

# 2005 ANNUAL MARKET FORECAST

(Completed before December 31, 2004)

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## GENERAL COMMENTS and PRICE ESTIMATES

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1. Prediction: 2005 will be a good year for Traders. The first two months of the first quarter will be weak. March, April, and May will produce a strong ascent. The market will develop a choppy pattern for the rest of the year. 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 (Comment originally published 12/31/2003). Inspired by: We estimate that the average DJIA bull market rises about +71%.
3. Prediction: As measured from the October 2002 and March 2003 lows, the two most likely time zones for when the current Basic Advance will end has been estimated to be between August 23, 2004 to January 8, 2005 and January 23, 2005 to June 10, 2005. "If major "time" highs were not reached during December 2004, then we will expect them to develop as early as March or June 2005, but not later than October or early November 2005." Inspired by the fact that most Basic Advances are "Medium" or "Long" in length (see the Basic Advances and Basic Declines section in this report). Also inspired by our original 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 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)."
5. Prediction: The Domed House high formed either in December 2004 or it will appear at a subsequent high most likely in the first half of 2005 (subsequent targets for 2005: mid-March and/or early June). After the Domed House high is a certainty, a descending retracement to at least the October 2004 low and most likely the August 2004 low will occur to complete the entire Three Peaks followed by Domed House pattern that began in early 2004. There is only one chance in ten that the Domed House descent will fail to develop. Inspired by basic Three Peaks and Domed House analysis.
6. Prediction: The NASDAQ will not recover 50% of its previous bear market down trend during the present Basic Advance. Inspired by: Historical statistics. This prediction originated in our January 2004 TAP report.
7. (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." The secular bear market will last approximately 13 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 most recently bottomed at the 1982 low and reached mid-cycle in 2000, and our interpretation of historical price/earnings data.
8. 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. At this time, our prediction for a major advance remains the same, so managers should buy gold securities during the current weakness.
9. The DOLLAR: In our 2003 Annual Market Forecast we predicted that the Dollar would descend to 0.80 (or lower), that is, a test of its low in the 1990s. The Dollar reached this target at 0.8053 on December 30, 2004. Using the Counts from the Middle Section method helps us to suggest that the Dollar may still form an important low (price unknown) very near June 5, 2005. Inspired by Trend Line analysis, a fairly symmetrical MEGA-sized 3PDH pattern, and the Counts from the Middle Section method.
10. There is a very high probability that the Dow Transports will form a cyclical bull market high before June 29, 2005. Inspired by the George Lindsay's Counts from the Middle Section method.
11. The following dates should coincide with general market top reversals this year: February 7, June, 29, August 15, August 30, and December 29. Likewise, these dates should coincide with bottom reversals this year: August 31 and October 8. Inspired by George Lindsay's Counts from the Middle Section method.

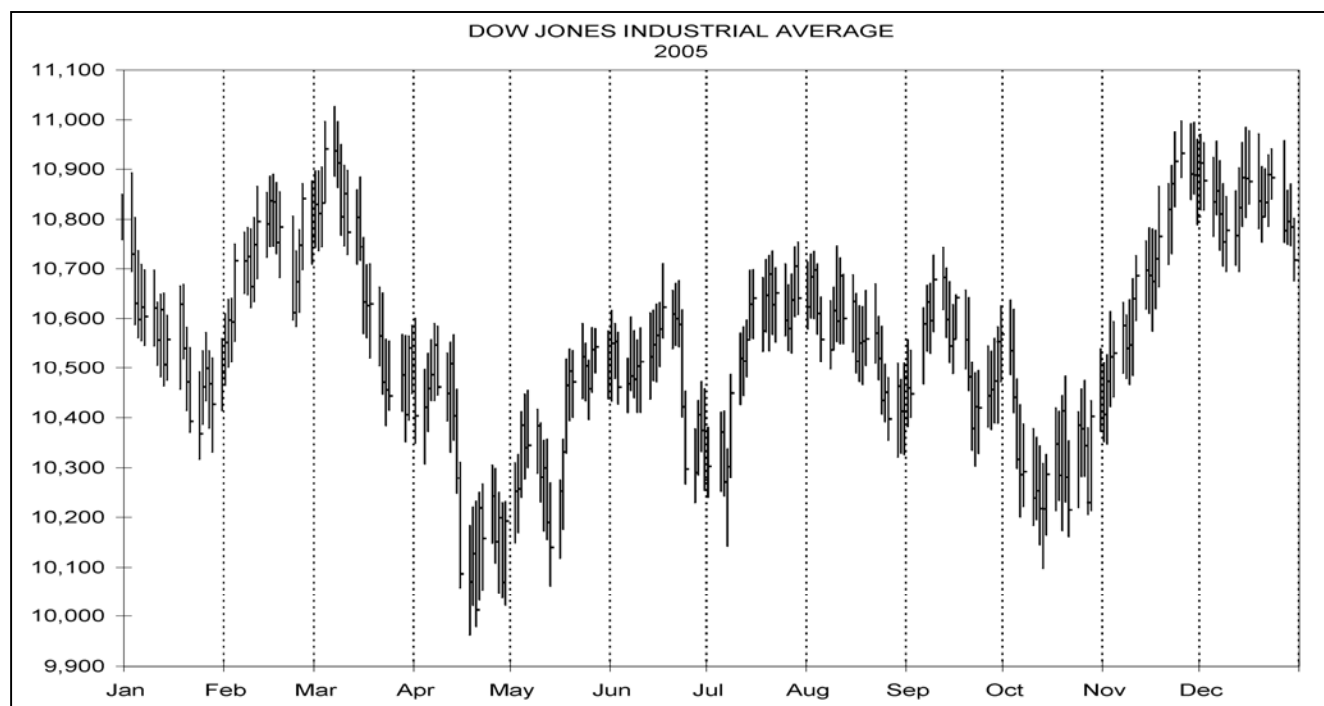
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## DIRECTIONAL DETAILS

(Please read and consider the accompanying footnotes)

1. The 2004 year-end rally will form an important top by the middle of January 2005.
2. A descending and most likely choppy pattern will develop between January and early March. Market volatility will increase near the end of February, and a bottom reversal may be evident as early as late February.
3. Prominent strength appearing throughout March helps us to suggest that it will be an undoubtedly ascending month.
4. The balance of strength versus weakness from April to early June favors a continued ascent with increasing choppiness<sup>1</sup>.
5. A top of some importance will develop by late May or Early June.
6. Early June through mid-August will produce a choppy or zigzag pattern as follows: Up in early June, down in mid-June, up in late June, down sharply in the first half of July, a brief rally in the final third of July, and down in early August.
7. A rally will begin during the second half of August, and it will pause during late September<sup>2</sup>.
8. October will be strong in the beginning, weak in the middle, and strong at the end.
9. November will be a choppy month.
10. December will be a relatively weak month, with the exception of two brief rallies: One around the beginning of the month, and one around Christmas weekend.



<sup>1</sup> The upward bias expressed for this time period is based upon the assumption that the overall ascent since the August 2004 low has not lost apparently significant momentum by then. If an obvious change in directional momentum becomes apparent nearer to this time period, then our bias may be changed to sideways or downward while our shorter-term directional details of the forecast will remain unchanged.

<sup>2</sup> The directional bias between mid-September and late November is not yet determinable; consequently, we must describe it today as expected to be an overall choppy or sideways time period. We will have to wait until approximately August before we might be able to amend this directional bias.