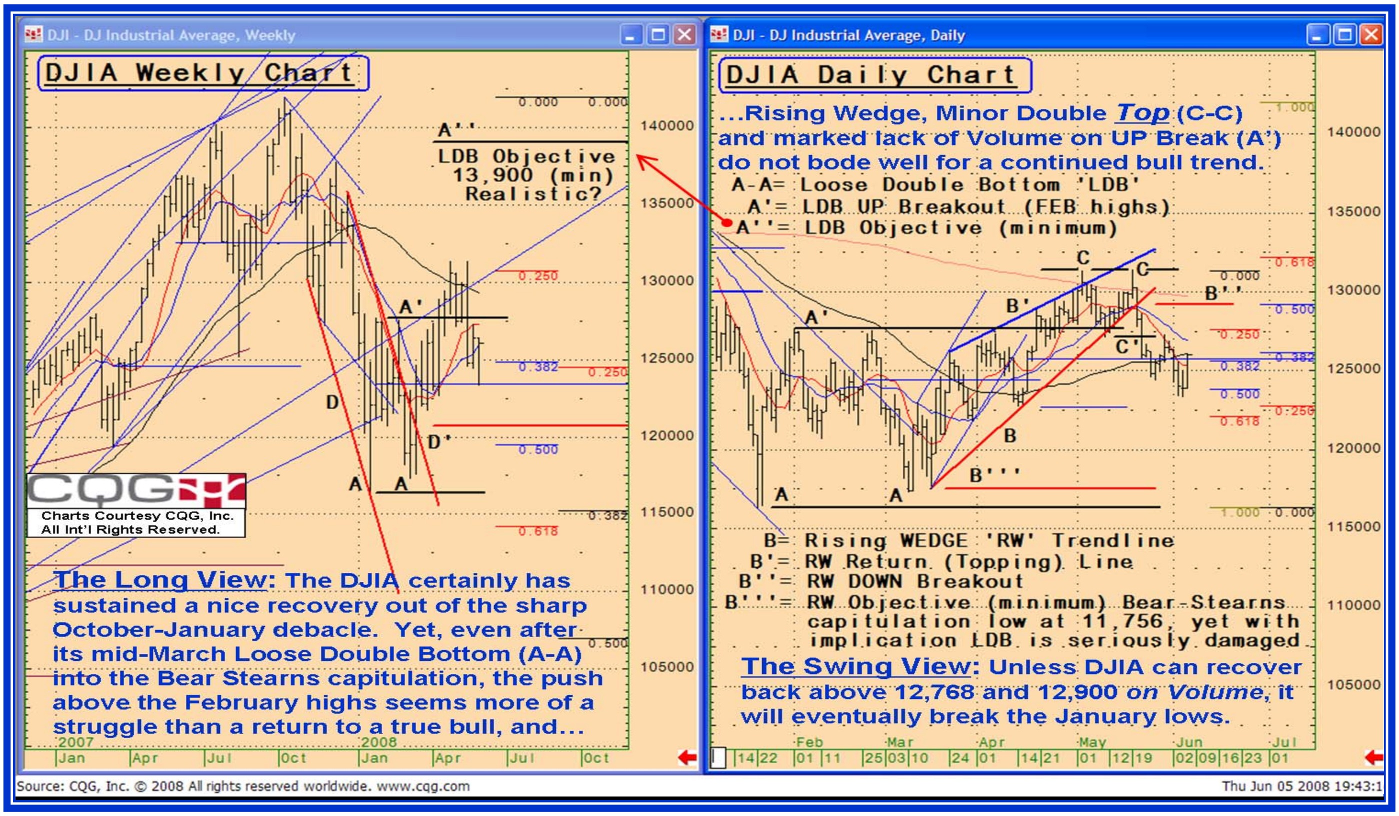
Rohr Report

Special Market Highlight: EQUITIES Tech

Thursday, June 5, 2008 (as of the Close)

DJIA Are equities turning stale? Even as many are inclined to believe that 'the worst is over' and US economy is looking past the valley, the technical 'trend logic' is eroding.



DJIA may have stabilized after the Fed rescue into the late January crunch below both 12,500 and 12,000 areas. However, a question remains over whether that is a true bottom leading to a renewed bull market, or simply stabilization after a vicious down phase prior to the second wave down that is a fairly standard feature of most bear markets. There are always earmarks to observe, and the complex nature of the current intermediate term technical indications makes a picture worth a thousand words. In depth review of the current extended 'trend logic' still leads us to believe that the equities' basing actions are suspect overall.

Support/Resistance	
R4	13,500-600
R3	13,000-130
R2	12,900-920
R1	12,715-768
THU CL: 12,604.50	
S1	12,500-450
S2	12,230-175
S3	12,070-000
S4	11,756-731

Tech/Trend Indications
MA's: Weekly: ▲ topping Daily: ▼ RES into 12,700
MACD's: DA: ▼ WK: ▲ Weekly is topping; Daily remains solidly DOWN
STOCH's: DA: ► WK: ▼ Daily short term basing, yet with Weekly heavily DOWN
MONTHLY RSI: ▼ failed at 50!! on rally into April

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However much the technical perspective is our primary trend view, we began as fundamental analysts, and still regard some variation of a fundamental rationale as essential to confirming the viability of technical projections. Especially on the eve of what will be another important US Employment Situation report (MAY) on Friday after a recovery from key support in the equities markets (DJIA 12,450 among others), a review of the fundamental influences seems in order.

After a lengthy period where the Fed was extremely accommodative to stem the tide of a rising financial market crisis in the wake of the US housing and credit crunch related interbank market problems, recent better than expected (albeit still weak in some cases) US economic data has encouraged a swing around to much more hawkish attitudes at the Fed. While that began with the May 21st release of the minutes of the last FOMC meeting (April 29-30), it is reinforced by a couple of other factors. The first of these is the ongoing hawkish stance of the other central banks, most notably the ECB.

Yet, supported by that better than expected US data, there is also far more focus since that FOMC meeting on the concerns of the Fed hawks who already had remained very inflation focused even during the height of the crisis. Other members of the Fed system are now also seemingly more vocal in that area, including the sometimes aloof and ambivalent Chairman. That has been reinforced of late by Treasury Secretary Paulson's desire for a stronger US dollar, which Mr. Bernanke even took the most unusual step of commenting on early this week. Philly Fed President Lacker opined as recently as today in London on 'moral hazard' attached to the Fed's interbank liquidity operations; we wonder whether there was any alternative?

With equities stabilized once again and inflation a stubborn problem, it would seem all of this is in order. The dilemma is that the broader problems which fomented the original crisis are not going away, and indeed may be worsening. What if the equities' bid is not as well founded as the central banks would like to believe?

Especially in the US (which is at the heart of the previous problems even if the bank losses elsewhere exceed those of US banks), the most recent MBA data shows that in the first quarter mortgage delinquencies, foreclosures and initiation of foreclosure proceedings all hit record levels. This gets back to our previous observations many of the mortgages are not in a position to be 'adjusted', and (even as Messrs. Bernanke and Paulson have noted) weakness begets weakness in US housing, as buyers are dissuaded by the price drops.

All of which leaves us with a very contentious, convoluted conflict of fundamental factors where either side might be right. Yet, the one earmark of that second wave of bear markets is that it occurs after the initial 'crisis' is over, and for reasons not apparent at that time. When the markets signaled the 'all clear' after the back-to-back Spitzer-Stearns shocks into mid-March, nobody had $130/barrel Crude Oil factored into their analyses.

Moving on to purely technical aspects of how this might unfold, the DJIA ability to hold that loose Double Bottom (LDB A-A) near the January lows into March was a hopeful sign. While it took more time than might have been expected, it finally put in a classic UP Break above February's 12,768 highs. However, as noted previous, the continued lack of volume and inability to push above next meaningful resistance into the 13,000-100 area was a real problem, as was the size of the pattern. That indicated a minimum upside Objective of 13,900, which seemed a bit much this early into a bear trend. Now there is also the issue of the countervailing negative patterns.

While not at all common, the gradual grind above 12,768 UP Break left a bearish Rising Wedge (B-B') that had a 12,900 DOWN Break (interestingly enough) in the wake of May 20th strong Core US PPI. The FOMC minutes the next day knocked the DJIA back below 12,768 LDB UP Break (A') for the first time in weeks. That has now been reinforced by a short term Double Top (C-C.) Unless the DJIA can get its footing for a more convincing push back above 12,768 and 12,900 soon, the outlook remains bearish; quite possibly for a new low.