

Stock market rallies from the September lows are losing momentum.

Tired uptrends and more optimistic investors - The latter tells us cash levels have been reduced; the former that supply is beginning to weigh on demand. The template for rallies following long declines culminating in downward accelerations was described in FM208 (26th Sep) and especially the FMPs commencing with Issue 155 (4 Oct). Briefly, a V-bottom recovery, initially on short covering, is followed by a slower and ranging phase, eventually spilling over into a correction, which retraces at least a third of gains occurring since the low. The European and Australian indices shown are typical of what is occurring globally. Upside momentum is waning, price action is becoming choppy and bigger reactions are beginning to occur, breaking the progression of rising lows which define uptrends. For institutional investors, in behavioural terms, the fear of being long and wrong in the bear market gave way to the fear of missing a powerful rally in their benchmark indices. The pendulum of sentiment will now swing back to a balance between understandable concern over corporate profits and economic growth, to optimism based on liquidity and scope for a moderate, US-led economic recovery next year. Charts

for Japanese indices look worse, as do that country's economic problems. The Topix Index will probably fall to a new low. Elsewhere, downside risk should be limited to lengthy base extensions before somewhat higher levels are seen. I'm short at the moment but that will be a buying opportunity.

Bases completed against the yen - I've leveraged up this week, looking for at least 10 to 20 percent before a significant correction - see also FMP160 (5th Dec).

Best regards - David Fuller

Charts supplied by Bloomberg.



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