

Another short-term oversold condition for most stock market indices but further technical deterioration has occurred in many instances.

Less oversold than a month ago and more of the February lows have been broken - The latest decline, occurring from mid-May's rally highs, saw some acceleration, which is an ending characteristic. Therefore temporary steadying and perhaps another bounce would not be surprising, given recent concern over not only earnings but also warnings of another significant terrorist attack, and perhaps even a nuclear conflict between Pakistan and India. While one hopes that these real threats are declining, the behavioural point for stock markets is that a crisis mentality among investors is short-lived, without tangible evidence that reasons for the fears are not only justified but that events of concern are also deteriorating. Without wishing to appear complacent, devastating terrorist attacks are few and far between, and there has never been a nuclear exchange between protagonists, which any government would recognise as a lose/lose situation. Nevertheless, temporary steadying aside, there are more than enough reasons for investors to remain concerned about the lack of economic growth, earnings and high valuations on Wall Street. Breaches of the February and early-May lows by a number of stock market indices is a further blow to sentiment and casts additional doubt on the base building hypothesis. Consequently, rallies above the May highs are required to question this year's downtrends. Tactically, I would still rather sell short as a rally fades than buy for a bounce.

Gold has commenced a consolidation of gains - Bullion's persistent rally was fuelled by the same concerns that weighed on stock markets. Yesterday's reaction has checked the short-term upward momentum, indicating that a consolidation of gains is now underway. Silver is moving accordingly. However, gold's long-term chart is almost the inverse mirror image of the DJIA, and therefore as bullish for the longer-term as the latter is bearish - see graphs in www.chartanalysts.com and FM216. Predictably, the

Dow/Gold Ratio has declined further to 30.2, but this remains historically high. Gold remains a value play and my strategy is to buy mining shares on reactions, while the sequence of higher reaction lows is maintained.

Best regards - David Fuller

Charts supplied by Bloomberg.

US Standard & Poors 500 Index: 1049 (Daily)



German Dax Index: 4701 (Daily)



Gold Bullion: \$325.25 (Daily)



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