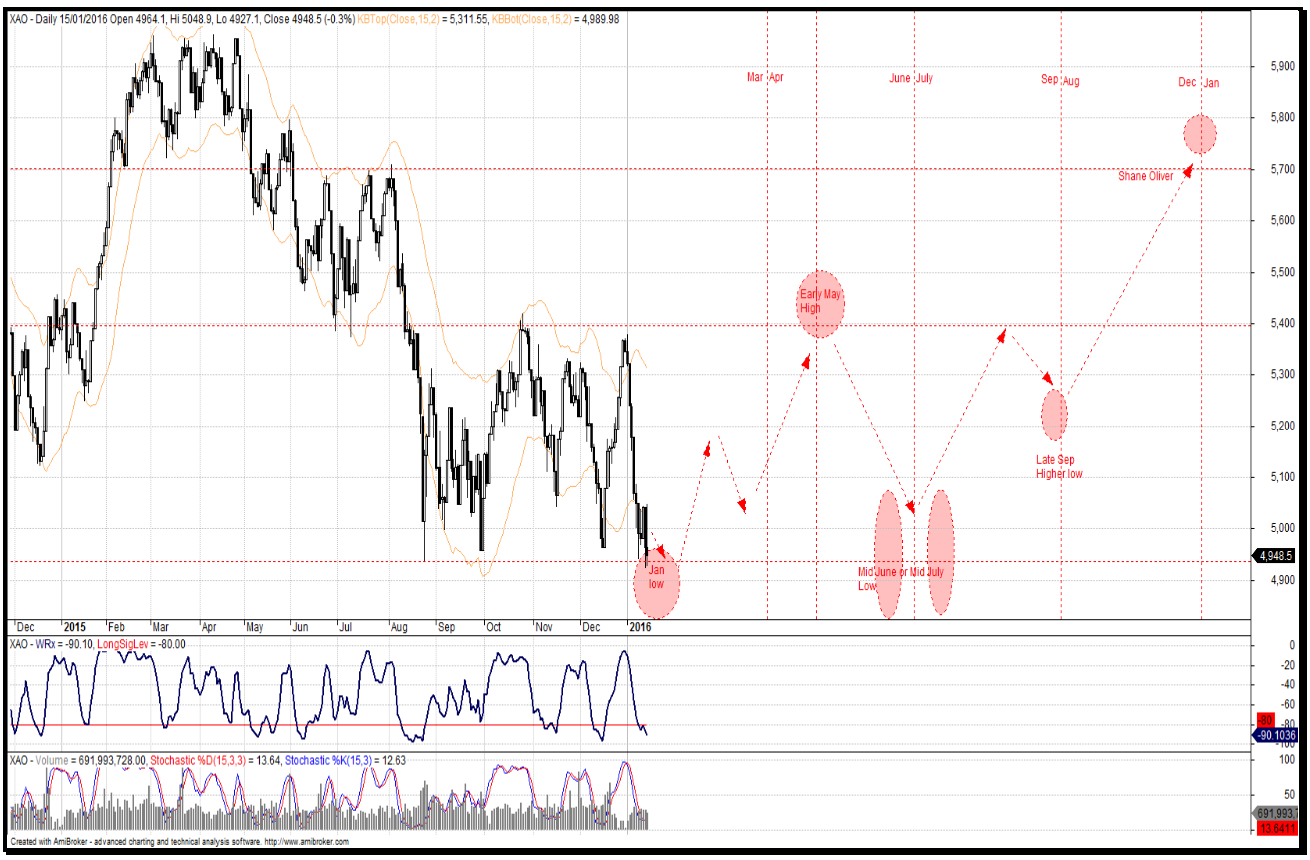
“Fundamental & Technical Trading Ideas for the Active Investor”

2017 Forecast

25th of January, 2017

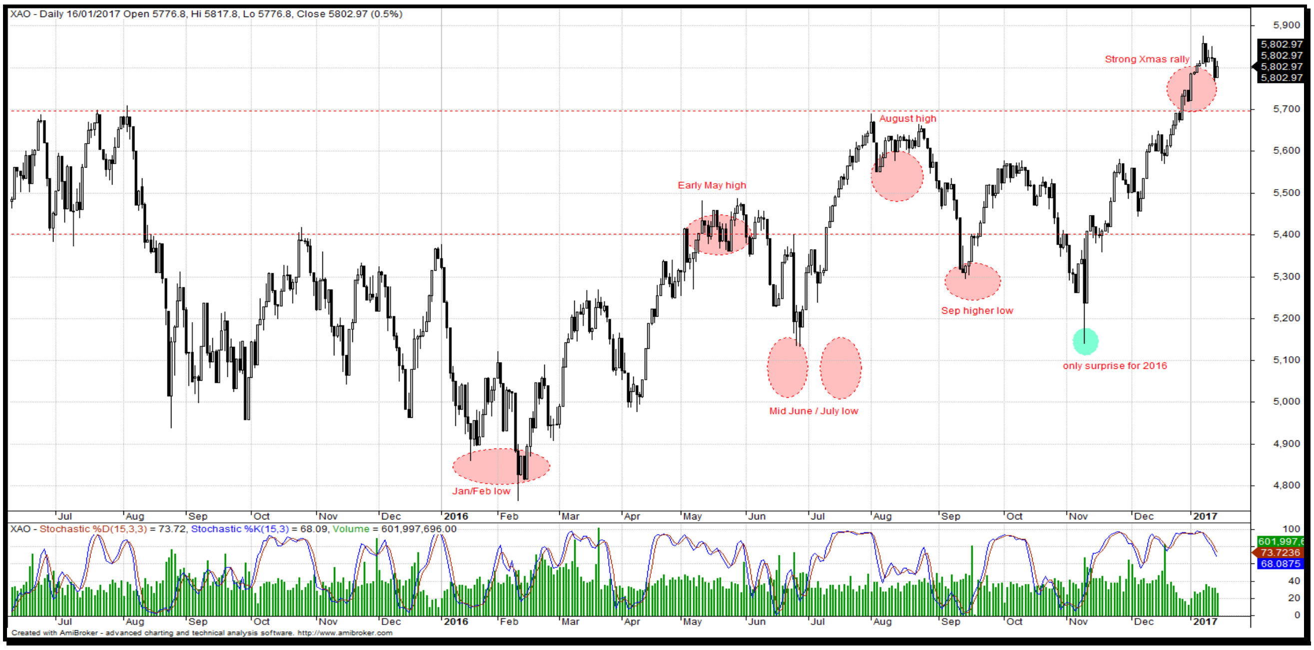
All Ordinaries Index (XAO) 2016 Forecast – Last Year’s Forecast

- Every year I do my annual forecast for the Australian equities market based on the most reliable market timing based technical cycles as well as a few popular fundamental based cycles also. Before we present my 2017 forecast its always best to review last year’s forecast to see what worked and what didn’t to assist us with our future forecast.
- 2016 was forecast to be a bullish year with the same sort of volatility that has plagued our market over the previous few years.
- 6th Years typically were volatile early in the first quarter, lows usually in Jan/Feb before a rally to early May. The strongest tendency of the 6th Year is a mid year slump into June/July with an often higher low in Sep before finishing the year strongly. This is exactly what did occur so our 10 year pattern and the 60 year pattern had a strong correlation as well as most of the other cycles. A year with strongly aligned cycles gave us a high probability of putting together a solid road map and it that’s exactly what occurred.
- The US election in early Nov held the only minor surprise for the year as Donald Trump was voted in and the pullback went slightly deeper than we might anticipated. Overall our forecast was pretty spot on and one of the closest we have put together in recent years.



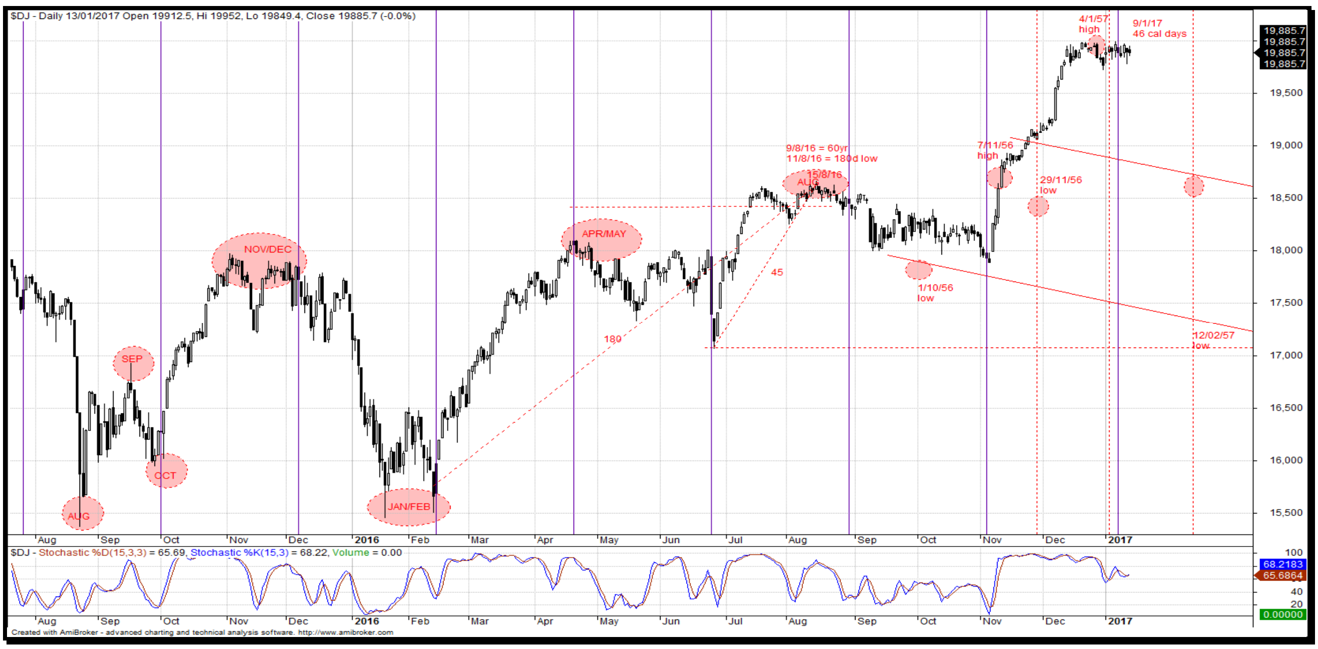
All Ordinaries Index (XAO) 2016 Forecast – Last Year's Actual move vs my forecast

- Our 2016 forecast was one of our best and closest forecasts we have made for a few years for our market.



Dow Jones Industrials Index ($DJ) 2016 Forecast – What worked well last year

- Although our US forecast didn't go exactly to plan our view of a larger sideways pattern came to fruition until we got the extra strong end of year Trump rally. I indicated May/June as well as Oct were the two key time periods we would likely find a low, while I nominated April, August and December the most likely timings for peaks to occur in the US market.
- The 60 year cycle has been a great road map to follow from a purely timing perspective and we should continue to monitor key timings as some of the peaks were only days apart from the key 60 year timings. The 60 year timing worked well.
- Overall our Price levels were solid before the late flurry in markets pushed higher than anticipated but our key timing points (months for peaks and troughs) for the year were on the money again.
- The 10yr, 20yr, 30yr and 60yr cycles were all mildly bullish last year. The 4 year cycle and the US presidential year cycle were all favourable also. 2016 ended up being a strong year on the back of all these positive influences.
- Looking forward to 2017 – we should continue to follow the 60 year timing points rather than price points as these have been wonderful markers so far. Following the 10 and 20 year shorter time patterns has also recently moved back into a strong correlation also so we should monitor this also.

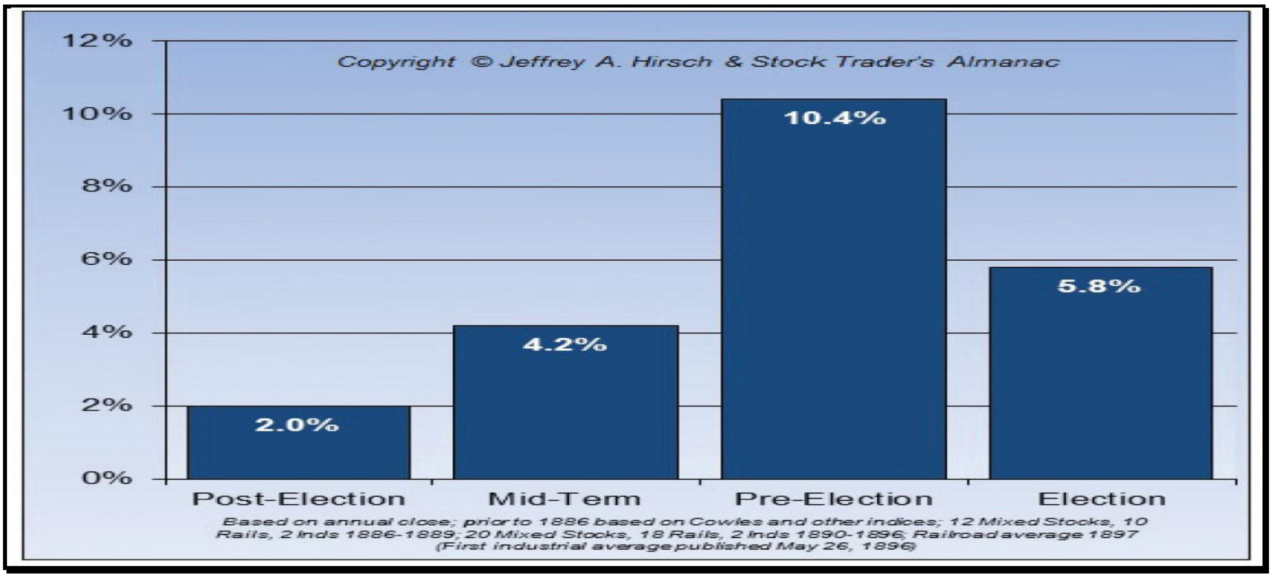


What do we look at when making our forecasts?

- Our forecast is built around the 10,20,30 and 60 year cycles. I also look at the not so popular 4 and 7 year patterns as well as the very popular 4 year US Presidential cycle and the one year seasonality cycle. Using other technical theories like trendlines, geometry and fold back techniques help support our expectations on our price levels.

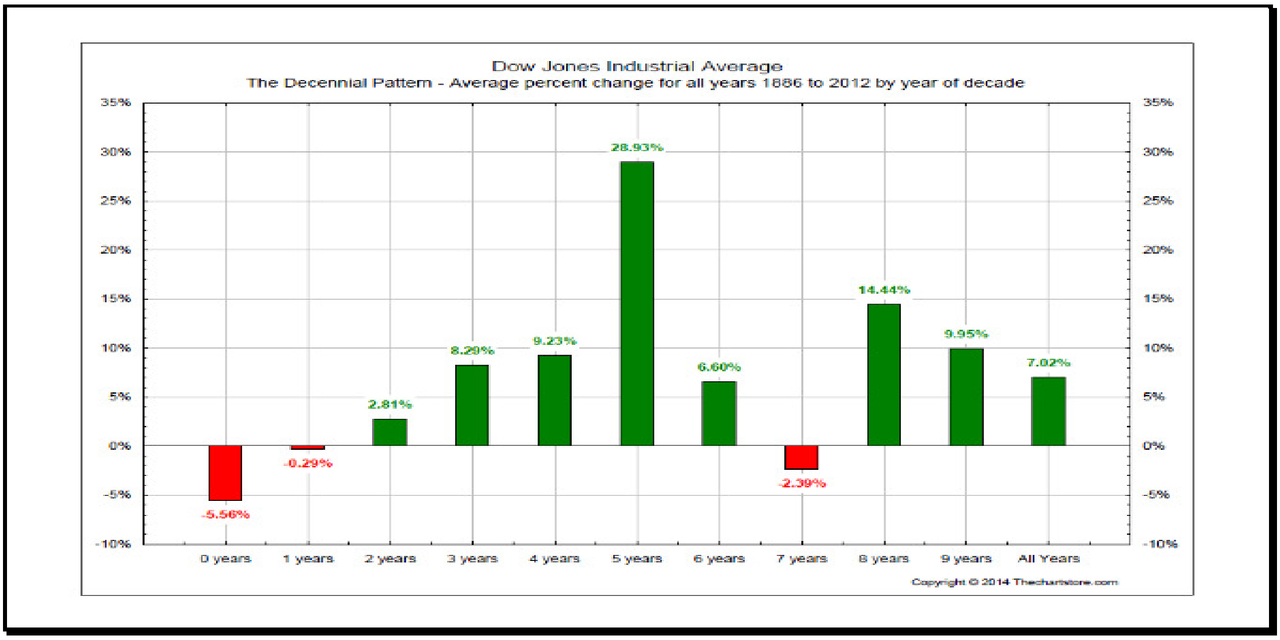
DJIA Average Annual Percentage gain (1833 – 2012) 4 Year Presidential Cycle

- Looking at the results of the 4 year Presidential cycle, shows us that historically the Post Election year is the weakest year in the cycle with an average return of only 2%. The two most recent Post Election years, 2009 and 2013 were both very positive years, while 2005 and 2001 were both slightly negative years for the Dow Jones Index.



Dow Jones Industrials Index - The Decennial Pattern Average - Percent Change for each of the Years

- Looking at the results of the 10 year cycle, shows us that historically the 7th year of every decade has a very consistent pattern and it ranks poorly, ranking 9th out of the ten years and the 7th year is one of the more volatile and bearish years on the Decennial Calendar. Eight of the Thirteen largest declines in history have come in the 7th year of the decade. Shocks tend to occur in the second half of the 7th years and a majority of them peak around September. Sep 1997 and Sep 1987 were two classic peaks in recent cycles where large declines followed, not to mention the late 2007 high in Nov, marking a major peak before the GFC correction began. Gann called the 7th Year the Death Year – due to how sharp and ferocious some of the declines were.



Dow Jones Industrials Index ($DJ) Historical averages of all years ending in 7

- The 7th Year chart is definitely one of the most interesting years in the decade pattern. Typically 7th years are volatile in the first quarter before a strong run from April through to August before a large decline kicks in taking the market deep into Nov lows before a small Xmas bounce. The usual sell in May rarely occurs in 7th years.
- The best short of the decade normally comes in the second half of the 7th year. Some recent examples include
- Gann called the 7th Year the Death Year – due to how sharp and ferocious some of the declines were. Late July / early Aug is the long term average for peaks but in recent years most have been closer to late Sep.

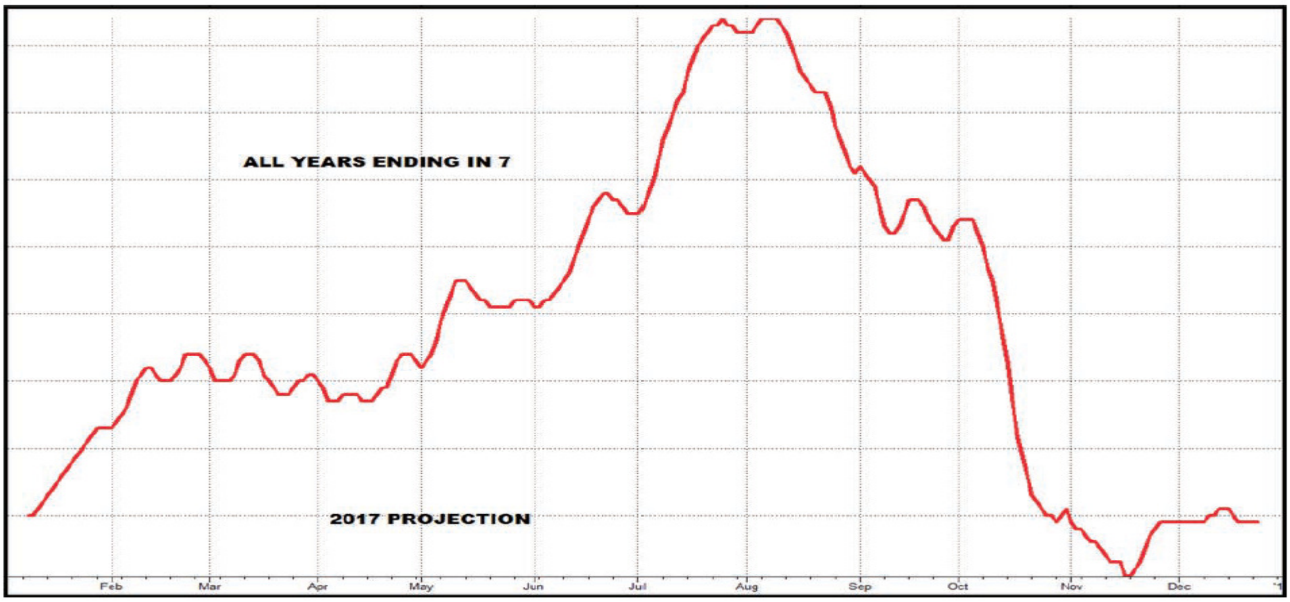
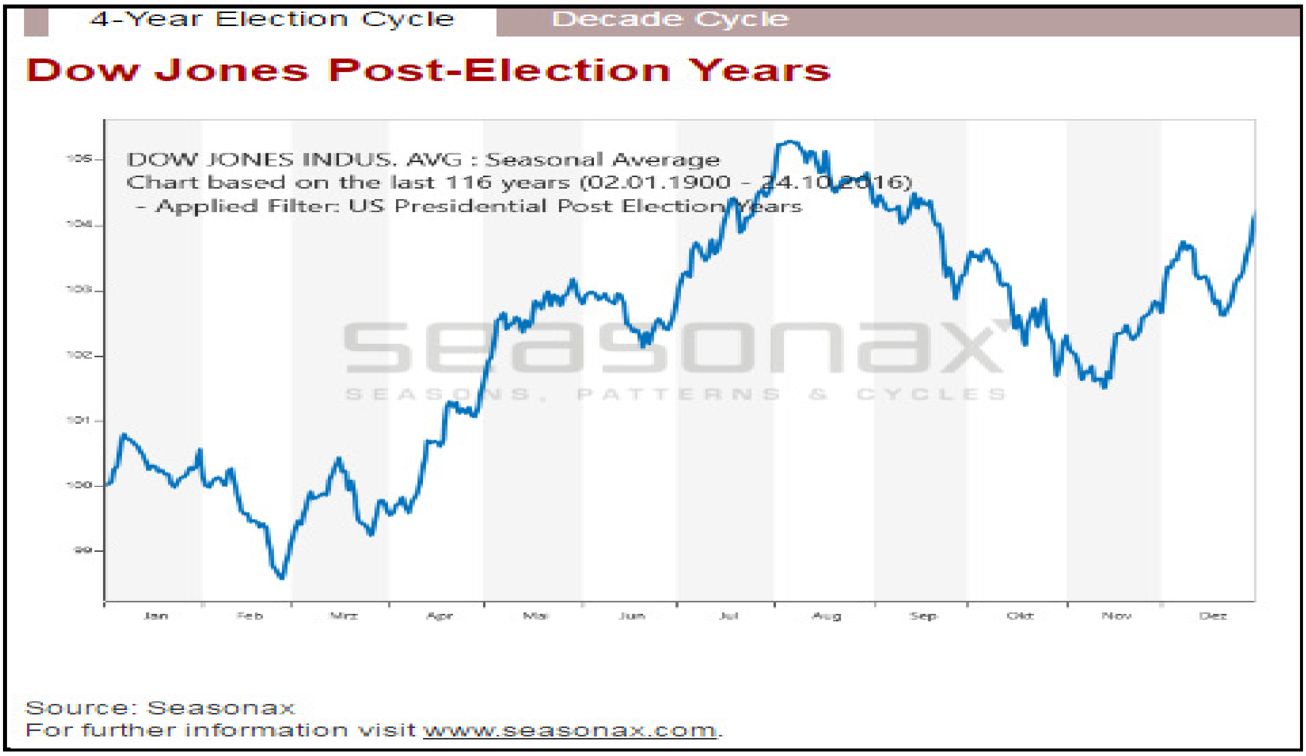


Chart 1 DJIA 7 Year Pattern

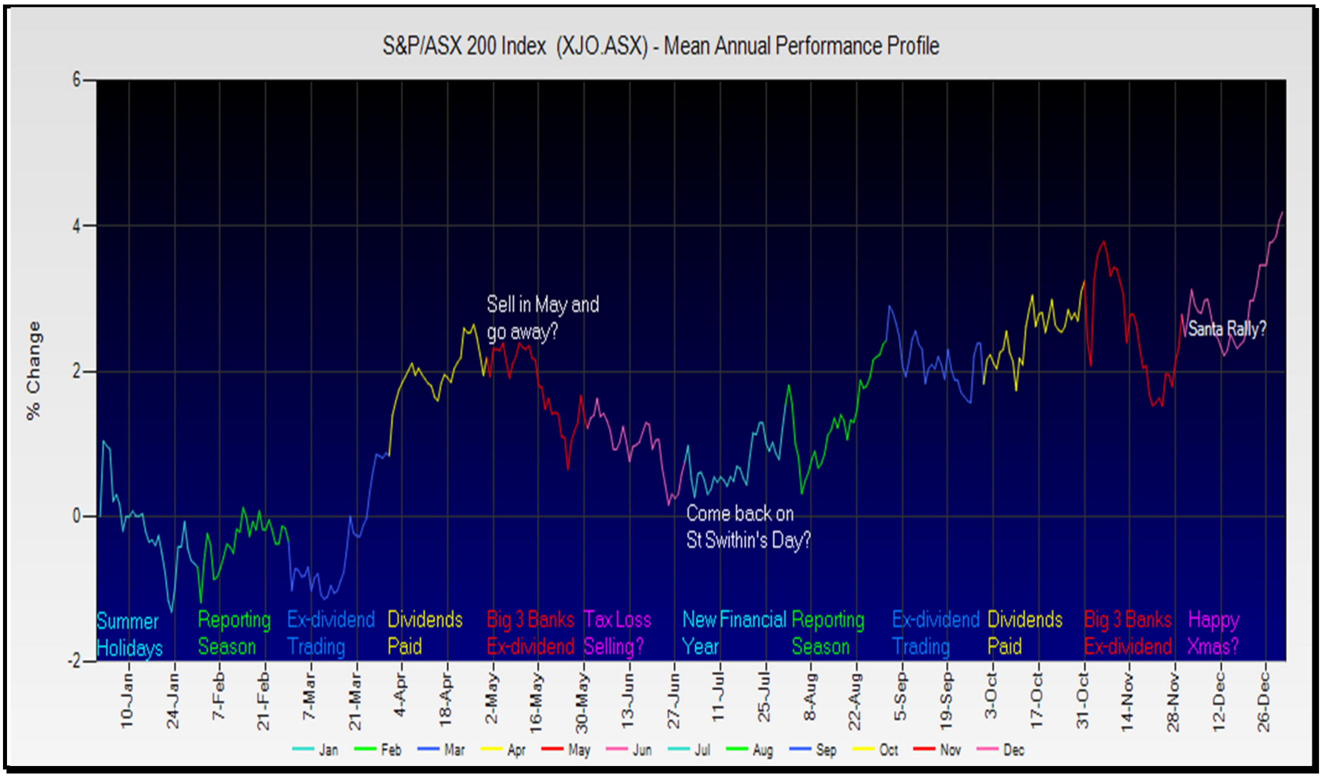
Dow Jones Industrials Index ($DJ) Post Election Year – Seasonal Average of this Cycle)

- I find it interesting that the Dow Jones Post Election cycle chart is almost identical to this 7th year chart – both peaking in August.
- The Feb low and July/Aug peak match up nicely with the 60 year cycle which from a timing perspective has been almost faultless over the last 18 months.



S&P ASX 200 Index (XJO) Seasonal Mean Annual Performance Profile Chart

- The usually reliable one year seasonal profile of the XJO is at odds with most of the other cycles this year. Apart from the Feb low and strong April – the sell in May might not come to fruition this year as all the other cycles are pointing to a strong run until July / August. The Xmas rally is usually a bit smaller in 7th years and our Sep and Nov pullbacks are larger than normal.

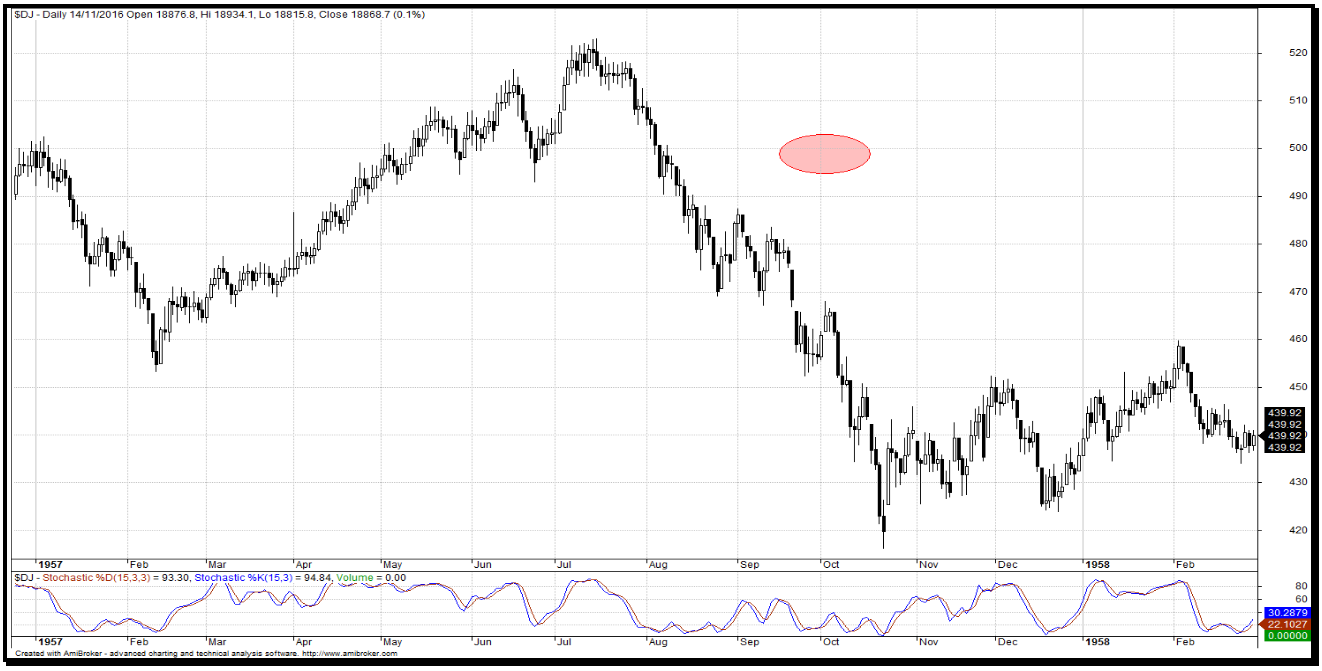


Dow Jones Industrials Index ($DJ) 60 Year Cycle – timing for peaks and troughs working very well lately

- As you can clearly see here. The timing for the key high and low months has been spot on over the last 18 months. A lot of the dates are often only a few dates apart, so must respect the 60 year timing cycle due to its recent form.
- 1957 suggests that in 2017 = Early Jan high, Mid Feb low, Mid July high and late October low are the key timings to monitor. Very similar timing to the Average 7th Year Cycle.

Dow Jones Industrials Index ($DJ) 1957 Chart (60 Year Cycle)

- The 60 year chart or as Gann referred – The master Cycle has been a great road map in terms of timing for a lot of the major peaks and troughs in the last 18 months. It will probably stop working as well as it has soon but it does give us a reasonable guide for what could occur in 2017.
- I thought it might be wise to take a closer at the 60 year chart. 1957 is characterised with an early Jan high, mid Feb low and then a very strong rally all the way from Feb to mid July. The usual sell in May is brushed aside as the market accelerates and run for 5 months straight in a bullish direction. From the mid July peak, the market aggressively sells off for three months or approximately 90 days until it finds a low in mid Oct. A not so strong Xmas rally generally marks the year end.
- Can 2017 be as predictable as previous 7th years? Considering the current environment, there is good cause to see an aggressive rally this year as everyone gets excited about what a Trump Presidency might mean for business and the investment community.



All Ordinaries Index   (XAO)   2007 Daily Chart (10 Year Cycle)

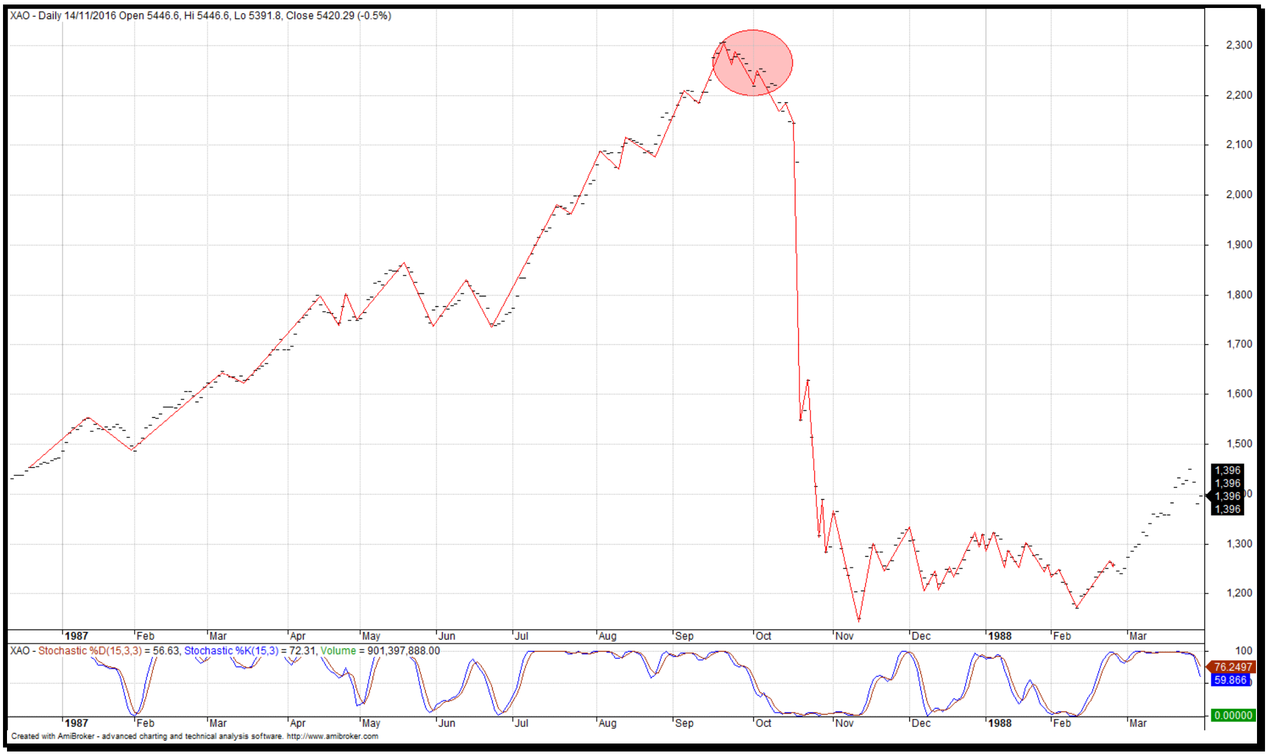
- The 10, 20 and 30 year chart was a good guide last year, so its worth taking a look at the last few 7th years.
- 2007 was a little different from other 7th years as it marked the end of a five year march from Oct 2002.
- Jan and March lows occurred as well as a deep pullback in August before a final bullish move to early Nov before the start of a massive decline occurred. The strongest tendency of the 7th year is a sharp sell offs late in the year.
- The trickiest aspect is when to sell into these rallies. If you sell too early you can miss the most explosive part of the rally.

All Ordinaries Index (XAO) 1997 Daily Chart (20 Year Cycle)

- 1997 was a bit closer to the norm.
- Jan and Mar lows before a first peak in July before a final high in late Sep. Again a very dramatic sell off and quick in time.
- Late Sep highs have seen a few dramatic sell offs in the 7th years. (1997, 1987 and 1967 are great examples)

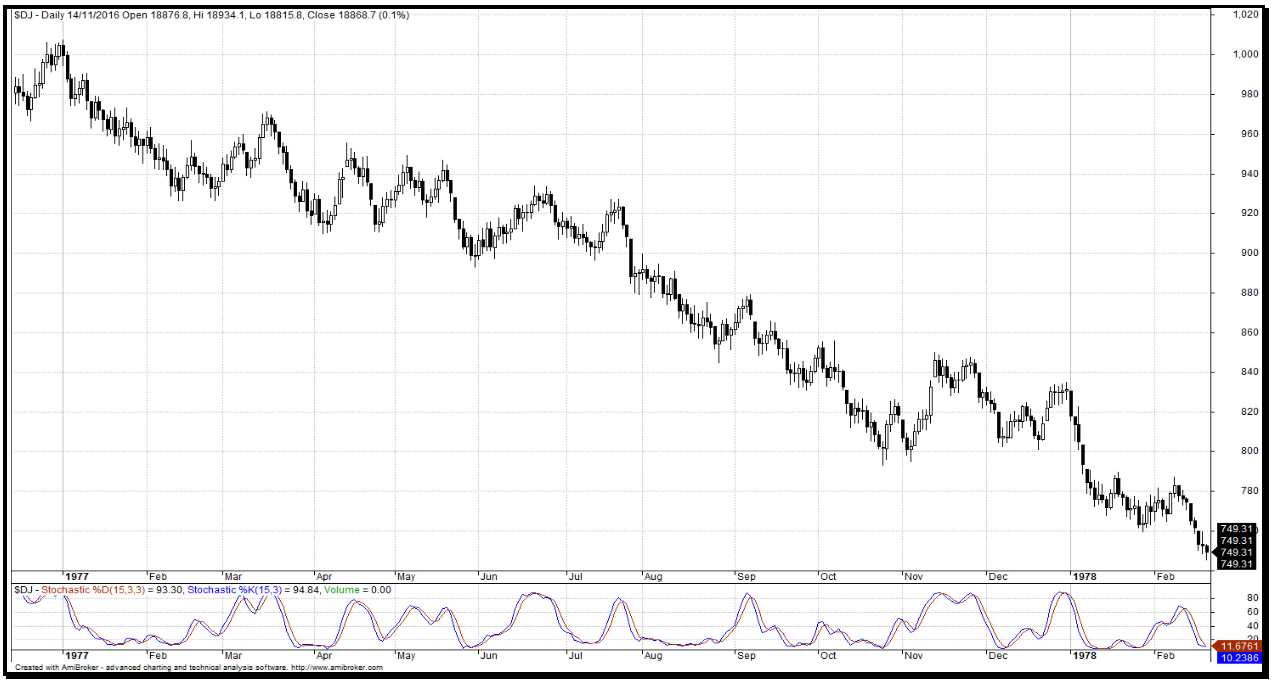
All Ordinaries Index (XAO) 1987 Daily Chart – (30 Year Cycle)

- 1987 is one of the more famous tops but again late Sep marked the peak before a dramatic sell off.
- No real pullbacks along the way in 1987. A very small pullback in Feb and June but really a strong rally all the way to the Sep high and then our standard dramatic sell off again in very quick time late in the year.



Dow Jones Industrials Index ($DJ) 1977 Daily Chart

- 1977 was a one off. It basically sold off from the start and continued to sell off until the end of the year.
- As much as this is an extremely low probability – it should remind us that anything can happen in the markets.
- I don't believe we'll see anything like this as I believe the market has got some momentum at the moment and I expect to continue a little while longer.

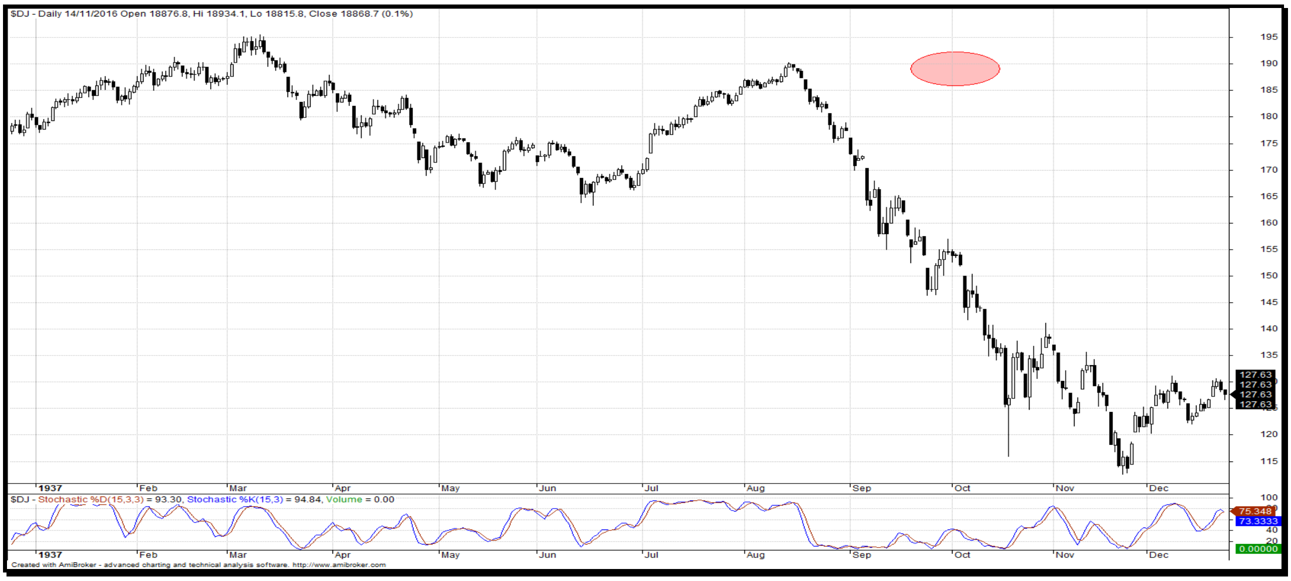


Dow Jones Industrials Index   ($DJ)   1967 Daily Chart

- 1967 profile is a possibility for us. The recent volatility in recent years could lead to a rally this volatile again.
- Again Jan and March lows before the late Sep high. A descent sell off into a Nov low followed but not as savage as usual.
- Although the sell off wasn't huge from the Sep high, it was still substantial when looking at the years price range.

Dow Jones Industrials Index ($DJ) 1937 Daily Chart

- The chart of 1937 is also an interesting one. Our August high was effectively a lower high for the year but again the sell off from the mid Aug peak to the mid Nov low was an aggressive decline.
- 1947 peaked in July before an aggressive 3 wave decline into Feb 1948
- 1927 had a small but sharp pullback in Oct but overall the year finished strong (first anomaly)
- 1917 had a sharp sell off from the June high after a flat first half.
- 1907 – The Panic of 1907 started in mid October and declined almost 50% from the peak in 1907.



Early Year Rally generally followed by Late Year Decline ($DJ) 7th Year Phenomena

	Dow Jones Industrials Index											
	Seventh Year Historical Peformance	2007	1997	1987	1977	1967	1957	1947	1937	1927	1917	1907
		Pre GFC	Asian Crisis	Black Monday					37 Recession		WW2 Crash	1907 Bankers Panic
Early Year Low		11940	6356	1885		776	453	161	176	153	87	
Month of early year low		Mar	Apr	Jan		Jan	Feb	April	Jan	Jan	Feb	
Mid Year high		14198	8299	2747	1007	952	523	188	196	200	98	92
Month of mid year high		Oct	Aug	Aug	Jan	Sep	July	July	Mar / Aug	Oct	Jun	Jan
Rally Points		2258	1943	862	0	176	70	27	20	47	11	0
Percentage Rally		18.91%	30.57%	45.73%		22.68%	15.45%	16.77%	11.36%	30.72%	12.64%	
Low to follow		6470	6971	1616	737	817	416	164	97.5	180	66	53
Month of low		Mar-09	Oct-97	Oct-87	Mar-78	Mar-68	Oct-57	Feb-48	Apr-38	Oct-27	Dec-17	Oct-07
Points Drop		7728	1328	1131	270	135	107	24	98.5	20	32	39
Percentage Drop		54.43%	16.00%	41.17%	26.81%	14.18%	20.46%	12.77%	50.26%	10.00%	32.65%	42.39%
					No early							No early
					year rallly							Year rally

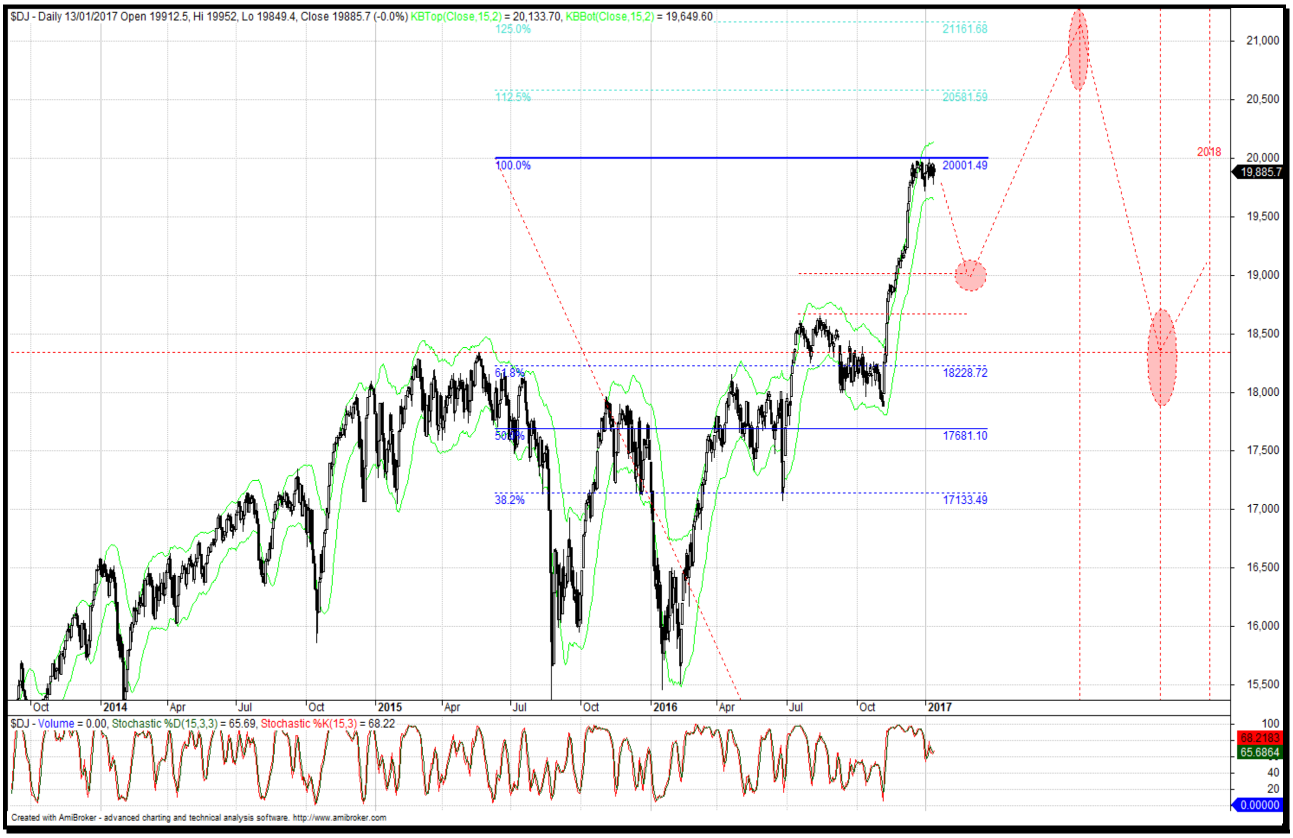
What do these numbers really mean ($DJ) 7th Year Phenomena

- Apart from 1977 and 1907 – all other 7th Years have had a strong first half rally that generally rallied through to July/August time window. If we take out the strong 87 rally (45%) all other years rallies were between 11%-30% in size. A very nice first half return.
- Just as powerful or possibly more influencial were the corrections post this mid / late year peak. 10% in 1927 was the only small correction really, the others in order were 12.77% in 1947, 14% in 1967, 16% in 1997, 20% in 1957, 26% in 1977, 32% in 1917, 41% in 1987, 42% in 1907, 50% in 1937 and recent 54% drop after 2007 high. Some very large correction unfold after the 7th year peaks.
- The GFC started in 2007, Black Monday was in 1987, 1937 recession, 1907 bankers Panic, The Asian Crisis in 1997 – there is a reason why legendary trader called the 7th year – the death year in markets – Lots of very large declines happen.
- The positive I see here is that generally smaller size corrections followed a decade later after the largest corrections, so after a 54% decline a decade ago – would suggest the correction this year is likely to be a smaller one. Not as brutal.

Dow Jones Industrials Index ($DJ)   Daily Chart 2017 – A possible path

- The US market has always been a difficult one to forecast. We have spoken consistently about a short term top in early January before a pullback into mid-February.
- If the typical 7th year pattern unfolds we could rally on the back of the new President Trump unwinding a lot of business regulations and the stock market could rally all the way through to July / August before the usual end of year sell off. The market by mid-year might start to look over bought and expensive from an earnings perspective. The greenback strengthening could put the recovery at risk and the Trump shine possibly will have started to wear off.
- Price levels are tricky here but a move to 21000 would seem a reasonable probability and if things got really heated possibly 22000 is a chance.
- A sharp selloff might see it find support at the old high which is a fairly large decline back to 18400 from those highs.
- I think timing might be more accurate than price levels again this year so we will continue to watch the key timings from the 60 year's cycle as this has proved beneficial in recent years.
- Feb 11, last year's low is a date to watch, 144, 150 and 180 days from the early year low are dates to watch for a peak in the July / August time period. Sep 20-22, Oct 20-22 and Nov 20-22 are also key dates to monitor later in the year.
- The Donald Trump situation is likely to make things volatile for 2017, so we should also see what type of year this is shaping as by end of first quarter. IE a volatile year like 1967 or a bit smoother like 1957 could help us with timing and pattern of trade.

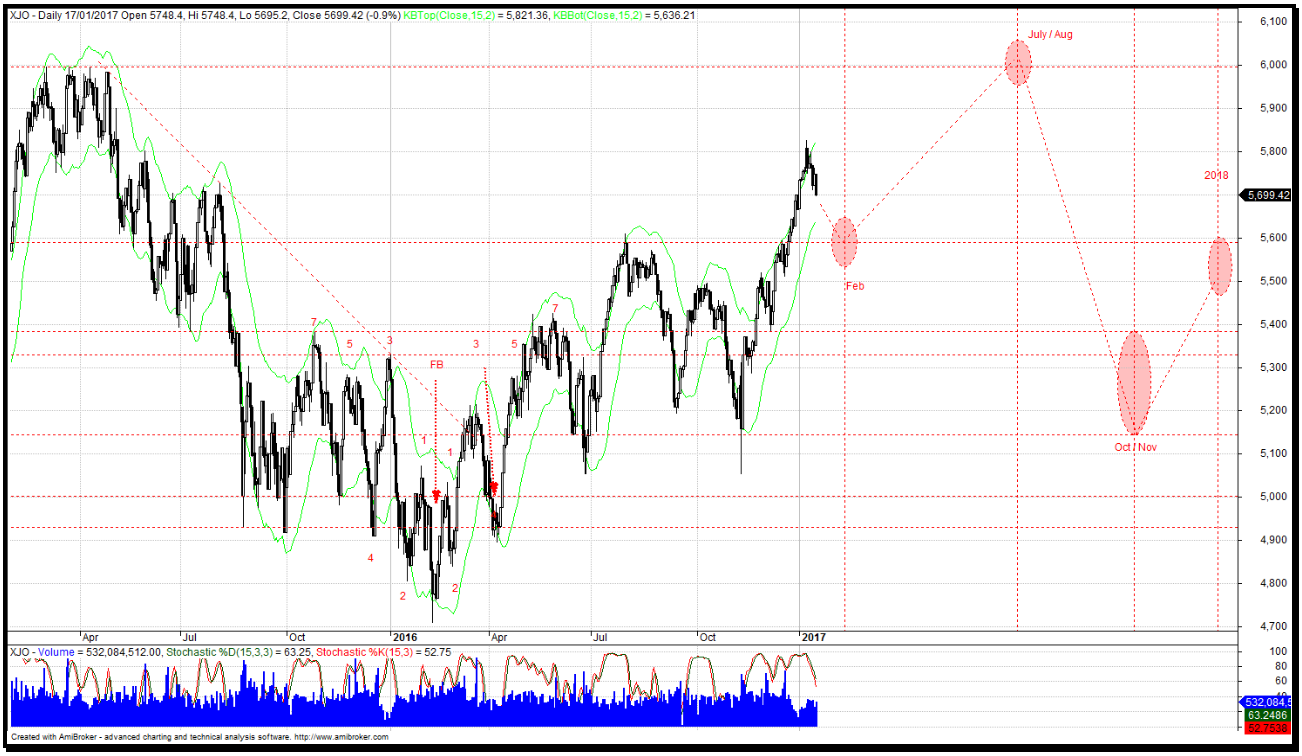
- <u>Biggest risks for 2017</u>
- The rally in first half goes crazy and we get a minor bubble – taking markets (DJIA) beyond 22000.
- Trump does something reckless later in the year that causes the market to panic and a sharp sell off occurs – causing a 20% plus drop in 30-45 days duration.



S&P ASX 200 (XJO) Weekly Chart – My 2017 Foreacst

- This is a chart of the current market and shows my best fit forecast for the 2017 year.
- Pricing has been the most difficult aspect in recent years and I think 2017 will be even more difficult as this is generally the year that you get aggressive rallies followed by aggressive declines.
- I am expecting a high in early Jan that pulls back into mid-February. The anniversary of the 2016 low – Feb 11 would make a good short term low or 30 / 45 days from the peak on 9th of Jan.
- A very strong rally from mid Feb to mid-July, early August looks possible if the market starts to gain momentum mid year. The sell in May might catch people napping as the markets rally much higher than most people anticipate. By the time everyone finally gets bullish in late July it will most likely mark a high and something is likely to trigger concern in the markets. A sharp sell off starting slightly earlier than the recent September highs could see a sharp pullback into the November window. The Xmas rally might only be a small one this year as the markets are still jittery after the late year sell off.
- The key timing points for the year are - early Jan high, mid Feb low, late July / Aug high and Nov low.
- The 60 year cycle, the Post Election Presidential Cycle and the Seventh Year cycle are all in agreeance this year so cycles are showing a strong correlation like last year did.
- Biggest risks are that the aggressive rally pushes slightly higher than expected and runs into Sep like the 10, 20 and 30 year cycles have. A Trump presidency is also likely to add to the volatility in 2017 so we could see multiple peaks and troughs along the way.
- Looking at a lot of the technicals at the moment shows many stocks in overbought zone – so perhaps the market gets stuck here consolidating until March before we get that mid year rally. I am finding this a tricky year to forecast but I also recognize this is a year that a lot of profits could be made if you can time the market swings correctly.
- I think any major sell downs in the first quarter should be pounced on as an opportunity to get a few quality longs on.
- Selling a reasonable parcel of shares in mid – late July and putting on a hedge if we have seen the markets rally hard into this time window should be a strong consideration.
- Overall it should be a tricky year – I expect some rallies to exceed expectations and again the declines later in the year could also surprise also.

- <u>Biggest risks for 2017</u>
- The resources boom surprises many as Trump infrastructure play causes a very strong run on commodities. Small cap miners go crazy again.
- Interest rates head higher later in the year and this moves scares the property and mortgage markets. Property prices fall and leveraged up households feel the pressure which causes a mini panic in property and equities markets.
- The 10,20 and 30 year cycles all peaked late in year – September and October, so this could put our July / August peak at risk, meaning it could potentially peak a little bit later.
- We follow the very rare occurrence of 1907 and 1977 and just go into a slow decline for most of the year – just ticking lower month by month.



For professional and timely advice on how to maximize your returns on your portfolio please call

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There are no certainties in the share market, only probabilities.