2008 ANNUAL MARKET FORECAST (Completed before December 31, 2007)

PREFACE

Our forecasting technique utilizes George Lindsay's "Mirror Image" charts and several other research methods that provide data for predetermining market reversals and trends, often years before they occur. Some data may not become available until weeks or sometimes days before an event. We expect some of our predicted highs and lows to arrive slightly early or late. Consequently, we abide by the following important rule that helps us to avoid serious mistakes: "Do not make a decision about a forecasted market trend until all available relevant evidence becomes clear beyond any reasonable doubt."

We produced our first Annual Market Forecast in 1975. Over the years our directional predictions have been at least 75% accurate. Since, any long-term stock market forecast should be considered tentative, we advise clients to carefully read our periodic email messages, website postings and TAP reports for more current and accurate details.

GENERAL COMMENTS and PRICE ESTIMATES

Notes: We may add predictions to this list of General Comments and Price Estimates during the year. If we do so, then we will date them accordingly. Many predictions (2, 3, 6 and 8) include parts that were previously published in our January 3rd, 2007 message to clients. Prediction 7 was mentioned in our March 22nd, 2006 message to clients.

1. 2008 will nearly break even by year-end, yet it will be a productive year for intermediate-term traders. This year is likely to provide investors with a very important opportunity to raise cash before a potentially damaging bear market unfolds. Intermediate-term buying opportunities are probable in the first quarter and the third quarter. May and June will display weakness, but, by comparison, the fourth quarter could be much weaker. (Inspired by Mirror Image charts, Directional Indicators Analysis, and other methods).

2. (Reprinted from our 2007 forecast) "Most of the remaining gains of the current bull market might be realized by late 2007. The bull market will top in 2007 or 2008 – our best guess at this time is 2008. We are rarely theatrical when it comes to forecasting; however, some of our very long-term forecasting methods strongly suggest that 2007 will not be nearly as interesting as 2008 or 2009, such that the market during late 2008 or early 2009 will be amid a time zone where we can expect a severe bear market or stock market crash to unfold. The final low of a "Long" bear market is due in late 2009 or 2010 – our best guess at this time is 2010. (Inspired by Mirror Image charts, Directional Indicators Analysis, Price and Time analysis of Basic Advances and Basic Declines, the Long Intervals of History, other long-term George Lindsay methods, and our proprietary research)."

3. In our 2007 forecast we predicted, "Our "conservative" price targets for the current basic advancing period are 13,300 and 15,300 for the Dow Jones Industrial Average (DJIA). These are conservative estimates because, by comparison, the average ascent for a Basic Advance is a gain of about +71%. If +71% is added to the lows of 2005, then an average upside target equals around 17,000 to 17,300 for the DJIA. (Inspired by our estimate that the average DJIA bull market rises about +71%)."

   For our 2008 forecast, we add that the average Domed House ascent is about +27%; and, if we assume that a Domed House rally will begin for the DJIA after a validated Separating Decline and its subsequent base develops somewhat below the November 26, 2007 low of 12,743.44, then around the 16,000 price level would become another gravitational pull within our previously anticipated price target zones.

GENERAL COMMENTS and PRICE ESTIMATES (continued)

4. With the Financial, Airline, Retail related arenas, and some other key indices already having realized losses of bear market proportions, the consideration of measuring "time" relative to "Basic Declines and Basic Advances" comes into play. George Lindsay focused on the Dow Industrials and Transports for historical continuity of this timing method. The "hidden," mild bear markets of 2005 and 2006, as we presented in past reports and on our website [1], allows for a broad time expiration range for the "second" Basic Advance within the bull market that launched from the 2002/2003 lows. Managers, who have read and discussed with us the details of this along with the apparent overlapping time measurements that have been in force since the 2000 high, should accept these observations as evidence supporting the increased probability for a.) large market swings in the Dow Industrials, Dow Transports and b.) movement toward safer blue-chip securities during the finalization process of these layered time measurements until once again a more unified "time" and "price" trend can be identified. Unfortunately, this usually coincides with a broad-based bear market. <u>The highest concentration of where/when "time" elapses</u> for a.) Basic Advances, b.) the top of the 1st section in the Long Interval, c.) the top of the 4-year buying opportunity cycle, and d.) an approximate 7-month and 9-day count to within the top a potential Domed House, <u>is between April and September 2008</u>.

5. For some indices like the Russell 2000 index, whose upward momentum stopped near roughly June 4, 2007, bear market "time" measurements with respect to Basic Decline time counts may have already begun. Knowing that the shortest of recorded "Short" Basic Declines lasted only 231 calendar days, measuring forward 231 days from June 4, 2007 locates January 21, 2008. While this should not be used to predict an exact market turning point of significance, we do believe that the elapsing of this type of minimum time measurement infers and is oftentimes very near to a change in trend character. In this particular case, it could be a factor with reference to "large market swings" as stated in statement number 4 above, and/or it could ease or relieve recent bearish intermediate tension, and/or a momentum shift would be allowed to commence at any time thereafter.

6. (Reprinted from our 2007 forecast) "Time Comparison and Assumption: For several years we have been referring to the three-part ascent of 1932 to 1937 and comparing it with the ascent from 2002 to date. Another fairly similar three-part ascent was from 1982 to 1987. One of the important similarities of the two earlier completed ascents was that they were each visibly interrupted by a relatively minor descent. The ascent from 2002 to date has also been interrupted by a minor descent, and the third part of the three-part ascent seems to be in progress. If we assume that the current ascent will be three parts and last about as long as the earlier three-part ascents, then the end of the current three-part ascent is due around the second half of 2007 or the first half of 2008." [1]

7. (Reprint from 2007 forecast, and we mentioned this concept in our 3/22/2006 message to clients.) "We would like to remind managers of a danger mentioned a long time ago by **George Lindsay**. He said, **"Disaster looms when a Basic Advance starts at the end of a Sideways Movement which lasts eleven months!"** This quote can be related currently to the Dow Jones Transportation Average (DJTA) and the DJIA. After fairly uninterrupted rallies from the 2003 lows, the DJTA and DJIA moved sideways eleven months between November 2004 and October 2005, and then resumed (or began a new) a strong, steady upward course. One of George's examples of this type of disaster was after the 1926 Sideways Movement, which led to a Basic Advance topping in 1929 and then, as we all know, a big disaster."

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[1] Managers are encouraged to view the graphs in the Chart Chamber area of our website: In particular, "<u>Premise-3: The Hidden Bear Market revealed</u>", and the three file names that begin with "<u>1930s</u>".

GENERAL COMMENTS and PRICE ESTIMATES (continued)

8. (Reprinted from our 2007 forecast) "There is a 95% probability that the current bull market will end while displaying the basic shape of either a Three Peaks followed by Domed House (3PDH) pattern or a Domed House followed by Three Peaks (DH3P) pattern. It is possible that the beginning of such a pattern will be upon us before the middle of 2007. (Inspired by Three Peaks and Domed House analysis)."

9. Relative to MEGA-sized 3PDH patterns, which we discovered and introduced during the 2000-2002 bear market, some indices like the Russell 2000 index could run a course from here that greatly lessens the potential for any all-time new highs (near-term) until after the 2002 bear market lows are first revisited. Knowingly, such a resolution could consume several years. While it seems, even to us, impossible to believe such a pattern, we have found that it is better to objectively believe what is tangible, visibly exits, and fits a reputable repetitive pattern, and then heed its cautionary notion than to subjectively disbelieve and discard reasonable evidence.

10. The 10-year compounded rate of return[1] for the monthly Dow chart reached one of its highest levels ever at the turn of the century; comparable to 1959 and 1929. Since that time, it has been reverting back toward zero. To get to zero (or below zero) means that increasingly worse cyclical bear markets must develop while the natural mathematical tendency of the 10-year compounded rate of return to gravitate toward its mean/average is once again achieved. It took about 15 years to roll the 10-year compounded rate of return to below zero from 1959 to 1974, and only about three years to get there after 1929. This time around, it has been on course for about eight years, and, since history likes to rhyme, it will probably get there during the course of the next one or two cyclical bear markets.

11. According to our interpretation of George Lindsay's model of the Long Intervals of History, which depicts a first section lasting approximately 7 years and 2 months that ends with a major bear market low, the ending low should not appear before July 1, 2008 nor after July 20, 2011.

[1] Managers are encouraged to view the graph in the Chart Chamber area of our website with a file name of "Premise-1: 10-year Compounded Rate of Return for DJIA 1789-2006.pdf".

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DIRECTIONAL DETAILS

Note: Statements 1 and 2 were previously published in our January 2nd, 2008 message to clients.

1. Our forecast for December 2007 suggested a down-up-down-up-down pattern, which was, fortunately, exactly correct. January 2008 begins by extending December 2007's pattern with down briefly, up briefly, and then down until about Friday, January 11, 2008. Noticeable strength begins there that will last until some weakness retards the market just before and during the last week in January. Strength during the first third of 2008, perhaps in waves, may be a recurrent motif.

2. A low will form in late January or early February producing a subtle ascent that is interrupted by minor weakness leading to another low near President's Day. A choppy ascent in stair-step fashion will unfold, and then lose momentum near Saint Patrick's Day.

3. The battle between strength and weakness that begins during March and April will find weakness to be the victor going into May and June.

4. The market will try to move up at the end of March, but it will yield to weakness during the first two weeks of April. A mid April bottom formation will be followed by a rally until around month-end.

5. The first half of May will be noticeably weak. Efforts to thwart weakness will appear twice during the second half of May. One attempt will be near mid-month: The other near Memorial Day.

6. June is dominated by six "Weak Readings", with only one "Strong Reading" on Flag Day. This is interpreted as weakness throughout the month with a bounce in the middle.

7. Independence Day will bring relief with a concentration of strength, which is inspired by the tightest cluster of "Strong Readings" for the year – six in all - between July 6th and July 20th. While the strength will begin confidently, weakness will start to interrupt after mid July, and it will become more noticeable until just beyond the first week of August. Even if the strength is initially winning, the market will decelerate near month-end and early August.

8. A bottom formation will develop in August around the second or third week. The last few days of August will usher in a very choppy and somewhat ascending September. The literal directional movement should be down-up-down-up-down-up-down with the second half of the month being choppier and more compressed.

9. October will represent a tide change from strength to weakness, with the highest probability for weakness materializing in the first quarter of 2009. (Note: The fourth quarter of 2008 favors weakness over strength 4 to 1. January 2009 and most of February 2009 appears to be 6 to 1.) While six "Weak Readings" between October 5th and 20th will begin to weigh more heavily on the market, two important "Strong Readings" on 10-17-2008 and 11-01-2008 will push the market toward Election Day in early November.

10. About a week after the election, weakness will dominate until a mild recovery develops during late November or early December (A single "Strong Reading" appears on November 29th). Near mid December, weakness will resume with only brief strength before the year ends. (A single "Strong Reading" appears on December 21st, 2008.)