# Years Ending In "7"

***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 reviews the historical performance of the DJIA in years ending in "7".

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/years_ending_in_7/

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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# The McClellan Chart-In-Focus

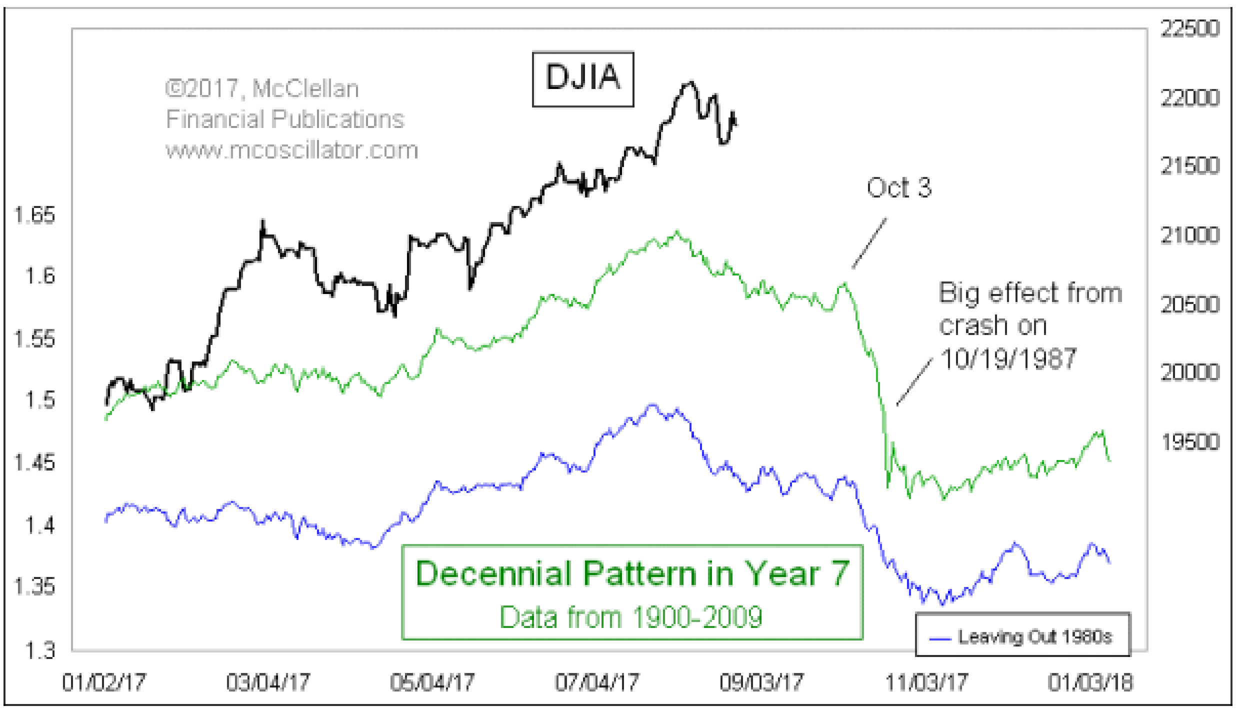
by Tom McClellan (bio at end)

## Years Ending In "7"

Everyone knows about annual seasonality, and has heard of "Sell in May and go away". That slogan persists even though actual seasonal strength typically peaks in August, but nothing good rhymes with August. There is also a strong tendency of the market to show regular patterns on a 10-year basis, now known as the **Decennial Pattern**. Years ending in the number 7 have an ugly surprise for the bulls.

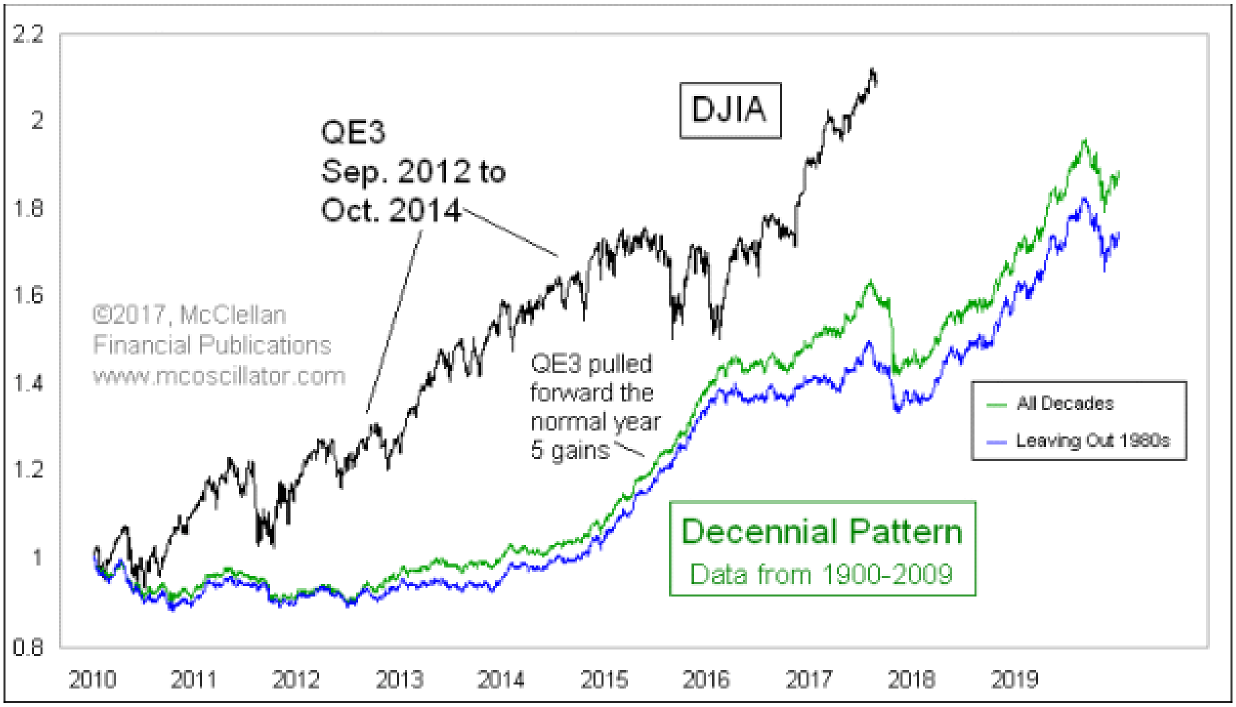
In year 7s, the stock market typically peaks in August and bottoms in early November. Thus far, the DJIA seems to be following the pattern very closely. The real decline comes after a peak due October 3.

The worry in following this pattern is that it might be overly influenced by the huge decline that the DJIA experienced in 1987. So in the chart below, I show two versions of the Decennial Pattern, the lower one leaving out the data from the entire decade of the 1980s. This allows us to see that it was not just the effects of the 1987 crash that are pulling down the Pattern in year 7s. It is a persistent effect.




The strong correlation that we are seeing this year between the DJIA and the Decennial Pattern is pretty impressive, and it is worth noting that the DJIA had not been seeing such a strong correlation earlier in this decade.

On the next page, there is a longer-term comparison.




The market strength, which is a normal feature of years ending in 5, did not appear this time. I would argue that having the Fed doing $85 billion a month of QE earlier in the decade pulled forward the normal year 5 strength. Then, shutting off that free money pushed the market into withdrawal symptoms, like a heroin addict trying to quit cold turkey.

Now that we are farther along into the post-intervention era, the market is more free to follow its normal tendencies and we are seeing better correlation to the Decennial Pattern.

If the stock market keeps following the Decennial Pattern with the strong correlation we are seeing now, then we can expect prices to bump along gradually lower, and then accelerate downward once October gets here. (BW: ... for about 4-5 weeks)

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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