

**NED DAVIS RESEARCH INSTITUTIONAL HOTLINE**  
**WEDNESDAY, AUGUST 27, 2003, DJIA = 9340.45**  
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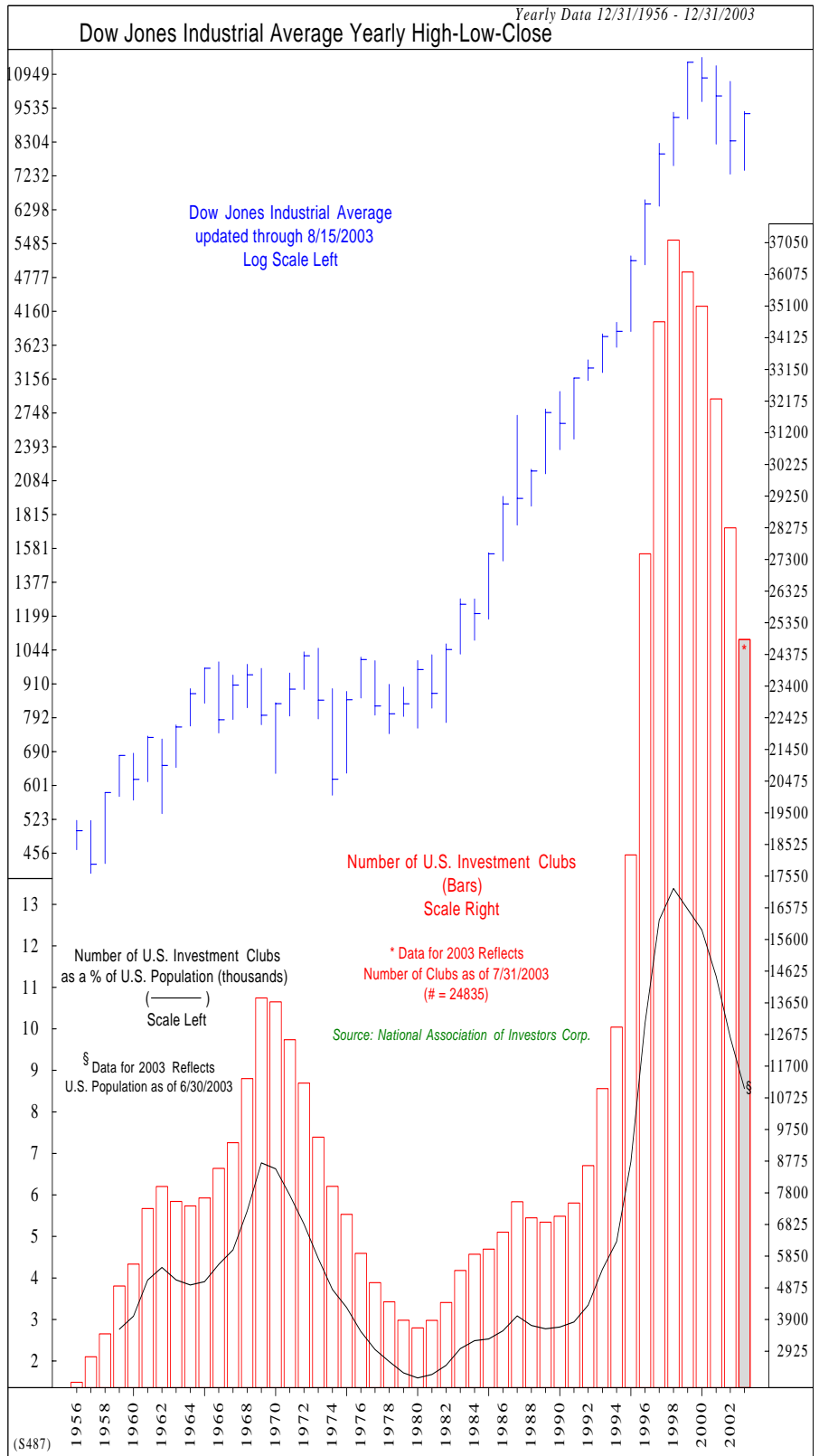
**SHORT-TERM AND SECULAR SENTIMENT**

The rise in durable goods orders the last two months, along with the recent surge in retail sales, are probably the surest signs yet the economy is currently under boom-like conditions. Consumer confidence has also risen. However, underneath it all, polls show a lot of skepticism. The skepticism could be due to the 36 straight months of falling manufacturing employment or worry over budget deficits (the 2004 budget deficit projection was just upwardly revised to \$480 billion). And skepticism about Wall Street could not have been helped by the fact Intel made a big-to-do about revising its revenue forecast guidance upward last Friday morning. Yet on Tuesday, Intel's CEO said he is "not sure if recently raised guidance is just strong seasonal strength or recovery." Give me a break. I am so glad we just use hard objective quantitative numbers to get recommendations in our *Individual Stock Perspectives* service rather than depending on "guidance" from company officials.

While overall indicator evidence remains mostly bullish and mandates a continuing cautiously optimistic strategy, I am concerned that optimism in our short-term NDR Crowd Sentiment Poll got to a high 63.2% bulls last Friday just as the market was celebrating the fantastically good news from Intel and getting to 9500 intra-day on the Dow. As I noted in Friday's *Hotline*, "given the background of rising bond yields, these (sentiment) indicators must now be rated high risk." The market will often do what it has to do to prove the majority wrong.

Turning to a secular sentiment indicator, the number of investment clubs has been one of the best indicators of individual secular opinions about the stock market. As shown on chart S487, we were in a secular downtrend from 1969 to 1980, then a gradual recovery in sentiment until 1990, when what we called a "Main Street mania" caused investment clubs to explode to a bubble peak in 1998. We have had a secular downtrend since then. However, a client suggested that we should adjust the number of investment clubs by population, which we have now done. It looks better, but still is nowhere near the low levels from 1974-1990. It still argues for secular risks.

--Ned



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