

Downside key day reversals by US Indices on Friday

Another warning shot across the bow of this medium-term rally within a secular bear market.

Subscribers who have attended The Chart Seminar will recall the key day reversal. For those unfamiliar with this chart signal, it is also known as an outside day, and the most significant of these are contra-trend. With a downside key day reversal, the market moves above the high of the previous day, before weakening to close below the low of that day. Important key day reversals usually include a clear dynamic, signalling to many observers, including those who don't look at charts, that sentiment changed on the day. Consequently they erode confidence and are often followed by a further reaction. Wall Street's key day reversals on Friday lacked the dynamic, except for the NASDAQ 100 Index. However they occurred when indices were hesitating near their rally highs and the ranging uptrends have been showing an overall loss of upside momentum. Consequently this is another bearish technical warning for global stock markets.

Mainland China and more recently Japan, are leading the reaction. China is the world's worst performing market this year, with the Shanghai A-Share Index currently down nearly 20 percent from its April high. Japan has looked vulnerable to a pullback and base extension ever since last month's failed break above the September high and also 11000 for the Nikkei. Significantly, Japan's Second Section Index, which led on the upside, has shown a number of clear downside dynamics since mid-October. While this may seem at odds with China's strong GDP growth and Japan's long-delayed recovery, there are liquidity concerns in both markets. China is trying to prevent economic overheating, while Japan's deflation persists, aggravated by the yen's strength.

How I'm playing it. I continue to raise cash. Today I sold my UK stocks, mainly small positions most of which were high yielding - Boots, IMI, Lloyds TSB, Sainsbury and Vodafone. I lost money on Lloyds and

perhaps a little on Vodafone. I also sold two Japanese investment trusts (closed-end funds) - Atlantis Japan Growth Fund and the Fleming Japanese Investment Trust PLC. Consequently my hedge shorts in index futures - DAX, FTSE and NASDAQ, which I put on a little too early, are increasingly net shorts. I may add to these, protected with stops over the recent highs. I have not changed my self-administered pension positions, which are mainly in emerging Asia. I don't know if the medium-term rally is over, in which case it would be somewhat sooner than I had expected, or if this is just a shakeout. Either way, I maintain that we have seen the best of Wall Street's rally within a secular bear market, by far.

I'll post a number of index charts on my website later today and comment on them in this evening's Subscriber's Audio.

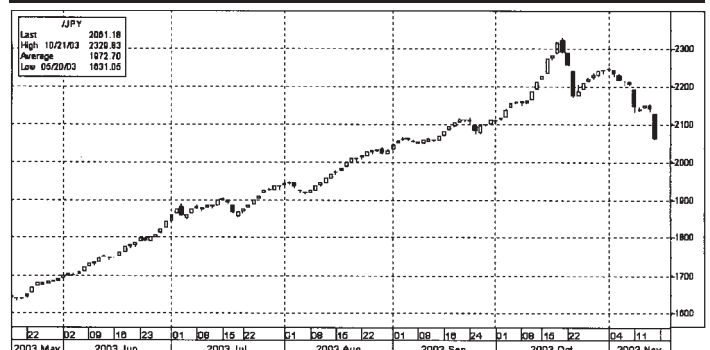
Best regards - David Fuller

Charts by Bloomberg

US NASDAQ 100 Index: 1389 (Daily)



Japan Second Section Index: 2061 (Daily)



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