

March 28, 2008  
DJIA: 12,302

I have 2, I have 10 . . . do I hear 20? And they say averaging down doesn't work. Had you done so with Bear Stearns (11), even if you bought at the high your average price would now be all the way down to 86 which, as it happens, is book value. As you can see, the stock already is trading above the latest deal price of 10, reminding us of the proverbial can of tuna that traded from \$1 to \$100. At \$100, alas, the buyer made the quintessential mistake – he opened it and, surprise, it was just tuna, tuna was for trading, not for opening. If not for Bear, for the rest of us at least, some good has come of all this. The crisis seems to have played a big part in putting in a good low. Calamities like this, especially when they come after a period of extensive weakness, often mark important turning points. There was the 1970 Penn Central bankruptcy, the 1984 failure of Continental Bank, the 1994 Mexican peso devaluation and the 1998 collapse of the Long Term Capital Management hedge fund. Each time marked important lows, or they were not far away. So, sorry Bear but, hopefully, thank you.

Things always look good at the top – that's why few even think about selling. At lows, of course, things look bleak. Even at that, however, there's nothing like a financial crisis to get people motivated. And motivated they seemed early last week, that based on the VIX or Volatility Index. The 35+ reached last Monday was comparable to levels at the lows last August and again in January, and it didn't get there because everyone felt just peachy keen. But while Monday may have marked a crescendo of sorts, bearish sentiment has been moving in the right direction for a while now. Readings from the American Association of Individual Investors Poll shows 59% outright bearish, a very bullish reading (extreme pessimism). Similarly, Investors Intelligence, which surveys market letter writers, had more bears (45%) than bulls (31%) for the first time since October 2002. Selling creates the liquidity for the next move up and selling comes out of bearishness. In that sense, the worse the news the better. And then, of course, the market proves the majority wrong.

How investors act or react, investor sentiment, is important. Always more important, however, is how the market acts. And if you think about last Monday, if you consider the news, it's almost amazing the market didn't go down. It's amazing that the market didn't go screaming through the January lows. And Monday's multiple swing day also is typical of climactic lows. Since the January low there have been many extreme down-days, but Tuesday was the first extreme up-day. Down a lot doesn't necessarily mean washed-out. When they're washed-out, they go up a lot, and they did that Tuesday. And now that the dust has settled, the action in the Transportation Average is beginning to look all the more important. The Transports peaked before the Industrials but for weeks now they've held. If things are as dire as it would seem, especially in the realm of fuel prices, how can groups like the Truckers and Rails be acting so well? And if more subtly, other stocks also have been acting better. On Monday March 17, 1100 stocks (all exchanges) made a 12 month New Low. But that was only about half of the number of January 22. Despite last Monday's panic, a lot of stocks held.

The rally that began last Tuesday has been impressive. We're still not sure what the next day's weakness was all about, but the next three days of follow-through seem to have confirmed the upside both by virtue of volume and positive breadth. Though a couple hundred points, which these days seems the norm, the last two days of weakness doesn't seem consequential. Wednesday saw the Dow down 110 points with 500 net decliners, not exactly what we think of as 100 point down day. And volume was tame both days, no big move to sell. With most measures now less stretched, some additional upside could and should soon develop. The good rallies typically don't give you a good chance to buy. Home prices and housing starts won't suddenly start going up, and the financial crisis won't suddenly just go away. In general, it's hard to imagine much in the news background that will suddenly get better. Then, too, it's hard to imagine the news getting a lot worse, yet through all this the market held.

For a day or two there, namely last Wednesday and Thursday, it looked as though the bull market in commodities might have ended. The strength this week, or course, makes the weakness seem but an aberration. However, we're not so sure. The weakness is just a crack in the uptrends, but we're talking about very extended uptrends here. And the uptrends got that way because by now we've all figured out Oil is going to \$120 a barrel and Gold to the moon. So, the stocks are extended and sentiment pretty one-sided. That's not a bad time to be wary of even last week's minor weakness, which for sure was just minor. Another consideration is the overall market itself. If you believe, as we do, that the market put in a reasonably good low last week, at the onset of a new uptrend it would not be unusual to see leadership at least temporarily shift, in this case away from the commodity stocks. Finally, many of the stocks in the Gold and Oil sectors have been diverging from, that is not acting as well as, the respective commodities. That underperformance could become exaggerated were the underlying commodities to weaken further.

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# STOCK AVERAGE VS. AVERAGE STOCK

