

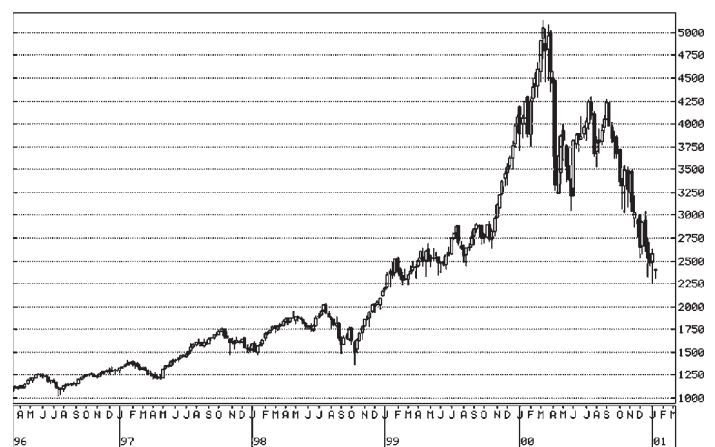
Interest rate cuts have coincided with the most bullish phases for stock markets

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

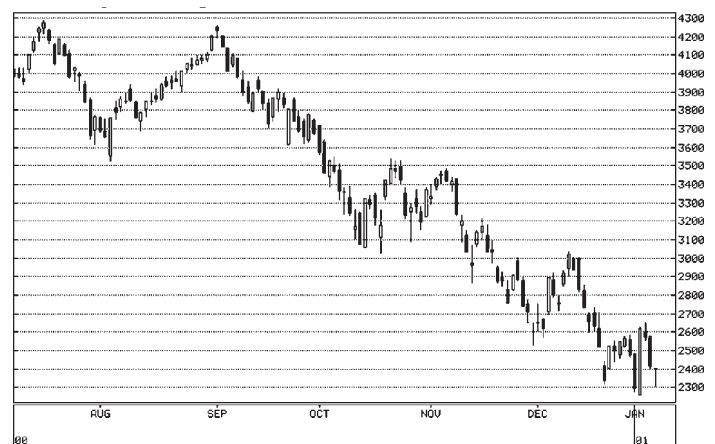
reversing a large ship. It takes time. Meanwhile, the most important stock market adage, after "Buy-low-sell-high", is "Don't fight the Fed". Historically, the most bullish market phases have coincided with interest rate cuts. I would begin to shift away from defensive stocks and into leading tech companies - 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



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

You are strongly advised to read the following: This report has been produced and compiled by FullerMarkets, a division of Stockcube Research Limited (Stockcube) which is regulated by the Securities and Futures Authority Ltd, according to the requirements of the Financial Services Act 1986. It is distributed by Stockcube and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time Stockcube and any of its officers or employees may, to the extent permitted by law, have a position or otherwise be interested in any transactions, in any investments (including derivatives) directly or indirectly the subject of this report. Also Stockcube may from time to time perform other services (including acting as adviser or manager) for any company mentioned in this report. The value of securities can go down as well as up, and you may not get back the full amount you originally invested. Derivatives in particular are high risk, high reward investment instruments and an investor may lose some or all of his/her original investment. If you make an investment in securities that are denominated in a currency other than that of GB Pounds you are warned that changes in rates of foreign exchange may have an adverse effect on the value, price or income of the investment. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Stockcube who are expected to make their own investment decisions without reliance on this report. Neither Stockcube nor any officer of Stockcube accepts any liability whatsoever for any direct and consequential loss arising from use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Stockcube. © Stockcube.