

EQUITIES PERSPECTIVE

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Ospraie . . . making the rest of us look good. Ah, the Commodity play; it was fun while it lasted. And for Ospraie, apparently it didn't quite last long enough. Seems the hedge fund is down 38% on the year, 27% in August alone, and now has folded. What can you say, excesses are nothing new in markets, especially commodity markets. Then, too, in this age of hedge funds it seems those excesses have become even more excessive. Just as the rise in a commodity like Oil was excessive, so too you might argue is the recent weakness. Refute as you like that the rise was based on "speculation," it seems pretty clear that the recent weakness almost certainly has to do with the end of that speculation, the unwind of the commodity trade by funds like Ospraie. Between the collapse in Commodities and the rally in Financials, it has been a tough second half for trend followers like most hedge funds. They say the trend is your friend. But trends only persist until they don't. That's why God made stops.

Just as surprising as the prior strength in Commodities has been the recent weakness. And sentiment has pretty much mirrored price moves, except of course in the opposite direction. The news like that from Ospraie, and the "global slowdown" only adds to the new-found gloom, but in the case of Oil it's likely to take something like breaking \$100/barrel to really turn sentiment negative enough for a decent low. In the meantime, one positive sign for Commodities generally could be the action in Gold. Gold peaked at the end of March, well ahead of the other Commodities. Perhaps because of that, Gold has built a fair degree of trader pessimism, while the commercials, who are usually right, have turned fairly bullish. Perhaps most importantly, while Gold has weakened like the rest recently, unlike the rest it has managed to hold its 8/15 low. Just as in March, it's not unusual for Gold to lead the other Commodities, making that 8/15 low worth keeping an eye on.

For all the fretting, including our own, over the Financials, the real weakness of late has been in Tech. Looking at the Tech ETF (XLK), it had seemed encouraging that the weakness in July held the March low. However, compared to the rally from the March low, the rally from the July low was extremely poor, and now the Index is in the process of testing those lows. The Semiconductor Index already is at a new low as is, on a closing basis, the "tech-laden" NASDAQ 100. And the pattern here is rather pervasive. Dell (20) and Ciena (13) have had some bad news recently, but without bad news and already down from 750, that Google (450) chart is exactly a thing of beauty. Perhaps more disturbing than some of the Tech beta-babies is a stock like IBM (115). From the July low IBM was one of the first out of the shoot, even making a modest new high at the end of July. Since then, however, it has been nothing but down, taking out the July low.

Whatever they may say about retail sales, unemployment claims or whatever, Thursday's weakness was pretty much out of the blue news-wise – the worst kind of decline. The uptrend from the July 15 low has been tentative at best – a peak of 32% of NYSE stocks above their 200 day average, versus 49% after the March low. And in fragile uptrends, days like Thursday happen. Then, too, Tuesday's surprising reversal, from up 250 in the Dow to a close down 45, certainly was a warning of sorts. All of this following a week which couldn't be trusted, up or down, because of the volume. Aside from Tech, Thursday's weakness did a lot of damage to the market averages. Taking out 1260 in the S&P 500 and 11290 in the Dow, the August lows, pretty much end the uptrends from the July lows.

Most short term momentum measures already are as stretched to the downside as they have been all year. And there are no breadth divergences typical prior to big declines – though that was also the case following the March rally. Some benign interpretation of the employment report or, whatever, easily could trigger a rally, perhaps then producing divergences and a more clear end to the July recovery. But, as a practical matter, it seems over. The leg down in May was about the Financials which, as it happens, are holding. A leg down here seems about the global slowdown. The Semiconductor Index is at a five year low but more importantly, it's below its July low. It's weak, big-time. And when you think about Semiconductors, they're in everything. Better than any economist, and even more than the collapsing commodities complex, the Semiconductor Index is saying global slowdown, and with it likely another leg down in the markets.

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