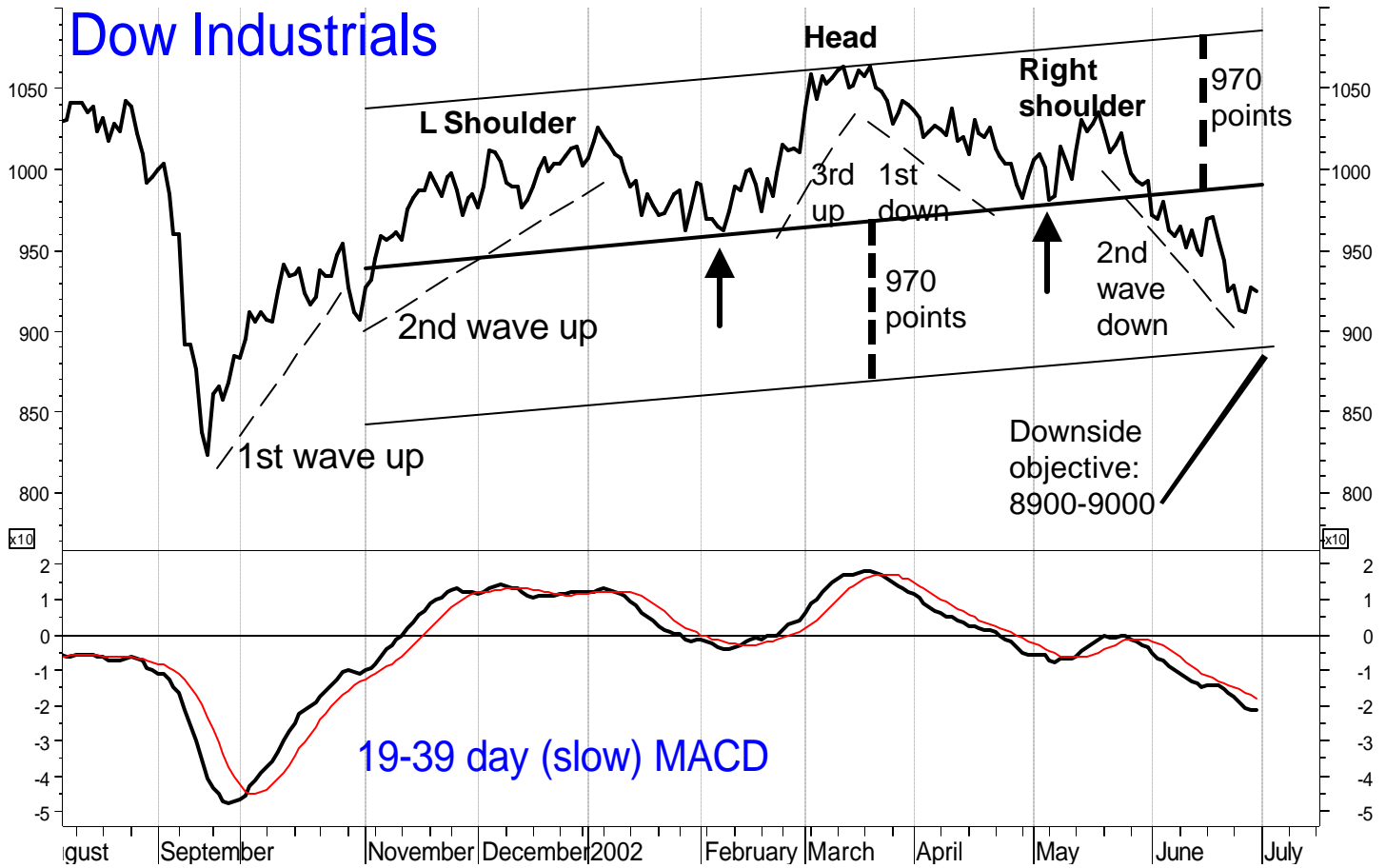


# Elliott Wave Theory Suggests Dow May be near a major low



Although the summer has historically been unfavorable for the market, might this year see an exception? The chart above suggests that the Dow Jones Industrial Average could be near an important low.

## Wave counting in uptrends and downtrends

According to the theory, when the major trend is up, the price action should define three waves up, followed by a correction that occurs in two down waves. (Conversely, when the major trend is down we should see a decline made up of three down waves, followed by a bear market rally occurring in two up waves.)

The chart above shows that the rally in the Dow Industrials off of the September 21 lows occurred in three waves: Sept.-Oct., November-January, and Feb.-March. We have so far seen two down waves: March-early May, and mid-May-June. So if the bear market for the Dow Industrials has really ended on September 21, we should be in the final leg of a bull market correction, and the Dow Industrials should begin another three-wave advance.

## How do we know the Dow will not go below 8900?

Nothing is certain, of course. We drew a trendline connecting the two lows indicated above by vertical arrows. A parallel trendline is drawn through the highest level the Dow reached in this move (the "head" of the "head and shoulders" top). The distance between these two lines is measured, and turns out to be 970 Dow points. The bottom channel is drawn, again parallel, and 970 points lower. This lower channel boundary defines the downside objective of 8900-9000. This shows how far down the Dow is expected to fall based on having formed its head and shoulders top from 11/5/01-5/31/02.

## Implications

If the interpretation is correct, the Dow has little more to fall, and we could be at or very close to an intermediate term buying opportunity. If a rally does develop, the 10000 range (the middle of the three trendlines) should be strong resistance. On the other hand, if 8900 does not hold, we would have to seriously reconsider the interpretation that the Dow is in an uptrend.