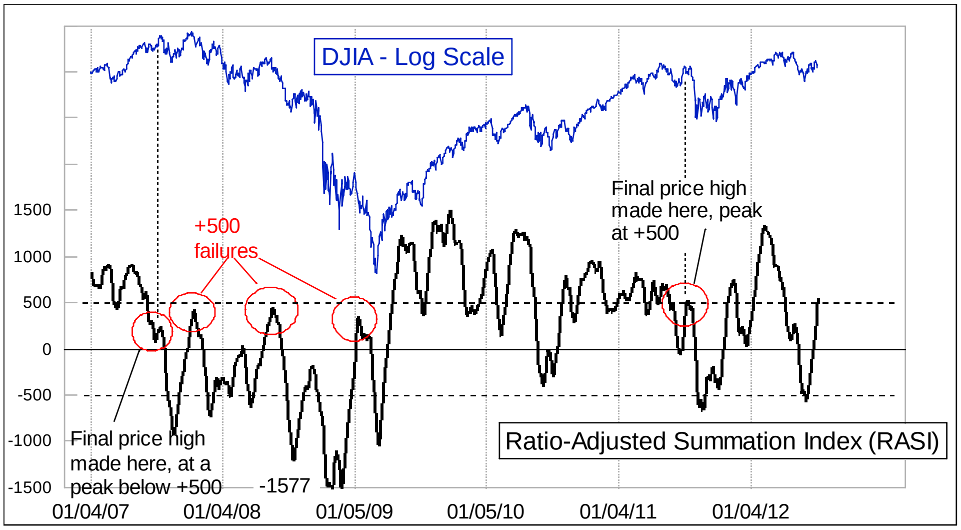
THE McCLELLAN MARKET REPORT

INSIDE

Prepared After the Market Close, July 10, 2012 Report #414, July 11, 2012

RASI's Message: Escape Velocity



When a rocket is leaving Cape Canaveral trying to reach Earth orbit, it needs to get itself going fast enough so that it does not fall back down into the ocean. The term that rocket scientists use is "escape velocity".

When the stock market is starting up out of an intermediate term correction, it needs to show strong enough breadth numbers to say that there is sufficient liquidity so that prices won't have to fall back down to the prior low. We use the same term, escape velocity, for seeing that the new uptrend is well started.

One of the best tools for detecting whether the uptrend has achieved escape velocity or not is the Ratio-Adjusted Summation Index (RASI), shown in the first chart. It is almost exactly the same as the classic Summation Index version shown in every issue on page 3, except that we adjust the daily Advance-Decline numbers to factor out the changing number of issues traded. This makes for better long term comparisons, and for a more systematic adjustment method than just the mental one that a chartist might apply to the classic version.

When the RASI dips down to below zero (or the +1000 neutral level on the classic version), we look for the subsequent rally to get itself back up above +500 to indicate that the new uptrend has achieved escape velocity. Stopping well short of +500 is a sign of failure, and an indication that prices are likely to fall back to the prior low or worse. Getting up well above +500 is a sign that all is well, although the market can still have an ordinary correction.

Exactly where the dividing line is between danger and security is much harder to answer. It is not really a case of a precise go/no-go line, e.g. that +501 is just fine but +499 is no good. The market does not work that way. We can say that only getting up to +300 and then turning down is definitely a sign of failure. And we can also say that getting up to +700 or higher is definitely a sign of escape velocity. Somewhere in between those values is that gray area of maybe okay, maybe no.

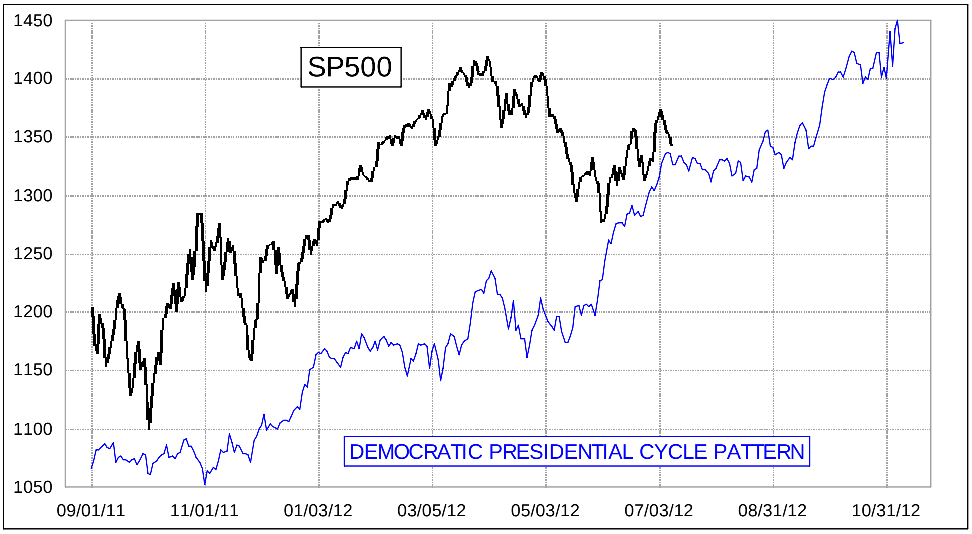
We would prefer to see the RASI continue on upward from here, and resolve any doubt for us. As it stands today, the RASI is at +560, which hints at upside confirmation much more than any failure to commence the new uptrend. And this high reading appears just one month into the new uptrend. It could stumble here briefly and then proceed higher on a subsequent wave, and not constitute a violation of the typical way that this relationship works.

That variety of uptrend pause and resumption just might be what we see this time, if the next chart continues to model what the SP500 should do. The chart on page 2 shows the Democratic version of our Presidential Cycle Pattern (PCP). To build our original PCP, we took data on the SP500 and chopped it up into 4-year chunks matching the periods between each presidential election. Then we averaged together each of those 4-year chunks to get an average pattern for what the market does at each stage of a president's term in office.

For the Democratic version, we use

BOTTOM LINE

July of an election year is typically a sideways month for the stock market, especially with a Democrat in the White House, as investors wait for the parties' conventions to see which way the election winds are blowing. We have already seen strong enough market breadth numbers to tell us that a continuing uptrend is likely. A consolidation for the rest of this month should lead to a bottom to go up from that is due Aug. 7. T-Bonds are in dangerous territory, flirting with the prospect of higher highs while the smart money commercial traders ramp up their net short positions in expectation of a big decline. The commercials tend to be right in the long run. Gold is chopping sideways while waiting for an upside breakout, as gold lease rate data is suggestive of a bottom now.



just the periods when a Democrat was in the White House. This version is correlating better to the actual SP500 at the moment than the full version of the PCP, and you can conclude what you wish about why that would be.

What this Pattern shows is that the July 3 top arrived almost precisely on schedule, and now we have a sideways period lasting into August. What we actually get from the SP500 may differ slightly, and so we should all be ready for such variation. For example, this Pattern says that the market should have made a higher high, above the high it made back in March. Instead, the SP500 made a lower high, but still seems to be following the dance steps on schedule.

If the SP500 were to follow this Pattern exactly from here forward, then we should expect a choppy sideways market into September before the uptrend resumes. But the eurodollar COT leading indication shown in MMR #413 says the correction gets done in early August. Our Timing Model signals say to look for an important bottom due August 7. The truth will likely be some version of all of these, and so we should be prepared for some variation. It is possible to make money in a sideways range, buying low, selling high, and repeating, as long as one knows that it is the environment one is in.

Bottom Line: The strong breadth numbers have pushed up the Summation Index high enough to say that the new uptrend is well started, and does not need to retest the June 4 low. Bigger gains should come in September.

Page 3 Charts

Chart 1: The A-D Line has done one of the more bullish things that it does. It made a new all time high. This is a statement by this indicator that there is plenty of liquidity available to the market. When liquidity is so plentiful that even the least deserving issues can get a bid, it shows up in the movements of the A-D Line. Now it is backing off from that achievement, due to its extended distance from its moving averages. The A-D Line needs only to remain above its 10% and 5% Trends to stay in bullish mode.

Chart 2: The Daily Volume Line has only recovered about half of the move down. This speaks to the difference in behavior of the supposedly “real” stocks that trade big volume, and the rest of the listed group which tend to be more liquidity sensitive but which may not trade as much in terms of share volume. The Volume Line has broken out above a downtrend line that can be drawn from the highs made earlier this year. When the market was coming out of the consolidation following the end of QE2, the Volume Line spent some time oscillating across and near the 1% Trend. It may be doing the same thing now in terms of making a recovery from the recent consolidation. When the Volume Line is strong enough to pull the 10% and 5% Trends above the 1% Trend, that will give assurance that the bulls are in control.

Chart 3: The McClellan A-D Summation Index is well above its +1000 neutral level at +2699.6. The move up has slowed, just as it did near the zero line. If it reverses, then there could possibly be a sharp retest of the low. But if this is just a hesitation and sideways move as suggested by the Presidential Cycle Pattern (see above), then the Summation should move to a higher level in a few weeks, taking prices with it.

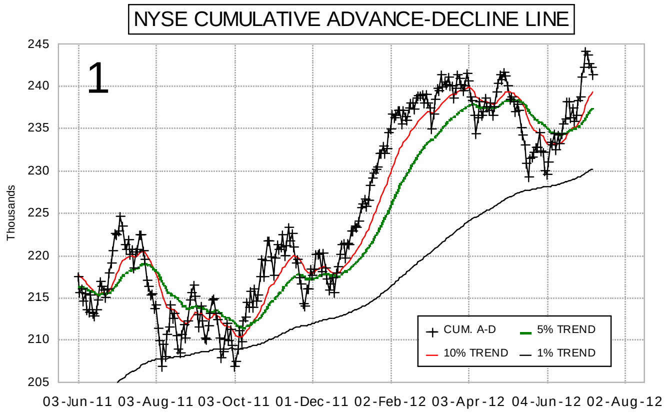
Chart 4: The Volume Summation made it up to just above the zero level before turning down by just a small amount. There are several reversals evident on the chart near this level. Sometimes there is a reversal and sometimes there is just a pause before the Summation continues in the same direction. It may take a few days to be able determine what kind of Summation behavior will result in the current time period.

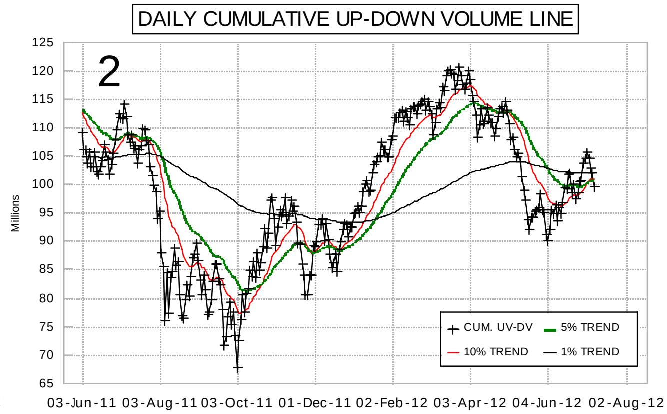
Chart 5: The McClellan Oscillator reached an extreme +307.8 on July 3 and has dropped to +26.5 in four trading days. It did not confirm the reversals of the Volume Oscillator and the DJIA Price Oscillator, although it could do that by dropping below zero on the fifth day. The ability of the market to produce a McClellan Oscillator posting above +250, and especially above +300, is a sign of initiation of a new up trend. But it also signifies an overbought condition that needs to be worked off. The complex structure above zero without a crossing down through zero is a strong statement that the bulls are in charge.

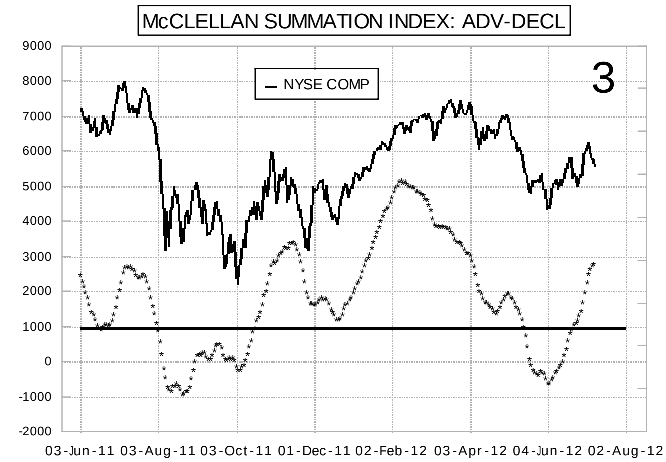
Chart 6: The Volume Oscillator has had a complex stay above zero, where it moved up and down without crossing below the zero line. That identifies that the bulls have been in control. Now if the drop below zero is quickly reversed with a simple move down and back up through zero, that will say that the bears were not able to gain structural control.

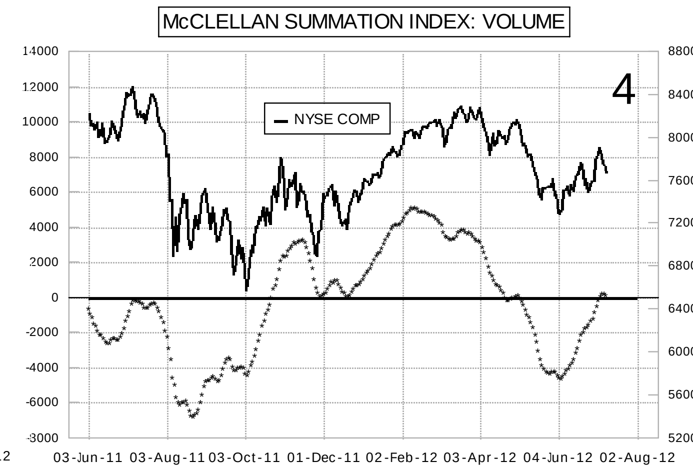
Chart 7: The DJIA Price Oscillator turned down by a small amount in a way that is, so far, similar to the small horizontal move that it made just before moving up through the zero level just a few days ago. There are a couple of reversals near this same level that took place near the end of last year, and just before the larger move down that led to the June 4 low.

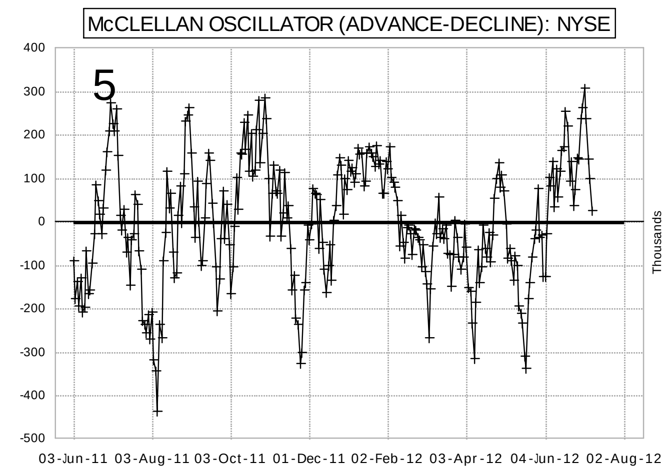
Chart 8: The CBOE Volatility Index (VIX) made its closing high on June 1 and its intra day high on June 4 in conjunction with the price low. Now it is back below its 50-day moving average, making lower lows in conjunction with the short term tops. It has spent 10 straight days below 20. If it stays at these lower levels, it will pull the 50-day moving average and the bands down to lower levels, which is bullish behavior signifying strong liquidity.

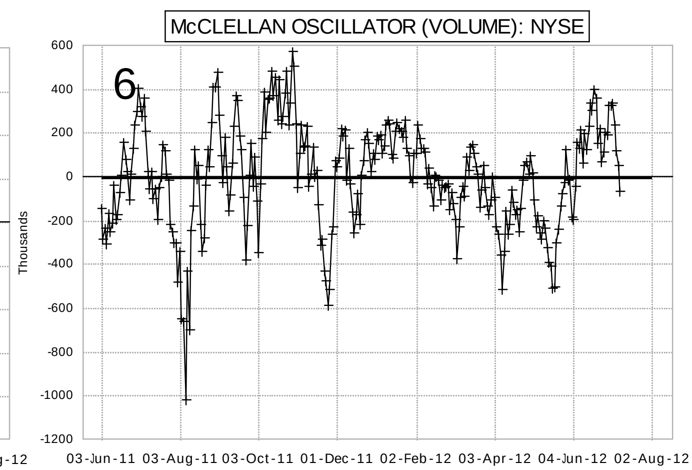

NYSE CUMULATIVE ADVANCE-DECLINE LINE
1
Thousands
245
240
235
230
225
220
215
210
205
CUM. A-D
5% TREND
10% TREND
1% TREND
03-Jun-11 03-Aug-11 03-Oct-11 01-Dec-11 02-Feb-12 03-Apr-12 04-Jun-12 02-Aug-12

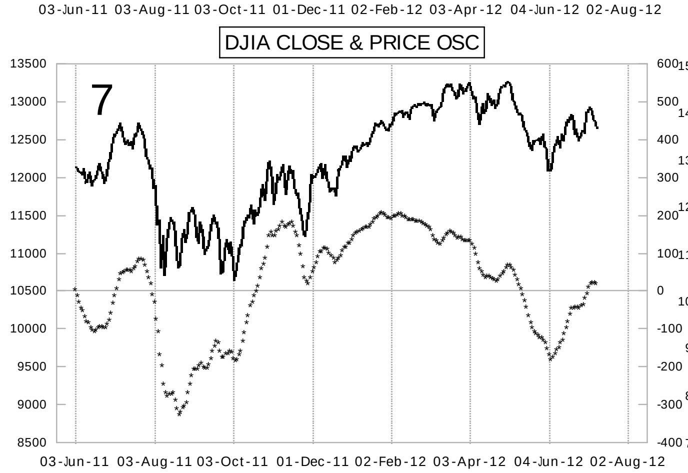

DAILY CUMULATIVE UP-DOWN VOLUME LINE
2
Millions
125
120
115
110
105
100
95
90
85
80
75
70
65
CUM. UV-DV
5% TREND
10% TREND
1% TREND
03-Jun-11 03-Aug-11 03-Oct-11 01-Dec-11 02-Feb-12 03-Apr-12 04-Jun-12 02-Aug-12

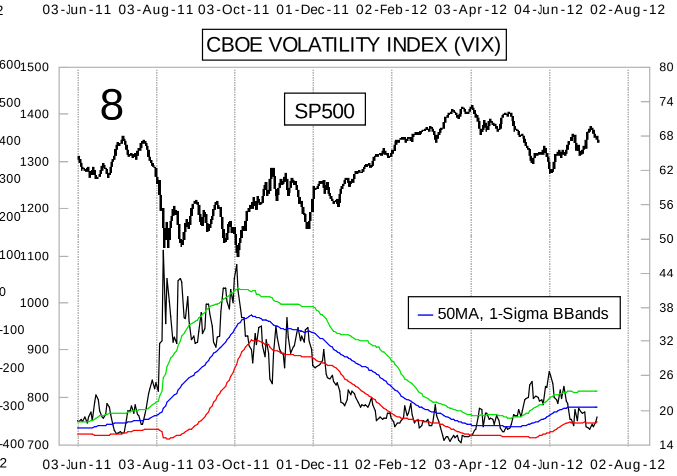

McCLELLAN SUMMATION INDEX: ADV-DECL
3
NYSE COMP
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
-1000
-2000
03-Jun-11 03-Aug-11 03-Oct-11 01-Dec-11 02-Feb-12 03-Apr-12 04-Jun-12 02-Aug-12


McCLELLAN SUMMATION INDEX: VOLUME
4
NYSE COMP
14000
12000
10000
8000
6000
4000
2000
0
-2000
-4000
-6000
-3000
8800
8400
8000
7600
7200
6800
6400
6000
5600
5200
03-Jun-11 03-Aug-11 03-Oct-11 01-Dec-11 02-Feb-12 03-Apr-12 04-Jun-12 02-Aug-12


McCLELLAN OSCILLATOR (ADVANCE-DECLINE): NYSE
5
400
300
200
100
0
-100
-200
-300
-400
-500
03-Jun-11 03-Aug-11 03-Oct-11 01-Dec-11 02-Feb-12 03-Apr-12 04-Jun-12 02-Aug-12


McCLELLAN OSCILLATOR (VOLUME): NYSE
6
Thousands
600
400
200
0
-200
-400
-600
-800
-1000
-1200
03-Jun-11 03-Aug-11 03-Oct-11 01-Dec-11 02-Feb-12 03-Apr-12 04-Jun-12 02-Aug-12


DJIA CLOSE & PRICE OSC
7
13500
13000
12500
12000
11500
11000
10500
10000
9500
9000
8500
600
500
400
300
200
100
0
-100
-200
-300
-400
03-Jun-11 03-Aug-11 03-Oct-11 01-Dec-11 02-Feb-12 03-Apr-12 04-Jun-12 02-Aug-12


CBOE VOLATILITY INDEX (VIX)
8
SP500
50MA, 1-Sigma BBands
1500
1400
1300
1200
1100
1000
900
800
700
80
74
68
62
56
50
44
38
32
26
20
14
03-Jun-11 03-Aug-11 03-Oct-11 01-Dec-11 02-Feb-12 03-Apr-12 04-Jun-12 02-Aug-12

Tight GOFO Spread Bullish For Gold

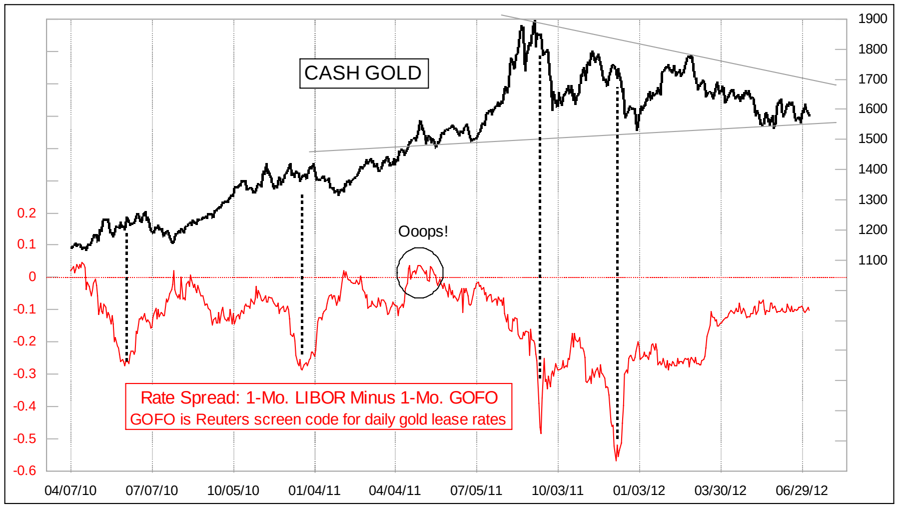
There is a part of the gold bullion market that the public usually does not hear much about, but which offers us some interesting insights about supply/demand squeezes that take place from time to time. It is known as the gold leasing market, and the data are published by the London Bullion Market Association, www.lbma.org.

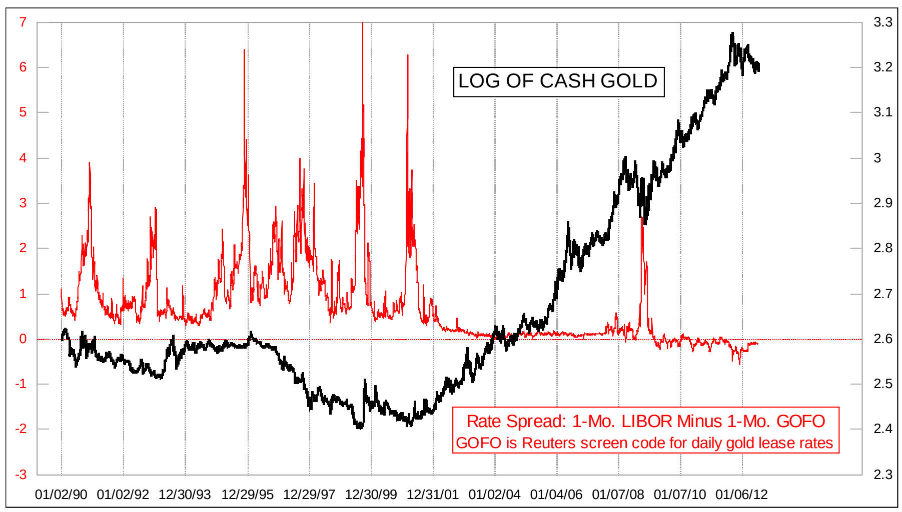
The idea behind gold lease rates is that an owner of some gold bullion can lend that bullion to someone else, and earn what is effectively a short term rate of interest on that loan. The borrower can then sell the gold he has borrowed, effectively shorting gold bullion as opposed to gold futures, or use it for some other purpose.

Usually the lease rates for gold bullion will stay very close to ordinary interest rates for the same term, but there can be information about the tightness or looseness of both the gold and interest rate markets by looking at the spread.

In the top chart, we see that big negative spreads between the 1-month LIBOR and the 1-month GOFO tend to mark important tops for gold prices. A negative spread means that the 1-month GOFO rate is higher than the LIBOR rate. In other words, lenders of gold bullion are able to command a higher "price" for lending out their gold, due to either greater demand for borrowings, or to a shortage of gold available to borrow. Conversely, when the spread is very small, like what we are seeing right now, that tends to be a bullish condition for gold prices going forward.

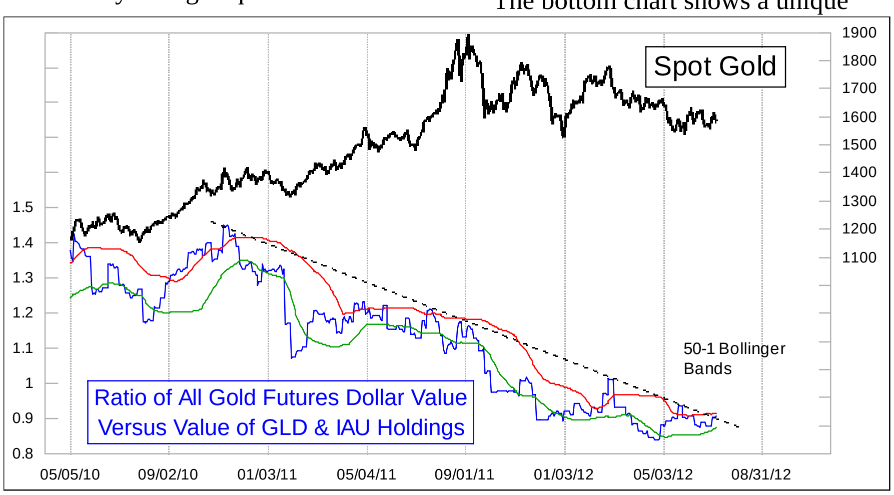
The middle chart takes a longer look at this relationship, and we can see that it has really changed quite a bit from





how it behaved in the 1990s. Back then, the LIBOR rate was consistently above the GOFO rate, and so the really wild high spikes would mark great bottoms for gold prices. The last time we saw one of those was at the bottom in 2008, and since then we have to content ourselves with spikes that just get back up close to the zero line to mark lesser bottoms in gold prices.

The bottom chart shows a unique indicator, derived by comparing the total size of the gold futures market to the size of the holdings of GLD and IAU, the two biggest gold bullion ETFs. This line has been trending downward, which means that the gold futures market has been shrinking in comparison to the ETF market.



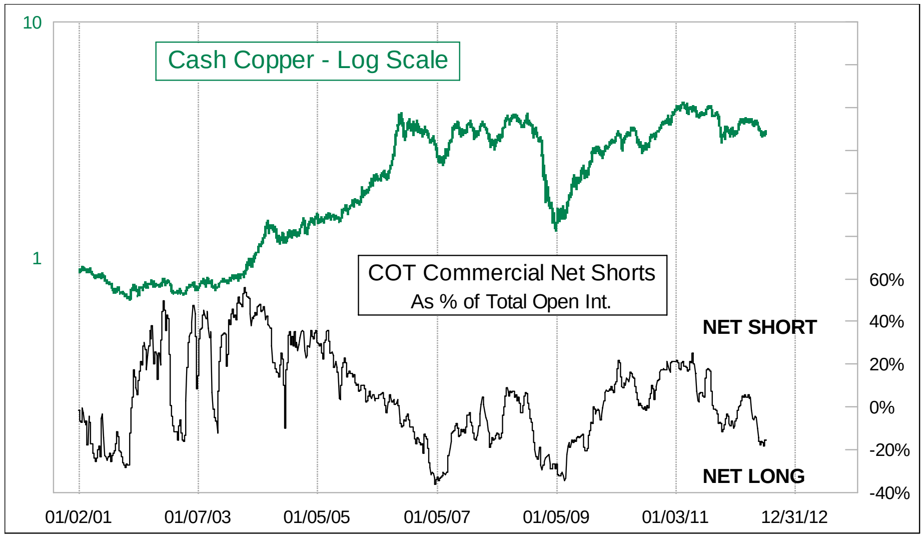
But the declining tops line shown in the chart is poised for a break. You can draw your own shorter term trendlines on this indicator to see that when it breaks a downtrend line that usually leads to an upward surge for gold prices. So the prospective breaking of this longer declining tops line on this indicator could very well be the setup for a much larger up move in gold prices. That continues to be the way that commercial traders of gold and silver futures contracts are betting, something we cover regularly in our *Daily Edition*, which features analysis of the relevant COT Report data on Fridays.

Bottom Line: The gold lease rate market is saying that gold prices are set up for a rally from here.

COT Data Call For Copper Rally

In our last Report, we mentioned that commercial traders of copper futures contracts were at their biggest net long position since early 2009. In this issue, we take a longer look at this data to hopefully put that point into better perspective.

The top chart shows that longer term version of the same chart shown in MMR 413. You can see that the current reading is not down quite as low as the more extreme lows we saw in early 2007 and in 2009, but it is still down at a bottom-worthy level.



The way that this works as an indicator is that "commercial" traders are presumed to be the smart money. The CFTC sets thresholds for each of the futures contracts to determine whether an individual trader or portfolio is classified as commercial, non-commercial, or "non-reportable". That last category is made up of traders whose positions are so small that the CFTC figures they are not worth tracking individually.

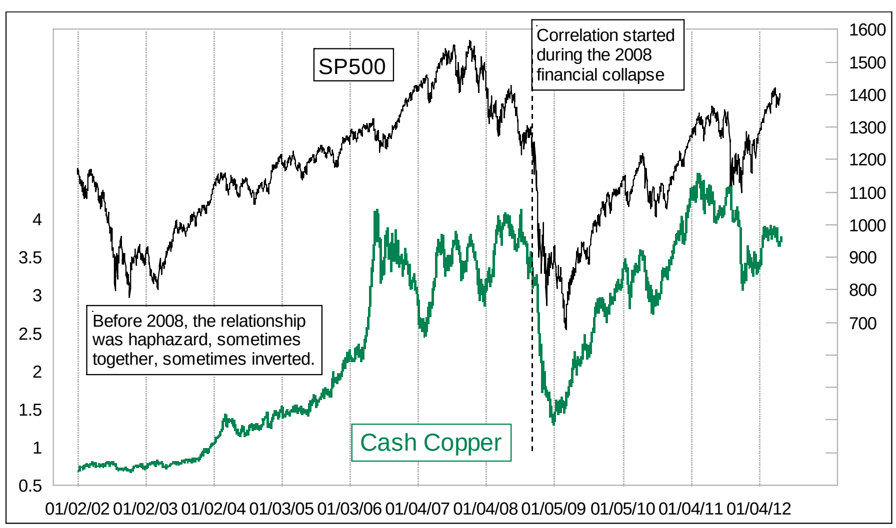
The commercials are usually the giant banks, as well as the major copper producers and consumers. The non-commercials are assumed to be in the middle, made up of hedge funds and other large speculators. The distinction is not qualitative based on the nature of the firm owning the contracts, but rather it is based just on how many contracts that a given trader or firm holds.

When the commercial traders get to a lopsided position, and especially when they do so fairly quickly, it is a sign that a big turn is coming for copper prices. One way to think of it is that these smart money traders know what's coming, but that is not necessarily the full explanation for why this works. In some cases, it is just a case of their positions reflecting major market forces that will have an effect on future price action because of supply or demand forces that are not fully knowable. But assuming that they are the smart money and know what's coming is a useful model for how to think about this.

This is all meaningful to us not only because of what it means for copper prices themselves, but also for the implications on the stock market. Copper stopped acting like a consumable commodity a few years ago, and now acts much more like a financial asset. The reasons are complicated, but not all that important. The reality of the change is more important than the reasons behind it.

The chart below shows the strong correlation between the price of copper and the behavior of the SP500. It is not a perfect correlation, but since 2008 it is generally the case that if copper prices are going up then the SP500 is also.

So having a strong indication of impending strength for copper prices is thus also a statement that we should expect to see rising stock prices going forward from here.



Sherman McClellan
Publisher

Tom McClellan
Editor

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TIMING MODELS

Stock Indices (DJIA, SPX, Nasdaq, NYSE Comp., etc.)

	Signal	Source	Predicted	Actual
	Top	NYSE Volume Osc	June 28	July 3
	Top	NDX Summ Index	July 6	July 3
H	Top	NYSE A-D Osc	July 9-10	
H	Top	DJIA Stochastic	July 10	
H	Top	Nasdaq A-D Osc	July 11	
	Bottom	SP500 Close/Sum	July 12	
	Top	SP500 ST Price Osc	July 17	
	Bottom	DJIA Price Osc	July 19	
	Bottom	NDX A-D Osc	Aug 2	
	Top	Uncommon A-D Osc	Aug 3	
	Bottom	**NYSE A-D Summ**	**Aug 7**	
	Bottom	**DJIA Price Osc**	**Aug 7**	
	Top	NYSE Volume Osc	Aug 14	
	Top	NYSE A-D Osc	Aug 21	
	Bottom	SP500 Price Osc	Aug 22	
	Top	DJIA ST Price Osc	Aug 24	

Experimental New Indicator, "BC"

Predicted Signal		**How It Turned Out**	
Implied Bottom	June 4	Bottom	June 4
Implied Top	July 5	Top	July 3
Volatility Cluster	July 18		
Implied Top	Aug 13		
Implied Bottom	Sep 3		

Bond Market (Corporate & Treasuries)

Signal	Source	Predicted	Actual
Top	TYX ST Price Osc	July 3	July 2
Bottom	T-Bond Up-Dn Osc	July 6	July 3
Top	TYX Price Osc	July 16	
Top	T-Bond Stochastic	July 20	
Top	T-Bond Up-Dn Osc	July 23	
Top	TYX ST Price Osc	July 27	
Top	T-Bond Stochastic	Aug 17	

Gold and Precious Metals Stocks

Signal	Source	Predicted	Actual
Top	Gold Price Osc	June 27	June 29
Bottom	XAU ST Price Osc	July 3	- - -
Bottom	XAU Price Osc	July 16	
Top	XAU Close/Sum	July 19	
Top	Gold Price Osc	July 20	
Top	Gold Up-Dn Osc	July 24	
Top	Gold Close/Sum	July 24-25	
Bottom	XAU ST Price Osc	July 26	
Top	Gold Close/Sum	Aug 14	
Bottom	XAU Close/Sum	Aug 16	

The Signals

We had believed that the early July top signals were referring to a single topping event. So far, the high was on July 3, and that is a bit too early to qualify as the fulfillment of the top signals we have for July 9-11. So now the interpretation is that we are looking at two different topping events, something that is not unusual for the market to do as it transitions from the strong uptrend of June to the sideways corrective mode due in July. See MMR 413 for the discussion of the eurodollar COT leading indication to better understand that context.

Part of that analysis involves looking for a bottom in early August, and we now have a pair of important looking bottom signals due August 7 to help guide us in that effort. Certain signals exhibit properties which imply greater strength and importance, and these signals mostly come from the longer term indicators like Price Oscillators and Summation Indices, instead of from indicators like the Short Term Price Oscillator or the Up-Down Oscillators. Someday we'll get the book written to explain how these signals work in fuller detail.

When these more important signals appear, we put them in bold letters to help emphasize their message. The two August 7 bottom signals are at about the right time for a bottom to appear to help fulfill what the eurodollar COT leading indication is talking about, and so it is nice to see independent indications agreeing on the forecast.

Gold signals have not been working that well, and one bottom signal due July 3 failed entirely. That is an unfortunate risk factor with these signals, which is part of the reason why we say that readers should not place complete trust in them (or in anything else all by itself).

What To Expect

Stocks should have one more top, before starting a more significant corrective structure leading to an important bottom due Aug. 7. The period around July 18 should have a "volatility cluster" with much more exciting price action.

T-Bonds appear to be trying to break out upward from the recent sideways range. Tops due July 16, 20, and 23 each represent good stopping points for the breakout.

Gold signals show an interesting cluster of tops due July 19-25.

HOW THEY WORK

These timing models are based on our proprietary calculation method. This technique involves a computationally complex comparison of two or more carefully selected indicator values. This yields the date and direction of a projected future turning point. Making several such comparisons can help paint a picture, one reversal point at a time, of the future structure.

Once generated, signals remain in effect, though the result can have greater or lesser significance based on what the market is doing when the date arrives. Certain indicators are slightly less accurate in pinpointing the exact date, so we may print a range of dates. Price Oscillators and Summation Index signals are usually more important, though sometimes not as precise in time. Uncommon A-D refers to an oscillator derived from NYSE stocks that are not part of the Common Only list in Barron's. Dates in bold denote signals of greater potential strength according to our research.

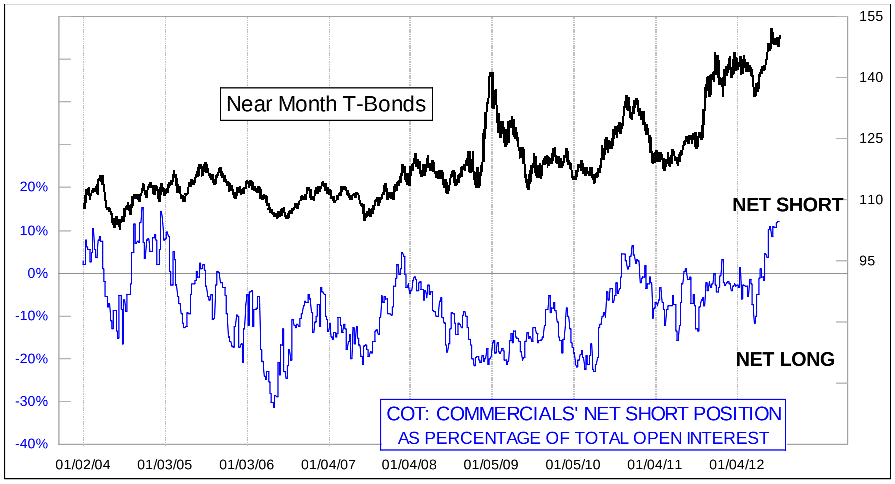
These models do not catch every market turn, but the signals usually show some effect in the market action. It is important to understand that the market does not have to go up from a bottom; it may just stop going down. It does not have to go down from a top, it may just stop going up. Some bottoms turn out to be just a flat spot before a continuation up.

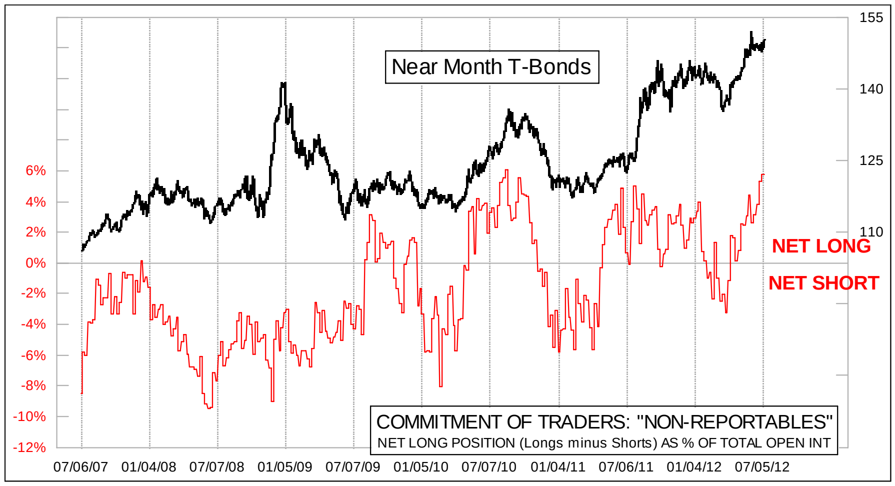
The BC indicator is an experimental new tool, not related in method to the other signals.

"Actual" dates listed for NYSE Indices are for the NYSE Comp/Dow Jones Industrial Average. Letter groups (A, B, C, etc.) denote clusters of signals. ST Prc Osc means "Short Term Price Oscillator."

Past performance of these mathematically generated turning point projections in no way guarantees future results. These dates may be useful in planning for the future, or giving greater confidence at turning points. **We would not, however, attempt to trade any of the markets based solely on these models**.

Commercials Bet on T-Bond Decline





In our *Daily Edition* every Friday, we cover the highlights and important insights from the weekly Commitment of Traders (COT) Report, published by the CFTC. As discussed elsewhere in this issue, the basic way to track these data is to watch what the presumptively “smart money” commercial traders are doing, and emulate them.

So it is interesting to note that commercial traders of T-Bond futures are now at their biggest net short position in may years. One of the finer interpretive points about these data is that the commercial often arrive early at a lopsided position, and so while they may end up being right most of the time in the long run, one may have to wait for a while to see them get vindicated in that opinion. Still, a huge net short position like this seems to do a good job of representing a storehouse of potential energy which may get converted into the kinetic energy of downward price motion at the point when the market is ready.

On the opposite end of the trader spectrum are the smaller traders who are lumped into the “non-reportable” category by the CFTC. This is because these traders’ individual holdings are so small that the CFTC figures they are not worth having the futures brokers report their positions individually.

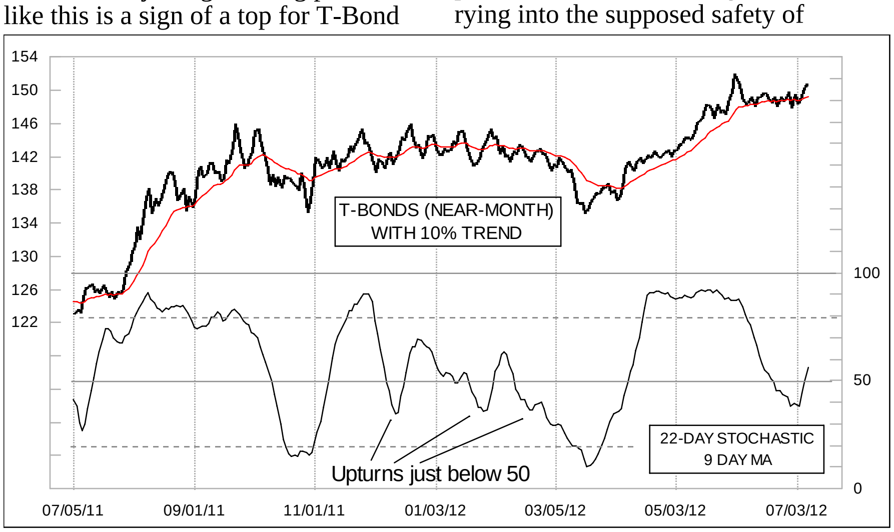
The middle chart shows the net position of these non-reportable traders as a group, portrayed as a percentage of total open interest. The latest COT Report shows that these small-time futures traders are now at their biggest net long position since the peak in August 2010.

Normally a big net long position like this is a sign of a top for T-Bond prices, although it is worth noting that they were right back in the summer of 2011 when they got net long in a big way just before a big rally in T-Bond prices. Nothing works perfectly every time, and that July to August 2011 T-Bond rally was brought to us courtesy of the Federal Reserve turning off the QE2 spigots and tanking the stock market, thereby sewing discord in the European markets, and sending traders scurrying into the supposed safety of T-Bonds. When governments put a thumb on the scale, even the best of indicators can go awry.

In spite of these strongly skewed sentiment readings, T-Bonds just recently make an upward breakout move from the monthlong sideways trading range. The 4-day selloff in stock prices helped, along with the Fed’s assurrances that it was still a buyer of long-term bonds.

The bottom chart shows the 22-9 stochastic oscillator, which reveals a big potential problem with this upturn. If this indicator gets down to a nice low level and then turns up, it tends to produce more lasting uptrends. But turning up like it did just below the 50 line is not as strong of a reversal signal, like a lap-swimmer trying to reverse course in the middle of the pool instead of getting a push-off from the wall. Odds are this upturn will be a failing one.

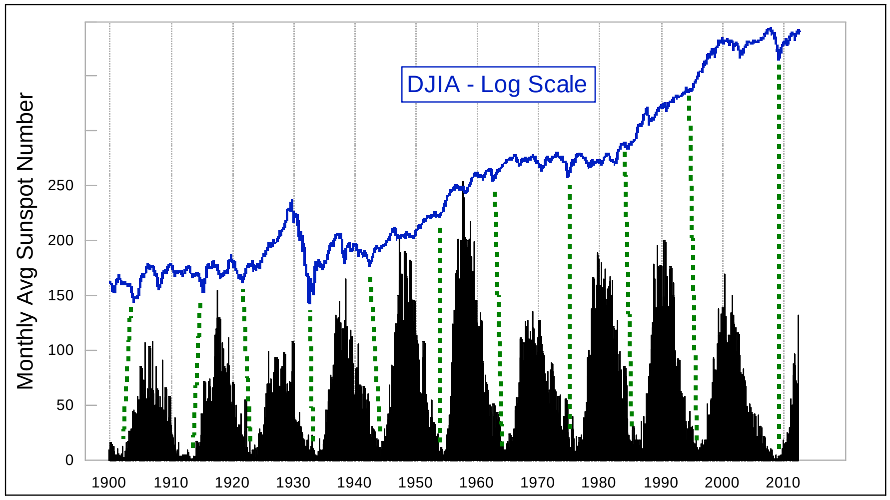
Bottom Line: The smart money commercials are betting big time on a large price decline for T-Bonds. They can go for a while without being right, but they usually end up being right in the long run.

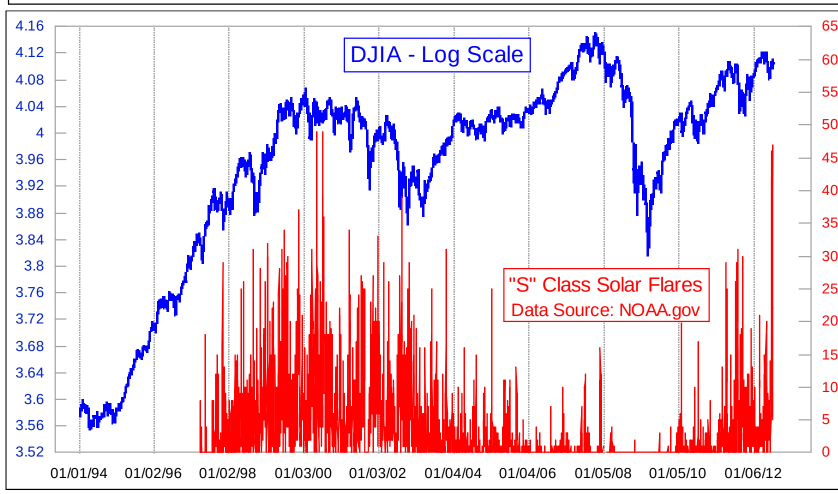


Rising Solar Activity Reflected in Stock Prices

The profession of technical analysis has suffered somewhat from a few of the more outlandish claims offered by certain financial astrologers. The insistence that certain distant planetary alignments must have a certain effect on the stock market is met with doubt, and derision, and in a lot of cases that is deserved.

But the variable and changing output of the sun is much easier to demonstrate as having a correlation to stock prices, and thus it is easier to get to a conclusion about cause and effect than with some of the more obscure claims. The relationship of solar phenomena to social actions has been written about as far back as 1924, with the work of Alexander Chizhevsky. He was sent to a gulag by Josef Stalin, who did not particularly appreciate Chizhevsky's explanation for why the Russian revolution of 1917 arose when it did.



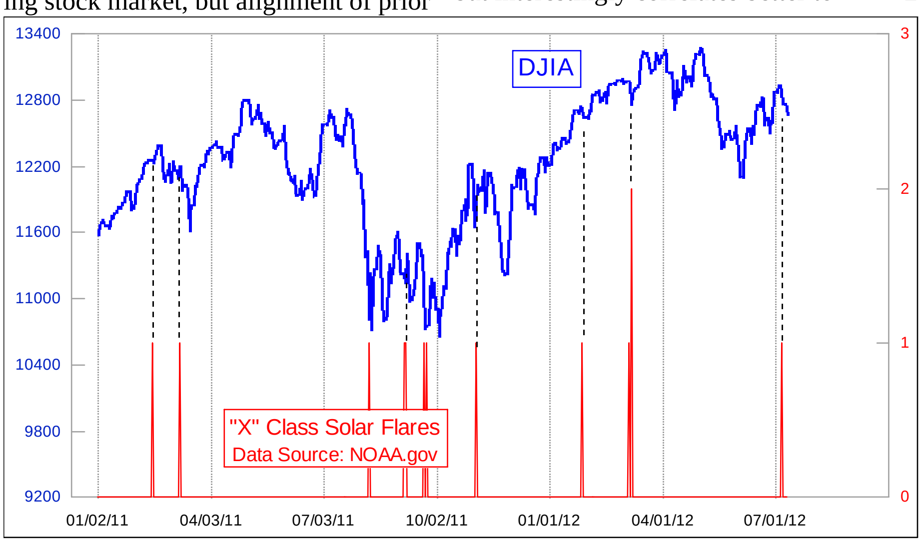


The most commonly used measure of solar variability is the "sunspot number", the methodology for which dates back to 1848 as proposed by Rudolf Wolf. But it is an impure methodology since sunspots themselves can be quite variable in appearance, and thus not entirely representative of solar activity variation.

The top chart compares the movements of the DJIA to the monthly average sunspot number, and it appears clear to the naked eye that there is some relationship there, albeit an imperfect one. The rising sunspot number since 2009 has coincided nicely with the rising stock market, but alignment of prior tops and bottoms has been not quite as satisfying.

The middle chart looks at a more precise measure of solar output variation, the count of the total number of "S Class" solar flares. These are the lower energy solar flares, and thus they are the more numerous ones. Their count correlates well with the sunspot number, but interestingly correlates better to stock price movements than the older sunspot number counting methodology.

Notice that the peak in S Class flares in 2000 during the last sunspot cycle corresponded nicely with the peak of the stock market at the end of the Internet bubble. There was even a "last gasp" surge of solar activity in late 2007 to mark the top before the big plunge in 2008, when solar activity went dormant.



We don't have data on the count of S Class flares from the prior sunspot cycles because modern satellites only recently began providing these data. So the older sunspot number series will have to suffice as a surrogate. The most recent spike in the number of S Class flares almost equals the 2000 peak.

The most powerful category of solar flares is known as X Class, and the bottom chart shows the daily count of these versus the DJIA. Because these big flares are more rare, we don't see the same quantity variation as with S Class flares. But there is a noticeable tendency for the market to exhibit a turn in its trend when one of these X

Class events appears.

The big X Class flare that occurred on March 9, 2011 produced a cloud of charged particles aimed at Earth that is known as a “coronal mass ejection”. Such events can interfere with electrical systems, change compass readings, and play havoc with radio communications. The radio signals from such events are readable almost instantaneously by earth-based receivers, since the radio waves travel at the speed of light. But the more massive charged particles travel more slowly, and so when they reached earth many hours later, they went to work tugging on the earth’s crust and thus helped to trigger the March 11, 2011 earthquake in Japan which set off the big tsunami and subsequent damage. This is powerful stuff.

The theory behind why these flares matter for the stock market’s movements and other social phenomena is that humans’ brains are a big set of electrical wires, and thus are subject to the effects of changing electromagnetic fields and radio waves associated with these solar flares. That is a tough hypothesis to test in a laboratory, especially given the influences of all the other electromagnetic interference all around us. But when we see the solar flare data and notice the movements of stock prices, it becomes an inescapable conclusion that there is something going on there. What that something is makes for an interesting question, but we should not allow the fact that we cannot necessarily answer that question to stop us from noticing what is actually happening.

It is a useful hypothesis that the bombardment of radio waves, etc. that come from a big surge in solar flare activity changes the thinking of “the crowd”, and thus helps to change the trend for stock prices. The chart here on page 9 shows the DJIA compare do the count of “M Class” solar flares, which in terms of energy output are in between the big X Class and the smaller S Class. It is pretty clear that the large spikes in this category of flares seem to correspond with important changes in trend for stock prices. Applying that hypothesis mentioned above, a big zapping of traders’ brains by a surge in solar flares seems to rewire everyone’s thought patterns away from whatever they were thinking before, and into some new pattern.

The large spike in M Class flares peaked on July 5, just one trading day after the top for the DJIA and other indices. Since then, the M Class flares have fallen off dramatically, along with stock prices.

We can even see evidence of the prior solar cycle’s peak having an influence on stock prices back in 2000. The peak in “C Class” flares on March 10, 2000 coincided exactly with the peak of the Internet bubble and of the Nasdaq Composite Index. Perhaps even more interestingly, the DJIA bottomed almost exactly on that day, highlighting the strange dichotomy between the “it’s different this time” Nasdaq market and the “we’ll never see the light of day” old guard represented by the DJIA.

The point of all this analysis for us to take now is to understand that human psychology has a big effect on the movements of the stock market, and such mass psychology is demonstrably effected by the sun’s variable activity. We might not want to accept that it could be so that we are affected by charged particles and radio waves, but when the chart evidence is laid out in front of us we should let our rational sphere take over and see that which is demonstrably so.

The soon to arrive peak to this current sunspot cycle should mean a peak for the stock market, and some rougher times as sunspot and other activity begins to wane, heading downward toward the next solar minimum due in around 2020. That means it will be a great environment for market timers who can trade the waves, and a rough time for “buy and hold” investors who long for the good old days of the 1980s and 1990s.