PETER ELIADES'
STOCKMARKET
CYCLES
2260 CANUENGA BLVD., SUITE 305, LOS ANGELES, CAL. 90068 • (213) 465-5543

May 7, 1982
End of Week #386
DJIA 869.20
CI 721
NCI 744
Ratio .970

The number for the telephone update will be changed effective Wednesday, May 12. Phone company policy prevents them from guaranteeing the newly assigned number. If a different number is actually assigned, subscribers should call our office number listed above in the letterhead.

The current number for the telephone update is (213) 467-8398. Effective Wednesday, May 12, the new number will be (213) 467-9309. Updates are given at least once a week on Fridays and more often if warranted. Traders should call the update number on a daily basis. If there is no new message, there will be no answer. Messages are placed on the hot line by 5 P.M. California time and remain on the line until approximately noon time of the following market day.

THE CYCLES

Over the past year or so, we have been talking about a potential 60 year cycle in stock prices which fits into the theory of the so-called Kondratieff wave. The wave is generally thought of as being a 52-54 year economic cycle. Kondratieff himself did not stipulate those numbers, but spoke more generally of a 50-60 year economic cycle. His work dealt strictly with economic data and did not concern itself with security prices. Nevertheless, in security price records going back to 1789, there are obvious and very important bottoms which occurred within 2 years of 1800, 1860, and 1920. In analyzing cycles, we prefer to have a long string of consistent cycles in order to increase the mathematical probability of the cycle's existence. In the case of the nominal 60 year cycle, we have only 3 instances of cycle bottoms. There is good evidence, however, in the current fundamental statistics that tell us that current security prices are very undervalued on an historical basis, and the odds appear quite favorable that within two years of 1980, a very important stock market bottom has or will have occurred. The last sentence obviously leaves open the possibility that the final bottom may occur in 1982.

Up to our letter of March 19, 1982, we had been maintaining that the final market bottom had been seen. But with the early March move below the 800 level, the Dow and other market indices gave considerably lower 4-4 1/4 year downside projections. We also stated in our March 19 letter that, on an intermediate term basis, " a projected maximum bottom of 784.62 was called for." We noted at that time, with the Dow standing at 805.64 that "We still feel the market will rally from its 786 low for a distance of as much as 80 to 100 points." We have already justified that opinion by rallying 70 points on a closing basis. We stated in our March 19 letter that "it's possible to fit both projections together although.....there must be some fairly specific time parameters." By "both projections" in the preceding sentence, we were referring to a tentative downside projection of 637 plus or minus 39 points given in that letter as a potential 4-4 1/4 year cycle bottom. The important question now becomes the time parameters spoken of. Two weeks ago, the N.Y. Composite invalidated any 4-4 1/4 year downside projection. Just over the past 2 or 3 days, the Dow has also invalidated its 4-4 1/4 year projections.

This leaves two possibilities. Either the March 9 intra-day low of 786.15 was a very important market bottom or we will get another 4-4 1/4 year downside projection over the next few months. There is a third alternative. The Dow could come down to test its bottom just under the 800 level and form a double bottom. Because the Dow has invalidated its initial downside projection and because of the 60 year cycle mentioned earlier, we now feel there is a better than even chance that the March 9 bottom was one of great importance.

From time to time, we run a sine wave synthesis on various market averages. The results have varied from fair to spectacular. The most notable success was the projection of both the March and April bottoms of 1980 to within one week. Experience has shown that some stock price patterns tend to be better candidates for sine wave synthesis than others. The current price pattern for the Dow appeared appropriate for such analysis and the results showed a market top due around 22 market days from today or around June 8. For price projections, see the section on "The Market". For those interested in the technique of sine wave synthesis, we would refer you to a book called "The Art of Independent Investing" by Claud E. Cleeton, published by Prentice Hall.

TECHNICAL INDICATORS

Almost all of the advisory services, at least those that are technically oriented, are aware of the survey published weekly by Investors Intelligence, Larchmont, N.Y. The publishers survey around 100 market letters each week for sentiment readings and arrive at the per cent of advisers bullish and the per cent bearish, with a 3rd category called "Correction". The theory of the survey is that when sentiment figures reach an extreme, the market is preparing to turn in the opposite direction of its latest move. It is a "contrary opinion" indicator which assumes that at market extremes the majority is always wrong.

Investors Intelligence uses the per cent bearish figure, having determined that it has shown good correlation to market bottoms when it reaches the 50-60% area and on rare occasions, even higher. That number reached 60.9% for the week ended March 19, 1982, a high enough reading to support, but not, of course, guarantee a major bottom.

What we find almost incredible, currently, however, is the per cent of advisers bullish. As a general rule, advisers are trend followers. As the market rises, they become more bullish and as it declines, less bullish. The latest reading by Investors Intelligence shows only 22.2% of advisers bullish. Weekly readings that low are very rare. They have occurred, on the average, less than twice a year since 1963. Incredibly, through the devastating bear market of 1973-74, not one weekly reading was that low. The last per cent bullish reading that low occurred on March 28, 1980, coincidentally the lowest Dow reading of the past seven years. What makes the latest reading even more impressive is that it occurred, not after a market decline, but after a market rally of 85 points intra-day. We've heard talk aplenty about this rally being a bull trap. We would ask the proponents of that theory where the bulls are that have been trapped? Very few analysts believe the authenticity of this rally and that in itself is very bullish.

Perhaps the most important of longer-term moving averages is the 39 week MA. Penetration by a stock or stock average above or below that average usually indicates an important change in trend. We currently have a mixed reading with that technical indicator. The Dow Industrials and Utilities are both above their 39 week MA's. The daily advance-decline line of the N.Y. Exchange moved above its 39 week MA yesterday. The Dow Transports stand about 8 points below their 39 week M.A. The N.Y. Composite closed at 68.76. Its 39 week MA closed at 68.86. We will report any breaks above 39 week MA's on the telephone update.

THE MARKET

On our telephone update of April 19, with the Dow at 846.07, we gave an upside projection of 903 plus or minus 12 points. With many advisers saying the "bear market rally" had ended, we're sure many doubting Thomases snickered behind our back in disbelief. That projection still stands and today's intra-day high of 876.51 was less than 15 points away from the minimum projection of 891 intra-day.

There are now no new projections outstanding to the downside, inasmuch as the Dow 4-4 1/4 year projection was definitely invalidated this past week. This is not to say that another 4-4 1/4 year downside projection can't be given but, because of the cycles discussed in our initial section, we find this unlikely.

On April 16, we gave a tentative upside projection for the daily advance-decline of the N.Y. Exchange of 5,500 plus or minus 700 and today the A-D line closed at 5,206, already satisfying the lower end of that projection.

Almost a month ago, on April 8, we gave an upside projection for the Transportation Average of 363.33 plus or minus 5 points, or a minimum projection of 358. Today's intra-day high for the Transports was 357.65, and the average closed at 352.90. What's more interesting, however, is that in our weekly work for this past week, the Transportation Average just gave a new upside projection for the 20 week cycle of 380.33 plus or minus 6.87 or a minimum projection of 373.46, a full 20 points higher than today's close.

We use three proprietary momentum indicators. They went negative for several days over a week ago, but this past week, all have turned positive again. It will be difficult for them to turn negative over the next several weeks, and this augurs well for the market. Any pullbacks for the next 4-5 weeks should be limited in nature and the Dow should easily hold above the 845-850 area.

THE STOCKS

On April 28, we asked traders to sell their two trading stocks should the Dow be close to closing below 847 on the following day. We emphasized that the 903 projection was still outstanding but that the short-term retracement below the 39 week weighted MA should be respected for the short term. JCP showed a gain of around 7% over the 5 week period from its price at recommendation and TW, which was a stellar relative performer before its recommendation, lagged the current rally to a break even point. Since then, TW has moved slightly lower.

On our telephone update of May 5, with the Dow at 854, we recommended traders to purchase Bally (BLY) below 30. That remains an open recommendation to new traders with BLY closing today at 29 3/4. Traders should be aware that current trades are higher risk than those of a month ago with the market only 20-30 points away from its next projection of 903 plus or minus 12.

Of our long-term stocks below, four are below their low-risk price and may be purchased on any market weakness by long-term investors. At current levels, be advised that Arlen Realty is highly speculative for new investment funds.

LONG TERM STOCKS

Stock	Symbol		Last Price	Low Risk Price	Long-Term (1-3 Years) Objective
AMF, Inc.	AMF	17 6	18 1/2	15	45
Alberto-Culver	ACV	12 2	14 1/8	6 7/8	30
Arlen Realty	ARE	5/8	5/8	2 5/8	13
Bard, C. R., Inc.	BCR	32 4	35	12	40
Fedders	FJQ	3 7	3 7/8	4 1/2	35
Genesco, Inc.	GCO	4 2	4 7/8	4 1/4	35
IPCO Corp.	IHS	4 7	5 3/8	5 1/4	20
Kaufman and Broad	KB	8	9 3/8	10 1/2	40
National Homes	NHX	2 4	2 1/2	3 3/8	30
Noel Industries	NOL	2 6	3	1 7/8	12 1/2
Wyly	WLY	9 4	8 1/4	5 1/2	40

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