

EQUITIES PERSPECTIVE

September 11, 2009
DJIA: 9,627

Too far too fast . . . but that was on the downside. A lot of water came out of stocks in the bear market, maybe more than anyone knew. In any event, it's beginning to look that way. The stock market, after all, is about supply and demand. When stocks become soldout, when the last seller has sold, stocks go up. You don't need a lot of buying, you can breathe on a stock and it will go up when there are no more sellers. Of course we exaggerate, but this market does have that sort of look to it. Everyone talks about too far too fast on the upside, we need growth, not just cost-cutting, and so on. Well, we all know that and the market goes up anyway. Maybe the market knows something we don't, or maybe it is just another overreaction, this time up. For now it doesn't matter, the market seems to want to go higher. The latest indication, the resolution of the recent trading range to the upside, suggesting another leg up.

Breakouts like this multi-month high in the indexes can be tricky. When coming out of trading ranges like the recent one, the first move out can be a false one, the "false breakout." They're not out unless they stay out. However, there are some encouraging signs that the recent strength will continue. Market breadth, the average stock, has led the market averages. Also, the 50 or so "good charts doing nothing" that we mentioned last time, they're now doing better, the Semiconductors being a good example. Obviously it's important that not just the averages break out, but the good charts do as well. Once again the market seems to be rolling over excuses to go down – a seasonally weak period, overbought levels and, simply put, a market that has come a long way. The last time we saw something like this, a market that had reason to go down but did not, was last July. Given how far the market has come and considering how little the market has corrected, it's hard to look for a July repeat. Still, whatever it is, it isn't bad.

Often the market says a lot by what it doesn't do. The recent trading range has been pretty much just that, a trading range for most stocks, even the weak ones. You might think that in a market that had lost momentum the weak stocks would give it up. But the vast majority did not. Proctor & Gamble (56), which together with McDonalds (55) has been the worst of the Dow stocks, managed to hold together, and at least Thursday became one of the best Dow stocks. As we've long suggested, when there's little weakness at even the weak end of the market, it's hard to argue it's a weak market. Certainly that shows up in 12 month New Lows, which are virtually nonexistent. Meanwhile, 12 month New Highs have begun to expand – 250 or so over the last few days. What seems important here as well, it's a diverse group, Metals one day, Chips the next. That too speaks to the breadth of the strength.

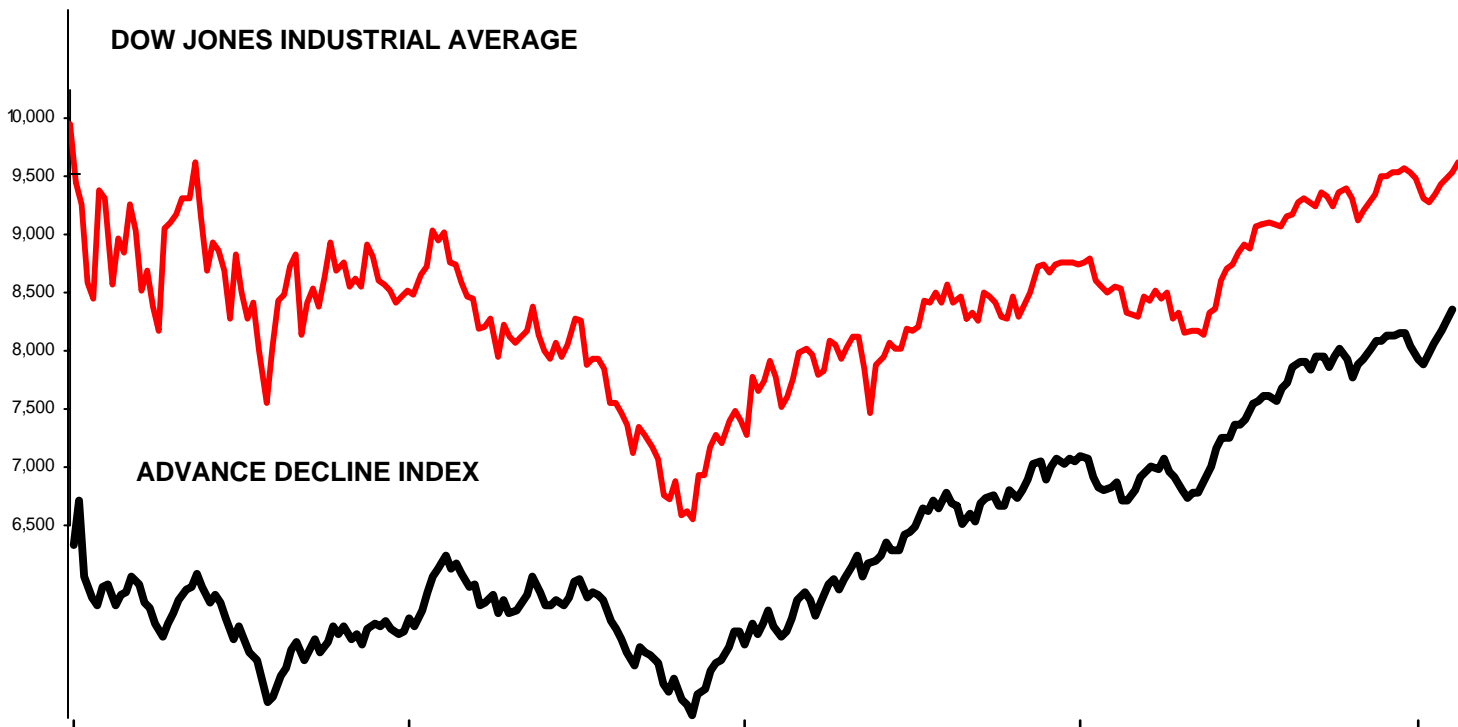
With the added perspective of another week, the breakout in Gold looks all the more impressive. We don't like wimpy breakouts, we like those that have real dynamics to them, and that's what the GLD chart seems to have. However, as we pointed out last time, and as the monthly chart clearly shows, it's the long term chart, the overall uptrend, that seems most significant. If Gold is indeed coming out of this 18 month consolidation, obviously it could go a lot higher. Oil also came to life a bit this week, though in this case it was more the stocks than the commodity. Co-incidentally, of course, all this is happening as the dollar hits new lows. One day the dollar will matter, but apparently it's not this day. And, not only has a weak dollar been good for commodity stocks, it has been good for stocks generally. The dollar has had a 78% correlation with the S&P 500 over the last year, and 90% since the low on March 9. Sell those dollars.

The market's five day run has been impressive – better than 3-to-1 up three days, 2-to-1 the other two. And Thursday especially, volume too was impressive. So, there's momentum to this rally. And the sentiment background, investor psychology, isn't so bad either. Sure almost every measure, Put-Calls, and so on, show greater, though not over the top enthusiasm. However, by now who among us doesn't know September is the worst month of the year? Most are still fighting the rally – the whole too far, too fast thing. Our guess, and at this point it's little more than that, a rally here will push things over the top by October, another not so wonderful month. And, not to rain on the parade, we're now past the six month mark for the rally. History suggests whether a bull or bear market rally, the big gains occur early. Though the gain in these six months have been the best since 1933, we doubt this market will prove the exception to the historical norm.

Frank D. Gretz

STOCK AVERAGE VS. AVERAGE STOCK

DOW JONES INDUSTRIAL AVERAGE



Oct-06-08

Mar-25-09

Sep-10-0

