

CYCLES RESEARCH EARLY WARNING SERVICE

by *Bill Meridian*

Summary

As of last weekend, Timer Digest of Greenwich, Ct. had rated this service number one for stock market timing for the previous 12 months.

On July 30, this service cancelled the sell signal of last January, and issued a trading buy signal. The market will likely rally into the last week of the month. Then, down we go into October. We will move back to a sell no later than September 3. The 4th quarter should be strong. Friday was a high, and the averages will fall in the opening days of this week.

Two books became available on July 15: the third edition of *Planetary Stock Trading* (\$55 domestic and \$70 foreign) and the first edition of *Planetary Economic Forecasting* (\$39 domestic, \$49 foreign). The latter book is the first detailed study of the USA economy in relation to the outer planets. It is based upon a unique monthly index of over 200 years of USA production data. Both are available from Cycles Research at 666 5th Ave., No. 402, Lower Arcade, NYC, NY 10103.

Analysis

“We lost 17 straight games, and then we hit the slump,” said Joe Garagiola about his days as part of the old St. Louis Cardinals baseball team. We can make the same comment about Wall Street.

The last letter pointed to the impending break of a 965 neckline in a head and shoulder formation, stating “A break of this area projects a low of 800.” The S&P hit 798 on July 23. After this decline, the market is still too expensive. A recent study by the Bank Credit Analyst found that valuations in nine major industrialized companies are lower than that of the US. The study utilized cashflow, PEs, Yields, and book values. As suggested in the last issue, this gives the foreign investor every reason to pull out, which they have been doing.

Capitulation – haven’t seen it. You cannot make a low without it. That’s because not many people have thrown in the towel. At a low, no one wants stocks. All are convinced that stocks will not go up again, and shorting and put-buying soar. This can be seen in high put-call ratios. The ratio represents the percentage of bulls and bears in the investment world. Low ratios can lead to highs, while high ratios means that we may have a low. In place. In fact, if the low is a valid one, then shorting rises as does the market. This represents the proverbial wall of worry that the market must climb. This has not occurred despite the enormous drops in the market- not bullish.

The wave formations tell us to look for new lows on all averages. The NASDAQ has already broken into its 5th wave down. I think the Dow wave structure is as follows:

Wave 1: March 19-May 6

Wave 2: May 6-May 17

Wave 3: May 17-July 24

Wave 4: July 24-July 30 or August 25

Wave 5: July 30 or August 25-September or October

If so, then the 4th wave either just ended, or the seasonal strength at this time of the year is the 4th and will take us to month's end. I feel much more comfortable expecting an autumn decline than I do in forecasting an up August. If this projection is correct, then the 5th wave will bring the "give-up-the-ghost" mentality that will put a good low in place.

The turning point on the 9th will likely be a high due to the influence of the new moon on the 8th. In the last week of the month, the market faces a murderer's row of planetary aspects from the 22nd through the 28th. The market has historically fallen after each of these:

- August 20- Saturn 135 to Neptune: market down 5 of 6 times
- August 21- Saturn 120 to Uranus: market down 4 of 5 times
- August 22 full moon- likely spike high
- August 23- Pluto 180 to the Node: market down 4 of 5 times

Mars opposite Uranus on the 24th is the peak in this overall 1.8-year cycle and deserves further comment. It typically kicks the market up temporarily for 6 days, but is usually followed by sharp declines. To demonstrate how bearish this Mars-Uranus aspect is at this time of the year, I traced the history of all such aspects occurring in the months of August and September back to 1915. There were 5 aspects in September from 1921 to 1929. The market fell after each aspect, but the month was down in only 3 of 5 years. In 1927, a year in which September finished on the upside, October was down sharply. There were 3 more occurrences from 1994 to 1998. Two of three months closed down. Mars-Uranus oppositions fell in August in 1931, 1933, and in 2000. Each was followed by a down September. That totals 11 aspects in either September or October, with 9 creating downers in either the month they occurred, or in the following month.

The high can fall anywhere from the 20th to September 3. The average high of the year is around September 5, and Septembers two years after an election are usually down. This looks like enough honey to please the bear into October.

And what about the NASDAQ? It has already violated the last low, and simply remains the weakest average. I keep an index that was developed by Richard Arms that measures the amount of volume necessary to lift an index by one unit. A low reading is bullish because it means that it takes little volume to raise prices. A high reading is the reverse. It means that buying has expended itself; it takes too much money to raise prices. For the NASDAQ, it usually is at 15-18,000 at lows and is 35-38,000 at highs. After this dreadful decline, it is over 25,000. This means that it will take more declines before this index is ready for a rally.

The Market is Looking Ahead at the Economy, and Dislikes What it Sees-Part Two

The following analysis appeared in the last letter:

"It is almost as though the market is telling us that there will not be an economic recovery," remarked one market forecaster in the media. That is right. One of the key findings in my new book is that the most powerful cycle in the economy is the cycle of Jupiter through the signs. The USA economy has, for 220 years, routinely peaked as soon as Jupiter exits the sign of Cancer, which it will do on August 2. The transit through Leo into Virgo has dropped industrial production 70 percent of the time over 18 passages. Other cycles do not offset this negative, so the planets are sending an advance signal that business will not recover soon.

In the last week, the economic news has confirmed this cycle. The statistics are not confirming the rosy forecasts made by the economists and the strategists at the big houses. These are the folks that had predicted a stock market recovery in the second half, based upon an upturn in the economy. Since 1927, the market has always been higher after a recession ends and a recovery begins.

Maytag announced layoffs in the last 2 days. If they have rising inventories of appliances, what does this tell us of demand for new houses? There are not as many as hoped. The housing stocks have already given sell signals. This will be the next blow to the economy-the burst of the housing bubble. Here's why. There is a wealth effect generated by home ownership. Inflation sends prices up, and consumers feel that they can borrow and fall back on the inflated value of the house to secure a loan. Only about 15% to 18% of household wealth was in stocks in 1987. That rose to 60% by 2000. This number has fallen 40% as stocks fell by 33% over the last 2 years while houses rose by 20%. Thus, part of the loss in stocks was offset by a rise in house prices. With Jupiter exiting Cancer, which can be viewed as having been supportive of higher house prices, and Saturn, a negative, entering Cancer next year, prices are heading lower. When this occurs, the wealth effect will take another hit, and consumers will retain more disposable income. This will lead to the next stage in the recession, the stage that the market, but not the economists see.

Strategy

Traders can go long for the month. Get ready to short between August 23 and September 3.

The Israeli-Palestinian Conflict Will Intensify

When trying to explain the reasons for a bear market, the media latches onto any news item that appears negative, and my guess is that the Mideast will be the source. We are entering a most dangerous period that will extend through to yearend. But this month and next can be looked at as the epicenter of this tough period. Mars opposes Uranus this month, usually an indication of the sudden outbreak of violence. The new and full moons tie this aspect into the national horoscope of Israel. The new Moon on August 8 is on the country's Saturn. The August 22 full Moon hits Mars at 28 Leo in the chart of Israel. The full moon is most powerful because it is conjunct transiting Uranus at 27 and opposite Mars at 26 Leo. Looking at the progressed planets, we see that transiting Saturn opposed progressed Jupiter and squared the progressed MC-Mars conjunction in July. This is the same Jupiter that was eclipsed last December, leading to Israeli expansion. Saturn runs over progressed Venus and Uranus this month, so peace efforts are futile.

Israel will suffer losses in a sudden and particularly violent attack. The first lunation indicates this because it hits Saturn. The second lunation hits Mars, and suggests a counter attack by the Israeli Defense Force. Past attacks on Israel have occurred when there was planetary activity around the natal Mars. Israel will emerge victorious. Jupiter passes over the 2 Leo MC this month and will steam on to conjoin 4 more Israeli planets. The fighting will persist into the winter. Uranus aspects Israel's Mars in November. Pluto and Uranus afflict Mars in December, so the fighting will be intense. The December Jupiter station will be on natal Saturn, a combination that relieves stress and lightens the load. The last time that Uranus was in 4th harmonic aspect to natal Mars was when it was in late Scorpio. On June 7, 1981, Uranus was at 27 Scorpio when the Israeli air force destroyed the Iraqi nuclear reactor. Mars was at 1 Gemini, having recently squared natal Mars and opposing transiting Uranus, similar to this month's connections. The late degrees of fixed signs have been important in the historical charts of Israel going back to the first Zionist Congress on August 29, 1897 when there was a Saturn-Uranus conjunction at 25 Scorpio. The late degrees of fixed signs are also strong on the 1941 chart of Syria and the 1921 chart of the Kingdom of Iraq as well as the 1926 horoscope of Lebanon. The Iraqi Sun at 29 Leo catches an opposition from Uranus. Saddam will be under assault, but will react in a most unpredictable way.

Uranus also activates old eclipse points this month. These are eclipses that coincided with key moments in Mideast history, and current eclipses at these degrees awaken old themes. The shadows of these old eclipses are energized, so the activity tends to occur in the areas that have been darkened. These shadows criss-cross the Middle East. The last time that this part of the zodiac warmed up, Iran and Afghanistan sent troops to their border, the largest movement of troops since Desert Storm and the Iran-Iraq war. Because these degrees are linked to the two world wars, there will be fears of WW3. However, I do not see enough activity to warrant such an outbreak.

These transits are all the more important due to their connections to the May 28,2000 Jupiter-Saturn conjunction at 23 Taurus, less than one degree from Israel's Sun. Ariel Sharon's progressed Sun is at 21 Taurus, semisquare progressed Uranus. If the conjunction chart sets for the political and economic tone for the next 20 years, then Israel will be even more vital to world security than in the past. The connection between the two charts says that the economic/political scene will depend upon Israel's actions. The Jupiter-Saturn conjunction is near to the Uranian planet Admetos and square to Uranus, an unstable combination. This has already brought three shocks to the world. The first was the bursting of the technology bubble. The second was the 9/11 attack. The third was the recession and massive bankruptcies that followed. The next shock will arise from the Middle East.

Quote of the Month:

"The people of the United States are more prosperous than the inhabitants of all other countries because their government embarked later than the governments in other parts of the world upon the policy of obstructing business."

-Ludwig von Mises

Turning Points

The highest-probability S&P and DJIA turning points (+ or - 1 day) for the month are (The stronger turning points are starred:

5*	20-21*
9*	29
14	Sept. 3*

The highest-probability NASDAQ turning points (+ or - 1 day) for the month are (The stronger turning points are starred*):

5*	21
9*	26
15*	Sept. 3

Recommended Stocks:

Hold:

NY Times <9/25/97> (NYT-46.1) was recommended at 46.6.

Campbell Soup <12/13/54> (CPB-22.2) was recommended at 29.

Note: This letter will be moving to Adobe's PDF format in the near future. You will need to download Adobe Acrobat reader from their website to open it. This change will allow me to include graphs and charts, which readers have been unable to open in the current format.

Disclaimer: The methods utilized have proven profitable in the past but no guarantee can be made of future performance nor is any liability accepted. See the website at billmeridian.com.