



Summary

Cycles Research issued a 200% long position for stocks on December 1. CR issued a buy on gold as of the close on April 9th. A sell signal on bonds was issued as of the close on February 26th.

I regret to inform you that my old friend, Eustace Mullins, passed away in February. He was the author of Secrets of the Federal Reserve. I read his book in the 1970s, and then met him at a market conference in Florida. We became friends and he related his odd journey into historical research. When he graduated, someone recommended that he speak to the poet Ezra Pound to get some ideas about writing. At the time, Pound was in a psychiatric ward, a political prisoner. Pound had made anti-war radio broadcasts from Italy during WW2. He advised Eustace to write about the Fed. The young writer went to the Library of Congress to obtain his information. Eustace was later to tell me that all of these source books subsequently disappeared from the shelves. Many years after writing that book and a number of others, he obtained the FBI files about himself under the Freedom of Information Act. In his book, A Writ for Martyrs, he reproduced one document in which J. Edgar Hoover named Eustace as 'the most dangerous man in America' and ordered him confined to a psychiatric hospital. Fortunately, he was in a cabin on a lake working on a book; the FBI could not find him. The last time that I saw him in a Florida café, I said that he did not look like the most dangerous man in America, much to his amusement and to the surprise of the waitress.

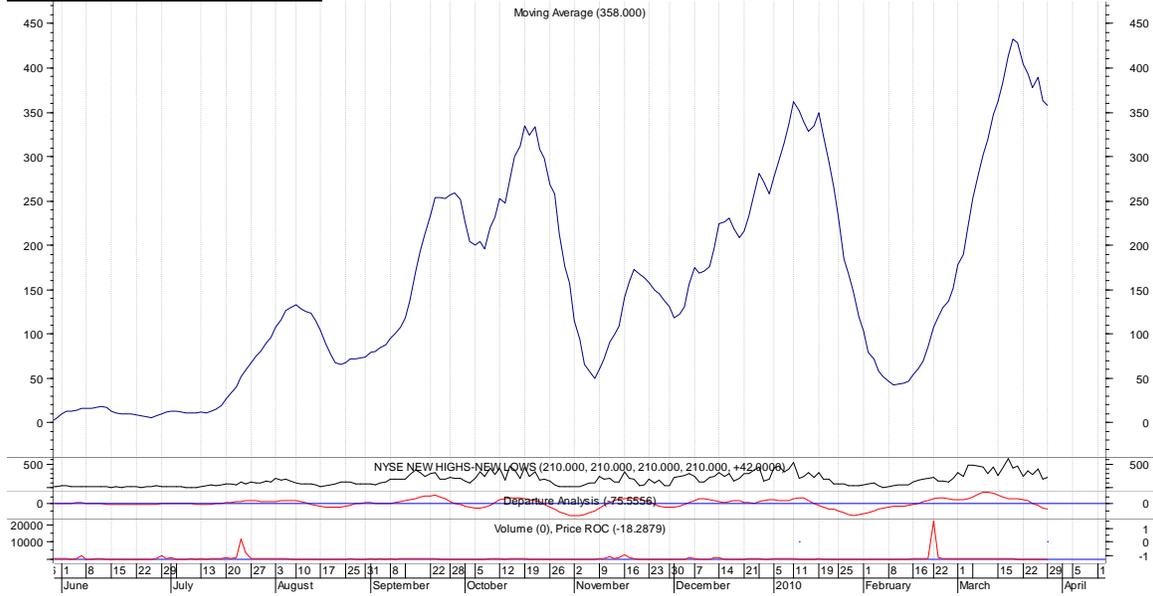
Analysis

First, we will look at how the market is likely to react, and then we will look at what it is reacting to. As I state in the latter section of this analysis section, and as I have been telling institutions all month, the big new is in the bond market.

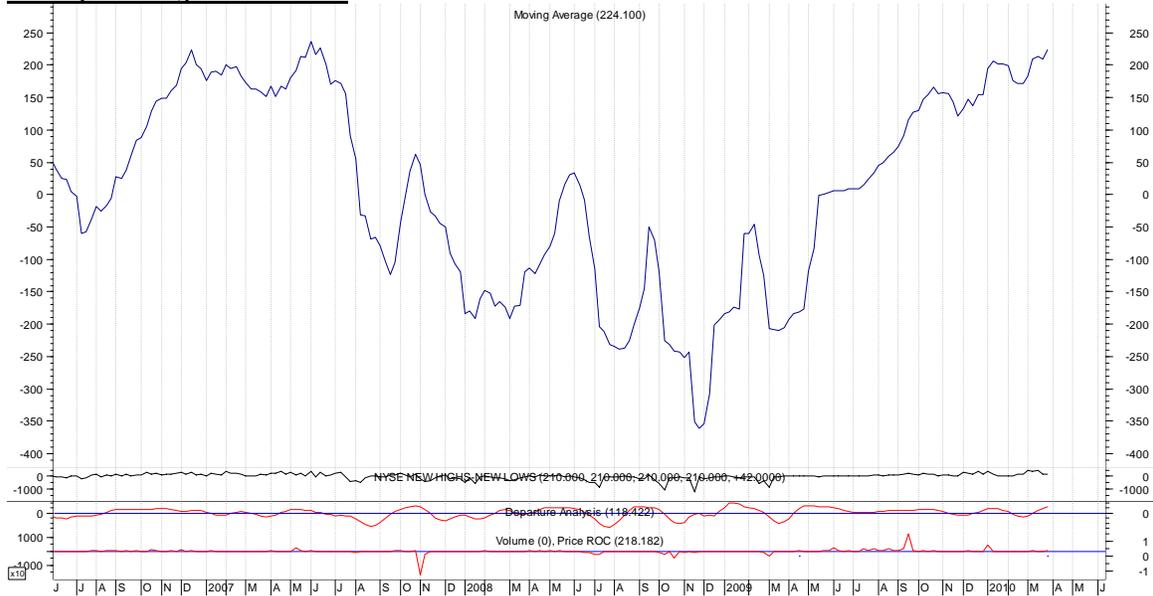
The situation has changed only slightly. The cycles and time counts are indicating a change in trend, but the market's technical condition is still not weak. Typically, breadth, new highs and lows, and other such barometers top out before the actual index and begin to diverge. The Lowry's selling pressure index has begun to pick up, but so has their buying power index. This simply says that there is more selling over the last 2-3 weeks, but this selling is being met with buying.

The following 2 graphs show 10-day and 10-week moving averages of new highs less new lows. Note that both are very over extended. The monthly version of the same graph is not as extended as are these two graphs. This tells us that there are short-term reasons for the market gains to moderate.

Daily New Highs Less Losses

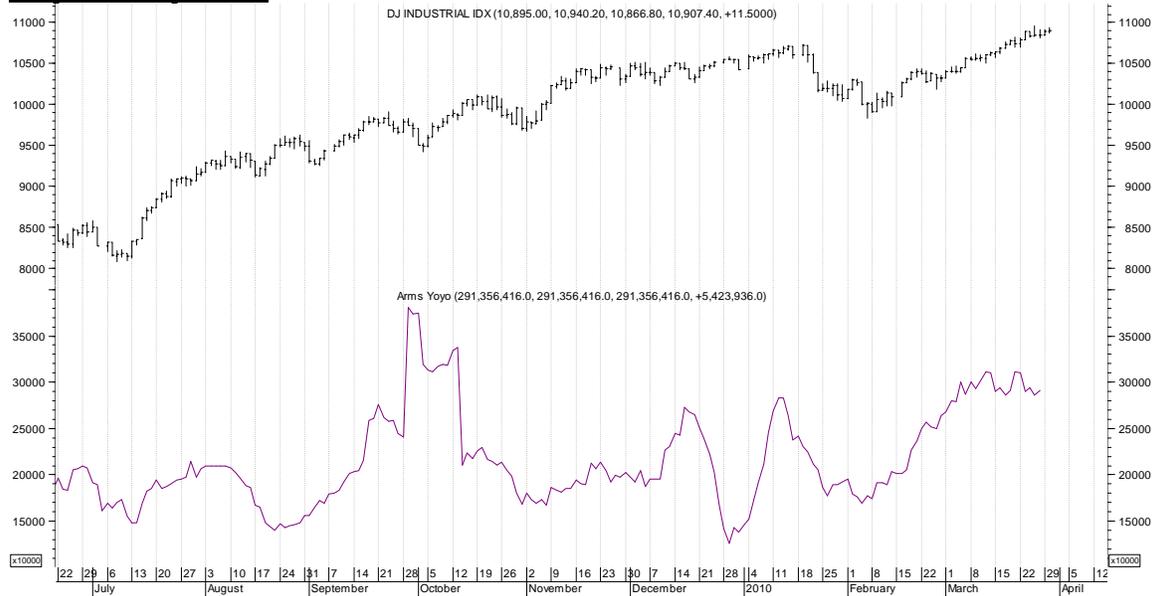


Weekly New Highs Less Losses



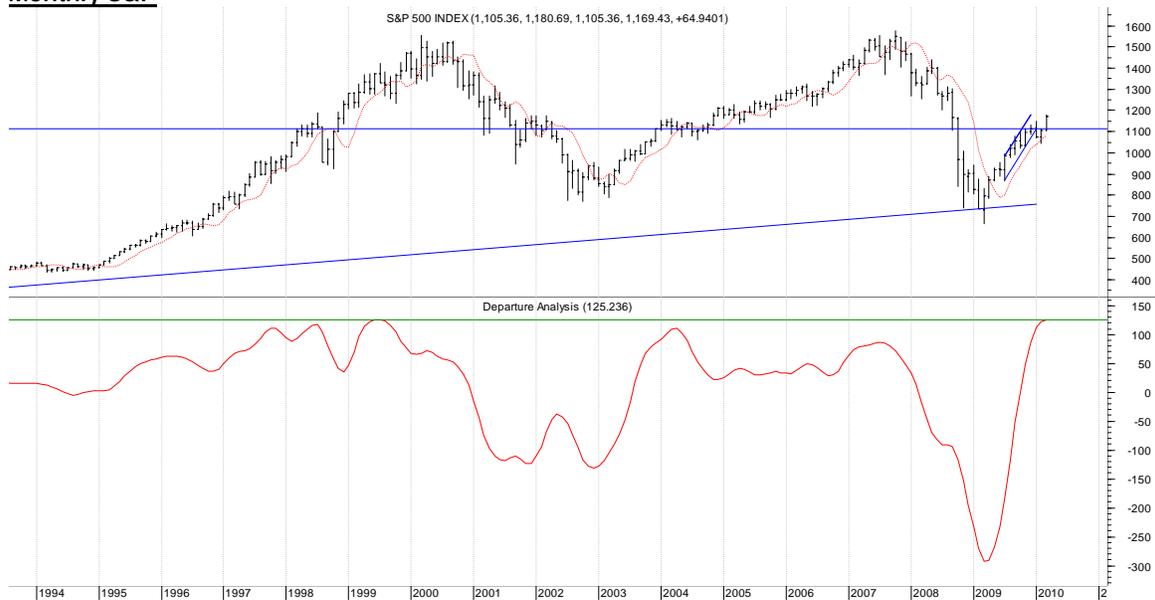
I have not shown this index in a while. This is the yoyo indicator developed by Richard Arms. It measures the amount of volume that is required to raise the DJIA by one point. When it is low, little volume is required to raise the market. High readings are consistent with tops. The current reading shows that gains will moderate, at least.

Daily Arms Yoyo Index



The graph below shows that the monthly S&P is now as overbought as it was at prior highs as denoted by the green line in the lower strip.

Monthly S&P



A Reuters poll shows that U.S. fund managers increased exposure to equities in February to reach their highest level in 14 months. They held an average 66.2 percent of assets in equities in February, up from 64.8 percent in January. The sentiment on the stock market is bullish on balance, but consumer sentiment is negative. If the stock market is reflecting future economic growth, and the market is rising while a majority is bullish, then how can consumers be so negative? A rising market should be followed by a stronger economy, no? I recall that this occurred in the 1970s. The economy struggled, and the central banks pushed credit into the system. The market ran up and down, each move up was thought to be the beginning of a new bull market and each move down was thought to be the next bear market. Traders did very well. I think that we are in the same situation now.

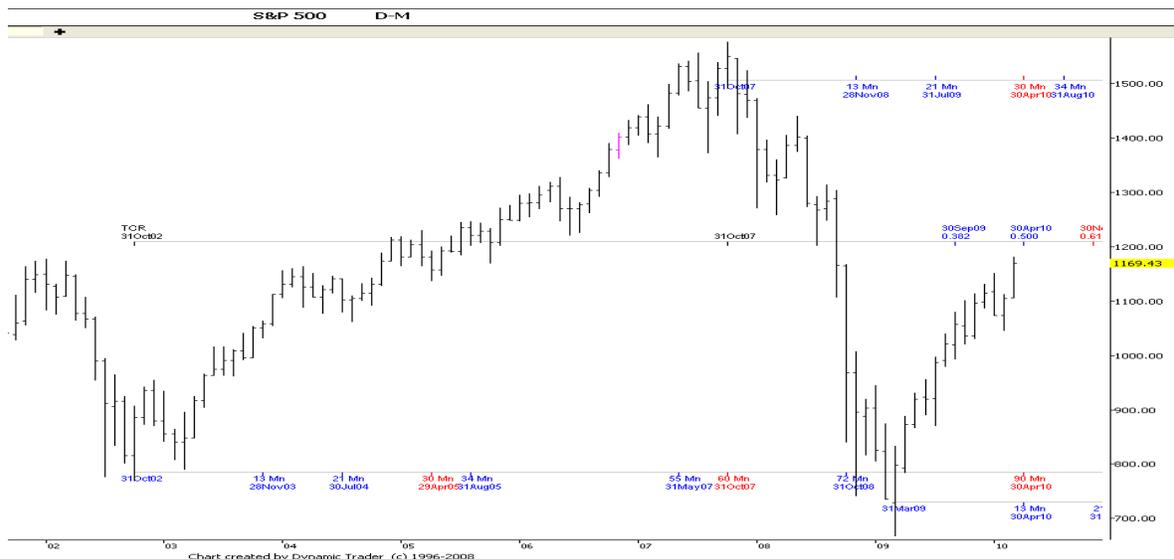
Briefly, there are several reasons to expect a high. I shall recap these from past reports;

1. April to October is typically weak.
2. March has been a turning point in each year since 2000 except one.
3. From Art Merrill's work on the 4-year presidential cycle, we know that Q2 is especially weak in the second year after an election.
4. 2010 is a year ending in zero, and 65% of all such years are down years.
5. The reliable 24-month and 40-month cycles turned down.
6. There are 4 monthly time counts that expire in April.

Concerning point number 4, if an investor put \$100 into the DJIA in 1890 and only invested in years ending in zero, one would have less than \$34 by 2000. The average decline was 7% annually, and that number fell to -9% if the prior year was an up year, as 2009 was. Years ending in the number 7 are the second worst on record showing an average annual loss of 2% to 3%. Eight of 12 such decennial zero years have been down years.

Regarding number 6, the time counts are:

- April is 30 months from the October 2007 high.
- April is 90 months from the October 2002 low.
- April is 13 months from the March 2009 low.
- April is 1.5 of the time expanse from the October 2002 low to the October 2007 high.



(In the last letter, I mentioned that there would be an Armstrong date in April; it is actually on May 15-16.)

At this point, I do not think that these will be powerful enough to end the uptrend simply because the technicals are not in agreement, but they may be by late April. I do think that we must have a correction by May. If the technicals fall into line with the bear scenario, an interim update will be sent.

The intermediate stock market cycle is composed of a group of cycles that has outperformed the DJIA since 1885. It is in a narrow range from March 8 to April 23, implying that the market will simply continue to rise gradually into late this month. The cycle then falls into June 8th. I can only wait and try to confirm the cycles as the month unfolds. Presently, I remain on the buy signal.

What the Market is Going to React To

I think that the big development is occurring in the bond market. As you know by now, US government rates have crept up over rates for quality corporate debt. Thus the bond market is beginning to react to the massive borrowing needs of broke governments that refuse to cut spending. Here's what it is reacting to:

Social Security will pay out more in benefits than it receives in payroll taxes, a development that was not expected until 2016. Payments have risen more than expected during the downturn because unemployment increased, and people applied for benefits sooner than planned. At the same time, the program's tax revenue has fallen sharply.

Half of home loan modifications have defaulted again. The market is saying that these people should not have had loans to begin with. But, the Obama administration plans to extinguish this fire with petrol by requiring lenders to temporarily slash or eliminate monthly mortgage payments for many borrowers who are unemployed. Banks and other lenders have to reduce the payments to no more than 31 percent of a borrower's income, which would typically be their unemployment insurance, for up to six months. In some cases, a lender could allow a borrower to make no payments at all.

What else can you expect from folks who make statements like this:

"Today is a big day in America; only 36,000 people lost their jobs today, which is really good."
-Harry Reid

I see that the President had a group of doctors wearing white coats visit the White House. I think that is exactly what Washington DC needs: a visit from the men in the white coats.

Plan 10

'Plan 9 from Outer Space' has been voted the worst film of all time. It was produced by Edward D. Wood, who himself became the subject of a film starring Johnny Depp entitled 'Ed Wood.' The original Plan 9 can be viewed on the net for free. The plot is as follows. Aliens land and take over the earth by the chosen of method of resurrecting the dead, Plan 9. This has left us fans of old science fiction movies debating about what the other plans for the conquest or destruction of the planet might be. I think I know what Plan 10 was: the election of the current US Democratic administration.

Lights Out in the Golden State

California has developed the Decoupling Plan. The purpose is to separate the supply of energy from price. The idea is to encourage companies to pursue efficiency and not production. The regulations will be constructed to allow utilities to raise rates to fund projects that lower energy consumption. This essentially makes the free market illegal. So utilities will be able to raise rates to provide less. This is the same state that is planning to solve its energy needs with green tech...except that Senator Diane Feinstein is preventing the placement of solar power installations in the Mojave Desert in order to protect a species of turtle. Get ready for rolling blackouts.

Marching Backwards

In Detroit, there are a growing number of urban farms. Apparently, out-of-work people are growing their own food. The city has announced that farming will be incorporated into city zoning. Since there have been no problems with home gardens, one must ask what the need is for regulation. The city has stated that farms should have a 'sustainability plan'. First, unions and politicians have sent one of America's premier industrial centers back to the agricultural age. Now, they are going to do the same thing to the people who are attempting to make something productive out of the Motor City's remnants.

Turning Points

The turning points appear to be less helpful this month. When the market is not moving very much, then fewer turning points are generated and they tend to be less meaningful. Matching the projected dates to the cycles yields more information. At this point, I think that the 9th and 15th-16th are highs. The 15th-16th is option expiration, and the market tends to rise in the days prior to this date. The 23rd also appears to be a high. This suggests that the market will only sell off for a day or two after each of these projected tops.

The highest-probability S&P and DJIA turning points (+ or - 1 day) for the month are (The stronger turning points are starred*):

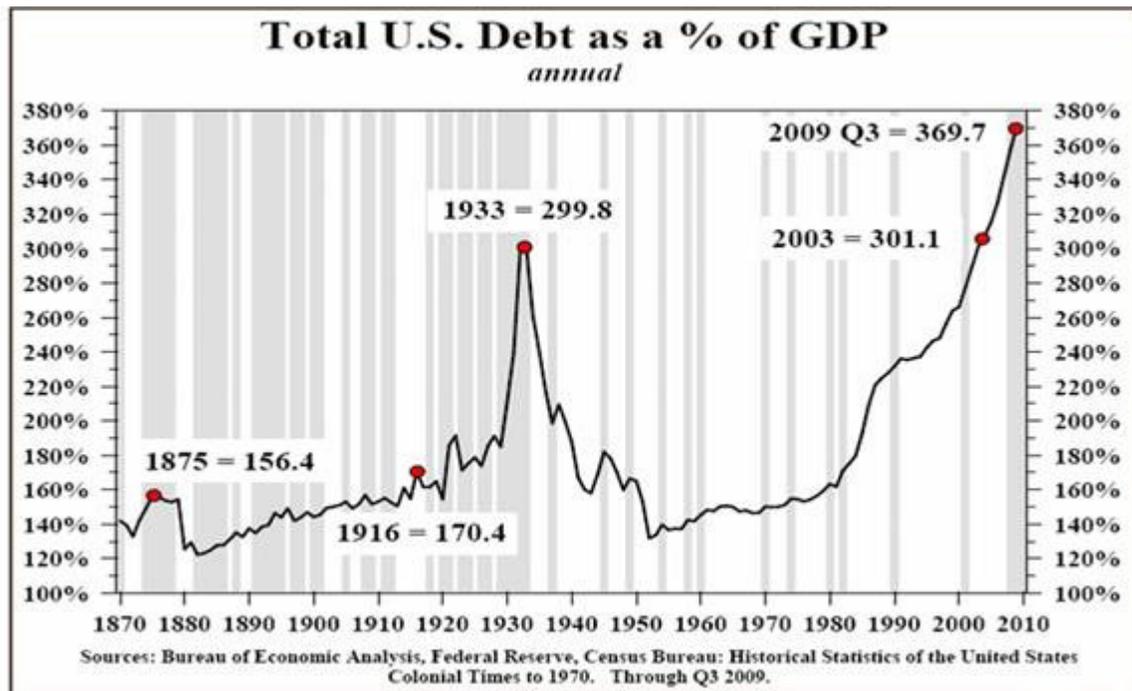
2	23*
9*	28
15-16	

The highest-probability NASDAQ turning points (+ or - 1 day) for the month are (The stronger turning points are starred*):

2	22*
9*	28
16	

Bonds

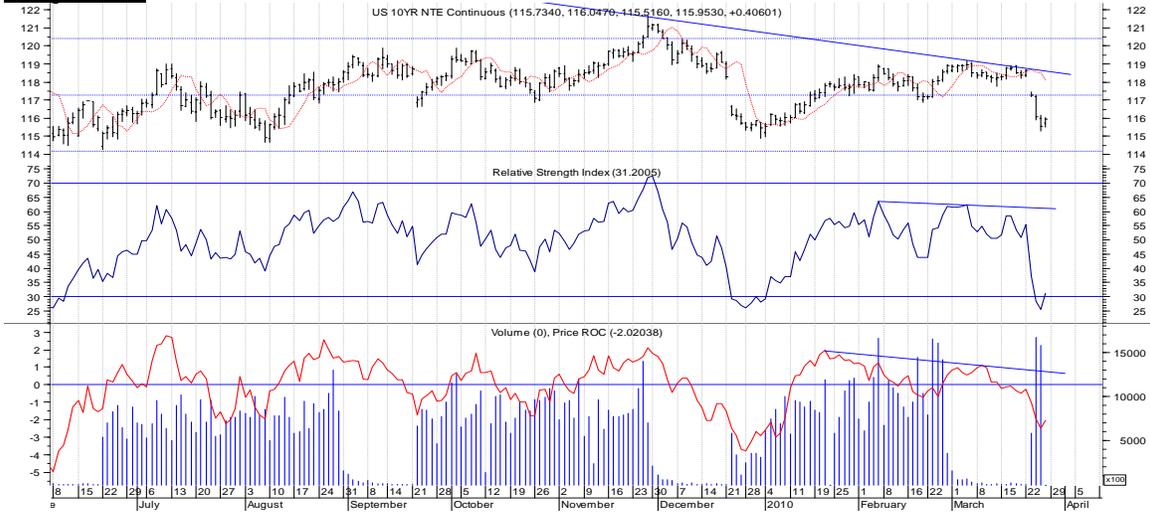
I moved to a sell signal on bonds because there is a pronounced tendency for US notes to fall in the first half of any year. Second, the long 54-year interest rate cycle is due to turn up. I had thought that this cycle had turned up, but governments can now force an unlimited amount of credit into the system. This can extend the period of low rates. But eventually the market will take over. The March 22-23 gap down tells us that the bond bear is beginning. From his great book, History of Interest Rates, Sidney Homer tells us that rate cycles can last a long time, from 22 years to 36 years. About 40 or 50 years ago, Gertrude Shirk did a study at the Foundation for the Study of Cycles that detected a 54-year cycle in rates that she projected would bottom in about 2005. In the 1980s, the Foundation updated the study and found that the cycle may extend for a bit longer than Shirk had projected. Here is what the bond market is reacting to:



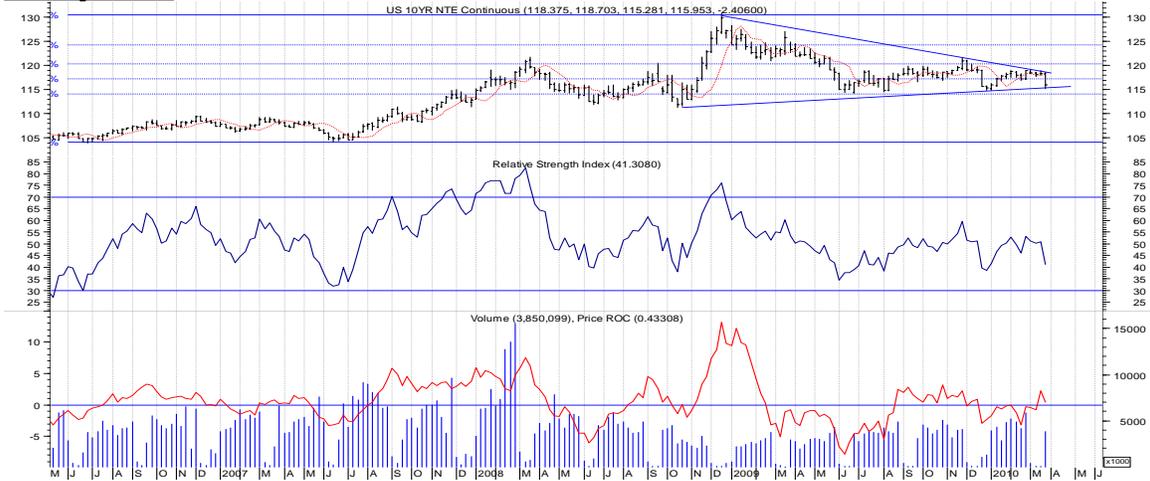
The daily graph below shows that the notes were up against resistance and were diverging. The gap down was the result. I think that the break was especially surprising in light of the fact that the sentiment is so negative on bonds and that the market was not overbought weekly or monthly. The JGBs and the bund also dropped. In the weekly graph, the notes are sitting on support so the down side is limited now over the coming weeks. Thus, we are due for an oversold bounce to the upside. As confirmation, put-call numbers show excessive pessimism.

Turning to the fourth graph below, projected turning points indicate that April 5 is a date to watch, likely an acceleration up. This is followed by a spread of projected dates from the 13th to the 18th. This fits the bond cycle as a trading range leading to a decline with a low on the 22nd. The turning points count to the 24th, a Saturday, so Friday the 23rd is likely a low. The last graph in this section is that of average bond price behavior in the month of April from 1982. Bonds have fallen in 20 of 27 years from the 17th of the month to the 30th. This projection matches the cycle projection for a decline in the third week of the month, so the 18th-23rd time period has a high probability of being a downer.

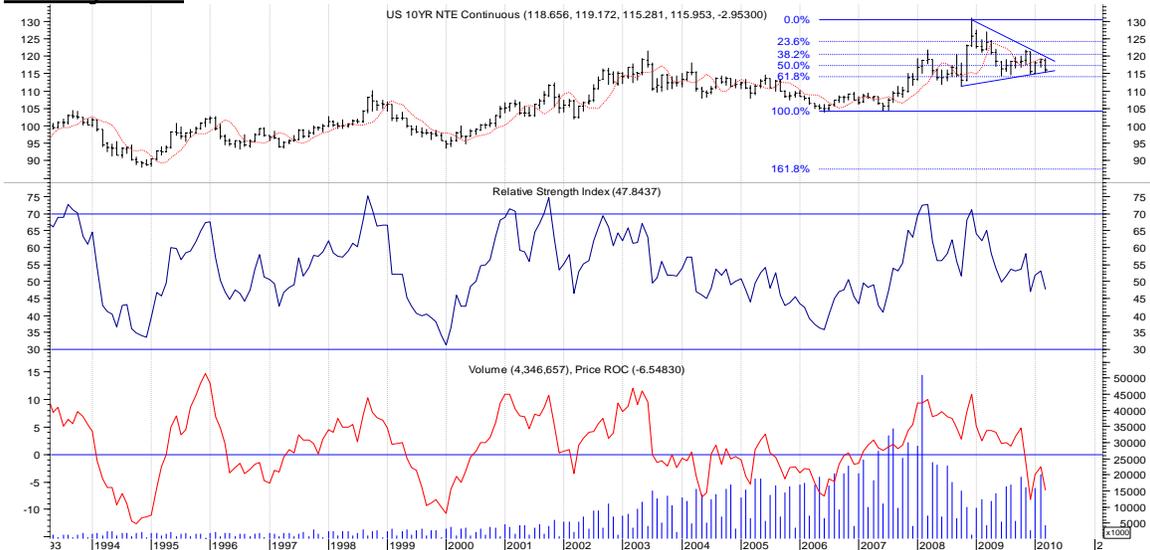
Daily Notes



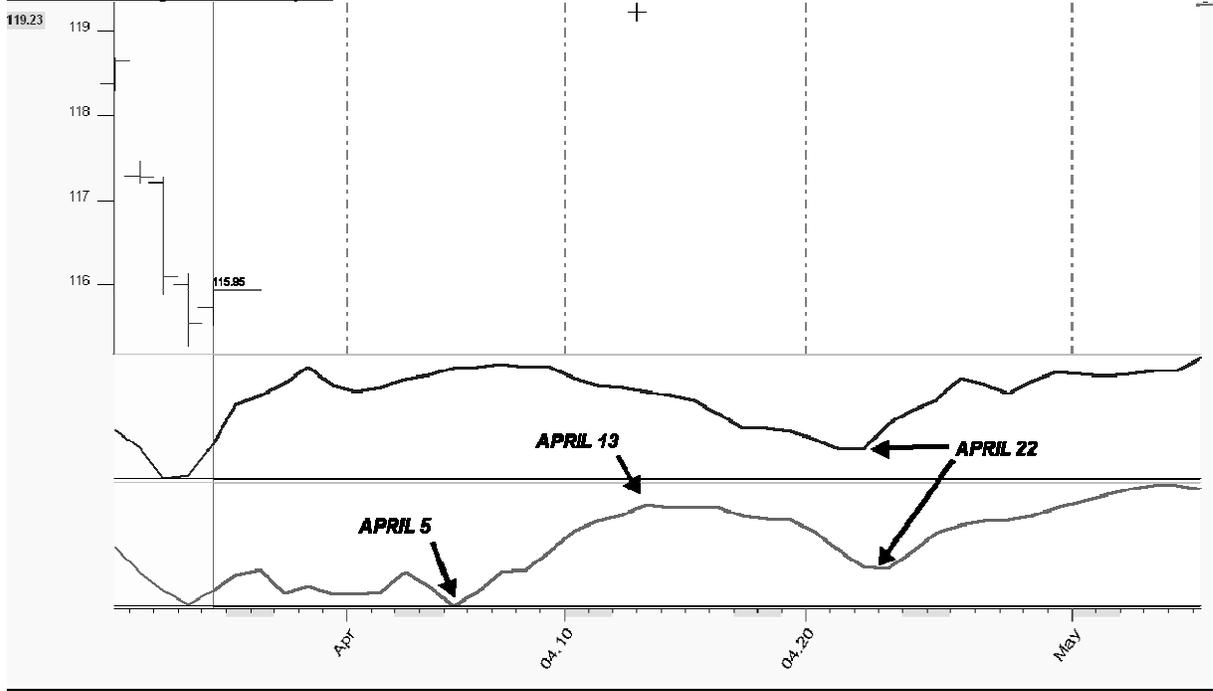
Weekly Notes



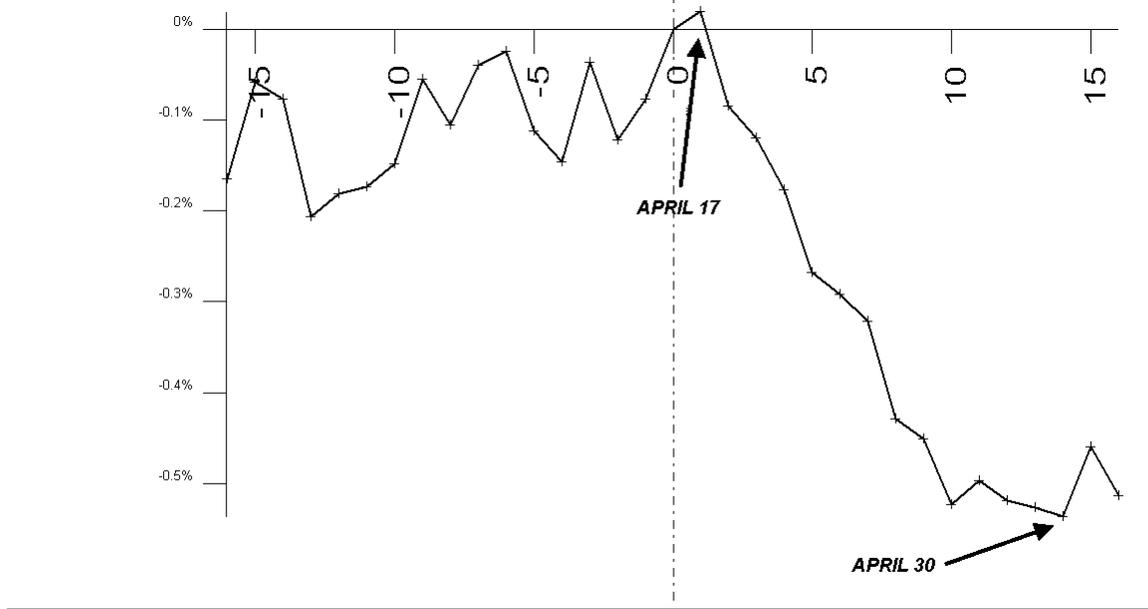
Monthly Notes



Notes and Cycles for April



Average US Note Price Behavior in the Month of April



Sectors and Groups

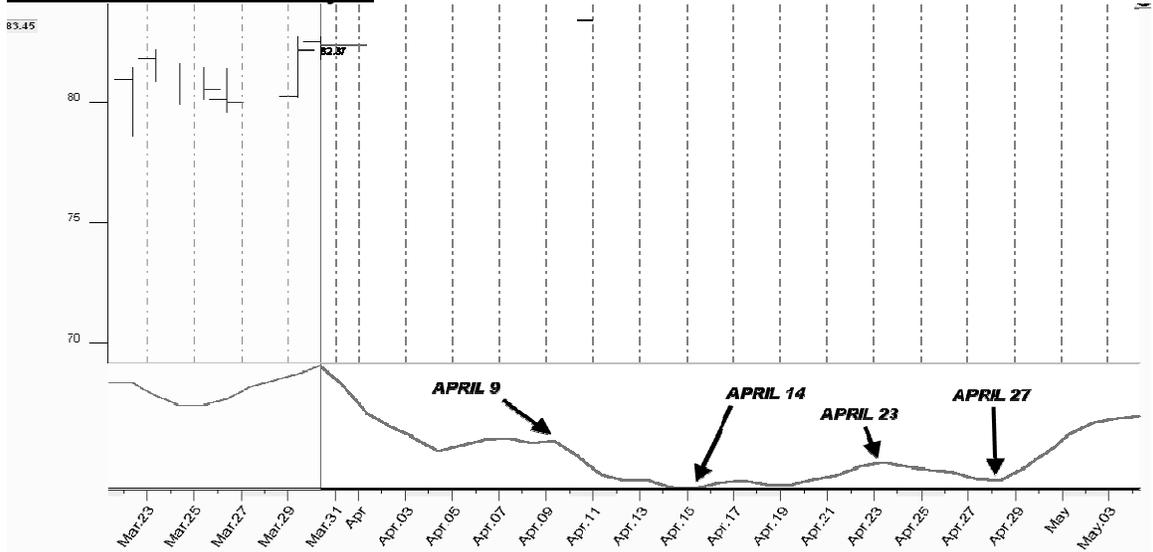
Energy

The oil cycles accurately described market action for the month of March. Based upon the annual cycle only, oil typically rallies from April 8th to the 22nd (in 19 of 27 years). With that background, I overlay the second graph below, the intermediate-term cycles. This graph suggests oil weakness to mid-month, followed by higher prices. The annual April graph and the intermediate-term cycle reinforce each other in the second half of the month where they both point up. As far as price, oil is up against resistance in the low 80s. It is unlikely to break through that level in a meaningful manner until later in April. Near-term, oil will likely pull back into the high 70s. Oil is likely to make higher highs in May-June.

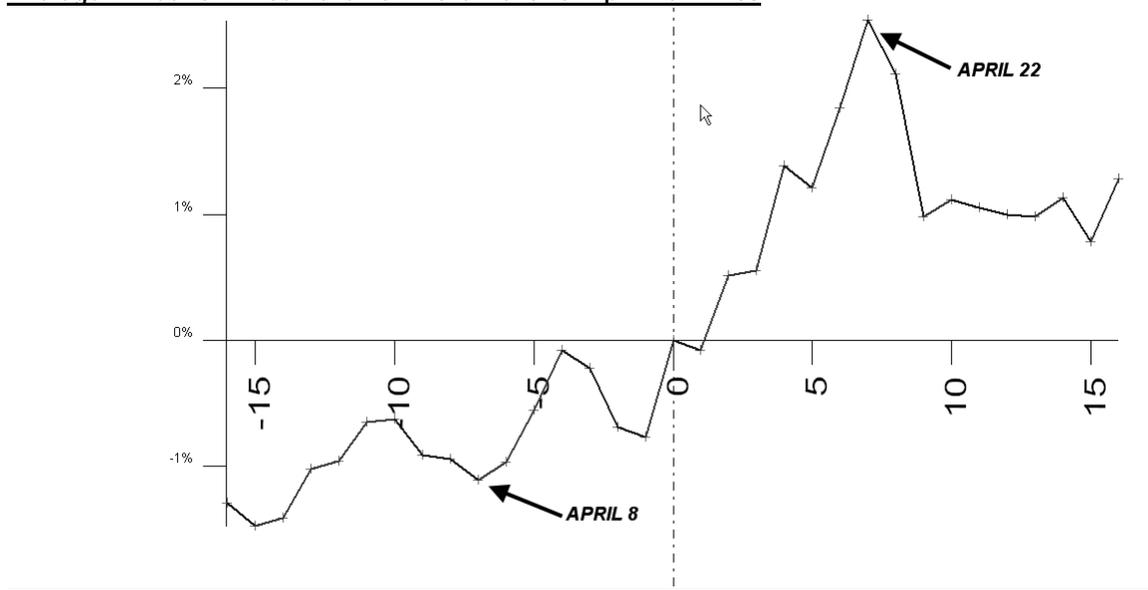
Daily Oil



Oil and Intermediate-Term Cycle



Average Annual Oil Price Behavior in the Month of April from 1983



Gold

Gold did not track the projected cycle well last month. In the daily graph below, we can see that the metal has broken out of 2 falling wedges, normally a bullish occurrence. But this was followed by little follow through. When gold broke the March 12 low, it implied that higher prices are unlikely. In terms of cycles, gold typically bottoms in August and tops in January. In bull markets, the low can be as early as June and the high can be as late as March. This leaves the March-June time span as being the weakest according to the annual cycle. The intermediate-term cycle points down into April 21-22. The cycle then rises into the third week in May and then drops sharply into late June. Price could fall to \$1060. I can see lower objectives, but there is one fundamental that is holding gold up. That is the increasing amount of credit that has been forced and will be forced into the system. I think that it is clear that governments of the world would rather go into further debt than cut their spending. And, in a weak economic environment, no nation wants its currency to become too cheap. Thus, the downside on gold is limited and the fundamental that holds it up is intact. Over the next 2-3 months, this will likely be a trader's market.

Daily Gold



Individual Stocks

PORTFOLIO

Stock	Buy Price	Buy Date	Current Price
Pro Shares Ultra Gold ETF-UGL	30.59	April 9	44.55
US Natural Gas Fund ETF- UNG	12.87	July 31	7.10
Ultra S&P Proshares- SSO	36.9	December 1	42.29

Strategy

Investors hold, but weed out weak stocks.

Traders follow the turning point analysis.

What the Media is Not Telling Us

The administration is busy sealing off the exits from the system, as one can glean from the last two items in this section.

- From the February 8, 2010 StrategyPage.com letter, there is an interesting statistic. According to the government, Mexico's homicide rate has fallen over the last twelve years. The rate in 1997 was 17 homicides per 100,000 people. In 2009 it was 14 per 100,000. That means despite the Cartel War, the homicide rate is lower than a decade ago. As for cities, Mexico City's rate in 2008 was 9 per 100,000. In 2008 the Washington, D.C. Homicide rate was right at 30 per 100,000. But in some Mexican border cities, where most of the killing goes on, the homicide rate is over 100 per 100,000.
- Al Sharpton: ...”the American public overwhelmingly voted for socialism when they voted for Barack Obama.”
http://video.foxnews.com/?playlist_id=86923#/v/4119639/sharptons-socialism-shocker/?playlist_id=86923
- The Enemy Belligerent, Interrogation, Detention, and Prosecution Act of 2010 will be introduced by Senators John McCain and Joseph Lieberman. It is a comprehensive policy for the detention, interrogation and trial of suspected enemy belligerents who are believed to have engaged in hostilities against the United States by requiring these individuals to be held in military custody, interrogated for their intelligence value and not provided with a Miranda warning. Read the bill here:
<http://assets.theatlantic.com/static/mt/assets/politics/ARM10090.pdf>
- On March 18, with very little pomp and circumstance, president Obama passed the most recent stimulus act, the [\\$17.5 billion Hiring Incentives to Restore Employment Act \(H.R. 2487\)](#) [1], named by the administration's millionaire cronies to abbreviate as [HIRE](#) [2]. As it was merely the latest in an endless stream of acts destined to expand the government payroll to infinity, nobody cared about it, or actually read it. Because if anyone had read it, the act would have been known as the Capital Controls Act, as one of the lesser, but infinitely more important provisions on page 27, known as Offset Provisions - Subtitle A-Foreign Account Tax Compliance, institutes just that. In brief, the Provision requires that foreign banks not only withhold 30% of all outgoing capital flows (likely remitting the collection promptly back to the US Treasury) but also disclose the full details of non-exempt account-holders to the US and the IRS. And should this provision be deemed illegal by a given foreign nation's domestic laws (think Switzerland), well the foreign financial institution is required to close the account. It's the

law. If you thought you could move your capital to the non-sequestration safety of non-US financial institutions, sorry you lose - the law now says so. This is the beginning of capital control. Published on <http://www.zerohedge.com>.

What They Are Not Telling You About Healthcare

“We have to pass the health care bill so that you find out what’s in it...”
-Nancy Pelosi

“It’s a glorious bill, and it’s going to open itself up like a flower in the spring to the American people.”
-Jay Rockefeller

*“The harsh fact of the matter is when you’re going to pass legislation that is going to cover 300 (million) American people in different ways that it takes a long time to do the necessary administrative steps that have to be taken to put the legislation together **to control the people.**”*
-John Dingel (from WJR in Detroit)

*“The mal distribution of income in America has gone up too much. The legislation will have the effect of **addressing that mal distribution of income in America.**”*
-Max Baucus on the Senate Floor

*“We are going to have to, if you’re very old, we’re not going to give you all that technology and all those drugs for the last couple of years of your life to keep you going for a couple of months. It’s too expensive. We’re **going to let you die.** Also, I’m going to use the bargaining leverage of the federal government in terms of Medicare and Medicaid...**to force** drug companies, insurance companies, and medical suppliers to reduce their costs, but that means less innovation and that means less new products and less new drugs on the market which means that you probably are not going to live that much longer than your parents.”*
-Robert B. Reich (to much applause)

Fidel Castro has hailed the passage of the health care bill.

Don’t Worry-Be Happy

Engineers in Austin, Texas have reported that they have developed a method to make high grade oil from coal. Despite the fact Texas is the fifth largest producer of coal and lignite in the United States, has a 200-year recoverable supply of this natural resource, and consumes more coal and lignite than any other state, no new coal fired capacity has been brought on line in Texas since 1992. However, the low and stable cost of coal and lignite makes coal-fueled plants less expensive to run from a fuel source standpoint, especially with today’s natural gas markets. I wonder how long it will be before the environmentalists find a way to block this.

Quote of the Month

"If Congress can do whatever in their discretion can be done by money, and will promote the General Welfare, the Government is no longer a limited one, possessing enumerated powers, but an indefinite one"

-- James Madison, 1792

Book Reviews

Water-The Final Resource by William Houston and Robin Griffiths. This easily-readable book presents complex data about the earth and its precious resource, water. The current trends point toward greater demand and flat to declining supply. The implications for the food supply match my own predictions for water and crops.

While we are on the subject of water, Thomas Sowell recently wrote about a survey conducted by a group of US students. They went to public gatherings to gather signatures on a petition that requested government action to prevent dihydrous oxide from entering the water supply. They told people that dihydrous oxide is in the rivers, lakes, water supply, food, and our bodies. Dihydrous oxide is H₂O, or water. Hundreds signed the petition. The point of the student project was that people do not think deeply about causes that they support.

CFRS Portfolio

The CFRS model portfolio rose 3.45% in Q4 versus a rise of 5.49% for the S&P. This is a computerized model portfolio and is not actual trading results. Looking at the returns on an annualized basis from January 1, 1996 through December 31, 2009:

S&P Annual Return: 4.3%

Portfolio Annual Return: 20.9%

*Disclaimer: The methods utilized have proven profitable in the past but no guarantee can be made of future performance nor is any liability accepted.
See the website at cyclesresearch.com.*

The report is sent on or prior to the open of the first trading day of the new month, unless otherwise stated. If you do contact us by e-mail, kindly give your full name. We cannot query the database by e-mail address. Thank you.

Cycles Research
511 6th Ave.
No. 550
NYC
NY 10011-8436