us nice divergences to mark the price tops. And the old rule about seeing the VIX making lower lows was a good sign to stay long, expecting more uptrend for prices.



So, it appears to matter whether we are in a period of strong liquidity, with the A-D Line making higher highs along with prices, versus an illiquid bubble blow-off condition like we saw around 2000. In a liquid market, an A-D Line divergence shows a loss of that liquidity, and the transition to a corrective period or an outright bear market. VIX divergences may have that same message.

Here is a final chart that zooms in on the most recent time period.



There have been some momentary bits of excitement along the way, but hardly any divergences. And the lower VIX lows now say that the uptrend in prices is not done yet.

Tom McClellan

Editor, The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* follows on the next 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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