EQUITY STRATEGIES 2000

This highly volatile year saw the rewards of the integration of our thorough fundamental and technical research.

As described elsewhere in our intro material, our main models are based upon the behaviour of key financial series through the dramatic climax of five previous New Eras.

This has anticipated the sequence of significant trend changes as well as their most likely timing. Confirmation of such change is provided by The ChartWorks' seasoned and proprietary technical analysis.

For example, one sector in the Boom Indicators noted that, during the conclusions of previous financial manias, short-dated market rates of interest typically increased for 18 months. Beginning in January, 2000, that this would be March was frequently repeated.

In February, The ChartWorks noted that the action in the techs had reached extremes not seen since the Nikkei in 1989 or in gold in 1980. This "Euphoria" model or, as we have also called it, "Roadmaps", has been very reliable.

- A review of our work in 1Q2000 is provided in the Website.
- Our work on methodical trends has also been reliable. At the lows in October, 1999 and 1998, the team identified the resumption of the bull market.

Details of the topping process are detailed below with the emphasis added.

HIGHLIGHTS 2000

March 10, 2000:
Noted that all previous New Eras (in London) blew out in the second quarter, churned around during the summer, and suffered heavy liquidation from September until November. In one example (1825), the crises lasted until January. We concluded that this was the most likely forecast. [Nasdaq 5049]

April 26, 2000:
Noted the perversity that great market declines can occur with superb earnings gains, such as in 1974, 1962, and 1937. The conclusion was "While earnings may not be inherently dangerous themselves, they can be hazardous to the unwary." and pointed out that it would be speculative to consider that the phenomenon at important market tops had changed. [Nasdaq 3630]

May 1, 2000:
We were looking for the initial break to bottom in late May and then recover until the first week in September. [Low 3165 May 23]

"Should the market take another hit, it would likely *complete around the 3rd or 4th week of May*. Are we seeing peak earnings for the year in the first quarter?"

August 3, 2000:
Boom Indicators deteriorated from 0 to -3 mainly due to adverse moves in the yield curve and credit spreads.

August 11, 2000:
"Historically, the turn from August to September can be very dramatic. The first week in September marked the end of the 1873 and 1929 bubbles as they occurred in New York. Since 1932, there has typically been a rally from mid/August until the first week in September. However, if the market was consolidating after a speculative peak early in the year, it increased the probability of a *significant decline after September*." [Low 3760 August 10]

"Technically, the rebound has been weak [and] spreads and the curve have resumed their adverse trends. *The outlook for most equity groups is bleak*."

August 18, 2000:
"There is no guarantee that significant financial events will continue to follow the typical path to deflation. On the other hand, there is no guarantee that they won't. It's best to consider the probabilities. After all, there was no guarantee that they would follow the usual path to a financial bubble."

August 25, 2000:
Tom Peterson's model identified 60 short sales. These were all institutional stocks and included some big names such as Nortel. [Nasdaq 4043]

September 8, 2000:
Checklist For A Top reviewed renewed speculation and the validity of the main pitch. The conclusion was that "*most sectors are immediately vulnerable*". [High 4259 September 1]

The Checklist For A Bottom did not appear until March 21, 2001.

September 20, 2000:
"**Financial Contraction Alert**" This included the reliable technical pattern known as "The Sign Of The Bear" with the note that it had given only 7 such signals since the 1920s. All from July 22, 1929 to December 12, 1972 had been successful in anticipating the failure. [3897]

October 6, 2000:
"**Technical Alert** " Our "**Contraction Alert**" of September 20 was based upon deteriorating credit conditions and a rare technical sign [of the Bear] in the NYSE. [Nasdaq 3361]

The review included the "Fail-Safe" that if the Nasdaq didn't turn around by October 12, a significant failure was possible. [3075]

Also noted was that the Boom Indicators had deteriorated from -3 to -5.

December 15, 2000:
DJIA The unique model for the DJIA had been reliable since it was developed in late 1999. This provided an outlook for the start and end of the first quarter. "Typically, the year-end rally has been 11 to 21 days.

The high is anticipated to be in place by January 10. [Then the drop could range from a] minimum of 7% to a *maximum of 20% before the end of March.*"

This followed the November 24 observation that "patience is still needed before establishing a long position for a bullish year-end play".

The Dow's low was 10158 on December 21 and the rebound was to 11819 on January 3. The subsequent break was widely acclaimed as the 20-percent bear market. For the ChartWorks, it was a projected target in time and price and an outstanding opportunity. The low was 9374 on April 4.

December 28, 2000:
"The Theme" This phase of the liquidity crisis has been expected to end with capitulation most probable in November with a secondary target in January.

- **Spreads:** "Possible relief to widening has been the case."

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