Fullermoney Plus Issue 135
09 January 2001

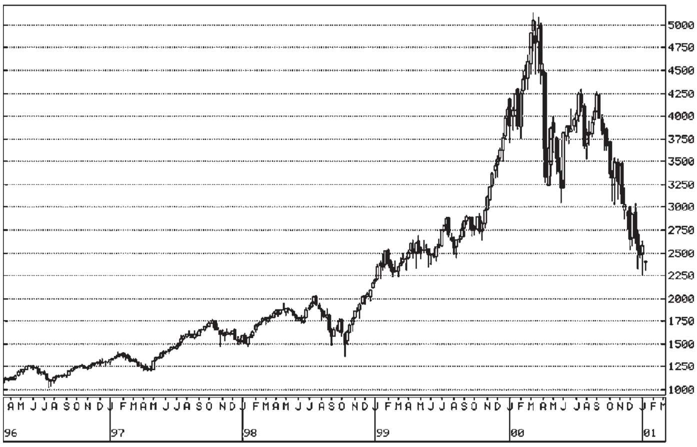
Global Strategy and Investment Trends by David Fuller http://www.fullermarkets.com

Interest rate cuts have coincided with the most bullish phases for stock markets

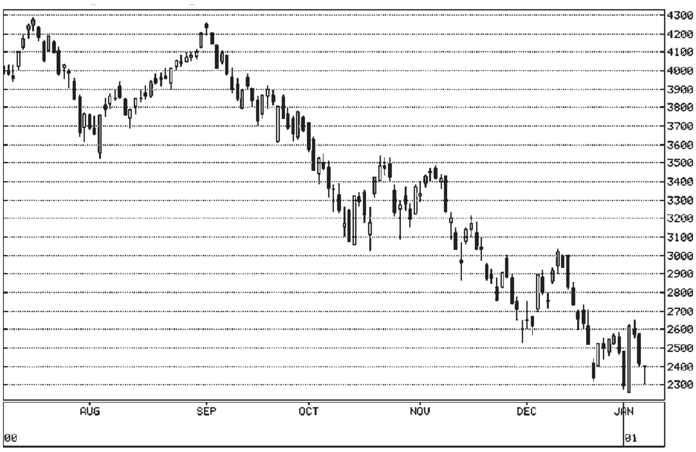
Soon the glass will be perceived as half full - Wall Street's response to aggressive rate cutting action by the US Federal Reserve on Wednesday 3rd January has been distinctly subdued, aside from a dramatic one-day short covering rally on the NASDAQ. Many who criticised Greenspan for not raising rates higher only a few months ago now say he should have cut them in November and December. They fear a major financial accident, probably involving corporate debt, and a prolonged bear market for stocks. Could they be right this time? Yes, on debt problems but history is not on their side regarding Wall Street. FMP134 (22 Dec), "On market psychology and anticipating Greenspan", mentioned that it sometimes took the second or third rate cut before market sentiment turned from bearish to bullish. The NASDAQ's initial response of a record-breaking 14% gain and key day reversal was positive but there has been no follow through to date. Consequently many downtrends remain intact for indices and overhead supply has yet to be challenged. Nevertheless my hunch is that the NASDAQ Composite either bottomed last Wednesday at 2251 or was very close to its final low, but I am inclined to be early on market peaks and troughs. For initial follow through, I would like to see closes above these levels: NASDAQ 2650, S&P 1350 and DJIA 11000. Meanwhile, we can expect further volatility because the financial/economic news will be diabolical for a few more months. In addition to debt problems there will be some 'shock' bankruptcies, just as we have seen during every other economic slowdown. However these will be in response to past events. The poor earnings reports dominating financial headlines are based on historic data. In contrast, the stock market is a discounting mechanism. People now know that Greenspan will cut rates again and again, as necessary, to ensure that the US economy does not go into a sustained decline. Consequently, investors will look increasingly beyond the current bad corporate news towards the better economic conditions that should be apparent from mid-2001. Those who said the NASDAQ was "recession proof" only a year ago are now comparing the US economy to the Japanese bubble in 1979/80! While co-hosting CNBC Europe's Squawk Box programme last Friday, one viewer sent in a chart of 1929-1931, claiming that rate cuts won't put a floor under the US market. I believe he's wrong because the Fed's timely and decisive action will check the deterioration in sentiment. Most investors and forecasters will remain bearish for a while longer, partly due to conditioning and ego. Turning the crowd around is like reversing a large ship. It takes time. Meanwhile, the most important stock market adage, after "Buy-low-sell-high", is "Don't fight the Fed". Historically, the most bullish market phases have coincided with interest rate cuts. I would begin to shift away from defensive stocks and into leading tech companies - such as Altera, Intel, Micron, Motorola and World Com, re-recommended in FM recently. Watch for evidence of improved relative strength in banks. Guided by the charts, consider shares in companies that will benefit from a weaker US dollar against the euro and reduce exposure in firms that prospered from the single currency's weakness.

Best regards - David Fuller

NASDAQ Composite Index (Weekly) : 2395.92



NASDAQ Composite Index (Daily) : 2395.92



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