SHIELDS & COMPANY
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EQUITIES PERSPECTIVE

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DJIA: 7,401

The rally we predicted . . . some five or six weeks ago. Better late than never and, in a way, maybe just plain better late. The incessant nature of the trudge lower apparently got many to that "just sell everything" point. And in terms of sentiment, of course, that's when the market is prime-time for a decent rally. In terms of momentum, you didn't need an analyst to figure out just how stretched to the downside things had become – through March 9, breadth was down 15 of 17 days, some of those spectacularly so. And just when it seemed nothing could pull the market from the abyss, when the market is that stretched and the background that bleak, there's usually something. Like Citi turning a profit in January and February, it's usually not what you were expecting. And, like the Citi news, it's not necessarily something all that significant. After all, when it comes to Citi, the issue seems less about profits and more about solvency. The market was ready for a rally and, as usual, it's the market that makes the news.

If things were bleak at the beginning of last week, the rally hasn't exactly been greeted with enthusiasm. Last week measures like the America Association of Individual Investors were at a record pessimism. And while less scientific, each commentator we've heard begins by telling you this is a rally in a bear market. That strikes us as an unusual amount of skepticism. We don't doubt this is a bear market rally, but who really knows? After all, every new bull market started as a bear market rally. The rally has its credentials and we can easily see a rally that carries far enough to make the bear market crowd have their doubts. Opinions follow price. After weeks of not taking anything as good news, the market pretty much erupted Wednesday afternoon on the news the Fed will buy Treasuries. Suddenly you can see the possibility of recovery? At the start of last week the risk was to the downside, after this week the risk just might be to the upside.

As we noted, the rally has its credentials in terms of volume and breadth. Prior to Thursday, seven consecutive positive days in breadth – two great and two spectacular. Volume in Tuesday's advance was disappointing, falling as it did below Monday's. Still, it came in about average for the year and some 20% above last year's average. In terms of volume the rally Wednesday cleared the air, coming in as one of the ten best. Another positive has been the ARMS or Trading Index. This measures volume in advancing stocks relative to volume in declining stocks, .50 or lower meaning twice as much volume in advancing versus declining issues. A level of .50 or lower is of itself insignificant. However, our pal Phil Roth (Phil is often good for a paragraph) points out that back-to-back readings below .50 are rare – only 4 times this decade and 25 times since 1962, about 0.2% of all trading days. These back-to-back days have often occurred near the inception of lengthy advances, and recently occurred March 9 and 10, the start of this advance, and again this past Tuesday and Wednesday. Other memorable occurrences include October 10-11, 2002, August 20-23, 1982, and October 20-21, 1987, at that bottom.

You do that voodoo to me, that "voodoo" being the 50 day moving average. After an impressive seven consecutive days of rally, the 50 day proved the S&P's undoing Thursday. Of course the S&P's 17% rally had more than a little to do with Thursday's pullback, but it is amusing when something like a 50-day average seemingly has an impact – apparently there are more technical traders than you might think. And, it's not the first time. That heinous 50-day proved a problem in late January and early February. As it happens, many stocks are in a similar position 50-day-wise, including many of the Banks, AXP and GE (10). That said, if Thursday is all the 50-day's got, we'll take it. Thursday was more stall than down – down 85 with flat breadth isn't our idea of down 85. And, most importantly, volume declined. We've had a good rally. A few down days with declining volume would simply make the rally look all that much better.

You want prices up, buy'em. That seems the Fed's take on things, the latest buy'em being Treasuries. The news Wednesday sent the dollar sharply lower and commodities sharply higher. That was true of Gold, ironically as it looked to be breaking down earlier that day. With sentiment there still a little too optimistic for our liking, we're not sure Gold is ready for a big new upleg. But there's no denying, Wednesday and Thursday did wonders for the chart. There are as well a couple of more mundane groups that show significant improvement, and surprisingly so in light of the economy. There seems little to cheer about when it comes to either Semiconductors or Retail unless, of course, you look at the charts. At the recent lows both groups held well above their November lows and both now are above or at their January highs. Makes you wonder if the economy might not be about to get better.

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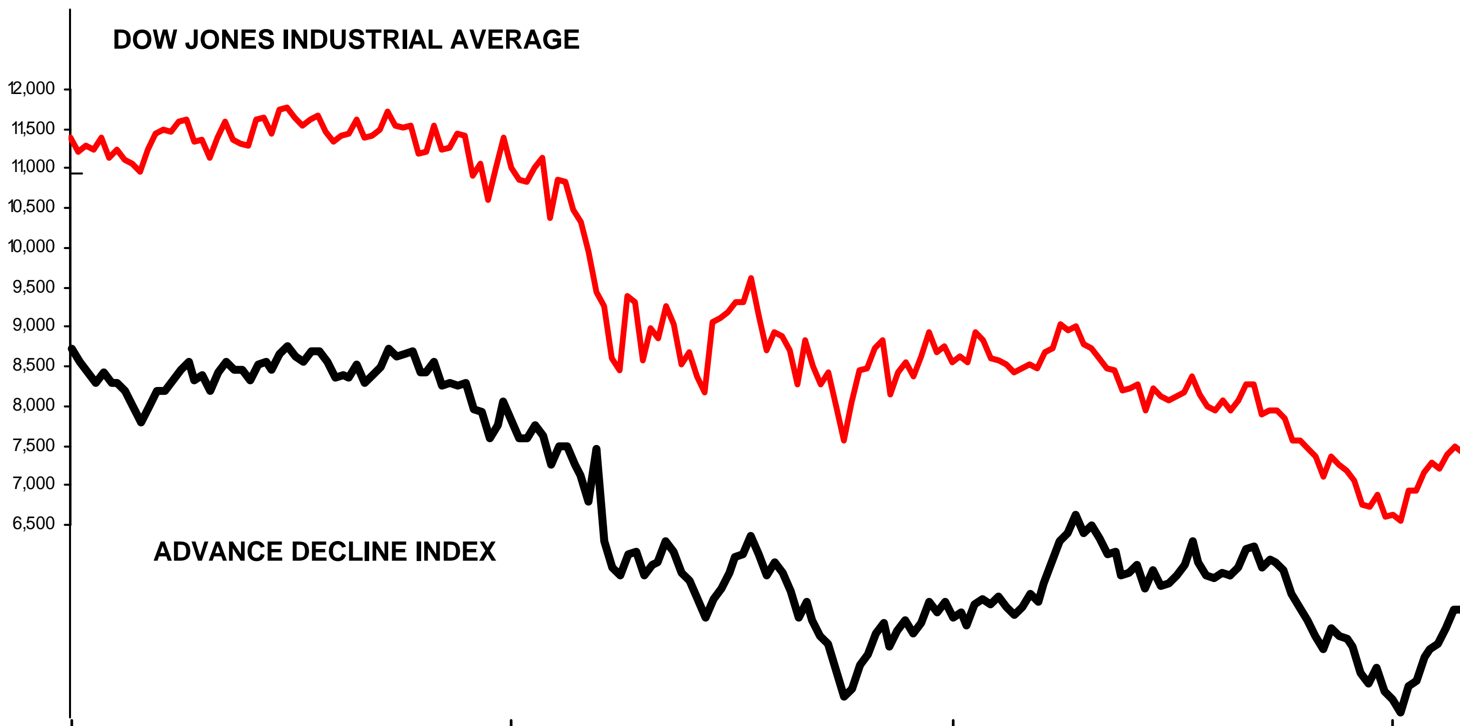
STOCK AVERAGE VS. AVERAGE STOCK



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