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MARKET FACTS

A Historical Look At The Markets
December 20, 2000

Is the NASDAQ in 2000 following the Nikkei 1990 path?

Many have asked us questions about the recent actions of the NASDAQ and U.S. Treasury yields in the U.S., and their similarity to the Nikkei and JGB yields in Japan during 1989-1990. The three charts on the following pages attempt to answer some of these questions.

As Chart 1 shows, the 10-year JGB yield was rising before and after the Nikkei peak of 38,916 on December 28, 1989. On the day of the peak in the Nikkei, the 10-year JGB yield was 5.74% -- up from 5.01% in early August 1989. Then the Japanese bond market proceeded to collapse, and three weeks later, on January 18, 1990, the 10-year JGB yield was up 119 basis points to 6.93%. Throughout this bond market collapse, stocks held up remarkable well – off 5.5% to 36,729. By the time the Nikkei fell 13% from its high (March 1, 1990), the 10-year JGB yield was up to 7.21%. In the two months after the Nikkei peaked and had its first 10% correction, the 10-year JGB yield ***rose*** 157 basis points.

It did not get any better after this. By September 27, 1990, the Nikkei stock index was down a stunning 46% from its all-time peak to 21,771. While stock prices were losing nearly fifty percent of their value, the 10-year JGB yield reached 8.23% -- up 249 basis points from December 28, 1989, the day of the Nikkei peak. At this point, the 10-year JGB yield finally entered a huge bull market, but it was too late to help the stock market, or the economy for that fact.

Chart 2 shows that the NASDAQ peaked on March 10, 2000 at a closing high of 5,048.60. 10-year U.S. Treasury yields had risen from a low on October 5, 1998 of 4.16% to 6.79% on January 20, 2000. This 263 basis point rise in yields was completed and rates were falling for six weeks before the NASDAQ peaked. This suggests that interest rate relief alone will not help the NASDAQ, since yields were falling ***before*** the peak in the NASDAQ, and the subsequent nearly one-way decline in yields has done nothing to stem the fall of the NASDAQ.

Chart 3 is an overlay chart of the Nikkei from late 1986 to 1990 and the NASDAQ from 1997 to 2000. The chart is drawn with a proportional scale for the two indexes, allowing for comparisons of their respective price movements. The final surge in the NASDAQ that ended in March was much larger than the final move in the Nikkei in 1989. The downturns in both indexes have been very similar in both time and percentage movements. Should this overlay hold, it would suggest the NASDAQ is nearing a bottom and setting itself up for a rally that could last six months and rebound 35%.

Chart 1

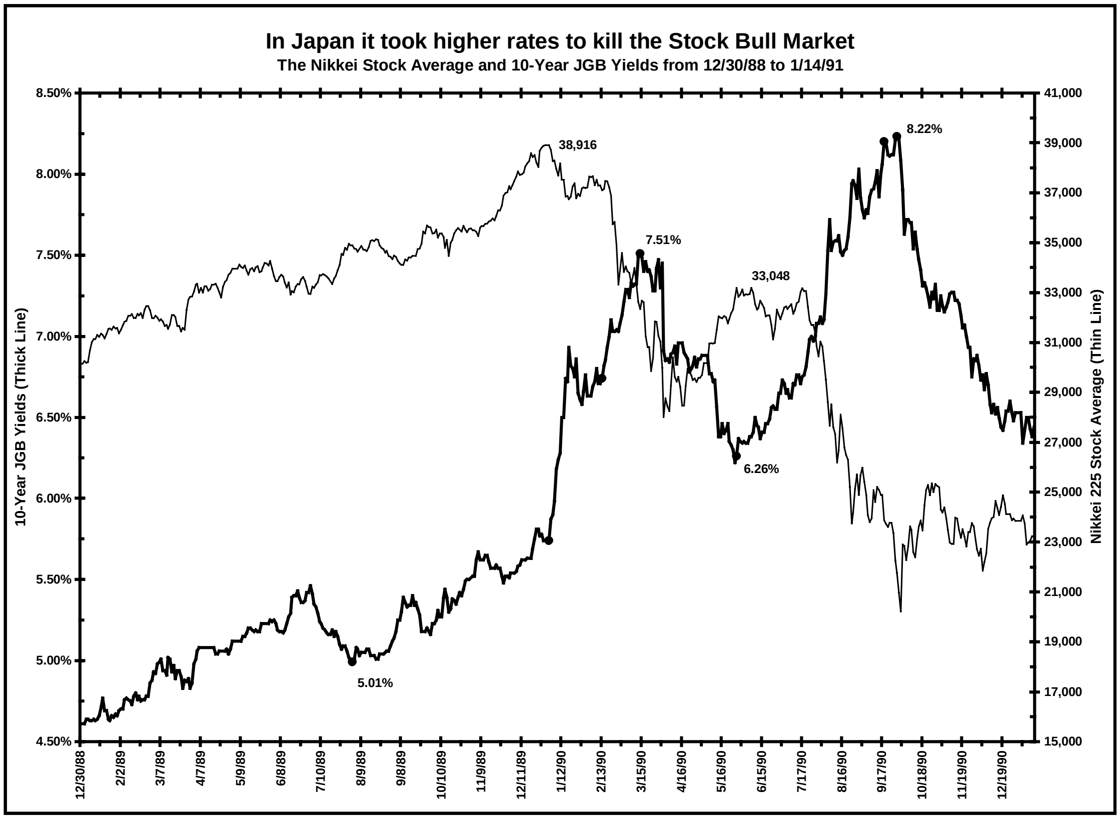


Chart 2

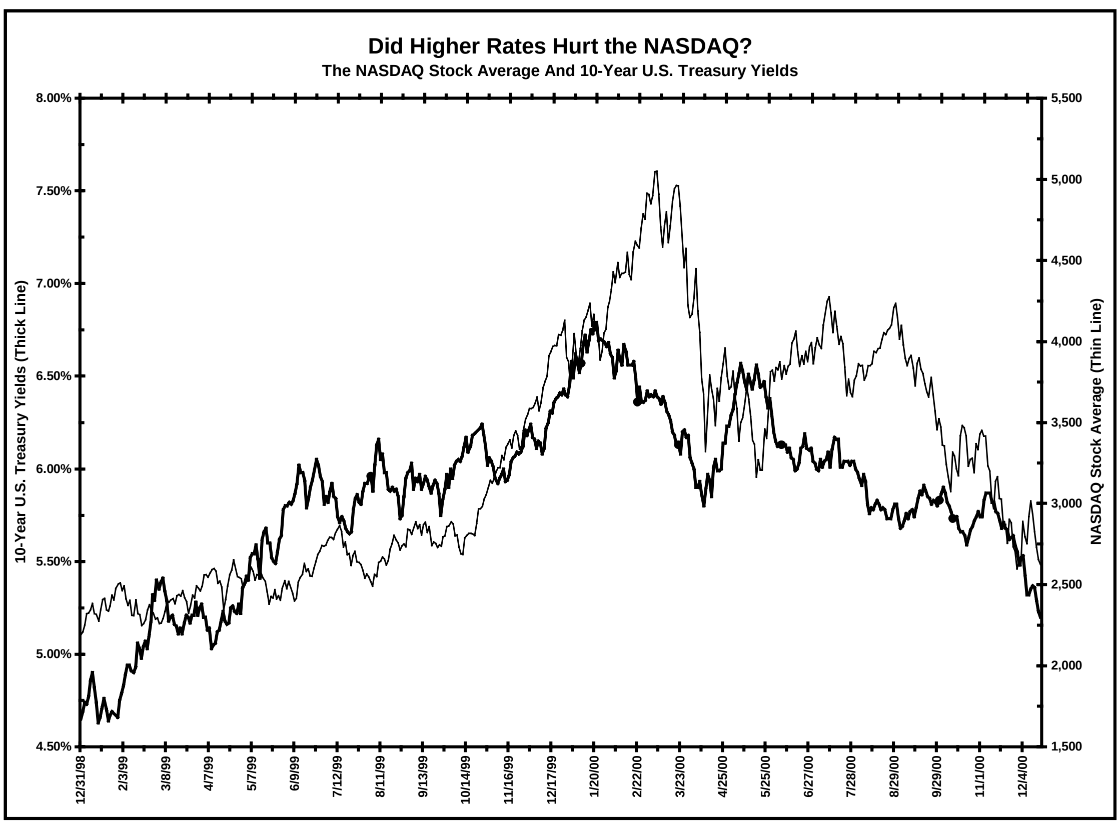
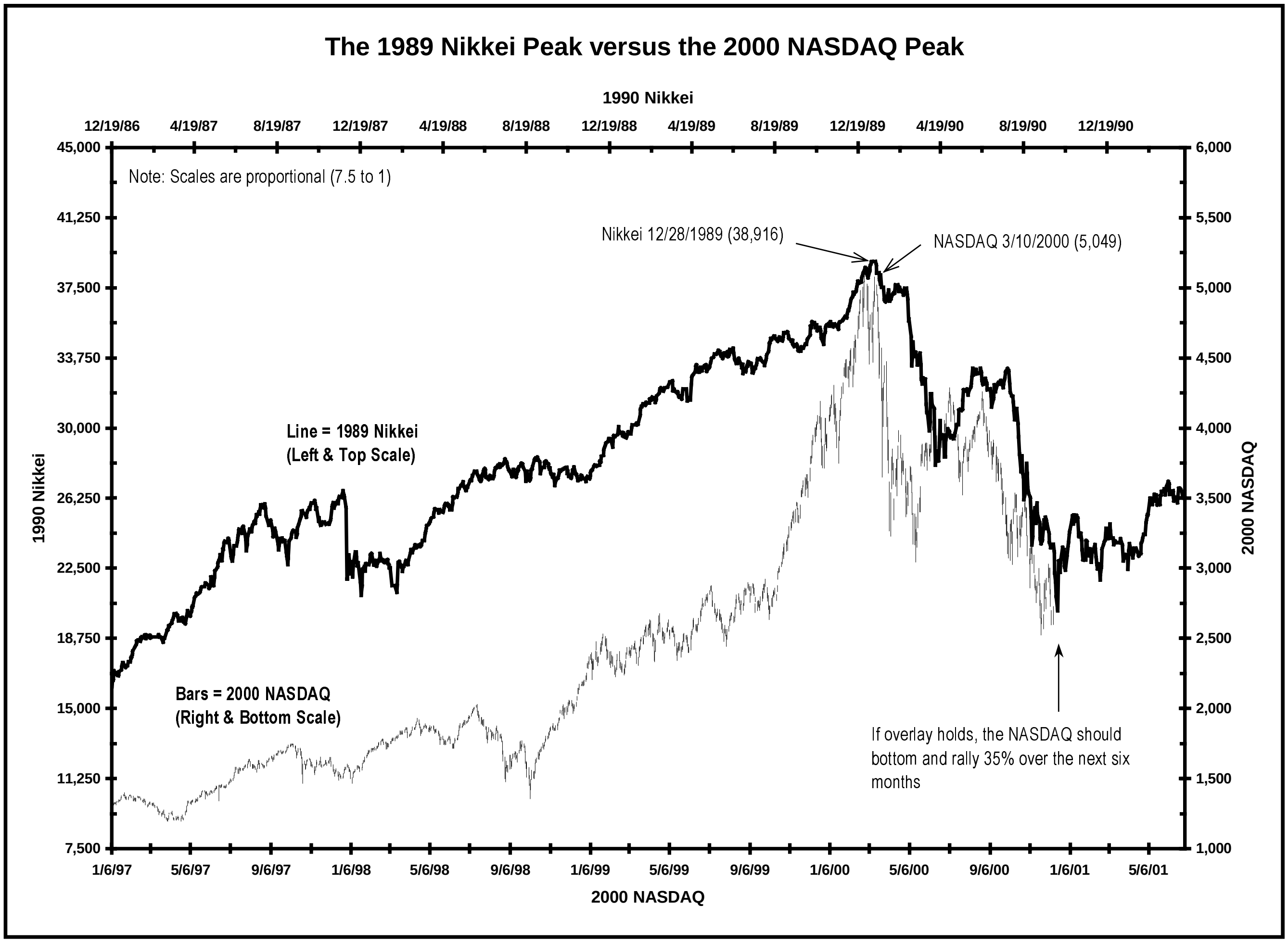


Chart 3


The 1989 Nikkei Peak versus the 2000 NASDAQ Peak
1990 Nikkei
12/19/86
4/19/87
8/19/87
12/19/87
4/19/88
8/19/88
12/19/88
4/19/89
8/19/89
12/19/89
4/19/90
8/19/90
12/19/90
45,000
41,250
37,500
33,750
30,000
26,250
22,500
18,750
15,000
11,250
7,500
1990 Nikkei
6,000
5,500
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
2000 NASDAQ
Note: Scales are proportional (7.5 to 1)
Nikkei 12/28/1989 (38,916)
NASDAQ 3/10/2000 (5,049)
Line = 1989 Nikkei
(Left & Top Scale)
Bars = 2000 NASDAQ
(Right & Bottom Scale)
If overlay holds, the NASDAQ should bottom and rally 35% over the next six months
1/6/97
5/6/97
9/6/97
1/6/98
5/6/98
9/6/98
1/6/99
5/6/99
9/6/99
1/6/00
5/6/00
9/6/00
1/6/01
5/6/01
2000 NASDAQ