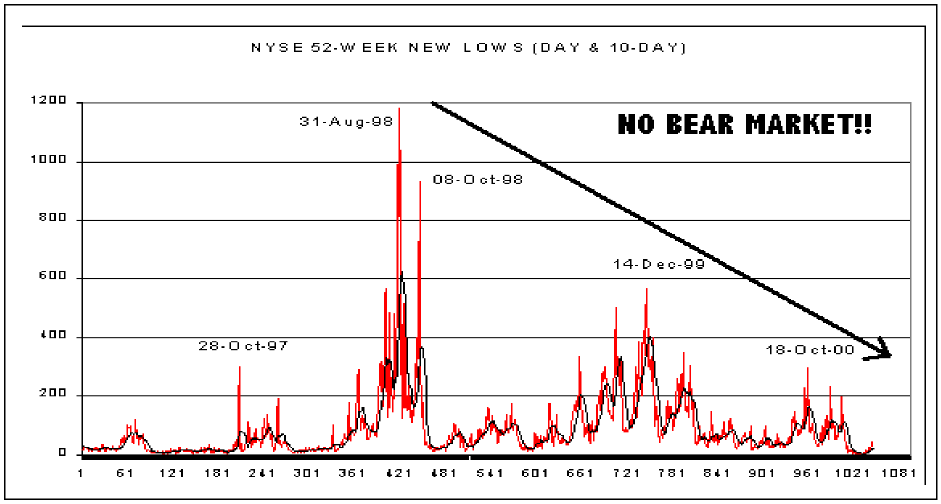
CRAWFORD Perspectives

February 27, 2001 Vol. 03/01



RALLY NOW! BEAR LATER?

It is generally conceded, even among optimists, that the NASDAQ is in a Bear Market. It is difficult to deny a 54% loss in a fairly Major Index. We have recommended staying away from that market since our April 3, 2000 letter (NASDAQ Index topped on March 10, 2000).

New price lows on both the S&P500 Cash and the NASDAQ last Wednesday were unconfirmed by either Advance-Decline Line, or by expansion of either New 52-week Lows list. In more detail, NYSE New Lows maxxed out at 295 on Oct. 18, expanding to only 231 on Nov. 30, 198 on Dec. 20 and a paltry 47 on Friday. The NYSE Advance-Decline Line is now +10,308 above its Oct. 18 Low! Even the weaker NASDAQ had 788 New Lows on Dec. 20, yet only 180 on their new price low, and their Advance-Decline Line is +3,037 above the December 21 low.

Couple these downside non-confirmations with the Astronomic turning points of New Moon early Friday morning (3:21am EST) and the Mercury Direct Station on Sunday (as we write), the FED pumping MZM at a 19% annual rate, the McClellan Summation Index peak above +3500 and the completion of a Complex Multi-Fibbonacci price pattern in the S&P March Future, and we have the possibility of an important turn in progress this weekend +/- 2 trading days. We may have seen the bottom already, or there may be one more scary plunge over the next 1-2 sessions to aggressively heighten the "fear" factor. In either case, a very tradable rally will ensue.

There are several caveats limiting the optimal case: 1) Selling the last few days has been very determined, whereby rallies have been unable to surmount even minor resistance. 2) Major Price Supports have broken in the three most popular price indices (and price is the final arbiter of portfolio performance). 3) Valuation, valuation, valuation…having lost respect in the "new Economy," is now coming back into focus as more investors sense the danger behind non-paying assets when fast-moving projections diminish. 4) Economic and earning concerns and 5) Continuing political upheaval at home and abroad with possible War on or about March 17!

Last month we wrote: "Some short-term indicators are Overbought at this juncture. The Astro-work is difficult for the next 1-2 weeks, three if you count the Mercury Retrograde period (Feb 3-25). Our markets could be choppy & confused and could manifest 'backing and filling' characteristics."

In no way did we expect this degree of deterioration in Major Market Price Indices. However, fixing a critical stare on a multitude of market indicator charts, we cannot find the Real Damage behind the façade. That is not to say that there has been little damage, just that the real damage has been hyped beyond belief, as was the advance by a handful of large caps on the way up. In the current case, the Mutual Fund Index in *IBD* has a worse decline than any other index, showing once again that the "Little Guy" remains the "Fall Guy"!

We have recently heard non-pro friends say: "I'm not worried. I have Mutual Funds" suggesting how they are not at much risk, as they are not in stocks. This means that the Wall Street propaganda machine has been effective in separating the small investor from his reasonable reticence. This Bubble Mania psychology may be a near-term positive, but it is a long-term mega-negative.

How pundits can argue that you can't tell if you're in a mania is beyond us. Any person with a thimble full of "Awareness" or just "Common Sense" and any long term charts of stocks or almost any economic data, has to feel a mite uneasy about the abundance of asymptotic (some say parabolic) curvatures accelerating towards infinity! In the meantime, we'll stick with Yogi's observation:

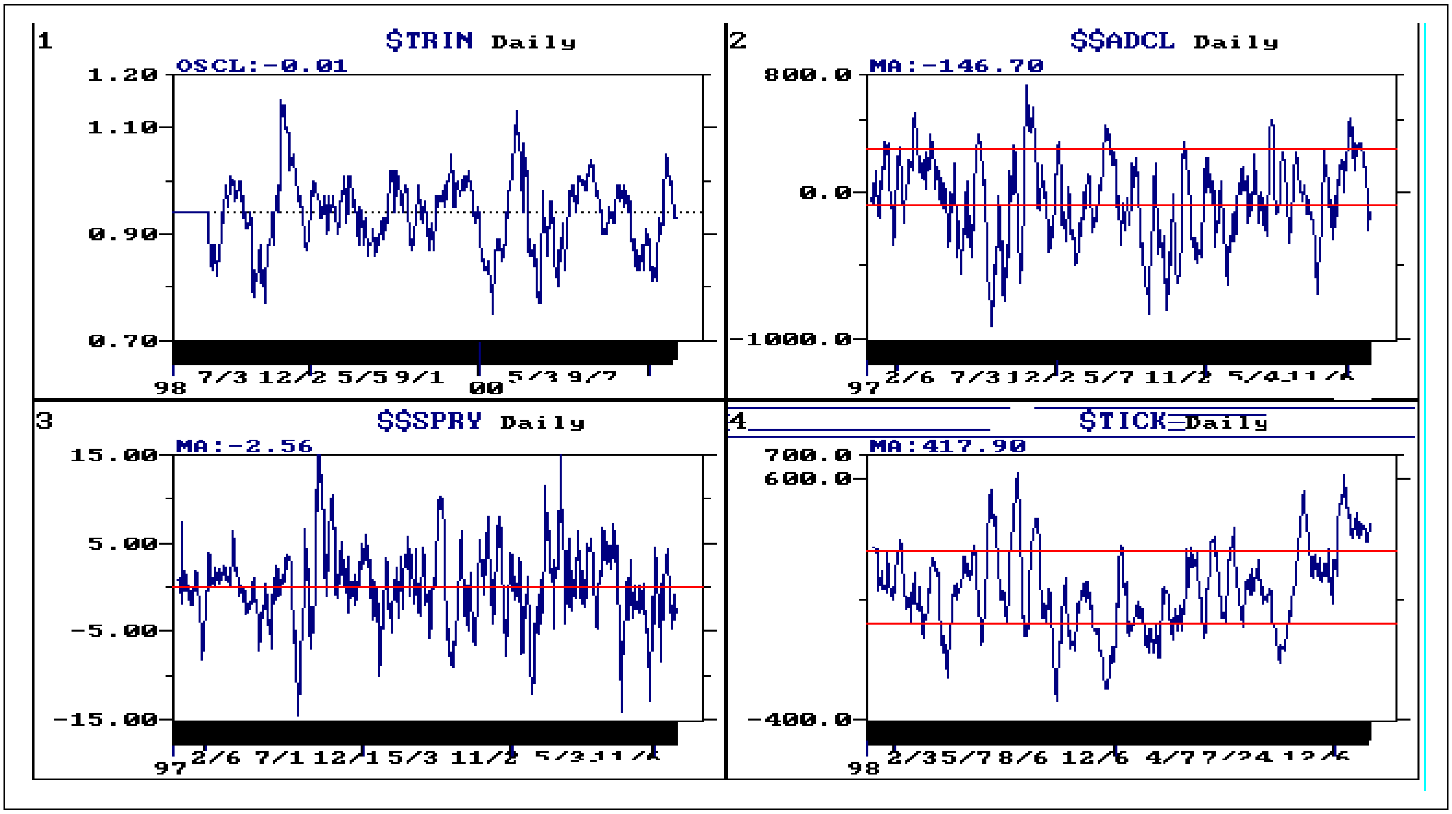
"It ain't over 'til it's over."

Vital Signs

COVERED ALL SHORT SALES AT CLOSE ON NOV 20 & BOUGHT ALL NEW 200% LONG POSITIONS ON OPEN NOV 24, USING FULL MARGIN.

POSITION STOPLOSS ORDERS –5% BELOW YOUR PURCHASE PRICE. THOSE MEASURING AGAINST THE S&P500 CASH WERE STOPPED ON WED CLOSE. THE DJIA BASED POSITIONS ARE BARELY DOWN AT ALL.

IF STOPPED, BUY 100 PERCENT LONG WHEN YOU GET THIS LETTER, AND ANOTHER 100% ON A CLOSE ABOVE 1331. KEEP –5% STOPS



PULL BACK WAS ONLY TO NEUTRAL, INTERNALS STAYED HEALTHY!

As a general rule, these indicators are positive when low and rising, weak when high and falling.

Chart (1) $TRIN is an oscillator consisting of a 55-day moving average of the ARMS Index (TRIN) minus a 21-day moving average of the same. This oscillator has overcome its downtrending pattern and blasted through to a mild overbought position, then pulled back to exactly Neutral during the recent unpleasantness. Not a bad showing at all! In the meantime, raw TRIN or ARMS figures have risen to just under 130 (5-day) and 120 (10-day) while the 55-day (longer term component) has risen to levels surpassing those of the October bottoms of prior years! “The status of these longer series will likely hold the degree of market weakness in check.” We still think that.

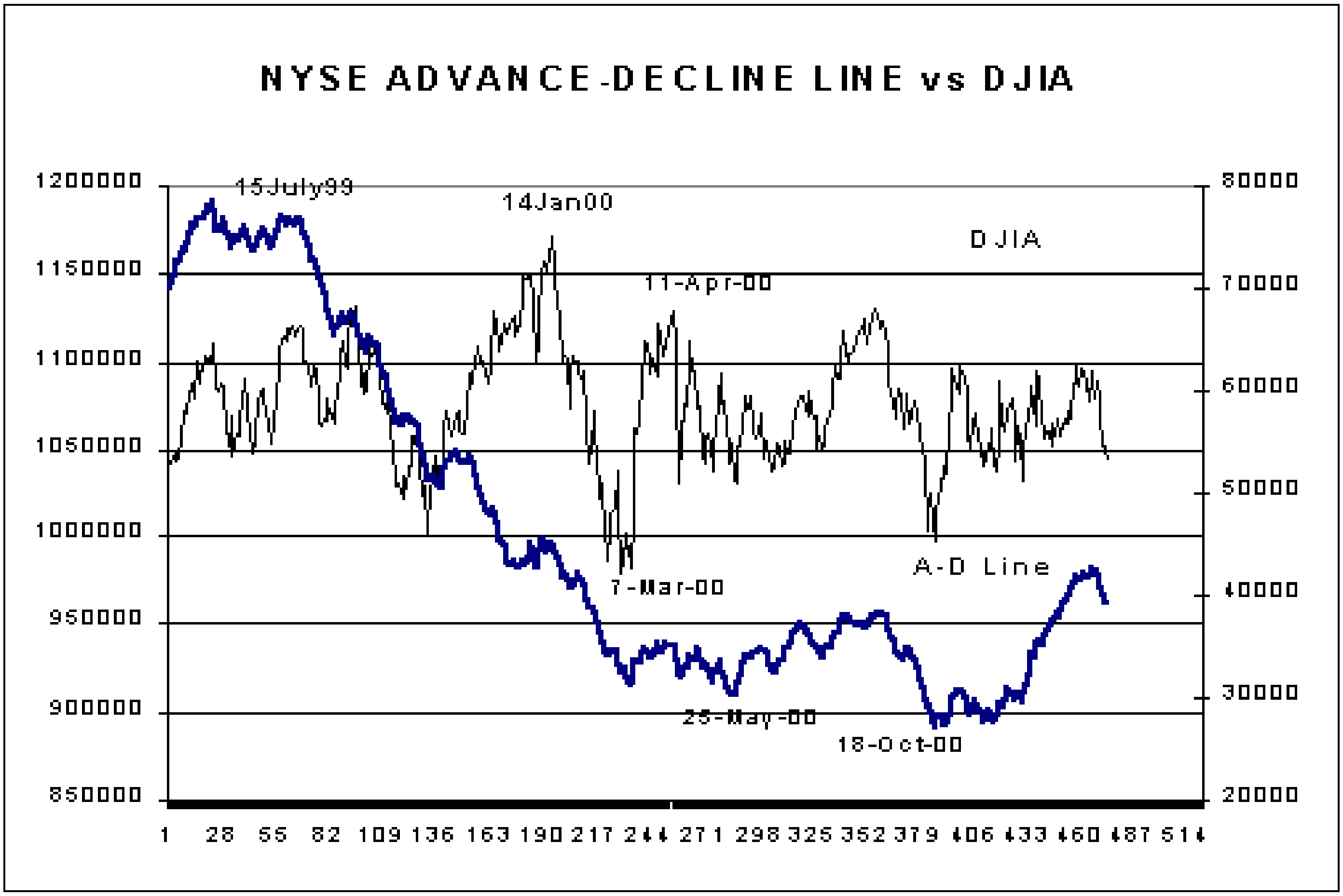
Chart (2) $$ADCL is a 10-day moving average of the net change in Advances-Declines (NYSE). This indicator has now matched or beaten the highest readings of the last two years, a tremendous positive. Completed a base, now with higher lows and higher highs, this indicator has strongly manifested the Bullish case! Remaining extremely healthy! We do not offhand remember such an Index selloff accompanied by such widespread strength in the broad market of stocks. These are clearly Bull Market statistics!

Chart (3) $$SPRY is a measure of "smart money" action in the S&P futures. This indicator actually matched its strongest reversal pattern of 3Qtr 1998! Recording its highest downside volatility since that August event, which would tend to be at a market low, or at least the beginning of a base with an eventual BUY. Now we have a third break that held the previous lows constituting another “downside non-confirmation” and look forward to an additional “higher high” to confirm that the higher trends are persisting.

Chart (4) $TICK is Closing TICK (NYSE 10-Day). This index was the first to rebound to sharp “new highs” after a “Moderate Oversold” condition back in September. They have never gone lower! Continuing uptrend in the face of New Price Index Lows highlights further the “false” nature of outer appearances and is a strong indication that the “complex base” formation will resolve on the upside. Very positive.

We present this page of analysis as “Exhibit A” that the recent decline was made to “look” much worse than it actually was! Not One of these measures indicates anything more than a minor corrective phase. This is quite remarkable in light of the Index chart patterns breaking major support!

“The weekly breadth … has recovered 83% of what it lost since it peaked in April, 1998. One would be hard pressed to find a bear market rally in which this market measure acted so well.’ “For many weeks, both daily and weekly new highs have exceeded new lows by a good margin. This is a sign of price strength, regardless of what the popular averages are doing. Again, not likely to be a bear market rally condition.” *The WINELL REPORT* (342 Madison Ave #1422, NY, NY 10173)



APPEARANCES are DECEIVING!

The most thorough and least manipulatable numbers derived from stock markets are the Advance-Declines and the New 52-week Highs and Lows. Additionally, broad brush strokes are administered by things like Percent of stocks above their 200-day (30-week) Moving Averages (recently 76%, a phenomenally strong reading for a time when Major Indices are flagging, at best, or tanking, at worst).

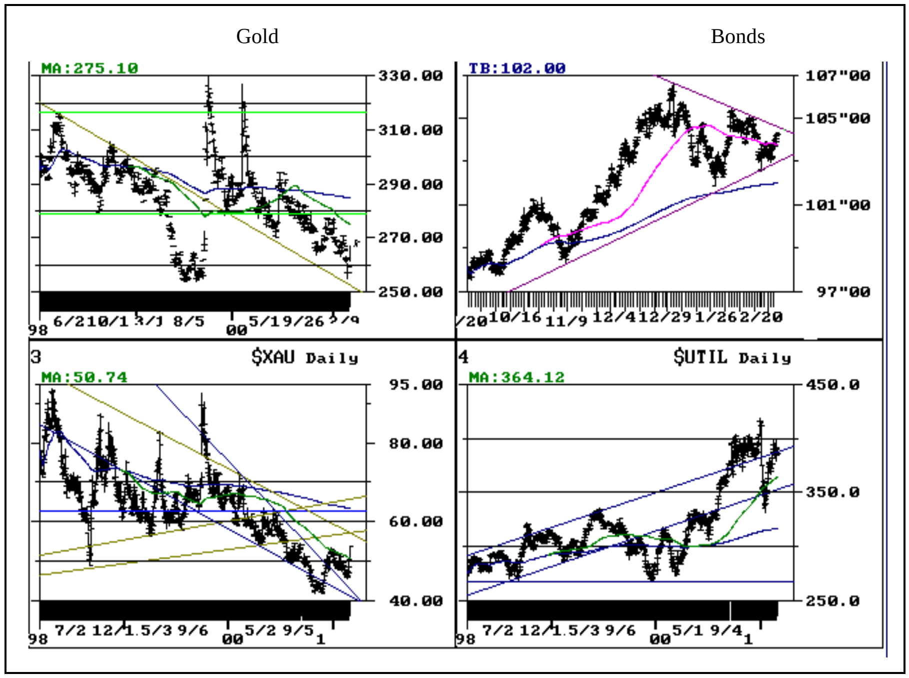
The last three months, we have shown a remarkable combination of charts illustrating just these sorts of relationships. In December we presented the 21-Day ARMS or TRIN Index at extreme readings and RYDEX Money Market % to Total Funds measuring a Flight to Cash (safety) by an important group of traders. Yesterday, those levels were superceded by the 2nd highest reading in our 3½ years of history! The 55-day ARMS has continued rising to some of its highest historical levels.

Our January letter showed the NYSE New Highs expanded to the highest levels since early 1998 and the $VIX (CBOE Volatility Index) spiking up near 38, highest since the price shocks of last April, and before that to the important lows in October 1998.

In February, we highlighted the extreme positives in the New Highs/New Highs+New Lows, which have ascended to nether regions untouched in at least 3.5 years. Our other chart in that issue was the Internal Merrill Lynch Put/Call Ratio as it was just passing the highs of 1998 and approaching those of 1991!

Here we continue this series with the NYSE Advance-Decline Line and the Dow Jones Industrial Average. It is a picture of glowing health across a massive spectrum, not a sampling, but a totality! Money in aggregate is NOT leaving this arena. With the FED pushing the MZM at a fantastic 19% rate, some significant portion is finding its way into our securities markets. We rest our case.

The **CRB Index** is holding in the middle of its range since last September. Momentum has ceased, and the pattern is sideways until the trading range breaks below 220 (where it is now) or above 240. **Crude Oil** drifted off into the middle of its range after establishing lows at year-end near 25 and recent highs at 31 ½**. Heating Oil,** after forming a nice base, broke to new lows for the move this week. **Natural Gas** has collapsed to 5.1 from its Jan 9 high above 9.0. **Soybeans, Wheat and Corn** broke below their October lows, and remain in severe downtrends. The **XAU Index** is moving ahead smartly last couple days. We said last month that it: "… may be completing a Head-and-Shoulders Bottom." **Silver** making bottoming noises as well. Bottoming action in **GOLD** recently, seems to be breaking sharply higher this week (+4.90 Monday, chart page 3)! We are Buyers again above 271! We said to BUY more at expected low on Dec 9 at the Jupiter/Neptune trine. Tech action remains strong.



The **LONG BOND** languishes at midrange, while shorter maturities break dynamically through resistance on expectations of further FED Rate cuts! Former FED governor Wayne Angell said Friday that he gives FOMC 60% chance of lowering rates again This Week! Monday, he raised the probabilities to 80% of an immediate new cut! Other former governors are not so sanguine, but the short end charts are becoming more exciting by the day. We'll take a piece of Wayne's World!!

The **U.S. Dollar** double topped while many currencies bottomed (relatively) on the two New Moons in October and November! Then they all reversed between the Eclipses, and now appear to be forming A-B-C corrective waves, before resuming their Primary trends. Price momentum lines appear to support $ Down & Others Up.

ASTRONOMIC ACTIVITY

MAR 5 = Sun squares Pluto = Coercion, use of force, interest changes.
MAR 8 = Venus goes Retrograde at 18 Aries. International Woman's Day.
MAR 9 = Full Moon @ 19 Virgo during the trading day = 12:23 EST = Obsessive Analysis.
MAR 13 = Mercury (electricity-communication) takes negative hits from Venus and Saturn. Phones down?
MAR 17-18 = Mercury enters Pisces, semi-squares Venus in Aries (both in signs of their fall), St Patrick's Day!
Pluto Retrogrades while Mars conjuncts it! Violent, sexual, explosive. Low end of Male-Female.
MAR 19 = Things go much better with Venus trine Mars and Pluto today. Relationships And markets!
MAR 20 = Spring Equinox (8:31am EST). We believe most of these energies are for UP markets!
MAR 27-28 = Powerful energies play over mixed markets. Lot of movement ending with little change!
APR 9-10 = Mercury enters Aries = Things come into sharper focus, more interesting, Fun
as Full Moon in Libra heightens relationship outings. Stock Market TOPS says Bradley Model!

ATTENTION: Next month's letter will be published April 2, 2001.
Our twice-daily HOTLINE update is available at 10AM & 2PM EDT for $4.30 total per 2-3 minute call
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