SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE
EQUITIES PERSPECTIVE

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DJIA: 13,289

Bear market . . . what better time for a rally. Well, it's official. It's a bear market. That according to Dow Theory, given the recent breach of the August lows by the Industrials, confirming what the Transports long ago had done. If you missed the big news, consider yourself lucky. The market has pretty much done nothing but go up since the blessed event. And why not when you consider all the good news? Citicorp (32) got a bailout of sorts, amusing how much more tolerant of Arab investments we've suddenly become. In what the company called a "vote of confidence," they're paying the junk bond rate of 11%, more than near bankrupt Countrywide (9) had to give to Bankamerica (45) not that long ago. We don't quite see "confidence" here as much as desperation and, of course, dilution. On the news the stock rallied a whopping 50 cents, but the market 215. And then Wednesday, more good news, that being the Fed may cut, which is what everyone was expecting anyway, so what's the news? But, good enough for some 330 points. The point to all this is that there is really no good news driving the rally and we like that. The market has done this all on its own, and that's usually how the best rallies get their start.

Bear markets, of course, aren't just about the Dow pals. The lowest recent close of the NASDAQ Composite, for example, was almost 4% above its August low, leaving that index in what remains an overall uptrend. Ironically, the Advance Decline Index there, the average NASDAQ stock, is at multi-year lows, and has been for some time. Another bear market, though of lesser duration, is in the Financial stocks. As measured by Financial ETF (XLF), Financials recently touched levels last seen in mid-2005 down more than 26% this year. They're broken, their cycle is over – like Oil in the early 80's they peaked around 25% of the S&P by market-cap. And like Oil until a couple of years ago, Financials are likely on their way to 10%. Worse yet, these cycles take time. Still, nothing goes straight down, and Financials are stretched. Sure the news is bad, but it was bad in August when the stocks rallied. Unless there was to be a crack in the up stocks, the Google's (685) and the like, the dichotomy very likely has come to a logical halt. The down stocks like the Financials and secondary NASDAQ numbers could well be through on the downside, at least for now, though only for now.

A decline in the Google's is something we very much believe is in the cards. It's simply the nature of divergences. When divergences begin, the weakness eventually catches up with everything. You really don't get to a good bottom until that happens. And sure it's tempting to think this time is different, Google is forever and all that, and anything is possible. But, then too, that's what they thought about the "nifty-fifty" in '72 and more recently the "dot-coms." That said, divergences for sure can string out. Could be that it's late '99 in terms of the Google's rather than March 2000. And, you never know, but it's looking more and more like these stocks had their chance to break but held instead. For sure some broke, Crocs (40) and Dryships (85) come to mind, but the big five held the line. Baidu.com (367) seems a good illustration there, particularly in terms of holding the line that was 300. Certainly their proximity is such that a decent rally could take those stocks back to the highs. Anything less than that, poor rallies, would be a big warning for them and the markets.

If the "good news" wasn't anything special, and the market rallied anyway, the rally in Retail shares seems impressive in that there news seems outright bad. JCPenney (44) issued a surprise full-year warning, Williams-Sonoma (28) sees slower traffic, Kohl's (51) reported weak fall sales and slashed its 2007 outlook, and Macy's (30) lowered its holiday sales forecast. And, what would you expect? Consumer sentiment is in the trash, the market has been weak, energy costs are up, lending standards have been tightened, resets are increasing, credit crunch and housing problems dominate the news – Wells Fargo (31) said it could be the worst housing slump in 70 years – auto sales are weakening, employment is probably weakening and wage gains are slowing. And, from the NYT, in the first half of this year mortgage equity withdrawals were down 15% nationally compared with the average of the last three years, and consumption supported by such funds plunged nearly one-fourth. But, hey, that's about it. So what better time for a rally in Retail though, by the look of most of those charts, very likely another one very fleeting in nature.

There are plenty of bad Novembers, but not so many bad Decembers. The idea that the market didn't break means, in a sense, that it now might have run out of time to do so, and some sort of year end rally is underway. That said, given the nature of this market – volatility run amok – what are the odds this will be easy? Then, too, anything would be an improvement on this up-200+, down 200+ that we've pretty much seen for the last five days. And, not to jump too far ahead, if the rally does continue, what better time for a selloff than December 11, the day the Fed meets. Good news, bad news, sell on the news. That too would fit the seasonal pattern as December tends to be strong at the beginning and the end, but weak in the middle. Whatever, the decline seems broken and unlike other rallies, this one at least has started with volume. Time will tell, to coin a phrase.

Frank D. Gretz

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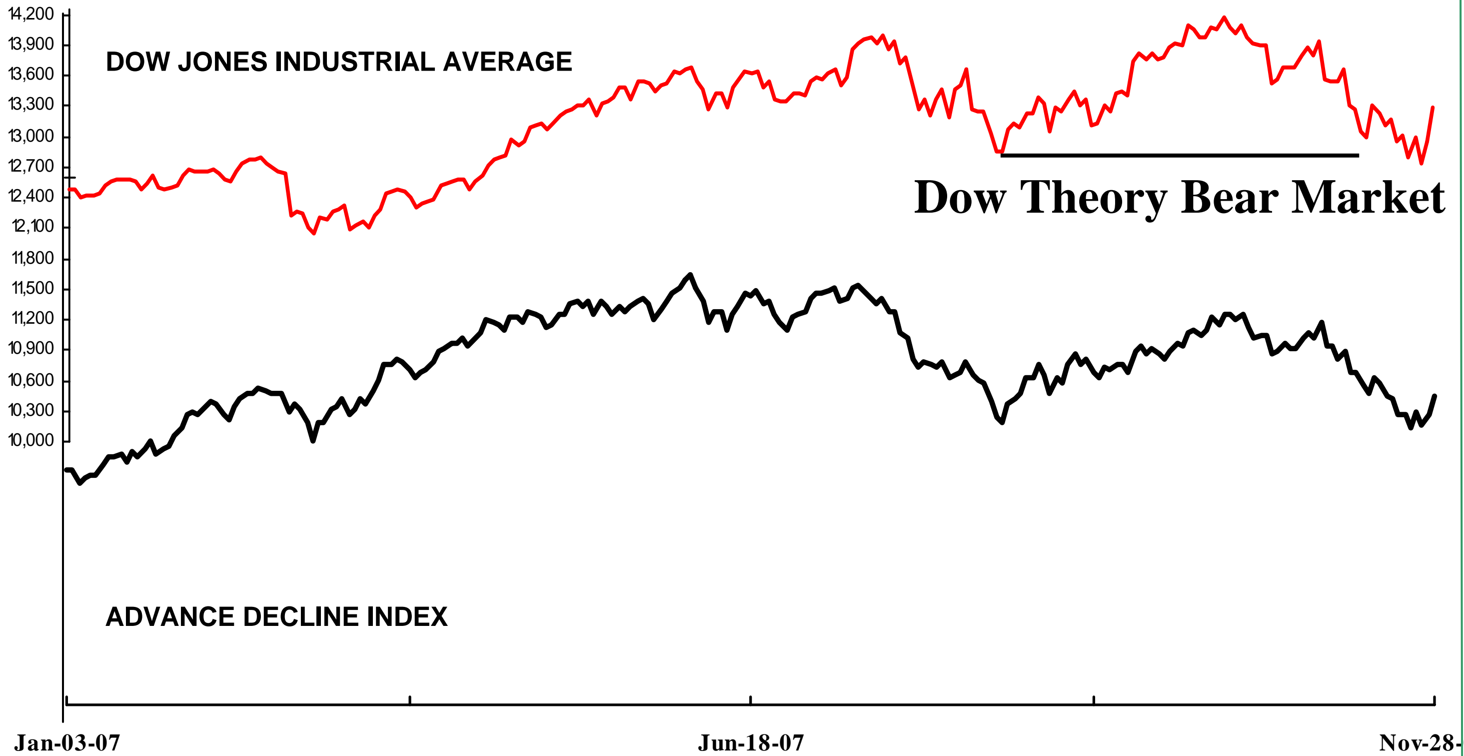
STOCK AVERAGE VS. AVERAGE STOCK
DOW JONES INDUSTRIAL AVERAGE
Dow Theory Bear Market
ADVANCE DECLINE INDEX
14,200
13,900
13,600
13,300
13,000
12,700
12,400
12,100
11,800
11,500
11,200
10,900
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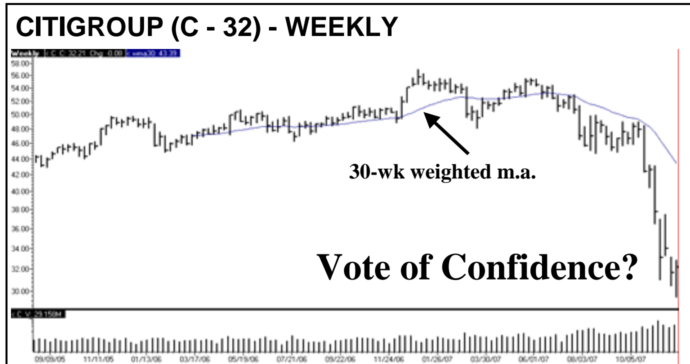
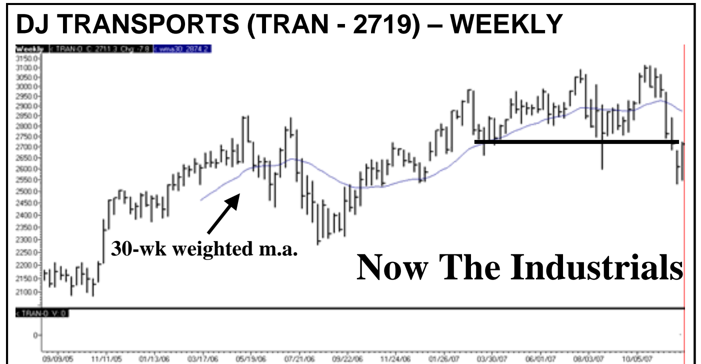
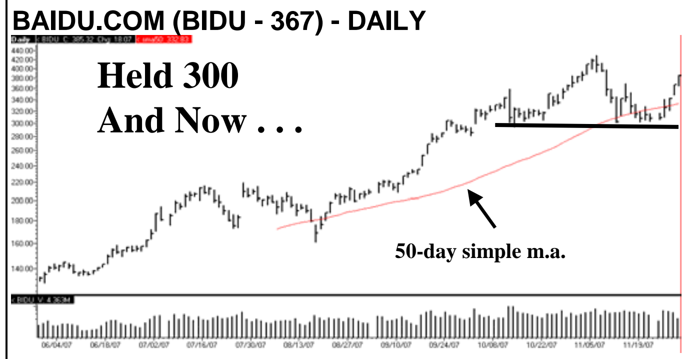
10,300
10,000
Jan-03-07
Jun-18-07
Nov-28-07

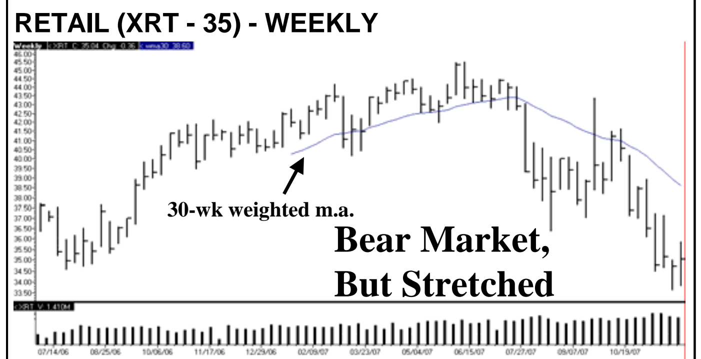

CITIGROUP (C - 32) - WEEKLY
30-wk weighted m.a.
Vote of Confidence?


DJ TRANSPORTS (TRAN - 2719) – WEEKLY
30-wk weighted m.a.
Now The Industrials

NASDAQ COMPOSITE (COMP – 2663) - WEEKLY
Bull Market,
But A Bear Market
In Breadth
30-wk weighted m.a

FINANCIALS (XLF - 31) - WEEKLY
30-wk weighted m.a
Bear Market,
But Stretched


BAIDU.COM (BIDU - 367) - DAILY
Held 300
And Now . . .
50-day simple m.a.


RETAIL (XRT - 35) - WEEKLY
30-wk weighted m.a.
Bear Market,
But Stretched