The **MAMIS** LETTER

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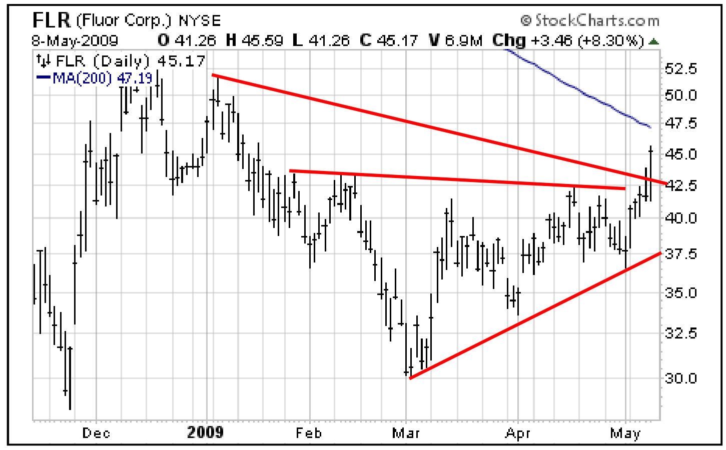
Huzzahs Galore! Enthusiasm Rules!

Where we are: … early in the late stage of this intervening recovery, early enough, that is, to require more time, and many fluctuations, so as to exhaust this enthusiasm and for a top to evolve … which means there are still some appealing emerging stocks even as others lag, or have stalled, with a few perhaps even starting to fail. A gradual narrowing, instead of expansiveness, is likely, although some rotation, mixed in with the current considerable confidence and increasing eagerness to buy, will make it seem otherwise.

Since the possibility of a truncated contra-trend rebound has been erased, not without a struggle, the market is reaching that late moment in the rally when we sit around moaning that maybe it really is a new bull market after all. Who would have believed that financials could rule the market world? not us. Who would have believed that those fantasy targets overhead (in the area of the down-trending 200-day lines might actually be neared, and perhaps even reached? not us. Who would now believe that it is late in this entire contra-trend rally? it has become hard for us to make our own case, which is perhaps, in the stock market's convoluted manner, the underlying argument that it really is getting late. But stock markets have a 100% batting average of topping on good cheer even more than on good news. Enthusiasm breeds tops.

Paying attention to what's going on in the stock market involves many different aspects, from the petty to the major. For example, at the petty end, almost every new low recorded nowadays (7 out of 8, for example) is a GM item … so there is virtually no downward pressure that would create new lows. Sellers have turned into mere and modest profit-takers while weak stocks like ABT suddenly bounce. Our negative jottings consist of laggards and those stocks (often big shot names such as IBM) that are simply failing to participate. "Not a new high" has become the worst criticism that can be made. Of course, that's a reminder of the late February-early March quite-the-opposite readings, when the number of new lows was diminishing on big down days in the Dow and S & P 500 while we had few if any short-side suggestions. Serious commentators in suits and ties are now confidently suggesting that the financials are still quite buyable. The question on CNBC and Bloomberg is the same "Would you buy the financials here?" *only the "here" is different,* having swung from unbelievably low levels to incredibly high levels.

Of course, there are virtually no new 52-week highs now (do you recognize OCN or MMS or AGP?) because the fall was so devastatingly deep. [Readers are warned that Bloomberg statistics get a lot wrong.] *But there are stocks making higher highs, and that's become a major indicator.* After Thursday's reversals, we wrote, in Friday morning's "Stream of Consciousness," that "the major issue will be how few, or how many, individual stocks can, or should, exceed their Thursday morning highs."

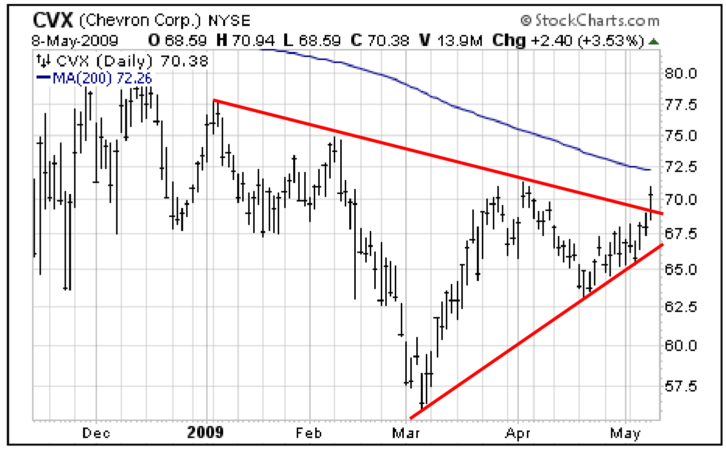


COF: The wild leaper of the financial world.
FLR: Major breakout — target ultimately low to mid-50's.

And the market, of course, answered in its typical confounding way – there were indeed very few (the warning of lateness) but there were certainly some (UTX, MMM, CVX & XOM) – as a warning that this rise is not done yet (see COF, for example, as a stunning riser but see also a stock like FLR, just now breaking out across a bevy of downtrend lines). Rotation into the energy sector has been the primary positive factor; while the fleeing out of technology stocks, particularly the semi-conductors (KLAC; LRCX, NVLS, TXN), is suggesting that there are previously "leading" groups that are now kaput. And in between those two extremes, our daily charts show a lopsided number of stocks that did <u>not</u> bounce back up enough to exceed their Thursday morning excessive rises. That's not just the literal failures, such as HPQ; IBM; INTC; MSFT; T, and particularly VZ (to cite some so-called "leading" DJIA components) but also stocks that were being tested, such as JCP; JOYG; FCX; APD; BWA; and, hmmm, some "leaders" that sort of tied their Thursday highs (WFC; JPM; APA; GS; NE; SLB) but went no higher, as if Friday's sell orders had been placed at Thursday's highs. After their Thursday reversals, <u>*they may still resume such advances this coming week*</u> – why not? -- so let's call Friday's inadequate try tentative. It's a form of Alcoholics Anonymous, with successes but not guarantees. But if Friday's inability to recover—and Thursday's reversals—continue to rule, that would tell us that the rise is actually later and should continue to get narrower.

At this mixed moment, we could use some of the useful tried-and-true indicators now dead and buried. What would the odd-lotters be doing now? how high, or low, would the specialists' short-selling ratio be reaching? Would there be a distinct difference between the members upstairs and the specialists on the NYSE floor? … gone, all gone. We do know that the market's conversational tone on TV is wildly enthusiastic. If it were about sex, it would be an orgy. But the usually reliable *Investors Intelligence* polls have not yet shown such bullishness. However, their latest report did show an alternative we should have thought of, if we'd let our mind wander away from the rising percentage of bulls that remains a sentiment requirement. What showed up last week instead was a considerable fleeing of bears (their "give up" took the bearish percentage from 37.2% to 31.5%). *Investors Intelligence* readings are not a coincident, but a lagging, indicator, especially in terms of when peaks and troughs are reached; thus for now we are being told "not yet" or, at least, "not quite yet."

One of the few remaining "indicators" suggests a similar timing sequence. Some market commentators are citing the 10-day overbought/oversold oscillators as not yet overbought. But *that's not how this indicator works.* <u>Its overbought extreme comes early, rather than late</u> … a dwindling "overbought" signifies tiredness.



XOM and CVX: Returning to life at last.

During the market's severe decline, our various oscillators got more and more oversold, and as is its habit on the oversold side of the ledger, the oscillators stayed oversold in climactic form until they reached what we described as "an extremely oversold extreme." Almost all, if not all, of the 10 trading days in the sequence are by then quite in the red, thus creating the exceptionally extreme oversold. Finally, a recovery comes along which takes hold persistently enough for those negative readings to be replaced by positive days – typically 9 or 10 or sometimes 11 days in succession -- thus *causing the math to shoot upward* from the extreme oversold to an extremely overbought extreme. In the past, the more explosive the reversal, the more explosive the rise is launched; this time, however, the change has been more halting, less dramatic, often erratic and thus seeming almost accidental. … but reaching an overbought extreme that nevertheless counts.

We frequently write that such an overbought needs a pullback to ameliorate that extreme, and then that the second phase that comes along thereafter is narrower, with the oscillator readings positive but no longer near the peak overbought degree. The "overbought" high having been seen, sequential readings keep the market rising, even as negative days begin to seep in (eventually affecting the 30-day readings as well). Thus the third phase is a waning period – the 10-day readings gradually get replaced with a negative day here and there, becoming less and less overbought the longer the rally lasts. This is especially valid nowadays when we have a market that is often "alternating days:" a strong up day followed by a crummy almost dull down day. Vulnerability starts to creep in … "up" days begin losing momentum; "red" readings come along to take their place. *Our various oscillators are in <u>approximately the early stage of this latter phase right now, starting to ebb.</u>* But because this has been quite an extra-ordinary rise, following quite an extra-ordinary slide, it compels a need for time as much as it does need failures. *Time, therefore, gives the enthusiasm "time" to spread, and even boom*. In its own clever way, time builds confidence.

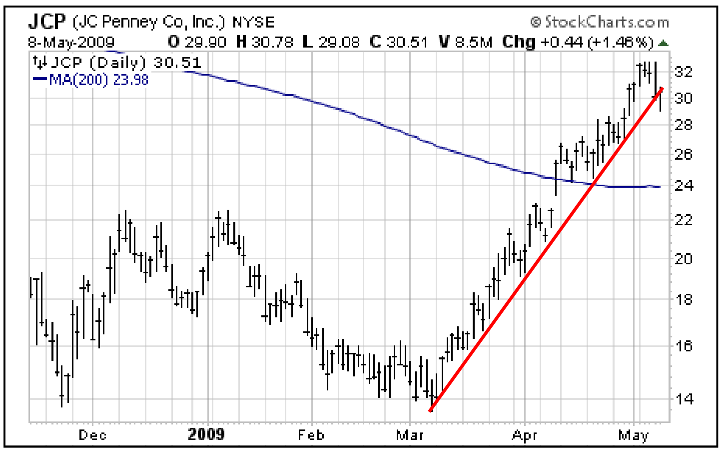
One of the ways this enthusiasm is growing is via the bevy of news items , almost all of them being interpreted quite positively. <u>Less has become not merely less but favourable, too</u>. The standard cliché, of course, has been: "if stocks don't go down on bad news, it's a bullish message" … but nowadays the approaching "bad news" is <u>already</u> being anticipated cheerfully. For example, the appetite for "stress" news was addressed by a starving audience. Gorging grew on every fearful comment. If we didn't find it hard to believe the "powers that be" were clever enough to deliberately plot this sequence we could imagine them having sat around a conference table wondering what they could possibly do to solve the banking crisis, when someone pipes up: "let's just take what the bank examiners customarily do and call it a "stress test;" and someone else says, "great idea, that'll buy us some time to figure out what can be done that might actually maybe perhaps work. So then, to buy more time, they invent, in separate sequences, explaining the test, and how it is going to work, and when they'll be ready to announce the results, which involves more sitting around, with someone at the other end of the table cleverly realizing that they can postpone the release of the results – "postponing" having worked successfully for Mr. Geithner via two or three delays in January -- until they figure out what the results should be; and then they decide to postpone announcing the results yet again, but with some leaks to wet the audience's appetite, before they finally do announce the results, to an audience that by then will be so relieved that they'll believe that anything said is hunky-dory. *However, instead of being so clever as to plot all that, they simply lucked out*. Time won, as it usually does.

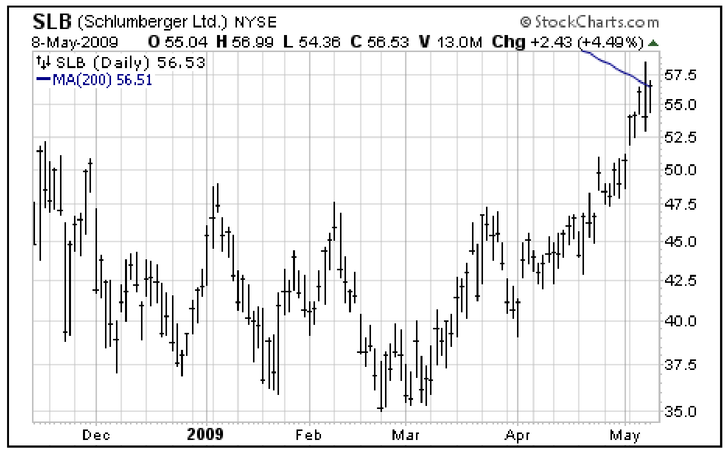
If one wants to let one's imagination run even further, maybe they even deliberately scheduled the "stress" release to precede, by a day, the "bad news" of another "unemployment" statistic, so as to distract one from the other. But the audience was already so primed to ignore, or shrug off, negativity it didn't really matter. The word-mongers on TV scarcely talked about the revisions of the March (36,000 more) and February (30,000 more) reports which, if added to the April number, would have reached the consensus guess. And then they evidently ignored the "birth/death" seasonal adjustment (which Dennis Gartman, who should know, anticipated was about 200,000); while there were only a few whispers and asides about the 80,000 or so new employees hired to do "census" work. Of course, none of this hokey-pokey really matters … the recessionary situation goes on and so does the stock market, in its own willful direction.

More Stocks: in the sense that tops form over time (while bottoms, as proven in March, can be more spikey), this climate may need an intervening dip and another rise. Individual stocks are, in our narrow world, what's ultimately important. In addition to those stocks parenthetically referred to above, the following are also, at this moment, negative charts, meaning they are pointing down or show signs of doing so: XLNX*; ALTR; ORCL; LLTC 20½**; QCOM; BBY 37; DELL**; SO; AEP; GLW; JEC (a conspicuous lower high). Stocks in the category of "not a new high," as discussed above (and perhaps readily erased in the days immediately ahead), currently include: RIMM; TIF; WAG; DE; IR; GG @32½-33; BUCY, an almost, and ACI ditto; FSLR; LM. UNH was also up, but not to a higher high, as was ISRG. Among other "lagging" stocks: KO; HD; MCD; KFT; MRK; PFE; WMT; PG; CSCO; AMGN; and AMZN*; whose slide Friday suggests it may be a little bit worse than merely "lagging."

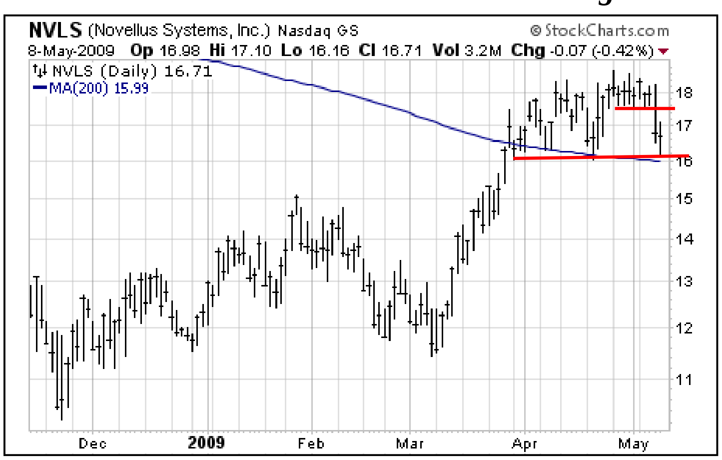
Some still okay charts: TNB; EXC; KR 22¾; EBAY; PLL … while stocks that did actually make new higher highs include: GDI**; VMI*; BHI & SII; MUR**; ABB*; CAE**; perhaps CLF; PAAS; FWLT**; and EP**, a stock we'd liked near its low, and then gave up on, so we are impressed from a distance with its new found strength. *CUB is one of the rare recognizable names on the 52-week new high list, and explosively so.* We should insert somewhere here that GE has a target of 15½-16. We also jotted down GENZ**; HON, but with a nearby target of 36; APC*** very strong all week; COP but with considerable resistance overhead; BHP*; CBI; and the aforementioned FLR** which has gone across its down-trend lines.

APA and WFC: Recouping almost exactly Thursday's reversal.





JCP: Struggling with being over-extended.
SLB: Didn't get back up to Thursday's high.



NVLS: The loser! Struggling to hold—breaking 16 obviously serious.
CUB: The winner! New 52-week high and all that!

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