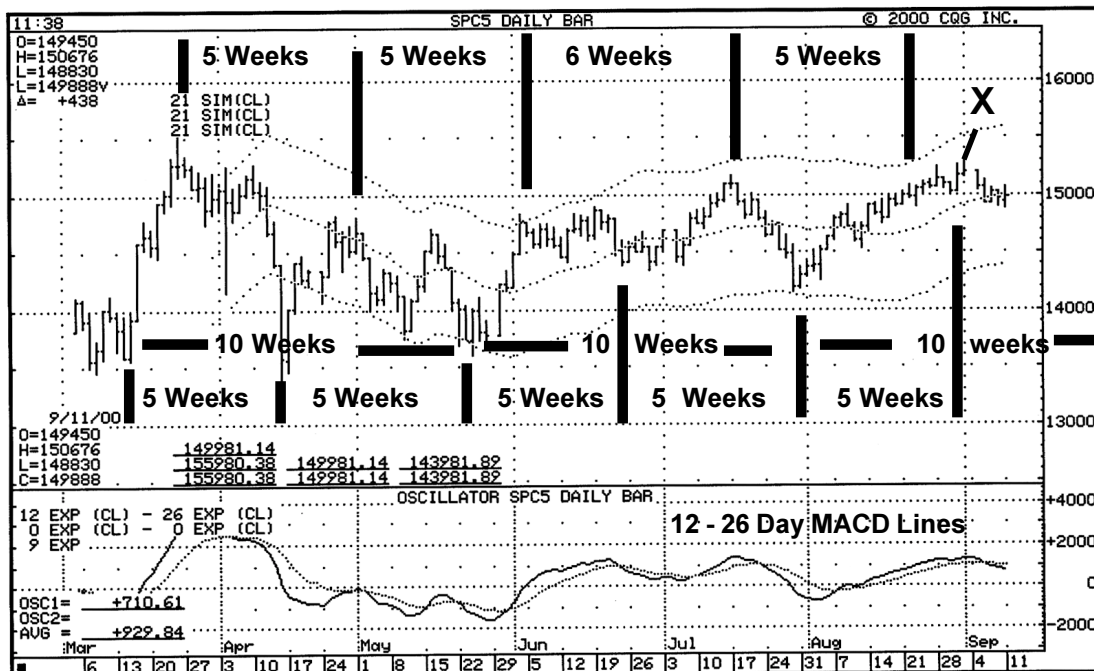


CYCLES APPEAR TO CALL FOR THE NEXT LOW NEAR THE START OF THE 4TH QUARTER.....



Standard & Poor's 500 Index With 5-Week and 10-Week Cycles

THE FIVE AND TEN WEEK CYCLES WHICH HAVE BEEN RECENTLY DOMINANT:

The chart above shows the Standard & Poor's 500 Index, along with the 5-week and 10-week cycles which have been dominant since March.

There are, of course, numerous market cycles in operation at any given time, longer term than 5 - 10 weeks, shorter term -- the four day cycle can be great for day trading. During neutral market periods, basically the case for the S & P 500 this year, the 5-6 week cycle and the 10-week cycle (give or take a week) become dominant. Although cycles are measured from low to low, during neutral periods, the same cycles generally become operative on a high to high basis as well.

CYCLICAL THEORY AND THE CURRENT SITUATION:

Each cycle may usually be subdivided into two half cycles and becomes also two halves of the next longer cycle. If you study the chart and the 5 and 10-week cycles, you should be able to see that the second five week cycle of the two that comprise the 10-week cycle tends to be the weaker 5-week cycle, with declines accelerating as the 10-week cycle joins the second of the 5-week cycles in its latter, declining phase. Cycles that are falling together tend to reinforce each other. The first five week cycle of the two that comprise the 10-week cycle tends to be the stronger because it is being reinforced by a rising period in the 10-week cycle.

A 5-week and a 10-week cycle both turned up at the start of August, reinforcing each other, which supported the August rally. The 5-week cycle turned up at the turn of August - September, but seems to have failed, the market able to muster only a one-day rise before turning down. A pattern in which a cycle starts upwards, prices then falling to below the final lows of the previous cycle is referred to as a cyclical failure. This is marked with an "X" on the chart.

We appear now to be in a period during which BOTH the 5-week and 10-week cycles are rolling over to the downside. If you look at the MACD chart on the bottom of the chart, you can see that MACD lines appear to be rolling over from a high area as well. The next cyclical bottom is due in about 2 - 3 weeks, with downside pressure very possibly building up as the 5-week and 10-week cycles move down, probably along with MACD, together.

Granting that nothing in the stock market can be taken for granted, risk does appear to be high into the end of September or the beginning of October. Depending on the type of decline we have (if), the next significant low should take place at that time, with a possible retest and double bottom sometime in November. The year does figure to end strongly, incidentally, with a 10-week cyclical low due at the end of November.