

Have many stock market indices seen their lows for the year?

A reassuringly small minority now think so, based primarily on technical factors. However most of those who believe the 2002 lows for many stock market indices have been reached, also classify current activity as no more than a medium-term rally in an ongoing bear market. This is the view of my experienced US colleagues at Chartcraft - see *Comment of the Day, Archive for July* on www.fullermoney.com. The best evidence of troughs for the year is provided by the North American and European indices, most of which established a higher low in early August. Accelerated declines to lows in late July were certainly climactic, including more capitulation selling than last September, judging from heavy sales of US mutual funds and a VIX Index (CBOE Volatility), which all but equalled its reading shortly after 9/11. A counter argument would be that some temporary support near the September lows was more or less inevitable and that investors have already discounted another interest rate "fix", and if there are cuts, the benefits will be short-lived without a better outlook for corporate profits. Meanwhile, investors regard CEOs and corporate accountants as the main terrorists today - sentiment humorously reflected by last month's cover for the satirical magazine *Private Eye*, featuring Osama bin Laden saying: "Forget terrorism, I'm becoming an accountant".

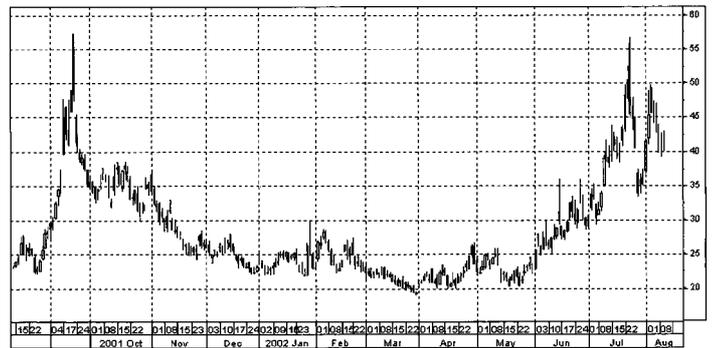
My initial conclusion, having scanned a number of charts on return from holiday, during which I was able to monitor the financial press, is that the medium-term rebound forecast in FM218's front-page headline (17/07/02) has commenced but that the final low is still years away. Initially, a further technical rally is likely to be more gradual than the temporary recovery which commenced on 21st September, because of overhead resistance and the subsequent loss of confidence. However, there is an outside chance that it could last somewhat longer, especially if President Bush is successful in replacing Saddam Hussein with a more democratic regime. I'll have more on this in FM219.

Meanwhile, if we have not seen troughs for the year on Wall Street and in Europe, the first evidence would be breaks of the early August lows. My investment strategies remain unchanged from FM218.

Best regards - David Fuller

Charts supplied by Bloomberg.

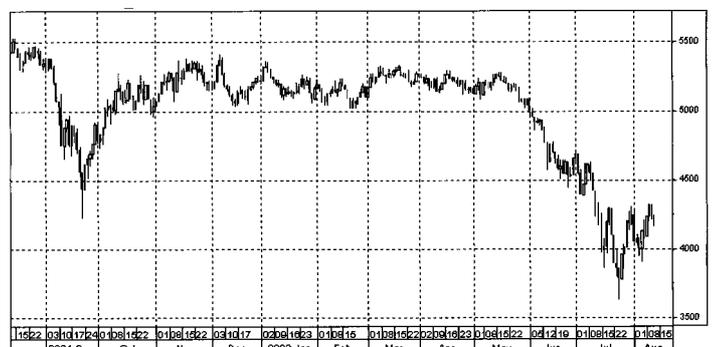
CBOE OEX Volatility Index (VIX): 40.46



US DJIA: 8616 (Daily)



UK FTSE 100: 4183 (Daily)



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