

## EQUITIES PERSPECTIVE

June 05, 2009  
DJIA: 8,750

As GM goes . . . so goes the country? That's what they used to say, let's hope it's no longer so. Growth always changes and moves to new foundations, GM's Dow replacement, Cisco (19), offering a perfect illustration. Still you have to wonder. With the government throwing money at everything, there's finally traction if not the green shoots we hear about so often. That's great news versus last November, but there just isn't an infinite supply of money. Whether that's entirely responsible for the strength in Gold or the weakness in the dollar is hard to say, but the latter particularly isn't a good thing. China has the biggest exposure to U.S. Treasuries and therefore the dollar, and doesn't seem too happy seeing their money slip-sliding away. They say China has no place to go, but they have been making more direct investments, and they have been buying Gold. In their effort to keep the party going, the Fed has been printing money to an extent that historically has never ended well. But, that's for later.

For now, the market sees little reason for concern, and that's all that concerns us. Indeed, to look at Monday's sharp rally, a major corporation should file everyday. While volume in Monday's rally was a bit lacking, that followed last Friday's rally where volume did expand. Monday's rally managed to get the S&P above the recent trading range, and also above the 200-day moving average. Many think this important as a determinant of the market's long term trend, others think the slope or direction of the 200-day is more important. Certainly it's not a bad thing, but it's just one more thing in an ongoing uptrend. In this case the S&P had spent more than 350 days below the 200 day, second only to 1932. The latter, proved a good buying opportunity both short and long term. Other moves above the 200 day proved less spectacular but, nonetheless, positive. And, of course, moving above the 200-day takes away one more reason to sit on the sidelines – squeezing the shorts and, perhaps more importantly, the reluctant longs.

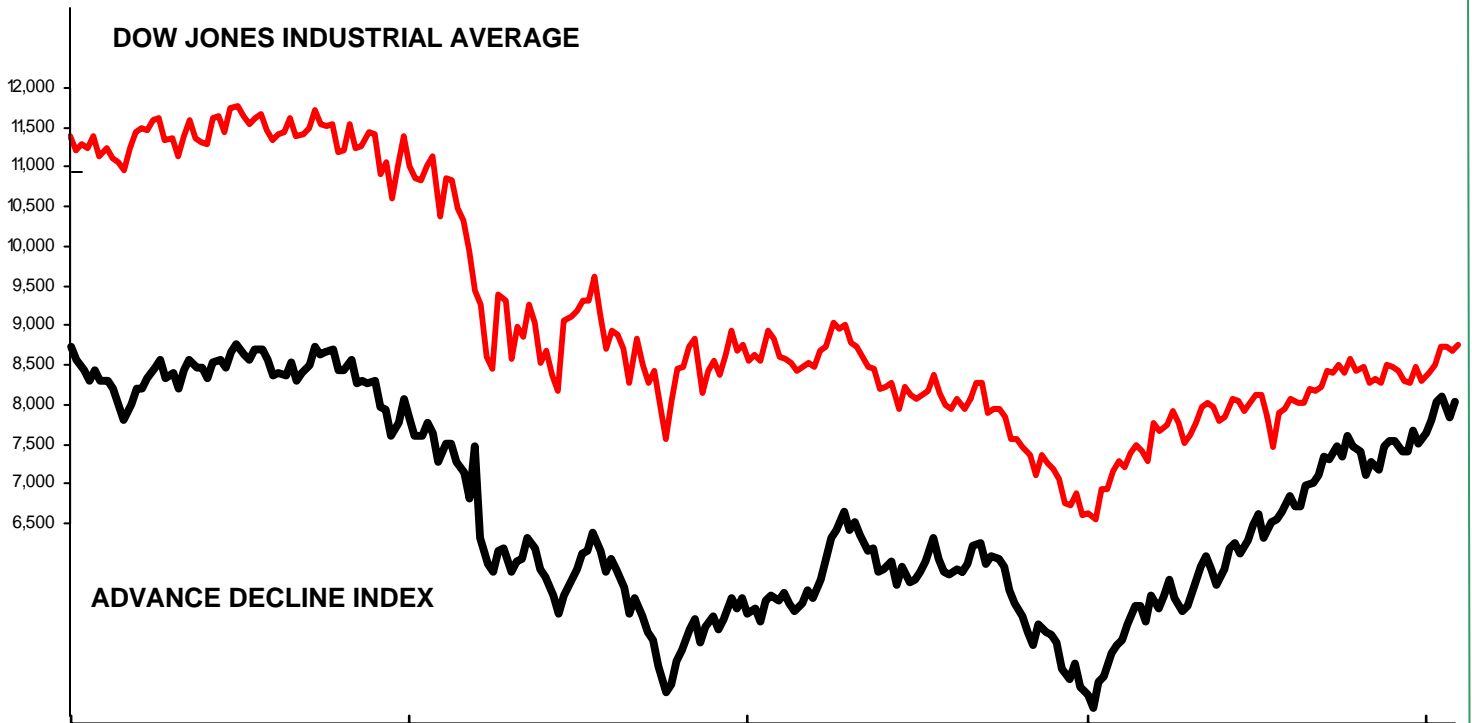
While the breakout is nice, it did finally leave the market in an "overbought" position, a term often used but not often understood. In terms of the NASDAQ 100, 90% of the components were above their 10-day moving average, and 90% were above their 50-day moving average. Such extremes are rare and do suggest the market is overbought, extended, stretched, call it what you like. And, typically, some period of weakness is expectable, hence Wednesday's selloff. But if there's going to be weakness, let it be like Wednesday's – modest with a decline in volume. Though only modestly, volume expanded in Thursday's strength, and breadth was 3.5-to-1 to the upside. That doesn't guarantee there will be no more weakness, but it seems a good sign. And so too were those 90% readings alluded to above. There's overbought, and there's that overbought. That kind of strength doesn't dissipate quickly, it's indicative of a strong market and, typically, it's followed by only a couple of days of weakness before the uptrend resumes.

There are plenty of signs that upside momentum remains intact, including one of our favorite measures, the percent of NYSE stocks above their 200 day moving average. One could argue this measure was above its range a week ago, versus Monday's breakout in the averages. At 69%, versus 57% a week ago and 49% the week before that, there's solid momentum here. As in the case of the market averages, for individual stocks the 200 day moving average serves as a useful proxy for the medium/long term trend. A typical range here is 20% to 80%, though the bear market saw a record low of 1%. Like those 90% readings for the NDX, more here is better. Readings above 80% say "overbought," but those readings take time to unwind. In the meantime, it's the improvement that's important and, that's what we continue to see.

The bull market, in which the US is the laggard, seems well intact and sustainable, our first paragraph worries aside. Rather than the "bear market rally" that many see, the bull market is based on expectations that the massive global liquidity infusion will get us out of this, and back on our way to growth again. Clearly that's not yet a reality, but the expectations are real and, therefore, the world-wide rally. And for now at least, those expectations have offset fears of inflation, weakness in bond prices notwithstanding. If or when these expectations begin to change, that will show up in the market. It will show up not so much in weakness but, more subtly in weak rallies – poor volume, poor breadth, divergences. It's not so much about the averages, it's the average stock that will begin to lag. But, sufficient unto the day is the evil thereof.

Frank D. Gretz

# STOCK AVERAGE VS. AVERAGE STOCK



Jul-01-08

Dec-15-08

Jun-03-09

