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In its 17th year

Fullermoney

Global Strategy and Investment Trends by David Fuller www.stockcube.com

The medium-term outlook for stock markets remains neutral/bullish but conditions are likely to remain volatile.

The oil problem has been largely discounted

Double, double oil and trouble; fire burn and cauldron bubble - (with apologies to Shakespeare) - What a difference a month makes! Rallying stock markets seemed oblivious to rising oil prices in August, prompting the headline on this page: "Higher petroleum prices could temporarily unsettle stock markets". There have been other factors to unnerve investors, such as the shrinking euro, but oil has grabbed the most headlines. When this happens we can usually assume that the problem has been mostly discounted. Of course there is no guarantee that oil prices have peaked and in today's market it would take no more than the temporary loss of production from a major refiner to spark another rally. However the uptrends for petroleum contracts, which had become overstretched by any definition, now show a loss of momentum. The oil shortage is a temporary problem, judging from all the historic evidence concerning producer cartels. These seldom succeed beyond the short to medium term because an artificially induced shortage of an important commodity predictably leads to increased production both within and outside the cartel, lower consumption and substitution. On this last point, we can be certain that the industrialised world will renew its efforts to develop alternative sources of energy, but that is a story for tomorrow.

The euro's olympic dive - The other worry of the month has been the shrinking euro. Central banks have now checked its decline and the history of multilateral intervention shows that they will succeed in stemming an overstretched trend, at least for a few months, although usually not at the first attempt. Wim Duisenberg, the European Central Bank's besieged President, has often been blamed, unfairly in my view, for the euro's slide since its launch in January 1999. He hasn't helped but like George Bush Jr, I suspect that Duisenberg is brighter than he sounds. However a fundamental problem for the ECB is that it is answerable to 11 countries, none of which is in charge. The euro is a political currency, launched by federalists. They understood that there could be no federation without a single currency but apparently overlooked the problems that a single currency would face without a European federation, for which there is no groundswell of public opinion.

The Danish referendum on whether or not to join the euro is taking place as I complete this issue. Fearing defeat, the Government, unions and some corporations have bombarded the electorate with alarmist stories of economic decline and isolation if they reject euro membership. This is cynical nonsense. Unfortunately, even if Danish voters reject the euro, their verdict is unlikely to be accepted as final. The trouble with euro-activists is that like sex pests, they don't accept that no really means no. Many Danes feel this referendum is unnecessary because they rejected the Maastricht Treaty in 1992. There is already speculation that if the vote is *no*, the Government will hold another referendum in 2004. In other words, euro-activists will keep pushing, hoping for a slight mood shift or sufficient apathy to allow the *yes* vote to sneak through. People have a right to change their mind but democracy would be better served if instead of planning more referendums on the euro, governments asked voters a simple question at their next general election: Should we have a referendum on joining the euro, yes or no? Meanwhile, how long will it be before a political party in Germany or one of the other 11 countries campaigns on the promise to hold a referendum on leaving the euro?

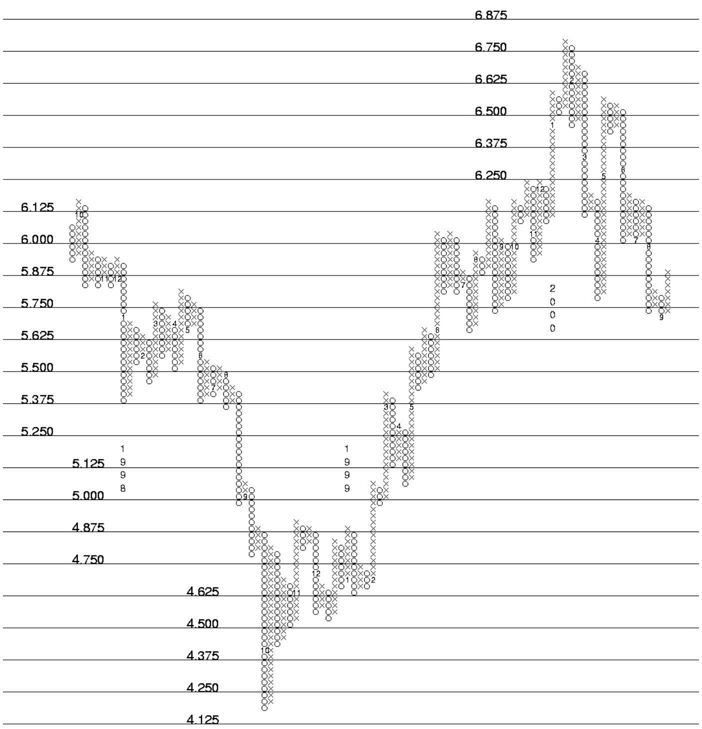
Interest Rates and Bonds

■ **The next big move in short-term rates should be downwards.**

■ **Long-dated bond yields in Europe, North America and the Antipodes are still ranging in top formation development and should eventually move somewhat lower.**

The oil price rise is inflationary now but deflationary over the longer term. Spiralling petroleum costs have been the biggest factor behind higher PPI and CPI data in oil-importing countries. This remains a short to medium-term problem but hopefully the Bank of England and European Central Bank will follow the US Federal Reserve's lead in not raising interest rates further. GDP growth is

US 10 Year Bond Yield (0.025)



already slowing due to the combination of earlier rate hikes, high oil prices and less ebullient stock markets. Further monetary tightening would obviously have no influence on OPEC but it would increase the risk of recession next year. The high cost of petroleum is a tax on consumer and corporate spending, so the long-term effect is deflationary.

Yields for quality long-dated government bonds have firmed from the lower side of their developing top formations. This firming is partly technical, as the US had led long-dated rates lower in August and also reflects the oil-related inflation concerns. Consequently bond rates could move a little higher in top extension before eventually ranging lower over the medium term.

***Strategy for bonds* -** US bonds have comfortably outperformed the stock market this year and I maintain that they continue to offer investment value. My strategy is unchanged - buy only when yields edge upwards, such as we have seen recently, and hold for further gains. As for European bonds, FM194 & FM195's advice was to buy when the euro retested its low against the US dollar, a strategy particularly attractive for Japanese investors. I no longer regard the euro as a major deterrent but I would also prefer to accumulate investment positions in European bonds when yields edge higher as we are seeing and the euro softens. From a futures perspective I have not done anything recently but would consider buying if prices soften a little further. As for JGBs, in FM195 I mentioned resisting the temptation to short, even though prices were weakening, fearing that the BoJ would bid the market higher once again. JGBs bounced in early September, regaining just over half the decline from August's high. I'm still waiting and would be tempted to sell over 133 (Dec), which I rate as an outside chance. Along with everyone else, I expect a bear market in JGBs at some point but I may not join until the trend is well established.

Global Stock Markets

■ **Climactic endings to short-term downtrends on Friday 22nd September.**

■ **Some respite on oil and euro concerns but unease over corporate profits will remain until investors anticipate lower short-term interest rates.**

■ **Al Gore's lead in the polls has been a contributing factor to Wall Street's recent reaction and investors will hope that the balance of power is maintained.**

■ **This market is reminiscent of the mid to late '60s and early '70s.**

Chart action suggests a rebound but most indices will remain rangebound overall. August was a good month for most stock markets but the rallies had peaked by early September and many of the subsequent reactions more wiped out earlier gains. These declines accelerated - always an ending characteristic - and the upward dynamics evident on daily candlestick charts for European and US indices on 22nd September, after the morning's lows, indicate that a partial rebound has commenced. Asian indices mirrored the European and North American action on the following Monday. The initial bounce was triggered by central bank support for the euro and President Clinton's announcement that oil would be released from the US Strategic Reserve, so markets will obviously remain sensitive to these issues. Nevertheless, technical conditions favour some further recovery and closes under the recent lows by stock market indices are required to question this hypothesis. However some technical damage occurred in the sell-off as several indices broke their progression of rising lows evident since March. Therefore most stock markets are likely to remain within their overall trading bands.

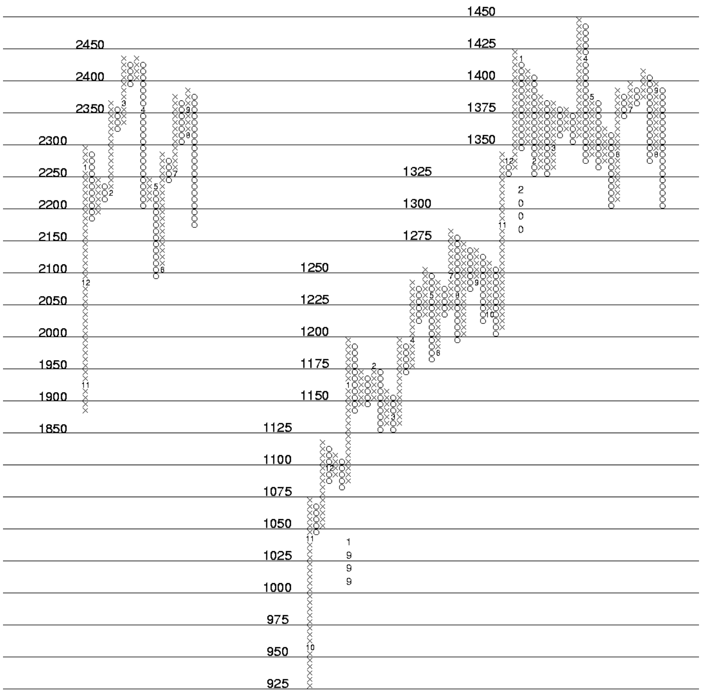
The oil price rise is bad for global GDP growth and therefore corporate profits. Stock markets had a delayed response to the oil price rise, which will remain a source of concern until the shortage of refined petroleum products is over. Having covered this subject at length in FM195 and in the FMP updates, I'll only repeat for new subscribers that increased fuel costs are a tax on economic growth and corporate earnings. Therefore if petroleum prices remain strong we can expect further trouble for stock markets. President Clinton's decision to release some oil from the US Strategic Reserve has broken short-term uptrends for petroleum contracts. However prices are still high, especially for countries with currencies that have not matched the dollar's strength. Backwardations (premiums of spot over futures prices) persist, confirming that supplies of refined petroleum remain tight. Until contangoes (discounts of spot to futures prices), which is the norm for commodity markets, return and prices weaken further, investors will have no conclusive evidence that the oil problem is over.

Al Gore's populism appeals to voters who feel they have missed out on the US economic boom but it worries most investors. Wall Street will not assume that campaign promises are mere rhetoric. The Vice President is running as an economic interventionist and big spender. Oil and drug companies are at the top of his hit list and he favours more regulation. According to the non-partisan National Taxpayers Union, Gore's spending promises would add up to $2.3 trillion over 10 years, compared to $426 billion by Bush. In other words, Gore's programmes would effectively double the size of the Federal Government in a decade. Naturally the Federal Reserve would not approve of fiscal spending that would almost certainly turn a budget surplus into a deficit. Interest rates would climb, hitting the economy and stock market.

Dow Jones Industrial Average (Monthly) 1955 to 1965

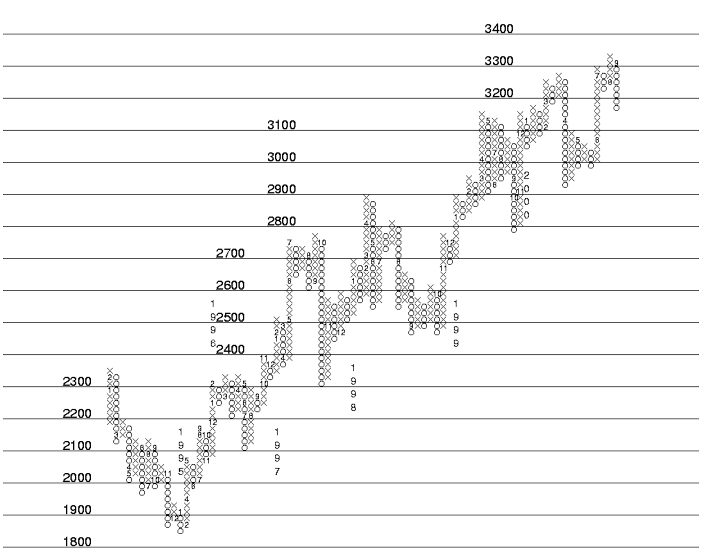
Dow Jones Industrial Average (Monthly) 1965 to 1975

FWMI (10pt) and MSCIWI (5USD)

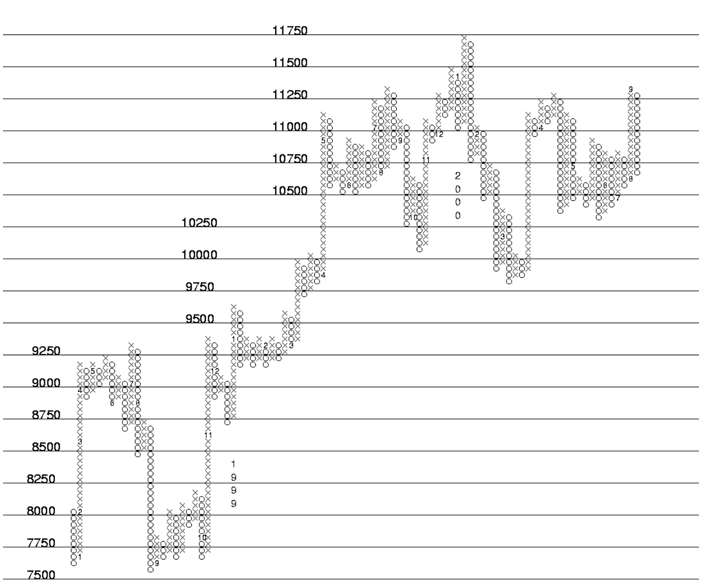


Is it "déjà vu all over again"? The monthly candlestick charts below show the Dow Jones Industrial Average over 20 years in segments - 1955 to 1965 and 1965 to 1975. The first chart reveals a powerful bull run commencing from a range low in1957, punctuated by a correction in 1960 and a larger, albeit brief bear trend in mid-1962. The DJIA then took off on a sustained advance from a low near 535 in late June that year, almost reaching 1000 in January 1966. That move reminds me of the bull run commencing in 1995. Both were led by technology and the fundamental background was characterised by steady growth and moderate inflation. The two eras have been described as "golden years" for the US economy. Following the Dow's first test of 1000 in January 1966, it took 17 years before a sustained break above this barrier occurred in 1983. Could the world's best known index go on ranging for years, punctuated by a few downdraughts? We all hope not, but it must be a possibility. I will not exaggerate

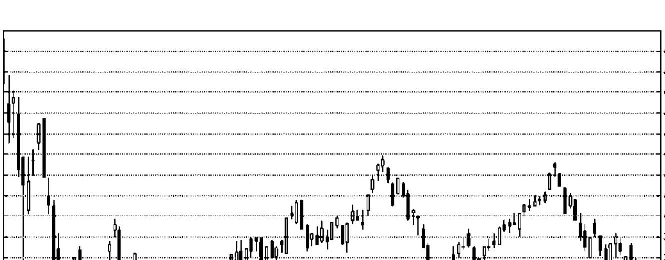
Australia All Ordinaries Index (20pt)



Dow Jones Industrial Average (50pt)



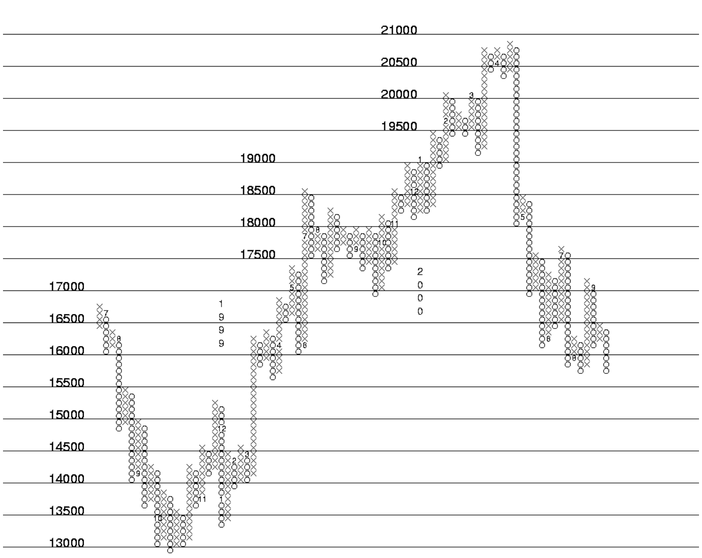
NASDAQ Composite Index (Daily)



the comparison, as there are inevitably many differences between the mid-1960s and today, but it is worth keeping in mind.

***Chart review of topical stock market indices* - I've**

Nikkei 225 Stock Average Index (100pt)



included some candlestick charts in this section so that you can see the upward dynamics on 22nd September. The point & figure graphs are for overall perspective. You can find hundreds of p&f charts on our website, www.fullermarkets.com, which are updated daily. Just email research@fullermarkets.com for a log-in, and free trial to the site. We will also have candlestick charts on the site before long. Our p&f charts and all comments in this section are based on closing prices.

The Fullermarkets World Market Indicator (2170) has fallen back from its range highs - *see previous page* - A strong rebound is required to reaffirm support from the May low at 2090, while a sustained break under that level would look like a completed top.

The Morgan Stanley Capital International World Index (1299) is testing its range low - *see previous page* - Here also a rebound is required to offset top formation characteristics and a break under 1300 would indicate lower scope unless immediately reversed.

The US's Dow Jones Industrial Average (10628) has eroded support after encountering resistance near the broad band highs - Having reaffirmed resistance at the upper boundary, the DJIA needs a rebound to remove pressure from underlying trading. Further weakness would increase concern that this pattern is a top formation. **The NASDAQ Composite Index (3656) has steadied above its August low -** The upward dynamic on 22nd September indicates that demand is returning but some upside follow-through is needed to reaffirm support from the August low near 3500. A break under that level would suggest a test of the April-May trough down to 3042.

Japan's Nikkei 225 Index (15627) is testing the August low - There has been some loss of downward momentum following a steep slide from the April high at 20800 but a move over 16500 is the minimum required to remove pressure from the August closing low. A decisive break of this level would indicate scope for a test of the September

1998 to March 1999 base evident below 15200.

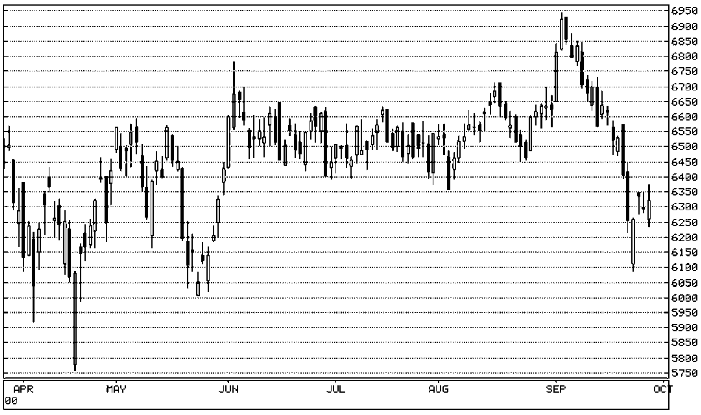
Australia's All Ordinaries Index (3236) remains within its long-term uptrend, which was extended in July and August - However it has seldom sustained initial breaks to new highs and another upside failure has occurred. While some additional test of underlying trading would be indicated at 3140, this would not alter the primary trend unless the April closing low near 2920 was broken.

France's CAC (6320) and Switzerland's SMI (7942) Indices show climactic endings to their short-term downtrends - Both have been relative strength leaders, with the CAC reaching a new all-time high recently while the SMI rallied from March to August, testing its July 1998 peak before reacting in September with the global sell-off. The daily candlestick charts show upward dynamics on 22nd September indicating lows of at least near-term significance. Closes beneath 6085 and 7800, respectively, are required to indicate renewed vulnerability.

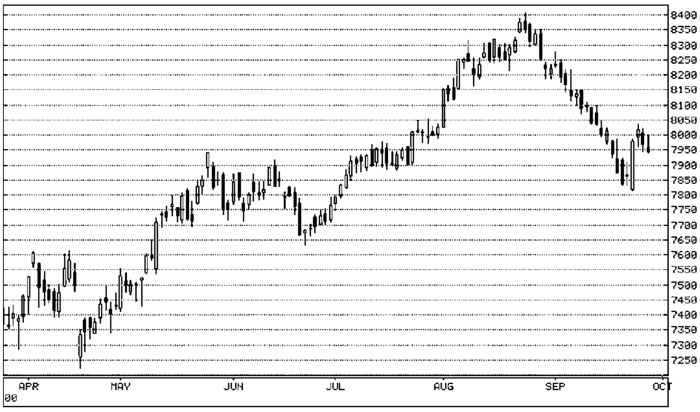
The UK's FTSE100 Index (6271) is tracking the DJIA - Consequently it fell back from the upper boundary but has now steadied above important support evident between 6000 and 5800, showing an upward dynamic from the low on 22nd September similar to that evident on daily charts for the CAC and SMI above. A break beneath the March 1999 to May 2000 lows is required to indicate additional weakness rather than an extension of the current broad band.

***Conclusion and strategy for stock markets* -** Last month I wrote at length about the risk of an oil shock since stock markets had been largely ignoring the impact of spiralling petroleum prices. September's correction indicates that investors everywhere now recognise the threat to global growth and corporate profits, so we can assume that the immediate oil problem has been largely discounted. President Clinton's release of a small amount of oil from the US Strategic Reserves has at least temporarily checked the price rise. Backwardations among petroleum contracts have narrowed, particularly for crude. However, following OPEC members' initial surprise at the recent heights for oil prices, there is evidence of a new militancy, led by non-Middle Eastern producers such as Venezuela and Nigeria, which need the extra revenue. The risk for oil-importing countries and also stock market investors is that we may have seen no more that a respite in a problem that could persist for a few more months. We won't know that the oil shortage is over until petroleum futures trade at discounts to prices for immediate delivery. The euro's recent slide was another contributor to slumping share prices in the first three weeks of September because it further eroded profits for non-European companies operating within the region while also squeezing margins for firms exporting to Euroland. Additionally, while a soft euro was initially a boon to the region's exporters, it had become a crisis by compounding the cost of oil and other commodity imports. Multilateral intervention by central banks has now steadied the single currency. Consequently the two headline crises are no longer worsening. Upward dynamics on 22nd

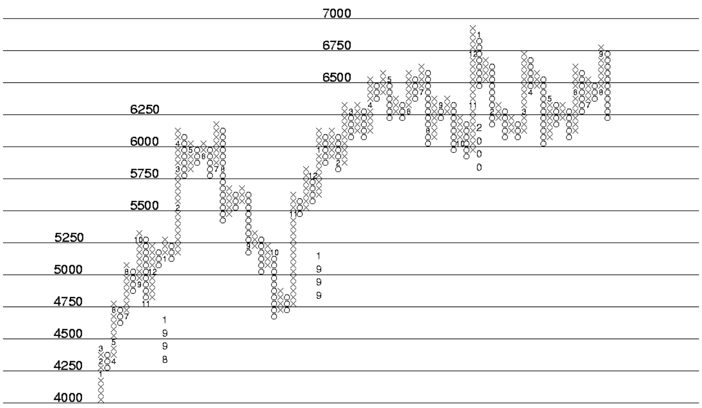
France CAC 40 Index (Daily)



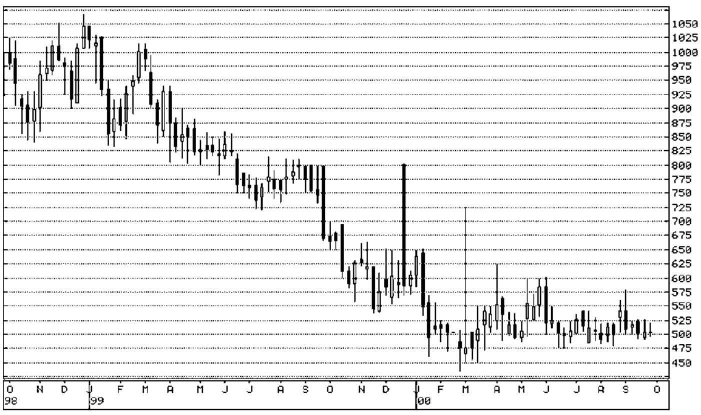
Swiss SMI Index (Daily)



United Kingdom FTSE 100 Share Index (50pt)



Boots (BOOT LN) (Weekly)

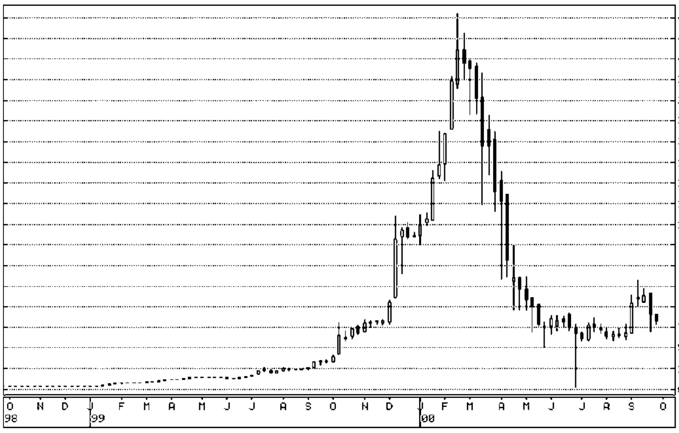


New Share Recommendations

UK TMT & Old Economy Wreck Recoveries
I include buying ranges because I wouldn't pay up for anything in this market. If I miss, I miss.

Share	Price 27/9/00	Buying Range	Est P/E	Yield
Boots, BOOT LN, Retail/Drug	504.5p	505p-480p	10.5	5%
Diploma, DPLM LN, Distributor	221.5p	222p-190p	12.7	4.2%
Durlacher, DUC LN, Finance/Multi/M	82p	82p-60p	45.5	N/A
Kewill Systems, KWL LN, Software	900p	930p-850p	107	N/A
Photobition, PHB LN, Media/Display	227p	227p-170p	14.5	0.74%

Durlacher (DUC LN) (Weekly)



Photobition (PHB LN) (Weekly)

List of Recovery Shares from FM190

'Boring' Old Economy Stocks To Beat The NASDAQ
UK Low-P/E, High-Yield Stocks
This list and the one containing US shares immediately below, were included in the March issue to make a point - that NASDAQ tech stocks were overvalued and old economy shares undervalued. There are some performance dogs in this list but if they can maintain the dividend they also have the potential to rebound sharply, especially when the BoE's MPC signals that interest rates have peaked. Conversely, with old economy stocks that do very well in the short term it is usually a good idea to take the profit near prior resistance, given overall volatility. I will continue to show the entire list through yearend 2000 for comparison with the NASDAQ, which closed at 4711.68 on 21/3/00. The average yield for the UK shares below was 6.65% on 21st March 2000.

Share (UK)	Price 21/03/00	Price 22/09/00	Percent + or -
Barratt, BDEV	225.5p	261p	+15.7%
Beazer, BZR	126.5p	115.5p	-8.7%
Bellway, BWY	228.5p	253.5p	+10.9%
Bryant, BRYN	114p	133p	+16.7%
Crest Nichol.,CRST	140.5p	113.5p	-19.2%
Dairy Crest, DCG	134p	185p	+38.1%
Expamet, EXI	88.5p	115.5p	+30.5%
Hazlewood, HZLE	83p	110p	+20.5%
Heywood, HYWD	211p	183p	-13.3%
ICI, ICI	500.75p	365p	-29.1%
Kelda, KEL	239p	362p	+51.5%
Low & Bonar, LWB	152.5p	95.5p	-37.4%
McAlpine, MCA	196.5p	176p	-10.4%
Mowlem, MWLM	96.5p	115.5p	+19.7%
Northern Fd., NFDS	104.75p	109p	+4.1%
Rank, RNK	152p	145p	-4.6%
Rexam, REX	210.25p	233p	+10.8%
Scottish & N., SCTN	403p	411.25p	+2%
Smith WH, SMWH	337p	315p	-5%
Tompkins, TOMK	198p	165p	-21.7%
Unigate, UNIG	299.75p	285.4p**	-4.8%
United Ind., UNI	40.5p	25.5p	-37%
Weir, WEIR	179p	193.5p	+8.1%
Whitbread, WTB	533.5p	432.5p	-18.9%
Wimpey, WMPY	102.5p	131.5p	+28.3%
Average Gain/Loss	**NASDAQ -19.3%**	**FM190 List +1.9%***	

US Low P/E, High-Yield Stocks
The average yield for this group was 6% on 21st March 2000.

Share (US)	Price 21/03/00	Price 22/09/00	Percent + or -
Con. Ed., ED	$30.5	$32.8125	+7.6%
Goodyear, GT	$23.75	$18.5	-22.1%
Northrop G., NOC	$54	$87.5625	+62.2%
Pacific Gas E., PCG	$21.25	$26	+22.4%
Philip Morris, MO	$20.45	$27.625	+35.1%
Public Serv., PEG	$28.5	$41.25	+48.2%
USX-US Steel, X	$23.60	$16.625	-29.6%
Average Gain/Loss	**NASDAQ -19.3%**	**FM190 List +17.7%***	

* Not adjusted for dividends paid.
**Unigate's price includes 65.4p cash settlement following divestment of its dairy and cheese business.

September evident on European and US stock market indices checked the rout and some further recovery is likely. However we may not have seen the last of either the oil or euro problems, so investors' concern over the outlook for corporate profits and inflation will remain. The silver lining to the oil price cloud is that slower global growth would ensure the next big move for short-term rates in North America, Europe and Australasia is downwards. This would be bullish for stock markets. In the meantime, market volatility is likely to continue. This creates trading opportunities but most share investors understandably prefer a buy and hold environment. You and I can only deal with the realities that markets provide. My mantra, while indices are rangebound, is don't pay up for anything. Tactically, I don't think anyone has ever improved on 'buy-low-sell-high'. Personally, I commenced buying stock market futures on 22nd September, for a trade, and would probably add to

List of Recovery Shares from FM191

UK Low-P/E, High-Yield Stocks
Only shares looking oversold on the charts and/or showing evidence of base formation development were selected. The average yields for these stocks on 25/4/00 was, UK 6.36%, US 4.17% and Japan 2.7%. Closes for the FTSE100, S&P500 and Nikkei225 on 25/4/00 were 6283, 1477.44 and 18272.33, respectively.

Share (UK)	Price 25/04/00	Price 22/09/00	Percent + or -
Balfour Beatty (formerly BICC) symbol now BBY	77.5p	104p	+34.2%
Glynwed, GLYN	208.5p	185p	-11.3%
Hepworth, HPW	164p	202p	+23.2%
IMI, IMI	245p	202p	-17.6%
Laing (John), LNGO***	221p	328p	+48.4%
McKecknie, MKNE	272p	394.5p**	+45%
Pilkington, PILK	71.5p	79.75p	+11.5%
TI Group, TI/	361p	335p	-7.2%
TT Group, TTG	108p	150p	+38.9%
Average Gain/Loss	**FTSE -1.2%**	**FM191 List +18.3%***	

US Low-P/E, High-Yield Stocks

Share (US)	Price 25/04/00	Price 22/09/00	Percent + or -
Ashland, ASH	$34.4375	$32.8125	-4.7%
Bank of Am., BAC	$51.4375	$55	+6.9%
Delhaize, DZA	$18.4375	$17.325	-6%
Pennzoil, PZL	$10.625	$9.9375	-6.5%
Xerox, XRX	$26.6875	$16.5625	-37.9%
Average Gain/Loss	**S&P500 -1.9%**	**FM191 List -9.6%***	

Japanese Low-P/E, High-Yield Stocks

Share (Japan)	Price 25/04/00	Price 22/09/00	Percent + or -
Chubu E P, 9502	¥1730	¥1767	+2.1%
Kansai E P, 9503	¥1719	¥1743	+1.4%
Osaka Gas, 9532	¥305	¥278	-8.9%
Tokyo E P, 9501	¥2510	¥2460	-2%
Tokyo Gas, 9531	¥238	¥277	+16.4%
Average Gain/Loss	**Nikkei225 -13.4%**	**FM191 List +1.8%***	

*Not adjusted for dividends paid.
** Takeover pending at 400p by Cliven Group Ltd.
*** Recommend taking profits.

Recommended Tech Stocks with Earnings from FM193

Blue-Chip Tech Stocks
This month's sharp reactions by some of these shares demonstrate once again that in a volatile market one should buy on reactions only, even with market leaders. Purchase prices shown are buying ranges recommended and were reached between FM193 and FM195 (29/6/00-22/8/00). For a fair comparison with the NASDAQ, I have used 3725.12 as its benchmark, representing the mid-point between the high on 29th June (3929.1) and the subsequent low up until 22nd August, which was on 3rd August (3521.14).

Share	Purchase Price (Average)	Price 22/09/00	Percent + or -
Altera, US (ALTR)	$47.375**	$52.375	+10.6%
Intel, US (INTC)	$63.22**	$47.9375	-24.2%
Micron Tech., US (MU)	$81.5	$52.75	-35.3%
Microsoft, US (MSFT)	$73.125	$63.25	-13.5%
Oracle, US (ORCL)	$77.0313	$80.7969	+4.8%
Xilinx, US (XLNX)	$76.6875	$84.5625	+10.3%
Nokia, Fin (NOK1V FH)	E52	E47.47	-8.7%
Average Gain/Loss	**NASDAQ +2.1%**	**FM193 List -8%***	

Tech-Wreck Recovery Candidates With Earnings
Purchase prices and NASDAQ benchmark level calculated as above.

Share	Purchase Price (Average)	Price 22/09/00	Percent + or -
SAP, Ger., (SAP GY)	E160.75	E202.5	+20.6%
Sema, UK (SEM LN)	881p	1141p	+29.5%
Average Gain/Loss	**NASDAQ +2.1%**	**FM193 List +25%***	

*Not adjusted for dividends paid.
**Adjusted for 2 for 1 split.

FMP116 05/07/00 Share Recommendations

Four Value Stocks to Benefit From Lower Oil Prices
These shares may underperform until the oil price weakens. Purchase prices shown are buying ranges recommended and reached between 5th July and 19th July. For a fair comparison with the DJIA, I have used 10382.89 as its benchmark, representing the mid-point between the high on 5th July (10572.69) and the subsequent low up until 19th July (10393.09). The average yield for these shares when recommended on 5th July was 4.1%.

Share	Purchase Price (Average)	Price 22/09/00	Percent + or -
Ford, US (F)	$25.5**	$25.675	+.07%
DaimlerChrysler, Ger.(DCX GY)	E56.10	E52.96	-5.6%
General Motors, US (GM)	$59.34375	$68.25	+15%
Volkswagen, US (VOW GY)	E39.93	E50.90	+27.5%
Average Gain/Loss	**DJIA +1.8%**	**FM193 List +9.2%***	

*Not adjusted for dividends paid.
**Adjusted for capital restructure.

these positions on easing towards that day's lows. With markets lower I have added five new buy recommendations, all from the UK. Prices in the table of shares previously mentioned or recommended were taken on 22nd September and reflect the recent sell-off.

Currencies

■ **Having embarked on multilateral intervention to support the euro, the central banks will persist until they achieve their objective, which is to put a medium-term floor under the single currency against the US dollar.**

■ **Over the longer term, it will be hard to convince a sceptical European public that the euro is preferable to their national currencies.**

■ **Election uncertainties for the US dollar.**

■ **When currency speculators conclude that easy profits are no longer assured by shorting the euro, they will sell the yen.**

Multilateral intervention has always succeeded - eventually. Most analysts will tell you that central bank intervention in the currency markets is seldom successful, mainly because it bucks the primary trend. They are right, up to a point, because most intervention is unilateral. In

Recommended Tech Stocks with Earnings from FM194

Blue-Chip Tech Stocks

Purchase prices shown are based on the middle of the buying ranges recommended and reached between 21st July and 22nd August. For a fair comparison with the NASDAQ, I have used 3842.24 as the benchmark, representing the mid-point between the high on 21st July (4163.34) and the subsequent low on 3rd August (3521.14).

Share	Purchase Price (Average)	Price 22/09/00	Percent + or -
Motorola, US (MOT)	$34.4375	$32.375	-4.9%
WorldCom, US (WCOM)	$42.5	$26.5	-37.6%
Average Gain/Loss	**NASDAQ -1%**	**FM194 List -21.25%***	

Tech-Wreck Recovery Candidates With Earnings

Share	Purchase Price (Average)	Price 22/09/00	Percent + or -
Autonomy, UK (AUTN ES)	$43.75**	$48	+9.1%
Azlan Group, UK (ASL LN)	147.75	280.5p	+11.7%
Cap Gemini, Fr. (CAP FP)	E195.6***	E200.5	+5.8%
Getronics, Neth. (GTN NA)	E16.25	E11.9	-10.2%
KLA-Tencor, US (KLAC)	$50.5	$43.375	+10.1%
National Semicon., US (NSM)	$45	$42	-6.7%
Average Gain/Loss	**NASDAQ -1%**	**FM194 List +1.6%***	

*Not adjusted for dividends paid.
**Adjusted for 3 for 1 split.
***Buying range raised in FMP120 (01/08/00).

Recommended Stocks from FM195

Blue-Chip & One Tech Wreck Recoveries

Purchase prices shown are based on the middle of the buying ranges recommended and reached between 25th August and 22nd September. For a fair comparison with the S&P500 I have used 1467.27 as the benchmark, representing the mid-point between the high on the 25th August (1513.47) and the subsequent low on 22nd September (1421.08).

Share	Purchase Price (Average)	Price 22/09/00	Percent + or -
GUS, UK (GUS LN)	466p	434p	-6.9%
Procter & Gamble, US (PG)	$62.3125	$63.875	+2.5%
Raytheon, US (RTN/B)	$26.2812	$26.25	-.01%
Sara Lee, US (SLE)	$18.5	$20.25	+9.5%
Compaq Computers, US (CPQ)	$29.8125	$28.625	-4%
Average Gain/Loss	**S&P500 -1.3%**	**FM195 List +2.2%***	

Japanese Bank Wreck Recoveries

For a fair comparison with the Nikkei I have used 16350.47 as the benchmark, calculated as above (the average between 16926.22 and 15774.72).

Share	Purchase Price (Average)	Price 22/09/00	Percent + or -
Bank of Yokohama, 8332	¥474	¥493	+4%
Fuji Bank, 8317	¥775	¥819 (21/9)**	+5.7%
Industrial Bank of Japan, 8302	¥757	¥835 (21/9)**	+10.3
Sakura Bank, 8314 not purchased, buying range was ¥755 - ¥700**			
Sanwa Bank, 8320	¥952.5	¥1016	+6.7%
Average Gain/Loss	**Nikkei225 -3.3%**	**FM195 List +6.7%***	

*Not adjusted for dividends paid.
**I'll leave buying range open for another month.

these instances, the lone central bank is just another big player trying to fight the market. By acting unilaterally, a central bank signals to everyone else that there is no international financial support for its cause. Speculators will adjust tactics accordingly and attack when the short-term contra-trend move loses momentum. Multilateral intervention is another matter and a rare occurrence. The international central banks will only pool resources and work together in their national interests. Accordingly, they will not intervene in concert without first agreeing that a forex trend is overextended to the point of threatening global economic stability. These instances have been rare during nearly 30 years of floating exchange rates since President Richard Nixon scrapped the policy allowing non-US citizens to exchange dollars for gold at $35 an ounce and the Bretton Woods Agreement was dissolved. As I recall, there was multilateral intervention in late 1979/early 1980 to support the US dollar, then to cap its advance in late 1984/early 1985, to support the greenback in 1987 and on three other occasions including the important turning point in 1995.

A point to remember is that the initial multilateral intervention seldom buys more than a temporary rebound because speculators are unconvinced and reluctant to abandon what has been a profitable trend. However the leading central banks, in their role as regulators, will persist until they have succeeded in turning the market for at least a few months. Depending on circumstances, it may take a number of weeks to achieve this, during which the central banks may lose several battles before they eventually win the war. As market regulators, the central banks are in a unique position because they can raise or lower interest rates, run losses and print money. When they continue to intervene in concert, speculators, investors and hedgers eventually realise that it is more profitable to move with, rather than against central banks. This ultimately changes the trend. The European Central Bank, US Federal Reserve, Bank of England and Bank of Japan bought euros on 22nd September in their mutual interest. Having embarked on this course, they will intervene again and again, if necessary, until the euro stabilises. Consequently the bottoming out process has begun, although the euro could still move a little lower against the US dollar before establishing a medium-term floor.

The euro will always be suspect on the issues of freedom and national interest. Whether one is pro or anti euro, there is no denying that the single currency is least popular in European countries with a post-WWII history of currency strength. Consider Germany, where the Bundesbank was coerced into giving up independent control of monetary policy and the electorate was not trusted with a referendum. Can anyone be surprised that public opinion polls confirm at least three out of four Germans are dissatisfied with the euro? I don't think sentiment will improve when Deutschmark notes and coins are phased out in 2002. We will know the result of Denmark's referendum on euro entry as this issue is released. The Danish Government, trade unions and many corporate CEOs are pushing hard for entry - often using scare tactics such as claiming that by not joining the country will be isolated, vulnerable and less prosperous, leading to higher unemployment. The public isn't buying this line, judging from the polls, nor should they, with unemployment at 5.4% against the EU average of 9.1%. The real issue concerns freedom. A majority of Danes like their brand of welfare state, which they believe would be watered down by the inevitable loss of political control to Brussels and Euroland's harmonisation of policies. Many also resent the hydra-headed repetition of these referendums. Danish voters rejected the Maastricht Treaty in 1992 and the majority do not see why another referendum is necessary. Rather than respecting their decision, the Danish Government, anticipating defeat on 28th September, is already planning the next referendum! That's the trouble with euro-activists. They keep coming back - conniving, hoping for a mood shift or sufficient apathy to sneak past the post. At least the Danes are allowed to vote on the euro but would governments ever consider a referendum on leaving the euro? For countries that meet the entry standards, I'll wager it is a lot easier to join than leave the single currency.

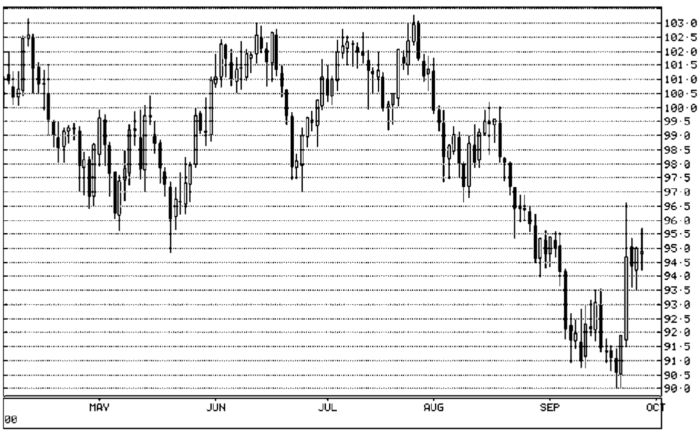
Inevitably, the US election in November poses questions for the US dollar. The new president, elected in November and inaugurated in January, will have his own administration and policies. Equally important will be control of Congress, which includes the Senate and House of Representatives. For the last eight years the Democrats have occupied the White House while Republicans have held a majority in Congress. The US electorate, in its collective wisdom, usually balances political power between the two parties, reducing the scope for pork barrelling and policies that many voters would consider extreme. US financial markets have usually performed best during a balance of power between the Democrats and Republicans. With the US dollar in an overall upward trend since mid-1995, there are obviously more bulls than bears of the greenback, at least among people who *actually* buy and sell currencies. The forthcoming election introduces an element of uncertainty, so some traders may reduce or hedge their dollar exposure over the next few months, especially if central banks show further determination to shore up the euro. While the US election is only one factor to consider and may be no more than a temporary influence on the dollar, it could contribute to volatility over the medium term. The most important decision the new president will make, in the normal course of events, is the appointment of Alan Greenspan's eventual successor when the Fed Chairman decides to retire. Short to medium-term volatility aside, I maintain that the dollar's secular bull market will not end until investors lose confidence in the US economy relative to Euroland and Japan. That would probably require some major policy blunders by the incoming president and Congress. Most currency analysts continue to cite the US current account deficit as likely to undermine the dollar. I still disagree and maintain that the deficit is not what it seems - *see FM195, pages 7 & 8.*

As confidence in the euro improves, speculators will sell the yen. Traders stick with the trend that rewards

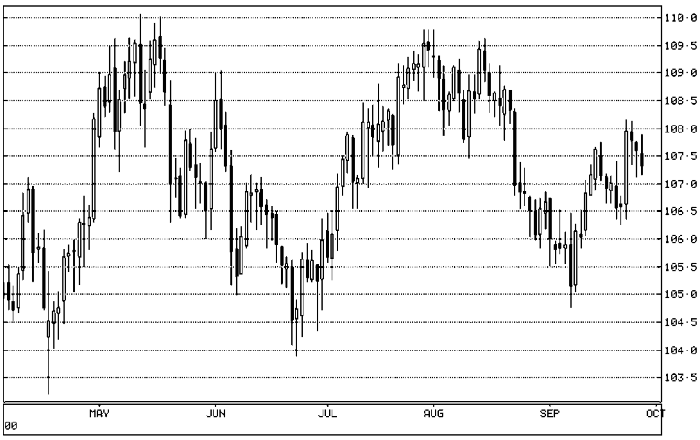
Euro / US Dollar (Daily)

Euro / Pound Sterling (Daily)

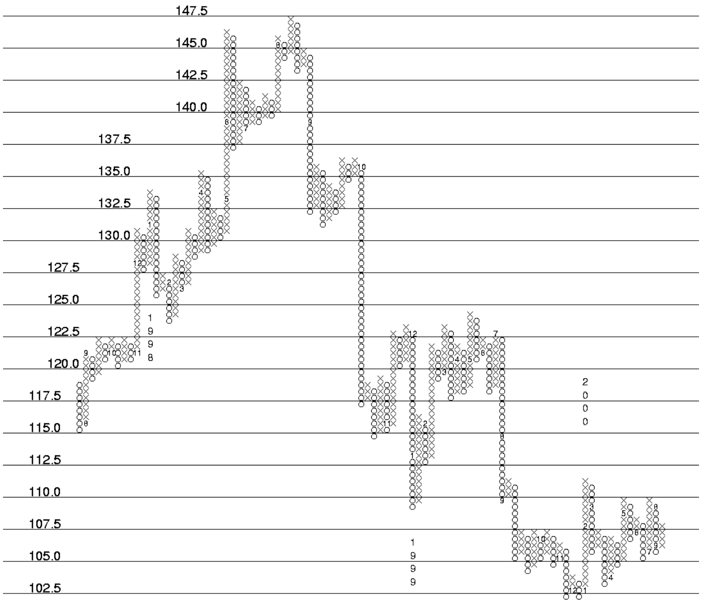
Euro / Japanese Yen (Daily)



US Dollar / Japanese Yen (Daily)



Japanese Yen per 1 US Dollar (0.5)



them and selling the euro has produced the best profits over the last twenty months. If the historical record of multilateral currency intervention provides perspective, as I believe, short euro will no longer provide the easy profits to which speculators have become accustomed. Once the euro ceases to fall it will become a recovery candidate but I doubt that its best upside potential will be against the US dollar. I maintain that the yen will experience a major fall, primarily because the Japanese economy cannot fulfil its recovery potential with a currency that reached an all-time peak against the mark in mid-September and is near the upper side of its historic range against the dollar. Once the yen starts to weaken, helping the economy, Japanese firms will be under less pressure to repatriate capital currently needed to shore up their balance sheets. Japan's investors will be tempted by higher overseas yields once again. Interest rate differentials and a downtrend for the yen will revive the carry trade.

Strategy for currencies - Now that central banks have demonstrated their willingness to support the euro, it is less risky to purchase on easing. I have bought euros against the yen only in recent weeks and the bounce from ¥90 to ¥96 on 22nd September was an opportunity to lighten, especially as some lateral resistance can be seen near that level. Accordingly, I now have a reduced position and would recommence buying in the low ¥90s, averaging down in line with whatever reaction occurs. I'll not use a stop, trading within my capital for this exercise, believing that central banks will also buy on euro weakness. Conversely, if they come in sooner and bid the euro higher in the short term, I will close out longs and look for a pullback and base extension. This is a classic opportunity for my Baby Steps buy-low-sell-high range trading strategy. The euro is arguably very oversold against the yen and supported by the central banks in what I hope will be volatile conditions before an uptrend is eventually established. If instead, the market trades quietly, there will be few opportunities for trading profits but the position is like a deposit account because of interest rate differentials. If the euro falls and is unsupported by central banks, I'll lose, but it looks to me like a very acceptable risk. I expect to be quite active in euro/yen for some time, looking for a significant recovery over the next year or two.

Up until recently I regarded the US dollar as a much safer vehicle for an eventual advance against the yen, knowing that it was cushioned by unilateral intervention from the Bank of Japan, operating on the Ministry of Finance's instructions. I still prefer it on chart considerations as the euro's bottoming out process may have only just begun and dollar/yen offers the best interest rate differential among reserve currencies. The position has not offered a lot more recently because of low volatility. However I'm willing to be patient because the chart looks like a developing base. Rising lows over ten months support this hypothesis and trading ranges often sustain explosive moves once a breakout occurs. This would be signalled by a break over the ¥110 to ¥112 region, at which point I will switch from Baby Steps range trading to trend running tactics. An upward dynamic on 22nd September, evident on the candlestick chart, indicates a test of the upper boundary to follow and a move under ¥106.50 is necessary to question this outlook. Following a fall of significance, such as the dollar saw against the yen from August 1998 through December 1999, gradually rising lows within a broad range and low expectations among traders suggest that we are witnessing the first of three psychological perception stages (as taught at The Chart Seminar) within a developing bull market. Over the next year or two I would not be surprised to see at least ¥160.

Currency managers who do not wish to trade but agree with my euro/yen and dollar/yen outlook could establish long positions two to three years forward. This provides bond market yields but with considerably more capital appreciation potential. I will consider buying the euro against the dollar for a trade if it declines into the $0.84 to $0.79 range.

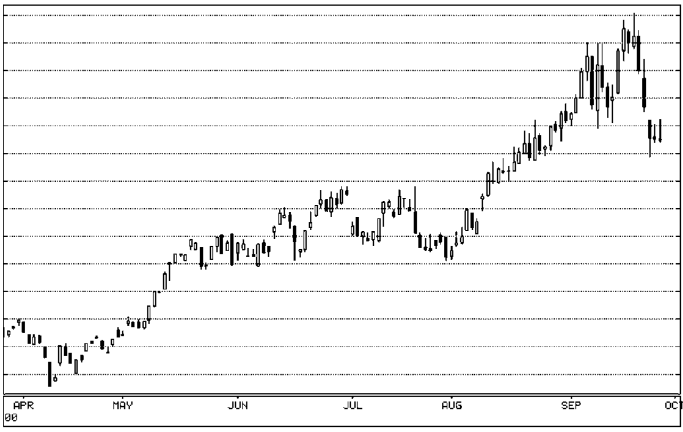
Commodities

■ **Uptrends in petroleum contracts have been checked with the help of President Clinton's release of crude oil from the US Strategic Reserves.**

■ **Copper breaks out of a base, sugar completes a top and corn steadies near its historic lows.**

Petroleum contracts have lost upward momentum. The runaway uptrends in August and early September had lost some consistency, indicating that supply and demand were moving back into balance. This coincided with Al Gore's call for the President to release oil from the Strategic Reserves, knowing that the answer would be yes, as this is the election campaign. Prices fell sharply and the backwardations have narrowed, particularly for crude. Consequently oil may have peaked and all those forecasts of $40 to $50 could be a contrary indicator. The first rally

Crude Oil (Nov NYME) (Daily)



Gas Oil (Oct IPE) (Daily)

Sugar (Dec LIFFE) (Daily)

Corn (Dec CBT) (Daily)

following this reaction will tell us more. If it commences with an upward dynamic, oil could easily test its high. However if only a gradual recovery occurs, the topping out process should be underway.

Copper appears to have completed a base that had been developing since December 1997 - *not illustrated* - The pattern is erratic so we won't be sure until gains have been consolidated above 85¢ (Dec CMX), followed by a resumption of the rally. A move below this level is required to indicate another upside failure and additional base extension, as occurred following last January's inability to sustain the breakout. Demand from the building and telecommunications industries has been strong. **Sugar has completed a top formation.** The chart shown is for white sugar (Dec LIFFE). The price fell sharply down out of its top formation before steadying above the first area of support from the mid-June to early-July range. However there have been no upward dynamics and a move over $265 is required to suggest a downside failure and top formation extension. The US contract (Mar CBT) shown in FM195, would require a rally over 10¢ to suggest top extension. The backwardation has narrowed but still indicates that nearby supplies are tight. However we can assume that farmers will be trying to boost production with their next crop and forward hedging has commenced. **Corn has lost downward momentum near its historic lows.** The chart shows base building activity. Now that the US harvest is all but completed, there will be little weather-related news from that region, so some unexpected orders may be required to lift prices in the short term. A close over $2.00 (Dec CBT) could trigger short covering, particularly if it occurred on a dynamic.

Strategy on commodities - My occasional speculations in this market are usually confined to shorting after big rallies lose momentum and buying when prices steady following a major slump. Currently, I'm still short sugar, protected with a trailing stop, which I will lower once again if the decline resumes. Soybeans (Nov CBT), my weather spec in FM195, had a good breakout from the base but there was insufficient crop damage to fuel more than a short-term rally. My profit was reduced by a loose stop just under the first reaction low following the rally high at $5.155. I have a small long in corn (Dec CBT) but this may be optimistic and it should really be traded on a Baby Steps basis within the range, to defray contangoe costs. I'm keeping an eye on gold which is beginning to show some upward dynamics and watching oil but will probably be too busy, especially with travel and speaking engagements in October, to consider shorting it in the event of a failed rebound.

The Global Economy

- **Global GDP growth is slowing.**

- **Energy prices are the main threat to growth in oil-importing countries but this is a temporary crisis.**

- **The euro's slide will be checked, now that the leading central banks are involved but further intervention may be necessary.**

A number of factors are slowing global GDP growth for 2000/01 but a recession can be avoided. First there were the hikes in short-term interest rates, which helped to trigger stock market corrections. This has reduced both private consumption and corporate spending. When US consumers cutback, the knock-on effect is global. Additionally, another spike in energy costs represents an OPEC tax on growth in oil-importing countries. The oil shock, greatly exacerbated by high fuel taxes in Europe, has created a crisis atmosphere, sparking a number of demonstrations against incumbent governments. The euro's most recent downward spiral further dented confidence. High oil prices and the shrinking euro contributed to September's stock market correction. Meanwhile, the yen's overvaluation remains a drag on Japan's economic recovery prospects. All of the above create problems for the Asian region, where confidence has been damaged for a generation by the 1997 crisis. While global economic growth is slowing, forecasts of recession in 2001 may be no more accurate than the yearend 1999 predictions of increasing GDP expansion. Energy prices are the key variable and although these are beyond the control of importers, the developed world is not without influence. Recent moves to encourage non-OPEC production, lower fuel taxes and release some of the strategic oil reserves are steps in the right direction. While these are only short-term measures, they are required to contain the current crisis and can be followed with other programmes to address longer-term energy considerations. Multi-lateral intervention by central banks to stem the euro's slide will help to steady financial markets. Having embarked on this course the central banks will persist, as required, until they have succeeded in establishing a medium-term floor for the euro. Most importantly, central banks can look beyond the short-term inflationary implications of high-energy costs and currency weakness for Euroland, and counter the forthcoming deflationary pressures of slower economic growth by cutting interest rates when necessary. In conclusion, the risk of recession in 2001 has replaced the previously feared possibility of overheating. However an economic slump can and probably will be avoided, given a little luck and the timely implementation of some obvious measures mentioned above. Whatever happens, the US economy will continue to out perform Europe due to its structural advantages, confidence and technological lead in most fields. Japan cannot fulfil its recovery potential until the yen weakens.

And Finally…

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Seminars, speeches and travel - My Autumn seminar season commenced with a private venue on 6 Sep in Geneva for a new client, Union Bancaire Privée. Our mutual conclusion was that stock markets faced a short-term oil shock. I was pleased to be back in Geneva - such a civilised city and it was also a treat to squeeze in visits with some old friends and subscribers. On 11 Oct I'll be in Kuala Lumpur to address the prestigious Association of Merchant Banks in Malaysia at a dinner function, speaking on "The Global Financial Outlook - Risks and Opportunities". I first had the pleasure of addressing an AMBM audience in 1988 and have done so on many other occasions. I will also be speaking at the Australian Technical Analysts Association on 14-15 Oct. I have greatly enjoyed addressing the ATAA in Sydney since its inception many years ago. It is certainly one of the biggest, most innovative and thriving technical analysis societies in the world. I'll conclude my trip to Sydney with The Chart Seminar on 16-17 Oct. I've conducted numerous seminars in the Antipodes since 1980 and they have always been lively, given the participants' enthusiasm for debate and banter. My final chart seminar for the year will be in London on 30 Nov-1 Dec. Subscribers at any of these events, please introduce yourselves.

The target date for FM197 is Friday 27th October.

"We must laugh before we are happy, for fear we die before we laugh at all." Jean de La Bruyere

Best regards - David Fuller

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