Fullermoney Plus

Issue 219
12 November 2003

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

Technical follow-up to FM233's best-case, worst-case and muddle through scenarios for stock markets

Watch the rising lows. Uncertainty among the majority of investors is understandably rising in line with the waning upside momentum for most stock market indices. The only really confident spokesmen at the moment - assuming we can take their views at face value, which I don't - are the minority who are usually bearish or usually bullish. In other words, those who neither predicted the rally since March nor trusted it up to present, expect an imminent rout and new lows. Conversely, stock market cheerleaders, led by Wall Street's retail brokers and stock tipping services, are heralding a new long-term bull market. I maintain that post-bubble history favours the former as far as Wall Street is concerned, but what about the timing?

It ain't over until it's over. My long-term view is unchanged. Predictably, Wall Street has experienced a good medium-term rally - technical bull as some have called it - within a secular bear trend. However, include me in the now undecided category as to whether the rally is all but over in terms of both percentage gain and time, or possibly just taking a breather before ranging somewhat higher on a tide of liquidity and improving sentiment. We are all familiar with the valuation arguments (bearish) and election cycle factor (bullish), and we can see that a cycle of rising interest rates has commenced, albeit slowly, with most of the initial damage coming from higher long-term government bond yields, albeit from very low levels. Consequently, my arbiter as always, is the price chart. Significantly, the lows for stock market indices are still rising. This is the primary consistency characteristic of a bullish supply/demand imbalance, which fuels every uptrend. Bottom line as of today - there is still no clear evidence that Wall Street's rally is over, although it certainly looks tired.

That wedging characteristic is worrying. What spooks many technical observers, myself included, is the lack of upside follow-through. This indicates that supply and demand are very nearly in balance. When this occurs following a good rise, we have to worry about a potential top formation. Those of you who have attended The Chart Seminar know that the market is vulnerable to a type-2 (of 3) extreme reaction against the prevailing trend. Could current action be a rising consolidation prior to somewhat stronger gains? Yes, and my original script described a longer rally before indices rolled over prior to the November 2004 election and headed down well into 2005. However the recent waning momentum and wedging characteristic, plus offsetting upside versus downside dynamics, has alerted me to the possibility that this rally could end sooner rather than later. I find it easy to argue both cases. Therefore I'll let the charts show me. Breaks of the October reaction lows by share indices, especially on Wall Street, would tip the balance of technical evidence towards the bears. Breaks of the September lows would look conclusive. Meanwhile, bulls still have the upper hand, if only just.

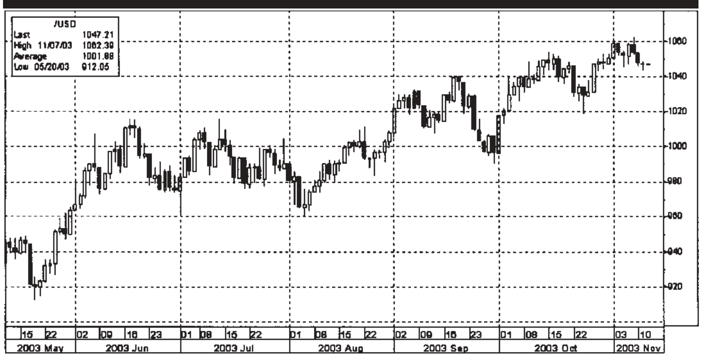
I'll post a number of daily candlestick charts on my website later today, to help you identify and monitor the rising lows.

Please note: I'll be away from the office this Thursday and Friday.

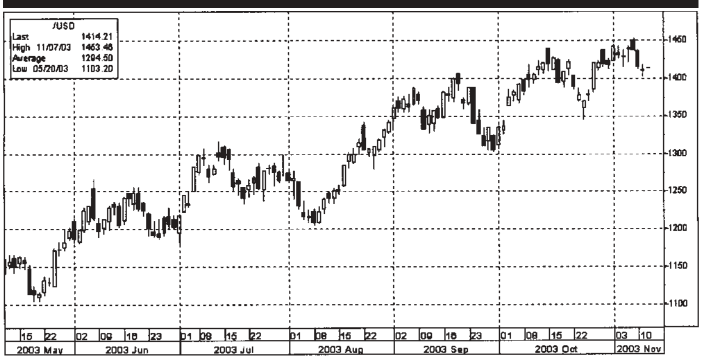
Best regards - David Fuller

Charts by Bloomberg

S&P 500 Index: 1047 (Daily)



NASDAQ Composite Index: 1414 (Daily)



Fullermoney a division of Stockcube Research Limited Suite 1.21 Plaza 535 Kings Road London SW10 0SZ UK
Website: www.fullermoney.com ***Email:*** research@chartanalysts.com ***Tel:*** +44 (0) 20 7352 5435 ***Fax:*** +44 (0) 20 7352 3185 ***Single Issue Price*** £3