



Summary

As of the close on September 30, the service moved to a buy signal. The current rally is likely to be interrupted by short-term drop from the 2nd to the 8th (see the projected turning points at the end of the letter), but the broad market will recover after the 8th and carry on up into November 25. This last turning point of the month is probably a high.

Analysis

The short-term market decline that was mentioned in the last letter ended on the projected turning point of the 13th but was greater in magnitude than anticipated. Against expectations, the downside support lines for the major US indices were snapped leaving equities in a precarious position. Apparently, the market weakness that I had been projecting for the first quarter has already begun. I think that the best we can hope for is a rally back into the overhead resistance followed by further declines. At the moment, the positive seasonality is positive, but when this expires in late December, the market will be extremely vulnerable. My major concern is whether the market can hold up until January.

Weekly Dow Showing the Trendline Break



Weekly S&P Showing the Trendline Break

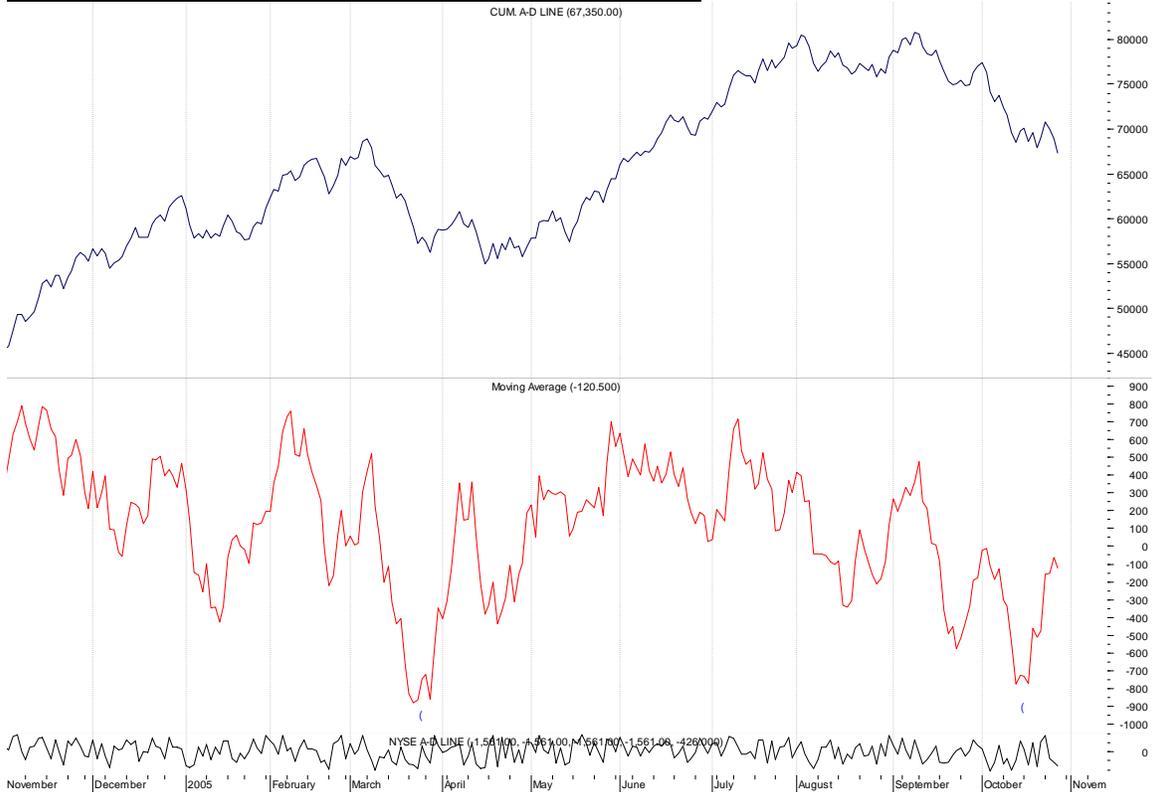


I have rarely seen such a dichotomy between the technical condition of the market (bearish) and the composite cycles (bullish). The resolution of these opposites will likely be a short-term rally back up into the resistance area to the 10600 area on the Dow and 1260 on the S&P, or higher.

The new Moon on Tuesday night, the 2nd, will likely have a bearish effect on the market's open on the 3rd. This lunation widely opposes Mars in Taurus, closely squares Saturn in Leo and squares Neptune in Aquarius. The Saturn-Neptune opposition will not be exact until August, but this configuration should energize it enough so that we get a notion of what it portends for 2006. (An exact opposition is 180 degrees between the 2 planets. The pair will be 176 degrees apart on the 1st.) It will likely have two effects, one on the market and one on politics. The first will be a whiff of deflation; the second is discussed later in this report. It appears that some liquidity is being drained from the system, and this will hit the inflation hedges over the short-term. I expect sell offs in oil and gold. For energy, this may be the last decline in what has been a very mild correction (see the energy section below). These commodities and related equities will be good short sales on the close on Monday night.

Here are the short-term positives. The decline in the first half of October left the market oversold and sent VIX up to levels that have been previously associated with rallies. In addition, the advance-decline line has fallen, as we see below. But, the moving average in the second strip in the graph below is at an oversold level comparable to that of last spring when the market bottomed.

The NYSE Advance-Dcline Line and Its 10-Day Moving Average



Sectors and Groups

Energy

As explained above, the energy complex will likely decline after the first into what may be a meaningful low later in November. Note that oil has held up while the stocks have dropped, thus the XOJ oil index has underperformed the commodity. In the chart below, we see an initial drop in the XOJ which is likely an A wave. The small rally over the last week appears to be a B wave, so next drop will likely be a final C wave that will probably be at least equal in length to the A wave, which was 179 points long (-16.4%). This would put the XOJ at 810, which seems extreme because the XOJ is very near a seasonal low. Thus, the index is likely to stop short of 810, which can be seen as the maximum decline.

Daily XOI Energy Index



Daily Light Crude Oil Price



Gold

In the last issue, I pointed out that gold had indeed broken out of a formation that indicated a \$500 price objective. But, the same cycles that signaled the rally from the late summer simply went flat in October. And bullion did not make any further progress in October. The two major cycles fall from late October into the third week of November. This is likely to complete an A-B-C correction to the 455 or 448 area. This will be a buy point.

Daily Gold and Cycle Turns



Financial Sector

Some signs of life are appearing here. The sentiment measures are beginning to show increasing bearishness in this area, a prerequisite for a low. In addition, selected issues such as JP Morgan are beginning to give the faintest beginnings of buy signals. This is not a bullish call for the group, simply a notation that the group is getting sold out. Despite the beating that bonds have taken, the bullish sentiment clings to this market. This is the period of seasonal strength for the bonds, but I would use any rally to sell.

Technology Sector

This area is a mixed bag, mostly positive. I was in New York City last week, so I visited Phil Roth at Miller Tabak. He made the observation that this market has a surprising feature. Stock behavior differs greatly within groups. He pointed out that Delphi had gone under, but the other stocks within the auto parts group had rallied. In addition, two airlines went broke, but Southwest had rallied. This is also the case within the tech sector. Citrix (CTXS-26.7) has broken to the upside out of a long base and shows excellent technical strength. The next stop appears to be 30.

Weekly Chart of CTXS Showing the Breaking of Two Trendlines



On the other hand, Amazon, which had gapped up, has gapped down. This has left a bearish island reversal pattern on the charts. The stock was at about 39 on Friday and should be sold.

The early October top was marked by the station of Mars in Taurus, but this was only part of the story. Mars was conjunct a point form the Hamburg School of astrology called Admetos. In the entire writings of the Hamburg School, I have seen two references to the stock market. One of them is Mars-Admetos which is interpreted as 'sinking market.' I had called for a sell off to begin the month, but the drop exceeded expectations. The stationary conjunction of Mars to Admetos was the likely culprit. I had mentioned that that the short-term decline would be led by the semiconductor stocks. This was due to the affinity of Admetos with chips. The chart below shows that the drop in the SOXX was greater than that in the overall market. When this decline is over, we will be at the seasonal low for this group. In fact, the chip stocks have been the best performers, on average, from October through April. I shall wait for technical confirmation before making commitments in this group.

The Decline in the SOXX Exceeded that of the Overall Market



Individual Stocks

Southwest Airline (LUV-15.75) has been performing in line with expectations and will likely hit the 17 mark before the end of the quarter; I shall be quick to sell it when it does hit that price.

Worthington Steel (WOR-19.92) has pulled back, but it remains on a longer-term buy signal.

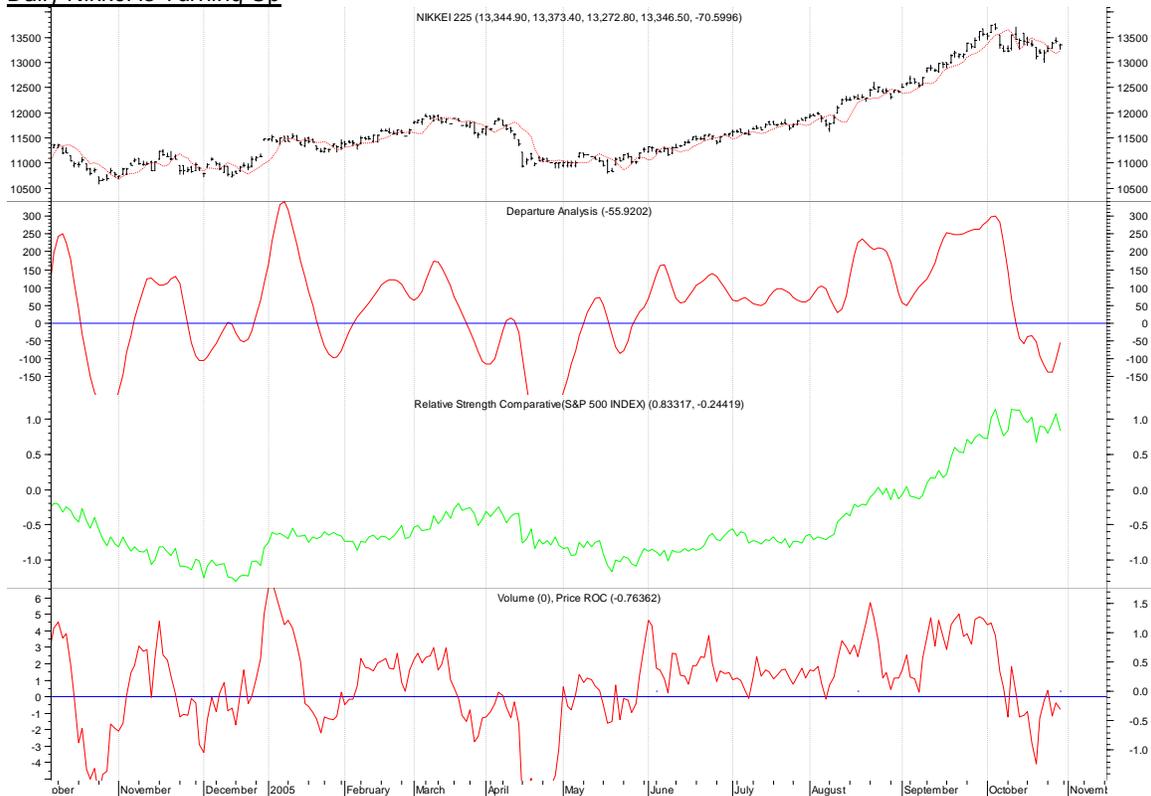
Within the Dow, Honeywell and Microsoft will be the worst performers. MSFT brings a thought to mind concerning the major software stocks. MSFT, ORCL, INTU, and BMC all have the Sun at 22-23 Pisces and an 11 Aquarius Midheaven. As stated in my book, the MC is the point in the horoscope that is the most public. Hard aspects to the MC at the time of earnings announcements usually indicate a poor reception to the numbers, whatever the numbers may be. Positive contacts bring a positive reaction that result in buying. When Jupiter and Uranus were in Aquarius and on MSFT's MC, the stock jumped as each earnings announcement turned out to be a positive surprise. When Saturn was at 11 Taurus square MSFT's MC, the stock underperformed as each earnings announcement was a disappointment. Now that Saturn has moved 90 degrees, it will be stationary at 11 Leo, opposite the MC of these four software giants exactly on November 22. Because the planet moves slowly, the hard aspect will remain well into 2006, so we will likely see a string of earnings disappointments. Sell these stocks now. There will likely be good shorting opportunities when the stocks report earnings in January. Note that Intuit reports earnings this month and not in January, and will probably decline.

Japan

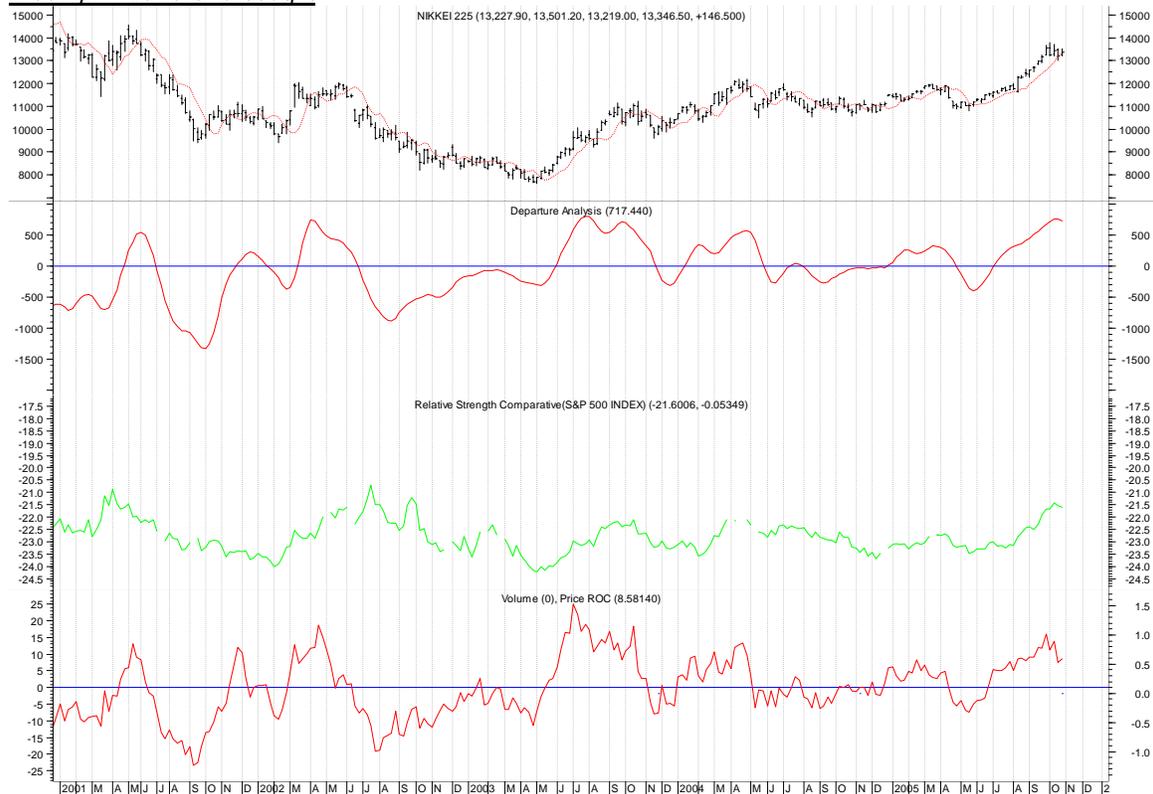
Despite what Wall Street would have you believe, the market usually moves before the fundamentals make themselves known. Thus, the old adage states that we should buy on the rumor and sell on the news. Now that the Nikkei has risen, we are beginning to see the reasons for the rise. The October 10 issue of Barrons lists some of the favorable developments. The banks have finally written off a mountain of bad debts. They are merging and seeking to expand loans. Profits have been rising, as has the amounts of cash held. New plant spending is slated to rise. Stocks are trading at about 18 times next year's earnings, but stocks are only selling at 1.9 times book value. Corporations are paying out 23% of profits as dividends, below the 30% USA mark and the 50% EU level. Thus dividends are slated to rise. The Nikkei is well overbought on any short or intermediate term basis, but what can we expect after a 16-year bear market?

Below, we see the daily Nikkei, oversold and turning up. Note the relative strength in the third strip versus the S&P shows how the Japanese market has outperformed. In the second graph, we see the weekly Nikkei is overbought. But this market has not hit resistance or any objective, nor is it overbought monthly. It looks like it has further to go. We are participating in the Japan ETF (EWJ) and the Japan Small Cap Fund (JOF).

Daily Nikkei is Turning Up



Weekly Nikkei is Overbought



Strategy

Investors retain holdings but begin to lighten up as the rally unfolds.
Traders go short on the first and cover on the 8th. Go long on the date.

What the Media is Not Telling Us

From DeCourcy's Intelligence Review (DeCourcyInt.com), October 3, 2005, I read the following interesting facts. There were 651 terrorist attacks in 2004 that killed 1907 people. The Red Cross says that there were 719 reported natural disasters in 2004 that caused 250,000 deaths. A total of 146 million were affected by the disasters. These numbers are inflated by the tsunami, but 80,000 lives are lost each year to disasters from 1994 to 2003. In 2004, 42,636 people were killed in US automobile accidents with 16,694 killed by drunk driving. Therefore, drunk drivers were about nine times more deadly than terrorists in 2004.

The internet will not remain free for long, as I have long suspected. The UN will convene a World Summit on the Information Society next month in Tunisia. Reuters reported that "global control of the world wide web may be decided." The report also stated that "But developing countries want an international body such as the UN's International Telecommunications Union to have control over governance-from distributing website domains to fighting spam." The draft for the Tunis summit calls for the development of the "a people-centered, inclusive and development-oriented information society...premised upon the purposes and principles of the Charter of the UN." The net will be used "to promote the development goals of the Millenium Declaration," especially the "right to development, as enshrined in the Vienna Declaration..."

This right includes the UN desire to redistribute US wealth to the socialist dictatorships of the world. The draft for the Tunis meeting also invokes Article 29 of the Universal Declaration of Human Rights. This document states that "everyone has duties to the community in which alone the free and full development of their personality is possible, and that, in the exercise of their rights and freedoms, everyone shall be subject only to such limitations as are determined by the law...*These rights and freedoms may in no case be exercised contrary to the purposes and principles of the UN.*" In plain words, the UN will suppress any criticism of itself and its desire to control the globe.

Rep. Ron Paul has been a vocal critic of the World Trade Organization (WTO). He has pointed out that the high-tax Europeans have complained to the WTO for many years about the tax treatment of USA firms on their foreign earnings. The EU took its complaint to the WTO who decided for the EU. Congress then rushed to change the law before a WTO deadline. Ron Paul warns that an increasing number of laws are being dictated by international bodies. The same is true of Kyoto. Despite the fact that the US has not fully adopted the Protocols, many states and government agencies are complying with Kyoto anyway.

Don't Worry-Be Happy

Reuben Martinez has been a barber in southern California for many years. His love of reading was so great that he kept about 200 books in his shops. His customers became interested and began to borrow books. In 1993, he opened a bookstore inside his shop, encouraging his Spanish-speaking clientele to read. The MacArthur Foundation became aware of his efforts to promote literacy and learning in the Hispanic community. The foundation gives 'genius grants' became aware of his efforts to promote literacy and learning in the Hispanic community. The foundation gives 'genius grants' each year. Martinez and 22 other Americans received grants of \$500,000 each. Martinez will use his grant to establish 25 bookstores by 2012.

Research- How Much Information is Too Much?

In 1979 Richards J. Heuer Jr. authored an article entitled "Do You Really Need More Information?" Heuer's research appeared in his book, *The Psychology of Intelligence Analysis*, was declassified in 1999 when it appeared in "Inside CIA's Private World: Declassified Articles from the Agency's Internal Journal 1955-1992." A study was done on how much information is needed to make an accurate analysis. The CIA used eight horse racing handicappers as a way to analyze how much information was needed to make the most accurate judgment. The handicappers were first asked to rank the importance of 88 handicapping factors such as weight, distance, rider, etc. They were then given the five most important factors to utilize when handicapping a race. The study was repeated using the 10 most important, the 20 most important and, finally, the 40 most important factors. The results revealed that three handicappers showed less accuracy when information increased, two showed more accuracy and three others showed no change. Tests showed that confidence increased, eventually doubling when the most information was provided. Heuer concluded that "individuals overestimate the importance he attributes to factors that have only a minor impact on his judgment, and underestimates the extent to which his decisions are based on a very few major variables...Possibly our feeling that we can take into account a host of different factors comes about because although we remember that at some time or other we have attended to each of the different factors, we fail to notice that it is seldom more than one or two

that we consider at any one time." The entire book is on the CIA website at <http://www.cia.gov/csi/books/19104/>.

This reminds me of the KISS (Keep It Simple Stupid) maxim that the late great trader Frankie Joe lived by. He was one of the Street's greatest traders, and he had no PC and no staff, yet he had 15 consecutive profitable years. (He used to remind me that he started with \$600.) Thus, too many factors obscure the picture; it pays to concentrate on 5 factors at most.

The Bush Team Report

As mentioned above, the November 1 lunation hits the administration hard. The inauguration chart has Neptune in the 10th at 15 Aquarius square the ascendant at 14 Taurus. The administration is under attack from the democrats again as their adversaries resort to the Mars-Neptune strategy of deception and character assassination.

Richard Cheney (1/30/41) receives the most direct hit to his chart. The VP's Sun is at 10 Aquarius, opposite Pluto at 3 Leo, and square the Jupiter-Saturn conjunction at 7-8 Taurus. His progressed Mars at 2 Aquarius is still closely opposite his progressed MC and Pluto at 2 Leo, so he is already involved in a struggle. Mars will turn direct on his Jupiter-Saturn conjunction square his Sun next month, so his difficulties will become more obvious at that time. It is likely that there will be some allegations about defense contracts. His Sun is on the descendant at the coast of California and his Jupiter-Saturn conjunction are on the MC in the southern part of the state, home to many defense contractors.

Condoleeza Rice (11/14/54) has 6 planets in fixed signs, but most of them are out of harm's way now. The closest planets to the lunation are her Saturn at 13 Scorpio and Mars at 16 Aquarius. Her progressed Moon opposes progressed Saturn at 19 Scorpio, so this is not an easy month for her, but less so than the rest of the group.

Donald Rumsfeld (7/9/32) has 4 planets in fixed signs. His 11 Leo Mercury is conjunct the Uranian planet Zeus at 10, both square Kronos at 11 Taurus, fitting for a defense secretary. The solar eclipses of last autumn and this coming spring at 10 Libra-Aries are opposite and conjunct his natal Admetos-Hades conjunction, which is on the angles in the Mideast where he was tarnished by the prisoner abuse scandal. Note that his Mercury, very close to that of the President, will be transited by Saturn and squared by the upcoming Mars station. Thus, his opinions, ideas, and communications are under assault. The eclipses will dredge some muck up from the depths, so he will call upon damage control to prevent the oil slick of bad publicity from spreading.

It appears that this will be a trying month for the Bush team, but this storm does not appear strong enough to knock any of the birds from their perches. VP Cheney is most directly in the line of planetary fire, with the Secretary of Defense second in line. This suggests a defense-related issue.

Quote of the Month:

"If you pick up a starving dog and make him prosperous, he will not bite you. This is the principal difference between a dog and a man."

-Mark Twain

Turning Points

The highest-probability S&P and DJIA turning points (+ or - 1 day) for the month are
(The stronger turning points are starred:

2 21

8 25*

16-17

The highest-probability NASDAQ turning points (+ or - 1 day) for the month are
(The stronger turning points are starred*):

Oct. 31 18

4* 28

11*

CFRS Portfolio

The CFRS portfolio rose 5.65% in Q2 versus 0.91% for the S&P.
Looking at the returns on an annualized basis from January 1, 1996 through June 30, 2005:

S&P Annual Return: 7.2%

Portfolio Annual Return: 28.4%

No recommendations at this time.

STOCK	SYMBOL	BUY PRICE	RECENT PRICE	% CHANGE	STOP	1 ST TRADE

*Disclaimer: The methods utilized have proven profitable in the past but no guarantee can be made of future performance nor is any liability accepted.
See the website at billmeridian.com.*