

## Stock market indices are oversold on a short-term basis

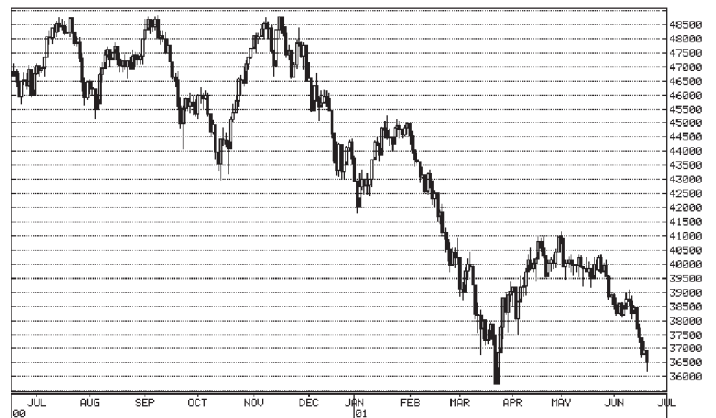
**Upward dynamics are needed to reaffirm support from the March-April lows** - Rallies in response to interest rate cuts ran out of steam in late May and most indices sagged during the first half of June. This has created short-term oversold conditions near or above the technically significant March-April lows and some loss of downward momentum is now evident. Conditions for a technical rally are developing. However strong upward dynamics are required to reaffirm the year's earlier lows and signal more than short-term steadying beneath overhead supply. I've put a toe in these turbulent waters, commencing with Japan's Nikkei and the Italian MIB30. The Nikkei broke its medium-term downtrend four months ago and the subsequent two-thirds retracement has been orderly, suggesting that it is base formation extension. If the yen is resuming its decline, as I believe, this would be favourable for Japanese equities. The Government continues to formulate plans for a ¥15 trillion fund to buy stocks from Japan's beleaguered banking sector, which is unlikely to meet its capital adequacy requirements should the Nikkei 225 Stock Average remain below 13000. Investors who share my view that Japanese stocks have long-term recovery potential might consider the Atlantis Japan Growth Fund, which I have mentioned previously. This is denominated in US dollars and quoted in London. Currently trading at \$9.09, I regard it as a buy near or below current levels, particularly if the discount to NAV, currently 14%, falls closer to its lower boundary near 20%. In an outline of Economic Policies released today, the Government is also considering tax incentives to entice Japan's savers back into the stock market. In Italy, consumer optimism has risen for 5 consecutive months, partly due to expectations for tax cuts (subject to budgetary restraints) by the Berlusconi Government. While no stock market rally will last for long without a steady tone on Wall Street, the weekly NYSE Cumulative Advance/Decline chart offers some encouragement while the reaction lows continue to rise. Overall, I believe rate cuts will sufficiently offset weak growth and corporate profits to justify selective stock purchases following setbacks. However, I would also sell into rallies, suspecting that markets will remain rangebound for a long time.

Best regards - David Fuller

**Nikkei 225 : Daily (12962.43)**



**Italy MIB 30 : Daily (36535)**



**NYSE Cumulative Advance/Decline (Weekly)**

