

## EQUITIES PERSPECTIVE

March 27, 2009

DJIA: 7,925

Geithner . . . always liked that guy. Well, maybe not always. And, come to think of it, back on Feb. 10, maybe not at all. Perceptions change, in the stock market perhaps more than anywhere. In this case, from a bottomless pit to the sense of a bottoming process, for stocks and the economy. In reality the improvement, Citi turning a profit, higher retail and home sales, seem tentative at best. The improved perception of course is about the rally – opinions follow prices. Interestingly, while the Geithner plan was met with considerable enthusiasm, the 500 point rally, it was met with considerable skepticism by many analysts. Indeed, it's unknown whether terms under the loan facility will be attractive enough to raise values of these distressed assets. If not, back to go. In a sense, for now "unknown" might be a good thing. What we do know is that this seems another case of a market that wanted to go higher, using the news like this to do so.

Suddenly "better than expected" seems the cry heard throughout the land. Durable goods orders and new home sales unexpectedly rose in February, the latest in a string of reports hinting the economy may be nearing a bottom. When it comes to housing, however, based on the Homebuilding stocks there have been more than or few false-downs, so to speak. While the group is improved, the improvement is not yet equal to that of Jan-Mar or July-Sept last year. Low mortgage rates and falling prices have made homes more affordable, but that doesn't help much if you can't get a loan or you've lost your job. And while the foreclosure rate has held steady over the last several months, mortgage delinquency rates have continued to soar. The foreclosure rate seems artificially suppressed by government moratoriums and a shadow supply of inventory being held back by lenders. Maybe the world of housing is a better place, or maybe it's just the rally. Just yet it's hard to say, but these homes are the underlying asset that created this financial mess.

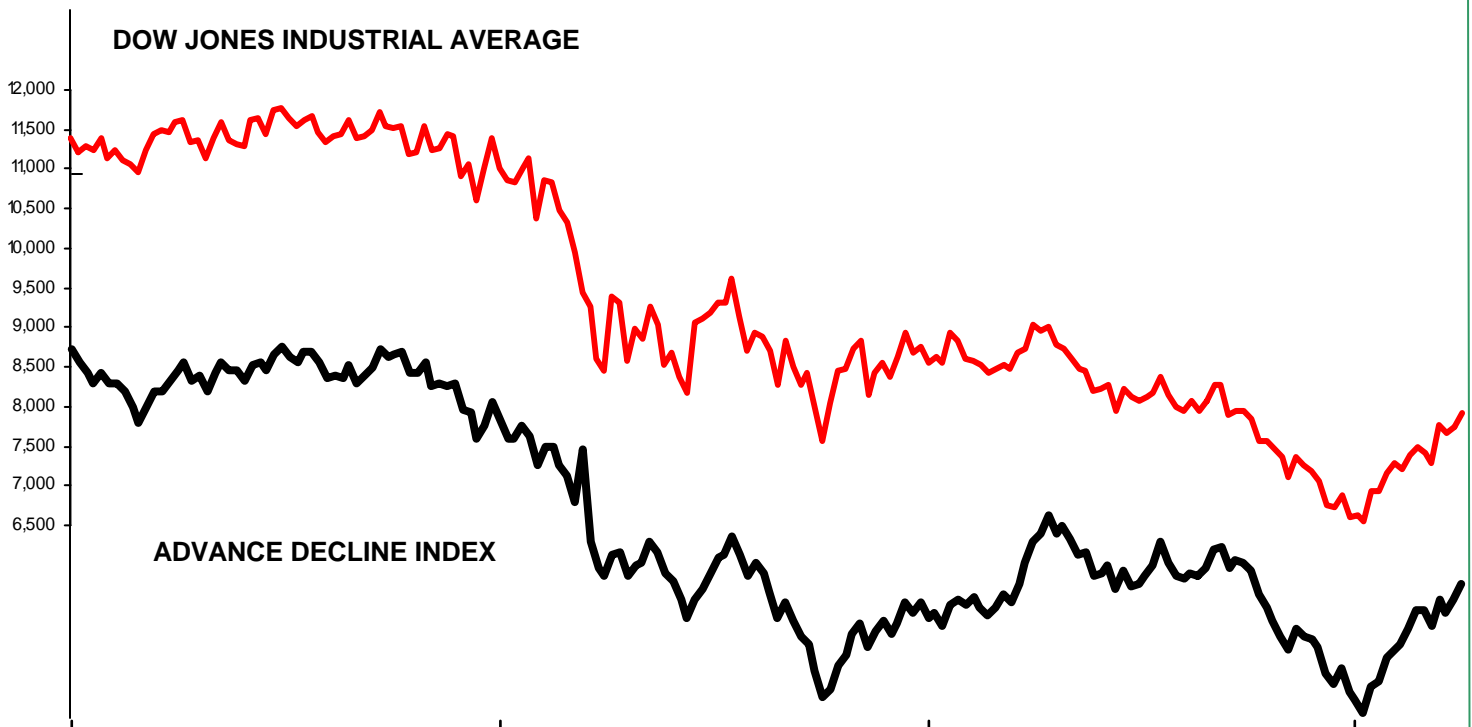
Rallies like this one, of course, cast a certain glow on many things – the news either is better than expected or not as bad as expected. And rallies like this make you wonder, bear market rally, or new bull market? After all, given everything being thrown at it, the economy could be bottoming. And, a case can be made the market actually bottomed back in October-November. Measured by stocks making new lows most stocks did, indeed, bottom in October – there were fewer new lows in November and fewer still earlier this month. Groups as diverse as Retail and Semiconductors made lows in November and earlier this month didn't come close to those lows – measured by the XRT ETF and the SOX Index. It's not unusual in bear markets that not all stocks bottom together. Of course, as was the case this time, typically the big stocks that dominate to averages are the last to bottom making the trees, versus the forest, hard to see. So there is a case for a new bull market. It's not one we especially believe, but for now it doesn't matter.

The most convincing aspect of the rally is the rally itself. The market has rallied ten of the last thirteen days, many of those with impressive breadth and volume. As importantly, following Monday's 500 point advance, Tuesday's 100 point setback came on lighter volume. Volume will be important to watch as much on the upside as the downside. Even if a bear market rally, it's said such rallies often are more impressive than bull market rallies. In both the bear markets of 1929-32 and 1973-74 there were rallies of 50%. Call it a bull market or a bear market rally, any 50% rally would be hard to sit out, especially when the news gets better to go with it. And the news could get better. Any change in mark-to-market rules easily could be taken as an important positive. And then there's everyone's apparent favorite, the "uptick rule." When troubled Japan introduced an uptick rule in March 2002, the panic buying that followed took the Nikkei 25% higher in four weeks.

This rally has been a long time coming. It evolved out of a background that saw prices stretched to the downside – the S&P relative to its 200 day moving average, for example. While there was no panic this time, that happened in October-November, there was plenty of "just get me out" kind of fear – extreme sales of mutual funds in the week of 3/13, record low consumer confidence and a Time magazine cover story ("Holding on for Dear Life"). And, we've had a good rally, more than 20% off the March 9 low. Certainly we could correct, we could have done so, and looked like we were about to do so Wednesday. When we do correct it would be nice to see volume, that is, selling diminish. When we do correct the less the better – good rallies don't give you a good chance to buy. And, after any correction, it's important that a resumption of the uptrend entail good volume.

Frank D. Gretz

# STOCK AVERAGE VS. AVERAGE STOCK



Jul-01-08

Nov-10-08

Mar-25-09

