

Last night's upward dynamics on Wall Street suggest some further rally scope

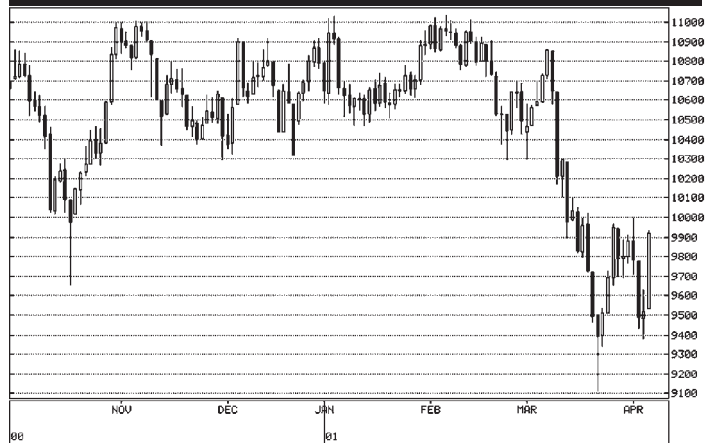
The best one-day percentage gains since the Fed's first rate cut on 3rd January and from lower levels -

Yesterday the DJIA, S&P 500 and NASDAQ Composite rose 4.23%, 4.37% and 8.92%, respectively. Numerically, these were also the best gains for the DJIA and S&P since at least early January. They occurred above recent lows established on 22nd March near 9106 and 1081, indicating that there is some additional recovery potential in response to the short-term oversold condition. Closes beneath these levels are required to reaffirm the overall declines. The main technical problem for these indices is overhead supply, particularly evident on long-term charts - see the P&F graphs on www.fullermarkets.com. This commences around the psychological 10000 level for the DJIA and 1250 on the S&P 500. These overhanging top formations have the potential to force additional declines and very strong rallies would be necessary to question this medium-term risk. Therefore I am not willing to forecast upside scope beyond a further technical rally at this time. If this view proves to be too cautious, I suspect the main reason would be interest rate cuts, which bring forward the inflection point when investors' fears of slower GDP growth and falling profits give way to optimism over economic recovery prospects. Whatever happens over the short to medium term, I would not be surprised if the three US indices shown here are higher 12 months from now. The main reason is that in the 19 previous interest rate cycles from 1914, only in 1930 did the DJIA fail to show a gain 12 months following the Fed's 3rd rate cut. In the present cycle, this occurred on 20th March. The NASDAQ's numerical gain yesterday looks less impressive on the chart but this may be misleading because it is by far the biggest single-day percentage move since 3rd January. There is a consensus forming that US old economy stocks will have to recover before the TMTs. According to the fundamental rationale, traditional companies will have to become more profitable and confident about the economy before they invest in more tech equipment. Looking at the chart action, I'm not so sure. Many, although not all, techs look very bombed out, particularly relative to most old economy stocks to which investors have retreated. Old economy stocks have outperformed TMTs since March 2000. However, recalling the endings of previous bear markets, it is usually the shares that have been most heavily sold that experience the strongest rebounds, if only because there is almost no one left to sell.

Please note: the early booking rate for The Chart Seminar on 10th & 11th May closes on 10th April.

Best regards - David Fuller

Dow Jones Industrial Average (Daily) : 9918.05



S&P 500 Index : 1151.44



NASDAQ Composite Index : 1785



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