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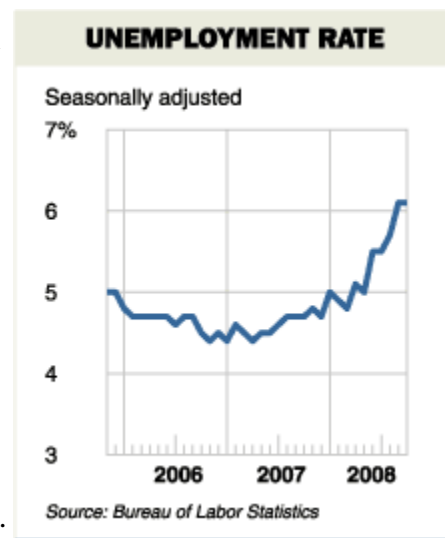
Four at Four: A Hamburger Market

Posted by David Gaffen



- Hope was evoked consistently throughout the presidential election season, but it has no place in the equity market. **The six-day rally that produced 18% gains in the Standard & Poor's 500-stock index has been rudely interrupted** with the last two days of trading, in which the index has lost more than 10% and investors are again starting to talk about “retesting the lows” and citing gloomy economic indicators for their desperate attitude. **Cisco's** worrisome forecast for coming quarters, a surprising interest-rate cut from the Bank of England, lousy retail sales and worries about Friday's jobs report all contributed to a terrible session in the equity markets. The 9.66% decline in the Dow over the past two days is the largest two-day drop since Oct. 20, 1987. **Joseph Saluzzi**, co-head of equity trading at **Themis Trading**, said that as the day proceeded **“there was not a bid out there...the market was under constant selling pressure.”** Investors were particularly harsh on the financial-services companies, which met with selling throughout the session, and the chip makers, declining, in part, on worries about technology spending. The fall brought the S&P within a hair's breadth of the 900 level, implying another test of the market's recent lows. Hans Olsen, chief investment officer for J.P. Morgan Chase's private wealth management business, says this is normal — that three or four re-tests should be anticipated as the market navigates through this “economic funk.”

- The wholesale scrubbing of the equity market could have something to do with investors' eagerness to push stocks to levels that reflect the possibility of a truly dreadful jobs release Friday morning. The Labor Department is expected to announce that nonfarm payrolls declined by 200,000 in October, **a time when the capital markets froze and the economy found itself jammed in neutral.** Another increase in the unemployment rate is anticipated, to 6.3% from 6.1%, but Morgan Stanley economists wonder whether the consensus is too pessimistic. They believe certain special factors that caused a worsening of the data in September — including hurricanes and the impact of the Boeing machinists strike — may offset in October, which is why they believe payrolls will fall by 175,000. Not that this represents some kind of economic



strength, of course. “We view a -175,000 outcome in October as representing a significant degree of deterioration relative to a comparable baseline of approximately -120,000 in September,” they write. “Indeed, such a swing would be right in line with the **underlying movement seen in the weekly initial and continuing claims figures on a survey week-to-survey week basis.**”



• The late-day freak-outs have, for the moment, subsided a bit, and it can be attributed to, in part, a reduction in redemptions from stock mutual funds. Strategic Insight reports that investor redemptions from stock mutual funds have pulled back to nearly normal levels after peaking during the second week of October. The rapid redemptions and fiscal-year-end demands from investors helped contribute to the rapid movements late in sessions over the past few weeks, which accelerated thanks to piling-on from algorithms, program trading, and investors seeking advantages from getting in front of those anticipated movements. This has been reduced a bit of late, **although the 16.7% rise in the Chicago Board Options Exchange’s volatility index to 63.68** Thursday should serve as fair warning that anything can still happen. **“We’re not seeing that huge spike you saw,” says Mr. Saluzzi.**

• In economic periods like this, the ground chuck suddenly looks more appetizing than the porterhouse. Despite a third-quarter loss for **Wendy’s/Arby’s Group Inc.** due to weak sales, the stock rose 11.6% after management company Trian Fund Management LP announced an offer to buy an additional 8.5% stake of the fast-food chain at \$4.15 a share. The stock closed at \$3.67 Thursday, after hitting a 52-week low of \$2.63 on October 28. (Note to other management companies: this is when you take larger stakes — when nobody else wants to buy.)



Meanwhile, **Ruth’s Hospitality Group**, which runs the famous Ruth’s Chris Steak House chain, dropped 28% on worries that debt covenants could be violated due to weak sales. J.P. Morgan Chase analysts downgraded shares to neutral, due to a decline in same-store sales, the debt covenant issue, and the expectation that the company’s “eventual cyclical recovery is likely to lag other lower-risk casual dining stocks given RUTH’s high check average and exposure to a largely non-business consumer.” It hasn’t been a good year for either stock, but Wendy’s is down 55%, while Ruth’s is off by an ugly 83%.