



MMTA Course One – Cycles and Chart Patterns in Financial Markets



The Phases of the 4-Year Cycle in U.S. Stock Indices

Module Lesson Nine



Disclaimer and Appropriate Use of Course Information: The content and instruction made throughout this course are provided solely for reference and educational purposes to students, traders, and analysts (Participants).

By participating in this course, you agree that all trading or investment decisions made by Participant are at the sole risk to the Participant and Participant assumes all responsibility for any and all decisions made in financial markets.

By taking this course, you also acknowledge that trading in financial markets involves risk of loss as well as the potential for gains. As a student, trader, or investor, you agree to assume all responsibility for any and all actions you initiate in financial markets, and neither the authors, instructors, or publishers affiliated with this course, or anyone whose work is cited or referenced in the course, assumes any liability whatsoever for your decisions.

Futures or options trading are considered high risk. Information provided in the MMTA course or MMA publications is provided with sincere intent, and according to MMA's own proprietary and copyrighted processes and methodologies. All content and information provided is the intellectual property of MMA and MMTA developed by Raymond Merriman and his 40+ years of experience, observation, and research. Students may use this material responsibly and solely for their own trading and investment planning. They may cite brief sections of these studies with proper credit to MMA or MMTA. However, any other reproduction or use of this copyrighted material must be with the written consent of MMA.

Objectives

- In this module you will learn about:
 - The 15.33-month cycle in U.S. stocks (3-phase pattern)
 - The 23-month half-cycle in U.S. stocks
 - The Presidential election year cycle in stocks
 - Other considerations and smaller cycles



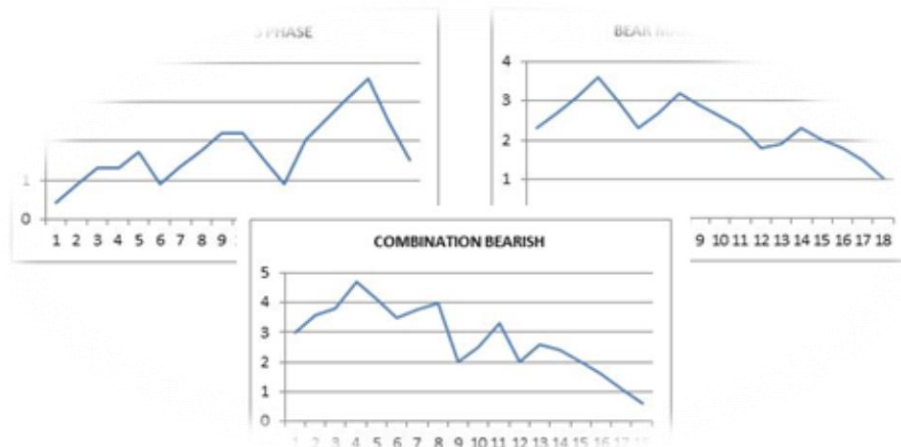
The 4-Year Cycle

4-Year Cycle:

- Sub-divides into
 - 3-Phase
 - 2-Phase
 - Combination Pattern

Since 1893:

- Three-phase patterns present :
 - 25 of 33 4-year cycles (80%)
 - 16 cases (47%) of 2-phase patterns
 - 8 cases of combination patterns



Three-Phase Patterns

46-month cycle subdivides into three-phase pattern

- Average phase is 15.33-month sub-cycle
- Standard 1/6 orb = normal range of 13-18 months

Three-Phase Patterns Study

Results of 1893-2013 Study:

- 24 of 25 cases of 3-phase cycle were bullish right translation (96%)
- Average length of 1st phase = 16.7-months
- Range of 1st phases = 10-27 months
 - 20 cases occurred at the 13-20 month interval (79%)

13-20 months considered normal range for first-phase of three-phase pattern in a 4-year cycle

Three-Phase Patterns Study

- In 21 of 25 cases:
 - 4-year cycle crest occurred in 2nd or 3rd phase (84%)
 - Occurred 4 times in 1st phase (16%)
- 3rd phase was bizarre, often distorted
 - Range varied: 8-23 months
 - Average periodicity: 14.3 months
- Using normal range of 13-20 months:
 - 13 of 25 3rd-phase cases distorted
 - 9 were contracted
- In 20 of 25 cases (80%):
 - Trough of 3rd phase < trough of 2nd phase.
 - Most outstanding feature of 3rd phases:
 - Steepest decline of 4-year cycle tends to happen here

Steepest decline of 4-year cycle tends to happen in 3rd phase

Practice

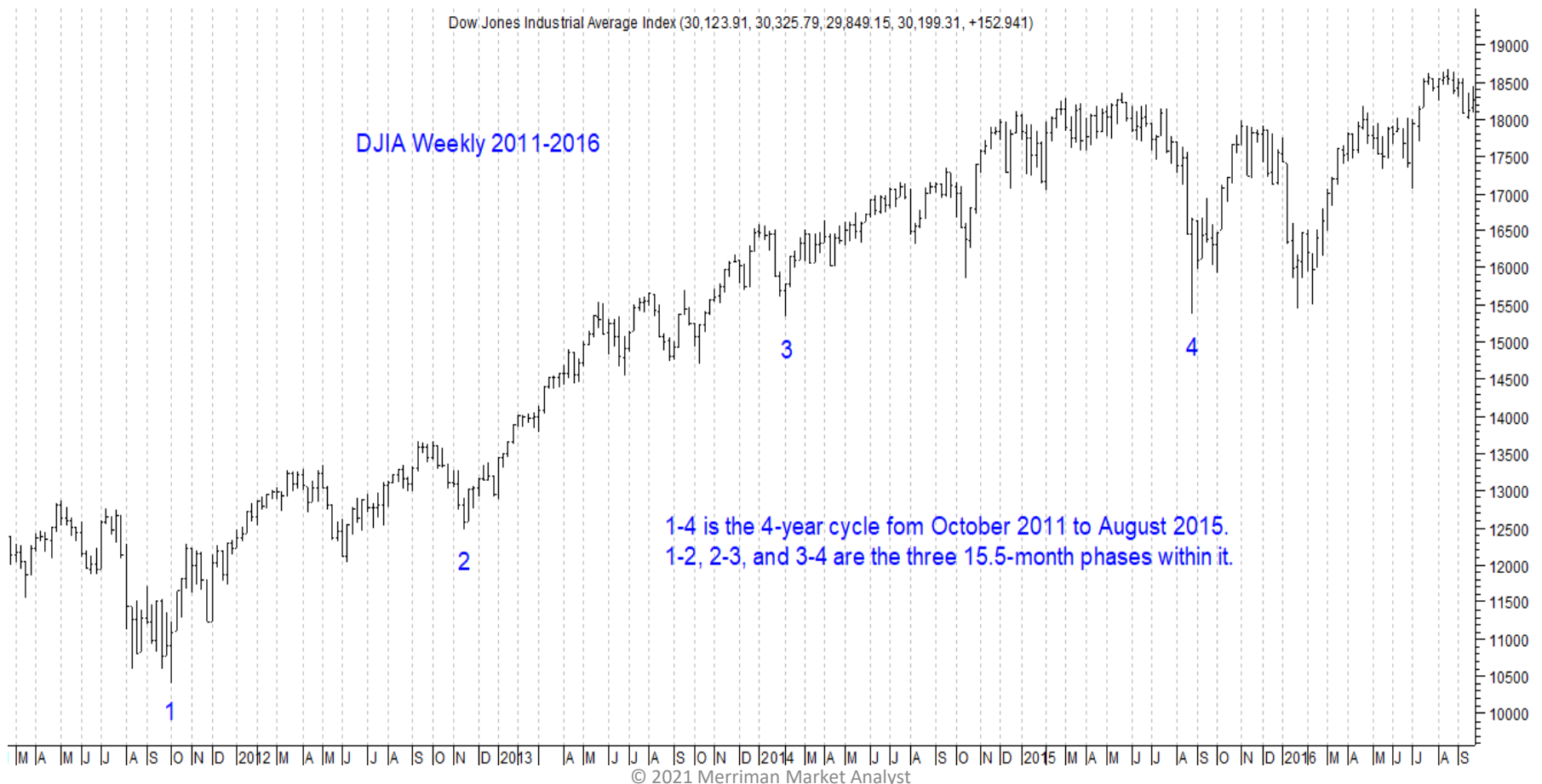


Most Recent 3-Phase Pattern in 4-Year Cycle

Can you identify the three phases?

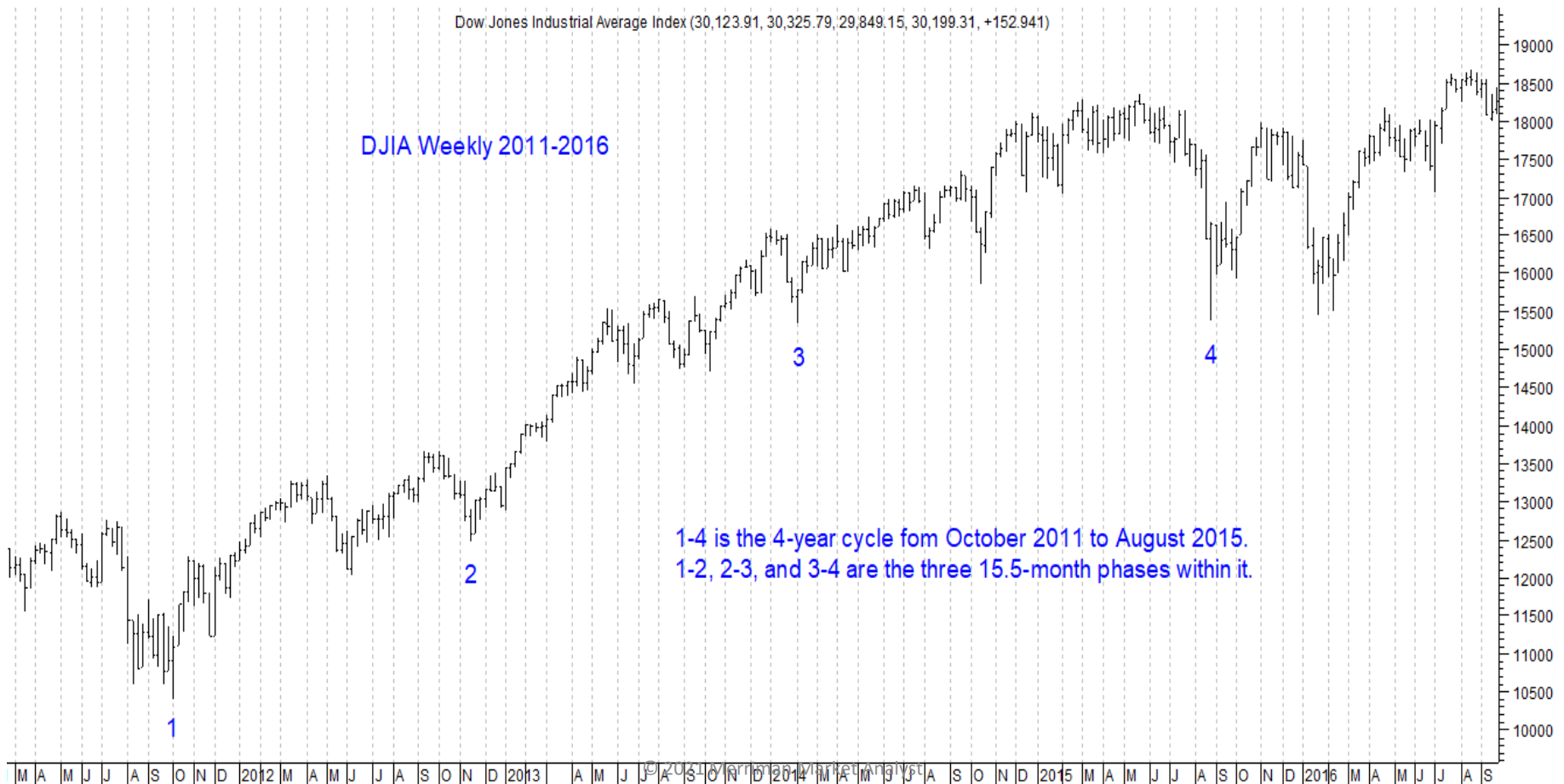
When did they occur?

How many months did each last?

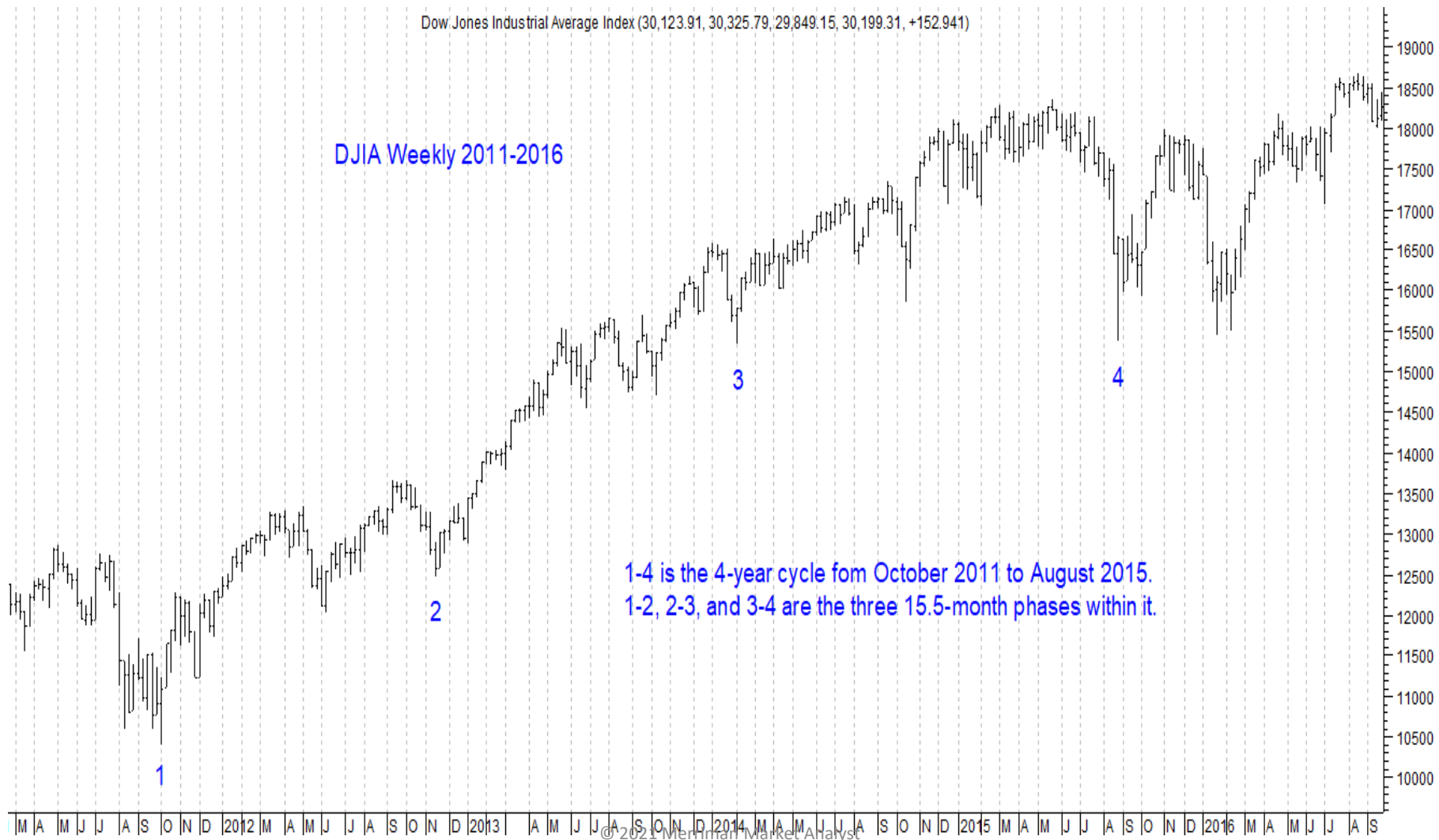


Most Recent 3-Phase Pattern in 4-Year Cycle

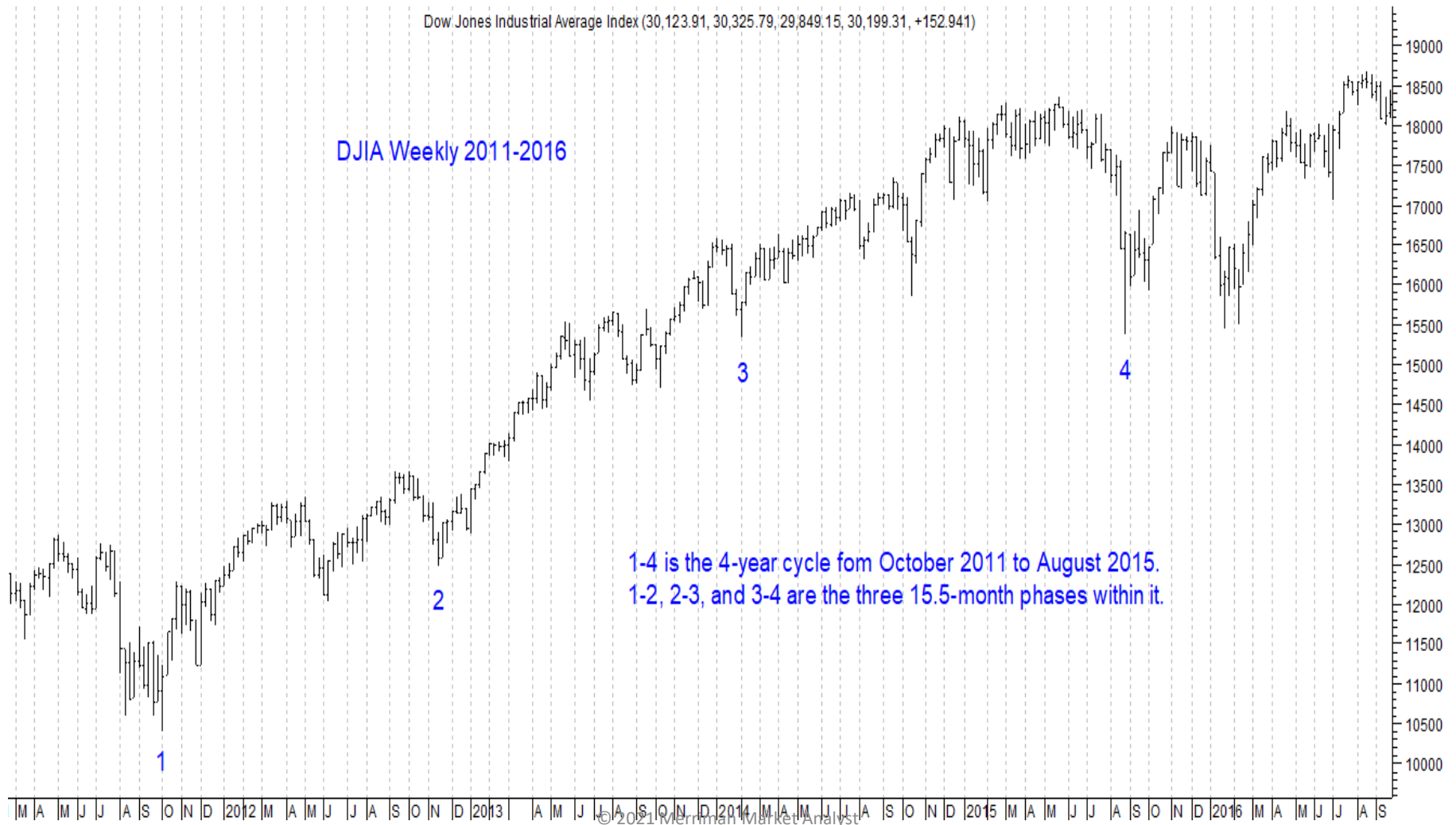
What feature of first phase was expected? What feature of last phase was expected? In which phase did the crest occur?



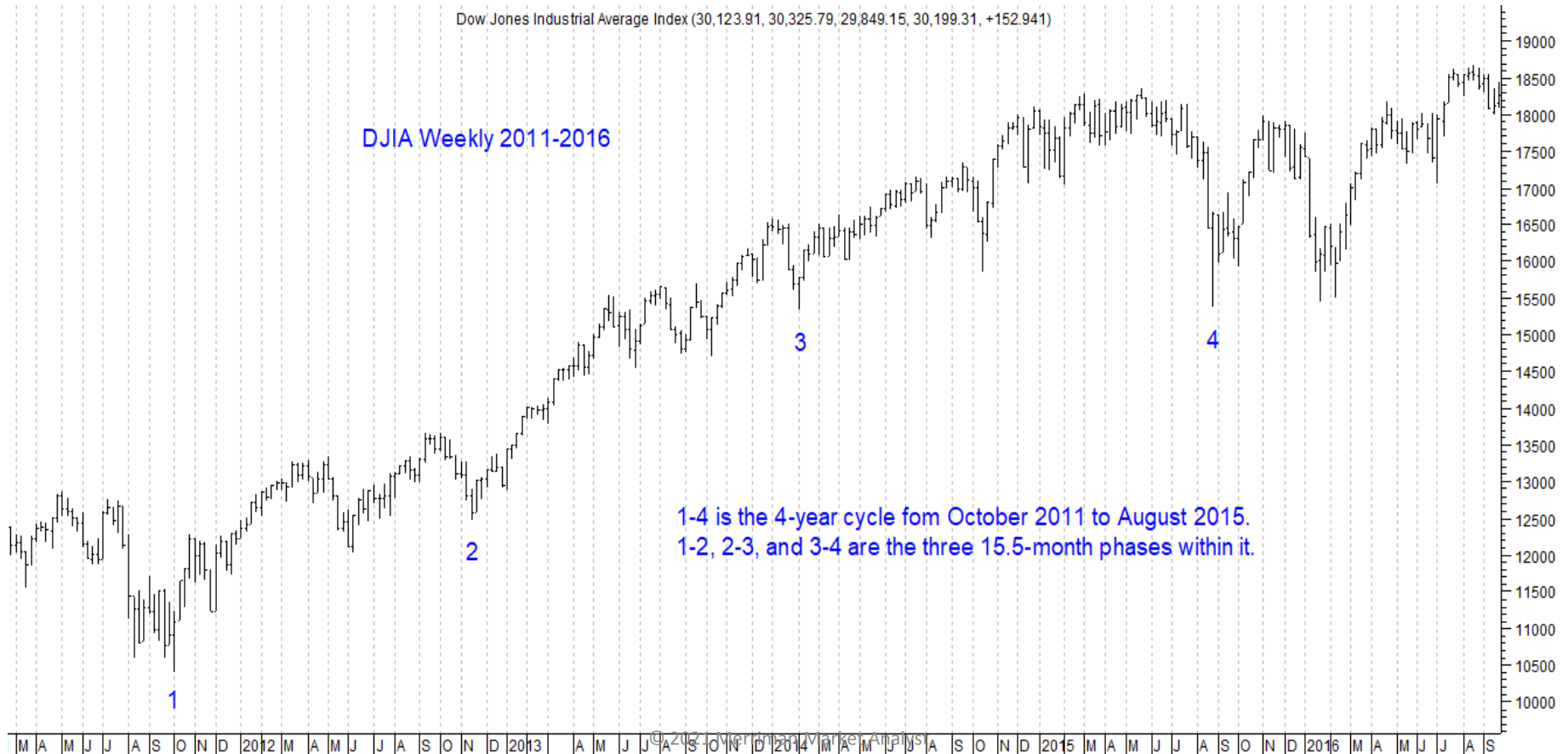
The first phase (1-2) lasted 13 months (October 2011-
November 12).



2nd phase (2-3) was 15 months (November 2012-February 2014)
with “normal” range: 13-20 months.



3rd phase (3-4) lasted 18 months (September 2001-October 2002). Low was essentially a retest of the low of 2nd phase, typical of 3-phase, 4-year cycles. Therefore, it was regarded as 4-year cycle with a classical 3-phase pattern.



Two-Phase Patterns

Two-Phase Patterns

- If the 46-month cycle sub-divides into a classical two-phase pattern, then:
 - Average phase is a 23-month sub-cycle
 - Standard 1/6 orb (4 months) = normal range of 19-27 months

Two-Phase Patterns – 1893-2013 Study

Results of Study

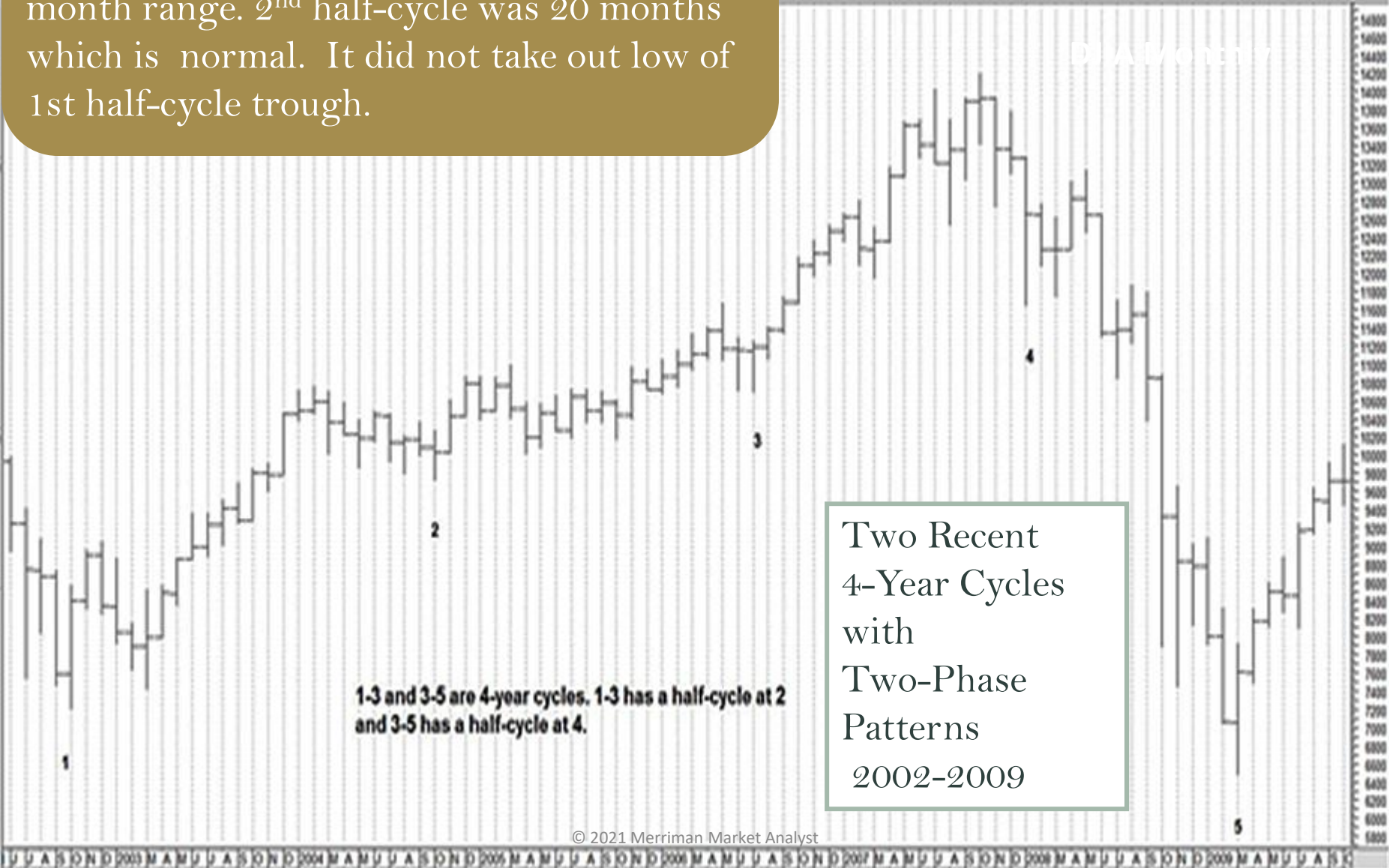
- 11 out of 16 cases, severe sell off ensued into half-cycle trough.
 - Decline: Sharp but brief; much shorter in duration than the duration of rally to the crest of 1st half cycle (right translation)
- 1st phase: Range of 16-36 months
- Remove 16-, 32-, and 36-month cases to get range of 18-27 months (81.3%)
 - Was close to the expected range of 19-27 months
 - Mean is actually 22.5 months

Two-Phase Patterns – 1893-2013 Study

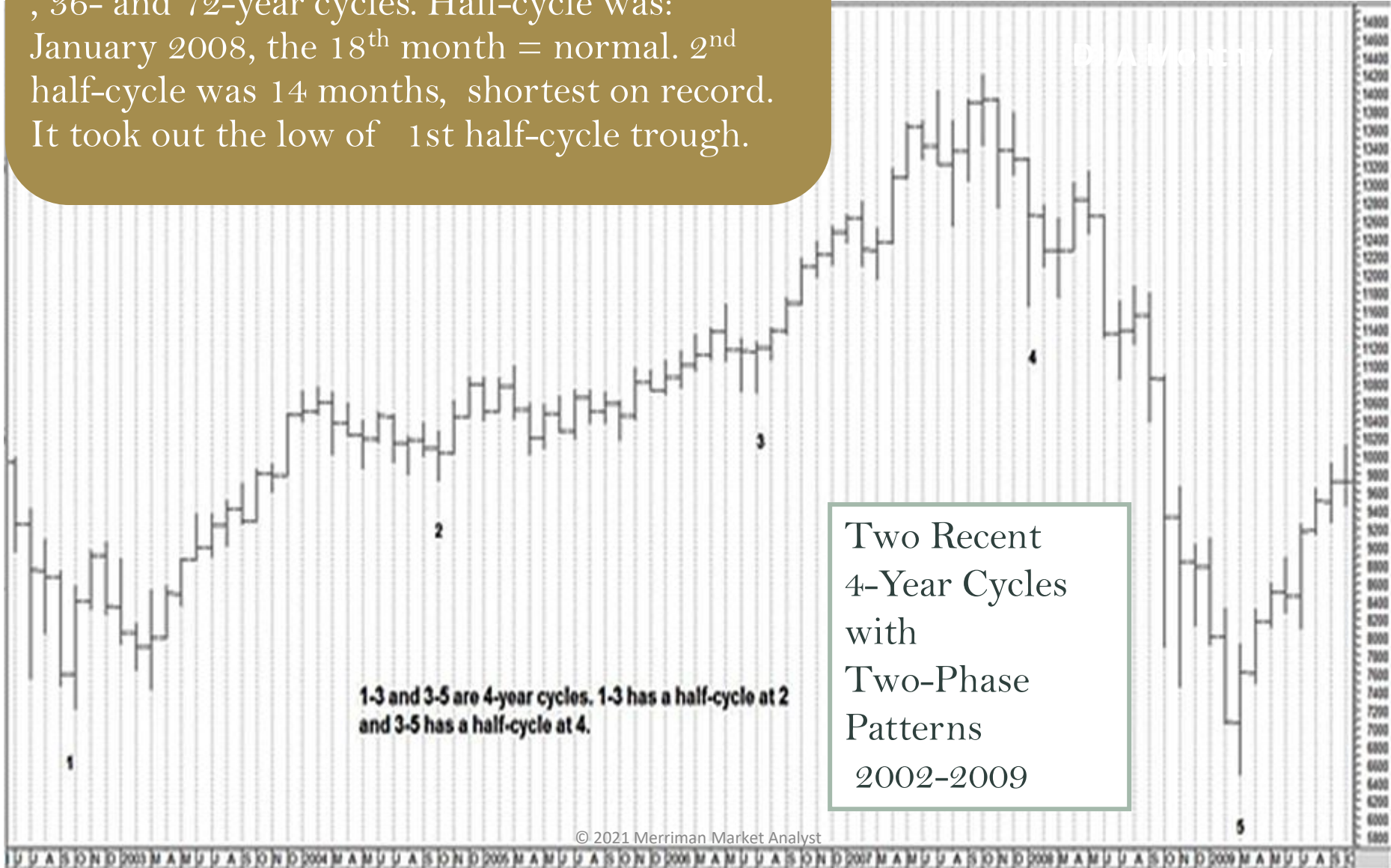
Results of Study

- Second half of cycle had range of 14-30 months
- Second Phase: As expected—often distorted
- Using normal range of 18-27 months:
 - 9 of 16 second half phase cases distorted (56.2%).
 - 6 cases contracted
- In 9 of 16 cases (56.2%):
 - Trough of last phase < trough of the first-half phase.
 - Outstanding feature: of last phase:
 - Steepest decline of the entire 4-year cycle tended to happen here.

1-3: 4-year cycle, October 2002 July 2006 (45 months). Its half-cycle was: October 2004 (24th month), which is within normal 18-27 month range. 2nd half-cycle was 20 months which is normal. It did not take out low of 1st half-cycle trough.



3-5: Two-phase, 4-year cycle: July 2006 through March 2009. It was a: contracted 4-year cycle- the last 4-year cycle phase in the 18-, 36- and 72-year cycles. Half-cycle was: January 2008, the 18th month = normal. 2nd half-cycle was 14 months, shortest on record. It took out the low of 1st half-cycle trough.



Two Recent 4-Year Cycles with Two-Phase Patterns 2002-2009

Other Considerations and Phases

23-Month Half Cycle | 50 Week Cycle

- 23-Month Half Cycle typically:
 - Sub-divides into 2 or 3, 50-week cycles
 - Has a range of 34-67 weeks
- 50-Week Cycle:
 - Has disappeared since August 2007
 - Turned into a 15.5-month cycle phase
 - Coincides with appearance of the sub-prime financial disaster
 - FED initiated radical monetary policies
 - Until August 2007: Were typically 3-5, 50-week cycles in a 4-year cycle

Presidential Election Year Cycle

- 17 of 27 cases (62.9%) of the 4-year cycles since 1911:
 - 4-year cycle trough has occurred 16-25 months after election
- Has occurred in 12 of 15 cases since 1960 (80%)
- One instance it did not occur:
 - Was after the 2008 election



Presidential Election Year Cycle

- When is the next Presidential Election year trough due?

March-December 2022

- One may have recently happened in December 2018 since the decline was severe (would have coincided with 2016 election)

Presidential Election Year Cycle

Dow Jones Industrial Average Index (30,123.91, 30,325.79, 29,849.15, 30,154.54, +108.170)

Dow Weekly 2017-2020

Was 1 or 2 the 4-year cycle low?
It appears as though 1 may have
been the presidential election low.



QUIZ #9

The Phases of the 4-Year Cycle in U.S. Stock Indices

QUIZ #9

1. How many 4-year cycles have unfolded since 1893?
What is the mean periodicity – in months – for the normal 4-year cycle?
2. What percent of the 4-year cycles have been three-phase patterns?
3. What is the expected mean periodicity of each phase in a 3-phase pattern within the 4-year cycle?

QUIZ #9

4. What is the actual average length of the first phase in a 3-phase pattern of the 4-year cycle? What has been its normal range?
5. What is the average length of the last phase in a 3-phase pattern of the 4-year cycle? What has been its historical range?
6. True or false. In at least 80% of cases to date, the last phase of a three-phase pattern in the 4-year stock market cycle has seen prices below the low of the second phase.

QUIZ #9

7. What is the “normal” range of a half-cycle in a two-phase 4-year cycle?
8. True or false: In over 60% of cases of two-phase 4-year cycles, the low of the second phase has been lower than the low of the first phase?
9. In relationship to the USA presidential election, when does the 4-year cycle trough most often unfold? How many months after the election?

QUIZ #9

10. What is the length and range of the sub-cycle phase that usually comprises the 23-month half-cycle in stocks? When did it last appear?

End of Module Lesson

Break