

2004 ANNUAL MARKET FORECAST

(Completed before December 31, 2003)

GENERAL COMMENTS and PRICE ESTIMATES

1. Prediction: 2004 will be a good year for Traders. The first couple of months of the first quarter will be strong. A significant portion of the middle third of this year will be the weakest part of the year. The remainder of 2004 will produce a very choppy rise. Inspired by: Mirror Image charts and Directional Indicators Analysis.
2. Prediction: The DJIA could make an all-time new high near 12,450. The S&P 500 will ascend to about 1,300 before the bull market ends. Inspired by: We estimate that the average DJIA bull market rises about +71%.
3. Prediction: Most Basic Advances are "Medium" or "Long" in length; therefore, the most likely time zone for the current Basic Advance to end is between 8/23/2004 and 1/8/2005 (see Basic Advances and Basic Declines section in this report). Inspired by: (Comment published 1/21/2003) "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, 2005; however, the second half of 2004 is a more probable and narrower completion time zone for this Basic Advance."
4. Prediction: The S&P 500 index will produce more than one -5% counter-trend descent in 2004. The first one is likely to occur before late May. Inspired by: "5-percent market reversals" on page 3 of our December 23, 2003 message to clients.
5. Prediction: The NASDAQ will not recover 50% of its previous bear market down trend during the present Basic Advance. Inspired by: Historical statistics.
6. It is 95% probable that the main Basic Advance, which began after the October 9, 2002 low, will end producing the pattern of either a Three Peaks followed by Domed House, or a Domed House followed by Three Peaks (See "AN AMAZING FACT" on page 4 of our October 3, 2003 *TAP* report).
7. Prediction: If the current up-trend is truly a Domed House rally, and it will, therefore, produce the high of its cyclical bull market relatively soon, then there is less than a 2 in 10 chance that the DJIA's high will exceed its January 14, 2000 bull market high. Inspired by: George Lindsay and supportive research.
8. Prediction: The Dow Jones Utility Average (DJUA) will rise to at least 310.75, which is a test of its April 23, 2002 high. A careful examination of the DJUA reveals a major "Inverted" Three Peaks followed by Domed House pattern. This pattern resembles the "Inverted" 3PDH pattern in the Russell 2000 index, which was completed in October 2003.
9. (Comment published 1/22/2002) "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." Managers are reminded that the current cyclical bull market (or Basic Advance) is taking place while the Secular trend is still Negative; therefore, we advise selling more aggressively as any cyclical bull market "approaches old age". Furthermore, (Comment published 1/21/2003) "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." This year we are adding that we expect that the secular bear market will last approximately 14 more years and produce a substantial reduction in the price/earnings ratio for the S&P 500 index (probably below a multiple of 10). These ideas are based on our belief that a 36-year cycle exists, which began at the 1982 low and reached mid-cycle in 2000, and our interpretation of historical price/earnings data.
10. Prediction: The next cyclical bear market will be underway before the end of 2006. Inspired by: (Comment published 12/31/2003) "The longest (cyclical) bull market, relative to the method of Basic Advances and Basic Declines, was 1492 days long. 1,492 days forward from the 10/9/2002 low locates 11/9/2006 as the potentially latest date to end the current bull market (or Basic Advance)."
11. A bull market in Gold began in the year 2000. In December 2002, we predicted that while the gold bull market was already two years old, it was still only the beginning of a major advance that will continue for many more years. We also predicted that gold prices would rise to \$400 or higher. The London Gold Fix was \$417.25 at the end of 2003. Our prediction for a major advance remains the same, and we estimate that gold prices will rise to at least \$500 during 2004.
12. The DOLLAR: 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 still descend to 0.80 (or lower), that is, a test of its low in the 1990s. Using the Counts from the Middle Section method helps us to suggest that the Dollar will form an important low (price unknown) very near July 25, 2004 or June 5, 2005.

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DIRECTIONAL DETAILS

1. As we mentioned in our December 23, 2003 message to clients, the first half of January will be strong. Minor weakness or a pause will develop around Martin Luther King Day, followed by strength until late January.
2. Late January and the first week of February will contain some weakness, but strength will dominate until late February. Weakness will begin in late February and last until mid to late March.
3. A quick, upward reversal will develop around the final third of March. The market will encounter resistance as it enters April. April will trend sideways, and turn up near month-end.
4. May will trend sideways to up during the first three weeks, and then become weak again. The remainder of May, all of June, and early July are dominated by weakness, which helps us to suggest a descending trend.
5. Strength will develop in mid to late July. August will form a choppy, ascending trend. Weakness will develop during the middle third of September.
6. A rally will develop between late September and mid-October, and it will continue until it stalls around late October or early November.
7. November will begin by trending sideways, and then tilt downward. A quick upward reversal will develop before Thanksgiving Day, and then resolve downward again into early December. The market will ascend during the remainder of December.

