

Technical Perspectives

January 4, 2006
Volume II, No. 1

OUTLOOK 2006

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OUTLOOK 2006 – Less “Americentric” – A Good Year in the Right Stocks.

Review

We can look back on 2005 as having broken (as measured by the DJIA) a 120-year record: That years ending in “5” have all been “up” years as far back as 1885. The Dow ended 2005 *down* 65.51 points for the year (or 0.61%). (**General Motors Corp.** [GM-18.90] off 51.52% alone was responsible for 140 declining Dow points for the year.)

Or, we can look back at 2005 as *not* having broken that record, considering that *all other market indexes are “up” for the year (!)*, thus actually *maintaining* the rule of years ending in “5” as measured by the broad equity market. One could treat this as the exception that makes the rule, or as an anomaly, that this time some things really are different, as has been the case in so many areas of market behavior since 1995.

In 2005, our technical outlook projected technical targets for the Dow toward 11,300, for the NASDAQ toward 2250 and an interim target for the S&P 500 at 1275. Two of the three have been met, as the Dow lagged.

Additionally, we laid forth the *conceptual possibility* (see Figure 1) that the course of the 2000 structural bear for the equity market (based on the Elliott Wave principle of the Alternation of Cycles) *may not follow* the regular horizontal pattern (around a central pivot low) of the prior structural bear market of 1966-82 (a period of inflation and rapidly rising rates); but instead might act more like the “Alternate” structural bear, of an irregular pattern, like the 1929-42 experience (a period with deflation pressures and falling-to-low interest rates similar to the 2000-02 to present environment).

Figure 1. DJIA – 2003 – Present / DJIA 1932-1937



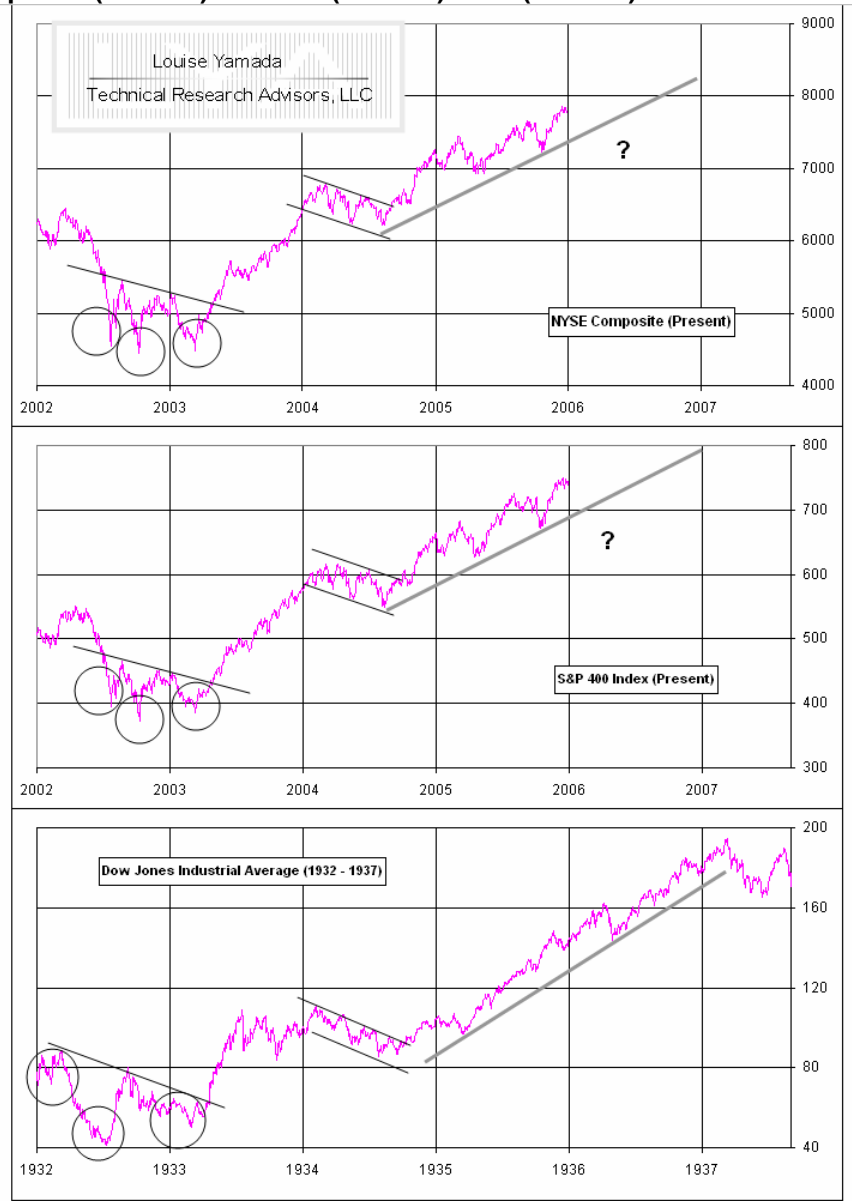
Data Source: Bloomberg

We asked whether or not the post-crash pivot low of our structural bear experience (2000-present) may be behind us in the 2002 decline (as 1932 provided the post-crash pivot low for that alternate bear experience).

We suggested, as such, that the nine-month consolidation of 2004 (see Figure 1) could provide a similar platform (to that of the 1934 consolidation) for a generous lift-off, or an extension of the previous rally, which could even carry *through 2005 or beyond*. All this was projected and occurred against the backdrop of improving technical indicators as we entered 2005.

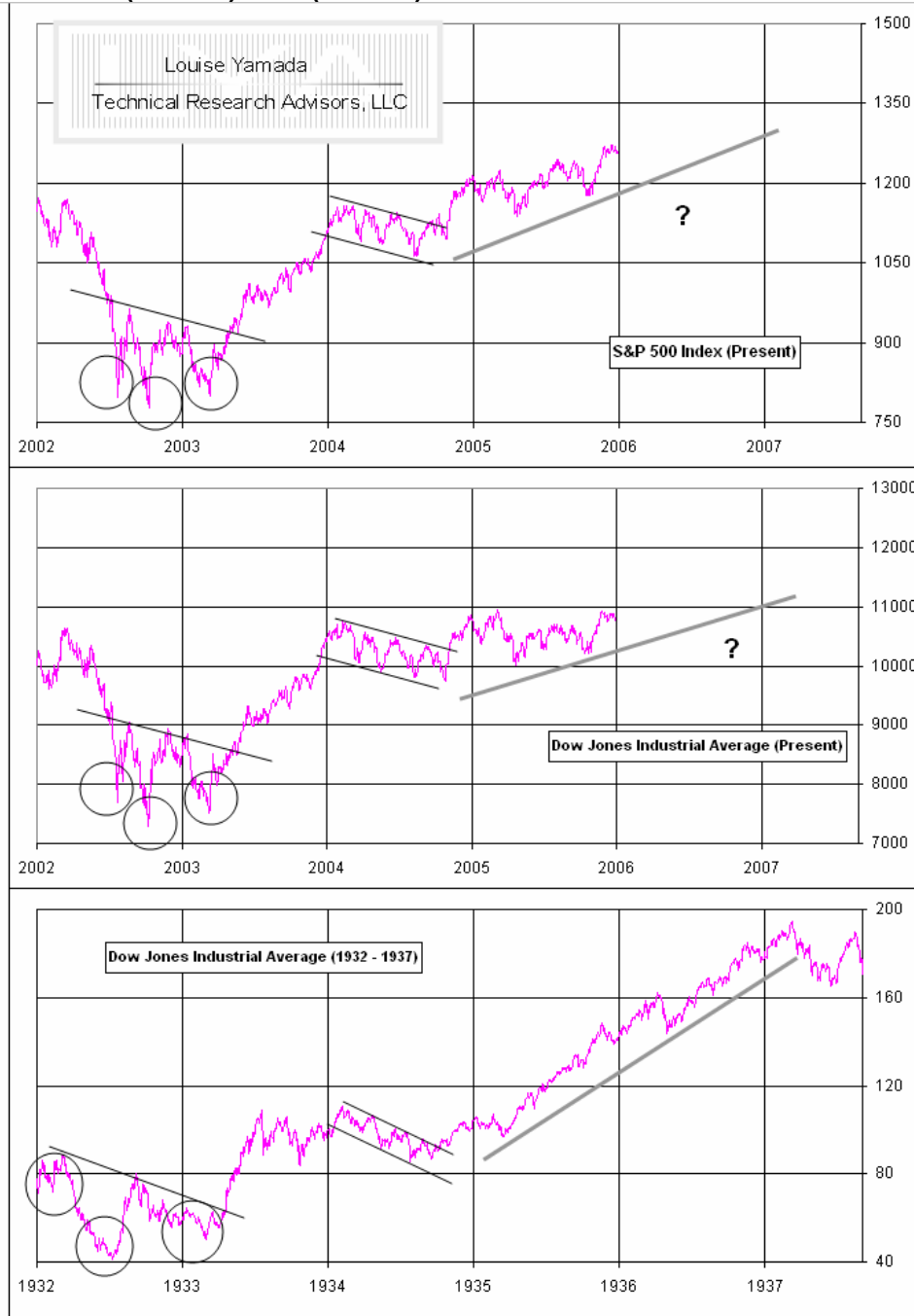
The 1932-37 analogy succeeded through last year (see Figures 2 and 3), particularly as measured by the small- and mid-cap outperformance focus of the NYSE, the S&P 400 and S&P 600, yet only to a lesser degree by the S&P 500 and the DJIA. The analogy still could be considered “in play” as we enter 2006, though more selectivity as to stock participation may be warranted.

Figure 2 NYSE Composite (Present) S&P 400 (Present) DJIA (1932-37)



Data Source: Bloomberg

Figure 3. S&P 500 Index (Present) DJIA (Present) and DJIA 1932-37



Data Source: Bloomberg

Peering Into 2006: A Few Dark Clouds; Selective Silver Linings

1) We enter 2006 with a *slightly less buoyant technical top-down indicator profile* (see *Technical Perspectives* dated December 21, 2005) than existed as we entered January of last year. Rather than robust uptrends for advancing versus declining issues, new highs versus new lows and volume confirmations, to name a few, there are now negative divergences in view as we move into January 2006 that were not present entering 2005. These negative divergences can precede more substantial market declines from four to six to nine months from the points of divergence. But January has opened with a burst that has narrowed the Advance-Decline line (A-D) divergence to only 1,200 issues.

LY ADVISORS: *Technical Perspectives* January 4, 2006

2) Additionally, the decennial pattern of years ending in "6" carries only a 55% record of notching an "up" year (45% down years) since 1885. (The average return was 6.07%.)

3) We should consider that equities have enjoyed three consecutive "up" years in a row (2003, 2004 and 2005) with very generous gains: The S&P 600 Small-cap index leads the pack with a three-year gain of 110%; the S&P 400 rose 97%; the NASDAQ rose 81%; the NYSE rose 78%; the S&P 500 rose 61%; and the Dow rose 47%.

In the course of these advances, while the majority of the indexes have experienced interim corrections, the S&P 500 and the NYSE have not experienced as much as a 10%-plus decline (correction). One might wonder how long that can continue.

Historically, **three consecutive years up in a defined structural bear market** environment (which we believe this represents, until proven otherwise) **have only once seen a fourth consecutive year "up:" 1933, 1934, 1935, 1936.** Interestingly, this corresponds to the same time frame (the repair phase of a bear market) we reference in our alternating observation above, thus leaving open a window for 2006.

(In structural bull market periods, with strong technical indicator readings, there have been up to a five-year sequential advance in the 1920s and a nine-year sequential advance in the 1990s.)

4) Additionally, the forces of the four-year cycle, which turned up in 2002, in tandem with the equity market bottom, are now rolling down as we enter 2006 into what conceptually should provide the making of another market low. But four-year cycles can also *right align*, or bottom late, as they did in 1937 (and 1987), an occurrence which can make the subsequent decline more contracted and severe (as occurred in the two above examples).

On the Plus Side

1) **From a "bottoms-up" approach, and regardless of market action, we are finding a generous number of multi-year bases and / or consolidations in place in our individual point-and-figure stock work**, which we have featured herein and will continue to feature in the weeks ahead. Just as there have been stocks to sell into the cyclical bull years we have enjoyed, there are also always stocks to buy in a declining market were that to occur.

2) It may well be that 2006 becomes a year of *greater selectivity on individual stocks* with attractive technicals. Many may carry strong international growth prospects as the developing world continues its multi-year, up-from-the ground-level, growth progression. Individual stock selection in the U.S. may become more important in 2006 than any index focus.

3) One interesting technical observation well worth making is that, even in the face of deteriorating internal technical data, **we do not yet have evidence of extended major topping processes in place** (with a few exceptions such as Publishing and Autos) as we had in 1999-2000. While this does not preclude a more serious decline from occurring, it does allow one to contemplate individual declines for overextended stocks, but not necessarily the end to their longer-term uptrends. Stocks already experiencing bear declines, or relative underperformance, may experience further declines.

4) The **up to 20-plus-year sequential structural trend reversals** that we have identified over the past five years **continue their extensions**, directing us to the beneficiaries of the new structural bull trending areas.

- The 18-year uptrend violations in 2000 for the DJIA and the S&P 500 remain in place, despite the generous rallies off the 2002 lows, continuing to define structural bear markets for these

indexes. Structural bear markets are created by declines in large-cap stocks. Thus those former leaders should not be expected to lead again for some time, notwithstanding interim rallies (witness **General Electric Co.** [GE-35.37], **Intel Corp.** [INTC-25.57], **Microsoft Corp.** [MSFT-26.84], **Pfizer Inc.** [PFE-23.78] and **Verizon Corp.** [VZ-30.38] in the Dow).

- **The small- and mid-cap outperformance cycle we identified five years ago remains in place.** We have noted that small- and mid- cap relative outperformance cycles have always tended to accompany the “repair” process years of structural bear market environments (1934-42; 1975-83). Small- and mid-cap stocks and the indexes representing them (NYSE, 400 and 600) have maintained this outperformance profile since the 2002 low.

These indices have seen prices advance into what might be considered new, or extensions of, a bull market progression. Their generous uptrends (noted above) were interspersed with corrective (not bear) interruptions. The implication may indicate **a bifurcated equity market index environment**, a trend that **may continue into 2006, with more selectivity as to particular stocks.** Large caps may join in, but we don’t see evidence of a shift to their leadership.

- **The structural bull market for gold** (see Figure 4) that we watched initiate in 2001 **is still intact.** The past year has seen gold lift through our targets of 400 as well as the next hurdle, the resistance level at 500, just penetrated. The penetration through 500 represented a 24-year breakout for gold, an impressive achievement. Structural bull markets endure for years, even decades, and we see no exception for gold, with further technical targets to 580, 750 and beyond.

We would use pauses and / or pullbacks to accumulate gold and gold stocks. We have maintained that gold could *easily exceed its 1980 peak and progress to 1000—and beyond.* Global economic growth and consumer demand represent factors in gold’s favor, as well as its newly accepted entry as an “investment asset” class.

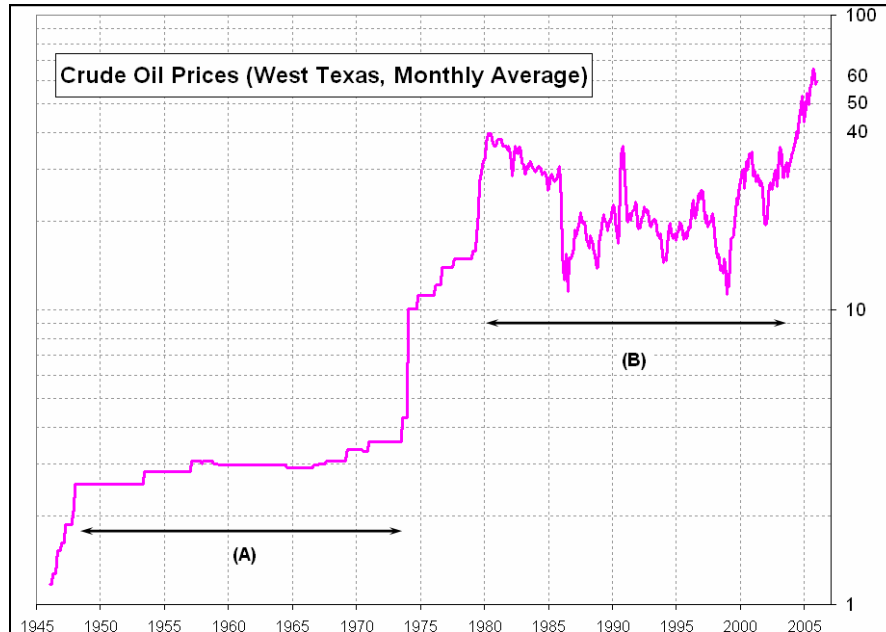
Figure 4. London Gold Price



Data Source: Bloomberg

- The 2003 structural bull market for energy stocks and crude oil (see Figure 5) are still in place and crude achieved our 2004 target of 67. Both the commodity and the stocks recently have been in the throes of the first more extended consolidation / corrective trend. That corrective trend appears to be coming to an end as we enter 2006 (see *LY Alert* on page 15).

Figure 5. Crude Oil Prices (West Texas, Monthly Average)



Data Source: Bloomberg

We believe oil has embarked on only its third multi-year step up in price (like the three years in the 1940s and the six years in the 1970s, each followed by a 24-year plateau and each time never to retreat to the prior lows).

Oil may consolidate above 50, but over time, **we foresee much higher levels for oil over the years and decades ahead, with the next outstanding target at 80.** We would continue to use corrections to accumulate positions in energy stocks.

- The Reuters/Jefferies CRB futures index (CRB), in its new structural bull market (defined by the penetration of a 23-year downtrend in 2002), is challenging its prior high as we move into 2006; we believe the commodity bull should continue over many years ahead, notwithstanding occasional pauses to digest gains. With energy in a structural bull, gold in a structural bull, copper lifting through a 30-year base at 153 and to a new closing all-time high currently at 216 and the agricultural products also rising in price, the CRB should continue its advance toward new all-time highs.
- The U.S. dollar survived the 2004 test of its 17-year support level at 80 and has since rallied from our January 2005 *Buy* signal, as U.S. interest rates have risen somewhat. The dollar has been hesitating at 92 resistance and is testing support at 89 with an important support at 86. **The dollar may remain at least stable into 2006 within a range. But we must keep in mind that the support level at 80 represents a critical structural support level to monitor into the future.**
- **The one still outstanding 24-year structural trend reversal remains that of the bond market** (which was also the last structural trend to reverse in the early 1980s). Interest rates, based on the 10-year Treasury note, remain in our now five-year transitional trading range between 3.5% and

5.5% (see Figure 6). We have noted that within this range breakouts have failed to follow through, and breakdowns have failed to follow through. The continuation of this trading range may see yields fluctuate therein for another year or more, *even declining again*, but overall with the 10-year yield remaining relatively benign.

This behavior is in line with the 200-plus year history of interest rates in our country. **Reversals from structural falling rate cycles to rising rate cycles have been very slow, multi-year affairs**, and the current one is no exception perhaps because each such event has experienced deflationary pressures and structural bear market environments. The last structural rising rate cycle commenced in 1946 (14 years after the 1932 bear market low)!

An eventual move through 5.5%, technically, would definitively end the 24-year bond bull market and qualify as the initiation of the next rising rate cycle. **U.S. interest rate cycles have endured for 22 to 37 years.**

Figure 6. 10-Year Treasury Yield



Data Source: Bloomberg

- **Might global growth be similar to the 1942-66 U.S. war and post-war boom? Our Global markets' perspective is that of emerging new structural bull markets around the world**, with some like Japan and South Korea, just initiating and moving up through multi-year bottoming configurations. A glance at Figure 7 shows the relative performance of the MSCI U.S. Index to the MSCI World Index. The plunge in the U.S. relative strength through a two-year top suggests to us that global market prospects should continue to outperform the U.S. not just through 2006, but perhaps for a number of years -- in a less "Americentric" world.

The global behavior may be very similar to the U.S. war and post-war bull market period from 1942-66, an explosive period of development and growth within our country that is being mirrored, if not magnified, by growing demands from China, India, Vietnam and the balance of the rapidly developing nations.

The developing world now seems on track for a very legitimate growth boom which could provide continued bull markets for the global arena as well as bull markets for individual stocks within our growingly selective U.S. stock arena.

The anti-American sentiment that is being fostered worldwide might suggest to us that companies of other nations may benefit more, overall, from the global growth demand, leaving the U.S. more and more on the global periphery.

Thus, within our U.S. market, we may need to focus more on those equity names with good technical patterns that may be reflective of their participation in the global build-out.

Figure 7. MSCI U.S. Index/Relative Strength to MSCI World Index (Free)



Data Source: Bloomberg

Wrap Up – 2006 A Good Year in the Right Stocks

Moving into 2006 we expect the structural trends above to continue globally and would **focus on the select Industrials, Materials, Energy, Metals and Rails**, where we believe the technical **Capital Goods outperformance leadership** resides, representing the new-growth beneficiaries of the global build-out. These should continue to advance, notwithstanding contratrend moves which undoubtedly will arrive and seem to occur rotationally among these leaders.

We can't help reiterating the observation that global warming weather extremes of tornados, hurricanes and heat waves, on top of natural disasters of earthquakes, tsunamis, volcanoes, fires and floods, all create an ongoing need to rebuild the world—a strong case for an extended Capital Goods outperformance cycle (see *Technical Perspectives* dated December 7, 2005).

As the growth action continues abroad, 2006 should be less “Americentric.” U.S. stocks that participate in the global growth should do well. Some large-cap names may join the mid-cap parade. As such, there is a chance that 2006 could echo 1936, completing the alternating cycle hypothesis above.

Interest rates should remain benign. The 5%-5.25% level has proved to be the average as well as the median area for long-term rates. One wild card may be that select growth utilities will continue to do well even if rates inch up. Electricity is becoming the basic material of the new high-tech economy – and copper is a key ingredient in the global electric build-out.

The year 2006 may be a more challenging year, but well-placed investments in the outperforming areas should make it a rewarding year as well. For reference, we include short-term and intermediate-term, more critical, support levels for the major indexes:

Index	Short-Term Support	Intermediate-Term Support
DJIA	10,730	10,000
S&P 500	1250	1170, 1140
NYSE	7700	7200, 7000
NASDAQ	2220	2020, 1890
S&P 400	730	660, 620
S&P 600	350	325, 300

Editorial: *Food For Thought*

Gold and the Dollar

We believe gold is not responding to perceived forces of inflation at this point in time, as China and other low wage countries export wage and price deflation: Rather, **gold has taken on a bull market cycle of its own**, rising in dollars even as the dollar rallied (see *Technical Perspectives* dated November 23, 2005) as well as rising in most foreign currencies across the globe; this perhaps as countries struggle to maintain weak currencies (print money?) to survive in the deflationary global competitive wage and price environment. *The result, of course, is one of currency devaluation.*

Developed country central banks have sold gold, are floating paper and now the U.S. will hide the data by no longer reporting M3 as they print dollars with abandon. The currency devaluations alone could **take gold price well into thousands of dollars**; China, buying gold in its own right, may well be buying gold also in an effort to shed excess paper dollars.

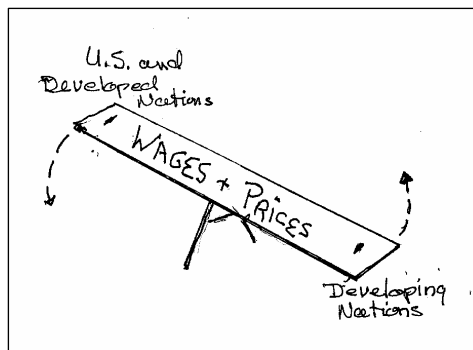
In the 19th century, Britain was the economic leader and the pound the currency of choice. In the 20th century, the U.S. became the economic leader and the dollar the currency of choice. There should be little doubt that the 21st century may well see China as the economic leader, and the Yuan may become the currency of choice. China will revalue on its own schedule, notching the dollar down with each step. **Could we end up with a gold-backed Yuan and a fiat dollar over the years ahead?**

Global Wage and Price Equalization

It should come as no surprise that the U.S. has been suffering job loss and wage adjustments over recent years. The internet and new technologies of the 1990s, in addition to trade globalization, act as major forces of global wage and price equalization (see Figure 8) as lower cost areas enable 24-hour workdays traversing the globe, and benefit from outsourcing, as corporations rush to survive in the falling price environment.

Since the U.S. has been at the high end of the global wage and price scale, the U.S. (and other developed nations) **has the most to lose in the equalization process.** The expected inflationary forces appear perhaps to be offset by the global dis-inflationary forces of this process. The offset may well be what is keeping long interest rates low. **Once this equalization process is complete, price inflation may then re-emerge.**

Figure 8. Wages & Prices



Source: LY Advisors

Inflation

We have suggested for nearly a decade that the powers that be are **“looking for inflation in all the wrong places”**^{**} Our belief has been that inflation is experiencing a century-long shift: Out of the Capital Goods and product arena (where wage and price deflation pressures are being brought to bear through globalization, technology advances and the internet, and will continue for possibly decades . . . and into what we have called **consumer essentials inflation: food, water and energy** (as well as healthcare).

Pockets of inflation in raw material commodities, we believe, may well be offset through the lower wages of outsourcing—keeping the finished product low cost to the point of disinflation, if not deflation, in the Capital Goods product arena.

The Capital Goods (formerly what we dubbed “old tech” 10-12 years ago) have spent the decade utilizing the new technology to make themselves cost effective and competitive again, becoming what we have called **the “new old tech”** (see *Technical Perspectives* dated December 7, 2005). Those that have not accommodated will succumb to the forces of creative destruction (witness Autos, Movies, Broadcasting, Telecommunication Services and Publishing).

Thus, too, we see growing selectivity within the Technology arena, continuing to separate the wheat from the chaff. **Survivors of the fittest will have to innovate and focus on the ever-emerging new-tech applications and the wider global dissemination, commoditization and global competition thereof.**

The consumer, as long as interest rates stay at reasonable levels, might retrench somewhat against rising consumer essential costs, but we may find moderate *corporate capital spending* from global build-out beneficiaries could absorb the slack to keep the economy at least moderate and steady for 2006. **We should also take a less “Americentric” view and recognize that some two billion consumers are coming to the fore in Asia and may eventually replace the U.S. consumer as the global driver of world economies!**

Louise Yamada

^{**} Market Magic, John Wiley & Sons, 1998

An introductory word about our sub-industry work and the accompanying lists: Our discipline in this area is one of relative strength (RS). We evaluate each sub-industry versus its benchmark index.

Those areas showing relative outperformance reside on the Buy and Hold lists (see our Relative Strength Ratings list) and those areas underperforming the benchmark would be located on the Avoid and Sell lists. Our experience has been that relative underperformance generally precedes price depreciation, so monitoring these sub-industries can add to a preservation of capital discipline. Conceptually, if one owns only those outperforming sub-industries, and owns none of the underperforming ones, outperformance can dominate and is not offset by underperformance.

S&P 500 SUB INDUSTRY RELATIVE STRENGTH RATINGS

SUB-INDUSTRY ANALYSIS AS OF JANUARY 3, 2006 - DATA THROUGH DECEMBER 30, 2005

OUTPERFORMING		UNDERPERFORMING	
GROUPS TO BUY	GROUPS TO HOLD (ACCUMULATE)	GROUPS TO AVOID (LIGHTEN)	GROUPS TO SELL
Application Software	Aerospace & Defense	Apparel Retail	Advertising
Construction & Engineer.	Agricultural Products	Apprl, Acces. & Lxry Goods	Automobile Manufacturers
Diversified Metals&Mining	Air Freight & Logistics	Auto Parts & Equipment	Brewers
Electrical Comp & Equip.	Airlines	Casino & Gaming	Broadcasting & Cable TV
Gold	Aluminum	Commercial Printing	Building Products
Health Care Distributors	Asset Mgmt&Custody Banks	Communications Equipment	Diversified Commercial Services
Managed Health Care	Auto Retail	Computer Stor. & Periph.	Education Services
Oil & Gas Drilling	Biotechnology	Construction Materials	Food Distributors
Oil & Gas Equipment & Svcs	Computer Hardware	Department Stores	Health Care Facilities
Railroads	Computer&Electron. Retail	Distributors	Home Entertainment Software
Restaurants	Const, Farm Mach,&Hvy Tr.	Diversified Chemicals	IT Consulting & Other Svcs
Specialized Finance	Consumer Finance	Drug Retail	Integrated Telecom Svcs
Trading Cos. & Distributors	Data Processing & Out. Svcs	Electric Utilities	Leisure Products
	Distillers & Vintners	Electronic Manufact. Svcs	Packaged Foods & Meats
	Diversified Banks	Food Retail	Pharmaceuticals
	Electronic Equip. Manufact.	Forest Products	Photographic Products
	Environmental Services	Gas Utilities	Publishing & Printing
	Fertilizers & Agric. Chem.	General Merchandise Stores	Soft Drinks
	Footwear	Health Care Equipment	
	Health Care Services	Health Care Supplies	
	Home Improvement Retail	Home Furnishings	
	Hotels, Resorts & Cruise Lines	Home Furnishings Retail	
	Household Products	Homebuilding	
	Human Res.&Employment Svcs.	Household Appliances	
	Hyper Markets&Super Ctrs.	Housewares & Specialties	
	Industrial Conglomerates	Industrial Power, Prod &Trding	
	Industrial Gases	Industrial Machinery	
	Insurance Brokers	Integrated Oil & Gas	
	Internet Retail	Metal & Glass Containers	
	Internet Software & Services	Motorcycle Manufacturers	
	Invest. Banking&Brokerage	Movies & Entertainment	
	Life & Health Insurance	Multi Utilities & Unreg. Power	
	Office Electronics	Multi-line Insurance	
	Oil & Gas Exploration&Prod.	Office Services & Supplies	
	Other Diversified Financial	Oil & Gas Refin, Marketing	
	Paper Packaging	Oil & Gas Storage & Trans.	
	Paper Products	Personal Products	
	Property & Casualty Insur.	Real-Estate Investment Tr.	
	Semiconductor Equipment	Regional Banks	
	Semiconductors	Specialty Chemicals	
	Specialty Stores	Specialty Consulting	
	Steel	Systems Software	
	Tobacco	Thrifts & Mortgage Finance	
		Tires & Rubber	
		Wireless Telecom Svcs	

S&P 400 SUB INDUSTRY RELATIVE STRENGTH RATINGS

SUB-INDUSTRY ANALYSIS AS OF JANUARY 3, 2006 - DATA THROUGH DECEMBER 30, 2005

OUTPERFORMING

GROUPS TO BUY

Food Retail ←
 IT Consulting & Other
 Industrial Gases
 Managed Health Care
 Oil & Gas Equipment
 Trading Cos.&Distrib.

GROUPS TO HOLD (ACCUMULATE)

Aerospace Defense
 → Air Freight & Logistics
 Airlines
 Apparel Retail
 Application Software
 Asset Mgmt. & Cust.
 Automobile Manuf.
 Biotechnology
 Coal & Consumer Fuel
 Computer Stor. & Peri
 Constr. & Farm Mach.
 Construction & Eng.
 → Data Process&Outs.
 Electr. Manufact. Svc
 Electrical Comp. & Equip
 Electronic Equip.&Man.
 Environmental Services
 Fert. & Agric. Ch.
 Health Care Equipment
 Insurance Brokers
 Investment Banking
 Life & Health Insurance
 Multi-Sector Holdings
 Oil & Gas Drilling
 Oil & Gas Exploration
 Paper Packaging
 Pharmaceuticals
 Prop. & Cas Insurance
 Semiconductor Equip.
 Semiconductors
 Water Utilities

UNDERPERFORMING

GROUPS TO AVOID (LIGHTEN)

Auto Retail
 Building Products
 Communication Equip
 Computer & Electronic Retail
 Computer Hardware
 Construct.Materials
 Consumer Electronics
 Consumer Finance
 Distiller & Vintners
 Diversified Chemicals
 Diversified Comm. Svcs.
 Education Services
 Gas Utilities
 General Merch. Stores
 Health Care Distributors
 Health Care Facilities
 Health Care Services
 Health Care Supplies
 Home Furnishings
 Home Furnishings Retail
 Homebuilding
 Human Rsc&Empl Services
 Hyper Mkts&Super Ctrs.
 Ind. Power, Prod.&Trad.
 Indus. Conglomerates
 Industrial Machinery
 Leisure Products
 Marine
 Multi-Utilities & Unreg.
 Multiline Insurance
 Office Electronics
 Oil & Gas Refining
 Oil & Gas Storage&Trad
 Packaged Foods&Meats
 Paper Products
 REIT
 Regional Banks
 Reinsurance
 Restaurants
 Soft Drinks
 Specialty Chemicals
 Specialty Consulting
 Specialty Stores
 Steel
 Technology Distributor
 Thrifts & Mortgages
 Tobacco
 Trucking

GROUPS TO SELL

Advertising
 Auto Parts & Equipment
 Broadcast & Cable TV
 Casinos & Gaming
 Commercial Printing
 Commodity Chemicals
 Department Stores
 Electric Utilities
 Footwear
 Home Entertainment Soft
 Household Products
 Housewares&Specialties
 Integrated Telecomm.
 Leisure Facilities
 Office Services & Supp.
 Publishing & Printing
 Systems Software
 Tire & Rubber
 Wireless Telecommun.

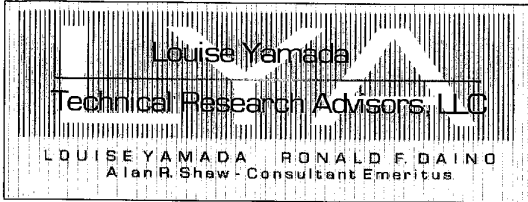
S&P 600 SUB INDUSTRY RELATIVE STRENGTH RATINGS

SUB-INDUSTRY ANALYSIS AS OF JANUARY 3, 2006 - DATA THROUGH DECEMBER 30, 2005

OUTPERFORMING		UNDERPERFORMING	
<u>GROUPS TO BUY</u>	<u>GROUPS TO HOLD (ACCUMULATE)</u>	<u>GROUPS TO AVOID (LIGHTEN)</u>	<u>GROUPS TO SELL</u>
Construct&Farm Mac	Air Freight & Logistics	Advertising	Apparel, Access.&Lxy.
Data Process Svc	Airlines	Aerospace & Defense	Auto Parts & Equip.
Food Retail	Aluminum	Agricultural Products	Automobile Manufact.
Oil & Gas Equipment	Apparel Retail	Casinos & Gaming	Diversified Chemicals
Railroads	Application Software	Coal & Consumer Fuel	Electronic Equip. Man.
Steel	Auto Retail	Commercial Printing	Environmental Svcs.
Trading Cos. & Distrib.	Biotechnology	Commodity Chemicals	Food Distributors
Trucking	Building Products	Communications Eq.	Health Care-Supplies
	Catalog Retail	Computer Hardware	Household Appliances
	→ Construction&Eng.	Computer Storage&Per.	Household Products
	Divers. Metals&Mining	Construction Materials	Housewares & Spec.
	Electrical Comp. & Eq.	Consumer Finance	Integrat. Telecom. Sv.
	Forest Products	Distributors	Managed Health Care
	Health Care-Equipment	Diversified Commc'l Svcs.	Movies & Entertainment
	Health Care-Services	Drug Retail	Packaged Fds&Meats
	Hmn Rs. & Employ. Svc.	Electric Utilities	Paper Packaging
	Hotels Resorts&Cruise	Electronic Manuf. Svc.	Personal Products
	Internet Software & Svcs.	Footwear	Publishing & Printing
	Investment Bnk. & Brok.	Gas Utilities	Semiconductor Equip.
	Leisure Facilities	General Merch. Stores	Specialty Stores
	Marine	Health Care-Dist.	
	Metal & Glass Containers	Health Care-Facilities	
	Office Services & Supplies	Home Entertainment Soft.	
	Oil & Gas Drilling	Home Furnishing Retail	
	Oil & Gas Explor.& Prod.	Home Furnishings	
	Oil & Gas Refining	Homebuilding	
	Prop. & Cas. Insurance	IT Consulting & Svcs.	
	Soft Drinks	Industrial Conglomerates	
	Specialized Finance	Industrial Machinery	
	Technology Distributors	Insurance Brokers	
		Leisure Products	
		Life and Health Ins.	
		Multi-Util.&Unreg. Power	
		Paper Products	
		Pharmaceuticals	
		Real-estate Invest. Tr.	
		Regional Banks	
		Restaurants	
		Semiconductors	
		Specialty Chemicals	
		Specialty Consulting	
		Systems Software	
		Thrifts & Mortgage Fin.	
		Tobacco	
		Water Utilities	

ENERGY: *LY Alert* Crude Oil: On the Move Again.

On January 3, 2006, we sent out an *LY Alert*, reproduced below.



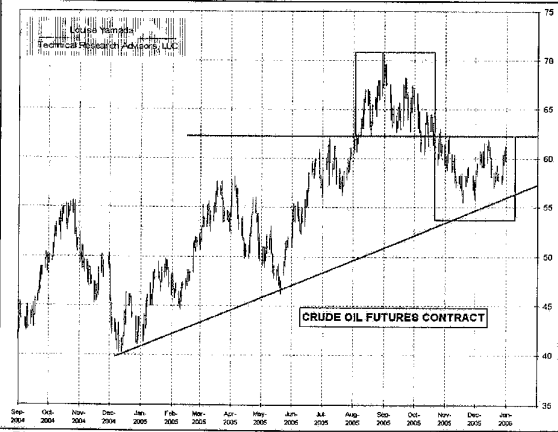
**LY ALERT
CRUDE OIL:
On the Move Again.**

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- ❖ Short-term *Buy* signal registered for Oil – Intermediate term poised for a renewed *Buy*.
 - ⇒ The continuous Crude Oil contract (CL-63.60) appears to have bottomed at least on a short-term basis. The low in late December was accompanied by positive divergences in our daily technical momentum models. Those daily gauges gave a *Buy* signal January 3, 2006.
 - ⇒ Weekly technical models – a measure of Crude oil’s intermediate-term trend – have firmed and appear poised for a *Buy* signal. A price of 64.40 for Crude would effect the signal.

- ❖ During August, September and part of October 2005, the Crude oil contract underwent a distribution phase that lasted approximately 10 weeks during profit taking. Since mid-October, the contract has gone through a demand, or accumulation, phase.
 - ⇒ Symmetry analysis suggests that when the accumulation phase is equal to, or greater than, the prior distribution phase, that price may be poised to lift again and even achieve new highs. At this point, a close over 63.25 would complete the late 2005 demand phase, suggesting the rally has begun in earnest.

Figure 1. Crude Oil Futures Contract



Data Source: Bloomberg

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