

Cycle Projections

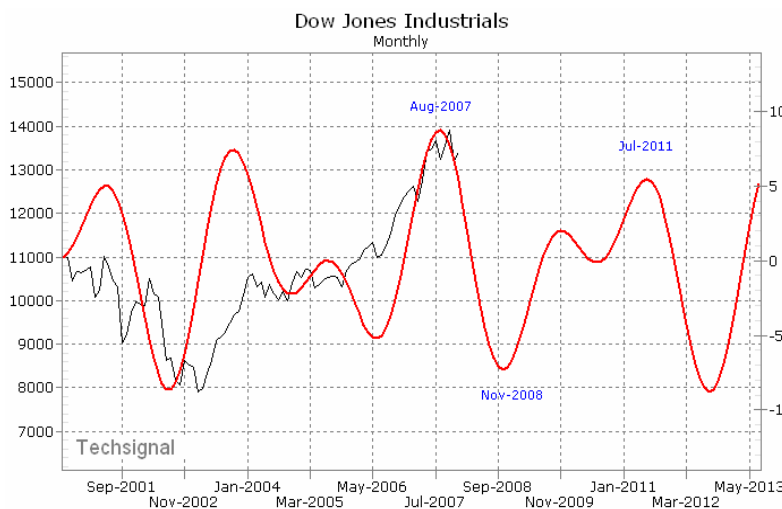
JANUARY 2008

STOCKS, INTEREST RATES, ENERGY, METALS AND FOREIGN EXCHANGE

How low can we go?

The underpinnings of the equity market have been deteriorating over the last six months. We have seen the housing sector falter, the sub prime mess, commodity prices rally, gasoline over \$3.00 a gallon, the dollar falling, and the list goes on. The Fed has tried to buoy the market with rate cuts but they have not thus far helped stem the tide. What do the cycles tell us?

The cycle projections point to a potential low near the end of January. But will a bull market begin after that low? The answer can be seen in the longer cycles. The monthly chart to the left is a synthesis of



two of the most important longer cycles: the 24 and 40-month cycles. They topped in August and now indicate a low in November of 2008. One note on long cycles. A low in a long cycle is not judged by how deep a market falls but rather in how much it rallies after the low is in. The stock market has a very strong secular trend due to increasing economic activity and this tends to make declines in the stock market typically short in time and the advances longer. Thus the current 40 and 24-month cycle declines should bring the market down 16-20% from

the highs. We are currently down about 12%, which means there is about 3% to 8% to go. Our initial low is due in January based upon the shorter cycles and then a potential rally, which should be a bear market rally.

With commodity prices continuing to rally and the cycles in commodities still up the next shoe to drop will be interest rates. We have put in a 60-year low and then rates should begin to rise, once the Fed gets out of the way. If that happens, then it will put a lid on the stock market; which is exactly what we expect. Gold is still expected to top \$1000 an ounce and Crude to rally into the summer to as high as \$120 a barrel. The one damper on all of this would be a recession; but at this point we expect stagflation and not significantly lower prices. The recession should not last long unless it hits the rest of the world hard. Presently this is not expected. We also expect the US dollar to move sideways and interest rates to hold in a tight range. Interest rates should begin to rise in the spring. ..

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Daily S&P 500

S&P 500 Index SP
Daily



Daily Dow Jones Industrials

DJIA Index DJ
Daily



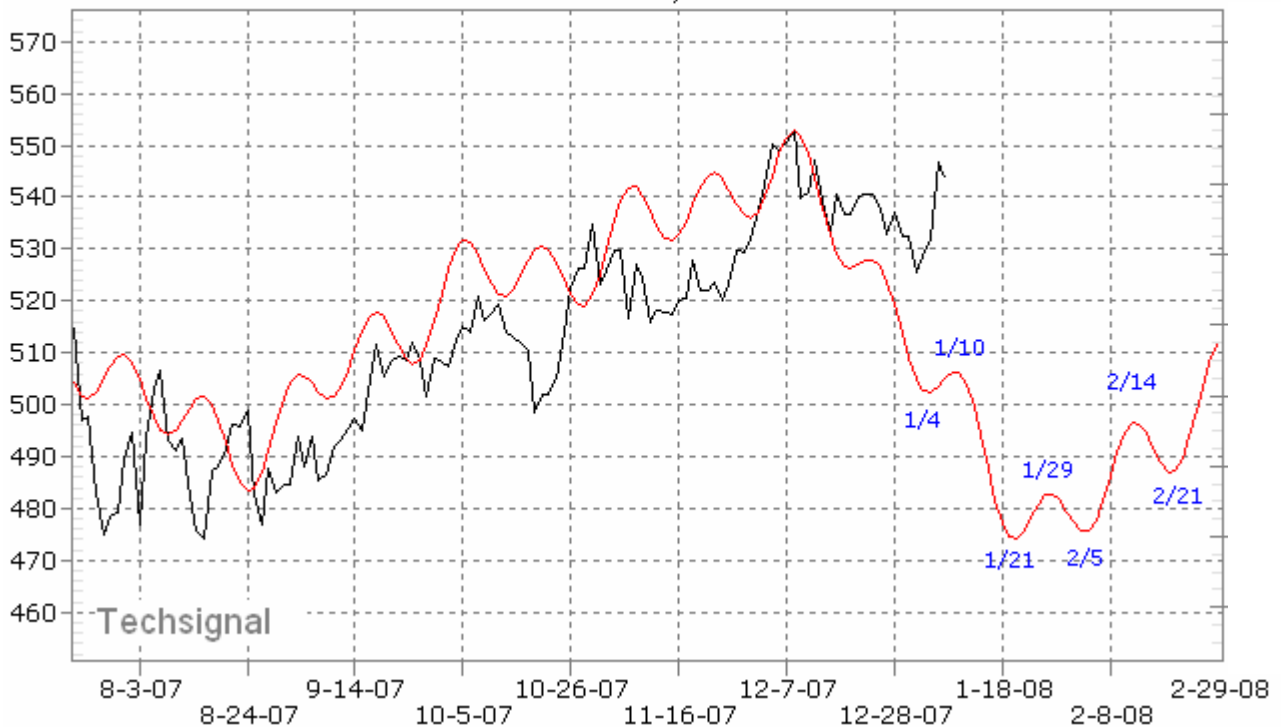
Daily NYSE

Nyse Composite Index NYA
Daily



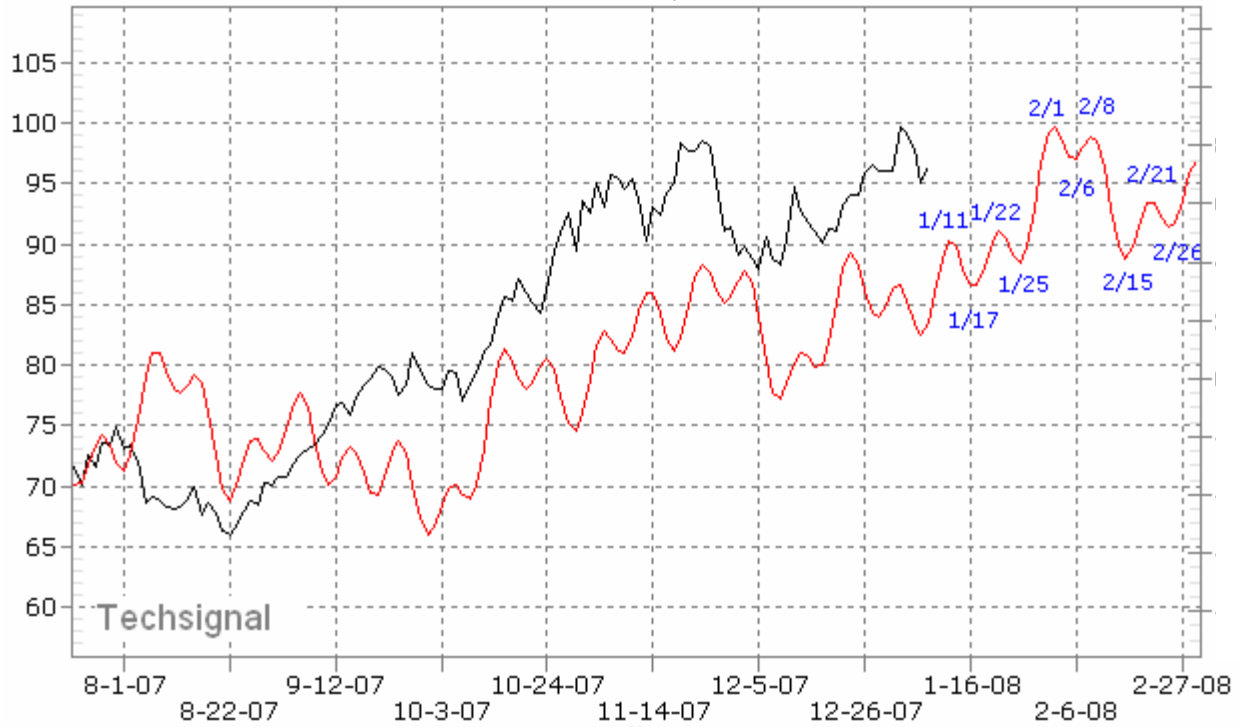
Daily Dow Jones Utilities

Dow Jones Utilities DJUA
Daily



Daily Crude Oil

Crude Oil NY CL
Daily



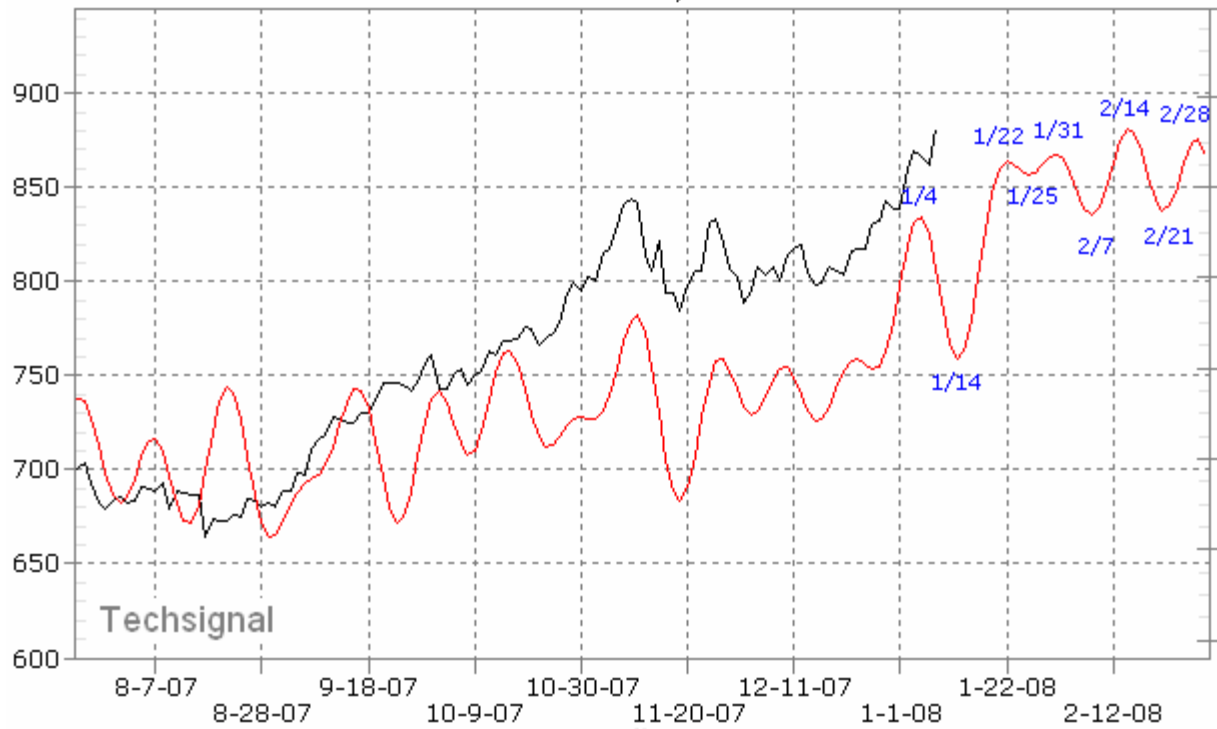
Daily T-Notes 5Yr

T-Notes 5Yr CBT FV
Daily



Daily Gold

Gold Comex GC
Daily



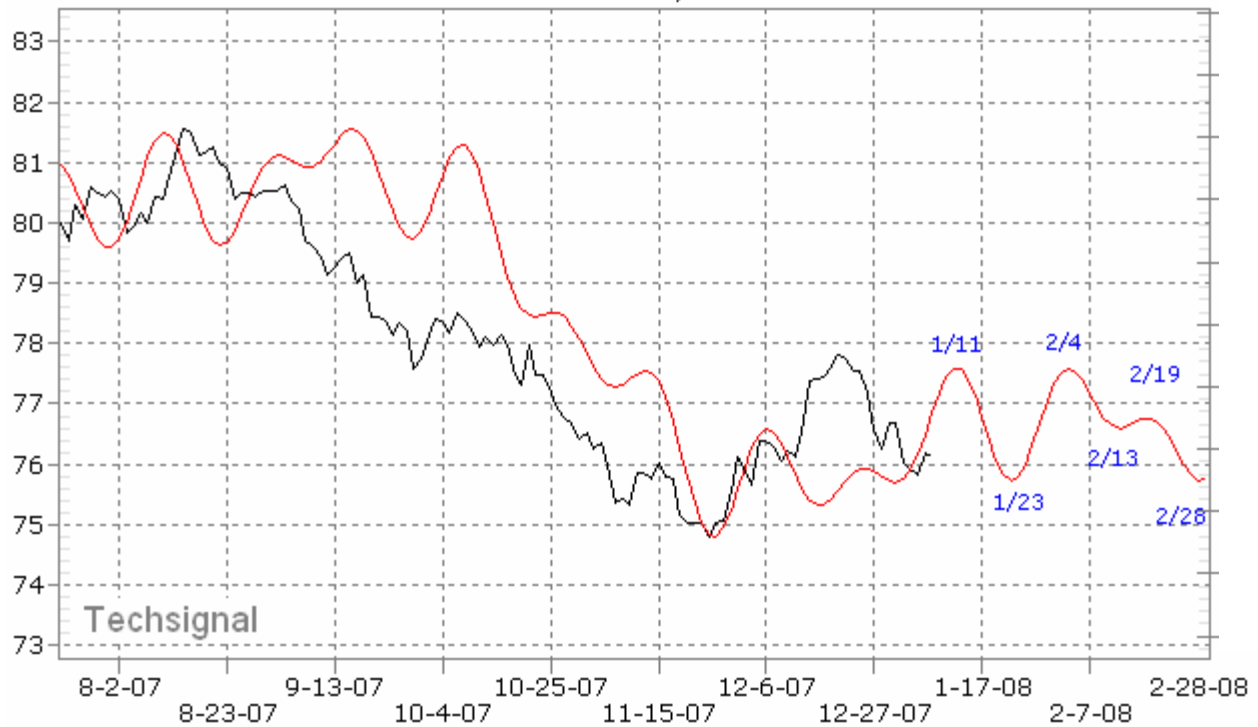
Daily Silver

Silver Comex SI
Daily



Daily US Dollar

US Dollar Index DX
Daily



Daily Euro

Euro FX EU
Daily

