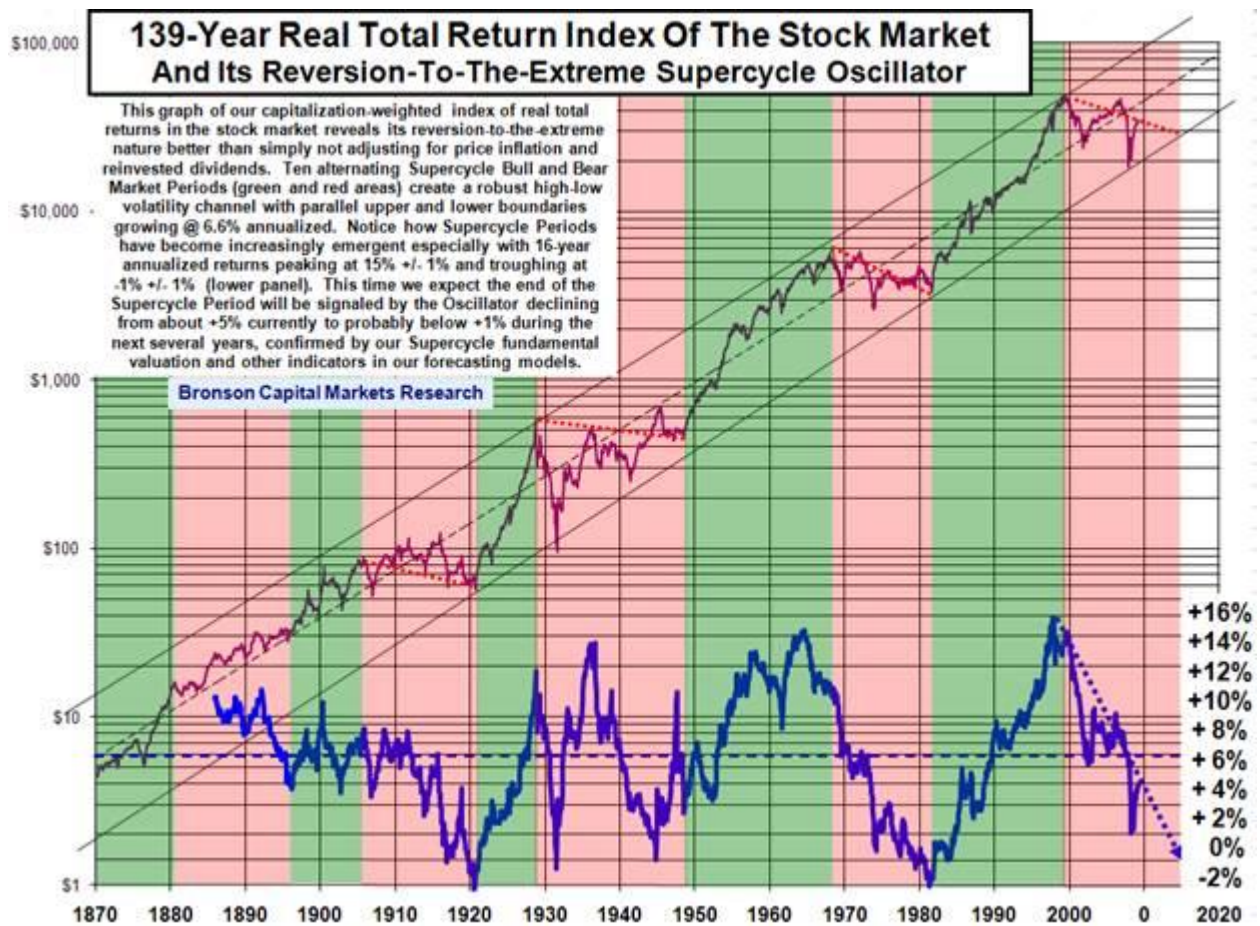


Revealing Supercycles: BAAC and Economic

Our unique 139-year monthly database for the U.S. stock market is now available

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Although graphs of the stock market can be illustrated in several different ways, the Supercycle mean-reverting nature of the stock market is best revealed through its real total returns (that is, adjusted for price inflation and dividends reinvested), as illustrated in the first chart below.



The stock market's performance over ten alternating Bronson Asset Allocation Cycle (BAAC) Supercycle Bull and Bear Market Periods (five green and five pink shaded areas, respectively) create a robust high-low volatility channel, with nearly parallel upper and lower boundaries showing growth of 6.6% annualized over the 139-year period.

Notice how Supercycle Periods have become increasingly emergent, as especially seen in rolling 16-year returns rather predictably peaking at 15% +/- 1% and troughing at 0% +/- 2% (see the lower panel of the chart), which further establishes 16 +/- 4 years as the average length of a BAAC Supercycle Period (Bull or Bear).

The S&P 500 index is currently at the same level as it was four to five months ago, 15 months ago and 12 years ago – that is, there are 0% gains over each of those periods, the latter of which especially has caused the 16-year Supercycle Oscillator to be approaching its predictable 0% +/- 2% trough.

We continue to expect that the end of the current, secular period of essentially no gain, which we fundamentally and technically quantify and identify as a deflationary economic BAAC Supercycle Bear Market Period, or Supercycle Winter,¹ will be signaled by the Oscillator declining still further from its 16-year annualized return of about +5% at present to probably at least below +1% during the next several years. This forecast is supported by our other Supercycle fundamental valuation metrics (such as price in relation to: various measures of corporate earnings, Tobin's Q replacement value, book value, dividends, and Warren Buffett's favorite, GDP), as well as other indicators in our forecasting models (see Exhibit B).

The monthly real total return index used in this chart is from our uniquely compiled capitalization-weighted index (CWI) of all exchanged-traded US common stocks which, along with several important enhancements explained below, splices the S&P/Wilshire 5000 Composite Index with a database going back to 1870 that is maintained by Yale professor of economics Robert Shiller: <http://econ.yale.edu/~shiller/data.htm>.

Our CWI contains only common stocks, which currently comprise some 6,000 of the more than 10,000 securities currently traded on the NYSE, NASDAQ and ASE. It excludes the more than 4,000 non-common stocks, which would otherwise constitute statistically-distorting data that is duplicative or irrelevant.

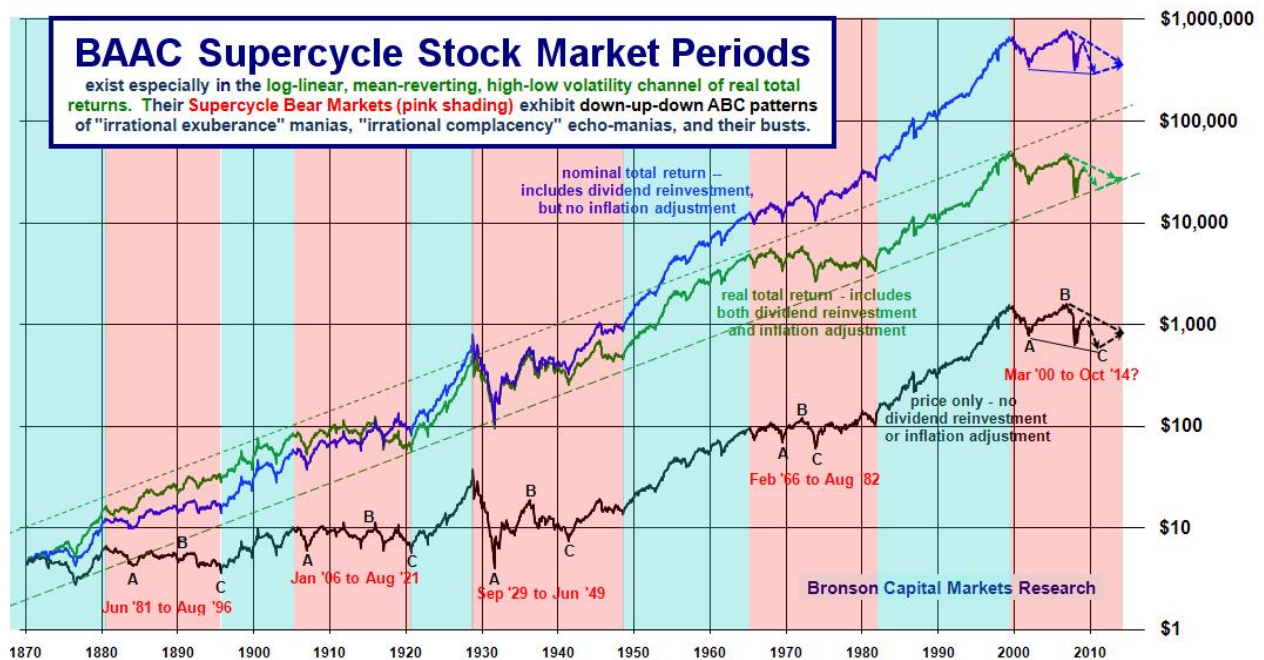
Shiller's database splices the Cowles Commission database from 1870 to 1926 with the high-quality, no-survivor-bias, Center for Research in Security Prices (CRSP) database, as explained here: http://en.wikipedia.org/wiki/Center_for_Research_in_Security_Prices While Shiller essentially smoothes data by using the average of daily closing prices during each month, thus grossly understating bull and bear markets by a huge 10 to 15 percentage points on average (see endnote 2), we prefer not to smooth and instead to track very important mean-reverting bull-bear volatility. Thus, our CWI uses intra-month, cyclical bull- and bear-market high and low prices, for the 33 bull and bear markets since 1895 as identified in exhibit E: <http://www.financialsense.com/editorials/bronson/model.pdf>, and the month-end prices for all other months, thus capturing more of the volatility than a monthly average, and using the prices from the S&P 500 Index since December 1949 and from the S&P Wilshire 5000 Composite Index since April 2001.

Further, in order to capture as much meaningful price volatility as reasonably possible for the even earlier monthly data prior to 1950, we've replaced Shiller's monthly averaged data with Dow Jones Industrial Average intra-month cyclical bull- and bear-market high and low prices, using actual and imputed intraday highs and lows going back to its first availability in 1896: <http://www.djaverages.com/index.cfm?view=industrial&page=reports&show=performance&symbol=DJI>

¹ For brevity and other reasons, we call a deflationary economic BAAC Supercycle Bear Market Period a Supercycle Winter, which is a term reserved to our work and is unlike the terminology used in conjunction with work by Kondratieff, Schumpeter or anyone else – see endnote 1 and Exhibit A.

All of this spliced, expanded and more refined monthly CWI data is further enhanced by presenting it as a real total return index, which reveals Supercycles better than more popular presentations that do not adjust for either dividends or price inflation. See the triple overlay chart below.

Subscribers to our private list may request a fully detailed and easy-to-maintain spreadsheet of the 139-year price-only, nominal-total-return and real-total-return histories of our monthly CWI data, not otherwise available anywhere else at any price, for their private, non-commercial use.

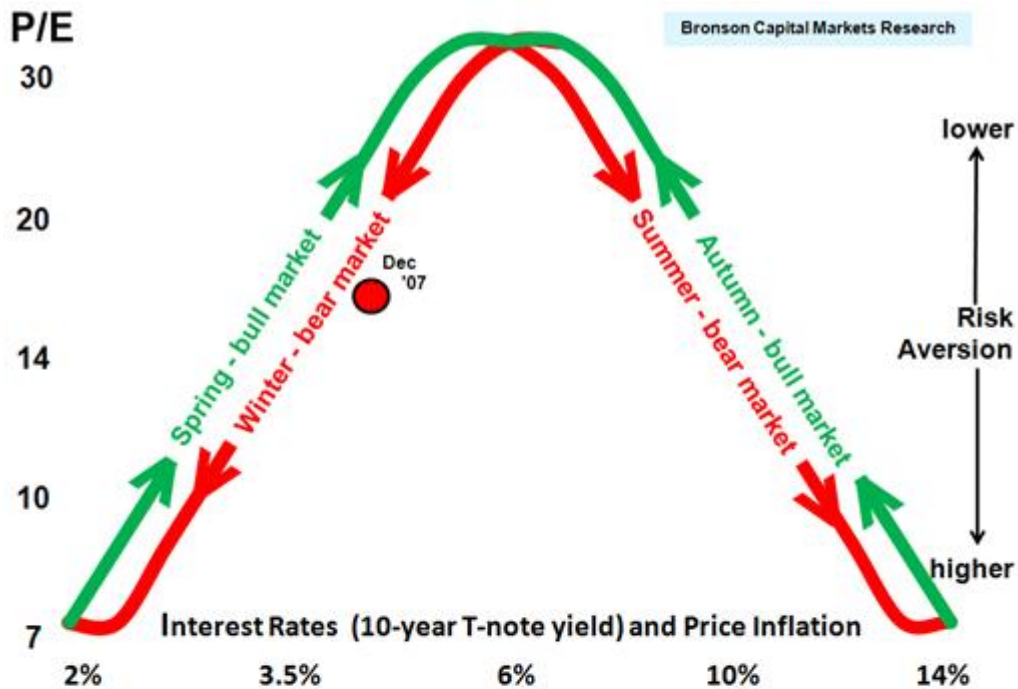


Stock Market Supercycles are made up of a Supercycle Bull Market Period and a Supercycle Bear Market Period. Supercycle Periods are alternating secular periods, averaging about 16 years, of over- and underperformance in stock market total returns relative to both price inflation and risk-free (Treasury bills) and money market mutual returns (since their 1972 inception). Both economic recessions (usually three to four) and the bear stock bear markets that anticipate them are twice as frequent and twice as severe (magnitude times duration) during Supercycle Bear Market Periods (five pink areas in the chart) with the down-up-down ABC zigzag patterns) as compared to Supercycle Bull Market Periods (five green areas).

Endnote 1: We have documented our discussions with others who have used the terms K-Cycle, K-Wave or Kondratieff Wave, with Season(s), and the like, and have clearly established that we were the first to use these terms with the Season(s) nomenclature, as well as the first to quantify them economically or otherwise fundamentally (Kondratieff and Schumpeter did not) or even technically. Most importantly, we were also the first to apply these concepts – well in advance and in writing – to our long-range forecast of the entirely predictable secular bear-market period that did emerge, starting variously from the late 1990's through March 2000, depending on the metric under consideration. More than simply bragging, which is certainly more fun, these discussions were necessary to establish and defensively document our intellectual property rights on these often contested issues. We more than welcome further inquiries.

Endnote 2: For example, our CWI fully reflects the two-month 1929 Crash of 47.9%, which was the first phase of the history-making 34-month bear market decline of 89.2% from 9/3/29 through 7/8/32. These declines are understated by a whopping 26% and 48%, respectively, using Shiller's intra-month averaged data. Similarly, our CWI fully reflects the eight-week 1987 Crash of 35.9% from 8/25/87 through the morning low on 10/20/87, which followed the infamous 20.5% (close-to-close) Crash Day. That was the first part of the 14.5-week, 34.5% bear market decline that lasted through 12/4/87. By using only month-end stock market prices, not only is the extraordinary history-making volatility of the Crash Day completely missed, but also the whole bear market decline is understated by 12 percentage points. Our monthly CWI picks up all of this important volatility, resulting in single spreadsheet columns of numerical data to enable easier and more meaningful fundamental, technical and quantitative analysis without the cumbersomeness of, for example, the three times as dense high, low, close price data used in bar chart spreadsheet data.

Exhibit A



Supercycle Economic Seasons¹

<u>Fundamental</u>	<u>Spring</u>	<u>Summer</u>	<u>Autumn</u>	<u>Winter</u>
Economic Phase	reflationary	inflationary	disinflationary	deflationary
Recessions ²	less	more	less	more
Inflation and)	rising	rising	falling	falling
Interest Rates)	from trough	to peak	from peak	to trough
Bond Market ³	bear	bear	bull	bull
Stock Market ³	bull	bear	bull	bear
Risk Aversion ⁴	decreasing	increasing	decreasing	increasing
P/E ratio ⁴	rising	falling	rising	falling
Bear markets ⁵	less	more	less	more

1. We have documented our discussions with others over many years who have used the terms K-Cycle, Kwave or Kondratieff Wave, with Season(s), and the like. Our decades long publishing record clearly establishes that we were the first to use these terms with Season(s), as well as the first to quantify them economically or otherwise fundamentally (Kondratieff and Schumpeter did not) or even technically. Most importantly, we were also the first to forecast their applicability to the secular period dating variously from the late 1990's through March 2000, depending on the metric under consideration. [As Forecasted – A 12-Year Retrospective](#) We more than welcome further inquires.
2. The terms “more“ and “less” refers to the combination of cyclical frequency and severity (duration times magnitude) – see SMECT: [A Forecasting Model That Integrates Multiple Business and Stock Market Cycles Since 1896](#)
3. The terms “bull” and “bear” refer to the over- and under-performance in Supercycle (secular) trends of excess total return compared to the risk-free return, price inflation, and other asset classes. Our BAAC Supercycle paper is available upon request.
4. P/E includes quantification of investor mood (animal spirits) – see our earnings-capitalization stock-market valuation model: [Quantifying and Forecasting an Equity Risk Factor](#)
5. See our severity (magnitude and duration) quantification of the 33 most severe bear markets since 1895: Exhibit E in #2 above.

Exhibit B

Our comprehensive time-horizon-based forecasting models includes four-paired factor groups: monetary-economic, social-political, valuation-sentiment, and inter- and intra-market technical, which cover nine time horizons. Each of the four factor groups have dozens of timing indicators, which are constantly re-evaluated and upgraded or degraded with new ones added periodically.

<u>Hours</u>	<u>Days</u>	<u>Weeks</u>	<u>Months</u>	<u>Quarters</u>	<u>Years</u>	<u>Kitchin Cycles</u>	<u>Supercycles</u>	<u>K-Cycles</u>
Technical Indicators								
Growth Cycle reconciliation of classical technical chart patterns and oscillators								
News events, relative strength, leadership, contrary opinion and insider activity								
Economic Indicators								
Conference Board and other leading coincident and lagging indicators								
Economic-Election Kitchin Cycles								
Strong-weak annual seasonal cycle								
Quarterly earnings reporting patterns								
Political election subcycle patterns								
Monetary & fiscal policy interventions								
Earnings Capitalization Model								
Corporate earnings								
Nominal and real bond yields								
Risk aversion factor								
Stock Market & Economic Cycle Timing Model								
Business cycles and Bull-Bear Markets								
Kitchin, Juglar, Kuznets and Supercycles								
Stock Market Drawdown Severity Profile								
Sub Supercycle Period patterns								
Bronson Asset Allocation Cycles								
Classical fundamental valuation indicators								
Inflation and interest rate Supercycles								
BAAC asset classes & investment styles								
War-peace cycle								