

A Time Analysis of the Coming Market Top

By Robert McHugh, Ph.D.
February 6th, 2011

For those of you who have been following me for seven years, when I first started writing a market newsletter, you know that I have not interjected much in the way of time analysis. There are a few time related studies we do show, such as phi mate and seasonal cycle work, on occasion some Fibonacci ratio time work, but nothing really that measures time from point A to point B to determine the answer to “when” a market will turn. This is an area that fascinates the mind, and I am constantly searching for time studies that are reliable in suggesting the start or end of a trend.

Well, there is one we have found that we are going to share with you this weekend that I find fascinating. It has consistently been reliable over the past four years. ***We have identified when an extended overbought rally has likely reached its expiration date.*** Two and a half months. If we measure an overextended overbought rally as that period of time when the Daily Full Stochastics fail to fall to a reading of 20.0 or lower, we find that the life expectancy of that overbought condition is 2.5 months +/- a few days. As long as the Daily Full Stochastics remain above 20.0, we find that rallies tend to extend. But ***once this condition reaches the 2.5 month age, the rally not only ends, but a sharp, sometimes violent decline begins.*** Most declines start within a week +/- of this 2.5 month old rally extension — again it is important to understand, a rally extension for this study must be defined by the time that the Daily Full Stochastic measurement remains continuously above 20.0.

Guess what? We are inside one of these overbought extended rally periods, which will reach the 2.5 month age over the next week. So, based upon this time analysis, we could be about to see markets drop sharply, perhaps violently. Now do not go short the farm based upon this study, however be alert for the possibility, based upon the past four years of data, that danger could be imminent.

We would not be convinced that a multi-week decline has started until our three short-to-intermediate term momentum indicators, which are rarely fooled, generate new sell signals across the board. These important momentum indicators are our Secondary Trend Indicator, our key trend-finder indicators (which are a composite of three indicators, our Purchasing Power Indicator, and our 30 and 14 Day Stochastics), and our Demand Power / Supply Pressure indicators. We present the daily levels and signals from these indicators each night in our market newsletters to subscribers. These indicators have an excellent track record at finding both rising and falling trends, and have caught almost all the S&P 500 points up and down for years, including the rally from March 2009.



Prices only hold up for about 2.5 months when the Daily FS fails to fall to the 20.0 level, and when this happens, stocks plunge. At the 2.5 month point in time or slightly sooner. If we get to 2.5 months without a decline, look out below.



Extended Periods of Overbought Daily Full Stochastics led to sharp declines by the time the 2.5 months had passed (denoted by the blue Boxes).

Note: Stocks fell sharply in early 2010 as this blue arrow indicates. See 2010 chart on previous page.



Prices only hold up for about 2.5 months when the Daily FS fails to fall to the 20.0 level, and when this happens, stocks plunge at the 2.5 month point in time or slightly sooner. If we get to 2.5 months without a decline, look out below.



Extended Periods of Overbought Daily Full Stochastics led to sharp declines by the time the 2.5 months had passed (denoted by the blue Boxes).

Notice the time boxes we have annotated. When the Full Stochastics stay overbought for a lengthy period of time without declining, it means the coming decline will be sharp. The amount of time they can stay overbought is limited. The boxes are identical in all three cases during 2008 through 2010 when the FS remained overbought for an extended period of time. However, the most recent case has now reached its expiration date, and prices could fall sharply starting sometime over the next week.

Each time the Daily FS failed to fall to the oversold 20.00 or lower area for the time period of the box, stocks fell sharply by the time the right side of the box occurred. The time period limit for these overbought rallies is 2.5 months based upon the definition that the Daily FS remains above the 20.0 level.

Available now, McHugh's exclusive Platinum Trading Service.

Check out our Standard Subscription Specials at the [Subscribe Today button at www.technicalindicatorindex.com](#).

We cover a host of indicators and patterns, and present charts for most major markets in our International and U.S. Market reports, available to subscribers at www.technicalindicatorindex.com

If you would like to follow us as we analyze precious metals, mining stocks, and major stock market indices around the globe, you can get a **Free 30 day trial subscription** by going to www.technicalindicatorindex.com and clicking on the **Free Trial** button at the upper right of the home page. We prepare daily and expanded weekend reports, and also offer mid-day market updates 3 to 4 times a week for our subscribers.

“Jesus said to them, “I am the bread of life; he who comes to Me shall not hunger, and he who believes in Me shall never thirst. For I have come down from heaven, For this is the will of My Father, that everyone who beholds the Son and believes in Him, may have eternal life; and I Myself will raise him up on the last day.”

John 6: 35, 38, 40

Robert McHugh Ph.D. is President and CEO of Main Line Investors, Inc., a registered investment advisor in the Commonwealth of Pennsylvania, and can be reached at www.technicalindicatorindex.com. The statements, opinions, buy and sell signals, and analyses presented in this newsletter are provided as a general information and education service only. Opinions, estimates, buy and sell signals, and probabilities expressed herein constitute the judgment of the author as of the date indicated and are subject to change without notice. Nothing contained in this newsletter is intended to be, nor shall it be construed as, investment advice, nor is it to be relied upon in making any investment or other decision. Prior to making any investment decision, you are advised to consult with your broker, investment advisor or other appropriate tax or financial professional to determine the suitability of any investment. Neither Main Line Investors, Inc. nor Robert D. McHugh, Jr., Ph.D. Editor shall be responsible or have any liability for investment decisions based upon, or the results obtained from, the information provided. Copyright 2011, Main Line Investors, Inc. All Rights Reserved.

