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REDEFINING THE SELLING-CLIMAX

Through the years, investors have searched diligently for ways to identify important market bottoms. And the "selling climax" has been one of the major focuses of that search. A "selling climax" is generally defined as that final capitulation of investors near a major market bottom, in which stocks are "dumped" with abandon. The selling is no longer based on perceived values, but rather simply on the desire to get rid of stocks. Once everyone who wanted to sell stocks has sold, there is no one left to drive prices lower. And, the resulting deep discounts in equity prices produce the "bargains" that stimulate the beginning of the next bull market.

The term "selling climax" has long been part of the technical analyst's jargon. And yet, it has been defined on only the loosest of scientific terms. Perhaps a large part of the problem has been that past attempts to define a selling climax have concentrated almost entirely on measurements of activity, such as total volume of trading, number of declining issues, number of new lows, etcetera. But, a selling climax is nothing more than a period of panic behavior, and panic is not a matter of activity, but of intensity.

In order to define a selling climax in terms of intensity indicators, we reviewed the entire history of the Lowry Analysis dating back to 1933. We found that almost all periods of significant market decline in the past 65 years have contained at least one, and usually more than one, day of panic selling on which Downside Volume equals 90% or more of the total of Upside Volume plus Downside Volume, AND on which Points Lost equals 90% or more of the total of Points Gained plus Point Lost.

For example, April 03, 2001 qualified as a valid 90% Downside Day. To clarify, the following table was shown in our Daily Market Trend Analysis Report of April 4th.

DAILY TOTALS	UPSIDE VOLUME	DOWNSIDE VOLUME	POINTS GAINED	POINTS LOST
Mar 30	964,227,570	508,158,900	1116	296
Apr 02	383,754,900	1,004,545,180	298	933
Apr 03	146,576,520	1,439,436,850	148	1447

On April 03, Downside Volume equaled 90.76% of the sum of Upside plus Downside volume:

$$1,439,436,850 / (146,576,520 + 1,439,436,850) \times 100 = 90.76\%$$

AND, Points Lost equaled 90.72% of the sum of Points Gained plus Points Lost:

$$1447 / (148 + 1447) \times 100 = 90.72\%$$

Based on past experience, 90% Downside Days do not just occur at or near the ultimate bottom of a major market decline. As the tables to follow will show, multiple 90% Downside Days commonly occur spread out throughout the course of important downtrends, with the last one of the series occurring near the market bottom.

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The record also shows that declines containing two or more 90% Downside Days usually persist, on a trend basis, until a strong, panic buying day occurs on which Upside volume equals 90% or more of the sum of Upside plus Downside Volume, AND on which Points Gained equal 90% or more of the sum of Points Gained plus Points Lost. These two combined events – panic selling (one or more 90% Downside Days) and panic buying (a 90% Upside Day) – represent a complete selling climax.

Not all selling climaxes, as defined above, have occurred at major market bottoms. But, by observing the pattern of 90% Days, investors have been able to identify many important turning points in their very early stages.

Before reviewing the historical record, here are a few general observations regarding 90% Days that may help to clarify some of the finer appraisal points associated with this very valuable indicator:

1. A single, isolated 90% Downside Day does not, by itself, have any long term trend implications, since they sometimes occur at the end of short term corrections. But, because they show that investors can panic, even an isolated 90% Downside Day should be viewed as an important warning that more could follow.
2. A 90% Downside Day, which occurs quickly after a market high, is most commonly associated with a short-term market correction, although there are some notable exceptions in the record. This is also true for a single 90% Downside Day (not part of a series) that is triggered by a news announcement.
3. Market declines containing two or more 90% Downside Days often generate a series of 90% Downside Days, often spread apart by as much as 30 trading days. Therefore, it should not be assumed that an investor can “ride out” such a decline.
4. Impressive, big-volume “snap-back” rallies lasting three or four days commonly follow quickly after 90% Downside Days. This may be advantageous for traders. But, as a general rule, longer-term investors should not be in a hurry to buy back into a market containing multiple 90% Downside Days.
5. The 90% Upside Day, which signals the completion of the selling climax, usually occurs within twelve days or less of the last 90% Downside Day. There are, however, a few notable exceptions, such as Jan. 27, 1975.
6. Investors should be wary of upside days on which only one component (Upside Volume or Points Gained) reaches the 90% or more level, while the other component falls short of the 90% level. Such rallies are often short-lived.
7. On occasion, “back-to-back” 80% Upside Days (such as Aug. 1 and Aug. 2, 1996) have occurred instead of a single 90% Upside Day to signal the completion of the selling climax. Back-to-back 80% Upside Days are relatively rare except for these selling climax reversals.
8. “Back-to-back” 90% Upside Days – a relatively rare development – have usually been registered near the beginning of many important intermediate and longer-term trend rallies.

9. Isolated 90% Upside Days – not preceded by a 90% Downside Day – do not have any long-term implications. About half the time, they are followed by a further rally. In the other half of the cases, they represent an “upside blow-off” followed by lower prices. Isolated 90% Upside Days are particularly unreliable when triggered by a news announcement.

The following is a list of each 90% day registered by the Lowry Analysis from January 3, 1960 to present. It should be reviewed in conjunction with the Annual Lowry Graphs in order to fully appreciate their significance

90 DN	90 UP	DJIA	COMMENTS
03-03-60		612.05	Isolated. 3 days before short term low.
	07-29-60	616.73	Isolated. Start of 3 week rally.
09-19-60		586.76	
10-24-60		571.93	1 day before the 1960 low.
	11-10-60	612.01	11 days after the 1960 low.
04-24-61		672.66	Isolated. Bottom day of short term correction.
05-22-62		636.34	
05-23-62		626.52	
05-28-62		576.93	
06-04-62		593.68	
06-12-62		580.94	
06-14-62		563.00	
06-21-62		550.49	2 days before the 1962 low.
	06-28-62	551.35	3 days after the 1962 low.
09-21-62		591.78	Cuban Missile Crisis.
09-24-62		582.91	
10-19-62		573.29	3 days before the October low.
	10-29-62	579.35	3 days after the October low.
	11-12-62	624.41	Superfluous confirmation.
12-10-62		645.08	Near bottom of short term correction.
	01-03-63	657.42	Important rally followed.
11-22-63		711.49	Kennedy Assassination
	11-26-63	743.52	Johnson Inauguration
	11-29-63	750.52	Successive 90% upside day. Confirmation.
06-14-65		868.71	
06-24-65		857.76	
06-28-65		840.59	1 day before the 1965 low.
	06-30-65	868.03	1 day after the 1965 low.
05-05-66		899.77	
	05-18-66	878.50	
07-25-66		852.83	
08-01-66		835.18	
08-26-66		780.56	
08-29-66		767.03	
	09-12-66	790.59	Premature.
09-21-66		793.59	
10-03-66		757.96	4 days before the 1966 low.
	10-12-66	778.17	2 days after the 1966 low.
05-31-67		852.46	Mid-East War.
06-05-67		847.77	Bottom day of war decline.
	06-06-67	862.71	1 day after the bottom.
02-08-68		850.32	

90 DN	90 UP	DJIA	COMMENTS
03-14-68		830.91	6 days before the 1968 low.
	04-08-68	884.42	11 days after the 1968 low.
07-28-69		806.23	Isolated. 2 month rally followed.
	03-25-70	790.13	Isolated. Blow-off top.
04-22-70		762.61	
04-27-70		735.15	
05-04-70		714.56	
05-20-70		676.55	
05-25-70		641.36	1 day before the 1970 low.
	05-27-70	663.20	1 day after the 1970 low.
	11-30-70	794.09	Isolated. Important rally followed.
05-17-71		921.30	
06-18-71		889.16	
08-03-71		850.03	
	08-16-71	888.95	Nixon Price Controls.
	11-26-71	816.59	No prior 90% Down Day.
	11-29-71	829.73	Back-to-back 90% Upside Days.
05-09-72		925.12	Isolated. Short term low.
05-14-73		909.69	Isolated.
11-19-73		862.66	
11-26-73		824.95	
12-12-73		810.73	
	01-03-74	880.69	Bad signal. (See next series)
01-09-74		834.79	
03-28-74		854.35	
04-23-74		846.06	
05-17-74		818.84	
07-08-74		770.57	
09-04-74		647.92	
09-12-74		641.74	
11-18-74		624.92	
12-02-74		603.02	
	01-02-75	632.04	Back-to-back 80% Upside Days on 12/31/74 & 1/2/75
	01-27-75	692.66	33 days after 1974 low. Start of bull market.
02-25-75		719.18	Isolated. Short term low.
03-24-75		743.43	Isolated. Short term low.
08-20-75		793.26	
	08-28-75	829.47	Within 2% of October 1975 low.
	09-19-75	829.79	
	10-03-75	813.21	1 day after the 1975 low.
12-02-75		843.20	
12-03-75		825.49	
	01-05-76	877.83	Important rally followed.
05-24-76		971.53	Isolated. 3 days before short term low.
07-27-77		888.43	
10-12-77		823.98	
	11-10-77	832.55	Premature. Blow-off top.
12-06-77		806.91	
	04-14-78	795.13	Back to back 80% Upside days on 4/13 & 4/14. Start of 1978 rally.
	08-02-78	883.49	Isolated. Near blow-off top.
10-16-78		875.17	
10-17-78		866.34	
10-20-78		838.10	
10-26-78		821.12	
10-27-78		806.05	1 day before the bottom.

90 DN	90 UP	DJIA	COMMENTS
	11-01-78	827.79	1 day after the bottom.
12-18-78		787.51	Test of November 1978 low.
	01-03-79	817.39	Confirmed 11/1/78 signal.
02-27-79		807.00	Isolated. Short term low.
	03-08-79	844.85	Back to back 80% Upside days on 3/7 & 3/8.
05-07-79		833.42	Isolated.
10-09-79		857.59	
10-19-79		814.68	
	11-26-79	828.75	2 month rally followed.
03-06-80		828.07	
03-17-80		788.65	
03-24-80		765.44	3 days before the 1980 low.
	03-28-80	777.65	1 day after the 1980 low.
	04-22-80	789.85	Superfluous confirmation.
09-26-80		940.10	
09-29-80		921.93	
	11-12-80	964.93	Back to back 80% Upside Days on 11/11 & 11/12. Blow-off top.
12-08-80		933.70	
01-07-81		980.89	
02-02-81		932.25	
05-04-81		979.11	
08-24-81		900.11	
09-25-81		824.01	
01-11-82		850.46	
	01-28-82	864.25	Premature.
02-08-82		833.43	
	03-22-82	819.54	2 month rally followed.
	08-17-82	831.24	No prior 90% Down Days.
	08-20-82	869.29	9 days after the 1982 low.
	10-06-82	944.26	Superfluous confirmation.
10-25-82		995.13	Isolated. One day from short term low.
	11-03-82	1065.49	Prelude to 1983 rally.
01-24-83		1030.17	Isolated. Bottom day of short term correction.
	07-20-83	1227.86	Isolated. Blow-off top.
	08-02-84	1166.08	No prior 90% Down Days. 5 days after 1984 low.
	08-03-84	1202.08	Back-to-back 90% Upside Days.
	12-18-84	1211.57	Isolated. Start of major uptrend.
06-09-86		1840.15	
07-07-86		1839.00	
09-11-86		1792.89	
11-18-86		1817.21	
	01-02-87	1927.31	Late. Start of 1987 rally.
	01-05-87	1971.32	Back-to-back 90% Upside Days.
10-16-87		2246.74	
10-19-87		1738.41	"Black Monday"
	10-21-87	2027.85	2 days after 1987 low.
10-22-87		1950.43	
10-26-87		1793.93	First test of 1987 low.
	10-29-87	1938.33	
11-30-87		1833.55	
12-03-87		1776.53	Second test of 1987 low.
	01-04-88	2015.25	
01-08-88		1911.31	
01-20-88		1879.14	
	01-25-88	1946.45	Back to back 80% Upside days on 1/22 & 1/23. One day after 1988 low.

90 DN	90 UP	DJIA	COMMENTS
04-14-88		2005.64	
05-11-88		1965.85	
	05-31-88	2031.12	
	06-01-88	2064.01	Back-to-back 90% Upside Days.
	06-08-88	2102.95	Superfluous confirmation.
08-10-88		2034.14	Isolated. Near short term low.
	09-02-88	2054.59	Important rally followed.
10-13-89		2569.26	
01-12-90		2689.21	
01-22-90		2600.45	
	05-11-90	2801.58	Unusually late. Start of 2 month rally.
07-23-90		2904.70	
08-21-90		2603.96	
08-23-90		2483.42	
	08-27-90	2611.63	Premature.
09-24-90		2452.97	
10-09-90		2445.54	
	11-12-90	2540.35	Back to back 80% Upside days on 11/11 & 11/12
	02-11-91	2902.23	Superfluous confirmation.
08-19-91		2898.03	Russian coup attempt.
	08-21-91	3001.79	
11-15-91		2943.20	
11-19-91		2931.57	Near short term low.
02-16-93		3309.49	Isolated. Short term low.
02-04-94		3871.42	
03-29-94		3699.02	
	04-05-94	3675.41	One day after 1994 low.
03-08-96		5470.45	Isolated. Short term low.
07-05-96		5588.14	
07-15-96		5349.51	
	08-02-96	5679.83	Back to back 80% Upside days on 8/1 & 8/2. Important rally followed
04-11-97		6391.69	Isolated. Short term low.
10-27-97		7161.15	Bottom day of 3 month decline.
01-09-98		7580.42	Isolated. Short term low.
04-27-98		8917.64	
08-04-98		8487.31	
08-27-98		8165.99	
08-31-98		7539.07	
	09-08-98	8020.78	5 days after the 1998 low in DJIA
	10-15-98	8299.36	5 days after the Oct. test of the lows.
	03-16-00	10630.60	Isolated.
04-14-00		10305.77	
03-12-01		10208.25	
04-03-01		9485.71	

No further 90% days as of April 16, 2001