

EQUITIES PERSPECTIVE

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DJIA: 10,006

Stanley works . . . and so too did Black & Decker and Burlington Northern. Stanley Works (49) and Black & Decker (61) saw fit to finally join up, and Warren “added” to his position in Burlington (97); he bought the other 80%. He spoke too of the move as an “all in bet on the economy,” and a “long term bet.” The latter seems noteworthy, in that Warren’s idea of long term likely differs from that of most of us. The news did wonders for the stocks but, as so often has been true of late, not so much for stocks generally. And while everything that runs on a track rallied, as though they’re all takeovers, the Transportation Average still has problems. After barely confirming the new high in the Industrials a few weeks ago, a 10% decline took the Transports below the October low, and down to the August lows. And, despite the good news, the Transports have retraced only about 50% of their drop. A “weak rally,” at least so far.

Somewhat like the Transports is market breadth, the Advance Decline Index. Like the Transports the AD Index had moved below the early October low, so it too has been weak relative to the Dow. But that certainly wasn’t the case in terms of the A-D’s in Thursday’s rally – there were almost 2000 net advancing issues. The extent of the weakness in breadth has been such that while the Dow is less than 100 points from a new high at 10092, the Advance Decline Index is only a third of the way back to its high, some 5700 net issues away. We don’t want to get ahead of things here, and certainly Thursday shows that anything can happen. But a new high in the Dow, absent a confirming new high in the Advance Decline Index, is the kind of “weak rally” we’ve alluded to, the precursor of bigger problems. And, it’s not just breadth. The Russell 2000, a measure of mid-cap stocks, has been weaker still. The market, in effect, has been much weaker than the Dow and S&P suggest. Unless corrected, good things won’t come of this kind of pattern.

Over this last economic cycle, the stock market has more than validated its forecasting prowess. And after the 60%+ run, the recent weakness hardly seems reason for economic concern. The Semiconductor Index, however, shows a bit different picture. While the overall uptrend is pretty much intact, the SOX has taken out the early October low, and that after failing to move decisively above the mid-October high. All this, as it happens, while things would seem rosy. According to the Semiconductor Industry Association, global semiconductor sales in Q3 were up 20% versus Q2, as demand for PCs and cell phones drove the sequential uptick. But, like the economic recovery itself, the Semi news is old news. The news the Sox could be forecasting could be much different. And while charts in the group vary, Intel (19) in the last few weeks has gone from first to worst, which seems an important change. It’s easy not to make too much of the Semiconductors, even Lawrence Welk. But keep in mind the SOX made its low last November, its March low was some 30% higher. So when it comes to forecasting, the Semi’s have done an even better job than “the market.”

Just what Thursday’s rally was all about is hard to say. A good weekly employment number before THE employment number? An upbeat report from Cisco (24), greeted by a whopping 65 cent rally in the stock? But it’s not just Thursday. Going back to the 8-to-1 decline day a week ago Wednesday, if the market didn’t close at 4PM it looked as though they could have gone to nothing. But, Thursday they were up out of the gate, closed up 200, and looked as though they could have been up another 200 were it not for that 4PM thing. Friday, the next day, it was down from the start, and down 250 by the close. This week they reversed down on Monday despite the good GDP number, but held together on takeover Tuesday. They got everything they wanted from the Fed Wednesday, gave up the entire big gain, only to rally even bigger on Thursday. We don’t remember seeing this kind of day-to-day disconnect or, as a survival reflex maybe we’ve repressed it. Clearly too much attention to the day-to-day has not proven useful.

If the day-to-day action has become a nightmare of confusion, it’s important to keep in mind that the overall background still shows considerable deterioration. With the Dow in close proximity to its high, and having learned that 100 and 200 point declines are one-day events, it’s easy to be complacent. This seems anything but the time to do so. We like to think, or at least pretend, we’re open-minded about the upside, but there’s enough damage that the onus really is on the buyers. As we’ve said the last couple of times, we at least would like to see a couple of good upside volume days to feel more comfortable. During this correction the market has ignored many opportunities to rally, good earnings, the Burlington bet on America takeover, the Fed statement, and so on. A good sign might be to see the market actually rally on good news or, hold or rally on not so good news; like not so good news out of the employment report. Whether that news in fact is good or bad, keep in mind it’s only what the market does with it that counts.

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STOCK AVERAGE VS. AVERAGE STOCK

