

Recession . . . what recession? For the Energy sector there ain't no recession, it's the best of times. For the Financial sector there ain't no recession, it's a depression. When it comes to this economy, it's hard to generalize. But, if you insist, things don't look too good. Look at places which should have their proverbial finger on the pulse of things, economically speaking — FedEx (82) or UPS (66) or, for that matter, the Transportation Average itself. The latter has taken out the November low which, in turn, took out the August low, and now even the August '06 low is history. Similarly, you would think FedEx and UPS would have a pretty good handle on "commerce" these days, and those charts are very similar and very ugly. If you don't believe the guys that get the stuff there, how about the guys that sell the stuff? The Retail Index is every bit as ugly, and that despite the fact that good old WalMart (46) has held together rather well.

Indeed, the consumer seems in trouble. We know that from the lousy Christmas, but we knew Christmas was in trouble from the lousy Retail charts. In some cases, however, consumers are so strapped it seems they can't even pay their phone bill. That, at least, was the sad news from AT&T (39) Tuesday afternoon, news that helped send the market reeling. The company said it is experiencing softness in its consumer business due to the economy, and it's disconnecting more and more customers for nonpayment. Economists tell you never bet against the consumer, but if people can't pay their phone bill you have to wonder. On the news AT&T sold off as much as 10% though, as it happens, consumers make up less than 20% of the company's revenues. This seems another case of the market making the news — in bad markets, all news is bad. What would be good to see is something pretty much the opposite — bad news and stocks don't go down. That would suggest stocks are sold out and that's what makes a low, not interest rate cuts.

Finally, you really have to wonder about the economic health of the world, if not the universe, if you look at the Semiconductor Index. Aren't these Semiconductor things something that goes into most stuff? There could be something secular here in that the SOX peaked back in January '06. The precipitous nature of the recent decline, however, would seem more about business, or the lack thereof. It's interesting, too, to contrast the SOX with the NASDAQ. There was a time when the two looked pretty much alike since, as we all know, it's the "Tech laden NASDAQ." These days it's the Apple (177), Google (650) and RIMM (99) laden NASDAQ, with just those three stocks accounting for half the gain in that index in recent years. In stark contrast to the index, however, is NASDAQ breadth, currently at multi-year lows. Indeed, NASDAQ breadth looks more like the SOX, and was positive Thursday for the first time since December 26.

Tuesday's weakness carried the Dow Industrials below the November low, matching an earlier similar move by the Transports. Another no-no in terms of Dow Theory. Much like the break of the August lows back in November, this too seems to have been greeted with buying — there's just no respect. And like the market back then, the market here was similarly stretched to the downside, that is, oversold as they like to say. Some sort of relief, therefore, is hardly surprising. There are differences, however, between now and November. Despite nothing short of horrific news, perhaps because the Fed will save us, sentiment shows more complacency than fear. The Volatility Index, the VIX, hasn't quite matched up to levels seen in November, or August for that matter. In other words, while we're oversold like August and November, this doesn't really look like August and November. In the meantime, whether or not you believe in the Dow Theory, the theory that lower highs and lower lows is bad is something that works for us. And this time around, even the S&P and NASDAQ took out their August and November lows.

Everyone wants the Fed to cut. The Fed's behind the curve, it's all their fault. Somehow we just don't get that. Previous cuts haven't helped the financial mess or the stock market, why does anyone think another one or two will be any different? Better the Fed puts a gun to the head of Bankamerica (39) and makes them but Countrywide (8). Then, too, Countrywide might be the most visible but hardly the only problem in the financial arena. This idea that the Fed can save the day is testimony that hope springs eternal. Lows, important lows, come out of selling, not buying. And selling comes out of bad news, not good news, rate cuts and the like. Before this decline is really over we still think they'll get to the Apples (175), and that may well have started. Regardless, a tradeable rally likely will take a little less hope and a little more panic, a higher VIX. With declining volume, despite all the news, Thursday's bounce also didn't show us much.

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STOCK AVERAGE VS. AVERAGE STOCK

