

## EQUITIES PERSPECTIVE

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DJIA: 12,100

May you live in interesting times . . . but not lose your job, or see your company's stock go to 2. Seems like only yesterday, though in fact it was way back in January 2007, that Bear Stearns (5) sold for 170. Wasn't it Ace Greenberg, the former head of Bear, who once said we own the casino, we don't play in it. Things change, no doubt because human nature never does. They tell you the world is awash in liquidity, but it's also said that liquidity is a coward, it runs at the first sign of trouble. For Bear Stearns, the latter seemed to apply. Meanwhile, that Lehman (42) certainly was quite the buy Monday around 20. Then, too, you might have thought much the same of Bear Friday night, closing at 30 with a book value of 80. The Fed didn't bail out poor Bear, but they seem to have done so for Lehman and the rest. Meanwhile, let's see. Foreclosures, financial crisis, recession, a collapsing dollar and now Bear Stearns. Sounds like a bottom.

Market bottoms never come out of good news, it's just not the way it works. And the news finally seems to have gotten to the point, bad-wise, that there's the fear and even panic typical of decent turning points. In Monday's early panic, for example, the Volatility Index moved above 35, not far from the level at the January low or the low last August. Unfortunately, there is no magic number here, but like other measures of sentiment the move has been enough to say this part of the background is right for a market turn – no screaming buy, but enough. The other part of the background has to do with the market action itself, and there the action is encouraging as well. What turned sentiment was the aforementioned news backdrop, which Monday morning seemed end of the worldish. Yet, a funny thing happened – the market didn't break. Market averages like the Dow and S&P held around the January lows. It's hard to imagine a worse news day, but the market held. That seems impressive.

So the background showed some fear and, in a volatile, multiple swing day, the market on Monday basically held. The next key to a low is just that, what comes next. Tuesday's 420 point Dow rally was about as good as it gets. Something like 95% of stocks traded higher on something like 95% of the volume that traded, and overall volume was good. We realize there was a 400+ rally the prior Tuesday that went nowhere, but somehow that seemed different. We don't remember too many great rallies starting out of good news, as was the case then. It seems more impressive that the market ignored the bad news Monday, and then without news that was special, had a great follow-through Tuesday. But, then, what was Wednesday about? After a day like Tuesday we can understand a pullback, but giving up something like 70% of Tuesday's gain is not what we had in mind by "pullback." One positive was that breadth was only 2.4-to-1 down versus Tuesday's 8.5-to-1 up. Still, the Wednesday weakness doesn't seem right if the Monday-Tuesday action was as good as we thought it was.

Market breadth, the Advance-Decline Index, had turned weaker than the Dow and S&P in the most recent phase of weakness. And perhaps Wednesday's weakness was the price to be paid for the resulting short term divergence – a higher peak in the Dow, unmatched by a higher peak in breadth – that Tuesday's rally produced. However, this is the first such divergence in some time, and Tuesday's breadth wasn't exactly lagging. The lack of divergences off the January 22 low seems to have held the market in good stead – the lows have held – and we still think it's a positive. We still think any important weakness from here likely will be preceded by a poor rally, that is, a rally with poor breadth and/or volume, divergences. Meanwhile, the Dow Transportation Average is diverging positively, and by a considerable amount. That could prove meaningful in that the Transports led in all this, peaking in July ahead of the October peak in the Industrials. The positive action in the Transports, by the way, is about the Rails and Truckers, for sure not the Airlines.

It certainly hasn't gotten any easier. Four hundred points up, three hundred points down, that's no fun whether you're long or whether you're short. And on top of that, Wednesday saw a real drubbing in commodity stocks, the only real haven during the market's decline. Even if the market is bottoming, things change and these stocks could be in for a period of underperformance short term. As someone once said, they get around to everything. And, the dollar looks due for a rally. Meanwhile, the Homebuilders continue to show signs of bottoming while, of course, the news there couldn't be much worse. Like the Homebuilders, despite the weakness in the averages, a lot of stocks are holding. There's the lack of overall divergences, the action in the Transports, the change in sentiment and the Monday-Tuesday reversal sequence – all reasons to give the market the benefit of the doubt. But the recent lows need to hold, and we need to soon see something again on the upside.

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# STOCK AVERAGE VS. AVERAGE STOCK

