The Hunt for Cycles

The stock market is moving up and down in cycles. Volatility trading based on cycles is the fastest way to generate profits.

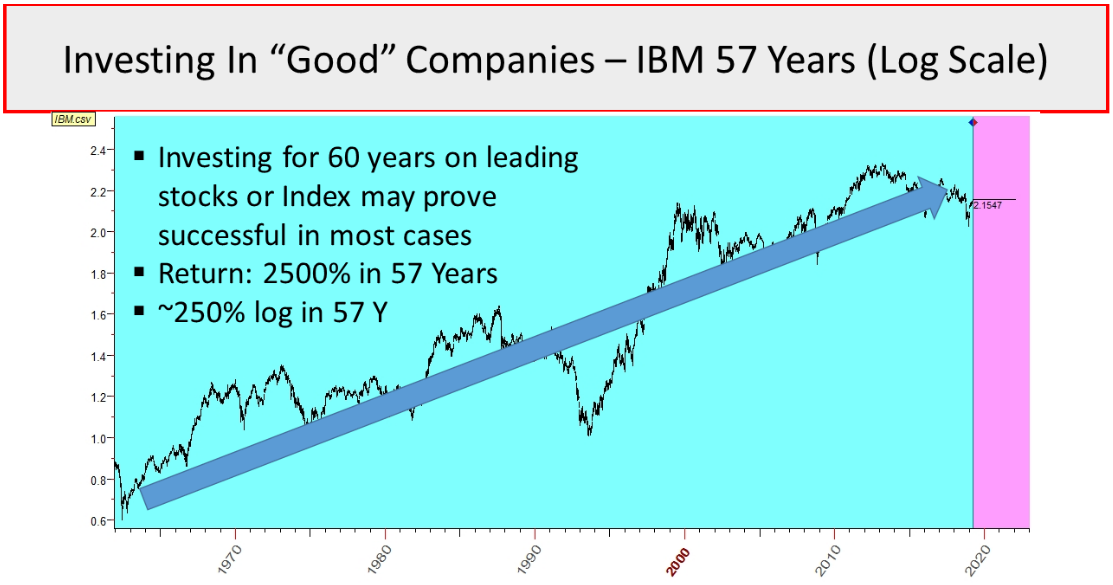
In this article we will review the following statements:

- The stock market is based on cycles
- Cycles can be identified using "spectrum analyzer"
- Cycles-based trading and investing generate more profits than "Buy and Hold" strategy even for "good" stocks.
- Short-term cycles identified by "spectrum analyzer" are not stable enough for swing or day trading
- Short-term cycles are better discovered using astronomy.

We will use IBM as an example for our analysis here, as IBM has enough price history of around 60 years and IBM is considered and a "good" stock.

All analysis is done using TimingSolution™ research platform (www.timingsolution.com/)

Loading the price history of IBM in LOG scale reveals an almost linear growth.



However, when loading the price history in real price scale, we can see decades of growth and also decades of loss.

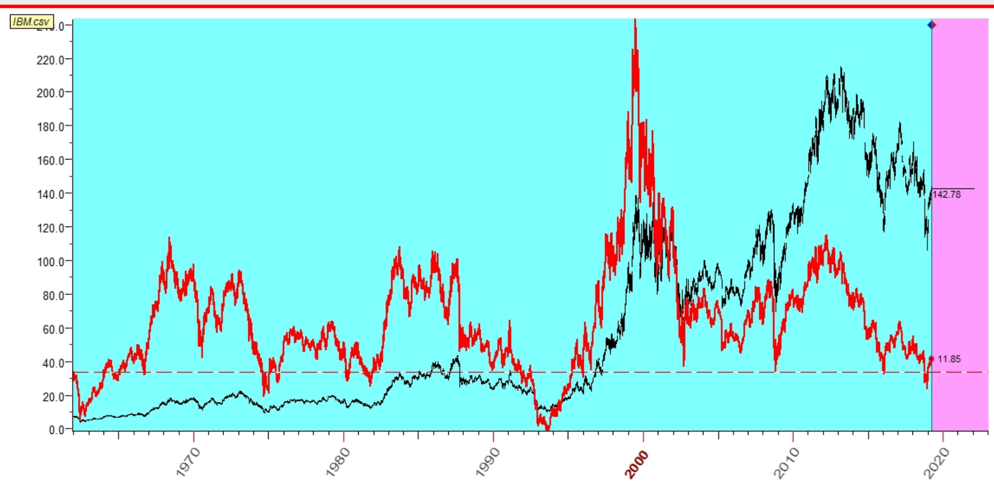
The Challenge – Non-linear Investment Growth, IBM 57Y

We can see that the periods of uptrends and downtrends are coming in cycles. If we could identify those cycles in advance we could buy when a cycle is up and sell when the cycles is down.

In order to identify the cycles we shall first introduce the de-trending indicator called RPO (*) – relative price oscillator, that enables the "spectrum" analysis. In example below RPO 1/5000 is shown, in the following examples we will use also 1/500 and 1/50 RPOs.

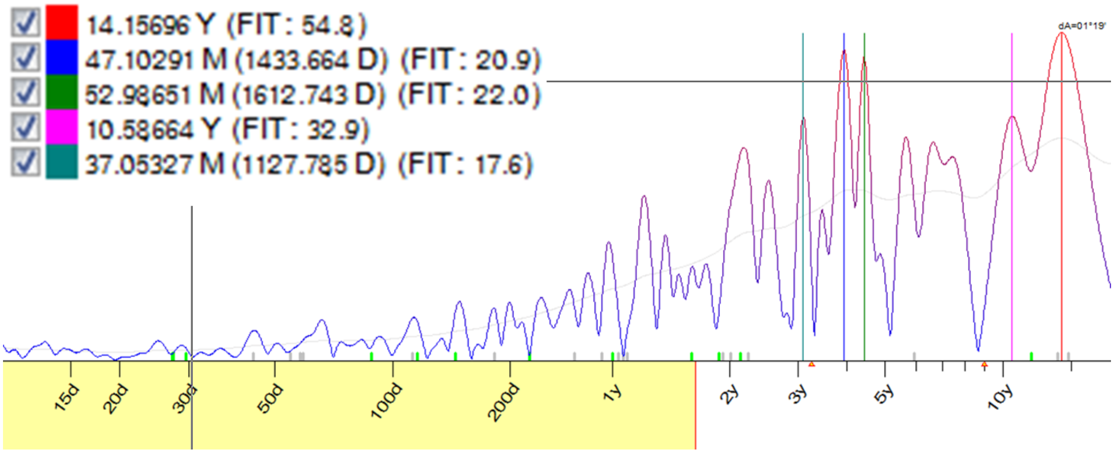
(*) RPO is sometimes called PPO – Percentage Price Oscillator.

Detrending - IBM **RPO** (Relative Price Oscillator) (1-5000)



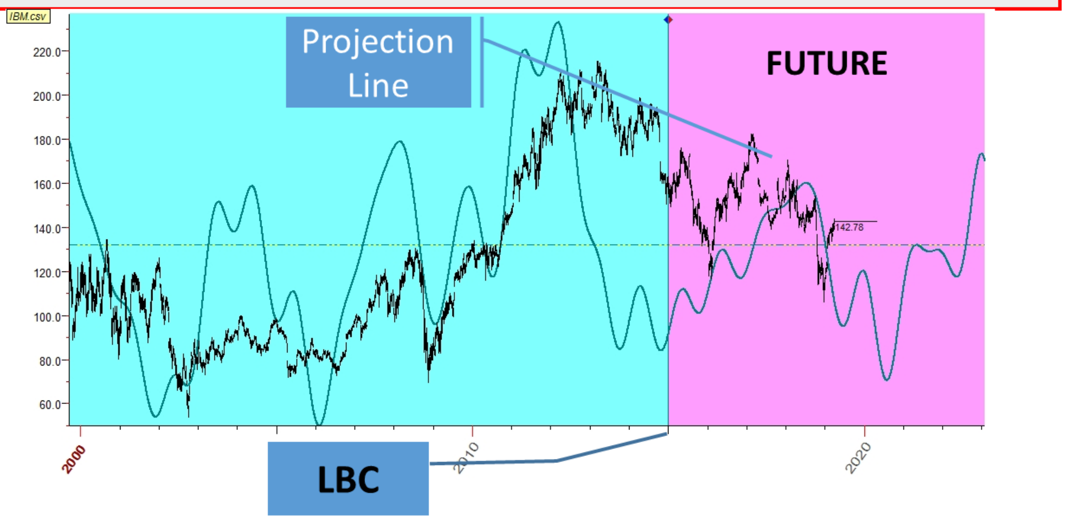
Running the spectrum analyzer for the whole period generates the following identification of the major 5 cycles for RPO 1/500:

IBM (1962-2019) RPO **SPECTRUM** (Detrended 1-500)



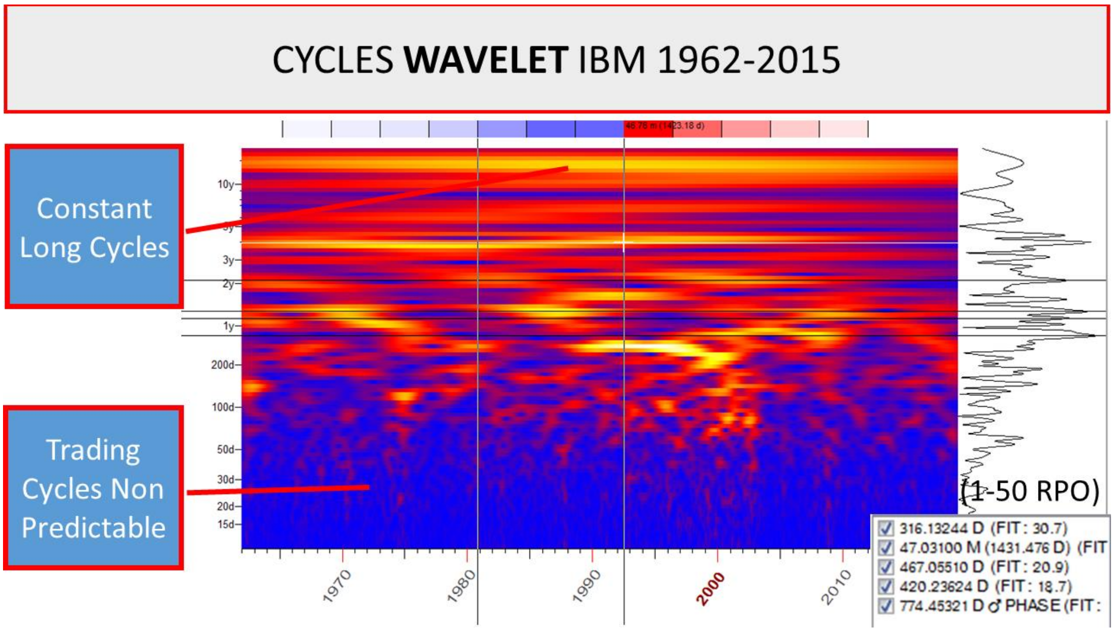
If we combine the 5 cycles we can get the following trend line. And then we can see if the projection line for the future can successfully predict the future price. We will run the spectrum analysis from start to 2015, leaving 4 years (2015-2019) for visual verification.

IBM RPO WAVE (**1-500**) **LBC 2015**



As we can see, the combined-cycles projection line is only partially correlated with the real price. Why is that?

Let's try to find all the cycles over time using the wavelet technology:



As we can see, the long-term cycles beyond 10 years are stable for the whole 60 years. These cycles can be used very well for investing. However, the shorter cycles from 20 days to 100 days which are more relevant to trading, appear and disappear in an unpredictable way.

In order to identify short-term cycles, we can use astronomy-based cycles which may be more fit because of the following traits:

- They are Non-Linear
- They are absolutely predictable in any time scale

The research of cycles based on astronomy will be reviewed in a future article.

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