

# HIGHLIGHTS 2001

Our approach early in the year was to look for the pressured stock groups to capitulate (the corporate bond market did so at the end of November). The ChartWorks called the sharp rally in the Nasdaq and the top in the Dow which, until then, had been playing opposite to each other.

There was a probability that the Naz could outperform as the DJIA declined to our end of March target. Instead, its plunge took out the techs and set an important bottom near the end of March.

## **March 21, 2001: Bottoming A Process Not An Event**

**The stock market is close to bottoming. This washout includes most senior indexes and is accompanied by widespread dismay. Even the optimists are becoming downcast.**

### Our Research

- The **ChartWorks** unique election model on the DJIA expected as much as a 20% decline to be completed by the end of this quarter. This is virtually in. (See editions dated January 17, February 21, and March 13.)
- With a 24% decline, the S&P exceeded the 22% plunge rule whereby the first week following sets up a tradable "buy". (See March 13)
- The list of "exhaustion alerts" on individual stocks has grown to about 50, which is an indication of dismay. (March 16)

### Outside Research

- The ten-day Arms indicator gave the "sign of the bull" on March 16.

### Financial Side

- Our Bank Trading Guide has stabilized at a multi-year low. (See March 16) The Guide is usually coincident with lows and a favourable "test" is developing.
- Corporate bonds and the future have accomplished a targeted price and the former is at a high momentum RSI. A rollover could be associated with an improving stock market.

Our March 16 **Pivotal Events** concluded, "Fortunately, this acute phase of liquidity distress seems close to concluding."

**The bottoming process could take a couple of weeks. A tradable rally within the bear market could follow.** [Nasdaq Low 1639 April 4]

May 25, 2001: Checklist For A Top

[THE HIGH WAS ON MAY 22]

- **Is It Up When It Should Be?** A recovery in the "good stuff" has been possible from around November until around April. Within this, the DJ bond index was likely to set a significant top in March (✓). The other items include the stock market, base metal prices, and narrowing credit spreads. That they are in line close to target merits a (✓).
- **Are There Signs Of Speculative Enthusiasms?** Yes! The media have been faithfully reporting them.
- **How Sound Is The Fundamental Story?** There seem to be 3 aspects: the strong stock market and recovering commodities are anticipating an economic recovery later in the year. Policymakers can turn the economy around and, more specifically, this is guaranteed by the "vigorous" cuts in the discount rate.

The doubtful aspect of this is that proponents and policymakers did not anticipate the contraction.

Both the enthusiasms of market participants and the confidence in policymakers are remarkably similar to their equivalent in March-May, 1930.

**Technical Confirmation:**

Our May 4 edition noted the rapid return of complacency and, within high volatility, its attendant hazards. The conclusions were that, while objectives determined in the gloom of March 21 were being achieved, it was appropriate to let the favourable trends run to excess. Perhaps this has been accomplished.

## ChartWorks

SEPTEMBER 18, 2001

S&P 500 Weekly Oversold Readings Being Generated Now

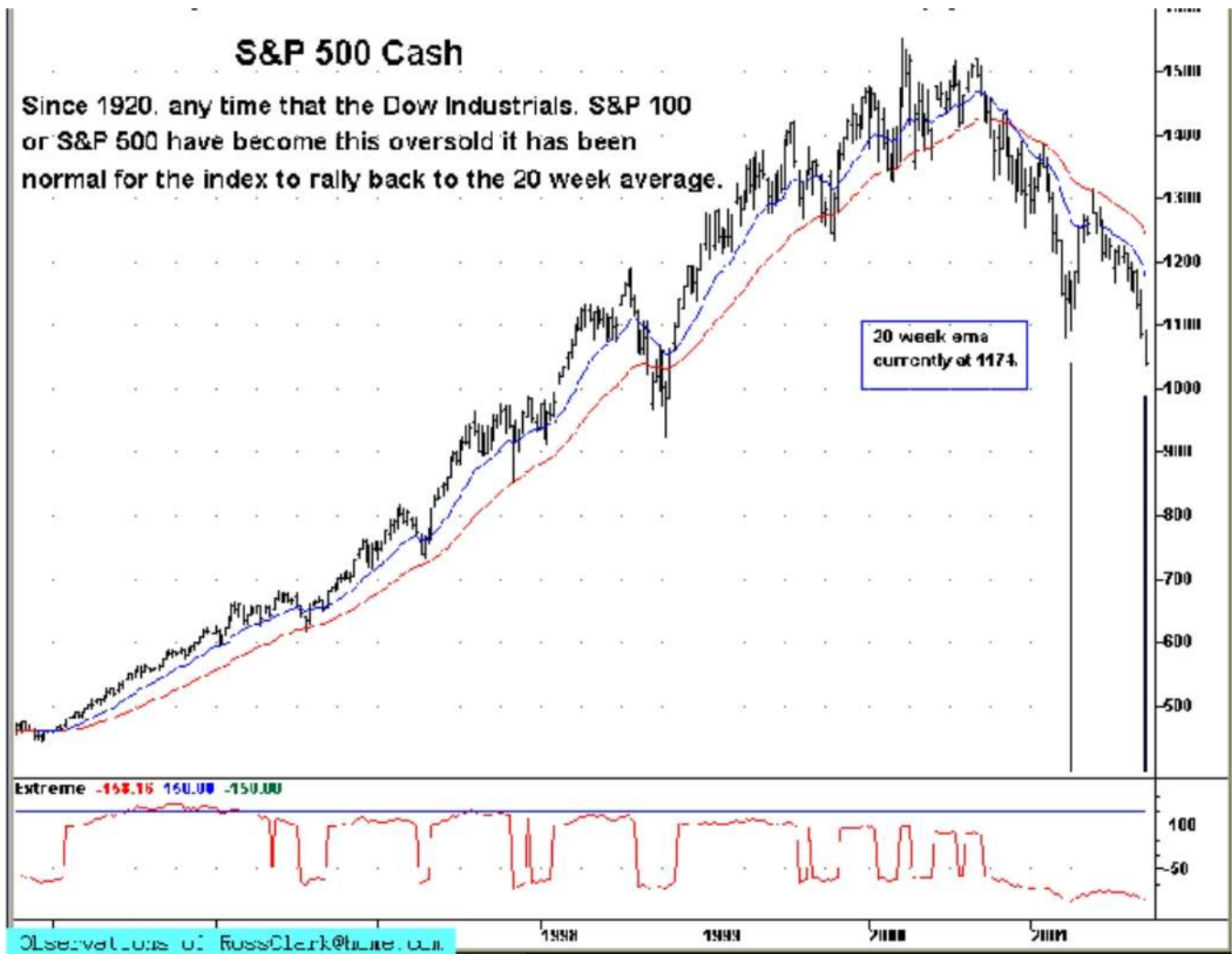
The type of oversold conditions present in the S&P as of this week are significant. Historically, we have seen such readings near important lows. Even in the bear market of 1929 to 1932 such oversold readings in the Dow produced relief rallies. Typically the initial rally has been capped by the 20-week moving average (currently at 1174 and dropping) and the previous support level (1081).

## ChartWorks

SEPTEMBER 18, 2001

A BOTTOM IS A PROCESS; A LOW IS AN EVENT

- Historically, important bottoms that cleared the liquidity problems with a high volume day of 4 times average occurred in October, 1929 and 1987.
- September 17 trading volume was 2 times.
- At significant bottoms, the ratio of downside to upside volume can get to 9:1. Yesterday, it was 6:1.
- The "news" could not be more devastating.
- This is within a cyclical bear market within a probable period of financial distress from September until around November.
- Stability, then a brief rally within the negative period seems possible.



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