



*The right solutions  
at the right moments.*

## *It's Not Over 'Til It's Over*

*February 2008  
Investment Commentary*

Though the major stock market indices ended with gains of 0.7% to 1.2% last week, the news was downbeat. Stocks did snap back during the first three days of the week from the drubbing the week before, but Thursday's unusually frank testimony of Fed Chairman Ben Bernanke regarding the deterioration in the economic outlook, and fresh analyst downgrades of the financial sector sent stocks spinning lower by 1.5%. Friday looked like a follow-through session on the downside until heavy options-expiration activity buoyed stocks an hour before the close resulting in gains for the day and for the week.

There are lots of Wall Street analysts ruminating over how "resilient" the stock market has been in the face of rising recession risks, continued massive write-off of bad loans and securities at banks and brokers, and surging oil and commodity prices. They point to the ability of the major equity indices to hold above their January 22nd lows, and that the battered financial and retail stocks have led the rally, suggesting that the stock market has discounted the worse outcomes for the economy and the banks.

While there are no certainties regarding the outlook for stocks, it's not likely that the worst is over. New, sustainable up-trends are usually led by fresh breakouts of leading stocks in the market. That has not happened. Most former leading stocks are still in downtrends, especially those in the technology, industrials and materials sectors. There are only a few stocks in the energy sector itself that have begun solid up-trends, despite oil prices over \$95 a barrel. Further, the rallies that have occurred over the past several weeks have typically been on light volume, while the sell-offs have occurred on heavy volume, an indication that the up-days have been characterized by short-covering rallies, and the sell-offs have been produced by investors fearing further losses and traders shorting weak stocks.

Nevertheless, there is that uneasy feeling among institutional investors that they may have missed a several percent rally from the late January bottom, and a rally lasting that long may be the start of a new market uptrend. History, however, suggests otherwise. For example, between the market top in 2000 and the late 2002 market low, there were two two-month rallies, a six-month rally and numerous multi-week rallies. Lowry's Research, based on the Dow Jones Industrial Average, tallied 383 trading days of rally and 399 days of decline during the 2000-2002 bear market. Bear markets have that allure of tempting investors to jump back into stocks too soon, just in time to be greeted with the next downturn. That occurs as investors apparently spot a rise in demand for certain "bellwether" stocks that have been upgraded by Wall Street based on "valuation" or "improving fundamentals." The other side of the price-setting equation is usually ignored – what sellers are doing. It is the net result of these two factors that I believe set the stage for real bottoms or tops in stocks.

The strength of net supply or demand for stocks is measured by what Lowry's Research has coined 90% Downside or Upside Days. A 90% Downside Day occurs when the volume of stocks that are posting price declines is at least 90% of the total volume of stocks traded on a given day. A day like this shows that sellers

are in a panic, wanting to get out of stocks at any price. A 90% Upside Day happens when buyers are rushing in to snap up perceived bargains, with the volume of stocks with rising prices reaching 90% or more of the total volume traded. Bear market bottoms typically occur when a 90% Downside Day or days is followed by a series of 90% Upside Days as occurred at the early 2003 bear market bottom.

During the recent decline to the January 22nd low, there were four 90% Downside Days, but not one 90% Upside Day to indicate a future rise in demand that could fuel a renewed uptrend. What did occur was two weeks after the latest bottom, there were two 80% Upside Days (on January 31st and February 1st), but that limited demand comeback proved to be the top of the current rally, with the stock market in a declining phase since then. The market appears to be still facing more selling pressure than buying pressure. So, it seems that the rally from the late January bottom has not been characterized by the strong buying support that one would expect at bear market lows. Based on this analysis, there is still more downside likely in this market retreat.



*Thomas J. Steffanci, Ph.D.*  
*President and Chief Investment Officer*

---

**Important Information:** This newsletter contains the current analyses, estimates, and opinions of Glencrest Investment Advisors, Inc. at the time of publication and is subject to change without notice. Past performance is no guarantee of future results. Glencrest assumes no duty to update any of the above statements. Any information contained herein is based upon any number of assumptions that may not prove valid. Glencrest makes no warranty, either expressed or implied, as to the accuracy of said information and thus accepts no liability with respect to it. This newsletter is produced for informational purposes only and should not be construed as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources deemed reliable, but not guaranteed. Statements concerning financial market trends are based on current market conditions, which will change. No part of this newsletter may be reproduced in any form, or referred to in any other publication, without express written permission of Glencrest Investment Advisors, Inc.