

SOME TECHNICAL DETAILS

2 QTR. 2000

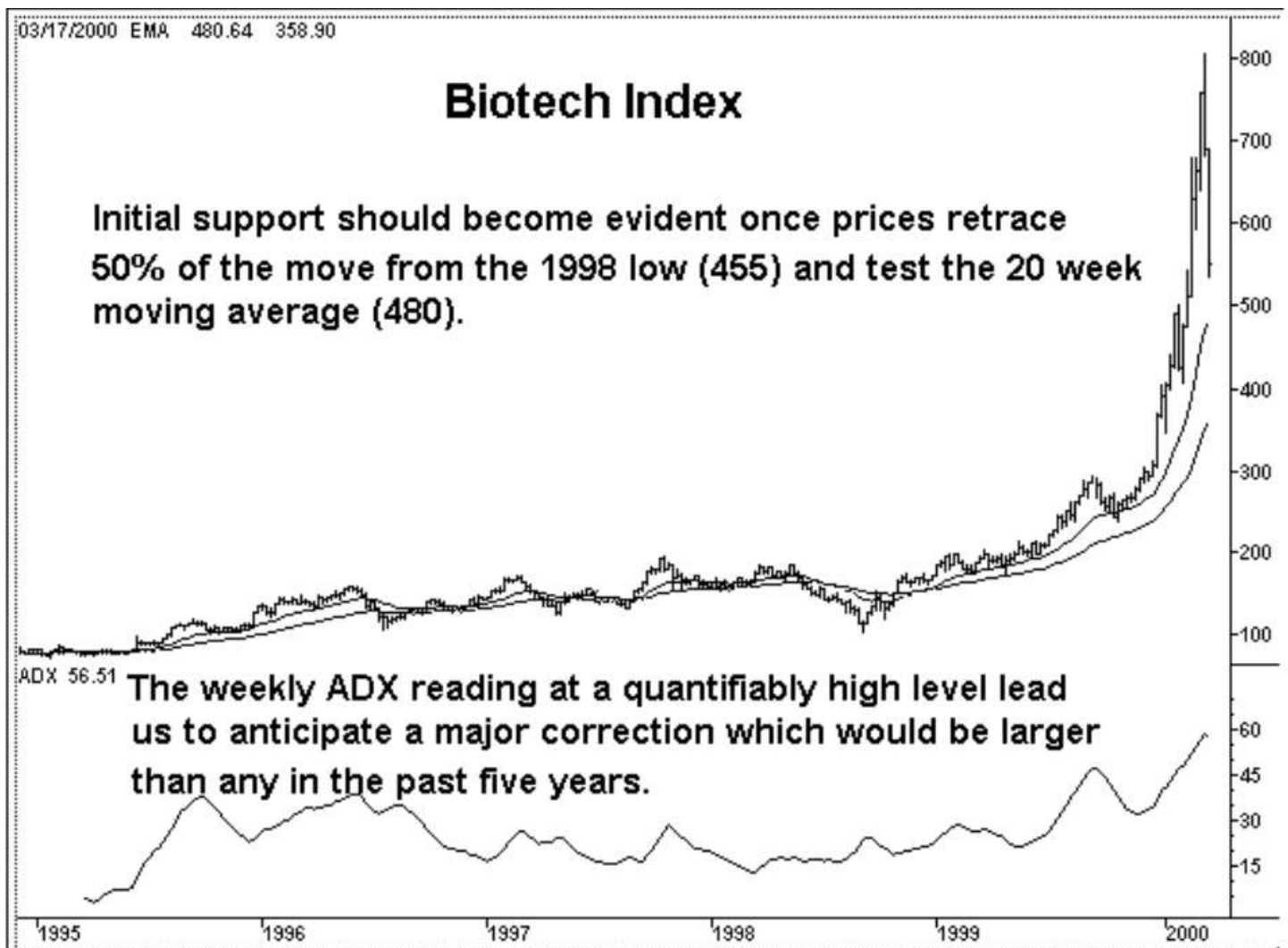
PIVOTAL EVENTS

MONDAY, MARCH 20, 2000

THE BIOTECH BLOWOFF

Our approach to identifying the reversal in biotechs is likely applicable to other groups such as telecoms or semi-conductors: - as their speculative action matures.

Granted, Clinton and Blair dropped a naïve but heavy socialist trip on the action, but this likely just accelerated the drama of the collapse.



OUR APPROACH

As background, in October we identified the rise in the stock market and noted that new highs for the senior indexes was likely. In November, we observed that a great speculative surge was also possible. We used two methods to call the top in biotechs and the details follow:

February 4

"The leading biotechs are at a rare warning level. Combined with other technical measures as well as a change in the fundamentals to distribution would determine a "sell" - but not until." The action was setting up an unusual extension of trend and we cited examples such as Bre-X in 1996 and the attempted silver corner in 1980.

February 11

"When critical distribution comes in, we will advise." Essentially the same reasoning and comparisons were repeated.

February 25

"Rotation out of the more ethereal techs and into devastated "old-line names."

March 3

"The action in the biotech index has changed to distribution into the rising trend. This is an alert."

March 8

"Biotechs have been showing distribution for two weeks and have rolled over." Tom provided a list of shorts on March 8.

PIVOTAL EVENTS

WEEK ENDED MARCH 24, 2000

INTEL APPROACHING A CRITICAL EXCESS ?

NOTE:

- In calling the recent top in biotechs, our approach used the ADX to indicate the over-extension of the trend. This anticipated the "sell " signal, which was offered when the action turned from accumulation to distribution.
- The MACD is at a historical extreme, but not in the order of the ADX on the biotechs. If the action turns to distribution, a significant correction would likely follow.



PIVOTAL EVENTS

WEDNESDAY, APRIL 12, 2000

BOB HOYE

LONG BOND

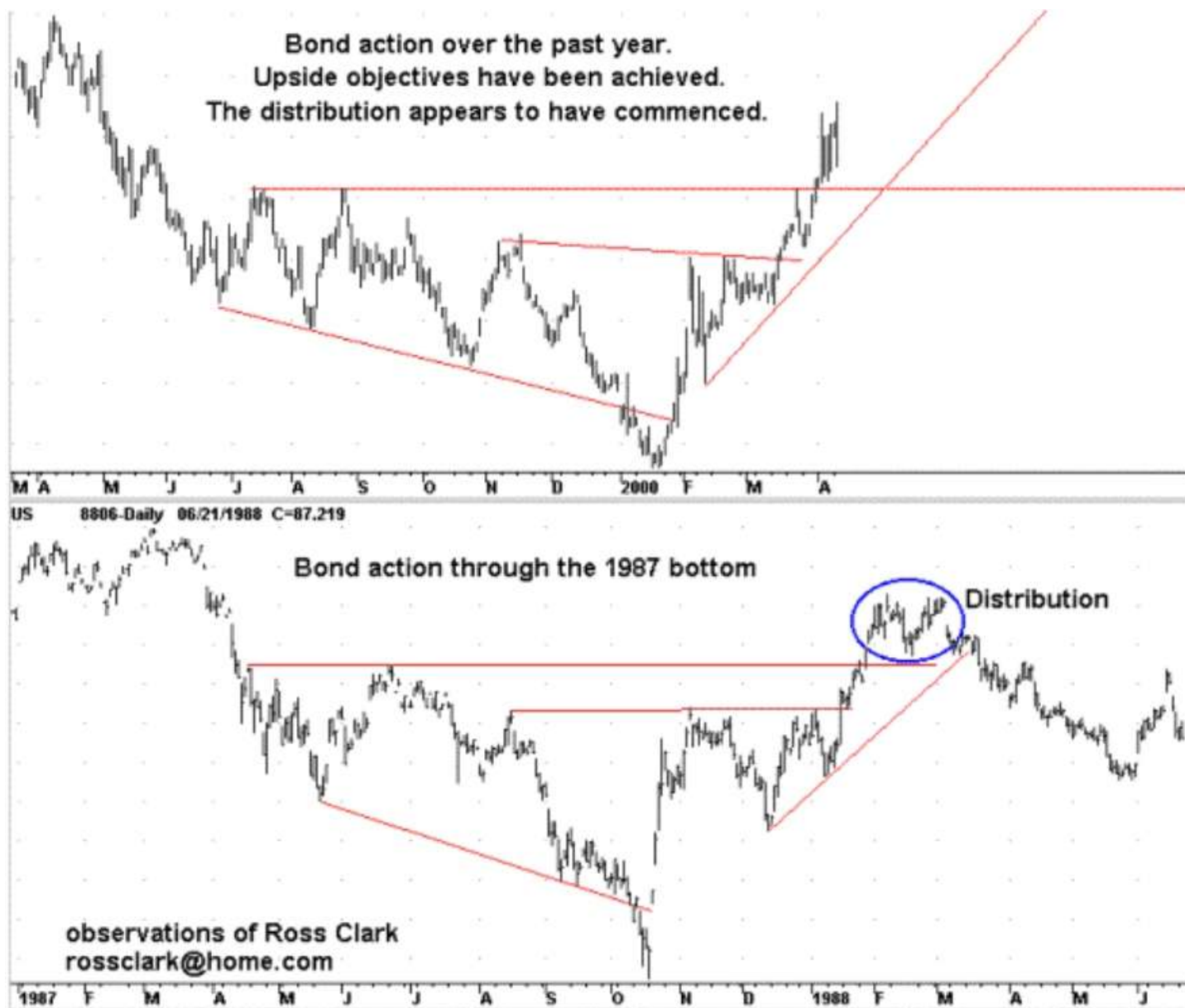
When the Asian crises started in 1997, we plugged in our deflation model for the possible path of interest rates and credit spreads. The results have been outstanding and the forecast which was laid out some three years ago needs no revision. It ain't broke, nor are the credit markets - they've been following a typical path.

BOND ACTION

In September/98, Ross noticed the lineup with the chart violence centered around 1987 and, using various technical means, some price targets on the future were made. It was out by a point at the high of 135 on October 5 and also out by a point at the bottom at 89 (new contract) in January. Considering that the target was projected at the high in 1998, the results are as good as it gets. Few, if any, research methods assumed that the credit markets, with the collapse of lesser exchanges in 1997, would track their typical patterns following previous bubble collapses in lesser exchanges.

Once the January low was in, Ross' target was 98, or 5.80-5.85% yield, to be reached in two stages.

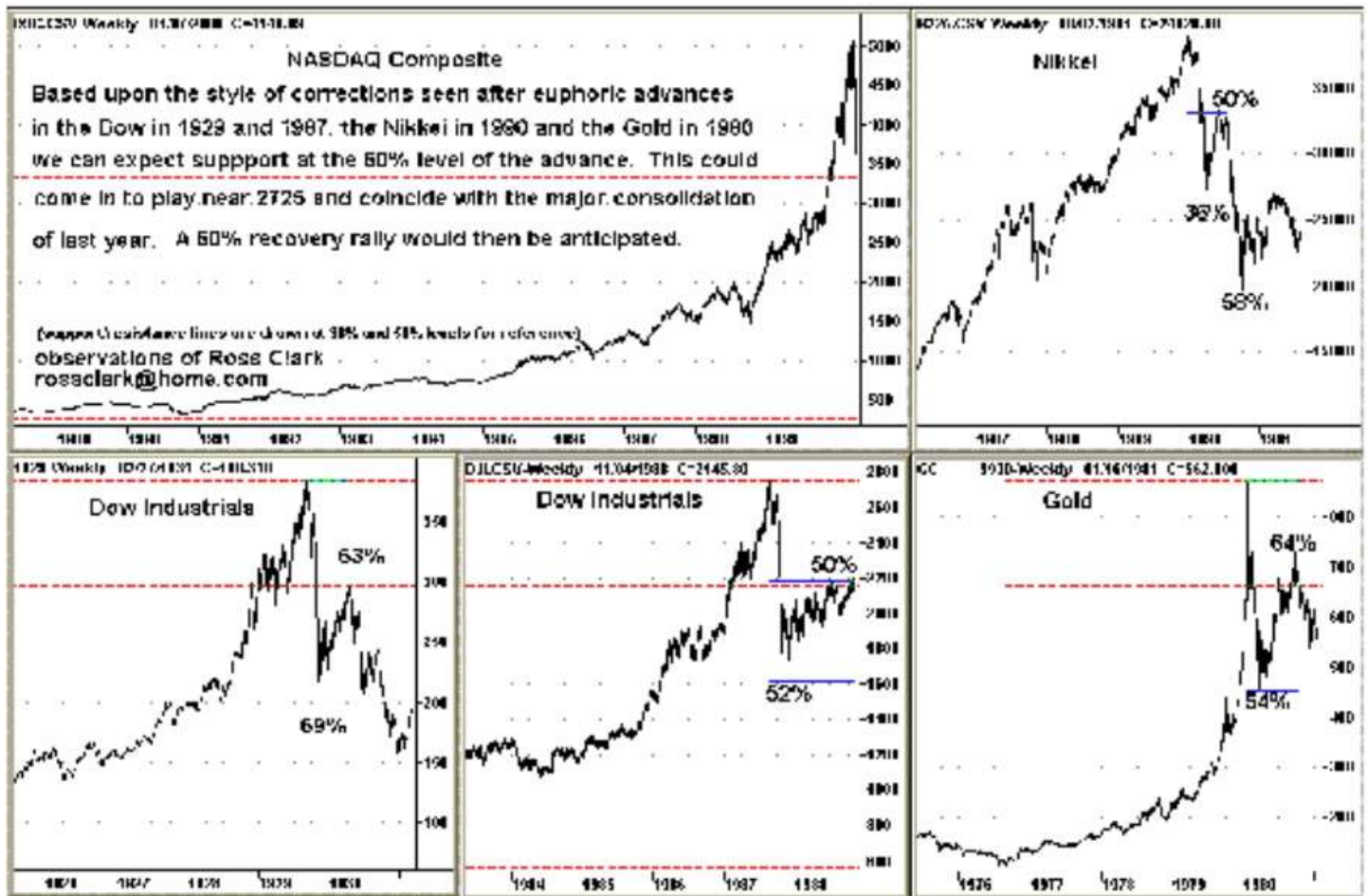
- The action with the price thrusting above the rising channel was a classic technical setup for reversal.
- This simplified chart does not include the measures used to determine the 98 target and the nature of the overhead technical resistance, but it worked.
- On fundamentals, our view last week was distress in the curve and spreads as well as weakening industrial commodities was getting hysterical and eligible for relief. The advice to investors as we neared 98 was to get somewhat defensive.
- This month's action has now entered the distribution phase and we are now looking for a test of the high and retreat to formally complete the top.



NASDAQ COMPOSITE

The relief in spreads and the curve with a 15 bp increase in long rates has not been friendly to Nasdaq stocks. Clearly, the problem is financial with margin calls symptomatic of the credit contraction consequent to any over-speculation. If the Nasdaq tests the lows and recovers, the pressures will be relieved. If it doesn't, then more serious deflation of financial assets would follow. Ross has provided a page of similar speculations and consequences. The last signal from the Bank Trading Guide at the end of March was the setup for a concluding rally.

Obviously, the financials have soared as the curve was approaching inversion through short rates increasing as long rates declined. Typically, in great frenzies inversion occurred with short rates increasing faster than long rates were increasing. If this happens, most equity sectors would have no chance of rising. We don't have a "sell" on financials, but some more money could be taken off the gaming table.



PIVOTAL EVENTS

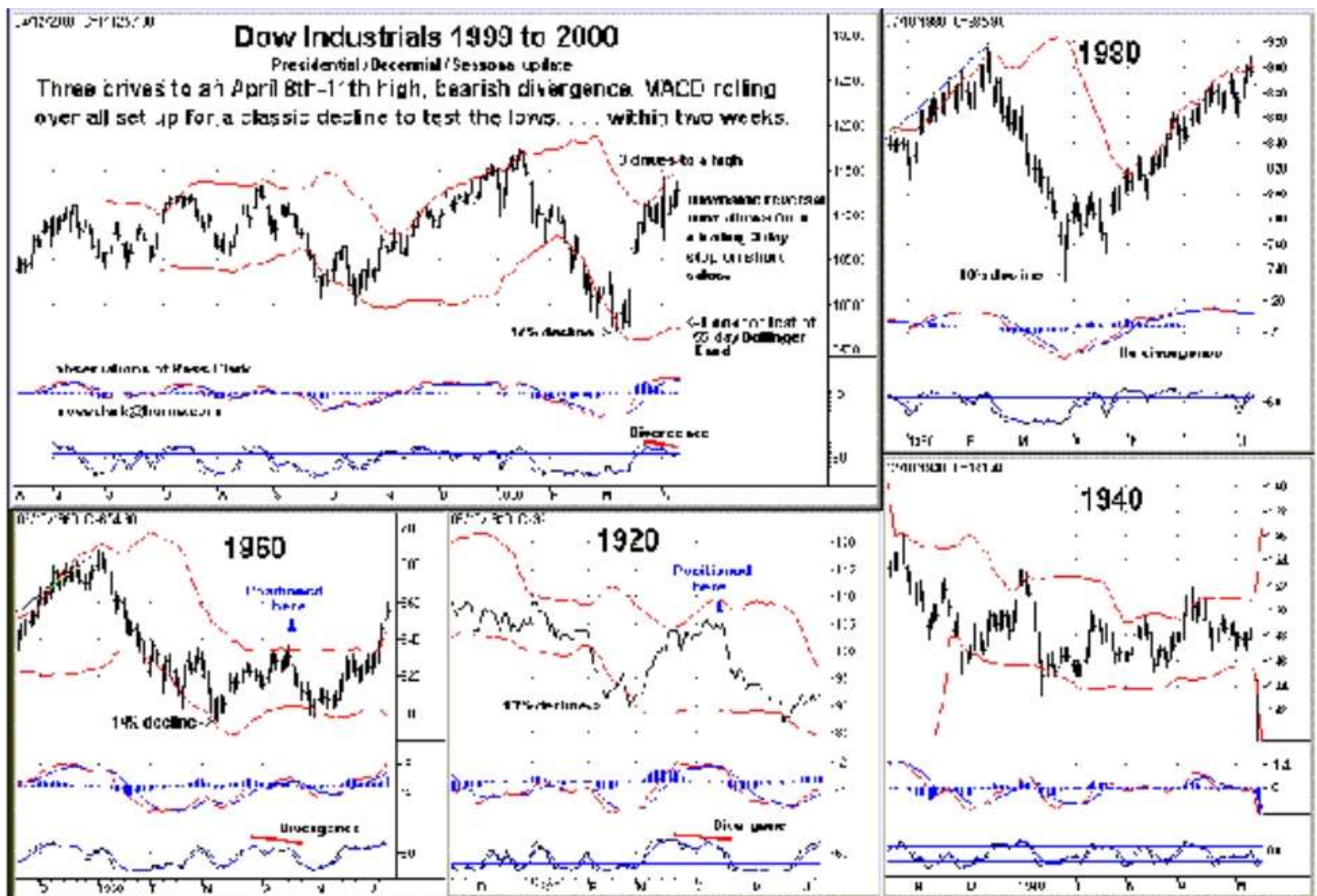
WEEK ENDED APRIL 14, 2000

DJIA

SHOWING TURN OF THE DECADE AND ELECTION YEAR MODEL

This model expected the following ups and downs:

- The recovery in the Dow to conclude a speculative surge in January. This (not shown) was expected to be accompanied by a speculative and possibly cyclical high for base metal prices.
- Then a decline of 13% to 18% was possible. The actual plunge was 17%.
- The rally would top out against measurable resistance in early April. With appropriate technicals, the plunge would be to measurable support. After plotting this full pattern in early December, it is rewarding to see it work out. Beyond that and with our model on the credit markets, financial history is destroying the Random Walk Theory.

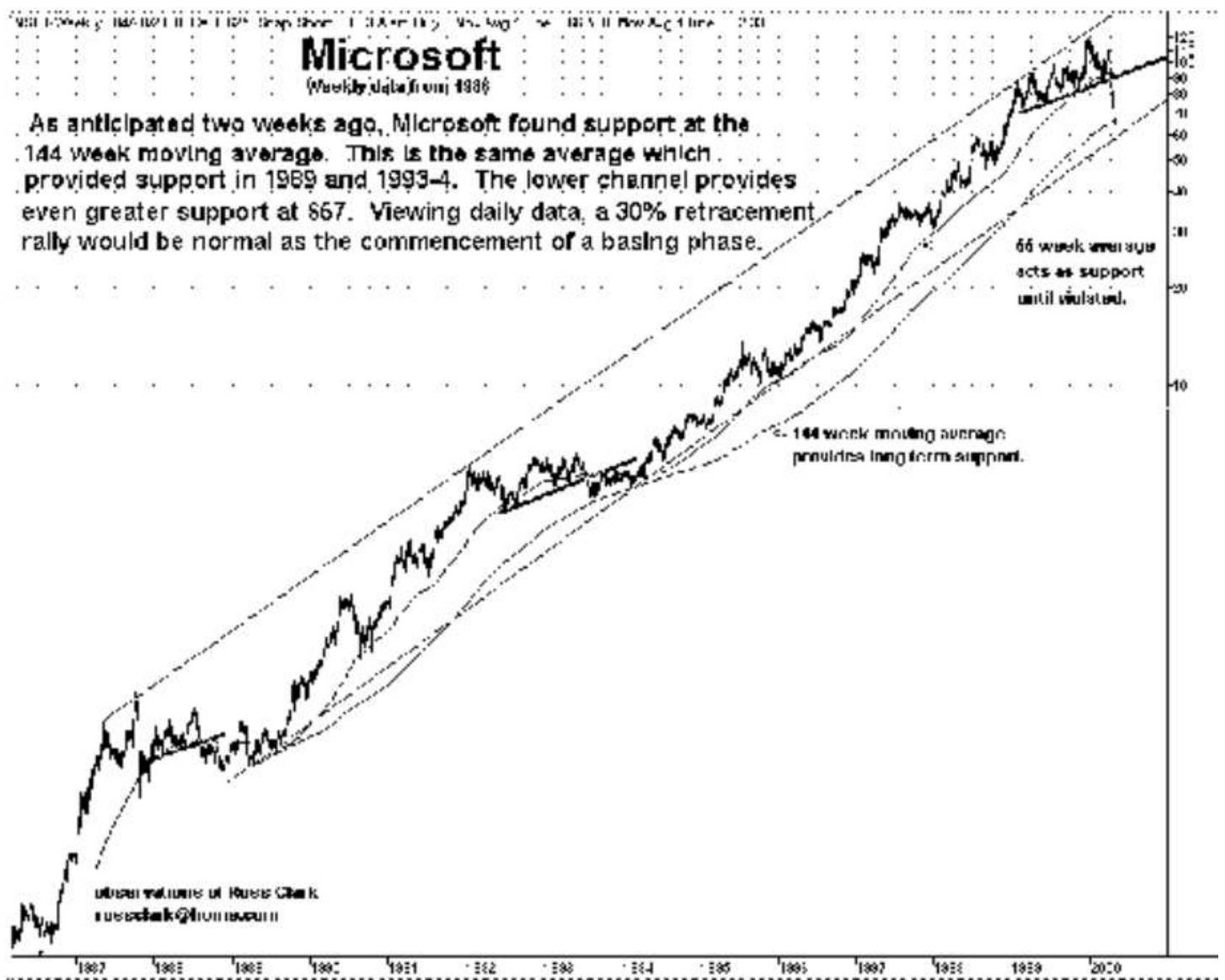


PIVOTAL EVENTS

WEDNESDAY APRIL 26, 2000

Intermediate moves are being accomplished in rather short time spans. In early March we changed to "very defensive" in biotech and "defensive" on telecoms and semi-conductors, etc. Also in early March, our Bank Trading Guide indicated a "buy" and this remains "on".

Support levels on the biotech chart were reviewed on April 5 with the following observation - "Stabilization for this group would assist other techs."



Our April 14 chart on **Microsoft** was looking for support at 66, which became evident on Monday. Representing the internet, Ross' April 20 chart noted that CMGI was preparing for a bounce with "good upside".

It seems that the liquidity problem may be fully expressed for the moment and limited to the "lunatic fringe", to borrow a cliché from similar circumstances in history.

These swings are concerningly fast for investors accustomed to a longer distanced view. However, our approach has been competent on this which, by percentage change, should be viewed as intermediate moves. That they no longer occur in a year should not diminish their importance.

Financial markets have been distressed and, in noting the extremity, our April 14 Pivotal Events concluded that the curve could steepen and favoured the 3-4 year maturities in treasuries. This,

with spreads narrowing in the face of now gloomy stories about junk bonds, seems to be working out. So far, this is encouraging and supported by base metals stabilizing their decline. These could recover into late May.

We have also been looking for the Dow to rapidly test its March low and this seems in, so it is appropriate to consider how long this move could run. The great garbage market seems to be over and only selective groups could participate in the next rally.

In 1998, our Bubble Indicators turned negative 4 months ahead of the highs in July. Very positive at the end of December, these turned to a warning in early February. If this lead is still valid, the best for most groups should be in by June.

Some research about stock market returns being greater during periods of poor earnings reports and vice versa is making the rounds. We summed this perversity up in August 1987 as follows: The observation was that "while earnings themselves may not be inherently dangerous, they can be hazardous to the unwary". It would be speculative to consider that the concept has changed.

Year	Change in Stock Market	Change in Earnings
1974	-35%	+15%
1973	-27%	+28%
1962	-26%	+14%
1937	-50%	+14%

PIVOTAL EVENTS

THURSDAY, JUNE 29, 2000

Credit Spreads and The Curve:

Fortunately, a possible recovery in the general stock market coming out of late May has been working out. With rising asset pricing reducing the motivation of margin clerks, some relief in distressed credit markets has been possible. Junk spreads narrowed from 655 bp to 610 last Friday. On the same move, those for medium-grade corps narrowed from 265 bp to 243 bp as swaps went from 135 to 121 bp. These have been widening since Friday.

The corporate curve, as determined by the yield ratio from 30-year AAA bonds to commercial paper backed off from .9136 to .8883 last Friday. As with spreads, the curve reversed that day to .9018 on Wednesday. Traditionally, for the past 140 years it has been appropriate to lighten up on most equities as the ratio went through .90. Of course, arithmetically speaking, 1.01 indicates full inversion and the consequence has been a recession. Some occurred with the curve only approaching inversion.

The curve and spreads, even at recently relieved levels, are at distressed conditions and the next extension of the trend would be very concerning. Our model expected these to reverse to unfavourable trends in January.

On The DJIA the possible "spring" pattern has prompted only a modest rally instead of a stronger move. The so far brief increase in credit pressures could be inhibiting the usual vigour.

Powerful Forces Could Trump Complacency:

This has been one of the most powerful gathering of speculative financial forces in history. We should never lose respect for these forces by considering that the brilliant results are due to equally brilliant policy. Central banks, as with their counterparts in five previous examples since the start of central banking, are merely along for the ride. The other point is that many value investors are hoping that as the speculative fringe burns out the bulls will then turn to traditional equities. The problem is statistics. Every new financial era ended with a speculative climax and the consequent credit contraction induced a broad bear market and a global recession.

Biotechs:

This group has been phenomenal, both in its parabolic rise to early March as well as in its recovery to date. However, it's a market mania and very similar to previous examples. Whether the conviction is in a commodity or stock, the signposts of emotional excess have been reliable.

In extreme markets, one of our reliable tools has been the ADX, which measures the extension of the trend. For example, at the end of September/98 it locked in our call for an immediate reversal in that powerful bond rally. In another mania through February, we pointed out that some leading biotechs were registering 70+ on the ADX. To indicate the risks upon conclusion of the move, we noted (frequently) that Bre-X in 1996 and gold in 1980 were two rare examples. The action turned to distribution in early March and Tom's list of brief short selections was made on March 8. The high was on March 6.

Ross Clark's chart on the "Sell" also considered that the 50-week moving average would indicate major support and the "Buy". That came in at 380. We like to stress that impartial determinations are important in an increasingly volatile world. We also thought the failure in biotechs would lead and be greater than in semis or telecoms.

The attached charts document the remarkable correlations that suggest a mania is a mania is a mania. The main difference is the label, or the name of the game. In the biotech label, all that is needed to suggest a "Trader's Sell" would be a few technical indications. Investors should be reducing exposure.

The potential magnitude of the next decline can be analyzed. Our December article on "The Internet - New Technology" (see website) reviewed major technological advances since turnpike roads in the 1670s. Each was over-celebrated by the stock crowd and particularly so since the development of great financial bubbles shortly after the advent of central banking in 1694.

One observation important to today is that each was a celebration of a great vision well ahead of commercial success. This is already seen in many internet concepts and will likely be seen in the biotech frenzy.

Also illustrative is the history of mining exploration plays as seen in Toronto, Vancouver, or some years ago in Melbourne. These, when actually successful geologically, include a huge celebration of a relatively fast realization of an economic asset. Then it takes some years to put the asset into production and realize positive cash flow. Typically, the stock has decayed to about one-quarter of its visionary high.

Biotechs, particularly in mapping the human genome, have been accomplishing wonders. Much of this is likely in the market and commercial success could take longer than speculative patience or margin clerks can handle. Recently as high as 700, technical support at 570 is critical.

Banks: The attempt to stabilize and rally may have run its course. The Bank Trading Guide, after relaxing from an important decline to June 21, extended its decline quite noticeably this week. This likely overrides some other technical improvement and patience should be endured until something more constructive comes along.

The Guide is impartial and last provided a distinctive "Buy" on March 14. Then the "Investor's Sell" (usually 2 to 3 weeks before the high) came in the week ending May 26. Typically, within 5 days of the high, the "Trader's Sell" was on June 2. This was coincidental with the high for U.S. banks and 5 days before that in Toronto. The gain on the BKK from "Buy" to "Sell" was 37%. The Guide is also indicating a downturn in A/Ds.

Base Metals:

Our index (less nickel) had a high of 240 on January 21 and declined to 207 in mid-April, and has ranged between 209 and 224 since. Recently, the 224 is a 50% retracement and, considering the trend in the credit markets, most base metal prices are vulnerable. Nickel got caught up with the speculation in high techs and peaked (4.81) with the Nasdaq on March 10. The unique play has failed from the rebound to 4.79 on May 19 and plunged 26% to 3.56 on June 21. It has had a recovery to 3.65 recently.

Our November study was looking for a cyclical high around January-February and this seems to be the case. Our Boom Indicators are indicating that a recession is possible.

The Gold Corner:

Gold is recovering nicely from an "isolated low" on the chart as well as a low in sentiment and remains within a constructive pattern that has led to extended recoveries. The last one failed in breaking below 302 in February.

On the big picture, gold has fit the historical model in declining through a new era. This unique approach to the decline in investment demand is anticipating a dramatic change to increasing investment demand once this climax of a new era concludes. Quite likely, the best monitor of the transition is our list of Boom Indicators. This is a reliable supplement to even the most thorough of traditional supply-demand studies.

On Wednesday, South Africa's central bank announced that it was increasing its gold reserve. While we are pleased that a central bank is following our May 19 advice, they are not subscribers and we can't claim any influence.

Although in official financial policy common sense is rare, there is no monopoly on it.

Energy Groups:

As emphasized in May, some energy stocks and indexes were impetuously replicating the action that completed the top in the Nasdaq in early March. Last week it was noted that the best they could do as crude approached the 34.13 high of March 7 was to churn around below their previous highs.

Representative stocks and indexes have rolled over and the divergence provided by disappointing action in the equities threatens the enthusiasm for the products.

Our view has been that, while the Coppock gave a cyclical buy on The Economist Commodity Index in December, 1998, the incredible coordination by OPEC Ministers could only happen in the context of a financial bubble. A triple in price suggests, as with the artificial shortages in nickel, that in a mania anything can be believed or even done - for a while.

The link between this and the lively "home run" baseball will be discussed in another issue. In the meantime, most commodity prices are vulnerable.

Bond Future: The attached chart brings the action up to date. For new readers, the lower chart is the model for forecasting significant trend changes. This was laid out in 1997 when lesser exchanges began to fail in Asia. On October, 1, 1998, Ross noticed the comparison to the violence centered around 1987, which gave considerable confidence that the pattern would prevail for a few years.

Also on that fateful (as it turned out) October 1, price targets were introduced. Despite the contract soaring to 135 on October 5, our initial target was 117 with a projection to 110. Other technical work suggested that the reversal was imminent. We have run the models with the updated current chart at least a dozen times and the validity of the concept has been confirmed.

Using this, our investment position was moved to the 3-4 year maturities on April 14 when the long bond yield was 5.78%. Traders were short at 98-1/2 (high 99-1/4), then long at 93-1/4 support (low 92²⁸) and flat at 98 on June 8.

Risks to investors make the 3-4 year term ideal. Short-dated treasuries could decline on a flight to quality. Also, diminishing overall liquidity could reveal term risk.

A modest bond rally on weakening commodities is possible.

Boom Indicators:

In addition to the notes on the attached page, it is worth pointing out some recent developments.

When the spring selling panic in techs concluded on March 14, the Indicators were at +5. Instead of showing some relief, they have continued to deteriorate down to -2, with the last downgrade made on June 22.

This is unhealthy for a financial boom and, if they don't immediately reverse to more positive trends, the latest high flyers are vulnerable. Concerningly, if they stay near these levels for a few months, a recession would be probable.

JUNE	THU 22	FRI 23	MON 26	TUE 27	WED 28
Quality Spreads (Swaps)	125	121	123	122	123
Corporate Curve*	.9004	.8883	.8955	.9018	.8980
Base Metal Prices	586	677	581	589	586
Gold (COMEX)	285.1	282.7	283.6	285.6	292.5
S&P	1452	1441	1455	1450	1455

ON COMMON SENSE

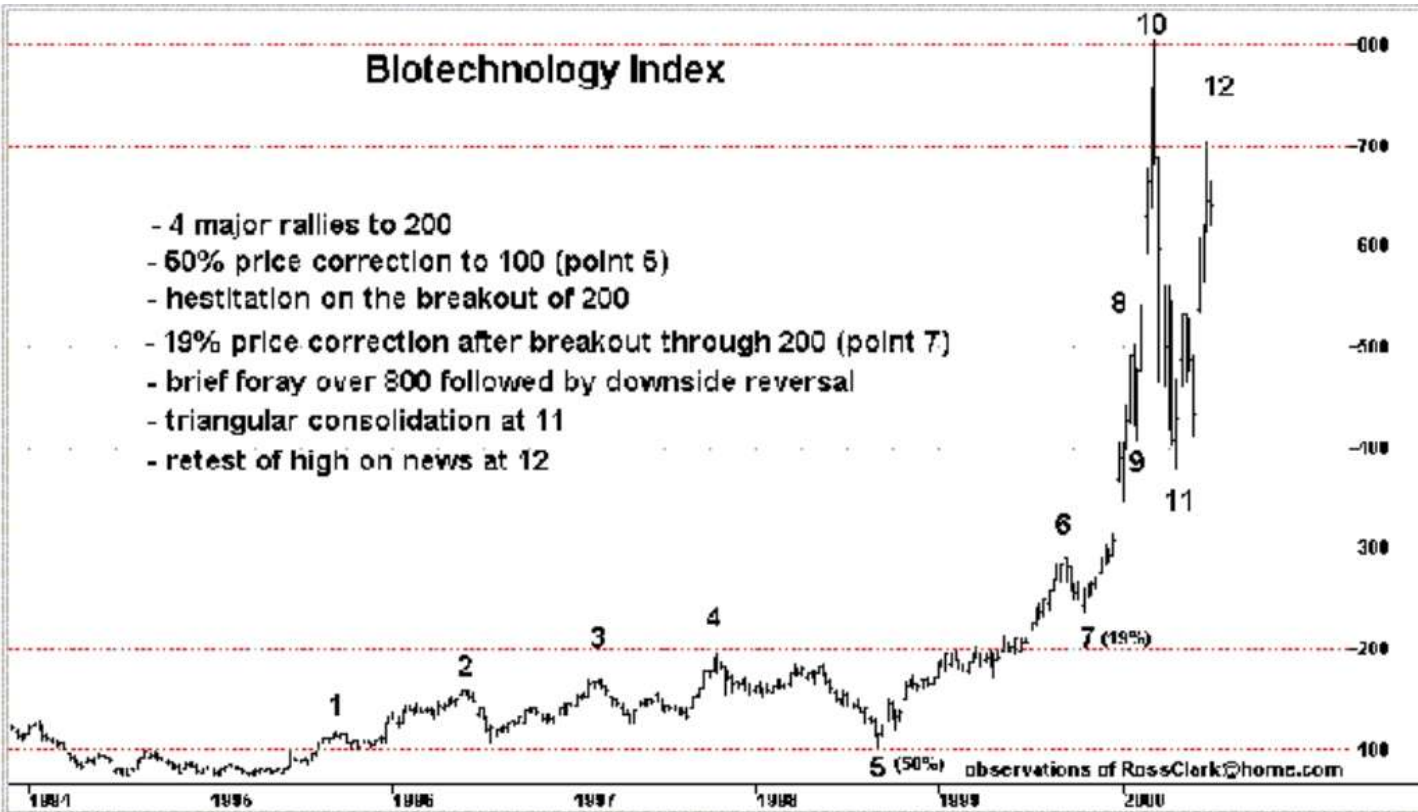
"Good sense is, of all things in this world, the most equally shared: for everyone thinks himself so well provided with it that even those who are most difficult to satisfy in every other way, do not desire more of it than they already have." *Discourse On Method Rene Descartes, 1637*

Great expectations are similar. In the Biotech and Gold comparisons, the patterns have been similar, including key percentage changes and even the vertical scale on each index.

- Of importance is the sequence of events in this shorter term cut on the blowoff, collapse, and re-test of the record high.
- Of interest is the closeness of the percentage changes.
- It seems that the test is rolling over.

Biotechnology Index

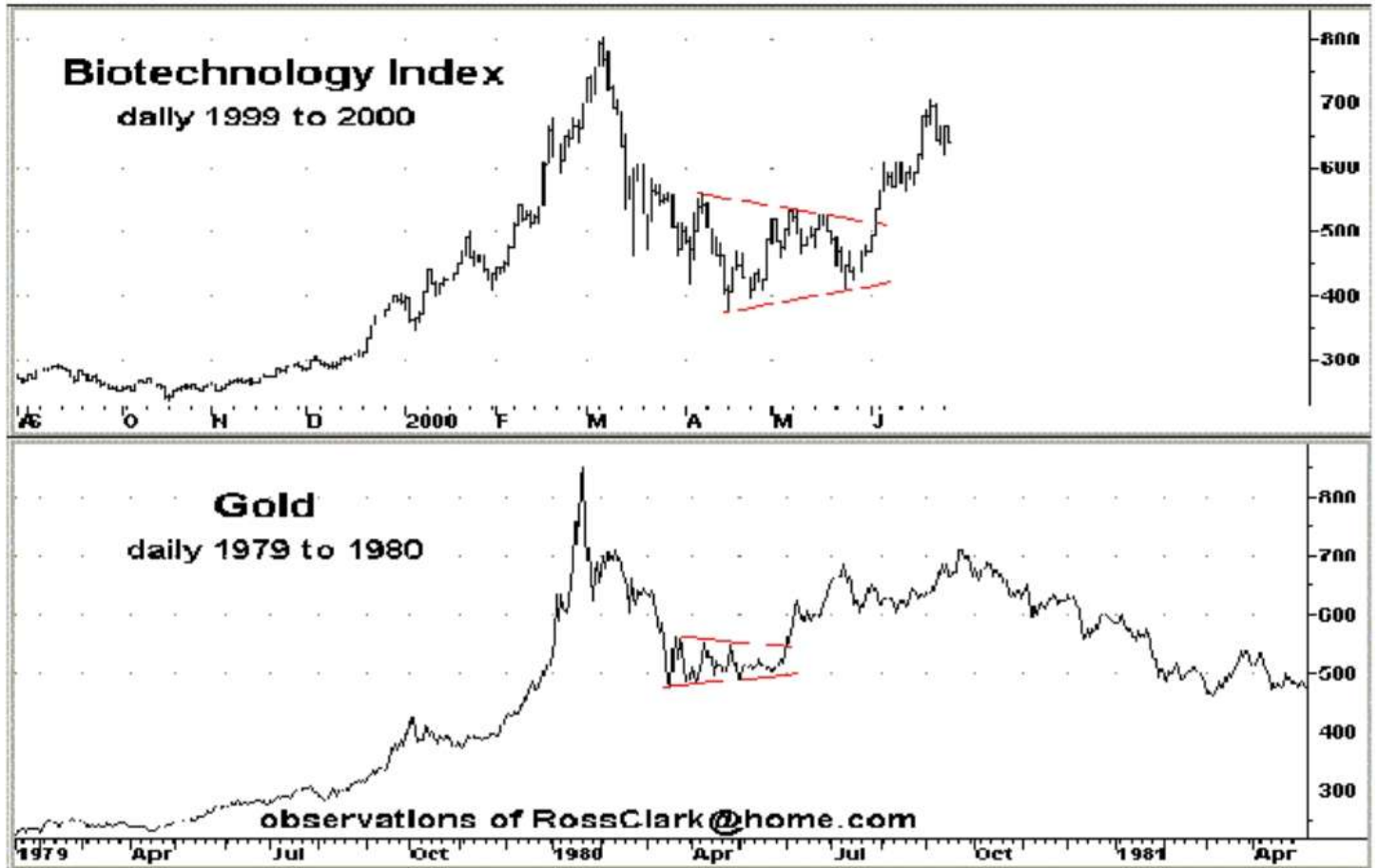
- 4 major rallies to 200
- 50% price correction to 100 (point 5)
- hesitation on the breakout of 200
- 19% price correction after breakout through 200 (point 7)
- brief foray over 800 followed by downside reversal
- triangular consolidation at 11
- retest of high on news at 12



Gold's bull market of the 1970's

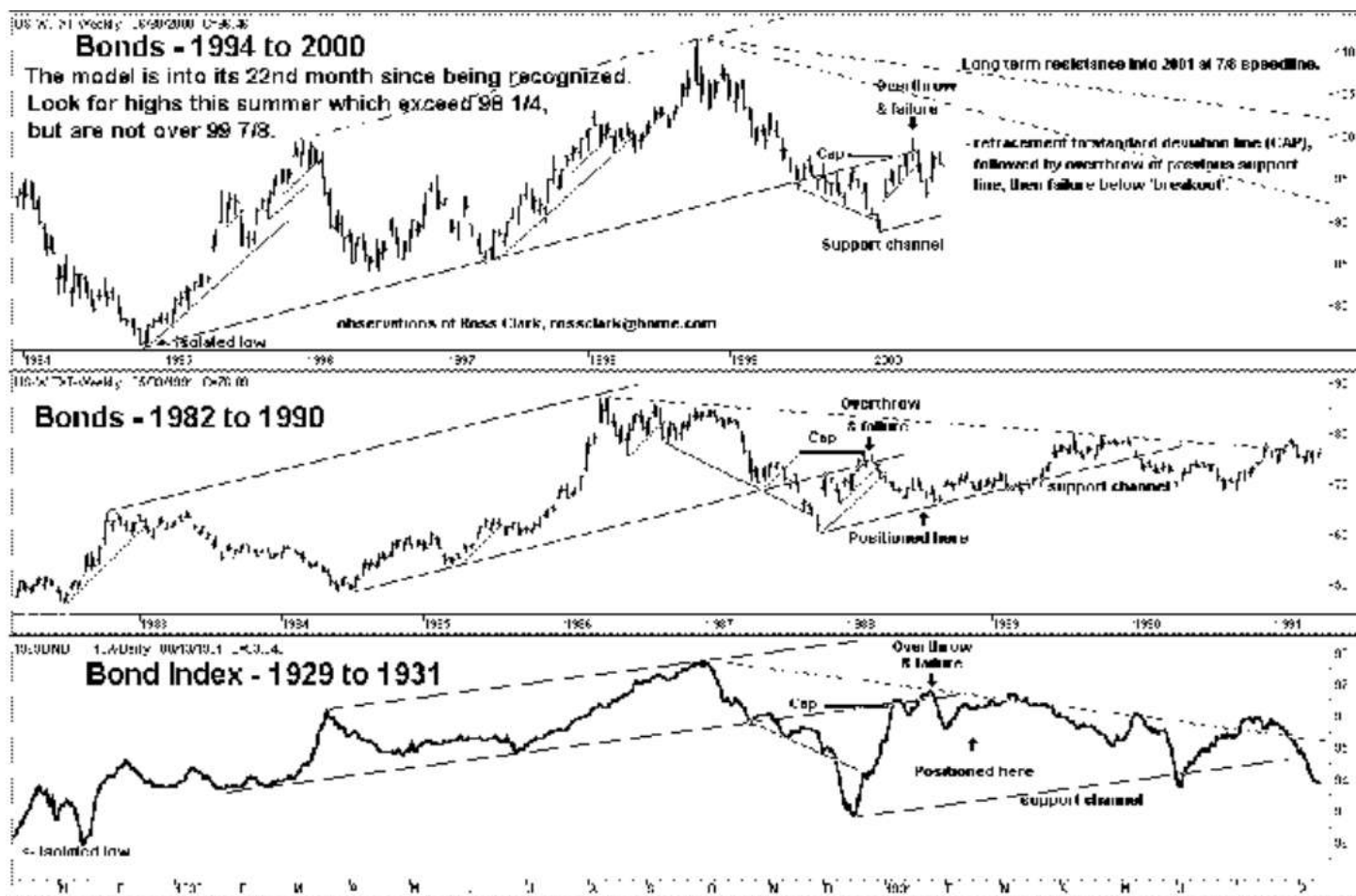
Concluded with a failed high at point 12 within days of the breakout of the Iraq / Iran war.





BONDS:

The Bottom Panels are the Model; The Top Plot is Actual (We have been running this since 1997)



THE CHALLENGE:

- The consequence of the collapse of Asia's speculation in 1997 was not generally understood at the time.
- While the challenge was to determine immediate and lasting consequences, the street downplayed events as manageable "currency turmoil". Recognizing what it was, we plugged in the path credit markets took following previous failures in lesser stock exchanges. In this regard, the path following 1929 was similar to the path following the 1873 bubble, etc. The bottom chart has been the model for bond prices and the action this time around followed the path remarkably well. Also, but not shown, trend reversals in spreads and the curve have conformed to the model usually to the month.
- In September 1998, the match-up with the bond path through the 1987 crisis was noticed, which increased subscribers' confidence in a model that anticipated significant changes well ahead of time. Also in that September, Ross applied his well seasoned methods to determine the price, or yield, at which the trend would likely reverse. His "positioned here" arrows have anticipated the major turns.

Results Summary	START	END	CHANGE
Following First Expected Turn Oct 1998 to Jan 2000			
As Forecast	135	110	25 points
Realized Trade	134 3/4	110 1/2	24 1/4 points
Actual Move	135 1/8	109*	26 1/8 points
Following Second Expected Turn January to April			
As Forecast	89	98 1/2	9 1/2 points
Realized Trade	90 1/2	98 1/2	8 points
Actual Move	89	99^11	10^11 points
Following Third Expected Turn April to May			
As Forecast	98 1/2	93 1/4	5 1/4 points
Realized Trade	98 1/2	93 1/4	5 1/4 points
Actual Move	99^11	92^28	6 1/2 points
* Equivalent to 89 on the new contract * 3 Trades In Our Investment Position Took Out 37 1/2 Points			

BOOM INDICATORS

The following items are some of the key characteristics common to all previous new financial eras. They supported each boom and when it was over they had reversed important trends. We have monitored them since 1995 with the consideration that change would indicate risk becoming acute. In turning negative in March 1998, they led the arrival of that year's distress (LTCM) by 4 months and became leading risk indicators. By 1Q99 they had returned to positive, but in reversing by early February they led this year's collapse of speculative abilities by almost 2 months.

Highlight June 22: Commercial real estate reaching saturation.

Boom Characteristic	Condition [update June 22, 2000] *Latest changes	Rating Range +2 -2		
		Jan	Feb	Jun
Declining Real Long Interest Rates	High 1Q97 4.8%; Recently Much Below 3.0%	2	2	0
Declining Real Gold Prices	Declined To Recent Stability	1	0	1
Firm Base Metal Prices	Outstanding Rally Since December, 1998. Top is In.	2	2	0*
Rising Nominal Interest Rates Typically Up To 18 Months	The 18-Month Rise in Short Rates (to March) has been deadly to speculators again.	1	0	-1
Flattening Yield Curve	30 Yr. AAA To 6 Months 91% of Inversion Reached	2	0	-1
Narrowing Quality Spreads	Narrowing Since October/98 And Widening Since January 1st	2	0	-1
Rising Real Estate In Financial Centres	"Real Estate Boom Cools"	2	2	0*
Summary	Early January was the Cyclical Best	12	6	-2*