



"All Progress Is Temporary"

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Before the Close

THE RICHLAND REPORT

"Where'm I goin' ? I don't know.
When will I be there ? I ain't certain.
What will I get ? I ain't equipped to say, --
But, who gives a damn, we're on our way!"

-- Lerner & Lowe, "I'm On My Way"
from *Paint Your Wagon*

CONTEMPLATIONS, COGITATIONS, AND CURRENT COUNSEL

If you remember the bouncy exuberance of *Paint Your Wagon* -- "Got a dream, Boys, got a song -- Paint your wagon, and come along," and then ending up with the lyrics quoted above, "But, who gives a damn, we're on our way!" -- you know how investors talk, act and feel at a major bull market top.



We aren't there yet (although by the time the next six weeks are out, a lot of people may very well think we were. We have several more stages -- stages of time, stages of sentiment -- ahead of us before THE top of not only the long-term (since 1974) secular bull market, but also the current 4-4½-year bull market cycle, which by our analysis began on the first day of this year. Both will top out at the same time, in all probability, and the likelihood is, we think, that it will occur in conjunction with the Presidential election, although that's a guess. But much more exuberance and buying/feeding frenzies, fueled by devil-take-the-hindmost, caution-to-the-winds euphoria, are scheduled before we see the real top. In the meantime, we have an intermediate-term one on our hands -- NOW.

Unless you're a nimble, short-term scalper or trader with very short time horizons, we do NOT want you to initiate any long positions from here on; you are to postpone all buying until we're at or near the Hurst Method nominal 40-week cycle lows, due roughly around mid-October (we'll narrow down the time more closely and let you know as we get nearer the actual lows.)

In terms of time frames and investment objectives, here's the outlook:

Short-Term (Next few Days and Weeks): Sloppy, Volatile and Unpredictable, with occasional updays among the downers, but with a strong bias downward;

Intermediate-Term (Next 5 to 7 weeks): Down and dirty into those October lows, then one helluva buying-opportunity bounce up to new, glorious highs!

Please -- Comport yourself accordingly!

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August 17, 1987

Mr. Kennedy Gammage
The Richland Report
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(For reference to the Summation Index and The Progress Pattern Formations referred to by Mr. McClellan in his letter reprinted below, please open this Report to Page 3., which follows, so you can see both as you read.)

Dear Kennedy:

In March 1986 the Summation topped out around 3300. That was five and one half weeks before the Dow Jones Industrials topped out in April 1986.

In February 1987 the Summation topped out at the lower level of 2574. That was four and one half weeks before the DJI topped out in March 1987.

The downtrend line across those two tops on the Summation Index is just below 2200 currently. Watch for resistance at that point. Should the downtrend line be penetrated to the upside, then the next important level is the February 1987 high. Some bull markets have ended with two Summation Index tops in the 2500 area separated by an intervening valley. Should that formation be repeated it should not be ignored as there is precedent for a 4000 point decline in the Summation Index with no intervening rally, although that is not the only formation to result. Defensive action will be in order. Do your planning now. We might get the three to five weeks delay between the Summation top and the DJI top or we may not. A Summation Index break below plus 1800 is definitely a sign of breakdown in market breadth.

I have read some technical work that suggested that a bull market should be expected to make a 500% plus move from the bottom. The 1974 bottom was 570 and change. Therefore, the top would be expected at about 2850 or just above. We are now within 2-5 days trading distance of that level, should a blow-off type rally occur.

There are a number of stocks that appear to me to be in the final stage of their up move in the progress pattern. When their tops are completed, the next pattern formation is a very sharp sell-off. Topping action on the up side followed by a very sharp sell-off would be consistent with the Summation Index pattern currently forming.

The Summation Index pattern of two tops forming at relatively low levels followed by a third top at a noticeably higher level is one signifying market weakness. A strong market normally has the first top higher than the succeeding ones.

The gap in the price decline of Crude Oil between \$24 and \$22.50 in early 1986 has provided very formidable overhead resistance recently. Were we to gap up through that area in the future it might be possible to remain above it for some time. That could happen if the Persian Gulf were closed or the Red Sea mined--again.

Get your telephone oiled up as I suspect that not all the telephone switchers can be accommodated at once. The mutual funds may become unwilling sellers in the face of massive switching. What will they sell to raise cash? What will the money market funds be doing with the switched cash?

A Summation Index above 1800 and rising represents a very constructive market. Just keep some perspective over the next couple of months.

Sincerely


Sherman McClellan

Mr. Sherman McClellan needs no introduction to readers of these Reports. With his wife Marian (also a mathematician and market scholar), inventor of the companion market timing indicators which bear his name, the Oscillator and Summation Index, we have been in contact for almost 20 years (can it have been that long, Sherm? You don't look that old!) and we are always pleased and flattered to pass along to you his knowledgeable comments on not only his and Marian's brain-chillun', but also his interpretations of what they are telling us currently about the state of the stock market. On the preceding page, you'll read his comments, and on this page, the charts to which he refers in his letter.

A few comments may be in order regarding his letter, written on August 17th.

The downtrend line he refers to in paragraph 3 is shown by the dashed line across the March, 1986 (+3317) and February, 1987 (+2574) tops on the Summation Index, currently in the vicinity of 2200. You will see that not only was this trendline not penetrated (at least, as of this writing), but the arrow indicates the breakaway gap to the downside which occurred last Friday, which took the Summation Index below the critical 1800 level referred to by Sherm as "definitely a sign of breakdown in market breadth" (see page 6, with a Summation Index reading on Friday of +1753.)

The Progress Pattern mentioned by Sherman in paragraph 5 is seen below. As you will note, the completion of the third and final upleg, Stage C, is followed, as he says, by a sharp sell-off, consistent with the Summation Index pattern currently forming.

The configuration of the shorter-term McClellan Oscillator at this juncture appears to us likely to be the beginning of a Complex Bottom forming below the Zero Line (see page 4.) Put that together with the 40-week cycle lows due around October, and we have the very strong probability of a substantial intermediate-term pullback, or correction, ahead of us in the stock market. We've been warning you of these upcoming Hurst nominal cycle lows for some time, and we are now getting confirmation of their presence in the form of downward pressure on breadth -- declining issues dragging down advancing ones -- by means of Sherman's indicators, the Oscillator and Summation Index -- which measure this all-important factor in stock market behavior.



