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Disclosure

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'June is an important month'

Commentary: The Coppock Guide's latest buy signal is in question

By **Mark Hulbert**, MarketWatch

ANNANDALE, Va. (MarketWatch) -- It's now official: The Coppock Guide, the obscure but highly regarded market timing indicator, issued a buy signal at the close of trading on Friday.

INDU **9,509**, -203.00, -2.09%

Does this mean that happy days are here to stay for the stock market?



Or, because this buy signal had been widely anticipated for several weeks now, will this be a case in which it was better to "buy the rumor, sell the news"?

For a more detailed description of how the Coppock Guide is calculated, I refer you to my column three weeks ago, when I reported that a buy signal was likely at month's end. ([Read my May 12 column.](#))

In essence, the Coppock Guide is a momentum indicator that filters out shorter-term market swings in order to focus on the long-term trend. Though it will, by definition, always be late in identifying a market bottom, adherents insist that it is a reliable indicator of a new bull market when it finally does issue a buy signal.

I called this claim into question when I wrote about the Coppock Guide three weeks ago, pointing out that -- on average -- the stock market has performed no better after buy signals than it has the rest of the time.

Several of you wondered, in the wake of that column, how much this discouraging conclusion was a function of the Coppock Guide's two spectacular failures in 1931, when it flashed buy signals at levels well above the eventual bear market low in mid 1932. So I reran the numbers for the period after the early 1930s and, sure enough, since that time the Coppock Guide has done a credible job of identifying good times in which to enter the stock market.

To properly interpret last week's buy signal from the Coppock Guide, therefore, you must first decide how relevant you believe the early 1930s are to the current market. To the extent you conclude that they are relevant, then you will want to de-emphasize the current buy signal.

Peter Eliades, editor of the Stockmarket Cycles newsletter, is one adviser who is suspicious of the recent Coppock Guide buy signal. To be sure, he wrote to subscribers over the weekend, this buy signal must be treated with "respect." Nevertheless, he argued, the Coppock Guide failures in 1931 occurred "under very similar circumstances to the current ones."

Therefore, he believes, there is a good chance that the Coppock Guide's recent buy signal will "not end up being a good one."

How soon will we know if Eliades is right? Possibly as early as the end of June. That's because, according to his calculations, the Coppock Guide would flash a brand new sell signal if the Dow Jones Industrial Average were to close below 8210 on June 30. That's about 3.4% below where it stood at the end of May.

The bottom line, as Eliades puts it: "June is an important month."

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