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Waiting on the Echo of Crude Oil's Big Drop

***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 the historic relationship between crude oil prices and the stock market index.

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/waiting_on_the_echo_of_crude_oils_big_drop/

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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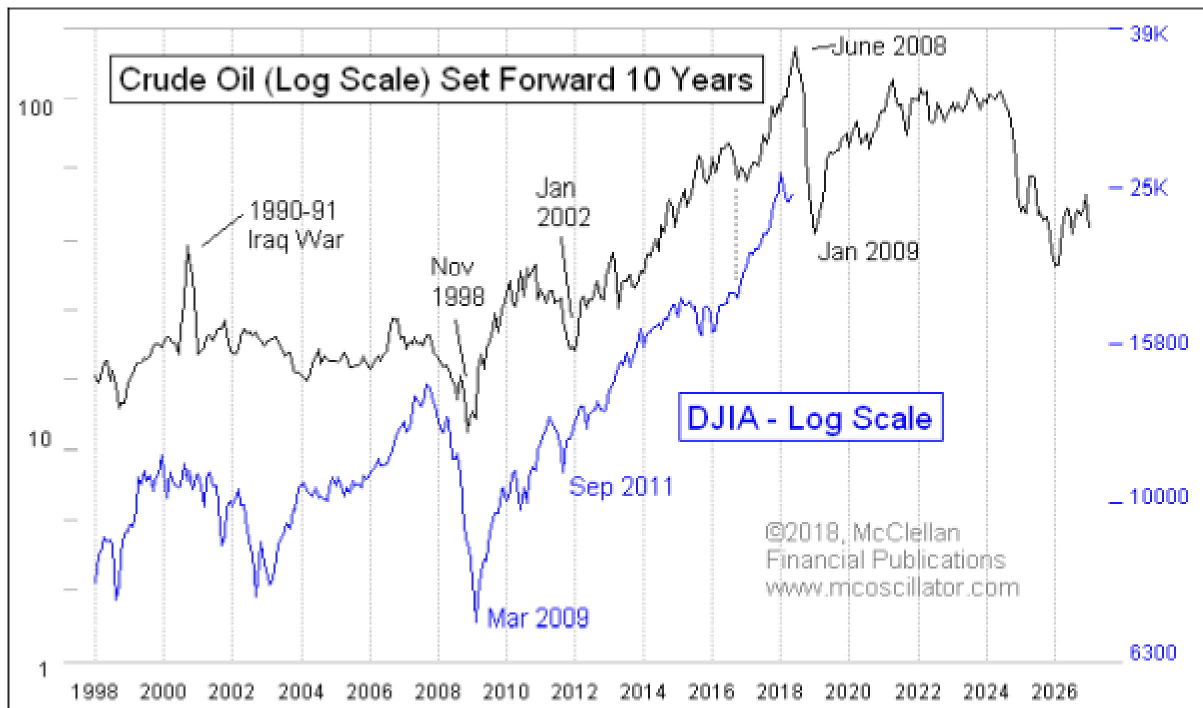
The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

Waiting on the Echo of Crude Oil's Big Drop

10 years ago, in June 2008, oil prices were making a top above $140/barrel, which turned out to be an exhaustive blow-off top. A steep collapse ensued, taking oil prices down to below $40 in January 2009.



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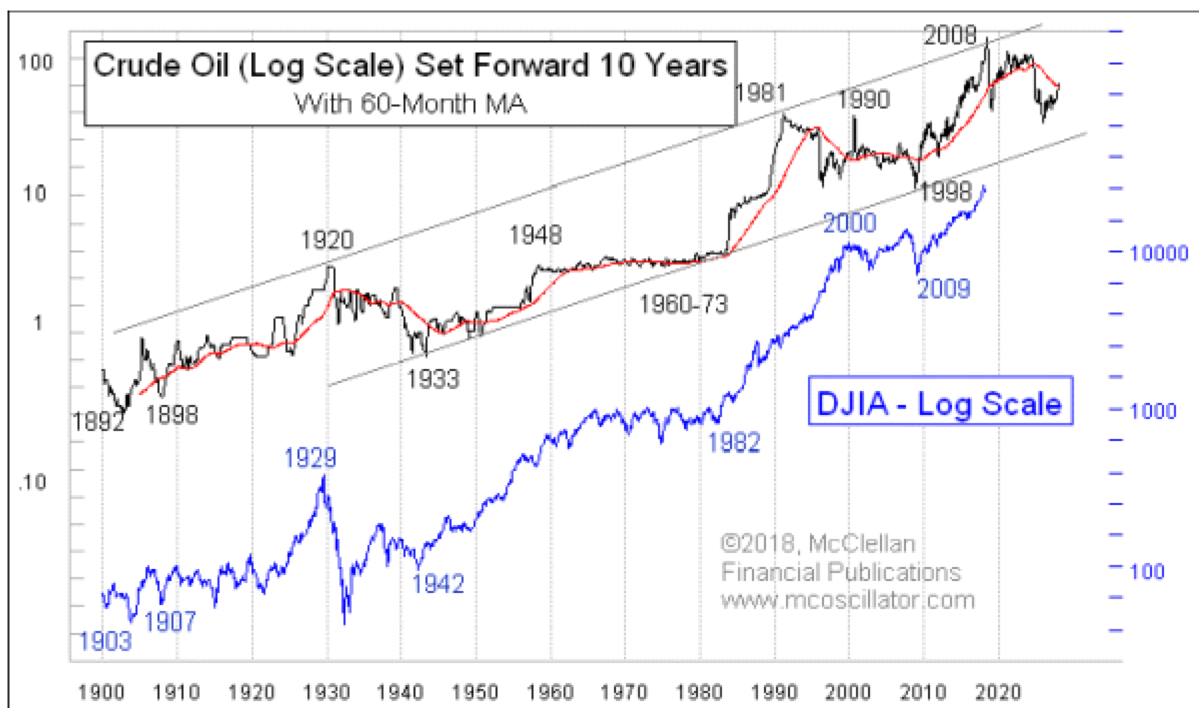
Crude oil gives us a 10-year leading indication for what the stock market is going to do. It is a phenomenon which has only been working for the entire 122-year history of the DJIA, so that may not be long enough yet for some people to believe in it. Making things more complicated, it is not a precisely perfect model of future stock market action. It is merely very good.



The implication of the 10-year leading indication relationship is that we should see the echo of that oil price drop in 2018.

Now here is the problem: The 10-year lag period is not precise. It can vary from 9-1/2 to 10-1/2 years. And when a government or OPEC puts a thumb on the scale, the relationship can get skewed.

As an example, in 1990, the government of Iraq decided it was entitled to annex “the 19th province,” i.e. Kuwait. That understandably caused a bit of turmoil in the oil market, causing oil prices to spike from $20 to $40 a barrel, and then collapse back down again after the “mother of all battles”. The DJIA 10 years later did not echo that brief spike exactly, but did generally follow the pattern of oil prices minus that exogenous spike.

In 2008, there was a huge commodities bubble, as hedge funds suddenly embraced commodity indexing after they realized that the stock market and housing market were not going to be great places to invest. That helped to send oil to $145/barrel. But it left the as yet unanswered question of whether the 2008 commodity bubble top was another example of an exogenous blow-off which should be discounted.

We will have that answer within the next year or so, which is wonderful for the history books, but not so good for trading. If the DJIA was going to match the oil price pattern exactly, then we would see a price top for the stock market in June 2018 and a sharp drop to a bottom due in January 2019. But as we have seen, the match is not exact.

My guess, at the moment, is that the DJIA’s January 26, 2018 top is the early answer to oil’s June 2008 price top. And so a 6-7 month decline should unfold, leading us to a stock market bottom due sometime in late summer. That is assuming that the recent tendency of the turning points to be early versus a 10.0-year lag persists for a while. That is a big assumption.

I will be turning to other tools to nail down the exact timing of the 2018 stock market decline and rebound, since trusting oil’s action of 10 years ago to give us exact answers is taking it beyond its historically demonstrated abilities. The deeper message for us to take from oil’s action right now is that, after the 2018 decline, there WILL be a big price rebound for stocks into 2019 and beyond. It

probably will not feel like such a rebound is going to be possible as the market is putting in its bottom later this year, but that is exactly the nature of how bottoming moments feel.

Tom McClellan, Editor,

The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is provided on the following 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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