

## EQUITIES PERSPECTIVE

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DJIA: 12,582

The Days of Our Lives . . . at least three of them. Non-believers in market timing often point to the dire outcome should one miss out on the relatively few, but performance-wise important, "good days." Well, they must be lovin' this market. From the starting point of this recent rally back on March 17, the Dow is up some 630 points. Of that, almost 1100 points, about double the net gain, occurred in just three days. Obviously if you missed those days, or if you were short those days, making money hasn't been so easy. At least technically, however, there has been progress. Since March 17 NYSE stocks above their 200 day moving average, that is, stocks in medium term uptrends, have improved from 15% to a recent peak of 31%. Similarly, while New Highs are relatively muted, as you would expect, New Lows recently have been running at less than 100/day, versus the near 1100 back on March 17. So, if no runaway, there is improvement.

One of the biggest positives in the overall background continues to be the action in the Transports. In March the Transports never came close to their January lows and since already have broken out, unlike the Industrials which are still hovering below their comparable breakout point around 12,700. And the Transports have done so despite some bad news out of UPS (71) and the spillover effect on FedEx (94). Then there are the Airlines which are, well, the Airlines. It's just a bit ironic now that everyone has decided we're in a recession, the Rails and Truckers apparently haven't gotten the word. Then, too, in terms of the stock market recessions aren't always a bad thing. Back in the fall of 1990, even though the economy was in recession and the S&L crisis was unfolding, after a 20% decline the market rallied about 30%. Like now the Fed was easing and bond yields were declining. But very unlike now, oil prices also were declining.

Not long ago Bank holdings of residential mortgage loans as a percent of bank assets were at near record highs. And the primary problem with any plan to modify these loans is pretty simple – many subprime as well as Alt-A and prime borrowers cannot pay their loans no matter what interest rate is applied. Moreover, the vast majority of delinquent subprime loans have not reset and the borrower is paying a below market teaser rate. So now it seems to be coming down to the Banks forgiving in some cases a significant amount of principal which, of course, doesn't seem the best of precedents. It's interesting against this backdrop that the Homebuilders have put in some type of bottom, having held their early January low as the world unraveled. But it still seems likely that the Banks themselves hold an important key to this recovery's durability. And while there the March low held the spike low in January, the Regional Bank Index is yet to break it's downtrend. Doing so would be a big plus.

Alan Greenspan recently called the current financial crisis the worst faced by the U.S. since World War II. Then, too, Greenspan described the Long Term Capital collapse in 1998 as the worst crisis he'd seen in his lifetime. Bubbles are always about the money. Easy and nearly free money always encourages risk-taking – in this case the creation of exotic, financially engineered derivatives. When that risk taking goes to excess, which it invariably does, it always leads to serious corrections, and crisis events like the Bear Stearns collapse. The silver lining, however, is that such events, Long Term Capital being a good example, typically lead to washout periods after which stocks go higher. U.S. domestic equity funds have seen nine or ten consecutive months of net outflows, a record. The Conference Board Consumer Expectations Index is at a 17 year low. The Reuters University of Michigan Consumer Confidence Survey is at its worst level since 1992. The American Association of Individual Investors finds small investors more bearish than they've been since 1990. It's bleak out there. Just as it is at every market low.

The bullish case has two important things going for it. The first is that the market had everything thrown at it - the Bear Stearn's bailout, the worst financial crisis since the depression - and it didn't break. It's not that the news is going to get a lot better, it's just hard to imagine what's left out there that will take the market down. The second big positive is that even before the March low, most stocks already had stopped going down. Most stocks stopped going down in late January, the peak in daily New Lows. Technically the market still acts well enough. It could always be better - it could just go up and never look back. But even without buying panic kind of numbers, the upside momentum should at least take time to unwind - new divergences and that sort of thing. The market for now seems to have discounted the worst, even if the worst is yet to come.

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# STOCK AVERAGE VS. AVERAGE STOCK

