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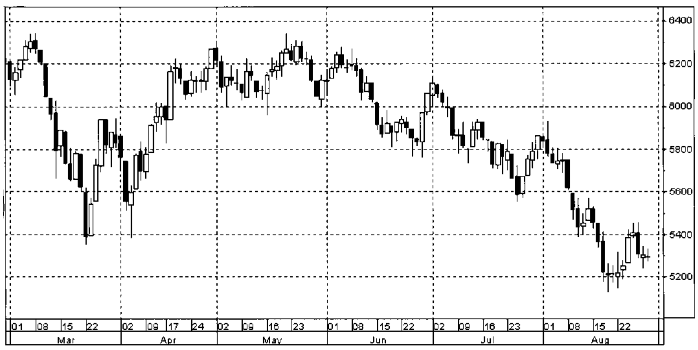
“Don’t fight the tape” versus “Don’t fight the Fed”.

Back the price action in case it really is somewhat different this time. Subscribers will recall the table of 19 previous interest rate-cutting cycles, which I have included in the main FM issue three times this year. It shows that the DJIA was higher one year after the first cut on all but two occasions, with the exceptions occurring during the 1930s. The average performance, including the two down years, was a gain of 22.6 percent. While there are four months remaining for the DJIA to recover and record its 18th gain in 20 rate-cutting cycles, the Fed’s action has not lifted the market to date. This is a warning and we know why, starting with the burst TMT bubble. It usually takes at least two years for an economy to recover from a burst bubble, and the TMT excesses were not confined to the US. The world’s three biggest economies currently show almost no growth. Valuations for many big-capitalisation companies remain either historically high against a background of declining earnings, or they are well above previous bear market lows. Meanwhile, debt and deflationary pressures are inhibiting economic recovery, as is the high price of oil. Of course these factors are now well known and more rate cuts are on the way.

To gage the market’s response, I defer to price charts, which represent the collective actions of everyone who actually buy and sell stocks. Many global stock market indices are either pressuring or easing beneath their important March lows - levels that need to hold if markets are in a bottoming out and base building phase. In my CNBC appearances, people keep asking if we are seeing “a double bottom”. For validation, that hypothesis requires a sharp rally from current levels and one does not need a doctorate in psychology to appreciate that sentiment will deteriorate if more indices, especially those of the US, are unable to recover from the March lows. Until or unless we see some decidedly bullish action, taking out the early-August rally highs for starters, there is a growing risk that we will see another sell off, which could be sharp. Since the main FM issues usually show long-term charts, I have included 6-month candlesticks of the German DAX, UK FTSE 100 and US DJIA, each showing a different stage of trend development. The DAX is leading and currently ranging beneath its March-April lows. The FTSE is in a trading band just above the year’s earlier floor. The DJIA, which is the most important in terms of global sentiment, is only approaching its March trough. However, yesterday it broke down out of a descending triangle formed over the last two months, characterised by lower highs and flat lows. Rallies above 10700, 5650 and 5950 by the DJIA, FTSE 100 and DAX are required to negate near-term risk of another downward leg and to question long-term downtrends.

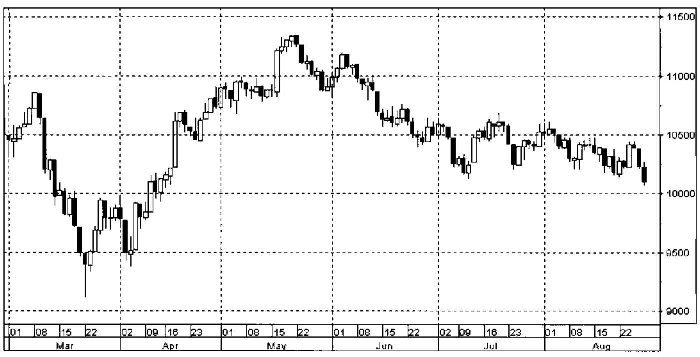
Best regards - David Fuller

Germany Dax Index : 5293 (Daily)



UK FTSE 100 Index : 5425 (Daily)

Dow Jones Industrial Average : 10090 (Daily)



Charts supplied by Bloomberg

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