BE ON THE NORTHBOUND TRAIN

Be on the northbound train,
A ticket you can buy,
It don't take much,
Just an open mind,
And a simple rhyme,
That "The Sto Don't Lie"

January 28, 2000
March Bonds - 92.30

Once again the nattering bond nawabs are out in force beating the drums for much higher interest rates. Not just Fed funds, mind you, the estimated bump(s) in which have been escalated dramatically higher, from a mere 1/4 point last November to a daunting 1.0% by mid-2000, but also the long bond. Indeed, from a modest long bond high yield consensus of 6.75% for the tightening cycle, numbers as high as 7.50% have insidiously intruded on the forecasting landscape.

But rather than succumbing to the bluster of histrionic rhetoric, it is important, and especially so in frenzied and frenetic times as these where fact and fiction are easily confused, to reflect quietly and rationally on a technical tool which has proven itself an able and reliable compass in troubled and turbulent waters over and over again...THE STO.

Now you of little faith might well ask, "Jim (or Stoman if you prefer), why should I invest even a flinder of faith in your Stochastic analysis?" And I would respond confidently and without hesitation, "because the record speaks for itself." In the 23 years of the 30 year bond trading history, the Sto has never lied in its prognosis of major (secular) market turns. Without reciting each incidence of its flawless record, allow me indulge you with a squib I wrote on August 09, 1998, as the bond embarked on one of the most extraordinary bull spikes in its history to a record 135^08 on October 05, 1998, only to have the Weekly Sto downcross 3 days later also from a record high level, sounding the early warning alarm to a virulent bear market. Then, as now, the most respected economic forecasting names in the Street were dinning their minions with an estimated further fall in bond yields from 4.75% to a mind numbing 4.00%, indicating a bond price approaching 150. Here's the piece:

Does Life Imitate Art in Sto Analytics?
It would suspend disbelief to presume, or even suggest that economic fundamentals are somehow shaped by the prophecy of the Sto. Yet given the incontrovertibility of the Sto's exemplary record, it often is productive to simulate fundamental economic outcomes that comport with the Sto's prediction. How about this one: Amidst the global coercive hue and cry of deflation, the Fed eases Fed fund's in a misguided attempt to liquefy the world. The dollar, already in a weakened and declining state, goes into a freefall just as SE Asia, lead by a reconstructed Japan, finds its economic legs once again. The U.S., meanwhile, never having

quite attrited to deflationary expectations, finds a vastly improving (or at least optimistic) world economy, a robust domestic economy and a continuing tight labor market prying at the Pandora's box of inflationary expectations once again. The bond market, having discounted the beau ideal of deflation into its rich pricing, finds itself juked once again and adjusts appropriately in the form of a 12-15 month secular bear market. Stocks, elated in having avoided the "d" word, lushly embrace the implied modicum of inflation and covet the Dow 10,000 metric (as of 08/09/98, the Dow closed at 8,598.02).

Not only were the pundits abysmally off base in direction, they were also horrendously misguided in magnitude by a factor of 3X. You just can't be more wrongheaded than that. But the Sto was spot on, so much so that a compelling and, as it turns out, accurate prediction of fundamental events could be divined.

Today's action in the bonds is an identical analogue to those events of 10/98, but a mirror image. The bond is now on the cusp of completing what will go down in the record books as the most vicious secular bear market in its history. It has played out a stunning 27 point decline in the predicted 12-15 month bear cycle which commenced officially with the downcross of the Monthly Sto on 11/98. Seasoned readers of my daily commentary will recognize from the Weekly chart that 01/28's Weekly upcross is the early warning signal of an impending seachange in direction from the prior 15 months. They will also note that the Monthly Sto is rapidly narrowing its negative spread K/D toward an upcross after achieving a low level not struck since the record low of 11/94.

The action of the last two months is highly symptomatic of the rough hewn topography of a bottom. Long periods of languor punctuated by extreme volatility and ranging displacements in price, perfectly exemplified by most of January's dullness capped by 01/28's 2^19 point range and taking yields down from 6.61% to 6.44%.

Though the ultimate bottom may not have put in as yet, the Sto dynamics are clearly and emphatically telegraphing the secular turn. It is highly likely that the subsequent downcycle of the Daily, once it completes its current and sinewy upcycle, will be the last retrenchment of the bear market of '98-'00.

Do not be swayed or influenced by the vapid fatuities of the consensus, especially those espoused by the ostensible cognoscenti. A perceived bear market in bonds is illusory. A 20 point secular bull market is imminent reality. Be on the northbound train with your Sto ticket in hand.

It ain't hard,
To see what I mean-ha,
The Sto don't lie,
Ask Jim Padin-ha.

StoMaster