Third Party Research March 8, 2018

A Follow-Up On 3 Charts

***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 looks at three issues he examined in previous reports.

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

https://www.mcoscillator.com/learning_center/weekly_chart/a_follow-up_on_3_charts/

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Bob Weir, CFA
Director of Research

March 8, 2018

The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

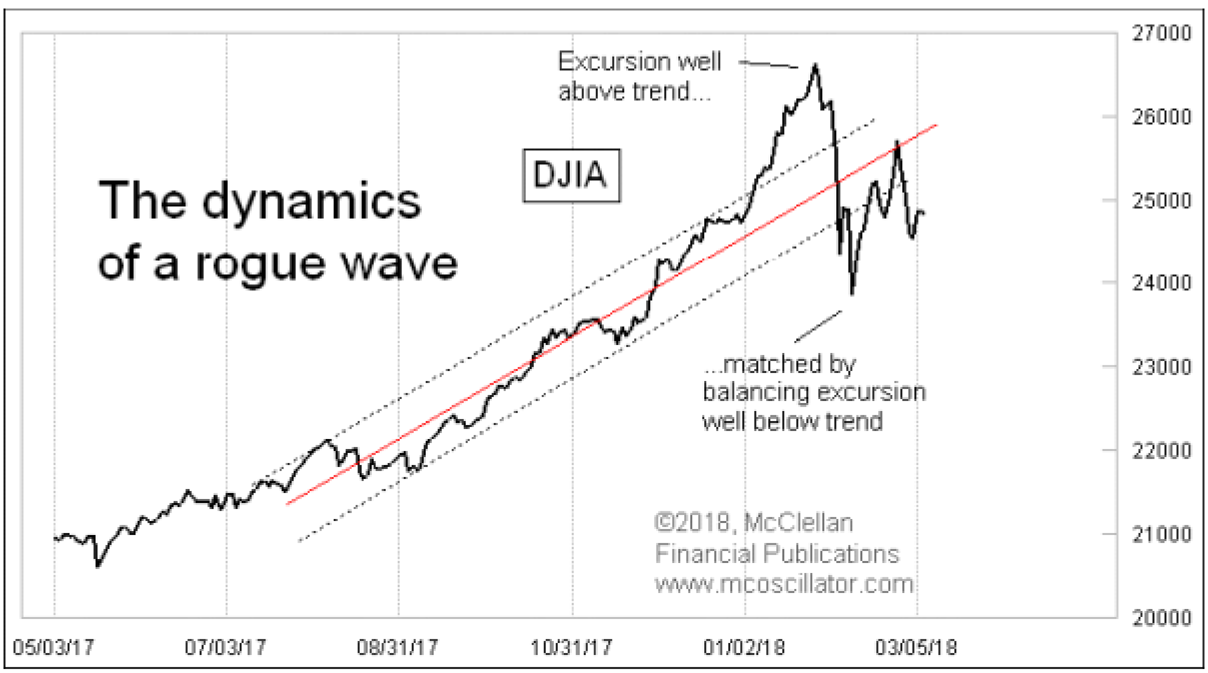
A Follow-Up On 3 Charts

We are at a fascinating turning point in the market's path, and it is worth reviewing some recent Chart-In-Focus stories to see how they turned out, and to look at what might lie ahead. I usually refrain from doing reruns but, in each case, there is new information that I find interesting, and which I have already shared with our *McClellan Market Report* and *Daily Edition* subscribers. I hope you will find them interesting too. So here goes.

On February 15, I wrote about "***Stock Market In a Rogue Wave***".

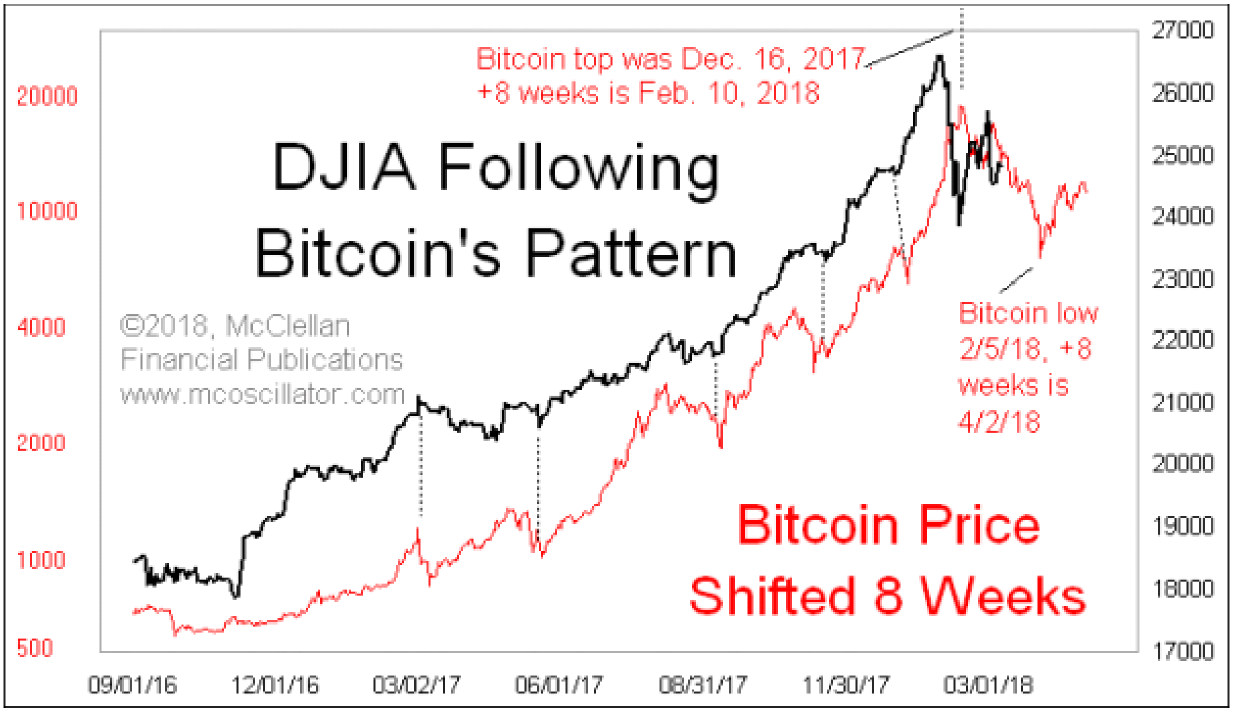
Rogue waves are a rare and peculiar phenomenon, both in the ocean and in other areas involving flow. The main points are that a rogue wave borrows energy from adjacent waves to build to a much greater height than the surrounding chop. The height of the crest tends to be matched by the depth of the adjacent trough. After the rogue wave goes by, the fluid returns to the nominal level, or "sea level" which, in the stock market, is harder to discern.

In the case of the DJIA's rogue wave, the "sea level" equivalent is the trend which was in effect before the upward swoop and adjacent mini-crash. That trend is depicted by a median line shown in the chart below. The dead-cat bounce made it back almost exactly to the median line, and so the mission of the post rogue wave period has now been accomplished. What happens next is not part of this model of stock price behavior.



On January 25, I wrote about "***[Finally, An Actual Use For Bitcoin]***" noting that the price pattern in Bitcoin during 2017 was getting replicated in the movements of the DJIA.

Here is an update of that chart:



Right after I wrote that article, the pattern correlation broke down about as badly as it can, inverting to a DJIA bottom at the point when the Bitcoin price pattern said a top should occur. Then the DJIA rebounded, but in a way that makes it appear that the DJIA is working to get back on track with Bitcoin's chart pattern rather than staying inverted.

This is a classic case of my #1 Rule of Technical Analysis, which holds that "A phenomenon will remain in effect only until noticed." (And if you write about it, it will tend to fail.)

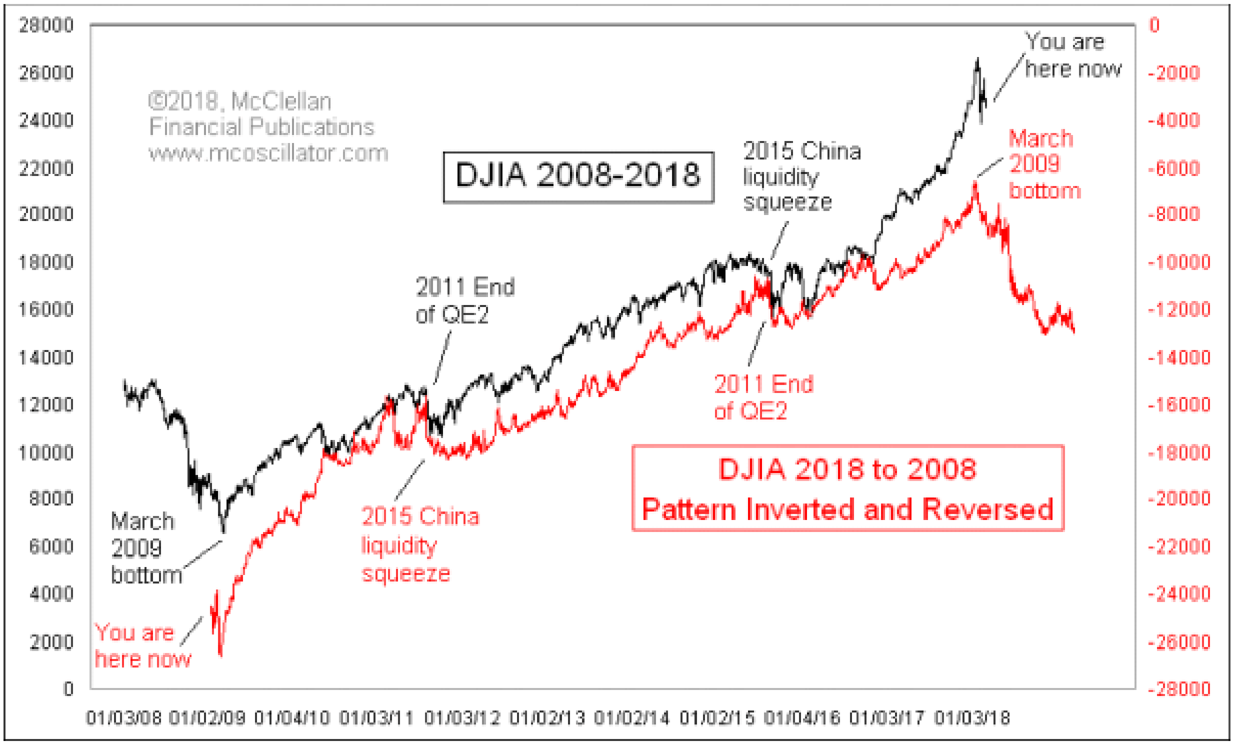
Bitcoin's price plot was likely skewed by the anticipation of the introduction of Bitcoin futures trading which commenced on December 15, 2017. Once futures trading got going as a real part of Bitcoin's path through the universe, the relationship seems to have returned to being a case of following market forces and, thus, the message of what is ahead for the DJIA went back to working again.

If it keeps on working into the future, then the DJIA is facing a bottom in early April. I think that bottom will actually arrive a bit earlier, as discussed in the latest issue of our twice monthly McClellan Market Report newsletter. But the continued Bitcoin weakness is not good news for the bulls, assuming that the relationship really does hold up.

On January 18, I wrote about a fun way of seeing the DJIA's chart pattern in "***[Ending How It Began (Parabolically)?]***"

I compared it to a musical composition by Beethoven which two violinists could play from the same piece of sheet music, each reading the notes upside down from how the other one saw it.

Here is how that comparison turned out:



As that article hypothesized, the March 2009 bottom seems to have seen its echo in the January 26, 2018 top. The red line in this chart is the same as the black line, just rotated 180°. If the pattern correlation continues to "work", and that is a big IF, then stock prices have further to fall.

It is fun finding the ways in which the market reveals its intentions about the future. Such insights do not necessarily continue to work as one expects them to, and so they do not deserve our unquestioning confidence. But they sure are fun sometimes.

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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