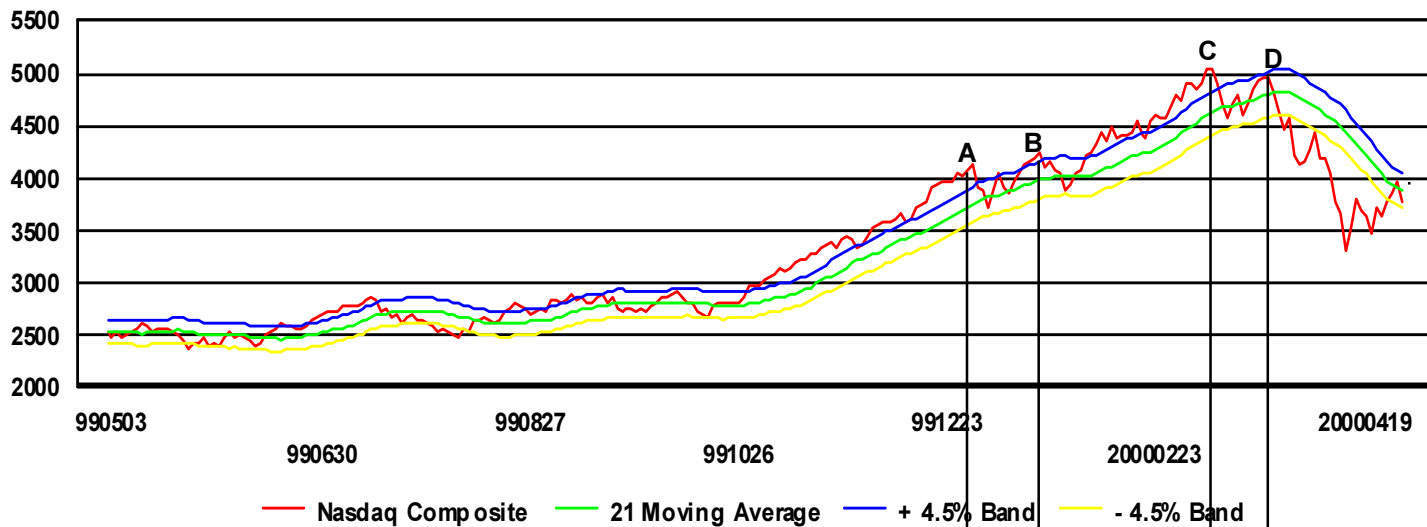
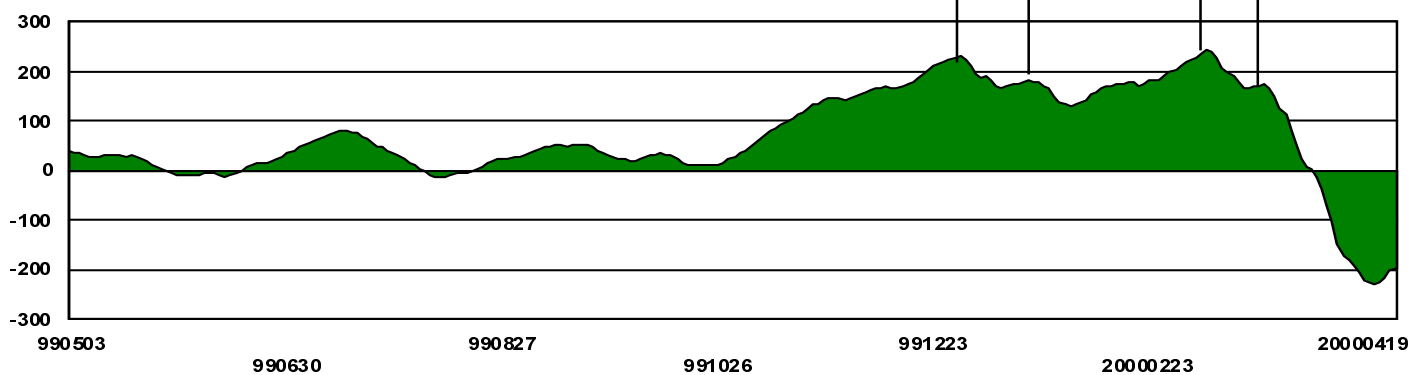


WILL A COMPLEX BOTTOM FORMATION BE REQUIRED BEFORE NASDAQ CAN TRULY RECOVER?

Nasdaq Composite 21 Moving Average, 4.5 % Bands



Slow MACD On Nasdaq Composite, One Year



MACD PATTERNS AND THE NASDAQ COMPOSITE:

The chart above shows the NASDAQ Composite, its moving average trading channel (21-day moving average, bands 4 1/2% above and below the moving average), and its slow MACD lines (19-day exponential average of price minus 39-day exponential).

The decline in April took NASDAQ to levels well below the lower boundary of the trading channel, subsequent rallies reaching to just about the upper band, almost the inverse of patterns seen during the best days for the Composite. With the 21-day moving average pointing downwards by as much as it has been, it would be unusual for the index to simply barrel ahead up through the top band. With volatility as high as it has been, the channel boundaries have been violated on both sides regularly since October of 1999. Before then, the boundaries provided their usual support and resistance. A short term uptrend is now in effect for NASDAQ, but intermediate price trends still remain down.

We have received buy signals from MACD which take place when the MACD lines (shown) cross their own 9-day exponential moving average (not shown on this chart). Buy signals have, historically, been quite reliable in defining base areas, if not absolute low points. However, given the extent of decline that did take place in the Composite, some time and the development of more complex MACD patterns in lower areas would not be unusual before a more lasting recovery will take place.

I have marked off periods of negative divergence (A - B, C - D) where peaks in the NASDAQ Composite were not confirmed by new highs in MACD. These often precede serious declines which are less likely in the absence of such divergences.