

## The Enron(isation) of stock markets

**This is a terror attack of the mind (as opposed to a terrorist attack).** The scale and insouciance of Enron's scam is far more damaging to investor psychology than 9/11. Attacks on New York and Washington shocked the world but steeled US resolve behind a tide of patriotism, leading to a 'guns and butter' economy, which could only hasten economic recovery. Crucially, they did not further undermine investor confidence in the stock market, battered earlier by the burst TMT bubble. In contrast, Enron has damaged market sentiment the way no terrorist attack could. If the seventh largest company's management engaged in a 'get rich quick' conspiracy at the expense of all other shareholders, right under the nose of its once highly regarded auditors, it's no surprise that investors now question the financial probity of other companies. Hopefully, the Enron rip off is a one-off situation, but who can be sure? Certainly the 1990's cult for rating and incentivising management

disproportionately through share performance was a recipe for abuse, as this publication has long maintained. I certainly don't think that Enron was only 'the tip of the iceberg', but many companies leveraged their balance sheets during the bull market, often using the proceeds for share buybacks. Meanwhile, managements have been heavy sellers of shares over the last two years and there is certain to be more off-balance sheet debt. This concern has temporarily poisoned the well of sentiment towards stock markets. We see the evidence in chart patterns, many of which have rolled over following the yearend rally and prior support levels are giving way. This crisis of confidence will pass and accountancy standards will be tightened, but not before a further sell off occurs. Gold and silver are the temporary beneficiaries. I remain short stock market futures and long silver, protected with trailing stops.

Best regards - David Fuller

*Charts supplied by Bloomberg*

**Nasdaq 100 Index: 1462 (Daily)**



**FTSE 100 Index: 5073 (Daily)**



**US S&P 500 Index: 1090 (Daily)**



**German Dax Index: 4852 (Daily)**



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