SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

November 19, 2009
DJIA: 10,426

Meredith Whitney is more bearish than anytime since last September . . . girls. Or should we all be more in touch with our feminine side? After all, it was Ms. Whitney who pretty much single handedly called the Citi (3) collapse, and financial panic that followed. Like then her view now isn't exactly mainstream – "there is no fundamental rooting as to why stocks are up, particularly in the consumer space." That seems the door that most would rather not look behind, the proverbial can of tuna that's just for trading, not for opening. If not sound fundamental footing, and who knows, what the market does have going for it is that magical thing called momentum – black box, dark pool driven, whatever. It's that good old momentum that gave us the dot.coms, $180 oil, the housing bubble, and the like. There's little new under the stock market sun. Big momentum takes time to unwind, this market is proving no exception. At least in some ways, however, the unwind seems to have begun, and a little caution warranted.

Ms. Whitney hasn't been alone in being ahead of the proverbial market curve, Goldman (172) the stock did a pretty good job as well. GS put in its low in late November 2008, followed by a higher low in January and a still higher low in March, when the market finally bottomed. The Semi's also made lows in November, so it is of some interest that both now are lagging. Perhaps predictive, or perhaps just part of the recent divergent action, which itself proves predictive in time – the averages eventually follow the average stock, that is, market breadth. Market breadth is yet to confirm the new high in the Dow, and the same is true of the Russell 2000. But while these divergences are in place, the market isn't exactly "diverging." There's a breadth divergence but net advancing issues of more than 1900 Monday isn't a market, at least for the day, that was out of sync. Tuesday, though, saw the Dow up 30 with 300 net declining issues. The numbers obviously aren't big, and it's only one day, but that's diverging, that's "the weak rally." Then, of course, there's volume. To our thinking any rally with this kind of volume is a weak rally.

The latest Consumer Confidence numbers showed a bit less of it than had been expected. One of the more striking aspects of the poll was that only one in ten consumers reported an increase in income, the fewest stretching back to 1946. In that sense, it's almost surprising that poor October retail sales were surprising. Several Retailers recently issued a soft outlook for the key holiday quarter, for Target (45) that resulted in a sharp selloff on the highest volume in months. Retailers always seem to downplay holiday expectations, but this time they've actually put some money on it. In the last six months sector insiders have dumped 16 million of their own shares, nine times as many as they sold in the spring. Of course the stocks have had a good run, so it could be profit-taking, could be memories of the Christmas just past. While the charts are almost surprisingly varied, holding around this 48 area would make Target merrier. Even more merry, a good Q4 stock market correlates very well with holiday sales.

Speaking of Retail, how about that Wal Mart (54). Watching Jell-O set, alphabetizing the spice rack, Wal Mart, those often seem to go together. The latter is not so much about the year long 8 point trading range, it's more about the multi-year 20 point trading range. For Wal Mart, however, trading ranges are nothing new, interrupted from time-to-time by dramatic uptrends. For example, prior to the current trading range which began around 2000, in three years the stock ran from about 10 to 70. That rally began out of another multi-year trading range, 1993-97, which followed another big run-up in the early 90's. Stocks don't go straight up or straight down, they spend a lot of time doing nothing, consolidating. Prices get ahead of the fundamentals, and vice versa. And even good companies don't always get the fundamentals right, though good companies always eventually get them right. And good companies aren't always loved, there being no better example than WMT. Even that may be changing, however, together with what seems a very positive change within the trading range.

With the Dow and now the S&P at new highs, it's easy to feel complacent. If CNBC guests are any guide, everyone looks for the market to hold up or go up into year end since, after all, tis the season. The market just doesn't go down this time of year, they say. Actually, the period between Thanksgiving and Christmas isn't as positive as you might think, with the market up about 65% of the time. And there were a couple of unpleasant periods, like a 10% decline in 1980. So, with seasonality having not worked all year, best not to be too complacent just because it's the holidays. Were the market to drop 10%, against the current background you couldn't exactly call it a surprise. That's not a prediction, and after a decent day like Monday it seems all the more unlikely. However, even a drop below S&P 1100 would make it more likely, a drop below 1085 would make it a lot more likely. Then you might notice the S&P has retraced 50% of the bear market decline, and is smack dab at the downtrend line from the October 07 peak. Not good to be too complacent.

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STOCK AVERAGE VS. AVERAGE STOCK

DOW JONES INDUSTRIAL AVERAGE

10,000
9,500
9,000
8,500
8,000
7,500
7,000
6,500

ADVANCE DECLINE INDEX

Dec-01-08 Mar-30-09 Jul-24-0 Nov-18-0

GOLDMAN SACHS (GS - $177) – WEEKLY

30-wk weighted m.a.

SEMICONDUCTOR INDEX (SOX - $322) – WEEKLY

30-wk weighted m.a.

S&P 500 (SPX - $1110) - MONTHLY

50%

TARGET (TGT - $48) - DAILY

50-day simple m.a

WAL MART (WMT - $54) - MONTHLY

WAL MART (WMT - $54) - MONTHLY

30-wk weighted m.a.