LARRY WILLIAMS

2010 A TIME FOR CHANGE…

A TIME FOR HOPE

Amid gloom, doom and uncertainty… stock cycles forecast good times coming

As we enter 2010 we are faced with the pervasive fear of a potential stock market crash, a horrible economy and perhaps civil unrest. What will come of all this? No one knows. But for sure, cycles and patterns from the past have spoken; here is their answer as to what we have to look forward to in 2010.

First let me draw your attention to the 5 major seasonal/cyclical events that will influence stocks in the coming year. They are, in no particular order:

- The Obama or Presidential Cycle
- The 4 and 8 Year Price Pattern
- The Decennial Pattern
- My "Natural Cycle" of Short-Term Action
- An Amalgamation of all Long-Term Cycles into One Pattern

Contents

If you want to skip the understanding of all this just go to Page 10 where you will see the forecast.

True students of market action will want an in-depth understanding. That is so true because, as much as we desire it, forecasting the future is not an easy task. In the next 12 months unpredictable things will happen. Cycles phase in and out of their influence. I will be paying attention to the 5 future events mentioned here to see how the market acts, and reacts, at these time periods.

After all, the ultimate decider of the truth is the market. I can forecast it pretty well; yet still we have to listen and watch as it does what it does.

With that in mind, let me show you the major influences for stock prices in 2010.

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THE OBAMA FORECAST

Readers of the 2009 report will recall that this road map of the future was arrived at by averaging all similar years of Presidential Powers. In this case I have synthesized all second years of all presidents' terms in office since 1922. The future seems pretty clear; expect a sell off into mid/late February, a rally into mid April, and then a decline into early October.

This view may be biased however, as it is a snapshot in time of just the last 60 years. What if we look at stock prices from 1900 through 1950? Was there a Presidential cycle at work then, and if so how close is it to the current one? In other words, does this pattern have legs or is it a post World War II phenomena?

The answer is in Chart 1, where I have looked at just similar years starting in 1900 thru 2008. The picture, below, is pretty much the same.

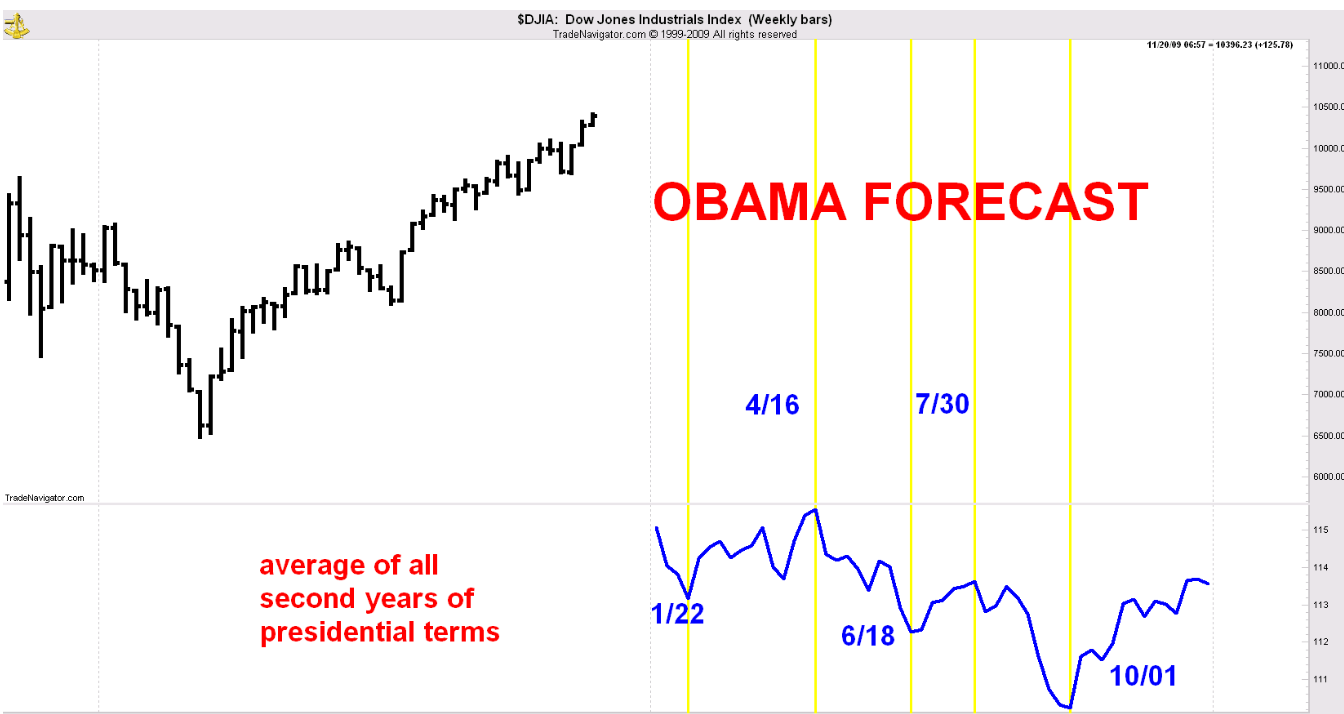

Chart 1: Dow Jones Industrial Average Forecast 2010

An important note needs to be inserted here; the Road Maps tell us much more about when markets will top and bottom than the trend.

In other words, just because the Presidential Forecast appears to show a down move most of the year, that should be taken as suggestive only; the turn dates are more important.

And, of course, the current market trend at the time of the turn dates help us understand what the implications of the forecast are.

A Quick Look At The 4-Year Low To Low Count

I've been writing about this pattern (I don't see it as a cycle) since 1970 when very few were aware of the influence… this baby has had legs. It is the simplest timing tool I know of; charts and computers are not required. Just begin in 1934 and look for a major market low every 4 years from that point forward.

Chart 2 shows the 4-Year Lows marked off, as well as my "4-Year Cycle" indicator that forecasts or projects out when the 4 year low should develop. The exact projection is for September 28. On a weekly basis let's just call that the first week of October.

As you will see the projection has, at times, been spot on while other times a little early or late… but seldom has a great buying point not been at hand. This tells me that in September and October we need to pay close attention to our other tools for a buy confirmation.

Charts do help show the impact of the pattern, so here they are for your study.

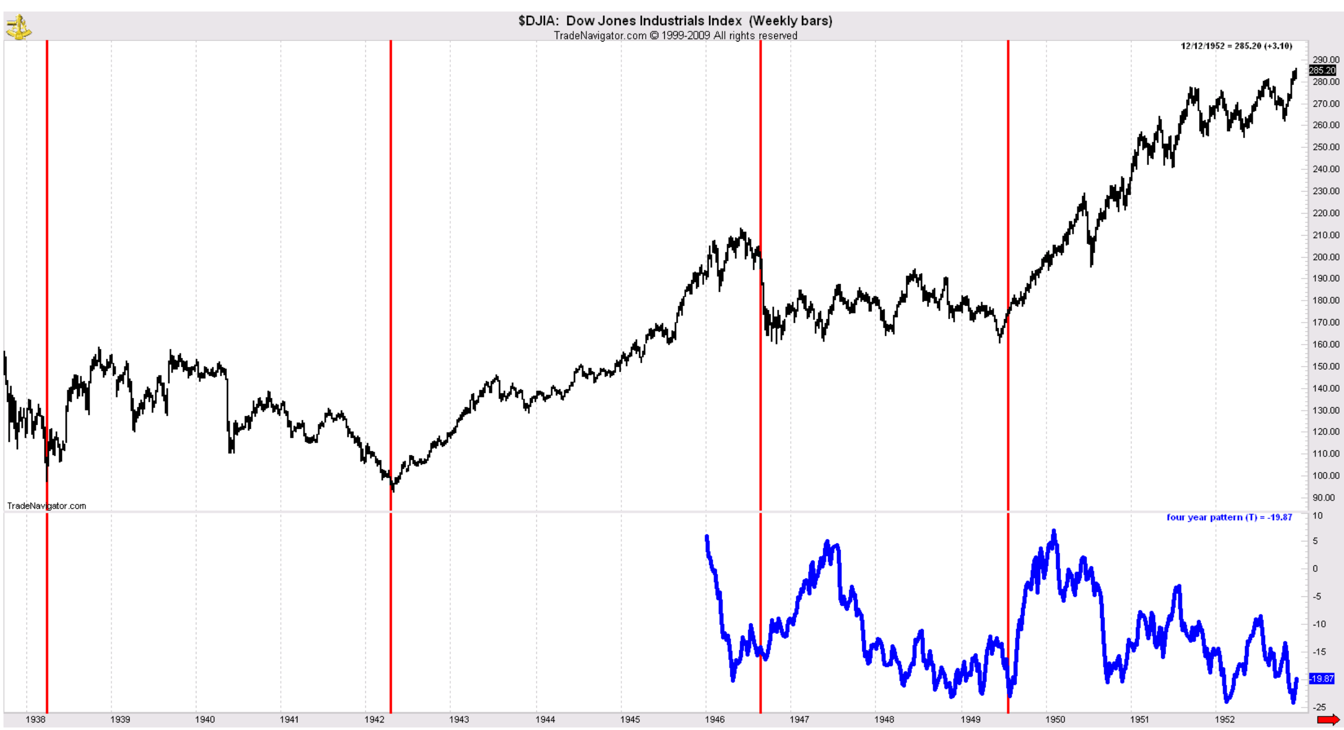

Chart 2: 4-Year Low to Low Pattern 1938 - 1952

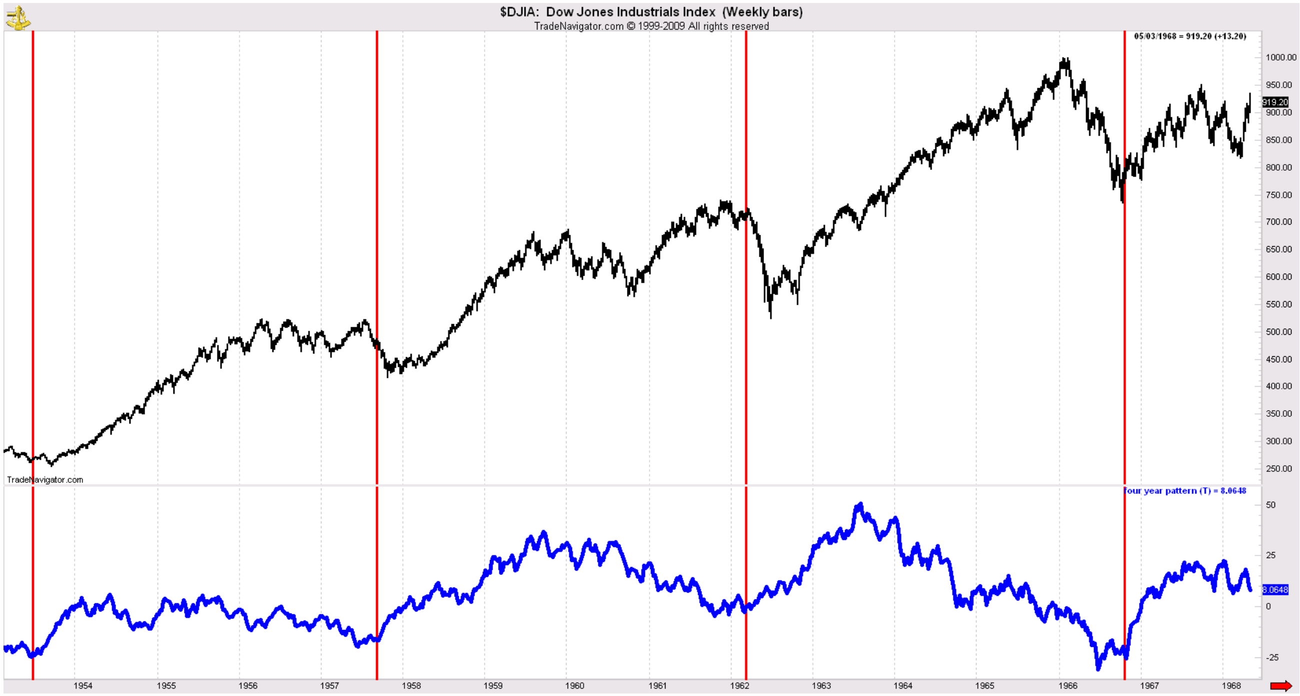

Chart 3: 4-Year Low to Low Pattern 1954-1966

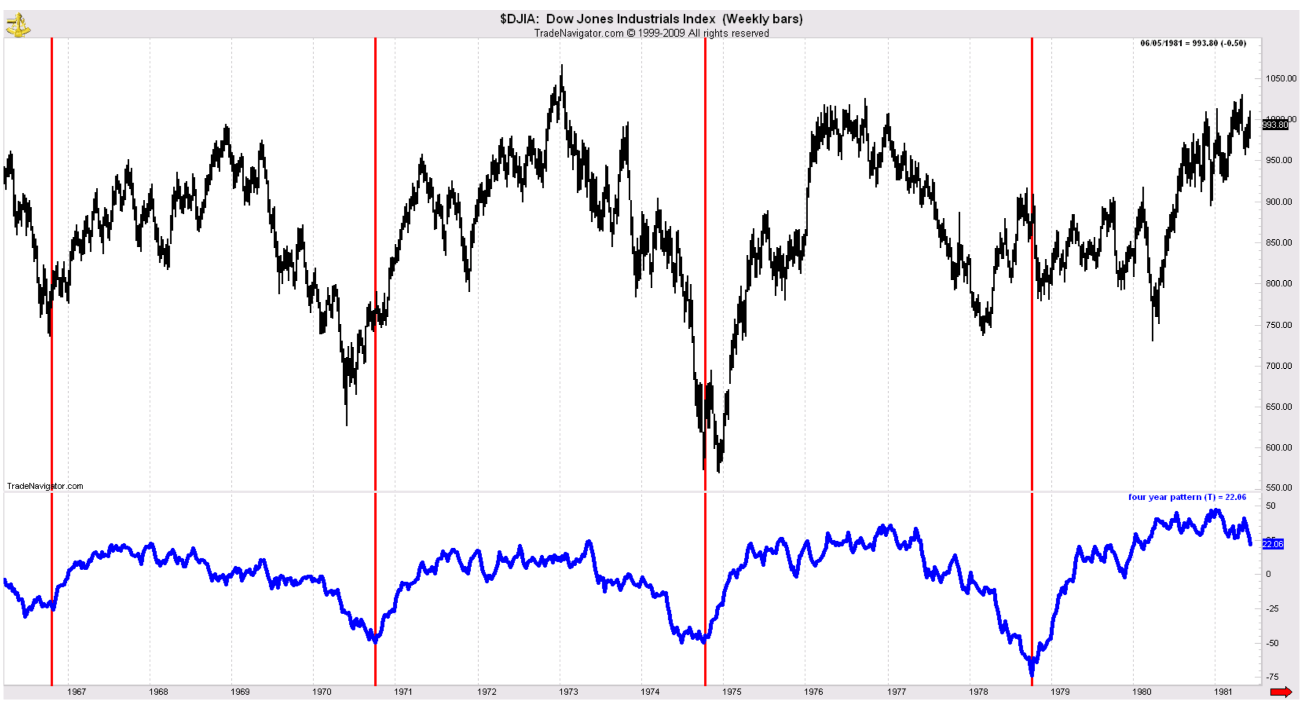

Chart 4: 4-Year Low to Low Pattern 1967-1981

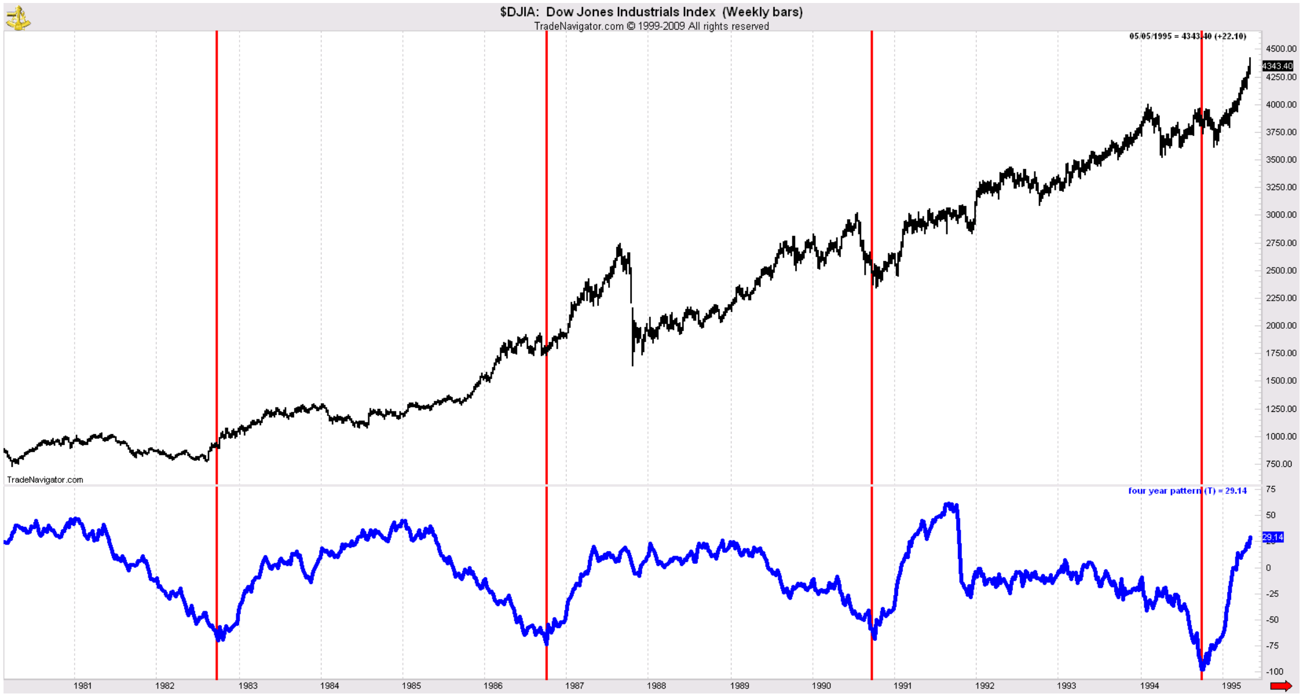

Chart 5: 4-Year Low to Low Pattern 1981-1995

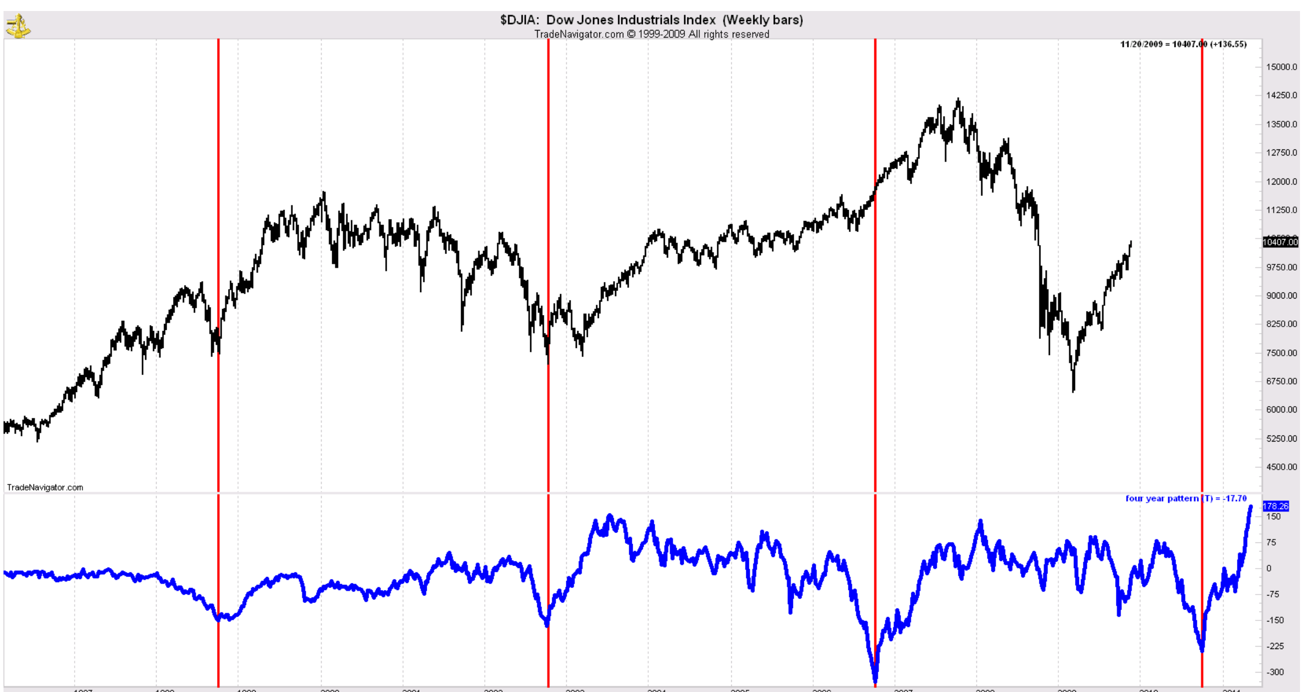

Chart 6: 4-Year Low to Low Pattern 1997-2011

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As a special bonus I am next showing in Chart 7 the 4 Year Pattern out to 2018… calling for lows in 2010, 2014, and 2018. You can give this to the grandchildren.

However you look at it, this Low-to-Low Every 4 Years Pattern has done a remarkable job of alerting investors to important market rallies. The pattern calls for a low the first week of October in 2010 in sympathy with the Presidential Cycle. In actuality these two have a lot in common, yet often diverge thanks to the muses of the markets.

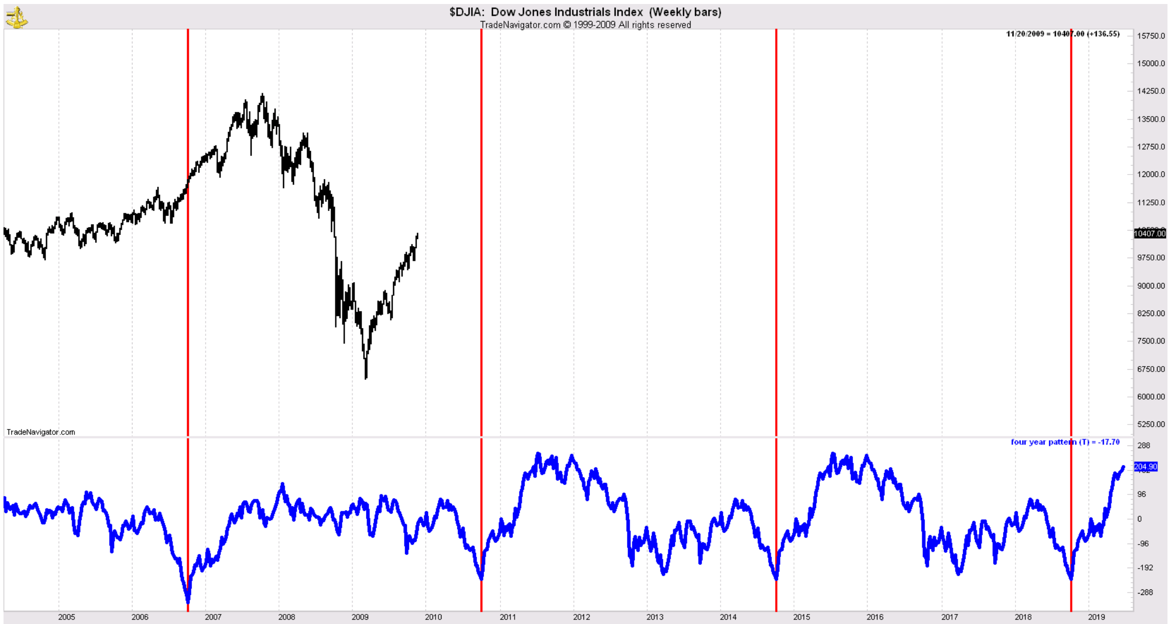

Chart 7: 4-Year Low to Low Pattern 2005-2019

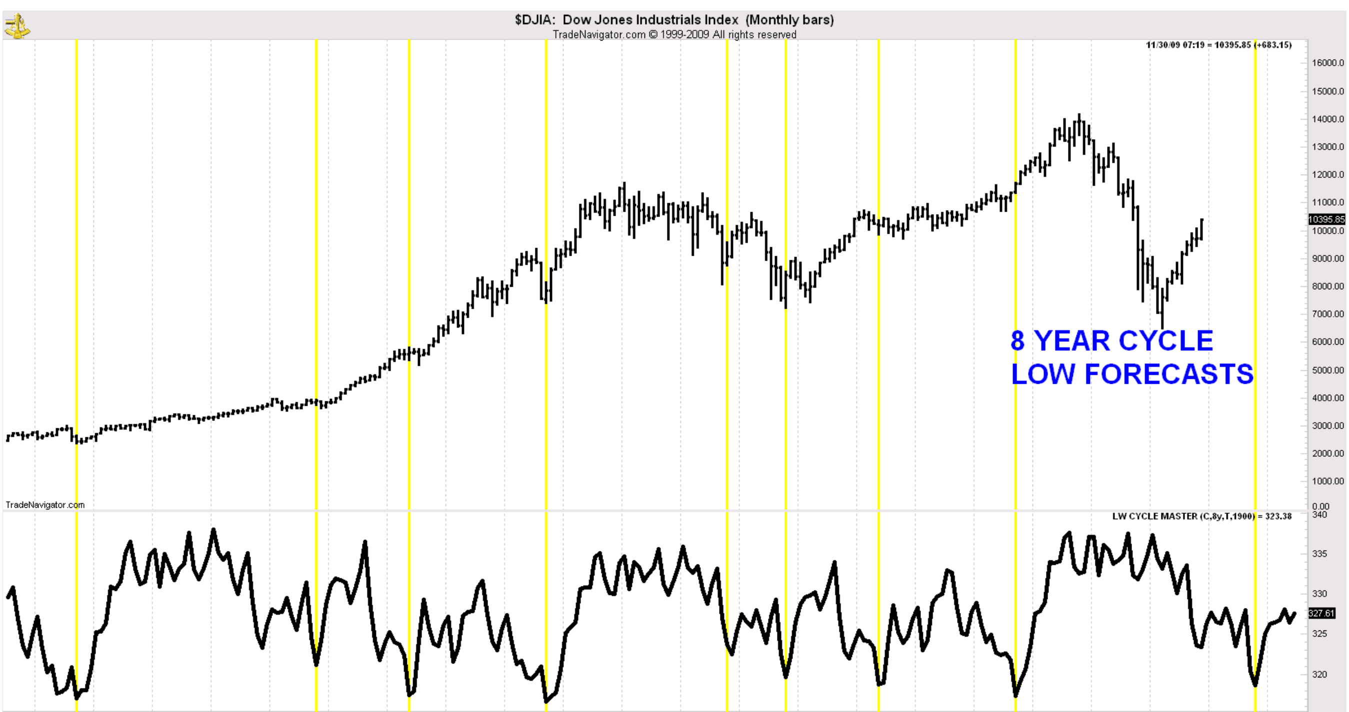

Chart 8: 8-Year Cycle Pattern 1990-2011

Don't forget the mere fact this forecast a low also means it forecast a sell off starting about 4 months from the projected low.

Chart 8 of my Cycle Forecast for the 8-Year Cycle on a monthly chart of the Dow weaves in and out with the 4-Year Pattern. As you can see, lows in the indicator usually seem to inspire market rallies and of course dovetails with the October low.

Decennial Pattern

Let's next take a look at the Decennial Pattern first written about by Edgar Lawrence Smith in the 1920's.

His idea was that there is a 10-Year Cycle (perhaps based on the well known 11-Year Cycle in sunspots?). If that is true, all years ending in say 3, should have the same general pattern. Usually they do. So let's take a look at the average of all years ending in '0'. The following chart is just that: 1900, 1910, 1920, 1930,1940,1950,1960,1970,1980,1990, 2000 averaged together.

This is interesting! The '0' years present a projection not too unlike the Presidential Pattern forecast as well as the 4-Year Pattern. All three suggest a sell off early in the year, a rally into April then a decline. But, the second half of the year is not so clear, suggesting a choppier market.

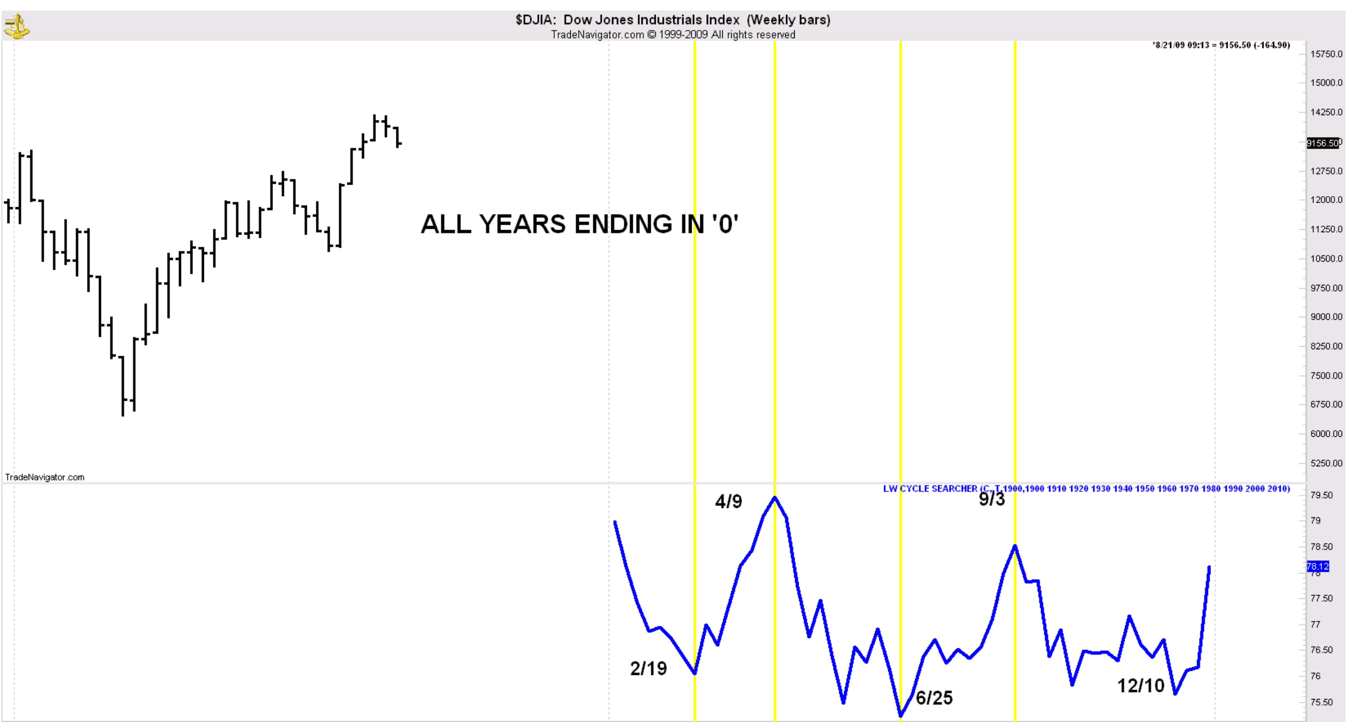

Chart 9: All Years Ending in 0 2010 Forecast Road Map

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Why it works; my belief is the power of the Decennial Pattern comes from the 11-Year Cycle in sunspots. Learn more here:

http://solarscience.msfc.nasa.gov/Sunspot-Cycle.shtml

Natural Cycle To Stock Price Activity

This one is a bit different in that there are absolutely no cycles used to create these Road Maps, none at all. The forecast is the most unique thing I do because it looks at similar years from the past but not selected via pattern matches or cycles.

These Natural Cycle Road Maps (i.e. Forecasts) for 2008 and 2009 did a pretty good job of breaking the trail, leaving blaze marks for us as to where to expect the path to turn as shown immediately below in Chart 10.

This technique called the first of the year slide, nailed the March low and subsequent rally… but failed to catch the rally from July onwards.

Darn, this forecasting stuff is not easy, and I have no excuses for this failure; just respect for the call for the first 6 months of the year as well as past years' forecasts.

Bottom line is we should be aware of the turning points this approach gives us.

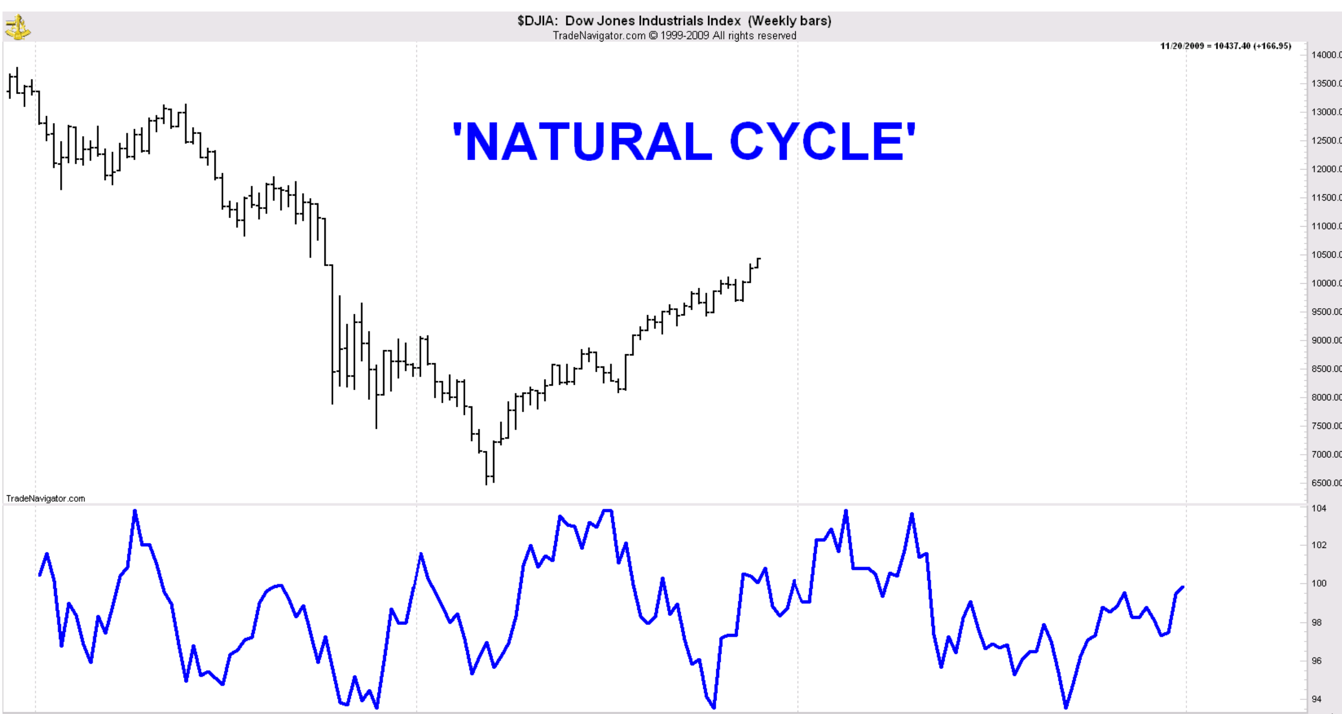

Chart 10: Dow Natural Cycle Forecast 2008-2010

Chart 11 is a larger view of the 2010 forecast using this approach.

The turning points shown fit quite well with the Road Maps seen so far.

Yet the years that create this cycle are not from the Decennial, 4-Year or Presidential Years. It is very interesting to me how they all have the same message for this coming year.

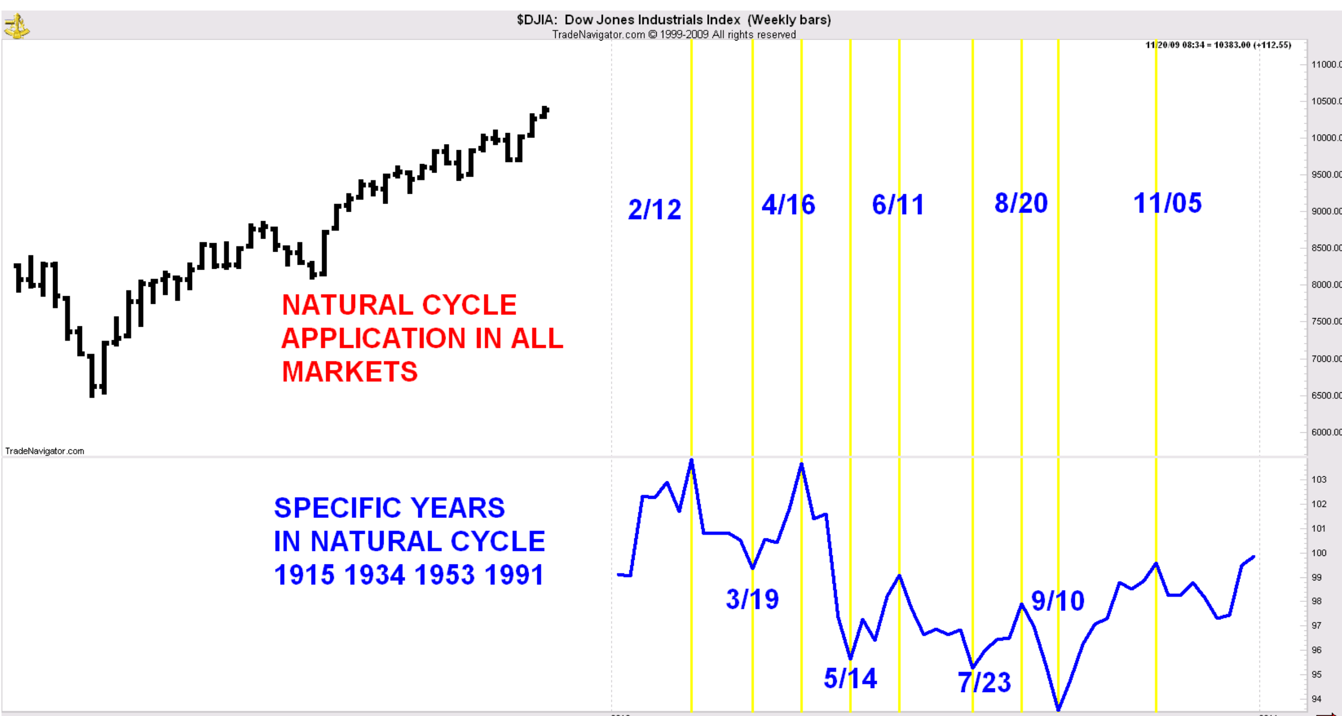

Chart 11: Dow Natural Cycle 2010 Forecast

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And Now For The Forecast...

Here it is. A synthesis of all that you have seen so far, presented on one chart, one road map of the future.

There has been a very powerful 17- Week Cycle bouncing stock prices all over our charts for the last 3 years. So I have overlaid it on the yearly forecast to give us additional guidance in Chart 12.

Presidential Clout

Mechanical S&P Trades for 2010

Seasonal factors do influence commodity prices; and Presidential politics, as you have seen, influence stock prices even more. There are several specific ways we can take advantage of political influences this year.

The first trade I am going to share with you is not "new." After all, I first wrote about end of the month stock market rallies in 1974. While that was a general observation, what I have done is flesh out the specific times of the month to take advantage of monthly seasonal influence.

Let's start with an equity graph and tabulations on just how well the strategy I am about to teach you has been.

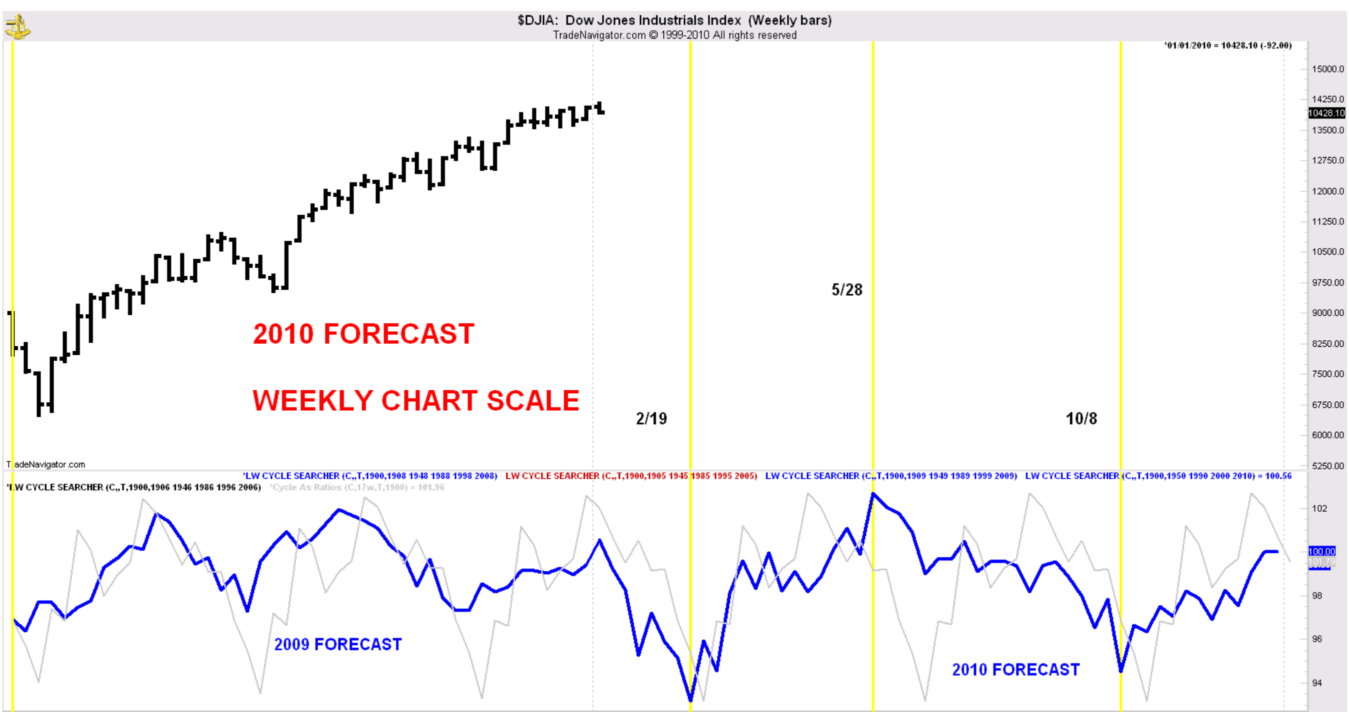

Chart 12: Dow 2010 Road Map Forecast

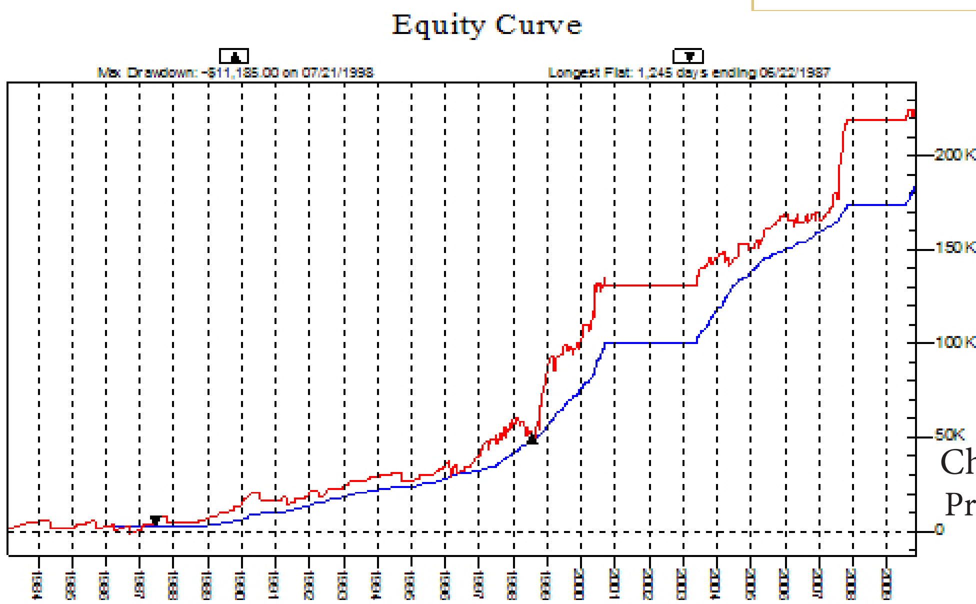

Chart 13: Equity Curve
Presidential Clout Trade

OVERALL RESULTS Presidential Clout Trade

Total Net Profit:	$259,783	Profit Factor ($Wins/$Losses):	2.17
Total Trades:	484	Winning Percentage:	84.9%
Average Trade:	$537	Payout Ratio (Avg Win/Loss):	0.39
Avg # of Bars in Trade:	2.58	Z-Score (W/L Predictability):	0.4
Avg # of Trades per Year:	18.1	Percent in the Market:	18.0%
Max Closed-out Drawdown:	-$11,075	Max Intraday Drawdown:	-$14,783
Account Size Required:	$32,101	Return Pct:	809.3%
Open Equity:	$0	Kelly Ratio:	0.4584
Current Streak:	5 Wins	Optimal f:	0.76

WINNING TRADES		LOSING TRADES	
Total Winners:	411	Total Losers:	73
Gross Profit:	$481,255	Gross Loss:	-$221,473
Average Win:	$1,171	Average Loss:	-$3,034
Largest Win:	$12,230	Largest Loss:	-$7,920
Largest Drawdown in Win:	-$3,920	Largest Peak in Loss:	$4,205
Avg Drawdown in Win:	-$561	Avg Peak in Loss:	$582
Avg Run Up in Win:	$1,555	Avg Run Up in Loss:	$582
Avg Run Down in Win:	-$561	Avg Run Down in Loss:	-$3,339
Most Consec Wins:	34	Most Consec Losses:	2
Avg # of Consec Wins:	6.42	Avg # of Consec Losses:	1.16
Avg # of Bars in Wins:	2.08	Avg # of Bars in Losses:	5.45

These are very good results for short-term trading, with 84% accuracy on over 485 trades. We have a large sample size. This is a quick “Pop” of a trade with an average hold of 2.58 days to net the $259,784 of profits and a high average profit per trade of $537.

What’s my secret to this strategy? It is simply this; I will buy on the best Trading Days Left in the Month (TDLM in my parlance). This is our attempt to catch the end of the month/ first of the month rally. The best set up days to buy the next day have been TDLM 2, 10,

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12, 19, 22, and 23. Again, we do not buy on these days but the next day.

The performance of just these days is superb, yet it can be made a little better with two simple rules.

- Today's 200 day moving average of closing prices is higher than it was 3 days ago.
- The day that just closed is not an Outside Day with a higher close.

Those are all the rules for the entry. The exit is a $3,500 stop or an exit on the First Profitable Open (FPO). Here is the code for fellow Genesis users. If you use software and are not a Genesis user, you are missing out on the simplest to use, yet most powerful, software in the business.

```
IF Next Bar Trading Days Left In Month = 23
Or Next Bar Trading Days Left In Month = 22
Or Next Bar Trading Days Left In Month = 19
Or Next Bar Trading Days Left In Month = 12
Or Next Bar Trading Days Left In Month = 10
Or Next Bar Trading Days Left In Month = 2
And MovingAvg (Close , 200) > MovingAvg
(Close , 200).3 And (Outside Bar And Close
> Close.1) = False And Next Bar Day Is ("Fri-
day") = False
```

The year by year performance bears study and shows the power of the simple 200 day moving average trend rule.

It is interesting to see that in many years there are no or very few trades; the market was in a down trend. When in an uptrend,

Presidential Clout Trade By Year Performance

Year	Trades	Win Pct	AvgTrade	C/L	Max Loss	Profit	Net Profit
1983	26	92.31%	$216	1	-$20	$5,618	$5,618
1984	3	66.67%	-$1,278	1	-$3,945	-$3,835	$1,783
1985	17	94.12%	$106	1	-$3,945	$1,798	$3,580
1986	25	76.00%	-$43	1	-$3,945	-$1,063	$2,518
1987	21	85.71%	$79	1	-$3,945	$1,668	$4,185
1988	11	90.91%	$341	1	-$8	$3,755	$7,940
1989	22	100.00%	$433	0	$0	$9,535	$17,475
1990	13	84.62%	-$55	2	-$3,945	-$710	$16,765
1991	17	82.35%	$6	2	-$3,945	$110	$16,875
1992	20	90.00%	$51	1	-$3,945	$1,013	$17,888
1993	25	88.00%	$110	1	-$3,945	$2,738	$20,625
1994	7	57.14%	-$334	2	-$3,945	-$2,340	$18,285
1995	23	86.96%	$425	2	-$33	$9,765	$28,050
1996	27	81.48%	$264	2	-$3,945	$7,123	$35,173
1997	32	81.25%	$710	1	-$5,083	$22,710	$57,883
1998	31	80.65%	$1,172	2	-$4,745	$36,330	$94,213
1999	24	75.00%	$555	2	-$7,920	$13,320	$107,533
2000	20	80.00%	$1,748	1	-$3,945	$34,950	$142,483
2001	0	0.00%	$0	0	$0	$0	$142,483
2002	0	0.00%	$0	0	$0	$0	$142,483
2003	17	94.12%	$1,039	1	-$3,945	$17,660	$160,143
2004	24	79.17%	$201	2	-$5,095	$4,820	$164,963
2005	21	95.24%	$1,226	1	-$3,945	$25,755	$190,718
2006	25	76.00%	$255	2	-$4,420	$6,375	$197,093
2007	23	91.30%	$2,358	1	-$3,945	$54,240	$251,333
2008	0	0.00%	$0	0	$0	$0	$251,333
2009	10	90.00%	$845	1	-$3,945	$8,450	$259,783

the accuracy is astounding; over 90% in 1982, 2003, 2005, 2007, and 2009.

If you can be more selective in your trading and only take buy signals on the specific Trading Day of the Year (TDOY) with the following code you would have had 120 trades since 1982 with 119 winners, using the same stop and FPO exit as discussed above.

Here is that code.

```
IF MovingAvg (Close , 200) > MovingAvg (Close , 200).3 And Trading DayOfYear = 20 Or Trading DayOfYear = 63 Or Trading DayOfYear = 99 Or Trading DayOfYear = 212 Or Trading DayOfYear = 219 Or Trading DayOfYear = 232 Or Trading DayOfYear = 235 Or Trading DayOfYear = 254  Buy Tomorrow on the Opening
```

Bullish On America Trade

The strongest "Political Clout" trade is one you have never heard about. So I want to explain it as well as show some examples.

Unbeknownst to most traders is the very impressive record of stock prices to rally prior to the first Tuesday in November shown next. Of course we know that as the day we usually vote for the President and Congressional representatives.

Buy Before All Elections Performance

Year	Trades	Win Pct	AvgTrade	C/L	Max Loss	Profit	Net Profit
1982	1	100.00%	$330	0	$0	$330	$330
1983	1	100.00%	$30	0	$0	$30	$360
1984	1	100.00%	$318	0	$0	$318	$678
1985	1	100.00%	$143	0	$0	$143	$820
1986	1	100.00%	$130	0	$0	$130	$950
1987	1	100.00%	$955	0	$0	$955	$1,905
1988	1	100.00%	$630	0	$0	$630	$2,535
1989	1	100.00%	$780	0	$0	$780	$3,315
1990	1	100.00%	$455	0	$0	$455	$3,770
1991	1	100.00%	$980	0	$0	$980	$4,750
1992	1	100.00%	$80	0	$0	$80	$4,830
1993	1	100.00%	$305	0	$0	$305	$5,135
1994	1	100.00%	$1,693	0	$0	$1,693	$6,828
1995	1	100.00%	$1,155	0	$0	$1,155	$7,983
1996	1	100.00%	$630	0	$0	$630	$8,613
1997	1	100.00%	$580	0	$0	$580	$9,193
1998	1	100.00%	$1,830	0	$0	$1,830	$11,023
1999	1	100.00%	$1,830	0	$0	$1,830	$12,853
2000	1	100.00%	$1,080	0	$0	$1,080	$13,933
2001	1	100.00%	$3,330	0	$0	$3,330	$17,263
2002	1	100.00%	$3,880	0	$0	$3,880	$21,143
2003	1	100.00%	$1,480	0	$0	$1,480	$22,623
2004	1	100.00%	$3,355	0	$0	$3,355	$25,978
2005	1	100.00%	$255	0	$0	$255	$26,233
2006	1	100.00%	$1,830	0	$0	$1,830	$28,063
2007	1	0.00%	-$3,945	1	-$3,945	-$3,945	$24,118
2008	1	100.00%	$80	0	$0	$80	$24,198
2009	1	100.00%	$4,405	0	$0	$4,405	$28,603

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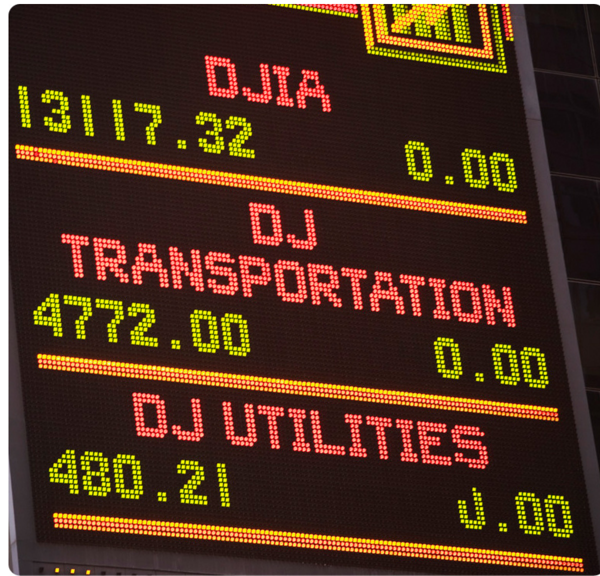
Here is the code for this trade:

IF November And WeekOfMonth = 1 And Monday Buy at Next Bar Open

It seems to me that both sides of the political spectrum get optimistic just before the elections because they think: "My guy/gal is going to win and things will get better." So, they bet their bullishness in the stock market. You don't think so? Then explain the tabulation of trades buying on Page 13.

This is an impressive record but let's delve a little deeper into our politics. In 2010 we will have what are known as "Mid-Term" elections for Congressional positions. As you can see below there has been an even more marked pattern for prices to rally four days out, than for just the first Tuesdays in all Novembers.



We have to be a little careful of the data as you can see from the next clip. Until 1966 it used to be that Election Tuesday was a holiday for Wall Street. The red line or Seasonal pattern is constructed for the Dow from 1918 forward. Stocks were closed in the fall

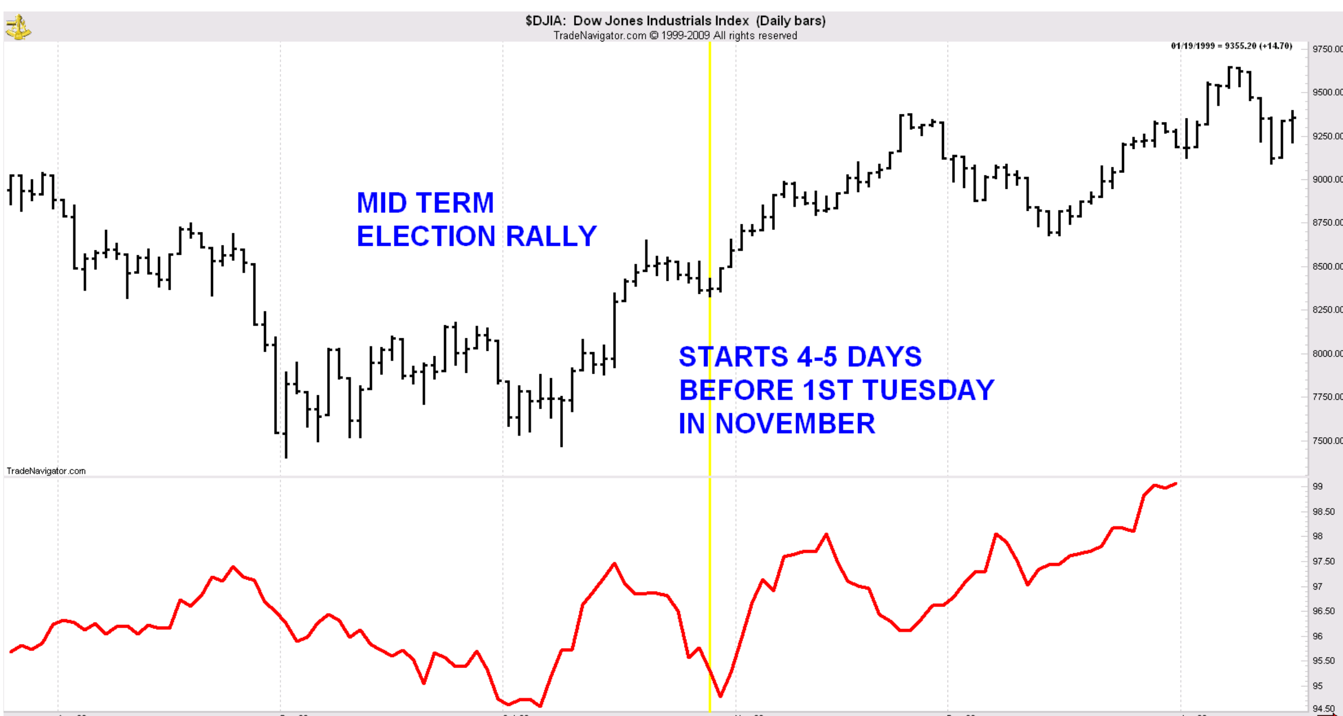


Chart 14: Mid-Term Elections

Chart 15: Enlarged View of Mid-Term Rally 1982-2009

of 1914, so there was no data for that time period.

Using data from 1982, when the S&P began trading, it has been best to buy on the opening of the next to last trading day in October and wait at least one day for the FPO. That strategy produced the Mid-Year Election results below for traders.

Next is the Seasonal Forecast Pattern for 2010 which tells us to start looking for a buy signal on October 20th and a forced entry on the 28^{th}. (Note the red line is a forecast of what should happen in 2010. It is not a repetitive Seasonal indicator).

Mid-Term Election Trade Results

YEAR	TRADES	WIN PCT	AVGTRADE	C/L	MAX LOSS	PROFIT	NET PROFIT
1982	1	100.00%	$305	0	$0	$305	$305
1986	1	100.00%	$80	0	$0	$80	$385
1990	1	100.00%	$930	0	$0	$930	$1,315
1994	1	100.00%	$2,143	0	$0	$2,143	$3,458
1998	1	100.00%	$7,330	0	$0	$7,330	$10,788
2002	1	100.00%	$2,455	0	$0	$2,455	$13,243
2006	1	100.00%	$955	0	$0	$955	$14,198

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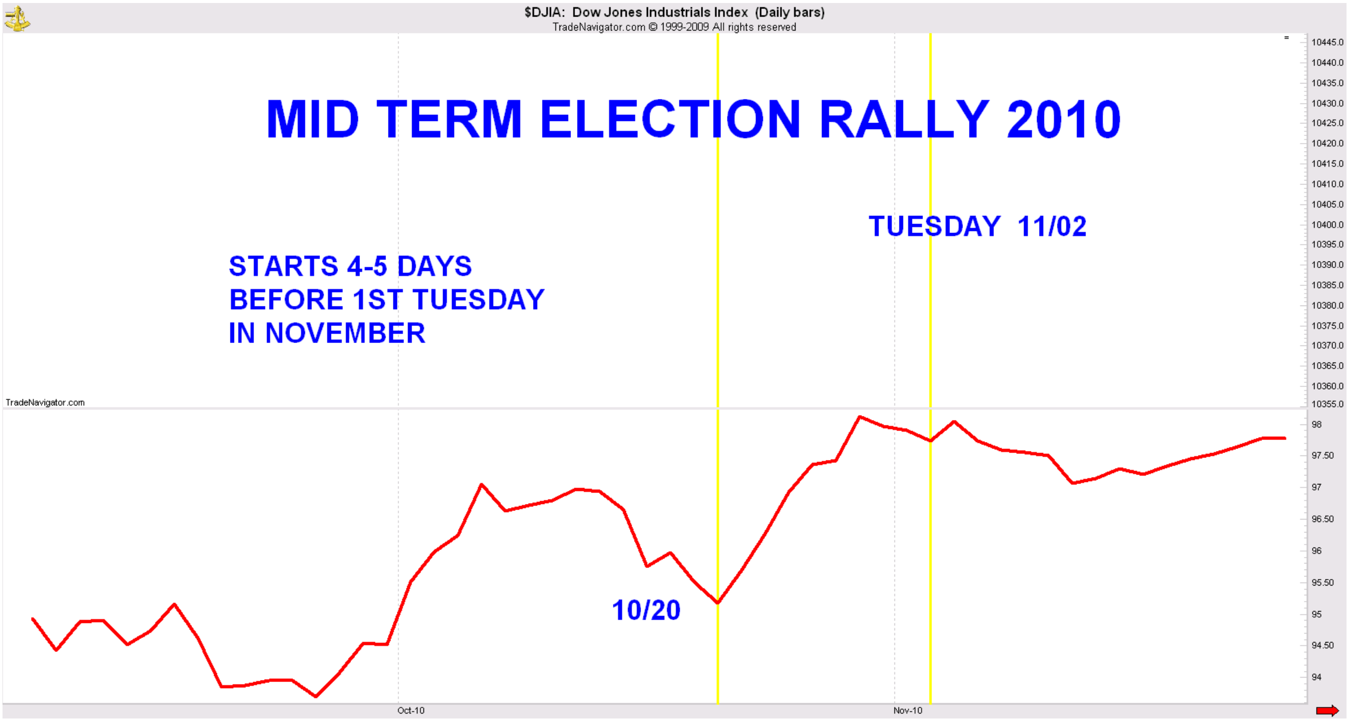
Chart 16: Dow Mid-Term Election Forecast



Buy Before All Mid-Term Elections Year By Year Performance

YEAR	TRADES	WIN PCT	AVGTRADE	C/L	MAX LOSS	PROFIT	NET PROFIT
1982	1	100.00%	$830	0	$0	$830	$830
1983	1	100.00%	$30	0	$0	$30	$860
1984	1	100.00%	$143	0	$0	$143	$1,003
1985	1	100.00%	$68	0	$0	$68	$1,070
1986	1	100.00%	$293	0	$0	$293	$1,363
1987	1	100.00%	$1,580	0	$0	$1,580	$2,943
1988	1	100.00%	$630	0	$0	$630	$3,573
1989	1	100.00%	$180	0	$0	$180	$3,753
1990	1	100.00%	$80	0	$0	$80	$3,833
1991	1	100.00%	$930	0	$0	$930	$4,763
1992	1	100.00%	$868	0	$0	$868	$5,630
1993	1	100.00%	$243	0	$0	$243	$5,873
1994	1	100.00%	$1,693	0	$0	$1,693	$7,565
1995	1	100.00%	$655	0	$0	$655	$8,220
1996	1	100.00%	$1,155	0	$0	$1,155	$9,375
1997	1	0.00%	-$3,945	1	-$3,945	-$3,945	$5,430
1998	1	100.00%	$1,455	0	$0	$1,455	$6,885
1999	1	0.00%	-$6,545	1	-$6,545	-$6,545	$340
2000	1	100.00%	$3,955	0	$0	$3,955	$4,295
2001	1	100.00%	$4,205	0	$0	$4,205	$8,500
2002	1	100.00%	$3,580	0	$0	$3,580	$12,080
2003	1	100.00%	$255	0	$0	$255	$12,335
2004	1	100.00%	$205	0	$0	$205	$12,540
2005	1	100.00%	$255	0	$0	$255	$12,795
2006	1	100.00%	$1,380	0	$0	$1,380	$14,175
2007	1	100.00%	$9,880	0	$0	$9,880	$24,055
2008	1	0.00%	-$6,420	1	-$6,420	-$6,420	$17,635
2009	1	100.00%	$2,505	0	$0	$2,505	$20,140

And Now For A Trip Around The Markets Of The World

Now comes the hard part of this forecast... working with markets around the world where we don't have the historical price data going back over 100 years like we do with the Dow Jones Average.

Nonetheless, it is possible to forecast these markets based on the Natural Cycle mentioned already because it does not need 50 or 100 years to ferret out price cycles.

Also, of course, it is possible to determine what have been the current most active cycles to create the most dominant pattern for these markets.

While some will tell you the markets are all about time, I disagree. Unknown incidences will occur at any time in the future that upset the general cyclical or Road Map Forecasts. However, by and large, our experiences with the Road Maps are that they do offer us a great representation of what will happen in the future.

With that let's take a look at what's in store for Europe, or at least Germany, in 2010.

Germany
DAX

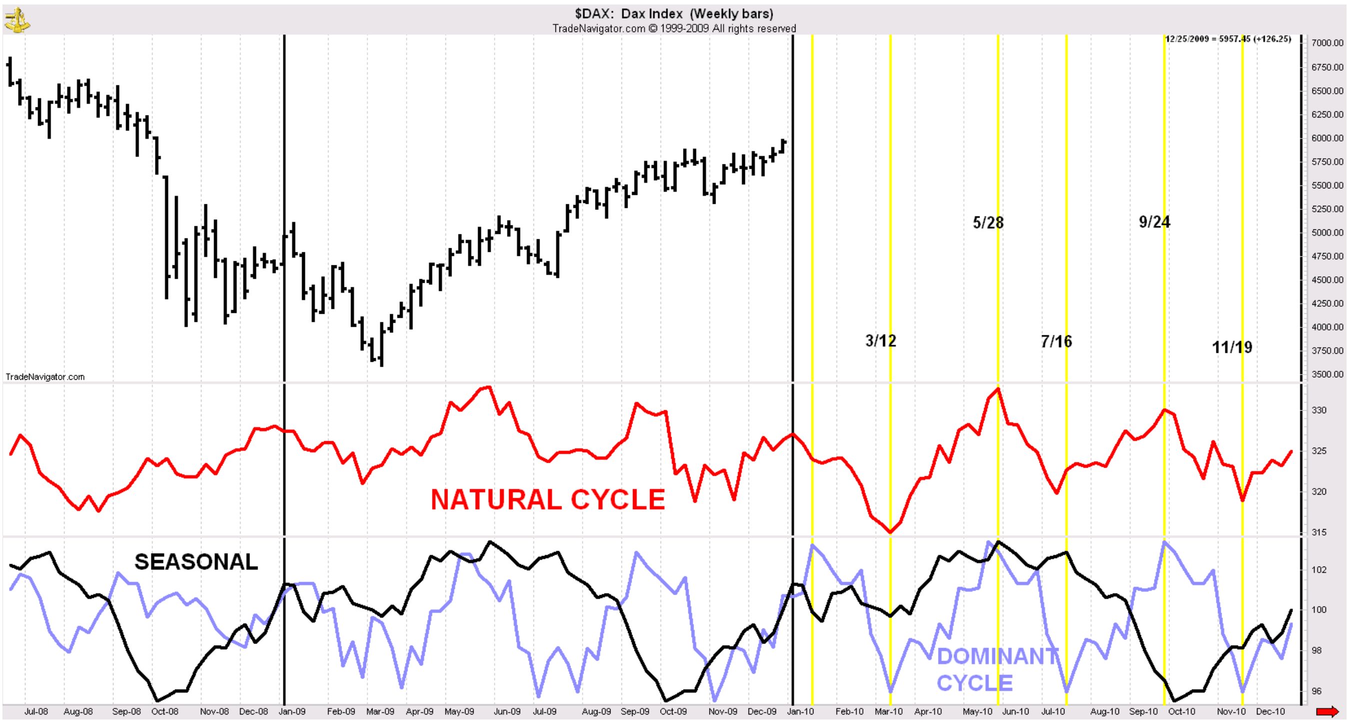


Chart 17: DAX 2010 Road Map Forecast

On To Germany…

I have been following the markets in Germany longer than most Germans, given that the first commodity trading book translated from English to German was mine way back in 1973.

Over the years I have developed some very good friends there and have seen some phenomenal traders develop as commodity trading has become more active.

When I first went to Germany there was no German word that adequately described “margin” and/or “margin call”. It didn't take long however, for traders there to understand the concept! But that's another story... let's talk now about what I expect this coming year in the DAX.

As you can see in Chart 17, the Natural Cycle was pretty good in 2009, suggesting when the significant peaks and troughs would come in this index.

This approach is calling for a low around the middle of March in 2010, with a rally into late May. Another rally should begin around the middle of July, lasting until late September.

We also need to pay a great deal of attention to the Seasonal Pattern, shown in black in Chart 17's lower pane.

Germany DAX

Experienced market followers realized this pattern is very similar to the United States Seasonal Pattern. In fact there's not much difference... typically a May sell off and an October low.

We can refine this quite a bit with the most current Dominant Cycle, shown in light blue. It is calling for a last-ditch rally at the end of 2009, a decline into March of 2010. Expect a rally pretty much the same, as the Seasonal Pattern is suggesting, along with a similar forecast from the Natural Pattern. So I suspect that's going to be what will take place.

The current Dominant Cycle at work in the DAX is approximately 17 weeks. This means you can use 17 weeks settings for your other longer term technical indicators.

In 2006 I developed a short-term trading system for this market. It has held up quite well out of sample. If you are interested in knowing more about it drop me an e-mail at larrywms@ireallytrade.com.

JAPAN NIKKEI

Japan—Still Muddling Along

Years ago, almost in another lifetime, the bull market of the world was Japan. That has changed radically, which has also influenced the forecast for this market. No longer is the seasonal factor as significant due to the extremely bullish bias of those past years.

However, that does not mean we cannot get a good glimpse into the future of the NIKKEI. For 2010 the Natural Cycle shows a dip into the first part of the year followed by a rally into midyear. Then things go back to the downside until close to the end of the year. This is confirmed by the Seasonal, the black line below, which should be used as a general forecasting tool.

We can be more precise with the 15-Week Dominant Cycle, in red, which shows the times I would expect significant peaks and troughs to occur.

These dominant cycles fade in and out.

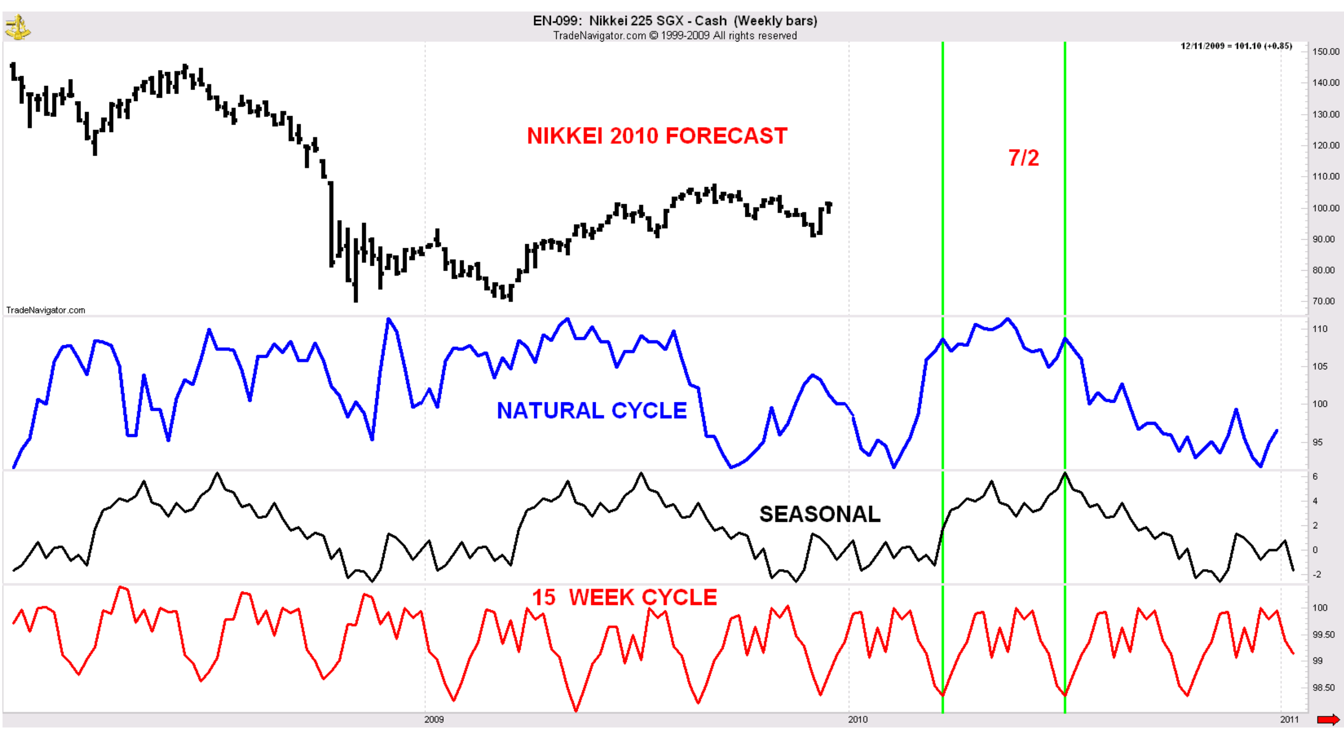


Chart 18: NIKKEI 2010 Road Map Forecast

Clearly at this time the 15-Week Cycle is the most active one... in our 2010 midyear report I would not be surprised to see the cycle shift slightly. But, between now and then, this is the one to take advantage of.

These active or most dominant cycles can be used in several ways; you could set your trend following measurements to 15 week averages as well as using the dominant cycle for oscillators, etc.

The Plunder Down Under

Australian stock prices closely follow the American market, despite the fact there are numerous major economic differences. Australia is certainly much more influenced by natural resources… while lacking the massive blue-chip stocks found in America such as IBM, Microsoft… Australia is not without significant stocks such as News Corp and BHP.

The Natural Cycle, the red line, did a good job last year forecasting significant turning points in this market. I expect the same will be true this coming year. To put this into perspective, look at the Seasonal Pattern in blue. I've overlaid the most Dominant Cycle in gray. Australian stock prices are affected by several cycles at this time. The most important cycle that I see working here is based on 24 weeks which of course means a 12 week cycle is also sneaking in and out of price activity. You should pay attention to these time periods.

What we see here is prices should drop down into early March, rally, then have another

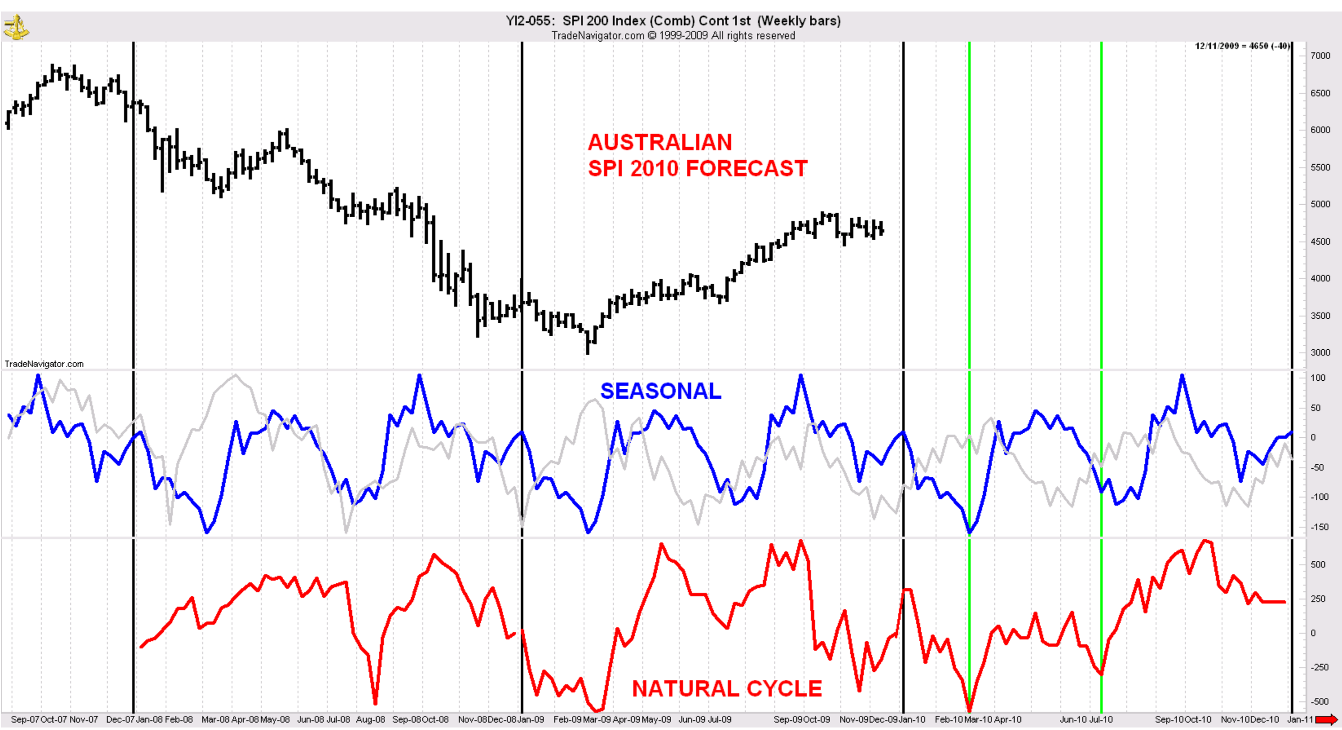


Chart 19: Australian SPI 2010 Road Map Forecast

India NFTY

buying opportunity around the middle of July. In all events, what happens in Australia will follow the United States stock market.

India The Most Difficult World Market To Forecast

To a very real extent our ability to forecast any market is based on the amount of data we have to work with. We only have good prices for stocks in India going back to 1995. That is not quite enough for stable forecasts. Nonetheless I have been at work to ferret out from the shorter-term cycles what should take place.

As you can see, the most Dominant Cycle in India has been the 18-Week Cycle. We also see there has been a Seasonal Pattern for this market, the blue line. However my internal work suggests this cycle is shifting quite radically and that shift is shown in Chart 20 by the gray line. Both of these are forecasting weakness into October of 2010.

Also note the 2010 Forecast, shown in purple, forecasts a low about the same time. Interestingly enough, the 2010 forecast peaks and troughs are pretty much in common with the 18-Week Cycle. We have seen this in other forecasts where 2 or 3 different techniques have the same turning points. I have marked off the appropriate times when I am looking for tops in this market

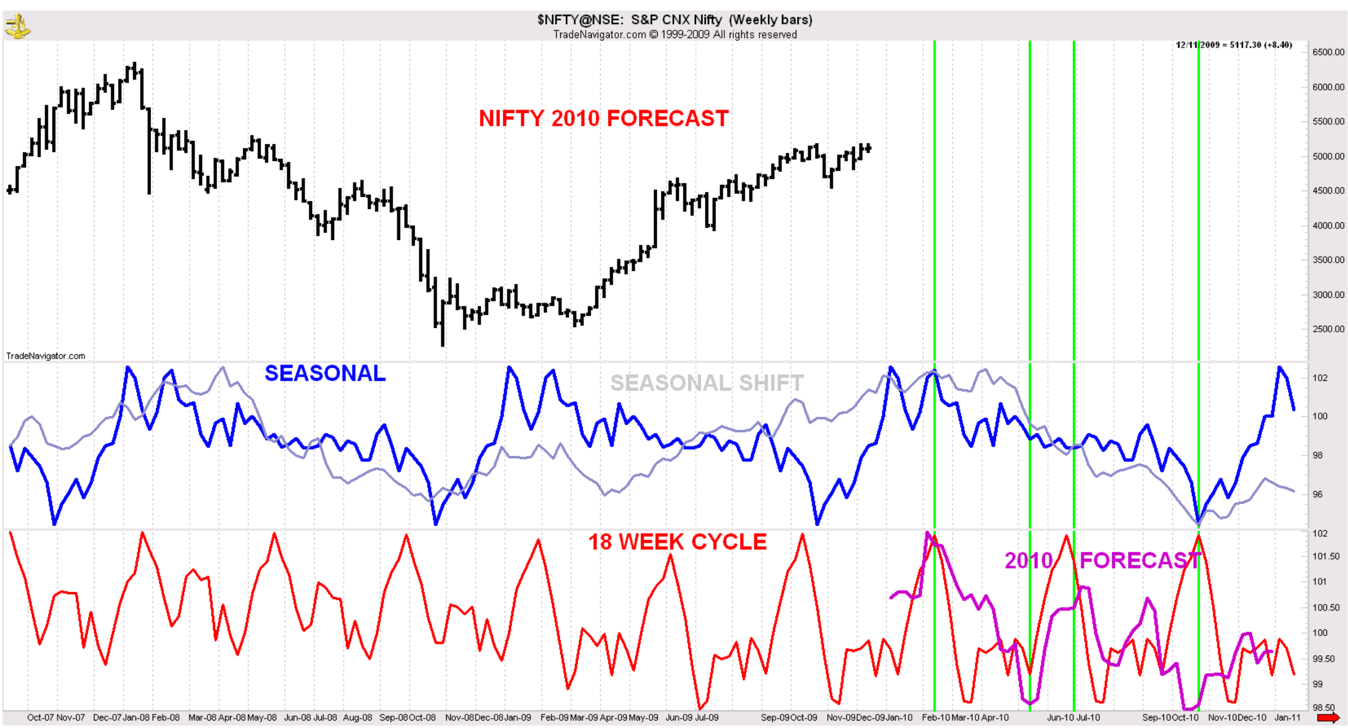


Chart 20: NFTY 2010 Road Map Forecast

as well as the low points. Keep in mind the 18-Week Cycle represents times when we should be looking for reversals of whatever the current trend has been.

Gold Forecast For 2010

Gold is certainly one of the most difficult markets to forecast and 2010 should make the challenge no less difficult. There are several observations however, from a close study of the past, that will help us understand the twists and turns of this market as well as when to look for the most significant up and down moves to take place.

To begin with, I call your attention to the vertical lines overlaid on the weekly price of gold in Chart 21. These lines represent a 17-Week Reversal phenomena that seems to be taking place in this market.

This is not a cycle. It appears to be is a burst of energy, so to speak, in the gold market that takes place about every 17 weeks. It has been doing this for the last 10 years or so. We should carefully look for market explosions to start at this time. This is when Au is most apt to reverse the current direction. This can also be combined with the cyclical observations and seasonal indications.

Speaking of cyclical observations, the first

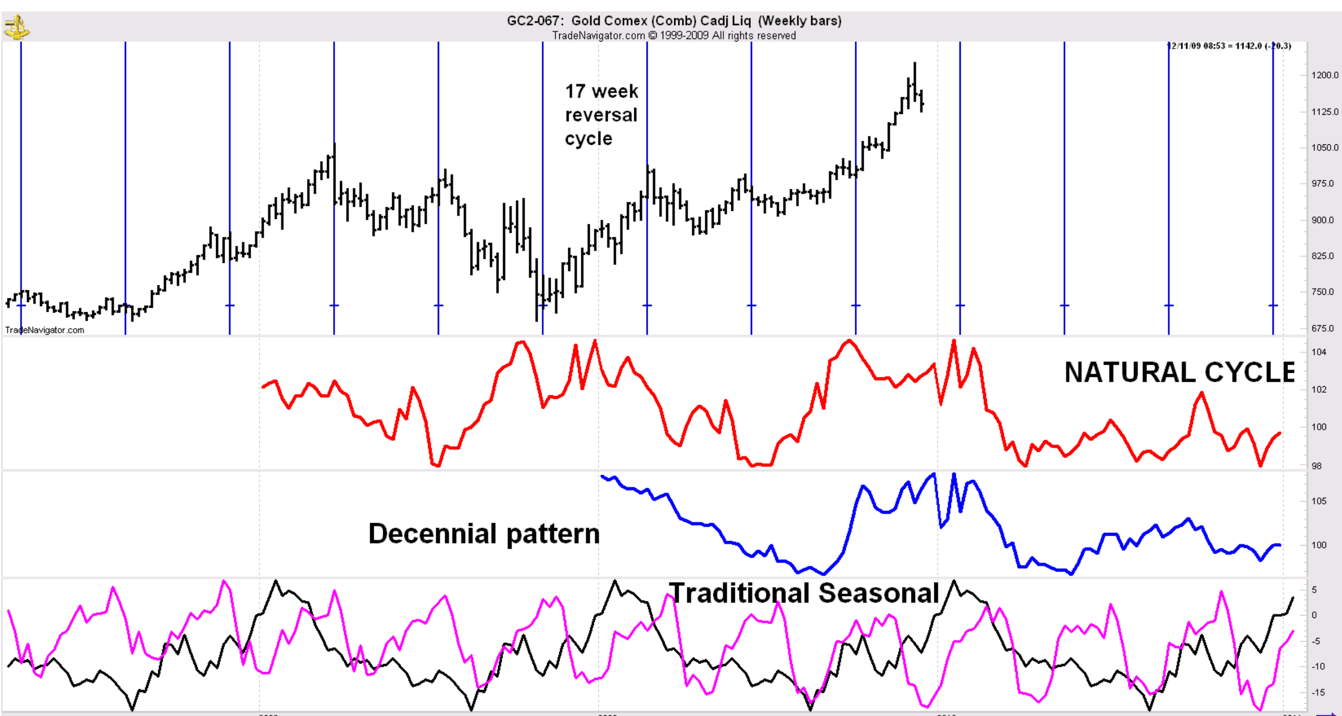


Chart 21: Gold 17-Week Reversal

panel underneath the weekly price chart is what I refer to as my Natural Cycle. This is an interesting way of predicting future price. It is based on the price action of years in the past that have a common analogy with the unknown year. In other words, certain things took place; say seven years ago, that should have an affect on Gold in 2010. The years all have one thing in common… that's why I call this a Natural Cycle. I then take the average prices of these years to make the Forecast Year Road Map or Pattern.

As you can see, this approach is calling for a top early in the year, a decline into April 2nd with a long drawn-out rally topping around July 2nd. Then an ensuing decline bottoming the week of July 23 and August 27. That down move should kick off a rally into the middle of October when again a decline comes into this market.

While not perfect, this is an un-optimized approach to forecasting the future. The same years are used for Gold and Soybeans and Live Cattle. As you can see from the 2008 and 2009 forecasts, this has done a very good job of highlighting times when we should expect major moves in the Gold market. These red lines, the forecast from the past, are all based on data that was not known during the forecast year (no out of sample data is used).

Next let's take a look at the blue line, or Decennial Pattern, that is operating in the Gold market. This is my application of the work by Edgar Lawrence Smith except with a few twists in an application to Gold. This is a long-term view of prices and certainly alerted investors to the massive rally in Gold that began in the middle of 2009.

This pattern is forecasting a down move for the first of 2010, then a low in mid-May, and a peak around the 1st of October.

No forecast for Gold would be complete without looking at the Seasonal tendency of Gold which is shown in the bottom panel in black. That is a non-adaptive average of all price data from the prior years. While Seasonals are good, I do not believe they are as precisely accurate as the other approaches I use.

Overlaid on top of the Seasonal Pattern I have placed the most dominant weekly cycles (in purple) that are at work in Gold at this time.

The most dominant cycles, as I see it, are the 11, 17 and 21-Week Cycles. These have all been averaged together (in the purple line) which suggests when cyclical peaks and troughs are most apt to occur in 2010. As an aside, I should point out that if the market is rapidly advancing as it comes into a potential cyclical low in this indicator, we would expect a reversal of the advance, and vice versa. Cycle projections are more about reversals.

Of course I can't pass up the opportunity to comment on Silver which is linked so closely to Gold. Here is the 2010 forecast for Ag.

SILVER... THE POOR MAN'S GOLD

The Public certainly has a love affair with Gold. But much of the Public doesn't have the money to buy Gold, so they buy Silver. It is for that reason that I have always seen Silver as a more speculative approach to precious metal investing. Essentially, it moves like Gold does. However because of the speculative fervor in this market, it can have some differences. My forecast for Silver in 2010 is presented now.

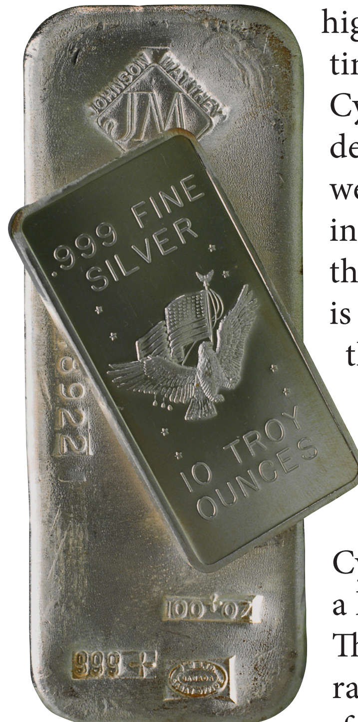


Chart 22 shows the Natural Cycle which I have explained already. It is calling for a peak in the first part of February which matches with the Seasonal Pattern, the black line. So this should lock in a significant high in Silver at this time. The Natural Cycle says we should decline into the first week of April. That's interesting because the blue line which is a representation of the most dominant current cycle in the market (that happens to be about a 20-Week Cycle) also forecasts a low at this time. Then it calls for a rally into the middle of May with a decline bottoming in late July. I expect a rally up into mid-September and a decline into the November low, as you can see below.

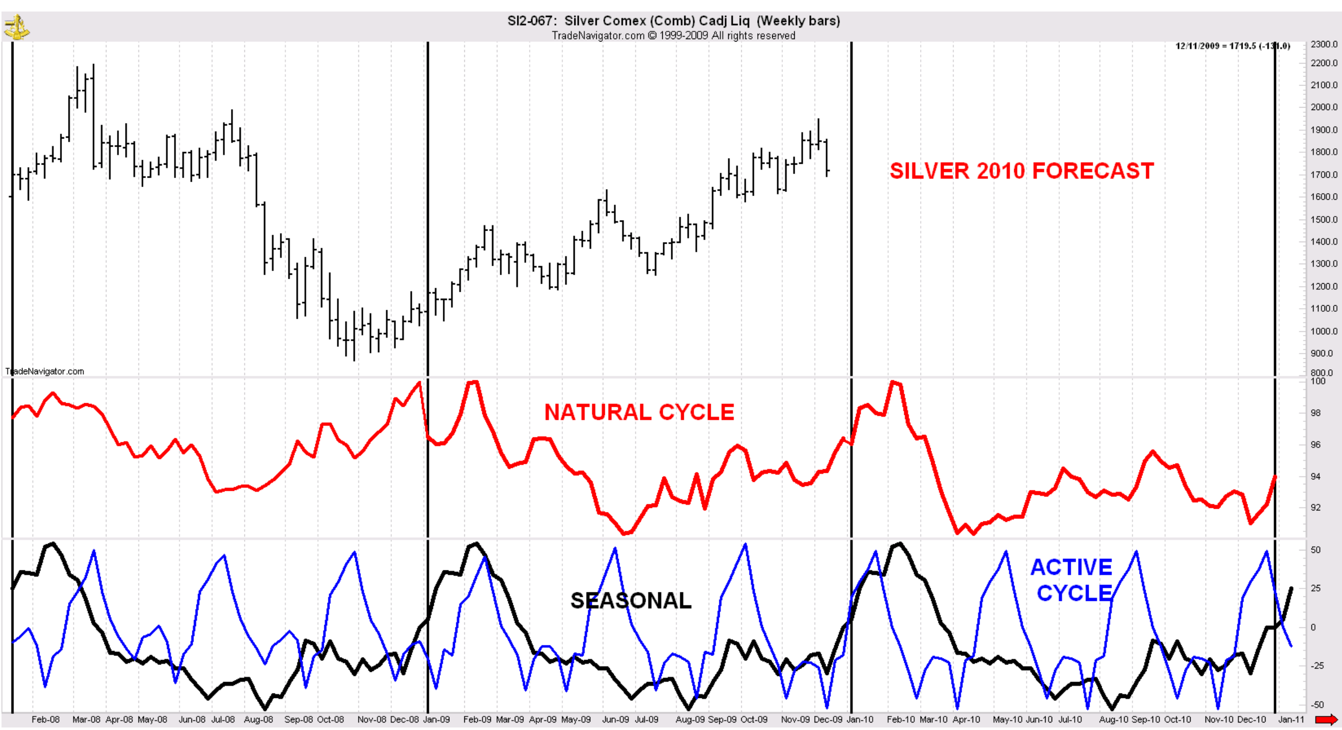


Chart 22: Silver 2010 Road Map Forecast

Copper

The blue line should help us understand the seasonal drift of this market; this gives us a little further insight into the Natural Cycle. The Natural Cycle has done a good job for the last three years of telling us when to expect significant turns in this market, and I expect the same will take place in 2010.

Remember, in looking at the Natural Cycle, in this or any of the charts, that the forecast line is actually known years in advance... it is not using any data from the year it is projecting. In other words the forecast shown in Chart 22 for 2008 and 2009 as well as 2010, did not use any price data from those years. In other words, I can actually forecast what I expect to be the general ups and downs of silver five years from now.

What we have here are Road Maps... I don't expect price to follow it to the letter but it does show us the general direction as well as timing of when significant turns should take place in this market. It is a hallmark for us to follow.

Copper to become a 'Precious Metal'?

Two years ago the common belief was the industrialization of China would force Copper prices substantially higher... so much they might become a semi-precious metal. Then reality set in, the decline of 2008, while 2009 saw a rally. The question now is what will take place in 2010?

There are several very important cycles that followers of this market should take note of. One, not shown here, is that there is a strong four year pattern at work in Copper prices...

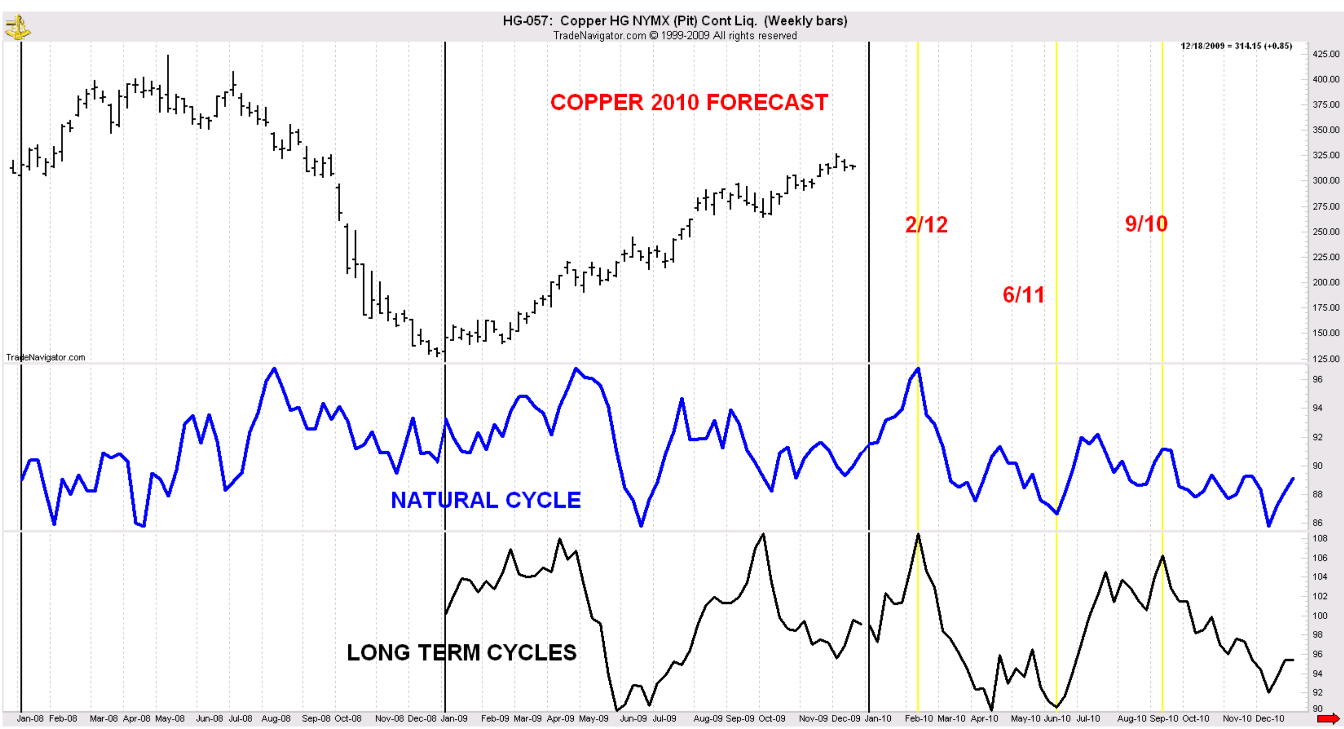
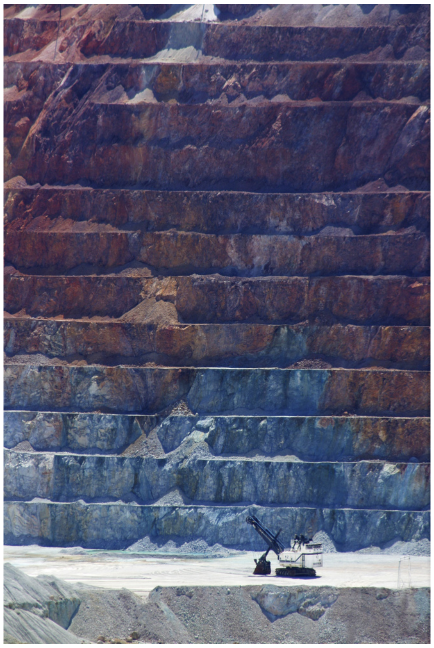


Chart 23: Copper 2010 Road Map Forecast

but not quite strong enough to make valid forecasts, at least not yet.



My Natural Cycle approach, the blue line Chart 23, has done a very good job of showing us when we should expect reversals in this market. It clearly forecast the early rally in 2009 as well as the ensuing rally during the year. The picture for 2010 presents a different scenario; it is telling us to look for a market top around February 12th with significant rallies coming around the middle of June and early September.

The black line is a combination of very long-term cycles in this market which, interestingly enough, calls for a similar peak and trough.

(Please keep in mind you can blow up or expand these charts in the PDF file you are viewing if you would like to get a closer look at the actual reversal points.)

2010 BONDS MARKET FORECAST

Bonds have been an ever-changing trading vehicle. At one time the 30 year contract was supposed to be phased out, and

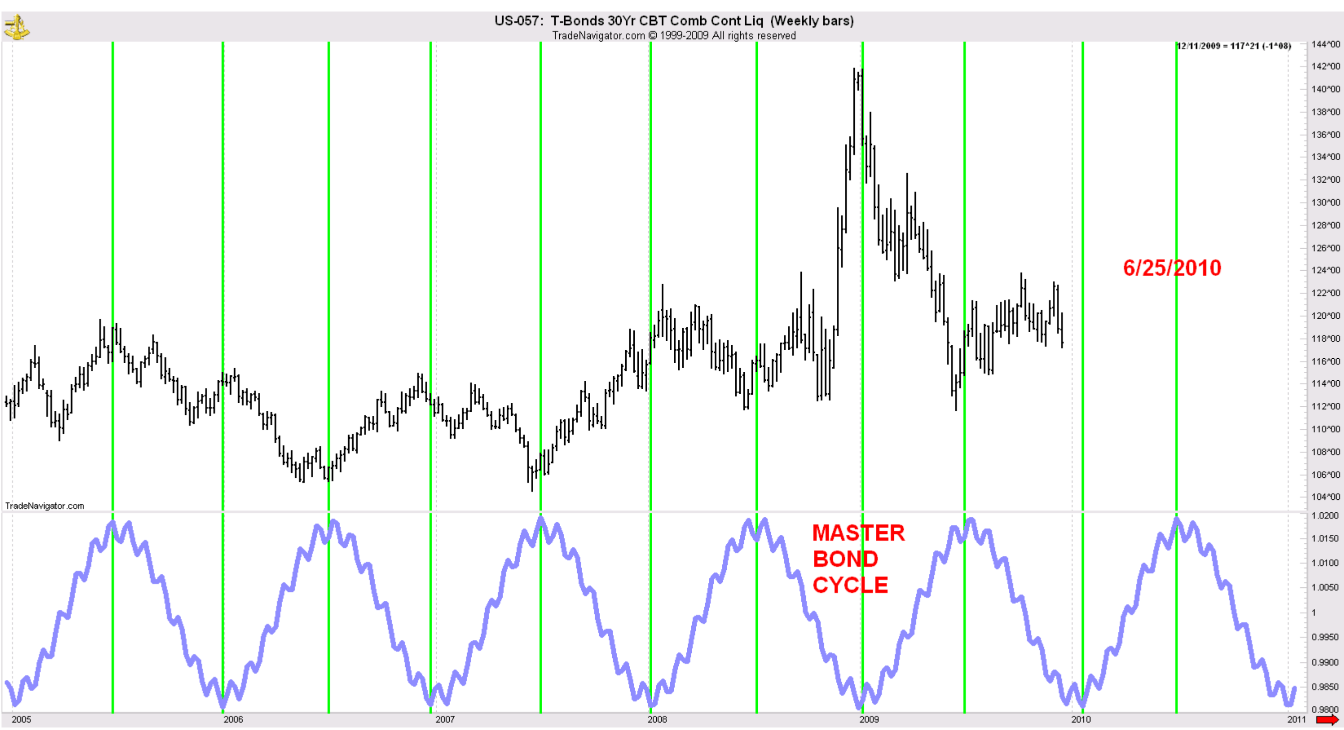


Chart 24: Bonds Solar Flare Cycle

Bonds

now the pit session has become meaningless. Nonetheless cycles and seasonals are still very much at work and enable us to make significantly correct forecast of the market.

This is a market I personally trade, though I was not as active in 2009 as in the past. I took action only when there were strong indications in the Road Maps. That was a successful strategy.

The first Bond chart shows what I believe to be the most significant long-term pattern or cycle for this market. Interestingly enough it is a cycle I ran across while doing work on solar flares, which I also think are a very strong influence on stock prices. That's another story for another day. The story for the Bond market right now is that this solar phenomenon is one we can program and work with as Chart 24 shows.

What you are seeing in Chart 24 is a pattern that calls for significant reversals in the Bond market based on the blue indicator plotted. As you might recall this was also featured in my Mid-Year 2009 Forecast. It was calling for the market to bottom, and correctly forecasted in the summer a rally leading up into the end of the year. This line represents a cycle in solar activity. So don't think necessarily that high levels in the index means the market will decline at that time. Far from it. What it suggests to us ***is that reversals in price come at the peaks and troughs in the index.***

The forecast now is telling us to expect a top the first part of January. A further projection calls for low to be made in late June of 2010.

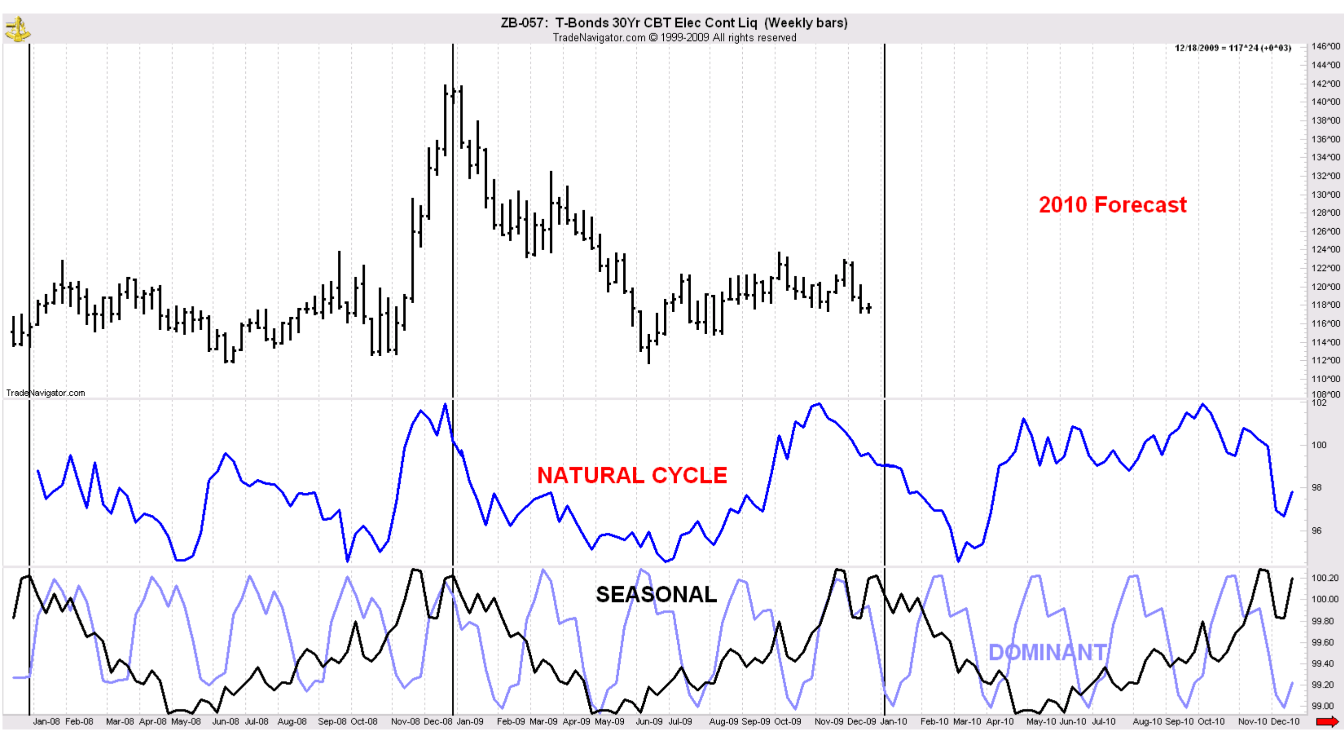


Chart 25: Bonds 2010 Road Map Forecast

Let's take a closer look now with our shorter-term forecasting tools as seen in Chart 25.

My Natural Cycle is shown by the blue line. While it is in part based on seasonal action, as you can see, it does not mirror the typical seasonal indicator which is the black line. This is almost painfully excruciating work; to go into the past to pull out all the years that have a similar occurrence to 2010, but this is work well worth the time. Clearly, the Natural Cycle deviates a good deal from the Seasonal Pattern in 2010.

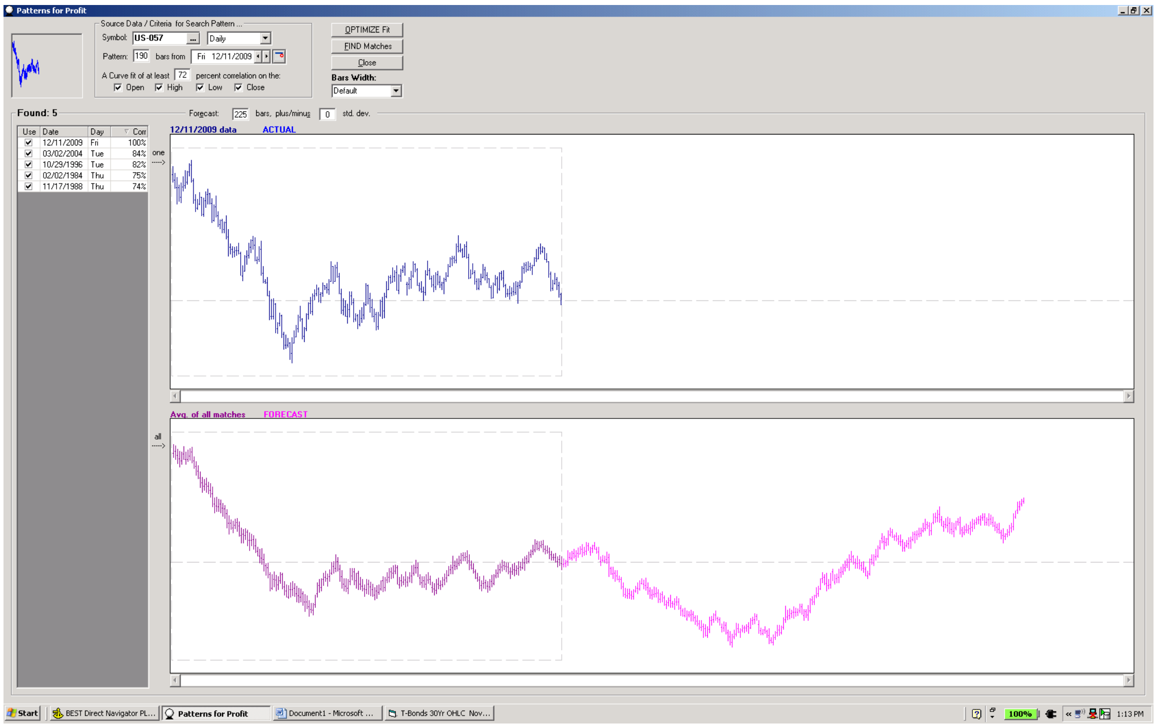


Chart 26: Bonds Patterns for Profit Forecast

Chart 26 is a new chart to my readers. It is constructed using The Patterns for Profits tool in the Genesis software. The software finds all years in the past that have a similar fit, then averages what took place in the ensuing time to arrive at its forecast. Surprisingly, this forecast is telling us about the same as what our other forecasts are, a sell off into mid-summer then a rally. That's how I will be trading this market in 2010.

Energies

On To The Rest Of The Future Markets And A Few Stocks

I've wrapped up the major markets. Let's now turn our attention to the various groups of commodities so you can see what I expect to take place this coming year. Also we'll look at a few widely followed stocks where the Road Maps also seem to be working rather well.

I think I have explained the significance of the indicators well enough that there is no need to go into the depths on the following Forecasts. The Road Maps are what they are. That means I expect the markets to find reversal points when indicated by the Road Maps. Prices generally follow the direction. The reversals however, are more certain, which is exactly what traders need to know... when to expect trading opportunities to develop. Knowing these in the future... is a great advantage in the theme of trading.

Each chart shows the Natural Cycle then the Current Dominant Cycle superimposed over the Seasonal Pattern.

Energy Markets

Crude Oil

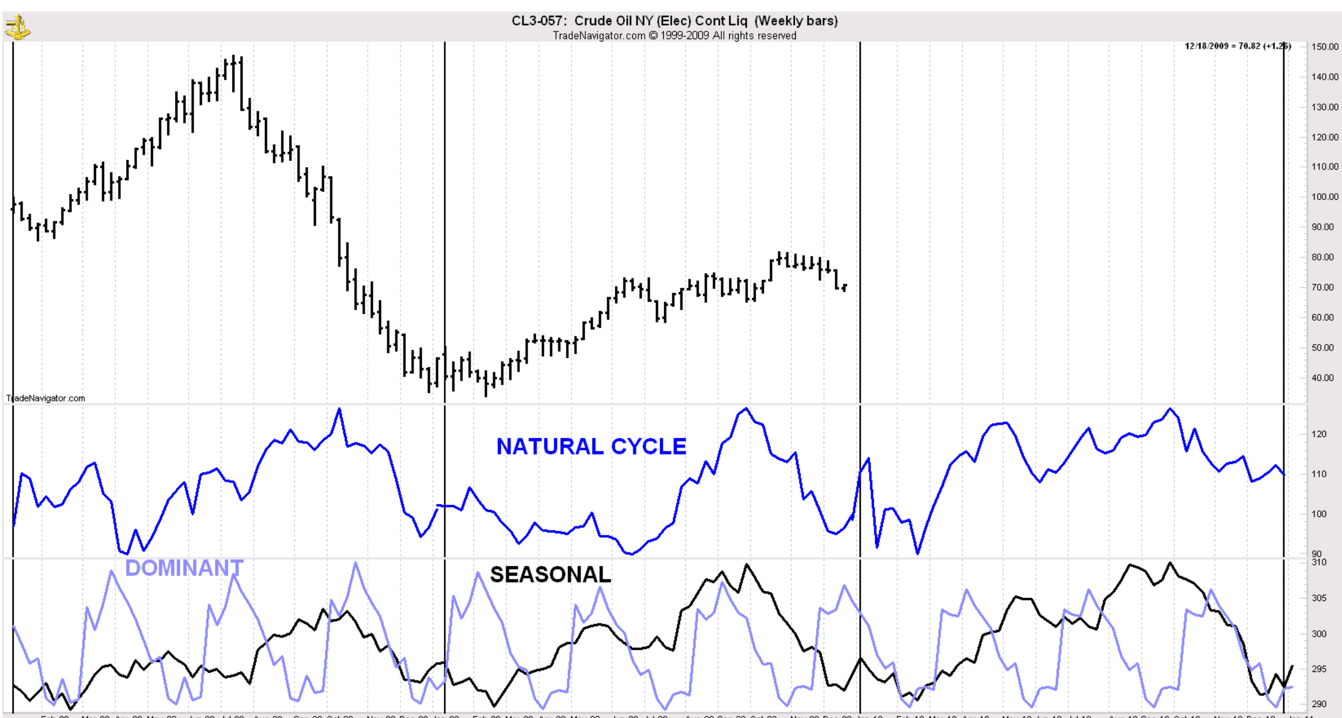


Chart 27: Crude Oil 2010 Forecast Road Map

Heating Oil

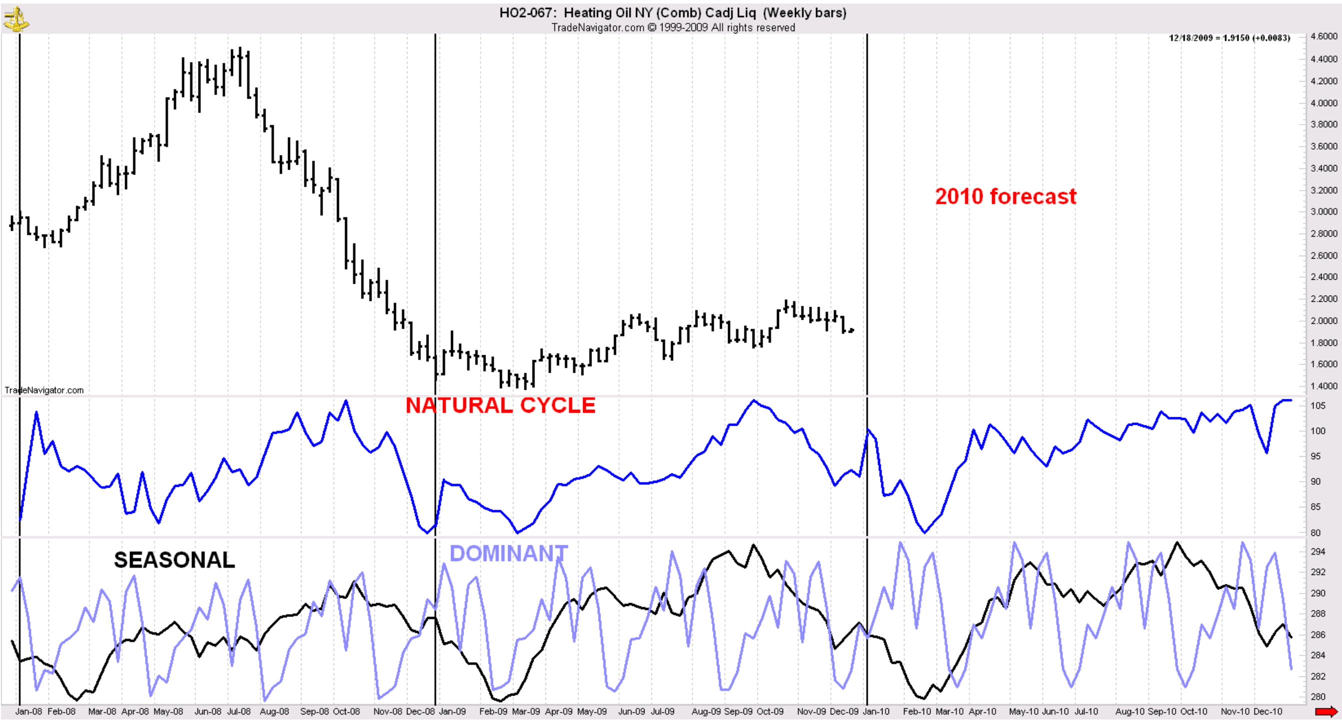


Chart 28: Heating Oil 2010 Forecast Road Map

Unleaded Gasoline

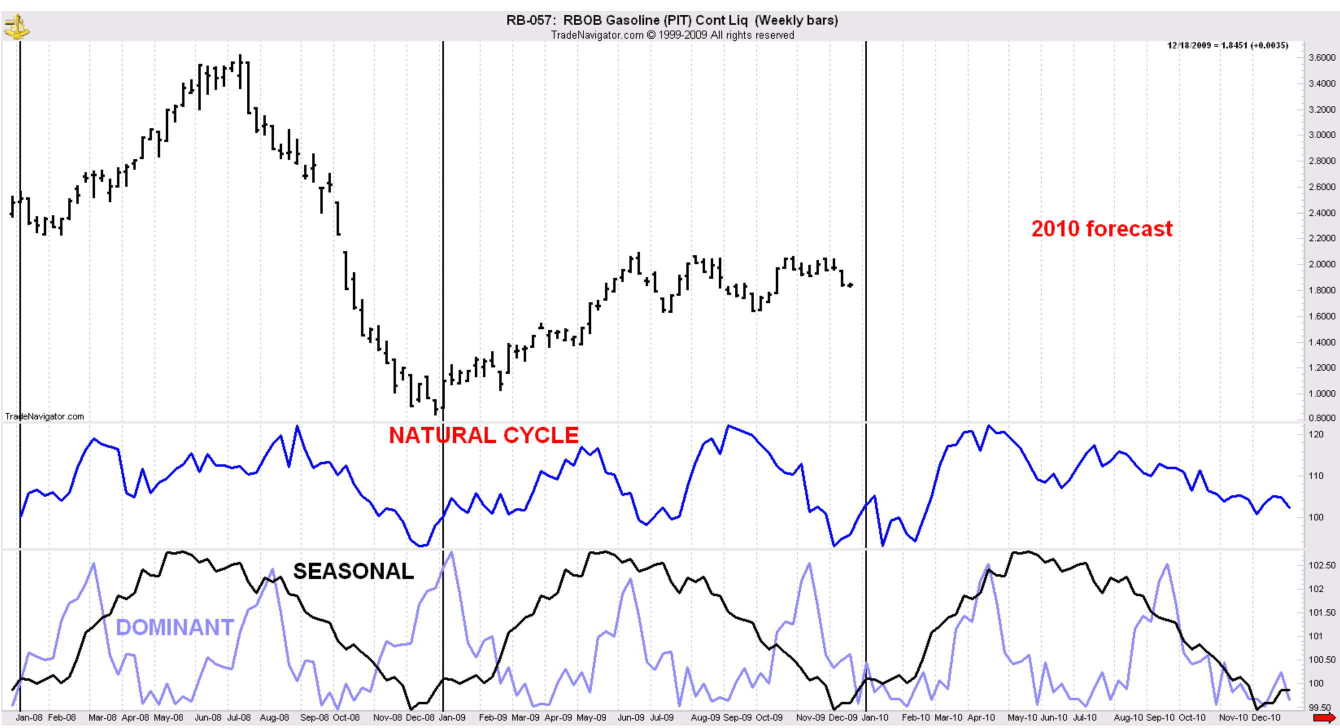


Chart 29: Unleaded Gas 2010 Forecast Road Map

ENERGIES

Natural Gas

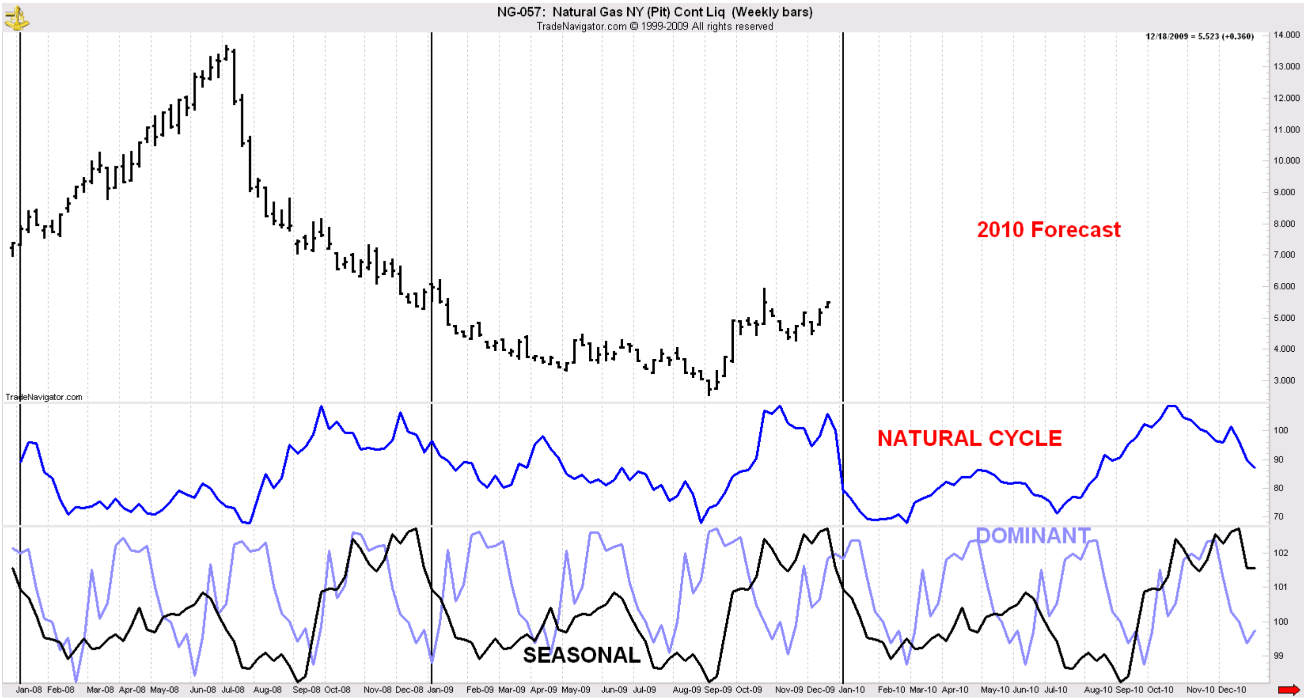


Chart 30: Natural Gas 2010 Forecast Road Map

GRAINS

Corn

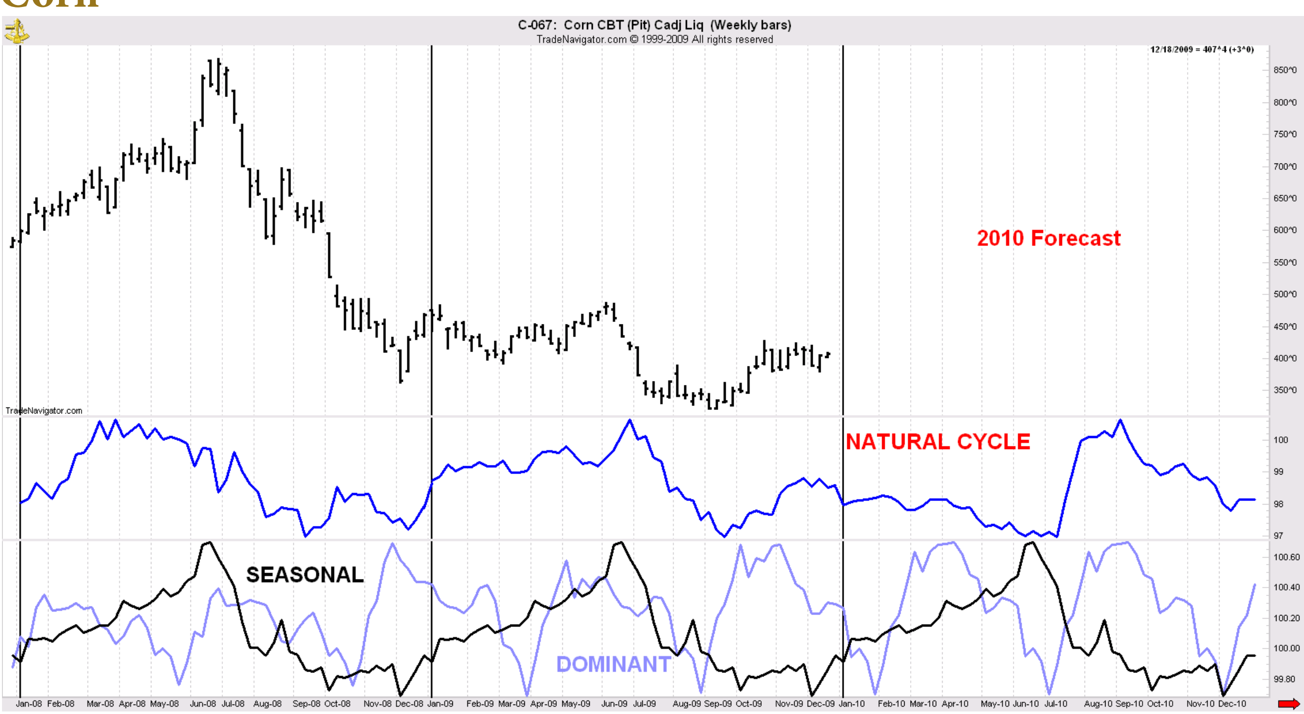


Chart 31: Corn 2010 Forecast Road Map

Wheat

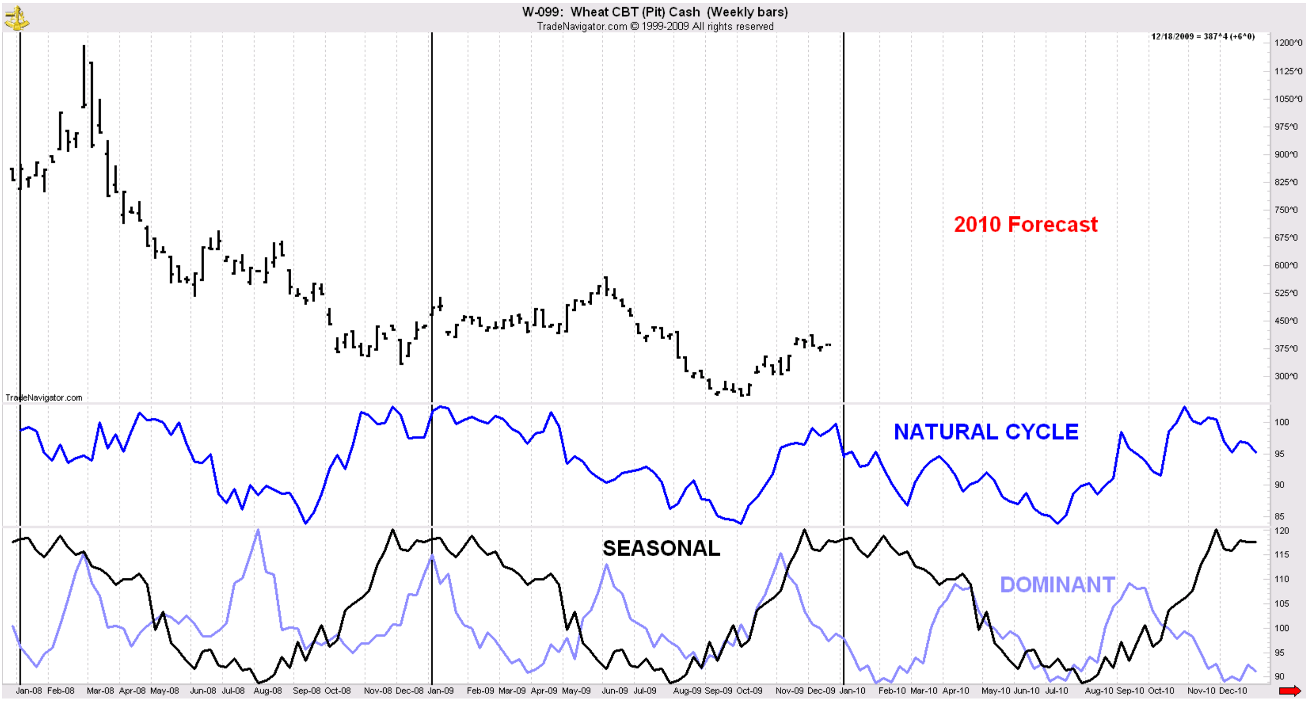


Chart 32: Wheat 2010 Forecast Road Map

Soybeans

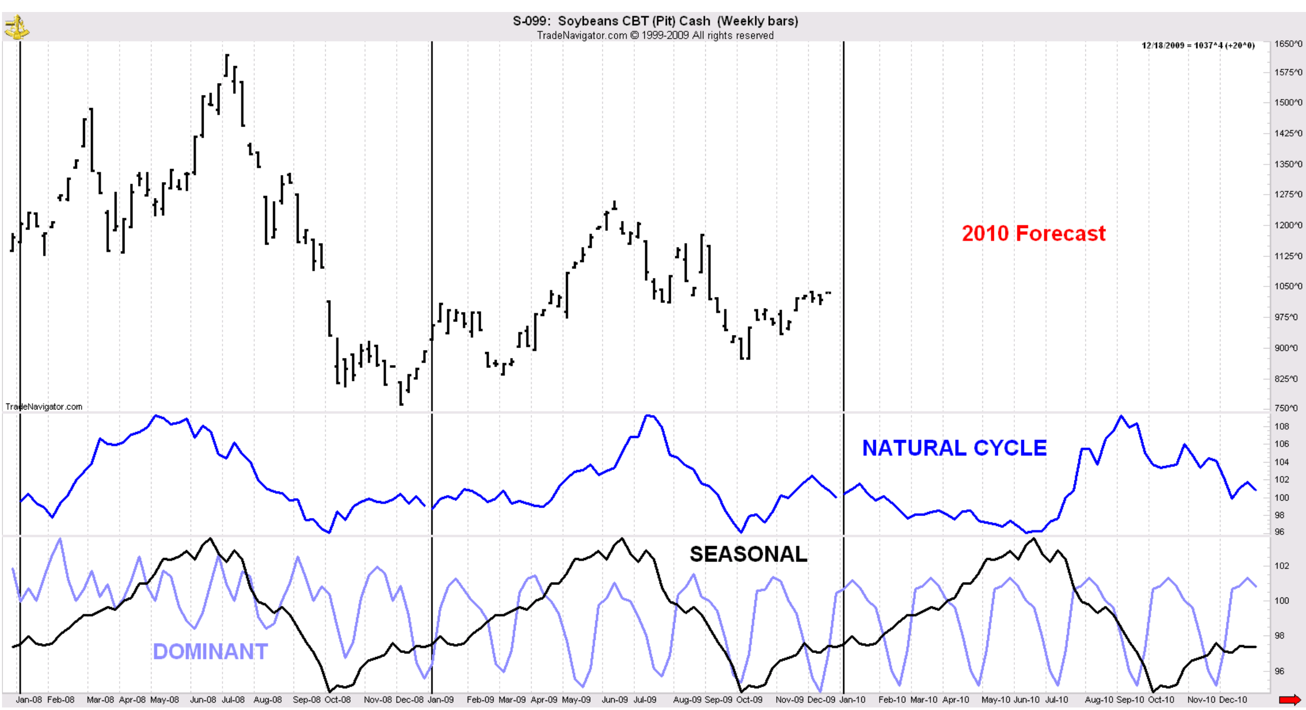


Chart 33: Soybeans 2010 Forecast Road Map

Soybean Oil

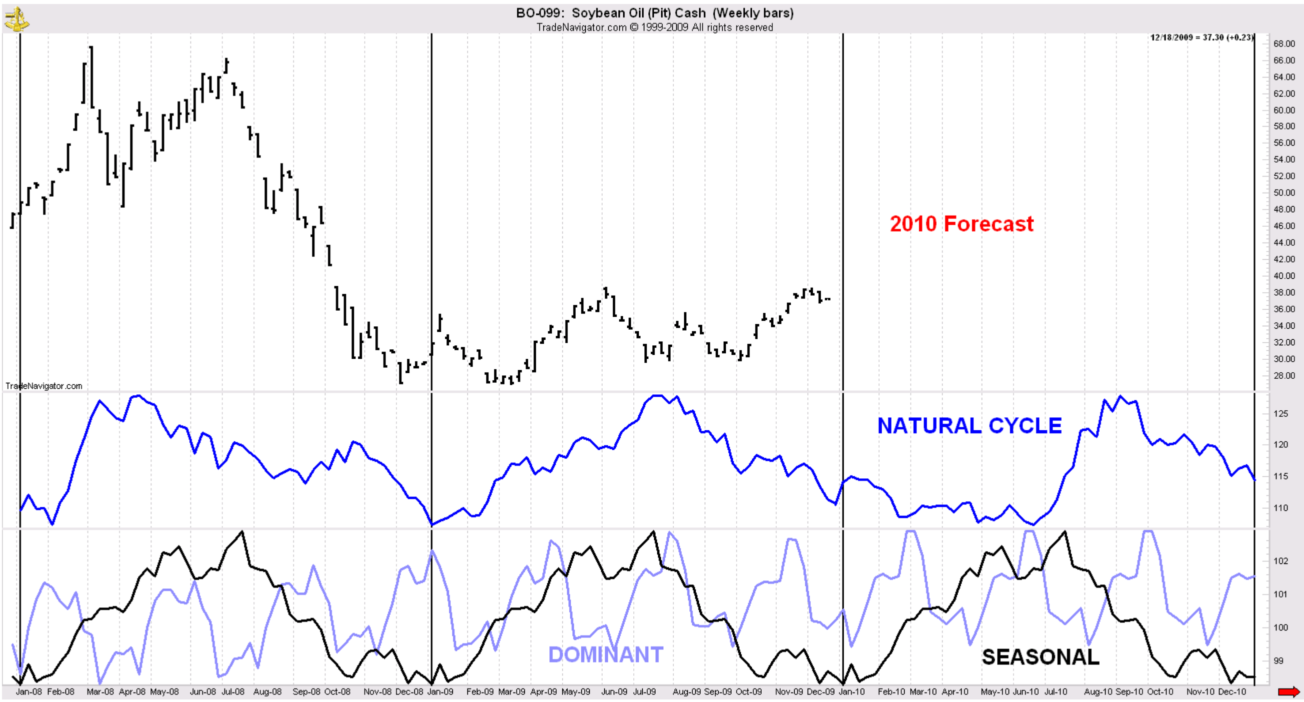


Chart 34: Soybean Oil Forecast Road Map

Soybean Meal

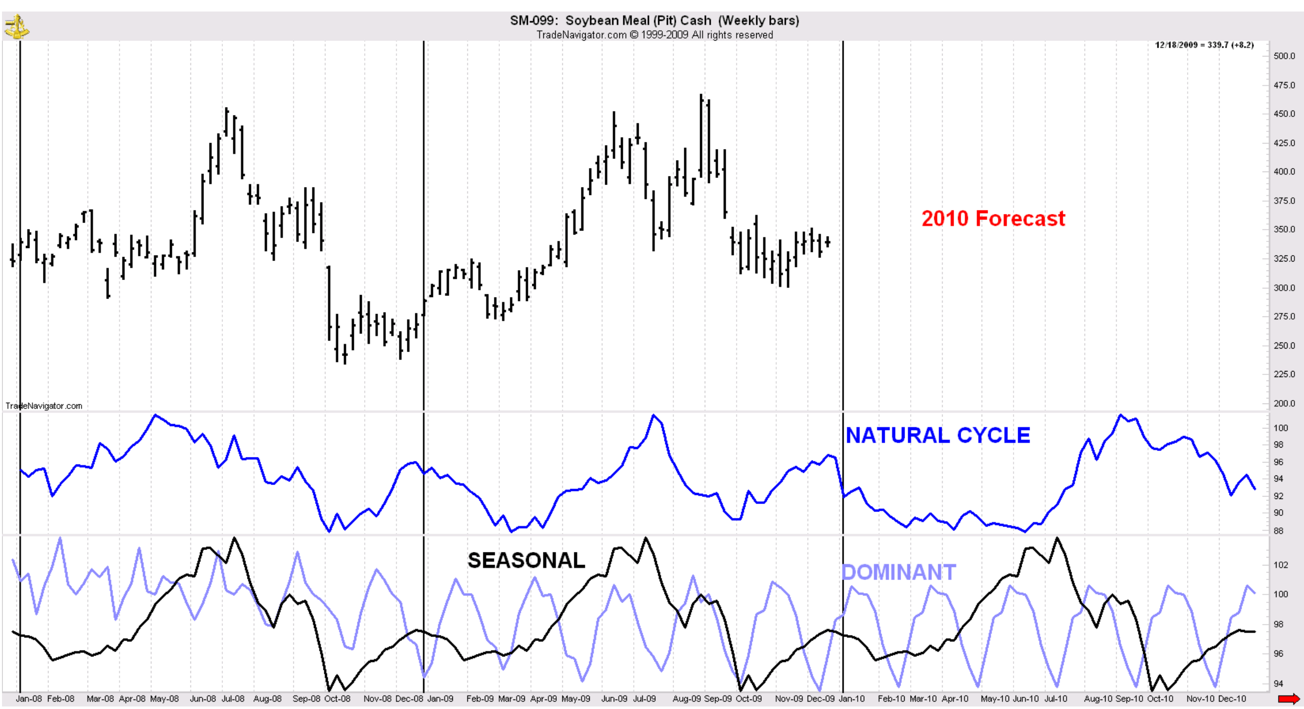


Chart 35: Soybean Meal 2010 Forecast Road Map

Live Cattle

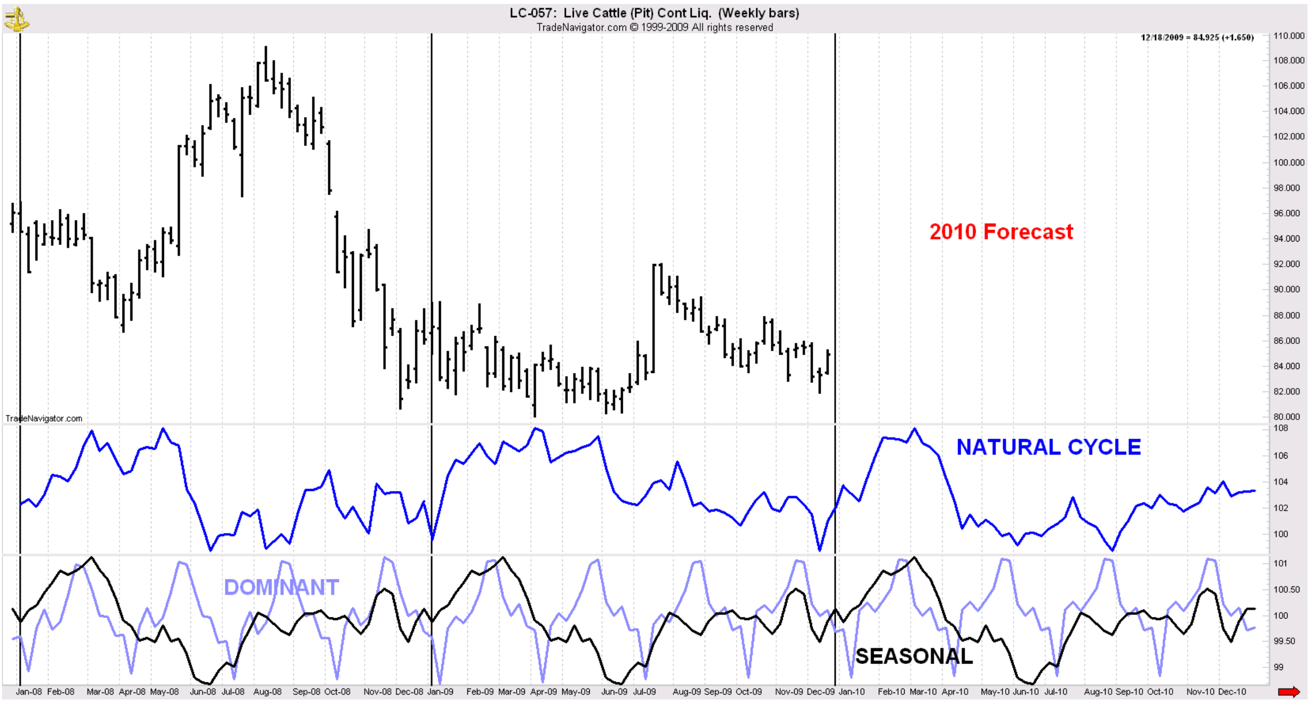


Chart 36: Live Cattle 2010 Forecast Road Map

Feeder Cattle

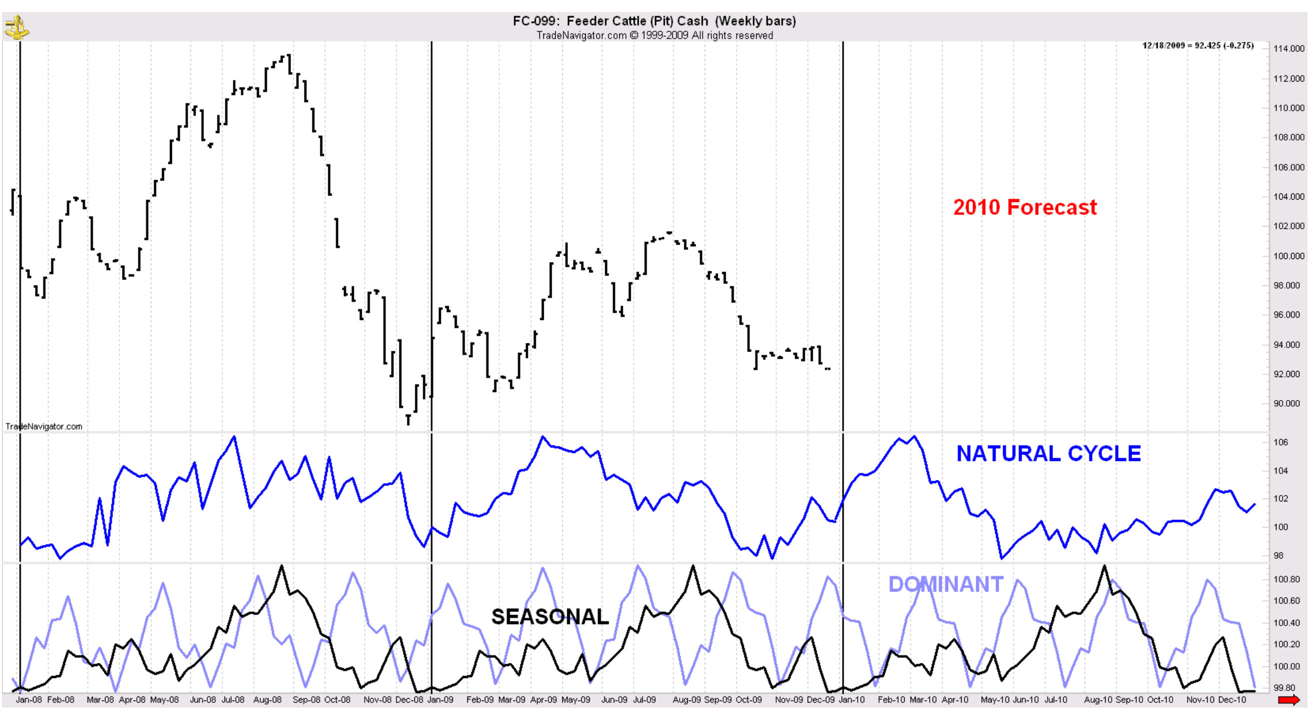


Chart 37: Feeder Cattle 2010 Forecast Road Map

Meats

Lean Hogs

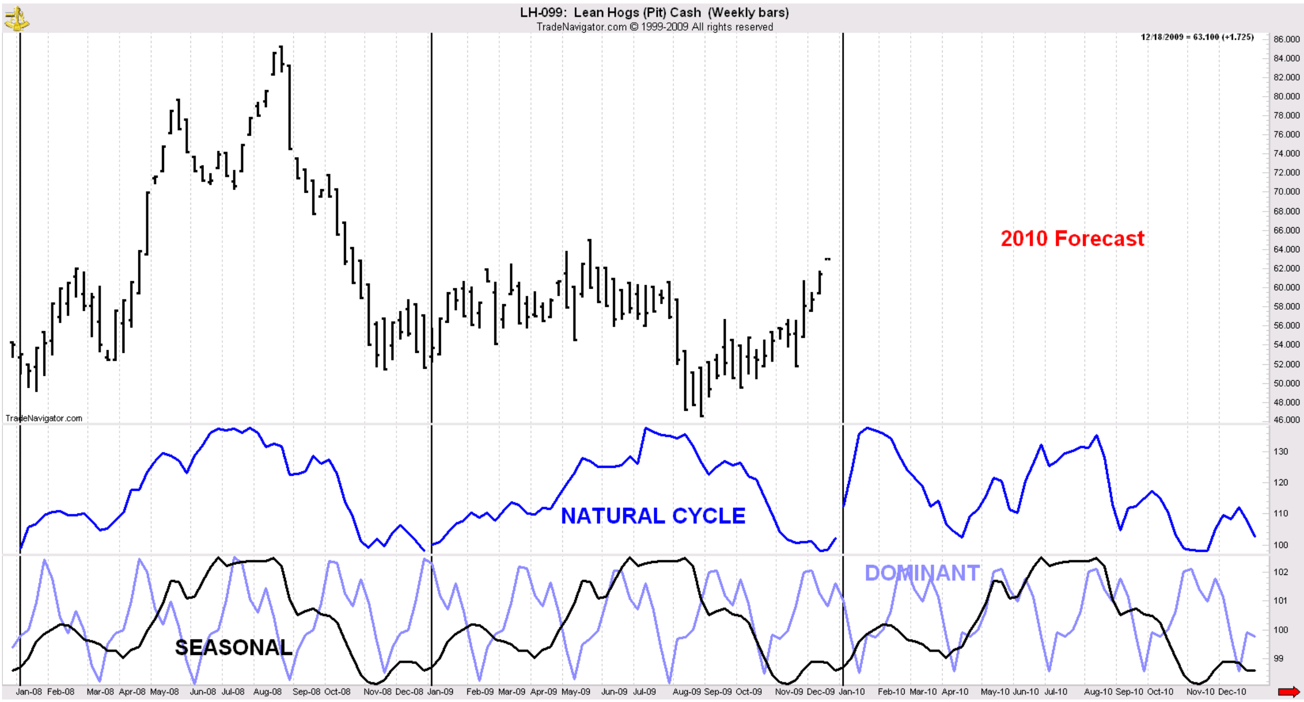


Chart 38: Lean Hogs 2010 Forecast Road Map

SOFTS

Cotton

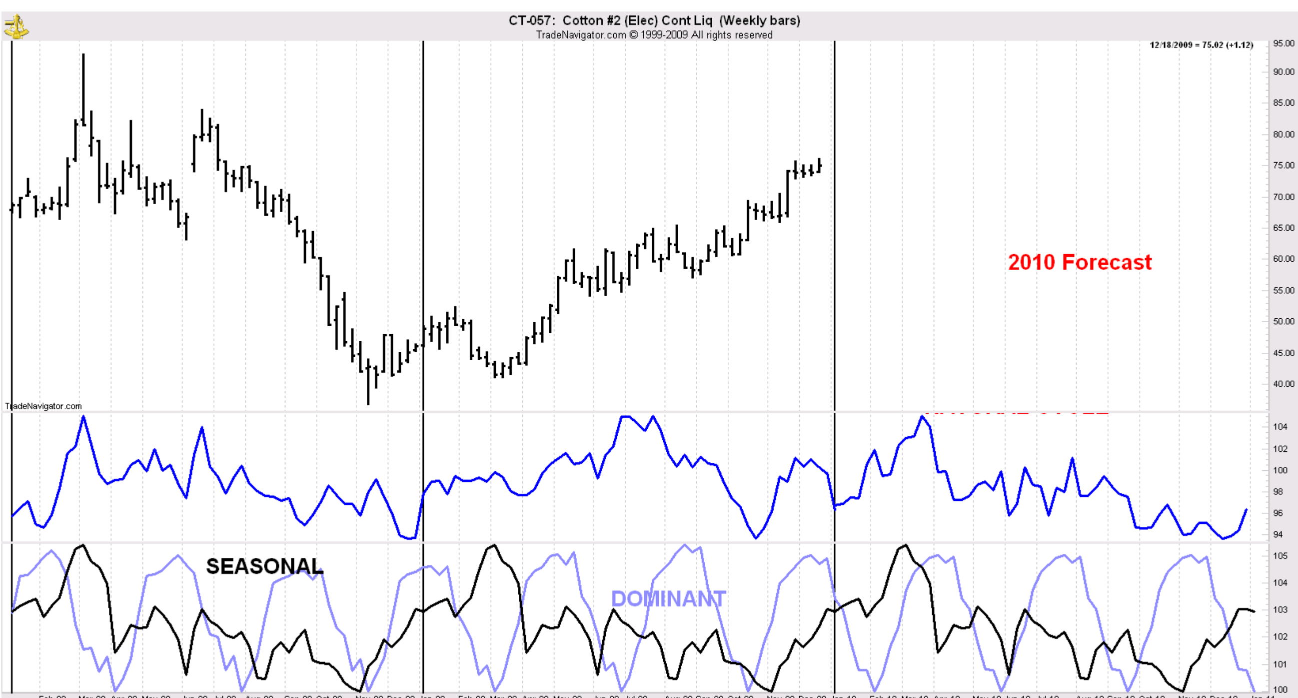


Chart 39: Cotton 2010 Forecast Road Map

Sugar

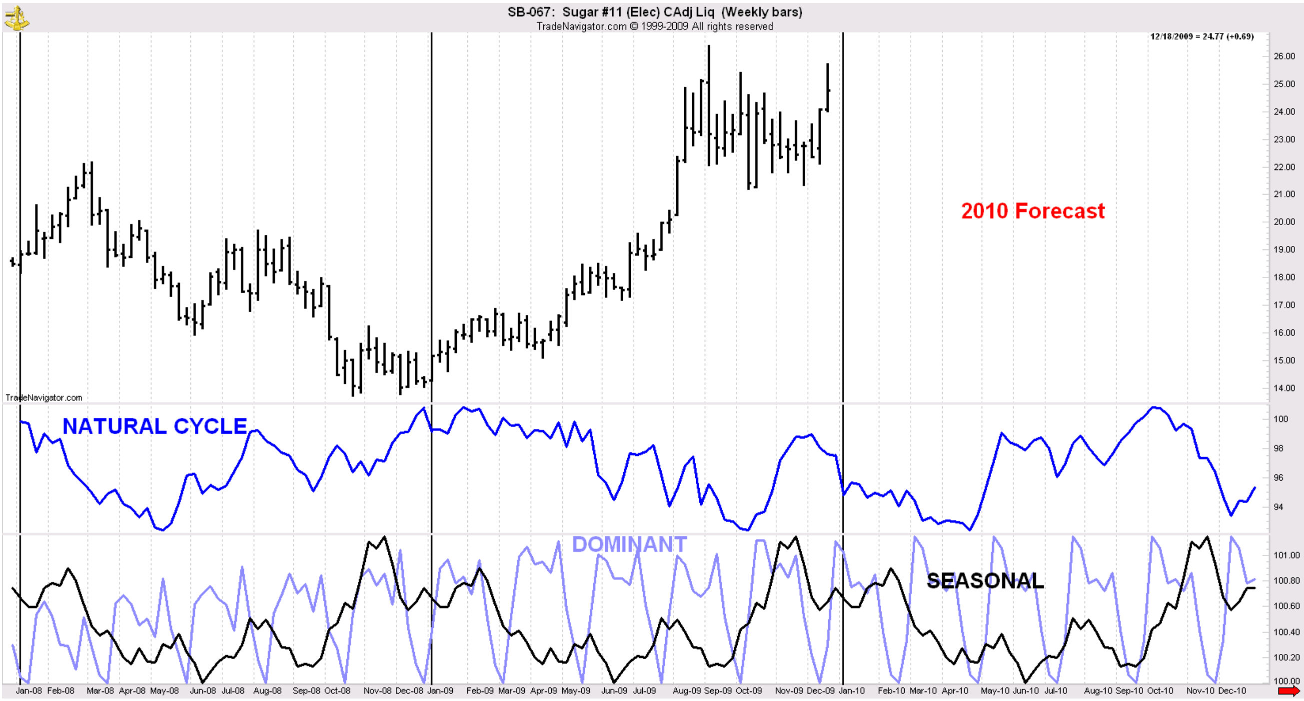


Chart 40: Sugar 2010 Forecast Road Map

Coffee

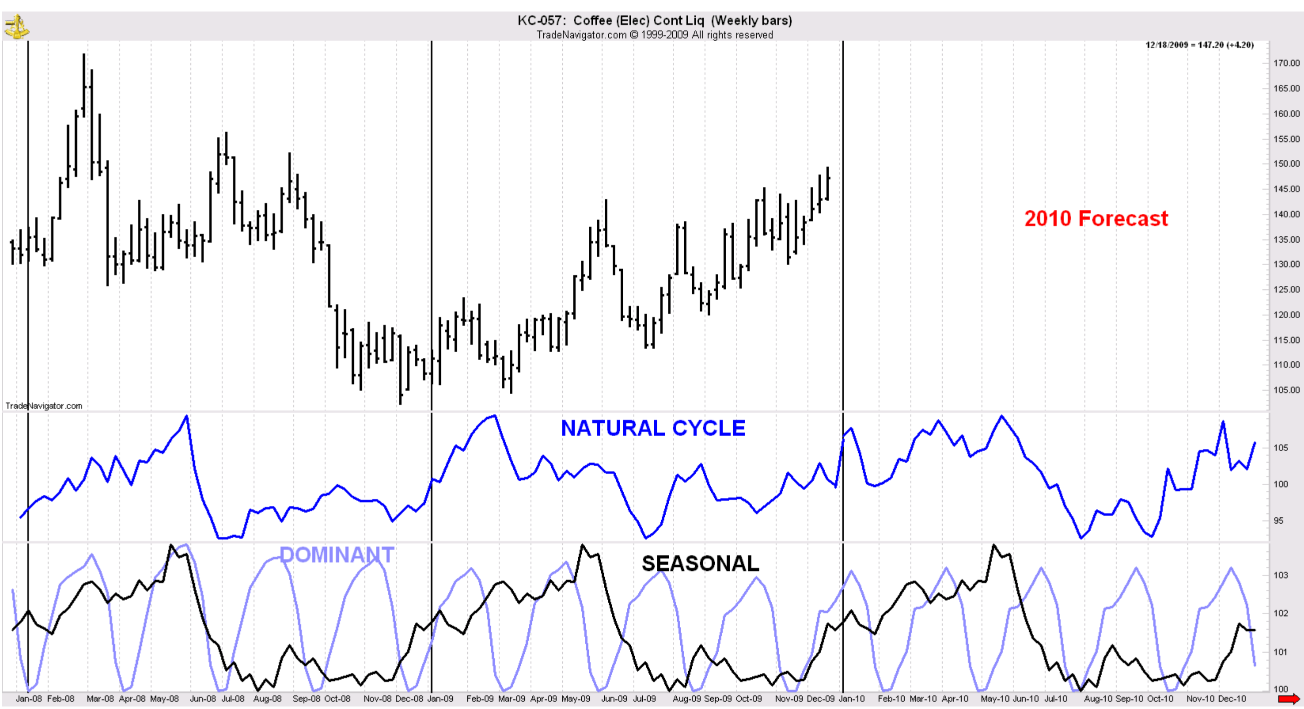


Chart 41: Coffee 2010 Forecast Road Map

Cocoa

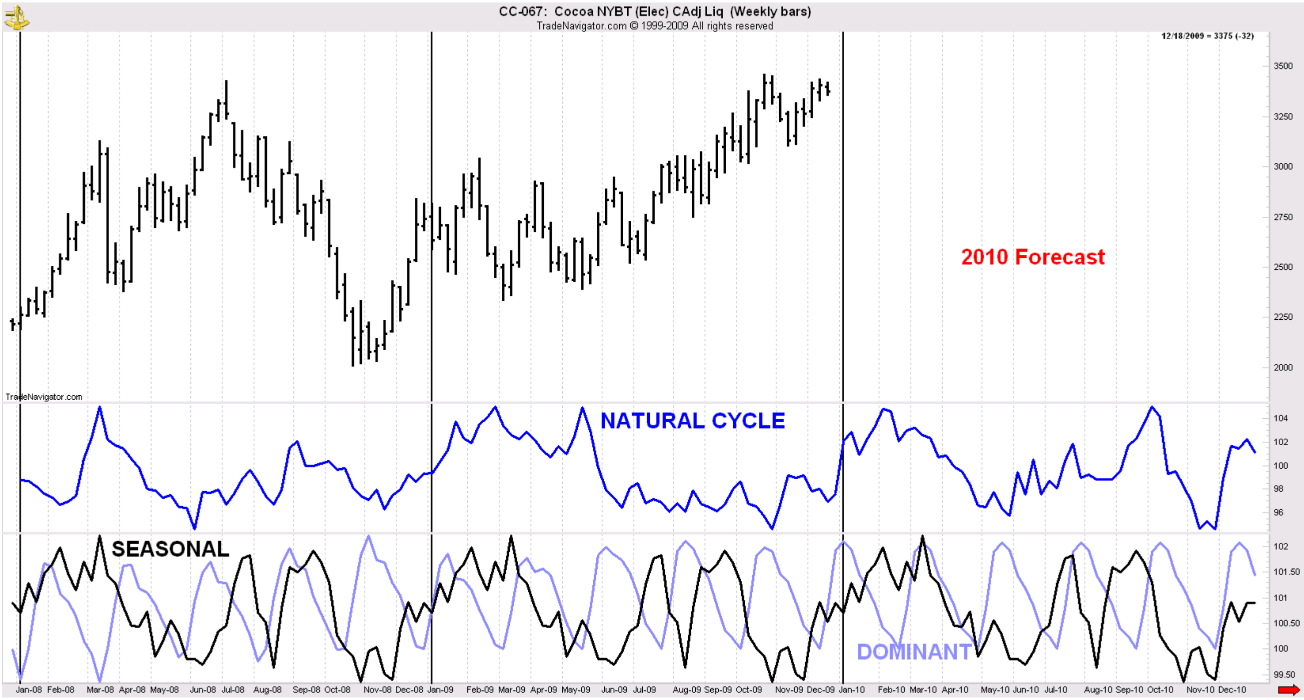


Chart 42: Cocoa 2010 Forecast Road Map

CURRENCIES

Australian Dollar

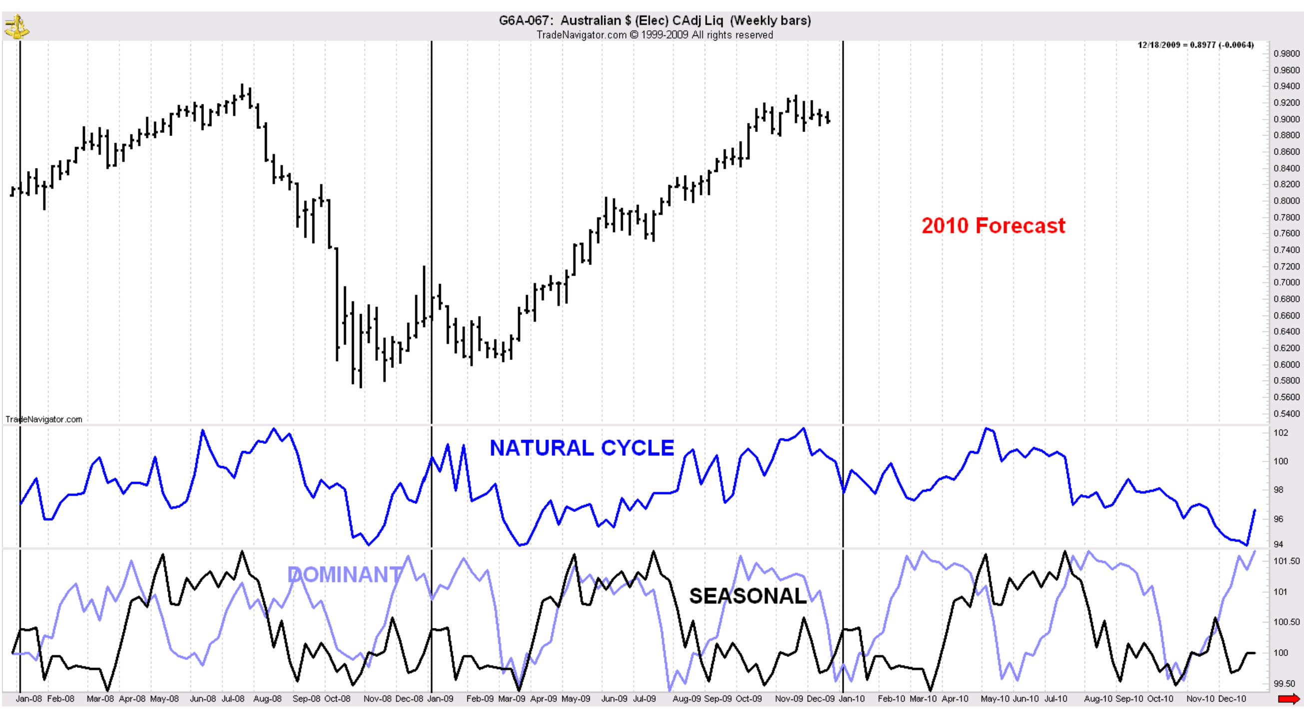


Chart 43: Australian Dollar 2010 Forecast Road Map

British Pound

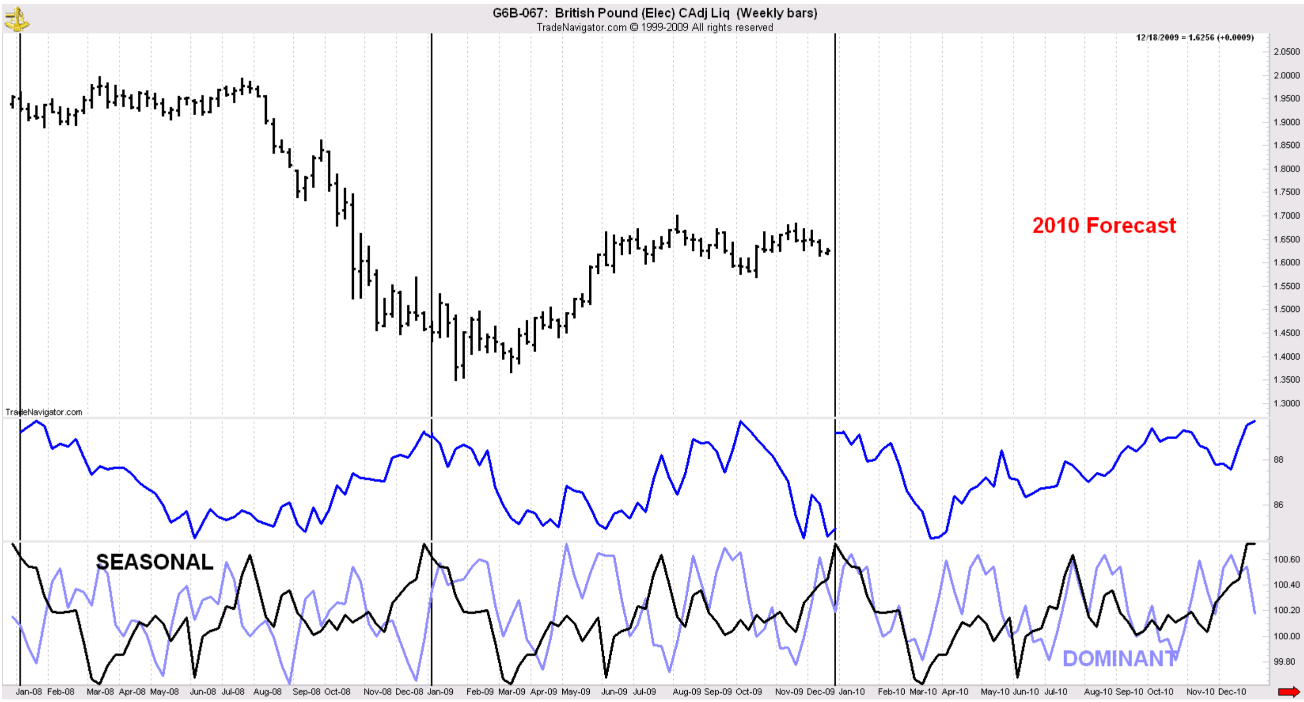


Chart 44: British Pound 2010 Forecast Road Map

Canadian Dollar

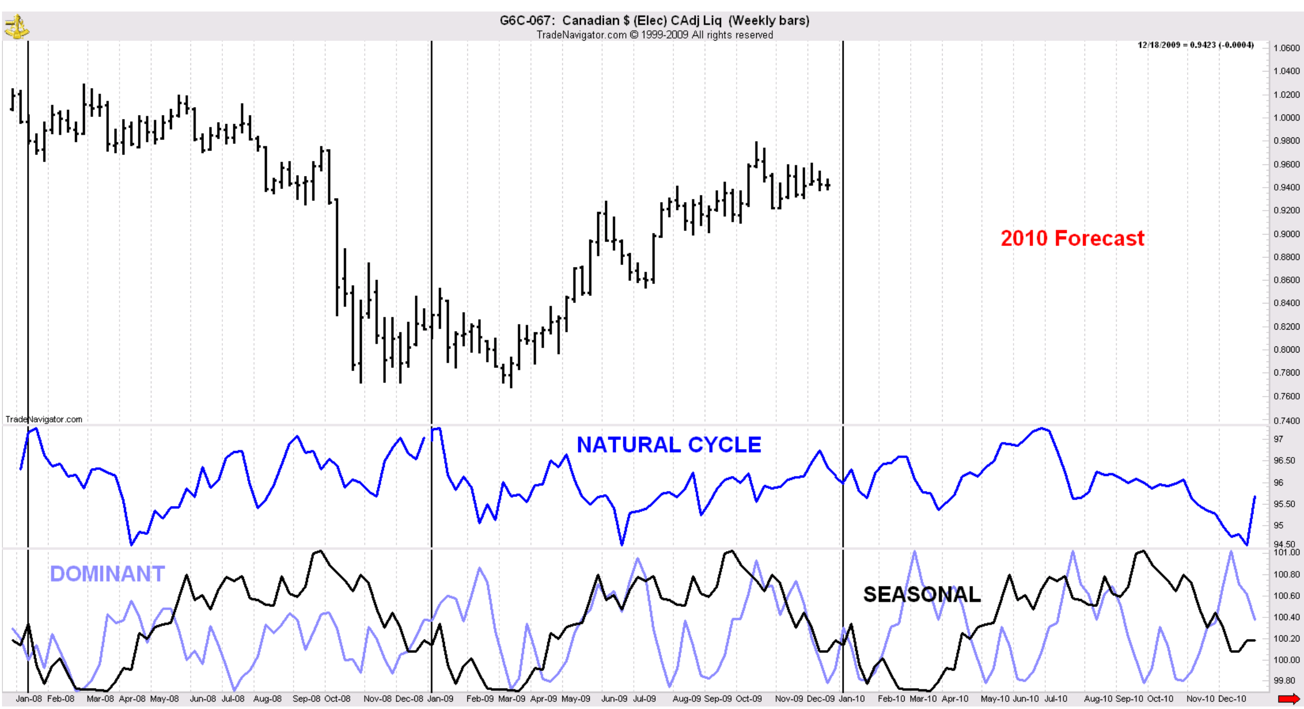


Chart 45: Canadian Dollar 2010 Forecast Road Map

Japanese Yen

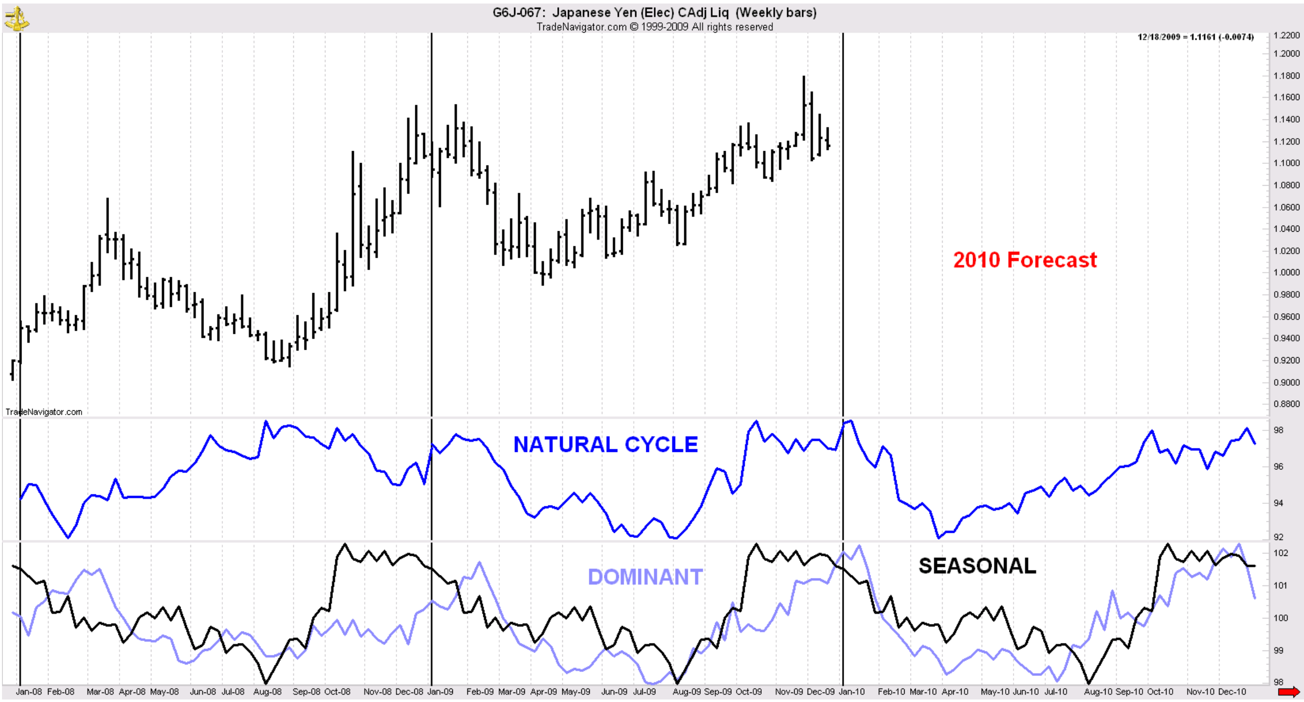


Chart 46: Japanese Yen 2010 Forecast Road Map

Euro FX

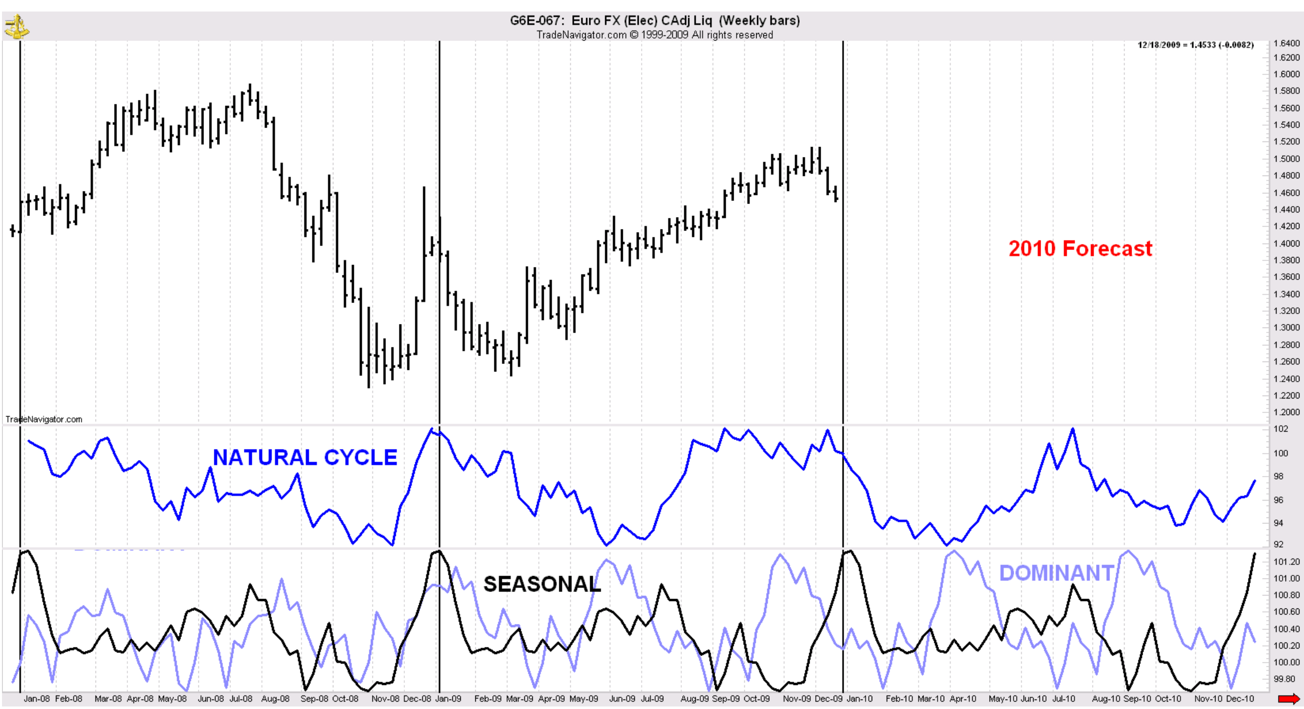


Chart 47: Euro FX 2010 Forecast Road Map

US Dollar

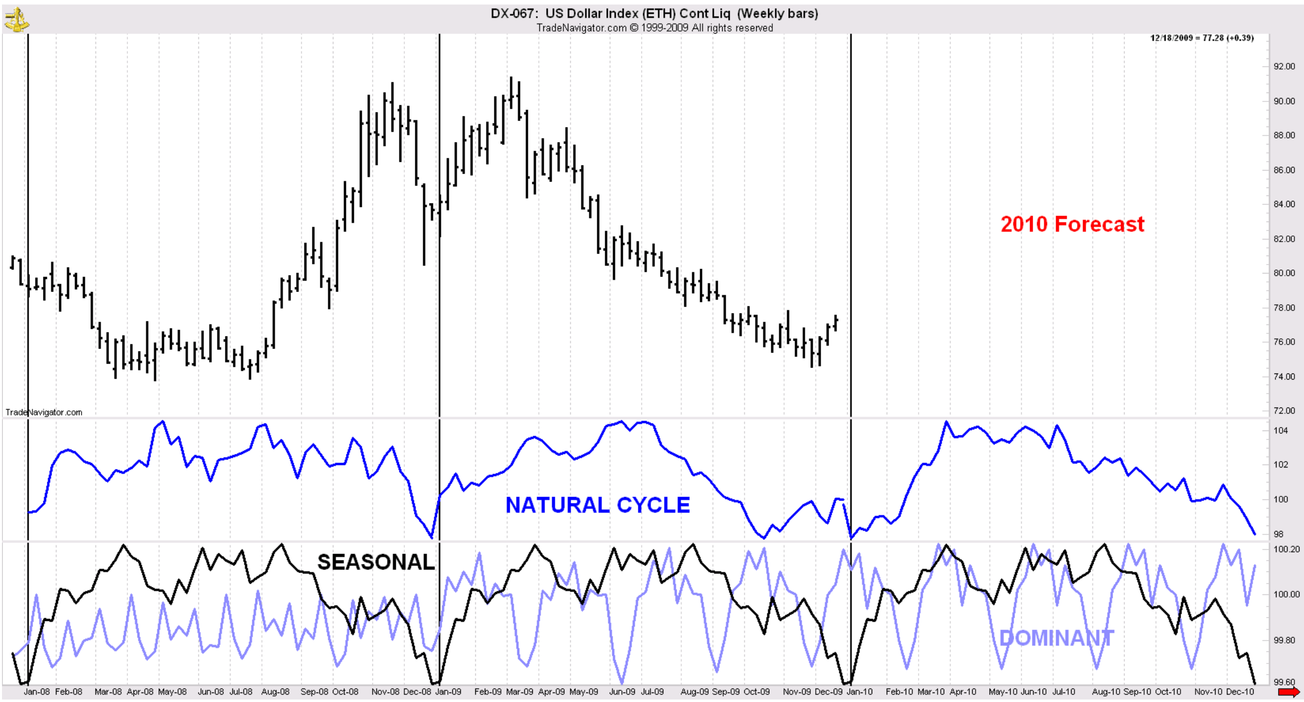


Chart 48: US Dollar 2010 Forecast Road Map

Forecasts For The Most Widely Followed Stocks

This is the first year I have applied these techniques to individual stocks. I look forward to the end of 2010 to see how well these have fared. Traders/Investors will use them to find ideal times for entry.

Stocks

Google

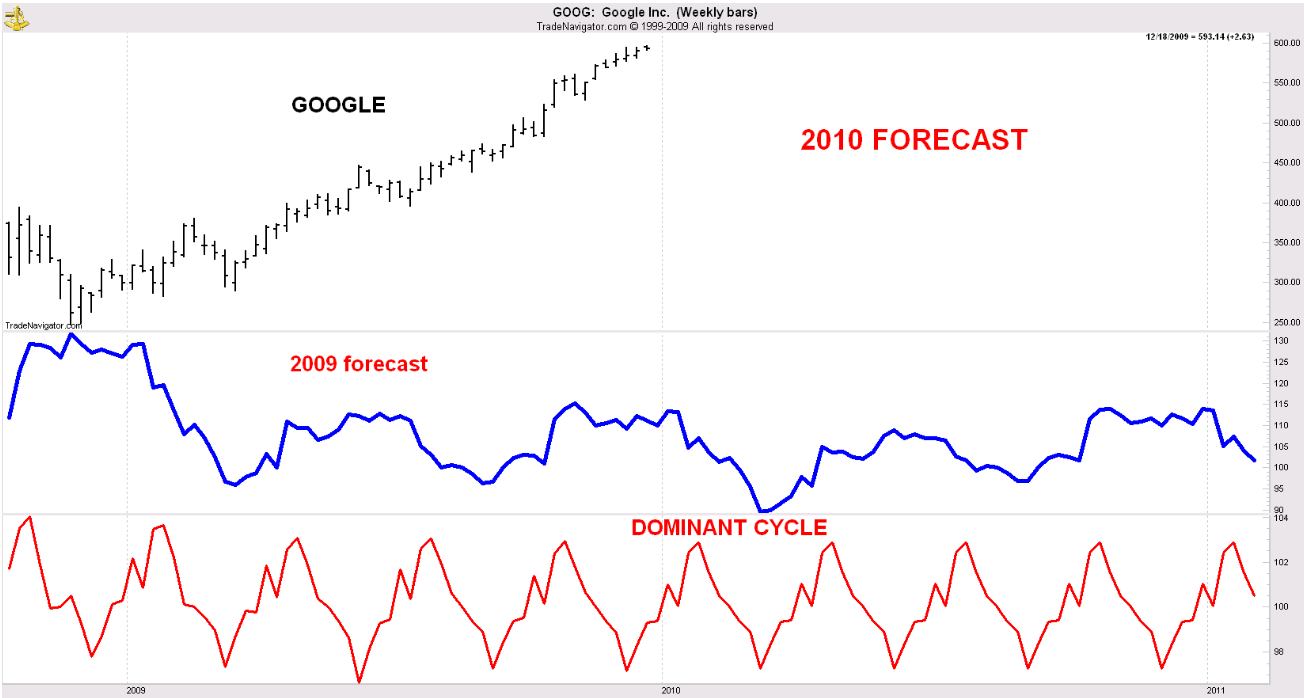


Chart 49: Google 2010 Forecast Road Map

Microsoft

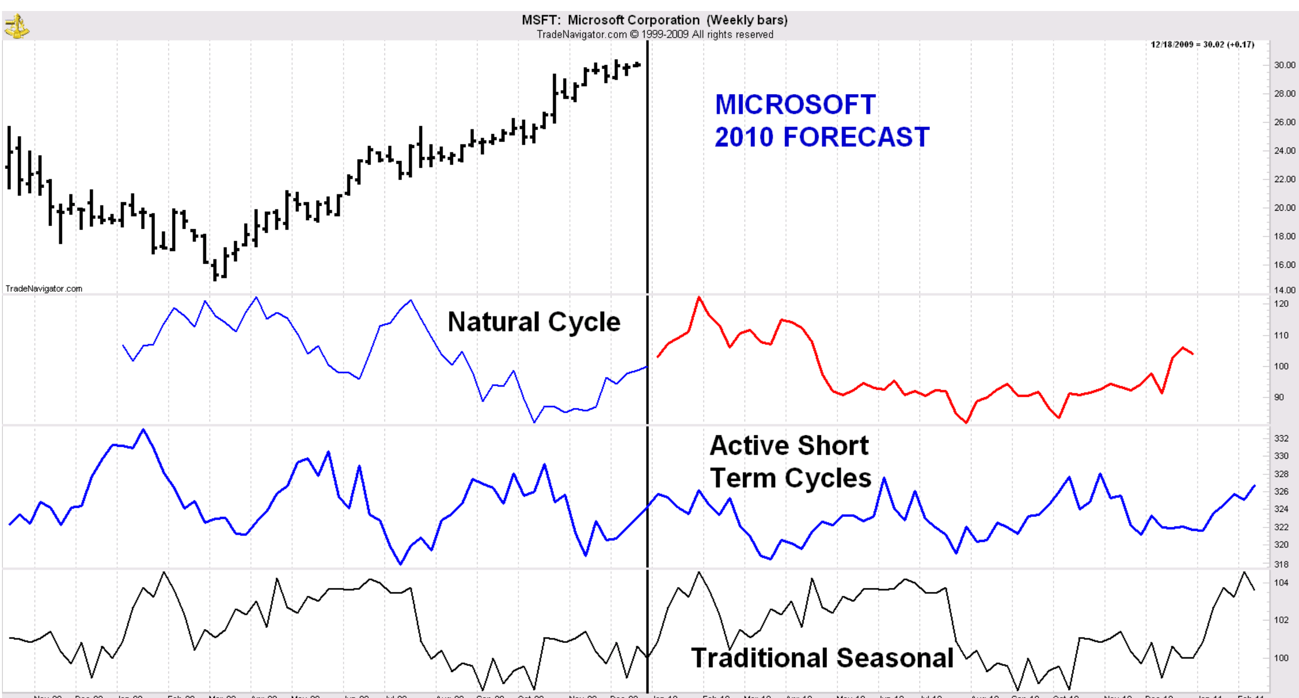


Chart 50: Microsoft 2010 Forecast Road Map

IBM

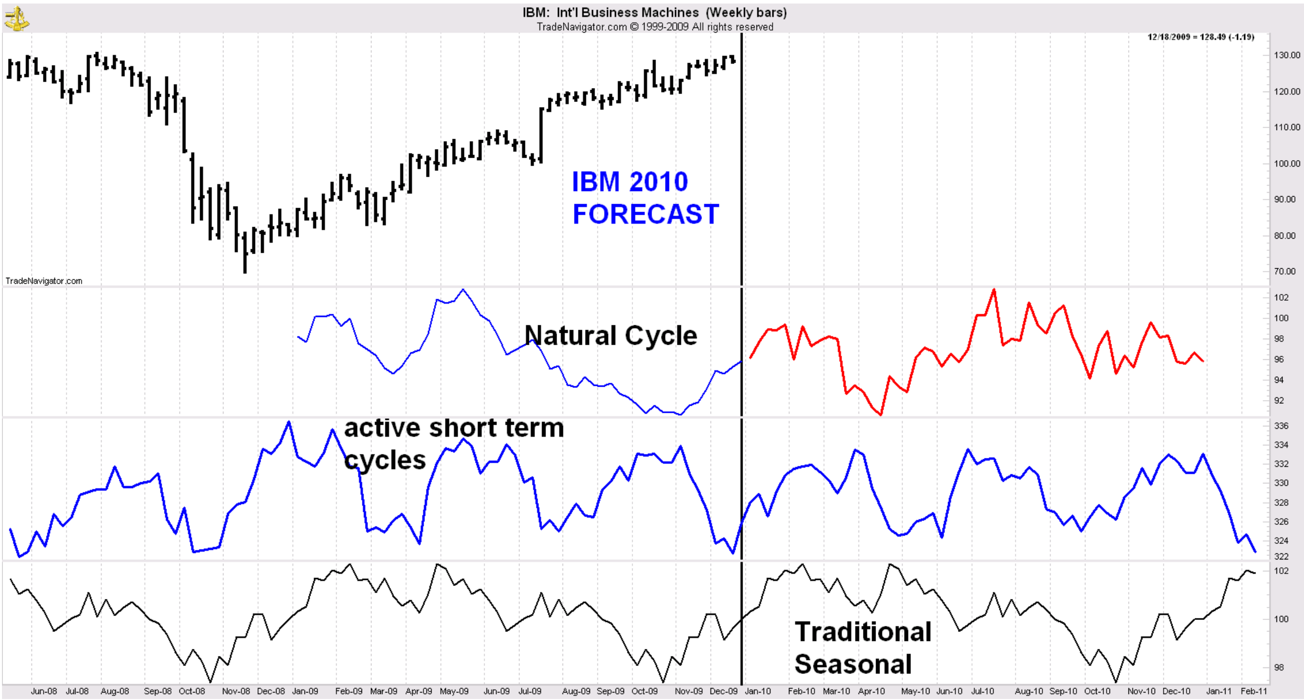


Chart 51: IBM 2010 Forecast Road Map

Coca-Cola

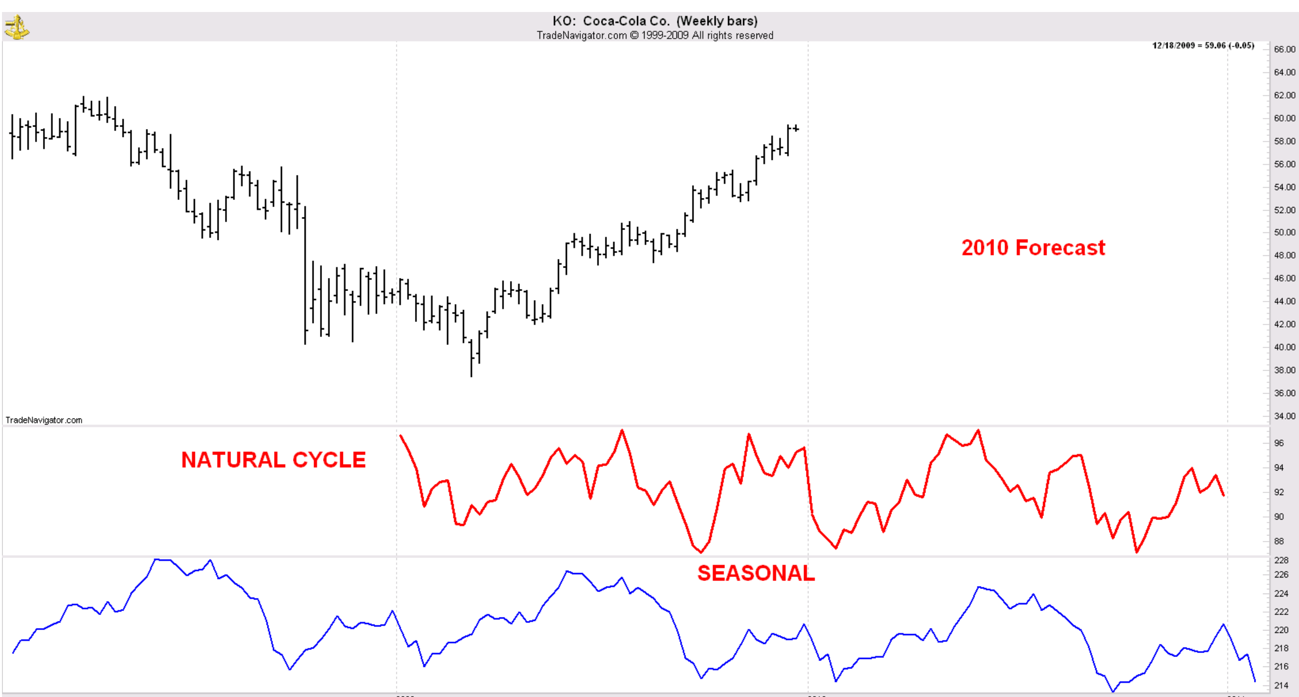


Chart 52: Coca-Cola 2010 Forecast Road Map

News Corporation Limited

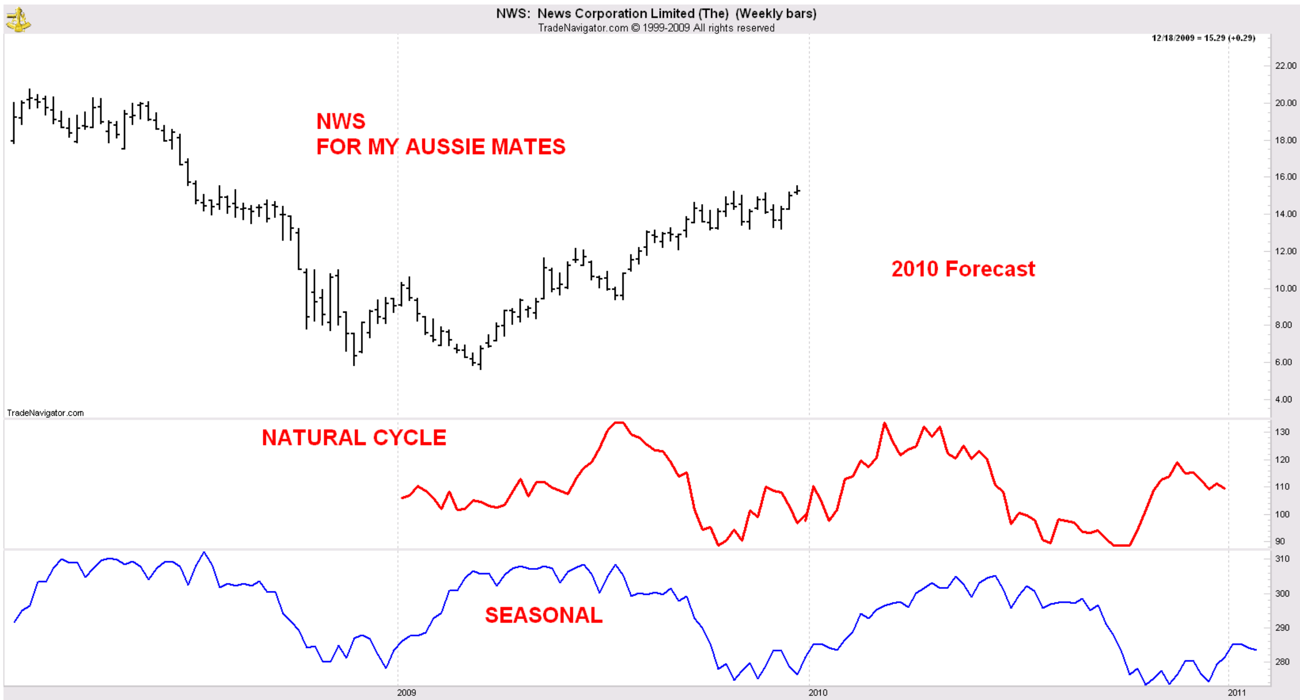


Chart 53: News Corp Limited 2010 Forecast Road Map

SET UP TRADES FOR THE FIRST OF 2010

I've been making my first of the year set up trades for almost 30 years now... that's a long time to lay it all on the line. There have been some spectacular successes… like last year's call for Unleaded Gasoline to rally, and Bonds to decline.

Fortunately over the years, there certainly have been a lot fewer failures than winners selected.

My process is pretty simple. I look for things that drive the markets... Seasonal and Cyclical tendencies, Commitment of Trader Report data, Valuation, a study of Open Interest. In this process I can usually determine which markets are most apt to have moves at the start of the year.

You should use the Road Maps to help time entries and exits.

Here they are the first of the year set up trades for 2010…

Chart 54: Gold 2010 Weekly Set Up

GOLD AND SILVER

Gold and Silver leap off chart pages when looking for a set up market. On the bottom of Chart 54 you can see my Valuation Index (WillVal), which measures the relationship of Gold and the United States Dollar. Just recently the index entered the overvalued zone which alerts us to a decline for the first part 2010.

Essentially, what the index is saying is that the price of Gold in relationship to the US Dollar is way overvalued. As you can see this has nothing to do with overbought... Gold has been overbought for some time but did not enter the overvalued area until just now. Virtually every time Gold has entered the overvalued zone, we have seen significant sell offs later.

However, there is much more than valuation going on here...

The gray line, in the mid-panel above, shows the net long position of Small Speculators. What we've seen over the last several months is a massive increase in their net long position. As you can see looking back in the past, such positions have seen lower prices prevail. Part of this can be expressed in Open Interest, the black line. One of my working tenets of the market is that usually high levels of Open Interest mean we are at market tops; low levels at market bottoms. We are at a very high level of Open Interest.

The last straw here is the Commercials... the red line... they currently show the largest short position in their history. These guys represent big and very informed money. It is unusual for a market to exhibit such a large historical short position without an ensuing decline.

Best Set Up Trades

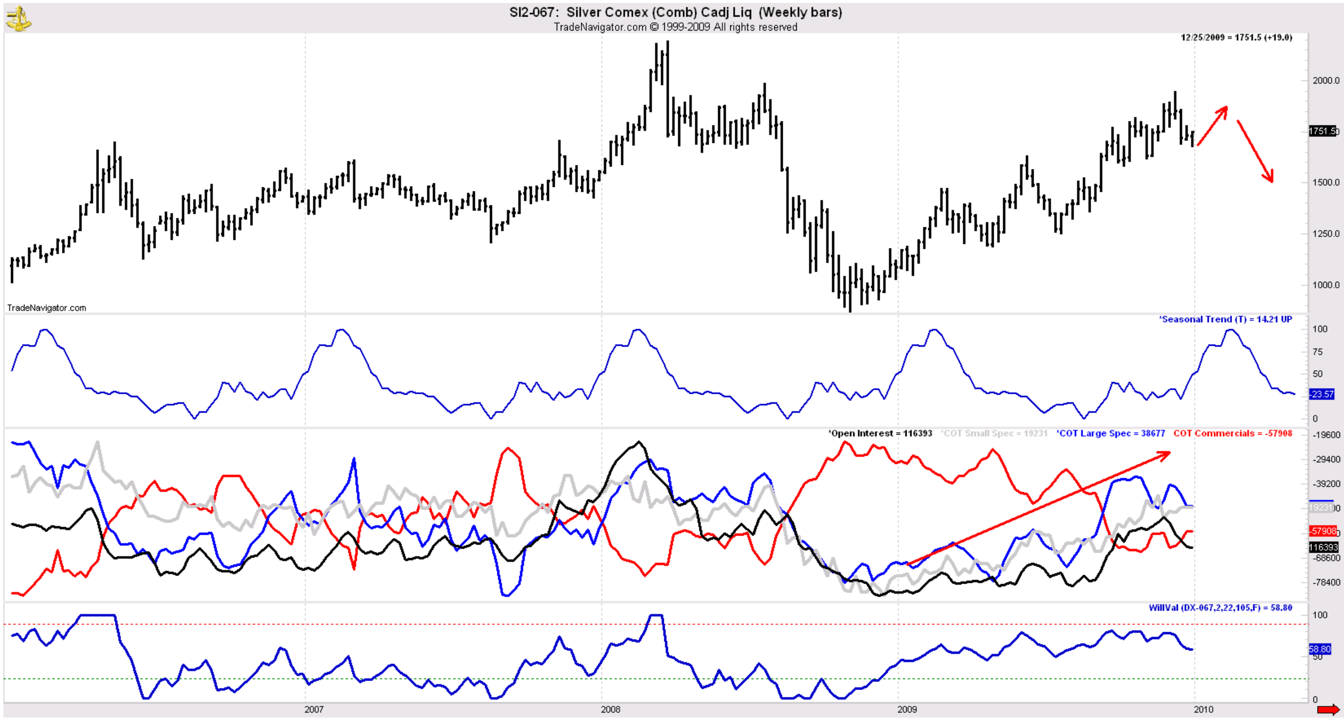


Chart 55: Silver 2010 Weekly Set Up

Silver presents the same visual image; an overvalued market where the Small Speculators are excessively long based on their prior history. The pendulum of Commercial activity has gone from an extremely large net long position at the end of 2008 to a now significantly large short position, suggesting a decline ahead.

Interestingly enough, Silver recently has been stronger than Gold... that typically is a sign of excess Public Speculation. In a healthy market Gold is stronger than Silver... Silver is the poor man's Gold. So excessive strength or weakness in this market, versus Gold, is a reflection of Public emotional extremes.

Pay particular attention to the Road Maps for your selling opportunities in these markets. I suspect a rally in January leading into a significant top.

Iwami Silver Mine in Shimane Prefecture, Japan

Copper

Copper has been working at becoming at least a semi-precious metal. Thanks to help from its Chinese buyers, it is similarly situated as the following chart shows. The massive net long by the Large Traders and net shorts by the Commercials are a harbinger of lower prices.

Copper Smelting
Ilo, Peru

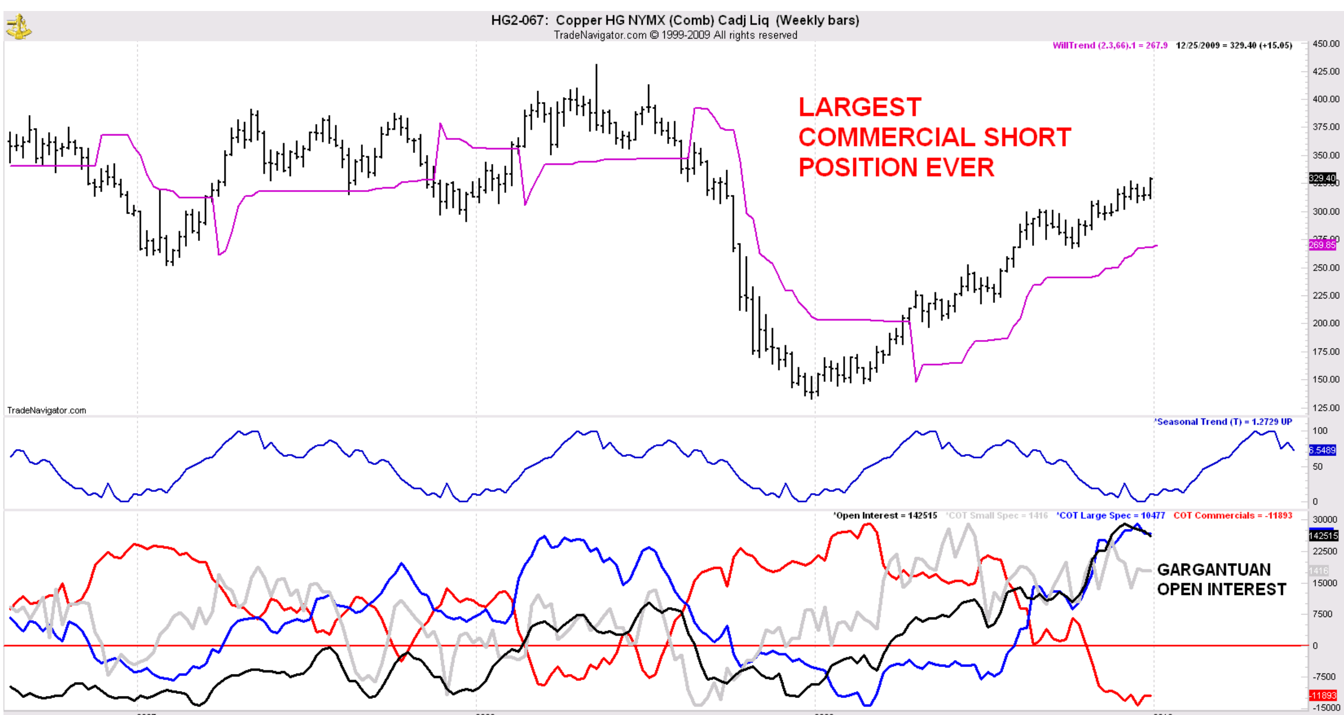


Chart 56: Copper 2010 Weekly Set Up

Best Set Up Trades

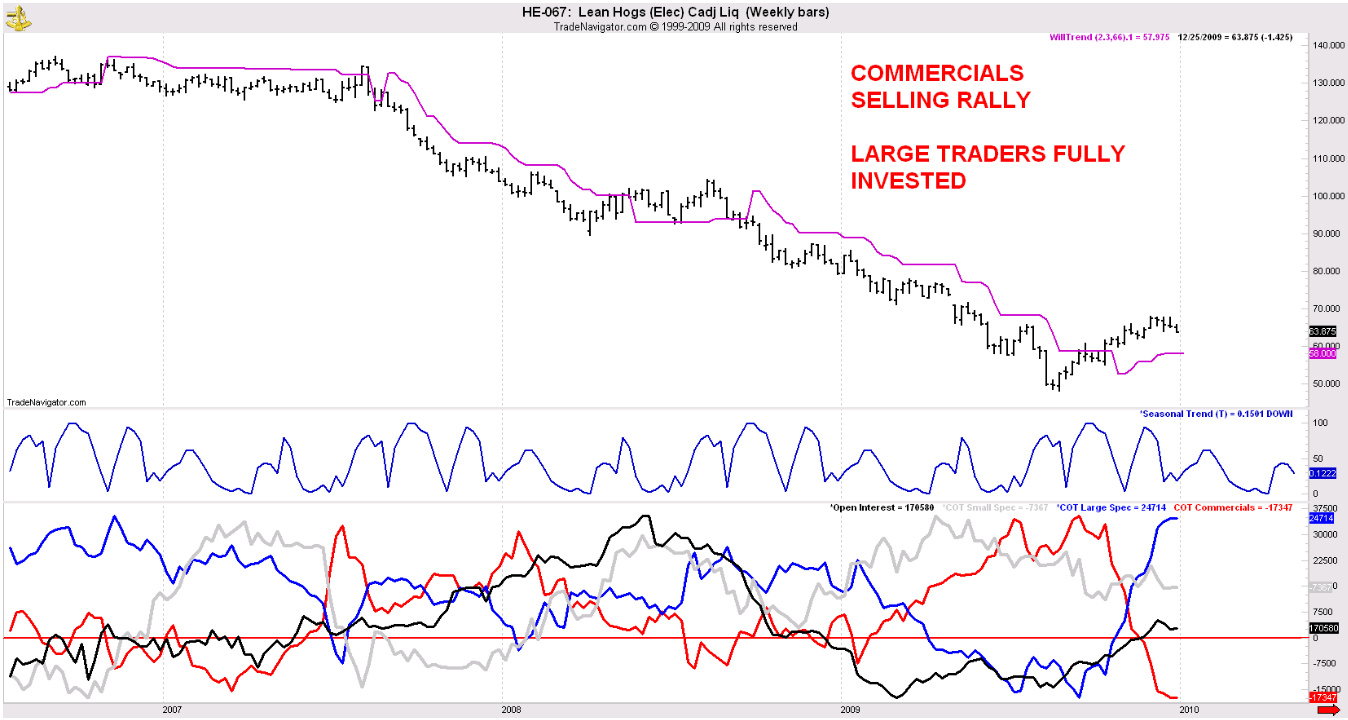


Chart 57: Lean Hogs 2010 Weekly Set Up

Lean Hogs

Wow, what a set up we have going here. It does not take trained eyes to see the Commercials, red line, are heavily short while the blue line, Large Traders, have taken on an enormous long position. In the past that has lead to further declines.

Given that Hog prices have been in a long-term down trend, that alone, suggests lower prices; but to see Commercials sell the rally in the down-trend is further confirmation of weakness ahead.

Energy Markets

We have seen some very bullish action in the energy markets in the latter part of December. There has been a substantial reduction in Open Interest while at the same time the Commercials shifted from the short side of the market to the long side. As I have shown on Larry TV, repeatedly over the last three years, this is a bullish set up.

What this is telling us is that while Open Interest is declining... fewer and fewer people are interested in the market... the only interested party has been the Commercials. They were buying at a time when no one else was quite this bullish.

As an example, a late September rally in Unleaded Gasoline, saw a similar set up. The market rallied well, for almost a $20,000 up move.

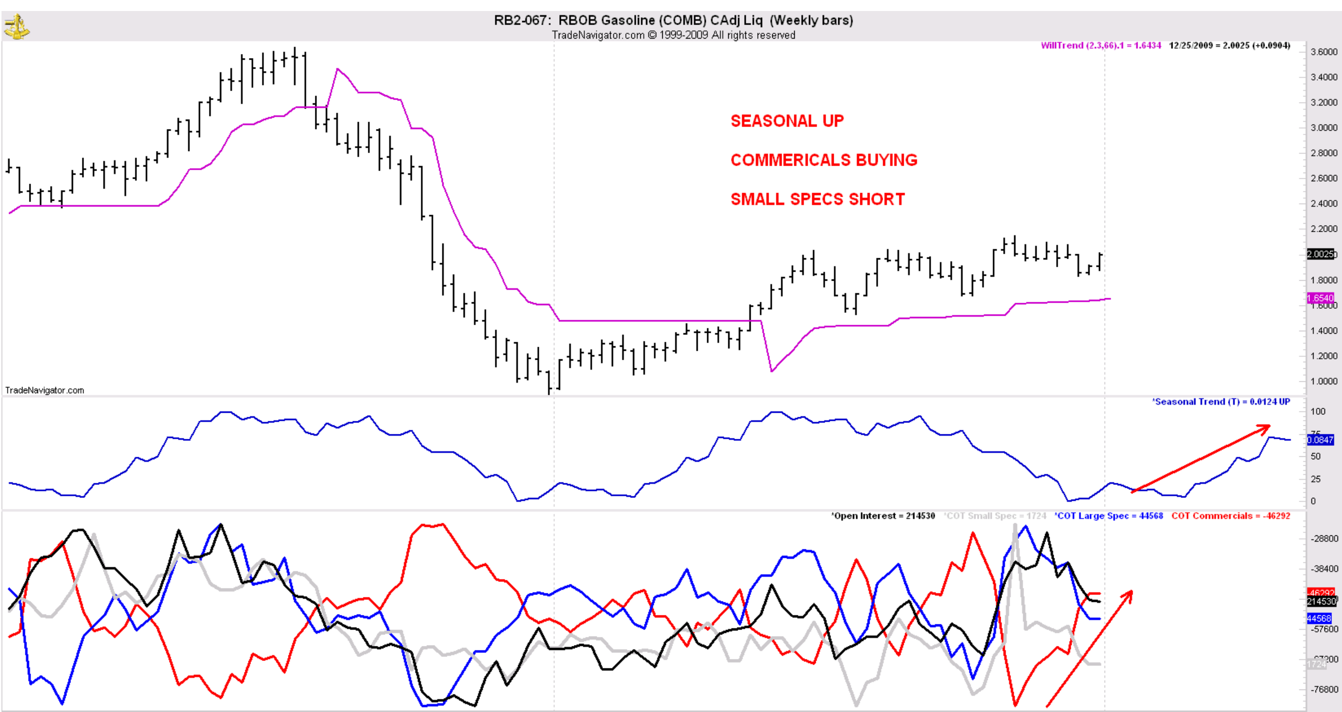


Chart 58: RBOB Gas 2010 Weekly Set Up

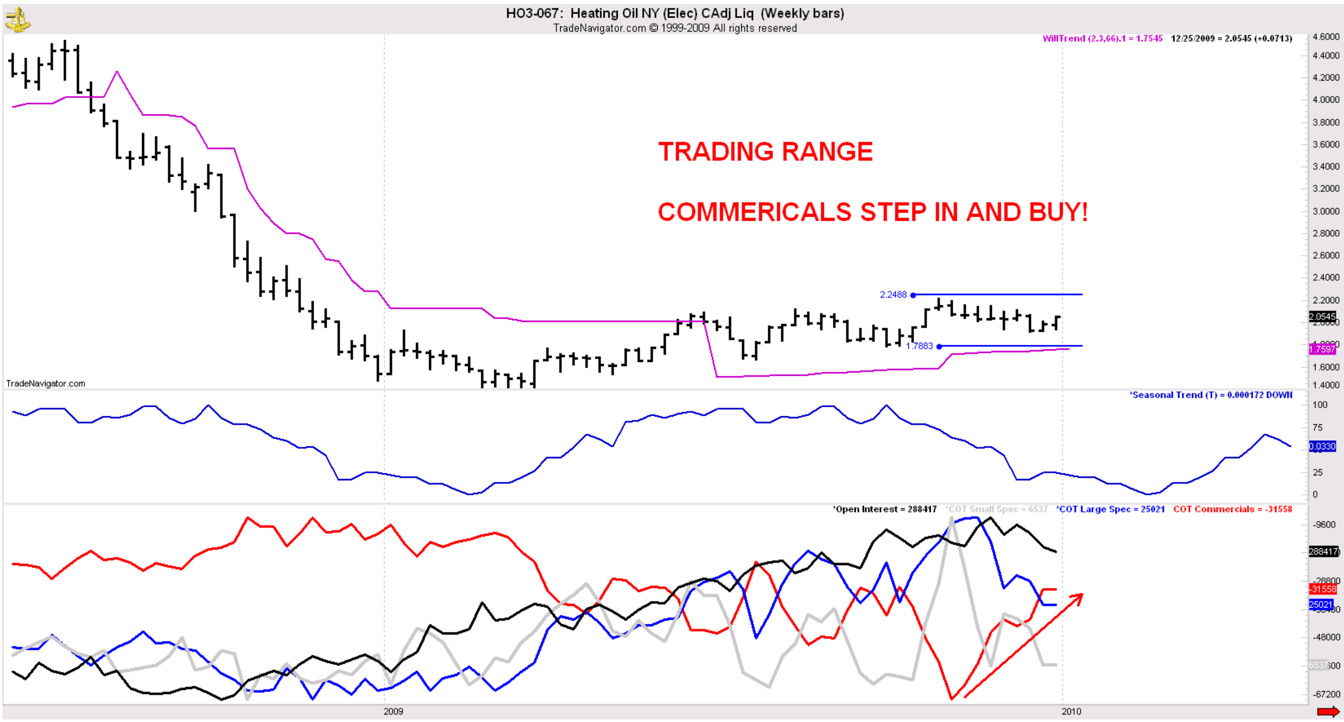


Chart 59: Heating Oil 2010 Weekly Set Up

Heating Oil

Heating oil shows an old friendly pattern I have written about since 1970. My long-term followers should see it quite clearly; prices have been in an uptrend, the first part of 2009, then entered a trading range.

During the trading range Open Interest has begun to decline during the latter part of 2009 while the Commercials have become heavy buyers. The red line, which reflects their net long position, shows a sharp up move at this time.

The only thing that can make this index rally is Commercials getting out of short positions and adding long positions. This is convincing evidence prices will break out of the trading range into a substantial a up-move. Confirmation of this also comes on the Seasonal Pattern.

Hard Opportunities In The Soft Markets?

Admittedly, Cotton and Cocoa are thin markets to trade, Coffee is a little bit better... nonetheless, it appears we have some trading opportunities in these markets I would like to discuss with you. Let's begin with Cocoa.

Cocoa was bouncing up against long-term market highs, yet there may be trouble ahead. Notice there is a Seasonal tendency for this market to decline around the middle of February. That is something we certainly should be aware of, as well as the Road Map projections.

What intrigued me to the short side of this market is a long and steady increase of short positions by the Commercials. The context this takes place in is equally important because what we are seeing is an equal substantial buildup in the Small Specs' long position. As the gray line shows in Chart 60, Small Specs tend to have an excellent record of doing the wrong thing in this market. Their heavy accumulation of Cocoa at this time is indicative of lower prices to come.

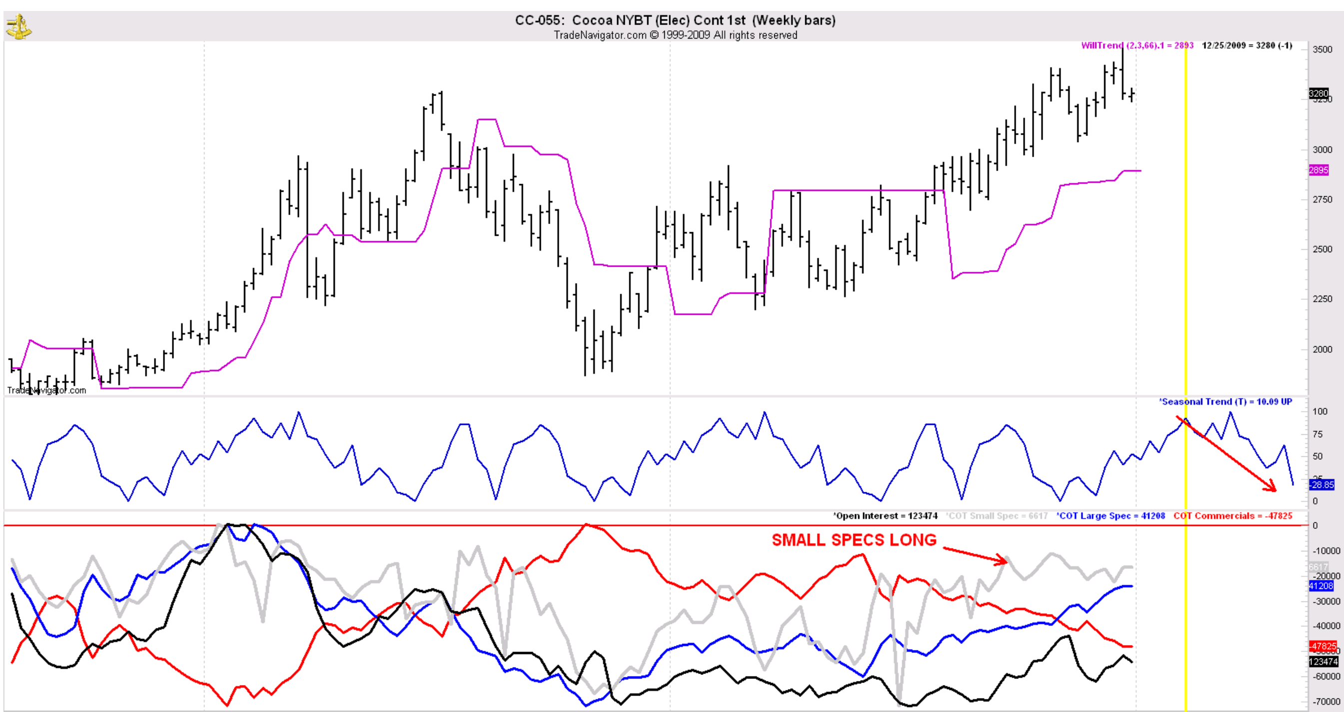


Chart 60: Cocoa 2010 Weekly Set Up

Best Set Up Trades

Cotton

Cotton looks a great deal like Cocoa in that we have seen a continual increase in Commercials selling Cotton, despite the 2009 rally. At some point something has to give here. The Commercials are carrying a heavy short position, and it would be unusual for them not to cover and lower prices.

This COT technique requires thinking, not just looking at absolute indicators or lines. It is the context that is important, as I have pointed out earlier.

In this case we can see the context is the Small Traders... the gray line... at this time they have the largest long position of the last several years. Notice they were not buyers at the 2009 lows... they were sellers. This is convincing evidence to me that they will also be wrong at the top which should form in Cotton.

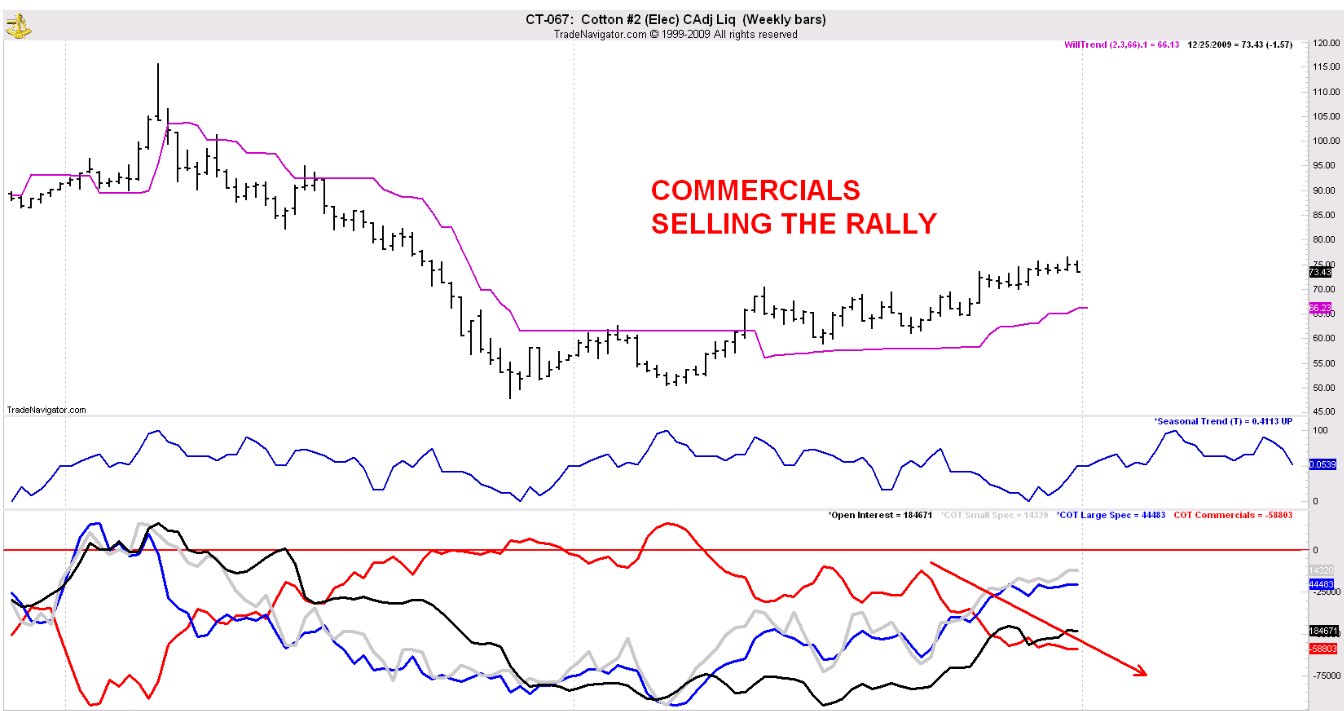


Chart 61: Cotton 2010 Weekly Set Up

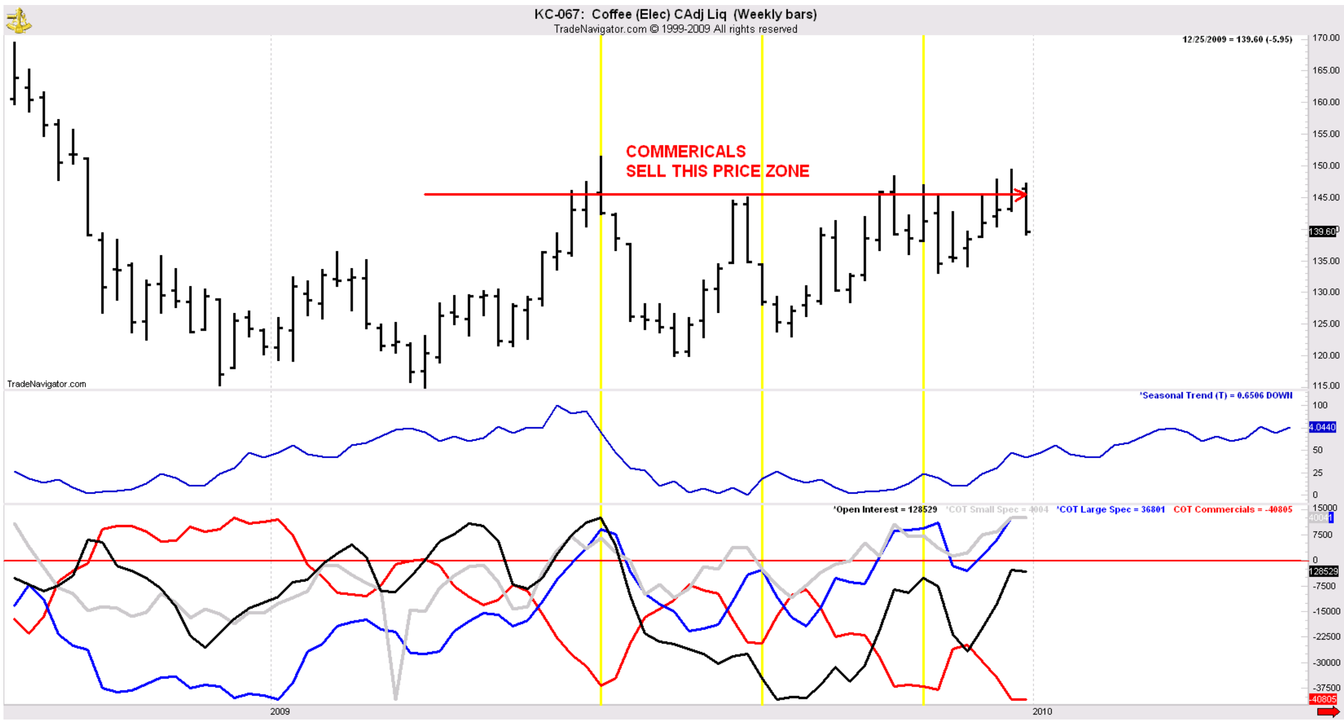


Chart 62: Coffee 2010 Weekly Set Up

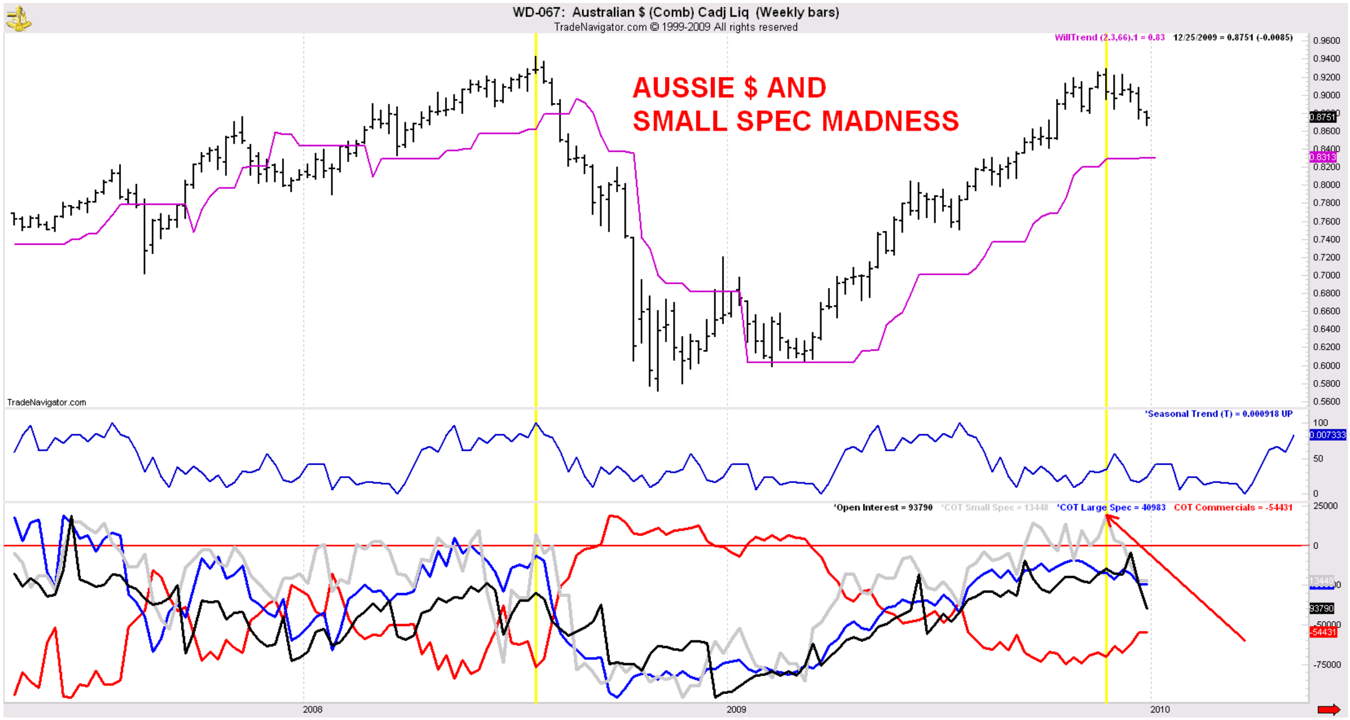
Coffee

I have marked off, on the above chart, the price resistance area seen by Coffee this last year. Most any technician can see that... more importantly is the underpinnings of this market. If you look at the blue line in the lower pane, the Large Trader's position, you will see they have been buyers at the tops.

The red line shows the Commercials have sold into this price area each and every time we have rallied into it.

What this tells us is the Commercials have established a value for coffee and are unwilling to pay above that general price. Any rallies back into the area should set up selling opportunities. More importantly though, assuming Coffee breaks to the downside, we will want to be selling rallies against the trend.

CONCLUSION



Australian Dollar

Chart 63: Aussie Dollar 2010 Weekly Set Up

The Australian Dollar has fought desperately to gain parity with the United States Dollar, but has not been able to succeed.

Will it in 2010?

Maybe... but I wouldn't think that will take place, at least not yet, given the heavy Commercial short position that has been acquired at recent price levels and the largest net long buying by Small Traders in the history of this contract.

The Seasonal influences in this commodity call for lower prices into the middle of the year. It should behoove traders to sell rallies against the envisioned downtrend, and of course use our Road Map Forecast as well.

There you have my view of the future for the coming year. I wish you a very prosperous 2010.

Larry Williams

La Jolla, California
December 29, 2009

Terms I Use

COMMERCIALS

Once each week the CFTC (the US government regulatory body overseeing the futures market) releases the long and short positions of three groups. Under US law you must report your position(s) to the CFTC each week if you exceed a minimum number of contracts in a particular market.

The first group, Commercials, are the hedgers or users and producers of commodities. They are the smart money.

Then there are the Large Speculators. These are now primarily funds, and they are most often found heavily long at market tops; short at market bottoms.

The remaining positions in the markets are thrown into the third group, Small Speculators. This is the public who is most often wrong at all market extremes.

ROAD MAPS

This is a combination of seasonal influences and times cycles all wrapped up into one index. The road maps forecast the direction, the basic path price will take, and the turning points.

SEASONAL PATTERN

All markets exhibit times they are more apt to rally or decline. Obviously in futures markets with plantings, harvests, etc., this is even more pronounced. The seasonal pattern suggests when moves should take place.

VALUATION

One of my approaches is to value any future contract to see if the item is under or overvalued. This is a very effective tool, to know a market is undervalued/overvalued... but it is not a timing tool.

For more information on Larry Williams and his services go to www.ireallytrade.com.