

EQUITIES PERSPECTIVE

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DJIA: 9,707

When things go wrong . . . don't go with them. That sage advice sounds a lot like Keynes. Instead, it's that other famed economist, Elvis Presley. And as you no doubt recall, he also admonished "don't be cruel," clearly a reference to Wednesday afternoon. The Fed seemingly gave traders everything they wanted, and the initial move was up. Indeed, the S&P moved to a new multi-month high, but then closed lower. Oh well, you might say, but Wednesday's setback resulted in what we technicians call a Key Reversal Day – a new high, in this case a six month high, a close below the prior day's low, and an increase in volume. This last happened October 11, 2007, right at the top. But lest you fret, these reversals are not always so ominous. Typically it did take a while for the averages to regain their highs but, with the above exception, losses were not that severe. A lot also depended on the days immediately following the reversal. A downside follow-through in the next couple of days meant a longer recovery period.

One of the smarter guys you see on TV often likens the current market to that of 1987. The weak dollar is a common thread, the seemingly incessant strength another. But that's it. Technically this is nothing like 1987. In '87 most stocks peaked in May, the Crash of course was October. During the interim the averages moved higher leaving a series of divergences versus market breadth, that is, the average stock. In '87 NYSE stocks above their 200 day moving average reached 80% in May before dropping back below 60%. A subsequent rally fell short of the 80% level, another divergence. At present, both market breadth and stocks above their 200 day average reached new highs just this week – no divergence. To look like '87, to put in a divergence let alone a pattern of divergences, will take time. You need first to see weakness, and then a weak rally or a series of weak rallies. Sufficient unto the day, and all that.

If not a significant decline, it doesn't mean we couldn't see a sharp one. In what was the shortest "bear market" ever, even China recently declined 20%, and now is back to the highs. After all, the rally is stretched – 50% is about all you get in a recovery, and the S&P is 20% above its 200 day moving average, again about as good as it gets. And things are just a wee bit frothy in terms of low price stocks – you have to be pretty complacent/giddy to be buying some of these names. For most Wednesday afternoon's selloff came as a surprise, another sign of complacency. How soon they forget, "sell on the news," especially when they're up 50% and so on. That said, the market has been amazing in rolling over a raft of seeming problems, situations where you might expect weakness. Now we have another of those situations. Weakness Thursday wasn't the best sign, making the next couple of days important.

A weak dollar has meant strong commodities. However, the real correlation is between a weak dollar and strong stocks in general. The dollar ETF chart is an overlay of the S&P, inversely. Not surprisingly, dollar sentiment has become a bit overly negative, so the dollar could become another problem. Moreover, at some point weakness could become a bad thing, as is too much of anything. One area dollar weakness hasn't helped is Ag commodities and that, apparently, has stymied stocks like Potash (90) and Monsanto (77). However, if for every loser there's a winner, in this case that would be a number of Food stocks. Aside from lower raw material costs, as multinationals these also are weak dollar beneficiaries. In the first half of '07 stocks like Potash were the hot stocks, now its stocks like General Mills (63).

Markets like this are easy to distrust. There's the whole question about the viability of the recovery – cost cutting versus revenue growth. And there's the issue of "too far too fast." No one wants to be buying at the top, or get caught riding them down again. Nevertheless, human nature is what it is, someone will buy at the top, and many will ride them down, when they go down. In part that's because there's money to be made in this kind of market, and that's often a bigger motivation than fear. It was someone like Keynes who saw the Crash coming in '29 and sold everything, but then couldn't stand it and got back in. The crowd, the comfort of numbers, is another important motivator. If you stand on a corner and look up for a while, you'll draw a crowd who will do the same. We're all looking at a financial crisis that seems over, an economy that seems to be recovering, and a market that's up more than 50% and seems unstoppable. Against a background that didn't look all that different, wonder what they were thinking back in April 1930.

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