

ROBERT PRECHTER

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INTERIM REPORT

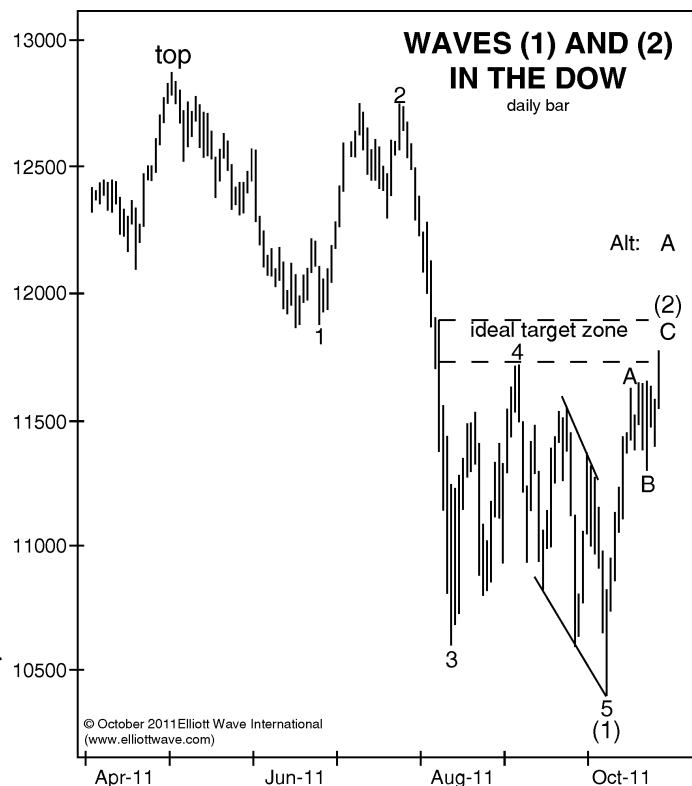
The Dow fell in five waves over a period of 5 months, from its intraday high on May 2 to an intraday low on October 4, completing wave (1) down. Wave (2) up started then, and we have been very patient letting the rally unfold. It has an ideal target range of 11,800 + or - 100. The cash S&P's ideal target zone is 1231-1261 (which equates to 1227-1257 basis the December futures contract at current fair discount). The market is approaching the center of these ranges as it heads into today's close.

In recent years, upward retracements have gone way past normal amounts, so reaching S&P 1300 or higher would be within the realm of recent experience. The NASDAQ 100, however, has been rising since August and seems to have gone as far as a second wave should go. And although it has been leading on the upside, it did not confirm today's breakout in the other averages.

As shown on the chart, the Dow may be completing wave (2). But since its rally so far has been brief, it may be only wave A of (2), in which case the Dow would drop and then rise one more time in coming weeks.

Despite these options, consider that just three weeks ago the S&P was selling at 1074.77, down nearly 300 points from the high, and today it has gotten all the way back to 1239, only 130 points off the high. Today's breakout above the trading range of the past ten weeks will no doubt be interpreted bullishly, and investors are expecting good news from Europe next Wednesday. If this rally is to peak in our ideal range, it should probably do so early next week.

I would rather be a bit early than late. Speculators should move now to maximum leveraged short the S&P. We base results on a futures position, but any specific course of action is up to you. Place a stop at 1360 basis the cash S&P. This is a distant stop, so manage risk accordingly. We will lower the stop to breakeven if afforded an opportunity.



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