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## THE 10-YEAR PATTERN IN THE UNITED STATES STOCK MARKET

*“It’s about time.”*

—My U.S. senatorial campaign slogan, 1978

*What did the fall 2002 buying opportunity really mean? Are more fortune-making buy points coming in 2005, 2006, 2007, and 2008?*

In this book I will go into detail explaining what I think will be the best buy points over the next 10 years. That’s quite a claim. Can it be done, and if so how?

I’d like to first catch your attention with this: If one were to look for the best buying points of the twentieth century one could not help but notice that these stellar opportunities came in 1903, 1912, 1913, and 1920 into 1923. The ultimate best buy point came in 1932. This was followed by wonderful buy points in 1942, 1952, and 1962; 1972 wasn’t bad (though 1973 was better), and, of course, 1982 was perhaps the second best buy point of the twentieth century. That was followed by another superb buy point in 1992. Notice that for the past 100 years, these ideal buying points came in years ending with a two or a three.

If you had invested in just these years you would have substantially outperformed the investor who chose to continually buy stocks. I find this rather amazing and, better yet, to be hard evidence that indeed there’s something going on in the U.S. stock market—something that shows us when the

best buying opportunities tend to occur. They are usually to be found in the first part of the decade—namely, years ending in twos and threes.

Figures 1.1 through 1.6 are of historic stock market activity and are well worth your study. The first, the Axe-Houghton index of stock market averages from 1854 until 1935, is from my personal files. The next group of figures, from Moore Research Centers, Inc., shows price activity for the 101 years from 1900 to 2001.

### **THE PAST IS THE FUTURE**

The 1800s were no different from the 1900s; they presented a very similar scenario. Stocks roared in 1862 and 1872; 1883 was very close to a wonderful buy point, which came in early 1884. Along came 1893, which presented another good buying opportunity. I do not mean to imply that all one has to do as an investor is buy stocks every 10 years. I wish it were that easy! But it certainly helps to have a concept and time zone of when one wants to make a major play in the stock market. My concept of this is that years ending in twos and threes are most likely to turn out to be gargantuan buying points. It is almost as simple as that.

### **THE ROAD MAP TO MARKET SUCCESS**

As a very young man, I followed the work of Edson Gould, who published an advisory service called “Finding and Forecasts.” How I wish I had paid more attention to what Edson had to say. While it is true he had many arcane forms of forecasting, he consistently relied on the action of the Federal Reserve Board and what he called the 10-year pattern for stock prices.

Although I did not know it at the time, I’d been handed, figuratively speaking, the keys to the kingdom of stock market forecasting. The irony of the situation is that I spent the next seven years trying to determine how to forecast stock market prices out into the future. I studied the works of W. D. Gann as well as those of R. N. Elliott, several leading astrologers, and so on, which all turned out to be a waste of time. I was fortunate enough to eventually meet Gann’s son, who was a broker in New York City and who explained to me that his father was simply a chartist. He asked why, if his dad was good as everyone said, the son was still “smiling and dialing,” calling up customers to trade.” It seemed he was somewhat disturbed by his father’s

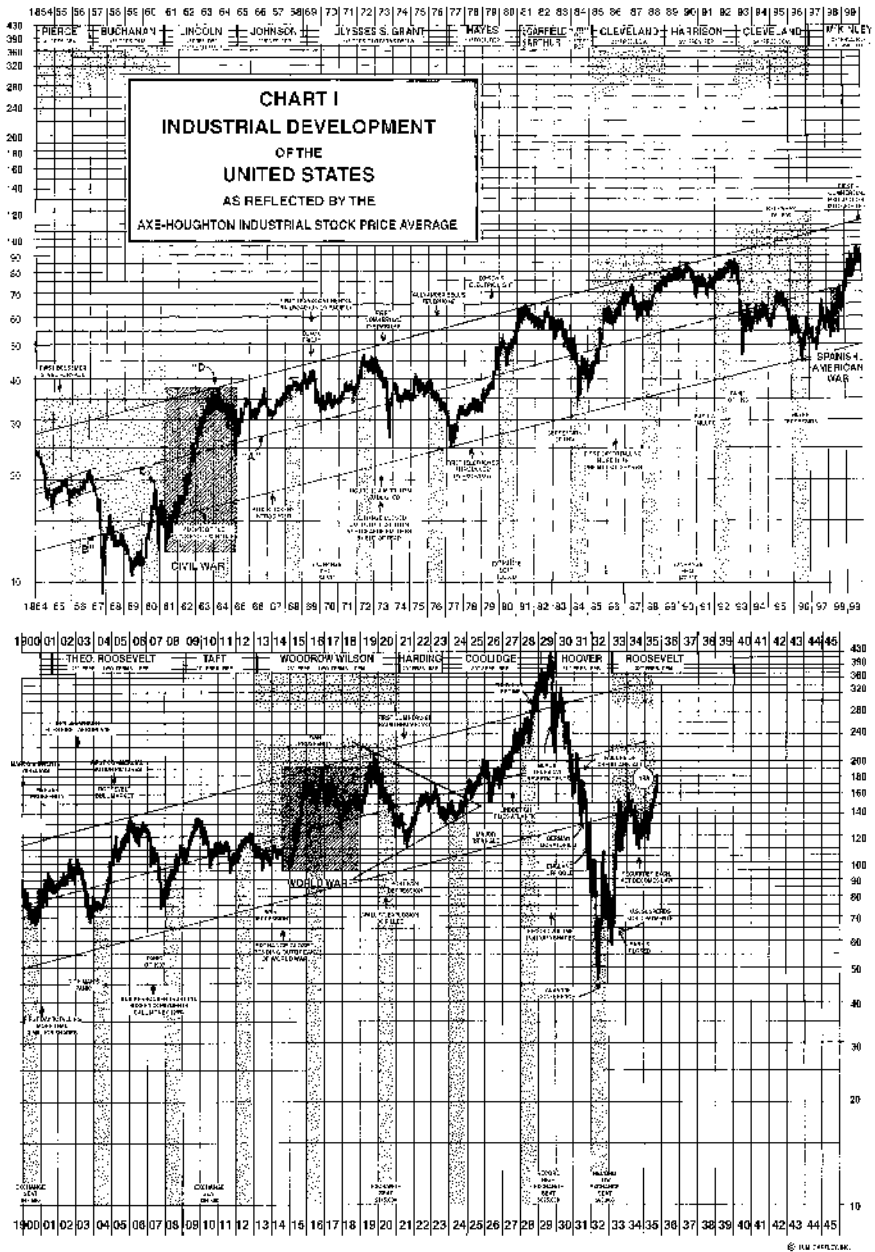


Figure 1.1 Market Averages from 1854 to 1935

Source: Axe-Houghton.

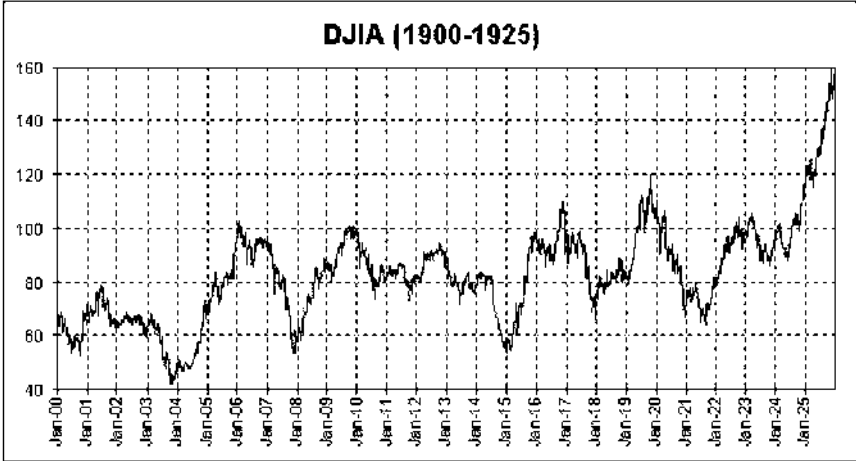


Figure 1.2 Dow Jones Industrial Average, 1900–1925

Source: Moore Research Center, Inc.

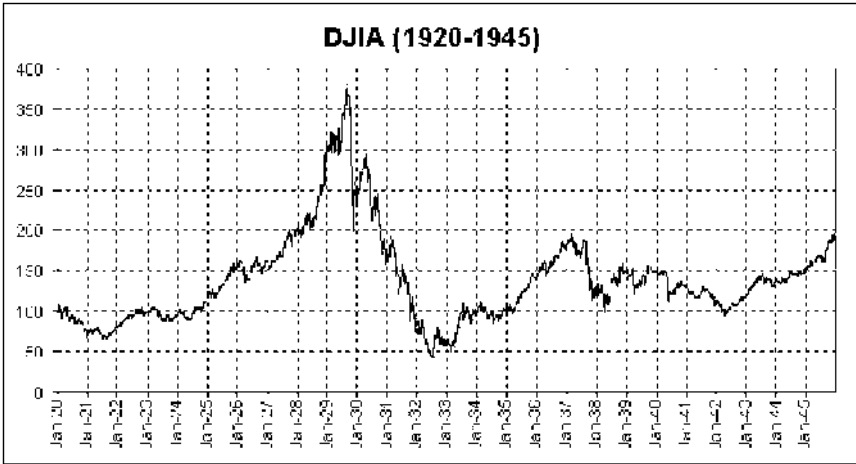
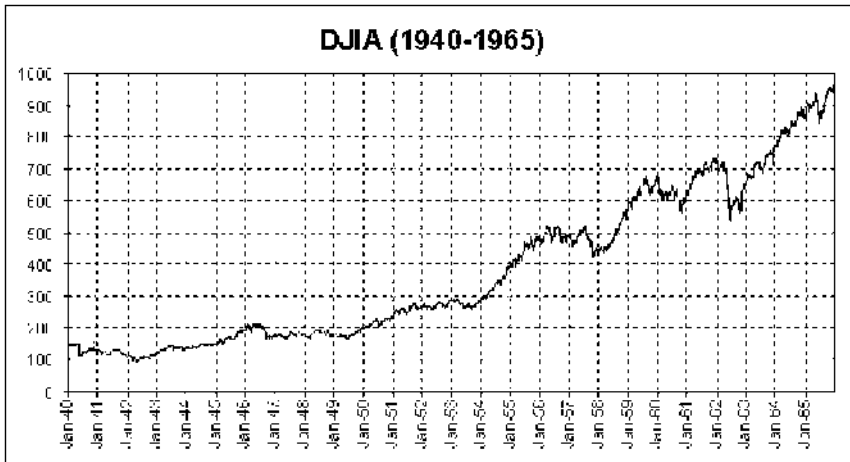


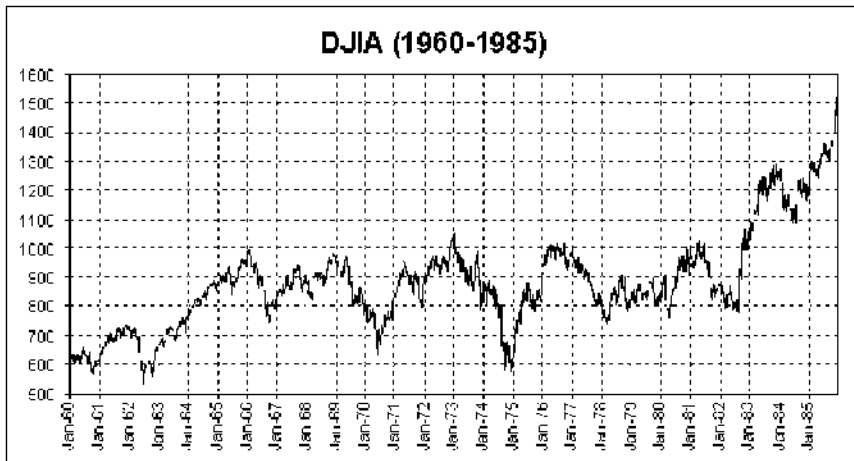
Figure 1.3 Dow Jones Industrial Average, 1920–1945

Source: Moore Research Center, Inc.



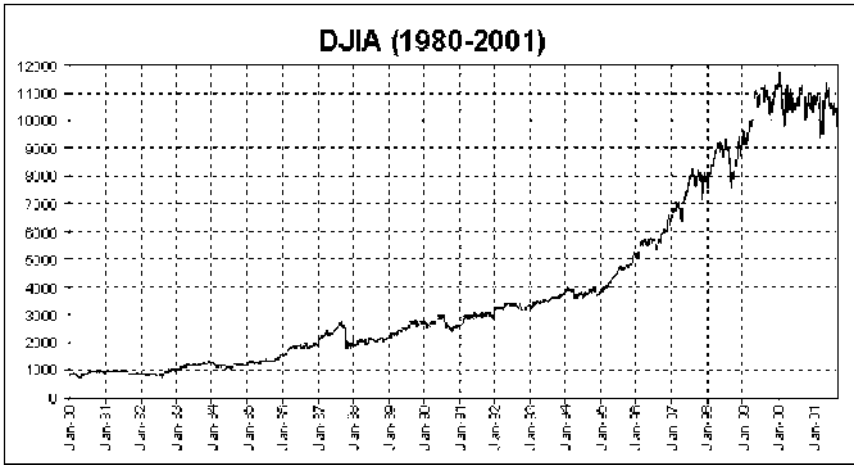
**Figure 1.4** Dow Jones Industrial Average, 1940–1965

Source: Moore Research Center, Inc.



**Figure 1.5** Dow Jones Industrial Average, 1960–1985

Source: Moore Research Center, Inc.



**Figure 1.6** Dow Jones Industrial Average, 1980–2001

Source: Moore Research Center, Inc.

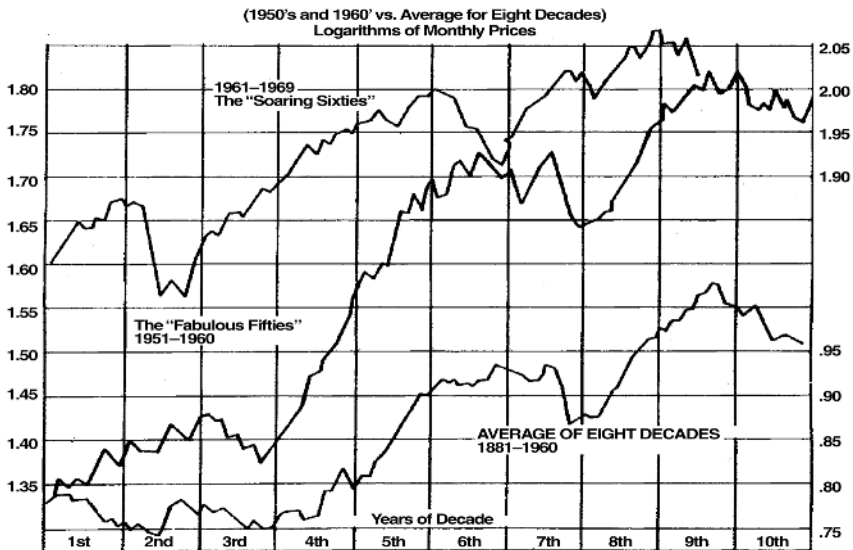
press-agentry, as it had led many people to come to him seeking the holy grail. If there was one, it was never passed on to the son.

At that same time I also met F. B. Thatcher, who had been Gann's promoter and advance man. He assured me in correspondence over the last five years of his life that in fact Gann was just a good promoter, not necessarily a good stock trader. F.B. made his own predictions, and they were not bad, but certainly not great.

He did give me his version of the genesis of the legend of Gann as a great forecaster. It all began, he told me, with an article in the *Ticker and Investment Digest* that has been reprinted many times since, where it was reported that Gann sold wheat at the high tick, or price, of the day. Thatcher said they simply hired a good press agent to place the story in a magazine for them. The magazine article placement was accomplished over a dinner where there was some pretty serious drinking as well as some money sliding under the table, along with payment for a large ad in the magazine.

I did not know any of this at the time I began my search for something to predict the future. Like everyone else, I believed what I had read about all the great predictors. I wish now I had just stayed with the forecasting techniques that Gould devised. His techniques have been not only more accurate than Gann's but also a heck of a lot simpler to follow.

Figure 1.7 is just as presented by Gould as well as shown in Yale



**Figure 1.7** Ten-Year Patterns of Industrial Stock Prices

Sources: 1881–1917, Cowles Commission Industrials; 1918–1969, Standard & Poors's 425 Industrial Stock Price Index.

Reprinted from Yale Hirsch, *Don't Sell Stocks on Monday*.

Hirsch's book, *Don't Sell Stocks on Monday* (Facts on File Publications, 1986). The bottom line of the chart traces the average of eight decades of market history from 1881 to 1960.

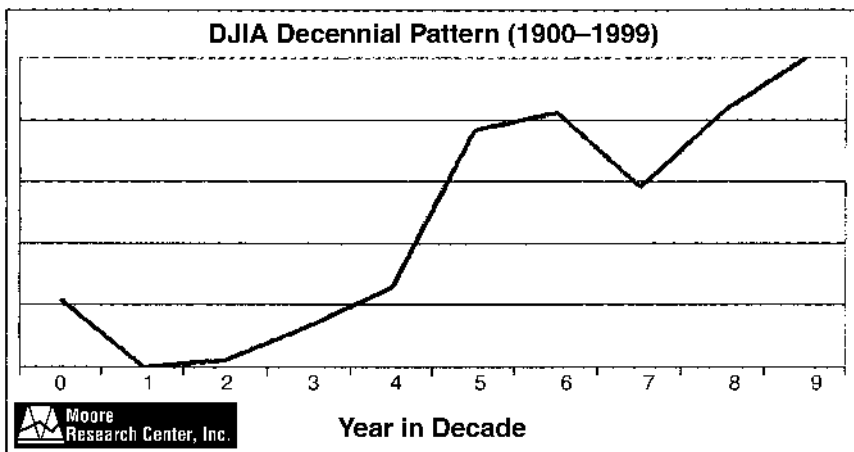
Gould had taken the time to average, by hand, stock prices from 1881 through 1960 on a monthly basis. In this day and age, we can do that in almost the blink of an eye with a computer. I'm certain it took Gould a good year of work. Essentially, what he did was to average every month from 1881 forward through 1960. By this I mean he compared all January price movements in those 80 years to all other Januaries. This created a pattern that Gould used as a general road map that he expected the stock market to follow. What is fascinating is that while his work was completed in 1960, the roaring bull market of the 1960s fit the pattern almost to a T. Then along came the sluggish 1970s, and again the markets moved pretty much in accordance with the road map. The 1980s seemed to an almost uncanny extent to follow the road map Gould had charted out for us, with the crash of 1987 coming exactly where Gould's forecasts said it would occur. The tremendous buying point of late 1987

and early 1988 also was represented on the chart he made in 1960. I find that most remarkable.

Even more startling is that the end of the Nasdaq run-up in the waning weeks of the twentieth century also came in the tenth year of the decade, where Gould postulated market tops are most likely to be found.

The chart shown here reflects Gould’s work using the Cowles Commission Industrials from 1881 to 1917; that stock market index was then blended into the Standard & Poor’s index from 1918 to 1969. As you can see, his work suggests that the first year of a decade, such as 1981, 1991, and 2001, presents investors with choppy to down markets. Sometimes markets take off in years ended in two, such as 1982 or 1932; and for sure by the time the third year rolls around, such as 1983 or 1993, a bull market begins. I would suggest you place this road map of prices in your safe-deposit box to give your children instead of an inheritance. It has more value, and I don’t think the value will deflate over the coming inflationary time periods.

Figure 1.8, thanks to Moore Research, shows what we call “out-of-sample” data. This means the chart reflects information not in the original time under study. In short, an idea or conclusion is reached from observing one time period; then the thesis is applied to data from another time, either before or after the test or discovery period. Seldom does the idea work on the out-of-sample information, by the way.



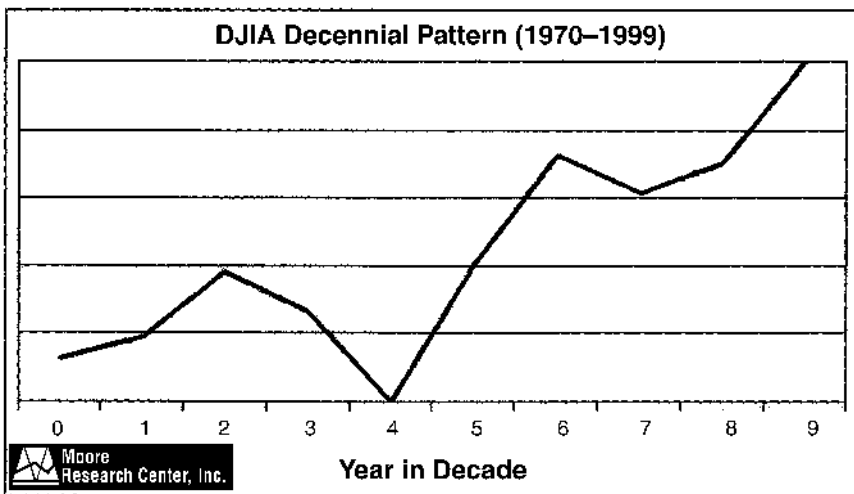
**Figure 1.8** Dow Jones Industrial Average Decennial Pattern, 1900-1999  
 Source: Moore Research Center, Inc.

In this case we averaged the 1980s and the 1990s to continue the same procedure used by Gould on the earlier data. The pattern holds, telling us there is consistency to the concept. What we see is that in the card game of the future pretty much the same cards were dealt as in the past.

Let me tell you how unusual this is. Of the many trading systems and strategies I have developed in some 40 years of trading, the vast majority perform at about 40 percent efficiency after the test. In other words, one should not expect a repeat performance very often. The reality is that once a system or technique is run on unknown data, seldom does it hold up or come even close to what the original study showed.

In the summer of 2001, when I began writing this book, it seemed fairly clear to me that I was looking at a road map that pointed to some type of buying point coming in the mid to latter part of 2002 as well as in late 2003. In lectures across the United States I told investors what I saw as a rare opportunity to buy stocks.

Figure 1.9 shows what happened after Gould's chart was published: The pattern of stock prices for 1881 to 1960 continued. Figure 1.7 has already shown that the roaring bull market of the 1950s and 1960s fit the pattern quite closely, and Figure 1.8 superimposed the 1980s as well as 1990s over the basic forecast made some 40 years ago.



**Figure 1.9** Dow Jones Industrial Average Decennial Pattern, 1970-1999

Source: Moore Research Center, Inc.

It does not matter whether you have been following the markets for 30 years or 30 minutes; you can see that there is more than “just an interesting pattern” at work here. Far from it; what you are looking at is the ultimate insight as to the road stock prices are most apt to follow. Indeed, for over 150 years there has been a consistent ebb and flow of stock prices based on the start and finish of each decade. Note, this is not a 10-year pattern; its basis is the beginning and ending of each decade. To that extent, 10 years of data are observed, but it is not a 10-year cycle.

As a longtime observer of market activity I can tell you there is nothing on the face of this planet that has a better record of giving us the general time periods to be bullish and bearish than the way stock prices have on average carved an upward course each decade in a steady fashion.

### THE “PHENOMENAL FIVE” YEARS

I have learned a lot about the markets from my longtime good friend Yale Hirsch (all he learned from me was how to catch trout). Yale has also uncovered a second important point within this overall pattern of price swings. Yale pointed out in his book *Don't Sell Stocks on Monday* that the middle year of this 10-year pattern tends to produce some real rock-and-roll upside markets. Table 1.1 shows the average gain of each individual year of the decade. At the time his book was written we had 11 decades under our belt for study. What we see is that in 11 out of 11 times the fifth year in the decade produced a rally or a market-up move, making it the strongest year in the 10-year pattern. Years ending in eight showed winners in 8 out of 10 occurrences. The poorer-performing years were those ending in seven and those years ending in a zero, as the Edgar Lawrence Smith's work had suggested.

That is well and good, but of greater importance to an investor is *how much* money was made in a year, not simply whether the year was up or down. Without a doubt the fifth years of the decades have been where the bulk of wealth has been made. Yale's work showed a total gain of 254 percent in the five years, making them head and shoulders above even the second-place eight years, which came in with a 164 percent gain.

What Yale had no way of knowing was what would happen in the 1990s. It was unknown at that time how 1995 would perform.

**Table 1.1** The 10-Year Stock Market Cycle: Annual Percent Change in Standard & Poor's Composite Index Past 100 Years

Decade	Year of Decade									
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
1881–1890	—	—	—	—	20	9	–7	–2	3	–14
1891–1900	18	1	–20	–3	1	–2	13	19	7	14
1901–1910	16	1	–19	25	16	3	–33	37	14	–12
1911–1920	1	3	–14	–9	32	3	–31	16	13	–24
1921–1930	7	20	–3	19	23	5	26	36	–15	–29
1931–1940	–47	–18	48	–2	39	28	–34	13	0	–12
1941–1950	–15	6	21	14	33	–10	–2	–2	11	20
1951–1960	15	7	–3	39	23	4	–13	33	11	–4
1961–1970	27	–13	18	13	9	–11	17	12	–14	–1
1971–1980	10	12	–19	–32	32	18	–10	2	11	26
1981–1990	–7	13	18	0	26	—	—	—	—	—
Up years	7	8	4	6	11	7	3	8	8	3
Down years	3	2	6	4	0	3	7	2	2	7
Total % change	25%	32%	27%	64%	254%	47%	–74%	164%	41%	–36%

Based on average December prices.

Would it follow this tradition? Or would it break the consecutive string of the 11 winning years ending in a five? And how about that eight year in the pattern—would it also produce gains similar to those as it had in the past?

Years ending in a five from 1885 through 1985 had produced an average gain of 23 percent; years ending in an eight had produced an average gain of 14.9 percent. Keep in mind that the 1881–1990 data shows a total gain of 254 percent for the fifth year, or an average of 19.5 percent per year.

The year 1995 produced a spectacular gain of 33.5 percent by the Dow Jones Industrial Average while 1998 produced a gain of 14.9 percent, making these the two best-performing years of the 1990s. Just think, the gains of 1995 and 1998 were right on schedule according to the pattern detected generations earlier. Keep in mind that forecast was essentially locked into iron shackles in 1960, yet was able to correctly point investors to the two most profitable years in the 1990–2000 bull market.

Perhaps, just perhaps, the stock market is a little bit easier to understand than you ever thought.

I suggest you take a great deal of time to look at and restudy the longer-term charts presented in this book in order to get a sense of this phenomenon and perhaps pick up the cadence at which the market moves.

### THE “SURE THING SEVEN” YEARS

Clearly, some years are better for buying than others. The focus of my work has been to ferret out the best years, the most explosive, the ones with the greatest odds of having significant upside action. Sure, you can buy and hold for 20 years and make money—no brilliance there. What I want is to make my wagers when the dice are loaded.

The addition to our knowledge of the 10-year pattern means that there is yet one more place to look to buy stocks. Is it just coincidence that the 1960 road map, which suggested a major buy point at the end of any year ending in seven, scored with big wins in 1977, 1987, and 1997? Each of those years provided investors with excellent end-of-year buy points. I suspect it is not just coincidence. I suspect there is something going on in the general economy or business cycle—call it what you may—because this pattern is simply repeated too many times, too often, to be just some random fluctuation of numbers.

It's now time for you to restudy the Axe-Houghton index of stock prices from 1854 forward (Figure 1.1). The same phenomenon can be found to occur: In late 1857 stocks bottomed, then almost doubled in price. The fall of 1867 produced an equally spectacular rally that continued all the way to the 1869 market high.

Wouldn't you know it? When 1877 rolled around, stocks again bottomed about midyear, and then later in the year a two-year bull market began. That takes us to 1887, when again, in the fall of the year, stock prices bottomed before beginning a two-and-a-half-year bull move.

The year 1897 saw pretty much the same thing: Prices bottomed early in the year, followed by a summer run-up, a pullback in the fall of the year (the seven year buy zone), and then another two-year bull market. The 1907 bottom came late in the year, about December, just before another two-year bull market. The year 1917 was almost a replica of 1907; again prices got hammered at the end of that year before they took off on another two-year bull market.

Then there's 1927. What more can one say? There appears to be no major low here—prices went straight up. But if you look closely you see in the fall of 1927 where prices stabilized briefly, pulling back off the year's high before another two-year bull market surged to the 1929 top.

Well, that brings us to the Moore Research data and 1937, a year stocks declined with a vengeance, bottoming in the first of quarter 1938 before another two-year bull market began. (This time the seven year phenomenon was off by about three months.) In fact, that's pretty much what happened 10 years later in 1947, when the average moved sideways most of the year, came down in the fall, and bottomed in mid-February 1948. No two-year bull market followed, though; prices simply had a huge, one-year run-up in 1948.

In 1957 stocks followed the model perfectly. There was a run-up in the first part of 1957; prices then crashed coming into an October low or a bottom, to begin one more substantial up move in the U.S. stock market. This was in perfect harmony with the seventh-year price pattern.

Ten years later yet one more wonderful buy point was presented. Stocks rallied during the first part of 1967, then took a tumble into the fall of that year, bottoming in February 1968 and starting not a two-year bull market, but a strong rally for the rest of 1968. Clearly, history shows there was a very nice buy point in late 1967 and early 1968.

Does it appear to you there is something to this phenomenon? It does to me. Is there an explanation for it? I can come up with some explanations, but I'm not certain they prove a point any more convincingly than a study of the five years and the seven years as well as the two and three years in terms of historical precedent. The charts don't lie. The phenomenon is there, and it's up to us to learn how to exploit the past so our investments might be better in the future.

Of course what we're talking about here is just timing. We still have to get into the issue of selection—what stocks to buy. However, most investors have a pretty good idea of companies they want to purchase; they just don't know the right time to do so. Buying or selling at the right time does make a huge difference. As an example, on balance, if you purchased stocks at the start of the sixth year of the decade, you had to wait only until the eighth year to make money. *If you purchased stocks in the years ending in nine, you had to wait almost five years, on average, before your stock showed a profit.* So timing your entries and exits in the stock market is critical. I believe following the 10-year price pattern is one way to gain an advantage in this business of speculation.

It would seem unreasonable to expect stock prices to follow some mythical and perhaps even mystical road map observed in the 1960s on out into eternity. Yet, that is precisely what has taken place, by and large, which raises the question, will markets of the twenty-first century continue to follow this road map? That is a question that will not be answered until the time period is over. However, we can watch during the first 10 years, from 2001 to 2010, to see how closely this pattern is repeated. I suspect that it will be repeated, and more closely than you might imagine. The acid test comes sometime after 2005. If 2005 is another rip-roaring bull market year and the overall price pattern follows the 10-year road map, I think it will give even more validity to this concept and investors should have more confidence in using it as a general guideline of investment activity for years, or perhaps decades, to come.

The market appears to have repetitive tendencies to how it unfolds over the years. The frame of reference does indeed seem to be the decennial pattern. Within that framework there are particular times that one should look for optimal buy (and sell) points.

The first would be years ending in twos and threes, followed by the incredibly strong five years. The next opportunity to look for a buy point is in the fall of any year ending in seven.

Finally, a long-term investor should never forget that most major market highs have come in years ending in nine and zero, such as 1929, 1969, 1999, and of course 2000.

I look upon this decennial pattern as the most logical road map that prices will follow. I certainly do not expect prices to match this price pattern precisely each year, or each decade. It wouldn't be any fun to trade stocks if it were that easy. But we are given excellent guidelines here of which turns in the road to take, as well as when to take them.