SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE
EQUITIES PERSPECTIVE

June 12, 2009
DJIA: 8,771

If it's not one thing ….it's 950. First it was the 50-day moving average, then it was the 200-day. Now we're trapped in a 30 point trading range, between 920 and 950 in the S&P. Fortunately there are again some hopeful signs as to the outcome, including a new high in market breadth and a new high in the percent of NYSE stocks above their 200-day moving average. These measures of the "average stock" typically are followed by the market averages, both up or down. One problem has been a deadly calm in terms of volume. Prices can always drift lower, but it takes volume to push them higher or, at least, higher to stay. Another reason to look for a successful outcome is simply the trend, it's up. And we're closing in on the end of the quarter without the pullback, the chance to get in, that many had been expecting. In a bull market the sideline is not a good thing. It's hard enough to outperform, it's really hard to outperform from there.

In its own almost perverse way, the market has been relentless in its advance. And that against a background, both fundamental and technical, that might have given pause to other uptrends -- the continued slide in housing, an increase in the 10-year Treasury yield by more than a full percentage point, an increase in crude prices from the $40s to $70+, and a restructuring of the auto industry that will increase the already high level of unemployment. Technically the market often has seemed to have lost momentum, and from time-to-time there's been more than a little speculation. For example, we're seeing a surge in volume on the NASDAQ compared to the NYSE. At near twice that of the NYSE, the current level of NASDAQ volume suggests there's enough froth to at least begin to become concerned. So far, however, the market has managed to ignore all the problems that have come its way. Indeed, its persistency is very unusual, and not something found in your typical bear market rally.

Yet, despite the strength, many remain leery. ISI's survey of long-only institutional equity managers shows they've become less and less bullish as the market has rallied, with the level of bullishness now at a 7 year low. That seems nothing short of remarkable. Then, too, there's plenty of reason for doubt, including those not so wonderful retail sales numbers. At 70%+ of the economy, the consumer is obviously key to any sustained recovery, but the unemployment rate, the decline in home prices and a new propensity to save makes it unclear what will get Joe Six-Pack spending again. But the market seems to know, hence the positive action in most retailers. It may well be that the retail stocks, and stocks generally, will finally prove sufficiently convincing to drag in the holdouts. What does seem clear is that they will be dragged in. There may be some signs of speculation and there may be some signs of complacency, but, just as in March when no one believed, at the top they will.

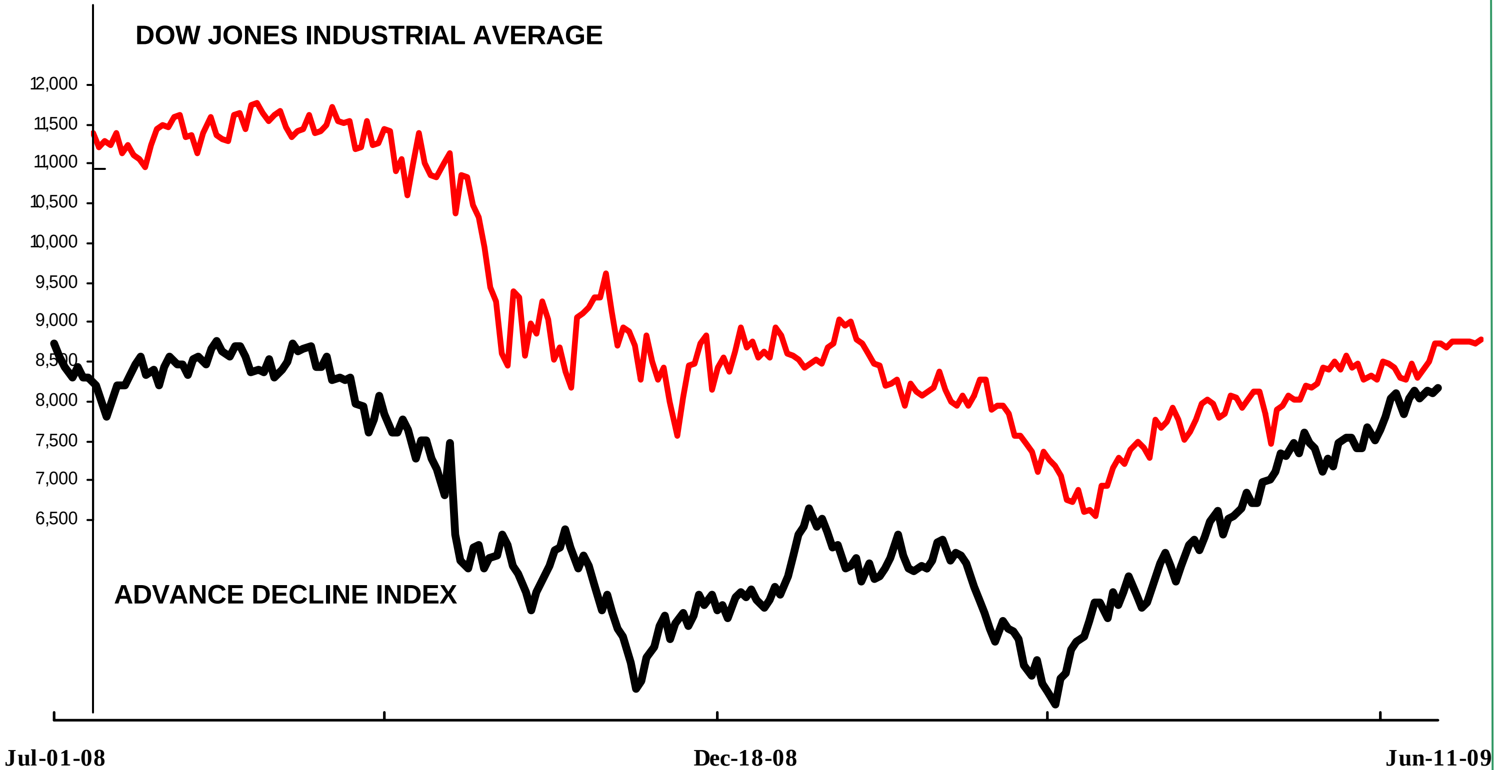
While China is not without its problems, like exports, theirs seem fewer than the rest of the world. And, eventually, that should prove helpful to the rest of the world. Helped by its massive $585 billion stimulus package, China's spending on factories, property and roads surged 33%, the most in five years. Imports have rebounded 28% in just four months, and vehicle sales have surged 67%, while we talk about "green shoots." The market there did not make a lower low in March, and now stands about 70% above its October 28 low. The NASDAQ, by comparison, is 46% above its March 9 low. Already China accounts for something like 40% of the international iron-ore trade, and its need for steel will continue pretty much forever. Even with China spending a reported 9% of its GDP on infrastructure, it will take decades to bring its roads – it took the US 35 years to finish the Interstate highway system – ports, airports, power generation and infrastructure generally, to where they would like it to be. It's little wonder that commodities seem back on track.

It would be nice to see the Banks and other big financials get back on track. These stocks led off the low – from down the most to up the most – and like the market are entitled to their consolidation. And while we're not looking for leadership here, we wouldn't like to see them continue to lag, let alone break down. Better action from the likes of JP Morgan (35) could also go a long way to resolving the S&P's own trading range problems. Whether these trading ranges are resolved up or down, though, the overall trend is up. This doesn't have the look of a bear market rally and even if it is, the market will do something wrong before it's time to go. In March there were fewer 12-month new lows than November, in November, fewer still than October. They will begin to expand again as the market begins to falter – they haven't yet. Advancing versus declining stocks will begin to lag versus the averages before important problems – the AD index is at a new high. Finally, volume will lag in the rallies showing buyers are tapped.

Frank D. Gretz

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

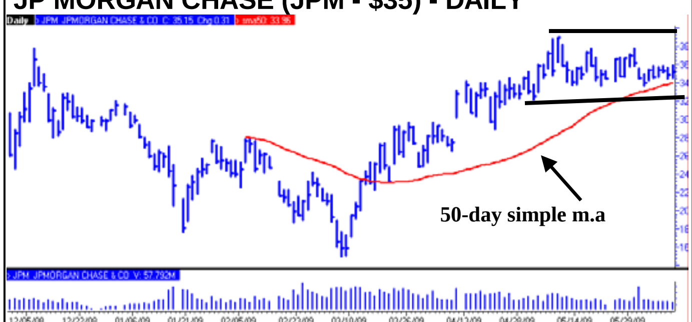
STOCK AVERAGE VS. AVERAGE STOCK



S&P 500 (SPX - $939) – DAILY

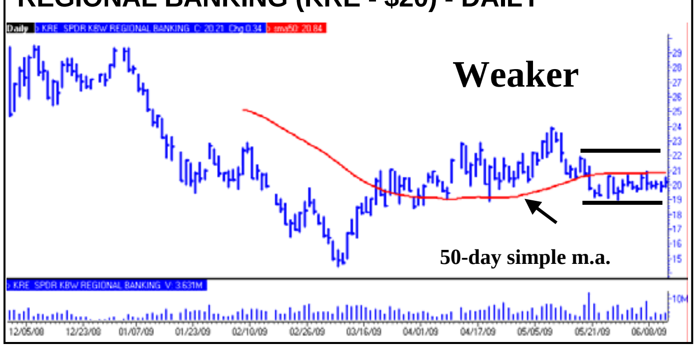
CHINA (FXI - $39) – DAILY

JP MORGAN CHASE (JPM - $35) - DAILY



UNITED STATES OIL (USO - $39) - DAILY

REGIONAL BANKING (KRE - $20) - DAILY



US NATURAL GAS (UNG - $14) - DAILY