

Tim W. Wood's

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SAN FRANCISCO (CBS.MW) -- The U.S. stock market, engaged in a wobbly rebound attempt after three years of losses, will continue to set fresh lows for at least three more years, a market historian says.

The researcher, Tim W. Wood, is a Louisiana certified public accountant whose stock-market studies the past two years have largely forecast breakdowns in all of the major equity indexes.

Wood is not the first to see trouble ahead for stock prices. A growing number of Wall Street strategists and economists, among them Merrill Lynch's Richard Bernstein, Morgan Stanley's Stephen Roach and JP Morgan's Doug Cliggott, are darkening their views on where the stock market is headed this year.

Wood, in examining four-year market cycles going back to 1896, distinguishes himself from the thousands of so-called technical analysts and market timers who sell their frenetic advice to individual investors. Wood's view has stuck, almost religiously, to the notion that the stock market will suffer an extended period of severe losses, regardless of the small rallies that have given investors hope for their ailing portfolios.

"The market is going down," Wood, who publishes the Cyclesman market report on the Web, tells me from his Monroe office. "It's just a matter of how it sets up, how and when."

In the summer of 2001, Wood correctly forecast an autumn 2002 decline in the Dow Jones Industrial Average to the mid-7,000 level. The Dow hit a closing low of 7,286 on Oct. 9.

Wood says he spent seven years as an accountant at CenturyTel, a Louisiana telephone company, before setting up a newsletter business based on his cyclical approach to market averages. He incorporates the market theories set down by Charles H. Dow, William Peter Hamilton, Robert Rhea and E. George Schaefer.

At the heart of Wood's analysis is the length of a market's rise. The stock market rises chronicled by the likes of Charles Dow in the early 1900s became increasingly longer as the United States increased its wealth and global status.

Wood says any four-year cycle that reaches a peak in 20 months or less has revisited, and undercut, the previous four-year cycle low. His research applies to all the major U.S. equity indexes, including the broadest one, the Wilshire 5000 Index (97199001: news, chart, profile). "Going back to 1896, but prior to 2002, there were five times where the four-year cycle had topped in 20 months or less, and all of these five cycles (erased) the previous four-year cycle low," Wood says.

The up market for stocks that ran from 1974 to January 2000 topped with a "four-year-cycle count" of just 16 months from the market's 1998 lows, says Wood, whose work has been published in *Technical Analysis of Stocks and Commodities Magazine*. That rise, seen as the greatest bull market in U.S. history, contained seven four-year cycles.

Robert Prechter, whose work on Elliott Wave patterns has marked him as one of the 20th century's best-known technical analysts, cited Wood's research in the December 2002 issue of *The Elliott Wave Theorist*. "There's a new kid on the cycle block," Prechter wrote. "Tim Wood has done a lot of research on cyclical and seasonal behavior. His *Cycles News & Views* not only times market cycles, but also gives price targets."

Steve Hochberg, Prechter's chief market analyst at Elliott Wave International in Georgia, says he believes a 3.3-year market cycle "is muting the effects of the four-year cycle" that Wood favors. Still, Hochberg notes that Wood "seems to me to be straight-forward with intellectual integrity."

As for the present and future, Wood forecasts the decline in stocks running to the year 2006, "and possibly as late as 2010." Such a time frame would fit with his research showing the duration of bear markets winds up taking about a third of the time, and as much as 37 percent of the length, of the preceding bull market.

Early this year, Wood sees the market's main indexes running out of the time it needs to stage a mini-rally to the 9,043 Dow level, which was the intra-day high reached on Dec. 2. "If the weekly cycle in the next couple of weeks does not take out 9,043, we are going to test the lows and most likely take them out," Wood says.

"That's what makes this rally so very important," he says. "Odds are a new low is just ahead."

The researcher acknowledges his bear-market forecast may encounter turbulence - the little rallies he says are fooling investors into parting with their hard-earned savings. He

fully expects the Dow average (INDU: news, chart, profile) to decline to 3,000 from its current 8,750 sometime between 2006 and 2010. For the Standard & Poor's 500 Index (SPX: news, chart, profile) of America's largest companies, he expects a decline to 315 from its current 920.

Unlike many market timers, whose opinions shift like the wind, Wood counsels investors to wholly exit stocks. He offers no in-and-out trading strategies for the vast majority of folks. "If you know the market is going down, you get out of stocks," he says.

As for other markets, Wood is wary of the highs set by gold, the precious metal. Gold set itself apart from the stock market by notching one of the best gains of any investment in the world in 2002. The price of spot gold rose 25 percent in calendar-year 2002 and now sits at \$354 an ounce. The metal, benefiting from a weak and getting-weaker-by-the-day U.S. dollar, has yet to close above the stubborn \$356 level.

"If we don't see gold make a new high soon, we roll over to a new bottom," says Wood. "I am not saying we are not going to exceed the top in gold, just that if it does not, there is a historical probability of its rolling over to a new seasonal low," Wood says.

My take on all this? Take Wood's advice on steering clear of the stock market, especially now that quarterly earnings reports are sure to provide investors with some short-lived rallies. The U.S. stock market will be a losing proposition for 80 percent of investors this year, next year and the year after that.

Will there be individual gainers that can double, triple and quadruple in short periods of time, such as small Internet companies Sina.com (SINA: news, chart, profile) and Bankrate.com (RATE: news, chart, profile)? Of course, there always are, and such companies deserve the higher stock prices their executives and staffs have achieved by sticking to long-range goals of profitability and market-share growth.

As for gold (38099902: news, chart, profile), I see no setbacks for the metal's price or for commodities in general. The world of natural resources, having gained about 25 percent in 2002, as measured by the Commodity Research Bureau's main gauge (XX: 1864498: news, chart, profile), is proving it can provide all the fireworks the 1990s gave us in the stock market. On that end, investors are best served by staying the course on gold, silver, agricultural products and even the battered livestock complex