

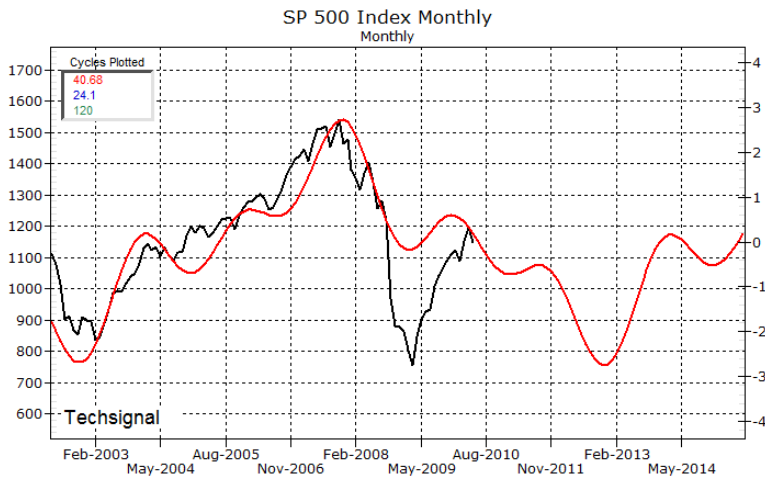
Cycle Projections Stocks

MAY-JUNE 2010

STOCKS, INTEREST RATES, ENERGY, METALS AND FOREIGN EXCHANGE

New Bear Market?

Are we beginning a bear market or is a just another correction in a new bull market? And does it even matter? These questions are now brought to the fore by the current market correction. Our view is simple. All the major cycles with the exception of the 40-month cycle have topped and are now turning down. The picture below shows these cycles with a major bottom due in 2012 and a counter trend rally to begin near year end,; but the main message is clear. We are in a bear market and that means that the high for the year is in. But what about the 40-month



cycle which is due to top when the 24-month cycle bottoms? In a historical analysis of these two cycles, when the 24-month cycle tops and the 40-month cycle is still bullish, only twice in 40 occurrences did the 40-month cycle produce a higher high. Actually, even in those cases a significant market correction took place prior to any rally. Is the current correction significant enough? The answer is no. But a word of understanding. Cycles are historical averages of past market behavior and they work best when the fundamentals support the direction of the cycle. In the case of a bear market there are two factors: improving economic numbers from the recession and a disintegrating economic structure brought about by prof- igitate monetary policy. So do the fundamentals

support a bear market or not? I believe that longer-term the cycles support the bear market forecast. How about on the short-term? The most dominant cycles in the short term are the 40 and 17.5-week cycles. They are both down; but the market is very oversold and this argues for a counter trend rally over the next week or two prior to more downside. However, the major moves down are more likely in the fall of this year and in 2012.

Domestic Equities: We are looking for a short-term reflex rally in the context of a bear market. We then prefer defensive stocks or inverse ETFs once the rally is concluded. Expect some sideways action and then an early summer rally prior to the next decline. **International equities** We are neutral on international equities. We want to see some clarity in Europe and more economic demand worldwide. Shorting European stocks once the rally is done is a good alternative. **Bonds:** With yet another flight to quality bonds have rallied but we remain overall neutral. **Energy:** We are short-term bullish over the next month. **Metals:** The short cycles have now turned bearish but we do not recommend short positions. Long-term cycles in gold are very bullish and we may have only seen half the rally. **Foreign Exchange:** The US dollar is now bearish short-term but with the Euro in shambles it is hard to see it going down to the bottom of the trading range.

Written 5/30/10

All data used in *Cycle Projections* provided by Genesis Financial Technologies, Inc.
800 808-3282

Cycle Projections

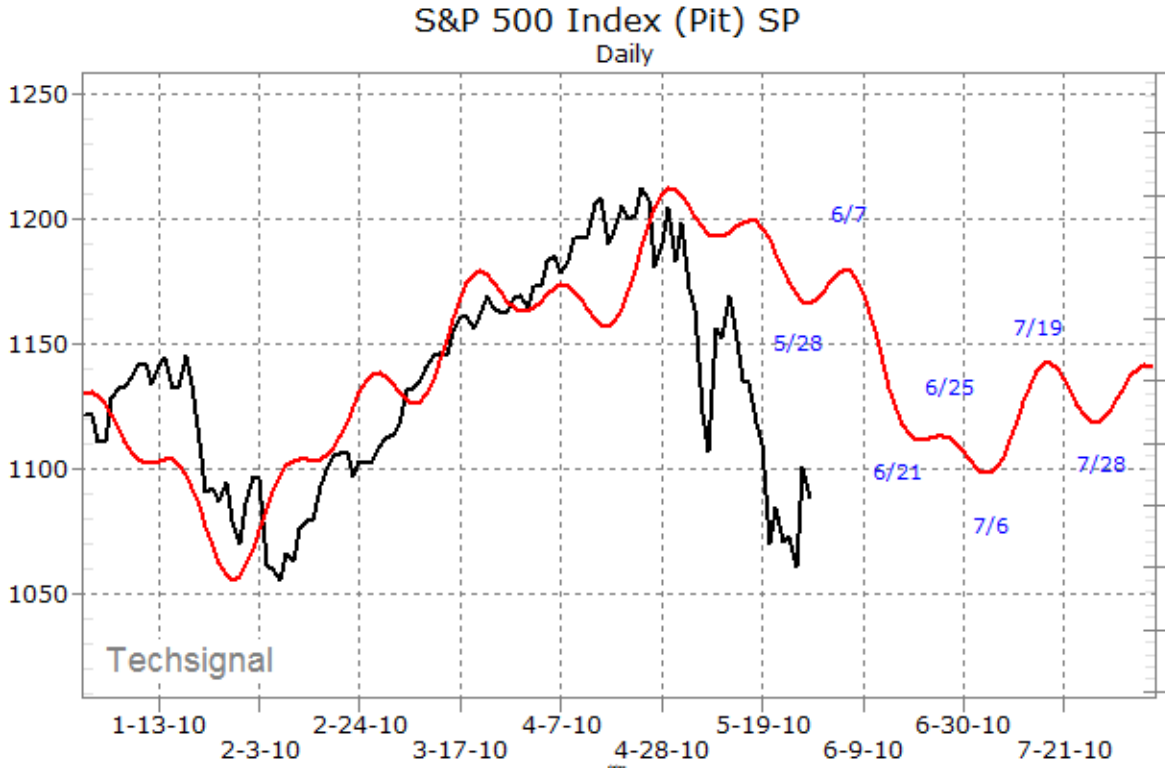
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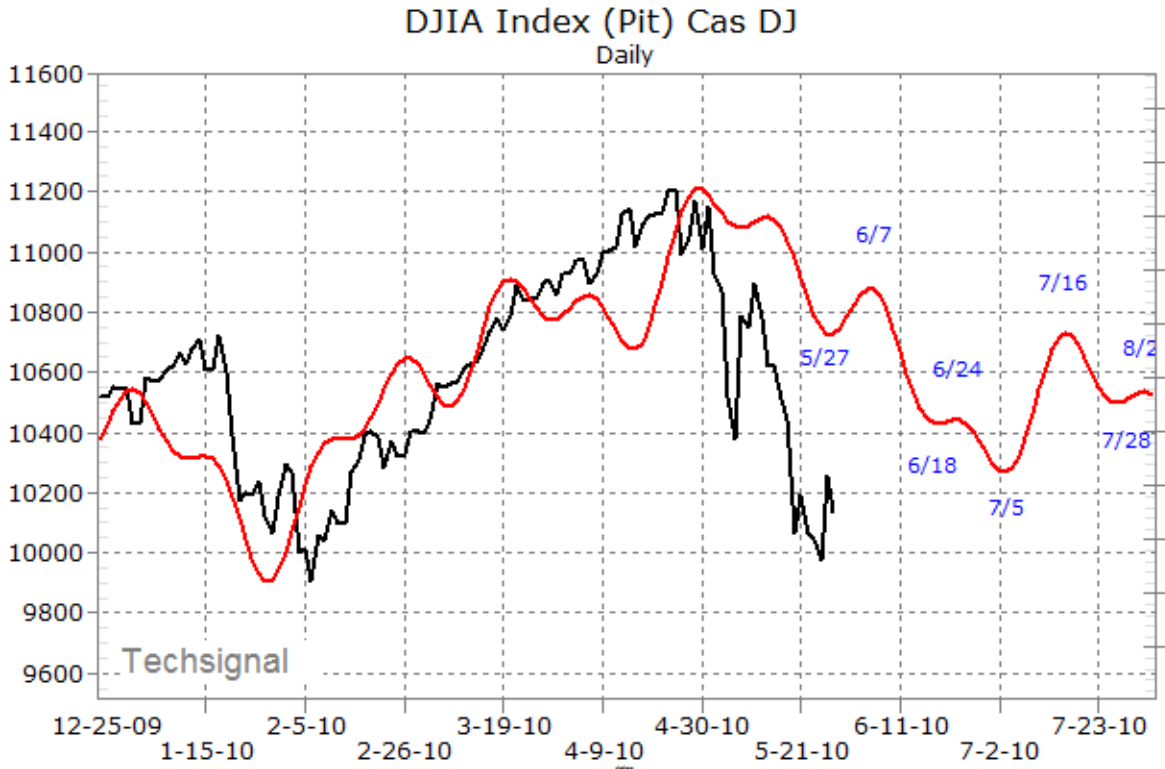
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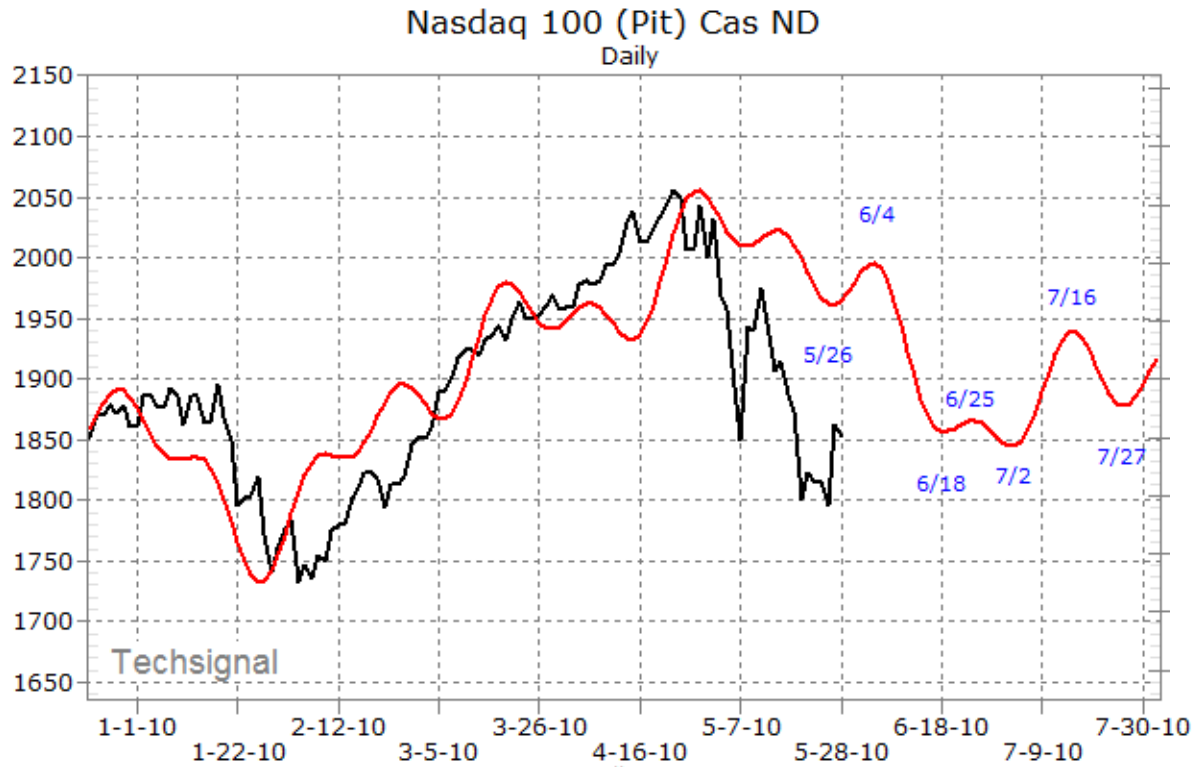
Daily S&P 500



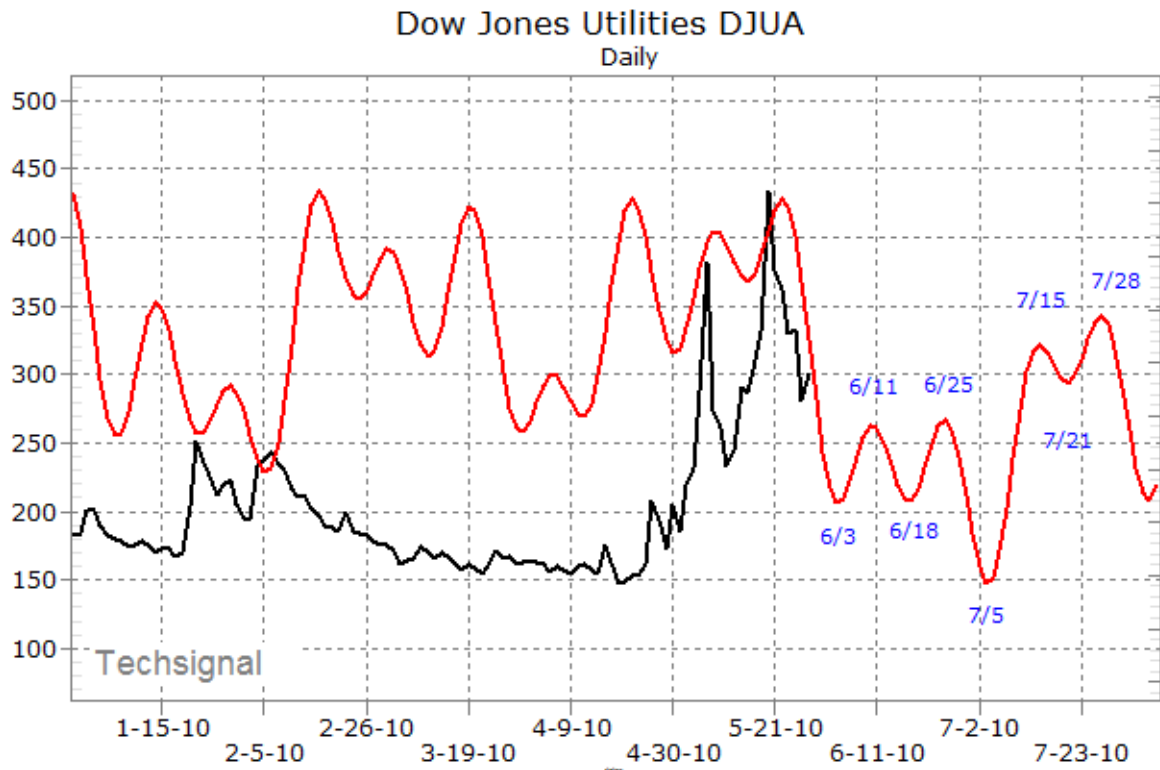
Daily Dow Jones Industrials



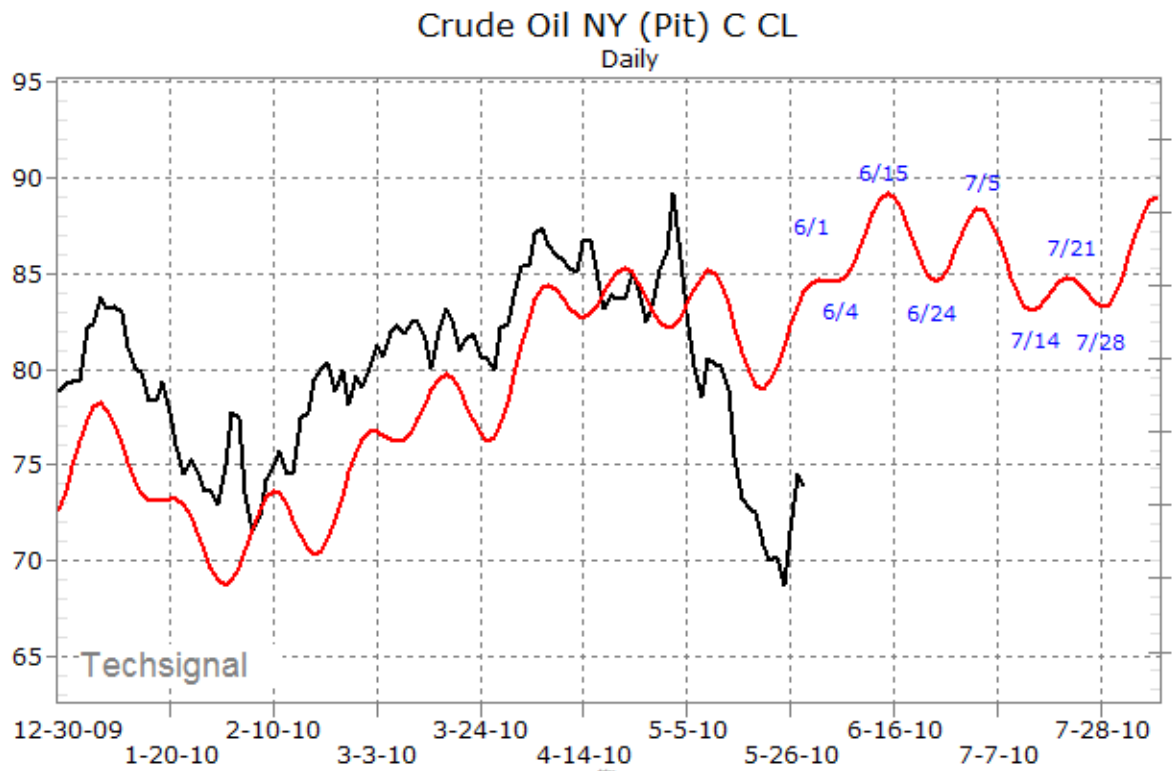
Daily Nasdaq 100



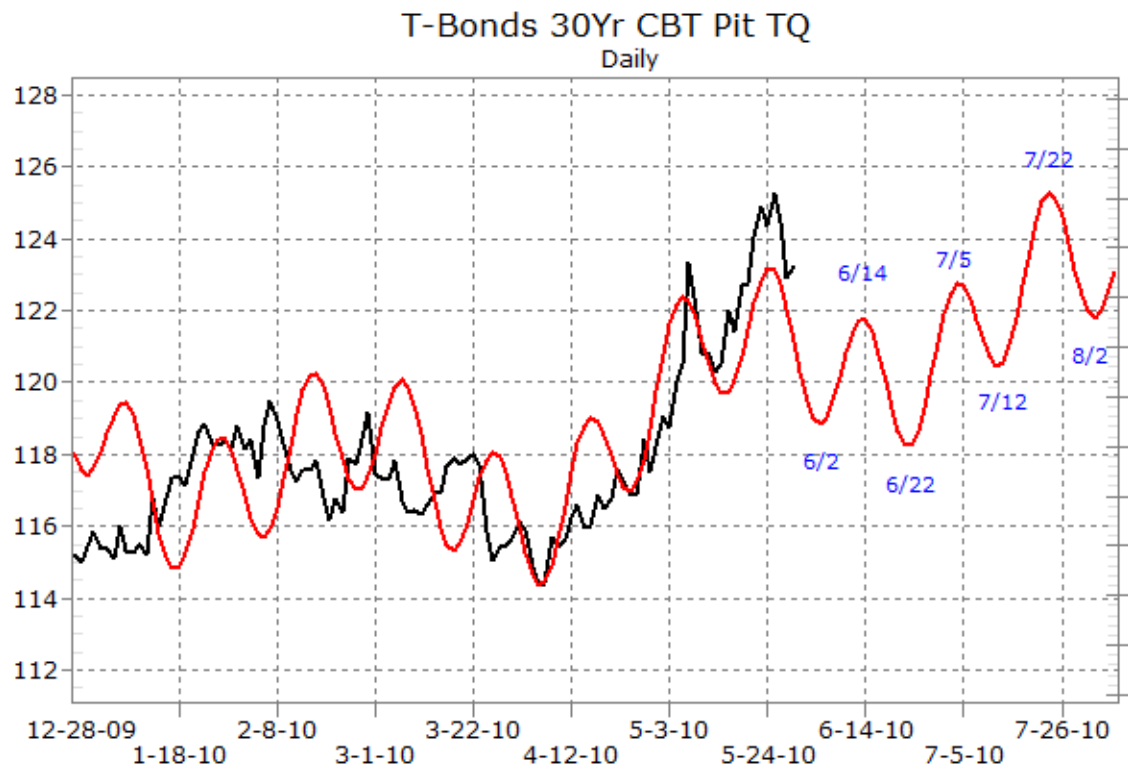
Daily Dow Jones Utilities



Daily Crude Oil

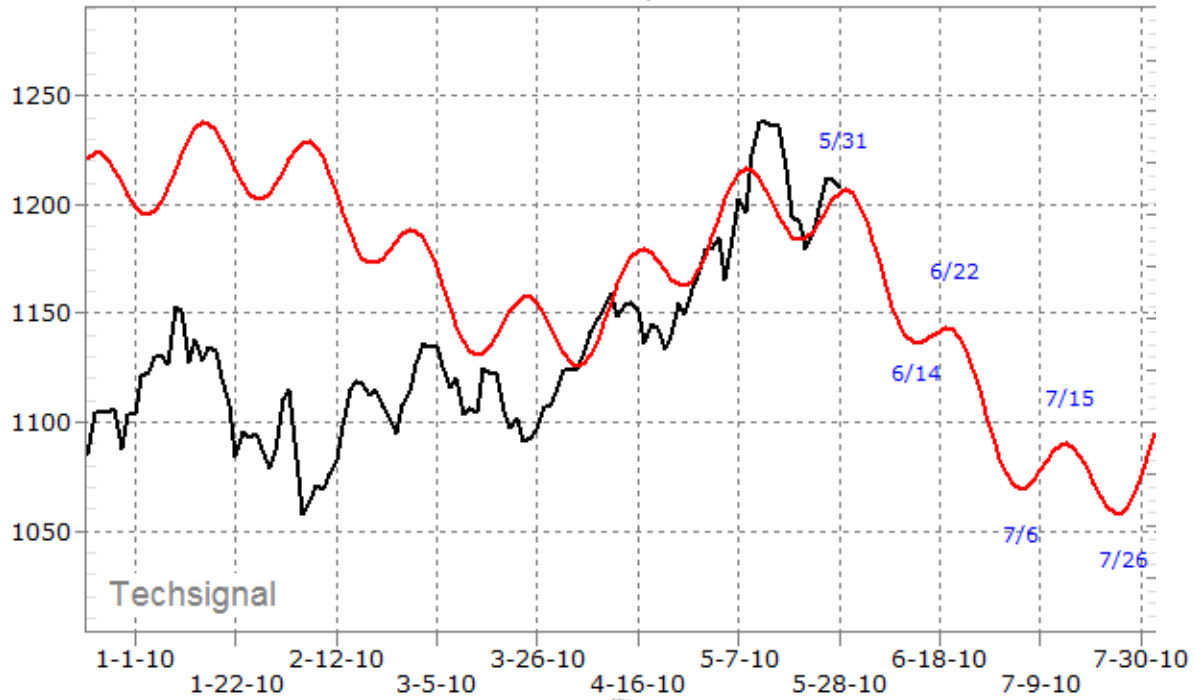


Daily T-Bonds 30 Yr.



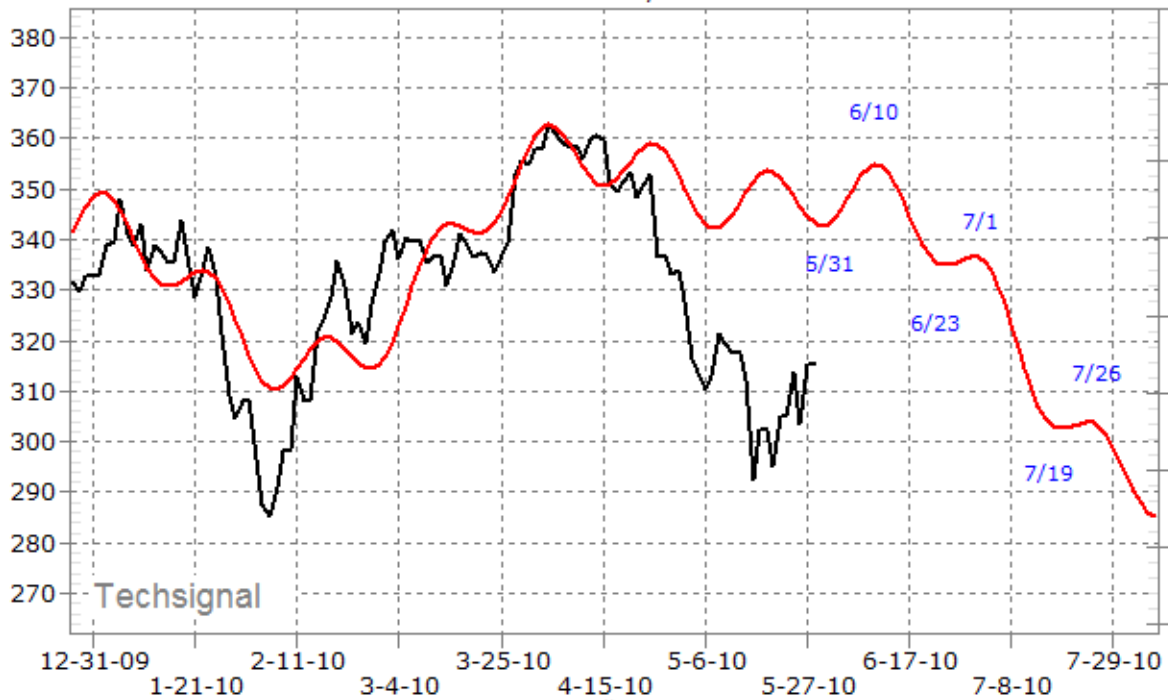
Daily Gold

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Daily

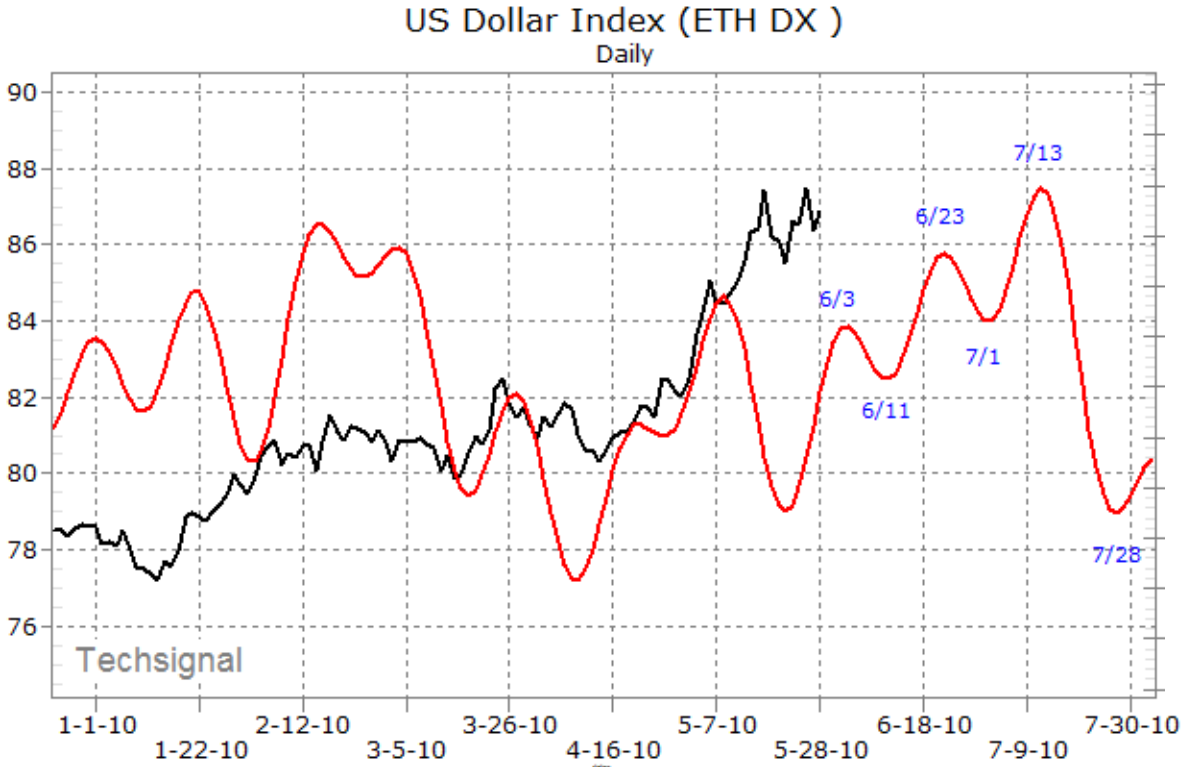


Daily Copper

Copper HG NYMX (Pit) HG
Daily



Daily US Dollar



Daily Euro FX EU

