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

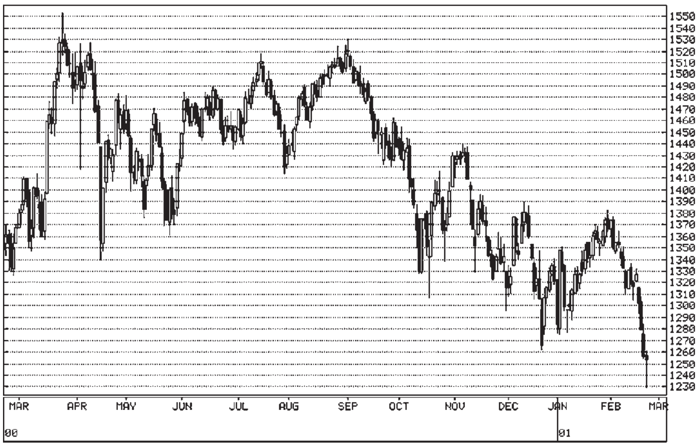
Stock market indices are becoming oversold but further technical damage has occurred

In "Don't fight the Fed" versus profit contraction fears, the latter has dominated sentiment recently but this should change with further rate cuts. FMP137 (12/02/01) mentioned the need for upward dynamics (strong single-day rebounds) to remove pressure from the January troughs. These have yet to occur and most share indices have continued to erode support, with many breaching their January lows, established by Alan Greenspan's initial rate cut on 3rd January. The immediate problem is that expectations for global GDP growth and therefore corporate profits are still too high. Also, this week's rebound in PPI and CPI costs has revived inflation fears, or at least concern that short-term interest rates might not fall much further. This latter concern is probably too pessimistic since the inflationary blip was due primarily to energy costs - mostly natural gas, which surged at yearend and an increase for tobacco prices. These are probably one off factors. However, I maintain that corporate profits will remain soft until at least mid-year. While this has been partially discounted by the further sell off, upward dynamics by major share indices remain necessary to check the short-term downtrends. The good news is that valuations for many shares are cheaper than they were and stock markets are becoming oversold. There has also been some bullish divergence by Cumulative Advance/Decline data, especially among old economy stocks but also including the NASDAQ, where the A/D total for the Composite Index is still above its January low. I expect a rebound, probably commencing next week, perhaps triggered by expectations of further rate cuts. There is impressive historic evidence of market firmness during periods when monetary policy is loosened, so we shouldn't be too bearish, despite overhead supply and downtrends on most charts. I'll elaborate on this in FM201. Meanwhile, it's worth recalling that important floors for the markets are reached against the background of bad economic news, which at the time people fear will become even worse.

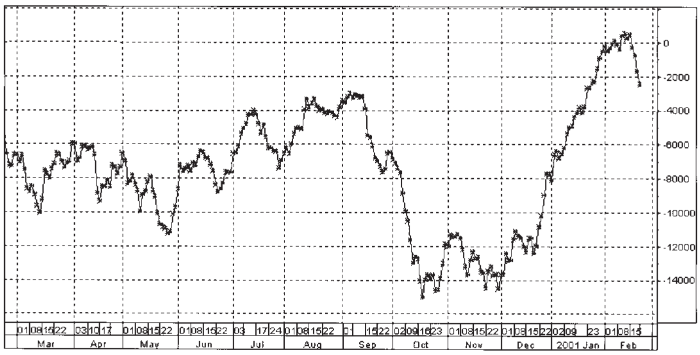
Please note: FM201 has been delayed until next week due to my extended visit to the US.

Best regards - David Fuller

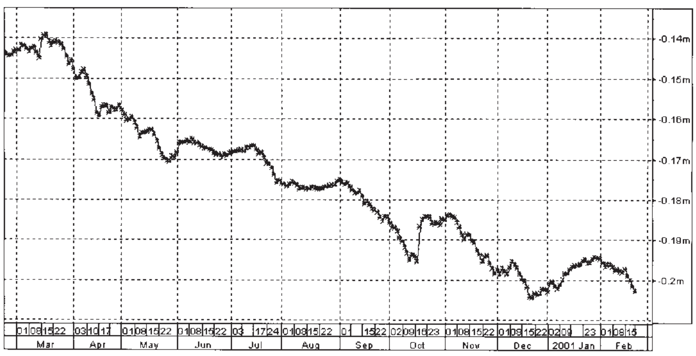
S & P 500 Index - Daily 1 Year 1235



NYSE Cumulative Advance/Decline



NASDAQ Composite Cumulative Advance/Decline



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