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

On market psychology and anticipating Greenspan

Watch for the pendulum of sentiment to swing in the opposite direction in the weeks ahead - Investors are focussing almost entirely on earnings downgrades because corporate profits are tumbling (relative to earlier forecasts) like snowflakes on a cold winter's day. Since just about everyone now recognises that GDP growth is slowing in the US, and that this will have a knock-on effect globally, the important question for investors is how far will stock markets fall before they begin to discount the monetary stimulus that will follow? No one knows but bearish perceptions tell us that much of the bad news has already been discounted. However this does not address the issue of overshoot, which is a frequent phenomenon of markets prior to important turning points. The NASDAQ remains a focal point of concern for most equity investors. One year ago, many naively believed that TMT stocks were recession proof. According to today's consensus, even the most important of these companies could be wiped out by the technological innovation that was so appealing in 1999! A few will but this is nothing new. Behaviourally, a bear trend is usually in its final stage when the downward forecasts become much more extreme. How many of you have heard "NASDAQ 1000" recently? Looking at the charts, it doesn't take a technical genius to divine that many TMT stocks are becoming very oversold. However a strong rebound will be required to provide compelling evidence that they have bottomed.

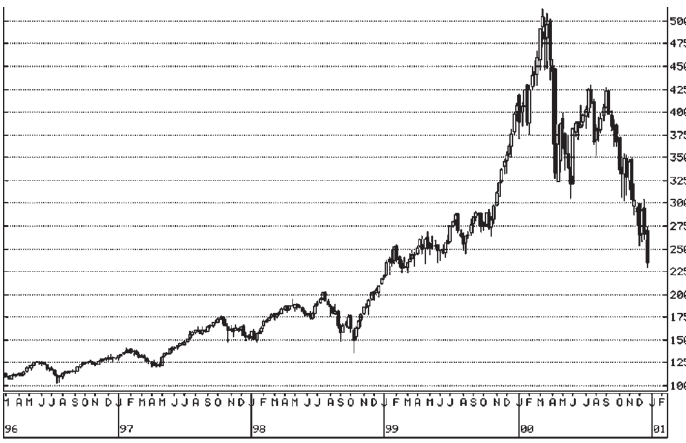
Possible scenarios on interest rates - Every global economic slowdown is remembered for the financial accidents that were a consequence. These 'surprises' were very frightening at the time but also catalysts for policy changes that unleashed the next recovery. This cycle will be no different, so where are the trouble spots? Greenspan will be watching potential debt problems, from Argentina to corporate bonds. A few banks will be under pressure and a leveraged tech fund could be a casualty. Tactically, the case for quality government bonds over equities remains compelling. However this could change quickly when the interest rate cuts commence, depending in part on what happens in the interim. Historically, the first reduction often has no impact but I would expect markets to respond strongly to a second or third cut. Greenspan may defer at least until he can assess retail sales over the yearend holiday period. However he would move very quickly in the event of a financial crisis, with the BoE probably following and eventually the ECB. I expect to be out of bonds and buying oversold stocks by Greenspan's second interest rate cut, subject to the charts.

Euro's recovery (US dollar's reaction) will lift prices for more of the commodities trading near historic lows - Just as the strong dollar weighed on commodity prices generally, its correction will exert some upward pressure. The rebounds can be dramatic when supply concerns also become a factor. I am now buying coffee futures, in addition to the other agricultural commodities mentioned recently in the main issues of FM.

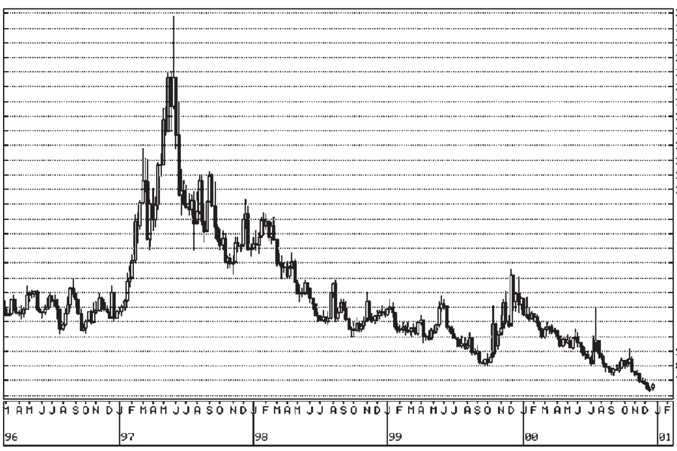
Happy Christmas and New Year to all subscribers and their families.

Best regards - David Fuller

NASDAQ Composite Weekly : 2511.71



Coffee (CSCE) Weekly 1st Month Continuation 66.5 Cents



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