

Thank God It's Friday!

September 18, 2009



The Market continues its ascent, hitting new yearly highs again this week. In fact, we have seen advances in 9 of the last 11 days. Despite great skepticism, not to mention the wrath of September, the Market remains in a decisive up-trend. On Tuesday, Fed Chairman Bernanke stated that the Recession is likely, technically over. It wasn't an emphatic claim, and will never been confused with a Knute Rockne speech, but the point is clear; we are recovering.

As we have mentioned on numerous occasions, the Stock Market is a discounting mechanism which is focused on future events. Conversely, reported economic data is always in the past. This is precisely why stocks started rallying in March, anticipating the recession's end, and a return to growth. Both the strength and length of this rally has caught many by surprise. We have not seen a meaningful correction in 6 months time. This has most investors bracing for a sell-off. But one key to this recovery rally has been that the herd has always been wrong. The herd was bullish at the top, and panicked at the bottom, and really has not trusted this rally all along. Therein lies the opportunity. It generally pays to go against the herd.

The S&P collapsed nearly 60% from all-time highs. Since the March lows, we have surged nearly 60% to current levels. That still leaves us 30% lower from October, 2007. It's going to be a while before we achieve those levels again, but we will get there.

Today, Friday, was a "Quadruple Witching" day. You may recall, this is a day that contracts for stock index futures, stock index options, stock options and single stock futures all expire. It happens 4 times a year, and it always triggers massive volume and tends to create additional volatility. We look to the options market to get a sense of the near-term direction for individual stocks as well as the overall Market. Monitoring options trading has been very helpful in this rally, but does periodically show signs of trouble ahead. Obviously, it's not an exact science, as the Market can be very unpredictable, but studying the options market does give a sense of where "Big Money" is heading.

So halfway through September, the Market technical trends remain positive. In fact, it looks like we will be hitting that monumental DOW 10,000 level soon; we are basically there already. But the trend can reverse quickly and we will see a correction at some point, the question is when. Just about everyone has an opinion on Market direction, but only one opinion counts: the Market. We can shift gears very quickly if we see a reversal, but for now, just like these 6 months, we're not fighting the tape.

There's also an old Wall Street adage: Sell on Rosh Hashanah and Buy back on Yom Kippur. Well, Rosh Hashanah begins tonight and Yom Kippur begins at sunset on the 27th. "Sell in May and Go Away" was a fool's play, so this one shall be interesting to watch.

Have a nice weekend.

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