

Rally Stage Is Set

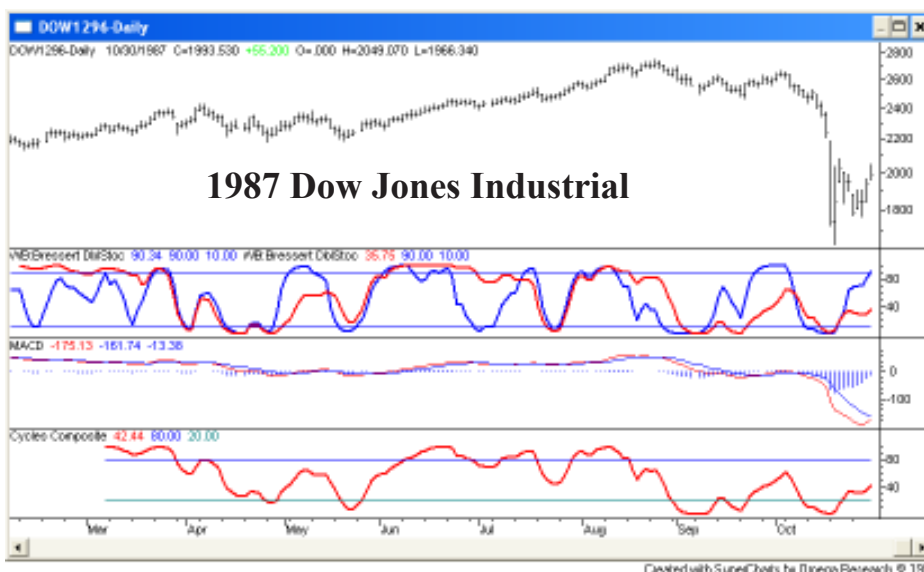
August 11, 2003

The market has effectively worked off its overbought level over the last 8 week by moving sideways within a narrow range, this shows pent up bullish strength. Both the short and intermediate oscillators have triggered a buy signal with their cross above the buy line threshold.

The S&P 500 technically needs to take out the 1015 to confirm the move. The 1000 level, a perfect octave, has proven to be a formidable resistance level for the S&P. It will take a knock or two to get through. But this time the assault on the 1000 octave will commence from oversold territory. It appears that W.D. Gann's "Rule of 4" that I have written about many times is ready to strike. Gann rule essentially states that when a market that approaches a support or resistance level for the 4th time it will break through or reverse with a vengeance.



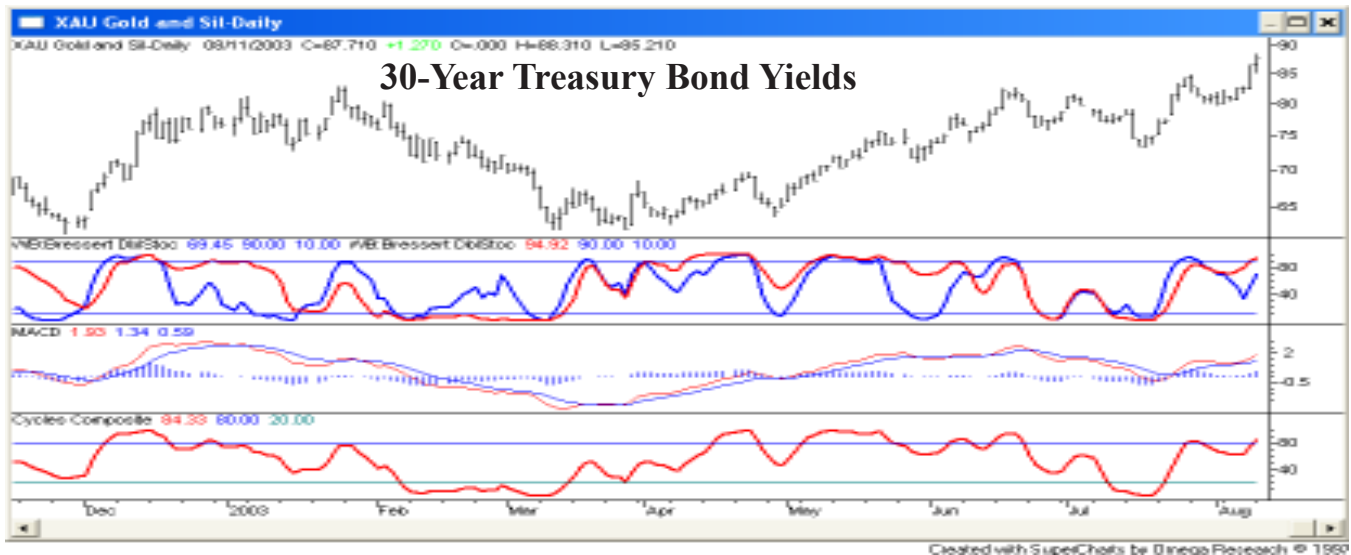
The rally stage is set; but before you mortgage the farm read the rest of the forecast. On the short term, the market should move 5 to 10 percent over the next month; however, our longer term cycles prediction still foreshadow a significant decline into October with a second bottom out in early December. This rally will most likely be short lived at best, a significant move for the trader and a selling opportunity for the conservative investor.



Unlike, most of my cycle's brethren who have pegged last October as the 4-year cycle low, I am still not convinced. The market has moved above its 23-week moving average which normally confirms the 4-year low. However, neither the October 9th low nor the March 12th low registered the extreme negative sentiment that is normally associated with the 4-year cycle low. Remember, that cycles tend to expand and contract. The term a 4-year cycle really means an average of 4-years. In 1987 the 4-year cycle extended to 5 years

due to speculative push earlier that year. The '87 market advanced through late August and then up again into September in spite of the dramatically rising interest rates. Rates do not rise only because of borrowing demand. They can also rise due to risk.

Interest rate have sky rocketed up 30% in the last two months. This has to wreak havoc on any fundamental stock pricing system using the 30-year T-bond. This is not an increase due to demand, commercial lending is still spiraling down, but the premium demanded by the market for the extra risk in today's bond environment. With Fannie Mae and Freddie Mac, who issue over 50% of the package mortgages, on the ropes, companies and countries alike are not willing to hold them. Now, while I do not think that we that we will see the end of the rate clime for years, I do believe that the first leg is close to complete. We expect a two to three weeks of bottom forming before



the bond market is due for a technical correction. I expect rates to drop into mid October but then start back up. If you missed your chance at the refinancing this may be your last shot.

The Gold and Silver Mining Index has delivered over the last 8 weeks with the low coming in 7/18/03, exactly on the 81-Trading day cycle prediction. It is now just shy of our minimum objective of 90. The oscillators are all in over bought territory but I suspect we will see a renewed push upward as Gold approaches the 375 octave, then this market too will retreat. While we are still on a buy signal, we are just one component away from the sell.

