

Thank God It's Friday!

July 31, 2009

EXTRA EXTRA. READ ALL ABOUT IT!



Stocks Surge in a Summer Sizzle

The DOW was up over 8.5% in July, its best Monthly Gain since 2002, and strongest July in 20 years. In fact, the DOW spiked 13% in 3 weeks since earnings season began. 337 of the S&P 500 companies have reported earnings thus far. 249 of them, or 74%, have beaten expectations. 30 of them reported inline, making it nearly 85% of S&P 500 companies have reported as good as or better than expected profits. Stocks head into August with a 5-month winning streak with the DOW back over 9000, and the S&P flirting with 1000.

Chevron's quarterly earnings fell short of Street estimates, but raised its forecast for the year, as well as its dividend for the 22nd consecutive year. That sent the stock up nearly \$2 on big volume.

US Gross Domestic Product - GDP - declined 1% in Q2, better than expected.

This GDP report is the strongest sign yet that the recession appears to be winding down. However, the Commerce Department revised the 1st quarter GDP figure much lower, showing economic activity actually fell 6.4% rather than the 5.5% decline initially reported. That was the worst quarterly reading in nearly 30 years, and makes 4 consecutive declines which are the worst since tracking

began in 1947. But economic data is always a lagging indicator, as it sits in the rearview mirror. The key here is that the rate of decline is clearly slowing, and adding to the optimism is that housing prices actually climbed in May for the first time since 2006. Less bad is becoming much better.

Bulls and Bears in heated Tug-of-War. The July rally caught many investors off guard. They viewed the 40% run-up since March as tired and poised to collapse. Gloom and Doomers were calling for new lows on the DOW, erasing the historical rally. Not so fast. In fact, the most interesting thing about this Market surge is that consensus thinking has been wrong all along.

In March, massive panic selling provided the cathartic capitulation required to go higher. In June, sentiment turned euphoric as investors who sold at the bottom finally jumped on the bandwagon worrying they would miss out on the rally. The Bulls acted more like rabbits as their population exploded. And that's precisely when the Market started rolling over. The new Bulls quickly became Bears, and selling ensued. But the selling was short-lived, and just when it looked like the Market was about to implode, the biggest head fake of the decade sent stocks skyward yet again to close out July.

And the Tug-of-War continues. Those of you at our Outlook lunches in February recall our forecast for the S&P hitting 1000-1050 this year. That equates to roughly 9200-9500 on the DOW. Well, we're nearly there. 1000 will be an interesting level to watch. Our guess is that 1,000 is a big round number which may cause many traders to take profits. We subscribe to that thinking, and don't believe this rally will go on forever before some sort of correction takes place. That has us cautiously optimistic, because we do see further gains ahead.

The real question in our mind is whether the correction will be in the form of price or time. We see the Stock Market in the process of finding its fair value. This leads us to believe the S&P-500 Index will hover around the 1,000 level for a few months before going higher. However, the Tug-of-War prompts volatile price swings. This would be perfect for our covered call strategy. We'll let the Market be our guide and keep you in the loop.

By: Mike Frazier