

GETTING TECHNICAL

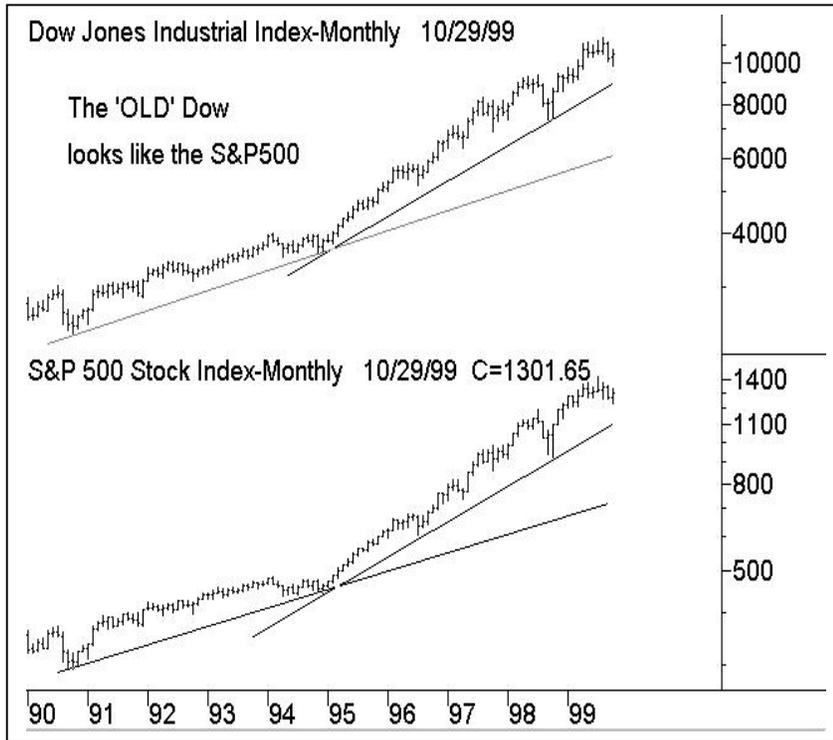
Professional Market Technicians

Editor Bill Carrigan

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Important! THE DOW JONES INDUSTRIAL AVERAGE revision: Effective Monday November 1, 1999.



The Dow Jones Industrial Average, which was created in 1896, is considered the barometer of the U.S. economy, and the companies chosen for it "are all major factors in their industries, and their stocks are widely held by individuals and institutional investors," according to Dow Jones. "These 30 stocks represent about a fifth of the \$8 trillion-plus market value of all U.S. stocks and about a fourth of the value of stocks listed on the New York Stock Exchange." "The changes we are announcing today will make the Dow Jones Industrial Average even more representative of the evolving U.S. economy, as the Average--and the nation--enter a new century," - Paul Steiger, managing editor of the Wall Street Journal, said in a statement.

THE DOW vs the S&P500 have similar paths and both are too far above their long term trend lines. A Nasdaq looking Dow would be more dangerous. See page 2.

THE DOW REVISION: Important - the changes will impact on the markets next year. The loss of two cyclical and one resource stock will make the DOW more sensitive to interest rates and inflation. Because the DOW is still the world's best known index, any sell off in the DOW could negatively impact all world stock markets.

New Components	Price	Old Components	Price	Effect
Home Depot	\$70.00	Sears	\$27	Retail for Retail
Intel	\$71.00	Goodyear	\$40	Cyclical Loss
Microsoft	\$92.00	Chevron	\$88	Resource Loss
SBC Comm	\$45.00	Union Carbide	\$59	Cyclical Loss

Long term: The long term trend on the DOW is up. The Dow is however, too far above the secondary trend line. A correction is likely after the current third wave is completed in early 2000. The fourth down wave could take the DOW to the secondary trend line. The fifth wave should be a test of the old highs..

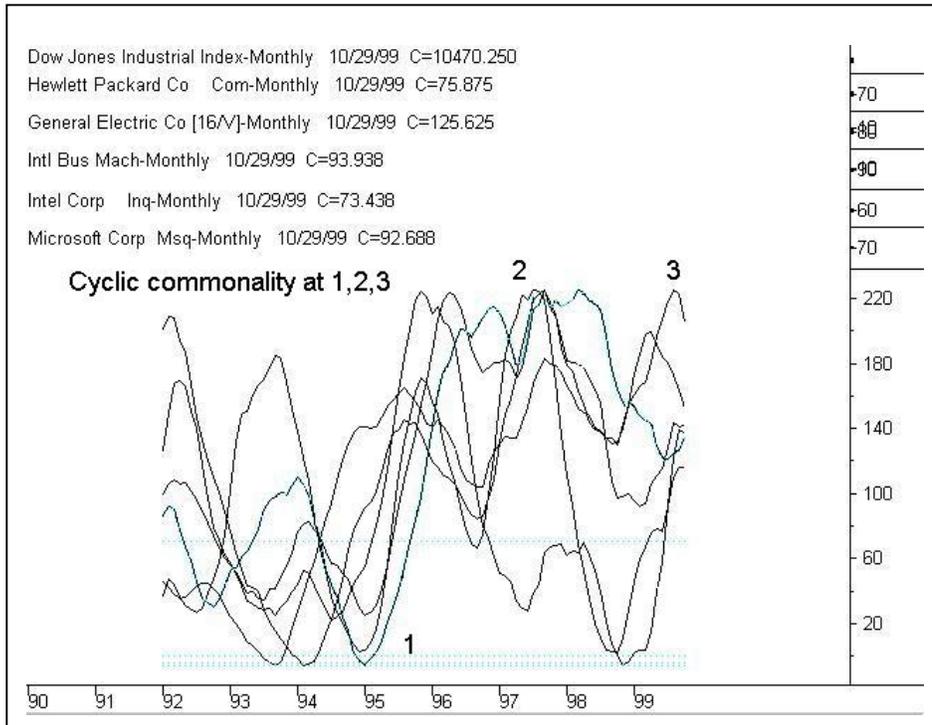
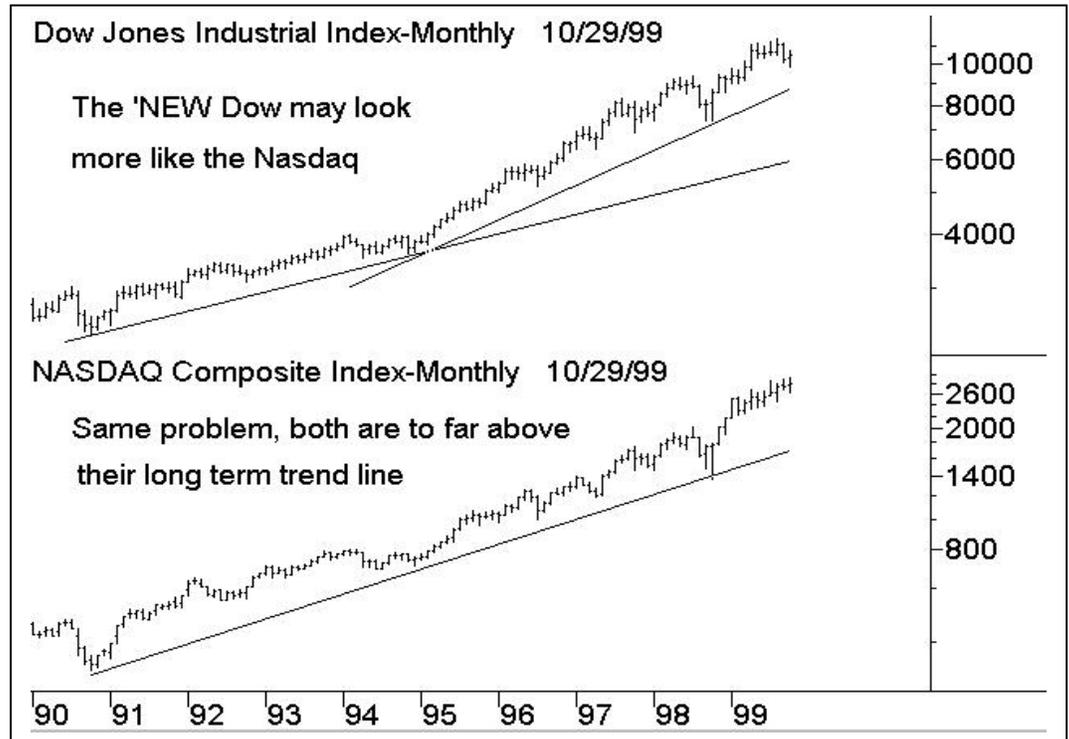
The NEW DOW will look and feel like the Nasdaq. Note that both are too far above their long term trend lines. A correction in both is likely in early 2000.

Note the long term trend lines on the Dow and the OTC.

From 1990 to 1995 The Nasdaq out-performed the Dow.

In early 1997 the DOW was revised with the addition of JNJ, HWP, WMT and TRV.

This allowed the DOW to establish A new higher trend line.



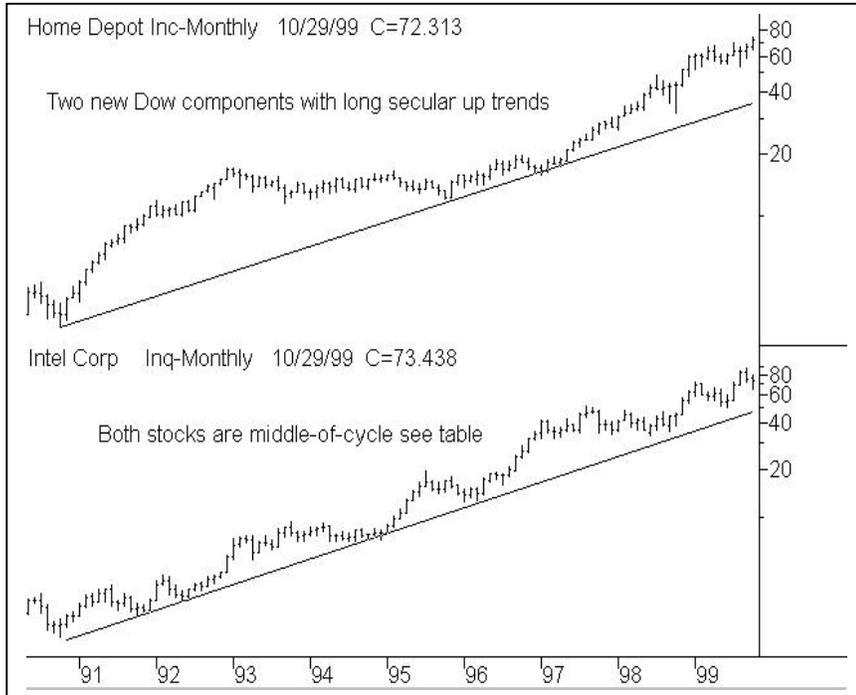
Cyclic overlays can illustrate the effect of occasional cyclic commonality among important stocks in an index or average. In early 1995 a number of stocks registered long term cyclic lows as seen at (1). This was an important low.

In late 1997 a number of stocks registered a long term cyclic highs as seen at (2). This was an important top.

Currently a long term cyclic top is forming in several key stocks. This top should be completed in early 2000.

The DOW is an average and therefore the higher priced stocks will have more influence on the DOW. The average price of the four new stocks added is about \$70. The average price of the four deleted stocks is about \$53. This makes the DOW more volatile.

Modern indices are usually calculated on a capitalization-weighted basis with the companies worth the most having the most influence on the index. Because the DOW is an average the companies with the highest stock price will have the most influence on the DOW. In the DOW the highest priced stocks include the volatile technology sector. End-of-cycle issues are now reduced to four. This is not enough to support the DOW in an inflationary environment. See the attached rotation table.



The Home Depot and Intel are now new DOW components and are good examples of long secular up trends.

Note that the Home Depot is too far above its long term trend line and a correction is probable in Jan/Feb 2000. Intel could break down through its trend line at the same time.

The other two new comers are Microsoft and SBC Communications. Both stocks are too far above their long term trend lines.

Use the current up leg to exit U.S. index funds.

Any DOW correction in the new year could impact on all of the big cap "nifty fifty" type stocks.

Strong commodity prices in 2000 will kill the DOW and aid the Toronto Stock market. Stay home!

– Bill C.



Conclusion: The new DOW revision is bad timing. The new stocks enhance the DOW's dependence on a low interest rate - low inflation environment. The DOW will benefit from a bond rally through Jan/Feb 2000. A significant correction could follow in Apr/May 2000. – Bill C

The opinions are based on technical analysis and more information should be obtained before making an investment decision. There is no such thing as a perfect investment and there is no such thing as a perfect recommendation. Bill Carrigan 3823 Brookside Dr Vineland, Ontario. Phone (905)562-3535. E-mail carrigan@vaxxine.com