Shields & Company
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EQUITIES PERSPECTIVE

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DJIA: 9,281

Cash for clunkers . . . and it's not just cars. The market has become just a wee bit more speculative. It's not speculative like dotcom speculative, it's more low-price speculative. Then, too, after the last couple years there's a lot to choose from, low-price-wise. When you think low-price it's easy to think tech, and there's plenty to go on there. However, it's the Regional Banks and other financials, many of which are low-price, that we're thinking of. The Banks particularly were an area we had pretty much written off, mainly because of the poor action even into mid-July. Underfunded and still vulnerable to a raft of garden variety problems like construction loans and the like, the word we recall using was "toast." Fortunately, we trade the charts and not our opinions. Since failing to break in mid-July the stocks have been on a tear, up about 20% in two weeks in terms of the KRE ETF. Many of these little beauties of course have doubled or more. If this is about the fundamentals, indeed the world is a better place. This is speculation, not speculation like commodities last summer, but still speculation. On the plus side, it seems a clear sign even the weak end of the market isn't weak.

Like most things, the key here is everything in moderation. With AIG (22) up 60%, CIT (1.5) up 50% and Freddie (.80) up 30% Wednesday, things clearly have become less moderate. Then, too, it may well be that C (3.50) will have to double before it's over. The other key is context, and here things remain positive. It's not low-price stocks to the exclusion of everything else. In the seeming low-price Bank euphoria Wednesday, the big guys like Wells Fargo (28) also had an exceptional day. That makes the speculation much more palatable, at least for now. And, of course, market breadth itself has been very positive, up 5 of the last 6 days, eleven of the last 13, 15 of the last 18 – you get the picture. If speculative, the rally at least remains broad based, not the pattern that typically leads to big problems. Investor sentiment is always tricky, but here again context seems important. Bearishness was so excessive in March it only seems reasonable that will it take near euphoria before things turn down in any important way.

On a medium term basis the market is overbought – 90% of NYSE stocks are above their 200 day moving average. That's a good thing in that momentum like that takes considerable time to unwind. On a shorter term time frame the market is also overbought. That's not necessarily good, but the market consistently has ignored this as an excuse to go down. Still, we've now gone something like 20 days in the S&P without a decline of -0.5% or more, only the sixth time in the last decade the index has done so. Of course we may go 30 days, but at some point it makes sense to be looking over your shoulder, especially if it's a 5%+ decline, that is, a sharp selloff, that might be lurking. And, we thought there were a couple of negative changes in Wednesday's action. While clearly this is a bit of overanalyzing, stocks up in the premarket Wednesday either failed to open up, or quickly reversed. Also, several stocks consolidating in strong uptrends gapped down rather than extending those uptrends. And, of course, there's the low-price activity and other signs of complacency. Cisco was lower in Wednesday's after-market and Friday's employment report seems likely to disappoint, factors that could lead to a selloff, perhaps sharp, if only brief.

Banks and Financials weren't the only area to pick up this week. Commodities pushed higher, no doubt on the back of those better numbers from China. Talk about being typed, most believe the country is incapable of endogenous growth. Yet, while imports and exports are still falling, retail sales were up 15% in June and bank loans 34% - a stimulus plan that's working. Still, the move in most commodities this week is hard to explain. Oil demand has dropped 4.5-5.0% in the U.S. and 3.5% globally year to date, while Oil supplies are up 17%. Demand for natural gas has eased 2.5-3.0% year-over-year, owing to the recession and a cool summer, and inventories rose 23% from last year and are 18% higher than the five year average. If you look at the charts, however, who are you going to believe, the numbers or your eyes? Many of these stocks pushed through important resistance levels this week. It's hard to explain and, like many things in the market, it's better not to try.

For years and years we looked at GE (14) with confounded amazement. How could a company this global, this diversified, tell you on January 1 what they will earn December 31, and be right within pennies? And they did so year after year. It was amazing, maybe not amazing like Enron or Worldcom, but amazing in the same vein. Come to find out – surprise, surprise – GE tweaked the books to beat views. The company will pay a $50 million penalty to settle SEC charges that it used accounting tricks to post earnings that beat analysts' views for each quarter from 1995-2004. GE said some violations were intentional, others due to negligence (right!), and that makes which one worse? And, of course, all this happened during the reign of Jack, one of the world's most respected CEO's. He should be respected for his timing, getting out before the financial collapse which prevented the company from drawing on GE Capital to "manage earnings." During the Jack days – probably the only CEO most people could name – everyone fell in love with the stock, no doubt thanks to those "consistent" earnings. Because of that it had its own bubble back in 2000, probably the only non-dotcom stock to do so. With bubbles come the overownership that most of these stocks are still unwinding, making recovery difficult – even Cisco is 22 vs. a 2000 peak of 84. GE still has that to get over, and now the Financial bubble as well.

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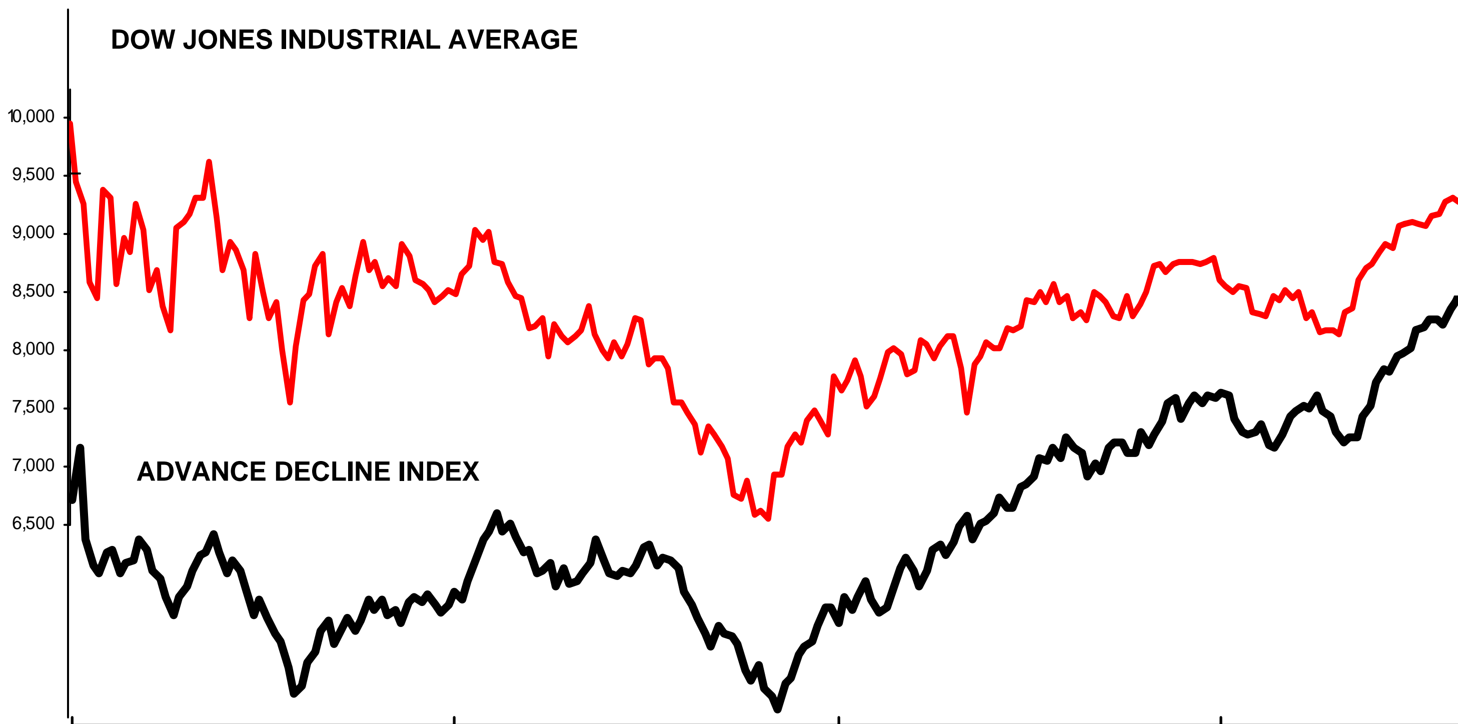
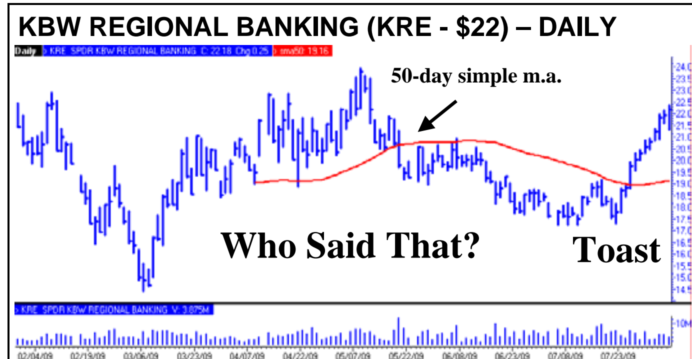
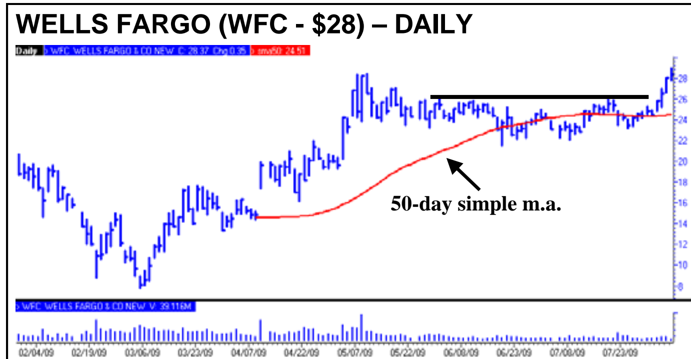
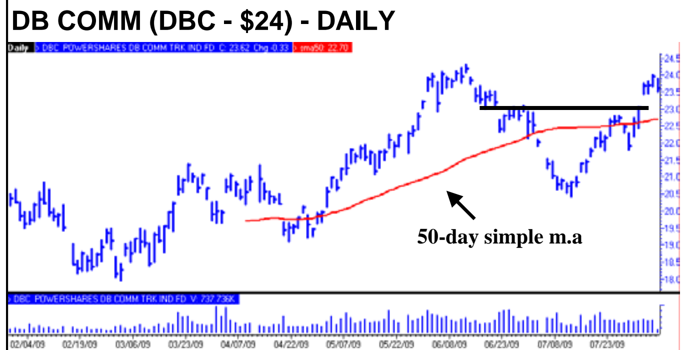
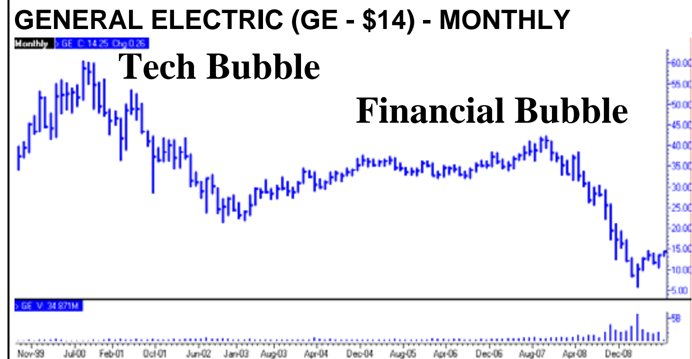

STOCK AVERAGE VS. AVERAGE STOCK
DOW JONES INDUSTRIAL AVERAGE
10,000
9,500
9,000
8,500
8,000
7,500
7,000
6,500
ADVANCE DECLINE INDEX
Oct-06-08
Mar-06-09
Aug-04

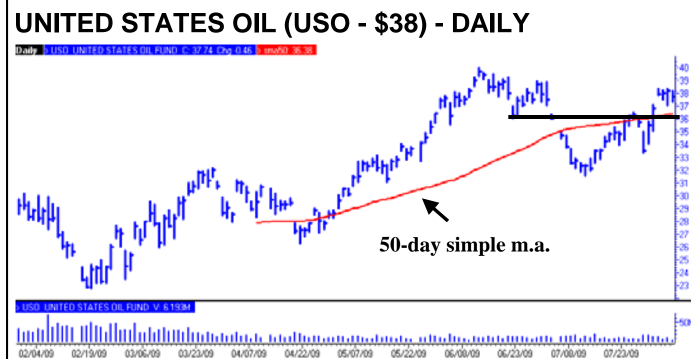

KBW REGIONAL BANKING (KRE - $22) – DAILY
50-day simple m.a.
Who Said That?
Toast


WELLS FARGO (WFC - $28) – DAILY
50-day simple m.a.

AMERICAN INT'L GROUP (AIG - $22) - DAILY
50-day simple m.a


DB COMM (DBC - $24) - DAILY
50-day simple m.a


GENERAL ELECTRIC (GE - $14) - MONTHLY
Tech Bubble
Financial Bubble


UNITED STATES OIL (USO - $38) - DAILY
50-day simple m.a.