



MARKET SEMIOTICS

By **WOODY DORSEY**

Publishing Since 1985 Castleton, Vermont

MARKET SUMMARY FOR FEBRUARY 10th, 2004

HERD AT THE CURB: The expected structure: “From the Capitulation/Liquidation process of the 7 & 10/2002 and 3/03 lows, the market was set up for the best rally in 3 years. **The strategic profile has always been expected to carry equities higher into May-ish of 2004.**” Most assets have been “*going up*” due to excessive liquidity and a concomitant omnivorous market risk appetite. This invisible bubble which we have been calling, “**Asset Dissonance**” may now be bursting somewhat. The Fed is still signaling higher rates if we would just be more patient. The *virtuous cycle* of Dollar selling and Treasury buying will segue into a *viscous cycle* at some point. Meanwhile, stuff like Energy and beans keep rising. Equities remain haplessly bid.

EQUITY STRATEGY: The market trouble has allowed, as we expected, at least a minor correction to unfold. This allows and augurs that the “herding one-way style market” is maturing. Thus a period of more difficult “blocking and tackling” as part of a top-building process is underway. Volatility, both up and down, should increase as equities set up for a “**March Massacre.**” But this should be followed by a “**May Flowering**” and that in turn will be followed by a “**June Swoon.**” For now some more meaningless meandering may be in store.

EQUITY TACTICS: We expected: “Markets look sloppy and corrective.” Bidding game should now resume as a complacent topping process unfolds before down trades into 3/26-29ish.

GLOBAL EQUITIES: Near term confusing correction of last week results in upside bias next few weeks before a more substantive March decline. Strategic bullish bias remains into May.

STOCK SENTIMENT: DAILY 42% WEEKLY 55% MONTHLY 54%

SECTOR STUDIES: As expected: “Momentum monster has been shamed for now... bidding may revert to corrective digestion.” Expect complacent churning with Pops.

FIXED INCOME Downside lacks traction as Data Did not Dovetail with Dealer Short Positions. Significant price decline has been delayed but not denied.

FIXED INCOME SENTIMENT: DAILY 74% WEEKLY 60% MONTHLY 56%

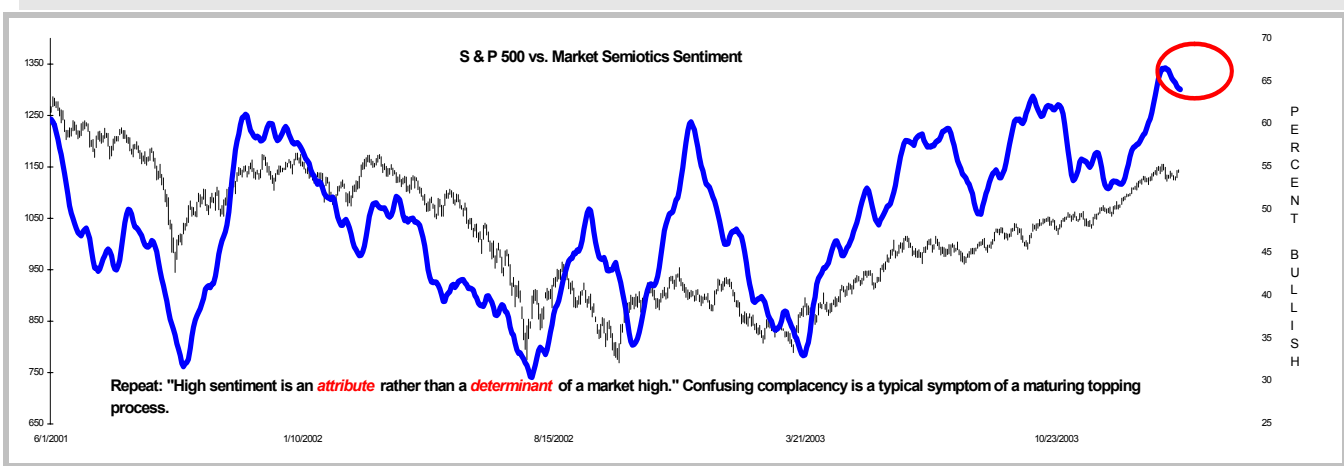
FOREX: Dollar bounce failed early. **REITERATE:** “Overall pattern still suggests one more new dollar low, perhaps around March 26-29th followed by a substantive rally into May.”

COMMODITIES: CRB still structurally bullish but sideways. Gold Corrective period could last another few weeks. Energy: Still vulnerable **next 2-3 weeks** B4 another rally into May.

BEHAVIORAL MARKET DIAGNOSIS by WOODY DORSEY *Publishing Since 1985 Castleton, Vermont*

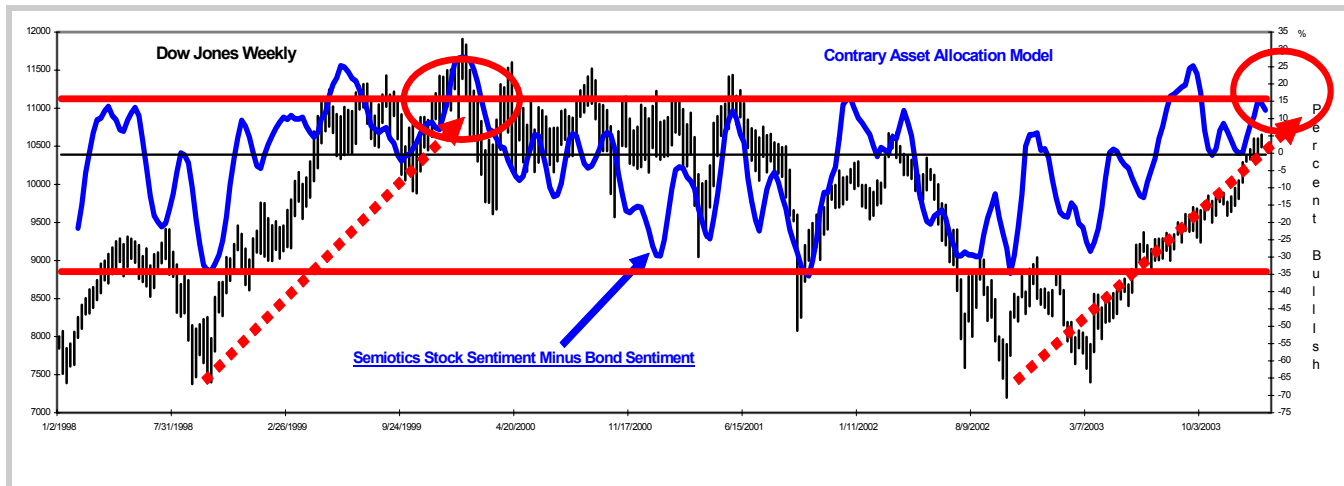
Complacency & "Asset Dissonance" Penultimate to "March Massacre"

HERD AT THE CURB—TM **February 10th, 2004:** Stock markets have continued their remarkable *performance*. But now the tone of the game is changing bit by bit. The upside is limited as all aspects of equity markets are maturing. The overt trending function in the majority of assets signaled that an extraordinarily obscene *Lapdance of Liquidity* has been having its way with the loose pockets of market participants. Too many assets have simultaneously been winning at musical chairs. Dollar, Deficits and Energy Crises remain at large and are huge. Again, "these factors do not matter until investors think they matter." This "Asset Dissonance" & Market Complacency will be healed by a "March Massacre."



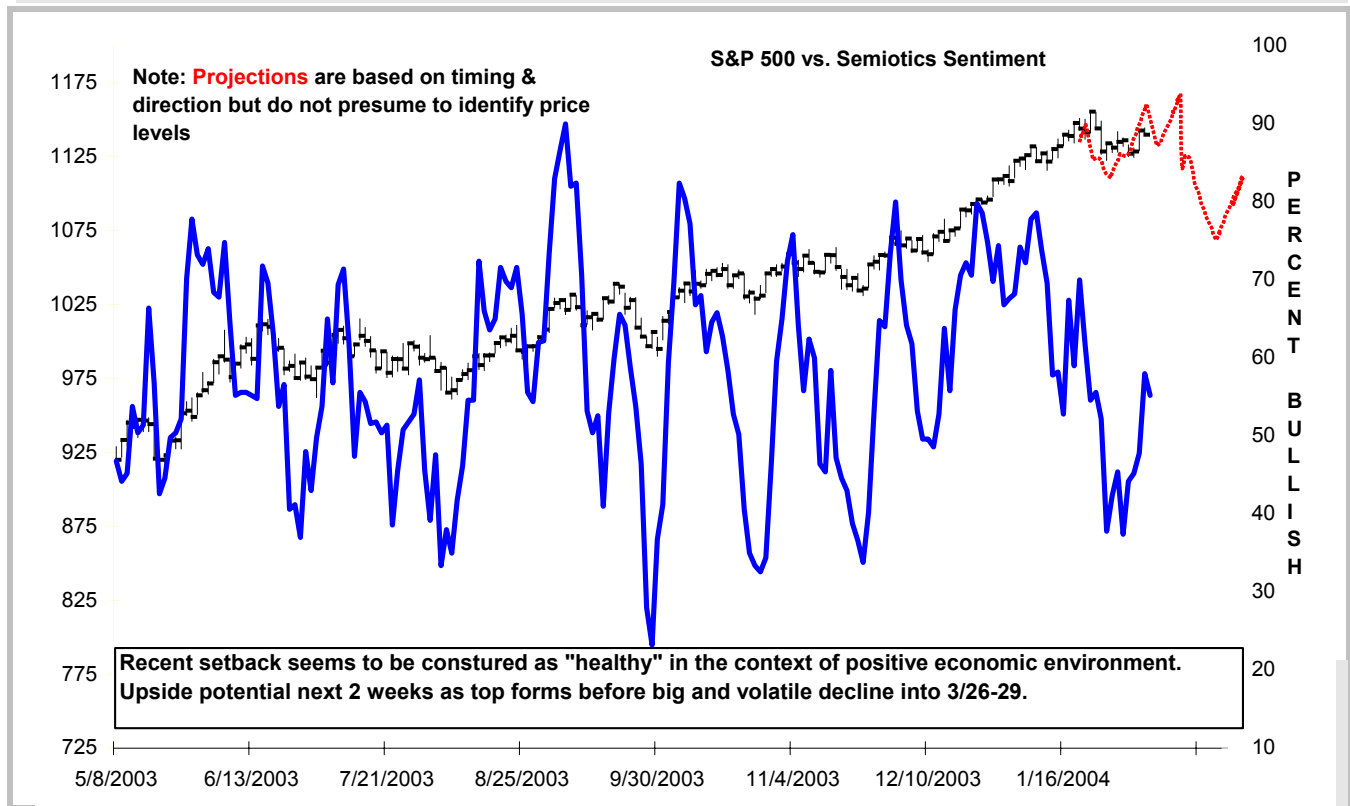
STOCK SENTIMENT: DAILY 42% WEEKLY 55% MONTHLY 54%

PORTFOLIO: More volatility. Rally is Maturing. Decline into 3/29ish then up to a May/04 high.
STRATEGIST: We suggested "buying towards the end of Q1, 2003 for best upside in years." **NOW:** The market is maturing and is vulnerable to a sharp March setback before persisting into May of 2004.
THE CONTRARY ASSET ALLOCATION MODEL: We continue to note that, "the slope of the psychological preference to own equities relative to bonds may continue" as risk appetite perpetuates herding back into equities. Thus, bonds remain at greater relative risk but **both markets are "rich."**



Stocks Still on Scheduled "Sloppy Time." Prefer More Pops this Week.

HERD AT THE CURB™ February 30th, 2004: We remain in an unusually challenging tactical environment. We expected more weakness last week in the context of a presumed "healthy" cooling off. We expect and allow more rally attempts for the next 2 weeks as the market sets up for the "March Massacre." As noted before, we expect volatility to increase dramatically, particularly in March. Any further strength into late Feb./early March will lead to a very sharp drop into 3/26-29ish. Be prepared.

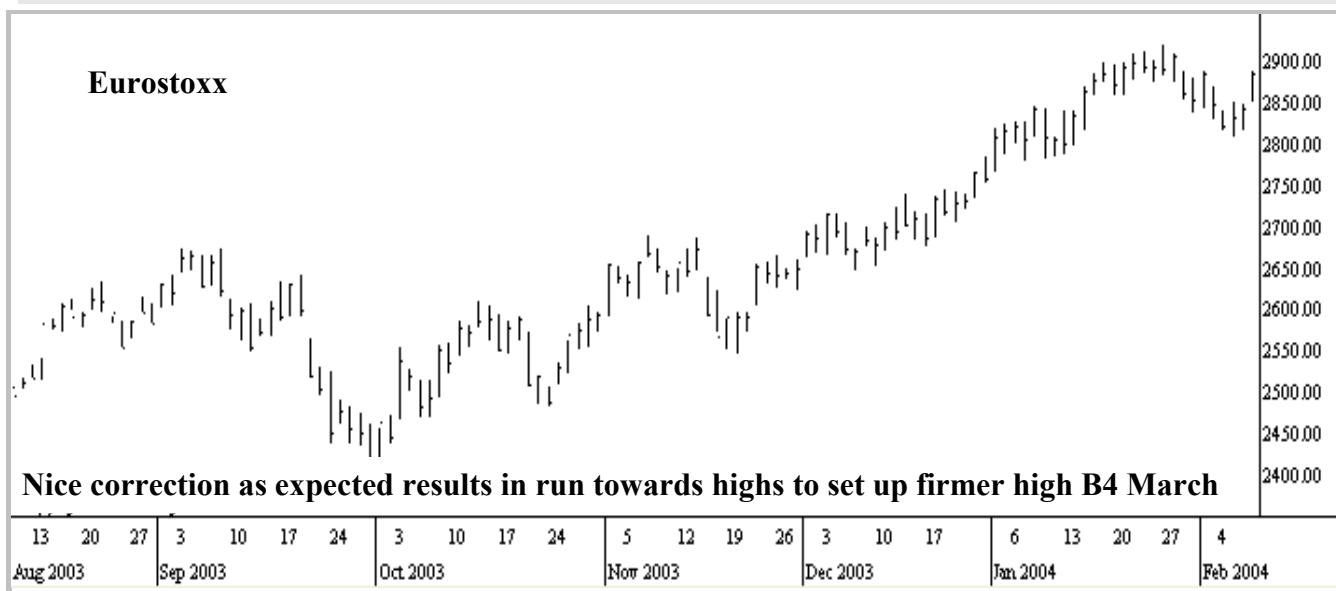


Some bounces due but new highs unlikely until post "March Massacre."

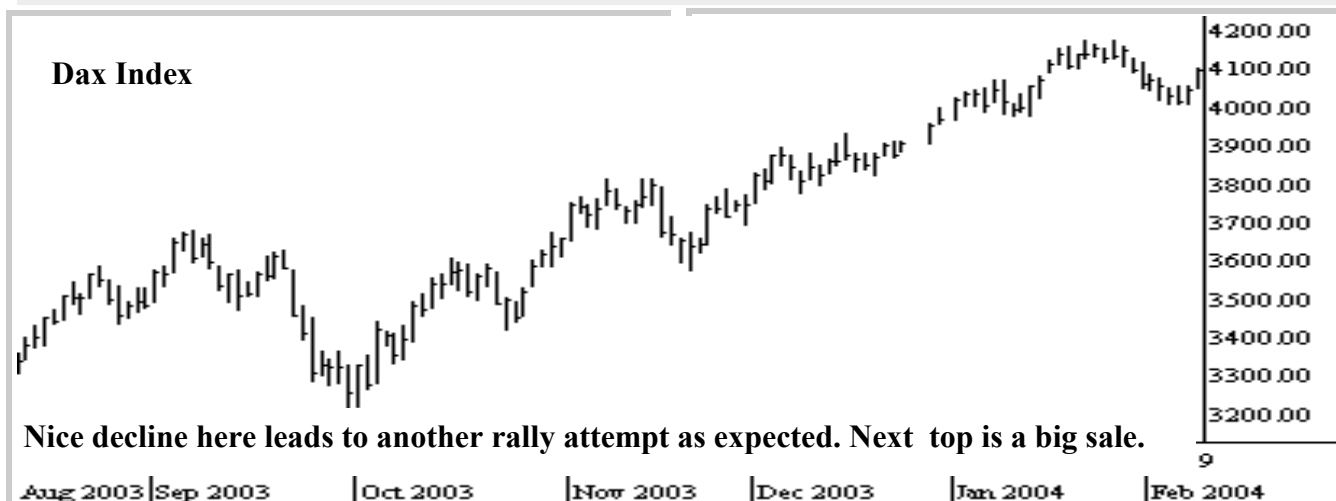
13	20	27	4	11	18	25	3	10	17	24	5	12	19	3	10	17	24	6	13	21	28	4
Aug 2003	Sep 2003			Oct 2003			Nov 2003			Dec 2003			Jan 2004			Feb 2004						

Europe had nice Retreat but Rebound back to Range high B4 March Massacre

HERD AT THE CURB—TM **February 30th, 2004:** Equity markets are showing signs of maturing . Complacency, Confusion and Chopiness are symptoms of both consolidations and of market highs. Our interpretation of this process is that these markets are setting up for a sharp shakeout due over the next 7 weeks. This will likely be followed another late stage rally, as expected, into May of 04. **Sloppy correction over, some upside bias potential next few weeks, a very negative March and a May finale.**



TACTICAL PROFILE: The tactical view remains difficult as these markets are maturing in their up-trends. Strength over the next 2 weeks or so should be seen as being in the context of an important tactical turning point due in late February/early March which will initiate a sharp failure/decline into 3/26-29.



The Bidding Game Got Sloppy as Expected...More Chop next Few Weeks

FINANCIALS: Bouncing back but expected rising rate will eventually “bear” down here.

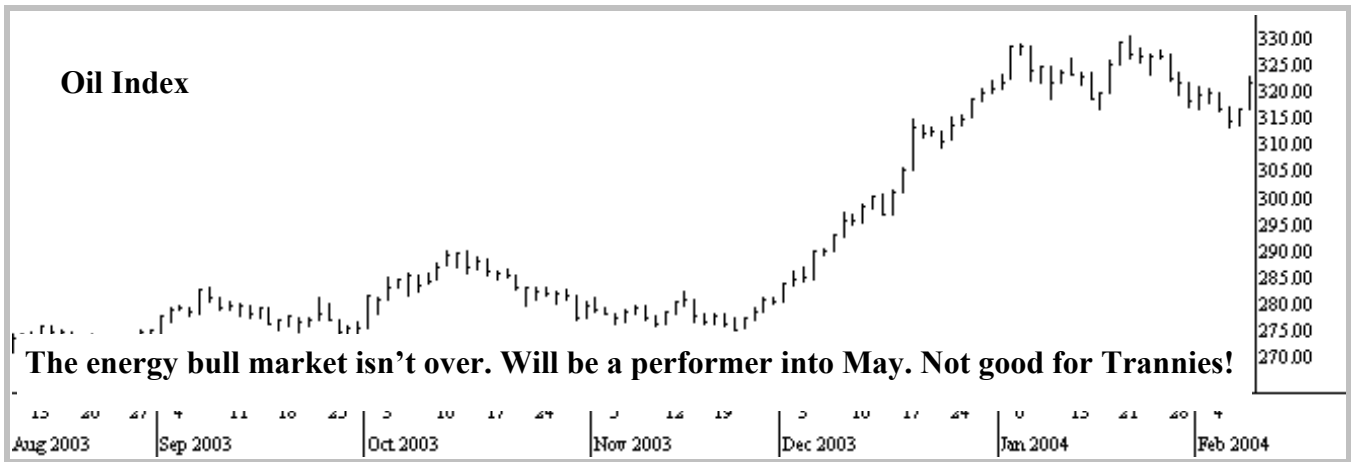
BROKER DEALER: Still think volatility will be increasing in this area. Churning for now.

RETAIL: Has been a better performer than expected. But at resistance. March will be negative.

BIOTECH: Has been a performer as expected but near weekly resistance. More upside near term..

DRUGS: As expected: “relative performer.” Overdone now but interim high not due until May?

SEMICONDUCTORS: Nice correction. On the mend but not to the highs before March decline.



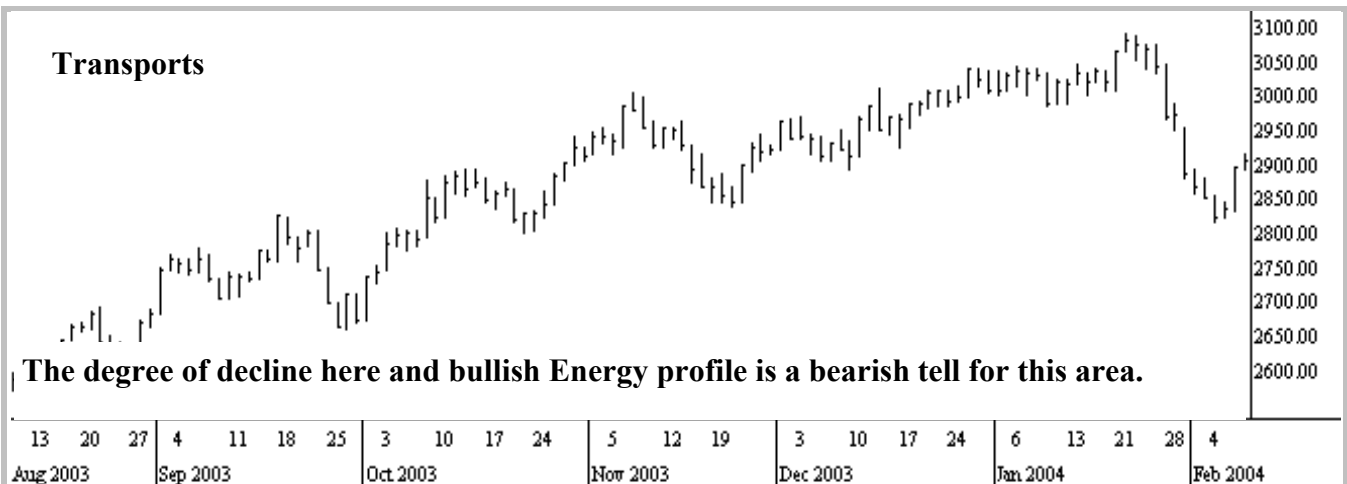
XAU INDEX: Expected, from 1/6: “New **highs today** lead to a **6 week** correction.” Buy in 2-3 weeks.

OIL: Energy equities are still performing. As expected they may stay well rebid on breaks. Up into May.

CYCLICALS: Nice break but more bounces next 2-3 weeks. Should get quite corrective in March.

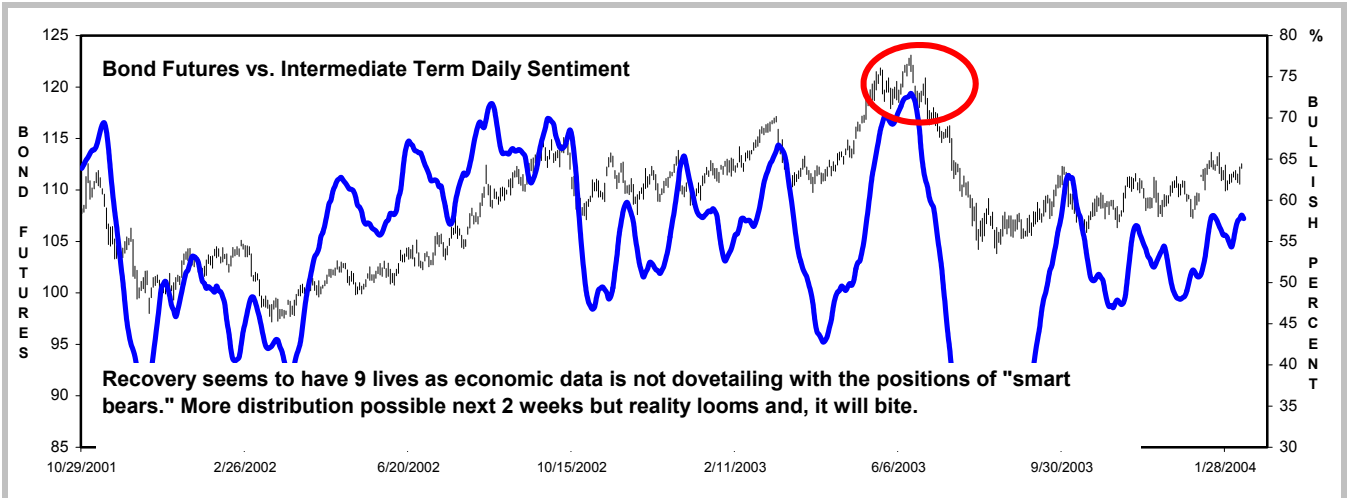
TRANSPORTS: As noted: “Ugly looking here.” Higher energy prices still coming. Interim high In!

UTILITIES: Still hanging around and could pop next 2 weeks but not attractive.



The "FEDmen" Proselytize Patience on Rate Rise. Bears have to be Patient too?

HERD AT THE CURB -™ February 30th, 2004: We reiterate that the 6/2003 price high coincident with the highest Semiotics Bond Sentiment in 5 years and the Semiotics "D*flation" Slogan Search extreme was a very important low in rates. The comforting recovery range is ending but Bears and Realists have to be "patient" as "Father Fed" admonishes us. The "virtual cycle" of a weaker Dollar resulting in more foreign buyers of Treasuries has become so well known that it is more of a "viscous cycle" at this stage and it will eventually become a "vicious cycle." The recognition of this change in the musical chairs of capital markets will produce an abrupt reversal in fixed income flows. A substantive price low is not due until 8-10/04 and could be calamitous. Meandering bid could keep rates "sticky" for now.

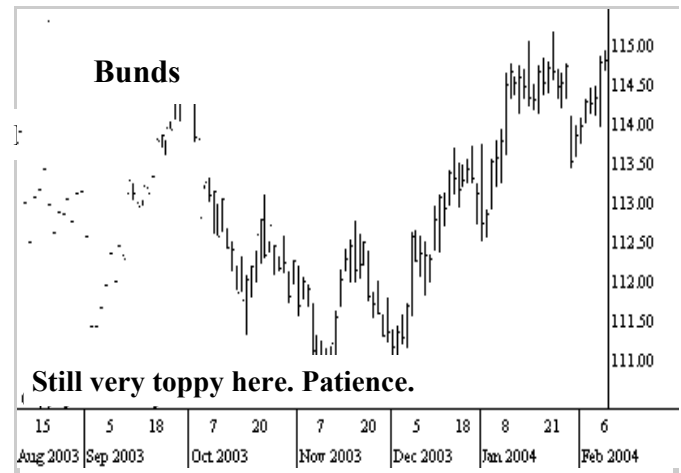
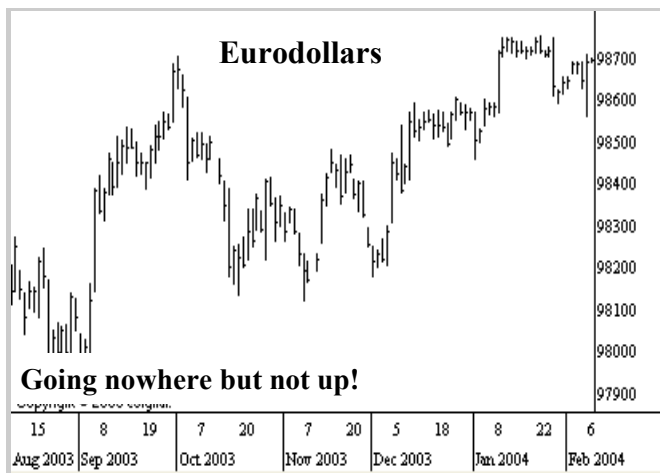


BOND SENTIMENT: DAILY 74% WEEKLY 60% MONTHLY 56%

TACTICIAN: Prefer high in place but may "hang around/retest" next 2 weeks.

PORTFOLIO: Treasury Top registered. Recovery Range Ending. First low due in May.

STRATEGIST: Liquidity boom. Bigger Deficits = More Supply= Higher %. Low due 8-10/04.



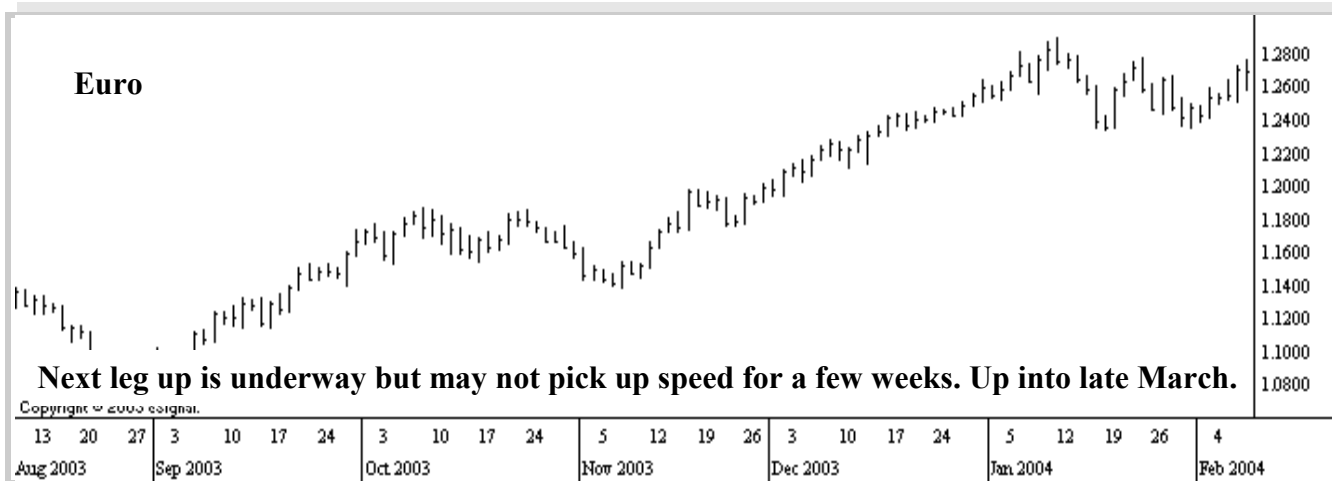
MARKET SEMIOTICS FOREX- COMMODITIES

BEHAVIORAL MARKET DIAGNOSIS by WOODY DORSEY

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Dollar: New leg down next 6 Weeks. CRB Sideways. Energy Bid.

HERD AT THE CURB -™ February 30th, 2004: Our structural view remains intact: **The risk is for a major move in the dollar that may take years to unfold.** A huge dollar decline has indeed panned out as we had forecast. Many market participants had been **bottom-fishing** and there was a short-term dollar bounce. We had expected that this would create a more neutral configuration before a move to new lows in March (maybe near **3/26-29ish**). Thus more Dollar weakness is due and could finally be “seen” as a capital market “problem” near the lows. We then expect a Dollar rally into May.



Forex Profile: NO CHANGE FOR MONTHS: “The Dollar remains in a structure of indeterminate vulnerability.” The **“Bush Buck”** engaged bottom fishers but they have been shown the door as the larger bearish profile continues to assert itself as expected. This suggests a better Euro high around March 29ish?

COMMODITIES: Commodities still remain in a bullish structure but have been “experiencing” their February break. **Energy:** Remains “Dangerously bid” but is still in the midst of the preferred shakeout which could last another week or two before a renewed rally phase into May.

