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# Steeplechase Investments

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We have been witnessing a virtual “tug of war” since the first of the year. There has been much punching and counter punching. The winner so far is the bullish camp. This is a liquidity driven market fueled by the massive private equity deals. It has been a very narrow market. Technically, there have been many non-confirmations. In other words, one week the Dow makes a new high but the S&P 500 and NASDAQ do not. Another week, the NASDAQ makes a new high and the Dow and S&P do not. The upward movement of the market has not been accompanied by anything more than average volume and the declines have been propelled by heavy volume. The charts of individual stocks are, what we would call, “wide and loose”, in other words, very choppy and very volatile. In the last newsletter, I talked about the lack of volatility in the marketplace. We have it in “spades” now. I also said when we began to see turbulence it would probably mean a change of trend was under way. The bothersome thing about this market is that it has been “crying wolf” for the better part of 5 months. Just when it looks like it is going to take a breather or continue going down, it just as quickly reverses itself and goes up. It is human nature to begin to believe that it is always going to rebound like it has so far. And that, I believe, is wherein the danger lies. It is a situation where complacency will put us and any other investor in harm’s way. It has risen on a “wall of worry”. That is for sure. It has withstood many shocks to the system: \$70 oil, the war, rising interest rates, the housing slow down, the sub-prime mortgage mess. Considering these facts, it is truly amazing that the market is up for the

year. It is an economy that is “long in the tooth”. But we are now hearing once again, “that it is different this time around” because the whole world is involved, it is a “world economy” so the cycles won’t be the same. Yea, right, just like real estate was different, and the 2000 stock market was different. Everything is always different until it isn’t. As it turns out, the bounce by the housing stocks earlier in the year was just that, a bounce, “a dead cat bounce” if you will. Now, the prevailing opinion amongst the leaders in the industry is that the recovery is being put off until 1st quarter 2009 or maybe until “the cows come home”. In all seriousness, I think it just stagnates for another year or so. When the stock market topped in 2000, it took about 3 years to find some equilibrium. It seems housing is tracing the same kind of pattern.

I think you can expect the same kind of market action the rest of the year, 3 steps forward, and 2 steps back. It is the 20th anniversary of the Crash of ’87, so expect the conspiracy theorists, the superstitious, and the crazies to be out in full force come this fall, preaching the end of the world or, at least, the end of the world for a few days. We could have some sort of market mayhem at that time. But it will be short lived. We are way overdue for a correction. But with the liquidity sloshing around the universe, any downward movement will probably be met with some sense of buying support. On that note, one of the troubling things about the behavior of stocks lately is the lack of support at the 50 day moving averages. Usually in bull markets, when stocks come down to their 50 day averages, the mutual funds, the large institutions, the major banks come in and prop them up. We have not seen too much of that. What

we have seen is stocks penetrating these key support areas and then a lot of selling come in which jettisons the stocks down to their 200 day moving averages. Yes, it has been a strange bull move in the past 6 months. The prevailing opinion on the “street” is that the “smart money” has been on the sidelines for this move. So, it certainly has been a Teflon market so far. They have thrown everything but the bathroom sink at it and it has been like the energizer bunny. But again, the move upward has been narrower than one would like. Lot of sectors have been left in the dust and as we have gone higher, fewer and fewer stocks have participated. While the Dow and S&P 500 have made all time highs, the NASDAQ is still not even close to their all time high. But, of course, in the roaring nineties, the NASDAQ (replete with dot.com stocks) soared much higher with triple digit price earning ratios. Our former Fed chief, Alan Greenspan seems to be quoted every week on the health of the economy and stock market. He reminds me of former professional athletes who miss “the roar of the crowds.” He continues to be at odds with the current chairman, Gentle Ben. In times past, former chairmen had enough class not to rain on their successor’s parade. The fact that Mr. Greenspan is negative on the market and the economy is probably a plus for the market. Remember his famous or infamous quote of “irrational exuberance?” The market doubled from that point.

Ed

*People’s spending habits depend more on how wealthy they feel than with the actual amount of their current income.*

—A.S Pigou