Sand Spring Advisors LLC

Relatively Gentle Early Spring, but Rough Summer: Focus on Asia for Now

by,

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Readers of these pages know that we are strongly inclined to believe that a certain "pi-related cyclical rhythm" exists across time in financial market price behavior. But we are also realistic enough to acknowledge that nature and human emotion are complicated affairs likely dominated by many overlapping fractal impulses: pi rhythms that can be visualized hopscotching each other between various events and in various categories: emotional, financial, and geophysical.

Other rhythms related to mathematics also likely exist. We feel adamantly that Fibonacci rhythms play a strong hand in determining the amplitude of market movements, and we have also had some success in applying Fibonacci day counts to market behavior – primarily on a trading day basis.

When our pi rhythms and Fibonacci trading day counts match up closely to each other, we take particular notice.

Although the hoopla surrounding the Bush dividend tax cut proposal threw us for a bit of a misstep in our mid-January website commentary, and made us think that January 29th (55 days from our Nov 7-8th cycle date) might end up as a market high, it obviously did not. As originally espoused in our last December article, late January ended up as a low. We now spy 34 Fibonacci trading days forthcoming from January 29th into our March 18-19th 4.3-month PEI cycle date – 34 trading days that we feel strongly should yield a rally period within the entire corrective period that began last July 23-24, 2002. This rally period could conceivably extend all the way to early June 2003, but we will be attentive to first signs of failure during the March 18-19th cycle window.

Thereafter, the 648-656 region to the downside on the S&P should strongly beckon into late July.

Such a bullish short-term view is not supported by any set of fundamentals, but more by simple psychology and short-term technicals. Of late, the herd has rushed to buy gold, buy oil, sell the U.S. dollar, and lean on stocks to the downside. Some of these actions have been taken in fear of imminent war with Iraq. Yet rumors now circulate that the UN inspectors will be given more time to find Iraq covert arms, and that the Bush administration will also strive further to achieve a better international coalition in support of an Iraqi war. An invasion of Iraq has thus likely been pushed off at least until March, with media headlines now espousing: "In by March, Out by June."

While it will never of course end up being that simple, short-term technicals appear poised (in our opinion at least) for strength. Just look at the divergence shown below between the new lows made in the recent S&P hourly decline and the 5-35 Oscillator on that Index. Positive divergence is evident – at least for now. And in terms of price and time, a leftover trendline nicely comes in near 972-973 in the March 18-19th time window. Thus, while most expect near term weakness to the economy and markets, followed by a stronger economy in late 2003, we actually believe that something of the reverse may transpire: a short-term rally that will represent the "set-up" to a severe mid-year reversal back down.

As far as the summer is concerned, we have previously pointed out that June 1, 2003 will bring a 2*pi*100 (628 day) anniversary of the WTC events of 9-11-01, and July 8, 2003 will mark a 2*pi*1000 (6282 day) anniversary of April 26, 1986 Chernobyl nuclear explosion. We also know that a PEI cycle date resides on July 27, 2003. Let's add to this nasty summer configuration, the following e-mail recently received from a subscriber:

> Last Friday Chris Carolan in his monthly newsletter, Calendar Research Reports, published a series of spirals I uncovered over five years ago that may have a dramatic effect this year on what the markets do. I would urge everyone who does not have a working knowledge of the Spiral Calendar to get one (The Spiral Calendar, by Christopher Carolan, ISBN 0-932750-21-4) and to understand the potential gravity of the following spirals.
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> For those uninitiated in the logic, the Spiral Calendar seems to suggest that highly emotional events in the past generate related highly emotional events in the future in a mathematically calculable series. It can happen in and out of markets. There are numerous examples of both in Carolan's book. Accuracy is generally found within 3 calendar days over periods demonstrated in the book as long as 245 years.
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> On July 29, 2003 two major known spirals show significant SC intervals. Spiral #1 originated at the October, 1929 stock market panic/crash. The first similar event was seen at the F29 interval in October 1987 where you know what happened. F30 is July 29, 2003. This was the spiral, btw, that led Carolan to the discovery of the SC.
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> Spiral #2 originated at the August 6, 1945 atomic bombing of Hiroshima at the end of WWII. The first event on that spiral occurred at the F25 on 9/27/67 when LBJ went on national prime time

> television on ALL channels (remember, no cable TV then... network TV was the only game in town) offering to stop the bombing of North Vietnam if the Viet Cong and NV would come to the peace table. At the time, if you recall, he was under extreme domestic pressure from many groups to end the Vietnam War. The F26 interval is 10/6/73 exactly on the day that Egyptian Forces under Nasser launched a surprise invasion of Israel across the Red Sea in the commencement of the Yom Kippur War. The F27 interval is 6/6/81. At the time the French were assisting the Iraqis to build a nuclear reactor outside of Baghdad that would have the ability to produce fissionable material to construct nuclear weapons. On June 8, 1981, Israel sent one plane with one bomb and destroyed the heart of that reactor. The F29 interval on that spiral is July 29, 2003.
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> Since I uncovered spiral #2 in May, 1997, I have watched a third spiral develop to this date. This spiral works back in time from the July 29, 2003 date. You may recall the nuclear confrontation between India and Pakistan of early May, 1998 when both countries moved troops to their borders and tested nuclear weapons. It occurred on the F19 interval back from 7/29/03.
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> The other event on spiral #3 is the recent events in North Korea where they regained access to plutonium by cutting the UN seals on their breeding reactor. It occurred on the F10 interval back from 7/29/03.
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> Neither Mr. Carolan nor I are forecasting the use of a nuclear weapon this summer but the likelihood of a highly emotional event involving nuclear weapons is something that the SC seems to be suggesting. I would suggest that everyone reading this become familiar with the nuances of the SC, look at the above data, and make your own assessment.

Mr. Carolyn's book does indeed reside in our library, and is based on a complex interpretation of lunar cycles that we must admit to have never quite conquered when we read the text many years ago. As with Arch Crawford, however, Carolyn has had some uncanny success over the years pinpointing dates of market stress well in advance of their occurrence. The fact that the espoused July 29th, 2003 date falls so very close to the PEI cycle date of July 27th, 2003 suggests to us that this will indeed be a very significant time for the world. Perhaps the "In by March, Out by June" mantra currently being espoused by the media about an Iraqi war will have somehow been derailed into a more serious conflict at that time. Our best guess is that stepped-up geo-political hostilities that begin near June 1, 2003 will culminate in late July.

Herding and Gambling Mentality Still Abounds

Meanwhile, many of those who are now starting to view stocks disingenuously appear to be rushing into commodities and euro-fx longs as the "New New Thing." If nothing else, this demonstrates that the speculative spirit to our markets is alive and well. It reminds us that a certain gambling spirit still pervades our society – a spirit that has also witnessed the dramatic growth in state lotteries and casinos in recent years.

Per scholar Didier Sornette in his recent book *Why Stock Markets Crash*, "Gambling expenditures [in America] each year exceed the amount spent on films, books, amusements, music and entertainment combined. People spend more money gambling than they do buying tickets to all national athletic events put together (baseball, football, and everything else)...10% of all money earned by people in America is thrown away in gambling…There are about 10 million compulsive gamblers in the United States, more than the number of alcoholics."

Sornette's point is that if our society has developed such a fixation with gambling despite odds offered by state lotteries and casinos alike that are statistically poor, then "One cannot help but compare this growth of enthusiasm for gambling with the remarkable growth of the number of households owning stocks in the last decades...Investors [appear] prone to imitation and herding …they invest on little information."

So how many of those currently rushing into gold and euros really understand these markets? Or are these moves just another manifestation of our cultural gambling psyche? How many investors are just reacting to the latest "herd" mentality of jumping aboard markets showing some momentum?

Call us contrarians to the core, but we think the recent rush into the euro, gold and oil will not end up being particularly astute investments – at least over the next several weeks and months. While our own long-term leanings are indeed bullish commodity markets mostly on the basis of industrial and demand growth out of China (and our bearish views on copper for 2003 excepted), the current CRB chart sports way too steep of an up-trend angle not to yield disappointment at some time soon, and the euro move should be largely complete for now. Our upside targets on the Australian dollar and gold have also both been reached. While extreme caution should be used in trying to fade these recent upswings, at a minimum all euro, gold, oil and Australian dollar longs should be closed. In terms of global currencies, we only remain positively inclined to be long Canadian dollars against the U.S. dollar.

Asia Up

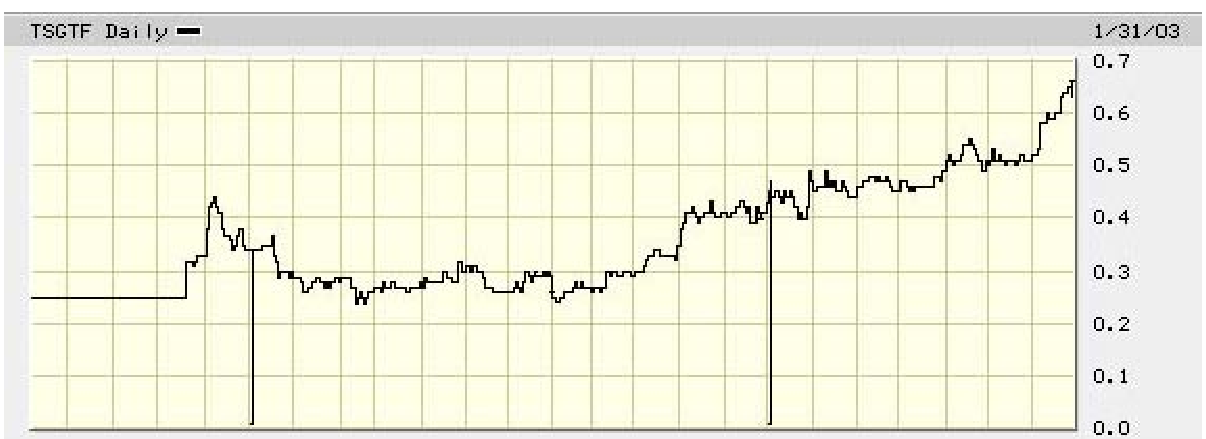
Meanwhile, we are becoming increasingly disposed to a rally in the Japanese Nikkei and overall strength in Asia as well. The weekly chart below of the Japanese Nikkei most recently sports a spike low back on October 9, 2002, followed by three successful retests of that low. The market rallied smartly back from the third of these retests this past Friday.

What could be the catalyst for such a rally? Most might point to new leadership forthcoming at the Bank of Japan, but perhaps more importantly within the next several months, the Japanese are quite likely to pass a reduction in taxation of dividends from a 40% taxation rate to just 10%. This proposal has not been widely covered in the Western press, and one can even wonder if

President Bush stole the idea for a dividend tax cut from the preexisting proposal that has been developing in Japan.   Whatever the case, we are now favorably disposed to dip our toe in the water: long Japan. Unlike 1999-2000 when all the *gaijin* investors were heavily and prematurely invested in Japan, now almost everyone has given up. And yet, the immediate Fibonacci rhythms on the Nikkei suggest a first stop to the upside at just over 9000, then a second target at the 9186 chart gap, and possibly with time marginal new highs above the December 2, 2002 high, up toward 9,388.

We are similarly disposed to be long Asian equity markets. In addition to our two previously espoused long positions in Sky City Entertainment and Canbet.com (see our May 2002 article "In Search for Survivable Themes") both of which are performing nicely, we also spy an upside target of 12.59 for the NYSE listed Asia Pacific Fund (symbol of APB).

Many astute managers we know are bullish on Tsingtao (TSGTF – OTC BB) – China's largest brewery. It recently posted a 50% profit jump for the second half of 2002 in comparison to the second half of 2001, and Anheuser-Busch has taken a 27% stake in this company. There is certainly no evidence of a bear market in equities in the chart picture of Tsingtao below.



Tsingtao is a thinly traded stock in the U.S. OTC market, but might be worth developing a position in over time. It reminds us a bit of when we had the chance to buy Benihana Restaurants (symbol BNHN) at $1 a share in the mid-1990s – that stock having since risen to above $12 a share.

Shorts to Hold

It is possible of course that we may be wrong in our prognostication of short-term equity strength. With all the nastiness of next June-July still ahead of us, there is also no cause to rush into an equity purchasing spree, but instead we'd suggest just gently nibbling at this time, particularly in Japan and Asia.

Looking through previously recommended short positions – namely Novellus, Deere, Walmart, Citigroup, KLA Tencor, Dell, Microsoft, Mattel, Toll Brothers, P&G, Sotheby's, Caterpillar, Coca-Cola, Redwood Trust, Golden West Financial -- the list largely still looks fine to us, particularly if such short positions were to be balanced by some of our previously recommended longs, and long suggestions made above. Only in the cases of Coca-Cola, Sotheby's, and perhaps Microsoft might we anticipate some near term strength developing and thus deem it prudent to temporarily cover short positions in these specific securities – all at a nice profit from our first short recommendations.

If we change our mind on the above espoused views due to any unexpected market behavior, we will either e-mail subscribers or promptly post a Chart du Jour on the web. Given the recent choppy range of the markets, however, please forgive us for sometimes not being particularly inspired to comment on all the short-term noise.

Send us your comments at information@Sandspring.com.

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