

GMR (Issue 12/01 - European Markets Focus)

We apologise for producing a second issue which contains limited commentary, but this “flu” bug has been much more difficult to shift than imagined. We have therefore largely selected the important charts from recent issues and updated them. However, additional commentary is necessary.

Since mid-February it has become progressively obvious that our expectation that the top-building process would extend into 2001 was too hopeful. As a result, three issues ago we illustrated charts of various index top patterns since 1972 to make the point that, once a top completes, what happens thereafter is unpredictable. In some instances the break is followed by a rally to test the break-down level, whereas in others the index drops straight on down to its minimum target level and beyond. This is beginning to look like one of those latter occasions.

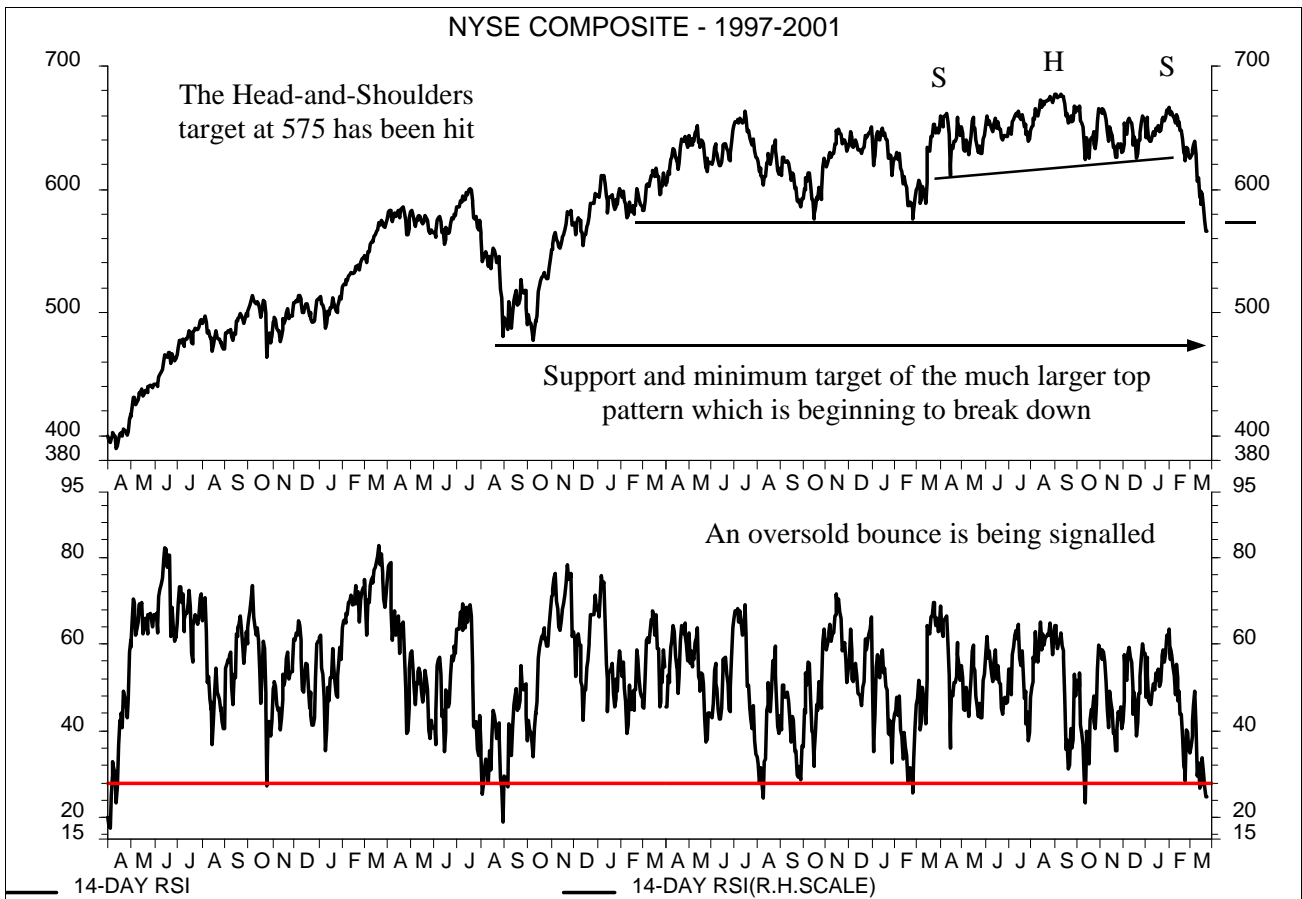
This is likely because, when we look at the NYSE Composite, the UK’s All-Share and the FT Europe ex UK (all broad non-tech indices), they look to be in third-wave type declines. This suggests that, at best, this decline is only 60-70% complete.

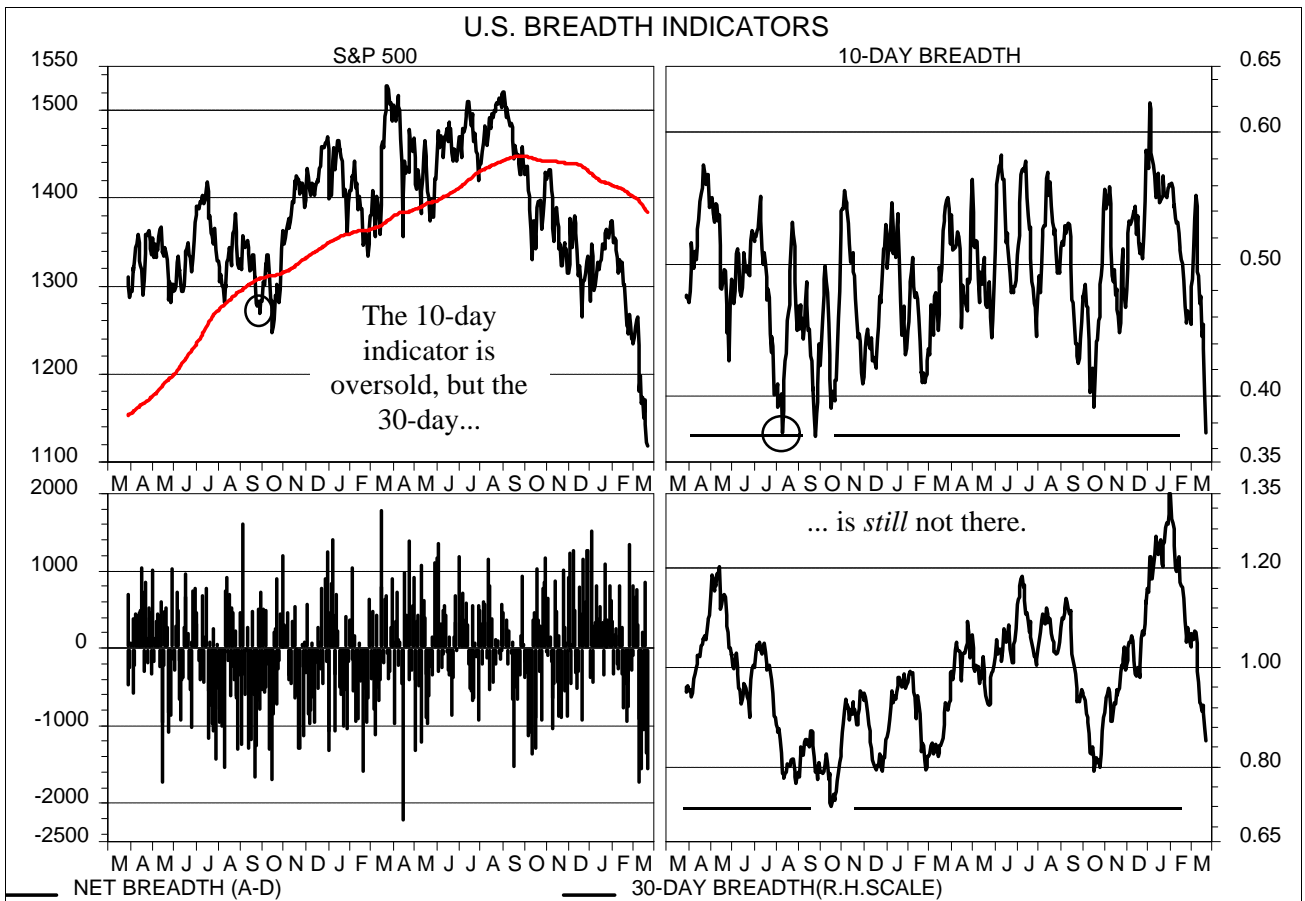
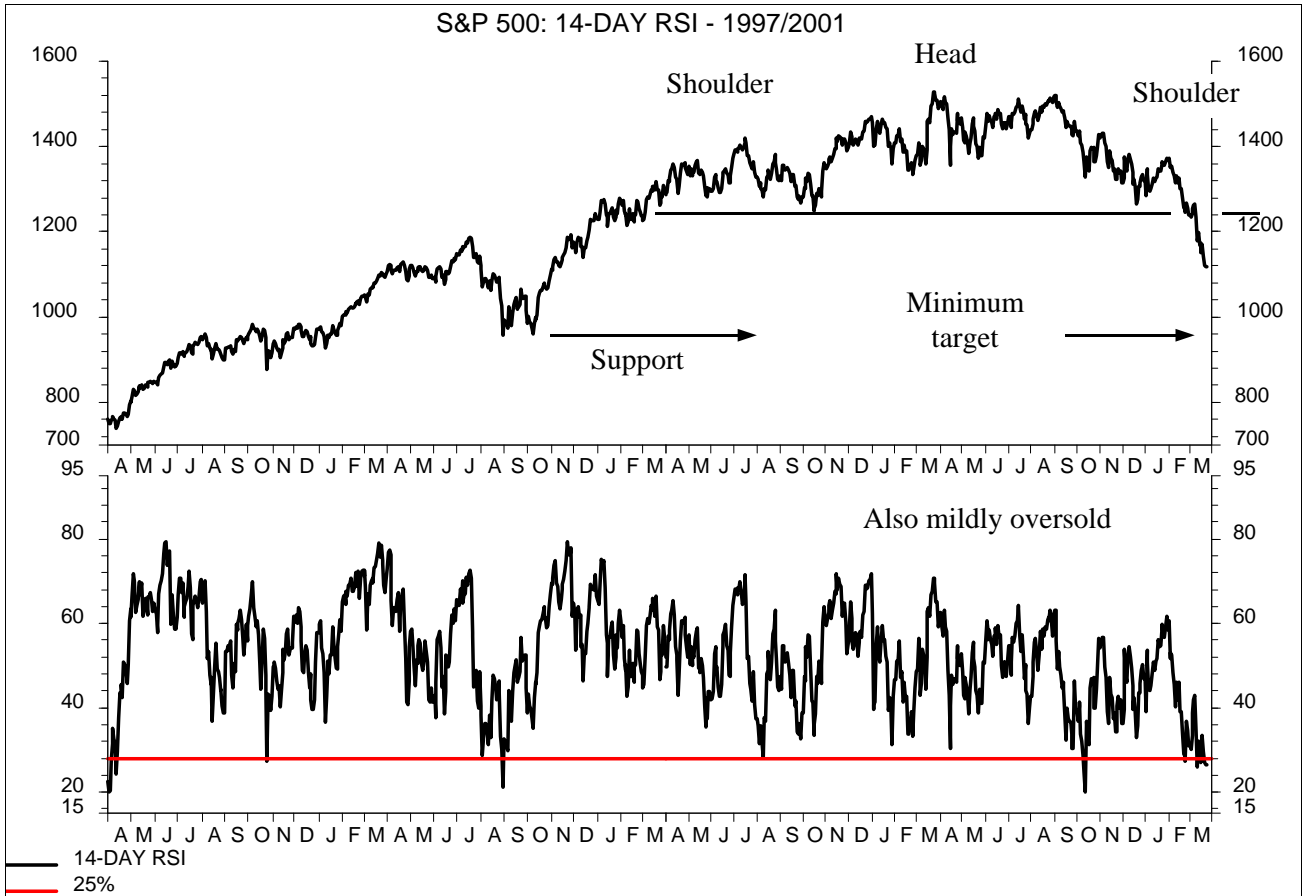
If you think that is overly negative, look at the chart of the NYSE on page 2. Acceleration down through 570 is completing an even larger top pattern in this index, and targets the 1998 low just beneath 480. Note that here is yet another chart warning of an eventual return to the lows of 1998.

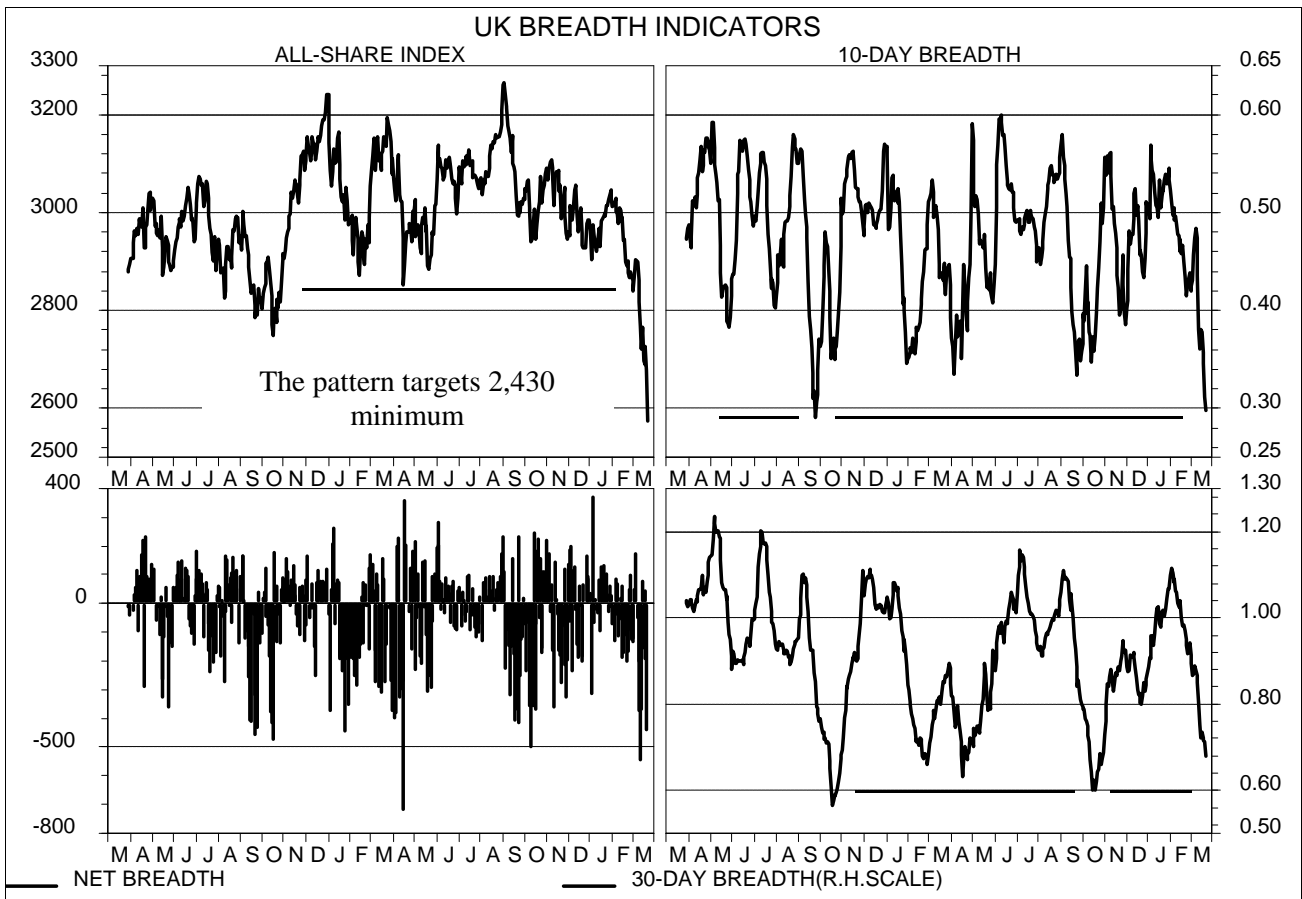
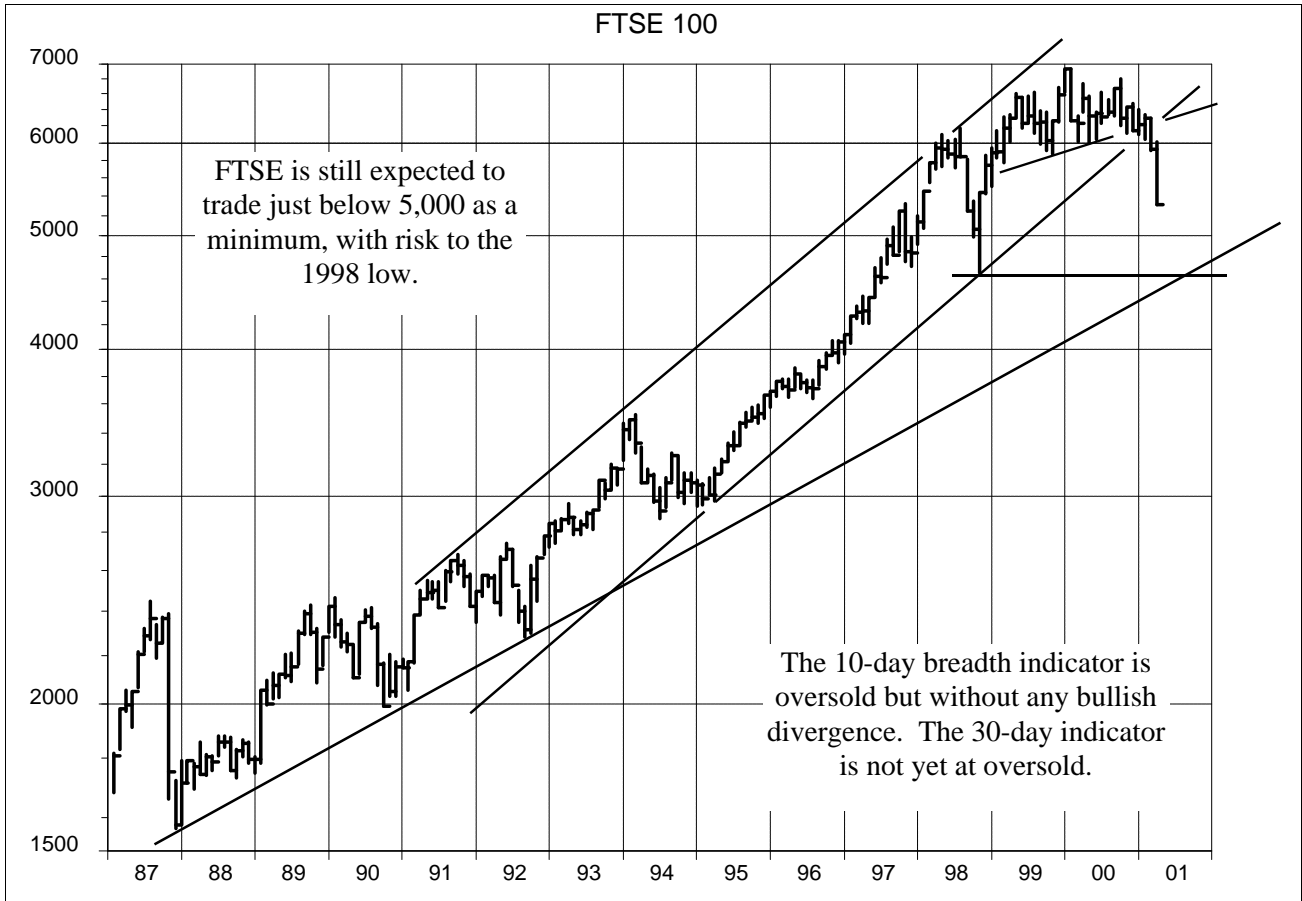
On the subject of tech, for once you will not find a chart on NASDAQ herein. The world took too much notice of the US tech boom on the way up, and got sucked into a bubble which has obviously not finished bursting. Since it is clear that the decline has rapidly broadened out in all markets, we do not want to lessen the impact of the important signals emanating from individual indices by continuing to focus on the improving technicals in this area. If there is a rally in response to the signals illustrated two weeks ago, and this helps generate recoveries elsewhere - fantastic. However, any rally which occurs now in other indices will only be of the fourth wave kind, and will give way to lower lows.

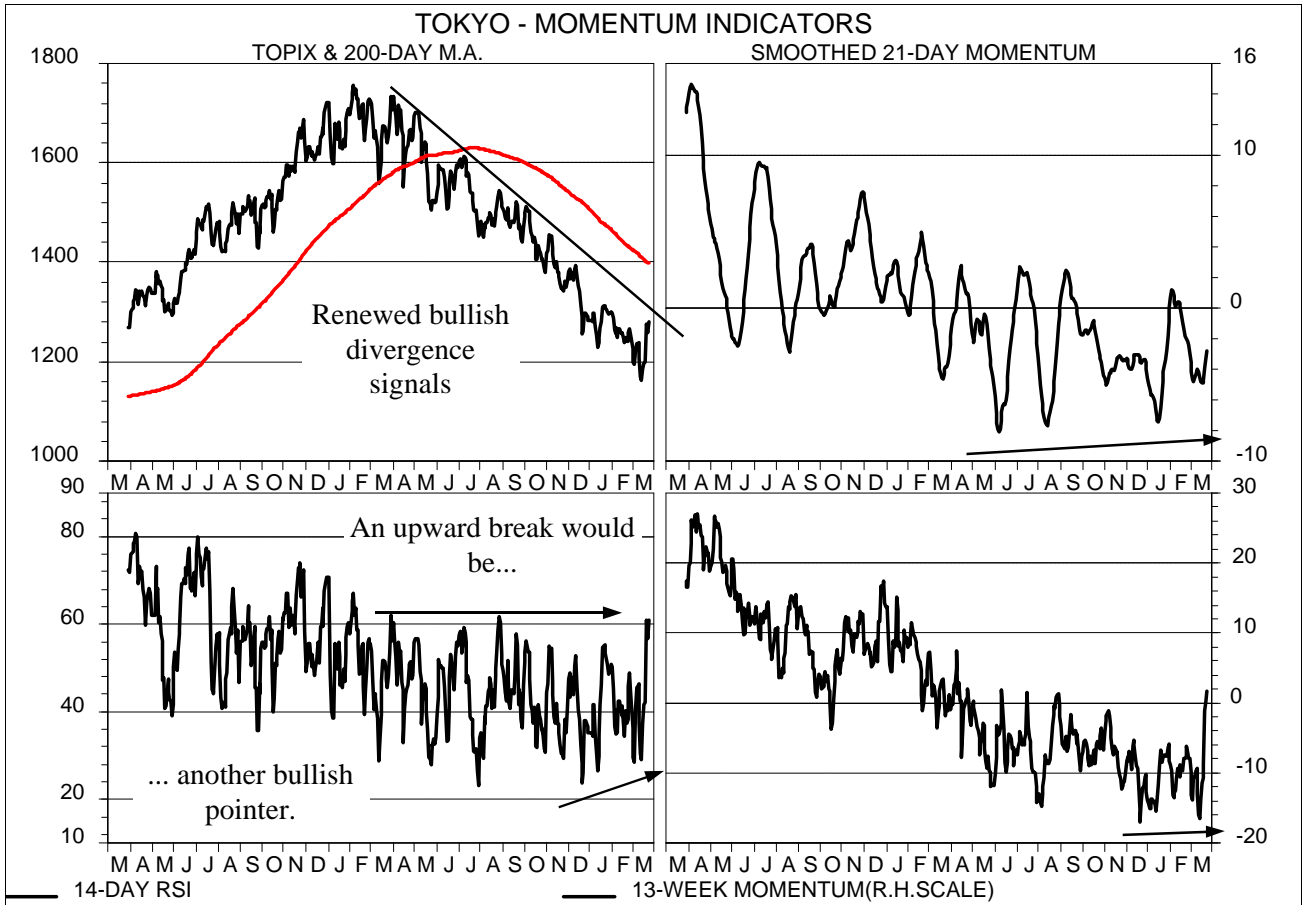
At best, such a rally would merely produce a test of the top pattern in the S&P 500 before it drops on down to test its minimum pattern target beneath 1,000. Therefore, NASDAQ’s greatest use is likely to be in helping identify or confirm the *end* of bear market rallies.

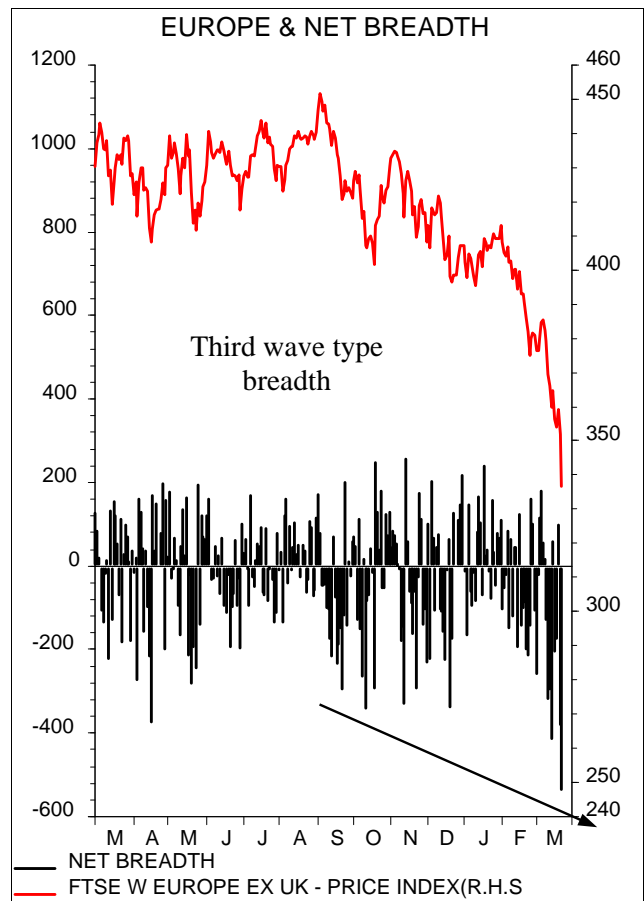
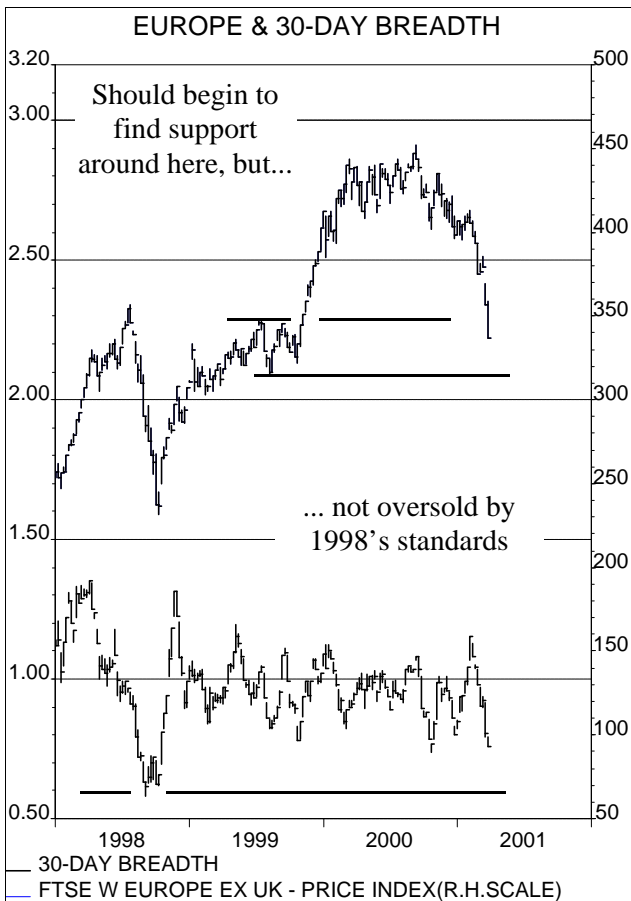
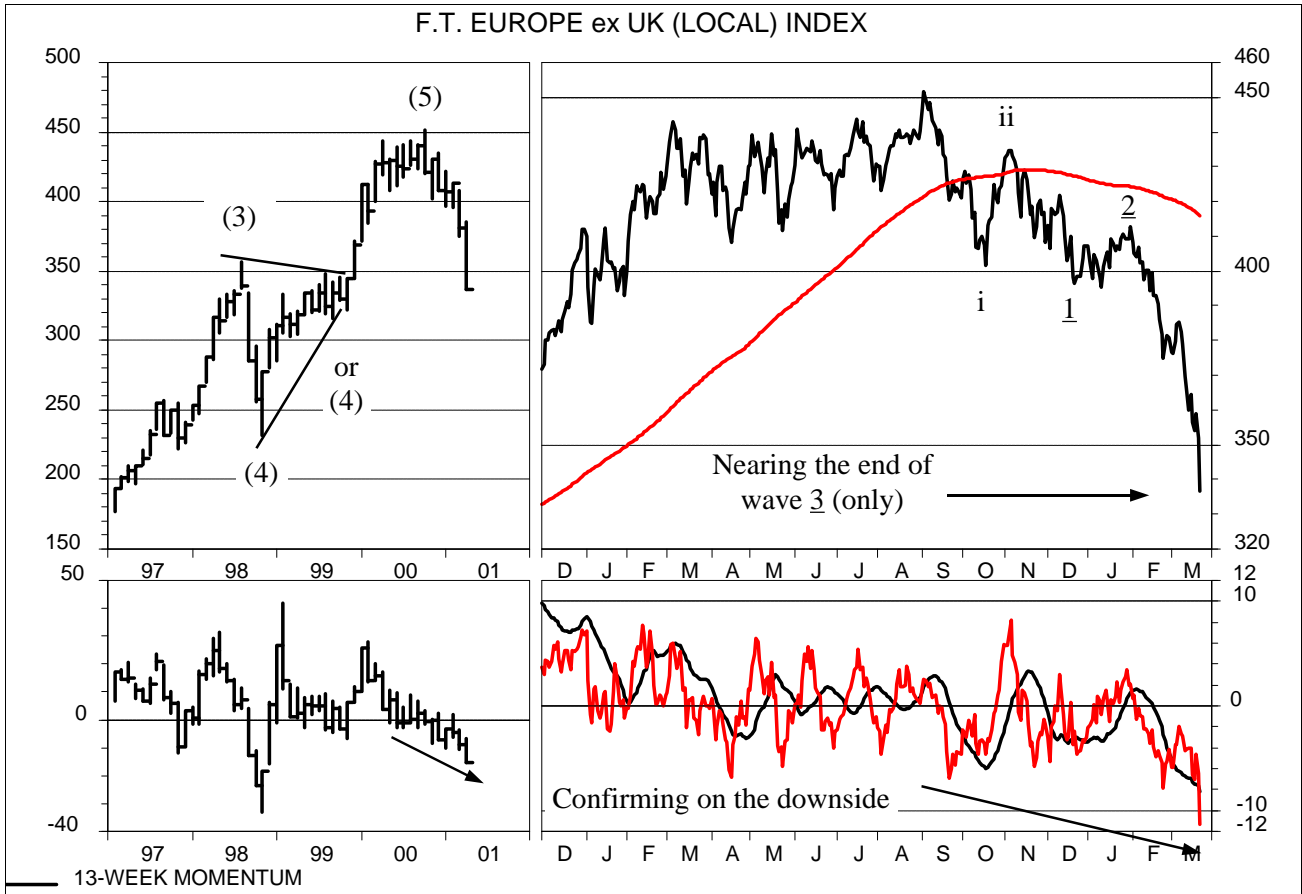
On a longer term note, it is becoming increasingly likely that the decline from the Q3 peak last year is wave A of a large A-B-C bear market. It may be as much as 2-4 months before wave A completes, based on the current wave configurations. The second half of the year will see the wave B rally, prior to wave C in 2002. Since there are now a number of pointers in that direction, be prepared to see the 1998 low roughly coincide with the wave A low.

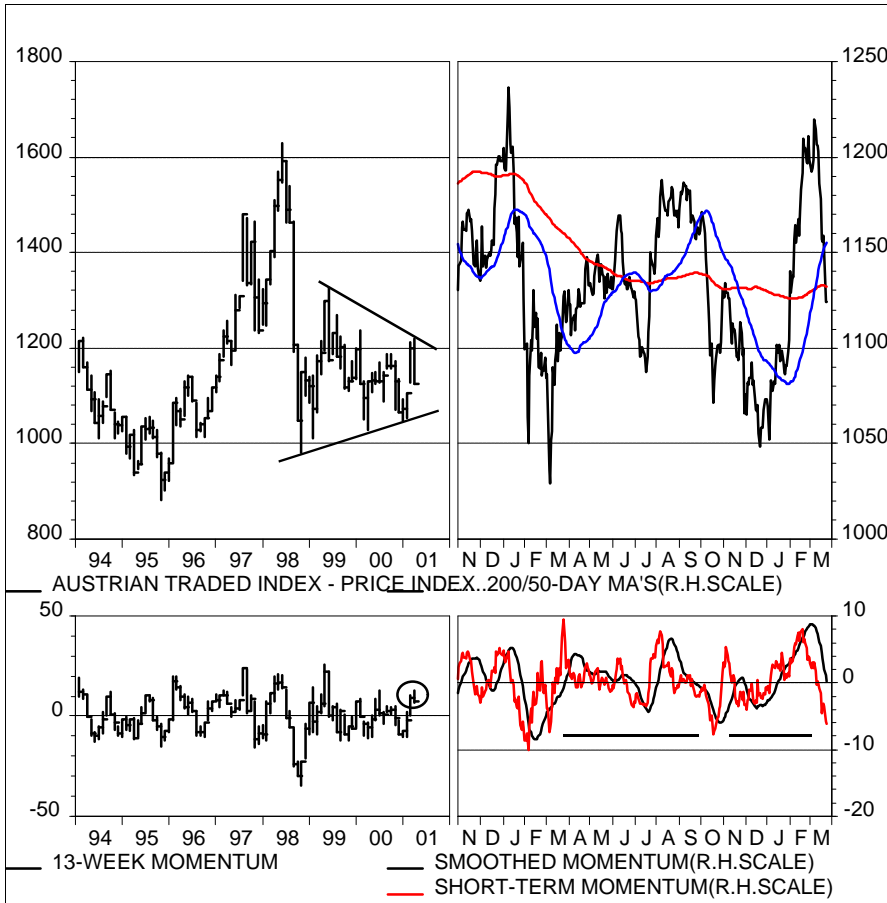






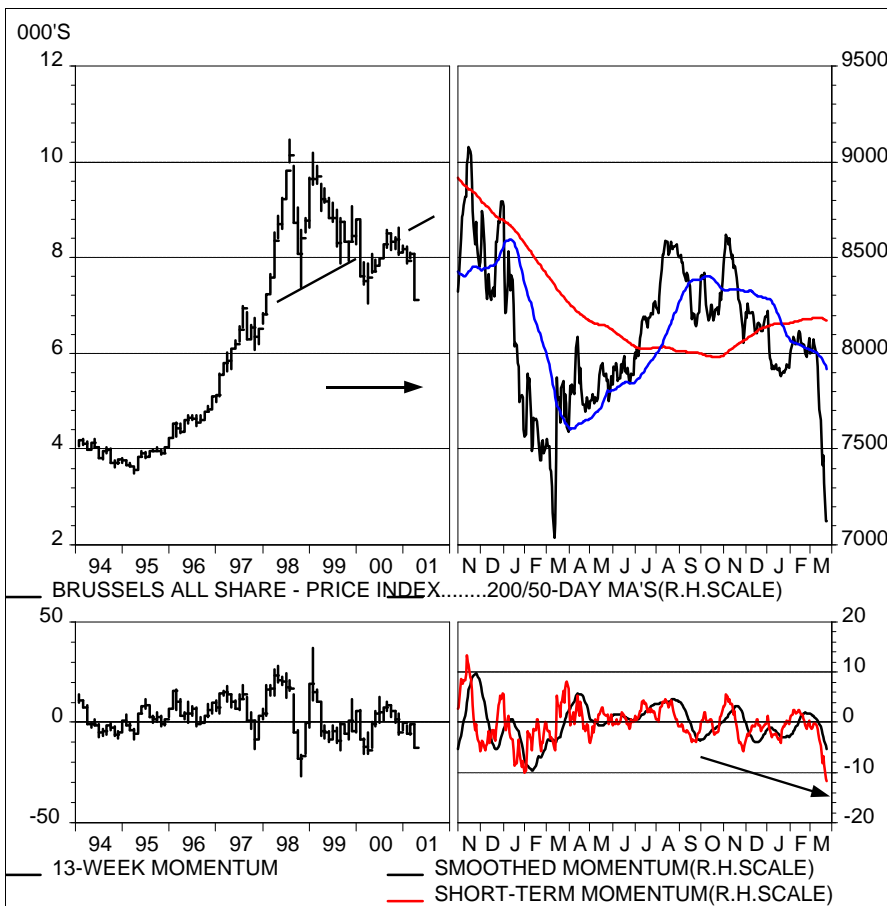






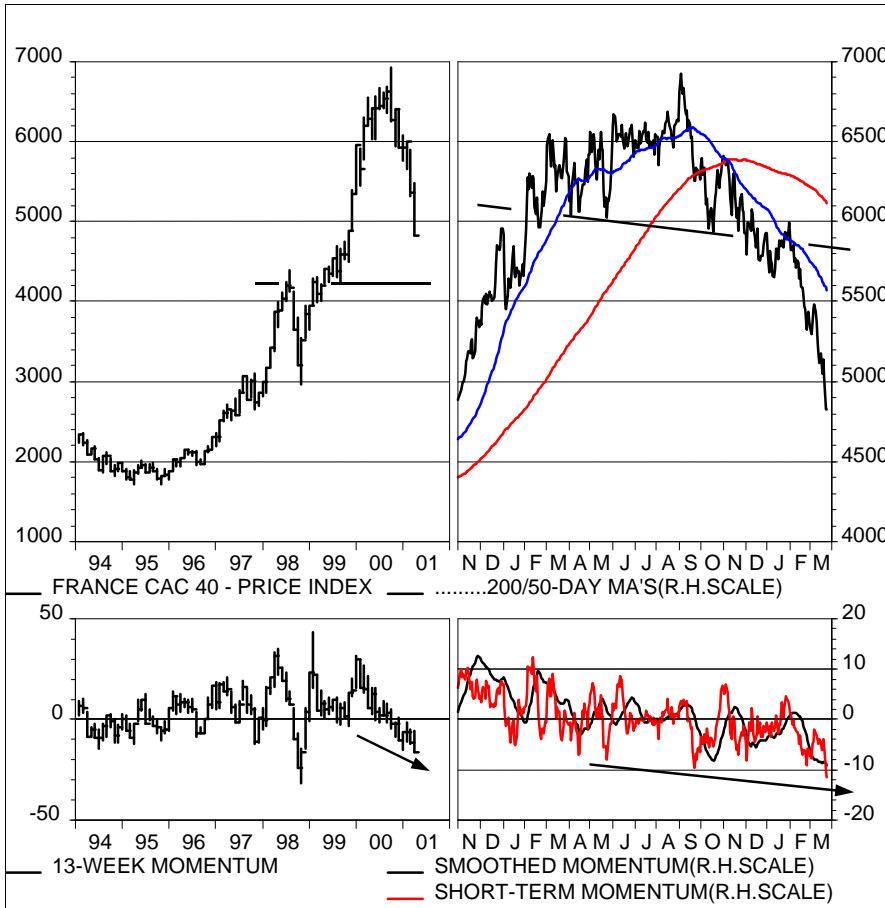
Austria

- Bearish triangular consolidation?
- Only short-term oversold.



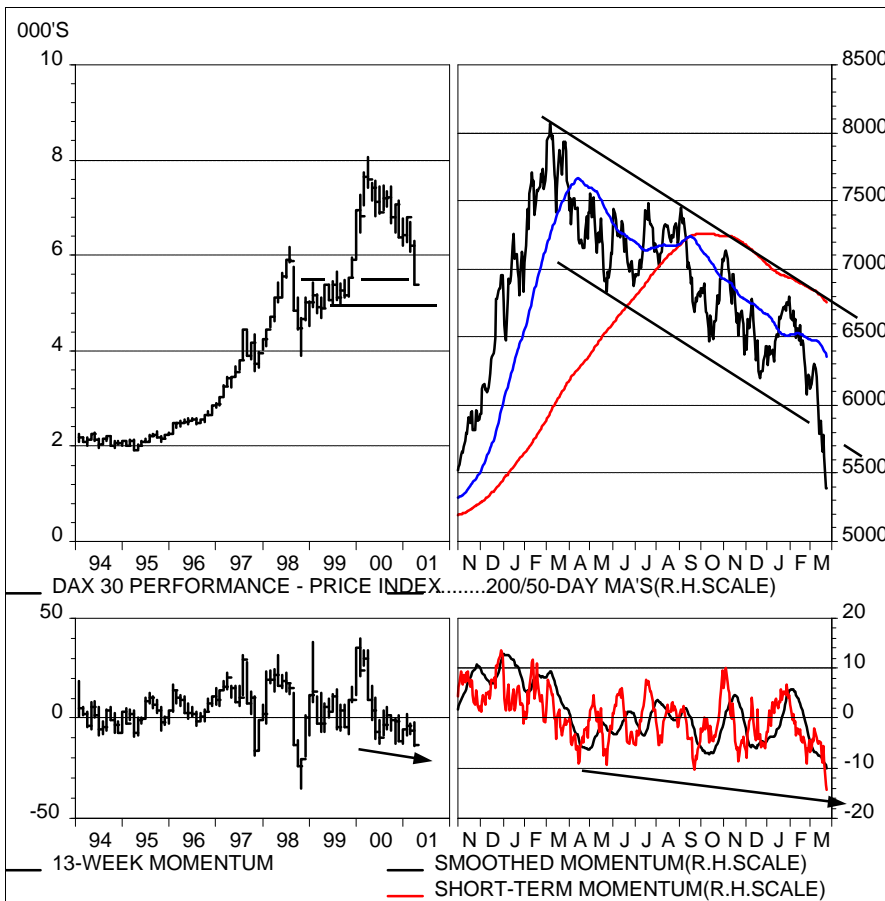
Belgium

- Oversold but no bullish divergence.
- The long-term pattern warns of a drop well below 6,000 eventually.



France

- The 4,200 area is the most obvious initial support.
- Oversold, but all the indicators are confirming on the downside.

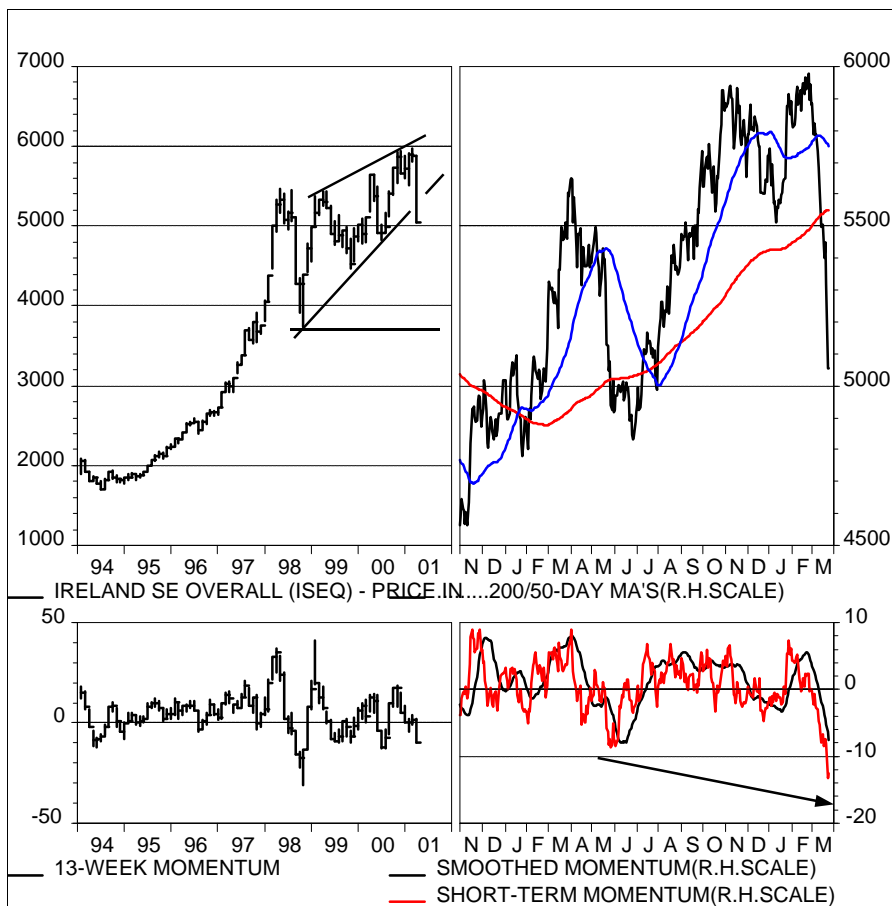


Germany

- Entering support, but...
- Downtrend accelerating.
- Momentum is confirming the bearish trend as on-going.

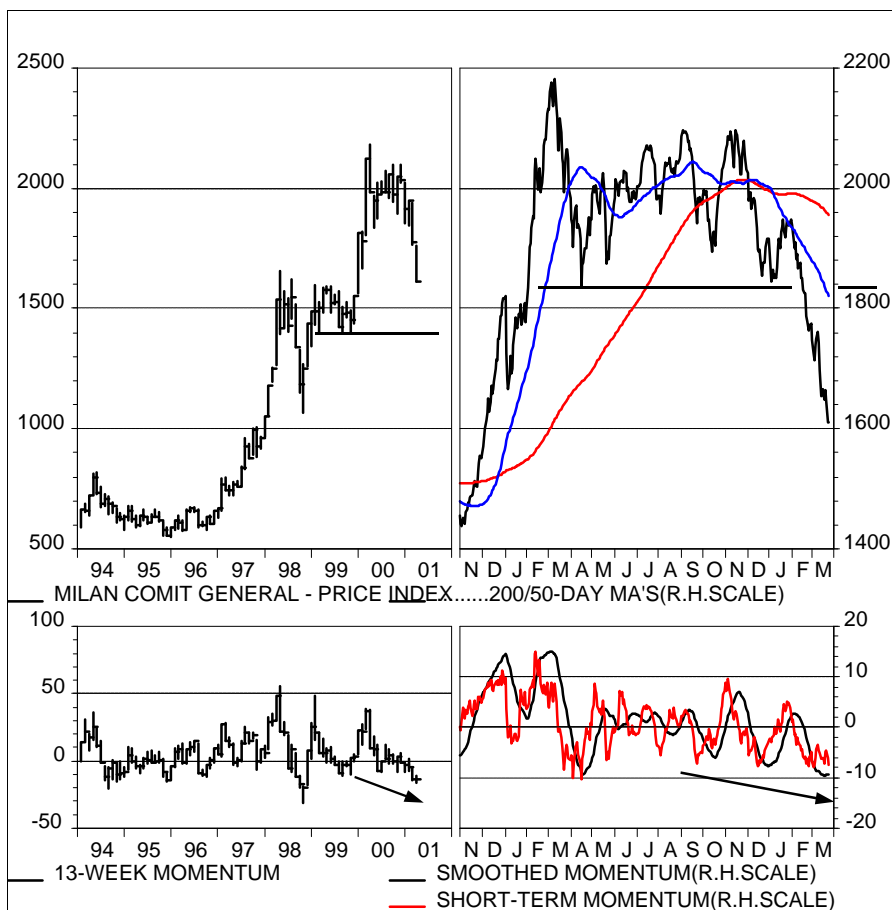
Ireland

- The break of the 5,500 low has completed the Bearish Rising Wedge.
- Oversold short term, but expected to test the 1998 low medium term.

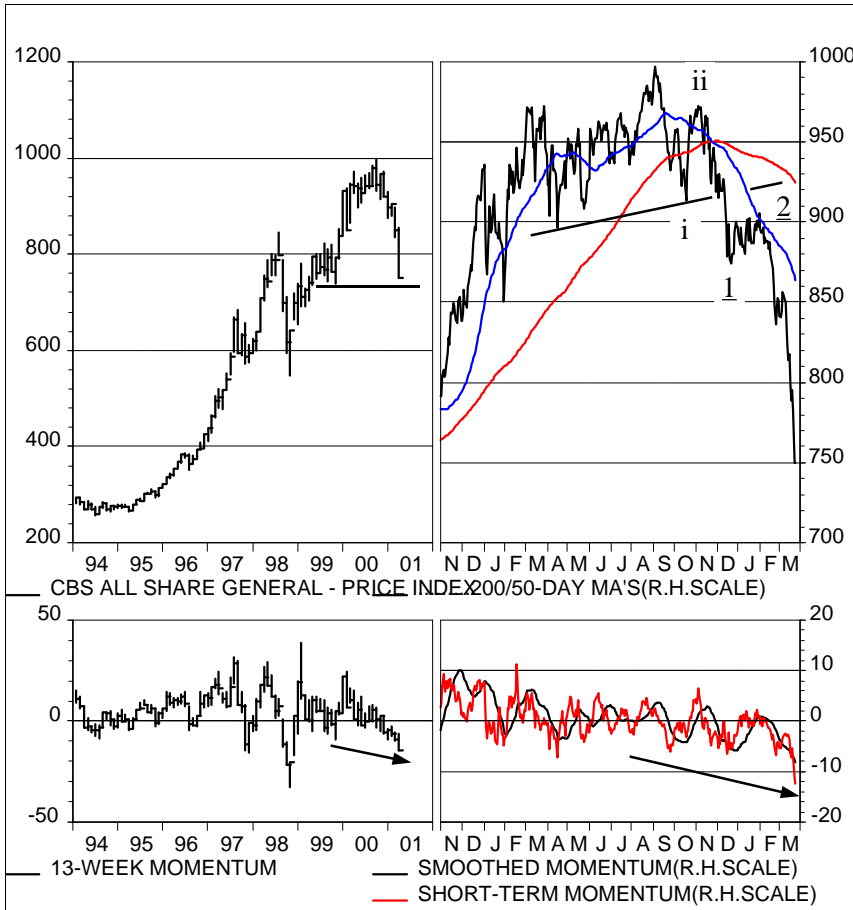


Italy

- Top complete.
- Headed for the support in the 1,400-1,500 range.
- Momentum is confirming on the downside.

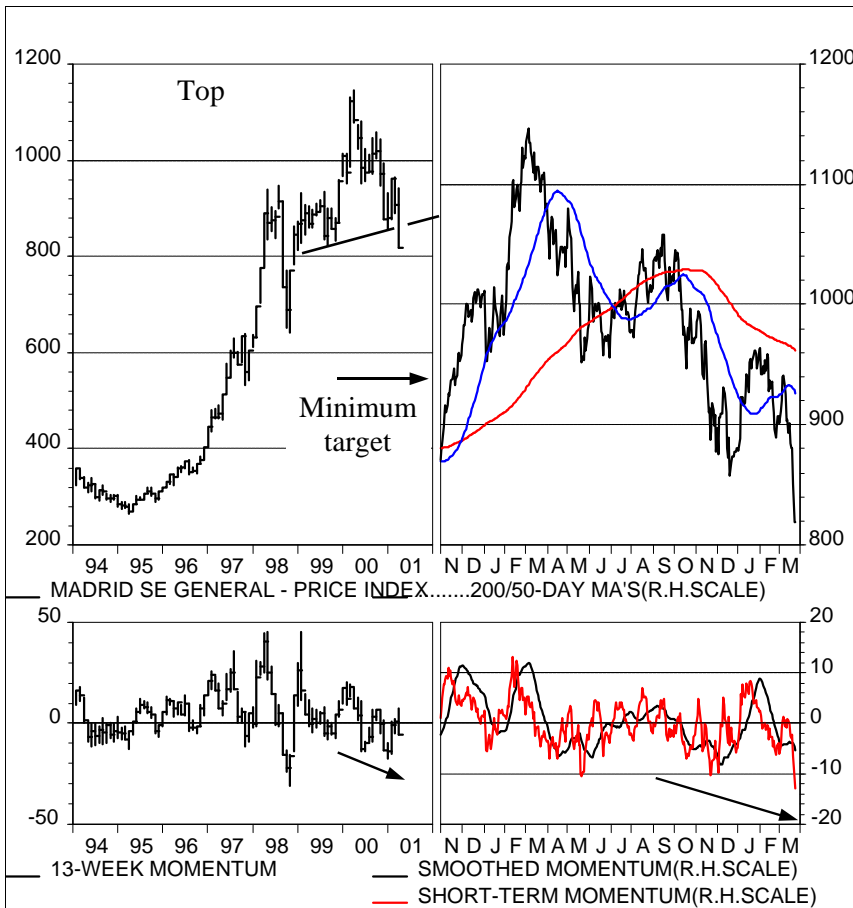


Netherlands



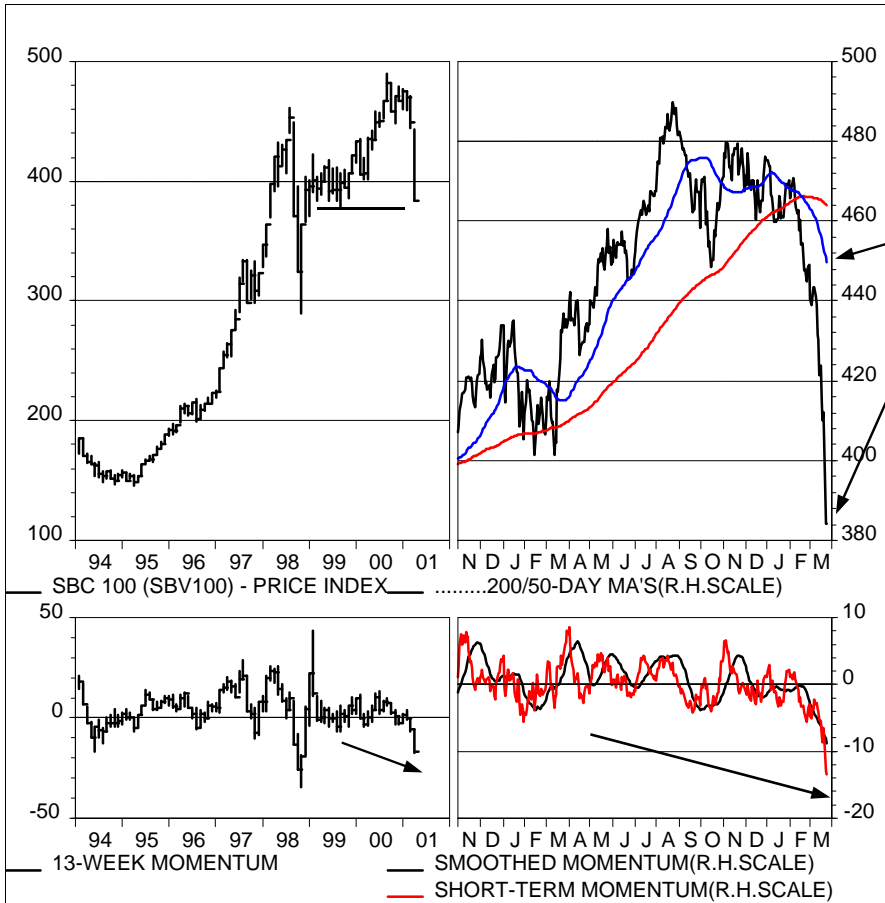
- Our 830 target has proved *very* conservative.
- The support here and the oversold condition should produce a bounce but...
- The momentum downtrends confirm lower levels to come.

Spain



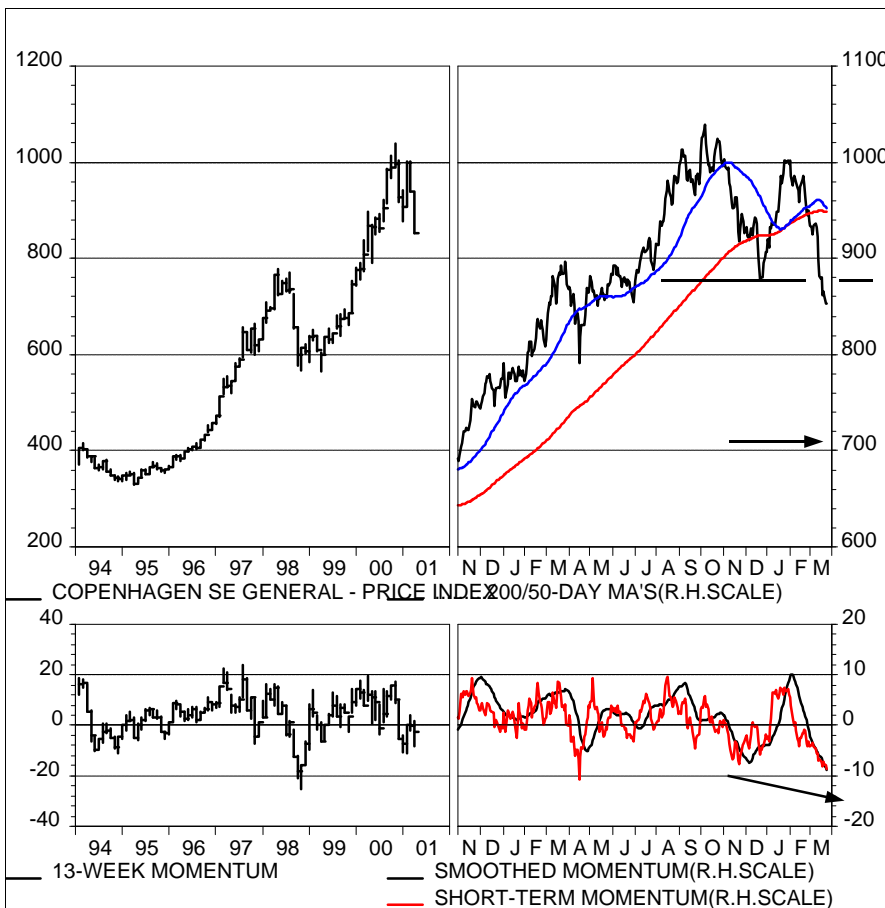
- This is the first pattern we have come across which projects a minimum target well beneath the 1998 low.
- Only the short-term indicator is confirming on the downside, but that is enough.

Switzerland

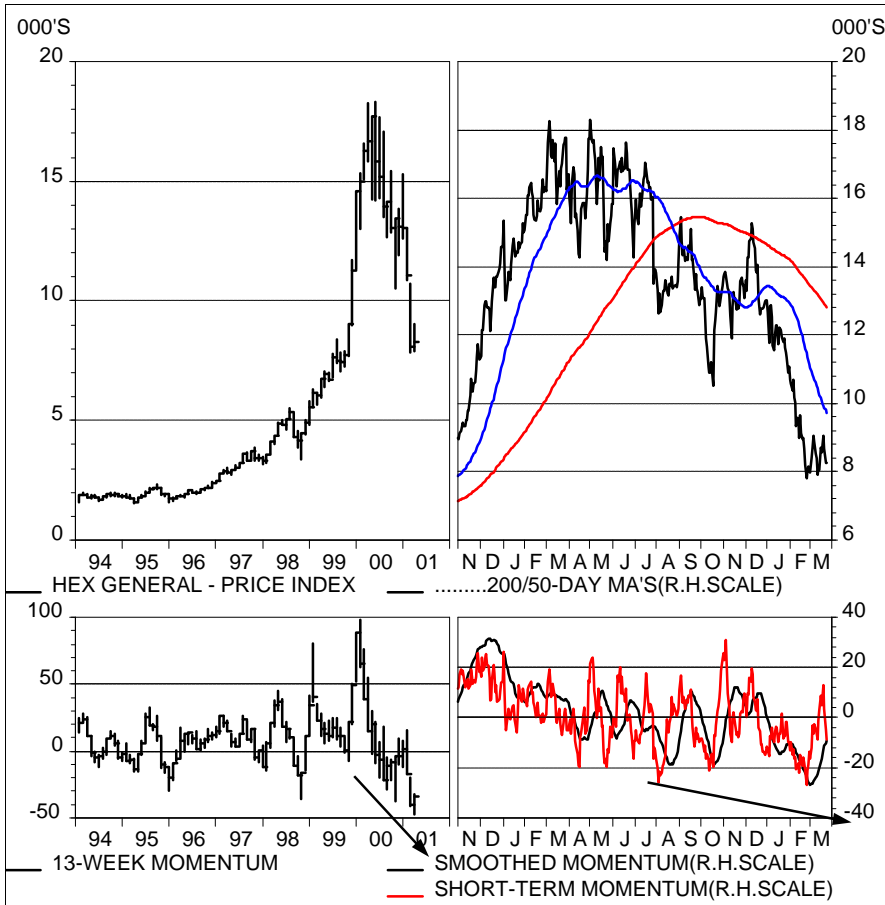


- At support with a whopping 50-day m.a. gap to close.
- A virtual certainty that such a steep decline is a third wave, with lower lows to come eventually.
- All the indicators are confirming the trend.

Denmark

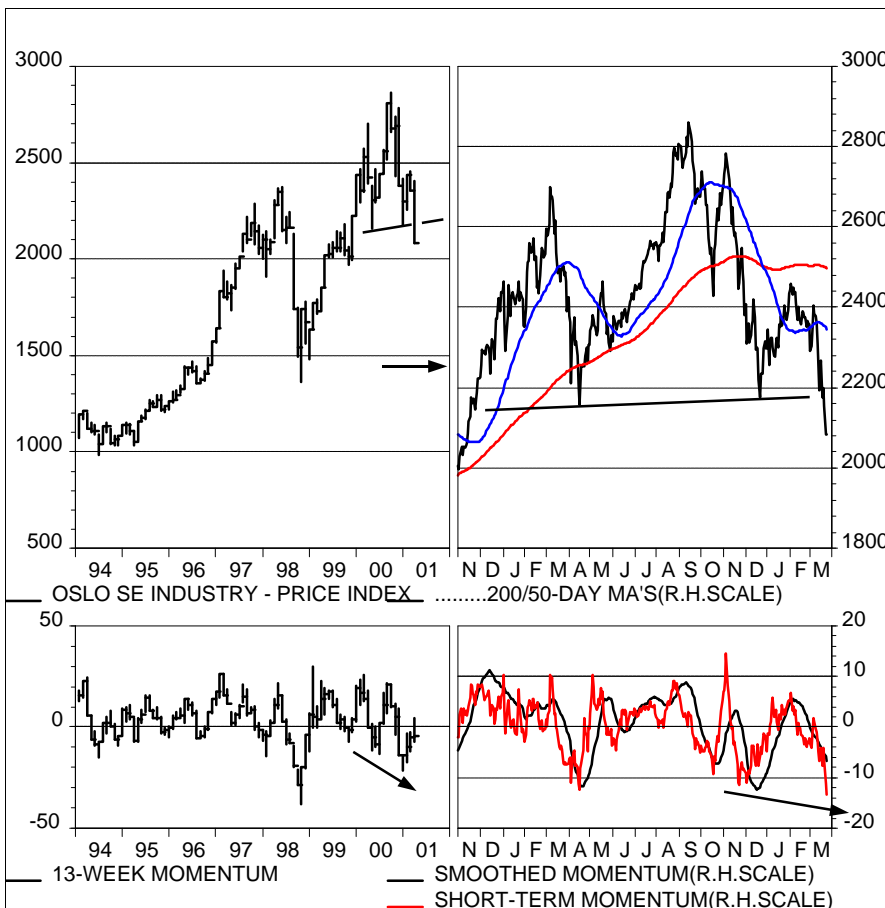


- Double top complete, with downside risk to just above 700.
- The shorter indicators are confirming.



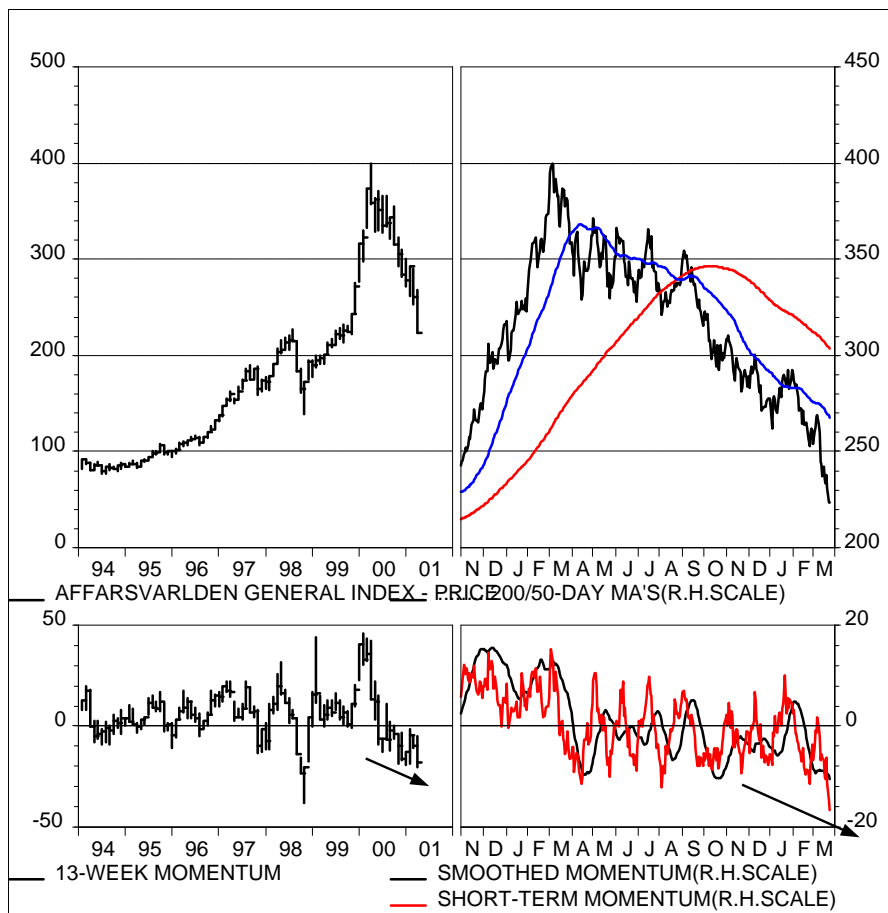
Finland

- Downside pattern still looks incomplete.
- Medium-term oversold, but the indicators are still pointing to new lows to come.



Norway

- Top complete, with momentum confirmation.
- The minimum target is only just above the 1998 low.



Sweden

- Minor support here only.
- The indicators are still in bearish downtrends.

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MTS Research Limited,
 1, Camelot Court,
 Alverton Street,
 Penzance,
 Cornwall TR18 6QN

Tel: 44 (0) 1736 365115
 Fax: 44 (0) 1736 365108
 E-mail: peter@mtsresearch.com

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