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In its 17th year

Fullermoney

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

The sell off in technology stocks is mostly over but conditions are likely to remain volatile.

The US presidential election could effect markets

Which of these candidates has thrown away the election? - When casting a vote at an important election most people with a modicum of experience, and therefore a dollop of cynicism, vote against rather than for someone. Consequently it is generally accurate to say that elections in established democracies are lost by a candidate or party, rather than won by the opposition's appeal. With Bore and Gush - sorry, Gore and Bush, the VP initially sprinted to second position in this two-man race by resembling Clinton without the fun. Bush then squandered his lead by sounding fuzzier than his Dad and like Bob Dole when referring to a journalist. Surprisingly, Gore went against the trend by instilling some passion in his campaign with a Hollywood smack for Tipper following his nomination acceptance speech. However the VP returned to form and may have clinched defeat by lurching to the left and revealing three different personas during the debates, none of which made you want to invite him to dinner. Gore's debating style made Bush look like Mr Nice Guy and almost presidential. Lest the remaining week before the election appear to be an anticlimax, we should not underestimate Bush's potential to snatch defeat from the jaws of victory. In fairness to Gore and Bush, they are probably no worse than many of the others who have contemplated running for president in recent years and are better than most. Even though neither candidate has inspired many voters, this is the most exciting US presidential election campaign that I have witnessed since Kennedy versus Nixon in 1960, largely because of its closeness and the seesawing poll ratings. I first wrote about the pending election in FM178 (29th March 1999), predicting that Bush would defeat Gore, with the House of Representatives reverting from Republican to Democrat Party control. This is still my view but I wouldn't bet on it.

Some further uncertainty is inevitable - As a general rule, financial markets don't like uncertainty and there is plenty of it about, especially while the Israeli/Palestinian problem could turn into a wider Middle East conflict. I don't think it will, mainly because there is too much to lose on both sides, but there is obviously the risk and wars seldom start as the result of rational calculations. Judging from past conflicts, it is the build-up to war that is most unsettling for shares. We can assume that the possibility of a further crisis has been partially discounted by declining stock markets from early September through mid-October and climactic selling is usually followed by at least a partial recovery. Aside from the Middle East, which continues to garner most of the headlines, the US presidential election result will end some uncertainties and introduce others. Among the former, we will obviously know which party controls the White House and also Congress, comprising both the House of Representatives and the Senate. New US presidents usually receive a honeymoon period, often lasting beyond the January inauguration. I suspect the markets would prefer Bush because Gore has targeted "big business", especially oil and pharmaceutical companies. Shares in both sectors would be less vulnerable if Bush wins, assuming this has not already been discounted by a widening lead in the polls prior to the election, but his energy policies would eventually help to lower oil prices. I doubt that a Bush administration would pursue Microsoft and other alleged or potential monopolists with the same enthusiasm shown by Clinton/Gore, which would probably continue with Gore/Lieberman. There is a perception, which I share, that the US economy is better off if the balance of power is maintained, with neither Democrats nor Republicans controlling both the White House and Congress. Consequently the financial markets could be unsettled by a sweeping victory, especially by the Democrats, because Gore has campaigned as an interventionist and big spender. The US election poses some questions for the dollar although these are less clear. Currency dealers are comfortable with Treasury Secretary Lawrence Summers who has repeated his predecessor Robert Rubin's mantra that a strong dollar is good for the US. Gore would almost certainly reappoint Summers but if Bush wins, traders will want reassurance that his Treasury Secretary also favours a strong dollar. 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.

Interest Rates and Bonds

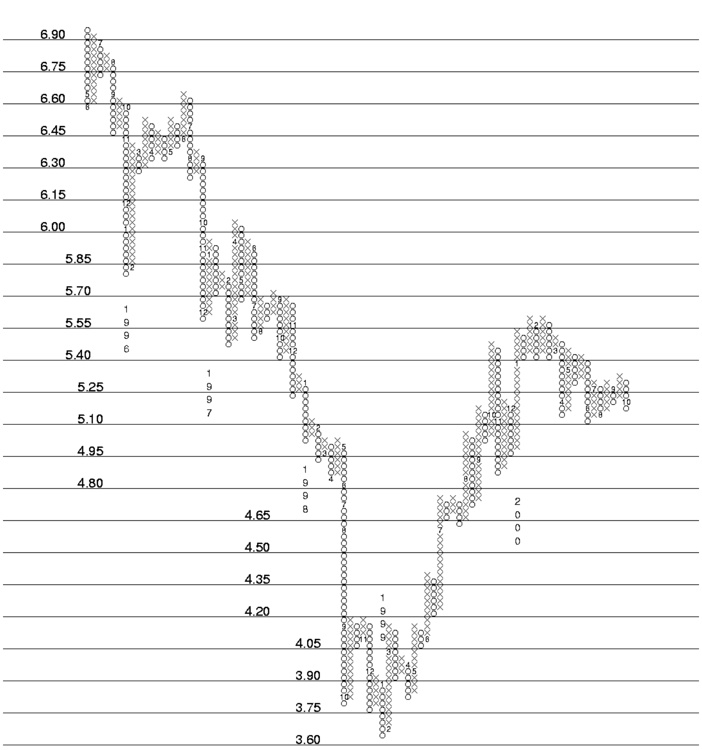
- **Short-term interest rates will be lowered in many countries over the next 12 months as global GDP growth continues to slow.**

- **Long-dated bond yields in North America, Europe and the Antipodes are ranging in the latter stages of top formation development and will move lower in coming months.**

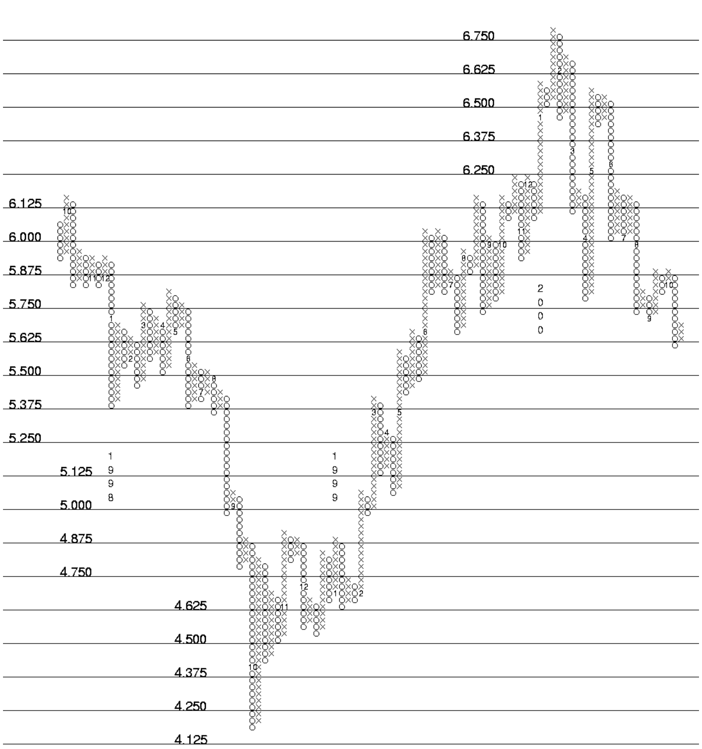
The effect of higher oil prices will eventually be deflationary. Initially, the increased cost of petroleum is inflationary as it drives up the Consumer and Producer Price Indices. However it is also equivalent to a tax on personal consumption and corporate spending, so as capital is transferred from oil importers to oil exporters, GDP growth in the former slows. Therefore the medium-term effect is deflationary as are higher interest rates and stock market corrections. Anticipating the changing environment, US Federal Reserve Chairman Alan Greenspan stopped raising short-term rates after the last hike to 6.5% on 16th May 2000. There is no case for higher rates elsewhere, although you can never be sure with central banks. The European Central Bank may feel under pressure to hike, due to the additional inflation caused by the euro's weakness, but this would be another own goal, leading to slower growth and an even weaker currency. Meanwhile, global GDP growth continues to slow and this will eventually lead to lower rates.

US long-dated bond yields are leading the way down, helped by government buybacks. This may be a completed top formation. A close at 5.9% would be required to indicate additional top extension rather than lower levels as currently indicated. Euro-bund, UK and Australian 10-year government yields have all broken last year's uptrends and are ranging prior to downward breaks

Euro-bund 10 Year Bond Yield (0.03)



US 10 Year Bond Yield (0.025)



that are likely to occur in the next few months. In contrast, Japanese government bond yields continue to trade sideways in a lengthy right-hand base extension phase following their accelerated low at 0.75% in October 1998. Consequently their next big move should be upwards and a break under 1.625% is required to question this hypothesis.

Strategy for bonds - US government bonds have comfortably outperformed stock market indices and I maintain that they continue to offer investment value. My strategy is unchanged - buy only when yields edge upwards, as we saw in September, and hold for further gains. I advocate a similar strategy for Antipodean, UK and Euroland bonds. With the latter, my recent advice for investors living outside the euro zone has been to buy only when the currency was testing or extending its lows, as we are currently seeing. Near its lows, I no longer regard the euro as a major impediment. From a futures perspective, I would buy when prices ease and lighten on rallies because these are not yet powerful trends. JGBs have rallied back to previous resistance, presenting another selling opportunity which I may resist as they remain rangebound overall and I doubt we will see another BoJ rate hike anytime soon. I would be cautious on high yielding corporate bonds and developing country debt, because confidence may not improve until there is an important catalyst, such as a rate cut by Greenspan.

Global Stock Markets

■ **Oil, the Middle East and profit downgrades due to slower GDP growth have dominated sentiment but charts for indices show climactic endings to short-term downtrends in mid-October..**

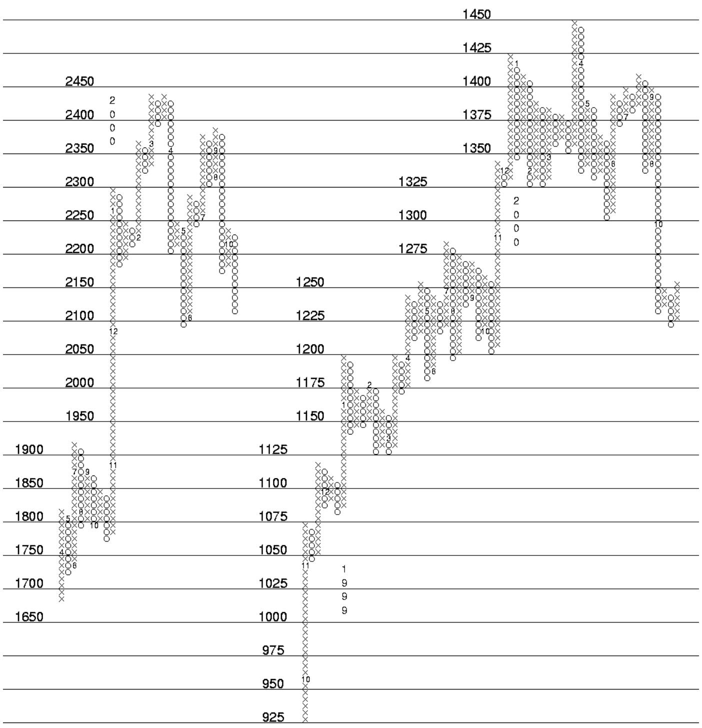
■ **Psychologically, the best election result for Wall Street in the short-term would be a Bush victory with Democrats regaining the House of Representative.**

■ **The medium to longer-term environment for equities remains neutral/bullish but we could be in for a long period of ranging, `a la Wall Street 1965 to 1983.**

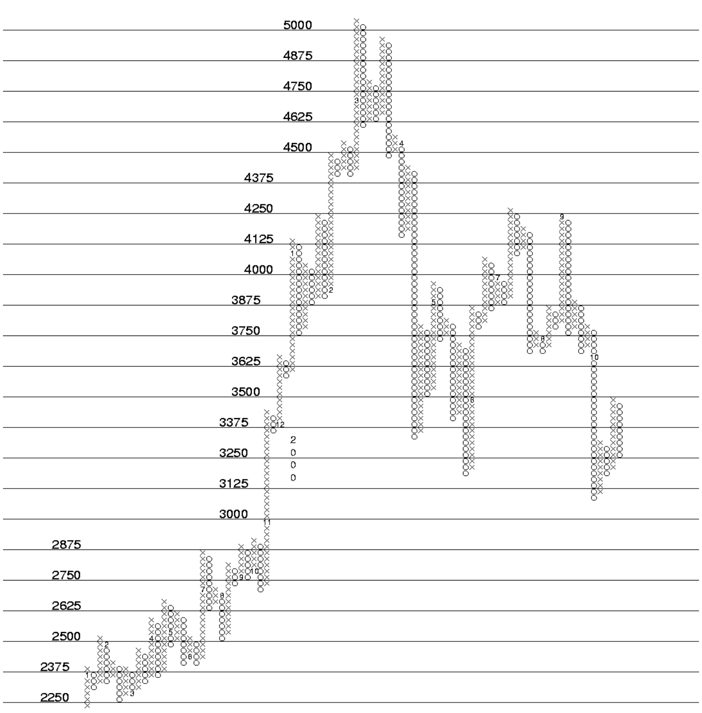
Stock markets are more volatile than efficient because the decisions to buy and sell are made by people. Rising short-term interest rates battered equities earlier this year. However sentiment improved in Europe, North America and the Antipodes when rates were seen to plateau. Markets turned a blind eye to surging oil prices in August - *see FM195's front-page headline* - and suffered an oil shock in September. There was a brief rebound on the 22nd of that month following President Clinton's announcement that 30 million barrels of crude would be released from the US Strategic Reserve, coinciding with multilateral central bank intervention to check the euro's slide. However the escalating Israeli/Palestinian conflict produced a second oil shock, leading to downward accelerations for stock markets until checked by the NASDAQ's key day reversal on Friday 13th October, triggering upward dynamics for many other stock market indices the following week - *see also FMP128, 20th October.* These were very bullish short-term signals and most stock markets were still recovering as I completed this issue. Consequently I conclude that we saw lows of at least near-term significance in mid- October. However market sentiment is likely to remain nervous because the previous sell off broke a number of former support levels on charts; oil remains scarce (evidenced by backwardations, i.e. premiums of spot prices over futures for petroleum contracts); the Israeli/Palestinian impasse could easily worsen before it improves, and analysts are still revising their earnings estimates for many companies downwards in line with slower global GDP growth. Therefore we can expect further volatility as people continue to assess political and economic developments and strong rebounds by markets are required to restore confidence.

The US election should influence short-term sentiment on Wall Street and there will be longer-term consequences. The Clinton years will be remembered for economic prosperity and the President's personal scandals, and guess what? We may miss Clinton! Yes we could, because he looks great on the international stage - big, vigorous, articulate, warm and a champion schmoozer. Whatever the next president's strengths, we can be certain that Gore would not have Clinton's panache and Bush could not match his verbal skills. As for the economy over the last eight years, Clinton has been lucky. He inherited the Reagan/Bush tax cuts which provided the foundation for a resurgent US economy. Accelerating technological evolution boosted growth and productivity, while the Asian crisis in 1997 helped to keep inflation low. A Republican Congress ensured that Clinton's big spending programmes were never passed. The next president is unlikely to be bestowed with so much luck. Clinton's two

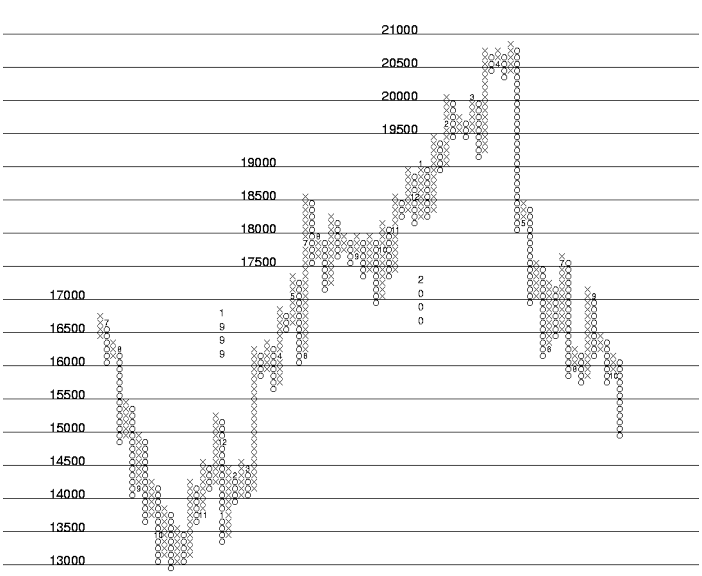
FWMI (10pt) and MSCIWI (5USD)



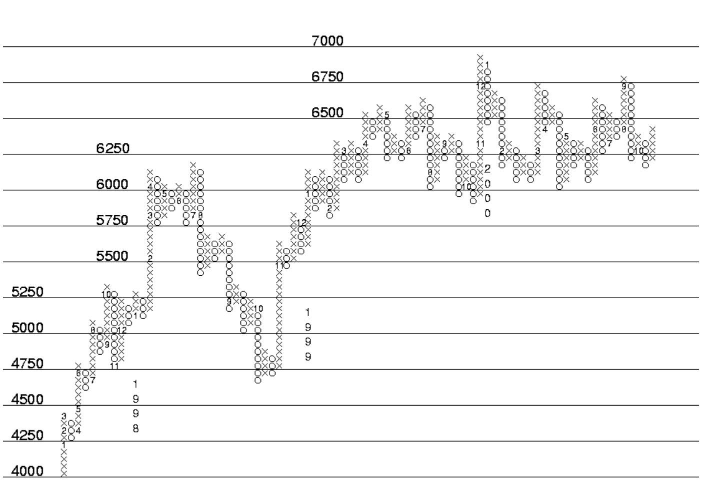
NASDAQ Composite Index (25pt)



Nikkei 225 Stock Average Index (100pt)



United Kingdom FTSE 100 Share Index (50pt)



main contributions to the US economic boom were his appointment of Robert Rubin as US Treasury Secretary and the reappointment of Alan Greenspan as Chairman of the Federal Reserve. On 7th November the US elects a new president. Historically, the president-elect receives a honeymoon in terms of public opinion, including on Wall Street. However there is consensus that Bush would be better for the stock market, at least initially, due to concern over Gore's spending and interventionist plans. Gore's rating in the polls has moved inversely to the DJIA more often than not. Nevertheless Bush's proposed tax cuts could be inflationary, if the economy remained strong, driving up interest rates. Consequently most voters would prefer to see the balance of power maintained, with neither the Democrat nor Republican Party controlling both the White House and Congress. In conclusion, the best short-term result would be a Bush victory with Democrats regaining at least one of the congressional chambers, preferably the House of Representatives. Either a Republican sweep or a Gore win with the Republicans retaining control of the House could be perceived as either mildly favourable to somewhat unfavourable, depending on economic perceptions based on other data. A Democrat sweep, retaining the White House and gaining control of Congress would be bearish. Of course the US election is only one item for investors to assess and its short-term impact will increase or decrease depending on the influence of other factors such as oil and the Middle East.

There is nothing like a sell off to bring out the bears. On return from Asia and Australia my desk was festooned with bearish circulars predicting a debt, corporate and US dollar collapse. Most were dated just prior to the stock market rebounds commencing, appropriately, on Friday 13th October. I do not want to be complacent but any clear market consensus is usually a contrary indicator. There are some real problems and they are now well known - declining corporate profits, high oil prices and a Middle East crisis. Other factors cited by bearish commentators are more hypothetical. Is this the 'wall of worry' that the rally commencing in mid-October is now climbing? I suspect so, believing that lower earnings, the oil squeeze and even the Israeli/Palestinian confrontation are medium-term problems. In reverse order, increased oil production will lead to lower prices as we have seen before. When the pain of confrontation becomes too high, Israelis and Palestinians will return to the negotiating table because there is no other alternative. Slower economic growth, let alone the prospect of recession, would be countered by lower interest rates. Cuts in short-term rates provide the most bullish environment for stock markets. In conclusion, the outlook for stocks remains neutral/bullish. Against this background, volatility will continue with individual shares soaring and plummeting. Most indices are likely to remain within overall trading bands but we should not be surprised if the recent lows prove to have been a good buying opportunity.

Chart review of topical and representative stock market indices - These charts and those of most other major indices are characterised primarily by range trading, in which there are some sharp short-term moves and a number of failed breakouts in both directions. Since most stock markets were weak from late August to mid October, prior support levels have been pressured, and in some instances, broken. Therefore rebounds are required to indicate downside failures and additional tests of overhead trading.

The Morgan Stanley Capital International Indicator (1250) - *see previous page* - broke down out of its November 1999 to September 2000 range but has now steadied and requires 1215 to reaffirm weakness rather than a technical rally as presently indicated. Since this is dollar denominated, I believe it overstates weakness.

The Fullermarkets World Market Indicator (2110) - *see previous page* - is calculated in local currencies and is still above its May reaction low. However a rally to 2240 is required to reaffirm support near 2090.

The US NASDAQ Composite Index (3250) has not maintained its nudge under the May low and a close at 3500 would indicate a further test of overhead trading. On the daily candlestick chart shown earlier, one can see three upward dynamics in mid to late October following tests of the psychological 3000 level. These suggest that even if the NASDAQ has not bottomed, we have seen the penultimate low. Therefore the next significant move should be upwards.

Japan's Nikkei 225 Stock Average (14858) resumed its retreat from the April high and has re-entered the September 1998 to March 1999 trough extending down to 12900. While I would not be surprised to see a further decline into that former base, it should eventually cushion the decline.

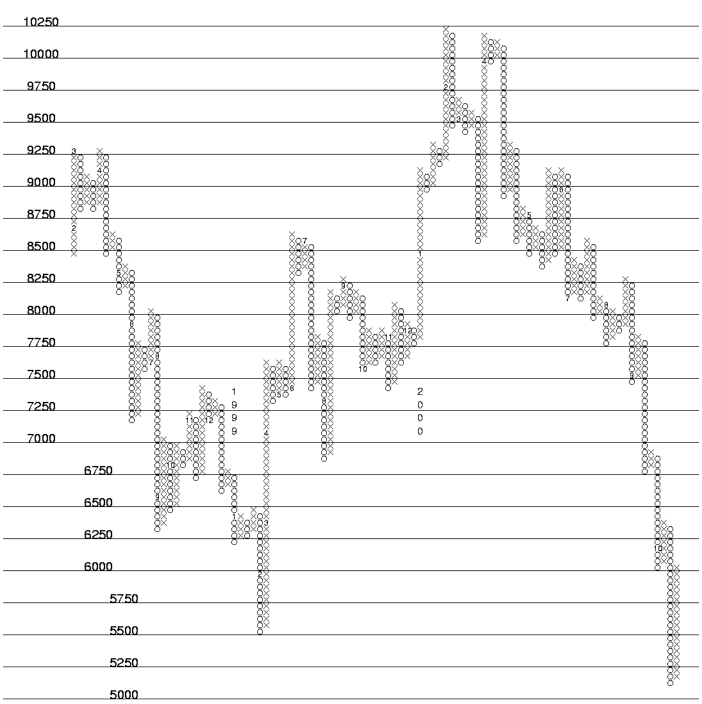
Taiwan's Weighted Price Index (5941) has seen one of the bigger falls among the generally weak Asian markets. However the September to mid-October acceleration was climactic and the subsequent rebound - the best since March - suggests that a low of at least near-term significance has been reached. While the rally may now hesitate at initial resistance near 6000, if Taiwan's WPI can hold most of its recent gains during any reaction, an additional recovery should not be long delayed.

France's CAC 40 Index (6208) shows the ranging volatility typical of many European indices. The last significant development was a failed break under the February to July lows so a close at 6925 is required to offset scope for an additional test of the mid to upper boundary.

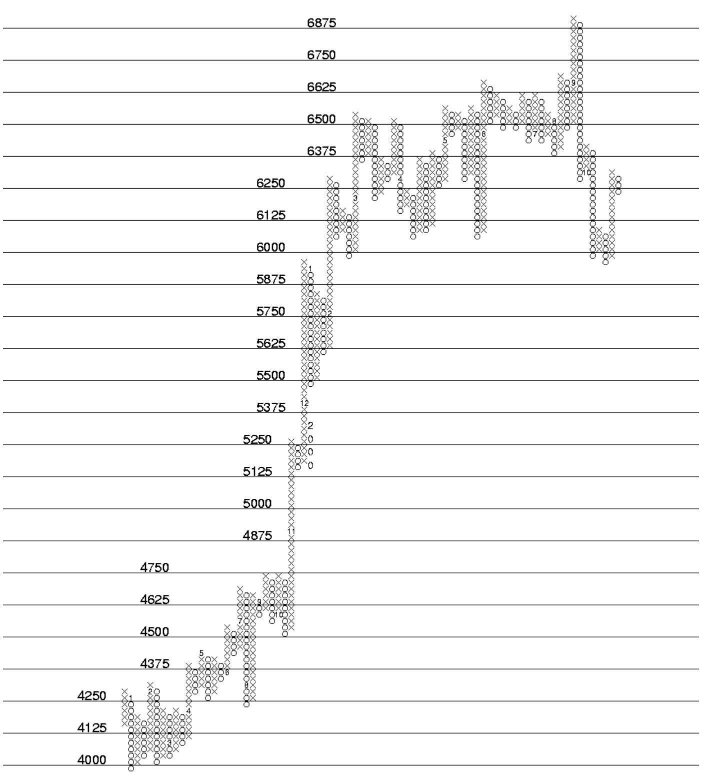
The UK's FTSE 100 Index (6302) remains comparatively quiet within its long range but it has shown relative strength recently. Consequently a close under 6100 is necessary to signal a further test of the lower boundary rather than prior resistance from the highs.

Conclusion and strategy for stock markets - There are lots of reasons for concern, including a global economic

Taiwan Weighted Price Index (50pt)



France CAC 40 Index (25pt)



slowdown and its impact on corporate profits, debt problems, the slump in TMT stocks, the euro, high oil prices and the Israeli/Palestinian confrontation. Market bubbles are seldom deflated without accidents, which can cause panic, and slower GDP growth exposes debt problems. Therefore we can expect volatile market conditions to continue. This will further test nerves for a generation of investors reared on 'buy and hold' and 'buy the corrections'. Nevertheless old economy stocks have already experienced a stealth bear market over the last two years that brought valuations back

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 24/10/00	Percent + or -
Barratt, BDEV	225.5p	271.5p	+20.4%
Beazer, BZR	126.5p	112p	-11.5%
Bellway, BWY	228.5p	307.5p	+34.6%
Bryant, BRYN	114p	134.5p	+18%
Crest Nichol.,CRST	140.5p	132p	-6%
Dairy Crest, DCG	134p	159p	+18.7%
Expamet, EXI	88.5p	108.5p	+22.6%
Hazlewood, HZLE	83p	106.5p	+28.3%
Heywood, HYWD	211p	161p	-23.7%
ICI, ICI	500.75p	386.25p	-22.9%
Kelda, KEL	239p	370.25p	+54.9%
Low & Bonar, LWB	152.5p	97.5p	-36.1%
McAlpine, MCA	196.5p	187p	-4.8%
Mowlem, MWLM	96.5p	117p	+21.2%
Northern Fd., NFDS	104.75p	111.5p	+6.4%
Rank, RNK	152p	168.75p	+11%
Rexam, REX	210.25p	228.75p	+8.8%
Scottish & N., SCTN	403p	446p	+10.7%
Smith WH, SMWH	337p	359.25p	+6.6%
Tompkins, TOMK	198p	159.75p	-19.3%
Uniq, UNIQ	299.75p	271.4p**	-9.5%
United Ind., UNI	40.5p	19p	-53.1%
Weir, WEIR	179p	198.5p	+10.9%
Whitbread, WTB	533.5p	475p	-11%
Wimpey, WMPY	102.5p	141.5p	+38%
Average Gain/Loss	**NASDAQ -27.4%**	**FM190 List +4.53%***	

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 24/10/00	Percent + or -
Con. Ed., ED	$30.5	$33.8125	+10.9%
Goodyear, GT	$23.75	$16.78	-29.3%
Northrop G., NOC	$54	$85.1875	+57.8%
Pacific Gas E., PCG	$21.25	$29.1875	+37.4%
Philip Morris, MO	$20.45	$35.0625	+71.5%
Public Serv., PEG	$28.5	$41.5	+45.6%
USX-US Steel, X	$23.60	$14.875	-37%
Average Gain/Loss	**NASDAQ -27.4%**	**FM190 List +22.4%***	

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

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 24/10/00	Percent + or -
Balfour Beatty (formerly BICC) symbol now BBY	77.5p	111p	+43.2%
Glynwed, GLYN	208.5p	174.5p	-16.3%
Hepworth, HPW	164p	213.5p	+30.2%
IMI, IMI	245p	227.5p	-7.1%
Pilkington, PILK	71.5p	82.75p	+15.7%
TI Group, TI/	361p	359p	-0.06%
TT Group, TTG	108p	146.5p	+35.6%
Average Gain/Loss	**FTSE +2.5%**	**FM191 List +22%* (**)**	

US Low-P/E, High-Yield Stocks

Share (US)	Price 25/04/00	Price 24/10/00	Percent + or -
Ashland, ASH	$34.4375	$31.825	-7.6%
Bank of Am., BAC	$51.4375	$44.5	-13.5%
Delhaize, DZA	$18.4375	$16.6875	-9.5%
Pennzoil, PZL	$10.625	$9.75	-8.2%
Xerox, XRX	$26.6875	$8.8125	-67%
Average Gain/Loss	**S&P500 -5.4%**	**FM191 List -21.2%***	

Japanese Low-P/E, High-Yield Stocks

Share (Japan)	Price 25/04/00	Price 24/10/00	Percent + or -
Chubu E P, 9502	¥1730	¥1733	+0.02%
Kansai E P, 9503	¥1719	¥1714	-0.03%
Osaka Gas, 9532	¥305	¥269	-11.8%
Tokyo E P, 9501	¥2510	¥2555	+1.8%
Tokyo Gas, 9531	¥238	¥285	+19.7%
Average Gain/Loss	**Nikkei225 -17.1%**	**FM191 List +1.9%***	

*Not adjusted for dividends paid.
**Includes Laing (John), sold at 330p 29/9/00 +49.3% and McKecknie, purchased at 400p 25/10/00 + 47.1%,by Cliven Group Ltd.

to some of the lowest levels seen since the 1987 crash. While one can argue that TMT valuations are not cheap, many of the excesses have been corrected. The recent rotational meltdown among high-flying technology sector leaders looks climactic. If there is a debt or devaluation crisis, as we last saw in 1997/98, the US Federal Reserve and most other developed country central banks would be able to lower interest rates. This would be extremely bullish for equities. In conclusion, stock markets have been passing through a storm but the medium to longer-term outlook is neutral/bullish.

One of my investment themes for 2000, introduced in March, was that 'boring' old economy stocks would outperform the NASDAQ through yearend. While that sounded to some like heresy at the time, it wouldn't raise an eyebrow today. Consequently, I conclude that many TMT stocks are now attractive because they have fallen so far. Unfortunately, I began recommending them at the end of June, which was too soon. The so-called blue-chip TMT stocks have done worst, so I made the elementary mistake of being overly impressed by the size and reputation of

Recommended Tech Stocks with Earnings from FM193

Blue-Chip Tech Stocks

This is a shocking reversal for a list of sector leaders that was +9.1% in the valuation two months ago - see Conclusion and strategy section for follow up. Purchase prices shown are buying range recommended and 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 24/10/00	Percent + or -
Altera, US (ALTR)	$47.375**	$35.1825	-25.7%
Intel, US (INTC)	$63.22**	$42	-33.6%
Micron Tech., US (MU)	$81.5	$33.5	-59%
Microsoft, US (MSFT)	$73.125	$61.5	-15.9%
Oracle, US (ORCL)	$38.52**	$35.8125	-7%
Xilinx, US (XLNX)	$76.6875	$69.75	-9%
Nokia, Fin (NOK1V FH)	E52	E48.35	-7%
Average Gain/Loss	**NASDAQ -8.2%**	**FM193 List -22.5%***	

Tech-Wreck Recovery Candidates With Earnings

Purchase prices and NASDAQ benchmark level calculated as above.

Share	Purchase Price (Average)	Price 24/10/00	Percent + or -
SAP, Ger., (SAP GY)	E160.75	E192.5	+19.8%
Sema, UK (SEM LN)	881p	1010p	+14.6%
Average Gain/Loss	**NASDAQ -8.2%**	**FM193 List +17.2%***	

*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

This group may underperform until the oil price weakens. Purchase prices shown are buying range 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 24/10/00	Percent + or -
Ford, US (F)	$25.5**	$25.8125	+1.2%
DaimlerChrysler, Ger.(DCX GY)	E56.10	E53.50	-4.6%
General Motors, US (GM)	$59.34375	$57.625	-2.9%
Volkswagen, US (VOW GY)	E39.93	E53.90	+35%
Average Gain/Loss	**DJIA +0.01%**	**FM193 List +7.2%***	

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

Recommended Tech Stocks with Earnings from FM194

Blue-Chip Tech Stocks

Another tech shocker - see Conclusion and strategy section. Purchase prices shown are based on the middle of the buying range 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 24/10/00	Percent + or -
Motorola, US (MOT)	$34.4375	$22.8125	-33.4%
WorldCom, US (WCOM)	$42.5	$26.9375	-36.6%
Average Gain/Loss	**NASDAQ -11%**	**FM194 List -35%***	

Tech-Wreck Recovery Candidates With Earnings

Share	Purchase Price (Average)	Price 24/10/00	Percent + or -
Autonomy, UK (AUTN ES)	$43.75**	$48.1	+9.9%
Azlan Group, UK (AZL LN)	147.75	188.5p	+27.6%
Cap Gemini, Fr. (CAP FP)	E195.6***	E193.9	-0.09%
Getronics, Neth. (GTN NA)	E16.25	E11.79	-27.5%
KLA-Tencor, US (KLAC)	$50.5	$33.3125	-34
National Semicon., US (NSM)	$45	$24.25	-46%
Average Gain/Loss	**NASDAQ -11%**	**FM194 List -11.7%***	

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

sector leaders. I should have recalled that people dump those last. If I were adding to or starting to build a portfolio today, I would overweight it with leading TMT stocks that have fallen a very long way from their highs. Some of these, such as Microsoft, have already recovered strongly from levels shown at the time of valuation (24th October) in the accompanying tables. In contrast, defensive stocks certainly have their appeal when investor confidence is low. However how many of them are likely to double or triple or more over the next few years? Perhaps a few will but I suspect the better gains will come from many of today's hardest-hit, sector-leading technology stocks. Therefore I am re-recommending several stocks that have fallen the most from FM193 and FM194's lists and will show them separately in future issues. These are: Altera, Intel, Micron, Motorola and WorldCom. The price of record will be the close on 31st October, averaged with any subsequent decline prior to next months' issue (FM198). I will calculate the NASDAQ on the same basis for a fair comparison.

Another of my investment/trading themes for this year has been - don't pay up for anything. As mentioned in FM196, I commenced light buying of stock market futures on 22nd September and added to these positions on return from Australia. They are just short-term trades so I reduce exposure on rallies. So far, only the European contracts have been profitable but I would not be surprised to see more recoveries following the recent sell off.

Currencies

■ **The euro is fundamentally flawed but multilateral central banks will continue to intervene should any further weakness threaten to become a crisis.**

■ **Sterling has uncoupled from the euro once again and the UK will never join the single currency.**

■ **The US dollar is not a bubble as many have claimed but it is becoming temporarily overvalued against soft currencies.**

■ **The yen is a bubble, propped up by defensive repatriation of capital and a maverick central bank.**

Recommended Stocks from FM195

Blue-Chip & One Tech-Wreck Recoveries

Purchase prices shown are based on the middle of the buying range 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 22nd September (1421.08).

Share	Purchase Price (Average)	Price 24/10/00	Percent + or -
GUS, UK (GUS LN)	466p	454.5p	-2.5%
Proctor & Gamble, US (PG)	$62.3125	$73.3125	+17.7%
Raytheon, US (RTN/B)	$26.2812	$33	+25.6%
Sara Lee, US (SLE)	$18.5	$19.8125	+7.1%
Compaq Computers, US (CPQ)	$29.8125	$27	-9.4%
Average Gain/Loss	**S&P500 -4.7%**	**FM195 List +7.7%***	

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 24/10/00	Percent + or -
Bank of Yokohama, 8332	¥474	¥528	+11.4%
Mizuho Holdings, 8305**	¥775	¥795	+3.2%
Mizuho Holdings, 8305***	¥757	¥795	+5%
Sanwa Bank, 8320	¥952.5	¥909	-4.6%
Average Gain/Loss	**Nikkei225 -3.3%**	**FM195 List +3.7%***	

*Not adjusted for dividends paid.
**Formerly Fuji, purchased at ¥775, consolidated at ¥819 21/9/00, factor is current price x .001.
***Formerly Industrial Bank of Japan, purchased at ¥757, consolidated at ¥835 as above.

Recommended Stocks from FM196

UK Old Economy & TMT-Wreck Recoveries

For a fair comparison with the FTSE100 I have used 6171.45 as the benchmark, representing the mid-point between the high on 29th September (6325.70) and the subsequent low on 18th October (6017.20)

Share	Purchase Price (Average)	Price 24/10/00	Percent + or -
Boots, BOOT LN	499p	543p	+8.8%
Diploma, DPLM LN	215.25p	213.5p	-0.08%
Durlacher, DUC LN	71p	61p	-14.1%
Kewill Systems, KWL LN	890p	743.5p	-16.5%
Photobition, PHB LN	201.75p	184p	-8.8%
Average Gain/Loss	**FTSE +4.3%**	**FM196 List -6.1%***	

*Not adjusted for dividends paid.

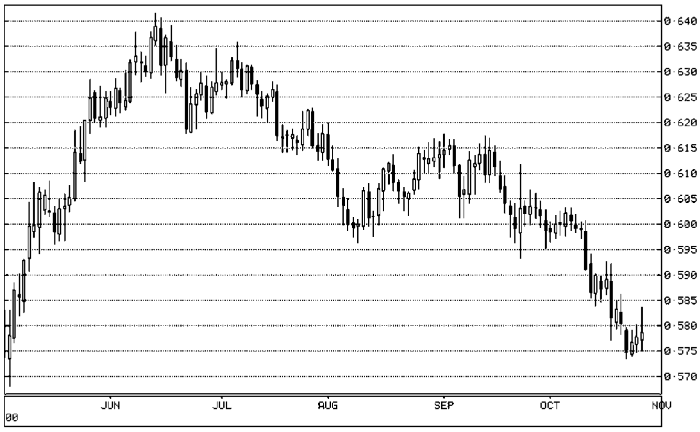
The euro is the forex market's version of a dotcom stock (circa October 2000). It was revolutionary - a new world, new paradigm currency for old Europe. Its founders believed they could make it work, by the sheer weight of their collective will and egos, even though the central banks and public were sceptical. Many of the independent economists, as I recall, thought the euro was such a gamble that it might never get off the ground. However big business sided with the politicians, assuming that they would be favoured for their support. The unions loved the idea of a single currency, hoping that with continental-wide collective bargaining everyone would be paid West German wages. The pre-launch euro became trendy especially for the Japanese, who bought the spin. Unfortunately for them the hangover had already commenced before the launch in January 1999. Back to reality - the single currency won't work without a European federation, for which there is little popular support. The euro was imposed on the populations of 11 countries. And guess what? They believe in democracy and want to vote for their own governments and policies. There is nothing isolationist or xenophobic about this because they also like the idea of a European Common Market. As for a European federation, that appeals mainly to bureaucrats, monument and would-be empire builders.

The euro was always a daft idea and it has been badly managed by people who were never going to agree on who should be in charge. Consequently the world's leading central banks have drawn the short straw. They don't want the euro to plunge again because that would lead to panic, which could turn into a global financial crisis. It is now in their interest to intervene when the euro slumps but they will not do so with any great enthusiasm, as we saw with UK Chancellor Gordon Brown who controversially took a day-trade profit following the multilateral support on 22nd September. The central banks are only trying to cushion the euro and establish a medium-term floor. They should succeed by also persuading the ECB and its political advisors to mop up some of the excess euros. The main sellers have been the same European businesses that favoured the euro, the Japanese and currency speculators. This last group will be the first to change tactics once multilateral central bank intervention and a base on the charts convinces them that selling euros near the lows is hazardous. The Japanese are retrenching but the pressure to do so will abate once the yen weakens, enabling their economy to recover. Corporate disinvestment is a symptom of Euroland's longer-term problems. In conclusion, the euro is like a somewhat bombed out dotcom stock, with few friends in the marketplace and management showing signs of shellshock. It will be resuscitated and restructured, producing some surprisingly good medium-term rallies relative to today's low expectations. However the basic concept will remain flawed and the long-term outlook is not good. Call me an optimist, but I'm sticking with my pre-launch view - the euro could survive for 10 to 15 years in various forms before it is phased out due to public demand.

Denmark's vote to reject the euro was a reality check for UK europhiles. Most have gone underground so we will hear less parroting of the Government's five economic conditions, which dodge the central issue of sovereignty. Prime Minister Blair's survival instincts will prevent him from calling the referendum that he would lose by a wide margin. Markets reflect the new mood because sterling is no longer tracking the euro. This will cause additional problems for some UK exporters who compete primarily with Euroland companies but it will also help to keep inflation down. Meanwhile, according to a recent poll, most UK citizens

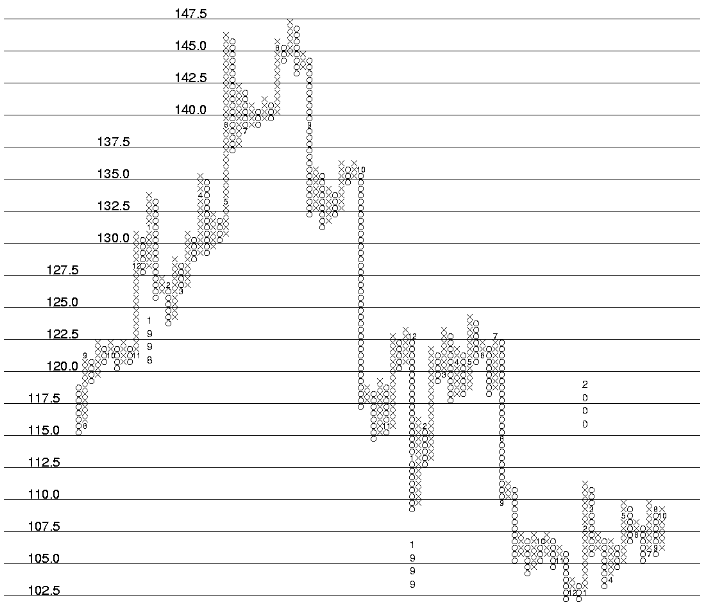
Euro / Japanese Yen (Daily)

Euro / Pound Sterling (Daily)



Euro / US Dollar (Daily)

Japanese Yen per 1 US Dollar (0.5)



suspect the country will join the euro within 10 years. I don't think so because that would probably require a major loss of confidence in the UK and a corresponding reversal of sentiment towards the euro on the Continent, particularly in Germany. Also, even if the UK population could be persuaded to join the euro, it is extremely unlikely that it would be allowed in at a competitive rate.

The US dollar is becoming temporarily overbought against weak currencies. It certainly isn't just the euro because many other currencies are becoming overstretched against the greenback, including the Australian, New Zealand and Canadian dollars, plus the free-floating Asean currencies. A strong dollar has been part of US Government policy since 1995 but there can be too much of a good thing. Although the US is better able to withstand a strong currency than any other country, largely because foreign affiliates of its multinational companies probably sell twice the amount of goods and services as are actually exported from its territorial boundaries, accusations of competitive devaluation could emerge in a global economic slowdown, particularly if the Democrat Party gains control of Congress on 7th November. Technically, declines against the dollar by the above currencies are becoming overstretched. This will give way to a temporary reaction before long, perhaps coinciding with the next round of central bank support for the euro. However, I maintain that there is little chance of a dollar collapse, as many have long forecast, because of the US economy's comparative strength and the lack of a viable alternative reserve currency - *see also FM195, pages 7 & 8.*

The yen is the forex market's version of a dotcom stock (circa early 1999). Japan, as I have often mentioned, is saddled with a central bank governor who doesn't understand that it is all but impossible to break out of a lengthy, deflationary economic stagnation while the currency remains overvalued. Despite a decade of negligible GDP growth, the yen has all but matched the dollar for strength. Consequently it has soared against most other currencies over the last two years. Japan is still a rich country but its government and corporate finances have deteriorated alarmingly over the last few years - a situation that continues to worsen. Paradoxically, the yen remains firm not because of Japan's economic strength but in spite of its weakness. Japanese firms have been unloading overseas real estate purchased during the 1980's bubble, closing foreign subsidiaries and taking the money home to shore up the parent companies. Simultaneously, Japanese investors have been cutting their currency losses in overseas fixed interest investments and repatriating capital. Talk about out of the pan and into the proverbial fire! They are buying the yen, which would collapse without this lemming-like retrenchment and using it to purchase confetti-paper Japanese bonds that yield at least 330 basis points less than what is being sold. Instead, Japanese investors should be exporting capital for safety and higher yield. A competent governor of the BoJ would be increasing the supply of yen until the currency commenced a downtrend. This is the only sensible policy because Japan's fiscal position will continue to deteriorate while the high yen keeps the economy weak. Further prevarication by the BoJ will only extend the deflationary recession and increase the yen's downward scope.

Strategy for currencies - I disagree with the consensus that central banks will not support the euro if it weakens. Using my Baby Steps tactic, I commenced repurchasing the euro against the yen below ¥90 and will add to this position, lightly, on any further weakness. I am trading well with my capital for this position and will certainly take profits once again on any rebound, as the euro is still in an overall downtrend, although I suspect that it is near an important low. For those who agree with me, I'll repeat that I much prefer euro/yen to euro/dollar even though any further intervention would be against the dollar. While the dollar is becoming technically overbought against the euro and many other currencies that have been weak recently, this is also true for the yen, which remains grossly overvalued on fundamentals in my view. Also, I want interest rate differentials to be working for rather than against me. Additionally, the markets are rife with talk of emerging market devaluations and debt problems. A flight to quality will lead people to the US dollar, not the yen. While I might consider buying the euro against the dollar, in anticipation of intervention if it fell further into my target range of 83 to 79, any position would be small relative to euro/yen.

As for trading dollar/yen, there have been fewer opportunities in recent weeks for Baby Steps buy-low-sell-high range harvesting within the base because of the rising lows. Consequently I have leveraged up my long position, protecting much of it with a tight stop. The risk with this tactic is that it can often be the triumph of hope over experience, especially as there are few calls more difficult than anticipating when a base formation will be completed. The alternative strategy, which most traders will take, is to wait until the dollar sustains a break over lateral resistance in the ¥110 to ¥112 range. However if the dollar is going to eventually move much higher against the yen, as I expect, the breakout could be explosive. Should a reaction and additional base extension occur first, my position will be reduced by the stop and I will recommence Baby Steps range trading.

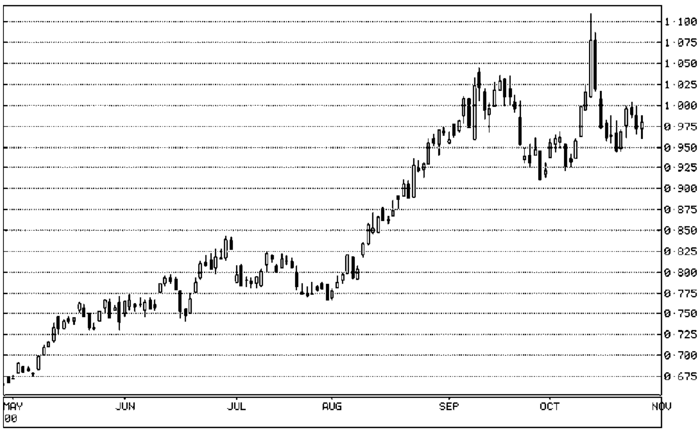
Commodities

■ **Oil charts show some evidence of top formation development but continuing backwardations confirm that supplies of refined products remain tight.**

■ **Gold has broken downwards but this is primarily a response to the US dollar's strength.**

Crude Oil (Dec NYME) (Daily)

Heating Oil (Dec NYME) (Daily)



New contract highs in mid-October were not maintained by petroleum contracts and the churning activity is a top formation characteristic. I suspect we have seen at least the penultimate high if not the final peak. However continued backwardations (premiums of spot over futures prices) confirm that nearby supplies remain tight. Moreover the reaction lows are still rising so supply has not yet exceeded demand, although it is moving into closer balance. A close under $31.80 (Dec NYME) would provide renewed evidence of weakness, confirmed under $30. For Gasoline the equivalent levels are 86¢ and 81.6¢ (Dec NYME), but the spot (Nov) contract is trading just under 100¢. In conclusion, the topping out process could take many weeks. On past evidence, petroleum contracts will commence their eventual declines before the backwardations disappear.

The US dollar price of gold continues to drift but it is stronger against other currencies. Gold bullion has broken beneath lateral trading just under $270, extending back to May. Consequently it appears capable of testing the mid-1999 trough down to $251.70, in what I suspect may be the right-hand extension of a large developing base formation. Currently, gold requires an upward dynamic to check its drift and a move over $280 to reaffirm support from last year's lows. Gold appears well supported when quoted in weaker currencies such as the German mark

Gold Bullion (Daily)

and Swiss franc - see long-term charts in the Commodities section on www.fullermarkets.com.

Strategy on commodities - My occasional speculations in this market are usually confined to shorting after big rallies lose momentum and buying when prices steady after a major slump. Following up on earlier positions, my trailing stop on the sugar short was hit for a much-reduced profit by the top extension rally - always a risk with temporary shortages. I did not re-establish the short as it rolled over, although that would have been a good idea as sugar slumped back to the September low. Given the overhanging top I would probably short if there is a bounce but that may not occur as traders are now talking about a glut, which always follows a period of high prices for any agricultural commodity. Corn pushed up out of its base on concern over the delayed harvest, enabling me to place an in-the-money stop. The price is now drifting back towards this and it will take a bullish surprise, such as news of a large purchase by one of the corn-importing countries, to extend the recovery. Prices for a number of commodities are very low but I think better buying opportunities will occur when the dollar experiences a correction. However, seasonal factors can spark interest and I will keep an eye on orange juice as the price is slumping prior to the US winter frost season and any sign of a freeze would trigger short covering. I hope to short oil at some point but am currently deterred by the rising lows and backwardation.

The Global Economy

■ **Global GDP growth will continue to slow.**

■ **The US will continue to outperform, followed by Europe, with Japan lagging.**

■ **High oil prices are inflationary in the short term but will eventually increase deflationary pressures.**

The previous hikes in short-term interest rates and high oil prices can only slow growth. The US Federal Reserve commenced raising short-term interest rates last year to rein in an overheating economy. A Federal Funds Rate of 6.5% (well below most economists' forecasts) proved sufficient because higher oil prices and the stock market correction also checked GDP growth. The current risk, should energy costs remain high over the next few weeks, is a more significant economic slowdown than the soft landing sought by Greenspan. Consequently the next move in US short-term rates, which the Federal Reserve raised 1.75% between June 1999 and May 2000, is likely to be downwards. The UK is in a similar situation. In Euroland, the same factors have slowed GDP expansion, despite the to boon to exports from a weak currency. Moreover, the European Central Bank does not have the Federal Reserve's charter, which balances priorities between price stability and economic growth. Instead, the ECB's priority is to keep inflation under 2%. Given the euro's decline and higher oil prices, the ECB may feel that it needs to raise short-term rates once again, even though that would further jeopardise growth. The increased cost of petroleum represents another obstacle on the path to a sustainable economic recovery in Japan. It is particularly onerous for developing countries that import oil because their fuel consumption has increased rapidly in recent years, while their currencies have declined against the US dollar.

The US will continue to outperform other major economies for at least another year, regardless of whatever else happens. With the global economy slowing the risk of recession in 2001 has replaced the previously feared possibility of overheating. Many analysts maintain that the US economy is one of the most vulnerable because they expect Wall Street and the US dollar to collapse. I continue to disagree. While additional weakness on Wall Street, should it occur, would further slow America's growth juggernaut, this would have an even greater impact on other economies due to a decline in their exports to the US. Asia's export-oriented countries would be among the most vulnerable. In contrast, the US economy, including foreign affiliates of America's multinational companies, is now more self-contained than ever, oil excepted. The US's economic strength relative to other countries is no fluke. It was achieved by tax cuts during the Reagan presidency, followed by government deregulation and ongoing corporate restructuring. The US is unlikely to lose this advantageous position without a major fiscal policy blunder by the next administration or monetary mismanagement by the Federal Reserve. As for the greenback, I expect a cyclical correction against the euro, Australian dollar and other oversold currencies before too long but this is unlikely to hurt the US economy. Any link between Wall Street and the US dollar is tenuous, as we can see from the latter's resilience during the NASDAQ's slump since March. The greenback is unlikely to weaken beyond a temporary correction until the US government, for which the mantra of recent years has been "we favour a strong dollar", undermines confidence in its currency. Also, the euro or yen will need to be seen as attractive alternatives. While the euro is temporarily oversold and will have its occasional rallies, I maintain that it is structurally unsound without a European federation, for which there is little public support. The yen is overvalued, judging from Japan's economic decline over the last decade. Capital repatriation by Japanese corporations and investors has kept the yen firm as they cut losses in the euro and topped up weak balance sheets. However as with Euroland in the mid-1990s, Japan cannot fulfil its recovery potential until its currency weakens.

The effect of high oil prices is currently inflationary but will become deflationary. The initial impact of the OPEC cartel's squeeze on supplies is inevitably higher PPI and CPI inflation as the cost of gasoline, heating oil and petroleum by-products increases. However, this can only reduce the amount of capital available for private consumption and corporate spending, with a knock-on slowdown effect throughout the oil-importing countries. Since oil producers will spend only a portion of their additional petro-dollars, as the first priority of most is to pay down debt, deflationary pressures will eventually increase as global GDP growth continues to slow.

And Finally…

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Seminars, speeches and travel - There were just over 500 people at my after dinner speech in Kuala Lumpur on 11 Oct, arranged by The Association of Merchant Banks in Malaysia. After outlining my views on the global financial scene, I conducted a chart review of Malaysian stocks selected by an AMBM Committee. The charts were supplied by Investimatic and displayed on two huge screens. My main assessment was that most looked very oversold having accelerated towards their 1998 bases, causing many people to turn very bearish. In comparison, the KLCI Index had seen a smaller decline to 700, cushioned I was told by Government support for the big-capitalisation utilities. My conclusion was that the Malaysian market would experience a technical rebound and close higher on the year. I said the signal for a rally would come from the NASDAQ and that they should look for an upward dynamic, which I defined as a single-day advance of at least 150 points. This message was repeated in press interviews and on local television. Interestingly, the NASDAQ rallied over 240 points two days later, registering a key day reversal. The KLCI rose in consecutive days to just under 800, where there is some chart resistance. I had not been to KL for three and a half years and it is impressive with towering office blocks, luxury hotels and fine restaurants, although the latter were not full as they invariably were prior to the Asian financial crisis. The new airport is spectacularly huge but under utilised. The Government is not popular but criticism is muted because the fundamentalist opposition is seen by many to be even less palatable. After KL, I flew to Sydney - the world's most beautiful harbour city, to address over 200 delegates at The Australian Technical Analysts Association's Annual Conference. My brief was to cover highlights from The Chart Seminar over the two morning sessions, applied to the Australian market. TCS was held following the weekend ATAA Conference and I was able to use their especially prepared chart publication containing most markets of interest to Australian investors, in addition to our own graphs. Sydney is booming, with confidence high following The Olympics. If it wasn't so far away from the rest of the world, I could live there very happily, enjoying the sports culture and world-class restaurants. One of the best and most fun is The Centennial, owned and run by my good friends and subscribers Cos and Toni Psaltis. My final chart seminar for the year will be in London on 30th Nov and 1st Dec. I will be in the US from 22nd to 27th Nov.

The target date for FM198 is Tuesday 21st November.

'Success and failure are both greatly overrated. But failure gives you a whole lot more to talk about.'

Hildegard Knef

Best regards - David Fuller

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