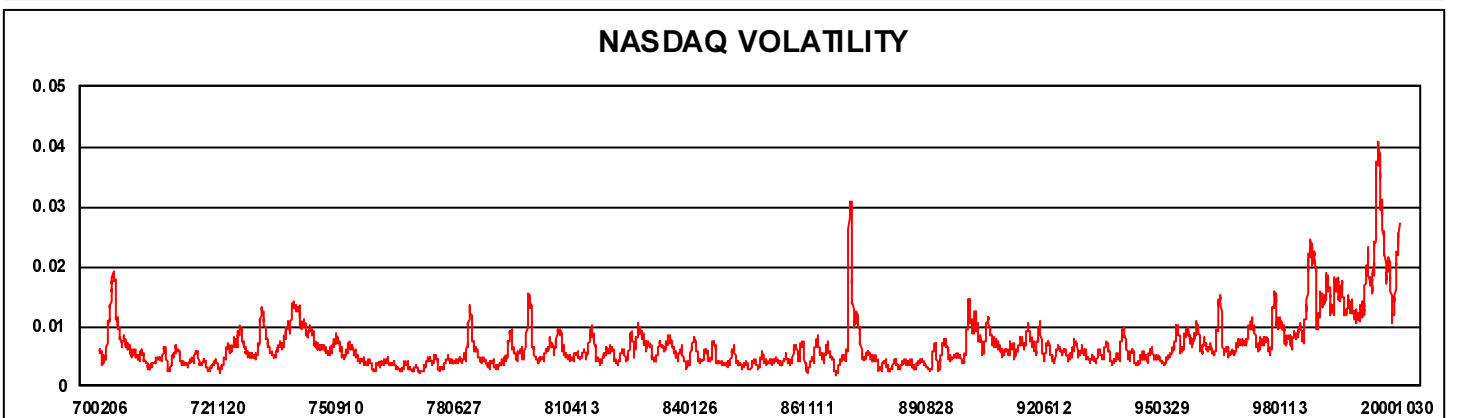
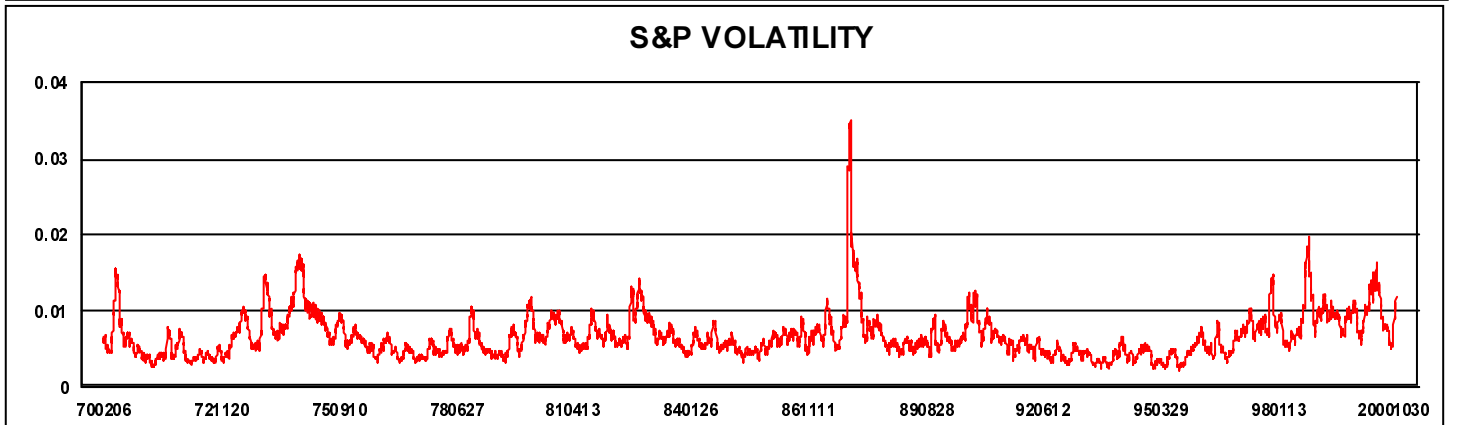
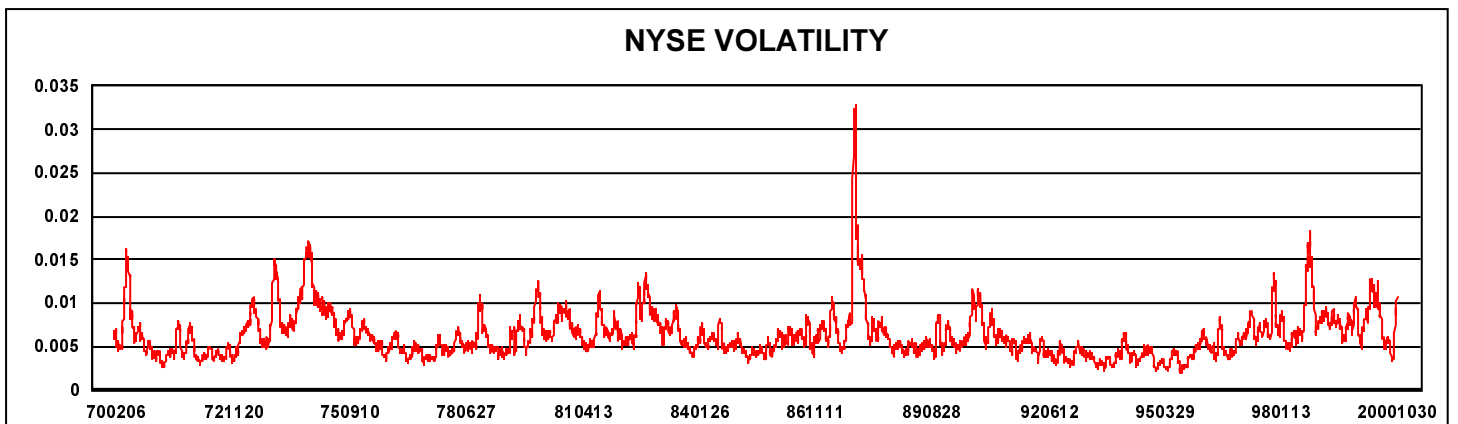
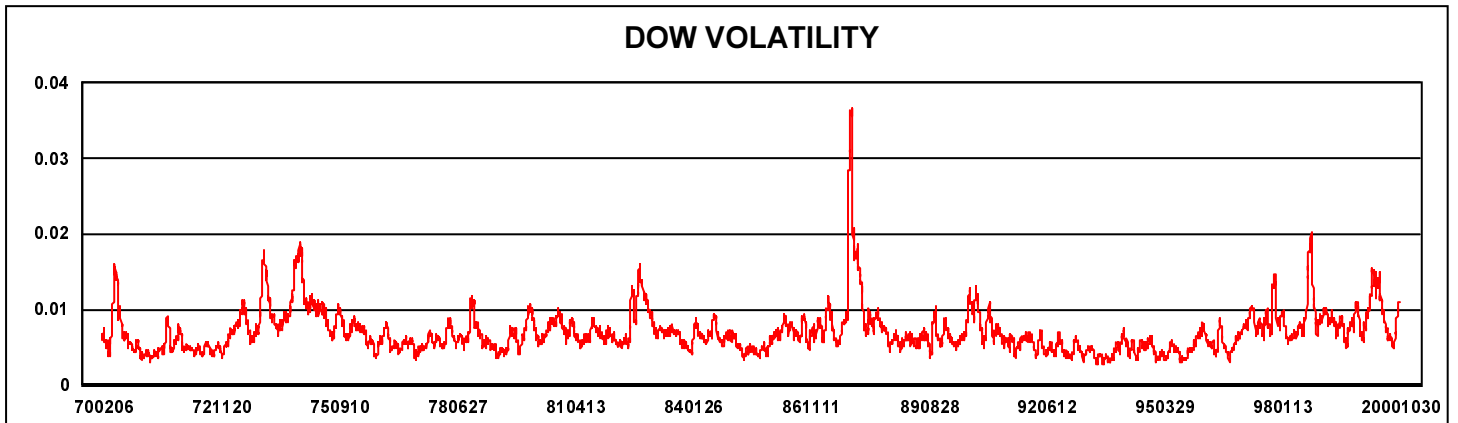


Volatility on the four major indices, 1970-Present

Measured by 25 Day Moving Average of the Absolute Value



CHANGES IN MARKET VOLATILITY IN RECENT YEARS VERY STRIKING.....

DAILY VOLATILITY OVER THE YEARS:

The charts on page 4, created by our head of research, Glenn Gortler, show the 25-day average daily percentage price changes for the indices listed. The numbers do not reflect the direction of price change, only the daily percentage of price change.

For the most part, since 1970, price changes have ranged between .5% to 1.0% on a daily basis, regardless of the index involved -- Nasdaq not particularly more volatile on this basis than other market indices, in fact in many ways less volatile. For example, the average daily price change for the Nasdaq Composite during the period of the 1987 market crash was just a tad over 3.0% per day, whereas for the Dow Industrials it came to just about 3.5%.

The crash aside, daily volatilities pretty much peaked at below 2.0% for all indices, even during the worst days of 1974. The scales are just a touch misleading because of the different sizes of increments, but it is pretty clear that although Nasdaq is thought of as the most volatile of indices, it has not, historically, actually been that way, day by day, until recently.

Matters have suddenly changed! Volatility on Nasdaq has blown through the roof over the past couple of years, daily volatility levels reaching more than 4% this past spring, dipping to normal levels, and then surging ahead once again in recent sessions.

This surge in volatility has been accompanied by a secular reduction in the daily trendiness of the Nasdaq Composite. In the past, Nasdaq tended more to follow a pattern by which if it rose in price today, it was more likely to rise in price tomorrow. This tendency has largely vanished -- day to day trendiness follow through much less than in the past.

IMPLICATIONS FOR TIMING MODELS:

The type of pattern that has developed is more conducive to timing models that are longer term in nature than to timing models that employ short term entry and exit signals because high daily volatility and inconsistent movement create large numbers of whipsaws and "noise" within ongoing trends. This noise has more of an effect upon in and out timing models than upon longer term timing models.

Subscribers who trade in Nasdaq oriented vehicles may want to emphasize longer term rather than shorter term timing models in their investment strategies.

DNS, our timing model for the Nasdaq Composite, was very well researched prior to its employment in real time trading, its hypothetical data spanning a thirty year period. However, it appears that we did leave something out in its construction -- tools that would allow the model to adjust for the unprecedented type of high volatility and vacillating daily price swings that we have experienced since April, not to mention the melt down in Nasdaq, all of which, as luck would have it, happened to coincide with the introduction of the model.

We are disappointed, but are also undaunted. Our research team is in the process of developing filters in the model that will be designed to isolate periods of unusually high volatility, during which periods trading will be slowed, geared more to intermediate rather than to short term entries and exits. Preliminary work indicates that this sort of filter is likely to reduce whipsaws and to reduce losses, but since nothing's for nothing, there are likely to be delays here and there in entering very close to market low points.

This is a high priority project. Hopefully, within a month or two, we will be far enough along to present track records comparing the original version of DNS with the filtered version. In the meantime, we will continue to use DNS, as is. Perhaps, by the time our new filters are ready, the stock market will have quieted down and they won't really be needed.

TIME-TREND III:

Interestingly enough, Time-Trend III has weathered changes in market behavior very well, in part because we have confined its application to those segments of the stock market that are reflected in the NYSE advance-decline line and by the NYSE Index. Value oriented mutual funds fit very well with Time-Trend III along, at least so far, with our sector rosters of mutual funds. Time-Trend III has had few changes to speak of since its introduction in 1988. The majority of changes made have simply been adjustments to suit changing market levels over the years.