Shields & Company
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

March 06, 2009
DJIA: 6,594

A share of GM . . . or a gallon of gas? The Sunday NY Times, or a share of that stock? AIG, or a stamp? Got a buck, how about a share of Citi? Moody's may downgrade Wells Fargo (8), so a new low there. Of course, somebody should downgrade Moody's. Then there's GE (6.75), down another 20% just this week. They tell you things are fine but, they also told you they wouldn't cut the dividend. If they take a downgrade, the story goes, the capital they'll need is enormous. Sounds bleak and it is. It's hard to remember a time more so and, typically, those times were at or near a low. The news is horrible but stocks are down – Citi at $1, GE at $7, GM $1.8, for goodness sake. It's hard to believe most of the selling isn't out of the way, and the shorts loaded to the gills. If not the end of the world, stocks are stretched. Last summer US Bancorp (9) rallied from 21 in early July to 42 in early September, Wells from 21 to 45, JP Morgan (17) from 29 to 50. The unwind to the selling/shorting could be extreme, if or when it happens.

For the most part, sentiment indicators show extreme pessimism – consumer confidence is at record lows, the Consensus Inc. survey of futures traders is at the lowest level of bullishness since the Spring of 2001. But sentiment is only part of the litany of reasons why the market "should" rally. Momentum indicators, like NYSE stocks above their 200 day, are at historical oversold levels. Liquidity measures such as record low interest rates, surging money supply and sideline cash – equal to 46% of equity market-cap – are all important positives. It all seems picture perfect except for a minor detail, stocks don't rally. Wednesday's rally seemed hopeful, good numbers and all that, and coming as it did on news, China, that didn't seem all that important. In other words, it seemed the market was looking for any excuse to rally, as soldout markets often do. Hopeful, until Thursday.

While we sort of dismissed China's importance in Wednesday's rally, there could be something to this China thing. Based on the FXI, China only barely took out the January low, not the November low and that not the October low. Sure the export business seems dead and, therefore, China. But the joke used to be this is a country without a banking system. In an unintended consequence sort of way, a country without a banking system is a country without banking problems, subprime mortgages, collateralized stuff, and the like. Last summer's peak in commodity prices does appear a hedge fund induced bubble of sorts. But that's not to say China, unencumbered by the more dire problems of the rest of the world, won't be back sooner than the rest of the world. Maybe Wednesday's rally actually got that.

As we watch as the market comes unglued it seems a bit trite to talk about anything good in the technical background. As losses relentlessly mount, does anyone really care there's less downside momentum in this decline – less volume and fewer new lows – than October? We saw a study that pointed out that, as happened Tuesday, a period of five consecutive days resulting in a decline of 5% or more has been followed by an important low within days. The four most dangerous words in investing are "this time is different." But, so far, this decline seems so. Still, it's important to remember stocks aren't companies, stocks aren't the economy. Stocks are paper and the paper, the market, is a function of supply and demand. When the sellers are out of the way they rally and, typically, the sellers are out of the way or close when most of us feel like we do now. Everything seems so stretched, including psychology, it's not hard to see something come along, almost anything, to spark a rally.

It's hard to call it leadership, and it is a telling commentary, but the "depression portfolio" still seems to be working. It was helped considerably, of course, by Tuesday's 8% pop to a new high in Autozone (155). Since no one is buying new cars, stocks like Autozone, Advance Auto (38) and O'Reilly (33) have come to be known as the "clunker trade." And, since no one can afford to go out, there's Netflix (38), no new high but one of the best charts around. If you do have to shop there's Family Dollar (28) and Dollar Tree (39), the former up 10% Thursday. Despite the government lending controversy now associated with the Education stocks, they still seem okay and, after all, we'll all need new skills to get out fair share of the upcoming wealth redistribution. A little overdone, Gold is correcting but still seems a must to hedge worthless currencies and, in 1929, a more than ample hedge against declining equities. To hedge your Gold, there's Smith & Wesson.

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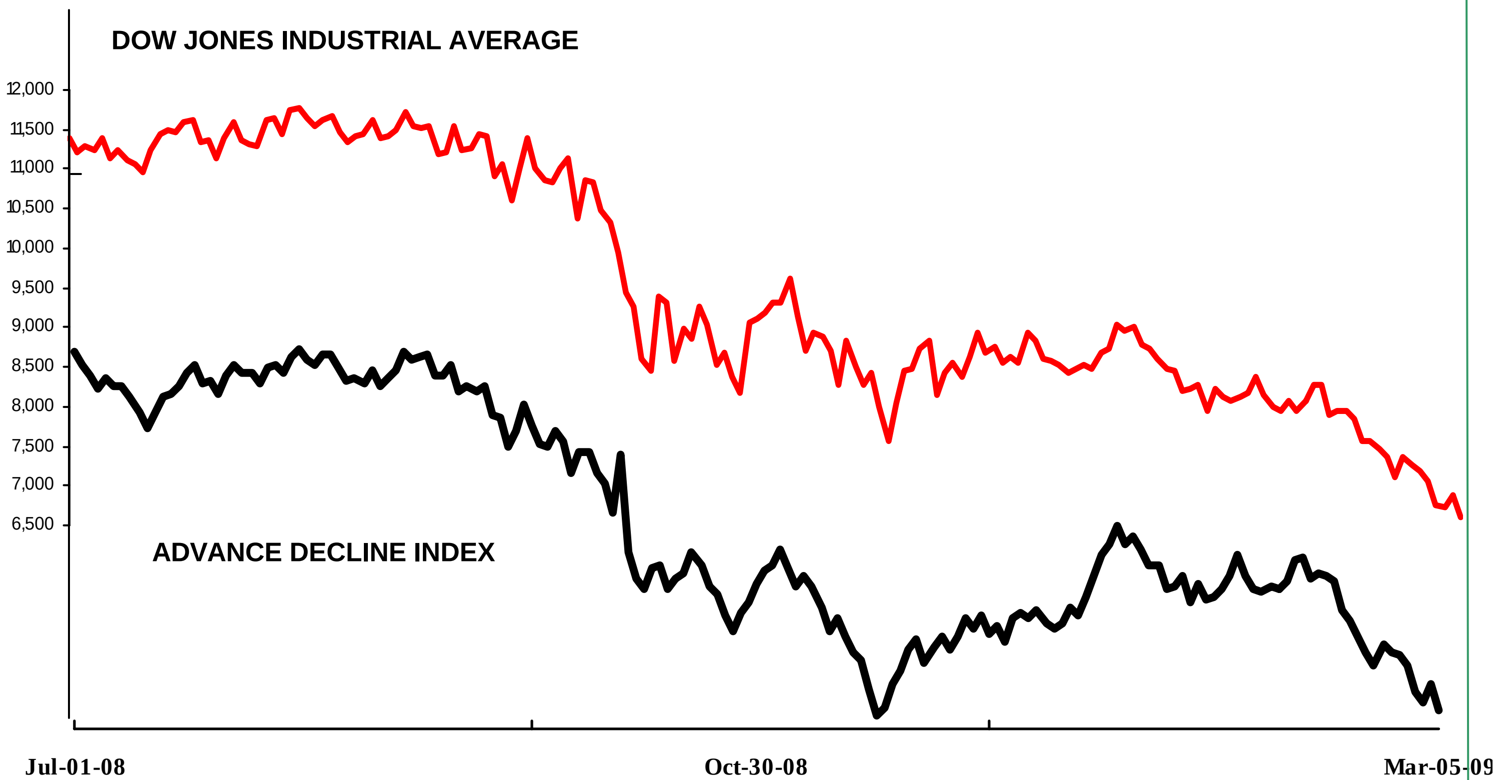
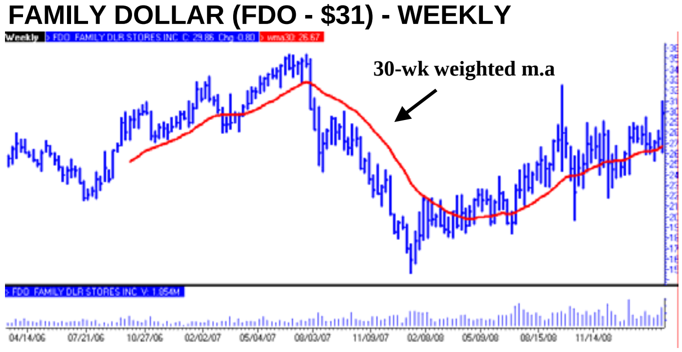
STOCK AVERAGE VS. AVERAGE STOCK



AUTOZONE (AZO - $152) – WEEKLY

NETFLIX (NFLX - $38) – WEEKLY

FAMILY DOLLAR (FDO - $31) - WEEKLY



CAREER EDUCATION (CECO - $21) - WEEKLY

GOLD (GLD - $92) - WEEKLY

SMITH & WESSON (SWHC - $4) - WEEKLY