

# ChartWorks

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## The 8.6 Year Cycle, TSX, Canadian Dollar & Precious Metals Stocks

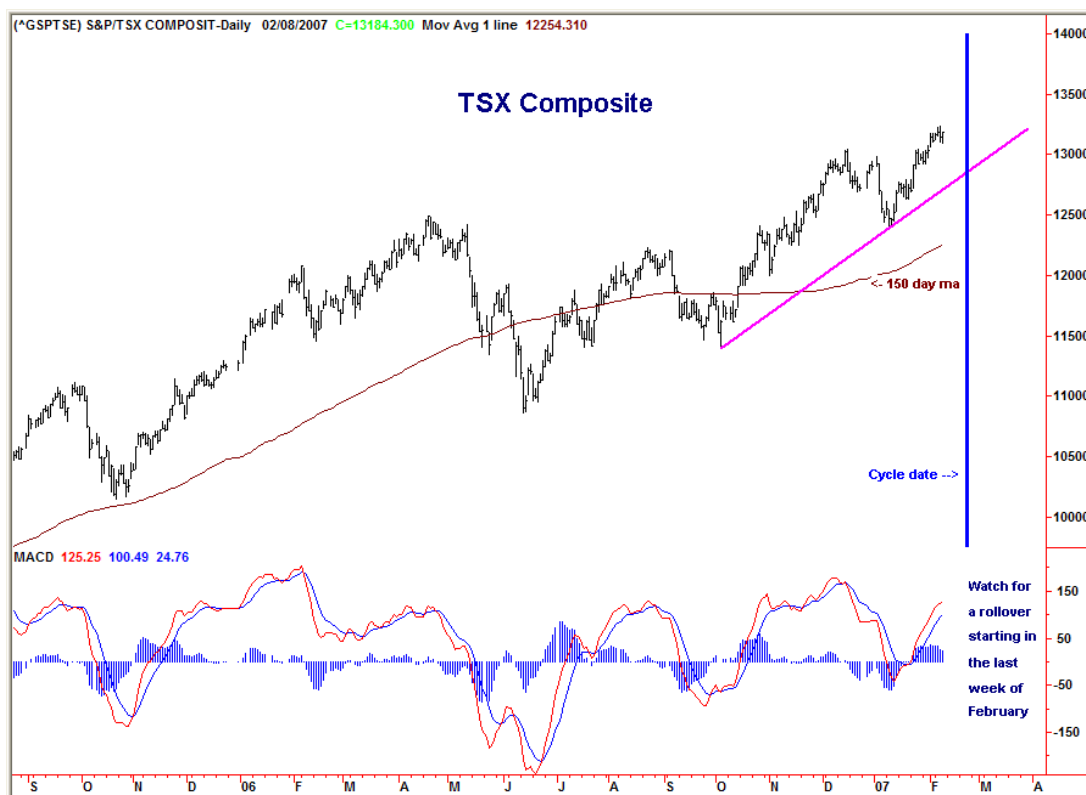
Technical observations of [RossClark@shaw.ca](mailto:RossClark@shaw.ca)

The last three occurrences of the 8.6 year Economic Confidence Cycle have produced tops in the Canadian market. The next peak in the model is due on **February 26, 2007**. **Market strength is anticipated to carry into the cycle high and this would provide an opportunity to lighten up on positions.**

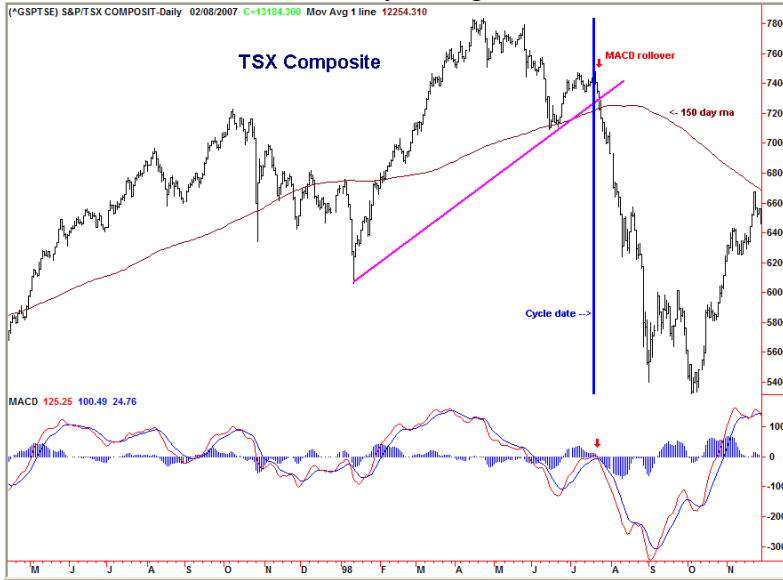
Declines within 4½ months following the cycle date were 17%, 27% & 24%. Four technical events were present around the time window:

- The first rollover in the MACD following the cycle date became a high from which the market was unable to make further progress. *(This becomes a good time to lock in profits and move to hedge funds which strive for absolute positive returns of up to 10% or safe haven investments such as banker's acceptances, preferred shares or government bonds with durations up to five years which offer yields of 4% to 4.5%. )*
- A rolling top over a span of four to eight weeks from the high found overhead resistance at the 20-day Bollinger band. *(An optimum point for short selling.)*
- A break of the 150-day moving average following the key date confirmed that the top was in place. *(Consider the purchase of a bear fund or ETF to profit from a decline.)*
- A break of the support line established the start of the decline.

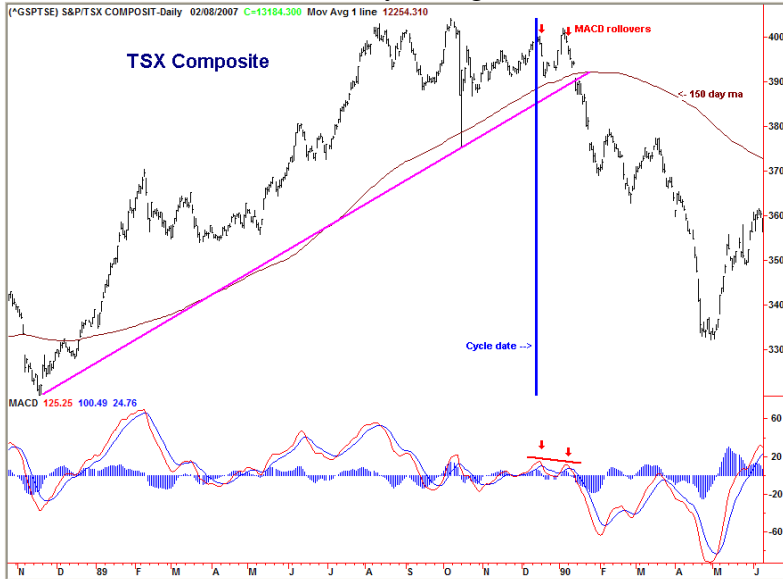
Once the market moves to a lower level a shift back to a more positive stance will be appropriate.



### 1998 cycle high



### 1989 cycle high



### 1981 cycle high



*The Canadian Dollar has also suffered in the months following the peak in the 8.6 year cycle.*

Canadian Dollar at 1998 cycle high



Canadian Dollar at 1989 cycle high



Canadian Dollar at 1981 cycle high

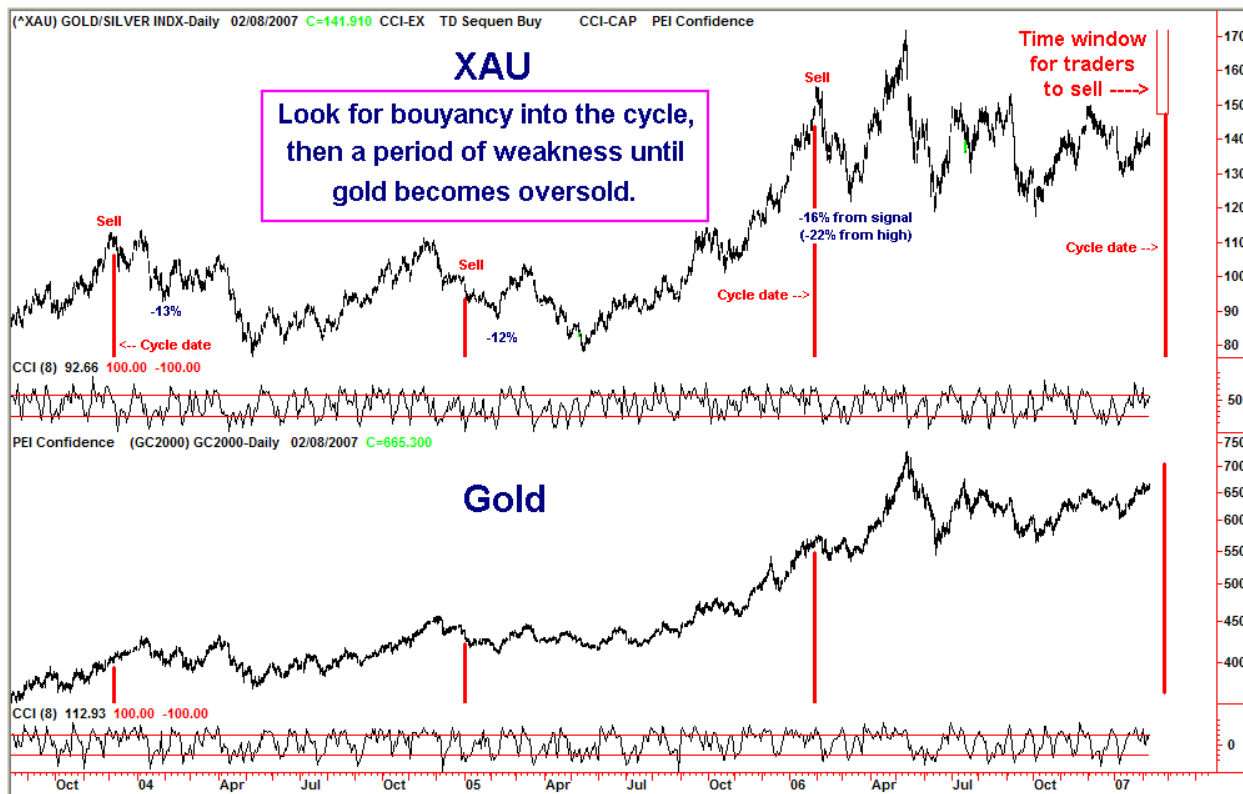


The precious metals stocks (as represented by Homestake Mining until 1982 and then the XAU) have the ability to rally into the 8.6 cycle date, but then come under pressure in the ensuing weeks.

**Subset cycle of 1.075 years:**

The movement surrounding the 8.6 year cycle highs also concurs with the action of the 1/8<sup>th</sup> subsets of the cycle (1.075 years) that we've used in analyzing gold, silver and platinum stocks since the mid 1980's.

As stated one year ago; "Price action around this cycle has typically generated strength in precious metals leading up to the cycle date and weakness in the subsequent period (*this is even more reliable in the mining stocks than the bullion*). The stocks generally top first. We've found that a daily CCI(8) reading over 90 in the XAU within 10 days of the cycle date has been an optimum signal to lighten up on the mining stocks. If the XAU is unable to generate an overbought reading within that time window then a trailing stop should be used to exit longs."



The optimum re-entry for mining stocks and bullion occurs once the CCI(8) becomes oversold in gold following the cycle:

- After 8 trading days; buy any reading under -150
- After 15 days; add a buy-stop above a trailing 20-day high
- If no signal by the 20th day then add an additional criteria; buy on a CCI(8) crossover of -100

Using these rules the XAU has produced declines (*re-entry opportunities*) of 12%, 13%, 10%, 12%, 20%, 10%, 13% and 16% in recent years.

The following charts display the action of the precious metals stocks around the 8.6 year cycle tops of 1955, '64, '72, '81, '89 and '98.

XAU at 1998 cycle high



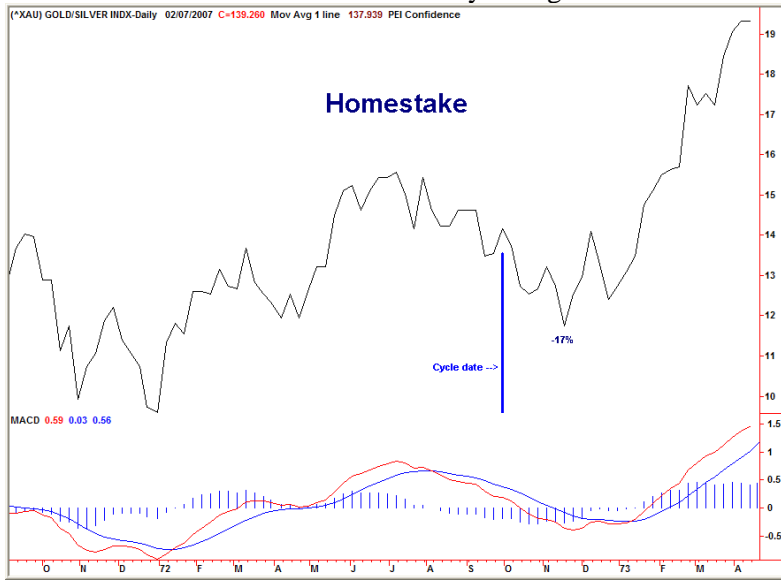
XAU at 1989 cycle high



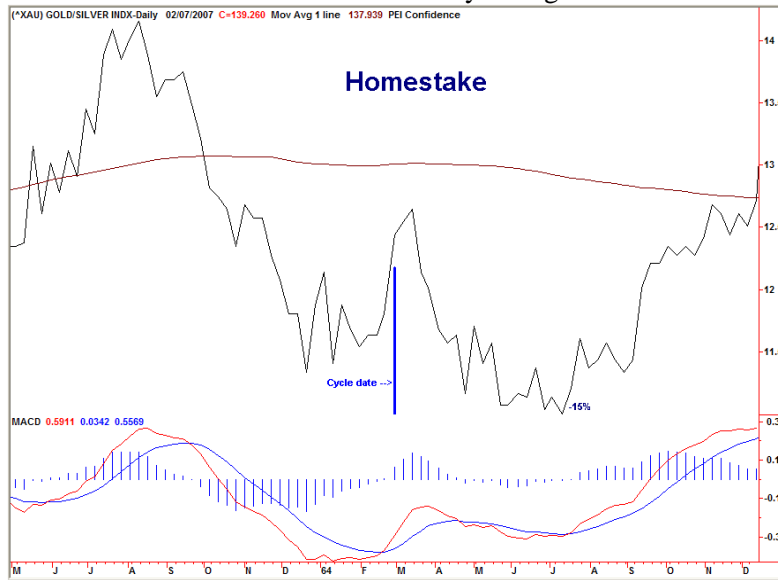
XAU at 1981 cycle high



### Homestake at 1972 cycle high



### Homestake at 1964 cycle high



### Homestake at 1955 cycle high



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