

EQUITIES PERSPECTIVE

February 27, 2009

DJIA: 7,182

Change . . . that's all most of us will have left! The only decent month the market has had was December. Coincidentally, ha ha, that's been the only month no one was running the country or, maybe better, no one running the country was talking. To be fair, dealing with the mess is so overwhelming that almost any proposal seems destined to disappoint. Perhaps we need a moratorium on proposals/speeches, just to see how well the market might do on its own. Thursday certainly wasn't a good day for those college bound, unless you planned on paying for college with your short position in the education stocks, one of the better groups, or poor Sallie Mae, now SLM (5.3), down 35% Thursday. In a perverse way, holding rather than accelerating down looks good. But they sure don't accelerate up. Wednesday started well but of the seven intraday swings (in case you weren't watching), four were down. Thursday started even better but in the end, the good news again was they didn't accelerate down at the end. Pretty pathetic, and pretty frustrating.

Things are bad but, perhaps not altogether so. It's hard to sugar-coat 7 consecutive days of negative breadth, 9 of 10 in total. And some of those days were quite lopsided with an expansion in volume, in other words, real selling. And then there's the little matter of the Dow taking out the bear market lows of both 1998 and 2002. Even the S&P 500 made a new low versus November though, by a point, missed the intraday low. The weak link remains the Financials and that helps explain why the NASDAQ Composite remains almost 6% above the November low, and the even less financially tainted NASDAQ 100 almost 9% above the November low. Surprisingly, as poor as it has been lately, even breadth is above the November low. In all of this, however, its 12 month new lows that offers the greatest hope, you might say. The recent peak in total New Lows was 730, more than a third of which were Financial. November's peak was almost 2400 meaning, unlike the market averages, most stocks are holding.

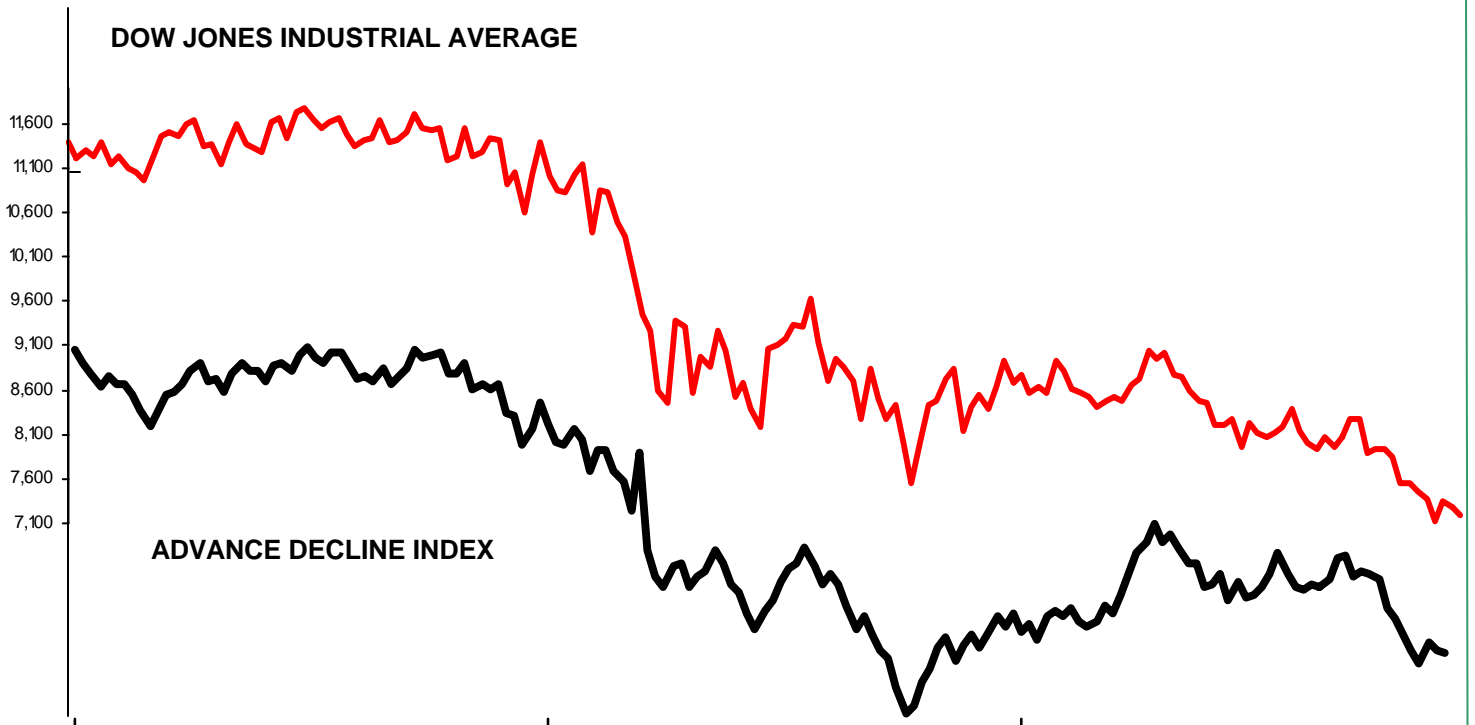
Of course, they hold until they don't, and holding up isn't going up. But divergences like this can sometimes produce positive results. Markets do put together decent rallies, even in the worst of times. During the first seven years of Japan's "lost decade" there were Nikkei rallies of 47% and 57%. After the near 50% decline in '24 the market rallied 50%. Nothing had materially changed in Japan or '24, but markets when stretched almost find their own reason to rally. Sentiment, of course, plays a role and the lack of confidence in what's being done and those doing it has become almost emotional. Converting Citigroup's shares the US Treasury converted the common to a \$1 stock. Hey, that's much better than nationalization, and doesn't that make you want to run out and invest in the rest of the banks.

Indicators of the "mean reversion" type have been just plain mean, failing to revert, as it were. Our favorite of this type as you probably know, is the percent of NYSE stocks above their 200 day moving average. Readings in this indicator of 20% or less have an excellent record of being coincident with market low points. The 1% level reached last November is the lowest ever and, indeed, the market did recover. The problem is that the Dow now is some 250 points below that November low, stocks above their 200 day are 5%. There's been no reversion. Much the same is true of 12 month new lows, they may be less than October – November, but they haven't gone away. Perhaps more importantly, 12 month new highs are minimal – there's no real leadership. The market is stretched to the downside, but there's just no lift. It's not just about holding up or even going up, what's needed is real buying – upside volume, for more than just a day.

Gold has been all the rage of late, rising back to the \$1000 level. As measured by the GLD ETF, the correction that began last March seems over and, surprisingly, the trend isn't as extended as you might think. That, of course, is the price trend, though sentiment is considerably more so. Sentiment, of course, is anything but a timing tool, extremes in bullishness can become more so. Still, this probably isn't the best time to pay up. One interesting change is that dollar strength hasn't been the negative it was for most of the last year. Could be Gold no longer is just about dollar weakness but, rather, the distrust of all currencies. And, too, it could be acting as a hedge against stocks, even in a deflationary environment. Back in 1929, the ultimate deflationary environment, a 10% position in Homestake Mining would have let you breakeven against the other 90% of the portfolio – it rose from 65 to 544. With that possible relationship in mind, a rally in stocks could be another reason for a correction in Gold.

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STOCK AVERAGE VS. AVERAGE STOCK



Jul-01-08

Oct-27-08

Feb-25-09

