ROBERT D. MCHUGH, JR., Ph.D.

McHugh's Fearless Markets Forecast for 2015

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Kimberton, PA 19442

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Email Address:
rmchugh@technicalindicatorindex.com

As 2014 has closed, we want to present our view of where markets are headed in 2015. Toward the end of the report, we cover real estate and the economy, something slightly different than what we normally cover in our market reports, but something you may find quite interesting. Let's start by saying this: The year 2015 will be historic, with unusual events and high market volatility.

The Stock Market

We believe there will be at least one stock market crash in 2015 (a decline of 15 percent or greater, probably much greater than a 15 percent decline), with perhaps one or more mini-crashes (10 percent or more). We believe that the largest stock market decline in 2015 will be a crash, and that this crash will be underway (could last several weeks or months) within two weeks before or after September 14th, 2015. In other words, we see a stock market crash in the latter third of 2015. It could be huge, and could change the financial, political and regulatory landscape for years to come.

There is a convincing amount of evidence for this in this author's opinion. First is the multi-decade Jaws of Death pattern. It is finished or will be by the latter part of 2015, and warns of a mega-decline in the stock market, and an economic depression. I wrote a book about this that many of you have read. The time will be at hand for the fulfillment of this stock market pattern in 2015.

The second convincing piece of evidence is a cycle pattern we follow that is rare and extremely correlative to stock market declines and economic downturns, pointing to a powerful economic and market collapse around September 14th, 2015. This cycle pattern was present for the 2008 and 2001 market plunges. It will be present again in 2015, the first time it has been evident since 2008. Then there is the Bradley model which is an astro cycle turn indicator which points toward a turn on September 23rd, 2015. We also have a Phi Mate Turn date scheduled for September 15th, 2015.

The multi-decade Jaws of Death stock market pattern is calling for an economic collapse and a market collapse. This is a Bear market for the ages coming, which we believe is already starting in stealth, masked by the artificial stock market rally whose main purpose has been to hide the truth about the underlying economy's collapse, including the unannounced disintegration of the middle class in America. Part and parcel with Bear markets are social strife issues. A negative psychological state of mankind.

One developing social strife that will have an enormous negative effect upon the stock market and the economy is the civil war that is breaking out in the United States between liberals and conservatives. It is time to call it what it is, a civil war. We see this in Washington's inability to govern and negotiate. We see this with our judicial systems' decision-making being driven ideologically, interpreting laws according to the justices' in power political views and personal values, with relativism and the ends justifies the means enforcement of American jurisprudence evident in many cases. The divide is wide and passions are at the brink of violence. Truth is being redefined as a point of view. The U.S. Constitution is being rewritten by court decisions and precedent cases that could be completely distant from what is written on that sacred piece of paper. The plain language of the U.S. Constitution is being ignored and replaced by pseudo intellectual hyperbole. This brewing civil war will be a contributing factor in the destruction of the economy and the stock market in 2015 and beyond, not to mention America's traditional values and way of life.

The Big Picture Elliott Wave Long-term Count in the Dow Industrials from 1900 to 2015

The Gold and Precious Metals Market

From a fundamental economic perspective, Central Banks are meeting every economic slowdown with more and more printed fiat currency, backed only by a promise to pay by each currency's issuing Central Bank, not even backed by a sovereignty supposedly overseeing the Central Banks. This results in a hidden hyperinflation, as money is injected into world economies by purchasing interest bearing sovereign and private debt in exchange for new electronic paper currency, which keeps interest rates low while flooding economies with electronic cash that drives up prices for goods and services. This abundance of currency is finding its way into rising prices for necessities such as health care, food, housing, and travel. This is a major tailwind behind Gold's projected upward price path.

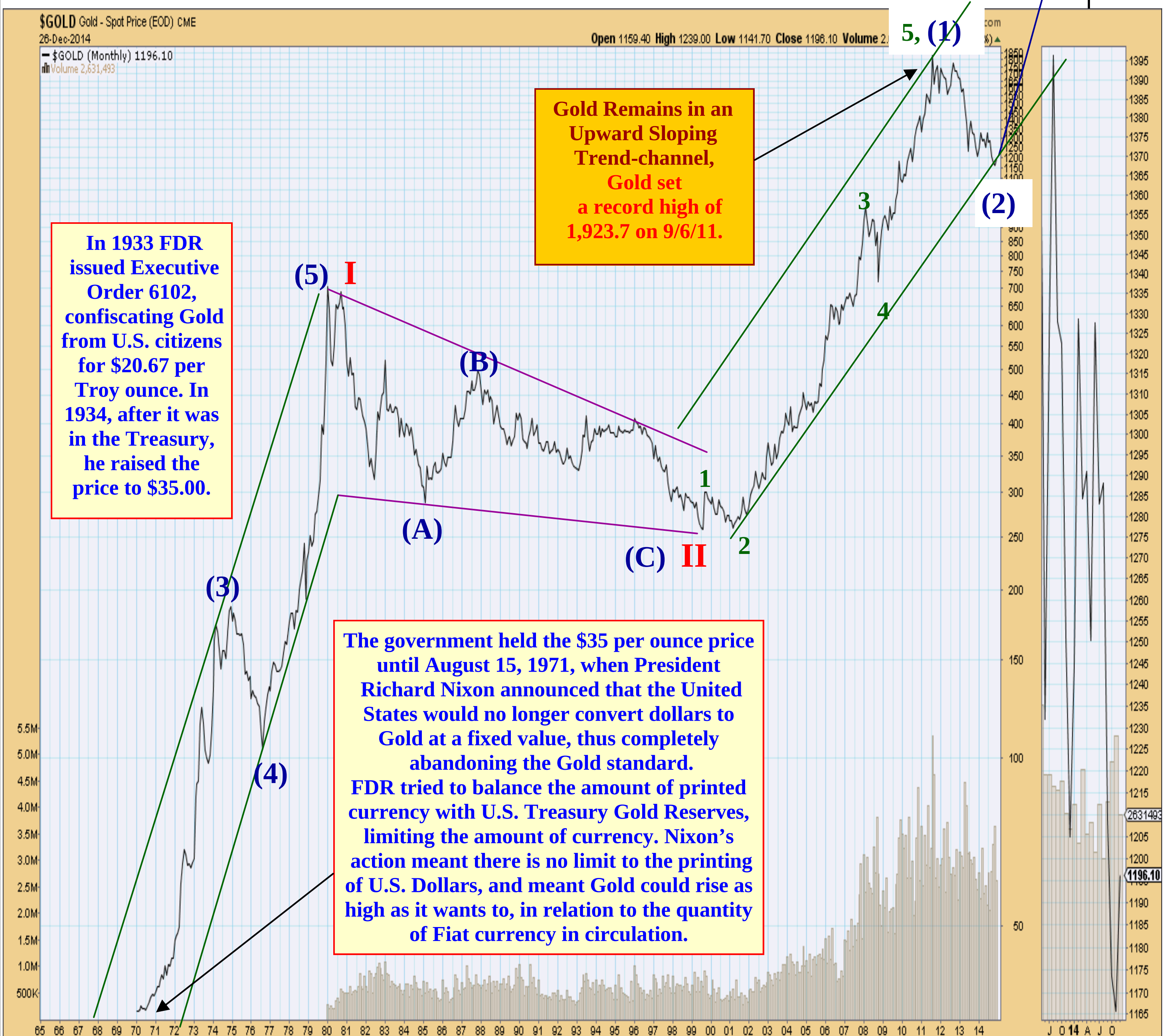
Gold is a nearly perfect conductor of electricity, and is in high demand for technological gadgets and screen gizmos that are dominating the manufacturing world. That should continue.

There is coming a time when a superpower will see its currency fall so fast that it will have to prop it up by backing it with Gold. At some point, sovereign nations will begin to hoard Gold to protect themselves for such an occasion. Russia is a prime candidate for this right now. If I was running a major economy and my currency was collapsing, I would print my worthless paper and exchange it for Gold. If things got real bad, I would then back my currency with my vast tonnage of the precious metal and stabilize my economy.

The technical picture for Gold is shown in the next chart, the big picture for Gold. Gold is inside a huge Bull Market. The rally from 1999 through September 2011 was wave (1) up, a primary degree move, of a larger Cycle degree wave III up. The decline since September 2011 has been primary degree wave (2) down of III up. This decline looks like it is over. That means 2015 should see a rising value for Gold, slow at first since there has been so much psychological damage, however by the end of 2015, demand for the limited world supply of Gold should be rising, driving Gold sharply higher, with increasing upside price momentum over time, drawing in traders and speculators.

Silver and Mining stocks should follow Gold's price pattern.

The Big Picture Elliott Wave Long-term Count For GOLD from 1965 to 2015



There is no stopping the rise in the price of Gold. As long as world Central Bankers continue to increase the quantity of fiat currencies, because Gold's production is limited, a simple supply and demand equation predicts Gold must go higher. Demand for Gold is also increasing as it is a key component of technological electronic products, an increasing product line worldwide.

The above mapping suggests Mining stocks have completed a 3-3-5 Flat pattern for corrective primary degree wave (2) down. Wave c-down of (2) down looks to have completed five subwaves down, meaning (2) down has bottomed. Next should be the start of wave (3) up.

Mining stocks look to have bottomed, finishing wave 5-down of c-down of (2) down. Mining stocks should be starting wave (3) up, slowly at first, then will gain upside momentum later in 2015 as QE-5 is announced.

The Oil Market

The cost of producing a barrel of oil, extracting it from shale, can be as much as $95 per barrel. Extracting oil from the ground reservoir is less expensive, and can range from $25 to around $35 per barrel. Cheaper for existing rigs. Given costs and required rates of return for the risk of drilling oil, the current price of oil, around $55 a barrel, may be too low to provide an incentive to produce. It means that recent gains in production from fracking, shale extraction, offshore and new well drilling overseas and in the U.S. will likely be lost, as Oil companies close down production operations. In a recent Wall Street Journal article, an analyst at Credit Suisse said, "We expect the market to lose at least 200 vertical and 200 horizontal rigs and it could easily be more than that." Other experts are predicting more closings. Vertical rigs access deep underground Oil reserves while horizontal drilling is used in shale extraction. There is an increasing risk that small U.S. Oil companies will have to close their Oil wells and could go out of business. New Oil exploration could be stymied. This means there is a coming shortage of Oil. Supply will not meet demand, and that means prices will head higher.

The next chart shows that WTIC is likely to rise toward $200 a barrel over the next several years.

But there is more fallout coming. Russia's economy depends upon Oil revenues. Its actions attempting to annex the Ukraine drew sanctions from the Western powers. Russia is intent upon revitalizing its military and world power. The decline in the price of Oil the second half of 2014 is a major deterrent to economic prosperity in Russia, further it is destroying the Russian economy. The Russian currency, the Ruble, is under enormous pressure, is collapsing. Russia just raised interest rates to 17 percent from 10.5 percent to defend its collapsing currency. In the beginning of 2014, the exchange rate between the U.S. Dollar and Russian Ruble was one Dollar bought 35 Rubles. At the end of 2014, one Dollar now buys 64 Rubles.

Russia is collapsing into economic recession, and is at great risk of economic depression. The destabilization of the Russian economy increases the incentive for Russia to engage in warfare, even military warfare to acquire resources, punish adversaries, and acquire greater influence over world markets. Lower Oil prices gives Russia an economic incentive to take over Oil producing nations to better control Oil supplies, prices, Oil revenues and its own economy. The low price of Oil is an economic incentive for Russia to invade the Middle East. It also gives Russia an economic incentive to purchase more Gold, and boost the value of its currency by backing it with Gold. The recent plunge in Oil prices may be backing the Bear into a corner.

The low price of Oil is also a disincentive for major corporations to develop alternative sources of energy. Progress made in this arena could be retarded, or in some technologies halted.

A 45 percent collapse in Oil the past six months is not passing the smell test. This is more than a declining demand issue, or a rising supply issue. In my opinion, it smells like price manipulation is occurring for some political or economic agenda by powerful forces with the capability of accomplishing this. Clearly the majors will survive but the smaller oil companies are at great risk of being driven out of business. That spells higher prices and greater profits for the majors in the future.

Charts are telling us the recent decline in Oil prices will in effect cause a massive rise in Oil prices far above where they were before this price collapse. War could be a catalyst for rising Oil prices, as it would interrupt supply and increase demand dramatically.

From a technical analysis perspective, the big picture chart we show for Oil considers that Oil is inside a developing wave 4 down move of an eventual five wave rally leg. This five wave rally leg is a Rising Bearish Wedge. If we draw trend lines connecting the recent lows and the recent highs, what we get is a developing sideways triangle, a huge triangle. The recent decline the past six months was wave c-down of this five wave triangle. Oil should be bottoming now. Next, starting in 2015 would be wave d-up which should take Oil back as high as $95 a barrel by late 2015, projecting a price path to where the top of the declining upper boundary of this sideways triangle sits. Then Oil should decline into wave e-down, to a low of around $70, the rising bottom boundary of the triangle. Once this triangle is finished, Oil should spike toward $200 a barrel in wave 5-up a few years from now.

"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

"For I know the plans I have for you," declares the LORD,
"plans to prosper you and not to harm you,
plans to give you hope and a future."

Jeremiah 29:11

The Big Picture Elliott Wave Long-term Count For WTIC Light Crude from 1985 to 2015

Oil is working through a five wave mega-rally that started in 1986. It is currently inside a developing five-subwave sideways triangle for wave 4-down. The middle wave of this triangle, wave c-down, is completing now, and has been the crash in oil prices the past six months. Once this decline is complete, Oil should rise toward $95 a barrel, wave d-up (stopping at the upper boundary of the triangle. Then wave e-down will take oil back down toward $70 a barrel. Once wave 4-down is complete, oil will catapult toward $200 a barrel, or higher in wave 5-up.

With the Fed jawboning its intent to raise short-term interest rates in 2015, and its policy announcement that it has stopped QE 4 long-term Bond buying, coupled with announcements from Japan that it is embarking on its own QE program, and jawboning from Europe that Mario Draghi could do a QE program, and Oil declining, weakening oil producing nation economies, the Dollar has enjoyed a nice run higher compared to other world currencies. However, if we study the above chart of the U.S. Dollar we see that the move from 2008 has been corrective, which means more downside is coming.

We believe the Fed knows that the U.S. agency economic statistics about the real economy in the U.S. are bogus, and therefore is reluctant to raise short-term interest rates, and is reluctant to let the Dollar get too high, as a high Dollar will weaken U.S. exports, and the U.S. economy is far too fragile to handle that interruption. The Jobs numbers are garbage. While statistics about jobs may have some quantity accuracy, they fail miserably in analyzing *quality* household supporting jobs growth, which remains weak. The proof is in the stock market, where every time it starts down, we see a fast powerful reversal that our PPT indicator and Demand Power / Supply Pressure Indicators suggest is rooted in deep pockets intervention, causing the upside reversal. The Fed does not want to let the stock market decline. Why?

A rising Dollar is death to foreign sovereignties that have issued debt in U.S. Dollar denominations instead of their own currency, necessary in many cases to attract investors, however, they will not be able to exchange their currency for Dollars as cheap as before and could default, which would cause a banking crisis throughout the world, including the U.S.

To the extent the Fed in its capacity with the PPT can temporarily stop market slides and create reversals, it means they see the real economy as a lot more fragile than the Central Planners are letting on. Above we see that the Dollar is overbought and at a place where many strong declines have started. How does this jive with market sentiment for the Dollar?

While it is possible that if no market, economic or geopolitical catastrophe occurs in the first half of 2015, the Fed may raise short term interest rates a quarter point, we believe that such an action will have a boomerang effect, and slow this fragile economy, and possibly spook the market so much, that it will be a contributing factor, perhaps a co-catalyst with other events for the coming September 2015 stock market crash.

As a result, we believe the Fed could commence QE 5 by late 2015 after all hell breaks loose. This time the policy will be just as ineffective as before.

The U.S. Dollar is topping.

The Dollar should decline to at least 84ish.

The Euro Currency is bottoming.

The Euro should rally to at least 129ish.

The Euro looks to be forming a five wave sideways triangle, forming the pennant portion of a Bullish Flag pattern. The final fifth wave of this pennant triangle, wave e-down, is next and should take the Euro lower from 135 to 123ish.

Given that the weekly Full Stochastics are oversold, it is possible wave e's middle subwave is about to start, wave b-up of e-down.

As expected and forecast here for a while, U.S. Bonds recently bottomed, and have started to rally hard. Long-term interest rates have peaked and are headed much lower. The Bond market is telling us economic trouble is coming.

Long-term interest rates, like their counterpart short-term interest rates, for U.S. Treasuries remain at historic lows. The U.S. long-bond shown above shows prices close to their all-time highs. We pointed to this chart back in the beginning of 2014 and have been calling for sharply declining interest rates throughout 2014, which is precisely what happened as the long bond rose from 128 to above 150. Yet this happened while stocks climbed, the stock market supposedly the mark of an improving economy.

But it just is not so. Stocks are being artificially propped from deep pockets intervention, the PPT, and oodles of liquidity from the Fed all last year. Why? If the economy was so great, if so many new jobs were being created, why did long bonds rally so much, to near historic levels. While some of the reason is the Fed was buying the long end, it has not bought the long end in the last two months, yet bonds keep rising and yields keep falling.

The truth is, the Bond market fears trouble dead ahead. The U.S. economy is not great, nor is the world economy, and geopolitical issues are evident. The Bond market is smart and sees a lot of trouble ahead. U.S. Bonds are a safehaven at this time.

We believe U.S. Bonds will rally further in 2015. A Fed tightening, raising short-term interest rates, if that happens once or twice in 2015, will merely flatten the yield curve, and that would be a reliable harbinger of an serious economic slowdown.

Real Estate and the Economy

The economy is heavily dependent upon a strong real estate market, especially housing. A strong housing market means jobs, and if prices are rising modestly every year, it also means improving homeowner balance sheets. I do not see housing, both new construction and existing home sales, improving in 2015, in fact I would not be surprised to see it deteriorate from already depressed 2014 levels.

First of all, what I am about to discuss is empirical evidence, not coming from government statistics, which I do not believe for one second. Sometimes the best evidence for future trends is in the trenches, not from a satellite view, and certainly not from a government view. We are morphing into a socialist economy, into a socialist government in America. The amount of regulatory burden is growing and so preponderant as to harm small businesses and individuals, for example in areas such as 1) health insurance (Obamacare as it turns out was really invented to make sure the health care industry had paying customers and did not have to serve too many freebies, such as in emergency rooms, while at the same time making sure health insurers could pass along all their costs to individuals, who are now required to carry health insurance, to even have to attest to that effect on their tax returns. This has impacted the ability of small businesses to hire full time employees, instead forcing them to play games with part-time rules exclusions, which reduces the number of full time workers in America) and 2) in housing, which is the primary subject of this section.

The fact of the matter is, the middle class is slipping away toward upper lower class, and the upper middle class is slipping away toward middle class socio-economic status. A depressed Housing market is one of the key reasons for this.

About one-third of America's population lives between Boston and Washington D.C. along the I-95 corridor. This market includes Manhattan of course, which was the primary beneficiary of the Fed's QE 1 through QE 4 programs the past five years. $5.0 trillion of freshly printed cash was handed to Wall Street and that money has boosted the wealth of Manhattan, feeding the already rich and creating more good folks who are rich, but has done very little except block opportunities for everyone else throughout the country. We have the rich in Manhattan and in Hollywood, and a few other pockets throughout the country, and what we see is housing valuations in those areas going higher, in some cases through the roof, thank you very much. This is also reflected in elite vacation locations such as the Connecticut, New York, and New Jersey shorelines, where beneficiaries of the QE programs come from Manhattan and purchase beach properties for $1.5 to $3.0 million, many in good shape and not that old, and tear them down for the land so they can rebuild homes that will be worth $3.0 million to $7.0 million when finished. This is nice for them, but is not reflective of the vast majority of America's housing situation. This is fantasy land for Manhattanites but pain for most of the rest of America. Let's explore.

First of all, there is a widening chasm between affordable housing for beneficiaries of the Fed's QE programs and the rest of America. Most elite homes are being priced higher and higher, however the McMansions that were high-end neighborhood homes are dropping in value as qualified buyers are harder and harder to find. Homes that sold in the $600,000 to $1,000,000 range that were the choice of the upper middle class are not interesting enough for the beneficiaries of the QE programs to become buyers for those properties. As a result, most of those homes have dropped in value into the $400,000 to $600,000 price range. This has helped freeze the market for mid-range priced homes in America as many of those homeowners either owe more than their homes are worth, and do not want to risk becoming a short sale, or the homeowners just do not have the stomach to take the loss and relocate or downsize.

But because of the hyperinflation that has resulted from the Fed's corrupt QE programs, corrupt because they singled out a small segment of the population as beneficiaries, while the entire population is left with the unintended (or perhaps intended behind closed doors) hyperinflation in the cost of necessities such as health care, food, transportation vehicles, and the next category I want to discuss, lower-income housing.

A weird thing has happened because of the QE programs. There has been essentially a floor placed on low-end housing, and a cap placed on higher-end (not upper end) housing. The value of low to moderate income housing has risen over the past decade while the value of middle-income and upper middle income housing has declined or stayed flat. In other words, as an example, almost all housing is now valued within a range of $300,000 to $600,000, regardless of true replacement cost of the home. Drive around in suburbia, and what you will see is 50 year old 1,500 square foot ranchers valued at $350,000 by listing agents, and not far from them you can find a 15 year old, 5,000 square foot home with custom design and materials for $600,000. If you compare the price per square foot, the buyer's bargain is in the larger home, however the seller's bargain is in the older, smaller cookie cutter home. The lower home is valued at $233 a square foot while the upper end house is valued at $120 per square foot. Why?

A strange thing has happened in the appraisal world. Some of it has to do with the Dodd-Frank disaster of a bill, that has appraisers so afraid of being wrong about a property's value, that they are no longer doing the cost approach to appraisal valuations, rather they are placing almost 90 percent reliance upon homes that sold within the same school district or locale, the comp approach to appraisal. This penalizes nicer homes, newer homes, larger homes in the appraisal process. It means if there is a dump that sold for $350,000 that is old, small and was built with crap materials, and you own a newer, larger, home built with far better quality materials, the value of your home is held down by the dump that just sold for $350,000. Banks are not willing to ignore the appraisals that are coming in based upon comparative prices for non-comparative homes. They are not able (the Dodd-Frank law prohibits bankers to talk to appraisers) to ask the appraiser to adjust his estimate because the home is larger, is custom, or is newer.

Now, every appraiser in America will tell you they have the ability to adjust the value of a home for issues such as square footage, quality construction, and age differentiation, but in reality, at this time, largely because of the overzealous requirements and fear brought on by Dodd-Frank (Christopher Dodd and Barney Frank aren't even in Congress anymore, it was just a hit and run by them), they will only tweak an appraisal for a nicer home, maybe by 5 percent, and that is it. Location, location, location in the form of comps is the driving force behind what seller's can expect to get for their homes. Most realtors are onboard with what is going on; they have to. While a realtor can say, no, this is a great home, and deserves to be listed at $750,000, even if they get a buyer to agree, if that buyer is not a cash buyer, then the appraiser will drive the deal. If he/she appraises it at $600,000, and not the $750,000 agreed upon price by realtors, buyers and sellers, the deal will in all likelihood fall through. No bank is going to lend off sales price. They will only lend off appraiser price. Thank you very much Dodd-Frank legislation.

In other words, common sense is taken out of the equation. Why? To promote socialism. The equalization of all, to reward sloth and punish success. But here is one of the key problems with this creeping socialism within our government's policies: It only applies to all socioeconomic classes of people except the rich (let's define it properly, something along the lines of passive income over $2 million a year +, with a net worth of $10 million +). They are exempt because of their ability to make all necessities purchases with cash – no need for financing, no need for a job, no need to comply with overzealous socialist laws such as Dodd-Frank. The target for the creeping invasion of socialism in this nation is the middle and upper-middle class.

The other impact here from the new appraisal world is that the value of homes in America cannot increase because it is only cash buyer deals, outside the scrutiny of regulators and legislators, that can drive prices higher. That is why you see shore properties and Manhattan properties rising but not much else is rising in value across America. Most of America does not have cash buyers. Most buyers depend upon financing.

Let's work through the micro analysis of why Housing for most Americans is not only going to be stagnant in 2015, but could get flushed into the johnny.

In spite of the lowest mortgage interest rates in 50 years, housing has been a complete disaster. Both existing home sales and new construction. Ridiculously low interest rates have not been able to revive the housing industry. Look around, drive around, do you ever see a sold sign? You can drive into any neighborhood in America outside the few exception areas such as Manhattan, Hollywood, and a few other high income, high net worth areas, in other words, you can drive around about 98 percent of the geographic area of the U.S. and you will see sales listings all over the place but hardly any sold signs. Why? This doesn't make sense, right? Hey, the Fed just bought the long end of the curve and interest rates are at historic lows in the ten year Treasury. Why hasn't this spurred housing, and all the jobs that come with a normal housing market? What is going on? Let me tell you.

First, is the appraiser issue I mentioned earlier. Dodd-Frank. A real estate market killer. A socialism demon.

Now let me tell you about a real deal killer: The inspector. Now, when you go to sell your house, or even if you go to buy one, most banks and buyers are hiring a so-called independent inspector. In the past, you might be required to have a termite and radon test inspection, and with the appraisal that was about it. Pretty much buyer beware. Deals got done.

But now, there is the Superhero Inspector, an independent party who comes in and goes over the home with a fine tooth comb and prepares a report of findings for all parties, the buyer, the seller and the realtors. Typically the buyer pays for this inspection, and typically the seller is asked to leave the premises while the inspection occurs. These inspections can take as much as 5 to 6 hours to be completed. Pictures of everything are taken, many with a zoom photo lens' to identify cracks or mold in walls, roof tiles, window sills, anything. Inspectors I refer to here are not the local government building inspector, they are usually contractors that have been certified to be inspectors. Many are unscrupulous. They are digging up dirt so they can be hired for more intense detailed inspections and tests from their initial findings, and in some cases offer the buyer their services to do the repairs. In many cases their findings are false. False positives. But it is enough to kill the deal.

By now you must think I am making this stuff up. I am not. I am deadly serious.

There are at least two new hot buttons that I am aware of, two issues that never before were a problem or issue for the sale of a home. We are all familiar with asbestos. I am not talking about that, although it will be identified in most inspections if it is present in an older home on the market. No, the two new hot buttons I am referring to are mold and stucco/dryvit.

First of all, let's discuss mold. Mold has been around for centuries, for millennia, and never has been an issue in selling a real estate property, never was a deal killer. Mold and mildew are natural byproducts of water and shade. Mold and mildew can be found on the north side of almost every single structure in America. That is just the way it is. Well, of course it is not a healthy environment to live with. No argument there. But neither is too much sunshine. However, the socialist regulations are now targeting mold and mildew as if the seller intentionally wants to poison the buyer, and if you are the owner of a property, you are now expected to clear it all out before you have the right to sell your home. Even a brand new home will have mold on its north side within a year of occupancy. The inspection process is now regulating the required removal of something that is a natural by-product of living. Instead of buyer beware, or letting the buyer have the personal choice to remove mold from their new home, these inspectors are writing up the presence of mold and mildew in their 50 to 60 page reports about your home that you are trying to sell.

Now get this, these inspectors are looking behind walls, under window sills, cutting through air vents, through electrical outlets, under shingles on roofs, they are moving materials and taking zoom pictures of the presence of this stuff. If they move materials and do not put them back properly, you end up with leaks in your house you did not have before.

Do you understand what this means? Do you understand the costs involved in removing mold and mildew? Exterior siding and shingles have to be replaced, but worse, once those have been removed, then if the sheathing behind has mold or mildew, it has to be replaced too. Windows that are replaced will expose the interior of walls and if mold is found, then a special remedial contractor has to be hired to remove it. This can be a nightmare. This kills deals between buyers and sellers.

The second new hot button for these inspectors is stucco/dryvit. Probably about half the homes in America have stucco or dryvit exterior walls. So, after you have come to terms with your potential buyer, now that you think you have your house sold, the inspector arrives and your realtor will inform you he wants to drill 200 holes through your stucco siding all over your house and he wants to peek inside these holes and dig for mold and mildew. Or for moisture. You get to live with the cracks and damage from the 200 holes he drilled and caulked afterwards. Look, concrete breaths. Water comes through it and dries and goes out. Been that way for centuries. Now all that is gonna change. You have to think the plastic siding industry lobby has something to do with this nonsense. Instead of having a safe, breathing exterior such as stucco, used for centuries, homeowners will be forced to turn to plastic exteriors which do not breath. Is that good for homes?

If the inspector drills 200 holes, and finds moisture, the seller is likely to be asked to allow a more intense inspection where huge sections of your stucco exterior are removed. Try repatching and getting the color to match your house after he is done carving your home up? How's that for magic.

If it goes this far, as a seller, you probably have a failed deal, and are looking at investing $50,000 or more to get your home in shape to pass a future inspection to a future buyer. If you don't have a failed deal, probably what happened is the realtors negotiated a new lower price for the sale of the property that takes into consideration the cost to the buyer of repairing everything the inspector uncovered or manufactured. But by lowering the price, the seller has to make sure they are not ending up with a short sale where they are going to receive less than what they owe, which circling back again, could kill the deal.

Now get this: If you think as a seller you can let the deal die, and hope for another buyer with a different inspector, perhaps one that is more reasonable next time, the bad news is that the first inspection becomes part of the listing information and any new buyer will know that you had an inspection that failed, probably scaring off new potential buyers. You, the seller are screwed.

Let's say you miraculously make it through the inspection process, and the appraisal process, the next hurdle is hoping your buyer can get a mortgage from his bank.

Again, because of Dodd-Frank legislation, which has essentially destroyed the housing market, most financiers, most banks are requiring down payments of at least 20 percent, some requiring has much as 30 percent. Some are willing to do 15 percent if you take out a second mortgage that they will portfolio. But that is one gigantic cash hurdle for most Americans. It can mean parting with most of their cash nest eggs, or not having enough cash to acquire the home. Earnest payments are rising, the amount of money a buyer has to place in escrow for a seller to take their home off the market while the inspection, appraisal and bank financing process is underway. In the event the buyer cannot obtain financing, the seller gets to keep the funds. This can range as high as $10,000 to 20,000 on a $500,000 home. One of the problems with 20 to 30 percent cash down requirements is that in the past, most lower and middle income households depended upon pulling some equity out of their current home to obtain the down payment cash for a new home. As discussed above, that is now a rare event.

If a buyer can qualify for a mortgage, but the bank gets their hands on the inspection report and feels they are not happy with the condition of their collateral, that can kill the deal.

If the buyers are working three part-term jobs because they were downsized in the past five years from a full time job (thank you Obamacare), or are new on their job because of being let go from a prior job, this can cause a bank to say no. Getting a prequalified letter from a bank prior to entering into a real estate sales agreement helps mitigate some of the financing risk. Many realtors now insist upon such a letter for them to broker a deal.

So, at this point, either a rare deal has occurred with all hoops jumped through, or a deal has failed. If the buyer comes along that is a cash deal, then that eliminates most of the trouble above from Dodd-Frank. A seller can simply negotiate away the inspection process as part of the final sales price. But, except in Manhattan and the Connecticut or New Jersey suburbs or shore, or in places like Beverly Hills, how many potential cash buyers come along for low or mid-level housing? The answer is practically none.

So, if we step back and evaluate if housing can improve the economy, let's go to the next logical step. Our seller decides to stay put, not sell, but hire a gaggle of contractors to renovate their home. Good luck with this. In this situation the local government building inspector becomes involved, giving a permit to construct and renovate, but it also means he will be coming by to inspect. New building codes will have to be complied with. What if your home is old or for some other reason, does not comply with code? Well, your renovation budget just got shot to pieces. If a contractor removes a wall, and the wiring is wrong, guess what, you now need new wiring. What if asbestos is discovered, or mold, or lead pipes or faulty anything. You have now opened a can of worms. The contractor is happy, he gets more of your money, the building inspector is happy, he "gotcha." This is a big problem in Canada as well.

Or try this on for size: More and more localities are declaring old building "historic," which limits the type of renovation work that can be done, or if you do decide to renovate it since you are not allowed to tear it down, bingo, you are back into the game of bringing everything up to modern codes. Since these are older buildings we are talking about, chi-ching, renovations could cost you a fortune. This is not lost on potential buyers. If you own an historic home, good luck trying to sell it.

So what happens? Nothing. Sellers stay put, renovations are restricted to minimal emergency work. Housing stays dormant, or worsens, and construction jobs and all other housing related jobs decline. The economy worsens.

Let's look at anther dynamic going on. This one is demographic. This one is from empirical observation.

The young generation of Americans are what I term the "screen" generation. They find pleasure, purpose, self-actualization not in their homes, not in their upscale cars or boats or vacation second residences. They are quite content to live in a small apartment, whether in Manhattan or Scranton, and to drive a small inexpensive car, to dress modestly, to live modestly, to forgo a fancy restaurant. As long as they have a large TV screen, a laptop, an i-pad, i-pod, and i-phone they are good.

What this means is that the baby boomers do not have a ready demographic supply of real estate buyers coming up from behind. It means demand for middle or upper middle income homes is and will continue to shrink. They are perceived as money pits, too inconvenient to maintain, to much of a time robber. Landlords should see an increasing boom in tenants. Leasing will grow in popularity.

So, what we can conclude is that there are two key factors killing housing, 1) a change in demographic preferences, and 2) because of over-regulation, because of the legislative overreaction to sub-prime lending back in early 2000's, low and middle income socioeconomic status folks, the majority of America, Main Street, cannot benefit from the Fed's QE policies and near zero interest rate policies. The economy suffers and will continue to suffer from this spiraling dynamic. Housing will drag again in 2015, and will be a huge drag on the true economy in Main Street America, not the economy you are propagandized is all that matters from the financial media mouthpieces for Wall Street and the Central Planners that tell us how to live our lives.

Glossary of Indicators

1. How Best to Use this Service:

We provide a highly correlative trading/investing entry signal for each of four time frames of trading, Short (1 to 2 weeks), Medium (2 to 4 weeks), Intermediate (1 to 6 Months), and Long, 6 Months to 2 years. Speculative trading with options or futures works best using the Short and Medium term trading indicators. Market Timing with Leveraged ETFs work well with Medium and Intermediate term trading indicators, while investing works best with the Long Term Trend Indicator signals. On pages 2 and 3 we summarize our best indicators showing the trend for each of these four timeframes at any given day. Within the longer timeframes can be lesser timeframe signals going in the same or a different direction as the direction of the larger timeframe's trend. In other words, over the course of a two year primary trend that for example is on a buy, suggesting stocks should rise for several months or years, there are periods of time where the trend may be either down or up within that rising larger trend. In other words, large stock market trends do not move in a straight line. They stairstep higher if a rising primary trend or stairstep lower if a declining primary trend. This is the case for all timeframes. There can always be a smaller timeframe within any timeframe that sees stocks move in the same or opposite direction of the larger timeframe it is in. For example, stocks may rise during the day, however they could decline in 3 of the 8 hours of trading yet still close higher for the day. There are always subwaves of price trends within waves of price trends at any degree of trend. Pages 2 and 3 of this report shows you four timeframes and the key trading signals relevant for each timeframe's current trend.

But, it is important to understand the age of a trend after a signal has been given. That is because age offers exiting guidance. Our Trend Indicators are entry signals. Our age work identifies potential exit points. Exiting is more of a judgment call the entering a trade. Exiting is dependent upon the individual trader's risk appetite, experience, financial position, or target profit goals. A trader chooses when to exit based upon their unique situation. Our background indicators and Elliott Wave chart work help identify the age of a trend. We show background indicators and signals on page 7 that are useful for determining how old a trend's signal is. For example, if a rising trend's buy signal was several weeks ago, we would not want to buy the market now if that trend is approaching its conclusion, if its age is extremely mature. On the other hand, if the trend is young, if the buy signal still is young based upon our background age-identifying indicators and signals, then we may want to jump in and buy this trend even if it has been going on for a while. Age is not time dependent, although time can be a useful subcomponent for determining age, but age is also based upon other factors in addition to time, such as overbought or oversold levels, approaching cycle turn dates, weakening momentum and weakening internals, or completing wave mapping patterns. We provide a host of information in the background and other sections of the report that help determine the age of a trend and the probability the trend is young, maturing, or old – our three age descriptive categories for trends.

We predict the likely point where a new tradable trend turn is occurring, because it allows us to be ready to trade a brand new trend early in its life and get the maximum profit from that new trend, either up or down. Traders can benefit from declining trends by either playing a short position with long puts or ETF funds, or by actual shorting (very dangerous for the inexperienced), or by simply moving to cash until the decline is over and prices are cheaper to buy back in. Age defining indicators and signals, and Elliott Wave mapping, and cycle date identification helps us predict or forecast the approximate time for a trend turn at varying degrees of timeframes, short, medium, intermediate or long. Most of our report focuses on age defining information. However, confirmation the trend has in fact turned comes only when we get new trend trading signals shown on pages 2 and 3. Those key trading indicator signals are the Purchasing Power Indicator (Short-term), the Demand Power / Supply Pressure Indicator (Medium-term), the Secondary Trend Indicator (Intermediate-term), and the Primary Trend Indicator (Long-term). These are not perfect, but are highly correlative to identifying trends that have much further to go after the new signal has been generated.

Once we have these signals, subscribers can use this information anyway they want to, but it is recommended that subscribers not rely solely upon these signals, since everyone has different risk appetite, experience, financial positions, and goals and objectives. The valuable information we provide should be used in conjunction with guidance from your investment advisor. Our work is educational. It is not meant to be investing or trading advice. It is useful as a tool for your investing decisions, but is not to be considered our advice to you. What we do offer for help in applying this information is an educational service on how we are trading for ourselves based upon this information.

For Standard subscribers, we provide a Conservative Portfolio model where we show how we are investing and trading. We divide the portfolio up into several segments, shown at the Model button under the Conservative Portfolio header at the left of our home page. Standard subscribers can see how we conduct 5 to 10 leveraged ETF trades per year at the Transactions button under the Conservative Portfolio button at our website. These trades take place within the Market Timing segment of our Conservative Portfolio and aim to achieve 5 to 10 percent profits for each trade. Some trades may lose money on occasion, as no system is perfect. We deal in probabilities, not certainties, but we hope to be successful over 70 percent of the time. These trades are educational, not advice. We simply share what we are doing. We email notices of these transactions within 15 minutes of when we conduct them.

For Platinum subscribers, we provide everything Standard Subscribers receive, plus we share 15 to 30 trades per year that we conduct primarily in the options markets. We buy puts or calls long, meaning the maximum we can lose is limited to our investment. We target 30 to 50 percent profits on each trade, and aim for a success rate of 70 percent or better. These trading services provide live real time demonstration of how we use the trend trading signals and aging indicators, cycles and wave mapping to make money, to enhance returns on portfolios. We do not risk more than 5 percent of our portfolio in options trades. We believe the returns we can generate by risking only up to 5 percent in speculative trading is significant enough to enhance overall portfolio performance above what can be made by investing in the S&P 500. In other words, we keep 95 percent of our Conservative portfolio in conservative investments, and aggressively trade with options in only a small percent of the portfolio. Most trades in the Platinum program are less than 2 percent of capital, and there are usually only one or two trades going on at a time. These trades are educational, not trading advice.

This service uses time tested technical analysis theory, which simply says that markets move based upon the collective psyche of the masses of all people on earth. Further, we believe that market moves are predictable as the mass psychology of investors with all knowledge in total can be measured. Markets measure this mass psychology through price behavior, which forms patterns of price movement that is in essence a language. The market knows where it is headed next, has a language, tells us where it is headed with this language, and we can understand this language through the study of technical analysis, which is what we do here. Further, money can be made by making investing decisions based upon what the market is saying at any given timeframe. This is what we do. We wish you success. The remainder of this glossary will define indicators, cycles, patterns, and wave mapping techniques that either provide our key trading indicators shown on pages 2 and 3 or provide aging information for these four key trading indicators.

2. Purchasing Power Indicator

This is the best indicator we have for defining the start of new trends that could last 1 to 2 weeks, and on occasion, up to 4 weeks. The reason this is so good at defining legitimate short-term trends and does not get faked out by weak countertrend moves is because this is a momentum measure that identifies when there is enough power behind a trend turn to suggest a new trend has started that should produce a continuation of the new trend for several percentage points in an index.

This is a proprietary measure of supply and demand *momentum*. We calculate it at the end of every day, based upon closing data. New buy signals are generated when this indicator moves 6 points above its recent low, and new sell signals are generated when this indicator moves 6 points below its recent high. It is calculated separately for each of the major stock market indices we cover: The Dow Industrials and the S&P 500 share the same PPI indicator. We also calculate this for the NASDAQ 100, the Russell 2000 small cap index, the HUI Gold Bugs index, and the Australia SPASX200 index.

Momentum is the key to finding tradable trends. Just like in life, if an object is in motion with strong momentum, the object will continue in that same direction for a while. The greater the momentum, the further it moves. Our PPI identifies when there is sufficient momentum in a new direction for stocks, that the probability of the stock move continuing in that same direction is high.

Purchasing Power Indicator needs the new trend to begin before it generates a new signal. But that is okay because we do not want to enter a trade unless the trend has much further to go. Once we get a new signal in the PPI, the odds are high prices will continue further in the same direction, often identifying the likelihood of at least a 3 to 5 percent further move. **Keep in mind, that when playing options, a 3 to 5 percent move can result in 20 to 100 percent returns depending upon which term and strike price is chosen for the trade. Or if playing Leveraged ETF's, returns of 5 to 15 percent are possible. This means our Purchasing Power Indicator offers an enormous opportunity to make a ton of money to traders and market timing investors.**

3. 30 and 14 Day Stochastic Indicators:

On page two we show theses trading buy/sell indicators along with the Purchasing Power Indicator. On very rare occasions, the Purchasing Power Indicator will get whipsawed, meaning a tradable trend does not follow. Those instances are almost always when a sideways triangle or small degree wedge pattern is forming. In those rare instances, markets will oscillate back and forth for several days or weeks, and our PPI will whip back and forth from buys to sells. This can be frustrating to a trader if the sideways move was not expected. The first two or three back and forth moves (waves) within a triangle are often violent moves in opposite directions, indicative of either complete confusion on the part of investors, or market intervention by the Plunge Protection Team to stop a decline.

What we have to protect ourselves from false positive signals by the PPI is our 30 day and 14 day stochastics signals. They monitor a fast speed and a slower speed of momentum by the markets. When the Fast measure crosses more than 10 points above the Slow measure, we get a buy signal. When the Fast measure moves more than 10 points below the Slow measure, we get a new sell signal. We want this signal to line up in the same direction as the Purchasing Power Indicator before entering a trade. We sometimes might enter a trade without these two stochastic indicators agreeing with the PPI, but understand, that is a higher risk trade than if all three indicators are in agreement. But on its own, the PPI has an outstanding track record, so aggressive traders can use the PPI alone at times; more conservative traders can stay out until all three are in agreement.

Our experience shows that when these three are not in agreement about the direction of a trend, it means that either a trend turn is coming, or a sideways move is occurring, such as a triangle, or small countertrend move inside a larger degree trend of the opposite direction.

4. Demand Power / Supply Pressure Indicator:

Demand Power and Supply Pressure is our medium term time horizon (2 to 4 weeks) proprietary measure of buying interest and selling interest. Like all of our key trend-finder indicators, **they are momentum measures.** We believe the best tool to find a medium term trend of 2 percent or more is by following momentum measures. **The blue line on our charts which we present in every newsletter on page 6 represents Demand Power. The red line represents Supply Pressure.** Simply, whenever the Blue line crosses above the red line, the odds are very high that a rising trend is starting. An aggressive trader could consider entering a long position on the date the Blue line crosses over the Red line. A conservative trader might want to wait for a decisive crossing before taking a position. Maybe that would be where Demand Power rises more than 10 points above the Supply Pressure reading, which is the standard we require to trigger a new medium term trend signal.

Once the Blue line rises above the Red line, we hold our long position. **We can always exit at any time, especially if we have a profit we are satisfied with**. However if we want to try and get the maximum out of a move, **we can hold that position until the Blue line drops down and intersects the Red line again.** That would be the latest time we would close the long position. Often, the longer trend has not reversed much when these two lines intersect. Sometimes the intersection does not mean a new reversal of trend, but merely means a sideways move is coming, thus if we are holding options (where sideways moves are death due to time decay and expiration dates), we can get out before too much time decay steals from a paper profit.

A more conservative exit strategy is to take profits once the crossover line stops rising, and starts to decline, long before intersection occurs. For example, if the Blue line (Demand Power) rises more than 10 points above the Red line (Supply Pressure), we might have entered a Bullish long position, playing the market to rally. As long as the Blue line continues to ascend, we hold that position. However, once the Blue line (Demand Power) reaches an apex, and begins a noticeable descent, we can then take profits. We might miss more rally, but we might not, as we might be catching close to maximum profits. For sure with this strategy, we have reduced risk of losing a profitable position already in hand.

Should the Red line (Supply Pressure) rise decisively above the Blue line, we would consider that an entry signal to take a short position, if so inclined. We could buy put options at that point, or a leveraged short ETF position. We would then hold that position, playing the market to decline, until the Red line (Supply Pressure) returns to intersect again with the Blue line (Demand Power), at which time we want to get out of our short position if we haven't taken a profit and gotten out by then. Or as mentioned above, conservative traders could exit once the Red line (Supply Pressure) reaches an apex, and begins to descend, long before the point of intersection.

4. Demand Power / Supply Pressure (cont.)

Another interesting dynamic of this Demand Power / Supply Pressure medium term market-timing trading system is that if the Demand Power line (Blue) is above the Supply Pressure line (Red), its measure can actually be dropping, yet the rising trend it forecast will continue. The trend usually stops when the two lines intersect, and is not correlative to whether Demand Power or Supply pressure is rising or falling, per se. In other words, once Demand Power rises above Supply Pressure, even if the margin is shrinking, the trend could still rise. Conversely, once Supply Pressure is above Demand Power, even if it starts declining, the trend could remain down until the two lines intersect. Not always, but some of the time, a consideration for aggressive traders.

Why? Because if Supply Pressure and Demand Power are both declining, however Supply Pressure is dropping more than Demand Power is falling, then prices will float higher. Same on the reverse. If Supply Pressure is falling, but Demand Power is falling more steeply, prices will decline.

It is virtually impossible to catch a trend's life expectancy without a detailed analysis of Demand Power and Supply Pressure. We provide this information. We have a formula that considers each day's data, and convert that to DP and SP measures. We consider price in these calculations, but as or more importantly, we also consider other data, and the momentum change of that data. In combination, these determine Demand and Supply on any given day.

Again, as stated many times in the past, any body of technical work we present, which is not one of our key trend-finder indicators, is simply background. We do not trade off cycles, analogs, Elliott Wave analysis, patterns, moving averages, or Dow Theory. **We trade off our momentum key trend-finder indicators: the Purchasing Power Indicators in combination with the 30 day and 14 day Stochastic indicators (short term time horizon); the Demand Power / Supply Pressure Indicator (medium term time horizon); and Secondary Trend Indicators (Intermediate term time horizon). We do long term investing off Primary Trend Indicators.**

5. Secondary Trend Indicator (a.k.a. Technical Indicator Index):

This indicator was originally named our Technical Indicator Index. We renamed it our Secondary Trend Indicator because we wanted the time focus for this indicator to be front and center. This indicator focuses on trends that could last 3 to 6 months +/-. It is an intermediate term stock market trend identifier. This is a proprietary indicator we have designed after intense research and study of over 200 stock market indicators – measures, patterns, and algorithms. We did a ton of correlation work and came up with a basket of 8 of the best indicators, that in a certain combination, tell us the direction the market is taking. The great thing about this indicator is that because it has more of an intermediate term focus, it ignores a certain amount of short-term noise, and keeps us focused on a higher degree trend for markets than our PPI or Demand Power / Supply Pressure Indicators focus on. This indicator is very useful for trading securities that do not have significant time risk built into their pricing, like options do. Leverage Index ETFs or non-leveraged ETFs are a good fit for this signal.

We have been showing the Secondary Trend Indicator for years, and report its level every day in these reports. Simply, when the STI turns above positive + 5, it suggests there is a high probability for a multi-week, even multi-month rally to be starting. Conversely, when the STI turns below negative –5, it suggests there is a high probability for a multi-week or multi-month decline to be starting.

This is our Intermediate Term Trend Indicator, which we present in the schedule on page 2 in every report. Trade Entry is best soon after the indicator changes to a new signal. If it gets near zero, it can drift above or below the zero line. Once it moves several points positive or negative, there is greater probability the signal is genuine and a new trend is starting. If someone wanted to play an entry, we would suggest waiting until the STI moves above positive + 5 for a new buy signal, and below negative –5 for a new sell signal. Trading this indicator probably means holding onto the investment for several weeks, unless the age background indicators, or your own personal preferences, convince you to exit sooner. The STI is not an exit signal.

The S&P 500 is overbought when the STI approaches positive + 30, and is oversold when the STI approaches negative –30. That usually means at least a short-term countertrend move is likely to start at these overbought/oversold levels, but that countertrend move may not mean the intermediate trend that the STI is watching is over. It could resume once the STI moves away from its overbought/oversold levels.

"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

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Here are the symbols for Exchange Traded Funds for the Major Indices:

This is not trading advice. We recommend you conduct your own research and consult with your investment advisor before entering into any trades with these instruments.

DIA	*Dow Industrials*	*IYT*	*Trannies*
SPY	*S&P 500*	*GDX*	*HUI Amex Gold Bugs**
QQQ	*NASDAQ 100*	*GLD*	*Gold*
IWM	*Russell 2000*	*SLV*	*Silver*
EWA	*Australia*	*UUP*	*U.S. Dollar*
USO	*U.S. Oil*	*TLT*	*U.S. Bonds*

UDOW	*Ultra Pro Dow 30 3X (Leveraged ETF Targeting 300% of Daily Move)*
UPRO	*Ultra Pro S&P 500 3X (Leveraged ETF Targeting 300% of Daily Move)*
TQQQ	*Ultra Pro QQQ NDX 100 3X (Leveraged ETF Targeting 300% of Daily Move)*
NUGT	*Direxion Gold Miners 3X (Leveraged ETF Targeting 300% of Daily Move)*

****Note: The GDX actually tracks the GDM, a grouping of 45 mining stocks, but the GDX has very high correlation to the HUI so we mention that as a suitable ETF for the HUI.***

Here's the color coded, legend we use for our Elliott Wave count symbols, starting from the largest degree waves to the smallest:

	Impulse Waves	Corrections
Grand Supercycle	{1} to {V}	{A} to {C}
Supercycle	(I) to (V)	(A) to (C)
Cycle	I to V	A to C
Primary	(1) to (5)	(A) to (C
Intermediate	1 to 5	A to C
Minor	1 to 5	a to c
Minuette	i to v	a to c
Micro	1 to 5	a to c
Subnmicro	{1} to {5}	{a} to {c}
Nano	{1} to {5}	{a} to {c}

"For I know the plans I have for you," declares the LORD,
"plans to prosper you and not to harm you,
plans to give you hope and a future."

Jeremiah 29:11

If you are enjoying your subscription, please tell a friend.
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Here are some symbols for Exchange Traded Funds for Going Short the Major Indices:
(These instruments should rise in value as prices decline)

This is not trading advice. We recommend you conduct your own research and consult with your investment advisor before entering into any trades with these instruments.

DXD	Dow Industrials (2X)	SH	S&P 500
PSQ	NASDAQ 100	RWM	Russell 2000
TBT	Long-term U.S. Treasuries	UDN	U.S. Dollar
DGZ	Gold	ZSL	Silver
SDOW	Ultra Pro Short Dow 30 (Leveraged Targets 300 % Daily Move)		
SPXU	Ultra Pro Short S&P 500 (Leveraged Targets 300 % Daily Move)		
SQQQ	Ultra Pro Short QQQ NASDAQ 100 (Leveraged Targets 300 % Daily Move)		