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DJIA: 10,325

China . . . most love it, some hate it. Most love China for its growth which, despite the recent tightenings, is projected at nearly 10% this year versus 2.6% for the US. But some question the nature of that growth – enough office space for every man, woman and child; appliance sales in areas without electricity; increasing car sales and declining gasoline sales; and good old fashion materials stockpiling. Most observers worry little about the recent tightening moves, though clearly officials there are worried about something. Mounting inflation pressures in the emerging markets, especially India, could cause even China to cave and raise rates. That's not something that's "priced in." While China's growth is real, China's growth is a concept that's embraced, it's taken as a given. Problems there – rates, growth, whatever – almost certainly would wreak havoc with the world's investment psyche. Why anticipate problems you might ask, and the answer is simple. Stock prices lead economies and the market there peaked last August.

The trouble with buying growth, China-growth, Google-growth, any growth, is that it's hard to do. You can't buy China the country and you can't buy Google (322) the company. We're stuck with buying these pieces of paper, stocks they call them, which in the long run should reflect the growth of China, Google or whatever. The trouble with the long run is that it sometimes can be, how should we put it, long. In 1972 Coca Cola (53), a premiere growth company, sold for a then high 30x earnings but by 1981 sold for 9x with a 6% yield. And meanwhile earnings never missed a beat. In the 70's no one wanted growth, like mid-2008, they wanted stuff in the ground. China grows like a weed and its market goes nowhere. Perhaps the market is anticipating problems, perhaps it's just the nature of markets, at least from time-to-time. Meanwhile, Financial stocks, of all things, have been acting reasonably well, that against a U.S. banking system which arguably is insolvent. Much the same can be said of the better action in Housing stocks, that in the face of the upcoming wave of new foreclosures. Go figure.

As the year began worries focused on jobs and housing, though even there things seemed on the mend. Greece was not high on anyone's list but, turns out, rather than having ended, the financial crisis simply may have moved. "Subprime loans" have become "subprime countries," posing risks to their larger "prime" counterparts. Fiscal action around the globe to save their respective economies didn't end the credit crisis, it shifted the focus to the public sector of the economy and, consequently, the creditworthiness of governments themselves. There are credit-default swaps on 50 countries, and all but three have seen widening spreads recently. The way out of this – bring back Greenspan. We need another bubble, not just economic growth but bubble-like growth. More likely we'll just find a way to kick another problem down the road for a while. But for now sovereign worries and job worries have stalled the uptrend. And that huge upside momentum generated off the low last March shows clear signs of unwinding – from a 95% peak last fall, and a 90% level as the year began, stocks above their 200 day moving average recently dropped to 67%. Now back to 77% we likely won't see 90-95% again, but the unwind takes time.

The correction/selloff that began mid-January resulted from a market overbought and over-loved – earnings would be good, and all that. The ensuing decline didn't quite reach a "washout level" in terms of momentum, and it didn't at all reach a "give-up" level in terms of sentiment. Still, a rally was hardly surprising, though eight consecutive days and extremely positive breadth was. Volume was missing, but it wasn't the weakest rally we've ever seen. With the averages back to a declining 50-day moving average, the market no longer oversold and investors much more complacent, the rebound was back to a place where logically it should have trouble, and Tuesday it finally did. But here is where it gets tricky. There was no follow-through to Tuesday's weakness and, in fact, Wednesday retraced virtually all that weakness. Similarly, Thursday afternoon retraced all of Thursday morning's weakness. The market has had its chances to go down, but did not, something usually worth noting. If we now rally through this resistance area and the 50-day average around 1110, that would have to be taken as a pretty big positive, at least for the short term.

You don't hear so much about Gold these days – players only love you when you're playing, or in Gold's case when it's going up. But that's a good thing. Perhaps more than any market we can think of, Gold is very sensitive or reactive to swings in sentiment. And in the case of Gold, sentiment does swing, and with some regularity. The swings aren't exactly from love to hate, they're more from love to, like now, who cares. Of course back around the November highs, love was in bloom, the price extended and a 13% correction ensued, measured by the commodity ETF, GLD (108). As a result of that decline, sentiment has pretty much come full circle. Meanwhile, the decline has the look of a normal correction of the overall uptrend, something relatively common during this uptrend. Sentiment, even in Gold, isn't always a perfect turning tool, and the strong dollar might continue to be a headwind. However, a move to 112-113 in GLD, a move above the downtrend line, would suggest the correction is over.

Frank D. Gretz

