

EQUITIES PERSPECTIVE

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DJIA: 10,607

It's a New Year . . . so what's new? And the answer is, not a whole lot. Then, too, that's not a bad thing, the uptrend rumbles on. The S&P is up something like 11 of the last 13 days. Breadth has been up every day this week, even Tuesday and Wednesday when the Dow languished. At better than 4-to-1, Monday's breadth was fairly spectacular. The other thing that's not new is volume, to be kind you might call it muted. To be less kind, Monday's volume in the big rally was outright awful. Good markets usually have good Januaries. It's only a bad January that would call the "good market" into question. At that, it would take a fairly big reversal, down below S&P 1085, to really call the uptrend into question. Of course because of all this there are few bears around. But the trend is up and it hasn't proven productive to anticipate problems. If they start down, that's another story.

What little weakness there is, ironically, is in a couple of last quarter's strongest stocks – Amazon (130) and Google (600). Some flip-flop in leadership at the start of the year is not uncommon. Financials, for example, after lagging from early October have acted well. At this point it's hard to see long term implications here, particularly when it comes to the Financials, leaders in the last cycle don't lead again, and all that. As for the big-cap NAZ stocks, it could be a seasonal thing. Over the last six years the NASDAQ 100 has peaked on average in the second week of January, to close lower five of the six years. We all know that in good years January is typically up, but the seasonal pattern becomes a little more tricky from here. Since 1995, after the first couple of days of the New Year, the next two weeks have been positive less than a third of the time. And since 1998, following a January jobs report, there has been a downward bias for the next few weeks. Nothing is easy, even in January.

In the spirit of there's little weakness, Family Dollar Stores (31) offers a dramatic example. Few charts were worse than FDO – December's downside gap and subsequent drift – until Wednesday's dramatic upside gap back to the highs. It's enough to make you rip up the charts if, of course, the charts were still paper. Then, too, Sears Holding (100) was a great chart and that gapped 10% higher as well. There's a company seemingly back from the dead, though still only about half its April 2007 high. But the real story was Thursday's overall retail sales – better than expected, though by whom isn't quite clear. The good news is that the stocks took the news and went with it, in many cases dramatically so. That's good news for the market generally. After the market's 60% advance, it's reasonable to wonder whether good news is priced-in. For most of Retail, apparently it's not. Then, too, for those that didn't rally, those that fell into the Gap (20), so to speak, there seems a message of another kind. Also, for your thoughts, Penney (26).

There is some surprising strength, surprising in this case because it's the Homebuilders. Beazer (5) recently said Q1 orders rose 8% and Lennar (16) reported, of all things, a profit "after items." Just the other day pending home sales were reported down 16% and Conference Board surveys say no one wants to buy a house, go figure. Wreaking a bit of havoc with things of course is the on-and-off again homebuyer tax credit. But that is due to expire in the spring and the more important Fed's purchases of mortgage-backed securities expires in March – the Fed is, for now, the nation's mortgage broker. And then there's the so-called "shadow inventory" of yet-to-be foreclosed homes, estimated by some to be 5-to-7 million. Despite these seeming obstacles, the S&P Homebuilder ETF hasn't been acting badly. But despite that better action and despite Thursday's strength, like many things it's better, but still fragile.

The jobs report is always important but this time perhaps a bit more confoundingly so. Expectations seen high, so bad news likely will be taken as bad news. And good news likely would have some nasty side effects, like worries about the Fed and, more immediately, a hit to bonds. That bond chart already makes rates look like a looming problem. But the real problem might be expectations, that idea of just how much, indeed, is priced-in. Sentiment measures aren't always the best timing tool, but they obviously tell you something about how investors feel about things. By the look of the numbers from the American Association of Individual Investors, they feel too good – their current allocation to stocks is at the highest level since October 2007. Among the Rydex Funds, the Bull/Bear Ratio for the NASDAQ 100 is at a seven year high. The trend is up, the market is climbing. But it's no longer climbing a "wall of worry," and that too is a bit of a worry.

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