SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 12, 2008
DJIA: 8,565

The Contango . . . it's the latest thing. No it's not the Fandango or even the Tango, it's that dance wherein the front contract in Oil futures sells for less than longer dated contracts. As a result, Oil tankers have become Oil tanks, just hanging out, waiting for Oil prices to rise after a 70% decline. Just as speculation drove the price to $145, $40 Oil likely is the product of the speculative unwind. Once again, anything worth doing is worth to excess, especially in a hedge fund dominated trading environment. Oil stocks have begun to act better, and sentiment of course has shifted – from $200/barrel Oil you now hear estimates of $20/barrel. That seems good news for these stocks, stretched as they are to the downside. And then there's OPEC, threatening again to cut production. We're noticed, of course, those cartels always seem to work better in rising markets. Maybe what's needed is just more pirates.

As we like to say to our Oil analyst friends, when Oil stocks go up you don't need an analyst and when they go down you don't want one. It is a rather homogeneous group, moving together both up and down. Even Suncor (22) for example has rallied, though the oil sands need $70 oil to be profitable. That says – sold out. The longer term picture, however, is another matter. It has become difficult to argue that long term uptrends are still in place for Oil and other commodities, suggesting any recovery here could be limited. As we pointed out last time, however, Gold seems the exception. The eight month correction has left that overall uptrend intact. And though the March downtrend remains in place, GLD (the commodity ETF for Gold) has managed to move above the late November high. Finally, but very importantly, the dollar has broken to the downside, the Euro to the upside. Gold has been very highly inversely correlated with the dollar this year.

In the face of a horrific employment number, last Friday's upside reversal was impressive. And, Monday's rally was better than the 299 Dow points suggest. Breadth was better than 5-to-1 and volume expanded, unusual for a Monday. While related in part to the Obama stimulus comments over the weekend, there have been plenty of stimulus comments in recent weeks and those proved less fruitful. Perhaps there is a better feeling, a certain anticipation here and, as it happens, the Dow was up over 80% after FDR's first 100 days. Whatever the case, the market has acted better since the November 20 low, rallying some 20% to its peak Monday. Not unexpectedly, prices have weakened a bit, a combination of being short term extended and a run-in with the 50-day moving averages – the latter may sound like hocus-pocus, but it's surprising how often it works. Thursday's weakness was a bit disturbing both for its one-sided breadth – Financials were weak – and expanding volume. The sooner we hold the better the potential outcome.

While the economy is in free fall, there are more than a few reasons/excuses for a rally. There's the unexpected $260 billion "stimulus package," that thanks to the near 60% decline in gasoline prices. Libor has come down, mortgage rates have come down, and money supply is growing like a weed. But in the end it all comes down to whether the market is sold out. In that regard the possible GM (4) bankruptcy will provide another test. When we started in this business we were greeted by the 1969-70 bear market, culminating in the bankruptcy of Penn Central. Of course, Penn Central became in part Amtrak, which is enough to make you think nothing should be saved. And, it's true, unlike 1970 the Bear Stearns collapse didn't end this bear market, it almost began the real financial panic. Still, there's been a lot of selling under the proverbial bridge since then, we would be surprised if GM were the market's undoing. Besides, you never know what might happen this weekend.

When it comes to bear markets, this seems the Great White of bear markets. At the least, however, great bear markets produce great bear market rallies – 50% in 1929-30 after a 49% decline. November ended the worst three months since the 30's, plunging more than 23% in three straight down months. The good news, according to the Hulbert Digest, since 1900 there were 10 prior instances. The Dow was higher one month later 70% of the time, and three and nine months later 80% of the time. And it's that time of year when stocks rally – 72% of the time in December. The averages and most stocks have been basing – 12 month daily New Lows peaked back on October 10. Still, holding is one thing, rallying another. A Dow move above 9000, resistance and the 50-day moving average, would be a big positive.

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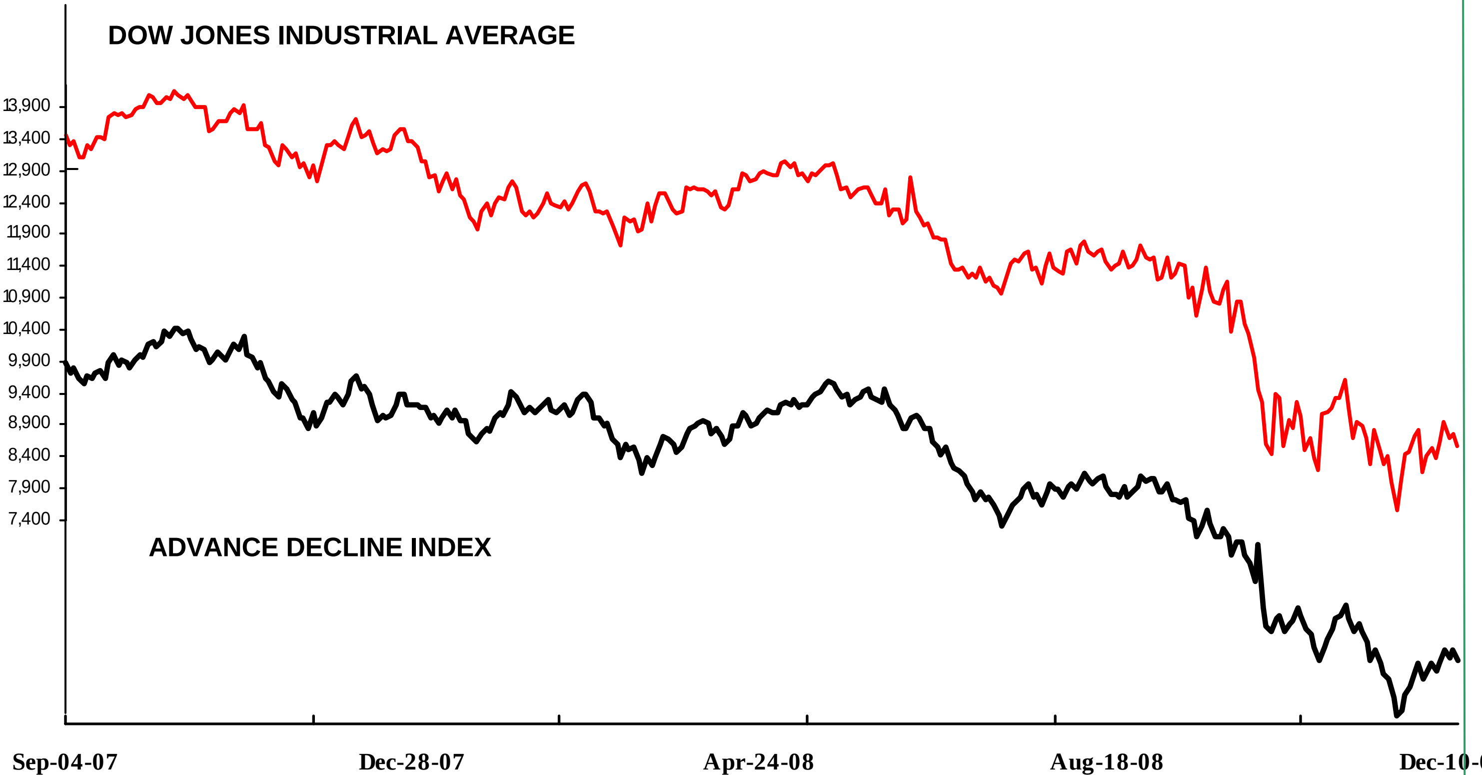
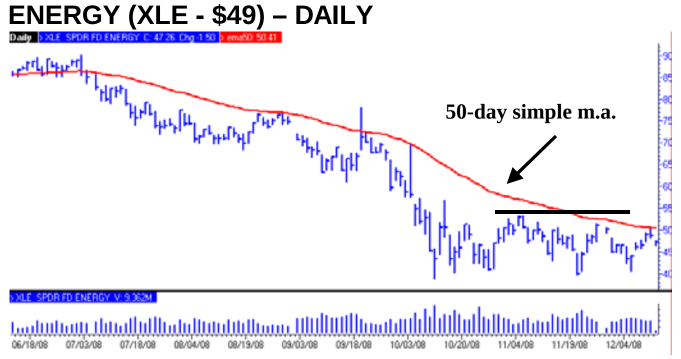
STOCK AVERAGE VS. AVERAGE STOCK



ENERGY (XLE - $49) – DAILY



SUNCOR ENERGY (SU - $21) – DAILY

EURO (FXE - $134) - DAILY

US OIL FUND (USO - $39) - MONTHLY

GOLD (GLD - $81) - DAILY

S&P (.SPX - $874) - DAILY