

Stock markets - it gets harder from here for the US-led January rally

From oversold to overbought on short-term indicators. Most stock markets ended 2002 with oversold readings on Stochastic Indicators, shown on the lower side of the charts included. Those conditions have been corrected by the January rally, where it has occurred, and most importantly for the US market.

The US Government's proposed elimination of double taxation of dividends has been mostly discounted. Any tax cut is generally a plus for the stock market, not least if it concerns dividends. The Bush Administration believes this tax cut, if ratified by the Senate, could lift US stock market indices by 10 percent. Most private estimates say it would be worth at least 5 percent. Wall Street has now discounted much of this potential. There would be some negative effects from dividend tax cuts - see link for "The Week" from Wachovia Securities on www.fullermoney.com, which will be posted later today.

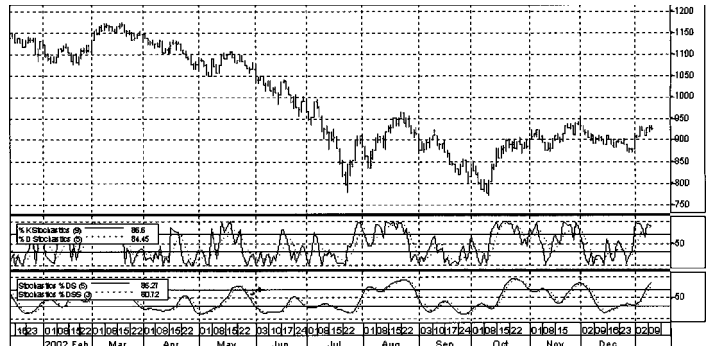
Investors no longer feel war against Saddam Hussein is imminent. UN inspectors have yet to find any WOMD. The UN Atomic Agency says it needs another year to search Iraq. The 27th January reporting date for Hans Blix is no longer seen as a Rubicon. UK Foreign Secretary Jack Straw (a would be bookmaker?) says the odds of war have shifted from 60/40 for, to 60/40 against. Perceptions regarding Iraq are critical to stock market sentiment and they may have swung too far towards the "no imminent war" camp.

Greenspan and Bush battle for the bulls. They will do all they can to lift the stock market. These efforts should not be underestimated, but it is unlikely that they can check the secular bear market with more than medium-term rallies. The important chart levels to watch are 960 and 9100 for the S&P 500 and DJIA, respectively. Sustained breaks above these levels are necessary to improve the technical outlook. Meanwhile, equity indices for most other countries continue to lag behind Wall Street.

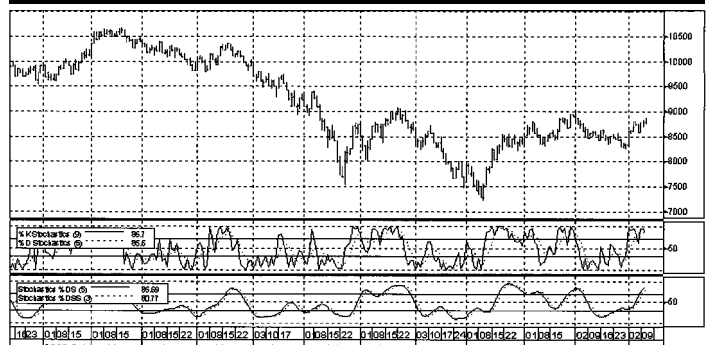
Best regards - David Fuller

Charts by Bloomberg

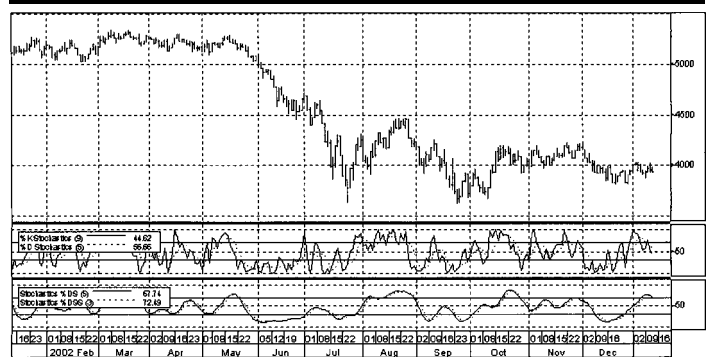
US S&P 500 Index: 926 (Daily)



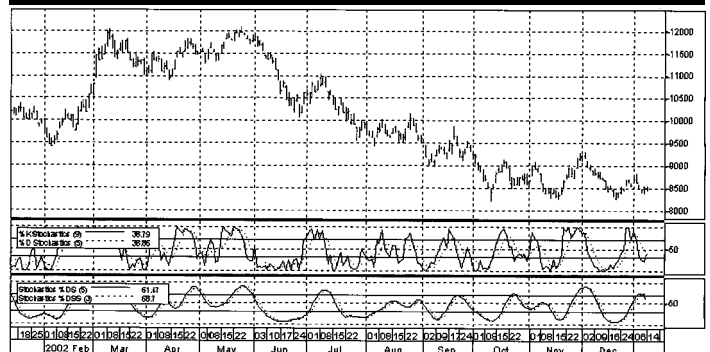
US DJIA: 8786 (Daily)



UK FTSE 100 Index: 3938 (Daily)



Japan Nikkei 225: 8553 (Daily)



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