

EQUITIES PERSPECTIVE

January 16, 2009

DJIA: 8,212

If not one thing . . . it's those Banks again. Citigroup under 4 Thursday, BAC under 8! Remember how everyone opined not leaving bought Citi in single digits back in 1990? Apparently not enough to buy it now. This time is different, the supermarket model doesn't work. Perhaps that's so though, meanwhile, Bank of America seems intent on putting together their own supermarket. One problem apparently, they underestimated the rot at Merrill and now seem in over their head. From a company that first bought into Countrywide in the high teens, this should hardly come as a surprise. Apparently there was even a rumor that Citi would be nationalized, making Citi and whoever might be next pretty much worthless. Of course, rumors like that usually mark lows. Both stocks closed off their lows, but not by enough to be much consolation.

The Financial Indexes are pretty much back to the November lows. Disappointingly, that includes many of the Regional Banks which had been holding together fairly well. Of the 168 12-month lows Thursday, 51 were Banks. It seems the financial establishment one more time is being forced to come to grips with the destructive force of leverage. Finance was supposed to be a means to facilitate capital flows. Instead, finance itself had become a means of wealth creation, rather than what really matters – production, savings, industry. For now the end seems to justify the TARP, that is, almost any means. Yet this money created out of thin air will only serve to create more leverage. Still, at least as a perceived solution, an easing of the strains, it seems needed here if the overall market is to resume the November recovery.

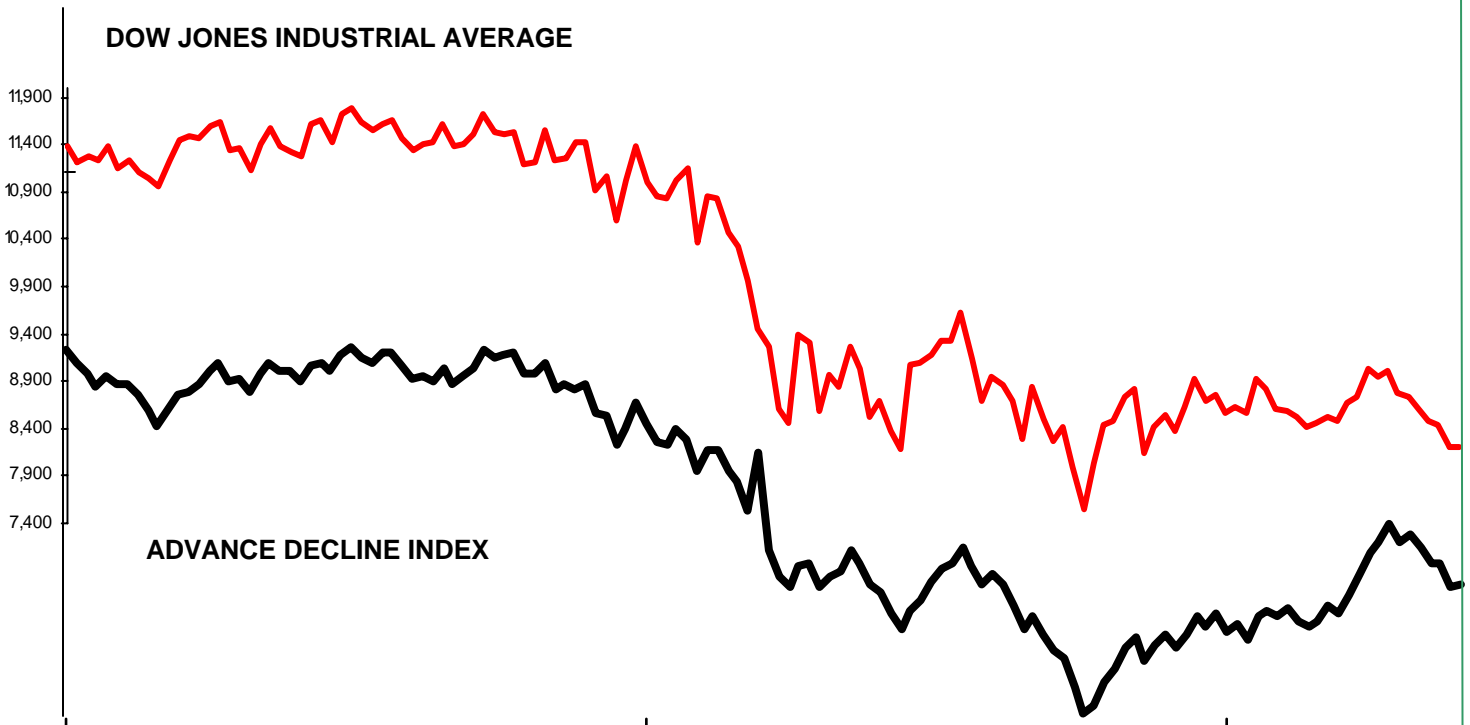
Banks were not the market's only problem this week. Thursday to Thursday the market was pretty much bad in the same way the prior week was good. Bad news was embraced rather than ignored. Volume expanded into weakness with negative breadth, rather than expanding into strength with positive breadth. As the averages broke above their recent ranges last week, this week they broke below those same ranges. After six days down and the Banks at the abyss, around noon Thursday the market seemed about to follow. However, for no apparent reason, which is better than some news event, the averages reversed and closed higher. Moreover, they closed above Wednesday's close, on higher volume, making the reversal impressive. That together with a possible inauguration lift could well serve to get the recovery going again. But, something good should happen soon.

The weakness in Financial stocks, because there are many, was in part responsible for the week's deterioration in breadth. But a big part too was played by the ongoing weakness in commodity stocks like the Oils. Oil just can't seem to buy a rally. That coupled with the degree of decline already in place, from \$145/barrel to \$30/barrel, makes that uptrend look over. Sure there can be and should yet be a sharp recovery here, but like many bubbles or near bubbles that end, they stay ended for quite a while. Certainly that will be true of the Financials, just as it was true of the Techs after 2000 – Nortel filed this week, after a high of 1400+ back in 2000. The question remains what might come along to fill the leadership role. Education stocks had another good week, but leadership is thin. There are, however, plenty of stocks with plenty of room to rally.

Disappointing as the week has been, we haven't given up on the idea that October-November marked a bottom. October was the wash-out low for most stocks – peak volume and peak 12 month lows (92% of NYSE stocks). November was a lower low in the averages, but a successful “test” of the October low – far less downside volume and far fewer 12 month lows. December and the first few days of this month have shown some decent upside momentum, that is, buying. And, despite this week, market breadth is still outperforming the averages. It's rare that the market gets into trouble with the “average stock” outperforming. Given this and with the market still so long term compressed – only 4% of NYSE stocks above their 200 day moving average – it's hard to see a big leg down right here. Maybe it's just more muddle through for a while, but the lows seem the lows.

Frank D. Gretz

STOCK AVERAGE VS. AVERAGE STOCK



Jul-01-08

Oct-07-08

Jan-14-09

