

2003 ANNUAL MARKET FORECAST

(Completed December 31, 2002)

PREFACE:

Our forecasting technique utilizes George Lindsay's "Mirror Image" charts and several other research methods that provide data for predetermining market reversals and trends, often years before they occur. Some data may not become available until weeks or sometimes days before an event. We expect some of our predicted highs and lows to arrive slightly early or late. Consequently, we abide by the following important rule that helps us to avoid serious mistakes: "Do not make a decision about a forecasted market trend until all available relevant evidence becomes clear beyond any reasonable doubt."

We produced our first Annual Market Forecast in 1975. Over the years our directional predictions have been at least 75% accurate. Since, any long-term stock market forecast should be considered tentative, we advise clients to carefully read our periodic facsimile/email messages and TAP reports for more current and accurate details.

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GENERAL COMMENTS and PRICE ESTIMATES¹:

1. This year will be a good year for traders. The first half of 2003 will be quite choppy and most likely be the weakest. The second half of 2003 will be the strongest.
2. If the July-October low of 2002 represented the approximate low end of a trading range, then 2003 will close on a positive note.
3. In our 2002 General Comments, we discussed our theory that the market, as measured by the Dow Jones Industrial Average (DJIA), began a secular bear market after its January 2000 high. We stated, "We believe that indexing during the next decade or so will produce unsatisfactory results, while intermediate-term trading will be productive." Our opinion is still the same. During the secular bull market from 1982 to 2000, a good strategy was to be an aggressive buyer when the market descended. The opposite is likely to be a good strategy during the current secular bear market.
4. Gold has been a neglected asset class for about 20 years. The gold bull market, which began in 2000, has already produced significant gains, but we believe that this is the beginning of a major advance that will continue for many years. Gold values will be driven higher for reasons unrelated to potential war, perhaps \$400 or higher.
5. The US Dollar index formed a Three Peaks followed by Domed House (3PDH) pattern between mid-2000 and 2001. The pattern was completed during mid-2002, and the Dollar has continued lower since then. While there may be periodic rallies ahead, we expect the Dollar will move lower overall. Trend Line analysis and a fairly symmetrical MEGA-sized 3PDH pattern, visible on a daily or weekly chart, support the notion that the Dollar could descend from around 1.00 to 0.80 cents to test its lows from the 1990's. Using the Counts from the Middle Section method helps us to suggest that the Dollar will form an important low (price unknown) very near one of the following dates: May 16, 2003; June 22, 2003; July 25, 2004; or June 5, 2005.
6. The Basic Declines method helps us to predict the development of an "important" market "time" low (or lows) and possibly "price" low (or lows) most likely between February 21 and June 11, 2003. More broadly, the low(s) may develop as early as January, but not after August 9, 2003. From this, we can similarly state that one or more new Basic Advance measuring points, in terms of "time," may develop at any time between now and

¹ Statements 4,6,7, and 8 were changed from their original forms: Commas were added for clarity.

August 9, 2003. This low (or lows) will most likely mark the completion of the Basic Decline, which began between January and May 2002.

7. The Basic Advances method helps us to predict the development of a “fairly” important market “time” high and possibly “price” high, most likely between February 4² and June 22, 2003. A “more important” market “time” high or possibly “price” high will most likely develop between August 6 and December 22, 2003. These highs will most likely mark the completion of the Basic Advances, which began during March and September 2001. Similarly, new Basic Decline measuring points, in terms of “time,” may develop upon completion of these Basic Advances.
8. The Basic Advance, which began from the July 23, 2002 low, will produce a “time” high and possibly an important “price” high between September 10, 2003 and June 5, 2005³; however, the second half of 2004 is a more probable and narrower completion time zone for this Basic Advance. It is too soon to deem the October 2002 low as a valid time low “reliable” for Basic Advance measurements.
9. Our interpretation of the Long Intervals of History helps us to state that we are not convinced that the final low of the “secular” bear market has developed yet.

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DIRECTIONAL DETAILS:

1. The rally that began in late December 2002 will encounter resistance during the first half of January 2003.
2. A rally will follow and last until the middle of February.
3. The market will move down until the middle of March.
4. A choppy ascent will begin from the March low which will form a top before the middle of April.
5. After the April top, the market will descend into late May.
6. A sharp, brief rally will interrupt the descent; however, the market will stall and reverse downward in early June. The market will move down during most of July. Overall, June and July represent the longest period during 2003 which is devoid of strength.
7. Unlike June and July, August is the longest period during 2003 that will be devoid of weakness, making it a very likely place for a rally.
8. September will be very choppy. Specifically, there will be minor weakness during early September, strength until late September, followed by more weakness during late September and early October.
9. The market will rise, for the most part, between mid-October and mid-November.
10. A choppy trading range will develop between mid-November and year-end.

² While preparing our June 5, 2003 TAP report, we found a typographical error in our 2003 Annual Market Forecast. Prediction 7 should have read, “February 4” not March 4. This error proved to be insignificant.

³ A typo, similar to the previous footnote, is that Prediction 8 should have read, “June 5, 2005” not June 25, 2005.