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

The stock market rally has lost momentum.

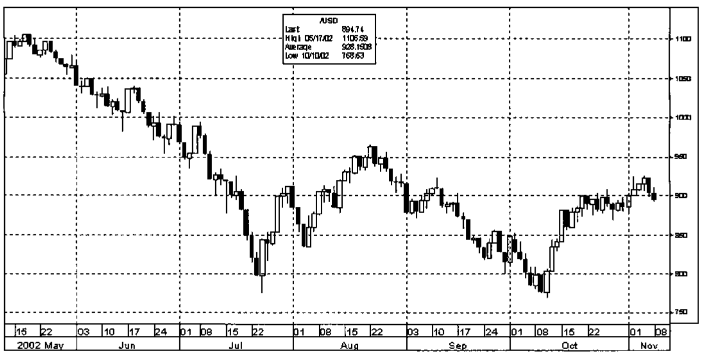
At least a partial retracement of gains seen since 10th October is likely for stock market indices. What's changed? Markets have rallied back to areas of previous resistance. Hedge fund short positions have been significantly reduced, removing a source of demand. While a US rate cut had been expected, the 50 basis point reduction has increased economic concerns. More importantly, President Bush's election victory and the UN Security Council's unanimous backing of a new, tough resolution on Iraq has reminded investors that war is distinctly possible. Additionally, confidence will remain fragile, at least until most indices have maintained breaks above their August highs. Even in this event, a number of strategists, myself included, suspect that it will be years before the final lows for this secular bear market are reached.

Iraq is the focal point once again - Uncertainty reigns. No one knows how Saddam will react once inspectors are back in Iraq but we can be sure that every possibility will be discussed, with the emphasis on risks, judging from anxieties prior to the first Gulf War and before the Taliban were overthrown in Afghanistan. This will offer little near-term comfort for investors and can only deter demand for equities, at least until a military solution commences. Meanwhile, analysts see no easy solutions to the ongoing problems of deflation, debt and default.

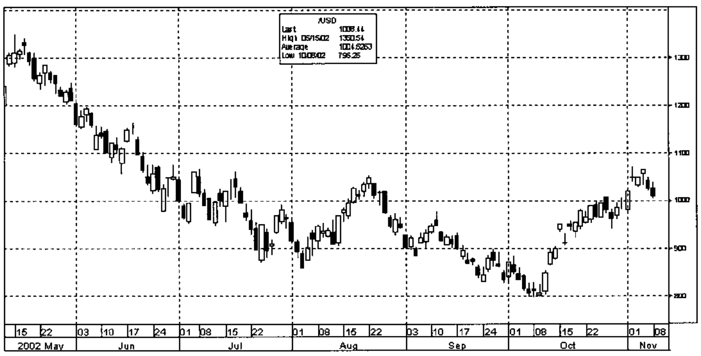
Conclusion - Following the rally, a correction is underway. The October lows will need to hold, followed by clearances of the August highs, before a medium-term recovery will be confirmed. Tactically, I am considering some short positions.

Best regards - David Fuller

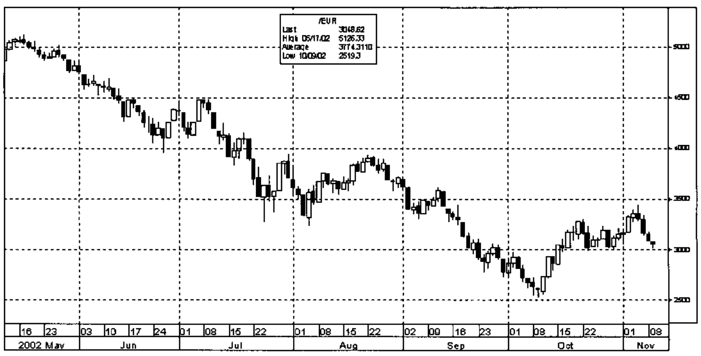
US S&P 500 Index: 895 (Daily)



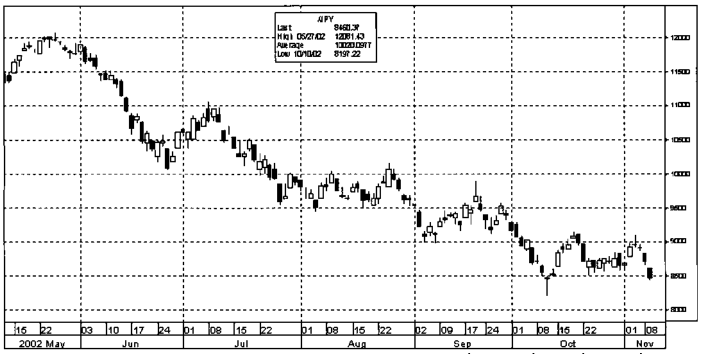
US Nasdaq 100 Index: 1008 (Daily)



German DAX Index: 3049 (Daily)



Japan Nikkei 225 Index: 8460 (Daily)



Charts by Bloomberg

Fullermoney a division of Stockcube Research Limited Suite 1.21 Plaza 535 Kings Road London SW10 0SZ UK
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