



"...Let us run with patience the race that is set before us." Hebrews 12:1

1 (Almost) Down... 2 or 4 More To Go?

A Special Report/Stock Index Update

by Eric S. Hadik

"With her much fair speech she caused him to yield; with the flattering of her lips she forced him. He goeth after her straightway, as an ox goeth to the slaughter, or as a fool to the correction of the stocks.."

Proverbs 7:21, 22 (KJV)

2/18/00 - The following update is not intended to be all encompassing or completely comprehensive. That will wait for the March *INSIIDE Track*. Instead, it is meant to update *INSIIDE Track* readers on the intermediate outlook for stock indices & on what to do with put option positions.

1 Wave Low...

Many factors point to the realistic possibility that next week - between February 22nd & 24th - the DJIA & SPH will put in an intermediate low and begin a 2nd wave rebound. This rebound, if confirmed, could last into early-April before a new selling opportunity arises. In the interim, I will also be on the lookout for any intermediate buying opportunities.

...Still To Come.

STOP! Before you get too anxious and turn bullish too soon, there is still the potential for significant downside action. The final days of a decline - particularly in stock indices and especially following a bearish Friday - are not the time to jump out of shorts or into longs prematurely. Re-

member the 80/20 rule (sometimes 90/10)... *80% of the move occurs in the final 20% of the cycle!*

So, here's what we know.

#1 - The S+P was forecast to see a high on Jan. 3rd.

#2 - The DJIA was forecast to see a high on Jan. 17-19th.

#3 - The DJIA was forecast to peak near 11,750

...All three of these occurred according to plan.

#4 - The ensuing decline was forecast to extend into late-February/early-March.

#5 - An intervening low was forecast for Jan. 31st and the S+P was projected to bounce in a manner roughly equivalent to the early-January bounce.

"Many factors point to the realistic possibility that next week - between February 22nd & 24th - the DJIA & SPH will put in an intermediate low and begin a 2nd wave rebound."

...The S+P did exactly this, rebounding for the exact amount of time and precise magnitude as the January 5-14th 97.50 point rebound...& peaking at 1454.80/SPH on 2/09/00.

#6 - Intermediate traders were advised to buy S+P puts on January 3rd at new highs (triggered at 1490.40 - 1496.50/SPH), buy more on a rebound following a close below the 1/03 low (triggered at 1479.50/SPH), cover puts on a close above 1387.00/SPH (triggered on 1/31 at 1402.60/SPH) & buy March 1360-1370 put options at 1448.00 up to

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1455.50/SPH if hit by February 10th (and risk a daily close above 1466.60/SPH). This final trade was triggered on Feb. 4th & again Feb. 8/9th at 1448.00 up to 1454.80/SPH (around 12-14.00 points). They closed today at 37 - 42.00 points.

#7 - The Nasdaq 100 completed a 16% correction in the first 4 days of the year and has since turned positive.

#8 - The March S+P reversed its weekly trend to down on 1/28/00 (spurring the call for a rebound in early-Feb.)

#9 - The DJIA has finally reversed its weekly trend to down today... spurring expectations for another rebound to begin within the next few days. Why?

In addition to the idea that this trend reversal usually signals the impending extreme of the 1st wave (in this case a low), there are also the following points to consider:

a) The coming week is 180⁰ - in time (days) and extreme (high to low) - from the 8/24/99 peak in the DJIA.

b) The current decline has now lasted .618 as long as the one that began on 8/24 (until 10/18/99).

c) On 2/24, the S+P will complete a decline that is .618 of its 84-day cycle (52 days... cycles usually divide in half or by the Golden Ratio - between the advance and decline that comprise them).

d) On 2/24, the SPH has another chance to provide wave equality. I previously discussed how a rally to 1452--1455.00/SPH into 2/09 would provide a perfect parallel to the preceding advance of 1/05--1/14 (both advances would be equal in price and time). This played out precisely and a decline into 2/24 will equal the preceding decline - in trading days - from 1/14 - 1/31. An equal decline in price projects support at 1327.30/SPH, with intra-week support ranging

from 1313 - 1321.00/SPH.

In summary, this decline has been very orderly and is now approaching the point where it will either continue to be orderly - and bottom around 2/22 - 2/24 near 1313 - 1327.30/SPH & 10,081/ DJIA - OR blow through these levels and begin a not-so-orderly decline. Equally important support in the DJIA will be the October 18th low of 9976, which is near the coming week's support at 9995.

There are other reasons that I will discuss in the March *INSIIDE Track*, but for now I want to give a 'heads-up' to put options holders to begin taking profits next week.

Keep in mind that there is a good chance this market could accelerate lower over the next 1-3 days, so do not be too quick to liquidate all of positions.

TRADING STRATEGIES: Intermediate traders should have purchased March 1360-1370 put options at 1448.00 up to 1454.80/SPH and should now risk a daily close above 1366.50/SPH. Take profits on 1/2 of positions at 1313 - 1321.00/SPH. The remaining 1/2 of positions should be given more room to move in the event a collapse is forthcoming. If 1313 - 1321.00/SPH is tested, move remaining stops to a daily close above 1357.00/SPH.

Since this is a critical time in the markets, I will offer a call-in hotline for all *INSIIDE Track* subscribers that will ONLY provide updated stops for these positions. It is xxx-xxx-xxxx and will only be activated between February 22-25th after the close of trading (by 9 PM CST). Please call then to receive updated stops.

All other analysis will be provided in the password-hotline & in the forthcoming March *INSIIDE Track*. *IT*

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