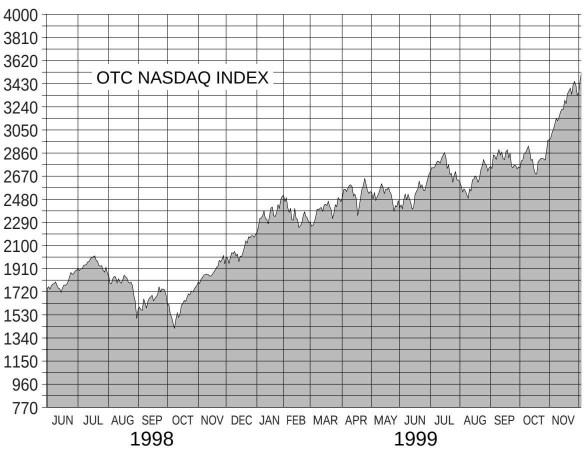
INVESTECH® RESEARCH

MARKET ANALYST

VOL99 ISS17 Technical and Monetary Investment Analysis DEC 10, 1999



4 Weeks Ending December 3, 1999

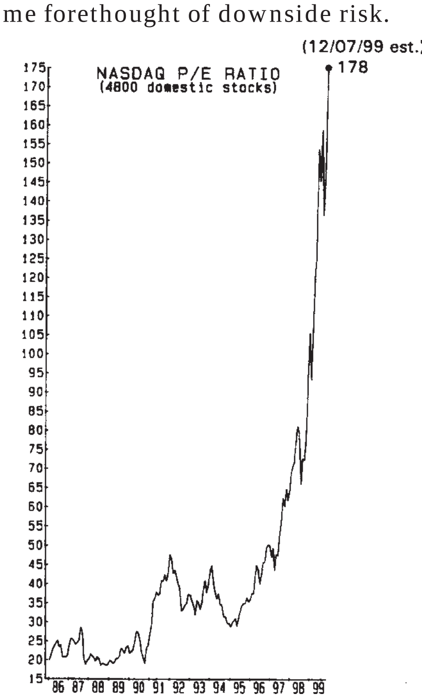
	HIGH	LOW	LAST
Financial			
Discount Rate	5.00%	4.75%	5.00%
Federal Funds	5.72%	5.20%	5.44%
90-day T-Bills	5.17%	5.03%	5.09%
Stock Market			
DJIA	11286.18	10595.30	11286.18
DJTA	3099.67	2883.91	2928.80
DJUA	302.18	276.94	283.17
NASDAQ	3520.63	3125.04	3520.63
Silver	5.32	5.07	5.15
Gold	303.40	283.90	283.90

INSANITY RULES!

An asset bubble, once created, cannot be stabilized – it must inflate or pop.

It is sometimes forgotten what keeps stock exuberance in check historically. In other words, what exactly is it that keeps the market from soaring ever higher without limit? Two things – a respect for valuation and a respect for risk. Very few people are foolish enough to buy a house that is selling for more than twice its appraisal, or more than it might cost to build. No prudent businessman would buy a small business without considering its present value, cash flow, and earnings. And few would make such an investment commitment without some forethought of downside risk.

But in a financial asset bubble, the rules change. First, valuations no longer [seem to] matter. In May 1929, it was argued that *"there has been a fundamental change in the criteria for judging security values."* [*1] The same argument frequently appeared in the late '60s, in Japan in the late '80s and, of course, today. **In a bubble, the link between prices and historic valuation is broken.** Yet before you view that as financial utopia, see what the consummate value investor Warren Buffet recently said [in this issue's Personal Perspective].



With valuation out of the picture, that leaves "respect for risk" –or lack thereof– as the controlling influence. There are nutty things happening on Wall Street, not the least of which is the capitalization creation in the Nasdaq OTC market. Today's IPO mania, Internet craze, and high-tech fever have sent this cumulative P/E (for all 4800 domestic stocks on the Nasdaq) further into the stratosphere. **Remember, this is <u>not</u> value (prices) shown in this graph… it's <u>valuation</u>.** Soaring prices, by themselves, are not dangerous if backed up by earnings or book value. But when valuation soars, there isn't any way one can look at this picture –and the expectations it signifies– without coming to the conclusion that all this is going to end badly. Crash or not, the upcoming bear market will likely be viewed as one of the most devastating in history… because of the number of investors impacted and the amount of money that is lost.

*1 Outlook and Independent – May 15, 1929

Bear Market Evidence
You're NOT Going to Believe This...

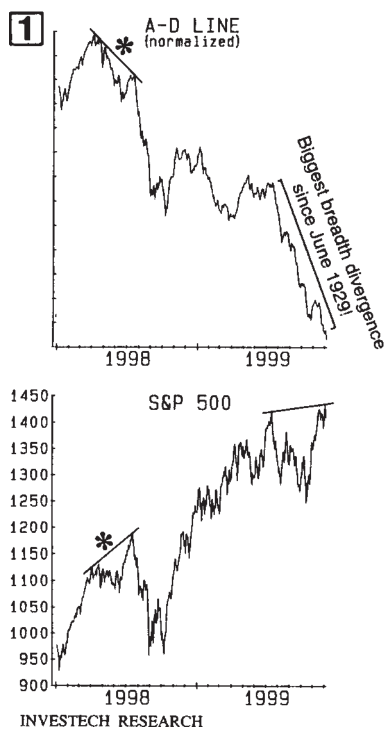
With the Nasdaq and S&P 500 Index hitting new highs within the past week, nary a "discouraging word" could be found on Wall Street. But what is unfolding in the subsurface is something to behold. In fact, it's something you'll probably never see again in your lifetime!

Last week, the S&P 500 Index hit a new yearly (and record) high. Fine!... but this happened in the same week that both the Dow Jones Utility Average and the Advance-Decline Line hit a new 12-month low. *When in history has that ever happened before? The answer is, "Never! – not once in the history of the New York Stock Exchange."*

Individually, we have seen those rare divergences. For example, there's one other instance when the S&P 500 hit a new yearly high while the A-D Line hit a new yearly low. That was in the Spring of 1929. And there were three times when the S&P 500 hit a new yearly high but the DJUA hit a new low. Those were in May 1972, July 1990, and January 1994 – near the start of two bear markets and one year-long correction.

O.K., so utilities and breadth are diverging... but what's new?

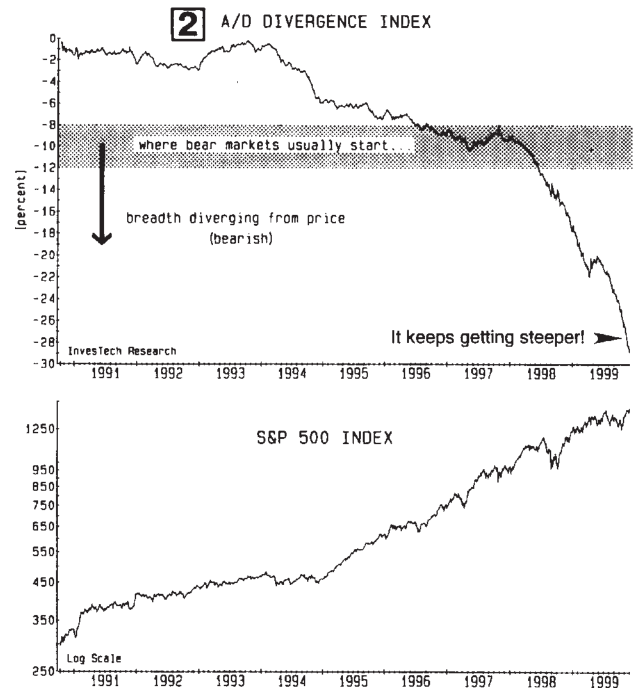
What's new is that divergence seems to be *accelerating.* The A-D Line [1] peaked in April of last year. By the July '98 top, the A-D Line was falling even as the S&P 500 hit new highs. We noted at the time (*), that the *"size of divergence has occurred only about a half dozen times over the past 80 years."* That's when the market broke in what turned into the Asian near-meltdown.



Coming out of the October '98 lows, breadth remained weak and failed to confirm new highs in market averages. But the real news is what's unfolded over the past 5 months. The S&P 500 has eked out a new high. However, the A-D Line has accelerated to the downside.

For argument's sake, let's set aside and ignore ALL the breadth divergence from April of last year up through the July 15th previous top in the S&P 500 this year. *Just since mid-July, this divergence in the A-D Line over this time period has been the steepest in over 70 years.* The only period that has seen breadth this weak (and still saw the S&P 500 move higher) was January-June of 1929. Comforting precedent, huh?

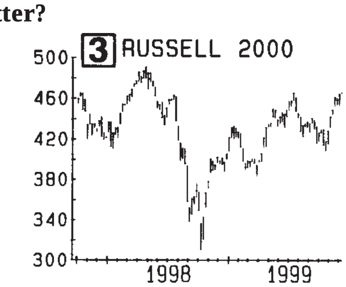
Look at what this has done to another time-tested model we track. Shown in [2] is our A/D Divergence Index. Historically, we use this to track when bull markets enter the "high-risk" zone for the onset of a bear (shaded region). This A/D Divergence sailed right through that region in mid-1998... but notice how the decline keeps getting steeper and steeper. THAT'S what we mean by saying that the divergence is accelerating. In fact, since early August, we've seen the fastest decline in the 50-year history of this A/D Divergence Index. *That's amazing!*

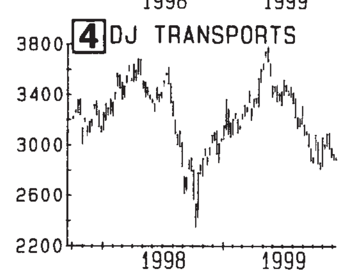


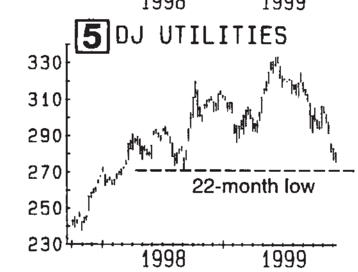
Does "Breadth" really matter?

Yes! Simply because it's telling us what the broad market is doing. Few would yet call this a bear market. However, this Russell 2000 Index (2000 stocks) remains well off its high of 20 months ago [3]. In fact, both it and the Value Line Index (1700 stocks) have gone nowhere for over two years. Breadth is saying there's a lot bigger problem with this market than just a few overvalued, frothy high-techs.

That message is reiterated by the other two Dow Indexes. The DJ Transports never got any boost from this Fall rally [4]. Instead, they're closing in on new yearly lows. [Note – that's -23.7% off its high!]







Meanwhile, the DJ Utilities are hitting new yearly lows almost daily $\boxed{5}$, and rapidly closing in on a 22-month low. A 17%+ loss since June – that's a biggie for defensive utilities.

What gives?!

Valuations are in "Never-Never" land… breadth is collapsing… leadership is heading south. Yet the *"I-gotta-be-in-this"* psychology is still growing. This is how bear markets suck in the last available dollar. The spreading weakness is pushing all the buying into fewer and fewer stocks… the high-techs, Internet, and IPO's. Those on the sidelines can't stand to wait any longer. Those in the "wrong" sectors [read that as "majority"] are bailing out and flooding into the "right" ones – anything that sounds high-tech or Internet-related enough to continue benefitting from the new paradigm shift.

Just how peculiar IS this?

Here's why you'll likely never see such divergences again in your lifetime (or for at least a quarter century or more). This year, we've seen 35 days when the S&P 500 has closed higher, but on negative breadth – that is, with more stocks declining than advancing. That has already surpassed the all-time record for the New York Stock Exchange. That previous record was 34 days… in 1929. *(Damn those uncomfortable precedents!)*

Over on the Nasdaq, guess what? The same record has fallen – with 46 days when the Nasdaq Index has closed higher on negative breadth (declines > advances). Previous record: 43 days in 1972 – the year this data was first compiled on the Nasdaq. Note that '72 was the year prior to the biggest bear market of the past 50 years.

Hey! We're not done yet *(boy, have our computers been humming!)* This year on 8 occasions the S&P 500 Index hit a new 12-month high while more stocks hit new yearly lows than highs. That makes a total of 10 times since March of last year. In the whole 36 years of previous data, there have been… (drum roll, please)… only 4 other instances. Let's see now –10 times in 21 months versus 4 times in 36 years– is something seriously wrong in this market? We'd say so.

Let's step back and visit one of the least-unusual divergences that we mentioned earlier… the S&P 500 hitting a new 12-month high in the same week the DJUA hit a new 12-month low. There are still only 3 other weeks in the whole 71 year history of the DJUA that this divergence has occurred: May 24, 1972 *(there's that year before the biggest bear in 50 years again!)*; July 20, 1990 *(the exact week the last -20% bear market began)*; and January 24, 1994 *(the week before that year-long correction –or bear in high-tech stocks– began)*. We think that's pretty amazing once again. It also seems to carry a note of "imminence" to what we're seeing right now.

While we were having fun, we decided to open up the parameters to see if any other historical comparisons cropped up in these divergences. For example…

- Ok, we haven't seen the S&P 500 move higher over a similar period, with breadth (A-D Line) divergence this big, since 1929. But is there any other time when the S&P 500 moved higher, over that same number of days, with only 2/3's of that breadth divergence? Yup! One other case popped up… a most interesting case. It was in the first 5 months of 1969 – the start of the 18-month bear market that ended the Go-Go Fund boom. Technically, even though major averages hit their highs in November-December of 1968, the S&P 500 was higher on June 6, 1969 than it was on January 17th… exactly the same length period as today. The divergence in the A-D Line was 2/3's as severe as today's. Then the big downside break began. So… don't think breadth matters? Just don't try telling that to past history.
- Another parameter we opened up – was to ask if either the S&P 500 or DJIA hit a new yearly high within 5 days of the DJUA hitting a new yearly low. Three other instances appeared on our computer screen: December 23, 1965 and February 9, 1966 *(that 1966 bear market actually began the next day – on February 10th)*; and April 27, 1981 *(that 1981-82 bear market also began the next day – on April 28th)*. Those, too, seem to lend an air of "imminence" to this technical trouble.

But why are the indicators wrong? How can the market still be going up?

We get this question from a lot of new subscribers. What we're giving you here are the historical facts about breadth, leadership, and bellwethers (DJUA). Just the facts. These past comparisons are not our opinion. We aren't trying to forecast a bear market, or where the DJIA or Nasdaq will be a month or six months down the road. We're just trying to analyze what is happening now in these valid technical tools… and look at when these (unusual) circumstances have occurred in the past.

What is happening to breadth, leadership, and bellwethers is mind-boggling. You are watching one of the greatest (if not THE greatest) series of divergences in Wall Street history. Any one of these alone would be quite unusual. Together, they're sending an emphatic message – one that most investors and analysts aren't listening to. Emotions can win in the short-term. But unless something dramatically changes, the technicals always win in the long-term.

But people are piling into this market! Economic reports and forecasts are looking rosier and rosier! How can that technical evidence show we're on the verge of a bear market?

All we can do here is give you a historical perspective. Virtually by definition, bull markets end (and bear markets begin) when investor optimism and expectations are at their highest. The same arguments: *"there's too much cash"* and *"the outlook is too bright"* always appear at the major tops.

We urge you to pull out your October 29th issue of InvesTech and look at pages 4-5. What we suggested might happen is exactly what's happening. The big economic surprise is that the economy is not cooling down as the Federal Reserve hoped and anticipated. That is the same phenomenon that unfolded near year-end in 1968 and 1972 – the years preceding the two biggest bear markets since the 1930's. That October 29th issue shows how "impossible" a bear market seemed at those market tops. Yet note those two years –1968 and 1972– appeared a number of times in the preceding analysis when our computers were searching for anything that might compare with the divergences we're seeing today.

Just as another sampling… here are the headlines that investors were reading in the weeks surrounding those two major tops:

1968: Start of Bear Market = 12/05/68

The boom that just won't stop

Business Week *– 11/2/68*

Where's the slowdown?

To the chagrin of government economists worried about inflation, business gets better and better. Consumer spending, capital outlays gain, and acceleration may continue next year.

Business Week *– 12/7/68*

Investment Bankers Look Ahead

The year 1969 is going to be a good one for U.S. business, probably the best ever, in the opinion of most of the country's investment bankers.

U.S. News & World Report *– 12/16/68*

1972: Start of Bear Market = 1/12/73

BOOM YEAR ON THE WAY
What Bankers See Ahead

U.S. News & World Report *– 12/11/72*

MERRY CHRISTMAS – SURVEY OF HOLIDAY BUYING

U.S. News & World Report *– 12/25/72*

Forecasters' Word Is 'Boom'

The New York Times *– 1/7/73*

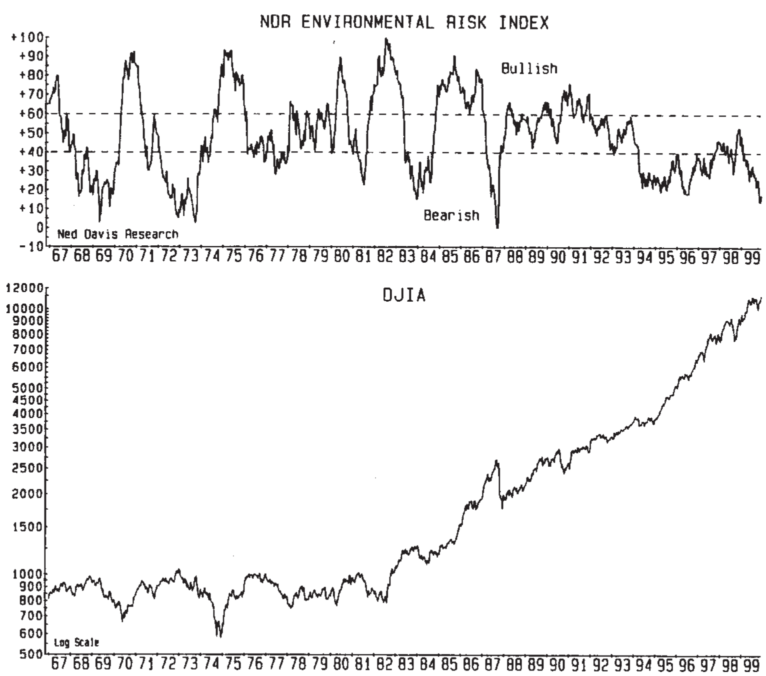
The boom threatens to run wild

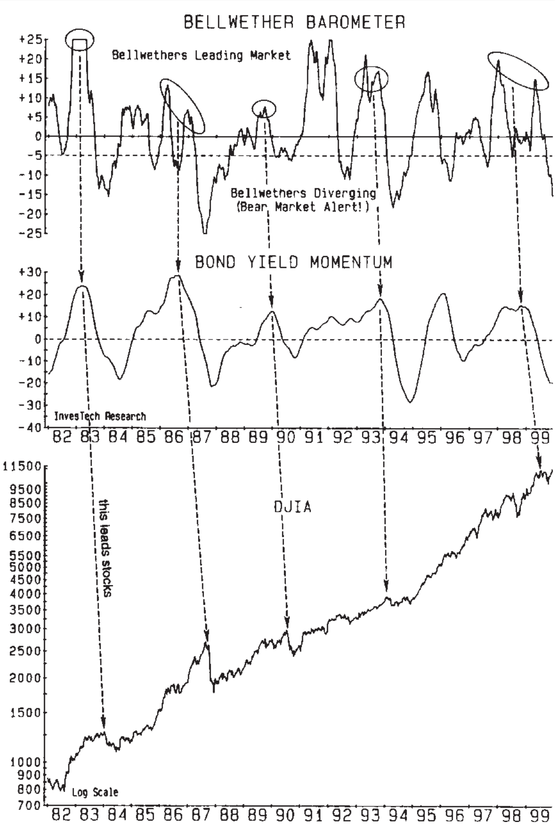
The U.S. economy is in the midst of an extraordinary boom–the strongest in 20 years.

Business Week *– 1/27/73*

"Environmental Risk" – Most Dangerous Since 1987

This Environmental Risk Index from Ned Davis Research is comprised of four composite models that include a total of 71 indicators in valuation, sentiment, monetary, and economic conditions. They call it *"one of our most important models."* Because it is partially valuation/sentiment based, it was not a bullish harbinger of this crazy bubble on Wall Street in 1995-96. Yet it's worth noting that the current bearish reading has been hit only 3 times in the past 3 decades: 1987 (the Crash); around 1972; and around 1968 *(diddly-darn, there are those two years again!)*





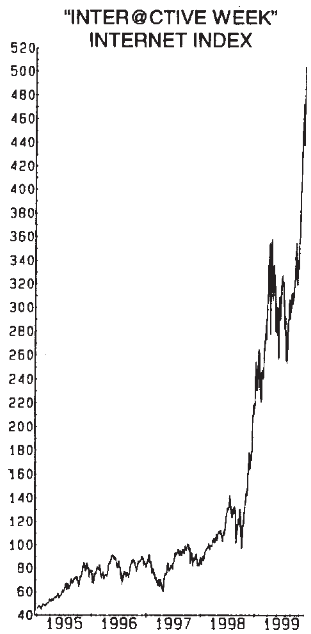
Bellwethers & Bonds

Our Bellwether Barometer (above) continues sinking into the "Bear Market Alert" region as utilities hit new lows, and the rally in our brokerage composite peaked a month ago [we'll put that graph up as *Chart-of-the-Week* on our web site Monday]. Our interest rate-sensitive Bond Yield Momentum is also in a steep downtrend. No guarantees of a bear market, but these models LEAD stocks… and THIS is when the stock market is most vulnerable.

STRATEGY

Every news report, every bit of economic data, and every wink or nod from the Federal Reserve is now being trounced on by investors. If it does not directly conflict with "new era" thinking, then it is taken as an endorsement of such. That has to frustrate the dickens out of Alan Greenspan, who's trying to get the speculative frenzy, credit creation, and economic momentum under control.

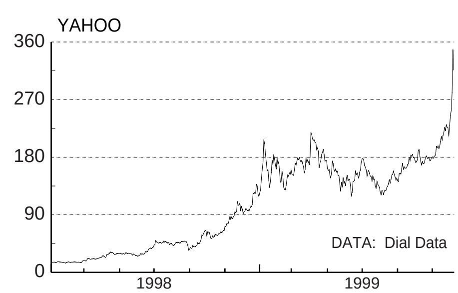
Even without systemic interruptions (which we don't expect), Y2K will have an impact on the market – through investor psychology. But we can only guess what that affect might be. Our hunch is that a growing number of investors will get nervous about any December market weakness. Chances are we'll see selling going into Y2K, but some kind of reflex rally afterward (when nothing melts down). But those are short-term influences. Looking out 6 months or more, both technical and monetary evidence is sending a strong message that we <u>are</u> heading into a bear market. In fact, the small-caps, utilities, and transportation stocks are already in a bear market.



That evidence could change. We could see bonds rally (yields drop), yet that's highly unlikely given the level of speculation on Wall Street and a tight labor market. If anything, we think bond yields might dip before year-end (as offshore money seeks a safe haven), and then start to jump again in January when investors realize the economy isn't slowing and another Fed rate hike is imminent. That, of course, is just another educated guess. However, our MEP Monetary Model [see previous issue] remains at -13 and confirms the monetary climate is now "officially" bearish.

How to know when the <u>final</u> top is in place: Look where the valuation bubble is inflated the most, since that's where the easiest pinhole could be poked. That is obviously in the Internet sector $\boxed{6}$. Not even the "–onics" mania of the 1960's could compete with this [see our Personal Perspective]. It makes $850 gold in 1980, and all the intermittent mini-manias in between seem docile by comparison.

Look at what Yahoo did when it was announced that the stock would be added to the S&P 500 Index:



That is a Price-to-Earnings Ratio of 1123! Even the price/total revenue ratio is now 193. You don't have to know anything about investing to know that this is nuts. Insanity Rules!

If you don't know this, you should… The circuit breakers (DJIA point limits where trading is temporarily halted) for the 4th quarter are:

-1050 DJIA pts	=	Halt for 1 hour
-2150 DJIA pts	=	Halt for 2 hours
-3200 DJIA pts	=	Halt for remainder of day

And here's the kicker that no one –not even the average broker– seems to know about. <u>There is no uptick rule on selling short the popular Nasdaq 100 Shares (QQQ) on the Amex.</u> In other words, if a pin is introduced to that Internet bubble, there could be no means of controlling it. This, too, is insane as it's removed one of the primary safety valves put in place after the 1929 Crash.

CURRENT POSITIONS

JAPAN – 3rd quarter economic growth stalled, but ECRI's (Economic Cycle Research Institute's) Long-Range Gauge for Japan remains in healthy territory. We are nervous about our position in the Scudder Japan Fund, particularly with a 65% profit – yet that nervousness does not originate in Japan, but from the Nikkei's vulnerability to what lies ahead on Wall Street. We have locked-in 1/3 of our profits, but intend to ride with the remainder until the DJIA 10,000 level is broken. At that point, we'll reassess that vulnerability and just how tightly linked the 2 markets appear.

GOLD STOCKS/FUNDS – Call this insurance... insurance against today's excessive monetary growth, the weakness we see ahead for the U.S. Dollar, and the volatility that will surely accompany any unwinding of Wall Street's valuation bubble. Between funds and stocks, we favor Franco-Nevada for its strong underlying fundamentals.

BEAR FUNDS – Part of the reason for this position is as a hedge against Japan's exposure to Wall Street. Any losses in Japan (if the Nikkei falls in sympathy to a plummeting U.S. bear market) should be more than made up by profits in these bear funds. Our only problem is one of our funds (Rydex Arktos) is in the emotionally-driven Nasdaq 100. At this time, the position is only 9% of our portfolio, but we have still struggled with the decision of whether or not to step out and stand aside. Seasonality and loss management say, "yes." But the apparent "imminence" of trouble –spelled out in this issue– suggests we should give this technical picture a little more time to play out. Since this must be a personal decision based on risk tolerance, we advise the following… First, if you have exited Rydex Arktos for any reason, then stand aside and save yourself the emotional roller-coaster. If you are holding MORE than our 9% allocation, OR losing any sleep over this holding, then sell AT LEAST HALF of your position. Finally, if you're holding the position, and still feel comfortable with it, then set a mental stop to exit if the DJIA climbs above 11,300. That will provide the discipline to step out if a top isn't as imminent as evidence implies. We're just trying to be objective, and still provide you with options in what may be one of the most frustrating, most speculative, and most important market tops in history. Note that the lower-risk Rydex Ursa bear fund will continue to be held until notified on the Financial Hotline.

CLOSING THOUGHTS: As we go to press with this issue, I am amazed at the ongoing, relentless technical deterioration. Yesterday (Tuesday) saw the DJUA lose 1.9% – it's 8th worst loss of the year. Downside leadership (new lows) on the NYSE were the 6th worst of the year. New lows on the Nasdaq were the worst in six weeks… even as the Nasdaq Index hit a record high! Today (Wednesday), at midday we're seeing more of the same. Utilities are off another 1% to a new low and breadth is far worse on both exchanges than the indexes portray.

Objectively, this can't continue for long. We've had weak or falling technical evidence for the past 18 months… but nothing like this. It means the majority of stocks are clearly in a bear market. The bellwethers (utility and brokerage stocks), and the accelerating tumble in the A-D Line are saying the major break is now imminent. No, that doesn't mean the Internet garbage can't hit more new highs. In our opinion, it simply means that without a significant change in bonds, bellwethers, breadth, or leadership, the technical writing is on the wall. And it's only a matter of waiting…

Financial Hotline Notes…

The InvesTech Financial Hotline number will change on January 3, 2000. A yellow card with the NEW number is enclosed for current subscribers. If you misplace this card or would like more information about receiving a long-term hotline number, please call our office at 406-862-7777. Remember, the Financial Hotline number–as well as your Internet username and password–is for the *exclusive* use of current subscribers only. Sharing this information is strictly prohibited.

During the week of December 13, the Hotline will not be updated after 200pt movements in the DJIA. Also, updates on December 11, 14 and 18 will include indicators with abbreviated text only.

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Why not share the value of InvesTech with others this holiday season? A gift subscription to InvesTech is the perfect holiday gift and includes **3 months** (5 issues) of both the *InvesTech Market Analyst* and *InvesTech Mutual Fund Advisor* for **only $39**. PLUS, as our gift to you, we'll add **2 free issues** to your subscription! Call toll-free **1-800-955-8500** to order today!

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STOCK NEWS

THE INVESTECH MODEL STOCK PORTFOLIO is unchanged from the last issue with the following investment allocations: 16% in the Scudder Japan Fund, 4% in Rydex Ursa, 9% in Rydex Arktos, and 9% in Franco-Nevada. The remaining 62% is held in the safety of short-term T-bills or a money market fund. All technical indicators (breadth, leadership, bellwethers, bonds, and our MEP) are in bearish territory. With the extreme volatility in the current market, it is critical to monitor the Financial Hotline or InvesTech's web site at www. investech.com at least weekly for updates to these model portfolio positions.

CURRENT ADVICE	COMPANY	SYMBOL/EXCH	52 - WEEK Hi	Low	INIT. RECOMMENDED Date	Price	PROT. STOP	RECENT PRICE	P/E	YIELD
DEFENSIVE "BEAR MARKET" PORTFOLIO										
HOLD[2]	SCUDDER JAPAN FUND	SJPNX	17.19	7.89	5/12/99 @	10.36	*	16.57	48	0.0%
	Invests in Japanese securities and corp. debt. Holds about 60% of assets in small- and mid-cap stocks.									
BUY/HOLD[1]	RYDEX URSA FUND	RYURX	9.71	7.93	7/29/98 @	9.87	*	7.97	N/A	0.3%
	"Bear Market Fund" designed to provide 5% profit for every 5% decline in S&P 500.									
BUY/HOLD[3]	RYDEX ARKTOS FUND	RYAIX	11.05	5.11	2/2/99 @	8.28	*	5.11	N/A	N/A
	"Bear Market Fund" designed to inversely mirror the NASDAQ 100.									
HOLD[3]	FRANCO-NEVADA MINING CORP.	FN-T tse	35.75	19.75[a]	3/30/98 @	33.00	*	25.50	39	1.1%
	Canadian co. receives royalties from gold/natural resource properties, oil and gas. Company has $700+M working capital, no long-term debt.									

1 4% position
2 16% position
3 9% position

a All figures in Canadian dollars
* Monitor InvesTech Hotline

PERSONAL PERSPECTIVE

Hold on Wendy, It's Off to Never-Never Land!

"Finally–to round out this inventory of the various symptoms of dementia that afflicted the 1968-69 stock market–there were the hot new issues, the 'shooters', that shot up on their first day of trading from 10 to 20 or from 5 to 14, and later went to 75 or 100, oblivious of the fact that the companies they represented were often neither sound nor profitable: the garbage stocks that everyone could make money on just so long as, and no longer than, everyone could contrive to hold his nose and avert his eyes and imagine that the garbage was actually nourishing and palatable.

"If one fact is glaringly clear in stock market history, it is that a new-issues craze is always the last stage of a dangerous boom–a warning of impending disaster almost as infallible as Cheyne-Stokes breathing is a warning of impending death."

John Brooks, *The Go-Go Years* – 1973

Why!? Why do investors always have to relearn this lesson about a new issue craze? In hindsight, it always seems so logical... so obvious... so stupid. What's happening is not normal, nor healthy. It can only be compared to a casino mentality or auction fever. Investors [and we use that term loosely] are so caught up in the emotion of the moment that all ability to reason simply disappears. They've got to be in there – bidding and buying. And Wall Street is gladly selling them all the junk the underwriters can get their hands on. Where's the S.E.C. in all this? Same place as in 1968 – just making sure all the proper risk disclosures are in the 70-page IPO prospectuses that nobody reads.

(Continued on page 7...)

(Continued from page 6...)

In the late 1920's, the newest issues were the investment trusts. In 1928, an estimated 186 investment trusts were formed; and by 1929, they were being launched at the rate of one per day – many going public to the delight of investors. [Note there were only 850 total issues traded on the New York Stock Exchange.] Virtually none survived the crash and resulting bear market.

In the 1960's, the new issues were any companies whose name could end in "–onics" such as Datatronics, Ionics Inc., GenAtronics, Liquidonics, Platronics, and Elect-Nucleonics. There were also the promoters who could sell a theme, like Weight Watchers International, Responsive Environments, and International Leisure. The eventual losses in most of these turned out to be the entire investment.

Wall Street has again entered "never-never" land. It is where most investors, with less than twenty-five years experience, have never been before. It is where these same investors, after the upcoming bear market, will swear they never-never want to go again.

A Different Perspective

A lot of investors, traders and speculators are shuffling fast and furious in this market. No matter what shakeout happens short term, they believe and count on the "long-term uptrend" in the market to bail them out. And it's frustrating for more cautious, seasoned investors to watch them get away with it. But such are the characteristics of a bubble. You either play or you don't – and if you do, then you have to accept or ignore the risks. Is it smart? What if two people drive coast to coast with one carefully obeying all traffic and speed laws, while the other averages over 120 mph and gets there in 1/2 the time. Does the fact that he pulled it off without any consequences make it prudent or smart? Or was he just stupid, reckless and lucky?

There's a great article on Warren Buffet's recent "extemporaneous talks" in the recent issue of *Fortune* magazine. What are his current feelings about this market? Here's an excerpt:

> *"Once a bull market gets under way, and once you reach the point where everybody has made money no matter what system he or she followed, a crowd is attracted into the game that is responding not to interest rates and profits but simply to the fact that it seems a mistake to be out of stocks. In effect, these people superimpose an I-can't-miss-the-party factor on top of the fundamental factors that drive the market. Like Pavlov's dog, these 'investors' learn that when the bell rings –in this case, the one that opens the New York Stock Exchange at 9:30A.M.– they get fed."*

Warren Buffet, *Fortune* – November 22, 1999

Buffet goes on to discuss how out-of-touch investor expectations are today, and how two previous transformation industries (automobiles and aviation) ended up with very few stock investors actually making any money in them. He has a list of 129 airlines that in the past 20 years have filed for bankruptcy, and says, *"As of 1992... the money that had been made since the dawn of aviation by all of this country's airline companies was zero. Absolutely zero."* Probably not a popular article on Wall Street.

A fond and grateful farewell... to Stan Weinstein who has decided to stop publishing *The Professional Tape Reader* as of January 1st. After I left IBM Research to start InvesTech, Stan took the time to meet with me, and provide needed encouragement, when I was in Florida for my first appearance on the *Nightly Business Report* with Paul Kangas. That was over 17 years ago, and Stan and I have had a close friendship ever since. We wish both him and Rita all the best in their semi-retirement (Stan will still publish his institutional service).

A final "elf" bites the dust. For those who might remember old history, throughout the 1980's the "Elves" of Wall $treet Week (with Louis Rukeyser) were actually a composite of 10 tried-and-true technical indicators maintained by Bob Nurock. They racked up a pretty remarkable track record overall, until they stubbed their toe in 1987. The Elves Index came just one notch shy (-4) of triggering a formal sell signal in the summer of '87, but because 40% of the indicators were "sentiment" based, it began moving back toward neutral as the crash approached. Chastised and ridiculed afterward, the technical elves (along with Bob Nurock) were cast aside and replaced by human elves – ten market analysts with their "weekly outlook opinions."

Then in 1996, the transient Elves Index jumped from +1 to +6 as five of the more cautious elves were exiled into Hobbitland, with more "suitable" replacements found closer to Wall Street (i.e., with a vested interest). Sad to say, but the same fate has met another highly-talented elf, Gail Dudack, who is chief investment strategist for Warburg Dillon Read. In our mind, she was a very dedicated, skillful technical analyst. But also due to that objectivity, she found herself on the wrong side of this "new era" mania over the last few years. In any case, with that latest expulsion, the Elves Index has jumped to its most bullish reading in history!

(Continued on page 8...)

(Continued from page 7...)

Ironically, with the new "human" elves, *Market Logic* has concluded that this Elves Index is far more useful as a contrarian indicator and titles its current reading as a "Strong **Sell** Signal!" Personally, we cannot fathom how this new super-bull Elves Index will ever turn negative, let alone move to a -5 (outright bearish) reading, before the very depths of the next bear market. The ultimate question, when this bunch goes down in flames... who or what is going to replace them? A Ouija board?

Sanity check: Are we overly critical of the Federal Reserve and the corner into which they've painted the U.S. markets? The long-established *Bank Credit Analyst* states, "*The Fed is fueling the economic boom (and the equity bubble), by constantly steering expectations in the direction that rates have peaked. This, in turn, is being interpreted as a green light to speculate in the equity market and for consumers to avoid saving... A* ***smashup*** *in stocks and the economy is not warranted in a low inflation world, but another round of market turbulence looms during the first half of next year, followed by a downshifting in economic growth.*" In our opinion, that's respectable company.

Who's your nomination for the <u>best</u> and <u>worst</u> Federal Reserve Chairman of the 20th Century? Which chairman faced the most difficult task, made the toughest decisions, and played all the cards right? Conversely, which chairman botched the job the worst? Drop us a note or an e-mail, and we'll let you know the results (along with our own thoughts) in our Millennium Issue to be published on December 31st. You don't have to know names, just note the years.

MORE EXCESSIVE EXCESSES

– First Call/Thomson Financial reports that only 0.8% of all analysts' recommendations on November 1st were "sells" as opposed to 70.1% "buys." *[Wall Street insiders know it's a "kiss-of-death for their career" to be bearish on anything right now.]*

– The *New York Times* reports that in November, companies raised $16.9 billion through IPO's, or twice as much as any previous month. The average 1st day gain for initial public offerings in November was 102%. Of the 501 IPO's this year, the average first day gain was 62% – more than 3 times that of any other year in the 1990's. *[Only those investing in the Go-Go Fund Era of 1968 can remember anything like this.]*

– In the spirit of the Internet, at least two companies (MyOwnEmpire and YouNetwork) are now giving away "free" IPO stock just for using their web sites. The gimmick, of course, is to create publicity and loyal customers who'll undoubtedly buy more stock when it's offered to the public. *[Finally... Internet stocks that are being sold for what they're worth!]*

– A fallen almost-penny stock called Imaging Technologies saw its price soar 196% to 2-1/8 and became the second most-actively traded Nasdaq issue on November 29th. The reason? Day traders confused its symbol (ITEC) with Itec AB, a Stockholm software company, with whom Visa International announced plans to become "e-commerce partners." *[We couldn't possibly make this stuff up!]*

– China.com, with a stock value of $2.5 billion and reported revenue of only $3.5 **<u>m</u>**illion last year, saw its stock double in 2 days on an announcement of a 2-for-1 stock split. *[As if that resolves the stratospheric valuation.]*

– Remember when $1.03 million was paid for rights to the Internet domain name Wallstreet.com earlier this year? A new "incubator" company just trounced that insanity by paying $7.5 million for the domain name Business.com. What do they plan to do with it? Start a directory for business web services next year. *[We are now accepting opening bids on "Investech.com."]*

– Six years ago, almost as a prelude to today's Internet IPO craze, Boston Chicken went public as the "*hottest initial public offering of 1993.*" The offering price was raised 33% from $15 to $20, and the stock still doubled on the first day (and eventually quadrupled). This past week, McDonald's bought most of the assets of Boston Chicken for $173.5 million or barely 5% of what the company was valued near the peak. Technically, the over-the-counter stock was still trading at 16 cents, however Boston Chicken shareholders will actually get nothing... zip... nada.

Gives an inkling of what lies ahead for today's rough-and-tumble IPO speculators.

INVESTECH® RESEARCH

MUTUAL FUND ADVISOR

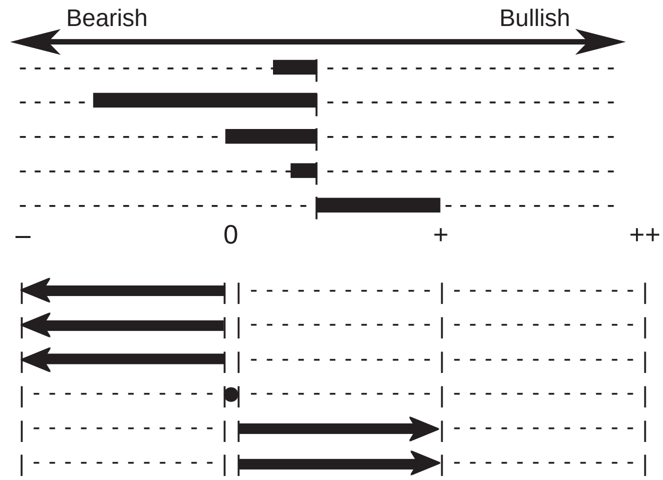
VOL99 ISS17 Professional Asset Allocation DEC 10, 1999

TECHNICAL OUTLOOK:

MEP MONETARY MODEL (BOND-YIELD-ADJ)
NYSE: BREADTH DISPARITY INDEX
LEADERSHIP INDEX
OTC: BREADTH DISPARITY INDEX
LEADERSHIP INDEX

GROUP OUTLOOK:

SMALL COMPANY FUNDS
GROWTH FUNDS
BOND FUNDS
BEAR FUNDS
GOLD FUNDS
INTERNATIONAL FUNDS



Strategy Update
A Return to Value Investing – Part I

"The fact is that markets behave in ways, sometimes for a very long stretch, that are not linked to value. Sooner or later, though, value counts."

Warren Buffet, *Fortune* – November 22, 1999

These are trying times for most experienced investors as they watch tiny companies (that might not have qualified as "penny stocks" in the past) double or triple out of their IPO starting gate. Based on traditional valuation methods, most of today's tech stocks have gone ballistic! Negative earnings carry no weight, and Internet companies have few tangible assets with only foggy prospects for revenue growth. Clearly the market –in particular, the Nasdaq– has unhitched from historic valuation standards to create a technology bubble of unprecedented proportions and risk. Staying on the sidelines requires discipline and respect for the fact that bubbles don't stabilize – they either continue to inflate or burst. Now is the time to put together a 2-part strategy for profiting as Wall Street prepares to return to the point... at which *value counts.*

Bonds – The next "best buy"

"With one month left this year, the 30-year bond is still on track for 1999 to be its worst total return year ever." Such was the opening statement in a recent report from Bianco Research. If December follows the trend of the last 11 months, the total return (including interest) on the long T-bond will be -13%... even worse than the dismal market of 1994. By any comparison, bonds are in a full-scale bear market.

A number of respected analysts have already jumped into bonds in anticipation of the bottom – or peak in yields. Tempting as those yields are, evidence shows it's too early to play the "bottom-fishing" game. While Fed tightening has been largely ignored on Wall Street, and Fed policy may be frozen until after Y2K, their job isn't finished. Labor markets remain the tightest in over 30 years, and Wall Street exuberance is only fueling the risk of economic overheating. That means more rate hikes are probable, and more bond market breaks are likely after the New Year jitters are past. Having the discipline to wait is difficult, but jumping into bonds prematurely will be a big mistake if/when the Fed has to get more serious about applying the brakes.

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In the October 29th issue of the *InvesTech Mutual Fund Advisor*, we discussed how to identify the next "best buy" opportunity in bonds, and the blocks that must drop into place to signal that opportunity. Historically, those blocks or triggers have marked the start of the biggest bond bull markets of the last four decades. To review, briefly, the four bond models shown here are used together to confirm a buying opportunity in bonds. The InvesTech Bond Advanced Risk Index, which is based on underlying inflationary pressures, usually gives the first warning that the bond environment is changing. Here, again, are the criteria to look for in chronological order…

1) InvesTech's Bond Advanced Risk Index (Figure 1) drops to -1.0 or below. Deep in the high risk zone, this is the kind of reading from which the biggest bond bull markets can be launched.
2) Look for this same InvesTech Bond Advanced Risk Index to turn upward by even the smallest amount (0.1pts). This is the first signal that underlying "risk" is subsiding.
3) Watch for at least two of the three remaining models (Figures 2 - 4) to trigger a formal "BUY SIGNAL" by moving into their respective bullish regions.

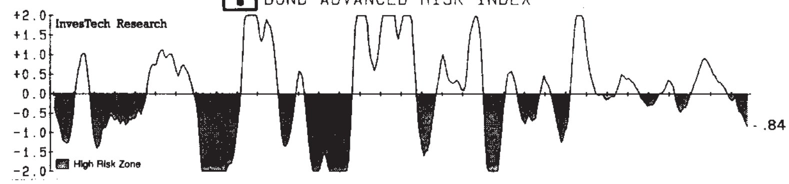
The bottom graphic, of the DJ 20 Bond Average, reveals that the big bond bull markets are usually launched at the start of a recession or economic "soft landing" ❶ - ❼. With this U.S. expansion in its 9th year, and imbalances building, that point might not be far off.

Let's review where these triggers sit today… Our InvesTech Bond Advanced Risk Index has fallen further to -.84, and could hit the initial target of -1.0 on next week's inflation reports. If it does, the first criteria (above) will already have fallen into place. Any uptick from such a negative reading would be the next signal to start monitoring the other three models closely. All three are solidly bearish – little wonder that bond performance has been so dismal this year. In our previous issue, we reported that both NDR's Bondo Grande and Bond Benchmark models, though negative, had bounced. It's interesting to note, though, that last month's figure for the Bondo Grande (40) was revised downward to a more bearish 33. Both have fallen further since then.

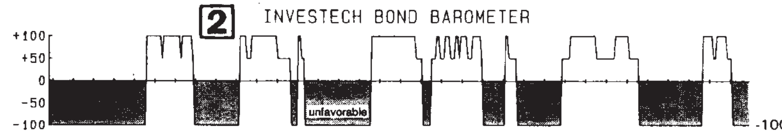
Our strategy is one of patience. First, recognize that one of the best buying opportunities for bonds (in over a decade) may be approaching. Secondly, remember that many a bond buyer has been trampled by stepping in too early. The bond models shown here provide the tools we need to remain objective and disciplined. Let's watch them, but not rush them. The average total return for general bond funds in 1991, right after these models signaled the last buying opportunity, was a healthy 18%. Over the first three years of that bond bull market, the average long bond gained over 56%, and the American Century Target 2015 zero-coupon bond fund soared 125%. Those type of gains are entirely possible, if not probable, this time around.

In an upcoming issue, we'll detail which bond funds should be considered in our strategy. And in the meantime, we'll keep updating these models on the hotline and within issues as their readings change.

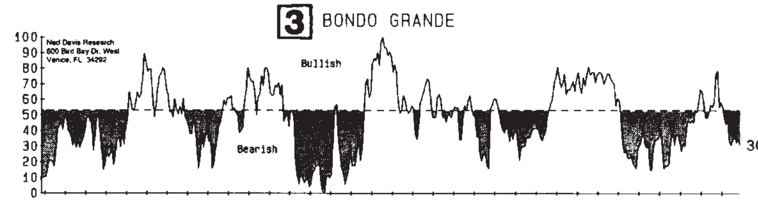
1 BOND ADVANCED RISK INDEX



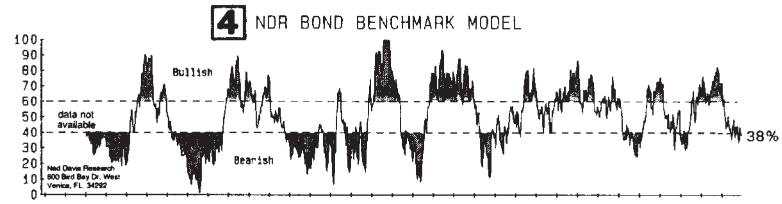
2 INVESTECH BOND BAROMETER

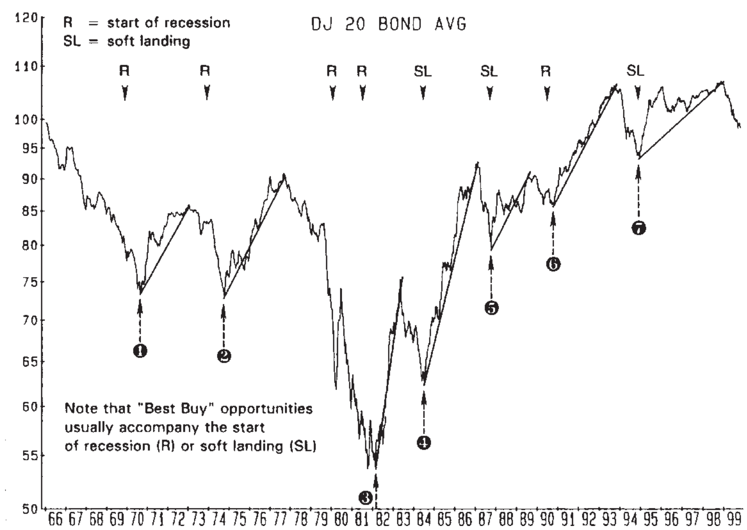


3 BONDO GRANDE



4 NDR BOND BENCHMARK MODEL





Bond Model	Reading	Evaluation	Comments
InvesTech Bond Advanced Risk Index	-.84	Very Bearish	Still in a downtrend - and approaching the -1.0 reading.
InvesTech Bond Barometer	-100	Very Bearish	Locked at its maximum negative level.
NDR Bondo Grande	30	Bearish	Revised downward last month, and falling.
NDR Bond Benchmark Model	38	Bearish	Trending downward again.

Value Investing – a lost art?

Also on the list of 1999's out-of-favor and forgotten investments are "value" stocks – as well as the funds which invest in them. While the definition of value may vary, these are typically stocks whose price can be justified by the company's assets – not by pie-in-the-sky or new era assumptions. With our managed accounts, we favor value stocks with reasonable price/earnings multiples and excellent financial strength among other factors. We also look for a stable growth pattern in revenue and earnings, as well as the potential for expansion or new business. Most value fund managers, including Warren Buffet, use similar criteria in trying to pick underpriced securities.

During the first three years of this bull market, the value funds tracked by Morningstar easily outpaced the S&P 500 Index, particularly the small cap value funds – which averaged annualized gains of 27.7% for the period. In recent years, "value" has been a hard sell, with small-, mid- and large-cap value funds all basically flat for the year. Sad to say, no one wants value when it only takes a ".com" on a company name, or ephemeral promises of untold fortunes, to drive investors into a bidding frenzy.

As the broad market weakens, the recognizable value stocks are becoming more common. In fact, many are bumping new yearly lows as their revenues and earnings hit new highs. Tempting! But they certainly won't be immune when Wall Street's bubble deflates, so here's a quick review –particularly for new subscribers– of how we intend to identify when to step in…

The table below will be familiar to our long-term subscribers. It identifies some of the common technical and fundamental prerequisites that normally precede a new bull market. We used an almost identical table in December of 1990, when we noted that "*ALL criteria have been filled for one of those buying opportunities that comes around only once or twice a decade.*" That was near DJIA 2600, just a couple weeks before President Bush acknowledged the U.S. was heading into recession, and only a month before the initial blast-off of this past bull market. Here's an update on these criteria, and where they stand today…

❶ **Positive Shift in Monetary Policy** – confirmed by a sharp upward swing in our MEP Monetary Model. Our MEP (shown in our last issue of the *InvesTech Market Analyst*) remains entrenched in the negative region since turning bearish on August 24th. We see little chance of the MEP turning bullish within the next few months.

❷ **Over 6 months of Leadership "DISTRIBUTION"** – as indicated by our Negative Leadership Composite (NLC). This NLC, which measures downside leadership or selling pressure, was also featured in our previous issue. Currently, it is locked at -100 and showing heavy bear market "distribution" in spite of new highs in some popular averages. Late January will mark the 6-month threshold at which this criteria might be fulfilled.

❸ **Bullish Bond Market Reversal** – signaled by an upward turn in InvesTech's Bond-Yield Momentum model from a reading of -10 or below. Shown in the current issue of the *Market Analyst*, this indicator is well under that level at -18.8… but still heading down. In most cases, a sharp improvement in bond prices precedes (or accompanies) the start of a new bull market in stocks. This is one to watch in the coming months.

❹ **Coppock Guide near "0"** – a turn upward from "0" or below typically confirms a change in investor sentiment and market momentum. This 50-year-old tool will be updated in our next issue on the eve of the Millennium. Needless to say, for now, the Coppock Guide is still forming a double-top... far above the "0" level. In short, this is when bear markets start, not end.

❺ **Plunge in Consumer Confidence** – marked by a drop of 35 points or more in this figure as reported by The Conference Board. This reading peaked at 139 in June and is now barely 4 points off that record high. It's a historical fact that healthy new bull markets are born when Consumer Confidence is in the tank… not flying high like it is today.

❻ **"Formal" Recession** – confirmed (not just feared) by the media. Once again, the "best buy" opportunities are created after the economy has tumbled into recession, gloom is running rampant, and the headlines couldn't seem worse. Surprisingly, as strong as the economy "appears" today, this block could drop into place next year as we'll show in one of the next few issues.

❼ **Over 20% Decline in DJIA** – don't start buying as soon as the DJIA loses -20% (bottom-fishing). But a drop of that size implies that a washout in investor psychology is underway, and the other criteria could be fulfilled in the months ahead.

Some of these criteria are quite technical – like tracking our MEP, Negative Leadership Composite, and Coppock Guide. Others might seem rather simplistic, like watching for the first headlines that confirm the economy is in recession. *But trust us… they work!* Of course, not all 7 criteria appear on all low-risk buying opportunities. Yet the majority have on every "best buy" opportunity of the past several decades – as shown in the table below! That's pretty good guidance. Realistically, we should start buying when at least 4 fall into place. For guidance on when to be more aggressively bullish, focus on ❶, ❸, and ❹… as those usually are among the final, and most reliable, confirmation. Stay tuned for our next issue, as we discuss where to look for "value" when these criteria are triggered as the upcoming bear market runs its course.

7 Conditions That Preceded The "Best Buy" Opportunities in Stocks

	1966	1970	1974	1980	1982	1984	1987	1990	1995	2000
❶ Positive shift in monetary policy *1	x	x	x	x	x	x	x	x	x	
❷ >6 mo of "DISTRIBUTION" *2	x	x	x	x	x	x	x	x	x	
❸ Bullish bond market reversal *3	x	x	x	x	x	x	x	x	x	
❹ Coppock Guide near "0"	x	x	x		x	x	x	x	x	
❺ Plunge in Consumer Confidence *4	x	x	x	x	x			x		
❻ "Formal" recession		x	x	x	x			x		
❼ >20% decline in DJIA	x	x	x		x		x	x		

*1 As signaled by a strong upward move in InvesTech's MEP Monetary Profile.
*2 As signaled by InvesTech's Negative Leadership Composite which monitors 'downside' leadership.
*3 As signaled by InvesTech's Bond-Yield Momentum turning upward from -10 or below.
*4 As measured by The Conference Board.

MODEL PORTFOLIO: The Mutual Fund Model Portfolio remains 39% invested. Current allocations include 16% in the Scudder Japan Fund, 7% in American Century Global Gold, 3% in Franco-Nevada Mining, 4% in Rydex Ursa, and 9% in Rydex Arktos. The remaining 61% of the portfolio is held safely in short-term T-bills or a money market fund. All technical indicators –including breadth, leadership, bellwethers, bonds and InvesTech's own MEP– remain locked in bearish territory. With extreme volatility in the current market, it is critical to check the Financial Hotline or Investech's web site at www.investech.com at least weekly for updates to these positions.

PERCENT	FUND	SYMBOL	52-WEEK Hi	52-WEEK Low	INIT. RECOMMENDED Date	INIT. RECOMMENDED Price	CURRENT PRICE	ALTERNATE FUNDS
61%	T-BILLS	------------						MONEY MARKET FUND
16%	SCUDDER JAPAN FUND	SJPNX	17.19	7.89	5/12/99	10.36	16.57	See INT'L JAPAN FUNDS below
7%	AMER. CENT. GLOBAL GOLD	BGEIX	7.11	4.44	3/30/98	6.88	5.19	See GOLD FUNDS below
3%	FRANCO-NEVADA MINING	FN-T	35.75	19.75	9/29/99	30.30	25.50	* All figures in Canadian dollars
4%	RYDEX URSA FUND	RYURX	9.71	7.93	7/29/98	9.87	7.97	PRUDENT BEAR
9%	RYDEX ARKTOS FUND	RYAIX	11.05	5.11	2/2/99	8.28	5.11	

THE TOP-RATED FUNDS

CURRENT ADVICE	FUND	SYMBOL	RISK	CURRENT PERF[1] 6wk	CURRENT PERF[1] YTD	PAST PERF[1] 1998	PAST PERF[1] 1997	PAST PERF[1] 5yr annl	SIZE[2]	YIELD	RECENT[3] PRICE	NTF[4]
	BOND INCOME FUNDS											
	SHORT-TERM											
0	VANGUARD SH-TERM BOND INDEX	VBISX	Low	+ 1.1%	+ 2%	+ 7%	+ 7%	+ 7%	1090M	5.4%	9.79	
0	VANGUARD SH-TERM U.S. TREAS	VFISX	Low	+ 1.0%	+ 1%	+ 7%	+ 6%	+ 6%	1246M	5.2%	10.06	
	INTERMEDIATE-TERM											
0	AMER. CENT. INT-TERM TREAS INV	CPTNX	Med	+ 1.3%	- 1%	+ 9%	+ 8%	+ 7%	365M	4.9%	10.09	S,W
0	DODGE & COX INCOME	DODIX	Med	+ 1.3%	0%	+ 8%	+10%	+ 8%	1018M	6.0%	11.63	
0	STRONG GOVT. SECURITIES	STVSX	Low	+ 1.4%	- 1%	+ 8%	+ 9%	+ 8%	1329M	5.5%	10.18	F,S,W
	LONG-TERM											
0	AMER.CENT. TARGET MATUR. 2020	BTTTX	High	+ 4.8%	- 15%	+16%	+29%	+ 14%	318M	6.9%	30.61	S,W
0	VANGUARD LONG-TM CORP BOND	VWESX	High	+ 2.7%	- 6%	+ 8%	+13%	+ 8%	3871M	6.6%	8.26	
0	VANGUARD LONG-TM U.S. TREAS	VUSTX	High	+ 2.5%	- 7%	+13%	+14%	+ 9%	1306M	6.0%	9.90	
	BOND INCOME FUNDS – TAX-EXEMPT											
	SHORT-TERM											
0	VANGUARD LIMITED-TERM T/F	VMLTX	Low	+ 0.9%	+ 1%	+ 5%	+ 5%	+ 5%	2592M	4.3%	10.59	
	INTERMEDIATE-TERM											
0	VANGUARD INT-TERM TAX-FREE	VWITX	Low	+ 1.6%	0%	+ 6%	+ 7%	+ 6%	8305M	5.1%	12.86	
	LONG-TERM											
0	SCUDDER MANAGED MUNI BONDS	SCMBX	Low	+ 1.7%	- 1%	+ 6%	+ 9%	+ 7%	737M	5.2%	8.61	F,S,W
0	VANGUARD INSURED LONG-TM T/F	VILPX	Low	+ 2.1%	- 2%	+ 6%	+ 8%	+ 7%	2229M	5.5%	11.78	
	BEAR MARKET FUNDS											
0	PRUDENT BEAR	BEARX	High	-13.8%	- 21%	- 34%	- 4%	N/A	221M	4.6%	3.93	F,S,W
0	RYDEX ARKTOS	RYAIX	High	-22.2%	- 46%	N/A	N/A	N/A	204M	0.2%	5.11	
0	RYDEX URSA	RYURX	High	- 8.8%	- 11%	- 19%	- 21%	- 17%	713M	0.3%	7.97	
	GOLD FUNDS											
+	AMER. CENT. GLOBAL GOLD FUND	BGEIX	High	-10.5%	- 5%	- 12%	- 41%	- 11%	267M	0.9%	5.19	S,W
+	FIDELITY SELECT GOLD	FSAGX	High	- 8.3%	0%	- 9%	- 39%	- 5%	258M	0.0%	13.70	
+	VANGUARD GOLD & PREC. METALS	VGPMX	High	- 1.8%	+19%	- 4%	- 39%	- 7%	402M	1.0%	7.86	
	SPECIALIZED FUNDS											
0	COHEN & STEERS REALTY SHARES	CSRSX	High	+ 2.5%	- 4%	- 18%	+21%	+ 10%	1551M	5.2%	35.25	F,S,W
0	COLUMBIA REAL ESTATE EQUITY	CREEX	High	+ 0.2%	- 6%	- 12%	+25%	+ 13%	220M	5.4%	14.27	S,W
0	FRANKLIN TEMPLETON HARD CURR	ICPHX	High	- 3.3%	- 9%	+10%	- 10%	- 2%	58M	2.4%	9.30	
0	PRICE NEW ERA	PRNEX	High	- 1.7%	+18%	- 10%	+11%	+ 12%	1125M	1.5%	23.27	
0	VANGUARD ENERGY	VGENX	High	- 3.8%	+19%	- 21%	+15%	+ 12%	1085M	1.5%	21.86	
	INTERNATIONAL FUNDS											
0	ARTISAN INTERNATIONAL	ARTIX	High	+21.2%	+53%	+ 32%	+ 3%	N/A	1173M	0.0%	24.02	F,S,W
0	FIDELITY DIVERSIFIED INT'L	FDIVX	High	+ 9.4%	+28%	+14%	+14%	+ 19%	3121M	1.1%	22.65	F
0	PRICE EUROPEAN STOCK	PRESX	High	+ 9.6%	+10%	+26%	+17%	+ 20%	1376M	1.1%	23.95	
	INTERNATIONAL FUNDS – JAPAN											
+	FIDELITY JAPAN	FJPNX	High	+13.7%	+108%	+13%	- 11%	+ 13%	695M	0.1%	23.50	
+	FIDELITY JAPAN SMALL COMPANIES	FJSCX	High	+14.4%	+209%	+31%	- 30%	N/A	1404M	0.0%	22.39	
+	SCUDDER JAPAN FUND	SJPNX	High	+10.8%	+ 99%	+24%	- 14%	+ 12%	890M	0.0%	16.57	F,S,W
+	WARBURG PINCUS JAPAN GROWTH	WPJGX	High	+17.7%	+188%	+ 1%	N/A	N/A	316M	0.0%	27.29	F,S,W

++ Very Favorable
+ Favorable
0 Neutral
– Unfavorable

1 % Return with dividends & capital gains reinvested
2 Net assets in millions of dollars
3 Price – Net asset value/share (NAV)

4 No Transaction Fee (NTF)
F – Fidelity NTF
S – Schwab OneSource
W – Jack White NoFee Network

Data Sources: Morningstar Principia Plus
Investors FastTrack

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