

MARKET STRATEGIES AND INSIGHTS

...for Sophisticated Institutional Investors

March 13, 2003

GOR BLIMEY; IT LOOKS LIKE A BOTTOM!

A pretty good indication of a bottom materialized today in, of all places, the British stock market, which soared 6.1% in its second biggest one-day gain ever (its only bigger gain was in October, 1987). Other recently hard hit European markets also joined the party, with gains ranging from 6.3% in France to 10% in The Netherlands.

Just why is this a pretty good indication of a bottom? Well, back on July 24th of last year the Dow soared 6.35% in its second-biggest one day gain since 1945 (only its gain on October 21, 1987 was bigger). At the time, after reviewing other big one-day gains, we concluded that the probabilities were very high that July 24th was the primary low of this decline. We added, though, that based on those same past precedents the probabilities were also very high that the low would be tested 6-9 weeks afterwards. Such, indeed, proved to be the case in both instances.

Although we cannot prove it, we suspect very, very strongly that the same precedents and conclusions apply to the U. K. market (and, by implication, the other recently hard-hit European markets). This means that the probabilities are very high that the European markets have now made a primary low, although there is also a pretty good chance that they will test those lows later on (perhaps in 6-9 weeks).

If the hardest hit markets in the world have, indeed, made a primary low, this is good news indeed for our market, which has been considerably stronger recently than the European markets have. This means that if the latter test their lows later on, the relative strength in our market could well keep it from having to follow suit.

The key to our market's ending its current bottoming/testing process, though, remains upside momentum. We are still waiting for a day when advances are more than four times declines, upside volume is more than nine times downside volume, and total volume is more than two billion shares (none of which occurred today) to sound the "all clear" from a short-term standpoint – and we are still waiting for the market to generate either "breakaway momentum" or a Lowry's 90% Upside Day to indicate that the full-fledged bull market that we expect to take place has finally gotten underway. The British stock market, though, flashed a green light for both itself and other world markets today, and its big gain should mean that the worst is just about over now.

-- *Walter Deemer*