CRAWFORD Perspectives

February 01, 2005 Vol. 05/02

MAY HAVE COUNTER-TREND RALLY 1-3 WEEKS!

The BRADLEY Model is the measure of 2-planet aspect (harmonic relationship) power relative to the Earth. The US stock markets will often follow this projected line, except when it doesn't. There are many significant astronomic occurrences which are not included in it, details of which we have written many times in this newsletter. Bradley's Potential Line now calls for an extremely sharp, but short rally into mid-February. Although the dip in January was not extreme, it was the worst January in a few years, and the 10-day drop of -294.47 (DJI closing basis) into Jan. 13 was the sharpest since the October 25 bottom. The total intra-day decline of -499.46 was nothing to sneeze at, especially during one of the most seasonally positive periods of the year!

The question now is whether a meaningful rally will happen, how much of the down move will it retrace, and when will it end. Our hourly numbers became quite oversold earlier, and were not able to reverse the deterioration. They are even more oversold now, and with the planetary improvements, we expect some form of advancement to ensue. The quantity and quality of that advance will help us judge subsequent market movement. Our opinion remains that a far more serious down leg will complete before the Mars-Uranus down cycle expires on March 23.

Traders may wish to cover a portion of short positions, or even go long on the OPEN Jan 31, but be careful of a sharp up opening, which may retrace at least part of a Gap Open. If you do, we would go back fully short on the close, Feb. 18, Option Expiry. Expect the greater part of any advance to take place by Monday, Feb. 7. **As for the negative investment positions in this newsletter, we will remain double short through any retracement attempt.** The major stock indices have clearly traced out a three month Head-and-Shoulders TOP pattern, (labeled on the SPX chart on page 2). We have textbook clarity in the price action, but volume characteristics are not ideal. That may be accounted for partly by the holidays and year-end aberrations, and partly by an overwhelming program trading component (50-70% of total volume). Although the DJIA (INDU) and the SPX have some support at current levels from the "Neckline" of the pattern, further defense is available at the 200-Day Moving Average, only a short distance below. Unlike the others, the NDX has retraced close to 50% of the rise from August, down -9.16% intra-day from the 52-week high, twice that of the DJIA, down only -4.6%. Both its 200-Day MA and its 50% retracement level are in the mid 1460's, only 30-40 points below round-number close at 1500. If these last levels break by 2-3% (NDX=1465, S&P=1138, DJIA=10,300), we would expect an immediate downside acceleration. Otherwise, short more/again near our proposed rally top on Feb. 18. There is a very peculiar interest rate phenomena in the works. Short rates (IRX = 90-Day Treasuries) are continuing to rise at a rapid rate, from 0.75% in mid-2003, to 0.95% in May 2004, to 2.41% today! That represents increases of 250% since last May, 320% since mid'03. That should begin to impact longer rates SOON! Meantime, 30-year rates have actually dropped from 5.60% to 4.60% since last May. This 30-year rate is now lowest since mid-2003, while the popular 10-year rate is being strangely squeezed into a tight 'Triangle' pattern, centering on 4.15-4.17%, with higher lows and lower highs! These trends cannot continue without forcing an 'inversion' of the yield curve, a condition with a strong tendency to lead recessions. The short rate futures indicate a 96% probability that the FOMC will once more raise Fed Funds rate by an additional 1/4 point this Wednesday (Feb. 2). Some analysts are predicting this may be the final rise of this series. Coincidentally, the US dollar index future is having a prolonged 'dead cat' bounce of dubious staying power. With balance of payments problems worsening, unexpectedly (possibly due to a boycott of US products), we are of the opinion that conditions are similar to 1987, when Dollar declines led to an eventual rapid rise in Interest Rates which, in turn, tanked the stock market.

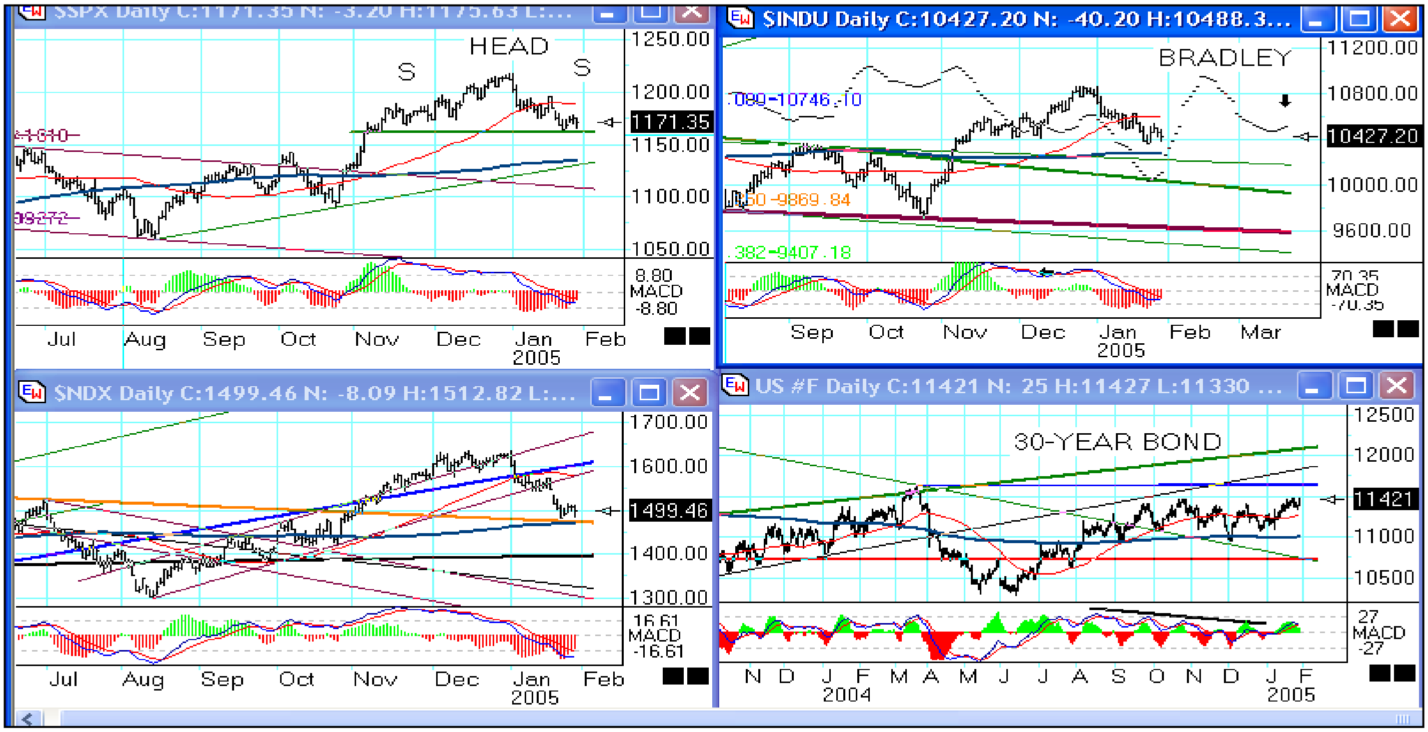
VITAL SIGNS

RETURNED TO 200% SHORT USING FULL MARGIN ON CLOSE DEC. 31!

THAT WAS 10,783.01 FOR THE DJIA
PLACE A STOPLOSS AT 11,125

THAT WAS 1211.92 FOR THE SPX
PLACE A STOPLOSS AT 1252

ALL OUR STOPS ARE CLOSE ONLY!!



MACD PATTERNS IMPROVING, INCREASING THE POSSIBILITY OF A COUNTER-TREND RALLY!

Charts pictured above show ($SPX) S&P500 Cash Index, ($INDU) Dow Jones Industrial Average, ($NDX) NASDAQ 100 (not COMPosite), and (US #F) 30-Year T-BOND (price).

Both the SPX and NDX broke up through all previous resistance levels of the last 3 years! We said last month: "ALL, however, have extended MACD momentum indices which are now rolling over." The MACD's were good predictors in this case, as they often are. The BRADLEY Model was turning negative, as well. Also from our last:"... NDX could not beat its peak of Dec. 15, nor the INDU its high of Dec23. These non-confirmations are NOT the sign of a still strong trend." The effects of technical negatives can be delayed beyond comprehension, but eventually must break things their way!

The Thirty Year Bond is in Limbo, here. The Rounding Top or Inverted Bowl formation has totally blown out, as the rally last month brought the Bonds slightly above fourth quarter highs. Closing the year in the middle of its trading range of the last 5-6 months, it has to break back above 115 to turn clearly Bullish, or back down below 110 to imply the Bearish case. Although stronger than many expected, there is still no clear breakout from the previously mentioned trading range. We are projecting rates to rise (with Bonds down) by mid-March.

Bullish Sentiment Readings have changed very little, despite the sharpest sell off for a January in years! Excruciating extremes remain in effect like storm warnings. The VIX, option volatility index (chart page 3), remains below its 200-Day MA at 15, and has yet to break high enough to give a Confirm on the Sell signal. NYSE New Highs vs. New Lows have not come down sufficiently to render a Sell signal either. Even the strong Market Indices have reversed their marching order, and the First are now Last, and the Last, First! Although Dow Utilities remain positive for the year, Dow Transports, Small Cap, High Tech Junior Growth are hardest hit, followed by Banking, Defense Ind., and Insurance stocks.

The order of progression for Moving Averages in the process of rolling over, are these: 1. Price breaks below the rising 50-Day MA; 2. The 50-Day MA turns down; 3. Price breaks below the rising 200-Day MA; 4. The 50-Day MA breaks below the rising 200-Day MA; 5. The 200-Day MA turns down. Although this order may vary slightly, it is clear that an important decline is in effect when Price is below both, the 50-Day MA below the 200-Day MA and both MA's are declining. Conversely, a bull market move is accompanied by Price moving above the rising 50-Day MA's, which are above the rising 200-Day MA's. The Major stock Indices have returned to phase two, and have a ways to go before they can be considered clearly in Bear trends. [Color ONLY in the electronic Adobe.pdf version.]

"Obfuscation and Rationalization

As I write this chapter, the 'watchdog' of earnings, Standard & Poor's, has just bowed to pressure to change the basis of its earnings reports to 'operating earnings' rather than total company earnings so that the reported P/E ratio will henceforth be about half of what it really is. They have begun to tack these ratios onto the old ratio's eighty year history as if they are the same thing. Operating earnings omit several items, the main one being interest payments for debt service. Hello! Debt service is what is killing industry. Leaving it out is like leaving torture equipment out of a description of a dungeon. The desperation within the financial world to avoid reporting 'bad news' (i.e., the truth) is obviously immense."

- Robert Prechter in *Conquer The Crash*

NO POWERFUL TECHNICAL SELL SIGNAL HAS YET BEEN GENERATED!

Option Volatility Index (VIX - chart above) remains at historic lows, despite 500-point decline in the Dow Jones Industrial Average since late December. This remarkable coincidence points up the fact of extraordinary complacency of market participants. The first suspicious stirrings have begun to appear in this index, as we now have a higher high and a higher low, while breaking above the 50-Day Moving Average (thin red line in .pdf format). A stronger negative signal will be rendered if it breaks above the 200-Day MA currently at the 15 level, and the downtrend channel line at 18. The SELL Signal would be more important if the past year high just under 23 can be bested.

Another signal we like for it's simplicity and clarity is the number of New 52-week Lows on the NYSE. We consider a SELL if New Lows register over 40 for 3-4 days running. The highest recent reading was 33 on Jan. 24. That was the highest since the day after the October market bottom. Another SELL would activate if the 10-Day New Highs/New Highs+New Lows drops through .70 or 70%. They currently read .83 after reaching a high of .970 on January 3. The highest reading was .979 on December 1, the day of maximum new highs for this cycle at 468 on the New York Stock Exchange.

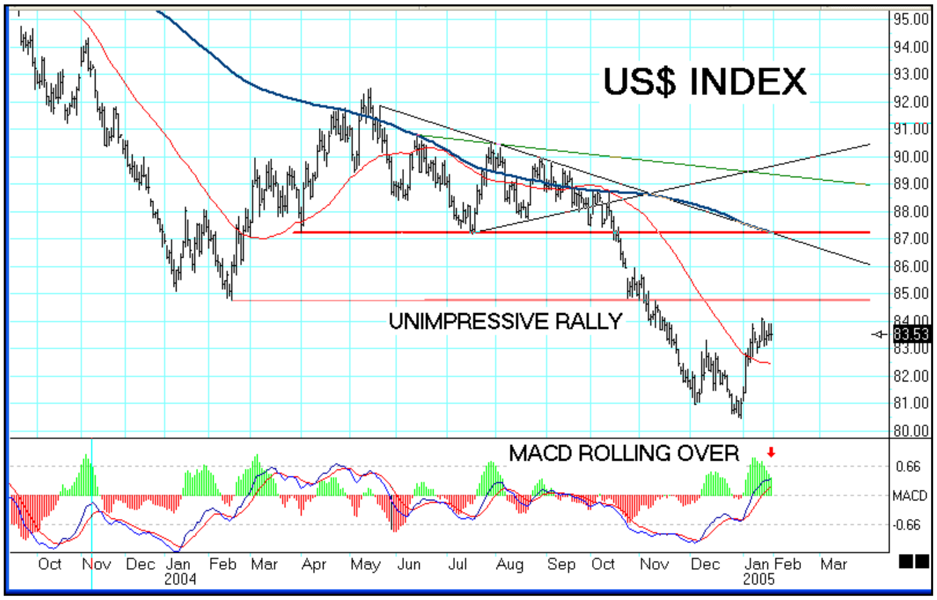
DOW THEORY will offer a further confirmation downside if we observe a simultaneous breaking of previous lows on both the DJIA at 10,368.61 and the DJTA (Transports) at 3454.78. So you see, none of these have given a SELL or SELL confirmation.

We issued our SELL signal for December 31 on the basis of the BRADLEY Planetary Model, the Mars-Uranus Cycle in US Stock Prices, extreme sentiment readings over several different market participant cohorts, and the loss of momentum in index prices and any number of internal technical measures. We also considered the historic high Price/Earnings Ratios and historic low Dividend Yield Ratios. A number of distribution days have also been evident with volume increasing on down days, a distinct bear market pattern.

Now, it looks like markets may get a temporary reprieve. Short term oversold conditions coincide with positive planetary aspects and some small positive divergences in market generated technical numbers. One more momentum negative in that the DJIA on its last up day was less up than the previous up day, and the last two down days showed increasing down point totals. As we have registered no firm sell, we have no firm buy here either. But the potential dangers are very real, and risk is much higher than the norm.

Arch will speak at the Resource Consultants conference in Tempe, AZ April 1-2. Call 1-800-494-4149 for more info.

We Shorted the **US Dollar Index** (Chart this page**)** contract in the May 3 CP letter @ 91.02. We lowered the stop on the **Index** last month to 83.25, which was hit, giving us a +7.77 profit. Reshort on a decline below 80.40 & place a stop at 83.25.



We have a chart count to its upper trend channel to around $475+ for the **GOLD** price (see chart page One), but the last new high failed to achieve the upper trend channel line**.** That indicates a loss of momentum. So we raised the STOP on **GOLD** from 390 to 428 last month, and it has been hit. We bought the GOLD at 258 on April 5, 2001. In 2005, we are experiencing a series of Jupiter trine Neptune aspects. It was on the last of such a series that we bought the GOLD in 2001. We are concerned that there will be several months of counter-trend declines into August or early September of this year. Expect another spike up sometime during February or March. We will go short on it for the intermediate term!

The **Dollar** has held support for now, but is certainly NOT dynamic in its technical action. The **CRB** closed out the year in the middle of its range of the fourth quarter, 283.93, and was up 11.2% for 2004. The **CRB** chart looks increasingly risky and the **Agriculturals** look terrible, as a group.

Cattle contracts are in a continuing saw-toothed pattern that rises and drops on Mad Cow news. Broke up out of intermediate consolidation pattern 2 weeks ago, and came right back down into the middle of it to finish the year - going nowhere, fast. Since early November, though, there are higher highs & higher lows, the classic definition of an uptrend in effect! **Hogs** dipped early in the month, but returned near the highs seen at the end of November. Looking more like a small Head-and-Shoulders TOP pattern now! Of the breakfast foods, **Coffee** is the only one that has sharply exceeded the Sept.-Oct. highs. **Sugar** is now re-testing the October highs. If it bulls through, it could fly fast. Otherwise, short on a dip below 8.9.

Wheat and **Corn,** the **BEAN Complex, & Cotton** attempted to make long slow rounding bottom patterns! They have all basically Failed and returned to negative trends. **Lumber** has already put in an up leg or two, continuing to stair-step higher, rather than taking the needed rest. May be getting more vulnerable here.

The **Oil Complex** appear to be in a sideways Topping pattern, more to go for a Head-and-Shoulders completion pattern. **Heating Oil** and **Crude** have gotten some bounce, while **Natural Gas** has put in a very weak showing. Most COMMODITIES look WEAK, here!

SILVER broke sharply into Dec. 10, and has done little since, as has **Gold.** A series of Jupiter/Neptune aspects makes the Metals play doubtful until the Fall! **Copper** and **Platinum** remain near their highs, but have lost momentum.

We <u>NO LONGER</u> recommend the <u>Stocks</u>, but continue to like the BONDS and Currencies of Australia, New Zealand, Canada, and to a lesser extent Russia and South Africa (greater political risk). We have been LONG for the last 3 years, **along with GOLD,** (from April 5, 2001)! The Major shift to Resources is ongoing and will probably last for years, but we look for a multi-month correction phase after a spike in the near future.

ASTRONOMIC ACTIVITY

JAN 28 = Mars conjoins Pluto & opposes Hades 12:47 ET. Traders may want to cover some shorts and buy some today (Fri.)
JAN 31 = Moon conjunct Jupiter early AM on Monday. Could be a rush to buy after the bad-news Friday.
FEB 1 = Jupiter Retrograde Station = First of many good aspects up until Option Expiry on the 18th. We think markets higher!
FEB 3 = Sun conjoins Neptune = one of several low indications for Gold, Metals, Oil next few days.
FEB 6 = Mars enters Capricorn, semi-square (45 deg) to Neptune on Sunday. More Flooding! Burning of Oil?
FEB 8 = New Moon in close trine (120 deg) to Jupiter, earlier Moon/Mercury/Neptune conjunction = Down in Gold, Oil & CRB.
FEB 10 = Mercury trine Jupiter, Jupiter trine Neptune in Right Ascension = More Down in Metals, Oil.
FEB 12-14 = Weekend finds Sun/Mercury conj., both sextile (60 deg) to Pluto = Possible breakthroughs in research, technology!
FEB 14-17 = Venus joins Neptune in longitude & declination = Final Lows for now in Gold, Oil & CRB Index.
FEB 18 = Option Expiry. Market heads back down from here. We must watch the technical info closely during rapid shifts.
FEB 21 = Mars squares the Eclipse Point of next October 3 = `Black Holes open up in some markets!
FEB 23 = Full Moon in close aspect to Saturn near midnight ET = Depressive business news, doubts, fears worries.
MAR 10 = New Moon Grand Cross if you include 2 Uranian points. Very complex, very powerful. May be a low near here.
MAR 20 = Spring Equinox = High potential for violence, down markets.

ATTENTION: The letters are usually mailed 1st Monday. <u>The March issue will likely be sent early on Monday , March 7</u>

CRAWFORD PERSPECTIVES 6890 E. Sunrise Drive, Suite 120-70, Tucson, AZ 85750-0840 Tel. (520) 577-1158 FAX (520) 577-1110