



Christopher Carolan

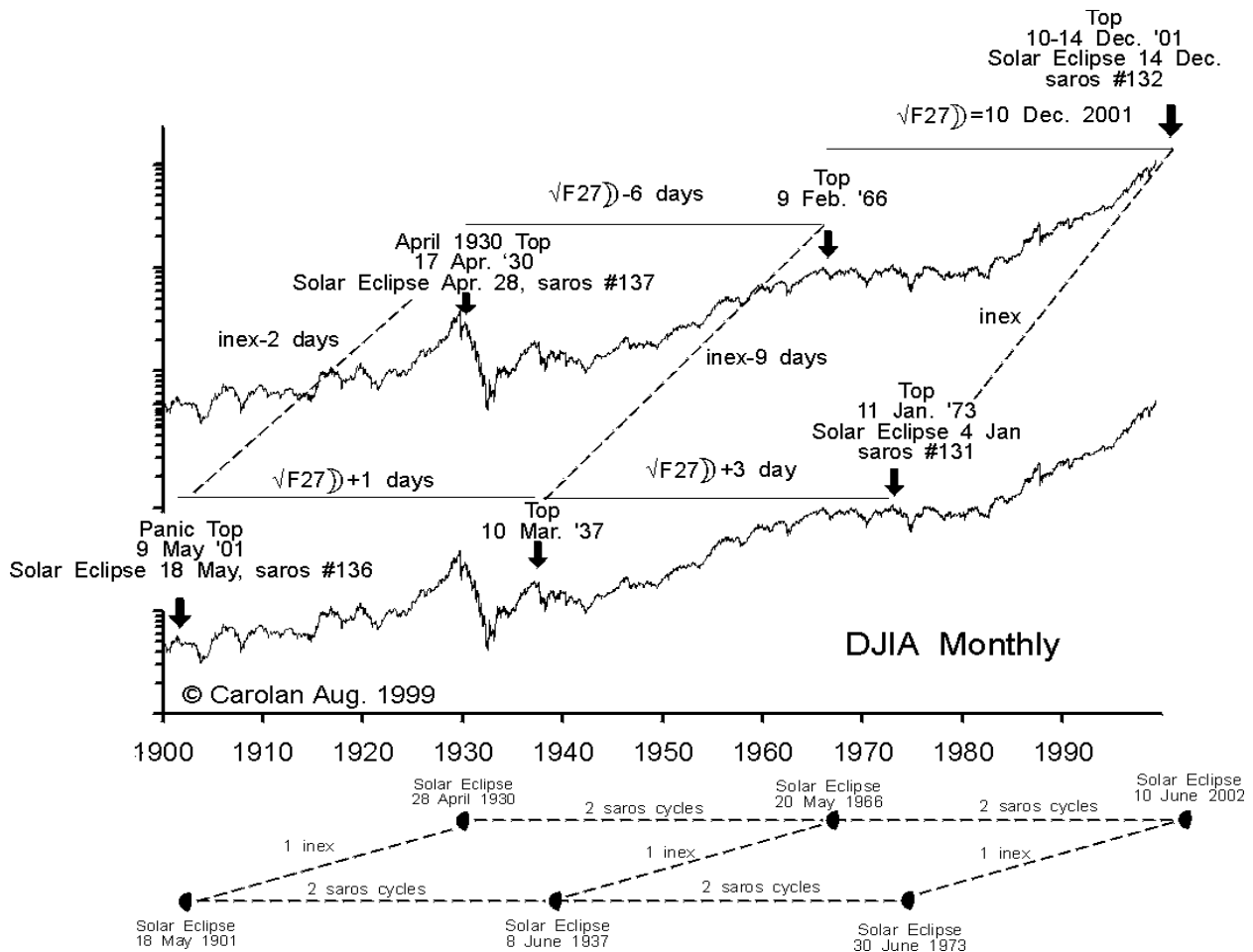
Calendar Research Reports

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Christopher Carolan, Editor

15 December 2000

Special Report

U.S. STOCKS LONG-TERM FORECAST 2001 AND BEYOND



The Bottom Line: The great U.S. stock market bull is not dead yet, though the NASDAQ sector has been convincingly slain. 2001 is forecast as a good year for the blue chip indices as they move forward in their final rally to a mid-December 2001 high. Then, economic winter will return for the first time in generations bringing falling stock prices and deflation together. The first and most destructive leg down should carry into October 2004.

From the 1999 Special Report: “Recap: In each of the last two-years, Calendar Research’s Annual Long-Term Forecast issue has pinpointed one of the major turns for the following year. That feat has been accomplished without picking 10-20 possible turning points for the year as some other timing methodologies do. Instead, this report always focuses on one to three key time periods for the upcoming year. With very few major turns in any year, our batting average should be low if the random walk theory is correct... We’re only forecasting one important time period for stocks in 2000, so our batting average is destined to be either .000 or 1.000. The larger value though, lies in our ability to see where we are in the long-term cyclical picture. The Spiral Calendar combined with our very fruitful research into eclipse cycles gives us a precise target for the end of this bull market.”

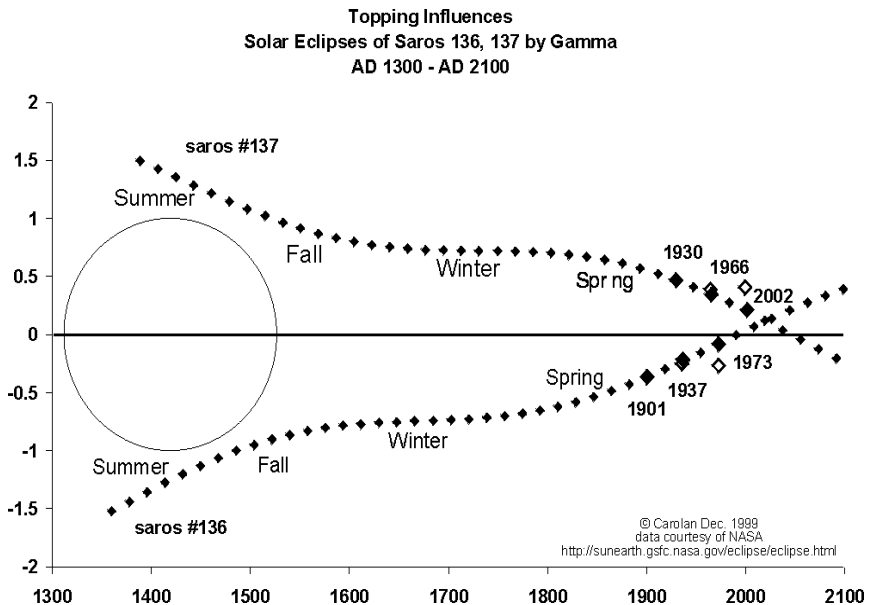
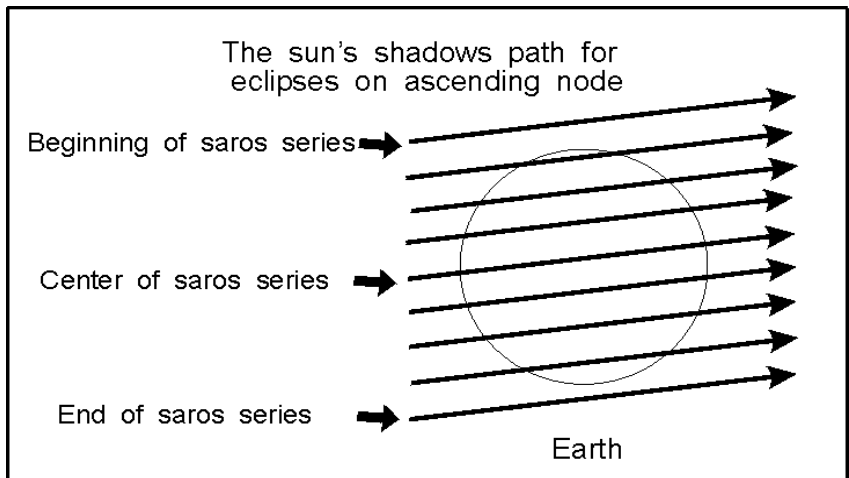
Well, make it three years in a row the Calendar Research has pinpointed a major market event in this annual **Special Report**. The forecast for a sharp “pothole” climaxing in the third week of April was right on. The heaviest selling of the year occurred on April 14.

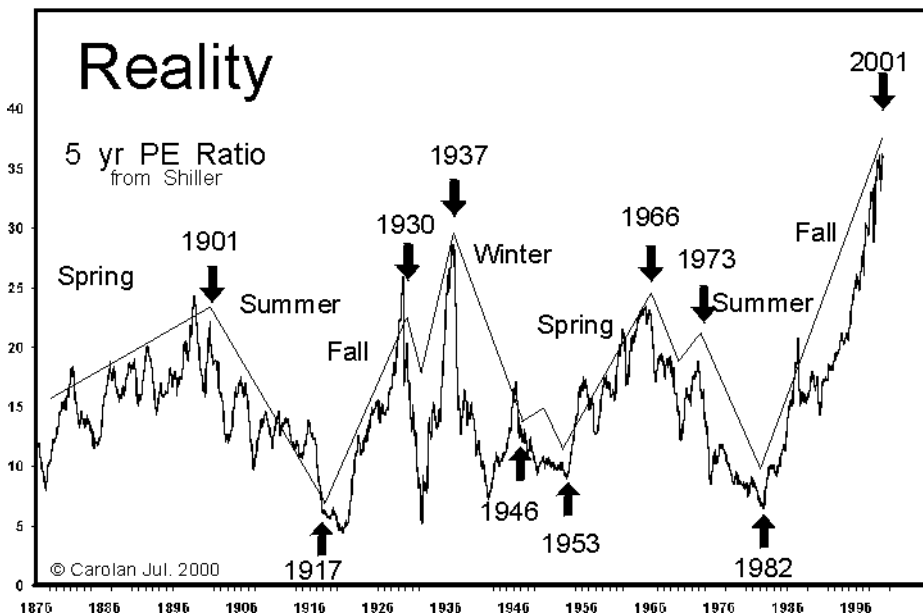
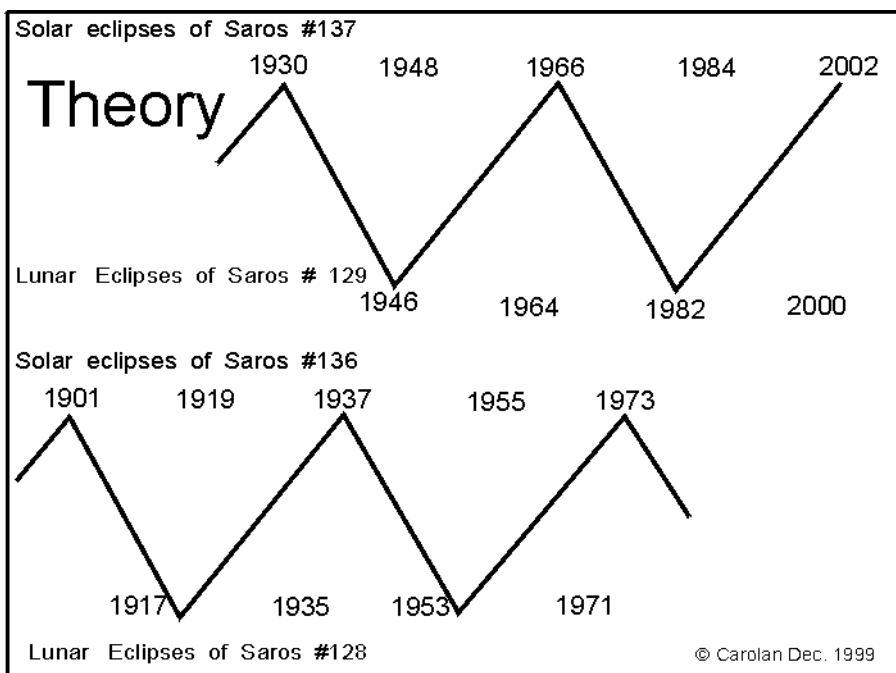
DECEMBER 2001

Let’s begin with the original analysis for a December 2001 top, reprinted from last year’s Special Report. Then we’ll look at new evidence that strengthens the case for a major top then.

“The chart on the cover (from the August 1999 issue) is the best starting point for a discussion of the December 2001 top. The bottom portion of the Dow chart shows a sequence of three peaks, 1901, 1937, and 1973. This sequence and a discussion of its relationship to the eclipse saros cycle appeared in *The Spiral Calendar* text on page 61. The top portion of the chart shows this same type of sequence repeating as three tops in 1930, 1966, and December 2001. The bottom of the chart shows the six eclipses from two different saros series that track the years in which the tops occurred. The time length separating the tops, the 27th Spiral Calendar unit, is three months shorter than twice the eclipse saros cycle of 18 years. Thus the 1937 and 1996 tops occurred 3 months before the associated eclipses and the 1973 top occurs six months before its associated eclipse, as will the 2001 top.

The research breakthrough came with the discovery that these two saros series are sequentially numbered. In other words, they are side-by-side in the progression of eclipses across time. Furthermore, they are *central*, that is their shadows fall close to the center of the earth. **The most perfect solar eclipse alignments this century fall on these**



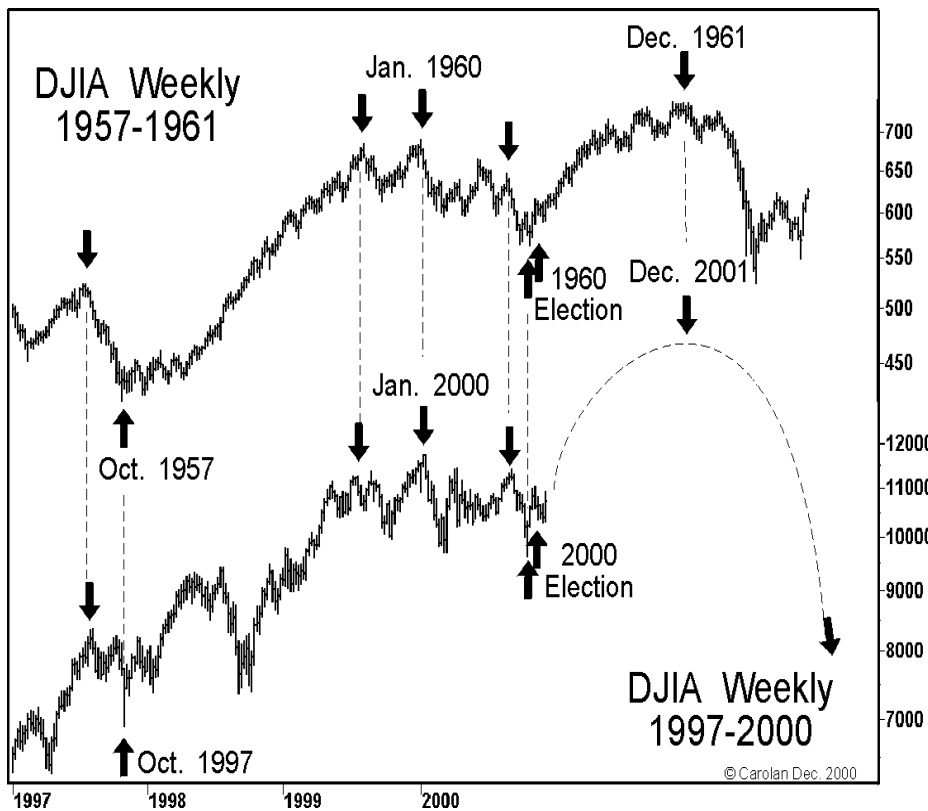


two saros series, though there are 40 other saros series in effect at this time. By understanding which eclipse series are at their most precise alignments, those series affecting the markets are identified.

Eclipse Basics: There are two eclipse time periods that concern us, the *saros* cycle that runs 18 years and 11 days and the *inex* that runs 29 years less 20 days. Eclipses that belong to the same saros are very similar. The path of each eclipse in a saros moves slightly more north or south versus the previous eclipse in that series. The top chart on page two shows how the eclipse shadows on the ascending node (odd saros numbers) slowly move lower across the face of the earth. This 18-year beat represents eclipses that are very similar in their paths. Other eclipses that are similar belong to nearby saros numbers. The bottom chart on page two shows the eclipses of saros numbers 136 and 137 (the eclipses relevant to the 20th century market peaks) from their start in the 14th century through AD 2100. These eclipses are plotted by their *gamma*, which is the distance of the shadow from the center of the earth. Gamma values of 1 and -1 represent the total eclipses that would just graze the top or bottom of the earth. Gamma values outside of that range belong to partial eclipses. Gamma values close to zero occur on central eclipses where the shadow is close to the center of the earth.

The *inex* is the average distance between adjacent saros series. The first eclipse of saros 136 occurred in 1360. The first eclipse of saros 137 occurred 29 years later (one *inex* period) in 1369. This same 29-year relationship shows up in the chart on page two as the distance from the Panic top of 1901 and the top of 1930, both of which occurred within days of eclipses on these same saros series.

Eclipse Subtleties: The gamma chart on the bottom of page two has a circle representing the earth, to depict approximately where these shadows trace across the earth. Gamma is similar to latitude, but different. At the equinox, an eclipse of zero gamma would be at the equator, but that doesn't hold true for other times of the year. What is interesting is how the rate of change of the gamma varies with the season. The gamma chart labels in which seasons the various eclipses are occurring. In the summer, the eclipse gamma moves at its fastest rate, either north or south. As autumn comes, the rate of change of the gamma slows down until the paths are nearly standing still in the winter. In the spring, the growth in the rate of change has returned and it continues to increase again into the summer.



Not all eclipses cross their zero gamma point just as the eclipses are falling near the summer solstice. Rather, the various saros series cycle through all the seasons. In other centuries, it is the winter or autumn eclipses that are the ones that cross the gamma zero mark. The apparent topping phenomena of strong solar eclipses falling near the summer solstice were last seen in the Renaissance, another period of explosive human innovation.

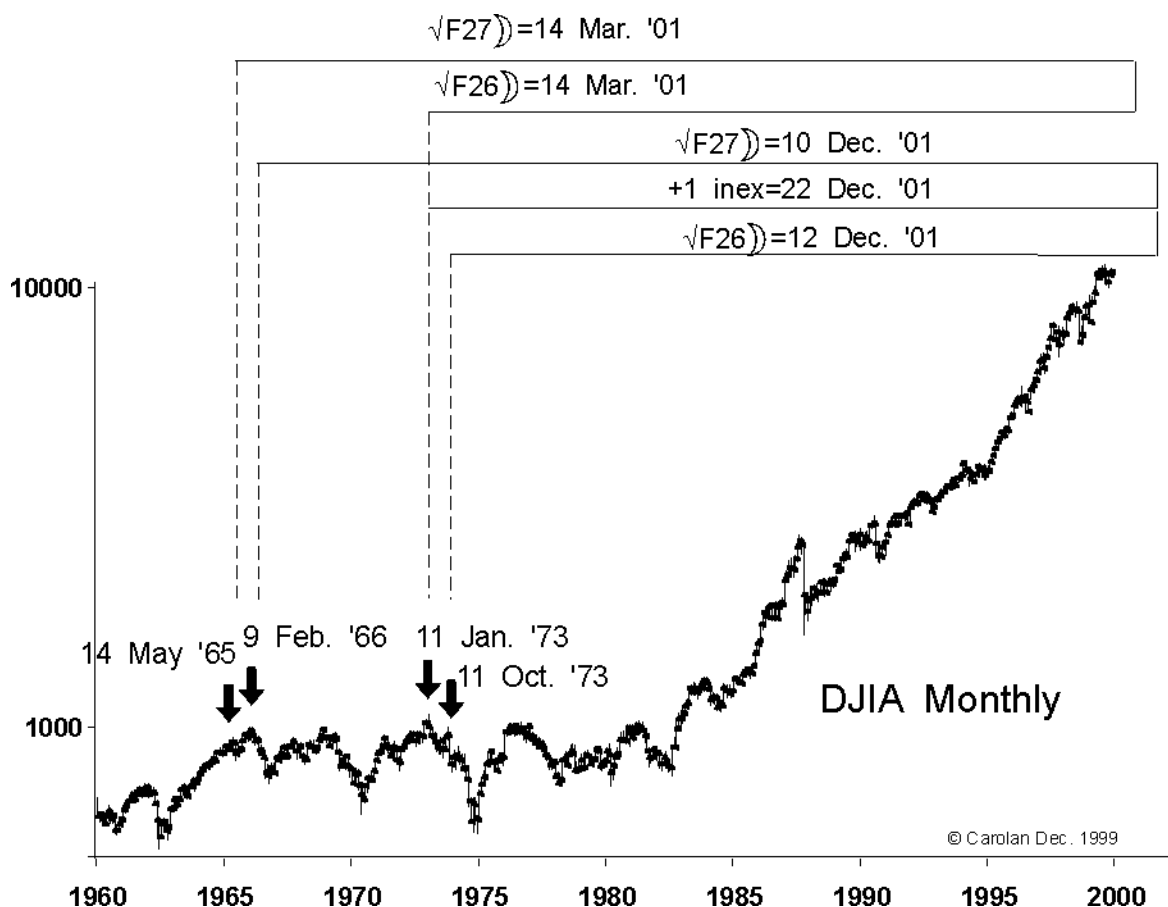
Back to the Forecast: The gamma chart labels those eclipses associated with the tops shown on page two. *These tops occur on saros series that are approaching but have not yet crossed the zero gamma line.* Both series also have gamma whose rates of change are increasing, placing them in the spring leading into the summer solstice. The gamma of the nearby

eclipses in those years where the turn doesn't exactly hit on the eclipse are shown as outlines, 1936, 1966, 1973 and 2001(2002).

George Lindsay Addendum: George Lindsay's work included a technique for finding tops where an equal distance separates low-to-low-to-top. There's a 4 saros cycle relationship connecting 1857, 1929 and 2001, each 72 years apart. While 1929 is not a low, the Lindsay relationship would be crash-to-crash-to-top all equally spaced. More importantly, the two greatest crashes of the 19th and 20th centuries point to the most important market top in possibly all of history."

The PE Crash of 2002-2004: The pair of charts on page three are the most important of this report. The long-term cycles, where stocks move from being emotionally overvalued to undervalued and back again are best seen in the 5-year price/earnings (PE) ratio chart. The PE chart contains no fundamental information, only the emotional premium or discount set by the investing crowd. The large swings in the chart are the manifestation of the long-term emotional cycles. The top chart of the pair illustrates where the major emotional turns should be based on my research into eclipses. The tops should occur in alternate years of those solar saros cycles where the gammas are approaching zero. The emotional lows should occur in alternate years of lunar saros cycles close to zero. The bottom chart delineates those same dates on the chart of stock prices divided by earnings. These charts show the big picture and accurately demonstrate the risk of a large decline in stocks once the December 2001 peak is complete. An important detail in the PE chart is that some of the indicated saros peak years marked tops, which were secondary failure highs in the PE ratio. Specifically, 1901 and 1930 were lower tops. Yet, the majority of the subsequent PE collapse occurred *after* the saros/Spiral Calendar timing event. I believe a similar outcome is likely at this peak. The highest PE ratios are already behind us, at the manic Nasdaq top last spring, however the market will wait for December 2001 before beginning the decline that wipes the majority of the value from stocks.

The Presidential Nightmare Cycle is best described as a forty-year harmonic of both the four-year presidential cycle and the ten-year decennial cycle. Early this summer, charter subscriber Al Kingon pointed out to me the remarkable political similarities between the presidential races of 1960 and 2000. Both races featured two-term vice presidents who presided over strong economies running against sons from important political families. Mr. Kingon surmised that the eerie similarities of the political situation might extend to the stock market patterns as well. Since receiving that heads-up months ago, the political similarity has extended as both 1960 and 2000 were extremely close races in which the sitting



vice president lost under circumstances that left not everyone comfortable about the process. We certainly entered the twilight zone when various pundits compared Richard Nixon's character favorably to this year's sitting VP candidate. Adding substance to the existence of a forty-year presidential nightmare cycle is the comparison of Mr. Gore to Aaron Burr, the sore loser of the VP race in 1800, exactly five nightmare cycles earlier! The political similarities are just a curiosity, but the stock market similarities are much more, they're further evidence of one final rally to come in 2001.

The chart on page four shows the stock market similarities between the period surrounding the 1960 and 2000 elections. Well before the election years, 1957 mirrored 1997 right down to the October lows. The 1998 decline did not have a parallel in 1958, but the general rally from the year ending in eight into the January "year zero" highs is similar. If stocks continue this parallel with 2001 mirroring 1961, then a major high will come in December 2001, consistent with the Spiral Calendar and eclipse analysis already presented. The presidential nightmare chart also brings up the subject of George Lindsey again. George is responsible for the "three peaks and a domed house" topping pattern. That pattern can be clearly seen in the 1960-61 chart with the January 1960 high as the middle peak of the three peaks and the December 1961 top as the apex of the dome. A large domed rally in 2001 will repeat that pattern perfectly.

MARCH 2001

The Spiral Calendar and the eclipse cycles are closely linked. The 35.8-year F27 period is close to the 36-year saros period times two. Here's another relationship. The 29-year inex is nine months longer than the 28.2-year F26 Spiral Calendar period. The chart above shows how the top of May 1965 foreshadowed the 1966 top nine months later. F27 from that earlier 1965 top and F26 from the 1973 top combine to forecast a March 2001 top. Similarly another lesser top occurred in October 1973 nine months after the January 1973 top (that is so important to our 2001 top). Adding F26 to that later, October 1973 top strengthens the argument for a December 2001 top.

JULY 2001

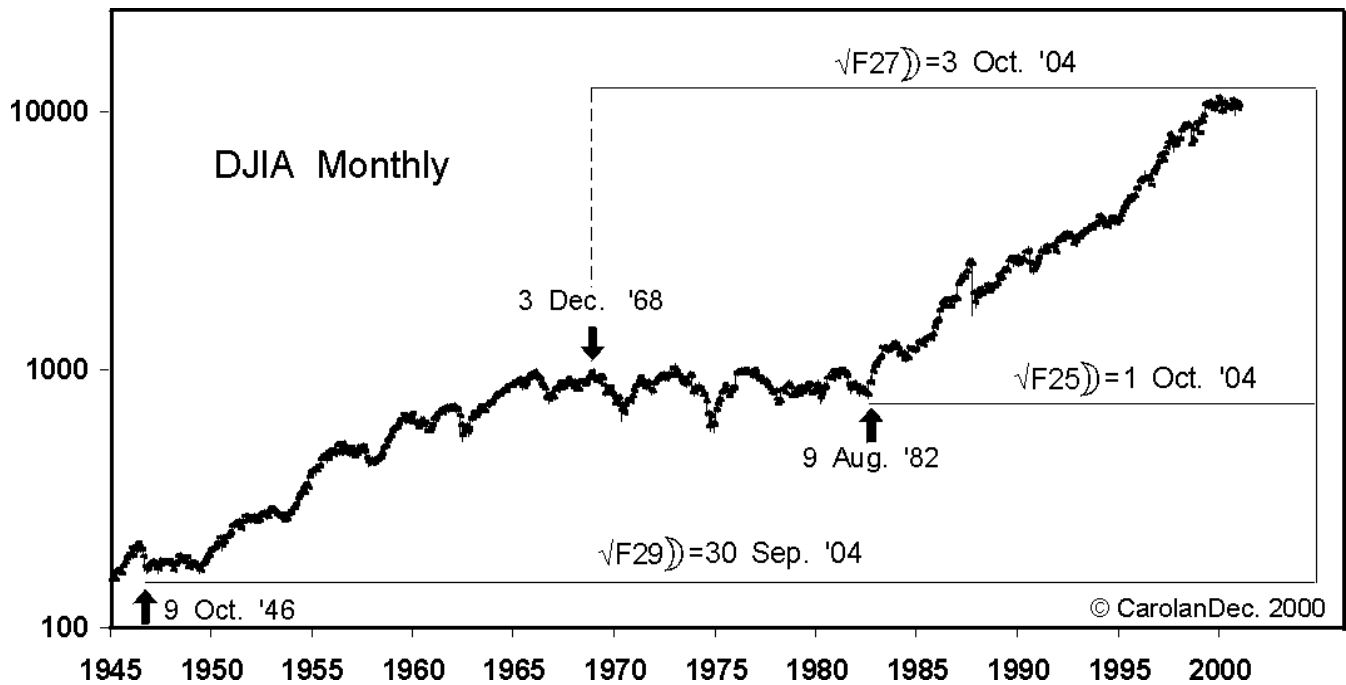
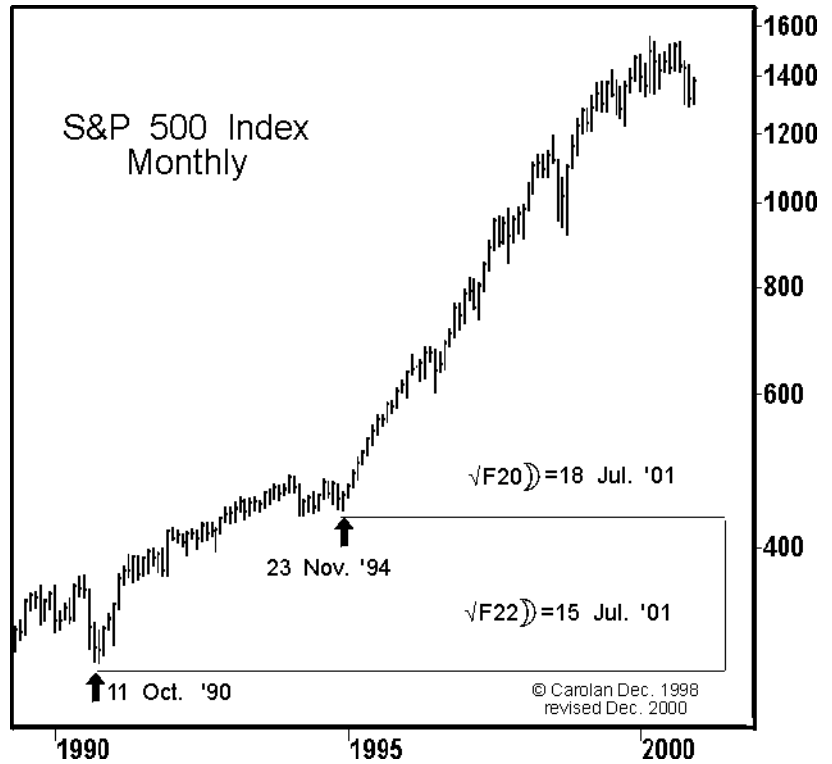
Mid-July 2001 marks Spiral Calendar anniversaries of the ending of both the 1990 bear market and the 1994 "stealth" bear market. After the low of April 2000, this potential low is the most important Spiral Calendar low on the horizon.

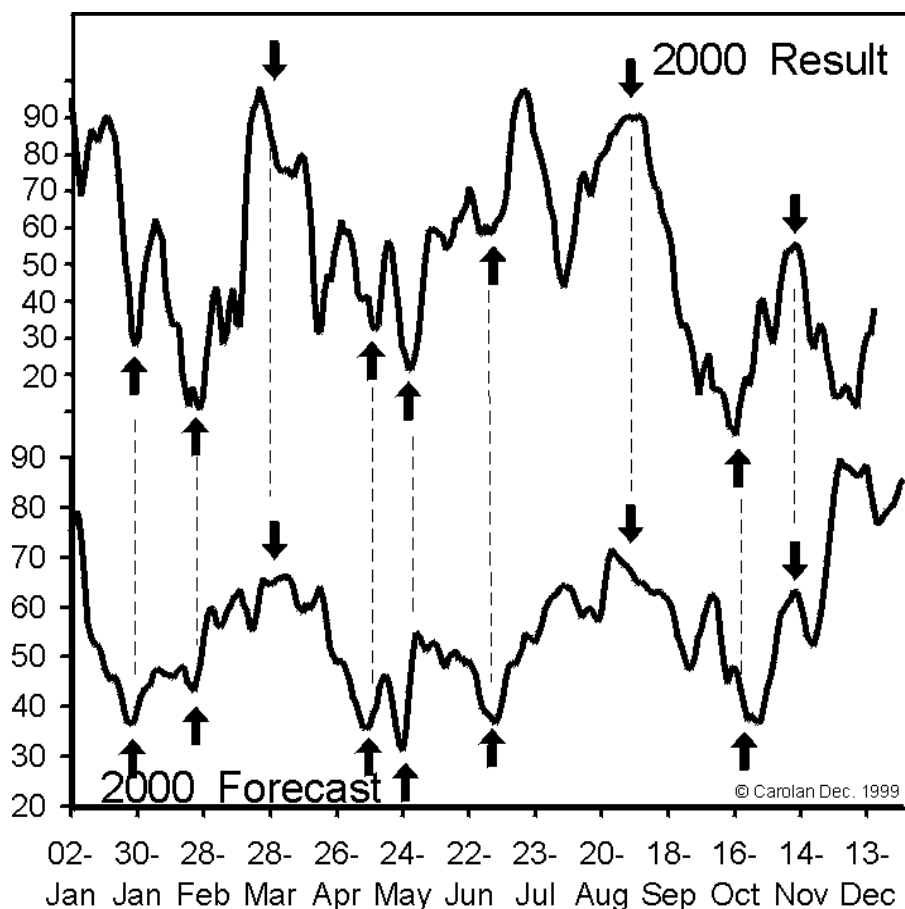
2002 & 2003

There are no intriguing long-term Spiral Calendar relationships due in 2002 and 2003 that I've been able to unearth. My long wave analysis suggests that these will be two plus years of severe deflation and sharply falling stocks.

OCTOBER 2004

One date stands out as the logical spot for a major low, and the likely end to the first secular bear market that most living investors will experience. The October 2004 date was first presented in *The Spiral Calendar* text on pages 142-144. It can be argued that the spiral that began in October 1946 is no longer active, having failed to produce a convincing turn in the spring of 1992. However, my most recent eclipse research has shown the "why" of these cycles and I can now understand the importance of October 1946 and its attendant eclipse as an "anchor" of very important cycles this century. And though one of the turns emanating from that spiral was a top, December 1968, the related force of the cycles and the attached lunar eclipses are clearly low generating forces. The F29, 58-year, Spiral Calendar time unit is one of the building blocks of these eclipse anchored spirals, making October 2004 a key time window for a very major stock market low.

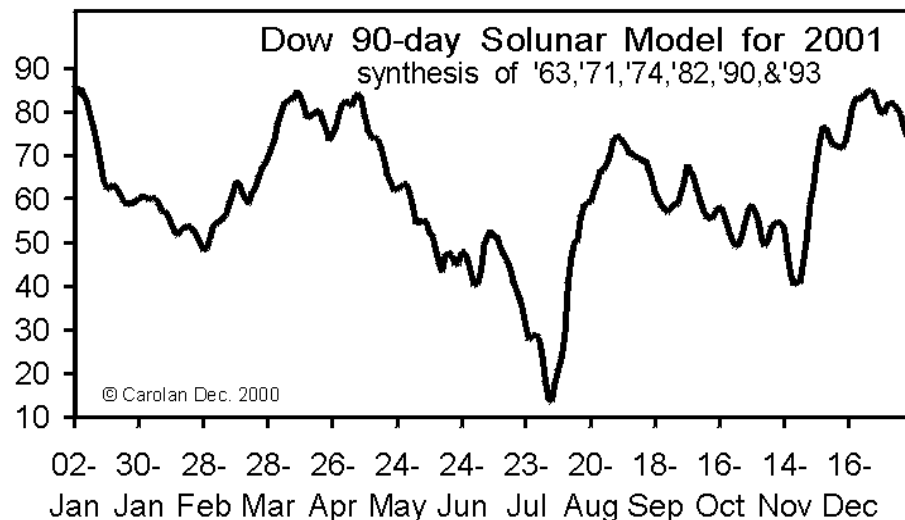




SOLUNAR MODELS

The solunar model charts are a synthesis of market action in those years that have a similar lunar calendar alignment to the year in question. Essentially, the lunar calendar repeats every 19 years, known as the Metonic cycle. For 2001, the Metonic years are 1982 and 1963. Within that cycle, eight and eleven-year periods mark similar solar/lunar calendar relationships, though not as precise as the Metonic. The Greeks called these the *ogdoas* and the *hendekas*. Those years are 1990 and 1993, 1971 and 1974.

The top chart shows a comparison of the 90 calendar day solunar model for 2000 that was published in last year's **Special Report**. Specifically, the model is a 3 period smoothing of the average of the 60 period %R calculations for all the solunar years. Example, if stocks were at a 60 trading day low in each of the six model years, the value would be zero. If they were all at highs, the value would be 100. The comparison in the chart is with the actual 60 period %R for the S&P 500 index in 2000, also with 3 day smoothing. The two charts allow for a good assessment of the success of the forecast. Remarkably, **the solunar model got most of the major themes of 2000 right; the January weakness, the late March strength, the late April and late May weakness, the late August strength and the mid October**



weakness. Its most glaring miss is the post-election decline. The comparison is quite favorable overall, and I believe it on balance more successful than the better known and well advertised Bradley model used by planetary analysts.

The 90 calendar day solunar model chart for 2001 shows general trends that are similar to the Spiral Calendar analysis. The strongest indicated periods are April/May and December, with early August the weakest, close to the March high and July low spiral thesis.

CONCLUSIONS

When I lived in San Francisco, my wife and I were awakened at 1:00 AM on an August night by a small earthquake, a five-point-something on the Richter scale. While we had felt a number of earthquakes before then, there seemed something ominous about that quake. The next day Mrs. Carolán began accumulating batteries, water etc. Eight weeks later the 7.1 Loma Prieta quake struck. We were prepared physically, but could never have imagined the emotional experience beforehand. This year's NASDAQ collapse, is I believe, only the precursor quake, a heads-up signal that the major bull trend is expiring. The NASDAQ is only a sector; it's not THE market. But it is a sector that was overcrowded and hence is the first to lose its oxygen. The charts of the blue chip and NYSE indices have not been severely damaged. They are in range to attain the new highs I expect by the end of next year. But 2001 will be the time to prepare oneself with the financial version of "batteries and water."



Another good analogy is the events in Pompeii in 79 AD. The first eruption of Vesuvius was mild, leaving only a thin layer of ash on the ground and allowing the populace plenty of time to escape. Then the mountain went quiet, and the people returned to gather the valuables they had earlier left behind. It was then that the volcano struck with its fury. I suspect the market will put on a quiescent face in 2001 and entice those to return in search of the NASDAQ equity they left behind in 2000. It is then that the market will put on the "big show."

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Also available, *The Spiral Calendar and its Effect on Financial Markets and Human Events* by Christopher Carolán, published by New Classics Library, 160 pps. hard cover, \$49 plus \$5 shipping (\$16 overseas.) **Fax-on-Time:** A periodic fax update service distributed during times of emotional market conditions and extraordinary trading opportunities. Dedicated fax line required. \$399 annually U.S. and Canada, overseas additional. Also available by E-mail, for \$324.yearly or \$81 quarterly recurring credit card billing. Call 770-579-5804 to order. Mr. Carolán's **current market opinion** is available to subscribers by calling 770-579-5804, \$20 per minute payable by VISA or MC.

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