Four Years Ago and, Again, Today

***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 market action that occurred four years ago with what is happening today, with surprising observations.

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Bob Weir, CFA
Director of Research

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The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

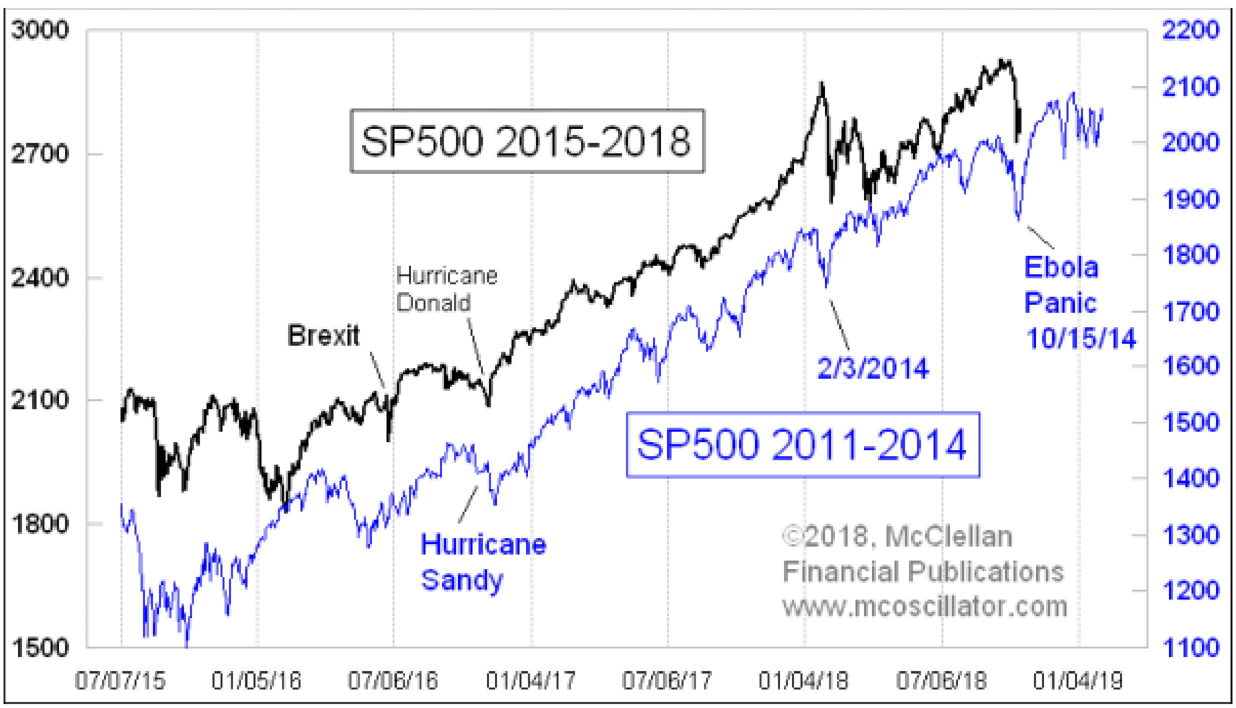
Four Years Ago and, Again, Today

Four years ago we had a remarkably similar market price action to this year's. That makes no fundamental sense, since all of the factors which should matter are different.

Four years ago, the Fed was still doing QE3. That program was winding down, but in October 2014 the Federal Reserve still added another $24 billion to its balance sheet. Contrast that to October 2018, when the Fed is unwinding its balance sheet at a stated rate of $50 billion per month.

Four years ago, the U.S. was in the middle of President Obama's second term, facing a mid-term election, and Donald Trump was not even one of the 17 declared Republican candidates yet.

Four years ago, the Federal Reserve had its Fed Funds target rate set at 0 to 0.25%, part of their "zero interest rate policy", or ZIRP. Now, the Fed Funds target rate is 2.0-2.25% and headed higher.



By any of these points of comparison, we are in a wholly different market environment, and thus we ought to expect vastly different stock market behavior. But that is assuming that these are the factors which matter, and which govern the movements of stock prices. Instead, we are seeing nearly identical price action to 2014, in spite of the vastly different fundamental factors. The key takeaway point is that perhaps these factors I have just listed may not be the ones which govern or explain price action.

One other big deal in October 2014 was that there was an Ebola epidemic, and Americans were deeply occupied in the news media's obsession with that epidemic, worrying that it might come here. It actually did come here, in the form of a couple of patients who were quickly quarantined. I remember the overhead helicopter shots showing the ambulance driving to the Dallas hospital. America was consumed with its Ebola worries, and that was reflected in a big stock market dip which bottomed Oct. 15, 2014. That was at the climax of the Ebola worries, when it finally appeared that the medical authorities might be able to get a handle on things.

In 2018, we have had no worries about hemorrhagic fever, and instead the role of the evil villain has been played this time by the fear of rising interest rates. The Fed is threatening to tamp down the rapid GDP growth, and 30-year mortgage rates are heading toward 5%. Hemorrhaging blood out of your eyeballs is not the same as hemorrhaging income to pay for interest payments, but the market's reaction has been the same.

The comparison of the current market to that of 4 years ago is not a new topic. I have been addressing this in our twice monthly McClellan Market Report and our Daily Edition. And I featured it here in a Chart In Focus article, The Unexplainable 4-Year Rerun. The amazing point is that it is still "working" in spite of me revealing it back then.

And CNBC's Mike Santoli addressed some of the similarities in price behavior on air Oct. 16, 2018, which can be viewed at this link:
https://twitter.com/CNBCClosingBell/status/1052301786802003968

Those who study the stock market seek to identify factors which should matter in terms of driving price behavior. Some conclude that earnings news, interest rate changes, dividend yield, crude oil prices, savings rates, GDP growth, book value, and all of the other things which the CFA program tells you should matter are the things that are important. But when all of those factors are shown to be different from a prior period, and yet the price behavior is the same, the conclusion one should reasonably draw is that those are not the factors which really matter.

The October 2018 minicrash matched the price action of the October 2014 Ebola Panic, but for wholly different supposed reasons. The February 2018 minicrash matched a similar one in February 2014, but again with wholly different news stories to explain each episode. The two patterns show additional minor points of similarity. It is not just about the overall up-trending direction, but about the minor dance steps matching up from one period to the other. There must be other factors which matter, other than the items that the fundamentalists insist are the ones the matter.

If we assume that the 2014 pattern is going to continue driving stock prices in late 2018, then that should mean a dramatic rebound continuing through the end of 2018 and into 2019, without looking back. Thinking that the price pattern of 4 years ago should determine what happens now is a hard case to make. Except that for the past 3+ years, it has been working way better than all of the things which should matter. Knowing what the exact explanation is for this behavior is far less important than recognizing that the behavior happens for different reasons (obviously) than what the experts tell us about why stock prices move.

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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