Tim W. Wood's

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According to Dow theory, every bull and bear market is divided into 3 phases with important counter-trend moves separating each of the phases. Robert Rhea, the great Dow theorist of the 1930's, stated that these counter-trend moves were often mistaken by the public as being a new bull or bear market rather than the counter-trend moves they are. In looking at the chart below, the first leg down of the 1966 to 1974 bear market is noted in blue on the upper chart of the Industrials. From that low, in the fall of 1966, the rally separating Phase I from Phase II of the bear market began. This rally is marked in green and in this case carried the Industrials up 26 months into the December 1968 bear market rally top. From that peak, the Phase II decline began and new lows were seen into the Phase II low in May 1970.

DJIA

DJTA

54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74

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This decline is noted in yellow. Then, came the rally separating Phase II from Phase III of the ongoing secular bear market. This advance is also marked in green and this time around it lasted 32 months and even carried the market to a new high. But, in the bigger picture, the bear market was not over and ultimately new lows were once again seen as the market moved down in conjunction with the Phase III decline. Like now, during that period, traditional Dow theory bullish primary trend changes were indeed seen. But, it was the ability of the Dow theorists of the day, who also understand phasing and valuation, that allowed them to see the context in which these bullish primary trend changes were occurring. Those who understood this got it right, while those who did not fell victim to the bear. Based on my research, I continue to believe that the bull market top occurred in 2007 and that the decline into the March 2009 low was the Phase I decline. I continue to believe that the ongoing rally is the rally that will ultimately prove to separate Phase I from Phase II of a much longer-term secular bear market. I have been asked why the bull market could not have topped in 2000 with the decline into 2002 being the Phase I decline and the rally into 2007 being the rally separating Phase I from Phase II, with the Phase II low having occurred in March 2009. That is a fair question and I will address that here, but first this answer requires a bit of history. Some of this history has been discussed here before, but apparently I did not connect some of the dots. When studying the bull and bear markets of the late 1800's and very early 1900's, it became apparent that the bull markets Dow, Hamilton and Rhea wrote about were one in the same as the movements of the 4-year cycle. That being said, let me make it perfectly clear that cycles have absolutely nothing to do with Dow theory. Dow theory and cycles are two completely separate tools. But, they can be used to complement each other. Anyway, I discovered that the upside movements of the 4-year cycle between 1896 and 1921 were consistent with the bull market periods in accordance with Dow theory and that the bear market periods were the downside movements of the 4-year cycle. In other words, the secular bull market was the upside piece of the 4-year cycle and the bear market was the downside piece of the cycle. My theory is that as our country grew, more and more people began investing and as a result the bull and bear market periods became longer. In doing so, the bull and bear markets evolved into a series of multiple 4-year cycle events. It was E. George Schaefer, the great Dow theorist of the 1950's and 60's who first recognized that these bull and bear markets had grown in duration. The first bull market to consist of multiple 4-year cycles ran from 1921 to 1929 and consisted of two 4-year cycles. The low in November 1929 was a 4-year cycle low. The rally that followed was the upside of a 4-year cycle, which served to separate Phase I from Phase II of that great bear market. This advance topped in only 5 months and once it was over, the DJIA moved down below the previous 4-year cycle low and into the 1932 4-year cycle low, which proved to be the bear market bottom. I would also like to point out that the 1921 to 1929 bull market advanced a total of 568% from the 1921 4-year cycle low at 67 on the DJIA to the 1929 4-year cycle top at a high of 381 on the DJIA. The next great bull market began with the 4-year cycle low in 1942 and ran to the 4-year cycle top in 1966. This time the secular bull market was comprised of a series of six 4-year cycles and advanced a total of 1,076% from the 1942 4-year cycle low at 93 on the DJIA to the 1966 4-year cycle top at a high of 1,001. Note that this bull market advance was roughly double the preceding great bull market. The bear market that followed was also a series of 4-year cycles. From the 1966 4-year cycle top, the bear market moved down into the 1974 bear market low. This was a series of two 4-year cycles. Now, let's focus on the bear market declines and for today's discussion as to why the

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2000 top did not mark the phase I top, this is of particular importance. Prior to the first great bull market that ran between 1921 and 1929, the bear markets averaged some one-third the duration of the previous bull market. History shows that this relationship has also held true with the extended bull market periods as well. For example, the 1921 to 1929 bull market was 8 years in duration and the 1929 to 1932 bear market was 3 years, making the bear market's duration 37.5% of the preceding bull market. The 1942 to 1966 bull market was 24 years in duration and the 1966 to 1974 bear market was 8 years, which was 33.3% of the duration of the preceding bull market. Now, with the last great secular bear market having bottomed in 1974, this is the point in which the last great secular bull market began. This is true from a cyclical perspective as well as from a Dow theory perspective. In fact, Richard Russell stated in his December 20, 1974 newsletter, "we are finally in the zone of great value." It was then with the price action on January 27, 1975 that Mr. Russell confirmed the bear market bottom in accordance with the methods of Charles H. Dow. Now, at the 2000 top, the third great bull market that began at the 1974 low had run some 26 years. Given that history shows the bear markets average some one-third the duration of the preceding bull market, if the top occurred in 2000, then one-third of that 26 year period would be 9 years in round numbers, which would obviously suggest a bear market bottom in 2009. True, we obviously saw an important low at the March 2009 low but, I do not believe that it market the bear market bottom. Reason being, the 2009 low did not represent a value low as has been seen at all other secular bear market bottoms. That value is representative of the dividend yield being roughly equal to the P.E. ratio. It is a fact that at true secular bear markets the dividend yield and the price earnings ratios will be roughly equal. As an example, in 1932 the yield on the S&P 500 was 10.50% and the P.E. was just under 10. In 1942 the yield was 8.71% and the P.E. was 7.3. At the 1974 bottom the yield was 5.9% and the P.E. was 7.24. Even at the 1982 low the yield was 6.2% with a P.E. of 6.9. At the March 2009 low the P.E. was 23.77 with a dividend yield of 3.58. At the October 2002 low the P.E. was 29.95 and the yield was 1.98. As you can see, neither the 2002 low nor the 2009 low represented the great values that have been seen at previous secular bear market bottoms. Thus, if the 2009 low did not mark the secular bear market low, then the 2007 top had to have marked the secular bull market top. This then means that the March 2009 low should prove to be the Phase I low and that the rally we have seen since then should ultimately prove to separate Phase I from Phase II of the ongoing secular bear market. Based on this data along with the historical relationship between bull and bear markets, this also means that the last great bull market ran 33 years into the 2007 top. We have sense seen an tremendous extension of the advance out of the 2009 low. If the traditional relationship between bull and bear markets of the past 121 years holds true, then an idealized bottom for this bear market is not due until approximately 2018. Now, I do believe that the secular bull market tried to top in 2000. I also believe that the decline into the 2002 low initially began as the Phase I decline. But, because of the efforts by the FED, I believe they were able to resurrect the bull market and that it was stretched into the 2007 top and following the 2009 low we have seen even more of the same practices. As a result and as I have said for years now, the monkeying around with the natural forces of the economy have only managed to make matters worse and to postpone the inevitable. Had the "powers that be" left well enough alone after the 2000 top, the bear market would now be over and the stock market and the economy would now be in a real recovery. But, in an effort to save the world, they do not understand that they have simply postponed the natural corrective process that must eventually take place. I've included a

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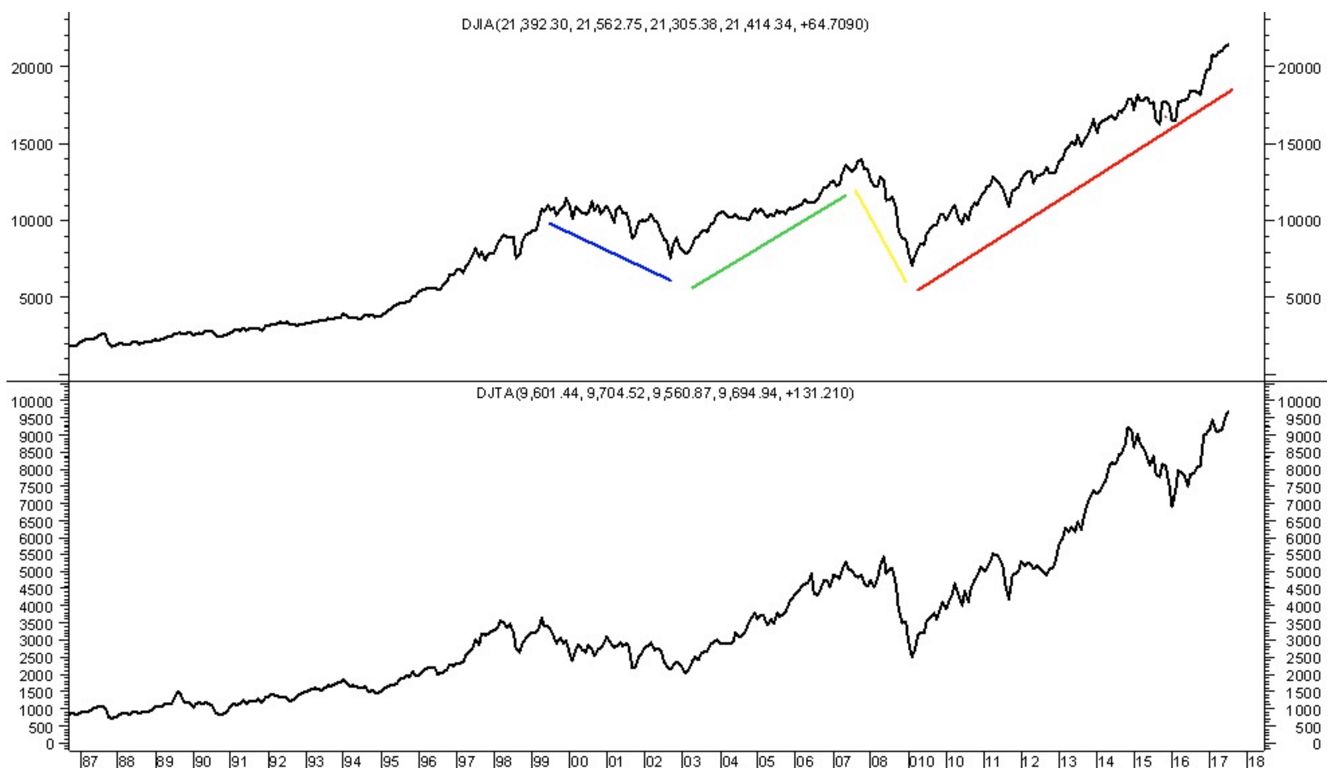
current chart of the Industrials and the Transports below. I have again noted what I believe is the Phase I decline in blue and the rally separating Phase I from Phase II in green. For now, this bear market rally remains intact. In my research I have identified a common trait or what I refer to as a "DNA Marker" that has occurred at every major top since 1896. These details and developments are being covered in the Cycles News & Views publications. Please, take the higher level research that I have shared with you in this article seriously. Of course, the politicians and talking heads are going to tell us all that everything is fine. But, based on 121 years of market data, the bull market likely peaked in 2007 and the bear market is likely not over. As price moved down into the March 2009 low there was a convergence of cyclical lows, of which I anticipated, and I told my subscribers then that the longer the rally out of that low lasted the more convincing and therefore the more dangerous it would become. That has proven true. I hope that the research shared in this article helps.



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