BUSINESS CYCLE DEVELOPMENTS

A 2nd **Market Trough Indicator (MTI)** has signaled. Buy stocks on weakness.

The crucial consideration is whether this market decline is, at a minimum, discounting a slowing or, at worst, discounting a recession. If it's a slowing, then only two of six **MTI's** are historically required to reenter the equity market on weakness. If it's recession, then five of six **MTI's** are needed to be positive to buy stocks. One of the best litmus tests employed to determine if it's a slowing or recession is the distinctive pattern that T-Note and Baa yields peak before any peak in the Industrial Production Index. Both these yields peaked in February '11 and began dropping before the Euro and the Budget Act exogenous shocks surfaced or any slowing in output. When both Credit Controls and the Gulf War exogenous shocks hit, yields peaked after the peak in output. The recession cacophony, in the past few months, implies consumers and producers are already taking collective unseen steps to overcome any recession.

MARKET DECLINES NOT CONNECTED TO RECESSIONS

MARKET TROUGH	PERCENTAGE DECLINE	NUMBER OF MONTHS DECLINE	PERCENTAGE GAIN IN SIX MONTHS FROM LOW
6/62	-28%	-6 mo	+21 %
10/66	-22%	-9 mo	+28 %
3/78	-19%	-18 mo	+23 %
7/84	-14%	-9 mo	+22 %
12/87	-34%	-4 mo	+23 %
12/94	-8% [1.]	-11 mo	+27 %
9/98	-19%	-2 mo	+34 %
10/02	-34%	-7 mo	+18 %
8/04	-8% [2.]	-6 mo	+14 %
7/10	-16%	-3 mo	+27 %
AVERAGE	-20% (+/-7%)	-8 mo (+/-4 mo)	+24% (+/-4%)

1.) Nasdaq – 14%. 2.) Nasdaq -19%. Both two-tier declines.
All percentages are a daily close of the S&P 500.

There are enough **Interest Rate Peak Indicators** for a 2nd **Market Trough Indicator**. From the 2nd **MTI**, the average lead-time has been three months (+/- 2 mo) to a bottom. This projects a market low in October '11 (August '11 through December '11). Bear markets that only discount slowing last an average of eight months (+/-4 mo) – see column #3 above. So this 2nd **MTI,** coming three months after a market peak in April '11, implies there's little time remaining to the downside based on the averages. The typical decline, based on a *daily close* basis from the 2nd **MTI,** is -20% (+/-7 %) - column #2. There's already been a -18% decline through August 8th. Overlook the volatility related to the -7% (+/- 7%) because the downside risk should be occurring over a short time period. View it in context to the upside potential of an average return of +24% (+/- 4%) six months after a market low (column #4).

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