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COMMENTARY

Market Opinions And Topics Of Interest
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The Markets Are About To Get A Lot Of Certainty

Markets hate uncertainty. They respond well to certainty – like Chairman Greenspan's comments last Friday settling the issue of where the Fed stands. When investors are unable to discount an event due to a lack of information, they are ruled more by raw emotions such as hope, greed, and fear.

Regarding the President's problems, the market has had more rumor and hype than facts. What has been lacking has been the complete story so that investors can judge where the President stands and what the chances/prospects are for his continuing in office.

Fortunately, this should all change in a few hours. If the Independent Counsel's report is released on the House of Representatives web site as expected (www.house.gov/icreport), this should give investors the certainty they need to judge the President's prospects. Rarely do we have such a defined event to provide new information into a "market moving" story.

Whether the future holds impeachment, resignation or exoneration is irrelevant. By Monday morning investors should have the information they need to judge the President's prospects and this story will be discounted in market prices (read: another big move). It will become a non-event soon thereafter.

In essence, today will be much like 1/17/91 – the day the Gulf War started. For months leading up to the United Nation's January 15th deadline for Iraq to leave Kuwait, the market was subject to wild rumors and speculation about crude oil prices, casualties and how long the war would last. As the first sorties of the air war began, the markets discounted a positive resolution to the crisis. The markets literally priced in the end of the war as soon as it started. Oil fell over \$10 a barrel in seconds and stocks soared the next day – and never looked back. Of course it

took months for the actual resolution, but the market's verdict was given quickly.

Therefore, if the President's scandal is about to become a "known quantity," how will the markets react? Typically they reverse course violently. Why do they reverse course? Because markets that are at extremes (i.e., overbought/oversold, investor psychology all on one-side, highly volatile and emotional), are ripe for a trend reversal. Often times new or fresh information is the catalyst for that reversal. This is what happened Tuesday in the wake of the Fed making its bias known and on 1/17/91, the start of the Gulf War. Sometimes the existing trend will accelerate, but this is the exception rather than the rule.

As a result, we see the markets as vulnerable to a sharp reversal of their trends. This means a rally in stocks and a setback in bonds – continuing the mirror image trading of each other. This reversal does not necessarily have to be the end of the larger trend, but it should be enough of a move for investors to take notice.

One caveat. There has been talk of the President invoking the 25th Amendment. That is, claiming he is "disabled" and making Al Gore "interim" President so he can seek help for his "disability." Should such a long shot happen, it would **add more** uncertainty and make the situation worse.

An axiom of a bear market in stocks is: "the first bounce is the best bounce." In 1929, the first real rally retraced 62% of the decline. In 1973, it was nearly 75%. We believe this type of rally is coming, and the release of the Independent Counsel's report could be the catalyst for this "best bounce" to get underway.