SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

June 26, 2009
DJIA: 8,300

Oversold . . . say woof. In one of Arthur Conan Doyle's stories the great detective solved the mystery by what failed to happen, in that case a dog that didn't bark. And so it is that many times you learn as much from what fails to happen. On a short term basis the market is as oversold – stretched down – as it has been since the recovery began. That of itself is a bit of a concern, but not nearly as much should the market fail to respond. Already we've taken out the lower end of the recent 920-950 trading range, and haven't quickly reversed. And we've taken out another little support area around 905, and in this process we've moved back below the 200 day moving average. We went through March, April and May with the market set up many times to correct – overbought, poor sentiment numbers, and so on. The fact that it did not would be most unusual in a bear market rally. But now we're set up to rally. To not do so would be unusual in a new bull market.

For all of our rantings last week about the Banks, the JP Morgans (34) and Wells Fargos (23) have held together pretty well. Mind you, they're still teetering, but at least holding, and given the relatively poor overall market action, that's not so bad. These stocks are still below recent trading ranges, but not by much. If these breaks prove no more than fake-out moves, clearly that's a plus. But the ultimate plus would be reversals with big volume that takes the stocks through the upper end of the recent ranges. That kind of pattern – a false breakdown and sharp move through the whole range – is very powerful, and would suggest much higher prices. Perhaps as importantly, it would pretty much assure higher prices for the market as well, a continuation of the bull market. In the meantime, any such change in the Regionals seems very unlikely.

We're putting this out a little early this week, but not before we caught the Fed's comments. What we took away was, la-di-da or, maybe it was da-di-la. Of course it's not the comment that counts, it's the market's reaction to the comment that counts. As it happens, the market's reaction itself was a little confused. Most FOMC meeting days see higher prices, and that probability goes way up on meeting days when the market gaps higher at the opening. But not so on Wednesday. After gapping higher at the open the Dow closed down about 25 points, off the low but some 120 points off the high. That's not the best performance but, then too, that's the Dow. The Advance-Decline numbers, the average stock, showed a 2-to-1 upside margin and the NASDAQ Composite showed a 1.5% gain. Perhaps the most telling commentary was volume, which for a Fed day was extremely light. We would have to call it a disappointing day, the market had its chance to go up and again failed to do so. But while there was no barking, so to speak, there was no real selling.

There's no question there has been some deterioration in the chart patterns but, much like everything else, nothing terminal. NYSE stocks above their 200 day moving average peaked at 72% two weeks ago and now stands at 64%, following a low of 61% a couple of days ago. More than anything it has been the steepness of some declines that has been surprising, though many such declines came from extended patterns. The XME ETF, Metals & Mining, for example, has fallen almost 20% from its peak two weeks ago, no fun if you're there and yet it's only back to the 50-day moving average. Much the same is true of other areas that have led, including the Semi's. And we still find it encouraging that areas like Healthcare have improved, as well as some defensive names. It's always easy to argue that when defensive stocks rally it's just about a market that's not acting well, and often that can be true. But if you look at the unmanned chart on the back you would think it was one of the hot Chinese stocks. It's not, and it's not Clorox, but that's close.

Last week's poor action – the failure to hold support, the failure to rally in an expiration week – led to Monday's drubbing; a 90% down day. But by mid-week that seemed to leave us once again set up for a rally. While some support levels have been broken and the market's inability to rally is disturbing, we consider the situation more serious than desperate. We still expect a failed rally – poor volume and poor breadth – before important weakness. The overall trend is up, and we expect the market to make its way higher on balance through the summer. That's our opinion but, that said, we have no opinions we would die for. The area around 880 in the S&P is a support level we would take seriously – the 50 day moving average and the lower end of the May consolidation. If not cataclysmic, a break there would call into question the overall uptrend.

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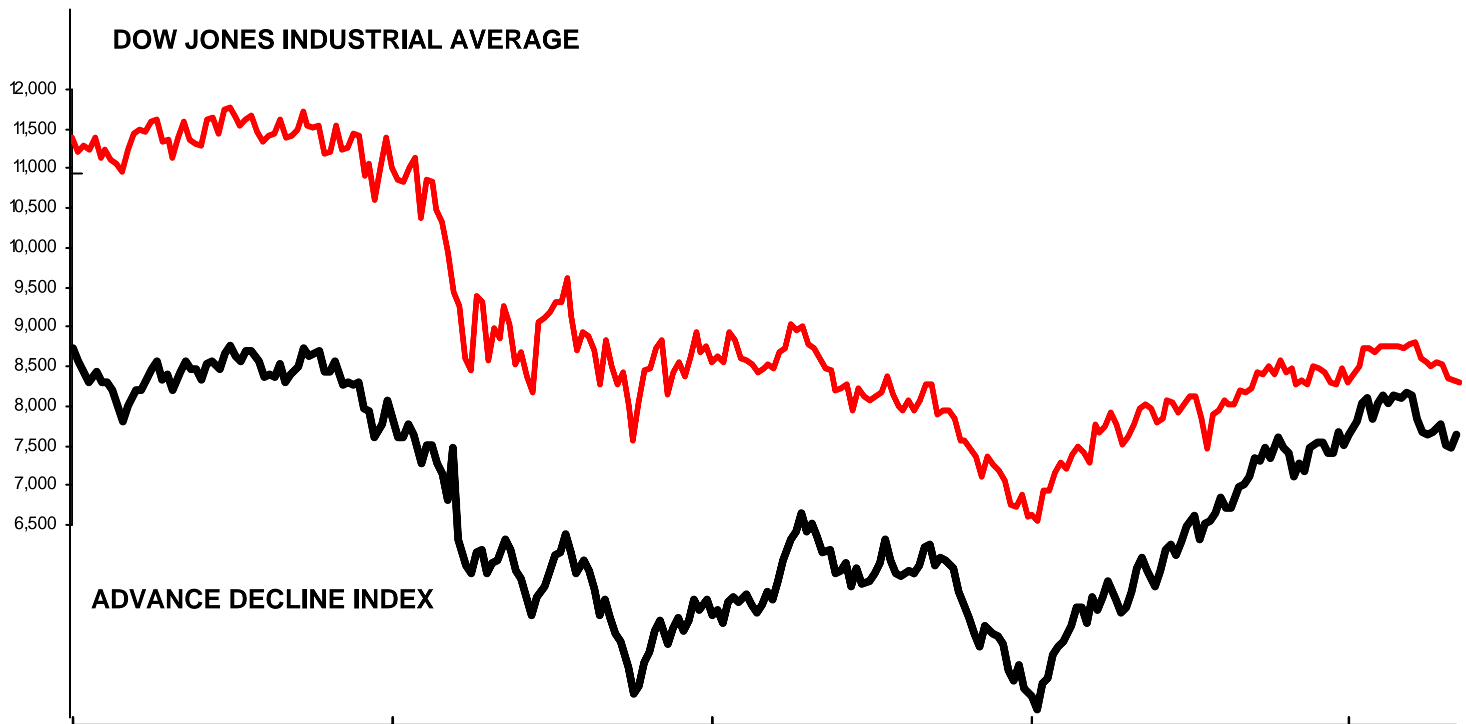
STOCK AVERAGE VS. AVERAGE STOCK



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