The McClellan Market Report

INSIDE

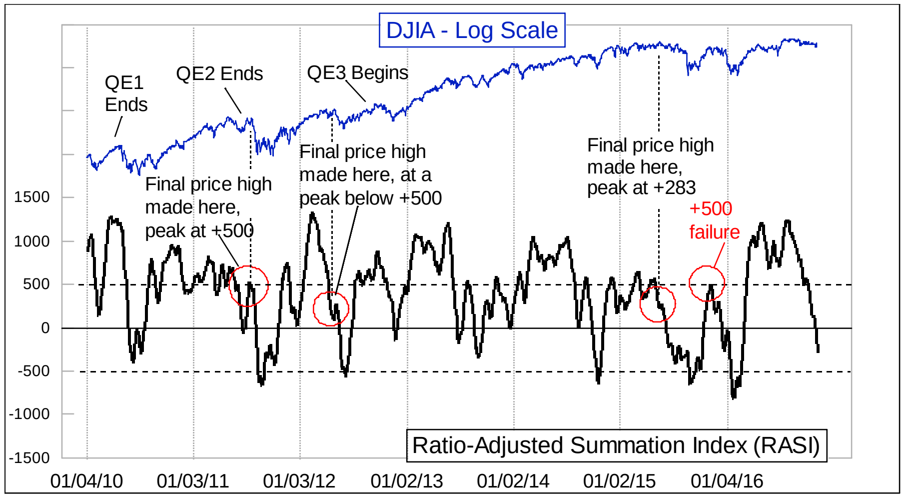
Prepared After the Market Close, November 8, 2016 Report #518, November 9, 2016

Consolidation Ending With Election

Starting now, TV viewers in Florida, Ohio, and other "swing" states get to return to the simple pleasures of seeing a commercial for floor coverings, used car dealers, and other ads that have been crowded out by all of the campaign ads. And investors get to turn their attentions back to something other than the risk of whether this or that candidate will win. With any luck, a spirit of mutual good-will can be restored toward one another.

The "story" in October was over whether one or the other candidate will be "good" for the economy and the stock market upon victory. People forget, though, that the president has hardly any direct impact on the market. The Fed carries a far greater immediate importance. Getting past the election will allow everyone to focus back on things that matter.

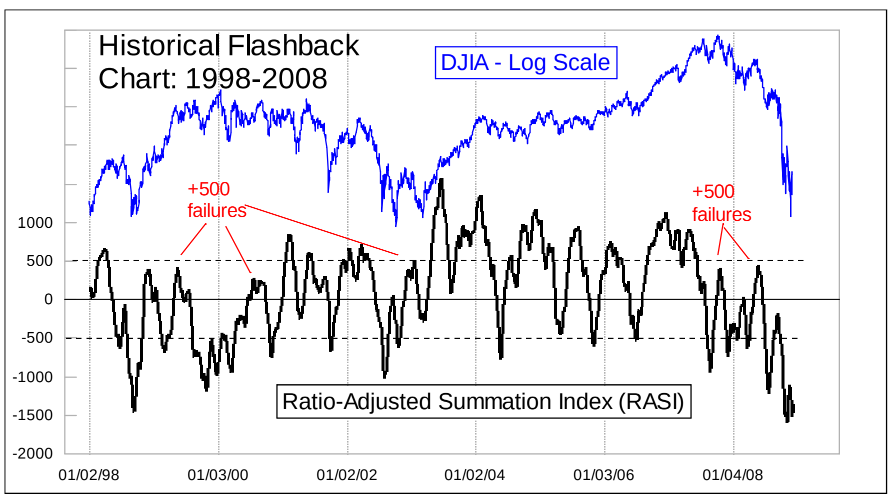
The major stock market indices have been chopping sideways to just slightly lower since topping in July 2016. That has allowed the Ratio-Adjusted Summation Index (RASI) to decay back downward toward neutral and now a little bit below. This is a very normal and healthy development, because it unstretches the rubber band and sets up for the next surge higher. It is not a sign that a new bear market is starting.



The RASI can show us that a bear market is likely, but it takes different action than what we have seen thus far. Bear markets usually start after there has already been a decline in this indicator back toward neutral, and then another rally attempt which fails at or below the +500 level.

We have not seen that failing rally attempt yet, and our view is that it would be needed before a real bear market could unfold.

The lower chart shows some great examples of this point. Rallies that took the RASI up but failed to take it above +500 were signs of big trouble. Generally speaking, seeing the RASI up above +500 is a sign of strong breadth and thus strong liquidity. It offers some



BOTTOM LINE

The A-D data this year have remained fairly strong, offering us some immunity from the sort of ugly bear market that many fear. The election is offering us a Chicken Little "sky is falling" moment of fearful opportunity, which we will look back on months from now and wonder what the fuss was about. Another stock market bottom is due around Nov. 17-18, which is likely going to be a post-election hangover moment, and a low to go up from. Bond prices are bottoming (yields topping) now, as the 3-week echo of crude oil prices' recent top. Look for a drop in bond yields to match oil's recent drop. Gold has already broken out as charted in other currencies, and the dollar price plot should catch up very soon.

immunity from a bear market.

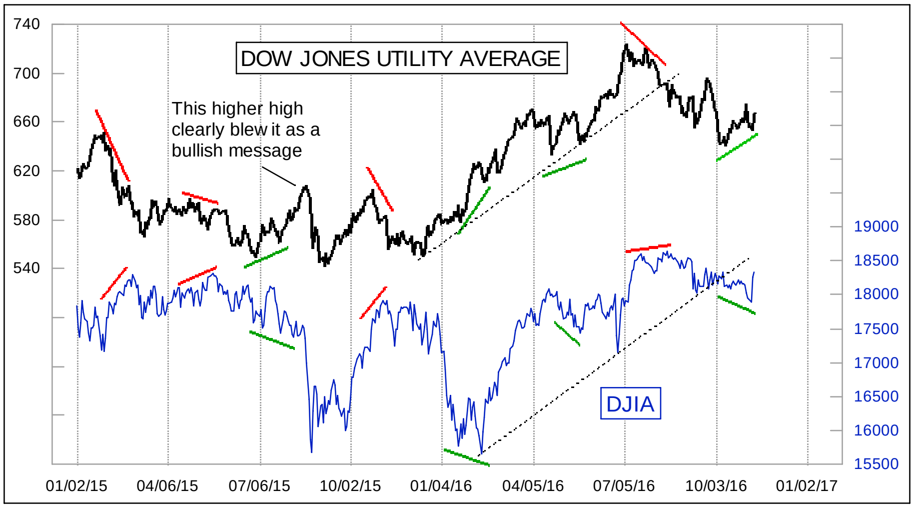
That said, 2002 was a notable exception, caused by the Fed pumping liquidity into the system after the 9/11 attacks in 2001, but that was not enough to stop the bursting of the Internet bubble. There are exceptions to everything.

One positive sign right now is that the Dow Jones Utilities Average (DJU) appears to be leading the way higher. The chart on page 2 compares the DJU to the DJIA, and the key point is that when the two disagree about the direction, it is usually the DJU that ends up being right about where both are headed.

There was one notable exception back in August 2015, just before the China-induced minicrash. But in the other examples shown in this chart (and the many which exist in periods off the left end of this chart), divergences matter, and tend to go the DJU's way.

The DJU bottomed back on Oct. 6, and has made a higher high, whereas the DJIA has made a slightly lower low. The message is that the DJIA is wrong, and that it should reverse higher to join with the DJU. That reversal appears to already be starting.

Bottom Line: We had strong breadth earlier this year, and have not seen the deterioration in breadth (and thus liquidity) that typically is seen ahead of a new bear market. Meanwhile, the upturn by the utilities stocks is a bullish sign for the overall market.



Page 3 Charts

Chart 1: The A-D Line is showing the first real deterioration since the February low was put in. But it is still considerably above its 1% Trend. Ahead of and certainly during bear markets this indicator will be below its 1% Trend as liquidity dries up and becomes unavailable. It would take quite a bit more negative breadth just to get the A-D Line down to the 1% Trend from where it is now.

Chart 2: The Daily Volume Line spent a long time in basically a horizontal move with a sequence of lower tops before breaking down last week. But it too is well above its 1% Trend, where it has been since March. If the stock market is to take off moving up, this indicator should be moving back above its 10% and 5% Trends. An inability to do that would give a more bearish indication. Thus far, both the A-D Line and the Volume Line look like they are portraying just normal consolidative action within an uptrend.

Chart 3: The McClellan A-D Summation Index has been deteriorating back down from its July high. It has not been a smooth powerful move down, it has been a begrudging bumpy move down. It would take some large positive Oscillator numbers to move the Summation Index up and prove that an end to the current consolidation has been completed. Some of the more serious price declines in the past have taken place while this indicator is below its neutral level of +1000. At its present posting of +78.6 (which is well below the +1000 neutral level), it wouldn't take an awful lot more negative action to move it below zero.

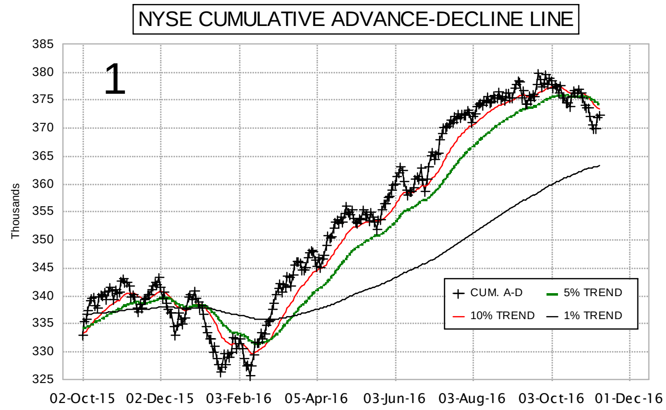
Chart 4: The Volume Summation is already below zero, its neutral level, and the larger price drops have taken place when this indicator has been below zero and declining. This indicator has also shown us a bumpy down move which says that when the consolidation has completed we should look for at least one price rally of consequence. But until we can see some significant upward movement by this indicator, there is risk that it can still move lower, with continuing price deterioration.

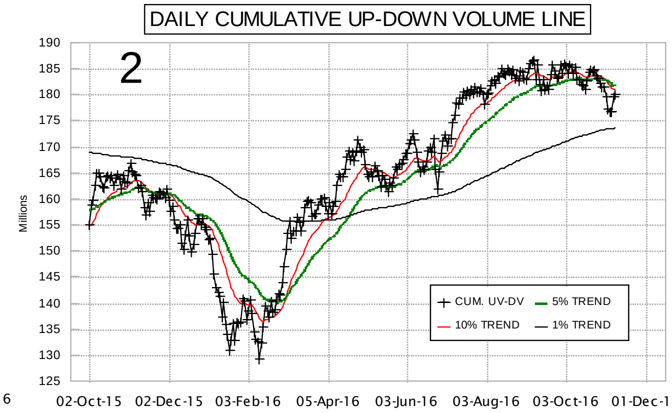
Chart 5: The McClellan Oscillator has only been able to post one or two day pops above zero since July. And those have been simple in construction where the moves above zero were quickly reversed taking the Oscillator back below zero. There is a trendline that can be drawn across the highs from the left side of the chart to the right side. It will take at least a break of that downtrend line to confirm that bulls are mounting a rally that can be counted on to last for a few weeks.

Chart 6: The Volume Oscillator has a similar downtrend line that can be drawn across highs. That trendline is now moving below zero which means that any positive posting will break that trendline, giving an indication that the end of the long consolidation is at hand. In typical fashion both Oscillators moved from deeply oversold postings back to neutral just ahead of the November 8 election that will resolve doubt.

Chart 7: The DJIA Price Oscillator has spent a long time between -26 and -45. When it broke below that range, prices moved down also. The FBI announcement (of no further criminal referral for Mrs. Clinton's emails and classified information) reversed that move down, and put the Price Oscillator back into that range again with a posting of -42.1 on the eve of the election. If the Price Oscillator were to turn down while still below zero, then the expectation would be for price to make a lower short term low. A move back above zero with some decent separation of postings would end this long stay below zero and it wouldn't be surprising to see the DJIA attempting new higher highs.

Chart 8: The CBOE Volatility Index (VIX) is spending some quality time above its upper band. Just ahead of the FBI announcement, it peaked right at the downtrend line that can be drawn down across the February and Brexit peaks. It will take a move above its recent high close of 22.51 on November 4 to break the downtrend line and put price action in a move south. Or it will need to have the VIX move back below its 50-day moving average, which is currently at 15.03, to put prices in the mood to move higher.


NYSE CUMULATIVE ADVANCE-DECLINE LINE
1
Thousands
CUM. A-D
5% TREND
10% TREND
1% TREND
02-Oct-15 02-Dec-15 03-Feb-16 05-Apr-16 03-Jun-16 03-Aug-16 03-Oct-16 01-Dec-16


DAILY CUMULATIVE UP-DOWN VOLUME LINE
2
Millions
CUM. UV-DV
5% TREND
10% TREND
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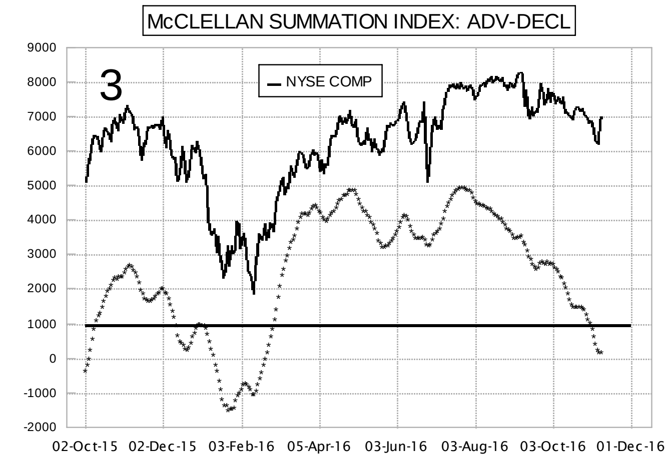
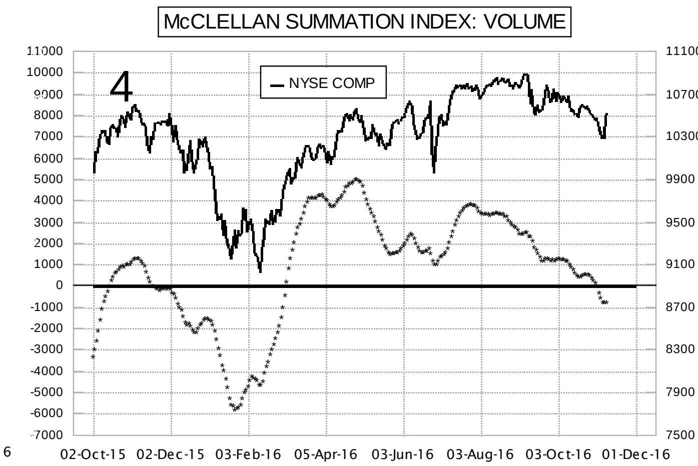
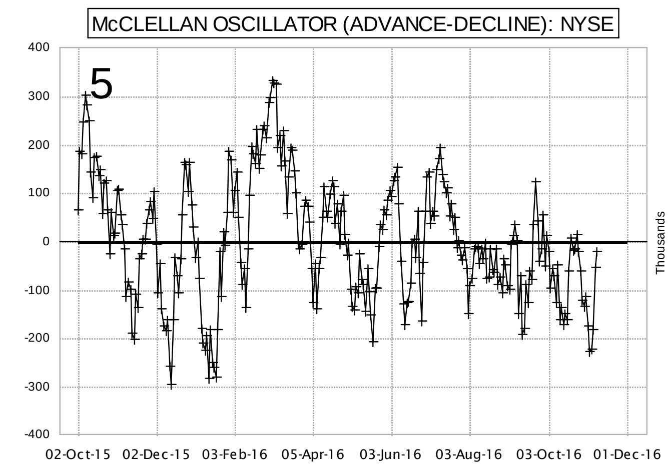
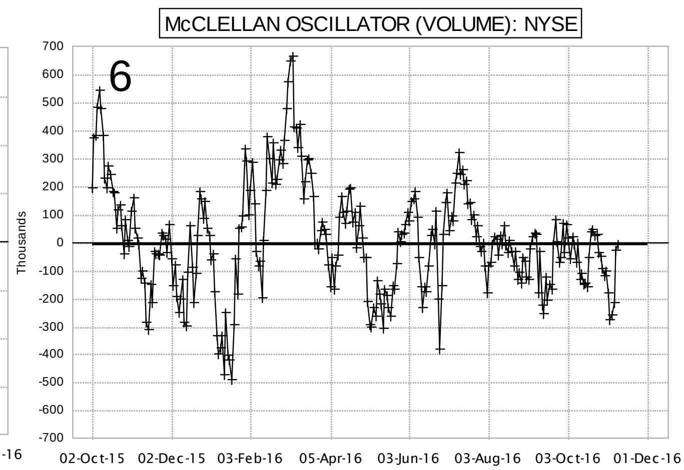
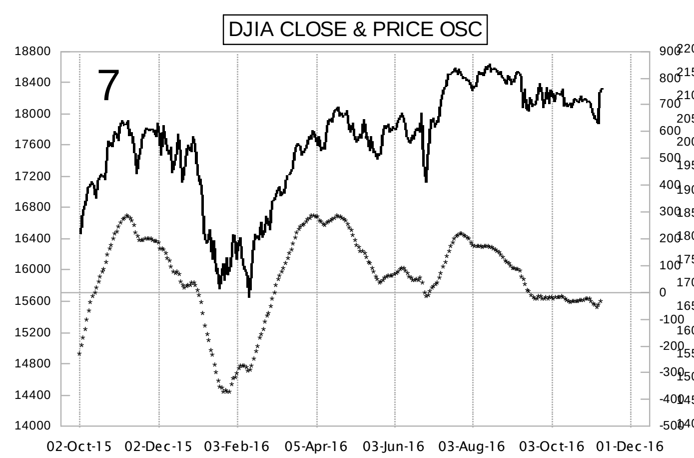
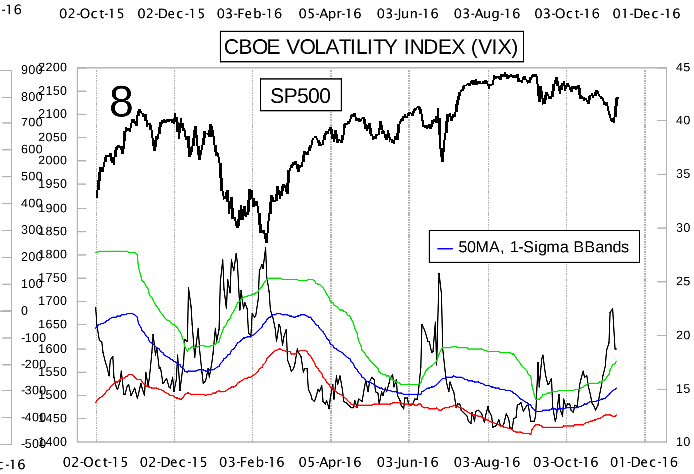

McCLELLAN SUMMATION INDEX: ADV-DECL
3
NYSE COMP
02-Oct-15 02-Dec-15 03-Feb-16 05-Apr-16 03-Jun-16 03-Aug-16 03-Oct-16 01-Dec-16


McCLELLAN SUMMATION INDEX: VOLUME
4
NYSE COMP
02-Oct-15 02-Dec-15 03-Feb-16 05-Apr-16 03-Jun-16 03-Aug-16 03-Oct-16 01-Dec-16

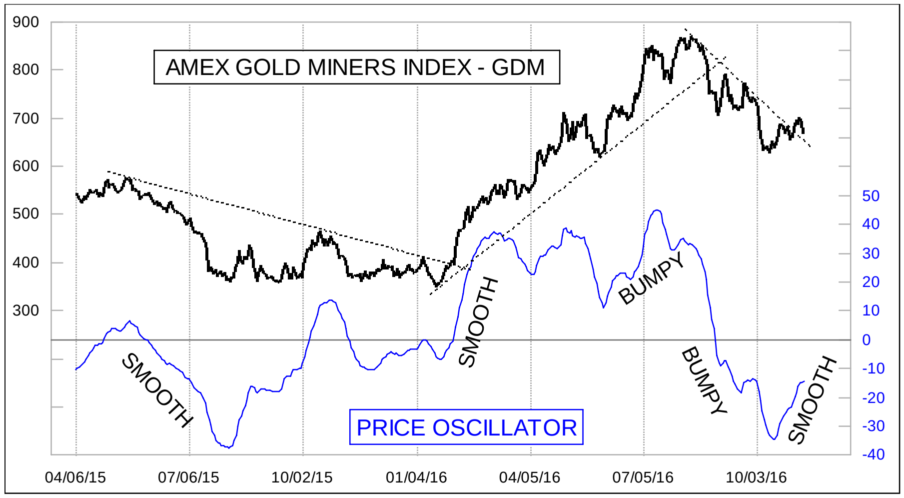

McCLELLAN OSCILLATOR (ADVANCE-DECLINE): NYSE
5
02-Oct-15 02-Dec-15 03-Feb-16 05-Apr-16 03-Jun-16 03-Aug-16 03-Oct-16 01-Dec-16

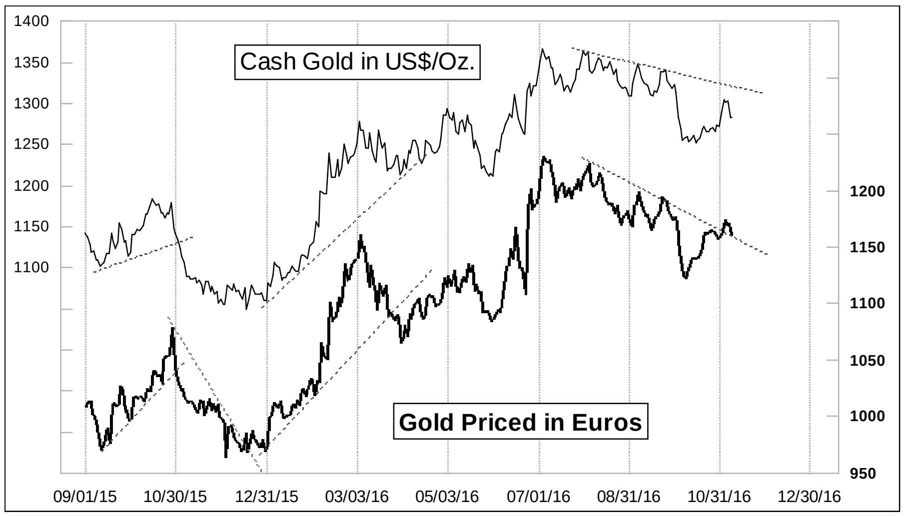

McCLELLAN OSCILLATOR (VOLUME): NYSE
6
Thousands
02-Oct-15 02-Dec-15 03-Feb-16 05-Apr-16 03-Jun-16 03-Aug-16 03-Oct-16 01-Dec-16


DJIA CLOSE & PRICE OSC
7
02-Oct-15 02-Dec-15 03-Feb-16 05-Apr-16 03-Jun-16 03-Aug-16 03-Oct-16 01-Dec-16


CBOE VOLATILITY INDEX (VIX)
8
SP500
50MA, 1-Sigma BBands
02-Oct-15 02-Dec-15 03-Feb-16 05-Apr-16 03-Jun-16 03-Aug-16 03-Oct-16 01-Dec-16

Gold Breaking Out





It is not showing up yet in the dollar price of gold, but there is already a breakout move apparent elsewhere.

It shows up in the chart of the GDM Index (AMEX Gold Miners) which has already broken its declining tops line. Since that breakout, there has been a slight drop back again to test the top of the broken downtrend line, an action which is entirely ordinary.

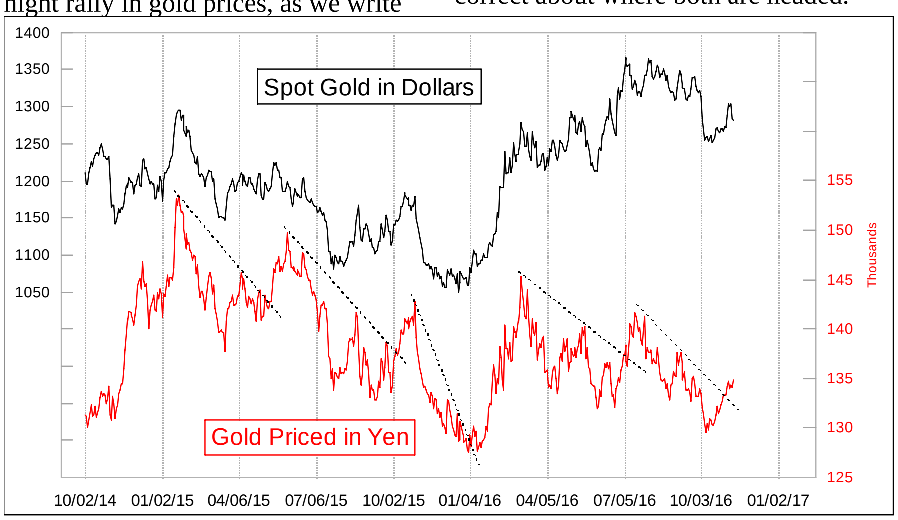
Also in that top chart is the Price Oscillator for the GDM Index. It is rising, but it also has additional information to convey. The smoothness or bumpiness of a Price Oscillator move tells about the strength or weakness behind that move.

Bumpiness implies weakness for that direction of travel. A move might continue for a while, in spite of a bumpy Price Oscillator, but the message is that the strength is not really behind that direction.

A smooth move, by contrast, implies strength for that direction. The up move off of the recent low has been a smooth one for GDM's Price Oscillator, and that follows a bumpy down move. The message here is that the bears were in charge for a while, but their hearts really were not in it. Now the bulls have a chance to take charge, and they seem to be getting about that task with vigor.

The breakout move that is still not evident in the dollar price of gold is evident in other currencies. The middle chart compares the dollar price of gold to its price as measured in euros. The dollar price still is underneath its declining tops line, but the equivalent line on the euro price plot has already been broken and pulled back to test. The overnight rally in gold prices, as we write this Report, seems to indicate that this test will hold.

Most of the time, the euro price of gold acts very similar to the dollar price, which makes complete sense. It is when they disagree that we can get useful information. The general rule is that in such disagreements, it is usually the euro price of gold that ends up being correct about where both are headed.



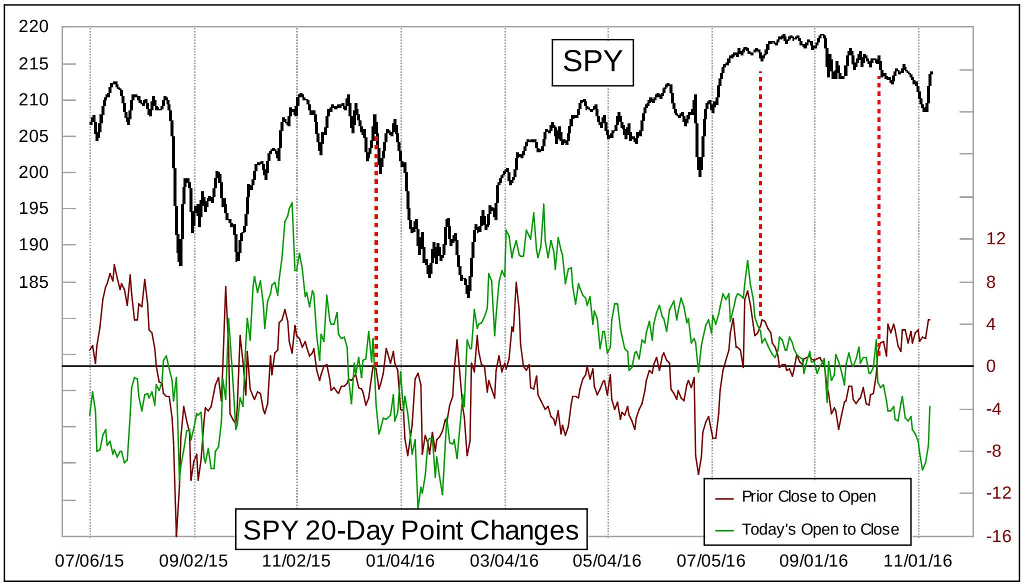
A similar message can be gained by looking at the price of gold as measured in Japanese yen, shown in the bottom chart. That price is still very close to the low it made in early 2016, even though the dollar price has risen a lot since then. But that is not the time frame which matters when looking for a disagreement between the two plots.

A shorter time frame is more appropriate. We can see in the plot of gold prices measured in yen that the downtrend from the July 2016 top has now been broken, much like on the chart of the euro price.

Gold traders overseas appear to be committed already to a breakout move that the dollar price is not yet showing. That sort of disagreement in the past has typically gone the way that the overseas markets were showing.

Bottom Line: Gold is supposed to be in a new uptrend now, according to the 13-1/2 month cycle, and it appears to be heading upward as it is supposed to.

Overnight Vs. Day Session, Part II



In our last Report, we discussed an insight first conceived by our friend Rob Hanna, of Quantifiable Edges, concerning the difference in what the stock market does overnight versus in the day session. That was 2 weeks ago, when the message was a bearish one, and indeed we saw a negative outcome for stock prices since then. Now it is showing a condition worth updating.

To review briefly, the change in SPY (SP500 ETF) from one day's close to the next day's open reflects the buying or selling pressure coming to the U.S. from the overseas markets. The day session change from the open to the close reflects what U.S. traders are doing.

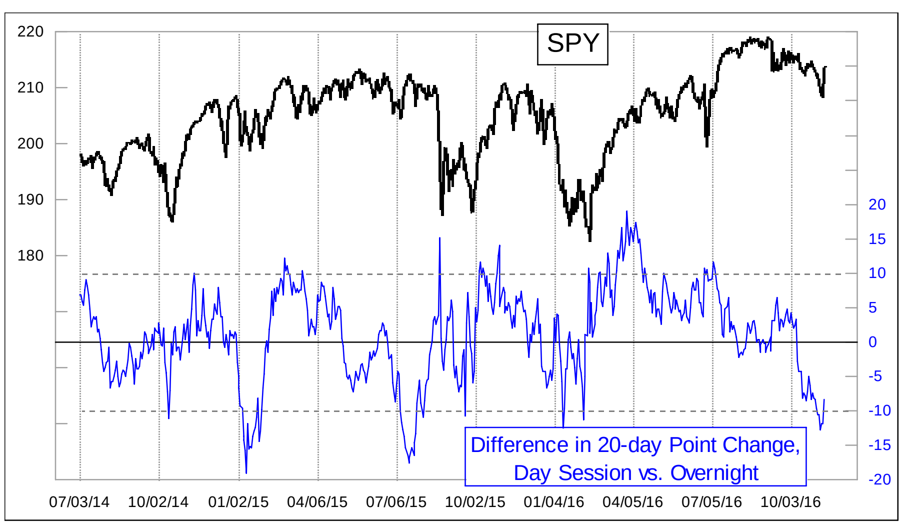
There is a good bit of noise in those daily readings, and so our input to Rob's great idea was to use a 20-day lookback period, totaling up the overnight session changes and the day session changes separately. That is what the top chart shows. The market does really well when both plots are positive. We can see important inflection points when the day session plot (green line) crosses down through the overnight session aggregate plot (red line).

That is still the condition we are in right now, and most of the time it would be a bearish condition to have the green line in the top chart below the red line. But at some point, it can be too much of a bad thing. As with our last Report, the lower chart shows an oscillator made from the difference between the green and red lines.

When the spread between them gets to be too big, you have an end state for the move, especially if it is a down move for prices. That threshold seems to be at around 10 SPY points (~100 SP500 Index points). Once the spread gets down that far, the bearish message of the green line being below the red line is exhausted. That is what we see right now, and the election night fireworks in the futures markets notwithstanding, there should be a bullish resolution to this situation.

The overseas markets had been what was holding up the SP500, even though the selling action in the U.S. day session was dragging it down. The message here is that now that effect has carried on far enough to exhaust itself.

Bottom Line: As with the Brexit reaction, we will get past the air pocket that is the 2016 election, and stock prices should trend higher into 2017.



THE McCLELLAN MARKET REPORT

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The McClellan Market Report, ISSN 1094-8163, is published 24 times a year by email & web access.
Annual subscription rate: $195

Visa, Mastercard, and Discover cards accepted, or mail payment to:
McClellan Financial Publications
P.O. Box 39779
Lakewood, WA 98496-3779
Phone (253) 581-4889 fax:584-8194
Subscriptions: (800) 872-3737
or at **www.mcoscillator.com**
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TIMING MODELS

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

	Signal	Source	Predicted	Actual
E	Bottom	DJIA Up-Dn Osc	Oct 24	Oct 21
E	Bottom	Nasdaq Up-Dn Osc	Oct 25	Oct 21
E	Bottom	NYSE Volume Osc	Oct 25	Oct 21
	Top	NYSE Volume Osc	Oct 26	Oct 28
	Top	NDX A-D Osc	Oct 27	Oct 28
	Top	DJIA ST Price Osc	Oct 28	Oct 28
F	**Bottom**	**DJIA Price Osc**	**Nov 1**	Nov 4
F	Bottom	NDX A-D Osc	Nov 4	Nov 4
F	Bottom	SP500 ST Price Osc	Nov 4	Nov 4
F	**Bottom**	**NDX A-D Summ**	**Nov 7**	Nov 4
	Bottom	SP500 Up-Dn Osc	Nov 10	
	Top	DJIA Up-Dn Osc	Nov 10	
	Bottom	Nasdaq Up-Dn Osc	Nov 11	
	Bottom	NYSE Volume Osc	Nov 11	
G	Bottom	Nasdaq A-D Osc	Nov 15	
G	Bottom	Nasdaq ST Price Osc	Nov 17	
G	Bottom	DJIA Stochastic	Nov 17	
G	**Bottom**	**NYSE A-D Summ**	**Nov 18-21**	
G	Bottom	Nasdaq Price Osc	Nov 21	
	Top	DJIA Up-Dn Osc	Nov 23	
	Top	NYSE A-D Osc	Nov 25	
	Top	SP500 ST Price Osc	Dec 2	
	Top	Nasdaq A-D Osc	Dec 8	
	Bottom	Nasdaq Close/Sum	Dec 9	

Experimental Indicator, "BC"

Predicted Signal		**How It Turned Out**
Implied Bottom	Oct 24	Bottom Oct 21
Volatility Event	Nov 30	
Implied Top	Dec 28	

Treasury Bond Prices

	Signal	Source	Predicted	Actual
	Bottom	TYX Close/Sum	Oct 27	Oct 27
	Top	TYX ST Price Osc	Nov 21	
	Bottom	TYX ST Price Osc	Dec 6	
	Top	TYX ST Price Osc	Dec 7	
	Top	T-Bond ST Price Osc	Dec 9	
	Top	TYX ST Price Osc	Jan 4	

Gold and Precious Metals Stocks

	Signal	Source	Predicted	Actual
F	Bottom	Gold ST Price Osc	Nov 1	Oct 31
F	Bottom	Gold Up-Dn Osc	Nov 3	Oct 31
F	Bottom	GDM ST Price Osc	Nov 4	Oct 31
	Bottom	Gold Close/Sum	Nov 10	
	Top	GDM Close/Sum	Nov 15	

The Signals

The election has definitely had an effect on the stock market, pulling what should have been a mid-October bottom (according to our Nino4) model into early November. But the nice thing about elections is that most of the time there is a resolution, and so the fear of the unknown changes to something else. Investors fear the unknown more than just about any known item.

We did get bottoms pretty much on schedule according to the messages from clusters E and F. These letters are just sequential, and do not have a grade meaning. And a new cluster (G) has just developed, calling for another bottom later this month. We figure that is going to be somewhat of an election-hangover event, and likely a higher bottom.

Gold bottomed just a bit earlier than scheduled, and got a big surge higher. Then that surge melted back again somewhat as the FBI released its notice of no change in the Clinton email investigation. The magnitude of that meltback was likely overdone, and gold should be able to work its way higher again soon.

The one lone signal we had for T-Bond prices did work out well, coming in right on schedule, but unfortunately the other signals we might wish we had are just not getting revealed lately. See page 7 for a strong argument about bond prices seeing another important bottom now (yield top).

The still-experimental BC Indicator shows a "volatility event" due Nov. 30. These signals come from very small wiggles in BC's chart plot, and they have been reliably associated with increases in volatility, although not necessarily a reversal of trend. So far the other signals don't clear that up for us.

What To Expect

Stocks appear to have bottomed. Another bottom is due Nov. 15-21, which we believe will be a higher bottom as the new uptrend gets going.

T-Bonds show a top due Nov. 21, probably the evil twin of the stock market bottom due around then. Oil's recent bottom confirms a yield bottom for T-Bonds around that time (see p. 7).

Gold fell as the dollar rallied overseas Monday on the news from the FBI about the Clinton email investigation. Who knew emails were a factor for gold prices? A bottom due Nov. 10 should lead gold prices to head higher.

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**.

Oil's Message For T-Bonds

One of the fun leading indications we have discovered over the years concerns how the movements in crude oil prices tend to get repeated about 3 weeks later in T-Bond yields. Perhaps it has escaped others' attention because it is not a perfect correlation. And sometimes it even inverts.

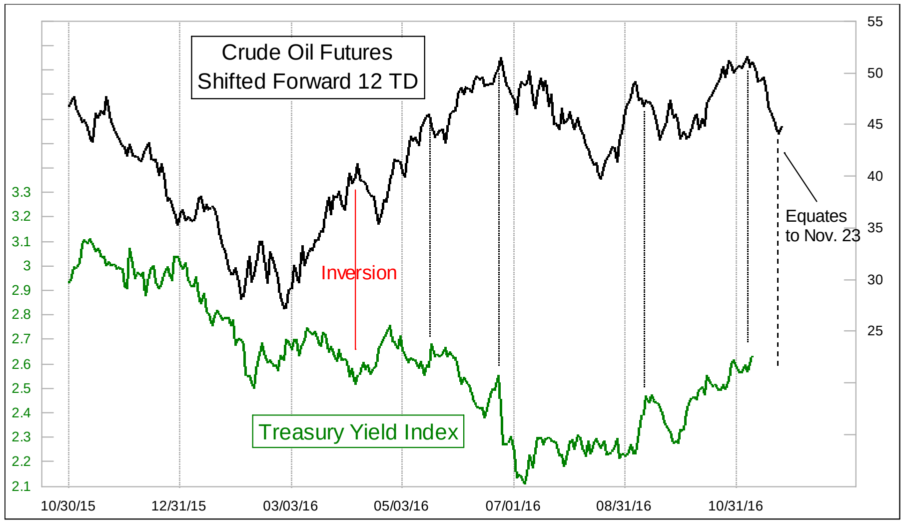
Lately, though, there has been a nice strong correlation, and the patterns align best with a 12 trading day (2-1/2 week) offset. That is important right now because oil prices peaked above $50/barrel back on Oct. 19, suggesting a peak for bond yields is due right about now.

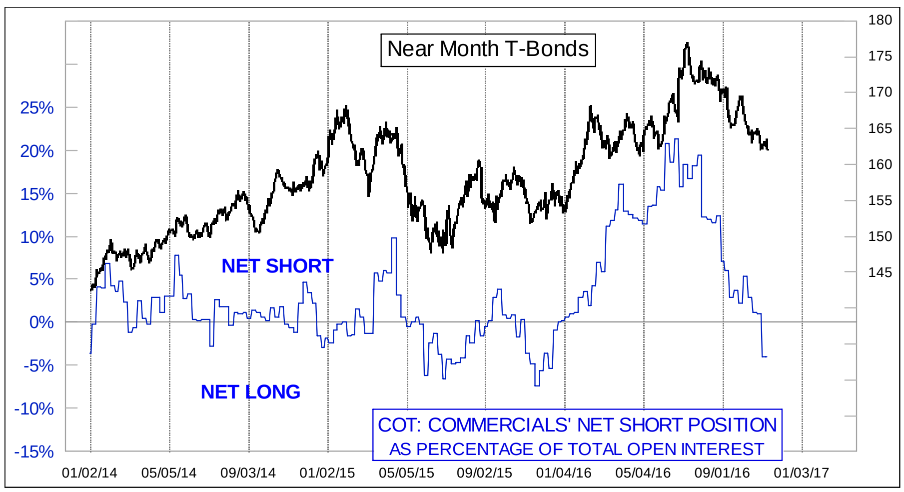
The recent decline in oil prices strongly suggests that we should see a corresponding drop for bond yields. But understand that this model only shows what should happen out to 12 trading days into the future, so it is not an "investing" guide.

The idea of a down move for bond yields (up move for prices) is supported by the most recently released COT Report data. It shows that the big-money commercial traders have now fully abandoned what had been a multi-year high net short position as a group, and are now back to net long.

Perhaps more important, last week's COT Report showed a big change in this position, as if this smart-money group of traders sensed that something is coming, and they were in a big hurry to get positioned for that. That sort of behavior of rushing to a net long position in the past has been a good marker of a bottom for T-Bond prices.

Bottom Line: The immediate picture for T-Bonds has flipped to a bullish one, with prices likely to go higher over the next couple of weeks.





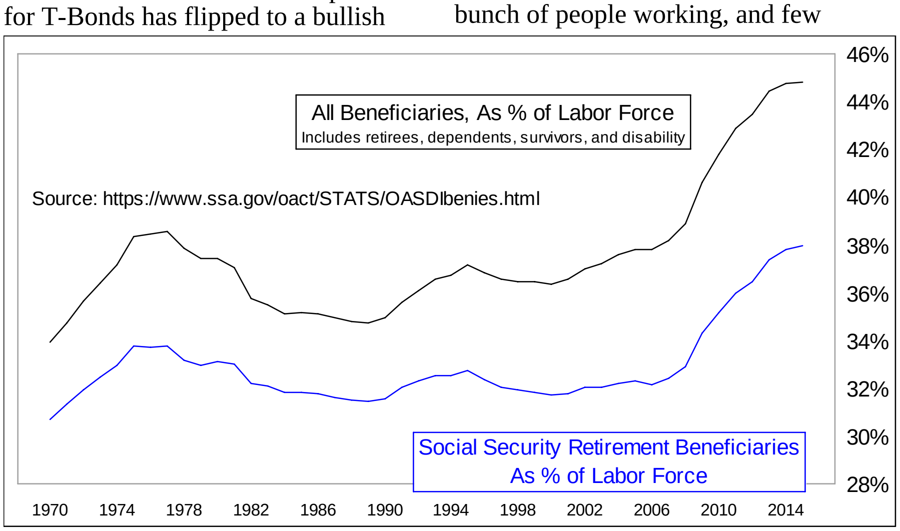
A Tough Trend To Fight

Ida May Fuller was the first American to receive a retirement check from the Social Security Administration, in 1940. Back then, there were a whole bunch of people working, and few drawing benefits, so funding those payments was not a problem.

Now, however, the number of people drawing SSA retirement and their survivors is up to 43.1 million, or about 13% of the U.S. population (as of 2015). More importantly, the bottom chart shows that retirement beneficiaries as a percentage of the labor force is up to 38%. That's up from what had been a pretty stable 32% from the 1970s to 2007, thanks to Baby Boomers entering their 60s.

If we add in those who receive dependent and disability benefits from the SSA, the percentage is no up to 45% of the size of the labor force. And we are not even to the point where the biggest part of the Baby Boom generation (birth years 1958-64) gets to start retiring.

It is going to be really tough to pay down the $20 trillion federal debt if we continue with this growth in the ratio of beneficiaries versus workers. Congress and the White House have a big challenge, and it was barely even discussed during the election campaigns.



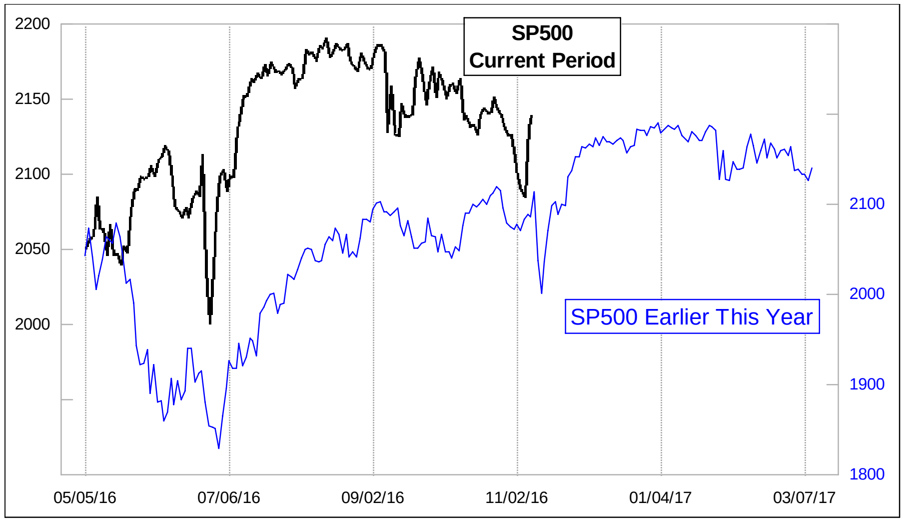
Election, and the Parallels to Brexit

It is tough to write a newsletter late on a Tuesday night, while election returns are coming in fast and furious, and while the overnight futures markets are busy overreacting.

As we write this, Mr. Trump appears to be headed toward both a popular vote and electoral college victory. And the overnight stock index futures markets are not liking it one bit.

The SP500 Index closed on Tuesday, Nov. 8, at 2139.56. December SP500 futures are about 100 points below that level, as we write this. That change is not reflected in the top chart on page 8, but you can mentally plot an adjustment to the black line to reflect that overnight turbulence.

We have created that chart with the intention of aligning the pre-election peak in the SP500 with the pre-Brexit vote peak. It is interesting that other parts of the price structures in each plot appear to align better than randomness might suggest.

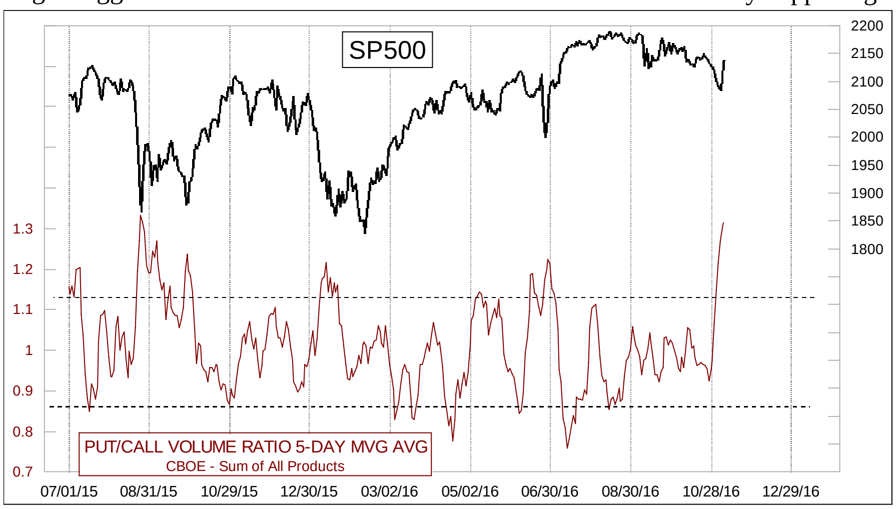


The pre-vote polls and betting markets last June predicted that Britain would vote to remain in the EU. But neither of those measures accurately measured the mood of the voting public.

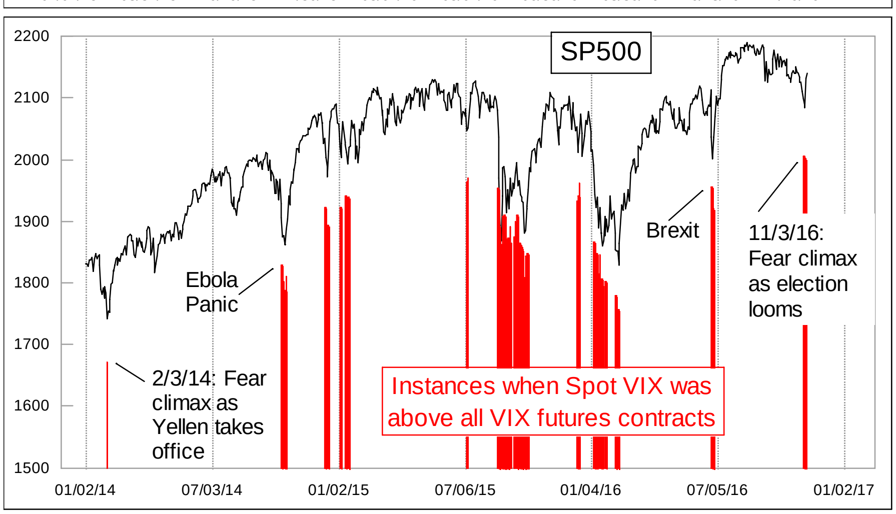
The pre-vote polls and betting markets similarly showed a lead for Mrs. Clinton, and again there has been a surprise, now that we hear from the actual voters. So the move already happening in the futures markets is likely to show up in actual stock prices on Wednesday, bending the SP500 plot lower much like what happened after the surprising result of the Brexit vote.

That vote outcome was a surprise to the financial markets, and so is the seeming Trump victory. Thus far the path of the price plots is similar, and we expect that the path out of this air pocket will also be similar, with the apparent Trump victory not actually being as bad in reality for stock prices as the overseas financial markets seem to be discounting.

Just before the Brexit vote, the CBOE Put/Call Ratio's 5-day MA was at a high level. It went to a slightly higher level in the aftermath, but the message was the same, that it was an opportunity for the bulls to take advantage of the public anxiety. We are seeing the same thing now.



The build-up of fear last week saw the spot VIX Index move up above the level of all its futures contracts. That can be a sign of either an incredible overreaction in the short term, or a meaningful downtrend such as the ones we saw after the August 2015 minicrash or the January 2016 selloff (and others further in the past). We see the current one as falling into the momentary panic category, and not the protracted downtrend category. Apparently, looking at the overnight readings, this momentary panic is not yet over. But this still looks more like opportunity for the bulls than the beginning of calamity befitting the bears.



Final Note: Tom McClellan will be back on CNBC at 10 AM ET Wednesday to talk about the market's reaction to the election. See his Monday interview at our web site's Home page.