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

A rapid resolution of the Saddam/UN Resolution 1441 impasse would be better for markets and the global economy.

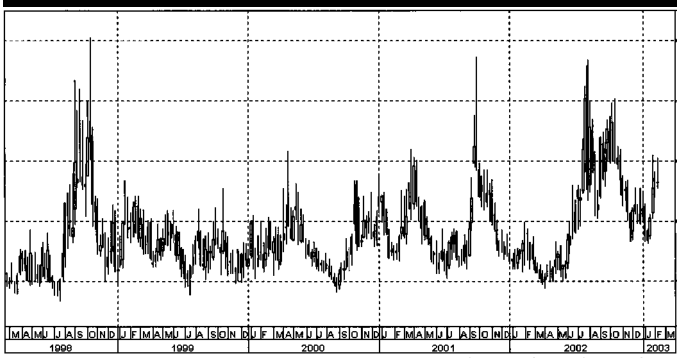
The uncertainties persist. I will not address the moral issue in this FMP. That is a matter for individual consideration and my own views continue to be expressed on www.fullermoney.com. Instead, I'll discuss here only the financial and economic implications of the UN Security Council impasse. While most people expect war, so it is partially discounted by markets, we do not know when it will occur, if it is to occur. We do not know if war would take place despite a Security Council veto by China, France or Russia. We do not know the outcome, including human and infrastructure damage, or the worldwide response to war. All we do know is that US and UK relations with France and Germany have deteriorated. Uncertainty aggravated by the current impasse is the mother of all excuses to defer financial and economic decisions. Investors are understandably reluctant to buy equities in this environment, which weighs on share prices, which erodes consumer and business confidence, which defers spending, which weakens economic data, adding to the general funk. However, the expectation of war keeps the price of crude oil much higher than it would otherwise be, compounding the considerable economic problems in a post bubble environment. There is also the fear, hopefully irrational, of war in perpetuity, if not in the Middle East, with terrorists at large, and perhaps North Korea.

How will it play out? One can only guess, and here are mine. The least contentious scenario would be the removal of Saddam Hussein by overthrow or diplomatic pressure. The collective feeling of relief would be enormous. Unfortunately, a divided Security Council has reduced pressure on Saddam, considerably lessening the possibility that he will be either overthrown or seek asylum in another country. For markets, the next best outcome would be war sooner rather than later, and sanctioned by the UN Security Council. I believe Saddam's removal would trigger a short-covering rally and remove much of the present uncertainty, allowing people to address the post bubble problems. The price of oil would tumble, further improving sentiment by providing some respite for the global economy. However this option may have expired, whether due to moral concerns or an opportunistic game of poker. The removal of Saddam by military means, despite a Security Council veto, would trigger a smaller short-covering rally. The concern would be a further comprising of the UN's credibility and effectiveness, and damage to the US/European relationship (or at least the US relationship with France and Germany) would certainly not help confidence. I suspect the French proposal to triple the number of UN Inspectors in Iraq, backed by a small force of UN (but non-US) troops would be the least favourable outcome. While stock markets would firm initially, as we have seen in the last two days, on the prospect that war would either not occur or had been pushed well into the future, appeasement has seldom worked. The French proposal would only contain Saddam for a while. More importantly, leaving him in power would embolden terrorists and dictators everywhere. This would inevitably have serious economic consequences over the medium to longer term.

How I'll play it. In line with the FM strategy sections, this is a time to remain lightly short or on the sidelines. However the risks with bear trades increase with every additional downward notch for stock market indices. Consequently trailing stops are essential. Downward acceleration would indicate climactic selling, as would a VIX Index reading over 50. In this event I would tighten stops on remaining short positions and prepare to go long for a trading rally. If both conditions coincide with a US-led military move against Saddam, I will be very tempted to open long positions in futures on the first sign of strength. For those who trade and/or invest actively in shares, big-cap companies that have fallen the most should provide many of the best rallies. Inactive investors should not contribute to capitulation selling, as they will have better opportunities during the rallies that eventually follow. Overall, I maintain that upside scope in stock markets remains limited to periodic rallies within a secular bear trend.

Best regards - David Fuller

VIX Index (CBOE OEX Volatility): 36.47 (Weekly)



Charts by Bloomberg

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