WAVETRACK®©

Stock Indices – January 19th, 2000

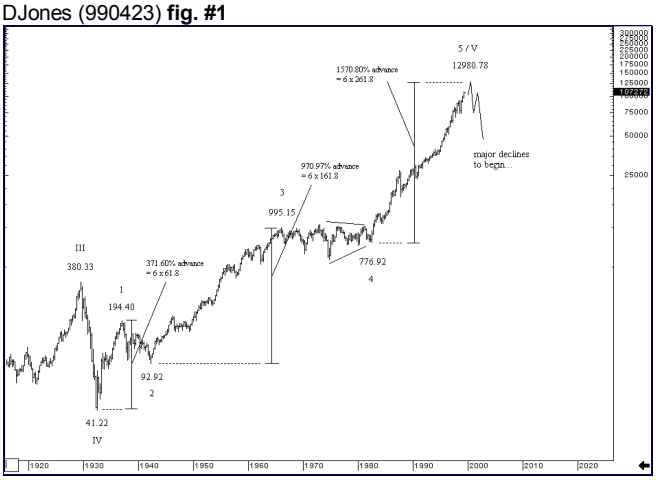
"…whilst Indices register new all-time highs, wave patterns forewarn of substantial corrective declines in 2000…"

- ***Dow Jones 30 Index / - 18.90% decline***
- ***FTSE 100 Index / - 25.77% decline***
- ***Xetra Dax 30 Index / - 32.87% decline***

"…long term wave patterns suggest the equity bull market remains intact, but like all natural rhythms found in non-linear processes, the ebbs and flows result in an alternation of progression and regression, with advances punctuated by declines of differing magnitude…"

The Mother of all stock markets, the **Dow Jones 30 Index**, began unfolding from the lows of July 1932 at a level of 41.22 Dow points. From this meagre beginning, there is a *five* wave pattern of advances evolving on the monthly charts which is instantly recognisable even by the novice Elliottician. This sequence is referred to as 'action' or 'progression' and when completed, must comply with *Universal Law* by beginning an opposite sequence of activity with declines unfolding into a *three* wave sequence known as 'reaction' or 'regression'.

DJones (990423) **fig. #1**



This report is intended for information purposes only and under no circumstances should it be considered an offer to sell or solicitation to buy any commodity or investment. Any trading recommendations or opinion contained in this report is only a statement of our views and is based on information we believe to be reliable but no guarantee is given as to its accuracy or completeness. Futures and Options markets are volotile and therefore subject to rapid an unexpected price changes. Any person relying on information contained in this report does so at their own risk entirely and no liability is accepted by WaveTrack in respect thereof.

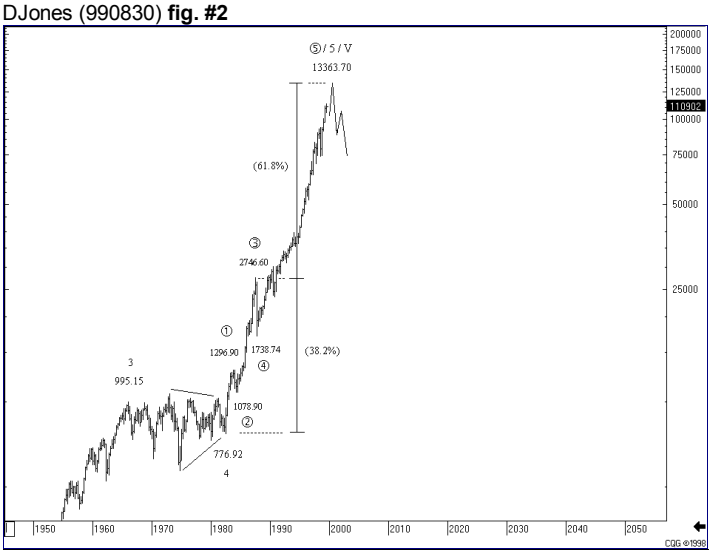
© All rights are copyrights to WaveTrack. Reproduction and / or dissemination without WaveTrack's prior consent is strictly forbidden. We encourage reviews, quotation and reference but request that full credit is given.

www.wavetrack.com

The big question can now be asked – "how can we recognise the ultimate end of the bull market?" The answer is through a combination of applying Elliott wave rules and Fibonacci ratio relationships.

In **fig. #1,** the *five* wave advance from 1932 is shown in *Cycle degree* (log scale), with ultimate targets towards 12980.78, calculated where each impulse wave's percentage advance is measured by multiplying the number 6 by the 'golden ratio' in its expanding format i.e. 61.8, 161.8, 261.8.

DJones (990830) **fig. #2**

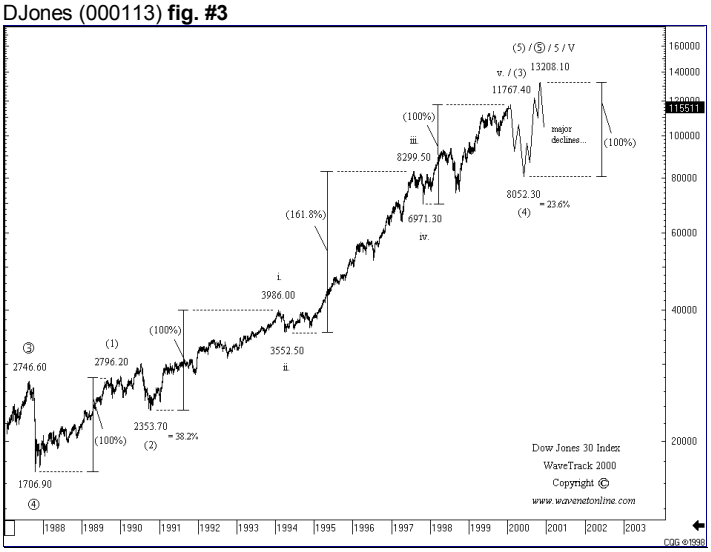


Cycle wave 5 which began its advance from 776.92 in August 1982 has also unfolded into a *five* wave formation of *Primary degree* (log scale), with ultimate targets towards 13363.70 as shown in **fig. #2.** Note that using ratio relationships to the different wave nomenclature results in similar targets towards
13000 +/-

Examining the advance for Primary wave 5 which began from the 1987 low of 1738.74 also reveals an unfolding *five* wave formation of *Intermediate degree* (log scale), but for the first time, as we focus closer on the patterns, we can see that ***the sequence remains incomplete*** – see **fig. #3.** *Basis wave counting, Intermediate waves (4) and (5) are yet to unfold.* Fibonacci ratio relationships help to identify the wave pattern sequence, and it is this method which has been used to determine this count. In particular, the subdivision of Intermediate wave (3) reveals exact fibonacci relationships to each other.

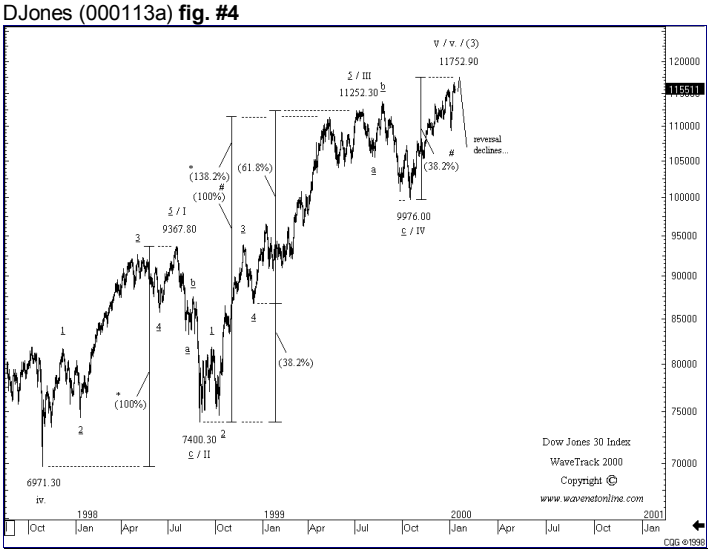
For example, the gain measured in log terms for minor wave i. when multiplied by fib. 1.618% yields targets for wave iii. at its high of 8299.50. Also, minor waves i. and v. near towards equality – they measure 100% to each other and this also *targets a conclusion for wave (3) towards 11767.40*. Last week's high was *11750.30 – an error of only 17.10 points* – negligible from the basis of an advance that has evolved during the last ten years and spanned more than nine thousand points.

DJones (000113) **fig. #3**



Minor wave v. of (3) began to advance from the 6971.30 low of October 1997. In **fig. #4** this too is shown subdividing into a smaller *five* wave pattern of *minute degree* with wave V relating to a fibonacci 38.2% of wave III's advance yielding *final targets towards 11752.90* – again *a small error of only 2.6 points!*

DJones (000113a) **fig. #4**



This provides satisfactory evidence that suggests ***the recent high of 11750.30 completed Intermediate wave (3) and that wave (4) is in the early stages of a protracted decline that will last for the next several months of 2000.***

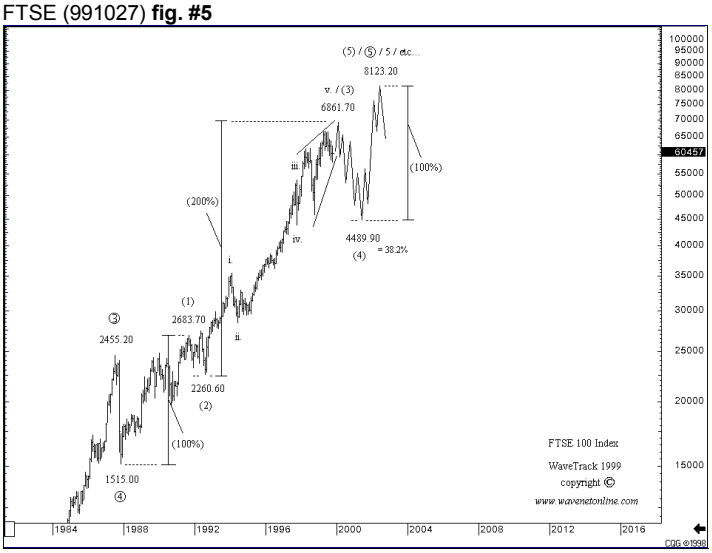
Still using log scaling, a fib. 23.6% target for *wave (4) yields targets towards 8052.30* or in ***arithmetic terms, 9528.66*** or ***approximately an 18.90% decline in value.***

If the lower target is used as in fig.#3, and a following Intermediate wave (5) advance unfolds to a 100% ratio to wave (1), then *final targets for the long-term bull market that began from 41.22 is towards 13208.10* – and again, this calculation forms a 'cluster' of figures around the 13000 +/- area.

Meanwhile, other stock indices are also adding support to the theory that a significant counter-trend decline is about to begin within the larger trends…

The **London FTSE-100 Index** has similar wave formations to that of the Dow Jones. It too completed Primary wave 4 of Cycle wave 5 at the 1987 low – at 1515.00 and in **fig. #5,** the labeling begins counting a *five* wave pattern in *Intermediate degree* (log scale). Wave (1)'s advance multiplied by fib. 200% yields wave (3) *targets towards* *6861.70*. Wave (3) also subdivides into an easily recognisable five wave structure in *minor degree* adding evidence to this target.

FTSE (991027) **fig. #5**



Minor wave v. of (3) can also be seen subdividing into a smaller five wave pattern of *minute degree* as shown in **fig. #6.** It begins from 4382.80 and this particular pattern is contained between converging boundary lines and is known in Elliott terms as a *diagonal triangle.* It has special characteristics that help identification, and this was first recognised in a forecast of October last year. At that time, *minute wave* IV of this diagonal had just completed at 5798.30 with targets for wave V calculated towards 6911.30. *The end December high was* *6950.60* *– an error of only 0.56%!!*

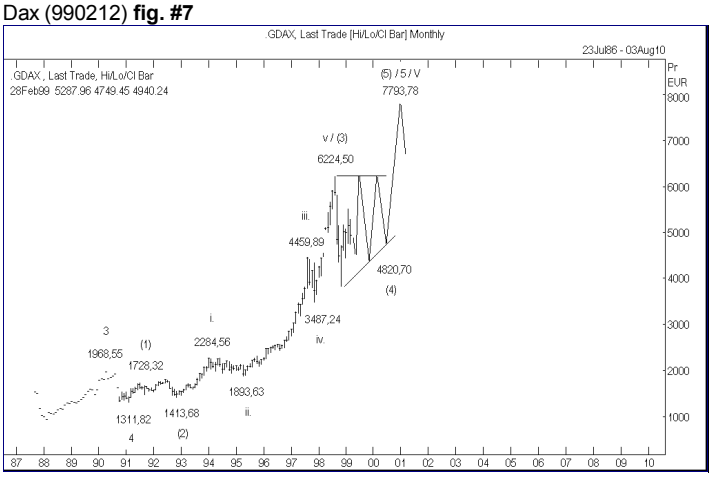
With already a sizable decline from this high, *there is a reasonable probability that* *6950.60* *correctly concludes Intermediate wave (3), and a significant decline is beginning for wave (4).* Referring back to fig. #5 suggests a log scale calculation of a *fib. 38.2% correction target towards 4489.90, or* ***in arithmetic terms,*** ***5159.02*** or ***approximately a 25.77% decline in value.***

FTSE (991027d) **fig. #6**

The **Xetra Dax 30 Index** also provides supportive evidence that suggests a substantial multi-month retracement decline can begin within the larger bull trend.
Fig. #7 begins wave counting from the late 1980's with *Primary wave* 4 completing in 1991 at 1311.82. Like its counterparts, the subdivision begins (1) – (2), i. – ii.
before a price acceleration begins for minor wave iii. - with iv. and v. following to complete Intermediate wave (3) at 6224.50.

At this point, the wave likeness ends – the Dax began Intermediate wave (4) declines in July 1998, eighteen months before the others, but it did decline to 3822.50 in October that same year. This however was only part of wave (4) which is shown in fig. #7 as unfolding into an Elliott *triangle pattern.* This chart was originally drawn in February 1999 and since that time, the Dax has made a new all time high.

Dax (990212) **fig. #7**



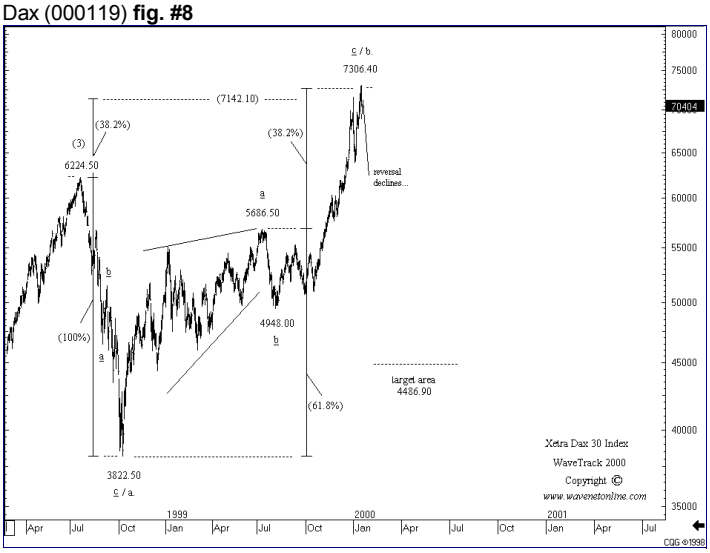
This does not change the triangle concept as new price extremities often occur within these patterns. The trick to identify them is to ensure recognising a subdivision of three wave sequences – or a-b-c, 5-3-5 zig zag activity into a new high (as in this case) coupled with fib. ratio relationships.

For example, in **fig. #8**, minor wave b. of the triangle which began its advance from 3822.50 has subdivided into a three wave formation, a-b-c, 5-3-5 zig zag. Again, working in log scale terms, measuring wave a of this sequence (3822.50 – 5686.50) and then multiplying by fib. 61.8% and adding to its high *yields targets towards 7268.60* – the actual high recorded yesterday (18th January 2000) was *7306.40 – an error of 0.52% !!*

Wave c. declines are now highly probable, and this should measure similarly to wave a.'s decline (6224.50 – 3822.50) at 100% ratio relationship *yielding targets towards* 4486.90 or ***in arithmetic terms***, ***4904.40*** or ***approximately a 32.87% decline in value.***

At a later date, waves d. and e. of the *triangle* will need to unfold before completion of wave (4), but eventually, the market will begin a final advance to new highs with ultimate targets for Intermediate wave (5) of Primary wave 5 etc. towards 7793.78.

Dax (000119) **fig. #8**



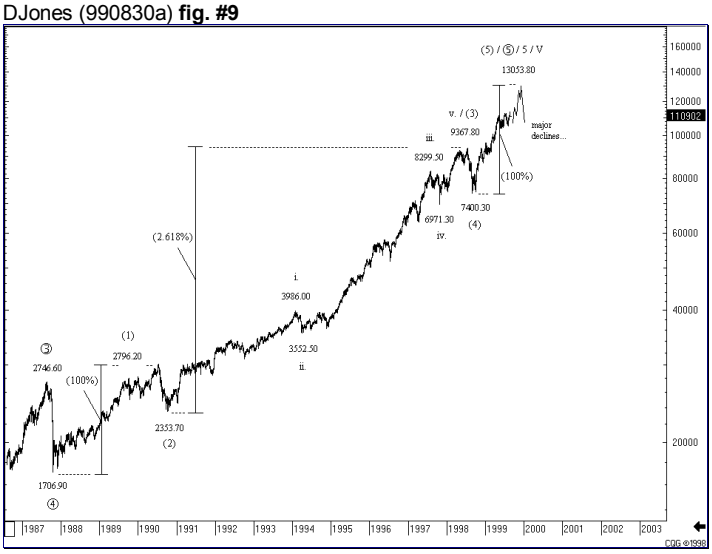
Alternate Bullish Counts :

For the Dow, an immediate advance to new highs would perpetuate the bullish sequence that began from the august '98 low of 7400.30 and signal a run towards 13053.80 as shown in the slightly different labeling of **fig. #9 –** see next page. At the very least, the bull market must remain above the October '99 low of 9976.00.

The bullish count for the ftse 100 would also be continued if prices jumped into new highs without first declining below October's low at 5798.30. It is otherwise difficult to find a bullish count that justifies new highs without first a sizable decline.

Finally, in **fig. #10**, the Dax is shown continuing an advancing five wave pattern from the 3822.50 lows of October '98 with ultimate objectives towards 8009.50.

DJones (990830a) **fig. #9**



In this scenario, current declines should be temporary with prices remaining above the early January low of 6388.90 en-route to new highs.

Dax (000112) **fig. #10**

Conclusion :

The overwhelming evidence derived from combining results from wave counting and fibonacci ratios suggest an immanent corrective decline is just beginning for some of the main stock indices.

Whilst forecasts may seem 'extreme', declines during this year are expected to result in depreciations of between 18% to 33%.

Peter Goodburn
WaveTrack International GmbH.
Peter.goodburn@wavetrack.com
+ 49 (0) 89 210 207 11
www.wavetrack.com