

Global Markets Review (Issue 9/01)

In this Issue

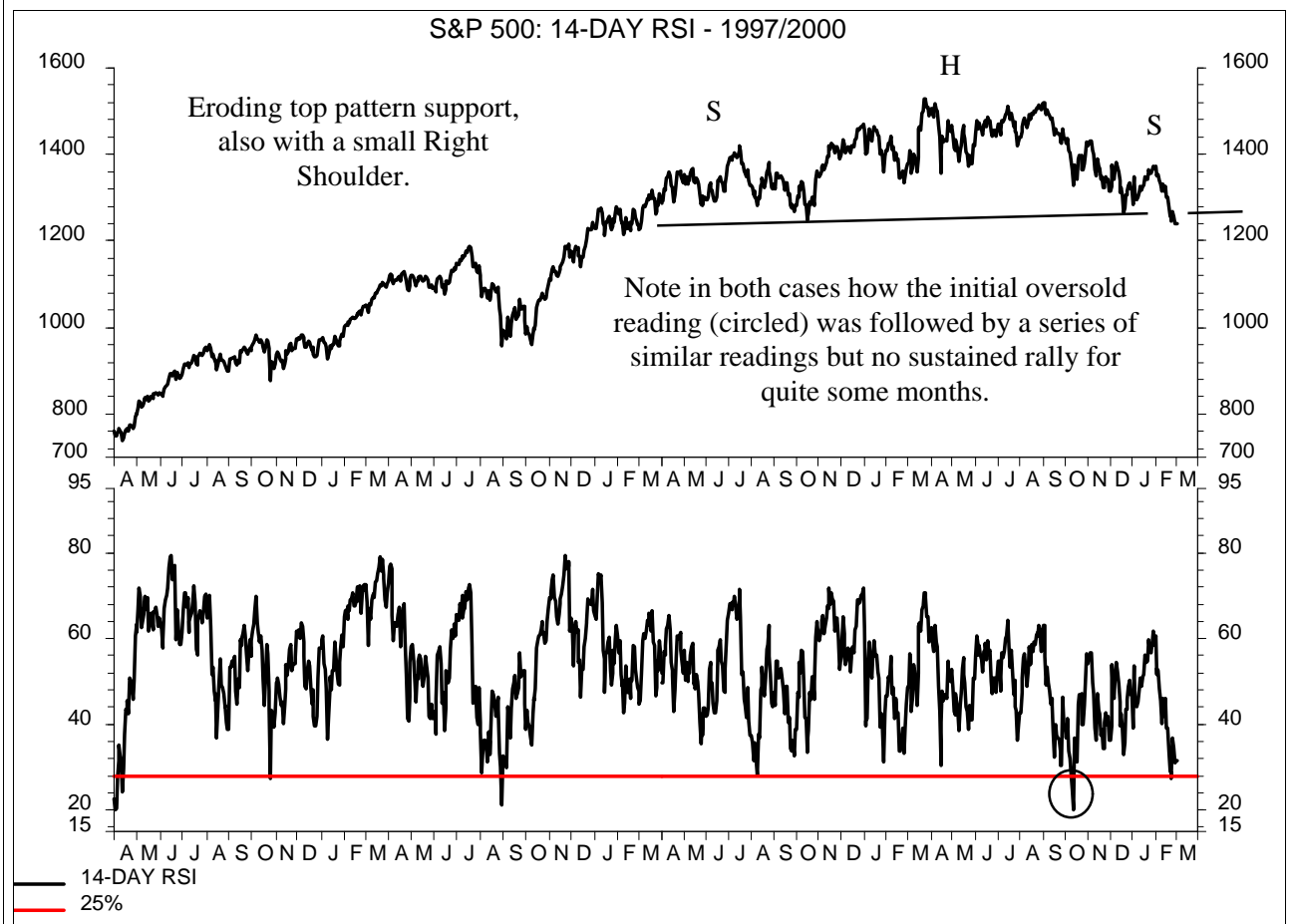
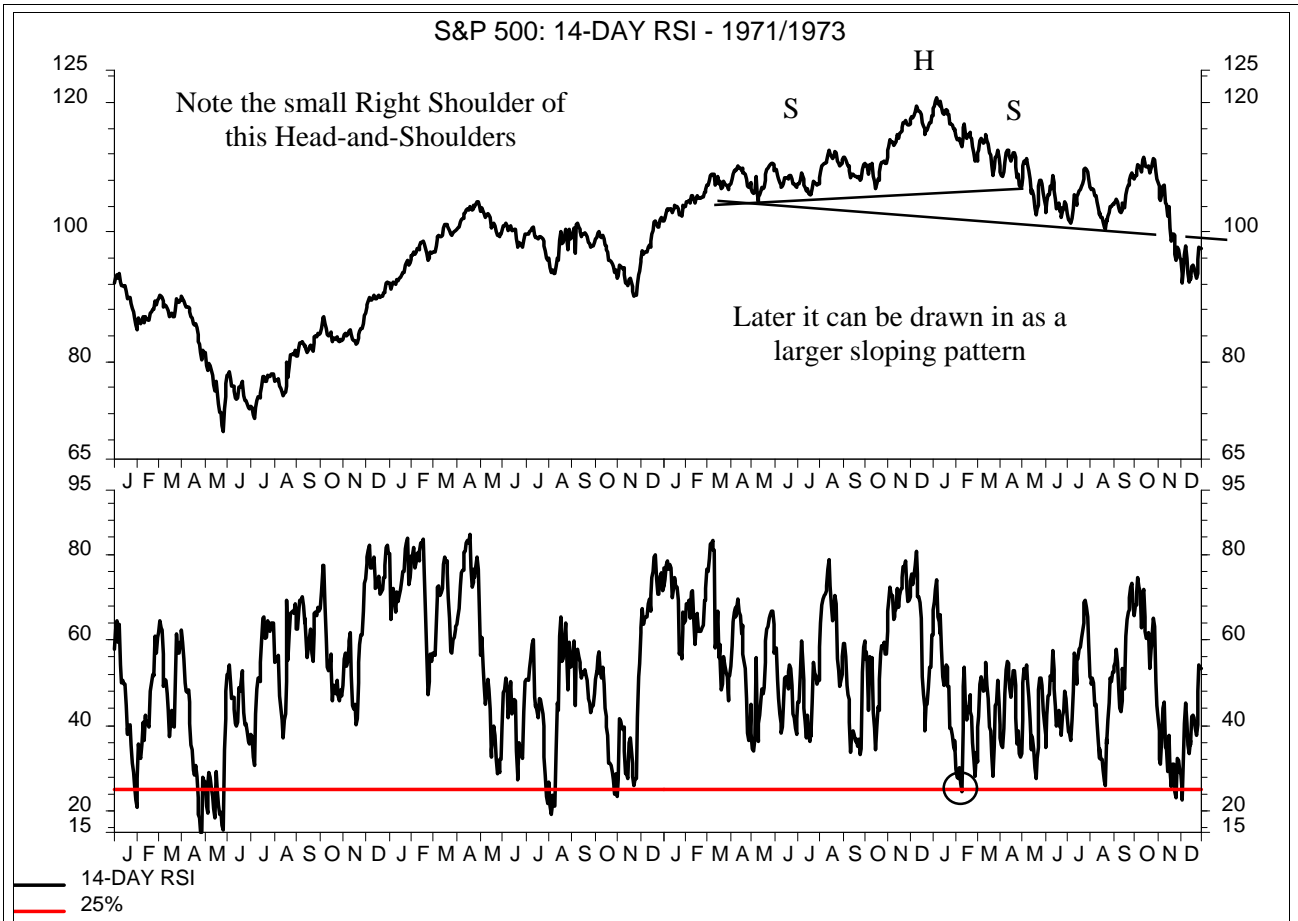
- Having spent the last eleven years analysing Japan in detail, we have gained quite some insight into bear markets! Several things stand out from this experience:
 - Don't expect the luxury of bearish divergence indicator signals at rally peaks. A mild overbought condition is often all the warning you get of the next down leg.
 - Rallies often carry only their textbook minimum before rolling over.
 - The 50-day average is often a reversal area.
 - Declines often carry more than their textbook minimum before bullish signals materialise.
 - Top patterns are not always tested before their minimum targets are achieved.

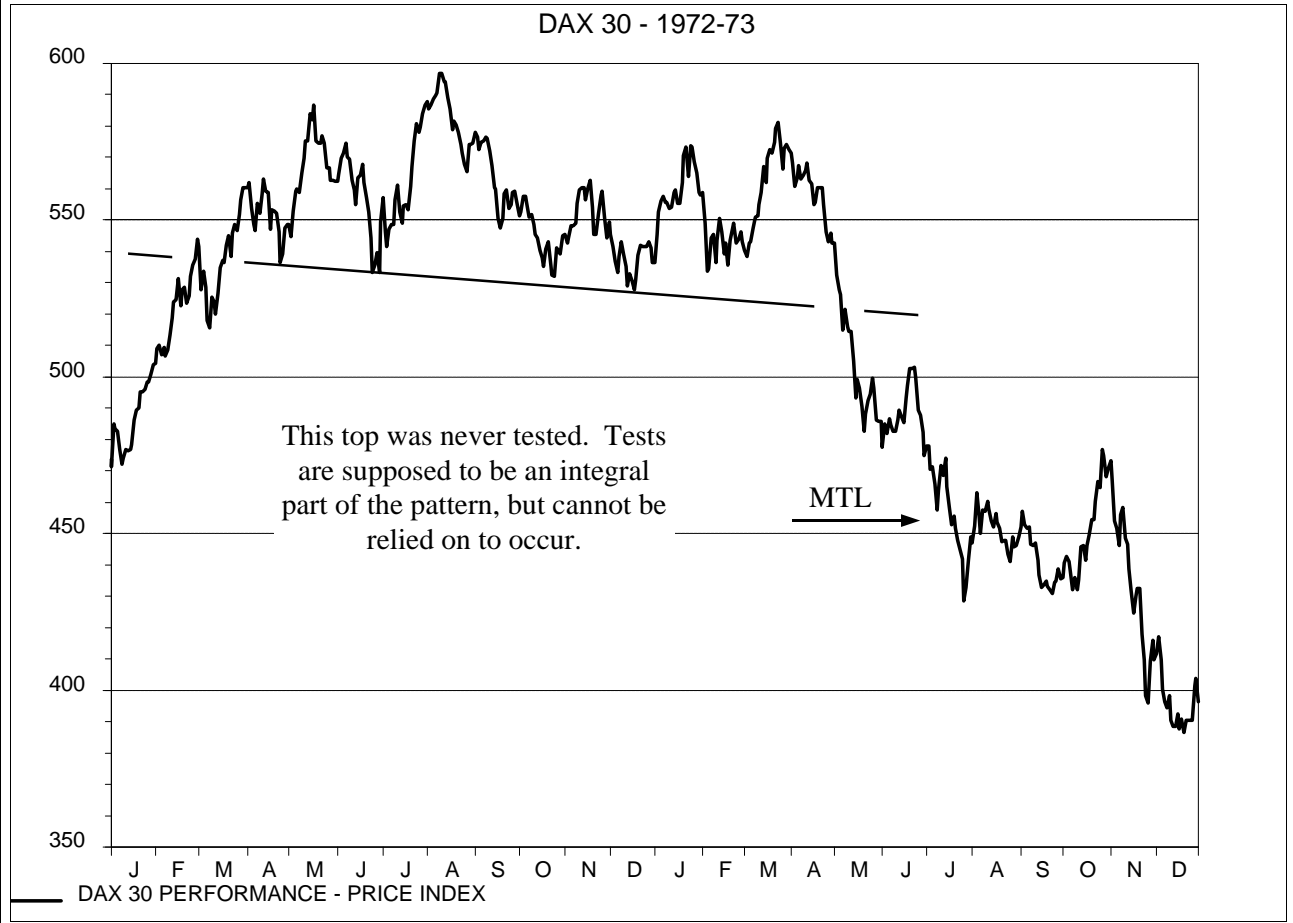
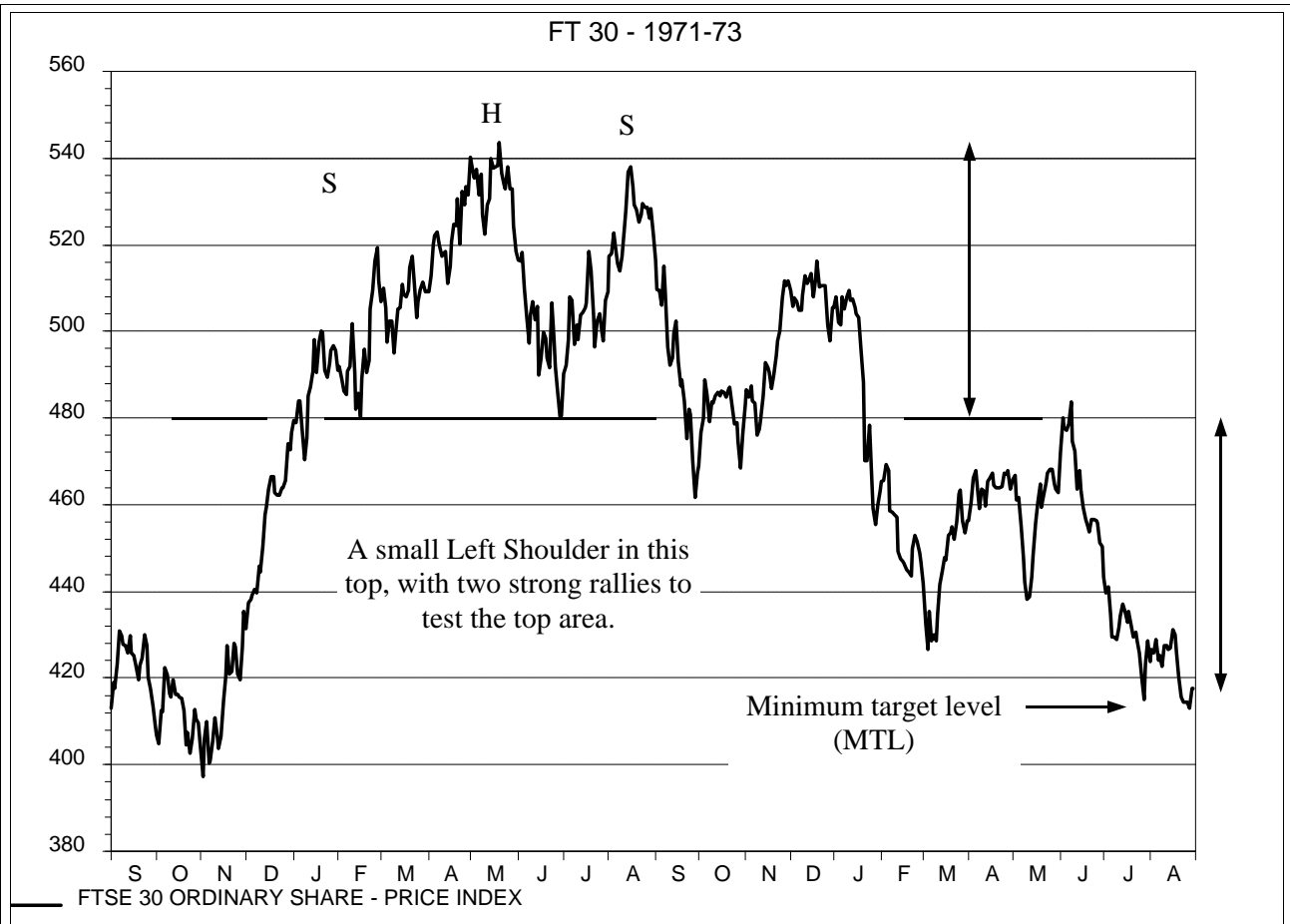
- It is the latter point to which this issue is partly devoted. We have chosen several examples of top patterns from various indices over the past 30 years to illustrate the different ways in which markets act once top patterns are in place. Arguably the 1972-73 top in the S&P is the closest to the current situation, having culminated the long post-war bull phase.

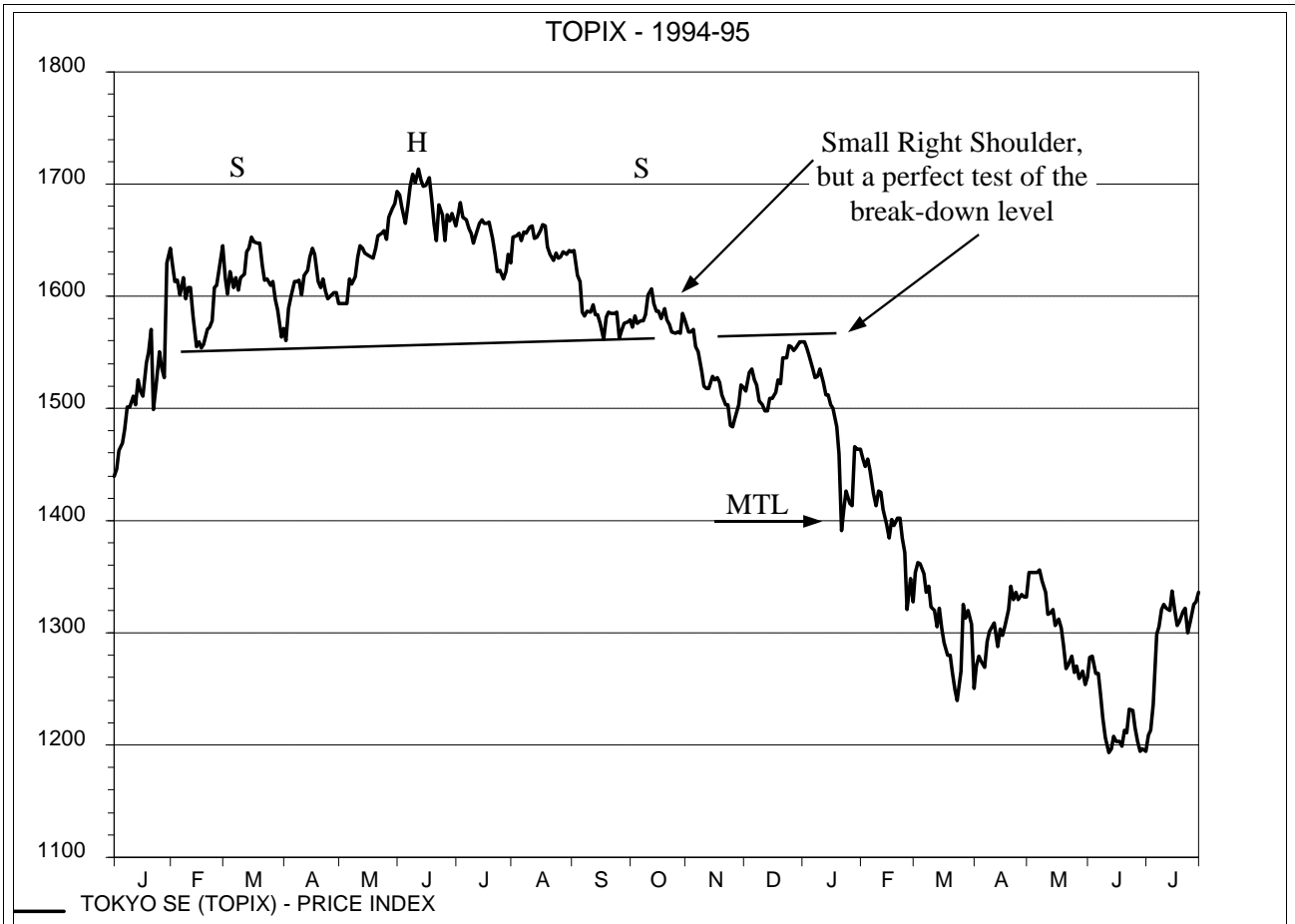
- Charts and commentary this week are as follows:

S&P	1971-73	and	1997-2001	:	Page	2
FT30	1972-73	and	DAX 1972-73	:		3
Topix	1994-95	and	1995-97	:		4
NYSE Composite				:		5
NASDAQ Composite				:		6
FT Europe ex UK				:		7
FTSE 100 and All-Share				:		8
Topix				:		9, 10

- There is no **Emerging Markets** focus this month. We felt that developments in the major indices were more important. If you want a view on any market, please do call or e-mail and we will send you an annotated chart.





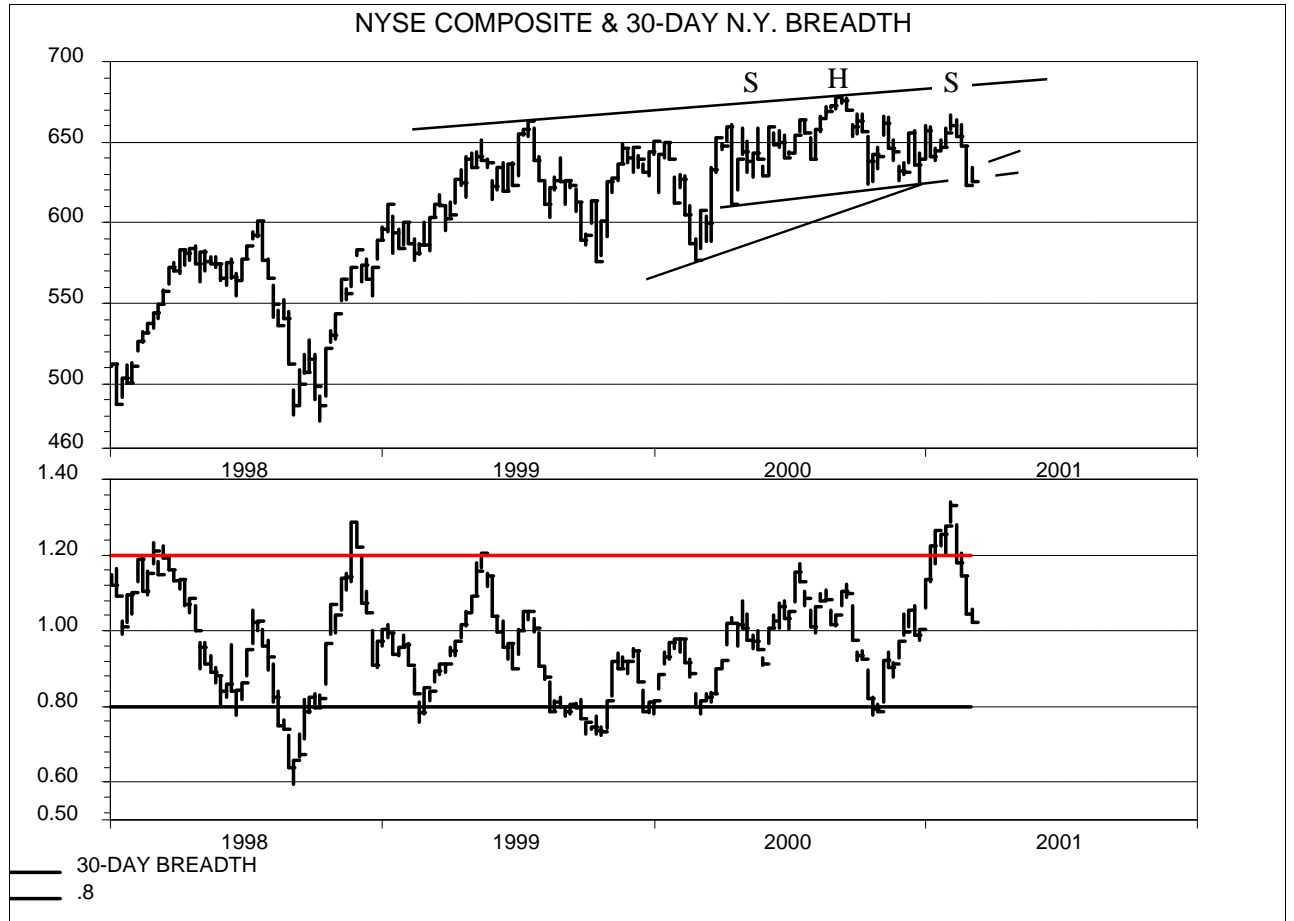
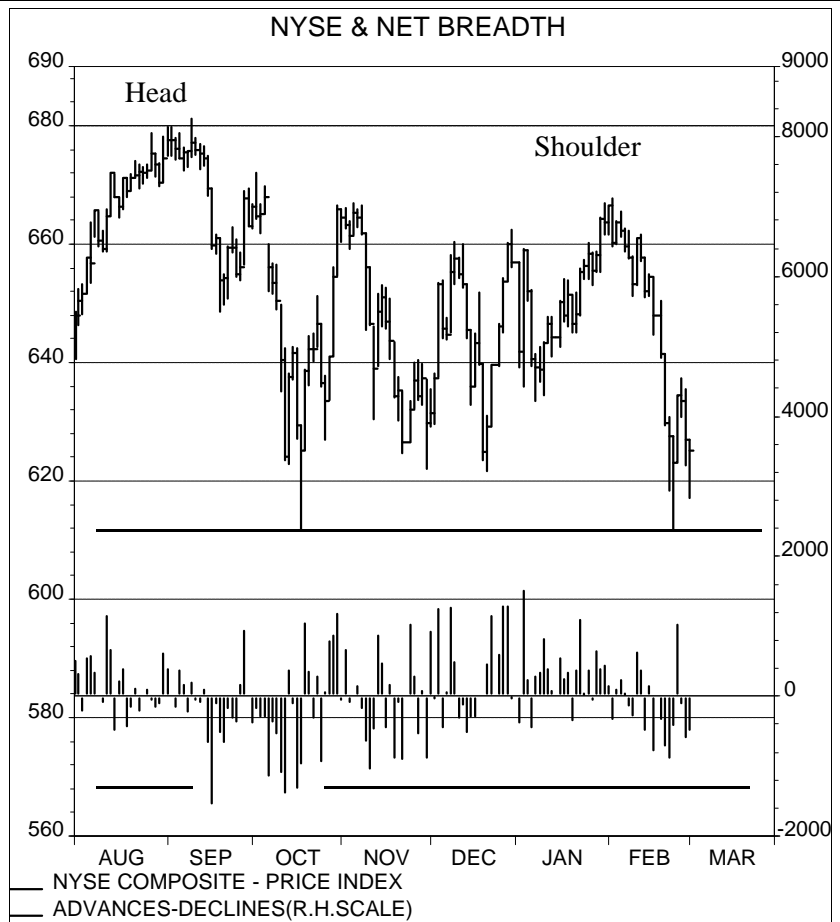


NYSE Composite (625):

Although the Head-and-Shoulders is beginning to break downwards on a closing basis (bottom chart), the break has not occurred on an intra-day basis. In addition, downside breadth has not yet expanded in the bearish way it did in September and October.

With the indicators becoming more oversold, this may be signalling that further recovery is going to occur short term.

Our medium-term concern continues to be that the 30-day breadth indicator is still well above oversold, and so the index remains vulnerable to a decline to the support around 575. A close above 650 is needed to neutralise this risk.

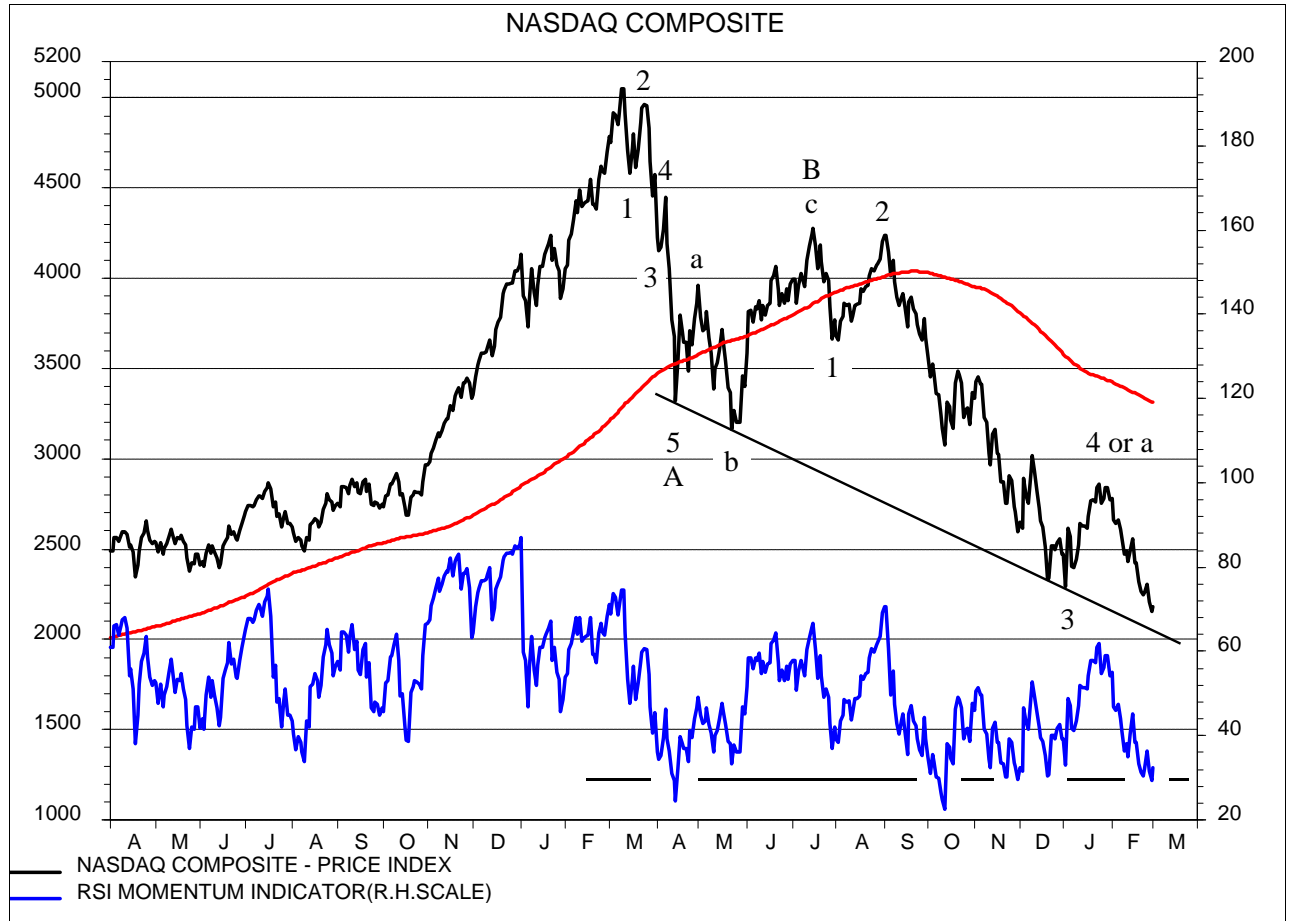
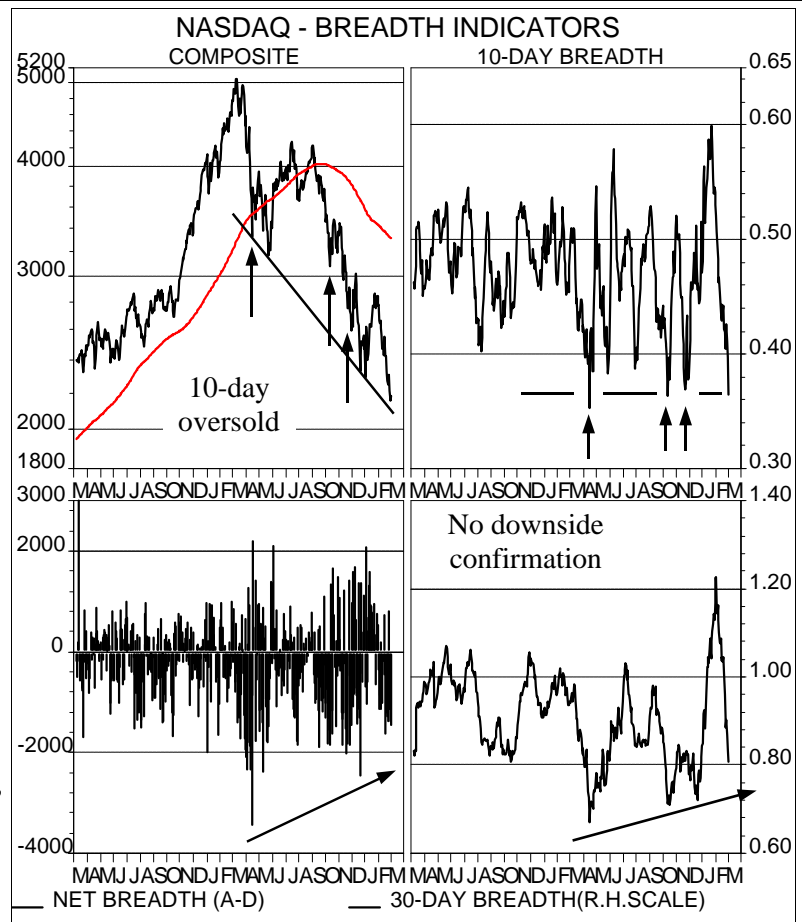


NASDAQ Composite (2,183):

Trend support is now close on both an arithmetic and semi-log basis, and the indicators are again oversold, particularly 10-day breadth.

In the Elliott count below, wave 2 was “up”, so wave 4 should be “sideways”. This might be one of those 5% occasions when the rally patterns are the same, but alternatively, an Irregular Flat or Triangle could still occur here, taking the index temporarily back into the mid-2,000’s.

An even more bullish scenario would be that wave 5 of C is ending now, but there seems to be too much damage going on elsewhere (remember Nokia from the last issue), and the momentum configuration is not so compelling.



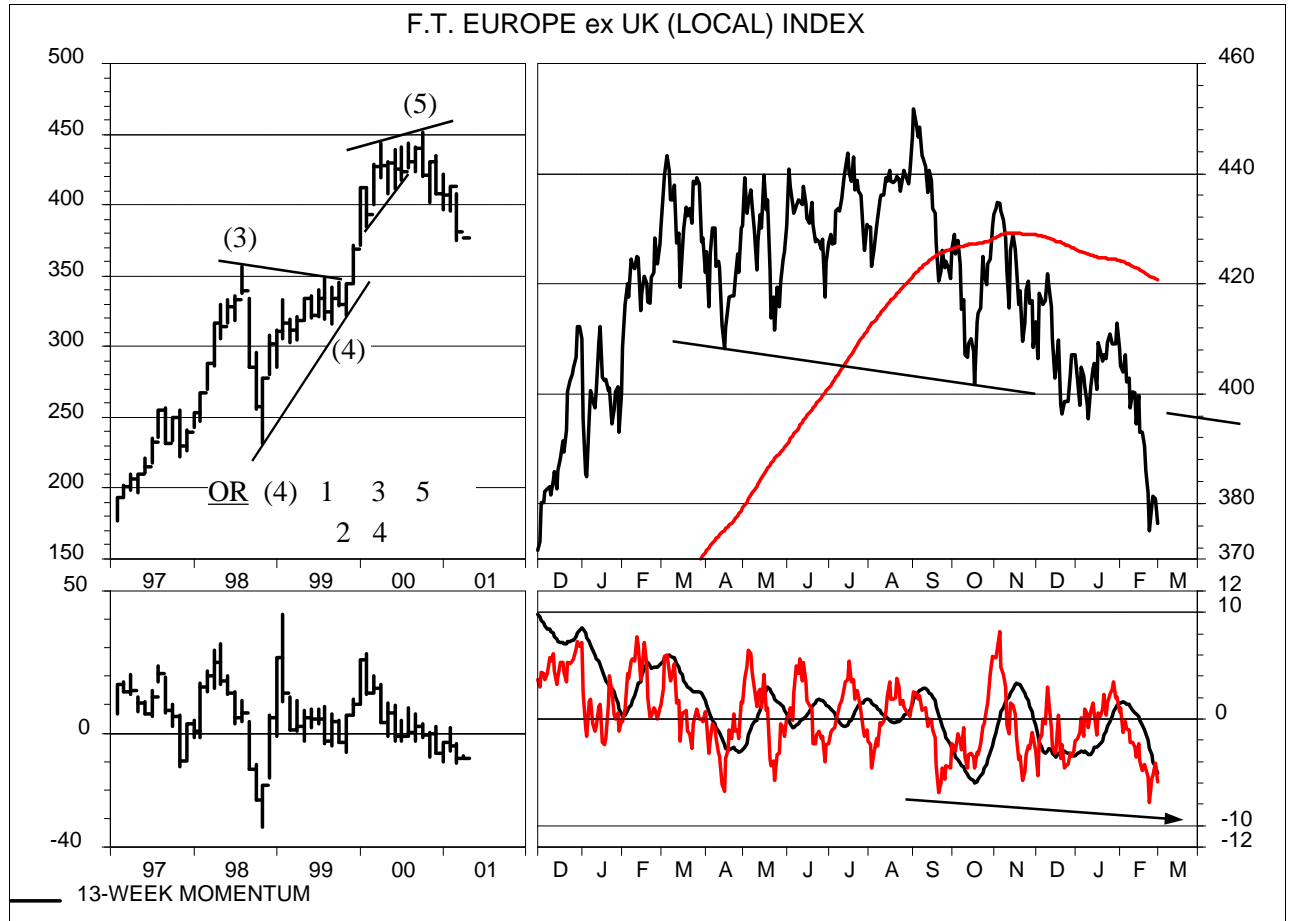
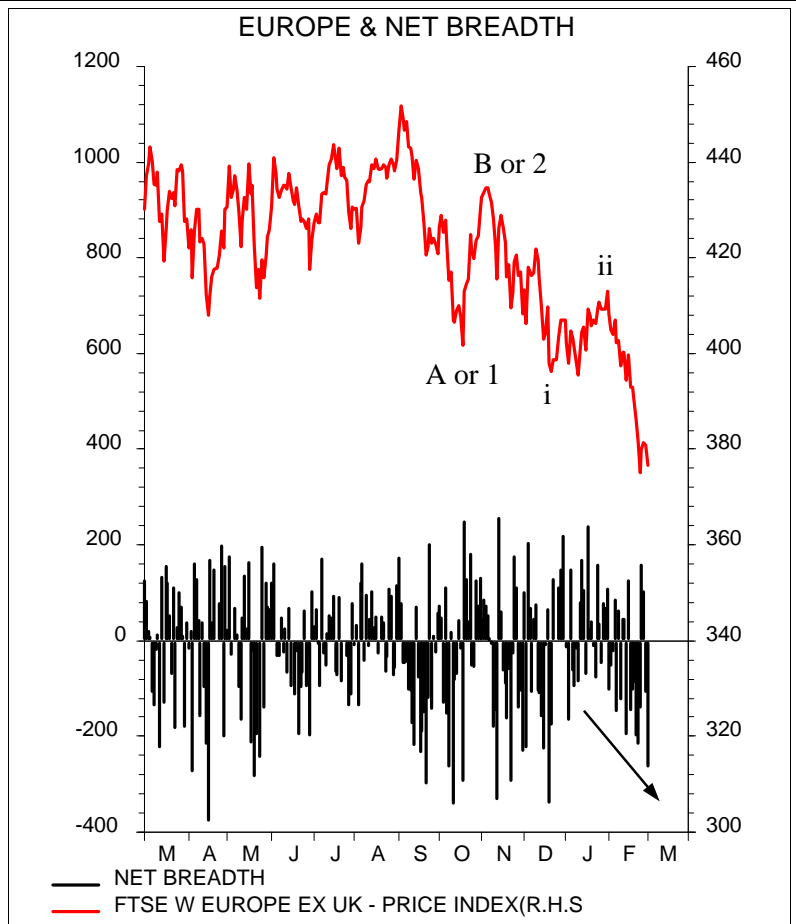
FT Europe ex UK (Local @ 377):

All bullish bets are off in Europe.

We set 380 as the effective “stop” on our wave 4 scenario, and a confirmed break has recently occurred. There are several ways of delineating the top pattern now in place, but minimum downside targets lie in the 335-350 range.

Although downside breadth is not as weak as in Q4, it is expanding again, and short-term momentum has just made a new low.

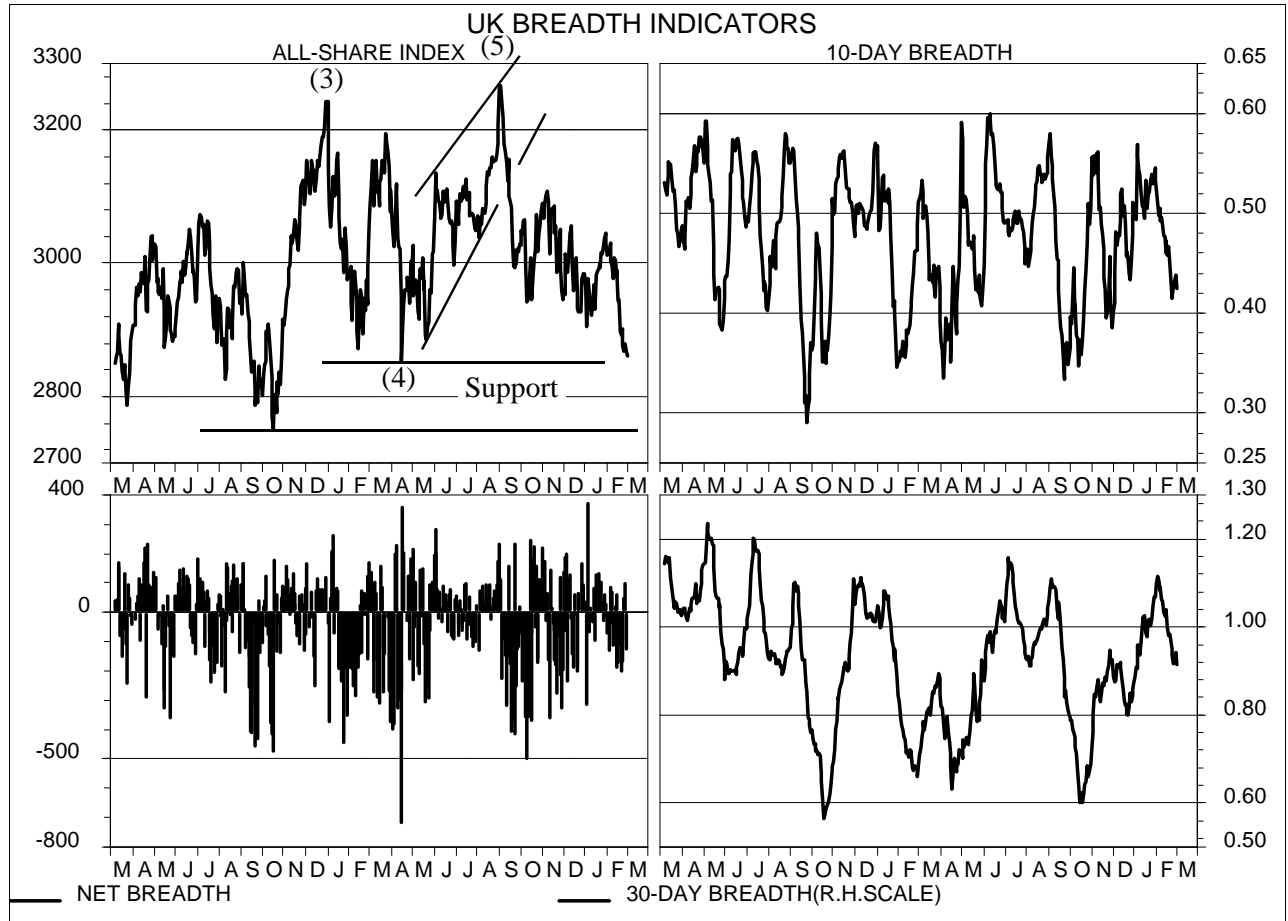
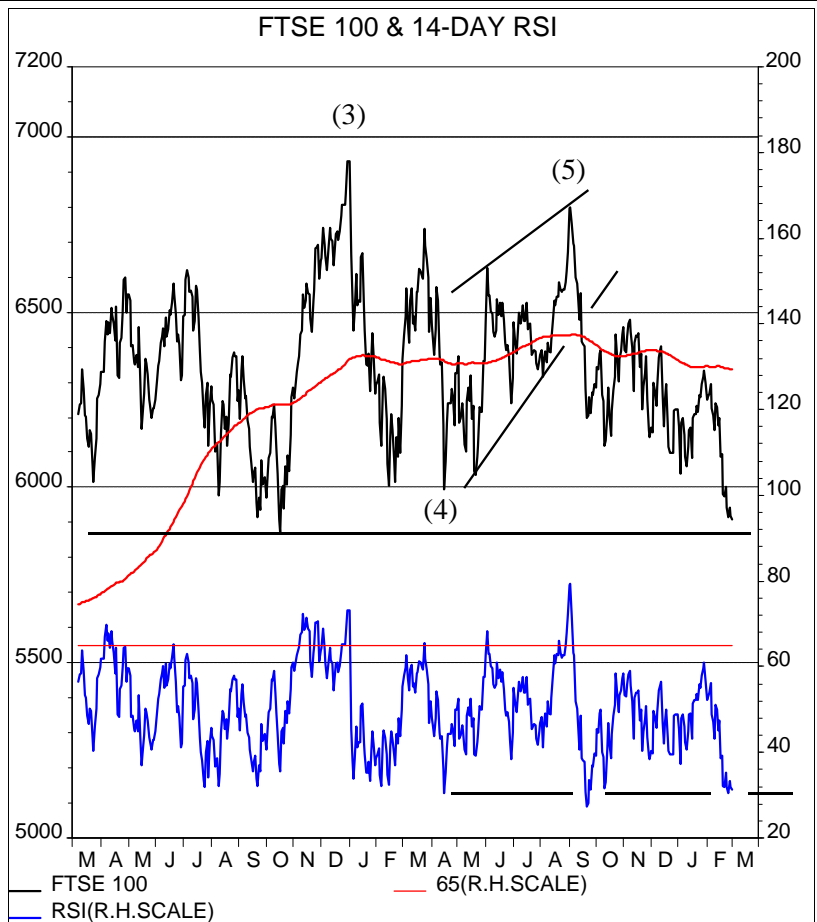
The downside acceleration also forces us to adopt the wave (4) Triangle scenario discussed in the recent Focus issue, and this places the Elliott target at the Triangle’s end at 322. The OR count would have an even more bearish implication.



FTSE 100 (5,909): Whilst we remain concerned at the toppy pattern here, note that the broader All-Share Index is only now testing its April 2000 low, as opposed to October 1999 in the case of FTSE 100.

The combination of support and the low RSI (opposite) should generate at least a brief rally, but we do not want to be too complacent because the breadth indicators are not similarly oversold.

We commented several weeks ago that we might subsequently be forced to treat the Summer high in the FTSE as a “failed” wave (5) like the S&P 500. Note that the All-Share counts nicely as a Diagonal Triangle wave (5) which did make a new high.

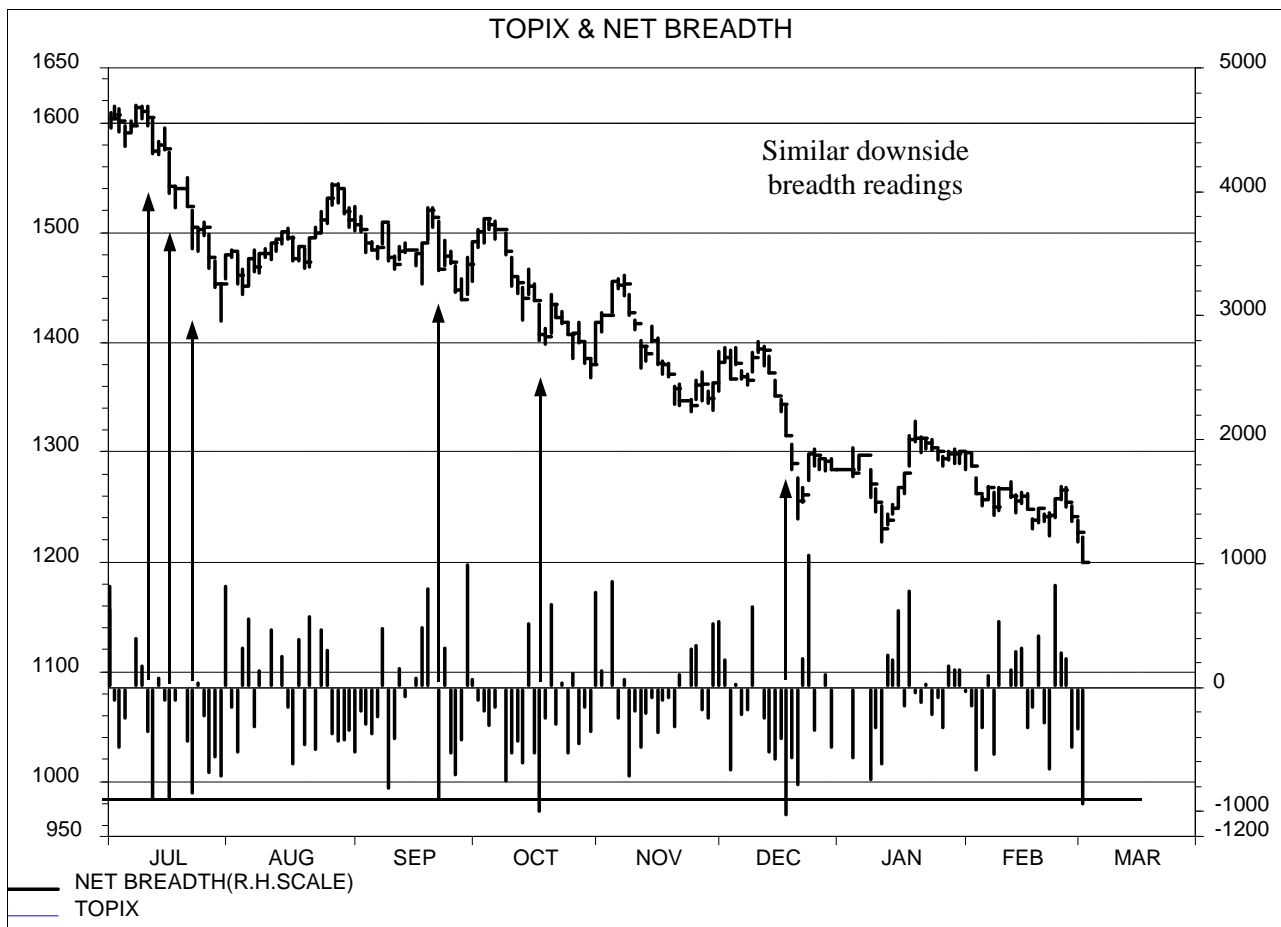
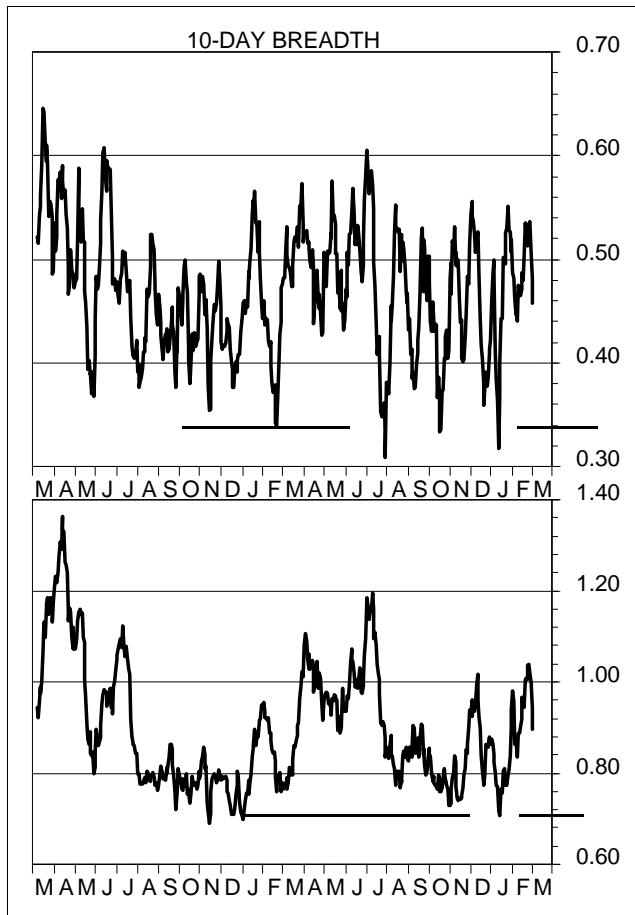


Topix (1,200): The index has now suffered its longest uninterrupted decline of the past decade. It remains medium-term oversold, with the weekly indicators dipping much as they did into the 1992 and 1995 lows.

However, in the short term, the Nikkei's 14-day RSI has just made a new low at 25% (not shown), and Net Breadth (below) has produced a daily reading more associated with on-going weakness. The 10- and 30-day breadth indicators are also well above oversold (opposite).

Last week we had thought that wave iii of C was ending but what we labelled as wave 5 was probably i of 5. The new lows make it probable that the next target at 1,169 will be tested prior to the wave 4 rally. Note the trend support there illustrated on page 10.

Despite the degree of decline in Japan compared to most other markets, we are increasingly concerned that it can not escape entirely unscathed by the



decline in the US indices when it gets under way in earnest. We expect the S&P 500 to trade below 1,000 at some point next year (possibly this), and this will probably mean an even larger percentage decline in NASDAQ.

Since Topix broke 1,350 it has taken us a while to work out what is going on. The decline has become so deep that the 2000 peak may have marked the end of an 8-year sideways trading range for Japan. This has unwelcome long-term implications, but they are at least consistent with our global outlook. Only a recovery back above Topix 1,550 would negate this conclusion. We need to develop this theme more in the coming weeks.

The long-term chart highlights the trend support in the 1,150 area, but also a pattern that we did not notice until recently (for which, apologies). The two Shoulders are small by normal standards, and only show up properly on weekly charts which include intra-day extremes. If that treatment is correct, it places an eventual minimum target beneath 1,100.



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