



MARKET SEMIOTICS

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Publishing Since 1985 Castleton, Vermont

MARKET SUMMARY FOR April 5th, 2005

HERD ON THE STREET: The profile suggests that the rally from the 10/04 “*Shoppertunity*” & from the 3/03 lows, is over. According to the **Semiotics Stages of Market Psychology**, the **Adoration** phase has occurred. Investors were seduced. The corrective process is underway but will contain many chapters of both Hope and Denial. Expect more weakness in the next few weeks B4 a “*Shoppertunity*” in front of a complex volatile Summer recovery. Financial culture is seductive. Why didn’t anyone tell us years ago that crude was going to 105? 36,000 Dow!

COMMENTS ON FINANCIAL CULTURE: Equity markets continue to reveal their vulnerability. As Adoration unravels, negatives are propagating as evidenced by an *acronym soup* of ticker woes (AIG, MWD, GM etc.) The “Lapdance of Liquidity” is more bullish for Stuff than for Paper Assets. The assumptions of benign cyclic recoveries will be supplanted by the distant rumblings of coming capital crises. It will take some time before they become acutely compelling.

EQUITY STRATEGY: Equities appear to have ended their recovery rally of the last 2+ years. But, the initial declines will likely lead to hopeful recoveries as investors will seemingly prefer **Denial** to the more probable reality of several years of sub par performance. The next 6 months narrative looks like this: Down into late April, May rally, weakness into end of Q2, hard Summer rally, Fall “Fall” and a lousy year end. **NEW:** Best period of the year could be the first Half of Q3?

EQUITY TACTICS: The 3/7 breakout is still being revealed as a major Fakeout. Bounces possible but further weakness due over the next few weeks during quasi-seasonal April Avalanche.

GLOBAL EQUITIES: European equities remain in an interim correction. Recent pops are constructing a tactical “shoulder.” A secondary downtrend is due and could last into early May.

SECTOR STUDIES: Sectors recoveries of any note are still unlikely. Again: “Upside probabilities remain diminished. Please regard buy recommendations askance for now. Allow Setbacks.

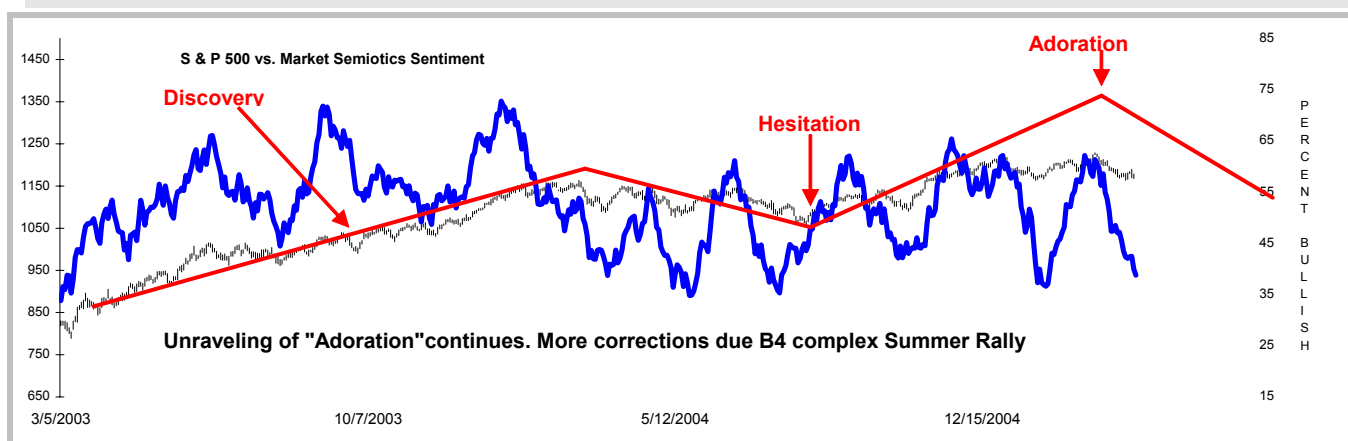
FIXED INCOME: Rates remain in a secular rise. Greenspan’s *Conundrum* clue coincided with an extreme in the **Flattening** slogan. **NO CHANGE:** “Tactical bounces into early April possible but should be short-lived as the larger rate reality rules.” Don’t be seduced by the recent bounces!

FOREX: The expected Dollar rally into Mid-February failed and led to a retest of range lows. Now, a recovery rally is occurring and has perhaps into 4/13ish to go but it is only range trade.

COMMODITIES: CRB is undergoing tactical correction. Incipient lows due in Corn, Cotton Sugar etc. could signal a new kind of advance. The secular rally is a generational “**Repricing of the planet.**” For now, a **minor deflationary episode.** In January, expect “**Rally into Mid-April.**” **NEW:** Oil strength on borrowed time as late as 4/13-24 B4 May spill. Energy crisis continues.

The Misplaced "Adoration" of Equities Continues to Unravel

HERD ON THE STREET™ April 5th, 2005: Equities gave up their *Goldilocks* fantasy confirming that an expected "Adoration" phase has culminated. We repeat, the beginning of bear trends are often **Denied** by laissez faire bulls. While an initial severe decline can occur just after **Adoration**, (as is occurring) persistent trending declines often occur later along in the larger corrective process. Thus, this correction may be followed by some sincere recovery rally attempts. **The S&P Celebration on the perceived inevitability of Dow 11K and its subsequent Rejection** may offer a durable inference: The 3/2003 low inferred stocks would rise for awhile. The 3/2005 high may infer that stocks will fall for awhile?

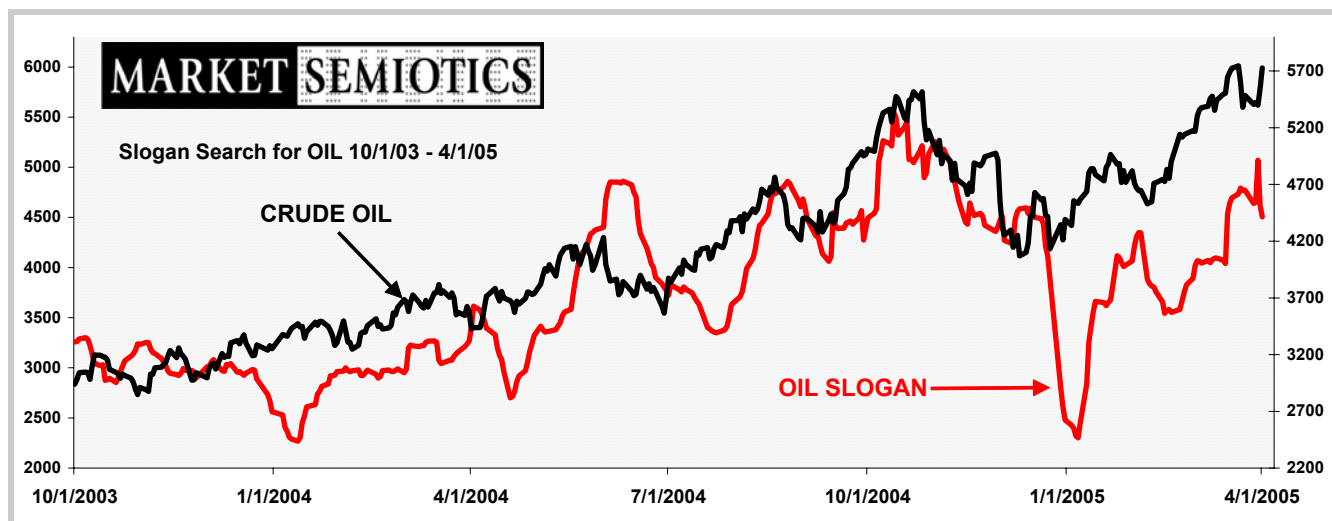


TACTICAL: Declines should continue for 2-3 more weeks. Short-lived pop potential this week.

STRATEGIC: Suggested "buying in **March of 2003** for best upside in years." That rally is over. Expect a volatile year. Breakdowns due into late April. May rally, June Decline, Summer rally. Fall "Fall."

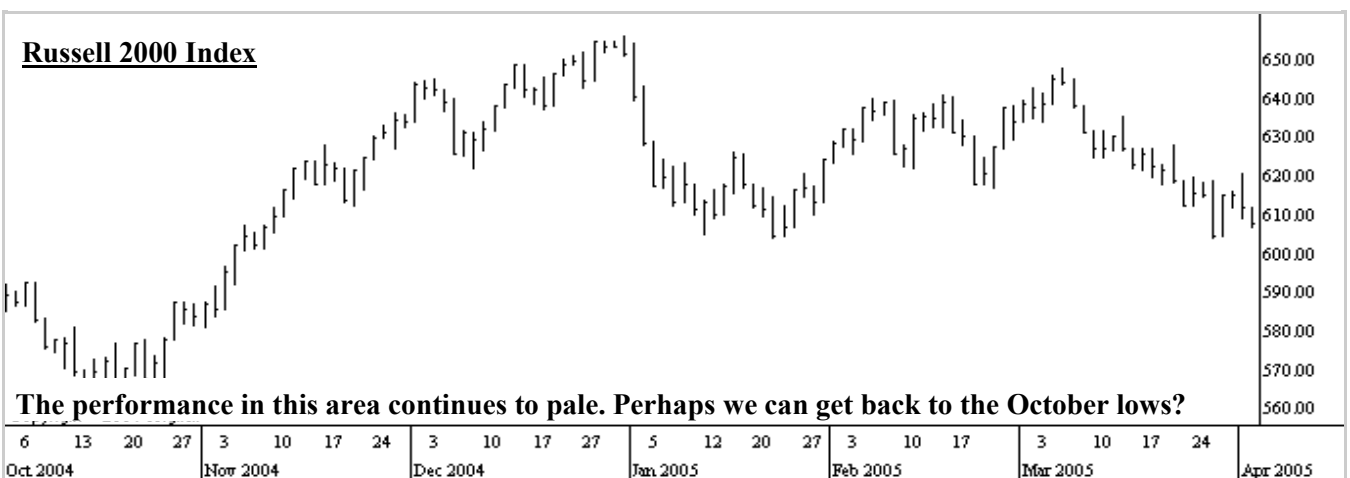
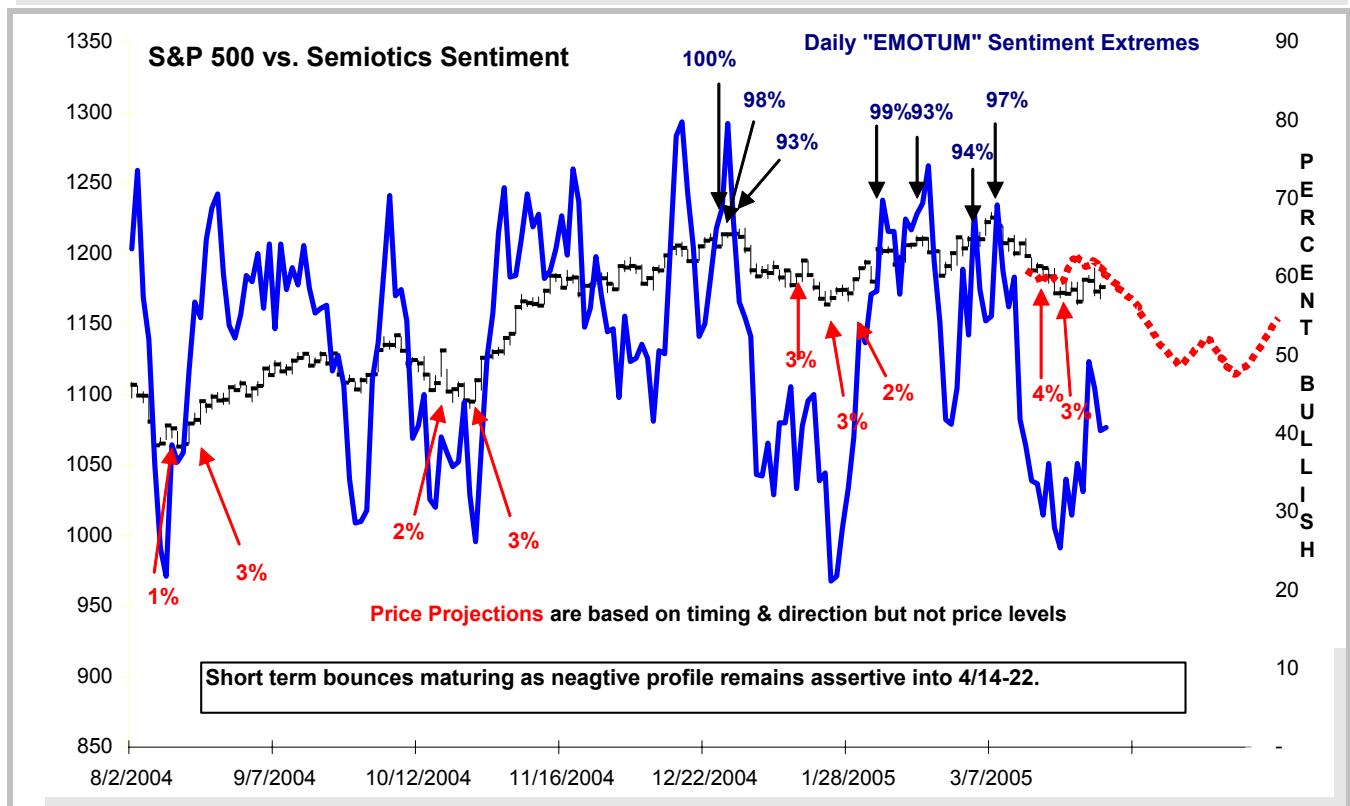
SECULAR: Q1 2000 remains as a major extreme. Sideways to Corrective into 2007 and/or 2011.

THE MARKET SEMIOTICS MEMETICS MODEL: The slogan search for **OIL**, shown below (smoothed), is correlating with the price of crude. The slogan is both becoming obsessive and diverging. We expected a rally from January into 4/13-24. We are looking for signs of another tactical extreme but that can't be confirmed as yet. May looks analogous to November (Oil Spill, S&P upside Thrill?)



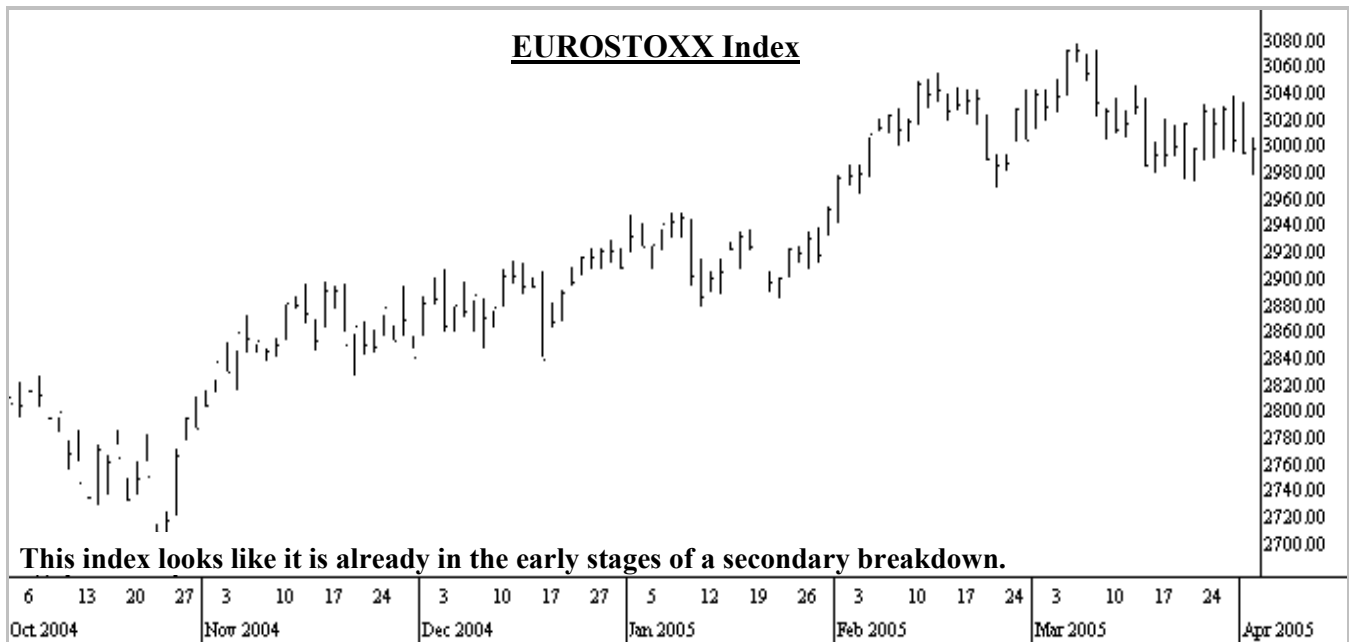
The "April Avalanche" Profile remains Operative for a few Weeks

HERD ON THE STREET™ April 5th, 2005: The Fakeout Breakout of March 7th continues to hold inferential consequences. That tactical high aligned with the larger strategic Adoration profile. The important inference is that Investors are *Recognizing* the folly of that high. Last year we forecast a **March Massacre** (7% in 18 days.) The *quasi-seasonals* of this year suggest the potential for a decline into 4/15-25. Beware that there can still be more of an "April Avalanche." Pops should be short-lived.

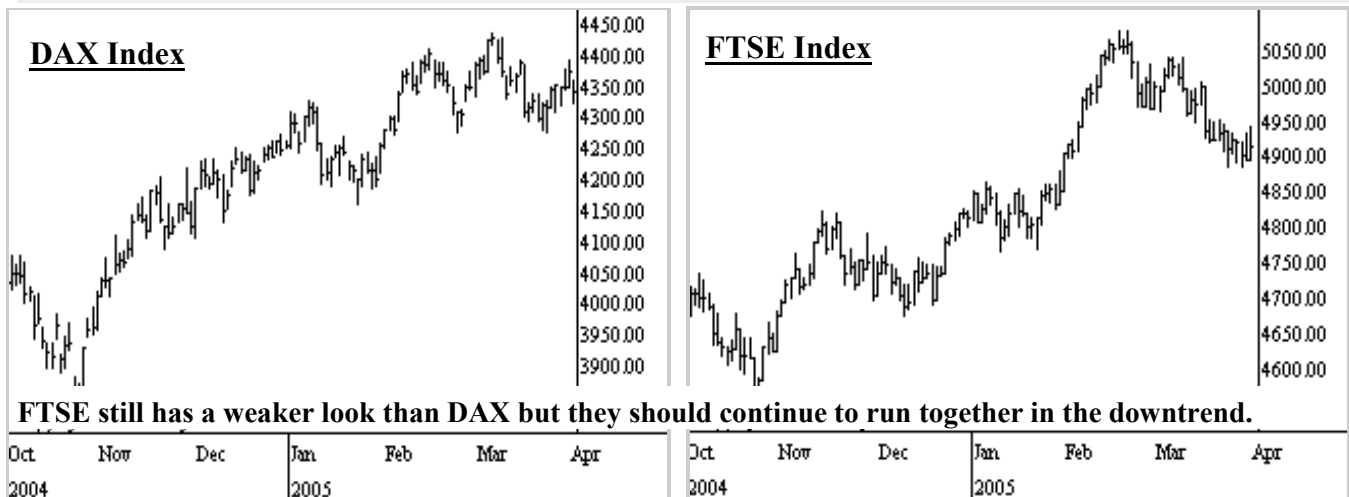


European Equities Remain Vulnerable to Further Corrections

HERD ON THE STREET™ April 5th, 2005: European equities continue to look like the expected early 2005 “Adoration” phase has occurred. As suggested: “Rallies are producing a more and more vulnerable environment. Picking tops is the most difficult game, but probabilities are very high that the market is ending strength rather than beginning new strength.” The breakdown should continue into late April. The degree of this decline is yet to be determined. Expect a complex Summer recovery/distribution.



TACTICAL PROFILE: The tactical profile remains negative. We expected a few rally pops last week “would be fine”. Downside pressure should reassert and could last throughout April.



Sectors may have some Pops but it is too early for real Buying

FINANCIALS: As Expected: “Still looks relatively miserable. More trouble ahead.” Not a buy yet.

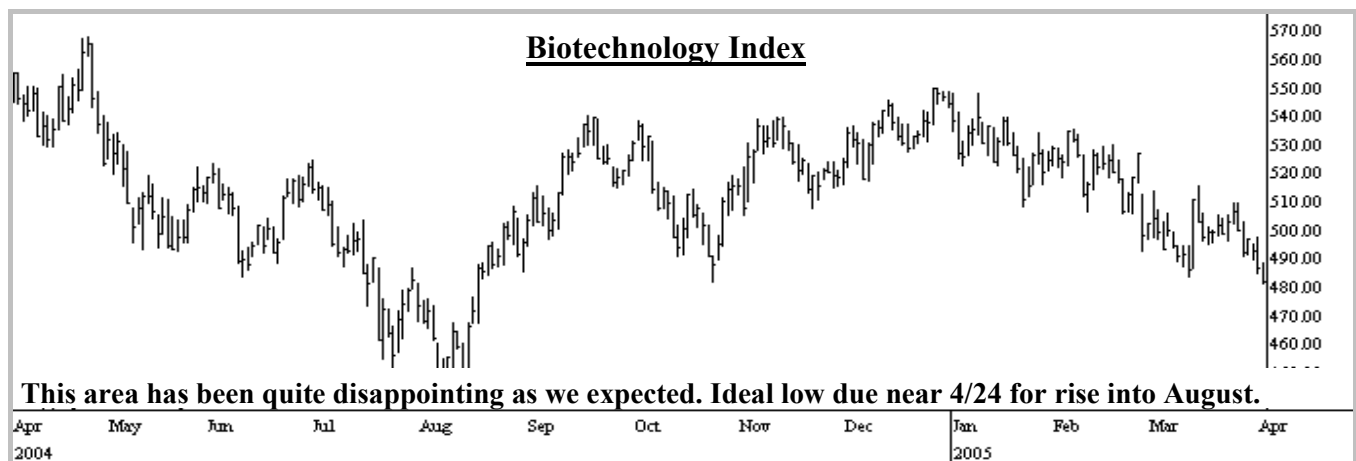
BROKER DEALER: Should still have further weakness before setting up for a Summer recovery.

RETAIL: Broke down beautifully, as expected, but trying to bottom. Will take more time.

BIOTECH: Trading and interim low due last week of April for a slow rise into August.

DRUGS: Have been the best defensive performer as per our 10/04 buy. Now getting overdone?

SEMICONDUCTORS: Although bulls are rotating in, it is still too early. Wait to buy.



XAU INDEX: Expected “Shakeout would keep them heavy.” Now they are hated & will end up, up.

OIL: As noted: “Energy Equities may diverge.” Hard to read but remain skeptical of this extreme.

CYCLICALS: The failure here was expected and should continue. Could still get some big bars down.

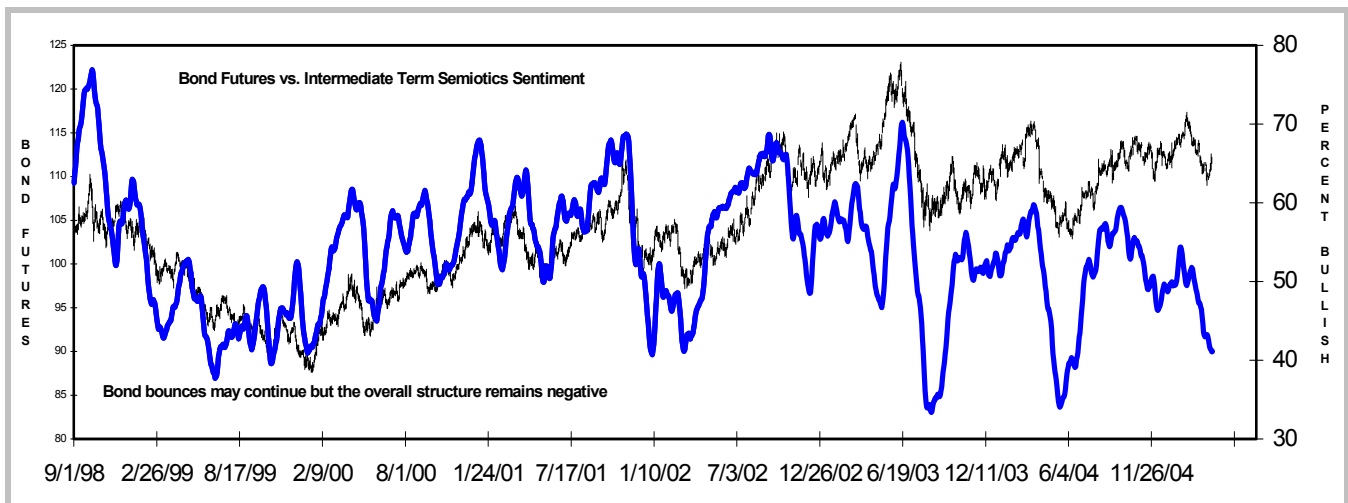
TRANSPORTS: Are working their way lower and remain somewhat vulnerable until energy catharsis.

UTILITIES: Remain confounding as they have held up pretty well but will retreat with broad market.

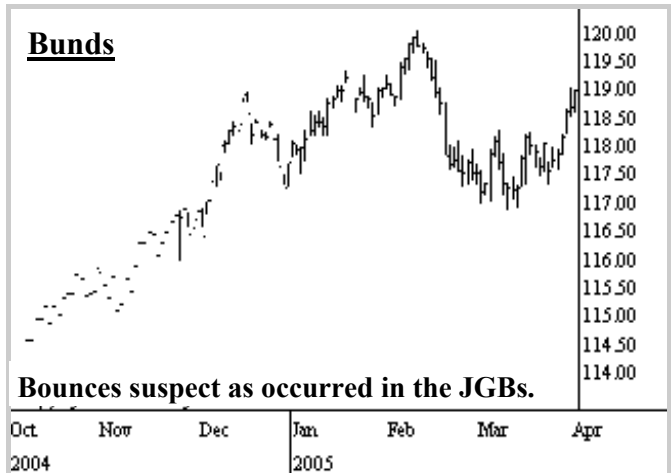


Rate “Conundrum” is not fully Resolved but, Bouncy Bonds are only Brief Relief

HERD ON THE STREET –TM **April 5th, 2005:** As expected, the secular rate rise from 6/2003 continues. We noted for some time that: **“Tightening” had only been “Accommodation Withdrawal” rather than Real Tightening.** Planetary Stuff is *too* cheap, money is *still* too easy and Politicians will *always* spend too much. The March price high coincided with the **Flattening** slogan which was analogous to the **Deflation** slogan extreme in 2003. These conceptual seductions or, **rational errors** if you will, were just way stations in a long narrative towards a higher interest rate structure. There are stages in markets when **Recognition** occurs: The majority finally **Discovers** or more importantly, **Acts** on the obvious. Inflation has been **obvious** but *unrecognized*. We expected recent bounces but don’t be seduced.



TACTICAL: Sideways pops have led to a slightly overbought condition: tactical ranges for now.
STRATEGIC: No change: “Rate rises remain slow, steady and stodgy. Interim low due in September.”
SECULAR: A rising rate environment may persist perhaps into **2011**. Deficits and persistent inflationary pressures will eventually create a crisis. This will take plenty of time but be aware it is an important trend.



MARKET SEMIOTICS FOREX- COMMODITIES

BEHAVIORAL MARKET DIAGNOSIS by WOODY DORSEY

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Dollar: "Bouncing" CRB: "Correcting," Energy: "Distributing?"

HERD AT THE STREET –TM **April 5th, 2005:** We've been bullish on the Euro (*Cinderella Currency*) all along. Our structural view remains that the Dollar will continue to weaken over the next few years. **An eventual capital market crisis can come about because of the structural inevitability of persistent dollar decline lasting perhaps into 2011.** As expected: "The recent rally has more to go but it is likely only part of *crafting* an interim range." Euro trading low due in 2-3 weeks then a May rally.



Commodities: Commodities remain a bit corrective as expected. But lows due in the next 2 weeks (especially: Corn, Cotton, Sugar) The "*Repricing of the Planet*" will continue for some time.

Energy: "Tactical high on 10/26/2004." In January: "Rally into Mid-April." Risk is an Oil high is brewing (105 Crude ala 36,000 Dow?) Rally/Distribution into 4/13-24 B4 May spill. Energy crisis remains.

