

EQUITIES PERSPECTIVE

May 29, 2009
DJIA: 8,404

Confident . . . about Thanksgiving. Tuesday's Consumer Confidence report was suppose to be better, but not that much better. The surge over the last two months is the best in the survey's history, but comes of course after the lowest level in the survey's history. Among the various parts of the report are Expectations and the Present Situation, the former asking how things will be six months out. With home prices down a record amount, GM on the verge of bankruptcy and oil back above \$60/barrel, it's no surprise the Present Situation does little to instill confidence. From a contrarian view point, that's a good thing. But the overall index rose because people think they'll be better off by November. Just why that is seems a leap of faith, and from contrarian standpoint seemingly worrisome. However, in the past when there's been this degree of difference between Expectations versus the Present Situation, those were all pretty good buy points. Since 1970, over one, three and six month periods, the market was higher by 5%, 9% and 15%, respectively.

Considering that we've gone from record low consumer confidence, it's easy to envision and even expect confidence to move higher without serious contrarian consequences. Some short term measures like the Equity-only Put/Call Ratio show a little too much enthusiasm, and mutual fund sales have picked up again. But the latter was after massive liquidation in January and February, and other record pessimistic sentiment extremes. Even if not completely symmetrical, it seems very likely there will be considerably greater belief in, and near over-enthusiasm for the rally. For now most still seem to be fighting the rally, looking for the elusive pullback to get in. Anything is possible, but we all know the market rarely accommodates the majority. Whether right or wrong it seems the market will drag most in, either because the news will get better, or because prices will continue higher making the news seem better. In any event, we expect more "believers" before we get into real trouble.

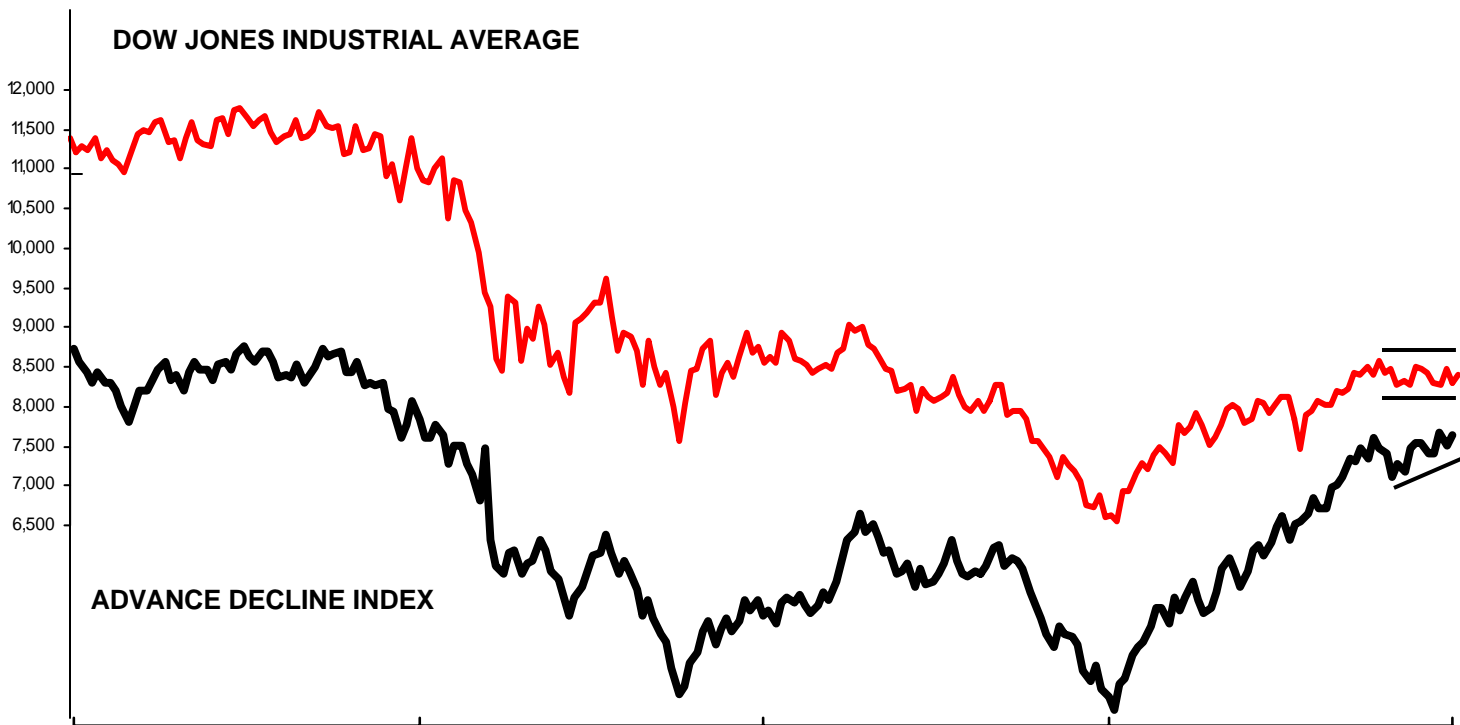
The lack of follow through to Tuesday's advance was a little disappointing, but not devastating. Aside from the out-sized Dow loss, it wasn't really so bad. After Tuesday's modest volume expansion in the rally, NY volume contracted modestly into Wednesday's decline. And while the Dow numbers for both days were pretty much a mirror image, up 195 and down 175, breadth was anything but so. There were more than 2000 net advancing issues Tuesday and only 1200 net declining issues Wednesday. Breadth always tells the tale, the market just doesn't get into much trouble when the average stock outperforms the stock averages. Thursday's action was all over the place, but all's well that ends well, to coin a phrase. Breadth was close to 2-to-1 up and volume modestly expanded. Those housing numbers Thursday morning were so bad there was ample excuse to follow-through to Wednesday's weakness, but they didn't. Rising long term rates also got on the market's nerves Wednesday afternoon, but forgot about Thursday. Ignoring bad news is the nature of markets that want to go higher.

With the sloppy action at the end of last week as well as the Wednesday weakness, it's with good reason talk of a correction has become a bit more intense. If instead we come out of this little trading range to the upside, that would make the sidelines all the more uncomfortable. Though it may seem a bit too "technical," the S&P is stalled just below its 200 day moving average, just as it previously stalled around the 50 day moving average. But there are a couple of important positives to consider. The NASDAQ, while also stalled, already is above the 200 day. More importantly, while the averages are stuck, market breadth, the Advance Decline Index, is well above it's early May high when the trading range began, and it made a new high in Thursday's rally. Similarly, the percent of NYSE stocks above their 200 day moving average reached 57% again Friday, above the 5/4 peak of 54%, and the 5/8 peak for the averages. So while the trading range remains, over this time more individual stocks have moved into medium term uptrends. All of this would seem to give an eventual upside breakout the edge.

How about that "hamburger," as we used to call it, that is, McDonald's (58). Together with Wal Mart (50) it was one of last year's best performers. This year both pretty much died, for MCD despite a strong restaurant group. But a week ago MCD came to life, gapping out of its April downtrend. While WMT is still languishing, the point is there is rotation still evolving. The stall, the trading range in the averages hasn't stopped everything. Look at the Ag stocks or Silver, for example. Perhaps more importantly, the "trading range" has meant just that, rather than weakness. Daily 12 month new lows have numbered less than 15 for a couple of weeks now. And when there is no weakness at even the weak end of the market, it's hard to argue the market is weak. The peak in new lows was August, there were fewer in November, and fewer still in March. Most stocks have discounted most of any bad news and, therefore, most stocks can still move higher.

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STOCK AVERAGE VS. AVERAGE STOCK



Jul-01-08

Dec-11-08

May-28-09

