

EQUITIES PERSPECTIVE

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DJIA: 11,378

Did X mark the spot . . . for a good rally? Who needs Tech, who needs the stinkin' Financials, we got "Big Steel," U.S. Steel, that is. Shares of U.S. Steel rallied 14% Tuesday on the back of earnings that crushed views, and its outlook for another excellent quarter. That helped the Dow to a 267 point gain following Monday's 240 point drubbing. You gotta love it when instead of Apple (160) or Google (475) something as retro as steel can lift the market. More likely, however, it's about the market, in its attempt at a bottoming process, that's responsible for the Tues-Wednesday recovery. And, indeed, the rally in U.S. Steel didn't exactly turn that chart positive, let alone others in the group. Thursday's weakness, of course, suggests that this attempt at a bottoming process is just that, an attempt which if successful will prove a process.

The key to a rally here still seems to rest with the Financials – they got us into this mess, and all that. And the rally there from the 7/15 low suggests some sort of low is in place, at the least they've stopped going down. It will prove useful, however, to compare the recent low with that of 3/17. Both lows had initial rallies of 23%, both had minor pullbacks. As we noted last time, in March most of the gain came on the initial rally – 23% versus an overall gain of only 26%. But the March rally did stretch to 5/2. This time could be better or worse, but like March it seems important that we at least hold the low of the recent correction, around 20 in the XLF. Another seeming positive for Financials was Merrill's (26) ability to rally after selling off assets for 22 cents on the dollar, and diluting itself into oblivion. This after assuring us several times they had no more need for capital. Didn't the SEC say something about spreading false rumors?

Meanwhile, the reversal of the fortunes made this year – buy Commodities, short Financials – still seems at play. U.S. drivers logged 9.6 billion miles less this May than the same period in 2007, the biggest drop ever for this the kickoff of the summer travel season. It's not just drivers, general U.S. oil demand fell 890,000 barrels a day in May. The OPEC President called crude prices above \$120 "abnormal," and if the dollar continues to strengthen, he predicted prices could hit \$78. And so it goes, the news follows the price. From nothing but good news at the top, no way oil won't go to \$150, the news gets worse on the way down. Oil and Commodities generally have been over-loved and, therefore, over-owned, that to an extreme. One healthy aspect to the rise in crude was that during the uptrend the price stayed reasonably close to its 200 day moving average. Over the last year, however, there have been no corrections to the 200 day moving average. Also, a few weeks ago Oil's y/y increase approached 70%, the biggest spread on record except for the early 1970's. There's plenty of room for a little reversion to the mean.

Elan (20) disclosed its novel Alzheimer's drug produced mixed results explaining, perhaps, why we can't remember why we bought it. The drug could have been "Lipitor-like," generating revenues in the multi-billions per annum. But so it goes with "drug development," the news sent the shares down 40%. When it comes to Elan, however, forgetting would be a good thing because the Biotechs as a group act quite well. The buyouts of Genetech (45) and Imclone (64) of course have caught everyone's attention. And what with the lack of pipeline at the major pharmas there could be a pattern here. But this seems a move brewing for a while now. A look at the Biotech Holders ETF (BBH – 203) shows a major breakout, but that after more than two years of consolidation, typically the recipe for a major move. Granted this BBH is dominated by the big-cap shares, but there are plenty of Biotechs, and plenty have good charts.

The market, the market, the market, we all want to know where it's going. Like now, however, it often can be more profitable to know what may or may not be taking it there. Thursday proved an apt illustration in that regard, with the Dow down more than 200 points, and NASDAQ down less than 5. The aforementioned strength in the Biotechs seems at least part of the explanation there. At the same time the usual suspects, Apple (159) and Google (472), were of little help, and both have done nothing but lose ground since early May. So much for Tech leadership and, of course, so much for the Commodity leadership. The fact is, there's little leadership except for Biotech and some of the Healthcare stocks. There are the Financials, but that seems temporary or, in other words, not leadership at all. But they're holding, and for now they seem to have put in a low. And that pretty much is still our feeling about the overall market.

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