

Written and Published by:
Michael S. Jenkins

STOCK CYCLES FORECAST

P.O. Box 652 Cathedral Station PO, New York, N.Y. 10025-9998 WWW.StockCyclesForecast.com Volume 21 Issue 4

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Dow 10,628

Should Be A Top

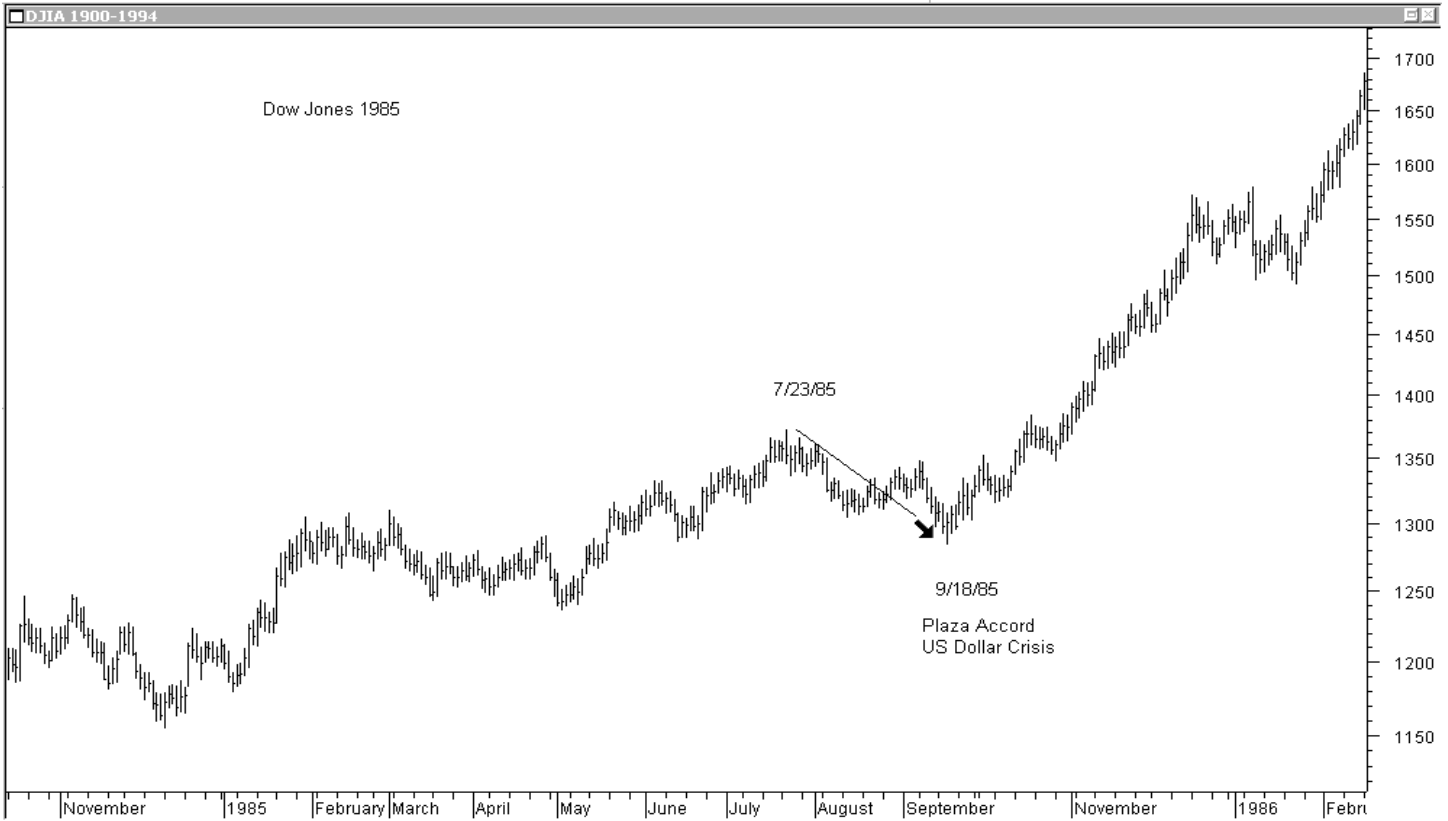
Sometimes technicians get a divergence between normal technical methods and cycle projections and it's always a tricky call as to what will be the outcome. For traders its easy- you just go with the trend, but for forecasters like myself who are paid to go out on a limb with predictions it gets a little harder. A designer of a 'black box' trading system faces the same dilemma- what is more important, an absolute stop out to prevent a crash wipe out possibility, or just buy into the dip to get a spectacular return if it works and turns up. Just now many things are overbought and extended and a cycle turn is at hand which clearly looks like a top...but, the market went sideways for all of 2004 and finally has seen a new high after six months of a trading range in 2005. Usually that kind of action results in a huge up move that lasts another six months and at least 10% more price appreciation. Of course, 'false breakouts' do occur often enough to give rise to the well known trading tip to go short when a stock or market goes to a new high but subsequently goes back below the old high. In our present situation, the March 7th high was 1229 S&P, and on a major long term pattern the high of March 2004 at 1163 would indicate a new bear market if ever broken. If the market were to exceed 1235 and hold, one would have to conclude it was going to the .618 retracement of the entire bull / bear market range at 1253 or the

measured move level at 1307. 1350 would also be a realistic target. The real question then becomes how big a 'dip' can be bought and still be in an upside breakout? If you've read my books you know the importance of the square root and how a great trailing stop on strong stocks is the 'square root of the square root' and on the market averages, usually one full square root amount off the top. At 1230 S&P the square root is 35 so a 'normal' pullback could easily test 1195 but not much lower if the trend was up. The hook is usually when the markets drifts down to that level and then collapses through it. Such a false break out pattern occurred 15 years ago in 1990 when Iraq first came on the radar screen. The **Dow Jones** chart from 1990 is at right. On that



chart the high was 3,000 so the square root stop was about 55 Dow points and you will note the old high near 2950 that was exceeded and then came back down through. By the way, that square root tip is also used to measure the 'head fake' amount so on the Dow it went from 2950 up one square root to 3000, and our current market near 1190 to 1200 could see a 34-35 point upside head fake to 1224-1235.

This chart above from 1990 has a lot of similarities to our present market including many price harmonics and if you've heard the telephone updates you know this is also the 7 year anniversary of the 1998 top on July 20th which was also a very similar pattern to this one. The key now would be a wasting drift into the first week of August and then the big break. Many of the more bullish patterns for this year also have a drifting decline just ahead but not a real collapse. The typical chart would be the twenty year pattern from 1985 shown below.



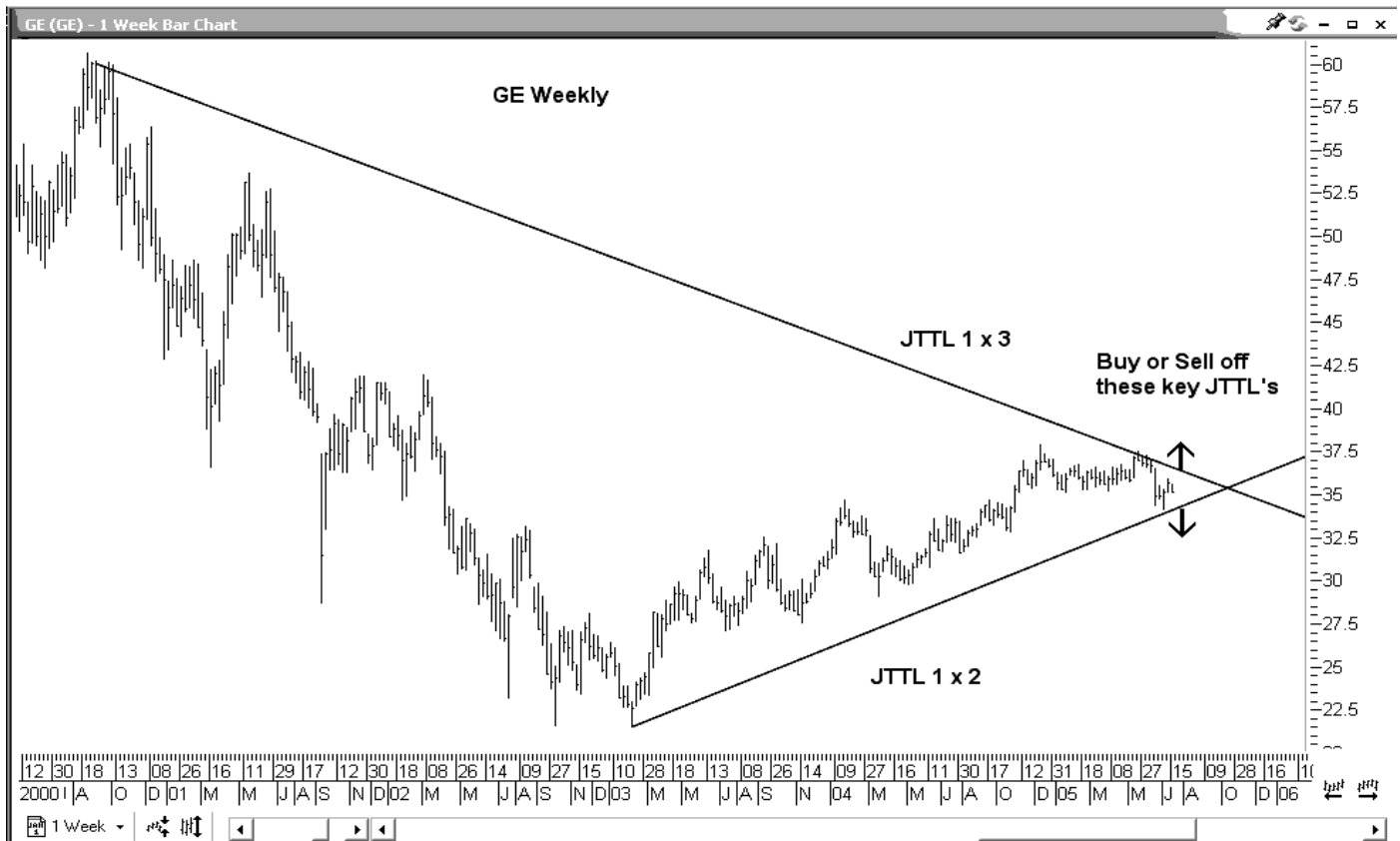
This chart shows a drift down into the September quarter end and then tremendously up through year-end. That big run was actually caused by a Dollar devaluation, which resulted in a global economic boom especially in Japan. Our Dollar crisis with China this time around may be a replay until year-end but I think 2006 and especially 2007 will be major financial panic years in the U.S. The 1998 panic was also a currency panic.

Although the Chinese have just agreed to let their currency 'float', a move of 2% is not going to do anything in the short run and if you look at the last newsletter you will see that beautiful long term foldback chart of the US Dollar Index which clearly is going back to and perhaps through 100 over the next six months. Only after that one-year bull move up, can the Dollar go back into a crisis mode and perhaps that's what the panics in 2006 and '07 are about. Likewise gold may now surprisingly have a more difficult time going up since the Chinese float will cause the local Asian currencies to get a bounce and Asians usually buy a lot of gold for protection against their currencies, which they may now unload. Like the chart from 1985 above, my guess is that the next big currency and gold move will come in late September and it could be a strong Dollar and strong US market from an oversold low.

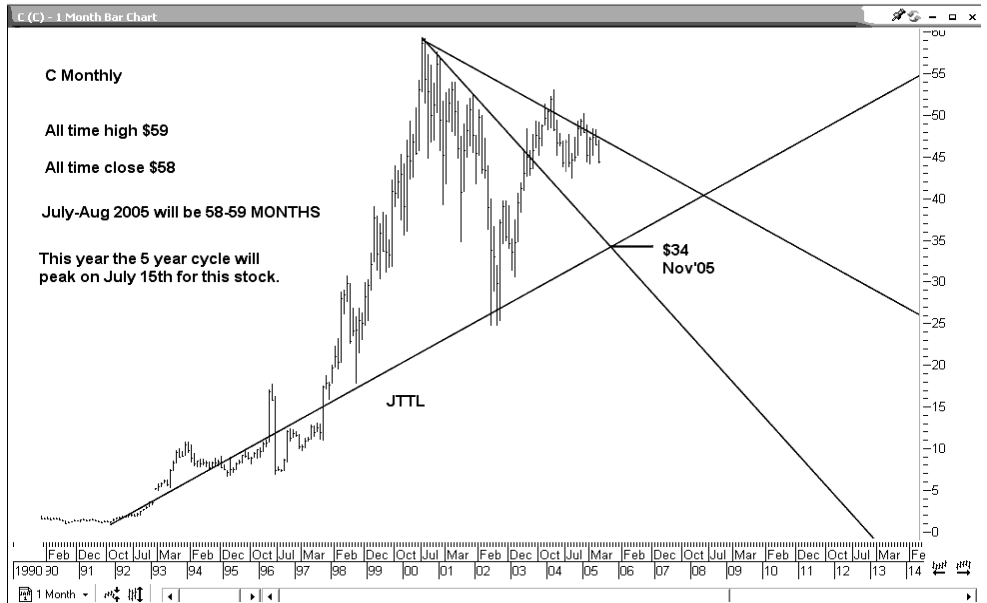
The opening paragraph of this letter mentioned how it was a tough call as to whether the market would top or explode upwards. This next long term chart of the S&P shows that picture. It looks like a ascending triangle with a 'parabolic' feel to it but the market is just now at the intersection of those two strong trendlines. A break could mean a waterfall pattern like 1987, 1990, or 1998, but getting through that 1240 area could lead to a melt up to 1300 or more. Strategy still remains to be long above 1200 S&P and short below 1190 for this next month.



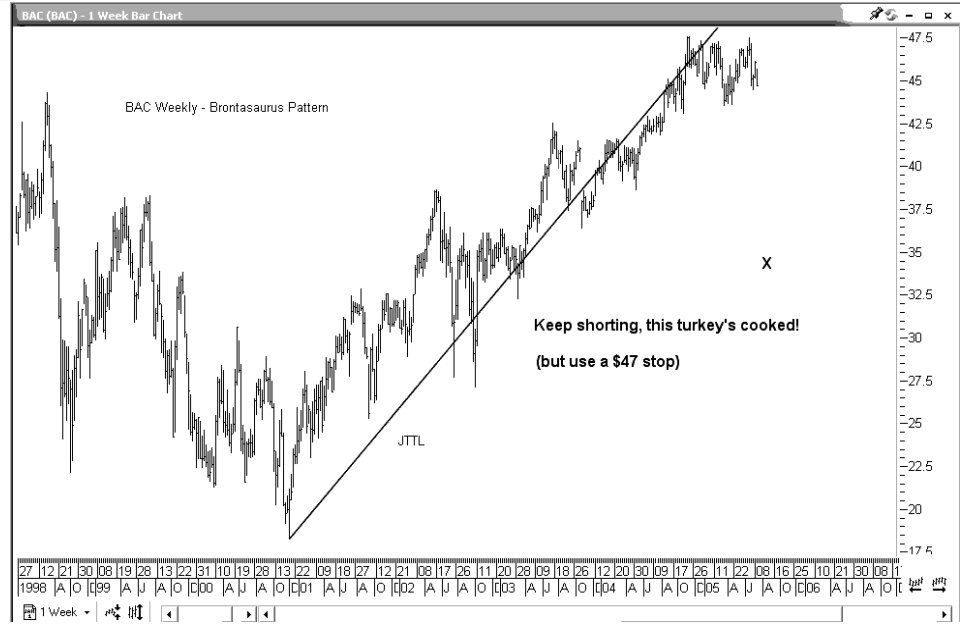
GE is one of the keys to the markets outcome and its chart must be resolved soon. I think it will hold support and then move higher but it's still too close to call. Basically you buy above \$37.50 and short below \$33.



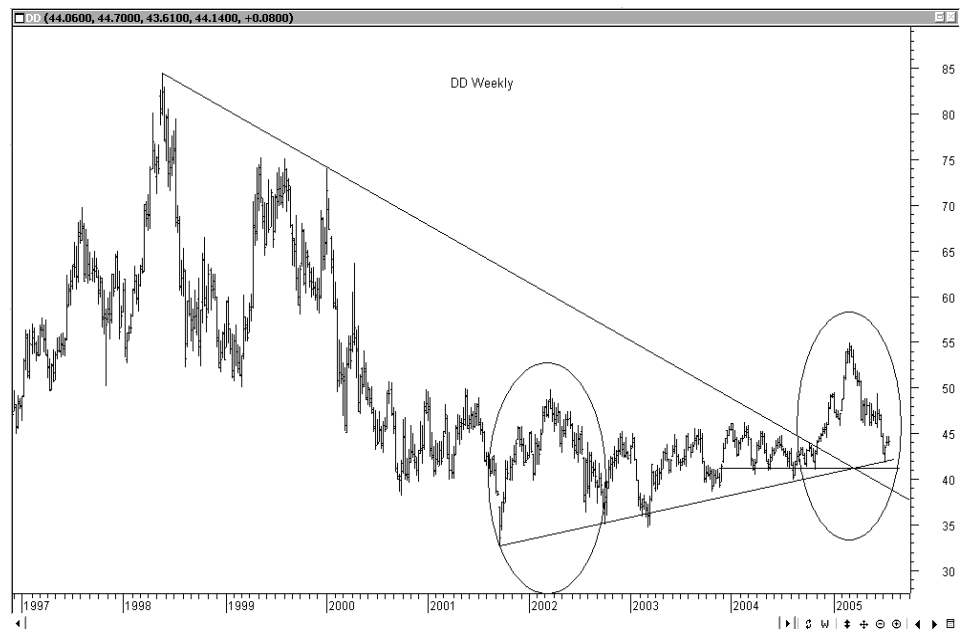
CitiGroup was shown in the last issue as a key stock to watch and it remains so with a potential big breakdown just getting underway. Earnings were light and without the FED allowing them to play accounting games with new mergers, the bad debts are rising fast. I would not be surprised to see a sudden break of the stock to that inviting intersection near \$34. It's a short under \$44 regardless.



BankAmerica is a much better run company but this chart still bothers me, especially since that final high perfectly 'squared out' that key JTTL and when that happens it's a long term change in trend. I'd still like to be short with a \$3 buy stop from here.



If I've suffered one major disappointment this year is it is the failure of **DuPont** to go significantly higher off of this classic long term chart pattern. Of course it was news related with the Teflon cancer scare and environmental cleanups and asbestos type lawsuits just waiting in the wings, but if you believe in charts this one could still go much higher if one had the courage to buy it (along with puts). Somehow Phillip Morris (Altria) made out fine, and those circled areas on the chart are well know cycles that should turn up soon. Perhaps long term \$45 strike calls would work, or short 1000 shares of stock and buy

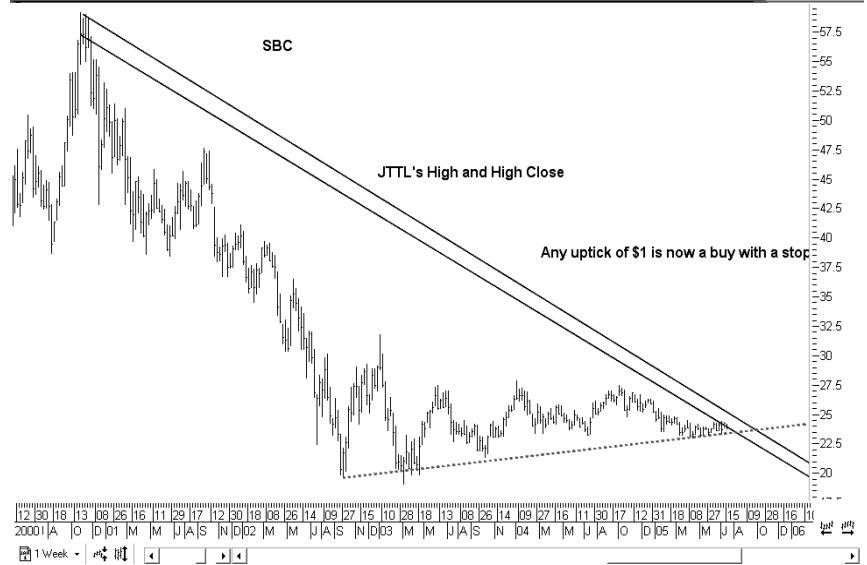


30 calls (2000 net long, 1000 to cover short).

Honeywell just turned up again and although it's still more than possible to be a "head fake" false breakout, if its for real it could really go. Those two trendlines hold the key and the cycle intersection at their vertices say now is the time to resolve the entire decline since 1999. Boeing just sold a lot of new planes so perhaps HON is getting new business. It's a buy above \$37.50 but \$39.50 is the magic number, above which this stock will go to the high forties.

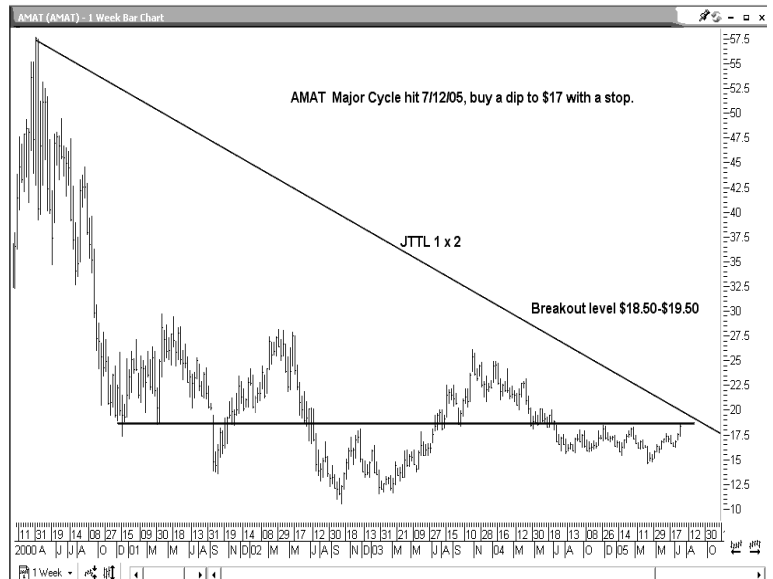
No one likes telephones, not even me, but I try and be objective about the market and what COULD happen. At every major turn in the market, rotation takes place and this group has a big enough base to start a new one year or longer bull phase. **SBC** and **VZ** are both upgrading DSL and cable possibilities and are starting to see some better earnings comparisons. This long term weekly of SBC shows a potential flat about to run into two very powerful JTTL's from the all time high at which point the stock must breakout, or breakdown. I'd be inclined to buy all strength with a close stop. By the way, those JTTL's (Jenkins True Trend Lines) are logarithmic, so those two lines from the high and the high close should have differing slopes and converge and are not supposed to be parallel. That's the secret behind them- that the slope is price and time dependant.

Amazon could get interesting again with this chart pattern. The current upside spike looks like the prior four spikes that failed, but chart patterns are rarely so symmetrical. The odds favor at least a double top at the last spike even if this is a failure, but getting through there the stock could really have a move. If it's a foldback chart that gap area should appear again very soon catapulting this one back through those highs. Just don't



be long if it breaks back below that prior \$37 high.

Just like that big base in SBC above, this chart of Applied Materials (AMAT) also shows an impressive base that could create a double in price if it goes. The stock is at major resistance just now and could fail big, but if it pops through it's clearly a buy with a stop. Here too, the calls are cheap and a stock puts/calls strategy could work before the stock makes a big move.



The following stocks have big cyclic turns during this time period, +/- 1 day. Note the huge amount of turns near 8/05-8/7. If this is a top, that will be the breakaway to the downside.

DD 7/26	DIS 7/26	SPX 7/27	MMM 7/29
UTX 7/29	AA 7/30	AXP 7/30	MMM 7/30
CAT 7/31	C 8/01	GE 8/01	HPW 8/01
INTC 8/01	KLAC 8/01	JNJ 8/02	IBM 8/03
GE 8/05	MU 8/05	PG 8/05	GM 8/06
KO 8/06	MCD 8/06	BA 8/07	MRK 8/07
SBC 8/07	EBAY 8/07	AIG 8/10	IP 8/10
LEH 8/10	QCOM 8/10	WMT 8/11	MSFT 8/12

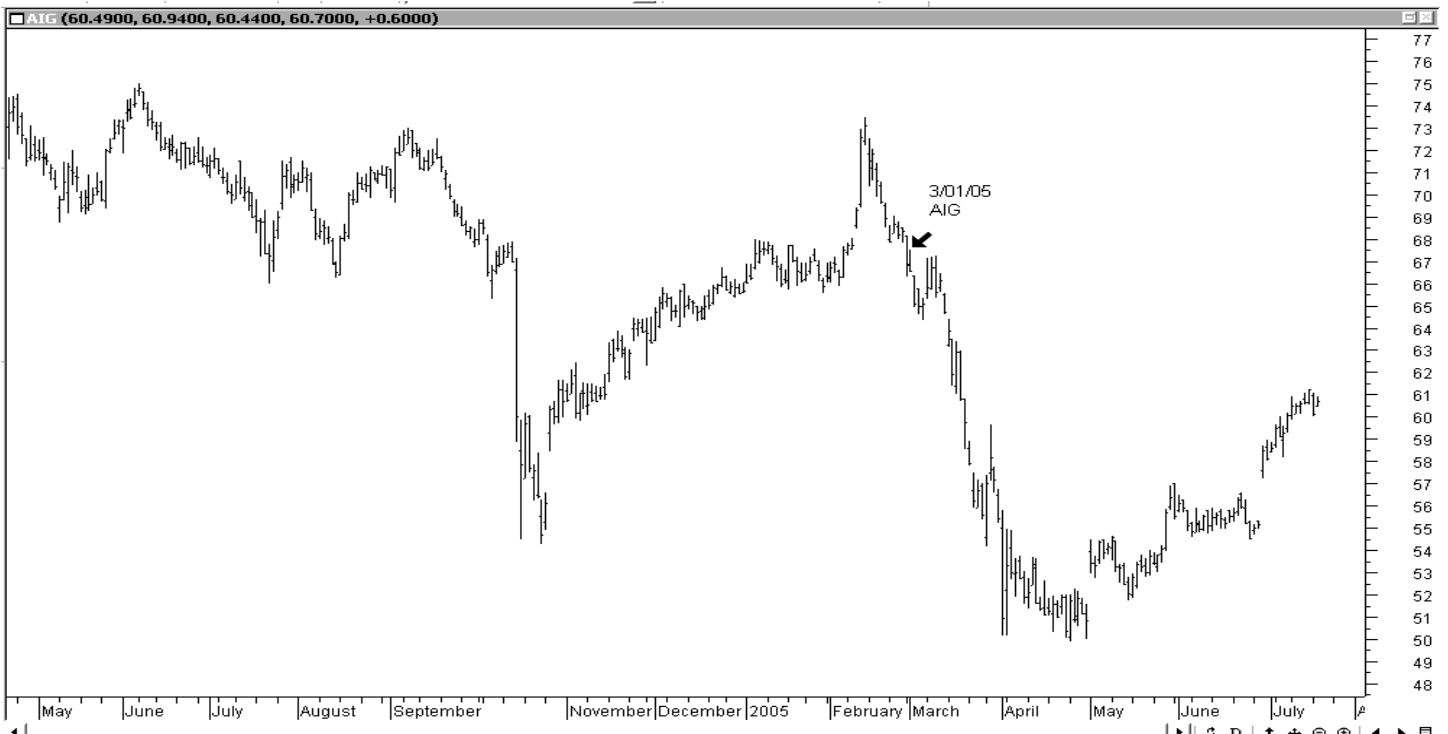
Important Note on the Michael S. Jenkins Personal Seminars (SEE WEBSITE FOR BACKGROUND INFO)

The table just above with cyclic turns, was a new feature added to the letter about one year ago and it includes a very simple application of the “lost” Gann secret that I teach in my personal seminars. Of course, in those seminars I teach a much more advanced version of this secret and provide the specialized software to do the calculations. Because of recent discoveries that have finally completed my search for any more knowledge in the stock market, I have been forced to reconsider whether I want to reveal this knowledge to the public at any price especially since I know of at least two students last year who became millionaires after taking the seminar. In order to be fair, I have decided that since a number of you have contacted me for instruction and have bookings well into the Fall, I will provide that service to you at the quoted price in your email, but all new participants will pay \$3,500 through October 31st and then the price will go to \$5,000. If I continue it next year the price will be \$10,000. The next few pages will demonstrate why this is necessary and I show these only because I know many of you only get the letter for the nightly ‘hotwire’ and barely read the letter, but if you do these tables are worth their weight in gold. I certainly don’t know of any letter in the world other than mine that includes stocks that turn to the exact day when predicted weeks ahead of time. If you use a common sense trading strategy to buy or sell as the price of a stock moves away from these dates you will make money. The following charts are all examples taken from the February 25th issue this year and show a cross section of industries and stocks that go in opposite directions on the same turning dates showing how this method works on all kinds of individual issues. I could have chosen any other issue date with equal or better results but these make the point sufficiently well.

The table below is an exact reproduction from the February 25th letter with charts of the circled stocks to follow:

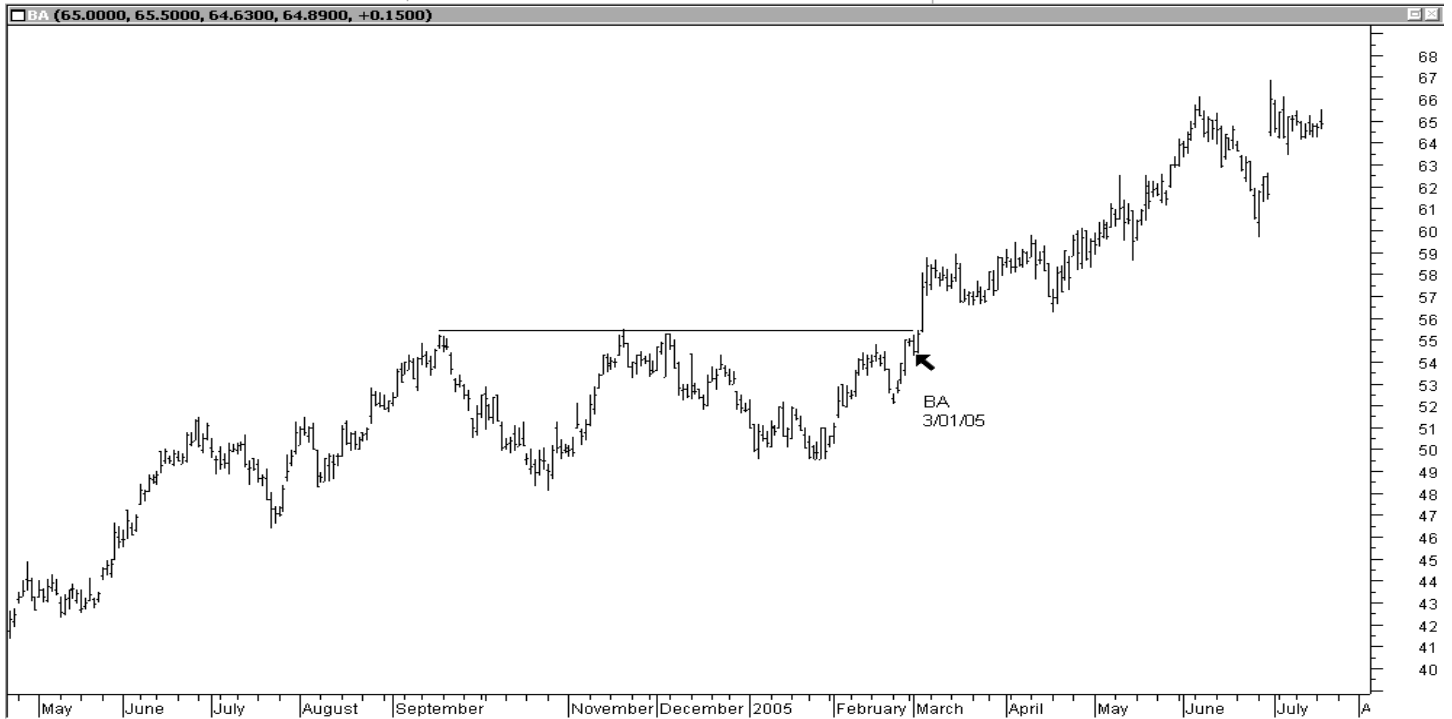
The following stocks have big cyclic turns on the dates indicated +/- 1 day. Note that they mostly cluster on March 1st-2nd, and March 8th-9th.

AIG 3/01	BA 3/01	EK 3/01	MMM 3/02
SBC 3/02	AA 3/04	NEM 3/04	OXY 3/04
GE 3/08	HD 3/08	HON 3/08	N 3/08
PD 3/08	GS 3/09	HLT 3/09	LEH 3/09
MCD 3/09	WMT 3/09	XOM 3/14	APC 3/14
BBH 3/14	CAT 3/14		

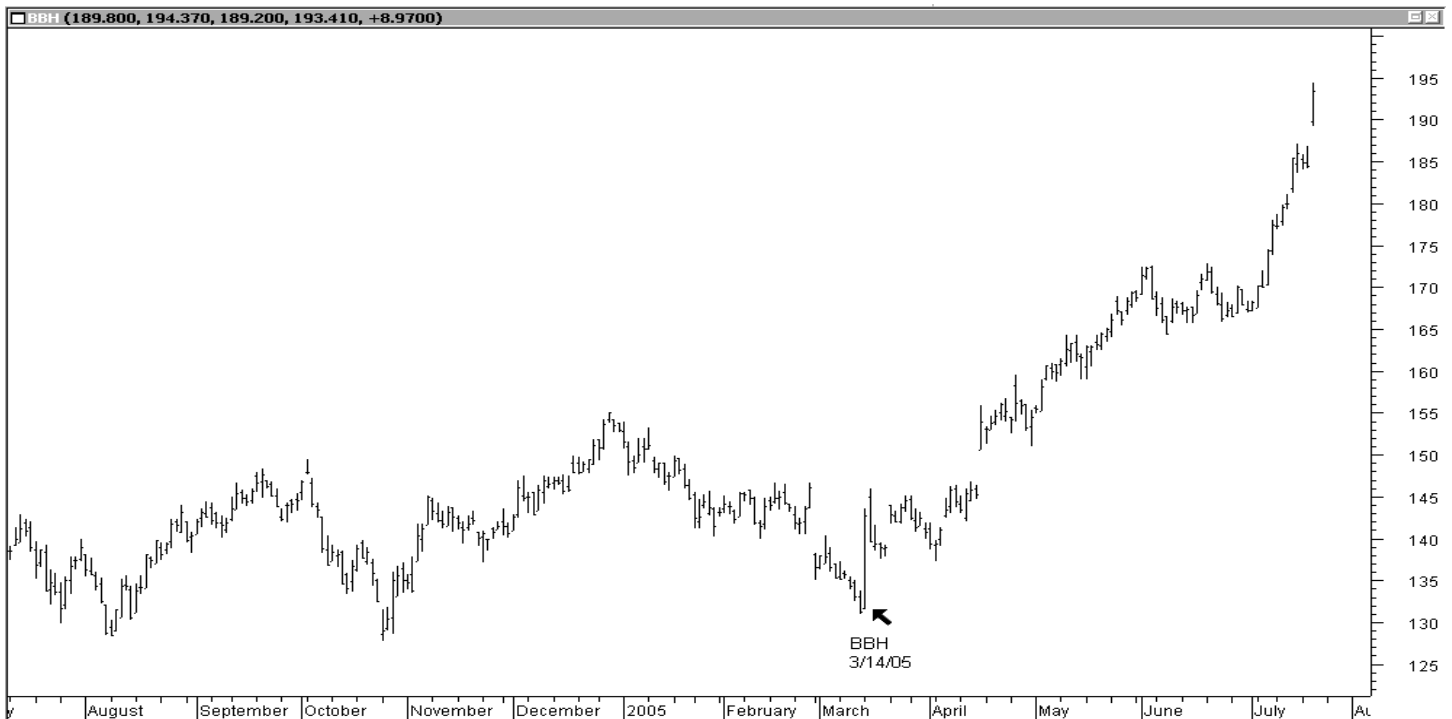


AIG had a major cyclic turning point due on March 1, 2005 and although this was not the exact price high it demonstrates a key point about trading strategy which is that often the 'square out' or cycle turn occurs on the date that the price *approaches* the major trendline. It then either bounces up off the trendline for another leg or it violates that trendline and creates a new downtrend of indeterminate time duration. The trendline is not drawn on this chart but you can 'see' it by visualizing a line from the October '04 low up to the arrow point on March 1st. As mentioned previously in these letters, a good strategy is to draw a horizontal price line on the date of the cycle turn and then trade long above that horizontal line and short below it until the next reversal point.

BA had the same cycle date as **AIG** but the direction was exactly opposite showing the effect of rotation in the market. This too may have looked at first like a difficult trade but if you use that ‘horizontal line’ method



and not have too many preconceived notions about what has to happen you will trade without bias. Please note that these individual stock patterns don't have to follow the general market so don't be afraid to take a position

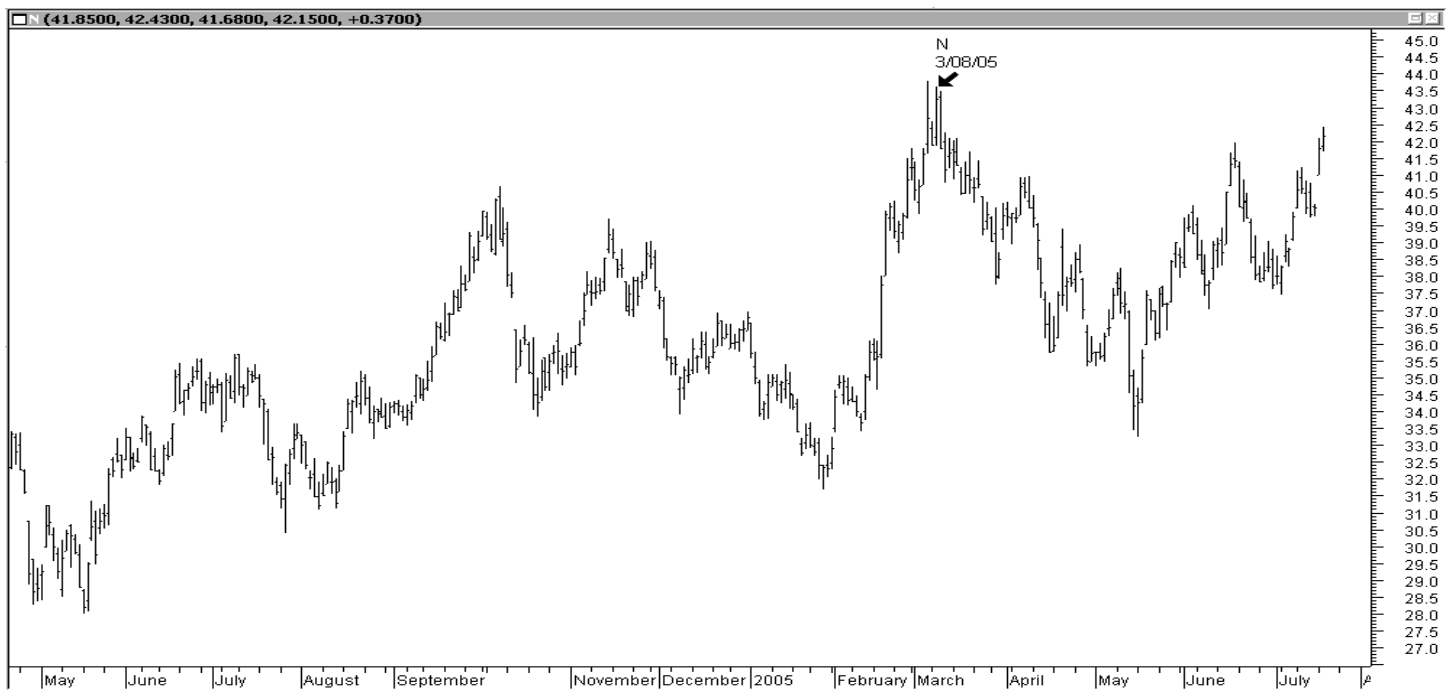
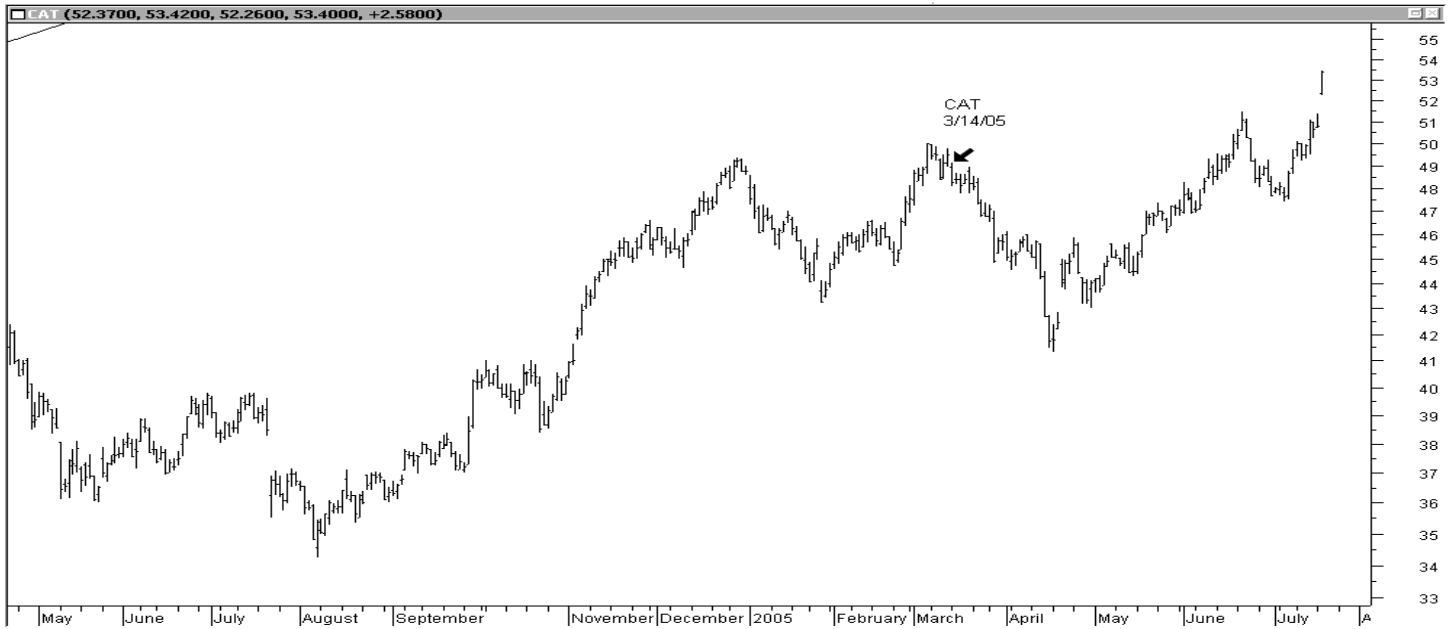


contrary to what you think the general market is about to do. Individual stocks don't even know other stocks exist.

The BioTech Holders (**BBH**), above, started a major new bull market on the date the general market was topping out. The date given in the newsletter was a great opportunity to get aboard a terrific impulse wave. Note how the extended ‘measured move’ down into the March 14th blastoff could have warned you to expect a

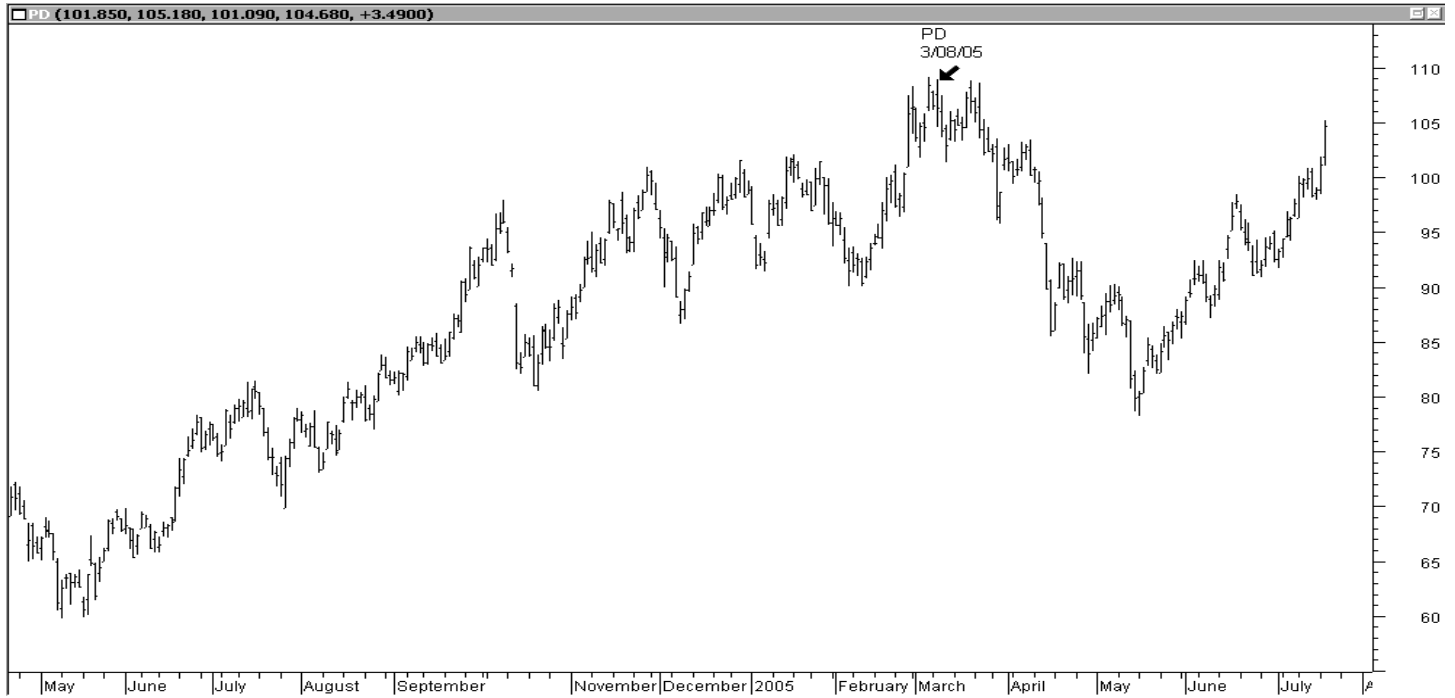
reversal to the upside on a cycle date, and when in doubt, I find that these are GREAT OPPORTUNITIES FOR OPTION TRADES, especially straddles.

CAT, below, was a double top with a breakaway to the downside on the indicated date of March 14th and here again compare the opposite outcome from the BBH's. Again, note that the previous two months were up so the odds favored the reversal of trend as being a top and a sell below the horizontal line on that date.



Like CAT, Inco (N) is a cyclical and gave a sell signal on its date of March 8th. These kinds of signals are easy as they spike and reverse and keep going. You just have to have the 'guts' to pull the trigger. Here again, options can help if you don't want to short into new highs (which is quite sensible).

Phelps Dodge (PD) like N also topped on the 8th date listed in the letter and if you look at the table each month you can sometimes get a feel as to what the rotation will be as you watch these one by one start to turn. The real key is to not get so excited about trading on the exact extreme day. These turns are usually good for at least three weeks to three months and that is the big advantage- you just keep shorting rallies in downtrends or buying dips in uptrends with the knowledge that these cyclic turns will buy you several weeks of being able to do that.

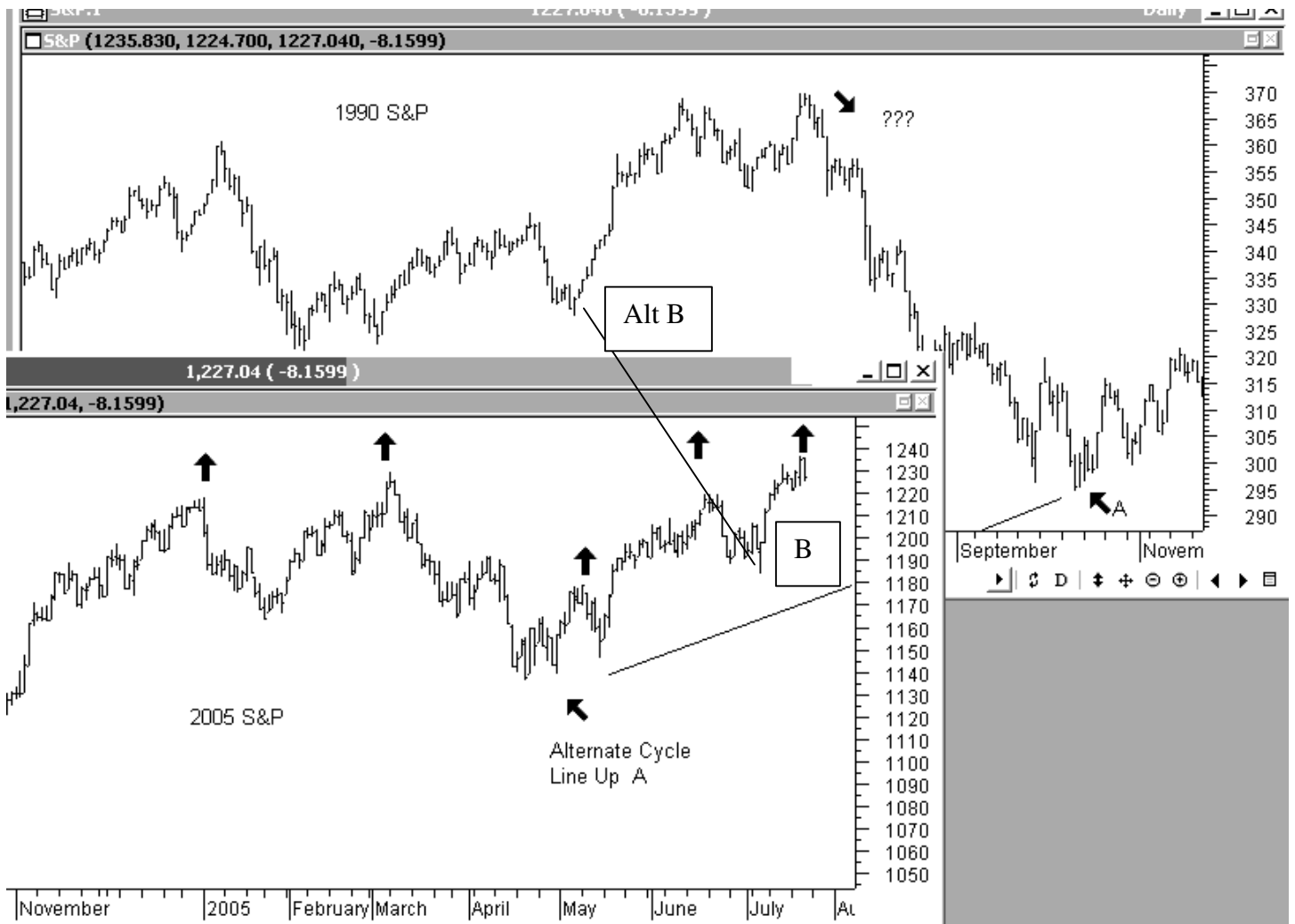


These above examples are truly typical of what has been going on for the past year in these tables I put in the letter, so make sure you take the time to keep track of these issues. You can also see why I'm reluctant to continue on with the private seminars revealing how to do this, after this year.

Just for added emphasis I include one chart from the most recent last issue, which expected EBAY to turn on July 20th. This chart below shows the \$7 up gap the day after the cycle turn with the two expected targets. This was a great option trade.



Here's one last look at our current dilemma. This is an overlay of the 1990 S&P top in July lined up with our current July time frame. This would be an exact 15 year- 180 month, top to top cycle and many of the wave fractals are similar. If we are going "off the cliff", it will start next week. The chart may appear confusing so first look at the bottom graph and the up arrows pointing to the chart points in the graph above that are similar. This is the likely pattern of July 2005=July 1990. The alternative cycle line up is the Gann Square of Nine 183 month cycle that lines up with a seasonal date of August 8th but three months back in 1990. I've labeled that possibility as alternative 'B' and it shows one last rally up to July 1990 over the next two months. Alternative 'A' of 177 months is a compressed cycle and we would be at the October 1990 low just now with a big leg up. This is why our current situation is difficult to predict for a few more days. The one thing that seems evident from all this is that an important turn is here right now and it will be good for the next two months whichever direction it breaks. I'd go with it.



August Activity Calendar

DATE	UP /DOWN DAY	DAILY	WEEKLY	HOURLY
25	U	*	*	2
26	U			2
27	D	*		1
28	U			10
29	D			10
AUG 1	U			2
2	D	*		12
3	D			11
4	D			11
5	U	*	*	3
8	D			12
9	U			11
10	U			10
11	D			3
12	D			10

Notes: U means up day, D means down day. Trend changes indicated by the * will generally be more accurate than the frequent U/D day indications and will usually trend in the same direction until the next *. Hourly turns are given in local New York City (Eastern) times, i.e. 10=10 AM EST.

Summary

The market probably topped the third week in July and if so, once it breaks 1200 S&P a significant decline will set in for two to three months. Getting above 1235 S&P and holding, would indicate targets of 1253 and 1307 and probably negate the breakdown.

Note: *The Secret Science of the Stock Market* (\$135) my new book, is a best seller and the initial reviews are great. If you need to have the definitive work on forecasting the market, this is it. You will learn how to draw the proprietary 'Jenkins True Trend Lines' (JTTL) and the powerful 'Jenkins Pythagorean Triangle' along with dozens of other forecasting methods.

Stock Cycles Forecast voicemail telephone number is (212) 866-2934, but if you must get a quick response it is better to use email at: mjenkins@Stockcyclesforecast.com, or Mikecyc@aol.com. Let us know if you can get email delivery of the newsletter as it is at least two to three days faster than regular mail.

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