SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE
EQUITIES PERSPECTIVE

May 8, 2009
DJIA: 8,410

Trade now . . . but you'll invest later. The stock market can be a humbling experience. Going into the March low the market was down seemingly day after day, a decline that looked as though it would never end. Since then it has been up pretty much day after day, a rally that would seem to never end. And yet, one could argue not all that much has changed, the "green shoots" are a pale green at best. Stabilization isn't up, there's still plenty of reason for concern, so the negative argument goes. And even if we've seen the lows in both the economy and the market, nothing goes straight up. If you have ventured in, no doubt you've been happy to take the money/profit and run. And, if it had been something like Bank of America, when you saw the stock sell down from about 12 to 8, no doubt you were pleased, happy to be out. The trouble, of course is the stock hit 15 this week. And so it goes in strong markets, bull markets. At the start, everyone trades when they should be investing. It's only at the end of bull markets that everyone figures out to stay invested.

Well, in fact, nothing does go up forever, as Thursday's selloff made clear. And while it did no more than erase Wednesday's Dow gain, it was the first time since April 14 that volume expanded into weakness. Of course, it's only the fourth time since April 14 that we've seen any weakness. By contrast Monday was a great day, with almost 6-to-1 breadth and expanding volume, the latter a rarity for a Monday. And while volume again expanded in Wednesday's rally, Tech noticeably lagged, and then weakened significantly Thursday. Tech has been a big part of the leadership and, therefore, many of these stocks were stretched to the upside. And we've also seen a bit of froth lately, with every low-priced stock seemingly having doubled in the last week. So it's certainly possible we could finally see more than two days of weakness. You would think the results of the stress tests are pretty much old news, and the employment report as well. We've long learned, however, if they want to go down, there's always something.

Overall, there's been plenty of upside momentum, and that's not going to unwind quickly. Twelve month new highs are yet to expand dramatically, but at this stage of the recovery that's expectable. However, about half of all stocks are at 30-day new highs, and that's the highest percentage since 1991. Similarly, the number of NYSE stocks above their 200 day moving average is near 50%, versus 2% in March, suggesting half of all stocks now are in medium term uptrends. It's the improvement more than the level that counts here, but the typical range in this measure is 20-to-80%. Meanwhile sentiment measures seem in a somewhat similar position. Certainly there's less bearishness, but that after rarely seen extremes. For example, the March 2009 reading was the first in 22 years where the amount of cash held in the portfolios of the American Association of Individual Investors was larger than the stock holdings. Similarly, money market cash was at record levels relative to the U.S. stock market capitalization. Like momentum, this kind of caution takes time to unwind.

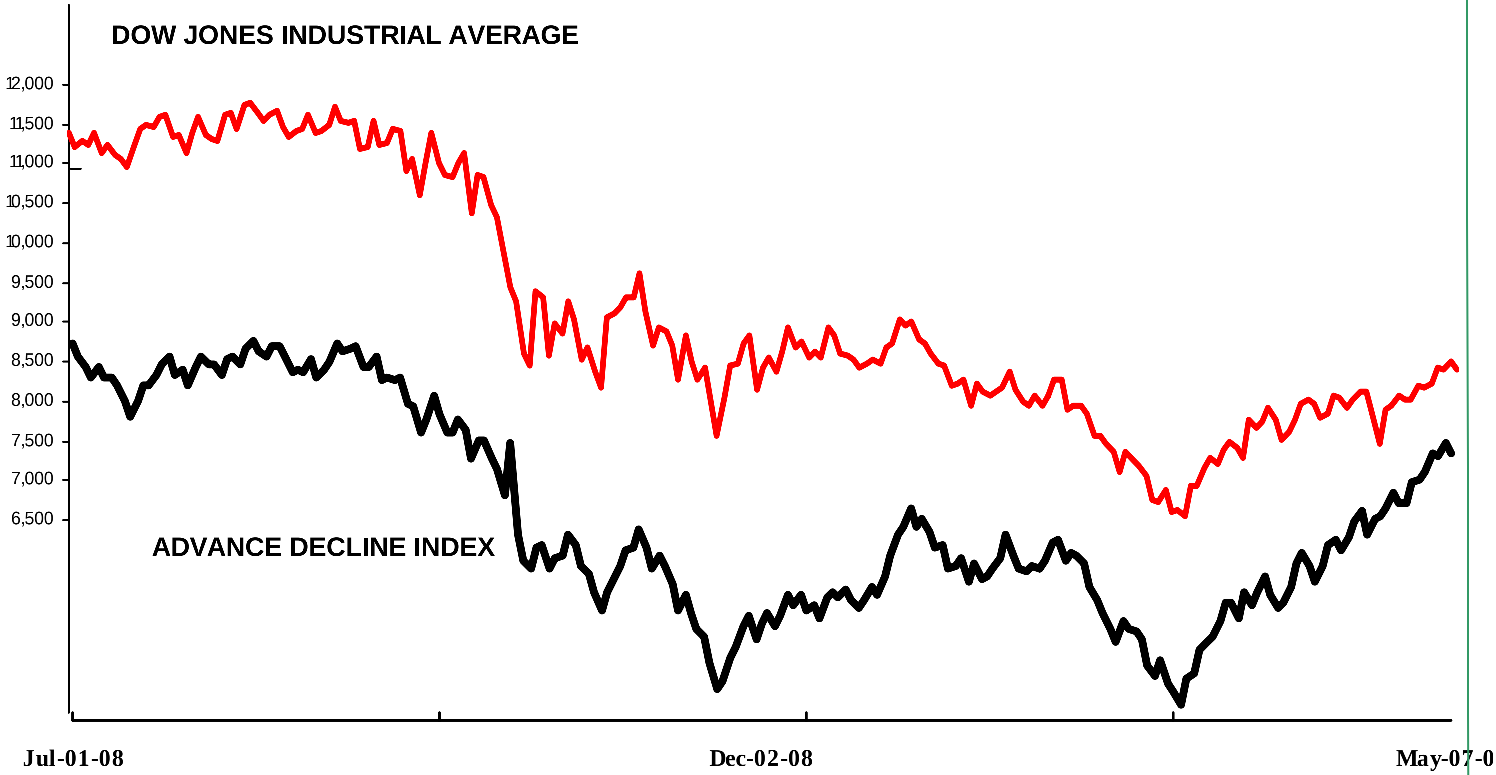
Emerging markets have been among the world's best performers, and the news out of China Monday would help to explain why. China's purchasing managers index climbed to 53.5 in April from 52.4 in March, a fifth straight gain and the second straight reading above the all important 50 level – results over 50 show growth. The news sent markets in the area soaring from 5-to-6%, and obviously helped make a great day here as well. It had been assumed that the export slowdown would hurt China's growth, but the hurt in this case apparently was a slowdown, not a downturn. While an amazing 100 million workers are engaged in the manufacture of goods for exports, in China that's only one worker in eight. Meanwhile, investment spending has been picking up since November, when the government announced its plans for fiscal stimulus. While exports seem unlikely to pick up anytime soon the stimulus, so the thinking goes, will create a demand for investment in domestic goods. The resumption in China's growth, whatever the source, does wonders for the commodity trade. And that was very much evident Monday.

The Reuters-Jeffries CRB, an index that tracks 19 raw materials markets, is back to four month highs. Perhaps of the greatest interest to most of us, oil hit its highest level in 2009. As you would expect, oil stocks responded, though oil service has been the overall better performer. And even the precious metals have improved. Gold and Silver have been correcting since February, when Gold at $1000 produced a little too much enthusiasm. But after a rally of some 40% from the November low to that peak, Gold gave up only about 13%, in retrospect an orderly and modest decline. And, as you would expect, because of the decline while equities in general have strengthened, enthusiasm for Gold has waned. This seems no more than a normal correction in Gold's overall uptrend, but the key to a clear break of the February downtrend would be a move into the low 90's on the ETF, GLD. Meanwhile, Silver has actually outperformed Gold, having already broken its downtrend.

Frank D. Gretz

140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

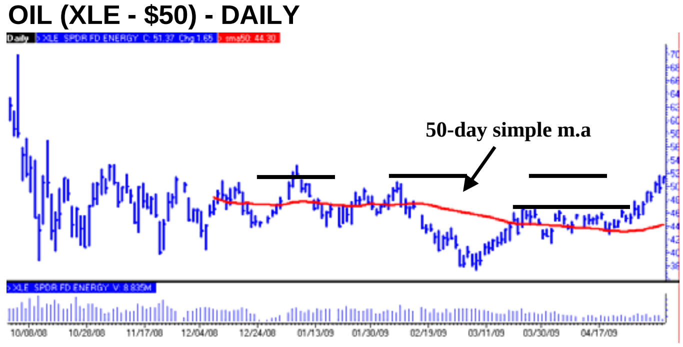
STOCK AVERAGE VS. AVERAGE STOCK



BANK OF AMERICA (BAC - $14) – DAILY

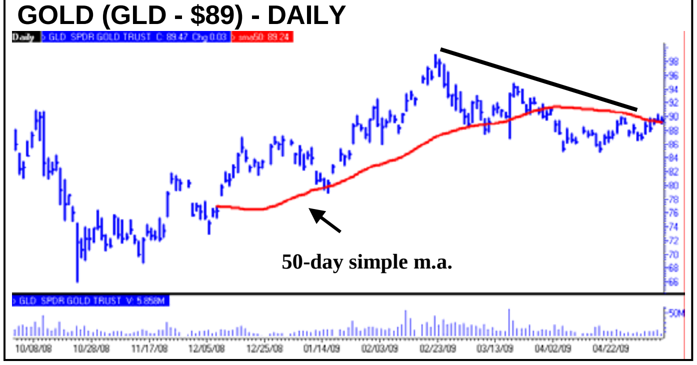
SEMICONDUCTOR (SOX - $271) – DAILY

OIL (XLE - $50) - DAILY



OIL SERVICE (OIH - $99) - DAILY

GOLD (GLD - $89) - DAILY



SILVER (SLV - $14) - DAILY