

## EQUITIES PERSPECTIVE

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Get around, get around, they get around . . . to everything. That's the way it typically goes when divergences get started. When markets start to narrow, when fewer and fewer stocks participate, it continues until the weakness gets to everything. The strongest, by definition, are the last to go. And because those strongest are typically big, with a big impact on the averages, the averages are the last to go. That's certainly been the case this time, particularly when it comes to the NAZ. Thanks to the likes of Apple (175), Google (694) and Research In Motion (125), the NASDAQ Composite is only some six days off a multi-year high. Of course, that hardly tells the story. Before the Wednesday-Thursday weakness, in what was another good day for all the markets on Tuesday, daily New Lows on the NASDAQ numbered 250 compared to only 90 New Highs. That's pretty weak, that's pretty thin. While the NASDAQ average is a few days off a multi-year high, the average NASDAQ stock, as measured by the Advance Decline Index, trades at multi-year lows. Such divergences don't last, eventually the weak drag down the strong.

That process, the weak dragging down the strong, seemed to get going in earnest on Thursday. The big three alluded to above all had their worst day in some time with Cisco (30) no more than an excuse. To be fair, however, they have been picking off the strong stocks for a few weeks now, Amazon (83) and Croc's (30) seemingly noteworthy there. And if indeed they do "get to everything" as we've suggested, the commodity stocks, oil and gold, should prove no exception. These benefit from dollar weakness, an observation apparently now embraced by millions. Like a \$1000 Google, the commodity trade is a crowded one. Meanwhile, there's little relief in the Financials, now trading below their August lows. This idea of getting to everything does have its silver lining of sorts. It won't be over until they do in fact get to everything but, at least in doing so the end should be in sight. When even the sacred ones give it up, the fear/panic makes a low.

The song says, we don't give a damn about a greenback dollar. But apparently that's not so if you're Chinese. The dollar dived to a record low versus the euro Wednesday after Chinese officials suggested Beijing would shift more of its \$1.4 trillion hoard of foreign currency reserves away from dollar-based assets. Such threats are not new and such a move could have negative repercussions for their own economy. Be that as it may, the news roiled financial markets, as they're wont to say, seemingly another indication that bad markets beget their own bad news. While long term dollar weakness seems a function of the nation's indebtedness to the rest of the world, in the short run it seems a function of the Fed. Ever mindful that more people own homes than passports, for better or worse the Fed has its priorities, a strong or stable dollar not being at the top of the list. We can and have lived with dollar weakness, but this too seems another "background" risk. Orderly weakness is one thing, sharper weakness could give new meaning to the term "roil." In the meantime, there are those unintended consequences. The cuts actually have contributed to the surge in oil, which will make homes more costly to heat and more expensive to drive to. And, the action in homebuilding and financial stocks says the rate cuts haven't helped.

GM, what we've termed a bellwether for healthcare, has run into a little problem. The problem is that they still make cars. And, let's see, with gas at \$3 and climbing, home prices/foreclosures climbing, and money harder to come by, it's not too hard to see why the car business isn't the best. Of course, just who this comes as a surprise to is hard to say. But the fact is, for a wonderful 31 days there it simply didn't matter. From a low of 24 on September 10 GM (33) virtually soared to a peak of 43 on October 12. Who said solid fundamentals don't move markets? Obviously there's only one "fundamental" that moves markets, and that's supply and demand. And for a month there, GM had it going its way. In retrospect one might say, what was the market thinking – they sell cars or, more accurately, they're in the car business. In the end it seems just another illustration that in the stock market things change, perceptions change and the market always is on its own schedule. While GM is no longer the "bellwether" it once was, it does seem a bellwether for the many stocks whose rally seems over.

The S&P has taken out the support of the late October lows – a lower high and a lower low, that at least is a short term downtrend. The S&P has dropped below its 200 day moving average, that average being a pretty good proxy for the medium term trend. Of course, all of this has happened before and, best we can tell, the world didn't come to an end. And as Thursday's afternoon rally once again proved, this market doesn't give up easily. Still, breaking support levels, dropping below the 200 day, the Financials below the August lows, smacking the leadership, these changes shouldn't be taken lightly. Not all such changes start big downtrends, but big downtrends don't start without such changes. And, what may be different this time is simply the background against which these changes are occurring. The background in terms of divergences has reached a bit of an extreme.

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