SHIELDS & COMPANY
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EQUITIES PERSPECTIVE

November 14, 2008
DJIA: 8,835

As GM goes . . . so goes Google? GM used to be a barometer for the economy, then it became a mortgage company that sold cars – remember those annoying Ditech commercials? Now it might be more accurate to say they're an HMO that rarely sells cars. The GM situation is a sad but familiar one – at its end Bethlehem Steel had pension liabilities for 130,000 while employing 13,000. Sadly, there are car companies that do well, they just don't happen to be Chrysler, Ford and GM. Back in the 20's there were over 100 car companies, and they went the way of the dot-coms after 2000. But now, it just may be time for things to come full-circle. Meanwhile, a better barometer for the economy, even the global economy, could be Google (287). The stock has been more than cut in half, though obviously a lot of stocks are weak. However, while plenty of stocks are holding, Google remains weak.

Sentiment numbers certainly show enough pessimism for a rally – as they have, admittedly, for some time. But you don't need numbers to understand the feeling is bleak. The news of course is bleak, from a policy standpoint nothing seems to work. As importantly, perhaps, nothing you buy seems to work. If Citigroup (9.4) looked like a deal at 30 and then 20 – how low can it go – it's now under 10. Warren Buffet bought into Goldman Sachs north of 100 and it's now 70. Despite what seemed cheap three months or even one month ago, buying hasn't been rewarding. It reminds us a bit of late in the summer of '74, following a bear market that began in January '73. The feeling then was if they rally, so what, they're not going anywhere. In this period where nothing seems to work, or work more than a day or two, the feeling seems similar. In '74, of course, that feeling set the stage for the end of the decline.

There remains the question of whether the Financial crisis is easing. After hopeful signs following the mid-July low, the likes of Citigroup and Bank of America (17) have moved to new lows. And now we find that AIG (2) needs about twice its original bailout and, apparently, American Express (21) left home without capital. The Financial ETF, the XLF, made a new low, not in keeping with "the worst is over." On top of that, equities have come to understand the harsh reality of a global recession. And the key word here may be "global." The U.S. was the first central bank to cut rates fourteen months ago, while foreign central banks have only just begun. In the last few years almost 40% of S&P profits have been derived from abroad, meaning global matters. But if there are relative losers there are relative winners, namely domestic companies. Perhaps most importantly, we should lead out, just as we led in.

As dismal as things have seemed, as weak as the market has seemed, it's almost surprising to realize the Dow and S&P have held the October lows. Thursday obviously was close, with the S&P actually making a new intraday low but, they held. Not that the lows necessarily are a matter of life and death, but breaking those lows could have, and we stress could have, started a new acceleration down. As it happens, they did more than hold. After a multiple-swing day, which we always like to see on reversal days, we closed well – up 550 after being down 300, a 10% range. So, in retrospect, what we've simply done is again test the lows, though it has been anything but simple. As good as Thursday was, what's needed now is more of the same.

In recent weeks we've compared this market to 1929, 1962 and 1987. While no two markets are ever the same, the common thread is that like the October 10 low, those markets also had capitulation lows. In 1929 and 1962 the tests that followed the capitulation lows were lower by something like 13% and 7%, respectively. And following those tests the market moved pretty consistently higher. In the present case the test(s) has held the capitulation low of October 10 but, clearly it has been a struggle. That makes this look much more like 1987, a market that went nowhere in November and December, and only finally got going in mid-January. That was a process, and this seems likely to continue to be so, despite Thursday's impressive reversal and the likelihood the worst is over.

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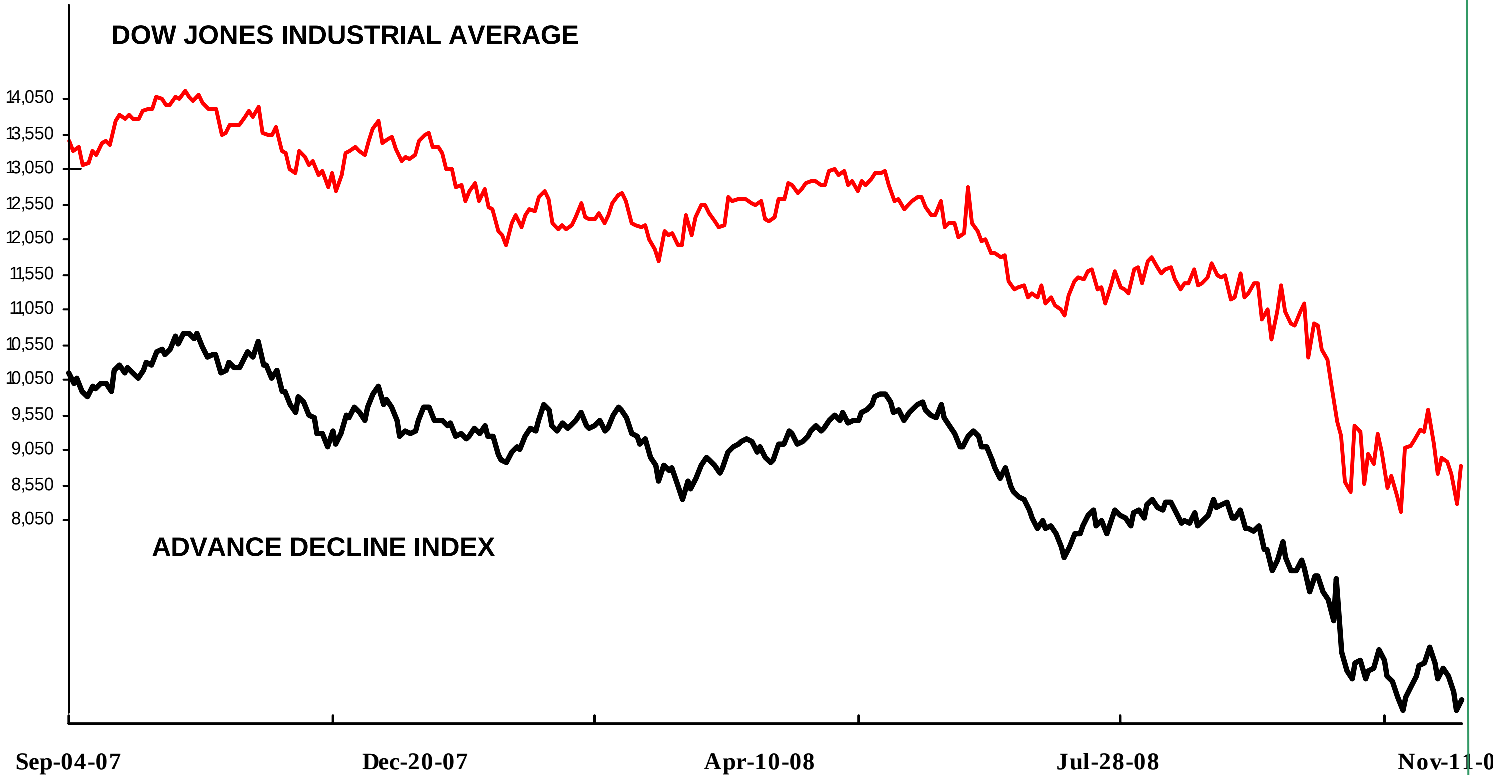
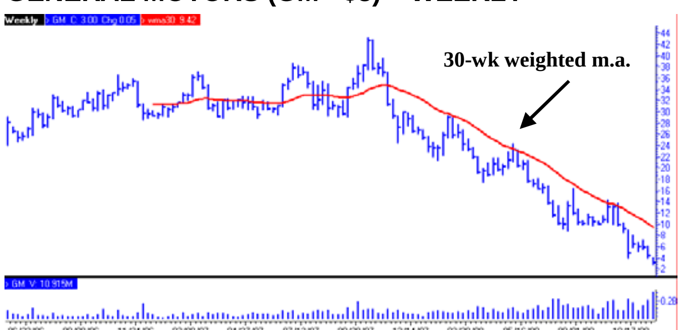
STOCK AVERAGE VS. AVERAGE STOCK

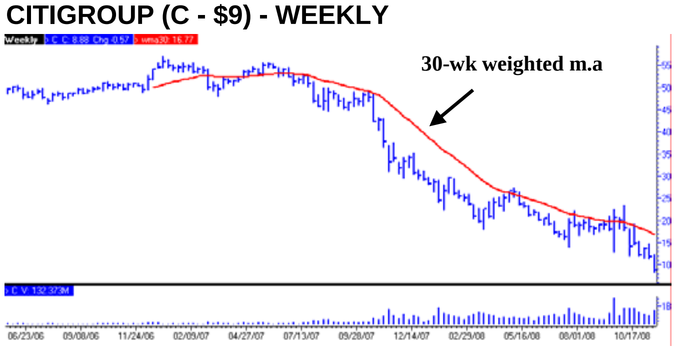


GENERAL MOTORS (GM - $3) – WEEKLY



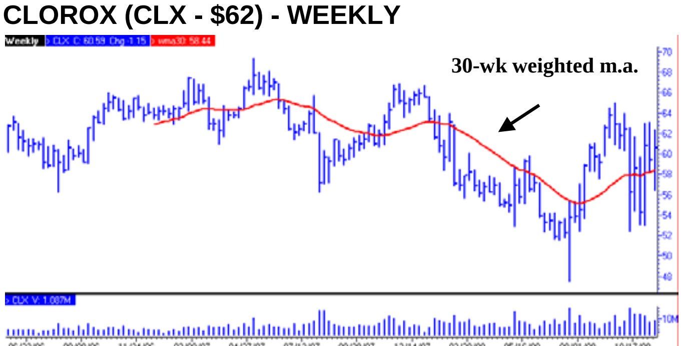
GOOGLE (GOOG - $312) – WEEKLY

CITIGROUP (C - $9) - WEEKLY



GOLDMAN SACHS (GS - $70) - WEEKLY

CLOROX (CLX - $62) - WEEKLY



VERIZON (VZ - $31) - WEEKLY