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# *Major Stock Market Tops of the Past Century*

***by Robert D. McHugh, Ph.D.***
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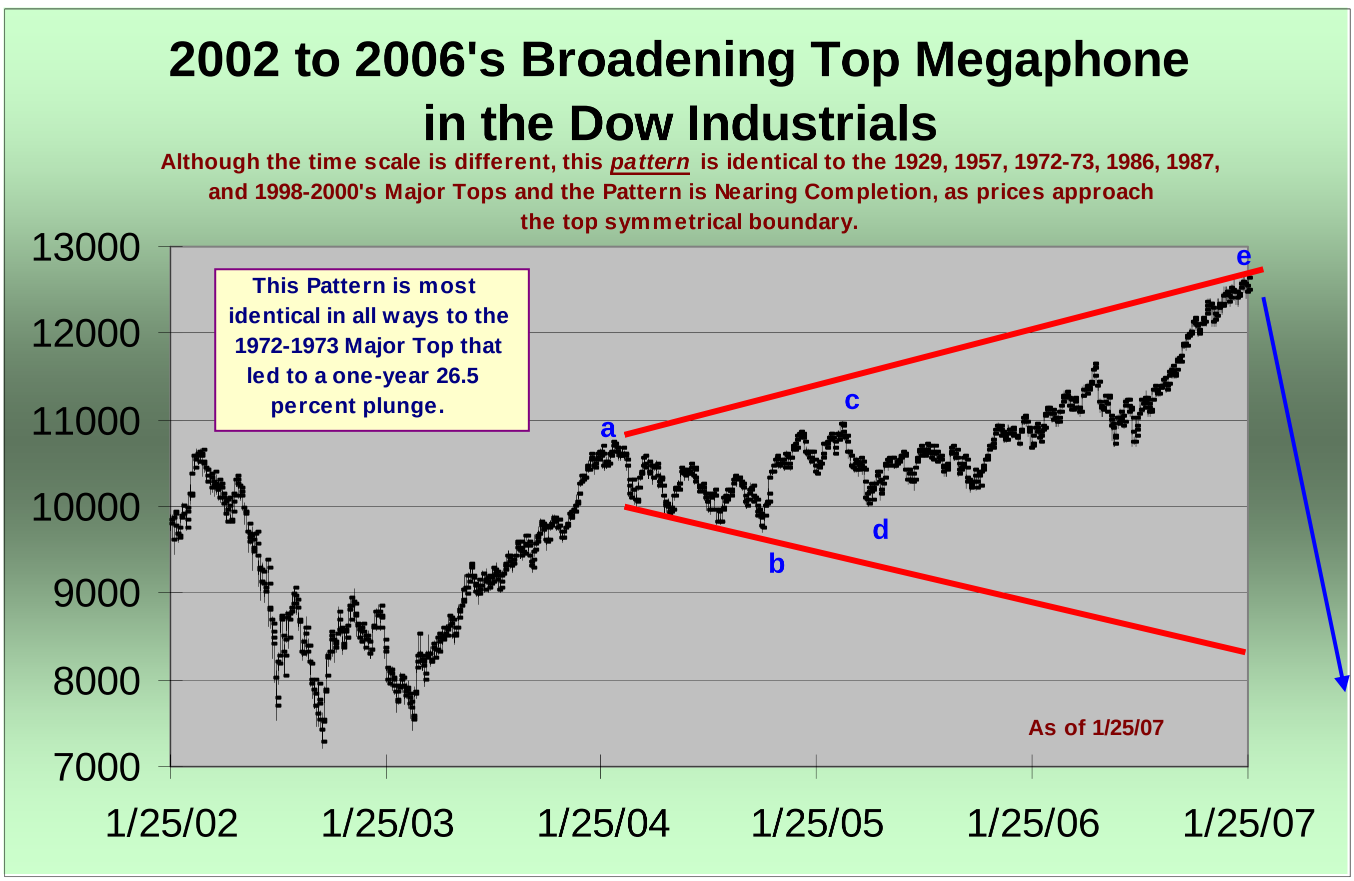
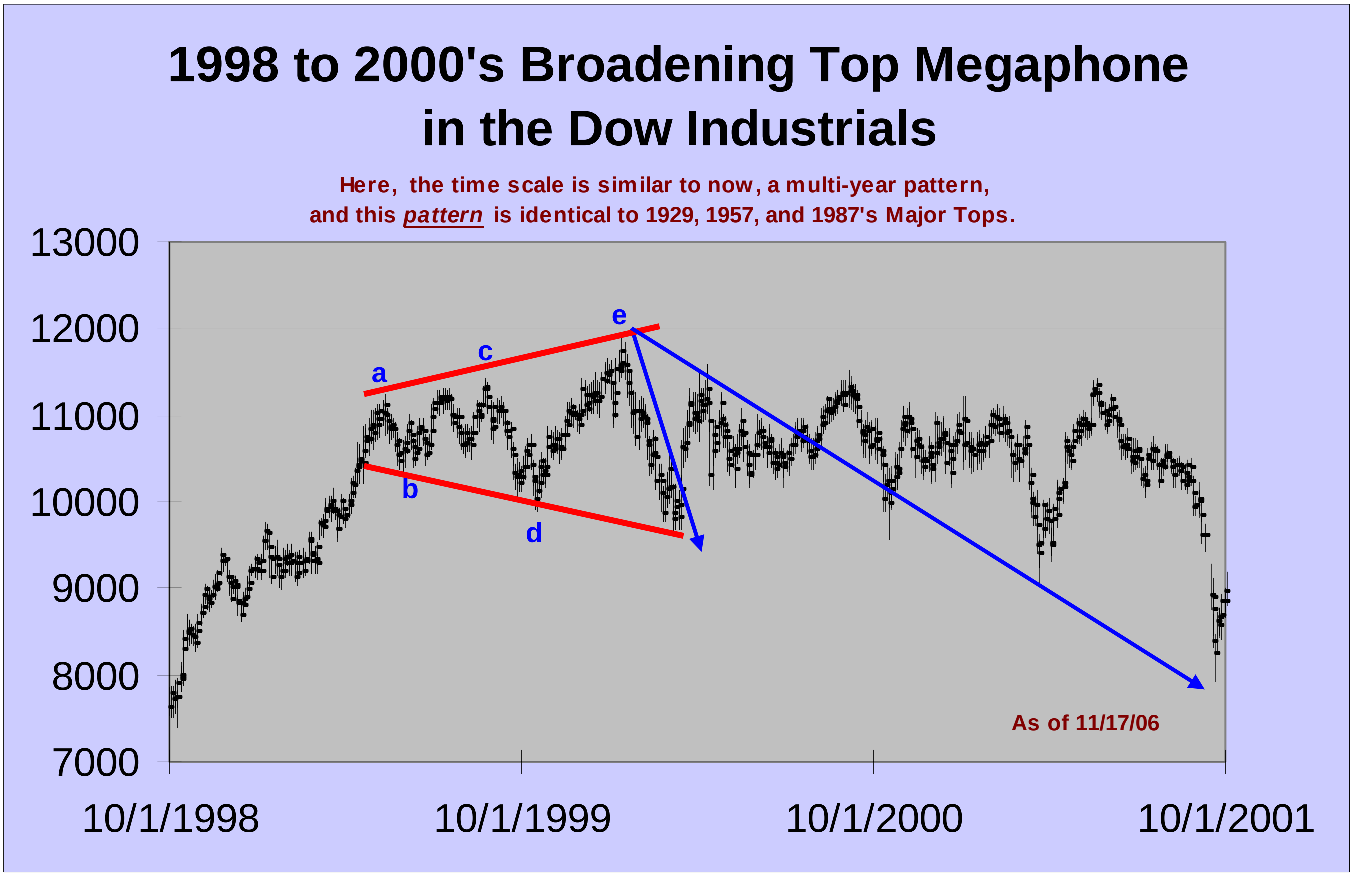
***There is a stock price pattern that has appeared before most of the great plunges over the past century.*** It looks a bit like an open shark's mouth with teeth exposed. Once the mouth is opened it widest, it snatches it prey, swallowing months and years of previous stock market gains in short order. In fact, it deserves a name, since it appears so often as a precondition for plunges. We call it ***The Jaws of Death.***

Let's make clear at the onset that the appearance of this pattern is *no guarantee* that we are about to get a major plunge. However, when it appears, the risk to longs has increased significantly since this pattern has shown up so many times in the past before major stock market plunges. One of the problems with this pattern is we can't be quite sure when it is complete. That is because the upper boundary can extend. So we supplement the Jaws of Death pattern by studying additional technical conditions to more fully weigh the timing of oncoming risk. This article will focus just on the Jaws of Death pattern itself.

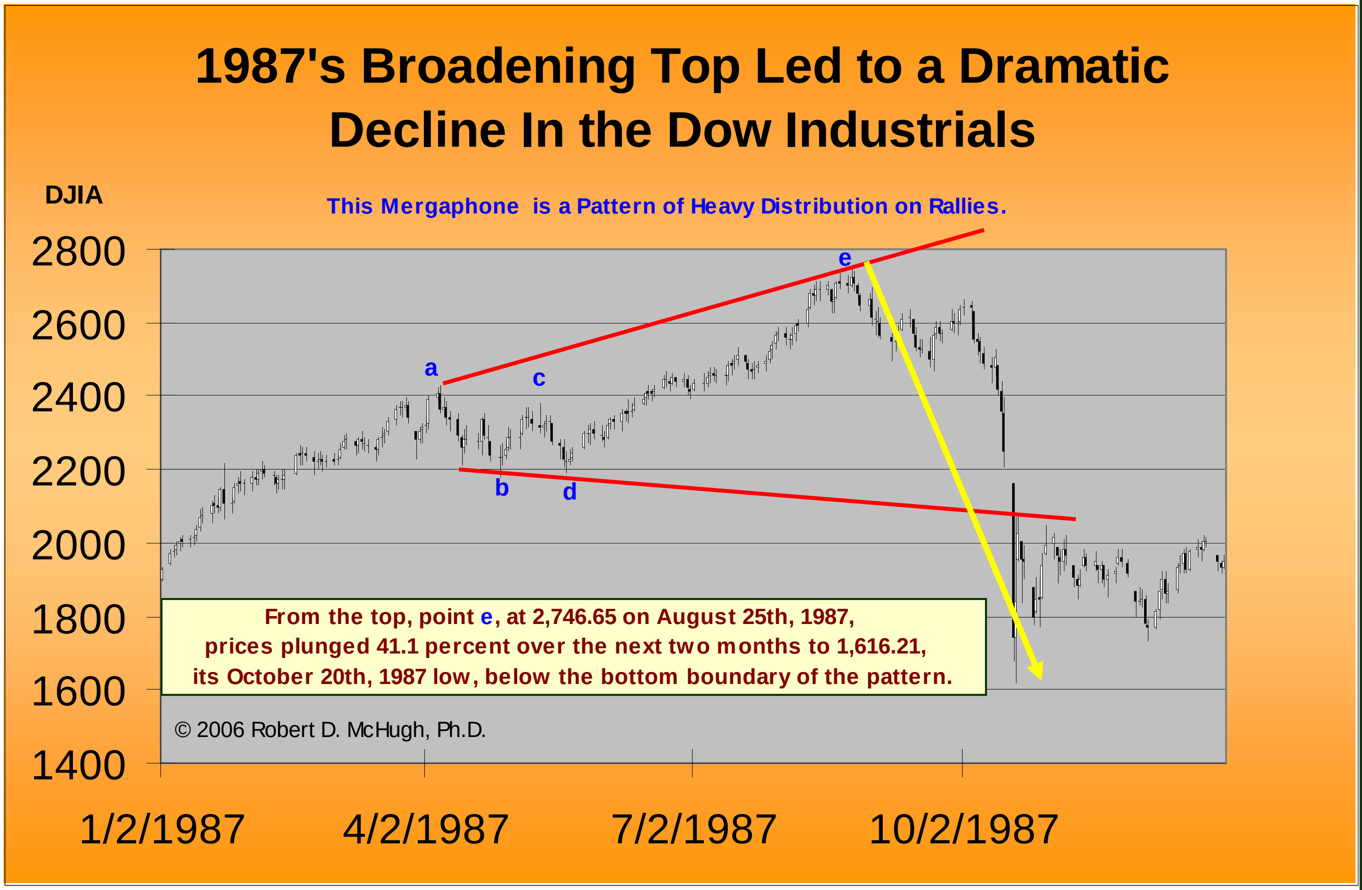





***We continue to keep a watchful eye on the current Jaws of Death pattern, as it bears a striking resemblance to some rather famous historic tops***. The current pattern looks mature. The textbook name for the pattern is a Broadening Top or Megaphone pattern. Key is that it has symmetrical diverging upper and lower boundary lines. Wave **e** is the extended wave. The downward sloping bottom boundary line is drawn off the declining lower bottom points of either wave **b** or **d** down or both. The upper boundary line is drawn as a mirroring equal-sloping line. Prices will top somewhere along that slope-generated line — not above nor below it — which is fascinating when you think about it.

The ***Broadening Top*** formation is a Bearish pattern. Thomas Bulkowski, in his *Encyclopedia of Chart Patterns*, suggests this pattern has only a 9 percent failure rate after a breakout. He mentions the average decline is 18 percent, with the highest probability decline being 10 percent. A rule of thumb for measuring a downside target is to use half the formation's height. That measuring stick has a 91 percent success rate. But as we will demonstrate, there have been much larger declines than 18 percent.

***This pattern appeared in the multi-year period from 1998 through 2000, just before the 1987 stock market crash, in 1986, just before the 1972-73 26.5 percent one-year plunge, again before the 26.5 percent 1965/66 stock market plunge, just before the 1957 crash, and just before the 1929 crash.*** We are not suggesting a stock market crash is coming. We are simply showing a Bearish pattern that has shown up before many of the most serious declines of the past century, and that ***the stock market's Dow Industrials average has again formed the exact same pattern as these 7 other occurrences from 2004 through 2007.*** This is a risk factor for those invested heavily in the stock market.


1987's Broadening Top Led to a Dramatic Decline In the Dow Industrials
DJIA
This Mergaphone is a Pattern of Heavy Distribution on Rallies.
2800
2600
2400
2200
2000
1800
1600
1400
a
b
c
d
e
From the top, point e, at 2,746.65 on August 25th, 1987, prices plunged 41.1 percent over the next two months to 1,616.21, its October 20th, 1987 low, below the bottom boundary of the pattern.
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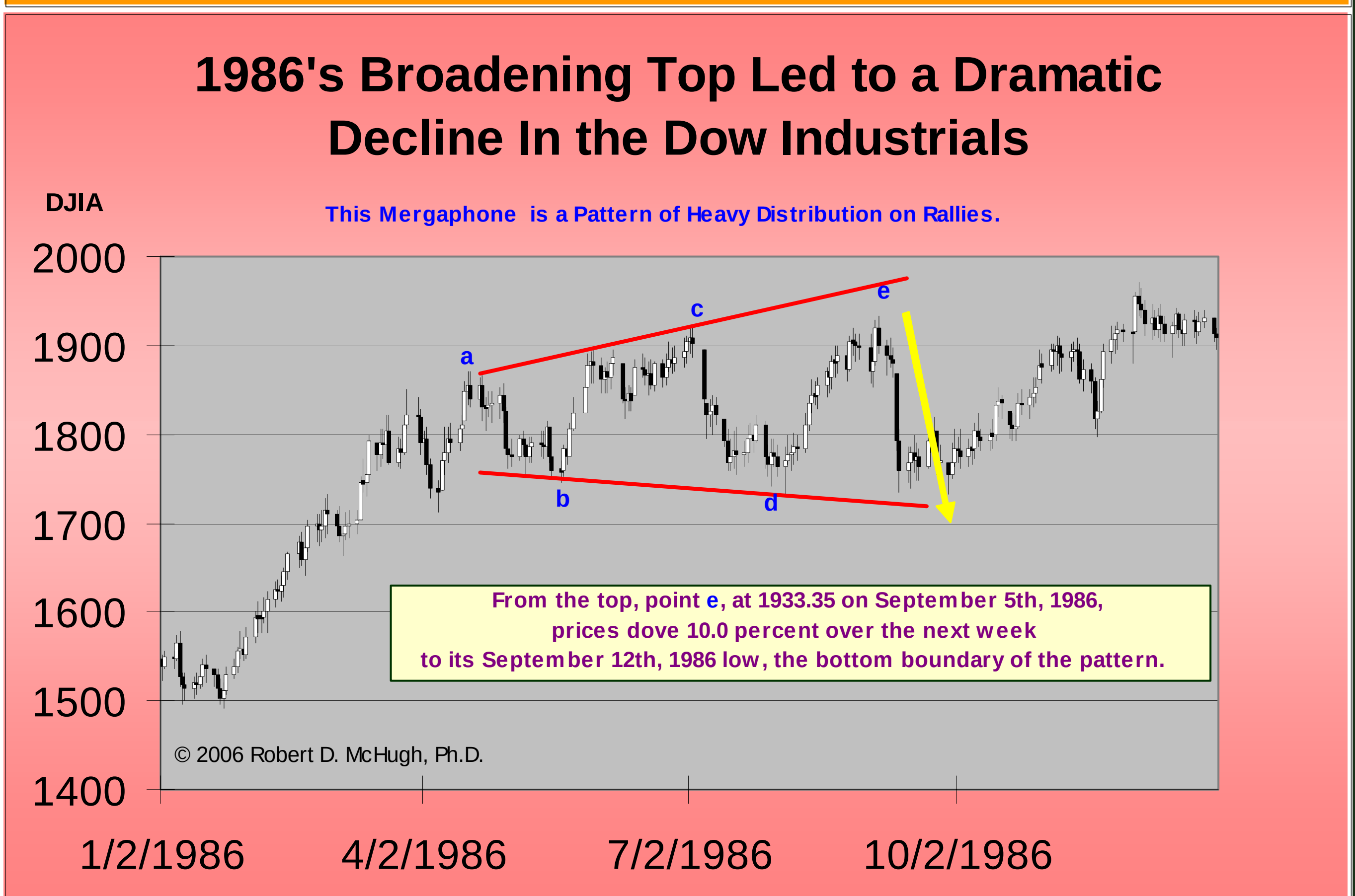
1/2/1987
4/2/1987
7/2/1987
10/2/1987


1986's Broadening Top Led to a Dramatic Decline In the Dow Industrials
DJIA
This Mergaphone is a Pattern of Heavy Distribution on Rallies.
2000
1900
1800
1700
1600
1500
1400
a
b
c
d
e
From the top, point e, at 1933.35 on September 5th, 1986, prices dove 10.0 percent over the next week to its September 12th, 1986 low, the bottom boundary of the pattern.
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1/2/1986
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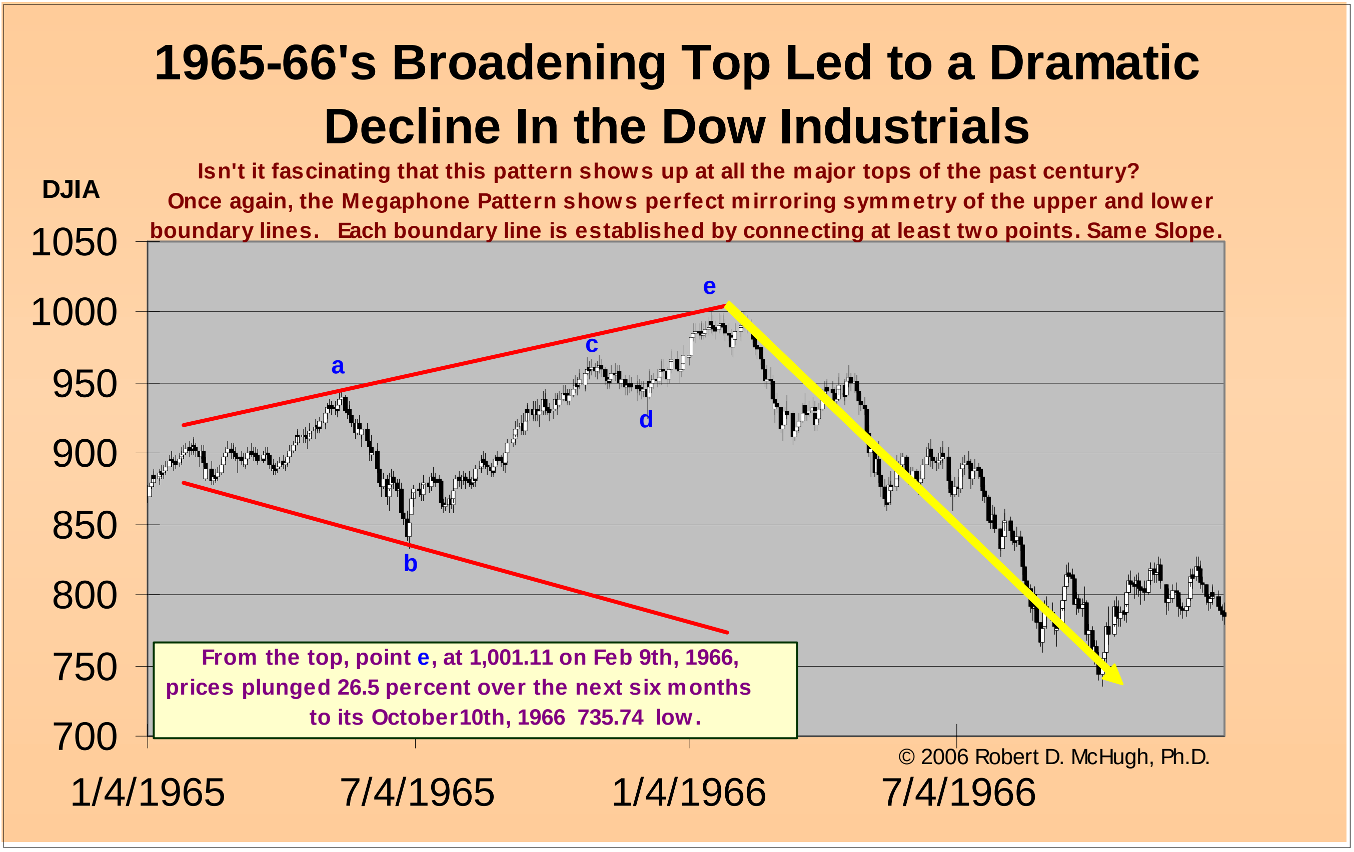
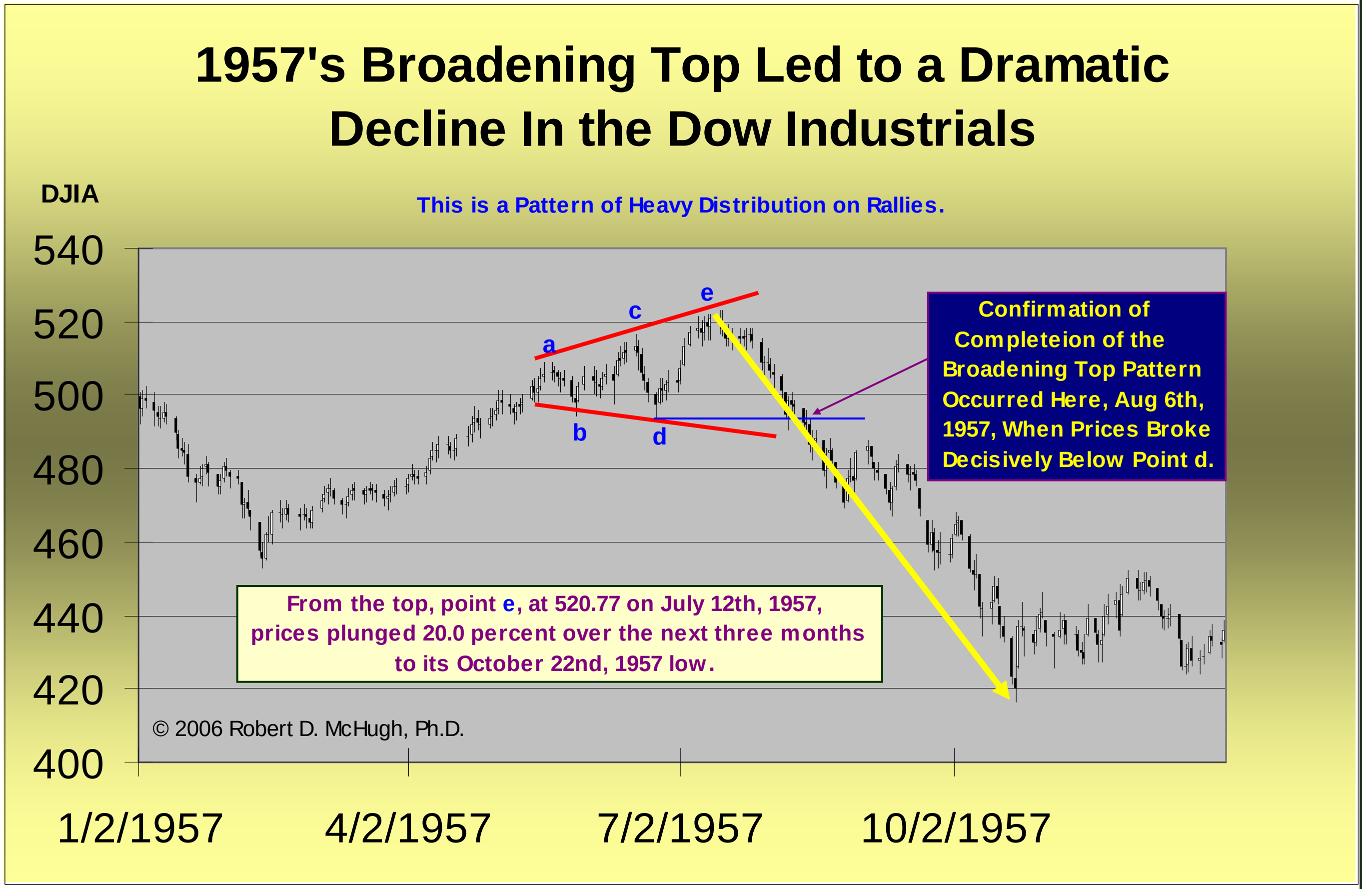
10/2/1986




The examples show declines were at least to the bottom boundary of the patterns, and that many of the declines went much lower.

The lines are formed by simply drawing trend-lines connecting the peaks and connecting the troughs. Each line is formed by connecting <u>*at least 2 points*</u>. In other words, neither boundary line is manufactured by a biased analyst. Rather, it is formed where the market decided to top and bottom along its path to a major top. ***What are the odds that the slopes of these trend-lines would be exactly the same? What are the odds that seven of the greatest market tops of the past century in the Dow Industrials would bear the markings of this pattern?*** This is not random. This is a normal pattern of distribution and market buying/selling psychology that naturally leads to major tops, and subsequent declines ranging from 10 percent to 40 percent over a period from a month to 11 months.

While the positioning of points c and d vary slightly in each of the 8 patterns, ***what seems to matter most is the Megaphone boundary lines***. That is the key characteristic. Points a, b, and e are positioned similarly in all 8 patterns.


1957's Broadening Top Led to a Dramatic
Decline In the Dow Industrials
DJIA
This is a Pattern of Heavy Distribution on Rallies.
540
520
500
480
460
440
420
400
a
b
c
d
e
Confirmation of Completeion of the Broadening Top Pattern Occurred Here, Aug 6th, 1957, When Prices Broke Decisively Below Point d.
From the top, point e, at 520.77 on July 12th, 1957, prices plunged 20.0 percent over the next three months to its October 22nd, 1957 low.
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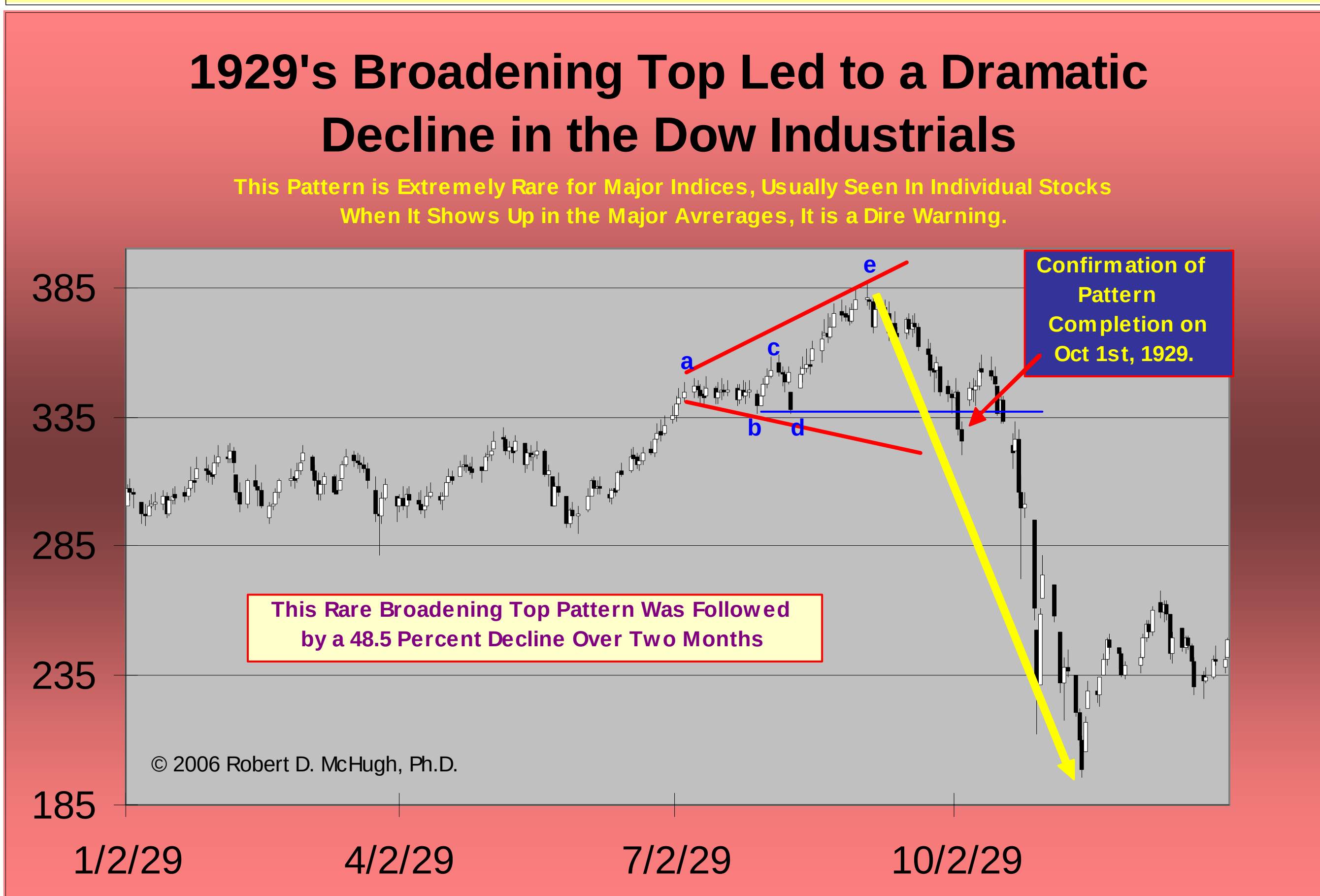
1/2/1957
4/2/1957
7/2/1957
10/2/1957


1929's Broadening Top Led to a Dramatic
Decline in the Dow Industrials
This Pattern is Extremely Rare for Major Indices, Usually Seen In Individual Stocks
When It Shows Up in the Major Avrerages, It is a Dire Warning.
385
335
285
235
185
a
b
c
d
e
Confirmation of Pattern Completion on Oct 1st, 1929.
This Rare Broadening Top Pattern Was Followed by a 48.5 Percent Decline Over Two Months
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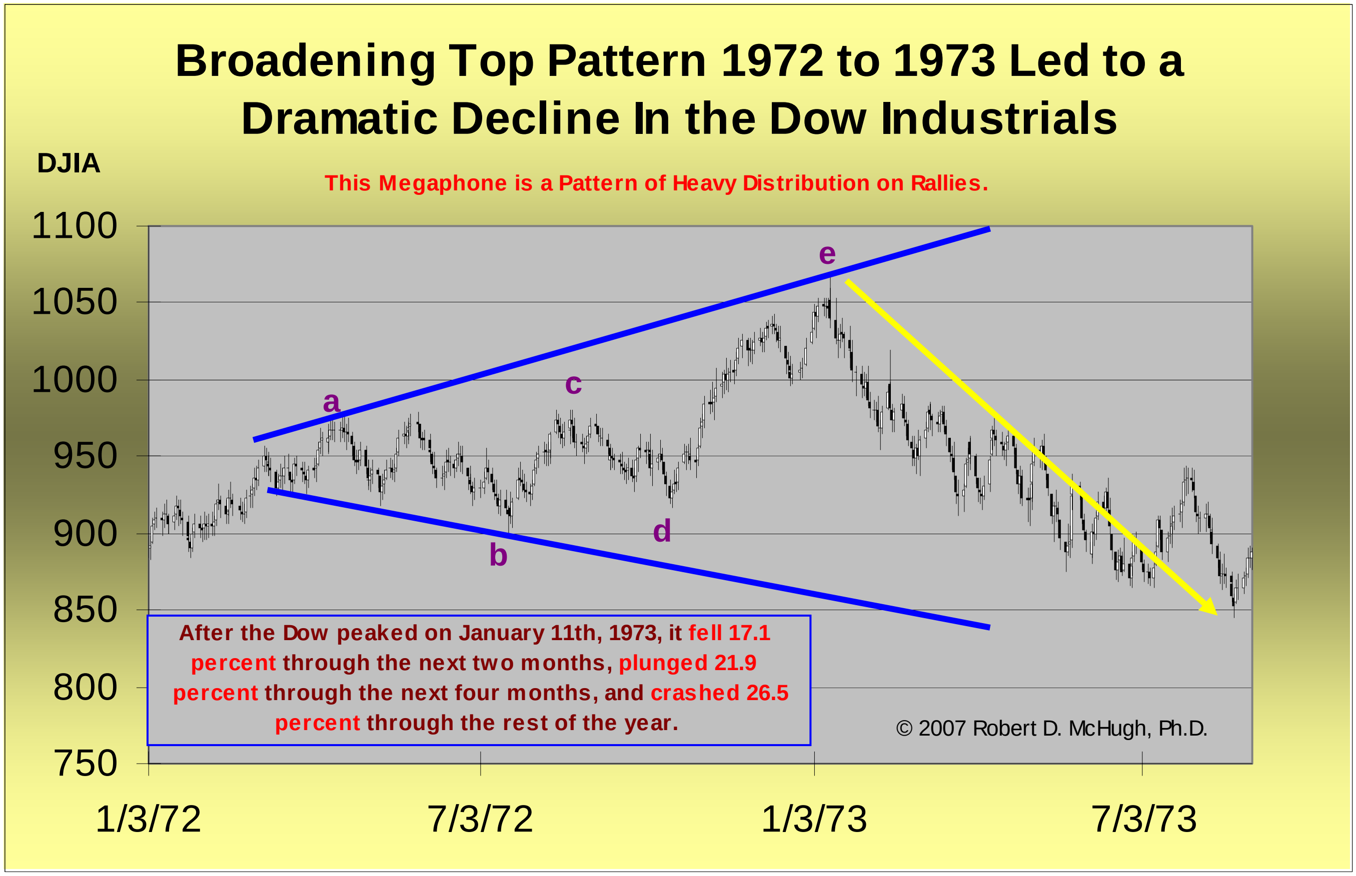
1/2/29
4/2/29
7/2/29
10/2/29




***The above pattern showed up just before the major top of 1973***. The pattern began in 1972, warning that a recession was coming. After the Broadening Top pattern completed on January 11th, 1973, the Dow Industrials quickly fell 17.1 percent through March 23rd, 1973. The decline continued, and by May 21st, 1973, 21.9 percent of the Dow's value had been shaved, in a little more than four months. By December 5th, 1973, it was clear the economy found itself in a major recession, and the market had crashed 26.5 percent.

***Here's what is striking about the 1972-73 pattern: It is incredibly similar to the current pattern shown at the opening of this article.*** Let's compare the 1972-73 pattern with the current 2002-06 pattern: In both patterns, the bottom downward sloping boundary is drawn off the points of lower lows within wave **b** down. In both instances, wave **c** is shallow, but slightly higher than point **a**. In both instances, point **d** is higher than point **b**. In both instances there was a fake-out top about two-thirds the way through point **e**'s wave, before the rally resumed. In both instances, as in all the Broadening Top patterns, wave **e** is by far the longest. In both instances, as is the case in all the Broadening Top patterns, there is perfect symmetry, perfect mirroring, of the upper rising boundary line with the lower declining boundary line. The slope of ascent and descent is the same. 1929's pattern is also identical.

Again, this is no guarantee we are about to get a major plunge, however the risk to longs has increased because this pattern has shown up so many times before major plunges. ***The Jaws of Death must awaken our senses,*** since it appears so often as a precondition for plunges. However, risk of a major top is higher if New Lows are rising, if a Hindenburg Omen occurs, if the Advance/Decline Line diverges, and if our Purchasing Power Indicator generates a new "sell" signal (it has been on a "buy" signal since July 19th, 2006). We cover these and other technical conditions as part of our regular paid subscriber services. Conservative investors can lose months and years of gains in a matter of weeks and months once one of these occasional Bear markets hits. That is why we stay focused on risk. On the other hand, we have key trend-finder indicators that are objective, and are actually on "buy" signals for longer stretches of time than they are on "sell" signals, as Bull markets tend to last longer than Bear markets. We watch for both.

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***"You know of Jesus of Nazareth, how God anointed Him with the Holy Spirit and with power, and how He went about doing good, and healing all who were oppressed by the devil; for God was with Him. And we are witnesses of all the things He did both in the land of the Jews and in Jerusalem. And they also put Him to death by hanging Him on a cross. God raised Him up on the third day, and granted that He should become visible. Of Him all the prophets bear witness that through His name everyone who believes in Him receives forgiveness of sins."***

***Acts 10:38-40, 43***

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