Shields & Company
MEMBER NEW YORK STOCK EXCHANGE

EQUITIES PERSPECTIVE

December 31, 2009
DJIA: 10,549

Buy in March . . . and go away. Buy in May and stay away. Buy in July, just buy, buy buy! Don't sell, nothing goes down, or down for long. And, for goodness sake, don't sell short. That pretty much sums up the "winning trade" this year. As last year there was no place to hide, this year that same tide lifted all ships. Google (62) and Apple (210) make it easy to say it has been Tech led, and Tech has done well. But measured by the part of the bear market they've retraced, General Mills (72) and other Consumer Staples haven't been shabby. The lagging Financials, of course, tell the story of leadership gone by. Curiously, given the China dependent economic recovery, Materials and Energy have not been outstanding. Still, the symmetry of it all is striking. There has been no place to hide, this year in terms of the upside.

Financials continue an area of concern, both for their own sake and for their possible implications for the market as a whole. One might point to the incredible jump in earnings at financial companies as reason for hope or, at least, complacency. More likely it's simply the magic of those recurring, non-recurring losses. Banks have plenty of loans defaulting but, they're non-recurring. Meanwhile they borrow money from the Fed for free to lend to the Treasury at 3% or 4%, and make huge profits. And those profits are recurring? Meanwhile their business, making new loans, is all but nonexistent. With lending standards ratcheting higher, credit-card borrowers retiring debt and loans going bad, its no wonder lending is continuing to collapse. And it's doing so in what they say is a "recovery." Financials have had a relatively poor recovery – a little more that 20% versus a 50% rebound for the averages. That's hardly surprising given that leaders in one cycle don't come back to lead in the next. The stocks peaked in mid-October, leaving them lagging, though not yet breaking.

It's the time of year for forecasting. As it happens, it's the time of year when forecasting is best left for a couple of weeks. That's because January, even early January, often offers a surprisingly accurate forecast on its own. January is the month in which the largest amount of new investment money becomes available – pension money on the institutional side, 401K and IRA money on the retail side. Strong years for stocks normally show strong buying in January, most weak years begin with weakness in January. This past year was an exception but, then too, almost everything about this past year was an exception. The trend is up and technical analysis teaches us that trends tend to persist, at least until they don't. The trend is up and January has a seasonal upward bias so, January should be up. January could tell us a lot, not so much if they go up as they should but, rather, if they don't. And, should they somehow take out that S&P 1085 level, making the last few weeks look a big "false breakout," that's a big problem. Time will tell, to coin a phrase.

The recovery has been impressive, most 50%+ rallies are. And whether a new bull market or bear market rally hasn't much mattered, at least until now. Why it could matter now is that most bear market rallies reach their limit at 50%-60% − in the US, 48% in 1929-30 and 60% in 1938; in Japan, 51% in 1992-93, 56% in 1995-96, and 62% in 1998-2000. All were monster rallies, all were bear markets. And just as the news was bad at the start, the news was good or improving as they ended. March 2009 certainly marked an extreme, one both in terms of price and in terms of investor psychology, a financial panic. Many measures, however, were not so extreme. Margin debt, for example, almost tripled from the 2002-03 bear market low, expanding well above average. Though margin debt hasn't expanded in the market advance in 2009, it never dropped below average in the bear market. This doesn't seem the "washed-out" backdrop from which new bull markets get their start. And then there's the debt bubble. Debt to GDP is 375%. At the start of the depression after 1929 it was only 186%. In other words, we're starting here with a much higher debt level than even back then.

In 2000 investors were too bullish – the dotcoms, new economy and the like. A few years later they were too bearish – a three year decline in stocks, terrorist attacks, the Iraq war, Enron. A few years after that they were too bullish again – China, the global economy, the housing boom, Goldilocks. And finally they got bearish again – the financial crisis, housing collapse, excessive debt, bailouts and so on. It's hardly surprising that optimism is back, both in terms of the economy and equities. Never mind that both the economic recovery and the market's rally look fragile. Never mind the Fed may never raise rates, the bond market already has. And who could have foreseen the looming Great Mideast War? Before they end bear markets usually change behavior. Those who didn't see the bus coming a couple of years ago might be right back there in front of it.

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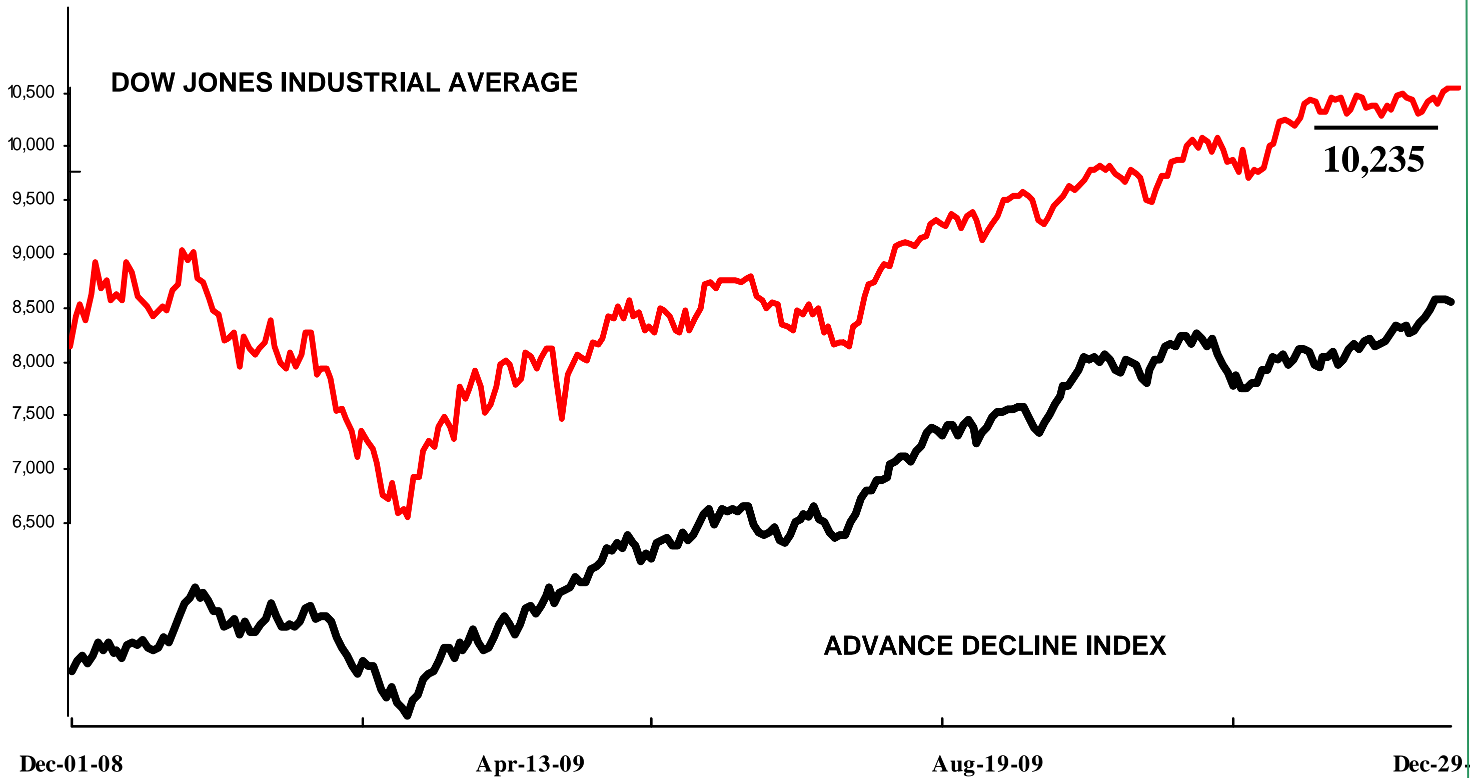
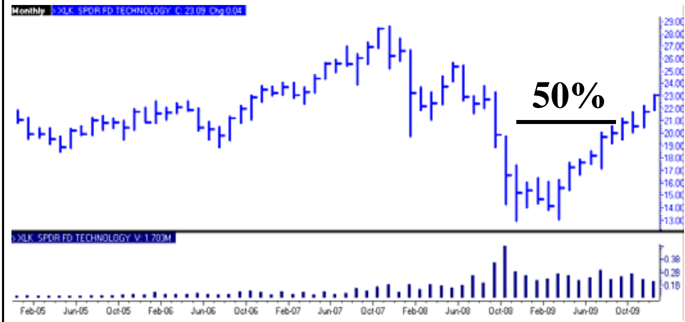
STOCK AVERAGE VS. AVERAGE STOCK

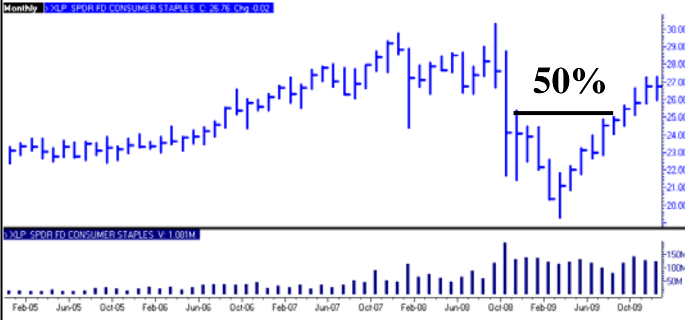


S&P 500 (SPX - $) – MONTHLY

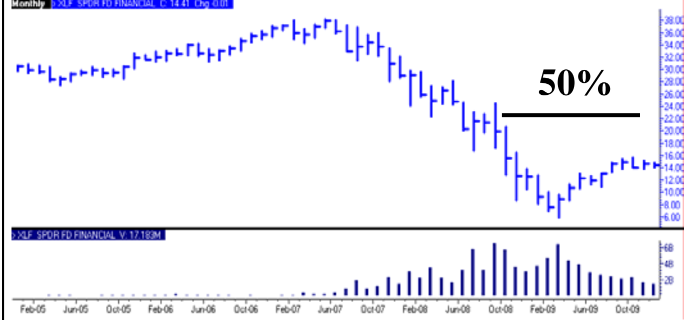
TECHNOLOGY (XLK - $) – MONTHLY



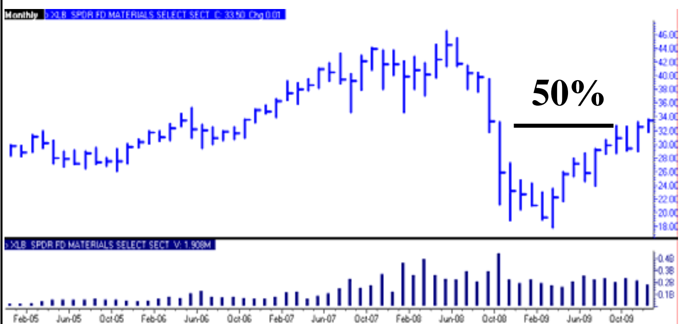
CONSUMER STAPLES (XLP - $) - MONTHLY



FINANCIAL (XLF - $) - MONTHLY



MATERIALS (XLB - $) - MONTHLY



ENERGY (XLE - $) - MONTHLY