

EQUITIES PERSPECTIVE

January 9, 2009
DJIA: 8,742

Say . . . what? B. Ramalinga Raju, B for Bernie, the chairman of Satyam Computer (SAY), quit after announcing the company had inflated profits for years. After closing Tuesday at 9.35 the stock is yet to trade, a good thing if you mark-to-market. SAY was a bad chart, and one with a rather stunning downside gap in mid-December, typically a lethal combination. Blaming weaker "end demand" Intel also warned Wednesday, though the picture there, and for the Semiconductor Index itself, just isn't so bad. The real disappointment, of course, was Wal-Mart (51) – everyday low prices wasn't supposed to be about the stock price. Down about 7% Thursday the stock didn't close on its low, but it also didn't exactly come storming back. However, the uptrend still seems intact and the stock is on support. Perhaps even more importantly, if not the stock, the market took the news surprisingly well.

For a time now the market has been taking bad news pretty well – another war in the Middle East and Russia's problems with the Ukraine. However, it didn't like Wednesday's jobless number from ADP, though just why bad news there comes as a surprise is hard to say. Of course the market may just have been getting ahead of Friday's report, or the market might just be a little tired here, overbought as they like to say. But the market is still up some 20% from the November low and isn't acting all that badly. Indeed, with the exception of Wednesday's selloff (4-to-1 down), breadth has been close to spectacular, far outpacing the market averages. Breadth was even 2-to-1 positive in Monday's 82 point Dow loss. It would be very unusual to see the market get into trouble with the average stock outperforming the stock averages. Similarly, while not great overall, since the November low volume has expanded into strength and contracted into weakness, including Wednesday's selloff.

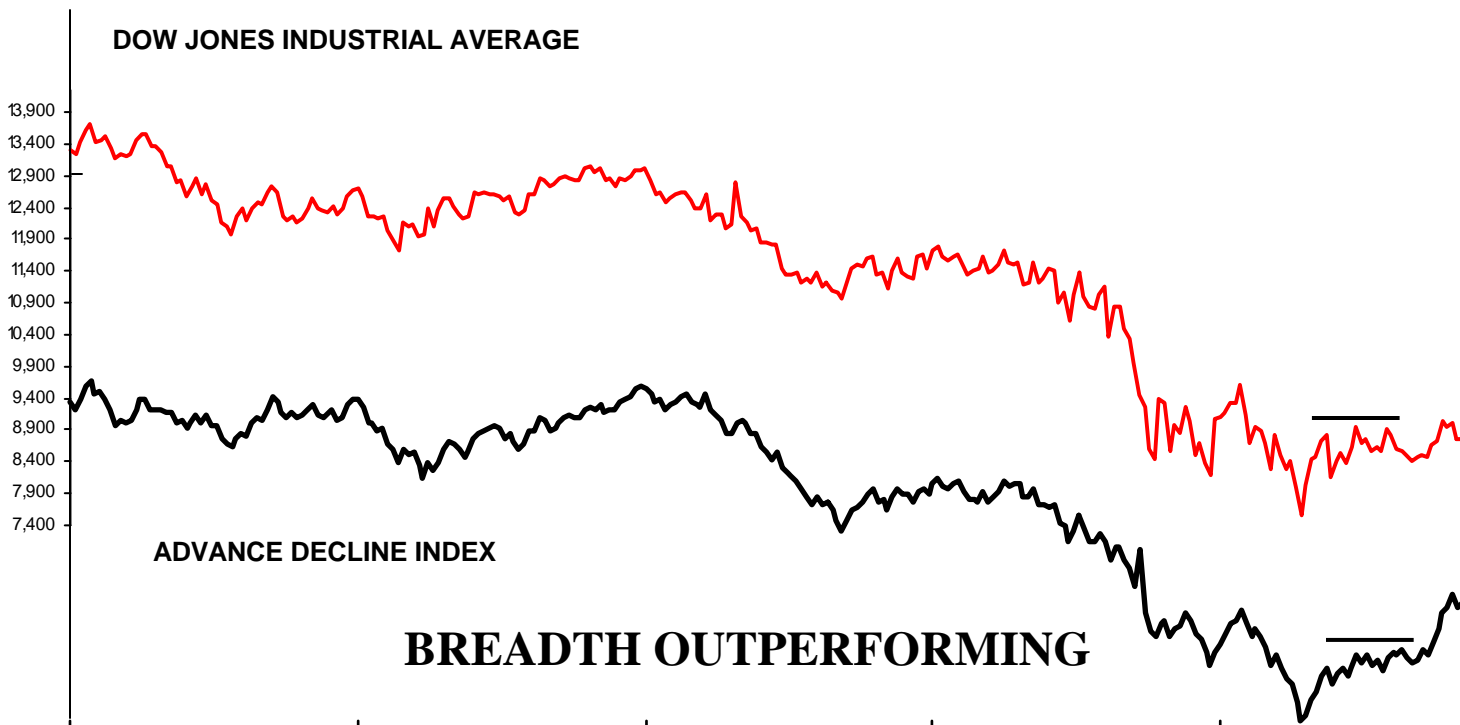
With jobless claims at a 26 year high, auto sales the lowest since 1992 and ISM's manufacturing gauge the lowest since 1980, it's not surprising that Consumer Confidence is at a 41 year low. Perhaps not so wonderful for the economy, but not so bad for stocks which, in any event, lead the economy. For stocks things always look bleak at the bottom – employment, foreclosures, retail sales, you name it. After a year like last year, and things now almost looking worse, it's hard to get excited about buying. The survey by the American Association of Individual Investors shows cash at 42% versus a 21 year average of 25%. Sentiment-wise, that's a good thing. As the name implies, these are people with an actual interest in the market. Meanwhile, another good sign for the market is that the fear or panic phase is over. While the VIX or Volatility Index bounced Wednesday, the 50% decline from the October peak is typical of a new uptrend. And while things may look bleak now, opinion usually follows price. Fueled by the inordinate monetary and fiscal stimulus, a rally would make it easy to anticipate a lift in the economy.

While the recovery as yet is at an incipient stage, it's a bit disturbing that no real leadership has emerged. For sure there have been many good recoveries, Dryships from 3 to 15, but that's more about the stock's decline from 110 in May. Most commodity stocks and, indeed, many stocks have had good recoveries. But stocks like this aren't a new leadership. The good charts, the stocks in uptrends, MCD (61) a good example, so far have had little follow-through. An area where that has been true is "for-profit education providers," but Friday's action could possibly change that. After the close Thursday Apollo Group (77), the operator of the University of Phoenix, rose 9% after it beat views. Enrollment jumped 18% in the quarter, no doubt a function of the perilous job market.

Long term stocks are still very oversold. With a typical range of 20% to 80%, the percent of NYSE stocks above their 200 day moving average is at 7%. Based on the Conference Board, we're looking at the most pessimism in 40 years. As Thursday's action suggests, a lot of bad news seems priced-in. And the lack of follow-through to Wednesday's weakness, despite bad news, is impressive – breadth started the day 4-to-1 down and closed 2-to-1 up. We're in a seasonally favorable period, but that works two ways. Since 1940 there have been only 20 down years, but 80% of the time they started with a down January. After breaking above their recent ranges, the averages have pulled back to their breakout points, basically Thursday's lows. It would be good to see those levels hold. And, of course, it would be good to see some real buying kick in. To paraphrase Joe Lewis, a good January would help calm my nerves.

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STOCK AVERAGE VS. AVERAGE STOCK



Dec-03-07

Apr-17-08

Aug-27-08

Jan-8-08

