The MAMIS LETTER

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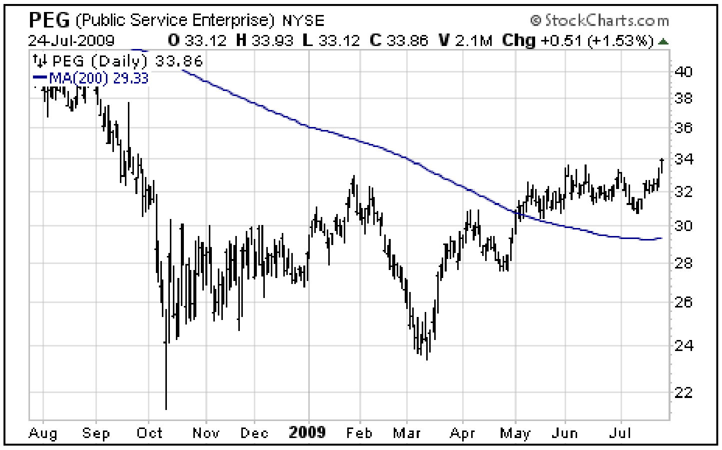
Who Filled This Half-full Glass?

Where we are: … market life has taken a huge leap toward enthusiasm, or maybe that should read, a leap toward huge enthusiasm. Conviction is everywhere … not that anything is positive *now*, but that all the seeds are there for economic improvement and then growth and then, to quote President Harding, "normalcy." That today's "beating expectations" is due partially to "sagacious" analysts low-balling their estimates (so as not to be embarrassed were there to be a further decline) and partly because of a proudly proclaimed "cost-cutting" (via laying off employees, thus creating a different negative) doesn't bother any bull anywhere, whether in the dentist's office, the barber shop, or various and assorted trading rooms. "Wow" has returned as the battle cry.

Two weeks ago, we thought we had a brilliant idea … that 2 or 3 more down days (you remember that teensy correction, don't you?) would get our oscillators decently oversold, and that the market could then shoot upward enthusiastically. Well, they didn't even wait a blink … up they went with increasing excitement. That knocked us off our perch – looking for a few days down, and getting a surge upward instead! Such behaviour invoked an old guideline of ours – that when the market does something unexpected, it can be doubly significant. And so it turned out. We've had the zoom, and some of the hitherto missing zest, too, to the extent that our 10-day oscillators have now become quite overbought. Interestingly, the previous most extremely overbought extreme for our narrowest calculation – the Common Stocks Only without the Reits and Foreigns -- took place last December 8th … when the reading was 463. Friday's reading of 593 easily exceeded that peak. And similarly, the "all-inclusive" oscillator has also reached an overbought peak significantly higher than December's. (However, our "Common Stocks Only" calculation differed somewhat: its previous over bought extreme was on March 23 at 699 – slightly higher than its past Friday's 665.) But such details really don't much matter compared to the overall result: *an extremely overbought extreme has been reached with an accompanying enthusiasm that is even more extreme.* There was a polite sense of "momentarily enough" coming into this past Friday morning, so a lot of traders willingly sold short … and their covering is what you saw going on at the close, as the indices tilted back upward a mite.

So where are we? (1) Sentiment: the almost unanimous TV sentiment by week's end had a tinge similar to the bubble sentiment in late 1999. Remember the widening enthusiasm for companies that only had prototypes – not actual products? The current climate is being treated as a form of prototype … yes, they say to each other, beating the earnings estimates has been due to cost-cutting; yes, there are still top-line problems, but the current accomplishments are setting the stage for better business, next quarter, or next half, or no later than early in '10. All is prototype, for everything is going to be even better once the thises and thats are polished. No one, at least not a single soul we heard, was worried, or tinged with negativity, just as in the late stage of the internet bubble, where the only worry was if this small company's product had a three month or a six month lead on the other companies working in the same area. The soaring prices of ISRG and FSLR – relatively new names – look bubble-like on their charts, and to some extent AAPL does, too, and with a little imagination, GOOG.



PEG: Ooh, isn't that minimal resistance all the way up to 38.
EXC: Plowing through that heave resistance toward freedom.

But other aspects of such traditional excessively bullish sentiment readings are a few weeks away. It would/should take at least that long for the *Investor Intelligence* percentage of bulls to get up over 50% and head toward 60%. Many of the market commentators they count publish only once a month at the start of each month; others are twice a month publications. Their bullish votes are coming soon, but aren't here yet. Customarily, II warning readings are two or three or perhaps even four weeks past the literal overbought oscillator peaks and – as seen in hindsight – also as or after the sound-bite indices have peaked. That's in keeping with the aforementioned comparison of our 10-day oscillators shooting up to their extremely oversold extremes over the past fortnight to extremes previously seen on December 8, 2008. Why? because *that* market rally peaked three weeks later, during the very first few days of 2009 … when the enthusiasm had the added fillip of the *Stock Traders Almanac* purveyed belief that the first five days of the new year forecast the entire year.

<u>So this rise is not quite done yet.</u> Our mind's meandering thoughts appear to be more on track than we trusted in last week's Letter, for the index charts really do look as if the May-June sideways can be read as a part-way back up consolidation. Overbought oscillators are not the measure of eventual exhaustion the way one might take excessive bullish *Investor Intelligence* voters.

Where are we? (2) Stocks rising: within all the enthusiasm, <u>volume has been conspicuously thin.</u> That's remarkable – and unusual – during such turns when the oscillators shoot upward as they have over the course of the past 10 days. But this time around, even on big up days such as this past Thursday, trading volume in individual stocks often has been conspicuously less than on preceding days, and less yet again on Friday. <u>The reason is a relative absence of sellers.</u> (Many rising stocks in our chart pile are doing so on lessening volume, but more importantly, volume is rising noticeably on those stocks that were sliding.)

LMT: This is a serious decline.
NOC: Could be a serious decline breaking 42 1/2.

With the demise of the specialist system, no one is at hand to take the other side. And, anyhow, who would sell a recovering stock now that there's such a rally going? not those who have bought, especially those who have recently bought, as well as those previously tortured souls who have held shares through the wilderness and now, heaving a sigh of relief, certainly don't want to sell as the economy appears to be relatively early in an emerging state … it may not seem like a bubble, surely not the kind of technology or real estate bubbles now history, but there is a bubble mentality alive that speaks for not selling now that the market is improving so nicely. We have a form of passive supply; just enough for eager buying to take the stock prices upward by latecomers reaching for shares.

What happens, therefore … or has indeed happened in the past, each in its own variation, is that having gotten to as overbought as seems mathematically possible, the market backs off modestly. We've called it "ameliorating the overbought extreme" and it is customarily mild. (In the current instance, the peak overbought has almost surely already been reached … the next four trading days will drop the prior readings of four *very* green statistics.) No one worries about such a pullback, believing that it is normal after such a scooting upward. And then the rise resumes … for of course there are late buyers eager to buy into any such dip, making it all the more temporary -- except that this second sequence is narrower, some stocks lag, or fade out of appeal or are rotated out of … although the sound-bite indices continue higher. In the past, this has a varied length of time (sometimes there is a third such sequence) … but consistently it has lasted until, among other aspects, the *Investor Intelligence* bullish poll figures catch up. (To us, that means at least crossing 50% with enthusiasm, and perhaps reaching the neighbourhood of 55%-60% that has topped markets out in the past.)

Where are we? (3) history: in the classic sense of market history rhyming, and because we are an old geezer/fogie/curmudgeon (even a codger, which the dictionary defines as "an odd or eccentric person, usually old"), our first thought is 1930, when after The Crash the market turned around and rebounded approximately 50% (from the '29 peak at 381 to the November '29 low at 198, followed by a rebound all the way to 294 in April '30) [Hoover's famous remark, as quoted by Richard Russell (our hero for furnishing such information) "I am convinced we have now passed the worst … we shall rapidly recover" came in May 1930, just past the peak of the rebound.] We have told this anecdote many times, so readers may have heard it before … but when we first arrived on the NYSE floor in the mid-1960s, we became friendly with a rotund gent clerking on the sidelines. His name was Manny Morganstern (sic?), and when we eventually asked him why he was a clerk and not a member, he replied that he had indeed been a member, saw the crash coming, sold out and took his wife on an around the world cruise. When he came back he bought stocks again because they had fallen to such cheap levels … and lost all his money in 1930. Whether that was apocryphal or exaggerated or not we've never been sure, but we can still picture where we were standing on the periphery of the Exchange floor when he said, "the members lost their shirts not in the Crash but because of 1930's failing rally."

Being still relatively youthful by a considerable degree, Ms. Helene has a different, and perhaps more meaningful comparison. She points out that the huge rally that followed the December '74 DJIA bear market low (the S & P 500 was already rallying), carried from 577 all the way back up to a July '75 peak of 881 … a more than 300 point rebound (reasonably similar in degree to 1930's). [Russell's comment, in August, reads "Economy picks up strongly, Recession is over."] The Dow thereafter tumbled 100 points – or more than 10% -- and then, in '76, actually rallied three different times to just over 1000 … indeed, four times, counting a rise to just over 1000 on December 31 '76. With that lid on of just over DJIA 1000, there were all sorts of sell-offs and bounces of varying degree during the 7½ years of a broad sideways – two of them were dubbed "mini-October crashes" and then there was a burst of buying "inflation" stocks – "buy anything in the ground" being the slogan of that period – until the final low in the summer of '82.

Neither history is likely to repeat … but rhyming is a charming notion, and if we could quote Walt Whitman or ee cummings, we would, because neither poet rhymed anything. In its own way, the current situation is going to be a further rebound similar to 1930's and 1975's … and in its own way, scarily, what will then follow will also be similar although different. But **this is the way the stock market works: enthusiasm peaks; gloom bottoms.**

Where we are now: (4) anticipating the future. Market life is so much on the surface nowadays that there need be very little if any anticipation, any more than one needs a clothes line, a land line phone, or a printed newspaper. To proclaim – and mourn -- the absence of anticipation (as witnessed via accumulation) has had its effect on our charts.

For in fact there is very little anticipation, because it is a bothersome unnecessary aspect of 'playing' today's stock market. Witness CAT. It had been relatively weak, quite laggardly, and therefore uninteresting, even discouraging. That's why we put the CAT chart in last week's *Letter*. Ah, but then, when the earnings are being announced – that's not "after the earnings were announced" but *as* they are being made known, the stock instantly leaps, and leaps again on the next day's opening when another tier of players throws in their buy orders. (The person who hits the computer key first is the Wall Street equivalent of "the early bird who gets the worm.") (We're not capable of getting into the discussion of the latest game of "high-frequency" trading.) Apparently, late-comers don't mind, because the price has been so low that buying at the high of the day of the report is thought to be not only long-term satisfying, but can even be considered less risky because the future, becoming the past, is now known. Today's enthusiasm breeds contentment.

Consider what has been happening to stocks that have reported what might be called "bad news" – UPS, for example. The stock opens considerably down on an imbalance of sellers over buyers. But thereafter, the proverbial light bulbs go off – this becomes the chance to buy low, for surely when business returns everything is going to be even better. "Bad news" spells opportunity … We've seen that kind of sequence in the past, but more subtly, within the trading day's tug-of-war. In today's climate, this is blatant. After a few such occurrences, buying now starts immediately after the "bad news" down opening, over-lapping the announcers as they report the "bad news" so that they stutter in the midst of their next sentence. It's tough to be a grumpy old geezer when the investment world has turned so cheerful all over again.

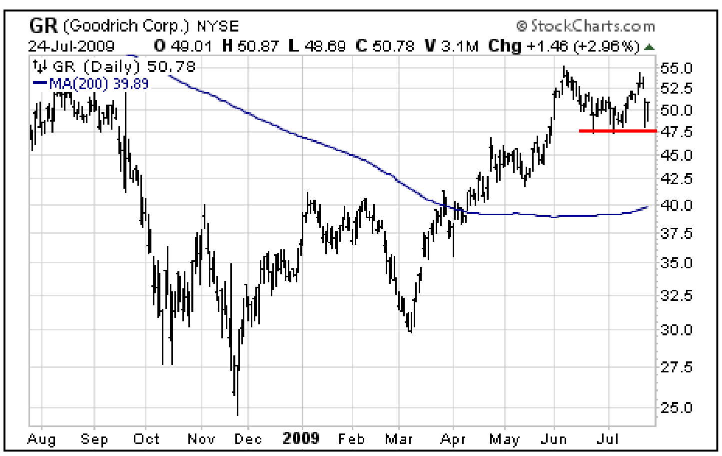
TNP: No thanks.
FRO: How's this for a negative sector?

Where we are now: (5) this stock, and that stock. The audience has rotated into what they've called "industrials" – the best in our pile being NDSN -- and late last week they even began to buy a few electric utility stocks (in the DJU, EIX; EXC; and even Peggy, PEG having little resistance getting across 34). Healthcare is still shaky … JNJ has had the best rise, and MRK is edging higher, while ABT finally had an up day. COF is a good example of a wild fling. But we're not willing to chase anything already up, not this late in the game.

IR, for example, appears to have had no sellers during its sprint upward through an apparent vacuum, so who would want to be long if/when the sellers appear? GIS is a rather neutral stock, but its cereal division must be living in an ancient world … what a defiance of today's health concerns to bring out a "Wheaties" for men as a clever marketing product that removes something important, even vital (folic acid) because women are rumoured to use it more, and in its place they've boasted of 25% sugar so "real" men will feel that burst of energy without buying two Snickers bars, albeit on their way to diabetes. (Indeed, how are they going to write a sensible healthcare bill when people think that way.)

POT would look better if it can cross 98 – "better" but not necessarily cured of what ails it. The banks, of course, have returned to being troubled: C has a 2½ breakdown again level; JPM feels tired; BAC requires an 11¼ protective "stop;" WFC is quite suspicious; and PNC looks terrible. Also, GE trades like an old lady with a cane; MSFT lost its okay-ness; WMT is about as lethargic as any stock in our entire pile; UNP has failed in a kind of down up down pattern; NUE remains stalled; and we were startled to see two aerospace stocks appear so vulnerable: NOC ("stop" 42½) and LMT**.

We have not mentioned any oil & gas stocks. It is not that they are necessarily or glaringly weak – although they haven't gone up particularly well, and *we don't have any in our pile that have made a higher high.* While the electrics and industrials are having their turn, oil & gas, and the shipping sector are quite laggardly. *<u>If they remain so for another week,</u>* we'd like to write in more detail about what their problem might be, and its potential effect on both the entire market, and the global economy.



GR: Another aerospace in potential trouble.
GD: You wouldn't realize the S & P is going higher!

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