BUSINESS CYCLE DEVELOPMENTS

If the past holds, then the slowing in Great Britain, Japan & the EU is about to improve and the dollar strength is temporary. It appears the S&P has entered another intermediate correction and the weakness is an opportunity to buy.

The table below shows the lead and lag of output of other countries in relation to the peak and trough of U.S. Industrial Production (averages in green shading). Example: U.S. output peaked in June 2000 and troughed in November 2001; Great Britain's Industrial Production peaked out the same month and bottomed the same month as the U.S.; however, Italy's Industrial Production reached a peak six months later and bottomed two months after the U.S. recovery (see yellow shading). Europe is reporting the slowing that the U.S. saw in the first quarter and the dollar strength should reverse soon.

U.S. OUTPUT LEADS THE UK , JAPAN & EUROPEAN UNION

ALL DATA ARE MONTHLY AVERAGES OF INDUSTRIAL PRODUCTION. [R] RECESSION; [SD] SLOWDOWN.

U.S. IND. PROD. PEAK to TROUGH	GBR IND. PROD. LEAD (+) LAG (-) to U.S. PEAK & TROUGH	JPN IND. PROD. LEAD (+) LAG (-) to U.S. PEAK & TROUGH	DEU IND. PROD. LEAD (+) LAG (-) to U.S. PEAK & TROUGH	FRA IND. PROD. LEAD (+) LAG (-) to U.S. PEAK & TROUGH	ITA IND. PROD. LEAD (+) LAG (-) to U.S. PEAK & TROUGH
10/69 to 11/70 (R)	-5 mo & -4 mo	-8 mo & -6 mo	-7 mo & 0 mo	-6 mo & +3 mo	N/A
11/73 to 5/75 (R)	-7 mo & -3 mo	-3 mo & +2 mo	+3 mo & -2 mo	-9 mo & 0 mo	N/A
12/78 to 7/80 (SD/R)	-6 mo & -10 mo	-14 mo & -1 mo	-14 mo & -6 mo	-8 mo & -8 mo	-13 mo & -2 mo
7/81 to 12/82 (R)	-3 mo & +1 mo	-4 mo & +2 mo	-3 mo & +2 mo	-5 mo & -8 mo	-6 mo & -5 mo
6/84 to 7/85 (SD)	0 mo & +8 mo	-4 mo & +4 mo	-5 mo & +3 mo	+1 mo & +6 mo	-2 mo & +6 mo
1/89 to7/89 (SD)	+4 mo & 0 mo	0 mo & 0 mo	+1 mo & +2 mo	-3 mo & -2 mo	+1 mo +2 mo
8/90 to 3/91 (Gulf War)	0 mo & -5 mo	-2 mo & -3 mo	-5 mo & -6 mo	--4 mo & -4 mo	0 mo & -1 mo
1/95 to 1/96 (SD)	-14 mo & -6 mo	-3 mo & +4 mo	-1 mo & -1 mo	-6 mo & -6 mo	-11 mo & -11 mo
6/00 to 11/01 (SD/R)	0 mo & 0 mo	-6 mo & 0 mo	-8 mo & 0 mo	-8 mo & 0 mo	-6 mo & -2 mo
6/02 to 8/03 (SD)	+1 mo & +3 mo	-4 mo & 0 mo	-2 mo & -1 mo	+2 mo & +3 mo	+1 mo & +3 mo
1/06 to 11/06 (SD)	+1 mo & +4 mo	-3 mo & +4 mo	-7 mo & +1 mo	-5 mo & -5 mo	-11 mo & -5 mo
7/07 to 6/09 (SD/R)	-4 mo & -2 mo	-3 mo & +4 mo	-6 mo & +2 mo	-9 mo & +2 mo	-1 mo & +3 mo
5/10 to 2/11 (SD)	0 mo & -2 mo	-4 mo & -1 mo	-5 mo & +2 mo	-8 mo & -2 mo	-1 mo & +1 mo
2/12 to 10/12 (SD)	+2 mo & 0 mo	+1 mo & +1 mo	-1 mo & -3 mo	+3 mo & -1 mo	+2 mo -6 mo
AVG.:	-2 mo & -1 mo	-4 mo & +1mo	-4 mo & -1 mo	-5 mo & -2 mo	-4 mo & -1 mo
12/13 to 5/14 (SD)	? & ?	-1 mo & ?	-2 mo & ?	+1 mo & ?	-1 mo & ?

UN 3-LETTER CODES: GBR - UNITED KINGDOM; JPN - JAPAN; DEU - GERMANY; FRA – FRANCE; ITA - ITALY.

There are an average of three to four intermediate pullbacks in bull markets per year that average -5% (+/- 1.5%) for 20 trading days (+/- 10 days) and it appears this could be the fourth this year. Specifically, if last Thursday's high of 2011 holds, then the S&P could see the 1910 level (1880 to 1941). Weakness could extend to October 16th (Oct. 2nd to Oct. 30th). These averages, since 1985, encompass outliers that reach -11% and 42 trading days. There are no **Market Peak Indicators** signaling, so this pullback is viewed as an opportunity to buy on weakness. The rise of nationalism, sanctions and sword rattling doesn't bode well for future levels, but these are unquantifiable factors.

BCD Research, Inc. September 26, 2014