

*** SAMPLE ***

Anticipated Intermediate-Term Trend Bottom Reversal Unfolding

Focal Point

The developmental process of a tradable, intermediate-term bottom reversal is unfolding and likely to be apparent by mid-June. While there still is short-term downside risk, intermediate-term downside risk is limited. A preliminary intermediate buy signal occurred at Friday's close and at least one more confirming intermediate buy signal is likely near mid-June. However, since composite evidence surrounding the resolution of the current downtrend is not yet completely clear to us, "we believe it is too soon to make price judgments about the anticipated recovery's potential gains." We believe this is one of those times when it is better to focus on the timing and duration than price levels.

Strategy

Short- and intermediate-term traders should buy relatively strong stocks during weakness, and trade all short-term Trading Indicator buy and sell signals as they occur.

Intermediate- and long-term investors should selectively buy relatively strong stocks now and prepare to sell relatively weak acting stocks during strength throughout the summer.

Review

In our January 2006 *TAP* report; we prepared managers to expect a topping process early in the year. We suggested high probabilities that there would be a meaningful descent by Spring 2006, and that our Intermediate-Term Trend Indicators were eroding such that an intermediate bottom would eventually develop. Our May 2, 2006 message to clients stated, "...the answer to many questions are about to be revealed by the market to us, most likely during the next few months." A downturn in the market almost immediately followed that statement. One thing always remains carved in stone: Our Annual Market Forecast. The largest uninterrupted series of forecasted "Weak Readings" spanned early May to early June, which made this the most obvious place to expect weakness in 2006. We realize a forecast is only tentative, but there it was, carved in stone, unchanging, and waiting.

What's next?

One of the most important considerations is that three of our four main Intermediate-Term Trend Indicators are finally oversold at similar levels to those seen at important intermediate bottoms like October and April 2005, and August and May 2004 (see charts up-to-date through 4:00 p.m. today). Furthermore, over 90% of the time, the market's price low coincides with the bottoming activity of our NYSE Intermediate-Term Trend Net of Advances and Declines indicator (ITNAD). On May 24, 2006 the NYSE ITNAD was extremely close to its oversold price line, and - although the odds at this place in time are somewhat unfavorable - there is a chance that we have already seen such an intermediate-term market pivot point. The majority of

evidence, and the forecast ahead for this particular ITNAD indicator, still coincides with our 2006 Annual Market Forecast for strength near mid-June as a more likely place for an assured bottom reversal, and that our ITNAD will be more deeply oversold by then. With luck, what we have been referring to in client conversations, as a "double oversold condition," will have developed as well. All of our Intermediate-Term Trend Indicators are - mathematically - highly likely to quickly rise between June 15 and month-end and are, therefore, extremely likely to produce buy signals by then (see 25-day forecast ahead on charts).

VERY SHORT-TERM TRADING INDICATOR

At today's close, our short-term Trading Indicator triggered a "**minor**" **Buy** signal for the Dow Industrials, S&P 500 and New York Stock Exchange.

Confirmation for this "minor" TI buy signal will occur by tomorrow's (Wednesday's) market close if the NYSE breadth becomes significantly better than -400. (The NYSE breadth value is computed: Advancing Issues minus Declining Issues).

IF this "minor" TI buy signal is confirmed, then our short-term trend rating will be raised from Negative to only Neutral, and managers should expect the market to ascend for a few days. The average initial market reaction to a TI buy signal is 6 trading days, starting from the confirmation day as DAY 1; however, this "minor" TI Buy signal may have a shorter market reaction time. We would not be surprised if the market drops quickly lower short-term in the vicinity of this TI buy signal's initial market reaction period and produces a better TI buy signal ahead.

Points 5, 6, and 7 from our 2006 Annual Market Forecast

5. During the last week of April and the first week of May the market will move upward quickly, but this will be interrupted by weakness for the remainder of May and the first week of June. This weakness is likely to only stunt the preceding quick rally, unless the Long-Term Trend has begun to show signs of serious deterioration by that time.
6. Mid-June through late August is ruled by strength. An intermediate-term upswing will be apparent during that time period.
7. Late June may not provide a hardy rally, because abundant weakness in close proximity opposes strength in the middle third of July, making for a potentially choppy ascent. Notably, though, July 21st marks the cessation of weakness and the start of steady, uninterrupted strength. The strength will intensify in August until a top is formed in late August or early September.

SHORT-TERM DIRECTIONAL INDICATORS PREDICTIONS

(Reprinted from our Thursday, March 30, 2006 message to clients)

5. During the week of Monday, May 22, market weakness will begin lasting into the first week of June.
6. A rally will begin late in the week of Monday, June 5 that will last several days.
7. Minor weakness will briefly appear around Monday, June 12.
8. Another rally will begin around the weekend of Saturday, June 17, lasting about one week.
9. Minor weakness for a day or so will appear around the weekend of Friday, June 23.
10. A rally will begin during the week of Monday, June 26, 2006 that will last until "at least" the Fourth of July weekend.

Questions ????? For answers to questions regarding this message, please call Greg Covato at (412) 341-3700 or Phil Covato at (305) 852-3592. (Facsimile is (412) 341-8922)





