

"She's Come Undun"*She's come undun**She didn't know what she was headed for**And when I found what she was headed for**It was too late*

... The Guess Who (1969)

"Undun" indeed for last Thursday "It was too late" as the DJIA shed some 600 points between 2:30 p.m. and 2:50 p.m. That crashette saw the senior index down an unprecedented 1000-points before rumors swirled that fat-finger Fred pushed the wrong key to execute a "sell program." Evidentially, Fred must have been using a Dvorak keyboard where the "B" is not separated from the "M" by an "N" like you see on the ubiquitous QWERTY keyboard. Therefore, Fred allegedly hit the "B," for billion, when he meant to hit the "M," for million, and the rest, as they say, is history. While even I was surprised by the severity of the pornographic-plunge, readers of these missives should not have been too surprised about the long anticipated correction and should have positioned their portfolios accordingly.

Recall, it was in late March when I turned cautious noting we were approaching the pre-Lehman target zone on the S&P 500 (SPX/1110.88) of 1200 – 1250 referenced in these comments for over a year. That cautious stance was heightened the week of April 12th when the Volatility Index (VIX/40.95) tagged 15.23 for a complacency reading not seen since August 2007. Since then, as chronicled here, there were four triple-digit Dow Dives, all of which qualified as Distribution Days (down more than 0.2% from the previous session, on heavier volume, suggesting large institutional selling), and three of which qualified as 90% Downside Days (a 90% Downside Day occurs when both the declining volume, and the number of downside points, equal or exceed 90% of the total volume and the total number of points). Additionally, there was the parade of indicators, all of which were on "sell signals," punctuated by my strategy report of April 19th titled "Don't Wait for May to Go Away," which was clearly a twist on the old stock market axiom – Sell in May and Go Away. The *coup de grâce* appeared in last Monday's written report that stated, "After being on a 'buy signal' for 11 weeks, our short-term trading indicator flipped to a 'sell signal' last week (that would be the week of April 26th)." Consistent with that "Top Out Parade," I have been advising accounts for weeks to raise cash, hedge portfolios for the downside, and "bet" on a pickup in volatility. And almost on cue, the second verse of the Guess Who's song played last week. To wit:

*"She's come undun**She found a mountain that was far too high**And when she found out she couldn't fly**It was too late"*

Too late indeed, yet opportunity favors the well prepared investor! Verily, the Japanese kanji symbol for "crisis" is comprised of two separate symbols. One symbol stands for "danger," the other "opportunity" (see PS). Therefore I advised investors to "lift" most of their downside hedges, and volatility "bets," into last Thursday and Friday's two-step believing Thursday's low print of ~1066 on the SPX was likely the low-water mark for the correction. To be sure, from the April 26th intraday high of ~1220 into last Thursday's intraday low (~1066) the SPX corrected 12.6%, which is enough to satisfy me. That said, just like a heart-attack patient doesn't get right up off the gurney and run the 100-yard dash, the equity markets will probably have to convalesce before resuming their upward march into my timing point of the mid-term elections. This does not mean that if the gusher in the Gulf is "capped," and the European Union allays fears regarding Greece, those two things could not combine with Friday's stellar employment report to produce a sharp "throwback rally" in the equity markets. But, I doubt such a rally would extend very far, or last for very long.

Because of last week's "wilt" I receive numerous questions about if said decline registered a Dow Theory "sell signal?" The answer to that question is a resounding "NO!" For me to get a Dow Theory "sell signal" would require the DJIA (DJIA/10380.43) to close below its February 5, 2010 closing "low" of 10012.23 with a confirming close by the D-J Transportation Average (DJTA/4298.12)

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below its February 4, 2010 closing low of 3813.91. Obviously, we are nowhere near those levels. The second most asked question of the week was about Greece and its attendant impact on Europe. As stated in last Thursday's verbal comments, in my opinion the Club Med countries' electorates will not tolerate the macro austerity, and personal "belt tightening," necessary to rein in their burgeoning deficits. This is already being reflected in the streets of Athens. As the civil unrest grows, extreme political parties will emerge to take advantage of the situation. By my pencil Greece will eventually default, along with some of the other Mediterranean countries, causing severe consternations for European banks. And that, ladies and gents, is why for years I have opined, "While there are certainly some g-r-e-a-t European companies, strategically I am avoiding Europe (my apologies to all my European friends)."

Finally, the third question of the week was about the U.S. dollar. Long-time readers of these epistles will recall my turning negative on the greenback, as well as bullish on "stuff" (energy, metals, agriculture, cement, timber, etc.), in the fourth quarter of 2001. In the 4Q07, while still remaining friendly towards stuff (albeit much more cautiously bullish), I recommended shutting down ALL those anti-dollar "bets" with the Dollar Index around 75. Since then, I have been neutral on the Buck. Last week, however, the Dollar Index (DXY/84.45) decisively broke out to the upside in the charts and no longer looks neutral. Instead, it looks like the first leg of a new bull market. Bettering its March 2009 reaction high of ~90 would confirm a new bull market in the U.S. Dollar Index. Regrettably, the dollar's strength could pose near-term problems for commodities and our beloved "stuff stocks." Nevertheless, I like tangibles over the longer term because of rising demand from the emerging/frontier countries -- and, due to my unshakable belief that higher inflation will eventually surface.

As for the here and now, the number of stocks in our universe that continue to reside above their respective 10-day moving averages (DMAs) is a scant 3% for the lowest reading since the "capitulation alert" of October 2008. And while my proprietary overbought/oversold indicator is not as oversold as it was back then, it is still seriously oversold. Anyhow, I think the equity markets remain in a "bull phase" and that what we just experienced is merely a correction, albeit a pretty severe one. Unsurprisingly, the astute Lowry's organization agrees as they wrote:

"Although the market has suffered a very sharp decline over the past few days, the probabilities continue to suggest the drop is part of a correction in an ongoing primary uptrend. To date, none of the indications of deteriorating strength that have preceded every major market top during Lowry's 77 year history is in evidence."

Lowry's goes on to note the markets are now likely in the "holding and upgrading" phase. Categorically I agree and would advise using some of the cash raised over the past six weeks for selectively upgrading the stocks in your portfolio. One such name for your consideration is ~7% yielding Enterprise Products Partners (EPD/\$32.75/Strong Buy). Conveniently, we added this name to the Focus List last Friday while noting:

"The committee is adding EPD following its recent price decline from the mid-thirties. The committee is attracted to this very high quality MLP due to its recently increased EPU and EBITDA expectations for 2010 and 2011 (see our company comment dated 4/28/10), its prospects for 5% average annual dividend growth for the next three years, and its current yield of ~7%. At current levels, we expect a total return over the next 12 months approaching 25%."

The call for this week: Friday was a multi-swinging session, which is exactly what you want for a bottoming phase in the equity markets. Even the afternoon weakness was predictable as participants wanted to "flatten" positions for the weekend. And, this morning the EU has indeed allayed Grecian fears, making our word for today – BINGO!

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PS: Crisis = Danger + Opportunity

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