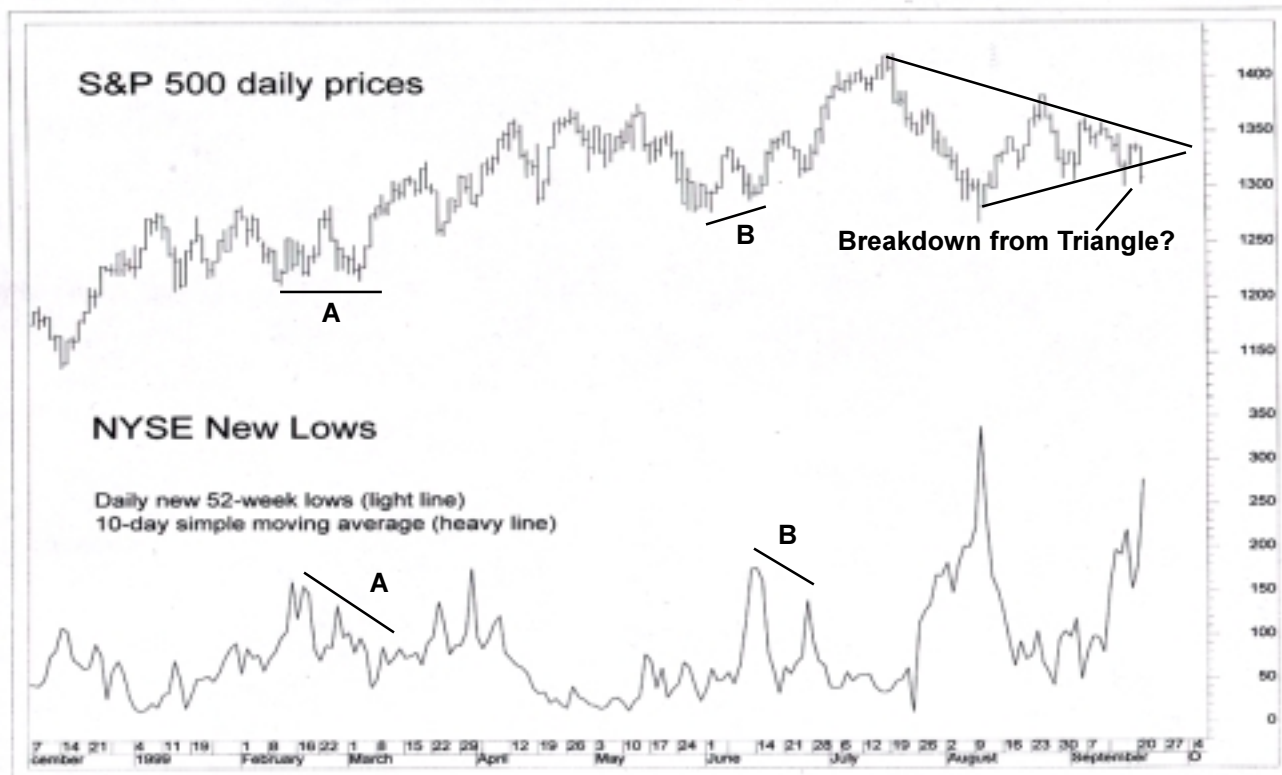


TEST OF AUGUST LOWS IN PROGRESS....WILL NEW LOWS CONFIRM?



TEST OF AUGUST LOWS TAKING PLACE:

The stock market has been declining into what appears to be a full scale test of the August lows. We are not showing the advance-decline line on the NYSE. Take our word. It's been dismal, now stands clearly below the lows of August.

As a general rule, we prefer to use the "new lows" indicator to confirm market bottoms. Confirmations take place when price levels of key market indices (e.g. S & P 500) decline to at or slightly below previous lows, but the number of issues making new lows contracts from low point to low point in the market index, indicating that the numbers of issues participating in the decline are diminishing.

For example, the S & P 500 traced out a flat double bottom formation during February and March, while the numbers of issues making new lows contracted, fairly sharply, a bullish indication. The bottom at Area B took the form of a rising double bottom in price, which was well confirmed by declining numbers of issues making new lows at the time.

The stock market has now declined to the area of the lows of this past August but has not fallen below those lows. In the meantime, the number of issues making new lows has risen to near the number that existed at the lows of August, but has not exceeded the August readings. A turndown in the number of stocks that fall to new lows at this time would probably confirm the August bottom and provide the base for at the least a good, tradeable market advance. Something to watch.

PRICE PATTERNS -- STILL BELIEVE THAT THE MARKET WILL MANAGE TO HOLD:

Trendlines are almost always subjective, along with other chart drawings, but the market may or may not already have broken down through a triangle formation, which would carry bearish implications. Nonetheless, we still tend to believe that prices will find support, at least temporarily, in the 1250 - 1280 area of the S & P 500, perhaps at a somewhat higher level, perhaps rallying already by the time this reaches you. If new lows do not expand, and especially if a second test takes place, probably during October until early November, and new lows clearly contract during the process, then the year should end on a strong note.