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

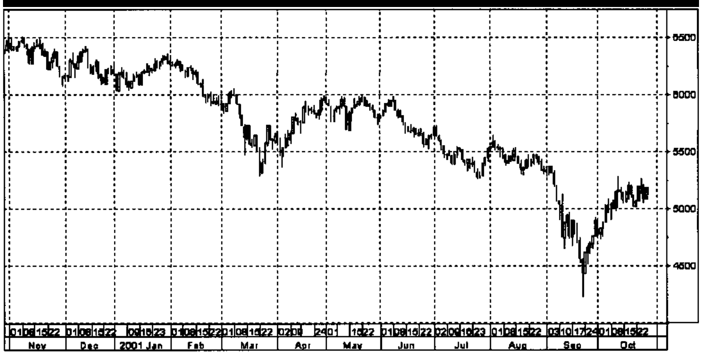
Stock markets - more on technical action following spike lows

Following the initial rebound, there is usually a ranging recovery before a retracement and base extension occurs - What falls in a vacuum of demand during a panic often rebounds in a near vacuum of supply, at least initially. The reason is that an accelerating decline flushes out a proportion of those who were long and also encourages short selling, while potential buyers become mostly inert, until the market runs out of willing sellers at levels considerably lower than seen only a few weeks earlier. The initial rebound is only slightly less persistent as short covering commences and bargain hunters rush in. Accordingly, the last stage of a dramatic decline and the initial recovery to follow occur very quickly, relative to similar percentage moves seen earlier in the market cycle. Once prices have rebounded 20 percent or more, supply and demand move into closer balance because many of the bear traders have covered shorts, while bargain hunters are deterred by higher prices, which enable some of the stale bulls to get out at considerably higher levels than they had seen only a few weeks earlier. However, if the prior downward leg culminating in acceleration had been substantial overall, as we certainly saw with global stock market indices and many shares from May through 21st September, demand will probably remain slightly higher than supply for few weeks. This leads to a slower, ranging recovery similar to what we have seen recently. On rare occasions and invariably from historically oversold levels by any measure, demand maintains the upper hand until most of the prior decline has been recouped. However the usual pattern is for the initial spike rebound to be followed by a considerably slower and generally smaller second stage. Consequently this will produce a ‘fan effect’ (in textbook terms) for the uptrend evident on daily charts, as the pattern is characterised primarily by ranging leading to small additional upward steps. As the rally loses momentum, it becomes increasingly susceptible to a reaction that breaks initial and recently established support levels. This erodes bullish sentiment, leaving the market susceptible to a retracement of at least a third and occasionally the entire rally, in a base extension phase which can be lengthy. Once the overall base has absorbed sufficient supply and simultaneously built up enough support, it can sustain a further recovery. Judging from the charts for stock market indices, the rallies have fanned out into their slower, latter phase described above. While there is still no evidence that a significant retracement of the rally has commenced, the charts show more than enough overhead supply for this eventual base extension phase to occur in coming months if not weeks. There is also a possibility that the bear market is not over for at least the next three to six months, as I have predicted in earlier reports. However for the bear market to resume in the next few weeks, as a considerable albeit dwindling band of investors suspect, I believe this would require some extremely bad news in addition to the weak Q3 and Q4 corporate profits, which are largely discounted.

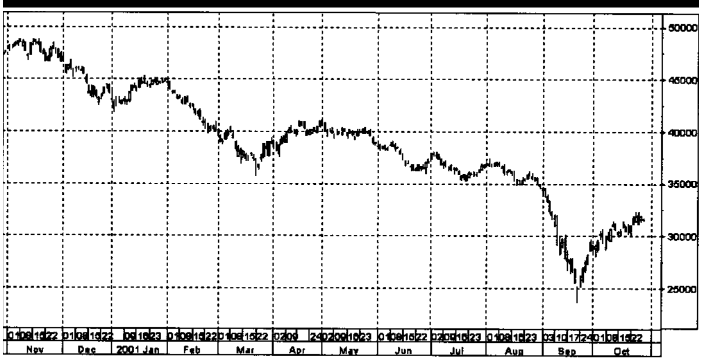
Best regards - David Fuller

US Dow Jones Industrial Average: 9545 (Daily)

UK FTSE 100 Index: 5124 (Daily)



Italian MIB 30 Index: 31507 (Daily)



Charts supplied by Bloomberg.

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