

February 06, 2009
DJIA: 8,063

Buy high, sell low . . . make it up on volume. Perhaps not the best strategy but for a trend follower, that's pretty much what you've been doing. A study by Goldman Sachs found that since December, on average the market gained 1.15% after a down day and it lost 1.24% after an up day. The trend, because of the lack of one, hasn't been your friend. Of course, just as you figure out you should be trading the range, that's when things change. Of late, the change has looked to be a break to the downside – a move below 800 in the S&P and a test of the November lows. Given the bad news and, as importantly, the lack of good news, it's almost surprising the trading range has held. Then, too, that of itself seems a plus – the market has had its chance to fold but so far the selling has dried up. At the same time, any real momentum on the upside has been hard to come by. It will take a noticeable change in volume to push things to the upside, but we remain optimistic.

If that 800 level in the S&P fails to hold, we're not sure the world will end as most seem to think. It didn't end when November took out the October lows, and another time similar to this was 1988. After the washout low in October and a trading range, the Dow fell 8% in January before moving higher the rest of the year. A washout low should mean just that. If not ready to go up big most stocks should be through going down. Obviously one group that doesn't seem to be through going down are the Banks. Some stabilization would be nice, but even here there's a positive. Most Financial Indices made a new low a couple of weeks ago but unlike October and November the market didn't follow. That suggests that for most stocks at least the "financial crisis" aspect of the decline may be discounted. Of course, that would be a lot more believable if the Financials would put together a decent rally.

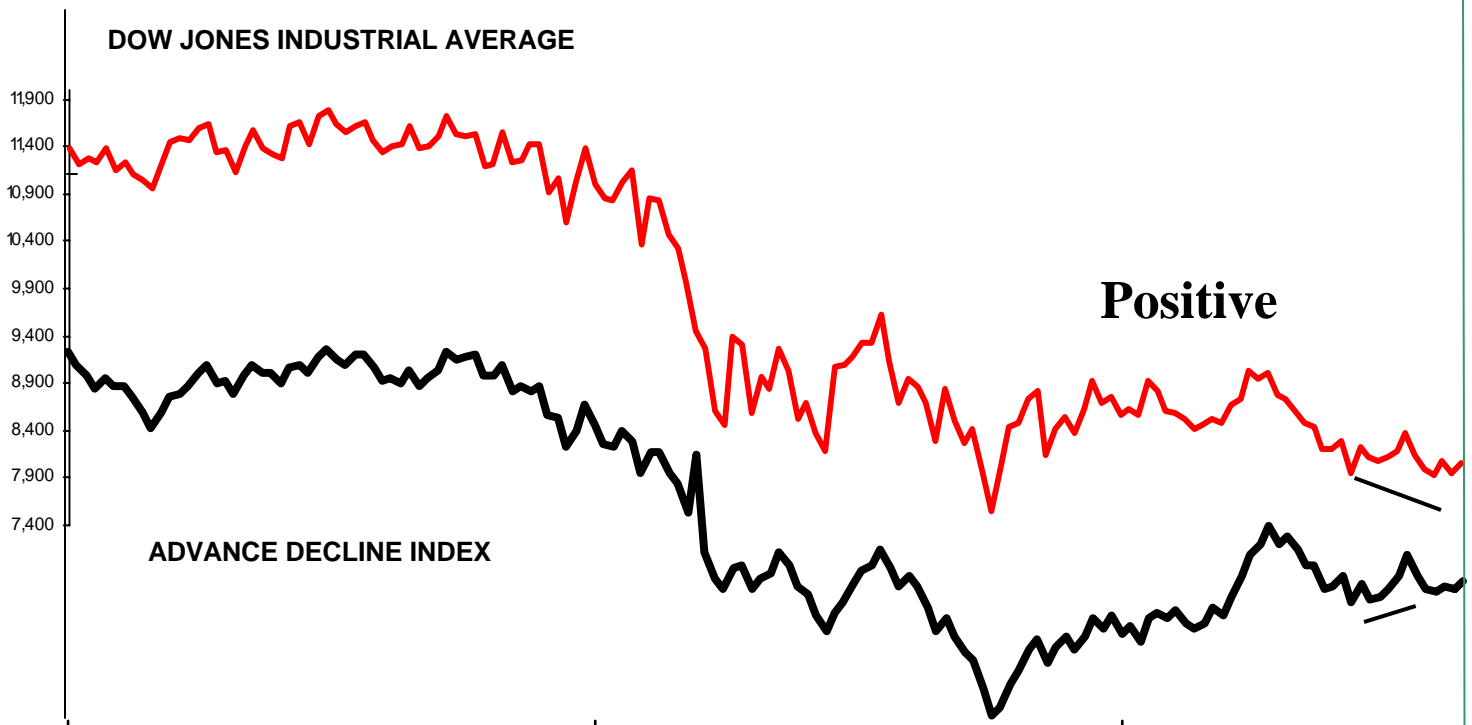
This "washout" aspect to last fall is borne out in virtually all of the indicators. With the exception of Banks and S&L's, 12 month new lows have dried up versus last October when 92% of NYSE stocks hit new lows. Short term measures like the spread between the S&P and its ten day average also show only modest downside momentum – minus 44 at the max in mid-January versus minus 90 in November and minus 128 in October. And then there's the Advance Decline Index, perhaps the best gauge of the market's overall health. With a positive divergence still in place – higher lows in the A-D Index versus lower lows in the DJIA – it would be very unusual to see the market come unglued here. Whether it's above 800 or whatever, the probabilities favor that we hold more or less around the recent lows. Of course the proof is in the pudding, and the pudding in this case would be a good kick to the upside.

In our recent presentation someone pointed out that our recommendations – Family Dollar (28), Gold, the Education stocks – are simply the beneficiaries of bleak economic times. Gold seems more about a secular uptrend but for the others there is that point. But does it really matter why a company does well? Oil companies do well when the price of oil goes up but that counts; profits are profits. If the winners these days are winning for the wrong reason, that shows up in how few winners there are. Ten maybe fifteen 12 month new highs at best each day and still only 8% of NYSE stocks above their 200 day moving average, that is, in medium term uptrends. And this despite the fact that most stocks made lows almost four months ago. They may be holding, but they're pretty much going nowhere, at best. Once again, a lot of that seems about the lack of any overall trend. And a lot of stocks, the Semiconductors a good example, look a lot like the market.

While Gold still looks attractive, and GLD did break out, a growing consensus there could mean a short term stall or pullback. But if so, it should be short term. Education stocks are a little stretched, but still act well. There are a myriad of stocks, Semi's, Steel, Material, AG, that look so much like the averages they likely will go with the averages. Speaking of Myriad (83), a number of Biotechs have begun to act better, including a new high in the aforementioned. This is never an easy group but one seemingly immune, so to speak, to the worsening economy. Even big Pharma isn't acting so badly, what with better than expected results from Merck (30) and Pfizer's (15) recent bid for Wyeth (43). Of course, lacking product big pharma is always thought to be targeting biotech. As per the Roche and Genetech (82) saga, buying a Biotech firm is not something to be counted on. Easier to wait for Amgen (57) to break above that downtrend line around 60-62.

Frank D. Gretz

STOCK AVERAGE VS. AVERAGE STOCK



Jul-01-08

Oct-16-08

Feb-04-09

