

The Enron(isation) of stock markets

This is a terror attack of the mind (as opposed to a terrorist attack). The scale and insouciance of Enron's scam is far more damaging to investor psychology than 9/11. Attacks on New York and Washington shocked the world but steeled US resolve behind a tide of patriotism, leading to a 'guns and butter' economy, which could only hasten economic recovery. Crucially, they did not further undermine investor confidence in the stock market, battered earlier by the burst TMT bubble. In contrast, Enron has damaged market sentiment the way no terrorist attack could. If the seventh largest company's management engaged in a 'get rich quick' conspiracy at the expense of all other shareholders, right under the nose of its once highly regarded auditors, it's no surprise that investors now question the financial probity of other companies. Hopefully, the Enron rip off is a one-off situation, but who can be sure? Certainly the 1990's cult for rating and incentivising management

disproportionately through share performance was a recipe for abuse, as this publication has long maintained. I certainly don't think that Enron was only 'the tip of the iceberg', but many companies leveraged their balance sheets during the bull market, often using the proceeds for share buybacks. Meanwhile, managements have been heavy sellers of shares over the last two years and there is certain to be more off-balance sheet debt. This concern has temporarily poisoned the well of sentiment towards stock markets. We see the evidence in chart patterns, many of which have rolled over following the yearend rally and prior support levels are giving way. This crisis of confidence will pass and accountancy standards will be tightened, but not before a further sell off occurs. Gold and silver are the temporary beneficiaries. I remain short stock market futures and long silver, protected with trailing stops.

Best regards - David Fuller

Charts supplied by Bloomberg

Nasdaq 100 Index: 1462 (Daily)



FTSE 100 Index: 5073 (Daily)



US S&P 500 Index: 1090 (Daily)



German Dax Index: 4852 (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 7351 5751 **Fax:** +44 (0) 20 7352 3185 **Single Issue Price** £3

You are strongly advised to read the following: This report has been produced and compiled by Stockcube Research Limited ("Stockcube") which is regulated by the Financial Services Authority Ltd, according to the requirements of the Financial Services Act 1986. It is distributed by Stockcube and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time Stockcube and any of its officers or employees may, to the extent permitted by law, have a position or otherwise be interested in any transactions, or investments (including derivatives) directly or indirectly the subject of this report. Also Stockcube may from time to time perform other services (including acting as adviser or manager) for any company mentioned in this report. The value of securities can go down as well as up, and you may not get back the full amount you originally invested. Derivatives in particular are high risk, high reward investment instruments and an investor may lose some or all of his/her original investment. If you make an investment in securities that are denominated in a currency other than that of GB Pounds you are warned that changes in rates of foreign exchange may have an adverse effect on the value, price or income of the investment. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Stockcube who are expected to make their own investment decisions without reliance on this report. Neither Stockcube nor any officer of Stockcube accepts any liability whatsoever for any direct and consequential loss arising from use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Stockcube.