TrendMacrolytics

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INTELLECTUAL AMMUNITION

NASDAQ 5000, Dow 5000

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The high-water mark of optimism versus today's ebb tide of pessimism.

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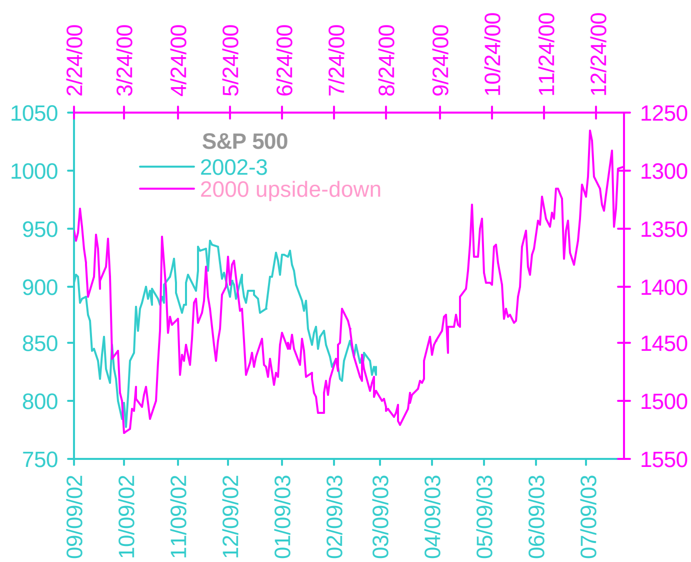
As the financial media has been reminding us all weekend, today is the third anniversary of the record-high close of the NASDAQ above 5000 -- irrational exuberance, and all that jazz.

So I can't help but be reminded of the observation we made last fall after **Pimco's Bill Gross** predicted "Dow 5000" -- that we could now be experiencing a replay of the first quarter of 2000, but upside down (see ["Q1 2000 Upside Down?"](#) October 1, 2002). By that we meant a climax of bearish sentiment and corresponding undervaluation that would mark the beginning of a long and painful bottoming process -- just the opposite of the climax of optimism and overvaluation that marked the beginning of the 2000 top. If this *is* a replay, and if this were a baseball game, then we'd be in the final inning right now.

We all remember the drama of the NASDAQ's March 2000 peak and the subsequent crash, as though "the top" took place all in one blaze of glory. But the NASDAQ peak was only a spectacular side-show. The broader market made an extended *double*-top that took a full 161 days to play out. The S&P 500 peaked at a closing value of 1527.46 on March 24, two weeks after the NASDAQ's top. But it rallied back to close at 1520.77 on September 1 -- attaining all but one-half of one percent of the March peak (it made a new higher high, actually, if dividends earned since March are included).



This chart shows what it would look like if the 2000 top were to play out again now -- literally upside-down, as a bottom. The pink line in the chart is the S&P 500 in 2000, plotted upside down. The blue line superimposed upon it is the S&P 500 from September 2002 to present. The two lines are coordinated on the chart so that the March 2000 top nests with the October 2002 bottom.

If it plays out this way, we have yet to see the second bottom on the S&P 500 -- but it's coming right up. If the final inning occurs 161 days from the October bottom, that will be March 19 -- one day after **the Fed's** next meeting, and two days after the **Iraq** disarmament deadline proposed by **the United Kingdom** in the latest draft **UN Security Council** resolution.

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Obviously, treating historical data with this kind of literal-mindedness is technical analysis at best, and numerology at worst. But this exercise in analogy reminds us of *what is possible* -- just when it may feel the most *impossible*. Dow 5000? With an earnings recovery well on track, monetary deflation off the table, equities undervalued across the board, and strong relative performance from the market's most risk sensitive sectors – technology stocks and high-yield bonds -- this historical analysis comports with our sense that an imminent resolution of military-political uncertainties should trigger a significant and positive revaluation of equities. TM