

July 18, 2015

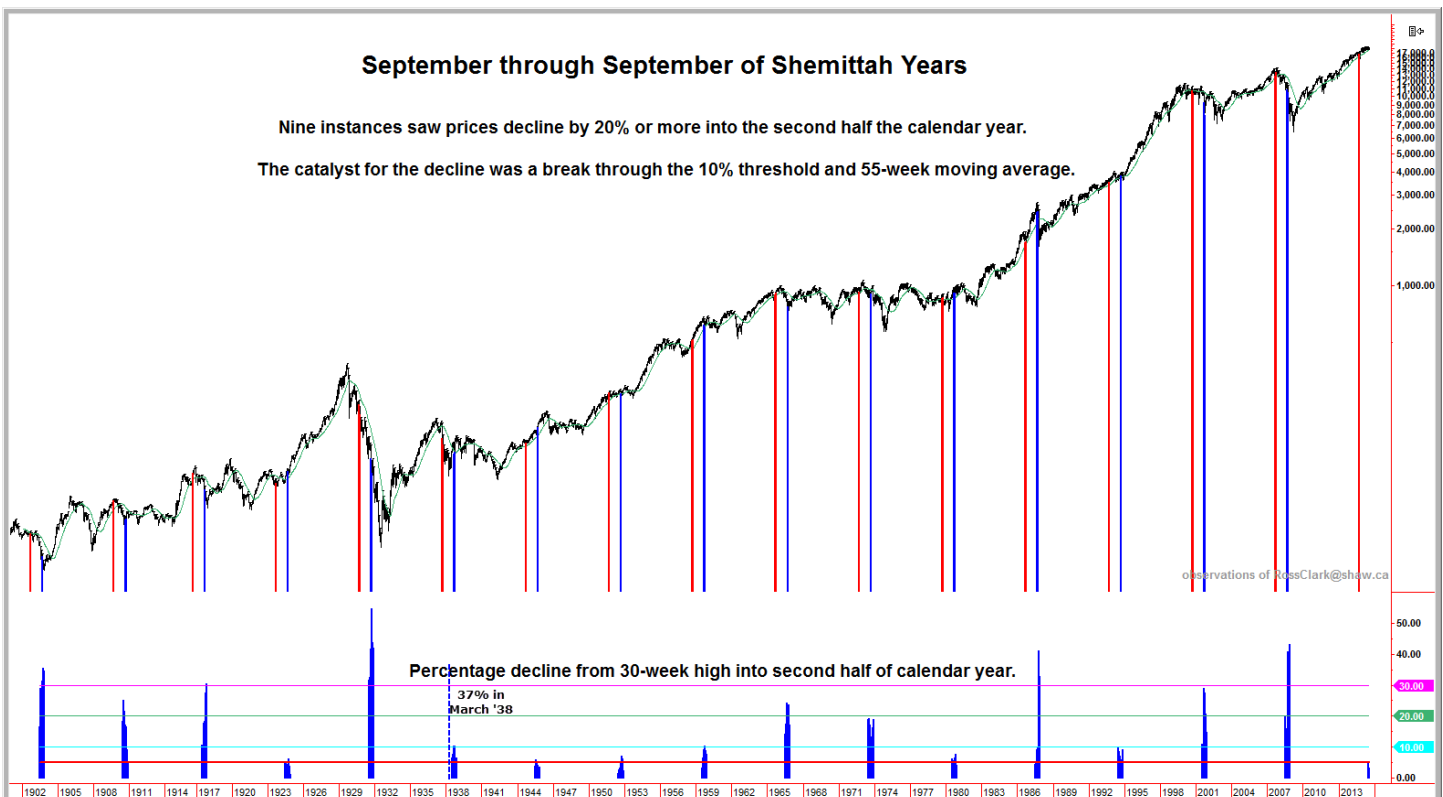
Technical observations of
RossClark@shaw.ca

Seventh Cycle of Seven-Year Shemittah Cycle

September 13th will complete the seventh cycle of a seven-year Shemittah cycle¹ in the 5775th year of the Jewish calendar. The last cycle of seven sets of seven years was 1966. The acceleration of the 26% drop in equities that year occurred as the Dow dropped through the 10% support that had held for seven weeks. The 10-Year T-Notes rose from 4.6% to 5.5%.

Nine of the Shemittah cycles since 1900 have coincided with years when the Dow Industrials declined by twenty percent or more in the second half of the Julian calendar year. Two more saw hard breaks in the first half (37% in March 1938 and 17% in April 1980). This year's July 8th low (4.8% from the high) should be watched closely. Support was evident around the 5% and 10% levels from June through September in the years that did not crash.

The threshold for bad breaks in the second half of all Shemittah years has been 10%. **Each break beyond 10% went on to decline by 20%+. Buying December put options over the next month with a strike price 10% below the year's high would appear to be prudent insurance.**

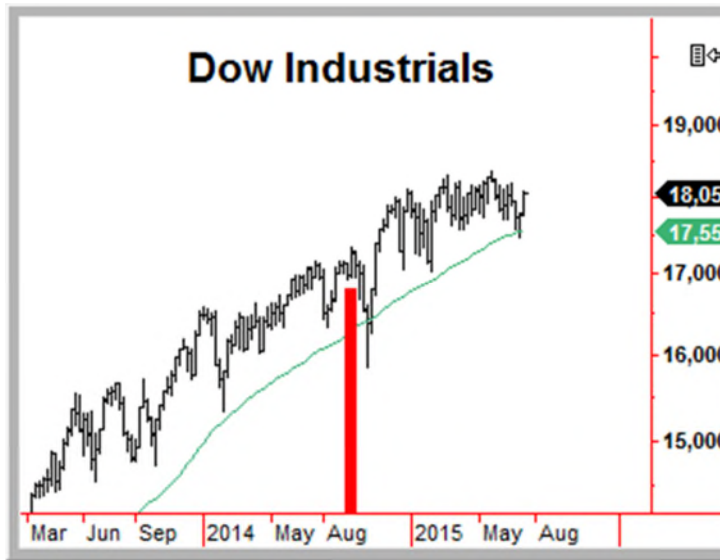


Shemittah Years with Uptrends into July

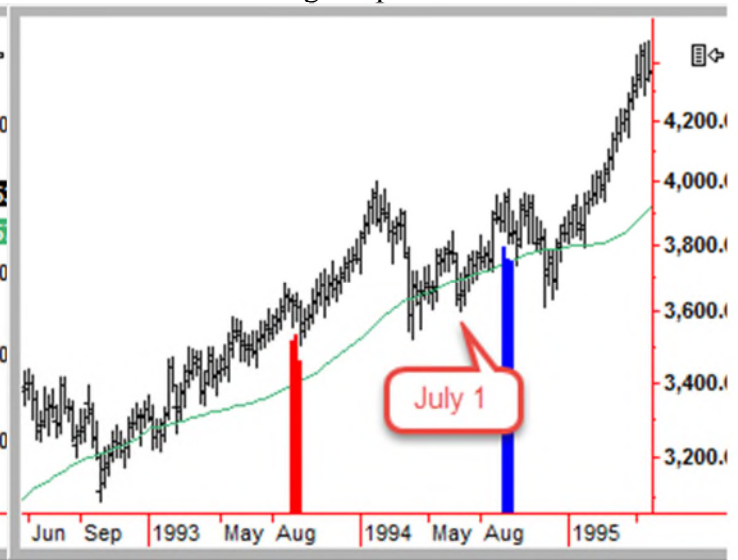
Seven of the sixteen Shemittah years since 1900 resulted in higher levels in the Dow into July-September. This year is looking like it could become the eighth. Highs occurred 09/02/94, 08/24/87, 08/15/80, 08/07/59, 08/15/82, N/A 1945 and 08/24/24. Other than 1945, each went on to generate a decline into the seasonal low of September-October, but only 1987 declined by more than 10%. The 10% level held in 1987 for three weeks in September and then triggered a break on October 12th for a total decline of 40%.

A break of support (currently 17,712) after July 10th and the 55-week moving average (currently 17,566) would likely lead to a 10% decline (16,515). A violation of that would call for a move below 15,000.

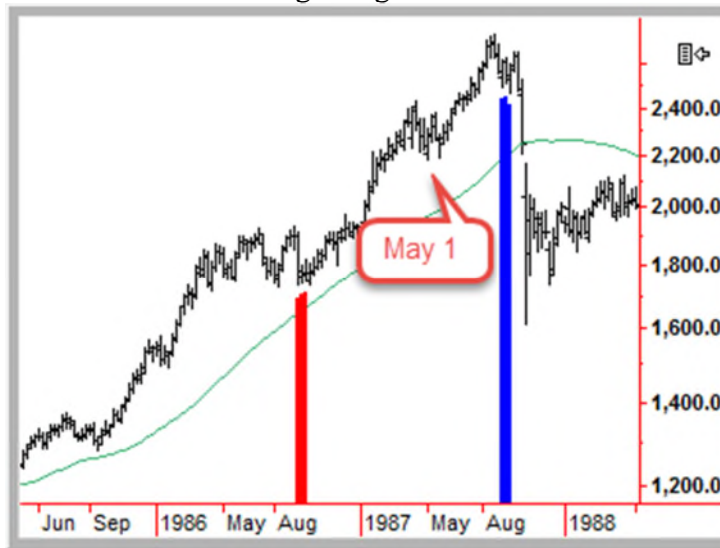
2015



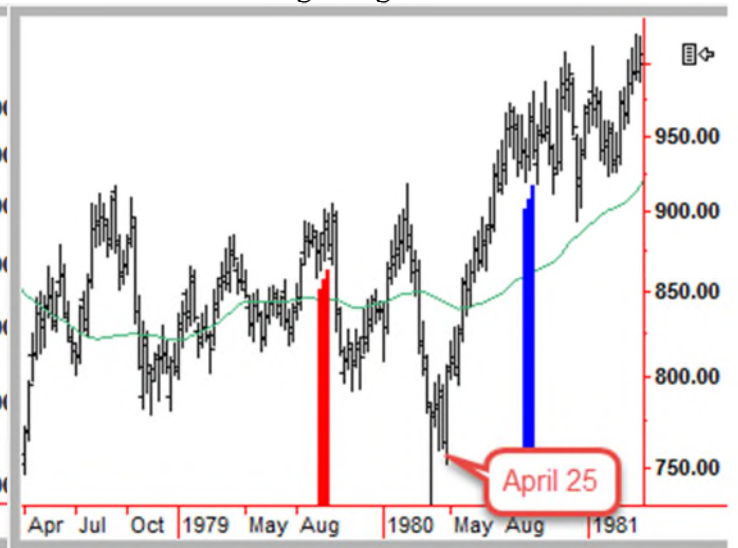
1994 – high Sept 2



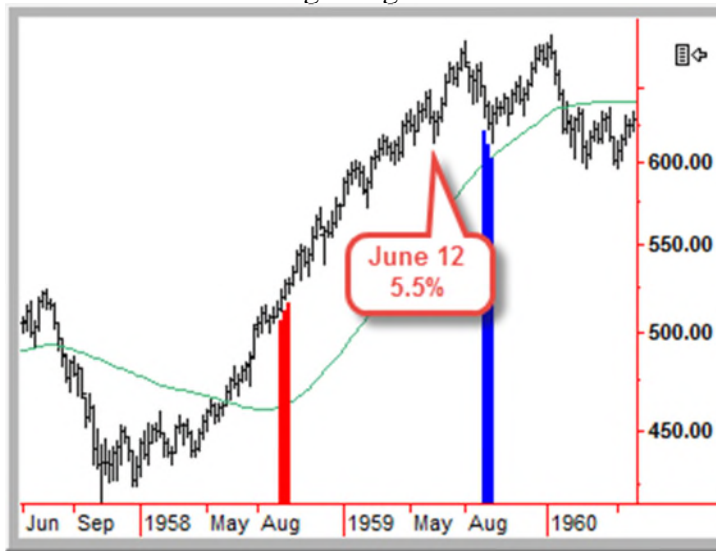
1987 – high Aug 24



1980 – high Aug 15



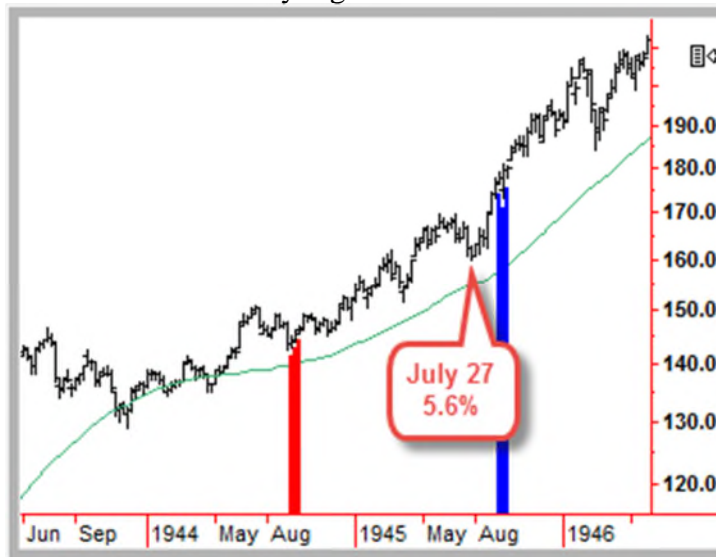
1959 – high Aug 7



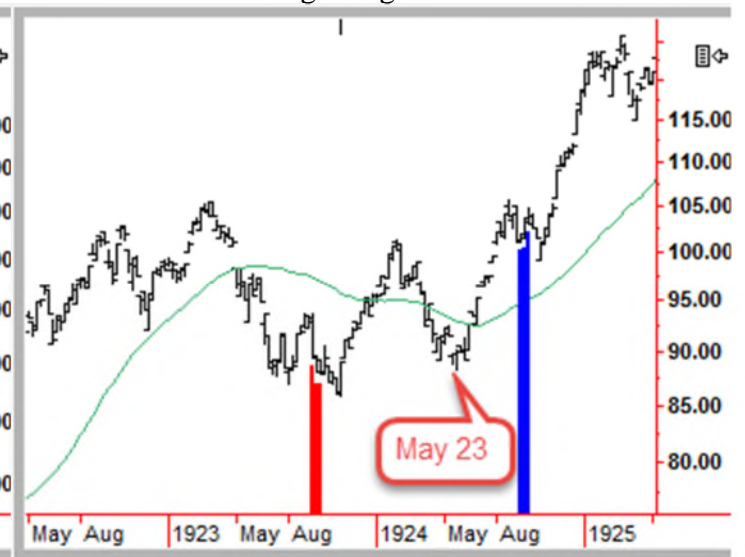
1952 – high Aug 15



1945 – early high June 29

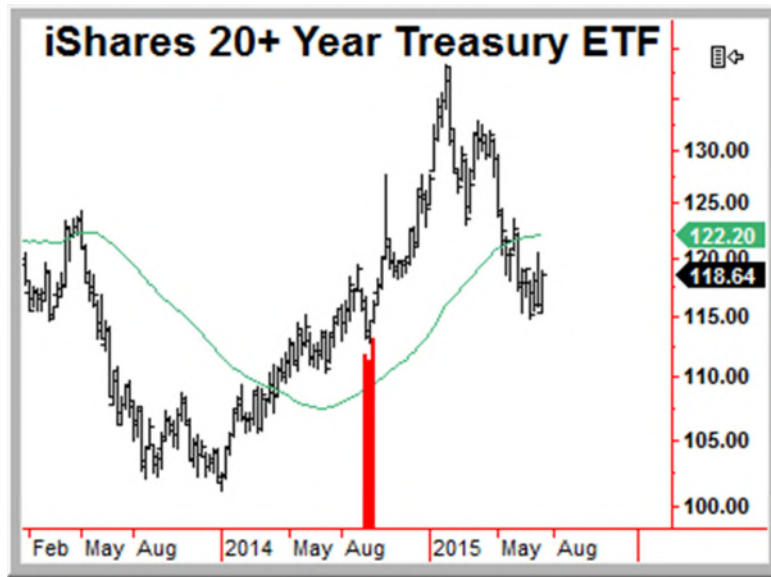


1924 – high Aug 24



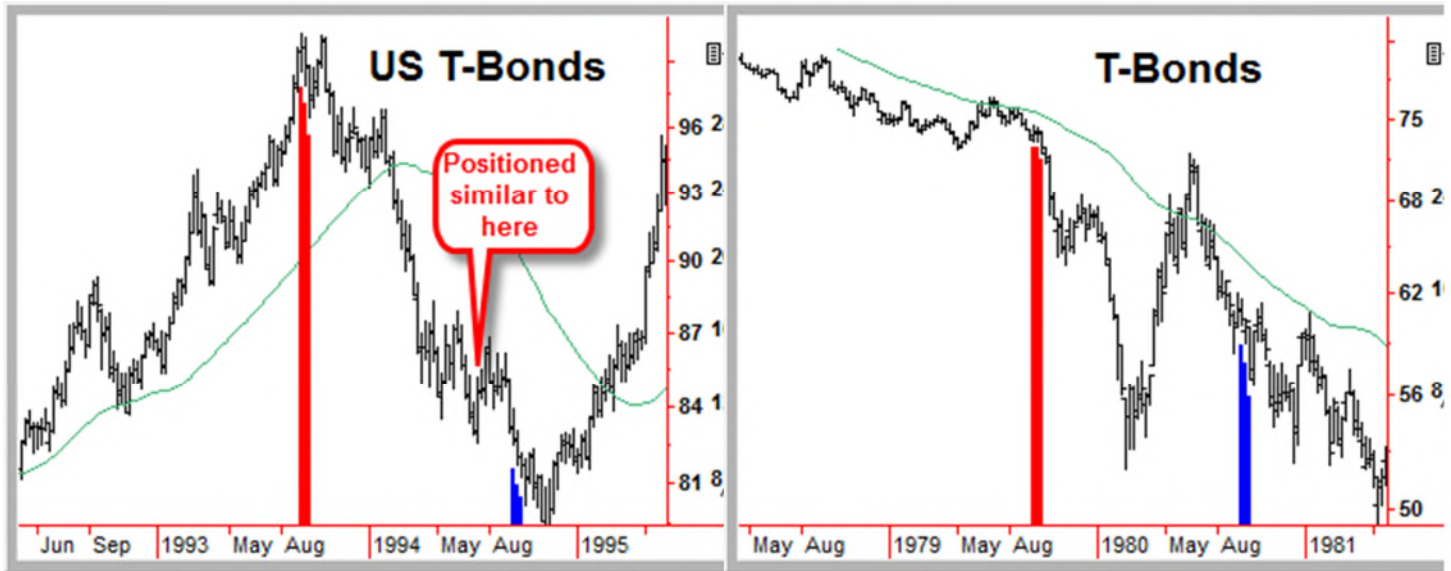
Although 1980 and 1994 failed to produce 20% declines in equities, they did see bear markets in the long end of the T-Bond market. This fits with our view that the Treasuries should drop to the 89-month moving average (108 on TLT) in the 12 to 18 month period following the upside Exhaustion alerts in January when yields were 2.3%. The moving average provides a targeted yield of 3.6% on the 30-year bonds, up another 50 bps from today's 3.1%.

2015



1994

1980



1. The current Shemittah year began on Rosh Hashanah, September 25 **2014**, corresponding to the Hebrew calendar year **5775**. It is the seventh year of the seven-year agricultural cycle. These 7x7 year cycles always repeat and this is the last Shemittah (49th year) of this current cycle which ends at September 13, 2015. The next calendar period of 7 years starts with the 50th year, **Jubilee** on September 23, 2015.

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BOB HOYE, INSTITUTIONAL ADVISORS
EMAIL bobhoye@institutionaladvisors.com
WEBSITE www.institutionaladvisors.com