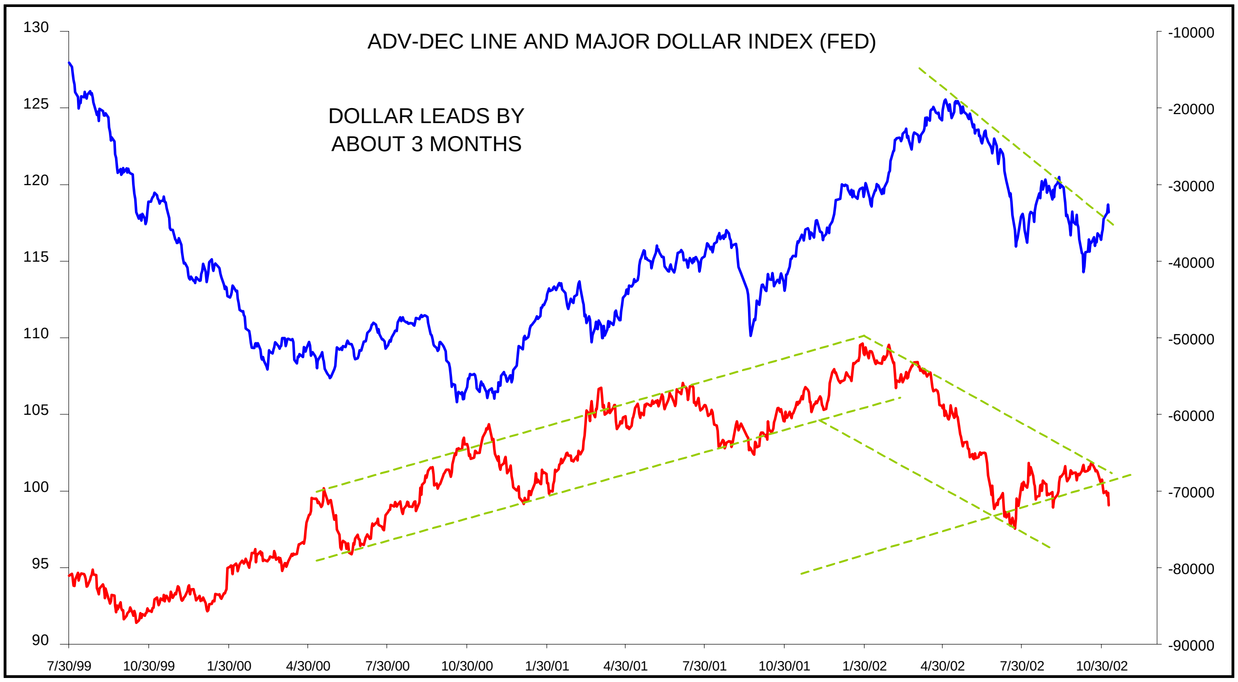
THE DOLLAR AND THE MARKET



The renewed weakness of the dollar spells trouble for the market. A weak dollar anticipates poor economic conditions, higher inflation, and a volatile stock market.

The above chart shows the major dollar index as reported daily by the Fed and the advance-decline line since July 1999. The dollar index tends to lead the advance-decline line by 2-3 months.

If the current weakness of the dollar continues for the next few weeks, the market is doomed and a defensive strategy is fully justified.

The Fed cut of the inter-bank rate (fed funds) has been interpreted by the currency market as a sign our policy makers do not know how to respond to our extreme credit conditions, as reflected by enormous spreads between corporate bonds and Treasuries.

The wide credit spreads are another measure reflecting the overcapacity present in the system. Only when overcapacity is reduced will the credit spreads fall within historical norms. (See the issue of 11/11/02 of ***The Peter Dag Portfolio Strategy and Management*** on this website for a detailed analysis and graphs).

Only then will the stock market resume its long-term upward trend.

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