Tracking Performance of the Wall Street Traffic Light Model

Some of the items at this website (such as this one) might be difficult to read—small print, fuzzy appearance and maybe even old eyes. The problem arises from the fact that I chose to present the material as a PDF file.

Well, the problem is easily solved. Just click on the **printer icon** in the upper left corner of the **gray area** above. When you put your cursor over the printer icon, a message appears saying: "Click to print this PDF file or pages from it." Print whatever you desire; it will be easy to read. Why not start **a WSTL notebook**?

To print the line chart for any year at the website, use the File Print command. The wording in the box on each chart will be clear in printed form.

Issue #1 for 2012 (January 19, 2012)

Mark your calendar for my next update: April 15, 2012 (3:00pm CDT).

This commentary has three parts: (1) S&P 500 forecast for 2012, (2) performance review for 2011 and (3) performance review for 1935-2011.

1. S&P 500 Forecast for 2012

Based on the WSTL model, 2012 is a Tier 2 year, which means the WSTL will be **green** throughout the year. The S&P 500's return for 2011 was 2.1%, which was all attributable to dividends because the S&P 500 moved only a hair's breath for the entire year—from 1257.64 to 1257.60. The S&P 500's return for 2010 was 15.1%. The mean return for those two years was 8.6%. When the two-year mean return is in the range of 6.2% to 13.6%, the following year is a Tier 2 year (see the table on p. 15 of my book).

Examining all prior Tier 2 years (presented in **Table 1** below) provides insight for investing in 2012. The bottom line is that, typically, Tier 2 years have had above-average return and below-average downside risk. Four specifics from the table are relevant. First, 2008 was an anomaly. The year's high was on January 2nd, the year had the only negative return among the Tier 2 years (−37.0%!!) and the year had a bear market low occur during it. Perhaps these anomalous characteristics related to 2008 being the third Tier 2 year in a row, something that had not happened before.

Second, with the exception of 2008, the mean return for Tier 2 years was 20.9%. Twelve of the Tier 2 years had double-digit returns. Third, disregarding 2008, three Tier 2 years—1968, 1978 and 1980—had the largest decline to their lows, ranging from −8.6% to −9.1%; all three of those yearly lows occurred during March. In all other cases, only 1994's low of −5.9% was greater than −3.1%. Fourth, only three of the 16 Tier 2 years—1978, 1994 and 2008—had their high before October. A bull market top occurred during four of the 16 Tier 2 years; those bull markets always ended during the 4th quarter.

Table 1: The Sixteen Tier 2 Years, 1935-2011

Dates in **bold red** are bull market tops; **bold green** are bear market bottom.

Year	S&P 500 Return	Year's Low Date	Year's Low YTD Change	Year's High Date	Year's High YTD Change
1950	31.7%	01/14/50	-0.7%	12/29/50	21.9%
1954	52.6%	01/11/54	-0.04%	12/31/54	45.0%
1961	26.9%	01/03/61	-0.9%	**12/12/61**	25.0%
1963	22.8%	01/02/63	-0.6%	12/31/63	18.9%
1964	16.5%	01/02/64	0.5%	11/20/64	15.0%
1968	11.1%	03/05/68	-9.1%	**11/29/68**	12.3%
1972	19.0%	01/03/72	-0.4%	12/11/72	16.7%
1978	6.6%	03/06/78	-8.6%	09/12/78	12.5%
1980	32.4%	03/27/80	-9.0%	**11/28/80**	30.2%
1983	22.5%	01/03/83	-1.6%	10/10/83	22.8%
1988	16.8%	01/20/88	-1.8%	10/21/88	14.8%
1989	31.5%	01/03/89	-0.9%	10/09/89	29.6%
1994	1.3%	04/04/94	-5.9%	02/02/94	3.3%
2006	15.8%	06/13/06	-2.0%	12/15/06	14.3%
2007	5.5%	03/05/07	-3.1%	**10/09/07**	10.4%
2008	-37.0%	**11/20/08**	-48.8%	01/02/08	-1.4%
Mean	17.2%		-5.8%		18.2%
Mean ex.2008	20.9%		-2.9%		19.5%

Another way to forecast 2012 is explained below in Issue #7 for 2011. That research by me was cited in the January 2, 2012 issue of *Barron's* (pp. M3-M4). For purposes of this commentary, Table 2 below expands the Issue #7 analysis to include a “Type of Year” column in accordance with the WSTL model.

In the table, four of the 10 cases were Tier 2 years. Although the S&P 500's January change in Tier 2 years isn't an input for the WSTL model, it is probably useful to consider the January change nonetheless: 1954 5.1%, 1961 6.3%, 2006 2.5% and 2012 4.0% as of January 18th. This is an indication that the table's rosy picture for 2012 is on track as well as could be expected at this time. Perhaps the S&P 500 has already mostly finished with its discounting of the seemingly endless and major problems in Europe. Time will tell.

Table 2: S&P 500's Return in the Year Following a Year When the Return Was Between +5.00% and −5.00%

Before 2011, this phenomenon has happened 9 times in the S&P 500's history, which goes back to 1928.

Case	Year	Type of Year	Return	Next Year's Return	Rank of Next Year's Return	Next Year's Low Date	Next Year's Low YTD Decline	Next Year's January
1	1934		**-1.4%**					
	1935	1C	47.7%	47.7%	2	**03/14/35**	-15.2%	-4.2%
2	1939		**-0.4%**					
	1940	1C	-9.8%	-9.8%	9	**06/10/40**	-28.0%	-3.5%
3	1953		**-1.0%**					
	1954	Tier 2	52.6%	52.6%	1	01/11/54	-0.04%	5.1%
4	1960		**0.5%**					
	1961	Tier 2	26.9%	26.9%	5	01/03/61	-0.9%	6.3%
5	1970		**4.0%**					
	1971	3A	14.3%	14.3%	8	11/23/71	-2.2%	4.0%
6	1981		**-4.9%**					
	1982	1C	21.4%	21.4%	6	**08/12/82**	-16.4%	-1.8%
7	1990		**-3.2%**					
	1991	1A	30.5%	30.5%	4	01/09/91	-5.67%	4.2%
8	1994		**1.3%**					
	1995	3A	37.4%	37.4%	3	01/03/95	-0.03%	2.4%
9	2005		**4.9%**					
	2006	Tier 2	15.8%	15.8%	7	06/13/06	-2.0%	2.5%
10	2011		**2.1%**					
	2012	Tier 2	?	?		01/03/12	1.55%	?
	Mean			26.3%				
	Median			26.9%				

Green bold indicates bear market low.

2. Performance Review for 2011

Under the WSTL model, 2011 was a 1A year. Table 3 below presents the results for all 19 1A years. The year 2011 sticks out like a sore thumb in being atypical compared to the other 1A years. It's downside risk, as measured by the YTD change at the year's low was −12.6%, far larger than the other 1A years. Only four of the 1A years had their low after March, and 2011's low occurred in early October. The August-through September period of 2011 was the atypical part; prior to 08/02/11, the year's low was −0.1% on 03-16-11! The average return in 1A years was 21.1%, but 2011's return was only 2.1%--the lowest of the 19 1A years. Here's hoping for some typical WSTL history in 2012.

Table 3: **The Nineteen !A Years, 1935-2011**

	Downside Risk: Year's Low		S&P 500
Year	**Date**	**YTD Change**	**Return**
1951	01/03/51	1.4%	24.0%
1936	01/02/36	-0.2%	33.9%
1997	01/02/97	-0.5%	33.4%
1945	01/23/45	-0.5%	36.4%
1944	02/07/44	-0.9%	19.8%
1999	01/14/99	-1.4%	21.0%
1993	01/08/93	-1.5%	10.0%
1985	01/04/85	-2.1%	32.2%
1996	01/10/96	-2.8%	23.1%
1952	02/20/52	-2.9%	18.4%
1959	02/09/59	-3.0%	12.0%
1986	01/22/86	-3.7%	18.5%
1965	**06/28/65**	-3.7%	12.4%
1955	01/17/55	-3.9%	31.6%
1998	01/09/98	-4.4%	28.6%
1992	**04/08/92**	-5.4%	**7.7%**
1991	01/09/91	-5.7%	30.5%
1987	**12/04/87**	**-7.5%**	**5.2%**
2011	**10/03/11**	**-12.6%**	**2.1%**
Mean		-3.2%	21.1%
Median		-2.9%	21.0%

3. Performance Review for 1935-2011

In my book, the WSTL model was developed based on using hindsight regarding the sample period, 1935-1969. Then, the model was subjected to a scientific test by applying it to the 1970-2006 period. In the third printing, I extended the test period through 2009. As my book discusses, the performance statistics for return and risk were similar and extraordinary for both the sample period and the test period. However, there is a sharp contrast between the performance for 1935-2002 and the performance for 2003-2011.

For 1935-2002 (68 years), only 3 of the 29 WSTL trades were unprofitable and all of them were small losses: 1948 −4.7%, 1956 −4.0% and 1960 −0.5%. Thirteen of the 26 profitable trades had double-digit gains. Thirty-nine of the 68 years had no trades, meaning the WSTL and buying-and-holding the S&P 500 had the same annual returns, because the WSTL was **green** throughout those years.

For 2003-2011 (9 years), there was one profitable trade (2009 14.9%). Three years had unprofitable trades: 2003 −18.4%, 2005 −5.1% and 2010 −12.0%. Of the 5 years when there were no trades, one was 2008, the worst year during 1935-2011: an S&P 500 return of −37.0%. And you saw above that 2011 was an atypical 1A year, which had a return of only 2.1%. Ugh!

Time will tell if the WSTL is able to regain its pre-2003 form in 2012 and in subsequent years.

May the Wall Street Traffic Light help illuminate your financial path.

John K. Harris
January 19, 2012

Issue #7 for 2011 (December 20, 2011)

Mark your calendar for my next update: January 9, 2012 (3:00pm CST).

OPTIMISM ABOUT 2012

During 2011, the "go nowhere" stock market, which has featured extreme volatility, has frustrated investors. As a result, it is likely that many investors are pessimistic about next year. But wait! Some of the S&P 500's history—presented in the table below—gives investors a strong basis to be optimistic about 2012.

Since the S&P 500 was launched at the start of 1928, 9 years had a return (price change + dividend yield) in the 10% range between −5.00% and +5.00%. If the S&P 500 ends 2011 at no less than 1170, 2011 will be case 10.

For the "next year's return" column in the 9 completed cases, the mean return was 26.3% and the median return was 26.9%. Only once did the next year have a negative return, −9.8% for 1940; that year Germany invaded Poland, which turned out to be a precursor to World War II. The other 8 next-year returns ranged from 14.3% for 1971 to 52.6% for 1954.

The "next year's low" column in the table is insightful. Three of the 9 cases (call it scenario 1) were bear market lows: 1935, 1940 and 1982. The YTD declines in those years ranged from −15.2% to −28.0%. The other 6 cases (call it scenario 2) had very low downside risk, with the YTD declines ranging from −0.03% to −5.7%.

It's not difficult to imagine either scenario happening in 2012. Scenario 1 could happen if Europe's financial system implodes in some major way. Scenario 2 is compatible with the stock market having already discounted the potential negative events that are already known. But if either one of these scenarios do happen in 2012, history tells us to expect that the S&P 500 will provide an excellent return.

S&P 500's Return in the Year Following a Year When the Return Was Between +5.00% and −5.00%

Before 2011, this phenomenon has happened 9 times in the S&P 500's history, which goes back to 1928.

				Rank of	Next Year's Low	
Case	Year	Return	Next Year's Return	Next Year's Return	Date	YTD Decline
1	1934	**-1.4%**				
	1935	47.7%	47.7%	2	**03/14/35**	-15.2%
2	1939	**-0.4%**				
	1940	-9.8%	-9.8%	9	**06/10/40**	-28.0%
3	1953	**-1.0%**				
	1954	52.6%	52.6%	1	01/11/54	-0.04%
4	1960	**0.5%**				
	1961	26.9%	26.9%	5	01/03/61	-0.9%
5	1970	**4.0%**				
	1971	14.3%	14.3%	8	11/23/71	-2.2%
6	1981	**-4.9%**				
	1982	21.4%	21.4%	6	**08/12/82**	-16.4%
7	1990	**-3.2%**				
	1991	30.5%	30.5%	4	01/09/91	-5.7%
8	1994	**1.3%**				
	1995	37.4%	37.4%	3	01/03/95	-0.03%
9	2005	**4.9%**				
	2006	15.8%	15.8%	7	06/13/06	-2.0%
	Mean		26.3%			
	Median		26.9%			

Green bold indicates bear market low.

Happy New Year!

John K. Harris
December 20, 2011

Issue #6 for 2011 (October 9, 2011)

Mark your calendar for my next update: January 9, 2012 (3:00pm CST).

The WSTL market-timing model is based on the premise that the movements of the S&P 500 repeat themselves with a high degree of consistency. Such repetitious patterns have generally, but not always, occurred over the years, dating back to 1935. Because 2011 is a 1A year, my commentaries have tracked what's going on this year in comparison to all other 1A years.

Table 1 (below) ranks all 1A years from worst to best in regard to their performance YTD at the end of June. 2011 ranked 6th, with a gain of 5.009%. Only six of the 19 years had a YTD change in the July-through-December period that was negative; four of those losses were 3.5% or smaller. Prior to 2011, only 1987 had a larger YTD loss in the second half of the year, –7.5%. The fact that 1987 did not follow the usual 1A pattern is due to the fact that year was just plain weird: the S&P 500 gained slightly over 39% by late August, then crashed over 30% in six weeks, and finished the year with a return of +5.2%.

Although 2011 looked okay as of the end of June in comparison to the other 1A years, the second half of the year has been *totally* out of sync with the usual pattern for 1A years. As of 10/03/11, the S&P 500 had a huge YTD loss of 16.8%. Of course, the WSTL investor is experiencing the exact same performance as his competitor, the buy-and-hold investor—but that is an unacceptable outcome for a market-timing model. A small consolidation is that the S&P 500 has had a rally of 5.1% since the 10/03/11 low. Hopefully, the rally will recover a sizable portion of the 16.8% loss by 12/31/11.

Table 1: Important Risk and Return Facts for the Nineteen 1A years, Since 1935

	Year's Low		End of June	July – December Low		Margin	S&P 500
Year	**Date**	**YTD**	**YTD**	**Date**	**Change YTD**	**of Safety***	**Return**
1992	04/08/92	-5.4%	-2.1%	10/09/92	-3.5%	1.9%	7.7%
1965	06/28/65	-3.7%	-0.7%	07/22/65	-1.1%	2.6%	12.4%
1951	01/03/51	1.4%	2.7%	07/02/51	3.4%	2.0%	24.0%
1993	01/08/93	-1.5%	3.4%	07/06/93	1.3%	2.8%	10.0%
1952	02/20/52	-2.9%	5.006%	10/22/52	0.1%	2.96%	18.4%
2011	08/02/11	-0.3%	5.009%	10/03/11	**-16.8%**	**None**	?
1959	02/09/59	-3.0%	5.9%	09/22/59	-0.1%	2.85%	12.0%
1996	01/10/96	-2.8%	8.9%	07/24/96	1.7%	4.5%	23.1%
1936	01/02/36	-0.2%	10.5%	07/07/36	10.3%	10.5%	33.9%
1944	02/07/44	-0.9%	11.2%	09/14/44	5.8%	6.7%	19.8%
1999	01/14/99	-1.4%	11.7%	10/15/99	1.5%	2.89%	21.0%
1991	01/09/91	-5.7%	12.4%	07/03/91	13.1%	18.8%	30.5%
1945	01/23/45	-0.5%	12.7%	07/26/45	8.3%	8.8%	36.4%
1955	01/17/55	-3.9%	14.0%	07/01/55	14.5%	18.4%	31.6%
1985	01/04/85	-2.1%	14.7%	09/25/85	8.0%	10.1%	32.2%
1998	01/09/98	-4.4%	16.8%	08/31/98	-1.4%	3.00%	28.6%
1986	01/22/86	-3.7%	18.7%	09/29/86	8.8%	12.5%	18.5%
1997	01/02/97	-0.5%	19.5%	10/27/97	18.4%	18.9%	33.4%
1987	12/04/87	-7.5%	25.5%	12/04/87	**-7.5%**	**None**	5.2%
Mean		-2.6%	10.3%		3.4%	7.7%	23.1%
Median		-2.8%	10.5%		2.6%	3.7%	22.1%

*Margin of safety = July-Dec low minus year's low

I am quite disappointed that the WSTL has done a poor job in illuminating your financial path in 2011.

John K. Harris
October 9, 2011

Issue #5 for 2011 (July 10, 2011)

Mark your calendar for my next update: October 9, 2011 (3:00pm CDT).
Note: An interim update will be issued before then if the S&P 500 experiences any major downside volatility.

Since 2011 is a 1A year, the expectation from the S&P 500's history dating back to 1935 is that this year will resemble some of the other 18 1A years. So, how has that expectation panned out at mid-year? The answer to this and other questions can be found in Table 1below.

Table 1: Important Risk and Return Facts for the Nineteen 1A years, Since 1935

	Year's Low		End of June	July – December Low		Margin	S&P 500
Year	Date	YTD	YTD	Date	Change YTD	of Safety*	Return
1992	04/08/92	-5.4%	-2.1%	10/09/92	-3.5%	1.9%	7.7%
1965	06/28/65	-3.7%	-0.7%	07/22/65	-1.1%	2.6%	12.4%
1951	01/03/51	1.4%	2.7%	07/02/51	3.4%	2.0%	24.0%
1993	01/08/93	-1.5%	3.4%	07/06/93	1.3%	2.8%	10.0%
1952	02/20/52	-2.9%	5.006%	10/22/52	0.1%	3.0%	18.4%
2011	03/16/11	-0.1%	5.009%	?	?	?	?
1959	02/09/59	-3.0%	5.9%	09/22/59	-0.1%	2.9%	12.0%
1996	01/10/96	-2.8%	8.9%	07/24/96	1.7%	4.5%	23.1%
1936	01/02/36	-0.2%	10.5%	07/07/36	10.3%	10.5%	33.9%
1944	02/07/44	-0.9%	11.2%	09/14/44	5.8%	6.7%	19.8%
1999	01/14/99	-1.4%	11.7%	10/15/99	1.5%	2.9%	21.0%
1991	01/09/91	-5.7%	12.4%	07/03/91	13.1%	18.8%	30.5%
1945	01/23/45	-0.5%	12.7%	07/26/45	8.3%	8.8%	36.4%
1955	01/17/55	-3.9%	14.0%	07/01/55	14.5%	18.4%	31.6%
1985	01/04/85	-2.1%	14.7%	09/25/85	8.0%	10.1%	32.2%
1998	01/09/98	-4.4%	16.8%	08/31/98	-1.4%	3.0%	28.6%
1986	01/22/86	-3.7%	18.7%	09/29/86	8.8%	12.5%	18.5%
1997	01/02/97	-0.5%	19.5%	10/27/97	18.4%	18.9%	33.4%
1987	**12/04/87**	-7.5%	25.5%	**12/04/87**	**-7.5%**	**None**	5.2%
Mean		-2.6%	10.3%		4.5%	7.7%	23.1%
Median		-2.8%	10.5%		2.6%	3.7%	22.1%

*Margin of safety = July-Dec low – year's low

Of the 18 completed 1A years, the year's low was in January 12 times, February 3 times, April once, June once, and December once. The YTD 2011 low occurred 03/16/11, which was almost taken out on 06/15/11. Note that the one December low was in 1987; however, that was (without doubt) the weirdest year in history: the S&P 500 was up a stunning 25.5% at mid-year, up a more stunning 39.1% on August 25th, and crashed 33.5% from there as of December 4th. Because we can disregard 1987 for purposes of forecasting 2011, the 03/16/11 YTD low is likely to be the year's low.

At June 30th, 2011 ranks as the 6th poorest-performing 1A year. Considering the three years above and below 2011 in the table for comparison, the S&P 500's average annual return was 20.2%. As of June 30th, this year's return was 6.2%. So, history indicates an excellent second-half return for 2011.

Eight of the 18 completed 1A years (44.4%) had their July-December low in July. <u>Hopefully, the same will happen in 2011.</u>

The “Margin of Safety” column in the table is the July-December change YTD minus the year's low. For example, the margin of safety in 1993 = 1.3% – (–1.5%) = 2.8%. Again using the average of the three years above and below 2011 in the table, <u>2011's margin of safety is forecast to be 4.2%, which is S&P 500 1311. Given that the S&P 500 has not closed below that level so far this month, hopefully we have already seen the July-December low for 2011.</u>

The actual outcomes for all of the hopes, expectations and forecasts stated in this commentary will be known in less than six months (December 31, 2011).

May the Wall Street Traffic Light help illuminate your financial path in 2011.

John K. Harris
July 10, 2011

Issue #4 for 2011 (May 8, 2011)

<u>**Mark your calendar for my next update:** July **10, 2011 (3:00pm CDT)**.</u>
Note: An <u>interim update</u> will be issued before then if the S&P 500 experiences any major downside volatility.

It is official: **2011 is a 1A year.** That classification is based on the fact that the S&P 500 did not break its December 2010 low (1206.07) during the January-through-April period. For 1935-2011, 2011 is the 19th 1A year. **The good news is that 1A years almost always have excellent returns *<u>and</u>* low downside risk.**

Table 1 below lists the annual returns in the 18 completed 1A years. The mean return for those years was **22.1%**, and the median was **22.2%**. Only two of the 1A years had a return less than 10.0%: 1987 5.2% and 1992 7.7%. Only three other 1A years had returns of less than 18.4%.

Table 1: S&P 500 Returns for the 1A Years, Since 1935

Year	Return
1936	33.9%
1944	19.8%
1945	36.4%
1951	24.0%
1952	18.4%
1955	31.6%
1959	12.0%
1965	12.4%
1985	32.2%
1986	18.5%
1987	5.2%
1991	30.5%
1992	7.7%
1993	10.0%
1996	23.1%
1997	33.4%
1998	28.6%
1999	21.0%
2011	?
Mean	22.1%
Median	22.2%

Table 2 below reveals risk (downside volatility) characteristics of the 1A years. With the exception of 1987 and 1998, this risk has been low in the 18 completed 1A years. **Only 1987 had its yearly low after the end of June:** –7.5% YTD on 12/04. For the May-through-December period vs. the end of April, the S&P 500 declined **22.3% in 1987** and 1**3.9% in 1998**; **the next largest such decline was 8.4% on 06/28/65**.

Table 2: **S&P 500 Downside Volatility for the 1A Years, Since 1935**
(as of 05/06/11)

	Year's Low		Year's Low Not in Jan or Feb		May – Dec Low vs Apr 30	
Year	**Date**	**YTD**	**Date**	**YTD**	**Date**	**Decline**
1951	01/03/51	1.4%			06/29/51	-6.6%
2011	03/16/11	-0.1%	03/16/11	-0.1%	05/05/11	-2.1%
1936	01/02/36	-0.2%			05/02/36	None
1997	01/02/97	-0.5%			05/01/97	-0.4%
1945	01/23/45	-0.5%			07/26/45	-3.1%
1944	02/07/44	-0.9%			05/02/44	None
1999	01/14/99	-1.4%			10/15/99	-8.0%
1993	01/08/93	-1.5%			05/13/93	-0.2%
1985	01/04/85	-2.1%			05/01/85	-0.8%
1996	01/10/96	-2.8%			07/24/96	-4.2%
1952	02/20/52	-2.9%			05/01/52	-0.6%
1959	02/09/59	-3.0%			09/22/59	-4.3%
1986	01/22/86	-3.7%			09/29/86	-2.4%
1965	06/28/65	-3.7%	06/28/65	-3.7%	06/28/65	-8.4%
1955	01/17/55	-3.9%			05/17/55	-2.6%
1998	01/09/98	-4.4%			08/31/98	-13.9%
1992	04/08/92	-5.4%	04/08/92	-5.4%	06/18/92	-3.4%
1991	01/09/91	-5.7%			05/15/91	-1.8%
1987	12/04/87	-7.5%	12/04/87	-7.5%	12/04/87	-22.3%
Mean		-2.3%		-4.2%		-5.0%
Median		-2.8%		-4.6%		-3.1%

Tables 1 and 2 provide strong evidence that the S&P 500's historical patterns in 1A years have repeated themselves with a high degree of consistency. However, the main exception is 1987. For 1935-2010, 1987 can best be described as the weirdest year of all, reaching its high of +39.1% on 08/25 and then crashing 20.5% on 10/19!

May the Wall Street Traffic Light help illuminate your financial path in 2011.

John K. Harris
May 8, 2011

Issue #3 for 2011 (April 10, 2011)

Mark your calendar for my next update: May 8, 2011 (3:00pm CDT).
Note: An interim update will be issued before then if the S&P 500 closes below the December 2010 low of 1206.07.

At this time, all indications are that 2011 will be a 1A year. This outcome would not occur only if the December 2010 low of 1206.07 is broken on or before the end of this month—a highly unlikely possibility.

My last commentary (March 5, 2011) referred to my research cited in the February 21, 2011 issue of *Barron's* (p. 19). The research focuses on a relatively rare phenomenon: cases when the S&P 500 gained an average of 0.20% to 0.27% per day over a period of at least 120 trading days, without a 5% pullback. These streaks, as I call them, have happened only 10 times since 1928. **Case 10 ended on 02/18/11.** Seven of the 9 completed cases were in the 5 greatest bull markets in stock market history.

The pullback that ended the latest streak was −6.4% in 17 trading days, ending March 16th. Since then, the S&P 500's high-water has been a gain of 6.3% as of April 6th. **Using history of the previous 9 streaks as the guide, over the next 10 to 17 months, the S&P 500 is forecast to rise to a new bull market top**, **in the range of 1545 to 1770**! Of course, there will be some pullbacks of 5% or more along the way. **From the standpoint of the WSTL model, this forecast is consistent with the high likelihood that 2011 will turn out to be a 1A year.**

At this time of year, it is insightful to use history to consider the January-April low in comparison to what happened for the full year. Table 1 presents the 39 completed years (along with 2011) when the January-April low vs. the prior year's close was not worse than −6.00%. **Only 5 of the 39 years (13%) had the year's low after the end of April. Those five yearly lows averaged about −4% and ranged from −2.0% to −7.5%. In other words, history tells us there is an 87% probability that we have already seen the low for 2011; and if not, there will be only minimal risk associated with a lower low this year.**

Table 1

Analysis of January-April YTD Low Of Not Worse Than −6.00%, 1935-2011

Bold pink: Years when Jan-Apr low was not year's low.

Case	Year	Date	YTD Decline Ranked	Was It Year's Low?	Year's Low Date	Year's Low YTD Decline	S&P 500 Return
1	1975	01/08/75	2.16%	Yes			37.2%

2	**1987**	01/02/87	**1.77%**	**No**	12/04/87	**-7.5%**	5.2%
3	1951	01/03/51	1.37%	Yes			24.0%
4	1958	01/02/58	0.85%	Yes			43.4%
5	1976	01/02/76	0.79%	Yes			23.8%
6	1943	01/02/43	0.72%	Yes			25.9%
7	1964	01/02/64	0.55%	Yes			16.5%
8	**2006**	02/07/06	**0.52%**	**No**	06/13/06	**-2.0%**	15.8%
9	1967	01/03/67	0.06%	Yes			24.0%
10	1979	02/27/79	0.02%	Yes			18.4%
11	1995	01/03/95	-0.03%	Yes			37.4%
12	1954	01/11/54	-0.04%	Yes			52.6%
13	2011	03/16/11	-0.06%	?			?
14	1936	01/02/36	-0.22%	Yes			33.9%
15	1972	01/03/72	-0.41%	Yes			19.0%
16	1997	01/02/97	-0.50%	Yes			33.4%
17	1945	01/23/45	-0.53%	Yes			36.4%
18	**1965**	01/04/65	**-0.61%**	**No**	06/28/65	**-3.7%**	12.4%
19	1963	01/02/63	-0.65%	Yes			22.8%
20	1950	01/14/50	-0.66%	Yes			31.7%
21	1989	01/03/89	-0.87%	Yes			31.5%
22	1961	01/03/61	-0.93%	Yes			26.9%
23	1944	02/07/44	-0.94%	Yes			19.8%
24	**1971**	01/04/71	**-1.09%**	**No**	11/23/71	**-2.2%**	14.3%
25	1999	01/14/99	-1.39%	Yes			21.0%
26	1993	01/08/93	-1.53%	Yes			10.0%
27	1983	01/03/83	-1.64%	Yes			22.5%
28	1988	01/20/88	-1.80%	Yes			16.8%
29	**2004**	03/24/04	**-1.85%**	**No**	08/12/04	**-4.4%**	10.9%
30	1985	01/04/85	-2.13%	Yes			32.2%
31	1996	01/10/96	-2.83%	Yes			23.1%
32	1952	02/20/52	-2.86%	Yes			18.4%
33	1959	02/09/59	-2.95%	Yes			12.0%
34	2007	03/05/07	-3.11%	Yes			5.5%
35	1986	01/22/86	-3.69%	Yes			18.5%
36	1955	01/17/55	-3.89%	Yes			31.6%
37	1998	01/09/98	-4.40%	Yes			28.6%
38	1956	01/23/56	-5.21%	Yes			6.6%
39	1992	04/08/92	-5.42%	Yes			7.7%
40	1991	01/09/91	-5.67%	Yes			30.5%
Mean						**-4.4%**	23.1%
Median						**-3.7%**	23.8%

If 2011 does indeed turn out to be a 1A year, my next commentary will give the details regarding all 18 of the completed 1A years. **If you are familiar with the WSTL model set forth and tested in my book, it might not surprise you that all 18 of the 1A years are in Table 1. This fact indicates that the S&P 500's historical pattern in Table 1 and the historical patterns in the WSTL model have repeated themselves with a high degree of consistency.**

May the Wall Street Traffic Light help illuminate your financial path in 2011.

John K. Harris
April 10, 2011

Issue #2 for 2011 (March 5, 2011)

Mark your calendar for my next update: April 10, 2011 (3:00pm CDT).
Note: An interim update will be issued before then if the S&P 500 closes below the December 2010 low of 1206.07.

The focus of my last commentary (January 16, 2011) was on whether 2011 would be a 1A, 1B or 1C year. Since then, using the flowchart on p. 19 of my book, **the possibility of 2011 being a 1C year has been eliminated**. That's because the S&P 500 had a positive change for January, rising from 1257.64 at the end of December 2010 to 1286.12 at the end of January. With 1C eliminated, will 2011 be a 1A or 1B year?

For 1935-2010, there were 18 1A years and 4 1B years. Therefore, probability heavily favors 2011 being a 1A year. If 2011 does turn out to be a 1A year, that bodes well for the S&P 500's annual return as shown in the following tabulation:

Annual Return	Frequency
30.0%-39.9%	6
20.0%-29.9%	4
10.0%-19.9%	6
0.0%-9.9%	2
	18

The average return for the 18 1A years was 22.1%. Hopefully, 2011 will be a 1A year! If so, I'll present the details for all of those years in a subsequent commentary.

I think the prudent approach to using the WSTL model right now is to list the January-April highs in the 4 1B years and compare the January-April high in 2011 (as of March 4th) to them. The data are in Table 1.

Table 1

1B Year	Jan-Apr High Date	Jan-Apr High S&P 500	Change*	December Low Was Broken	Year's Return	Time from Jan-Apr High to Break Dec Low
1937	03/06/37	18.68	12.2%	04/26/37	-35.0%	7.3 weeks
1946	04/20/46	18.90	11.6%	02/25/46	-8.1%	Not applicable
1947	02/08/47	16.20	12.2%	04/14/47	5.7%	9.3 weeks
1966	02/09/66	94.06	3.8%	03/01/66	-10.1%	2.9 weeks
Mean			9.9%		-11.9%	

*from prior year's December low to the Jan-April high

Jan-Apr high for 2011 (as of March 4th)

2011	02/18/11	1343.01	11.4%	Not so far

The key takeaway from Table 1 is that the four 1B years had poor annual returns, ranging from 5.7% to −35.0%. The average return was −11.9%. The 1937 case is especially scary. After a 12.2% rise as of 03/06/37, the S&P 500 fell enough to completely erase that gain and break the December low on April 26th; the year's return was −35.0%. It is noteworthy that both 03/06/37 and 02/09/66 were bull market tops.

At this point in time, 2011 has some resemblance to three of the four 1B years: 1937, 1947 and 1966. If the December 2010 low of 1206.07 does not get broken by the end of April, 2011 will be a 1A year. Again here's hoping it will be a 1A year.

Unrelated to the WSTL model, some of my research on the S&P 500's historical patterns was mentioned in the **February 21, 2011 issue of *Barron's* (p. 19)**. The research focuses on a relatively rare phenomenon: cases when the S&P 500 gained an average of 0.20% to 0.27% per day over a period of at least 120 trading days, without a 5% pullback. These streaks have happened only 10 times since 1928. (**Case 10 is now in progress, unless it ended on 02/18/11.**) Seven of the 9 completed cases were in the 5 greatest bull markets in stock market history.

Using the 9 completed cases for forecasting purposes, the current streak will end between 02/22/11 and 03/24/11. Then, the pullback will be 9.6% (based on the mean and median) occurring in 21 (mean) and 19 (median) trading days. The pullback will be followed by **a rise to a bull market top**, **32% higher in 17 months** from the end of the streak based on the mean and **15% higher in 10**

months based on the median. **From the standpoint of the WSTL model, these forecasts are consistent with the high likelihood that 2011 will turn out to be a 1A year.**

May the Wall Street Traffic Light help illuminate your financial path in 2011.

John K. Harris
March 5, 2011

Issue #1 for 2011 (January 16, 2011)

Mark your calendar for my next update: March 6, 2011 (3:00pm CST).
Note: An interim update will be issued before then if the S&P 500 closes below the December 2010 low of 1206.07.

The Wall Street Traffic Light gave a buy signal (that is, it turned **green**) on 11/30/10. For the 10 months during 2010 that the WSTL was **red** (end of January to end of November), the S&P 500 rose 9.93%, from 1073.87 to 1180.55. Dividends forgone by not owning the S&P 500 for that period were 1.90%, while interest was earned on 3-month T-bills at the annual rate of 0.13%. As a result, the loss on 2010's trade was 11.96%.

Here's hoping for a profitable trade in the next year in which a trade occurs.

Since the WSTL turned **green** on 11/30/10, the S&P 500 has risen 9.54% (as of 01/14/11). The WSTL will remain **green** throughout 2011 if the December 2010 low (1206.07 on 12/1) is not broken during the January-through-April period.

Initially, two data items are needed to use the WSTL model for 2011: (1) the S&P 500's closing low for December 2010 and (2) the S&P 500's mean annual return for 2009-2010. (See pp. 14-19 of my book.) Regarding (2), the S&P 500's return for 2009 was 26.46% and for 2010 was 15.06%. Therefore, the two-year mean return was 20.8%, which (being above the 13.6% criterion) classifies 2011 as a Tier 1 year. The performance of the S&P 500 during the early part of 2011 will determine whether this year will be classified as 1A, 1B or 1C. If the December low is not broken during that period, 2011 will be a 1A year.

As the flowchart (p. 19) indicates, the positive or negative change in the S&P 500 for January 2011 will be relevant only if the S&P 500 closes below the December 2010 low during the January-through-April period. For the record in calculating January's change, the December 2010 close was 1257.64.

May the Wall Street Traffic Light help illuminate your financial path in 2011.

John K. Harris

January 15, 2011