

Outside The Beltstreet

November 2004

This Issue

The Human Mind	1
The Emotions Test	2
Technicals	3
How much Longer?	3
Isaac Newton	3
The Dollar	4
Bullish Sentiment Extremes	4

Following the Herd vs. Following the Few

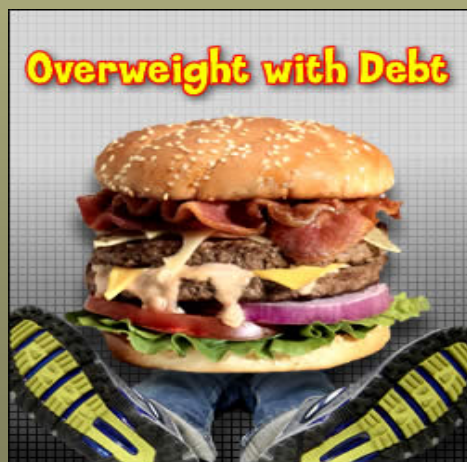
“They will turn away their ears away from the truth, and turn aside to myths.” 2 Timothy 4:4 (NIV)

If someone told me in October 2002 that people would forget what happened from 2000-2002 so fast, I would not have believed it. Consumer Confidence was at a 15 year low. The Dow was under 7500, the NASDAQ under 1114. We had just come off of the third quarter and over 98% of all equity portfolios had lost money.

But the stock market is telling me that things are good now. If looking at the price of the stock market tells me everything I need to know (from the numbers on my statement), then the best time to ever invest was the beginning of 2000.

So in this issue, I am going to touch on the toughest aspect of studying the markets. The human mind. To make this more interactive, I want you to test yourself and determine what appears to be truth and what appears to be a myth, from the questions on page 2. Then in pages 3 and 4 we will look at some more extraordinary pieces of information I am seeing right now.

I would encourage you to print off page two, and share your answers with a family member or friend when you finish.



“ The limbic system has the capacity to generate out-of-context feelings of conviction that we attach to our beliefs regardless of whether they are true or false.”

Dr. Paul McLean, Head of Brain Research at the National Institute of Mental Health.

The Money Emotions Test

1. True False — The markets always go up over the long term.
2. True False — Decisions in the markets are made by rational investors who all have the same information.
3. True False — When interest rates are cut this leads to more lending and more credit.
4. True False — Investors feel more confident about the stock market **after** it has gone up.
5. True False — I like for my opinions to be accepted by most people.
6. True False — I do not let my emotions affect my financial decisions.
7. True False — Deficits and debts matter. If I continue to borrow beyond my means, eventually I will be forced to change my spending patterns.
8. True False — When you invest in a security or market does **not** matter, since we really do not know the future.
9. True False — I find it very hard to adjust to a major change. For that reason, I like doing things that give me a feeling of comfort.
10. True False — The theories that are the most widely accepted are true.
11. True False — I do not like learning about money and finance.
12. True False — The leaders in the world of money are honest and truthful.
13. True False — I don't find it hard to admit when I'm wrong .
14. True False — I lead a busy life and do not have time to learn about things that affect my money.
15. True False — If 10 sources of information say that something is true and 2 sources say it is false, I accept the answer of the 10.
16. True False — Taking a few minutes to do this test has been a complete waste of time.

After you have taken this test, make sure to have someone you respect take the test as well. Then compare notes. Starting in the January 2005 issue, I will explore each of these and how they affect our ability to make decisions.

Technicals

Beginning of Bear (Wave I Down)		
	Date	Level
Dow Jones Industrial	1/14/2000	11,722
NASDAQ Composite	3/10/2000	5,048
Last Major Low (Wave II Up)		
	Date	Level
Dow Jones Industrial	10/9/2002	7,286
NASDAQ Composite	10/9/2002	1,114
2004 Highs (Start of Wave III Down)		
	Date	Level
Dow Jones Industrial	2/19/2004	10,753
NASDAQ Composite	1/26/2004	2,153
Current Level (In Wave III Down)		
	Date	Level
Dow Jones Industrial	11/22/2004	10,489
NASDAQ Composite	11/22/2004	2,085



Florida Sunrise.

Photo by: Doug Wakefield

*"For every
action, there
is an equal
and
opposite
reaction"*
Isaac
Newton-
1720

How Much Longer?

After the last rally that took us from an intraday low of 9732 on October 25 to 10,655 an intraday high on November 17th, we'd do well to consider our current circumstances and look at what current market are telling us. First, I do not find any of the sources I read, who called the top in the late 90's (their exit times differed), who are looking for an increase in the markets for 2005. However, due to seasonal patterns, the next 2-3 months could produce more upside markets and more declines in any shorting position. And yet, as the comments below show, everything could change very quickly. **(See charts on the last page as you read the comments below.)**

The rubber band is not only tight, but is at historical extremes.

1. The bottom chart reveals a measurement of optimism that (as I write this newsletter) has topped August 2000 bullish extremes.
2. The dollar has fallen 31% since 2002, and almost 8% in the last 3 months.
3. According to the Forex Exchange, the US dollar represents 90% of the currency trades in the world. Industry information shows that currency markets trade over 30 times the daily volume of our stock markets. So, to watch the stock market and not understand where we are in the currency markets, can be likened to ignoring the proverbial elephant in the room.

Generations Advisors

Suite 950
3010 LBJ Freeway
Dallas, Texas 75234

Phone: 972-488-3080
Alternate: (800-488-2084)
Fax: 972-488-3079
E-mail: doug@genadv.com

Feel free to send any question you may have to: doug@genadv.com

A look at the US dollar:



What if the dollar keeps falling? My belief is that this will be the trend between now and say 2007. However, it has reached such bearish sentiment, a rally in the short term is likely. We are at crossroads for the dollar and interest rates, regardless of direction. In the chart below, the only time this sentiment index was higher was August of 2000 at 91.54. Today it hit 91.86!!!!

Please note: Information contained herein has been obtained from sources believed to be reliable but is not necessarily complete and accuracy is not guaranteed. Any market trends mentioned in this issue are not to be construed as investment or trading recommendations specifically for you. This report is for informational purposes only.

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