

EQUITIES PERSPECTIVE

November 21, 2008
DJIA: 7,552

TTARP . . . the troubled, Troubled Asset Relief Program. We have to admire Paulson for his Keynes-like approach to the TARP. As the famed economist once said, “when things change, I change my mind.” One thing that hasn’t changed is the financial crisis, it’s still there, TARP or no TARP. What has changed, and not in a good way, is the action in most financial stocks. While we never bought into the idea that the financial crisis was over, we did believe that back in July it had been discounted – the Financial stocks had put in sustainable lows. Obviously that’s not the case – the Financial ETF (XLF), the Regional Bank ETF (RKH) and even JPMorgan Chase (25) are at decisive new lows. Many of these stocks are so stretched they’re likely to rally sharply. Still, it’s clear the market itself, and that’s the key, is yet to turn the page on the financial mess. Then there’s the matter of the global slowdown. And, there, new lows in most commodity stocks suggests that’s yet to be discounted as well.

Metals, Ag, Energy, commodities have collapsed. And, after holding, the related stocks have followed. Despite the threat of deflation, Gold is the one thing holding, as the rest of the world out races us in debasing their currencies. So for the Financials and most commodity stocks, it’s new 12 month lows – 228 New Lows in Energy on Thursday and 250 New Lows for Finance and Real Estate. In terms of basing, that means for these stocks the clock starts over, there’s no more “holding.” The market averages too are at new lows by more than 10%, so it’s a bit of a stretch to call this a “test.” And while Wednesday and Thursday were two of the more one-sided down days in memory – some 98% of the S&P declining – the bad news was volume. Thursday’s volume was some 40% above Wednesday’s, 30% above October’s record average and 80% above the 2008 average, if Phil Roth’s numbers are accurate. That’s not exactly “diminished selling.”

Still, all is not lost. Thursday’s 2400 12-month New Lows isn’t what we wanted to see, but it’s not the 4000 of October 10 – the averages are well below the October 10 low but a lot of stocks are holding. Similarly, Thursday’s volume was less than that of October 10, and momentum measures show less pressure than back then. The key here, of course, is “so far.” If they hold here and put something together on the upside, soon, it may not be so bad. And, while anything is possible, the market is just so stretched it’s hard to see a big new leg down here. The percent of NYSE stocks above their 200 day moving average now stands at 1%, a new all-time low. There was one twelve month New High Thursday. They’ve gotten to everything, a characteristic of an important low. Volatility is at record levels following the incessantly low volatility of the last couple of years. Volatility is a function of fear, another characteristic of an important low.

There may be a silver lining in these new lows, especially the new lows in the averages. If you’re like us, and we know we are, the feeling is nothing works, they can’t hold, they can’t rally, Citigroup is below 5 for goodness sakes. Citi was a nice safe quality stock at 20, at 5 it’s the plague. The market sat there for a month holding, but not rallying. It’s like Sherlock Holmes and the story of “The Dog That Didn’t Bark.” If that was a low, why didn’t the market go up? Sometimes it takes a jolt like breaking obvious lows to push everyone over the proverbial edge, to give up and sell. And, as we never tire of pointing out, it’s getting the selling out of the way that makes a bottom. How do you know the selling is out of the way, well there’s the trick. They rally. From a tactical standpoint it seems right to follow strength but, as per the last four weeks, don’t anticipate it.

Borrowing from one of those old Wall Street sayings, we often caution that you don’t buy up-openings in a bear market. And, indeed, that has proven sage advice. As a matter of recent observation, we would also caution that you don’t buy at 3PM, indeed you short ‘em. And if they close near their lows you short more, because the world will be down overnight and NY will open down the next day. Well, after Thursday’s rout the Futures point to a higher opening today, Friday. And, despite the above caution, that’s interesting. It’s interesting because it’s a change – more of the dog not barking stuff. Of course, it’s not how they open that counts. Can they rally, can they follow-through. Time will tell, to coin a phrase.

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STOCK AVERAGE VS. AVERAGE STOCK

