March 10, 2009

1:55 PM EDT

Inside this issue

THE Bottom?

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As I begin to write this, the stock market is experiencing the biggest gains of the young year. Should anyone be surprised? Of course, not. The market has become very oversold, even by today's standards and some kind of relief was due at some point, although as we've learned time and time again, oversold markets can become much more oversold.

Besides that, not a lot has changed on my views. I continue to view the October 10, 2008 panic as a watershed day over the long-term. It's the period where the most stocks were hitting fresh 52 week lows and downside velocity was at its greatest. And I'll repeat it again, I do not believe we will see such a panic day or week again for many years to come, even if the Dow is actually going to 0 as some would have you believe!

Over the intermediate-term, my thoughts remain that the stock market will see another major bottom in the mid March to mid April time period, as I have written before. **I feel very strongly that the rally to come out of that low will be the most powerful one of 2009.**
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The key is going to be which groups lead the way out initially and then take over after the first pause. Usually, the most beaten down (financials, transports, industrials) bounce the hardest during the first leg of a new rally. Then, the "real" leaders take over for the rest of the rally. It's too early to feel confident as to which sectors that will be, but I'll offer technology and energy as well as emerging markets as three to watch closely.

In the short-term, it will be really interesting to see if this embryonic up move can turn into something more than just a one day, snap back wonder in a bear market. For those of you not familiar with the term "snap back", it's a day where we see a strong move right from the open to the close with little let up that runs counter to the overall trend of the market. Usually, the preceding day closes against the snap back day. In today's case, we are in a defined downtrend and closed at the low yesterday. Today, stocks jumped up at the open and so far, have continued higher, unabated.

Although the day is not over, the tone is somewhat different than we've seen and the internals are extremely strong, which bodes well for some continuation. Not surprising, the banks and other financials are leading the way with homebuilders and real estate not too far behind. I'd like to see even stronger performance from the four horsemen, Apple, Amazon, Google and RIMM, but it's still very early with plenty of time for them to take off for what could be 25-50% higher.

Have we now seen the ultimate low of lows that's not revisited? I am not convinced. This rally is important and yet another building block to support a longer-term advance, but we shouldn't be surprised if it peters out and last Friday's low is retested. While there is nothing wrong with re-engaging here and putting some money to work, I am a much bigger fan of buying into weakness than strength, even at higher levels.

So for now, we should expect at least a little follow through in the coming days, maybe towards 7100 on the Dow before another key test will come for the bulls, as we continue building the foundation for the big rally. Until proven otherwise, selling into strength and buying into weakness is the preferred methodology.

Blame It On The Uptick Rule

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The worst kept secret on The Street was that the old uptick rule was coming back. Very simply put, the uptick rule was in place so bears could not mercilessly short a stock as it fell, i.e., the piling on effect. It forced short sellers to wait for a stock to move slightly higher before hitting it again. Funny though, the powers that be thought it necessary to protect the downside, but not against the upside. Yet another topic for a different day.

For those not familiar with that rule, here are two good explanations:
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[Uptick Rule #1]

[Uptick Rule #2]

After decades of having this rule in place, the SEC eliminated it in July 2007, coincidentally, right as the Dow hit an all time high above 14,000. As everyone is aware, since then, it's been the most volatile environment and the worst bear market since the 1930s. As you can imagine, more than a few folks blame the elimination of the rule on the extreme volatility and severity of the decline.

When the uptick rule was put to bed, I supported the move, as did the majority of professional folks in the business. It seemed like its time had passed since most of the institutions could work around the rule and effectively bear raid a stock anyway. I am also not a huge fan of artificial mechanisms. I thought it was much more important to require that short sellers "locate" the stock and be able to deliver it rather than change the uptick rule.

So after a Dow move from 14,000 to 6500, the powers that be, once again, will show their perfect inability for timing. The market is already down 50% so NOW they are looking for ways to "fix" it? Like somehow preventing someone from shorting a stock on a downtick would have staved off the bear market?

I mean, seriously, could it have been the all time house of financial cards collapsing instead of just the uptick rule? And what do the powers that be hope to accomplish? Reestablishing this rule is fine. It's one very, very small piece in the giant financial system. But with modern technology and products, institutions that want short exposure have an array of weapons at their disposal, like ETFs, married puts, swaps, etc.

If they are going to reinstitute the rule, why not bring ETFs under the microscope, which many do not require an uptick for short selling? More importantly, how about addressing all of the leveraged products out there, where investors can buy an ETF that gives you two to three times long or short exposure? Think about it. Is it worse to be able to short a stock that's declining or buy an ETF that gets you short an index with 300% leverage?

There are an awful lot of problems with the markets right now. And while psychologically, I am sure reinstating the uptick rule makes everyone feel good. But in the end, I think people will be disappointed with the lack of results for more than just a few months.

Another Quick Update on Gold

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Finally, I want to update my position on gold. As you know, I turned very negative on
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gold a few weeks ago as it approached $1000 and everyone was clamoring to buy coins at 20-40% over their intrinsic value. Between the infomercials and party chatter, I felt confident that the next significant move was going to be down.

Over the intermediate-term, I remain negative and rallies should be used as selling opportunities. Our Short-Term Gold Program was fortunate enough to make a few dollars on the bounce last week, being very nimble. And that's about the only way I am comfortable playing the sector from the long side, by using extreme short-term weakness with stringent exit points.

The time will come in 2009 when gold should make another major bottom that leads to a move well north of $1000 and $1500. I would imagine that many investors will become frustrated and negative just before the rally is set to begin. But that's not now and there's no reason to sit on the asset. Clearly, my thesis will be wrong if gold closes a day and week at new highs, a discussion for a different day.

CNBC Wednesday Morning

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I am going to be on CNBC's The Call on March 11th between 11:05am and 11:30am discussing the short and intermediate-term view for stocks as well as where you can money.

I am also going to be on CNBC Reports on March 20th between 8:00pm and 8:20pm and on CNBC Worldwide on April 23rd at 5:30am.

You can view most of the past segments by clicking below.

Media Appearances

We had some very nice quotes in the following article over the weekend:

Stashing it Away: Is there a "best" place to put money?

Friends And Family Plan

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Finally, as you know, our firm and this newsletter continues to grow mostly from your referrals. If you know anyone who is interested in securing their retirement, planning for it or just plain worried about it, please send them here. As always, thanks for thinking of us with your circle of family and friends.

http://www.investfortomorrow.com/newsletter.asp

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