

CRAWFORD *Perspectives*

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DERIVATIVE/ACCOUNTING BOMB IN THE WINGS?!

January 25 edition of *WSJ* lead article subtitled: "Insurers Balk at Paying Bank Up to \$1 Billion in Claims On Complex Transactions"! Upshot is that Insurers won't pay off if there is accounting fraud, as alleged in the Enron case. What no one knows right now is: What is Fraud, and what Isn't? Many "creative" and "aggressive" accounting standards, on the fringe during the Dot.com era, have yet to be tested in the courts.

Of the \$20+ Trillion of Derivative contracts outstanding, how many are still covered by insurance, if you apply the Enron standards as "fraudulent"? Your guess is as good as mine, or as anyone else's. We'll bet that some "midnight oil" has been burned around huddles with accountants and lawyers in smoke-filled rooms these last days where the Major Players are trying to answer that same question for themselves.

It is not easy to contemplate that in the Free World Free Market Capitalist societies, that Business Contracts are on a par with those of the Third World, until some of these questions are sorted out!

VITAL SIGNS

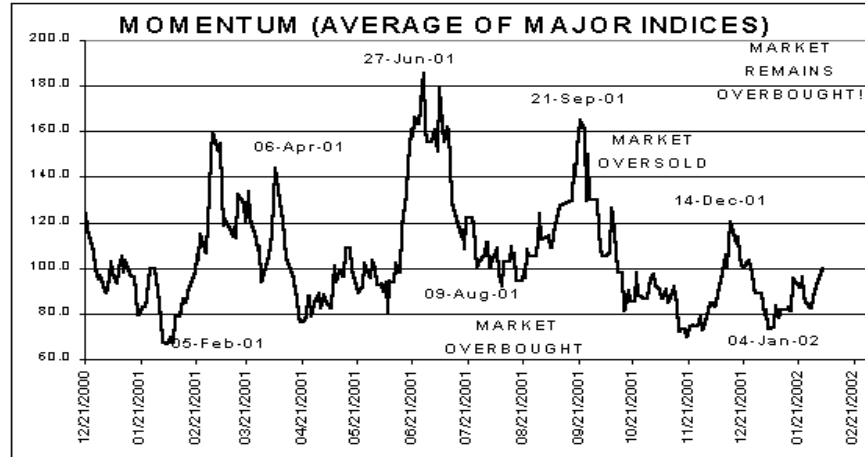
IN OUR AUG. 6 LETTER, WE SOLD SHORT 100% (WITHOUT USING MARGIN).

WE INCREASED SHORTS TO 200% (USING MARGIN) AS OF OCT. 15 (DJIA @ 9347.62 OR S&P500 @ 1089.70)

OCTOBER WE RAISED OUR EXIT POINTS TO 10,320 DJIA OR 1154 S&P500 Cash Close Only

THE S&P STOP WAS HIT ONE DAY ON NOV. 26 ACTIVATING A SHORT COVER BASIS S&P.

SHORTED S&P500 AGAIN JAN. 6 LETTER with a 3% STOP. DJIA REMAINED SHORT!



Someone recently compared the Earnings reported to shareholders of multiple NASDAQ companies with those same Earnings reported on their 10K filings with the SEC and found an AVERAGE of \$1 BILLION DIFFERENCE!!! As new 10K's are filed over the next few weeks, Accountants are going to insist on airing more dirty linen than ever before, to Cover their own Rears. Hedge fund manager, David Kass estimates that with "True Accounting" the Price/Earnings ratio on the S&P500 is closer to 63 than the normally reported 40.

Friday, the Nikkei Dow fell below the U.S. Dow Jones Industrial Avg. price for the first time in 46 years! After running Up to nearly 40,000 in late 1989, down about 75% over a 12 year period. Now That was a REAL Bubble!! Some economists and market analysts say you can't tell when you're in a bubble, Until the bubble bursts. We say, you can't tell if you're in a Bubble, if you have bought the brain-numbing propaganda of the media Hype, and thereby lost the power of independent rational thought! When you join a mob, the mob has its own agenda.

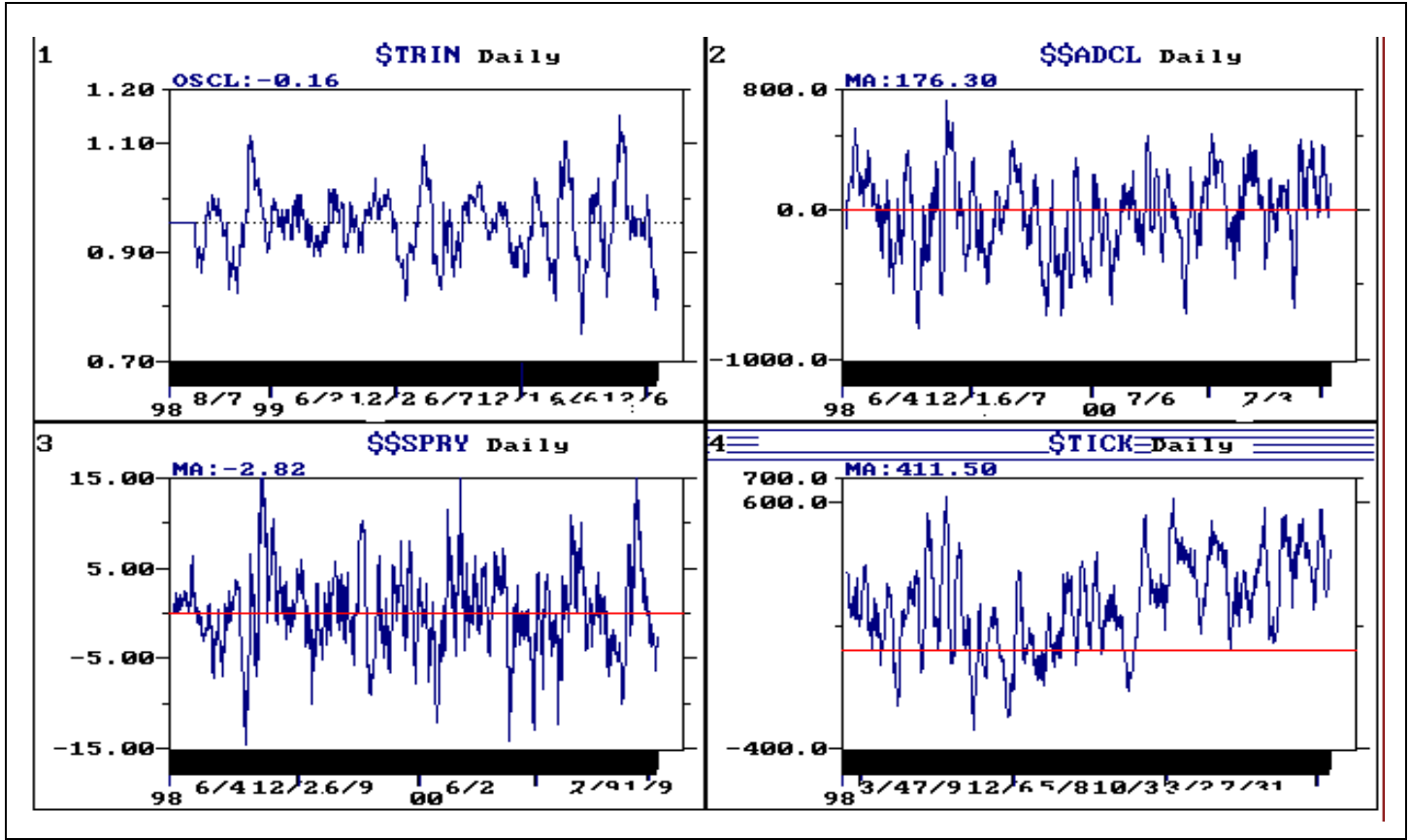
Astrologically, the worst date in the next couple of months is March 31, which happens to coincide with the Fiscal year-end for Japan. Will they want their DOLLARS back this year? After that date, their government will only insure (there's that word again) bank deposits up to 10 Million Yen, or about \$82.500. Japanese, some of the world's best savers, are panicky, and many are putting the money into GOLD!

That's another whole story. The Derivative structures in the GOLD market are huge relative to actual remaining supplies, and that price action is becoming UNSTABLE. You need STABLE to deal in derivatives. Some of our own large banks are taking drastic hits from Enron, Argentina, K-Mart and rising personal and business bankruptcies. If they lose control of the GOLD market (they have controlled it illegally, according to lawsuits coming up soon), we may be bailing out some Major Banks with our TAX money.

We PREDICT some kind of MELTDOWN as we approach quarters end, March 27-31! That coincides, as we wrote last month, with the only Saturn/Pluto Opposition in Heliocentric (Sun-centered) orientation. Mars conjoins the Saturn opposing Pluto while Mercury squares them all, completing a very dangerous T-Square.

Technically, the weekly chart of the S&P500 Index, shown in the Sept. 3 and Dec. 7 CP letters, remains extremely negative with 9 of 10 technical measures in "Warning-Danger" status. The VIX, or CBOE Option Volatility Index has joined this dour list with an upside breakout from a base, a trendline, and a Moving Average (just as it did in our August 6 newsletter)! Sentiment, and Asset Allocation Models at Wall St. firms are at Historic levels of Bullishness (a Bearish/contrary indicant), and On-Balance-Volume (OBV) has turned uncharacteristically dangerous.

Therefore: **WE REMAIN ON HIGHEST ALERT, WITH MOST DEFENSIVE STRATEGIES!**



STRAIGHT DOWN...OR BOUNCE FIRST AND THEN DOWN?

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 continued to swing widely in an unusual pattern of Higher Highs AND Lower Lows?! Normally, this configuration is characteristic of an approaching low. This time, we perceive a similarity with this index with the Feb.-Mar. period of 2001, wherein TRIN became oversold while Internal Market Action was "sloppy" or worse! The 10 & 21-Day raw ARMS are likewise indicating that possibility. Implication is that SELL dynamics are large & persistent.

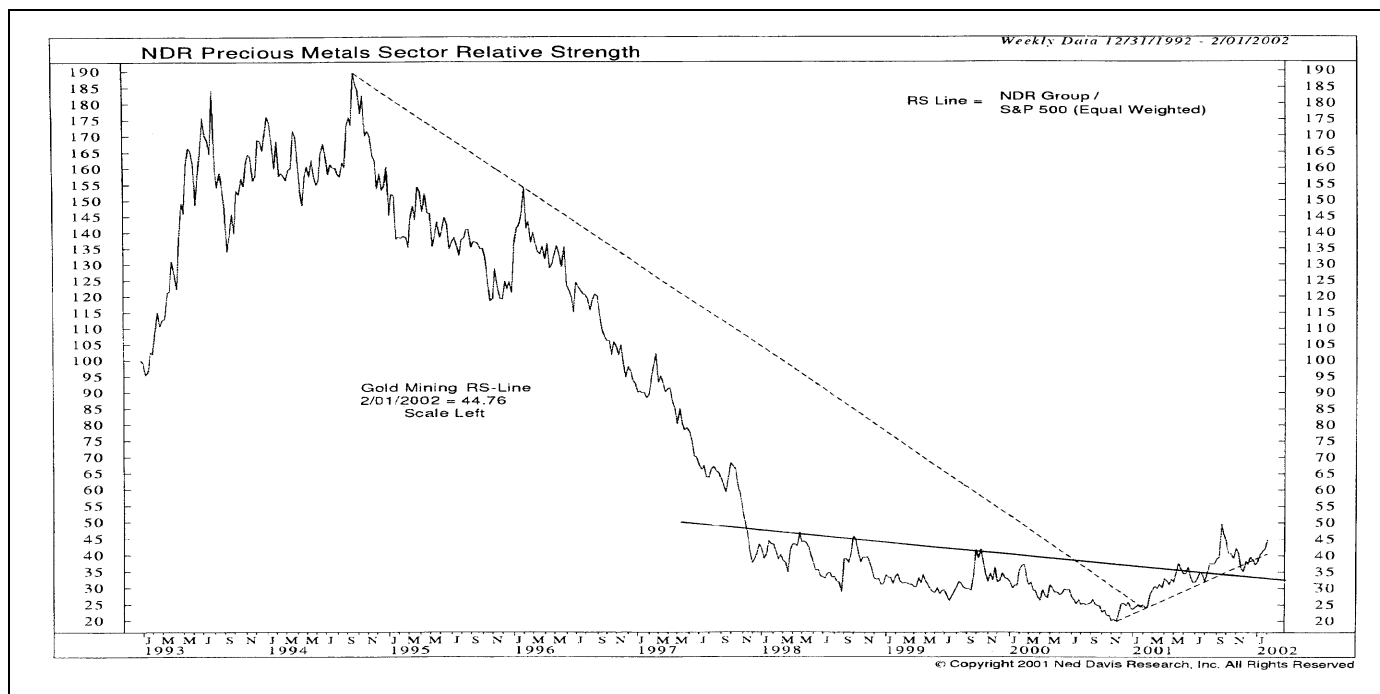
Chart (2) \$\$ADCL is a 10-day moving average of the net change in Advances-Declines (NYSE). This indicator is demonstrating an ability to remain consistently near the range highs, though those highs are exhibiting a series of Declining Tops there. We think chances are good for at least some form of pull-back in stock markets worldwide, IMMEDIATELY! This 10-day change has a remarkable tendency to base out at near the same level.

Chart (3) \$\$\$SPRY is a measure of "smart money" action in the S&P futures. The pattern of rising bottoms in the extreme low range is encouraging, and the September 21 bottom has extended that positive pattern. It seems to be feeling for support in this area. We would prefer (and expect) to see a Washout to the lower range of previous lows. Now

trending towards the lower mid-range from that extreme, must be counted at least mildly negative, and perhaps worse. There is now room for another thrust up. It can go either way from here.

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 last year. They have never gone lower! The ability to hold within a long term rising pattern is a very healthy sign. Recent lows were not violated on that last dip, and a more conservative upward sloping long term trend remains intact. (There is some concern that this indicator, as well as TRIN, could be affected by trading in 1 cent increments. The amount and quality of the current price decline will decide the analysis.)

The BRADLEY MODEL (shown last month) continues higher into its yearly HIGH in early April. We caution subscribers that the BRADLEY will sometimes invert, with the turn dates accurate, but suggesting a Low where a High develops or vice versa. This has occurred a number of times in 2001, most recent being a short term peak where the Index pointed up a Low on Dec. 4-6. Sometimes it nails a year, with high and low dates and direction EXACT! We insist on technical confirmation, as the astronomic energies measured thereby are by no means fully understood!



AFTER ALL THESE YEARS, GOLD IS ON THE MOVE!

BEST STOCK GROUP DURING 2001, BEST SO FAR IN 2002!

Chart above is from NED DAVIS RESEARCH and measures their Precious Metals sector vs. the S&P500 Index. The last important High looks like late 1994, although the All Time Peak was surely in January of 1980. This indicates the Low in Relative Strength was November, 2000, and the baseline breakout was Aug.-Sep. this year. Late 2001, this group pulled back to the basing trendline, and appears ready to experience a Major Impulse Move Upside! ! The XAU (Gold & Silver Mining Index) has exceeded the 62 level and is up, even against the US\$!

We are pleased to have turned Long Term BULLISH on this Group in April, 2001, when our calculated Very Long Term ASTRONOMIC Cycles projected important LOWS! The Mining Companies have been in a major consolidation phase for a very long time, culminating with the recent merger of Newmont (NEM) with Normandy of Australia and Franco Nevada, forming the world's largest producing company!

Investors favor this combination, as they do very little hedging, or Selling Forward against upcoming production. Therefore, if Gold does begin to move, the Newmont group will be more highly leveraged in favor of the potential rise! The Point Spread between NEM and ABX (Barrick), a heavy Forward Seller, has leapt from under \$3.00 to \$5.00 in the last two weeks! This means "THE GAME IS AFOOT", but be careful, as volatility can cut Both ways. To keep up with the day to day drama, go to www.LeMetropoleCafe.com or www.GATA.org

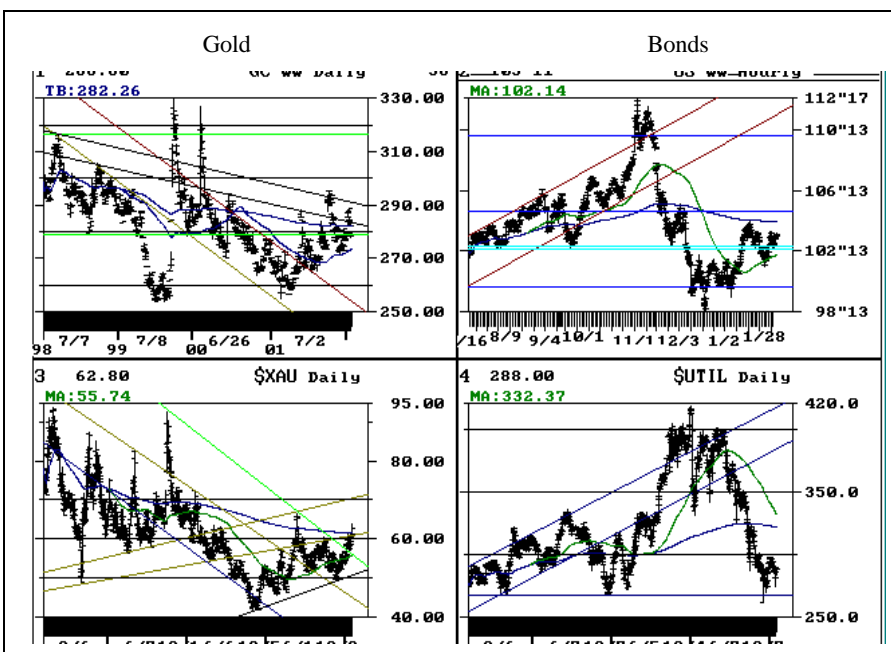
Crawford Perspectives, principals, employees and hopefully clients are participating in Metals Investments.

In this space in the January issue, we included a chart of the VIX or CBOE Option Volatility Index, which had returned to the low end of its recent range, indicating potential market weakness. Last week, that Index broke out Upside, as it did in early August, rendering a Market SELL! This Index retreated hastily on the retracement rally, and is not yet so certain of an impending decline. New recent Highs above 27 would firm up our Sell opinion!

Our NEW twice-daily 900# HOTLINE at 10am and 2pm EST cost \$4.30 per 2-3 minute call is 1-900-73-SOLAR!

The **GOLD** is getting some **Major attention, and better volume than in many years** Basing now since mid-October, a Head-and-Shoulders bottom pattern has completed, with the low of the Head on December 7. See page 3 for the Long Term picture and more detail re Gold stocks and the **XAU Index**. Aided by long term cycle strength, and bolstered by broad based commodity strength, we are confident that a Major Move is Imminent. This month the **SILVER** has retraced a portion of recent gains as **COPPER** has exceeded multi-month highs, the group champ to date.

The **OIL COMPLEX** charts are remarkably similar to that of **GOLD!** **MONEY IS GOING TO BE MADE IN THE COMMODITIES ONCE MORE!!!**



The **CRB Index** DID NOT pop all the way up to just under 210 in Jan. That was a bad read from an IBD chart. The METALS, T-BONDS and OIL groups are all making positive chart pattern bases and breaking above recent resistances, trendlines, etc. We believe that assets in the ground will soon again become the preferred investment vehicles. The Russian stock market was one of the best in 2001, and **OIL** is the bulk of the reason why!

Although **Corn** has drifted to new price lows on lower downside momentum, **Soybeans and Wheat** have held barely above recent lows. Their respective MACD's are attempting to turn UP! **U.S. Dollar Index** has recovered ALL of its drop from high on the July 5 Solar Eclipse! Topping out at 118.0 the day after Thanksgiving, it dipped to 115 & small change. With a Lower Low and Higher Highs, it may be tracing out a MEGAPHONE, or Broadening Pattern. That would be a TOP in line with our forecast of a Downtrend once the new EURO is distributed by the end of February.

Do you REALLY think the **LONG BOND** will not come back into play, now that the surplus is gone?? Looks like a minor Head-and-Shoulder forming over the last two months! We think they are still a BUY for NOW!. (Chart is similar to that of GOLD, which we adore!)

ASTRONOMIC ACTIVITY

After a very intense January, early February seems quiet and tame.

- FEB 7 = Venus conjunct Uranus = Thur. AM could be quite "bubbly" but Saturn Direct Station brings a serious evening as Scandal may come home to the White House!
- FEB 8 = Mercury Direct Station and parallel Neptune = good for spiritual studies. News of Pharmaceuticals, OIL!.
- FEB 10 = MARS enters N. Lat. New MARS cycle begins! For the East Coast, Pluto is most exalted = A Mars/Pluto cycle?!
- FEB 12 = New Moon conjoins Uranus before the open = Overseas News makes our markets nervous, edgy. Hacking/Virus?
- FEB 13-14 = Sun conj. Uranus, Moon parallel Sun & Pluto, Mercury to Aquarius = Expect high volatility, can be either way.
- FEB 24-26 = Mercury conj Neptune, Venus square Pluto, Sun square Saturn = Outer-planet involvement = many affected!
- MAR 1 = Jupiter direct Station = More "Jovial" atmospheres, relief from some tensions. Mobilization of monetary aid.
- MAR 5 = Mars 135 to Pluto = Increasing Violence next few days.
- MAR 7-8 = Venus enters Aries, Sun squares Pluto = Coarsening, hostile. Stocks most likely DOWN!
- MAR 13 = New Moon at 23 Pisces on an important fixed star, squares the Moon's Node = A very difficult Moon cycle starts

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