

EQUITIES PERSPECTIVE

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DJIA: 13,010

In a Greenspanesque manner . . . the Fed said what? Well, there was something about a pause, though that's not definite, the economy and credit markets are weak, and commodity prices and inflation expectations are rising. They did, however, omit "downside risks to growth," no doubt because that risk is now reality. For all the slicing and dicing it seems clear they would like to kick the rate cutting habit, but they'll do whatever it takes to float the boat. In other words, we learned nothing we didn't already know, and that's fine. The market continues to act well, though Wednesday's market action was about as strange as we've seen in a while. Just what the pre-announcement rally was all about is hard to say, especially since the Financial stocks, seemingly the beneficiaries of the rate cut, failed to participate. By afternoon apparently everyone wondered what the rally was about, resulting in a nasty reversal though net, just another nothing day. Thursday's rally, however, was a good one, proving again that those Fed meeting days are nothing if not strange.

Whatever it was the Fed said, the remarks had a dramatic though very differing impact. Following their nothing day Wednesday, the Financials were lovin' it Thursday. Breakout may be too dramatic a word when it comes to that pattern in the Financial Index (XLF), but it did close at its highest level since late February. And you might even argue that the overall downtrend there has been broken. The real message, however, might simply be that the pattern looks much less risky than it did just two weeks ago. Though less dramatic, a similar change also seems true of the Regional Bank Index (RKH). No one is suggesting the credit crisis has gone away, but what has gone away is the negative reaction to most of the news. Even Citigroup's Tuesday night announcement of a \$3 billion common stock offering – more dilution please – didn't whack the stock as it might have a few weeks back. That seems a good sign for these stocks and, inasmuch as they're at the root of the mess, a good sign for the market.

At the other end of the reaction spectrum were many of the commodity stocks, most notably Oil and Gold. In one of those unintended consequences sort of things, the Fed's rate cutting to help the economy has hurt the economy. Rate cuts have meant a lower dollar, and a lower dollar has meant higher commodity prices, that is, food and gas. In the event, the perception that the Fed may be through has resulted in an overdue correction in some of the commodity trades. Other than the commodity stocks themselves, that's not a bad thing. An unexpectedly sharp decline in the price of oil could be just the excuse the market needs for a decisive move out of the recent trading range. The overall uptrend in commodities like Gold still seems to have more to go, but bull markets like bear markets have their counter trend moves.

If one wanted to take an optimistic view of the economy here, there's actually ample reason in the charts. Most dramatic, of course, is the Transportation Average which peaked before the Industrials, July versus October, and bottomed earlier, January versus March, and now is virtually back to its highs. How bad can things be? Then there are those Homebuilders which peaked in early 2006 and made some kind of low back in January. But given the background, the action in many Retailers may be the most heartening/confounding of all. With the headwinds of falling home prices/foreclosures, \$3+ gas and debt to their eyeballs, consumer spending in Q1 rose 1%, the slowest pace in 7 years. That's some valley out there to be looking over, and yet XRT Retail Index, which gives less weight to Wal Mart (58), bottomed in January and now is near the February-March peaks, another potential breakout. Again, there are rallies in every bear market but, then too, the stock market is this discounting mechanism, looking to the future rather than the past. Go figure.

Whether A low or THE low, whatever it was back there in January the ensuing rally still seems very much intact. We're inclined to think January was likely the former, an interim low, but for now you're being rewarded regardless. And that should change before a new correction begins, or the bear market continues. If not the greatest rally, particularly in terms of volume, these linear days like Thursday just keep coming along to keep things going. Before it's over, there should be signs of a loss of momentum – a rally in the averages but poor breadth and volume, for example. For now, however, that's still absent. The more important issue for now seems the apparent shift in leadership, away from the commodity trade and to the Financials and Techs like the Semiconductors.

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STOCK AVERAGE VS. AVERAGE STOCK

