

## EQUITIES PERSPECTIVE

December 11, 2009  
DJIA: 10,406

Hopes and fears ... and vice versa. That pretty much describes a trading range. Last week's surprisingly strong jobs report sparked hope that the economic renewal finally was upon us. That, in turn, begot fears of an end to zero percent Fed funds. This seemingly fragile market withstood Dubai World and other sovereign mishaps, yet couldn't get it going on everyone's wish-list employment report. And the market seemingly was numb to Bernanke's remarks Monday that, basically, rates are never going up. S&P 1085 proved bedrock Tuesday and Wednesday, as it has since mid-November. S&P 1110 has done much the same on the upside. At only 2%, it has been an unusually narrow and protracted range. A move above or below the range, therefore, could be important. A breakout, with volume, would push even the skeptics. A move down, against the fragile technical background, definitely seems worth a worry.

Within the trading range, not much has changed. The hallmark of this period has been decent breadth, indecent volume. And, generally speaking, volume more often increases on the downside rather than on the upside. Upside volume peaked back in September. When the market averages were making new lows in March, the percentage of individual stocks making new lows fell. Subsequently, new highs soared, new lows all but disappeared. Recently, while the Dow and S&P were moving to new highs, stocks making new 12-month highs had their second lower peak. New highs, market breadth, the percent of stocks above their 200-day moving average, all show a similar pattern – a momentum unwind. As it has, this can go on for a time, but eventually it leads to overall weakness. And, with the Investor's Intelligence bear tally the second fewest in 20 years, we can't look to that "wall of worry" for much support.

Ah for the good ole days of corporate defaults – now it's whole countries. Dubai got the ball rolling with Dubai World and Ireland has announced yet another austerity plan. The rating agencies, who never met a bank they didn't like, downgraded Greece's sovereign debt and that market declined 15% in a week, 30% since mid-October. The Finance Minister doth protest, perhaps too much, but swaps put the odds of default at 1-in-3. The credit outlook for Spain has been downgraded to negative and the Baltics – Latvia and Lithuania – are edging closer to default. Vietnam's stock market is down about 15% since late November, and Austria's market took a 5% hit in just a couple of days. So, as countries go, let's hear it for the USA. Or are we just lagging? We all know how extraordinarily low interest rates are right now, and everyone assumes a little bump up in rates would be no big deal. A recent article in the NY Times estimated that a one percentage point rise in the Treasury's average cost of borrowing would cost about \$80 billion this year – about equal to the combined budgets of the Department of Energy and the Department of Education. So, basically, the US has a \$12 trillion adjustable-rate mortgage, at teaser rates.

Gold has been called "the new asset class." That seems just a little odd in that Gold has been around for some 3000 years. What's in a name – usually nothing good. By the time they get around to naming stock or market movements – the "Chinda Express" or "new era" – you can feel pretty assured said move is well along. And for Gold this subjective take on sentiment is borne out by those more objective. On back-to-back days in mid-November 97% of futures traders reported being bullish on Gold, the highest since the data began in 1987. The last time there was even a single reading of 97% bulls in Gold was March 3, 2008, two weeks and \$30 before the top around 1033. The Gold play has been just that, a Gold play. It's not a commodities play – Oil is breaking down. It's not a stock play – Gold stocks have rallied but have lagged the commodity. It's not even a precious metals play – at the recent peak Gold was more than 10% higher than its peak 20 months ago, Silver was more than 10% below that peak, and Platinum more than 30%. Gold has been in a world of its own and, given the sentiment background, the last few days of weakness could turn into something more protracted.

In this market where correlations rule, recent dollar strength seems reason, or excuse, for Gold's weakness. Since the March low in stocks the Dollar Index and the S&P have been joined at the hip, inversely – a 90% correlation. Dollar weakness seems about the return to risk, Gold being part of that, as well as stocks generally. As investors have moved back into risky assets like Gold and stocks, leveraged investors have borrowed in low-rate currencies. The dollar has become the funding currency for the so-called carry trade, creating a short position in the dollar. Much like Gold, the dollar is another crowded trade. Were the dollar to strengthen abruptly, breaking the protracted downtrend, the short squeeze could reverse the trends in many of these correlated markets like stocks and commodities. Or, we could just have a bond auction and have no one show up. There are plenty of things that could go wrong but, sufficient unto the day is the evil thereof.

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# STOCK AVERAGE VS. AVERAGE STOCK

