

# Larry Williams

# Forecast 2016



December 2015



Larry Williams' 11th Annual Market Analysis and Forecast Predictions

# Forecast 2016

## Forecast Road Maps

US Stock Market	3
Major Markets of the World	31
Metals	37
US Treasury Bonds	43
Energies	48
Grains	52
Meats	59
Softs	62
Currencies	68
Select Stocks	75

## Trading Strategies

Election Year	26
Presidential Clout Trade	28
2016 Strategy	29
Best Trading Days of the Year	30
Specific Buy/Sell Dates	30

<b>Closing Comments</b>	78
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<b>Disclaimer</b>	79
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IMPORTANT: The risk of loss in trading futures, options, cash currencies and other leveraged transaction products can be substantial. Therefore only “risk capital” should be used. Futures, options, cash currencies and other leveraged transaction products are not suitable investments for everyone. The valuation of futures, options, cash currencies and other leveraged transaction products may fluctuate and as a result clients may lose more than the amount originally invested and may also have to pay more later. Consider your financial condition before deciding to invest or trade.

# US Stock Market



Cassandras abound at the beginning of every year and certainly 2016 is no exception. Here are just a few quotations of what people have been saying;

*“If Economic Cycle Theorists Are Correct, 2015 To 2020 Will Be Pure Hell For The United States”*

*“According to work done by Professor W. Thompson of Indiana University, we are heading into an economic depression that should last until about the year 2020...”*

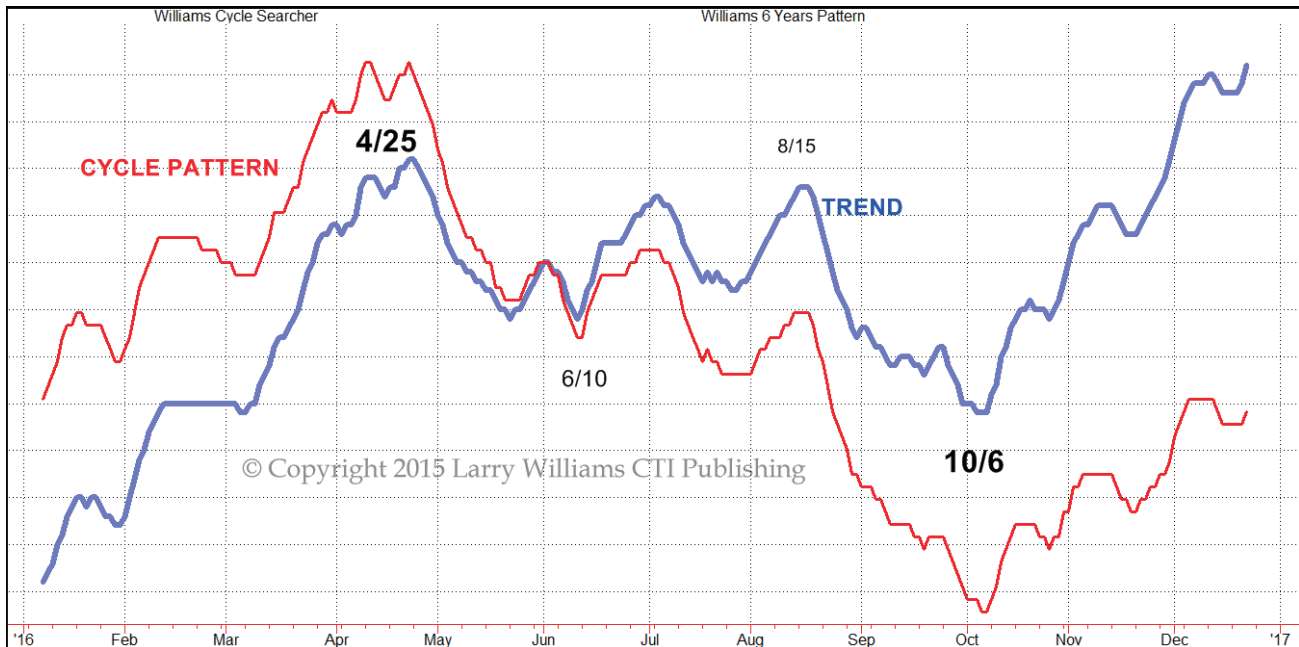
*“The economic cycle theories of author Harry Dent also predict that we are on the verge of massive economic problems.”*

*“His economic confidence model projects a peak in confidence in August 2013, a bottom in September 2014, and another peak in October 2015. The decline into January 2020 should be severe. He expects a world-wide crash and contraction in economies from 2015 – 2020.” Armstrong Economics*

What is one to do amidst such pessimistic visions of the future? Should we believe them? Yes... I think we should... if we can find supporting evidence from our own personal studies of economics and cyclical structure. In other words we need to have some congruency between what people are saying and what our own work actually shows.

With that in mind, and another year under our belt, it's time to take a crack at smashing through the barrier of the future to ferret out the most probable direction for stocks and futures in 2016. The techniques I use to do this are not mysterious. I look at times in the past that are the closest fit to what has been happening this year. From that data we can predict---with accuracy that even surprises me at times---the future. Using that data we can confirm or deny some of the most bullish or bearish forecasts that are being bandied about, as they always are, at this time of the year.

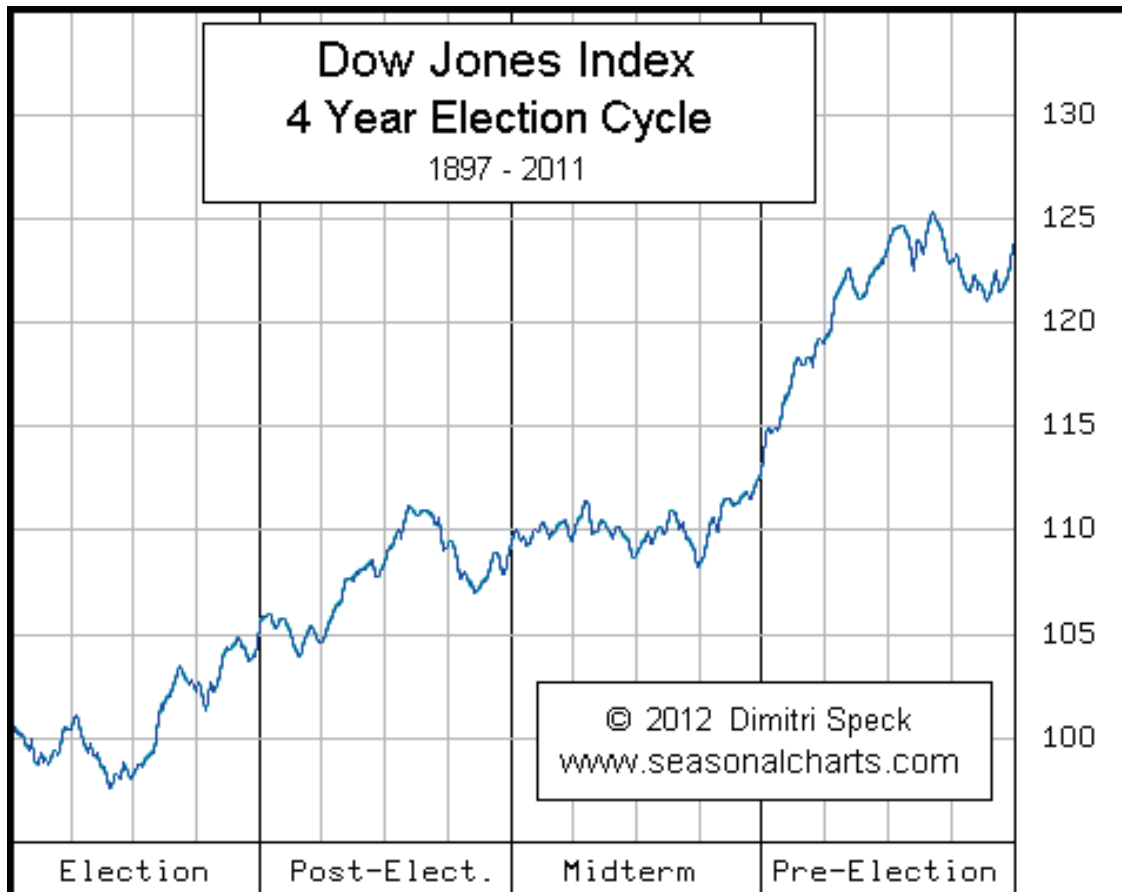
A good starting point to get a sense of the New Year comes from looking at all years with an equal slot in the 10-11 year solar cycle. To best do this we will add all the years ending in 6, like 1906, 1916 etc., to see the general pattern of these years.



**Chart 1 DJIA Sixth Year of Decennial Pattern**

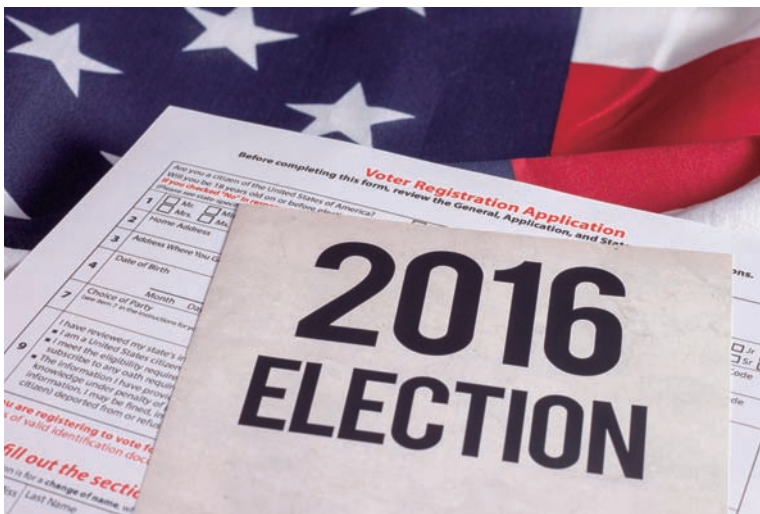
What we see is that on balance these years have been bull markets as evidenced by the blue line that depicts overall trend. The red line presents times we can be looking for cycle highs and lows. The most important dates are April 25th and October 6th.

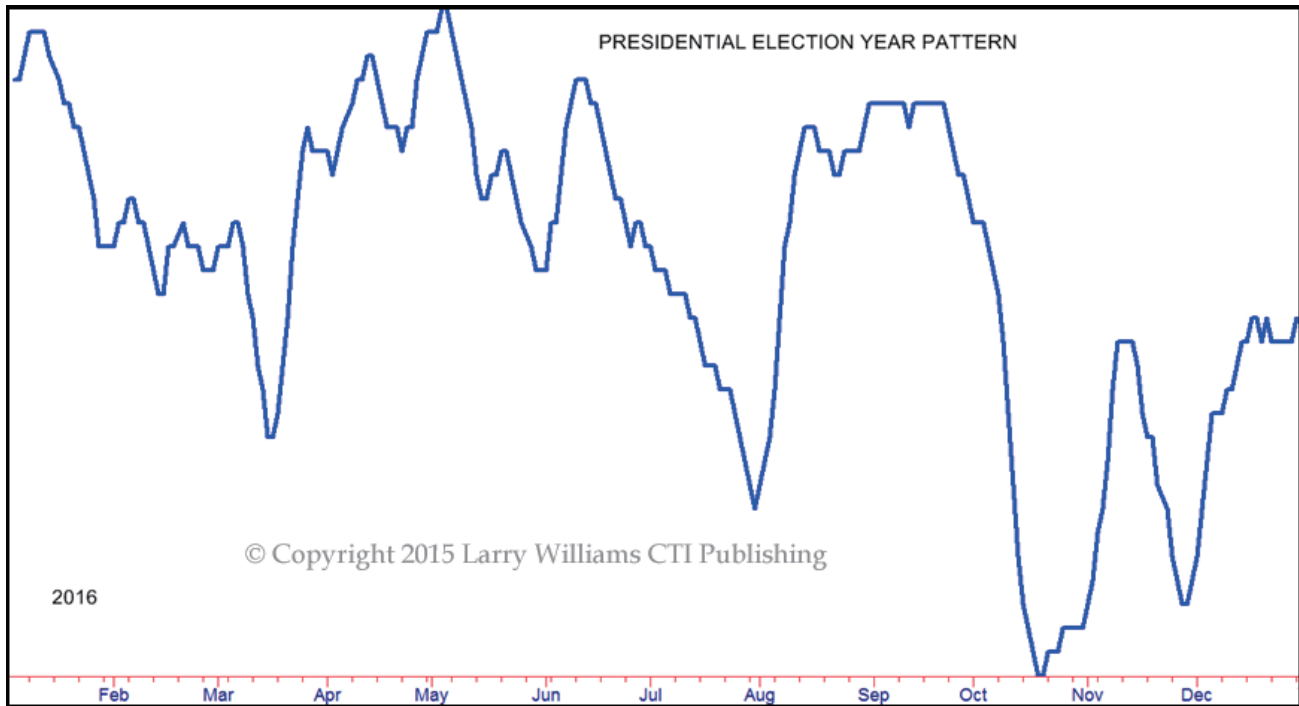
The big news of 2016 will be that we are in a presidential election. Will Donald Trump take it all and become the next president? If so what does that mean to the stock market, or how about Bernie Sanders, or heaven forbid, Shillary? I'll be the first to admit that much of this is over my head. So I would just as soon take a look at the presidential cycle because it has been very effective in giving us a good indication of future market activity.



**Chart 2 DJIA Presidential Cycle**

Yale Hirsch was the first one to discover the presidential cycle way back in the 1960s. I added a bit to it in my 1970 book on stocks. This “Presidential Cycle” is still very much alive, well, and working. You can see a very long term view of it in the above chart from my friend Dimitri Speck. **On balance midterm years-2015- have not given us rip-roaring bull or bear markets.** Election years, on the other hand - as is 2016 - have been bullish.





**Chart 3 DJIA Election Year Cycle 1984 To Present**

The study above highlights Presidential Election Years from 1984 to date, which I think is much more accurate. The typical pattern is for lows to be made during the middle of March, a high at the end of April. The next “sweet spot” is a low around the first of August, setting up a mid-September decline into early October and then a strong year-end rally.

We see similar potential reversal points in the ‘6’ year cycle pattern, like the one in April as well as early October. Already we have some vision, and we should note that on balance these presidential election years have not been bear markets. There have been sell-offs, but usually the year closes higher than where it began.

### ***The Troubling Two Year Cycle Pattern***

Long-term readers of my annual forecasts know we often look at the two-year cyclical pattern to help determine when to be on the lookout for intermediate-term market rallies and declines.

In 2016 there are two opportunities this cyclical pattern sets up. First let me explain the pattern to you.



**Chart 4 DJIA Two Year Cycle 1998 to 2004**

I first started seeing this pattern in 1982; it has been around a long time. Chart 4 shows the two-year pattern. It makes a high, declines, then has a little shelf like pattern, and then rolls over (see red vertical lines). We are looking at the red line here not stock prices. Just focus on the red line pattern and I think it will be easier for you to see what we will be facing this coming year. It's a distinct little pattern inside of the two-year cycle that has led to consistent and nasty market declines.

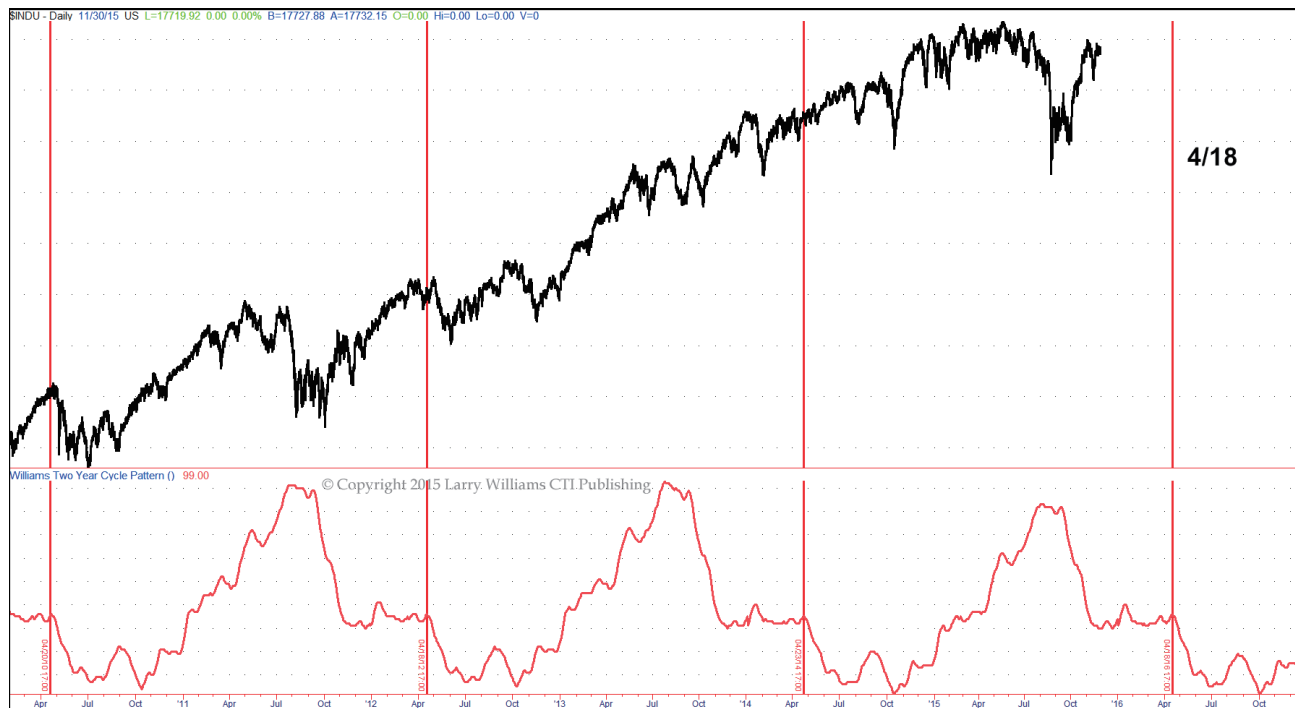


**Chart 5 DJIA Two Year Cycle 2003 to 2009**



These sell-offs in the cyclical pattern, in recent years have taken place in April. I have marked off these little declines in the two-year cycle pattern with red vertical lines. So you can look at the impact of this particular pattern on stock prices.

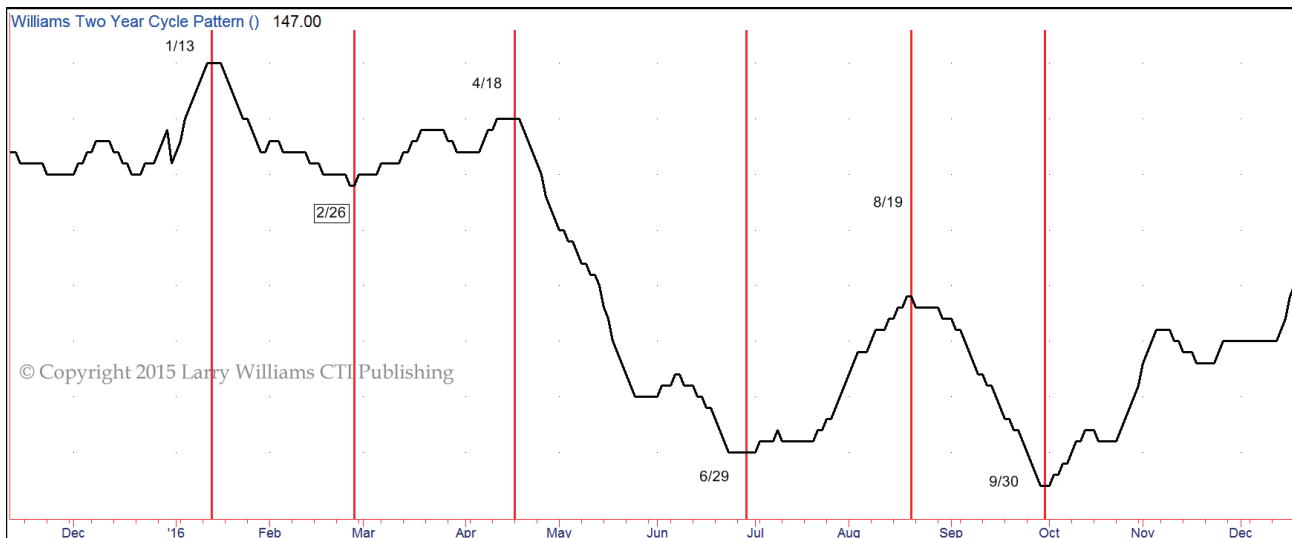
It doesn't take much of a genius to see that most often we have seen very significant sell-offs when this two-year "shoulder" pattern indicates a decline in stock prices. Some have been spectacular, like the 2008 sell signal as well as the 2006. Just look at the impact this little dip in the two-year cycle pattern has produced. What's nice is all of these points were known at least two years in advance.



**Chart 6 DJIA Two Year Cycle 2011 to 2016**

When it comes to 2016 you can see we have another dip down in this two-year pattern. It suggests a market peak about April 15. I will be on high alert for a selling opportunity at this time.

You may have also noticed that this two-year cycle pattern has set up very strong buy signals in October which is the second point we should be focusing on using this cyclical pattern to our advantage in 2016. Chart 7 is a blow up of the pattern for 2016 with the key dates marked off. Keep in mind this is a cycle indicator it does not suggest trend, just tops and bottoms.



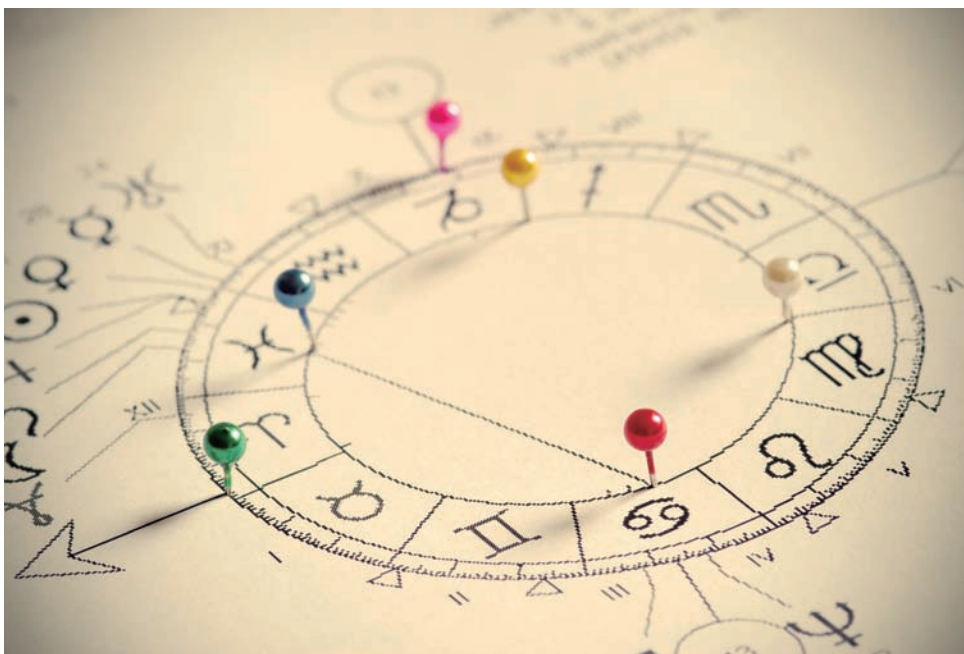
**Chart 7 DJIA Daily Two Year Cycle 2016**

*There is also a 6 year low to low pattern with the last low/rally in July 2010, suggesting an up move to begin about July 19, 2016.*

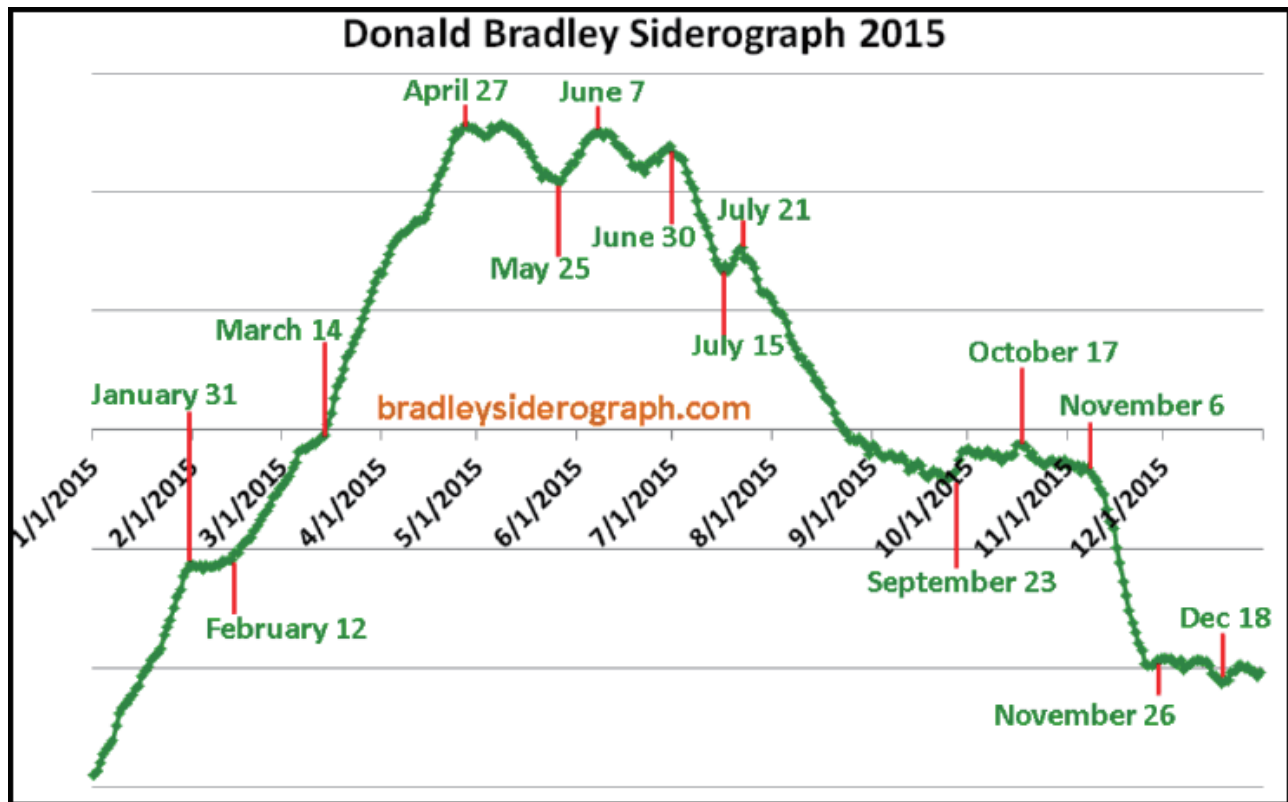
## Bradley Siderograph

*Now for all my astrologer friends...*

I don't know why so many astrologers are attracted to my annual forecast reports. I don't



use astrology. I don't understand it, but I get so many questions on the Bradley Siderograph (see last year's reports for detail history and construction) that I thought I would include it one more time, if for no other purpose than to stop people from emailing me asking questions about this thing.

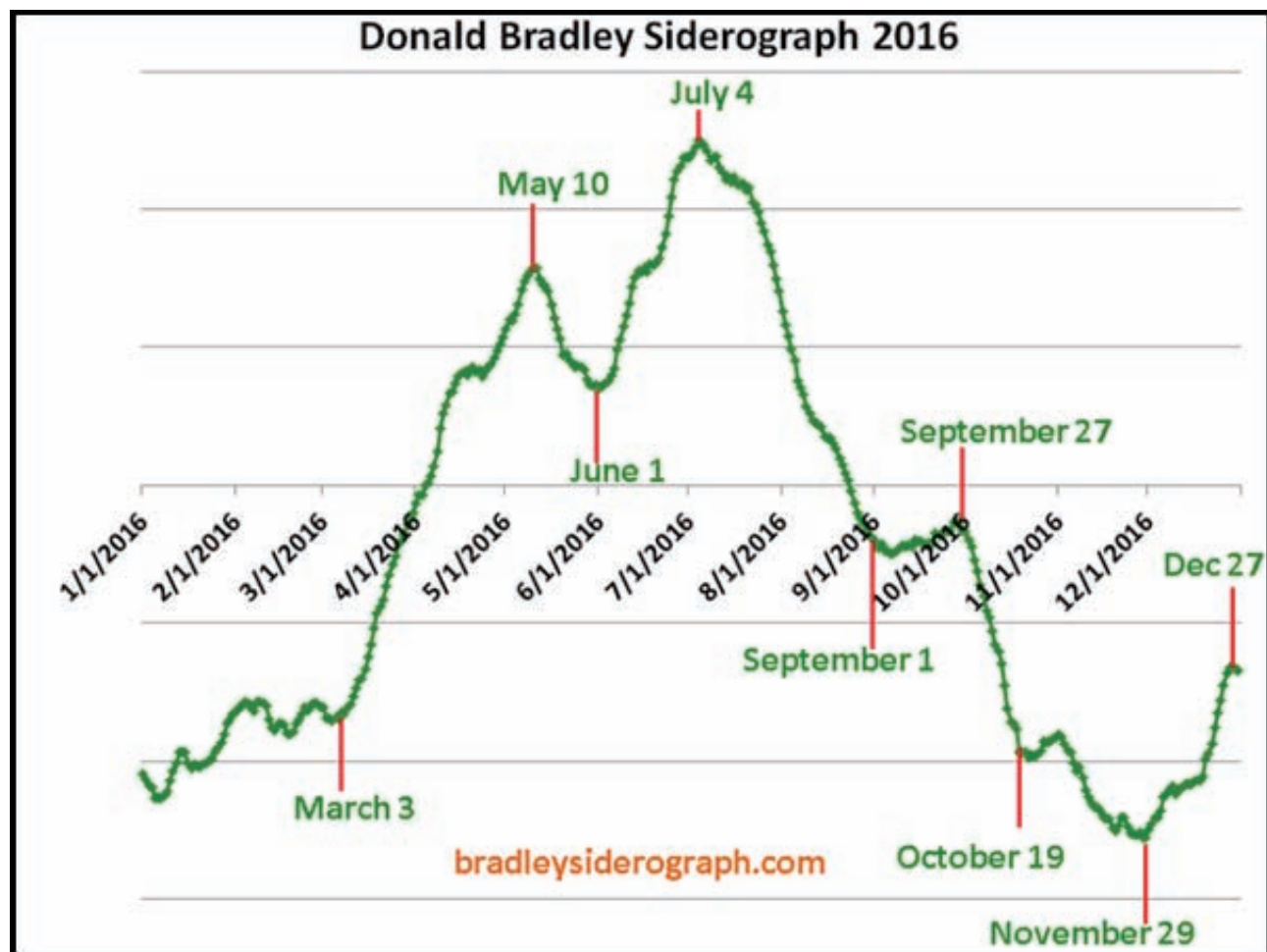


**Chart 8 Bradley Forecast 2015**

The above chart is the 2015 Bradley Forecast.

If you think my stuff is confusing, just try to follow the Bradley forecast. Look at Chart 9, the forecast for 2016. That July 4th date, up at the top of the chart that looks so ominous. It could be a market high, or it could be a market low. In fact all the points on the Bradley chart can go one way or another. That's simply not good enough for me, but I know a great many people follow this. So here it is for you to take a look at.

I wouldn't hang my hat on this thing. I would only look to see if the market is reacting to these points over the years. In fact, sometimes it has reacted and the forecast appears to be valid. But other times, it's a shot in the dark at best.



**Chart 9 Bradley Forecast 2016**

The chart and dates above speak for itself. There is nothing else for me to say. I will let you, and 2016, judge how it goes.

## ***Fundamentals Matter***

***Yearly forecasts end up either being all about fundamentals or projections based on price action from the past cycles, those sort of things. I believe both have merit and there's even more merit when we can combine the two.***

Think about this for just a moment... if we have a very strong indication for a market low point based on a cyclical projections, but fundamentals at that time are quite bearish; gross domestic product is down, interest rates are high, inflation is high, etc. Do you think that cyclical projected low will amount to much? I don't. In other words, the magnitude for most of the moves that we see in the marketplace, based on technical analysis, will be

determined by the fundamentals at the time we get there. Clearly cycles can predict things a long time in advance, but just as clearly they don't do a good job of magnitude. Magnitude of the price move, persistence of the price move, I believe comes from fundamentals.

Fundamentals also give excellent market top signals, but they don't do as well with market buy signals. With that in mind, let's look at one of my favorite long-term tactical tools, the yield curve.

## Yield Curve



**Chart 10 Yield Curve End of 2015**

There are many ways of looking at the yield curve, which you can see in Chart 10 by looking at the red line in the box on the left. The yield curve is in an uptrend, going higher from left to the right, suggesting that investors have a bright view of the future.

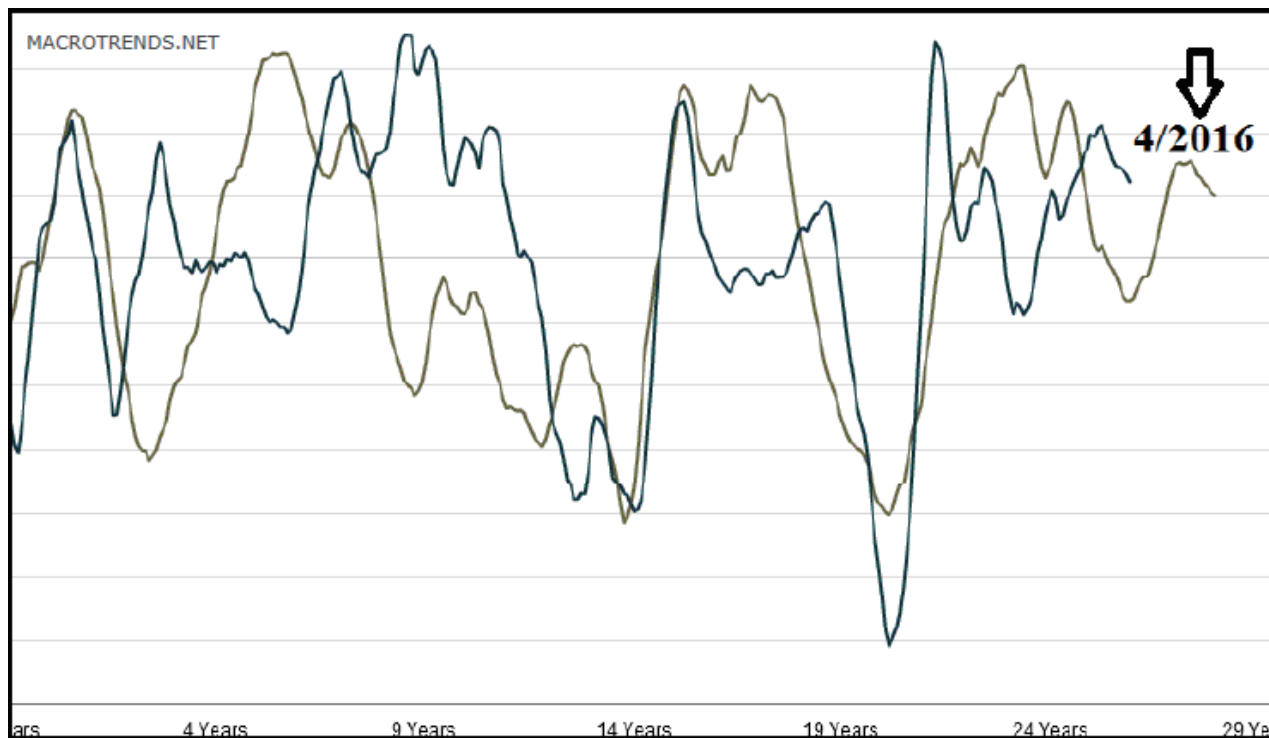
In the next chart we can see that when the yield curve is flat or inverted it is a suggestion that stock prices (as in 2007) will most likely go down, indicating investors have a negative long-term view expressed in the difference between long and short interest rates.



**Chart 11 Yield Curve 2007**

*The current reading in Chart 10 shows the yield curve is up and rising which is positive for stocks... A good reason to think 2016, at least until there is an inversion of the yield curve, will be a bullish year.*

## Annualized Rate of Change of the Yield Curve Versus Stocks

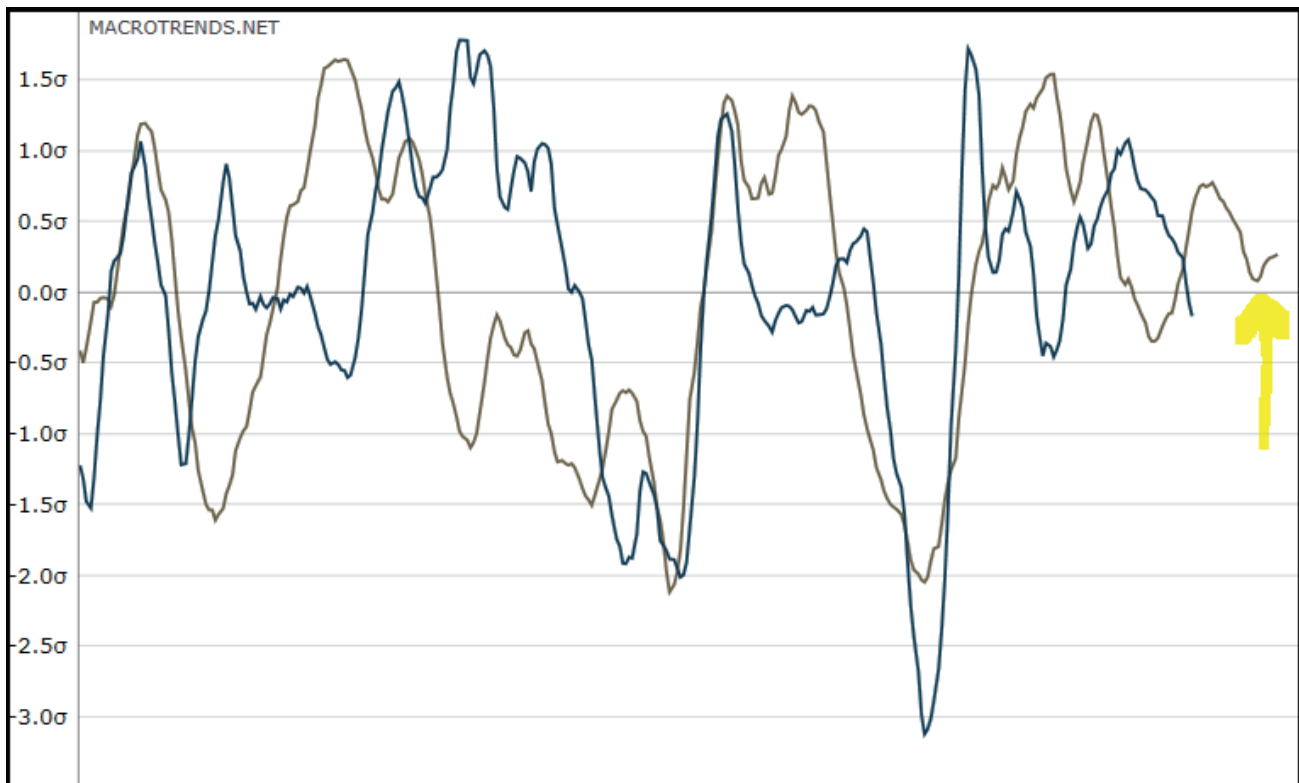


**Chart 12 Yield Curve Annualized Rate of Change Forecast**

Another way of looking at the yield curve is to look at the annualized rate of change of the yield curve versus stock prices as shown in the above chart... directly out of last year's forecast report. The yield curve is the grayish line extended two years into the future, while the blue line is the current annualized rate of change of stock prices. There appears to be a correlation here, hopefully causation. When the yield curve turns up/down it forecasts two years in the future that when stock prices get to that date they will also turn up/down. You can look at the relationship yourself in this chart.

Note the arrow in the above chart, marked off last year, with the suggestion of a forecast high from the yield curve in April 2016.

We were concerned about that last year. The question was, "What does the yield curve show now?" The answer can be seen from this year's update of the yield curve forecast in the following chart.



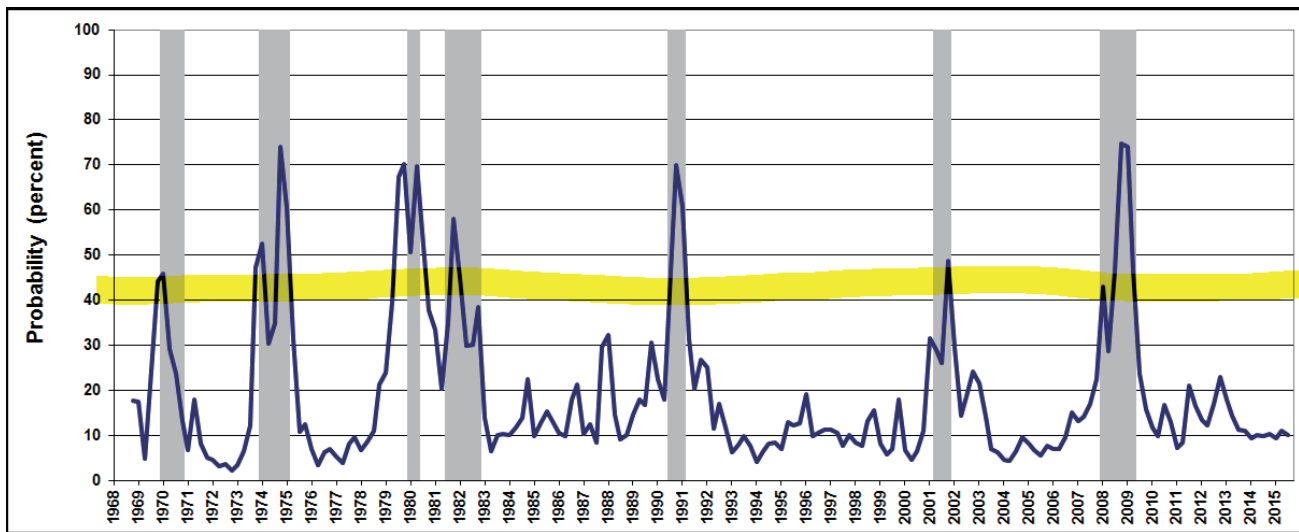
**Chart 13 Yield Curve Annualized Rate of Change Forecast**

I've marked off with the yellow arrow the good news. The yield curve has turned back up suggesting strength in late 2016. Look at the down turns. They set up weakness. There is a yield curve annualized rate of change buy signal coming shortly thereafter. Even better news is that the yield curve did not dip into a long extended down move which is typical when it forecast major stock market declines.

## **Anxiety Index**

*If I had one and only one long-term fundamental indicator to predict if the future for the economy is good or bad - the probability of a recession - I would settle on the Anxiety Index.*





**Chart 14 Federal Reserve Anxiety Index**

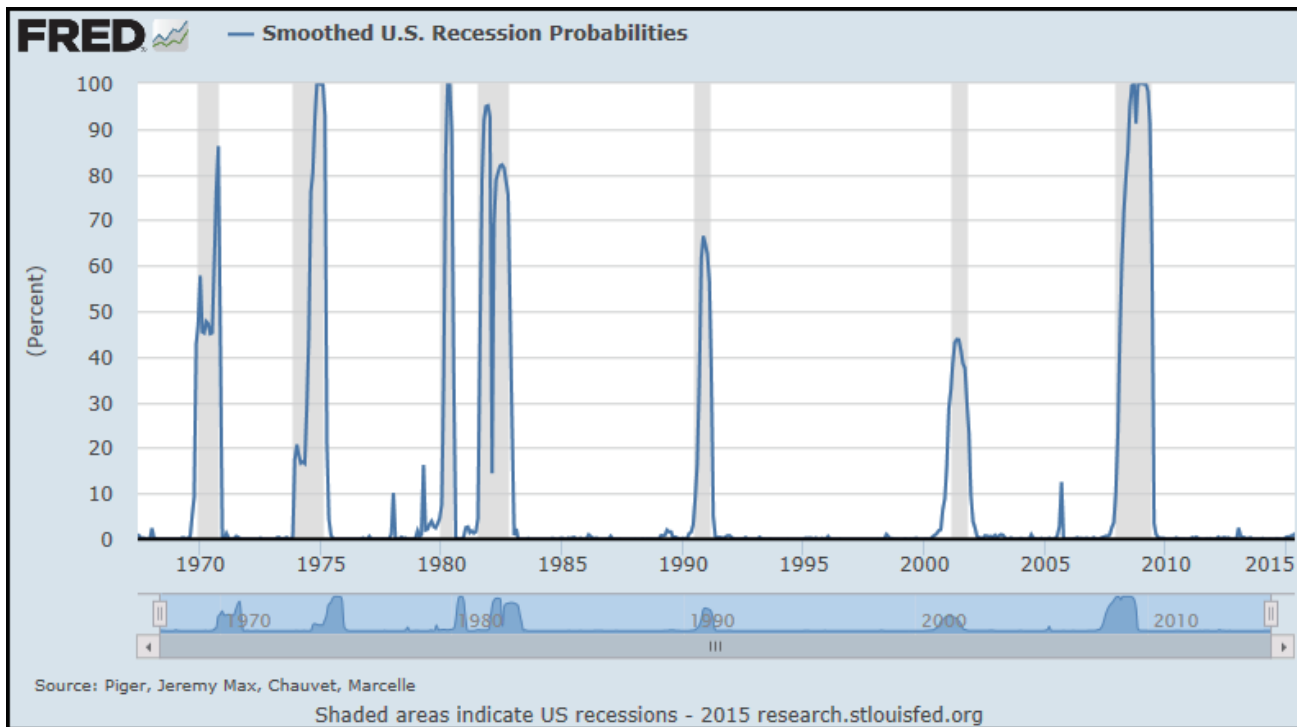
A quick glance of the above chart shows that whenever the Anxiety Index rises above 40 we are close to or at the start of a recession. Take a look at where it is now... we are not even close... that's bullish for stock prices.

This index is created by a survey of professional forecasters. It is the oldest quarterly survey of forecasts in the United States beginning in 1968. It is published four times a year by the Federal Reserve Bank of Philadelphia (for those seeking more information on this valuable tool).

The forecasters predict real GDP will grow 2.8 percent in 2016, 2.6 percent in 2017, and 2.4 percent in 2018. The forecasts for 2017 and 2018 are slightly slower than the previous estimates. This tells us we will not have robust economic growth.

## **Recession Probabilities**

Another indication of the future probabilities of recessions comes from the Federal Reserve Bank of St. Louis. As you can see in the following chart, they show the probability of entering a recession based on a variety of indicators.



**Chart 15 US Recession Probabilities**

The gray areas on the chart represent recessions. The probability of entering a recession is shown by their blue line. Typically the forecast line must get above 10% (indicating a 10% probability of entering a recession) before a recession actually takes place. At this time we're not even close to the 10% area, suggesting there is no recession in sight despite what the proponents of pessimism are postulating. I'm a data-driven guy. Look at the data. That's where we find the best answers as to future economic growth, expansion or contraction... not emails blasts from fear mongers.

*Another superb indicator for determining recessions is Gross Domestic Income as compared to Gross Domestic Product. (Income declines before Production). For those inclined to look seriously into leading indicators of economic up and down turns, this is certainly a fertile area. It is currently bullish by the way.*

See <http://www.federalreserve.gov/pubs/feds/2007/200707/200707pap.pdf>

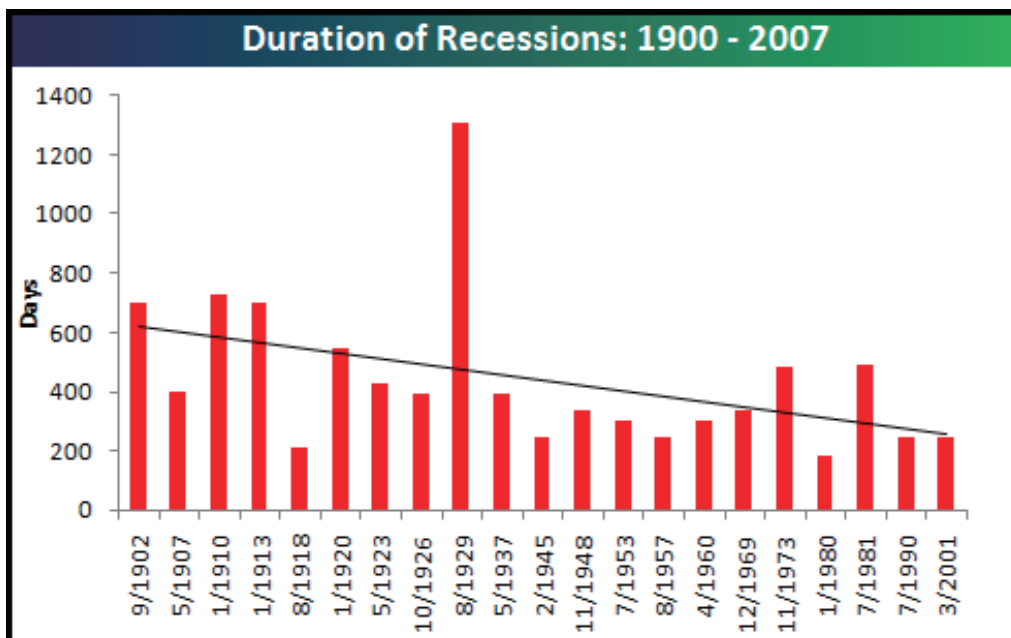
## The Cause of Recessions

The always bearish, always wrong, investment camp is saying we must enter a recession this coming year because the economic expansion has lasted so long.

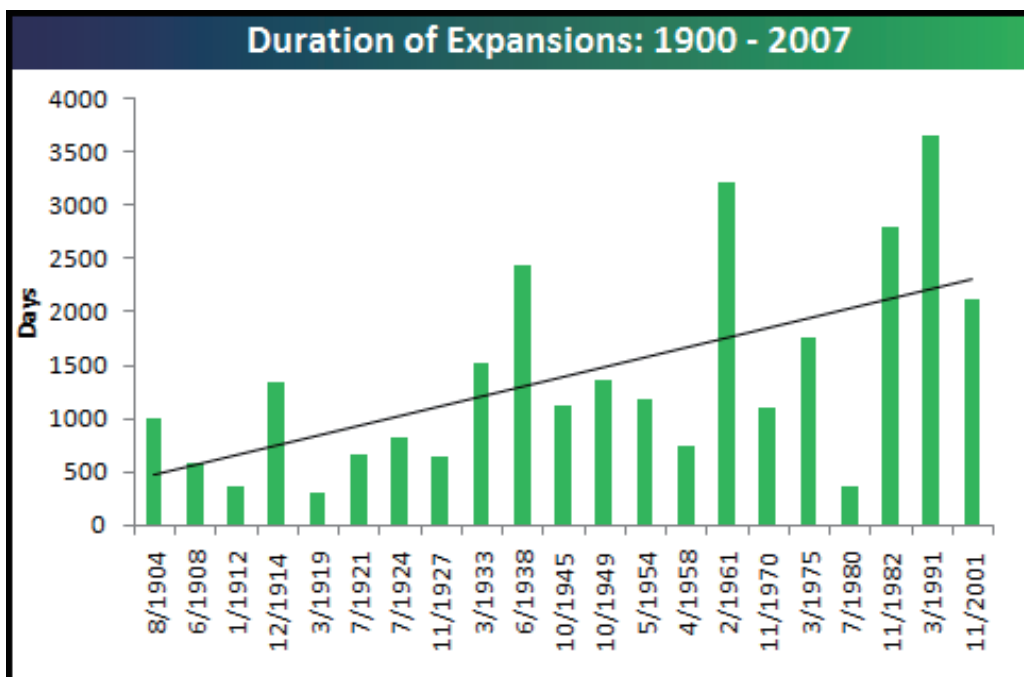
Typically a recession is defined as two quarters of negative growth. The average business cycle expansion, since the end of World War II, has been almost 5 years. Thus they

conclude since we've been in an economic expansion since 2010 we must now enter a recession. Perhaps. The facts are that the length of recessions is much shorter than the length of economic expansion; that probably explains (what we refer to as) upward drift in stock prices.

Even more interesting is that from 1900 forward the duration of recessions has been declining as you can see from the following chart.



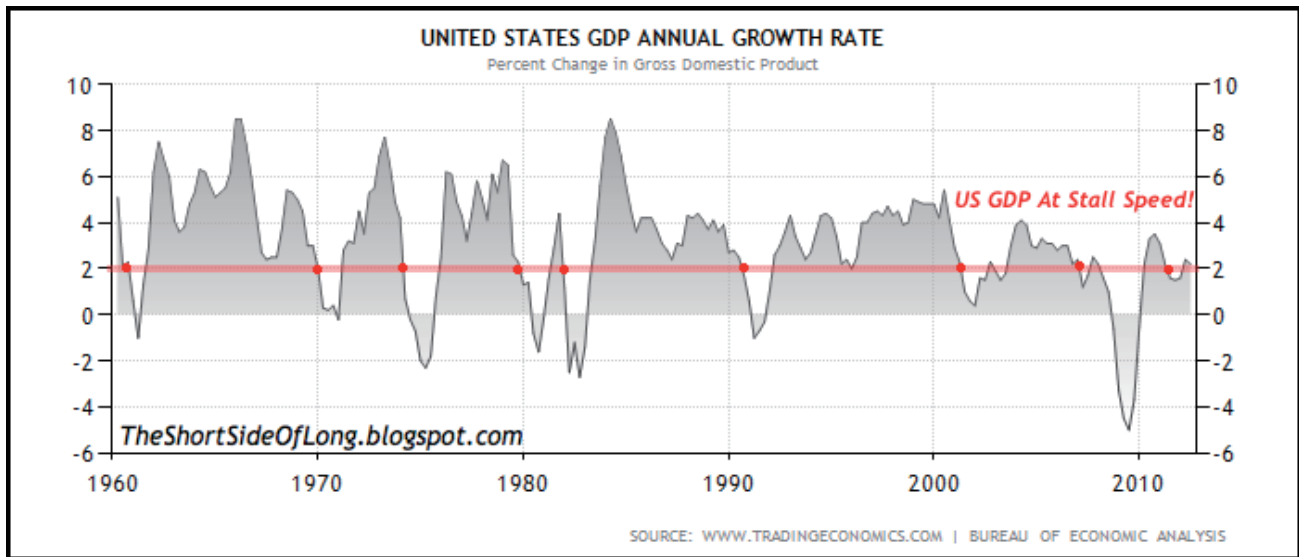
**Chart 16 Duration of Recessions**



**Chart 17 Duration of Expansions**

The very good news is that the duration of expansions has been increasing! While I certainly agree that all good things must end, just because we have been in an economic expansion does not mean it must end now. The length of a recovery has nothing to do with the probability of it ending. Economic expansion is best predicted by fundamentals of the marketplace. (Charts thanks to Bespokeinvest.com)

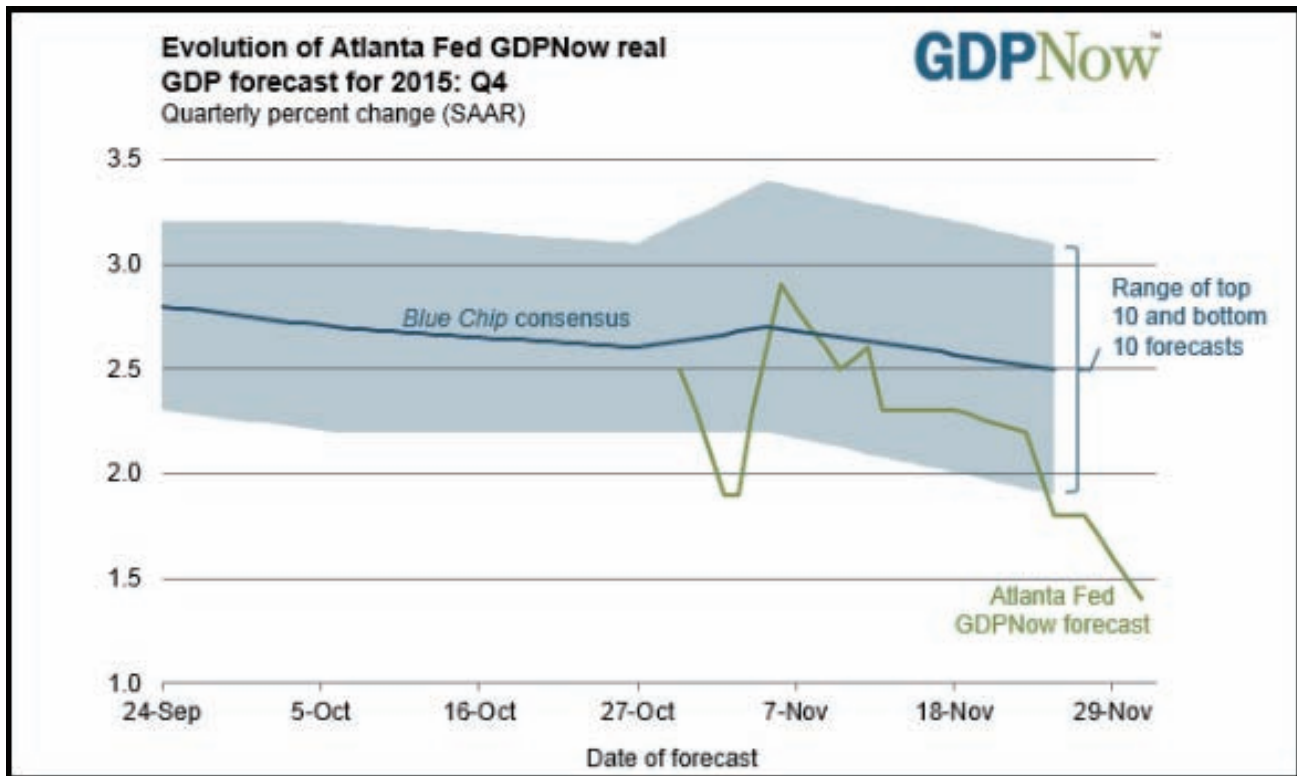
Most economists will argue the point that one cannot find cycles within recession patterns. There's an entire body of literature on this. I am not in full agreement with them. I think there is a very reliable pattern, clearly evident in the last 100 years.



**Chart 18 Annualized Rate of Change of GDP**

It appears to me there is a distinct pattern of GDP slumps about every 10 years. We can see this in Chart 18. 1960, 1970, 1980, 1990, 2000, 2010 were all periods of economic contraction. Want to go back further? Then look at 1910, 1920, 1930 and of course 1940.

***This suggests to me that, generally speaking, the next major economic recession in America will take place somewhere in the area of 2019 to 2020.***



**Chart 19 GDPNow Forecast**

**A NOTE OF CAUTION**

The Federal Reserve Bank of Atlanta has a very good forecasting model for gross domestic product which has been called GDPNow. You can see its current forecast above versus the industry standard, the “Blue-Chip Consensus” of forecasts made by leading economists. The model is suggesting GDP growth of somewhere between 1.3% and 1.5%, while economists on average are predicting about 2.5%. Keep in mind GDP is one of the ***four main items*** the Federal Reserve board of governors and presidents look at in their Federal Open Market Committee (FOMC). <https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1>

Why is this important? I think it is important because we know they will be looking at this forecast for poor GDP growth. If they believe in the model, and there is evidence they do, it would seem impossible for them to consider raising rates at a time GDP is declining this steeply. So, bullish for interest rates, bearish for economic growth. Which means stock investors need to focus on companies that are making money and be very selective in which stocks they own. The offset, of course, is that lower interest rates tend to be bullish for stock prices.

As we enter 2016 I do not see any severe bearish fundamental indications. The forecast P/E ratio for next year is 16.98. High, but not in the danger zone for the Dow Jones industrial average, and the dividend yield is projected to be at 2.49, up from this year's 2.17. The S&P 500 P/E ratio, currently at 23.1, is estimated to be 19.4 for this coming year and again with a higher dividend yield.

Another tool I watch closely is the Unemployment Claims. They also are not bearish at this time nor is Gross Domestic Product growth, which is not great (as shown in the chart above).

Many people are jumping on the small changes in Gross Domestic Product as a sign that we will soon enter a recession. If we were in an inflationary environment, I would agree with these people. But we are in a deflationary environment. Thus, we don't need to see large GDP numbers. In other words the context behind the numbers is as important to look at as the numbers themselves.

*The fellow that can only see a week ahead is always the popular fellow,  
as he is looking with the crowd.*

*The fellow that can see years ahead has a telescope but  
he can't make anybody believe what he sees, because they can't see it.*

**Will Rogers, The Autobiography of Will Rogers, 1949.**



Folks say we cannot predict the future with any degree of accuracy. Yet readers of our 2015 forecast, shown next, are, like me, still shaking our heads at the accuracy.

Here is the chart copied directly from last year's report along with our mid-year update forecast.



**Chart 20 2015 Daily DJIA Forecast with Trend**

When others thought it was time to jump off a cliff, we issued our August 23, 2015 special forecast update calling for the year-end rally.

The rest, as they say, is history... how the forecast actually panned out.

The red line is the forecast for 2015 made in December 2014.



**Chart 21 DJIA 2015 Market Forecast**

Being a market forecaster is a lot like being a gun slinger in the “Old West” where you were only as good as your last gunfight (forecast or trade). With that in mind here is my forecast for stocks in 2016.



**Chart 22 DJIA 2016 Natural Cycle Forecast**

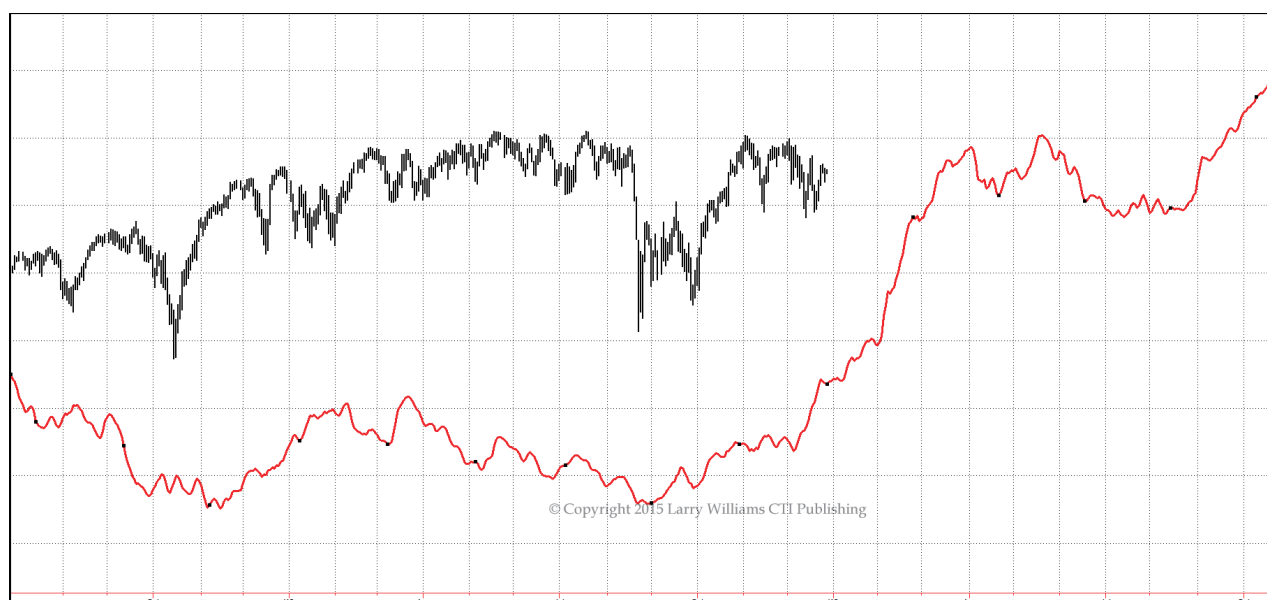


# Fundamental Forecast

I first introduced this forecasting tool based on fundamentals in our 2015 special report. I'll be the first to admit this indicator is still in an exploratory stage. As you can see from the following charts it has done a very good job of forecasting stock prices. The lead time is almost one year. That means the red line was known a year prior to where it shows on the chart. The red line is simply pushed forward into the future. It clearly forecast the 2007 to 2009 bear market as well as scored an exact hit at the low.



**Chart 23 DJIA Fundamental Forecast 2007 to 2009**



**Chart 24 DJIA Fundamental Forecast 2015 - 2016**

It has continued doing an excellent job as the above chart shows with its forecast for 2015-2016. There are problems with this particular indicator; it is not based on cycles. It is based on fundamental data released from the Federal Reserve System and the marketplace.

The problem is the lead time varies. 10 years ago it led stock prices by about half a year. Currently it appears to be leading stock prices by about a year. I suspect this is due to the nature of the economy. When the velocity of the economy is very high the lead time is shorter. In a somewhat deflationary environment, the velocity of economic changes is slower thus a longer lead time appears to be what works the best. In other words, I'm fitting the shape of this curve to match stock price activity for the last several years to get the extended forecast. This may be curve fitting... time will tell.

The forecast clearly suggests prices should run up from now until March 31, dip, then start a rally about April 20 leading to a more significant top on May 18. The decline following that peak should end about 10 August when the next up move begins. As I said, time will tell, and time tells all. The record of this indicator shows extremely high correlation, with future stock price performance. As it is based solely on economic data, I believe, there is direct causation. So we definitely want to pay attention to this one.

## Specific Trading Strategies For The S&P E-minis

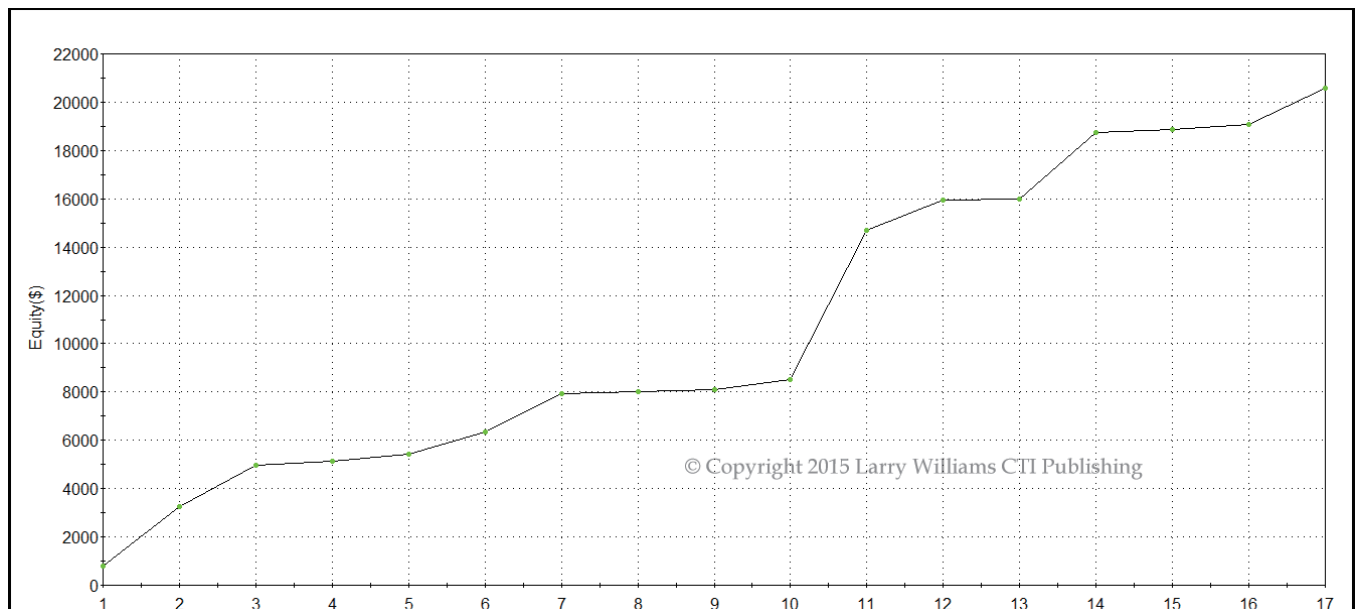
### Specific Trading Strategies for an Election Year...

Williams Timing Buys Strategy TDLIM: <sup>▲</sup> TradingDayLIM		Test	© Copyright 2015 Larry Williams CII Publishing All: Net Profit	All: Gross Profit	All: Gross Loss	All: Total Trades	All: % Profitable
1	1	1	5,387.50	10,587.50	-5,200.00	17	88.24
2	2	2	11,825.00	17,025.00	-5,200.00	17	88.24
3	3	3	17,700.00	17,700.00	0.00	17	100.00
4	4	4	20,562.50	20,562.50	0.00	17	100.00
5	5	5	12,462.50	15,062.50	-2,600.00	17	94.12

### Chart 25 Election Year Results

Chart 25 shows a trade I have been mentioning for years in my presentations as well as in these forecasts. I noticed about 15 years ago a strong tendency for the market to rally prior to elections. We could identify them by buying with a certain number of trading days left in October.

The test was to buy with one through five trading days left in the month of October. We exited after being in the trade for two days and used a \$2,600 stop loss in the E-minis. The data is from 1998 forward. Here is a view of the equity from trading such a pattern.



**Chart 26 Equity Curve**

I just wish there were more Octobers and Novembers each year! Buying on the opening of the third or fourth day left in October has shown to be profitable in 17 of the last 17 years. For 2016 this means the day for entry will be October 26th. There are many ways traders can approach this opportunity. You can be looking for buy signals slightly before or slightly after this key date, but for certain it's a date we want to be aggressive on the long side.

As mentioned, 2016 is a presidential election year. Does this make the trade better or worse? Starting with the 2000 presidential election we see the trade made \$1,700 a 2.4% gain. In 2004 the trade made \$1,600, a 3% gain. In 2008 the trade made \$6,100 for an 18% gain, and in 2012 there was only a \$137 gain. Had you held for two more days you would've had a substantial profit in this trade as well. The bottom line here is that in years of presidential elections this trade has much better results. The accuracy of course was there, but the bang for your buck was larger.

Usually immediately following the election stock prices pullback, sometime sharply, sometimes just a gentle drift but... the good news is... this pullback sets up another buying opportunity. If you were to buy on the opening of the eighth trading day of November, in the last 17 years you would've had 17 winning trades with a little over \$12,000 of profits. When we look at just the specific presidential years for this trade, we see about what we would expect in 2000. The profit was \$1,200. In 2004 \$400, in 2008 \$2,600 and in 2012 only \$87. It does appear there is a propensity to get better rallies during presidential election years.

There is yet one more trade for November with a very good performance. The rule is simple; we will be buying on the fifth trading day left in November. In the last 17 years that opportunity has been profitable 17 times, making a little over \$14,000. Short-term traders will want to place a great deal of attention on the election of our next president. These are the times when investors are filled full of optimism and buy stocks.

## **“Presidential Clout” Trade**

The trading strategy we introduced in our 2015 report called “Presidential Clout” had a good year. While it traded more often than usual (usually there are about 35 trades a year), it traded over 43 times in 2015 (up to 12/1/15), yet walked away with a little over \$4,000 in profits thanks to its 76% accuracy. To put that in perspective in 2014 it made \$4,800 on 29 trades. The prior year on 40 trades it made \$4,400, and in 2013 it made \$7,800 on 35 trades.

All in all it seems to be holding up quite well, and these rules can be used automatically or as trail markers for trades you can take as the year progresses.

Here are the rules;

1. We will buy on the opening of Trading Day of the Year 21 and 64 and 100 and 213 and 220 and 233 and 236 and 255 of each year as long as a 200 day average is greater than it was the 3 days before and it is not the month of May.
2. We will buy in November if the next day is Tuesday and less than trading day six of the month -- Basically, the first Tuesday of November.
3. We will buy on the 2nd trading day left in October
4. If a 200 day moving average is higher than 3 days back, today was not an outside day and the close is not higher than 1 day before, and the next bar is not a Friday, not a Tuesday, not trading day of the month four or seven, the, we will buy tomorrow if it is trading day left in the month 2, 10, 12, 19, 22, or 23. Curved fit? Yes, but it has held up well out of sample.
5. If tomorrow is trading day 10 of the month, and tomorrow is not a Monday or Tuesday or Friday, and today is not trading day of the month 16 or 8, sell short tomorrow on the opening.

In 2015 trade number one had 29 signals, 27 were correct, netting \$3,050. Trade number two had four signals. All were winners, netting \$2,688. Trade number three had just one signal making \$590 while trade number four also had just one signal, making \$400. Total profits were just a little short of \$7,000 for the year.

We traders are a strange group of people... we really do not care what was done last year.

We want to know what about this coming year! To answer that, I have come up with another trading strategy for 2016. Here it is.

I am certain most of my readers are knowledgeable that stock prices tend to rally around the end of and first of most months. This is a trading idea I have probably beat to death with my readers.

But there is another point you may not be aware of, when prices usually rally during a month. I have included this in our strategy.

## **2016 Trading Strategy**

### **Best Mid Month Trade**

*Investors give professional funds, the largest influence in the marketplace, money to invest via employee contribution programs, union pension programs, IRA programs... all the retirement program money comes in around the first and the 15th of the month.*

Of course, funds cannot just sit on this money. They have to manage or put it to work. It seems they are putting it to work on a specific time at the middle of the month.

I have noticed this for years. I just wanted to put it into a very easy and simple to understand signal. I first looked to see if there was a calendar day of the month influence... as I thought, there is some but the problem is the 15<sup>th</sup> of the month may be a Friday or Saturday.

So my next test was to try the trading day of the month approach, but that also did not produce quite the results I wanted to see for pretty much the same reason; some months may have 19 trading days, some may have 22 trading days. What I found was the best was to count backwards as to how many trading days were left in the month. Thus, a short month like February, will always have 15 trading days left in the month. So I can compare February with virtually all other months.

That test was not a waste of time.

What I discovered was that if tomorrow is the 15<sup>th</sup> trading day left in the month there has been a strong tendency for prices to rally on a short-term basis. However I found this is not necessarily true in May, August, October and January.

To make the rule even better, we really want to be a buyer only if the day prior to the day of our entry was a down close. My work shows a down close sets up better signals. Since 2002, there have been 53 such signals, netting about \$27,000. Only two of them were not successful. There were 4 trades in 2014 making about \$1,200. I show just one trade for 2013 making \$400. This simple trade does not require a computer, just patience.

## Best Trading Days Of The Year Trade

There seems to be reliable trading days of the year we short term trader can use to help buys to be more fruitful. I like to take buys on the following trading days of the year; 21, 73, 131, 202, 212, 233, 235, 238, AND 248.

I will bypass ANY of these trades that would trigger on the 5th or 7th trading day of the month.

This simple rule has been profitable 95% of the time since 1998 forward. In 2013 it made \$4,500 on 6 trades. In 2014 there were 4 trades netting \$3,300, with no losses in either year.

SPECIAL BONUS...

While working on this year's forecast I stumbled onto an interesting way of predicting well over year in advance specific days that would be overwhelmingly bullish or bearish. Here they are for 2016. I think you'll be quite impressed with their accuracy... be on high alert for turns at these times.

### Specific Buy And Sell Dates For 2016

BUY	2/6/2016
SELL	5/5/2016
SELL	8/2/2016
BUY	11/2/2016

*These are dates I expect short-term 1 to 2 day directional trades as indicated, use close stops.*

*The best time to look for the start of 2-4 week rallies will be the week ending 1/22, 6/17, 9/23, 10/4, and 12/9.*

# **Around The World In 4 Countries**



Now that we know what to expect in the States, let's turn our tools loose on forecasting the other major markets of the world. Where should we go first, to Germany or China, (the next most productive economies in the world) for the hottest of the hot markets?

Both have very different time cycles. As we have very little data on the Shanghai Index, I will zero in on the German DAX first and foremost.

## Germany

Looks like the same April buy point will spring forth in the DAX as the Dow; the pattern here is similar to the one seen for the Dow Jones Industrials.



**Chart 27 German DAX 2016 Forecast**

**Now to China...**



# China

Last year's headline for China was, "Watch out...Here comes China...again". Stocks soared with the second largest bull market in their history.

Stocks in China have danced to the tune of a 2 and 4 year cycle. They crested together on May 29th of 2015. The 2 year cycle bottoms the first week of June in 2016, while we have to wait for the 4 year cycle to bottom out in the middle of 2018; that's when I expect the next massive bull market in China, when the 2 and 4 year cycle are in synch for a rally.

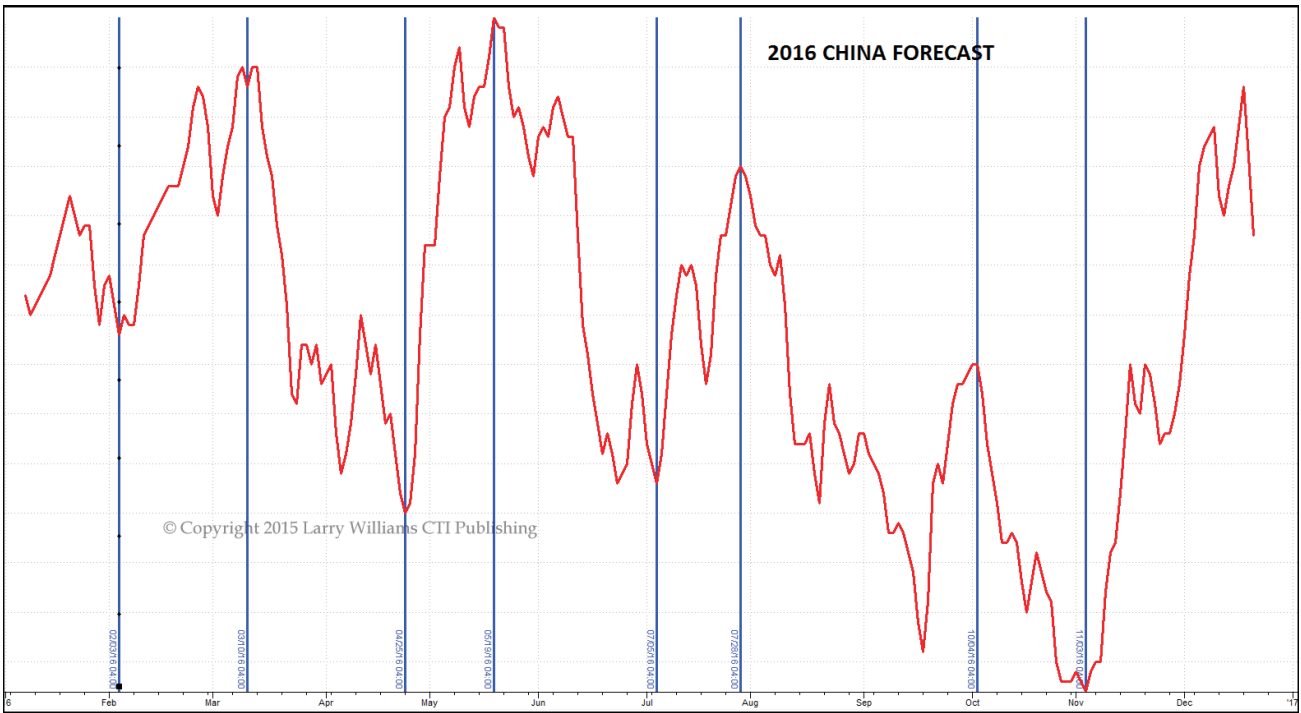
The seasonal peak, due at the end of April, should create a down draft in stock prices and very good shorting opportunities. The seasonal low is due October 20th. Will we rally then? "Yes", is my answer as the 2 and 4 year patterns will be in up-trends.

Here are my forecasts.



**Chart 28 China Seasonal Cycle**

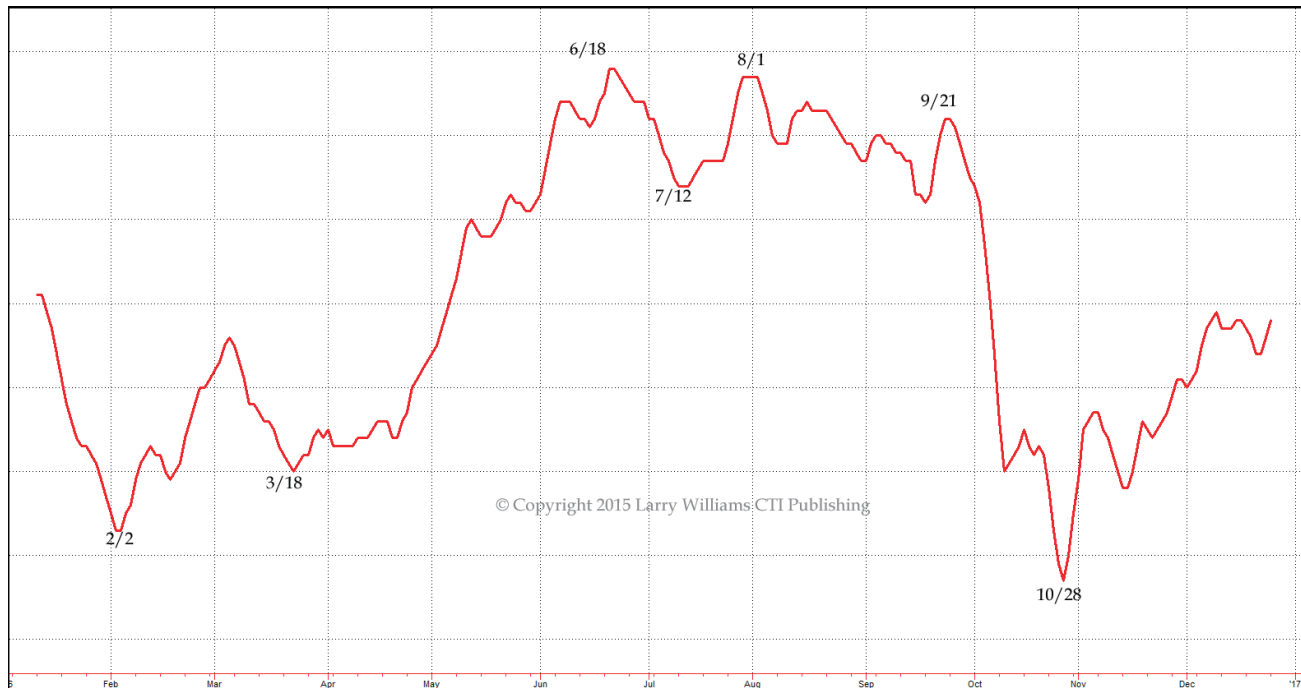
There is barely have enough data to apply my Natural Cycle concept for the Shanghai Index. But, here it is with limited data, suggesting what is in store for 2016.



**Chart 29 2016 China Natural Cycle Forecast**

# Japan

Our forecast for the Nikkei last year was to peak on June 25th (the high was June 23rd) with a low point on September 24th, and then a sell-off beginning November 24th.



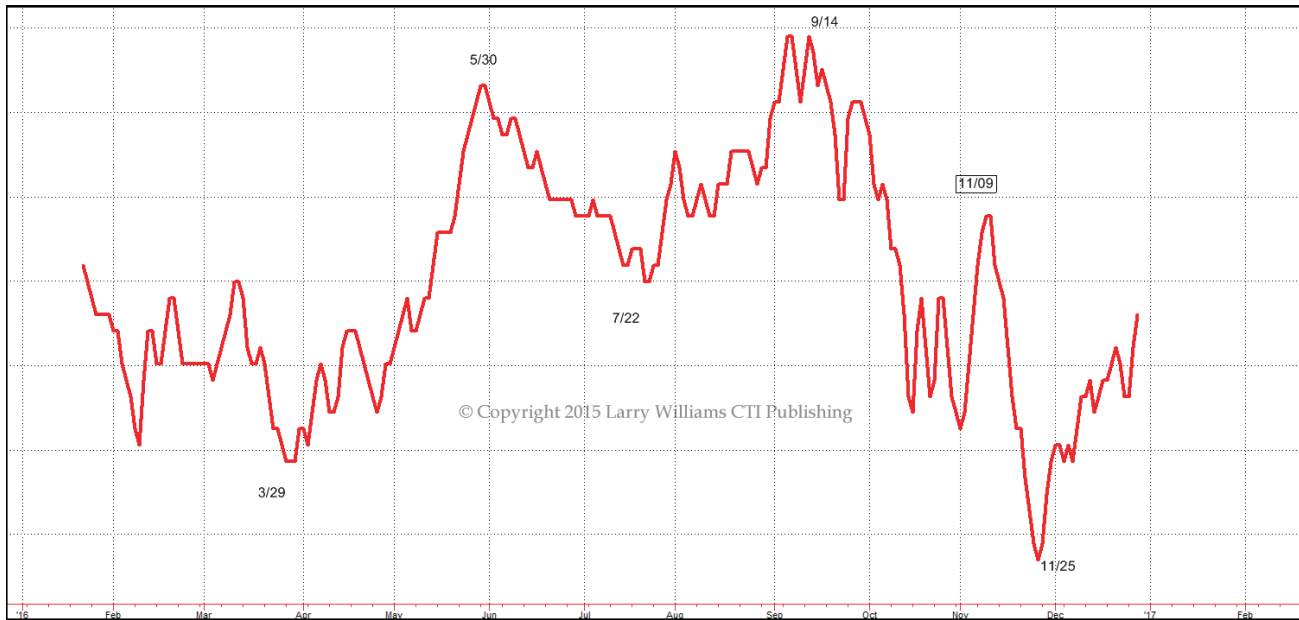
**Chart 30 2016 Japan Natural Cycle Forecast**

The big move in Japan is scheduled to start in April. I expect quite a dramatic affair into the high starting in August when prices turn right back down again.

# Korea

Close to Japan is Korea and the wild swinging KOSPI index (no chart here). I expect that index to decline into May, rally until June, then dip to the middle of August before a rally to the middle of September, then back down to an October 15th buy point.

# Australia



**Chart 31 Australia Natural Cycle Forecast**

Stocks should begin the year for our friends down under with a nice rally until a dip down to March. That will lead to another nice and extended rally into September; then be careful. Note the seasonal pattern and the natural cycle forecast are not at all similar this year. It will be interesting to see which one prevails. It should be the red line, natural Cycle.

# Precious Metals



# Gold

The main reason we have been steadfast bears in gold the last several years has been our understanding of the four year cycle. We showed the following chart to our readers in 2012, and it has been a good hallmark of future trend direction.

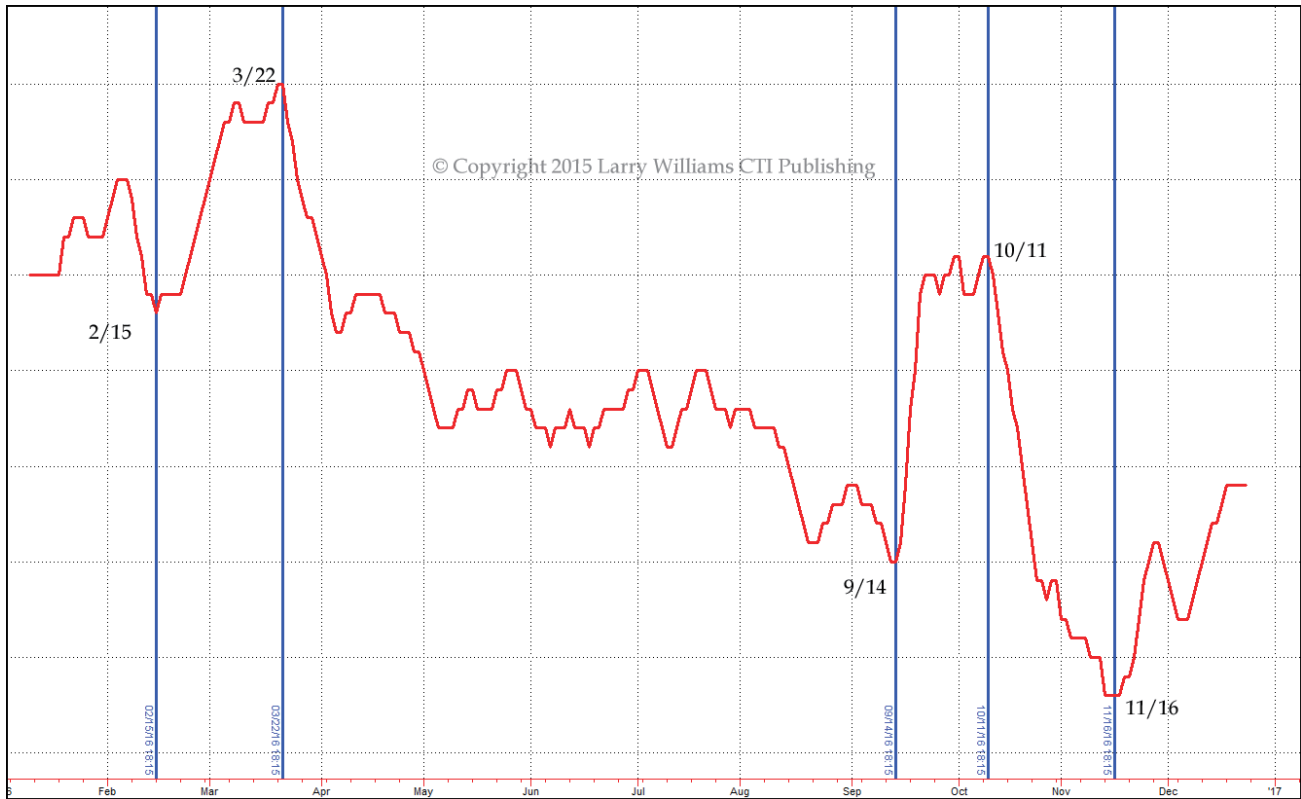
As you can see we have another four year cyclical high coming up about the end of February in 2016 which tells me the next significant buying opportunity will come in late 2017. I believe there should be a very good shorting opportunity starting around July of next year when our forecast red line breaks sharply to the downside.

We can add a little bit to our understanding of this by also looking at a two year cycle, shown in blue on the following chart. In the past when these two crested together gold prices have crumbled.



**Chart 32 Gold Two and Four Year Cycles**

Does our natural cycle back up this trade?

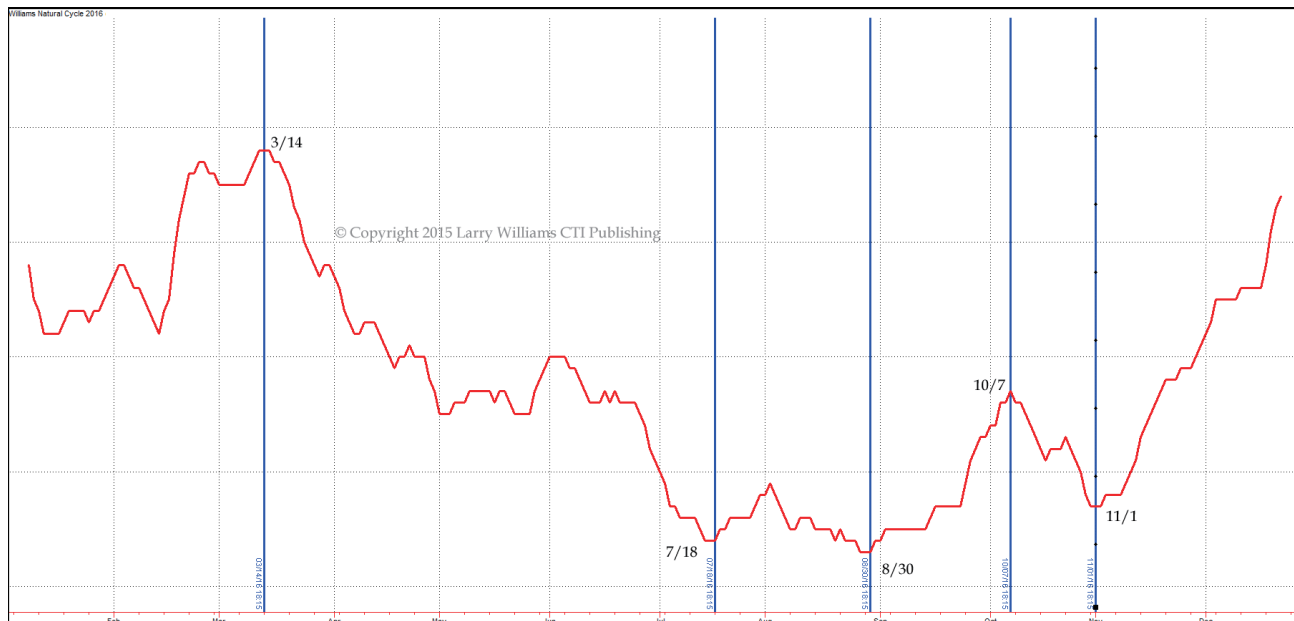


**Chart 33 Gold Natural Cycle Forecast**

Our natural cycle forecast for gold, shown above, suggests selling points in the middle of March as well as late June and then mid-October. It does not look like the bear market has yet run its course. Overall I would expect lower lows.



# Silver



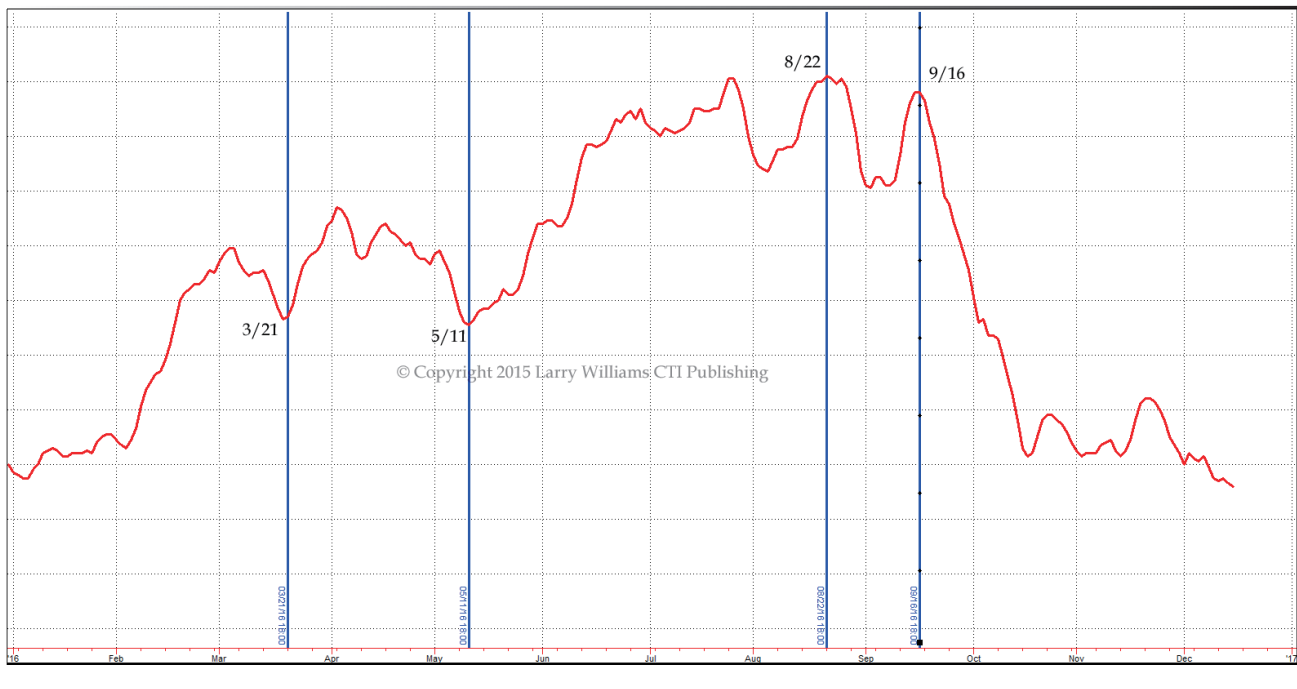
**Chart 34 Silver 2016 Natural Cycle Forecast**

Silver, for the most part, follows gold. So as you would expect the natural cycle forecast for 2016 is not unlike that for Gold. There is a little difference but overall we would expect a downward trend. The two and four year cycle patterns exist in silver.



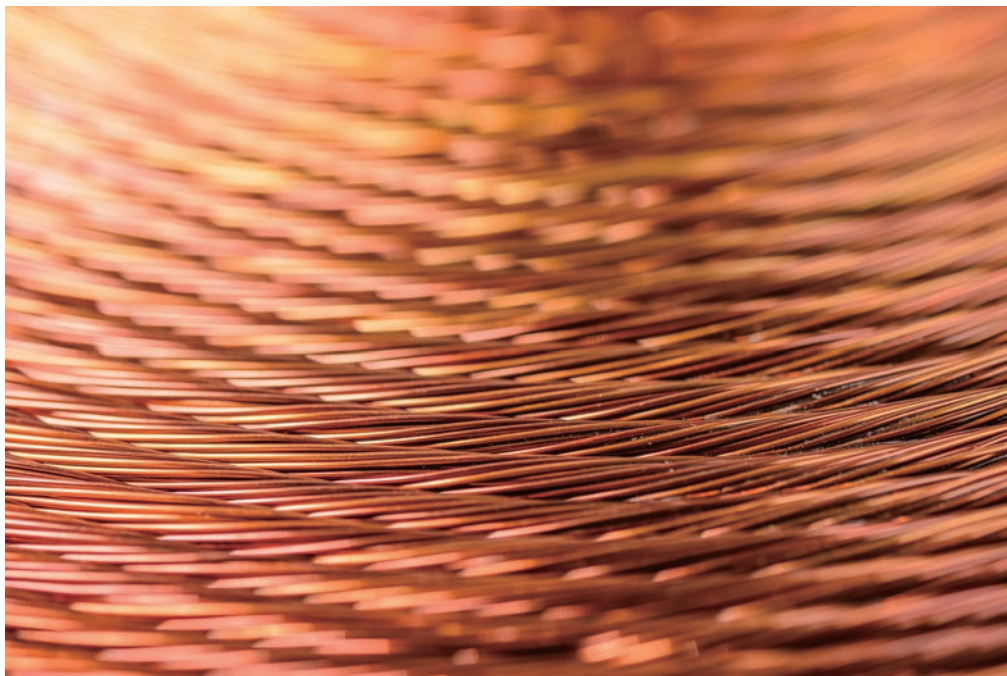


# Copper

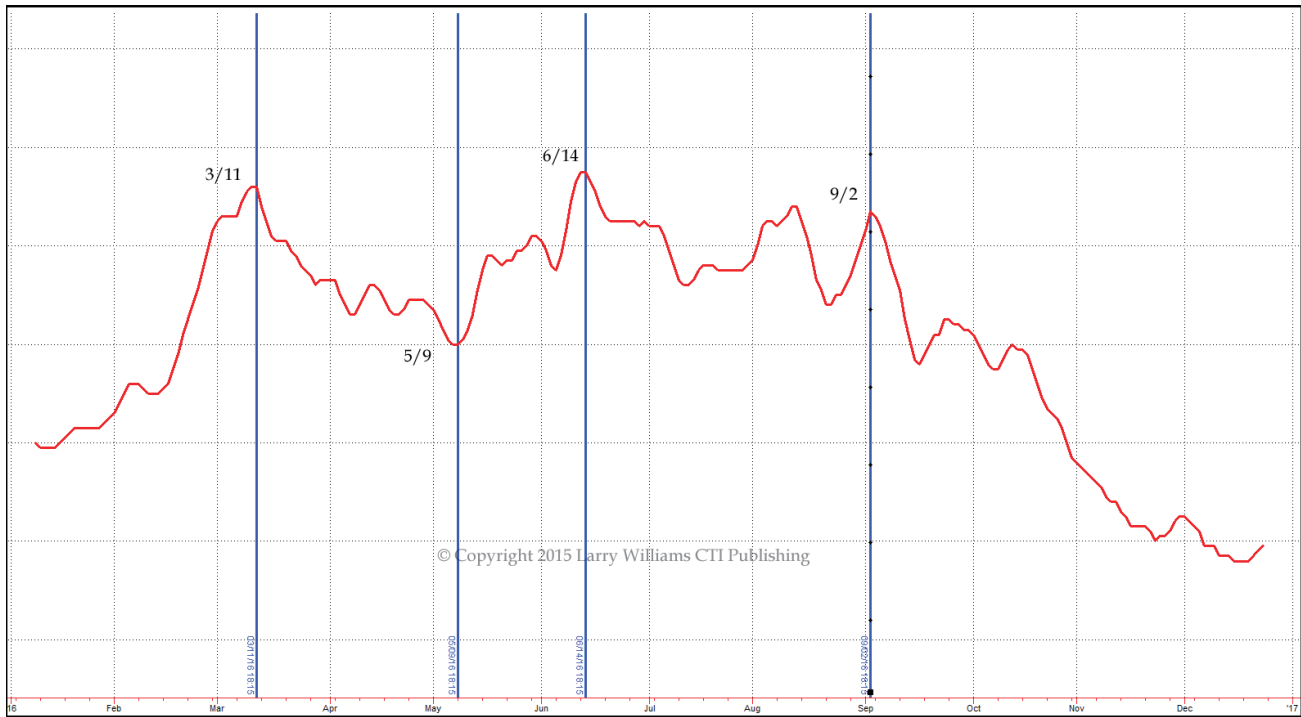


**Chart 35 Copper 2016 Natural Cycle Forecast**

Copper has been in a significant bear market, yet the cycles are suggesting a rally from the first of the year into late June. From June on I expect lower prices. The same two year pattern we saw in Gold kicks in for a sell in Copper on July 20th.



# Platinum



**Chart 36 Platinum 2016 Natural Cycle Forecast**

With fingers crossed this is our first year to do a cycle forecast for platinum. As you might expect, it also seems to be controlled by the two and four year cycle. Thus the first of the year sell signals should be important for those who want to work the short side of this market.



# Interest Rates and The Bond Market



# Interest Rates To Go Higher?

*The overriding question of the financial markets is, “will the Fed continue to raise interest rates in 2016?”*

I have two observations here. First and of most importance, we have said that when rates are raised, as they were in December 2015, it would not be bearish for stock prices. History is clear. The first several increases in interest rates following an extended decline in rates is not bearish for stocks; it presents a buying opportunity.

I doubt if there will be further rate increases in 2016 until we see either an increase in inflation or a pickup in GDP; those are the two indicators to watch as harbingers of interest rate increases.

*Now let's cut to the quick... will we see an interest rate hike in 2016?*

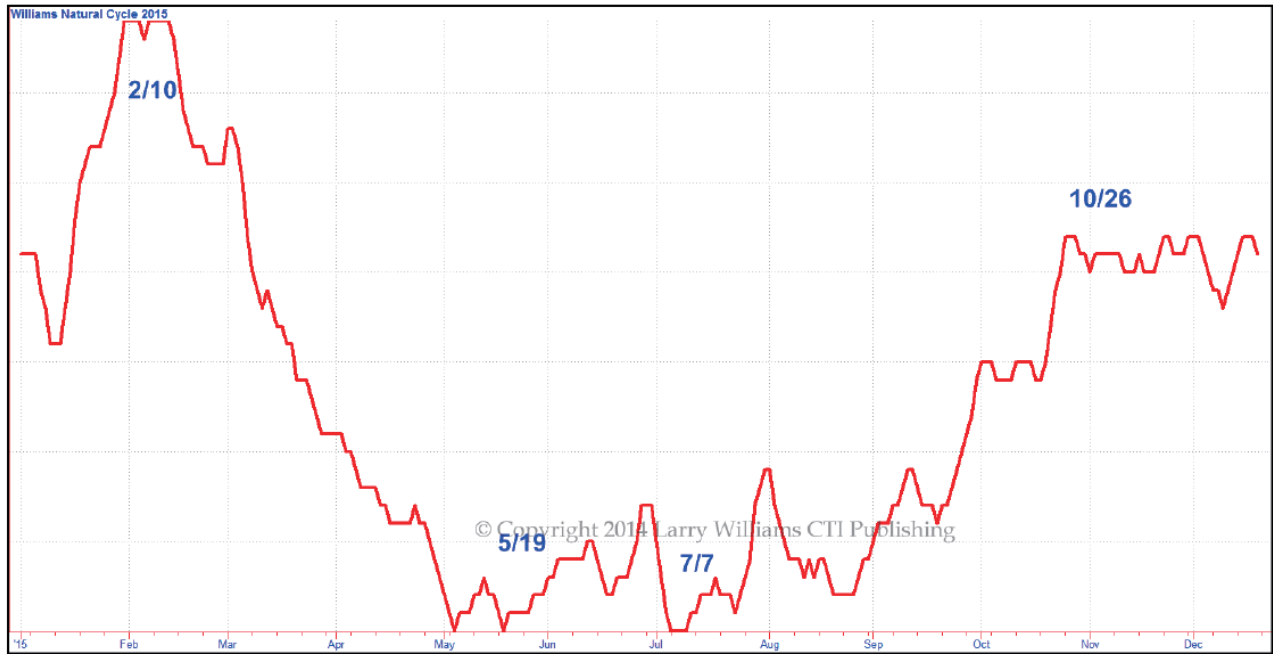
Federal debt at this time is about 100% of gross domestic product. If we add to that private debt, the number jumps up to about 350% of gross domestic product. There is a slew of scholarly studies that indicate real gross domestic product growth rates slow by about one third from the long-term trend when this debt to GDP ratio rises above 250%.

Until this debt is liquidated... which will take some time... it is a drag on any economic expansion. That should keep inflation down. When inflation is low, interest rates are low.

It is certainly not in the best interest of the United States Government to see rates raised; if that happens their debt service will go up substantially, as will other borrowers which will be one more drag on the economy. Until there is larger economic expansion I expect no interest rate increases. If I am wrong, it will just be a nominal one time interest rate hike, which as noted above, will be bullish. I have no fear of substantially higher rates at this point; if I do we will send you a special alert bulletin.

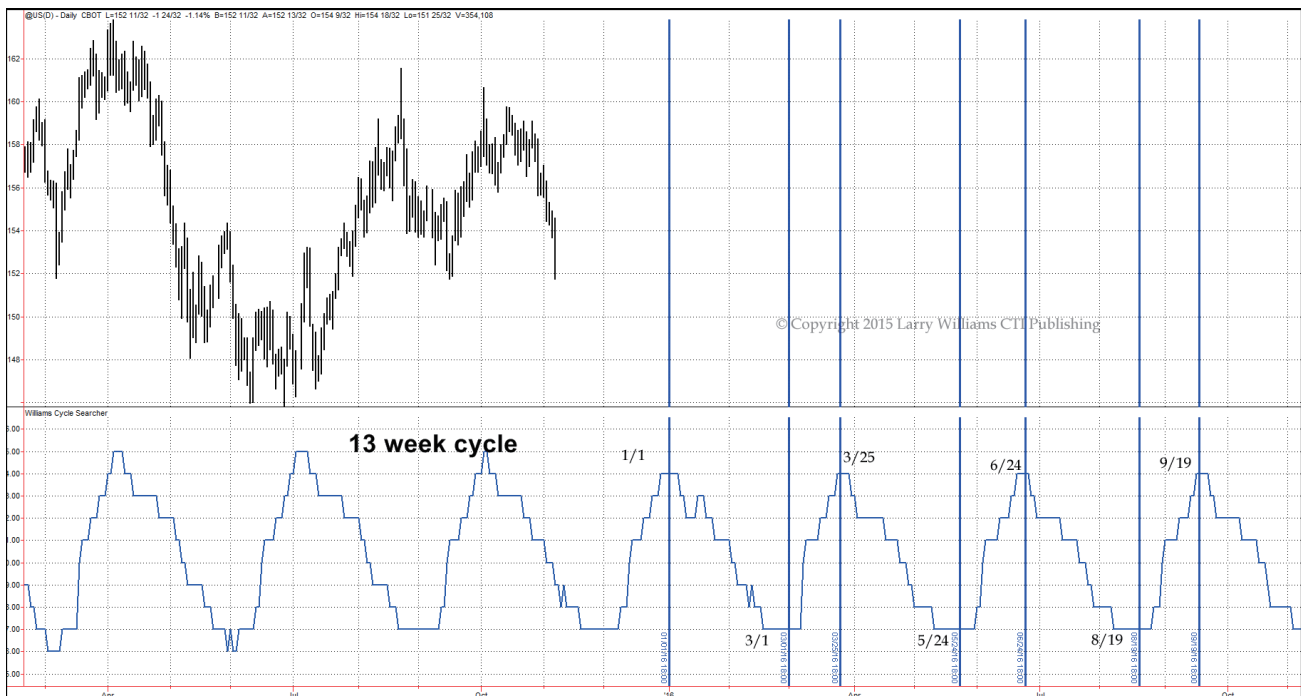
## **30 Year Bond Forecast**

Bonds are an extremely difficult market to forecast, not because they are bonds but because it seems all of the data services do not properly construct the continuous contract for this market. To make it worse, some data providers actually show bonds trading at a negative number on their continuous contracts. They have not made correct adjustments back in time. The truth is, of course, bonds have never traded at a negative number. Yet many data providers show they did, and it is those negative numbers that totally mess up any cyclical study.



**Chart 37 Treasury Bonds Daily Natural Cycle Forecast 2015**

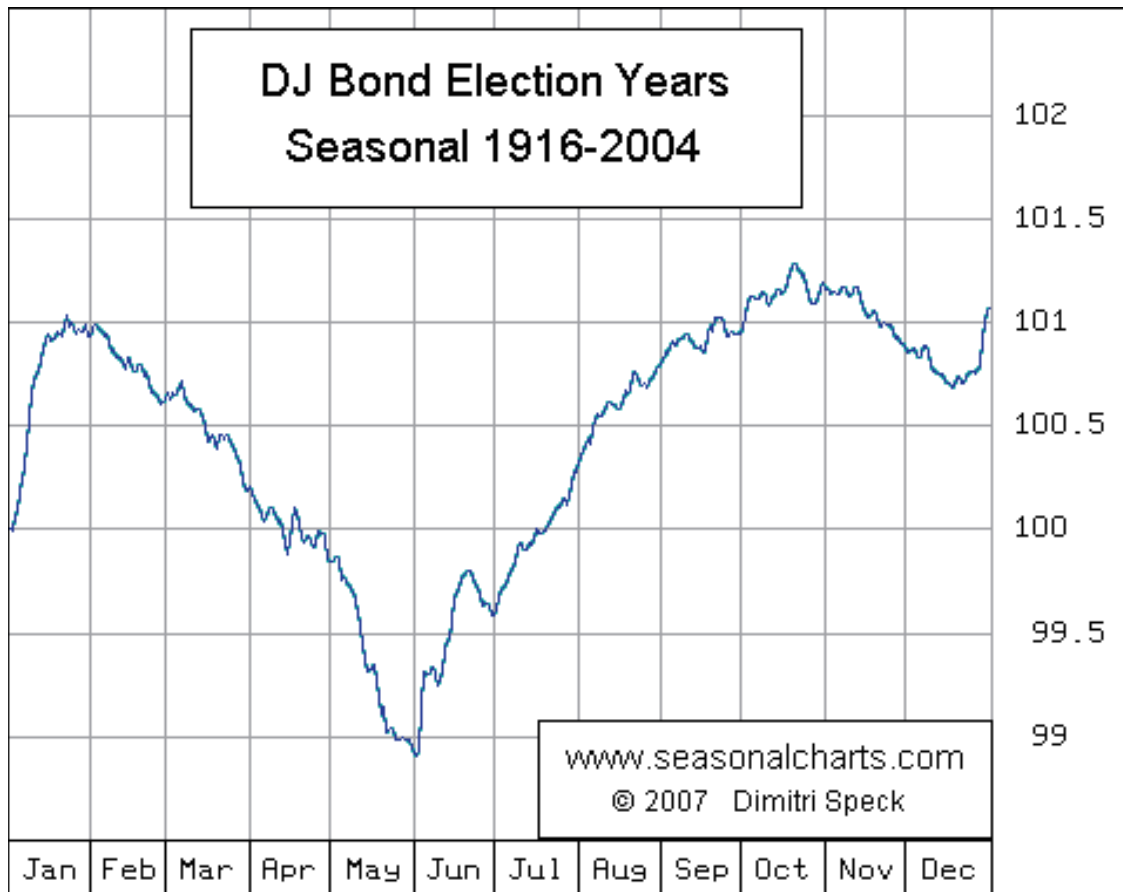
Above is last year's forecast for you to compare against what took place in 2015. All in all it did a remarkable job of showing the roadmap Bonds would take in 2015.



**Chart 38 Bonds 13 Week Cycle**

I pointed out last year that bonds have a strong 13 week cycle which suggested market lows around March 13 and September 4 for 2015. In retrospect those were very good calls. So here again (Chart 38) is my 13 week cycle projection for 2016.

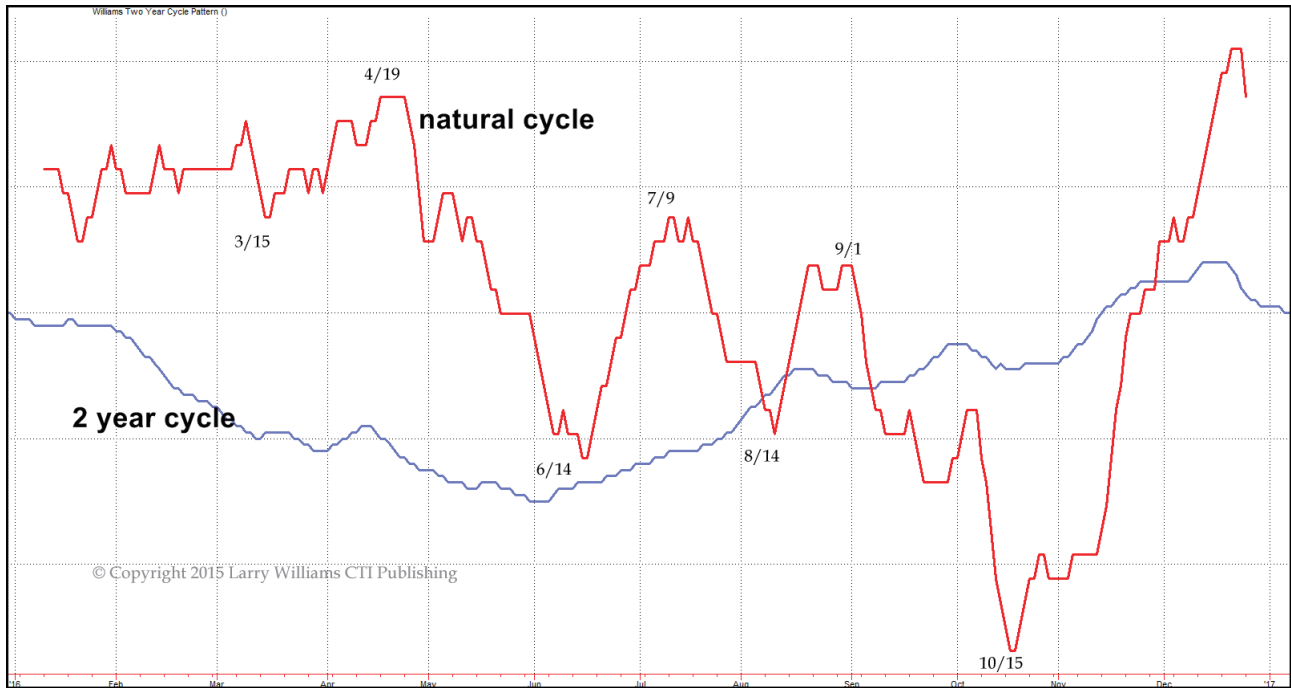
The big news for the bond market this coming year will be that we are in an election year. Politics and politicians being what they are, I'm certain there'll be an impact on interest rates. The best way to look at that is to take a glance at the following chart which shows what interest rates have done in prior election years.



**Chart 39 Election Year Seasonal**

The above chart is from one of my students from years ago, Dimitri Speck and his service, seasonalcharts.com. What his work shows is that typically bonds decline into May of a presidential election year. Then as we draw close to the election, interest rates drop and prices rally. His data goes back to 1916 which is probably well and good but elections were held at different times of the year back then (see our 2014 forecast report).

Given the instability of bond price data as noted above, I hand checked my old charts to see if there is a potential for a rally in bonds right at election times. There is. It is not a real strong influence but usually shortly after the election bonds rally. So there may be a trading opportunity for you at that time this coming year.



**Chart 40 Bonds 2016 Natural And Two Year Cycle Forecast**

With all the above in mind, we again go out on a limb to make our forecast for what bonds should do this coming year. The roadmap shown above can be used not only for the suggested turning points, but as mentioned earlier, the shape or pattern of markets tend to follow the forecast. Once you see that we are in sync with the forecast you know we have locked into that roadmap for this year. If prices are leading, or lagging a little bit, all one has to do is take that into consideration to be more exact in when the next cyclical projection is. By that I mean if the forecast roadmap is correct but it forecast a high, say on May 6th, and the market actually topped out on April 3rd, you would just take that lead time into consideration as to the following turning points for the year.

# Energies

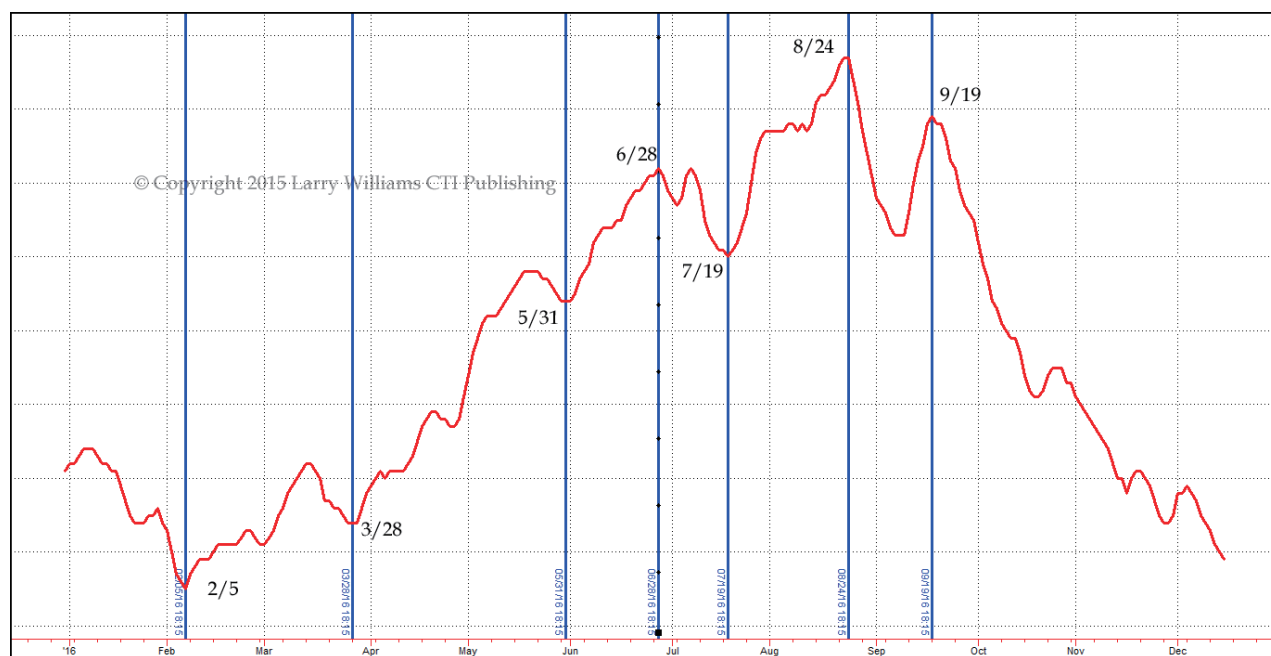




# Energy Markets

Oh what a year we had in 2015 with our forecast for lower energy prices. Prices fell more than anyone expected. Our cyclical forecasts suggested the low of the year (or the end of the decline) would come November 13th. Had one gone short at our projected April 22nd 2015 high and held until then, you would've had over \$20,000 profit per contract.

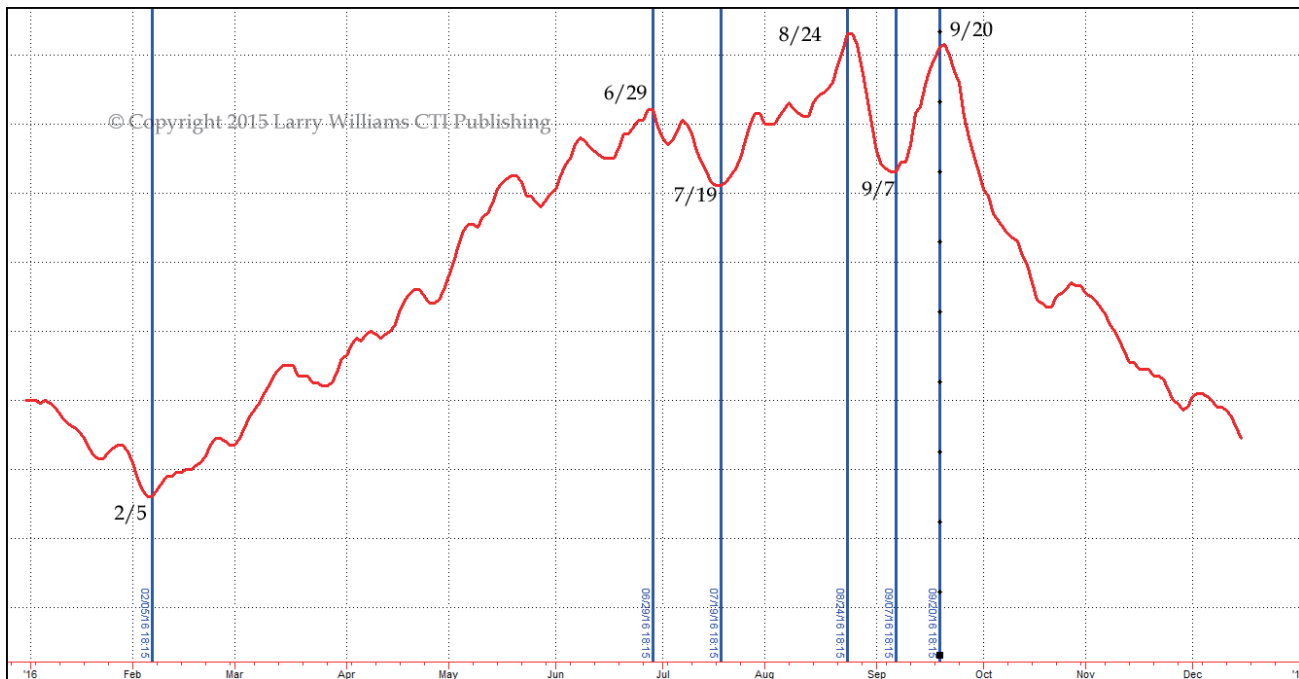
I hope we can do that well this coming year. One thing is for certain, it is a different ballgame in 2016 that was in 2015.



**Chart 41 Crude Oil 2016 Natural Cycle Forecast**

As you can see from Chart 41, our forecast for crude oil shows we should see a pretty good rally starting in early February leading all the way until October. It looks like there should be decent pullbacks along the way in this uptrend. So traders are alerted, a year in advance what to expect.

*The Natural Cycle suggests the trend of the future but years of using this show it is best at telling us the turning points. Just because the forecast shows a steady up or down trend, it is not a sure thing. It is most likely, but the strength of the forecast comes from telling us when to expect rallies and declines to begin.*

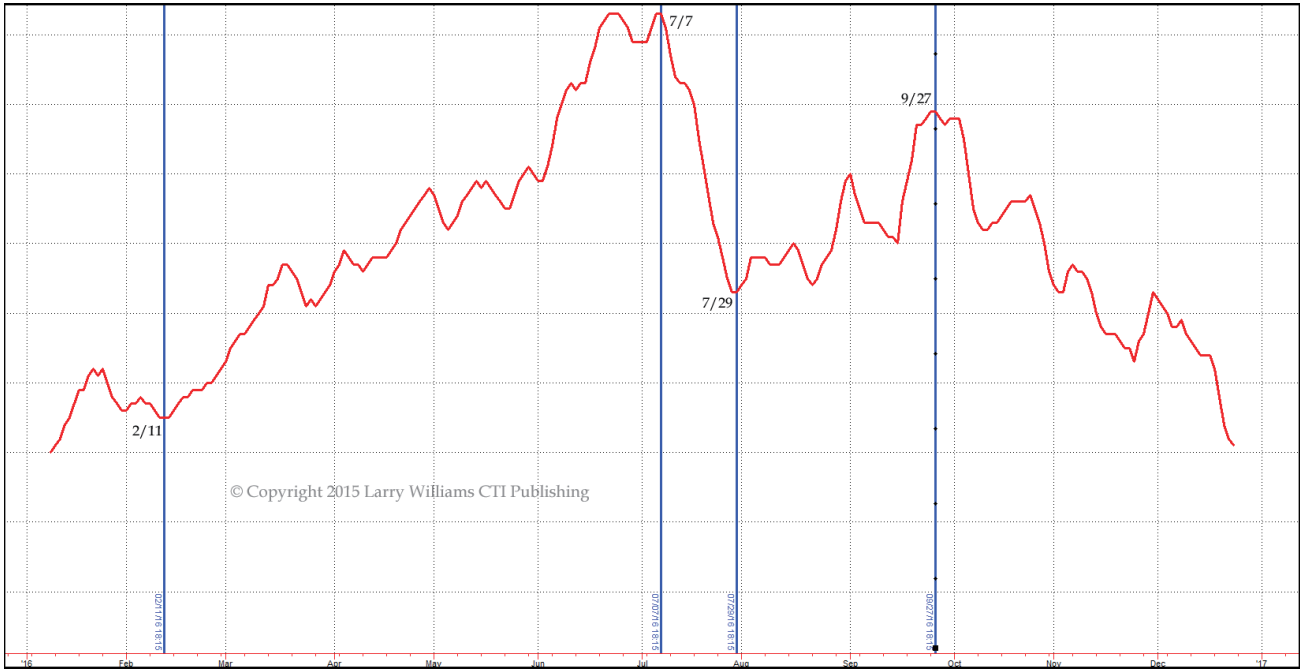


**Chart 42 Heating Oil 2016 Natural Cycle Forecast**

Heating oil usually moves in sympathy with crude oil, so it's no shock there is not much difference in this year's cyclical forecast between the two.

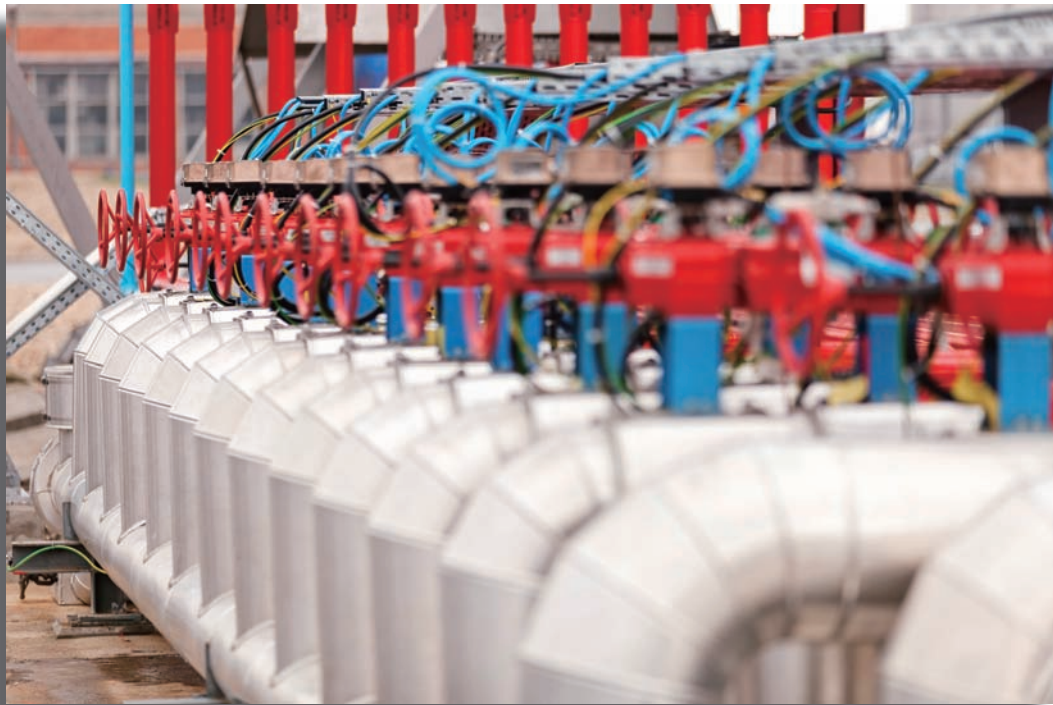
### **Unleaded Gasoline 2015 Natural Cycle Forecast**

I'm not able to show a chart for unleaded gasoline because we have just a little bit more than 10 years of trading experience in this market. My cycle forecast takes much more data than that. Nonetheless this market historically moves in sync with crude oil. So, you can use that forecast if you are an unleaded gasoline trader.



**Chart 43 Natural Gas 2016 Natural Cycle Forecast**

Natural gas is in the laggard of the energy complex but it is scheduled for a rally then a decline starting the first part of July and lasting until late 2016. One will want to pay attention to the cyclical moves seen in Chart 43.

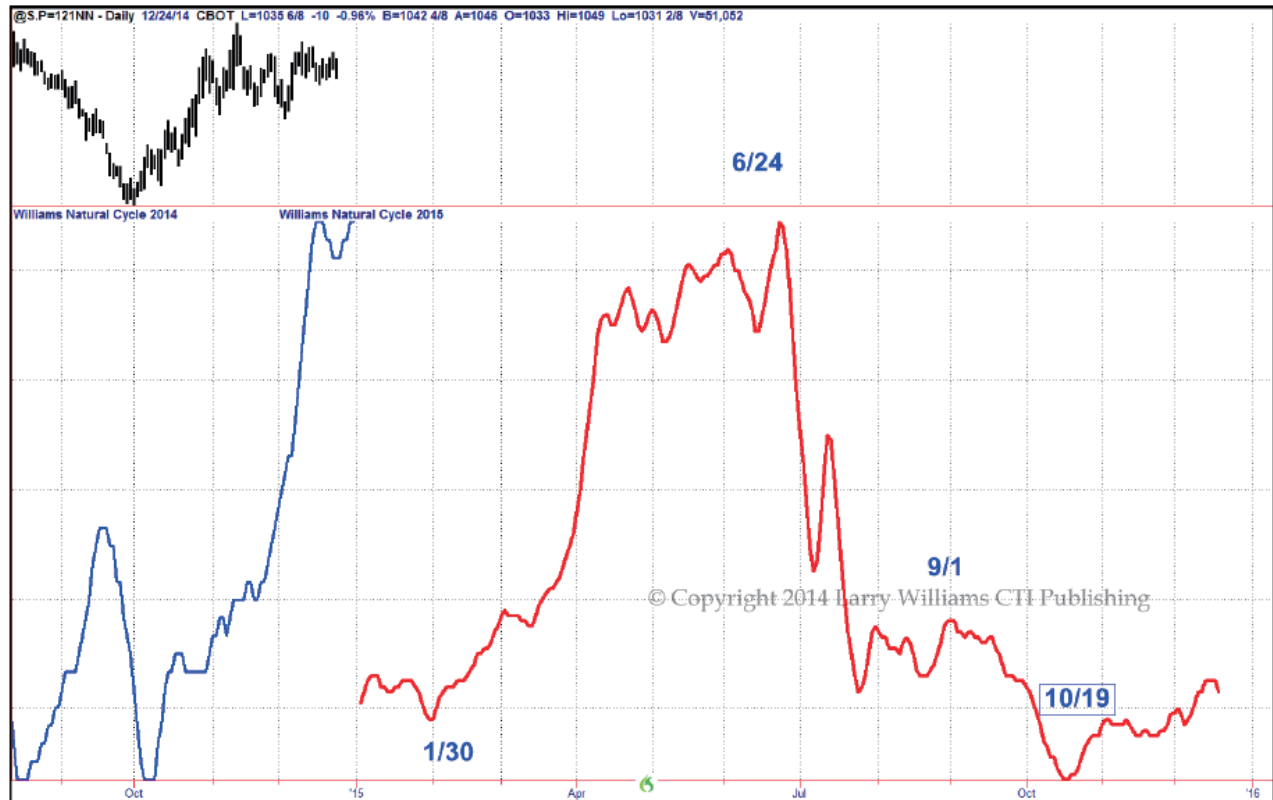


# Grains



# The Bean Complex

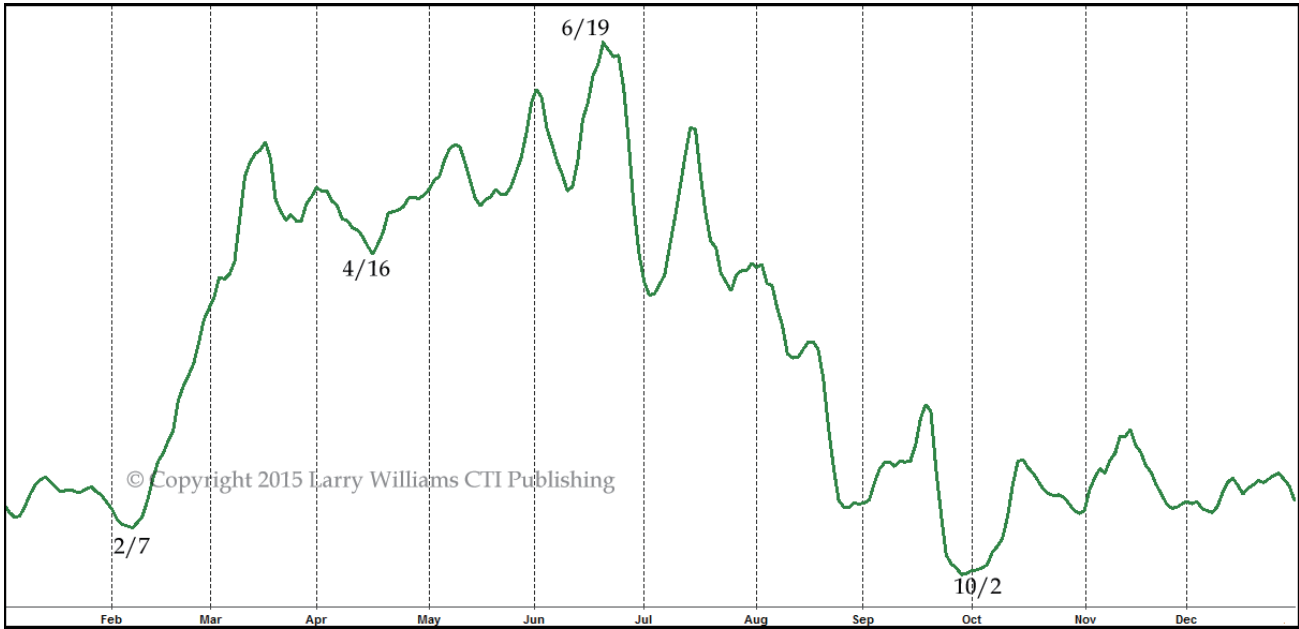
It looks like we got very lucky with our forecast for the grain markets in 2015. Looking at the natural cycle roadmaps from last year's report (Chart 44), presents a strange view of what should have happened in the marketplace; almost straight up then almost straight down.



**Chart 44 Soybeans Daily Natural Cycle Forecast 2015**

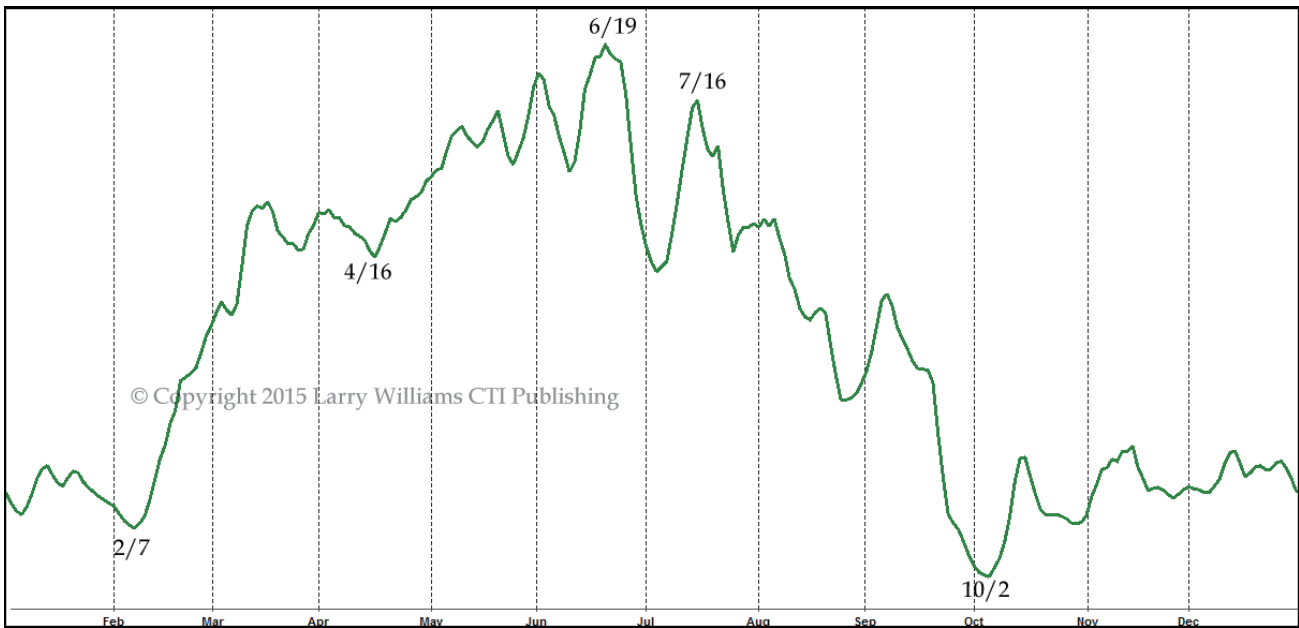
As it turned out that's pretty much what soybeans did in 2015. You will definitely want to check your charts versus the above forecast. Things will be different in 2016 as we can see in Chart 45.

I am using E-Signal charts for our forecasts for the grain markets as their data seems to be a little more stable in building the perpetual contracts for these markets. The Natural Cycle is in green on these charts.



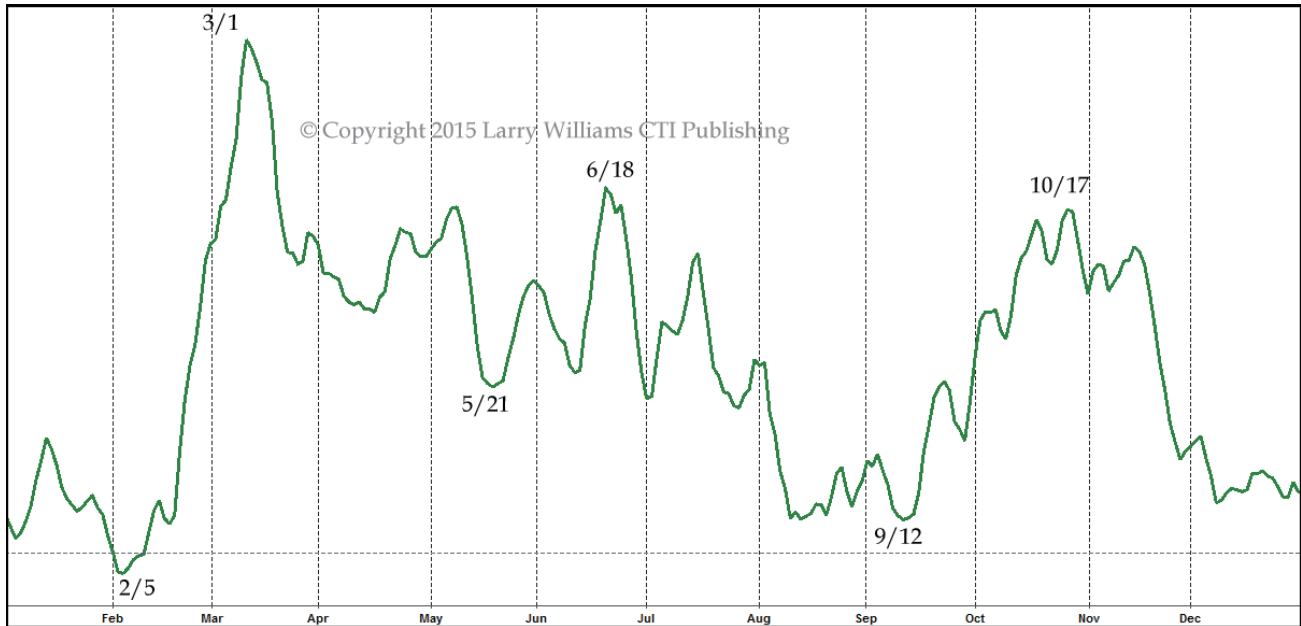
**Chart 45 Soybeans 2016 Natural Cycle Forecast**

It looks like we should have a nice strong up move in soybeans this coming year with a rally that kicks off in the middle of February, leading all the way into the first part of June before a decline sets in. Later in the year around October I would expect another rally to take place.



**Chart 46 Soybean Meal 2016 Natural Cycle Forecast**

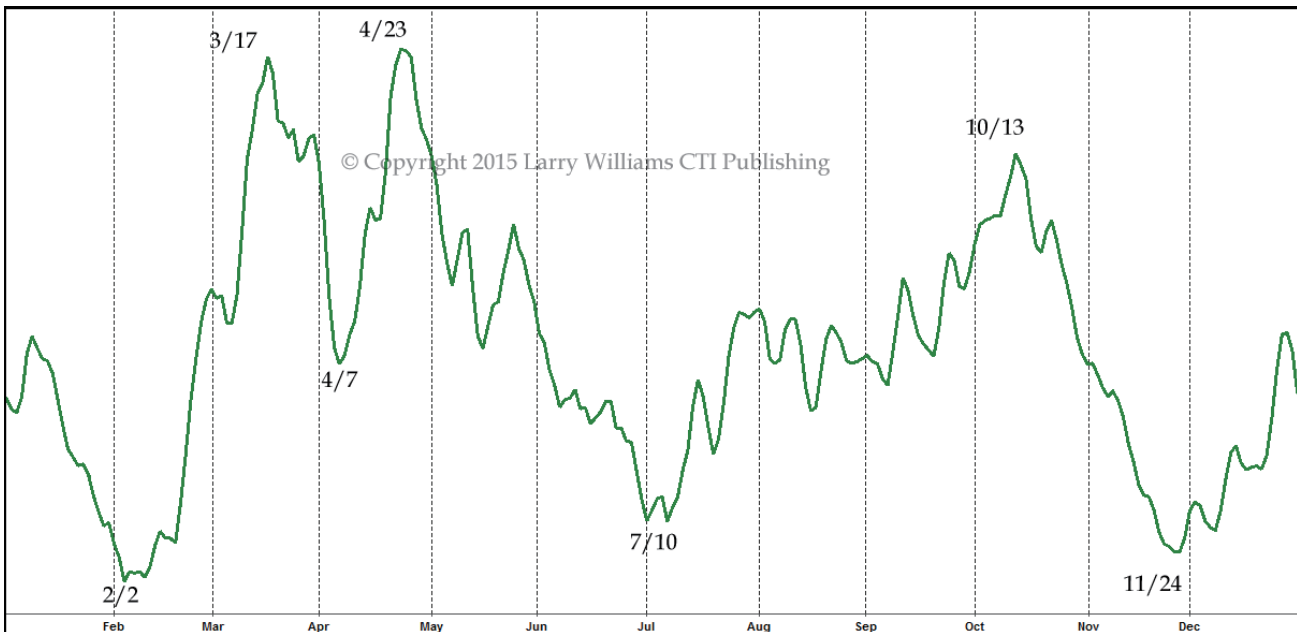
The anticipated rally for soybeans is pretty much the same thing we expect for soybean meal. After all they do go hand in glove. What you want to see during the first of the year is which of these markets is comparatively the strongest and if either of them carry a premium. If so, you'll want to focus your attention on the one that has the premium.



**Chart 47 Soybean Oil 2016 Natural Cycle Forecast**

Soybean oil does not trade quite the same way as soybeans or soybean meal. Thus the above projection for this coming year is not an exact duplicate of the primary markets. Soybean oil needs to be traded on its own, and you now have our forecast for this coming year.

# Wheat



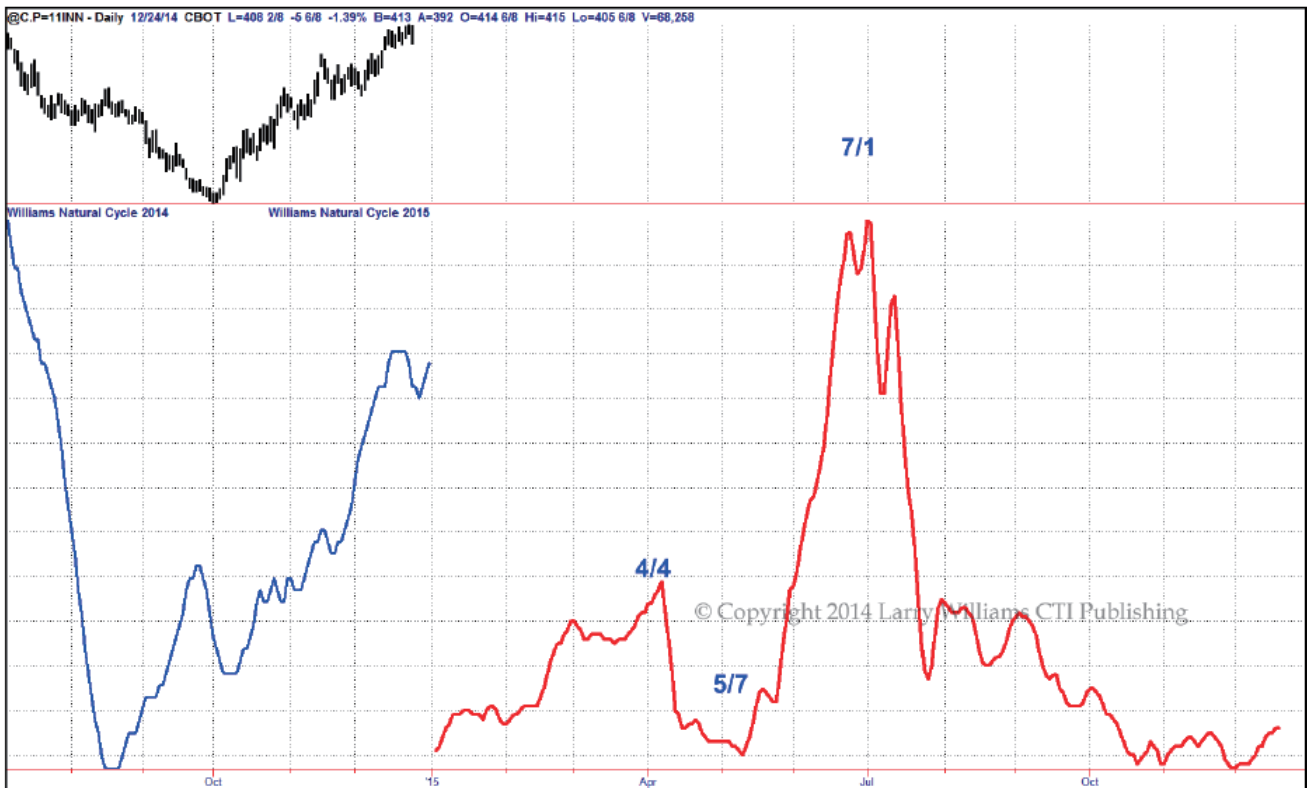
**Chart 48 Wheat 2016 Natural Cycle Forecast**

It looks like wheat will follow the early uptrend in soybeans but then the energy in Wheat dissipates until mid-July when another up move begins. For many years wheat has shown a consistent pattern to rally during the middle of July. Of course as we get there we need to look at price versus the seasonal pattern. But the fact the seasonal pattern is congruent with the 2016 natural cycle roadmap, that tells me we should expect a good rally at that time.



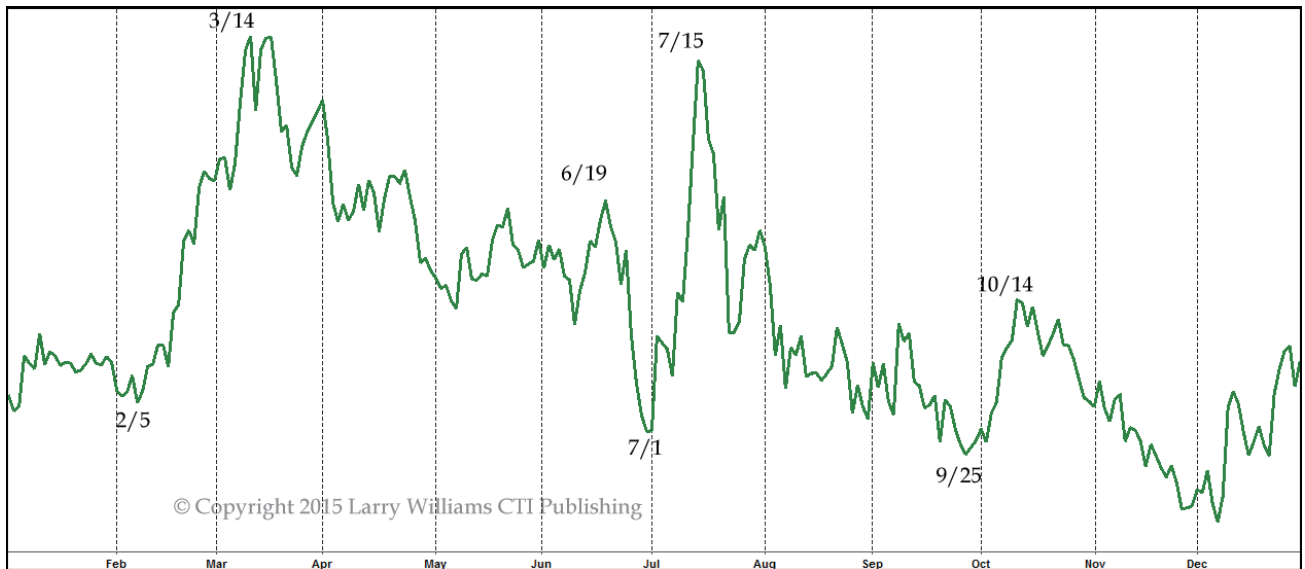
# Corn

Some people still think it is not possible to forecast a grain markets. For them I would offer up the following chart, copied directly from our 2015 forecast of what we expected to take place in corn. If only we can get that “lucky” this coming year I will be very pleased. The nice thing about forecasting the grain markets is that we have data going back many, many years and the back adjustments do not present a problem.



**Chart 49 Corn 2015 Natural Cycle Forecast**

This coming year also seems primed for a decline in mid-June.



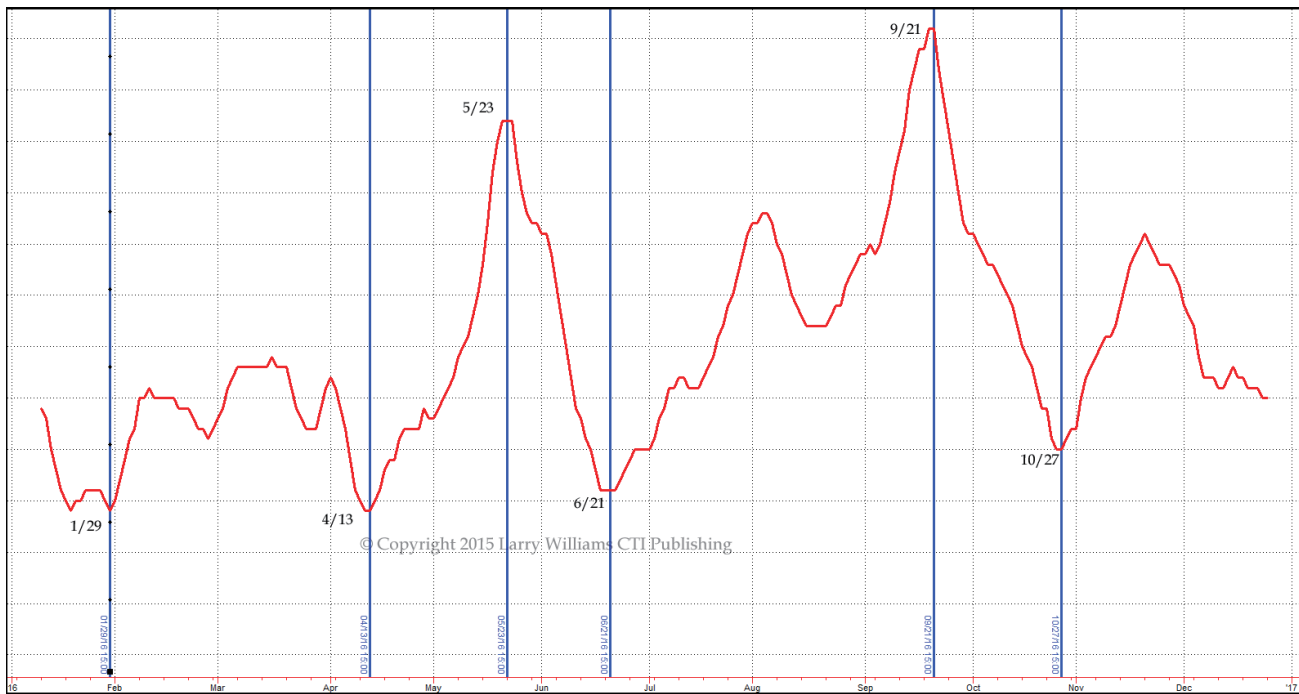
**Chart 50 Corn 2016 Natural Cycle Forecast**



# Meats



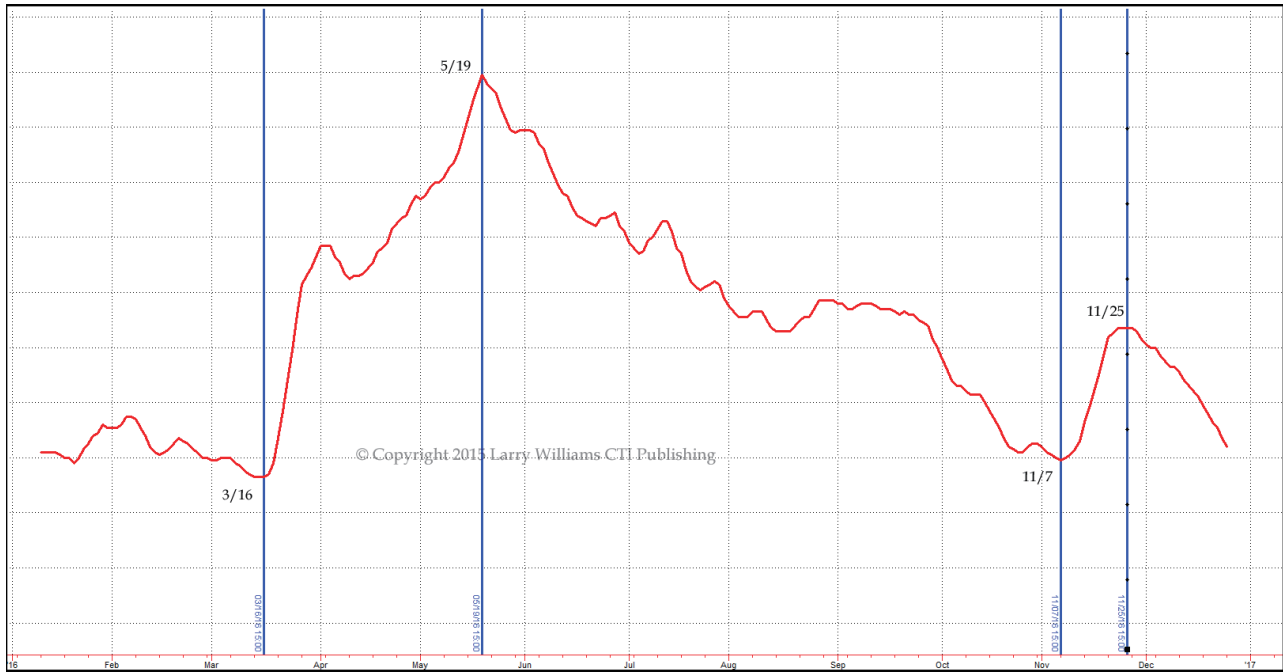
# Cattle



**Chart 51 Cattle 2016 Natural Cycle Forecast**

It looks like the price of steak is going higher! I would expect cattle to rally into June and then break sharply to the downside. Again, keep in mind what you're looking at is a cyclical amplitude...when we expect cyclical moves in the market. The red line, natural cycle, does not show trend. It usually suggests trend, but more importantly it pinpoints when significant highs and lows should occur. As always in cattle you want to pay good deal of attention to developing premiums.

# Hogs



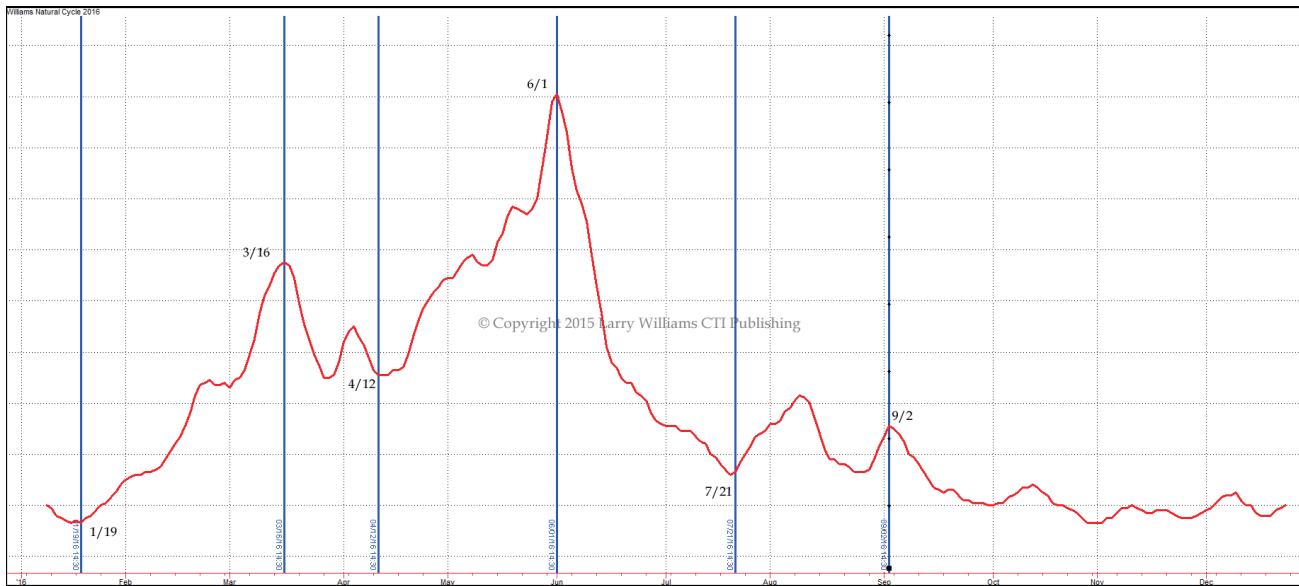
**Chart 52 Hogs 2016 Natural Cycle Forecast**

Along with the forecasted rally for cattle we would expect hogs to have a similar pattern for this coming year. If this is a market you follow closely, you should note that at times the COT report Small Speculators can be very correct in their positions in this market. Study that and you'll learn a lot about this particular group. The reason it is true in this market, and this market alone, is that there are a lot of producers that do not raise enough hogs to be classified as commercials. They are trading as small speculators, but they are informed money.

# Softs



# Coffee



**Chart 53 Coffee 2016 Natural Cycle Forecast**

I was not pleased with our forecast for coffee in 2015. While it was basically correct on when we should rally or decline, it was suggesting more of an uptrend than a continual downtrend. This drives home the importance of not getting too carried away with the trend of the natural cycle but focusing more on when it turns. This coming year it looks like we start with a rip-roaring bull market to the upside as we are making higher highs in the natural cycle forecast. That should be bullish, and I will be trading it accordingly.

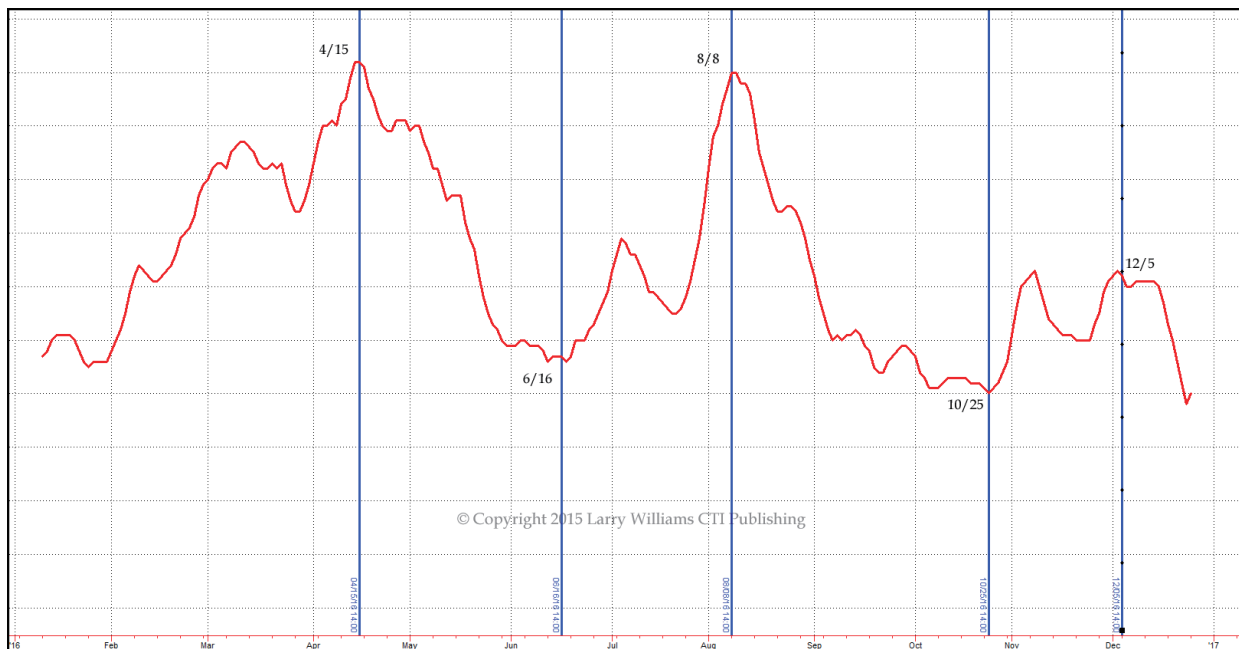


# Sugar



**Chart 54 Sugar Daily Natural Cycle Forecast 2015**

I was pleased with our 2015 forecast for sugar. We did get the first of the year rally, as well as the forecast for a September 18th buy point. The actual rally began two days later on September 22nd. Sometimes I am amazed at the accuracy of these forecasts. It is those “sometimes” that keep me hard at work throughout the year, trying to refine and learn

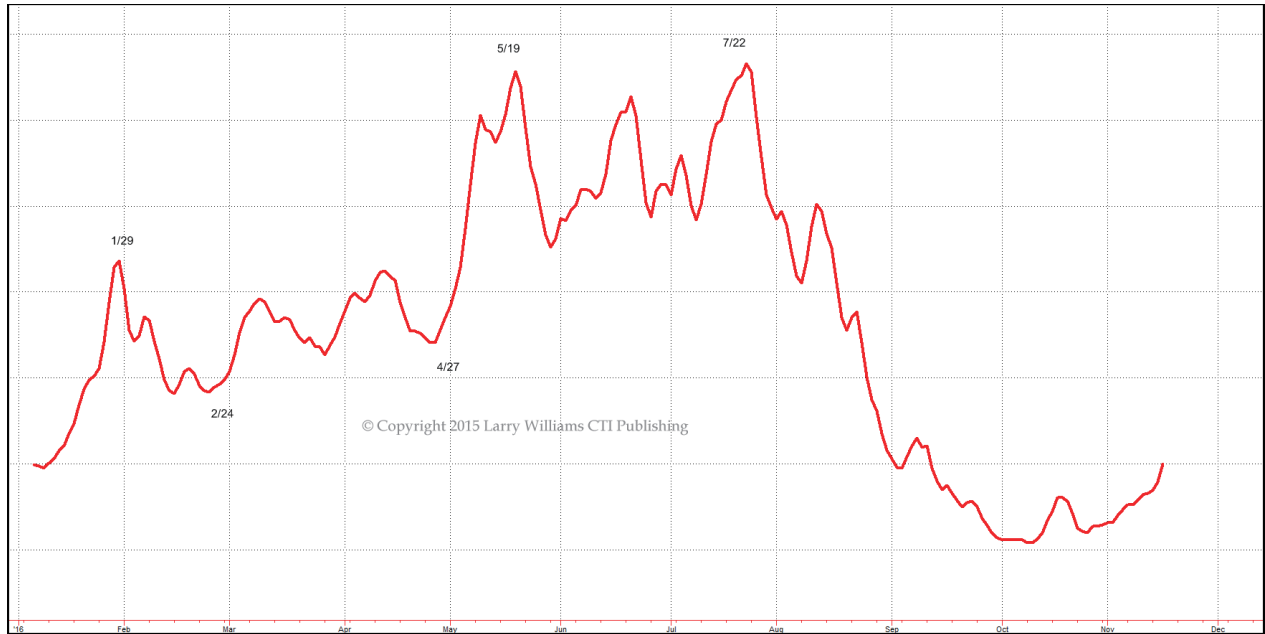


**Chart 55 Sugar 2016 Natural Cycle Forecast**

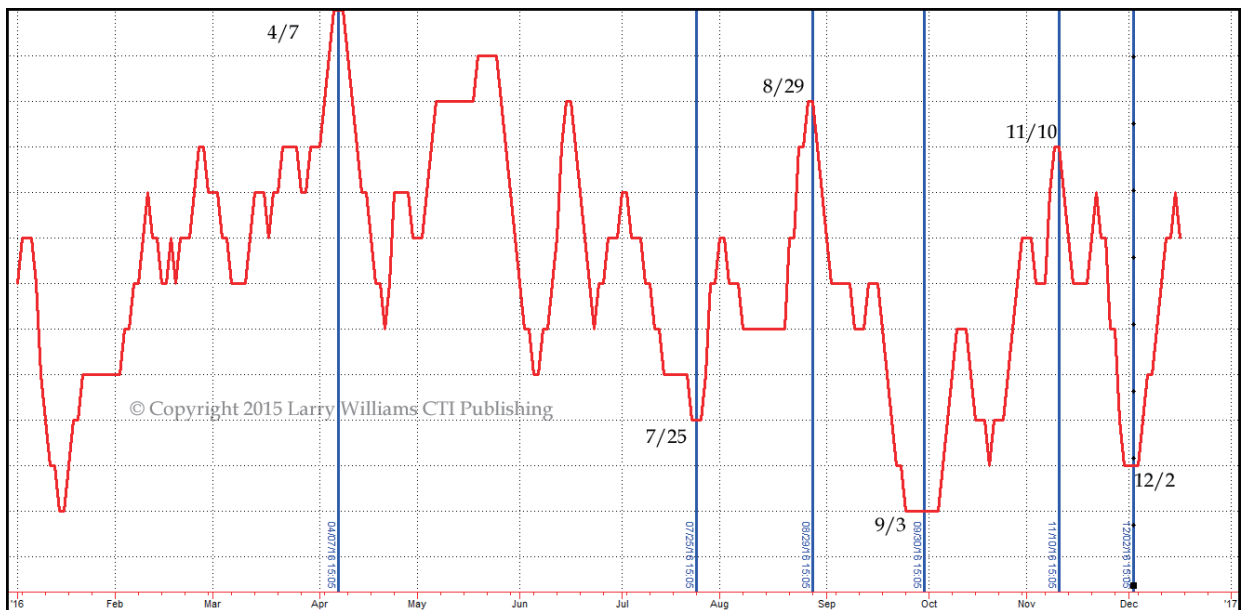


more about forecasting. Since I believe I am wandering in ground where no one has gone before, there are a lot of things I don't know. But clearly we are on to something here, so this remains a learning experience.

## Cotton & Lumber

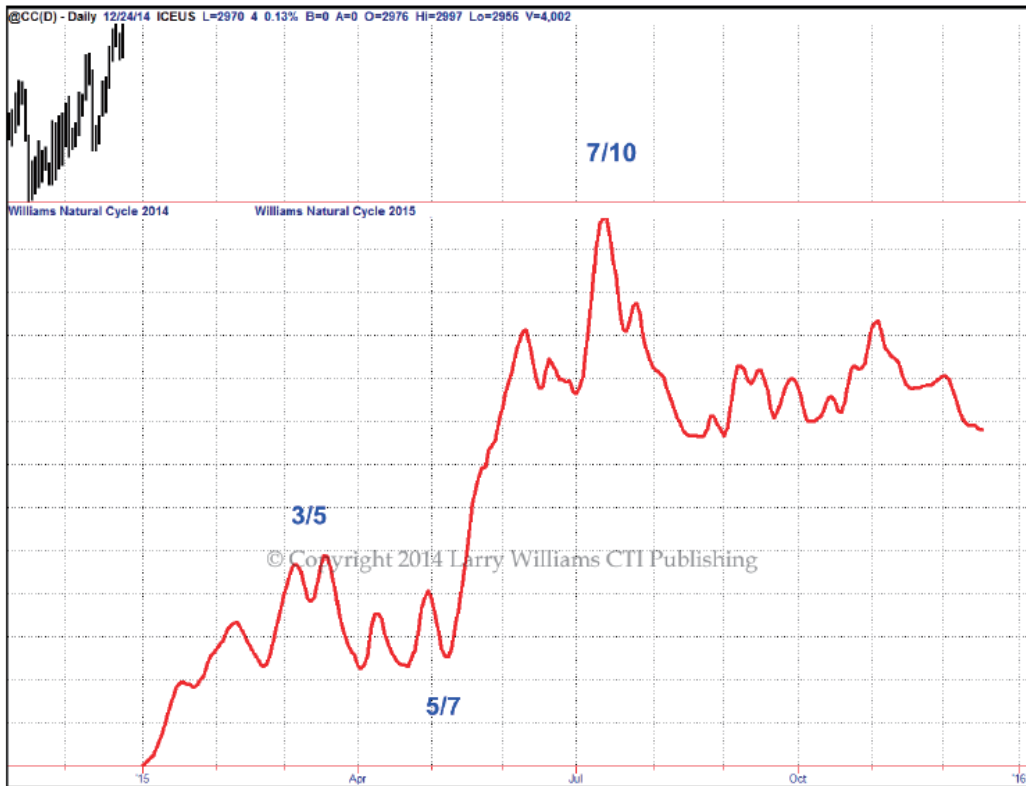


**Chart 56 Cotton 2016 Natural Cycle Forecast**



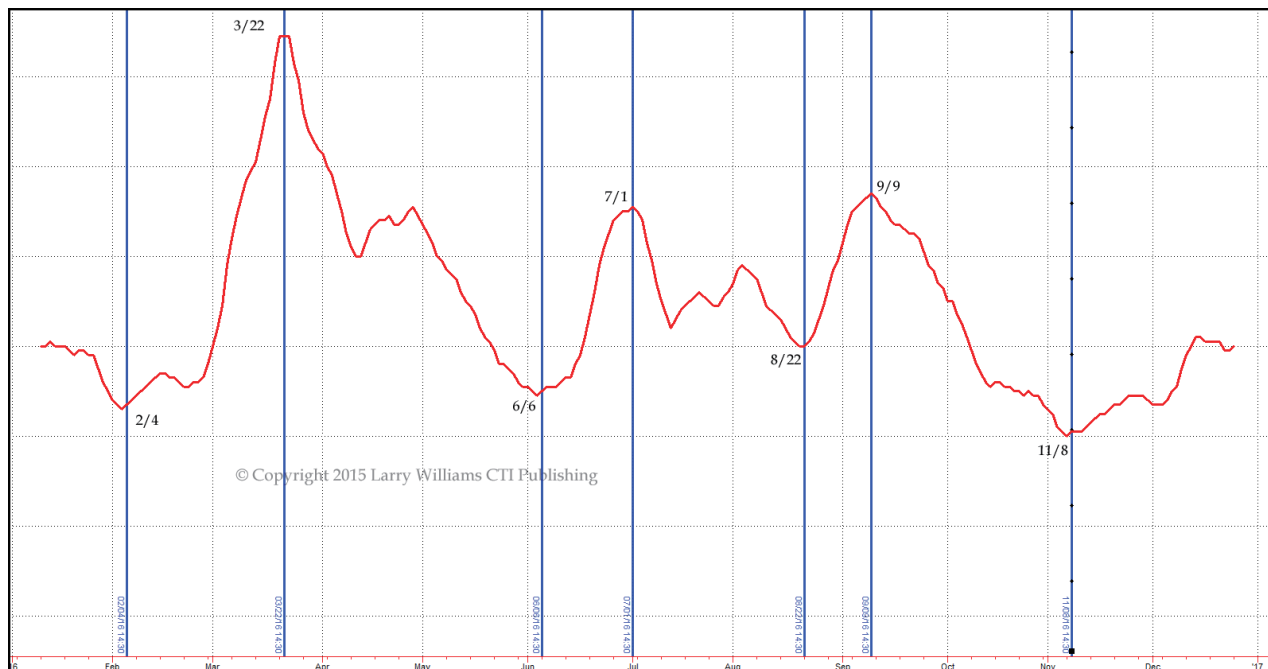
**Chart 57 Lumber 2016 Natural Cycle Forecast**

# Cocoa



**Chart 58 Cocoa Daily Natural Cycle Forecast 2015**

Here's another market I hope we can be as successful with in 2016 as we were in 2015. Chart 59 shows what I expect to take place. But, we may want to focus a little bit on last year's forecast shown in Chart 58.



**Chart 59 Cocoa Natural Cycle Forecast 2016**

Last year I asked... “Could there be a big bull market coming in cocoa? Friends of mine within the industry think we may be approaching a shortage of cocoa this coming year.”

That friend, Ed Dunne (aka Mr. Kris Rock), sadly passed away before he got his bull market in chocolate. We did get a bull market in cocoa. It looks like there are two distinct bull rallies coming in 2016 based on our natural cycle forecast. Of course you will want to pay close attention to see if this market comes into or out of premiums.

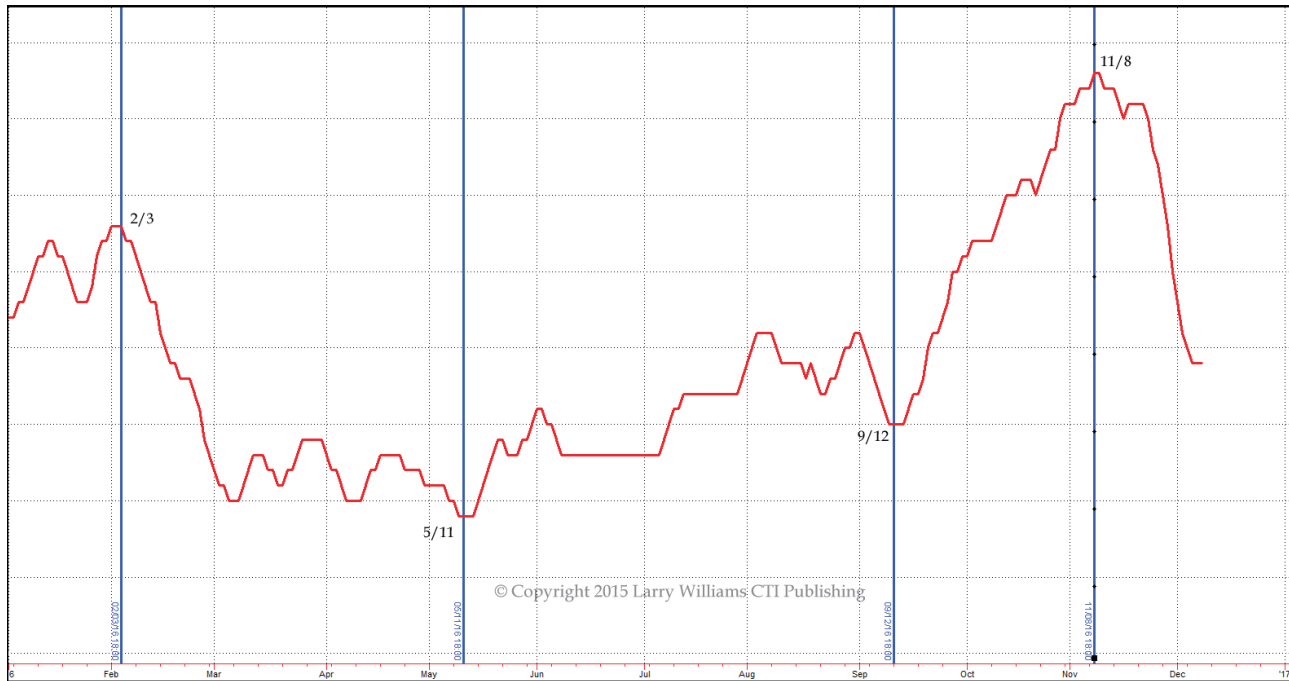


# Currencies



They say money rules the world yet it's supposed to be that, "he who has the gold rules". In recent years cash, currencies, have ruled the world more than gold. I think currencies have become the most widely traded commodity in the world. More dollar volume, I believe, goes into the currency markets than stock index futures.

## US Dollar

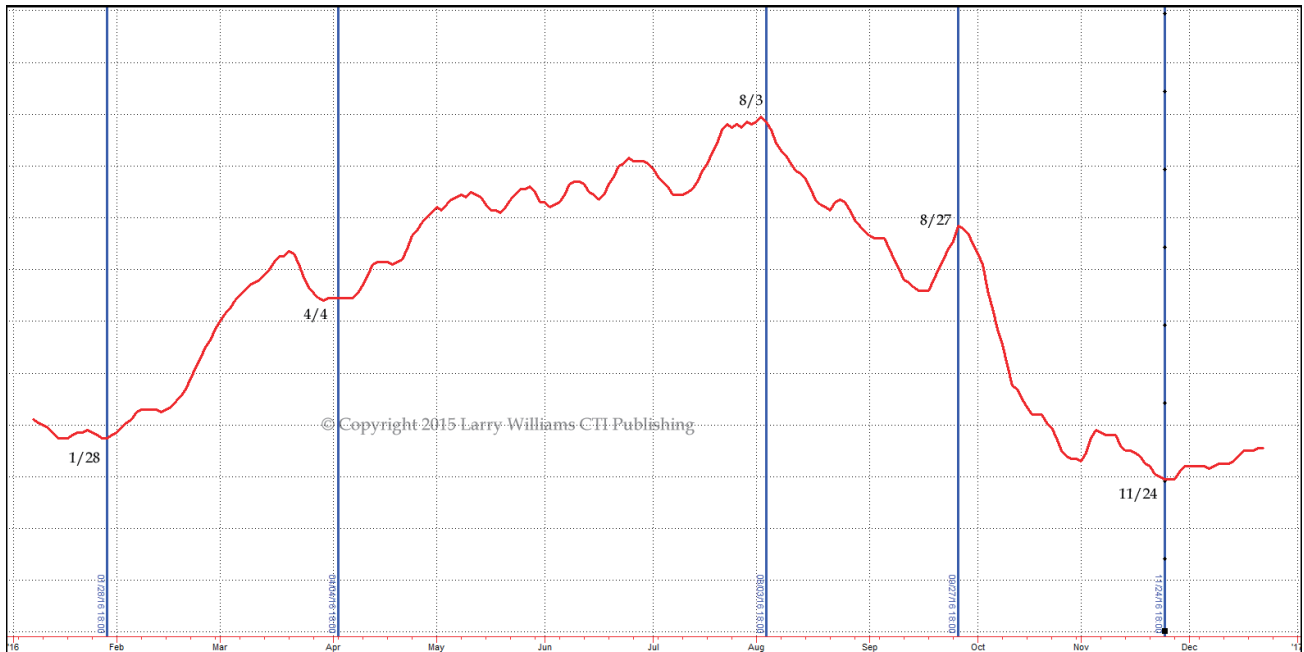


**Chart 60 USA Dollar Index 2016 Natural Cycle Forecast**

I am long-term bullish on the dollar index. Sure, there will be declines as well as rallies and all that but there's a ton of trash talk that the dollar index is going to crash... then the Chinese Yuan or Euro Currency will rule the world. That's just not possible as I see the coming years. What big money likes the most is security and stability. Clearly the European Union is not a stalwart of economic strength, let alone stability. So there's no way the euro currency is going to reign supreme.

The second choice would be to look at China. Does China want to become the number one currency in the world, is the question. I think the answer is they would rather be a player on the world stage as opposed to secure total economic domination at this point in time. Never forget, the Chinese system is still going through massive sociological as well as economic changes. So their currency does not represent stability. Of all the currencies in the world...the United States dollar... best represents stability. That's why it will not crash and burn as the purveyors of pessimism keep preaching.

# Australian Dollar

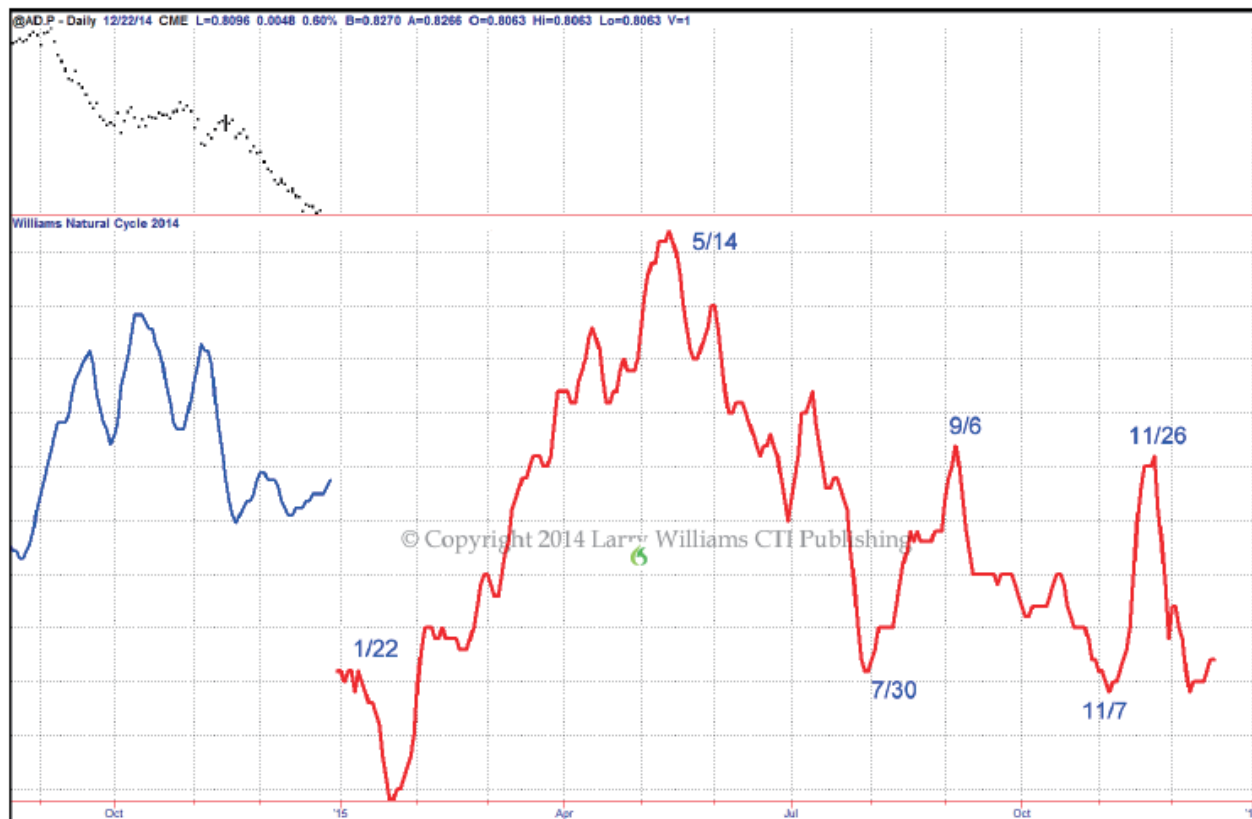


**Chart 61 Aussie Dollar 2016 Natural Cycle Forecast**

The Australian dollar starts the year with a brief dip then rally into August. Come August



we will want to look for short selling opportunities. I have marked off when I expect the highs and lows to occur. This is a far different forecast than what we saw last year and accentuates that my natural cycle forecasts are not based on seasonal patterns.



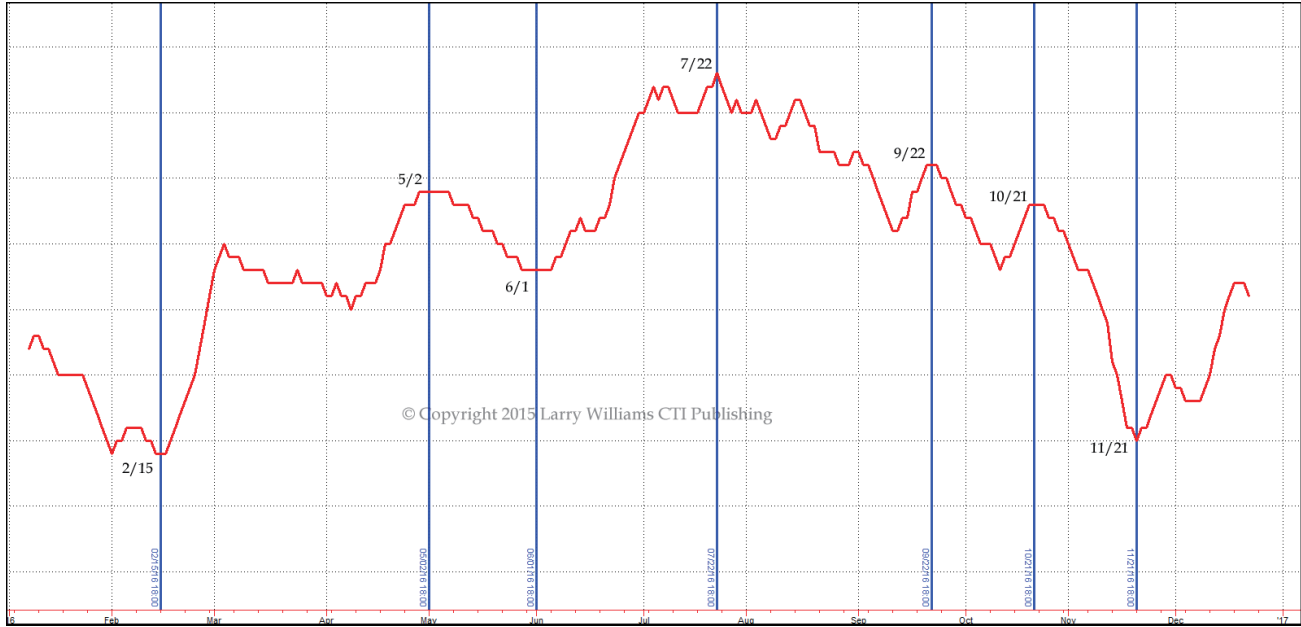
**Chart 62 Aussie Dollar Daily Natural Cycle Forecast 2015**

Last year's Aussie Dollar forecast still drives me crazy...the high was predicted to take place on May 14th... the exact high the year was on May 14th. Things like this keep me up at night! I don't think we can do this all the time...sometimes we get lucky...sometimes we don't. So I don't hang my hat on these exact dates. But, the general time zones are what I am looking for.

At some point in the future it would be nice if I can get it to be as exact as we've seen in several markets. But, that still takes a lot of work and a lot of understanding on my part as to exactly what is going on with a multitude of cycles that I deal with here. I will say this; there clearly is something causing price action to take place; the twists and turns along the way.

I believe the overall trend is a function or cause of fundamentals. Cycles of investor emotions are the cause. Tops and bottoms are pretty predictable as to when they should occur. We have had way too many "hits" for both tops and bottoms in a wide variety of markets to think this is just random activity. I don't think that's it. There's something going on here, and I'm still doing my best to get to the bottom of it. At this point I can sum it up by saying; "Yes, cycles repeat, and it is extremely difficult to figure out which ones from the past will repeat this year."

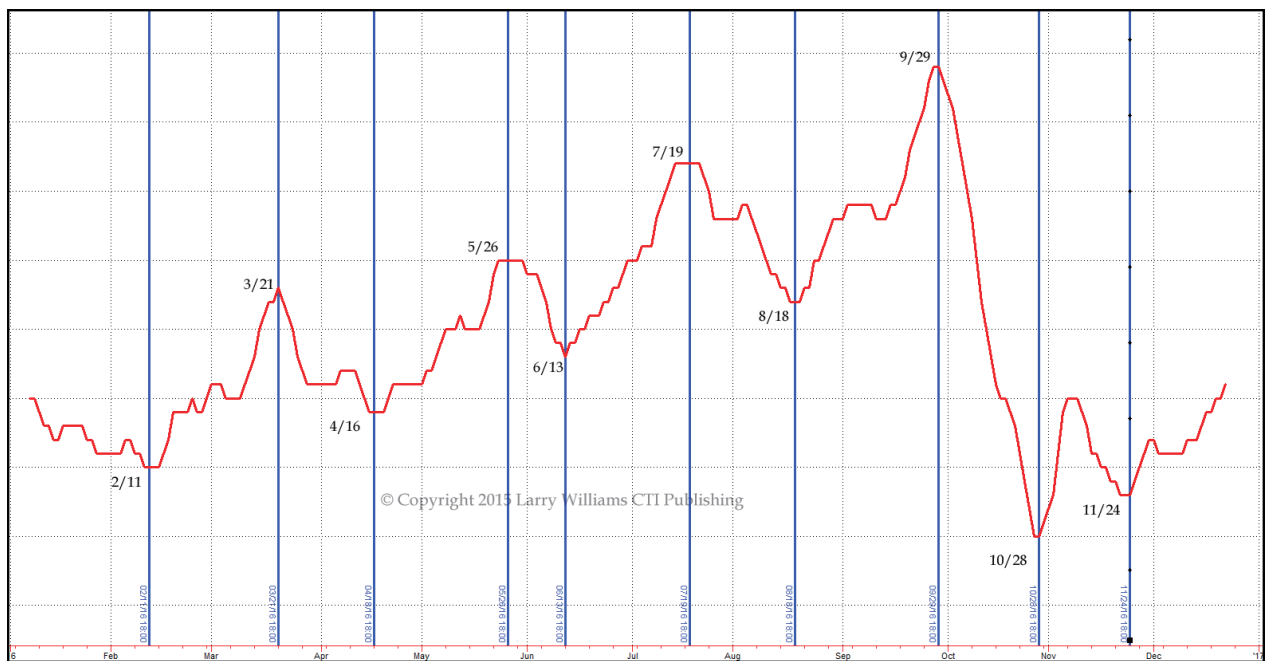
# British Pound



**Chart 63 British Pound 2016 Natural Cycle Forecast**

The roadmap for the British Pound is similar to our expectation for the Australian Dollar; a rally until late July, early August time frame, then down.

# Canadian Dollar

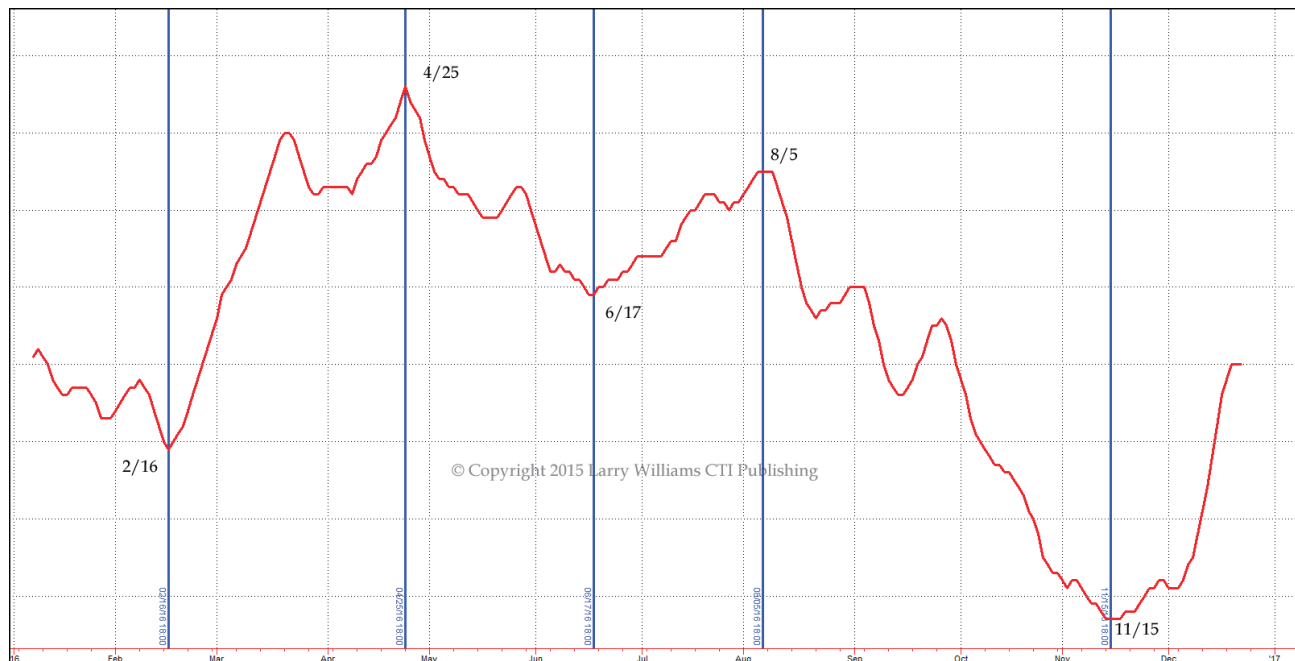


**Chart 64 Canadian Dollar 2016 Natural Cycle Forecast**



The Canadian dollar in recent years has almost been a stepchild of the crude oil market because energy is such a large part of their economy. My guess is that's probably going to change especially now that the Obama administration has vetoed the Keystone Pipeline from Canada to America. Expect strength in this market until September, then a rapid decline.

## *Euro Currency*

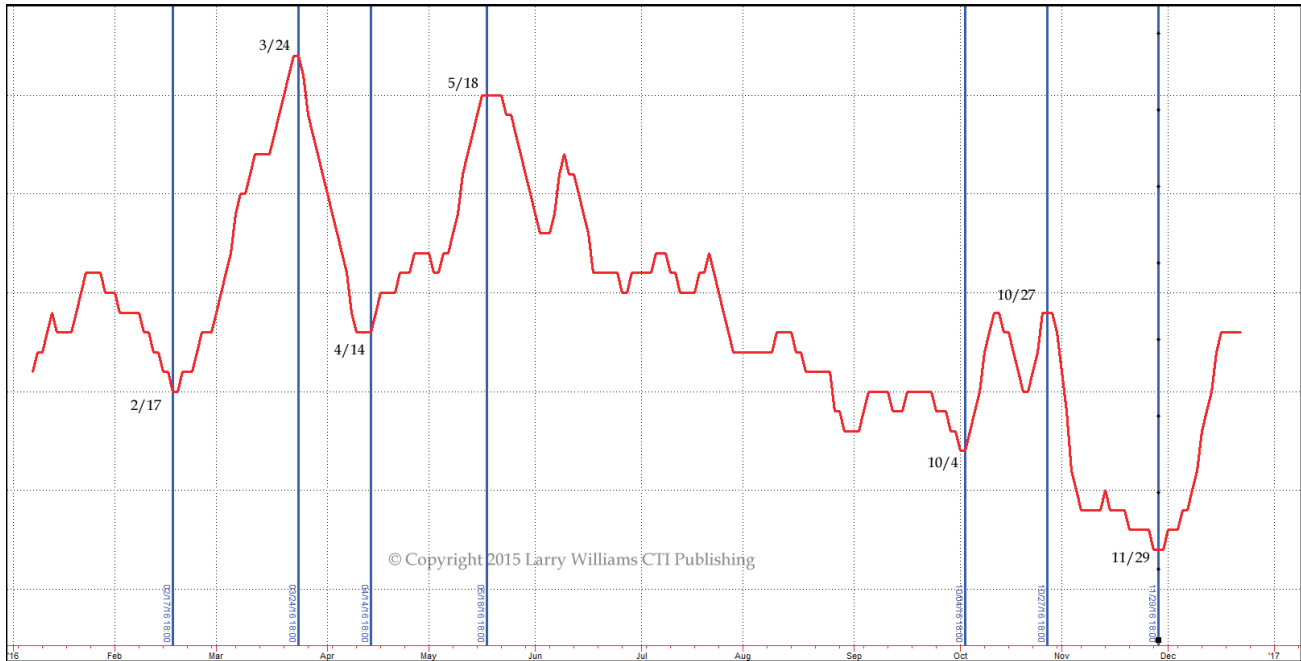


**Chart 65 Euro Currency 2016 Natural Cycle Forecast**

The chart of the euro currency shows exactly what we've seen in the other currencies, large cyclical moves. Will this be on top of a large up or downtrend? I don't know.

I do know that this coming year as trend develops we will see the significant turns called for by the roadmaps. To be most successful, if we're in a downtrend take the sell signals, an uptrend look for buy signals.

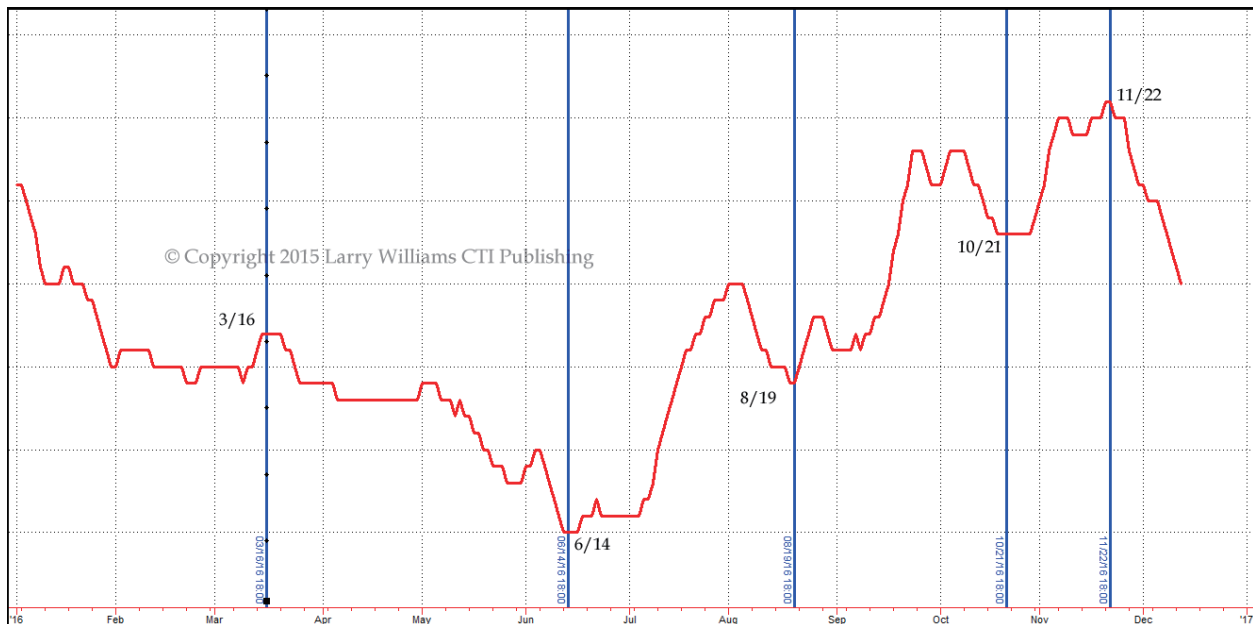
# Japanese Yen



**Chart 66 Japanese Yen 2016 Natural Cycle Forecast**

It does appear there is will be a significant sell-off in the Japanese yen starting in March, picking up steam in the middle of May lasting until December.

# Swiss Franc



**Chart 67 Swiss Franc 2016 Natural Cycle Forecast**

# Select Stocks



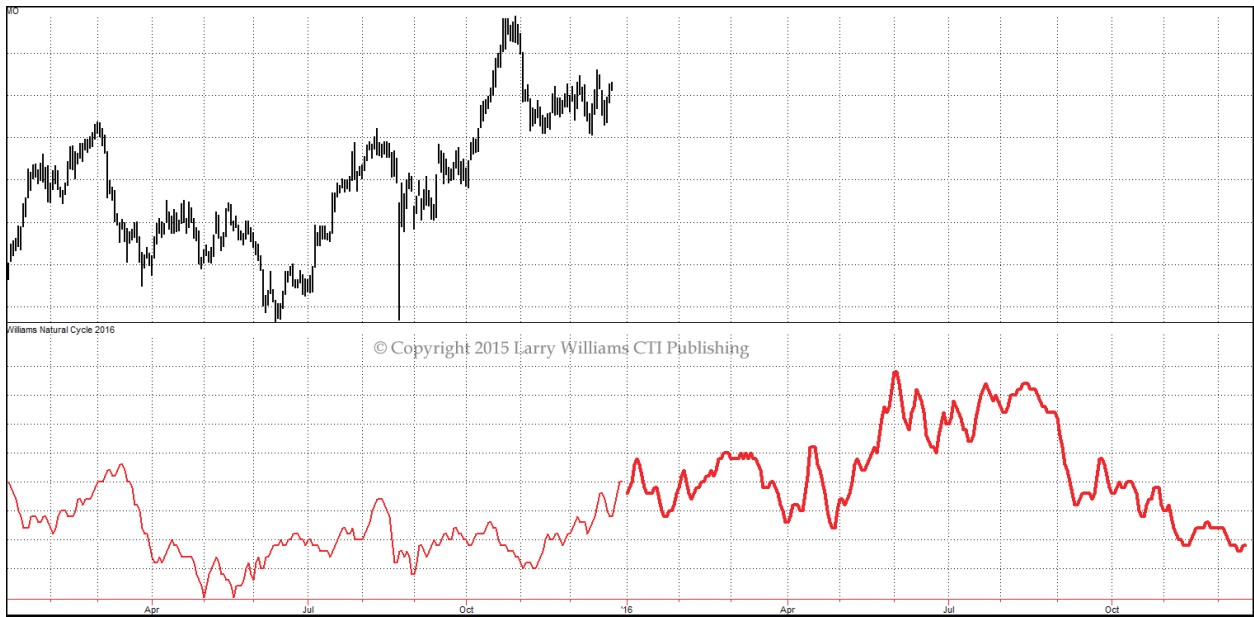
**Chart 68 Starbucks 2016 Natural Cycle Forecast**



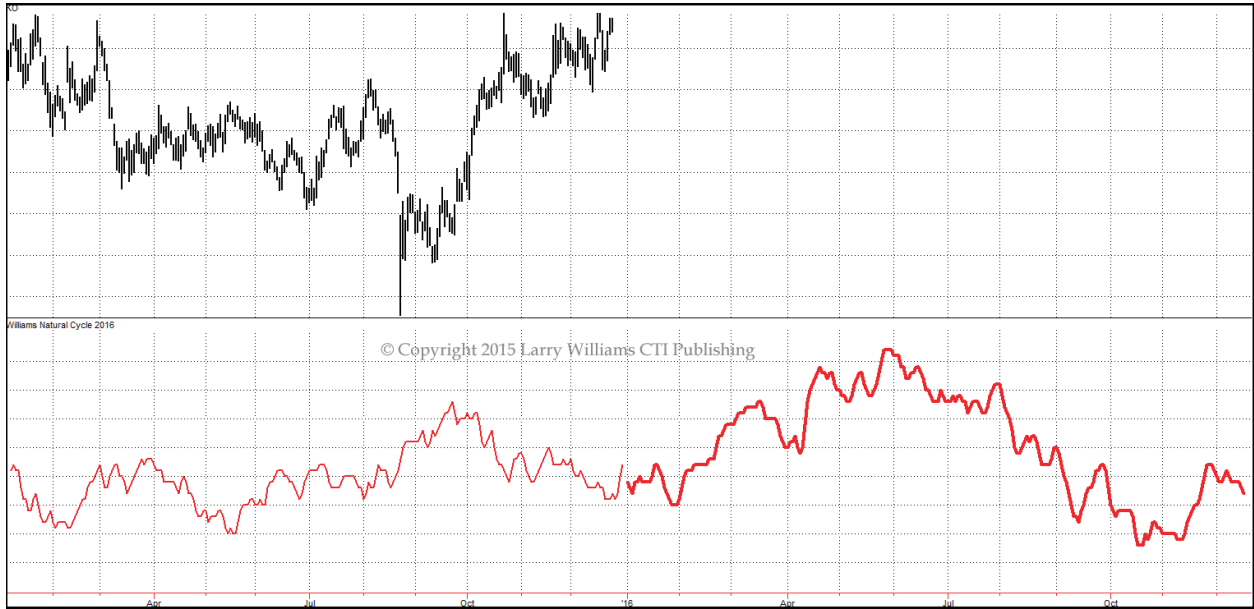
**Chart 69 Pfizer 2016 Natural Cycle Forecast**



**Chart 70 IBM 2016 Natural Cycle Forecast**



**Chart 71 Altria 2016 Natural Cycle Forecast**



**Chart 72 Coca Cola 2016 Natural Cycle Forecast**



**Chart 73 GE 2016 Natural Cycle Forecast**

My projection for the Swiss Franc calls for the down trend to continue into the middle of June. At that time bullish cycles should dominate, kicking into an uptrend lasting until late November.

## Closing Comments

### *Your Future is About to Unfold...*

There you have it friends, readers and fellow traders... my natural cycle roadmap suggestions for what will take place this coming year. Will everything take place exactly as I have outlined? I doubt it... this business of predicting is very difficult, yet the majority of the turning points I do believe will prove to be valid. So it's a combination of looking at these suggested forecast points and market action when we get to them. In other words the forecasts are a great tool that can help us in the art of trading. We now have visibility over year in advance as to when significant tops and bottoms will occur. That is quite helpful, even if they are not always precise to the day.

PLEASE KEEP THIS IN MIND---The Natural Cycle suggests the trend of the future but years of using this show it is best at telling us the turning points. Just because the forecast shows a steady up or down trend, it is not a sure thing. That is most likely, but the strength comes from telling us when to expect rallies and declines to begin. I have also come to think the shape of the forecast (roadmap) is just about the path the year will follow.

As always I want to thank the people who have made it possible for me to do this research: Chad Noble (my programmer), numerous readers who have offered suggestions and comments on my work, and above all, a person who without this there would never be a report... Louise Stapleton.

Until 2017, good luck and good trading!

***Larry Williams***

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