THE HARLEY MARKET LETTER©

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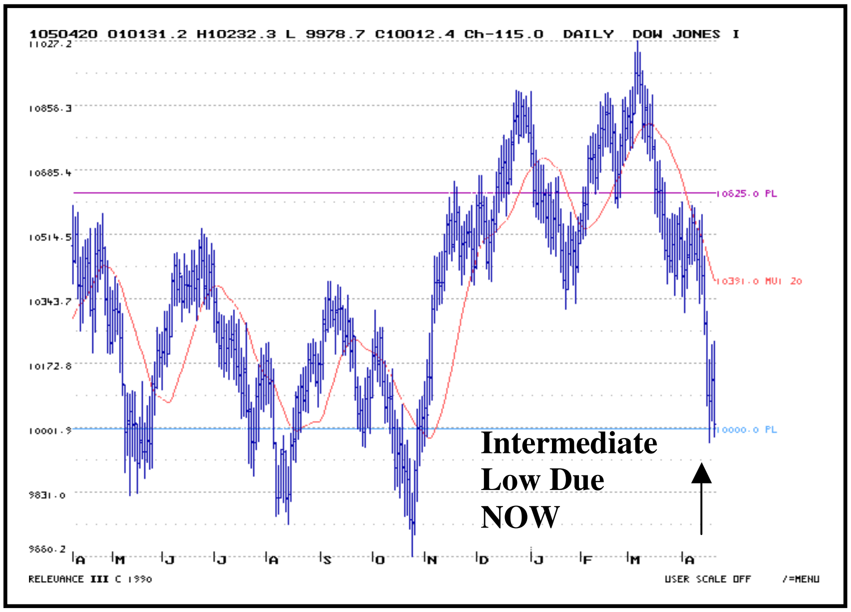
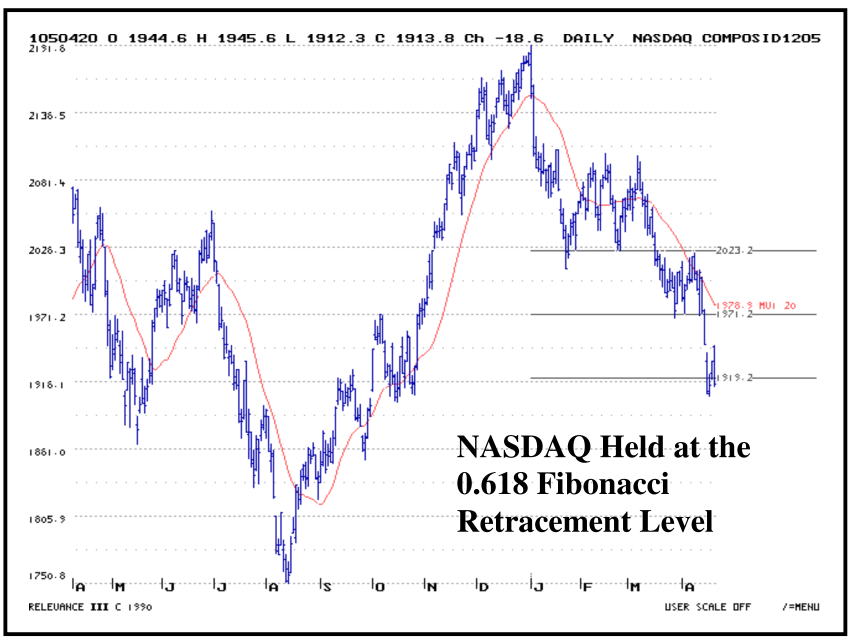
April 20, 2005 Vol. 8, No. 10 *Advanced Technical Analysis of the Financial Markets*





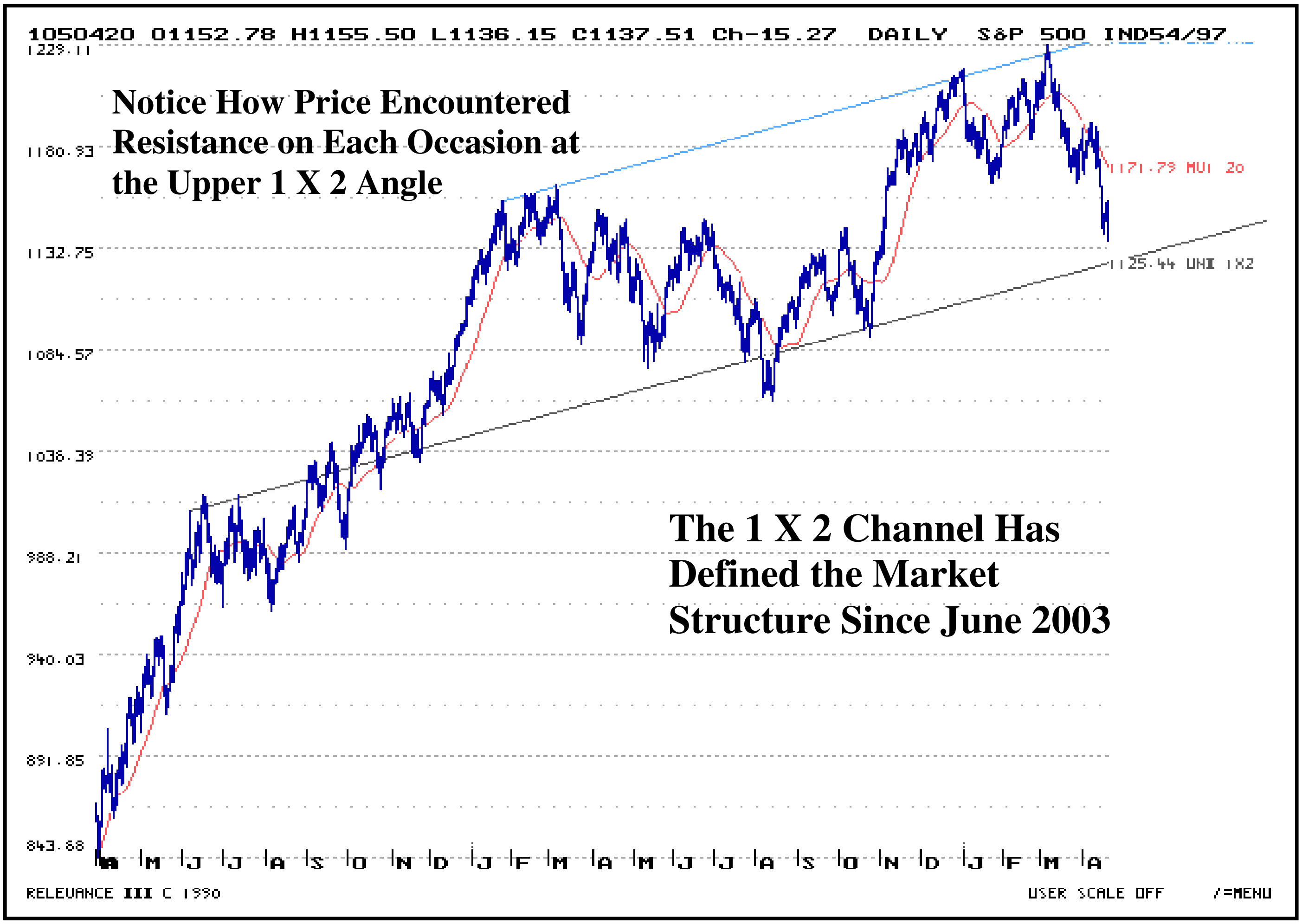
STOCK MARKET

Consolidation Ending – Buying Opportunity at Hand

Out of the intra-day lows of October 25, 2004 that marked the trough in the 78.4 week / 377 trading day cycle, stock market indices surged upward into the first quarter of this year. Upon reaching their highs on March 7th, the indices then began a consolidation of those gains as investors fretted over fears of rising inflation and the impact of slower economic growth on corporate earnings. The near-waterfall decline sent stocks to new lows for the year. But despite these concerns, my technical work points to a cyclical clustering in the April 20, 2005 time period. Rising out of the expected intermediate cyclical low, equities are poised to continue their upward push throughout the rest of the spring and summer quarters.

In the October – March rally the Dow Jones Industrials Average advanced from 9,660 to 11,027 – a gain of 1,367 points or 14.2%. After breaking out above the 10,625 price octave at the rally high, the Dow then reversed and declined all the way back to its 10,000 price octave. I look for this level to be supportive here. The decline from the March 7th high is very close to a 78.6% fibonacci retracement.

The NASDAQ Composite Index – whose advance began at the August 13, 2004 low point – gained 440.8 points or slightly more than 25% at the rally high. The horizontal lines on the chart represent 0.382, 0.500, and 0.618 fibonacci retracement levels. I look for the 0.618 retracement (1,919.2) to be supportive here for this index as well.

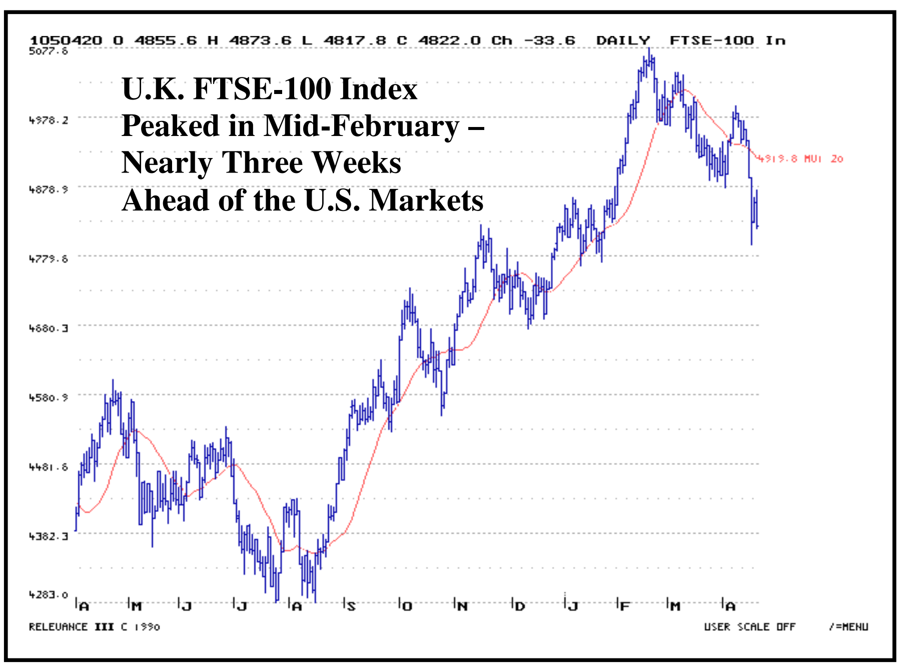


1 X 2 CHANNEL DEFINES STRUCTURE OF S&P 500

On the chart of the S&P 500 cash index above, I have drawn a pair of parallel 1 X 2 upward-sloping angles. "1 X 2" means that the rise over the run (the slope) is a ratio of 1 over 2; that is, the angle lines rise one point for every two trading days. As can be seen, the two angles together produce a channel which has done a dandy of a job in defining the market structure for the S&P.

United Kingdom FTSE-100 Index

The U.K. FTSE-100 Index (chart, right) has exhibited a much greater degree of relative strength compared to its American counterparts both during the advance and



throughout the consolidation. I suspect the British market will again be the relative strength leader in the rally that is about to begin.

New York Composite Pulling Back From All-Time High

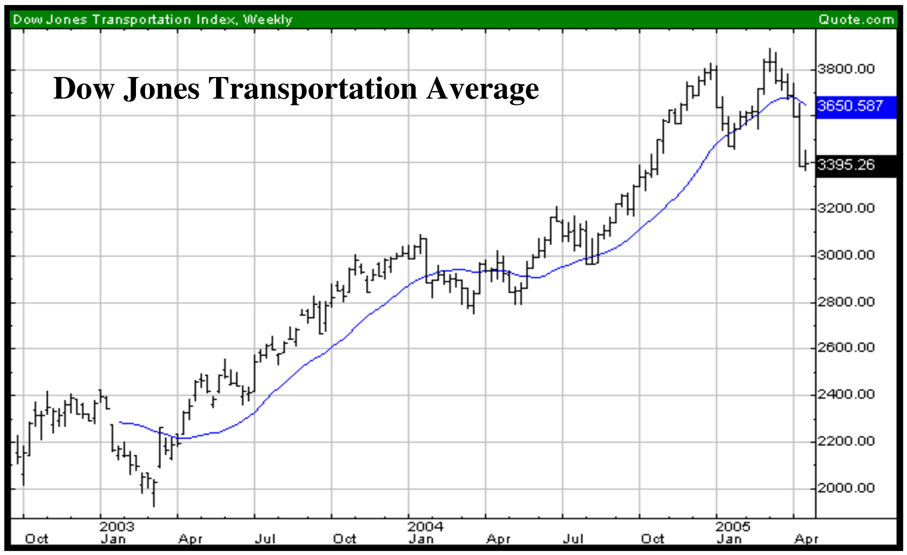
The New York Composite Index (NYA) is shown at right. On March 7, 2005, it made a new, all-time high. In previous writings, I noted that I suspected that the 7,500 level would mark the next resistance level. The advance in the NYA stopped just short of that mark. 7,500 is a major price octave in my work. Take note of how the 3,750, 5,000, and 6,250 levels have acted as support/resistance thresholds. As the coming rally pushes prices higher once again, I would look for this index to push marginally above that magic 7,500 line and stall. That process will probably span several months, perhaps lasting into March of 2006 which is when I expect the next crest to occur in the present four-year cycle.

Dow Jones Transports

Take note, too, of how strong the Dow Jones Transportation Average (chart at right) has been. That index has doubled since the March 2003 bottom. The airline component of the Transports is the XAL (chart, lower right). It has been a laggard since the December 31st high point. I have been expecting that this sector would rally back near the former highs at 70 in the next advance. The sideways pattern evident since January leads me now to believe that a rally back to that 70 level could be a bit problematic in the near-term. Never-the-less, a move back to the late 2004 highs at 62-63 would represent a gain of more than 33% from present levels.

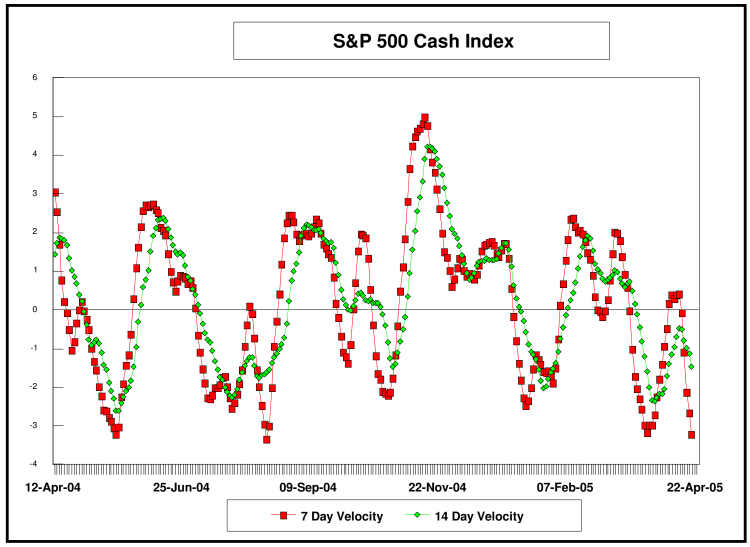
Indicators Pointed South

My indicators that measure both price velocity and trend are plotted on page 4. Notice how my 81 day percentage range trend indicator is back down into an area of historical "oversold."



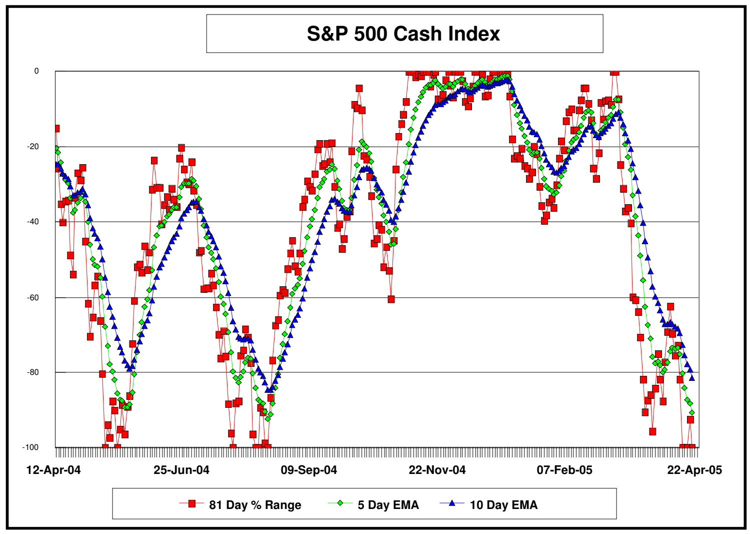
CYCLES ANALYSIS

The high on March 7, 2005 coincided with the latest occurrence in the 51.18 week / 245.9 TD cycle that I showed in the previous two issues of ***The Harley Market Letter***. From that high, I have been expecting that the market would decline into a set of two stair-step cycle low points – the first one I was expecting for the March 31st time period and the second low I was expecting in the April 18-22, 2005 time period. The lows of March 29th and April 20th appear to have coincided with those expectations. At this writing (April 20, 2005) the market is right at the point at which I am expecting an upside reversal. Three cycles of importance are clustering right here that I believe will foster the technical underpinnings for an intermediate cyclical turn.



41 Month / 179 Week Cycle

I showed a long-term chart of this cycle in the March monthly letter. My own work has demonstrated that this cycle, like most of the cycles I have analyzed, has its roots grounded in the Fibonacci number ***377***. If I divide 377 by seven and multiply the result by four squared ((377 / 7) X 4 X 4) the result is 861.7. The 14-Sep-1953L - 20-Apr-2005L time period spanned 12,939 trading days (2,692 weeks or 619 months) and contained 15 occurrences of this cycle; 12,939 trading days divided by 15 cycles = 862.6 trading days (179.47 weeks or 41.27 months) per cycle. 15 occurrences of this cycle would, according to my theory, span 12,926 trading days ((377 / 7) X 4^2 X 15). It is noteworthy that over a 52-year time span and 15 occurrences this cycle spanned only 13 trading days longer than its theoretical length (12,939 – 12,926 = 13 trading days).



57.6 Trading Day Cycle

The S&P 500 chart at right depicts a cycle that averages 57.6 TDs. This cycle, too, has its roots grounded in Fibonacci numerology: (233 + 55) / 5 = 57.6. The next occurrence is due in the April 20, 2005 time period – coincidental with my next 69.2 TD cycle and the point at which I think could mark a significant intermediate cycle low point for equities.

69.2 Trading Day Cycles

The S&P 500 chart at right depicts a 69.2 TD cycle. The statistical analysis of the price data is detailed below. The standard deviation as a percentage of the mean is a very low 3.61%. The next occurrence is due in the April 20, 2005 time period – coincidental with my next 57.6 TD and 41 month cycles - and the point at which I think could mark a significant intermediate cycle bottom.

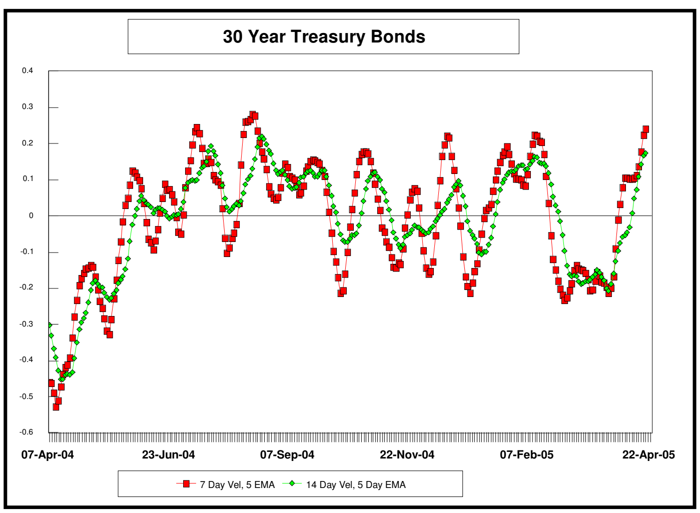
69.2 TRADING DAY TREND CHANGE CYCLE

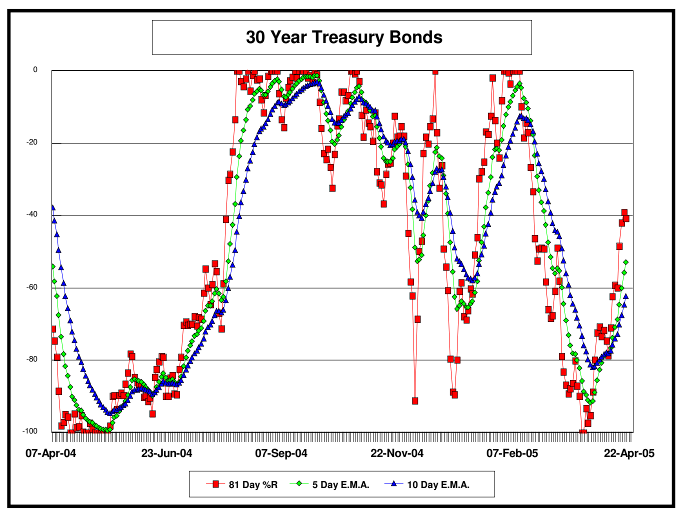
	DATE		INTERVAL (TDs)	MEAN (TDs)	VARIANCE (TDs)	STD DEV (TDs)	DISTRIBUTION (ASCENDING ORDER)
				Sample Statistics			
0	21-Sep-01	L					
1	07-Jan-02	H	73	73.00			66
2	15-Apr-02	L	67	70.00	18.0	4.2	67
3	24-Jul-02	L	70	70.00	9.0	3.0	67
4	31-Oct-02	L	70	70.00	6.0	2.4	68
5	13-Feb-03	L	71	70.20	4.7	2.2	68
6	20-May-03	L	66	69.50	6.7	2.6	68
7	26-Aug-03	L	68	69.29	5.9	2.4	70
8	10-Dec-03	L	74	69.88	7.8	2.8	70
9	24-Mar-04	L	71	70.00	7.0	2.6	71
10	30-Jun-04	H	67	69.70	7.1	2.7	71
11	06-Oct-04	H	68	69.55	6.7	2.6	73
12	12-Jan-05	L	68	69.42	6.3	2.5	74

Next Projected Cyclical Turn = April 20, 2005 Time Period

Derivation = (377 / 7) X (9 / 7) = 69.24

Shortest =	66	TDs
Longest =	74	TDs
Mean =	69.42	TDs
Median =	69	TDs
Range =	70	+/- 4 TDs
Std Dev as % of Mean =	3.61%	





BONDS

Since bottoming in mid-March, U.S. treasury bonds have surged back upward and are again back at the levels of December 2004. For most of the last two years, bonds have had a hard time pushing much beyond the current level of resistance. The vertical lines I have drawn on the accompanying chart reflect a cycle that averages about 108 (54 X 2) trading days. As with the S&P 500, the rising 1 X 2 angles on the bond chart have done a dandy of a job in defining the structure. I will be watching for potential support at the first 1 X 2 angle.

In studying my 81 day % range indicator above, one can see that this indicator did get back down into historically "oversold" territory with the bonds having moved generally sideways. That indicates to me that we may have the technical underpinnings for a strong upmove over the intermediate term. As such, I like the bonds here for higher prices, lower yield. Also, I should point out that the Fed tightenings have had no demonstrable effect on the 30 year bond. The Fed Funds rate and the Federal Discount rate march to their own cyclical rhythm which is not connected to the 30 year bonds.

PRECIOUS METALS

In previous issues I have discussed a monthly cyclical high-high rhythm in the gold complex that averages 430.9 weeks - approximately 99 months or eight years in duration. In projecting 430.9 weekly cyclical turns from the high that occurred in January 1980, all of the major highs in this complex have been defined – including the most recent one in late November of 2004. Since that late November high, gold prices on the Comex declined to the 413 area and have since straddled about $20 from the 425 level. The most recent low was marked with a short-term cycle that averages about 41.7 trading days. I look for some sort of retest of the high that occurred in early March; if that high were broken on the upside then we might see a retest of the late November high at 456. The XAU Gold and Silver Index found recent support at its 87.50 price octave. So far, that level has been a sustainable price floor. The next upside target for the XAU appears to be the 100 price octave.

THE HARLEY MARKET LETTER UPDATE

Readers are urged to monitor *The Harley Market Letter UPDATE* for any changes in my advisory Outlook. See my website for details.