Fullermoney Plus

Issue 120
1 August 2000

Global Strategy and Investment Trends by David Fuller http://www.fullermarkets.com

The summer sell off for stock markets is mostly over

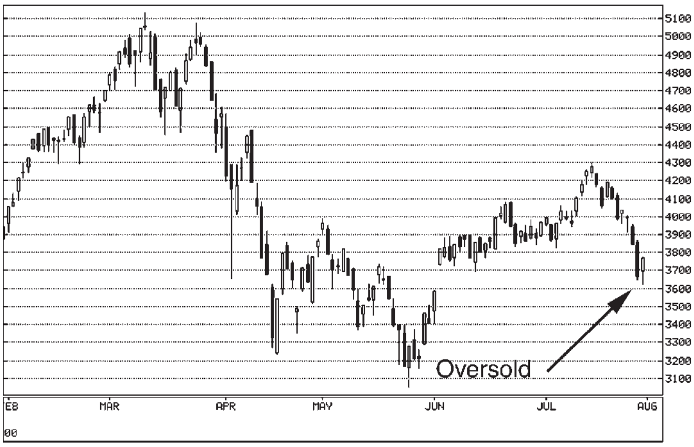
Oversold conditions for indices within the broad trading bands - The second half of July was a nervous time for stock markets. First there were some upside failures by the previously stronger indices and shares and last week a number of support levels were under pressure or marginally broken. This whipsaw activity is typical of ranges in which most indices and many shares have been confined for a number of months. The recent weakness has now created an oversold condition judging from sentiment and short-term trend action. The consensus shift from growing optimism to increasing caution evident in the press tells us more about what people have done than what the markets will do. There has also been a whiff of panic, judging from a number of climactic-looking downward accelerations, notably for the NASDAQ, S&P 500, Nikkei 225 and to a lesser extent some of the European indices. My guess is that most stock market indices bottomed on Monday and that a technical rally will follow.

The background environment for stock markets is slowly improving - I maintain that the primarily ranging chart patterns for Western share indices are lengthy consolidations rather than top formations and that they will eventually support somewhat higher levels. Look beneath the surface of these patterns and one sees enormous volatility among individual shares. This includes the bear markets for many old economy stocks from 1999 until March 2000, when a number of important lows were established. That was followed by the NASDAQ's crash. These developments have gone a long way towards correcting previous speculative excesses. Additional ranging by most shares, against the background of continued economic growth, restores fundamental value to the markets. There have been earnings disappointments - one of FMP117's themes (7th July) - because most economists overestimated GDP growth at yearend 1999. Consequently corporations and financial analysts pitched earnings estimates too high, so 'surprises' have been mainly on the downside. Looking ahead, more realistic estimates should reduce volatility somewhat. The bond market environment, characterised by gradually declining yields, is favourable for equities. Increased oil production will reduce inflationary pressures. Alan Greenspan won't overreact on rates. President Bush will receive a market honeymoon, perhaps through March 2001. Regionally, European stock markets are supported by the cheap euro; North American equities by growth and its technology lead, while most Asian markets will continue to lag because Japan's economy can't really recover until the yen weakens against all other reserve currencies.

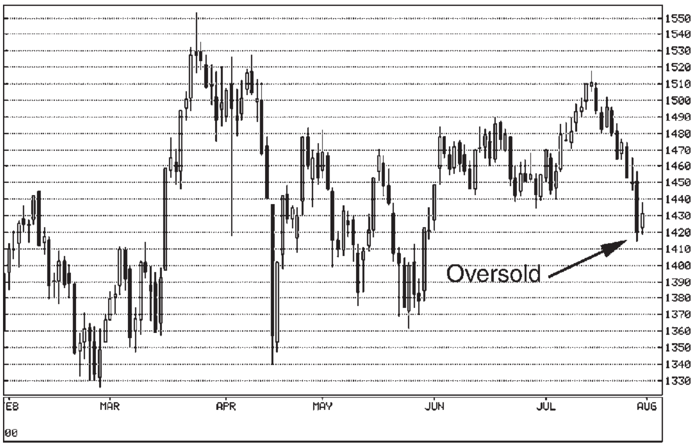
I'm raising my buying range on Cap Gemini (CAP FP, FM194) to E207-E180.

Best regards - David Fuller

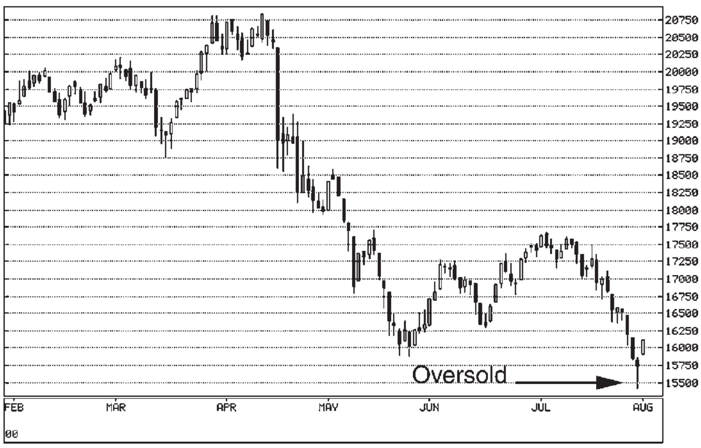
NASDAQ Composite



S&P 500



Nikkei 225



FullerMarkets a division of Stockcube Research Limited Suite 1.21 Plaza 535 Kings Road London SW10 0SZ UK ***Website:*** www.fullermarkets.com
Email: research@fullermarkets.com ***Tel:*** +44 (0) 20 7351 5751 ***Fax:*** +44 (0) 20 7352 3185