



# MARKET SEMIOTICS

By **WOODY DORSEY**

*Publishing Since 1985 Castleton, Vermont*

## MARKET SUMMARY FOR January 4th, 2005

**HERD ON THE STREET:** Stocks are maturing both their thrust from the October “*Shoppertunity*” and from the March of 2003 lows. According to the **Semiotics Stages of Market Psychology**, this is culminating in an **Adoration** phase. The termination of an Adoration phase can be notoriously difficult to determine. It should be “told” by the Triune symptoms of Technicals, Fundamentals and Psychologicals. 2005 is due to provide more critical and volatile markets.

**COMMENTS ON FINANCIAL CULTURE:** Stocks had been suspiciously robust, dollars suspiciously busted and Treasuries paranormally well-behaved. Stronger than expected economic statistics make sense as equities terminate and Treasuries anticipate further Fed Fund hikes all of which support for the Dollar recovery. Mr. Market has returned from his holiday. Big moves coming.

**EQUITY STRATEGY:** Equities are very mature in their recovery rally from the 3/2003 low. **Months ago, we targeted very early 2005 for an interim top. Repeat: “Complacency regarding easy upside remains dangerous...most of the upside *could* be over.”** The topping configuration could take the shape of a rotational distribution, or a euphoric blow-off. Why not keep it simple: Begin to move from bullish to neutral to bearish postures. Q1 will be down.

**EQUITY TACTICS:** The next month or so should be quite volatile and difficult. Some initial breaks into 1/7-10 may result in a final rally attempt. Prefer a final top to short in early February.

**GLOBAL EQUITIES:** We had said: “A defined termination may come in February of 2005. Then a real correction looms.” But top-picking can be a fatuous pursuit. Be cautious and patient.

**SECTOR STUDIES:** Many Sectors look quite toppy. XAU and energy still vulnerable B4 becoming a Buy. Sox profile suggests rally from 1/7-10 for a few weeks.

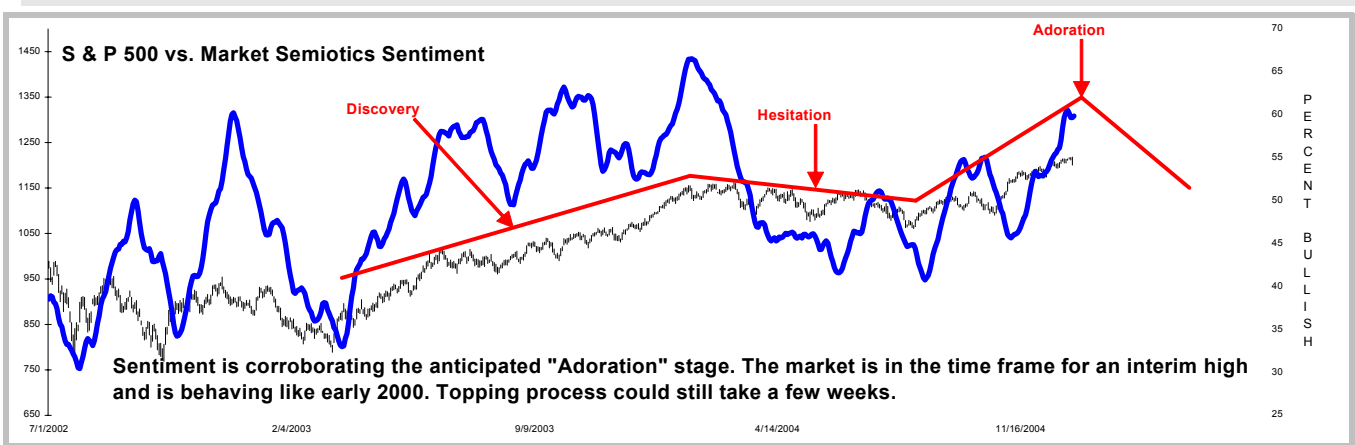
**FIXED INCOME:** The structural rise, slow and steady, remains operative. Tactical profile is bearish through February. January Jobs data on Friday should initiate next downside salvo.

**FOREX:** ! Profile suggests dollar recovery into Mid-February. But, next leg down creates crisis.

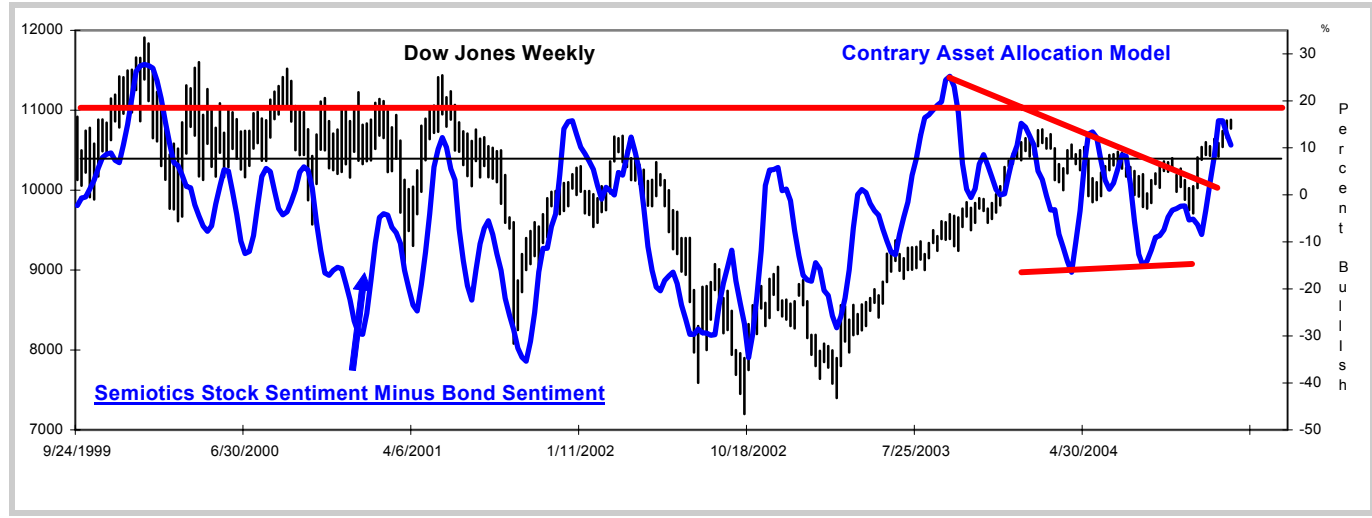
**COMMODITIES:** CRB profile remains sideways in context of larger bullish pattern. Gold is vulnerable a few weeks but is due for strength into June. **NEW:** Energy may stay a bit corrective but the risk is that recent lows may be **the base for a new rally** into April. The quasi-secular rally in hard assets is a generational “**Repricing of the planet.**”

## The "Adoration" Phase is Peaking. Q1 will be Negative.

**HERD ON THE STREET™ January 4th, 2005:** The current rally, as noted before, is the culmination of several degrees of rally. Thus it remains an important opportunity to change ones capital market perspective. The risk is that there could be several years of sub par stock market performance. has given way to a final **Adoration** phase. Note below that SemioticsSentiment is only now at levels commensurate with tops unlike other *so-called* Sentiment was touted to be at all time highs months ago. Another clue to the degree of stock market high, as described on pages 119-120 in *Behavioral Trading*, is the singular event that occurred in Taiwan on 12/31/2004. Financial culture and growth prospects seem to be peaking.

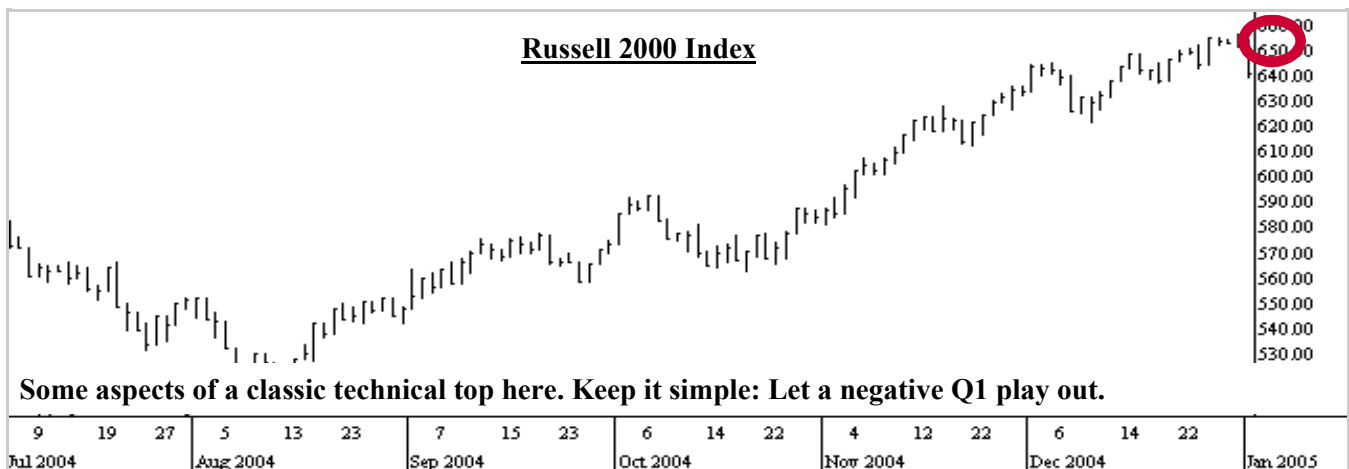
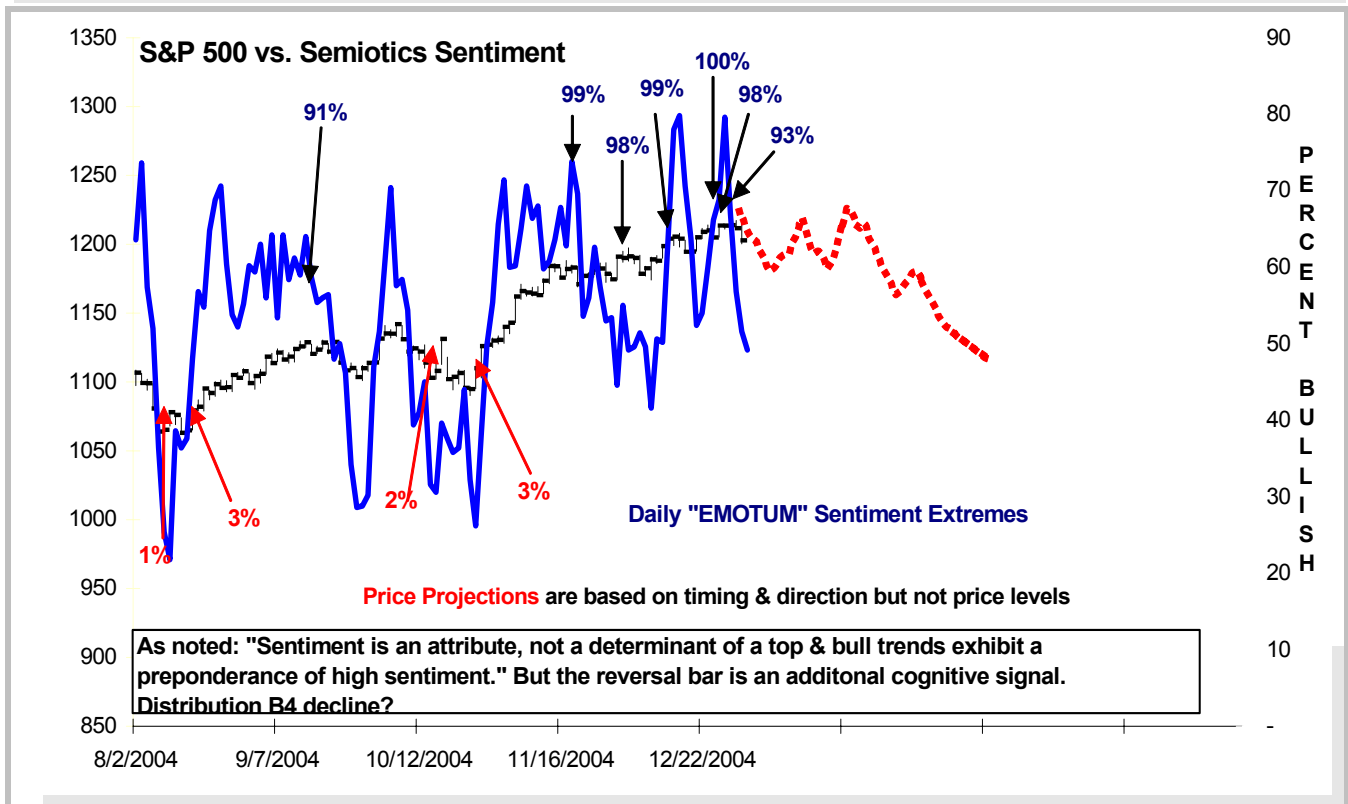


**STOCK SENTIMENT** of 28% as the overt reversal on day 1 of 05 was negative but not decisively so.  
**PORTFOLIO:** Suggested in October: "Be an bidder on breaks." Now: "Sell over the next month"  
**STRATEGIST:** Suggested "buying in **March of 2003** for best upside in years." The recovery rally from there is now ending. This month is the time to prepare for a difficult corrective year. **A negative Q1.**  
**MARKET SEMIOTICS CONTRARY ASSET ALLOCATION MODEL:** Our model (**Blue line**), based on our proprietary sentiment, shows the psychological preference for owning stocks relative to bonds. According to psychological principles and verified below, investors tend to make systemic errors by buying asset classes at the wrong time. The model has suggested for months that stocks were a better bet than bonds. Asset preferences may be approaching extremes as equities mature in the Adoration phase.



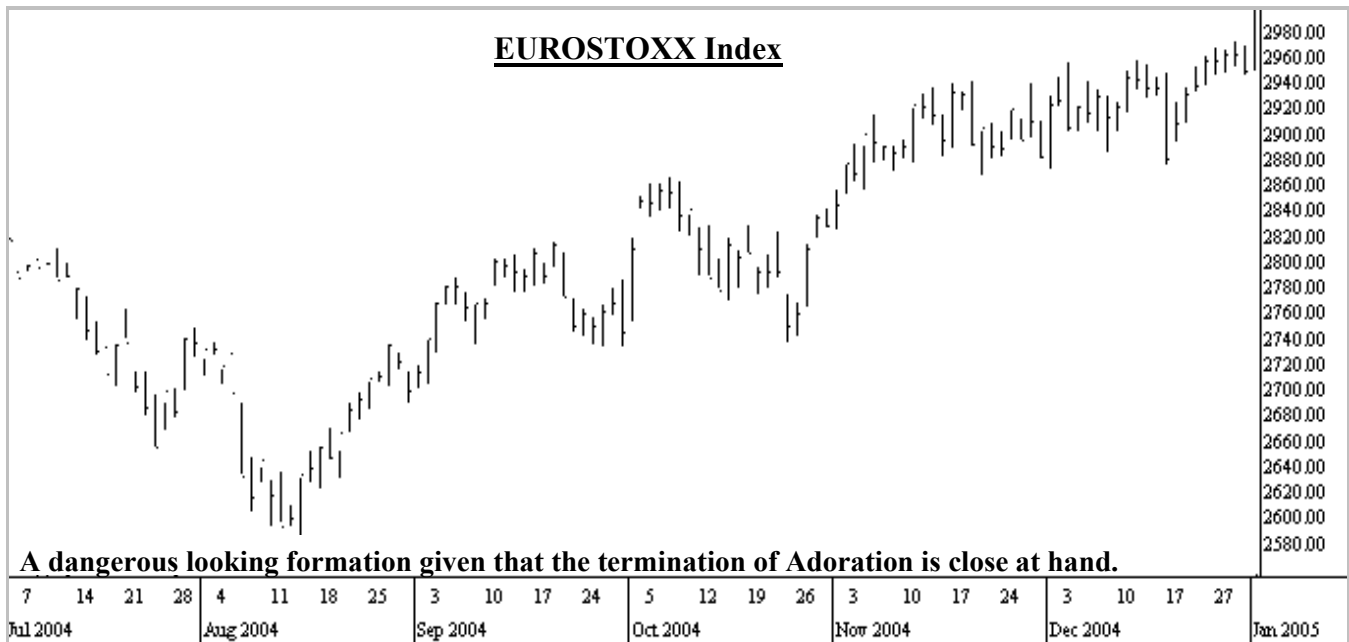
## January Volatility as the Interim Top Unfolds over next Month

**HERD ON THE STREET™ January 4th, 2005:** Year end trade produced an extreme overbought situation. When a market is making an interim extreme, tactical behavior can be skewed and may be quite misleading. It is still unclear if a real reversal has occurred wherein both tactical and strategic horizons have aligned. Patience is warranted until the strategic decline is confirmed. Having said that, stocks may go up from 1/7 to 1/15, down to 1/23 then up again into 2/3-11. Tricky trade as top takes hold.

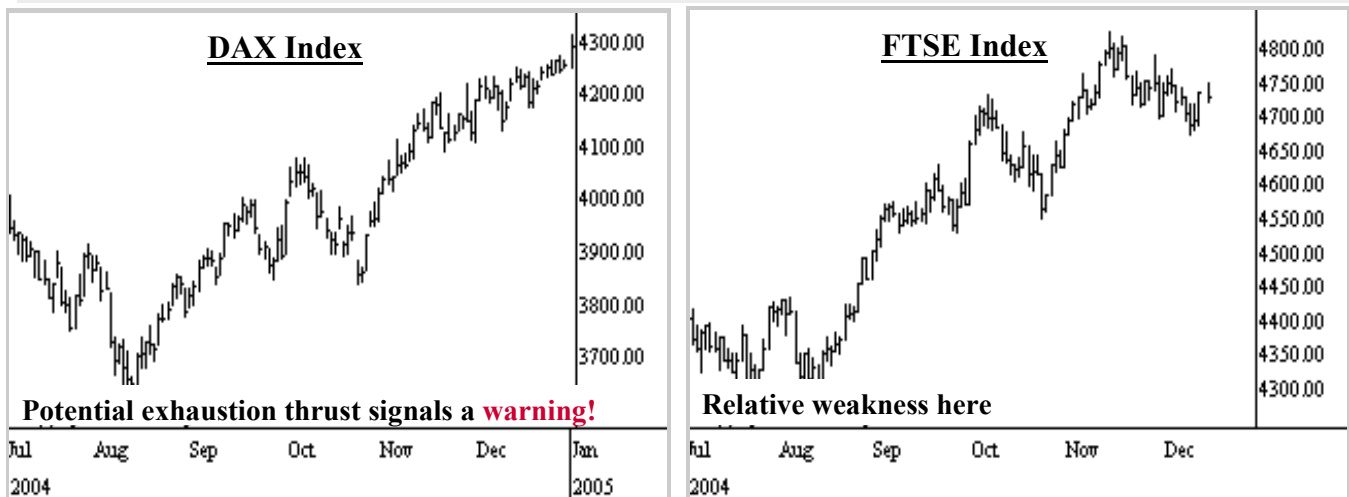


## *European Equities are Maturing as an Interim Top Looms*

**HERD ON THE STREET™**—**January 4th, 2005:** European equities have conformed to the proposed Semiotics profile over the last year: Q1 high, Summer correction, October “*Shoppertunity*” and an Adoration rally phase into early 2005. Our précis remains that this rally is likely the culmination of the larger recovery rally from the 3/03 lows. As noted 3 weeks ago: “Remain cognizant that most of the upside is over. A rally finale can be difficult.” So, be a patient but comfortable seller over the next 6 weeks.



**TACTICAL PROFILE:** Remain mindful of the larger strategic profile for an important topping process. That said, prefer low by 1/10, rally for a week, hit again and then a final try into the first part of February.



**Sectors may Stay Nervous as 2005 gets Underway but *may* Have one More Lift?**

**FINANCIALS:** If the Fed is unfriendly and the market sours, how much upside is there?

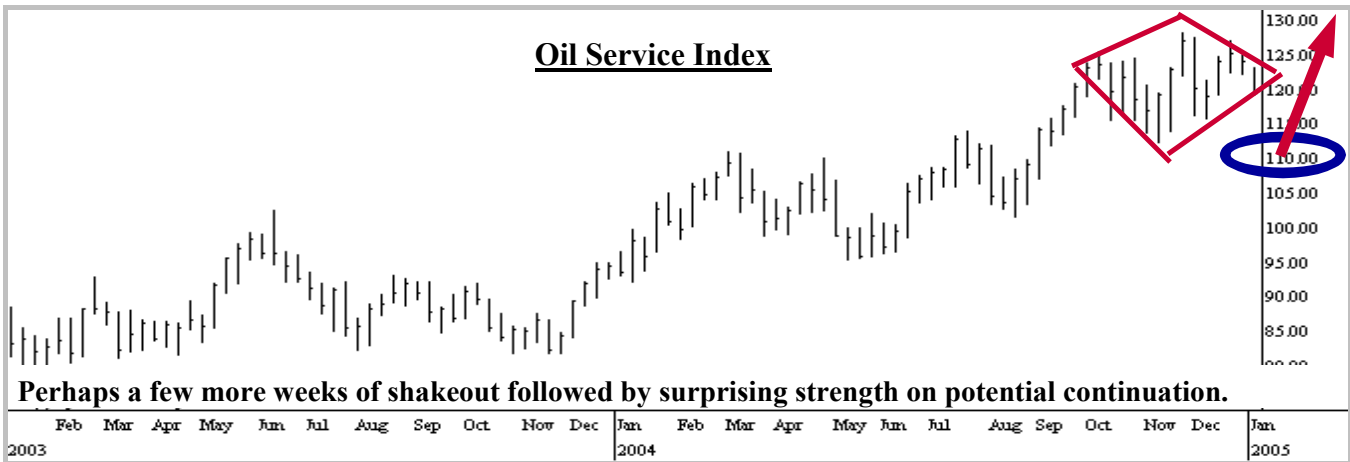
**BROKER DEALER:** The expected bullish market seasonals gave a good lift but distributing now.

**RETAIL:** Did eke out new highs and infer robust economy but will end up with bad quarter.

**BIOTECH:** Quite extended and have now reversed. Hard to see much upside in Q1.

**DRUGS:** Retain some contrarian potential as per our October call & have defensive resiliency too.

**SEMICONDUCTORS:** Repeat: "Prefer another rally from 1/7-10 towards early February."



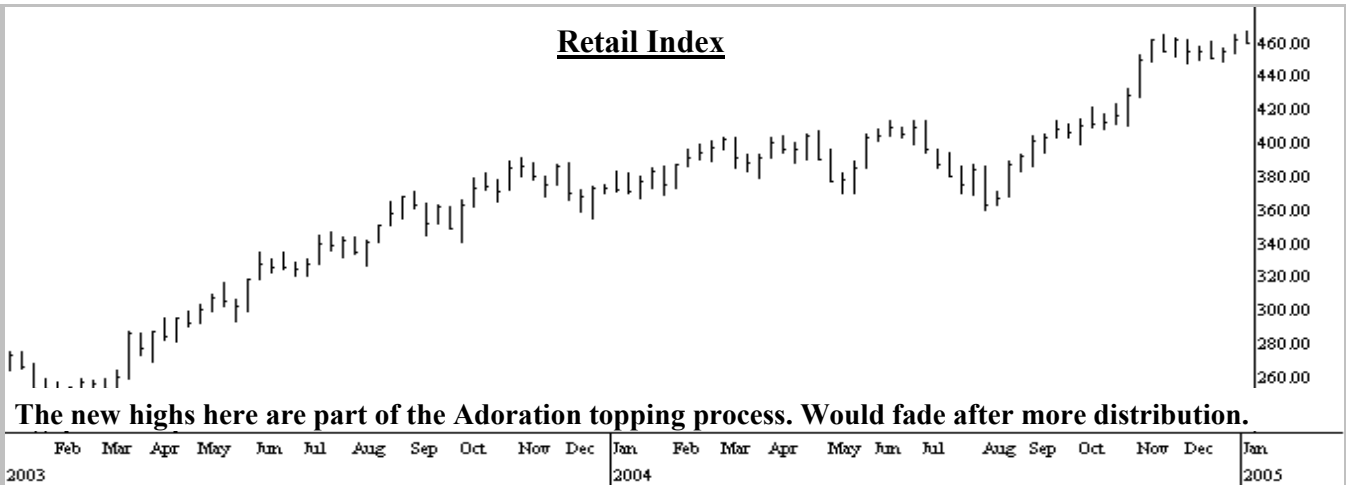
**XAU INDEX:** Expected breakdown continues but after a few weeks, buy for rally into Mid-year.

**OIL:** Energy Equities remain in expected correction but will be a shakeout to buy in a few weeks.

**CYCLICALS:** May have already topped in Adoration phase... Distribution at best.

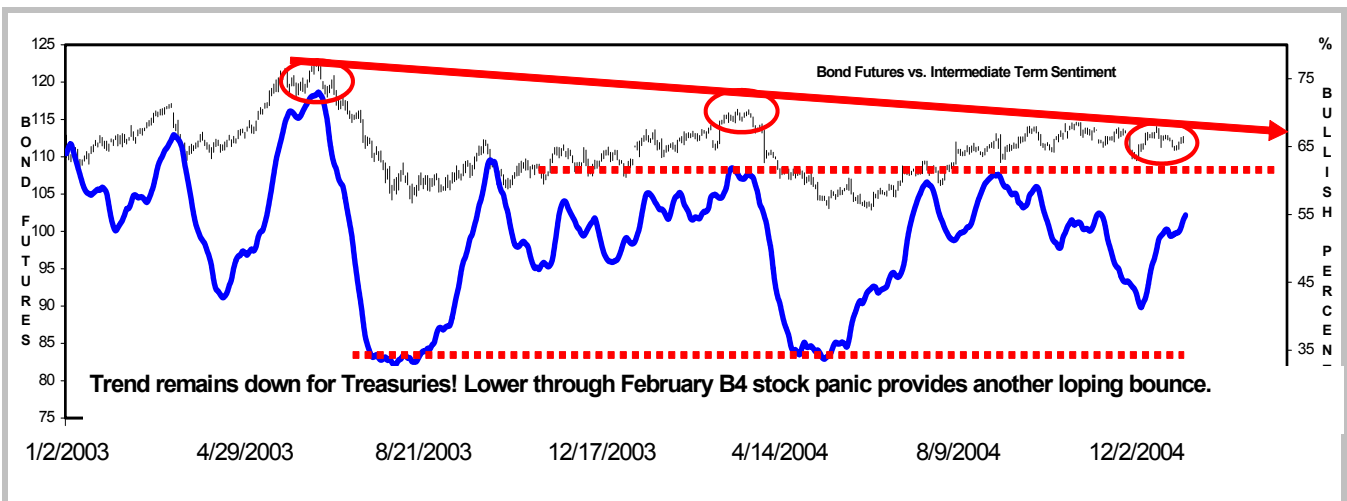
**TRANSPORTS:** The long strange trip up here may really be over. Do not hold onto longs.

**UTILITIES:** Secondary divergent high dovetails with renewed vulnerability in Treasuries.



## Treasuries have been Paranormal but Structural Rates Rise will Persist

**HERD ON THE STREET** –<sup>TM</sup> **January 4th, 2005:** A structurally rising interest rate environment remains operative but could stay slow and steady. The 6/2003 (Sentiment & “**D\*flation**” extreme) was a **major rate low**. The “Tightening Regime” in 2004 was perversely frustrating as fits of flattening and **De-nial** about the rate environment provided a prophylactic for normal bear market. Paranormal Treasury trade persists so far. The economy may not be as much an issue as structural factors such as Deficits, Desperate Dollars and an Incipient Inflationary trend. Planetary Stuff is still too cheap, money is too easy and Politicians will still spend too much. The profile is lower through February. Fridays Jobs data should produce huge volatility(to the downside.) Rally potential exists in March and April as equities crater.

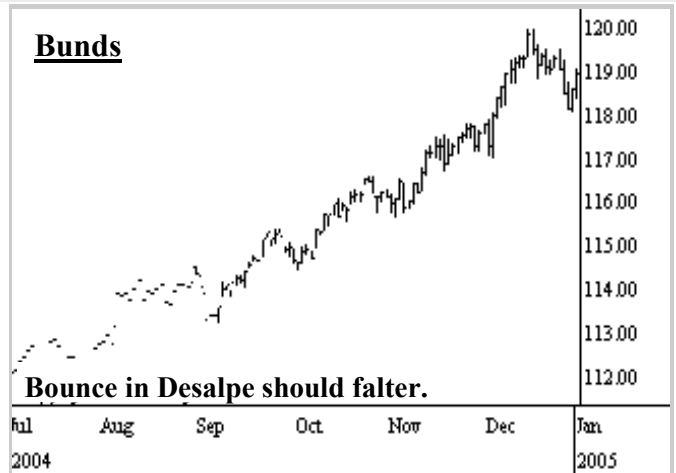


**BOND SENTIMENT:** 51% bullish as the snap-back keeps shorts pissed and confused.

**TACTICIAN:** The sour short-sucking, *UberBid* should falter after the Jobs data.

**PORTFOLIO:** Treasuries remain vulnerable during negative profile through February.

**STRATEGIST:** Secular profile suggests rising rates will persist for some time: **Q4/2006**. Deficits, Dollar woes and incipient inflationary persistence will culminate in a crisis. **Price low possible by late 2/05.**



# MARKET SEMIOTICS FOREX- COMMODITIES

BEHAVIORAL MARKET DIAGNOSIS by WOODY DORSEY

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## Dollar: "Bouncing" CRB: "Sideways," Energy: "Basing"

**HERD AT THE STREET** -TM January 4th, 2005: Our structural view: **A dollar decline may take years to unfold.** We have bullish on what we called the "*Cinderella Currency*" at 88 Euros. We have expected a Dollar recovery before a more virulent downtrend. "Desperate Dollars" are well-advertised, but secular trends can become more self-reinforcing than investors expect. Forex marts are foreshadowing the coming crises in capital markets. Profile preference is for a dollar rally into February.



**Forex Profile:** The quasi-secular profile remains for structural Dollar vulnerability. While all the world awaits a short-covering rally the potential for another dollar leg down could create quite a crisis.

**Commodities:** Commodities remain in a sideways correction that could last a few more weeks but they should then rally again into the Summer. The structural "*Repricing of the Planet*" persists.

**Energy:** Noted on 10/26: "**Tactical high is due this week.**" Shakeout is mostly over. Corrective for a few weeks but risk is for another upside surprise. Big energy high may not come due until 2009ish.

