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Here's why Europe is on the brink of disaster ...

If you followed our recommendation is issue #120, you placed an order to buy **December put options on the Eurotop-100 Index.** It may take awhile for this order to be filled, but be patient and do not chase the market. We're keeping our eyes on this position and we'll let you know if you need to make a change.

The last time we targeted the Eurotop-100 -- a collection of the biggest turkeys on Europe's stock markets -- you walked away with profits up to 135% in issue #103. Nice! Now, a new wave of woe is poised to wash over the Continent -- sending European stocks much lower. Just look ...

*** Germany.** The IFO Economic Institute's latest report on how German businesses feel about the economy is out -- and it stinks! Business sentiment in Europe's largest economy fell for the fifth consecutive month in October and <u>now stands at its lowest level since January</u>.

The business expectations index -- which measures how German companies feel about business conditions over the next six months -- is even worse: <u>Since May, it has plunged an enormous 7.8%</u>. Awful!

No matter how you slice it, German businesses know their economy is terrible shape. But that's just part of the story. German unemployment stands at an astronomical 9.8%. With the country's 2002 growth forecast now at a dismal 0.4%, businesses have no reason to expand, meaning that rate could go much, much higher.

To add even more pain, German payroll taxes -- which already stand at a mind-boggling 41.3% of wages -- may be increased as the government contemplates increases in social security contributions and health care taxes. That will absolutely pulverize worker productivity even more.

*** France.** The French banking system is in absolute shambles: Its three leading banks -- BNP Paribas SA, Societe Generale SA, and Credit Lyonnais -- will release third quarter earnings early next month, and the expectations are downright awful.

According to Dow Jones Newswire, Credit Lyonnais earnings are expected to drop 11% from a year earlier, BNP Paribas SA will plunge 25%, and Societe Generale's will get pummeled by a massive 42%. Terrible!

The big French banks are getting hammered by rising credit risk and lousy investments. And that's only going to get worse as Europe's third largest economy stagnates. The Bank of France is, in fact, so jittery about the economy, it lowered growth forecasts last month for the second time in three months, and now stands at a pathetic 0.4% for this quarter.

But that's not all. France's unemployment rate is at a enormous 9%, French manufacturing confidence at a six-month low, and the consequences of a US led war with Iraq are sending chills down French businesses and consumers country-wide. All told: France is in a world of pain.

***United Kingdom.** The latest data on consumer loans is out from the Bank of England: Consumers in the UK are up to their ears in debt -- and piling it on at historic rates.

Consumer credit -- which includes car loans, department stores, and credit cards -- skyrocketed in September at an annualized rate of 15.8%, <u>the highest level since April 1999</u>. And that's nothing new: It's been on the rise over the past four months.

When consumers pile on debt at historic rates, the "buy now, pay later" attitude can absolutely cripple an economy: Consumers get in over their heads, stop paying back loans, and slash their future spending plans. They buy less because they can borrow less. Retail sales slow to a crawl and manufacturers slash production as a result.

This deadly chain of events is already well on its way in the UK. Retail sales in the UK slowed in September to 4.6%, down from 4.9% in August, and way off a recent high of 7% in April. Sales at household good stores -- a key indicator of consumer health -- slowed even more dramatically to 3.7%.

The slowdown in retail sales has struck the heart of UK manufacturing. According to the Office for National Statistics, manufacturing production fell 1.7% in August, the third decline in a row. <u>In fact, UK manufacturing production fell in seven of the last eight months</u>.

And it was the UK's "staple" industries -- core businesses that are the heart of UK production -- that got pummeled: Electrical and optical equipment fell 2.5%, machinery and equipment dropped 2.7%, and basic metals and metal products were chopped by 2.8%. When staple industries like these get hammered, it's a strong signal the UK economy is getting sicker by the second.

*** Eurozone.** The bad news in manufacturing isn't confined to the UK. In fact, across the entire Eurozone, manufacturing is getting taken to the woodshed.

The Reuters Eurozone Purchasing Managers' Index -- which measures manufacturing activity in the Eurozone -- fell in September for its fourth consecutive month and <u>plunged to its lowest level since February</u>.

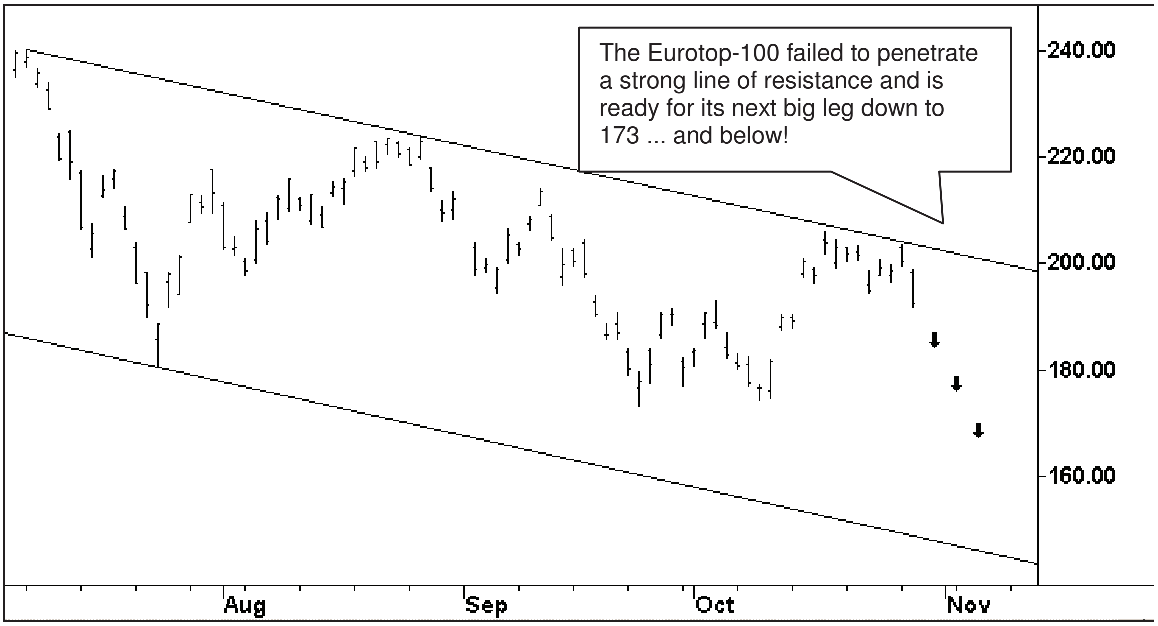
At 48.9, the index is now below 50, indicating Eurozone manufacturing is contracting. That means manufacturing is no longer just slowing -- it's in full scale retreat! That's deadly for businesses and consumers across the continent.

To add even more pain, the new orders component of the index -- which tracks future manufacturing activity -- fell in September to 49.6, down a whopping 6.6% since June.

All told, the outlook for Europe is abysmal. Key numbers show that it is getting worse at astonishing rates. It shouldn't much more bad news to send investors high-tailing it for the exits.

Chart is screaming: "Catastrophe dead ahead!"

The Eurotop-100 Index is stuck in a powerful downward channel, getting shoved deeper and deeper into the abyss ...



When the Eurotop-100 Index tries to get above the top line of heavy resistance, if fails miserably. If it musters enough strength to try again, it hits a lower high than it did before -- and then drops like a rock. Right now, you are positioned to take full advantage its next huge leg down.

Bottom line: Hang onto your **December Eurotop-100 Index puts**. They are loaded with potential profits! Also, hand on tight to the rest of your positions -- global markets are getting clobbered, and that's about to send your portfolio into turbo mode.

Best wishes,

Larry and Martin

International Options Speculator is published by Weiss Research, Inc., 4176 Burns Road, Palm Beach Gardens, FL 33410, USA; email: ios@weissinc.com; phone: 1-800-811-8725; fax: 1-561-625-6685. Co-Editors: Larry Edelson and Martin D. Weiss, Ph.D. Editorial Manager: Leslie Underwood. Assistant Editor: Sean Brodrick. Research Editor: Kevin L. Baker. Financial Analysts: Wayne Burritt, David Dutkewych. Trading Manager: Linda Seyedin.