TSG Weekly Market Watch May 16, 2008

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TSG Stock Market Letter Week Ending May 16, 2008 Topics Discussed This Week: Stocks re-ignite… But leaders again lead higher Earnings still deteriorating Building starts up but builders get more pessimistic Energy burden INDEX Weekly Close Last Week Change Change% INDU 12,986.80 12,745.88 240.92 1.89% DJT 5,368.96 5,193.98 174.98 3.37% SPX 1,425.35 1,388.28 37.07 2.67% COMPX 2,528.85 2,445.52 83.33 3.41% RUT 741.17 720.05 21.12 2.93% EEM 155.1 146.9 8.20 5.58% Last week INDEX Weekly Close Last Week Change Change% INDU 12,745.88 13,058.20 -312.32 -2.39% DJT 5,193.98 5,308.58 -114.60 -2.16% SPX 1,388.28 1,413.90 -25.62 -1.81% COMPX 2,445.52 2,476.99 -31.47 -1.27% RUT 720.05 725.74 -5.69 -0.78% EEM 146.9 149.64 -2.74 -1.83% Stocks re-ignite… This week, stocks surged again in spite of new record high oil prices. But with voices like Hank Paulson adding to the ‘bottom is in’ chorus, investors continued to wade back into equities. It will be a shorter than usual newsletter this week due to travel commitments and the fact that there was not a lot of major news moving the market. Technically Speaking Leaders surge This week Dan Zanger included 12 stocks in his Sunday picks including Sohu.com (SOHU), Potash (POT), LDK Solar (LDK), First Solar (FSLR), Excel Marine (EXM), Hess Corp (HES), EOG Resources (EOG), Canadian Solar (CSIQ), Master Card (MA), Vertex Pharma (VRTX) and SPX Corp (SPX). As a group, they again outperformed the major indices gaining more than 6% compared to less that three percent for the S&P500 and this is bullish as long as it continues. Figure 1 –Five-day performance of Zanger’s market leaders compared to the S&P500 (SPX), the Dow Jones Industrial Average (DJX), Dow Transports (DTX) and Nasdaq Composite (IXIC). Data courtesy of The Zanger Report, performance chart courtesy of VectorVest.com. Over the last six weeks volumes on the NYSE, Dow Transports and Nasdaq have remained below average and that continued this week. Rallies occurring without strong volume are suspect because it means that there is a lack of commitment from buyers. Another bearish sign is that these indexes show bearish rising wedge chart patterns which could imply a correction ahead. Volatility reversed its trend this week as the Market Volatility Index (VIX) dropped this week to 16.47 after rising modestly last week to 19.41. The 17 commodities that make up the NYFE CRB Index slipped this week to 548.06 from 554.95 last week and from 532.97 two weeks ago. On a weekly basis the index remains well above the 2 standard deviation top trendline and has moved back above its mid-line channel support line on the daily chart. After falling for the last five weeks, gold continued to rebound this week to close at $900 from $885.90 last week and $858.10 two weeks ago. Gold generally demonstrates strong seasonal performance period between the end of January and end of June, and it continues to show signs of strengthening after finding report in the mid-$800 range which is bullish. After falling for a second week, the U.S. Dollar Index dropped to 72.94 from 73.06 last week and from 73.50 the week before. But the dollar looks to have put in its lows for now which would be good for the U.S. consumer. Crude has rallied strongly over the last seven trading days as the NYMEX crude oil continuous contract closed at $126.45 after closing near $128 this week up from $126.05 last week and $116/bbl two weeks ago. It was the eleventh consecutive week that it remained above $100. Take a look at a chart of the price of oil going back to 1950 and you will see a classic parabolic move since 2004 on a monthly chart when prices surpassed $40/bbl for the first time in history. Prices are up more than 300% since then and crude has experienced a rate of price appreciation that is not sustainable. The U.S. prime rate held this week at 5% and the Fed funds target rate remained at 2%. The 3-month London Interbank Offered Rate (LIBOR) inched up to 2.695% from 2.685% last week and 2.77% two weeks ago. LIBOR is the benchmark for $900 billion in subprime mortgage loans which typically adjust to it every six months. According to data company Dealogic, corporations around the world have the interest rates on roughly $9 trillion in debt pegged to LIBOR and rates on more than $380 trillion in derivative interest rate swaps also are based on LIBOR. But Freddie Mac mortgage rates haven’t budged much slipping to 60.1% from 6.05% last week and 6.06% two weeks ago for the 30-year fixed mortgage while the one-year adjustable rate mortgage (ARM) rate held steady slipped to 5.18% from 5.29% which it held for three weeks. Earnings Earnings weakness continues Q1-08 earnings season ended it sixth week and in the home stretch with 3569 companies now having reported (2807 companies last week), earnings deteriorated further to -28% from -26% last week compared to the same quarter a year ago. Earnings have shown a consistent trend over the last two quarters to fall as more companies have reported and this is bearish. This compares to -20% two weeks ago and -22% three weeks ago. Looking at past seasons, there was a drop of 57% for final Q4-07 (3900 companies), a 21% drop (4205 companies) for Q3-07 and a 13% jump for Q2-07. Economic Reports No real surprises this week in the economic data. April housing starts jumped 8.2% to 1.032 million units but the National Association of Home Builders (NAHB) reported that builder sentiment fell to 19 in April again from 20 that it held for the last three months showing that even though starts ticked up this month, builders got more pessimistic about the future. Net Treasury flows measuring the sale of Treasuries in March dropped slightly but held firm so no worries there for the time being. However, the Philly Fed business index remained firmly in negative territory with a reading of -15.6 for the month of May. Next Week Not a lot going on in the economic reports arena next week. - Tuesday, April Producer Price Index (previous 1.1%), April PPI ex-food & energy (previous 0.2%). - Friday, April Existing Home Sales (previous

-2.0%). Synopsis Energy burden A real challenge facing the economy and markets going forward will be oil prices. With gas closing on $4.00 a gallon and with no end in sight, consumers will be forced to divert spending to pay for gas and any item that depends on the cost of fuel for delivery. Food prices will also remain high as long as basic commodity prices remain high. The longer these prices stay up, the longer these higher costs, which have a delayed economic impact, will continue to filter through the economy. Another challenge for stocks is continued weakness in earnings. Stories of interest this week…

Fed, BOE Foreshadow End of Rate Cuts as Prices Rise
http://www.bloomberg.com/apps/news?pid=20601109&sid=aPKsmqGP8Sd8&refer=exclusive

U.S. Economy: Confidence Slumps, Single-Family Home Starts Fall
http://www.bloomberg.com/apps/news?pid=20601103&sid=aLlZUqsbxyjc&refer=news

Recovery From Worst Housing Slump Since 1930s Comes With Angel
http://www.bloomberg.com/apps/news?pid=20601109&sid=acNLJ7FGT15U&refer=exclusiveFannie Mae Bows to Pressure on Down Payment Standard
http://www.bloomberg.com/apps/news?pid=20601103&sid=aVqy4OsrW3DQ&refer=news

Auction-Rate Collapse Costs Taxpayers $1.65 Billion (Update3)
http://www.bloomberg.com/apps/news?pid=20601109&sid=aJqqPcSJQGXg&refer=exclusive

Bank of America Expects Higher Losses on Home Equity (Update3)

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