

HIGHLIGHTS 2002

March 5, 2002: Checklist For A Top

Is It Up When It Should Be? Yes, our January 4 edition expected the high for the year around March. This would be after a correction until late January (✓).

So far, the Dow has reached a new high with the S&P not too far behind.

Indicating decreasing liquidity for the chronically speculative side of the market, the Nasdaq is behind and will face considerable resistance at 1956, declining to 1900 within two weeks.

The attached page, **Previous Bubbles Continue To Provide Guidelines For The NASDAQ**, updates the ChartWorks study of February 22, which independently called for a rally until mid/March.

Are There Signs Of Speculation? Yes, the leading groups are at or approaching a "Double Exhaustion" high. A broad index of gold shares is up almost 100% from its cyclical low in October, 2000. Within this, some of the leaders registered such concluding action in the last half of February.

As noted last Friday, home builder stocks are registering the "DE" sell.

How Sound Is The Fundamental Story? "It's the economy, stupid." is again popular, making it awkward to confront. However, in 2000 both Wall Street and policymakers considered the financial boom to be manageable and therefore continuous. Then, surprised that earnings were plunging as fast as the stock market in 4Q2000, the consensus quickly adjusted to the immediate, or "V" recovery.

More recent shocks included unprecedented large defaults and malfeasance, but the last few weeks has brought a tremendous surge of confidence, as we consider, on schedule.

The problem is beyond the professional skepticism for the consensus, but that it is focused upon the economy. Naturally, at the end of a great financial boom the major influence is the inevitable credit contraction.

Our Conclusions:

We are within a few weeks of an important stock market top, which could be the high for the year. This has been accompanied by expected favourable developments for industrial commodity prices, credit spreads, and the yield curve (the important fundamental series of a new financial era).

Regrettably, these are still within the adverse longer trends typical of a post-boom contraction and rollovers will confirm the vulnerability of the stock market.

Wrap:

This is the standard form we use at expected significant trend changes. The last "buy" was the September 18 "Capitulation" bottom, as measured by the S&P. Because it was not near an expected low, the "Checklist" didn't apply.

However, the last one for a top was in late May 2001 (✓) and for a bottom in late March, 2001 (✓).

Recommendation:

Lighten up on the hot and even the moderately hot groups as the financial and economic contraction has been likely to resume around mid/year.

Home builders; Ryland Group (RYL), has registered a "DE" on the weekly reading and Beazer (BZH), which has never recorded such extreme action, is at an exhaustion reading from which 40% drops have followed.

"Buyers' Panic Sweeps California"

- WSJ, June 1, 1988 [Commodity High: May, 1988]

"Real Estate Bidding War Breaks Out"

"Buyers Scramble to Make a Deal"

- The Vancouver Sun, March 5, 2002 [Top Qtr. Front Page Screamer]

Bob Hoye
Editor & Chief Investment Strategist
www.InstitutionalAdvisors.com